APPENDIX 1.1

Terasen Inc

(TER-TSX)

January 5, 2004
Brief Research Note
Gas & Electrical

Stock Rating:	**Market Perform**
Stock Price:	**$48.00**
Target Price:	**$46.50**

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Assoc: Andrew Shufelt/Keith Carpenter

Management Changes

Impact

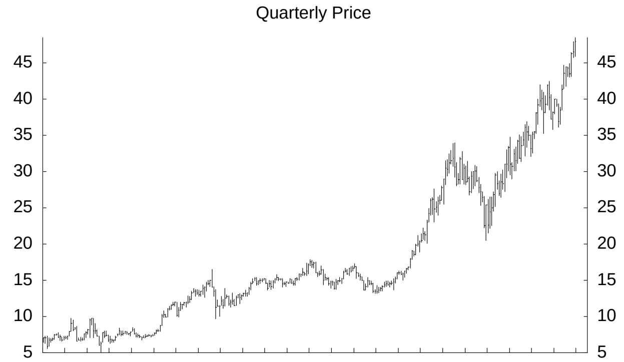
Neutral

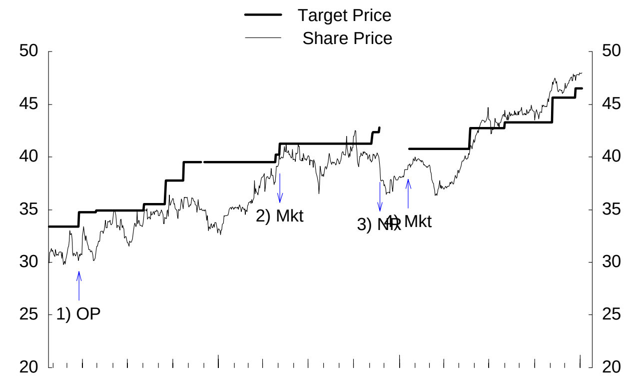
Details & Analysis

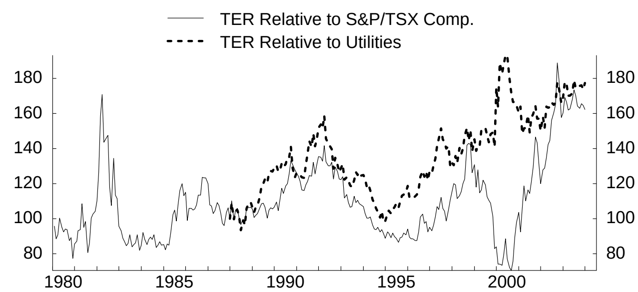
Terasen has announced a number of management changes: Milt Woensdregt, currently Senior Vice President, CFO and Treasurer, will be leaving the company. Gordon Barefoot, presently Senior Vice President, Multi-Utility Services has been appointed Senior Vice President, Finance & CFO; David Bryson has been appointed Treasurer; and Stephen Swaffield has been named Senior Vice President, Corporate Development. The company indicated in its release that the changes represent a further step in the continued strengthening of its overall business development capability. The announced management changes and appointments do not change our outlook. We rate the shares Market Perform.

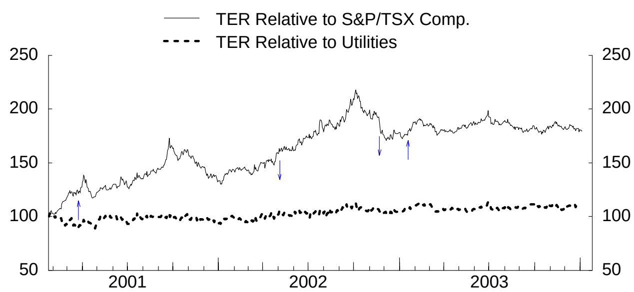
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

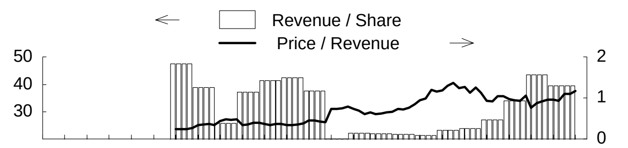
Terasen Inc. (TER)

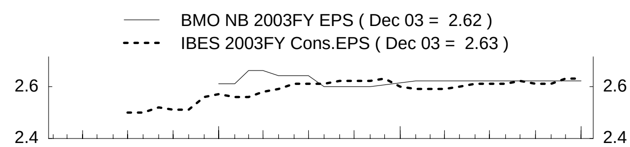


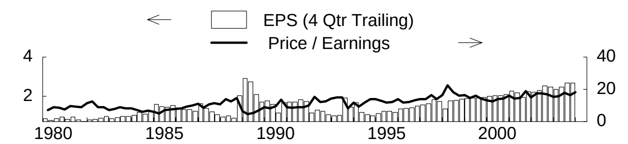


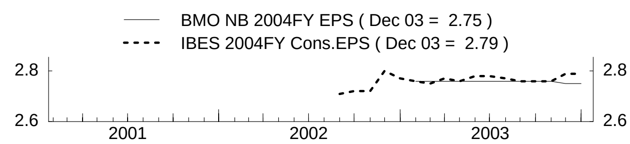












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
Current*	2.66	18	1.56	3.3	59	24.32	2.0	11
Average:		12		5.4	60		1.4	13.5
Growth(%):								
5 Year:	7.5		6.9			9.5		
10 Year:	6.4		5.7			6.5		
20 Year:	5.3		5.4			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2003.

TER - Rating as of 23-Jan-01 = Mkt

	Date	Rating Change	Share Price
1	23-Mar-01	Mkt to OP	$30.15
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: January 2, 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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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.

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Company Specific Disclosure

Disclosure 2: BMO NBI has undertaken an underwriting liability with respect to this issuer within the past 24 months.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	39%	44%	43%
Hold	Market Perform	49%	48%	47%
Sell	Underperform	12%	8%	10%

* 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 NBI 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 Sept. 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 NBI Equity Research is available via our web site http://bmonesbittburns.com. Please contact your investment advisor or institutional salesperson for more information. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex.

Additional Matters

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Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

February 18, 2004
Research Comment
Gas & Electrical

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Fiscal 2003 Modestly Lower Than Expected; Market Perform Rating Maintained

Event

Terasen reported Q4/03 and fiscal 2003 earnings per share of $1.19 (basic) and $2.60 (diluted), respectively. We expected quarterly and annual performance of $1.22 (basic) and $2.62 per share. Stated results are net of one-time restructuring costs of $3.4 million after-tax ($0.06 per share). We have not "normalized" results for a $1.8 million after-tax charge associated with the writedown of a portion of the company's investment in Westport Innovations. We note that a similar write-off ($4.1 million after tax) was taken in Q3/02. Given the recurring nature of this expense, we do not consider it to be one-time in nature.

Impact

Neutral.

Forecasts

Our 2004 and 2005 diluted EPS estimates of $2.75 and $2.85 per share are unchanged.

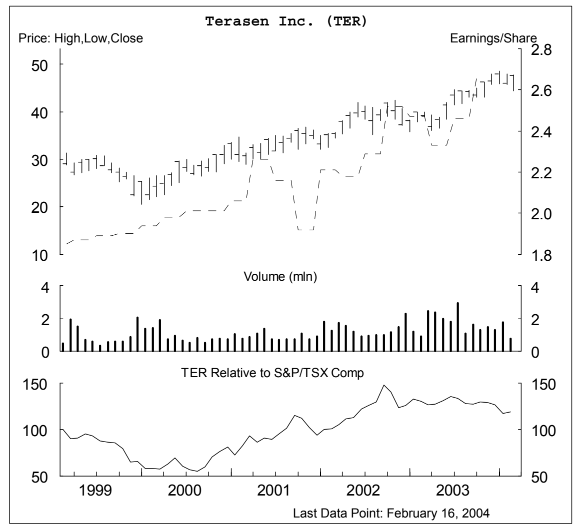
Valuation

Our target price reflects a weighted average valuation approach: 14x estimated 2005 EPS of $2.85 (12.5%), 1.75x estimated 2005 book value per share of $29.89 (12.5%) and a target yield of 3.50% (75%), assuming 2005 dividends per share of $1.65.

Recommendation

We believe that the shares are reasonably valued at present levels. Our rating is Market Perform.

Price (16-Feb)	$47.75	**52-Week High**	$48.50
Target Price	$46.50	**52-Week Low**	$36.15



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$2.52	$2.60	$2.75	$2.85
P/E			17.4x	16.8x
CFPS	$7.21	$4.50	$4.67	$4.73
P/CFPS			10.2x	10.1x
Div.	$1.38	$1.66	$1.61	$1.65
EV ($mm)	$4,513	$5,590	$5,583	$5,606
EBITDA ($mm)	$456	$504	$522	$538
EV/EBITDA	9.9x	11.1x	10.7x	10.4x

Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$1.56	$0.03	-$0.35	$1.23
2003A	$1.42	$0.16	-$0.15	$1.19
2004E	$1.48	$0.19	-$0.11↑	$1.22

Dividend	$1.56	**Yield**	3.3%
Book Value	$25.14	**Price/Book**	1.9x
Shares O/S (mm)	51.9	**Mkt. Cap ($mm)**	$2,480
Float O/S (mm)	51.9	**Float Cap ($mm)**	$2,480
Wkly Vol (000s)	412	**Wkly $ Vol (mm)**	$17.5
Net Debt ($mm)	$3,199.8	**Next Rep. Date**	12-May (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2003E: $2.63; 2004E: $2.79; 2005E: $2.93

Changes

Quarterly EPS
Q3/04E -$0.12 to -$0.11

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

Details & Analysis

Terasen reported Q4/03 and fiscal 2003 earnings per share of $1.19 (basic) and $2.60 (diluted), respectively. We expected quarterly and annual performance of $1.22 (basic) and $2.62 per share. Stated results are net of one-time restructuring costs of $3.4 million after tax ($0.06 per share). We have not “normalized” results for a $1.8 million after-tax charge associated with the writedown of a portion of the company’s investment in Westport Innovations. We note that a similar write-off ($4.1 million after tax) was taken in Q3/02. Given the recurring nature of this expense, we do not consider it to be one-time in nature.

Highlights from fiscal 2003 performance include:

- **Natural Gas Distribution:** The contribution from the natural gas distribution operations of $98.8 million was slightly lower than our expectation of $100.2 million. The actual contribution from each key natural gas asset was: (1) Terasen Gas: $72.6—estimated return on equity of approximately 10.35% versus an allowed rate of return of 9.42%; (2) Terasen Gas Vancouver Island—contribution of $26.2 million—estimated return on equity of approximately 9.95% versus an allowed return of 9.92%. We note that the contribution from Terasen Gas Vancouver Island was slightly lower than expected, despite two accounting adjustments made during the third quarter (acceleration of the RDDA associated with the acquisition of this business and removal of the annual increase in the present value of the deferred payment amount) that increased segment contribution by a total of $3.9 million after tax or $0.07 per share ($2.1 million and $1.8 million, respectively).

- **Liquids Pipelines:** The contribution from Trans Mountain, Corridor and the Express System of $56.2 million ($35.8 million, $10.7 million and $9.7 million) was slightly higher than our expectation of $49.3 million, largely due to better than expected performance at Trans Mountain. Higher than anticipated throughput on both the Canadian and volume-sensitive U.S. portion of the pipeline increased the contribution from this system. Based on our rate base model for the Canadian portion of the Trans Mountain pipeline, we estimate that the rate of return on equity actually earned in 2003 is well in excess of 20%. The Canadian portion of Trans Mountain is subject to a multi-year incentive agreement that expires December 31, 2005.

  Under this agreement, base tolls are calculated on an agreed throughput level of 30,000 m^3/d for each year of the settlement. Trans Mountain will accept the risk and benefit associated with variations in actual throughput within a defined band—2,000 m^3/d greater than 1,500 m^3/d less than the base throughput amount. For volumes greater than 32,000 m3/d, 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.

- **One-Time Items:** In the fourth quarter, the company incurred approximately $3.4 million after tax (or $0.06 per share) in one-time costs associated with the integration of Terasen Gas and Terasen Gas Vancouver Island. While we have typically treated such costs as one-time (and have here as well) and stated fiscal results net of such an adjustment, it is not clear that this is, in fact, the right treatment given that the company is likely to benefit from these actions pursuant to the performance based regulatory regime in place at Terasen Gas and Terasen Gas Vancouver Island (until 2007 and 2005, respectively).

Estimates

Our 2004 and 2005 diluted EPS estimates of $2.75 and $2.85 per share are unchanged. We note the following key assumptions:

- No further writedowns of the investment in Westport Innovations is assumed. We do not yet know the residual value of the investment in the shares of this entity.
- No further integration costs at Terasen Gas and Terasen Gas Vancouver Island.
- No further equity requirements over the forecast period.
- Dividends are expected to increase with the May 30 payment in each of 2004 and 2005 to $0.405/share per quarter and $0.415/share per quarter, up from the current quarterly payment of $0.39 per share.
- Segment contribution as set out in the Consolidated Summary Sheet, attached as Table 2.
- No contribution is assumed from a variety of projects currently under development as highlighted in Table 1, with the exception of the Phase I and Phase II expansion of the Express Pipeline that is expected to be in-service by mid-2005 and contribute a full $0.10 per share in 2006.

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 215,000 from 188,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Increase Capacity to 232,000 from 215,000 bbls/d - Dropped December 8/03
Express/Platte - Phase I	41,000 bbls/d	US$65	Apr-05		Increase Capacity to 213,000 from 172,000 bbls/d - Confirmed December 22
Express/Platte - Phase II	67,000 bbls/d	US$15	Apr-05	$0.10	Increase Capacity to 280,000 from 213,000 bbls/d - Confirmed December 22
Corridor Pipeline	75,000 bbls/d	C$120	2006/7	NA	Increase Capacity to 230,000 from 155,000 bbls/d
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	100,000 bbls/d	C$450	NA	NA	Increase Capacity to 332,000 from 232,000 bbls/d
Trans Mountain - Loop II	100,000 bbls/d	C$700	NA	NA	Increase Capacity to 432,000 from 332,000 bbls/d
Trans Mountain - Loop III	440,000 bbls/d	C$925	NA	NA	Increase Capacity to 872,000 from 432,000 bbls/d
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

- Do not assume that the company effects its stated intention to create an income trust vehicle over the forecast period, in part due to the lack of a defined use for the cash proceeds and the lack of regulatory precedent and regulatory certainty.

Valuation

Our target price reflects a weighted average valuation approach: 14x estimated 2005 EPS of $2.85 (12.5%), 1.75x estimated 2005 book value per share of $29.89 (12.5%) and a target yield of 3.50% (75%), assuming 2005 dividends per share of $1.65.

Recommendation

We believe that the shares are reasonably valued at present levels. Our rating is Market Perform.

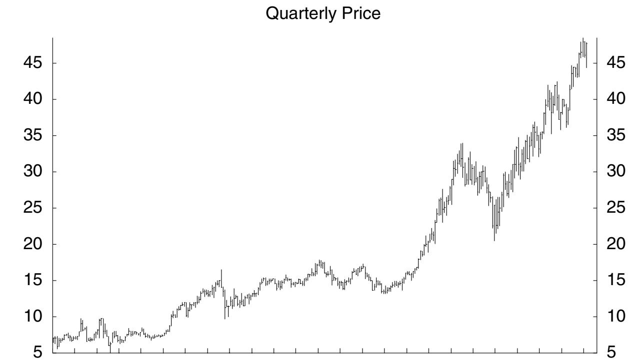
The company is hosting a conference call this morning at 10:00 a.m. ET. Te l: 1-877-375-5688.

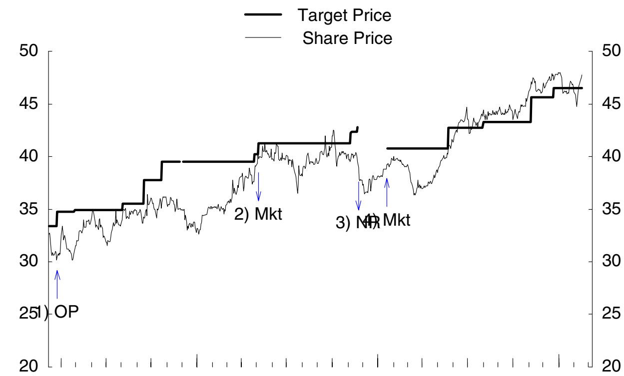
Table 2. Consolidated Summary Sheet

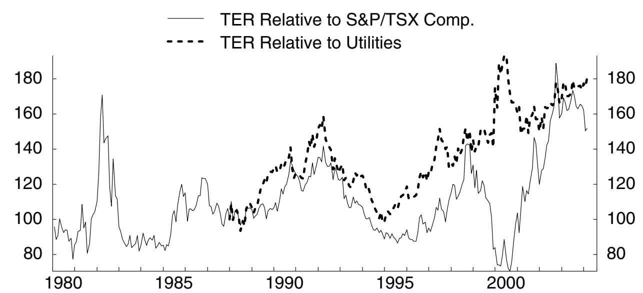
2/17/04			Karen J. Taylor
Current Price:	$47.70		BMO Nesbitt Burns Inc.
12-Month Target Price:	$46.50		
Rate of Return:	0.85%	Recommendation:	Market Perform

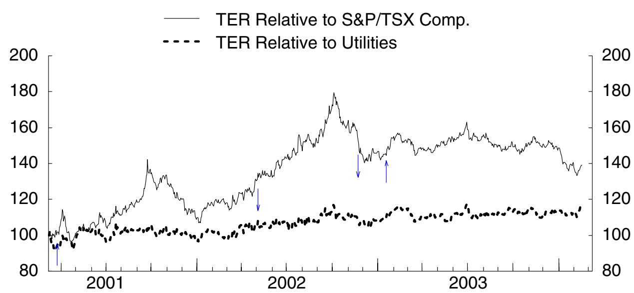
	Year Ended December 31							
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$1.99	$2.02	$2.52	$2.60	$2.75	$2.85
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.00	$2.04	$2.54	$2.62	$2.78	$2.87
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.14	$1.90	$1.88	$1.89
Trans Mountain Pipe Line	$0.60	$0.51	$0.50	$0.54	$0.68	$1.08	$1.19	$1.26
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.28)	($0.36)	($0.29)	($0.28)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.38	$1.66	$1.61	$1.65
Payout Ratio	58.9%	60.1%	61.3%	63.7%	54.5%	63.3%	57.7%	57.5%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.2	51.9	52.3	52.3
Net Book Value	$15.67	$16.61	$18.05	$18.78	$24.21	$24.92	$26.09	$27.32
Market Valuation								
Price: High	$33.95	$31.00	$33.45	$36.40	$42.50	$48.00	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	$32.64	$36.35	-	-
Price: Current	-	-	-	-	-	-	$47.70	-
P/E Ratio: High	18.4	16.0	16.24	17.84	16.73	18.32	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.58	12.85	13.87	-	-
P/E Ratio: Current	-	-	-	-	-	-	17.2	16.6
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	1.93	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	1.46	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.83	1.75
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	3.46%	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	4.56%	-	-
Yield: Current Price	-	-	-	-	-	-	3.36%	3.46%
Balance Sheet ($mm)								
Debt (S-T)	448.7	508.5	314.2	528.4	548.7	605.7	918.3	1,332.2
Debt (L-T)	1,101.6	1,001.8	1,561.9	1,928.0	2,123.4	2,249.3	1,936.9	1,539.1
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	1,304.6	1,365.8	1,429.9
	2,345.2	2,265.4	2,749.9	3,356.9	4,099.7	4,352.1	4,404.1	4,484.3
Balance Sheet (%)								
Debt (S-T)	19.1%	22.4%	11.4%	15.7%	13.4%	13.9%	20.9%	29.7%
Debt (L-T)	47.0%	44.2%	56.8%	57.4%	51.8%	51.7%	44.0%	34.3%
Deferred Taxes	1.5%	1.5%	1.7%	1.7%	1.4%	1.6%	1.3%	1.3%
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%	2.9%	2.8%	2.8%
Shareholders' Equity	26.0%	28.5%	25.5%	21.4%	30.4%	30.0%	31.0%	31.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.9	109.5	136.1	145.2	150.5
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.9	109.5	136.1	145.2	150.5
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.6	311.4	269.9	242.7	249.8

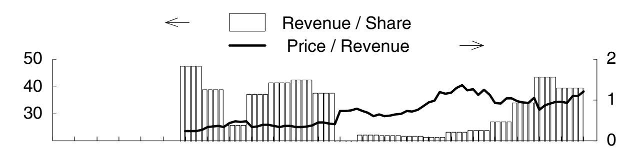
Terasen Inc. (TER)

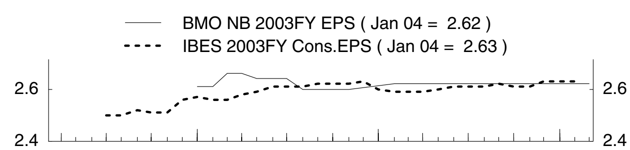


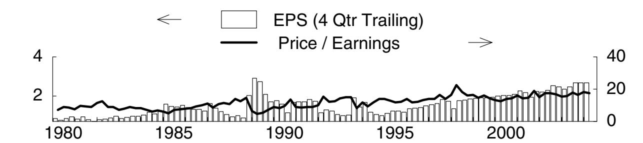


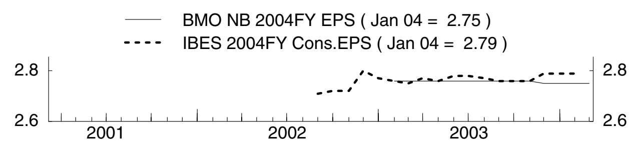












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
Current*	2.66	17	1.56	3.4	59	24.32	1.9	11
Average:		12		5.4	60		1.4	13.5
Growth(%):								
5 Year:	7.5		6.9			9.5		
10 Year:	6.4		5.7			6.5		
20 Year:	5.3		5.4			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2003.

TER - Rating as of 7-Mar-01 = Mkt

	Date	Rating Change	Share Price
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2	3-May-02	OP to Mkt	$40.50
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Last Daily Data Point: February 16, 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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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.

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Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns or an affiliate within the past 12 months: Cash Management and/or Lending.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	39%	44%	43%
Hold	Market Perform	49%	48%	47%
Sell	Underperform	12%	8%	10%

* 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

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^ 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
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Additional Matters
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BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

February 24, 2004
Research Comment
Gas & Electrical

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

Dividend Expectations Increased; No Change in View

Event

We have increased our 2004 and 2005 dividend expectations to $1.62 and $1.70 per share, respectively from $1.61 and $1.65. We believe that Terasen is likely to: (1) maintain a target 60% dividend payout ratio, plus or minus 1%; (2) seek incremental capital from the market when it is needed, rather than build balance sheet capability in advance of new projects; (3) aggressively pursue the acquisition of new businesses in its core liquids pipeline and natural gas pipeline/distribution operations, as suggested by recent management changes; and (4) continue to focus on "delivering" targeted EPS growth of 6% per annum (to deliver on this target, the company must acquire/develop green field projects with a return on equity of at least 15%).

Impact

Neutral. We note that Terasen's financial strategy is somewhat aggressive, given its targeted EPS growth. We also note that recent growth initiatives (including the acquisition of Centra Gas and the Express Pipeline and the subsequent issuance of equity) have contributed to the erosion of the company's consolidated actual return on equity from approximately 11% in 2000 to 8.80% in 2002, rebounding to 10.39% in 2003). We expect the realized ROE to be approximately 10.5% at the end of 2005, below the company's target of 11%.

Forecasts

No change.

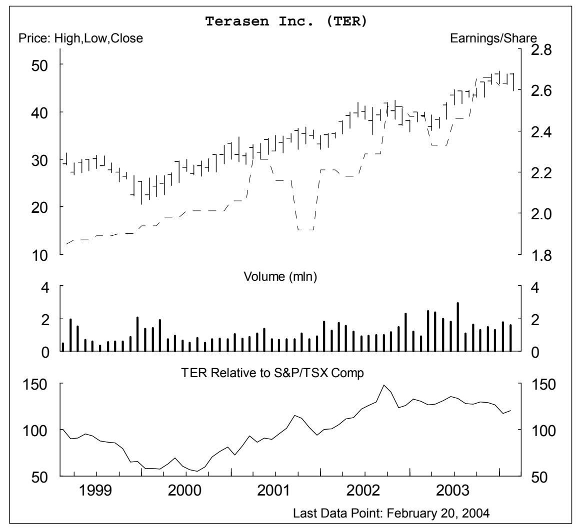
Valuation

Our target price reflects a weighted average valuation approach: 14x 2005E diluted EPS of $2.85 (12.5%), 1.75x 2005E book value per share of $27.36 (12.5%) and a target yield of 3.60% (75%), assuming 2005 dividends of $1.70.

Recommendation

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

Price (20-Feb)	$48.00	**52-Week High**	$48.50
Target Price	$46.50	**52-Week Low**	$36.15



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$2.52	$2.60	$2.75	$2.85
P/E			17.5x	16.8x
CFPS	$7.21	$4.50	$4.67	$4.73
P/CFPS			10.3x	10.1x
Div.	$1.38	$1.53	$1.62	$1.70
EV ($mm)	$4,513	$5,514	$5,526	$5,542
EBITDA ($mm)	$456	$503	$531	$546
EV/EBITDA	9.9x	11.0x	10.4x	10.2x

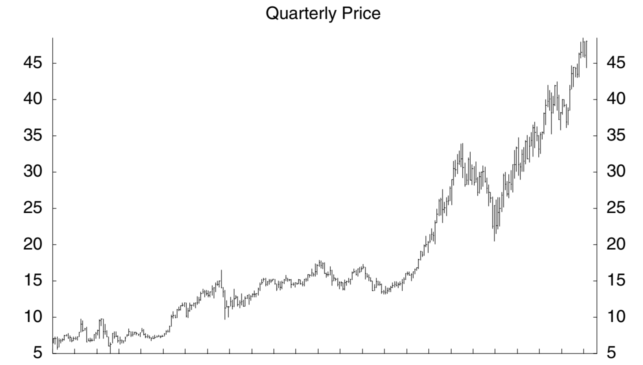
Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$1.56	$0.03	-$0.35	$1.23
2003A	$1.42	$0.16	-$0.15	$1.19
2004E	$1.48	$0.19	-$0.11	$1.22

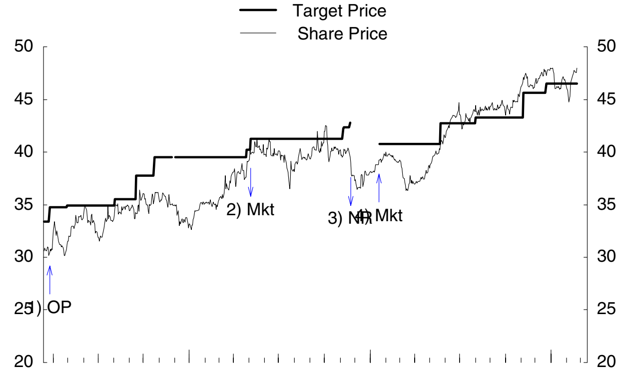
Dividend	$1.56	**Yield**	3.3%
Book Value	$25.14	**Price/Book**	1.9x
Shares O/S (mm)	51.9	**Mkt. Cap ($mm)**	$2,493
Float O/S (mm)	51.9	**Float Cap ($mm)**	$2,493
Wkly Vol (000s)	423	**Wkly $ Vol (mm)**	$18.1
Net Debt ($mm)	$3,047.5	**Next Rep. Date**	12-May (E)

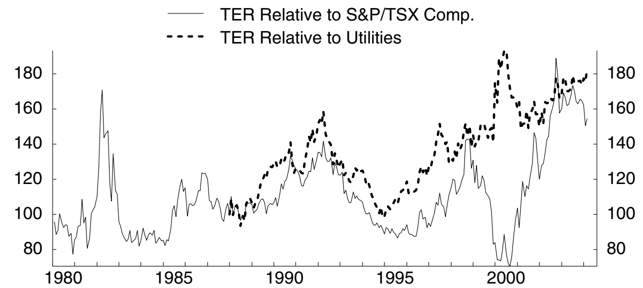
Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $2.79; 2005E: $2.97

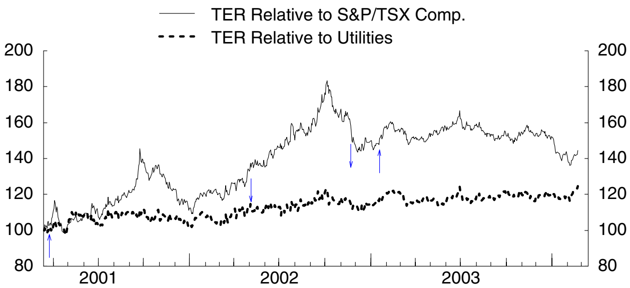
Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

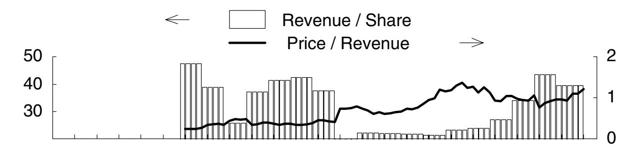
Terasen Inc. (TER)

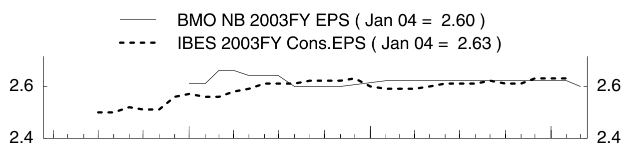


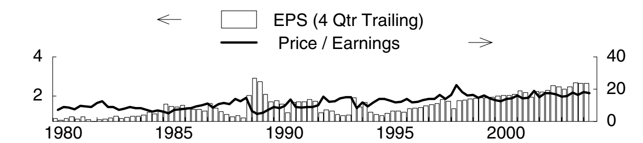


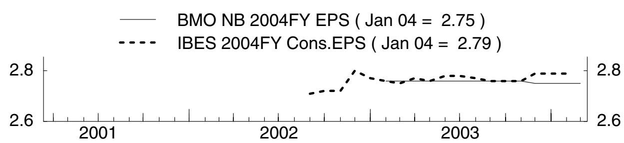












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
2003	2.60	18	1.56	3.3	60	24.00	2.0	11
Current*	2.62	18	1.56	3.4	60	25.14	1.8	10
Average:		12		5.3	60		1.4	13.4
Growth(%):								
5 Year:	7.2		6.9			10.3		
10 Year:	6.2		5.7			6.8		
20 Year:	5.2		5.4			6.7		

* Current EPS is the 4 Quarter Trailing to Q4/2003.

TER - Rating as of 13-Mar-01 = Mkt

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1	23-Mar-01	Mkt to OP	$30.15
2	3-May-02	OP to Mkt	$40.50
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Last Daily Data Point: February 20, 2004

BMO Nesbitt Burns

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Additional Matters

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

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

March 5, 2004
Research Comment
Gas & Electrical

Karen Taylor, CFA
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Assoc: Andrew Shufelt/Keith Carpenter

Earnings and Target Price Revisited; Market Perform Rating Unchanged

Event

We have revisited our EPS estimates for the 2004 and 2005 forecast period and our target price in view of recent strength in the share price.

Impact

Neutral.

Forecasts

We have revised our (diluted) 2004 and 2005 EPS estimates to $2.79 and $2.90, respectively, from $2.75 and $2.85 to reflect a higher assumed contribution from the Trans Mountain Pipeline. Specifically, we have assumed that the contribution in 2004 and 2005 from Trans Mountain is approximately equal to the robust return the asset earned in fiscal 2003—an effective return on equity well in excess of 20% on a deemed equity capitalization of 45%. We previously assumed a more modest contribution due to the risk that exceptional returns would motivate shippers to request that the incentive agreement be re-opened prior to maturity.

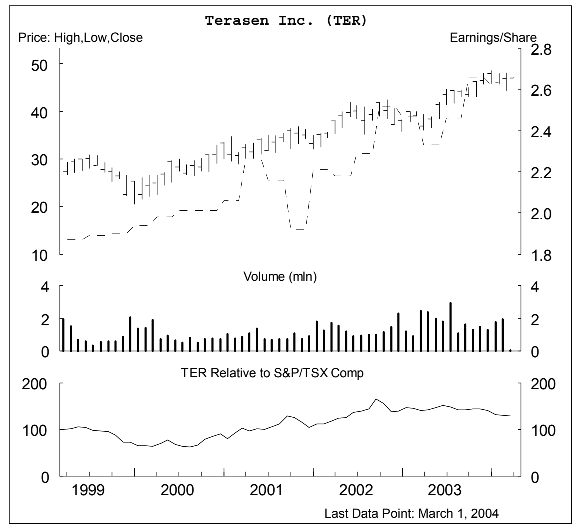
Valuation

Our revised target price of $47.75 reflects a weighted average valuation approach: 15x 2005E diluted EPS of $2.90 (12.5%), 1.75x 2005E book value per share of $27.39 (12.5%) and a target yield of 3.60% (75%), assuming 2005 dividends per share of $1.74.

Recommendation

We believe that the shares are reasonably valued at present levels. We rate the shares Market Perform.

Price (3-Mar)	$48.05	**52-Week High**	$48.50
Target Price	$47.75↑	**52-Week Low**	$36.15



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$2.52	$2.60	$2.79↑	$2.90↑
P/E			17.2x	16.6x
CFPS	$7.21	$4.50	$4.67	$4.73
P/CFPS			10.3x	10.2x
Div.	$1.38	$1.53	$1.65	$1.74
EV ($mm)	$4,513	$5,511	$5,524	$5,543
EBITDA ($mm)	$456	$503	$531	$546
EV/EBITDA	9.9x	11.0x	10.4x	10.2x

Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$1.56	$0.03	-$0.35	$1.23
2003A	$1.42	$0.16	-$0.15	$1.19
2004E	$1.51↑	$0.19	-$0.12↓	$1.24↑

Dividend	$1.56	**Yield**	3.2%
Book Value	$25.14	**Price/Book**	1.9x
Shares O/S (mm)	51.9	**Mkt. Cap ($mm)**	$2,495
Float O/S (mm)	51.9	**Float Cap ($mm)**	$2,495
Wkly Vol (000s)	424	**Wkly $ Vol (mm)**	$18.2
Net Debt ($mm)	$3,047.5	**Next Rep. Date**	12-May (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $2.79; 2005E: $2.97

Changes	Annual EPS	Quarterly EPS	Target
	2004E $2.75 to $2.79 2005E $2.85 to $2.90	Q1/04E $1.48 to $1.51 Q3/04E -$0.11 to -$0.12 Q4/04E $1.22 to $1.24	$46.50 to $47.75

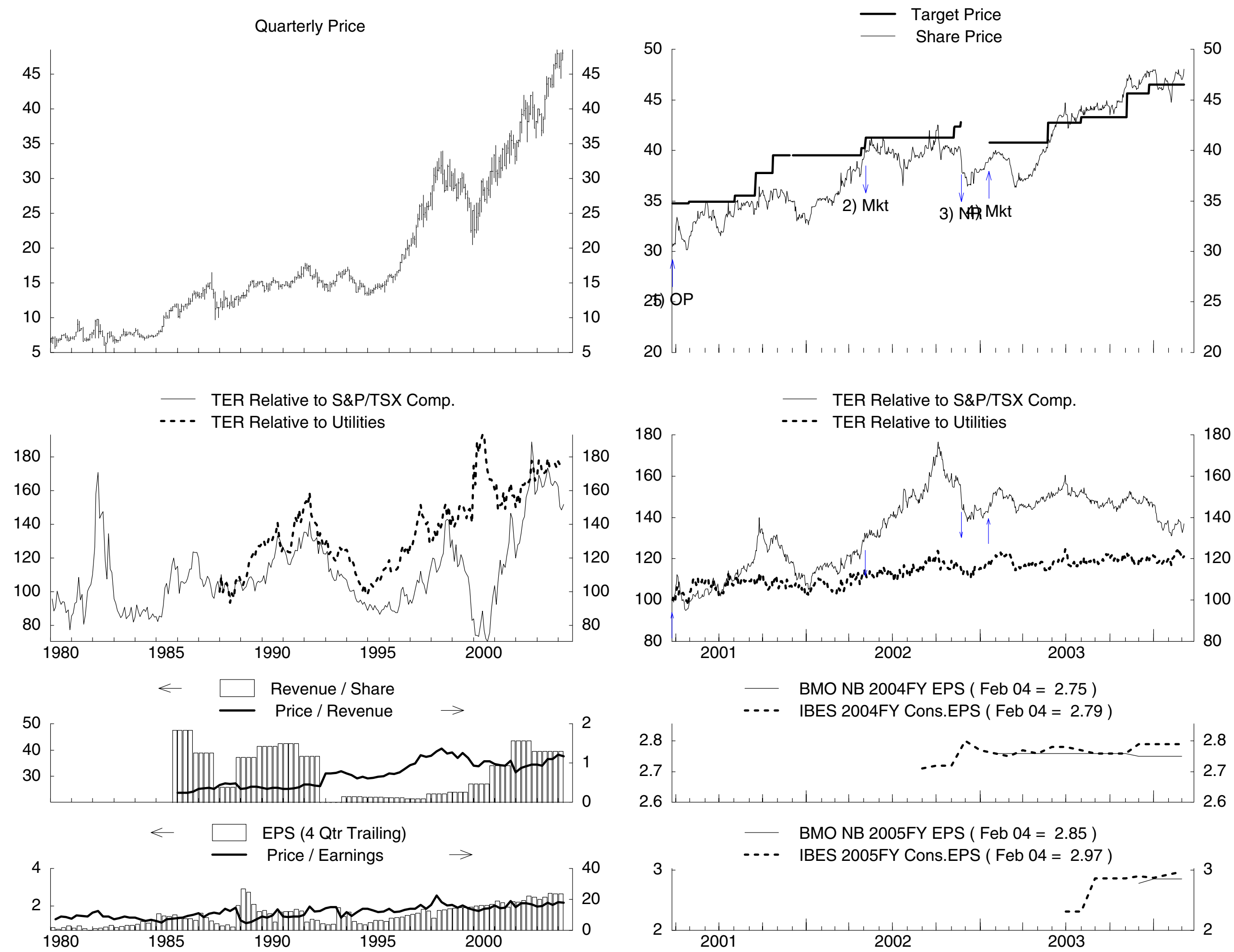
Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

Table 1. Consolidated Summary Sheet

3/4/2004								Karen J. Taylor
Current Price: $49.00								BMO Nesbitt Burns Inc.
12-Month Target Price: $47.75								
Rate of Return: 0.82%							Recommendation:	Market Perform

	Year Ended December 31							
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$1.99	$2.02	$2.52	$2.60	$2.79	$2.90
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.00	$2.04	$2.54	$2.62	$2.82	$2.93
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.14	$1.90	$1.88	$1.89
Trans Mountain Pipe Line	$0.60	$0.51	$0.50	$0.54	$0.68	$1.08	$1.27	$1.35
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.28)	($0.36)	($0.33)	($0.31)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.38	$1.53	$1.65	$1.74
Payout Ratio	58.9%	60.1%	61.3%	63.7%	54.5%	58.4%	58.5%	59.4%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.2	51.9	52.3	52.3
Net Book Value	$15.67	$16.61	$18.05	$18.78	$24.21	$25.03	$26.20	$27.39
Market Valuation								
Price: High	$33.95	$31.00	$33.45	$36.40	$42.50	$48.00	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	$32.64	$36.35	-	-
Price: Current	-	-	-	-	-	-	$49.00	-
P/E Ratio: High	18.4	16.0	16.24	17.84	16.73	18.32	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.58	12.85	13.87	-	-
P/E Ratio: Current	-	-	-	-	-	-	17.4	16.7
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	1.92	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.87	1.79
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	3.19%	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	4.21%	-	-
Yield: Current Price	-	-	-	-	-	-	3.37%	3.55%
Balance Sheet ($mm)								
Debt (S-T)	448.7	508.5	314.2	528.4	548.7	605.7	918.4	1,334.1
Debt (L-T)	1,101.6	1,001.8	1,561.9	1,928.0	2,123.4	2,249.3	1,936.9	1,539.1
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	1,310.3	1,371.4	1,433.7
	2,345.2	2,265.4	2,749.9	3,356.9	4,099.7	4,357.8	4,409.8	4,490.0
Balance Sheet (%)								
Debt (S-T)	19.1%	22.4%	11.4%	15.7%	13.4%	13.9%	20.8%	29.7%
Debt (L-T)	47.0%	44.2%	56.8%	57.4%	51.8%	51.6%	43.9%	34.3%
Deferred Taxes	1.5%	1.5%	1.7%	1.7%	1.4%	1.5%	1.3%	1.3%
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%	2.9%	2.8%	2.8%
Shareholders' Equity	26.0%	28.5%	25.5%	21.4%	30.4%	30.1%	31.1%	31.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.9	109.5	136.1	147.5	153.4
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.9	109.5	136.1	147.5	153.4
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.6	311.4	269.9	245.0	252.7

Terasen Inc. (TER)



FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
2003	2.60	18	1.56	3.3	60	24.00	2.0	11
Current*	2.62	18	1.56	3.3	60	25.14	1.9	10
Average:		12		5.3	60		1.4	13.4
Growth(%):								
5 Year:	7.2		6.9			10.3		
10 Year:	6.2		5.7			6.8		
20 Year:	5.2		5.4			6.7		

* Current EPS is the 4 Quarter Trailing to Q4/2003.

TER - Rating as of 23-Mar-01 = Mkt

	Date	Rating Change	Share Price
1	23-Mar-01	Mkt to OP	$ND
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: March 3, 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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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.

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Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability 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 or an affiliate within the past 12 months: Cash Management and/or Lending.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	39%	44%	43%
Hold	Market Perform	49%	48%	47%
Sell	Underperform	12%	8%	10%

* 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

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Terasen Inc

(TER-TSX)

March 12, 2004
Brief Research Note
Pipelines

Stock Rating:	**Market Perform**
Stock Price:	**$49.05**
Target Price:	**$47.75**

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

Terasen Discontinues Engagement with S&P

Impact

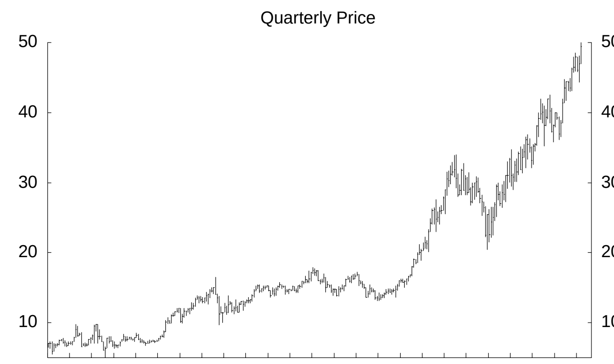
Slightly Negative

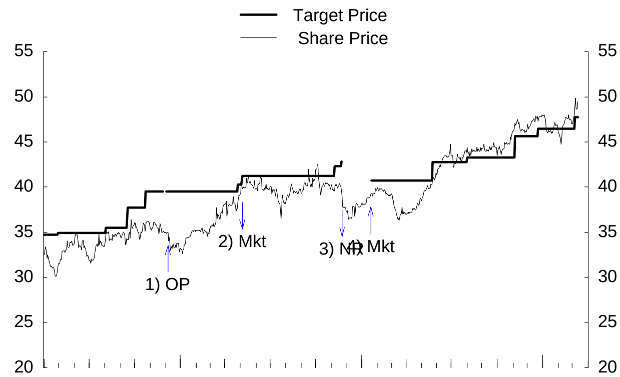
Details & Analysis

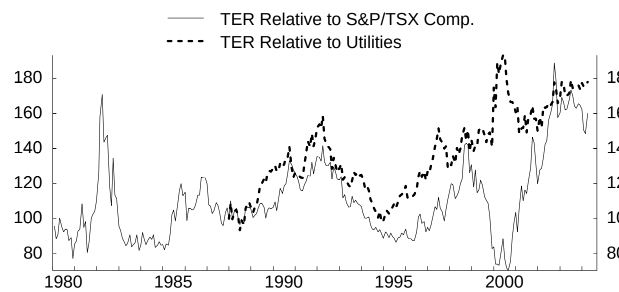
Terasen has advised institutional bond investors that it has discontinued S&P's engagement to provide ratings on Terasen's debt for three reasons: (1) the company believes the benefit is less than the cost; (2) that the S&P approach to Canadian utilities generally is unresponsive to the specifics of Canadian utilities regulation; and (3) Terasen does not expect to issue debt in the U.S. We note the following: (1) we have previously highlighted our belief that Terasen was modestly more "debt tolerant" than the average utility in our coverage universe; (2) the company is unlikely to "store financial capability" on its balance sheet; and (3) the change in management is likely to represent a shift in strategic approach. We believe this most recent action suggests: (1) management may have been uncomfortable with S&P's viewpoint; (2) we do not believe that the presence of deferral accounts eliminates business risk, but only mitigates it over a short to medium term; and (3) relying on deferral accounts may be out of step with the current activities of the Canadian Accounting Standards Board to review the accounting for rate-regulated entities (and in particular whether deferral accounts should be recognized). If these accounts are not recognized, we would likely expect an increase in reported earnings volatility of all utilities. We rate the shares of Terasen Market Perform.

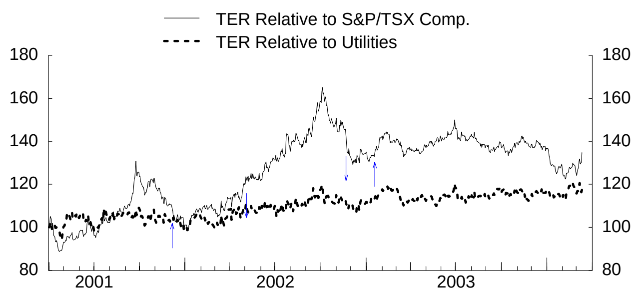
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

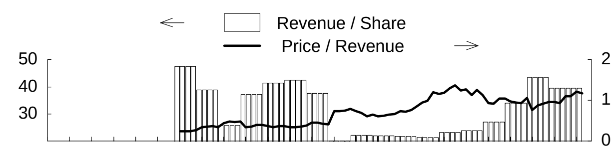
Terasen Inc. (TER)

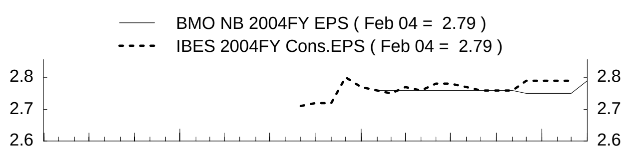


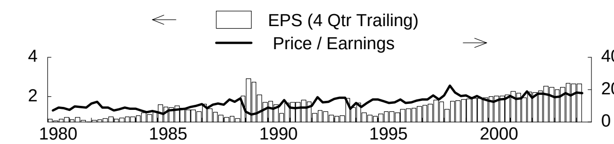


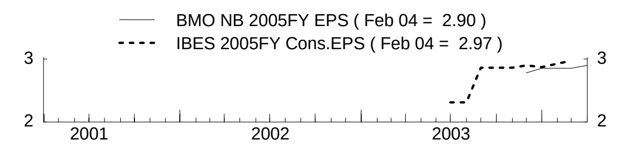












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
2003	2.60	18	1.56	3.3	60	24.00	2.0	11
Current*	2.62	18	1.56	3.3	60	25.03	1.9	10
Average:		12		5.3	60		1.4	13.4
Growth(%):								
5 Year:	7.2		6.9			10.2		
10 Year:	6.2		5.7			6.8		
20 Year:	5.2		5.4			6.6		

* Current EPS is the 4 Quarter Trailing to Q4/2003.

TER - Rating as of 30-Mar-01 = OP

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$35.00
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: March 10, 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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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

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Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns or an affiliate within the past 12 months: Cash Management and/or Lending.

Distribution of Ratings

Rating Category	**BMO NB Rating**	**BMO NB Universe**	**BMO NB I.B. Clients***	**First Call Universe****
Buy	Outperform	39%	42%	45%
Hold	Market Perform	47%	52%	46%
Sell	Underperform	14%	6%	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 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 subject to the terms as set out above. 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: Market Perform
Industry Rating: Underperform

April 21, 2004
Research Comment
Pipelines

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Karen.Taylor@bmonb.com
Assoc: Andrew Shufelt/Keith Carpenter

50% Interest in Water Utility to be Acquired

Event

Terasen has announced that it has agreed to acquire a 50% interest in Fairbanks Sewer and Water Inc., for US$30 million. Fairbanks is privately held with two primary water and wastewater treatment and water distribution subsidiaries, Golden Heart Utilities, Inc. and College Utilities Corporation, Inc. Water utility services are provided to the city of Fairbanks, Alaska and are regulated by the Regulatory Commission of Alaska. The purchase price includes approximately US$8.6 million earmarked to reduce existing holdco debt at Fairbanks. We believe the transaction value is approximately 2.1x the regulated equity book value of utility operations.

Impact

Neutral. Terasen has also has an option to acquire the remaining 50% in 2009 at fair market value.

Forecasts

Our 2004 and 2005 diluted EPS estimates increase by $0.01 and $0.02 per share, respectively, reflecting the successful close of the proposed acquisition in Q3/04. Our estimates reflect a US$40 million rate base (100%), 70% deemed equity and a 13.85% allowed return on equity. We assume that the transaction is 100% debt financed. Current utility rates (approved in early 2003) are assumed to remain in place until a combined rate case is approved in late 2005 (must be filed no later than August 1, 2005 based on a 2004 test year).

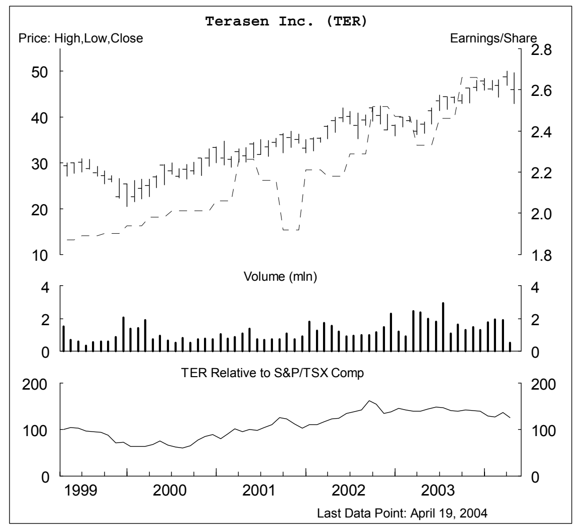
Valuation

Our target price of $48.75 reflects a weighted average: 15x diluted 2005E EPS (12.5%), 1.75x estimated 2005 book value (12.5%), and a target yield of 3.5% (75%), assuming 2005 dividends per share of $1.74.

Recommendation

We believe that the shares are reasonably priced. Our rating is Market Perform.

Price (19-Apr)	$45.96	**52-Week High**	$50.00
Target Price	$48.75	**52-Week Low**	$37.61



(FY-Dec.) Diluted	2002A	2003A	2004E	2005E
EPS	$2.52	$2.60	$2.80	$2.92
P/E			16.5x	15.8x
CFPS	$7.21	$5.20	$4.68	$4.83
P/CFPS			9.8x	9.5x
Div.	$1.38	$1.53	$1.65	$1.74
EV ($mm)	$4,513	$5,720	$6,023	$6,463
EBITDA ($mm)	$456	$503	$536	$552
EV/EBITDA	9.9x	11.4x	11.2x	11.7x

Quarterly EPS Basic	Q1	Q2	Q3	Q4
2002A	$1.56	$0.03	-$0.35	$1.23
2003A	$1.42	$0.16	-$0.15	$1.19
2004E	$1.51	$0.19	-$0.12	$1.24

Dividend	$1.56	**Yield**	3.4%
Book Value	$25.03	**Price/Book**	1.8x
Shares O/S (mm)	51.9	**Mkt. Cap ($mm)**	$2,387
Float O/S (mm)	51.9	**Float Cap ($mm)**	$2,387
Wkly Vol (000s)	387	**Wkly $ Vol (mm)**	$17.3
Net Debt ($mm)	$3,151.0	**Next Rep. Date**	22-Apr (E)

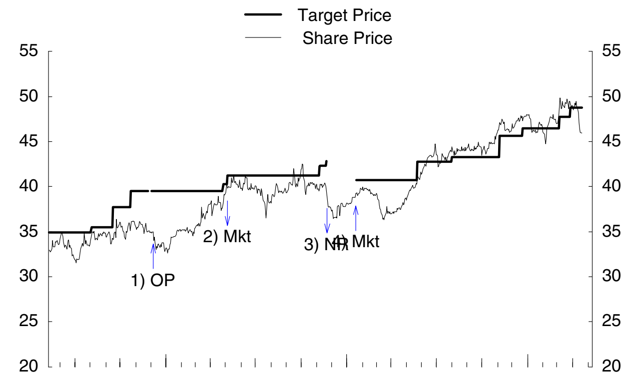
Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Tricor Pacific Capital Inc. (40%)
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $2.80; 2005E: $2.97

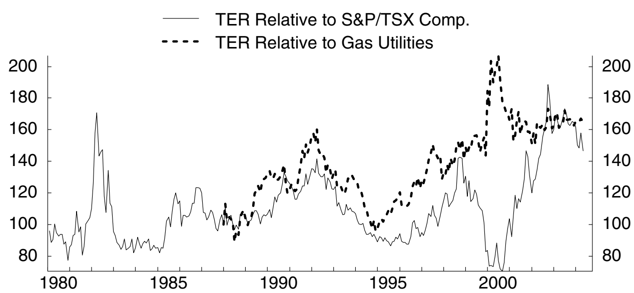
Changes

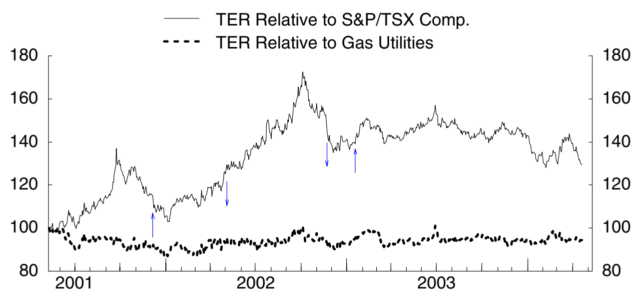
Annual EPS
2004 $2.79 to $2.80
2005 $2.90 to $2.92

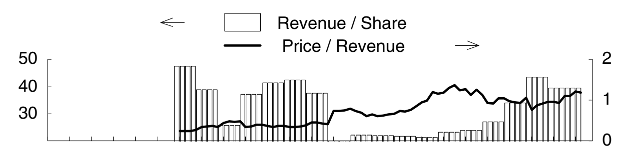
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

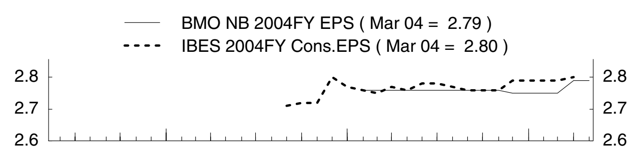
Terasen Inc. (TER)

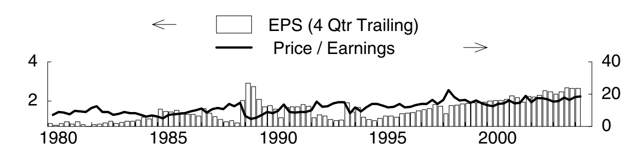


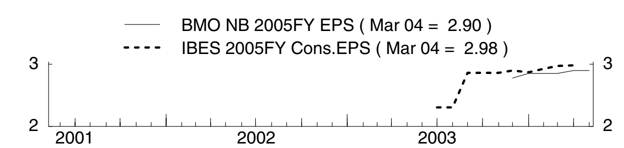












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
2003	2.60	18	1.56	3.3	60	24.00	2.0	11
Current*	2.62	19	1.56	3.2	60	25.03	2.0	10
Average:		12		5.3	60		1.4	13.4
Growth(%):								
5 Year:	7.0		6.9			10.2		
10 Year:	4.7		5.7			6.8		
20 Year:	4.8		5.4			6.6		

* Current EPS is the 4 Quarter Trailing to Q4/2003.

TER - Rating as of 9-May-01 = OP

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$35.00
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: April 19, 2004

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Terasen Inc

(TER-TSX)

April 22, 2004
Brief Research Note
Pipelines

Stock Rating:	**Market Perform**
Stock Price:	**$46.40**
Target Price:	**$48.75**

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

Q1/04 Results, Stock Split and Dividend

Impact

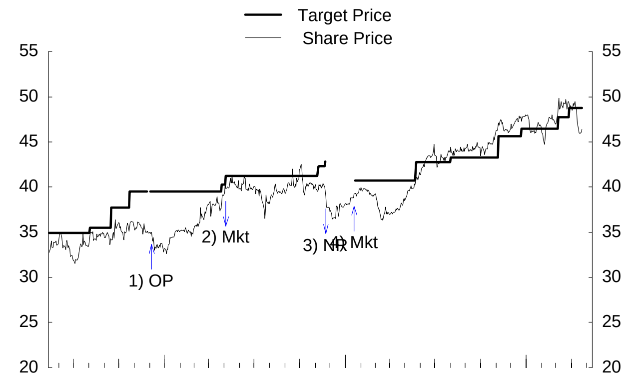
Neutral

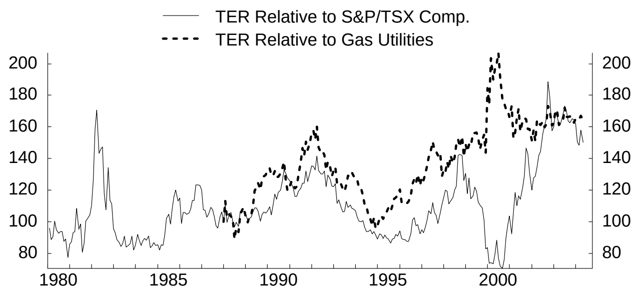
Details & Analysis

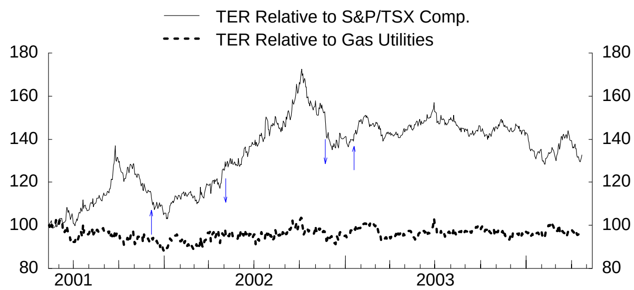
Terasen reported Q1/04 EPS of $1.53 versus our expectation of $1.51 per share (we have not yet reviewed the full press release and it is not clear if there are any one-time items or adjustments). The company has also announced a two-for-one stock split to be effective June 14, 2004 for shareholders of record on June 7. The quarterly dividend payment is also increasing to $0.42 per share from $0.39 per share. The higher dividend will be paid on May 31, 2004, to shareholders of record at the close of business on May 17, 2004. The stock-split and dividend increase are in line with our expectations. No change in view. We believe the shares are reasonably valued and we rate the shares Market Perform.

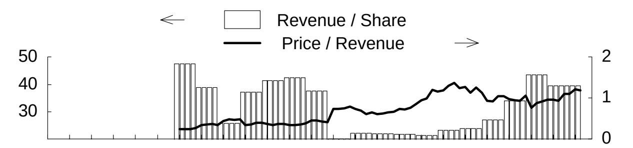
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

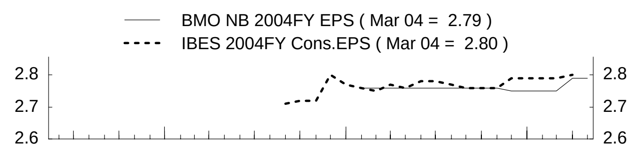
Terasen Inc. (TER)

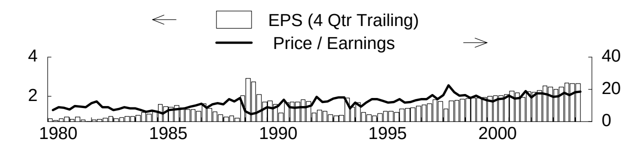


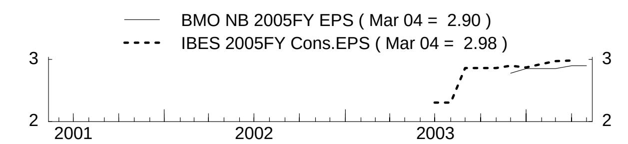












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
2003	2.60	18	1.56	3.3	60	24.00	2.0	11
Current*	2.62	19	1.56	3.2	60	25.03	2.0	10
Average:		12		5.3	60		1.4	13.4
Growth(%):								
5 Year:	7.0		6.9			10.2		
10 Year:	4.7		5.7			6.8		
20 Year:	4.8		5.4			6.6		

* Current EPS is the 4 Quarter Trailing to Q4/2003.

TER - Rating as of 11-May-01 = OP

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$35.00
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: April 21, 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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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

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Distribution of Ratings

Rating Category	**BMO NB Rating**	**BMO NB Universe**	**BMO NB I.B. Clients***	**First Call Universe****
Buy	Outperform	39%	42%	45%
Hold	Market Perform	47%	52%	46%
Sell	Underperform	14%	6%	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.

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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

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Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

June 3, 2004
Research Comment
Pipelines

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

2 for 1 Stock Split Effective Today; No Change in View

Event

The shares of Terasen Inc. commence trading today on a two-for-one split basis. The company announced April 22 that it planned to split its common stock two-for-one, effective June 3. The stock split takes the form of a stock dividend. Shareholders of record (June 7) will be paid on the basis of one additional common share for each common share held.

Impact

Neutral.

Forecasts

We have revised our financial model to reflect the two-for-one stock split. Our 2004 and 2005 diluted EPS estimates are effectively unchanged and are now $1.40 and $1.46, respectively.

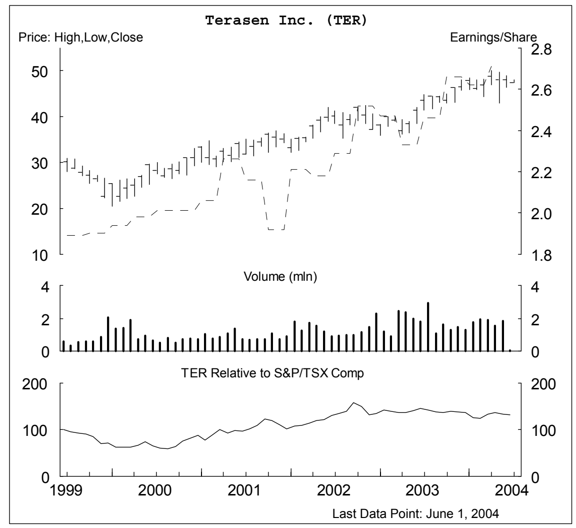
Valuation

Our target price of $24.50 reflects a weighted average valuation approach: 15x diluted 2005 EPS of $1.46 (12.5%), 1.75x estimated 2005 book value per share of $13.65 (12.5%), and a target yield of 3.5% (75%), assuming 2005 dividends per share of $0.87.

Recommendation

We believe the shares are reasonably valued at present levels. Our rating is Market Perform.

Price (2-Jun)	$23.73	**52-Week High**	$25.00
Target Price	$24.50↓	**52-Week Low**	$20.88



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$1.26	$1.30	$1.40↓	$1.46↓
P/E			33.9x	32.5x
CFPS	$3.60	$2.60	$2.34↓	$2.42↓
P/CFPS			20.3x	19.6x
Div.	$0.69	$0.77	$0.83	$0.87
EV ($mm)	$4,513	$5,346	$5,949	$6384
EBITDA ($mm)	$456	$503	$537	$554
EV/EBITDA	9.9x	10.6x	11.1x	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	$0.10↓	-$0.06↑	$0.62↓

Dividend	$0.84	**Yield**	3.5%
Book Value	$13.64	**Price/Book**	1.75
Shares O/S (mm)	104.4	**Mkt. Cap ($mm)**	$2,477
Float O/S (mm)	104.4	**Float Cap ($mm)**	$2,477
Wkly Vol (000s)	790	**Wkly $ Vol (mm)**	$18.1
Net Debt ($mm)	$3,153.2	**Next Rep. Date**	22-Jul (E)

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

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

Table 1. Consolidated Summary Sheet

6/2/2004			Karen J. Taylor
Current Price:	$23.70		BMO Nesbitt Burns Inc.
12-Month Target Price:	$24.50		
Rate of Return:	6.86%	Recommendation:	Market Perform

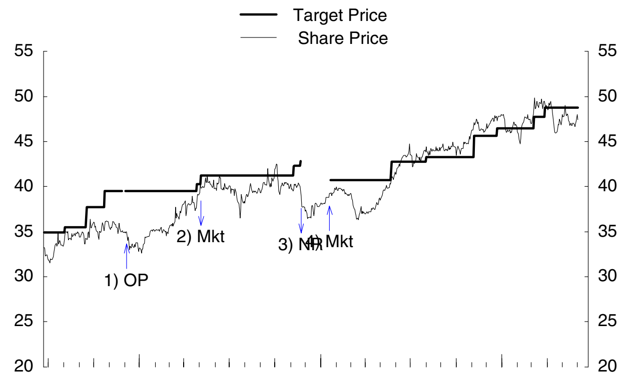
	Year Ended December 31							
	1998	1999	2000	2001	2002	2003	2004E	2005E
Diluted EPS (Prior to One-Time Items)	$0.92	$0.96	$0.99	$1.01	$1.26	$1.30	$1.40	$1.46
Total EPS (Prior to One-Time Items)	$0.93	$0.97	$1.00	$1.02	$1.27	$1.31	$1.42	$1.47
Segmented EPS: B.C. Gas Utility	$0.67	$0.68	$0.77	$0.89	$1.07	$0.95	$0.94	$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	29.5%	30.0%	30.6%	31.9%	27.2%	29.2%	58.1%	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	$12.46	$13.05	$13.65

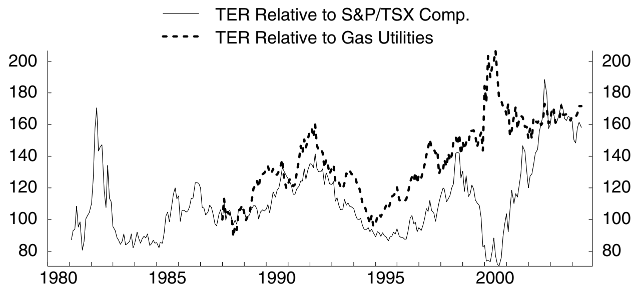
Market Valuation								
Price: High	$16.98	$15.50	$16.73	$18.20	$21.25	$24.00	-	-
Price: Low	$13.50	$10.50	$10.75	$14.88	$16.32	$18.18	-	-
Price: Current	-	-	-	-	-	-	$23.70	-
P/E Ratio: High	18.4	16.0	16.24	17.84	16.73	18.32	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.58	12.85	13.87	-	-
P/E Ratio: Current	-	-	-	-	-	-	16.7	16.1
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	-	-	-	-	-	-	1.82	1.74
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	-	-	-	-	-	-	3.48%	3.67%

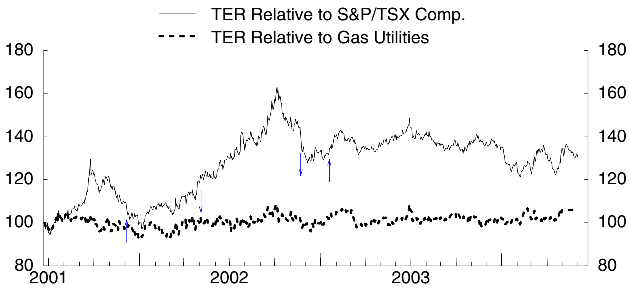
Balance Sheet ($mm)								
Debt (S-T)	448.7	508.5	314.2	528.4	548.7	607.8	968.9	1,805.2
Debt (L-T)	1,101.6	1,001.8	1,561.9	1,928.0	2,123.4	2,352.9	2,316.1	1,914.3
Deferred Taxes	36.3	35.0	47.3	56.8	58.1	67.5	58.1	58.1
Minority Interest	150.0	75.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	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	1,304.5	1,366.3	1,429.4
	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%	13.6%	20.0%	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%	29.3%	28.3%	26.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

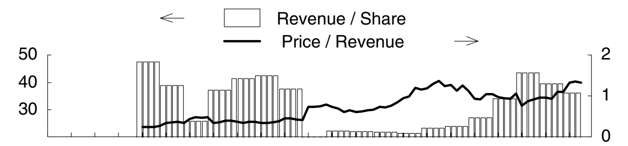
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.9	109.5	136.1	148.2	154.2
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.9	109.5	136.1	148.2	154.2
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.6	311.4	269.9	245.5	253.3

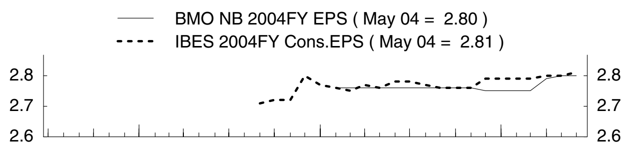
Terasen Inc. (TER)

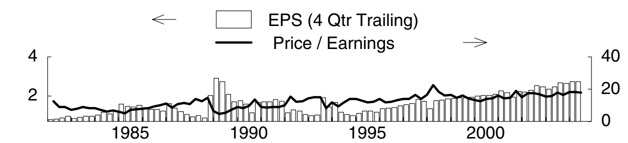


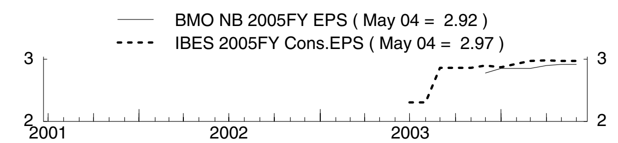












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
2003	2.60	18	1.56	3.3	60	25.05	1.9	11
Current*	2.71	18	1.68	3.5	62	27.28	1.8	10
Average:		12		5.1	59		1.5	13.3
Growth(%):								
5 Year:	7.7		7.3			12.1		
10 Year:	5.0		6.4			7.7		
20 Year:	5.0		5.7			7.1		

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

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

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$35.00
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: June 1, 2004

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

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Additional Matters
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Terasen Inc.

(TER-TSX)

July 30, 2004
Research Comment
Pipelines

Stock Rating: Market Perform
Industry Rating: Underperform

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.

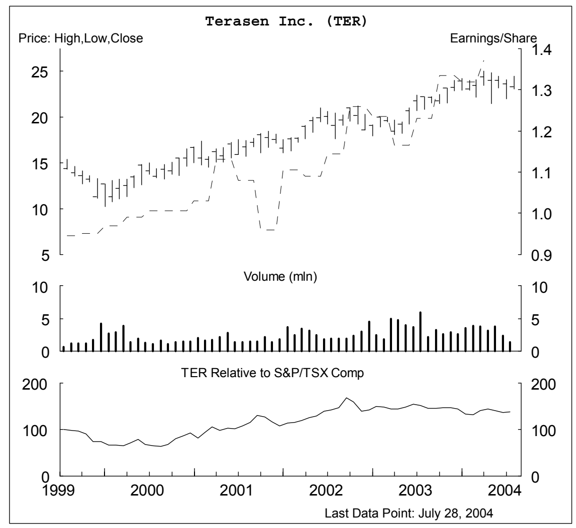
Valuation

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

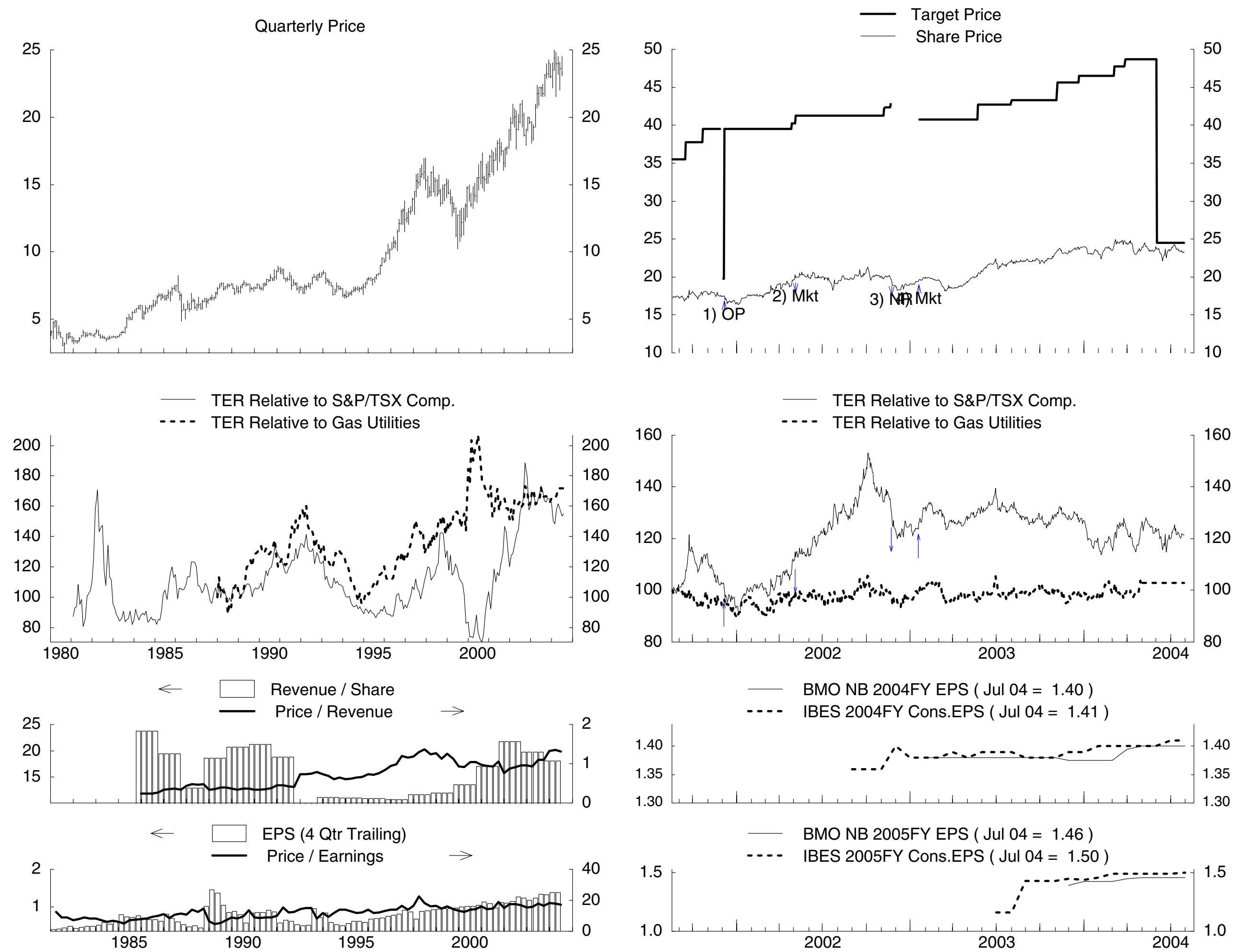
We believe the shares are reasonably valued at present levels and we rate them Market Perform.

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.

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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.

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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.
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^ 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.

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Additional Matters
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Terasen Inc.

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

Q2/04 Results in Line with Expectations

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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

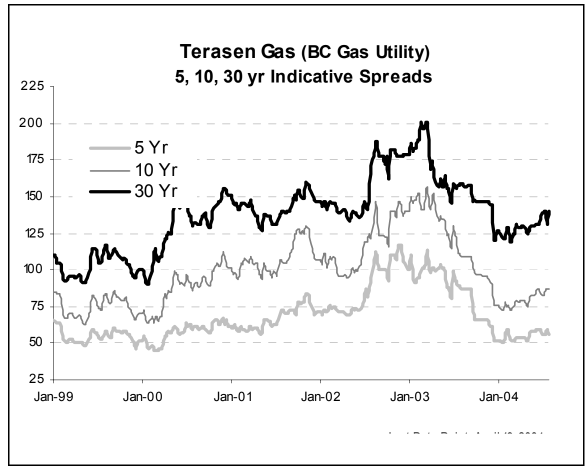
Terasen reported Q2/04 free cash flow of $25.4 million versus -$22.2 million in Q2/03. The variance was largely attributable to a 48.9% reduction in capital expenditures ($31.8 million versus $62.2 million in Q2/03) and a positive change in working capital ($32.8 million versus -$17.8 million in Q2/03). 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.

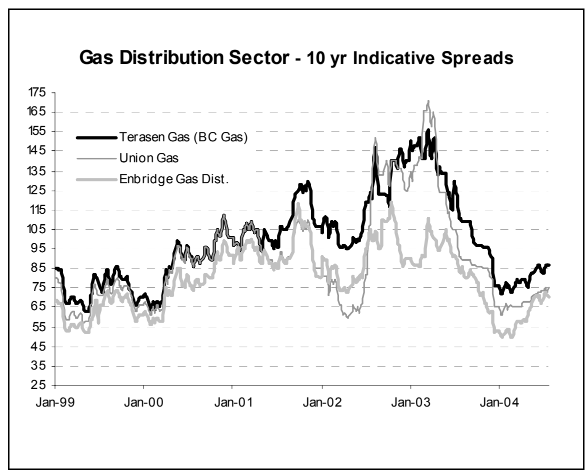
Recommendation

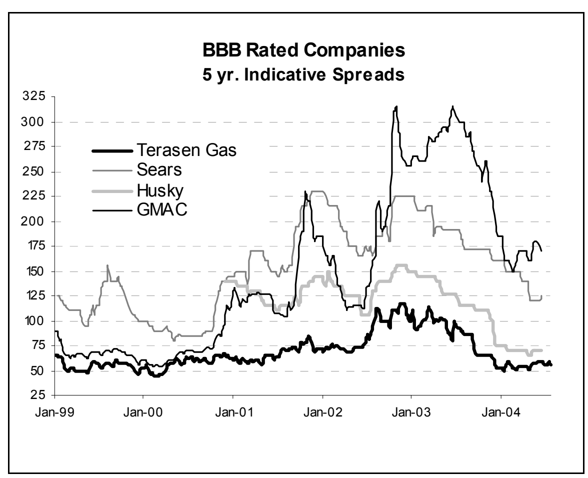
We believe Terasen's credit spreads will likely widen over the 12-month forecast period. We believe the company's financial strategy has become clearer and that it may be slightly riskier than that of its peers. Terasen has a robust list of projects under development over the 2004 to 2010 period that 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.

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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.

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Additional Matters

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Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

September 22, 2004
Research Comment
Pipelines

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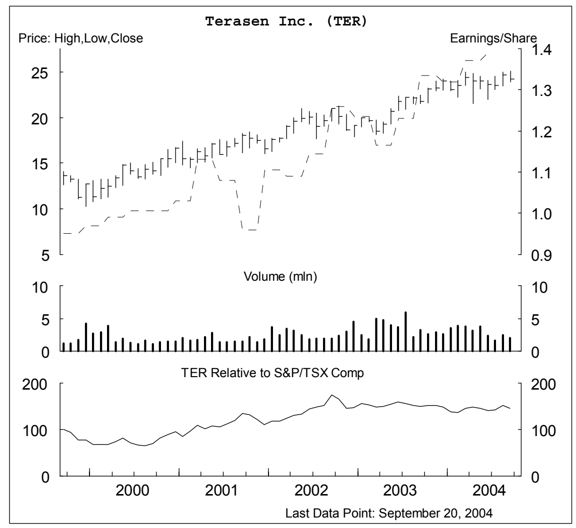
Assoc: Andrew Shufelt/Keith Carpenter

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

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.

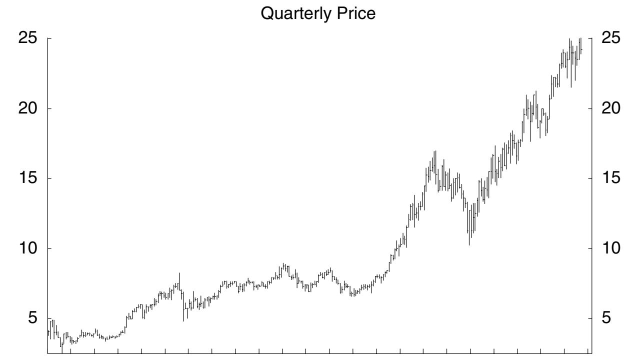
Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

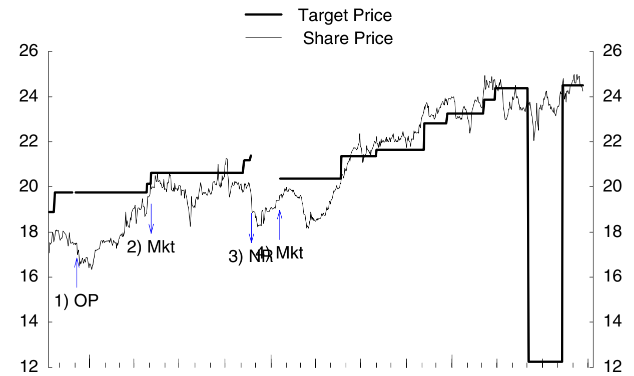
Table 1. Consolidated Summary Sheet

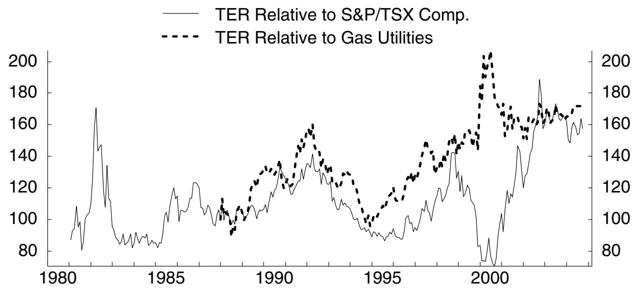
21/09/2004								Karen J. Taylor
Current Price:	$24.30							BMO Nesbitt Burns Inc.
12-Month Target Price:	$24.50							
Rate of Return:	4.22%						Recommendation:	Market Perform

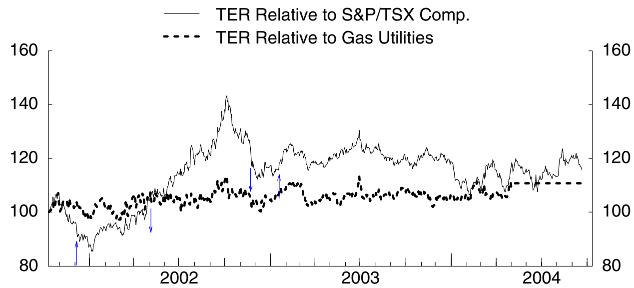
	Year Ended December 31							
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**
Diluted EPS (Prior to One-Time Items)	$0.92	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.46
Total EPS (Prior to One-Time Items)	$0.93	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.47
Segmented EPS: Terasen Gas Utility	$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

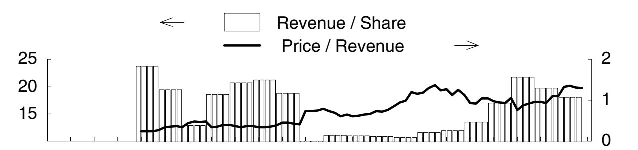
Terasen Inc. (TER)

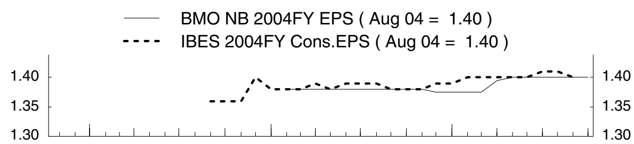


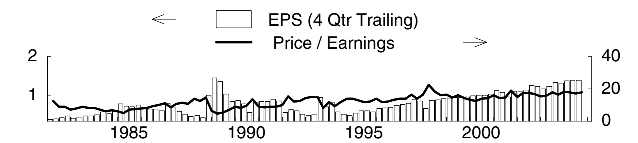


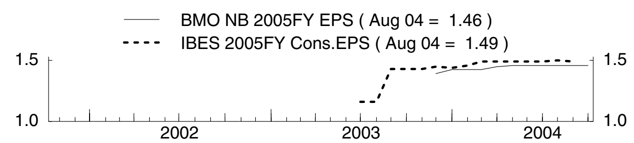












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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

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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

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

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

November 5, 2004
Research Comment
Pipelines

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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.

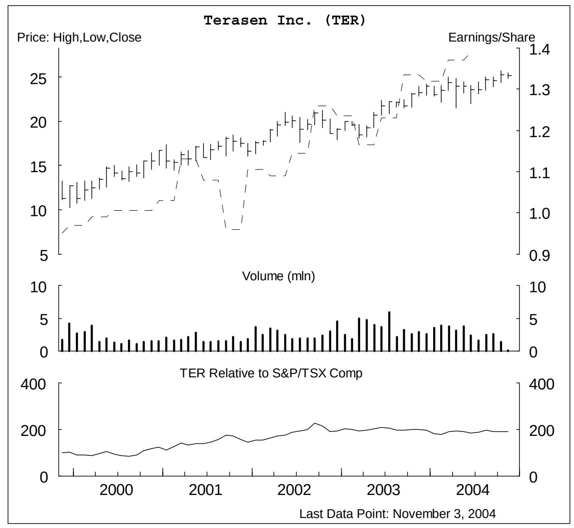
Valuation

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

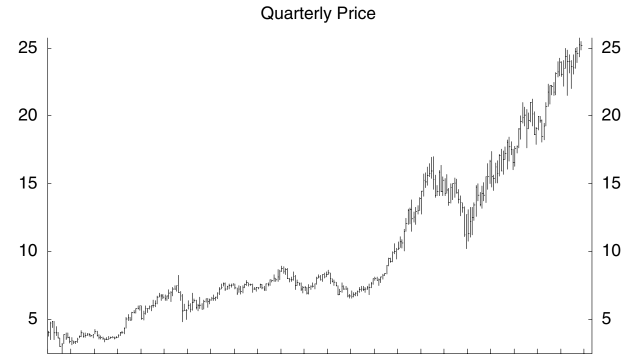
We believe that the shares are reasonably valued and we rate them Market Perform.

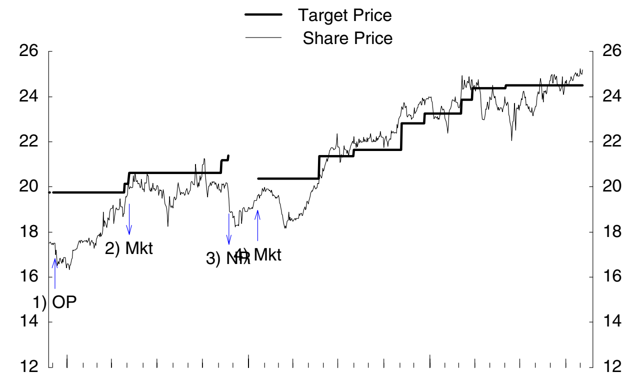
Table 3. Consolidated Summary Sheet

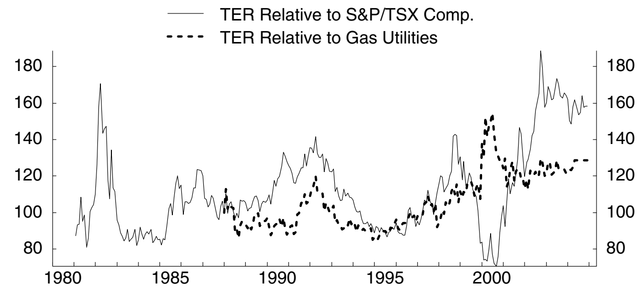
04/11/2004	Karen J. Taylor
Current Price: $25.50	BMO Nesbitt Burns Inc.
12-Month Target Price: $25.50	
Rate of Return: 3.24%	Recommendation: Market Perform

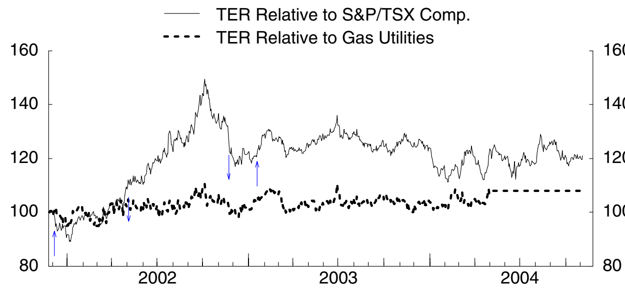
	1999	2000	2001	2002	2003	2004E	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.48	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.49	$1.54
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.93	$0.94	$0.94
Trans 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

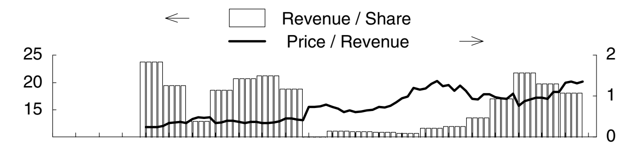
Terasen Inc. (TER)

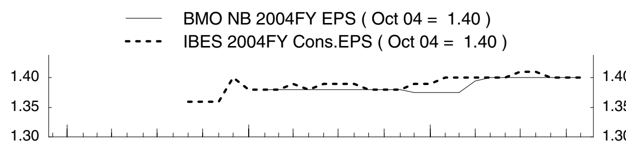


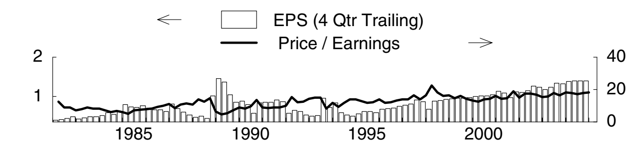


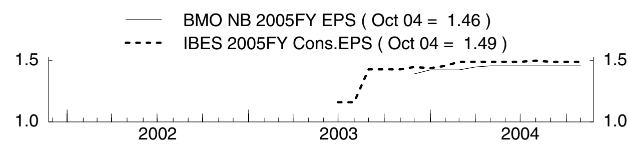












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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

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.

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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.

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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.

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Additional Matters

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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

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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

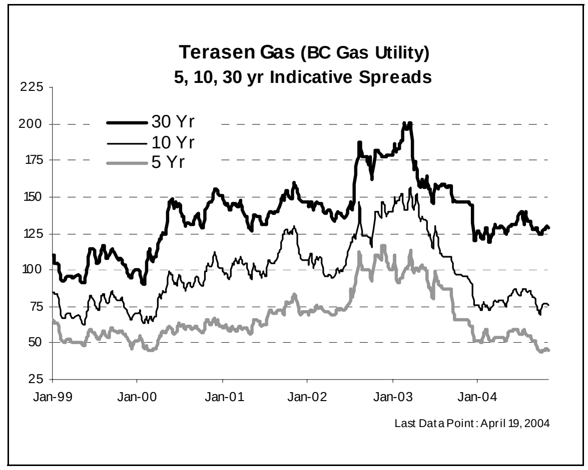
Terasen reported Q3/04 free cash flow of -$167.4 million versus -$100.5 million in Q3/03. The variance was mainly attributable to the $40.8 million acquisition of a 50% interest in Fairbanks Sewer and Water that closed on July 31, 2004 and $17.1 million of acquisitions relating to businesses that provide 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.

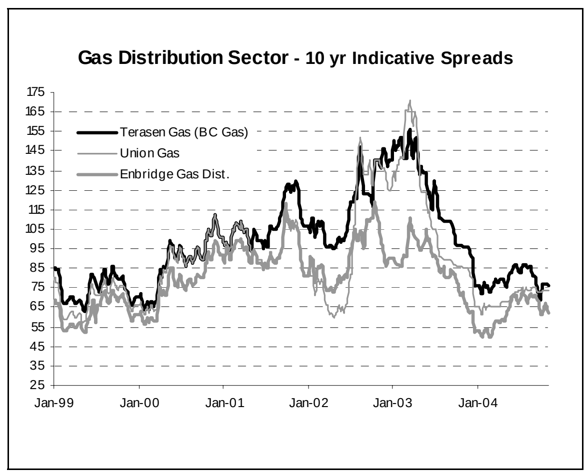
Recommendation

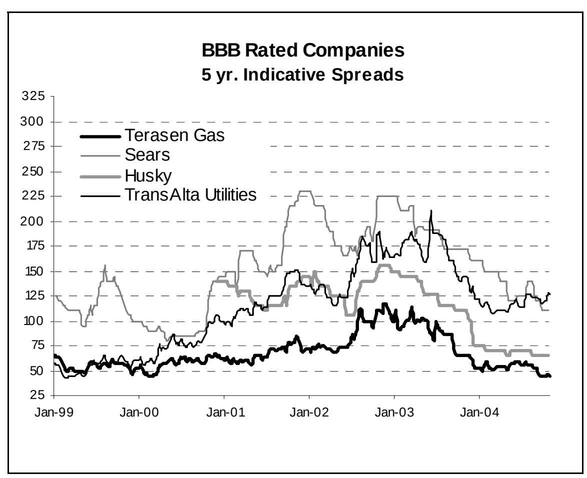
We believe Terasen's credit spreads will likely widen over the 12-month forecast period. We expect Terasen to aggressively pursue acquisition opportunities in its core areas of operations. We believe any acquisition will likely be a credit event, as the company is relatively thinly capitalized.

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

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Additional Matters

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.

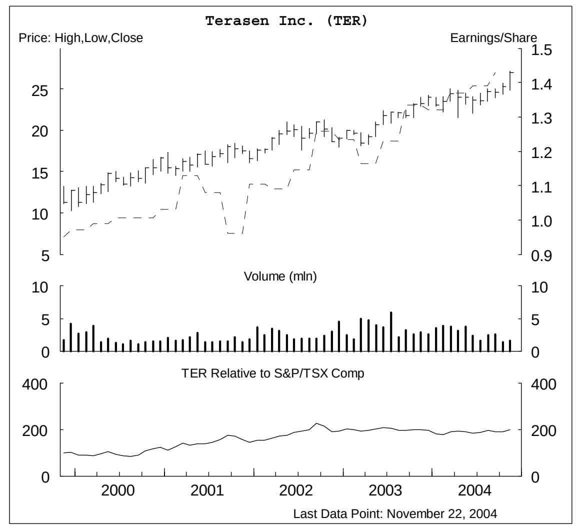
Valuation

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

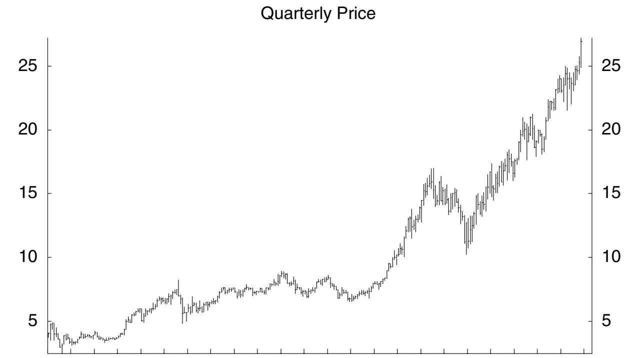
Changes	Annual EPS	Rating
	2005E $1.48 to $1.47	Mkt to Und

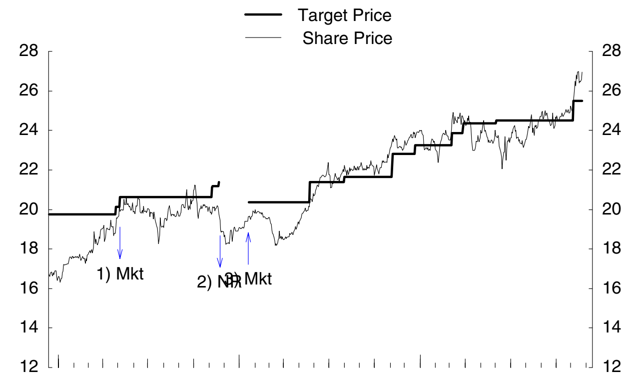
Table 1. Consolidated Summary Sheet

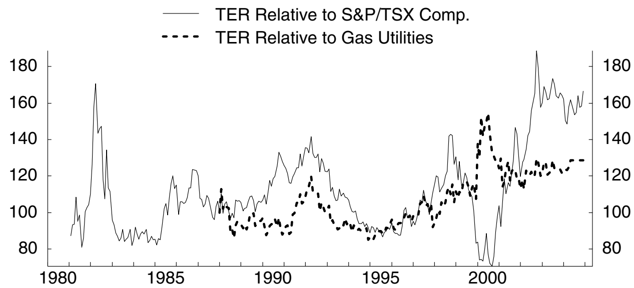
11/23/2004			Karen J. Taylor
Current Price:	$27.31		BMO Nesbitt Burns Inc.
12-Month Target Price:	$25.50		
Rate of Return:	-3.44%	Recommendation:	Underperform

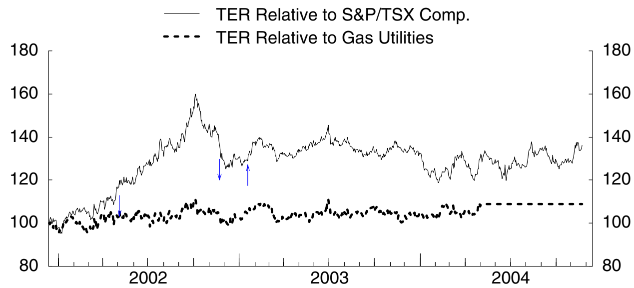
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.47	$1.51
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.48	$1.53
Segmented EPS: Terasen Gas Utility	$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

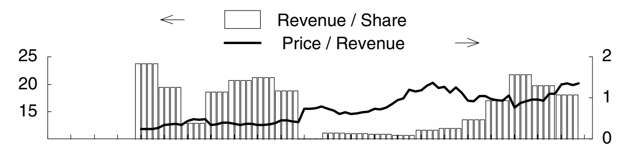
Terasen Inc. (TER)

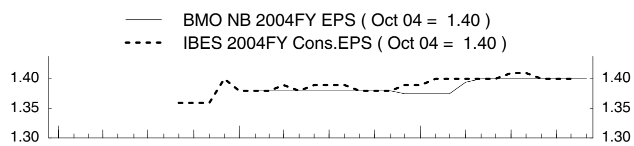


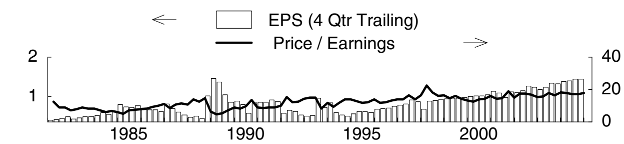


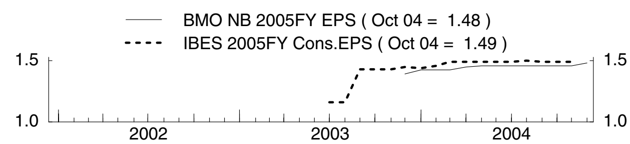












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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

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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.

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Additional Matters

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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

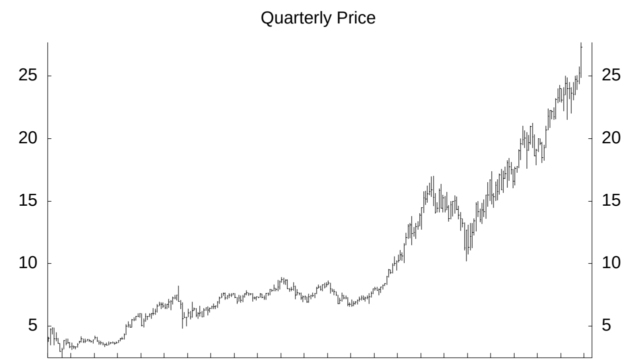
Neutral

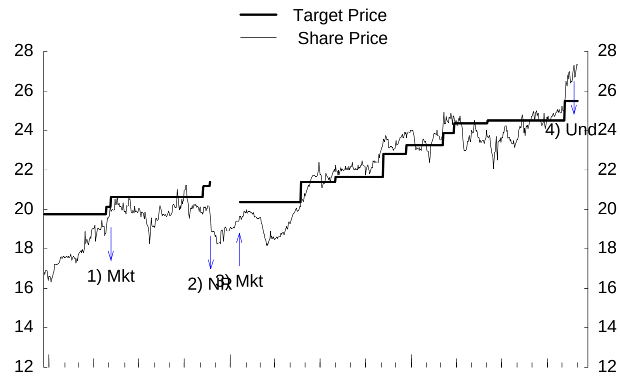
Details & Analysis

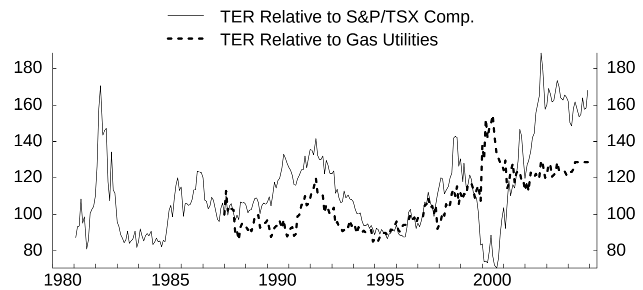
Terasen Pipelines (100% - Terasen Inc.) has announced that it has initiated an Expression of Interest process relating to a planned multi-stage, multi-route, expansion of the Trans Mountain Pipeline System over the next several years. Terasen Pipelines is currently seeking non-binding Expressions of 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.

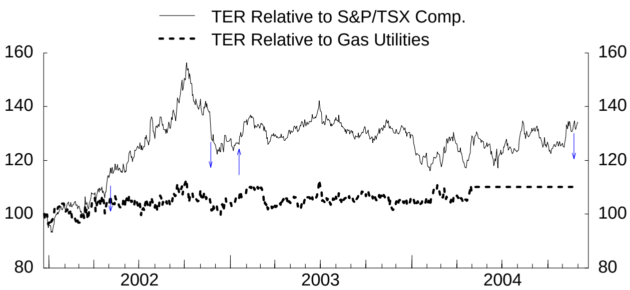
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

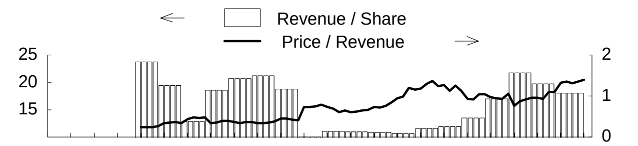
Terasen Inc. (TER)

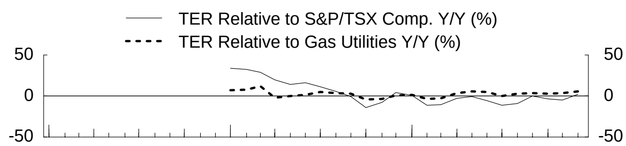


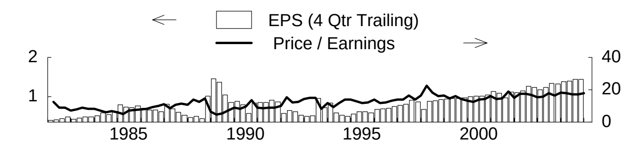












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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.

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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.

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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 3, 2004
Research Comment
Pipelines

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.

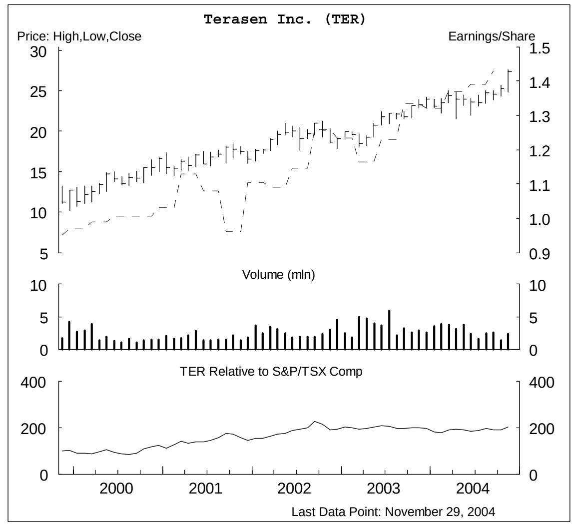
Valuation

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.

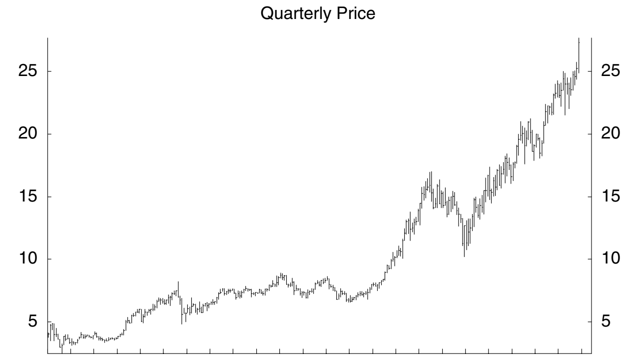
Recommendation

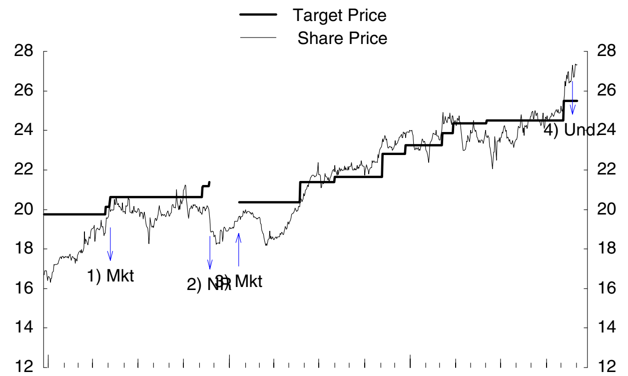
We believe the shares are fully valued and we rate them Underperform.

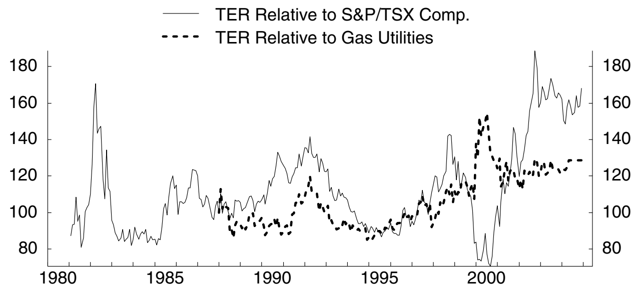
Table 3. Consolidated Summary Sheet

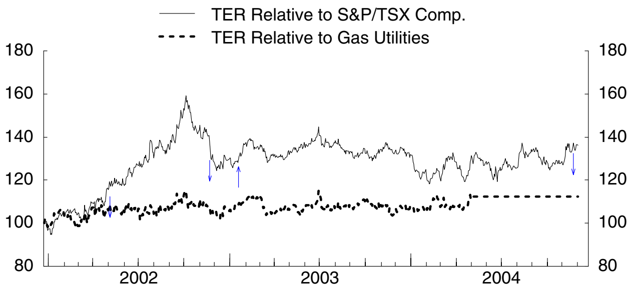
12/2/2004									Karen J. Taylor
Current Price:	$26.94								BMO Nesbitt Burns Inc
12-Month Target Price:	$25.50								
Rate of Return:	-2.12%					Rating:		Underperform	
		Year Ending December 31							
		1999	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**	**2006E**
Diluted EPS (Prior to 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

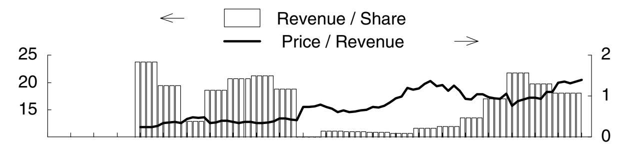
Terasen Inc. (TER)

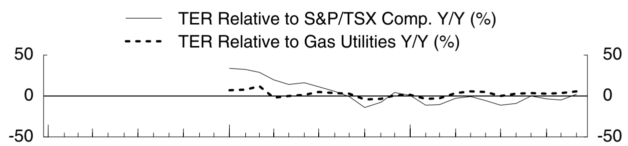


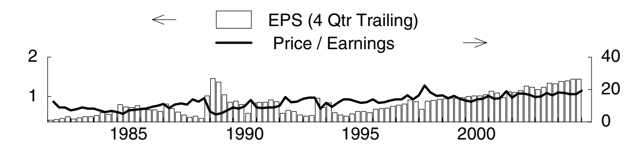












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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.

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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

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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

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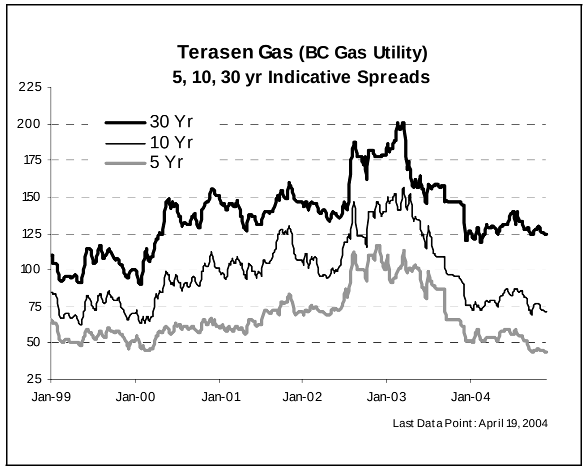

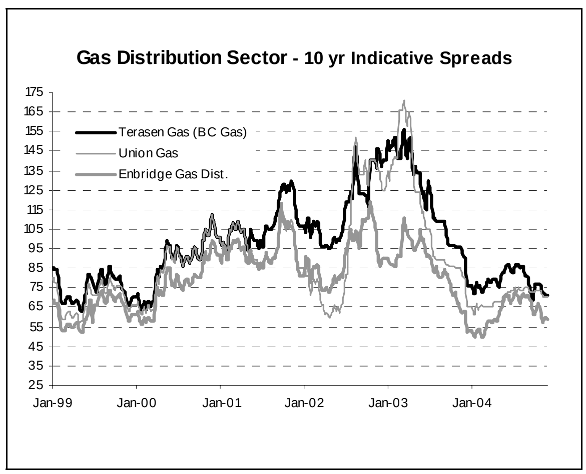

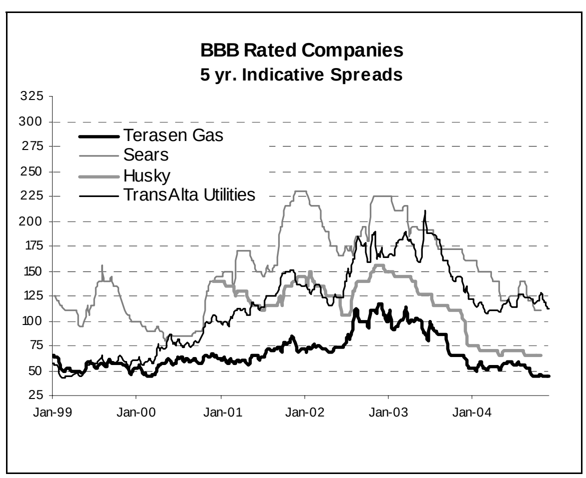

Event

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.

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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.

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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.

BMO Nesbitt Burns

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Additional Matters

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BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

December 20, 2004
Research Comment
Pipelines

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(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.

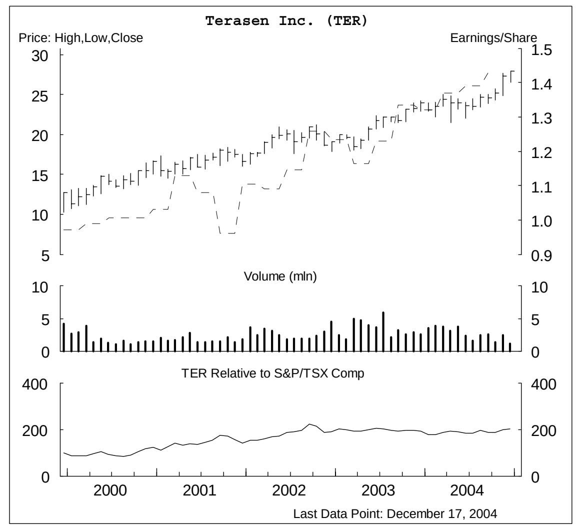
Valuation

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

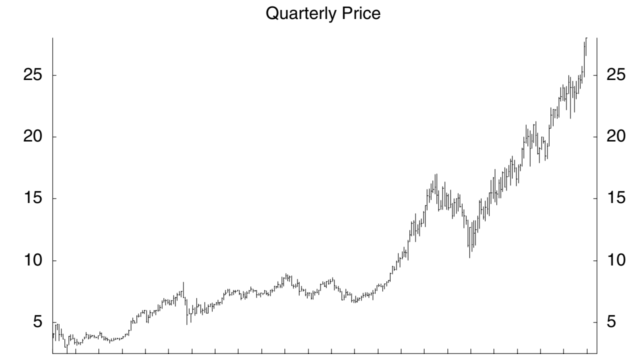
Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

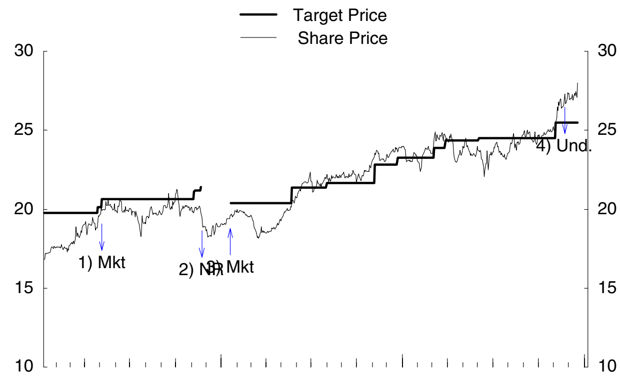
Table 1. Consolidated Summary Sheet

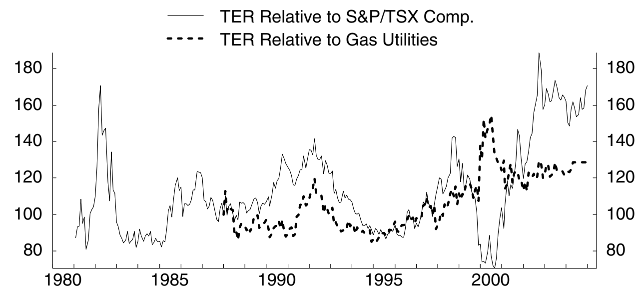
12/19/2004			Karen J. Taylor
Current Price:	$28.00		BMO Nesbitt Burns Inc.
12-Month Target Price:	$25.50		
Rate of Return:	-5.82%	Rating:	Underperform

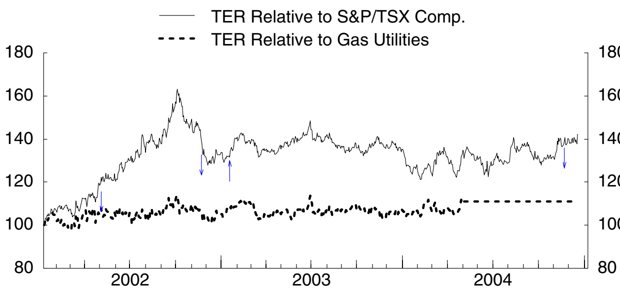
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.49	$1.53
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.50	$1.55
Segmented EPS: Terasen Gas Utility	$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

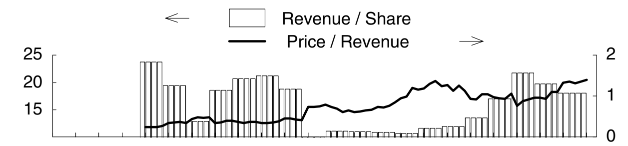
Terasen Inc. (TER)

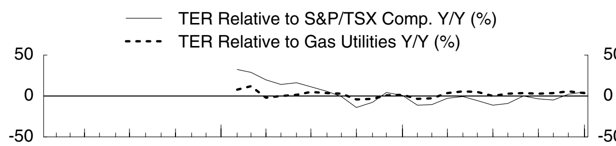


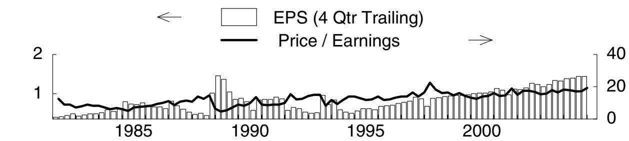












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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.

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Sell	Underperform	15%	14%	8%

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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.

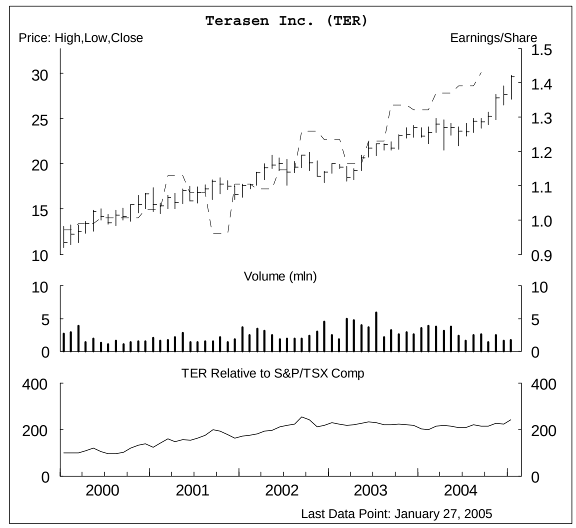
Valuation

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)

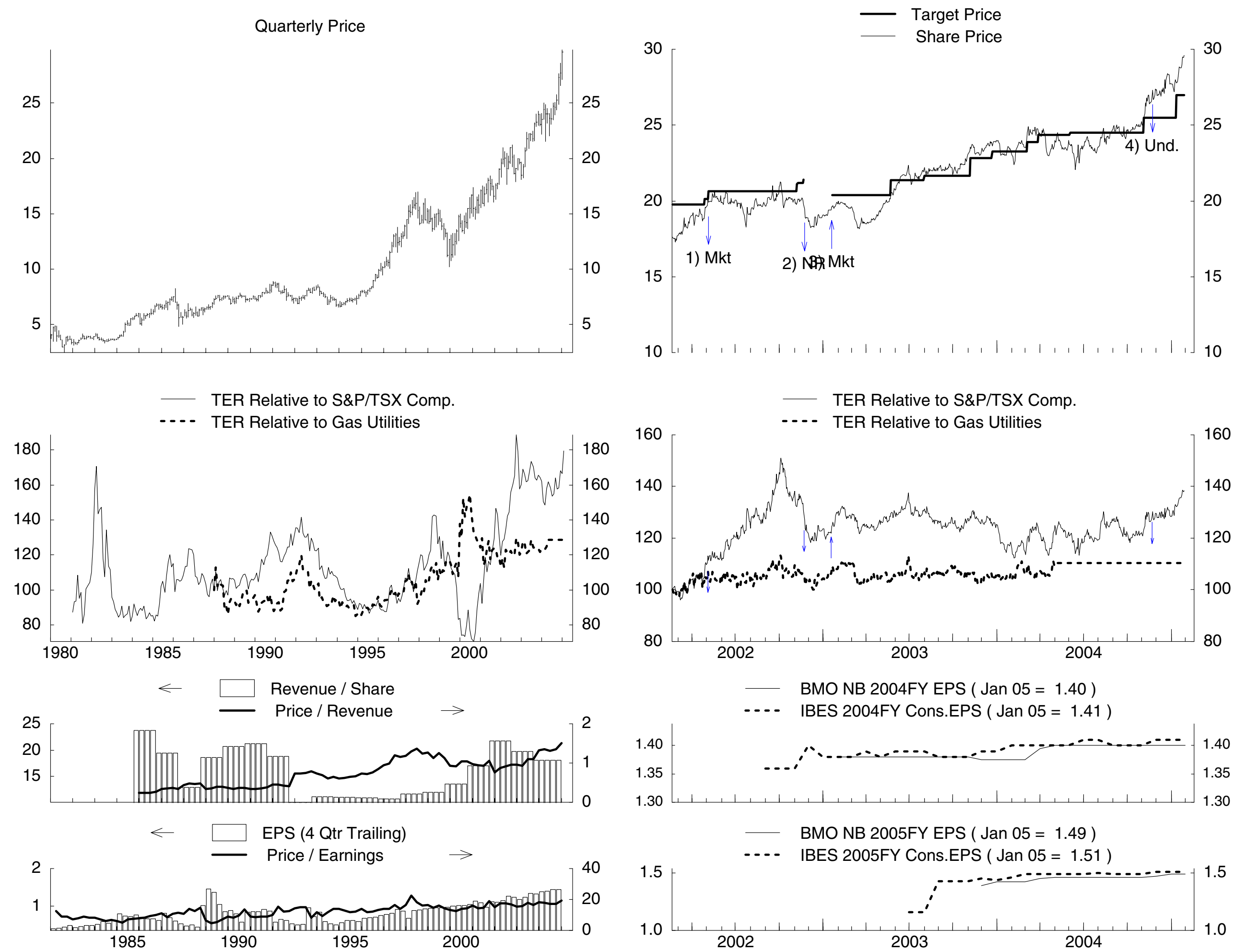
Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.41; 2005E: $1.51; 2006E: $1.56

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.

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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.

BMO Nesbitt Burns

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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.

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Additional Matters
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BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

May 5, 2005
Research Comment
Pipelines

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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.

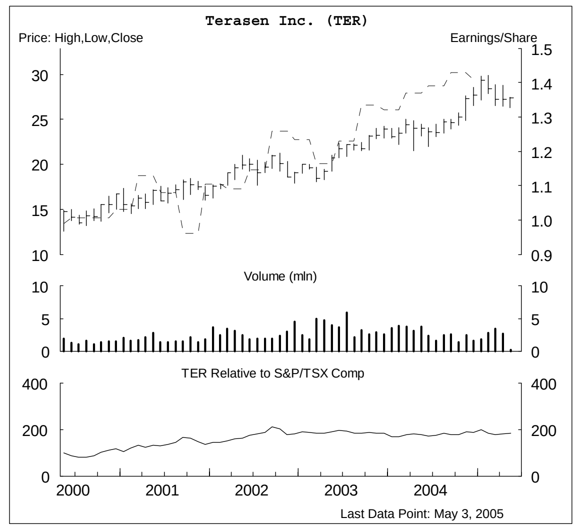
Valuation

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

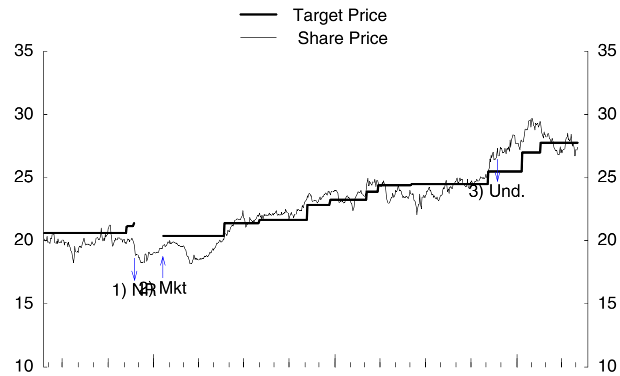
04/05/2005 Karen J. Taylor
Current Price: $27.45 BMO Nesbitt Burns Inc.
12-Month Target Price: $27.75
Rate of Return: 4.37% Recommendation: Underperform

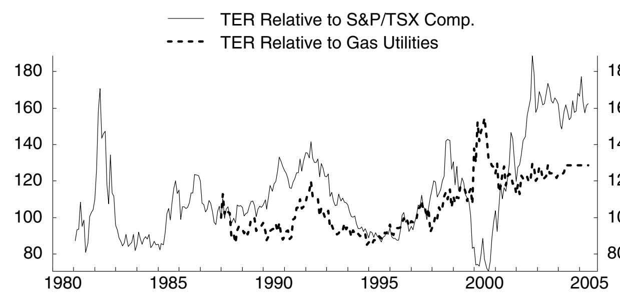
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.47	$1.55
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.48	$1.56
Segmented EPS: Terasen Gas Utility	$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

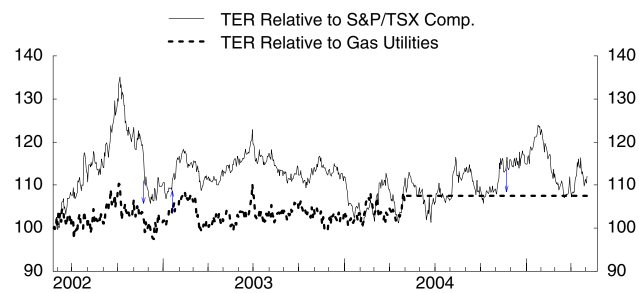
Source: BMO Nesbitt Burns

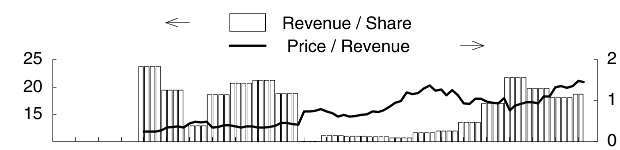
BMO Nesbitt Burns

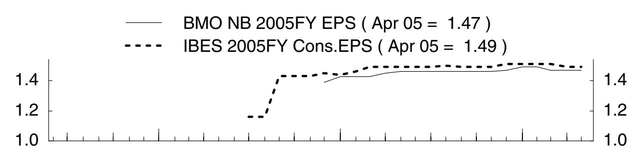
Terasen Inc. (TER)

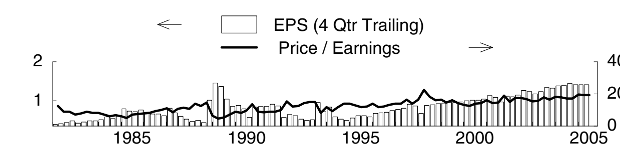


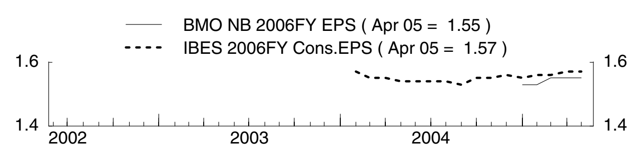












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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

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.

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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.

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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.

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Additional Matters

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Terasen Inc.

May 5, 2005
Research Comment
Corporate Debt – Pipelines & Utilities

Q1/05 Results – Increased Leverage Is a Credit Concern

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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

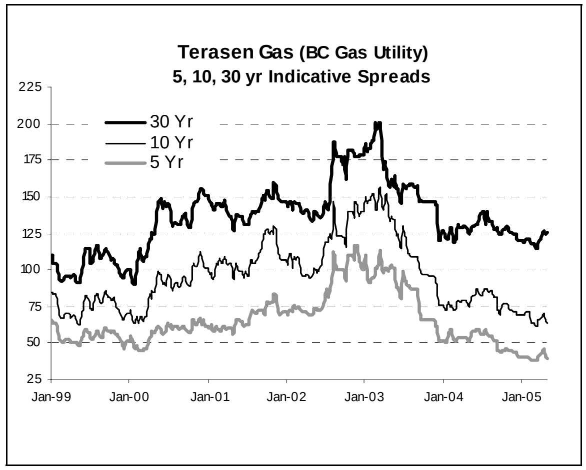
In Q1/05, Terasen Inc.'s total debt to capitalization ratio increased to 67.3% versus 64.4% at December 31, 2004 (including preferred securities as long-term debt). Our 2005 and 2006 debt to capitalization estimates are 64.74% and 64.72%, respectively, considerably higher than the averages for the pipeline and utility universe of 47.85% and 47.77%, respectively (Table 1).

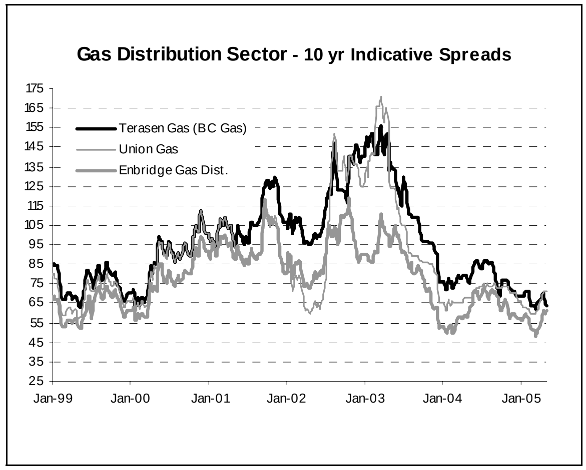
Recommendation

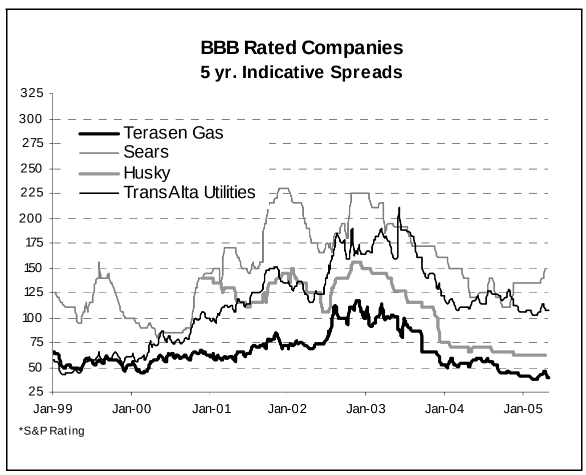
In 2005, Terasen Inc.'s 5-year and 10-year generic credit spreads tightened by 5 and 9 basis points, respectively, and the 30-year spreads have widened by 1 basis point. We believe that the company's spreads will likely widen over the next 12 months. We believe any significant spending by the company 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.

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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

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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

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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.

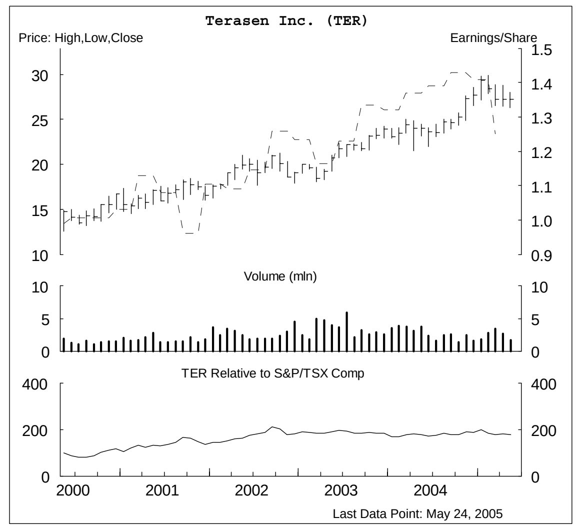
Valuation

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

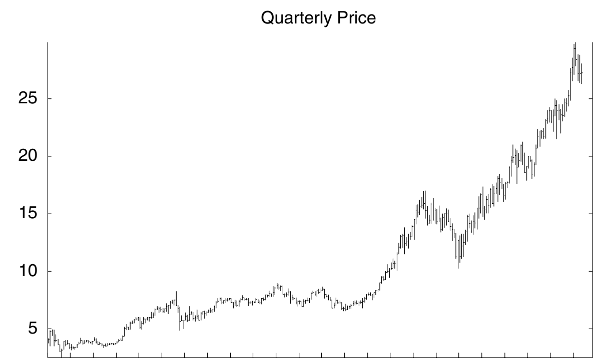
We believe that the shares are fully valued and we rate the shares Underperform.

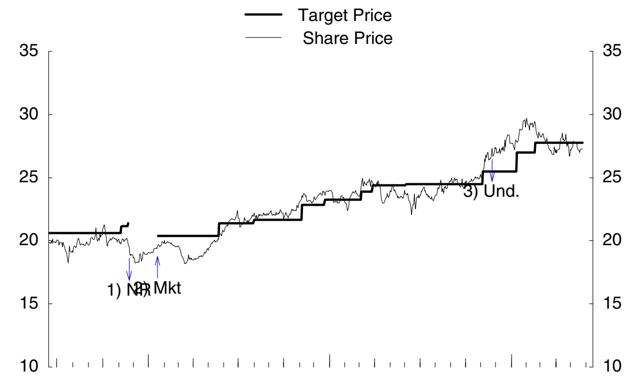
Table 2. Consolidated Summary Sheet

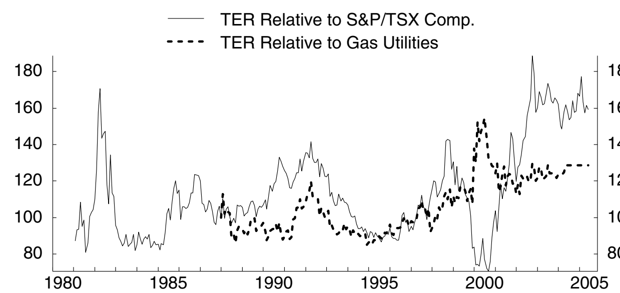
5/25/2005								Karen J. Taylor
Current Price: $27.20								BMO Nesbitt Burns Inc.
12-Month Target Price: $27.75								
Rate of Return: 5.33%					Recommendation:		Underperform	
				Year Ending December 31				
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005E**	**2006E**
Diluted EPS (Prior 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

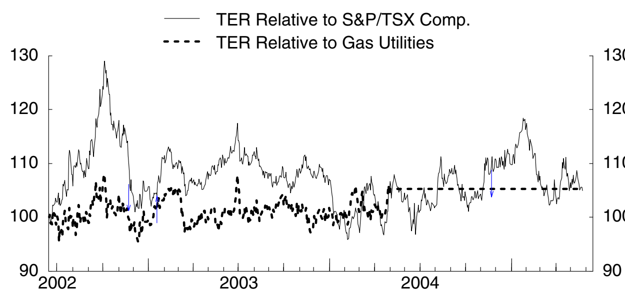
Source: BMO Nesbitt Burns

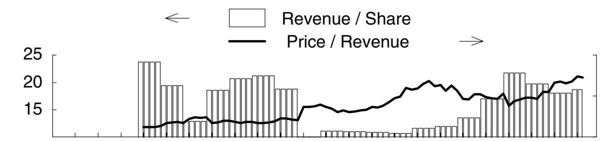
Terasen Inc. (TER)

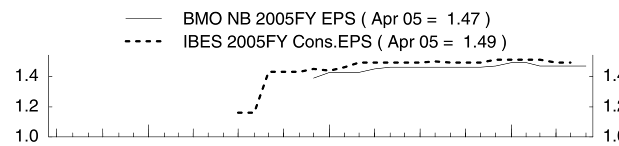


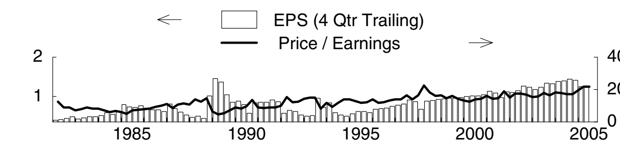


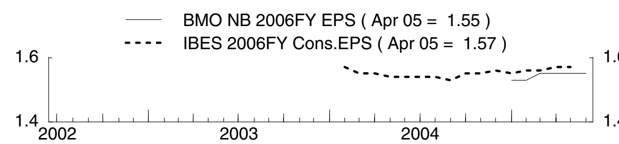












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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

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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

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^ 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

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Additional Matters

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BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

June 21, 2005
Research Comment
Pipelines

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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.

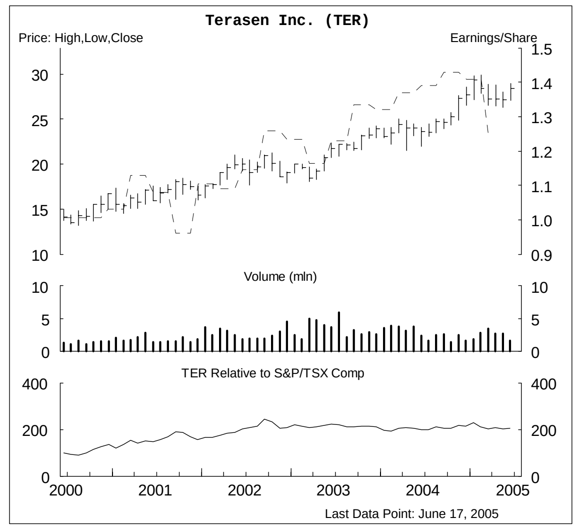
Valuation

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.

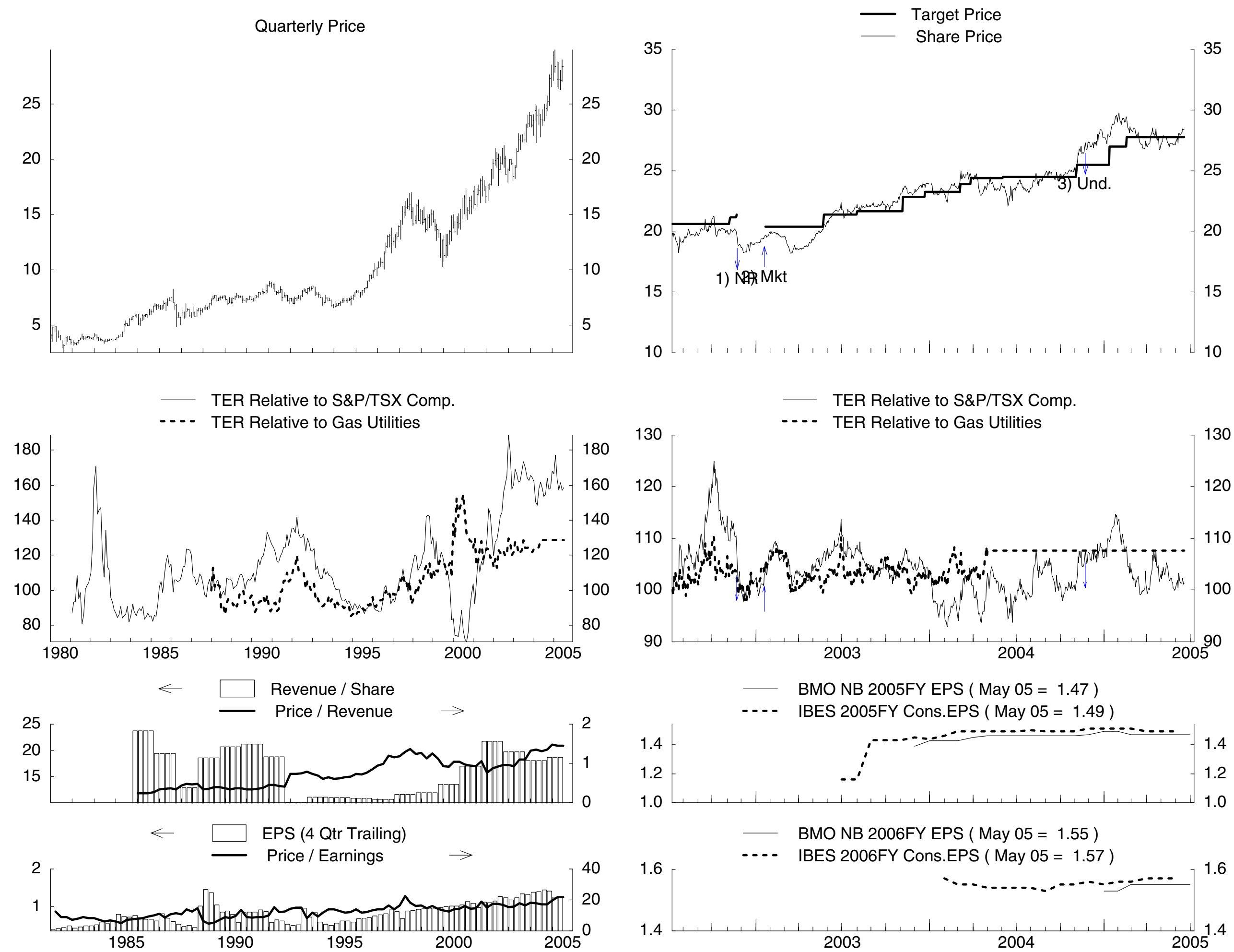
Table 2. Consolidated Summary Sheet

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.

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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

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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)

July 12, 2005
Brief Research Note
Pipelines

Stock Rating:	**Underperform**
Stock Price:	**$29.78**
Target Price:	**$28.00**

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

Trans Mountain Expansion Filed with NEB

Impact

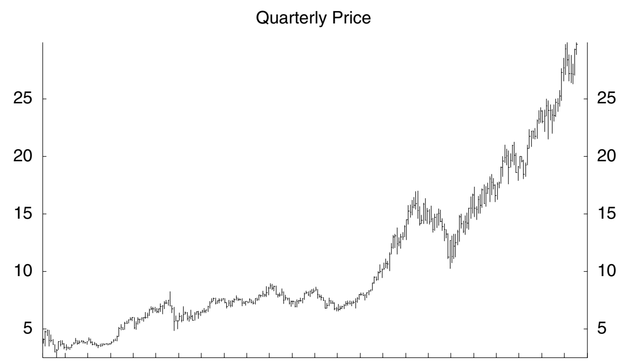
Neutral

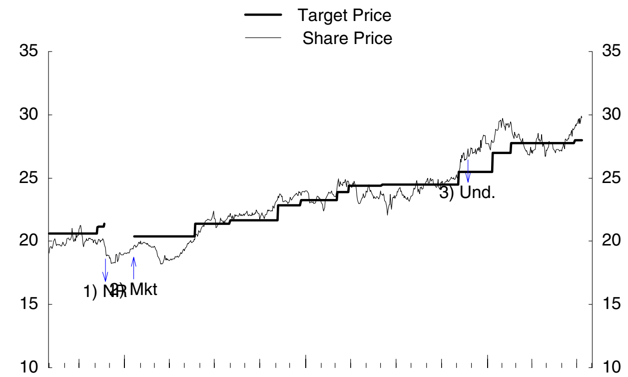
Details & Analysis

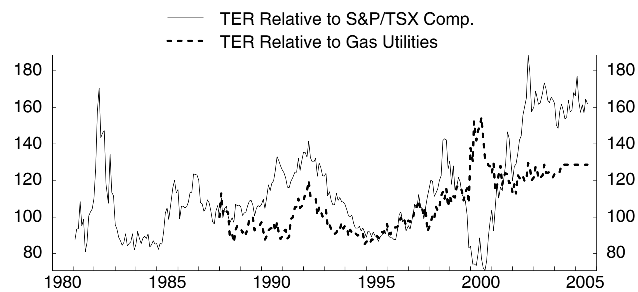
Terasen has announced that it has filed an application with the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline system to 260,000 bbls/d from 225,000 bbls/d. The $210 million expansion includes building new and upgrading existing pump stations between Edmonton, Alberta 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.

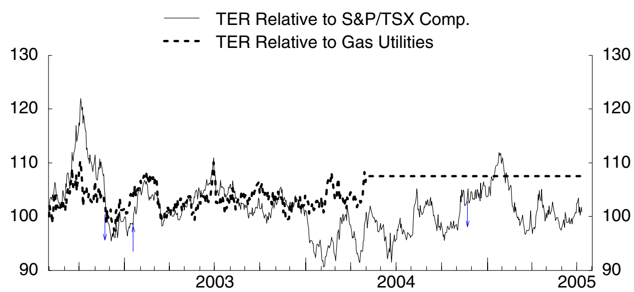
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

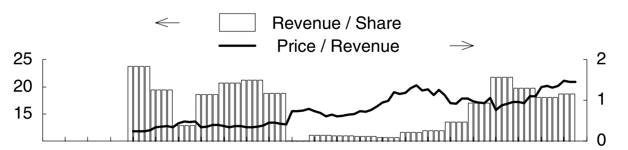
Terasen Inc. (TER)

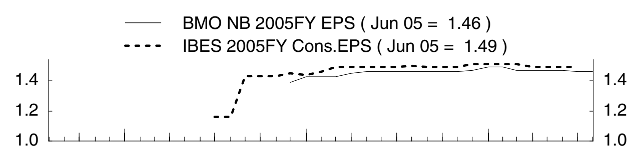


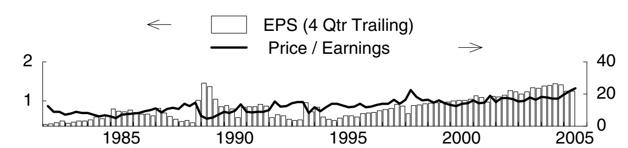


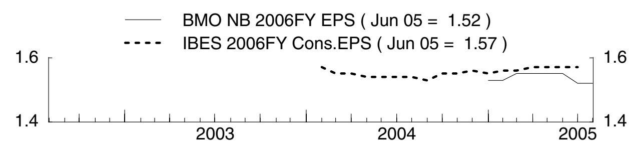












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1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
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2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.25	23	0.90	3.1	72	13.47	2.2	9
Average:		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
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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.

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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

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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.

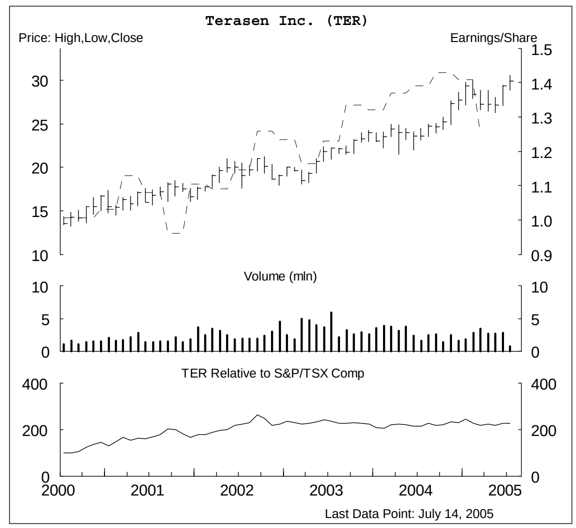
Valuation

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.

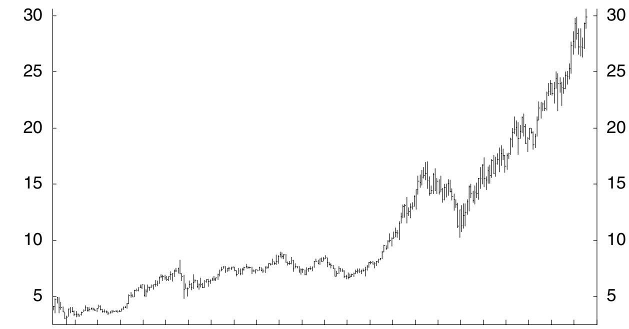
Table 1. Consolidated Summary Sheet

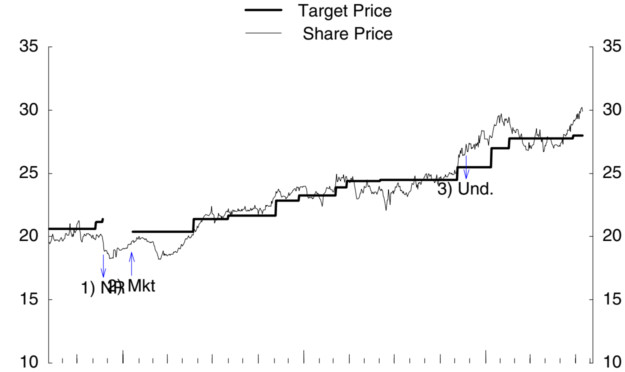
18/07/2005			Karen J. Taylor
Current Price:	$30.10		BMO Nesbitt Burns Inc.
12-Month Target Price:	$28.00		
Rate of Return:	-3.99%	Recommendation:	Underperform

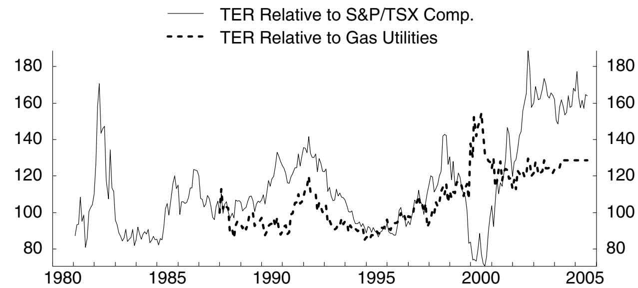
	Year Ending December 31							
	1999	2000	2001	2002	2003	2004	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.54
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$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

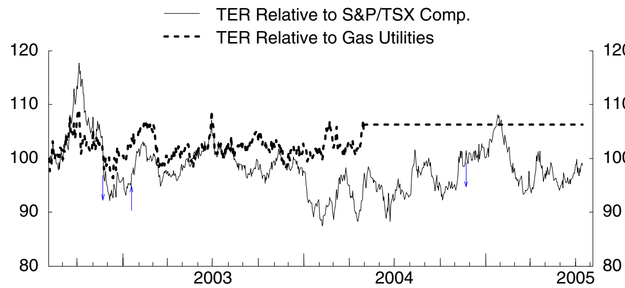
Source: BMO Nesbitt Burns

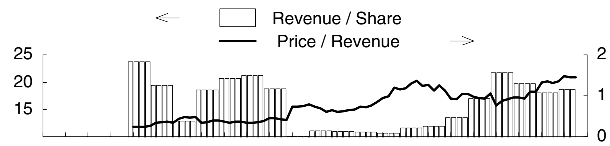
Terasen Inc. (TER)

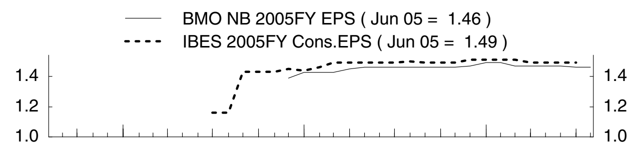


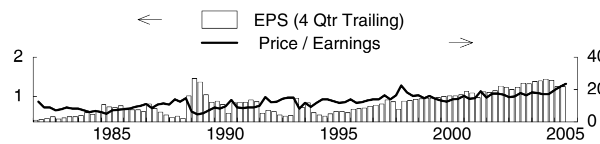


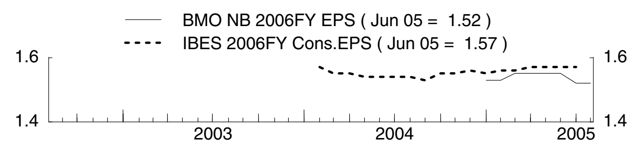












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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

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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

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Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

July 29, 2005
Research Comment
Pipelines

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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.

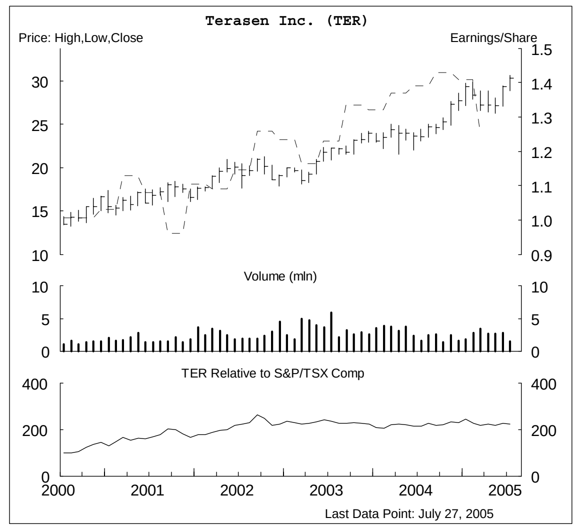
Valuation

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.

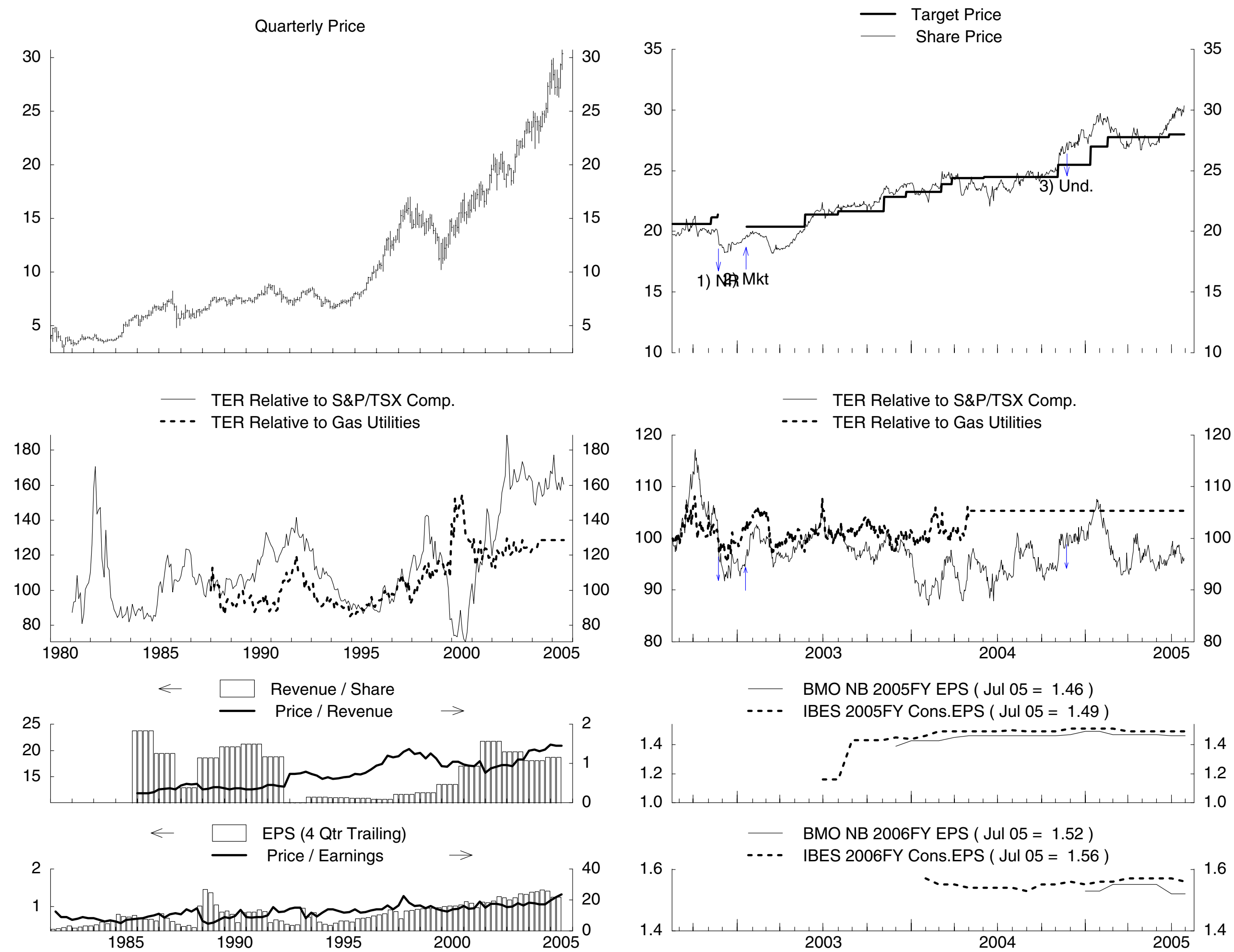
Table 3. Consolidated Summary Sheet

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

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.

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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.

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^ 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

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Additional Matters

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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
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Event

Terasen reported Q2/05 EPS of $0.23 (after one-time adjustments), in line with our equity expectation.

Impact

Neutral.

Key Points

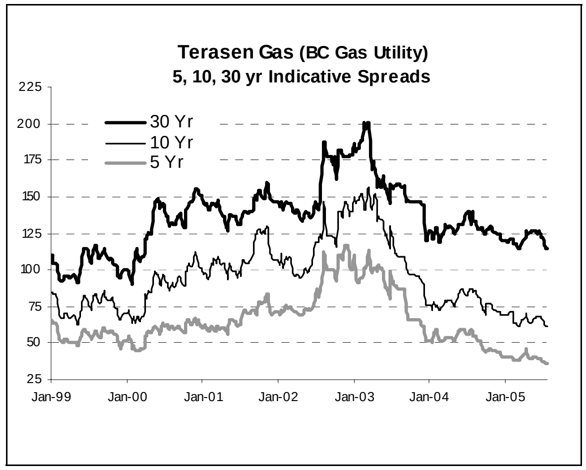
At June 30, 2005, the company's debt to total capital ratio was 64.6% versus 61.7% at year-end. If we assume that the company's available cash will be used to repay a portion of short-term debt, the company's ratio at quarter-end would decrease to 63.9%. We continue to believe that Terasen's leverage 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.

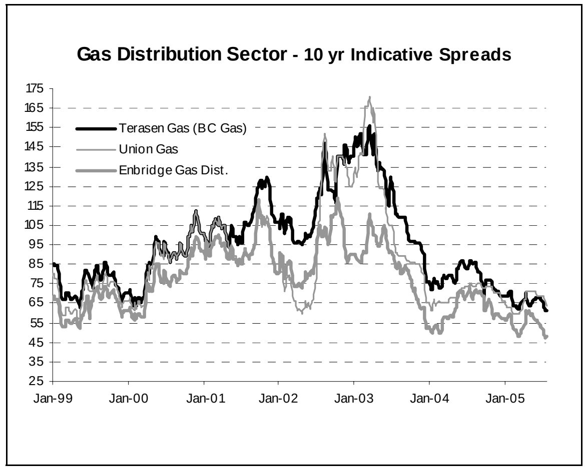
Recommendation

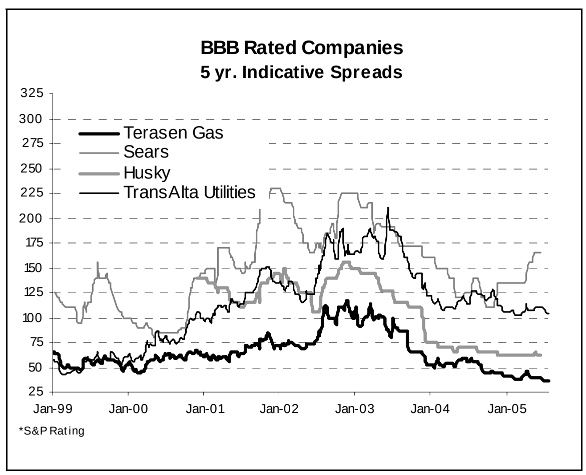
In 2005, Terasen Inc.'s 5-year, 10-year and 30-year generic credit spreads tightened by 8, 12 and 10 basis points, respectively. We believe that the company's spreads will likely widen over the next 12 months. We believe any significant spending by the company either through development projects or acquisitions (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 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

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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.

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

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform ↑
Industry Rating: Market Perform

August 2, 2005
Research Comment
Pipelines

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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.

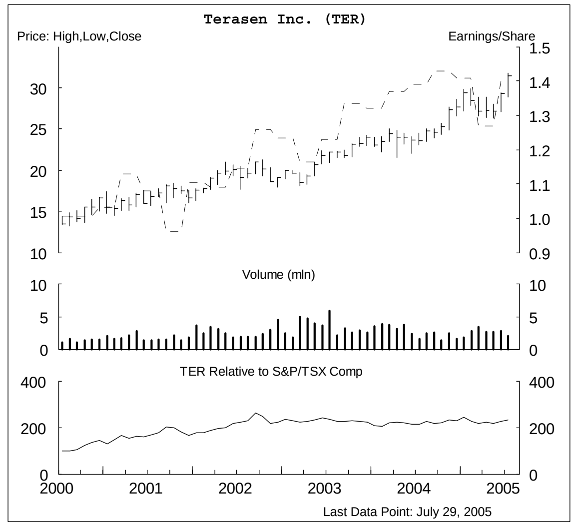
Valuation

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.

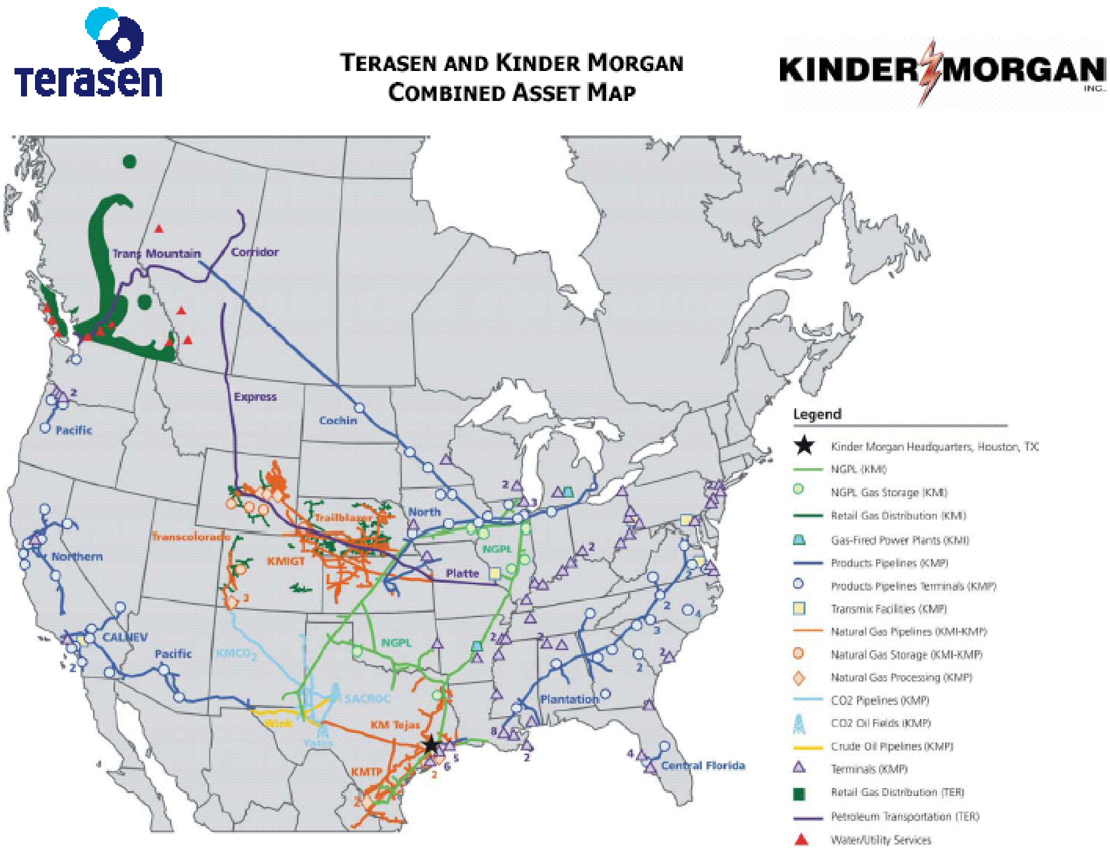
Valuation

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.

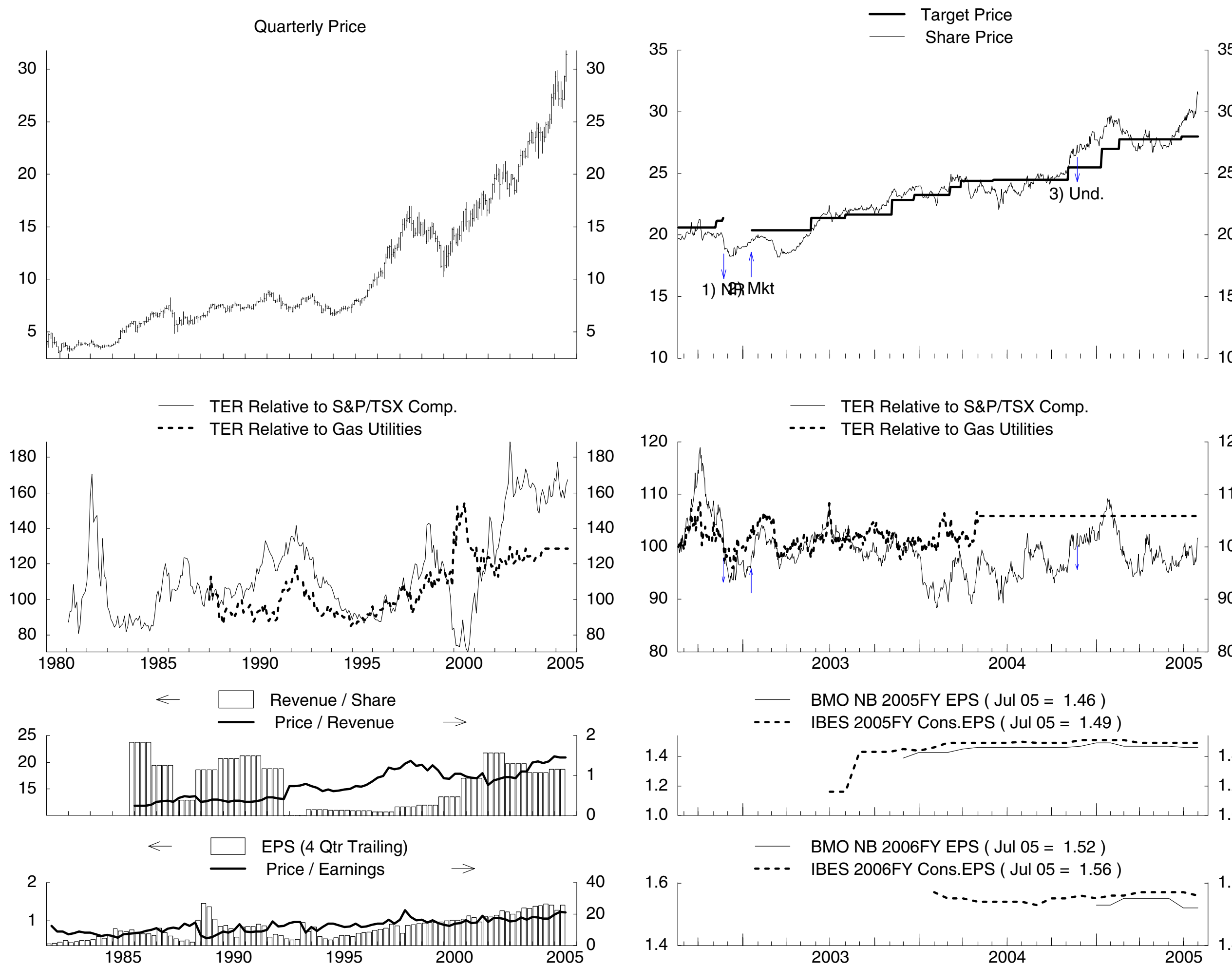
Table 1. Consolidated Summary Sheet

8/1/2005			Karen J. Taylor
Current Price:	$31.40		BMO Nesbitt Burns Inc.
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.

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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

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

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Market Perform

August 3, 2005
Research Comment
Pipelines

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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.

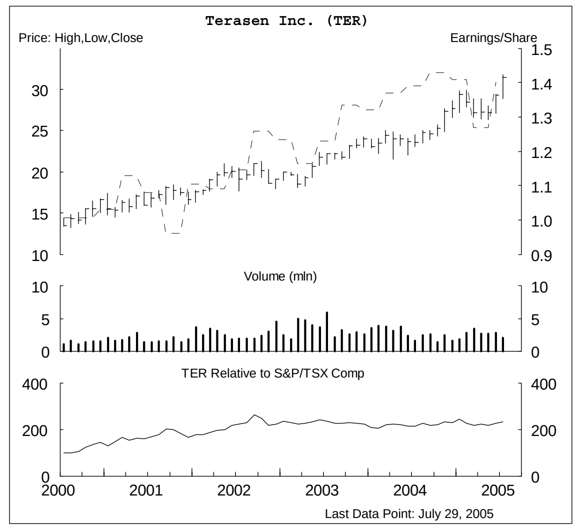
Valuation

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.

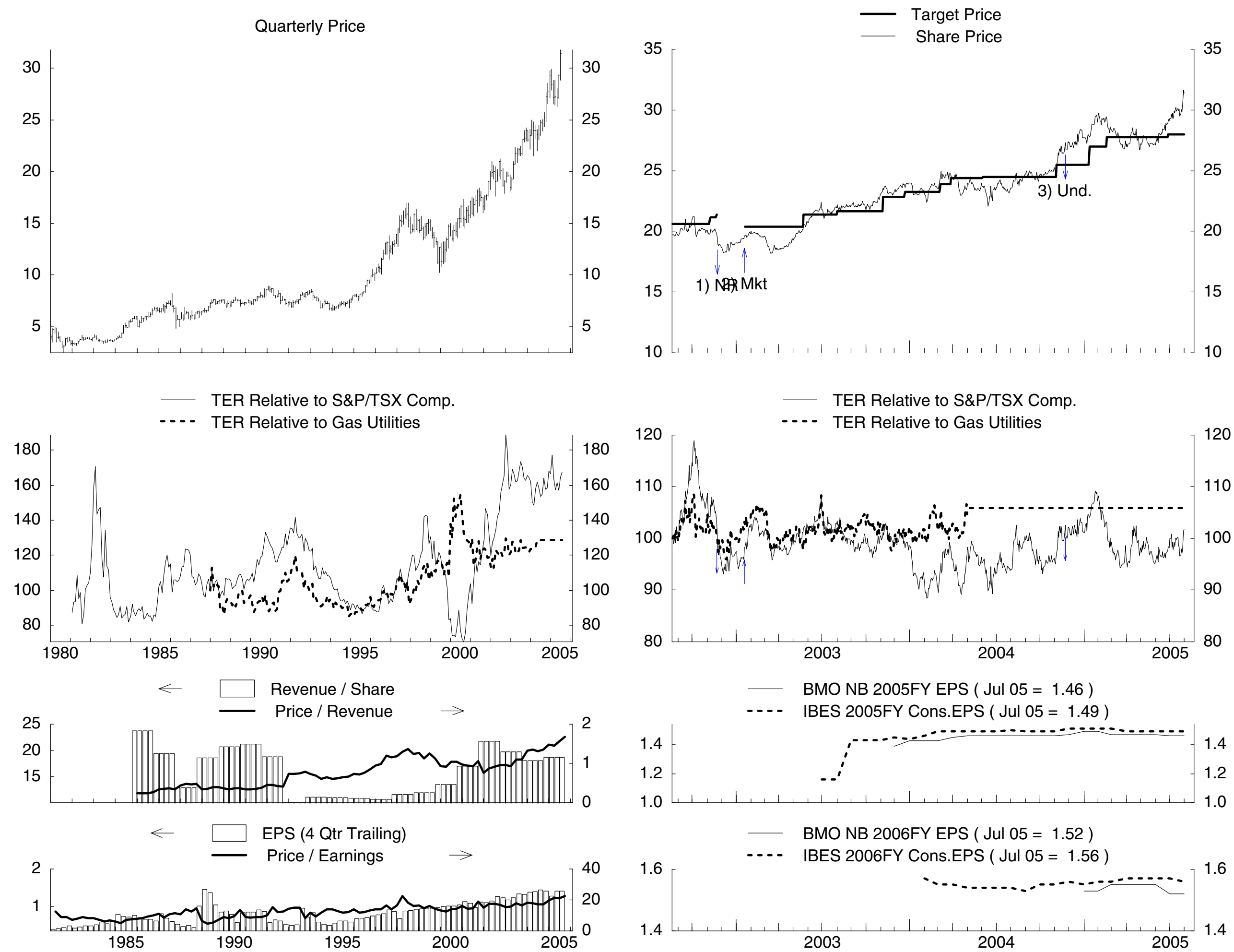
Table 1. Consolidated Summary Sheet

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
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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.

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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.

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Terasen Inc.

August 3, 2005
Research Comment
Corporate Debt – Pipelines & Utilities

Kinder Morgan Acquisition Appears Credit Negative for Bondholders

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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

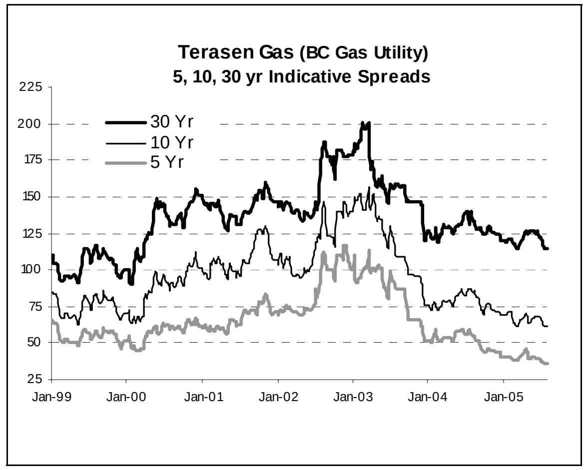
Kinder Morgan Inc. has stated that it intends to finance the acquisition with a combination of cash and equity up to a maximum proration of 65% cash and 35% equity. The company also stated on its conference call that it plans to fund the cash portion of the acquisition with debt financing provided by 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.

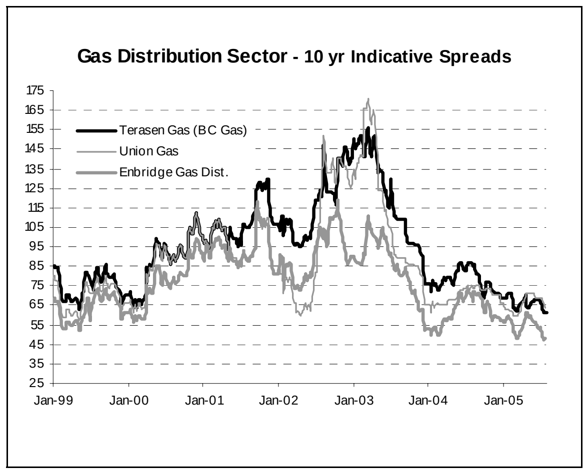
Recommendation

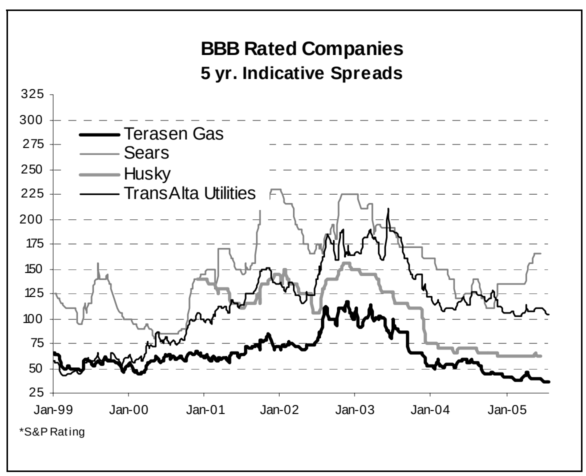
In 2005, Terasen Inc.'s 5-year, 10-year and 30-year generic credit spreads tightened by 8, 12 and 10 basis points, respectively. We note that Terasen Inc.'s credit spreads likely reflect a scarcity premium, as the holding company only has two maturities outstanding totalling $300 million. We believe 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		Other Benefit Plans	
	FY 2004 ($mm)	FY 2003 ($mm)	FY 2004 ($mm)	FY 2003 ($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.

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.

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Dissemination of Research

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

Additional Matters

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

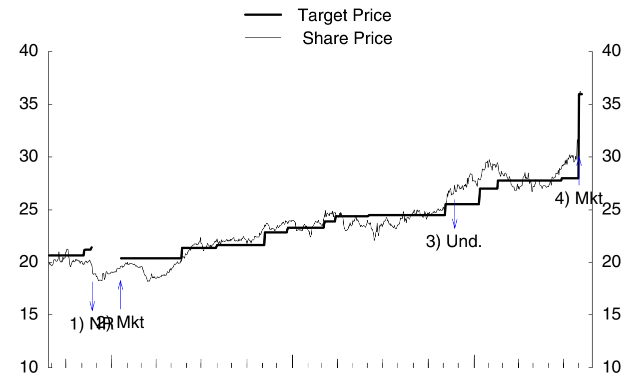
Neutral

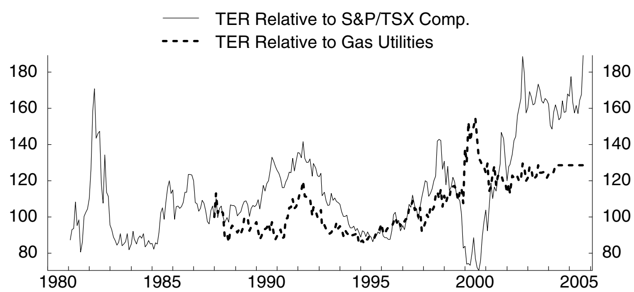
Details & Analysis

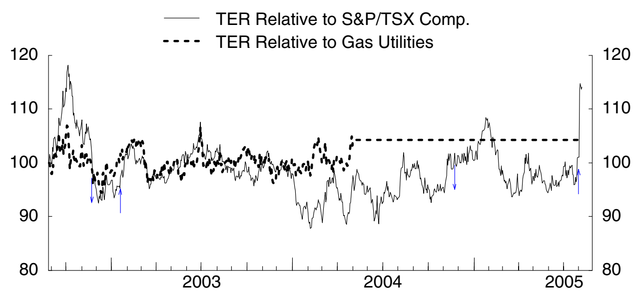
We have had a number of questions relating to the tax status of the planned acquisition of Terasen Inc. by Kinder Morgan Inc (KMI-NYSE). We have confirmed our understanding with Terasen that regardless of whether an investor elects cash, Kinder Morgan shares or a combination thereof, the transaction will be a fully taxable event for shareholders. We believe that the shares of Terasen are reasonably valued and we rate them Market Perform.

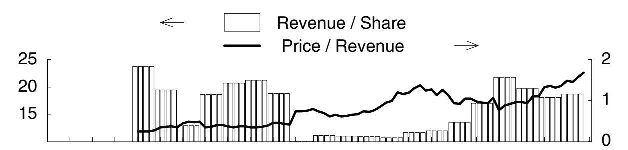
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

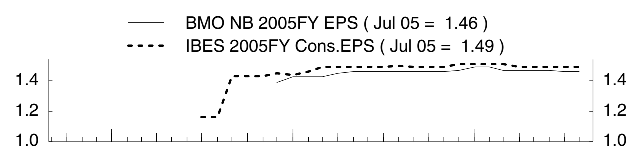
Terasen Inc. (TER)

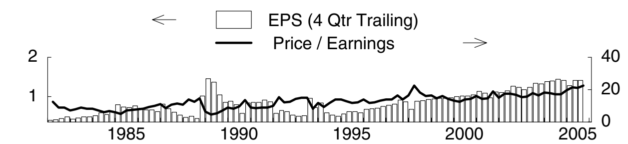


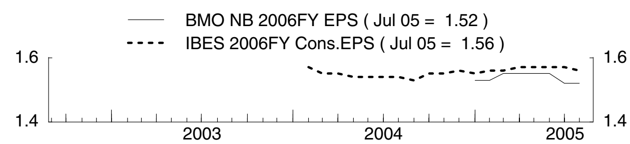












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	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.

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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.

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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.

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Terasen Inc.

(TER : TSX : CAD$23.44 | Issued 104.6M)

HOLD | Target price: CAD$24.00

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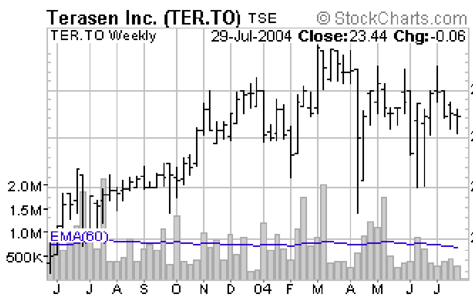
Company Statistics:

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%
Terasen Gas Vancouver Island	$5.8	$6.3	9%
	($2.5)	($2.2)	12%
Petroleum transportation			
Trans Mountain	$9.6	$9.0	-6%
Corridor	$2.9	$4.0	38%
Express System	($0.3)	$3.2	n.m.
	$12.2	$16.2	33%
Water and utility services	$2.1	$2.6	24%
Other businesses	($3.6)	($6.0)	-65%
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%
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%
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%
Express System	167,300	176,200	5%
Total	377,900	399,700	6%

Operating efficiencies partly offset by lower ROE and 50/50 sharing mechanism.

Lower tolls

Corridor started May 1, 2003.

2003 earnings lowered by $3.8M FX loss.

Growth in asset base: July 30/04 Fairbanks acquisition should boost earnings.

Increased interest and income tax partly offset by a $0.6M gain on mark to market at 50% owned Clean Energy.

Below the $0.12 consensus estimate, but minor quarter.

2 for 1 stock split announced for June 14; prior periods restated for comparison.

Great volumes into higher margin pipe.

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.

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Company	Disclosure
Terasen Inc.	None

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Terasen Inc.

(TER : TSX : CAD$25.50 | Issued 104.8M)

HOLD | Target price: CAD$26.00 ↑

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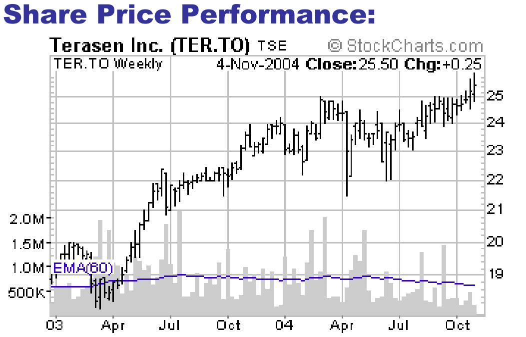
Company Statistics:

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

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CANACCORD CAPITAL

Terasen Inc.

(TER : TSX : CAD$26.94 | Issued 104.8M)

HOLD | Target price: CAD$26.00

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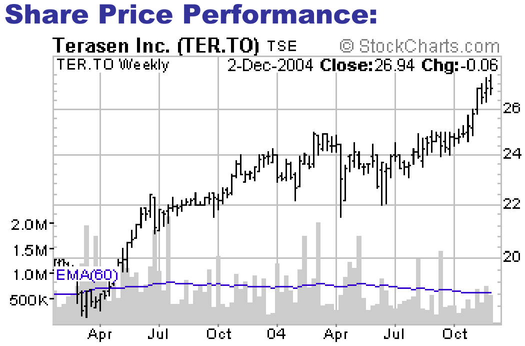
Company Statistics:

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:

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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

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Terasen Inc.

(TER : TSX : CAD$29.35 | Issued 104.8M)

HOLD | Target price: CAD$28.00

Bob Hastings
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bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

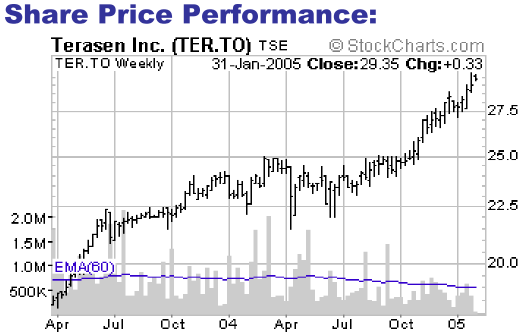
Company Statistics:

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

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CANACCORD CAPITAL

Daily Letter | 75

February 18, 2005

Terasen Inc.

(TER : TSX : CAD$29.34 | Issued 105.0M)

HOLD | Target price: CAD$28.00

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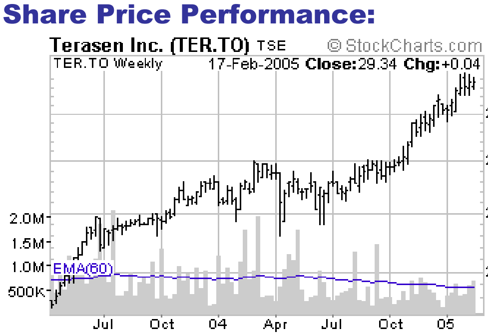
Company Statistics:

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	Full Year 2004	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution			
Terasen Gas	$72.6	$69.7	(4%)
Terasen Gas Vancouver Island	$25.1	$26.2	4%
	$97.7	$95.9	(2%)
Petroleum transportation			
Trans Mountain	35.8	39.4	10%
Corridor	10.7	15.6	46%
Express System	9.7	15.9	64%
	56.2	70.9	26%
Water & Utility Services	$4.1	$6.6	61%
Other businesses	($21.2)	($23.6)	11%
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%
Unusual items	($0.04)	$0.00	(100%)
Reported EPS after unusual items	**$1.28**	**$1.43**	12%
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%

Integration of Terasen Gas & TGVI achieves operating efficiencies. Partly offset by lower allowed ROE and absence of sharing mechanism.

BCUC approves construction of $100 mln LNG storage facility subject to transportation agreement with BC Hydro.

Increased throughput.

Contribution for full year; expansion expected to be completed in April/05.

Driven by organic and acquisition growth.

Includes $3.3 mln mark to market hedging gain in Clean Energy.

6% EPS growth target.

Increases dividend 7.1% to $0.90/share.

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

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Terasen Inc.

(TER : TSX : CAD$26.84 | Issued 104.8M)

HOLD | Target price: CAD$28.00

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Juan Plessis
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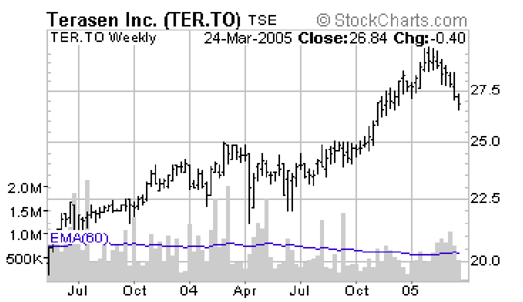
Company Statistics:

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:



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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.

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Company	Disclosure
Terasen Inc.	None

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CANACCORD CAPITAL

May 5, 2005

Terasen Inc.

(TER : TSX : C$27.45 | Issued 105.3M)

HOLD | Target price: C$28.00

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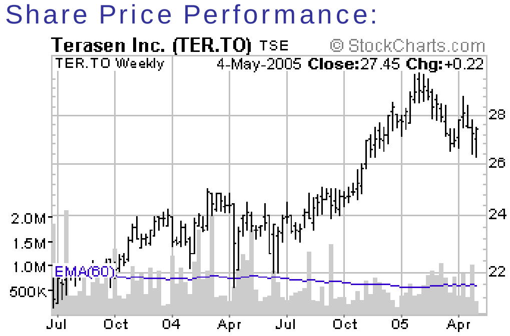
Company Statistics:

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%)

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%

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

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.

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Company	Disclosure
Terasen Inc.	None

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Terasen Inc.

(TER : TSX : C$30.08 | Issued 105.0M)

HOLD | Target price: C$29.00

Bob Hastings
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bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

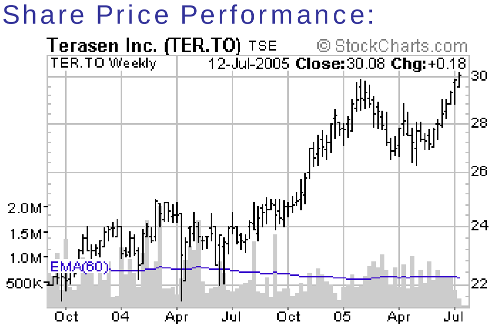
Company Statistics:

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

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Terasen Inc.

(TER : TSX : C$36.00 | Issued 105.0M)

SELL ↓ | Target price: C$37.00 ↑

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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.

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Company	Disclosure
Terasen Inc.	None

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CIBC World Markets

Equity Research

Company Rating:	*Sector Performer*
Sector Weighting:	*Underweight*

February 19, 2004

Company Update

Terasen Inc.

Results Set Up Promising Organic Growth

Pipelines & Utilities

TER-TSX (02/18/04)	**$47.61**
12-18 mo. Price Target	$50.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$48.50-$36.15
Shares Outstanding	52.1 mln.
Float	52.1 mln.
Avg. Daily Trading Vol.	54,000
Market Capitalization	$2,480.5 mln.
Dividend/Yield	$1.56/3.3%
Fiscal Year Ends	December
Book Value	$25.05 per Share
2004 ROE	11.0%
LT Debt	$2.4 bln.
Preferred	$125.0 mln.
Common Equity	$1.3 bln.
Convertible Available	No

- TER reported normalized Q4'03 EPS of $1.23 vs. our estimate of $1.17 and $1.23 in Q4'02. The full year 2003 came in at a normalized level of $2.66 vs. $2.53 last year. We are maintaining our estimates, Sector Performer rating and $50 target price (based on a 16.4 multiple of our 2005 EPS forecast).
- We think management is providing conservative guidance for 2004 to leave itself room for early renegotiation of the Trans Mountain tolling agreement. A near-term renewal could add shareholder value (from improved long-term tolling visibility) despite slightly lower earnings growth in 2004.
- Looking out over the next three years, we still think TER has the best organic growth in the Canadian sector. Oil pipeline expansion projects (Express and Trans Mountain) should add materially to earnings with minimal capital investments. Utility cost savings could add 50-100 basis points to the allowed ROE.
- In light of TER's superior growth prospects and low risk profile we think the stock deserves the premium to the group it has achieved. Our only concern about the stock is valuation - trading at 16.7x our 2004 estimate and 17.2x management guidance. Our SP rating balances our positive outlook with the premium valuation.

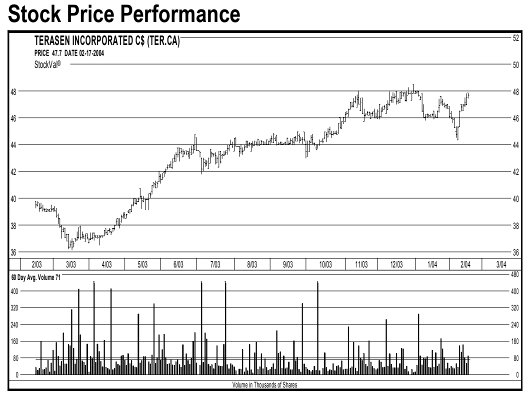
Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to British Columbia, including Vancouver and the interior. The company also owns Trans Mountain Pipeline and Express Oil Pipeline System.
www.terasen.com

Earnings Per Share	Prior	Current
2003		$2.66
2004E		$2.85
2005E		$3.05
P/E		
2003		17.9x
2004E		16.7x
2005E		15.6x

Dividends Per Share	
2002	$1.41
2003	$1.53
2004E	$1.70
2005E	$1.79
Debt to Total Capitalization	
2002	66.2%
2003	67.0%
2004E	66.5%
2005E	65.5%

Stock Price Performance



Source: StockVal

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All figures in Canadian dollars, unless otherwise stated.

Investment Summary

Terasen reported normalized Q4'03 EPS of $1.23 vs. our estimate of $1.17 and $1.23 in Q4'02. The full year 2003 came in at a normalized level of $2.66 vs. $2.53 last year (please see the appendix to this comment for a detailed breakdown of earnings by segment). We are maintaining our 2004 EPS estimate of $2.85, though management guidance is for EPS of $2.75 - $2.80. Our target price remains at $50 based on a 16.4 multiple of our 2005 EPS forecast.

We think management guidance for 2004 is conservative. Our modeling assumes no growth in utility earnings despite the strong potential for cost savings under incentive regulation. Our forecast earnings growth for 2004 is based on the following factors:

- Full year contribution from Corridor ($0.10 EPS)
- Lower foreign exchange losses on Express ($0.05)
- Improved contribution from Trans Mountain based on expansion ($0.04)

We speculate management is providing conservative guidance to leave itself room for an early renegotiation of the Trans Mountain tolling agreement. The Trans Mountain tolling agreement expires at the end of 2005. Absent an early renegotiation it would be difficult to understand why the pipeline could not contribute at least an incremental $0.04 in 2004, despite the fact the expansion is not due for completion until the September.

It is probably in the interest of Terasen and its shippers to renegotiate the tolling agreement this year instead of next year. The company would benefit from improved long-term tolling visibility and shippers would benefit from access to new pipeline capacity (27,000 barrels per day) at reasonable rates. In this regard, a near-term renewal could add shareholder value despite slightly lower earnings growth in 2004. Pending further news on the tolling agreement, we are maintaining our $2.85 estimate.

Looking out over the next three years, we still think Terasen has the best organic growth in the Canadian sector. Several initiatives should add materially to earnings per share with minimal capital investments:

- Express Pipeline expansion – management confirmed the expansion due in service by April 2005 should add at least $0.10 in earnings per share on an annualized basis.
- Utility cost savings – having completed the merger of the two West Coast gas utilities, Terasen should find savings that add 50 – 100 basis points to the allowed ROE in the coming years.
- Trans Mountain expansion – we believe the Trans Mountain expansion will be materially additive to earnings per share in 2005/6 despite the potential renegotiation of tolls. Volume growth to the Western U.S. should drive revenue increases.

Longer term Terasen is positioned for other pipeline expansion opportunities in Alberta and for export to the United States. An incremental expansion of Trans Mountain makes sense from a cost and oil market perspective (please see our full report on oil pipeline opportunities published December 9 2003).

In light of Terasen's superior growth prospects and low risk profile we think the stock deserves the premium to the group it has achieved. Our only concern about the stock is valuation – trading at 16.7x our 2004 estimate and 17.2x management guidance. Our Sector Performer rating balances our positive outlook with the premium valuation.

We look forward to further detailed comments and discussion with management at the CIBC Whistler conference. John Reid, CEO, will be presenting there on February 20 at 10:35 am.

Appendix: Summary of Q4'03 and Full Year 2003 Results

Exhibit 1. Segmented Earnings for Terasen

(C$ millions, unless otherwise stated)

	Q4/03A	Q4/02A	2003A	2002A
Terasen Gas	$45.3	$44.2	$72.6	$69.5
Terasen Gas (Vancouver Island)	$7.3	$5.8	$26.2	$22.9
Trans Mountain Pipeline	$10.0	$10.5	$35.8	$29.2
Express Pipeline System	$3.9	$0.0	$9.7	$0.0
Corridor Pipeline	$4.0	$0.0	$10.7	$0.0
Other Activities	($4.9)	($2.9)	($10.5)	($7.0)
Capital Securities Distributions (net of tax)	($1.7)	($1.6)	($6.6)	($6.4)
Operating Earnings for Common	$63.9	$56.0	$137.9	$108.2
Unusual Items	($5.2)	$0.0	($5.2)	($4.1)
Reported Earnings	$58.7	$56.0	$132.7	$104.1
Average Shares Outstanding (mln)	52.0	45.6	51.8	42.7
Operating Earnings per Share	**$1.23**	**$1.23**	**$2.66**	**$2.53**
Reported Earnings per Share	$1.13	$1.23	$2.56	$2.44

Notes:

1. 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).
2. Unusual item in 2002 relates to write-down of Westport Innovations investment in Q3/02.

Source: Company documents, CIBC World Markets.

Petroleum Transportation

Trans Mountain Pipeline contributed earnings of $10 million in Q4'03 vs. $7.9 million in Q3'03 and $10.5 million last year. While higher operating costs related to power expense dampened earnings compared to Q4'02, Terasen has locked in some of the power costs, which should help boost Trans Mountain earnings.Volume throughput on Trans Mountain ended the year on a strong note, averaging 216,000 barrels per day (up from 201,000 b/d last year). We believe that high volume flows are largely sustainable for the next several years, because of rising oil sands production. The company commented that strong demand from California and Washington State refineries supports the 27,000 b/d expansion underway this year (expected in-service date of September 2004).

The Express Pipeline System added $3.9 million in earnings for Q4'03 and was better than expectations of $2.4 million. Earnings from Express should be up this year (from $9.7 million in 2003 which includes foreign exchange losses) with the reduced sensitivity to movements in the U.S. dollar on the balance sheet accounts (working capital and income taxes).

Corridor Pipeline's Q4 earnings came in as expected at $4.0 million and finished the year at $10.7 million. Management indicated that a quarterly run-rate of $4 million in Corridor earnings is expected for 2004.

Natural Gas Distribution

Earnings contribution from the gas utilities (Terasen Gas and Terasen Gas (Vancouver Island)) was slightly better than a year ago (earnings on a combined basis was $52.6 million in Q4'03 vs. $50.0 million last year). The year-over-year improvement from the Vancouver Island utility was mainly as a result of the accelerated recovery of a long-term regulatory receivable into earnings (about $1.5 – $2.0 million impact for 2003). Cost savings should be sustainable through 2004, with the consolidation of the two B.C. utilities completed in Q4'03.

Other Activities

Excluding the $1.8 million after-tax write-down of the Westport Innovations (WPT-TSX, Not Rated) investment, we estimate that Other Activities contributed a loss of $4.9 million in the quarter and $10.5 million in 2003. Higher corporate costs (financing costs related to Express acquisition and Corridor project) and operating losses from the International business dampened the $2.7 million earnings contribution from the water utilities for the full year. The company indicated that it is exploring all options to derive the most value from its International investment, which could include a divestiture for the right price.

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Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 02/18/04

Westport Innovations (WPT-TSX $1.66 Not Rated)

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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	Stock is not covered by CIBCWM or CIBCWM is restricted*** from rating the stock.
Company Rating 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.

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.

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Important Disclosure Footnotes for TER

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CIBC World Markets Inc., expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

CIBC World Markets Corp. and its affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc..

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CIBC World Markets

Equity Research
Company Update

April 21, 2004

Canadian Pipelines & Utilities

Terasen Inc.

Buys Stake in Water Utility

Company Rating:

Sector Performer

Sector Weighting:

Underweight

12-18 mo. Price Target	$50.00
TER-TSX (4/20/04)	$46.08

Key Indices: TSXUtils

3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$37.51-$50.00
Shares Outstanding	52.1M
Float	52.1M Shrs
Avg. Daily Trading Vol.	72,680
Market Capitalization	$2,400.8M
Dividend/Div Yield	$1.56 / 3.4%
Fiscal Year Ends	December
Book Value	$25.05 per Shr
2004 ROE (E)	11.1%
LT Debt	$2,352.9M
Preferred	$125.00M
Common Equity	$1,304.6M
Convertible Available	No

Earnings per Share	Prev	Current
2003		$2.66A
2004		$2.85E
2005		$3.05E
P/E		
2003		17.3x
2004		16.2x
2005		15.1x

Dividends per Share	
2002	$1.41
2003	$1.53
2004E	$1.70
2005E	$1.79

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

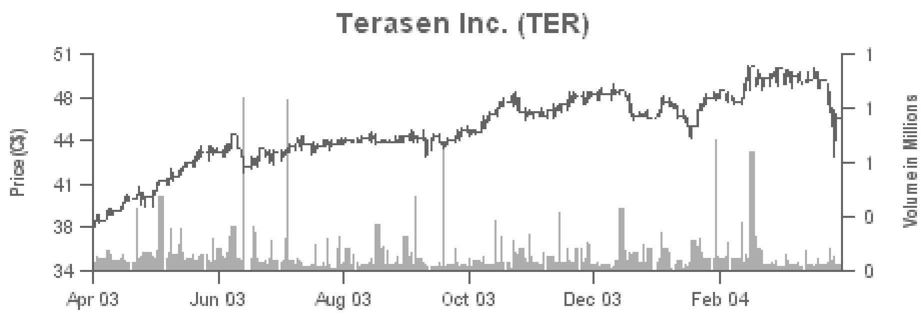
- Terasen announced plans to acquire 50% of a water utility in Fairbanks Alaska. At 2.1x book equity, the proposed acquisition is not cheap but enhances the company's multi-utility strategy. We are not changing our EPS estimates or target.

- We think the acquisition makes strategic sense. Despite Terasen's oil pipeline growth opportunities, the company must also retain some focus on the future of its utility business. Adding water assets improves prospects for higher returns and growth in that business.

- The proposed transaction valuation is in the high end of the range of recent Canadian utility transactions. The water utility is rate regulated and we estimate Terasen is paying 2.1x equity book value. However, a 14% allowed ROE somewhat offsets the premium.

- The acquisition could add up to $0.05 by next year and improves visibility to our 2005 estimate. Terasen shares are looking more attractive given the recent sector correction and the potential for a solid dividend increase when the company reports earnings tomorrow.

Stock Price Performance



Source: Reuters

All Figures in Canadian dollars, unless otherwise stated.

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Investors should consider this report as only a single factor in making their investment decision.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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Investment Summary

Terasen announced plans to acquire 50% of a water utility in Fairbanks Alaska. At 2.1x book equity, the proposed acquisition is not cheap but enhances the company's multi-utility strategy. We are not changing our EPS estimates or target.

Description of Acquisition

Fairbanks Sewer and Water Inc. (FSW) provides water and wastewater treatment services to over 30,000 customers. The Fairbanks municipality sold the water utility about five years ago to local private investors. FSW is regulated by the Regulatory Commission of Alaska, and operates under a cost-of-service framework (70% equity thickness and 14% allowed ROE).

Good Strategic Fit

We think the acquisition makes strategic sense. Despite Terasen's oil pipeline growth opportunities, the company must also retain some focus on the future of its utility business. Terasen has long run a water business, mostly providing water and wastewater services to municipalities. Adding more water assets improves prospects for higher returns and growth in the utilities segment:

- Terasen could probably cut more costs out of its British Columbia gas utility operations if it could ultimately run them alongside local water utilities.
- Owing water utilities opens up a wider range of acquisition opportunities, especially in the U.S. where private ownership of water assets is more common than in Canada.

Valuation Not Cheap But No Need For New Equity

The proposed transaction valuation is certainly not cheap and sits at the high end in the range of recent Canadian utility transactions. The water utility is rate-regulated and we estimate Terasen is paying 2.1x equity book value. However, a 14% allowed ROE somewhat offsets the premium.

Exhibit 1. Transaction Valuation (US$ millions, unless otherwise stated)

Total Rate Base	$40.0
Common Equity Ratio	70%
Total Regulated Equity	$28.0
Equity Purchased @ 50%	$14.0
Purchase Price for 50% Interest	$30.0
Regulated Equity Book Value Multiple	**2.1 x**

Source: Company reports, Regulatory Commission Alberta and CIBC World Markets Inc.

We understand that the Fairbanks water utility is entering a rate hearing this summer. There is some risk that the allowed ROE is reduced in that process. But the Regulatory Commission of Alaska does not use a formula approach like the National Energy Board of Canada – it sets the allowed return based on the unique circumstances of each local utility.

We think the acquisition is easily financed with free cash. Oil pipeline expansions on Trans Mountain and Express are only a small draw on cash now. Bigger expansions are probably still two or three years away. We estimate Terasen will have at least $90 million in free cash to spend on acquisitions between now and the end of next year. The water assets are accommodated within that envelope.

Exhibit 2. Terasen's Free Cash (C$ millions)

	2004E	2005E
Cash Flow from Operations	$306.0	$321.0
Capex		
Gas Distribution	($125.9)	($125.0)
Trans Mountain	($35.8)	($30.0)
Corridor	($0.2)	($3.0)
Other	($14.1)	($10.0)
Total Capex	($176.0)	($168.0)
Dividends	($93.0)	($100.0)
Free Cash	**$37.0**	**$53.0**

Notes:

1. Excludes potential pipeline expansion to Vancouver Island.
2. TER has no cash outflow obligation for Express expansion.

Source: Company reports and CIBC World Markets Inc.

Conclusions: Acquisition Adds Strategic Value and Visibility to EPS estimates

Given Terasen's recent focus on oil pipeline expansion, some investors may be surprised by the use of a significant amount of cash on a water utility at this time. Yet, Terasen must position its utility business for long-term growth, just as it has positioned its pipeline business. In that context, the acquisition makes sense.

Having said that, the acquisition does not enhance our valuation on the stock at this time. Valuation is on the high side of comparable transactions and there is still a risk the allowed return on equity will be reduce this summer. The good news is that the acquisition could add up to $0.05 by next year if it does earn a 14% return.

Terasen shares are looking more attractive given the recent sector correction and the potential for a solid dividend increase when the company reports earnings tomorrow. Our target price is $50 based on a 16.4 multiple of our 2005 EPS estimate.

Price Target Calculation

Our $50 target price is based on a 16.4x multiple of our 2005 EPS forecast of $3.05. 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 (16.1x), 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	$1.42A	$0.16A	($0.15A)	$1.23A	$2.66A
2004 Current	$1.49E	$0.22E	($0.12E)	$1.25E	$2.85E
2005 Current	--	--	--	--	$3.05E

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Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

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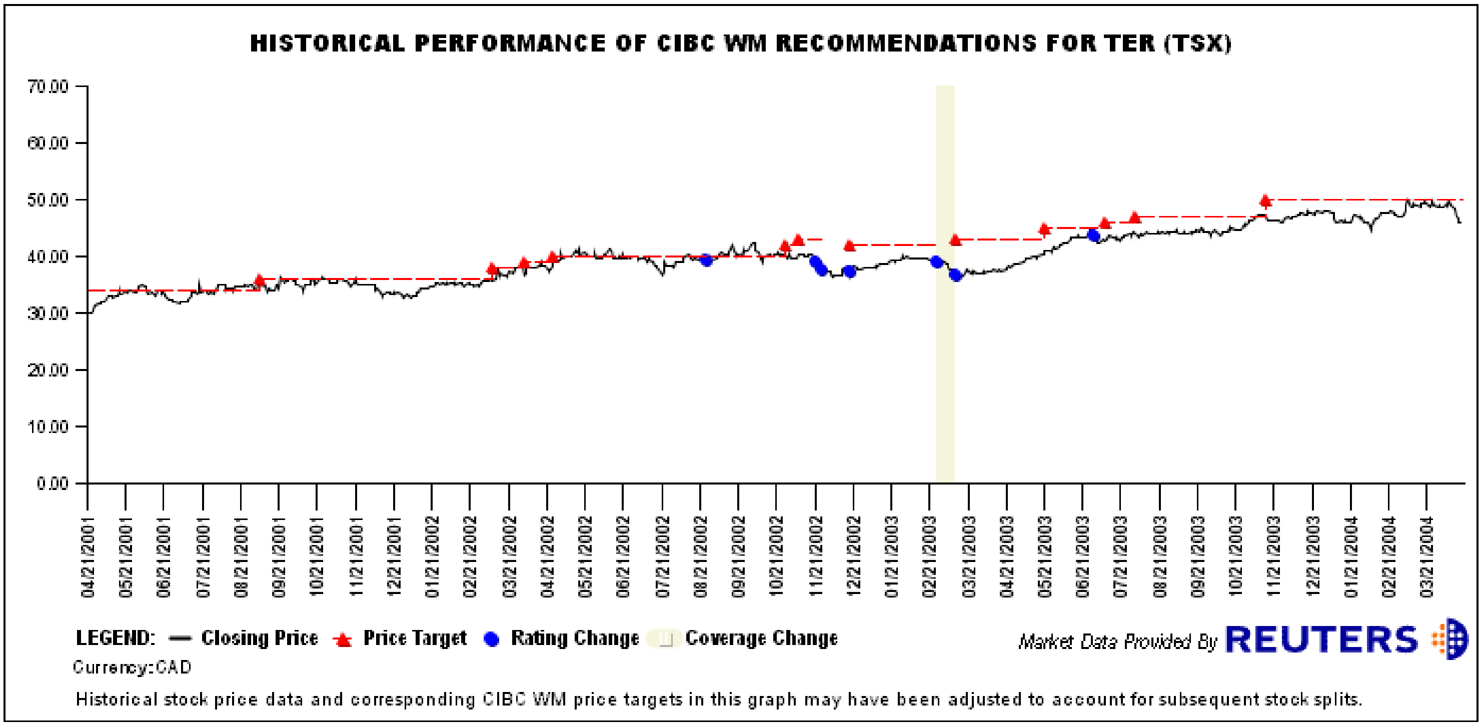
CIBCWM Price Chart



HISTORICAL PERFORMANCE OF CIBC WM RECOMMENDATIONS FOR TER (TSX)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
09/04/2001	▲	34.69	H	36.00	Peter Case
03/08/2002	▲	35.62	H	38.00	Peter Case
04/03/2002	▲	36.75	H	39.00	Peter Case
04/26/2002	▲	39.15	H	40.00	Peter Case
08/26/2002	●	39.31	SU	40.00	Peter Case
10/28/2002	▲	40.20	SU	42.00	Peter Case
11/07/2002	▲	40.26	SU	43.00	Peter Case
11/21/2002	●	38.95	SP	43.00	Peter Case
11/25/2002	▲●	37.70	NR	None	Peter Case
12/18/2002	▲●	37.25	SP	42.00	Peter Case
02/24/2003	▲●□	39.01	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	36.82	SO	43.00	Matthew Akman
05/21/2003	▲	40.25	SO	45.00	Matthew Akman
06/30/2003	●	43.55	SP	45.00	Matthew Akman
07/08/2003	▲	42.60	SP	46.00	Matthew Akman
08/01/2003	▲	43.86	SP	47.00	Matthew Akman
11/13/2003	▲	47.15	SP	50.00	Matthew Akman

CIBCWM Stock Rating System

Abbreviation	Rating	Description
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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.
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**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 20 Apr 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	297	34.1%	Sector Outperformer (Buy)	192	64.6%
Sector Performer (Hold/Neutral)	394	45.2%	Sector Performer (Hold/Neutral)	252	64.0%
Sector Underperformer (Sell)	180	20.6%	Sector Underperformer (Sell)	91	50.6%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 20 Apr 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	25.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	4	50.0%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	2	25.0%	Sector Underperformer (Sell)	1	50.0%
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.

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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

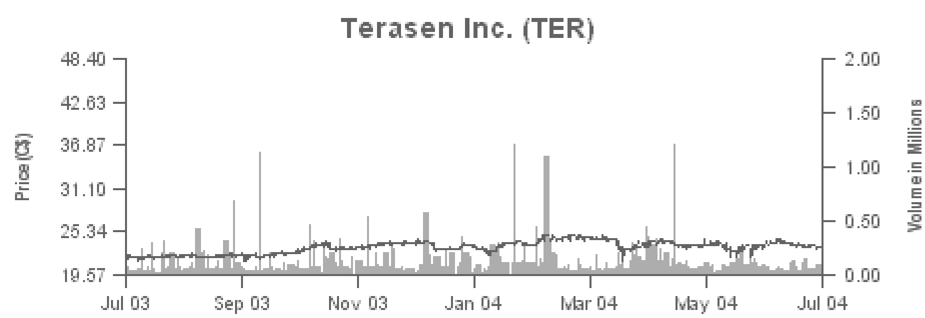
- Terasen reported normalized Q2'04 EPS of $0.10 vs. our estimate of $0.12 and $0.08 in Q2'03. We are making minor downward adjustments to our EPS estimates to reflect lower tolls on Trans Mountain. However, our $25 target price remains intact.

- 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.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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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:

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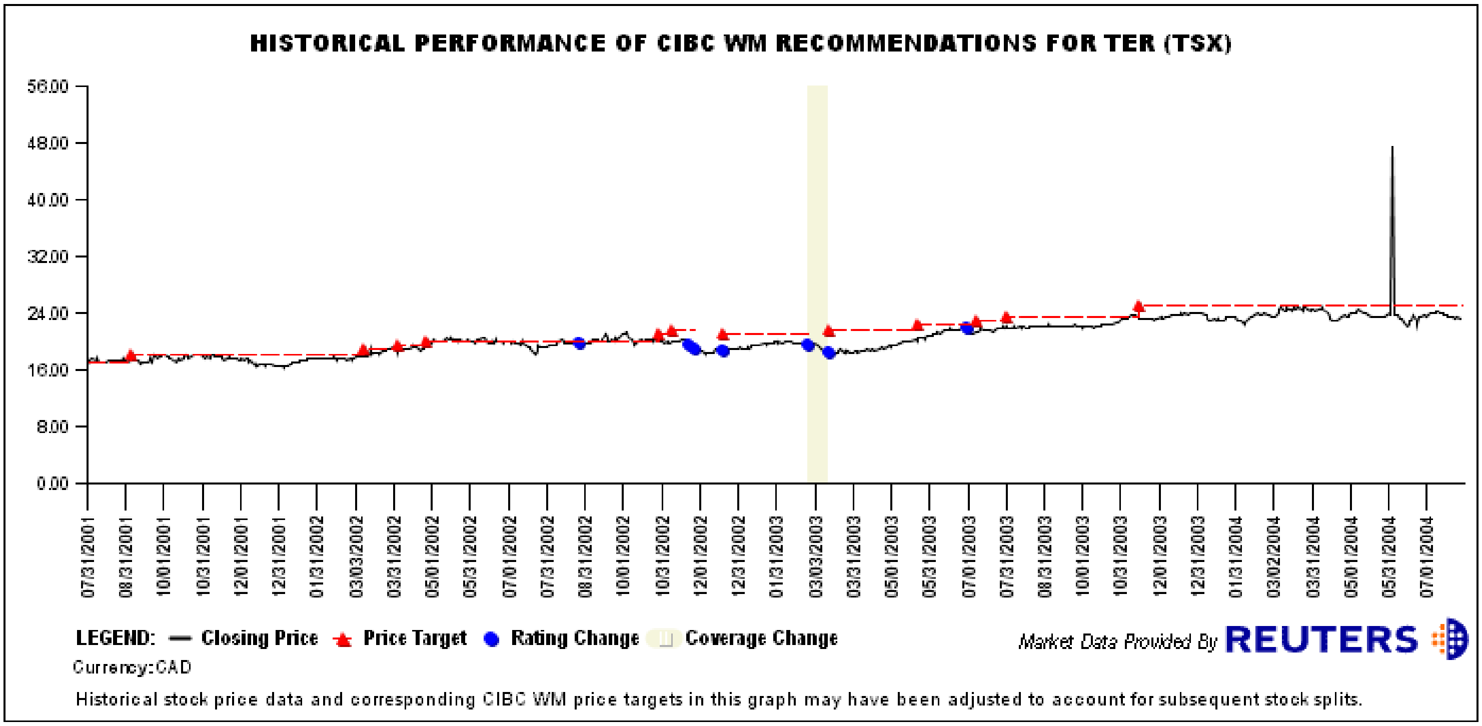
CIBCWM Price Chart



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

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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
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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.
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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.

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Corporate Debt Comments

July 29, 2004

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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

	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	YTD total return: Shorter bond Return	YTD total return: Longer bond Bond	YTD total return: Longer bond Return	YTD change in spread: Shorter bond Curr Sprd	YTD change in spread: Shorter bond YTD Chng	YTD change in spread: Longer bond Curr Sprd	YTD change in spread: Longer bond 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.															

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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%

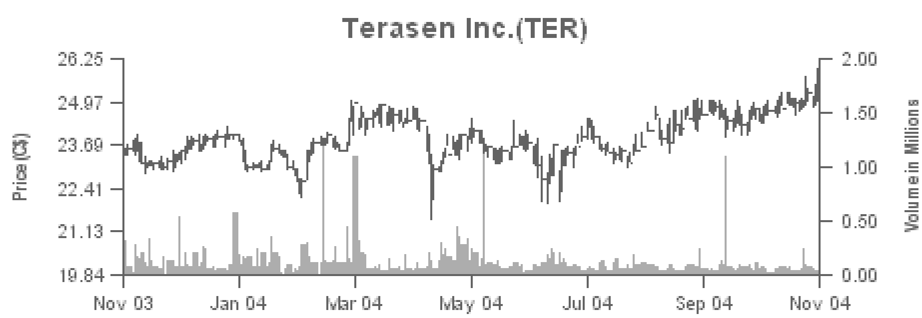
Company Description

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.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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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).

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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)

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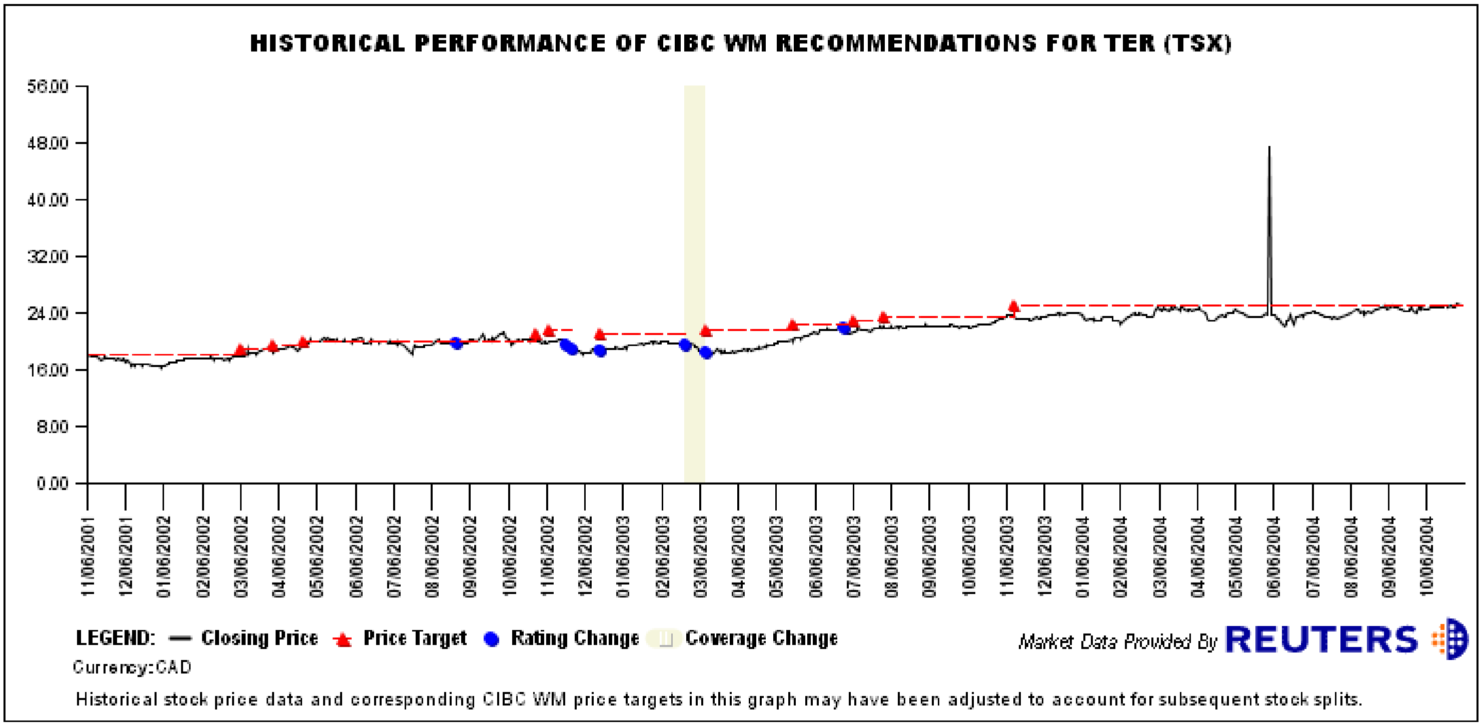
CIBCWM Price Chart



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.
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(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.

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November 4, 2004

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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	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 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%

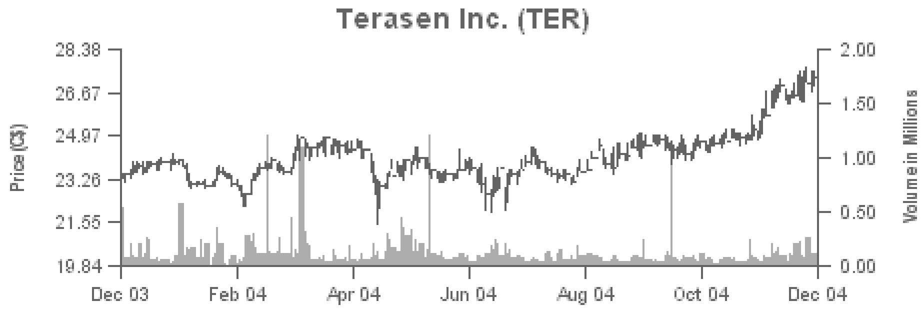
Company Description

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.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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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

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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)

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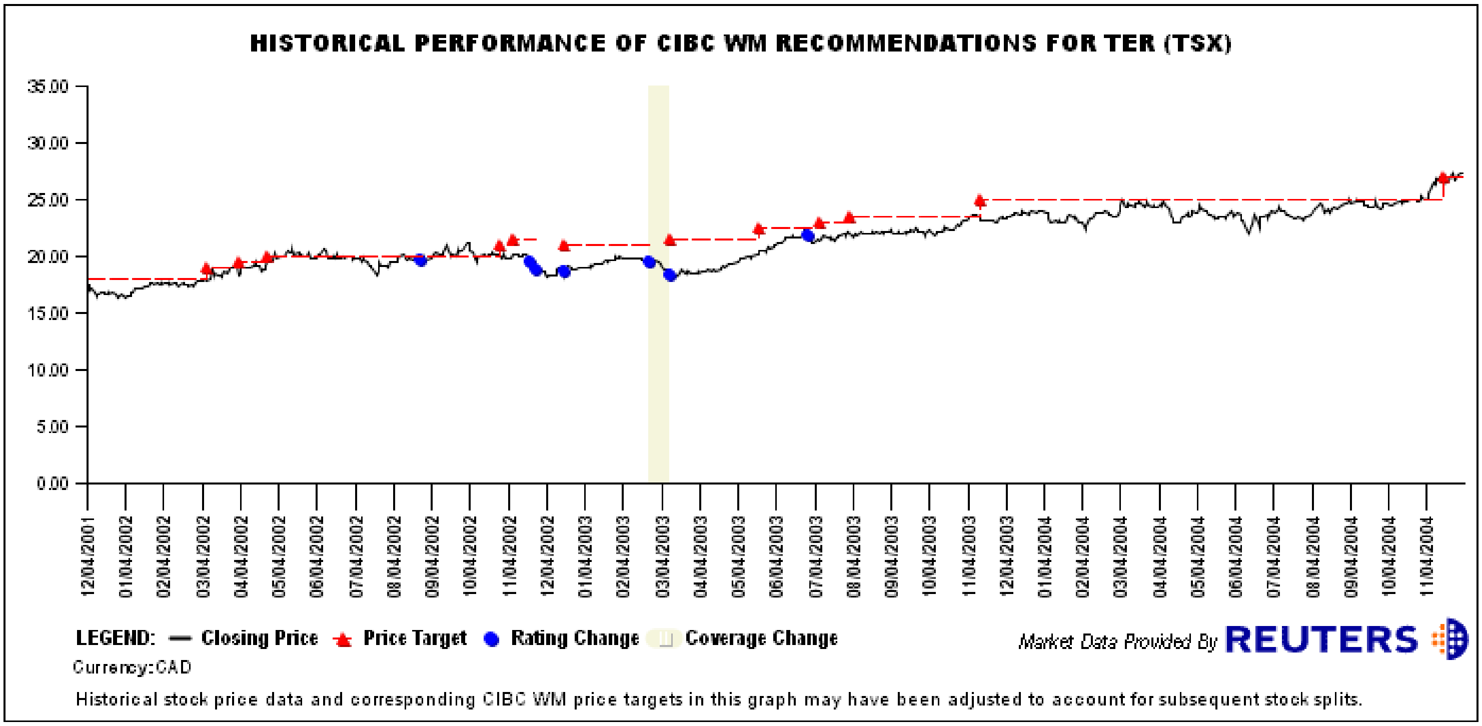
CIBCWM Price Chart



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

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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.
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(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.

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CIBC World Markets

Equity Research
Earnings Update

February 1, 2005

Pipelines, Utilities, & Power

Terasen Inc.

Support for Pipeline Expansion Improves Medium-Term Growth

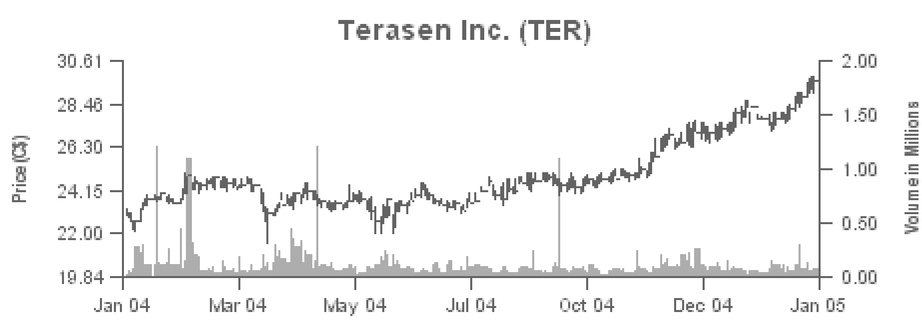
- Terasen announced it has received strong support for the first phase of the Trans Mountain Pipeline expansion. The so-called "TMX1" is not the big prize but can contribute significantly to earnings. We are raising our target price by $1 to $29.

- 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

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

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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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

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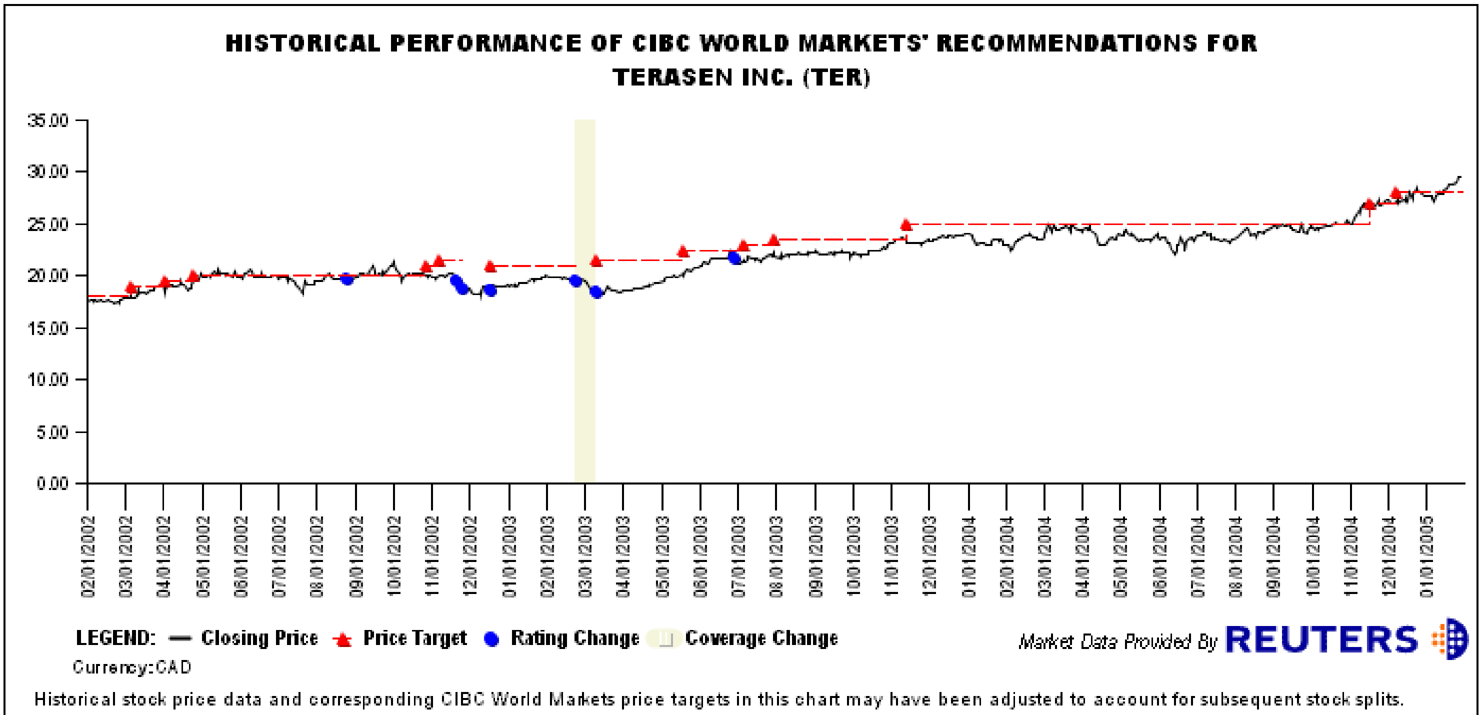
14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



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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

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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.

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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.

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February 18, 2005

Pipelines, Utilities, & Power

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.

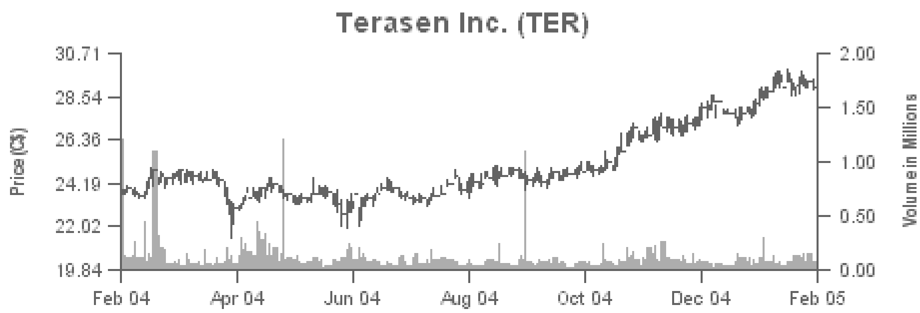
www.terasen.com

Terasen Inc.

Solid Earnings, But Slightly Lower Than Expected

- 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.

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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.

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

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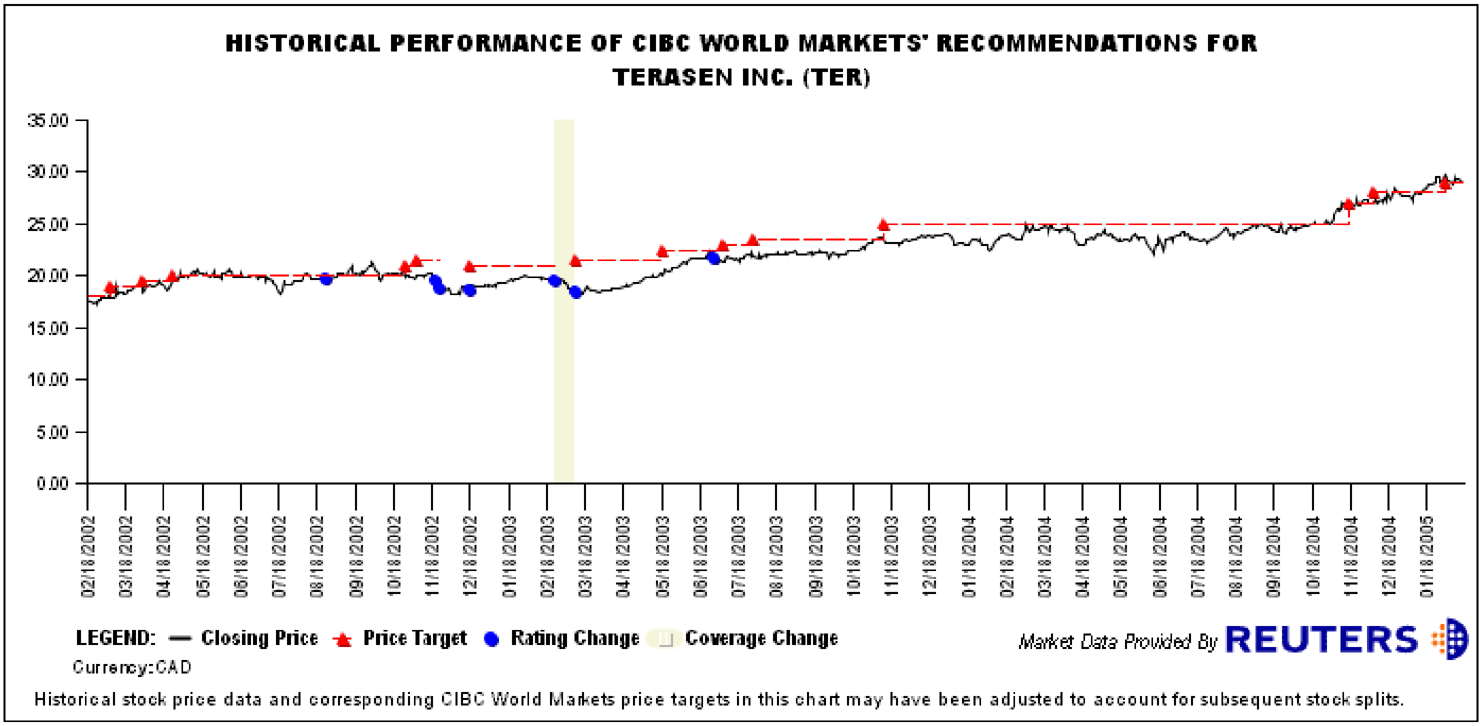
CIBC World Markets Price Chart



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

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Abbreviation	Rating	Description
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SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
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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.

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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%

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CORPORATE DEBT RESEARCH

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Corporate Debt Comments

February 18, 2005

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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.

		Senior unsecured						YTD total return				YTD change in spread			
	Analyst	DBRS	Moody's	S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	Shorter bond: Bond	Shorter bond: Return	Longer bond: Bond	Longer bond: Return	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 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

February 24, 2005

Pipelines, Utilities, & Power

Sector Weighting:

Market Weight

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.

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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.

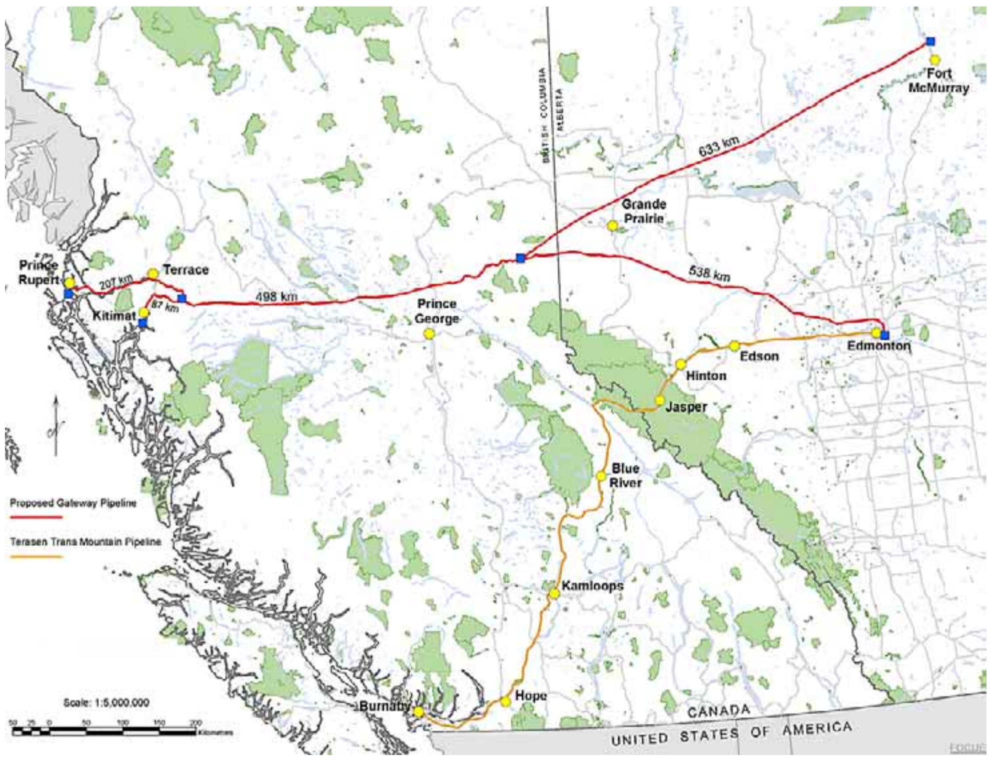
Pipeline investors should hope instead that one of the companies throws up its hands and politely admits defeat. Or even better, that the two companies build one pipeline together. But big new pipelines opening new markets for Canadian oil are the stuff that legacies are made of. Enbridge and Terasen 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.

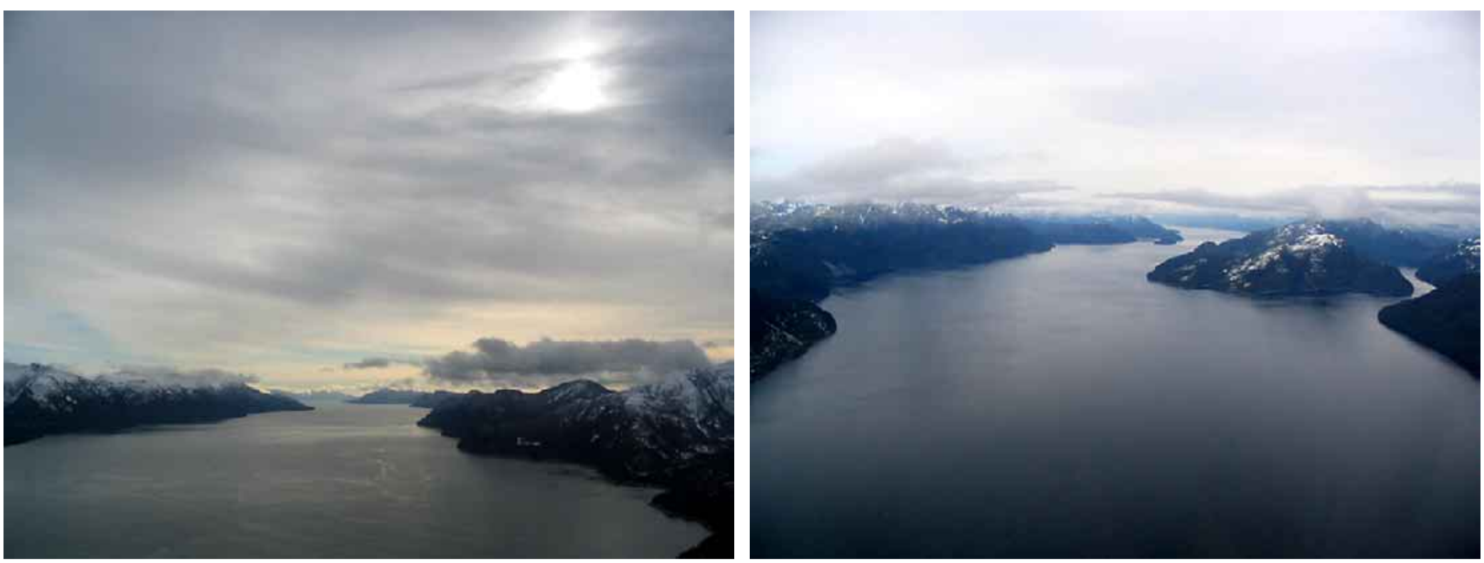
The port at Kitimat was perhaps the most impressive component of the Gateway tour. There are wide-open spaces for a new dock and Enbridge has already identified and begun engineering work on a relatively flat landmass for new storage tanks.

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.

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.

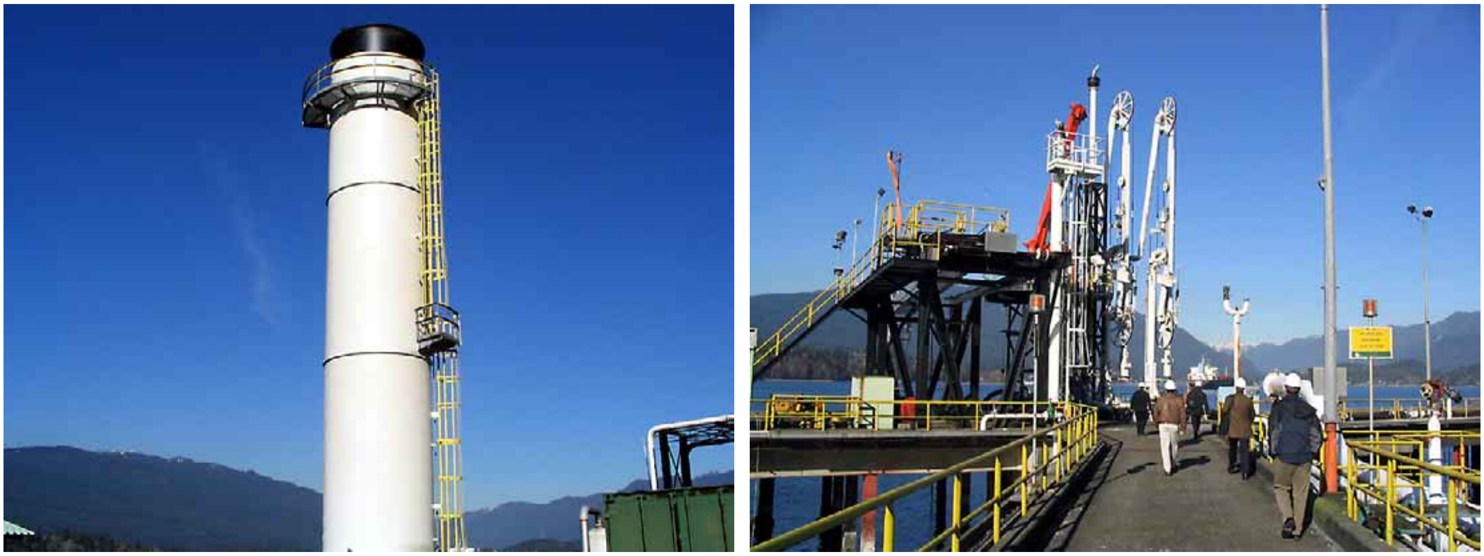
The logistics of loading more and larger tankers at Westridge did not seem overly problematic. The dock is located at the end of the Harbour with no obvious obstructions in the area.

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.

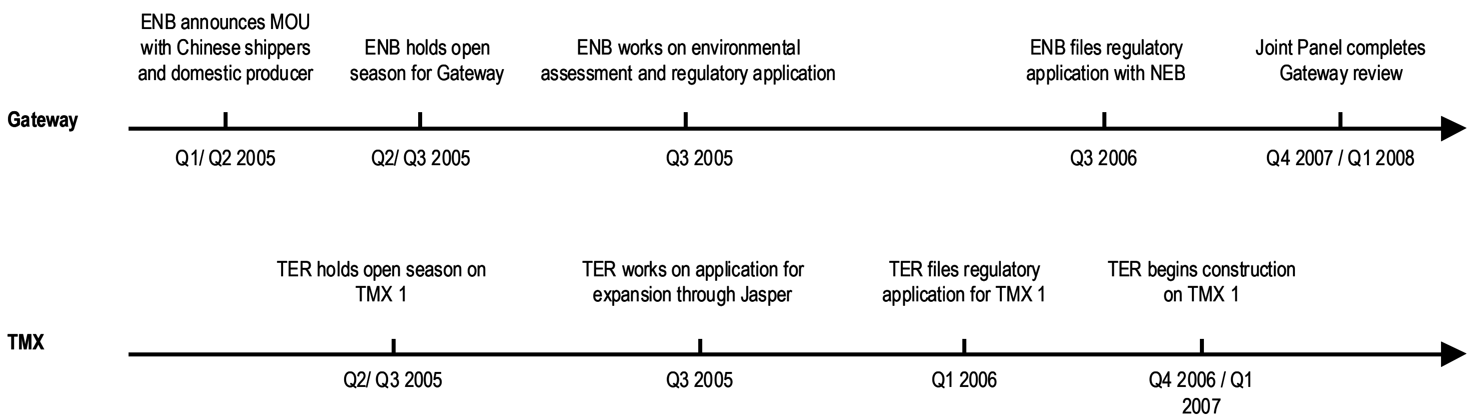
Terasen has already received expressions of interest from parties for the first phase of the Trans Mountain expansion. Last week, Chief Executive John Reid stated at the CIBC World Markets Whistler Institutional Investor Conference that the company plans to proceed with an open season this summer.

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

				52-Week Range		Earnings Per Share				P/E Ratios				'05 P/E	Dividend		Payout		
Company	Ticker	Rating / Analyst	Price 02/22/05	High	Low	2003	2004E	2005E	2006E	2003	2004E	2005E	2006E	Rel. To Group	Rate	Yield	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**			**3.5%**	**65.5%**		
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**			**3.4%**	**55.4%**		
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										**17.1**	**18.3**	**16.9**	**15.5**			**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**			**4.4%**	**63.6%**		
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**			**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 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, First Call/ 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										**9.5**	**9.6**	**9.2**	**9.0**		**2.4**	**12.2%**	**64.5%**	**10.3%**	**9.7**
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										**9.6**	**5.9**				**2.0**	**12.4%**	**58.5%**		**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										**7.6**	**6.6**	**6.5**	**6.2**		**1.8**	**10.5%**	**54.0%**	**30.4%**	**7.8**
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										**8.2**	**7.7**				**1.8**	**12.1%**	**56.0%**		**8.3**
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										**5.2**					**0.6**	**1.7%**	**73.9%**	**100.0%**	**10.2**

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 NFG, PGL and WGL are for the period ending September 30.

Source: Company reports, First Call / IBES and CIBC World Markets Inc.

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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)

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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)

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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.
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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.
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(as of 24 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
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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%

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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

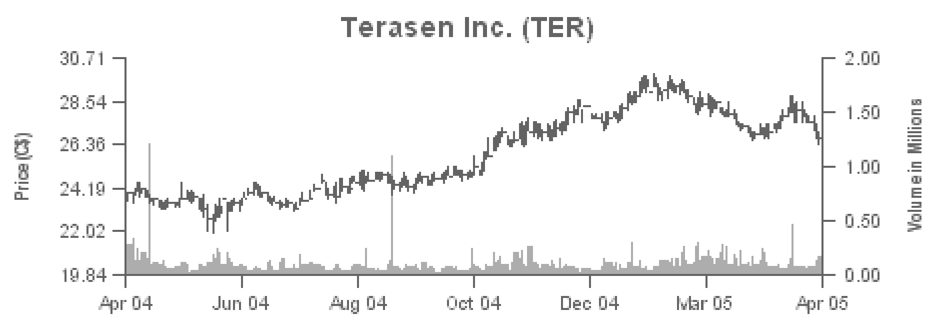
- Terasen reported normalized Q1'05 EPS of $0.60 vs. our estimate of $0.58 and $0.63 in Q1'04. A temporary reduction in oil pipeline volumes caused the weakness and was factored into our numbers. We are maintaining our estimates and target price.

- 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.

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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.

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

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Shell Canada Limited (2g, 6a) (SHC-TSX, $86.80, Sector Performer)

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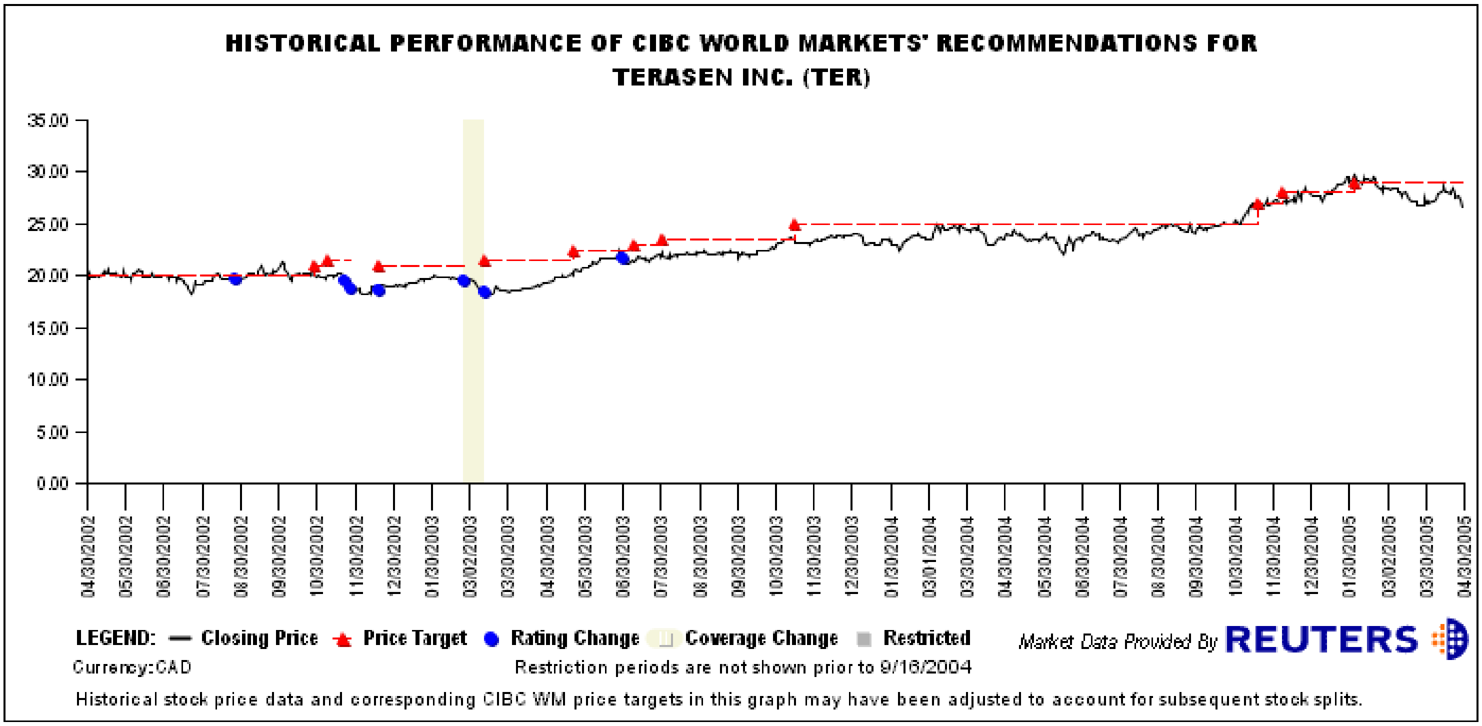
CIBC World Markets Price Chart



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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

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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.
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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.
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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%

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Corporate Debt Comments

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Terasen: 1Q05 results weaker as expected but no impact on bonds

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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			Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return				YTD change in spread			
								Shorter bond		Longer bond		Shorter bond		Longer bond	
		DBRS	Moody's	S&P				Bond	Return	Bond	Return	Curr Sprd	YTD Chng	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

CIBC World Markets

Equity Research
Earnings Update

July 29, 2005

Pipelines, Utilities, & Power

Terasen Inc.

Small Target Increase Following Express Pipeline Upside

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

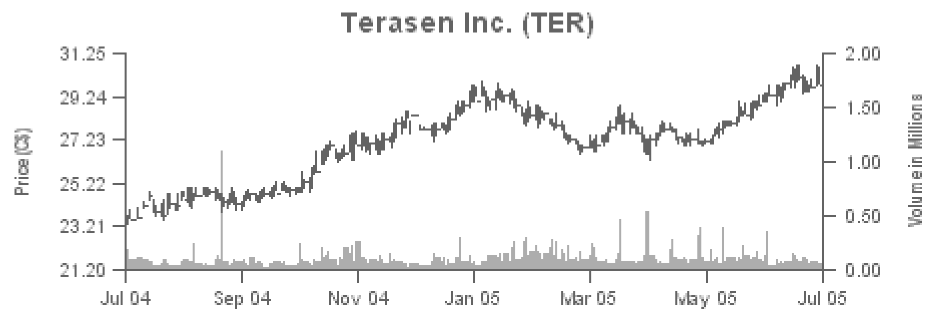
- Terasen reported normalized Q2'05 EPS of $0.23 vs. our estimate of $0.22 and $0.16 in Q2'04. Earnings from the Express Pipeline surprised on the upside. We are raising our 2006 EPS estimate to $1.55 (from $1.50) and our target price to $31 (from $30).

- 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.

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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.

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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:

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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.

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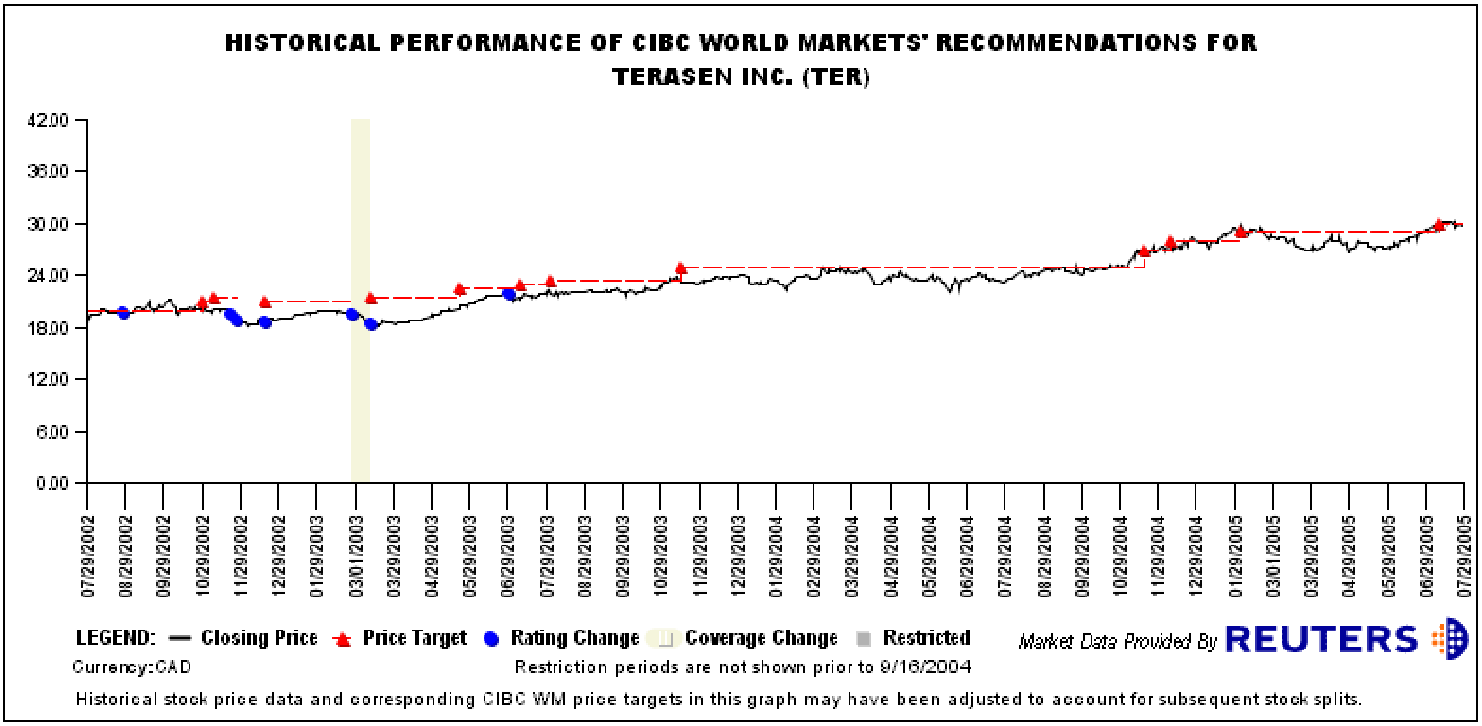
11 The equity securities of this company are restricted voting shares.

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

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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.

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Friday, July 29, 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

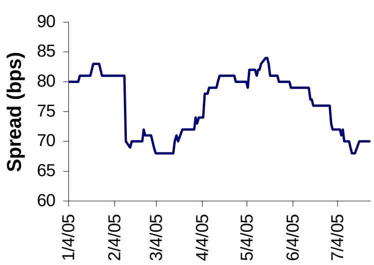
S&P: BBB/Stable

Moody's: A2/Stable

DBRS: A/Stable

Bond Spreads

TER 5.56% 9/15/2014



Source: CIBC World Markets

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Pipelines & Utilities

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.

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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.

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%

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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

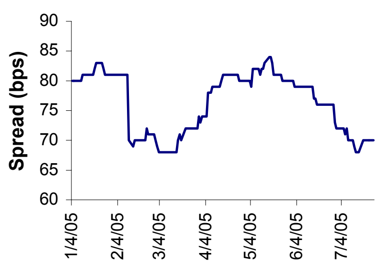
S&P: BBB/Stable

Moody's: A2/Stable

DBRS: A/Stable

Bond Spreads

TER 5.56% 9/15/2014



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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.

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- **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	YTD total return: Shorter bond Return	YTD total return: Longer bond Bond	YTD total return: Longer bond Return	YTD change in spread: Shorter bond Curr Sprd	YTD change in spread: Shorter bond YTD Chng	YTD change in spread: Longer bond Curr Sprd	YTD change in spread: 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	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

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.

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)
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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

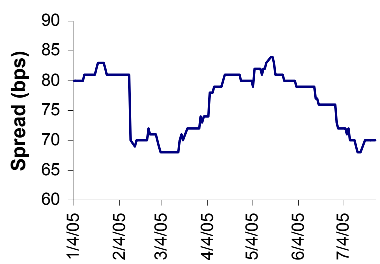
S&P: BBB/Stable

Moody's: A2/Stable

DBRS: A/Stable

Bond Spreads

TER 5.56% 9/15/2014



Source: CIBC World Markets

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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).

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Dina Giacomelli –Editor **(416) 956-6056**

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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			Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return				YTD change in spread			
								Shorter bond		Longer bond		Shorter bond		Longer bond	
		DBRS	Moody's	S&P				Bond	Return	Bond	Return	Curr Sprd	YTD Chng	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.*

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CIBC World Markets

Equity Research
Industry Update

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.

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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.

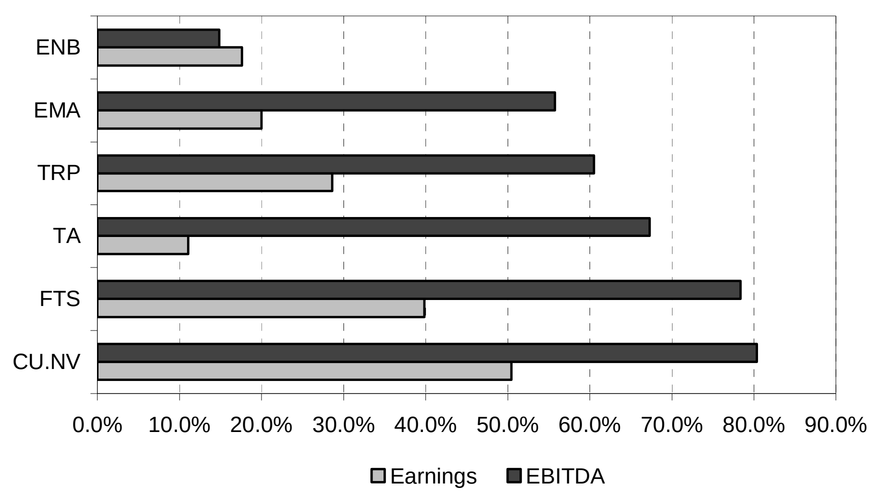
Exhibit 1. Comparative Valuation of Canadian Pipeline, Power and Utility Companies

			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.

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.

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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)
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Restricted	0	0.0%	Restricted	0	0.0%

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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.

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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

Deal Parameters			CIBC Forecasts For TER 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

Company Name	Ticker	Rating	Price 08/17/05	Yield	EPS 2005E	EPS 2006E	P/E (x) 2005E	P/E (x) 2006E	Cash Flow Per Share 2005E	Cash Flow Per Share 2006E	P/CF (x) 2005E	P/CF (x) 2006E	Book Value	EV/2006E 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**

Company Name	Ticker	Rating	Price 08/17/05	Yield	EPU 2005E	EPU 2006E	P/E (x) 2005E	P/E (x) 2006E	Distributable Cash Flow / Unit 2005E	Distributable Cash Flow / Unit 2006E	P/CF (x) 2005E	P/CF (x) 2006E	Book Value	EV/2006E 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.

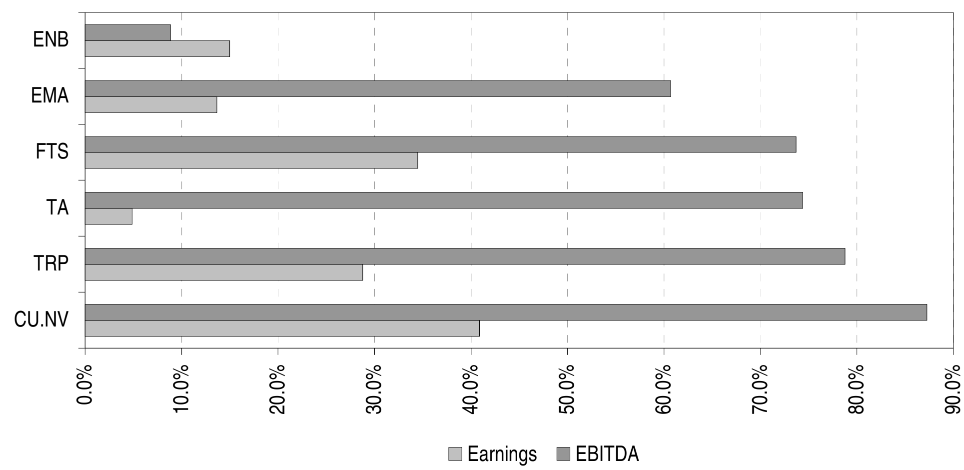
Exhibit 3. Valuation Parameters On Canadian And U.S. Utility Acquisitions

Date Announced	Buyer	Acquired Company	Purchase Price	Transaction Multiples 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.

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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)

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2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

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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.

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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.
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(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.

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CREDIT SUISSE | FIRST BOSTON
Equity Research

INITIATION

Terasen Inc

TER.TO

Initiating With Outperform

We are initiating coverage on Terasen (formerly BC Gas) with an Outperform rating and a C$50 price target. We believe Terasen deserves a premium to its peers due to lower risk and higher growth.

Terasen has an attractive investment profile. Operations are concentrated in British Columbia and are focused on two main business segments: gas distribution and crude oil transmission. Terasen has low regulatory risk versus its Canadian peers.

Terasen recently teamed with two of the largest private equity investors in Canada, Borealis Capital and Ontario Teachers' Pension Plan, to acquire the Express System. We believe Terasen will act in concert with these financial players, lowering cost of capital and financial risk of future projects.

In addition, Terasen has a number of interesting growth proposals in the near-term pipeline, namely the Trans Mountain expansion, Express expansion and the Bison proposal. These expansions are dependent on additional oil sands development and oil supply. Other potential projects are scheduled for beyond 2006.

Our price target of C$50 is predicated on a discount of 160 basis points to our 2004 average forecast Government of Canada ten-year bond yield of 5.0%.

The main risk we see is the degree of leverage, with debt/capital in the 68% range. Other risks include a potential for rapidly rising bond yields, potential lower growth in the oil sands, and competition on new projects (Bison, TMX), most notably from Enbridge Inc. (ENB.TO, C$53.65, NEUTRAL, TP C$50.00, MW).

Terasen is a crude oil transmission and gas distribution company with high exposure to the oil sands projects.

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Rating	**OUTPERFORM***
Price (9 Jan 04)	**46.10 (C$)**
Target price (12 months)	**50.00 (C$)**
52 week high - low	**48.50 - 36.15**
Market cap. (C$m)	**2 606.03**
Enterprise value (C$m)	**5 666.83**
Region / Country	**Americas / Canada**
Sector	**Pipelines and Utilities**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**12 January 2004**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***

Price / Indexed Canada TSE Composite 300

Daily Jan 09, 2003 - Jan 09, 2004, 1/09/03 = US$38.29

On 01/09/04 the Canada TSE Composite 300 index closed at 8 352.19

Year	12/02A	12/03E	12/04E
EPS (CSFB adj., C$)	2.45	2.65	2.83
Prev. EPS (C$)			
P/E (x)	18.8	17.4	16.3
P/E rel. (%)	—	—	—
Q1 EPS		1.42	1.51
Q2		0.16	0.17
Q3		-0.15	-0.16
Q4		1.22	1.30

Number of shares (m)	56.53	IC (12/02A, C$m)	4,303
BV/Share (Current, C$)	26.54	EV/IC (x)	1.3
Net Debt (Current, C$m)	3 060.8	Dividend (Current, C$m)	1.56
Net debt/Total cap. (Current)	68.8%	Dividend yield	3.4%

Year	12/02A	12/03E	12/04E
Revenues (C$m)	900	950	970
EBITDA (C$m)	518	581	595
OCFPS (C$)	5.65	5.26	4.84
P/OCF (x)	8.2	8.8	9.5
EV/EBITDA (x)	10.9	9.8	9.5
ROE	8.5%	10.5%	10.8%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

Investment Summary

		1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Revenue		623	647	735	900	950	970	988	1 003	1 014
Net Revenue gas distribution		403	427	489	596	602	598	601	604	606
Revenue petroleum		133	133	143	136	179	204	219	231	239
Revenue Growth		NA	4%	13%	23%	6%	2%	2%	2%	1%
Financials Information										
Total EBITDA	C$m	392	395	451	518	581	595	613	628	639
EBITDA margin	%	63%	61%	61%	58%	61%	61%	62%	63%	63%
Total EBIT	C$m	308	309	356	403	465	475	489	501	507
Operations										
Total employees, consolidated		1 869	1 966	1 782	2 051	NA	NA	NA	NA	NA
No. of customers	(000s)	755	763	768	851	NA	NA	NA	NA	NA
Customers/employee		404	388	431	415	NA	NA	NA	NA	NA
KM of natural gas pipelines	(000s)	36 581	37 197	37 430	43 196	43 196	43 196	43 196	43 196	43 196
KM of petroleum pipelines	(000s)	1 477	1 477	1 477	1 477	1 477	1 477	1 477	1 477	1 477
Rev/km (natural gas)		0.011	0.011	0.013	0.014	0.014	0.014	0.014	0.014	0.014
Rev/km (petroleum)		0.090	0.090	0.097	0.092	0.121	0.138	0.148	0.157	0.162
Leverage										
Total Short Term Debt		529	460	529	549	696	765	1 023	1 803	1 895
Total Long Term Debt		1 002	1 562	1 928	2 123	2 334	2 295	2 042	1 253	1 151
Capital Securities (prefs)		0	125	125	125	125	125	125	125	125
Net Debt (incl prefs)		1 525	2 124	2 580	2 792	3 121	3 150	3 156	3 147	3 137
Debt/Total Cap (S&P def)		71.0%	71.4%	74.5%	66.2%	68.0%	67.4%	66.6%	65.7%	64.8%
Net Debt/Total Cap (incl prefs)		70.9%	72.4%	75.4%	67.2%	68.6%	68.0%	67.3%	66.4%	65.5%
FFO Interest Coverage		0.4x	0.5x	0.3x	0.4x	0.6x	0.4x	0.5x	0.5x	0.5x
Net Debt (incl prefs)/EBITDA		3.9x	5.4x	5.7x	5.4x	5.4x	5.3x	5.1x	5.0x	4.9x
Financials										
Total EBIT	C$m	308	309	356	403	465	475	489	501	507
Reported EPS	C$/share	$2.12	$2.94	$2.21	$2.45	$2.65	$2.83	$3.00	$3.14	$3.22
EPS Growth	%		39%	-25%	11%	8%	7%	6%	5%	3%
Cash Flow from Ops	C$m	174	176	195	244	273	251	260	263	267
Total Capex	C$m	164	621	470	396	209	186	165	150	150
Operating CFPS	C$/share	$4.55	$4.61	$5.09	$5.65	$5.26	$4.84	$5.00	$5.08	$5.15
CF Growth	%		1.1%	10.5%	11.0%	-6.9%	-8.0%	3.4%	1.5%	1.3%
Valuation										
P/E	X	21.7	15.7	20.9	18.8	17.4	16.3	15.4	14.7	14.3
P/CF	X	10.1	10.0	9.1	8.2	8.8	9.5	9.2	9.1	8.9
P/BV	X	2.8	2.2	2.1	1.5	1.7	1.6	1.6	1.5	1.5
EV/EBITDA	X	15.0	14.9	13.0	11.3	10.1	9.9	9.6	9.4	9.2
DPS	C$/share	1.17	1.23	1.30	1.41	1.56	1.70	1.80	1.88	1.93
Dividend Growth	%	N/A	5.2%	6.1%	8.5%	10.6%	8.8%	6.1%	4.7%	2.6%
Payout Ratio	%	55%	42%	59%	58%	59%	60%	60%	60%	60%
Returns										
ROCE	%	5.3%	5.0%	3.6%	3.6%	4.2%	4.5%	4.7%	4.9%	5.0%
ROA	%	3.3%	3.2%	2.3%	2.3%	2.8%	2.9%	3.1%	3.2%	3.2%
ROE	%	13.0%	16.5%	11.8%	8.5%	10.5%	10.8%	11.0%	11.1%	10.9%

Source: Company data, CSFB estimates

Investment Summary

We are initiating coverage of Terasen Inc. with an Outperform rating and a twelve-month price target of $50

We are initiating coverage of Terasen Inc. (formerly BC Gas) with an Outperform rating and a twelve-month price target of $50.

We believe Terasen is the most focused pipeline company in Canada

We believe Terasen is the most focused pipeline company in Canada. The company has operations concentrated in one geographic area (Western Canada, primarily British Columbia) and operates in two main business segments, gas distribution and crude oil transmission.

Terasen has a good relationship with regulators

Terasen has a good relationship with the regulator in British Columbia and has negotiated settlements or contracts with either regulators or shippers through to 2005 at the earliest and approximately 2028 at the latest on all of its assets.

Terasen has excellent growth opportunities from the oil sands

Terasen has excellent growth opportunities from the oil sands in Alberta, with several viable proposals competing with Enbridge for future growth from the Fort McMurray region of Alberta.

Terasen has a potential advantage over its Canadian competitors in that it has forged a relationship with two of the largest pension plans in Canada. Terasen, together with Ontario Teachers' Pension Plan (OTPP) and Borealis Capital, a division of Ontario Municipal Employee Retirement Savings (OMERS), purchased the Express System (comprises Express and Platte pipelines) in late 2002. Each party owns 33.3% of Express, which originates in Hardisty, Alberta and carries crude oil to Casper, Wyoming. Terasen can continue to act in concert with OMERS and OTPP who have a lower cost of capital due to their status as non-taxable entities. Terasen receives a management fee in return for operating the Express System. Terasen should be able to replicate this business model and acquire additional assets without undue strain on the balance sheet and at an attractive cost of capital, after accounting for the management fee (not disclosed).

Terasen has successfully partnered with pension funds

We assess the risk at Terasen as moderate. Positives for our risk assessment include: low regulatory risk, successful and innovative relationship with financial partners, and good relationships with shippers and regulators.

The main risk we see is financial leverage

The main risk we see is financial leverage. The company is highly levered with debt/capital in the 68% range. This risk is somewhat mitigated through Terasen's relationship with OTPP and OMERS.

We have set our target price by applying a 160 basis point discount to our forecast 10-year Government of Canada bond yield of 5.0% and then calculating target price based on our forecast 2004 dividend of $1.70. Our dividend is calculated by taking a 60% dividend payout to our estimated 2004 earnings of $2.83. Our price target implies a 04E P/E of 17.7x and 04E EV/EBITDA of 10.2x.

Terasen Snapshot

Terasen has two major divisions: natural gas distribution and petroleum transportation

Terasen has two major divisions: natural gas distribution and petroleum transportation. Operations are concentrated in Western Canada.

Exhibit 1: Snapshot of Terasen Operations

Source: Company

Exhibit 2: Summary of Regulated Assets

	Regulatory Framework	Expiry	Level of Regulation	Regulator
BC Gas	Performance Based Regulation	2007	High	BCUC
TGVI	Performance Based Regulation	2005	High	BCUC
Trans Mountain	Incentive Toll Settlement	2005	Low	NEB/FERC
Corridor	Cost of Service	25 yrs	Medium	EUB
Express	Incentive Toll Settlement	2006 –2013	Low	NEB

Source: Company data, CSFB estimates

Natural Gas Distribution (74% of 03E EBIT, 73% of 03E EPS)

BCUC regulates Terasen Gas and TGVI using generic cost of capital calculation

Terasen provides natural gas and piped propane service to 850,000 customers in British Columbia. This represents 95% of natural gas consumers in the province. Terasen gas distribution comprises two main systems: (1) Terasen Gas servicing the Greater Vancouver area and interior British Columbia and (2) Terasen Gas Vancouver Island (TGVI) that serves markets on Vancouver Island and the Sunshine Coast area. The British Columbia Utilities Commission (BCUC) regulates both Terasen Gas and TGVI. Gas supplies are sourced primarily from northeastern British Columbia and through Terasen Gas' Southern Crossing Pipeline from Alberta.

The BCUC uses a generic cost of capital model to determine regulated earnings. Regulated return on equity (ROE) is a function of long-term Government of Canada bond yields. Thus, as bond yields increase, ROE increases and therefore net income is higher. See Exhibit 3 for an illustration of how to calculate the 2004 regulated return at Terasen Gas.

Since 1996, BCUC has used incentive-based regulation whereby gas customers and shareholders share cost savings. Terasen Gas has incentive-based regulation in place until 2007. This means that the return calculation set out in Exhibit 3 gives the regulated return and to the extent Terasen can achieve cost savings in operations and maintenance (O&M), they will 'over-earn' above the regulated return.

The following illustration shows how the regulated return is calculated. The ROE at a forecast bond yield of 6.0% (*A* in illustration below) is 9.5%. To the extent the forecast bond yield is above 6.0% (*B-A=C*), the ROE will increase from 9.5% by 80% of the difference between the forecast bond yield and 6.0%. To the extent that the forecast bond yield is less than 6.0% (*B-A=C*), the ROE will decrease from 9.5% by 100% (*D*) of the difference between the forecast bond yield and 6.0%.

Exhibit 3: Illustration of ROE calculation for 2004 at Terasen Gas

	Base Year 2000	2004
Long bond yield forecast	6.00% [A]	5.65% [B]
	3.50%	
Base in year 2000	9.50%	
Delta between this year and last (B-A)	-0.35% [C]	
Factor of 0.8 if > 6.0%, 1.0 if < 6.0%	100% [D]	
Delta X Factor (C X D)	-0.35% [E]	
New Regulated Return (A+E)	9.15%	

Source: BCUC, CSFB estimates

TGVI has a three-year regulatory settlement covering January 2003 to 2005. The allowed ROE at TGVI is set at a 0.50% premium to Terasen Gas. For example, in 2004 the regulated rate for TGVI is 9.65% (9.15% + 0.50%).

Petroleum Transmission (25% of 03E EBIT, 39% of 03E EPS)

Terasen has a 100% ownership stake in the Trans Mountain and Corridor pipelines and a 33% equity investment in the Express System

Terasen has a 100% ownership stake in the Trans Mountain and Corridor pipelines and a 33% equity investment in the Express System, which comprises the Express and Platte pipelines.

The National Energy Board (NEB) regulates the Trans Mountain system, which transports crude and refined petroleum products from Edmonton to Washington State (1,150 km or 715 miles). Trans Mountain and its shippers agreed to an Incentive Toll Settlement (ITS) for the period 2001-2005 where tolls are fixed as long as throughput remains in a band of 28,500 to 32,000 cubic metres per day (or approximately 179,000 bpd to 201,000 bpd). Any revenue shortfall (below 28,500 m^3/day or approximately 179,000 bpd) is recovered from shippers; any incremental revenue (above 32,000 m^3/day or approximately 201,000 bpd) is shared 50/50 between the shippers and Trans Mountain. Terasen cannot raise tolls. Although the

NEB regulates Trans Mountain, the agreement with the shippers supercedes the regulation and means that Terasen does not undergo time-consuming annual revenue requirement proceedings. In addition to the revenue sharing arrangement described above, all costs savings are for the account of Trans Mountain. Approximately 10% of revenues on Trans Mountain are derived in the U.S. Thus, there is a small exposure to the US dollar. The Federal Energy Regulatory Commission (FERC) regulates the US portion of Trans Mountain on a complaints basis. There is throughput risk on Trans Mountain, however we assess the risk as low given U.S. energy consumption needs and the limited supply of oil from other areas.

The Alberta Energy and Utilities Board (EUB) regulates the Corridor pipeline, which transports diluted bitumen and diluent from the Muskeg River Mine to Shell Canada's upgrader in Edmonton. Tolls are based on cost of service and are contracted for a 25-year term. Customers are Shell Canada, Chevron Canada and Western Oil Sands who are joint venture partners in the Athabasca Oil Sands Project (AOSP).

Growth prospects: Corridor can invest approximately $100-$150 million to increase pumping capacity. If Shell Canada's project expands, it would provide incremental growth for Terasen. Our energy analyst believes the Shell project will expand to 225 million bpd by 2007 and 425 million bpd by 2012.

The NEB regulates the Express pipeline, which transports a variety of light, medium and heavy crudes from Hardisty, Alberta to Casper, Wyoming. The pipeline interconnects with the Platte pipeline at Casper to serve Kansas and Illinois. There is throughput risk on this system. Terasen is a 33.3% partner with OTPP and OMERS. As non-taxable entities, pension funds can be more competitive in bidding for assets, as their cost of capital is lower than taxed entities such as Terasen. Terasen operates the Express System and receives a management fee from OTPP and OMERS.

Other (1% of EBIT and –12% of 03E EPS)

Other businesses include: BC Gas International, which provides consulting and engineering services to clients primarily in the Arabian Gulf; CustomerWorks (30% interest, with balance held by Enbridge), which outsources customer care services and is operated by Accenture; BCG Services, a water and wastewater treatment utility services; Clean Energy Fuels Corp. (44% ownership with balance held by Boone Pickens, Westport Innovations and Perseus 2000 LLC), which is an alternative fuel re-fuelling company; and other corporate head office expenses.

Growth Opportunities

Terasen has various growth projects at different stages. We have summarized these in order of probability of completion:

Exhibit 2: Analysis of Probability of Future Growth Projects

	Probability	2003 Capacity (bpd)	Investment ($Cmm)	2004 (bpd)	2005 (bpd)	2006 (bpd)	Beyond 2006 (bpd)	
Trans Mountain Expansion	Very High	188 000	$16	27 000				
Express Expansion	Very High	172 000	$104		41 000	67 000		(1)
Bison	Medium	0	$1 000			175 000	495 000	
Corridor Expansion	Medium/Low	155 000	$120				75 000	
TMX Project Stage 1	Medium/Low	0	$450				100 000	
TMX Project Stage 2	Medium/Low	0	$700				100 000	
TMX Project Stage 3	Medium/Low	0	$925				440 000	
TOTAL		**515 000**		**542 000**	**583 000**	**825 000**	**2.1 million**	

Source: Company data, CSFB estimates

(1) Investment is US$80 million, exchange rate of 1.30. Investment to be funded through internally generated cash flows at Express.

We have assumed the expansions of Trans Mountain and Express systems proceed in our financial forecast. Both of these projects involve additional pumping capacity in order to increase the volume carried on the systems. On December 22, shippers provided support for the Express expansion – Express now awaits regulatory approval.

The Bison pipeline proposal would carry bitumen from Fort McMurray to Edmonton, a market that is expected to grow. We saw support for this statement recently when Suncor Energy (SU.TO, C$32.15, UNDERPERFORM, TP C$22.00, UW) and Petro-Canada (PCA.TO, C$65.75, NEUTRAL, TP C$55.00, UW) announced their plan to ship approximately 50,000 bpd of bitumen to Petro-Canada's Edmonton refinery starting in 2008 (please see Peter Best's report December 9, 2003). Bison competes with Enbridge's proposed Waupisoo pipeline (Fort McMurray to Edmonton), and would also likely compete with Enbridge's existing Athabasca System (Fort McMurray to Hardisty). Income funds are also expected to put forward a proposal to shippers (Pembina). The main advantage of the Bison project is its ability to ship upgraded synthetic product separately from the heavier bitumen. Currently, Enbridge carries these liquids as a blend to Hardisty for export to the U.S. market. The Bison pipeline (or another pipeline from Fort McMurray to Edmonton) is dependent on growth from the following projects: Nexen's (NXY.TO, C$48.43, OUTPERFORM, TP C$48.00, UW) Long Lake project, ConocoPhillips' (COP, $65.43, NEUTRAL [V], TP $64.00, UW) Surmont project, CNRL Horizon, Petro-Canada's Mackay River. Our energy analyst believes the projects will proceed in 2007-2008 for Long Lake, 2008 for Horizon and Mackay is already proceeding.

We believe it is too early to include the Corridor expansion

The Corridor Expansion involves approximately $120 million in capital expenditures and requires additional pumping capacity to achieve an incremental capacity increase of 75,000 bpd. The project is contingent on the expansion of the Athabasca Oil Sands Project, a joint venture between Shell Canada, Chevron Canada and Western Oil Sands. We believe it is too early to include this expansion for the time being.

The TMX project is an alternative to the Gateway pipeline proposed by Enbridge. The proposed TMX project is an expansion of Trans Mountain (heavy oil from Fort McMurray to the Vancouver region and Anacortes, Washington) and would be developed in three stages, eventually adding 640,000 bpd to capacity by twinning a new 30-inch pipeline next to the currently laid 24-inch pipeline.

The Gateway proposal consists of building a new pipeline, which would transport heavy crude from Fort McMurray to either Prince Rupert or Kitimat on the British Columbia Coast. The heavy crude would eventually reach markets in California and Asia.

Gateway advantage: deep- water ports

In our opinion, the main advantage of the Gateway project is the deep-water ports at Kitimat and Prince Rupert that are able to accommodate the large vessels needed to transport the crude overseas. This is offset by the challenge of obtaining environmental permits, particularly across the aboriginal claim lands in northern British Columbia.

TMX advantage: staged expansion, likely less expensive

We believe the main advantage of the TMX project is a staged expansion, which would debottleneck capacity of the existing Trans Mountain pipeline and would likely result in a more economic alternative to the Gateway project ($2.5 billion, 400,000 bpd). All rights of way on TMX are already defined and developed. The disadvantages of the TMX project is that part of the crude will be transported to the Westridge docks in Vancouver, a facility that would require eventual expansion; the facility currently accommodates 2-4 tankers per month and could accommodate 10-12 under current configuation. Once phase 3 is complete, however, an expansion will be needed. In addition, Terasen will require permission to construct in Jasper National Park for approximately one year.

We have only included the Trans Mountain and Express expansions in our financial model. The remaining projects are too speculative at this time; the producers will make their decisions based on economic (best netback and cost of capital) and marketing considerations (destination of pipeline and how it interconnects with other pipeline systems).

The Oil Sands Challenge

The prospect of oil sands expansion has considerable impact on Terasen

The prospect of oil sands expansion has considerable impact on Terasen. We have reproduced a primer on heavy oil, which is appended to this report.

Oil sands expansion programs are influenced by:

- An oil sands project is a capital-intensive proposition so it is highly leveraged to the price of oil in Canadian dollars (therefore exposed to foreign exchange rate, i.e. low Canadian dollar value and high price of oil are good for oil sands manufacturing);
- Constraints to oil sands growth are the shortage of condensate for diluent and pipeline capacity;
- The need for natural gas – producing a barrel of synthetic oil using SAGD technology requires up to 1.5 mcf per barrel of bitumen produced. In a high natural gas price environment as we are in now, oil sands projects using SAGD may not be economic; and
- Air quality issues – the Kyoto protocol or other initiatives to reduce greenhouse gases are a concern for oil sands manufacturers, which emit significant amounts

of airborne pollutants. About one tonne of carbon dioxide is produced for every tonne of synthetic crude oil.

Due to these factors, oil sands growth is not a virtual certainty as may be assumed by the market. There are significant challenges in proceeding with many proposed projects. While we believe Terasen is well positioned for potential growth from the oil sands, we have not yet captured this in our financial model.

We note the intense competition between Enbridge and Terasen

A positive of the oil sands story is the need for additional pipeline capacity. That said, we do note the intense level of competition between Terasen and Enbridge. We see a possible risk that Terasen and Enbridge may aggressively price proposals to shippers (whether it be tolls or terms). The risk is low, however, as this would be a regulated infrastructure. In addition, Terasen has indicated that they would only invest in projects that meet their return requirements.

Takeover Target?

we believe the likelihood of a takeover bid in the next twelve months is very low

Share ownership restrictions were introduced in 1988, when BC Hydro Gas Distribution was privatized, limiting foreign ownership to 20% and individual ownership to 10%. Those restrictions were lifted when the Hydro & Power Authority Privatization Act was repealed in November 2003. There has been some speculation this could put Terasen in play as a takeover candidate - we consider this unlikely. Terasen's current valuation makes it an unlikely target. We believe Enbridge is the only potential candidate that could make a bid for the Company. Although Enbridge and Terasen would be an excellent fit (growth via oil sands, gas distribution, international contracts), Enbridge is not currently in a financial position to make an acquisition of this size and furthermore, shippers may try to stop any possible deal that would limit competition and choice (unless of course the synergies benefited them). Although we would not rule it out completely, we believe the likelihood of a takeover bid in the next twelve months is very low.

Valuation

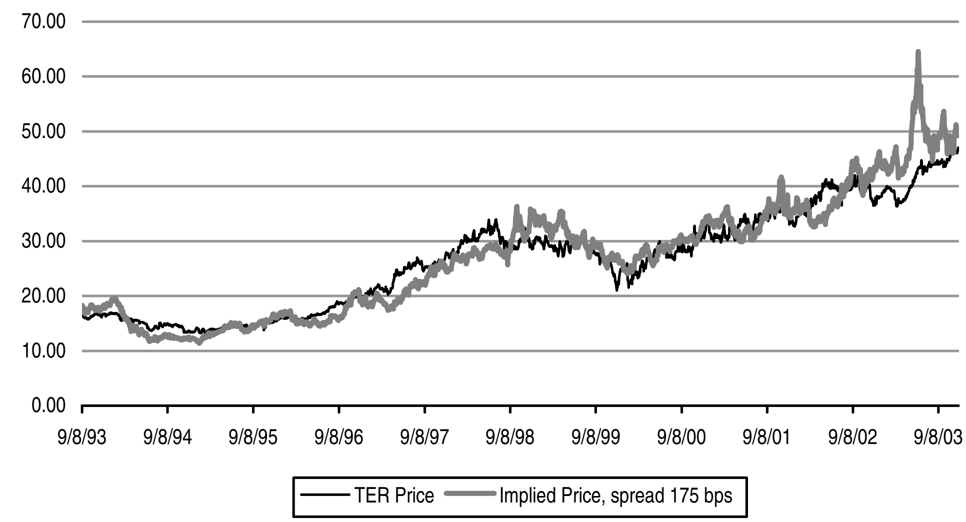
Canadian pipeline companies continue to be valued based on dividend yield

Canadian pipeline companies continue to be valued based on dividend yield.

We analyzed Terasen's implied stock price by applying a 175-basis-point discount to historical spreads between Terasen's dividend yield and the 10-year Government of Canada (GOC) bond yield. This is our best estimate of the spread where Terasen shares have historically traded relative to the 10-year bond yield. We note the average historical discount is equivalent to Enbridge's.

Terasen has historically traded at a 175 bps discount to GOC 10-year yields

Exhibit 3: 175 BPS Discount to Historical GOC/TER Dividend Spread – correlation 96%



Source: Company data, CSFB estimates

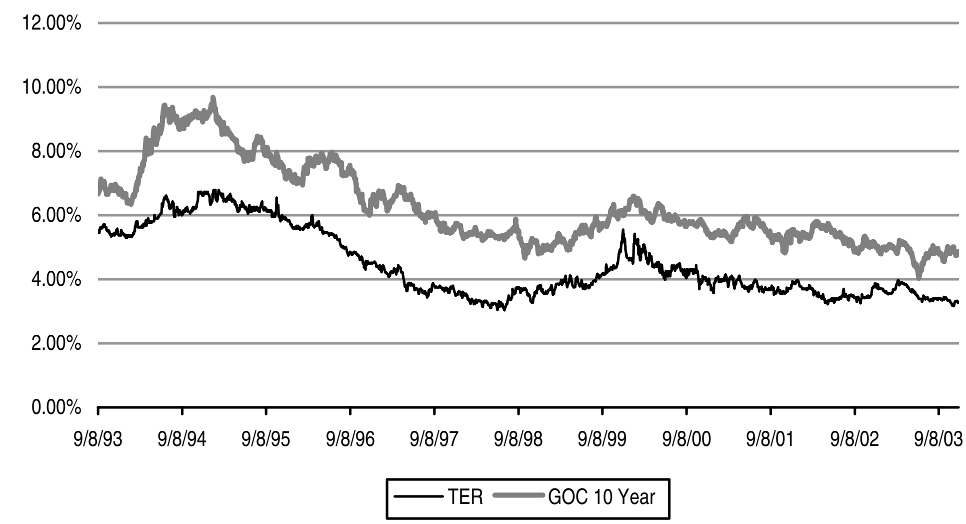
CSFB estimates the 10-year GOC bond yield will fall to 4.15% in the first quarter 2004 and rise to 5.00% by the second half of 2004.

As Exhibit 3 illustrates, the 175-basis-point discount between Terasen's dividend yield and the 10-year GOC bond yield was a good predictor of Terasen's share price performance.

Exhibit 4 outlines the relationship between Terasen's dividend yield and the 10-year GOC bond yield.

CSFB estimates the 10-year GOC bond yield will fall to 4.15% in the first quarter 2004 and rise to 5.00% by the second half of 2004. We have used 5.00% in our valuation.

Exhibit 4: **Terasen's Dividend Yield and the 10-year GOC Bond yield, last 10 years**



Source: Company data, CSFB estimates

We believe the substantial discount of Terasen's dividend yield to the 10-year GOC bond yield is warranted because the risk at Terasen is less than at Enbridge and TransCanada Corp. (TRP.TO, C$26.92, NEUTRAL, TP C$28.00, MW). Therefore, we think Terasen should trade at a premium to its peers.

We Believe Terasen Deserves a Premium to Peers

Exhibit 5: **Overview of Peers in the Sector**

	TRP	ENB	TER
Current Price 04E div discount to 10-year yield (5%)	69 bps	176 bps	131 bps
Target price 04E div discount to 10-year yield (5%)	86 bps	152 bps	160 bps
EPS growth (1999-2004E) [1]	6.8%	8.7%	5.9%
Dividend growth (1999-2004E) [1]	9.7%	7.7%	7.7%
Debt/cap (current)	61%	58%	68%

[1] *we used 2000 EPS and dividend for TRP, as 1999 was an unusual year for the company*

In our opinion, there are two main reasons Terasen deserves a premium and therefore a discount of 160 bps to GOC 10-year bond yields: lower risk and higher growth.

Terasen has a strong relationship with financial partners

Terasen has a strong relationship with financial partners. Terasen has strong relationships with both OTPP and OMERS. Terasen structured the Express System acquisition with both OTPP and OMERS as financial partners, thereby increasing the competitiveness of the bid (lower cost of capital for non-taxable pension funds) and decreasing the financial risk to Terasen (own one third of the project). Express is an excellent example of how Terasen can leverage its relationship with these financial partners. Through innovative financial structuring, we believe Terasen benefits financially (they receive an undisclosed management fee from their partners in return for operating the asset).

Regulatory environment is clear and provides earnings visibility

Regulatory environment is clear and provides earnings visibility. Terasen has negotiated settlements with the BCUC to 2007 for its gas distribution unit. The most imminent regulatory settlement is the Incentive Toll Settlement (ITS) for Trans Mountain in 2005 and TGVI's rate case with the BCUC.

Growth opportunities. Terasen has a number of low risk growth opportunities, including Trans Mountain expansion, Corridor Expansion, Bison and TMX.

Focused operations. Terasen operates in Western Canada, predominantly in British Columbia. It is focused on gas distribution and petroleum transmission in that area.

Exhibit 6: **Sensitivity Table – Target Price set at 160 bps, 5.0%**

	1.00%	1.25%	1.50%	1.60%	1.75%	2.00%
3.50%	68.00	75.56	85.00	89.47	97.14	113.33
3.75%	61.82	68.00	75.56	79.07	85.00	97.14
4.00%	56.67	61.82	68.00	70.83	75.56	85.00
4.25%	52.31	56.67	61.82	64.15	68.00	75.56
4.50%	48.57	52.31	56.67	58.62	61.82	68.00
4.75%	45.33	48.57	52.31	53.97	56.67	61.82
5.00%	42.50	45.33	48.57	**50.00**	52.31	56.67
5.25%	40.00	42.50	45.33	46.58	48.57	52.31
5.50%	37.78	40.00	42.50	43.59	45.33	48.57
5.75%	35.79	37.78	40.00	40.96	42.50	45.33
6.00%	34.00	35.79	37.78	38.64	40.00	42.50

Source: Company data, CSFB estimates

Main Risk is Leverage

The Company has a highly levered balance sheet with debt/capital at the 68% level

The Company has a highly levered balance sheet with debt/capital at the 68% level and the rating agencies have assigned lower credit ratings than its peers.

Exhibit 7: **Summary of Rating Agency Ratings**

	Moody's	S&P	DBRS
TransCanada	A2	A-	A
Enbridge	A3	A-	A
Terasen	A3	BBB	A (low)

Source: Company data, CSFB estimates

The Company has weak leverage metrics compared to its peers:

Exhibit 8: **Debt/EBITDA, Terasen Versus Its Peers**

	1999	2000	2001	2002	2003	2004E	2005E	2006E	2007E
Terasen	4.5x	5.9x	6.3x	5.9x	5.9x	5.8x	5.6x	5.4x	5.3x
Enbridge	5.6x	6.0x	6.8x	5.9x	4.8x	4.4x	4.0x	3.8x	3.5x
Trans Canada	6.1x	4.9x	4.3x	4.0x	3.9x	3.8x	3.6x	3.4x	3.1x

Source: Company data, CSFB estimates

We forecast Terasen will generate positive free cash flow in most years going forward. The notable exception is 2006 when a debt repayment of $789 million is scheduled. We believe the level of free cash flow generated mitigates the high leverage risk we have identified.

Exhibit 9: Free Cash Flow Analysis 1999A to 2008E

	1999	2000	2001	2002	2003	2004E	2005E	2006E	2007E	2008E
EBT	430	426	511	577	639	649	663	675	682	681
Depreciation	83	86	95	116	116	120	124	128	131	135
Less: Maintenance Capex	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
Less: Cash Tax	-46	-56	-46	-53	-73	-88	-93	-98	-100	-100
Less: dividends	-45	-51	-56	-67	-86	-95	-100	-104	-107	-107
Change in Working Capital	-50	108	-138	7	-122	0	0	0	0	0
Less: capex	-164	-621	-470	-396	-209	-186	-165	-150	-150	-140
Less: Acquisitions	0	0	0	-305	-213	0	0	0	0	0
Less: Debt Repayments	-135	-3	-74	-231	-300	-39	-253	-789	-102	0
Add: Disposals	26	0	48	24	0	0	0	0	0	0
Net Residual (Shortfall)	**50**	**-160**	**-180**	**-378**	**-298**	**312**	**126**	**-388**	**304**	**419**

Source: Company data, CSFB estimates

Other Risks

There is a risk that the bond yield rises, which would have a negative impact on our target price. We currently use a bond yield for our valuation of 5.0%.

Terasen competes closely with Enbridge particularly with regards to new pipelines from the oil sands region of Alberta. For example, Terasen's Bison proposal competes with Enbridge's Waupisoo proposal (Fort McMurray to Edmonton) and Terasen's TMX proposal competes with Enbridge's Gateway proposal (Fort McMurray to Asia and California by sea). Income trusts will also have competing proposals. We believe that even though the pipelines are regulated and are structured to generate a fair return to shareholders, there is a risk that Enbridge and Terasen may jeopardize long-term shareholder returns to win some of these proposed projects for strategic purposes.

Terasen has throughput risk on the Express and Trans Mountain systems.

Financial Summary

Exhibit 10: Summary Income statement 1999 to 2008E

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Natural Gas Distribution (net revenue)	403	427	489	596	602	598	601	604	606	608
Petroleum Products	133	133	143	136	179	204	219	231	239	240
Other	88	88	103	169	169	169	169	169	169	169
Total revenue	**623**	**647**	**735**	**900**	**950**	**970**	**988**	**1 003**	**1 014**	**1 016**
Opex	**231**	**252**	**283**	**382**	**382**	**382**	**382**	**382**	**382**	**382**
Natural Gas Distribution	114	125	136	179	179	179	179	179	179	179
Petroleum Products	50	46	47	44	44	44	44	44	44	44
Other	67	81	101	159	159	159	159	159	159	159
EBITDA	**392**	**395**	**451**	**518**	**581**	**595**	**613**	**628**	**639**	**641**
Depreciation and Amortization	**83**	**86**	**95**	**116**	**116**	**120**	**124**	**128**	**131**	**135**
Natural Gas Distribution	63	67	76	93	93	96	99	102	105	108
Petroleum Products	15	18	16	17	17	18	19	20	20	21
Other	5	1	3	6	6	6	6	6	6	6
EBIT	**308**	**309**	**356**	**403**	**465**	**475**	**489**	**501**	**507**	**507**
Natural Gas Distribution	193	202	277	324	330	323	323	322	322	321
Petroleum Products	48	50	80	75	118	142	156	168	175	175
Other	15	5	-1	4	4	4	4	4	4	4
Property and other tax	**53**	**52**	**61**	**66**	**66**	**66**	**66**	**66**	**66**	**66**
Natural Gas Distribution	34	33	42	47	47	47	47	47	47	47
Petroleum Products	19	19	19	19	19	19	19	19	19	19
Other	0	0	0	1	1	1	1	1	1	1
Interest and pref equity charges	**122**	**118**	**155**	**174**	**174**	**174**	**174**	**174**	**174**	**174**
Natural Gas Distribution	88	97	126	137	137	137	137	137	137	137
Petroleum Products	15	15	14	10	10	10	10	10	10	10
Other	19	6	15	21	21	21	21	21	21	21
Pretax Operating Income	**134**	**139**	**141**	**162**	**225**	**250**	**269**	**287**	**298**	**298**
Natural Gas Distribution	105	105	109	140	147	139	139	139	138	137
Petroleum Products	33	35	48	47	90	113	128	140	147	147
Express					6	16	20	27	31	31
Other	-4	-1	-16	-18	-18	-18	-18	-18	-18	-18
Income Taxes	**55**	**38**	**56**	**63**	**82**	**88**	**93**	**98**	**100**	**100**
Natural Gas Distribution	49	42	41	48	50	47	47	47	47	47
Petroleum Products	14	-1	21	18	34	43	48	52	55	55
Other	-7	-3	-6	-2	-2	-2	-2	-2	-2	-2
Net Income	**81**	**113**	**85**	**106**	**137**	**147**	**156**	**163**	**167**	**166**
Natural Gas Distribution	**52**	**59**	**68**	**92**	**97**	**92**	**92**	**92**	**91**	**91**
Petroleum Products	**20**	**36**	**27**	**29**	**56**	**71**	**80**	**87**	**92**	**92**
Other	**3**	**3**	**-11**	**-16**	**-16**	**-16**	**-16**	**-16**	**-16**	**-16**
Discontinued Ops / One Time items	7	16	0	0						
Net Income	**81**	**113**	**85**	**106**	**137**	**147**	**156**	**163**	**167**	**166**

Source: Company data, CSFB estimates

Exhibit 11: Summary Cash Flow Statement 1999 to 2008E

($millions, unless indicated)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cash Flow From Operating Activities	174	176	195	244	273	251	260	263	267	270
Change in Working Capital	-50	108	-138	7	-122	0	0	0	0	0
Cash Flow From Operations	124	179	60	318	159	251	260	263	267	270
Acquisitions	0	0	0	-305	-213	0	0	0	0	0
Additions to PP&E	-164	-621	-470	-396	-209	-186	-165	-150	-150	-140
Cash Flow From Investing	-142	-648	-455	-711	-408	-186	-165	-150	-150	-140
Increase (decrease) in short term notes	-22	-65	-82	135	84	0	0	0	0	0
Increase in long term debt	232	559	591	85	460	0	0	0	0	0
Reduction of long term debt	-135	-3	-74	-231	-300	-39	-253	-789	-102	0
Dividends, distributions on shares, capital securities	-45	-51	-56	-67	-86	-95	-100	-104	-107	-107
Cash Flow From Financing	30	486	375	396	164	-134	-353	-893	-209	-107
CFO per Share	$4.55	$4.61	$5.09	$5.65	$5.26	$4.84	$5.00	$5.08	$5.15	$5.20

Source: Company data, CSFB estimates

Exhibit 12: Summary Balance Sheet 1999 to 2008E

(C$millions, unless indicated)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cash and short term investments	6	22	2	5	35	35	35	35	35	35
Total Current Assets	271	631	504	483	592	592	592	592	592	592
Net PPE	2 185	2 728	3 080	3 779	3 884	3 950	3 991	4 013	4 032	4 037
Total Assets	2 481	3 513	3 706	4 522	4 932	5 014	5 075	5 124	5 174	5 211
Total Current Liabilities	712	1 094	858	879	1 000	1 069	1 328	2 107	2 200	2 176
Long-Term debt	1 002	1 562	1 928	2 123	2 334	2 295	2 042	1 253	1 151	1 151
Total Liabilities	1 855	2 703	2 866	3 157	3 503	3 533	3 539	3 530	3 519	3 496
Capital securities	0	125	125	125	125	125	125	125	125	125
Common shares	363	364	364	859	865	865	865	865	865	865
Contributed surplus	131	131	131	131	131	131	131	131	131	131
Shareholders' Equity	626	810	840	1 366	1 428	1 480	1 536	1 594	1 654	1 714
Total Liabilities and Equity	2 481	3 513	3 706	4 522	4 932	5 014	5 075	5 124	5 174	5 211
Net Debt	1 525	2 124	2 580	2 792	3 121	3 150	3 156	3 147	3 137	3 113
BVPS	$16.35	$21.14	$21.76	$31.32	$27.34	$28.33	$29.39	$30.51	$31.66	$32.81
Net Debt:Equity	2.4	2.6	3.1	2.0	2.2	2.1	2.1	2.0	1.9	1.8
Total cap	2 232	2 757	3 223	3 964	4 385	4 466	4 527	4 577	4 627	4 663
Total debt/total cap, per rating ag	71.0%	71.4%	74.5%	66.2%	68.0%	67.4%	66.6%	65.7%	64.8%	63.8%

Source: Company data, CSFB estimates

Appendix A: Oil Sands Primer

(The following is an excerpt from Peter Best's initiation on Suncor, August 21, 2003)

What Is Heavy Oil?

Heavy oil can be classified on primarily downhole viscosity. There are three broad groups:

Class A: Medium heavy oil at 25-18 degree API and mobile in the reservoir.

Class B: Extra heavy oil at 20-7 degree API and mobile in the reservoir.

Class C: Tar Sands/Bitumen at 12-7 degree API and not mobile in the reservoir.

Most heavy oils are found in the Americas with a B and C class resource concentration in Canada and Venezuela. The Venezuela projects have an operating and cost advantage in that the subsurface temperatures are higher, such that the production operations do not require a thermal addition at the reservoir level.

Bitumen is a thick, sticky form of crude oil. At room temperature, bitumen is like cold molasses. It must be heated or diluted before it will flow into a well or through a pipeline. A technical definition in the oil-producing industry is: “A naturally occurring viscous mixture of hydrocarbons, which contains sulphur compounds and will not flow to a well in its naturally occurring viscous state.”

Bitumen can be described as hydrogen-deficient oil

Bitumen can be described as hydrogen-deficient oil. To be used, bitumen needs to be upgraded by either removing most of the carbon, a process known as "coking," or adding hydrogen, a process known as "hydrogenation" or "hydrocracking."

This must be done because bitumen contains extremely large hydrocarbon molecules. In its natural state it cannot be refined into useful products such as diesel oil, gasoline or natural gas. To do this, the long chain molecules have to be split into smaller pieces by taking carbon out and adding hydrogen to the resulting synthetic oil.

How Is Heavy Oil Produced?

There are several approaches to the production of heavy oils.

The traditional mining approach is limited in scope. Only about 10% of tar sands are minable because of the thickness of overburden. The existing operations are efficient in that they have a high recovery factor, operations have seen declining unit costs as mining becomes more efficient, and the operations have a low greenhouse gas exposure.

Cold production has a very low recovery factor—close to 5%—and is not satisfactory in the long term in terms of wasted resources.

Moving beyond mining and cold production, there are a number of new approaches under development. Two that are at the research stage are the “in situ burn” and the “solvent” approach. Both are attractive, as they have a high recovery factor, require low energy inputs, and have a low greenhouse gas footprint. The in-situ burn approach has been difficult to implement in a consistent and safe fashion. The solvent approach is more promising, yet is only at the pilot stage.

SAGD significantly improves bitumen recovery rates and therefore lowers costs of production

The key nonmining approach to heavy oil production is steam assisted gravity drainage (SAGD), which involves drilling two horizontal wells, one above the other. The top well is used to introduce steam into the oil sands. As the bitumen thins and separates, gravity causes it to collect in the second parallel well where it can be pumped to the surface for further processing. SAGD significantly improves bitumen recovery rates and therefore lowers costs of production.

This technology is proven and has high recovery factors. However, it is a bit of a resource hog. It has high energy requirements for the steam generation and is a large greenhouse gas (GHG) emitter. The projects can emit as much as 15,000 tons per day for 100,000 bopd production.

The specific challenges for SAGD are:

- *Output requires deep upgrading*. What is the best way to do this cheaply and with low GHG emission and energy consumption?
- *Reducing the cost of steam*. At US$3 mcf contribution operating cost is close to US$ 3 per bbl.
- *Lowering CO_2 emissions*.

The expected operating costs for SAGD are in the US$7-17 range. The low end represents upstream only without upgrading. The cost of upgrading would add about US$6 per bbl. A fully green taxed barrel could cost as much as $17 with a $15 per ton CO_2 tax.

Two Types Of Product

The basic output from these projects (whether SAGD or mining) is a low API 8 to 10 degrees and high sulphur (2-4%) crude. Two things can be done with this product.

The first as followed by the conventional heavy oil producers (Cold Lake and Wolf Lake) is to dilute with condensate (25-50%). The netback for the bitumen can be quite low—e.g., blended product can trade at a $6.50 discount to WTI—Bow at Hardisty—taking out the condensate cost gives a $3 lower netback for the bitumen.

Emerging issues will be the shortage of condensate for diluent, lack of pipeline capacity/refining capacity to take the blended bitumen, and resulting widening spreads.

While upgrading adds value to the barrel, similar pricing issues can emerge. As the cost of upgrading facilities is high, so the synthetic crude oil (SCO) discount could widen over time as well.

Significant volume growth is expected for both raw bitumen as well as sweet and sour SCO. This volume growth will put pressure on export and refining facilities and will affect future spreads.

The high resource demands for natural gas, water, shut-in gas, and CO_2 could put pressure on the operating costs

The high resource demands for natural gas, water, shut-in gas, and CO_2 could help to put pressure on the operating cost side as well.

The potential for narrower and volatile margins could affect the pace of development of heavy oil production as operators take a more sanguine look at the likely returns.

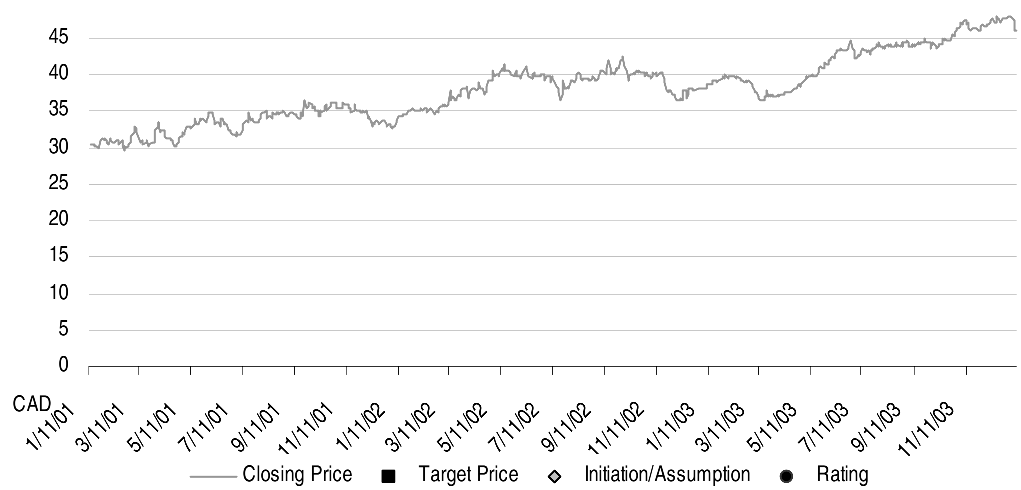
Companies Mentioned *(Price as of 09 Jan 04)*

Terasen Inc (TER.TO, C$46.10)
TransCanada Corp. (TRP.TO, C$26.92, NEUTRAL, TP C$28.00, MARKET WEIGHT)
Enbridge Inc. (ENB.TO, C$53.65, NEUTRAL, TP C$50.00, MARKET WEIGHT)
ConocoPhillips (COP, $65.43, NEUTRAL [V], TP $64.00, UNDERWEIGHT)
Suncor Energy (SU.TO, C$32.15, UNDERPERFORM, TP C$22.00, UNDERWEIGHT)
Petro-Canada (PCA.TO, C$65.75, NEUTRAL, TP C$55.00, UNDERWEIGHT)
Nexen Inc. (NXY.TO, C$48.43, OUTPERFORM, TP C$48.00, UNDERWEIGHT)

Disclosure Section

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.

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

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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).*

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Global Ratings Distribution

Outperform/Buy*	37%	(45% banking clients)
Neutral/Hold*	43%	(38% banking clients)
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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.*

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.

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CREDIT SUISSE FIRST BOSTON
Equity Research

Terasen Inc

TER.TO

Q4 Results - Still Best Growth

- **Positives in the quarter: (1) gas distribution was ahead of our estimates. We believe this will continue to be a positive as they benefit from performance based regulation in British Columbia; (2) volumes on TransMountain were 6% higher than we anticipated.**

- **Negatives in the quarter: (1) no hedge on foreign exchange for Express Pipeline cost the company $0.07 per share for the year; (2) goodwill writedown on Westport Innovation of $1.8 million (about $0.04 per share); (3) non-recurring item of $3.4 million for integration of two main gas distribution systems.**

- **Going forward: we continue to believe Terasen has the best growth prospects in the sector. We have adjusted our 2004 earnings forecast downward slightly to $2.79, and introduce our 2005 estimates of $2.96. Management provided guidance of 6% growth in EPS and said they were comfortable with "high $2.70s" for 2004. Terasen has put a foreign exchange hedge in place for Express, which should limit volatility going forward. We expect a decision from shippers on the Fort McMurray to Edmonton route by the end of 2004, which would provide excellent growth for Terasen as they have the Bison proposal before shippers.**

- **We continue to believe the risk of interest rate increases in Canada is low. We do not believe the Bank of Canada will raise interest rates ahead of the U.S.**

- **We believe the company will announce a dividend increase when they announce first quarter results. Our estimate is $1.67, which represents a 60% payout ratio on our 2004E EPS of $2.79.**

Terasen is a crude transmission and gas distribution company with high exposure to the oil sands projects.

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Rating	**OUTPERFORM***
Price (17 Feb 04)	**47.70 (C$)**
Target price (12 months)	**50.00 (C$)**
52 week high - low	**48.00 - 36.35**
Market cap. (C$m)	**2 484.09**
Enterprise value (C$m)	**5 544.89**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**18 February 2004**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***

Price / Indexed Canada TSE Composite 300

Daily Feb 18, 2003 - Feb 17, 2004, 2/18/03 = US$39.22

On 02/17/04 the Canada TSE Composite 300 index closed at 8 767.10

Year	12/03A	12/04E	12/05E
EPS (CSFB adj., C$)	**2.65**	**2.79**	**2.96**
Prev. EPS (C$)		**2.83**	
P/E (x)	**18.0**	**17.1**	**16.1**
P/E rel. (%)	**87.4**	**99.0**	**108.4**
Q1 EPS	**1.42**	**1.53**	**1.62**
Q2	**0.16**	**0.17**	**0.18**
Q3	**-0.15**	**-0.16**	**-0.17**
Q4	**1.19**	**1.22**	**1.30**

Number of shares (m)	**52.08**	IC (Current, C$m)	**4 303.00**
BV/Share (Current, C$)	**26.54**	EV/IC (x)	**1.3**
Net Debt (Current, C$m)	**3 060.8**	Dividend (Current, C$m)	**1.56**
Net debt/Total cap. (Current)	**68.8%**	Dividend yield	**3.3%**

Year	12/03A	12/04E	12/05E
Revenues (C$m)	**986.9**	**968.2**	**986.2**
EBITDA (C$m)	**569.7**	**593.1**	**611.1**
OCFPS (C$)	**5.63**	**4.83**	**4.99**
P/OCF (x)	**8.5**	**9.9**	**9.6**
EV/EBITDA (x)	**9.7**	**9.3**	**9.1**
ROIC	**—**	**10.8%**	**—**

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

Investment Summary

		1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Revenue		623	647	735	900	987	968	986	1 001	1 012
Net Revenue gas distribution		403	427	489	596	608	599	602	605	607
Revenue petroleum		133	133	143	136	200	204	219	231	239
Revenue Growth		NA	4%	13%	23%	10%	-2%	2%	2%	1%
Financials Information										
Total EBITDA	C$m	392	395	451	518	570	593	611	626	637
EBITDA margin	%	63%	61%	61%	58%	58%	61%	62%	63%	63%
Total EBIT	C$m	308	309	356	403	436	473	487	499	505
Operations										
Total employees, consolidated		1 869	1 966	1 782	2 051	NA	NA	NA	NA	NA
No. of customers	(000s)	755	763	768	851	NA	NA	NA	NA	NA
Customers/employee		404	388	431	415	NA	NA	NA	NA	NA
KM of natural gas pipelines	(000s)	36 581	37 197	37 430	43 196	43 196	43 196	43 196	43 196	43 196
KM of petroleum pipelines	(000s)	1 477	1 477	1 477	1 477	1 477	1 477	1 477	1 477	1 477
Rev/km (natural gas)		0.011	0.011	0.013	0.014	0.014	0.014	0.014	0.014	0.014
Rev/km (petroleum)		0.090	0.090	0.097	0.092	0.135	0.138	0.148	0.157	0.162
Leverage										
Total Short Term Debt		529	460	529	549	606	731	989	1 768	1 859
Total Long Term Debt		1 002	1 562	1 928	2 123	2 301	2 262	2 009	1 220	1 118
Capital Securities (prefs)		0	125	125	125	125	125	125	125	125
Net Debt (incl prefs)		1 525	2 124	2 580	2 792	3 030	3 059	3 064	3 054	3 043
Debt/Total Cap (S&P def)		71.0%	71.4%	74.5%	66.2%	67.0%	66.9%	66.1%	65.2%	64.3%
Net Debt/Total Cap (incl prefs)		70.9%	72.4%	75.4%	67.2%	67.9%	67.4%	66.6%	65.7%	64.8%
FFO Interest Coverage		0.4x	0.5x	0.3x	0.4x	0.7x	0.4x	0.5x	0.5x	0.5x
Net Debt (incl prefs)/EBITDA		3.9x	5.4x	5.7x	5.4x	5.3x	5.2x	5.0x	4.9x	4.8x
Financials										
Total EBIT	C$m	308	309	356	403	436	473	487	499	505
Reported EPS	C$/share	$2.12	$2.94	$2.21	$2.45	$2.62	$2.79	$2.96	$3.10	$3.17
EPS Growth	%		39%	-25%	11%	7%	6%	6%	5%	3%
Cash Flow from Ops	C$m	174	176	195	244	292	251	259	263	266
Total Capex	C$m	164	621	470	396	223	186	165	150	150
Operating CFPS	C$/share	$4.55	$4.61	$5.09	$5.65	$5.63	$4.83	$4.99	$5.07	$5.13
CF Growth	%		1.1%	10.5%	11.0%	-0.3%	-14.3%	3.4%	1.5%	1.3%
Valuation										
P/E	X	22.5	16.2	21.8	19.7	18.8	17.2	16.3	15.5	15.1
P/CF	X	10.5	10.4	9.4	8.4	8.5	9.9	9.6	9.4	9.2
P/BV	X	2.9	2.3	2.2	1.5	1.7	1.7	1.6	1.6	1.5
EV/EBITDA	X	14.7	14.6	12.7	11.1	10.1	9.7	9.4	9.2	9.0
DPS	C$/share	1.17	1.23	1.30	1.41	1.56	1.67	1.77	1.86	1.90
Dividend Growth	%	N/A	5.2%	6.1%	8.5%	10.6%	7.2%	6.0%	4.7%	2.6%
Payout Ratio	%	55%	42%	59%	58%	59%	60%	60%	60%	60%
Returns										
ROCE	%	5.3%	5.0%	3.6%	3.6%	4.0%	4.5%	4.7%	4.9%	5.0%
ROA	%	3.3%	3.2%	2.3%	2.3%	2.7%	2.9%	3.0%	3.1%	3.2%
ROE	%	13.0%	16.5%	11.8%	8.5%	10.2%	10.7%	10.9%	10.9%	10.8%
DuPont Analysis										
Net margin	%	13%	17%	12%	12%	13%	15%	16%	16%	16%
Total asset turnover	X	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Leverage (assets to equity)	X	4.0	5.1	5.2	3.6	3.8	3.7	3.6	3.5	3.4
ROE	%	13.0%	16.5%	11.8%	8.5%	10.2%	10.7%	10.9%	10.9%	10.8%

Source: Company data, CSFB estimates

Companies Mentioned *(Price as of 17 Feb 04)*
Terasen Inc (TER.TO, C$47.70, OUTPERFORM, TP C$50.00, MARKET WEIGHT)

Disclosure Section

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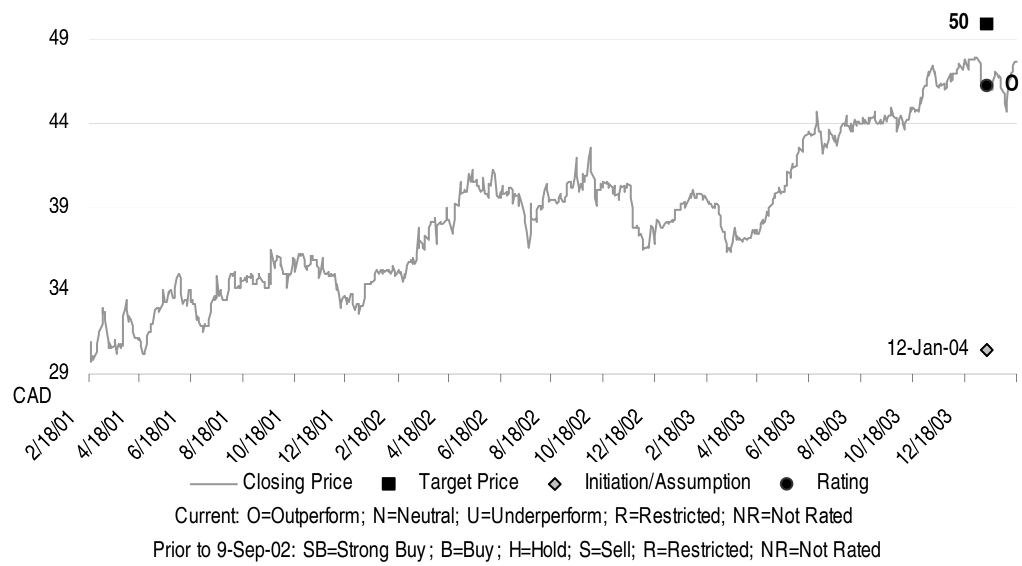
3-Year Price, Target Price and Rating Change History Chart for TER.TO



TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
12/01/2004	46.25	50	OUTPERFORM	X

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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, or in the case of CSFB HOLT Small and Mid-Cap Advisor stocks, the stock has been identified through various quantitative and qualitative factors as worthy of further analysis but no assessment of total return has been completed.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months, or in the case of CSFB HOLT Small and Mid-Cap Advisor stocks, the stock's total return is expected to underperform the remainder of the CSFB HOLT Small and Mid-Cap Advisor universe* over the next 12 months based on various quantitative and qualitative factors.

**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 the CSFB HOLT Small and Mid-Cap Advisor universe, where* *stock ratings are relative to all U.S. and Canadian companies in the CSFB HOLT database between $100mm and $5B in market capitalization that have daily liquidity of $1mm per day).*

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******CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

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Global Ratings Distribution

Outperform/Buy*	37%	(45% banking clients)
Neutral/Hold*	43%	(38% banking clients)
Underperform/Sell*	18%	(32% 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.*

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.

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COMPANY UPDATE

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Equity Research

Terasen Inc.

TER.TO

Q1: All The Right Moves

- **The Numbers:** Terasen reported EPS of $1.54, including a gain of $1.7 million from risk management activities. Therefore, CSFB EPS actual for Q1 was $1.51 after the gain. CFPS was $2.30 versus our estimate of $2.05.

- **Positives in the quarter:** (1) Terasen increased the annual dividend 7.7% from $1.56 to $1.68, representing a payout ratio of 60% on our 2004 estimate and a current dividend yield of 3.6%; (2) throughput volumes on TransMountain grew 19% in Canada and 87% in the US, higher than our expectation of 15% on a combined basis; (3) despite a decline in allowed ROE, gas distribution exceeded our expectation due to the integration of TGVI and Terasen Gas (thereby decreasing expenses); (4) the balance sheet improved, with net debt to cap declining from 68% to 66%.

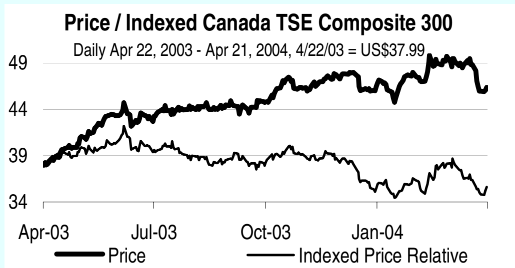
- **Questions about water utilities segment after the quarter:** Terasen is focusing on its water utilities business, as evidenced by a recent US$30 million acquisition of water and wastewater treatment and distribution services in Alaska and the re-segmentation of earnings to isolate the water utilities results. European utility RWE (RWEG.F, eu37.10, UNDERPERFORM, TP eu28.00, UW) has not been successful in its strategy to diversify water, gas and electricity – but we take a wait-and-see attitude to Terasen's approach, exposure and risk mitigation strategy.

- **Valuation and earnings impact:** as a result of better than expected numbers in gas distribution and pipelines, we are raising our estimates slightly, from $2.79 to $2.81 in 2004 and from $2.96 to $2.98 in 2005. We maintain our outperform rating and $50 price target.

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	OUTPERFORM*
Price (21 Apr 04)	46.40 (C$)
Target price (12 months)	50.00 (C$)
52 week high - low	49.85 - 37.74
Market cap. (C$m)	2 416.39
Enterprise value (C$m)	5 320.09
Region / Country	Americas / Canada
Sector	Pipelines
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	22 April 2004

** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*



On 04/21/04 the Canada TSE Composite 300 index closed at 8 573.05

Year	12/03A	12/04E	12/05E
EPS (CSFB adj., C$)	2.62	2.81	2.98
Prev. EPS (C$)		2.79	2.96
P/E (x)	17.7	16.5	15.5
P/E rel. (%)	86.9	99.9	108.2
Q1 EPS	1.42	1.51	1.61
Q2	0.16	0.18	0.18
Q3	-0.15	-0.16	-0.17
Q4	1.19	1.28	1.34

Number of shares (m)	52.08	IC (Current, C$m)	—
BV/Share (Current, C$)	28.42	EV/IC (x)	
Net Debt (Current, C$m)	2 903.7	Dividend (Current, C$m)	1.68
Net debt/Total cap. (Current)	66.0%	Dividend yield	3.6%

Year	12/03A	12/04E	12/05E
Revenues (C$m)	986.9	1 032.2	1 049.7
EBITDA (C$m)	569.7	620.1	637.6
OCFPS (C$)	5.63	5.43	5.47
P/OCF (x)	8.2	8.5	8.5
EV/EBITDA (x)	9.3	8.6	8.3
ROIC	—	10.8%	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

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Investment Summary

		1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Revenue		623	647	735	900	987	1 032	1 050	1 066	1 077
Net Revenue gas distribution		403	427	489	596	608	754	757	760	763
Revenue petroleum		133	133	143	136	200	183	198	211	220
Revenue Growth		NA	4%	13%	23%	10%	5%	2%	2%	1%
Financials Information										
Total EBITDA	C$m	392	395	451	518	570	620	638	654	665
EBITDA margin	%	63%	61%	61%	58%	58%	60%	61%	61%	62%
Total EBIT	C$m	308	309	356	403	436	477	489	501	508
Leverage										
Total Short Term Debt		529	460	529	549	606	641	873	1 626	1 690
Total Long Term Debt		1 002	1 562	1 928	2 123	2 301	2 249	1 995	1 207	1 104
Capital Securities (prefs)		0	125	125	125	125	125	125	125	125
Net Debt (incl prefs)		1 525	2 124	2 580	2 792	3 030	2 959	2 938	2 902	2 864
Debt/Total Cap (S&P def)		71.0%	71.4%	74.5%	66.2%	67.0%	65.9%	64.9%	63.8%	62.6%
Net Debt/Total Cap (incl prefs)		70.9%	72.4%	75.4%	67.2%	67.9%	66.4%	65.5%	64.3%	63.2%
FFO Interest Coverage		0.4x	0.5x	0.3x	0.4x	0.7x	0.6x	0.6x	0.7x	0.7x
Net Debt (incl prefs)/EBITDA		3.9x	5.4x	5.7x	5.4x	5.3x	4.8x	4.6x	4.4x	4.3x
Financials										
Total EBIT	C$m	308	309	356	403	436	477	489	501	508
CSFB EPS	C$/share	$2.12	$2.94	$2.21	$2.45	$2.62	$2.81	$2.98	$3.12	$3.20
EPS Growth	%		39%	-25%	11%	7%	7%	6%	5%	3%
Cash Flow from Ops	C$m	174	176	195	244	292	284	286	291	295
Total Capex	C$m	164	621	470	396	223	209	165	150	150
Operating CFPS	C$/share	$4.55	$4.61	$5.09	$5.65	$5.63	$5.43	$5.47	$5.56	$5.65
CF Growth	%		1.1%	10.5%	11.0%	-0.3%	-3.5%	0.6%	1.7%	1.5%
Valuation										
P/E	X	22.0	15.9	21.3	19.2	18.4	16.6	15.8	15.1	14.7
P/CF	X	10.2	10.1	9.2	8.3	8.3	8.6	8.5	8.4	8.2
P/BV	X	2.9	2.2	2.1	1.5	1.7	1.6	1.6	1.5	1.5
EV/EBITDA	X	14.5	14.4	12.6	11.0	10.0	9.2	8.9	8.7	8.6
DPS	C$/share	1.17	1.23	1.30	1.41	1.56	1.68	1.79	1.87	1.92
Dividend Growth	%	N/A	5.2%	6.1%	8.5%	10.6%	7.7%	6.6%	4.7%	2.6%
Payout Ratio	%	55%	42%	59%	58%	59%	60%	60%	60%	60%
Returns										
ROCE	%	5.3%	5.0%	3.6%	3.6%	4.0%	4.7%	4.9%	5.1%	5.2%
ROA	%	3.3%	3.2%	2.3%	2.3%	2.7%	3.0%	3.1%	3.2%	3.3%
ROE	%	13.0%	16.5%	11.8%	8.5%	10.2%	10.8%	11.0%	11.0%	10.8%
DuPont Analysis										
Net margin	%	13%	17%	12%	12%	13%	14%	15%	15%	16%
Total asset turnover	X	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Leverage (assets to equity)	X	4.0	5.1	5.2	3.6	3.8	3.6	3.5	3.4	3.3
ROE	%	13.0%	16.5%	11.8%	8.5%	10.2%	10.8%	11.0%	11.0%	10.8%

Source: Company data, CSFB estimates

Companies Mentioned *(Price as of 21 Apr 04)*

Terasen Inc (TER.TO, C$46.40, OUTPERFORM, TP C$50.00, MARKET WEIGHT)
RWE (RWEG.F, eu37.10, UNDERPERFORM, TP eu28.00, UNDERWEIGHT)

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.

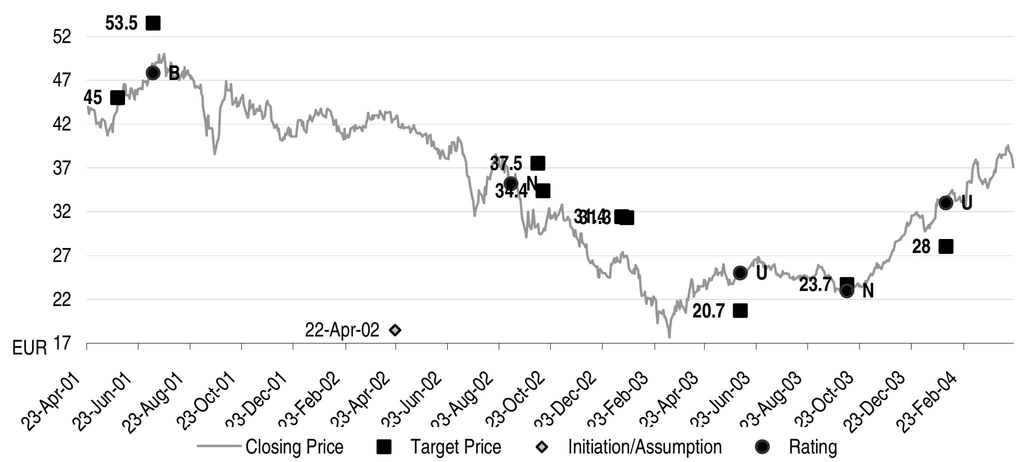
See the Companies Mentioned section for full company names.

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	46.25	50	OUTPERFORM	X

3-Year Price, Target Price and Rating Change History Chart for RWEG.F



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Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

RWEG.F Date	Closing Price (EUR)	Target Price (EUR)	Rating	Initiation/ Assumption
29-May-01	44.5	45		
10-Jul-01	47.8	53.5	BUY	
22-Apr-02				X
06-Sep-02	35.2		NEUTRAL	
08-Oct-02	30.6	37.5		
14-Oct-02	29.8	34.4		
15-Jan-03	27.2	31.4		
21-Jan-03	26.99	31.3		
04-Jun-03	25	20.7	UNDERPERFORM	
08-Oct-03	22.95	23.7	NEUTRAL	
02-Feb-04	33	28	UNDERPERFORM	

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Restricted	2%	

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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.

Price Target: (12 months) for (RWEG.F)

Method: Sum of the Parts using Discounted Cash Flow

Risks: Regulatory pressures, integration risk, commodity price risk

See the Companies Mentioned section for full company names.

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Equity Research Canada

PRE RESULTS COMMENT

Terasen Inc

TER.TO

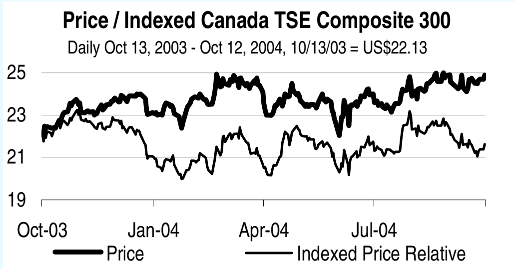
TER: Q3 Quick Preview

- **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

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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.*

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Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.
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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.

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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.

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Equity Research Canada

DOWNGRADE RATING

Terasen Inc.

TER.TO

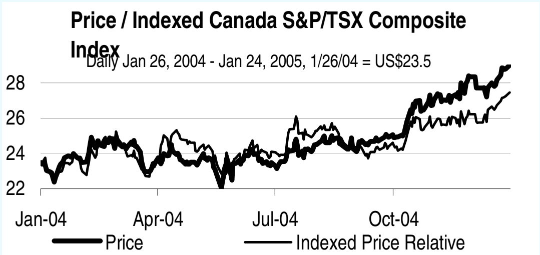
Downgrade Based on Valuation

- 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

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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

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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.

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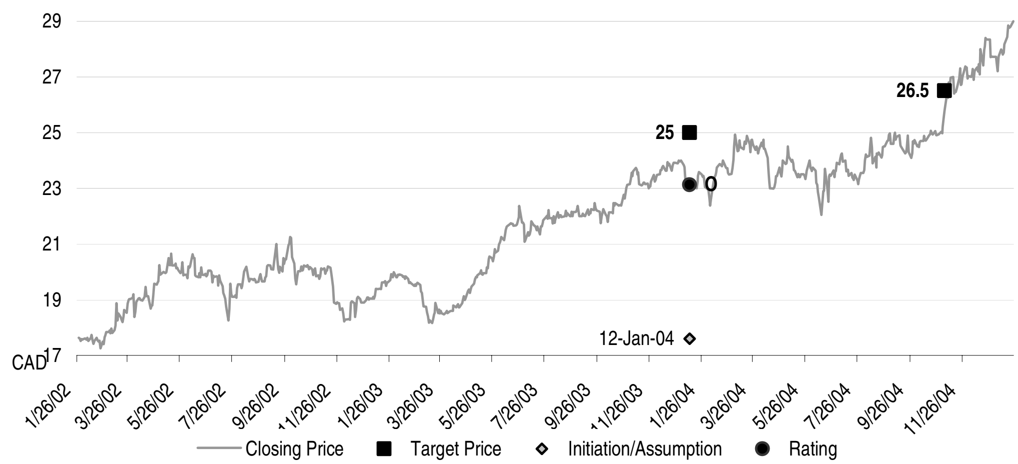
3-Year Price, Target Price and Rating Change History Chart for TER.TO



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		

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****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

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***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.*

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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.

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Equity Research Canada

EARNINGS

Terasen Inc

TER.TO

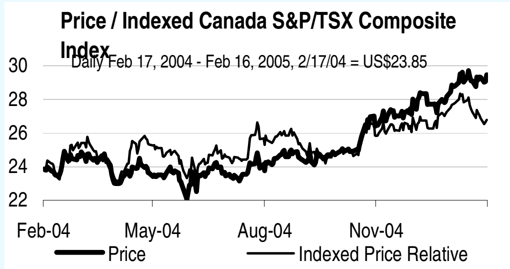
Q4/04 In Line

- **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

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Companies Mentioned *(Price as of 17 Feb 05)*

Terasen Inc (TER.TO, C$29.34, NEUTRAL, TP C$26.50, MARKET WEIGHT)

Disclosure Appendix

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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	

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***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.*

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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

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Neutral/Hold*	43%	(56% banking clients)
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Equity Research Canada

COMPANY UPDATE

Terasen Inc

TER.TO

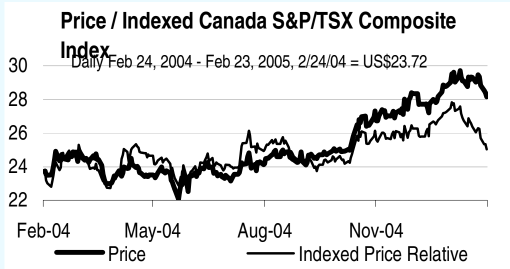
TER Update

- **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

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FLASH 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)

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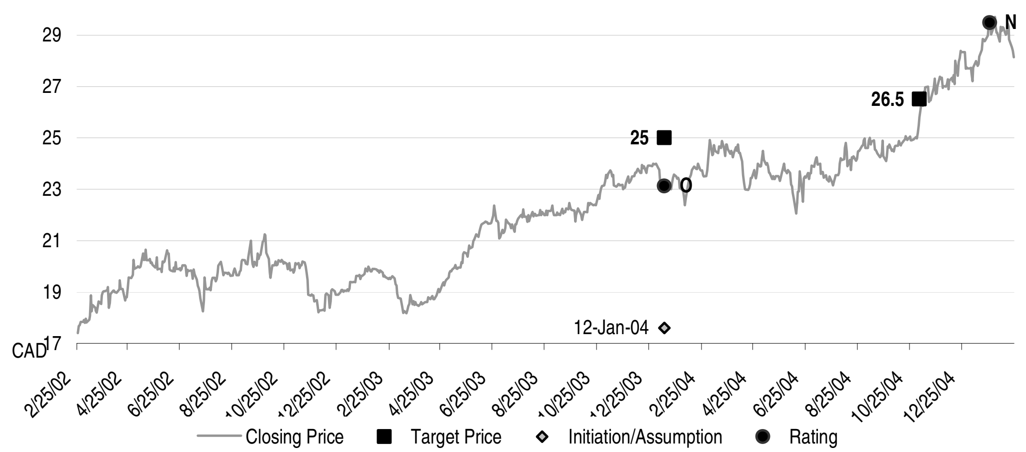
3-Year Price, Target Price and Rating Change History Chart for TER.TO



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	

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****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

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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%	

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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.

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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

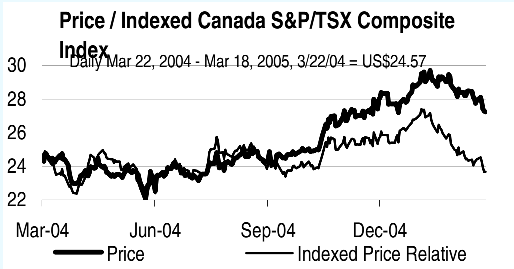
  Q4/04A EPS – from $0.58 to $0.52

- **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

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Companies Mentioned *(Price as of 18 Mar 05)*

Terasen Inc (TER.TO, C$27.24, NEUTRAL, TP C$26.50, MARKET WEIGHT)

Disclosure Appendix

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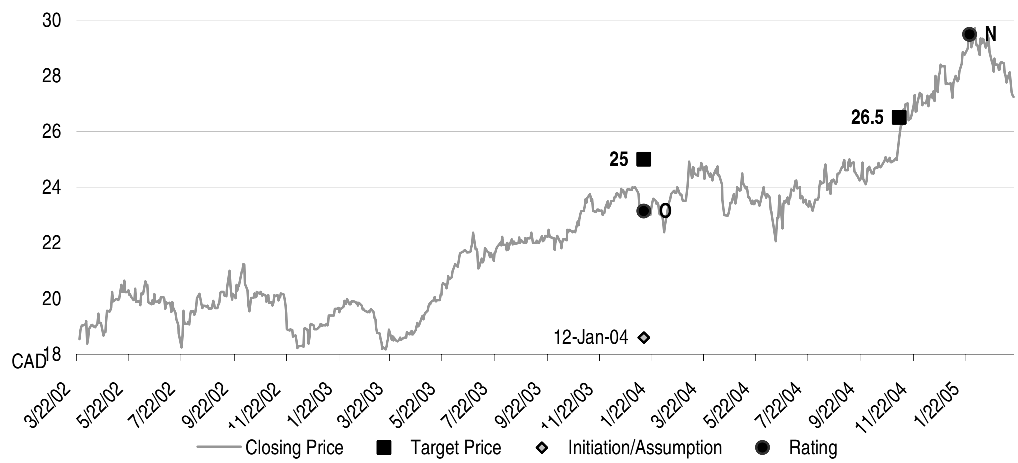
3-Year Price, Target Price and Rating Change History Chart for TER.TO



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	

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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.*

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Outperform/Buy*	37%	(57% banking clients)
Neutral/Hold*	44%	(56% banking clients)
Underperform/Sell*	16%	(43% banking clients)
Restricted	3%	

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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.

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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

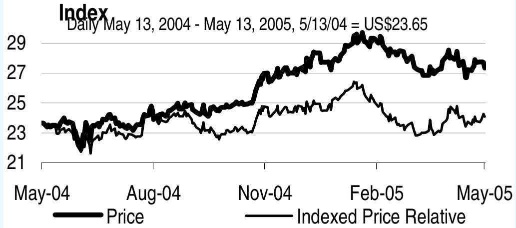
- **We continue to like Terasen's fundamental story from a growth perspective but find the stock expensive at these levels. We maintain our Neutral rating and $26.50 target price, which implies 16.7x 2006 P/E and 9.7x 2006 P/CF.**

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.***

Price / Indexed Canada S&P/TSX Composite Index



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

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Companies Mentioned *(Price as of 13 May 05)*

Terasen Inc (TER.TO, C$27.33, NEUTRAL, TP C$26.50, MARKET WEIGHT)

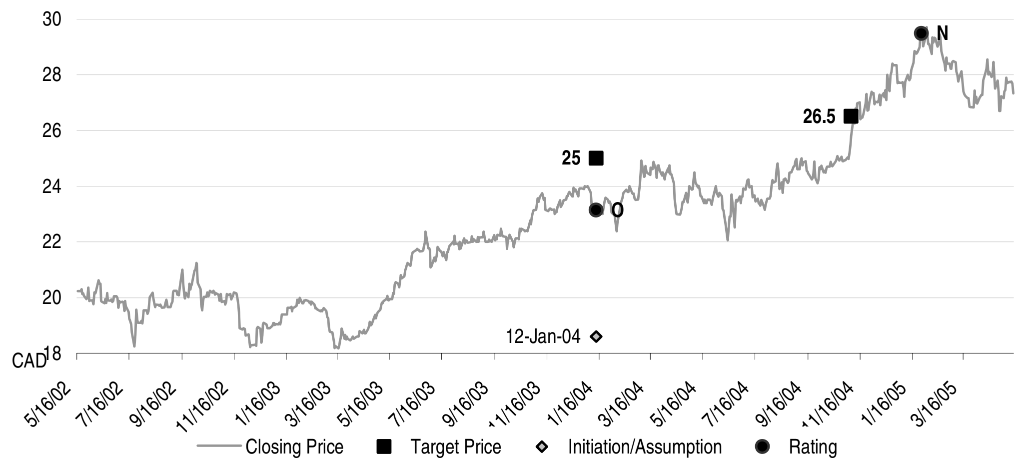
Disclosure Appendix

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	

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Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

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**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.*

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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.

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COMPANY UPDATE

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.

research team

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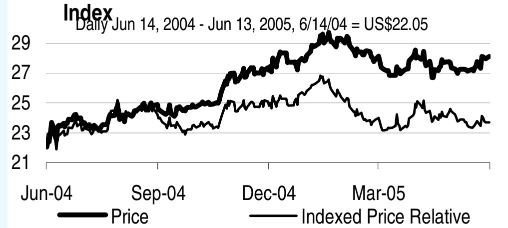
Rating	**NEUTRAL***
Price (13 Jun 05)	**28.11 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**29.71 - 22.05**
Market cap. (C$m)	**2,961.11**
Enterprise value (C$m)	**6,210.91**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and 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.***

Price / Indexed Canada S&P/TSX Composite Index



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

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

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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.

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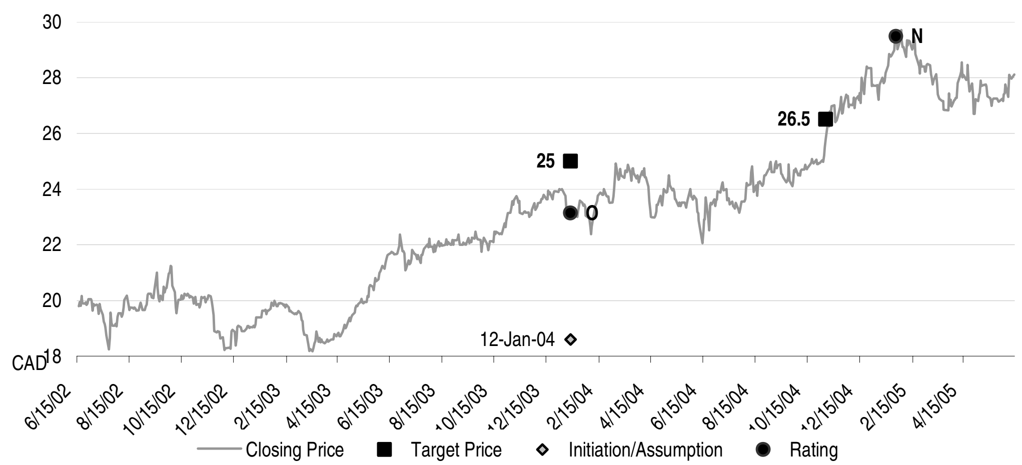
3-Year Price, Target Price and Rating Change History Chart for TER.TO



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
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1/26/05	29.48		NEUTRAL	

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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

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FORECAST INCREASE

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

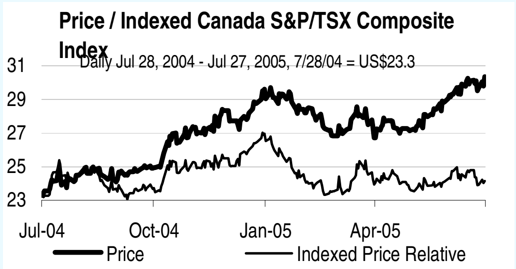
Clean Q, Opportunities for Growth Abound

- **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

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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.

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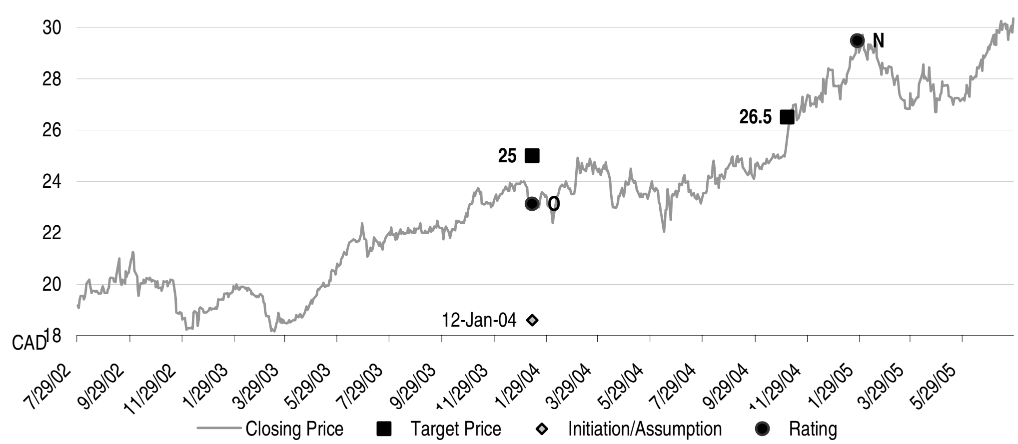
3-Year Price, Target Price and Rating Change History Chart for TER.TO



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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	

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Outperform/Buy*	39%	(54% banking clients)
Neutral/Hold*	43%	(54% banking clients)
Underperform/Sell*	15%	(46% banking clients)
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M&A PROPOSAL

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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

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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**

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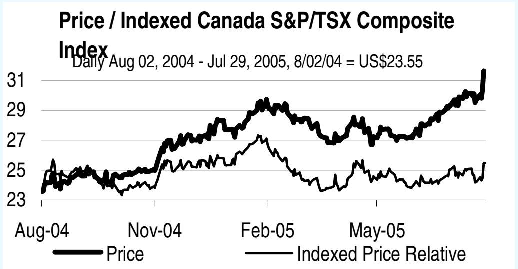


On 07/29/05 the Canada S&P/TSX Composite Index index closed at 10,422.93

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

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

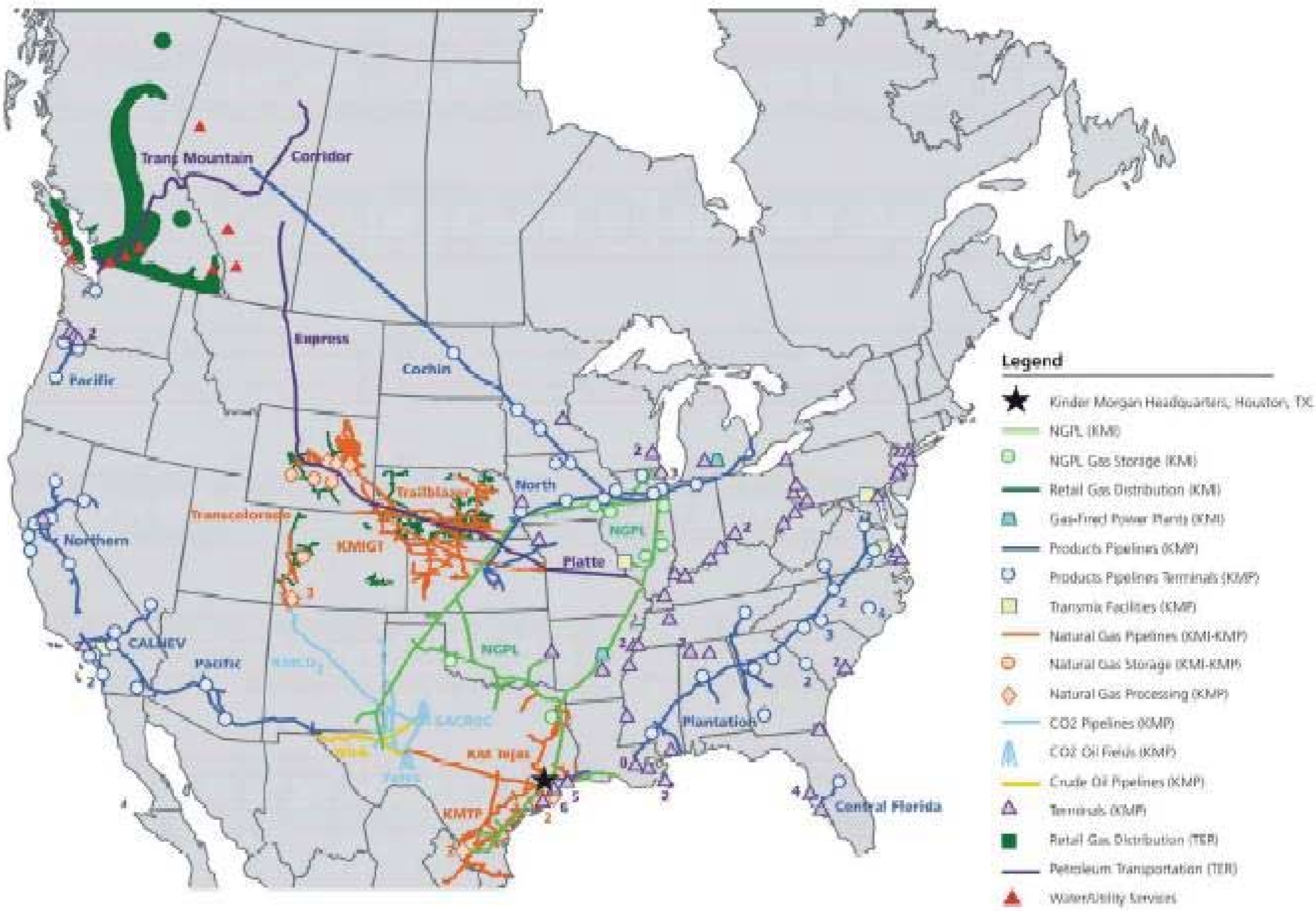
	Jurisdiction	Probability of issue or delay	Comment
Canada Competition Bureau	Canada	low	Regulated, will likely be deferred to regulators
US competition (Hart-Scott-Rodino)	US	medium	Terasen only has two pipelines in the US; but FTC is unpredictable
Investment Canada	Canada	low	No cultural issues; Duke 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

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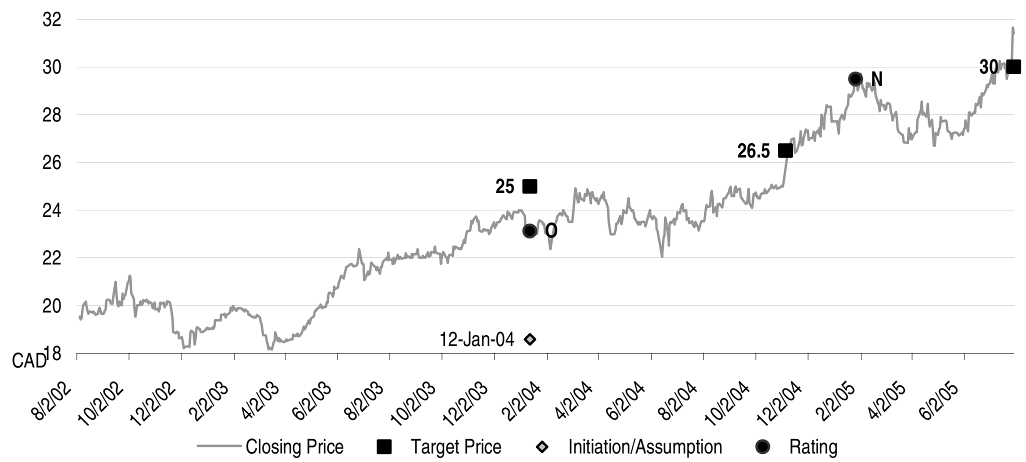

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Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

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		

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QUARTERLY

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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.

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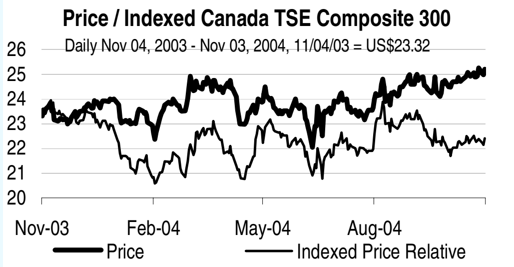
Rating	**OUTPERFORM***
Price (03 Nov 04)	**25.20 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**25.25 - 22.05**
Market cap. (C$m)	**2 641.19**
Enterprise value (C$m)	**5 693.89**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and 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)

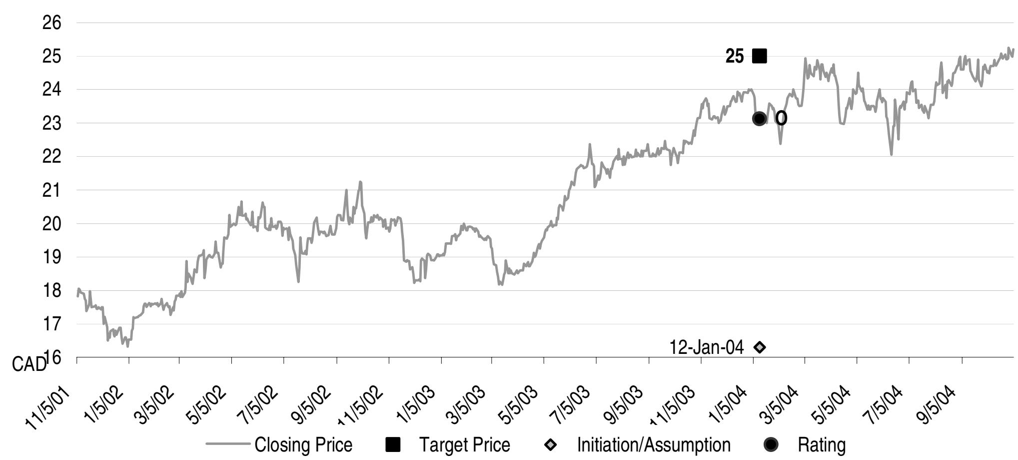
Disclosure Appendix

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



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

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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.*

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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.

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Global Ratings Distribution

Outperform/Buy*	39%	(57% banking clients)
Neutral/Hold*	43%	(56% banking clients)
Underperform/Sell*	17%	(48% banking clients)
Restricted	2%	

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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.

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18 February 2004

Andrew C. Fairbanks
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Terasen Inc.

2003 EPS Results: In Line With Expectations

NEUTRAL

Reason for Report: Earnings Commentary

Volatility Risk: LOW

Company

YTER; C$47.70; A-2-7

EPS (Dec): 2003A C$2.62; 2004E C$2.78; 2005E C$2.96
P/E (Dec): 2003A 18.2x; 2004E 17.2x; 2005E 16.1x

Event

TER reported 2003 clean operating earnings of C$2.62/share in line with our estimate of C$2.61/share. Reported earnings for 2003 were C$2.53/share.

Analysis

Natural gas transmission's after-tax operating earnings were C$98.8mm in 2003 compared to our estimate of C$97.0mm and C$92.4mm in 2002. In the fourth quarter, TER incurred a C$3.4mm restructuring charge associated with the integration of mainland and Vancouver Island operations. On a reported basis, the unit recorded earnings (after-tax) of C$95.4mm.

Petroleum transportation posted after-tax operating earnings of C$56.2mm compared to our estimate of C$54.0mm and C$29.3mm in 2002. Improved earnings were driven by strong throughput volumes on Trans Mountain, the acquisition of a one-third interest in the Express System in January 2003, and the commencement of commercial operations on the Corridor Pipeline in May 2003.

The other items segment posted an operating loss of C$17.1mm compared to our estimate of a loss of C$14.0mm. On a reported basis, the segment lost C$18.9mm which included a C$1.8mm after-tax write-down on its investment in Westport Innovations Ltd. in the fourth quarter.

The company noted that it would continue to focus on the Alberta oil sands and expand its petroleum transportation business with the Express, Trans Mountain, and the proposed Bison pipelines. In its natural gas distribution segment, TER plans to pursue opportunities to provide additional gas to Vancouver Island and to achieve operating efficiencies with the integration of its Vancouver Island and mainland operations.

The Board of Directors also declared a regular quarterly dividend of C$0.39/share payable on February 29, 2004.

Refer to important disclosures on page 2. Analyst Certification on page 2.

Recommendation

No change to our 2004 and 2005 EPS estimates of C$2.78 and C$2.96, respectively. No change to our Neutral (A-2-7) opinion. Nonetheless, we very much like the strategy, assets, and management of the company. While we like TER's current dividend yield of 3.3%, 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.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	70	49.30%	Buy	27	38.57%
Neutral	62	43.66%	Neutral	17	27.42%
Sell	10	7.04%	Sell	1	10.00%
Investment Rating Distribution: Global Group (as of 31 December 2003)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1050	42.53%	Buy	352	33.52%
Neutral	1236	50.06%	Neutral	309	25.00%
Sell	183	7.41%	Sell	31	16.94%

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23 April 2004

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Terasen Inc.

Raises Dividend 7.7%; 1Q04 Results

NEUTRAL

Reason for Report: Earnings Commentary

Volatility Risk: LOW

Company

YTER; C$46.93; A-2-7

EPS (Dec): 2003A C$2.62; 2004E C$2.78; 2005E C$2.96
P/E (Dec): 2003A 17.9x; 2004E 16.9x; 2005E 15.8x

GAAP EPS (Dec): 2003A C$2.53; 2004E C$2.78, 2005E C$2.96
GAAP P/E (Dec): 2003A 18.5x; 2004E 16.9x; 2005E 15.8x

Event

TER reported earnings of C$73.4mm or C$1.53/share. TER declared an increase in its quarterly dividend to C$0.42/share from C$0.39. The dividend is payable May 31st. TER's Board of Directors also approved a two for 1 stock split.

Management indicated on its conference call that the company remains on track to meet its yearly financial goals and is comfortable with 2004 EPS estimates in the "high C$2.70s."

Analysis

Petroleum Transportation earned C$18.3mm up from C$11.6mm in 1Q03. Strong throughput on the Trans Mountain pipeline and the contribution from the Corridor Pipeline contributed to the strong results. In 1Q04, total throughput on the Trans Mountain Canadian mainline increased by 19% and by 87% on the US mainline compared to 1Q03. The Corridor pipeline, which went into service in May 2003, contributed C$3.9mm to earnings in 1Q04.

Natural Gas Distribution earned C$67.4mm compared to C$67.1mm in 1Q03. Operating efficiencies from the integration of the mainland and Vancouver Island operations offset the impact of the lower allowed return on equity and implementation of a 50/50 over-earnings share mechanism for Terasen Gas.

Water and Utility Services results were breakeven in 1Q04. TER previously included this segment in Other Activities but has broken it out due to the unit's increasing significance to the overall business. Recently, TER announced that it entered an agreement to acquire a 50% interest in Fairbanks Sewer and Water Inc (FSW – no relation to the analyst). FSW provides water and wastewater treatment and water services to Fairbanks, Alaska. The cost of the 50% interest is about US$30mm, and TER has the option to acquire the remaining 50% at fair market value in 2009. The transaction is subject to regulatory approvals and is expected to close in the summer of 2004. In its conference call, management says that Fairbanks is the type of transaction that it would like to do with other municipalities. We see it as a positive undertaking, and not just because we like the name.

Other Activities posted a lost of C$5.1mm. An increase in interest expense and income tax was partially offset by a gain of C$1.7mm related to mark-to market accounting of Clean Energy's outstanding natural gas positions. The company said that its does not expect this hedging to be an issue in the forward quarters. TER has a 44.2% interest in Clean Energy.

Refer to important disclosures on page 3. Analyst Certification on page 2.

Recommendation

No change to our 2004 and 2005 EPS estimates of C$2.78 and C$2.96, respectively. No change to our Neutral (A-2-7) opinion. Nonetheless, we very much like the strategy, assets, and management of the company. While we like TER's current dividend yield of 3.5%, 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.

Refer to important disclosures on page 3.

Important Disclosures

Investment Rating Distribution: Energy Group (as of 31 March 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	67	47.18%	Buy	23	34.33%
Neutral	67	47.18%	Neutral	20	29.85%
Sell	8	5.63%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 31 March 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1085	44.03%	Buy	362	33.36%
Neutral	1215	49.31%	Neutral	306	25.19%
Sell	164	6.66%	Sell	28	17.07%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: 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: Terasen Inc.

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This research report is prepared for general circulation and is circulated for general information only. It does not have regard to 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 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, if any, may fluctuate and that each security's price or value 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.

Merrill Lynch

Comment

Canada
Natural Gas-Pipelines

28 July 2005

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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℠ 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*℠ – 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*℠ – 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℠

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℠

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.

iQmethod℠ 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.

Refer to important disclosures on pages 5 to 6.

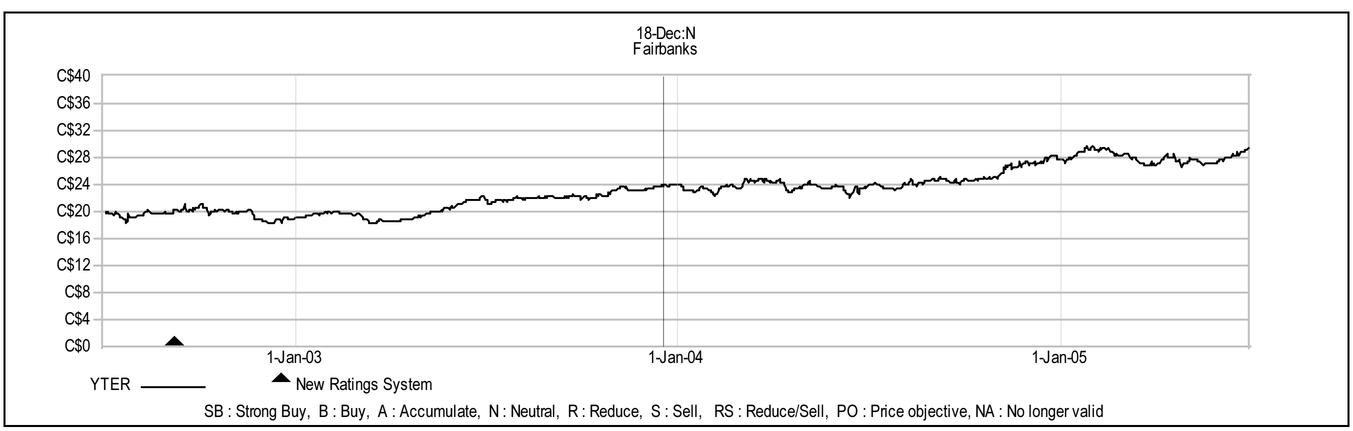
Chart 1: Terasen Summary Earnings Model

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.

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Other Important Disclosures

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1 August 2005

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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.

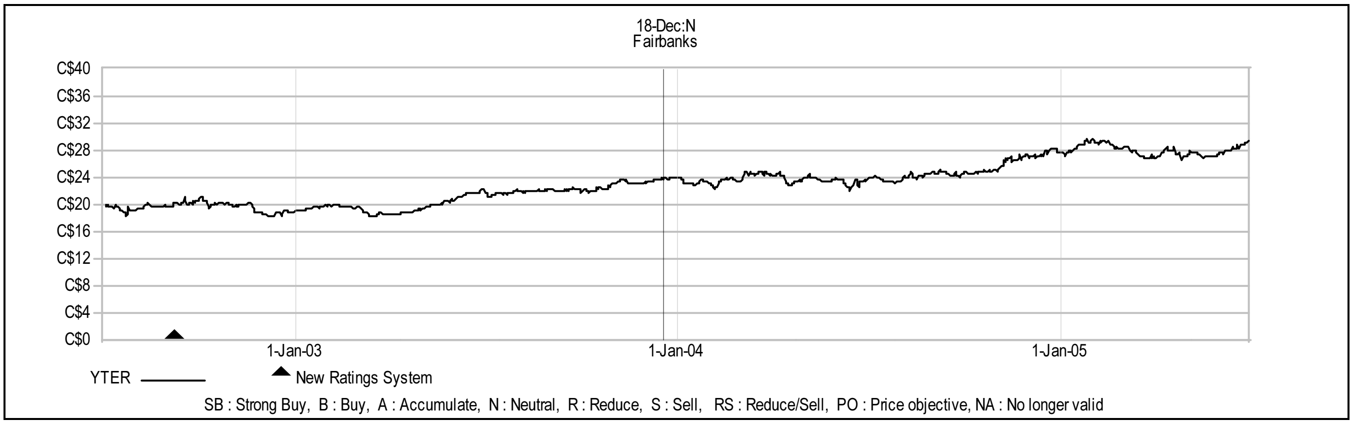
Refer to important disclosures on pages 3 to 4. Analyst Certification on page 2.

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.

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NATIONAL BANK FINANCIAL

Daily Bulletin **January 25, 2004 PM**

TERASEN INC. – TER (TSX) $47.17

More Grist on the Speculation Mill…

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STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)
TARGET: $47.00 (Unchanged)

Industry Rating (Gas Utilities): Market Weight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	02A	03E	04E
EPS	$2.45	$2.67	$2.87

Valuation	03E	04E
P/E	17.7	16.4

Basic Information: 52-Week Range	12-Month Target	Shs O/S (mln)	Mkt. Val. ($mln)
$36.35-$48.00	$47.00	51.9	$2,448

Note: All numbers in Cdn$.

…Le Dernier Cri: Terasen Gas' Potential Conversion Into An Income Trust

Asse ssment

We have read a report on an interview, according to which Terasen Gas may be converted into an income trust to help finance TER's pipeline growth. At this, time, we are not ready to view this as a fait accompli. We also believe that TER's common share prices are expensive.

Event – Interviews With John Reid, TER's CEO And With TER's Newly-Appointed Treasurer

On Jan. 19, 2004, a news service stated that "…Canada's No. 2 oil pipeline company, may sell rights to some of the cash flow at its natural-gas distribution unit as an income trust to raise funds for investments in faster-growing businesses." The service went on to report on an interview with John Reid, TER's CEO, quoting: "We have a general sense of the do ability [sic] if the need arises…" Not to be left in the cold, one of the reporter's confreres jumped into the ring a day later, and provided some variations on the theme.

The reporter went on to say: "Reid is betting on pipeline expansions that would boost deliveries of crude oil to U.S. refiners from Alberta's oil sands. Selling part of the utility unit, Terasen Gas, by converting it into an income trust would generate cash for pipelines or the parent company's other investments." Source: Bloomberg.

OUR View On Petroleum-Pipeline Growth – *a reality check is in order*

It is tempting to become infatuated with the lure of Canada's tar sands that are being characterized as a pipeliners' nirvana, relegating the Klondike and California rushes to trivia status, and to suggest there is ample opportunity for pipeline construction. Yes, there is room, we believe, but not for everyone eager to pursue pipeline construction. It might be tempting to compare one's imaginary lead position and strengths with perceived handicaps and other deficiencies of alternate pipelines sniffing around in the same carrot patch. And, of course, it is healthy to remind, periodically, one's "principals" (Canadian Association of Petroleum Producers (CAPP)) of one's interest, but it is, at least, equally healthy not to let one's ambitions become airborne lest one suffer the fate of Daedalus and Icarus, and get more than one's wingtips and tail feathers singed.

We believe that the dictum that **"northern infrastructure projects cost more and take longer to complete than anyone could imagine"** applies equally to pipeline projects, as witnessed time and again by those that arrived on the scene, but vanished (e.g. Alaska Highway Gas Transportation System, Dome Petroleum's gas-pipeline project to Prince Rupert, the Cartier gas-pipeline project to Quebec, etc.).

Reality checks, preferably frequent ones, are a healthy reminder that expanding brownfield and building greenfield petroleum and gas pipelines is not a cakewalk. We view it as entirely healthy and sobering to acknowledge that pipelines are client servers rather than principals. It is easy to let one's drive to grow get ahead of the "principals." Their strategies and agendas, and they alone, determine what gets built, when and how.

Pipelines are capital-intensive and time-consuming beasts to create. Once built, they present a fixed-cost legacy. In the "good old days" of rate-base/rate-of-return regulation with ship-or-pay contracts, fixed costs seemed akin to a pipeline panacea that helped to plant earnings milestones. In those days, regulated companies were the only ones capable of generating incremental earnings from redecorating their back offices (by placing the cost into the rate base). Nowadays, fixed costs can easily turn into a millstone.

Obstacles to pipeline construction and operation are lurking everywhere in the underbrush. They range from vociferous sufferers from the "not in my backyard"- (NIMBY) syndrome (especially in areas with intensive population growth, compared with wide-open spaces at the time, when a pipeline was first built), to self-appointed guardians of the Yoho, Banff and other National Parks, to competing pipelines, to say nothing about the "principals."

Moreover, the watchdogs of corporate credit have become hyperactive, weighing in with their perennial concerns.

Is Terasen Betting On Pipeline Expansion, and Is There, Hence, an Urgency for Converting Terasen Gas into One of the TSX's "Capped Income Trusts?"

TER's CEO has never struck us as a betting man; hence, we discount part of the quote above. **We would think that potential conversion of Terasen Gas into a Capped Income Trust (CIT) is, at this stage a constructive hypothesis that may never see the light of day.** It is, of course, smart, when weighing into the pipeline ring to have firepower, if, as and when push comes to shove, and prompt action is required to succeed. We do not doubt that TER will have done its homework, having studied funding alternatives, and stand ready, if called upon to build. This, we suggest, is not about to happen over night (for reasons mentioned above).

For now, TER is all eyes on Pacific Northern Gas (TSX-PNG).

PNG as Trial Balloon or Guinea Pig – *the present and future regulatory treatment of CIT is as clear as an Australian billabong?*

On Jan. 16, 2004, a prehearing conference and workshop took place in preparation for Pacific Northern Gas' (TSX-PNG) plan to convert itself into a TSX-type CIT. A requisite application is scheduled for filing with the British Columbia Utilities Commission (BCUC), on Jan. 23, 2004.

We believe that TER will likely participate as an intervener, partly in anticipation of the precedent the BCUC's decision may set for a potential similar application to the BCUC of others, including Terasen Gas, and partly to take home clues on suitable regulatory conduct. In other words, PNG will serve as an involuntary guinea pig or trial balloon that may help or hinder similar plans of others. Conversion of PNG into a "CIT" would be a first for British Columbia. And as a "first," regulators seem to be taking pleasure in turning-over every conceivable rock lest something remain hidden from the investigative eye.

The only precedent we are aware of for the conversion of a publicly traded corporation into a CIT is the "old" Gaz Metropolitain Inc. into Gaz Metropolitain and Company, Limited Partnership (now Gaz Metro) in 1993.

What Might Be Some of the potentially upsetting Hurdles to a Conversion of a Regulated Corporation into a CIT?

First and foremost, one of the main concerns is that **regulators, unlike courts of law, are not bound by precedent, not even their own.** In other words, a regulatory tribunal, such as the BCUC, may approve PNG's conversion into a CIT, but not Terasen Gas's, e.v.v. Or it may approve conversion of both entities, but revoke it subsequently. Obviously, regulators cannot act capriciously or arbitrarily, but, as long as they abide by the rules of natural justice, they are safe. After all, pleading "changed circumstances and conditions" or discovery of something that does not pass the "smell test" are usually safe avenues for a retreat.

Next, having approved a conversion, one of the most crucial aspects, is the issue of income taxes, as AltaLink found-out painfully last year in Alberta. Except for special conditions, a CIT is not liable for income taxes. This has huge implications for the regulated revenue requirement of an entity such as PNG or Terasen Gas? If a regulator finds that **only some or none of the unit holders are subject to income taxes, an allowance for income taxes in the (regulated) revenue requirement may be restricted only to those liable for income taxes and denied to all others.** This would have negative implications for cash flows and, hence, distributions.

Another problem is that a **regulator may initially allow the collection of income taxes on behalf of all unit holders; however, under certain terms and conditions, the ability to collect revenues for income taxes payable by all unit holders may be subsequently restricted to certain types of unit holders.**

In the early 1990s, the unit holders in the now Enbridge Energy Partners MLP learned to their chagrin (and so did the MLP) that, as of a date certain, it was no longer authorized to collect in its revenue requirement (cost of service) income taxes on behalf of all of its unit holders. Instead, the Federal Energy Regulatory Commission restricted that ability to corporate unit holders only. This reduced distributions to taxable individual unit holders and spoiled for many years the attractiveness of the entity's units to them.

One of the worst-case scenarios would be for a regulator to deny the inclusion of a provision for income taxes by a CIT altogether.

Traditionally, regulators have been paying scant, if any, attention to the use of a regulated entity's cash flow. In looking at CIT, they may or may not change their minds. If, hypothetically speaking, diversion of cash into a non-regulated activity may affect the interests of utility customers, regulators might conclude that the use of utility cash might be worthy of scrutiny.

Another problem is utility capitalization of CIT versus (share-based) corporations. The quest for more common equity in regulated capitalizations is widespread, if not virtually universal. It has become a hallmark of regulatory rate/tolls proceedings to decry the inadequacy of the levels of common equity in existing capitalizations and plead for more common equity.

The general tolerance of CIT to higher debt ratios, compared with share-based corporations, might be viewed as evidence of a reduced need for common equity. Should regulators adopt this view, the revenue requirement and, hence, cash flows of utilities, under CIT-status, would be lower than under the taxable corporate status.

There may well be other snags and traps waiting for would-be regulated CIT.

Governments have yet to "weigh-in" on the treatment of CIT and their unit holders in respect of income taxes. Silence to date on the temporary, if not permanent, loss of tax revenues, is almost deafening. This represents a substantial uncertainty, with potentially negative implications with respect to income and capital taxes; cash flow, and distributions for both CIT and their unity holders.

Of course, petroleum and gas pipelines also have their **"principals"** as stakeholders, to contend with. They are known for their activist roles in regulatory proceedings and for their vigilance and ability to ferret-out opportunities for reducing revenue requirements of pipelines, because, under netback conditions (typical for petroleum and gas pipelines now), **every cent collected by pipelines through their tolls for income taxes and other components of a pipeline's revenue requirement/ cost of service reduces producer netbacks e.v.v.**

TER's Prevailing Common-Share Prices Appear Expensive – *in the words of Winston Churchill, they appear to be a riddle inside an enigma, wrapped in a mystery*

We use formula-based target prices. They are in our formula the sum of support plus residual prices. Specifically, the support price is based on a tax-effect long-term corporate bond yield (LTCBY), and the residual price is the product of retained EPS multiplied by the sustainable rate of growth in retained EPS, translated into an earnings multiple. This is designed to avoid the calculation of target prices, based on criteria other than fundamentals, and to ferret-out prevailing markets prices that are not based on fundamentals.

Yes, we are well aware of the assertion of the "Deities of Security Analysis," stated as early as 1934, that equity markets are voting instead of weighing machines, and that investors habitually "shoot first" before asking questions. They even seem to have denied the ability to quantify share prices and share-price targets. We are not in the least perturbed to appear as infidel. We rather side with Irving Fisher, who said that "what one cannot measure, one does not know." Our formula for establishing target prices for TER's and, for that matter, Caribbean Utilities' (TSX-CUP.U) common shares, provides very modest upside above prevailing prices. Hence, we are inclined to conclude that forces other than fundamentals are at work.

Our current tax-effected LTCBY is 5.6% (7.00% nominally). Hence, every dividend/distribution-paying entity ought to generate a bond-equivalent dividend/distribution yield. This yield reflects the **support price**.

Here is the issue. TER's repeatedly stated annual EPS-growth target is 5-6%.

For calculating the **residual price**, we have inserted into our formula TER's target range from 2004, through 2009. We have assumed in **Case 1 (5% annual EPS growth)** annual average increases in TER's existing DPS of $1.56 by $0.08 per year to 2009.

For the **second case**, we have assumed **annual EPS growth at 6%,** and DPS increases of $0.08 for 2005 and 2006 and $0.12 thereafter.

The rates of DPS increases are maintaining generally a payout of about 55%.

Based on our tax-effected long-term corporate bond yield, the support prices are for **Case 1** $32.14, and the residual price $11.29, for a **target price, one year out, of $43.43**.

For Case 2, the support price is also $32.14, but the residual price is $9.19, for a **target price, one year out, of $41.33.**

In comparison, TER's common shares closed on Jan. 19, 2003 at $46.09.

We have deducted therefrom a support price of $32.14 to obtain a residual price one year out; hence, **the market seems to be implying a growth rate in REPS of 10.6x.**

By placing the stated inputs into our formula, it is mathematically impossible for retained EPS to grow at 10.6% p.a. for 2004-2009, when the implied average annual growth rates in REPS average 7.92% for Case 1 and 6.45% for Case 2, based on TER's stated EPS growth of 5-6% p.a. and dividend payout of about 55%.

Share Prices Of TER and Caribbean Utilities (TSX-CUP.U) Remind Us Directionally of the Shares Prices of Wippersnapper Exploration Company – *its reserves-life is seven years, but its shares are trading at 11x next year's EPS*

We suggest that our share-price formula is not only useful for basing target prices on fundamentals, but it is also a tool that flags when conditions other than earnings and dividends are at work. We have often marvelled, when common shares of mature exploration and production companies (notably those slanted toward development activities) trade at earnings multiples, whose numerical value exceeds the reserves life measured in years. This is similar to the implicit REPS-multiples of TER, where TER's estimates of its EPS-growth are not consistent with the pricing of its shares. Of course, one might argue that, if TER succeeds with its pipeline plans, it would accelerate the rate of EPS-growth. However, this involves a time frame far beyond a reasonable line of sight.

Our view is that the share prices of TER and CUP.U reflect forces other than fundamentals as drivers. One is never able to pinpoint their nature of such forces and the weight to be attributed to them, but in the case of TER, we are suggesting that the speculated **takeover of TER by Enbridge, or another entity**, has been a driver of TER's common-share prices, reinforced by the recent removal of shareholding restrictions on TER's common shares.

These restrictions never "rattled" us, because we stated repeatedly that "Government giveth and taketh away." All it takes, as we suggested, and all it took was a stroke of a pen.

In the case of CUP.U, we are suggesting that some investors expect Fortis Inc (TSX-FTS) to acquire first majority control of CUP.U, followed by an offer for the shares held by minority shareholders.

About 2000 years ago, a Roman dictum suggested that “fama crescit eundo” (speculation grows larger, as it goes around).

As for the **possibility of converting Terasen Gas into an income trust, we are, at this time, not prepared to give it any weight for pricing TER’s common shares.** Although this is not our usual practise, in deference to markets, we have assumed for some time for TER a rate of growth in REPS of 13x. This far exceeds plausible rates of growth in REPS of 7.92% and 6.45% p.a., that are consistent with annual EPS growth of 5-6%.

Even at 13x 2005 REPS, we have a target price that barely exceeds TER’s current markets prices. Our formula’s results do not take us to near, let alone to, where the market is beckoning us to follow.

Valuation

For the 12-month period ending in September 2005, we are estimating EPS of $2.98; DPS of $1.70; retained EPS of $1.28; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.00%, tax-effected to 5.60%. The support price is $30.36 and the residual price is $16.64, for a target price of $47.00 (rounded).

NATIONAL BANK FINANCIAL

Daily Bulletin **February 18, 2004 PM**

TERASEN INC. – TER (TSX) $47.61

Petroleum Transportation Drove Consolidated Earnings In 2003, But…

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Associate: Ramin Burney – (416) 869-7933 – *ramin.burney@nbfinancial.com*

STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)
TARGET: $42.75 (Was $47.00)

Industry Rating (Gas Utilities): Market Weight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)

	03A	04E	05E
EPS	$2.62	$2.81	$3.01

Valuation

	04E	05E
P/E	16.9	15.8

Basic Information

52-Week Range	12-Month Target	Shs O/S (mln)	Mkt. Val. ($mln)
$36.35-$48.00	$42.75	52.077	$2,479

Note: All numbers in Cdn$.

…They Fell Somewhat Short of our Estimate; Estimated 2004 EPS Cut to $2.81

Underperform Rating Sustained

Fourth-Quarter & Fiscal 2003 Results

EPS	Q4 2003	Q4 2002	f2003	f2002
Excluding non-recurring items	$1.19	$1.23	$2.62	$2.45

Assessment

Judicious investments have enabled TER to lift its 2003 earnings and future earnings potential out of the slow-growth environment of natural-gas (gas) distribution. Expansion of Trans Mountain Pipe Line's (TMP) mainline capacity in 2004, new transportation contracts on the Express System (ES), and potential improvements of its unregulated operations will buoy 2004 and 2005 earnings. But, an encore to strong earnings growth, experienced in 2003, is not in the cards, unless and until TER is able to make accretive brown-field acquisitions on very favourable terms. It stated at its fourth-quarter conference call that it is "pursuing acquisitions aggressively." We will stay tuned.

We are maintaining our Underperform rating of TER's common shares, because, prospectively, at this time we see no tangible evidence of an acceleration of TER's sustainable rate of retained EPS (REPS) growth beyond 2005, being one of the variables of our share price formula that would have supported TER's closing price on Feb. 17, 2004, of $47.70.

During conference call on Wednesday (Feb. 18), TER confirmed 2003 EPS of $2.62 (excluding non-recurring items) as the point of departure for the calculation of EPS growth. It also reconfirmed its commitment to grow EPS at a minimum of 6% p.a. Using this rate for calculating 2005 EPS, one would obtain 2005 EPS of $2.94. Using estimated 2005 DPS of $1.77 and a tax-effected long-term corporate bond yield (TELTCBY) of 5.6%, 2005 REPS would amount to $1.17. Hence, the market was valuing TER's shares at a REPS-multiple of 13.75x.

Given these metrics, it is mathematically impossible to support yesterday's closing price of $47.70. Hence, the market is valuing TER's common shares on bases other than fundamentals.

We view Enbridge Inc. (TSX-ENB) as Canada's and one of North America's premier pipelines. Its stated growth objective for EPS is 8-10% p.a. Using 2005 estimated EPS of $3.61 and estimated DPS of $1.95, the same TELTCBY as for TER of 5.6%, and a closing price on Feb. 17, 2004 of $51.30, the market was valuing ENB's common shares at an implied REPS-multiple of 9.92x.

This reinforces our conclusion that factors other than fundamentals are at work. They include "the usual suspects" such as 1) rumoured take-over by ENB to eliminate a pipeline competitor; 2) the take-over by a third party, because of removal of shareholding restrictions, and 3) potential conversion of Terasen Gas into an income trust.

Oh, yes, we are always reminding ourselves that, according to Graham and Dodd, the "deities of equity valuations," equity markets are voting but not weighing machines. But, logically, there is a disconnect between ENB's REPS-multiple of 9.92x and TER's of 13.75x.

It is trite to speculate why markets are valuing ENB's and TER's share prices the way they do, but it appears to us that some investors might be reasoning that belonging to the same club, i.e. pipelines, calls for the same or very similar dividend yields (DY).

On Tuesday, Feb. 17, the DY of ENB was 3.57%, TransCanada Corp. (TSX-TRP) 4.31% and TER 3.27%.

Some might be tempted to say that there appears to be something wrong in the State of Denmark. Regardless of how one examines these valuations, the "voting-machine" nature of equity markets may be the only explanation. However, Irving Fisher once said words to the effect: 'what one cannot measure, one does not know.' He also said "if a column is too short to support a roof, it does not matter how close it comes."

As we do not intend to succumb to "club valuations" or "valuations by association," **it does not take quite one step to conclude that better values are available elsewhere.**

Fourth-Quarter and Fiscal 2003 Highlights:

Reported Q4 2003 earnings before non-recurring items: $62.1 million or $1.19 per share vs. earnings of $56 million or $1.23 per share a year ago (y/y). EPS were lower y/y due to lower-than-expected earnings from Terasen Gas and "Other Activities." **Fiscal 2003 operational earnings: $136.1 million or $2.62 per share compared with $105.8 million or $2.45 per share in f2002.** The y/y improvements in earnings reflected virtually totally increased petroleum transportation earnings as a result of the start of commercial operations on May 1, 2003, of Corridor Pipeline (CP), earnings from the newly acquired ES, as well as strong throughput volumes on the TMP mainline.

TER's Q4 2003 and f2003 EPS fell somewhat short of our estimates. We had been expecting EPS of $1.22 and $2.67 respectively. **We have lowered our estimated 2004 EPS to $2.81 from $2.87, and are introducing our 2005 EPS estimate of $3.01. Also, we have adjusted our REPS multiple to 9x from 13x to reflect lower expected retained earnings growth which results in our 12-month target price dropping to $42.75 from $47.00. We have reduced our REPS-multiple, because the conference call established that none of TER's potential expansion projects will contribute to earnings in 2004 or 2005.**

Segmented Reported Earnings ($mln)	Q4 2003	Q4 2002
Natural Gas Distribution	$52.6	$50.0
Petroleum Transportation	$17.9	$10.5
Other Activities	$(8.4)	$(4.5)
Earnings before non-recurring items	**$62.1**	**$56.0**
Source: Terasen Inc.		

Natural Gas Distribution

- In **Q4 2003, gas distribution increased operating earnings to $52.6 million from $50 million y/y.** During the quarter, TER recorded a non-recurring $3.4 million (post-tax) restructuring charge for the operational integration of Terasen Gas (TG) and TGVI. **For f2003, operational earnings were $98.8 million vs. $92.4 million in f2002**, because of improved operating results at both TG and TGVI, as well as lower income taxes. For f2004, TG is allowed to earn for 2004 9.15% (vs. 9.42% for 2003) on the common-equity component of rate base (CECRB) and TGVI 9.65% (vs. 9.92% in 2003).

- The British Columbia Utilities Commission (BCUC) recently approved a negotiated settlement reached between TER Gas and customers and other stakeholders for a 2004-2007 improved PBR-Plan. The four-year settlement sets-out the process for determining delivery charges and incentive mechanisms for improved operating efficiencies.

- In f2003, TG was able to claim 100% of efficiency gains. For 2004, it will share them 50/50 with its customers. However, cost reductions from the operational integration of TG and TVI and other measures are expected to enable TG to earn its 2004 allowable CECRB plus 50 basis points.

Petroleum Transportation

- **Q4 2003 petroleum transportation earnings: $17.9 million vs. $10.5 million in Q4 2002.** This major y/y improvement was mostly the result of the start-up of commercial operations at CP on May 1, 2003, and earnings from the ES acquisition (acquired on Jan. 9, 2003). **Fiscal 2003 earnings increased to $56.2 million from $29.3 million in f2002**, due to strong throughput volumes on TMP, and earnings from CP and ES. On the negative side, the soaring loonie impacted ES results with a foreign exchange loss of $3.6 million (on working capital and future income tax balances). A foreign exchange hedging transaction is now in place to reduce future earnings volatility on ES.

- **TMP's f2003 earnings increased to $35.8 million from $29.3 million in f2002**, driven by higher throughput on both the Canadian and U.S. mainline sections (Cdn. Mainline 216,000 b/d vs. 201,200; U.S. Mainline 54,600 b/d vs. 47,800). A 27,000 b/d expansion of TMP is underway at a cost of $16 million, scheduled to enter service by September 2004.

- On Dec. 22, 2003, TER announced that it had received significant shipper support to proceed with **expansion plans for ES**. Total system capacity will increase by 108,000 b/d to 280,000 b/d and will be in-service by April 2005. New commitments totalling 105,000 b/d were received including 30,000 b/d of existing available capacity and 75,000 b/d of expansion capacity.

- The **Bison Pipeline Project** (which will transport oil from Athabasca to Edmonton) is still being studied and if approved is scheduled to be in-service in late 2006, at the earliest, assuming ConocoPhillips (NYSE-COP) is able to produce bitumen by late 2006. Should COP give the green light, TER would have to commence work on the Bison Project by late 2004. A final decision on Phase 1 of the proposed three-phase $2.1 billion **TMX Project** (looping of TMP) is expected in early 2005 with a probable in-service date of 2007.

- Neither Bison nor TMX represent "cake walks." For either project to succeed, TER will have to out-muscle Enbridge.

Other Activities

- **Other Activities,** which include TER's non-regulated energy and utilities services and corporate interest and administration charges, **incurred in Q4 2003 a loss of $8.4 million vs. a loss of $4.5 million last year.** The Q4 results included a $1.8 million (after-tax) writedown on its Westport Innovations investment (carrying value of about $871,000). **In f2003, losses were $18.9 million vs. $15.9 million in f2002,** as the water business showed good y/y improvement, offset by increased financing charges related to CP and ES, and higher corporate expenses.

Financial and Outlook

- During f2003, TER spent $222.9 million on capital expenditures, compared with $395.7 million in f2002. Capital spending is estimated at about $100 million for f2004.
- Fourth-quarter 2004 funds from operations were $97.9 million vs. $98.1 million y/y. For f2003, they were $292.3 million vs. $244.0 million y/y.
- Fourth-quarter 2003 cash flow was $122.7 million vs. $102.3 million y/y. For f2003, cash flow was $269.8 million vs. $318.1 million y/y.
- EPS guidance for 2004 is a range of mid-to-low $2.70s, and EPS growth is forecast at 6% minimum. Dividend yield is expected to be in the mid-3% range.

Valuation

For the 2005 calendar year, we are estimating EPS of $3.01; DPS of $1.77; retained EPS of $1.24; a retained EPS-multiple of 9x (versus 13x previously), and a nominal long-term corporate bond yield of 7.00%, tax-effected to 5.60%. The support price is $31.61 and the residual price is $11.16, for a target price of $42.75 (rounded)**.**

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NATIONAL BANK FINANCIAL

Daily Bulletin **February 19, 2004 AM**

TERASEN INC. – TER (TSX) $47.61

Increasing Our Retained EPS Multiple by a Notch to 10x…

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STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)
TARGET: $44.00 (Was $42.75)

Industry Rating (Gas Utilities): Market Weight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	03A	04E	05E
EPS	$2.62	$2.81	$3.01

Valuation	04E	05E
P/E	16.9	15.8

Basic Information			
52-Week Range	12-Month Target	Shs O/S (mln)	Mkt. Val. ($mln)
$36.35-$48.00	$44.00	52.077	$2,479

Note: All numbers in Cdn$.

…Brings Us to a New Target Price Of $44.00; Underperform Rating Sustained

After some further analysis following the publishing of our NBF Bulletin note last night, we have decided to raise our retained EPS (REPS) multiple to 10x from 9x. In our previous note, we had adjusted our REPS multiple to 9x from 13x to reflect lower expected retained earnings growth which resulted in our 12-month target price dropping to $42.75 from $47.00. We had reduced our REPS multiple, because the Q4 2003 conference call established that none of TER's potential expansion projects will contribute to earnings in 2004 or 2005. We view TER's shares as over-priced, based on tangible fundamentals, and see better value in Enbridge and TransCanada's shares. Hence, we reconfirm our Underperform rating.

Valuation

For the 2005 calendar year, we are estimating EPS of $3.01; DPS of $1.77; retained EPS of $1.24; a retained EPS multiple of 10x (versus 9x previously), and a nominal long-term corporate bond yield of 7.00%, tax-effected to 5.60%. The support price is $31.61 and the residual price is $12.40, for a target price of $44.00 (rounded)**.**

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NATIONAL BANK FINANCIAL

Daily Bulletin **April 26, 2004 PM**

TERASEN INC. – TER (TSX) $47.50

Growth in Petroleum Transportation Leads the Way Again…

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STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)
TARGET: $44.75 (Was $44.00)

Industry Rating (Gas Utilities): Market Weight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	03A	04E	05E
EPS	$2.62	$2.83	$3.01

Valuation	04E	05E
P/E	16.8	15.8

Basic Information			
52-Week Range	12-Month Target	Shs O/S (mln)	Mkt. Val. ($mln)
$38.50-$49.85	$44.75	52.32	$2,485

Note: All numbers in Cdn$.

…Estimated 2004 EPS Is Raised To $2.83 From $2.81. Underperform Rating Sustained

First-Quarter 2004 Results

EPS	Q1 2004	Q1 2003
	$1.54	$1.48

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 accretive brownfield acquisitions on very favourable terms.

We view TER's common share prices as aggressively priced relative to share prices of Canadian pipeline and utilities, notably Enbridge Inc. (TSX/NYSE-ENB).

First-Quarter 2004 Highlights

Q1 2004 reported earnings: $80.6 million or $1.54 per share vs. $73.4 million or $1.42 respectively a year ago (y/y). EPS were higher y/y due to strong petroleum transportation earnings as a result of the start of commercial operations on May 1, 2003, of Corridor Pipeline (CP), earnings from Express System (ES), as well as strong throughput volumes on the TMP mainline.

TER's Q1 2004 EPS beat our estimate by $0.06 and the Street's by $0.04. **We have increased our estimated 2004 EPS to $2.83 from $2.81.**

Segmented Reported Earnings ($mln)	Q1 2004	Q1 2003
Natural Gas Distribution	$67.4	$67.1
Petroleum Transportation	$18.3	$11.6
Water and Utility Services	$0.0	$(0.6)
Other Activities	$(5.1)	$(4.7)
Earnings applicable to common shares	**$80.6**	**$73.4**

Source: Terasen Inc.

Natural Gas Distribution

- In **Q1 2004, gas distribution increased operating earnings slightly to $67.4 million from $67.1 million y/y.** During the quarter, efficiencies from the operational integration of Terasen Gas (TG) and Terasen Gas-Vancouver Island (TGVI) 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% for 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

- **Q1 2004 petroleum transportation earnings: $18.3 million vs. $11.6 million in Q4 2002.** This major y/y improvement resulted mostly from the result start-up of commercial operations at Corridor Pipeline (CP) on May 1, 2003, and earnings from TMP because of the impressive strong throughput volumes, especially on the U.S. portion, where throughput increased by a whopping 87% y/y. A foreign exchange hedging transaction placed in late 2003 was able to reduce earnings volatility on Express System (ES).

- **TMP's Q1 2004 earnings increased to $10.4 million from $8.3 million a year ago**, driven by strong throughput on both the Canadian and U.S. mainline sections (Cdn. Mainline 240,400 barrels per day [b/d] vs. 201,700; U.S. Mainline 93,300 b/d vs. 49,900). A 27,000 b/d expansion of TMP ($16 million cost) is on target, and is scheduled to enter service by September 2004.

- The **expansion of ES has begun and 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.

- The **Bison Pipeline Project** (designed to transport petroleum from Athabasca to Edmonton) is still under study, and, if approved, is scheduled to be in service in late 2006, at the earliest, assuming ConocoPhillips (NYSE-COP) is able to produce bitumen by late 2006. Should COP give the green light, TER would have to commence work on the Bison Project by late 2004. A final decision on Phase 1 of the proposed three-phase, $2.1-billion **TMX Project** (looping of TMP) is expected in early 2005 with a probable in-service date of 2007. As previously mentioned, neither Bison nor TMX 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

- As of this first quarter, the water and utilities business is reported as a separate business because of the perceived future growth in this area. This business was break-even during the quarter compared with a loss of $0.6 million y/y. Earnings from this segment are typically weaker in the first and fourth quarters of the year and reflect 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, and the transaction is subject to regulatory approvals with an expected closing in the summer 2004.

Other Activities

- **Other Activities** (including Terasen International, TER's 44.2% interest in Clean Energy, and corporate interest and administration charges), lost **$5.1 million in Q1 2004 vs. a loss of $4.7 y/y.** This quarter's results included a $1.7 million (after-tax) mark-to-market gain at Clean Energy, which was more than offset by an increase in interest expense and income tax.

Financial and Outlook

- **Capital Spending**: Q1 2004 $28.9 million vs. $43.5 million y/y. Capital spending is estimated at about $100 million for f2004.
- **Cash Flow**: Q1 2004: $168.2 million vs. $114.3 million y/y.
- **Common-share Dividend**: to increase to $0.42 per share from $0.39. Also, announced a two-for-one stock split of TER's outstanding common shares. The stock dividend will be payable on June 14, 2004, to shareholders of record at the close of business on June 7, 2004.
- EPS guidance for 2004 is a range of mid-to-high $2.70s, 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 March 2006, we are estimating EPS of $3.06; DPS of $1.80, retained EPS of $1.26, a retained EPS multiple of 10x, and a nominal long-term corporate bond yield of 7.00%, tax-effected to 5.60%. The support price is $32.14 and the residual price is $12.60, for a target price of $44.75 (rounded).

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NATIONAL BANK FINANCIAL

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.

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Terasen Inc.

Q2 2004 Consistent With Expectation

Petroleum Transportation Business Continues To Shine

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.

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NATIONAL BANK FINANCIAL

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.

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February 18, 2005

The NBF Daily Bulletin
Gas Utilities

Terasen Inc.

2004 Results a Penny Higher Than Expected

Petroleum Transportation Leads Y/Y Growth

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.

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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.

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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).

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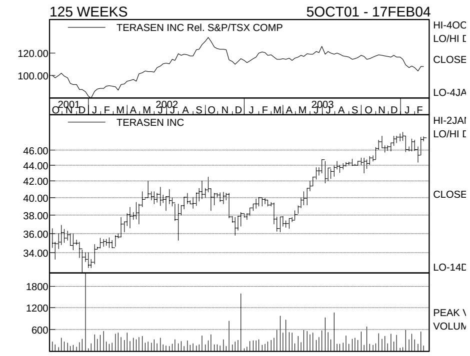
RBC Capital Markets
Research Comment
February 18, 2004

TERASEN INC



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Higher-than-Expected Results Support Positive 2004 Outlook

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(604) 257-7662
fai.lee@rbccm.com

Price:	$47.70	Price Target:	$53.00
52-Wk High:	$48.50	52-Wk Low:	$36.15
Float (MM):	52.1	Debt-to-Cap:	0.67
Shs O/S (MM):	56.7	Mkt Cap (MM):	$2,703
Dividend:	$1.56	Yield:	3.3%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2002A	2003A	2004E	2005E
EPS				
Basic	$2.54	$2.75	$2.80	$3.00
Diluted	$2.52	$2.72	$2.78	$2.98
P/E	18.8	17.3	17.0	15.9
EPS	Q1	Q2	Q3	Q4
2002A	$1.70	$0.03	($0.34)	$1.23
2003A	$1.43	$0.24	($0.15)	$1.23
2004E	$1.49	$0.22	($0.10)	$1.19

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

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

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 reported its 2003 financial results.

Investment Opinion

- **Financial Results Higher than Expected.** Terasen's normalized EPS were $1.23 in Q4/03 compared to our estimate of $1.20 and EPS of $1.23 in Q4/02. Higher-than-expected earnings from Terasen Gas (Vancouver Island), Trans Mountain and Express were partially offset by a higher-than-expected loss from Other Activities.

- **Continued EPS Growth.** Notwithstanding an additional 8.7 million average shares outstanding, Terasen's normalized EPS increased by 8.3% from $2.54 in 2002 to $2.75 in 2003. Since 1997, Terasen's normalized EPS have increased by 9.1% on an annualized basis. Based on our forecasts, we expect continued EPS growth over our forecast period. For further details on our outlook for Terasen, please refer to our report, *Crude Aspirations*, which was published on February 9, 2004.

- **Results Support Positive Outlook for Petroleum Transportation in 2004.** While we expected a strong contribution in Q4/03, earnings from Petroleum Transportation were still 12.6% higher than expected. We believe the Q4/03 results provide support for our positive outlook for Petroleum Transportation in 2004.

- **EPS Estimates Unchanged**. Notwithstanding the higher-than-expected Q4/03 results, we remain comfortable with our EPS estimates. Accordingly, we are leaving them unchanged at this time.

- **Conference Call.** Terasen is holding a conference call on February 18, 2004, at 10:00 a.m. Eastern time to discuss its 2003 financial results. The dial-in number is 1-877-375-5688 and the instant replay number is 1-877-519-4471 (passcode: 4446880). The call will also be broadcast live at www.terasen.com.

- **Valuation.** Our target price of $53.00 is based on a 2005 forecast dividend of $1.80 and required dividend yield of 3.4%. Terasen is ranked Outperform, Average Risk.

Financial Results

Terasen's normalized EPS were $1.23 in Q4/03 compared to our estimate of $1.20 and EPS of $1.23 in Q4/02. Higher-than-expected earnings from Terasen Gas (Vancouver Island) ("TGVI"), Trans Mountain and Express were partially offset by a higher-than-expected loss from Other Activities. Notwithstanding an additional 8.7 million average shares outstanding, Terasen's normalized EPS increased by 8.3% from $2.54 in 2002 to $2.75 in 2003. In 2003, Terasen benefited from increased Natural Gas Distribution earnings due to improved operating results and lower tax expense; strong throughput volumes on the Trans Mountain System; the acquisition of a one-third interest in the Express System in January 2003; and the commencement of commercial operations of the Corridor Pipeline in May 2003.

Exhibit 1: Segmented Results ($MM Except EPS)

	For 3 months Ended Dec. 31		For 12 months Ended Dec. 31	
	2003	2002	2003	2002
Natural gas distribution				
Terasen Gas	$ 45.3	$ 44.2	$ 72.6	$ 69.5
Terasen Gas (Vancouver Island)	7.3	5.8	26.2	22.9
	52.6	50.0	98.8	92.4
Petroleum transportation				
Trans Mountain	10.0	10.5	36.8	29.3
Corridor	4.0	-	13.4	-
Express System	3.9	-	10.6	-
	17.9	10.5	60.8	29.3
Other activities	(6.6)	(4.5)	(17.1)	(11.8)
Normalized earnings	$ 63.9	$ 56.0	$ 142.5	$ 109.9
Restructuring charge for integration of mainland and Vancouver Island operations	(3.4)		(3.4)	
Westport Innovations writedown	(1.8)		(1.8)	(4.1)
Impact of forest fires in Q3/03			(1.0)	
Foreign exchange loss at Express			(3.6)	
Reported earnings	$ 58.7	$ 56.0	$ 132.7	$ 105.8
Weighted average shares outstanding (MM)	52.0	45.6	51.9	43.2
Normalized EPS	$ 1.23	$ 1.23	$ 2.75	$ 2.54

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were $52.6 million in Q4/03 compared to $50.0 million in Q4/02. We believe that the year-over-year improvement was attributable to additional earnings at TGVI relating to the accelerated recovery of its revenue deficiency deferral account (RDDA) and improved operating efficiencies at both Terasen Gas and TGVI. In Q3/03, TGVI started applying a higher interest rate to calculate the imputed interest income associated with the discounted balance of the RDDA. The higher interest rate reflected a faster than previously expected recovery of the RDDA resulting in increased income from TGVI. In Q4/03, Terasen incurred a $3.4 million restructuring charge associated with the integration of its mainland and Vancouver Island natural gas distribution operations, which we have excluded from our normalized EPS amounts. According to Terasen, it started to realize some of the benefits from the restructuring in mid-November 2003. On an annual basis, Terasen's earnings from Natural Gas Distribution increased from $92.4 million in 2002 to $98.8 million in 2003. The increase was attributed to improved operating results and lower tax expense.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $17.9 million in Q4/03 compared to earnings of $10.5 million in Q4/02. Volumes on the Trans Mountain Canadian Mainline were approximately 218,474 bpd in Q4/03 compared to 221,238 in Q4/02 and volumes on the Trans Mountain U.S. mainline, which are included in the Canadian mainline volumes, were approximately 57,567 bpd in Q4/03 compared to 49,789 bpd in Q4/02. We believe that the Canadian Mainline is running at or near capacity and increased heavy crude volumes are the reason behind the slight decline in reported volumes on the Canadian Mainline in Q4/03 compared to Q4/02.

Normalized earnings from the Express System were $4.0 million in Q4/03, which represented the strongest quarterly performance since Terasen's acquisition in January 2003. The Express System benefited from increased throughput on the Platte System in Q4/03, which translated into increased revenues. Normalized earnings from Corridor were $3.9 million in Q4/03, which was in line with our estimate.

On an annual basis, normalized earnings from Petroleum Transportation more than doubled from $29.3 million in 2002 to $60.8 million in 2003. The increase was attributable to strong throughput volumes on the Trans Mountain System, the acquisition of a one-third interest in the Express System in January 2003 and the commencement of commercial operations of the Corridor Pipeline in May 2003.

Other Activities
Excluding a Q4/03 write-down of $1.8 million (after-tax) for its investment in Westport Innovations Ltd., normalized earnings from Other Activities were ($6.6) million in Q4/03 compared to ($4.5) million in Q4/02. Earnings declined due to increased corporate expenses and higher interest expense associated with the completion of the Corridor Pipeline project. In Q3/02, Terasen recorded a $4.1 million after-tax write-down of its Westport investment. Terasen holds approximately 500,000 Westport shares with a book value of approximately $0.8-$0.9 million. On an annual basis, normalized earnings from Other Activities were ($17.1) million in 2003 compared to ($11.8) million in 2002. Improved performance in waterworks and utility services was more than offset by higher corporate expenses and increased financing costs associated with the company's new investments.

Conclusion

Terasen's normalized EPS increased by 8.3% in 2003 from $2.54 in 2002 to $2.75 in 2003. Since 1997, Terasen's normalized EPS have increased by 9.1% on an annualized basis. Based on our forecasts, we expect continued EPS growth over our forecast period. The Q4/03 Natural Gas Distribution results partially reflect operating efficiencies related to the closer integration of Terasen Gas and TGVI. We believe that Terasen will realize a full year of operating efficiencies in 2004, which will help mitigate the decline in the allowed ROEs for Terasen Gas and TGVI in 2004. While we expected a strong contribution in Q4/03, earnings from Petroleum Transportation were still 12.6% higher than expected. We believe the Q4/03 results provide support for our positive outlook for Petroleum Transportation in 2004. Notwithstanding Terasen's higher-than-expected Q4/03 results, we remain comfortable with our EPS estimate and are leaving them unchanged at this time.

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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 $53.00 is based on a 2005 forecast dividend of $1.80 and required dividend yield of 3.4%. Terasen is ranked Outperform, Average Risk.

Price Target Impediments

Our target price for Terasen of $53.00 reflects a required dividend yield of 3.40% and a forecast $0.12 increase in its annual dividend in each of April 2004 and April 2005. 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 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.

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 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.

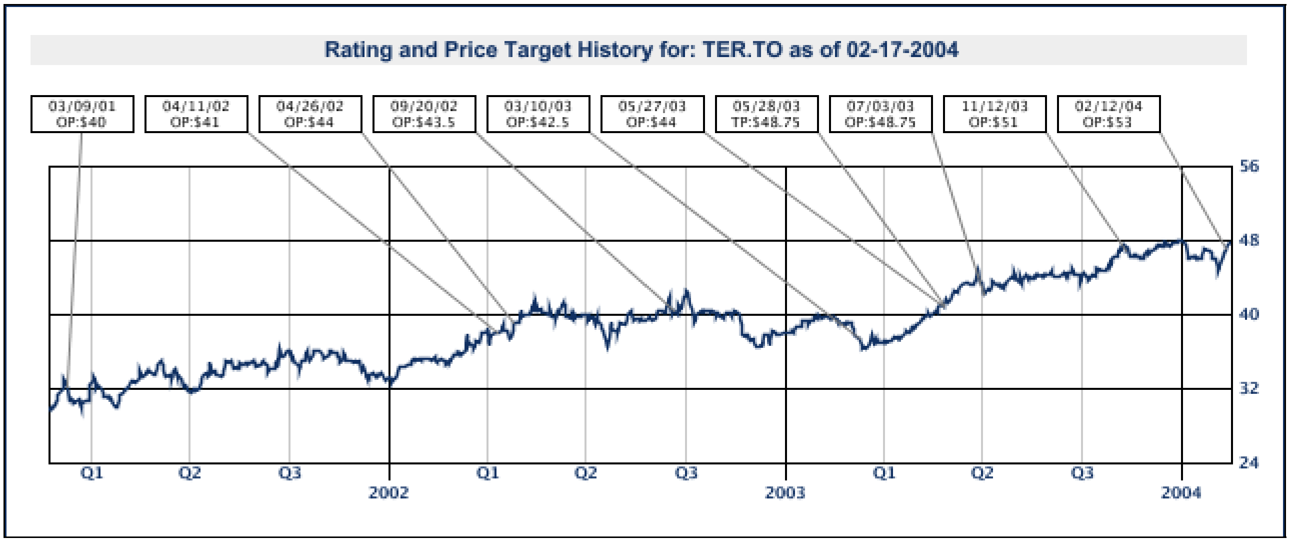
Risk Qualifiers (any of the following criteria may be present):

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.

DISCLOSURES



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RBC Capital Markets			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	350	46.11	178	50.86
HOLD [SP]	300	39.53	103	34.33
SELL [U]	109	14.36	13	11.93

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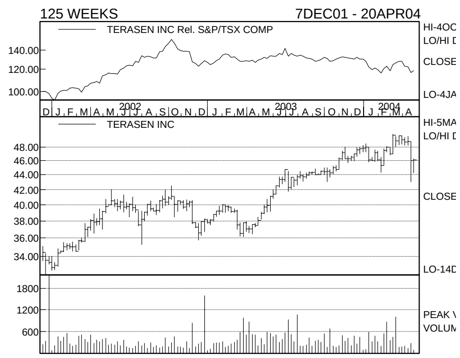
RBC Capital Markets

Research Comment

April 21, 2004

TERASEN INC



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Price:	$46.10	Price Target:	$56.25
52-Wk High:	$50.00	52-Wk Low:	$37.51
Float (MM):	52.1	Debt-to-Cap:	0.67
Shs O/S (MM):	56.7	Mkt Cap (MM):	$2,612
Dividend:	$1.56	Yield:	3.4%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2003A	2004E	2005E	2006E
EPS				
Old Basic	$2.75	$2.80	$3.00	$3.11
Old Diluted	$2.72	$2.78	$2.98	$3.09
Basic	$2.75	$2.81	$3.02	$3.13
Diluted	$2.72	$2.79	$3.00	$3.11
P/E	16.8	16.4	15.3	14.7
EPS	Q1	Q2	Q3	Q4
2002A	$1.70	$0.03	($0.34)	$1.23
2003A	$1.43	$0.24	($0.15)	$1.23
2004E	$1.49	$0.22	($0.10)	$1.20

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

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

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

Acquisition of Interest in Fairbanks Water Utility

Event

Terasen has agreed to acquire a 50% interest in Fairbanks Sewer and Water Inc. (FSW).

Investment Opinion

- **Acquisition Details.** Terasen has agreed to purchase a 50% interest in FSW for approximately US$30 million. FSW is a regulated sewer and water utility based in Fairbanks, Alaska. Terasen also has an option to acquire the remaining 50% of FSW at fair market value in 2009. Subject to regulatory approvals, the transaction is expected to close in the summer of 2004.

- **Strategy.** Terasen is the largest private sector provider of water and wastewater products and services in Western Canada. We believe the acquisition is consistent with Terasen's strategy of growing its water business and focusing on asset management.

- **EPS Impact.** Based on our assumptions, we estimate a full-year EPS impact of approximately $0.02 in 2005. Accordingly, we have increased our 2004, 2005 and 2006 EPS estimates from $2.80, $3.00 and $3.11 to $2.81, $3.02 and $3.13 respectively.

- **Valuation.** Our target price of $56.25 is based on a 2005 forecast dividend of $1.80 and required dividend yield of 3.2%. Terasen is ranked Outperform, Average Risk.

Financial Results

Terasen has agreed to acquire a 50% interest in Fairbanks Sewer and Water Inc. (FSW) for approximately US$30 million. Privately-held FSW provides water and wastewater treatment and water distribution services to Fairbanks, Alaska, and is regulated by the Regulatory Commission of Alaska. Terasen has been operating the Fairbanks gas distribution system since 2001 under an operating contract with the owner of the gas utility. Under its purchase agreement, Terasen has an option to acquire the remaining 50% of FSW at fair market value in 2009. Subject to regulatory approvals, the transaction is expected to close in the summer of 2004.

Terasen is the largest private sector provider of water and wastewater products and services in Western Canada. We believe the acquisition is consistent with Terasen's strategy of growing its water business and focusing on asset management. We believe that similar acquisitions could occur in the future given that Terasen indicated that it plans to partner with FSW's management team, which will remain in place, to pursue additional business opportunities in Alaska.

According to Terasen, FSW has a rate base of approximately US$40 million with a deemed common equity component of 70% and return on equity of 14%. FSW plans to file a rate application by this summer but the capital structure and allowed rate of return are not expected to materially change given that they were established in May 2003.

Assuming that Terasen finances the acquisition with 65% debt and 35% internally generated funds, we estimate a full-year EPS impact of approximately $0.02 in 2005. In our analysis, we have assumed that the opportunity cost of equity is approximately equal to the after-tax cost of debt. Based on our analysis, we have increased our 2004, 2005 and 2006 EPS estimates from $2.80, $3.00 and $3.11 to $2.81, $3.02 and $3.13 respectively.

Exhibit 1: EPS Impact ($MM Except EPS or Otherwise Indicated)

Purchase price	US$30.0
Exchange rate (C/US)	$1.33
After-tax cost of debt	3.75%
Financing structure (% equity)	35%
Rate base	US$40.0
Ownership interest	50%
Deemed common equity (%)	70%
ROE	14%
	2005E
Allowed return on equity	$2.6
Incremental interest expense	(1.0)
Opportunity cost of equity	(0.5)
Earnings Impact	$1.1
EPS Impact	$0.02

Source: Terasen; RBC Capital Markets

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 $56.25 is based on a 2005 forecast dividend of $1.80 and required dividend yield of 3.2%. Terasen is ranked Outperform, Average Risk.

Price Target Impediments

Our target price for Terasen of $56.25 reflects a required dividend yield of 3.20% and a forecast $0.12 increase in its annual dividend in each of April 2004 and April 2005. 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 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.

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 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.

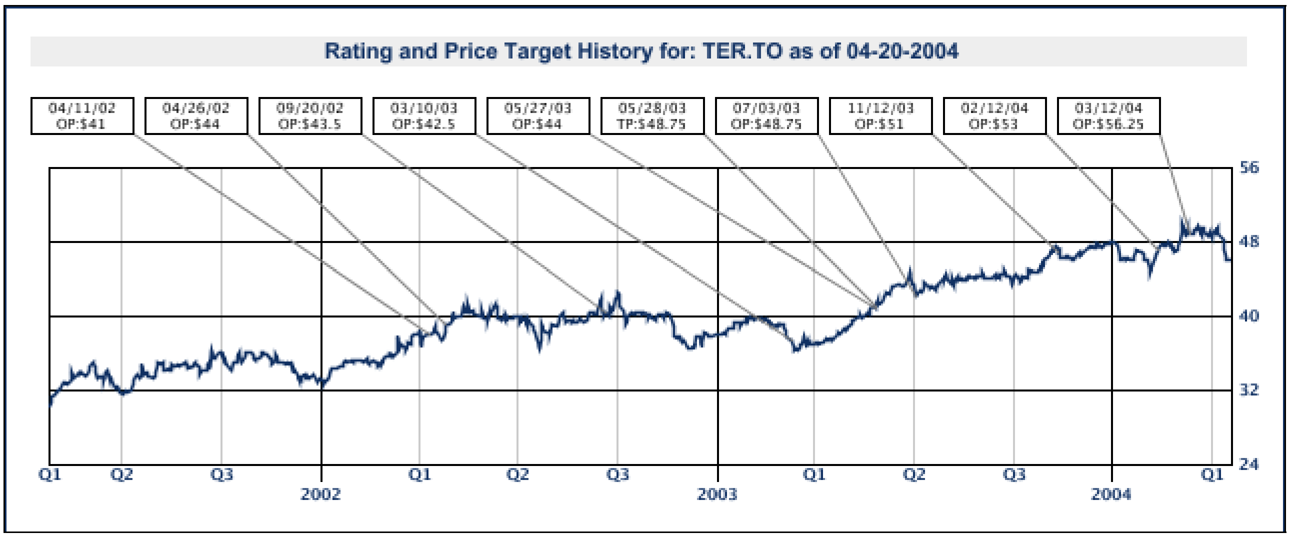
Underperform (U): Returns expected to be materially below sector average over 12 months.

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.

DISCLOSURES



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	RBC Capital Markets		IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	337	46.94	186	55.19
HOLD [SP]	284	39.55	98	34.51
SELL [U]	97	13.51	14	14.43

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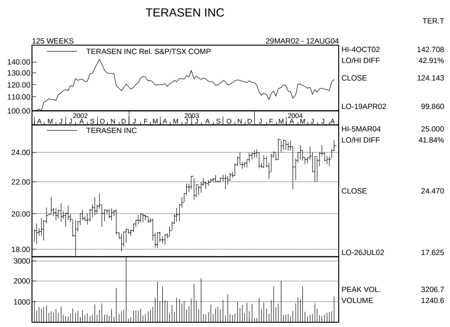
RBC Capital Markets
Research Comment
August 13, 2004



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.

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Quantitative Research
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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.

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

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Required Disclosures

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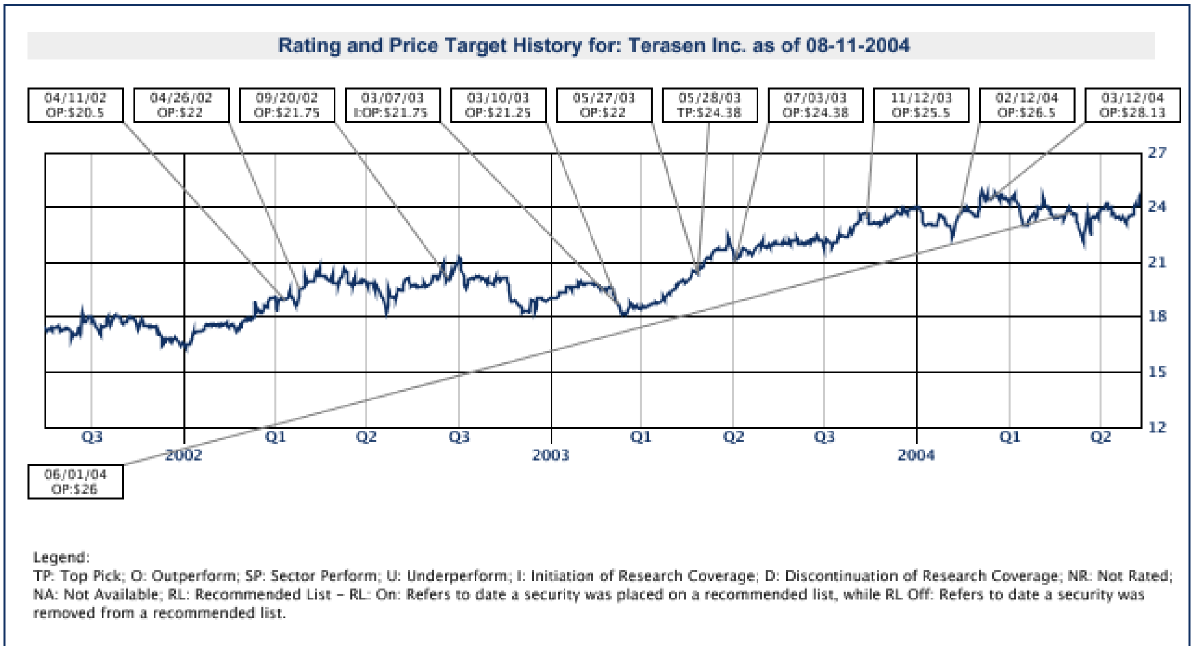
Distribution of Ratings, Firmwide

	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



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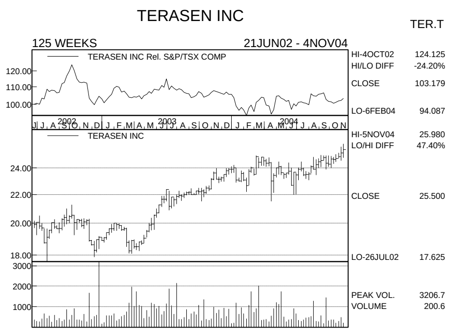
Research Comment

November 5, 2004



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Q3/04 Results Slightly Higher than Expected; Company Provides Update on Growth Prospects

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

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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.
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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.

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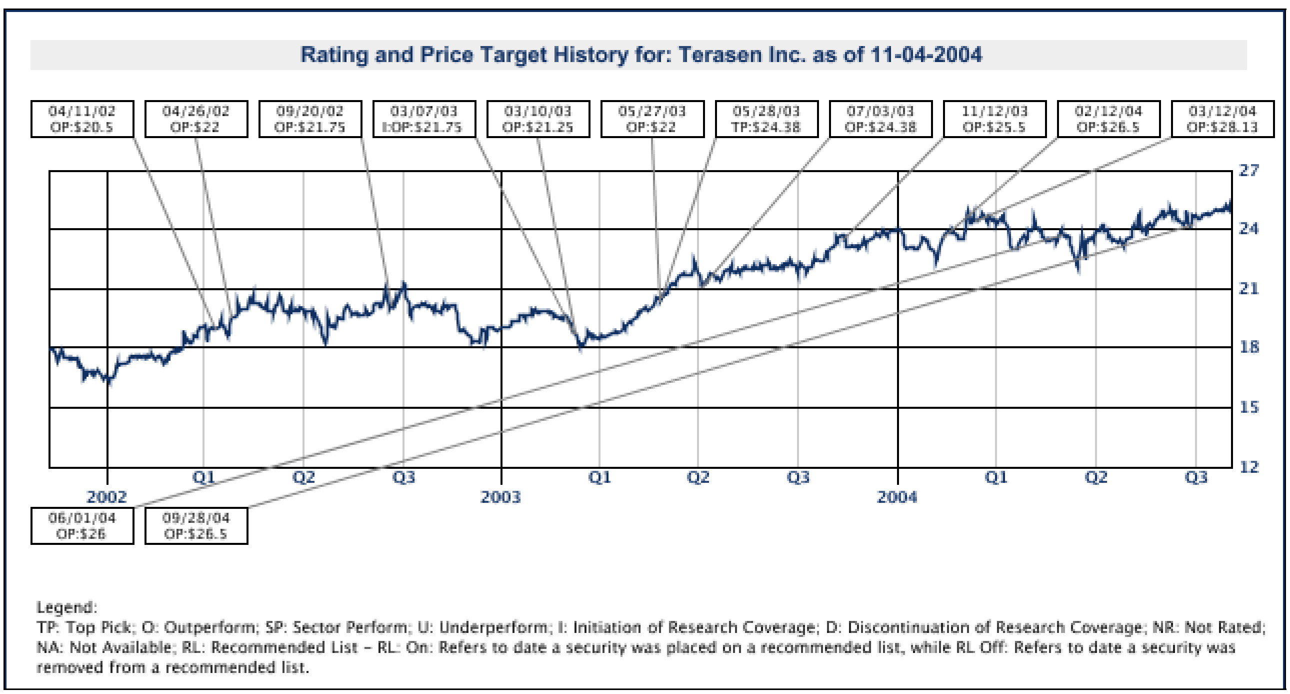
Distribution of Ratings, Firmwide

	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



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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.

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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..

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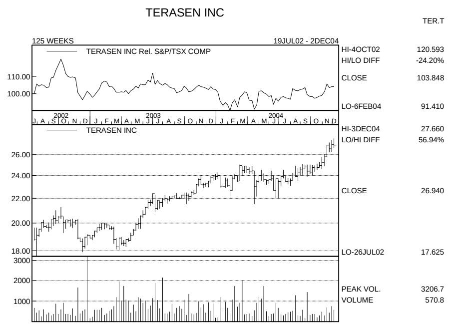
Research Comment

December 3, 2004



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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.

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Required Disclosures

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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):

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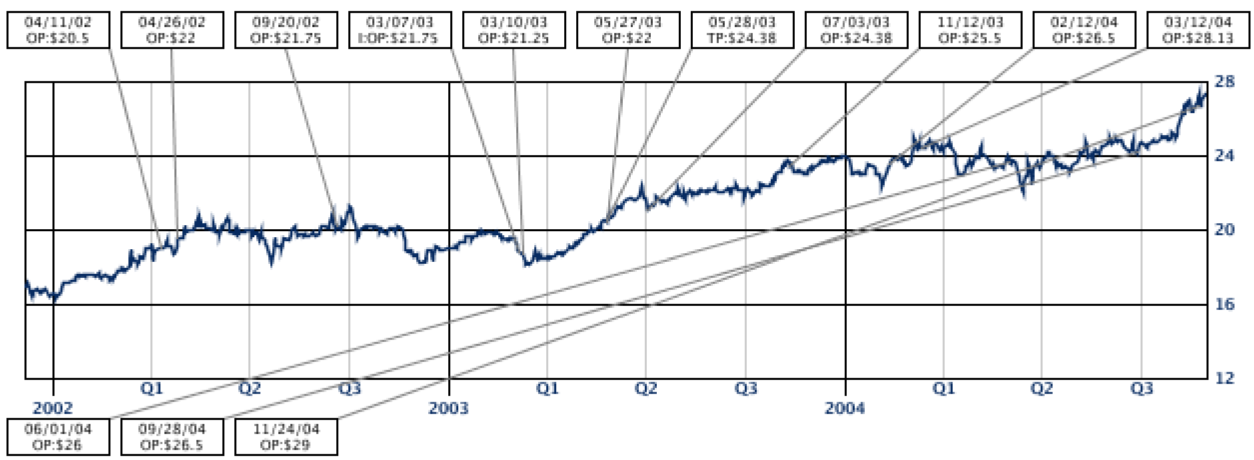
Distribution of Ratings, Firmwide

	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.

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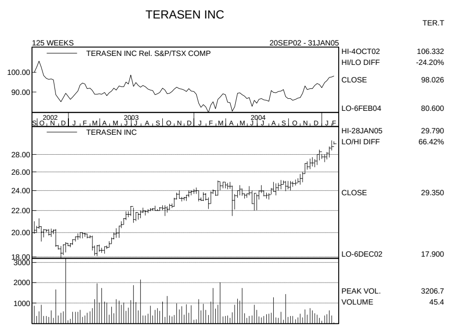
RBC Capital Markets

Research Comment

February 1, 2005



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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.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

"Moving Full Steam Ahead" With TMX Project

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

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BUY [TP/O]	412	46.50	151	36.65
HOLD [SP]	388	43.79	105	27.06
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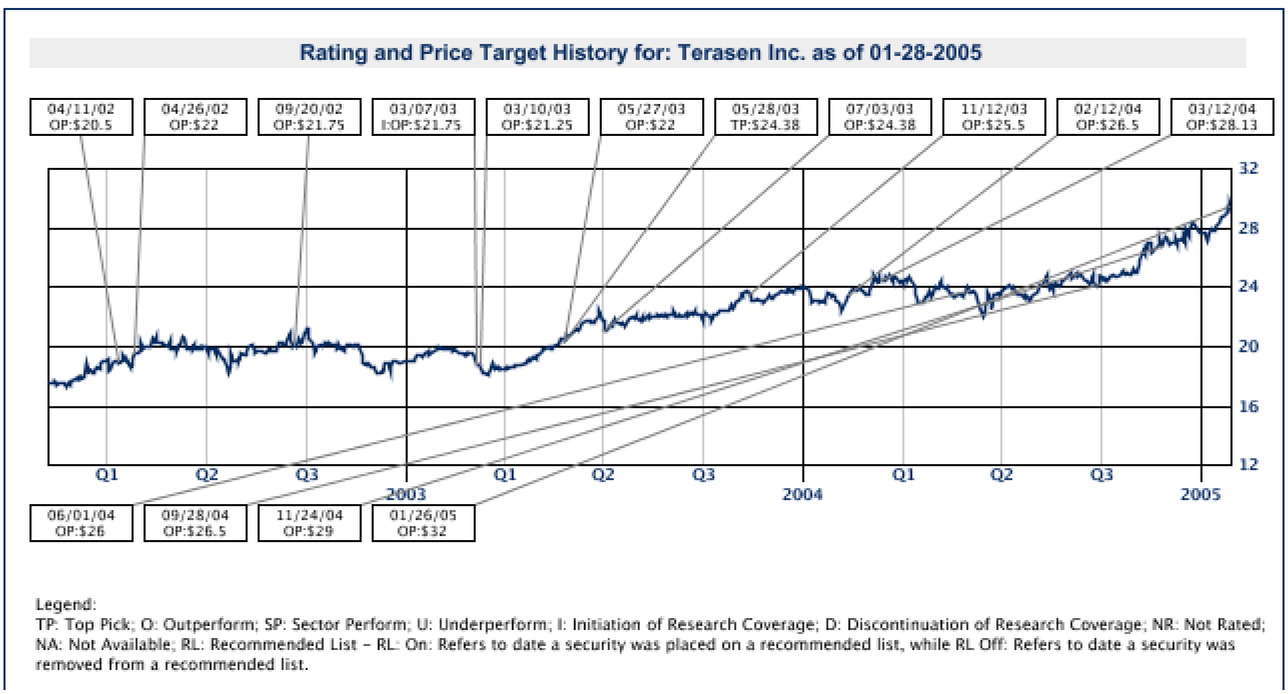

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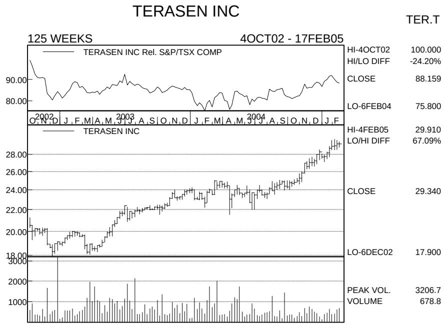

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

2004 Results In Line With Expectations; Annual Dividend Increased by $0.06 to $0.90

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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.

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Required Disclosures

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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.
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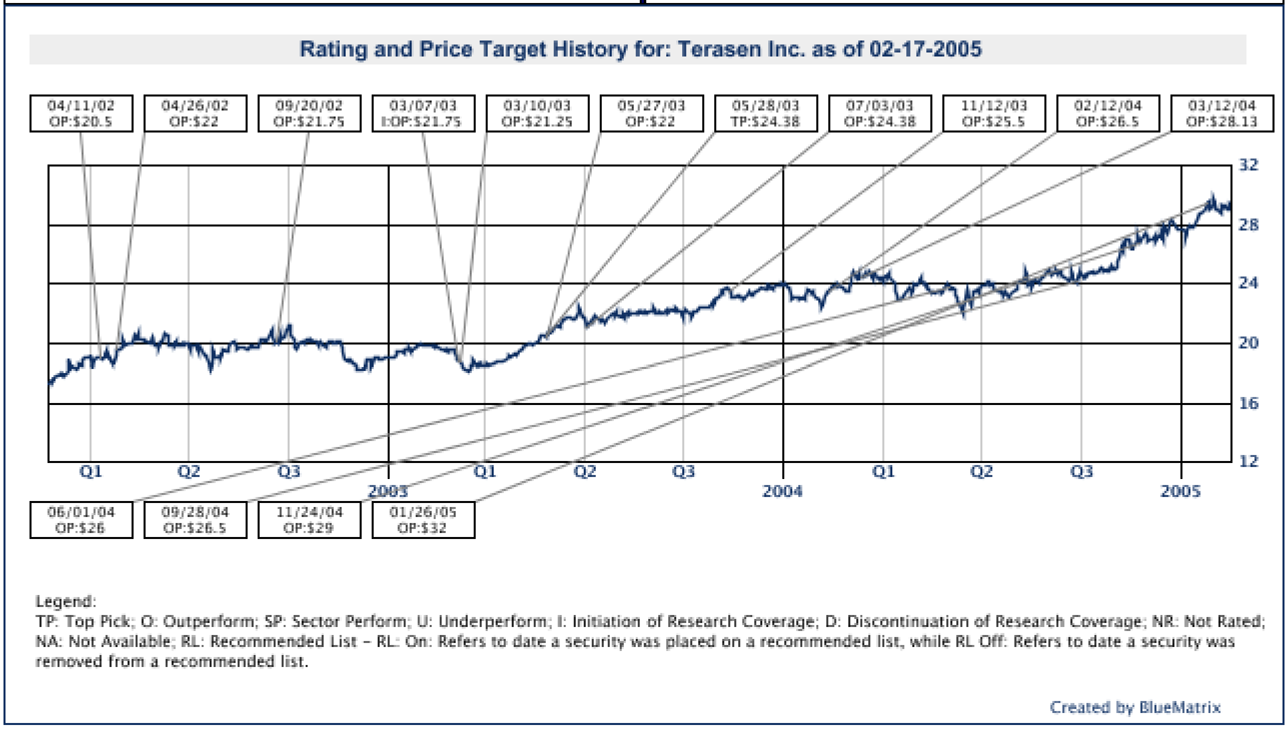
	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	416	46.64	150	36.06
HOLD [SP]	399	44.73	107	26.82
SELL [U]	77	8.63	14	18.18



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

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RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

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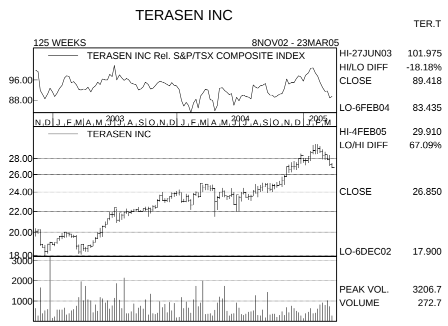

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

2005 EPS Estimate Reduced to Reflect Lower Throughput at Trans Mountain in Q1/05

Fai Lee, CGA, CFA
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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.

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%.

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.

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.

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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%.

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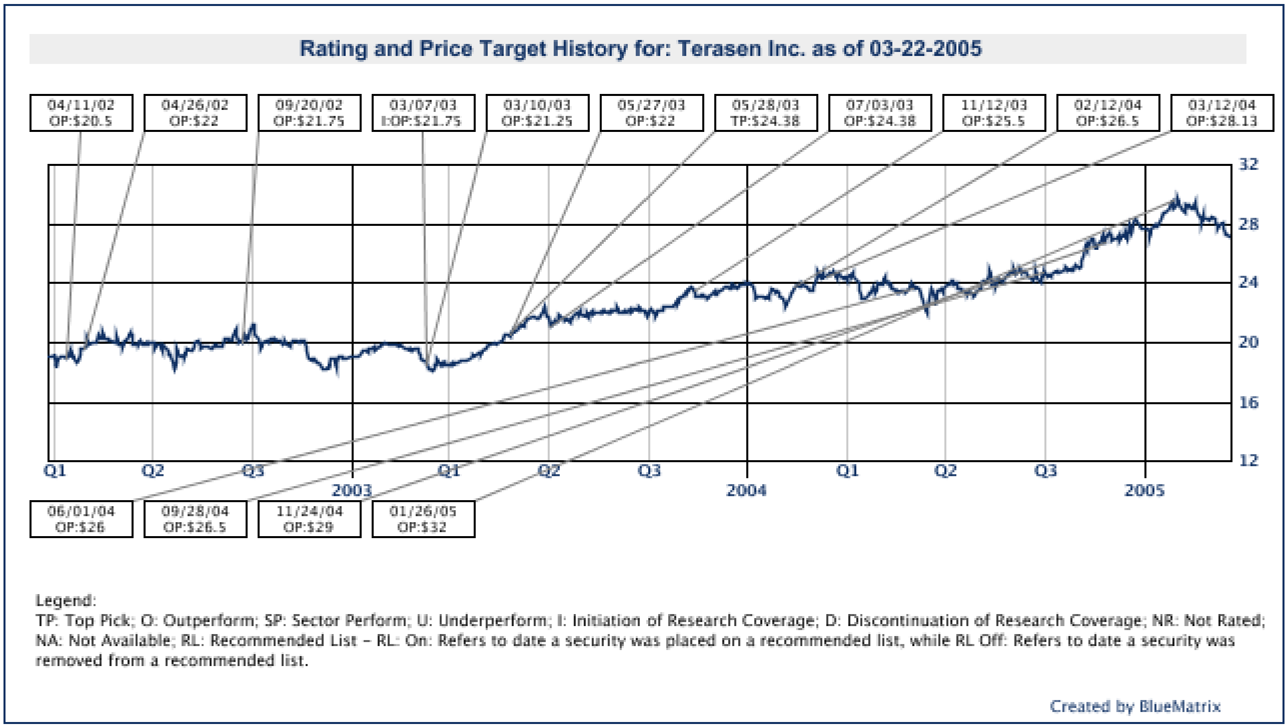
	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	421	46.93	156	37.05
HOLD [SP]	398	44.37	105	26.38
SELL [U]	78	8.70	15	19.23



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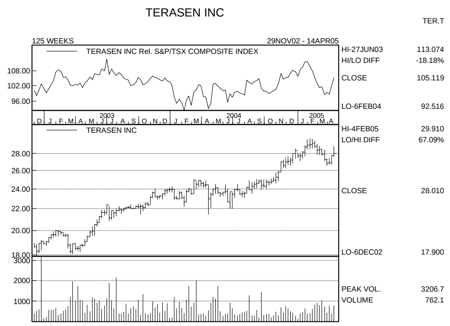
Research Comment

April 15, 2005



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Enbridge Signs MOU with PetroChina; We Remain Positive on Terasen's TMx1 Project

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

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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):
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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.

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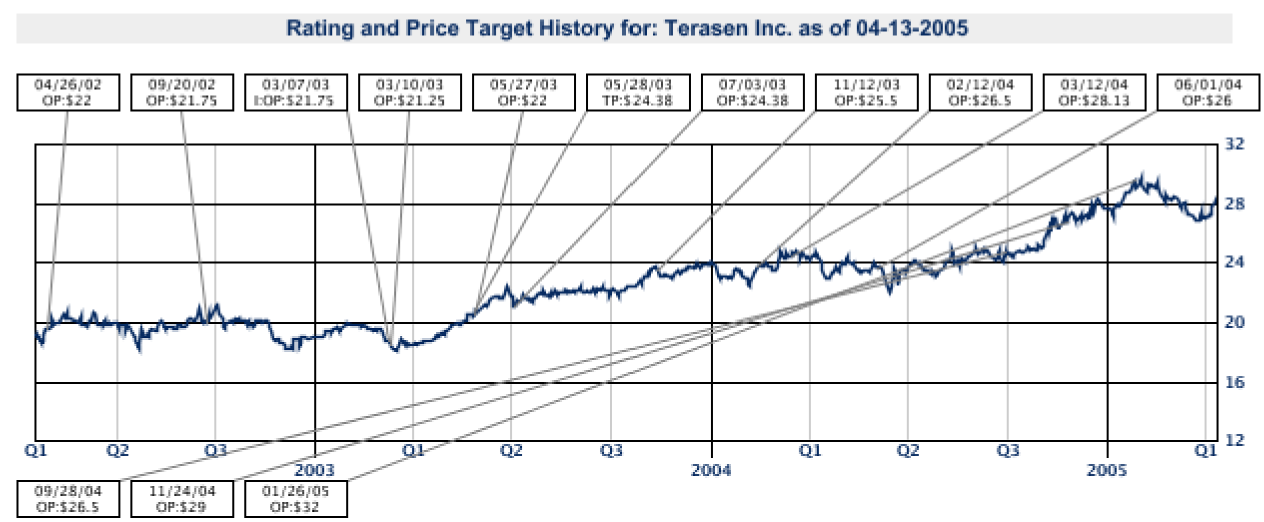
For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform 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



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.

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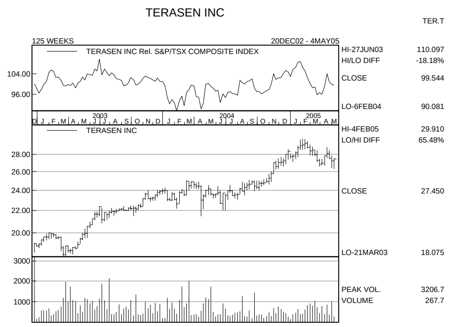
RBC Capital Markets

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%.

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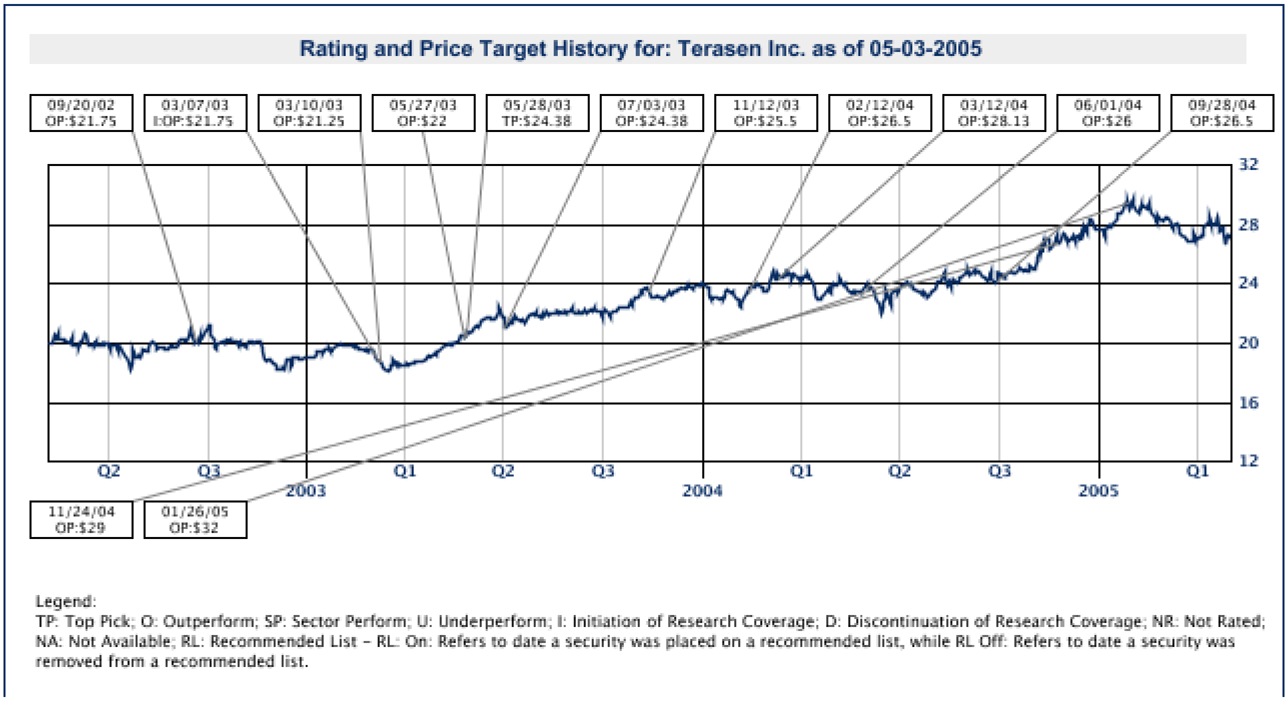
BUY [TP/O]	398	43.45	132	33.17
HOLD [SP]	433	47.27	134	30.95
SELL [U]	85	9.28	25	29.41



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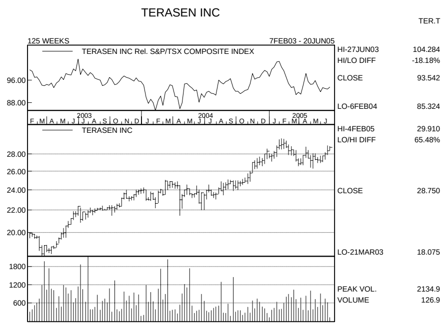
RBC Capital Markets

Research Comment

June 21, 2005



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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

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Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Financial Estimates Revised to Reflect BC Hydro's Cancellation of the Duke Point Power Project

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

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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.

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	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
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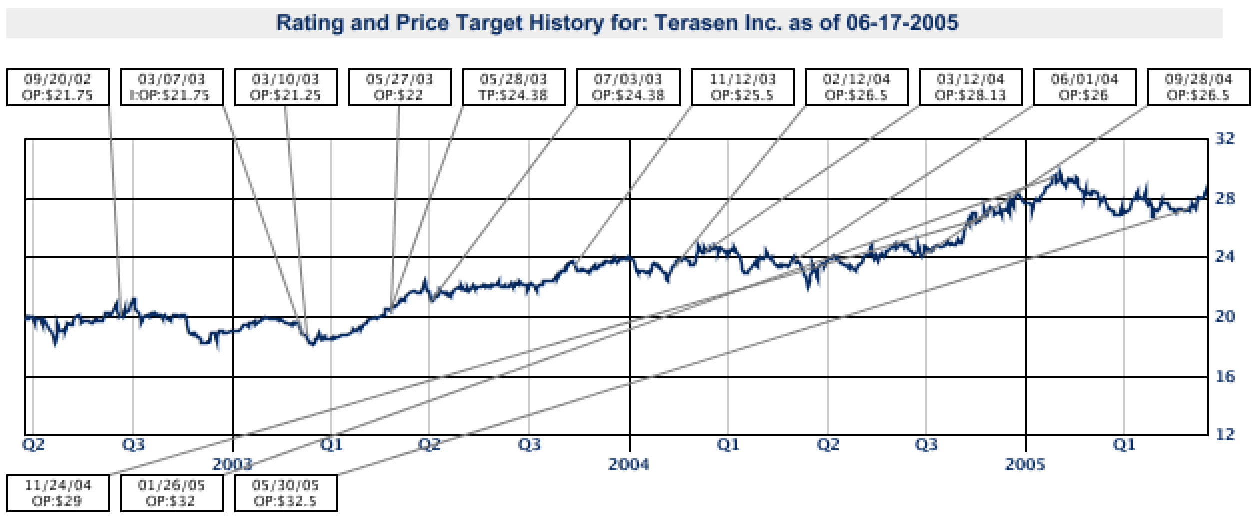

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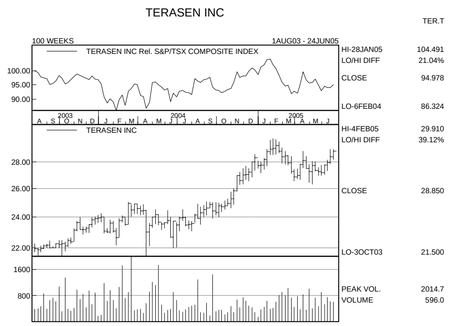
RBC Capital Markets

Research Comment

June 27, 2005



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
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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	$1.57
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All values in C$ unless otherwise noted.

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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

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Ratings
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Outperform (O): Expected to materially outperform sector average over 12 months.
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Risk Qualifiers (any of the following criteria may be present):
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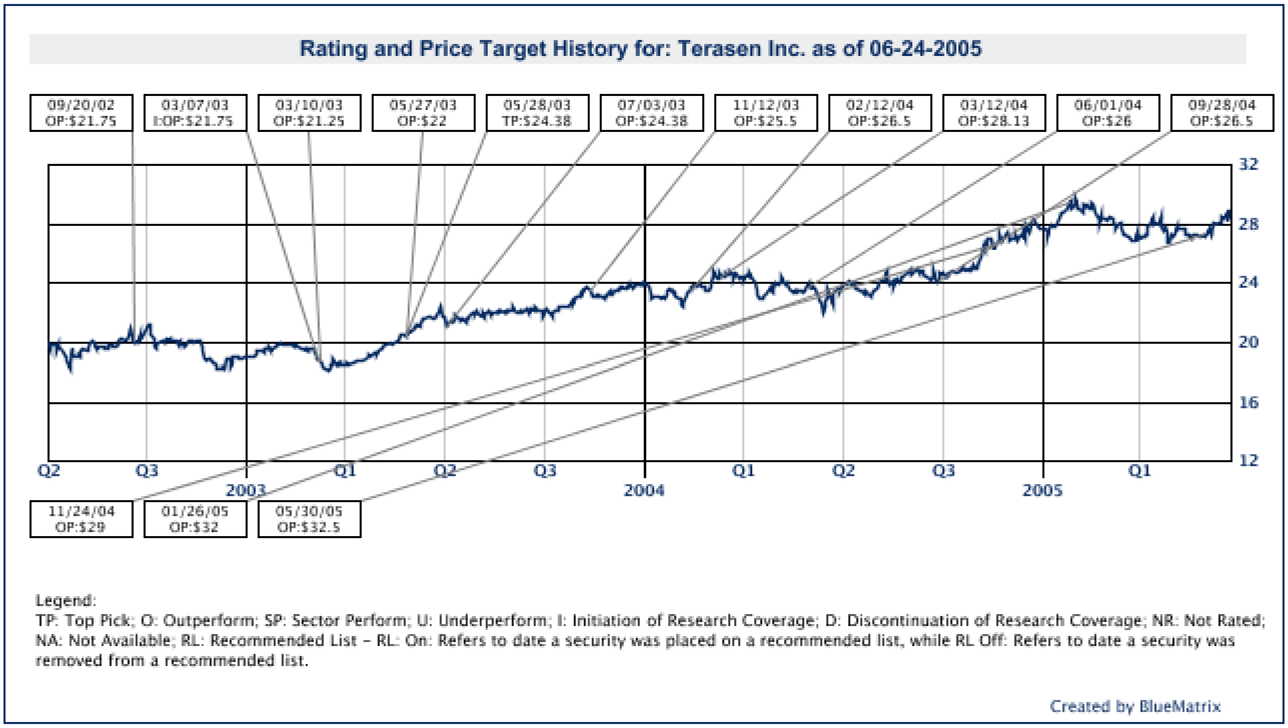
	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	394	42.92	138	35.03
HOLD [SP]	443	48.26	129	29.12
SELL [U]	81	8.82	28	34.57



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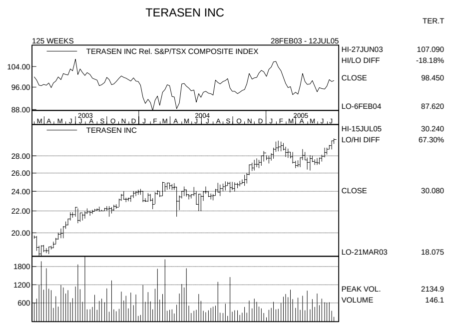
RBC Capital Markets

Research Comment

July 13, 2005



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Regulatory Application Filed for Phase One of Trans Mountain Expansion Project

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.

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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.

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

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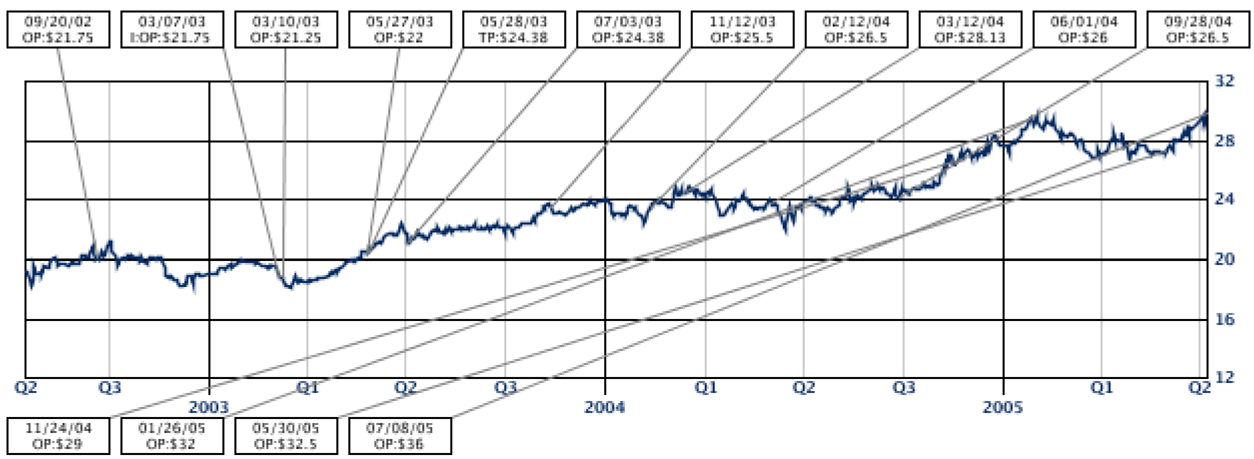
HOLD [SP]	436	47.86	129	29.59
SELL [U]	82	9.00	26	31.71

Rating and Price Target History for: Terasen Inc. as of 07-08-2005



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Equity Research DAILYEdge

Company Comment
Friday, July 30, 2004

Terasen Inc.

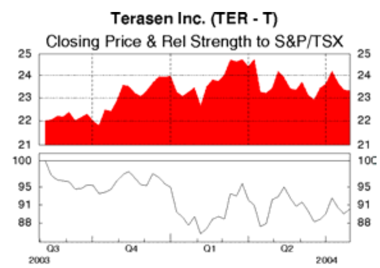
(TER-T C$23.44)

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.

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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.

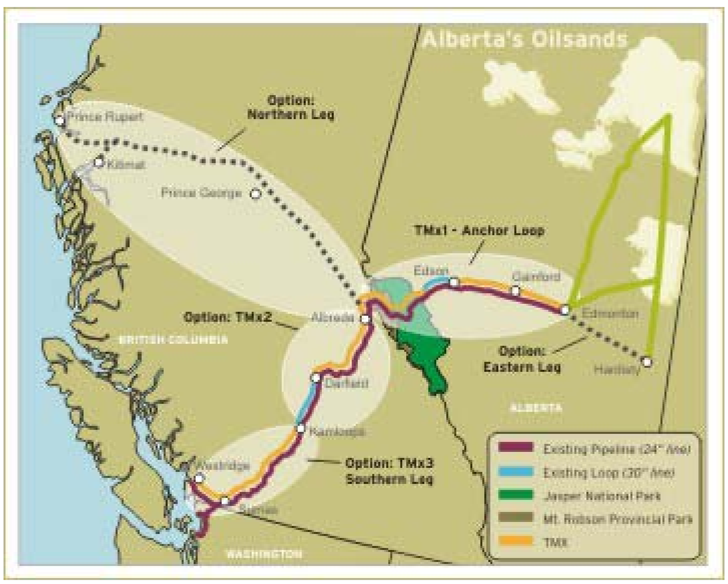
Q2/04 Highlights

- **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.

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For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

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* *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.

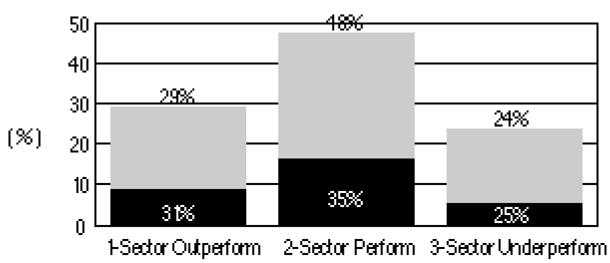
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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

Company Comment
Friday, November 05, 2004

Terasen Inc.

(TER-T C$25.50)

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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

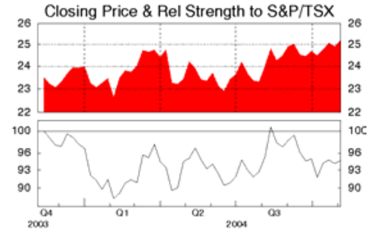
Event

- 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.

Terasen Inc. (TER - T)
Closing Price & Rel Strength to S&P/TSX



Source: Global Insight, Inc.

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.

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.

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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.

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* *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

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The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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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.

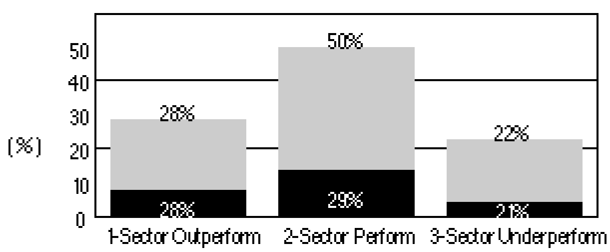
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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.

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Disclaimer

Company Comment
Friday, December 03, 2004

Terasen Inc.

(TER-T C$26.94)

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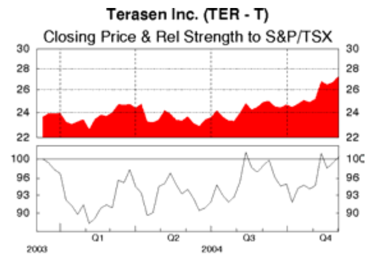
sam_kanes@scotiacapital.com

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.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
TransCanada Corporation	TRP	H3, S

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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.

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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.

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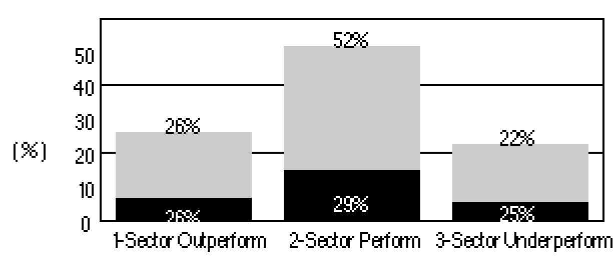
Distribution by Ratings and Equity and Equity-Related Financings*



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Company Comment
Tuesday, February 01, 2005

Terasen Inc.

(TER-T C$29.35)

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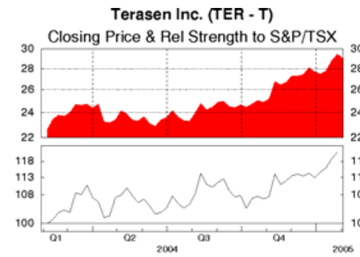
Rating: 3-Sector Underperform	Target	1-Yr:	$27.00	ROR	1-Yr:	-5.0%	Est. NTM Div.	$0.88
Risk Ranking: Low		2-Yr:	$28.00		2-Yr:	1.4%	Div. (Current)	$0.84
Valuation: 1-yr target based on 17x P/E on 2006E EPS							Yield	2.9%

TMX Project Announcement



Source: Global Insight, Inc.

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.

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			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Target:		
2-Yr	$28.00	$27.50

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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.

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Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

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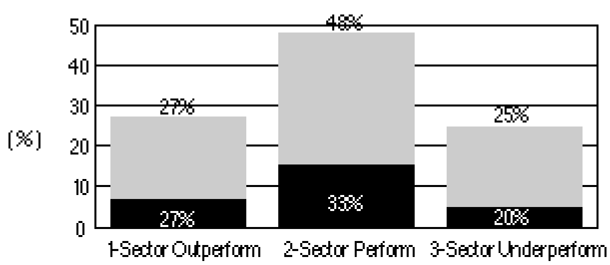

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* As at December 31, 2004.

Source: Scotia Capital.

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Company Comment

Friday, February 18, 2005

Terasen Inc.

(TER-T C$29.34)

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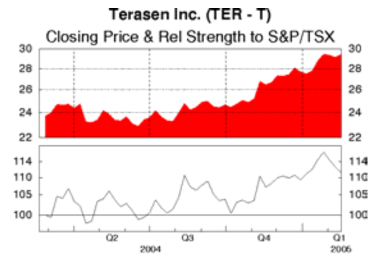
Rating: 3-Sector Underperform	**Target**	1-Yr:	$29.00	**ROR**	1-Yr:	1.9%	**Est. NTM Div.**	$0.90
Risk Ranking: Low		2-Yr:	$28.00		2-Yr:	1.6%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 18x P/E on 2006E EPS							**Yield**	3.1%

Q4/04 EPS Lower Than Expected

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.



Source: Global Insight, Inc.

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

Pertinent Revisions

	New	Old
EPS05E	$1.48	$1.50
EPS06E	$1.58	$1.60

(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

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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			

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.

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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.

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For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

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* *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.

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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.

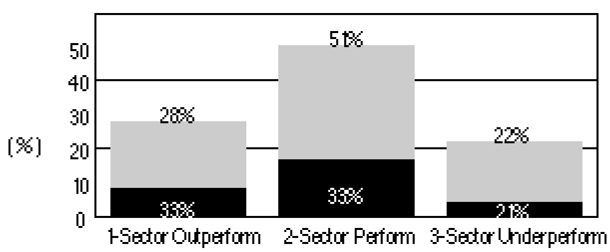
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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

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Equity Research
DAILY Edge

Company Comment
Thursday, May 05, 2005

Terasen Inc.

(TER-T C$27.45)

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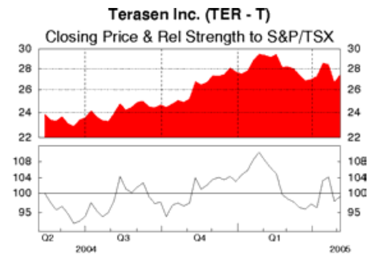
Rating: 2-Sector Perform	**Target** 1-Yr:	$29.00	**ROR** 1-Yr:	8.9%	**Est. NTM Div.**	$0.90
Risk Ranking: Low	2-Yr:	$29.00	2-Yr:	12.2%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 18x P/E on 2006E EPS					**Yield**	3.3%

Q1/05 EPS Temporarily Off, 2005 Still OK



Source: Global Insight, Inc.

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.

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

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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.**

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

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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.

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The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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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.

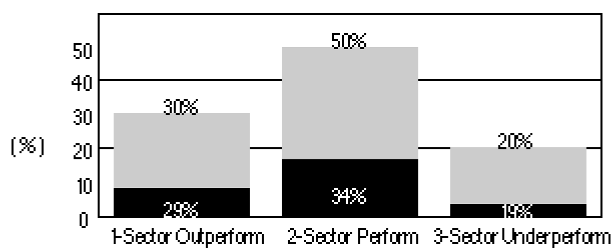
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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

Company Comment
Friday, May 20, 2005

Terasen Inc.

(TER-T C$27.20)

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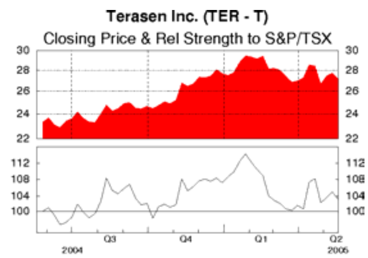
Matthew Protti, MBA - 416-863-7846
matthew_protti@scotiacapital.com

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.

For important disclosure information see Appendix A of this report.

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

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* *Legend*

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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.

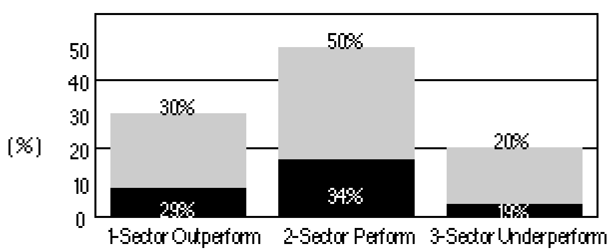
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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

Stephen Dafoe

Terasen Inc.

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)

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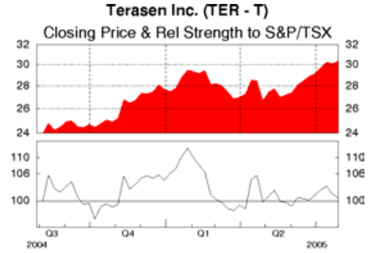
Rating: 2-Sector Perform	**Target** 1-Yr:	$32.00	**ROR** 1-Yr:	4.0%	**Est. NTM Div.**	$0.90
Risk Ranking: Low	2-Yr:	$33.00	2-Yr:	10.0%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 19x P/E on averaged 2006E 2007E EPS					**Yield**	2.8%

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.

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* *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.

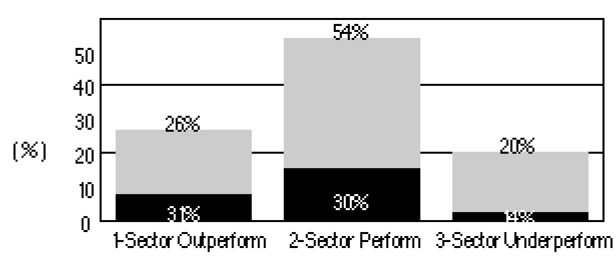
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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, 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

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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%

For important disclosure information see Appendix A of this report.

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.

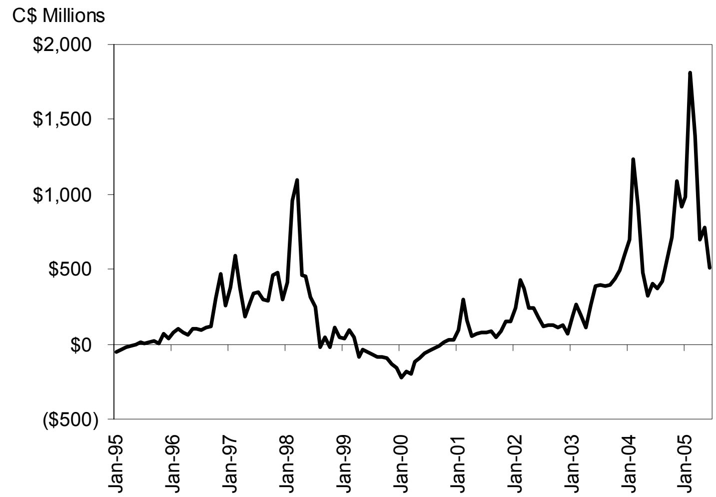
- **TransCanada (TRP):** Like ENB, TRP may benefit from the KMI deal, but somewhat less than ENB from a pipeline scarcity premium in Canada as 100% of TRP's current pipelines are gas based and do not serve the oil sands. TRP may receive some of the re-allocation of TER equity from Canadian institutional 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%.

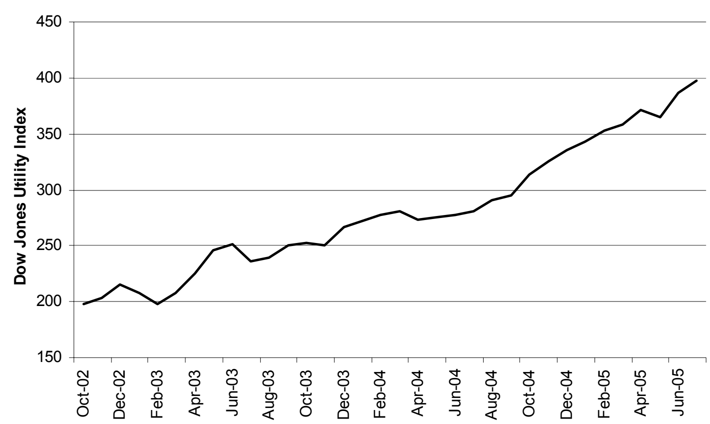
- **Outstanding Dividend and Income Funds Flow:** Funds flow into dividend and income funds remains at record levels that are about double normal levels. June 2005 dividend and income funds inflows were $508M. YTD June 2005 ($6.173B) is 52% up over YTD June 2004 (See Exhibit 2). **If it wasn't for record 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.

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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

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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.

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

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Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
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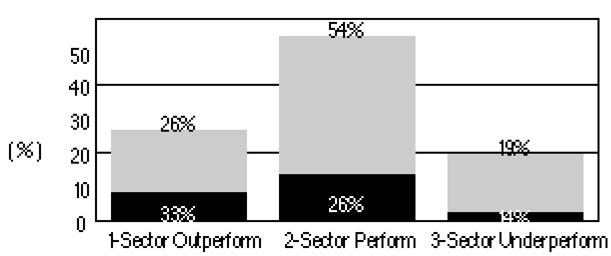
Scotia Capital Equity Research Ratings Distribution*

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.

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Disclaimer

Equity Research

DAILY Edge

Company Comment

Wednesday, August 03, 2005

Terasen Inc.

(TER-T C$36.00)

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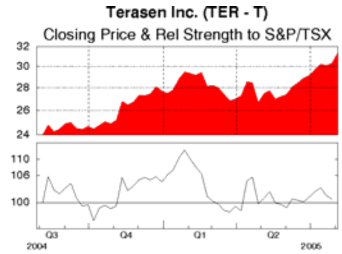
Rating: 3-Sector Underperform	**Target** 1-Yr:	$32.00	**ROR** 1-Yr:	-8.6%	**Est. NTM Div.**	$0.90
Risk Ranking: Low	2-Yr:	$33.00	2-Yr:	-3.3%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 19x P/E on averaged 2006E 2007E EPS					**Yield**	2.5%

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			

Pertinent Revisions

	New	Old
Rating:	3-SU	2-SP

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.

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

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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.

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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.

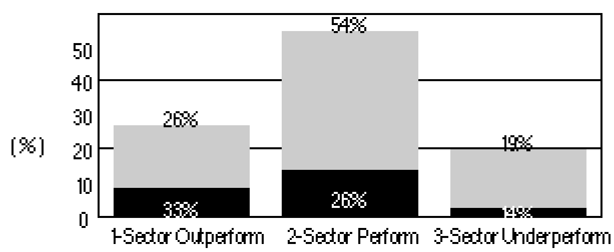
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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

Pipelines & Utilities Bulletin
February 19, 2004

Terasen Inc.
(TER-T) C$47.61

Recommendation:	HOLD (unchanged)
12-Month Target Price:	$50.00 (unchanged)
12-Month Total Potential Return:	8.3%

Another Solid Quarter

Market Data		Financial Data		Year	Per-Share Data EPS	Div	BV	CF	Ratios ROE	Debt/Cap.	Valuations P/E	Div Yd	P/B	P/CF
Ticker	TER-T	Fiscal Y/E	Dec. 31	2000A	$2.04	$1.23	$17.86	$4.61	12.0%	71.4%	16.3	3.7%	1.9	7.2
Current Price (C$)	$47.61	Shares O/S (mm)	52.1	2001A	$2.19	$1.30	$18.65	$5.09	12.1%	74.5%	15.2	3.9%	1.8	6.5
52-Week Range	$36.15-$48.50	Float (mm)	52.1	2002A	$2.52	$1.41	$24.00	$5.65	11.9%	66.2%	15.1	3.7%	1.6	6.8
Dividend	1.56	EPS Growth	5.3%	2003A	$2.64	$1.53	$25.05	$5.63	10.8%	67.0%	18.2	3.2%	1.9	8.5
Dividend Yield	3.3%	Dividend Payout	60%	2004E	$2.77	$1.65	$26.20	$5.42	10.9%	66.3%	17.2	3.5%	1.8	8.8
Market Cap. (C$ mm)	2,479	Tot. Debt (C$ bln.)	3.0	2005E	$2.94	$1.74	$27.43	$5.77	11.1%	64.9%	16.2	3.7%	1.7	8.3

Notes: (1) All figures in Canadian dollars unless otherwise specified.
(2) Sources for all exhibits are company reports and TD Newcrest estimates unless otherwise specified.
(3) Please see the final pages of this report for important disclosure information.

Adjusting EPS slightly upwards. Terasen's Q4/2003 operating EPS of $1.15 was $0.03 above our $1.12 estimate due to stronger than expected results in both its gas distribution and petroleum transportation divisions. As a result of the stronger than expected results, we have increased our estimated EPS for 2004 by $0.06 to $2.77 and for 2005 by $0.11 to $2.94. Our dividend forecasts remain unchanged.

Terasen is fairly valued. Terasen is currently trading at 17.1x price-to-earnings and a 3.3 percent dividend yield, which is towards the upper end of its historical trading levels. Going forward, we expect absolute valuations to be pressured in a rising bond yield environment. Our $50.00 target price implies a 17.0x price-to-earnings multiple and a 3.5 percent dividend yield, and we therefore believe that the stock is fairly valued.

Fundamentals remain strong. We continue to like Terasen for its leverage to growing oil sands production volumes over the next decade and attractive regulatory framework in its gas distribution utilities. Our HOLD rating partially reflects our overall caution on the sector as a whole at this point in the investment cycle.

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Q4 Earnings Slightly Above Expectations

Terasen reported Q4/03 income of $58.7 million and EPS (f.d.) of $1.12; this includes a restructuring charge of $3.4 million ($0.065 per share) associated with the integration of the mainland and Vancouver Island natural gas distribution utilities (Exhibit 1). Adjusted for a $1.8 million ($0.034 per share) after-tax charge on a write-down in the investment in Westport innovations, Terasen's earnings were $60.5 million or $1.15 per share for the quarter. The results were slightly above our $1.12 EPS estimate due primarily to solid results in both the gas distribution and petroleum transportation divisions. As expected, there was no change to the $0.39 dividend this quarter.

Natural Gas Distribution earnings were $49.2 million including a $3.4 million after-tax restructuring charge—$0.8 million (1.6%) lower compared to Q4/2002 earnings. While the costs incurred to operationally integrate Terasen Gas and Terasen Gas Vancouver Island (TGVI) are non-recurring in nature, we have chosen to keep them in our operating earnings to be consistent with our inclusion of the restructuring benefits in 2004 and 2005. Management ratcheted up its cost savings efforts to maximize the benefits of its performance-based regulation (PBR) negotiated in 2003, which should partially mitigate the 27 bps year-over-year decline in regulated benchmark ROE for 2004 to 9.15 percent. We are currently estimating a 9.13 percent regulated ROE in 2005.

We have notionally allocated the $3.4 million restructuring charge using the relative asset base size of Terasen Gas and TGVI to result in an estimated $2.8 and $0.6 million charge respectively. We believe it is relevant to assess the two utilities' performance separately because the two utilities are likely to remain under separate regulation until 2011. Using this allocation, Terasen Gas' contribution to earnings during the quarter was $42.5 million, $1.7 million (4%) below Q4/2002 as a result of the restructuring costs and partially offset by the 29 bps higher regulated ROE of 9.42 percent in 2003 versus 2002. TGVI earned $6.7 million during the quarter, which represents a $0.9 million (16%) increase versus the same period a year ago, largely due to accelerated accretion of the revenue deficiency deferral account (RDDA) and a similarly high ROE vs. 2002.

Petroleum Transportation earnings were $17.9 million, a $7.4 million (70%) increase from the same period last year. Trans Mountain Pipe Line's earnings declined $0.5 million (5%) versus Q4/2002, primarily as a result of higher operating and maintenance costs. Terasen's Corridor Pipeline, in service since May of 2003, contributed $4 million in Q4. Express System, acquired in January of 2003, contributed $3.9 million in the fourth quarter.

Losses from **Other activities**, before the $1.8 million write-down of an investment in Westport, increased by $2.1 million (47%) to $6.6 million. Management indicated that growth in the waterworks and utility services division was offset by disappointing results from Terasen International, as well as higher corporate expenses and financing costs. The results from international consulting were associated with the completion of several larger contracts early in 2003 and

Terasen was unable to re-fill the order book until later in 2003. Management is actively evaluating options for their international assets going forward.

Exhibit 1. Terasen Fourth Quarter Results

	Q4 2003	Q4 2002	Change	Percent Change
Natural Gas Distribution				
Terasen Gas	42.5	44.2	(1.7)	-3.8%
Terasen Gas Vancouver Island (TGVI)	6.7	5.8	0.9	15.5%
	49.2	**50.0**	**(0.8)**	**-1.6%**
Petroleum Transportation				
Trans Mountain	10.0	10.5	(0.5)	-4.8%
Corridor	4.0	-	4.0	
Express System	3.9	-	3.9	
	17.9	**10.5**	7.4	70.5%
Other Activities	**(6.6)**	**(4.5)**	(2.1)	46.7%
Operating Earnings for Common	**60.5**	**56.0**	4.5	8.0%
Writedown in Investment	(1.8)			
Reported Earnings for Common	**58.7**	**56.0**	2.7	
Per share data				
EPS - operating (f.d.)	**$1.15**	**$1.22**	**($0.07)**	**-5.5%**
EPS - reported (f.d.)	$1.12	$1.22	($0.10)	
Dividends per share	$0.39	$0.36	$0.03	8.3%

Adjusting EPS Upwards

Terasen management provided new EPS guidance for 2004 in the range of $2.75 to $2.79, which is above our prior $2.71 estimate. We have therefore re-visited our assumptions across the company and have revised our EPS estimates to $2.77 for 2004 and $2.94 for 2005 (Exhibit 2). Our 2005E has increased by $0.11, and the main changes in both 2004 and 2005 are higher earnings estimates for both the TransMountain Pipeline and Express System. Our dividend forecasts remain unchanged.

Exhibit 2. Terasen Segmented Earnings Estimates

	1999	2000	2001	2002	2003	2004E	2005E	CAGR ('02-'05)
Natural gas distribution	51.7	58.7	67.8	92.4	95.4	90.1	91.0	-0.5%
Petroleum transportation	19.5	21.3	27.3	29.3	59.8	72.4	80.0	39.8%
Other	3.0	(1.2)	(10.5)	(11.8)	(17.1)	(16.6)	(16.4)	11.6%
Operating earnings	74.2	78.8	84.6	109.9	138.1	145.9	154.6	12.1%
Non recurring gains (losses)	7.0	30.0		(4.1)	(5.4)			
Net Income for Common	**81.2**	**108.8**	**84.6**	**105.8**	**132.7**	**145.9**	**154.6**	**13.5%**
Per share data								
EPS diluted - operating	**$ 1.92**	**$ 2.04**	**$ 2.19**	**$ 2.52**	**$ 2.64**	**$ 2.77**	**$ 2.94**	**5.3%**
YoY Growth		*6.1%*	*7.4%*	*15.0%*	*4.6%*	*5.3%*	*6.0%*	
EPS diluted - reported	$ 2.10	$ 2.82	$ 2.19	$ 2.43	$ 2.53	$ 2.77	$ 2.94	6.6%
EPS basic - operating	$ 1.94	$ 2.06	$ 2.21	$ 2.54	$ 2.66	$ 2.80	$ 2.97	5.3%
EPS basic - reported	$ 2.12	$ 2.84	$ 2.21	$ 2.45	$ 2.56	$ 2.80	$ 2.97	6.6%
Dividends per share	$ 1.165	$ 1.225	$ 1.300	$ 1.410	$ 1.530	$ 1.650	$ 1.740	7.3%
Payout ratio	60.1%	59.5%	58.9%	55.4%	57.5%	58.9%	58.6%	

Maintaining HOLD Rating and $50.00 Target Price

Terasen is currently trading at 17.1x price-to-earnings and a 3.3 percent dividend yield, which is towards the upper end of its historical trading levels (Exhibit 3). Going forward, we expect absolute valuations to be pressured in a rising bond yield environment. Our $50.00 target price implies a 17.0x price-to-earnings multiple and a 3.5 percent dividend yield, and we therefore believe that the stock is fairly valued.

When normalized for the current level of the 10-year Government of Canada bond yield, its 132% relative earnings yield and 74% relative dividend yields are actually below historical valuation levels, however we attribute this to the unusually low 10-year bond yield of 4.45 percent falling outside of the more normal range of 5 to 7 percent.

Exhibit 3. Terasen Valuations

	Target	Current	Historical Average
Target Price	50.00	47.61	
10-year Bond	5.00%	4.45%	6.00%
EPS	2.94	2.79	
Dividend	1.74	1.56	
Book value	27.43	25.05	
Price-to-earnings	17.0	17.1	14.0
Earnings Yield	5.9%	5.9%	7.3%
Dividend Yield	3.5%	3.3%	4.3%
Price-to-Book	1.8	1.9	1.7
Relative Earnings Yield	118%	132%	123%
Relative Dividend Yield	70%	74%	71%

Note: Target price based on 2005E estimates. Current valuations are based on 12-month forward EPS estimate and current dividend and book value. The historical average is from 1995.
Source: TD Newcrest.

Appendix 1. Comparables

	Ticker (Exch.)	Recent Price	EPS* 2003	EPS* 2004E	EPS* 2005E	CAGR	P/E 2003	P/E 2004E	P/E 2005E	EPS For. E	P/E For.	Div	Div Yd	Payout Ratio	Book Value	P/BV	CFPS	P/CF
Canadian Pipelines & Utilities																		
Atco Ltd.	ACO/X-T	50.20	4.20	4.61	4.89	7.9%	12.0	10.9	10.3	4.65	10.8	1.28	2.55	28%	36.83	1.4	12.41	4.0
Canadian Utilities Ltd.	CU-T	58.51	3.80	3.97	4.09	3.8%	15.4	14.7	14.3	3.98	14.7	2.12	3.62	53%	29.88	2.0	5.37	10.9
Emera Inc.	EMA-T	18.54	1.29	1.23	1.27	-0.5%	14.4	15.1	14.6	1.24	15.0	0.88	4.75	72%	12.13	1.5	2.22	8.4
Enbridge Inc.	ENB-T	50.82	2.83	2.96	3.15	5.5%	18.0	17.2	16.1	2.99	17.0	1.83	3.60	62%	21.79	2.3	2.39	21.3
Fortis Inc.	FTS-T	61.25	4.10	4.28	4.43	3.9%	14.9	14.3	13.8	4.30	14.2	2.16	3.53	50%	35.27	1.7	9.28	6.6
Terasen Inc.	TER-T	47.61	2.64	2.77	2.94	5.5%	18.0	17.2	16.2	2.79	17.0	1.56	3.28	56%	25.05	1.9	5.20	9.2
TransAlta Corp.	TA-T	17.55	0.85	0.89	1.09	13.2%	20.6	19.7	16.1	0.92	19.1	1.00	5.70	112%	12.90	1.4	4.08	4.3
TransCanada Corp.	TRP-T	26.83	1.58	1.60	1.65	2.2%	17.0	16.8	16.3	1.61	16.7	1.16	4.32	73%	12.61	2.1	3.96	6.8
Average						**4.8%**	**16.9**	**16.4**	**15.3**		**16.3**		**4.11**	**68%**		**1.8**		**9.6**

Note: Averages exclude Atco * With the exception of Enbridge, Terasen and TransCanada TD EPS estimates, all EPS forecasts are consensus estimates. Shaded 2003 EPS are estimates.

	Ticker (Exch.)	Recent Price	E/P[1] Yield	E/P[1] Premium vs. 10-Yr	E/P[1] Relative to 10-Yr	Div Yield Yield	Div Yield Discount vs. 10-yr	Div Yield Relative to 10-yr	Debt-to-Capital	S&P Debt Rating[2]	Market Cap.
Canadian Pipelines & Utilities											
Atco Ltd.	ACO/X-T	50.20	9.3%	481	208%	2.5%	190	57%	53.6	A	1,497
Canadian Utilities Ltd.	CU-T	58.51	6.8%	236	153%	3.6%	83	81%	54.6	A	3,710
Emera Inc.	EMA-T	18.54	6.7%	221	150%	4.7%	(29)	107%	54.5	BBB+	2,003
Enbridge Inc.	ENB-T	50.82	5.9%	142	132%	3.6%	85	81%	61.3	A-	8,718
Fortis Inc.	FTS-T	61.25	7.0%	257	158%	3.5%	93	79%	60.3	BBB+	1,063
Terasen Inc.	TER-T	47.61	5.9%	141	132%	3.3%	118	74%	69.9	BBB	2,697
TransAlta Corp.	TA-T	17.55	5.2%	79	118%	5.7%	(125)	128%	49.2	BBB-	3,345
TransCanada Corp.	TRP-T	26.83	6.0%	154	134%	4.3%	13	97%	61.0	#N/A N.A.	12,964
Average			**6.2%**	**176**	**139%**	**4.1%**	**34**	**92%**	**58.7**		

Note: Averages exclude Atco.

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Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 7

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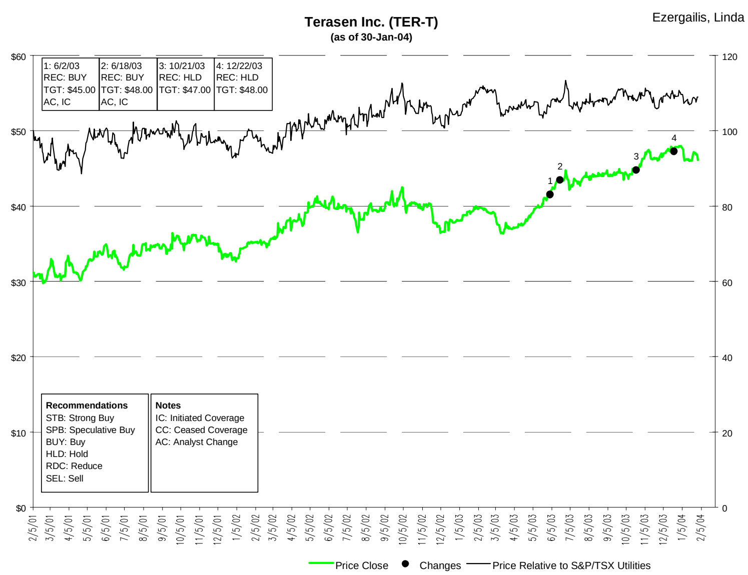
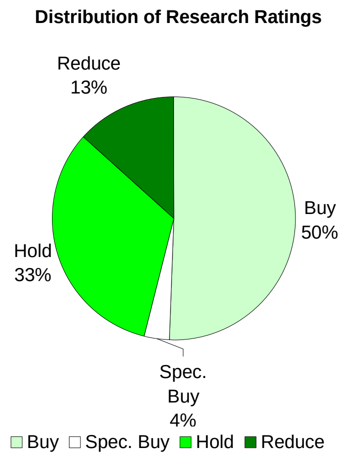
Price Graphs



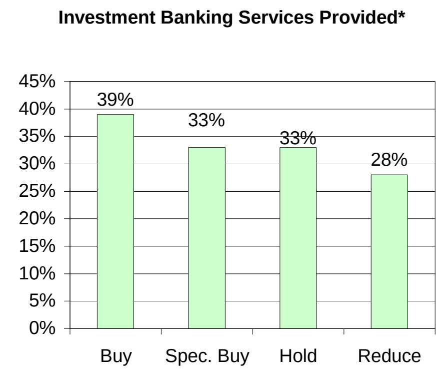
Research Ratings

BUY:	The stock's total return is expected to exceed a minimum 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.

Distribution of Research Ratings



Current as of January 31, 2004



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TD Newcrest

Action Notes

April 23, 2004
Equity Research

PIPELINES & UTILITIES

Recommendation: HOLD
Unchanged
12-Month Target Price: C$50.00
Unchanged
12-Month Total Return: 10.2%

Market Data (C$)	
Current Price ($)	46.89
52-Wk Range ($)	37.51 - 50.00
Mkt Cap (f.d.)($mm)	2,426.7
Dividend ($)	1.68
Yield (%)	3.6

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	52.3
Float (mm)	52.3
BVPS (basic)($)	26.24
Net Debt/Tot Cap (%)	65.2
ROE (%)	10.8

Estimates (C$)			
Year	**2003A**	**2004E**	**2005E**
EPS (f.d.)($)	2.64	2.78	2.96
CFPS (f.d.)($)	5.63	5.42	5.77
DI ($)	1.53	1.65	1.77

Valuations			
Year	**2003A**	**2004E**	**2005E**
P/E (f.d.)(x)	17.6	16.7	15.7
P/CFPS (f.d.)(x)	8.2	8.6	8.0

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Notes:
All figures in Canadian dollars, unless otherwise specified.

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Terasen Inc.

(TER-T; C$46.89)

Terasen Continues to Deliver Solid Results In Q1

SUMMARY AND RECOMMENDATIONS

Terasen delivered another solid quarter, consistent with its track record of meeting or exceeding investor expectations. The company reported Q1/04 earnings of $80.6 million and EPS (f.d.) of $1.53. The results were above both our $1.49 EPS estimate and the consensus estimate of $1.50, largely due to higher than expected performance in its gas distribution utility division.

As expected, Terasen increased the quarterly dividend per share by 7.7% to $0.42 ($1.68 annualized) from $0.39 ($1.56 annualized) previously. The company also declared a two-for-one stock split in the form of a stock dividend, which is payable on June 14, 2004 to shareholders on record as of June 7, 2004. It will therefore trade on a post-stock dividend basis on June 3, 2004.

We are maintaining our financial forecasts. Our $2.78 and $2.96 EPS estimates for 2004 and 2005 respectively are in line with consensus of $2.80 and $2.98. Management has confirmed its 2004 EPS guidance of the mid to high $2.70s range, consistent with a 6% year-over-year growth guidance. We are maintaining our HOLD recommendation and $50 target price.

DISCUSSION AND OUTLOOK

Earnings were up $7.2 million (9.8%) or $0.11 per share (f.d.) (8.5%) year-over-year, compared to operating earnings of $73.9 million or EPS (f.d.) of $1.42 in Q1/03. The improvement was driven in large part by the higher earnings in the petroleum transportation division. We previously made a positive $0.5 million adjustment to Q1/03 reported earnings of $73.4 million to reflect accelerated amortization of the revenue deficiency deferral account (RDDA) at Terasen Gas Vancouver Island (TGVI), which was originally booked in Q3/03 but was applicable for Q1/03.

Natural Gas Distribution earnings benefited from efficiencies gained through the integration of the mainland and Vancouver Island utilities. Q1/04 earnings for this division were $67.4 million—$0.3 million (0.4%) higher compared to Q1/03. Taking into account the $0.5 million RDDA adjustment in Q1/03, this quarter's earnings for the gas distribution division were $0.2 million lower year-over-year. We believe the company will continue to maximize the benefits of its performance-based regulation (PBR) negotiated in 2003 through incremental cost savings efforts, however, the efficiency gains from the integration of the two utilities have largely been realized already. These cost savings should partially mitigate the 27 bps year-over-year decline in regulated benchmark ROE for 2004 to 9.15 percent.

Petroleum Transportation earnings reflected strong throughput on Trans Mountain Pipe Line and the contribution from the Corridor Pipeline. The division's earnings were $18.3 million in Q1/04, a $6.7 million (58%) increase versus the same period last year and a 2.2% increase sequentially from Q4/03. Trans Mountain's earnings increased $2.1 million (25%) versus Q1/2003, reflecting higher throughput levels on the Canadian and U.S. mainlines, which increased by 19% and 87%, respectively, year-over-year. The Corridor Pipeline, which was not yet in service in Q1/03, contributed $3.9 million in Q1/04. Express System, acquired in January of 2003, contributed $4.0 million in the quarter, up from $3.3 million in Q1/03.

The segmented operating results have been restated, breaking out the increasingly significant water and utility services business. The water and utility services segment, which was previously included in other activities, includes Terasen Waterworks and Terasen Utility Services, as well as Terasen's 30% stake in CustomerWorks LP. The segment posted break-even operating results in Q1/04, which compared to a loss of $0.6 million in Q1/03. Going forward, the importance of this segment will grow once the recently announced acquisition of Fairbanks Sewer and Water Inc. (FSW) in Alaska is completed this summer.

The Other activities segment’s $5.1 million loss included a $1.7 million after-tax gain from Terasen's share of the mark-to-market accounting of Clean Energy's outstanding natural gas positions . We will continue to see mark-to-market activity in the future quarters due to Terasen adopting the guideline on hedging relationships. The variability will be driven by underlying volatility in the natural gas markets, however it is expected to be neutral over time. The Q1/04 loss for this segment was up from a $4.7 million loss in Q1/03 and reflected higher interest and income tax expenses, which more than offset the $1.7 million gain. Besides the 44.2% interest in Clean Energy, the segment includes Terasen International, as well as corporate interest and administration charges. Management indicated on the conference call that it still had not completed its review of options for the small international business, which initiated as a result of the disappointing results in 2004.

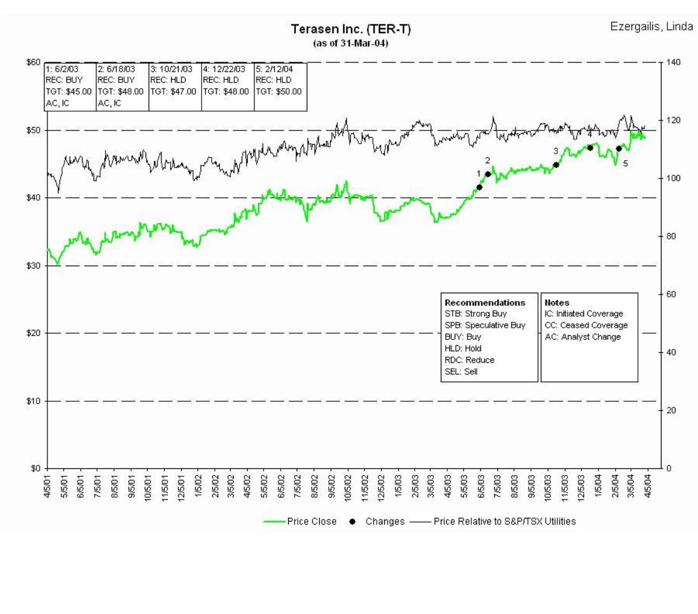
No change to our $50.00 Target Price and HOLD Rating.

This strong quarter continues the company’s track record in delivering results that meet or exceed shareholder expectations, and this strong track record is one reason why Terasen enjoys a premium valuation to the sector, in our view.

We are maintaining our $50.00 target price, which is predicated on our 2005 financial forecasts and a 5.0% 10-year Government of Canada yield. Our target yield is a combination of 1) 50% relative earnings yield of 118%, 2) 25% relative dividend yield of 71%, and 3) 25% price-to-book value of 1.8x.

Terasen is currently trading at a 16.9x price-to-2004E earnings ratio, 3.5% 2004E dividend yield and 1.8x price-to-current book value. The 10-year bond yield is currently 4.6%; the relative earnings yield is 128% and relative dividend yield is 76%. It is trading close to our target valuation levels, and therefore we expect capital appreciation to be driven by earnings and dividend growth, not valuation expansion, over the next year.

Price Graph



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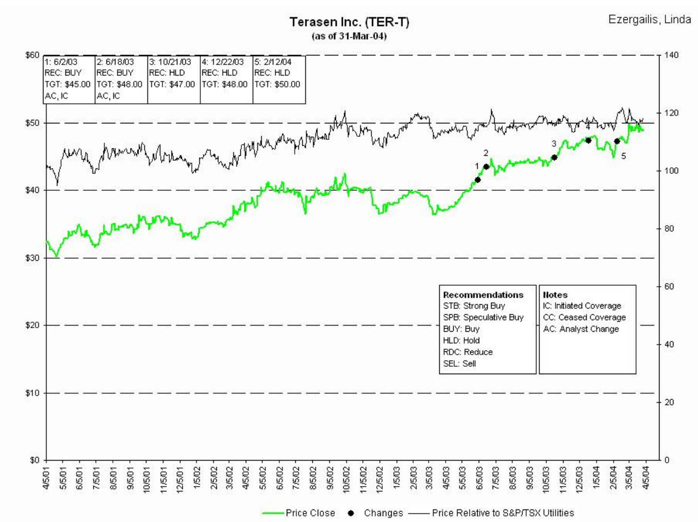
Price Graphs



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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.

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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

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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.

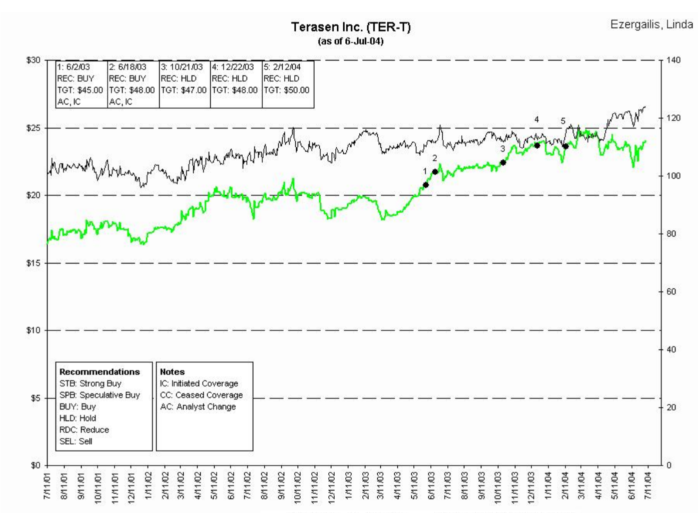
Key Risks to Target Price

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



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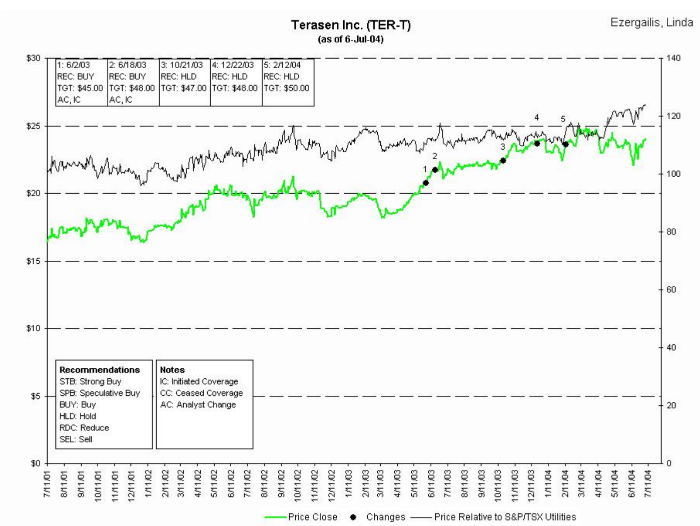
Price Graphs



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S&P/TSX BULLETIN

AUGUST 23, 2004

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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: [3]Volume (Millions)	[3]Value ($ Millions)	[3]Trans	Non-trade Days	Float Turn	Est. Indexer Demand (Millions)
			$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.

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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

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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.

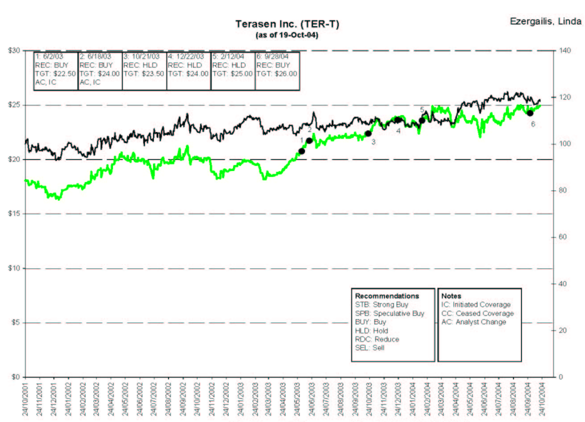
Valuation
Our $26.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.8%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (vs. historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 75% (vs. historical 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

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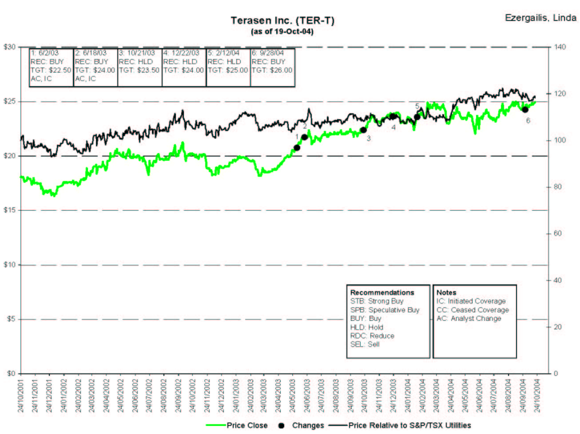
Price Graphs



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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.

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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

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Notes:
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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.

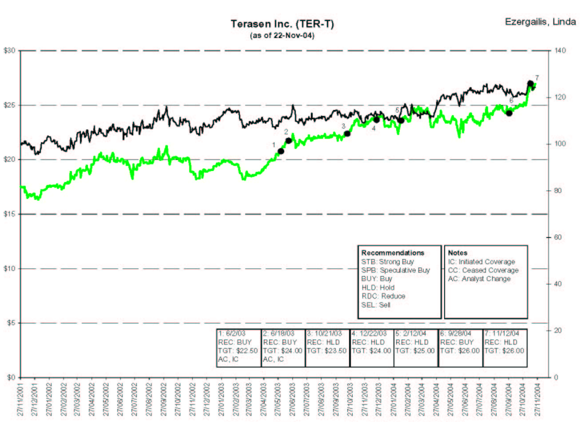
Valuation - Our $26.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.8%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (vs. historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 75% (vs. historical 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



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TD Newcrest | **Action Notes** | **December 3, 2004**
Equity Research

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Terasen Inc.	TER-T	2, 4, 14

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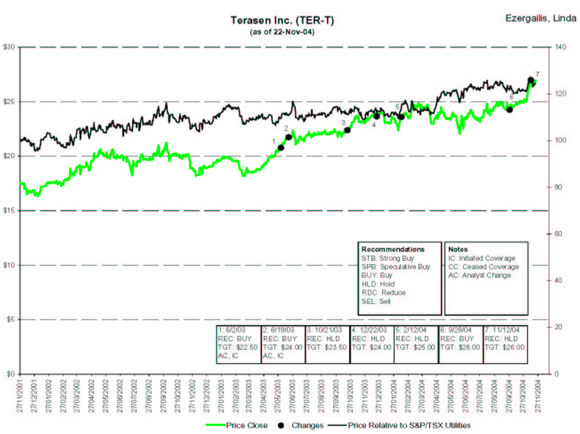

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Action Notes

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

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Notes:
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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.

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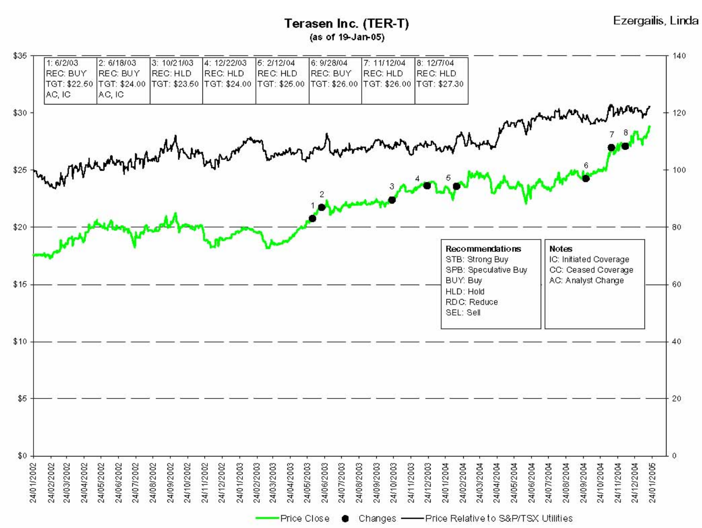

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Disclaimer

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	--

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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.

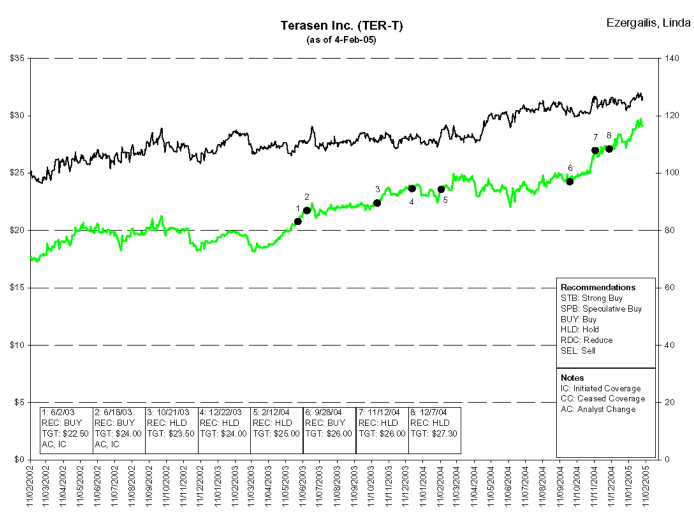
Valuation - Our $29.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.3%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (versus historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 77% (versus historical 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



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TD Newcrest

Action Notes

February 17, 2005
Equity Research

TD Newcrest Equity Research Disclosures

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Terasen Inc.	TER-T	1, 2, 4, 14

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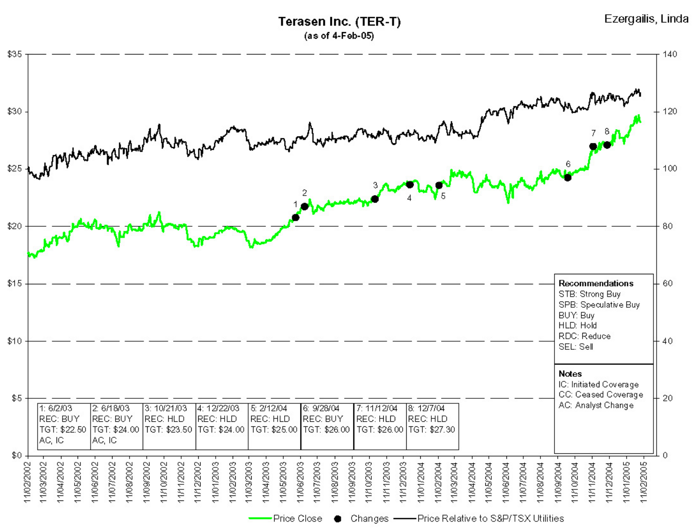
Price Graphs



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HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
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Disclaimer

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

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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.

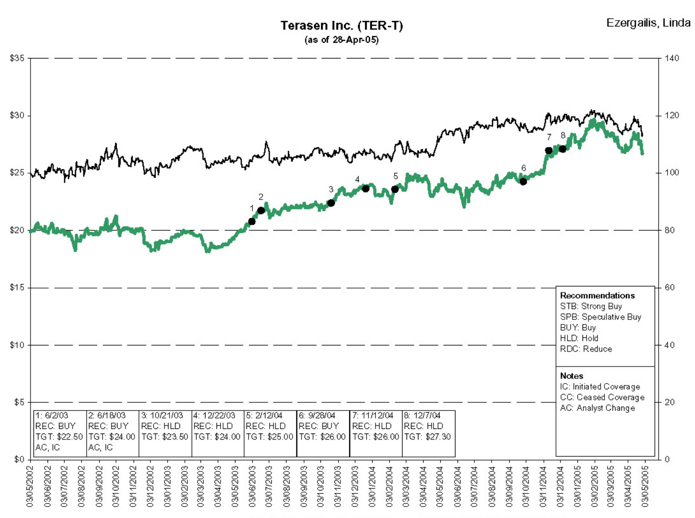
Key risks to our target price include: 1) higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) potential reduction in the historical valuation premium vs. the sector, 5) tougher-than-expected competition for new oil transmission pipeline 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



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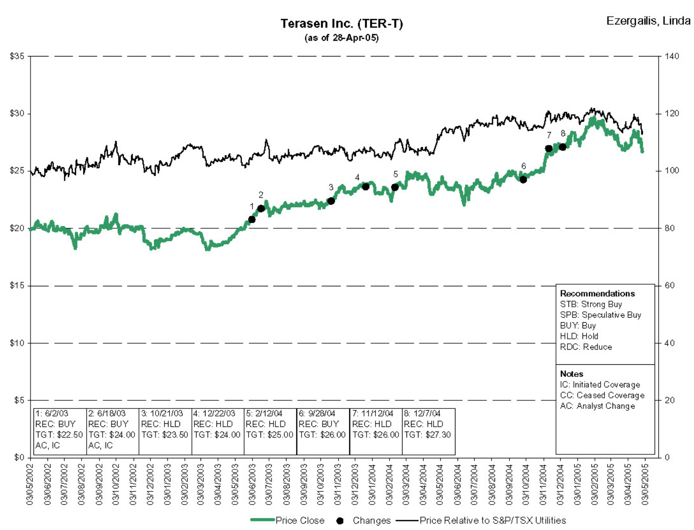
Price Graphs



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HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
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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

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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.

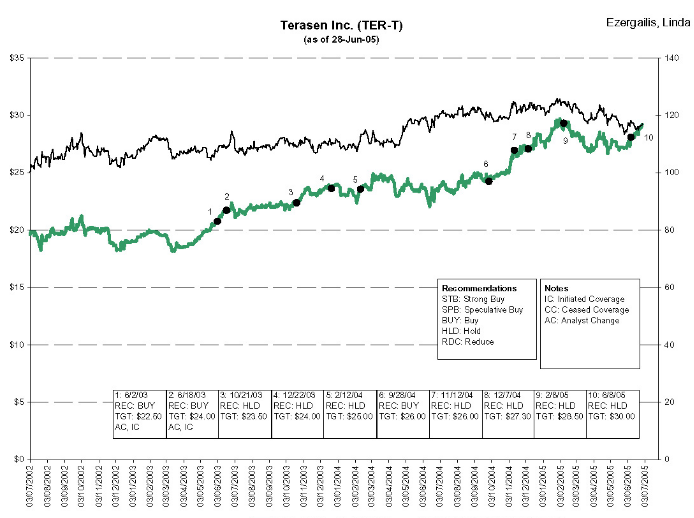
Key risks to our target price include: 1) regulatory and Terasen shareholder approvals for the transaction, 2) post-merger integration risk, 3) higher than expected long bond yields in North America, 4) lower than expected earnings and cash flow growth by Kinder Morgan 5) tougher-than-expected regulatory 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



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Enbridge Inc.	ENB-T	1, 2, 4, 9, 13, 14
TransCanada Corp.	TRP-T	2, 13, 14

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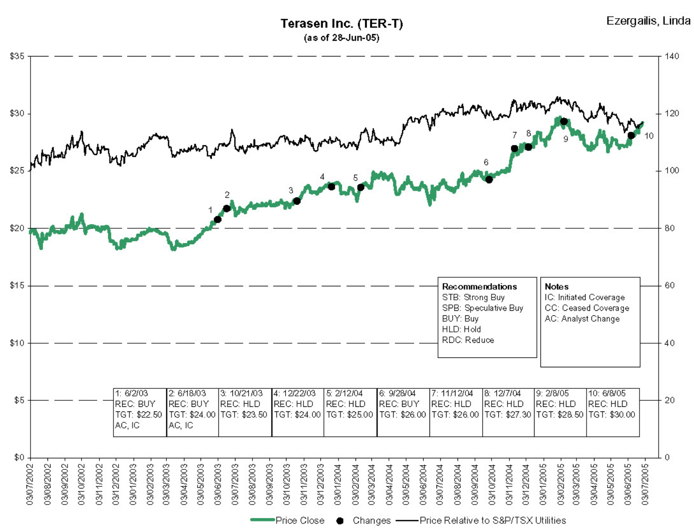

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TD Newcrest

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

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Notes:
All figures in Canadian dollars, unless otherwise specified.

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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.

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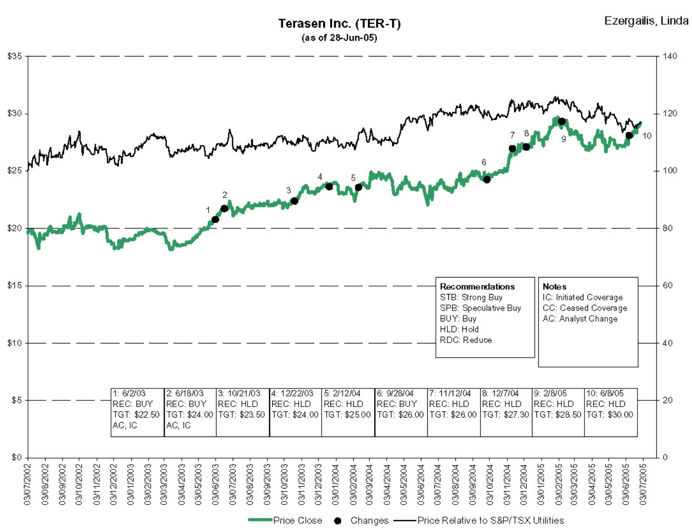

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UBS

Global Equity Research

-

UBS Investment Research

Terasen Inc.

Gas Utilities

Rating	**Neutral 1** *Unchanged*
Price target	**C$46.50/US$35.49** *Unchanged*
Price	**C$47.70/US$36.40**

RIC: TER.TO BBG: TER CN

18 February 2004

Pipeline full of opportunities

■ Mildly disappointing results

Terasen reported mildly disappointing recurring 2003 earnings of C$2.62/sh vs. our C$2.64 estimate and the Street's C$2.63. Unfortunately, very strong Trans Mountain annual throughput did not translate into significantly higher earnings.

■ Mixed bag of results

In brief, gas distribution showed some earnings improvement from lower costs and taxes – in spite of significantly lower volumes. Somewhat surprisingly, losses from other activities increased from higher corporate expenses.

■ Opportunities on the horizon

Largely because of significant projected oil sands volume growth and the need for new market development, we believe a number of incremental system expansion opportunities exist for Terasen. Moreover, a continuation of relatively strong refining margins in selected regions may result in Terasen's status as a swing pipeline lessening in degree.

■ Valuation: 12-month target price of C$46.50

We retain our Neutral 1 rating and C$46.50 12-month price target. Moreover, we continue to employ multiple valuation methodologies to obtain our price target; including: a 1.4x P/BV multiple to our 2004E book value; a projected dividend yield of 3.5%; and a dividend yield spread of 150 bps.

Highlights (C$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	1,707	1,877	1,928	2,097	-
EBIT	337	366	401	425	-
Net income (UBS)	125	139	145	153	-
EPS (UBS, C$)	2.43	2.53	2.74	2.90	-
Net DPS (UBS, C$)	1.41	1.53	1.62	1.71	-

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-	19.5	20.8	20.3	-
ROIC (EBIT) %	-	9.0	9.6	10.2	-
EV/EBITDA x	-	10.0	10.1	9.5	-
PE (UBS) x	-	16.7	17.4	16.5	-
Dividend yield %	-	3.6	3.4	3.6	-

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$47.70 on 17 Feb 2004; Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items.

Trading data (local/US$)

52-wk. range	C$48.00-36.35/US$37.26-24.49
Market cap.	C$2.48bn/US$1.90bn
Shares o/s	52m (COM)
Free float	100%
Avg. daily volume ('000)	71
Avg. daily value (C$m)	3.3

Balance sheet data 12/04E

Shareholders' equity	C$1.41bn
P/BV (UBS)	1.8x
Net cash (debt)	(C$2.96bn)

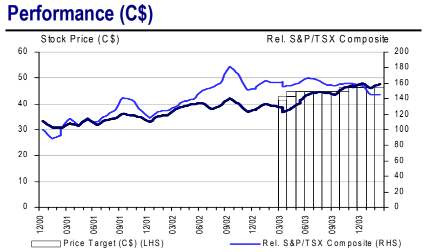
Forecast returns

Forecast price appreciation	-2.5%
Forecast dividend yield	3.6%
Forecast stock return	+1.1%
Market return assumption	7.2%
Forecast excess return	-6.1%

EPS (UBS, C$)

	12/03	12/04E	Cons.	Prior
Q1	-	-	-	-
Q2	-	-	-	-
Q3	-	-	-	-
Q4	-	-	-	-
FY	2.53	2.74	-	-

Performance (C$)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7

Mildly disappointing results

Terasen reported mildly disappointing recurring 2003 earnings of C$2.62/sh vs. our C$2.64 estimate and the Street's C$2.63. Admittedly, recurring earnings were up 6.9% year-over-year, however, some business areas disappointed. Our results analysis is divided into three categories: (1) the results; (2) going forward; and, (3) valuation.

Results

Terasen reported mildly disappointing recurring 2003 earnings of C$2.62/sh vs. our C$2.64 estimate and the Street's C$2.63. Admittedly, recurring earnings were up 6.9% year-over-year, however, some business areas disappointed. In brief, gas distribution showed some earnings improvement from lower costs and taxes – in spite of significantly lower volumes. Somewhat surprisingly, losses from other activities increased from higher corporate expenses. Unfortunately, and perhaps most disappointingly, very strong Trans Mountain annual throughput did not translate into significantly higher earnings. Our segmented analysis follows.

Natural gas distribution

Gas distribution ahead of expectations

Terasen Gas and TGVI demonstrated continued earnings growth from gas distribution which came in ahead of our expectations. That differential was attributed to improved operating results and a lower tax expense (see Table 1 below). For the year, this segment generated earnings of C$98.8 million compared to C$92.4 million in 2002. Specifically, Terasen Gas reported profits of C$72.6 million and TGVI delivered an impressive C$26.2 million. During Q4 2003, this business group incurred a one-time C$3.4 million restructuring charge associated with the integration of the Mainland and Vancouver Island operations.

Table 1: Natural gas distribution

	2003	2002	Chg (%) y-o-y
Earnings (C$millions)			
Terasen Gas	72.6	69.5	4%
TGVI	26.2	22.9	14%
Total	98.8	92.4	7%
Number of customers	859,183	850,699	1.0%
Volumes (petajoules):			
Sales volumes	125.6	137.2	-8%
Transportation volumes	62.3	66.7	-7%
Throughput*	22.5	24.6	-9%
Total	210.4	228.5	-8%

*fixed-price contracts

Source: UBS, Company reports

Petroleum transportation

Volume increases of 7% and 14% on the Trans Mountain Canadian and U.S. systems, respectively

For 2003, petroleum transportation's earnings increased 92% to C$56.2 million from C$29.3 million one-year earlier. This impressive leap in year-over-year earnings was largely attributable to three things: (1) strong Trans Mountain throughput volumes; (2) the partial acquisition of the Express pipeline; and, (3) the start-up of the Corridor pipeline. Unfortunately, very strong Trans Mountain annual throughput did not translate into significantly higher earnings for this division (see table below). Volumes on the Trans Mountain increased 7% on the Canadian system and 14% on the U.S. system year-over-year. Yet, profitability was impacted in Q4 2003 by higher operating and maintenance costs.

Table 2: Petroleum transportation

Significant volumetric increases

	2003	2002	Chg(%) y-o-y
Earnings (C$millions)			
Trans Mountain	35.8	29.3	22%
Express System	10.7		-
Corridor	9.7		-
Total	56.2	29.3	92%
Volumes (b/d):			
Trans Mtn Cdn mainline	216,100	201,200	7%
Trans Mtn US mainline*	54,600	47,800	14%
Express System	171,200	167,000	3%
Total	441,900	416,000	6%

Source: UBS, Company reports

Favorable Californian refinery margins aid volumes

We believe Terasen's Trans Mountain Pipeline and the Westridge Dock are enviably positioned to continue benefiting from very robust Californian refinery margins (see Table 3).

Other activities

Losses from this segment increased 19% to C$18.9 million in 2003 from C$15.9 million in 2002. According to the company's rather scant disclosures for this segment, improved performance in both waterworks and utility services were offset by higher corporate expenses and increased financing costs. Finally, Terasen incurred a C$1.8 million after-tax writedown on its investment in Westport Innovations (WPT.TO). Previously, in Q3 2002, Terasen took a C$4.1 million after-tax writedown on this investment.

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) Swing pipe no more? Each of these will be addressed in greater detail below.

Incremental expansion

In addition to the Express expansion, we expect a number of incremental expansion opportunities will result in strong earnings momentum for Terasen going forward. During the Q3 2003 investor conference call, the company outlined its plans for a two-phase expansion of the Trans Mountain pipeline. The first phase, which involves the addition of new pump capacity and the reactivation of an idle loop, is expected to increase capacity by 27,000 barrels per day. The company expects to invest C$16 million in capital expenditures to complete the first phase of the expansion by September 2004. The second phase of the expansion, which is expected to further increase capacity by an additional 17,000 barrels per day, should be completed by 2005 at a cost of C$17 – C$20 million. In terms of capital allocation, we believe all of these projects may deliver quite favorable returns if sufficient shipper support exists.

Very plausible incremental system expansions

New market development

In a series of research notes (including: 15 July 2003 "*Line of march to Oklahoma*"; 9 October 2003 "*Continental siege*"; and, 31 October 2003 "*At the inflection point?*") 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 (see the Suncor Energy report mentioned above). In our view, new market development is necessary and Terasen is likely to benefit from such market diversification.

Significant need to avoid selected crude market saturation

We believe current refining and historic margins are somewhat supportive of continued market development of various regions (see Table 3 below). 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. We also highlight the relative historic strength of Asian refining margins (Japan and Singapore with five-year refining margins averaging US$5.59 and US$3.86, respectively), which may become a more significant market for Canadian oil sands related crude products in the future.

Table 3: Refining Margins (US$/bbl)

PADD	Q104 to date	Q403	Q303	Q203	Q103	5-Year Average
1(E.Coast)Brent-Based	8.00	4.79	6.23	5.41	7.12	4.24
1(E.Coast) WTI-Based	6.08	4.30	5.72	3.80	5.90	4.01
2(Mid west)	6.43	4.97	8.35	7.10	6.20	4.21
3(Gulf Coast)	6.43	3.96	5.70	3.66	5.24	3.06
5(West Coast) ex CA	5.05	4.49	7.23	5.17	4.62	4.74
California	7.97	7.17	9.60	7.86	8.03	6.76
US Weighted Ave	**6.50**	**4.66**	**6.89**	**5.08**	**5.84**	**4.00**

Source: UBS; based on weekly average prices

Refining margins continue to be robust

Over the longer term, historic and projected refinery margin relationships are vital to the producers and the pipeline companies. Yet, in the near-term, we believe existing crude product inventory levels in a number of regions bode rather well for continued strong pipeline flows for both Enbridge and Terasen (see Table 4 below). Specifically, existing inventory levels in the PADD II and V regions are 12.6% and 2.6% below their respective 10-year averages. Those figures compare to U.S. crude inventories being 12.7% below the 10-year average.

Inventory levels far below historic averages

Table 4: U.S. Crude Oil and Products Inventory, DOE (MMB)

	06-Feb-04	06-Feb-03	10-Yr Ave Week of 02/06	Current % vs. Ave
1(E.Coast)	14.26	13.59	14.84	-3.9%
2(Mid west)	56.74	52.51	64.94	-12.6%
3(Gulf Coast)	136.7	138.02	151.02	-9.5%
4(Rocky Mts.)	11.82	12.15	12.13	-2.6%
5(West Coast)	49.37	53.57	64.97	-24.0%
U.S. Crude	**268.882**	**269.841**	**307.906**	**-12.7%**

Source: Department of Energy, UBS

Continued pipeline development likely

In our view, over the longer-term, these 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. Thus, at this stage, new market development is clearly important for Enbridge, Terasen and Alberta-based liquids producers, however, the many variables at play and timeline of events make discerning final positions almost impossible at this time.

Swing pipe no more?

Degree of swing pipe may be lessening

Considering relative historic refining margins, we believe a certain degree of evidence is beginning to support the argument that Trans Mountain is not truly a swing pipeline. Historically, Enbridge system expansions have played havoc with Trans Mountain's volumes. Presently, we believe Enbridge's Mainline system is running at approximately 80% of capacity. Moreover, shippers are often desirous of no less than 10% surplus capacity on that system. In that context, Enbridge still poses a relatively significant competitive threat to the throughput sensitive Trans Mountain line. Yet, arguably, relative refining margins, associated transportation differentials and market diversification may all equate to the reality, the degree and severity of that competitive threat has somewhat lessened. Thus, in the near-term, one may become incrementally more positive about Terasen's competitive potential versus Enbridge. Finally, over the longer term, shippers are expected to continue to dictate the direction and extent of Enbridge's continental siege and Terasen's potential incremental successes.

Valuation

We retain our Neutral 1 rating and C$46.50 12-month price target on Terasen. More recently, we have begun to take a more favorable view towards this name, in part due to the lessening degree of "swing" in the Trans Mountain line, as well as improved operational and financial performance along with decreased financial leverage. Nevertheless, Terasen's share price has risen 20.8% over the last year, and we view the stock as fully valued at this time. We continue to employ multiple valuation methodologies to obtain our price-target; including: a 1.4x P/BV multiple to our 2004E book value; a projected dividend yield of 3.5%; and a dividend yield spread of 150 bps.

12-month target price of $46.50

Risks

- There are a number of risks facing Terasen, including:

- One must always be cognizant of the regulator's power and ability to significantly affect the amount of the allowed or incentive returns that regulated utility-based assets may generate.

- Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings.

- A substantial amount of the gas distribution company's industrial customers are forestry industry related and, therefore, the softwood lumber dispute and other trade actions may indirectly impact earnings.

- The BC government's energy policy, especially as it relates to electricity, affects the comparable affordability of natural gas and future earnings prospects for Terasen.

- Oil sands related developments and potential diluent constraints might impact longer-term earnings growth.

■ 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

Please see above risks for greater details. Moreover, 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

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Global 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**	38%	35%
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**	51%	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%	26%

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 2003.

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

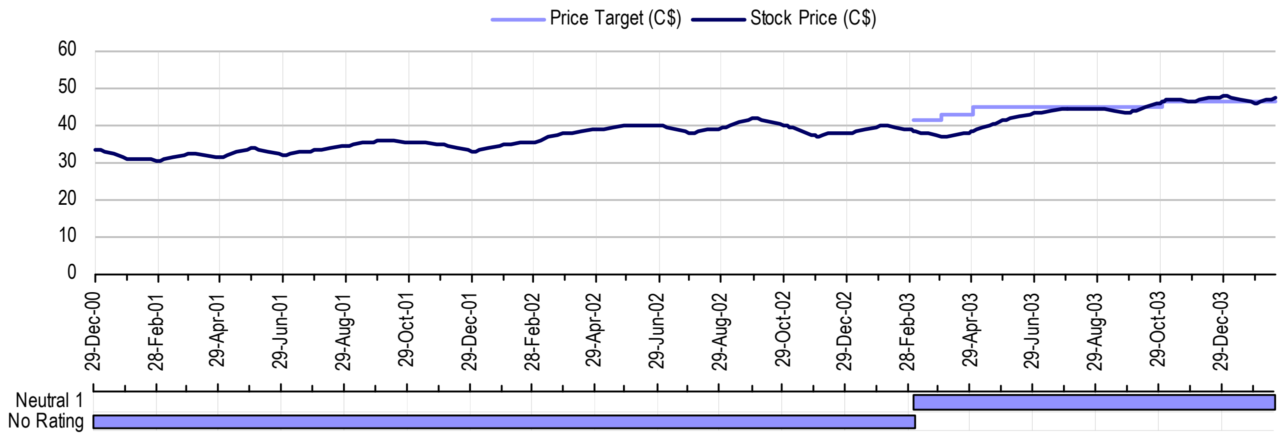
Company Name	Reuters	Rating	Price
Terasen Inc.[12]	TER.TO	Neutral 1	C$47.70

Price(s) as of 17 February 2004. Source: UBS.

12. 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 17 February 2004.

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Terasen Inc.

Rating	**Neutral 1** *Unchanged*
Price target	**C$46.50/US$34.55** *Unchanged*
Price	**C$46.10/US$34.15**

RIC: TER.TO BBG: TER CN

21 April 2004

Alaskan water works

■ Agreement for 50% interest in Fairbanks Sewer and Water

Terasen announced an agreement to acquire a 50% interest in Fairbanks Sewer and Water Inc. That privately held water and wastewater treatment company provides services to 82,000 residents in Fairbanks, Alaska.

■ Growing water works

As in many other areas of the world outside of North America, we continue to believe the water business should be privately owned. Moreover, we are hopeful of Terasen's efforts in growing this minor portion of its business into something more significant. In writing that, the company is the largest private sector provider of water treatment services in Western Canada.

■ Opportunities on the horizon

Largely because of significant projected oil sands volume growth and the need for new market development, we believe a number of incremental system expansion opportunities exist for Terasen. Moreover, a continuation of relatively strong refining margins in selected regions may result in Terasen's status as a swing pipeline lessening in degree.

■ Valuation: 12-month target price of C$46.50

We retain our Neutral 1 rating and C$46.50 12-month price target. Moreover, we continue to employ multiple valuation methodologies to obtain our price target; including: a 16.25x P/E multiple to our 2005E earnings estimate; a projected dividend yield of 3.7%; and a dividend yield spread of 170 bps.

Highlights (C$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	1,707	1,877	1,928	2,097	2,114
EBIT	337	366	401	425	424
Net income (UBS)	125	139	145	153	159
EPS (UBS, C$)	2.43	2.53	2.74	2.90	3.01
Net DPS (UBS, C$)	1.41	1.53	1.62	1.71	1.81

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-	19.5	20.8	20.3	20.1
ROIC (EBIT) %	-	9.0	9.7	10.4	10.4
EV/EBITDA x	-	10.0	9.9	9.3	9.1
PE (UBS) x	-	16.7	16.8	15.9	15.3
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$46.10 on 20 Apr 2004; Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items.

Trading data (local/US$)

52-wk. range	C$49.85-37.74/US$37.76-25.93
Market cap.	C$2.40bn/US$1.78bn
Shares o/s	52m (COM)
Free float	100%
Avg. daily volume ('000)	71
Avg. daily value (C$m)	3.4

Balance sheet data 12/04E

Shareholders' equity	C$1.41bn
P/BV (UBS)	1.7x
Net cash (debt)	(C$2.91bn)

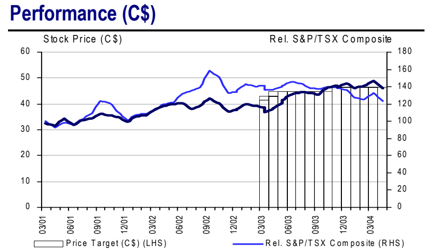
Forecast returns

Forecast price appreciation	+0.9%
Forecast dividend yield	3.6%
Forecast stock return	+4.5%
Market return assumption	7.2%
Forecast excess return	-2.7%

EPS (UBS, C$)

	12/03	12/04E	Cons.	Prior
Q1	1.40	1.46	-	-
Q2	0.16	0.20	-	-
Q3	(0.15)	(0.13)	-	-
Q4	1.12	1.21	-	-
FY	2.53	2.74	-	-

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5

Terasen announced a US$30 million agreement to acquire a 50% interest in Fairbanks Sewer and Water Inc. We view this transaction as part of Terasen's ongoing effort to expand its water business. This research note is divided into three categories: (1) the announcement; (2) going forward; and, (3) valuation.

The announcement

Terasen has agreed to acquire a 50% interest in Fairbanks Sewer and Water Inc. (FSW) in a US$30 million deal, of which US$8.6 million will be used to repay FSW's debt. FSW is a private interest regulated by the Regulatory Commission of Alaska, that provides water and wastewater treatment and water distribution services to the city of Fairbanks, Alaska. The deal is expected to close in the summer of 2004, subject to regulatory approvals.

Terasen has been operating the Fairbanks gas distribution system since 2001 under an operating contract with the owner of the gas utility and expects to realize synergies with its existing waterworks and utility services businesses. Terasen Utility Services, a subsidiary of Terasen Inc., is the largest private sector provider of water treatment systems in Western Canada, with more than 50 water and wastewater treatment systems in British Columbia and Alberta. Under the agreement, Terasen has the option to increase its interest in FSW to 100% at fair market value in 2009.

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) Swing pipe no more? Each of these will be addressed in greater detail below.

Incremental expansion

Very plausible incremental system expansions

We believe Terasen possesses a number of incremental expansion opportunities on a number of its pipeline systems. Those possible expansions include: (1) adding new pumping capacity and reactivating an idle Trans Mountain loop which should result in increased capacity of 27,000 barrels per day (ready by the fall of 2004); (2) another Trans Mountain expansion should result system in an additional 17,000 bpd and is likely to be completed by 2005; and, (3) efforts to expand the Express pipeline by roughly 108,000 bpd are ongoing. 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

Significant need to avoid selected crude market saturation

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 believe current refining and historic margins are somewhat supportive of continued market development of various regions. 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. We also highlight the relative historic strength of Asian refining margins (Japan and Singapore with five-year refining margins averaging US$5.59 and US$3.86, respectively), which may become a more significant market 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, 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. Thus, at this stage, new market development is clearly important for Enbridge, Terasen and Alberta-based liquids producers, however, the many variables at play and timeline of events make discerning final positions almost impossible at this time.

Swing pipe no more?

Degree of swing pipe may be lessening

Considering relative historic refining margins, we believe a certain degree of evidence is beginning to support the argument that Trans Mountain is not truly a swing pipeline. Historically, Enbridge system expansions have played havoc with Trans Mountain's volumes. Presently, we believe Enbridge's Mainline system is running at approximately 80% of capacity. Moreover, shippers are often desirous of no less than 10% surplus capacity on that system. In that context, Enbridge still poses a relatively significant competitive threat to the throughput sensitive Trans Mountain line. Yet, arguably, relative refining margins, associated transportation differentials and market diversification may all equate to the reality, the degree and severity of that competitive threat has somewhat lessened. Thus, in the near-term, one may become incrementally more positive about Terasen's competitive potential versus Enbridge. Finally, over the longer term, shippers are expected to continue to dictate the direction and extent of Enbridge's continental siege and Terasen's potential incremental successes.

Valuation

12-month target price of $46.50

We retain our Neutral 1 rating and C$46.50 12-month price target. More recently, we have begun to take a more favourable view towards this name, in part due to the lessening degree of "swing" in the Trans Mountain line, as well as improved operational and financial performance along with decreased financial leverage. Nevertheless, we view the stock as fully valued at this time (please refer to our 12 April 2004 research note "*Already in Neutral…About to Stall?*" for greater detail). We continue to employ multiple valuation methodologies to obtain our price-target; including: a 16.25x P/E multiple to our C$2.90 2005 earnings estimate; a projected dividend yield of 3.7%; and a dividend yield spread of 170 bps.

Risks

- There are a number of risks facing Terasen, including:

- One must always be cognisant of the regulator's power and ability to significantly affect the amount of the allowed or incentive returns that regulated utility-based assets may generate.

- Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings.

- A substantial amount of the gas distribution company's industrial customers are forestry industry related and, therefore, the softwood lumber dispute and other trade actions may indirectly impact earnings.

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Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Moreover, one should never underestimate the power of the regulator in any regulated business. Please see above risks for greater details.

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.

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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%	36%
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%	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**	9%	31%

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 2004.

KEY DEFINITIONS

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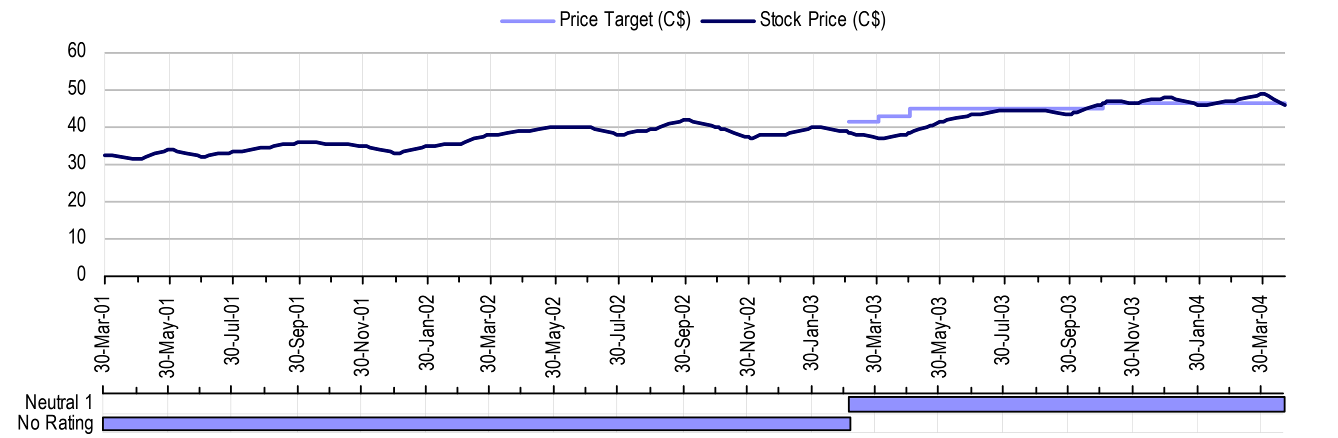
Companies mentioned

Company Name	Reuters	Rating	Price
Terasen Inc.	TER.TO	Neutral 1	C$45.96

Price(s) as of 19 April 2004. 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 19 April 2004.

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Terasen Inc.

Rating	Neutral 1 *Unchanged*
Price target	C$47.50/US$34.94 *Prior:C$46.50/US$34.21*
Price	C$46.55/US$34.13

RIC: TER.TO BBG: TER CN

22 April 2004

Pipeline full of profits

■ Exceeding expectations

Terasen reported Q1 net earnings of C$80.6 million, or C$1.54 per share, ahead of our estimate of C$1.46 and the consensus estimate of C$1.50. Results compare favourably to the net earnings of C$73.4 million, or C$1.42 per share, reported in Q1 2003.

■ Stock split and divy increase

Terasen has announced a two-for-one stock split, effective 14 June to shareholders on record as of 7 June. Additionally, Terasen has raised its quarterly dividend from C$0.39 to C$0.42, ahead of our expectation of C$0.41.

■ Opportunities on the horizon

Largely because of significant projected oil sands volume growth and the need for new market development, we believe a number of incremental system expansion opportunities exist for Terasen. Moreover, a continuation of relatively strong refining margins in selected regions may result in Terasen's status as a swing pipeline lessening in degree.

■ Valuation: C$47.50 12-month target price

Given the dividend increase, we are increasing our 12-month target price to C$47.50 from C$46.50; however, we our retaining our Neutral 1 rating. Additionally, we continue to employ multiple valuation methods to obtain that target, including: a 16.25x P/E multiple; a projected dividend yield of 3.7%; and a dividend yield spread of 170 bps.

Highlights (C$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	1,707	1,877	1,928	2,097	2,114
EBIT	337	366	401	425	424
Net income (UBS)	125	139	145	153	159
EPS (UBS, C$)	2.43	2.53	2.74	2.90	3.01
Net DPS (UBS, C$)	1.41	1.53	1.62	1.71	1.81

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-	19.5	20.8	20.3	20.1
ROIC (EBIT) %	-	9.0	9.7	10.4	10.4
EV/EBITDA x	-	10.0	10.0	9.3	9.1
PE (UBS) x	-	16.7	17.0	16.1	15.5
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$46.55 on 22 Apr 2004; Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items.

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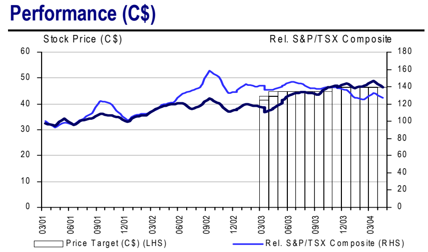
Trading data (local/US$)	
52-wk. range	C$49.85-38.00/US$37.76-26.14
Market cap.	C$2.42bn/US$1.78bn
Shares o/s	52m (COM)
Free float	100%
Avg. daily volume ('000)	71
Avg. daily value (C$m)	3.4

Balance sheet data 12/04E	
Shareholders' equity	C$1.41bn
P/BV (UBS)	1.7x
Net cash (debt)	(C$2.91bn)

Forecast returns	
Forecast price appreciation	+2.0%
Forecast dividend yield	3.6%
Forecast stock return	+5.6%
Market return assumption	7.3%
Forecast excess return	-1.7%

EPS (UBS, C$)	12/03	12/04E	Cons.	Prior
Q1	1.40	1.46	-	-
Q2	0.16	0.20	-	-
Q3	(0.15)	(0.13)	-	-
Q4	1.12	1.21	-	-
FY	2.53	2.74	-	-

Performance (C$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

■ 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.

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Global 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%	36%
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%	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**	9%	31%

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 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.

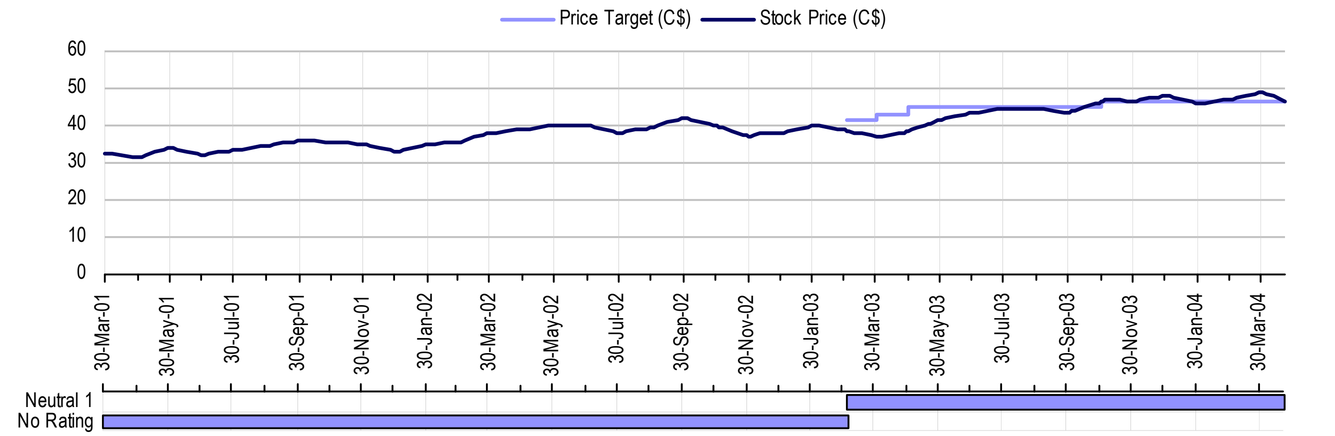
Companies mentioned

Company Name	Reuters	Rating	Price
Terasen Inc.	TER.TO	Neutral 1	C$46.40

Price(s) as of 21 April 2004. 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 21 April 2004.

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Terasen Inc.

Location, location, location

Global Equity Research

Canada

Gas Utilities

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

■ 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.

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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

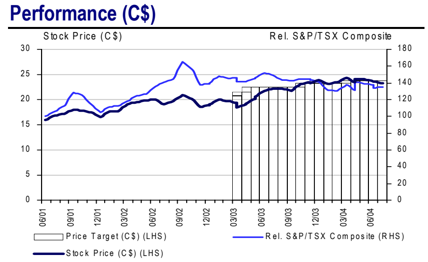
Balance sheet data 12/04E	
Shareholders' equity	C$1.47bn
P/BV (UBS)	1.7x
Net cash (debt)	(C$2.84bn)

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

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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.

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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

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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.

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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.

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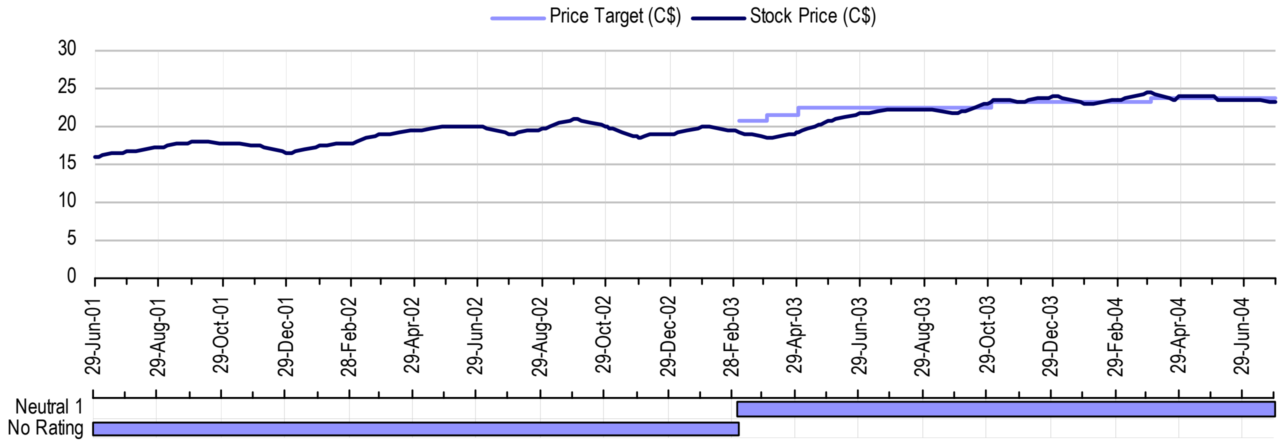
Terasen Inc. (C$)



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Global Equity Research

Canada

Gas Utilities

UBS Investment Research

Terasen Inc.

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

Growing up fast

■ 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

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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

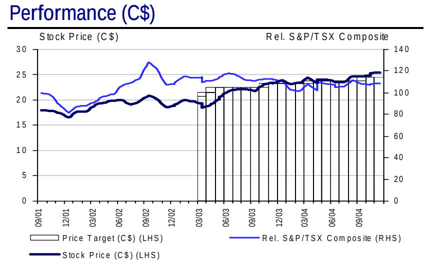
Balance sheet data 12/04E	
Shareholders' equity	C$1.54bn
P/BV (UBS)	1.7x
Net cash (debt)	(C$2.89bn)

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

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

	Q3 2004	Q3 2003	Q2 2004	Chg (%) y-o-y	Chg (%) 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

	Q3 2004	Q3 2003	Q2 2004	Chg (%) y-o-y	Chg (%) 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.

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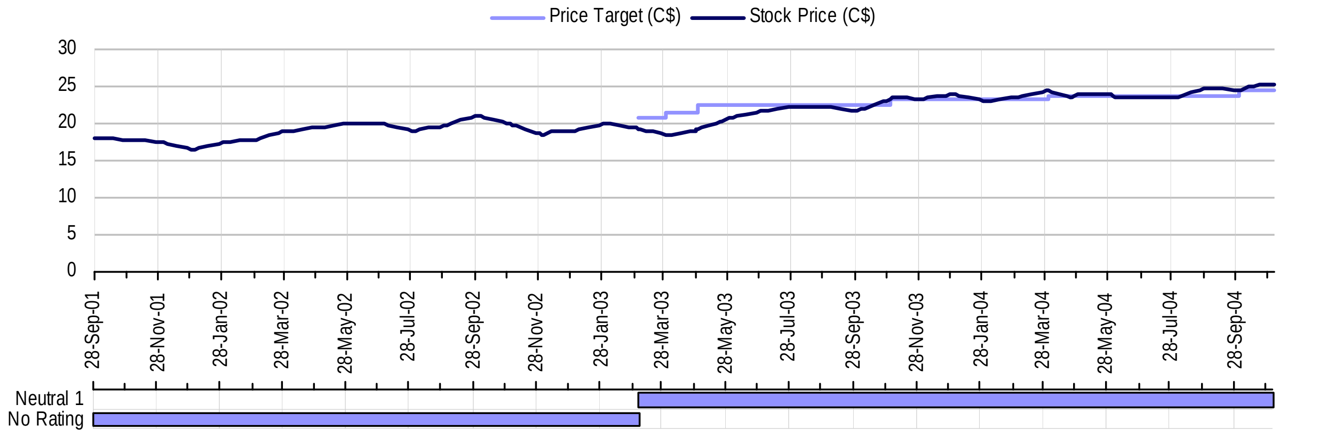
Terasen Inc. (C$)



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UBS

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

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 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$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

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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)

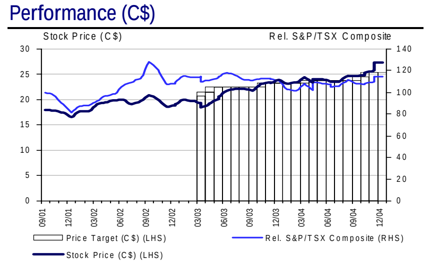
Forecast returns

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

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.

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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.

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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.
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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.

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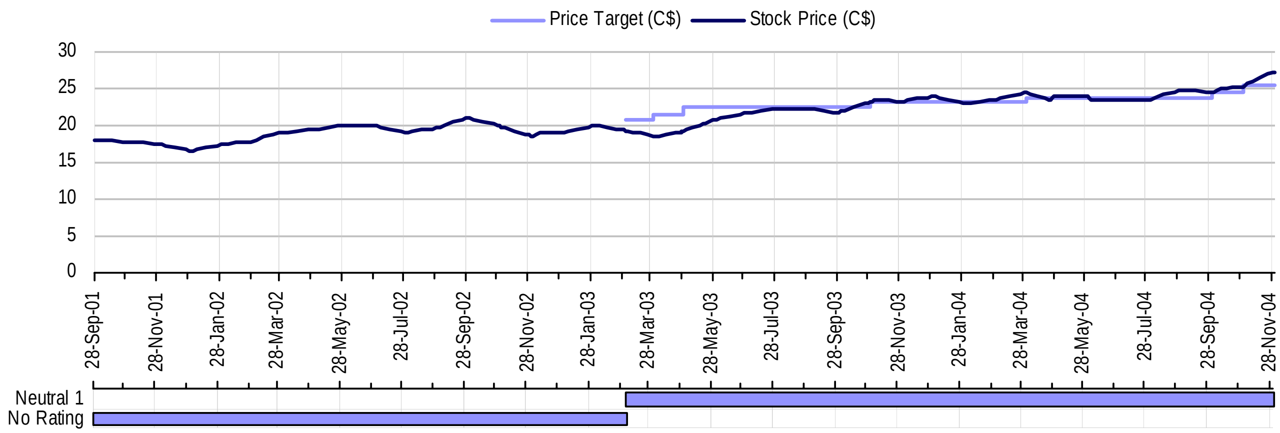
Terasen Inc. (C$)



Source: UBS; as of 1 December 2004.

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UBS

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Global Equity Research

Americas

Gas Utilities

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

UBS Investment Research

Terasen Inc.

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 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$m)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	1,848	1,957	2,022	2,074	2,163
EBIT	338	377	395	397	432
Net income (UBS)	111	156	163	172	179
EPS (UBS, C$)	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

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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

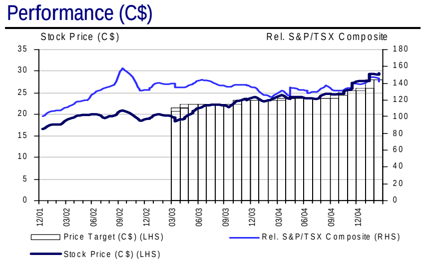
Balance sheet data 12/05E	
Shareholders' equity	C$1.62bn
P/BV (UBS)	1.9x
Net cash (debt)	(C$2.94bn)

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$)



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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.

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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.

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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.

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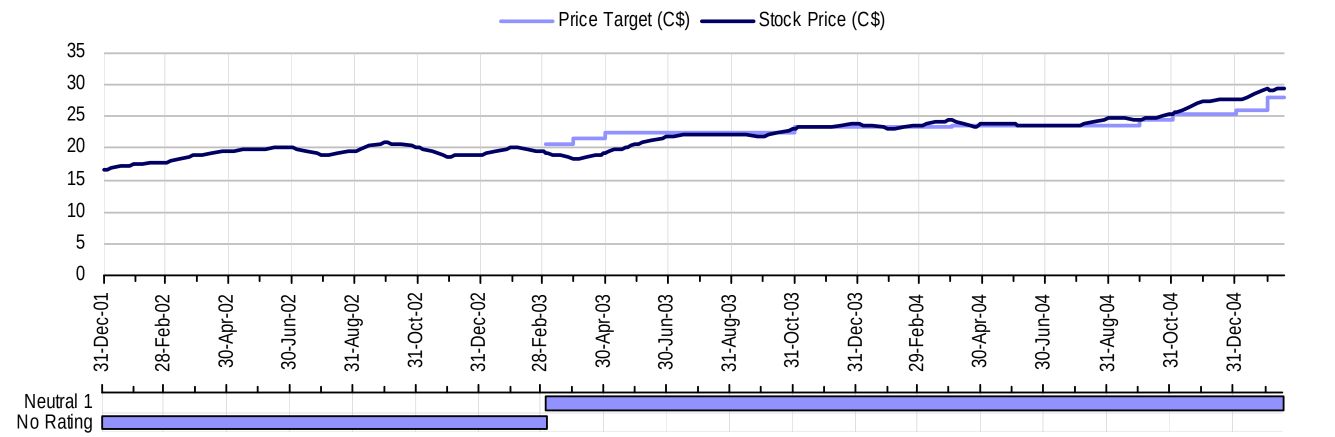
Companies mentioned

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.

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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
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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

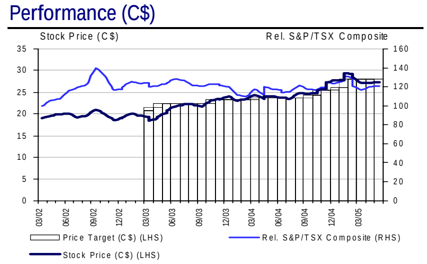
Balance sheet data 12/05E	
Shareholders' equity	C$1.49bn
P/BV (UBS)	2.0x
Net cash (debt)	(C$3.07bn)

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

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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

Selected issues affected pipeline volumes

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.

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

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.

Customer growth continues

Petroleum transportation

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%.

Substantial volume declines are unlikely to be ongoing

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:

- 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.

Incremental distribution growth on Vancouver Island driven by power plant development

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

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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

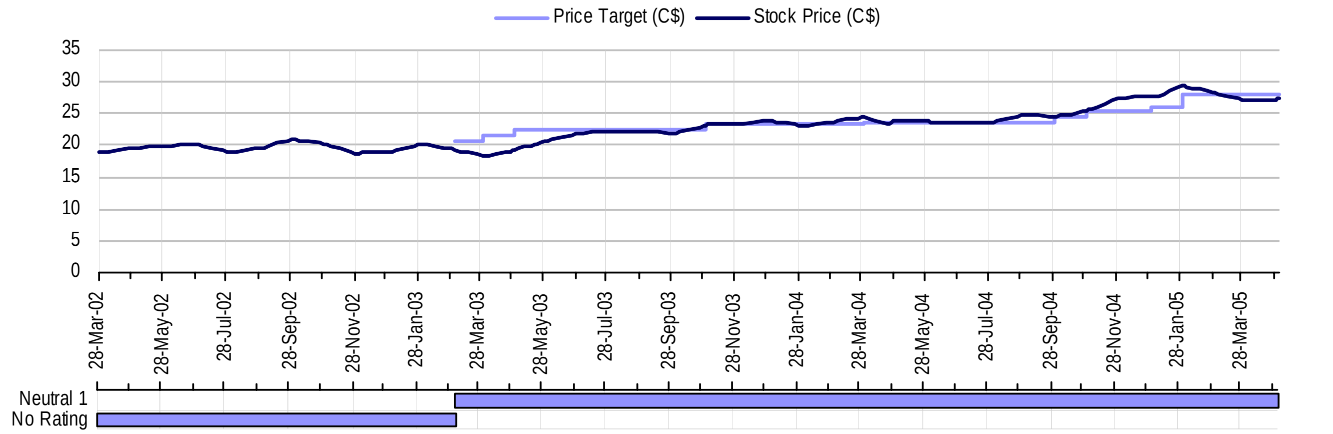
Company Name	Reuters	Rating	Price	Price date/time
Terasen Inc.	TER.TO	Neutral 1	C$27.39	03 May 2005 19:35 EDT

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.

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UBS

Terasen Inc.

Pumping up Trans Mountain

Global Equity Research

Americas

Gas Utilities

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

■ 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$m)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	1,848	1,957	2,020	2,074	2,163
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Net income (UBS)	111	156	161	172	179
EPS (UBS, C$)	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
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ROIC (EBIT) %	-	9.4	10.1	10.1	11.0
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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

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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)

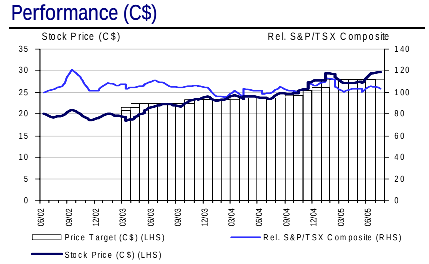
Forecast returns

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

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

*Rating/return divergence; See page 3

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■ 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

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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.

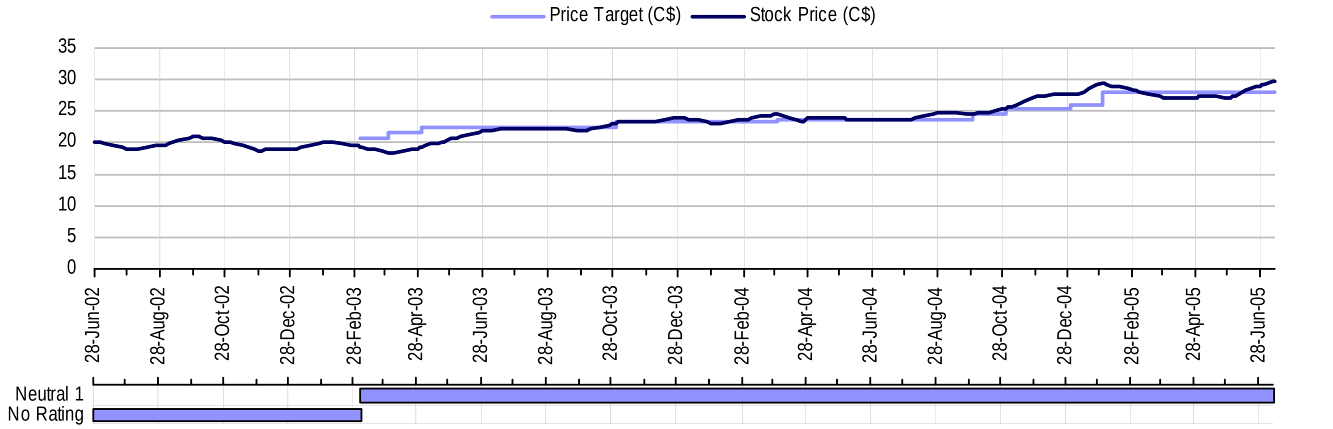
Companies mentioned

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.

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UBS

CIBC World Markets

Equity Research

December 22, 2003

Company Update

Company Rating:	*Sector Performer*
Sector Weighting:	*Market Weight*

Terasen Inc.

Terasen To Expand Pipeline Ahead Of Schedule

Pipelines & Utilities

TER-TSX (12/19/03)	$47.78
12-18 mo. Price Target	$50.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$47.99-$36.15
Shares Outstanding	51.9 mln.
Float	51.9 mln.
Avg. Daily Trading Vol.	81,070
Market Capitalization	$2,479.8 mln.
Dividend/Yield	$1.56/3.3%
Fiscal Year Ends	December
Book Value	$24.29 per Share
2003 ROE	10.0%
LT Debt	$2.4 bln.
Preferred	$125.0 mln.
Common Equity	$1.3 bln.
Convertible Available	No

- Terasen announced that it will proceed with the expansion of its Express Pipeline at an earlier date than expected. The expansion should add to EPS in 2005 and supports our positive growth outlook for the company. We are maintaining our EPS estimates and $50 target price.

- Tersaen will expand the Express Pipeline (Hardisty to Rockies) from 172,000 barrels per day to 280,000 barrels per day for in-service by April 2005. It was previously expected that only half of the expansion would be implemented in 2005 with the second half in 2006 or 2007.

- The early expansion is consistent with our view that Terasen will be the main beneficiary of oil expansion in the next few years. Shippers' desire to move more oil to PADDs IV and V is good news for Terasen and presents challenges for Enbridge.

- Our 2005 EPS estimate of $3.05 is already at the upper end of the range. The Express expansion should help support that estimate (adding $0.10 in a full year) and creates a bias to the upside as well. For more information, please see our report on oil pipeline expansion dated Dec. 9, 2003.

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to British Columbia, including Vancouver and the interior. The company also owns Trans Mountain Pipeline and Express Oil Pipeline System.
www.terasen.com

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Earnings Per Share

	Prior	Current
2003E		$2.65
2004E		$2.85
2005E		$3.05
P/E		
2003E		18.0x
2004E		16.8x
2005E		15.7x

Dividends Per Share

2001	$1.30
2002	$1.41
2003E	$1.56
2004E	$1.70
Debt to Total Capitalization	
2001	73.4%
2002	66.2%
2003E	67.5%
2004E	66.5%

Stock Price Performance

Source: StockVal

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 12/19/03

Enbridge Inc. (2a, 9a, 11) (ENB-TSX $53.16 Sector Performer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

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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	Stock is not covered by CIBCWM or CIBCWM is restricted*** from rating the stock.
Company Rating 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.

Speculative: An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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November 12, 2003

Earnings Update **Sector Weighting:** *Market Weight*

Pipelines & Utilities

Rolling Out 2005 Estimates And Cautious Targets: TRP And FTS Offer Best Value

CIBC World Markets Children's Miracle Day December 3, 2003

- We are introducing 2005 EPS estimates for the Canadian pipelines and utilities. Our target prices are also raised by modest amounts reflecting multiples of the new 2005 estimates instead of our 2004 estimates. Given recent valuation expansion, there is limited upside to our new targets.

- The Canadian pipelines and utilities have delivered annual total returns of over 20% for several years in a row. These returns far exceed growth rates and as a result, valuations have expanded considerably. Many of the stocks are trading at what we consider to be peak multiples of up to 17x forward earnings.

- Relative yields have also moved back down to historical norms. In the summer, dividend yields averaged about 95% of the 10-Year Canada Bond yield. Now the relative yields on average sit at about 80%, where they normally settle over time.

- We are maintaining our Market Weight recommendation on the sector for now. Fund flows toward income/yield, a strong C$ and a pause in the broader market will hold valuations up near term. However, given lofty valuations, the stocks are poised for a pullback in 2004 if the economy continues to recover.

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All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

Investment Summary

We are introducing 2005 EPS estimates for the Canadian pipelines and utilities. We are also raising our target prices by modest amounts reflecting multiples of the new 2005 estimates instead of our 2004 estimates. We are not expanding target multiples on the stocks and given recent valuation expansion, there is limited upside to our new target prices.

The Canadian pipelines and utilities have delivered annual total returns of over 20% for several years in a row. These returns far exceed growth rates and as a result, valuations have expanded considerably. Many of the stocks are trading at what we consider to be peak multiples of up to 17x forward earnings.

Relative yields have also moved back down to historical norms. In the summer, dividend yields averaged about 95% of the 10-Year Canada Bond yield. Now the relative yields on average sit at about 80%, where they normally settle over time.

The sector rightly moved up in the spring and summer with the drop in bond yields, but more recent share appreciation is harder to justify. We attribute the recent move up in the stocks mostly to fund flows rather than fundamentals. Fund flows toward income/yield, a strong C$ and pause in the broader market are holding pipeline and utility valuations up.

Based on our estimates, the best five-year compound annual growth rates over the 2001–2005 period belong to Terasen (TER–TSX, Sector Performer) (8.4%), Fortis (FTS–TSX, Sector Outperformer) (7.7%), Enbridge (ENB–TSX, Sector Performer) (7.4%), and TransCanada (TRP–TSX, Sector Outperformer) (7.1%). Our 2005 EPS forecasts imply growth rates for the next two years of about 5%–7% for the Canadian pipeline and utility group.

Our stock ratings tend to favour companies with good prospects but trading at lower-than-peak multiples. Even though we think highly of Enbridge and Terasen, we prefer TransCanada and Fortis at this time because they trade at a significant P/E discount. We also see interesting value in Emera (EMA–TSX, Sector Outperformer) as it returns to a strong free cash position in 2004.

We are maintaining our Market Weight recommendation on the sector for now. However, the stocks look rich to us based on our forecast growth rates through 2005. Given lofty valuations and more modest growth rates, the sector is poised for a pullback in 2004 if the economy continues to recover.

Exhibit 1. New Target Prices And Forecasted Total Returns

Company	Ticker	Rating	Share Price 11/11/03	Old Target Price	New Target Price	Target Implied Return	New Target Valuation 2005 P/E	New Target Valuation 2005 Yield
ATCO Ltd.	ACO.X	Sector Performer	$47.50	$51.00	$51.00	10.1%	10.7	3.0%
Canadian Utilities	CU	Sector Underperformer	$57.69	$57.00	$59.00	5.8%	14.4	3.7%
Emera Inc.	EMA	Sector Outperformer	$17.28	$19.50	$19.50	17.8%	15.0	4.6%
Enbridge Inc.	ENB	Sector Performer	$53.45	$52.00	$55.00	6.0%	16.7	3.5%
Fortis Inc.	FTS	Sector Outperformer	$59.20	$62.00	$65.00	13.3%	14.4	3.8%
Terasen Inc.	TER	Sector Performer	$47.35	$47.00	$50.00	8.9%	16.4	3.6%
TransAlta Corp.	TA	Sector Performer	$18.90	$19.00	$19.00	5.8%	15.8	5.3%
TransCanada Corp.	TRP	Sector Outperformer	$27.25	$27.50	$30.00	14.1%	16.2	4.1%
						Average*	15.6	4.1%

* Average exclude financial data for ATCO Ltd.

Source: CIBC World Markets.

New 2005 EPS Estimates: Organic Growth Modest – Forecasts Include Acquisitions

We are introducing 2005 EPS estimates for the pipelines and utilities group. Our estimates imply modest growth of 5%–7% overall. Moreover, a significant amount of this growth depends on the acquisition market. Organic growth rates will only improve later in the decade with construction of new oil and gas pipelines.

Organic growth rates have dropped lately owing to a pause in new pipeline development and a continuing reduction in allowed returns on equity. Terasen has solid organic growth potential in the 2003–2005 period, owing to expansions on Express and Trans Mountain. Enbridge and TransCanada have more modest organic growth prospects near-term, and both must rely on acquisitions to hit our EPS estimates.

Growth rates could improve in the 2007–2010 period with construction of new pipelines and power projects. Enbridge has plans for large new oil pipelines and TransCanada will likely be involved in northern gas pipelines. TransCanada is also developing some large power plants for potential in service later in the decade.

TransAlta (TA–TSX, Sector Performer) is a unique situation because it has recovery earnings potential but a very low earnings base this year. We are hoping that reduced maintenance expense and improved contract prices at Centralia boost EPS to $1.20 by 2005, showing solid growth from this year. On the other hand, our earnings forecast for this year is so low that we are forecasting compound growth over the period 2001–2005 of only about 1%.

Our new 2005 EPS forecasts and risks to these forecasts are in the following exhibit. In an environment where organic growth is probably only about 3%, the acquisition environment shows up as one of the biggest risks to our forecasts.

Exhibit 2. 2005 EPS Estimates And Growth Drivers/Risk Factors

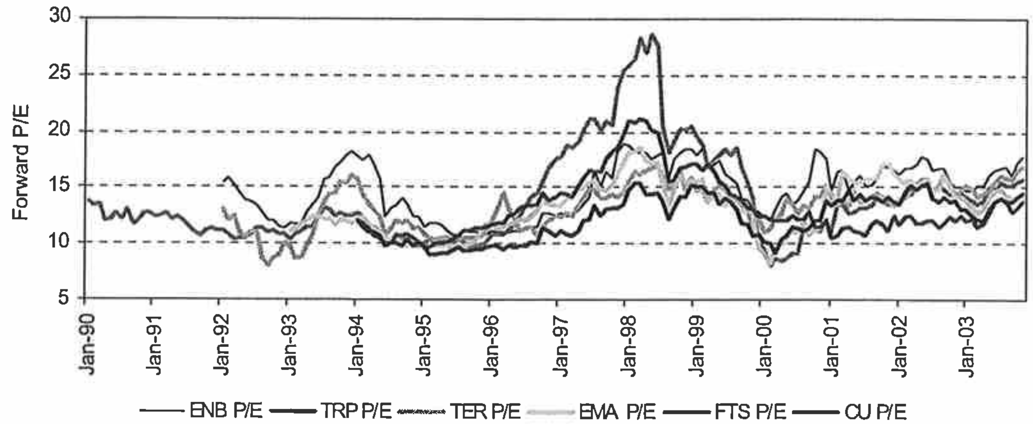
Company	2004E EPS	2005E EPS	2005 vs. 2004 Growth Rate	2001–2005E CAGR	Growth Drivers In 2005	Risks To 2005 Forecast
Enbridge	$3.10	$3.30	6.5%	7.4%	• Spearhead Pipeline ($0.08) • Enbridge Energy Partners ($0.03) • Unknown acquisition ($0.09)	• Mainline tolling expires end 2004 • Spearhead tolling not set • Acquisition market
TransCanada	$1.75	$1.85	5.7%	7.1%	• Increased Bruce output ($0.05) • Irving power plant ($0.01) • Unknown acquisition ($0.04)	• Bruce operating rates • Acquisition market
TransAlta	$1.10	$1.20	9.1%	0.7%	• Reduced Alberta maintenance ($0.07) • Genesee Project ($0.03)	• Maintenance at Centralia • Alberta power prices • Return to normal hydro in PNW
Canadian Utilities	$4.00	$4.10	2.5%	2.3%	• Utility cost savings ($0.05) • Unknown acquisition ($0.05)	• Ongoing losses at Barking (U.K. plant) • Alberta spark spreads
Fortis	$4.25	$4.50	5.9%	7.7%	• Rate base growth in Alberta/B.C. utilities ($0.15) • Expansion and sales growth in Caribbean ($0.10)	• Regulatory approval for rate increases in B.C. • Caribbean Utilities license negotiations • Ontario power prices
Terasen	$2.85	$3.05	7.0%	8.4%	• Utility cost savings and ROE bump up ($0.10) • Expansion on Express and Trans Mountain ($0.10)	• Challenges in achieving more cost savings • Success and timing of pipeline expansions
Emera	$1.25	$1.30	4.0%	3.1%	• Utility rate base ($0.03) • Free cash used for debt repayment ($0.02)	• Fuel costs at NSPI
ATCO	$4.50	$4.75	5.6%	3.2%	• Canadian Utilities ($0.15) • Higher Industrials earnings ($0.10)	• Power generation (see CU comments) • Weak development activity in natural resources sector

Source: Company documents, CIBC World Markets.

Stocks Look Expensive

The Canadian pipelines and utilities have delivered annual total returns of over 20% for several years in a row. These returns far exceed growth rates and as a result valuations have expanded considerably. Many of the stocks are trading at what we consider to be peak multiples of up to 17x forward earnings.

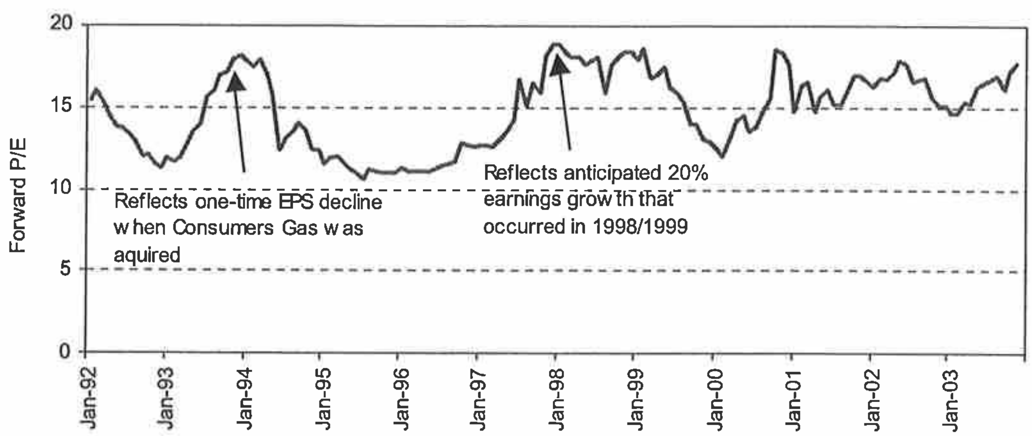
Exhibit 3. Canadian Pipelines And Utilities Forward P/E Multiples



Source: Company documents, CIBC World Markets.

The P/E multiples look especially rich considering our modest outlook for organic growth over the next two years. For example, Enbridge has traded at 17x–18x earnings before, but normally only when the market was anticipating growth well over 10%. In other times, the stock traded mostly in the range of 12x–15x forward earnings.

Exhibit 4. Enbridge Forward P/E Multiples

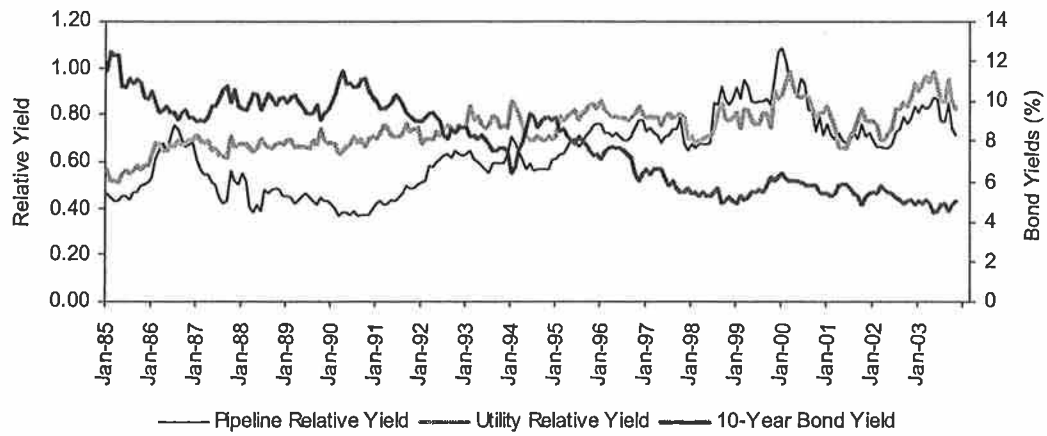


Source: Company documents, CIBC World Markets.

In the mid-1990s, Enbridge traded up to 20x earnings, but that was because earnings were temporarily depressed by the acquisition of Consumers Gas, which required a full year of financing and delivered only a part year of earnings. In late 1997, the stock again traded at about 19x earnings, but EPS growth was about 20% in the following year. Enbridge and some of the other utility stocks are attracting historically high P/E ratios yet with slightly lower growth outlooks.

Relative yields on the pipelines and utilities have also moved back down to historical norms. In the summer, dividend yields averaged about 95% of the 10-Year Canada Bond yield. Now the relative yields on average sit at about 80%, where they normally settle over time.

Exhibit 5. Pipeline And Utility Dividend Yields Relative To 10-Year Canada Bond Yields



Source: Bloomberg, CIBC World Markets.

Sector Valuations Driven By Fund Flows, Not Fundamentals

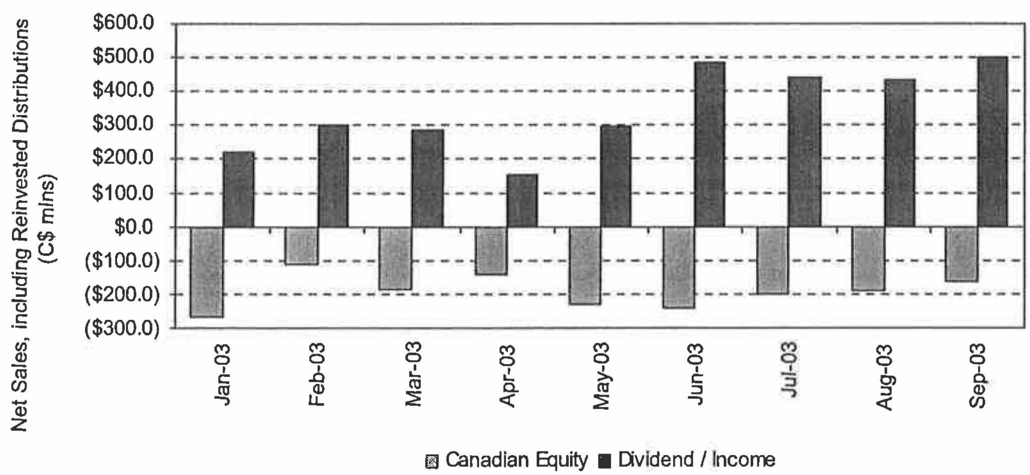
We believe the recent sector valuation lift is driven more by fund flows than by fundamentals. In the spring and summer, we had an Overweight recommendation on the sector because it was undervalued in historical terms relative to growth prospects. We took the sector to Market Weight in July but the stocks are up another 5%–10% recently (in line with the market). There are several possible reasons why the sector is still moving up this fall:

- ***Flows into dividend funds*** – Many investors coming back to the market this year have focused on dividend and income funds rather than on growth or general equity funds. On a year-to-date basis through September, net sales for dividend and income funds are up over $3.1 billion (30%) with net sales of Canadian common equity funds down $1.73 billion. Even in recent months, sales of dividend funds continue to rise while general Canadian equity fund flows are falling.

- ***Strong C$ and U.S. buying*** – Buyers out of the United States may be acquiring shares in Canadian pipelines and utilities to gain exposure to the C$ and avoid downside in U.S. utilities. The U.S. utility group experienced a dramatic liquidity recovery earlier this year. Now, investors are realizing U.S. utility earnings are weak owing to high debt levels and interest expense on under-performing generation assets and trading contracts. Canadian utilities may be perceived as a place to hide and to gain exposure to the C$ in the near-term, despite their steep valuations.

- ***Perceived lack of options*** - While valuations have moved up for the pipelines and utilities, they have also moved up for the rest of the market. The forward P/E on the S&P/TSX has moved up from 15.3x to 17.6x over the past 12 months. Investors are likely to park money in defensive stocks while the broader market pauses for further economic and earnings news.

Exhibit 6. Fund Flows Into Dividend/Income Funds



Source: The Investment Funds Institute of Canada.

Conclusions

Valuations on many of the Canadian pipelines and utilities have moved to peak levels. These valuations may be hard to justify given our EPS forecasts for solid but not stellar growth. In this context, we recommend owning companies with good prospects but trading at lower than peak multiples.

Specifically, even though we think highly of Enbridge and Terasen, we prefer TransCanada and Fortis at this time because they trade at a significant P/E discount. We also see interesting value in Emera as it returns to a strong free cash position in 2004.

We are maintaining our Market Weight recommendation on the sector for now. However, the stocks look rich to us based on our forecast growth rates through 2005. Given lofty valuations and more modest growth rates, the sector is poised for a pullback in 2004 if the economy continues to recover.

Exhibit 7. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility, And Power Generation Companies

				52-Week Range		Earnings Per Share				P/E Ratios				04 P/E	Dividend				
Company	Ticker	Rating/ Analyst	Price 11/11/03	High	Low	2001	2002	2003E	2004E	2001	2002	2003E	2004E	Rel. To Group	Rate	Yield	Payout 2003E	Target Price	Total Return
Canadian Pipelines																			
Enbridge Inc.	ENB	SP / MA	$53.45	$53.70	$40.95	$2.47	$2.65	$2.80	$3.10	21.6	20.2	19.1	17.2	1.1	1.66	3.1%	59.3%	$55.00	6.0%
TransCanada Corp.	TRP	SO / MA	$27.25	$27.25	$20.77	$1.41	$1.50	$1.60	$1.75	19.3	18.2	17.0	15.6	1.0	1.08	4.0%	67.5%	$30.00	14.1%
Canadian Pipelines Average										***20.5***	***19.2***	***18.1***	***16.4***			***3.5%***	***63.4%***		
U.S. Pipelines																			
Duke Energy	DUK	NR	$17.69	$21.57	$12.21	$2.64	$1.88	$1.21	$1.19	6.7	9.4	14.6	14.9	0.9	1.10	6.2%	90.9%	–	–
El Paso	EP	NR	$6.93	$11.90	$3.33	$3.31	$1.38	$0.19	$0.35	2.1	5.0	36.5	19.8	1.2	0.16	2.3%	84.2%	–	–
Kinder Morgan Inc.	KMI	NR	$52.13	$58.50	$36.40	$1.96	$2.85	$3.29	$3.70	26.6	18.3	15.8	14.1	0.9	1.60	3.1%	48.6%	–	–
National Fuel Gas	NFG	NR	$22.95	$27.51	$19.02	$2.07	$1.58	$1.89	$1.66	11.1	14.5	12.1	13.8	0.9	1.08	4.7%	57.1%	–	–
NiSource	NI	NR	$20.54	$21.70	$16.39	$1.10	$2.00	$1.63	$1.71	18.7	10.3	12.6	12.0	0.8	0.92	4.5%	56.4%	–	–
Williams	WMB	NR	$9.10	$10.72	$2.03	$1.60	($0.16)	$0.13	$0.44	5.7	–	NM	20.7	1.3	0.04	0.4%	30.8%	–	–
U.S. Pipelines Average										***13.0***	***11.5***	***18.3***	***15.9***			***3.5%***	***61.4%***		
Canadian Utilities																			
ATCO	ACO.X	SP / MA	$47.50	$50.00	$40.05	$4.18	$4.32	$4.20	$4.50	11.4	11.0	11.3	10.6	0.7	1.28	2.7%	30.5%	$51.00	10.1%
Canadian Utilities	CU	SU / MA	$57.69	$58.30	$45.10	$3.74	$3.74	$3.80	$4.00	15.4	15.4	15.2	14.4	0.9	2.04	3.5%	53.7%	$59.00	5.8%
Caribbean Utilities ($US)	CUP.U	NR	$13.75	$14.54	$11.50	$0.77	$0.80	$0.88	$0.95	17.9	17.2	15.6	14.5	0.9	0.66	4.8%	75.0%	–	–
Emera Inc.	EMA	SO / MA	$17.28	$17.89	$14.20	$1.20	$1.02	$1.20	$1.25	14.4	16.9	14.4	13.8	0.9	0.86	5.0%	71.7%	$19.50	17.8%
Fortis Inc.	FTS	SO / MA	$59.20	$60.95	$46.50	$3.35	$3.88	$4.40	$4.25	17.7	15.3	13.5	13.9	0.9	2.08	3.5%	47.3%	$65.00	13.3%
Terasen Inc.	TER	SP / MA	$47.35	$47.70	$38.85	$2.21	$2.54	$2.65	$2.85	21.4	18.6	17.9	16.6	1.1	1.56	3.3%	58.9%	$50.00	8.9%
TransAlta Corp.	TA	SP / MA	$18.90	$19.55	$15.36	$1.17	$1.07	$0.85	$1.10	16.2	17.7	22.2	17.2	1.1	1.00	5.3%	117.6%	$19.00	5.8%
Canadian Utilities Average *										***17.2***	***16.9***	***16.5***	***15.1***			***4.2%***	***70.7%***		
U.S. Utilities																			
Consolidated Edison	ED	NR	$39.78	$46.02	$36.56	$3.21	$3.13	$2.81	$2.87	12.4	12.7	14.2	13.9	1.1	2.24	5.6%	79.7%	–	–
Dominion Resources	D	NR	$61.14	$65.95	$46.00	$2.17	$4.85	$4.68	$4.99	28.2	12.6	13.1	12.3	1.0	2.58	4.2%	55.1%	–	–
DTE Energy	DTE	NR	$35.66	$49.40	$34.12	$3.48	$3.83	$3.17	$3.52	10.2	9.3	11.2	10.1	0.8	2.06	5.8%	65.0%	–	–
Peoples Energy	PGL	NR	$39.97	$45.25	$33.69	$3.00	$2.80	$2.88	$2.80	13.3	14.3	13.9	14.3	1.1	2.12	5.3%	73.6%	–	–
PPL Corp.	PPL	NR	$40.20	$44.30	$31.22	$4.24	$3.55	$3.59	$3.66	9.5	11.3	11.2	11.0	0.9	1.54	3.8%	42.9%	–	–
WGL Holdings	WGL	NR	$26.41	$28.79	$22.18	$1.83	$1.14	$2.30	$1.83	14.4	23.2	11.5	14.4	1.1	1.28	4.8%	55.7%	–	–
U.S. Utilities Average										***14.7***	***13.9***	***12.5***	***12.7***			***4.9%***	***62.0%***		
Power Generation																			
AES Corporation	AES	NR	$8.81	$9.19	$1.31	$1.35	$0.78	$0.47	$0.61	6.5	11.3	18.7	14.4	1.1	0.00	0.0%	0.0%	–	–
Calpine Corp.	CPN	NR	$4.58	$8.03	$2.52	$1.95	$0.84	$0.21	$0.04	2.3	5.5	21.8	NM	–	0.00	0.0%	0.0%	–	–
Reliant Resources	RRI	NR	$5.68	$7.05	$1.70	$2.07	$1.23	$0.17	$0.46	2.7	4.6	33.4	12.3	0.9	0.00	0.0%	0.0%	–	–
Power Generation Average										***3.9***	***7.1***	***24.7***	***13.4***			***0.0%***	***0.0%***		

Notes:
* Average excludes financial data for ATCO Ltd.
Estimates are from CIBC World Markets analysts with the exception of those companies that are not rated.
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 NFG, PGL and WGL are for the period ending September 30.

Source: Company documents, First Call, IBES, CIBC World Markets estimates.

Exhibit 8. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility, And Power Generation Companies

Company	Shares O/S (mil)	Mkt. Cap. ($ bln.)	Inst. Owners	52-Week % Change High	52-Week % Change Low	Cash Flow Per Share 2001	Cash Flow Per Share 2002	Cash Flow Per Share 2003E	Cash Flow Per Share 2004E	P/CF Ratios 2001	P/CF Ratios 2002	P/CF Ratios 2003E	P/CF Ratios 2004E	Book Value	Price/ Book	ROE 2003E	Debt to Cap	% Unreg. 03E EBIT	2003E EV/ EBITDA
Canadian Pipelines																			
Enbridge Inc.	171.5	$9.2	50%	(0%)	31%	$4.70	$4.73	$4.80	$5.98	11.4	11.3	11.1	8.9	$20.91	2.6	13.9%	62.0%	4.0%	12.7
TransCanada Corp.	482.4	$13.1	38%	0%	31%	$2.15	$4.02	$4.00	$3.95	12.7	6.8	6.8	13.5	$12.49	2.2	13.0%	61.6%	25.0%	8.1
Canadian Pipelines Average										***12.0***	***9.0***	***9.0***	***11.2***		***2.4***	***13.5%***	***61.8%***	***14.5%***	***10.4***
U.S. Pipelines																			
Duke Energy	907.0	$16.0	62%	(18%)	45%	$4.48	$5.55			3.9	3.2			$17.57	1.0	11.4%	60.0%	25.0%	
El Paso	600.5	$4.2	79%	(42%)	108%	$5.97	$3.42			1.2	2.0			$11.57	0.6	8.8%	74.0%	47.0%	
Kinder Morgan Inc.	123.2	$6.4	56%	(11%)	43%	$3.81	$4.67			13.7	11.2			$21.01	2.5	15.2%	44.0%	9.0%	
National Fuel Gas	81.4	$1.9	48%	(17%)	21%	$4.52	$4.80	$4.95		5.1	4.8	4.6		$13.96	1.6	14.1%	56.3%		
NiSource	262.4	$5.4	74%	(5%)	25%	$4.20	$5.40			4.9	3.8			$16.21	1.3	11.9%	61.0%		
Williams	518.2	$4.7	50%	(15%)	348%	$3.55	($1.05)			2.6	–			$8.10	1.1	–	75.0%		
U.S. Pipelines Average										***5.8***	***5.0***				***1.4***	***12.3%***	***59.1%***	***27.0%***	
Canadian Utilities																			
ATCO	29.8	$1.4	20%	(5%)	19%	$9.76	$9.52	$9.20	$9.70	4.9	5.0	5.2	4.9	$36.83	1.3	11.5%	70.0%	41.0%	4.7
Canadian Utilities	63.4	$3.7	15%	(1%)	28%	$7.89	$7.90	$7.82	$8.00	7.3	7.3	7.4	7.2	$29.88	1.9	12.8%	51.7%	35.0%	8.3
Caribbean Utilities ($US)	24.7	$0.3	1%	(5%)	20%	$1.25	$1.30			11.0	10.6			$4.97	2.8	17.4%	53.0%	0.0%	–
Emera Inc.	108.1	$1.9	17%	(3%)	22%	$2.43	$2.61	$2.68	$2.68	7.1	6.6	6.4	6.4	$12.00	1.4	9.6%	57.5%	0.0%	7.8
Fortis	17.3	$1.0	20%	(3%)	27%	$8.12	$8.16	$8.55	$11.10	7.3	7.3	6.9	5.3	$35.22	1.7	12.2%	60.0%	15.0%	8.4
Terasen Inc.	51.9	$2.5	15%	(1%)	22%	$5.10	$5.72	$5.60	$5.75	9.3	8.3	8.5	8.2	$24.29	1.9	10.0%	68.2%	0.0%	11.0
TransAlta Corp.	189.8	$3.6	48%	(3%)	23%	$4.24	$2.59	$2.80	$3.10	4.5	7.3	6.8	6.1	$12.92	1.5	7.0%	53.5%	100.0%	8.8
Canadian Utilities Average *										***7.7***	***7.9***	***7.2***	***6.7***		***1.9***	***11.5%***	***57.3%***	***27.3%***	***8.8***
U.S. Utilities																			
Consolidated Edison	225.0	$8.9	40%	(14%)	9%	$6.37	$7.10			6.2	5.6			$28.13	1.4	11.5%	49.0%		
Dominion Resources	324.4	$19.8	54%	(7%)	33%	$9.07	$7.95			6.7	7.7			$33.77	1.8	15.0%	59.0%		
DTE Energy	168.3	$6.0	57%	(28%)	5%	$8.80	$4.85			4.1	7.4			$30.15	1.2	13.8%	61.8%		
Peoples Energy	36.7	$1.5	53%	(12%)	19%	$7.00	$6.05			5.7	6.6			$23.11	1.7	12.6%	52.9%		
PPL Corp.	176.7	$7.1	53%	(9%)	29%	$6.46	$5.15			6.2	7.8			$16.80	2.4	16.0%	71.4%		
WGL Holdings	48.6	$1.3	46%	(8%)	19%	$3.85	$2.95			6.9	9.0			$16.83	1.6	13.7%	49.0%		
U.S. Utilities Average										***6.0***	***7.3***				***1.7***	***13.8%***	***57.2%***		
Power Generation																			
AES Corporation	619.7	$5.5	67%	(4%)	573%	$2.14	$2.56			4.1	3.4			$1.10	–	11.0%	92.9%	100.0%	
Calpine Corp.	383.0	$1.8	61%	(43%)	82%	$2.90	$2.82			1.6	1.6			$11.37	0.4	8.5%	73.0%	100.0%	
Reliant Resources	294.4	$1.7	50%	(19%)	234%	($0.46)	$2.04			–	2.8			$18.02	0.3	6.3%	64.0%	100.0%	
Power Generation Average										***2.8***	***2.6***				***0.4***	***8.6%***	***76.6%***	***100.0%***	

Notes:
* Average excludes financial data for ATCO Ltd.
Estimates are from CIBC World Markets analysts with the exception of those companies that are not rated.
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 NFG, PGL and WGL are for the period ending September 30.

Source: Company documents, First Call, IBES, CIBC World Markets estimates.

Exhibit 9. Canadian Pipelines & Utilities' Credit Ratings And Ratio Analysis

	Credit Ratings (Outlook)		S&P Target Ratios For The Rating Category			Company Achieved 2002 Ratios		
Company	Standard & Poor's	Moody's	FFO Interest Coverage (x)	FFO To Total Debt (%)	Debt To Total Capital (%)	FFO Interest Coverage (x)	FFO To Total Debt (%)	Debt To Total Capital (%)
Enbridge Inc.	A - (Negative Outlook)	A3 (Stable)	2.5–2.9	15–18	54–60	1.7	10.6	62.0
TransCanada PipeLines	A - (Negative Outlook)	A2 (Stable)	2.5–2.9	15–18	54–60	1.9	16.4	62.1
TransAlta Corp. *	BBB - (Stable)	Baa2 (Negative)	2.7–3.0	20–24	50–55	2.8	16.3	54.6
Terasen Inc.	BBB (Stable)	A3 (Stable)	2.0–2.4	10–14	64–68	1.4	9.1	66.2
Emera Inc.	BBB + (Stable)	Baa2 (Stable)	2.3–2.6	13.5–17	57–61	1.8	13.2	54.8
Fortis Inc.	A - (Watch Negative)	Not Rated	2.5–2.9	15–18	54–60	1.8	11.3	65.8
ATCO Ltd.	A+ (Watch Negative)	Not Rated	2.9–3.5	18–23	50–54	2.5	18.2	71.3
Canadian Utilities Ltd.	A+ (Watch Negative)	Not Rated	2.9–3.5	18–23	50–54	2.4	17.9	54.6

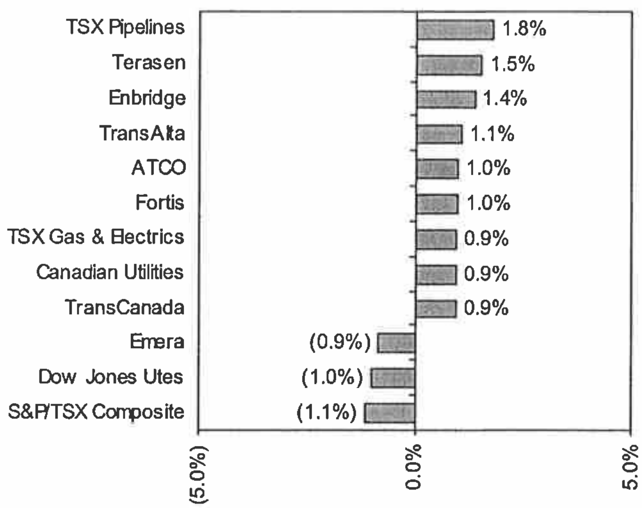
	Estimated 2003 Ratios		
Company	FFO Interest Coverage (x)	FFO To Total Debt (%)	Debt To Total Capital (%)
Enbridge Inc.	1.8	12.3	61.2
TransCanada PipeLines	2.0	16.9	61.5
TransAlta Corp. *	2.2	14.7	54.0
Terasen Inc.	1.5	9.8	67.5
Emera Inc.	2.1	14.1	55.1
Fortis Inc.	1.7	12.1	61.0
ATCO Ltd.	2.3	20.1	67.7
Canadian Utilities Ltd.	2.2	18.6	50.8

Notes:
* S&P target ratios on TransAlta are for non-regulated utilities with significant generation assets.
Interest Expense includes estimated interest capitalized.
Funds From Operations (FFO) before changes in working capital.

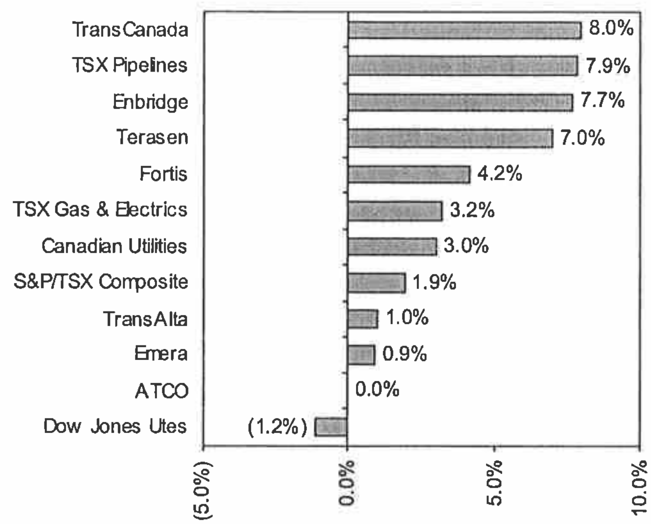
Source: S&P, company documents, CIBC World Markets.

Exhibit 10. Pipeline & Utility Companies' Total Return Performance (priced as of market close November 11, 2003)

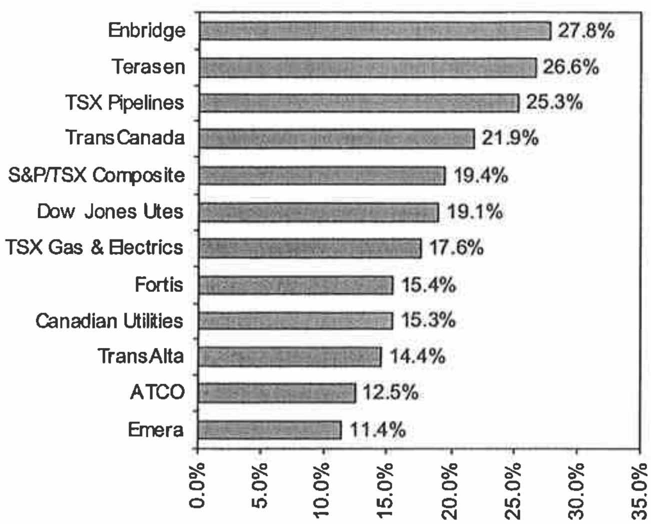
One-Week Share Price Performance



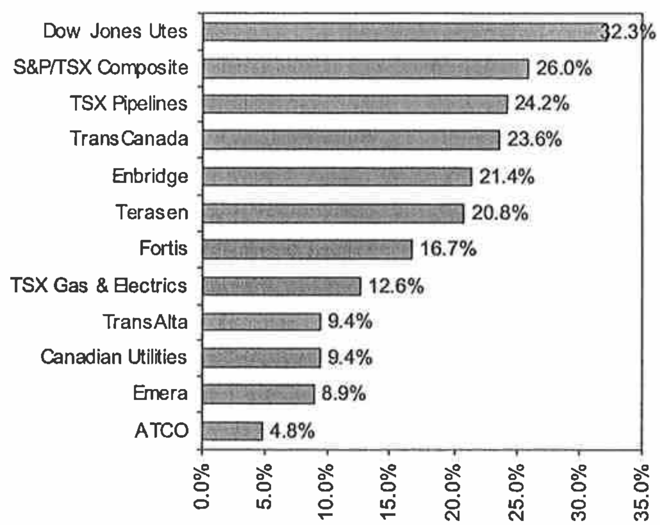
Four-Week Share Price Performance



Year-To-Date Total Return Performance

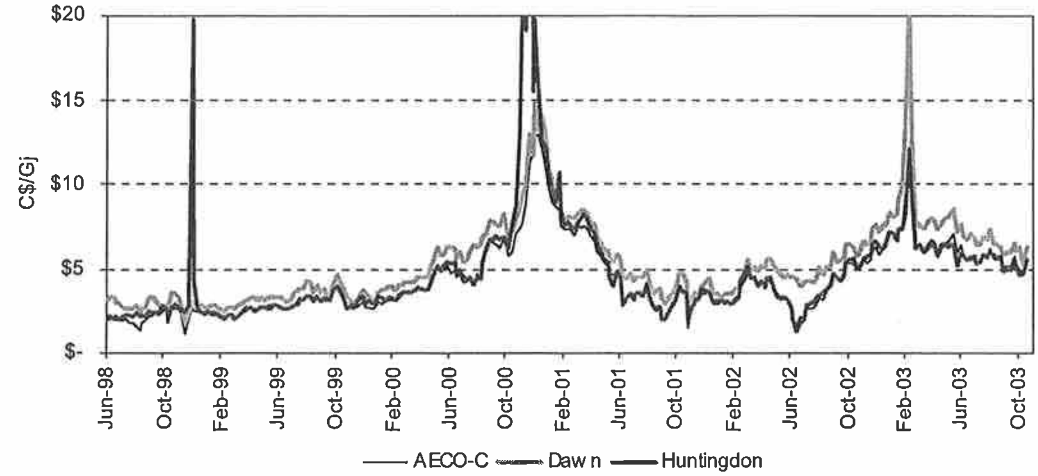


52-Week Total Return Performance



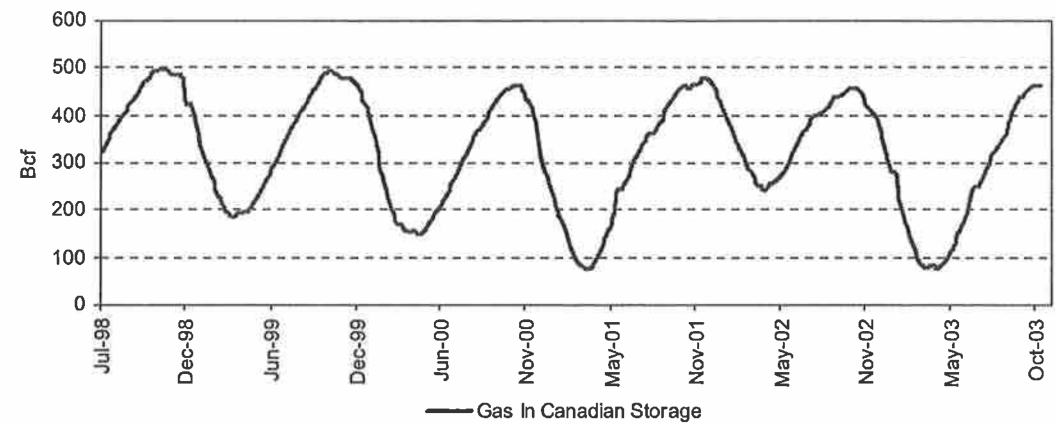
Source: Bloomberg.

Exhibit 11. Natural Gas Prices At Canadian Trading Hubs



Source: Canadian Gas Association.

Exhibit 12. Natural Gas In Storage



Source: Canadian Gas Association.

Exhibit 13. Natural Gas In Storage By Region

	End Oct.	Previous Week	Year Ago	% Change	2 Years Ago	% Change	3 Years Ago	% Change
Eastern Canada	261	262	245	6.4%	257	1.4%	245	6.4%
Western Canada	200	201	189	6.2%	201	(0.4%)	219	(8.5%)
Total Canada	461	463	434	6.3%	458	0.7%	464	(0.6%)

Source: Canadian Gas Association.

Exhibit 14. Canadian Natural Gas Exports By Exports Point (Bcf)

Year		Huntingdon	Kingsgate	Monchy	Elmore	Emerson	Niagara	Iroquois	Other	Total
1990		161.2	512.9	336.6	0.0	298.8	90.1	0.0	37.9	1437.5
1991		215.7	497.5	373.5	0.0	344.9	178.9	3.6	76.2	1690.3
1992		248.7	490.2	441.2	0.0	364.8	253.7	162.4	89.1	2050.0
1993		259.9	517.2	483.8	0.0	387.0	249.6	238.2	87.3	2223.0
1994		279.4	722.5	522.2	0.0	389.6	261.7	251.8	105.0	2532.3
1995		317.6	784.3	552.3	0.0	399.1	272.0	282.1	162.3	2769.7
1996		377.8	796.5	547.5	0.0	422.0	268.8	287.5	153.1	2853.1
1997		369.3	847.3	545.9	0.0	428.3	287.8	302.5	144.1	2925.2
1998		423.2	854.5	558.7	0.0	485.3	305.1	318.2	168.8	3113.8
1999		402.0	806.7	774.1	0.0	506.8	361.6	357.5	166.5	3375.2
2000		356.5	833.4	785.0	71.4	491.1	425.0	363.2	268.5	3593.9
2001		324.0	781.5	747.2	529.2	391.3	326.1	320.3	317.6	3737.2
2002		335.3	698.4	766.3	567.7	396.4	327.1	321.8	367.1	3780.1
2002	(to August)	219.4	457.1	513.3	377.7	245.5	212.7	207.7	240.2	2473.3
2003	(to August)	210.9	346.9	509.8	378.7	239.9	196.4	219.0	216.9	2318.6
2002	January	23.7	70.7	61.5	53.0	33.2	29.3	25.8	33.2	330.3
	February	31.8	60.1	61.1	43.5	35.3	27.2	24.0	30.4	313.4
	March	29.7	66.1	66.4	49.8	32.5	25.8	25.1	32.5	327.8
	April	26.5	51.6	61.5	47.0	24.7	24.0	25.4	26.5	287.2
	May	26.5	47.3	65.7	44.9	25.1	27.9	26.5	23.3	287.2
	June	26.5	47.0	65.4	44.5	27.9	24.4	26.8	27.6	290.0
	July	26.5	50.9	66.1	47.0	33.2	25.8	26.8	35.0	311.2
	August	28.3	63.6	65.7	48.0	33.6	28.3	26.8	31.8	326.1
	September	27.6	59.4	63.9	43.5	34.6	27.2	27.6	30.4	314.1
	October	30.4	57.2	62.2	49.5	36.4	28.3	27.9	31.1	322.9
	November	26.1	59.0	61.1	46.6	38.5	27.2	29.0	30.7	318.3
	December	31.8	65.7	65.7	50.5	41.3	31.8	30.0	34.6	351.5
2003	January	28.3	44.2	68.5	50.9	41.7	28.3	28.6	36.7	327.1
	February	26.8	31.8	63.9	46.3	37.1	25.1	29.3	31.4	291.8
	March	29.3	36.0	61.1	48.8	36.7	25.4	34.6	29.0	301.0
	April	25.8	47.7	60.8	45.2	26.8	24.4	26.5	25.1	283.3
	May	25.8	36.4	65.7	46.3	25.1	23.3	24.0	23.7	270.3
	June	23.3	38.5	59.4	48.0	20.8	20.8	23.3	21.6	255.8
	July	23.3	58.6	63.6	46.3	25.1	23.3	25.1	24.7	290.0
	August	28.3	53.7	63.9	47.0	24.4	24.7	27.2	24.7	293.9

Note: Elmore export point reflects Alliance Pipeline volumes. "Other" export point includes Maritimes and Northeast Pipeline volumes.

Source: National Energy Board, CIBC World Markets.

Exhibit 15. Natural Gas Flows On The WestCoast System

	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03
Receipts (MMcf/d)																				
Fort Nelson Area	947	918	871	880	868	674	952	1079	1030	1099	1079	1010	1045	930	982	279	931	966	927	1,041
Fort St John Area	1,098	1,106	1,034	1,018	1,050	1,089	978	988	1,042	1,019	962	1,004	1,055	1,052	785	847	1,014	1,038	952	960
Pine River	268	266	220	253	257	196	269	261	261	289	275	281	301	310	248	311	303	320	315	305
Kingsvale (S. Crossing)	0	88	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Williams @ Huntingdon			141	53	33	47	30	6	10	10	15	18	8	19	29	14	0	0	10	19
Total Receipts	**2,313**	**2,378**	**2,266**	**2,204**	**2,208**	**2,006**	**2,229**	**2,334**	**2,343**	**2,417**	**2,331**	**2,313**	**2,409**	**2,311**	**2,044**	**1,451**	**2,248**	**2,324**	**2,204**	**2,325**
YoY Change	**(4.8%)**	**(0.6%)**	**(1.3%)**	**4.1%**	**(6.5%)**	**(12.1%)**	**(4.8%)**	**(4.6%)**	**(10.7%)**	**(6.3%)**	**(7.0%)**	**(10.3%)**	**4.1%**	**(2.8%)**	**(9.8%)**	**(34.2%)**	**1.8%**	**15.8%**	**(1.1%)**	**(0.4%)**
Deliveries (MMcf/d)																				
Other	83	315	443	420	325	259	167	64	37	46	50	49	55	202	311	63	232	248	315	159
Solex NGL	476	492	452	455	476	488	452	437	496	480	443	467	502	456	195	384	475	475	412	449
McMahon Cogen	30	22	27	26	27	27	29	30	29	30	29	9	29	26	17	20	24	17	23	29
Alliance	52	83	90	81	49	40	81	75	76	71	80	85	82	173	256	103	83	100	85	97
TCPL Gordondale	0	0	29	27	27	0	46	0	0	0	25	19	15	46	93	0	44	82	31	2
PNG	102	86	86	89	92	85	92	98	99	103	74	88	89	88	83	78	69	77	0	99
Terasen	594	424	347	332	395	306	552	592	616	691	653	624	639	432	325	326	298	306	365	674
Huntingdon	919	928	739	758	815	663	823	919	930	920	842	888	958	845	816	574	1025	977	979	792
Fuel	44	31	28	27	27	24	45	49	42	47	43	42	47	31	25	10	34	38	35	39
Total Deliveries	**2,300**	**2,381**	**2,241**	**2,215**	**2,233**	**1,892**	**2,287**	**2,264**	**2,325**	**2,388**	**2,239**	**2,271**	**2,416**	**2,299**	**2,121**	**1,558**	**2,284**	**2,320**	**2,245**	**2,340**
Line Pack (MMcf)	**2,976**	**2,995**	**2,910**	**2,937**	**2,825**	**2,843**	**2,670**	**2,738**	**3,065**	**3,069**	**3,105**	**3,111**	**2,938**	**3,090**	**2,956**	**2,652**	**2,657**	**2,670**	**2,839**	**2,820**

Source: WestCoast Energy (now part of Duke Energy).

Exhibit 16. Canadian Crude Oil Exports By Delivery Point (MBbls/d)

	2001	2002												2002	2003								2003 YTD
	Avg.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Avg.
Heavy Crude Oil Exports																							
Anacortes	1.7	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	1.9	1.9	**0.3**	0.0	0.0	1.9	1.9	1.9	1.3	1.3		**1.2**
Billings	86.7	93.1	89.9	106.3	96.2	105.7	105.0	121.4	118.9	110.7	105.7	106.3	107.6	**105.6**	109.4	96.9	98.7	76.7	55.4	105.7	120.8		**94.8**
Southern PADD IV [1]	35.9	39.6	50.3	36.5	39.0	36.5	40.9	30.2	30.8	34.0	32.7	35.9	44.7	**37.6**	35.9	39.0	38.4	30.8	46.5	45.3	52.8		**41.2**
Twin Cities	229.9	239.6	208.2	230.2	237.8	285.6	252.2	220.1	218.9	245.3	246.6	259.8	264.2	**242.4**	203.8	237.8	252.8	253.5	242.8	242.8	257.3		**241.5**
Chicago	336.5	256.6	271.1	284.9	328.3	323.3	362.3	296.2	359.8	332.7	290.0	349.7	347.8	**316.9**	355.4	336.5	356.6	339.6	420.8	403.2	366.7		**368.4**
Wood River	37.6	51.6	40.3	40.9	49.1	45.3	43.4	31.4	42.8	38.4	39.6	49.1	44.0	**43.0**	35.2	51.6	77.4	61.6	69.8	39.0	49.1		**54.8**
Toledo	62.6	59.8	50.9	50.9	47.2	56.0	63.5	49.7	52.2	56.0	59.1	68.6	51.6	**55.5**	56.6	36.5	62.9	59.8	29.6	61.6	64.8		**53.1**
Warren	31.8	31.4	31.4	33.3	37.1	34.6	37.1	37.7	34.0	31.4	20.8	25.2	35.9	**32.5**	35.9	39.6	37.1	37.1	36.5	35.9	34.0		**36.6**
Oklahoma/Kansas	13.3	12.6	12.0	13.8	15.7	10.1	17.6	15.7	11.3	12.6	12.6	18.9	15.7	**14.0**	22.6	10.7	6.9	8.2	8.8	6.9	8.2		**10.3**
N.E. PADD I [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0		**0.0**
Gulf Coast	–	0.0	11.3	0.0	16.4	0.6	0.0	8.2	4.4	0.0	0.0	0.0	0.0	**3.4**	0.0	0.0	0.0	0.0	0.0	3.1	17.0		**2.9**
Other	48.9	35.2	35.2	35.9	41.5	35.2	39.0	28.3	45.9	71.7	68.6	67.9	45.9	**45.9**	37.1	38.4	57.2	49.1	39.6	62.3	73.0		**50.9**
Total Heavy Crude Oil Exports	**884.8**	**819.6**	**800.7**	**832.8**	**908.4**	**932.8**	**961.1**	**839.1**	**918.9**	**932.8**	**875.5**	**983.1**	**959.2**	**897.0**	**891.9**	**886.9**	**990.0**	**918.3**	**951.6**	**1,007.0**	**1,044.7**	**957.3**	**955.8**
Year-Over-Year Change	*5%*	*(8%)*	*(10%)*	*(6%)*	*(4%)*	*6%*	*5%*	*(1`%)*	*11%*	*14%*	*(1%)*	*9%*	*4%*	*1%*	*9%*	*11%*	*19%*	*1%*	*2%*	*5%*	*25%*	*4%*	*10%*
Light Crude Oil Exports																							
Anacortes	72.7	58.5	58.5	43.4	34.6	44.0	39.0	48.4	49.1	47.2	52.2	44.7	49.1	**47.4**	47.2	34.6	64.2	54.7	58.5	47.2	58.5		**52.1**
Billings	30.9	31.4	28.9	23.9	18.9	24.5	26.4	30.8	40.3	39.0	33.3	25.2	25.8	**29.0**	30.8	25.8	31.4	18.9	15.7	21.4	10.7		**22.1**
Southern PADD IV [1]	74.3	60.4	67.3	61.0	60.4	82.4	70.4	96.9	96.2	87.4	88.1	78.6	71.1	**76.7**	75.5	71.7	59.8	56.6	76.7	81.8	88.7		**42.6**
Twin Cities	65.1	49.1	50.3	61.6	55.4	66.0	56.6	44.7	48.4	27.7	46.5	57.9	50.9	**51.3**	57.2	45.9	40.9	42.8	61.6	42.8	47.8		**48.4**
Chicago	70.2	76.1	79.3	79.9	57.2	64.8	53.5	62.3	52.8	97.5	56.0	66.0	54.1	**66.6**	40.9	51.6	34.0	45.3	47.2	52.8	67.3		**48.4**
Wood River	9.0	8.8	8.8	15.1	30.2	34.0	18.2	15.7	10.1	18.2	25.2	16.4	31.4	**19.3**	31.4	28.3	25.2	15.1	3.8	24.5	12.6		**20.1**
Toledo	58.3	59.1	59.1	44.0	56.6	59.1	40.9	50.9	46.5	61.0	57.2	66.0	61.0	**55.1**	51.6	50.3	32.1	33.3	29.6	54.1	48.4		**42.8**
Warren	28.9	27.7	23.9	29.6	25.8	29.6	27.7	25.2	29.6	25.2	19.5	15.7	23.9	**25.3**	24.5	20.8	23.9	25.2	25.8	29.6	26.4		**25.2**
Oklahoma/Kansas	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0		**0.0**
N.E. PADD I [2]	53.2	84.9	42.8	79.9	110.1	42.8	62.3	100.6	95.6	81.8	101.9	111.3	146.6	**88.4**	62.3	76.7	127.7	96.2	111.3	109.4	118.9		**100.4**
Gulf Coast	–	40.9	76.1	72.3	37.1	127.1	90.6	69.2	20.1	40.9	67.3	48.4	69.8	**63.3**	81.1	40.9	52.8	0.0	66.7	56.0	19.5		**45.3**
Other	41.8	49.7	34.6	21.4	52.2	49.7	40.3	27.7	29.6	44.7	49.1	57.2	53.5	**42.5**	27.7	32.7	47.2	32.1	18.9	26.4	20.8		**29.4**
Total Light Crude Oil Exports	**504.4**	**546.6**	**529.6**	**532.1**	**538.4**	**623.9**	**525.8**	**572.4**	**518.3**	**570.5**	**596.3**	**587.5**	**637.2**	**564.9**	**530.2**	**479.3**	**539.0**	**420.2**	**515.8**	**546.0**	519.5	637.9	476.7
Year-Over-Year Change	*(8%)*	*16%*	*10%*	*3%*	*6%*	*19%*	*3%*	*18%*	*9%*	*16%*	*11%*	*3%*	*32%*	*12%*	*(3%)*	*(10%)*	*1%*	*(22%)*	*(17%)*	*4%*	*(9%)*	*23%*	*(13%)*
Total Crude Oil Exports	**1,389**	**1,366**	**1,330**	**1,365**	**1,447**	**1,557**	**1,487**	**1,411**	**1,437**	**1,503**	**1,472**	**1,571**	**1,596**	**1,461**	**1,422**	**1,366**	**1,529**	**1,339**	**1,467**	**1,553**	**1,564**	**1,595**	**1,433**
Year-Over-Year Change	*0%*	*0%*	*(3%)*	*(3%)*	*(0%)*	*11%*	*4%*	*6%*	*10%*	*15%*	*4%*	*7%*	*14%*	*5%*	*4%*	*3%*	*12%*	*(7%)*	*(6%)*	*4%*	*11%*	*11%*	*1%*

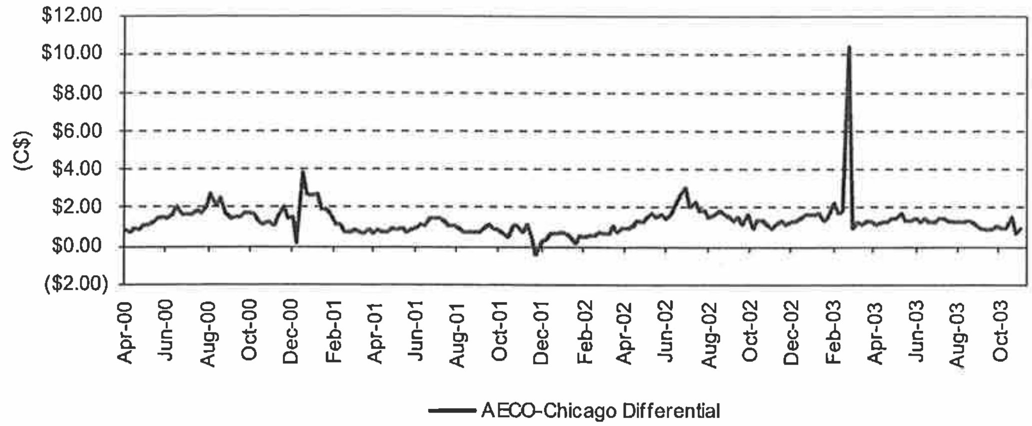
Notes:

[1] Colorado, Utah and Wyoming.

[2] New Jersey, Delaware, Virginia, Eastern Pennsylvania.

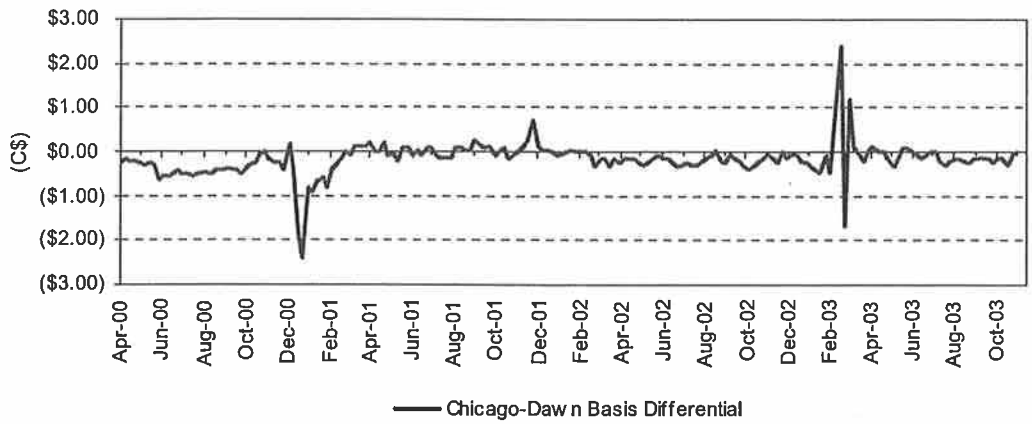
Source: NEB, CIBC World Markets Corp.

Exhibit 17. Basis Differential Supporting Value Of Capacity On Alliance Pipeline



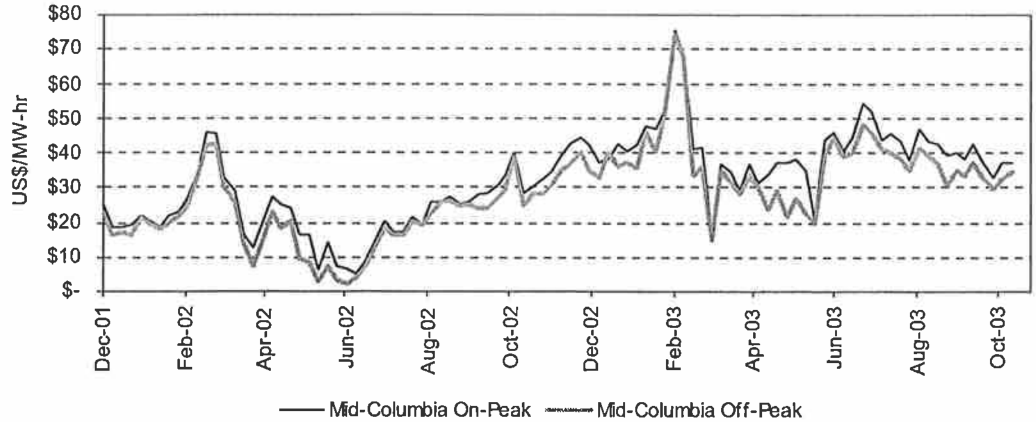
Source: Bloomberg, CIBC World Markets.

Exhibit 18. Basis Differential Supporting Value Of Capacity On Vector Pipeline



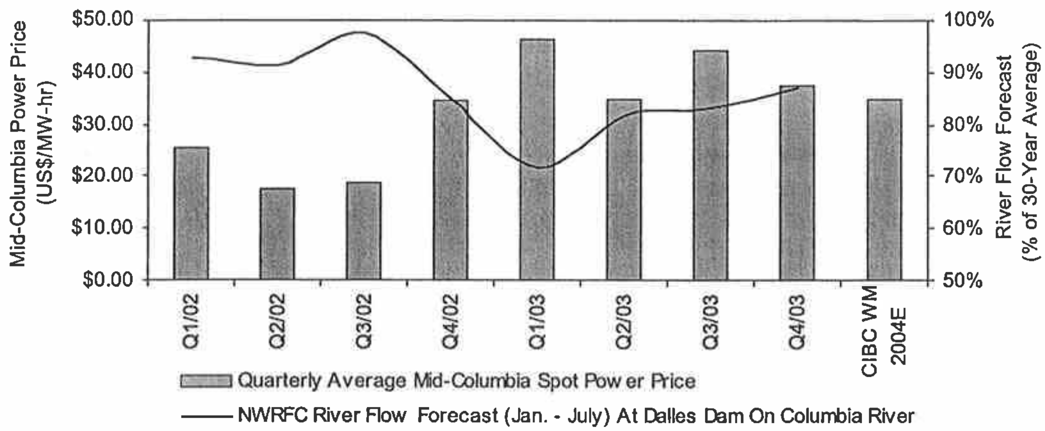
Source: Bloomberg, CIBC World Markets.

Exhibit 19. Weekly Power Prices In The Pacific Northwest (Spot Price at Mid-Columbia)



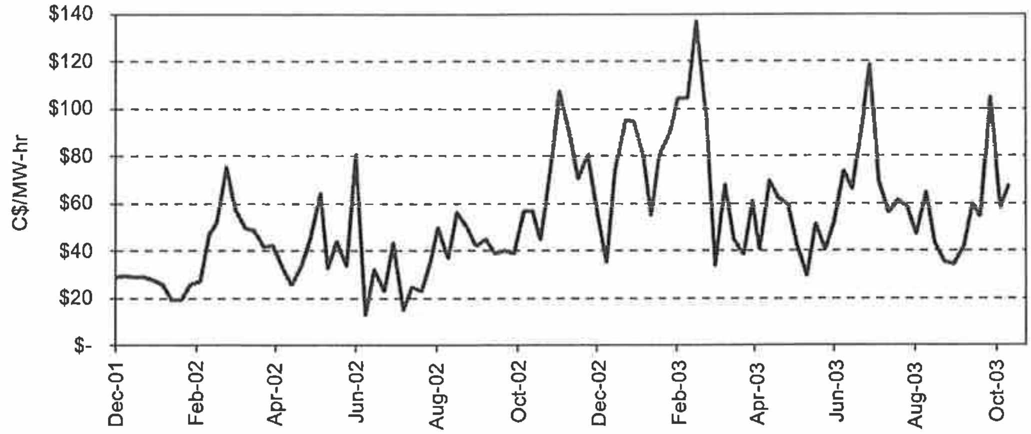
Source: Bloomberg.

Exhibit 20. Negative Correlation Between Mid-Columbia Power Prices And River Flows



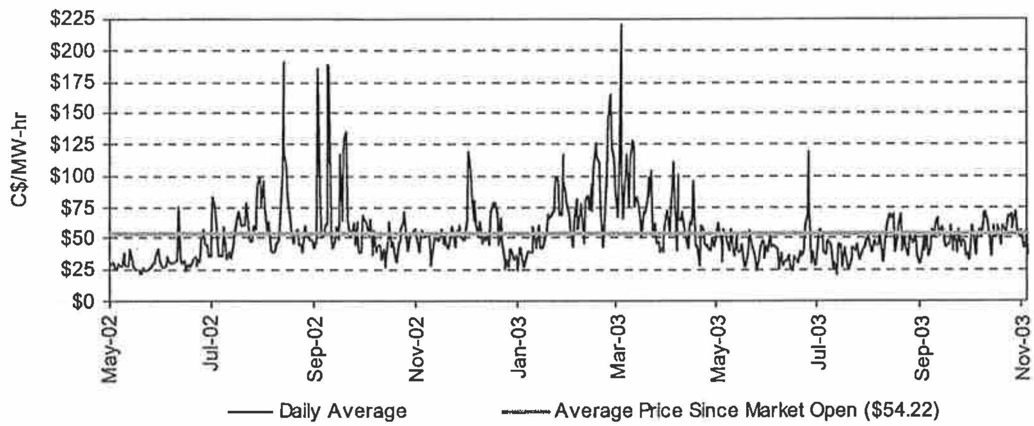
Source: Northwest River Forecast Center (NWRFC), Bloomberg, CIBC World Markets.

Exhibit 21. Weekly Average Alberta Power Pool Prices



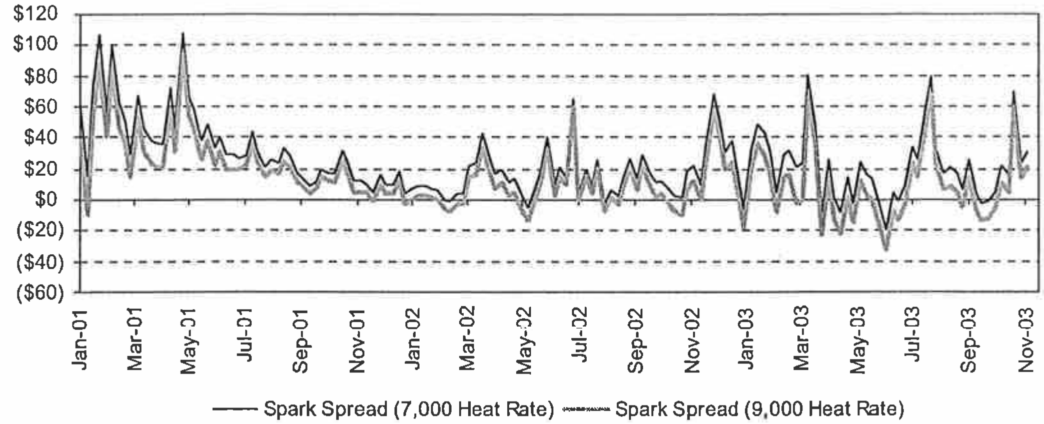
Source: Power Pool of Alberta.

Exhibit 22. Daily Average Ontario Electricity Prices



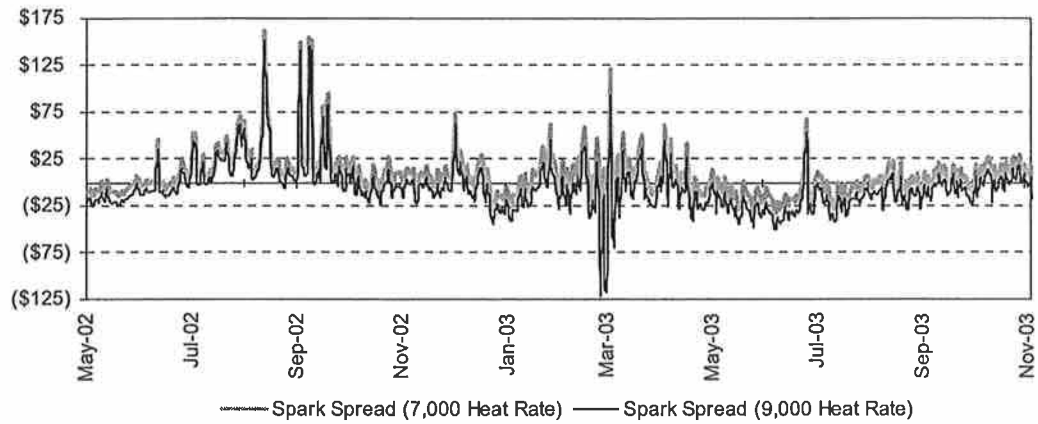
Source: The IMO of Ontario.

Exhibit 23. Spark Spreads For Alberta



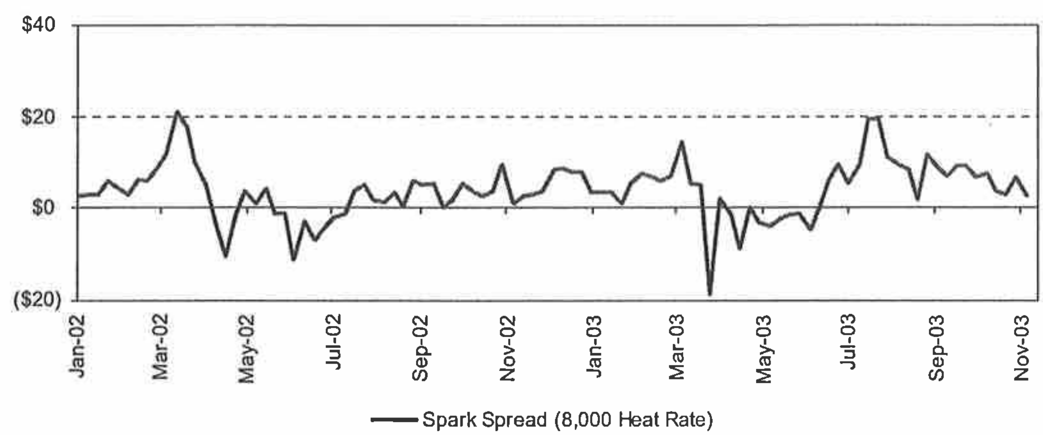
Source: Power Pool of Alberta, Bloomberg.

Exhibit 24. Spark Spreads For Ontario



Source: The IMO of Ontario, Bloomberg.

Exhibit 25. Spark Spreads At Mid-Columbia



Source: Bloomberg.

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 11/11/03

Atco Ltd. (11) (ACO.X-TSX $47.50 Sector Performer)
Canadian Utilities Ltd. (11) (CU-TSX $57.69 Sector Underperformer)
Emera Inc. (2a, 3a, 9a, 11) (EMA-TSX $17.28 Sector Outperformer)
Enbridge Energy Partners, L.P. (2a) (EEP-NYSE US$51.42 Sector Outperformer)
Enbridge Inc. (2a, 9a, 11) (ENB-TSX $53.45 Sector Performer)
Fortis Inc. (2a, 3a, 9a, 11) (FTS-TSX $59.20 Sector Outperformer)
Terasen Inc. (2a, 3a, 11) (TER-TSX $47.35 Sector Performer)
TransAlta Corporation (2a, 3a, 9a, 11) (TA-TSX $18.90 Sector Performer)
TransCanada Corp. (2a, 11) (TRP-TSX $27.25 Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 11/11/03

AES Corp. (AES-NYSE US$8.81 Not Rated)
Calpine Corp. (CPN-NYSE US$4.58 Not Rated)
Caribbean Utilities (CUP.U-TSX $13.75 Not Rated)
Consolidated Edison (ED-NYSE US$39.78 Not Rated)
Dominion Resources Inc. (D-NYSE US$61.14 Not Rated)
DTE Energy (DTE-NYSE US$35.66 Not Rated)
Duke Energy (DUK-NYSE US$17.69 Not Rated)
El Paso (EP-NYSE US$6.93 Not Rated)
Kinder Morgan (KMI-NYSE US$52.13 Not Rated)
National Fuel Gas (NFG-NYSE US$22.95 Not Rated)
NiSource (NI-NYSE US$20.54 Not Rated)
Pacific Northern Gas (PNG.A-TSX $19.30 Not Rated)
Peoples Energy (PGL-NYSE US$39.97 Not Rated)
PPL Corp. (PPL-NYSE US$40.20 Not Rated)
Reliant Resources (RRI-NYSE US$5.68 Not Rated)
WGL Holdings (WGL-NYSE US$26.41 Not Rated)
Williams (WMB-NYSE US$9.10 Not Rated)

Key to Footnotes:

1) CIBC World Markets Corp. makes a market in the securities of this company.
2) CIBC World Markets Corp., or one of its affiliated companies, has received compensation for investment banking services from this company in the past 12 months.
2a) CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
3) CIBC World Markets Corp., has managed or co-managed a public offering of securities for this company in the past 12 months.
3a) CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

Key to Footnotes: (Cont'd.)

4) This company has a convertible included in the CIBC World Markets convertible universe.

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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	Stock is not covered by CIBCWM or CIBCWM is restricted*** from rating the stock.
Company Rating 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.

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.

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November 6, 2003

Company Update

Company Rating:	*Sector Performer*
Sector Weighting:	*Market Weight*

Terasen Inc.

Q3 Results Show Momentum Into 2004

Pipelines & Utilities

TER-TSX (11/05/03)	$47.13
12-18 mo. Price Target	$47.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$47.15-$38.85
Shares Outstanding	51.9 mln.
Float	51.9 mln.
Avg. Daily Trading Vol.	33,000
Market Capitalization	$2,446.0 mln.
Dividend/Yield	$1.56/3.3%
Fiscal Year Ends	December
Book Value	$24.29 per Share
2003 ROE	10.0%
LT Debt	$2.4 bln.
Preferred	$125.0 mln.
Common Equity	$1.3 bln.
Convertible Available	No

- Terasen reported Q3'03 EPS of ($0.15) vs. our estimate of ($0.08) and ($0.35) in Q3'02. The Q3 results demonstrate success in the oil pipelining business that should continue over the next two years. We are maintaining our Sector Performer rating.

- The quarter would have been even stronger if forest fires in British Columbia had not forced outages on the Trans Mountain Pipeline. The fires impacted results by about $0.05 in the quarter. High oil volumes on Trans Mountain appear sustainable and support better earnings in Q4 and next year.

- Pipeline expansion projects in the works probably drive a higher organic growth rate in the 2003 - 2005 period than any of the other Canadian pipelines and utilities. Cost savings should offset the 30 - 40 basis point ROE reduction we are forecasting for the gas utilities.

- TER is expensive and is through our target price, but so are other Canadian utility stocks. Given our forecast growth rate (7% - 8%) we think TER will continue to trade at a premium. Therefore, we maintain our SP rating and we will likely revise our target up when we roll out 2005 EPS estimates in the next few weeks.

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to British Columbia, including Vancouver and the interior. The company also owns Trans Mountain Pipeline and Express Oil Pipeline System.
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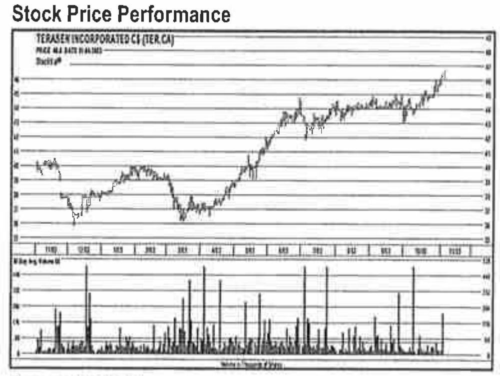
Earnings Per Share

	Prior	Current
2002		$2.54
2003E		$2.65
2004E		$2.85
P/E		
2002		18.6x
2003E		17.8x
2004E		16.5x

Dividends Per Share

2001	$1.30
2002	$1.41
2003E	$1.53
2004E	$1.70
Debt to Total Capitalization	
2001	73.4%
2002	66.2%
2003E	67.5%
2004E	66.5%

Stock Price Performance



Source: StockVal

All figures in Canadian dollars, unless otherwise stated.

Investment Summary

Terasen reported Q3'03 EPS of ($0.15) vs. our estimate of ($0.08) and ($0.35) in Q3'02. The quarter would have been even stronger if forest fires in British Columbia had not forced outages on the Trans Mountain Pipeline. The Q3 results demonstrate success in the oil pipelining business that should continue over the next two years. Our Sector Performer rating balances our positive outlook against high relative valuation.

Please see the attached appendix to this note for a full breakdown and analysis of earnings by segment in Q3'03.

Trans Mountain Pipeline Driving Growth Now and Through 2005

Trans Mountain is the company's big growth driver now and will continue to play an important role in the coming years.

- ***Normalized Q3 contribution very high*** – It appears that volume flow on the Canadian portion of Trans Mountain was about 230,000 barrels per day. This level would normally drive an earnings contribution of about $11 million compared to the $7.9 million reported. The BC fires cost the company in terms of power expense and impacted results by about $0.05 in the quarter.
- ***Volume growth alone contributes $0.06 EPS in '04*** – High oil volumes on Trans Mountain appear sustainable and support better earnings in Q4 and next year. We are conservatively assuming volumes drop from the Q3 level of 230,000 barrels per day to 220,000 barrels per day in 2004 and still show a $0.06 2004 full year EPS improvement from Trans Mountain.
- ***Expansion in the works adding even more*** – A two-phase expansion on Trans Mountain is currently in the works. The company is planning to add about 45,000 barrels per day of new capacity at a low cost of about $35 million by 2005. Our models have this expansion adding another $0.06 in EPS by 2005.

We think the high volume flows on Trans Mountain are largely sustainable because of rising oil production in Alberta. It is interesting to note the high volume flows persisted in Q3 despite steep reductions in West Coast refining margins during the quarter. This outcome bodes well for volume flow going forward, but we probably need one or two more quarters of data to be sure.

TER Gas Utilities Poised to Offset Most of the ROE Reduction With Cost Savings

We raised a concern as early as July about a potential reduction in the allowed utility ROEs owing to the drop in bond yields. The ROE reduction is nearing and management indicated a 9.0% - 9.1% ROE for 2004 (down from 9.42% in 2003) is likely. However, the company can probably offset most of the ROE reduction with cost savings.

With the integration of the old BC Gas Utility and Centra BC nearly complete, management indicated there are significant cost savings available in corporate functions. Duplication of these functions across both utilities is now unnecessary. The ROE drop probably costs the company about $3 million in net income next year (almost $0.06 in EPS). We are modeling Terasen's utility earnings approximately flat in 2004 relative to 2003, assuming the company can find nearly $3 million in savings.

Longer Term Expansion Plans Coming Together

Terasen is discussing expansion plans in several other areas, at least some of which are likely to come to fruition:

- *Express contracting and expansion* – Management indicated that the Express Pipeline is poised for a successful open season and expansion. The pipeline ran at 176,000 barrels per day (near capacity) during Q3. An open season is being held to firm up contracts on the current capacity. In addition, we still think an expansion of up to 108,000 barrels per day is likely to proceed perhaps beginning next year.

- *Gas pipeline expansion to Vancouver Island* – Studies show Vancouver Island will be short electricity by 2007. New electric capacity is likely to be satisfied with gas-fired generation and requires new pipeline capacity to the Island. Terasen has proposed an $80 million expansion of its pipeline and a $100 million LNG tank facility for peak shaving on the Island. These projects will compete on economics with the proposed GSX Pipeline and have a realistic chance of proceeding.

- *Twinning Trans Mountain* – Longer-term, Terasen is talking about twinning Trans Mountain for a major expansion of up to 600,000 barrels per day. These expansion plans are in the preliminary stages only. Many hurdles stand in the way of realizing the project, including engineering, environmental and competitive challenges.

Conclusions: Premium Deserved – Valuation a Concern as With Most Utilities Now

Oil volume flows and pipeline expansion projects in the works at Terasen probably drive a higher organic growth rate in the 2003 – 2005 period than any of the other Canadian pipelines and utilities. Cost savings should offset the 30 – 40 basis point ROE reduction we are forecasting for the gas utilities. The key question is how much of a multiple premium the stock deserves for this positive outlook.

We think the good outlook is mostly reflected in relative valuation. At 16.5x 2004 forecast earnings, Terasen stock trades at a 2-3 point multiple premium to many other stocks in the group like TransCanada (TRP-TSX, Sector Outperformer), Fortis (FTS-TSX, Sector Outperformer) and Emera (EMA-TSX, Sector Outperformer). The only one that is more expensive is Enbridge (ENB-TSX, Sector Performer) (at 17x 2004 EPS). That is why we are maintaining a Sector Performer rating on TER and not moving the stock back to Sector Outperformer at this time.

Terasen is expensive and is through our target price, but so are other Canadian utility stocks. Given our forecast growth rate (7% - 8%) we think TER will continue to trade at a premium multiple. Therefore, we will likely revise our target up when we roll out 2005 EPS estimates in the next few weeks. Assuming a constant multiple and 7% growth from our 2004 EPS estimate, Terasen would be a $50 stock in a year's time.

Appendix: Summary of Q3'03 Financial Results

Exhibit 1. Segmented Q3'03 and 2003E Earnings

(C$ millions, unless otherwise stated)

	Q3/03A	Q3/02A	2003E	2002A
Terasen Gas	($25.5)	($27.0)	$71.2	$69.5
Terasen Gas (Vancouver Island)	$7.1	$5.6	$24.3	$22.9
Trans Mountain Pipeline	$7.9	$6.7	$36.5	$29.2
Express Pipeline System	$2.8	$0.0	$12.0	$0.0
Corridor Pipeline	$3.8	$0.0	$10.7	$0.0
Other Activities	($2.0)	$1.3	($11.0)	($7.0)
Capital Securities Distributions (net of tax)	($1.7)	($1.7)	($6.4)	($6.4)
Operating Earnings for Common	($7.6)	($15.1)	$137.3	$108.2
Unusual Items	$0.0	($4.1)	($3.8)	($4.1)
Reported Earnings	($7.6)	($19.2)	$133.5	$104.1
Average Shares Outstanding (mln)	51.9	43.6	51.8	42.7
Operating Earnings per Share	**($0.15)**	**($0.35)**	**$2.65**	**$2.53**
Reported Earnings per Share	($0.15)	($0.44)	$2.58	$2.44

Notes:

1. Unusual item in 2003 relates to foreign exchange loss associated with Express Pipeline System in Q2'03.
2. Unusual item in 2002 relates to write-down of Westport Innovations investment in Q3/02.
3. About $1 million of positive amortization contribution at Terasen Vancouver Island could be attributed to prior 2003 quarters.

Source: Company documents, CIBC World Markets.

Oil Pipelines

Trans Mountain Pipeline contributed earnings of $7.9 million in Q3'03 compared to $9.6 million in Q2'03 and $6.7 million last year. Volume flows on the Canadian portion were very strong in the quarter (estimated at about 230,000 barrels/day vs. an average of 206,000 barrels/day in the first half), even with 130,000 barrels of capacity curtailed in August due to the B.C. forest fires. However, higher operating costs related to power costs dampened earnings compared to Q2'03.

The Express Pipeline System added $2.8 million in earnings, a slight decrease from $3.5 million in Q2'03 (after adjusting for a negative $3.8 million foreign exchange impact of a weaker U.S. dollar). A new hedging arrangement was put in place during Q3 to protect earnings against significant moves in the U.S. dollar.

Corridor Pipeline earnings came in at $3.8 million with its first full quarter in operation, slightly lower than we would have expected.

Gas Distribution

Earnings contribution from the gas utilities (Terasen Gas and Terasen Gas (Vancouver Island)) was slightly better than a year ago (combined loss of $18.4 million in Q3'03 vs. $21.4 million in Q3'02). Earnings from Terasen Gas improved by $1.5 million, due primarily to operating efficiencies. The improvement from the Vancouver Island utility was mainly as a result of the accelerated recovery of a long-term regulatory receivable into earnings ($1.6 million in the quarter).

Other Activities

Corporate costs were higher than a year ago, mainly from higher interest expense related to the Corridor Pipeline.

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

tock Prices as of 11/05/03

Emera Inc. (2a, 3a, 9a, 11) (EMA-TSX $17.39 Sector Outperformer)

Enbridge Inc. (2a, 9a, 11) (ENB-TSX $52.61 Sector Performer)

Fortis Inc. (2a, 3a, 9a, 11) (FTS-TSX $58.62 Sector Outperformer)

TransCanada Corp. (2a, 11) (TRP-TSX $26.85 Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

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CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
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SB	Strong Buy	Expected total return over 12 months of at least 25%.
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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.

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.

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CIBC WORLD MARKETS

Equity Research

August 1, 2003

Earnings Update

Company Rating:	*Sector Performer*
Sector Weighting:	*Market Weight*

Terasen Inc.

One-Timer Masks Strong Operating Earnings

Pipelines & Utilities

TER-TSX (07/31/03)	$44.45
12-18 mo. Price Target	$47.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$44.74-$38.85
Shares Outstanding	51.9 mln.
Float	51.9 mln.
Avg. Daily Trading Vol.	40,000
Market Capitalization	$2,307.0 mln.
Dividend/Yield	$1.56/3.5%
Fiscal Year Ends	December
Book Value	$24.84 per Share
2003 ROE	10.0%
LT Debt	$2.3 bln.
Preferred	$125.0 mln.
Common Equity	$1.3 bln.
Convertible Available	No

- Terasen reported Q2'03 EPS of $0.16 vs. our estimate of $0.15 and $0.03 in Q2'02. Absent an unusual loss related to foreign exchange effects on working capital, EPS would have been $0.23. We are maintaining EPS estimates but raising our target price by $1 to reflect improved earnings visibility in 2003 and 2004.

- Strength in oil volume flows and cost savings on the Trans Mountain Pipeline drove the upside in operating earnings. We were surprised that volumes were up year-over-year despite declining oil exports for Canada in the quarter.

- The details of an incentive rates deal for Terasen Gas were also released on the quarter and were in line with our expectations. The company can boost its return through cost savings over the four-year incentive period. However, reductions in bond yields do still reduce allowed ROEs under the agreement.

- Strong oil pipeline earnings could offset the earnings risk we have previously identified relative to falling allowed returns in 2004. We are not raising our 2004 EPS estimate of $2.85, but have greater confidence in it. This allows us to slightly increase the target multiple on TER and to raise our target price from $46 to $47.

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to British Columbia, including Vancouver and the interior. The company also owns Trans Mountain Pipeline and Express Oil Pipeline System.
www.terasen.com

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Earnings Per Share

	Prior	Current
2002		$2.54
2003E		$2.65
2004E		$2.85

P/E

2002	17.5x
2003E	16.8x
2004E	15.6x

Dividends Per Share

2001	$1.30
2002	$1.41
2003E	$1.53
2004E	$1.70

Debt to Total Capitalization

2001	73.4%
2002	66.3%
2003E	66.0%
2004E	66.0%

Stock Price Performance

CHART NOT AVAILABLE

All figures in Canadian dollars, unless otherwise stated.

Investment Summary

Terasen reported Q2'03 EPS of $0.16 vs. our estimate of $0.15 and $0.03 in Q2'02. Absent an unusual loss related to foreign exchange effects on working capital, EPS would have been $0.23. We are maintaining EPS estimates but raising our target price by $1 to reflect the improved earnings visibility in 2003 and 2004.

Strong Quarter Creates Bias For Positive 2003 EPS Estimate Revisions

The strong operating quarter creates a bias to the upside on our 2003 EPS estimate (for a full review of earnings by segment, please see attached tables and discussion). We are normalizing our 2003 earnings by backing out the $3.8 million impact of foreign exchange changes on Express Pipeline working capital and future income tax balances.

However, we are also reducing our earnings estimate for the gas utility on the assumption that restructuring expenses rise with the merger of Terasen Gas and Terasen Vancouver Island Gas. If the restructuring expenses are small or do not materialize, we could see a $0.05 upward revision to our 2003 EPS estimate.

No Surprises In Gas Distribution Incentive Deal – Risk Of ROE Reduction Remains An Issue

We saw few surprises in the details Terasen released regarding the design of its incentive regulation. Some months ago the British Columbia Utilities Commission announced its support for incentive regulation, and the details were under negotiation between the company and its customers. Final details were released with the Q2 results:

- ***Allowed ROE still formula-based and equity ratio stays at 33%*** – The company's allowed ROE will be set by way of a formula that adjusts for changes in forecast bond yields. We understand that when bond yields are below 6%, the allowed return drops in lockstep with forecast bond yields. In previous written research we had noted that Terasen's EPS exposure to a 50 basis point drop in allowed returns is about $0.11.
- ***Shareholder incentive for cost savings*** – Operating costs in rates will rise by the percentage change in customer additions plus 50% of inflation (CPI) in 2004 and 2005, then by 66% of CPI in 2006 and 2007. Operating cost savings will generally benefit shareholders and boost achieved returns.
- ***Profit sharing on variances from allowed ROE*** – Any excess or shortfall in earnings from the allowed ROE will be shared 50/50 between the company's shareholders and its customers.
- ***No material new volume risks*** – Terasen Gas is known as one of the lowest risk utilities with little exposure to volume risk. The incentive deal preserves that status as deferral accounts will remain for variances in residential customer use. The company is at risk only for annual variances from forecast industrial use.

Oil Pipeline Strength Reduces RiskTto 2004 EPS Forecast

The risk of a reduced 2004 ROE that still overhangs the gas distribution business is probably offset by improved performance in oil pipelining. Strength in oil volume flows and cost savings on the Trans Mountain Pipeline drove the upside in operating earnings for Q2'03.

We were surprised that volumes were up year-over-year (about 20,000 barrels per day) despite declining oil exports for Canada in the quarter. The National Energy Board shows exports down year-over-year in April and May by 8% and 5.4%. Despite this data, Trans Mountain volumes were actually up by more than 10% year-over-year.

We regard the strong Q2'03 result as a sign that Trans Mountain has become a favored route for shippers of light crude. In fact, the NEB indicates that light crude exports are down year over year in the April/May period by almost 20%. We understand that heavy crude accounted for much less than 10% of total Trans Mountain volumes in the quarter. Therefore, we can only conclude that light crude is moving off of Enbridge (ENB-TSX, Sector Performer) onto Trans Mountain.

On the tentative assumption that volume flows on Trans Mountain are sustainable, we also conclude that strong oil pipeline earnings could offset the earnings risk we have previously identified relative to falling allowed returns in 2004. We are not raising our 2004 EPS estimate of $2.85, but have greater confidence in it than before.

Expansion Plans On Trans Mountain And Express Remain Intact

Management indicated that its plans for expansion on Express and Trans Mountain are intact. The full expansion on Express (108,000 b/d) may not be complete until 2006, but volume flows are indicative of the need for an expansion in the next two years. Management also indicated it is discussing with shippers the possibility of a small expansion on Trans Mountain. Currently the company can only fill about 75% of shipper orders for capacity on the pipeline.

Conclusions: Sector Performer Rating Maintained But Target Up Slightly To $47

Developments in the quarter support our thesis that Terasen still deserves a premium valuation to the Canadian utility group. The company has one of the lowest risk profiles and some of the best potential for organic growth. In our view, this premium is largely reflected in the stock, so we are maintaining our Sector Performer rating. However, the improved earnings visibility allows us to slightly increase our target multiple on Terasen to 16.5x 2004 forecast earnings and to raise our target price from $46 to $47.

Appendix: Summary Of Q2'02 Financial Results

Terasen reported Q2'03 EPS of $0.16 vs. our estimate of $0.15 and $0.03 in Q2'02. Absent an unusual loss related to foreign exchange effects on working capital, EPS would have been $0.23.

Exhibit 1. Segmented Q2/03 Earnings (C$ millions, unless otherwise stated)

	Q2/03A	Q2/02A	2003E	2002A
Terasan Gas	($8.3)	($8.2)	$67.6	$69.5
Terasan Gas (Vancouver Island)	$5.8	$5.2	$22.8	$22.9
Trans Mountain Pipeline	$9.6	$5.6	$35.0	$29.2
Express Pipeline System	$3.5	$0.0	$12.3	$0.0
Corridor Pipeline	$2.9	$0.0	$12.7	$0.0
OtherActivities	$0.1	$0.1	($6.8)	($7.0)
Capital Securities Distributions (net of tax)	($1.6)	($1.6)	($6.4)	($6.4)
Operating Earnings for Common	$12.0	$1.1	$137.2	$108.2
Unusual Items	($3.8)	$0.0	($3.8)	($4.1)
Reported Earnings	$8.2	$1.1	$133.4	$104.1
Average Shares Outstanding (mln)	51.8	43.6	51.8	42.7
Operating EPS	**$0.23**	**$0.03**	**$2.65**	**$2.53**
Reported EPS	$0.16	$0.03	$2.58	$2.44

Notes:

1. Unusual item in Q2/03 relates to foreign exchange loss associated with Express Pipeline System.
2. Unusual item in 2002 relates to write-down of Westport Innovations investment in Q3/02.

Source: Company documents, CIBC World Markets.

Oil Pipelines

Increased volume throughput and costs savings on the Trans Mountain Pipeline contributed to strong earnings in Q2 ($9.6 million vs. $5.6 million in Q2'02). The strong volume flows were driven by several factors, including tankerage demand to supply refineries in the California market, significant growth in heavy oil exports to the West Coast and continued demand growth in the PADD IV (Rocky Mountains) and II (Midwest) regions.

The Express Pipeline System added $3.5 million in earnings, after adjusting for the negative $3.8 million foreign exchange impact from a weaker U.S. dollar. Management indicated that hedging arrangements may be explored, but if no hedges were put in place, a further $0.10 depreciation in the U.S. dollar could result in foreign exchange losses of about $1.5 million.

Corridor Pipeline added earnings of $2.9 million in Q2 with the May 1 start date. Management reiterated its guidance for full-year earnings contribution of $12 million.

Gas Distribution

Earnings contribution from the gas utilities (Terasen Gas and Terasen Gas (Vancouver Island)) were slightly better than a year ago (combined loss of $2.5 million in Q2'03 vs. $3.0 million in Q2'02), with the improvement coming from continued operating efficiencies achieved during the quarter.

CIBC

CIBC WORLD MARKETS

Equity Research

April 28, 2003

Earnings Update

Company Rating:	*Sector Outperformer*
Sector Weighting:	*Overweight*

BC Gas Inc.

Upside Surprise on EPS and a Big Dividend Increase

Pipelines & Utilities

BCG-TSX (04/25/03)	**$38.08**
12-18 mo. Price Target	$43.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$42.50-$35.25
Shares Outstanding	51.8 mln.
Float	51.8 mln.
Avg. Daily Trading Vol.	53,000
Market Capitalization	$2.0 bln.
Dividend/Yield	$1.56/4.1%
Fiscal Year Ends	December
Book Value	$25.05 per Share
2002 ROE	9.9%
LT Debt	$2,422.2 mln.
Preferred	$125.0 mln.
Common Equity	$1,297.7 mln.
Convertible Available	No

- BC Gas reported Q1'03 EPS of $1.42 vs. $1.70 in Q1'02 and our estimate of $1.38. The upside surprise came from high volumes and revenues on the Trans Mountain Pipeline. We are raising our 2003 EPS estimate by $0.05 and maintaining our Sector Outperformer rating as well as our $43 target price.

- In keeping with its strong earnings growth, the company announced an impressive 8.3% dividend increase. The quarterly dividend goes from $0.36 to $0.39 for payment on May 31 to shareholders of record on May 16. The new dividend derives a 4.1% dividend yield on the current stock price.

- Other developments bode well for continued premium growth at low risk for BC Gas. The Corridor Pipeline came into service and will contribute to earnings starting in Q2. Meanwhile, we see Suncor's recent acquisition of a Denver refinery as supportive of an expansion on the Express Pipeline.

- Our 2003 EPS increase to $2.65 is based on the higher than forecast volumes on Trans Mountain and is line with management guidance of at least 6% EPS growth. We continue to value BCG shares at a premium to the group (15.1x EPS vs. a group average 14x) owing to its visible earnings growth and low risk profile.

Company Description

BC Gas is a gas distribution and oil pipeline company. Its subsidiary, BC Gas Utility, distributes natural gas to British Columbia, including Vancouver and the interior. The company also owns Trans Mountain Pipeline and Express Oil Pipeline System.
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Earnings Per Share	Prior	Current
2002		$2.54
2003E	$2.60	$2.65
2004E		$2.85
P/E		
2002		15.0x
2003E	14.6x	14.4x
2004E		13.4x

Dividends Per Share	
2001	$1.30
2002	$1.41
2003E	$1.53
2004E	$1.70
Debt to Total Capitalization	
2001	73.4%
2002	66.3%
2003E	65.7%
2004E	64.3%

Stock Price Performance

CHART NOT AVAILABLE

All figures in Canadian dollars, unless otherwise stated.

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Summary

BC Gas reported Q1'03 EPS of $1.42 vs. $1.70 in Q1'02 and our estimate of $1.38. The upside surprise came from high volumes and revenues on the Trans Mountain Pipeline. We are raising our 2003 EPS estimate by $0.05 and maintaining our Sector Outperformer rating as well as our $43 target price.

Investors should note that BC Gas shareholders approved a company name change to Terasen. The name change will take effect on April 28 2003. The stock symbol will change from BCG to TER effective May 5 2003. In future research notes, we will refer to the company as Terasen.

Overview of First Quarter Earnings

The reported EPS of $1.42 were lower than last year but full-year earnings should be materially higher than last year. A timing difference in the issuance of new shares (last year) and the in-service date on the Corridor Pipeline (May of this year) accounts for the one-quarter lag in earnings growth. However, an upside surprise in the first quarter bodes well for earnings on a full-year basis.

Table 1. Segmented Q1/03 Earnings (C$ mln, unless otherwise stated)

	Q1/03A	Q1/02A	2003E	2002A
BC Gas Utility	$61.1	$60.5	$71.2	$69.5
Centra Gas	$6.0	$6.3	$23.3	$22.9
Trans Mountain Pipeline	$8.3	$6.5	$28.5	$29.2
Express Pipeline	$3.3	$0.0	$13.4	$0.0
Corridor Pipeline	-	-	$12.0	$0.0
OtherActivities	($3.7)	($3.9)	($5.0)	($7.0)
Capital Securities Distributions (net of tax)	($1.6)	($1.6)	($6.4)	($6.4)
Operating Earnings for Common	$73.4	$67.8	$137.0	$108.2
Unusual Items	$0.0	$0.0	$0.0	($4.1)
Reported Earnings	$73.4	$67.8	$137.0	$104.1
Average Shares Outstanding (mln)	51.7	39.8	51.7	42.7
Operating EPS	**$1.42**	**$1.70**	**$2.65**	**$2.53**
Reported EPS	$1.42	$1.70	$2.65	$2.44

Notes:

1. Unusual item in 2002 relates to w rite-dow n of Westport Innovations investment in Q3/02.

Source: Company documents, CIBC World Markets

Oil Pipelines

We estimate that BC Gas will derive up to 45% of its net income from oil pipelines by next year. Earnings from the three pipelines can be summarized as follows:

- ***Trans Mountain Volumes Up*** – The Trans Mountain Pipeline contributed $8.3 million in Q1'03 vs. $6.5 million in Q1'02. The upside came from a volume improvement on the Canadian portion from just under 200,000 barrels per day last year to over 209,000 this year. Management indicated that volumes remained strong through April of this year.

- ***Express Acquisition Begins Adding Earnings*** – The Express Pipeline added $3.3 million in earnings, including $0.4 million in tax benefits. Management indicated there should be little to no variation in the Express earnings across seasons. Management also concurred with our view on the conference call that the Suncor (SU - TSX) refinery acquisition in Denver bodes well for an expansion of the Express Pipeline.

- ***Corridor Comes Into Services On Time and Budget*** – The Corridor Pipeline did not add to earnings in the quarter, but will add beginning in Q2. The May 1 start date is a positive development. A delay until June 1 would have reduced EPS by about $0.03.

Gas Distribution Earnings Solid With New Incentive Rates

BC Gas Utility contributed $61.1 million in earnings vs. $60.5 million in Q1'02. The slight improvement came from efficiencies achieved in the quarter. The regulator has already set base rates for BC Gas Utility and the company is negotiating with customers over the details of a new incentive rate framework.

Management speculated that the framework would contain an incentive for achieving operating cost savings and perhaps for capital cost savings. A deal should be finalized by the third quarter of this year. With base rates already established, we think the new incentive rates deal can only create upside for shareholders.

Centra Gas BC contributed only $6 million vs. $6.3 million last year. The reduction resulted from a slight reduction in rates starting this year. We see earnings reductions at Centra as temporary. The Centra BC utility is moving into an incentive rates framework this year, under which operating cost savings should ultimately more than offset rate reductions.

Conclusions

BC Gas should continue to deliver premium EPS growth at low risk. We believe our new EPS estimate of $2.65 for this year is consistent with management guidance from the Q1 release of at least 6% EPS growth on a full year basis (we believe management is using $2.45 as a base). Our forecast for next year shows EPS growth of 7% - 8% again.

The 8.3% dividend increase is a good sign that investors in BC Gas can expect dividend growth to accelerate with earnings growth. The company seems committed to maintaining the current payout ratio of approximately 60%.

We recommend investors purchase shares in BC Gas for visible EPS and dividend growth as well as for its low risk profile. Currently, BC Gas shares are trading at only a slight premium to the Canadian utilities group (14.4x). Our valuation on BC Gas is still based on a premium multiple of 15.1x EPS vs. a group average multiple of 14x.

CIBC

CIBC WORLD MARKETS

Equity Research

March 11, 2003

Company Rating:	*Sector Outperformer*
Sector Weighting:	*Overweight*

Initiating Coverage

BC Gas Inc.

Acquisitions; Oil Pipeline Volumes; Cost Savings Driving Secure Growth

Pipelines & Utilities

BCG-TSX (03/10/03)	**$37.50**
12-18 mo. Price Target	$43.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$42.50-$35.25
Shares Outstanding	51.7 mln.
Float	51.7 mln.
Avg. Daily Trading Vol.	53,000
Market Capitalization	$1.9 bln.
Dividend/Yield	$1.44/3.8%
Fiscal Year Ends	December
Book Value	$28.32 per Share
2002 ROE	9.9%
LT Debt	$2,123.4 mln.
Preferred	$125.0 mln.
Common Equity	$1,240.6 mln.
Convertible Available	No

- We are initiating coverage on BC Gas Inc. with a Sector Outperformer rating and a $43.00 target price. BC Gas is positioned for premium growth despite its low risk business model. Acquisitions, rising oil pipeline volumes and cost savings are all adding to EPS and dividend growth in the near term.

- BC Gas has demonstrated success with acquisitions in the past two years. The Centra Gas BC acquisition paid off last year by over $0.40 in EPS, and we expect the strong contribution to continue. We also see the recently-acquired Express Pipeline adding $0.10 in EPS as early as next year.

- The Express Pipeline is only one of three oil pipelining assets showing promising growth now. Volumes on the Trans Mountain Pipeline are rising again and the company has upside exposure to throughput. At the same time, the Corridor Pipeline should come into service this spring.

- Our valuation on BC Gas assumes the stock continues to trade at a premium to the utility group and in line with Enbridge. Our $43.00 target price is derived from a 15.1x multiple of our $2.85 2004 EPS forecast. Our target price also implies a 4% dividend yield based on our forecast 2004 dividend of $1.70.

Company Description

BC Gas Inc. is a gas distribution and oil pipeline company. Its subsidiary, BC Gas Utility, distributes natural gas to British Columbia, including Vancouver and the interior. The company also owns Trans Mountain Pipeline and Express Oil Pipeline System.
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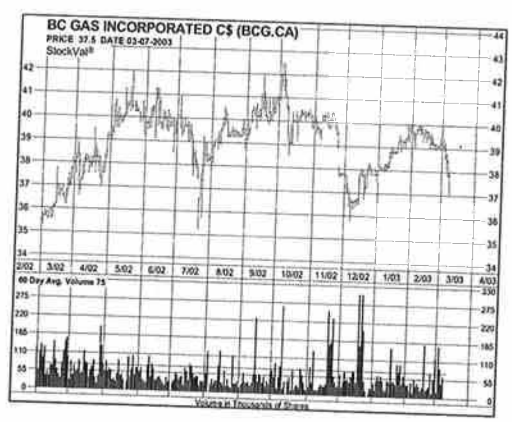
Earnings Per Share	Prior	Current
2002		$2.54
2003E		$2.60
2004E		$2.85
P/E		
2002		14.8x
2003E		14.4x
2004E		13.2x

Dividends Per Share	
2001	$1.30
2002	$1.41
2003E	$1.53
2004E	$1.70

Debt To Total Capitalization	
2001	73.4%
2002	66.3%
2003E	65.7%
2004E	64.3%

Stock Price Performance



All figures in Canadian dollars, unless otherwise stated.

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Summary

We are initiating coverage on BC Gas Inc. (BC Gas) with a Sector Outperformer rating and a $43.00 target price. BC Gas is positioned for premium growth despite its low risk business model. Acquisitions, rising oil pipeline volumes and cost savings are all adding to EPS and dividend growth in the near term. An increased reliance on oil pipelining relative to gas distribution will also give BC Gas greater long-term growth potential.

Earnings Growth Fuelled By Acquisitions

BC Gas has effectively capitalized on acquisitions arising from consolidation in the North American energy sector. It acquired Centra Gas when Duke Energy (DUK–NYSE) bought Westcoast and the Express Pipeline when PanCanadian merged with AEC. Both of the BC Gas acquisitions should create significant shareholder value.

The Centra acquisition paid off last year by over $0.40 in EPS, and we expect the strong contribution will continue. BC Gas successfully negotiated a new incentive tolling arrangement for Centra, whereby the base level allowed ROE immediately rises from about 9.5% last year to 9.92% this year. In addition, operating costs in rates rise automatically by about $1 million, even if the company holds costs flat or reduces them. The EPS contribution from Centra should rise by another $0.05 over the next year or two.

Acquisition of a one-third interest in the Express Oil Pipeline supports earnings growth through 2004 and provides a platform for further expansion. We think rising oilsands production will support a 100,000 barrel-per-day expansion on Express next year. An expansion on Express, costing less than $100 million, is probably the most economic way to increase Canada's oil export capacity in the near term. BC Gas has indicated that this type of expansion will add $0.10 in EPS in 2004.

Oil Pipelining Business A Bigger Part Of The Mix

Express is only one of three oil pipelining assets showing promising growth now. Volumes on the Trans Mountain Pipeline are rising again, having slowed in the first half of 2002. Our models show volumes dropped to about 183,000 barrels-per-day mid-year, but then finished the year well above 200,000 barrels-per-day. The momentum is likely to continue into 2003 and the company has material sensitivity to oil volume flows. Our models show EPS sensitivity of about $0.03 for every 5,000 barrel-per-day increment on Trans Mountain.

At the same time, the Corridor Pipeline in Alberta's oilsands is set to come into service this spring. Management indicated on the Q4/02 conference call that the pipeline may not come into service until June, and that there is a $0.03 EPS impact for every month delay. We believe the project may actually come into service as originally scheduled in early April. Achieving an April in-service date would likely be considered a positive surprise given management's prior comments on a potential delay.

Regulatory Situation In Utility Supports Visible Cash Flow

The core BC Gas Utility business supports the company's growth and cash flows, and will probably add to growth itself in the coming years. On February 4, the BC Utilities Commission approved the utility's cost of service for this year and approved in principle a move into a new incentive rates framework for 2004. While the precise structure of the incentive rates plan is still subject to negotiation with customers, it is likely to deliver further efficiency benefits to shareholders in the coming years.

Valuation And Conclusions

Going forward, we would not be surprised to see BC Gas acquire U.S. assets that fall out of U.S. company restructuring. BC Gas has one of the highest P/E multiples in the sector, and can meaningfully add to EPS with acquisitions of assets that are too small to interest larger companies. Small distribution utilities and pipelines would fit well with the BC Gas business mix. We highly doubt BC Gas would acquire non-regulated assets like power plants that would alter its risk profile.

Our valuation on BC Gas assumes the stock continues to trade at a premium to the utility group and in line with Enbridge. Specifically, our $43.00 target price is derived from a 15.1x multiple of our $2.85 2004 EPS forecast. Assuming the company sustains a 60% dividend payout ratio, our target price implies a dividend yield of 4%, based on our forecast 2004 dividend of $1.70.

February 17, 2003

Company Update

Company Rating:	*Sector Performer*
Sector Weighting:	*Market Weight*

BC Gas Inc.

Maintaining Outlook Following Excellent 2002 Results

Pipelines & Utilities

BCG-TSX (02/14/03)	**$39.70**
12-18 mo. Price Target	$42.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$42.50-$34.52
Shares Outstanding	51.6 mln.
Float	51.6 mln.
Avg. Daily Trading Vol.	53,000.0
Market Capitalization	$2.0 bln.
Dividend/Yield	$1.44/3.6%
Fiscal Year Ends	December
Book Value	$24.00 per Share
2002 ROE	11.9%
LT Debt	$2,124.4 mln.
Preferred	$125.0 mln.
Common Equity	$1,240.6 mln.
Convertible Available	No

- We are maintaining our outlook for BCG following 2002 results, which exceeded our and the consensus forecasts by $0.01 per share. A stronger than expected performance by Trans Mountain Pipe Line could carry into 2003, but could be offset by a delay in the commercial start of the Corridor Pipeline.

- Reported EPS of $2.45 include a $4.1 million ($0.09 per share) after-tax writedown of the carrying value of the company's investment in Westport Innovations. On an recurring basis, therefore, EPS were $2.54 - 15% above 2001 results. This above-trend growth was driven chiefly by the acquisition of Centra Gas.

- EPS in 2003 will reflect the acquisition of the Express Pipeline and the commercial start up of the recently completed Corridor Pipeline. The latter could be delayed to June 1 due to a delay in the commissioning of the Athabasca Oil Sands Project. Offsetting these benefits will be the full year impact of the Q4/2002 equity issue.

- Based on its current and proposed projects, we expect BC Gas to maintain average annual EPS and dividend growth in the range of 6% -8%. This, combined with its lower than average risk profile and consistent track record should allow the stock to maintain its above-sector-average valuation.

Company Description

BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.
www.bcgas.com.

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Earnings Per Share

	Prior	Current
2002	$2.53	$2.54
2003E		$2.58
2004E		$2.73
P/E		
2002	15.7x	15.6x
2003E		15.4x
2004E		14.5x

EPS forecasts reflect the change to CICA policy on accounting for goodwill effective January 1, 2002.

Dividends Per Share

2001	$1.30
2002	$1.41
2003E	$1.53
2004E	$1.65

Debt/Capitalization

2001	74.5%
2002	66.2%
2003E	66.6%
2004E	65.4%

Stock Price Performance

CHART NOT AVAILABLE

All figures in Canadian dollars, unless otherwise stated.

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Strong 2002 Operating Results

- Full-year earnings from BC Gas Utility rose by 2.5% - mainly as a result of lower interest costs. Fourth quarter earnings fell due to higher operating costs. We anticipate relatively flat earnings in 2003 based on the BCUC's recent rate decision. Thereafter we see growth being driven by the next generation of performance based regulation. BC Gas expects to negotiate a new multi-year agreement during the fist half of 2003 and has been encouraged to do so by its regulator.
- The acquisition of Centra Gas was the major driver of earnings growth in 2002. Not only did Centra perform at or better than expectations, but the acquisition, which did not close until March 7, 2002, was effective January 1, 2002. This reduced financing costs relative to earnings contribution. Centra is now authorized to earn a return on equity that is 50 basis points higher than that approved for BC Gas Utility. As well, it recently negotiated and had approved a new incentive regulatory settlement.
- Trans Mountain achieved higher earnings despite lower throughputs on both its Mainline and U.S. pipelines. The earnings growth was driven by reduced interest expense and a lower effective income tax rate – the benefits of which accrues to shareholders under the company's incentive toll agreement. The fourth quarter was particularly strong as a result of increased volumes, which had the Mainline running at capacity in November and December. Volumes have remained strong in the early stages of 2003.
- The drag on earnings from other activities was up for the full year – as expected. Included in this category is the cost of financing the Centra acquisition.
- Construction of the Corridor Pipeline is complete, but its in-service date has been delayed as a result of the delay in the commissioning of the Athabasca Oil Sands Project. Corridor will now go into service no earlier than April 1st and no later than June 1st. Each month's delay will cost BC Gas about $0.03 per share in earnings. Our 2003 EPS forecast assumes a May 1st in-service date.

Table 1: BC Gas Segmented Earnings

($ mlns)	Q4/2002	Q4/2001	2002	2001
BC Gas Utility (operating)	44.2	45.1	69.5	67.8
Centra Gas	5.8		22.9	
Trans Mountain Pipe Line	10.5	8.5	29.3	27.3
Other Activities	(2.7)	(2.9)	(5.1)	(4.1)
Preferred Securities Distributions	(1.8)	(1.7)	(6.7)	(6.4)
Non recurring gains (losses)			(4.1)	
Net Income for Common	**56.0**	**49.0**	**105.8**	**84.6**
Average shares outstanding	45.6	38.3	43.2	38.3
Earnings per share - reported	$ 1.23	$ 1.28	$ 2.45	$ 2.21
Earnings per share - operating	**$ 1.23**	**$ 1.28**	**$ 2.54**	**$ 2.21**

DECEMBER 23, 2003

TERASEN INC. (TER-T, $47.27)

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Express Expansion Eventually Adds Over $0.10

	Stock Price	$47.27
=	Stock Rating	MARKET PERFORM 3
=	6-12 Month Target	$48.00
	Dividend Yield	3.3%
	Target Total Return	4.8%
	Market Capitalization (mln)	$2,453

		EPS	P/E
	12/02A	$2.54	18.6x
=	12/03E	$2.60	18.2x
=	12/04E	$2.80	16.9x

We rate the shares of Terasen MARKET PERFORM with a $48.00 target price. One-third owned Express Pipeline plans to expand, likely at a cost just in excess of US$80 million and to be completed by April 2005. When Terasen announced its intention to purchase an interest in Express 13 months ago, it outlined the opportunity for expansion that, in our minds, made the purchase particularly attractive. The expansion from 172,000 bpd to 280,000 bpd should add over $0.10 per share to annual earnings once completed, though it will ultimately depend on the final construction cost and the utilization of the modest 59,000 bpd of uncontracted capacity. Financing for the project is likely to be mainly done at Express Pipeline via internal cash flow and debt financing. Initially, Express had planned the quadrupling of its pumping capacity in two phases, the first phase increasing capacity by 41,000 bpd in 2005 and the second phase raising capacity an additional 67,000 bpd in 2006. However, shipper support in the open season was strong enough to do both expansions at once. The shipper commitments include 30,000 bpd of existing available capacity and 75,000 bpd of expansion capacity.

All figures in C$ unless otherwise noted.

= Affirmed ⇧ Increase ⇩ Decrease

PLEASE SEE FOLLOWING PAGES FOR IMPORTANT DISCLOSURES

RAYMOND JAMES

INSIGHT
-CANADA

November 6, 2003

TERASEN INC.
(TER-T, $47.13)

Project Opportunities Continues to Expand

STOCK RATING:
MARKET PERFORM 3

6-12 MONTH
TARGET PRICE: $48.00

Financial Summary

	2002A	2003E	2003E
EPS	$2.54	$2.60	$2.80
CFPS	$5.49	$5.25	$5.65
P/E	18.6x	18.1x	16.8x
P/CF	8.6x	9.0x	8.3x

Quarterly EPS

	1Q	2Q	3Q	4Q
2002A	$1.70	$0.03	($0.34)	$1.23
2003A	$1.42	$0.16	($0.17)	

Debt/Capital	62%
Dividend	$1.56
Dividend Yield	3.3%
Market Capitalization (bln)	$2.4
Book Value Per Share	$24.29
Shares Outstanding (mln)	51.9

All figures in C$ unless otherwise noted.

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 British Columbia and provides transportation services through the pipeline to certain customers. The Petroleum Transportation business transports crude oil and refined products from Alberta to B.C., delivers Canadian crude oil to refineries in Washington State, and owns a jet fuel pipeline to a storage system at Vancouver International Airport. Other activities include non-regulated energy and utility businesses.

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Summary

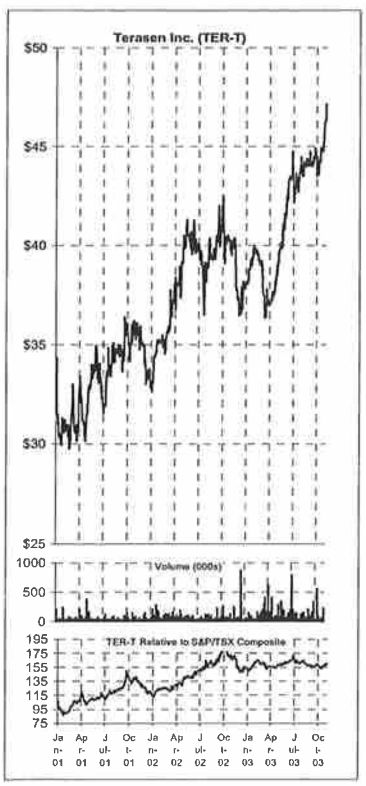
Terasen reported a seasonal third quarter loss of $0.17 versus $0.34, four cents worse than our expectations largely due to higher "Other Activities" losses and slightly greater utility losses. The third quarter is a seasonally swingy quarter given lower utility demand but continuing overhead costs, and we are not revising our estimate for the year. However, we note that a foreign exchange loss, forest fires, and some acquisition bid expenses have cumulatively held 2003 earnings back by about $0.10 per share. Consequently, we expect 2004 earnings can be about $2.80 even with a lower allowed utility return in 2004 (to be set in the next week or two). In its quarterly conference call, Terasen highlighted the various expansion opportunities that could enhance earnings longer term (see Exhibit 1). We expect some of these projects to go ahead and allow the company to exceed its 5-6% annual growth target. Given continuing low long-term interest rates, an increasing number of reasonable growth projects, and strong performance by management, we are raising our one-year target price to $48.00 from $43.00. The new target is in line with historical trading multiples relative to interest rates and our dividend discount model based on an increased expectation of earnings.

Third Quarter Results

B.C. forest fires negatively impacted third quarter earnings. Electricity was cut off to a pumping station causing lost throughput and increased expenses as temporary generators supplied power. While the company did not state a specific cost, we suspect it was likely in the area of $1.5-$2.0 million after-tax or $0.03-$0.04 per share. Note that the company shipped 15% more product than in the second quarter but earned $1.7 million or 18% less. While increased costs related to the outage is likely a part of the reason, we wonder if there were some project development costs also holding back the numbers. In addition, the company likely had some undisclosed costs from the examination and bid for the Aquila assets eventually sold to Fortis, though this may have only been around a few thousand dollars after-tax (the company has never publicly disclosed its bid or the cost, though we have heard that it did bid). "Other Activities" losses jumped up $2.1 million or $0.04 from second quarter levels, and while this area is a catch-all for many non-utility and pipeline expenses such as the Aquila bid costs, the increase was largely the impact of including a full quarter of financing expenses for its Corridor investment (versus two months in the second quarter). The one non-recurring benefit was a $0.2 million after-tax foreign exchange gain in Express Pipeline, following on the heels of the $3.8 million FX loss in the second quarter.

Exhibit 1: Terasen - Growth Opportunities

Project		Description	Capital Cost	Proposed In-Service Date
Trans Mountain Pipeline	Phase I	Additional pumping and re-activation of an idle loop to add 27,000 bpd incremental capacity.	$16 mln	Sept. 2004
	Phase II	Potential follow-on to add 44,000 bpd	$20 mln	2005
	Phase III	Potential to twin the System to add 5-600,000 bpd from Oil sands to the west coast.	~$2 bln	multi-year phase-in post 2005
Express System	Phase I Phase II	100,000 bpd of capacity, could be done concurrently.	$100 mln	2004-2005
Bison Pipeline		516-kilometre pipeline to transport bitumen from the Athabasca Oil Sands to Edmonton. Initial capacity of 100,000 bpd with an ultimate capacity near 450,000 bpd.	up to $800 mln	2005
Vancouver Island		Proposals for LNG storage facilities or increase capacity on pipeline to supply gas to a new gas-fired generator.	$120 - $200 mln	2006-7



Outlook

Looking ahead, the fourth quarter is seasonally a strong quarter and should be unhampered by forest fires or bid costs. We forecast fourth quarter earnings at about $1.20, bringing full year recurring earnings to $2.60 per share. In 2004, the company will benefit from having Corridor Pipeline for 12 months instead of 7 months, along with some improvement in throughput and earnings growth, adding close to $5 million or $0.10 per share to earnings. In addition, there should be an elimination of the $3.6 million FX losses associated with Express Pipeline in 2003, adding a further $0.07 per share. And if Trans Mountain Pipe continues to operate at high levels, it could add up to another $0.05 per share to earnings. Offsetting some of this potential could be lower utility allowed returns combined with some customer sharing mechanisms, though we suspect the utility may be able to still come close to 2003 earnings levels.

TERASEN INC.

	Third Quarter 2002	Third Quarter 2003	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution			
Terasen Gas	($27.0)	($25.5)	6%
Terasen Gas Vancouver Island	$5.6	$6.0	8%
	($21.4)	($19.5)	9%
Petroleum transportation			
Trans Mountain	$6.7	$7.9	18%
Corridor	-	$3.8	n.m.
Express System	-	$2.8	n.m.
	$6.7	$14.5	116%
Other businesses	($0.3)	($3.7)	n.m.
Total Recurring Income	**($15.0)**	**($8.7)**	
non-recurring items	($4.1)	$1.1	
Net Income	($19.1)	($7.6)	
Net Earnings (Loss) Per Share:			
Natural gas distribution			
Terasen Gas	($0.62)	($0.49)	21%
Terasen Gas Vancouver Island	$0.13	$0.11	15%
	($0.49)	**($0.38)**	22%
Petroleum transportation			
Trans Mountain	$0.15	$0.16	7%
Corridor	-	$0.07	n.a.
Express System	-	$0.05	n.a.
	$0.15	**$0.28**	87%
Other businesses	($0.01)	($0.07)	n.m.
Reported EPS before unusual items	**($0.35)**	**($0.17)**	51%
Unusual items	(0.09)	0.02	n/m
Reported EPS after unusual items	**($0.44)**	**($0.15)**	66%
Average Shares O/S (mlns)	43.7	51.9	-19%
Book Value	$20.72	$24.29	17%
Number of Gas Customers	847,466	851,551	0%
Gas Volumes (petajoules)			
Sales	22.2	12.0	-46%
Transportation	12.5	11.6	-7%
Throughput under fixed-price contracts	8.0	6.0	-25%
Total	20.5	29.6	44%
Oil Pipeline Deliveries (bbls/day)			
Canadian mainline	152,315	177,636	17%
US mainline	48,380	55,567	15%
Express System[1]	166,320	174,628	5%
Total	367,015	407,832	11%

Operating efficiencies save $2 mln YTD.

Higher throughput volumes and operating efficiencies, partially offset by forest fire costs.

Commercial operation began May1, 2003.

Acquired in Jan/03; includes $0.2 mln F/X gain.

Higher debt levels from Corridor, reduced revenue from the Nov/02 completion of the UAE project and Aquila bid costs partly offset by strong water and related services business.

Swingy seasonal quarter. Worse than our 13¢ loss estimate due to fires, bid & utility. Better than 20¢ loss consensus estimate.

5.2 mln share equity issue in Dec/02 to finance purchase of Express.

Warm summer in BC!

BC forest fires cut power and lowered capacity by 130,000 bbls in August, but volumes still up 20% from Q2.

Good throughput numbers, likely improve in Q4.

[1] Express acquired in January 2003; 2002 numbers shown for reference.

Specific Investment Risks related to the Industry or Issuer:

Some of the specific risk factors that pertain to the projected 6-12 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.

Research Analyst Certification:

Bob Hastings and Juan Plessis agree that the following statement is true: The views expressed in this report (which includes the actual rating assigned to the company or companies as well as the analytical substance and tone of the report) accurately reflect the personal views of the analysts covering the subject securities. No part of said persons' compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

IMPORTANT DISCLOSURES

Stock Ratings:

Strong Buy 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

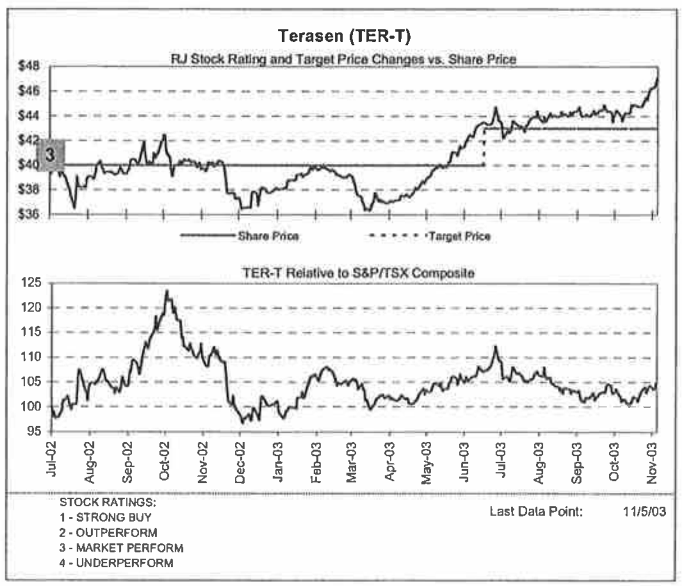
Outperform 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

Market Perform 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

Underperform 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Distribution of Ratings: Out of approximately 168 stocks in the Raymond James Ltd. (Canada) coverage universe, the ratings distribution is as follows: Strong Buy and Outperform (Buy, 51%); Market Perform (Hold, 38%); Underperform (Sell, 11%). Within those rating categories, the percentage of rated companies that currently are or have been investment-banking clients of Raymond James Ltd. or its affiliates over the past 12 months is as follows: Strong Buy and Outperform (Buy, 21%); Market Perform (Hold, 11%); Underperform, (Sell, 11%). Note: Data updated monthly.

The exhibit(s) below displays the Raymond James stock rating and target price changes versus the share price of the subject company since July 1, 2002 or the date of coverage initiation (if later). Note: Not applicable for companies covered for less than six months.



Risk Factors: Some of the general risk factors that pertain to the projected 6-12 month stock price targets included with our research are as follows: i) changes in industry fundamentals with respect to customer demand or product/service pricing could adversely impact expected revenues and earnings, ii) issues relating to major competitors, customers, suppliers and new product expectations could change investor attitudes toward the sector or this stock, iii) unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation, or iv) external factors that affect global and/or regional economies, interest rates, exchange rates or major segments of the economy could alter investor confidence and investment prospects.

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RAYMOND JAMES

INSIGHT
-CANADA

August 1, 2003

TERASEN INC.

(TER-T, $44.45)

Solid Second Quarter Results

STOCK RATING:
MARKET PERFORM 3

6-12 MONTH
TARGET PRICE: $43.00

Financial Summary

	2002A	2003E	2003E
EPS	$2.54	$2.60	$2.70
CFPS	$5.49	$5.25	$5.55
P/E	17.5x	17.1x	16.5x
P/CF	8.1x	8.5x	8.0x

Quarterly EPS

	1Q	2Q	3Q	4Q
2002A	$1.70	$0.03	($0.34)	$1.23
2003A	$1.42	$0.16		

Debt/Capital	60%
Dividend	$1.56
Dividend Yield	3.5%
Market Capitalization (bln)	$2.3
Book Value Per Share	$24.83
Shares Outstanding (mln)	51.9

All figures in C$ unless otherwise noted.

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 British Columbia and provides transportation services through the pipeline to certain customers. The Petroleum Transportation business transports crude oil and refined products from Alberta to B.C., delivers Canadian crude oil to refineries in Washington State, and owns a jet fuel pipeline to a storage system at Vancouver International Airport. Other activities include non-regulated energy and utility businesses.

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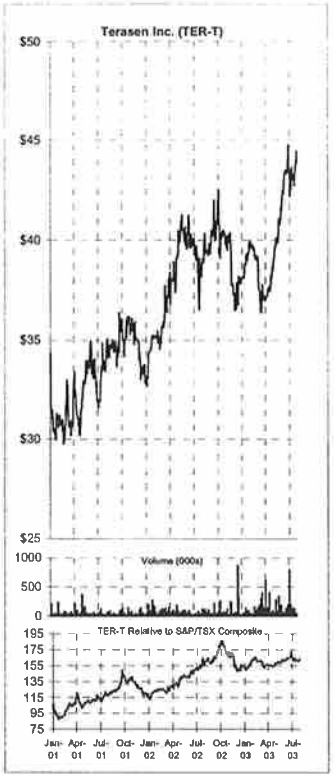
Summary

The company reported higher-than-expected second quarter earnings, but restructuring costs could be an offset later in the year. Terasen also received approval of its Performance Based Rate Plan for the period 2004 to 2007 from the British Columbia Utilities Commission (BCUC), which may help offset the impact of lower interest rates on its allowed ROE in 2004 and beyond. The company indicated that it would be a challenge to achieve its targeted 6-8% EPS growth target in 2004 (implying $2.75-$2.80) but that it plans to work very hard to get there. With the PBR issue settled, we are raising our 2004 estimate by $0.05 to $2.70. The $0.65 run-up in the stock price yesterday on the news appears to be more than discounting the value of the PBR. Trading with a 10% premium earnings and cash flow multiple to the utility group appears appropriate for the company's shares given its solid longer-term growth record, and we rate the stock MARKET PERFORM with a 6-12 month price target of $43.00.

PBR Plan and Stock Value

Terasen Gas received approval by the BCUC for a negotiated settlement of a four-year performance-based rate plan (PBR). Note that the allowed rate of return mechanism based on 10-year bond yield estimates will continue, with a lower allowed return still being highly likely in 2004 due to the current low level of interest rates. The PBR includes a 50/50 sharing of savings with customers, and the utility may earn up to 150 basis points above its allowed ROE if it can achieve the required cost efficiencies. Since it would need to reduce combined utility operating expenses by close to 20% in order to achieve this maximum, we suspect the maximum return will not occur in 2004. We believe that the company will continue to work hard to ensure that incentives from the new PBR are attained and help alleviate the negative pressure on earnings from low interest rates.

Even if the maximum improvement in earnings were achieved for all four years of the PBR term, it would amount to around $0.20 per share per year, worth a present value of about $0.65 per share. In fact, since investors have come to expect the company to earn higher than baseline returns through superior utility performance, some of this decision is already discounted in the stock.



Second Quarter Earnings

The company reported second quarter earnings per share of $0.16 versus $0.03 for the same period last year, above our $0.13 estimate. Included in the results is a $3.8 million after-tax ($0.07 per share) foreign exchange loss arising from impact of the weakened U.S. dollar on Express System's working capital and future income tax balances. Excluding this loss, the company earned $0.23 per share for the quarter.

Terasen's results included surprising strength in the company's Petroleum Transportation division, where earnings jumped $6.6 million as a result of higher throughput. The main line is now full with 25% apportionment in July, suggesting volumes and earnings could continue to surprise in the second half. Currently, we are assuming the improved pipeline results will offset the second quarter FX loss at Express and the potential utility restructuring cost as Terasen merges its Vancouver Island and mainland utilities (50% of the costs will be for the account of customers under the sharing arrangement). Note the first-time $2.9 million contribution from Corridor Pipeline, which began commercial operations on May 1st. Non-regulated energy and utility services were flat as strong water and related services results offset the November 2002 completion of the Sharjah project in the United Arab Emirates.

TERASEN INC.

	Second Quarter 2002	2003	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution			
Terasen Gas	($8.2)	($8.3)	-1%
Terasen Gas Vancouver Island	$5.2	$5.8	12%
	($3.0)	($2.5)	17%
Petroleum transportation			
Trans Mountain	$5.6	$9.6	71%
Corridor	-	$2.9	n.a.
Express System	-	($0.3)	n.a.
	$5.6	$12.2	118%
Other businesses	($1.5)	($1.5)	0%
Total Earnings (mlns)	**$3.7**	**$17.9**	
Net Earnings (Loss) Per Share:			
Natural gas distribution			
Terasen Gas	($0.19)	($0.16)	16%
Terasen Gas Vancouver Island	$0.12	$0.11	8%
	($0.07)	**($0.05)**	29%
Petroleum transportation			
Trans Mountain	$0.13	$0.19	46%
Corridor	-	$0.06	n.a.
Express System	-	($0.01)	n.a.
	$0.13	**$0.24**	85%
Other businesses	($0.03)	($0.03)	4%
Reported EPS before unusual items	**$0.03**	**$0.16**	-437%
Unusual items	-	-	n/m
Reported EPS after unusual items	**$0.03**	**$0.16**	-437%
Average Shares O/S (mlns)	43.6	51.9	-19%
Book Value	$21.51	$24.83	15%
Number of Gas Customers	843,932	851,261	1%
Gas Volumes (petajoules)			
Sales	21.7	22.8	5%
Transportation	16.6	14.3	-14%
Throughput under fixed-price contracts	5.8	6.1	5%
Total	22.4	43.2	93%
Oil Pipeline Deliveries (bbls/day)			
Canadian mainline	196,226	197,116	0%
US mainline	39,677	55,270	39%
Express System[1]	156,966	180,067	15%
Total	392,869	432,454	10%

Improved operating efficiencies lowers 2Q loss.

Higher throughput on both the Canadian and U.S. portions of Trans Mountain.

First ever contribution since began May 1/02.

Includes $3.8 mln ($0.07 per share) FX loss; Acquired in Jan/03.

Lower earning from Nov/02 completion of Sharjah, UAE project offset by strong water and related services business.

Another quarter of solid results - above 13¢ estimate despite 7¢ FX loss.

5.2 mln share equity issue In Dec/02 to finance purchase of Express.

Strong throughput numbers!

[1] Express acquired in January 2003; 2002 numbers shown for reference.

RAYMOND JAMES

INSIGHT
-CANADA

April 28, 2003

TERASEN INC. (BC GAS INC.)

(BCG-T, $38.08)

First Quarter Results Portend Steady Growth

STOCK RATING:
MARKET PERFORM 3

6-12 MONTH
TARGET PRICE: $40.00

Financial Summary

	2002A	2003E	2003E
EPS	$2.54	$2.60	$2.75
CFPS	$5.65	$4.55	$4.60
P/E	15.0x	14.6x	13.8x
P/CF	6.7x	8.4x	8.3x

Quarterly EPS

	1Q	2Q	3Q	4Q
2002A	$1.70	$0.03	($0.34)	$1.23
2003A	$1.42			

Debt/Capital	60%
Dividend	$1.56
Dividend Yield	4.1%
Market Capitalization (bln)	$2.0
Book Value Per Share	$25.06
Shares Outstanding (mln)	51.7

All figures in C$ unless otherwise noted.

We rate the shares of BC Gas MARKET PERFORM with a $40.00 target. The company has implemented an 8.3% dividend increase to $1.56 per share, giving the stock a very reasonable 4.1% dividend yield. BC Gas reported first quarter earnings per share of $1.42 versus $1.70 for the same period last year, in line with our expectations. We are maintaining our $2.60 EPS estimate for 2003 and introducing our 2004 EPS estimate of $2.75.

At its annual general meeting on Friday, shareholders approved a change of the company's name to Terasen Inc. The stock's stock symbol will be changed from BCG to TER on May 5th. While total reported earnings were higher in the quarter over last year, the per- share numbers came in lower due to temporary dilution from the company's December 2002 equity issue and the issue occurring in advance of the Corridor Pipelines startup (and the dilutive impact is greater during the seasonally strong first period). The company is on target to meet its 6% annual earnings growth objective with the startup of Corridor beginning May 1st and the contribution for the remainder of the year from Express Pipeline (purchased in January).

First Quarter Results

BC Gas continues to operate well in all its business segments. The slightly better operating results at BC Gas Utility ($61.1 mln vs. $60.5 mln) were partly offset by $0.3 mln lower contribution from Centra Gas as a result of rate re-basing after the expiry of its 2002 incentive regulatory settlement. The company's Petroleum Transportation division delivered $5.1 million of improved results, mainly as a result of the acquisition of a one-third interest in Express Pipeline System in January 2003 and higher throughput volumes on the Canadian mainline. Earnings at the company's non-regulated energy and utility services also improved slightly in the quarter. For a breakout of the first quarter results, please refer to the accompanying table.

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BC GAS

	First Quarter 2002	First Quarter 2003	Favourable/ (Unfavourable)	
Net Earnings (Loss): (mlns)				
Natural gas distribution	$66.8	$67.1	0%	Centra Gas contribution down $0.3 mln due to rate rebasing after expiry of incentive
Petroleum transportation	6.5	11.6	78%	Express acquisition in January adds $3.3 mln (6¢ ps). Higher Canadian Mainline throughput on Trans Mountain. Corridor starts to contribute May 1.
Other businesses	(5.5)	(5.3)	4%	Improved energy & utility services operations.
Total Earnings (mlns)	67.8	73.4		
Net Earnings (Loss) Per Share:				
Natural gas distribution	$1.68	$1.30	23%	
Petroleum transportation	$0.16	$0.22	38%	
Other businesses	($0.14)	($0.10)	29%	
Reported EPS before unusual items	**$1.70**	**$1.42**	16%	On track to achieve 6% annual earnings growth; 8% dividend increase announced.
Unusual items	-	-	n/m	
Reported EPS after unusual items	**$1.70**	**$1.42**	16%	
Average Shares O/S (mlns)	39.8	51.7	-30%	
Gas Volumes (petajoules)				
Sales	51.8	46.9	-9%	
Transportation	20.2	18.8	-7%	
Throughput under fixed-price contract	4.1	3.8	-7%	
Total	76.1	69.5	-9%	
Oil Pipeline Deliveries (bbls/day)				
Canadian mainline	146,000	159,500	9%	Throughput volumes strong in April.
US mainline	53,600	49,900	-7%	
Express System[1]	168,900	156,000	-8%	
Total	368,500	365,400	-1%	

[1] Express acquired in January 2003; 2002 numbers shown for reference.

RAYMOND JAMES

INSIGHT
-CANADA

February 17, 2003

BC GAS INC.
(BCG-T, $39.70)

Delivers Solid Fourth Quarter Results

STOCK RATING:
MARKET PERFORM 3

6-12 MONTH
TARGET PRICE: $40.00

Financial Summary

	2001A	2002A	2003E
EPS	$2.21	$2.54	$2.60
CFPS	$4.92	$5.65	$4.60
P/E	18.0x	15.6x	15.3x
P/CF	8.1x	7.0x	8.6x

Quarterly EPS

	1Q	2Q	3Q	4Q
2001A	$1.59	($0.08)	($0.58)	$1.28
2002A	$1.70	$0.03	($0.34)	$1.23

Debt/Capital	60%
Dividend	$1.44
Dividend Yield	3.6%
Market Capitalization (bln)	$2.1
Book Value Per Share	$24.00
Shares Outstanding (mln)	51.7

All figures in C$ unless otherwise noted.

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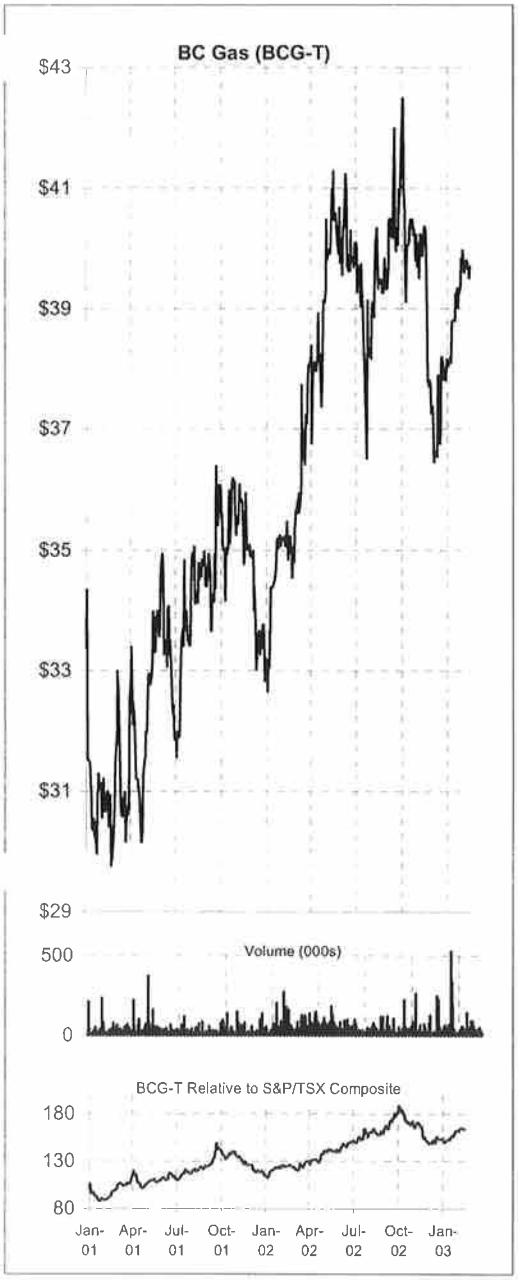
Summary

We continue to rate the shares of BC Gas as MARKET PERFORM with a $40.00 target price. The company is well managed with a demonstrated history of delivering solid earnings with stable growth. BC Gas has delivered a 9.3% CAGR in earnings over the last five years while maintaining its solid balance sheet and conservative risk profile. The stock offers a reasonable 3.6% dividend yield and the potential for a moderate dividend increase given the stock's low 53% payout ratio relative to the utility average of 67%.

BC Gas reported fourth quarter earnings per share of $1.23 versus $1.28 for the same period last year, slightly ahead of our $1.21 estimate and the $1.18 consensus estimate. For the full year, the company had recurring earnings of $2.54 per share versus $2.21. Including a $4.1 million writedown on its investment in Westport Innovations, net reported earnings for the year were $2.45 versus $2.21.

Earnings Outlook

We are maintaining our 2003 earnings estimate of $2.60 per share. Earnings growth will likely stem from the commercialization of the Corridor Pipeline and from the company's recently acquired interest in Express Pipeline. However, we note that current delays at the Athabasca Oil Sands Project could potentially delay Corridor's start-up beyond its anticipated April 1, 2003 start date. While it is possible that Corridor's commercialization could be pushed back, contractual arrangements with suppliers ensure BC Gas will earn a return on the pipeline no later than June 1, 2003, regardless of whether volumes are being transported or not. The maximum impact to earnings per share from a delay in the Corridor start-up date is $0.06, or $0.03 per month for a maximum of two months.



In 2003, the company will have to work hard at its utility operations to mitigate the revenue shortfall determined by the recent British Columbia Utilities Commission's (BCUC) decision on 2003 revenue requirements. We have confidence that the company will be able to offset the lower revenue. The positive outcome of the BCUC's decision is that it established a basis for BC Gas Utility to apply for a multi-year negotiated settlement process beginning in 2004.

Fourth Quarter Results

BC Gas continues to operate well in all its business segments. The $5.8 mln contribution from Centra Gas (before acquisition financing costs) was partly offset by $0.9 million of higher expenses at BC Gas Utility. The company's Petroleum Transportation division delivered $2.0 million of improved results, mainly as a result of a lower tax and interest rates and higher throughput at the Canadian Mainline. Earnings at the company's non-regulated energy and utility services improved over the year but were offset by higher financing costs for Centra Gas and Corridor Pipeline. For a breakout of the fourth quarter and full-year results, please refer to the accompanying tables.

(Fourth Quarter and Full-Year Tables attached.)

Within the last 24 months, Raymond James Ltd. or its affiliates has undertaken an underwriting liability or has provided advice for a fee with respect to the securities of BC Gas Inc.

Raymond James Ltd. or its officers, employees or affiliates may 1) currently own shares, options, rights or warrants and/or 2) execute transactions in securities mentioned in this report that may or may not be consistent with this report's conclusions.

Investment Ratings:

STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

BC GAS

	Fourth Quarter 2001	2002	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution	$45.1	$50.0	-11%
Petroleum transportation	8.5	10.5	24%
Other businesses	(4.6)	(4.5)	2%
Total Earnings (mlns)	49.0	56.0	
Net Earnings (Loss) Per Share:			
Natural gas distribution	$1.18	$1.10	7%
Petroleum transportation	$0.22	$0.23	5%
Other businesses	($0.12)	($0.10)	17%
Reported EPS before unusual items	**$1.28**	**$1.23**	4%
Unusual items	-	-	n/m
Reported EPS after unusual items	**$1.28**	**$1.23**	4%
Average Shares O/S (mlns)	38.3	45.6	-19%
Gas Volumes (petajoules)			
Sales	38.9	41.5	7%
Transportation	16.8	17.4	4%
Throughput under fixed-price contracts	14.4	6.7	-53%
Total	70.1	65.6	-6%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	23,068	27,257	18%
US mainline	11,502	7,916	-31%
Jet fuel deliveries	2,642	2,626	-1%
Total	37,211	37,799	2%

Centra Gas adds $5.8 mln or 13¢ per share; BC Gas Utility down $0.9 mln due to higher operating costs.

Higher Canadian Mainline throughput and lower opex, income tax and interest rates.

Acquisition of Centra increases debt levels. Offset by improved energy & utility services operations.

In-line with our $1.21 estimate.

Volumes up from 7,650 in Q3.

	Full Year 2001	2002	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution	67.8	92.4	36%
Petroleum transportation	27.3	29.3	7%
Other businesses	(10.5)	(11.8)	-12%
Total	84.6	109.9	30%
Net Earnings (Loss) Per Share:			
Natural gas distribution	$1.77	$2.14	21%
Petroleum transportation	$0.71	$0.68	-4%
Other businesses	($0.27)	($0.28)	-4%
Reported EPS before unusual items	**$2.21**	**$2.54**	15%
Unusual items	-	(0.09)	n/m
Reported EPS after unusual items	**$2.21**	**$2.45**	n/m
Average Shares O/S	38.3	43.2	13%
Book Value	$18.65	$24.00	29%
Number of Gas Customers	767,855	851	-100%
Gas Volumes (petajoules)			
Sales	120.9	137.2	13%
Transportation	58.7	66.7	14%
Throughput under fixed-price contracts	69.7	24.6	-65%
Total	249.3	228.5	-8%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	21,599	24,379	13%
US mainline	11,671	7,607	-35%
Jet fuel deliveries	3,072	2,938	-4%
Total	36,342	34,924	-4%

Centra Gas contributes $22.9 mln and BC Gas Utility contribution increases $1.7 mln due to lower interest costs.

Corridor Pipeline commissioning delayed due to delay in Athabasca Oil Sands Project; Commercial operations begin no later than June 1, 2003.

$4.1 mln writedown of invesment in Westport Innovations in Q3.

5.2 mln share issue in March 2002 and 5.3 mln shares issued in Dec. 2002; total o/s now 51.7 mln.

RAYMOND JAMES

INSIGHT -CANADA

February 6, 2003

BC GAS INC.

(BCG-T, $39.80)

Utility Receives Regulatory Decision

STOCK RATING: MARKET PERFORM 3

6-12 MONTH TARGET PRICE: $40.00

Financial Summary

	2001	2002E	2003E
EPS	$2.21	$2.50	$2.60
CFPS	$4.92	$4.55	$4.60
P/E	18.0x	15.9x	15.3x
P/CF	8.1x	8.7x	8.7x

Quarterly EPS

	1Q	2Q	3Q	4Q
2001A	$1.59	($0.08)	($0.58)	$1.28
2002A	$1.70	$0.03	($0.34)	$1.21E

Debt/Capital	69%
Dividend	$1.44
Dividend Yield	3.6%
Market Capitalization (bln)	$1.7
Book Value Per Share	$20.72
Shares Outstanding (mln)	43.7

All figures in C$ unless otherwise noted.

We continue to rate the shares of BC Gas MARKET PERFORM. We consider the company to be a well-run utility/pipeline company with an excellent track record of providing solid earnings with stable growth (over the last five years the company has delivered an 8% average annual growth in earnings without sacrificing its balance sheet or risk profile). In the current economic environment, the stock offers a reasonable 3.6% dividend yield and the potential for a modest dividend increase (its current payout ratio is 55% versus the utility average of 65%).

The British Columbia Utilities Commission (BCUC) released its decision on BC Gas Utility's (BC Gas Inc.'s wholly owned subsidiary) 2003 revenue requirement application. The tone did not appear negative toward the company and in fact set the stage for BC Gas Utility to apply for a multi-year negotiated settlement process beginning in 2004. While the company did not receive everything it had requested, we are not overly surprised given the current phase of the economy (tougher regulatory decisions are typical during a weaker economic climate). The company will have to work hard to mitigate the revenue shortfall but we expect it will be able to do so. Consequently, we are not revising our earnings per share estimates of $2.50 for 2002 and $2.60 for 2003.

While the utility received only half the $17.4 million increase in 2003 revenue that it had requested, a $3.5 million positive adjustment was provided by a previously allowed 29 bp increase in ROE (as per its equity return formula). The decision allows BC Gas Utility to increase average rates by 1.0%. The decision disallowed $2.6 million of corporate stock option costs, $1.7 million for gas used within the utility's operations as well as $1.8 million from an anticipated change in accounting for a synthetic lease at its Coastal Facilities. A summary of the BCUC changes from BC Gas Utility's application is shown in the accompanying table.

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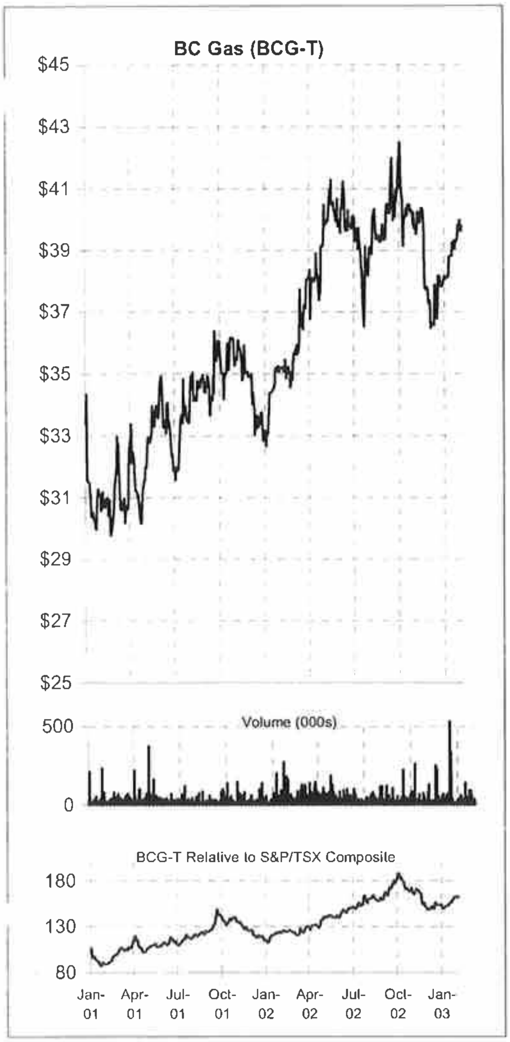

Table 1: Summary of Disallowances

Item	Impact ($ mln)
BC Gas's requested revenue requirement increase	**$17.2**
Reductions:	
Stock Options	($2.6)
Distribution Business Unit	($0.3)
Gas Supply Transmission Business Unit	($0.7)
Cross-Charge Credits	($0.3)
Company Use Gas	($1.7)
CustomerWorks Scope Changes	($0.4)
Donations	($0.1)
Centra Gas Synergies	($0.1)
Leases at 1111 West Georgia Street	($0.6)
Reduced Capital Additions	($0.2)
Coastal Facilities Accounting	($1.8)
Website	($0.1)
BC Gas Inc. G&A Cross Charges	($0.6)
Additions:	
Overhead Allocated on OM&A adjustments	$0.8
Net disallowances	**($8.7)**
ROE Adjustment	$3.5
Total net disallowances	**($5.2)**
Net increase in revenue	**$12.2**

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UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

NATIONAL BANK FINANCIAL

Daily Bulletin **November 6, 2003 AM**

TERASEN INC. – TER (TSX) $47.13

Petroleum Transportation Earnings Continue To Impress…

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STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)

TARGET: $45.95 (Was $44.45)

Industry Rating (Gas Utilities): Underweight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)

	02A	03E	04E
EPS	$2.45	$2.67	$2.87

Valuation

	03E	04E
P/E	17.6	16.4

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$36.35-$47.13	$45.95	51.9	$2,446

Note: All numbers in Cdn$.

…Estimated 2003 EPS is increased to $2.67 from $2.58, and 2004 to $2.87 from $2.78; Underperform Sustained

Third-Quarter 2003 Results

EPS	Q3 2003	Q3 2002
Reported	$(0.15)	$(0.44)
Operating	$(0.13)	$(0.44)

Assessment

The combination of non-organic growth and stronger-than-expected performance of Trans Mountain Pipe Line (TMPL), Corridor Pipeline (CP), and the Express System (ES) combined to generate better-than-expected quarterly EPS. In part, this was probably because of the 2003 electricity-grid failure that reduced, last August, throughput on Enbridge's (TSX/NYSE-ENB) Canadian petroleum pipelines for the benefit of TMPL, offset partly by capacity constraints resulting from forest fires in British Columbia. We would not even hesitate for a nanosecond to acknowledge that TMP is a fine, well-managed pipeline, but we continue to view ENB's system as "the pipeline of choice" to its shippers.

TER's year-over-year (y/y) rate of EPS-growth is impressive, primarily because, a year ago, neither Corridor Pipeline (CP) nor ES contributed to earnings. However, as important as quarterly EPS are, our assessment of investment merits spans at least three years On that basis, we view ENB as having a much clearer and better-defined line of sight, more business and geographic diversity and, hence, a better profile of uncertainty.

While ES has expandability, as of 2005, TER will mainly have to have acquired/built new infrastructure assets to achieve an encore to its 2003/2004 performance. While we do not doubt the smarts of TER, for now it has not disclosed tangible infrastructure projects for the second half of this decade comparable to ENB's, investors can hang their hats on.

Moreover, the reversal of ENB's Cushing-to-Chicago Pipeline and the construction of Southern Access Pipeline (SAP) will further turn-up the heat on ES in the important Wood River/Patoka refinery corridor.

Already, ENB's petroleum-pipeline system offers lower tolls into this corridor than ES and shorter delivery time. Additionally, ENB's system allows shippers to enjoy pipeline-design advantages, particularly important for heavy petroleum. ES enjoys some throughput protection because of long-term contracts signed during the gestation of Express Pipeline (EP).

As important as the Denver refinery market is to EP, we doubt that environmental restrictions will allow significant expansion, let alone, construction of green-field refinery capacity in the Denver area, notorious for atmospheric inversions and fickle residents. Hence, we view completion of the Aspen Pipeline (products pipeline project) as a potentially serious competitive threat to EP's expansion. Also, TER will have to assess the pros and cons of depending on a relatively isolated market.

Shortly after ENB's Gateway Pipeline project received prominent press, TMPL could not afford to hesitate with a response. Yes, TMPL is aiming for expansion of its system, but increasing pipeline capacity and deliveries into crowded Washington State is no cake walk. Our doubts about ENB's Gateway project are known, and apply to TMPL's "me-too" as well, perhaps even more so, because hoping to displace Alaskan and other petroleum (to say nothing about capturing new refinery capacity) is analogous to racing down a "cul-de-sac," where one is at the mercy of Washington State and perhaps even California refiners.

As for bitumen and/or synthetic petroleum from Alberta's tar sands, Jimmy Durante would have said, "everybody wants to get into *da* act." Fortunately, the tar sands are vast enough to fill many hungry mouths, but this is not the issue. At stake is time. And like all northern projects, they take longer to build and cost more than anyone would have expected.

Yes, CP is a fine pipeline with expandability, but the only trick is that bitumen shippers other than Shell Canada (SHC) will have a dickens of a time supplying bitumen of the quality of SHC's, unless they intend to employ "counter-current decantation" or a comparable bitumen-extraction technology. Hence, having to rely on a single shipper for now, is acceptable, but it also has another side, similar to be exposed at the whims of a refinery oligopoly operating in Washington State and California, which have alternatives as well as their own North Slope material to dispose of. Should TER be unable to soar on its plans, it will not be for the lack of trying.

Third-Quarter 2003 Results

Q3 2003 reported loss: $18.4 million or $(0.15) per share versus (vs.) a loss of $19.1 million or $(0.44) per share a year ago (y/y). The improved y/y performance was due to higher petroleum transportation earnings as a result of the start of commercial operations on May 1, 2003 of Corridor Pipeline (CP) and earnings from the newly acquired ES. Terasen Gas displayed the usual seasonal weakness but was aided by improved operational efficiencies. It and Gaz Metropolitain and Company, Limited Partnership (TSX-GZM.UN) are also basking in the sun of Canada's most-favourable performance-based rate-design (PBR) mechanisms.

We continue to maintain an Underperform rating on TER's common shares. The shares have risen to levels that we believe are unsupported by fundamentals at this moment. We still expect them to deliver over time a combination of growth and income, with emphasis on the latter, once TER has digested the impact of its interest in ES. While we expect organic growth to support some near-term earnings and dividend growth, we believe that pipeline acquisitions will hopefully be adding lift.

Segmented Reported Earnings ($mln)	Q3 2003	Q3 2002
Natural Gas Distribution	$(18.4)	$(21.4)
Petroleum Transportation	$14.5	$6.7
Other Activities	$(3.7)	$(4.4)
Earnings applicable to common shares	**$(7.6)**	**$(19.1)**
Source: Terasen Inc.		

Natural Gas Distribution

- Gas distribution had a loss of $18.4 million compared with a loss of $21.4 million last year, owing to improved operating efficiencies at both Terasen Gas and TGVI and the existing PBR-system. In 2003, Terasen Gas is allowed to earn 9.42% on the common-equity component of rate base and TGVI 9.92%. In the quarter, TGVI increased the RDDA amortization rate and recorded a $1.6 million amortization expense for the first nine months of 2003 period, whereof about $0.5 million applies to Q3. Restructuring costs related to the integration of Terasen Gas and TGVI will be recorded in Q4.

- The British Columbia Utilities Commission (BCUC) recently approved a negotiated settlement reached between TER Gas and customers and other stakeholders for a 2004-2007 improved PBR-Plan. The four-year settlement sets out the process for determining delivery charges and incentive mechanisms for improved operating efficiencies.

Petroleum Transportation

- Petroleum transportation earned $14.5 million in Q3 2003 vs. $6.7 million in Q3 2002. This major y/y improvement was mostly the result of the start-up of commercial operations at CP on May 1, 2003, good throughput volumes on TransMountain, and the recent acquisition of ES (acquired on Jan. 9, 2003). For the first nine months of 2003, the soaring loonie put a big dent into ES results as there was a foreign exchange loss of $3.6 million (on working capital and future income tax balances). A foreign exchange hedging transaction has been put in place to reduce future earnings volatility on EP/PP.

- Trans Mountain increased its earnings to $7.9 million from $6.7 million in Q3 2002, with higher throughput on both the Canadian and U.S. mainline sections. Capacity on TransMountain declined by about 130,000 barrels during August 2003 due to a temporary electricity outage to certain pump stations arising from the B.C. forest fires.

Other Activities

- Other Activities, which include TER's non-regulated energy and utilities services and corporate interest and administration charges, incurred a loss of $3.7 million vs. a loss of $4.4 million last year. The water business showed good y/y improvement but this was offset by the completion of a project in the United Arab Emirates.

Financial & Outlook

- During Q3 2003, TER spent $159.3 million on capital expenditures, compared with $309.6 million in Q3 2002. EPS guidance for 2003 is a range of the high $2.50s and low $2.60s. EPS growth is still projected at 6%.

Valuation

For the 12-month period ending in September 2005, we are estimating EPS of $2.98; DPS of $1.70; retained EPS of $1.28; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.25%, tax-effected to 5.80%. The support price is $29.31 and the residual price is $16.64, for a target price of $45.95 (rounded).

NATIONAL BANK FINANCIAL

Daily Bulletin **July 31, 2003 PM**

TERASEN INC. – TER (TSX) $44.45

Strong Petroleum Results Dented Slightly By Rise of Loonie…

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STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)

TARGET: $44.45 (Was $42.90)

Industry Rating (Gas Utilities): Underweight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	02A	03E	04E
EPS	$2.45	$2.58	$2.78

Valuation	03E	04E
P/E	17.2	16.0

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$36.35-$44.74	$44.45	51.9	$2,306

Note: All numbers in Cdn$.

…Estimated 2004 EPS upped to $2.78 from $2.73; Underperform Sustained

Assessment and Investment Opinion – *quality, we know, has a price, but how high should it be?*

In its pursuit of some sizzle, TER has grown and added to its stubby utility wings a few wing and tail feathers, consisting of the Corridor Pipeline (CP) (in service since May 1, 2003) and Express Pipeline (EP) (one-third interest), to gain extra lift. In Q2 2003, it flew into some head wind, caused by the eddies of the soaring Loonie. As we doubt its ability to remain at lofty heights for a significant length of time, we view Q2 2003 weakness as temporary.

As owner of gas utilities, TER has a reasonably resilient underpinning, but the sizzle must come from petroleum transportation or something else. Unlike British Columbia's utility atmosphere, where TER Gas rules the sky, Petroleum Transportation (PT) is facing some headwind from the wake of Enbridge's ownership of the pipeline of choice. We expect PT to succeed in filling EP, with some pick-up in earnings, albeit not in lockstep with the increase in capacity utilization.

Generally, investors have almost enthusiastically embraced the strategy of TER's management (the best ever) and rewarded it with a relatively high implicit rate of growth in retained earnings per share. But, the real question is what kind of life TER can count on post-EP. Here, we can either trust management's proven ability to grow earnings somehow, or we can say: "show us." This is where the sky is getting cloudy.

Second-Quarter 2003 Results

EPS	Q2 2003	Q2 2002
Reported	$0.16	$0.03

TER's Q2 2003 earnings of $8.2 million or $0.16 per share versus (vs.) $1.1 million or $0.03 per share a year ago beat our estimate by $0.01 and the street's by $0.02. TER Gas and TER Gas Vancouver Island (TGVI) displayed the usual seasonal weakness, but, year-over-year (y/y), earnings rose because of petroleum transportation, as CP began commercial operations on May 1, 2003, and TransMountain contributed good earnings buoyed by strong throughput volumes. The soaring Loonie dented the results of the newly acquired EP somewhat.

We continue to maintain an Underperform rating on TER's common shares. We expect them to deliver over time a combination of growth and income, with emphasis on the latter, once TER has digested the impact of its interest in EP. While we expect organic growth to support some near-term earnings and dividend growth, we believe that pipeline acquisitions will be adding lift.

Segmented Operational Earnings ($mln)	Q2 2003	Q2 2002
Natural Gas Distribution	$(2.5)	$(3.0)
Petroleum Transportation	$12.2	$5.6
Other Activities	$(1.5)	$(1.5)
Earnings applicable to common shares	**$8.2**	**$1.1**
Source: Terasen Inc.		

Natural Gas Distribution

- Gas distribution lost $2.5 million (slightly less than a year ago), owing to improved operating efficiencies at both TER Gas and TGVI. In 2003, TER Gas is allowed to earn 9.42% on the common-equity component of rate base and TGVI 9.92%. The British Columbia Utilities Commission (BCUC) has approved a negotiated settlement reached between TER Gas and customers and other stakeholders for a 2004-2007 Performance Based Rate Plan (PBR). The four-year settlement sets out the process for determining delivery charges and incentive mechanisms for improved operating efficiencies.

Petroleum Transportation

- Petroleum transportation earned $12.2 million in Q2 2003 versus $5.6 million in Q2 2002. This 117% improvement was mostly the result of the start-up of commercial operations at CP on May 1, 2003, and strong throughput volumes on TransMountain. The EP (acquired on Jan. 9, 2003) lost $0.3 million worth of altitude after factoring in a $3.8 million hair cut from the damage caused by the soaring loonie to working capital and future income tax balances.

- Trans Mountain increased its earnings to $9.6 million from $5.6 million in Q2 2002 owing to higher throughput on both the Canadian and U.S. mainline sections.

Other Activities

- Results from Other Activities, which include TER's non-regulated energy and utilities services and corporate interest and administration charges, were flat year-over-year.

Financial

- During Q2 2003, TER spent $62.2 million on capital expenditures, compared with $115.6 million in Q2 2002. TER expects to spend about $225 million in 2003. Funds from operations rose from $36.4 million a year ago to $56.9 million in the second quarter 2003, but cash decreased by $18.3 million to $1.5 million during the quarter.

Valuation

- For the 12-month period ending in June 30, 2005, we are estimating EPS of $2.87; DPS of $1.68; retained EPS of $1.19; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.25%, tax-effected to 5.80%. The support price is $28.97 and the residual price is $15.47, for a target price of $44.45 (rounded).

NATIONAL BANK
FINANCIAL

Daily Bulletin **April 27, 2003 PM**

TERASEN INC. (FORMERLY BC GAS) – BCG (TSX) $38.08

Q1 2003 Results Lower than Expected…

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STOCK RATING: Underperform (Unchanged) ◆ RISK RATING: Average (Unchanged)

TARGET: $41.95 (Was $40.80)

Industry Rating (Gas Utilities): Underweight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	02A	03E	04E
EPS	$2.45	$2.58	$2.73

Valuation	03E	04E
P/E	14.7	13.9

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$34.53-$42.50	$41.95	51.8	$1,972

Note: All numbers in Cdn$.

…Estimated '03 EPS Raised to $2.58 from $2.56 and '04 EPS to $2.73 from $2.71

Target price increases to $41.95

Note: *On April 25, 2003, BC Gas Inc. shareholders approved a motion at its AGM to change the company name to Terasen Inc. effective April 28, 2003. As part of the name change, all subsidiary companies will take on a variation of the Terasen name. The company's trading symbol on the TSX will change to "TER" from "BCG" effective May 5, 2003.*

Assessment and Investment Opinion

Terasen's Q1 2003 results were lower than expected. Terasen earned $73.4 million or $1.42 per share compared with $67.8 million or $1.70 per share in the same period a year ago. EPS declined year-over-year (y/y) because of the increase in the weighted average number of common shares outstanding following two equity issues in 2002. The increase in earnings y/y was mostly the result of improved operating results and the earnings contribution from its one-third interest in the newly acquired Express Pipeline System.

We continue to maintain an Underperform rating on Terasen's common shares. We expect them to deliver over time a combination of growth and income, with emphasis on the latter, once Terasen has digested the impact of its interest in the Express Pipeline System. While we expect organic growth to support some earnings and dividend growth, we believe that acquisitions should contribute mostly thereto.

Q1 2003 Results

EPS	Q1 2003	Q1 2002
Reported	$1.42	$1.70

Segmented Operational Earnings ($mln)	Q1 2003	Q1 2002
Natural Gas Distribution	$67.1	$66.8
Petroleum Transmission	$11.6	$6.5
Other Activities	($5.3)	($5.5)
Earnings applicable to common shares	**$73.4**	**$67.8**
Source: Terasen Inc.		

Natural Gas Distribution

Gas distribution earned $67.1 million in Q1 2003, a slight increase from the $66.8 million in Q1 2002. The earnings of Terasen Gas (formerly BC Gas Utility) increased by $0.6 million y/y mainly as result of improved operating performance, while Terasen Gas-Vancouver Island (formerly Centra Gas) had slightly lower earnings as a result of rebasing, following the renewal of its incentive regulatory agreement. In 2003, Terasen Gas is allowed to earn 9.42% on the common-equity component of rate base, while Terasen Gas-Vancouver is allowed to earn 9.92%. On April 17, 2003, a proposal for a new multi-year incentive regulatory settlement for Terasen Gas was filed with the British Columbia Utilities Commission (BCUC).

Petroleum Transmission

Petroleum transmission earned $11.6 million in Q1 2003, compared with $6.5 million in Q1 2002. This improvement was mostly the result of the acquisition of a one-third interest in the Express Pipeline System on Jan. 9, 2003. Express contributed $3.3 million during the quarter, which included $2.9 million from its share of Express System earnings and $0.4 million in related tax benefits. Express is expected to contribute about $12 million in earnings during 2003.

Terasen Pipelines-Trans Mountain (formerly Trans Mountain Pipeline) increased its earnings by $1.8 million y/y as a result of higher throughput on the Canadian mainline, and during the month of March ran at full capacity as supply concerns took hold following the start of the U.S.-Iraq war. For the quarter, throughput was 209,400 barrels compared with 199,600 a year ago.

Terasen Pipelines-Corridor (formerly Corridor Pipeline) has been commissioned and commercial operations and earnings will begin on May 1, 2003, following at two-month delay. Terasen expects Corridor to contribute $0.20 per share annualized.

Other Activities

Results from Other Activities improved by $0.2 million y/y due to better contributions from the water supply and services businesses and from CustomerWorks.

Financial

During Q1 2003, Terasen spent $43.5 million on capital expenditures, compared with $90.7 million in Q1 2002. Terasen expects to spend about $225 million in 2003. Terasen increased its quarterly common share dividend to $0.39 per share, up from $0.36 in 2002.This dividend is in line with Terasen's targeted dividend-payout of 60%.

Valuation

For the 12-month period ending in March 31, 2005, we are estimating EPS of $2.76; DPS of $1.66; retained EPS of $1.10; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $27.66 and the residual price is $14.30, for a target price of $41.95 (rounded).

NATIONAL BANK
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Daily Bulletin **February 17, 2003 PM**

BC GAS INC. – BCG (TSX) $39.50

Q4 2002 Results Better than Expected…

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STOCK RATING: Underperform (Unchanged) ◆ TARGET: $40.80 (Was $40.50)

Industry Rating (Gas Utilities): Underweight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	02A	03E	04E
EPS	$2.45	$2.56	$2.71

Valuation	03E	04E
P/E	15.4x	14.6x

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$34.53-$42.50	$40.80	51.6	$2,038.2

Note: All numbers in Cdn$.

…Estimated 2003 EPS Is Lowered To $2.56 From $2.58.

Assessment and Investment Opinion

Fourth-quarter 2002 results were better than expected. As neither they, nor, for that matter, 2002 results, have any bearing on our 2004 "target year." We continue to maintain an Underperform rating on BCG common shares. We expect them to deliver over time a combination of growth and income, with emphasis on the latter, once BCG has digested the impact of its one-third interest in the newly acquired Express Pipeline System. While we expect organic growth to support earnings and dividend growth, we believe that acquisitions should contribute mostly thereto.

EPS	Q4 2002	Q4 2001
Reported	$1.23	$1.28

Segmented Operational Earnings ($mln)	Q4 2002	Q4 2001	Fiscal 2002	Fiscal 2001
Natural Gas Distribution	$50.0	$45.1	$92.4	$67.8
Petroleum Transmission	$10.5	$8.5	$29.3	$27.3
Other Activities	($4.5)	($4.6)	($15.9)	($10.5)
Earnings applicable to common shares	**$56.0**	**$49.0**	**$105.8**	**$84.6**

In f2002, BCG remained, as expected, on track in pursuit of its long-term corporate goals despite the upheavals in the financial markets and the North American energy sector. Growth continued in its natural gas (gas) distribution/ transmission segment as a result of the Centra Gas (CG) acquisition, and petroleum transmission had slightly higher earnings year-over-year (y/y) because of lower financing costs and lower tax rates. "Other activities" suffered through higher financing costs related to the acquisition of CG and a $4.1.million after-tax writedown of BCG's investment in Westport Innovations. This was partially offset by better y/y performance by energy and utility services, primarily because of the termination of goodwill amortization as of 2002 and interest cost reductions.

Natural Gas Distribution

Gas distribution earned $50.0 million in Q4 2002 compared with $45.1 million in Q4 2001. The y/y improvement was primarily because of the acquisition of CG which was offset somewhat by a decrease in earnings at BC Gas Utility (BCGU) due to higher operating costs. For f2002, gas distribution earned $92.4 million compared with $67.8 million in 2001, and the higher earnings was due to the CG acquisition whose earnings were included as of Jan.1, 2002, even though the transaction was completed in early March, as well as an increased contribution from BCGU because of lower interest costs. For 2003, BCGU is allowed to earn 9.42% on the common-equity component of rate base.

A new three-year incentive regulatory settlement for CG was negotiated with stakeholders and approved by the British Columbia Utilities Commission (BCUC) in January 2003, effective Jan. 1, 2003. In 2003, CG will be allowed to earn a return on the common-equity component of rate base of 9.92%, 50 basis points higher than BCGU's.

Petroleum Transmission

Petroleum transmission earned $10.5 million in Q4 2002, an increase from the $8.5 million earned last year. For f2002, earnings increased to $29.3 million from $27.3 million in 2001. The improvement in earnings y/y was mostly due to lower interest costs and lower tax rates which was somewhat offset by lower throughput on the Canadian and U.S. portions of the Trans Mountain mainline. Throughput on the former fell by about 3.9% to 34,924 m^3 per day, and on the latter, whose throughput forms part of the former, by about 34.82% to 7,607 m^3 per day.

Construction on the Corridor Pipeline (CP) was completed in late 2002 on time and on budget ($662.1 million). Commissioning of CP (which was expected to be completed by the end of February 2003) has been delayed as a result of a delay in commissioning the Athabasca Oil Sands Project (AOSP) by Shell Canada and its partners. CP will now begin commercial operations on the first day of the month following the date production volumes from the AOSP are first transported to the Scotford Upgrader to Edmonton on CP. BCG believes that commercial operations will begin at the earliest on April 1 and at the latest on June 1, 2003. Each month of delay will reduce EPS by $0.03. BCG expects Corridor Pipeline to contribute $0.20 per share annualized, once it is operational.

On Jan. 9, 2003, the Express Pipeline System acquisition was completed for $1.175 billion, including $582 million in debt. BCG has one-third stake in a consortium, consisting of Borealis Infrastructure Management Inc. and Ontario Teachers' Pension Plan (OTPP). BCG's share of the equity component of purchase price is about $198 million.

Other Activities

For f2002, energy and utility services division improved over last year but the whole "Other Activities" segment (which includes financing and administration costs) produced lower results due to an increase in financing costs of the CG acquisition, offset in part by improved operating results of BCG's energy and utility services business, and due to a $4.1.million after-tax writedown of BCG's investment in Westport Innovations.

Capital Expenditures

In 2002, BCG spent $395.7 million on capital expenditures, compared with $469.8 million a year ago. In fiscal 2003, BCG expects to spend $225 million, with $135 million going towards natural gas distribution and $40 million towards the completion of CP.

Funds from Operations and Cash Flow

Funds from operations increased in 2002 by about 25.2% to $244 million. Funds from operations increased more than five-fold to $318.1 million from a year ago, mainly because of a $66.2-million decrease in BCGU's rate-stabilization plan (vs. $2.4 million in 2001), and a $7.2-million positive change in non-cash working capital vs. a huge negative change of $137.5 million in 2001.

Valuation

We are estimating for the 2004 calendar year: EPS of $2.71; DPS of $1.52; retained EPS of $1.19; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $25.33 and the residual price is $15.47, for a target price of $40.80 (rounded).

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
** Two or more classes of common shares exist with differential voting rights.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

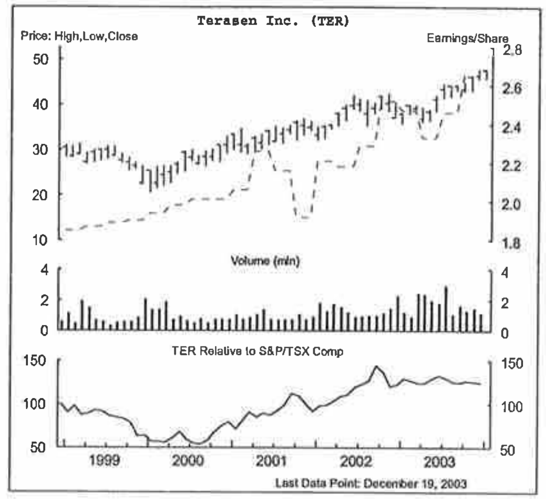
Stock Rating: Market Perform
Industry Rating: Underperform

December 22, 2003
Research Comment
Gas & Electrical

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

Express Pipeline Expansion Receives Support; No Change in View

Price (19-Dec)	$47.78	**52-Week High**	$47.99
Target Price	$46.50↑	**52-Week Low**	$36.15



(FY-Dec.) Diluted	2002A	2003E	2004E	2005E
EPS	$2.52	$2.62	$2.75	$2.85↑
P/E		18.2x	17.4x	16.8x
CFPS	$7.21	$4.50	$4.67	$4.73
P/CFPS		10.6x	10.2x	10.1x
Div.	$1.38	$1.53	$1.61	$1.65
EV ($mm)	$4,513	$5,490	$5,483	$5,473
EBITDA ($mm)	$456	$503	$521	$528
EV/EBITDA	9.9x	10.9x	10.5x	10.4x

Quarterly EPS (Basic)	Q1	Q2	Q3	Q4
2002A	$1.56	$0.03	-$0.35	$1.23
2003E	$1.42a	$0.16a	-$0.15a	$1.19
2004E	$1.48	$0.19	-$0.12↓	$1.22

Dividend	$1.44	Yield	3.0%
Book Value	$24.32	Price/Book	2.0x
Shares O/S (mm)	51.9	Mkt. Cap ($mm)	$2,481
Float O/S (mm)	51.9	Float Cap ($mm)	$2,481
Wkly Vol (000s)	394	Wkly $ Vol (mm)	$16.5
Net Debt ($mm)	$3,099.8	Next Rep. Date	12-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Consensus Estimates: Terasen Inc. (C$) 2003E: $2.64; 2004E: $2.79

Event

Terasen Pipelines (100% - Terasen Inc.) has announced that strong shipper support has been obtained with respect to: (i) contracting 30,000 bbls/d of the present 172,000 bbls/d capacity of the Express Pipeline (33.3% - Terasen Inc.) not already subject to long-term shipping contracts; and (ii) the plan to expand the Express pipeline to 280,000 bbls/d. The process designed to obtain shipper support resulted in new term shipping commitments totalling 108,000 bbls/d—30,000 bbls/d for existing capacity and 75,000 bbls/d for expansion capacity. The planned in-service date is April 1, 2005.

Impact

Positive.

Forecasts

Our 2003 and 2004 diluted EPS estimates of $2.62 and $2.75, respectively, are unchanged. Our diluted 2005 estimate increases to $2.85 from $2.78, reflecting a partial-year's contribution from the pipeline expansion. The full-year contribution of approximately $0.10 per share will likely be realized in 2006.

Valuation

Our revised target price of $46.50 reflects a weighted average valuation approach: 14x estimated diluted 2005 EPS of $2.85 (12.5%), 1.75x estimated 2005 book value per share of $27.70 (12.5%), and a target yield of 3.50% (75%), assuming dividends per share of $1.65 in 2005 versus $1.62 previously.

Recommendation

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

Changes	Annual EPS	Quarterly EPS	Target
	2005E $2.78 to $2.85	Q3/04E -$0.11 to -$0.12	$45.65 to $46.50

Please refer to pages 5 to 7 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen Pipelines (100% - Terasen Inc.) has announced that strong shipper support has been obtained with respect to: (i) contracting 30,000 bbls/d of the present 172,000 bbls/d capacity of the Express Pipeline (33.3% - Terasen Inc.) not already subject to long-term shipping contracts; and (ii) the plan to expand the Express pipeline to 280,000 bbls/d. The process designed to obtain shipper support resulted in new term shipping commitments totalling 108,000 bbls/d—30,000 bbls/d for existing capacity and 75,000 bbls/d for expansion capacity. The planned in-service date is April 1, 2005.

The Express Pipeline System is comprised of two pipelines: 1) 172,000 bbls/d Express Pipeline that transports Canadian liquids to the U.S. Rocky Mountain states of Montana, Wyoming and Utah (Petroleum Administration Defense District IV or PADD IV); and 2) 150,000 bbls/d Platte Pipeline that transports liquid petroleum from PADD IV to markets in the southern portion of the Midwestern U.S. (PADD II).

Estimates

Our 2003 and 2004 diluted EPS estimates of $2.62 and $2.75, respectively, are unchanged. Our diluted 2005 estimate increases to $2.85 from $2.78, reflecting a partial-year's contribution from the pipeline expansion. The full-year contribution of approximately $0.10 per share will likely be realized in 2006. The anticipated contribution from the Express pipeline and the planned expansion reflect:

- The contribution from the pipeline facility itself (i.e., throughput at a stipulated tariff per barrel) and the extent to which the approximately 33,000 bbls/d of expansion capacity not yet subject to contracts is utilized;
- The allocation of "tax benefits" between Terasen and its non-taxable partners, being the Ontario Municipal Employees Retirement System (OMERS) and the Ontario Teachers' Pension Plan; and
- The operating and incentive fees paid to Terasen Pipelines as operator of the pipeline system.

The in-service date of April 1, 2005 for 108,000 bbls/d is more advanced than was stipulated in the Open Season documents; Phase I of the expansion (41,000 bbls/d) was to have been in service April 1, 2005 and Phase II (67,000 bbls/d) had a stated in-service date of January 1, 2007.

We note that Terasen Inc. has a comprehensive list of new pipeline proposals, as set out in Table 1. We typically do not include the contribution from new pipeline expansions, greenfield projects and/or acquisitions in our estimates until it is reasonably certain that a project will proceed within a defined time frame and the contribution is reasonably certain.

Table 1. Proposed Pipeline 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 215,000 from 188,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Increase Capacity to 232,000 from 215,000 bbls/d - Dropped December 8/03
Express/Platte - Phase I	41,000 bbls/d	US$65	Apr-05		Increase Capacity to 213,000 from 172,000 bbls/d - Confirmed December 22
Express/Platte - Phase II	67,000 bbls/d	US$15	Apr-05	$0.10	Increase Capacity to 280,000 from 213,000 bbls/d - Confirmed December 22
Corridor Pipeline	75,000 bbls/d	C$120	2006/7	NA	Increase Capacity to 230,000 from 155,000 bbls/d
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	100,000 bbls/d	C$450	NA	NA	Increase Capacity to 332,000 from 232,000 bbls/d
Trans Mountain - Loop II	100,000 bbls/d	C$700	NA	NA	Increase Capacity to 432,000 from 332,000 bbls/d
Trans Mountain - Loop III	440,000 bbls/d	C$925	NA	NA	Increase Capacity to 872,000 from 432,000 bbls/d
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

Valuation

Our revised target price of $46.50 reflects a weighted average valuation approach: 14x estimated diluted 2005 EPS of $2.85 (12.5%), 1.75x estimated 2005 book value per share of $27.70 (12.5%), and a target yield of 3.50% (75%), assuming dividends per share of $1.65 in 2005 versus $1.62 previously.

Recommendation

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

Table 2. Consolidated Summary Sheet

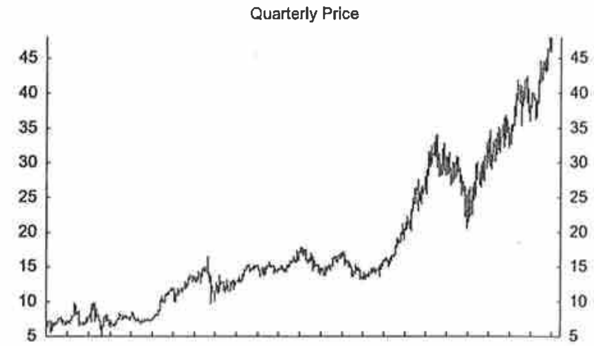
12/22/2003
Current Price: $47.60
12-Month Target Price: $46.50
Rate of Return: 1.06%

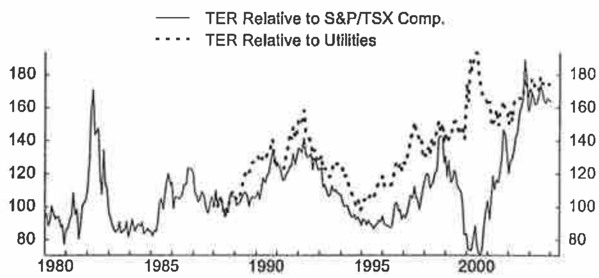
Karen J. Taylor
BMO Nesbitt Burns Inc.

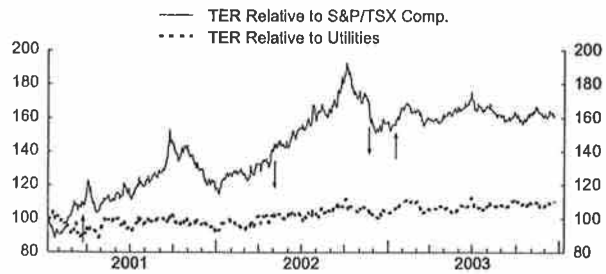
Recommendation: Market Perform

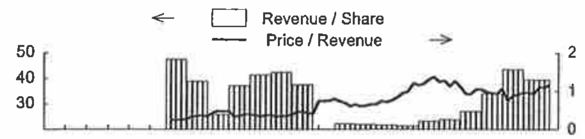
	Year Ended December 31							
	1998	1999	2000	2001	2002	2003E	2004E	2005E
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$1.99	$2.01	$2.52	$2.62	$2.75	$2.85
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.00	$2.03	$2.54	$2.63	$2.77	$2.87
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.14	$1.95	$1.90	$1.91
Trans Mountain Pipe Line	$0.60	$0.51	$0.50	$0.53	$0.68	$0.96	$1.20	$1.28
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.28)	($0.28)	($0.33)	($0.32)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.38	$1.53	$1.61	$1.65
Payout Ratio	58.9%	60.1%	61.3%	64.0%	54.5%	58.2%	57.9%	57.5%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.2	51.4	51.4	51.4
Net Book Value	$15.67	$16.61	$18.05	$18.78	$24.20	$25.31	$26.48	$27.70
Market Valuation								
Price: High	$33.95	$31.00	$33.45	$36.40	$42.50	-	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	$32.64	-	-	-
Price: Current	-	-	-	-	-	$47.60	-	-
P/E Ratio: High	18.4	16.0	16.24	17.93	16.73	-	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.66	12.85	-	-	-
P/E Ratio: Current	-	-	-	-	-	18.1	17.2	16.6
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	-	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.88	1.80	1.72
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	-	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	-	-	-
Yield: Current Price	-	-	-	-	-	3.21%	3.37%	3.47%
Balance Sheet ($mm)								
Debt (S-T)	448.7	431.3	241.7	305.0	440.0	791.1	790.5	1,020.1
Debt (L-T)	1,101.6	1,079.0	1,858.6	2,151.6	2,232.3	2,225.5	2,218.7	2,011.9
Deferred Taxes	36.3	35.0	47.3	56.8	58.1	58.1	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	718.5	1,244.3	1,301.3	1,361.1	1,423.9
	2,345.2	2,265.4	2,974.1	3,356.9	4,099.7	4,501.1	4,553.5	4,639.0
Balance Sheet (%)								
Debt (S-T)	19.1%	19.0%	8.1%	9.1%	10.7%	17.6%	17.4%	22.0%
Debt (L-T)	47.0%	47.6%	62.5%	64.1%	54.5%	49.4%	48.7%	43.4%
Deferred Taxes	1.5%	1.5%	1.6%	1.7%	1.4%	1.3%	1.3%	1.3%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.2%	3.7%	3.0%	2.8%	2.7%	2.7%
Shareholders' Equity	26.0%	28.5%	23.6%	21.4%	30.4%	28.9%	29.9%	30.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.7	109.5	135.7	142.3	147.6
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.7	109.5	135.7	142.3	147.6
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.4	311.4	231.4	239.9	247.0

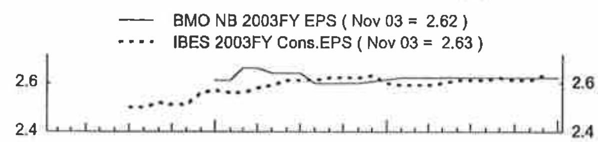
Terasen Inc. (TER)

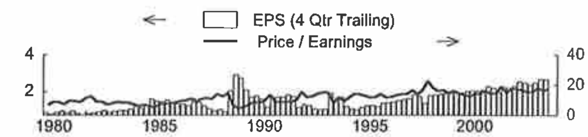


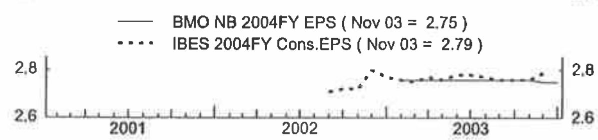












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
Current*	2.66	17	1.56	3.4	59	24.32	1.9	11
Average:		12		5.4	60		1.4	13.5
Growth(%):								
5 Year:	8.4		6.9			9.4		
10 Year:	3.4		5.7			6.9		
20 Year:	5.2		5.4			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2003.

TER - Rating as of 9-Jan-01 = Mkt

	Date	Rating Change	Share Price
1	23-Mar-01	Mkt to OP	$30.15
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: December 19, 2003

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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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
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Company Specific Disclosure
Disclosure 2: BMO NBI has undertaken an underwriting liability with respect to this issuer within the past 24 months.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	39%	44%	43%
Hold	Market Perform	49%	48%	47%
Sell	Underperform	12%	8%	10%

* 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 NBI 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 Sept. 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 NBI Equity Research is available via our web site http://bmonesbittburns.com. Please contact your investment advisor or institutional salesperson for more information. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex.

Additional Matters

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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

November 6, 2003
Research Comment
Gas & Electrical

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Assoc: Andrew Shufelt

Q3/03 EPS Higher than Expected; No Change in Rating

Event

Terasen announced Q3/03 EPS of a loss of $0.15. After adjusting for that portion of the accounting change that increased quarterly performance and was attributable to prior periods, quarterly performance was a loss of $0.17 per share versus a loss of $0.35 per share in Q3/02 (net of one-time items and adjustments). We expected quarterly performance of -$0.26. Results were higher than expected and above the consensus estimate of a -$0.21.

Impact

Neutral.

Forecasts

We have made a number of changes to our financial model. We have revised our return assumptions on the Trans Mountain Pipeline System, lowered the allowed return on equity set by the British Columbia Utilities Commission and the National Energy Board, and increased the contribution at Terasen Gas Vancouver Island due to an accounting change that increases the segment contribution. Our diluted 2003 and 2005 EPS estimates of $2.62 and $2.78 are unchanged, however our 2004 diluted EPS estimate declines by $0.01 to $2.75. Our estimates do not reflect a number of projects, as set out herein.

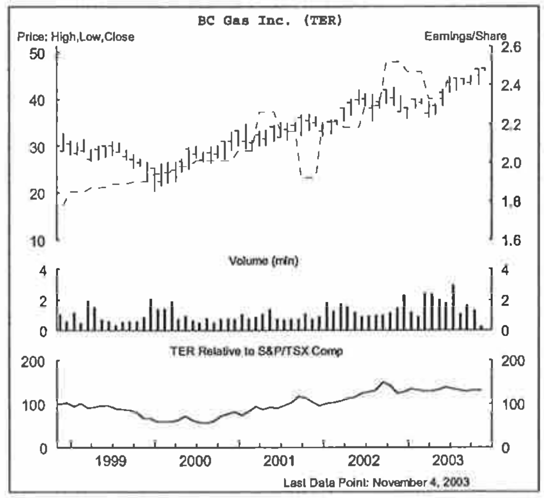
Valuation

Our revised target price of $45.65 reflects a weighted average valuation approach: 14x 2005E diluted EPS of $2.78 (12.5%), 1.75x 2005E book value of $27.66 (12.5%), and a target yield of 3.50% (75%), assuming 2005 dividends per share of $1.62.

Recommendation

We believe the shares are reasonably valued. We rate the shares Market Perform.

Price (4-Nov)	$46.64	**52-Week High**	$46.64
Target Price	$45.65↑	**52-Week Low**	$35.80



(FY-Dec.)	2001A	2002A	2003E	2004E
EPS	$2.21	$2.52	$2.62	$2.75↓
P/E			17.8x	17.0x
CFPS	$1.39	$7.21	$4.50	$4.68
P/CFPS			10.4x	10.0x
Div.	$1.30	$1.38	$1.53	$1.61
EV ($mm)	$3,910	$4,513	$5,473	$5,475
EBITDA ($mm)	$390	$456	$503	$523
EV/EBITDA	10.0x	9.9x	10.9x	10.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2001A	$1.59	-$0.08	-$0.58	$1.28
2002A	$1.56	$0.03	-$0.35	$1.23
2003E	$1.42a	$0.16a	-$0.15a	$1.19↓

Dividend	$1.44	**Yield**	3.1%
Book Value	$24.32	**Price/Book**	1.9x
Shares O/S (mm)	51.9	**Mkt. Cap ($mm)**	$2,422
Float O/S (mm)	51.9	**Float Cap ($mm)**	$2,422
Wkly Vol (000s)	413	**Wkly $ Vol (mm)**	$16.7
Net Debt ($mm)	$3,099.9	**Next Rep. Date**	12-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Consensus Estimates: Terasen Inc. (C$) 2003E: $2.61; 2004E: $2.76

Changes	Annual EPS	Quarterly EPS	Target
	2004E $2.76 to $2.75	Q4/03E $1.31 to $1.19	$43.30 to $45.65

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

Details & Analysis

Terasen announced Q3/03 EPS of a loss of $0.15. After adjusting for that portion of the accounting change that increased quarterly performance and was attributable to prior periods, quarterly performance was a loss of $0.17 per share versus a loss of $0.35 per share in Q3/02 (net of one-time items and adjustments). We expected quarterly performance of a loss of $0.26 per share. Results were higher than expected and above the consensus estimate of a loss of $0.21 per share.

Segment Performance

Gas Distribution and Utility Operations

Terasen Gas Distribution: Performance by Terasen Gas Distribution was in line with expectations. Quarterly performance was positively affected by lower costs versus Q3/02. We assume that incentive gains at Terasen Gas total some 100 basis points above the allowed return on equity of 9.42%.

Terasen Gas Vancouver Island (TGVI): Performance at Terasen Gas Vancouver Island was materially higher than expected due to a change in the amortization of the RDDA balance of approximately $24 million (equal to the difference between the book value of the revenue deficiency of the utility operation of $85 million and the $61 million present value that Terasen paid for this balance at the time of the acquisition of Centra Gas BC from Westcoast Energy in Q1/02). Due to a change in the pattern of the recovery of this deferred amount versus the original pattern forecast at the time of the purchase, the segment contribution from TGVI is now expected to be some $2.1 million higher than originally forecast in 2003. We have adjusted our estimates to reflect this accounting change prospectively in 2004 and 2005. We note that this incremental segment contribution is non-cash. Incremental earnings of $1.6 million were recognized in Q3/03, $1.1 million of which is associated with Q1/03 and Q2/03.

Petroleum Transportation

Trans Mountain: The contribution from Trans Mountain is higher than expected due to higher throughput on the Canadian and U.S. portions of the pipeline and the incentive agreement that governs the Canadian portion of the system until December 31, 2005. Higher throughput and contribution were achieved notwithstanding power disruptions associated with the forest fires in the interior of British Columbia and the use of temporary, high-cost generators to maintain pipeline operations.

Express Pipeline: Excluding the negative effect of a $3.8 million foreign exchange loss in Q2/03 due to an appreciation of the Canadian dollar versus the U.S. dollar, the contribution from Terasen's one-third interest in this pipeline is in line with expectations (a further foreign exchange loss of approximately $0.200 million was reported in Q3, prior to the implementation of a hedging strategy). The company will not break out the contribution from tax and incentive benefits versus operating income from the pipeline.

Corridor Pipeline: Performance was generally in line with expectations for the quarter; however, annual year-to-date performance is slightly less than previously assumed due to the actual in-service date of the pipeline (May 1, 2003) versus our initial expectation of mid-Q1/03.

Estimates

We have made a number of changes to our financial model. We have revised our return assumptions on the Trans Mountain Pipeline System, lowered the allowed return on equity set by the British Columbia Utilities Commission and the National Energy Board, and increased the contribution at Terasen Gas Vancouver Island due to an accounting change that increases the segment contribution. Our diluted 2003 and 2005 EPS estimates of $2.62 and $2.78 are unchanged; however, our 2004 diluted EPS estimate declines by $0.01 per share to $2.75. Our estimates do not reflect a number of projects, as set out herein.

Natural Gas Distribution

Terasen Gas Distribution: We have assumed that the utility operation reports incentive earnings of approximately 100 basis points over the allowed return on equity as determined by the British Columbia Utilities Commission: 9.42% in 2003 and estimated to be 9.07% in each of 2004 and 2005. We note that if the achieved ROE after earnings sharing is different from the allowed ROE by 150 basis points in any year of the agreement, the commission may review the Performance Based Rate (PBR) plan. We assume the contribution from the Southern Crossing Pipeline is not subject to the incentive arrangement with respect to the distribution utility operations and we assume the allowed return on this transmission pipeline declines to 9.07% in 2004 and 2005 versus 9.42% currently.

TGVI: Incentive earnings are expected to total some 185 basis points over the 2003 to 2005 forecast period. The allowed return on equity over a similar period is assumed to be 9.92% in 2003 and 9.57% in each of 2004 and 2005 (a 50 basis point premium to the BCUC's low risk benchmark return of 9.07%). We assume that the amortization of the deferred revenue deficiency increases the contribution versus our previous estimate by approximately $2.1 million, $1.9 million and $1.7 million in 2003 to 2005, respectively.

Petroleum Transportation

Trans Mountain Pipeline: We have increased the contribution from this pipeline to $33.1 million from our previous estimate of $27.5 million in 2003, reflecting higher throughput and the realization of the remaining cost efficiencies over the forecast period. A similar contribution is assumed in each of 2004 and 2005, despite an anticipated reduction in the allowed return determined by the National Energy Board (NEB) to 9.48% for fiscal 2004 versus 9.79% currently.

Corridor Pipeline: Although subject to market-based tolls, we believe the pipeline does have some sensitivity to an NEB-style multi-pipeline return on equity formula. We believe the contribution from Corridor is likely to decline modestly in 2004 and 2005 due to a reduction in the return on equity allowed under the pipeline's market-based tolling agreement.

Express Pipeline: The estimated contribution from this pipeline is unchanged.

Our estimates do not reflect the potential contribution from the following projects:

Trans Mountain Pipeline:

- Phase I Expansion: Plan to increase the capacity of the pipeline by 27,000 bbl/d from 188,000 bbl/d currently. Estimated capital cost of $15 million, with a planned in-service date of mid-2004.
- Phase II Expansion: Plan to increase the capacity of the pipeline by a further 17,000 bbl/d at a cost of $20 million. Target in-service date: early 2005.

The estimated contribution from the Phase I and Phase II expansions in 2004 and 2005 (after financing costs) is approximately half a cent and $0.02 per share, respectively.

- Plan to Twin the Trans Mountain Pipeline: This staged, multi-year expansion would increase the capacity of the system by approximately 500,000 to 600,000 bbl/d at a cost in excess of $2 billion (including AFUDC, terminal upgrade costs and capitalized interest). This project is under discussion only and no target in-service dates have been disclosed.

Express Pipeline:

- Phase I Expansion: plan to increase the capacity of the pipeline by 30,000 bbl/d from 172,000 bbl/d currently. Estimated capital cost of $30 million, with an expected in-service date of early 2005.
- Phase II Expansion: plan to increase the capacity of the pipeline by a further 68,000 bbl/d at a cost of approximately $10 million. The expected in-service date is early 2006.

The estimated contribution from both the Phase I and Phase II expansions has been estimated by Terasen to be approximately $5 million or $0.10 per share on a full-year basis in 2006. We note that with a one-third interest, Terasen would only be responsible for one-third of the stated capital costs, increasing the efficiency of the expansion. Both Phases were fully priced into Terasen's acquisition price at the time the Express Pipeline was acquired.

Gas Distribution

On September 8, the BCUC issued its reasons for decision relating to BC Hydro's proposed Vancouver Island Generating Project (see our September 25, 2003 edition of *Wires, Pipes &*

Btus). In conjunction with its determination that the proposed project should not proceed, the Commission ordered BC Hydro to undertake a Call for Tenders for energy facilities for Vancouver Island to be in-service by the winger of 2007–2008. Terasen Gas is expected to file a response that is likely to include an $80 million expansion of the existing Centra Gas natural gas transmission infrastructure and a $100 million LNG storage facility on Vancouver Island. BC Hydro is expected to announce the successful bidders by August 31, 2004.

Valuation

Our revised target price of $45.65 reflects a weighted average valuation approach: 14x 2005E diluted EPS of $2.78 (12.5%), 1.75x 2005E book value of $27.66 (12.5%), and a target yield of 3.50% (75%), assuming 2005 dividends per share of $1.62.

Recommendation

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

11/5/2003

Current Price: $47.13

12-Month Target Price: $45.65

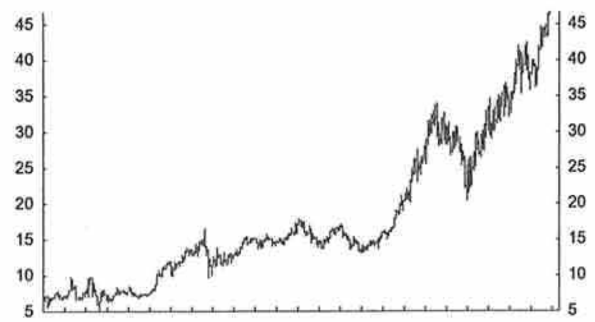
Rate of Return: 0.27%

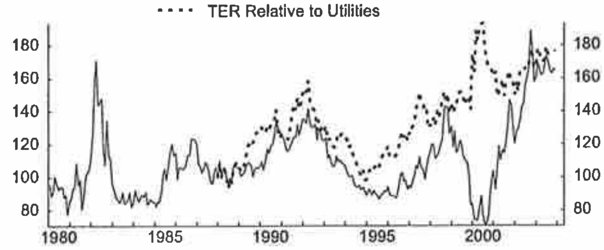
Karen J. Taylor
BMO Nesbitt Burns Inc.

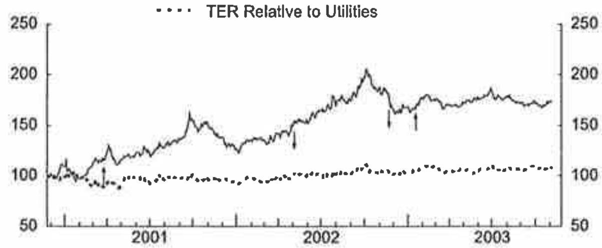
Recommendation: Market Perform

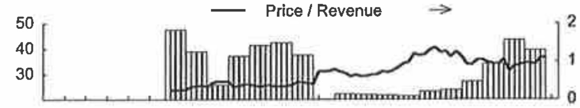
Year Ended December 31	1998	1999	2000	2001	2002	2003E	2004E	2005E
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$1.99	$2.01	$2.52	$2.62	$2.75	$2.78
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.00	$2.03	$2.54	$2.63	$2.77	$2.80
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.14	$1.89	$1.82	$1.84
Trans Mountain Pipe Line	$0.60	$0.51	$0.50	$0.53	$0.68	$0.97	$1.19	$1.20
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.28)	($0.23)	($0.24)	($0.24)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.38	$1.53	$1.61	$1.62
Payout Ratio	58.9%	60.1%	61.3%	64.0%	54.5%	58.2%	57.9%	57.9%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.2	51.4	51.4	51.4
Net Book Value	$15.67	$16.61	$18.05	$18.78	$24.20	$25.31	$26.48	$27.66
Market Valuation								
Price: High	$33.95	$31.00	$33.45	$36.40	$42.50	-	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	$32.64	-	-	-
Price: Current	-	-	-	-	-	$47.13	-	-
P/E Ratio: High	18.4	16.0	16.24	17.93	16.73	-	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.66	12.85	-	-	-
P/E Ratio: Current	-	-	-	-	-	17.9	17.0	16.8
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	-	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.86	1.78	1.70
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	-	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	-	-	-
Yield: Current Price	-	-	-	-	-	3.25%	3.41%	3.44%
Balance Sheet ($mm)								
Debt (S-T)	448.7	431.3	241.7	305.0	440.0	791.3	790.4	987.3
Debt (L-T)	1,101.6	1,079.0	1,858.6	2,151.6	2,232.3	2,125.5	2,118.7	1,911.9
Deferred Taxes	36.3	35.0	47.3	56.8	58.1	58.1	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	718.5	1,244.3	1,301.1	1,361.2	1,421.7
	2,345.2	2,265.4	2,974.1	3,356.9	4,099.7	4,401.1	4,453.5	4,504.0
Balance Sheet (%)								
Debt (S-T)	19.1%	19.0%	8.1%	9.1%	10.7%	18.0%	17.7%	21.9%
Debt (L-T)	47.0%	47.6%	62.5%	64.1%	54.5%	48.3%	47.6%	42.4%
Deferred Taxes	1.5%	1.5%	1.6%	1.7%	1.4%	1.3%	1.3%	1.3%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.2%	3.7%	3.0%	2.8%	2.8%	2.8%
Shareholders' Equity	26.0%	28.5%	23.6%	21.4%	30.4%	29.6%	30.6%	31.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.7	109.5	135.5	142.6	143.8
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.7	109.5	135.5	142.6	143.8
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.4	311.4	231.2	240.2	243.2

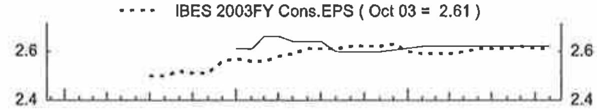
BC Gas Inc. (TER)

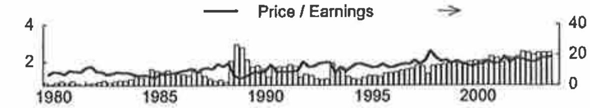


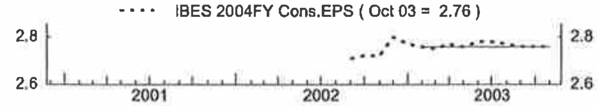












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
Current*	2.46	19	1.56	3.4	63	27.25	1.7	9
Average:		12		5.4	60		1.4	13.5
Growth(%):								
5 Year:	6.7		6.9			11.9		
10 Year:	2.6		5.7			8.1		
20 Year:	4.8		5.4			7.1		

* Current EPS is the 4 Quarter Trailing to Q2/2003.

TER - Rating as of 23-Nov-00 = Mkt

	Date	Rating Change	Share Price
1	23-Mar-01	Mkt to OP	$30.15
2	3-May-02	OP to Mkt	$40.50
3	21-Nov-02	Mkt to NR	$39.51
4	17-Jan-03	NR to Mkt	$38.78

Last Daily Data Point: November 4, 2003

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. BC Gas 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 BC Gas Utility and Centra Gas BC. 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. The credit ratings of BC Gas Inc. are on CreditWatch Negative by S&P pending a review of the Canadian regulatory environment. Capital markets activities (debt and equity) may be required to stabilize the company's bond ratings outlook.

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.

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.

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Company Specific Disclosure

Disclosure 2: BMO NBI has undertaken an underwriting liability with respect to this issuer within the past 24 months.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	36%	42%	42%
Hold	Market Perform	51%	50%	48%
Sell	Underperform	13%	8%	10%

* 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 NBI 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 Sept. 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 NBI Equity Research is available via our web site http://bmonesbittburns.com. Please contact your investment advisor or institutional salesperson for more information. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex.

Additional Matters
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BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

August 1, 2003
Research Comment
Gas & Electrical

Stock Rating: Market Perform
Industry Rating: Market Perform

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Q2/03 Results Slightly Better than Expected

Event

Terasen reported Q2/03 EPS (basic) of $0.16 versus $0.03 in Q2/02. We expected $0.13 per share and the consensus estimate was $0.14 per share. The variance is mainly attributable to higher than expected heavy oil volumes on the Trans Mountain pipeline.

Impact

Neutral.

Forecasts

Our 2003 and 2004 EPS (diluted) estimates of $2.62 and $2.76, respectively, are unchanged. We are introducing our 2005 EPS (diluted) estimate of $2.77.

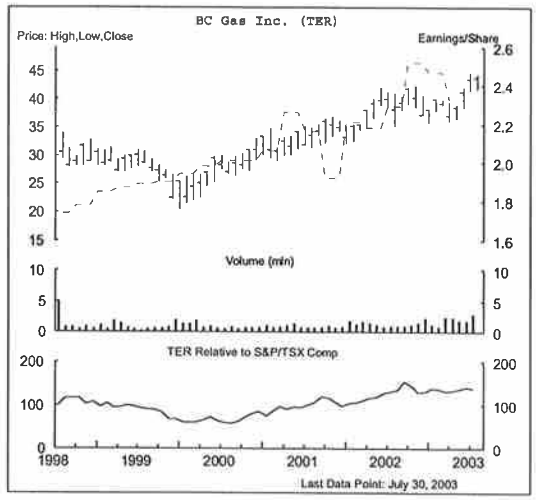
Valuation

We are updating our valuation approach to reflect our full 2005 EPS, book value and dividend per share estimates. Our revised target price of $43.30 reflects the following weighted average valuation approach: 14.0x estimated 2005 (diluted) EPS of $2.77 (12.5%), 1.75x estimated 2005 book value per share of $27.66 (12.5%) and a target yield of 3.75% (75%), assuming 2005 dividends per share of $1.62.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

Price (30-Jul)	$43.83	**52-Week High**	$44.74
Target Price	$43.30↑	**52-Week Low**	$35.80



(FY-Dec.) (Diluted)	2001A	2002A	2003E	2004E
EPS	$2.21	$2.52	$2.62	$2.76
P/E			16.7x	15.9x
CFPS	$1.39	$7.21	$4.50	$4.68
P/CFPS			9.7x	9.4x
Div.	$1.30	$1.38	$1.53	$1.61
EV ($mm)	$3,910	$4,513	$5,323	$5,325
EBITDA ($mm)	$390	$456	$505	$525
EV/EBITDA	10.0x	9.9x	10.5x	10.1x

Quarterly EPS (Basic)	Q1	Q2	Q3	Q4
2001A	$1.59	-$0.08	-$0.58	$1.28
2002A	$1.56	$0.03	-$0.35	$1.23
2003E	$1.42a	$0.16a	-$0.26	$1.31↓

Dividend	$1.44	**Yield**	3.3%
Book Value	$27.25	**Price/Book**	1.6x
Shares O/S (mm)	51.9	**Mkt. Cap ($mm)**	$2,276
Float O/S (mm)	51.9	**Float Cap ($mm)**	$2,276
Wkly Vol (000s)	395	**Wkly $ Vol (mm)**	$15.7
Net Debt ($mm)	$2,837.5	**Next Rep. Date**	5-Nov (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Consensus Estimates: Terasen Inc. (C$) 2003E: $2.61; 2004E: $2.77

Changes	**Quarterly EPS**	**Target**
	Q4/03E $1.34 to $1.31	$42.75 to $43.30

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

Details & Analysis

Q3/02 Results

Terasen reported Q2/03 EPS (basic) of $0.16 versus $0.03 in Q2/02. We expected $0.13 per share and the consensus estimate was $0.14 per share. The variance is mainly attributable to higher-than-expected heavy oil volumes on the Trans Mountain pipeline.

Table 1. Earnings Contribution by Segment

Business Segment	Q2/03	Q2/02	% Chg.	6M/03	6M/02	% Chg.
Natural Gas Distribution:						
Tersaen Gas	($0.16)	($0.19)	-15.8%	$1.02	$1.25	-18.4%
Tersaen Gas Vancouver	$0.11	$0.12	-8.3%	$0.23	$0.28	-17.9%
	($0.05)	**($0.07)**	**-28.6%**	**$1.25**	**$1.53**	**-18.3%**
Petroleum Transportation:						
Trans Mountain Pipeline	$0.19	$0.13	46.2%	$0.34	$0.29	17.2%
Corridor Pipeline	$0.06	-	-	$0.06	-	-
Express System	($0.01)	-	-	$0.06	-	-
	$0.24	**$0.13**	**84.6%**	**$0.46**	**$0.29**	**58.6%**
Other Activities	($0.03)	($0.03)	0.0%	($0.13)	($0.17)	-23.5%
Total EPS	**$0.16**	**$0.03**	**433.3%**	**$1.58**	**$1.65**	**-4.2%**

Source: BMO Nesbitt Burns

Highlights from the quarter include:

- The Corridor Pipeline commenced commercial operations on May 1, 2003 and contributed $0.06 to earnings per share during the quarter, in line with our expectations.
- The Express System incurred a loss of $0.01 during the quarter. The earnings contribution, net of a foreign exchange loss of $3.8 million, was $0.07 per share. Transportation volumes increased by 3.2% to 168,100 bbls/d in Q2/03 versus 162,900 bbls/d in Q2/02.
- Throughput volumes on the TransMountain Pipeline increased by 7.8% to 206,200 bbls/d versus 191,200 bbls/d in Q2/02 due to increased heavy crude oil volumes (volumes shipped on the Canadian mainline through the Vancouver Port for final delivery to refineries in California).
- The earnings contribution from Terasen Gas, Terasen Gas Vancouver (formerly Centra Gas) and other businesses were in line with our expectations.

Terasen Gas 2004–2007 PBR Settlement

During the quarter, the British Columbia Utilities Commission approved a negotiated settlement between Terasen Gas and its stakeholders. The negotiated settlement is a four-year (2004–2007)

Performance Based Rate (PBR) plan effective January 1, 2004 to December 31, 2007, inclusively. Highlights from the settlement include:

- Operating and maintenance costs and base capital costs are subject to an incentive formula that reflects higher costs as a result of customer growth, and inflation, minus a productivity factor defined as a percentage of inflation. The inflation factor is based on the CPI in BC (BC CPI). The adjustment factor is 50% of BC CPI for 2004 and 2005 and 66% of BC CPI for 2006 and 2007. CPI BC is expected to be 1.8% in 2004 and 2% for 2005–2008.
- Sharing 50/50 of earnings above or below the allowed ROE (9.42%) using the common equity component (33%) of actual rate base. A commission review of the PBR plan can be requested by any party if the achieved ROE after earnings sharing is different from the allowed ROE by 150 basis points in any year of the agreement.
- Revenues will be forecast each year and Terasen Gas is at risk within the year for variances in industrial revenues, customer additions, and applications for service and account transfers.
- Annual review to be held in November of each year beginning in 2003 through 2006, at which time Terasen Gas will update its forecast of customer additions, use per account and industrial revenues. The revenue effect of this update will flow through delivery rates in the following year. A customer advisory council will be established to meet twice yearly to deal with customer issues that may have arisen during the year.
- Deferral accounts for the following were approved:
    - Throughput variances for commercial and residential customers (unchanged);
    - The variance (positive or negative) from forecast natural gas prices (unchanged);
    - Net restructuring costs incurred between July 1, 2003 and December 31, 2003 (recovered in 2004);
    - Interest expense variances from short-term and long-term debt rates, principal, timing of issues and issue costs;
    - Demand Side Management incentive grants of up to $1.5 million per annum;
    - Variances in pension and insurance expenses from the forecast;
    - PBR application costs; and
    - Variances in property taxes, income taxes, large corporation taxes and any new government taxes, charges and levies from the forecast.
- Ten Service Quality Indicators that if not met may reduce incentive payments to the utility.
- No surprise clause provides that significant changes or restructurings at the utility are to be discussed with interested parties.

- Operating and maintenance costs are not rebased at the end of the agreement, however, capital incentives are subject to a phase-out: two-thirds in 2008 and one-third in 2009.

It is anticipated that 2004 rates will reflect the revised ROE (as per the formula), the projected opening rate base for 2004 and forecasts as agreed to by the BCUC in the company's 2003 revenue requirement decision.

Forecasts

Our 2003 and 2004 EPS (diluted) estimates of $2.62 and $2.76, respectively, are unchanged. We are introducing our 2005 EPS (diluted) estimate of $2.77.

Our 2005 EPS estimate does not include the following projects that are currently under development:

- **Inland Pacific Interconnector:** 246 kilometre pipeline extending from the terminus of the Southern Crossing Pipeline to the market hub at Sumas. Terasen Gas is currently working to secure firm transportation service contracts from third-party shippers.
- Expansion on Trans Mountain Pipeline: Two-phase expansion on the Trans Mountain pipeline that would increase capacity by 45,000 bbls/d by installing additional pump stations, tankage and by reactivating an inactive loop between Darfield and Kamloops. Discussions with potential shippers and the Canadian Association of Petroleum Producers are ongoing. The estimated cost of this expansion has not been specified.
- Bison Pipeline: A proposed $800 million, 516 kilometre pipeline that would transport bitumen from the Athabasca oil sands to Edmonton. Trans Mountain is currently in discussions with potential shippers. Enbridge Inc. is proposing a competing pipeline from the oil sands area to Edmonton.
- Expansion on Express: We believe the company will likely conduct an open season later in this fiscal year in order to obtain take-or-pay agreements with respect to existing capacity not yet subject to long-term shipping agreements and underwrite a possible expansion (to 280,000 bbls/day from 172,000 bbls/day) of the pipeline. We believe the open season would have to be successfully completed before the end of fiscal 2003 in order for the expanded system to contribute to 2005 earnings.

As identified in our July 24, 2003 comment entitled "Sneak Preview – Outlook for Allowed Returns in 2004," 10-Year bond yields year-to-date 2003 are lower than in 2002, making reductions in allowed equity returns likely in 2004. Management will likely have to mitigate the negative effect of a lower ROE in 2004 with incentive earnings. For example, if the base proxy 30-year government of Canada bond yield used in the ROE formula is 5.4%, Terasen Gas' 2004 ROE would decline to 8.90% from 9.42%. Terasen Gas would then have to earn 52 basis points in incentive earnings to offset this decline. We currently estimate that the company overearns our estimated 2004 allowed ROE of 9.42% by 86 basis points.

Valuation

We are updating our valuation approach to reflect our full 2005 EPS, book value and dividend per share estimates. Our revised target price of $43.30 reflects the following weighted average valuation approach: 14.0x estimated 2005 (diluted) EPS of $2.77 (12.5%), 1.75x estimated 2005 book value per share of $27.66 (12.5%) and a target yield of 3.75% (75%), assuming 2005 dividends per share of $1.62.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

7/31/2003			Karen J. Taylor/Sue McNamara
Current Price:	$43.26		BMO Nesbitt Burns Inc.
12-Month Target Price:	$43.30		
Rate of Return:	3.80%	Recommendation:	Market Perform

	Year Ended December 31							
	1998	1999	2000	2001	2002	2003E	2004E	2005E
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$1.99	$2.01	$2.52	$2.62	$2.76	$2.77
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.00	$2.03	$2.54	$2.64	$2.78	$2.80
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.14	$1.80	$1.82	$1.84
Trans Mountain Pipe Line	$0.60	$0.51	$0.50	$0.53	$0.68	$1.05	$1.13	$1.13
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.28)	($0.21)	($0.17)	($0.17)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.38	$1.53	$1.61	$1.62
Payout Ratio	58.9%	60.1%	61.3%	64.0%	54.5%	58.0%	57.7%	57.9%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.2	51.4	51.4	51.4
Net Book Value	$15.67	$16.61	$18.05	$18.78	$24.20	$25.31	$26.49	$27.66

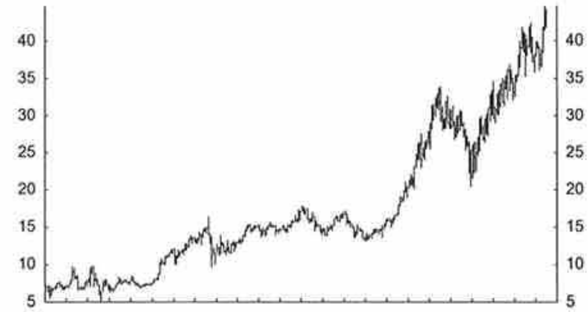
Market Valuation								
Price: High	$33.95	$31.00	$33.45	$36.40	$42.50	-	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	$32.64	-	-	-
Price: Current	-	-	-	-	-	$43.26	-	-
P/E Ratio: High	18.4	16.0	16.24	17.93	16.73	-	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.66	12.85	-	-	-
P/E Ratio: Current	-	-	-	-	-	16.4	15.6	15.5
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	-	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.71	1.63	1.56
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	-	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	-	-	-
Yield: Current Price	-	-	-	-	-	3.54%	3.71%	3.74%

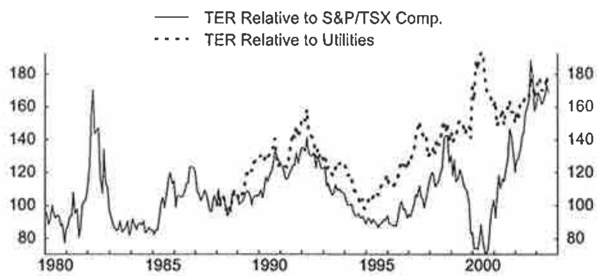
Balance Sheet ($mm)								
Debt (S-T)	448.7	431.3	241.7	305.0	440.0	791.2	799.8	1,006.1
Debt (L-T)	1,101.6	1,079.0	1,858.6	2,151.6	2,232.3	2,125.5	2,118.7	1,911.9
Deferred Taxes	36.3	35.0	47.3	56.8	58.1	58.1	58.1	58.1
Minority Interest	150.0	75.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	608.6	645.1	701.5	718.5	1,244.3	1,301.2	1,361.5	1,421.8
	2,345.2	2,265.4	2,974.1	3,356.9	4,099.7	4,401.1	4,463.1	4,522.9
Balance Sheet (%)								
Debt (S-T)	19.1%	19.0%	8.1%	9.1%	10.7%	18.0%	17.9%	22.2%
Debt (L-T)	47.0%	47.6%	62.5%	64.1%	54.5%	48.3%	47.5%	42.3%
Deferred Taxes	1.5%	1.5%	1.6%	1.7%	1.4%	1.3%	1.3%	1.3%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.2%	3.7%	3.0%	2.8%	2.8%	2.8%
Shareholders' Equity	26.0%	28.5%	23.6%	21.4%	30.4%	29.6%	30.5%	31.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

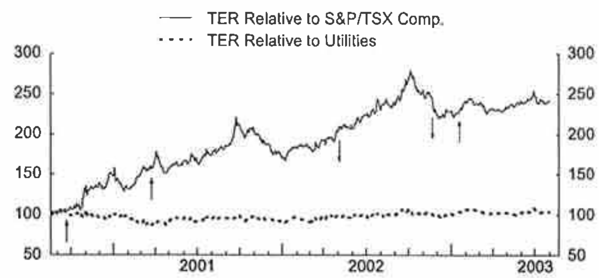
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.7	109.5	135.6	142.8	143.6
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.7	109.5	135.6	142.8	143.6
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.4	311.4	231.3	240.8	243.7

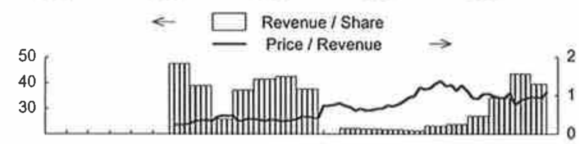
BC Gas Inc. (TER)

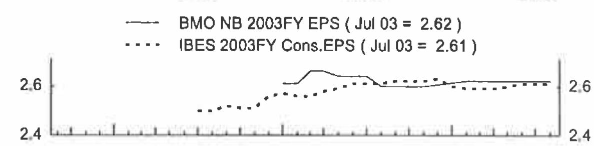
Quarterly Price

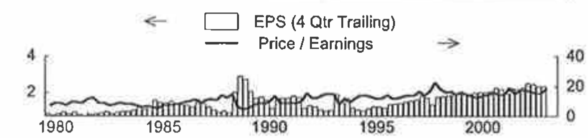


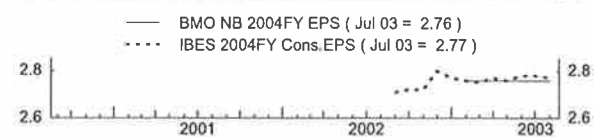












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1980	0.92	8	0.50	7.1	54	5.27	1.3	17
1981	0.69	11	0.55	7.1	80	5.73	1.4	12
1982	0.96	7	0.55	8.1	58	6.01	1.1	16
1983	0.95	8	0.55	7.0	58	6.93	1.1	15
1984	1.22	6	0.55	7.5	45	7.25	1.0	17
1985	1.52	8	0.60	5.0	39	7.68	1.6	20
1986	1.21	11	0.71	5.4	59	8.01	1.7	15
1987	1.05	11	0.68	6.0	65	8.14	1.4	13
1988	2.02	6	0.68	5.3	34	9.31	1.4	23
1989	1.70	9	0.74	4.9	44	10.10	1.5	18
1990	1.66	9	0.82	5.6	49	10.87	1.4	16
1991	1.73	10	0.90	5.3	52	12.92	1.3	15
1992	1.03	14	0.90	6.1	87	12.46	1.2	8
1993	1.43	12	0.90	5.4	63	13.00	1.3	11
1994	0.97	14	0.90	6.7	93	13.24	1.0	7
1995	1.16	14	0.90	5.6	78	13.70	1.2	9
1996	1.47	14	0.90	4.4	61	15.28	1.3	10
1997	1.71	16	1.00	3.6	58	15.54	1.8	11
1998	1.85	16	1.12	3.7	61	15.42	2.0	12
1999	1.94	13	1.18	4.6	61	16.36	1.6	12
2000	2.06	16	1.24	3.7	60	17.86	1.9	12
2001	2.21	15	1.32	4.0	60	18.65	1.8	12
2002	2.52	15	1.44	3.8	58	24.00	1.6	12
Current*	2.33	19	1.56	3.6	67	26.89	1.6	9
Average:		12		5.4	60		1.4	13.5
Growth(%):								
5 Year:	6.0		6.9			11.6		
10 Year:	8.6		5.7			8.0		
20 Year:	5.0		5.4			7.0		

* Current EPS is the 4 Quarter Trailing to Q1/2003.

TER - Rating as of 18-Aug-00 = NR

	Date	Rating Change	Share Price
1	21-Sep-00	NR to Mkt	$28.30
2	23-Mar-01	Mkt to OP	$30.50
3	3-May-02	OP to Mkt	$39.80
4	21-Nov-02	Mkt to NR	$38.95
5	17-Jan-03	NR to Mkt	$39.25

Last Daily Data Point: July 30, 2003

Terasen Inc

(TER-TSX)

Stock Rating: **Market Perform**
Stock Price: **$42.50**
Target Price: **$42.75**

June 9, 2003
Brief Research Note
Gas & Electrical

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Acting Chairman Appointed

Impact

Neutral

Details & Analysis

The Board of Directors of Terasen has announced that it has appointed an Acting Chairman of the Board, pursuant to Iain Harris' decision to take a leave of absence from his role as Chairman of the Board until certain allegations made by the Alberta Securities Commission have been dealt with. The actions under investigation do not involve Terasen shares. We believe that this announcement is neutral to our outlook with respect to Terasen. We believe that the shares are reasonably valued at present levels and we rate the shares Market Perform.

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

BMO Nesbitt Burns Research

BC Gas

(BCG-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

April 28, 2003
Research Comment
Gas & Electrical

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Q1/03 Results Lower than Expected; No Change in View

Event

BC Gas reported Q1/03 EPS (basic) of $1.42 versus $1.70 in Q1/02. The decline in earnings per share versus the previous quarter is attributable to dilution associated with two equity issues in 2002 (March and December). We had assumed the dilution in our quarterly EPS estimate of $1.56 per share. Results are lower than expected and reflect our seasonal distribution of earnings. Increased contribution from businesses that do not have seasonal earnings patterns, including Express Pipeline, Trans Mountain Pipeline and Centra Gas BC (as well as Corridor Pipeline going forward), likely offset the seasonal earnings patterns of BC Gas Utility and the water businesses (traditionally strong earnings in the first and fourth quarters), with the effect of reducing Q1/03 performance.

Impact

Neutral.

Forecasts

The company increased its quarterly dividend to $0.39 per share from $0.36 per share. The amount and timing of the increase was in line with expectations.

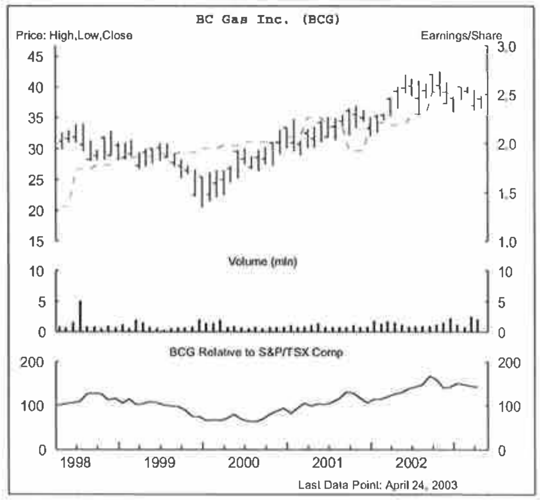
Valuation

Our target price of $40.75 reflects the following weighted average valuation approach: 14x estimated 2004 earnings per share (diluted) of $2.76 (12.5%), 1.75x estimated 2004 book value per share of $26.49 (12.5%) and a target yield of 4.00% (75%), assuming 2004 dividends per share of $1.61.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

Price (24-Apr)	$38.00	**52-Week High**	$42.50
Target Price	$40.75	**52-Week Low**	$35.25



(FY-Dec.) (Diluted)	2001A	2002A	2003E	2004E
EPS	$2.21	$2.52	$2.62	$2.76
P/E			14.5x	13.8x
CFPS	$1.56	$4.67	$4.52	$4.71
P/CFPS			8.4x	8.1x
Div.	$1.30	$1.38	$1.53	$1.61
EV ($mm)	$3,910	$4,513	$5,053	$5,055
EBITDA ($mm)	$390	$456	$505	$525
EV/EBITDA	10.0x	9.9x	10.0x	9.6x

Quarterly EPS (Basic)	Q1	Q2	Q3	Q4
2001A	$1.59	-$0.08	-$0.58	$1.28
2002A	$1.56	$0.03	-$0.35	$1.23
2003E	$1.42a	$0.13↑	-$0.26↑	$1.35↑

Dividend	$1.56	Yield	3.8%
Book Value	$27.52	Price/Book	1.4x
Shares O/S (mm)	51.7	Mkt. Cap ($mm)	$1,965
Float O/S (mm)	51.7	Float Cap ($mm)	$1,965
Wkly Vol (000s)	329	Wkly $ Vol (mm)	$12.7
Net Debt ($mm)	$2,837.2	Next Rep. Date	1-Aug (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2003E: $2.60; 2004E: $2.76

Changes

Quarterly EPS
Q2/03E $0.05 to $0.13
Q3/03E -$0.31 to -$0.26
Q4/03E $1.34 to $1.35

Please refer to pages 5 to 7 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

BC Gas reported Q1/03 EPS (basic) of $1.42 versus $1.70 in Q1/02. The decline in earnings per share versus the previous quarter is attributable to dilution associated with two equity issues in 2002 (March and December). We had assumed the dilution in our quarterly EPS estimate of $1.56 per share. Results are lower than expected and reflect our seasonal distribution of earnings. Increased contribution from businesses that do not have seasonal earnings patterns, including Express Pipeline, Trans Mountain Pipeline and Centra Gas BC (as well as Corridor Pipeline going forward), likely offset the seasonal earnings patterns of BC Gas Utility and the water businesses (traditionally strong earnings in the first and fourth quarters), with the effect of reducing Q1/03 performance.

Table 1. Earnings Contribution by Segment

	Earnings ($mm)			EPS		
	Q1/03	Q1/02	% Chg.	Q1/03	Q1/02	% Chg.
Natural Gas Distribution:						
BC Gas Utility	61.1	60.5	1.0%	1.18	1.52	-22.4%
Centra Gas BC	6.0	6.3	-4.8%	0.12	0.16	-25.0%
	67.1	66.8	0.4%	1.30	1.68	-22.6%
Petroleum Transportation:						
Trans Mountain	8.3	6.5	27.7%	0.16	0.16	0.0%
Express System	3.3	-	-	0.06	-	-
	11.6	6.5	78.5%	0.22	0.16	37.5%
Other Activities	(5.3)	(5.5)	-3.6%	(0.10)	(0.14)	-28.6%
Total	**73.4**	**67.8**	**8.3%**	**1.42**	**1.70**	**-16.5%**
Shares Outstanding				51.7	39.8	**29.9%**

Source: Company Reports

BC Gas Utility

BC Gas Utility is in the process of negotiating a multi-year (2004–2008) settlement with its stakeholders for the determination of the utility's base year revenue requirement. As part of this process, the company filed a proposal with the British Columbia Utilities Commission on April 17, 2003 to establish a regulatory process to negotiate and ultimately approve a settlement.

Trans Mountain Pipeline

Volumes on the Trans Mountain Pipeline increased 4.9% to 168,900 bbls/d from 156,000 bbls/d, largely due to the increased demand and relative pricing attractiveness for Canadian crude oil versus other supplies. Trans Mountain's segment contribution increased 27.6% to $8.3 million from $6.5 million in Q1/02.

Express Pipeline

The Express System contributed $3.3 million to earnings during the quarter, in line with our estimate of an annual $12 million contribution from the system. During the quarter, volumes on the Express System averaged 168,900 bbls/d versus capacity of 172,000 bbls/d. We believe the company will likely conduct an open season later this fiscal year to establish shipper interest in present uncommitted volumes on the system and a possible expansion (to 280,000 bbls/day from 172,000 bbls/day) of the pipeline.

On April 15, 2003, Suncor announced the acquisition of ConocoPhillip's refinery in Denver, Colorado. This acquisition is significant for the Express System for two reasons: (1) Suncor could become a possible shipper on the Express System (either as a shipper for existing capacity or as an underwriter of expansion capacity); and (2) it reinforces our view (presented in our October 10, 2002 *Pipe Dreams II* report) that the PADD IV market will likely be an important market for Canadian exports of heavy and synthetic crude oil.

Corridor Pipeline

Commercial operations of the Corridor Pipeline are expected to begin on May 1, 2003, in line with our expectations. The Athabasca Oil Sands Project (Shell Canada, Chevron Canada and Western Oil Sands) achieved fully integrated operations on April 19, 2003, when the Scotford Upgrader successfully started processing bitumen from the Muskeg River Mine.

Dividend Increase

BC Gas increased its quarterly dividend by $0.03 to $0.39 per share from $0.36 per share for the second payment of the year. The dividend is payable on May 31, 2003 to shareholders of record at the close of business on May 16, 2003. The amount and timing of the dividend increase is in line with our expectations.

Introducing Terasen

At the annual general meeting, shareholders approved a name change for the company to Terasen ("sent from the earth") from BC Gas. The change is effective Monday, April 28, 2003. The company's ticker symbol on the TSX will change to TER from BCG effective May 5, 2003.

Forecasts

Our 2003 and 2004 diluted EPS estimates of $2.62 and $2.76, respectively are unchanged.

Valuation

Our target price of $40.75 reflects the following weighted average valuation approach: 14x estimated 2004 earnings per share (diluted) of $2.76 (12.5%), 1.75x estimated 2004 book value per share of $26.49 (12.5%) and a target yield of 4.00% (75%), assuming 2004 dividends per share of $1.61.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

BC Gas
(BCG-TSX)

February 17, 2003
Research Comment
Gas & Electrical

Stock Rating: Market Perform
Industry Rating: Market Perform

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Fiscal 2002 Results Marginally Better Than Expected

Event

BC Gas reported fiscal 2002 earnings per share (diluted) from continuing operations of $2.52 versus $2.21 in 2001. We expected $2.50 per share. During the third quarter, the company recorded a $4.1 million ($0.09 per share) after-tax writedown relating to BC Gas' investment in Westport Innovations Ltd. The earnings contribution of $2.14 from BC Gas Utility and Centra Gas BC was in line with our estimate of $2.14 per share. The earnings contribution from the petroleum transportation division (Terasen Pipelines) of $0.68 per share was $0.09 per share higher than our estimate of $0.59 largely due to a lower-than-expected financing expenses and higher fourth-quarter throughput on the Canadian portion of the Trans Mountain system resulting from higher volumes from the oil sands production area.

Impact

Neutral.

Forecasts

No change.

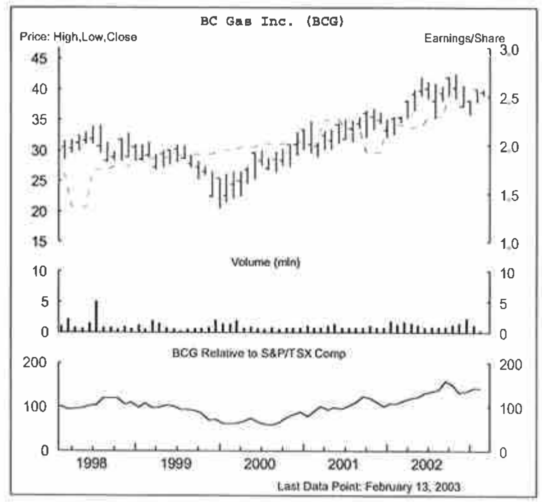
Valuation

Our target price of $40.75 reflects the following weighted average valuation approach: 14x estimated 2004 earnings per share (diluted) of $2.76 (12.5%), 1.75x estimated 2004 book value per share of $26.63 (12.5%) and a target yield of 4.00% (75%), assuming 2004 dividends per share of $1.61.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

Price (13-Feb)	$39.50	**52-Week High**	$42.50
Target Price	$40.75	**52-Week Low**	$34.53



(FY-Dec.) (Diluted)	2001A	2002A	2003E	2004E
EPS	$2.21	$2.52	$2.62	$2.76
P/E			15.1x	14.3x
CFPS	$1.56	$4.70	$4.52	$4.71
P/CFPS			8.7x	8.4x
Div.	$1.30	$1.41	$1.53	$1.61
EV ($mm)	$4,244	$4,483	$5,246	$5,252
EBITDA ($mm)	$390	$436	$497	$517
EV/EBITDA	10.9x	10.3x	10.6x	10.1x

Quarterly EPS (Basic)	Q1	Q2	Q3	Q4
2001A	$1.59	-$0.08	-$0.58	$1.28
2002A	$1.56	$0.03	-$0.35	$1.23
2003E	$1.56	$0.05	-$0.31	$1.34

Dividend	$1.44	**Yield**	3.6%
Book Value	$26.89	**Price/Book**	1.5x
Shares O/S (mm)	51.4	**Mkt. Cap ($mm)**	$2,030
Float O/S (mm)	51.4	**Float Cap ($mm)**	$2,030
Wkly Vol (000s)	299	**Wkly $ Vol (mm)**	$11.5
Net Debt ($mm)	$2,672.3	**Next Rep. Date**	24-Apr (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.45; 2003E: $2.59

Details & Analysis

BC Gas reported fiscal 2002 earnings per share (diluted) from continuing operations of $2.52 versus $2.21 in 2001. We expected $2.50 per share. During the third quarter, the company recorded a $4.1 million ($0.09 per share) after-tax writedown relating to BC Gas' investment in Westport Innovations Ltd. The earnings contribution of $2.14 from BC Gas Utility and Centra Gas BC was in line with our estimate of $2.14 per share. The earnings contribution from the petroleum transportation division (Terasen Pipelines) of $0.68 per share was $0.09 per share higher than our estimate of $0.59 largely due to a lower-than-expected financing expenses and higher fourth-quarter throughput on the Canadian portion of the Trans Mountain system, resulting from higher volumes from the oil sands production area. Other Activities (excluding the one-time item) contributed a loss of $0.28 per share in fiscal 2002 versus our estimate of ($0.21). The variance from expected performance in this segment is likely attributable to corporate interest costs and performance at BC Gas' non-regulated water and fuels businesses.

Table 1. Segment Earnings Contribution from Continuing Operations

	2002	2001	% Chg.
Natural Gas Distribution	2.14	1.77	20.9%
Petroleum Transportation	0.68	0.71	-4.2%
Other Activities	(0.28)	(0.27)	2.0%
	2.54	**2.21**	**15.1%**

Forecasts

Our 2003 and 2004 earnings per share estimates (diluted) of $2.62 and $2.76, respectively, are unchanged and assume the following:

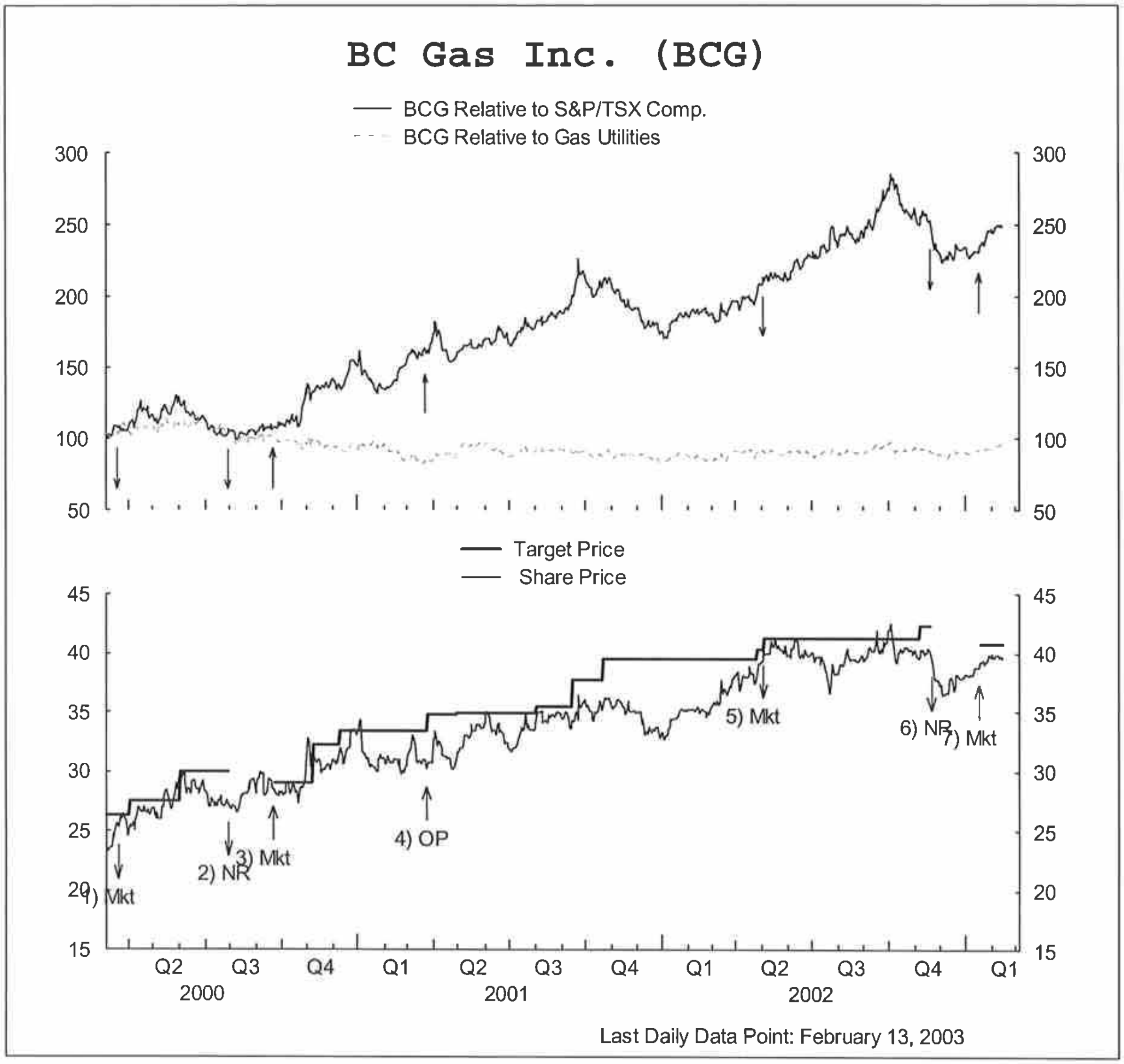
- $12 million contribution from the Express Pipeline System in fiscal 2003 and 2004;
- We believe the Corridor Pipeline will be in service by April 1, 2003. The pipeline will commence commercial operations on the first day of the month of the following the date production volumes from the Athabasca Oil Sands Project (AOSP) are first transported from the Scotford Upgrader to Edmonton on Corridor or no later than June 1, 2003 (at which time BC Gas earns an equity return on its invested capital regardless of whether the pipeline has been placed in commercial service). For each month that the pipeline is delayed beyond the anticipated start-up date of April 1, we assume that earnings are negatively affected by $0.03 per share (maximum negative effect of $0.06 per share). Shell Canada stated in its fiscal 2002 results release that it expects to produce synthetic crude oil from the upgrader at AOSP before the end of the first quarter.

Valuation

Our target price of $40.75 reflects the following weighted average valuation approach: 14x estimated 2004 earnings per share (diluted) of $2.76 (12.5%), 1.75x estimated 2004 book value per share of $26.63 (12.5%) and a target yield of 4.00% (75%), assuming 2004 dividends per share of $1.61.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.



BCG - Rating as of 6-Mar-00 = TP

	Date	Rating Change	Share Price
1	20-Mar-00	TP to Mkt	$25.25
2	28-Jul-00	Mkt to NR	$27.20
3	20-Sep-00	NR to Mkt	$28.50
4	22-Mar-01	Mkt to OP	$30.15
5	2-May-02	OP to Mkt	$40.50
6	20-Nov-02	Mkt to NR	$39.51
7	16-Jan-03	NR to Mkt	$38.78

BMO Nesbitt Burns Research

BC Gas

(BCG-TSX)

February 7, 2003
Research Comment
Gas & Electrical

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

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BC Gas Utility Regulatory Decision Received

Event

The British Columbia Utilities Commission (BCUC) issued its decision on February 4 regarding BC Gas Utility's (100% - BC Gas) 2003 Revenue Requirement. The decision is designed to form a base for a negotiated settlement process for a multi-year performance-based rate plan for 2004 and beyond. The Commission has approved the continuation of key deferral accounts that smooth earnings and immunize performance against gas costs and weather-related throughput variances. The BCUC raised a number of issues relating to the cross-subsidization of corporate and utility functions and the relationship between the deemed equity of BC Gas Utility and that of its parent, BC Gas Inc.

Impact

Neutral. The decision was in line with our expectations.

Forecasts

No change.

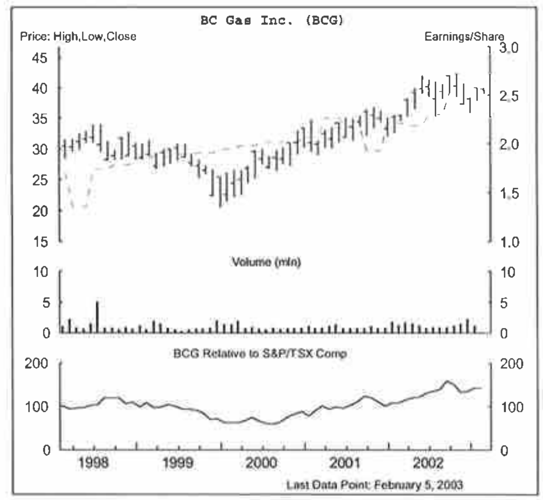
Valuation

Our target price of $40.75 reflects the following weighted average valuation approach: 14x estimated 2004 earnings per share (diluted) of $2.76 (12.5%), 1.75x estimated 2004 book value per share of $26.71 (12.5%) and a target yield of 4.00% (75%), assuming 2004 dividends per share of $1.61.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

Price (5-Feb)	$39.80	**52-Week High**	$42.50
Target Price	$40.75	**52-Week Low**	$34.52



(FY-Dec.)	2001A	2002E	2003E	2004E
EPS	$2.21	$2.50	$2.62	$2.76
P/E		15.9x	15.2x	14.4x
CFPS	$1.56	$4.70	$4.52	$4.71
P/CFPS		8.5x	8.8x	8.5x
Div.	$1.30	$1.41	$1.53	$1.61
EV ($mm)	$4,244	$4,483	$5,246	$5,252
EBITDA ($mm)	$390	$436	$497	$517
EV/EBITDA	10.9x	10.3x	10.6x	10.1x

Quarterly EPS	Q1	Q2	Q3	Q4
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.56a	$0.03a	-$0.35a	$1.22
2003E	$1.56	$0.05	-$0.31	$1.34

Dividend	$1.44	**Yield**	3.6%
Book Value	$23.58	**Price/Book**	1.7x
Shares O/S (mm)	51.4	**Mkt. Cap ($mm)**	$2,046
Float O/S (mm)	51.4	**Float Cap ($mm)**	$2,046
Wkly Vol (000s)	301	**Wkly $ Vol (mm)**	$11.6
Net Debt ($mm)	$2,800.1	**Next Rep. Date**	14-Feb (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.45; 2003E: $2.61

Details & Analysis

The British Columbia Utilities Commission (BCUC) issued its decision on February 4 regarding BC Gas Utility's (100% - BC Gas) 2003 Revenue Requirement. The decision is designed to form a base for a negotiated settlement process for a multi-year performance-based rate plan for 2004 and beyond. The decision held no major surprises and was in line with our expectations. Highlights from the decision include:

- Continuation in its current form of the Revenue Stabilization Adjustment Mechanism deferral account used to collect variances between actual and forecast average use per customer.
- Continuation of the Gas Cost Reconciliation Account, whereby gas costs are recovered via the use of a deferral account that captures the variance (positive or negative) from forecast natural gas prices. Deferral account balances at the end of the year are either refunded to or recovered from customers via an application to the BCUC.
- The Commission denied the treatment of stock options as a compensation expense and removed $2.6 million from the 2003 revenue requirement.
- BC Gas Utility's request to include $400,000 in the revenue requirement related to the addition of credit card capability to CustomerWorks was denied by the Commission. The Commission has requested a separate filing so that it may determine the cost effectiveness of the change.
- The Commission believes BC Gas can create further synergies and opportunities to reduce costs for BC Gas Utility and Centra Gas customers, and that these opportunities should be discussed in context of the next Performance Based Rate (PBR) proceeding.
- The Commission denied the creation of a deferral account to collect variances between actual and forecast property and other taxes. The company is currently being reassessed for British Columbia Capital Tax for fiscal 1995–2001, inclusively.
- A deferral account to collect any losses that may arise due to war and terrorism was approved by the Commission. BC Gas has elected not to make additional insurance expenditures relating to increased coverage for events such as war and terrorism. The company has, however, increased coverage and deductibles for damages and business interruption.
- The Commission raised a number of issues relating to the cross-subsidization of non-utility activities by utility ratepayers. The attention placed on this issue is consistent with that observed in other utility regulatory proceedings and decisions by several different provincial regulators (the Ontario Energy Board and the Nova Scotia Utility and Review Board). The BCUC reduced the allowed 2003 revenue requirement by $100,000 relating to website design and maintenance and ordered BC Gas to remove all non-utility information from the BC Gas Utility website.

- BC Gas Utility was directed to provide a plan for the separation of BC Gas' pensions, salaries and expenses in the next revenue requirements filing.
- An allowed return on equity of 9.42% is approved.
- BC Gas Utility's request to change its deemed capital structure was denied. The common equity component remains at 33%. The Commission also requested that the company provide information on the capital structure of BC Gas to ensure that the Utility's equity component is not materially higher than that of BC Gas. We believe BC Gas' 2002 consolidated common equity component is 33.9% (including preferred securities and excluding deferred taxes), in line with that of BC Gas Utility.

Forecasts

The decision does not affect our earnings per share estimates for the 2002–2004 forecast period. BC Gas reports fiscal 2002 results on Friday, February 14.

Valuation

Our target price of $40.75 reflects the following weighted average valuation approach: 14x estimated 2004 earnings per share (diluted) of $2.76 (12.5%), 1.75x estimated 2004 book value per share of $26.71 (12.5%) and a target yield of 4.00% (75%), assuming 2004 dividends per share of $1.61.

Recommendation

We believe the shares are reasonably priced at current levels. We rate the shares Market Perform.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Express Expansion Accelerated Due to Strong Shipper Support

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Price:	$47.27	**Price Target:**	$51.00
52-Wk High:	$47.99	**52-Wk Low:**	$36.15
Float (MM):	51.9	**Debt-to-Cap:**	0.68
Shs O/S (MM):	56.5	**Mkt Cap (MM):**	$2,671
Dividend:	$1.56	**Yield:**	3.3%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	**2002A**	**2003E**	**2004E**	**2005E**
EPS				
Old Basic	$2.54	$2.72	$2.79	$2.93
Old Diluted	$2.52	$2.70	$2.77	$2.91
Basic	$2.54	$2.72	$2.79	**$3.02**
Diluted	$2.52	$2.70	$2.77	**$3.00**
P/E	18.6	17.4	16.9	15.7
EPS	**Q1**	**Q2**	**Q3**	**Q4**
2002A	$1.70	$0.03	($0.34)	$1.23
2003E	$1.43A	$0.24A	($0.15)A	$1.20
2004E	$1.47	$0.24	($0.11)	$1.19

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items

For pertinent disclosures, please see DISCLOSURES 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

In light of significant shipper support, Terasen is proceeding with the expansion of its Express pipeline system.

Investment Opinion

- **Express Expansion.** Terasen Pipelines is proceeding with its US$80 million expansion of the Express pipeline system, which runs from Hardisty, Alberta to Wood River, Illinois. The expansion will increase Express' total system capacity by 108,000 bpd from 172,000 bpd to 280,000 bpd by April 2005. Originally designed as a two-phase project, Terasen Pipelines will construct both phases concurrently due to strong shipper support.

- **EPS Impact.** Based on our assumptions, we estimate an EPS impact to Terasen of $0.09, $0.11 and $0.13 in 2005, 2006 and 2007 respectively. Accordingly, we have increased our 2005 EPS estimate from $2.93 to $3.02.

- **Upside potential.** The acceleration of the Express expansion project reinforces our view that, as a transporter to key U.S. markets, Terasen is well positioned to capitalize on growing oil production from the Alberta Oil Sands. The Express expansion also supports our positive growth outlook for Terasen as it is not only accretive but also provides further potential for upside earnings growth.

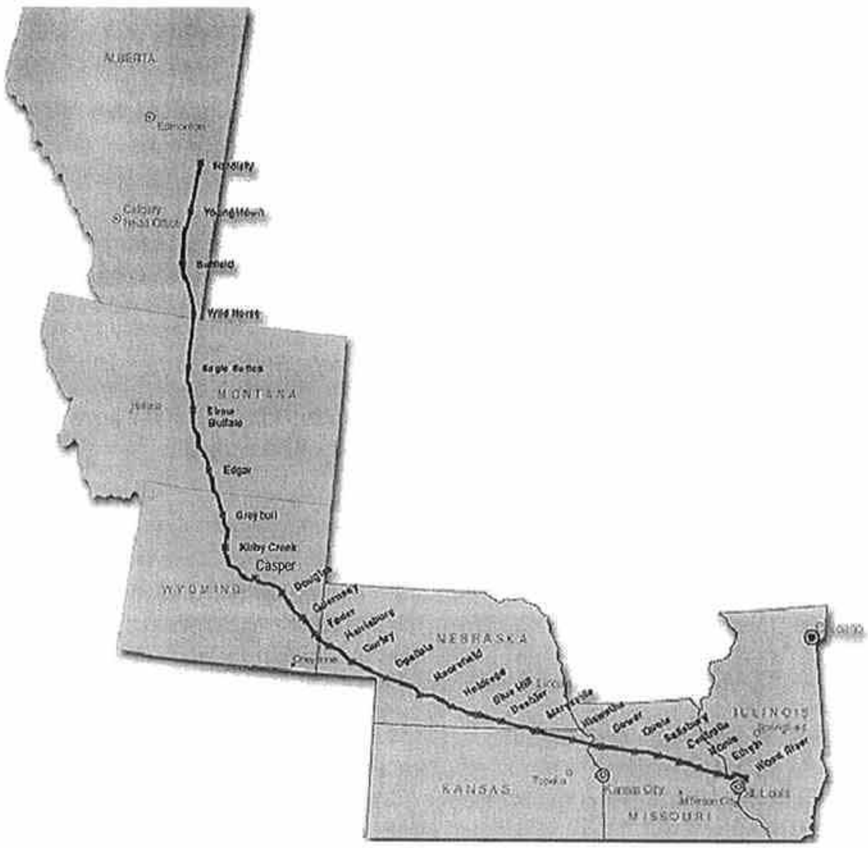
- **Valuation.** Our target price of $51.00 is based on a forecast dividend of $1.68 and required dividend yield of 3.3%. Terasen is ranked Outperform, Average Risk.

Details

Terasen Pipelines is proceeding with its US$80 million expansion of the Express pipeline system, which runs from Hardisty, Alberta to Wood River, Illinois (see Exhibit 1). The Express system is owned equally by Terasen, Borealis Infrastructure Management acting on behalf of the Ontario Municipal Employees Retirement System (OMERS) and the Ontario Teachers' Pension Plan.

The expansion will increase Express' total system capacity by 108,000 bpd from 172,000 bpd to 280,000 bpd by April 2005. Terasen Pipelines had originally designed the project as a two-phase project with 41,000 bpd available in April 2005 and 67,000 bpd available in January 2007. Due to strong shipper support, Terasen Pipelines will construct both phases concurrently. Through an open season for transportation capacity on the Express system, Terasen Pipelines has received new commitments for 75,000 bpd of expansion capacity. In addition, Terasen Pipelines has received new commitments for 30,000 bpd of existing capacity. Prior to the open season, Express had approximately 60,000 bpd of uncommitted capacity on its system, even though it is running at full capacity.

Exhibit 1: Express Pipeline System



Source: Terasen

EPS Analysis

In our EPS analysis, we have assumed that the 108,000 bpd of expansion capacity will be available on April 1, 2005. Following the completion of the expansion project, Express will have approximately 60,000 bpd of uncommitted capacity including 33,000 bpd of uncommitted capacity associated with the expansion. We have assumed that any variability in throughput will relate solely to the uncommitted expansion capacity and have excluded the uncommitted existing capacity from our analysis. The Express system is running at capacity and we have assumed that the new shipping commitments represent incremental demand and will not cannibalize demand for the existing uncommitted capacity. In our analysis, we have applied a utilization rate for uncommitted expansion capacity of 20%, 30% and 40% for 2005, 2006 and 2007, respectively.

The initial Express tolls for light crude range from US$1.15 to US$1.86 per barrel and these tolls are subject to an annual inflator adjustment of 2%. In our analysis, we have assumed a toll of US$1.55 per barrel in 2005, which represents the toll to Casper, Wyoming plus a transfer fee of US$0.13 per barrel, which declines to US$0.06 per barrel in 2006. Deliveries to points beyond Casper represent upside to our earnings analysis.

Under the expansion, Terasen Pipelines will install 18 new 4,000 HP (3,000 kW) electric motors at nine new pumping stations. We believe that power costs will represent the largest operating expense associated with the expansion. To estimate the incremental power costs, we have assumed a capacity utilization of 90% for each motor and an all-in power cost of US$45.00/MWh in 2005 increasing to US$46.82 in 2007.

To estimate the EPS impact, we have assumed that the expansion will be financed at Express by debt and retained cash flow. In addition, we have applied a tax rate of 25% on Terasen's share of Express' earnings since tax benefits from Express flow to Terasen under its partnership arrangement.

Our earnings analysis is outlined in Exhibit 2. Based on our assumptions, we estimate an EPS impact to Terasen of $0.09, $0.11 and $0.13 in 2005, 2006 and 2007 respectively. Accordingly, we have increased our 2005 EPS estimate from $2.93 to $3.02.

Exhibit 2: EPS Impact (Millions except EPS and as indicated)

	2005E[1]	2006E	2007E
Expansion capacity (bpd)	108,000	108,000	108,000
Committed capacity	75,000	75,000	75,000
Uncommitted expansion capacity	33,000	33,000	33,000
Assumptions:			
Uncommitted expansion capacity utilization	20%	30%	40%
Deliveries (MM barrels)	22.4	31.0	32.2
Average Toll (US$/bbl)	$1.55	$1.51	$1.54
Exchange (C$/US$)	$1.30	$1.30	$1.30
Power cost (US$/MWh)	$45.00	$45.90	$46.82
Annual power requirement (MWh)	320,760	425,736	425,736
Tax rate	25%	25%	25%
Earnings Analysis:			
Revenue	$45.2	$60.8	$64.3
Power costs	(18.8)	(25.4)	(25.9)
Other O&M	(1.5)	(2.0)	(2.0)
Depreciation	(2.2)	(3.0)	(3.0)
Interest	(5.1)	(6.8)	(6.8)
EBT	17.7	23.6	26.7
Terasen interest	5.9	7.9	8.9
Tax	(1.5)	(2.0)	(2.2)
Net contribution	$4.4	$5.9	$6.7
EPS Impact	**0.09**	**0.11**	**0.13**

[1] Based on nine months of service.

Source: RBC Capital Markets estimates

Sensitivity Analysis

Our analysis is subject to a number of factors including uncommitted expansion capacity utilization, the average toll received, the C$/US$ exchange rate, power costs and tax rate. To estimate the sensitivity of changes in these factors, we have performed a sensitivity analysis on the full year impact of the expansion based on extremely optimistic assumptions and extremely conservative assumptions. Based on our analysis, we estimate that the full year EPS impact of the expansion could range from $0.08 to $0.28 per share as shown in Exhibit 3. While we don't believe that a $0.28 per share impact is highly likely in the near future, it does highlight that there is upside potential to our EPS analysis. Further, the downside risk to our 2006 EPS impact estimate appears to be very modest.

Exhibit 3: Sensitivity Analysis (Millions except EPS and as indicated)

	Full Year Sensitivity Analysis	
	Low	High
Expansion capacity (bpd)	108,000	108,000
Committed capacity	75,000	75,000
Uncommitted expansion capacity	33,000	33,000
Assumptions:		
Uncommitted expansion capacity utilization	0%	100%
Deliveries (MM barrels)	27.4	39.4
Average Toll (US$/bbl)	$1.51	$1.80
Exchange (C$/US$)	$1.25	$1.35
Power cost (US$/MWh)	$50.00	$45.00
Annual power requirement (MWh)	354,780	473,040
Tax rate	35%	20%
Earnings Analysis:		
Revenue	$51.6	$95.5
Power costs	(22.2)	(28.7)
Other O&M	(2.0)	(2.0)
Depreciation	(2.9)	(3.1)
Interest	(6.5)	(7.0)
EBT	18.1	54.7
Terasen interest	6.0	18.2
Tax	(2.1)	(3.6)
Net contribution	$3.9	$14.6
EPS Impact	**0.08**	**0.28**

Source: RBC Capital Markets estimates

Conclusion

The acceleration of the Express expansion project reinforces our view that, as a transporter to key U.S. markets, Terasen is well positioned to capitalize on growing oil production from the Alberta Oil Sands. The Express expansion also supports our positive growth outlook for Terasen as it is not only accretive but also provides further potential for upside earnings growth.

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 $51.00 is based on a forecast dividend of $1.68 and required dividend yield of 3.3%. Terasen is ranked Outperform, Average Risk.

Price Target Impediments

Our target price for Terasen of $51.00 reflects a forecast $0.12 increase in its annual dividend in April 2004. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and Terasen's dividend yield will increase as Terasen continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Impediments to our target price include: unexpected increases in operating costs that are unrecoverable under its incentive agreements 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.

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.
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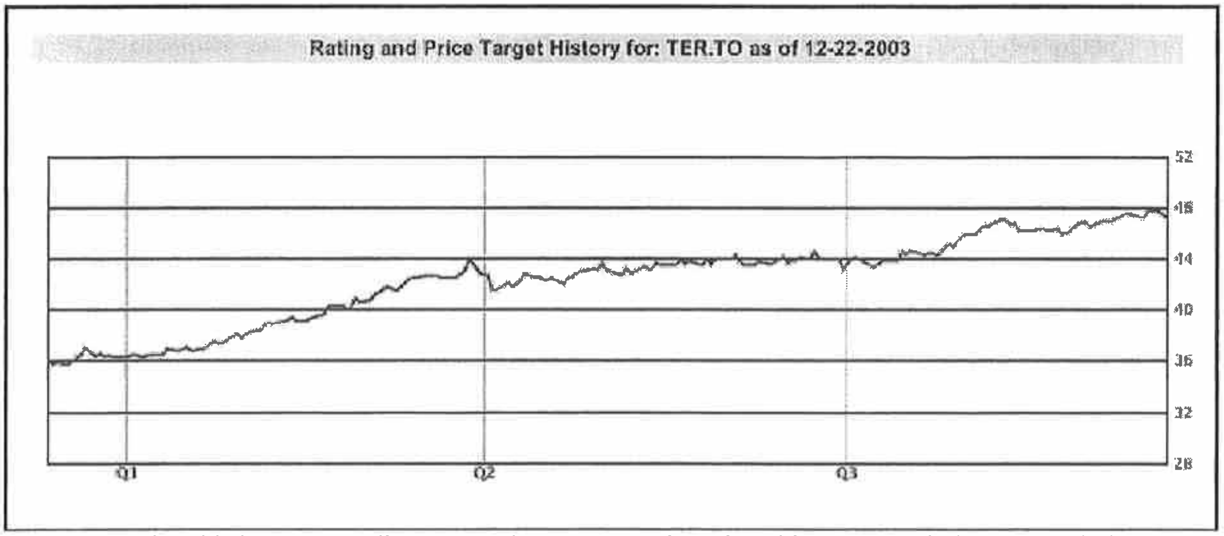

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Distribution of Ratings, Firmwide				
	RBC Capital Markets		IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	340	44.50	94	27.65
HOLD [SP]	326	42.67	59	18.10
SELL [U]	98	12.83	8	8.16

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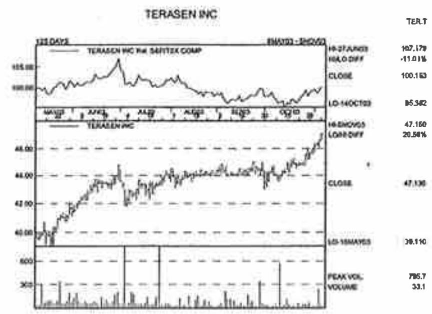
RBC Capital Markets

Research Comment

November 6, 2003



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Third Quarter Results in Line With Expectations; Management Highlights Growth Initiatives

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Price:	$47.13	**Price Target:**	$48.75
52-Wk High:	$47.15	**52-Wk Low:**	$35.80
Float (MM):	51.9	**Debt-to-Cap:**	0.68
Shs O/S (MM):	56.5	**Mkt Cap (MM):**	$2,663
Dividend:	$1.56	**Yield:**	3.3%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	**2002A**	**2003E**	**2004E**	**2005E**
EPS				
Old Basic	$2.54	$2.70	$2.79	$2.93
Old Diluted	$2.52	$2.68	$2.77	$2.91
New Basic	$2.54	**$2.72**	$2.79	$2.93
New Diluted	$2.52	**$2.70**	$2.77	$2.91
P/E	18.6	17.3	16.9	16.1
EPS	**Q1**	**Q2**	**Q3**	**Q4**
2002A	$1.70	$0.03	($0.34)	$1.23
2003E	$1.43A	$0.24A	($0.15)A	$1.20
2004E	$1.49	$0.24	($0.14)	$1.20

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items

For pertinent disclosures, please see DISCLOSURES 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

Yesterday, Terasen reported its third quarter results.

Investment Opinion

- **Q3/03 Results.** Terasen's normalized EPS were ($0.15) in Q3/03 compared to our estimate of ($0.15) and EPS of ($0.34) in Q3/02. Lower-than-expected earnings from Other Activities were largely offset by higher-than-expected results from Natural Gas Distribution.
- **Growth Opportunities.** During its third quarter conference call, Terasen's management highlighted a number of growth initiatives that the company is pursuing. Shorter-term initiatives include expanding the Trans Mountain and Express systems and restructuring the utility operations to achieve cost efficiencies. Longer-term initiatives include twinning the Trans Mountain system, building the Bison Pipeline and expanding the Vancouver Island gas distribution system. The pipeline/gas distribution expansion projects represent upside potential with respect to our EPS estimates.
- **EPS Estimates.** We have increased our 2003 EPS estimate from $2.70 to $2.72 to reflect a $1 million prior-period adjustment booked in Q3/03 that relates to Q1/03 and Q2/03.
- **Valuation.** Our target price of $48.75 is based on a forecast dividend of $1.68 and required dividend yield of 3.45%. Our target price implies a 2004E P/E ratio of 17.5X. Terasen is ranked Outperform, Average Risk.

Details

Third Quarter Results

Terasen's normalized EPS were ($0.15) in Q3/03 compared to our estimate of ($0.15) and EPS of ($0.34) in Q3/02. Lower-than-expected earnings from Other Activities were largely offset by higher-than-expected results from Natural Gas Distribution. Exhibit 1 outlines Terasen's results by segment.

Exhibit 1: Segmented Results ($MM Except EPS)

	For 3 months Ended Sept. 30			
		2003		2002
Natural gas distribution				
Terasen Gas	$	(25.5)	$	(27.0)
Terasen Gas (Vancouver Island)		6.1		5.6
		(19.4)		(21.4)
Petroleum transportation				
Trans Mountain		8.9		6.7
Corridor		3.8		-
Express System		2.6		-
		15.3		6.7
Other activities		(3.7)		(0.3)
Normalized earnings	**$**	**(7.8)**	**$**	**(15.0)**
Revenue deficiency acct. adjustment related to Q1/03 and Q2/03	$	1.0		
Impact of forest fires	$	(1.0)		
Foreign exchange gain at Express		0.2		
Westport Innovations writedown		-		(4.1)
Reported earnings	$	(7.6)	$	(19.1)
Weighted average shares outstanding		51.9		43.7
Normalized EPS	**$**	**(0.15)**	**$**	**(0.34)**

Source: Terasen

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were ($19.4) million in Q3/03 compared to ($21.4) million in Q3/02. The year-over-year improvement was attributable to improved operating efficiencies at Terasen Gas. In Q3/03, Terasen Gas Vancouver Island (TGVI) booked additional earnings relating to the accelerated recovery of its revenue deficiency deferral account (RDDA). The RDDA represents a long-term regulatory receivable of approximately $85 million, which Terasen acquired for $61 million as part of its acquisition of Centra B.C. TGVI has been amortizing the difference between the receivable amount and its purchase price and including the amortization amount in its earnings. TGVI recently increased the amortization discount rate to reflect faster than expected decline in the RDDA. As a result, TGVI booked a positive earnings adjustment of $1.6 million in Q3/03. Approximately $1 million of the RDDA adjustment in Q3/03 relates to Q1/03 and Q2/03. We have normalized the Q3/03 results and allocated $0.5 million of additional earnings to each of Q1/03 and Q2/03.

Petroleum Transportation

Earnings from Petroleum Transportation on a normalized basis were $15.3 million in Q3/03 compared to earnings of $6.7 million in Q3/02. Terasen continues to benefit from robust petroleum transportation volumes on its Trans Mountain system. Volumes on the Trans Mountain Canadian Mainline were approximately 233,000 bpd in Q3/03 compared to 201,000 in Q3/02 and volumes on the Trans Mountain U.S. mainline, which are included in the Canadian mainline volumes, were approximately 55,000 bpd in Q3/03 compared to 48,000 bpd in Q3/02. Notwithstanding strong throughput on Trans Mountain's system, forest fires in the interior of British Columbia in August 2003 negatively impacted Trans Mountain's earnings contribution. Throughput was reduced by approximately 130,000 barrels and significant costs were incurred to bring in power generators at 2 pumping stations due to BC Hydro power outages caused by the fire. We estimate that the earnings impact of the forest fires was at least $1 million, which we have included in our normalization adjustments.

In Q3/03, normalized earnings from the Express System were $2.6 million in Q3/03 and normalized earnings from Corridor were $3.8 million.

Other Activities
Earnings from other activities were ($3.7) million in Q3/03 compared to ($0.3) million in Q3/02. Earnings declined due to the completion of the Sharjah project in November 2002 and higher interest expense associated with the completion of the Corridor Pipeline project.

Growth Opportunities

During the conference call to discuss its third quarter results, Terasen's highlighted a number of its growth initiatives including the following:

- Restructuring its utility operations leading to a material reduction in operating costs. The restructuring is expected to be completed by the end of 2003 and some costs will be absorbed in 2003.
- Expanding the Vancouver Island gas distribution system through additional compression and/or a new liquefied natural gas storage system at a cost of $120 million - $200 million.
- Expanding the capacity of the Trans Mountain system through a two-phase project. Phase I, which has an estimated in-service date of September 2004, would add 27,000 bpd of capacity at an estimated cost of $16 million. Phase II, which has an estimated in-service date of 2005, would add 17,000 bpd of capacity at an estimated cost of $20 million.
- Expanding the Express System by 100,000 bpd through a two-phase project with an estimated cost of $100 million.
- Twinning the Trans Mountain system at a cost of $2 billion.
- Developing the proposed $1 billion Bison Pipeline.

Terasen is in the process of finalizing the arrangements with shippers for Phase I of the Trans Mountain expansion and we expect an announcement on the project shortly. In addition, Terasen will hold an open season sometime this month for its Express expansion. We consider the other pipeline/gas distribution expansion projects as in the preliminary stages of development. All of the pipeline/gas distribution expansion projects represent upside potential with respect to our EPS estimates.

EPS Estimates

Terasen's management indicated that it was comfortable with EPS estimates in the high $2.50 and low $2.60 range. Management's guidance includes a $0.07 per share foreign exchange loss that we have treated as nonrecurring and thus excluded from our EPS estimates.

We have increased our 2003 EPS estimate from $2.70 to $2.72 to reflect the $1 million RDDA prior-period adjustment booked in Q3/03 that relates to Q1/03 and Q2/03. We believe our new estimate is consistent with the guidance provided by Terasen's management.

Shareholder Restrictions

The B.C. provincial government recently introduced legislation that, if enacted, would remove various legislative restrictions on Terasen, including director residency requirements and share ownership restrictions.

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 $48.75 is based on a forecast dividend of $1.68 and required dividend yield of 3.45%. Our target price implies a 2004E P/E ratio of 17.5X. Terasen is ranked Outperform, Average Risk.

Price Target Impediments

Our target price for Terasen of $48.75 reflects a forecast $0.12 increase in its annual dividend in April 2004. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and Terasen's dividend yield will increase as Terasen continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Factors that could have negative implications for Terasen's earnings and share price include unexpected increases in operating costs that are unrecoverable under its incentive agreements and a significant and prolonged decline in Western Canadian petroleum production.

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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.

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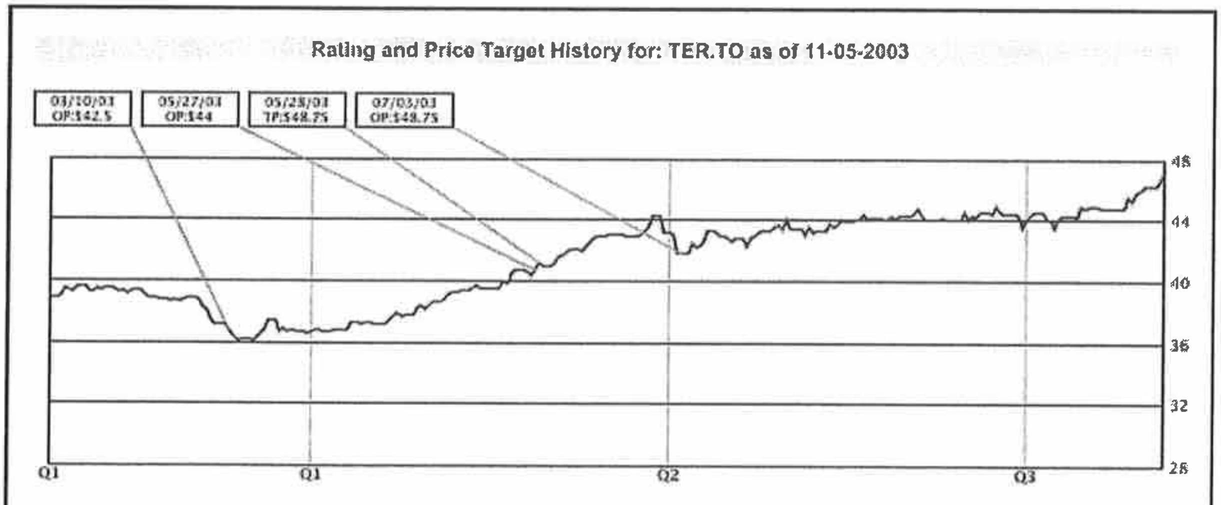

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	RBC Capital Markets			
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	327	43.25	96	29.36
HOLD [SP]	331	43.78	56	16.92
SELL [U]	98	12.96	7	7.14

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November 5, 2003

This report is priced as of November 4, 2003.

All values in Canadian dollars unless otherwise noted.

For pertinent disclosures, please see page 18.

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

ROE Outlook for 2004

Higher Forecast Yields Contribute to Improving Outlook

Overview

In June 2003, we noted our concern over the impact of declining bond yields on the 2004 outlook for allowed regulated returns on equity (ROEs). Since the release of our *Outlook for Allowed ROEs* published on June 25, 2003, the 10-year Government of Canada (GOC) benchmark bond yield has increased from 4.4% to 4.9%. As of October, economists' forecast yields have also increased during this same period. Notwithstanding the higher actual and forecast bond yields, we still expect a modest decline in allowed ROEs for 2004 from 2003 levels for utilities that have ROEs determined under pre-established formulas. However, we continue to believe that the negative impact on earnings due to a decline in yields, and hence allowed ROEs, is more than offset by the positive valuation effect of a lower interest rate environment.

Highlights

- For the companies in the Canadian pipeline and gas & electric sectors, the allowed ROEs for regulated operations remain a significant driver of expected earnings.
- Based on current data for forecast yields applied to the National Energy Board's (NEB) multi-pipeline ROE formula, we expect the allowed ROE to decline from 9.79% in 2003 to 9.51% for 2004. Under the British Columbia Utilities Commission (BCUC) formula, we expect the Generic ROE formula to result in an allowed ROE of 9.06%, a decline of 0.36% from 9.42% in 2003. For Power Purchase Arrangements (PPAs) in Alberta, we expect a decline in the allowed ROE from 9.99% in 2003 to 9.81% for 2004 based on currently observed actual yields.
- Some companies have already had their allowed ROEs set for 2004. Newfoundland Power received its allowed ROE of 9.75% for 2004 as part of its 2003 General Rate Case. In addition, Gaz Métro was granted a 2004 allowed ROE of 10.97% compared to 10.34% in 2003 (both allowed ROE figures include incentive returns). The Alberta Energy and Utilities Board (AEUB) set "placeholder" ROEs for ATCO Electric and ATCO Gas at 9.4% and 9.5%, respectively, pending the results of the AEUB's generic cost of capital proceeding. Emera has said that its Nova Scotia Power Inc. (NSPI) subsidiary will not file for a 2004 rate increase. As such, we do not expect a change in allowed ROE for NSPI for 2004.
- Earnings sensitivity to a 25-basis-point reduction in allowed ROEs results in an estimated EPS reduction of less than 1.60% for our coverage universe. Terasen appears to have the greatest EPS sensitivity (1.59%) to a change in allowed ROE and AltaGas appears to have the least EPS sensitivity (0.21%) to a 25-basis-point reduction in allowed ROE, primarily due to the majority of AltaGas' earnings coming from unregulated businesses.
- We rank TransCanada and Terasen (covered by Fai Lee) as Outperform, Average Risk. We favour both companies due to their low-risk and visible earnings streams, in addition to above-average growth prospects relative to their peer group.

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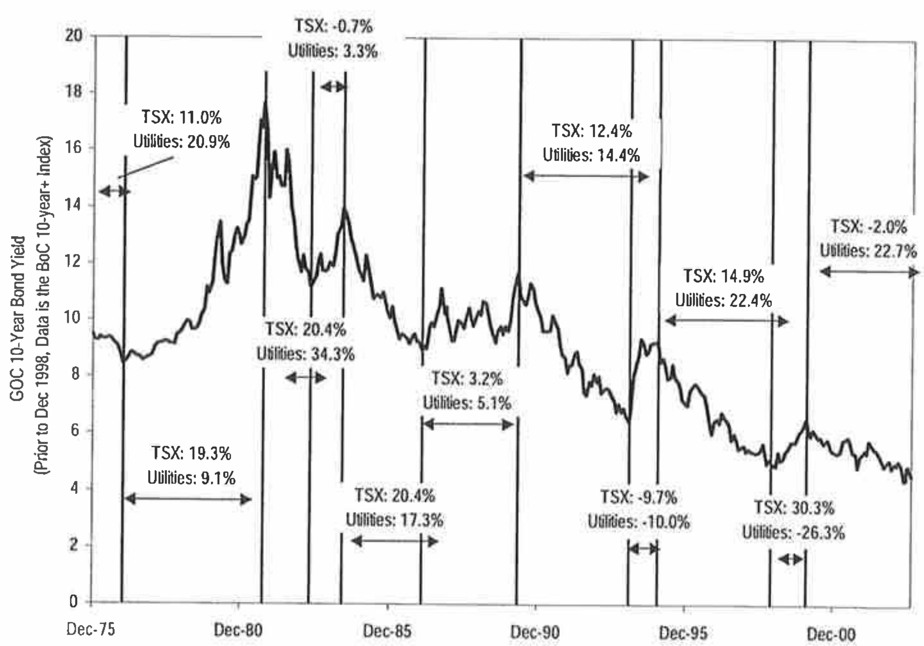
Introduction

All companies in the Utilities sector in Canada have some earnings sensitivity to changes in allowed ROEs. The allowed ROEs for utilities in Canada are generally a function of forecast bond yields plus a risk premium. Where ROE formulas are utilized, they are based on either forecast or actual bond yields. In June 2003, we noted our concern over the impact of declining bond yields on the 2004 outlook for allowed regulated ROEs. Since the release of our *Outlook for Allowed ROEs* published on June 25, 2003, the 10-year GOC benchmark bond yield has increased from 4.4% to 4.9%. Economists' forecast of yields has also increased during this period. Notwithstanding the higher actual and forecast bond yields, we expect a modest decline in allowed ROEs for 2004 from 2003 levels for most utilities that have ROEs determined under pre-established formulas.

Despite the relationship between many companies' allowed ROEs (i.e., earnings levels) and the level of interest rates (actual or forecast as the case may be), the share prices of pipeline and gas & electric utilities are negatively correlated with the level of interest rates. Lower interest rates generally lead to higher share prices as the stream of future dividends is discounted at higher rates.

Exhibit 1 illustrates the relative total return performance of the S&P/TSX Utilities Index versus the S&P/TSX Composite Index since 1975 during periods of increasing and decreasing interest rates. We believe that there is an inverse relationship between interest rates and share prices of the energy infrastructure stocks. Further, the relationship is most pronounced when the 10-year GOC bond is below 6%, a level at which these companies become fixed-income surrogates.

Exhibit 1: Government of Canada 10-Year Bond Yield Compared to Total Return Indices

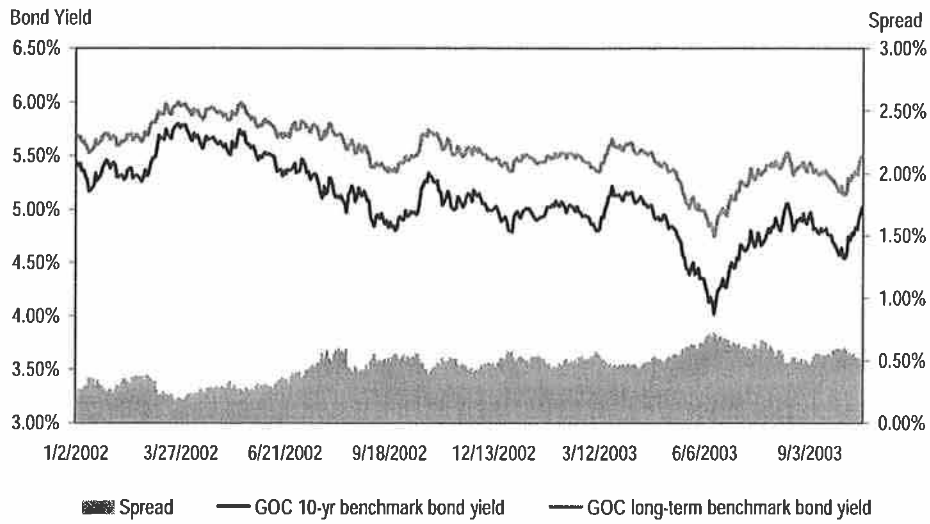


Source: Bank of Canada; RBC Capital Markets

Interest Rates

Exhibit 2 plots the recent increase in the 10-year and long-term GOC bond yields. Rising interest rate levels could result in higher allowed ROEs and thus increased earnings. However, current interest rates are generally less important than forecast interest rates in determining allowed ROEs. With the exception of the formulas implemented by the Board of Commissioners of Public Utilities in Newfoundland and Labrador (PUB) and the AEUB, ROE formulas in Canada are based on a forecast of the 10-year GOC bond yield published in the *Consensus Forecasts* by London-based Consensus Economics Inc.

Exhibit 2: 10-Year and Long-Term Government of Canada Bond Yields



Source: Bank of Canada; RBC Capital Markets

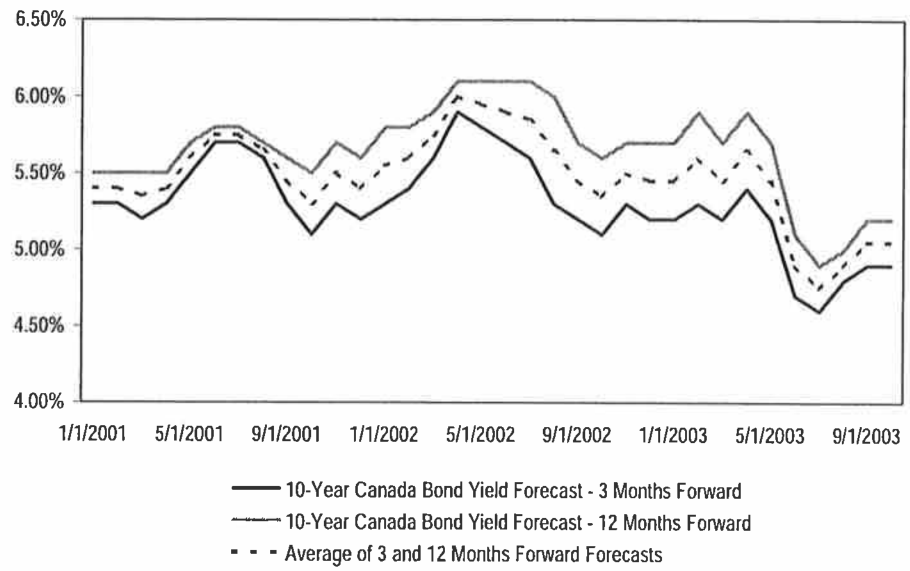
Consensus Forecasts

The ROE formulas established by the NEB, BCUC, the Ontario Energy Board (OEB), and Québec's Régie de l'énergie (Régie) rely on a forecast of the 10-year GOC yield published in *Consensus Forecasts*. The NEB and BCUC rely on the forecast from the November issue of *Consensus Forecasts*, while the Régie uses the August issue, and the OEB uses the September issue. All four formulas add a basis point spread to the average 10-year forecast yield published in *Consensus Forecasts* to establish an estimate of the 30-year GOC bond yield. Each formula adds the spread between the 10-year and the 30-year GOC bond yields averaged over a relatively short period around the time when the ROE is set to arrive at a forecast 30-year bond yield. The current year's allowed ROE is then adjusted by the year-over-year change in the forecast of the 30-year GOC bond yield multiplied by an adjustment factor to arrive at the allowed ROE for the upcoming year.

NEB / BCUC

The Consensus Economics' forecast of the 10-year GOC bond yield has declined since November 2002 when the NEB multi-pipeline ROE and the BCUC generic ROE were set for 2003. As shown in Exhibit 3, the average of the three- and 12-month forecasts for the 10-year GOC bond yield declined from 5.50% in November 2002 to 5.05% in October 2003. The impact of the decline in the average forecast 10-year bond yield on allowed ROEs has been partially mitigated by an increase in the average yield spread between the 10-year and 30-year benchmark bonds. Under the NEB formula, the average yield spread between the 10-year and 30-year benchmark bonds was 0.54% in September 2003 compared to 0.47% in October 2002. Under the BCUC formula, the average yield spread was 0.51% in September 2003 compared to 0.42% in October 2002.

Exhibit 3: *Consensus Forecasts* Estimates Over Time



Source: Consensus Economics Inc.; RBC Capital Markets

Based on average yield spreads observed in September 2003 and the October 2003 *Consensus Forecasts*, we calculate a 2004 estimated NEB multi-pipeline ROE of 9.51% compared to the 9.79% established for 2003. Similarly, the 2004 estimated BCUC generic ROE is calculated at 9.06% compared to 9.42% for 2003. The NEB and BCUC ROE calculations are outlined in Exhibits 4 and 5, respectively.

Exhibit 4: Forecast of 2004 ROE Under NEB Multi-Pipeline ROE Formula

Consensus economic forecast 10-yr bond yield (3 months out)	4.90%
Consensus economic forecast 10-yr bond yield (12 months out)	5.20%
Average	5.05%
Add: average basis point spread between 10-year and 30-year GOC bond for Sept. 2003	0.54%
2004 forecast of the 30-year GOC bond yield	5.59%
1995 forecast of the 30-year GOC bond yield	9.25%
Difference between 2003 and 1995 forecast	-3.66%
Adjustment factor	x 0.75
	-2.75%
Add: 1995 ROE of 12.25%.	12.25%
2004 forecast ROE	**9.51%**

Source: RBC Capital Markets estimates; Bloomberg; NEB; Consensus Economics Inc.

RBC Capital Markets

Exhibit 5: Forecast of 2004 ROE Under BCUC Generic ROE Formula

Consensus economic forecast 10-yr bond yield (3 months out)	4.90%
Consensus economic forecast 10-yr bond yield (12 months out)	5.20%
Average	5.05%
Add: average basis point spread between 10-year and 30-year GOC bond for Sept. 2003	0.51%
2004 forecast of the 30-year GOC bond yield	5.56%
Base 30-year GOC bond yield	6.00%
Difference between 2004 and 6% base forecast	-0.44%
Adjustment factor (100% when 30-year GOC bond yield estimate <= 6% and 80% when >6%)	x 1.00
	-0.44%
Base ROE	9.50%
2004 forecast ROE (round to two decimal places)	**9.06%**

Source: RBC Capital Markets estimates; Bloomberg; BCUC; Consensus Economics Inc.

Enbridge Gas Distribution (Ontario Energy Board)

Enbridge Gas Distribution (formerly Consumers Gas) has filed a 2003 rate application with the OEB to review and revise the current formula used to calculate its allowed ROE. Enbridge Gas Distribution applied for an 11.50% allowed ROE and stated that the application for a higher allowed ROE stems from the need to compete for investment dollars on a North American basis. The company is currently awaiting a decision from the OEB.

Under the existing formula, based on average yield spreads observed in September 2003 and the September *Consensus Forecasts*, we estimate a 2004 allowed ROE of 9.41% as calculated in Exhibit 6. This would represent a 28-basis-point reduction from the 2003 allowed ROE of 9.69%.

Exhibit 6: Forecast of 2004 ROE for Enbridge Gas Distribution

Consensus economic forecast 10-yr bond yield (3 months out)	4.90%
Consensus economic forecast 10-yr bond yield (12 months out)	5.20%
Average	5.05%
Add: average basis point spread between 10-year and 30-year GOC bond for September 2003	0.55%
2004 forecast of the 30-year GOC bond yield	5.60%
Base 30-year GOC bond yield	6.79%
Difference between 2004 and 6.79% base forecast	-1.19%
Adjustment factor	x 0.75
	-0.89%
Base ROE	10.30%
2004 forecast ROE	**9.41%**

Source: RBC Capital Markets estimates; Bloomberg; OEB; Enbridge; Consensus Economics Inc.

Gaz Métro

Gaz Métro ("Gaz Met") is authorized to earn a base rate of return that is determined under an automatic adjustment formula. Gaz Met's allowed ROE can be set above the base rate of return depending on forecast or realized productivity gains determined in accordance with Gaz Met's performance-incentive mechanism. The allowed rate of return for fiscal 2004 has been established at 10.97%, which includes a base rate of return of 9.45% and an incentive return of 1.52%. In comparison, the allowed rate of return for fiscal 2003 was set at 10.34%, including a base rate of return of 9.89% and an incentive return of 0.45%.

Observed Yield Formulas

The PUB and the AEUB have adopted ROE formulas that are based on actual historical yields observed in the bond market for Newfoundland Power and Alberta Power Purchase Arrangements, respectively. In a declining interest rate environment, we find that forecast yields tend to be higher than actual yields (mean reversion). As a result, during periods of declining interest rates, we believe that there are negative earnings implications for utilities that have ROEs based on actual yields relative to formulas that used forecast yields.

Newfoundland Power

Newfoundland Power operates under cost-of-service regulation and its earnings are regulated on the basis of rate of return on rate base. In 1998, an automatic adjustment formula was established to determine the annual permitted rate of return on rate base. In the absence of a rate decision by the PUB, Newfoundland Power's allowed ROE generally changes only if the return on rate base moves outside of the approved range for the prior year.

In October 2002, Newfoundland Power filed a general rate application. The PUB decided in June 2003 that Newfoundland Power's deemed common equity component would remain at a maximum of 45%. The regulator also approved an allowed ROE for both 2003 and 2004 of 9.75% within an approximate allowed range of 9.35% to 10.15%. In comparison, Newfoundland Power's 2002 allowed ROE was set at 9.05%. Newfoundland Power's allowed ROE for 2004 will not be reset and the automatic adjustment formula will only be used to set the ROE for 2005, 2006 and 2007.

Alberta Power Purchase Arrangements (PPAs)

Owners of generation plants that fall under Alberta Power Purchase Arrangements (i.e., Canadian Utilities' Alberta Power (2000), TransAlta and EPCOR) are entitled to a return on equity equal to the average yield from a Bank of Canada bond index plus a risk premium of 450 basis points. In establishing the ROE to be used for the generation covered by the PPAs, the applied long bond yield is the average redemption yield on all conventional Canadian government bonds with a maturity of 10 years or more, as published by the Bank of Canada (CANSIM Series B114022). The average is calculated over the months of September, October and November of the year prior to the test year. The use of an average over a period of three months helps mitigate the impact of short-term variability in interest rates, as well as the impact of declining interest rates. Nevertheless, we calculate that the allowed ROE under the PPAs would decline from 9.99% in 2003 to 9.81% in 2004 based on the assumption that the average yield observed during August 1 to October 31 of 2003 is indicative of the average yield expected for September, October and November.

Alberta Generic Cost of Capital Hearing

In April 2003, the AEUB determined that it would proceed with a generic cost of capital hearing to focus on the possibility of establishing a standardized approach to determine the rate of ROE and capital structure for all utilities under the jurisdiction of the AEUB. The hearing is expected to commence in November 2003. In a letter issued on May 28, 2003, the AEUB indicated that it would determine a ROE and capital structure for the benchmark year 2004 for every utility under its jurisdiction in the generic cost of capital proceeding. For utilities that have a rate of return or capital structure approved by the AEUB prior to May 28, 2003 with respect to a test period that includes 2004 and later years, the results of the generic cost of capital proceeding will take effect at the end of the test period. As ATCO Electric and ATCO Gas received decisions on their rate applications in October 2003 (after the May 28, 2003 cut-off), both companies' allowed ROEs would be subject to the outcome of the generic cost of capital hearing.

The AEUB has confirmed that it expects to adopt a standardized approach to establish allowed rates of return and capital structure, but the approach ultimately adopted by the AEUB may differ between industries or by another appropriate basis. The AEUB is of the view that "a standardized approach to rate of return on equity and capital structure has the potential to achieve certain positive benefits including reduced regulatory costs, while continuing to result in a fair return for all utilities and in just and reasonable rates for all customers."

We believe that the AEUB's generic cost of capital hearing could affect the allowed ROEs and deemed common equity components in 2004 of the following utilities: Aquila Alberta, ATCO Electric, ATCO Gas, ATCO Pipelines, AltaGas Utilities and TransCanada's Alberta System. In Exhibit 8 on page 11, we set out the sensitivities to ROE changes for these and other utilities.

ROE Outlook

Exhibit 7 summarizes our 2004 outlook for formula-driven ROEs based on the October 2003 *Consensus Forecasts* and yields observed in recent months. As discussed earlier, Enbridge Gas Distribution has filed an application with its regulator seeking changes to its existing ROE formula and a higher allowed ROE for 2003. For simplicity, and given the uncertainty surrounding its regulatory application, we have assumed that the ROE formula for Enbridge Gas Distribution remains unchanged for the purposes of our 2004 outlook.

As previously stated, allowed ROEs based on actual yields observed in the bond market are forecast to be lower in 2004 than in 2003. The average long-bond yield for the trailing three months (August through October) is 5.31%. For the allowed ROE for Alberta PPAs to remain similar to last year's 9.99% (based on an average yield of 5.49% and an equity risk premium of 450 basis points), long-bond yields would need to average approximately 5.95% for November, or about 65 basis points above current levels.

For allowed ROEs based on forecast yields from *Consensus Forecasts*, forecast yields would need to be about 5.40% to 5.45% for 2004 allowed ROEs to remain similar to allowed ROEs in 2003 assuming currently observed spreads between 10-year and 30-year bond yields. To put it in perspective, the forecast yield (averaging the three-month and 12-month forward forecasts) from the October issue of *Consensus Forecasts* is 5.05%.

Exhibit 7: Forecast of 2004 ROEs That Are Determined Under Established Formulas

Regulator	Companies Impacted	Month that ROE is set	Base ROE	Base Forecast of Long GOC Yield	Adjustment Factor	2003 Allowed ROE	2004 Forecast ROE
NEB	TransCanada Mainline [1]	November	12.25%	9.25%	0.75	9.79%	**9.51%**
	Enbridge Line 9 and NRAs	November	12.25%	9.25%	0.75	9.79%	**9.51%**
	Foothills	November	12.25%	9.25%	0.75	9.79%	**9.51%**
	Alberta Natural Gas	November	12.25%	9.25%	0.75	9.79%	**9.51%**
	Norman Wells	November	12.25%	9.25%	0.75	9.79%	**9.51%**
	TransQuebec & Maritimes	November	12.25%	9.25%	0.75	9.79%	**9.51%**
Ontario Energy Board	Enbridge Gas Distribution	August	10.30%	6.79%	0.75	9.69% [2]	**9.41%**
BCUC	Terasen Gas	November	9.50%	6.00%	1.00 [3]	9.42%	**9.06%**
	Terasen Gas Vancouver Island	November	10.00%	6.00%	1.00	9.92%	**9.56%**
PUB	Newfoundland Power	November	9.75%	5.60% [4]	0.80	9.75% [5]	**9.75%** [5]
AEUB [6]	TransAlta	Sept.,Oct., Nov.	na	na	1.00	9.99%	**9.81%**
	Canadian Utilities	Sept.,Oct., Nov.	na	na	1.00	9.99%	**9.81%**
Régie de l'énergie	Gaz Métro	August	9.64%	5.76%	0.75	9.89%	**9.45%** [7]

Notes:

1. The Federal Court of Appeal has granted TransCanada leave to appeal the NEB's dismissal of the company's request to review and vary the June 2002 NEB decision that did not approve TransCanada's Fair Return application. The appeal has been filed, but a hearing date has yet to be set. Under the Fair Return application, TransCanada had requested an after-tax weighted average cost of capital of 7.5%, which implies a return on equity of 12.5% on a 40% common equity component.

2. Enbridge Gas Distribution has filed a request with the Ontario Energy Board to review and revise the current formula used to calculate the rate of return on equity and has filed evidence supporting an allowed ROE of 11.5% for 2003.

3. The BCUC adjustment factor is 100% when the 30-year GOC bond yield forecast is less than or equal to 6% and 80% when it is greater than 6%.

4. The Newfoundland and Labrador PUB does not use a forecast of the long Government of Canada bond yield in the ROE adjustment formula. The PUB establishes the ROE using the observed yields of the three most recent series of long-term GOC bonds during the last five trading days in October and the first five trading days in November. The average of the ten trading days is used as the forecast long-term bond rate for the following year and used in the calculation of a weighted average cost of capital and a return on rate base. The ROE only changes if the return on rate base moves outside of the approved range for the prior year.

5. Allowed ROE for 2003 was determined by PUB's decision on Newfoundland Power's 2003 General Rate Application. The allowed ROE of 9.75% will not be reset in 2004.

6. In establishing the ROE to be used for the generation covered by the PPAs, the long bond yield estimate is the average redemption yield on all conventional Canadian government bonds with a maturity of ten years or more, as published by the Bank of Canada (CANSIM Series B114022). The average is calculated over the months of September, October and November of the year prior to the test year. The risk premium is fixed at 450 basis points.

7. The automatic adjustment formula applies to Gaz Métro's base rate of return. The return for fiscal 2004 has already been established at 10.97%, which includes a base rate of return of 9.45% and an incentive return of 1.52%. In comparison, the allowed rate of return for fiscal 2003 was 10.34% comprised of a base rate of return of 9.89% and an incentive return of 0.45%.

Source: RBC Capital Markets estimates; Bank of Canada; Consensus Economics; various regulatory decisions; company reports

EPS Sensitivity

Given the current level of actual yields and forecast yields, we expect allowed ROEs to be in the range of 9.06% to 9.81%. As there is still uncertainty as to the ultimate yield used in the various formulas, we have conducted a sensitivity analysis of forecast EPS to a 25-basis-point change in allowed ROE.

For 2004, some utilities will not have further exposure to changes in 2004 allowed ROEs. Newfoundland Power, which typically has its ROE set by a formula, had its 2004 allowed ROE set at 9.75% as part of its 2003 General Rate Application. In addition, Gaz Met has already had its ROE set for 2004 at a base rate of 9.45% plus an incentive return of 1.52%. As previously stated, Emera has said that NSPI will not seek new rates for 2004 and, as such, we have assumed no change in its allowed ROE for 2004.

For the companies that have ROEs that have yet to be finalized for 2004, we have undertaken a sensitivity analysis in light of the uncertainty in the actual yields used to derive the allowed ROE. With the exception of the allowed ROEs for NSPI, as it will not seek new rates for 2004, and Newfoundland Power and Gaz Met, which have already had their allowed ROEs set for 2004, formula-based allowed ROEs for 2004 are forecast to decline between 18 basis points and 36 basis points, depending on the formula. As a result, we have applied a 25-basis-point change in our sensitivity analysis. Exhibit 8 sets out the affected rate base, the equity component of rate base, and the estimated EPS impact of a 25-basis-point change in allowed ROE.

Based on our current forecasts, the majority of the companies in the utilities sector are expected to post EPS growth of -1% to 9% in 2004 and the EPS impact of a 25-basis-point decline in allowed ROEs could be significant. The company potentially most affected by a change in allowed ROE is Terasen, as a 25-basis-point decline in allowed ROE would reduce estimated 2004 EPS by 1.59%. The company least sensitive to a change in allowed ROE is AltaGas, as a 25-basis-point decline in allowed ROE at AltaGas Utilities would reduce estimated 2004 EPS by 0.21%. For the majority of the utility companies, a 25-basis-point decline would negatively affect 2004 forecast EPS by about 0.50% to 1.50%.

Exhibit 8: Estimated EPS Sensitivity of a 25-Basis-Point (BP) Change in 2004E ROEs

Company	Estimated Ratebase Impacted by Change ($MM)	Deemed Equity %	Deemed Equity ($MM)	Earnings Impact 25 bp Change ($MM)	EPS Impact	As a percentage of 2004E EPS
AltaGas						
AltaGas Utilities	$92.4 [1]	41.00%	$37.9	$0.09	**$0.002**	**0.21%**
Canadian Utilities						
PPAs	$711.9	45.00%	$320.4	$0.80	$0.013	
ATCO Electric (Transmission)	735.5	32.00% [2]	235.4	0.59	0.009	
ATCO Electric (Distribution)	582.1	35.00% [2]	203.7	0.51	0.008	
ATCO Pipelines	549.9	50.00% [3]	275.0	0.69	0.011	
ATCO Gas	1,033.5	37.00% [4]	382.4	0.96	0.015	
	$3,612.9	39.22%	$1,416.8	$3.54	**$0.056**	**1.41%**
ATCO						
ROE exposure through 51.9% interest in Canadian Utilities (see above)					**$0.062**	**1.32%**
Emera						
Nova Scotia Power	$2,662.4	37.00%	$985.1	n.a. [5]	**n.a.**	**n.a.**
Enbridge						
Line 9 and non-routine adjustments	$241.5 [6]	41.00%	$99.0	$0.25	$0.001	
Norman Wells	135.1	55.00%	74.3	0.19	0.001	
Enbridge Gas Distribution	3,135.1	35.00%	1,097.3	2.74	0.016	
Total	$3,511.7	36.18%	$1,270.6	$3.18	**$0.019**	**0.61%**
Fortis						
Newfoundland Power	$672.2	45.00%	$302.5	n.a. [7]	n.a.	
Alberta Utility	602.4	40.00%	241.0	$0.60	$0.029	
B.C. Utility	545.8	40.00%	218.3	0.55	0.026	
	$1,820.5	41.85%	$761.8	$1.15	**$0.056**	**1.28%**
Gaz Métro						
Québec distribution	$1,641.7	38.50%	$632.1	n.a. [8]	**n.a.**	**n.a.**
Terasen						
Terasen Gas	$2,309.5	33.00%	$762.1	$1.91	$0.037	
Terasen Gas Vancouver Island (TGVI)	443.0	35.00%	155.1	0.39	0.007	
	$2,752.5	33.32%	$917.2	$2.29	**$0.044**	**1.59%**
TransCanada						
Mainline	$8,546.9	33.00%	$2,820.5	$7.05	$0.015	
Alberta System	4,800.0	32.00% [9]	1,536.0	3.84	0.008	
BC System	189.6	30.00%	56.9	0.14	0.000	
TQM	435.9	30.00%	130.8	0.33	0.001	
Foothills Alta	814.0	30.00%	244.2	0.61	0.001	
Total	$14,786.4	32.38%	$4,788.3	$11.97	**$0.025**	**1.47%**
TransAlta						
PPAs	$1,750.4	45.00%	$787.7	$1.97	**$0.010**	**1.03%**

Notes:
(1) Net rate base.
(2) The AEUB set a "placeholder" ROE of 9.4% for ATCO Electric for 2004 subject to the determinations of the Generic Cost of Capital proceeding.
(3) ATCO Pipelines has filed its 2003/04 General Rate Application with the AEUB. ATCO Pipelines' forecast is used to establish its deemed equity percentage, which is used to determine the impact of a change in allowed ROE on Canadian Utilities' EPS.
(4) The AEUB set a "placeholder" ROE of 9.5% for ATCO Gas for 2004 subject to the determinations of the Generic Cost of Capital proceeding.
(5) No expected earnings impact as Emera has said that Nova Scotia Power will not apply for new rates for 2004.
(6) Includes rate base for Line 9 and non-routine adjustments (except SEP II).
(7) No earnings impact expected as allowed ROE will not be reset in 2004.
(8) No earnings impact as 2004 ROE has already been set.
(9) Historical deemed equity component.

Source: RBC Capital Markets estimates; Company reports

Conclusion

Evidence suggests that the utilities sector in Canada is interest sensitive and valuations in the sector during periods of declining interest rates are driven by investors' desire for yield-oriented investments. We believe that the positive valuation impact more than offsets the negative impact that lower rates have on earnings due to lower allowed returns on equity. Based on our calculations, allowed ROEs in 2004 are likely to be slightly lower than in 2003.

We estimate a 25-basis-point decrease in allowed 2004 ROE would have the greatest negative percentage EPS impact to Terasen. AltaGas appears to have the least exposure to changes in allowed ROE, primarily as a result of the majority of its earnings being derived from non-regulated businesses.

Appendix I: EPS Estimates, Target Prices and Recommendations

	Tick	PRICE 4-Nov-03	Earnings per Share[1] Basic / *Earnings per Share Fully Diluted* FY02	FY03(E)	FY04(E)	FY05(E)	P/E Ratio FY04E	FY05E	Current Dividend/ Distrib.	Current Yield	Payout Ratio (%) FY04E	FY05E	1-Year Target	Recommendation	Risk
UTILITIES - CANADA															
ATCO Ltd.	ACO.X	$47.03	$4.28	$4.16	$4.72	$4.93	10.0	9.5	$1.28	2.7%	27.1%	26.0%	$51.50	Sector Perform	Average
			$4.22	*$4.11*	*$4.67*	*$4.88*									
Canadian Utilities	CU	$57.16	$3.73	$3.83	$3.97	$4.06	14.4	14.1	$2.04	3.6%	51.4%	50.2%	$59.75	Sector Perform	Average
			$3.71	*$3.82*	*$3.96*	*$4.05*									
Emera	EMA	$17.43	$1.08	$1.21	$1.23	$1.25	14.2	13.9	$0.86	4.9%	69.9%	68.8%	$17.75	Sector Perform	Average
			$1.08	*$1.21*	*$1.23*	*$1.25*									
Enbridge	ENB	$52.72	$2.63	$2.85	$3.11	$3.24	17.0	16.3	$1.66	3.1%	53.4%	51.2%	$52.00	Sector Perform	Average
			$2.60	*$2.83*	*$3.09*	*$3.22*									
Fortis	FTS	$58.62	$3.89	$4.32	$4.36	$4.38	13.4	13.4	$2.08	3.5%	47.7%	47.5%	$55.00	Sector Perform	Average
			$3.87	*$4.29*	*$4.33*	*$4.35*									
Terasen[2]	TER	$46.64	$2.54	$2.70	$2.79	$2.93	16.7	15.9	$1.56	3.3%	55.9%	53.2%	$48.75	Outperform	Average
			$2.52	*$2.68*	*$2.77*	*$2.91*									
TransAlta Corp.	TA	$18.70	$1.06	$0.75	$1.00	$1.04	18.7	18.0	$1.00	5.3%	100.0%	96.2%	$18.25	Underperform	Above Average
			$1.04	*$0.73*	*$0.98*	*$1.02*									
TransCanada	TRP	$27.00	$1.51	$1.60	$1.73	$1.86	15.6	14.5	$1.08	4.0%	62.4%	58.1%	$29.00	Outperform	Average
			$1.49	*$1.59*	*$1.72*	*$1.84*									
Average:							**15.0**	**14.5**		**3.8%**	**58.5%**	**56.4%**			
LIMITED PARTNERSHIPS - CANADA															
Gaz Métro	GZM.UN	$20.63	$1.40	$1.41	$1.40	$1.43	14.7	14.4	$1.36	6.6%	97.1%	95.1%	$20.25	Sector Perform	Average
			$1.40	*$1.41*	*$1.40*	*$1.43*									
MIDSTREAM - CANADA															
AltaGas	ALA	$14.05	$0.65	$0.81	$1.00	$1.05	14.1	13.4	$0.44	3.1%	44.0%	41.9%	$13.00	Underperform	Above Average
			$0.65	*$0.81*	*$1.00*	*$1.05*									

[1] Normalized earnings per share
[2] Covered by Fai Lee

Appendix II: Target Price Justifications

Target Price Assumptions

For the majority of the companies we follow, our valuation is weighted towards a yield approach. We believe that when the 10-year Government of Canada bond yield is below 6.0%, the primary driver of the valuation for these interest-sensitive stocks is income. While the fundamentals underlying the companies are important in determining the dividend yield required by investors, the price/earnings multiples must be interpreted cautiously and are not the main factors underlying the companies' valuations. The assumptions underlying our yield approach to valuation are set out in Exhibit 9 below.

Exhibit 9: Valuations – Dividend Yield Approach

	Current Price	Current Yield	Three year historical spread between 10-year GOC yield and current yield	Current spread between 10-year GOC yield and current yield	Spread used in valuation	Required yield used in valuation	Forecast Dividend / Distribution	Implied Price	Target Price	Implied 2004 P/E Multiple
AltaGas	$14.05	3.13%	2.28%	1.74%	0.55%	4.20%	$0.54	$12.86	$13.00	13.0
Canadian Utilities	$57.16	3.57%	1.53%	1.30%	1.20%	3.55%	$2.12	$59.72	$59.75	15.1
Emera	$17.43	4.93%	0.08%	-0.06%	-0.10%	4.85%	$0.86	$17.73	$17.75	14.4
Enbridge	$52.72	3.15%	1.81%	1.72%	1.30%	3.45%	$1.80	$52.17	$52.00	16.7
Fortis	$58.62	3.55%	0.95%	1.32%	0.75%	4.00%	$2.20	$55.00	$55.00	12.7
Gaz Métro	$20.63	6.59%	-2.15%	-1.72%	-2.20%	6.95%	$1.40	$20.14	$20.25	14.4
Terasen	$46.64	3.34%	1.47%	1.52%	1.30%	3.45%	$1.68	$48.70	$48.75	17.6
TransAlta	$18.70	5.35%	0.31%	-0.48%	-0.75%	5.50%	$1.00	$18.18	$18.25	18.6
TransCanada	$27.00	4.00%	0.63%	0.87%	0.75%	4.00%	$1.16	$29.00	$29.00	16.9

Current yield on the 10 year GOC bond	4.87%
Forecast of 10 year GOC bond yield	4.75%

Source: RBC Capital Markets

In addition, company-specific factors include the following:

AltaGas

Our one-year target price for AltaGas of $13.00 reflects a forecast dividend of $0.54 and a required yield of 4.20%. We believe that a required yield of 4.20% is appropriate based on AltaGas' dividend payout ratio, growth prospects and risk profile relative to other Canadian energy infrastructure companies. Events that could pose a risk to our target price include a material decline in net throughput on the company's gathering and processing facilities, unexpected costs under its PPA including costs associated with the implementation of the Kyoto Protocol and a depressed market for power in Alberta over an extended length of time.

ATCO

Our target price for ATCO is the only stock in our universe of coverage that is not weighted towards a yield approach to valuation. We have used a net asset value framework given that its primary asset is its holding in publicly traded Canadian Utilities. In the case of ATCO, we have used a net asset value model to set our target price of $51.50. We have projected forward a discount of 20% to the net asset value of the company one year forward. The 20% discount is in-line with the observed historical discount. The primary asset contributing to the future value of ATCO is the share price of its main subsidiary, Canadian Utilities. A decline in Canadian Utilities' share price would have negative implications for ATCO's net asset value and, accordingly, its share price.

Canadian Utilities

Our one-year target price of $59.75 for Canadian Utilities reflects a forecast dividend per share in 2004 of $2.12 and a required dividend yield by investors of 3.55%. We have assumed the spread between the 10-year GOC bond yield and Canadian Utilities' dividend yield decreases from its current relationship. Factors that could have negative implications for Canadian Utilities' earnings and share price are negative regulatory decisions by the Alberta Energy and Utilities Board, depressed prices for power in Alberta over an extended period and failure to meet long-term power purchase arrangement obligations.

Emera

Our target price for Emera of $17.75 reflects our expectation that Emera will maintain its annual dividend of $0.86 per share and the spread between the 10-year GOC bond yield and Emera's dividend yield decreases from its current level. Risks to our earnings estimates and target price include higher-than-expected fuel costs at NSPI, unexpected losses from business development activities and negative regulatory decisions for NSPI and Bangor Hydro.

Enbridge

Our target price for Enbridge of $52.00 reflects a forecast $0.14 increase in its annual dividend from $1.66 to $1.80 per share. We also have assumed the spread between the 10-year GOC bond yield and Enbridge's dividend yield decreases from its current relationship. Our earnings forecast is based on the assumption that throughput on the Enbridge Energy Partners system and that utilization on the Midcoast Energy system increases materially over our forecast period. There could be negative implications for Enbridge's share price if actual events differ from these assumptions.

Fortis

Our target price for Fortis of $55.00 reflects a forecast $0.12 increase in its annual dividend from $2.08 to $2.20 per share. Our target price also reflects our view that the spread between the 10-year GOC bond yield and Fortis' dividend yield will decrease over time. Political instability in Belize, depressed economic/tourism conditions in Atlantic Canada, operational difficulties at newly acquired businesses or depressed power prices in Ontario would have negative implications for our earnings and dividend estimates, as well as Fortis' share price.

Gaz Métro

Our valuation for Gaz Métro is based on a yield approach, which given its similarities to income trusts, we believe is an appropriate valuation method for the company. Our target price of $20.25 is based on a forecast distribution of $1.40 per unit in fiscal 2005 and required yield of 6.95%. Our valuation reflects a reversion to the three-year historical average spread between the 10-year GOC yield and Gaz Metro's yield. Possible target price impediments include negative regulatory rulings, lower than forecast normalized volumes, a change in income distribution policy and interest rate volatility.

Terasen

Our target price for Terasen of $48.75 reflects a forecast $0.12 increase in its annual dividend in April 2004. Our target price also incorporates our view that the spread between the 10-year GOC bond yield and Terasen's dividend yield will decrease over time. Factors that could have negative implications for Terasen's earnings and share price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, and a significant and prolonged decline in Western Canadian petroleum production.

TransAlta

Our target price for TransAlta of $18.25 is based on the assumption that it does not cut its annual dividend and the spread between the 10-year GOC bond yield and TransAlta's dividend yield decreases. We further assume that the projects that TransAlta has under development come into operation on time, on budget, and breakeven during initial operation. There could be negative implications for TransAlta's share price if actual events differ from these assumptions. Note that our risk qualifier for TransAlta is Above Average.

TransCanada

Our target price for TransCanada of $29.00 reflects continued growth in its dividend at $0.08 annually and our view that the spread between the 10-year GOC bond yield and TransCanada's dividend yield decreases over time. There is some risk to our target price should TransCanada use its free cash flow to invest in new projects that fail to gain the support and confidence of its shareholders.

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 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.

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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]	328	43.39	96	29.27
HOLD [SP]	333	44.05	56	16.82
SELL [U]	95	12.57	6	6.32

Material Disclosures

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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).

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RBC Capital Markets

Research Comment

August 1, 2003

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Price:	$44.45	**Price Target:**	$48.75
52-Wk High:	$44.74	**52-Wk Low:**	$35.80
Float (MM):	51.9	**Debt-to-Cap:**	0.67
Shs O/S (MM):	56.5	**Mkt Cap (MM):**	$2,511
Dividend:	$1.56	**Yield:**	3.5%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	**2002A**	**2003E**	**2004E**	**2005E**
Old Basic EPS	$2.54	$2.61	$2.79	n.a.
Old Diluted EPS	$2.52	$2.59	$2.77	n.a.
Basic EPS	$2.54	**$2.70**	$2.79	**$2.93**
Diluted EPS	$2.52	**$2.68**	$2.77	**$2.91**
P/E	17.5	16.5	15.9	15.2
EPS	**Q1**	**Q2**	**Q3**	**Q4**
2002A	$1.70	$0.03	($0.34)	$1.23
2003E	$1.42A	$0.23	($0.15)	$1.20
2004E	$1.51	$0.23	($0.16)	$1.20

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For pertinent disclosures, please see DISCLOSURES 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.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Higher Petroleum Transportation Volumes Drive Strong Earnings Growth

Event

Yesterday, Terasen reported its second quarter results.

Investment Opinion

- **Q2 results.** Terasen reported normalized EPS of $0.23 in Q2/03 compared to our estimate of $0.15 and EPS of $0.03 in Q2/02. The difference between the results and our estimate was primarily due to strong throughput volumes on the Trans Mountain oil pipeline system resulting in higher-than-expected earnings.
- **Performance Based Rate Plan.** Terasen Gas' regulator has approved a negotiated settlement reached between Terasen Gas and its customers for a 2004-2007 Performance Based Rate Plan (PBR settlement). The four-year settlement includes incentives for Terasen Gas to achieve operating and capital spending efficiencies.
- **EPS Estimates.** Reflecting the strong Q2/03 results and higher forecast earnings from Petroleum Transportation, we have increased our 2003 EPS estimate from $2.61 to $2.70. Our 2004 EPS estimate of $2.79 remains unchanged. We have rolled our financial model forward and our 2005 EPS estimate is $2.93.
- **Valuation.** Our target price of $48.75 is based on a forecast dividend of $1.68 and required dividend yield of 3.45%. Our target price implies a 2004E P/E ratio of 17.5X. Our expected all-in return is 13.2%.

Details

Second Quarter Results

Terasen reported normalized EPS of $0.23 in Q2/03 compared to our estimate of $0.15 and EPS of $0.03 in Q2/02. The difference between the results and our estimate was primarily due to strong throughput volumes on the Trans Mountain oil pipeline system resulting in higher-than-expected earnings. As shown in Exhibit 1, earnings on a normalized basis increased from $1.1 million in Q2/02 to $12.0 million in Q2/03.

Exhibit 1: Segmented Results (MM$ Except EPS)

	Q2/03	Q2/02
Natural gas distribution		
Terasen Gas	$ (8.3)	$ (8.2)
Terasen Gas Vancouver Island	5.8	5.2
	(2.5)	(3.0)
Petroleum transportation		
Trans Mountain	9.6	5.6
Corridor	2.9	-
Express System	3.5	-
	16.0	5.6
Other activities	(1.5)	(1.5)
Normalized earnings	$ 12.0	$ 1.1
Foreign exchange loss at Express	(3.8)	-
Reported earnings	$ 8.2	$ 1.1
Weighted average shares outstanding	51.9	43.6
Normalized EPS	$ 0.23	$ 0.03

Source: Terasen

Natural Gas Distribution

Earnings from Natural Gas Distribution were ($2.5) million in Q2/03, equal to our estimate of ($2.5) million and $0.5 million higher than in Q2/02. The year-over-year improvement was attributable to improved operating efficiencies at Terasen Gas and Terasen Gas Vancouver Island.

Terasen announced that the B.C. Utilities Commission (BCUC) recently approved a negotiated settlement reached between Terasen Gas and its customers and other stakeholders for a 2004-2007 Performance Based Rate Plan. The four-year settlement includes incentives for Terasen Gas to achieve operating and capital spending efficiencies. Earnings above or below the allowed return on equity, net of incentives, will be shared on a 50/50 basis between Terasen Gas and its customers. The allowed return on equity will continue to be calculated in accordance with the BCUC's generic ROE formula. As discussed in our *Outlook for Allowed ROEs* published on June 25, 2003, Terasen Gas and other Canadian utilities face the risk of a decline in their allowed ROEs in 2004. Using Consensus Economics Inc.'s July 2003 *Consensus Forecasts* and assuming current interest rate forecasts and spreads remain unchanged, we estimate an allowed 2004 ROE of 8.82% for Terasen Gas compared to its allowed ROE for 2003 of 9.42%. During the second quarter conference call, Terasen's management indicated that it hopes to offset any negative impact from a decline in Terasen Gas' allowed ROE through operating efficiencies achieved under its new PBR plan.

Petroleum Transportation

Earnings from Petroleum Transportation on a normalized basis were $16.0 million in Q2/03 compared to our estimate of $12.1 million and earnings of $5.6 million in Q2/02. Earnings from Trans Mountain were significantly higher than expected due to strong throughput volumes experienced during Q2/03. Volumes on the Trans Mountain Canadian Mainline were approximately 203,000 bpd in Q2/03 compared to 183,000 bpd in Q2/02 and volumes on the Trans Mountain U.S. mainline, which are included in the Canadian mainline volumes, were approximately 55,000 bpd in Q2/03 compared to 40,000 bpd in Q2/03. After normalizing for a $3.8 million foreign exchange loss arising from the impact of the depreciation of the U.S. dollar on working capital and future income tax balances, earnings from the Express System were $3.5 million in Q2/03, slightly higher than our estimate of $2.8 million. Earnings from Corridor of $2.9 million in Q2/03 were equal to our estimate.

Other Activities

Earnings from other activities of ($1.5) million in Q2/03 were flat compared to Q2/02 but slightly higher than our estimate of ($2.0) million. A decrease in earnings related to the completion of the Sharjah project was offset by strong results in the water and related services business.

EPS Estimates

Reflecting the higher-than-expected Q2/03 results and higher forecast earnings from Petroleum Transportation, we have increased our 2003 EPS estimate from $2.61 to $2.70. For 2004, we have adopted a more conservative outlook for Natural Gas Distribution in light of the potential impact from a decline in allowed ROEs under the BCUC generic ROE formula. We have also increased our forecast earnings from Petroleum Transportation to reflect higher throughput volumes. The changes to our assumptions result in no net impact to our 2004 EPS estimate. In addition, we have rolled our financial model forward and our 2005 EPS estimate is $2.93.

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 $48.75 is based on a forecast dividend of $1.68 and required dividend yield of 3.45%. Our target price implies a 2004E P/E ratio of 17.5X.

Price Target Impediments

Our target price for Terasen of $48.75 reflects a forecast $0.12 increase in its annual dividend in April 2004. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and Terasen's dividend yield will increase as Terasen continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Factors that could have negative implications for Terasen's earnings and share price include unexpected increases in operating costs that are unrecoverable under its incentive agreements 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.

EXPLANATION OF RBC CAPITAL MARKETS RATING SYSTEM

Definitions Of Rating Categories

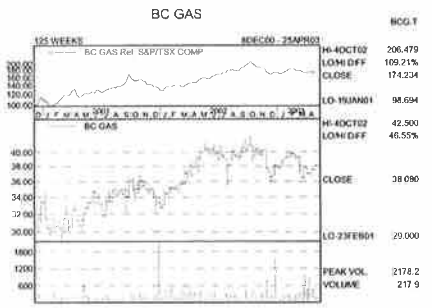
An analyst's sector is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector, but does not attempt to provide 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.



Terasen Inc. (formerly BC Gas Inc.)

(TSX: BCG)

Outperform

Average Risk

Higher Petroleum Throughput Drives Strong First Quarter Results; Board Increases Annual Dividend

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		Old Target:	$42.50
Price:	$38.08	**New Price Target:**	**$44.00**
52 Wk High:	$42.50	**52 Wk Low:**	$35.25
Float (MM):	51.8	**Debt-to-Cap:**	0.67
Shares Out:	56.4	**Market Cap (MM):**	$2,148
Dividend:	$1.56	**Yield:**	4.10%
Major Shareholders:		Trans Mountain (8.1%)	

(FY Dec)	2001A	2002A	2003E	2004E
EPS				
Basic	$2.21	$2.54	$2.61	$2.79
Diluted	$2.19	$2.52	$2.59	$2.77
P/E (x)	17.2	15.0	14.6	13.6

All values in C$ unless otherwise noted.

A member of the RBC CM pipelines and utilities research team is an associate of an insider of BC Gas. The information contained in this report has been obtained from sources other than such insider.

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

Event

Terasen Inc. (formerly BC Gas Inc.) reported strong first quarter results and its annual dividend was increased by $0.12 to $1.56.

Investment Conclusion

Terasen's Q1/03 EPS of $1.42 were higher than our estimate of $1.37 primarily due to higher-than-expected petroleum throughput levels on the Canadian Mainline and higher-than-expected results from Other Activities. On an adjusted basis, EPS in Q1/02 were $1.37. As we had expected, Terasen's Board of Directors increased the annual dividend from $1.44 to $1.56. As the Company continues its pattern of delivering consistently strong results, we believe that investors will recognize that Terasen is one of the most attractive companies in the Canadian energy infrastructure sector based on its earnings growth potential and low-risk growth profile. We have reflected this view in our valuation and increased our target price for Terasen from $42.50 to 44.00. Terasen is ranked Outperform, Average Risk.

Valuation

Our valuation for Terasen is 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 $44.00 is based on a forecast dividend of $1.68 and required dividend yield of 3.8%.

Impediment

Our target price for Terasen of $44.00 reflects a forecast $0.12 increase in its annual dividend in April 2004. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and Terasen's dividend yield will increase as Terasen continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Factors that could have negative implications for Terasen's earnings and share price include an inability to negotiate a multi-year PBR agreement for Terasen Gas, unexpected increases in operating costs that are unrecoverable under its incentive agreements, and a significant and prolonged decline in Western Canadian petroleum production.

Details

New Name

On Friday, shareholders of BC Gas approved a motion at the annual general meeting to change the company name from BC Gas Inc. to Terasen Inc. The name Terasen was created by combining the Latin word for earth, "Terra" and the word "send", which together represent "sent from the earth". In conjunction with the name change, Terasen's trading symbol on the Toronto Stock Exchange will change to "TER" from "BCG" effective May 5, 2003. In addition, all subsidiary companies will take on a variation of the Terasen name as follows:

Previous name	New name
BC Gas Utility	Terasen Gas
Centra Gas	Terasen Gas (Vancouver Island)
Squamish Gas	Terasen Gas (Squamish)
BCG Services	Terasen Waterworks and Terasen Utility Services
BC Gas International	Terasen International
Trans Mountain Pipe Line	Terasen Pipelines (Trans Mountain)
Corridor Pipeline	Terasen Pipelines (Corridor)

First Quarter Results / Annual Dividend

Terasen reported normalized EPS of $1.42 in the first quarter of 2002. In comparison, our estimate was $1.37. The difference between the results and our estimate was primarily due to higher-than-expected petroleum throughput levels on the Canadian Mainline and higher-than-expected results from Other Activities. For a proper comparison of the year-over-year results, we believe that the 2002 first quarter results must be adjusted downward for the difference in capital structures in 2002 and 2003. On an adjusted basis, Terasen's EPS in Q1/02 were $1.37 (for further details, please refer to our *Fourth Quarter Earnings Preview* dated April 17, 2003). As we had expected, Terasen's Board of Directors increased the annual dividend from $1.44 to $1.56. According to Terasen's management, the increase is consistent with the established policy of maintaining a dividend payout ratio of approximately 60%.

Exhibit 1: Segmented Results

Earnings Analysis (MM$):

	Q1/03	Q1/02
Natural gas distribution		
Terasen Gas	$ 61.1	$ 60.5
Terasen Gas (Vancouver Island)	6.0	6.3
	67.1	66.8
Petroleum transportation		
Terasen Pipelines (Trans Mountain)	8.3	6.5
Express System	3.3	-
	11.6	6.5
Other activities	(5.3)	(5.5)
Net earnings	$ 73.4	$ 67.8
Weighted average shares outstanding	51.7	39.8
Normalized EPS	$ 1.42	$ 1.70

Source: Terasen

As illustrated in Exhibit 1, Terasen's earnings increased by $5.6 million from $67.8 million in Q1/02 to $73.4 million in Q1/03. Earnings improved in all three of Terasen's business segments. Earnings from natural gas distribution benefited from improved operating performance at Terasen Gas, partially offset by a slightly lower contribution at Terasen Gas (Vancouver Island) as a result of rebasing following the expiry and renewal of its incentive regulatory settlement. Earnings from petroleum transportation increased by $5.1 million from $6.5 million in Q1/02 to $11.6 million in Q1/03. The year-over-year improvement was attributable to higher throughput levels on Trans Mountain's Canadian Mainline and the contribution from the Express System, which was acquired in January 2003. During the first quarter conference call, Terasen's management indicated that the Canadian Mainline was full in the month of March primarily due to increased shipments to California refiners concerned about the security of supply in light of the war in Iraq. Earnings from Other Activities increased by $0.2 million primarily due to contributions from Terasen's water supply and services businesses and from CustomerWorks.

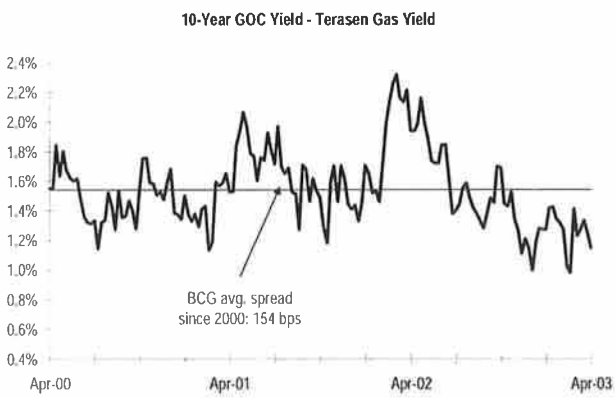
EPS ESTIMATES

Notwithstanding the higher-than-expected results in the first quarter of 2003, we are maintaining our EPS estimates at this time. We are assuming that throughput levels will decline through the rest of the year with the view that the levels experienced in Q1/03 were inflated due to the war in Iraq. If throughput volumes on Trans Mountain's Canadian Mainline remain at the same levels as those experienced in Q1/03, we believe that Terasen's EPS in 2003 will be approximately $0.05 higher than our current forecast of $2.61. During the first quarter conference call, Terasen's management indicated that they remain comfortable with the range of analysts' EPS estimates from the high $2.50s to the low $2.60s.

TARGET PRICE

As the Company continues to its pattern of delivering consistently strong results, we believe that investors will recognize that Terasen is one of the most attractive companies in the Canadian energy infrastructure sector based on its earnings growth potential and low-risk growth profile. Currently, we have valued a majority of the Canadian energy infrastructure companies based on a dividend yield valuation approach. Assuming a forecast 10-year Government of Canada bond yield of 5.5%, the required yields used in our valuations range from 3.75% to 7.70%. Based on our view that Terasen is a top tier company when compared to its peers, we believe that its required yield should be at the lower end of our range of required yields. Reflecting a required yield of 3.8% and a forecast dividend of $1.68, we arrive at our new target price of $44.00. Our new target price assumes that the spread between the 10-year Government of Canada Bond yield and Terasen's dividend yield will increase above the three-year historical average reflecting Terasen's increased future earnings potential and low-risk profile.

Exhibit 2: 10-year GOC Yield – Terasen Yield

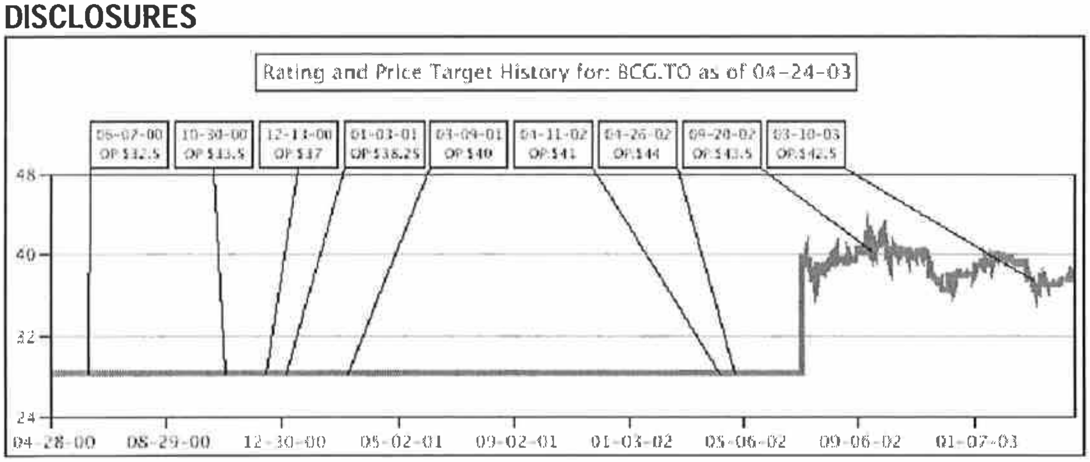


Source: RBC Capital Markets

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

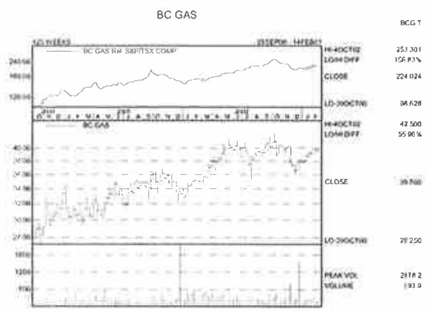
DISCLOSURES



RBC Capital Markets

Research Comment

February 17, 2003



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Price:	$39.70	**Price Target:**	$43.50
52 Wk High:	$42.50	**52 Wk Low:**	$34.52
Float (MM):	51.7	**Debt-to-Cap:**	0.66
Shares Out:	56.3	**Market Cap (MM):**	$2,235
Dividend:	$1.44	**Yield:**	3.63%
Major Shareholders:		TransMountain (9.5%)	

(FY Dec)	**2001A**	**2002A**	**2003E**	**2004E**
EPS				
Old Basic	$2.21	$2.54	$2.60	$2.75
Old Diluted	$2.19	$2.52	$2.57	$2.73
Basic	$2.21	$2.54	**$2.61**	**$2.79**
Diluted	$2.19	$2.52	**$2.59**	**$2.77**
P/E (x)	18.0	15.6	15.2	14.2

All values in C$ unless otherwise noted.

A member of the RBC CM pipelines and utilities research team is an associate of an insider of BC Gas. The information contained in this report has been obtained from sources other than such insider.

BC Gas Inc.

(TSX: BCG)

Outperform

Average Risk

2002 Financial Results Higher Than Expected; Resuming Coverage with Outperform Ranking

Event

On Friday, BC Gas reported earnings of $2.54 per share on a normalized basis. We are resuming coverage of BC Gas (following a change in analyst coverage) with an Outperform, Average risk ranking (unchanged).

Investment Conclusion

The 2002 results were higher than our EPS estimate of $2.50 and a 15% improvement over 2001 EPS of $2.21 on a normalized basis. The year-over-year improvement was primarily attributable to the acquisition of Centra Gas in 2002 and improved operating results from the petroleum transportation segment, partially offset by increased share dilution. Reflecting changes to our financial model, we have increased our 2003 and 2004 EPS estimates for BC Gas from $2.60 and $2.75 respectively to $2.61 and $2.79. Based on its expected all-in return of 13.1% and low risk profile, BC Gas is ranked Outperform, Average Risk.

Valuation

Our valuation for BC Gas is 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 BC Gas. Our target price of $43.50 is based on a forecast dividend of $1.56 and required dividend yield of 3.6%.

Impediment

Our target price for BC Gas of $43.50 reflects a forecast $0.12 increase in its annual dividend from $1.44 to $1.56 per share. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and BC Gas' dividend yield will increase as BC Gas continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Our earnings and dividend estimates are predicated on a stable regulatory environment in British Columbia. Should BC Gas receive a negative decision from the B.C. Utilities Commission, the company's earnings may fail to reach our target, having negative share price implications.

Details

2002 Results

After normalizing for a $4.1 million after-tax writedown of BC Gas' investment in Westport Innovations Ltd. that was recognized in the third quarter of 2002, BC Gas' normalized EPS were $2.54 in 2002 compared to our estimate of $2.50. The difference between our estimate and actual results was primarily attributable to higher-than-expected throughput on the Canadian portion of the Trans Mountain mainline. The 2002 results represent a 15% year-over-year increase in earnings per share, which is well above the Company's financial objective of delivering EPS growth of at least 6%. The year-over-year improvement is primarily attributable to the acquisition of Centra Gas in 2002 and improved operating results from the petroleum transportation segment, partially offset by increased share dilution. It should be noted that BC Gas benefited from a delay in the issuance of common shares used to finance its Centra Gas acquisition. The Company received a full year earnings contribution from Centra Gas in 2002 in accordance with its purchase agreement but the common shares used to finance the acquisition were not issued until completion of the acquisition on March 7, 2002.

Exhibit 1 outlines BC Gas' financial results by segment.

Exhibit 1: Segmented Results (MM$ Except EPS)

	3 Months Ended Dec. 31		Year Ended Dec. 31	
	2002	2001	2002	2001
Natural gas distribution	$ 50.0	$ 45.1	$ 92.4	$ 67.8
Petroleum transportation	10.5	8.5	29.3	27.3
Other activities	(4.5)	(4.6)	(11.8)	(10.5)
Normalized earnings	$ 56.0	$ 49.0	$ 109.9	$ 84.6
Non-recurring items	-	-	(4.1) (a)	-
Reported earnings	$ 56.0	$ 49.0	$ 105.8	$ 84.6
Weighted average shares outstanding	45.6	38.3	43.2	38.3
Normalized EPS	$ 1.23	$ 1.28	$ 2.54	$ 2.21

(a) $4.1 million after-tax writedown of investment in Westport Innovations Ltd.

Source: BC Gas, RBC Capital Markets

Description of Operating Results

Natural Gas Distribution

Earnings from BC Gas' natural gas distribution business increased by 36.3%, from $67.8 million in 2001 to $92.4 million in 2002. The improvement was attributable to the acquisition of Centra Gas in 2002 ($22.9 million) and lower interest costs at BC Gas Utility ($1.7 million).

Petroleum Transportation

Earnings from BC Gas' petroleum transportation business increased by 7.3%, from $27.3 million in 2001 to $29.3 million in 2002. The improvement was primarily attributable to lower tax rates and interest costs. Under its incentive agreement, Trans Mountain benefits from any savings arising from lower tax rates and interest costs. In 2002, Trans Mountain's effective tax rate declined from 43% to 37.5% resulting in an incremental earnings contribution of $3 million. Trans Mountain also benefited from refinancing long-term debt with lower cost short-term debt, which provided an after-tax earnings contribution of approximately $1.8 million. The positive impact of the decline in tax rates and interest expense was partially offset by lower throughput on the Canadian and U.S. portions of the Trans Mountain mainline. Throughput on the U.S. mainline declined from approximately 73,410 barrels per day (bpd) in 2001 to 47,850 bpd in 2002. Notwithstanding the overall decline in throughput on the Canadian mainline from approximately 209,270 bpd in 2001 to 201,190 bpd in 2002, fourth quarter throughput showed improvement increasing from 217,444 bpd in Q4/01 to 221,238 bpd in Q4/02. Furthermore, the Canadian mainline was running full during the months of November and December with substantial tanker loadings for export.

Other Activities

After normalizing for the Westport Innovations writedown, the earnings contribution from other activities decreased from a loss of $10.5 million in 2001 to a loss of $11.8 million in 2002. The change was primarily attributable to higher financing costs associated with the acquisition of Centra Gas, partially offset by improved operating results from BC Gas' energy and utility services businesses.

Outlook

BC Gas plans to continue with its strategic plan of achieving low-risk growth with a focus on natural gas distribution and petroleum transportation.

Natural Gas Distribution

As discussed in our February 6, 2003 *Morning Comment*, BC Gas Utility recently received a decision on its 2003 revenue requirement from its regulator, the British Columbia Utilities Commission (BCUC). During the fourth quarter conference call, management indicated that it was confident that it would be able to offset cost disallowances by the BCUC through cost mitigation measures at the utility. More importantly, BC Gas Utility plans to work with stakeholders during the first half of 2003 on developing a multi-year incentive regulatory arrangement using the 2003 revenue requirement as a basis for negotiations.

Centra Gas has negotiated a new incentive regulatory settlement, which was approved by the BCUC in January 2003. The new three-year settlement takes effect January 1, 2003. It provides for a continuation of the incentive arrangements for operation and maintenance expenses that were previously in place and increases the allowed return on equity for Centra Gas to a rate that is 0.50% higher than the allowed ROE for BC Gas Utility. For 2003, the allowed ROE for Centra Gas is 9.92%.

Petroleum Transportation

BC Gas expects that increased earnings from petroleum transportation will be the primary driver of earnings per share growth in 2003. The expected increase in petroleum transportation earnings is primarily attributable to the Express Pipeline acquisition and the commissioning of the Corridor Pipeline in 2003.

Construction on the Corridor Pipeline is complete and commissioning of the pipeline is nearing completion. According to BC Gas, Corridor Pipeline will begin commercial operations on the first day of the month following the date when Corridor begins transporting production volumes from the Athabasca Oil Sands Project. However, Shell Canada and its partners have experienced a delay in commissioning the Athabasca Oil Sands Project. As a result, there will likely be a delay in the commissioning of the Corridor Pipeline. According to BC Gas, commercial operations will begin no earlier than April 1, 2003 and no later than June 1, 2003, which is in accordance with Trans Mountain's agreement with Shell Canada and its partners. During the fourth quarter conference call, management indicated that BC Gas' sensitivity to delays in the commissioning date is approximately $0.03 per share per month. In our financial model, we had previously assumed that the Corridor Pipeline would begin commercial operations by March 2003.

BC Gas and its partners completed their acquisition of the Express System from EnCana Corp. on January 9, 2003. BC Gas' share of the equity portion of the purchase price was approximately $198 million. According to BC Gas, the acquisition will be immediately accretive and increase the Company's ability to transport oil sands production. In addition, BC Gas is currently looking at expanding the system and hopes to make progress on the project through the rest of 2003 and early 2004.

EPS Estimates

BC Gas' management has indicated that it is comfortable with the range of analysts' EPS estimates for 2003 from the high $2.50s to the low $2.60s.

We have revised our financial model for BC Gas to reflect increased petroleum transportation earnings in 2003 and 2004 due to higher than previously forecast throughput volumes on Trans Mountain's Canadian mainline. For 2003, we have also reflected the negative earnings impact of the delay in the commissioning of the Corridor Pipeline. In our model, we have assumed that the commissioning of the Corridor Pipeline will be delayed until May 1, 2003. Based on the changes to our financial model, our 2003 and 2004 EPS estimates for BC Gas increase from $2.60 and $2.75 respectively to $2.61 and $2.79. Exhibit 2 outlines our segmented earnings forecast for BC Gas.

Exhibit 2: Segmented Earnings Forecast (MM$ Except EPS)

	1997	1998	1999	2000	2001	2002	2003E	2004E
Natural gas distribution								
BC Gas Utility	$ 50.5	$ 51.8	$ 51.7	$ 58.7	$ 67.8	$ 69.6	$ 70.9	$ 73.2
Centra Gas						$ 22.9	$ 23.6	$ 23.9
	$ 50.5	$ 51.8	$ 51.7	$ 58.7	$ 67.8	$ 92.4	$ 94.5	$ 97.1
Petroleum Transportation								
TMPL	20.4	23.0	19.5	21.3	27.3	29.3	30.6	31.1
Express							12.0	12.0
Corridor							11.5	17.3
	20.4	23.0	19.5	21.3	27.3	29.3	54.1	60.3
Other Activities	(5.6)	(3.6)	3.0	(1.2)	(10.5)	(11.8)	(14.5)	(13.8)
Normalized Earnings	$ 65.3	$ 71.1	$ 74.2	$ 78.8	$ 84.5	$ 109.9	$ 134.1	$ 143.7
Normalized EPS	$1.63	$1.85	$1.94	$2.06	$2.21	$2.54	$2.61	$2.79

Source: RBC Capital Markets

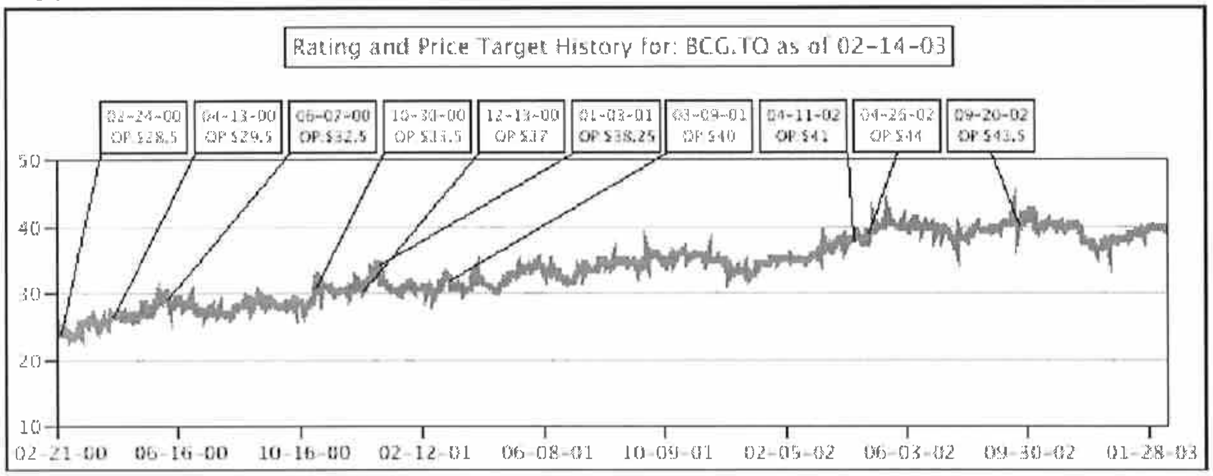
Target Price and Recommendation

Our target price of $43.50 is based on a forecast dividend of $1.56 and required dividend yield of 3.6%. Based on its expected all-in return of 13.1% and low risk profile, BC Gas is ranked Outperform, Average Risk.

Company Description

BC Gas is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

DISCLOSURE



Distribution of Ratings, Firmwide

RBC Capital Markets				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	371	49.53	2	0.54
HOLD [SP]	292	38.99	0	0.00
SELL [U]	82	10.95	0	0.00

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.

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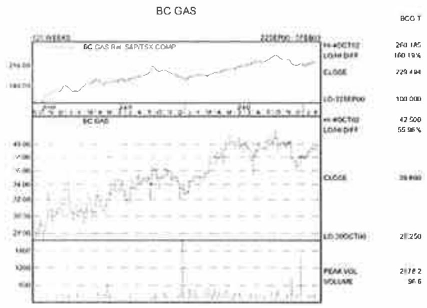
A household member or members of the author(s) of this report or a person contributing to this report hold(s) a long position in the common shares of BC Gas Inc.

A household member or members of the author(s) of this report or a person contributing to this report hold(s) a long position in warrants, rights or securities convertible into the common shares of BC Gas Inc.

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.



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Price:	$39.80	**Price Target:**	$43.50
52 Wk High:	$42.50	**52 Wk Low:**	$34.52
Float (MM):	43.7	**Debt-to-Cap:**	0.7
Shares Out:	48.3	**Market Cap (MM):**	$1,922
Dividend:	$1.44	**Yield:**	3.62%
Major Shareholders:		TransMountain (9.5%)	

(FY Dec)	2001A	2002E	2003E	2004E
EPS				
Basic	$2.21	$2.50	$2.60	$2.75
Diluted	$2.19	$2.48	$2.57	$2.73
P/E (x)	18.0	15.9	15.3	14.5

All values in C$ unless otherwise noted.

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

BC Gas Inc.

(TSX: BCG)

Outperform

Average Risk

BC Gas Utility Receives 2003 Revenue Requirement Decision

Event

The British Columbia Utilities Commission (BCUC) has issued its decision on BC Gas Utility's 2003 Revenue Requirements Application.

Investment Conclusion

The BCUC decision is important as it establishes a base year for negotiations of a multi-year Performance-Based Ratemaking (PBR) agreement. We believe that a PBR agreement would provide the utility with the potential to achieve a return on equity (ROE) higher than that allowed under its automatic adjustment mechanism, while benefiting its customers at the same time. Notwithstanding a number of cost recovery disallowances by the BCUC, we are maintaining our 2003 EPS estimate for BC Gas. We are confident that the Company will be able to offset the disallowances through cost mitigation measures at the utility. BC Gas remains ranked Outperform with a one-year target price of $43.50.

Valuation

Our valuation for BC Gas is 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 BC Gas. Our target price of $43.50 is based on a forecast dividend of $1.56 and required dividend yield of 3.6%.

Impediment

Our target price for BC Gas of $43.50 reflects a forecast $0.12 increase in its annual dividend from $1.44 to $1.56 per share. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and BC Gas' dividend yield will increase as BC Gas continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Our earnings and dividend estimates are predicated on a stable regulatory environment in British Columbia. Should BC Gas receive a negative decision from the B.C. Utilities Commission, the company's earnings may fail to reach our target, having negative share price implications.

Details

Multi-year PBR Agreement

As discussed in our *ROE Outlook for 2003* that was published on November 5, 2002, BC Gas Utility's allowed ROE is set under an automatic adjustment formula established by the BCUC. BC Gas Utility's allowed ROE for 2003 of 9.42% is one of the lowest in Canada. In light of the relatively low ROE allowed under the current automatic adjustment formula, we would likely view a PBR agreement as a positive development if it offers the utility with the potential to achieve a higher risk-adjusted return. A multi-year agreement would also reduce the risk of regulatory disallowances during the term of the agreement. Up until the end of 2001, BC Gas Utility was subject to a performance-based settlement agreement that was negotiated in 1997. The BCUC decision aids the negotiation of a new PBR agreement as it establishes a base year for negotiations. As stated by the BCUC, "By establishing a thorough public record for a 2003 base year, the Commission anticipates that an efficient negotiated settlement process on a future multi-year performance-based rate making application may follow in 2003." The BCUC expects BC Gas Utility to file, early in 2003, a multi-year PBR Application for revenue requirements for 2004 and beyond (perhaps up to five years).

2003 Revenue Requirement

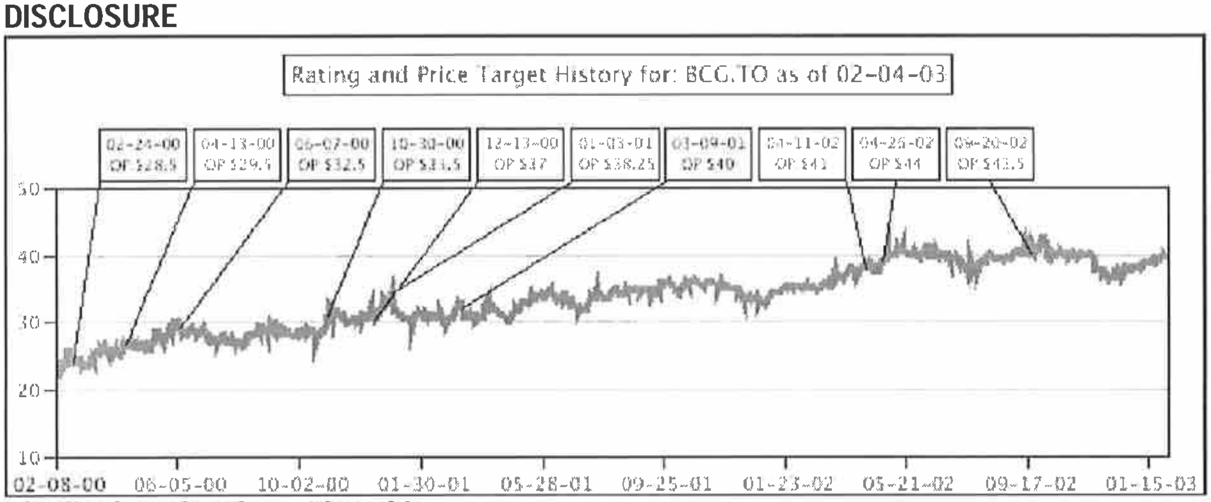
In its 2003 Revenue Requirements Application, BG Gas Utility sought a $20.9 million rate increase including $3.5 million related to an increase in its ROE allowed under the automatic adjustment formula. In its decision, the BCUC disallowed a total of $8.7 million of the proposed rate increase and approved a rate increase of $12.2 million. The $8.7 million of disallowances includes $4.4 million for items that we believe had a low probability of being approved by the BCUC. The items relate to stock options and Coastal Facilities accounting. With respect to stock options, the BCUC rejected the utility's request to treat the cost of stock options as an expense. According to the BCUC, it has never knowingly approved the inclusion of stock options as a part of compensation to be received from ratepayers. Further, BC Gas Utility is not required to treat such options as an expense under GAAP and did not do so in its Annual Report. As a result, $2.6 million relating to the cost of stock options was disallowed. With respect to Coastal Facilities accounting, BC Gas requested $1.8 million relating to a change in accounting rules that would require a synthetic lease used to finance the Coastal Facilities project to be recorded on the utility's balance sheet instead of being treated as an operating lease. Given that the accounting rules have not changed yet, the BCUC denied BC Gas Utility's application for "normal rate base treatment" for the Coastal Facilities synthetic lease. As a result, the $1.8 million requested by BC Gas Utility was disallowed. If stock options and Coastal Facilities accounting were excluded from BC Gas Utility's rate increase application, the net disallowance by the BCUC would become $4.3 million.

We are confident that BC Gas will be able to offset the BCUC disallowances through cost mitigation measures at the utility. Further, BC Gas management remains confident that it will be able to achieve its earnings targets for 2003. Accordingly, we are maintaining our 2003 EPS estimate for BC Gas at this time.

Company Description

BC Gas is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

DISCLOSURE



Distribution of Ratings, Firmwide

			IB Serv./Past 12 M	
Rating	Count	Percent	Count	Perce
BUY [TP/O]	365	49.13	86	23.
HOLD [SP]	295	39.70	41	13.
SELL [U]	79	10.63	10	12.

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

Terasen Inc.

(TER $47.13)

Q3/03 EPS

3-Sector Underperform, Low Risk

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Nov 5, 2003: $47.13	**1-Yr Target: $46.00**	**1-Yr ROR: 0.8%**	**ROE 03E: 12.4%**	**I/B/E/S EPS 2003E: $2.61**
Dividend: $1.53	**2-Yr Target: $48.00**	**2-Yr ROR: 8.3%**	**BVPS 03E: $21.52**	**I/B/E/S EPS 2004E: $2.76**

Credit Ratings: S&P: BBB/Stable **Valuation: 1-yr target based on 16x P/E on 04E/05E averaged EPS**

Qtly EPS (FD) (Next Release: Feb-04)

Y/E December 31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/E**	**Capitalization**	
2002A	1.70 A	0.03 A	-0.44 A	1.23 A	2.45	15.6	Shares O/S (M)	51.2
2003E	1.42 A	0.16 A	-0.15 A	1.17	2.60	18.1	Total Value ($M)	2,413
2004E	1.50	0.18	-0.14	1.26	2.80	16.8	Float O/S (M)	51.2
2005E	1.60	0.20	-0.12	1.32	3.00	15.7	Float Value ($M)	2,413
							TSX Weight	0.36%

Source: Reuters; Company reports; Scotia Capital estimates.
Historical price multiple calculations use FYE prices.

Share Impact and Valuation

- **Mildly Positive on Lower Q3/03 EPS Loss, Better Long Term Growth:** TER reported a Q3/03 EPS loss of $0.15/share, a nickel better than our $0.20/share loss estimate and First Call average loss of $0.20/share. We were favorably surprised by the fundamental strength in TransMountain's volume that reached 230,000 bpd in September 2003 and averaged 215,000 bpd for the quarter, even with the B.C. forest fires. There was also an unusual $1.6M pick-up for 9 months YTD 2003 from the initial recognition of a portion of the $24M purchase price differential account (RDBA) when TER bought Centra B.C. (now called TGVI). This added $0.03/share that one could conservatively consider as gradually non-recurring so recurring EPS was a loss of $0.18/share. The remaining $22.4M of TGVI deferred revenue will be amortized on a declining basis now that TGVI's revenue has cleared a certain hurdle rate. TGVI's income grew 24% YOY with this recognition and was flat without it. TER stuck with its 6% annualized EPS growth guidance for 2003 and going forward.
- **Valuation:** Our 1-year and 2-year TER share price targets move up $1/share and $2/share respectively to $46/share and $48/share to reflect mildly better than expected EPS related to oil transportation and more long term growth opportunities. We use a 16x P/E multiple (up 0.5x) on TER's 2004 and 2005 EPS average of $2.90/share (We use 16x for TransCanada Corp. and 16.5x for Enbridge Inc.). Meanwhile, the stock market has lifted Terasen's P/E multiple to that of Enbridge. While both have excellent oil pipeline throughput opportunities, we find Enbridge a preferable equity investment due to its faster growth Ontario gas utility and its multiple publicly traded LP and income trust subsidiaries that can raise low cost capital that provide incremental income and cash flow.

Pertinent Revisions (TER)

	New	Old
1-Yr Target:	$46.00	$45.00
2-Yr Target:	$48.00	$46.00

New Valuation:
1-yr target based on 16x P/E on 04E/05E averaged EPS
Old Valuation:
1-yr target based on 15.5x P/E on 04E/05E averaged EPS

Terasen Inc. (TER - T)

Source: Global Insight, Inc

Developments

- **Q303 Natural Gas Distribution:** Terasen Gas showed a loss of $25.5M versus a loss of $27.0M YOY. Growth in customers was a minor 0.5% so this 6% loss reduction was due to cost management. Due to the higher number of Terasen shares outstanding, the Q3/03 loss was diluted to $0.49/share from $0.62/share. There is a new four-year performance based rate (PBR) settlement that was agreed upon in Q3/03 for Terasen Gas. However, the gas utility capital structure and ROE stay the same under the existing formula that is tied to long Canada interest rate forecasts. This will likely cost Terasen 20-30 basis points at today's 4.9% interest rate level or 9.0% ROE for 2004 versus 9.25% ROE in 2003. Terasen Gas Vancouver Island (TGVI) showed a 23% increase to $7.1M from $5.6M for Q3/03 due solely to the initial recognition of $1.6M of its $24M purchase price discrepancy from buying $85M of deferred revenue for $61M at the time of takeover. TGVI has an incentive regulatory settlement in place so TER is now active in consolidating selected areas of TGVI and Terasen Gas. Further details will be forthcoming from TER. Cost savings should help TER offset some/most of the 2-3% reduction in ROE.
- **Q3/03 Petroleum Transportation:** EPS contribution of $0.16/share versus $0.15/share at Trans Mountain was relatively impressive with more shares outstanding. Trans Mountain's throughput was affected by the BC fire temporarily and generators were required to keep its pipeline flowing oil. Trans Mountain has had to allocate space on its oil pipeline going into Q4/03. TER is proposing a phase 1 expansion for $16M for September 2004 to add 27,000 bpd and a further $17M expansion for a further 17,000 bpd to CAPP. TER's 5 year agreement with its oil shippers on its Canadian Mainline has a volume range of 28,500-32,000 M^3/d band (180,000-201,000 bpd). A 50:50 revenue sharing occurs above 32,000 M^3/d. 100% of gains are net to TMPL up to 32,000M^3/d from 30,000M^3/d. Trans Mountain is therefore earning about 14% ROE at full capacity (our estimate). TER's $690M Corridor oil pipeline is contributing to earnings in line with management's previous guidance at $3.8M/quarter. Translation effects cost $3.8M in Q2/03 on Express that benefited from a $0.2M currency gain in Q3/03. Express contributed $2.8M in Q3/03. TER is confident that it will be able to convince shippers to back a $100M (previous estimate was $80M) 100,000 bpd Express Pipeline expansion. We expect completion in late 2005 or 2006 to match the time lag in some of the Alberta oil sands expansions (i.e. Suncor's). This could add $0.10/share annualized to TER's EPS by 2006.
- **Strategic Initiatives:** TER is still working on its Bison Athabasca to Edmonton bitumen oil pipeline project but no further guidance was provided. Enbridge is the main competitor to BCG in Alberta oil pipeline development. While it is presently early days, TER believes that it could convince Alberta oil shippers to consider a $2B loop of TER's Trans Mountain oil pipeline system that could add 500,000-600,000 bpd. TER believes that it could do this project with a 3-phase expansion that could better match the oil sands expansions. ENB believes its new $2B Gateway pipeline to north B.C. has similar attributes. One of these will go ahead over time. ENB's new Spearhead oil pipeline project and further extensions/reversals towards Houston are the lowest cost oil pipeline solution for Canadian shippers to serve that U.S. market. ENB also believes that it makes more economic sense to ship oil from Kitimat or Prince Rupert B.C. to California than run a new line to California (TER believes it would have an advantage in building a line to California) PLUS have the option of exporting the same oil to more Asian markets than a direct pipeline expansion to California.
- **Financial:** TER is comfortable with its 35% equity and noted that S&P's Decision to cut TER's credit rating earlier this year did not damage TER's bond yield spread much. Targeted, sustained EPS growth remains 6% per year with a targeted ROE of 12% or higher. A 50 to 75 basis point cut in Terasen Gas Utility would make the 6% EPS growth target more challenging for 2004. A $2.1M per year recapture of the purchase price discrepancy for Centra BC's deferred revenue of $85M at the time of purchase is, at minimum, unusual and gradually non-recurring. This $0.04/share per year for 10 more years should not be worth more than the initial $24M discount.

Scotia Capital

THE DAILY EDGE

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Investment Views For Friday, August 01, 2003

Terasen Inc.

(TER $44.45)

Good Q2/03 EPS

3-Sector Underperform, Low Risk

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Jul 31, 2003: $44.45 — **1-Yr Target: $45.00** — **1-Yr ROR: 4.7%** — **ROE 03E: 12.4%** — **I/B/E/S EPS 2003E: $2.61**
Dividend: $1.52 — **2-Yr Target: $46.00** — **2-Yr ROR: 10.3%** — **BVPS 03E: $21.49** — **I/B/E/S EPS 2004E: $2.77**
Credit Ratings: S&P: BBB/Stable
Qtly EPS (f.d.) (Next Release: 05-Nov-03) — **Valuation: 15.5x P/E on 2004 EPS est.**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
2002A	1.70 A	0.03 A	-0.44 A	1.23 A	2.45	15.6
2003E	1.42 A	0.16 A	-0.20	1.22	2.60	17.1
2004E	1.55	0.15	-0.20	1.30	2.80	15.9
2005E	1.60	0.20	-0.15	1.35	3.00	14.8

Source: Reuters; Company reports; Scotia Capital estimates
Historical price multiple calculations use FYE prices.

Capitalization	
Shares O/S (M)	51.2
Total Value($M)	2,276
Float O/S (M)	51.2
Float Value($M)	2,276
TSX Weight	0.37%

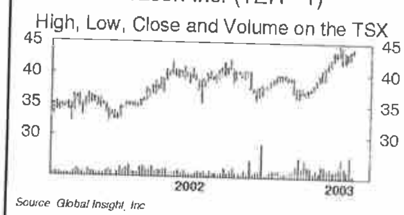
Share Impact and Valuation

- **Mildly Favourable on Q2/03 EPS and Gas Utility PBR Settlement:** Terasen Inc. (TER) had Q2/03 EPS of $0.16 per share, a little above our $0.13 per share estimate and First Call's average of $0.14 per share. Trans Mountain earned $0.19 per share in Q2/03 versus $0.13 per share in Q2/02, a favorable surprise, as strong California demand for heavy Canadian oil filled the Trans Mountain System. TER missed analysts' estimates in Q1/03 but stayed with 6% EPS growth guidance for 2003. EPS growth guidance remains the same after the Q2/03 EPS results that include a $3.8M foreign currency loss. Corridor earnings finally commenced at about $16M per year annualized as of May 1, 2003. The 33% Express oil pipeline interest lost $0.01 per share due to a $3.8M foreign currency loss on the stronger Canadian dollar, a small negative surprise. There was a new four year performance based rate (PBR) settlement agreed upon in Q3/03 for Terasen Gas, but the capital structure and ROE remains under the existing formula tied to long Canada interest rate forecasts. This could cost TER 50 to 75 basis points at 4.9% to 5.0% interest rate levels.
- **Valuation:** Our one-year TER share price target increases to $45.00 per share (up $2.00 per share). It is set using a 15.5x P/E multiple on a 2004 and 2005 EPS average of $3.00 per share (We use 16x for TransCanada Corporation and 16.5x for Enbridge Inc.). A likely expansion of the Express pipeline appears to have drifted to late 2005, but also appears increasingly certain. This expansion could add $0.10 per share annualized to EPS by 2006.

Pertinent Revisions (TER)	New	Old
1-Yr Target:	$45.00	$43.00
2-Yr Target:	$46.00	$44.00
EPS04E:	$2.80	$2.85
EPS05E:	$3.00	--

New Valuation:
15.5x P/E on 2004 EPS est.
Old Valuation:
15x P/E on 2004 EPS est.

Terasen Inc. (TER - T)



Developments

- **Q203 Natural Gas Distribution:** Terasen Gas earnings were flat at a loss of $8.3M versus a loss of $8.2M in Q2/02 that was mildly disappointing. The Q2/03 loss was lower at $0.16 per share due to a higher number of shares

Investment Views For Monday, April 28, 2003

BC Gas Inc.
(BCG $38.08)
Low Q1/03 EPS
3-Sector Underperform, Low Risk

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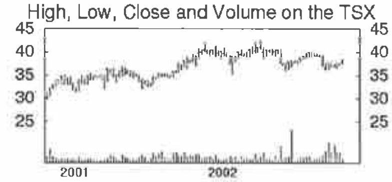
Apr 25, 2003: $38.08 **1-Yr Target: $41.00** **1-Yr ROR: 11.7%** **ROE 03E: 12.4%** **I/B/E/S EPS 2003E: $2.59**
Dividend: $1.52 **2-Yr Target: $42.00** **2-Yr ROR: 18.3%** **BVPS 03E: $21.53** **I/B/E/S EPS 2004E: $2.76**
Credit Ratings: S&P: BBB+/Watch Negative **Valuation: 14.5x P/E on 2004 EPS est.**
Qtly EPS (f.d.) (Next Release: 25-Apr-03)

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.0	Shares O/S (M)	56.4
2002A	1.70 A	0.03 A	-0.44 A	1.23 A	2.45	15.6	Total Value($M)	2,147
2003E	1.42 A	0.13	-0.20	1.25	2.60	14.6	Float O/S (M)	56.4
2004E	1.60	0.15	-0.20	1.30	2.85	13.4	Float Value($M)	2,147
							TSX Weight	0.35%

Source: Reuters; Company reports; Scotia Capital estimates
Historical price multiple calculations use FYE prices.

Share Impact and Valuation

BC Gas Inc. (BCG - T)
High, Low, Close and Volume on the TSX



Source: Global Insight, Inc

- **Q1/03 EPS were below estimates but management still guiding to 6% YOY EPS growth in the $2.60 per share area.** BC Gas (BCG) announced Q1/03 EPS of $1.42 per share, below our $1.77 per share estimate and First Call's average of $1.60 per share. There were no non-recurring items in Q1/03. Our EPS miss can be attributed to underestimating the dilution impact of the two 2002 BCG equity issues, flat energy utility results, and/or the minor delay in the timing of the Corridor oil pipeline start-up. The Corridor oil pipeline started up in April 2003 and earnings of about $16M per year will commence on a steady basis as of May 1, 2003, with immediate ramp-up. The purchase of 33% of the Express oil pipeline closed on January 9, 2003, and contributed $0.06 per share to Q1/03 EPS. BCG will change its name to Terasen on April 28, 2003, and the company's ticker symbol will change from BCG to TER on May 5, 2003.
- **Valuation:** Our BCG one-year share target of $41.00 per share is set using a 14.5x P/E multiple on unchanged 2004 EPS of $2.85 per share. A likely expansion of Express by mid-2004 could, according to BCG, add $0.10 per share and we have assumed half of that in 2004. BCG raised its dividend to $1.56 per share, $0.04 per share above our estimate. Scotia Economics forecast calls for materially higher 10-year Canada rate of 5.9% from today's current 5.0%, negative for higher yielding defensive stock valuations. Short-term, issues like the Iraq war and now, SARS, have made Canadian investors more defensive.

Developments

- **Q1/03 Natural Gas Distribution:** This segment's earnings were flat at $67.1M versus $66.8M in Q1/02 that was mildly disappointing ($1.30 per share versus $1.68 per share). There were no specific features other than a rebasing of Centra Gas' incentive regulatory settlement. BCG has filed for a 2004 to 2008 incentive regulatory settlement that will cover both operating and capital incentives. Centra Gas has settled on a three-year term beginning in 2003 with an allowed ROE rising 0.375%. Earned ROE at BCG for 2002 was 9.2% while its proposed formula would give BCG a 9.4% ROE for 2003.

- **Q1/03 Petroleum Transportation**: EPS contribution was flat at $0.16 per share. Higher earnings of $8.3M versus $6.5M were due to strong volume throughput in late Q1/03 as the United States was concerned about Iraq and Venezuela crude supply. BCG's five-year agreement with its oil shippers assumes a volume floor of 30M m^3 per day area in a 28,500 to 32,000 m^3 per day band. A 50:50 revenue sharing occurs above 32,000 m^3 per day. 100% of gains are net to Trans Mountain Pipe Line (TMPL) up to 32,000 m^3 per day. The $690M Corridor oil pipeline was completed on time and on budget. Full year EPS pick-up from Corridor will be about $16M or $0.25 per share excluding corporate interest allocation and new equity dilution impacts. BCG paid about $200M for its 33% share of the Express Pipeline System on January 9, 2003. The acquisition included assumed debt of 33% or $582M that came with the asset. Its $3.3M contribution in Q1/03, or $0.06 per share, was split $2.9M and $0.4M of tax effect from BCG's partners. This ratio will remain relatively consistent. Express results will not have any seasonal effects. BCG intends to have an open season by Q4/02 on a possible $80M Express expansion. The Express pipeline is expected to contribute $12M per year to earnings.
- **Strategic Initiatives**: BCG's Bison bitumen oil pipeline project is proceeding well. This would bring Athabasca bitumen down to Edmonton. Enbridge is the main competitor to BCG. The Pacific Inland Pacific Connector project ($495M, 246Km pipeline to extend the Southern Crossing gas pipeline to Sumas) is progressing slowly.
- **Financial**: BCG's credit rating is under negative watch by S&P. Targeted EPS growth remains 6%+ per year with a targeted ROE of 12% or higher.

Within the last 24 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, the following issuers: BC Gas Inc.

Scotia Capital

THE DAILY EDGE

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Investment Views For Monday, February 17, 2003

BC Gas Inc.
(BCG $39.70)
Q4/02 EPS OK
3-Sector Underperform, Low Risk

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Feb 14, 2003: $39.70 **1-Yr Target: $41.00** **1-Yr ROR: 7.1%** **ROE 03E: 12.4%** **I/B/E/S EPS 2003E: $2.59**
Dividend: $1.52 **2-Yr Target: $42.00** **2-Yr ROR: 13.5%** **BVPS 03E: $21.53** **I/B/E/S EPS 2004E: N/A**
Credit Ratings: S&P: BBB+/Watch Negative **Valuation: 14.5x P/E on 2004E EPS**
Qtly EPS (f.d.) (Next Release: 25-Apr-03)

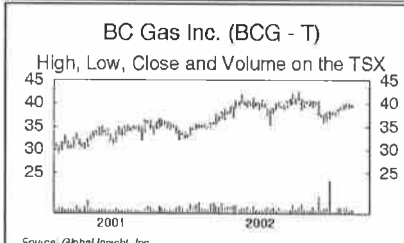
Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.0	Shares O/S (M)	56.3
2002A	1.70 A	0.03 A	-0.44 A	1.23 A	2.45	15.6	Total Value($M)	2,234
2003E	1.77	0.03	-0.30	1.10	2.60	15.3	Float O/S (M)	56.3
2004E	1.80	0.10	-0.25	1.20	2.85	13.9	Float Value($M)	2,234
							TSX Weight	0.35%

Source: Reuters; Company reports; Scotia Capital estimates
Historical price multiple calculations use FYE prices.

Share Impact and Valuation

- **Q4/02 EPS In Line With First Call Average:** BC Gas Inc. (BCG.TO) announced Q4/02 EPS of $1.23 ($1.28 per share in Q4/01), mildly higher than our $1.12 per share estimate and in line with the First Call average of $1.23 per share. A $0.09 per share loss on BCG's 500,000 share ownership of Westport ($6.00 per share remaining carrying cost) was taken in Q3/02. The $300M equity deal (7.931M BCG shares at $38.00 per share) in early December 2002 was the second BCG equity deal in 2002. These deals caused the quarterly reported earnings numbers to differ from the annual numbers. The purchase of 33% of the Express oil pipeline closed on January 9, 2003. Management was "not uncomfortable" with the analyst's $2.58 to $2.62 2003 EPS estimate range, provided that the Corridor oil pipeline's earnings contributions begin no later than April 1, 2003. The latest that Corridor's profitability could start has been contractually agreed to be June 1, 2003. A one-month timing change could cost BCG $0.03 of EPS.
- **Valuation:** Our BCG one-year share price target of $40.00 will now increase by $1.00 per share to $41.00 per share using a 14.5x P/E multiple on slightly higher 2004E EPS. We chose to add $0.05 per share to our 2004E EPS for an increasingly likely expansion of the Express Pipeline that, according to BCG, could add $0.10 per share. Our 2003 dividend forecast of $1.52 per share assumes a 7.8% increase from today's $1.41 per share. The new $690M Corridor oil pipeline will begin contributing to EPS as of March 1, 2003, while the Express Pipeline acquisition began contributing as of January 9, 2003. Scotia Economics' forecast calls for materially higher 10-year Canada rates to 5.8% from today's 5.0%, mildly negative for high yielding defensive stock valuations. We continue to believe that most defensive, high yielding stocks with regulated operations like BCG will underperform the TSX average over the next year. Our strategist's TSX target is 8000 or 23% higher than today's level. Scotia Economics also remains positive on 2003 economic recovery prospects.

Pertinent Revisions (BCG)		
	New	**Old**
1-Yr Target:	**$41.00**	**$40.00**
EPS03E:	$2.60	$2.62
EPS04E:	$2.85	$2.80
New Valuation:		
14.5x P/E on 2004E EPS		
Old Valuation:		
14x P/E on 2004E EPS		



Developments

- **Q402 Natural Gas Distribution:** This segment's earnings improved to $50M in Q4/02 from $45.1M in Q4/01. Centra BC contributed about $5.6M prior to corporate debt cost allocation. BCG has filed for 2003 rates with the BCUC and continues to work on a multi-year PBR structure settlement. Centra BC has settled on a year-to-year term beginning in 2003 with an allowed ROE rising 0.5% to 9.92%. Approval from the BCUC on February 4, 2003, gave BCG a 9.42% ROE for 2003. A five-year performance-based rate incentive system continues to be pursued with the BCUC.
- **Q4/02 Petroleum Transportation**: EPS contribution was up $0.02 per share YOY to $0.23 per share as oil throughput was 4% lower YOY. BCG's five-year agreement with its oil shippers assumes a volume floor of 30M M^3 per day area in a 28,500 M^3 to 32,000 M^3 per day band with 50:50 sharing above 32,000 M^3 per day. There are no inflation escalators for tolls and 100% of gains are net to the TransMountain PipeLine up to 32,000 M^3 per day. The $690M Corridor oil pipeline was completed on time and on budget. Full year EPS pickup from Corridor is expected to be about $0.15 to $0.20 per share excluding corporate interest allocation and new equity dilution impacts. BCG paid about $198M for its 33% share of the Express Pipeline system on January 9, 2003. The acquisition included assumed debt of 33% of $582M that came with the asset. To date, management has expressed satisfaction with the operating results and investment expectations from the Express Pipeline.
- **Strategic Initiatives**: BCG's Pacific Inland Pacific Connector project ($495M, 246 km pipeline to extend the Southern Crossing gas pipeline to Sumas) is progressing slowly, as is the BCG Bison oil pipeline project in Alberta. A new natural gas pipeline to Vancouver to feed new power plants may also move forward over time.
- **Financial**: BCG has previously stated its desire to keep its payout ratio in the 60% area. Targeted EPS growth remains 6%+ per year with a targeted ROE of 12% or higher. BCG's consolidated debt to equity capital structure was 68%/32% at December 31, 2002. While its credit rating was reaffirmed by both Moody's and DBRS, S&P continues to have BCG's credit on negative watch. 2003 CAPEX is forecast to be 225M.

Within the last 24 months, Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to BC Gas Inc.

CREDIT SUISSE | FIRST BOSTON
Equity Research

COMPANY UPDATE

BC Gas Inc.

BCG.TO

Regulatory Decisions Support Earnings Growth

- **BC Gas has recently received important regulatory decisions for its two gas distribution utilities. The decisions support our $2.60 EPS forecast for this year and our outlook for near-term EPS growth of about 8%. We are introducing a 2004 EPS forecast of $2.80 and maintaining our $44 target price and Outperform rating.**
- **On February 4, the BC Utilities Commission (BCUC) issued its decision on the BC Gas Utility 2003 revenue requirement (rates). We see the BCUC decision on BC Gas Utility as positive, despite the disallowance of $8.7 million in costs. The fact that BC Gas Utility avoided the need to cut rates and fully re-base cost savings should be viewed as a positive development for shareholders.**
- **The allowed revenue level at BC Gas Utility also provides a base for entry into a new incentive rates framework in 2004. The BCUC endorsed and encouraged the utility and its customers to negotiate an incentive rates structure and to file the specifics later this year. This new regulatory framework is likely to deliver further efficiency benefits to BC Gas shareholders and its customers.**
- **On January 14 2003, the BCUC approved the rates settlement Centra BC negotiated with its customers in December 2002. The approved settlement gives Centra an improved allowed ROE and implements a new incentive rate agreement. A new incentive rates framework gives Centra BC the opportunity to earn in excess of the allowed ROE for the next three years.**
- **The higher allowed utility ROEs and emerging flexibility to boost returns under incentive regulation give us more confidence in our positive outlook for BC Gas Inc. Our $44 target price is based on a 15.7 multiple of 2004 forecast EPS. Despite the premium valuation, we maintain our Outperform rating because we think the combination of safety and growth will continue to be attractive in current market conditions.**

BC Gas is a gas distribution utility with a growing pipeline business. It owns BC Gas Utility, the largest gas distribution company serving British Columbia, including Vancouver and the interior. It also owns Trans Mountain Pipe Line, the only pipeline transporting oil from Western Canada directly to the Canadian West Coast, and Southern Crossing Pipeline, transporting natural gas along the U.S. border of British Columbia.

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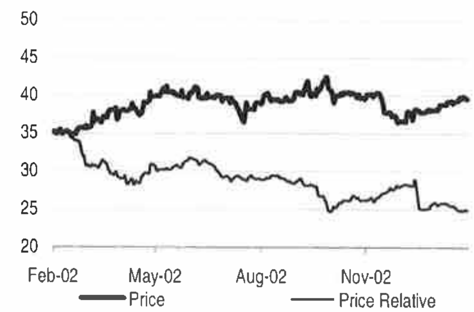
For specific information relating to the Firm's investment banking relationships, if any, with companies mentioned in this report and for important disclosure information regarding the Firm's rating system, valuation methods, and potential conflicts of interest, please refer to the Disclosure Section at the end of the report.

Rating	OUTPERFORM*
Price (06 Feb 03)	39.79 (C$)
Target price (12 months)	44.00 (C$)
52 week high - low	42.50 - 34.52
Market cap. (C$m)	1,738.82
Enterprise value (C$m)	5,142.0
Region / Country	Americas / Canada
Sector	Gas Utilities
Analyst's Coverage Universe	Pipelines & Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	07 February 2003

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*

Price / Indexed Canada TSE Composite 300



On 02/06/03 the S&P / TSX Composite index closed at 6489.25.

Year	12/01A	12/02E	12/03E
EPS (CSFB adj., C$)	2.21	2.40	2.60
Prev. EPS (C$)	—	—	—
P/E (x)	18.0	16.6	15.3
P/E rel. (%)	91.5	82.0	107.9
Q1 EPS	1.59	1.70	—
Q2	-0.08	0.03	—
Q3	-0.58	-0.45	—
Q4	1.28	1.22	—

Number of shares (m)	51.5	Dividend 2001A (C$)	1.30
BV/Share (09/02A, C$)	21.89	Dividend 2002A (C$)	1.41
Debt (09/02A, C$m)	2,967.9	Dividend 2003E (C$)	1.53
Debt/Total cap. (2002E)	67%	Dividend yield	3.6%

Year	12/01A	12/02E	12/03E
EBITDA (C$m)	370.7	451.4	519.8
OCFPS (C$)	5.10	5.46	5.75
P/OCF (x)	7.8	7.3	6.1
EV/EBITDA (x)	13.2	11.4	9.9
ROE	11.3%	11.1%	11.2%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

Investment Summary

BC Gas has recently received important regulatory decisions for its two gas distribution utilities. The decisions support our $2.60 EPS forecast for this year and our outlook for near-term EPS growth of about 8%. We are introducing a 2004 EPS forecast of $2.80 and maintaining our $44 target price and Outperform rating.

Rates cases had been under review for the company's two main utility holdings, BC Gas Utility and Centra Gas BC. BC Gas Utility had effectively been operating under an incentive rates framework for six years. Centra BC had operated under a formula return methodology instituted by the previous owner, Westcoast Energy. Both rates decisions therefore establish new benchmarks for BC Gas Inc.

BC Gas Utility Now Has Opportunity For New Incentive Rates In 2004

On February 4, the BC Utilities Commission (BCUC) issued its decision on the BC Gas Utility 2003 revenue requirement (rates). BC Gas had requested a rates increase that would boost its revenues by $17.4 million. Instead, the BCUC disallowed $8.7 million in costs and allowed an increase that will boost revenues by $8.7 million.

In fact, the total 2003 revenue increase at BC Gas Utility will be $12.2 million, not $8.7 million. The BCUC had previously allowed for $3.5 million in new revenues to compensate for the 2003 allowed ROE of 9.42%, up from 9.13% in 2002.

We see the BCUC decision on BC Gas Utility as positive, despite the disallowance of $8.7 million in costs. Having been in an incentive rates framework for years, BC Gas Utility has no doubt reduced its cost structure materially. In many instances, utilities coming out of incentive ratemaking are forced to cut their rates (and revenues) to reflect the lower cost structure (this type of rate reduction is termed "re-basing"). The fact that BC Gas Utility avoided the need to cut rates and fully re-base cost savings should be viewed as a positive development for shareholders.

The allowed revenue level also provides a base for entry into a new incentive rates framework in 2004. The BCUC endorsed and encouraged the utility and its customers to negotiate an incentive rates structure and to file the specifics later this year. This new regulatory framework is likely to deliver further efficiency benefits to BC Gas shareholders and its customers.

Centra BC Goes Into Incentive Rates This Year

On January 14 2003, the BCUC approved the rates settlement Centra BC negotiated with its customers in December 2002. The approved settlement gives Centra an improved allowed ROE and implements a new incentive rate agreement.

Centra will move from having one of the lowest allowed ROEs in the country to a mid-tier allowed ROE. Previously, the allowed ROE was calculated as the Long Canada Bond yield plus 362.5 basis points. As bond yields dropped, Centra's allowed ROE fell to about 9.4%. Under the new formula, the allowed ROE will be calculated as the BC

Gas Utility allowed ROE plus 50 basis points. This formula derives an allowed ROE of 9.92% for 2003.

A new incentive rates framework gives Centra BC the opportunity to earn in excess of the allowed ROE for the next three years. Operating costs in rates will rise by a pre-determined amount (a total of about $1 million) over the 2003 – 2005 period. Any difference between actual operating costs and the costs flowing into rates will accrue to the shareholder. Therefore, Centra BC can earn more than the allowed ROE if it cuts costs over the next three years. There will be no revenue requirement applications at Centra BC until 2005 for 2006 rates.

The allocation of Centra BC's revenue requirement to various customer classes is yet to be decided. Some public controversy over the relative allocation to commercial, industrial and residential property classes has erupted in Victoria. Though this is an important issue to the utility's customers, it is not an important issue for its shareholders. Earnings are not affected by the relative allocation of revenues between customer classes.

Conclusions

The higher allowed utility ROEs and emerging flexibility to boost returns under incentive regulation give us more confidence in our positive outlook for BC Gas Inc. The combination of gas distribution incentive regulation and new earnings from the Corridor and Express Pipelines should drive 8% annual EPS growth for the company as a whole. Our $44 target price is based on a 15.7 multiple of 2004 forecast EPS. Despite the premium valuation, we maintain our Outperform rating because we think the combination of safety and growth will continue to be attractive in current market conditions.

UBS

Global Equity Research

Canada

Gas Utilities

UBS Investment Research

Terasen Inc.

Rating	Neutral 1 *Unchanged*
Price target	C$46.50/US$34.81 *Unchanged*
Price	C$47.78/US$35.76

RIC: TER.TO BBG: TER CN

23 December 2003

Express delivery

- **Successful completion of Express open season**

Terasen announced it has received sufficient support from shippers during an open season to proceed with its proposed Express pipeline system expansion. The expansion, scheduled for completion by April 2005, is expected to increase capacity by 105,000 bpd or 63% to 280,000 bpd. New commitments totaling 105,000 bpd have been received, including 30,000 bpd of existing and 75,000 bpd of expansion capacity.

- **Additional expansion opportunities exist**

In addition to the Express expansion, we expect a number of incremental expansion opportunities for Terasen's Trans Mountain Pipeline which may result in earnings momentum. Moreover, such potential expansion projects further aid the displacement of Canadian crudes into multiple markets; thereby, avoiding potential market saturation.

- **Crude market dynamics may swing pipe reality**

A continuation of relatively strong refining margins in selected regions may result in Terasen's status as a swing pipeline lessening in degree.

- **Valuation: 12-month target price of C$46.50**

We retain our Neutral 1 rating and C$46.50 12-month price target. Moreover, we continue to employ multiple valuation methodologies to obtain our price target; including: a 1.4x P/BV multiple to our 2004E book value; a projected dividend yield of 3.5%; and a dividend yield spread of 150 bps.

Highlights (C$m)	12/01	12/02	12/03E	12/04E	12/05E
Revenues	1,666	1,707	1,754	2,060	2,097
EBIT	295	337	383	412	420
Net income (UBS)	99	125	144	145	148
EPS (UBS, C$)	2.19	2.43	2.64	2.73	2.80
Net DPS (UBS, C$)	1.30	1.41	1.53	1.62	1.71

Profitability & Valuation	5-yr hist. av.	12/02	12/03E	12/04E	12/05E
EBIT margin %	-	19.7	21.9	20.0	20.0
ROIC (EBIT) %	-	9.5	9.4	9.9	9.9
EV/EBITDA x	-	9.7	10.3	9.8	9.6
PE (UBS) x	-	15.8	18.1	17.5	17.1
Dividend yield %	-	3.7	3.2	3.4	3.6

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$47.78 on 19 Dec 2003

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Trading data (local/US$)	
52-wk. range	C$47.88-36.35/US$36.35-24.10
Market cap.	C$2.48bn/US$1.86bn
Shares o/s	52m (COM)
Free float	100%
Avg. daily volume ('000)	74
Avg. daily value (C$m)	3.4

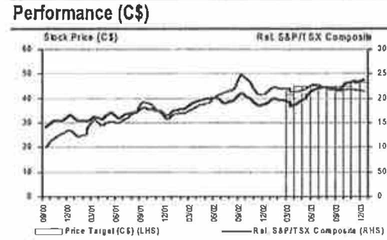
Balance sheet data 12/03E	
Shareholders' equity	C$1.52bn
P/BV (UBS)	1.6x
Net cash (debt)	(C$2.96bn)

Forecast returns	
Forecast price appreciation	-2.7%
Forecast dividend yield	3.4%
Forecast stock return	+0.7%
Market return assumption	7.7%
Forecast excess return	-7.0%

EPS (UBS, C$)

	12/03 UBS	12/03 Cons.	12/02 Actual
Q1	-	-	-
Q2	-	-	-
Q3	-	-	-
Q4E	-	-	-
12/03E	2.64	-	
12/04E	2.73	-	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6

to dictate the direction and extent of Enbridge's continental siege and Terasen's potential incremental successes.

Valuation

12-month target price of C$46.50

We retain our Neutral 1 rating and C$46.50 12-month price target. More recently, we have begun take a more favourable view towards this name, in part due to the lessening degree of "swing" in the Trans Mountain line, as well as improved operational and financial performance along with decreased financial leverage. Nevertheless, Terasen's share price has risen 25.2% year-to-date, and we view the stock as fully valued at this time. We continue to employ multiple valuation methodologies to obtain our price-target; including: a 1.4x P/BV multiple to our 2004E book value; a projected dividend yield of 3.5%; and a dividend yield spread of 150 bps.

Risks

There are a number of risks facing Terasen, including:

- One must always be cognisant of the regulator's power and ability to significantly affect the amount of the allowed or incentive returns that regulated utility-based assets may generate.

- Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings.

- A substantial amount of the gas distribution company's industrial customers are forestry industry related and, therefore, the softwood lumber dispute and other trade actions may indirectly impact earnings.

- The BC government's energy policy, especially as it relates to electricity, affects the comparable affordability of natural gas and future earnings prospects for Terasen.

- Oil sands related developments and potential diluent constraints might impact longer- term earnings growth.

- **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**

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UBS

Table 1: Natural gas distribution

	Q303	Q302	Q203	Chg (%) y-o-y	Chg (%) seq.
Earnings (C$ millions)					
Terasen Gas	(25.5)	(27.0)	(8.3)	-6%	207%
TGVI	7.1	5.6	5.8	27%	22%
Total	(18.4)	(21.4)	(2.5)	-14%	636%
Number of customers	851,551	847,466	851,261	0.5%	0.0%
Volumes (petajoules):					
Sales volumes	81.7	95.7	69.7	-14.6%	17%
Transportation volumes	44.7	49.3	33.1	-9%	35%
Throughput*	15.9	17.9	9.9	-11%	61%
	142.3	162.9	112.7	-13%	26%

*fixed-price contracts

Source: UBS, Company reports

Petroleum transportation

Terasen's strong earnings were driven by the Petroleum Transportation division. Strong throughput on the Trans Mountain, the inclusion of throughput on the Express System, and the commencement of the Corridor Pipeline's commercial operations contributed to the strong results. Although volumes on the Trans Mountain increased 11% y-o-y and 4% q-o-q, throughput was affected by forest fires, which caused temporary outages at some of the company's pump stations. Terasen rented power generators which negatively impacted system costs in the quarter.

Trans Mountain 11% y-o-y volume increase

Table 2: Petroleum transportation

	Q303	Q302	Q203	Chg(%) y-o-y	Chg(%) seq.
Earnings (C$ millions)					
Trans Mountain	7.90	6.70	9.60	18%	-18%
Express System	2.80	-	2.90	-	-3%
Corridor	3.80	-	0.00	-	-
Total	14.50	6.70	12.50	116%	16%
Volumes (b/d):					
Trans Mtn Cdn mainline	215,300	194,400	206,200	11%	4%
Trans Mtn US mainline*	53,600	47,200	52,600	14%	2%
Express System	170,300	167,500	168,100	2%	1%

Source: UBS, company reports

■ 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

Please see above risks for greater details. Moreover, 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.

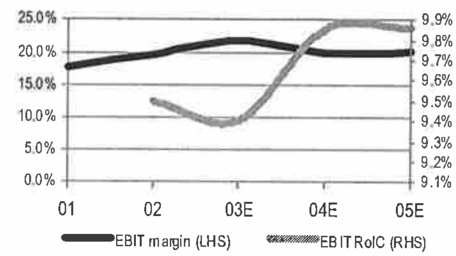
Terasen Inc.

Per share (C$)	12/01	12/02	12/03E	12/04E	12/05E
EPS (diluted)	2.19	2.43	2.64	2.73	2.80
CFPS (diluted)	1.53	6.08	4.87	6.12	6.07
DPS	1.30	1.41	1.53	1.62	1.71
BVPS	22.86	27.09	29.11	30.96	35.45
Income statement (C$ m)					
Revenues	**1,666**	**1,707**	**1,754**	**2,060**	**2,097**
EBITDA	390	452	512	550	560
EBIT	**295**	**337**	**383**	**412**	**420**
Pretax income	154	188	214	213	218
Net income	99	125	144	145	148
Cash flow (C$ m)					
EBIT	295	337	383	412	420
Depreciation & amortization	95	116	129	138	140
Change in NWC	(47)	(90)	(77)	(22)	(146)
Other (operating)	(1)	5	8	8	8
Operating cash flow	**342**	**367**	**443**	536	**422**
Tax paid	(56)	(63)	(71)	(68)	(70)
Capital expenditure	(470)	(396)	(216)	(160)	(140)
Net interest	(148)	(161)	(177)	(211)	(214)
Dividends paid	(56)	(67)	(84)	(84)	(89)
Net (acquisitions) / disposals	0	(305)	(213)	0	0
Other items	(23)	412	29	63	179
Change in net debt	**(411)**	**(213)**	**(288)**	76	**89**
Operating free cash flow (OpFCF) (C$ m)					
Core EBITDA	390	452	512	550	560
Less: Maintenance capex	(95)	(116)	(129)	(138)	(140)
Less: Maintenance NWC	0	0	0	0	0
OpFCF	295	**337**	**383**	**412**	**420**
Balance sheet (C$ m)					
Net tangible fixed assets	3,122	3,852	3,949	3,955	3,955
Net intangible fixed assets	22	101	97	97	97
Net working capital	(51)	39	116	138	285
Total invested capital (IC)	**3,092**	**3,992**	**4,162**	**4,190**	4,336
Financial & other fixed assets	59	87	87	87	87
Net cash / (debt)	(2,455)	(2,667)	(2,955)	(2,879)	(2,790)
Provisions	0	0	0	0	0
Minority interests	0	0	0	0	0
Shareholders' equity	**891**	**1,417**	**1,522**	**1,619**	1,854
Profitability					
EBITDA margin	23.4%	26.5%	29.2%	26.7%	26.7%
EBIT margin	**17.7%**	**19.7%**	**21.9%**	**20.0%**	**20.0%**
EBIT RoIC		**9.5%**	**9.4%**	**9.9%**	**9.9%**
Net RoE	11.2%	10.8%	9.8%	9.2%	8.5%
Interest coverage (EBIT)	2.0x	2.1x	2.2x	2.0x	2.0x
Dividend coverage	1.7x	1.7x	1.7x	1.7x	1.6x
Productivity					
S,G&A % revenues	**16.4%**	**20.8%**	**20.7%**	**18.5%**	**18.5%**
Depreciation % revenues	5.7%	6.8%	7.4%	6.7%	6.7%
Capex % revenues	28.2%	23.2%	12.3%	7.8%	6.7%
Invested capital turnover		**0.5x**	**0.4x**	**0.5x**	**0.5x**
Tax rate	36.2%	33.7%	32.9%	31.9%	32.1%
Net debt/total equity	275.4%	188.3%	194.1%	177.8%	150.5%
Momentum					
Revenue growth	NM	+2.5%	+2.7%	+17.5%	+1.8%
EBIT growth	NM	+14.0%	+13.9%	+7.3%	+2.2%
Net earnings growth	NM	+26.4%	+15.2%	+0.8%	+2.5%
Dividend growth	NM	+8.5%	+8.4%	+6.0%	+5.8%
Value*					
Market capitalization (C$ m)	1,406	1,812	2,423	2,423	2,423
Plus: Core net debt / (cash)	2,249	2,561	2,811	2,917	2,873
Plus: Pension provisions	-	-	-	-	-
Plus: Buyout of minorities	-	-	-	-	-
Less: Noncore assets	-	-	-	-	-
Enterprise value (EV, avg)	**3,655**	**4,373**	**5,234**	**5,340**	**5,296**
EV/Revenues (core)	2.19x	2.56x	2.98x	2.59x	2.52x
EV/EBITDA (core)	9.4x	9.7x	10.2x	9.7x	9.4x
EV/EBIT (core)	12.4x	13.0x	13.7x	13.0x	12.6x
EV/OpFCF	**12.4x**	**13.0x**	**13.7x**	**13.0x**	**12.6x**
EV/Invested capital		1.2x	1.3x	1.3x	1.2x
P/CF	21.6x	6.3x	9.6x	7.6x	7.7x
P/E	**15.2x**	**15.8x**	**17.7x**	**17.1x**	**16.7x**
Dividend yield	3.92%	3.68%	3.28%	3.47%	3.67%
P/BV (average)	1.5x	1.4x	1.6x	1.5x	1.3x

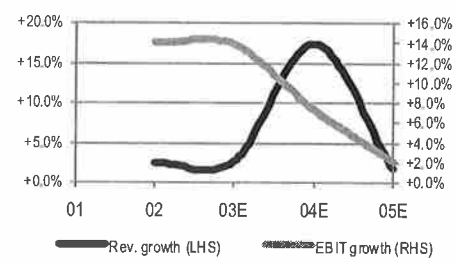
Source: UBS estimates, * Historical valuations are based on an 'average for the year' share price. Current and future valuations are based on a share price of C$46.64 on 11/04/2003

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.

Profitability (EBIT margins & RoIC)

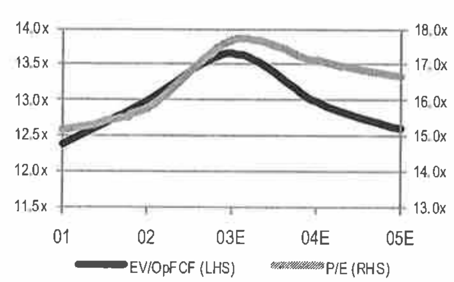


Momentum (Revenue & EBIT growth)



Geographic exposure (Revenues)

Value (EV/OpFCF & P/E)



UBS

Global Equity Research

Canada

Gas Utilities

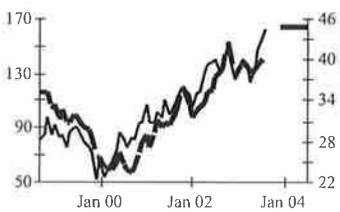
Rating	**Neutral 1**
Price target	**C$45.00 (+1%)**
RIC: TER.TO	

UBS Investment Research

Terasen Inc.

31 July 2003

Price	C$44.45
52 week range	44.74/36.35
Market capitalization	C$2.31bn/US$1.65bn
Shares outstanding	52m
Convertible securities	N
Free float (%)	100
Average volume ('000)	106



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C$m	Rev.	EBITDA	EBIT	UBS EPS	Reported EPS	DPS	EV/ EBITDA	EV/EBIT	UBS PE	Div. yield
12/01	1,666.3	390.3	295.2	2.19	2.19	1.30	9.4x	12.4x	20.3x	2.9%
12/02	1,707.2	452.1	336.5	2.43	2.43	1.41	9.7x	13.0x	18.3x	3.2%
12/03E	1,766.5	483.3	356.3	2.59	2.59	1.53	10.5x	14.2x	17.2x	3.4%
12/04E	2,056.7	546.5	408.4	2.68	2.68	1.62	9.3x	12.5x	16.6x	3.6%
12/05E	2,094.3	557.2	417.2	2.74	2.74	1.71	9.0x	12.1x	16.2x	3.9%

*PE and yield based on share price of C$44.45 from 7/31/03. All per share data is displayed in C$
Source: UBS

UBS EPS	Q1	Q2	Q3	Q4
2002	–	–	–	–
2003	–	–	–	–

Pipeline full of profits

Event

Terasen reported Q2 2003 EPS (FD) of C$0.16 versus our estimate of C$0.13 and the Street's C$0.14. Treating a negative foreign exchange impact would result in an adjusted EPS of C$0.23 versus C$0.03 one year earlier.

Impact

Albeit the currency movement is one-time, we believe these types of fluctuations to be a part of normal operations. Thus, we consider the Q2 2003 EPS to be a still impressive C$0.16/share.

Valuation

Multiple methods are utilized to obtain our C$45.00 12-month target price, including: a 1.4x P/BV multiple to our 2004E book value; a projected dividend yield of 3.5%; and a dividend yield spread of 150 bps.

Action

In our view, Terasen's results were extremely impressive across the board. The foreign exchange impact was the only real negative. We retain our Neutral 1 rating and C$45.00 12-month target price.

Terasen reported strong Q2 2003 earnings of C$0.16/share versus our C$0.13 estimate and the Street's C$0.14. We continue to believe Terasen possesses an enviable blend of regulated stability from its BC-based natural gas distribution businesses and potentially significant growth prospects from its petroleum pipelines operations. In our view, the company is well positioned to transport a portion of the growing crude volumes coming out of the oil sands related projects. Our results analysis is divided into three categories: (1) results; (2) going forward; and, (3) valuation.

Results

Terasen reported strong second-quarter net earnings of C$8.2 million, or C$0.16 per share, versus our estimate of C$0.13 and the Street's C$0.14. We view currency fluctuations to be a part of normal operations, however, we note that after stripping out the impact of a C$3.8 million or C$0.07/share foreign exchange loss in the quarter, net earnings would have amounted to C$12 million, or C$0.23/share. The solid Q2 results were driven by strong petroleum transportation results, the inclusion of results from the Express Pipeline System acquired in January 2003, and the 1 May 2003 commencement of shipping on the Corridor Pipeline. Our segmented analysis follows.

Natural gas distribution

Terasen Gas and TGVI continued to show consistent performance in the quarter. Earnings were strong in the context of a 5.2% year–over–year decline in sales volumes. Customer growth continued on pace, growing 0.9% year–over–year in the quarter.

Natural gas distribution (C$ millions)

	Q203	Q202	Q103	Chg (%) y-o-y	Chg (%) seq.
Terasen Gas	(8.3)	(8.2)	61.1	1%	-114%
TGVI	5.8	5.2	6.0	12%	-3%
Total	**(2.5)**	**(3.0)**	**67.1**	**-17%**	**-104%**
Number of customers	851,261	843,932	851,922	1%	0%
Volumes (petajoules):					
Sales volumes	69.7	73.5	46.9	-5%	49%
Transportation volumes	33.1	36.8	18.8	-10%	76%
Throughput*	9.9	9.9	3.8	0%	161%
	112.7	**120.2**	**69.5**	**-6%**	**62%**

*fixed-price contracts
Source: Company reports, UBS

Petroleum transportation

Robust earnings growth in the quarter was driven by the Petroleum transportation division. Strong throughput on the Trans Mountain, the inclusion of throughput on the Express System, and the commencement of the Corridor Pipeline's commercial operations contributed to the strong results. Aside from a foreign exchange item, in our view, earnings and throughput for this business group were nothing less than spectacular.

Petroleum transportation (C$ millions)

	Q203	Q202	Q103	Chg(%) y-o-y	Chg(%) seq.
Trans Mountain	9.60	5.60	8.30	71%	16%
Express System	2.90	-	3.30	-	-12%
Total	**12.50**	**5.60**	**11.60**	**123%**	**8%**
Volumes (b/d):					
Trans Mtn Cdn mainline	206,200	191,200	209,400	8%	-2%
Trans Mtn US mainline*	52,600	46,600	49,900	13%	5%
Express System	168,100	162,900	168,900	3%	0%

Source: Company reports, UBS

We believe Terasen's Trans Mountain Pipeline and the Westridge Dock are enviably positioned to benefit from very robust Californian refinery margins. The table below illustrates selected U.S. refining margins and an historic 5-year average.

Refining Margins (US$/bbl)

	Q203	Q103	Q402	Q302	Q202	5-Year Average
1(E.Coast)Brent-Based	5.41	7.12	4.63	2.99	2.90	4.24
1(E.Coast) WTI-Based	3.80	5.90	4.41	2.97	3.04	4.01
2(Mid west)	7.10	6.20	5.84	5.20	5.70	4.21
3(Gulf Coast)	3.66	5.24	3.69	2.57	3.41	3.06
5(West Coast) ex CA	5.17	4.62	3.41	3.55	3.79	4.74
California	7.86	8.03	5.93	5.00	5.47	6.76
US Weighted Ave	5.08	5.84	4.52	3.58	4.18	4.00

Source: UBS

Clearly Californian margins have been robust and selected industry dynamics may continue this trend. This issue will be addressed in greater detail below.

Other activities

Stronger earnings from the petroleum transportation division were offset in part by an increase in the loss from other activities to $1.5 million from $0.3 million a year earlier. Yet, this loss was better than our projected negative contribution for this segment.

Going forward

We believe Terasen investors, whether existing or prospective, should be aware of three major issues: (1) increasing liquids pipeline competition; (2) new market development; and, (3) balance sheet issues. Each of these will be addressed in greater detail below.

Increasing liquids pipeline competition

In spite of Terasen's very impressive Petroleum Transportation results this quarter, we believe a number of recent major strategic movements by members of North America's oil industry are critical to long-term market development. Firstly, as discussed in our 15 July 2003 research note *Line of march to Oklahoma* , we believe deeper penetration for Canadian crude product is possible within the Petroleum Administration Defense District II region. We believe market support for the reversal of Enbridge's recently acquired Chicago-to-Cushing Pipeline System (CCPS) will be relatively strong. Effectively, Enbridge plans to propose a partially rolled in toll (integrated toll) from all receipt points on its Canadian mainline through all its U.S. delivery points and those accessible from CCPS. With a potential US$0.01/bbl subsidy for this Spearhead project, preliminary estimates for light sweet Canadian crude tolls from Hardisty, Alberta to Cushing, Oklahoma are US$1.95/bbl. According to Enbridge, deliveries to Wood River would roughly be US$2.06/bbl versus US$2.08 on Express/Platte. While we concur with that view, we believe Terasen's foray into PADD IV deliveries, by way of Express, and other potential market opportunities mitigate any significant adverse impact against the Platte pipeline.

New market development

Clearly, Enbridge is attempting to develop new markets for Canadian crude products. In our view, albeit as a swing pipeline, Trans Mountain has developed relatively attractive access into the California market by way of tanker loadings at the Westridge Dock. Over the longer-term, we believe Terasen possesses a number of potential advantages for incremental expansions of the Trans Mountain Pipe Line and potentially very significant new pipeline development to California. Naturally, a number of proposals, both formal and informal, exist for shipping crude products to the presently lucrative California market. While premature to favour any project at this time, Terasen is clearly among those pipeline companies that may benefit from new market development for Canadian crudes.

Balance sheet issues

Given Standard & Poor's 26 June 2003 ratings downgrade of Terasen's long-term credit rating from "BBB+" to "BBB", we no longer possess concerns about the potential for further rating action. Yet, we continue to believe this company, as with a number of other Canadian pipeline and power companies, possesses inadequate amounts of equity within its regulated capital structure. Unfortunately, we view many Canadian companies, including

Terasen, as being trapped in a regulatory prisoner's dilemma regarding their gearing levels. Over-time, we believe this situation will be rectified and Canadian pipeline and power companies will be permitted to earn appropriate returns from acceptable capital structures. For the time being, especially in the context of the recent rating downgrade, we believe capital structure risk has been priced into Terasen's current valuation.

Valuation

We have a degree of skepticism regarding the sustainability of these results, however, aside from the disappointing hedge at Express, we note the company truly impressed in all business areas. Presently, we retain our Neutral 1 rating and C$45.00 12-month price target. Moreover, we continue to employ multiple valuation methodologies to obtain our price-target; including: a 1.4x P/BV multiple to our 2004E book value; a projected dividend yield of 3.5%; and a dividend yield spread of 150 bps.

Risks

There are a number of risks facing Terasen, including:

- One must always be cognisant of the regulator's power and ability to significantly affect the amount of the allowed or incentive returns that regulated utility-based assets may generate.
- Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings.
- A substantial amount of the gas distribution company's industrial customers are forestry industry related and, therefore, the softwood lumber dispute and other trade actions may indirectly impact earnings.
- The BC government's energy policy, especially as it relates to electricity, affects the comparable affordability of natural gas and future earnings prospects for Terasen.
- Oil sands related developments and potential diluent constraints might impact longer-term earnings growth.

Prices of stocks mentioned as of *

Enbridge Inc., ENB.TO, C$50.42 (30 Jul 2003*)
Emera Incorporated, EMA.TO, C$17.43 (30 Jul 2003*)
Fortis Inc., FTS.TO, C$60.16 (30 Jul 2003*)
Terasen Inc., TER.TO, C$43.83 (30 Jul 2003*)
TransAlta Corporation, TA.TO, C$18.67 (30 Jul 2003*)
TransCanada Corporation, TRP.TO, C$25.37 (30 Jul 2003*)

TD Newcrest
The Equity Division of TD Securities

Pipelines & Utilities Bulletin
November 6, 2003

Terasen Inc.
(TER-T) C$47.13

Recommendation:	HOLD (unchanged)
12-Month Target Price:	$47.00 (unchanged)
12-Month Total Potential Return:	3.0 %

Value Creation Continues During Third Quarter

Market Data		Financial Data		Year	Per-Share Data EPS	Div	BV	CF	Ratios ROE	Debt/Cap.	Valuations P/E	Div Yd	P/B	P/CF
Ticker	TER-T	Fiscal Y/E	Dec. 31	2000A	$2.04	$1.23	$17.86	$4.61	12.0%	71.4%	16.3	3.67%	1.9	7.2
Current Price (C$)	$47.13	Shares O/S (mm)	51.9	2001A	$2.19	$1.30	$18.65	$5.09	12.1%	74.5%	15.2	3.92%	1.8	6.5
52-Week Range	$38.85-$46.64	Float (mm)	51.9	2002A	$2.52	$1.41	$24.00	$5.65	11.9%	66.2%	15.1	3.69%	1.6	6.8
Dividend	1.56	EPS Growth	4.3%	2003E	$2.60	$1.53	$24.89	$5.17	10.7%	66.7%	18.1	3.25%	1.9	9.1
Dividend Yield	3.3%	Dividend Payout	61%	2004E	$2.71	$1.65	$25.97	$5.37	10.7%	65.9%	17.4	3.50%	1.8	8.8
Market Cap. (C$ mm)	2,448	Tot. Debt (C$ bln.)	3.0	2005E	$2.86	$1.71	$27.34	$5.71	10.8%	64.6%	16.5	3.63%	1.7	8.3

Notes: (1) All figures in Canadian dollars unless otherwise specified.
(2) Sources for all exhibits are company reports and TD Newcrest estimates unless otherwise specified.
(3) Please see the final pages of this report for important disclosure information.

- Terasen reported EPS of ($0.15) and operating EPS of ($0.17), which was in line with our estimate of ($0.15). The $0.17 increase over ($0.34) Q3/02 EPS was largely a result of the recently constructed Corridor pipeline and the recently acquired Express System.
- No change to our financial forecasts.
- Terasen's valuation is increasingly reflecting the strong organic growth potential associated with the company's many oil sands related pipeline growth initiatives.
- Terasen management has established a venerable track record of shareholder value creation, which we anticipate will continue. We believe that this track record has created broad market expectations of continued value creation, which is increasingly reflected in the valuation. Successful expansions of the TransMountain pipeline and Express System, in particular, are likely largely reflected in the current stock price. There could be some upside if the arrangement with Express partners is more favourable to Terasen than we can infer based on current disclosure.

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Third Quarter Earnings in Line with Expectations

Terasen reported Q3/03 income of ($7.6) million and EPS of ($0.15). When adjusted for a $1.1 million amortization pertaining to H1/03 and a small $0.2 million gain from hedging foreign exchange exposure, the operating earnings were ($8.9) million or ($0.17) per share. This was in line with our estimate of ($0.15) and a $0.17 increase over Q3/02 EPS of ($0.34). Q3/03 earnings are summarized in Exhibit 1.

Exhibit 1. Terasen Third Quarter Earnings Summary

	Q3 2003	Q3 2002	Change	Percent Change
Natural Gas Distribution				
Terasen Gas	(25.5)	(27.0)	1.5	-5.6%
Terasen Gas Vancouver Island (TGVI)	6.1	5.6	0.5	8.0%
	(19.5)	**(21.4)**	**2.0**	**-9.1%**
Petroleum Transportation				
Trans Mountain	7.9	6.7	1.2	17.9%
Corridor	3.8	-	3.8	
Express System	2.6	-	2.6	
	14.3	**6.7**	7.6	113.4%
Other Activities	**(3.7)**	**(0.3)**	(3.4)	1133.3%
Operating Earnings for Common	**(8.9)**	**(15.0)**	6.2	-41.0%
Earnings Applicable to Prior Periods	1.1			
Foreign Exchange Hedging	0.2			
Writedown in Investment		(4.1)		
Reported Earnings for Common	**(7.6)**	**(19.1)**	11.5	
Per share data				
EPS - operating	**($0.17)**	**($0.34)**	**$0.17**	**-50.3%**
EPS - reported	($0.15)	($0.44)	$0.29	
Dividends per share	$0.39	$0.36	$0.03	8.3%

Source: TD Newcrest, Terasen.

Natural Gas Distribution earnings were ($19.5) million, a $2.0 million improvement over the same period last year. Terasen Gas' loss decreased by $1.5 million largely as a result of improved operating efficiencies, and the $0.5 million increase in Terasen Gas Vancouver Island (TGVI) was largely due to an accelerated amortization of the Revenue Deficiency Deferral Account (RDDA).

Petroleum Transportation earnings were $14.3 million; a $7.6 million or 113% increase over the same period last year. Corridor pipeline, in service May 1, 2003, and Express System, acquired January 9, 2003, drove the bulk of the increase.

Losses from **Other activities** increased by $3.4 million to $3.7 million as a result of increased debt levels at the corporate level after the infusion of equity into Corridor pipeline after it was placed in service earlier this year as well as the effect of the completion of the Sharjah project in the United Arab Emirates last fall.

Maintaining Financial Forecasts

We are maintaining our financial forecasts (Exhibit 2), which does not reflect an expansion of the Express Systems. We are currently assuming an allowed ROE of 9.11% in 2004 Terasen Gas, and don't anticipate a big difference when the actual value is determined later this month. Note that we do expect that the ROE will drop from the 2003 allowed level of 9.42%.

Exhibit 2. Terasen Earnings Estimates

	1999	2000	2001	2002	2003E	2004E	2005E	CAGR ('02-'05)
Natural gas distribution	51.7	58.7	67.8	92.4	94.2	92.2	98.4	2.1%
Petroleum transportation	19.5	21.3	27.3	29.3	54.9	63.4	64.1	29.8%
Other Activities	3.0	(1.2)	(10.5)	(11.8)	(13.2)	(13.7)	(13.4)	4.4%
Operating earnings	74.2	78.8	84.6	109.9	135.8	141.8	149.1	10.7%
Non recurring gains (losses)	7.0	30.0		(4.1)	(3.6)			
Net Income for Common	**81.2**	**108.8**	**84.6**	**105.8**	**132.2**	**141.8**	**149.1**	12.1%
Per share data								
EPS - operating	$ 1.92	$ 2.04	$ 2.19	$ 2.52	$ 2.60	$ 2.71	$ 2.86	4.3%
EPS - reported	$ 2.10	$ 2.82	$ 2.19	$ 2.43	$ 2.53	$ 2.71	$ 2.86	5.6%

Source: TD Newcrest, Terasen.

Terasen Increasingly Valued for its Growing Oil Pipeline Business

We believe that Terasen's growing oil transmission business (exhibit 3) and stable gas distribution utility franchise make it most comparable to Enbridge. Indeed, both the Bison oil sands feeder pipeline and the twinning of Trans Mountain west coast project proposals are in direct competition with similar Enbridge proposals. Given that producers will choose up to one of each of a new oil sands feeder pipe or major new capacity to the west coast, we anticipate a fierce competition between Terasen and Enbridge. Investors wishing to maximize the probability of participation in these projects might choose to invest in both companies, given that the race is in preliminary stages. A comparison of the information that we know about the two West Coast project proposals is summarized in Exhibit 4.

Exhibit 3. Terasen Petroleum Transportation Project Proposals

Proposal	Type	Capacity (bpd)	Est. Cost (C$ mln)	Potential In-service
Trans Mountain Phase I	Expansion	27	16	2004
Trans Mountain Phase II	Expansion	17	20	2005
Express/Platte (1/3 Terasen) Phase I	Expansion	30	US$60	2004/5
Express/Platte (1/3 Terasen) Phase II	Expansion	68	US$20	2006
Corridor	Expansion	75	120	2006/2007
Bison oil sands feeder pipeline	New	300 - 400	600 - 800	2006/later
Trans Mountain Twinning (Three Phases)	Expansion	500 - 600	2,000	2006/later

Source: TD Newcrest.

Exhibit 4. Comparison of West Coast Project Proposals Using (Our Take On) Producer Project Criteria

	Producer Criteria	Terasen's Twinning of Existing Trans Mountain Pipeline	Enbridge's New Gateway Pipeline Proposal
1	Maximizing the value of crude oil (by minimizing price erosion in existing markets, allowing maximum flexibility of shipment schedules to allow producers to react to dynamic markets)	Has expertise in operating a multi-shipper pipeline.	Potentially advantaged with experience in designing and operating extremely complex Enbridge System.
2	Minimizing total costs	Lower capital cost estimate of $2 bln for 500 to 600 k bpd capacity.	Estimated capital cost of $2.5 bln for 400 k bpd of capacity. Operating experience might translate into lower costs associated with degradation of oil quality during transportation.
3	Prior experience of sponsor	Strong track record of operating pipelines. Operates approx. 360 k bpd of export capacity out of Western Canada. No new pipeline construction since the 1950s prior to 2003, when $700 mln Corridor pipeline completed on time and on budget.	Strong track record of building and operating pipelines. Operates the world's longest, and potentially most complex, liquid petroleum pipeline system with approx. capacity of 1,979k bpd
4	Stakeholder relationship management skills (with Canadian producers, regulators, government bodies, environmental lobby groups, local land owners including potentially aboriginals with land claims)	Strong. B.C. head office presence and local relationships might facilitate likely controversial dock expansions on the West Coast	Very strong. Likely has the broadest relationships with Canadian producers given its current 70 percent market share of export capacity out of WCSB. Has less of a presence than Terasen in B.C.
5	Risk mitigation	Prior track record of building and operating pipelines is strong. Scaleable project proposal mitigates potential for underutilized capacity.	Prior track record of building and operating pipelines is strong. Scaleability of project is somewhat unclear.
6	Project timing	TBD, although phased approach might allow for some capacity to be in place by 2006, which was the in-service date assumed in CAPP's market access study. While this would use some existing right of way, Terasen has indicated that this might likely need to be expanded, which could dilute potential timing advantages.	Likely 2009, with some potential to accelerate.

Source: TD Newcrest.

Terasen trades at a premium to the Canadian pipeline & utility sector, which we believe can be attributed to a strong existing franchise, as well as attractive above-utility-average growth prospects. In addition to fundamental reasons, from a communications perspective, management has established a track record of exceeding expectations of the investment community, as measured by the difference in actual versus consensus EPS (Exhibit 4).

Exhibit 4. Terasen Actual EPS Has Met or Exceeded Expectations

EPS Differential Actual vs. Consensus	Terasen	Sector
Average 1996 - Current	($0.00)	($0.04)
Average 1996 - 2000	($0.01)	($0.04)
Average 2001 - current	$0.02	($0.03)

Source: TD Newcrest.

Currently, Terasen is trading at approximately a 2% discount to Enbridge as measured by price-to-earnings, and we believe that this relationship will continue for the following reasons:

1. **Growth of six to eight percent** – Terasen management's espoused goal of growth of six or more percent is slightly below Enbridge's growth targets in the range of 8 to 10 percent. Because of Terasen's smaller size,

however, any given opportunity would have a larger impact on corporate growth.

2. **Profitability of 10.7% -** We estimate that Terasen's 2003E ROE of 10.7% is slightly lower than Enbridge's 2003E ROE of 13.8%.
3. **Financial strength –** Standard & Poor's rates Terasen BBB versus A-low for Enbridge. Terasen is also more levered with we estimate 66.7% debt-to-capitalization at the end of 2003E (versus 63.5% for Enbridge). In addition, Terasen has ownership limitations (10% for a single owner, and 20% collectively for non-Canadians), however, we note that will likely be lifted. Terasen would likely have access to the capital markets for a major expansion initiative, but it would likely be a bit easier for Enbridge to raise capital for any given opportunity.
4. **Regional player -** Terasen is also less diversified geographically, with operations primarily in Western Canada and the U.S. Northwest and Midwest (versus Enbridge, which also has a significant presence in Ontario, and increasingly the Gulf Coast). This concentrates its exposure to local economies and regulatory jurisdictions.
5. **Less liquidity in the stock –** Currently Terasen's market capitalization is $2.7 billion versus Enbridge's $9 billion, which can make it more challenging for large institutional investors to hold.

Terasen management has established a venerable track record of shareholder value creation, which we anticipate will continue. We believe that this track record has created broad market expectations of continued value creation, which is increasingly reflected in the current valuation levels. Successful expansions of the TransMountain pipeline and Express System, in particular, are likely largely reflected in the current stock price. There could be some upside if the arrangement with Express partners is more favourable to Terasen than we can infer based on current disclosure.

We are maintaining our $47.00 target price, which is based on our 2005 financial forecasts. We derived our target price based on weightings as follows: (1) 50% relative earnings yield, (2) 25% relative dividend yield, and (3) 25% price-to-book. Our calculations, as well as comparables valuations, are summarized in Exhibit 5.

We note that the 5.5% 10-year Government of Canada bond yield assumption is a key input into our $47.00 target price. All other things equal, a 50bps decline in our yield assumption increases our target price by $3.00. Conversely, if our 10-year bond yield assumption were to increase to 6.0%, our target price could decline to $44.00. Target price sensitivities in 10-year bond assumptions are summarized in Exhibit 6.

Exhibit 5. Terasen and Comparables Valuation Summary

	Terasen	Enbridge	TransCanada
Rating	HOLD	BUY	HOLD
Total Potential Returns	3.0%	5.8%	0.9%
Current Trading			
Recent Price (11/05/2003)	47.13	52.61	26.85
Recent 10-year Bond Yield	4.90%	4.90%	4.90%
EPS - forward	2.69	2.96	1.65
Dividend - current	1.56	1.66	1.08
Book value - current	24.29	21.61	12.49
Price-to-earnings (forward)	17.5	17.8	16.3
Earnings Yield	5.7%	5.6%	6.1%
Dividend Yield	3.3%	3.2%	4.0%
Price-to-Book	1.9	2.4	2.1
Relative Earnings Yield	117%	115%	125%
Relative Dividend Yield	67.6%	64.4%	82.1%
Target - 2005 Basis			
Target Price	47.00	54.00	26.00
10-year Bond (Avg. 2004/2005)	5.50%	5.50%	5.50%
EPS - 2005E	2.86	3.22	1.76
Dividend - 2005E	1.71	1.94	1.20
Book value - 2005E	27.30	24.77	13.13
Price-to-earnings	16.4	16.8	14.8
Earnings Yield	6.1%	6.0%	6.8%
Dividend Yield	3.6%	3.6%	4.6%
Price-to-Book	1.7	2.2	2.0
Relative Earnings Yield	111%	108%	123%
Relative Dividend Yield	66%	65%	84%

Source: TD Newcrest.

Exhibit 6. Target Price Sensitivity to Bond Yields

Sensitivity	10-year Gov Can Bond Yield	Terasen	Enbridge	TransCanada
Target Price	**5.50%**	**$47.00**	**$54.00**	**$26.00**
Plus 50 bps to 10-year	5.00%	50.00	58.00	28.00
Minus 50 bps to 10-year	6.00%	44.00	50.00	24.00

Source: TD Newcrest.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 7
Enbridge Inc.	ENB-T	1, 6, 7
TransCanada Corp.	TRP-T	1, 6, 7

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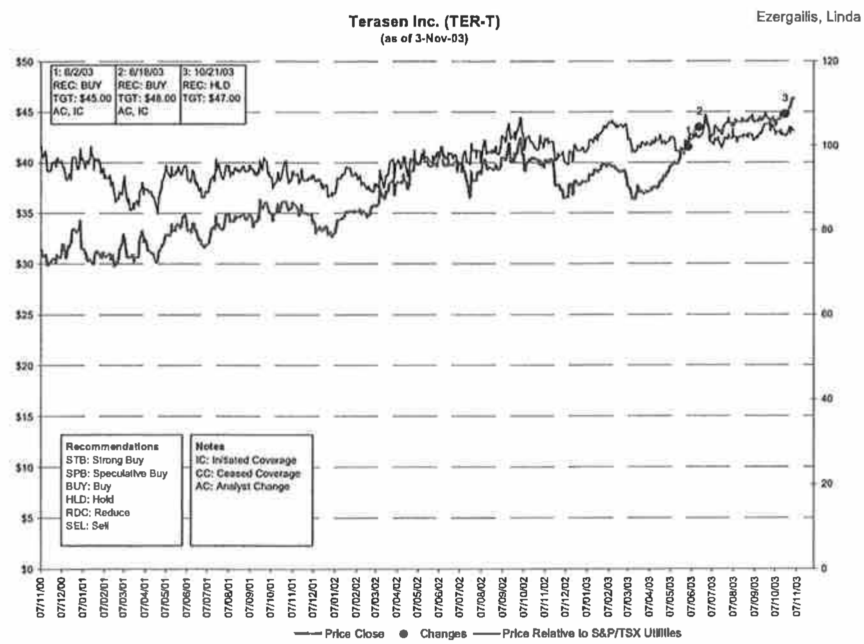
Price Graphs



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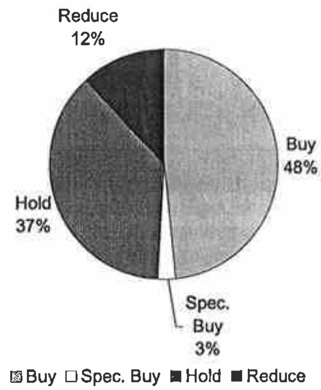
Distribution of Research Ratings



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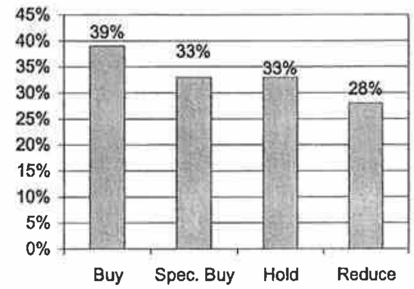

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The Equity Division of TD Securities

Pipelines & Utilities Bulletin
August 1, 2003

Terasen Inc.
(TER-T) C$44.45

Recommendation: BUY
12-Month Target Price: $48
12-Month Total Potential Return: 11.5%

High TransMountain Volumes and Favourable Terasen Gas Utility PBR Reinforce Strength of Core Franchises

Market Data		Financial Data		Year	Per-Share Data				Ratios		Valuations			
					EPS	Div	BV	CF	ROE	Debt/Cap.	P/E	Div Yd	P/B	P/CF
Ticker	TER-T	Fiscal Y/E	Dec. 31	1999A	$1.92	$1.17	$16.36	$4.55	12.2%	68.6%	13.2	4.59%	1.6	5.6
Current Price (C$)	$44.45	Shares O/S (mm)	51.9	2000A	$2.04	$1.23	$17.86	$4.61	12.0%	71.4%	16.3	3.67%	1.9	7.2
52-Week Range	$35.25-$44.74	Float (mm)	51.9	2001A	$2.19	$1.30	$18.65	$5.09	12.1%	74.5%	15.2	3.92%	1.8	6.5
Dividend	1.56	EPS Growth	7.4%	2002A	$2.52	$1.41	$24.00	$5.65	11.9%	66.2%	17.6	3.17%	1.9	7.9
Dividend Yield	3.5%	Dividend Payout	59%	2003E	$2.60	$1.53	$24.89	$5.11	10.7%	67.9%	17.1	3.44%	1.8	8.7
Market Cap. (C$ mm)	2,307	Tot. Debt (C$ bln.)	2.8	2004E	$2.71	$1.65	$25.96	$5.35	10.7%	64.2%	16.4	3.71%	1.7	8.3

Notes: (1) All figures in Canadian dollars unless otherwise specified.
(2) Sources for all exhibits are company reports and TD Newcrest estimates unless otherwise specified.
(3) Please see the final pages of this report for important disclosure information.

Highlights

- Terasen reported Q2/03 EPS of $0.16, which when normalized for a $0.07 unfavourable impact of a lower U.S. dollar on working capital and future income tax balances, far surpassed our $0.15 estimate. This was largely due to strong crude oil volumes on TransMountain Pipeline.
- Terasen Gas' negotiated settlement for the periods 2004 to 2007 was approved by the B.C. Utilities Commission (BCUC). We believe it has incremental upside potential relative to the previous settlement.
- We are not changing our 2003 or 2004 EPS estimates at this time, but believe they are very conservative in light of strong results in TransMountain in Q2/03 and the utility settlement.
- TER has appreciated 7.1% since we initiated coverage, outperforming the sector and broader markets, yet we believe that there is still some upside from both existing operations and potential new assets. BUY.

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Q2/03 Exceeded Expectations Largely Due to Heavy Crude Volumes in the TransMountain Pipeline

After adjusting for the $3.8 million foreign exchange hit, Q2/03 earning of $12.0 million far exceeded our $7.7 million estimate and the Q2/02 $1.1 million earnings, largely due to much better than expected performance in the TransMountain petroleum pipeline. Earnings results are summarized in Exhibit 1.

Exhibit 1. Terasen Inc. Q2/03 Earnings Results ($ millions)

	Q2 2003	Q2 2002	YoY Change	YoY % Change
Natural gas distribution	(2.5)	(3.0)	0.5	-17%
Petroleum transportation	16.0	5.6	10.4	186%
Other Activities	0.1	0.1	-	0%
Preferred Securities Distributions	(1.6)	(1.6)	-	0%
Operating earnings	12.0	1.1	10.9	991%
Foreign exchange loss in Express	(3.8)	-	(3.8)	
Net Income for Common	**8.2**	**1.1**	7.1	645%
Average number of shares (mm)	51.9	43.6	8.3	19%
Diluted average shares outstanding	52.3	44.0	8.3	19%
Per share data				
EPS diluted - operating	**$ 0.23**	**$ 0.03**	0.20	818%
YoY Growth				
EPS diluted - reported	$ 0.16	$ 0.03	0.13	527%
EPS basic - operating	$ 0.23	$ 0.03	0.21	816%
EPS basic - reported	$ 0.16	$ 0.03	0.13	526%
Dividends per share	$ 0.39	$ 0.36	0.03	8%

Source: TD Newcrest, Terasen.

The **natural gas distribution** segment's spring and summer earnings are seasonally weak compared to the winter months due to lower sales volumes. Q2/03 losses of ($2.5 million) improved $0.5 million over the previous year largely as a result of improved operating efficiencies in both Terasen Gas and Terasen Gas Vancouver Island (TGVI).

Petroleum transportation adjusted earnings of $16 million increased substantially over the same period last year due to $5.6 million higher earnings from TransMountain pipeline, a $2.9 million contribution from the Corridor oil sands feeder pipeline that came into service May 1, 2003, and the $3.5 million contribution (before the $3.8 million foreign exchange hit) from Terasen's one-third interest in the Express pipeline, which was acquired on January 9, 2003.

Fundamental Outlook Likely Not Fully Reflected in our EPS Estimates

At this point, we are maintaining our earnings and EPS estimates (Exhibit 2) for the following two reasons:

1. There might be restructuring in Terasen Gas Distribution during H2/03. Management guidance for 2003 EPS remains unchanged in the high $2.50's to low $2.60's range, potentially because the guidance already reflected the potential for a range of possible operating performance levels over the year. In addition, we believe that by not increasing guidance, management will have more flexibility to potentially incur costs associated with restructuring projects within the gas distribution utilities in H2/03. These restructuring costs might partially offset the strong earnings contribution from TransMountain Pipeline in 2003.

2. Some of the incremental benefits should grow over the term of the PBR negotiated settlement. Restructuring sooner rather than later would facilitate maximizing earnings under the 2004 to 2007 negotiated settlement for a Performance Based Rate Plan (PBR settlement). Many elements of the new PBR settlement are a continuation of the 1998 to 2001 PBR settlement, and this is reflected in our EPS estimates. The new PBR settlement has attributes, however, that we have not yet incorporated into our financial forecasts. There might be some incremental earnings benefits, but we believe that they will be manifest increasingly as the PBR term progresses. Therefore, we believe our existing 2004E EPS PBR assumptions are within the expected range of outcomes but at the lower end.

Overall, we view the new PBR settlement as a positive development, as it increases the certainty of the earnings power of Terasen Gas Utility and TGVI. Details of the PBR settlement are summarized in Appendix 1.

In addition to not fully reflecting the potential PBR benefits, we believe that our EPS estimates are conservative for the following additional reasons:

- ***Our EPS estimates already incorporate low bond yields although yield forecasts could increase as the year progresses***. We calculate a 9.1 percent BCUC benchmark ROE using a 5% 10-year Government of Canada bond yield forecast.
- ***We do not assume any contribution from an expansion of the Express or TransMountain Pipelines***. Management is confident that producers will sign up for additional capacity on the Express Pipeline and expansions should progress on schedule. The first of a two-phase expansion (potentially 30,000 bpd) could be in-service before the end of 2004. Similarly, the TransMountain pipeline could be incrementally expanded before the end of 2004.
- ***We do not incorporate any unannounced acquisitions in our EPS forecasts***. To be conservative, we assume that excess cash flows are used to pay down debt.

Exhibit 2. Terasen Inc. Segmented Earnings ($ millions)

	1999	2000	2001	2002	2003E	2004E
Natural gas distribution	51.7	58.7	67.8	92.4	92.2	90.7
Petroleum transportation	19.5	21.3	27.3	29.3	53.2	61.7
Other Activities	3.0	2.7	(4.1)	(5.1)	(3.5)	(4.4)
Preferred Securities Distributions		(3.9)	(6.4)	(6.7)	(6.3)	(6.3)
Operating earnings	74.2	78.8	84.6	109.9	135.6	141.7
Non recurring gains (losses)	7.0	30.0		(4.1)	(3.8)	
Net Income for Common	**81.2**	**108.8**	**84.6**	**105.8**	**131.8**	**141.7**
Per share data						
EPS diluted - operating	**$ 1.92**	**$ 2.04**	**$ 2.19**	**$ 2.52**	**$ 2.60**	**$ 2.71**
YoY Growth		*6.1%*	*7.4%*	*15.0%*	*3.1%*	*4.2%*
EPS diluted - reported	$ 2.10	$ 2.82	$ 2.19	$ 2.43	$ 2.52	$ 2.71
EPS basic - operating	$ 1.94	$ 2.06	$ 2.21	$ 2.54	$ 2.61	$ 2.73
EPS basic - reported	$ 2.12	$ 2.84	$ 2.21	$ 2.45	$ 2.54	$ 2.73

Source: TD Newcrest, Terasen.

No Change to our $48 Target Price

We are maintaining our $48 target price for Terasen. We value Terasen primarily on a relative-earnings-yield-to-10-year bond approach, and secondarily look to ensure that other valuation metrics fall within expected ranges (Exhibit 3). Because of our conservative 2004E EPS assumptions, we believe that our target price is also conservative.

Our target multiples imply some modest valuation expansion from current levels, although our potential capital appreciation is also driven by EPS and dividend growth. We believe that Terasen's multiple should expand over time as it grows its petroleum transportation business. Indeed, as this business grows we believe that Terasen can be increasingly compared to Enbridge, although Terasen's relatively smaller market capitalization and trading volumes potentially warrant a liquidity discount.

Our target relative earnings yield multiple for Terasen is the same as Enbridge's historical multiple to reflect Terasen's increasing role in delivering oil out of Western Canada. We note, however, that our current 112% relative earnings target multiple for Enbridge is still a modest premium to Terasen's target multiple, although this premium is lower than it has been historically.

Exhibit 3. Terasen Inc. Valuation Summary

	TER Target Price	TER Recent Level	Historical Valuations TER Average	TER One Sigma	Sector Average	Sector One Sigma	ENB Average	ENB One Sigma
Gov Can 10-year Bond Yield	5.00%	4.84%						
Relevant Year for EPS / Dividend / BVPS	2004	2003						
Relative Earnings Yield Valuation								
EPS	$2.71	$2.60						
Relative Earnings Yield (to 10-yr)	114%	121%	122%	10%	126%	9%	114%	10%
Absolute Earnings Yield	5.70%	5.85%	7.25%		7.46%		6.76%	
Absolute Price-to-Earnings	17.5	17.1	13.8	1.7	13.4	1.9	14.8	2.2
Share Price	**$48.00**	**$44.45**						
Relative Dividend Yield Implied Valuation Check								
Dividend	$1.65	$1.53						
Dividend Yield	3.44%	3.44%	4.30%	0.90%	4.80%	0.80%	4.40%	1.20%
Relative Dividend Yield	69%	71%	71%	6%	80%	7%	71%	10%
Dividend Payout Ratio	60.9%	58.8%						
Price-to-book Implied Valuation Check								
BVPS	$24.83	$25.96						
Price-to-book	1.9	1.7	1.7	0.3	1.7	0.2	2.4	0.3

Note: Unless otherwise indicated, our historical valuation analysis encompasses the periods from January 1995 to March 2003. For more information on our valuation methodology, please refer to our June 3, 2003 sector report.
Source: TD Newcrest, Terasen.

Appendix 1. Highlights of Terasen Gas Distribution's PBR Plan 2004-2007 Settlement Terms

	Application	Resolution
Term	Five years	Four years (2004 to 2007)
ROE	BCUC Formula	Accepted
Equity Ratio	33%	33%, but Terasen is not precluded from applying for a higher equity ratio
Volume Risk	As before, no exposure to changes in retail customer segment volumes but full exposure to variances in the industrial customer segment	Accepted
Deferral Accounts	Interest expense variance as before, request new deferral account for pension and insurance costs	Accepted
Operations and Maintenance (O&M) and Capital Expenses	O&M and capital expenses escalated annually off of 2003 base year as a function of customer growth and inflation, but partially offset by a 0.75% productivity factor	Adjustment factor is 50% of CPI(BC) for 2004 and 2005, 66% of CPI(BC) for 2006 & 2007 , with formula equal to [Base Cost x (1+Growth) x (1+ Inflation - Adjustment factor)]; O&M benefits get rebased end of 2007, but capital expenditure savings get phased out over two years
Sharing Mechanism with Customers	Savings shared 50/50 with customers; sustained two-year average return return that is 200 bps above or below allowed ROE triggers an Off-Ramp review	Accept 50/50 sharing but any party can request PBR Plan review if ROE varies 150 bps from allowed ROE
Exogenous factors	Cost items beyond company's control flowed through to customer.	Accepted

18 February 2004

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Terasen Inc.

2003 EPS Results: In Line With Expectations **NEUTRAL**

Reason for Report: Earnings Commentary

Volatility Risk: LOW

Company

YTER; C$47.70; A-2-7

EPS (Dec): 2003A C$2.62; 2004E C$2.78; 2005E C$2.96
P/E (Dec): 2003A 18.2x; 2004E 17.2x; 2005E 16.1x

Event

TER reported 2003 clean operating earnings of C$2.62/share in line with our estimate of C$2.61/share. Reported earnings for 2003 were C$2.53/share.

Analysis

Natural gas transmission's after-tax operating earnings were C$98.8mm in 2003 compared to our estimate of C$97.0mm and C$92.4mm in 2002. In the fourth quarter, TER incurred a C$3.4mm restructuring charge associated with the integration of mainland and Vancouver Island operations. On a reported basis, the unit recorded earnings (after-tax) of C$95.4mm.

Petroleum transportation posted after-tax operating earnings of C$56.2mm compared to our estimate of C$54.0mm and C$29.3mm in 2002. Improved earnings were driven by strong throughput volumes on Trans Mountain, the acquisition of a one-third interest in the Express System in January 2003, and the commencement of commercial operations on the Corridor Pipeline in May 2003.

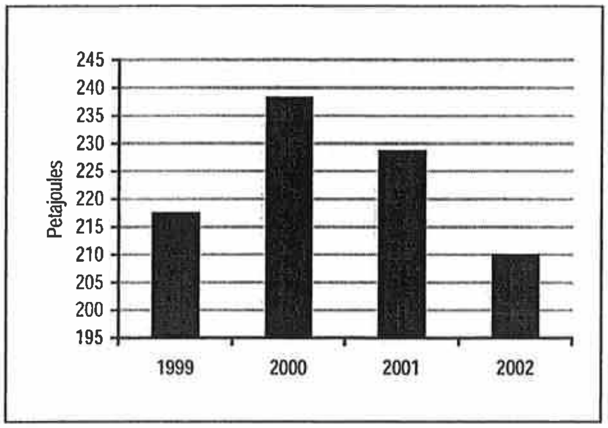
The other items segment posted an operating loss of C$17.1mm compared to our estimate of a loss of C$14.0mm. On a reported basis, the segment lost C$18.9mm which included a C$1.8mm after-tax write-down on its investment in Westport Innovations Ltd. in the fourth quarter.

The company noted that it would continue to focus on the Alberta oil sands and expand its petroleum transportation business with the Express, Trans Mountain, and the proposed Bison pipelines. In its natural gas distribution segment, TER plans to pursue opportunities to provide additional gas to Vancouver Island and to achieve operating efficiencies with the integration of its Vancouver Island and mainland operations.

The Board of Directors also declared a regular quarterly dividend of C$0.39/share payable on February 29, 2004.

Refer to important disclosures on page 2. Analyst Certification on page 2.

Chart 4: Natural Gas Transmission Volumes (volumes change with weather but earnings don't)



Source: Company reports

■ Terasen Pipelines

Terasen Pipelines transports crude oil and refined products from Fort McMurray, Alberta to Edmonton, and from there on to Vancouver via the 188mbd Trans Mountain Pipeline system. Also, with its 33% interest in the Express and Platte pipelines, TER transports product from Hardisty, Alberta to Casper, Wyoming and finally to Wood River, Illinois. Like Enbridge, Terasen Pipelines is implementing a strategy to supply oil sands and other crudes to U.S. refiners, especially in PADD IV.

Trans Mountain

Commissioned in 1953, the 715-mile pipeline was originally designed to transport crude oil to the Vancouver, BC and Anacortes, Washington areas from Edmonton. Today, it transports crude oils, semi-refined and fully refined products on the same line in a batch process. We see the TMX pipeline as another key strategic asset for Terasen. ***We believe that the expansion of oil sands production in Alberta will require additional export capacity to the Pacific Ocean and the refining centers of California and Northern Asia.*** We think the Trans Mountain system is well placed to challenge Enbridge's proposed Gateway project to be the chief future conduit for oil sands production flowing west.

Corridor

Completed in 2002 and in service in 2003, the 307-mile Corridor pipeline connects Shell Canada's AOSP Muskeg River mine near Fort McMurray to the project's Scotford Upgrader near Edmonton, as well as connecting the upgrader to marketing terminals. The pipeline transports diluted bitumen from the mine site to Edmonton using a closed loop diluent system.

■ Express System

The Express system comprises the Express and Platte pipelines that run from Canada to U.S. Rocky Mountain region and the Midwest. TER bought its one-third economic interest in January 2003 for $390 million (including its pro rata share of Express PL's assumed debt). The approximately 1,700-mile pipeline network carries a variety of light, medium, and heavy crude oils. The Express pipeline connects with the Platte pipeline at Casper, Wyoming. The Express pipeline has been in operation since 1997 and is regulated by the National Energy Board in Canada, and in the U.S. by the U.S. DOT Office of Pipeline Safety and the Federal Energy Regulatory Commission. The Platte Pipeline has been operational since 1952 and is regulated in the U.S. by the U.S. DOT Office of Pipeline Safety and the Federal Energy Regulatory Commission.

TER has a one-third interest in the Express System. The other parties are Borealis Capital (on behalf of the Ontario Municipal Employees Retirement System) and the Ontario Teachers' Pension Fund. TER will also receive a management fee as manager of the pipeline system.

We believe that TER's recent joint venture bids with Canadian pension funds are a clever way to reduce its cost of capital for acquisitions and allow TER to better compete with the pipeline trust/MLP corporate structures.

■ Other Business Lines

In total, these other lines of business make up less than 4% of total assets and less than 1% of operating income (2002 data) at TER. In sum, they currently generate a net loss although we project these businesses will move into profitability and with eventual 10% returns over the next 5 years.

Terasen Waterworks

Terasen Waterworks is a provider and wholesale distributor of water and wastewater treatment plants and distribution system in Western Canada. Also, TER works on irrigation systems and works closely with Terasen Utility Services (described below).

Terasen International

Terasen International offers consulting and engineering services to international clients in the gas and distribution businesses.

Terasen Utility Services

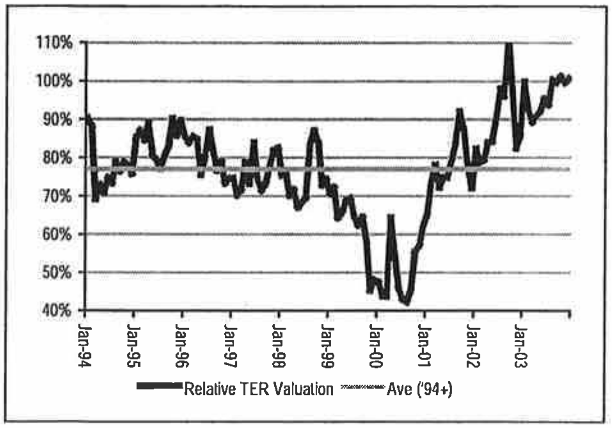
Terasen Utility Services provides waterworks and utility services to municipalities, institutions, resorts, and industrial customers. Some of the services that Terasen Utility Services provides are energy services, water utility services, water supply services, measurement services, customer care services, and specialized services. We think that this segment could be a small but attractive growth business for TER over time.

Clean Energy

TER has a 44% interest in Clean Energy, a private company whose other major investors are Boone Pickens, Westport Innovations, and Perseus 2000 LLC. Clean Energy is the largest alternative fuel refueling company in North America. It serves fleets in fields such as refuse, transit, shuttle, taxi, and police.

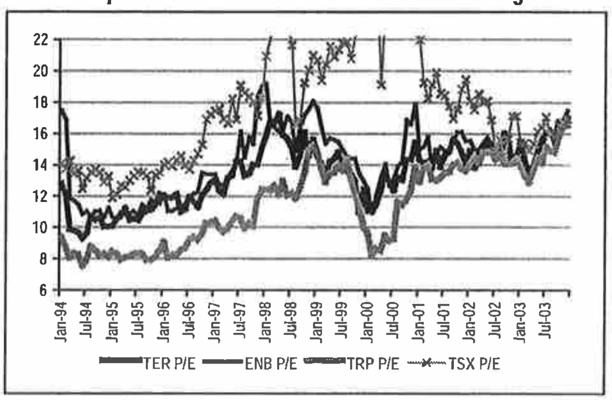
TER is trading at about 17x next year's consensus earnings estimates. This is in line with the TSX Composite but well above its 1994-2003 1-year forward P/E average.

Chart 6: Relative Valuation of TER vs TSX



Source: Factset, I/B/E/S and Merrill Lynch estimates.

Chart 7: Pipelines and TSX 1-Yr Forward P/E – Convergence

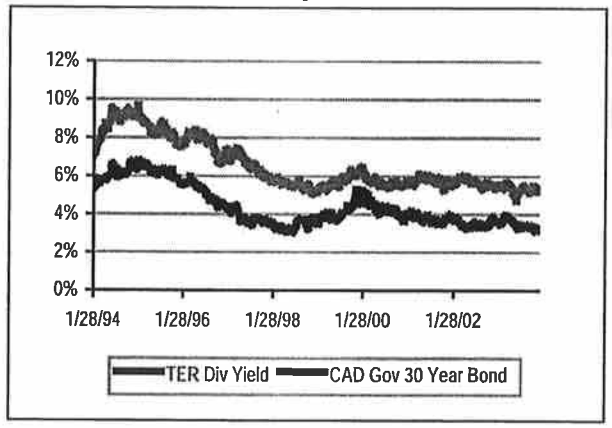


Source: Factset, I/B/E/S and Merrill Lynch estimates. Note: ENB results are NOT adjusted for weather effects.

Yield analysis

We evaluated TER's relative yield vs. the 30-year Government of Canada bonds (i.e. a risk free asset) and recorded the typical spread between the two. We also use two periods – 1994 to present & 1998 to present.

Chart 8: TER Div Yld vs Can 30 yr Bond



Source: Merrill Lynch

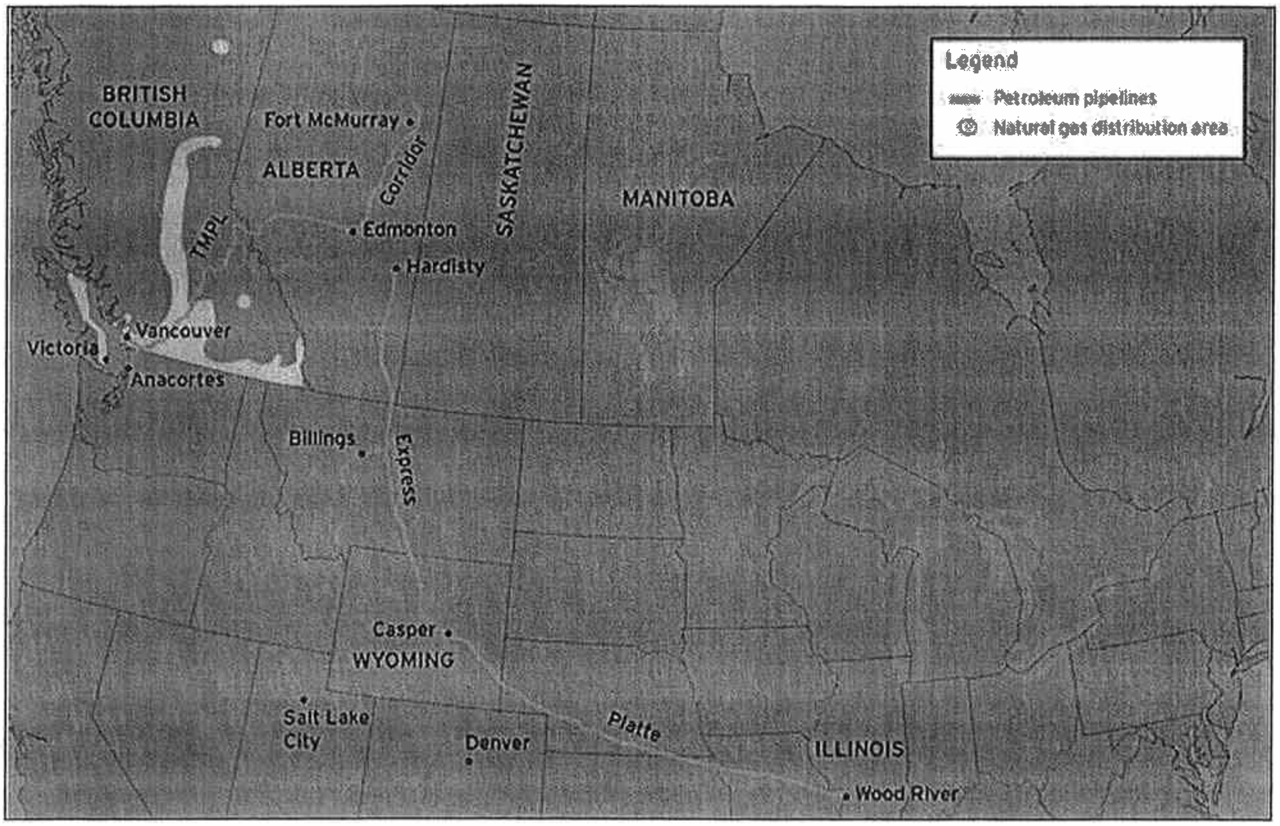
Table 6: TER Yield Analysis: Two Cases

Average	TER Yield	30-Yr Gov. Cdn.	TER Discount
1998 to Present	3.8%	5.6%	1.8%
1994 to Present	4.4%	6.5%	2.1%
Median			
1998 to Present	3.8%	5.6%	1.8%
1994 to Present	3.7%	5.6%	1.8%
Case 1: 1994 to Present		**Median**	**Average**
Current 30-Yr Yield		5.60%	5.60%
1994 Historical Spread		2.10%	2.14%
Target Yield		3.19%	3.16%
2004e Dividend		1.56	1.56
Implied Valuation		**48.99**	**49.49**
Case 2: 1998 to Present		**Median**	**Average**
Current 30-Yr Yield		5.30%	5.30%
1998 Historical Spread		1.85%	1.85%
Target Yield		3.45%	3.45%
2004e Dividend		1.56	1.56
Implied Valuation		**45.38**	**45.34**

Source: Merrill Lynch

Historically, TER has traded between a 180 and 210 basis point discount to the 30-year bond depending on whether one uses the median or the average yield. In its more recent history (1998 to present) the spread has been 180 basis points. Taking the rough mid-point of the range for the median and the average and applying the discounts to the current yield of the 30-year bond suggests TER's dividend rate should be between 3.2% and 3.5%. Given our estimate of next year's dividend, (C$1.56), this implies a fair value price of between C$45 and C$50 for TER (see Table 6).

Chart 15: Terasen's Natural Gas LDC and Petroleum Pipeline Asset Base



Source: Terasen.

Table 16: Terasen Balance Sheet

	1997	1998	1999	2000	2001	2002	2003E	2004E	2005E
Cash and short-term investments	-	-	5.6	22.4	2.1	5.1	34.6	34.6	34.6
Account Receivable	156.4	166.7	178.5	460.4	270.6	299.2	221.3	221.3	221.3
Inventories of gas in storage and supplies	26.7	33.7	49.4	96.6	116.5	98.2	194.6	194.6	194.6
Prepaid Expenses	5.8	5.0	4.4	6.8	8.4	11.1	12.5	12.5	12.5
Income and other taxes recoverable	-	4.9					-	-	-
Current portion of rate stabilization accounts	-	14.6	32.8	45.0	105.9	69.3	52.3	52.3	52.3
Total Current Assets	**188.9**	**224.9**	**270.7**	**631.2**	**503.5**	**482.9**	**515.3**	**515.3**	**515.3**
Property, plant and equipment	2,116.1	2,168.6	2,154.7	2,727.6	3,079.9	3,779.2	3,859.0	3,927.6	3,993.3
Investment in Express Systems	-	-					209.8	209.8	209.8
Goodwill	-	-	-	-	21.8	101.0	103.5	103.5	103.5
Rate Stabilization accounts	-	-	-	105.1	41.8	72.5	81.3	81.3	81.3
Other Assets	83.1	72.6	25.1	49.2	58.7	86.8	58.6	58.6	58.6
Total Assets	**2,388.1**	**2,466.1**	**2,450.5**	**3,513.1**	**3,705.7**	**4,522.4**	**4,827.5**	**4,896.1**	**4,961.8**
Bank indebtedness	2.5	5.8	-						
Short-term notes	374.0	474.0	452.0	387.0	305.0	440.0	523.5	523.5	523.5
Accounts payable and accrued liabilities	164.3	183.5	179.1	625.7	310.4	298.1	287.9	287.9	287.9
Income and other taxes payable	34.7	-	4.1	9.2	18.7	31.9	6.3	6.3	6.3
Current portion of long-term debt	96.8	194.8	77.2	72.5	223.6	108.9	58.2	58.2	58.2
Rate Stabilization accounts	24.4	-							
Total Current Liabilities	**696.7**	**858.1**	**712.4**	**1,094.4**	**857.7**	**878.9**	**875.9**	**875.9**	**875.9**
Long-term debt	993.3	906.7	1,001.8	1,561.9	1,928.0	2,123.4	2,350.7	2,343.2	2,323.6
Other long-term liabilities and deferred credits	-	-		-	23.1	96.4	102.3	102.3	102.3
Future income taxes	34.9	36.3	35.0	47.3	56.8	58.1	69.4	81.4	93.4
Non-Controlling Interest	75.0	75.0	75.0						
Total Liabilities	1,799.9	1,876.1	1,824.2	2,703.6	2,865.6	3,156.8	3,398.3	3,402.8	3,395.2
Capital securities	-	-	-	125.0	125.0	125.0	125.0	125.0	125.0
Common shares	369.7	363.0	363.3	364.0	364.3	858.6	865.2	865.2	865.2
Contributed surplus	133.4	130.8	130.8	130.8	130.8	130.8	130.8	130.8	130.8
Retained earnings	136.1	147.2	183.2	240.7	271.0	302.2	359.2	423.3	496.7
Total Equity	**639.2**	**641.0**	**677.3**	**860.5**	**891.1**	**1,416.6**	**1,480.2**	**1,544.3**	**1,617.7**
Less cost of common shares held by Terasen Pipelines	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0
Net Equity	588.2	590.0	626.3	809.5	840.1	1,365.6	1,429.2	1,493.3	1,566.7
Total Liabilities and Equity	**2,388.1**	**2,466.1**	**2,450.5**	**3,513.1**	**3,705.7**	**4,522.4**	**4,827.5**	**4,896.1**	**4,961.8**

Source: Company reports and Merrill Lynch estimates.

CIBC

CIBC WORLD MARKETS

Equity Research

November 20, 2002

Change in Recommendation

Company Rating:	*Sector Performer*
Sector Weighting:	*Market Weight*

BC Gas Inc.

Express Pipeline Extends Footprint And Provides Further Participation In Oil Sands Growth

- BC Gas has announced an agreement to purchase one-third of EnCana's Express Pipeline System. Its equity share will be $198 mln., and expects its share of 2003 earnings to contribute $12 mln. Earnings will be three-fold from 1) equity income, 2) operator revenues, and 3) tax benefits not used by pension fund partners.
- Express fits well with BCG's strategy of participating in Canadian oil sands growth. In addition, it will diversify its operations and end markets by extending BCG's regional focus. BCG's operational strength should facilitate asset optimization and synergies with existing pipeline operations.
- To finance the Express and recently constructed Corridor pipelines, BCG has announced a $300 mln. equity offering. We've reduced our 2003E EPS by $0.04 to $2.60, and our 2004E EPS by $0.06 to $2.75. We maintain our $43 target price due to Express' long-term growth potential and a strengthened corporate balance sheet.
- Based on the recent retreat in BC Gas' stock price, and the potential double digit total returns implied by our $43 target price, we are upgrading our rating on BC Gas to Sector Performer.

Pipelines & Utilities

BCG-TSX (11/19/02)	**$40.01**
12-18 mo. Price Target	$43.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$42.50-$32.07
Shares Outstanding	43.7 mln.
Float	43.7 mln.
Avg. Daily Trading Vol.	53,000.0
Market Capitalization	$1.7 bln.
Dividend/Yield	$1.44/3.6%
Fiscal Year Ends	December
Book Value	$20.72 per Share
2002 ROE	12.6%
LT Debt	$2,305.8 mln.
Preferred	$125.0 mln.
Common Equity	$1,030.5 mln.
Convertible Available	No

Company Description

BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S. www.bcgas.com.

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Earnings Per Share	Prior	Current
2002E		$2.53
2003E	$2.64	$2.60
2004E	$2.81	$2.75
P/E		
2002E		15.8x
2003E	15.2x	15.4x
2004E	14.2x	14.5x

EPS forecasts reflect the change to CICA policy on accounting for goodwill effective January 1, 2002.

Dividends Per Share	
2000	$1.23
2001	$1.30
2002E	$1.41
2003E	$1.55
Debt/Capitalization	
2000	70.2%
2001	73.2%
2002E	71.7%
2003E	70.9%

Stock Price Performance

CHART NOT AVAILABLE

All figures in Canadian dollars, unless otherwise stated.

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Express System Extends BC Gas' Footprint And Provides Further Leverage To Growth Of Oil Sands

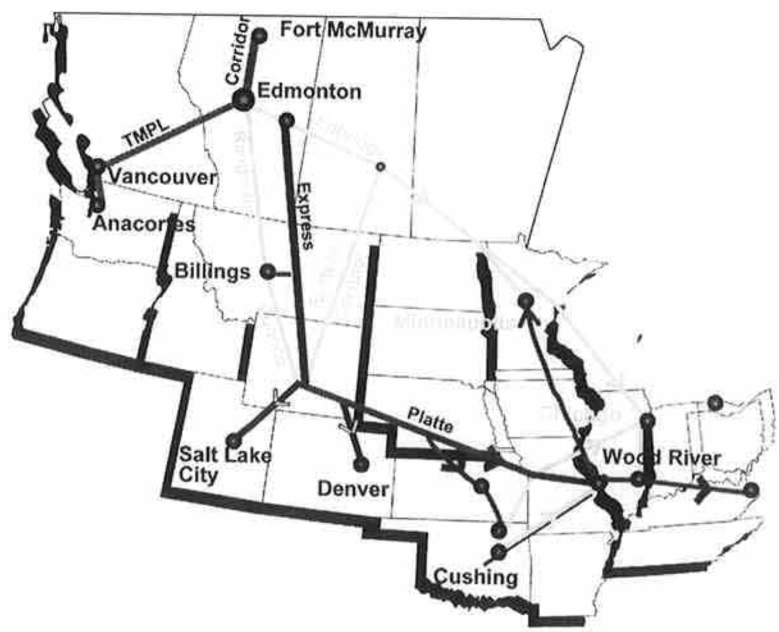
Transaction Details

BC Gas has teamed with Ontario Teachers Pension Plan and Borealis (OMERS) to buy the Express Pipeline System from Encana for $1,175 million including assumed project debt of $582 mln. The expected completion of the transaction is January 2, 2003, subject to approvals under the Competition Act and regulatory approvals from Alberta Energy Board and Wyoming PSC. Each partner will acquire one-third; BC Gas' share of the equity will be $198 mln.

The Express System is comprised of two elements: the 172,000 barrel-per-day, 785-mile Express Pipeline from Hardisty, Alberta to Casper Wyoming; and the 150,000 barrel-per-day, 932-mile Platte Pipeline from Casper to Wood River, Illinois (south of Chicago). BC Gas will be the operator of the system.

Approximately 65% of Express' capacity is contracted, and most of this through 2012. Encana has agreed to bid for the uncommitted capacity for a period of two years. During this time, Express will hold an open season, which the company hopes will result in the full System capacity being contracted through 2012.

Exhibit 1. BC Gas Pipeline Post-acquisition Operations



Source: BC Gas

Express Pipeline Fits Well With Oil Sands Strategy

The Express pipeline fits well with BC Gas' strategy of participating in Canadian oil sands growth. In March 2003, BC Gas will place the recently constructed Corridor Pipeline in service, which will move bitumen from the Athabasca oil sands to Edmonton. As well, Express will diversify BC Gas' exposure to markets by adding access to the U.S. Rocky Mountain (PADD IV) and Midwest (PADD II) markets. With declining production and increased refinery runs in PADD IV, the investment in Express will also provide opportunity for inexpensive expansion. Capacity on the Express Pipeline can be expanded from 172,000 barrels per day to 280,000 barrels per day at a cost of US$80 million.

We view the increased level of participation in the oil sands for BC Gas as positive. On the conference call, company mangement expressed high confidence in the expansion potential, given their observation that approximately 1) one-third of forecast oil sands growth is from projects already under construction, 2) one-third is from expansion of existing projects, and 3) one-third is from new projects. Management views the final third as potentially at risk in terms of timing or economics due to Kyoto and general cost overruns.

In addition to asset optimization and expansion potential, this transaction will expand the company's footprint and diversify its operations and end market exposure thereby reducing operating risk. While some Express throughput risk remains, approximately two-thirds is contracted to 2012 and EnCana has committed to previously uncommitted capacity for the next two years. Although we have not reflected new expansions in our forecasts, we see upside opportunities from inexpensive capacity expansion as early as 2004.

We also view the partnership with Teachers' and OMERS favourably, and view the combination of BC Gas' operational expertise and the favourable cost of capital as conducive to future asset acquisitions with a similar ownership structure.

Adjusting Earnings Estimates To Reflect Acquisition And Update On Utility ROE

The earnings contribution to BC Gas from Express will come in three forms. First, BC Gas will be entitled to one-third of the equity earnings of Express. Second, it will receive a disproportionate share of the tax benefits of Express given that its partners are not taxable. Finally, BC Gas will be paid a fee to operate the pipeline. The company has not specified how much it will earn from each component, but expects that total after-tax earnings from Express in 2003 will be approximately $12 million.

Expansion of Express was always part of the long run economics of the project when it was built and placed in to service in 1997 by its original owners - Alberta Energy and TransCanada PipeLines. With falling domestic production in the PADD IV market and an increased demand for Canadian crude, BC Gas believes that there will be a need to expand the Express Pipeline as early as 2004. The company believes that an expansion would add $0.10 per share to earnings.

BC Gas announced intentions for a $300 million common equity offering. With closing of the Express purchase expected in January, we would expect the equity issue to take place in late 2002 or early 2003. After $300 million of common equity financing (including $100 million for the Corridor pipeline in lieu of a previously planned $100 million of hybrid equity) the transaction should be mildly dilutive to earnings although it should see a strengthening in the company's balance sheet. We are lowering our 2003 EPS forecast from $2.64 to $2.60. Our 2004 estimate is lowered from $2.81 to $2.75.

Our EPS revisions largely reflect the Express System acquisition and equity financing, although the dilution has been partially mitigated by the inclusion of the BC Utility Commission (BCUC) authorized 2003 ROE for BC Gas Utility of 9.42%. (Our prior estimate assumed 9.30%.) This ROE reverses the downward trend in authorized ROE's over the past few years. (While not subject to an ROE in 2002, the ROE formula would implied 9.13% for BC Gas Utility in 2002.) This trend mirrors the reversal of the benchmark National Energy Board ROE, which has been set for 9.79% for 2003—up from 9.53% in 2002.

Despite the reduction in our earnings forecast, we are maintaining our $43.00 target price as we expect the stronger balance sheet and potential for longer run earnings accretion from this project warrant a slightly higher multiple.

Equity Issuance Will Strengthen Balance Sheet

BC Gas currently enjoys a strong investment grade credit rating. We note that the pending equity issuance should accelerate the company's new objectives to reach 66% debt-to-capital. (Prior target capital was 70%.) While DBRS reaffirmed its rating on BC Gas, both Moody's and Standard & Poor's placed the company under negative watch. Management indicated that this cerdit watch was largely due to the fact that the rating agencies had likely not fully analysed the positive impact of the pending equity offering. BC Gas also indicated that it had bridge financing in place, if for some reason it did not issue equity in the short-term.

Exhibit 2. BC Gas Capital Structure

	1999	2000	2001	2002E	2003E	2004E
Short term debt	529.2	387.0	527.6	108.5	32.1	232.0
	23.0%	13.5%	15.7%	2.5%	0.7%	5.3%
Long term debt	1001.8	1633.5	1928.0	2776.7	2869.6	2643.2
	43.6%	56.8%	57.5%	64.5%	65.6%	60.0%
Total Debt	1531.0	2020.5	2455.6	2885.2	2901.7	2875.2
	66.6%	70.2%	73.2%	67.0%	66.3%	65.3%
Deferred taxes	65.4	47.3	56.8	56.8	56.8	56.8
	2.8%	1.6%	1.7%	1.3%	1.3%	1.3%
Minority interest	75.0	0.0	0.0	0.0	0.0	0.0
	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Securities		125.0	125.0	125.0	125.0	125.0
		4.3%	3.7%	2.9%	2.9%	2.8%
Common equity (net)	626.3	684.5	715.1	1238.5	1292.4	1347.0
	27.3%	23.8%	21.3%	28.8%	29.5%	30.6%
	2297.7	2877.3	3352.5	4305.4	4375.9	4403.9

Source: CIBC World Markets.

Upgrading To Sector Performer

Based on the recent retreat in BC Gas' stock price, and the potential double-digit total returns implied by our $43 target price, we are upgrading our rating on BC Gas to Sector Performer.

CIBC

CIBC World Markets

Equity Research

November 7, 2002

Earnings Update

Company Rating:	*Sector Underperformer*
Sector Weighting:	*Market Weight*

BC Gas Inc.

Better Than Expected Q3 Results Across All Business Units

- BC Gas' third quarter results exceeded expectations and the company effectively raised guidance for 2002 by stating that is was comfortable with the high end of street expectations notwithstanding its Q3 $0.09 per share writedown of its investment in Westport.

- Before the $0.09 per share non-recurring charge, the Q3 loss of $0.34 compared to a loss of $0.58 in Q3/01 and was $0.07 better than consensus. Driving this performance were the acquisition of Centra Gas, lower interest expense at BC Gas Utility and increased tanker loadings at Trans Mountain Pipe Line.

- Based on the strong results, we have raised our 2002 EPS by $0.14 to $2.53. We expect some follow through of the above factors into 2003, but have only raised our 2003 and 2004 EPS forecasts by $0.05 and $0.09 respectively as both the gas utilities might experience some re-basing next year.

- In keeping with our higher EPS and dividend forecast, we have raised our target price by $1 to $43. Our target is premised on a premium valuation relative to the group. Our new target implies a prospective total return of 11.9%, which is attractive in absolute terms, but less than the sector average of 14.5%.

Pipelines & Utilities

BCG-TSX (11/06/02)	$39.70
12-18 mo. Price Target	$43.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$42.50-$32.07
Shares Outstanding	43.7 mln.
Float	43.7 mln.
Avg. Daily Trading Vol.	53,000.0
Market Capitalization	$1.7 bln.
Dividend/Yield	$1.44/3.6%
Fiscal Year Ends	December
Book Value	$20.72 per Share
2002 ROE	12.6%
LT Debt	$2,305.8 mln.
Preferred	$125.0 mln.
Common Equity	$1,030.5 mln.
Convertible Available	No

Company Description

BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S. www.bcgas.com.

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Earnings Per Share

	Prior	Current
2002E	$2.39	$2.53
2003E	$2.59	$2.64
2004E	$2.72	$2.81
P/E		
2002E	16.6x	15.7x
2003E	15.3x	15.0x
2004E	14.6x	14.1x

EPS forecasts reflect the change to CICA policy on accounting for goodwill effective January 1, 2002.

Dividends Per Share

2000	$1.23
2001	$1.30
2002E	$1.41
2003E	$1.55

Debt/Capitalization

2000	70.2%
2001	73.2%
2002E	71.7%
2003E	70.9%

Stock Price Performance

CHART NOT AVAILABLE

All figures in Canadian dollars, unless otherwise stated.

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Strong Performance Across All Businesses and Continued Low Interest Rates Boost Third Quarter Earnings

BC Gas reported a third quarter loss of $0.44 versus a loss of $0.58 during the same period last year. Adjusting for the $0.09 per share one-time write-down of its natural gas fuel for vehicles technology business (Wesport Innovations), the Q3/2002 loss was $0.34. This year-over-year increase was due largely to the acquisition of Centra Gas earlier this year, as well as lower interest rates. In addition, the water services and consulting businesses made strong contributions. Segmented earnings for the quarter and year-to-date are summarized in Table 1.

Table 1. BC Gas Third Quarter Segmented Earnings (year ending Dec. 31)

($ mlns)	Q3/2002	Q3/2001	9 mos 2002	9 mos 2001
BC Gas Utility (operating)	(27.0)	(27.9)	25.3	22.7
Centra Gas	5.6		17.1	
Trans Mountain Pipe Line	6.7	6.4	18.8	18.8
Other Activities	1.4	0.8	(2.4)	(1.2)
Preferred Securities Distributions	(1.7)	(1.6)	(4.9)	(4.7)
Non recurring gains (losses)	(4.1)		(4.1)	
Net Income for Common	**(19.1)**	**(22.3)**	**49.8**	**35.6**
Average shares outstanding	43.7	38.3	42.4	38.3
Earnings per share - reported	$ (0.44)	$ (0.58)	$ 1.17	$ 0.93
Earnings per share - operating	**$ (0.34)**	**$ (0.58)**	**$ 1.27**	**$ 0.93**

The Q3/2002 one-time loss of $4.1 mln. reflects an after-tax write-down of the company's investment in Westport Innovations, Ltd., a developer of natural gas fuel systems for diesel engines.

Source: CIBC World Markets.

BC Gas Regulatory Hearing Begin Next Week – BC Gas Utility's earnings increased this quarter and year-to-date versus the same periods last year mainly due to lower interest rates. The utility is also benefiting from a weather related increase in volumes, because with effectively frozen rates in 2002, BC Gas can retain the volume benefit. BC Gas is in the process of teeing up the next round of performance based regulation (PBR). BC Gas Utility completed four years of targeted PBR (TPBR) in 2001 and is essentially continuing to operate under TPBR. It will enter hearings for 2003 next week, in which cost of service rates will be set. The presence of an interest deferral account in 2003 would likely preclude the utility from continuing to benefit from low interest rates. Subsequent to 2003, BC Gas Utility will likely operate under comprehensive PBR (CPBR) through to the end of 2007. Under CPBR, delivery prices will likely be less linked to the utility's cost, as is the case in classic cost-of-service regulation, and more to a consumer's price index.

Centra Gas Performing Better Than Expected – The Centra Gas utility, acquired earlier this year, is exceeding expectations due to greater than expected efficiencies and will likely continue to do so going forward. Centra Gas is also due for a rate application, and this will be made independent of the BC Gas Utility as each utility has unique attributes. We anticipate that Centra Gas' application will likely focus on the best way to recover the utility's deferral accounts by the end of 2011, when the provincial subsidies expire. While the applications will be separate, we anticipate that the regulator will be keeping a close eye on potential synergies from the recent Centra Gas acquisition, and will likely require some sharing of the benefits with customers.

Corridor Pipeline Construction Progressing Smoothly - Average daily throughput was down almost 6 percent in the TransMountain pipeline this year-to-date, and throughput was especially weak in the U.S. Tanker loading activity in Vancouver actually increased. This, coupled with lower interest and tax rates, more than offset the effects of a 36% drop in throughput through the U.S. operations. Going forward, we expect volumes could be depressed to year end and assume recovery of volumes in 2003. We expect that management will seek to offset the impact of reduced revenues by cutting costs. Management indicated that construction of the Corridor pipeline was largely completed on time and on budget. Our forecasts continue to assume a March 1, 2003 in service date, as Shell should be ready to ship on this date.

Higher Financing Costs As A Result Of Centra Gas Acquisition – Earnings from other activities, which incorporates non-regulated service and corporate interest expenses, was $1.4 million due to improved performance from the services businesses, and despite increased debt levels to finance Centra Gas,.

Selective Growth Opportunities Likely To Remain Regionally Focussed

BC Gas is likely a candidate to purchase EnCana's Cold Lake and Express pipeline assets. EnCana has indicated that these Cold Lake will likely be sold by year end, and we would expect the Express pipeline to be sold shortly thereafter. We note that these assets would fit with BC Gas' regional focus, and the company could likely add value through its expertise and synergies with existing operations.

Increasing Earnings Forecasts and Target Price

To reflect the continued low interest rate environment and stronger than expected operating performance across all business units, we are increasing our earnings estimates for 2002, 2003, and 2004 to $2.53, $2.64, and $2.81 respectively. We are also increasing our forecast dividend increases by $0.02 to $0.14 to reflect a 60% payout ratio.

Commensurate with our increased earnings and dividend outlook, we are also increasing our target price by $1 to $43. For BC Gas, we are inclined to employ a target earnings multiple that is above our sector average to reflect the 1) the quality and consistency of BC Gas' earnings growth over the last several years , 2) its relatively low risk profile, and 3) potential for upwards revisions for our earnings estimates if merger synergies are partially retained through a new performance based regulation (PBR) framework in 2004. Our $43 target price implies a 15.3x multiple of our 2004 EPS estimate of $2.81. Coupled with our forecast $1.58 dividend, this implies a dividend yield of 3.7 percent.

CIBC

CIBC WORLD MARKETS

Equity Research

August 1, 2002

Hold

BC Gas Inc.

Q2 Results; Staying The Course In A Volatile Environment

Pipelines & Utilities

BCG-TSX (07/31/02)	$38.15
12-18 mo. Price Target	$40.00
Key Indices:	
3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$41.99-$32.07
Shares Outstanding	43.7 mln.
Float	43.7 mln.
Avg. Daily Trading Vol.	53,000.0
Market Capitalization	$1.7 bln.
Dividend/Yield	$1.44/3.8%
Fiscal Year Ends	December
Book Value	$21.51 per Share
2002 ROE	11.9%
LT Debt	$2,310.3 mln.
Preferred	$125.0 mln.
Common Equity	$1,064.0 mln.
Convertible Available	No

- BC Gas reported Q2 EPS of $0.03 versus a loss of $0.08 during the same period last year. This year-over-year increase was largely due to the acquisition of Centra Gas earlier this year, and further bolstered by lower interest rates on floating rate debt.

- BC Gas has an espoused multi-utility strategy, and is already expanding horizontally into water services. The BC government may choose to privatize at least a portion of BC Hydro's distribution utility, and BC Gas would be a worthy candidate to operate or own this asset.

- We are trimming our 2002 and 2003 EPS estimates by $0.03 to $2.39 and $2.59 respectively to reflect assumptions of 1) lower throughput in TransMountain for 2002 and 2) more conservative economics for the Corridor pipeline in 2003.

- With only a minor revision to our earnings forecast and no change to our dividend forecast, we are maintaining our $40 target price. We employ an above sector average multiple for BC Gas to reflect its track record for quality and consistency of earnings growth and a relatively low risk profile.

Company Description

BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S. www.bcgas.com.

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Earnings Per Share	Prior	Current
2001		$2.21
2002E	$2.42	$2.39
2003E	$2.62	$2.59
P/E		
2001		17.3x
2002E	15.8x	16.0x
2003E	14.6x	14.7x

EPS forecasts reflect the change to CICA policy on accounting for goodwill effective January 1, 2002.

Dividends Per Share	
2000	$1.23
2001	$1.30
2002E	$1.41
2003E	$1.53

Debt/Capitalization	
2000	70.2%
2001	73.2%
2002E	70.1%
2003E	69.2%

Stock Price Performance

CHART NOT AVAILABLE

All figures in Canadian dollars, unless otherwise stated.

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Centra Gas Acquisition And Lower Interest Costs Boost Second Quarter Earnings

- BC Gas reported second quarter EPS of $0.03 versus a loss of $0.08 during the same period last year. This year-over-year increase was due largely to the acquisition of Centra Gas earlier this year, and further bolstered by lower interest rates on floating rate debt. The quarter, however, fell short of our $0.05 estimate largely due to lower earnings in the TransMountain pipeline, which experienced reduced throughput. Segmented earnings for the quarter and year-to-date are summarized in Tables 1 and 2 respectively.

Table 1. BC Gas Second Quarter Segmented Earnings ($ mlns.)

Year ending Dec. 31st ($ mlns.)	**Q2/02**	**Q2/01**
BC Gas Utility (operating)	(8.2)	(9.2)
Centra Gas	5.2	
Trans Mountain Pipe Line	5.6	6.6
Other Activities	0.1	1.1
Preferred Securities Distributions (net of tax)	(1.6)	(1.6)
Net Income for Common	**1.1**	**(3.1)**
Average shares outstanding	43.6	38.3
Earnings per share - reported	$ 0.03	$ (0.08)
Earnings per share - operating	**$ 0.03**	**$ (0.08)**

Table 2. BC Gas Year-to-date Segmented Earnings ($ mlns.)

Year ending Dec. 31st ($ mlns.)	**H1/02**	**H1/01**
BC Gas Utility (operating)	52.3	50.6
Centra Gas	11.5	-
Trans Mountain Pipe Line	12.1	12.4
Other Activities	(3.8)	(2.0)
Preferred Securities Distributions (net of tax)	(3.2)	(3.1)
Net Income for Common	**68.9**	**57.9**
Average shares outstanding	41.7	38.3
Earnings per share - reported	$ 1.65	$ 1.51
Earnings per share - operating	**$ 1.65**	**$ 1.51**

Source: CIBC World Markets.

- **Solid Distribution Results Showcase Utility As Cornerstone Of Company's Low-Risk Business Strategy** – BC Gas Utility's earnings increased this quarter and year-to-date versus the same periods last year mainly due to lower interest rates. As management indicated after the first quarter, the Centra Gas business is exceeding expectations laid out last fall and will likely continue to do so going forward. BC Gas is in the process of teeing up the next round of performance based regulation (PBR). BC Gas Utility completed four years of targeted PBR (TPBR) in 2001 and is essentially continuing to operate under TPBR. Its current application would be applicable for 2003, and set the base for comprehensive PBR (CPBR) through to the end of 2007. Under CPBR, delivery prices will likely be less linked to the utility's cost, as is the case in classic cost-of-service regulation, and more to a consumer's price index. Centra Gas is also due for a rate application, and this will be made independent of the BC Gas Utility as each utility has unique attributes. We anticipate that Centra Gas' application will likely focus on the best way to recover the utility's deferral accounts by the end of 2011, when the provincial subsidies expire. While the applications will be separate, we anticipate that the regulator will be keeping a close eye on potential synergies from the recent Centra Gas acquisition, and will likely require some sharing of the benefits with customers.

- **Lower Demand In TransMountain's U.S. End Markets** - Average daily throughput was down 6 percent in the TransMountain pipeline this year-to-date, and throughput was especially weak in the U.S. While tanker loading activity in Vancouver actually increased, this was not enough to offset the effects of lower demand in the U.S.. As a result, Q2 earnings dropped 15 percent year-over-year to $5.6 million. Going forward, we anticipate volumes could be depressed to year end and assume recovery of volumes in 2003. While management indicated that it would seek to offset the impact of reduced revenues by cutting costs, we had already assumed some cost savings would occur. Management provided preliminary high level guidance on the Corridor pipeline, which is on track to commence operations in March, 2003, and we have trimmed our 2003 earnings contribution estimates on Corridor as a result of this guidance.

- **Higher Financing Costs As A Result Of Centra Gas Acquisition** – Earnings from other activities, which incorporates non-regulated service and corporate interest expenses, was $0.1 million. This dropped $1.0 million over the same period last year largely due to increased debt levels to finance Centra Gas. Stronger performance from CustomerWorks and other services business partially offset the increased debt level.

Selective Growth Opportunities Beyond Company Borders

- On April 9, 2002, BC Gas announced the sale of its water supply business as it was no longer required to support growth of the water services business. The transaction was expected to close within two months, subject to regulatory approval. On July 23rd, the company announced that the transaction would be canceled due to a number of issues, and that the decision to cancel was mutual. While the waterworks services business is the part that the company is really interested in, as it is aligned with its current core business of gas distribution, management indicated that it would continue to operate the supply business going forward. Given the immateriality of the transaction to earnings, we have not adjusted our earnings for this transaction.

- BC Gas has an espoused multi-utility strategy, and the electric distribution utility piece of the puzzle may become more clear when the BC government unveils its energy policy, likely in September. If the the BC government chooses to privatize the distribution portion of BC Hydro as part of its pending energy policy, we believe that BC Gas would be a worthy candidate to at least partially own and operate the electric distribution system.

- On July 19, 2002, BC Gas announced an agreement to essentially outsource customer care services within Customer Works, its back office customer management business jointly owned with Enbridge, to Accenture. While not material to earnings, we view the agreement favourably as it will 1) marginally reduce the company's exposure to changes in operating costs, 2) provide upside earnings potential as Accenture opens up new marketing opportunities, and 3) allow BC Gas to achieve scale economies above what it could realize alone.

- Management indicated that, while it doesn't have an explicit acquisition war chest, it is selectively reviewing potentially attractive assets that are up for sale, including EnCana's Cold Lake and Express pipeline assets. We note that these assets would fit with BC Gas' regional focus, and the company could likely add value through its expertise and synergies with existing operations. That said, there are many other players eyeing those assets, and these are just a few assets among many. For a very large acquisition, BC Gas would have access to the capital markets for financing and, barring a change in risk profile, would likely maintain a 30 percent equity to total capitalization. While assets sometimes have less legal baggage, BC Gas would likely not be averse to acquiring a company and paying with equity. BC Gas would be constrained with respect to buying a U.S. company with its own equity by the requirement that no more than 20 percent of its shares in aggregate can be foreign-held, and no more than 10 percent of the company can be owned by a single shareholder.

Trimming EPS Estimates Slightly

- We are trimming our earnings estimates by $0.03 in both 2002 and 2003 to $2.39 and $2.59 respectively. The revised $2.39 2002 EPS estimate reflects an assumption that throughput remains depressed for the balance of the year in TransMountain. The revised $2.59 EPS estimate reflects an adjustment to our assumptions around the economics of the Corridor pipeline following management's preliminary guidance for this asset.
- With only a minor revision to our earnings forecast and no change to our dividend forecast, we are maintaining our $40 target price. For BC Gas, we are inclined to employ a target earnings multiple that is above our sector average to reflect the 1) the quality and consistency of BC Gas' earnings growth over the last several years , 2) its relatively low risk profile, 3) potential for upwards revisions for our earnings estimates if merger synergies are partially retained through a new performance based regulation (PBR) framework in 2003, and 4) potential for BC Gas to participate in electricity restructuring that the BC government may consider in the context of its pending energy policy. Our $40.00 target price implies a 15.4x multiple of our 2003 EPS estimate of $2.59. This implies a dividend yield of 3.8 percent.

CIBC World Markets

Equity Research

April 26, 2002

Pipelines & Utilities

BC Gas Inc.

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Increasing Target Price And Earnings Estimates After Strong First Quarter

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- **Centra Gas Is Contributing Above Initial Company Expectations**—We are raising our target price by $1.00 to $40.00, as well as our 2002 and 2003 EPS estimates by $0.04 each, after BC Gas reported Q1 EPS of $1.70, $0.08 above our estimate of $1.62 and $0.11 higher than last year. Higher than expected contributions from the Centra Gas acquisition, improved operating performance across the company's other businesses, lower interest rates and lower tax rates all contributed to a very strong quarter. Table 1 summarizes segmented earnings.
- **Dividend Increase Signals Confidence In Sustainability Of Results** – BC Gas also declared a higher than anticipated quarterly dividend of $0.36, a penny higher than we were forecasting and 3 cents, or 9 percent, higher than the previous dividend. We view this as a strong signal from the company of its confidence in the stability and sustainability of its earnings and the growth prospects going forward. This is consistent with an approximate 60 percent payout ratio policy and we have increased our 2003 dividend estimates to reflect our higher earnings estimates.
- **Natural Gas Distribution Benefited from Lower Interest Costs** – BC Gas Utility's earnings increased $0.7 mln. to $60.5 mln. Cost pressures were more than offset by the benefits of lower tax and interest rates. Management indicated that Centra Gas is performing better than the company's expectations that were announced last fall, and we have reflected this in our increased earnings estimates. The company indicated that the integration of the Centra Gas acquisition is progressing smoothly.
- **Higher Throughput in Petroleum Pipelines** – Throughput increased 1.9% over Q1/2001 to 34,340 cubic metres per day, which when coupled with lower financing costs and tax rates, increased earnings $0.7 million to $6.5 million. Management indicated that progress is being made on the Corridor Pipeline and that it is on track and on budget to be placed in commercial service early next year, and our EPS estimates incorporate Corridor beginning late Q3/2003.

Rating: HOLD

BCG-TSE (04/25/02):	$38.30
52-Week Range:	$39.49-$30.12
Shares Outstanding:	43.5 mln.
Float:	43.5 mln.
Market Capitalization:	$1.7 bln.
Dividend/Yield:	$1.44/3.8%
Fiscal Year End:	December
Book Value:	$21.89 per Share
FY 2002E ROE:	12.0%
LT Debt:	$2,236.3 mln.
Preferred:	$125.0 mln.
Common Equity:	$952.4 mln.

Earnings Per Share

	Prior	Current
FY 2000		$2.06
FY 2001		$2.21
FY 2002E	$2.38	$2.42
FY 2003E	$2.58	$2.62
P/E		
FY 2000		18.6x
FY 2001		17.3x
FY 2002E		15.8x
FY 2003E		14.6x

EPS forecasts reflect the change to CICA policy on accounting for goodwill effective January 1, 2002.

Dividends Per Share

FY 2000	$1.23
FY 2001	$1.30
FY 2002E	$1.41
FY 2003E	$1.53
Debt/Capitalization	
FY 2000	70.2%
FY 2001	73.2%
FY 2002E	68.1%
FY 2003E	67.2%

Company Description:
BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.
www.bcgas.com.

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- Strong performance in the company's other operations offset the increased corporate financing costs of the Centra Gas acquisition.
- **Making Progress Towards Realizing Multi-Utility Strategy**—On April 9, 2002, BC Gas announced the sale of its water supply business as it is no longer required to support growth of the water services business. The transaction is expected to close some time in Q2/2002, subject to regulatory approval. The company intends to keep and grow the waterworks services business, which we believe is aligned with its current core business of gas distribution. We believe that there may be opportunities for BC Gas in electricity distribution within the province as well, if the the BC government chooses to privatize the distribution portion of BC Hydro as part of its pending energy policy.
- **Increasing Target Price**—With the quality and consistency of BC Gas' earnings growth over the last several years and its relatively low risk profile, we are inclined to employ a target earnings multiple that is above our sector average, albeit somewhat lower than the fastest growing companies. Furthermore, we are increasing this above average multiple to reflect the 1) higher dividend, 2) potential for further upwards revisions for our earnings estimates if merger synergies are partially retained through a new performance based regulation (PBR) framework in 2003, and 3) potential for BC Gas to participate in electricity restructuring that the BC government may consider in the context of its pending energy policy. Our $40.00 target price is predicated upon a 15.2x multiple of our

CIBC World Markets, or one of its affiliated companies, has performed investment banking services for BC Gas.
CIBC World Markets, or one of its affiliated companies, managed or co-managed a public offering of securities for BC Gas within the last three years.
BC Gas: Solicitation prohibited in AL, IL, KY, NH, ND, SD, UT, VT, VA, WI.

2003 EPS estimate of $2.62. This implies a dividend yield of 3.8 percent.

Table 1. BC Gas Segmented Earnings ($ mlns.)

For The Years Ending December 31	Q1/02	Q1/01	Y-o-Y Change
BC Gas Utility (operating)	60.5	59.8	0.7
Centra Gas	6.3	-	6.3
Trans Mountain Pipe Line	6.5	5.8	0.7
Other Activities	(3.9)	(3.1)	(0.8)
Preferred Securities Distributions	(1.6)	(1.5)	(0.1)
Net Income for Common	**67.8**	**61.0**	**6.8**
Average shares outstanding (mlns.)	39.8	38.3	1.5
Earnings per share - reported	$ 1.70	$ 1.59	$ 0.11
Earnings per share - operating	$ 1.70	$ 1.59	$ 0.11

Source: CIBC World Markets.

CIBC World Markets

Equity Research

March 8, 2002

Pipelines & Utilities

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BC Gas Inc.

Reinstating Coverage After Acquisition Of Centra Gas

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- We are resuming coverage of BC Gas Inc. with a Hold rating (unchanged) and a $38.00 target price following the completion of the acquisition of Centra Gas BC and Centra Gas Whistler Inc. from Westcoast Energy Inc. The transaction closed March 7, but is effective January 1, 2002. We expect it to be immediately accretive to earnings and, together with other minor adjustments to our forecasts, we have raised our EPS estimates by $0.03 for 2002 and $0.07 for 2003. With the closing of the acquisition, the 5.2 million subscription receipts issued last October will be converted into an equivalent number of BC Gas common shares.
- The acquired assets are a natural fit with BC Gas's other distribution operations. Through BC Gas Utility, BC Gas already operates most of the gas distribution in the province of British Columbia. In time, we see the potential for additional earnings accretion as potential synergies between the existing and recently acquired operations are exploited. With the next generation of performance based regulation under negotiation, we would expect some of the benefit of these synergies to accrue to shareholders.
- We are forecasting 8% per annum compound growth in earnings per share over the next two years. While this is somewhat above the company's long-run target of at least 6% per annum, we note that our 2002 forecast – driven largely by the Centra acquisition – is consistent with the company's recent guidance, which was towards the upper end of a range of $2.30-$2.40. The major contributor to stronger-than-trend growth in 2003 will be the completion of the Corridor Pipeline, which will transport blended bitumen from Shell's Muskeg River mine to Edmonton.
- With the quality and consistency of BC Gas's earnings growth over the last several years and its relatively low risk profile, we are inclined to employ an earnings multiple that is above the sector average, albeit somewhat lower than the fastest growing companies. Our $38.00 target is predicated on a 14.8x multiple of forecast 2003 EPS.

Rating: HOLD

BCG-TSE (03/07/02):	$35.95
52-Week Range:	$36.88-$30.10
Shares Outstanding:	43.5 mln.
Float:	43.5 mln.
Market Capitalization:	$1.6 bln.
Dividend/Yield:	$1.32/3.7%
Fiscal Year End:	December
Book Value:	$18.65 per Share
FY 2002E ROE:	11.8%
LT Debt:	$1,928.0 mln.
Preferred:	$125.0 mln.
Common Equity:	$715.1 mln.

Earnings Per Share	Prior	Current
FY 2000		$2.06
FY 2001		$2.21
FY 2002E	$2.35	$2.38
FY 2003E	$2.51	$2.58
P/E		
FY 2000		17.5x
FY 2001		16.3x
FY 2002E		15.1x
FY 2003E		13.9x

Dividends Per Share	
FY 2000	$1.23
FY 2001	$1.30
FY 2002E	$1.38
FY 2003E	$1.46
Debt/Capitalization	
FY 2000	70.2%
FY 2001	73.2%
FY 2002E	70.1%
FY 2003E	69.2%

Company Description:
BC Gas Inc. is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the province of B.C. The company's Trans Mountain Pipeline delivers crude oil from Alberta to B.C. and the northwest U.S. www.bcgas.com.

Table 1. BC Gas Inc. – Segmented Earnings Contribution ($ mlns.)

For The Years Ending December 31	1999	2000	2001	2002E	2003E
BC Gas Utility (Operating)	$50.8	$57.9	$67.2	$66.5	$67.1
Centra Gas				18.6	19.4
Other Gas Utility Operations	0.9	0.8	0.6	0.6	0.6
Trans Mountain Pipe Line	19.5	21.3	27.3	27.4	28.2
Corridor Pipeline					12.9
Other Activities	3.0	2.7	(4.1)	(4.7)	(5.0)
Preferred Securities Distributions		(3.9)	(6.4)	(7.4)	(11.0)
Non-recurring Gains (Losses)	7.0	30.0			
Net Income For Common	**81.2**	**108.8**	**84.6**	**101.0**	**112.2**
Average Shares Outstanding	38.3	38.3	38.3	42.5	43.5
Earnings Per Share - Reported	$2.12	$2.84	$2.21	$2.38	$2.58
Earnings Per Share - Operating	**$1.94**	**$2.06**	**$2.21**	**$2.38**	**$2.58**
Cash Flow Per Share	$4.55	$4.61	$5.09	$4.86	$5.11
Dividends Per Share	$1.17	$1.23	$1.30	$1.38	$1.46
Book Value Per Share (Year End)	$16.36	$17.86	$18.65	$21.54	$22.66
Return On Book Value	12.2%	12.0%	12.1%	11.8%	11.7%

Source: CIBC World Markets.

Centra Acquisition Closes

Following passage and assent of a minor legislative amendment, BC Gas closed the acquisition of Centra Gas BC and Centra Gas Whistler Inc. from Westcoast Energy Inc. on March 7. However, the deal with Westcoast was effective January 1, 2002 and, as a result, full year earnings will accrue to BC Gas. The purchase price, before closing adjustments, was $240 million, which included $208 million for Centra's common shares and $32 million for Centra's preferred shares, which have a book value of $84 million. BC Gas will make a final payment for the preferred shares in 2011 or sooner if additional revenues are generated from sales to power plants. In addition, the company assumed $298 million of Centra's cost of service debt – $70 million of which was owned by Westcoast and will now be owned by BC Gas Inc.

BC Gas has financed the $310 million cash cost of the acquisition with $180 million in proceeds from the October issue of subscription receipts (subsequently converted to common shares upon closing of the acquisition) and $130 million of debt.

Our forecast of Centra's contribution to BC Gas' earnings is premised on a forecast average rate base of $444 million in 2002 and $464 million in 2003. Centra's regulated common equity ratio is 35% and, until the end of 2002, its authorized return on equity is set annually based on a premium of 375 basis points over long Canada bond yields. For 2002, the authorized return is 4%, but with available incentives, Centra's achieved return is likely to be closer to 10.5%. BC Gas will also earn a return on Centra's preferred shares, as well as on the $70 million of its regulated debt, which will be held at the corporate level.

Partially offsetting these sources of earnings will be $0.5 million per annum of amortization of purchase price discrepancy, the annual accretion of the present value of BC Gas' obligation to make final payment on the preferreds, and the $1.9 million annual ROE penalty imposed by the government of British Columbia. This penalty, which lasts for 10 years, was imposed as a result of Westcoast's failure to meet certain performance criteria contained in the original agreement with the government.

Our forecasts do not include the benefit of potential synergies between Centra and BC Gas Utility. We expect some synergies will be achieved. However, the magnitude of such synergies nor the mechanism for sharing these between customers and shareholders is not yet clear. We expect such sharing will be incorporated when new incentive regulatory structures are put in place for 2003.

Table 2. Centra Gas Division – Rate Base And Earnings Projection ($ mlns.)

For The Years Ending December 31	2002E	2003E
Average Rate Base	$444.0	$464.0
Deemed Common Equity Component	35.0%	35.0%
Total Deemed Common Equity	155.4	162.4
Achieved ROE For Common	10.50%	10.50%
Common Equity Earnings	16.3	17.1
Preferred Share Earnings	5.1	5.1
Earnings On Self-Financed Debt	1.3	1.4
Purchase Price Discrepancy	(0.5)	(0.5)
Accretion On Deferred Liability	(1.8)	(1.8)
Less: ROE Reduction	(1.9)	(1.9)
Earnings Contribution	**18.6**	**19.4**

Source: CIBC World Markets.

BC Gas Utility Prepares For Next Generation PBR

Following its completion in late 2000, the Southern Crossing Pipeline went into rate base at the beginning of 2001. Southern Crossing was by far the largest of the utility's recent construction projects, which have contributed to a 37% increase in average captalization over the last two years (see Table 3). Going forward, we expect a relatively flat capitalization. We do see some potential for a slight increase in the utility's achieved return in 2002 as a result of the withdrawal of its 2002 rate application. This withdrawal has effectively extended the company's first generation performance based regulatory regime for one more year. The company is currently discussing a new multi-year PBR regime with customers and its regulator, which would begin in 2003. We have assumed a flat ROE in 2003.

Table 3. BC Gas Utility Ltd. – Rate Base And Earnings Projection ($ mlns.)

For The Years Ending December 31	1999	2000	2001	2002E	2003E
Net Plant In Service, Jan. 1	$1,562.9	$1,645.2	$2,059.0	$2,078.8	$2,132.3
Add: Plant Additions (Net)	138.0	32.8	84.6	75.1	75.0
Less: Annual Depreciation	55.7	64.4	69.2	76.6	80.9
Net Plant In Service, Dec. 31	1,645.2	1,613.6	2,074.3	2,077.3	2,126.4
Average Plant In Service	1,602.4	1,619.5	2,066.7	2,078.1	2,129.4
Working Capital And Other	35.0	70.0	172.4	147.0	140.0
Total Rate Base	1,637.4	1,689.5	2,239.0	2,225.1	2,269.4
Less: Assets Sold And Leased Back				47.5	65.0
Add: Average CWIP	38.9	255.2	60.9	44.5	45.0
Total Capitalization	1,676.3	1,944.7	2,299.9	2,222.1	2,249.4
Deemed Common Equity Ratio	33.0%	33.0%	33.0%	33.0%	33.0%
Deemed Common Equity Component	553.2	641.8	759.0	733.3	742.3
Rate Of Return On Equity	10.53%	10.47%	9.72%	10.00%	10.00%
Regulated Earnings - After Tax	58.2	67.2	73.8	73.3	74.2
Non-utility Income (Expense)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Non-utility Amortizations (Premium)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Non-utility Interest Expense	(8.3)	(11.7)	(6.5)	(6.5)	(6.5)
Tax Shield On Non-utility Expense	6.2	7.8	5.3	5.1	4.8
Operating Earnings	**50.8**	**57.9**	**67.2**	**66.5**	**67.1**

Source: CIBC World Markets.

Trans Mountain's Earnings Grew By 28% In 2001

The contribution to BC Gas' earnings from its oil pipeline subsidiary jumped by $6 million (or 28%) in 2001. This strong performance reflects the benefit of its new (second generation) incentive regulatory regime, volume growth on the U.S. portion of its pipeline, and the cost savings achieved as a result of its restructuring, which included the move of its head office from Vancouver to Calgary. While Trans Mountain's new toll structure does expose the company to limited volume risk, we believe that the strong performance of 2001 is sustainable going forward.

Corridor Pipeline On Track

The major driver of the earnings growth that we are forecasting for 2003 is the new Corridor Pipeline, which will commence partial operations later this year, but which will not be fully in service and begin contributing to earnings until late in the first quarter of 2003. Corridor is a new 493-kilometre pipeline that BC Gas is building to transport bitumen blended with diluent from the Muskeg River mine in the Athabasca oil sands north of Fort. McMurray to Shell's Scotford refinery north of Edmonton.

The total cost of the Corridor Pipeline, including direct construction costs and capitalized interest, is projected at $688 million. According to the company's last update, the project is on or slightly under budget. During construction, the pipeline is being financed 100% with debt. As a result, BC Gas will record no earnings from the project until it contributes equity – currently scheduled for February 15, 2003.

The terms of the agreement between BC Gas and Corridor's shippers – the owners of the Athabasca Oil Sands Project (Shell Canada, Chevron Canada, and Western Oil Sands) – have not been disclosed. Our forecast assumes that it provides for a 25% equity component and a 10% return on equity. We have also assumed that BC Gas finances its equity contribution to Corridor with $100 million of preferred or capital securities and $72 million of debt. A full year earnings impact of Corridor will be felt in 2004.

Other Activities

The increased loss that we are forecasting for BC Gas' other activities in 2002 reflects the debt financing costs associated with purchase of Centra Gas BC. Partially offsetting this impact are higher expected earnings from Customer Works and BC Gas' water services business. To be conservative, we have assumed that Customer Works earns only a utility type return on the approximately $25 million of assets that it acquired at the end of 2001 from BC Gas Utility.

The slightly higher loss from Other Activities forecast for 2003 reflects interest on $72 million of debt financing associated with Corridor, partially offset by further growth in the company's non-utility businesses.

Longer Term Prospects

Beyond our forecast horizon, we see potential for continued earnings growth as a result of two major projects that BC Gas is proposing. The first is the Inland Pacific Connector (IPC) – a new 246-kilometre, 350 Mmcf/day natural gas pipeline that BC Gas is proposing to build from the end of its Southern Crossing pipeline at Oliver to the U.S. border at Huntingdon near Vancouver. IPC's estimated cost is $495 million. It would provide additional supply to the Sumas hub as well as diversity of supply to a region that is heavily dependent on supply from the Westcoast pipeline. Westcoast is currently building a 200 Mmcf/day expansion of its system, which obviates the immediate need for IPC's capacity, but BC Gas is hopeful that the project could be placed in service by November of 2004. In order to meet this timeline, a decision will need to be made this fall.

BC Gas' latest major proposed project is the Bison Pipeline. As proposed, Bison would be an $800-million, 516-kilometre insulated pipeline that would transport up to 450,000 barrels per day of hot bitumen from the Athabasca oil sands to the Edmonton area. For most of its route, it would run adjacent to the Corridor Pipeline. The advantage of a hot bitumen line is that it reduces or eliminates the need for diluent at the production facilities.

BC Gas is currently involved in joint engineering and technical studies with potential Bison shippers, including TrueNorth Energy and PetroCanada. Bison Pipeline is planning to file final regulatory approval with The Alberta Energy and Utilities Board this summer and hopes to have final approval by the first quarter of 2003. The pipeline is slated for completion by mid-2005. Before it can proceed, Bison requires shipper commitments as well as regulatory and environmental approvals. As well, it will face competition from Enbridge, which has also discussed a similar project.

Success with either of these projects should allow BC Gas to sustain growth of 6% per annum or better beyond 2003.

Valuation

With forecast earnings growth of 8% per annum over the next two years, we are inclined to use an earnings multiple somewhat below the fastest growing stocks in our universe such as Enbridge and TransAlta – each of which are expected to produce low double digit earnings growth. On the other hand, we believe that BC Gas' history of consistent, predictable earnings growth, combined with the quality of its operations and low risk profile merits a multiple that is a premium to the group average. BC Gas' low risk profile stems from its asset management strategy, which avoids direct commodity price exposure. It has no trading or marketing activities. As well, it has no volume risk associated with its gas utility and only limited volume risk on its oil pipeline. While the company does conduct some international consulting, it has no international equity investments.

Consistent with its high quality, low risk and medium growth profile, our $38.00 target is predicated on a 14.8x multiple applied to our forecast of 2003 earnings. We rate the stock as a Hold and view it as attractive for conservative investors who want a combination of low risk growth and income. We expect dividends to grow in line with earnings.

Table 4. BC Gas Inc. – Capital Structure ($ mlns.)

For The Years Ending December 31	1999	2000	2001	2002E	2003E
Short-term Debt	$529.2	$387.0	$527.6	$585.4	$485.1
	23.0%	13.5%	15.7%	14.4%	11.8%
Long-term Debt	1001.8	1633.5	1928.0	2272.1	2363.4
	43.6%	56.8%	57.5%	55.7%	57.4%
Total Debt	1531.0	2020.5	2455.6	2857.5	2848.5
	66.6%	70.2%	73.2%	70.1%	69.2%
Deferred Taxes	65.4	47.3	56.8	56.8	56.8
	2.8%	1.6%	1.7%	1.4%	1.4%
Minority Interest	75.0	0.0	0.0	0.0	0.0
	3.3%	0.0%	0.0%	0.0%	0.0%
Capital Securities		125.0	125.0	225.0	225.0
		4.3%	3.7%	5.5%	5.5%
Common Equity (Net)	626.3	684.5	715.1	938.1	986.8
	27.3%	23.8%	21.3%	23.0%	24.0%
	2297.7	**2877.3**	**3352.5**	**4077.4**	**4117.1**

Source: CIBC World Markets.

Table 5. BC Gas Inc. – Statement Of Changes In Financial Position ($ mlns.)

For The Years Ending December 31	1999	2000	2001	2002E	2003E
Operating Activities					
Net Earnings	$81.2	$112.7	$91.0	$101.0	$112.2
Depreciation And Amortization	82.6	86.2	95.1	104.7	109.4
Deferred Income Taxes	10.4	(18.1)	9.5		
Other	0.2	(4.4)	(0.7)	1.0	1.0
Total From Operations	174.4	176.4	194.9	206.6	222.7
Increase In Long-term Rate Stabilzation Accounts		(105.1)	2.4		
Changes In Non-cash Working Capital	(50.3)	108.0	(137.5)		
	124.1	179.3	59.8	206.6	222.7
Financing Activities					
Issue Of Short-term Notes	(22.0)	(65.0)	(82.0)		(30.0)
Long-term Debt Issued	231.7	558.6	590.8	396.3	123.6
Reduction Of Long-term Debt	(135.2)	(3.2)	(73.6)	(222.4)	(102.5)
Redemption Of Subsidiary Preferred Shares	0.0	(75.0)	0.0	0.0	0.0
Issue Of Preferred Securities		122.3		100.0	
Issue Of Common Shares (Net)	0.3		(4.2)	180.7	
Common Shares And Options Purchased	(0.6)	(1.0)			
Dividends On Common Shares	(44.6)	(50.8)	(56.2)	(66.1)	(74.6)
Other					
	29.6	485.9	374.8	388.5	(83.5)
Investments					
Property, Plant And Equipment	(163.6)	(620.6)	(469.8)	(399.8)	(140.0)
Acquisitions (Divestitures)	25.6		47.5	310.0	
Other Assets	(4.3)	(27.8)	(32.6)	(1.0)	(1.0)
	(142.3)	(648.4)	(454.9)	(90.9)	(141.0)
Decrease (Increase) In Bank Indebtedness	**11.4**	**16.8**	**(20.3)**	**504.3**	**(1.9)**
Bank Indebtedness - January 1	(5.8)	5.6	22.4	2.1	506.4
Cash (Bank Indebtedness) - December 31	**5.6**	**22.4**	**2.1**	**506.4**	**504.5**

Source: CIBC World Markets.

CIBC World Markets

Equity Research

January 16, 2002

Pipelines & Utilities

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Enbridge Inc.

Competitor's Proposal Validates Need For More Oilsands Pipeline Capacity

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- BC Gas' proposed new hot bitumen pipeline from the Athabasca oil sands to Edmonton would displace a similar project on which Enbridge is working, but validates the need for more capacity from the region. It is too soon to count Enbridge out of the race, although in any event, the earnings impact is beyond our current forecast horizon. We are maintaining our $50 target price and Buy rating.

- BC Gas is proposing an $800 million, 516-km insulated pipeline to transport hot bitumen from the Athabasca region to Edmonton. The Bison Pipeline's initial capacity would be 100,000 barrels per day. Ultimately it could transport up to 450,000 barrels per day for a total capital cost of approximately $1 billion. Bison is currently involved in joint engineering and technical studies with potential shippers, including TrueNorth Energy and Petro-Canada. Both shippers have either filed or intend to file applications with the Alberta Energy and Utilities Board to develop their respective production facilities. Bison is planning to file an AEUB application in July. The target in service date for initial volumes would be mid-2005.

- At its October investor day, Enbridge discussed the production potential of the Athabasca region as well as some of the constraints on that potential. These are illustrated in the figure on the following page. The first constraint is the availability of diluent that thins the bitumen to the point where it can be moved by pipeline. This is why both BC Gas and Enbridge are proposing a heated line to Edmonton. A hot line has a higher capital cost, but with minimal diluent requirements, has a lower operating cost. Enbridge also recently announced a strategic alliance with Ensyn Group, which is developing a process for the partial upgrade of bitumen and heavy oil and would also reduce the need for diluent. Another constraint on oil sands production is the ability of existing markets to absorb bitumen and mined synthetic oil. For this reason, Enbridge is also studying a new pipeline to the west coast that could access markets in California and the Far East.

Rating: BUY

ENB-TSE (01/15/02):	$42.74
52-Week Range:	$45.55-$33.90
Shares Outstanding:	162.8 mln.
Float:	146.8 mln.
Market Capitalization:	$7.0 bln.
Dividend/Yield:	$1.40/3.3%
Fiscal Year End:	December
Book Value:	$16.36 per Share
FY 2002E ROE:	16.8%
LT Debt:	$6,855.1 mln.
Preferred:	$464.9 mln.
Common Equity:	$2,575.7 mln.

Earnings Per Share	Current
FY 2000	$2.17
FY 2001E	$2.46
FY 2002E	$2.80
FY 2003E	$3.09
P/E	
FY 2000	19.7x
FY 2001E	17.4x
FY 2002E	15.3x
FY 2003E	13.8x

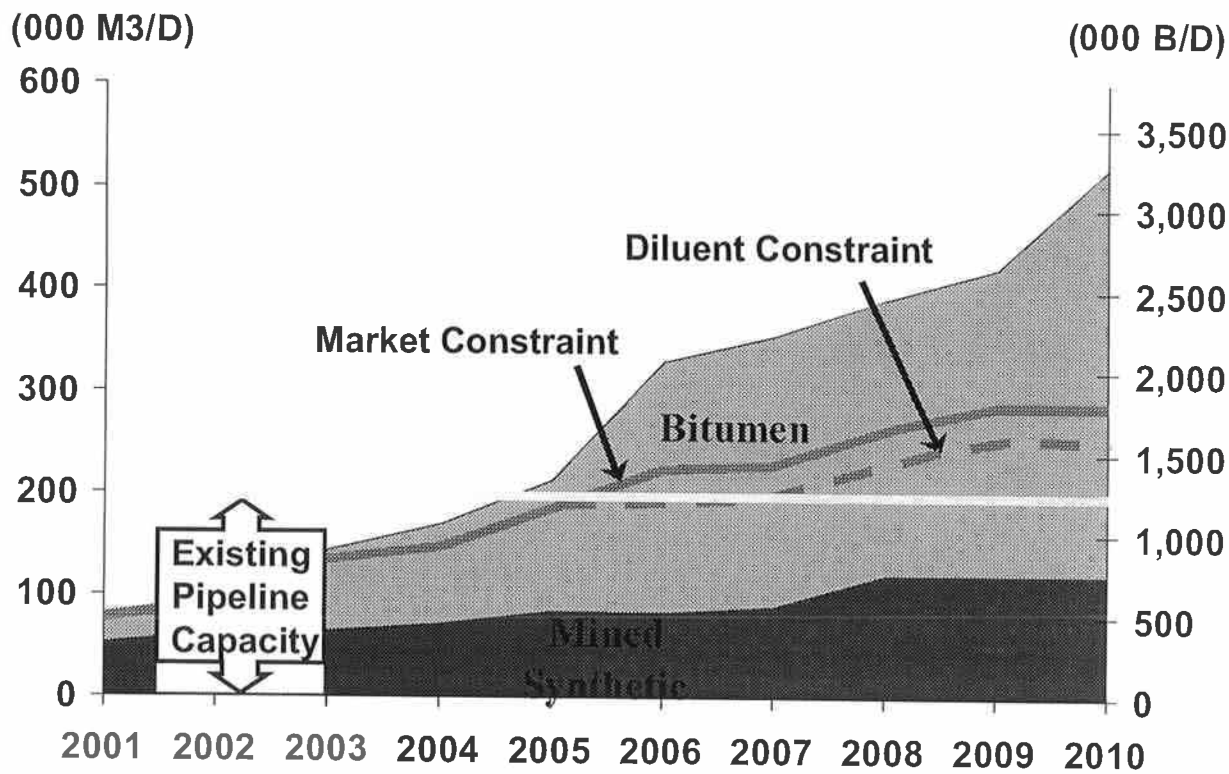
Dividends Per Share	
FY 2000	$1.27
FY 2001E	$1.40
FY 2002E	$1.52
FY 2003E	$1.64
Debt/Total Capital	
FY 2000	69.6%
FY 2001E	71.5%
FY 2002E	71.5%
FY 2003E	71.0%

Company Description:
Enbridge Inc. is an energy transportation, distribution and services company that transports oil from Western Canada to Chicago, and a part-owner of the Alliance and Vector gas pipelines. It owns Consumers Gas, Canada's largest gas distribution company.
www.enbridge.com

Related Articles ►

- The announcement by BC Gas emphasizes the need for additional capacity from the Athabasca region and that there will be competition to build new pipelines. At this point, however, no new pipeline has been permitted or definitively committed to by shippers. As a result, we suspect that Enbridge is still in the hunt. In any event, with a planned in-service date of no earlier than mid-2005, we do not anticipate any near term stock price impact.

Figure 1. Total Potential Oilsands Supply



Source: Enbridge, October 2001.

CIBC World Markets

Equity Research

Pipelines & Utilities
Peter Case (416) 956-6169
Linda Ezergailas (416) 956-3229

September 4, 2001

BC Gas Inc.

BC Gas Files Rate Case For 2002

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- BC Gas' recently filed application for a distribution rate increase for 2002 is consistent with our forecasts and, as a result, we are maintaining our earnings estimates and Hold rating.

- BC Gas has filed an application with the B.C. Utilities Commission for a 1.95% increase in its distribution rates effective January 1, 2002. The company expects to file an application to flow through a reduced cost of gas with the result that customers will see a net decrease in their overall bill. As is the case with other distribution utilities, BC Gas flows the cost of gas through to customers with no mark up.

- The application marks BC Gas' first full rate case in 4 years as the company has been operating under an incentive or performance-based regulatory scheme (PBR) for the last four years. The current application is a conventional, single-year application although the company is hopeful that once rates for 2002 have been established, they will be adjusted going forward according to a multi-year incentive agreement that it will negotiate with interested parties later this year.

- The company's application incorporates a forecast 2002 rate base of $2,237 million, an equity ratio of 33% and a return on equity to be set according to the BCUC's formula adjustment mechanism. Based on current long bond yields, we estimate that the formula would generate an authorized return on equity of 9.25% - equal to the authorized rate for 2001. If 2002 rates become the starting point for a multi-year PBR arrangement, then it would be reasonable to expect the company to achieve a return about 50 basis points above the authorized rate. This is consistent with the company's recent experience and is the basis of our 2002 EPS forecast. Every 50 basis point change in the utility's achieved return changes EPS by about $0.10.

- We are raising our one-year target price by $2.00 to reflect our expectation for continued earnings growth in 2003, but based on the current stock price, we are maintaining a Hold rating.

Rating: HOLD

BCG-TSE (08/30/01):	$34.85
52-Week Range:	$35.45-$27.25
Shares Outstanding:	38.3 mln.
Float:	38.3 mln.
Market Capitalization:	$1,334.8 mln.
Dividend/Yield:	$1.32/3.8%
Fiscal Year End:	December
Book Value:	$18.68 per Share
FY 2001E ROE:	11.9%
LT Debt:	$1,689.9 mln.
Preferred:	$125.0 mln.
Common Equity:	$716.1 mln.

Earnings Per Share

	Current
FY 2000	$2.06
FY 2001E	$2.18
FY 2002E	$2.35
FY 2003E	$2.51

P/E

FY 2000	16.9x
FY 2001E	16.0x
FY 2002E	14.8x
FY 2003E	13.9x

Dividends Per Share

1999	$1.17
2000	$1.23
2001E	$1.30
2002E	$1.38

Debt/Total Capitalization

1999	66.6%
2000	70.2%
2001E	72.7%
2002E	70.4%

Company Description:
BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.
www.bcgas.com.

Related Articles ▶

CIBC World Markets

Equity Research

May 2, 2001

Pipelines & Utilities

Peter Case (416) 956-6169
Matthew Akman (416) 956-3229

BC Gas Inc.

BC Gas Leases Gas Distribution Assets To City Of Kelowna

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- BC Gas and the City of Kelowna have reached an agreement wherein the City would lease the company's gas distribution assets within Kelowna municipal boundaries for $50 million. While the company could lose some utility earnings power associated with the $50 million in rate base, it could offset this impact by redeploying the capital, potentially to an even higher-return activity. We are not changing our EPS estimates or $34.00 target price.

- BC Gas and the City of Kelowna have agreed in principle to an innovative leasing arrangement, as a means of resolving a municipal franchise renewal (right to distribute gas in the municipality). The agreement would still require the approval of the BC Utility Commission, and the formal approval of the municipality.

- If the deal is approved, the City would pay BC Gas $47.5 million initially, and $2.5 million over the term of the 35-year lease. In turn, BC Gas would make payments to the municipality equivalent to most of the revenue requirement associated with the capital cost of the assets, including a return on capital, financing costs, and depreciation. The company would also lease back the operation of the gas system within municipal boundaries, and continue to operate the system.

- The potential mutual benefits in the deal arise from the municipality's relatively low cost of capital. The City can finance the assets (upfront lease payment) entirely with debt at a municipal borrowing rate.

- For BC Gas, any earnings reduction resulting from a lower rate base is potentially offset by two distinct benefits. First, the company will collect a fee for operating the system, and will propose to the regulator that associated revenues are shared between customers and shareholders. Second, the company can redeploy the capital to other capital projects or to strengthen its balance sheet and delay any need for new equity financing.

Rating: HOLD

BCG-TSE (05/01/01):	$31.55
52-Week Range:	$34.75-$25.15
Shares Outstanding:	38.3 mln.
Float:	38.3 mln.
Market Capitalization:	$1,208.4 mln.
Dividend/Yield:	$1.32/3.9%
Fiscal Year End:	December
Book Value:	$19.12 per Share
FY 2000E ROE:	12.0%
LT Debt:	$1,630.7 mln.
Preferred:	$125.0 mln.
Common Equity:	$783.9 mln.

Earnings Per Share

	Current
FY 1999	$1.94
FY 2000	$2.06
FY 2001E	$2.18
FY 2002E	$2.30

P/E

FY 1999	16.3x
FY 2000	15.3x
FY 2001E	14.5x
FY 2002E	13.7x

Dividends Per Share

1999	$1.17
2000	$1.23
2001E	$1.30
2002E	$1.35

Debt/Total Capitalization

1999	66.6%
2000	70.2%
2001E	72.7%
2002E	70.5%

Company Description:
BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.
www.bcgas.com.

Related Articles ►

- We view this deal as relatively neutral to earnings, and potentially positive if it resolves an outstanding franchise renewal issue while preserving the company's relationship with Kelowna.
- We would be concerned if the deal establishes a precedent for resolving franchise disputes that results in a significant erosion of the company's rate base (and earnings power) over time. However, the company estimates that, at most, an additional $100 million in rate base is located in municipalities with an option to purchase the gas distribution system upon franchise expiry.
- We are not changing our earnings estimates, $34 target price or Hold rating.

CIBC World Markets

Equity Research

April 27, 2001

Pipelines & Utilities

BC Gas Inc.

Peter Case (416) 956-6169
Matthew Akman (416) 956-3229

BC Gas First Quarter Earnings In Line With Expectations

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- BC Gas reported operating earnings for the first quarter of $1.59 compared with $1.39 for the same period last year. The company also increased its quarterly dividend from $0.31 to $0.33. These results are reflective of consistent solid growth in the company's core businesses, and some increased seasonality. We are not changing our earnings estimates, $34 target price or Hold rating.

- The gas distribution business posted strong growth, achieving $59.8 million in earnings compared with $49.2 million last year (**see table on p. 2 for segmented results**). This performance is partly just reflective of increased seasonality and a higher rate base with the inclusion of the $410 million Southern Crossing Pipeline. It also suggests the utility is performing well in its last year of a four-year incentive regulation framework. We anticipate an achieved ROE of about 9.75%, which is 50 basis points above the 9.25% regulated return.

- The petroleum transportation business reported $5.8 million in earnings compared with $5.2 million last year. The company benefited from increased volumes and productivity improvements in the first quarter of its new incentive tolling arrangement on the Canadian portion of the Trans Mountain Pipe Line. Under the tolling agreement, Trans Mountain keeps 100% of revenues associated with volumes between 30,000 and 32,000 cubic metres per day (no sharing with shippers). In the quarter it transported 30,821 cubic metres per day. The U.S. Mainline transported 8,952 cubic meters per day compared with 8,511 last year. Nominations of more than 10,000 per day in the coming months suggest even stronger performance on the U.S. side going forward.

- The company's loss in other activities grew from $1.0 million last year to $4.6 million this year. Higher financing costs accounted for about $2.3 million of this $3.6 million difference, and higher losses in the water business of $1.3 million accounted for the rest.

Rating: HOLD

BCG-TSE (04/26/01):	$30.75
52-Week Range:	$34.75-$25.15
Shares Outstanding:	38.3 mln.
Float:	38.3 mln.
Market Capitalization:	$1,177.7 mln.
Dividend/Yield:	$1.32/3.9%
Fiscal Year End:	December
Book Value:	$19.12 per Share
FY 2000E ROE:	12.0%
LT Debt:	$1,630.7 mln.
Preferred:	$125.0 mln.
Common Equity:	$783.9 mln.

Earnings Per Share

	Current
FY 1999	$1.94
FY 2000	$2.06
FY 2001E	$2.18
FY 2002E	$2.30

P/E

FY 1999	15.9x
FY 2000	14.9x
FY 2001E	14.1x
FY 2002E	13.4x

Dividends Per Share

1999	$1.17
2000	$1.23
2001E	$1.30
2002E	$1.35

Debt/Total Capitalization

1999	66.6%
2000	70.2%
2001E	72.7%
2002E	70.5%

Company Description:
BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.
www.bcgas.com.

Related Articles ▶

- Segmented results and our forecast for 2001 are set out below.

Table 1. BC Gas Segmented Earnings ($ mlns.)

	Q1/01	Q1/00
Gas Distribution	59.8	49.2
Petroleum Transportation	5.8	5.2
Other Activities	(4.6)	(1.0)
Earnings Before Non-recurring items	61.0	53.4
Non-recurring items	-	7.9
Net Earnings for Common	61.0	61.3
Average shares outstanding	38.3	38.3
EPS – Reported	$1.59	$1.60
EPS – Operating	$1.59	$1.39

- In our view, these results are indicative of a strong start to the year for BC Gas. The gas distribution business is managing the challenging, high gas-price environment, and Trans Mountain is beginning to capitalize on its new incentive tolling framework. We do not anticipate the company's losses in the water business will widen significantly if at all, as first quarter results were dampened by seasonality, and the size of this business remains relatively small.

- Despite the strong start to the year, we are not changing our earnings estimates at this time. Normal losses on the gas distribution business in the second quarter are likely to widen this year relative to last year, due to the same seasonal factors that contributed to strong earnings in this quarter.

- We are also maintaining our $34.00 target price and Hold rating.

CIBC World Markets

Equity Research

Pipelines & Utilities

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February 16, 2001

BC Gas

2000 Results Meet Expectations

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- BC Gas reported 2000 EPS, before non-recurring items of $2.06 compared to $1.94 in 1999 and our estimate of $2.05. We are maintaining our 2001 EPS estimate at $2.18, which is consistent with management's guidance.

- Net non-recurring items added $0.78 per share to earnings. These include $29.0 million of income tax benefits relating to the sale of the Williams Lake Power Plant, a previously announced $7.5 million after tax-charge for restructuring costs at Trans Mountain Pipe Line, and a $8.5 million reduction in future tax liabilities as a result of lower income tax rates.

- Gas distribution earnings grew by 13.5% as a result of rate base growth and an increase in the authorized return on common equity from 9.25% in 1999 to 9.50% in 2000. As a result of the BCUC approved incentive rate mechanism, the utility's achieved ROE in 2000 was 10.1%. For 2001, the authorized ROE has been lowered to 9.25% although we expect that the company's achieved return will be closer to 9.75%.

- The Southern Crossing pipeline is in service, but the company expects to incur a further $60 million in restoration and right of way repair costs in 2001. This will bring the total cost of the project to $410 million – all of which will be included in rate base.

- Transportation earnings grew by 9.2% due to improved operating efficiencies and higher throughput on the volume sensitive U.S. portion of the pipeline system. Beginning in 2001, Trans Mountain will also become sensitive to volumes on its Canadian Mainline, but rates have been set based on volumes that are approximately 8% lower than those achieved in 2000. As well, Trans Mountain should benefit from costs savings associated with the move of its control centre and head office to Calgary.

Rating: HOLD

BCG-TSE (02/15/01):	$31.00
52-Week Range:	$34.75-$22.50
Shares Outstanding:	38.3 mln.
Float:	38.3 mln.
Market Capitalization:	$1,187.3 mln.
Dividend/Yield:	$1.24/3.9%
Fiscal Year End:	December
Book Value:	$17.86 per Share
FY 2000E ROE:	12.0%
LT Debt:	$1,561.9 mln.
Preferred:	$125.0 mln.
Common Equity:	$684.5 mln.

Earnings Per Share

	Current
FY 1999	$1.94
FY 2000	$2.06
FY 2001E	$2.18
FY 2002E	$2.30

P/E

FY 1999	16.0x
FY 2000	15.0x
FY 2001E	14.2x
FY 2002E	13.5x

Dividends Per Share

1999	$1.17
2000	$1.23
2001E	$1.30
2002E	$1.35

Debt/Total Capitalization

1999	66.6%
2000	70.2%
2001E	72.7%
2002E	70.5%

Company Description:

BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.
www.bcgas.com.

- Results from other activities declined by $4.2 million in 2000 due to higher financing costs associated with the Southern Crossing Pipeline as well as the recognition in 1999 of income tax recoveries in respect of prior years' losses. Partially offsetting these factors were higher earnings from the company's energy and utility services businesses. BC Gas is positioned to grow its multi-utility service business and recently signed contracts with two B.C. municipalities that will generate between $3 and $5 million in revenues.
- Segmented results and our forecast for 2001 are set out below.

Table 1. BC Gas Segmented Earnings ($ mlns.)

Year Ending December 31	1999	2000	2001E
Gas Distribution	51.7	58.7	64.3
Petroleum Transportation	19.5	21.3	21.9
Other Activities	3.0	(1.2)	(2.7)
Earnings Before Non-recurring items	74.2	78.8	83.5
Non-recurring items	7.0	30.0	0.0
Net Earnings for Common	81.2	108.8	83.5
Average shares outstanding	38.3	38.3	38.3
EPS – Reported	$2.12	$2.84	$2.18
EPS – Operating	$1.94	$2.06	$2.18

- On its conference call, management reaffirmed its goal of growing earnings per share at a rate of between five and six percent and indicated that it was comfortable with analysts' estimates for 2001 of between $2.14 and $2.20. We see no reason to change our forecast of $2.18.

RAYMOND JAMES

INSIGHT -CANADA

November 21, 2002

BC GAS INC.

(BCG-T, $39.51)

Express Pipeline System Update

STOCK RATING: MARKET PERFORM 3

6-12 MONTH TARGET PRICE: $40.00

Financial Summary

	2001	2002E	2003E
EPS	$2.21	$2.50	$2.60
CFPS	$4.99	$5.20	$5.50
P/E	17.9x	15.8x	15.2x
P/CF	7.9x	7.6x	7.2x

Quarterly EPS

	1Q	2Q	3Q	4Q
2001A	$1.59	($0.08)	($0.58)	$1.28
2002A	$1.70	$0.03	($0.34)	$1.24E

Debt/Capital	69%
Dividend	$1.44
Dividend Yield	3.6%
Market Capitalization (bln)	$1.7
Book Value Per Share	$20.72
Shares Outstanding (mln)	43.7

All figures in C$ unless otherwise noted.

BC Gas hosted a conference call to discuss the purchase of a one-third interest in the Express Pipeline System and provided more details regarding the transaction. The company is planning to issue $300 million of common equity to finance both the acquisition of Express and to fulfil its equity requirement for the nearly completed Corridor Pipeline. This eliminates the need for the company's previously proposed $100 million hybrid equity financing and will raise the equity on its balance sheet to 33% of total capitalization. We believe BC Gas's decision to issue equity and strengthen its balance sheet is positive. However, the replacement of the $100 million hybrid equity with common equity is modestly dilutive and could reduce earnings per share to the $2.60-$2.65 range. We are therefore lowering our 2003 EPS estimate to $2.60 from $2.65 but are maintaining our $2.50 EPS estimate for 2002.

The company has stated that it expects to realize at least an additional $5 million per year in net income ($0.10 per share) from the proposed 2004 expansion of the Express Pipeline for an investment of $80 million. We suspect the expansion could offer an additional $0.05 per share of earnings above the company's estimate, depending on incremental volumes that can be obtained. We believe the purchase of the Express Pipeline System to be an astute move by BC Gas, demonstrating the management's ability to continue to add growth assets with low risk profiles in its areas of expertise. We continue to rate the shares of BC Gas as MARKET PERFORM with a target price of $40.00.

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November 20, 2002

BC Gas Inc.

(BCG-T, $40.01)

Acquires Interest in Express Pipeline System

STOCK RATING:
MARKET PERFORM 3

6-12 MONTH
TARGET PRICE: $40.00

Financial Summary

	2001	2002E	2003E
EPS	$2.21	$2.50	$2.65
CFPS	$4.99	$5.20	$5.50
P/E	18.1x	16.0x	15.1x
P/CF	8.0x	7.7x	7.3x

Quarterly EPS

	1Q	2Q	3Q	4Q
2001A	$1.59	($0.08)	($0.58)	$1.28
2002A	$1.70	$0.03	($0.34)	$1.24 E

Debt/Capital	69%
Dividend	$1.44
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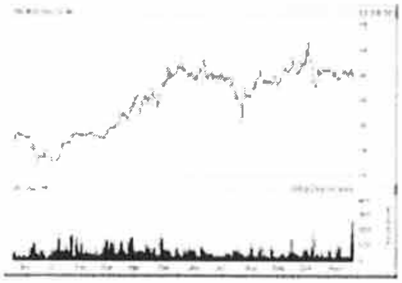
BC Gas announced that it has agreed to purchase a one-third interest in the Express Pipeline System, including the Platte Pipeline, from EnCana Corporation (see asset description below). The purchase is being made by a consortium of three partners: BC Gas Inc.; Borealis Infrastructure Management Inc. (on behalf of OMERS); and Ontario Teachers' Pension Plan, each with a one-third interest. The acquisition price of $1,175 million includes debt of $582 million. BC Gas's share of the $593 million equity portion of the acquisition price will total $198 million and will be financed through a planned $300 million common equity issue. The company expects the purchase to add $12 million to 2003 net income. Earnings may suffer a possible few cents per share dilution after the common equity issue, but will still be within the company's growth targets and allows for additional growth in 2004 and beyond. We will update our earnings and targets after the 8:15 a.m. EST conference call on November 20th.

The acquisition fits well with BC Gas's strategy of adding low-risk growth opportunities to enhance shareholder value. The Express Pipeline System is a strong asset, fits well with BC Gas's existing assets (Trans Mountain Pipe Line and Corridor Pipeline), provides BC Gas with near- and long-term growth potential, and has the backing of two strong financial partners. The price of the acquisition is in line with the Raymond James Energy team's expectations. The acquisition is expected to close early January 2003 subject to regulatory approvals: Canadian Competition Act; Hart Scott Rodino; Alberta Energy and Utilities Board; Alberta Environment; and the Wyoming Public Service Commission (FERC and NEB approvals not required).



www.bigcharts.com

Throughput on the Express Pipeline System is fully committed for the first two years and 65% committed through 2012. In addition, there is upside potential from inexpensive capacity expansions as early as 2004. BC Gas estimates that an $80 million expansion could improve annual earnings by at least $0.10 per share. The company plans to equity account its one-third interest, meaning it shows its full one-third earnings contribution but does not have to consolidate Express's balance sheet or debt commitments (which is fair since it is unlikely to have any obligation to the subsidiary debt). We suspect the transaction will flow significant tax and operating benefits to BC Gas. Trans Mountain Pipe Line will receive a fee to operate and manage the Express Pipeline System. In addition, this asset will increase Trans Mountain's size by well over 35% (even including the $688 million Corridor Pipeline investment starting up in the spring of 2003), enhancing its credibility and making it more of a force in the Canadian pipeline industry.

BC Gas plans to raise $300 million in a new common equity issue to finance the Express acquisition and the remaining financing requirements of Corridor Pipeline. The previously anticipated $100 million hybrid equity issue to finance Corridor will no longer be required.

BC Gas will hold a conference call at 8:15 a.m. EST Wednesday, November 20th to discuss the transaction. The conference call number is 1-866-546-6145. The call will also be webcast at www.bcgas.com.

The 2,747 kilometre Express Pipeline System consists of two major pipelines: Express and Platte. The 24-inch Express pipeline runs 1,256 kilometres from Alberta's oil transportation hub at Hardisty to Casper, Wyoming. It delivers up to 172,000 barrels per day of Canadian crude to the U.S. Rocky Mountain states of Montana, Wyoming and Utah. The 20-inch Platte Pipeline, 1,491 kilometres in length, has a delivery capacity of up to 150,000 barrels per day of oil from Casper to Wood River, Illinois, serving refineries in Colorado, Kansas and Illinois. The Express pipeline, from Hardisty to Casper, can be expanded to 280,000 barrels per day with a comparatively modest investment in pumping stations.

RAYMOND JAMES

INSIGHT
-CANADA

November 7, 2002

BC Gas Inc.

(BCG-T, $39.70)

Strong Quarter; Raising 2002 EPS Estimate

Stock Rating:
MARKET PERFORM 3

6-12 Month
Target Price: C$40.00

Financial Summary

	2001	2002E	2003E
EPS	$2.21	$2.50	$2.65
CFPS	$4.99	$5.20	$5.50
P/E	18.0x	15.9x	15.0x
P/CF	8.0x	7.6x	7.2x

Quarterly EPS

	1Q	2Q	3Q	4Q
2001A	$1.59	($0.08)	($0.58)	$1.28
2002A	$1.70	$0.03	($0.34)	$1.24

Debt/Capital	69%
Dividend	$1.44
Dividend Yield	3.6%
Market Capitalization (bln)	$1.7
Book Value Per Share	$20.72
Shares Outstanding (mln)	43.7

All figures in C$ unless otherwise noted.

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Summary

BC Gas reported a third quarter recurring loss per share of $0.34, a solid improvement from the $0.58 loss last year, and better than our $0.45 loss estimate. The net loss for the quarter after a $4.1 million ($0.09 per share) non-recurring write-down on its investment in Westport Innovations was $0.44 vs. $0.58. For the nine months to date, BC Gas reported recurring earnings of $1.26 versus $0.93. We continue to believe that BC Gas is an exceptionally well-managed company that will generate better-than-average utility growth in the longer term. However, our investment premise for the sector is that regulated earnings growth could decrease as allowed returns are influenced by low interest rates. In addition, investors drove the group to higher-than-normal valuations for this point of the cycle due to a reduced number of "safe" investments available (telecom was no longer an option). While BC Gas should provide a reasonable longer-term total rate of return, it is unlikely to outperform a recovering stock market and as such, we rate it MARKET PERFORM.

Earnings Outlook

Earnings to date are higher than expected and we are revising our 2002 normalized earnings forecast up $0.10 per share to $2.50 ($2.41 net of the $0.09 per share write-down for its Westport Innovations investment). A portion of the 2002 earnings improvement comes from utility operating earnings that are above current benchmark utility rates of return under incentive regulation and a portion comes from lower interest rates in utility operations. This type of gain will be eliminated in 2003, as current regulatory processes will re-calculate utility rates based on current expectations, and then it will be up to the company to see if it can generate better returns under the

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expected upcoming new incentive regulatory system. In a nutshell, the utility gain is unlikely to fully continue into 2003 and we are reluctant to raise our expectations until the regulatory decisions are known. We note that 2003 earnings could exceed our expectations, as Trans Mountain appears to be doing well and the non-regulated businesses will benefit from both improved operating performance and lower financial expenses (some of which supports the Centra Gas and Corridor investments).

Third Quarter Results

The earnings improvement in the third quarter was fairly broad based. Third quarter earnings are impacted by volatility in seasonal earnings at BC Gas Utility, although part of the year-over-year comparison was mitigated by the addition of Centra Gas BC, since that utility has no seasonality in its earnings due to a different rate structure. Centra contributed $5.6 mln (before acquisition financing costs). The company's Petroleum Transportation division showed somewhat better results despite lower transportation throughput, with earnings improving by $1.1 million over the second quarter. Improved results were also realized in the company's non-regulated energy and utility services, although these were somewhat masked by additional financing costs for Centra Gas and Corridor Pipeline. For a breakout of the third quarter results, please refer to the accompanying table.

Corridor Pipeline

The Corridor Pipeline construction continues on time and on budget. Construction of the project is 99% complete and commissioning of the pipeline is 90% complete. The company is still expecting a commercial start-up date of March 1, 2003, which should contribute around $0.20 per share on an annualized basis. BC Gas expects to raise around $100 mln through an issue of hybrid equity for the equity portion of the asset prior to completion.

BC GAS

	Third Quarter 2001	Third Quarter 2002	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution	(27.9)	(21.4)	23%
Petroleum transportation	6.4	6.7	5%
Other businesses	(0.8)	(0.3)	63%
Net Earnings (Loss) Per Share:			
Natural gas distribution	($0.73)	($0.49)	33%
Petroleum transportation	$0.17	$0.15	-10%
Other businesses	($0.02)	($0.01)	66%
Reported EPS before unusual items	**($0.58)**	**($0.34)**	41%
Unusual items	$0.00	(0.09)	n/m
Reported EPS after unusual items	**($0.58)**	**($0.44)**	25%
Average Shares O/S (mlns)	38.3	43.7	-14%
Book Value	$17.74	$20.72	17%
Number of Gas Customers	764	847	11%
Gas Volumes (petajoules)			
Sales	13.8	22.2	61%
Transportation	28.0	12.5	-55%
Total	41.8	34.7	-17%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	23,374	24,258	4%
US mainline	10,620	7,650	-28%
Jet fuel deliveries	3,502	3,502	0%
Total	37,497	35,410	-6%

Centra BC acquisition adds $5.6 mln or 13¢ per share; helps offset seasonal volatility of BC Gas Utility earnings.

Higher Canadian throughput and lower interest and tax rates offset by lower throughput on U.S. portion of mainline.

Better performance of non-regulated energy & utility services offsets higher interest costs from financing Centra BC acquisition.

Beats consensus estimate of $0.41 loss.

$4.1 mln write-down of investment in Westport Innovations.

5.2 mln shares issued for Centra purchase in March of 2002.

Growth through Centra BC acquisition.

Centra BC transportation volumes are now included in sales volume.

Volumes up from 6,319 in 2Q. Last year 3Q volumes declined from 15,434 in 2Q.

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Within the last 24 months, Raymond James Ltd. or its affiliates has undertaken an underwriting liability or has provided advice for a fee with respect to the securities of BC Gas.

Raymond James Ltd. or its officers, employees or affiliates may 1) currently own shares, options, rights or warrants and/or 2) execute transactions in securities mentioned in this report that may or may not be consistent with this report's conclusions.

Investment Ratings:

STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

RAYMOND JAMES

INSIGHT
-CANADA

August 1, 2002

BC GAS INC.

(BCG-T, $38.15)

Centra Gas BC Helps Reduce Seasonal Earnings Volatility

RECOMMENDATION:
MARKET PERFORM 3

12-MONTH
TARGET PRICE: $40.00

Financial Summary

	2001	2002E	2003E
EPS	$2.21	$2.40	$2.65
CFPS	$4.99	$5.20	$5.50
P/E	17.3x	15.9x	14.4x
P/CF	7.6x	7.3x	6.9x

Quarterly EPS

	1Q	2Q	3Q	4Q
2001A	$1.59	($0.08)	($0.58)	$1.28
2002A	$1.70	$0.03		

Dividend	$1.44
Dividend Yield	3.8%
Market Capitalization (bln)	$1.7
Book Value Per Share	$20.51
Shares Outstanding (mln)	43.7

All figures in C$ unless otherwise noted.

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BC Gas continued its track record of delivering solid quarterly earnings results. The company is successfully adding low-risk growth assets through its recent purchase of Centra Gas B.C., as well as the completion of Southern Crossing Pipeline and the construction of Corridor Pipeline. In addition, the company's growth profile looks positive through its pursuit of new projects, such as Bison Pipeline, and potential acquisition opportunities (like Cold Lake and Express pipeline systems EnCana now has for sale). BC Gas is now working towards a new and longer period for incentive regulation, and has filed an application with the B.C. Utilities Commission for BC Gas Utility and will soon file for Centra Gas BC. We continue to rate the shares of BC Gas MARKET PERFORM with a $40.00 target price. We are lowering our 2003 EPS estimate to $2.65 from $2.70 to reflect volume risk at Trans Mountain Pipeline and regulation risk for the upcoming rate case.

The company expects Corridor Pipeline to start up March 1, 2003, which should contribute around $0.20 per share on an annualized basis. BC Gas expects to raise around $100 mln through an issue of equity linked securities for the equity portion of the asset prior to completion. Customer contracts are based on a cost-of-service model in terms of capital structure and earnings, but the company could not be specific on customer tolling fees or equivalent capital structure and rate of return because of competitive reasons. The pipeline is currently 93% completed and is on time and on budget.

BC Gas reported second quarter earnings per share of $0.03, up $0.11 from an $0.08 loss last year, and above our $0.05 loss estimate. The improvement is due to a reduction of seasonal earnings volatility caused by the addition of Centra Gas BC and does not change expected

Chart courtesy of BigCharts.com

full-year results. The recent acquisition of Centra Gas BC, which began contributing to BC Gas earnings January 1st, added around $5.2 mln (less financing costs) to the second-quarter results. Since the time of acquisition (effective January 1, 2002), the performance of Centra Gas BC has modestly exceeded expectations. The company's Petroleum Transportation division showed lower results due mainly to reduced throughput volumes on the U.S. portion of the mainline, which was partly offset by the positive impact of lower tax rates and interest rates. Throughput on the U.S. portion of the mainline is expected to remain depressed for the short term, however, throughput is expected to strengthen mid to longer term from a stronger recovery in the economy as well as exports via tankers at Westridge terminals in Vancouver. Improved earnings results were also realized in the company's non-regulated energy and utility services as well as a positive contribution from CustomerWorks. These improvements were somewhat offset by additional costs from financing the Centra Gas BC acquisition. Also during the quarter, BC Gas announced that it had terminated the sale of the wholesale waterworks supply business of BCG Services to EMCO Ltd. For a breakout of the second quarter results, please refer to the accompanying table.

Investment Ratings:

STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

BC GAS

($ per share)	Second Quarter 2001	2002	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	($0.24)	($0.07)	71%
Petroleum transportation	$0.17	$0.13	-24%
Other businesses	($0.01)	($0.03)	-200%
Reported EPS before unusual items	**($0.08)**	**$0.03**	138%
Unusual items	-	-	n/m
Reported EPS after unusual items	**($0.08)**	**$0.03**	138%
Average Shares O/S (mlns)	38.3	43.6	-14%
Book Value	$18.68	$21.54	15%
Number of Gas Customers	763,923	843,932	10%
Gas Volumes (petajoules)			
Sales	22.3	21.7	-3%
Transportation	33.1	16.6	-50%
Total	55.4	38.3	-31%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	18,211	22,740	25%
US mainline	15,434	6,319	-59%
Jet fuel deliveries	3,294	3,020	-8%
Total	36,939	32,078	-13%

Centra BC acquisition adds $5.2 mln or 12¢ per share to earnings and help offset seasonal volatility of BC Gas Utility earnings.

Lower throughput on U.S. portion of mainline partly offset by lower interest and tax rates. Corridor Pipeline expected to add around 20¢ to annual earnings when completed next year.

Higher financing costs due to Centra purchase partly offset by improved performance of CustomerWorks and services businesses. Sale of wholesale waterworks supply business to Emco cancelled.

Beats consensus estimate of 8¢ loss due to seasonality changes.

5.2 mln shares issued for Centra purchase in March of 2002.

Growth through Centra BC acquisiiton.

Centra BC transportation volumes are now included in sales volume.

Lower volumes versus strong 2001 throughput, a decline in crude availability as well as weak west coast refinery margins and demand.

RAYMOND JAMES

MORNING FOCUS – CANADA

APRIL 26, 2002

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BC GAS INC. (BCG-T, $38.30) – MARKET PERFORM 3

9% Dividend Increase and Expanding List of Projects; Target Price Increased To $40.00

Stock Price		12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/01A	Earnings Per Share 12/02E	Earnings Per Share 12/03E	P/E Ratios 12/02E	P/E Ratios 12/03E	Ind. Div.	Div. Yield
$38.30	New	$40.00	8%	43.5	$1,666	$2.21	$2.40	$2.70	16.0	14.2	$1.44	3.8%
	Old	$35.00										

All figures in C$ unless otherwise indicated.

BC Gas has an excellent track record of consistently delivering solid earnings results and the most recent quarter is no exception. With the recent purchase of Centra Gas B.C., the completion of the Southern Crossing Pipeline and the construction of Corridor Pipeline, BC Gas is successfully adding low-risk growth assets to its portfolio. In addition, the company is pursuing new projects that could keep earnings growth continuing at above-average rates for several more years to come, such as the Bison Pipeline and the Inland Pacific Connector, among others. The company is also taking a proactive role in pursuing the distribution operation of BC Hydro if the BC government decides to privatize portions of the company (and the BC government needs the money!). Finally, the company is working towards a new and longer period for incentive regulation, which is in keeping with the provincial government's policy of less regulation. All of these items could reward BC Gas with a premium earnings multiple. Consequently, we are revising our target for the shares of BC Gas from $35 to $40, which assumes one or more of the company's new projects will be successful. Note that the company announced a 9% increase in its annual dividend from $1.32 per share to $1.44 per share, maintaining its stated dividend payout ratio policy of around 60%.

BC Gas reported first quarter earnings per share of $1.70, up $0.11 from $1.59 a year ago and slightly above our $1.68 estimate. The recent acquisition of Centra Gas B.C., which began contributing to BC Gas earnings January 1st, added around $0.12 per share net of financing costs to first quarter results. The company's Petroleum Transportation division also showed improved results due mainly to lower tax rates, higher throughput volumes on the Canadian Mainline and lower interest rates. Improved earnings results were also realized in the company's non-regulated energy and utility services, however these earnings improvements were somewhat offset by additional costs from financing the Centra acquisition. For a detailed breakout of the first quarter results, please refer to the accompanying table.

During the quarter, BC Gas announced the sale of the wholesale waterworks supply business of BCG Services to EMCO Ltd. The sale, which is expected to close the sale in second quarter, will allow BC Gas to focus more on the service areas of the water business where it holds more core strengths. During the quarterly conference call, President and CEO John Reid expressed the company's interest in electricity distribution assets should the B.C. government decide to privatize BC Hydro. This statement comes as no surprise to investors as BC Hydro's electricity distribution assets have long been seen as a natural fit with BC

Gas' existing assets. However, such a purchase could well be year or two away, assuming it can be successfully negotiated on acceptable terms for both the politicians and shareholders.

BC GAS

($ per share)	First Quarter 2001	2002	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	$1.56	$1.68	8%
Petroleum transportation	$0.15	$0.16	7%
Other businesses	($0.12)	($0.14)	-17%
Reported EPS before unusual items	**$1.59**	**$1.70**	7%
Unusual items	-	-	n/m
Reported EPS after unusual items	**$1.59**	**$1.70**	7%
Average Shares O/S (mlns)	38.3	39.8	-4%
Book Value	$19.12	$21.85	14%
Number of Gas Customers	763,939	842,924	10%
Gas Volumes (petajoules)			
Sales	45.9	51.8	13%
Transportation	36.1	20.2	-44%
Total	82.0	72.0	-12%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	21,869	23,213	6%
US mainline	8,952	8,525	-5%
Jet fuel deliveries	2,868	2,602	-9%
Total	33,689	34,340	2%

Includes about $6 mln of earnings ($0.16 per share) from Centra Gas acquisition which were recorded from January 1st; due to deferral accounts, Centra earnings are not seasonally volatile.

Increased throughput, lower interest and taxes improves results.

Improved energy and utility services businesses offset by higher financing costs for acquisition of Centra; sale of wholesale waterworks supply business expected to close in 2Q02.

In-line with our $1.68 estimate. Annual dividend raised 9% to $1.44 annually.

5.2 mln shares issued for Centra purchase.

Centra acquisition provides customer growth.

Centra BC transportation volumes are now included in sales volume.

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Within the last 36 months, Raymond James Ltd. or its affiliates has undertaken an underwriting liability or has provided advice for a fee with respect to the securities of BC Gas.

Raymond James Ltd. or its officers, employees or affiliates may 1) currently own shares, options, rights or warrants and/or 2) execute transactions in securities mentioned in this report that may or may not be consistent with this report's conclusions.

Investment Ratings:

STRONG BUY 1 - expected to significantly outperform the market over the next 12 months.

BUY 2 - expected to outperform the market over the next 12-18 months.

MARKET PERFORM 3 - average market performer over the next 12 months.

UNDERPERFORM 4 - expected to underperform the market over the next 12 months.

SELL 5 - significant downside risk over the next 12 months.

RAYMOND JAMES

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BC GAS INC. (BCG-T, $35.95) – MARKET PERFORM 3

Acquisition Of Centra Gas Completed

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/01A	12/02E	12/03E	P/E Ratios 12/02E	12/03E	Ind. Div.	Div. Yield
$35.95	$35.00	1%	43.5	$1,564	$2.21	$2.40	$2.70	15.0	13.3	$1.32	3.7%

All figures in C$ unless otherwise indicated.

BC Gas announced that it has completed the acquisition of Centra Gas B.C. and Centra Gas Whistler from Westcoast Energy. The outstanding Subscription Receipts that were issued to finance the transaction are now exchangeable for common shares plus an additional $0.33 per Subscription Receipt. The transfer register for the Subscription Receipts will close on March 14, 2002. We continue to rate the shares of BC Gas MARKET PERFORM with a $35.00 target price.

BC Gas announced the $208 mln acquisition of Centra Gas B.C. and Centra Gas Whistler's common equity on October 22^{nd}, 2002. Centra Gas B.C. currently serves 70,000 customers on Vancouver Island and the Sunshine Coast and owns the natural gas pipeline from the B.C. mainland to Vancouver Island. Centra Gas B.C. has also experienced annual customer growth of 13% over the past six years. Seven pulp and paper mills made up approximately 16% of Centra Gas B.C.'s revenues in 2000 and are locked into long-term firm service contracts until 2011. The addition of Centra Gas B.C. and Centra Gas Whistler will enhance BC Gas' core natural gas distribution operations in B.C. Upside potential exists from demand arising from new power generation opportunities on Vancouver Island, increased penetration rates and operating synergies.

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BC GAS INC. (BCG-T, $34.83) – MARKET PERFORM 3

Earnings Meet Expectations

Stock Price		12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)		Earnings Per Share 12/00A	12/01A	12/02E	P/E Ratios 12/01A	12/02E	Ind. Div.	Div. Yield
$34.83	New	$35.00	4%	43.5	$1,515	New	$2.06	$2.21	$2.40	15.8	14.5	$1.32	3.8%
	Old	$34.00				Old			$2.35				

All figures in C$ unless otherwise indicated.

We are maintaining our MARKET PERFORM rating on the shares of BC Gas, and we are raising our 2002 EPS estimate from $2.35 to $2.40 and our 12-month target price from $34.00 to $35.00. The shares have an attractive 4.0% dividend yield and have solid earnings growth potential from the acquisition of Centra Gas BC and Centra Gas Whistler (expected to close next month) and the start-up of Corridor Pipeline (which is expected to begin booking revenues in the spring of 2003). Longer-term growth may be supplemented by the proposed $800 mln Bison Pipeline project, and the company expects to file an application with the Alberta Energy and Utilities Board this summer for construction start-up in 2003.

BC Gas reported fourth quarter earnings per share before non-recurring items of $1.28 versus $0.99 for the same period last year, a couple of cents ahead of the consensus estimate. Earnings for the full year before non-recurring items were $2.21 per share versus $2.06 in 2000. The company recorded no unusual items in the year. A detailed breakout of both the quarterly and full-year results are shown in the attached tables.

The company's management continues to successfully deliver on its key themes of focus, low risk and sustained growth. Earnings in 2001 were positively impacted by a full year of the Southern Crossing Pipeline operation, which was brought into service in November of 2000. Increased throughput on the Canadian and United States portions of the petroleum transportation mainline helped to raise full-year earnings by $6 mln. Earnings were further helped by cost efficiencies resulting from the relocation of Trans Mountain Pipe Line's headquarters to Calgary in mid-2001 and from Trans Mountain's new toll settlement for the movement of crude oil over the Westridge Dock in Vancouver harbour. The strong earnings were partly offset by higher financing costs associated with the construction of the Corridor Pipeline and from a slow economic environment, which impacted the company's non-regulated energy and utility services operations. The contribution from Customerworks and BCG eFuels (the company's non-regulated businesses) is expected to increase in the future as more services are added.

Giving guidance for this year, the company stated that it is comfortable with the higher end of the range of analysts' 2001 earnings estimates of between $2.30 and $2.40. As we have noted in previous comments, the quarterly earnings for BC Gas will become more seasonal due to the rising rate base (more variable revenues combined with fixed costs) of Corridor Pipeline, Centra Gas BC and Centra Gas Whistler.

BC GAS

	Fourth Quarter 2000	2001	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	$0.90	$1.18	31%
Petroleum transportation	$0.17	$0.22	29%
Other businesses	($0.08)	($0.12)	n/m
Reported EPS before unusual items	**$0.99**	**$1.28**	29%
Unusual items	-	-	n/m
Reported EPS after unusual items	**$0.99**	**$1.28**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$17.86	$18.65	4%
Number of Gas Customers	762,878	767,855	1%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	22,358	23,068	3%
US mainline	11,117	11,502	3%
Jet fuel deliveries	3,146	2,642	-16%
Total	36,622	37,211	2%

Rate base growth due to the Nov/2000 completion of Southern Crossing Pipeline.

Corridor 70% complete; on time and on budget.

Includes financing for Corridor Pipeline. Also, alow economy delays water business opportunities.

Beats consensus by 2¢.

BC GAS

	Full Year 2000	2001	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	$1.53	$1.77	-16%
Petroleum transportation	$0.56	$0.71	27%
Other businesses	($0.03)	($0.27)	n/m
Reported EPS before unusual items	**$2.06**	**$2.21**	n/m
Unusual items	$0.78	-	n/m
Reported EPS after unusual items	**$2.84**	**$2.21**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$17.86	$18.65	4%
Number of Gas Customers	762,878	767,855	1%
Gas Volumes (petajoules)			
Sales	135.6	120.9	-11%
Transportation	61.5	58.7	-5%
Total	197.1	179.6	-9%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	22,168	21,599	-3%
US mainline	10,365	11,671	13%
Jet fuel deliveries	3,149	3,072	-2%
Total	35,682	36,342	2%

9.44% ROE for full year; No Enron exposure.

Increased throughput on both Canadian and U.S. portions of the mainline as well as productivity improvements.

$0.24 due to financing of Corridor Pipeline.

Meets our $2.20 estimate; Company's overall ROE target of 12% met.

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MORNING FOCUS – CANADA

JANUARY 16, 2002

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BC GAS INC. (BCG-T, $34.50) – MARKET PERFORM 3

Pipeline Project Heats Up

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	Earnings Per Share 12/01E	Earnings Per Share 12/02E	P/E Ratios 12/01E	P/E Ratios 12/02E	Ind. Div.	Div. Yield
$34.40	$34.00	3%	43.5	$1,496	$2.06	$2.20	$2.30	15.6	15.0	$1.32	3.8%

All figures in C$ unless otherwise indicated.

BC Gas announced its proposal to build a 516-kilometre pipeline (called the Bison Pipeline) to transport bitumen from the Athabasca oil sands to the Edmonton area at an estimated initial cost of $800 mln. If completed, the pipeline could possibly add $0.20-$0.40 per share of annual earnings before incentives, depending on contract terms yet to be negotiated. Investors were aware that BC Gas had been assessing various projects in its pursuit of continuing growth in its core operations of expertise and this recent announcement should not come as a surprise. In addition, given the distant 2005 anticipated start date and numerous regulatory and business hurdles yet to complete, investors are unlikely to reward the share price in the short term and we are making no changes to our MARKET PERFORM rating and $34.00 target price. The company boasts a strong and conservative management team that enhances future earnings through investments in lower-risk projects. The Bison Pipeline appears to be an example of this conservative approach.

The proposed pipeline is designed to have an initial capacity of 100,000 bpd with an ultimate capacity near 450,000 bpd. The capital cost of the Bison Pipeline system, when fully developed, will reach approximately $1 bln. Bison Pipeline Ltd. is currently involved in joint engineering and technical studies with potential shippers, including TrueNorth Energy (TrueNorth Energy is a wholly-owned subsidiary of Calgary-based Koch Petroleum Canada, L.P.) and Petro-Canada. Both potential shippers have filed or intend to file applications with the Alberta Energy Utilities Board (AEUB) to develop their respective bitumen production facilities. Bison Pipeline is planning to file an application with the AEUB in July 2002 and expects to receive final regulatory approval in the first quarter of 2003 and an estimated in-service date in mid-2005, in time to meet the earliest shippers' planned production schedule. A key characteristic of the Bison Pipeline system will be its ability to ship bitumen with minimal use of diluent, given the growing problem and cost of adding diluent to move this tar-like product. The Bison project is expected to use an insulated pipeline to retain the temperatures of bitumen produced by surface mining and steam assisted gravity drainage (SAGD) production methods (about 130°C). Trans Mountain Pipe Line Ltd., a wholly owned subsidiary of BC Gas Inc., will provide expertise for the design, construction and operation of the pipeline system.

RAYMOND JAMES

Morning Focus - Canada

October 23, 2001

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BC GAS (BCG-T, $35.64) – MARKET PERFORM 3

Purchase of Gas Distribution Assets to Be Accretive in 2002; Raising Target and Rating

Stock Price		12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)		Earnings Per Share 12/00A	Earnings Per Share 12/01E	Earnings Per Share 12/02E	P/E Ratios 12/01E	P/E Ratios 12/02E	Ind. Div.	Div. Yield
$35.64	New	$37.00	8%	38.3	$1,366	New	$2.06	$2.20	$2.35	16.2	15.2	$1.32	3.7%
	Old	$36.00				Old			$2.30				

All figures in C$ unless otherwise indicated.

BC Gas announced that it has entered into an agreement to purchase the common shares of Centra Gas BC and Centra Gas Whistler from Westcoast Energy for $208 mln. The transaction is expected to add earnings of between $0.02 and $0.06 per share in 2002 depending on the rate of return achieved under the Performance Based Regulation and the price that common equity is issued at (see table below). Further upside potential exists if BC Gas can achieve synergies from the increased scale of operations, which initially may be modest until BC Gas can attain regulatory approval for the consolidation of Centra Gas BC into its current operations. Closing of the acquisition is expected to occur in early 2002 pending approval from the B.C. Provincial Government and the B.C. Utilities Commission.

TABLE 1. BC GAS: 2002 EARNINGS ESTIMATE

	2002E Deemed ROE	2002E Expected Incentive ROE Range	
Earned ROE	9.4%	10.2%	10.5%
Common Equity Component	159	159	159
ROE reduction	(1.9)	(1.9)	(1.9)
Earnings	**13.1**	**14.3**	**14.8**
Interest income on $84 mln deferral account	5.1	5.1	5.1
	18.2	19.5	19.9
Less:			
Annual depreciation on 50% of premium	(0.5)	(0.5)	(0.5)
Annual increase in PV of deferred prefered equity payment	(1.8)	(1.8)	(1.8)
Additional debt financing costs	(3.0)	(3.0)	(3.0)
Incremental earnings	12.9	14.2	14.6
Estimated 2002 earnings (pre-acquisition)	88.0	88.0	88.0
Estimated 2002 earnings (post-acquisition)	100.9	102.2	102.6
Estimated 2002 EPS (pre-acquisition)	**$2.30**	**$2.30**	**$2.30**
Estimated 2002 EPS (post acquisition)*	**$2.32**	**$2.35**	**$2.36**

* Assumes $34/share issue price

We believe that BC Gas has made an astute acquisition at an opportune time (the Duke Energy acquisition of Westcoast Energy may have provided the impetus for the divestiture) and is a further sign that the management continues to deliver increasing shareholder value. We are raising our 2002 EPS estimate from \$2.30 to \$2.35 to reflect the earnings contribution from the recent acquisition. We are also raising our rating on the shares of BC Gas from UNDERPERFORM to MARKET PERFORM and are increasing our target price from \$36.00 to \$37.00 to reflect the near-term earnings impact. Longer-term, the valuation impact may be greater. Note that the company's announced \$180 mln common equity issue may hold back the stock near term.

The acquisition of Centra Gas B.C. and Centra Whistler's common equity for \$208 mln represents a common equity premium of around 30%, an attractive premium for BC Gas given the company's current price-to-book ratio of about 1.75 times. In addition to the acquisition of the common shares of Centra Gas BC, BC Gas will pay \$32 million at closing and \$52 million as a deferred payment in 2011 to purchase the preferred shares of Centra Gas. The \$52 mln preferred share purchase could be made earlier if additional power plant revenues are generated. This arrangement speaks well of the management's ability to structure the transaction conservatively while maintaining a low risk profile and immediately adding positive incremental earnings. BC Gas will also assume Centra Gas's debt of approximately \$298 million. Total cash requirements are expected to be \$310 mln which the company intends to finance through \$180 million of new public common equity offering and \$130 million of new debt, consistent with its existing capital structure.

The addition of Centra Gas B.C. will enhance BC Gas' core natural gas distribution operations in B.C. Upside potential exists from demand arising from new power generation opportunities on Vancouver Island, increased penetration rates and operating synergies. Centra Gas B.C. currently serves 70,000 customers on Vancouver Island and the Sunshine Coast and owns the natural gas pipeline from the B.C. mainland to Vancouver Island. Centra Gas B.C. has also experienced annual customer growth of 13% over the past six years. Seven pulp and paper mills made up approximately 16% of Centra Gas B.C.'s revenues in 2000 and are locked into long-term firm service contracts until 2011.

BC Gas Inc. (BCG-T, $33.40) – Buy 2

Upgrading Opinion and Target Price

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Stock Price		12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00A	12/01E	12/02E	P/E Ratios 12/01E	12/02E	Ind. Div.	Div. Yield
$33.40	New	$36.00	12%	38.3	$1,280	$2.06	$2.20	$2.30	15.2	14.5	$1.32	4.0%
	Old	$32.00										

All figures in C$ unless otherwise indicated.

We are upgrading our rating on the shares of BC Gas to BUY from MARKET PERFORM and raising the price target to $36.00 from $32.00. The reason for the upgrade is that the company is getting closer to the time when it will start to receive a return on its $690 million Corridor Pipeline investment in Alberta. The line is scheduled for linefill and start-up in April 2002, with completion of the project for spring 2003. Unlike regulated projects, this investment will not earn a return until start-up. However, the value of the project will begin to be seen in the stock price as we get closer to completion and the success of the pipeline can be more readily assessed. It appears the project is going well and should be around budget, improving the likelihood of a significant return for the company. With the company's current balance sheet, we do not anticipate it will need to raise equity to fund the project, allowing the earnings after debt financing costs to go to existing shareholders. Once the pipeline is running, we anticipate it could add 20% or more to earnings.

BC Gas reported a second quarter loss per share of $0.08 versus earnings of $0.02 last year. The earnings were as expected and are on track to achieve our $2.20 estimate for 2001. The addition of the $396 mln Southern Crossing Pipeline to the rate base will add to earnings this year, but will also increase the seasonality of earnings, which caused the majority of the quarter's loss. Earnings seasonality arises due to the difference between constant fixed costs being incurred throughout the year that are recovered over total annual gas volumes, which are seasonal and create seasonal revenue volatility. We are making no change to our current earnings estimates of $2.20 and $2.30 per share for 2001 and 2002, respectively. A more detailed breakout of the quarterly results is included in the accompanying table.

Earnings from the Natural Gas Distribution business increased by $0.06 per share over last year due to a significant growth in rate base from the addition of Southern Crossing Pipeline (SCP), which was offset by a lower allowed return on common equity (9.25% versus 9.50% last year). Solid results came in from the Petroleum Transportation operations ($0.17 per share versus $0.12 last year) as the company benefited from its incentive tolling arrangement on Trans Mountain Pipe Line with productivity improvements and increased throughput. The strong results from the Natural Gas Distribution and Petroleum Transportation operations were partially offset by increased financing costs for the SCP investment.

BC GAS

	Second Quarter 2000	Second Quarter 2001	Favourable/ (Unfavourable)	
Net Earnings (Loss):				
Natural gas distribution	($0.16)	($0.24)	-50%	Seasonality temporarily distorts the improvement in rate base (SCP added $396 mln to rate base).
Petroleum transportation	$0.12	$0.17	42%	Increased throughput on the US portion of the Mainline where the margin is higher, and productivity improvements.
Other businesses	$0.06	($0.01)	n/m	Higher financing costs from capital investments.
Reported EPS before unusual items	**$0.02**	**($0.08)**	n/m	Better than (10¢) consensus estimate.
Unusual items	$0.20	$0.00	n/m	
Reported EPS after unusual items	**$0.22**	**($0.08)**	n/m	
Average Shares O/S	38.3	38.3	0%	
Book Value	$17.53	$18.68	7%	
Number of Gas Customers	759,399	763,923	1%	
Gas Volumes (petajoules)				
Sales	25.1	22.3	-11%	
Transportation	27.1	33.1	22%	
Total	52.2	55.4	6%	
Oil Pipeline Deliveries (cubic metres/day)				
Canadian mainline	21,941	18,211	-17%	
US mainline	10,731	15,434	44%	Narrowing of differentials between Alberta and U.S. Gulf oil prices increases volumes.
Jet fuel deliveries	3,178	3,294	4%	
Total	35,850	36,939	3%	

July 20, 2001

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Enbridge Inc. (ENB-T, $40.46) – Buy 2
BC Gas Inc. (BCG-T, $34.85) – Market Perform 3

Creates Customer Management Company

Symbol	Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00A	12/01E	12/02E	P/E Ratios 12/01E	12/02E	Ind. Div.	Div. Yield
ENB	$40.46	$45.00	15%	161.7	$6,542	$2.03	$2.45	$2.75	16.5	14.7	$1.40	3.5%
BCG	$34.85	$32.00	-4%	38.3	$1,333	$2.06	$2.20	$2.30	15.8	15.2	$1.32	3.8%

Enbridge and BC Gas announced that they will create a new company to provide full service customer management solutions to utilities, municipalities and retail companies across Canada. The new company will be launched on August 1st with full-scale operations scheduled to start January 1st, 2002. While Enbridge will own a 70% interest in the new company and BC Gas 30%, veto rights on significant issues protect BC Gas's interests. While no financial details were provided, we expect that the enterprise will be profitable right from the start due to cost savings. However, we are making no changes to our annual earnings estimates for either company and are maintaining our BUY rating on the shares of Enbridge and MARKET PERFORM rating on the shares of BC Gas.

The new customer management company, called CustomerWorks, will initially provide services for customers of BC Gas Utility, Enbridge Consumers Gas, Enbridge Services and Enbridge Gas New Brunswick serving over 3.5 mln customers. Enbridge will transfer around 775 employees and BC Gas will assign around 140 employees to the new venture, which will have a staff of around 1,000 when full operation begins in January. The company plans to grow by providing services to additional utilities in Canada, particularly the newer municipal electrical utilities in Ontario. Services offered will include billing; call centre services; collection and other potential bundled services.

JUNE 15, 2001

BC GAS INC. (BCG-T, $33.05) – MARKET PERFORM 3

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Fuels Merger Neutral to Earnings

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	Earnings Per Share 12/01E	Earnings Per Share 12/02E	P/E Ratios 12/01E	P/E Ratios 12/02E	Ind. Div.	Div. Yield
$33.05	$32.00	1%	38.3	$1,264	$2.06	$2.20	$2.30	15.0	14.4	$1.32	4.0%

All figures in C$ unless otherwise indicated.

BC Gas announced that its 68%-owned joint venture company, eFuels Inc., has merged with California based Pickens Fuel Corp. (PFC) to form the largest natural gas fuel provider for vehicles in North America. BC Gas will own around 40% of the new entity by contributing its 68% interest in eFuels plus a nominal cash payment of possibly C$2 million. Westport Innovations Inc.'s 32% interest in eFuels along with US$660,000 will be transferred to a 20% ownership of the new entity. The transaction is not expected to have a significant impact on the company's earnings and we continue to rate the shares of BC Gas MARKET PERFORM with a target of $32.00.

The merged company will have a combined customer base of 25,000 fleet vehicles at more than 75 refuelling stations in California, Arizona, Ontario and British Columbia. We are encouraged to see BC Gas continuing to pursue alternative energy investments on a conservative basis. By partnering with strong companies in the field, using its infrastructure knowledge and by making bite-sized investments, investors are exposed to modest risk while capitalizing on a growth portion of the business.

BC GAS CORP. (BCG-T, $32.85) – MARKET PERFORM 3

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Open Season Announced for Southern Crossing Pipeline Expansion

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	Earnings Per Share 12/01E	Earnings Per Share 12/02E	P/E Ratios 12/01E	P/E Ratios 12/02E	Ind. Div.	Div. Yield
$32.85	$32.00	1%	38.3	$1,257	$2.06	$2.15	$2.30	15.3	14.3	$1.32	4.0%

All figures in C$ unless otherwise indicated.

As expected, BC Gas announced an open season on the proposed pipeline to link the Southern Crossing Pipeline in Oliver to the regional marketing hub in Huntingdon. The link is to be known as the Inland Pacific Connector Pipeline. Please refer to our earlier comment on this proposal in the March 29, 2001 *Morning Focus*. We continue to rate the shares of BC Gas MARKET PERFORM.

The 246-kilometre pipeline and related facilities is now forecast to cost approximately $495 million and could be in service by late 2003 if regulatory approvals are obtained. The only changes from our original expectations is that the open season is starting about a month later and the preliminary cost has firmed up by about 7.5%. Of course, Westcoast Energy is also considering an expansion to get more gas to both Vancouver and the U.S. Pacific Northwest, so these two projects are in competition with one another. Given the strong demand, both projects could be necessary, though they are unlikely to be built at the same time.

An "open season" is the normal process in which potential shippers can review the costs, terms and conditions of service for the pipeline before committing to purchase capacity on the line. From the company's perspective, the open season will determine the extent of the demand for additional natural gas in the Lower Mainland and U.S. Pacific Northwest and allow it to move ahead with public consultation and planning for its construction. Since the company's wholly owned gas utility does not have the load to justify the extension alone, BC Gas must find other willing shippers to make the project economic. If built, the pipeline should increase the supply of gas to the Lower Mainland and help stabilize widely fluctuating natural gas prices caused by the lack of pipeline capacity.

BC GAS (BCG-T, $31.55) – MARKET PERFORM 3

Minimal Impact From Kelowna Lease Agreement

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Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	Earnings Per Share 12/01E	Earnings Per Share 12/02E	P/E Ratios 12/01E	P/E Ratios 12/02E	Ind. Div.	Div. Yield
$31.55	$32.00	6%	38.3	$1,207	$2.06	$2.15	$2.30	14.7	13.7	$1.32	4.2%

All figures in C$ unless otherwise indicated.

We continue to rate the shares of BC Gas MARKET PERFORM with a target of $32.00. BC Gas announced that it has reached an agreement with the City of Kelowna to lease its gas distribution assets within Kelowna municipal boundaries for $50 million. The complicated transaction could result in a minimal negative impact on earnings of possibly $0.01-$0.02 per share until the company can reinvest the proceeds into new projects, such as the Corridor Pipeline.

BC Gas will initially receive a $47.5 mln payment from the transaction with the remaining $2.5 mln to be received over the first 17 years of the 35-year lease. The assets will be immediately leased back to BC Gas from the City of Kelowna so that BC Gas can continue operating the gas distribution system for the City. After 17 years, BC Gas has the option to terminate the lease and take back control of the gas distribution assets. In effect, the company never loses control of the operation and can reap any value from being able to market gas or other services or products to Kelowna gas customers. In fact, BC Gas could eventually sell the rights to those customers as Canadian Utilities is planning to do, if it so chooses. This option could hold significant value given the recent Utilicorp transaction in Alberta (sale of retail operations to EPCOR last fall for around $275/customer).

BC Gas will use the proceeds to repay about $33 million of debt and reinvest the remaining $17 million in other opportunities. The transaction could be a slight drag on the earnings until the proceeds are reinvested. The main positive from the transaction is that it provides BC Gas with a long-term operating agreement in Kelowna and removes the uncertainty associated with the original franchise agreement. BC Gas customers will see a small reduction in their rates as a result of this transaction. If the BC Utilities Commission approves the transaction in the fall as we expect, it could be a blueprint for other municipalities to follow. If so, it could eventually create around $300 million of leases for BC Gas.

April 27, 2001

BC GAS (BCG-T, $30.75) – MARKET PERFORM 3

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More Seasonality Delivers Strong First Quarter Earnings; Dividend Increased By 6.5%

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	12/01E	12/02E	P/E Ratios 12/01E	12/02E	Ind. Div.	Div. Yield
$30.75	$32.00	8%	38.3	$1,176	$2.06	$2.15	$2.30	14.3	13.4	$1.32	4.3%

We are maintaining our MARKET PERFROM rating on the shares of BC Gas with a target of $32.00. BC Gas reported first quarter earnings per share of $1.59 versus $1.39 last year. The earnings are on track to achieve our $2.15 estimate for 2001. The addition of Southern Crossing Pipeline to the rate base increases the seasonality of earnings and was responsible for the majority of the quarter's gain. The strong first quarter numbers will be offset by greater seasonal losses in the second and third quarters. Earnings seasonality arises due to the difference between the constant nature of fixed costs versus variations in weather related revenues throughout the year. We are making no change to our current earnings estimates of $2.15 and $2.30 per share for 2001 and 2002, respectively. A more detailed breakout of the quarterly results is included in the attached table. BC Gas also announced an increase to its quarterly dividend from $0.31 to $0.33 per share (or annually from $1.24 to $1.32). This 6.5% dividend increase provides an attractive yield of 4.3% to investors.

The Natural Gas Distribution business increased by $0.28 per share over last year due to a significant growth in rate base from the addition of Southern Crossing Pipeline (SCP), which was offset by a lower allowed return on common equity (9.25% versus 9.50% last year). Solid results came in from the Petroleum Transportation operations as the company benefited from its incentive tolling arrangement on Trans Mountain Pipe Line with productivity improvements and increased throughput. However, greater improvement should be achieved in succeeding quarters due to recent restructuring and relocation efforts. The strong results from the Natural Gas Distribution and Petroleum Transportation operations were partially offset by increased financing costs from both the completed SCP and the Corridor Pipeline currently under construction. In addition, seasonally weak results in the company's water supply and services business (acquired in April 2000) had a slight negative impact on earnings. We expect the company's water operations to improve over the year but to remain only a small part of the company's overall earnings profile.

BC GAS

	First Quarter 2000	First Quarter 2001	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	$1.28	$1.56	22%
Petroleum transportation	$0.14	$0.15	7%
Other businesses	($0.03)	($0.12)	n/m
Reported EPS before unusual items	**$1.39**	**$1.59**	14%
Unusual items	$0.21	$0.00	n/m
Reported EPS after unusual items	**$1.60**	**$1.59**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$17.67	$19.12	8%
Number of Gas Customers	757,432	763,939	1%
Gas Volumes (petajoules)			
Sales	51.4	45.9	-11%
Transportation	34.3	36.1	5%
Total	85.7	82.0	-4%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	21,021	21,869	4%
US mainline	8,511	8,952	5%
Jet fuel deliveries	2,570	2,868	12%
Total	32,102	33,689	5%

Higher contribution due to increased seasonality and higher rate base from startup of Southern Crossing Pipeline partially offset by a lower ROE (from 9.50% to 9.25%).

Includes $2.3 mln in additional financing costs for SCP and Corridor and $1.3 mln from seasonal weakness in water supply and services.

On target for consensus estimate of $2.14 - $2.20 for 2001.

Indications of continued strong volumes in Q2.

MARCH 29, 2001

BC GAS INC. (BCG-T, $30.80) – MARKET PERFORM 3

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Southern Crossing Extension to Get More Air Play

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	Earnings Per Share 12/01E	Earnings Per Share 12/02E	P/E Ratios 12/01E	P/E Ratios 12/02E	Ind. Div.	Div. Yield
$30.80	$32.00	8%	38.3	$1,178	$2.06	$2.15	$2.30	14.3	13.4	$1.24	4.0%

All figures in C$ unless otherwise indicated.

After much talk about extending Southern Crossing Pipeline (SCP) to get gas to the U.S. Pacific Northwest, BC Gas will hold an open season beginning April 1, 2001 in order to determine the demand. The projected 260 kilometre, $460 million extension is designed to partially supply the 700 mmcf/day in projected increased demand in the Pacific Northwest over the next few years. A November 2003 in-service date is being contemplated. The project will prove to be quite contentious and will not fully contribute to earnings until 2004 at any rate. Consequently, it is unlikely to significantly impact BC Gas' share price until its chance of success can be better determined, likely sometime in the next year. Therefore, we are not revising our targeted earnings and price targets. We continue to like the company's lower-risk growth strategy and expect to see continuous new initiatives designed to add to earnings.

The SCP was a contentious project and its extension will be just as contentious. Westcoast has already announced it is contemplating an expansion to get more gas to the Pacific Northwest and SCP will now be in competition for that. Note that the $460 million price tag for the SCP extension could be around $150 million lower if it connected into Westcoast's system for the last 50 miles. However, Westcoast has not been receptive to a competitor attaching to its line and received a NEB ruling that the SCP would have to pay the toll relating to its entire main line (about $0.33/gj), despite SCP using only a small portion of the line. Regardless, it appears that BC Gas can bypass Westcoast and operate that portion of the line for substantially less (around $0.10/gj).

BC Gas has determined that the annual value of the extension is about $75 million based on existing gas price differentials and that the cost of the capacity would be a lesser $65 million. However, the differentials will obviously change if there is a significant increase in capacity by SCP or Westcoast (remember that the Chicago differentials shrunk after Alliance Pipeline's construction). Therefore, BC Gas must first attract long-term buyers of capacity from those who need to lock in gas capacity such as for new planned cogens. The open season will be interesting, but we expect the politics and debate will continue for much longer.

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BC GAS INC. (BCG-T, $31.00) – MARKET PERFORM 3

Fourth Quarter Results In-Line With Expectations

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/00	12/01E	12/02E	P/E Ratios 12/01E	12/02E	Ind. Div.	Div. Yield
$31.00	$30.00	1%	38.3	$1,186	$2.06	$2.15	$2.30	14.4	13.5	$1.24	4.0%

We are maintaining our MARKET PERFORM rating on the shares of BC Gas with a 12-month target price of $30.00 as the shares have an attractive 4.0% dividend yield and have solid earnings growth potential from the recent start-up of the Southern Crossing Pipeline and longer-term through the Corridor Pipeline project. BC Gas reported fourth quarter earnings per share before non-recurring items of $0.99 versus $0.89 for the same period last year, in-line with consensus estimates. Final reported earnings for the fourth quarter were $1.35 versus $1.12, due to a $5.2 mln tax benefit associated with the 1999 sale of the company's Williams Lake Power Plant and an $8.5 mln gain resulting from the effect of income tax reductions on future income tax liabilities. Earnings for the full year, before non-recurring items, were $2.06 per share versus $1.81. Final reported earnings for the year were $2.84 versus $2.12. A detailed breakout of both the quarterly and full year results are shown in the attached tables.

Earnings in 2001 will be impacted positively by the $410 mln Southern Crossing Pipeline, which was brought into service in November. Partially offsetting the improvements will be a 25 basis point reduction in the utility's allowed return on equity due to lower interest rates. Earnings will be helped further by additional cost efficiencies from the relocation of Trans Mountain Pipe Line's headquarters to Calgary in mid-2001. The company continues to grow its non-regulated energy and utility service operations with the announcement of new contracts with two BC cities to provide water metering and integrated billing services. The contribution from the contracts will be marginal in 2001 but is expected to increase in the future with the elimination of start-up costs and as more services are added.

Giving guidance for this year, the company stated that it is comfortable with analysts' 2001 earnings estimates of between $2.15 and $2.20. However, quarterly earnings will become more seasonal due to the rising rate base (more variable revenues combined with fixed costs). The company's capex is budgeted at $550 mln and includes $60 mln for the completion of the Southern Crossing Pipeline and $300 mln for the construction of the Corridor Pipeline.

BC GAS

	Fourth Quarter 1999	2000	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	$0.77	$0.90	17%
Petroleum transportation	$0.16	$0.17	6%
Other businesses	($0.04)	($0.08)	n/m
Reported EPS before unusual items	**$0.89**	**$0.99**	11%
Unusual items	$0.23	$0.36	n/m
Reported EPS after unusual items	**$1.12**	**$1.35**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$16.35	$17.86	9%
Number of Gas Customers	756,090	762,878	1%
Gas Volumes (petajoules)			
Sales	34.8	39.3	13%
Transportation	13.5	13.2	-2%
Total	48.3	52.5	9%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	22,640	22,358	-1%
US mainline	10,547	11,117	5%
Jet fuel deliveries	2,730	3,146	15%
Total	35,917	36,622	2%

Higher contribution due to the November startup of Southern Crossing Pipeline (SCP), a higher ROE (from 9.25% to 9.50%) and a 25% growth in rate base.

Includes financing costs for Southern Crossing Pipeline as well as non-regulated energy and utility services.

In-line with consensus estimate.

Includes $5.2 mln income tax benefits associated with sale of Williams Lake Power Plant and $8.5 mln gain from the reduction of future tax liabilities.

Up sequentially each quarter since 1Q00.

BC GAS

	Full year		
	1999	2000	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	$1.35	$1.53	13%
Petroleum transportation	$0.51	$0.56	10%
Other businesses	($0.05)	($0.03)	n/m
Reported EPS before unusual items	**$1.81**	**$2.06**	14%
Unusual items	$0.31	$0.78	n/m
Reported EPS after unusual items	**$2.12**	**$2.84**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$16.35	$17.86	9%
Gas Volumes (petajoules)			
Sales	128.2	130.5	2%
Transportation	57.6	56.3	-2%
Total	185.8	186.8	1%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	23,141	22,168	-4%
US mainline	9,847	10,365	5%
Jet fuel deliveries	3,196	3,149	-1%
Total	36,184	35,682	-1%

Seasonal swing in earnings increasing in 2001 due to addition of SCP to rate base.

Lower operating costs, and a 5% higher throughput on US mainline offset slight reduction of Canadian Mainline throughput.

Iimproved energy and water utility services operating results in 2000.

In-line with consensus estimate.

Includes $29.0 mln income tax benefits associated with sale of Williams Lake Power Plant; $7.5 mln after-tax restructuring charge; $8.5 mln gain from reduction of tax liabilities.

Higher volumes at Trans Mountain.

NATIONAL BANK FINANCIAL

Daily Bulletin **November 20, 2002 AM**

BC GAS INC. – BCG (TSX) $40.01

In Consortium to Buy EnCana's Express/Platte Pipeline Systems for ...

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STOCK RATING: Underperform (Unchanged) ◆ TARGET: $40.50 (Was $41.95)
Industry Rating (Gas Utilities): Underweight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	01A	02E	03E
EPS	$2.21	$2.41	$2.58

Valuation	02E	03E
P/E	16.60	15.94

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$32.64-$42.50	$40.50	43.7 mln	$1,748 mln

Note: All numbers in Cdn$.

... For About $1.175 Billion Including Assumption of $582 Million Debt

Estimated 2003 pro-forma EPS reduced to $2.58 from $2.68. Target price lowered to $40.50 from $41.95.

Assessment

Subject to a comprehensive analysis, we view the transaction below as being potentially of significant long-term strategic value to BCG, although, in the short term, we view it as somewhat dilutive.

Transaction

On Nov. 19, 2002, a consortium formed by BCG announced an agreement to purchase the 2,747 km Express and Platte Pipeline Systems (EPP) from EnCana Corporation (TSX-ECA) for about $1.175 billion including the assumption of $582 million in debt. The purchasing consortium includes Borealis Infrastructure Management Inc., which is a subsidiary of OMERS (Ontario Municipal Employees Retirement System), and the Ontario Teachers' Pension Plan. Each consortium partner will hold an equal one-third ownership interest.

The transaction is expected to close by January 2003 and is subject to various regulatory approvals including: the Canadian Competition Act, the U.S. Hart-Scott Rodino Act, the Alberta Energy and Utilities Board (AEUB), and the Wyoming PSC.

Express and Platte Pipeline Systems (EPP) Details

EPP consists of two pipelines:

1) The 24-inch **Express Pipeline** (in-service date of April 1997) runs 1,256 km from Alberta's oil hub at Hardisty to Casper, Wyoming and delivers up to 172,000 barrels per day (b/d) to the U.S. states of Montana, Wyoming and Utah. It can be expanded to 280,000 b/d at a cost of US$80 million by adding pumping stations. BCG expects that if the expansion goes forward, it will contribute earnings of $0.10 per share on an annualized basis.
2) The 20-inch **Platte Pipeline** (built in 1952 with a major refurbishment done in the late 1990s) runs 1,491 km from Casper, Wyoming to Wood River, Illinois and can deliver up to 150,000 b/d to refineries in Colorado, Kansas and Illinois.

ECA had said earlier this year that it intended to sell EPP in order to concentrate on its core businesses.

EPP has a mix of committed and uncommitted throughput with 65% of capacity being contracted primarily by ECA until 2012 to assure construction/acquisition financing. The consortium believes that if there is an open season it will result in 100% of the capacity being contracted until 2012. ECA will continue to utilize any uncommitted capacity.

Strategic Assessment

With the acquisition of EPP, BCG will assume the transportation of Alberta crude oil to major markets in the U.S. Midwest and Rockies. EPP will complement BCG's Trans Mountain Pipeline, which transports crude oil from Alberta to B.C. and into the U.S. Northwest, and the Corridor Pipeline which, when completed in early 2003, will connect Athabasca bitumen to the Shell upgrader in Edmonton. As a result, BCG will considerably strengthen its petroleum transportation strategy.

Financial Impact

BCG's share of the equity purchase price of $593 million will be $198 million. BCG will record its EPP investment using the equity method.

BCG plans to finance its EPP interest through the issuance of $300 million in new common equity. A portion of the equity proceeds will be used to finance the Corridor Pipeline funding requirements. As of Sept. 30, 2002, work on the Corridor Pipeline was progressing on time (99% complete) and on budget ($622 million spent so far), and commissioning was 90% complete. BCG expects Corridor Pipeline to contribute $0.20 per share annualized, once it is operational.

Subject to further information from the conference call on Nov. 20, 2002, we have assumed that BCG would issue at the beginning of 2003 common shares for $39 per share. The EPP-acquisition would appear to be dilutive pro forma to 2003 EPS by about $0.10 per share, as BCG estimates its 2003 contribution at about $12 million in earnings excluding the operating synergies, as BCG's Trans Mountain Pipe Line Company Ltd. will operate and manage EPP. The existing hypothetical capital structure will be altered to include 33% equity compared with the previous 30% equity/70% debt structure.

We believe that BCG's financial situation will be somewhat stretched as a result of the EPP acquisition. BCG just recently digested the $590 million Centra Gas B.C. acquisition (closed in March 2002) and had to issue about $190 million in new common equity. Now it will have to go to the market again for another $300 million.

VALUATION

Preliminarily, we are estimating for the 12-month period ending in September 2004: EPS of $2.69; DPS of $1.51; retained EPS of $1.18; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $25.17 and the residual price is $15.34, for a target price of $40.50 (rounded).

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
** Two or more classes of common shares exist with differential voting rights.

NATIONAL BANK FINANCIAL

Daily Bulletin **November 6, 2002 PM**

BC GAS INC. – BCG (TSX) $39.70

Q3 2002 Results Better Than Expected…

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STOCK RATING: Underperform (Unchanged) ◆ TARGET: $41.95 (Was $41.40)
Industry Rating (Gas Utilities): Underweight (NBF Economics & Strategy Group)

Estimates (Year-End Dec. 31)	01A	02E	03E
EPS	$2.21	$2.41	$2.68

Valuation	02E	03E
P/E	16.47	14.81

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$32.64-$42.50	$41.95	43.7 mln	$1,734 mln

Note: All numbers in Cdn$.

… Estimated 2002 EPS Increased to $2.41 from $2.39

Assessment and Investment Recommendation

Third-quarter 2002 results were better than expected. We continue to maintain an Underperform rating on BCG common shares, and expect the shares to deliver over time a combination of growth and income, with emphasis on the latter.

EPS	Q3 2002	Q3 2001
Reported	($0.44)	($0.58)

Segmented Operational Earnings ($mln)	Q3 2002	Q3 2001	9 mo. 2002	9 mo. 2001
Natural Gas Distribution	($21.4)	($27.9)	$42.4	$22.7
Petroleum Transmission	$6.7	$6.4	$18.8	$18.8
Other Activities	($4.4)	($0.8)	($11.4)	($5.9)
Earnings applicable to common shares	**($19.1)**	**($22.3)**	**$49.8**	**$35.6**

In Q3 2002, BCG remained, as expected, on track in pursuit of its long-term corporate goals despite the upheavals in the financial markets and the North American energy sector. Growth continued in its natural gas (gas) distribution/ transmission segment as a result of the Centra Gas B.C. acquisition, and petroleum transmission had slightly higher earnings year-over-year (y/y). "Other activities" suffered through higher financing costs related to the acquisition of Centra Gas B.C. and a $4.1.million after-tax writedown of BCG's investment in Westport Innovations. This was partially offset by better y/y performance by energy and utilities services, primarily because of the termination of goodwill amortization as of 2002 and interest cost reductions.

NATURAL GAS DISTRIBUTION

Gas distribution had a loss of $21.4 million in Q3 2002 compared with a loss of $27.9 million a year ago. The y/y improvement was primarily because of the acquisition of Centra Gas B.C. (a $590-million acquisition including the assumption of debt), whose earnings were included as of Jan.1, 2002, even though the transaction was completed in early March. Centra Gas B.C.'s earnings are recorded relatively evenly throughout the year due to the regulatory accounts in place. BC Gas Utility showed an increase in earnings y/y for the first nine months, as a result of lower financing costs.

PETROLEUM TRANSMISSION

Petroleum transmission earned $6.7 million in the third quarter of 2002, an increase from the $6.4 million earned last year. The improvement in earnings y/y was mostly due to lower interest costs as well as an increase in tanker loadings. For the first nine months of 2002, earnings were flat y/y at $18 million as lower throughput on both the Canadian and U.S. portions of the mainline was partly offset by the impact of lower interest and tax rates.

Work on the Corridor Pipeline is progressing on time (99% complete) and on budget ($622 million spent so far), and commissioning is 90% complete. It is scheduled to open commercially by March 2003. BCG expects Corridor Pipeline to contribute $0.20 per share annualized, once it is operational.

OTHER ACTIVITIES

The energy and utility services division improved somewhat over the last quarter, but the Q3 2002 results for the whole "Other Activities" segment were lower y/y because of an increase in financing costs directly related to the Centra Gas B.C. acquisition and a $4.1.million after-tax writedown of BCG's investment in Westport Innovations.

CAPEX

For the first nine months of 2002, BCG spent $309.6 million on capital expenditures, compared with $274.3 million a year ago.
Funds from operations for Q3 2002 were $12.6 million versus $6.2 million last year. For the first nine months of 2002, funds from operations were $145.9 million versus $123.7 million last year.

VALUATION

We are estimating for the 12-month period ending in September 2004: EPS of $2.80; DPS of $1.51; retained EPS of $1.29; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $25.17 and the residual price is $16.77, for a target price of $41.95 (rounded).

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
** Two or more classes of common shares exist with differential voting rights.

NATIONAL BANK FINANCIAL

Daily Bulletin **July 31, 2002 PM**

BC GAS INC. – BCG (TSX) $38.15

Q2 2002 Results as Expected…

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RECOMMENDATION: HOLD (Unchanged) ◆ TARGET: $41.40 (Was $39.90)

Estimates (Year-End Dec. 31)	01A	02E	03E
EPS	$2.21	$2.39	$2.68

Valuation	02E	03E
P/E	15.96	14.23

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$32.64-$41.30	$41.40	43.6 mln	$1,663 mln

Note: All numbers in Cdn$.

… Target Price Increased to $41.40 – HOLD Recommendation Sustained

Assessment and Investment Recommendation

Second-quarter 2002 results were consistent with our expectation. We continue to expect BCG's common shares to deliver over time a combination of growth and income, with emphasis on the latter. As our valuation formula indicates that BCG's shares are currently almost fully valued, we are maintaining our HOLD recommendation.

EPS	Q2 2002	Q2 2001
Operational	$0.03	($0.08)

Segmented Operational Earnings ($mln)	Q2 2002	Q2 2001	H1 2002	H1 2001
Natural Gas Distribution	($3.0)	($9.2)	$63.8	$50.6
Petroleum Transmission	$5.6	$6.6	$12.1	$12.4
Other Activities	($1.5)	($0.5)	($7.0)	($5.1)
Earnings applicable to common shares	**$1.1**	**($3.1)**	**$68.9**	**$57.9**

In Q2 2002, BCG remained, as expected, on track in pursuit of its long-term corporate goals despite the upheavals in the financial markets and the North American energy sector. Growth continued in its natural gas (gas) distribution/ transmission segment, as well as in the energy and utilities services segment, but earnings from petroleum transmission slipped year-over-year (y/y), forcing Trans Mountain Pipe Line (TMP) to take measures to meet future goals. "Other activities" also lost ground.

NATURAL GAS DISTRIBUTION

Gas distribution had a loss of $3 million in Q2 2002 compared to a loss of $9.2 million a year ago. The y/y improvement was primarily because of the acquisition of Centra Gas B.C. (a $590-million acquisition including the assumption of debt), whose earnings were included as of Jan.1, 2002, even though the transaction was completed in early March. Centra Gas B.C.'s earnings are recorded relatively evenly throughout the year due to the regulatory accounts in place. BC Gas Utility showed an increase in earnings y/y for the first six months, as a result of lower financing costs.

PETROLEUM TRANSMISSION

Petroleum transmission earned $5.6 million in the second quarter of 2002, a decrease of $1.0 million from last year owing to lower throughput on both the Canadian and U.S. portions of the mainline, partly offset by the impact of lower interest rates and lower tax rates. A combination of factors including the continued weak economic recovery and slow demand growth for Canadian sour crude oil and declines in light crude oil production has led TMP to pursue operating cost reductions in order to reach targets.

Work on the Corridor Pipeline is progressing on time (93% complete) and on budget ($566 million spent so far), and is scheduled to open commercially by March 2003. BCG expects Corridor Pipeline to contribute $0.20 per share annualized, once it is operational.

OTHER ACTIVITIES

The energy and utility services division improved somewhat over the last quarter, but H1 2002 results for the whole "Other Activities" segment were lower y/y due to an increase in financing costs directly related to the Centra Gas B.C. acquisition.

On July 23, 2002, BCG and Emco Ltd. (TSX-EML) announced their decision to terminate the conditional purchase and sale agreement of the waterworks supply business belonging to BCG's bcgSERVICES Inc. subsidiary to Emco. The parties concluded that the "transaction would not be in the best interests of either party." Last April, BCG and EML announced the transaction (no financial terms were disclosed) to sell the waterworks supply business to Emco and to enter into a partnership for space sharing and material supply. The transaction was subject to a due diligence review and various other approvals and was expected to close in Q2 2002.

On July 19, 2002, CustomerWorks LP (CW), a customer care unit owned jointly by BCG and Enbridge Inc. (TSX-ENB), signed an outsourcing agreement with Accenture Ltd. The latter will form a new unit that will employ CW's 1,100 employees that will continue to provide market development and customer relations responsibilities. No financial terms were disclosed. CW was modestly earnings positive in the quarter.

VALUATION

We are estimating for the 12-month period ending in June 2004: EPS of $2.76; DPS of $1.50; retained EPS of $1.26; a retained EPS-multiple of 13x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $25.00 and the residual price is $16.38, for a target price of $41.40 (rounded).

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
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NATIONAL BANK FINANCIAL

Daily Bulletin **July 23, 2002 PM**

BC GAS INC. – BCG (TSX) $37.35

Announcement: Will Not Proceed With Waterworks Supply Business Sale…

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RECOMMENDATION: HOLD (Unchanged) ◆ TARGET: $39.90 (Unchanged)

Estimates (Year-End Dec. 31)

	01A	02E	03E
EPS	$2.21	$2.39	$2.68

Valuation

	02E	03E
P/E	15.62	13.93

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$32.64-$41.30	$39.90	43.5 mln	$1,624 mln

Note: All numbers in Cdn$.

… HOLD Recommendation Sustained

Transaction Termination Details

On July 23, 2002, BCG and Emco Ltd. (EML) announced that they had decided to terminate the conditional purchase and sale agreement of the waterworks supply business belonging to BCG's bcgSERVICES Inc. subsidiary to Emco. In announcing their decision to not proceed with the transaction, BCG and EML said that the "transaction would not be in the best interests of either party."
On April 9, 2002, BCG and EML announced the transaction (no financial terms were disclosed) to sell the waterworks supply business to Emco and to enter into a partnership for space sharing and material supply. The transaction was subject to a due diligence review and various other approvals and was expected to close in Q2 2002.

The termination of the agreement has no bearing on our estimated earnings, target price or investment recommendation because we had not assumed that it would, indeed, proceed.

We continue to expect BCG's common shares to deliver over time a combination of growth and income, but we believe that the shares are currently almost fully valued and we are maintaining our HOLD recommendation.

Valuation

We are estimating for the 2003 fiscal year: EPS $2.68; DPS $1.53; retained EPS $1.15; a retained EPS-multiple of 12.5x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $25.50 and the residual price is $14.38, for a target price of $39.90 (rounded).

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
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NATIONAL BANK FINANCIAL

Daily Bulletin **April 25, 2002 PM**

BC GAS INC. – BCG (TSE) $38.30

Q1 2002 Results In Line…

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RECOMMENDATION: HOLD (Was BUY) ◆ TARGET: $39.90 (Was $39.35)

Estimates (Year-End Dec. 31)

	01A	02E	03E
EPS	$2.21	$2.39	$2.68

Valuation

	02E	03E
P/E	16.02	14.29

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$30.35-$38.93	$39.90	43.5 mln	$1,666 mln

Note: All numbers in Cdn$.

… Recommendation Adjusted to HOLD from Buy
Assessment and Investment Recommendation

First-quarter 2002 results were in line with expectations. We continue to expect BCG's common shares to deliver over time a combination of growth and income, but we believe that the shares are currently almost fully valued and that even though its Board has declared a quarterly dividend increase to $0.36 from $0.33, we have adjusted our recommendation to a HOLD from a Buy.

EPS	Q1 2002	Q1 2001
Operational	$1.70	$1.59

Segmented Operational Earnings ($mln)	Q1 2002	Q1 2001
Natural Gas Distribution	$66.8	$59.8
Petroleum Transmission	$6.5	$5.8
Other Activities	($5.5)	($4.6)
Earnings applicable to common shares	**$67.8**	**$61.0**

In Q1 2002, BCG remained, as expected, on track in pursuit of its long-term corporate goals. Growth continued in its two "legs," gas distribution/ transmission, and petroleum transmission, while energy services showed some improvement during the quarter.

NATURAL GAS DISTRIBUTION

Natural gas distribution earned $66.8 million in Q1 2002 compared with $59.8 million a year ago. The year-over-year improvement was primarily because of the acquisition of Centra Gas B.C. (a $590-million deal including the assumption of debt) whose earnings were included as of Jan.1, 2002, even though the transaction was completed in early March.

PETROLEUM TRANSMISSION

Petroleum transmission earned $6.5 million in the first quarter, an increase of $0.7 million from last year owing to higher throughput on the Canadian mainline, the impact of lower interest rates and lower tax rates. Work on the Corridor Pipeline is progressing on time (88% complete) and on budget ($494 million spent so far). It is set to open commercially by February 2003.

On Jan. 15, 2002, BCG's wholly owned subsidiary, Bison Pipeline Limited (BPL), announced plans to build a $800-million, 516-km pipeline to transport bitumen from the Athabasca oil sands to Edmonton by mid-2005.

BPL plans to file an AEUB application by July 2002 and intends to receive final regulatory approval by Q1 2003.

Other Activities

Energy and utility services division showed some improvement over last quarter but this was overshadowed by an increase in financing costs directly related to the Centra B.C. acquisition.

On April 9, 2002, BCG announced that it had signed an agreement to sell the wholesale waterworks supply business from its BCG Services Inc. division to Emco Limited. BCG will retain the waterworks services business and the transaction is expected to close in the second quarter of 2002 subject to a diligence review and various regulatory and other approvals. Financial terms were not disclosed.

Valuation

We are estimating for the 2003 fiscal year: EPS $2.68; DPS $1.53; retained EPS $1.15; a retained EPS-multiple of 12.5x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $25.50 and the residual price is $14.38, for a target price of $39.90 (rounded).

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
** Two or more classes of common shares exist with differential voting rights.

NATIONAL BANK FINANCIAL

Daily Bulletin **October 22, 2001 PM**

BC GAS INC. – BCG (TSE) $35.64

Agreement To Acquire Centra Gas B.C. From Westcoast Energy…

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RECOMMENDATION: BUY (was a HOLD) ◆ TARGET: $40.25 (was $35.30)

Estimates (Year-End Dec. 31)	00A	01E	02E
EPS	$2.06	$2.19	$2.41

Valuation	01E	02E
P/E	16.27	14.79

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$28.40-$36.40	$40.25	38.3 mln	$1,365 mln

Note: All numbers in Cdn$

… A Long Overdue Transaction. Our Estimated 2002 EPS Is Increased To $2.41 From $2.34. Buy-Recommendation Reinstated.

Assessment

We view the transaction below to be of significant value to BCG and its future. We also believe that gas users in British Columbia will benefit from streamlining of gas distribution.

Transaction

On October 22, 2001, BCG announced an agreement to purchase the common shares of Centra Gas B.C. and Centra Gas Whistler from Westcoast Energy (TSE-W) for $208 million. BCG also will assume Centra Gas' $298 million debt ($70 million of parent advances and $228 million in long-term bank debt), and will also pay on closing $32 million and a deferred payment of $52 million due in 2011 for the preferred shares of Centra Gas. The $52 million deferred payment could be paid earlier if additional electricity-plant revenues are generated. BCG will finance the purchase with the issuance of $180 million in new common share equity and $130 million in debt (including $60 million of new debt.)

Transaction Cash Requirements	
Centra Gas common shares	$208 million
Centra Gas preferred shares	$32 million
Parent advances debt	$70 million
TOTAL	**$310 million**

BCG expects the acquisition to close by early 2002, following expected approvals by the British Columbia Utilities Commission (BCUC) and the Province of B.C.

Strategic Assessment

We had anticipated the transaction for more than a year; however, given that the acquisition and disposition mills grind slowly, the time-element involved comes, after all, as no surprise. We have seen BCG as the logical "gas-distribution consolidator" in British Columbia for some time, given that the Province ought not afford itself the luxury of fragmented gas distribution. It was only a question of time, before the Province followed the examples of Alberta, Saskatchewan, Manitoba, Ontario, Quebec and probably New Brunswick and Nova Scotia. Moreover, we thought that it was high time for BCG and W to bury the tomahawks and smoke the peace pipe. While we are not quite there yet, the transaction bridges the different perceptions of value between BCG and W.

Pacific Northern Gas (PNG.A) – *can it be far behind?*

We believe that, once the fog has lifted from the operational future of PNG, and valuations can be nailed-down, W will probably let PNG.A join its peers in the BCG-family. Assuming that the Duke Energy/W transaction closes, Duke has no more use for PNG.A than W. Whether it is BCG or UtiliCorp (through its British Columbia subsidiary), remains to be seen, but we just are able to envision PNG.A. to survive as an orphan.

Financial Impact

We estimate BCG to issue $190 million of new common equity (gross) to net $180 million. For 2002, we estimate some 43.8 million common shares to be O/S. BCG estimates that the acquisition will be accretive to 2002 EPS by some $0.06 excluding the operating synergies of the merger that, we expect to flow from the integration of the operations of BCG and Centra Gas (B.C.). However, we estimate that, annualized, BCG ought to extract at least $0.01 per share in 2002 from synergies. Over time, the synergies ought to ramp-up, to be shared with the customers. The existing hypothetical capital structure of 30% debt and 70% equity for BCG Utility will be maintained.

Valuation

We are estimating for the year ending September 2003: EPS $2.76; DPS $1.38; retained EPS $1.38; a retained EPS-multiple of 12.5x (up from 12x previously to reflect the scarcity-value of gas distributors in Canada); a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $23.00 and the residual price is $17.25, for a target price of $40.25.

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
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NATIONAL BANK FINANCIAL

Daily Bulletin **July 31, 2001 AM**

BC GAS INC. – BCG (TSE) $33.40

Q2 2001 Results Consistent With Expectation…

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RECOMMENDATION: HOLD ◆ TARGET: $35.30 (Was $34.95)

Estimates (Year-End Dec. 31)	00A	01E	02E
EPS	$2.06	$2.19	$2.34

Valuation	01E	02E
P/E	15.25	14.27

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$26.55-$34.95	$35.30	38.3 mln	$1,279 mln

Note: All numbers in Cdn$

… HOLD-recommendation sustained. Target price rises to $35.30 from $34.95 due to shift to reference year ending June 2003.

Assessment and Investment Recommendation

Second-quarter 2001 results did not reflect the effect of any event that would prevent BCG from reaching our earnings and dividend targets for our reference period. We expect BCG's common shares to deliver over time a combination of growth and income.

EPS	Q2 2001	Q2 2000	H1 2001	H1 2000
Operational	($0.08)	$0.02	$1.51	$1.41
Reported	($0.08)	$0.22	$1.51	$1.82

Segmented Operational Earnings (in $mln)	Q2 2001	Q2 2000
Natural Gas Distribution	($9.2)	($6.3)
Petroleum Transmission	$6.6	$4.7
Other Activities	($0.5)	$2.2
Earnings Before Non-Recurring Items	**($3.1)**	**$0.6**

Cash Flow (in $mln)	Q2 2001	Q2 2000
Funds from Operations	$27.3	$29.5
Net Cash Generated	$37.7	$33.8

In the second quarter 2001, BCG remained, as expected, on track in pursuit of its long-term corporate goals. In addition to its two "legs", gas distribution and transmission, and petroleum transmission, BCG continued in its quest for growth in energy services.

With its partner Enbridge, BCG formed CustomerWorks, Canada's largest provider of customer-management services to Canadian gas, electric, water and other utilities. It followed on the heels of the creation of BCG eFuels, a venture with Pickens Fuel Corp. It is Canada's largest provider of gas for NGV.

TransMountain Pipe Line progressed, as expected. It benefited from strong demand for petroleum products in British Columbia and the Pacific Northwest.

BCG recently concluded an open season for the Inland Pacific Connector. Work on the Corridor Pipeline is progressing.

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FINANCIAL

In May 2001, BC Gas International and Enbridge Technology signed a five-year contract for the maintenance and repair of a gas transmission system in Oman.

Valuation

We are estimating for the year ending June 2003: EPS $2.41; DPS $1.37; retained EPS $1.04; a retained EPS-multiple of 12x; a nominal long-term corporate bond yield of 7.50%, tax-effected to 6.00%. The support price is $22.83 and the residual price is $12.48, for a target price of $35.30 rounded.

NATIONAL BANK FINANCIAL

Daily Bulletin **May 4, 2001 PM**

BC GAS INC. – BCG (TSE) $32.00

Asset Rationalization Through a Back-To-Back Lease…

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RECOMMENDATION: BUY ◆ TARGET: $34.95 (NO CHANGE)

Estimates (Year-End Dec. 31)

	00A	01E	02E
EPS	$2.06	$2.19	$2.34

Valuation

	01E	02E
P/E	14.61	13.68

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$26.00-$34.35	$34.95	38.3 mln	$1,225 mln

Note: All numbers in Cdn$

… Another way of skinning a cat or a tool for combating dilution

Investment Recommendation

BCG and The City of Kelowna have agreed in principle for the City to lease BCG's distribution assets within the limits of Kelowna for a cash consideration of $50 million (whereof $47.5 million is payable initially) to BCG, with the balance to be paid over the term of the 35-year lease. If the agreement is finalized, the net proceeds will enable BCG to repay debt and have available equity funds, e.g. for the Corridor Pipeline. **This makes the arrangement, if consummated, at the very least directionally favourable for BCG.**

Although the transaction is not initially impacting BCG's earnings appreciably, we view positively BCG's ability to rationalize assets as a tool to combat dilution in connection, for example, with the financing of Corridor Pipeline by BCG's subsidiary Trans Mountain Pipe Line. We are reiterating our BUY recommendation for BCG's common shares with a target price of $34.95.

Agreement In Principle (AIP)

Under the terms of the lease agreement, BCG will assume responsibility for the operation of the gas distribution system for a fee. Under the existing franchise agreement with BCG, The city has an option to purchase BCG's distribution assets within the confines of Kelowna. This is a source of uncertainty and more than an irritant. The agreement in principle removes the uncertainty about franchise renewal and exercise by the city of its option to purchase BCG's distribution asset. Under the AIP, the city agrees to a franchise renewal that, unlike the existing franchise agreement, does not include an option for the city to buy the existing gas-distribution assets. The distribution assets are depreciated at an annual rate of about 3%. After 17 years, BCG has the ability to negotiate a new lease or cancel the lease in exchange for a termination payment to the city. At that time, the value of the currently existing assets will be about 50% depreciated.

Gas-distribution customers in Kelowna will see a modest decrease in their bills covering the cost of distribution, because the city will be financing the lease payment 100% with debt. In contrast, BCG has notionally financed the distribution assets to the extent of 67% with debt and 33% with common equity. Apart from this change, the intent is that the cost of service in all other respects will not change.

We understand that several side-agreements (off-ramps) cover various contingencies. For example, should gas distribution in the province ever be deregulated, with the requirement that municipally-owned distributors must finance their asset base with debt and equity and become subject to income taxes, like (taxable) public utilities, then the parties will amend certain terms of their agreement accordingly.

Although BCG does not receive the entire $50 million up front, we are assuming so, hypothetically. Thus, the $50 million payment to BCG will cover notionally about $33.5 million of debt and $16.5 million of equity. BCG would then repay $33.5 million of debt and have the balance available to finance, as we have assumed, a portion of its equity investment in Corridor Pipeline, thereby mitigating dilution. Effectively, BCG is foregoing a current and future **return of and on capital, associated with the investment in regulated gas distribution in exchange for an unregulated return of and on capital** (from its investment, for example, in Corridor Pipeline), avoiding dilution that otherwise would result from the issuance of incremental common equity. ***This comes close to having one's cake and eating it too.***

We understand that in addition to Kelowna, BCG has about another $100 million of distribution assets, subject to franchise agreements containing purchase options of the respective municipalities. Assuming BCG could replicate the transaction with Kelowna under similar terms elsewhere, it could free up another $33 million or so of notional equity, and reinvest it in, say, Corridor Pipeline, thereby mitigating incremental dilution.

NATIONAL BANK FINANCIAL

Daily Bulletin **April 26, 2001 PM**

BC GAS INC. – BCG (TSE) $30.75

Q1 2001 In Line With Expectation…

Winfried Fruehauf, Ph.D. – (416) 869-7932 – *winfried.fruehauf@nbfinancial.com*
Associate: Ramin Burney – (416) 869-7933 – *ramin.burney@nbfinancial.com*

RECOMMENDATION: BUY ◆ (Was HOLD) TARGET: $34.95 (Was $34.20)

Estimates (Year-End Dec. 31)

	00A	01E	02E
EPS	$2.06	$2.19	$2.34

Valuation

	01E	02E
P/E	14.04	13.14

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$26.00-$34.35	$34.95	38.3 mln	$1,177 mln

Note: All numbers in Cdn$

… Target price raised to $34.95 from $34.20 to reflect moving 12-month period ending March 2003. Our recommendation is changed to a BUY from a Hold.

First-Quarter Results

BCG reported first quarter 2001 earnings per share of $1.59, versus $1.60 in the first quarter of 2000. Excluding a $0.21 per share gain in the first quarter of 2000 related to income tax benefits associated with the Williams Lake Power Plant (which would make Q1 2000 earnings $1.39), continuing operations earnings rose by 14.3% year-over-year (y/y).

The large increase in first-quarter EPS should not lead to the conclusion that BCG is about to experience a spurt in EPS-growth. In the first quarter 2001, BCG benefited from the contribution of Southern Crossing Pipeline that entered service in November 2000.

Earnings from **natural gas distribution** increased to $59.8 million in Q1 2001, versus $49.2 million in Q1 2000, which was mostly owing to rate base growth (with the completion of Southern Crossing) and increased earnings seasonality, as fixed costs are spread out evenly during the year. BCG is looking into extending Southern Crossing through the Inland Pacific Connector project, which will attempt to meet the strong demand for natural gas in B.C. and the U.S. Pacific Northwest. At an estimated cost of $460 million, the project would add about 300 mmcf/d of new capacity and would have a target in-service date of late 2003.

Petroleum transportation earnings grew to $5.8 million in Q1 2001, compared with $5.2 million in Q1 2000, which can be attributed to improved operating performance and higher throughput on the Canadian and U.S. portions of the mainline. Construction of the Corridor Pipeline is well under way, and is expected to be complete by spring 2003.

The Board of Directors declared an increase in the quarterly dividend to $0.33 per share from $0.31. This increase exceeds our expectation. Therefore, we have increased the estimated indicated DPS for 2003 to $1.40.

Valuation

For the 12-month period ending Q1 2003, we are estimating EPS of $2.38, and a DPS of $1.37. We continue to assume a long-term corporate bond yield of 7.50%, tax-effected to 6.00%. This leaves retained EPS of $1.01, to which we are attaching a 12x multiple. This results in a support price of $22.83, and a residual price of $12.12, which gives us a new target price of $34.95.

NATIONAL BANK
FINANCIAL

Daily Bulletin **February 16, 2001 PM**

BC GAS INC. – BCG (TSE) $30.40

Q4 2000 In Line With Expectation…

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Associate: Ramin Burney – (416) 869-7933 – *ramin.burney@nbfinancial.com*

RECOMMENDATION: BUY ◆ TARGET: $33.50 (was $33.25)

Estimates (Year-End Dec. 31)

	00A	01E	02E
EPS	$2.06	$2.19	$2.34

Valuation

	01E	02E
P/E	13.88	12.99

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$23.25-$34.35	$33.50	38.3 mln	$1,164 mln

Note: All numbers in Cdn$

… EPS estimates for 2001 and 2002 increased. Target price raised to $33.50. BUY recommendation sustained.

EPS	2001E	2002E	Target Price
Revised	$2.19	$2.34	$33.50
Previous	$2.17	$2.32	$33.25

On Feb. 15, 2001, BCG reported earnings per share of $2.06 (before non-recurring items of $0.78) for 2000, versus $1.94 in 1999. Earnings before non-recurring items were $78.8 million, versus $74.2 million in 1999.

Earnings from natural gas distribution increased to $58.7 million in 2000 versus $51.7 million in 1999 which was mostly the result of rate base growth and an increase in the authorized return on common equity to 9.50% from 9.25% in 1999. At the end of November 2000, the Southern Crossing Pipeline (built at a cost of $350.2 million) came into service and will begin contributing to earnings in full in 2001.

Petroleum transportation earnings grew to $21.3 million in 2000, compared with $19.5 million in 1999, which can be attributed to improved operating performance and higher throughput on the U.S. mainline. Construction of the Corridor Pipeline is well under way, and is expected to be completed by spring 2003.

We have raised our EPS estimates for 2001 from $2.17 to $2.19, and for 2002 from $2.32 to $2.34 because of to the positive impact of a new five-year incentive tolling agreement for Trans Mountain Pipe Line and increased throughput.

Valuation

For 2002, we are estimating EPS of $2.34, and a DPS of $1.31. We continue to assume a long-term corporate bond yield of 7.75%, tax-effected to 6.20%. This leaves retained EPS of $1.03, whereto we are attaching a 12x P/E multiple. This results in a support price of $21.13, and a residual price of $12.36, for a total of $33.49, rounded to $33.50.

FLASH FLASH FLASH FLASH FL

CREDIT SUISSE | FIRST BOSTON

Equity Research

COMPANY UPDATE

BC Gas Inc.

BCG.TO

Acquisition + New Equity

- **BC Gas is leading a consortium for the purchase of the Express Oil Pipeline. Separately, S&P placed the company's corporate credit rating on negative watch. We see the acquisition as helping sustain earnings growth while simultaneously reducing debt levels. We maintain our Outperform rating and $44 target price.**
- **Express is a good fit with BCG's business mix, risk profile and growth aspirations. The pipeline has contracts providing a baseline of reliable cash flows and earnings. It also has upside potential from expansion.**
- **The acquisition on its own appears to be significantly accretive to EPS. BC Gas is taking a 33% interest in the $1,175 million acquisition. Under a normal pipeline financing structure (40% equity), BC Gas would probably raise about $160 million in new equity. Using the company's projected 2003 net income contribution of $12 million, the pipeline would likely add $0.05 per share near term. The company notes that an expansion as early as 2004 could add an additional $0.10 per share.**
- **However, to protect its credit rating, BC Gas will issue a total of $300 million in new equity. We would notionally allocate $160 million of this to the Express acquisition, $100 million to the Corridor Pipeline (previously planned to finance with a preferred security issue) and $40 million to debt reduction. The new equity should reduce debt levels from 72% to 67%. We are reducing our 2003 EPS estimate by $0.05 to reflect the equity dilution, partly offset by earnings accretion from the addition of Express.**
- **We expect the stock to weaken in the near-term, with the overhang of a large equity issue. Given the excellent acquisition prospects of most Canadian pipelines and utilities, however, it is difficult to invest in the sector with a view to avoiding near-term weakness from equity issuance. Therefore, we maintain our Outperform rating, which is based on our positive view of the company's medium and long-term growth prospects and low risk profile.**

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Rating	OUTPERFORM*
Price (19 Nov 02)	40.01 (C$)
Target price (12 months)	44.00 (C$)
52 week high - low	42.50 - 32.07
Market cap. (C$m)	1,748.84
Enterprise value (C$m)	4,843.0
Region / Country	Americas / Canada
Sector	Gas Utilities
Analyst's Coverage Universe	Pipelines & Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	20 November 2002

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*

Price / Price Relative

On 11/19/02 the S&P / TSX Composite index closed at 6423.65.

Year	12/01A	12/02E	12/03E
EPS (CSFB adj., C$)	2.21	2.40	2.60
Prev. EPS (C$)	—	—	2.65
P/E (x)	18.1	16.7	15.4
P/E rel. (%)	86.6	95.3	—
Q1 EPS	1.59	1.70	—
Q2	-0.08	0.03	—
Q3	-0.58	-0.45	—
Q4	1.28	1.22	—

Number of shares (m)	43.7	Dividend 2001A (C$)	1.30
BV/Share (09/02A, C$)	21.89	Dividend 2002E (C$)	1.41
Debt (09/02A, C$m)	2,967.9	Dividend 2003E (C$)	1.53
Debt/Total cap. (09/02A)	73.3%	Dividend yield	3.6%

Year	12/01A	12/02E	12/03E
EBITDA (C$m)	370.7	460.4	529.4
OCFPS (C$)	5.10	5.46	6.49
P/OCF (x)	7.8	7.3	6.2
EV/EBITDA (x)	12.4	10.5	9.2
ROE	11.8%	11.1%	11.2%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

EARNINGS

CREDIT SUISSE | FIRST BOSTON
Equity Research

BC Gas Inc.

BCG.TO

Strong Operating Earnings

- BC Gas reported Q3'02 EPS of ($0.44) vs. our estimate of ($0.45) and ($0.58) in Q3'01. Excluding a one-time write off, Q3'02 EPS was ($0.35). We see the growth as impressive, especially given the company's low risk profile. We are raising our target price to $44.
- BCG appears to be in the enviable position of taking "discretionary" write-offs to keep reported EPS down into the range of management guidance. The after-tax $4.1 mln write off of an investment in Westport Innovations was attributed to a decline in Westport's share price. Absent the write-off, BCG would likely have exceeded annual EPS guidance and our estimate by about $0.10 this year.
- Strong operating earnings in the oil pipeline and gas distribution businesses positioned BCG for the conservative accounting in the quarter. Oil pipeline earnings in Q3'02 were $6.7 million vs. $6.4 million in Q3'01. More important, earnings were up sequentially from $5.6 million in Q2'02. Rising volumes on the Trans Mountain Pipeline drove the improvements.
- Gas distribution earnings were also up, from a seasonal loss of ($27.9) million in Q3'01 to ($21.4) million in Q3'02, owing to a contribution from the Centra Gas acquisition. A hearing on 2003 utility rates will commence in the coming days, and should set a benchmark for a multi-year incentive agreement, under which we expect BCG will earn in excess of the relatively low allowed returns in British Columbia (currently 9.25% allowed ROE).
- Based on the Q3 earnings report, we see our $2.65 EPS estimate for 2003 as conservative. Our models assume almost all of the improvement over 2002 will come from the Corridor Pipeline (which is on budget and on time for Q1'03 in service). Further upside could derive from oil pipeline volume improvements and incentive regulation savings.
- Our new target price of $44 is premised on valuation parameters observed for BCG over the past year. Specifically, we target a forward P/E ratio of 15.2, and a 3.6% dividend yield.

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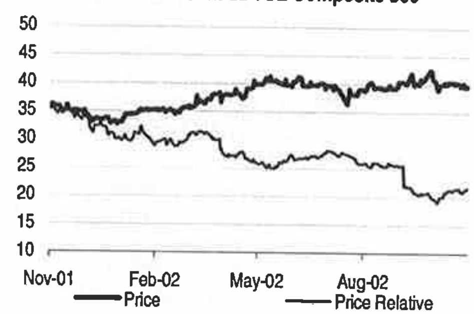
Investors should assume that CSFB is seeking or will seek investment banking or other business from the covered companies.
For important disclosure information regarding the Firm's rating system, valuation methods, and potential conflicts of interest, please refer to the disclosure section on the back pages of this report.

Rating	OUTPERFORM*
Price (06 Nov 02)	39.70 (C$)
Target price (12 months)	44.00 (C$) (was $43)
52 week high - low	42.50 - 32.07
Market cap. (C$m)	1,734.89
Enterprise value (C$m)	4,829.0
Region / Country	Americas / Canada
Sector	Gas Utilities
Analyst's Coverage Universe	Pipelines & Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	07 November 2002

** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*

Price / Indexed Canada TSE Composite 300



On 11/06/02 the Canada TSE Composite 300 Index closed at 6437.91.

Year	12/01A	12/02E	12/03E
EPS (CSFB adj., C$)	2.21	2.40	2.65
Prev. EPS (C$)	—	—	—
P/E (x)	18.0	16.5	15.0
P/E rel. (%)	86.0	94.6	—
Q1 EPS	1.59	1.70	
Q2	-0.08	0.03	
Q3	-0.58	-0.45	
Q4	1.28	1.22	

Number of shares (m)	43.7	Dividend 2001A (C$)	1.30
BV/Share (09/02A, C$)	21.89	Dividend 2002E (C$)	1.41
Debt (09/02A, C$m)	2,967.9	Dividend 2003E (C$)	1.53
Debt/Total cap. (09/02A)	73.3%	Dividend yield	3.6%

Year	12/01A	12/02E	12/03E
EBITDA (C$m)	370.7	460.4	529.4
OCFPS (C$)	5.10	5.46	6.49
P/OCF (x)	7.8	7.3	6.1
EV/EBITDA (x)	12.3	10.5	9.1
ROE	11.8%	11.1%	11.2%

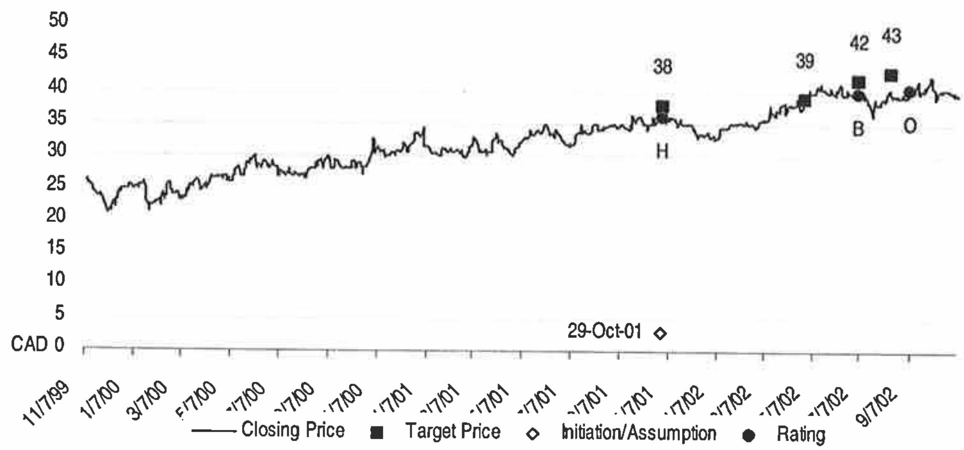
Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

Companies Mentioned ***(Price as of 06 Nov 02)***

BC Gas Inc. (BCG.TO, C$39.70, OUTPERFORM, TP C$44)

DISCLOSURE SECTION

3-year history chart for BCG.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

Date	Closing Price(CAD)	Target Price(CAD)	Rating
10/29/2001	36.15	38.00	HOLD
4/25/2002	38.30	39.00	
7/4/2002	39.26	42.00	BUY
8/12/2002	40.36	43.00	
9/6/2002	40.50		OUTPERFORM

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.

Analyst's 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.

EARNINGS

CREDIT SUISSE FIRST BOSTON
Equity Research

BC Gas Inc.
BCG.TO

Centra Acquisition Drives Good Q1 Results

- **BC Gas reported Q1'02 EPS of $1.70 vs. $1.59 last year and our estimate of $1.63. The company also raised its quarterly dividend from $0.33 to $0.36. We are raising our target price by $1.00 but maintaining our Hold rating.**
- **Some of the EPS improvement over last year and over our estimate derives from low average shares outstanding in the quarter that will rise starting in Q2. The company reported earnings from Centra Gas for the entire quarter but only included the new shares it issued for the acquisition as of March 7. We expect average shares outstanding for the year of 42.7 million vs. only 39.8 million in the quarter.**
- **Nevertheless, a significant portion of the EPS increase over last year derives from the Centra Gas BC acquisition. The company reported $66.8 million of net income from gas distribution vs. $59.8 million last year.**
- **Improved volume flows on the TransMountain Pipeline are another source of earnings growth. The company reported $6.5 million of net income from the pipeline vs. $5.8 million last year. Volume flows on the Canadian portion of the pipeline were 31,738 cubic metres per day vs. 30,821 last year.**
- **We see near-term EPS growth of 8% - 10% for BC Gas, and 5% - 6% sustainable EPS growth over the longer term. Our modeling shows the main source of the near-term earnings growth will be the Corridor Oil Pipeline, which is on schedule to come into commercial operation in Q1'03. On the basis of this forecast earnings growth, we are updating our target price, raising it from $38 to $39.**
- **We think BC Gas offers a good combination of solid EPS growth and low risk assets. However, we are maintaining our Hold rating for two reasons. We are not convinced the stock can continue to trade at the current P/E multiple of 16x forward earnings. We are also concerned that the company's 70%+ debt ratio is moving out of line with other companies in the sector.**

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Recommendation	HOLD
Price (25 Apr 02)	38.30 (C$)
Target price (12 months)	39.00 (C$)
52 week high - low	39.49 - 30.20
Market cap. (C$m)	1,669.88
Enterprise value (C$m)	4,515.0
Region / Country	Americas / Canada
Sector	Pipelines & Utilities
Date	26 April 2002

Indexed Price / Canada TSE Composite 300

On 04/25/02 the Canada TSE Composite 300 index closed at 7,686.29.

Year	12/01A	12/02E	12/03E
EPS (CSFB adj., C$)	2.21	2.40	2.65
Prev. EPS (C$)	—	—	—
P/E (x)	17.3	16.0	14.5
P/E rel. (%)	—	—	—
Q1 EPS	1.59	1.70	—
Q2	-0.08	-0.04	—
Q3	-0.58	-0.52	—
Q4	1.28	1.33	—

Number of shares (m)	43.6	Dividend (2000A)	1.23
BV/Share (03/02A, C$)	23.00	Dividend (2001A)	1.30
Total Debt (12/01A, C$m)	2,727.0	Dividend (2002E)	1.41
Total Debt/Total cap. (12/01A)	71.0%	Dividend yield	3.7%

Year	12/01A	12/02E	12/03E
EBITDA (C$m)	390.3	462.4	529.4
OCFPS (C$)	5.10	5.46	6.49
P/OCF (x)	7.5	7.0	5.9
EV/EBITDA (x)	11.6	9.8	8.5
ROE	11.8%	11.1%	11.2%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

EARNINGS

CREDIT SUISSE FIRST BOSTON
Equity Research

BC Gas Inc.

BCG.TO

Good 2001 Results In Line With Expectations

- **BC Gas reported Q4'01 eps of $1.28 vs. our estimate of $1.27 and a consensus of $1.26. For the full year 2001, the company reported normalized eps of $2.21 vs $2.06 in 2000.**
- **The BC Gas Utility contributed $1.18 per share in Q4'01 vs. $0.90 last year. Much of the improvement in the quarter is derived from increased seasonality, but the company also achieved solid growth on a full year basis. For the full year, the utility earned $1.77 per share vs. $1.53 in 2000.**
- **Growth in utility earnings for 2001 was driven primarily by inclusion of the $396 million Southern Crossing Pipeline in rate base. In 2002, the acquisition of Centra Gas BC should support further earnings growth in a challenging regulatory environment (the BCUC allowed ROE is only 9.13%).**
- **The Trans Mountain Pipeline contributed $0.22 per share in Q4'01 vs. $0.17 in Q4'00. Petroleum transportation continues to be a significant growth engine for the company. The $688 million Corridor Oil Pipeline is on track to be placed in operation by the last half of this year, and to contribute significantly to earnings in 2003.**
- **Other activities, primarily non-regulated utility services and corporate financing costs, contributed ($0.12) per share in Q4'01 vs. ($0.08) in Q4'00. A slowing economy was responsible for the change in services earnings.**
- **For 2002, we are maintaining our $2.40 eps estimate. Most of the growth over 2001 should come from the addition of Centra Gas BC, but our model also assumes a modest increase in oil throughput on Trans Mountain, and a smaller loss in the services business.**
- **We are also maintaining our $38 target price, which is premised on a 14.3 multiple of our $2.65 2003 eps estimate. It also implies a continued 3.8% dividend yield, as we assume the company will increase its quarterly dividend to $0.36 at the end of Q1'02.**

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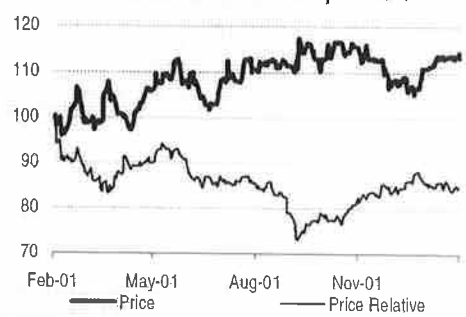
Please see our full-length initiating coverage report on BC Gas dated Oct. 29/2001

Recommendation	HOLD
Price (14 Feb 02)	34.83 (C$)
Target price (12 months)	38.00
52 week high - low	36.40 - 29.75
Market cap. (C$m)	1,337
Enterprise value (C$m)	4,098
Region / Country	Americas / Canada
Sector	Pipelines & Utilities
Date	15 February 2002

Indexed Price / Canada TSE Composite 300



On 02/13/02 the Canada TSE Composite 300 index closed at 7561.38.

Year	12/00A	12/01A	12/02E
EPS (CSFB adj., C$)	2.06	2.21	2.40
Prev. EPS (C$)			
P/E (x)	17.0	16.0	14.6
P/E rel.	—	—	—
Q1 EPS	1.39	1.59	1.63
Q2	0.02	-0.08	-0.04
Q3	-0.34	-0.58	-0.52
Q4	0.99	1.28	1.33

Number of shares (m)	38.3	Dividend (2000A)	1.23
BV/Share (12/01A, C$)	18.67	Dividend (2001A)	1.30
Net Debt (12/01A, C$m)	2,457	Dividend (2002E)	1.38
Net debt/Total cap. (12/01A)	74%	Dividend yield	3.8%

Year	12/00A	12/01A	12/02E
EBITDA (C$m)	342.8	390.0	462.4
OCFPS (C$)	4.61	5.13	5.36
P/OCF (x)	7.6	7.1	6.6
EV/EBITDA	11.9	10.49	8.86
ROE	11.2%	11.8%	11.3%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

Exhibit 1: BC Gas Segmented Earnings Contribution

	Q4/01	Q4/00	FY2001	FY2000
BC Gas Utility	$45.1	$34.7	$67.8	$58.7
Petroleum Transportation	$8.5	$6.3	$27.3	$21.3
Other Activities	($4.6)	($3.0)	($10.5)	($1.2)
Operating Earnings for Common	**$49.0**	**$38.0**	**$84.6**	**$78.8**
Unusual Items	-	$13.7	-	$30.0
Reported Earnings for Common	$49.0	$51.7	$84.6	$108.8
Average Shares Outstanding (mln)	38.3	38.3	38.3	38.3
Operating EPS	**$1.28**	**$0.99**	**$2.21**	**$2.06**
Reported EPS	$1.28	$1.35	$2.21	$2.84

Notes

1. Unusual items for FY00 include: $29M gain from income tax benefits associated with Williams Lake Power Plant; gain of $8.5M from income tax rate reductions; $7.5M restructuring charge at Trans Mountain Pipe Line

Source: Company data, CSFB estimates.

CREDIT SUISSE | FIRST BOSTON
Equity Research

INITIATION

BC Gas Inc.

BCG.TO

High Quality Utility But Valuation May Not Sustain - Initiating With A Hold And $38 Target Price

Recommendation	HOLD
Price (26 Oct 01)	36.10 (C$)
Target price (12 months)	38.00 (C$)
52 week high - low	36.88 - 27.25
Market cap. (C$m)	1 382.63
Enterprise value (C$m)	3,809
Region / Country	Americas / Canada
Sector	Pipelines & Utilities
Date	29 October 2001

- **Despite the attributes of BC Gas as a low risk and high quality utility, we would not recommend adding to positions at this time, primarily due to valuation concerns.**

- **BC Gas is achieving premium utility growth by adding high-return pipeline assets to its core gas distribution utility business. We forecast that oil pipelining will comprise about 32% of the company's total business, when the new Corridor Pipeline comes into service in 2003.**

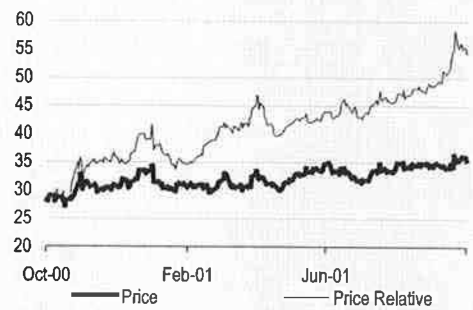
- **The core gas distribution utility (BC Gas Utility) has one of the lowest risk profiles in the country, with rate adjustments for commodity prices and weather impacts. The gas utility operations are also a solid platform for gas pipeline expansion in Western Canada, that started with the recently-completed Southern Crossing Pipeline.**

- **Our view is that valuation on BC Gas stock already fully reflects these positive attributes. Moreover, we believe valuation multiples (15.1x '02) are premised on near-term 8% -10% eps growth rates that are unlikely to be sustained by the embedded returns on company assets.**

- **The Centra B.C. acquisition, while logical and likely accretive near-term, increases the weight of relatively low-return utility assets in the company's portfolio.**

- **Our 2001 – 2003 eps estimates of $2.20, $2.40, and $2.65 imply compound eps growth of about 10%, near-term, though we would anticipate long-run eps growth of about 6%. We are initiating coverage of BC Gas with a Hold rating, and a $38 one-year target price.**

Price / Price Relative



On 10/02/01 the Canada TSE Composite 300 index closed at 6839.58.

Year	12/00A	12/01E	12/02E
EPS (CSFB adj., C$)	2.06	2.20	2.40
Prev. EPS (C$)			
P/E (x)	17.5	16.4	15.0
P/E rel.	—	—	—
Q1 EPS	1.39	1.59	1.63
Q2	0.02	(0.08)	(0.04)
Q3	(0.34)	(0.50)	(0.43)
Q4	0.99	1.19	1.20

Number of shares (m)	38.3	Dividend (2000A)	1.23
BV/share (12/01E, C$)	19.92	Dividend (2001E)	1.30
Total debt (12/01E, C$m)	2,507	Dividend 2002E	1.38
Total debt/Total cap. (12/01E)	72.7%	Dividend yield	3.7%

Year	12/00A	12/01E	12/02E
EBITDA (C$m)	342.8	372.1	462.4
OCFPS (C$)	4.61	4.98	5.36
P/OCF (x)	7.8	7.2	6.7
EV/EBITDA (x)	11.8	10.3	8.3
ROE	11.2%	11.2%	11.3%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

BC Gas is a gas distribution utility with a growing pipeline business. It owns BC Gas Utility, the largest gas distribution company serving British Columbia, including Vancouver and the interior. It also owns Trans Mountain Pipe Line, the only pipeline transporting oil from Western Canada directly to the Canadian West Coast, and Southern Crossing Pipeline, transporting natural gas along the U.S. border of British Columbia.

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Investment Summary

We are initiating coverage of BC Gas with a Hold rating and a $38 one-year target price. Our 2002 and 2003 eps estimates for BC Gas are $2.40 and $2.65, implying near-term eps growth of almost 10%. BC Gas offers one of the few opportunities for investors to participate in the low-risk but high-growth oil pipelining business. The company's core gas distribution utility business provides stable cash flow and opportunities for further expansion into the gas pipeline business in Western Canada.

Despite these positive attributes, we would not recommend adding to positions at this time due to valuation. BC Gas has the lowest dividend yield of the Canadian utility group. In addition, we believe current p/e multiples (15.1x '02 eps) are premised on near-term 8% -10% eps growth rates that are unlikely to be sustained by embedded returns on company assets. Factoring in the addition of new pipeline assets and the recently-announced Centra Gas B.C. acquisition, we anticipate sustainable eps growth of about 6%

The addition of pipelines is driving our forecast near-term eps growth. The Corridor oil pipeline, which we anticipate will begin to flow oil next year and contribute to earnings in 2003, is the primary reason for our forecast increase in 2003 eps over 2002. The addition of Corridor is only one of several moves BC Gas has made to increase its emphasis on pipelining. BC Gas has long owned the Trans Mountain oil pipeline, running from Edmonton to Vancouver and into Washington State. New pipeline projects include:

- Southern Crossing Pipeline, a $396 million natural gas pipeline brought into service in November, 2000, transporting Alberta gas along the B.C. - Washington border into the B.C. interior.
- Corridor Pipeline Project, a $688 million oil pipeline, which should begin to flow up to 200,000 barrels per day of diluted bitumen from the Muskeg River Mine in Northern Alberta to Edmonton by mid 2002.
- Inland Pacific Connector, a proposed $495 million natural gas pipeline, which would flow up to 350 MMcf/day, linking the existing Southern Crossing Pipeline with the Huntingdon marketing hub by 2003/2004.

We are optimistic about the oil pipelining business in particular, which has been the key driver of high earnings growth at low risk for Enbridge. The Corridor Pipeline will give BC Gas a link with the Canadian oilsands, where the NEB forecasts development will expand from 800,000 barrels per day to over 2 million barrels per day by 2010. An increased reliance on domestic (North American) oil resources arising from new U.S. energy policies will only enhance the attractiveness of the company's oil sands exposure.

BC Gas has achieved attractive risk-adjusted returns on its 770,000-customer gas distribution utility since it entered into performance-based regulation in 1997. Despite carrying virtually no exposure to natural gas commodity price fluctuations or weather, we estimate the utility has earned between 50 - 150 basis points over the regulator's allowed return on equity in recent years.

We are optimistic that the utility can continue to earn more than the allowed ROE under a new performance-based regulatory framework presently under negotiation with stakeholders. The existing framework, expiring at year-end, provides targeted incentives and primarily focuses on the reduction of operating and maintenance costs. We anticipate that a new framework will broaden incentives, perhaps including shareholder rewards for increasing volume throughput and achieving capital efficiency.

We also anticipate that the acquisition of Centra Gas B.C. (a 70,000-customer gas distribution utility) from Westcoast Energy will be additive to annual eps on the order of $0.05 - $0.10 when the deal closes early next year. On October 22, BC Gas announced it would pay $208 million for the equity in Centra Gas B.C. It will also pay $84 million for the preferred equity and assume $298 million in debt. Centra Gas will fit well within the BC Gas asset base with synergies available through joint operations over time.

BC Gas is using its gas utility as a platform for a multi-utility services business, especially in municipal water utility services. While we see little potential for significant profit in this business, it can enhance returns on the gas utility by reducing operating costs. The utility services business, including a new joint venture with Enbridge called Customer Works, creates operational scale and scope that drives cost reduction in an incentive regulation framework, both at the BC Gas Utility and next year at Centra B.C.

Longer-term, we could see BC Gas merging or joint venturing with a larger participant in the consolidating North American pipelines and utilities industry. The joint venture with Enbridge on Customer Works, and a joint gas pipeline operating contract in Oman, could be the first steps in a broader relationship. Operating synergies may also be available with Duke Energy, assuming Duke completes its proposed acquisition of Westcoast scheduled for early next year.

We would see a decreased likelihood of interest in BC Gas among the U.S. natural gas and power companies if the company continues to focus primarily on gas distribution. Assets such as gas processing, pipelines, storage and power generation are more strategic than distribution, and tend to support better revenue growth opportunities.

BC Gas has traded at a premium multiple to the Canadian gas and electric utility group, and even at a premium to the Canadian pipeline group in recent months. A premium to the utility group is justified, in our view, based on the superior returns and growth potential associated with pipeline assets, combined with the low risk nature of the gas distribution business.

We are concerned that the size of the premium to the utilities including TransAlta (more than one full multiple point) and TransCanada PipeLines (2 full multiple points) is unsustainable based on relative growth and risk. Long-term eps growth for BC Gas is about 6%, and the Centra B.C. acquisition, while logical and likely accretive near-term, increases the weight of relatively low-return utility assets in the company's portfolio (see pp. 10-11 for more full analysis). Risks for BC Gas are low but not absent. The TransMountain Pipeline carries volume throughput risk that, though limited, shows a worst-case sensitivity of $0.25 per share to our 2003 forecast.

Our $38 target price for BC Gas is premised on a 14.3 multiple of 2003 forecast eps, and a constant dividend yield of about 3.7%. This multiple is lower than the current forward trading multiple on BC Gas of 15.1x and is consistent with the average multiple of forward eps for the Canadian pipeline group.

Oil Pipelining Has Become The Company's Growth Engine

BC Gas is evolving from a traditional distribution utility to a pipeline and utility company. The oil pipeline business has long been a steady, but relatively small, component of the BC Gas earnings composition. A new incentive tolling framework on the existing Trans Mountain Pipeline, and the construction of the Corridor Pipeline Project, are turning oil pipelining into the company's primary growth engine. We estimate the oil pipeline business will comprise about 32% of total net income for BC Gas Ltd. by 2003.

The Trans Mountain Pipe Line Company, a wholly owned subsidiary of BC Gas Ltd., is a longstanding asset in the BC Gas portfolio. Its primary operations include a 248,000 barrel per day pipeline running from Edmonton to the Greater Vancouver Area, and a 150,000 barrel/day extension running from Vancouver to refiners in Northwest Washington State (for diagram, see Exhibit 12: BC Gas Inc. Pipeline Map).

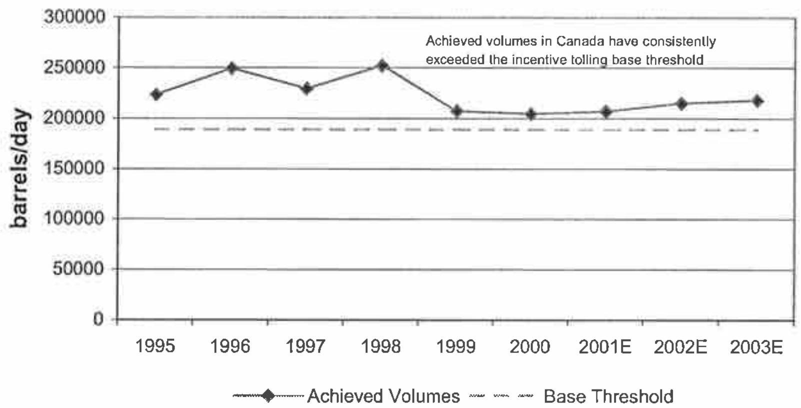
For the first time, the tolling framework on Trans Mountain gives BC Gas upside (and limited downside risk) to the growing oil production volumes in the Western Canadian Sedimentary Basin. From 1996 until this year, the Canadian portion of the pipeline (regulated by the National Energy Board) operated under an incentive tolling framework negotiated with shippers that included no volume throughput sensitivity. BC Gas boosted its returns under the previous framework by cutting costs.

Under the new tolling framework, negotiated last year and in place through 2005, the company will still benefit by reducing costs, but will also benefit by increasing volumes. Base tolls on the Canadian portion of the pipeline are established from a throughput level of about 189,000 barrels/day. The company takes on the full risks and benefits associated with throughput levels within a band up to about 201,600 barrels/day, and down to about 179,700 barrels/day. Revenues from volumes above the band are shared 50/50 with shippers, and revenue shortfalls below the band are recovered fully from shippers.

The toll charged for transmission on the U.S. portion of Trans Mountain is regulated by the Federal Energy Regulatory Commission on a complaint basis. As no complaints have been received, the toll has been constant for several years. Revenues generated from volume throughput improvements on the U.S. portion, therefore, also improve profitability for BC Gas.

For many years, oil volume flow on the Canadian portion of the Trans Mountain Pipeline has consistently exceeded the 189,000 barrel/day threshold upon which base tolls are established (Exhibit 1: Volume Flows On Canadian Portion of TransMountain Pipe Line). This year so far, volume flows have continued to exceed the threshold, averaging about 202,800 barrels per day, but reaching almost 212,000 barrels per day in the second quarter.

Exhibit 1: **Volume Flows On Canadian Portion of TransMountain Pipe Line**

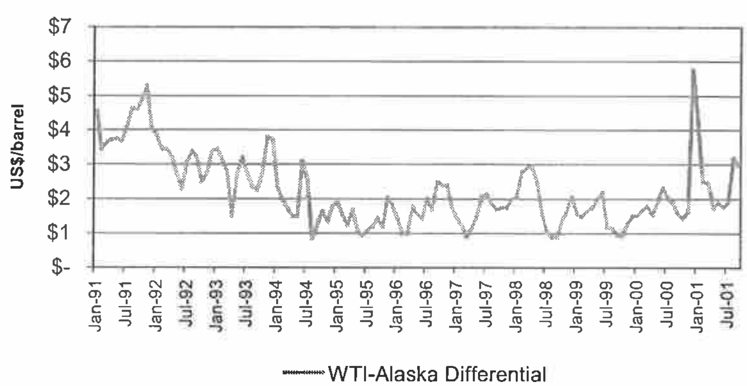


Source: Company data, CSFB estimates.

We are projecting steady but modest increases in volume growth on Trans Mountain over the next few years, as oil production out of the Western Canadian Sedimentary Basin rises. However, we note that the extremely high volumes achieved in 1996 and 1998 are unlikely to recur in the near-term. They arose primarily due to transmission constraints on the Enbridge transmission system out of Edmonton into the U.S. Midwest that do not exist today, and that are unlikely to recur in the near future. Enbridge is currently adding 40,000 barrels per day of capacity in Canada under Phase II of its Terrace expansion project, and plans to follow that up with another 140,000 barrel per day expansion in the U.S. under Terrace Phase III.

Going forward, volumes on Trans Mountain will be determined primarily by the relative price of Alaskan and Albertan crude oil. Refiners in Washington State can take crude from Alaskan tankers or from the Trans Mountain Pipeline. There are no other significant pipelines flowing into the region. When the price of Alberta crude (or WTI which is a good proxy) is low relative to the price of Alaska North Slope, volumes on Trans Mountain tend to rise.

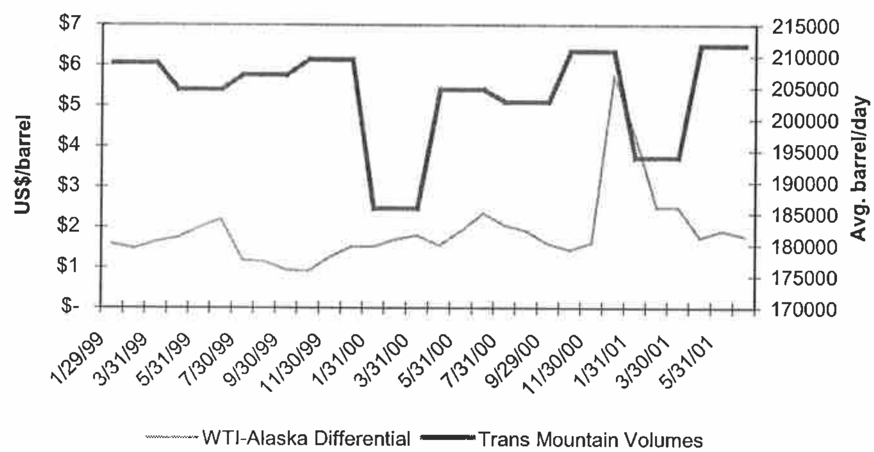
Exhibit 2: **Price Differential Between WTI And Alaskan Crude**



Source: Bloomberg Financial.

The sensitivity of Trans Mountain volumes to relative oil prices has been clear in recent quarters. During the first quarter of this year, when the spread was high, volumes on Trans Mountain averaged only about 194,000 barrels per day. In the second quarter, when the spread tightened, volumes rose sharply (with a slight lag) to almost 212,000 barrels per day (Exhibit 3: Trans Mountain Volumes And WTI-Alaska Crude Price Differentials).

Exhibit 3: Trans Mountain Volumes And WTI-Alaska Crude Price Differentials



Source: Company data, CSFB estimates.

We are forecasting steady earnings growth from Trans Mountain, based on the volume incentive and pre-existing cost incentives. Last year, the company moved its head office to Calgary, taking a $7.5 million after-tax one-time charge, but reducing operating expenses significantly. We are forecasting a $2 million reduction in operating expenses this year, despite significantly improved volume flow. The major reductions in Alberta electricity prices in recent months should help keep costs down.

Our forecasts show an increase in earnings from Trans Mountain from $21.3 million last year to almost $27 million this year (almost $0.15 per share). Going forward, we see slower but steady growth, with the earnings contribution rising to almost $32 million by 2003.

Our modeling shows the level of downside risk on Trans Mountain volumes is significant, but limited. If volumes were to drop all the way to the low end of the band or below, we estimate a maximum earnings impact relative to our forecast of about $10 million, or about $0.25 per share in 2002. The maximum downside is much smaller, at about $3.5 million or $0.07 per share, when measured relative to the 189,000 barrel-per-day baseline

The Corridor Pipeline Project is the other major driver of oil pipeline earnings growth in our forecast. Currently under construction, Corridor will transmit up to 215,000 barrels per day of diluted bitumen from Shell's Muskeg River Mine near Fort McMurray, Alberta, to a heavy oil upgrader that Shell is constructing near Edmonton. Shell, Chevron and

Western Oil Sands have made long-term commitments to transport the 215,000 barrels per day of diluted bitumen.

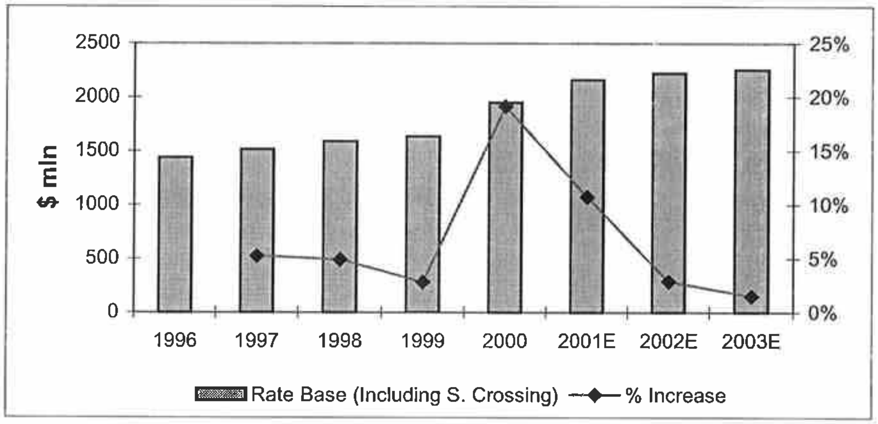
Initial start-up of the system is scheduled for mid-2002, but we do not anticipate BC Gas will record any earnings associated with the project until 2003. The company has not disclosed its return on investment, which will be derived from tolls negotiated with the producers. In our forecasts, we have conservatively assumed only a 9.5% return on a 30% equity portion of the $688 million pipeline, implying a $14 - $15 million earnings contribution in 2003.

BC Gas Utility Growing Rate Base; Developing New Incentive Regulation

Earnings of the BC Gas Utility are increasing due to a rapidly expanding rate base and an incentive regulation framework. Rate base was significantly expanded last year with the addition of the Southern Crossing Pipeline. A new incentive regulation framework should be in place for next year.

Southern Crossing is a part of the BC Gas distribution utility, and will be added to the utility rate base. It generates earnings in the same way as many of the transmission lines that make up the Union Gas and Consumers Gas utility systems – revenues are recovered from distribution utility customers in rates. As a result, Southern Crossing is boosting rate base and earnings growth for BC Gas Utility.

Exhibit 4: **BC Gas Utility Rate Base Size And Annual Percentage Increase**



Source: Company data, CSFB estimates.

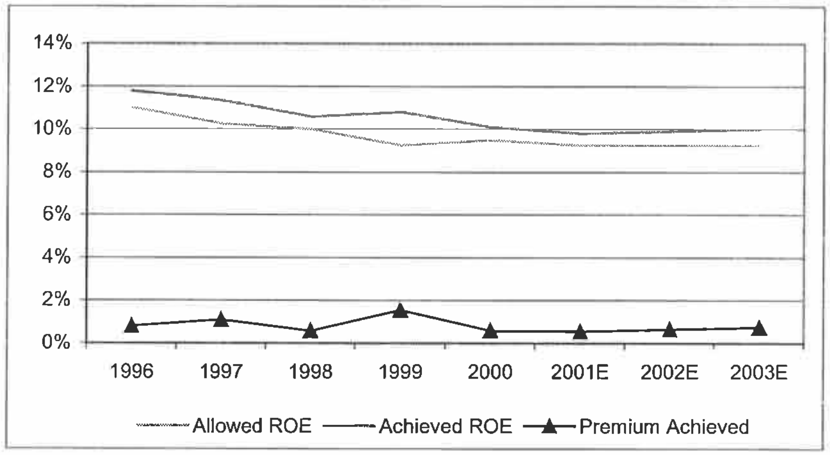
BC Gas will effectively earn the same return on its investment in Southern Crossing as it does on the other distribution utility assets. This return is notionally set by the BC Utilities Commission (BCUC), but can be exceeded under the terms of a performance-based regulatory framework, in place since 1997.

The BCUC establishes its allowed return on equity using a formula approach similar to the National Energy Board. Under the formula, the ROE will be 9.5% at a forecast long-Canada bond yield of 6.0%. If the forecast is higher than 6.0%, the ROE will increase by 80% of the difference between 6.0% and the forecast. If the forecast is lower than 6.0%, the ROE will decrease by 100% of the forecast difference (all rounded to the nearest 25 basis points).

Though the allowed ROE for this year is only 9.25%, the regulatory framework provides incentives to earn in excess of this amount. Operating and maintenance (O&M) costs in rates fall by 1% this year (inflation-adjusted), but actual O&M costs are likely lower. Half of the difference between O&M in rates and actual O&M flows to the BC Gas bottom line. The other half is redistributed to customers.

BC Gas has performed well under the incentive framework, typically achieving a return on equity ranging from 60 – 160 basis points above the allowed ROE every year.

Exhibit 5: **BC Gas Utility Allowed vs. Achieved Returns On Equity**



Source: Company data, CSFB estimates.

BC Gas is negotiating a new regulatory framework with its stakeholders for 2002. We anticipate this framework will contain broader incentives for cost savings and possibly for volume throughput improvements. We would likely view the implementation of a new incentive framework as a positive development, pending further information on its specific design. Having operated under a incentive focused on operating costs for five years now, other sources of improvement must be tapped to continue outperforming the BCUC's allowed return. Our modeling assumes a 10% achieved return on equity for BC Gas Utility by 2003, allowing for some increase in forecast bond yields and for further cost saving opportunities.

Centra Gas B.C. Acquisition Makes Sense: Only Caution Is Low ROE

The recently-announced (October 22) acquisition of Centra Gas B.C. from Westcoast Energy will add scale and opportunities for synergies with the existing BC Gas Utility operations. The relatively low allowed ROE on Centra Gas relative to other utilities and to the pipeline business is our only concern about the acquisition.

BC Gas will pay $208 million for the equity in Centra Gas B.C., constituting a 30% premium to book value. It will also pay $84 million for the preferred equity ($52 million of that deferred until 2011) and assume $298 million in debt. It will finance the $310 million cash requirement with $180 million in new equity and $130 million in corporate debt.

The acquisition will add 70,000 customers, increasing the company's total customer base by about 9%. With the larger customer base, the company should be able to reduce its operating cost per customer, through joint utility operations. It may also provide customer care services to Centra B.C. through Customer Works, the BC Gas/Enbridge joint venture company.

Centra Gas B.C. owns the gas distribution system on Vancouver Island, and a pipeline transmitting gas from the mainland to the island. The utility is relatively new (construction began in 1989), as the expansion of gas infrastructure onto and around the island was uneconomic without subsidies.

Subsidies are still made by the Province, and the owner finances a revenue deficiency in order to maintain attractive rates and provide for an appropriate return on equity. The Province of British Columbia contributes over $20 million per year. Westcoast has contributed about $80 million since 1996, an amount that sits in a deferral account accruing financing charges in customer rates at 6.1%, and for ultimate disposal in rates at a later date.

Under the regulatory framework, rates are set on a 35% equity ratio and a rate of return on equity equal to 362.5 basis points above the forecast Government of Canada long-term bond yield. In addition, there is a $1.9 million reduction in the return on common equity per year. This resulted in a relatively low allowed ROE of only 8.4% in 2000. On the other hand, there is a shareholder incentive for operating and maintenance cost savings, and deferral accounts protect against any volume fluctuations due to weather and against fluctuations in the cost of natural gas.

The regulatory framework on Centra B.C. is not particularly favourable due to the low allowed return, but BC Gas can mitigate this poor return somewhat through synergies and a shareholder incentive for operating cost savings. The achieved returns on equity for Centra B.C. under Westcoast ownership have only been about 8.5% and 9.3% in the past two years. We see this achieved return rising under BC Gas ownership to 9.5% - 9.7%, after the $1.9 million mandated earnings reduction (see Exhibit 6: Estimated Earnings Contribution From Centra Gas B.C.).

BC Gas can also boost its effective return on the Centra assets through leverage. The company earns an equity return on 35% of the rate base, but has a target debt ratio of 70%. Our modeling shows that the acquisition of Centra Gas B.C. will be additive to annual eps on the order of $0.05 - $0.10 when the deal closes early next year.

Exhibit 6: Estimated Earnings Contribution From Centra Gas B.C.

For The Years Ending December 31	1999	2000	2001E	2002E	2003E
Net plant in service, Jan. 1	$385.0	$411.0	$441.0	$449.0	$457.0
Add: plant additions (net)	$38.0	$45.0	$23.0	$23.0	$25.0
Less: annual depreciation	$12.0	$15.0	$15.0	$15.0	$15.0
Net plant in service, Dec. 31	$411.0	$441.0	$449.0	$457.0	$467.0
Average plant in service	$398.0	$426.0	$445.0	$453.0	$462.0
Working capital allowance	$2.0	$3.0	$2.0	$2.0	$2.0
Deferred taxes	$0.0	$0.0	$0.0	$0.0	$0.0
Total rate base	$400.0	$429.0	$447.0	$455.0	$464.0
Rate base growth	8.80%	7.25%	4.20%	1.79%	1.98%
Deemed common equity ratio	35.0%	35.0%	35.0%	35.0%	35.0%
Deemed common equity component	$140.0	$150.2	$156.5	$159.3	$162.4
Govt. Of Canada Long Bond Yield	6.00%	6.60%	6.00%	5.80%	6.00%
Allowed return on equity (before $1.9 mln reduction)	9.63%	10.23%	9.63%	9.43%	9.63%
Achieved return on equity (after $1.9 mln reduction)	8.55%	9.29%	8.67%	9.70%	9.40%
Regulated earnings	$13.5	$15.4	$15.1	$15.0	$15.6
Pre-Determined Earnings Reduction	($1.9)	($1.9)	($1.9)	($1.9)	($1.9)
Goodwill Re. BCG Purchase From W				$24.0	$24.0
Goodwill amortization	$0.0	$0.0	$0.0	($0.8)	($0.8)
Incentive Earnings	$0.4	$0.5	$0.4	$1.0	$0.0
Preferred Share Earnings				$3.0	$3.0
Increase in PV Of Deferred Pref Share Payment				($1.8)	($1.8)
Synergies With BCG				$1.0	$1.2
Operating Earnings	**$12.0**	**$14.0**	**$13.6**	**$15.4**	**$15.3**

Source: Company data, CSFB estimates.

Levering Gas Distribution Into New Gas Pipelines & Utility Services

BC Gas is levering its distribution assets into the gas pipeline and utility services businesses. The Southern Crossing Pipeline was the company's first foray into the gas pipeline business. The $396 million project is designed to enhance gas supply from Alberta into the British Columbia interior. Bringing the pipeline into service improved earnings for the distribution utility and enhanced opportunities for further gas pipeline development.

The company has announced plans to construct an extension of the Southern Crossing Pipeline, called Inland Pacific Connector (IPC), by 2004. The 350 MMcf/day Inland Pacific Connector would run from the Western end of Southern Crossing at Oliver directly into Huntingdon, completing the link from the TransCanada PipeLines BC System near the Alberta border, to the major Canada/U.S. trading hub at Sumas (for diagram, see Exhibit 12: BC Gas Inc. Pipeline Map).

BC Gas must cross at least two hurdles before it can proceed with the IPC Pipeline, namely identifying sufficient capacity demand and obtaining environmental approvals. BC Gas held an open season earlier in the year for the proposed IPC Pipeline with limited success. The available capacity was partially subscribed, but not sufficiently subscribed to proceed with construction at this time. Nevertheless, interest should increase as natural gas demand grows in B.C. and the Pacific Northwest. On this basis, BC Gas is still developing the pipeline, and negotiating with the interested shippers.

The future development of new gas pipelines on Canada's west coast will hinge in part on tolling framework reviews for Westcoast Energy. The National Energy Board recently concluded its hearing on a request by BC Gas for a review and variance of an earlier decision on Westcost's tolls on the southern portion of its mainline from Kingsvale to Huntingdon (Sumas). BC Gas is requesting a point-to-point toll of $0.05/mcf instead of the current $0.26 T-South toll. Tangled up in this discussion is the issue of whether Westcoast should expand its system, over and above its announced 200 MMcf/day Southern Mainline expansion, by 105 MMcf/day from Kingsvale to Sumas to accommodate BC Gas.

BC Gas is attempting to secure a new tolling framework that is conducive to utilization and expansion of its Southern Crossing Pipeline. Success in achieving the new point-to-point toll, and a special expansion from Kingsvale, would likely result in an expansion of BC Gas transmission capacity from the end of Southern Crossing at Oliver to Kingsvale, instead of the currently-proposed IPC project directly to Huntingdon. This expansion would travel along existing BC Gas right-of-way and avoid many of the environmental sensitivities that could be involved in building the currently-proposed IPC to Huntingdon.

We view BC Gas' involvement in the development of new gas pipelines as a positive direction for the company. Gas pipelines tend to attract a higher return than gas distribution utilities. Prospects for pipeline growth around and across the Canada/U.S. border are promising, given our forecast of gas exports over the next five years (Exhibit 12).

While we are optimistic about the company's plans to lever gas distribution into gas pipelines, we are less enthusiastic about using the utility to expand a services business. BC Gas has two primary non-regulated utility services businesses, one providing wholesale utility supplies, the other providing utility operations and customer services, primarily for municipalities.

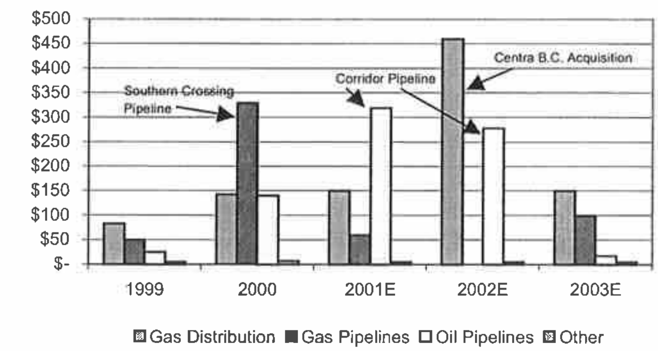
The supplies business levers the company's scale in utility equipment purchasing, primarily related to meters, pipes and valves. The company sells these supplies primarily to municipal water utilities across British Columbia. The services business is involved in energy services such as energy distribution in small towns, and customer service for municipal water utilities such as meter reading, call center and billing.

The non-regulated supplies and services businesses typically run on an approximately break-even or small profit basis. One of the reasons they are maintained is to build expertise and relationships with local municipalities in the event the municipal water infrastructure is privatized. With revenues of almost $88 million last year and operating costs of $82.6 million, the company's non-regulated businesses now comprise almost 7% of total company revenues. Although the size of losses from the business has never accelerated, we note the relative risk to company earnings has increased with the revenue base.

Financing Pipeline Investments And Dividend Growth

BC Gas faces the challenge of financing large pipeline projects and an acquisition while maintaining a strong balance sheet and dividend growth. We estimate total capex requirements for the years 2000 – 2002 are about $1.8 billion. The bulk of the capital expenditures are on the Southern Crossing Pipeline, Corridor Pipeline and Centra Gas.

Exhibit 7: **Composition of Capital Expenditures**

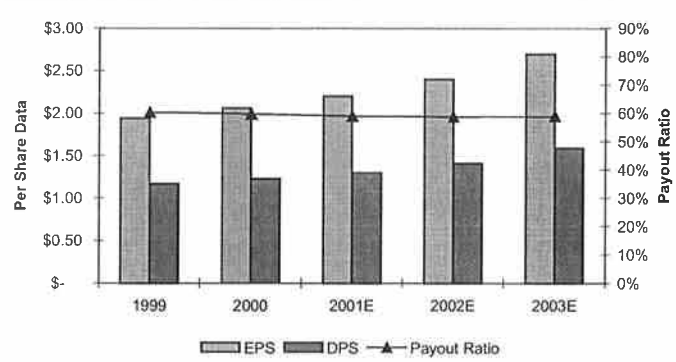


Source: Company data, CSFB estimates.

Most of the capex requirements can be financed through retained earnings and debt. The company is financing the Corridor Pipeline with a commercial paper program that is categorized as long-term debt on its balance sheet. Once placed into service next year, we anticipate the company will issue about $180 million in preferred shares to maintain no more than a 70% debt-to-total-capital ratio. Our modeling also includes the recently-announced $188 common share issue (subscription receipts) to finance the Centra Gas acquisition (see Exhibit 14: BC Gas Ltd. Consolidated Cash Flows).

On this basis, our modeling shows the company can maintain a 70% debt ratio and about a 60% payout ratio over the forecast period (2001 – 2003). We anticipate the company's consistent ability to grow earnings and dividends each year will continue.

Exhibit 8: **Forecast Earnings Per Share, Dividends Per Share, And Payout Ratio**



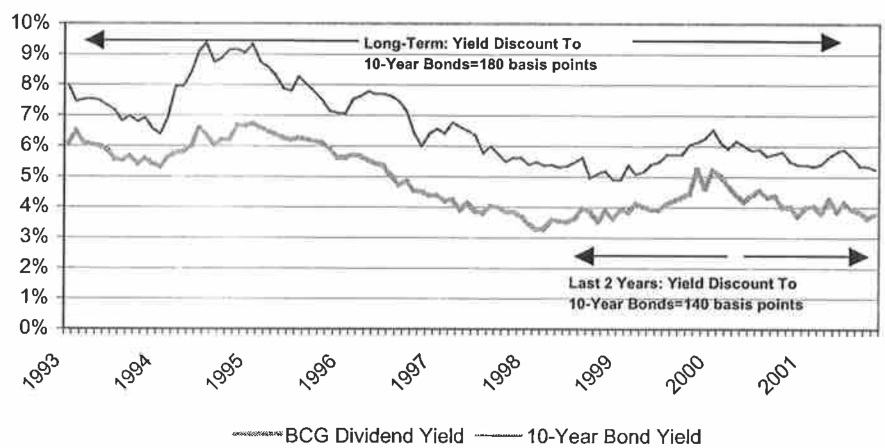
Source: CSFB estimates.

Valuation Reflects Quality, Consistency, & Interest Sensitivity

BC Gas typically trades at a premium earnings multiple to the utility group. Its dividend yield is also highly correlated with 10-Year Canada Bond yields. In an environment of low bond yields, share price appreciation should continue gradually with our forecast EPS and dividend growth for the next two years of 8% - 9%.

The dividend yield of BC Gas relative to 10-Year Canada bond yields is a reliable way to value the stock, due to the company's remarkably consistent performance and low risk nature. As with all of the utility stocks, the basis point premium of bond yields over the company's dividend yield shrinks as bond yields fall. In the case of BC Gas, we estimate the medium-term (eight-year) average yield premium has been about 180 basis points, but the near-term (two-year) average premium of 10-Year Canada Bond yields over the BC Gas dividend yield is only about 140 basis points.

Exhibit 9: BC Gas Dividend Yield And 10-Year Canada Bond Yields



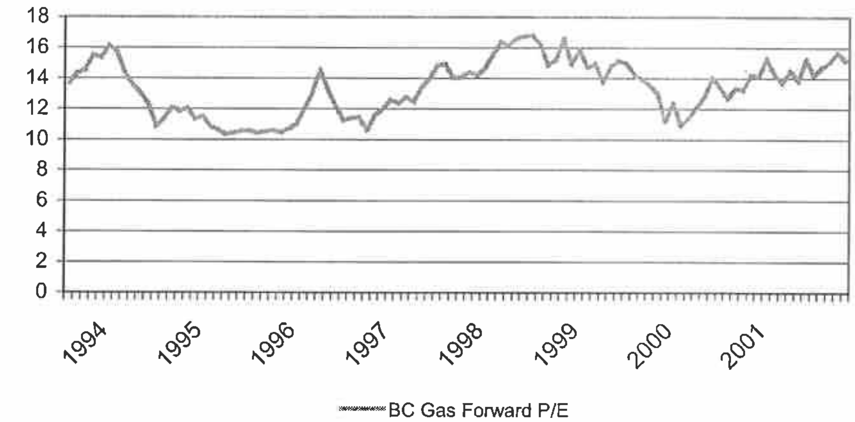
Source: CSFB estimates.

Our $38 target price for the stock is based on continued low bond yields of about 5.2% for 10-Year Canada Bonds. This bond yield implies a dividend yield of just over 3.7% based on the current spread between bond yields and the dividend yield, and is consistent with our dividend per share forecast of $0.36 per quarter by mid-2002.

Our target price is premised on a 14.3 multiple of 2003 forecast EPS of $2.65. This multiple is lower than the current forward multiple on the stock (about 15.1 times). Our view is that the current multiple is somewhat inflated, and anticipates at least some of the eps increase we are forecasting in 2003 arising from introduction of the Corridor Pipeline and from the Centra Gas acquisition.

Our forward eps multiple is consistent with recent-historical multiples on BC Gas observed during periods of low bond yields. The P/E has ranged up to about 16 times forward eps in late 1998 – early 1999 when bond yields were comparable to today's levels (Exhibit 10), but has not sustained those levels over significant periods of time.

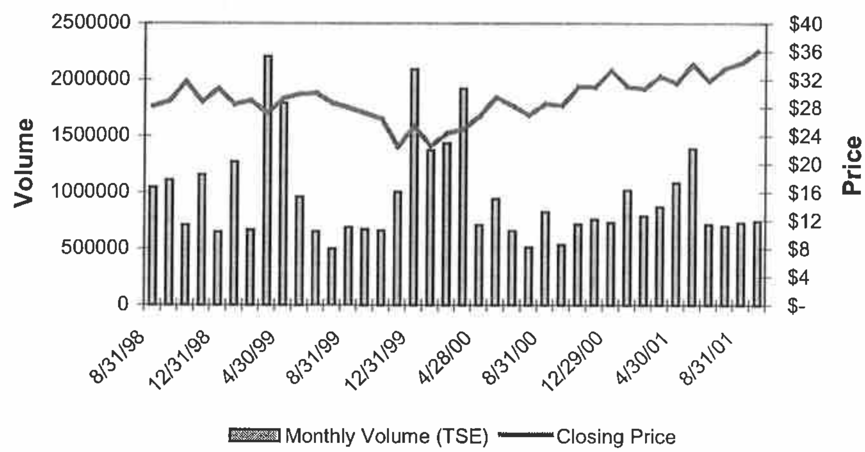
Exhibit 10: BC Gas Forward P/E Multiple



Source: CSFB estimates.

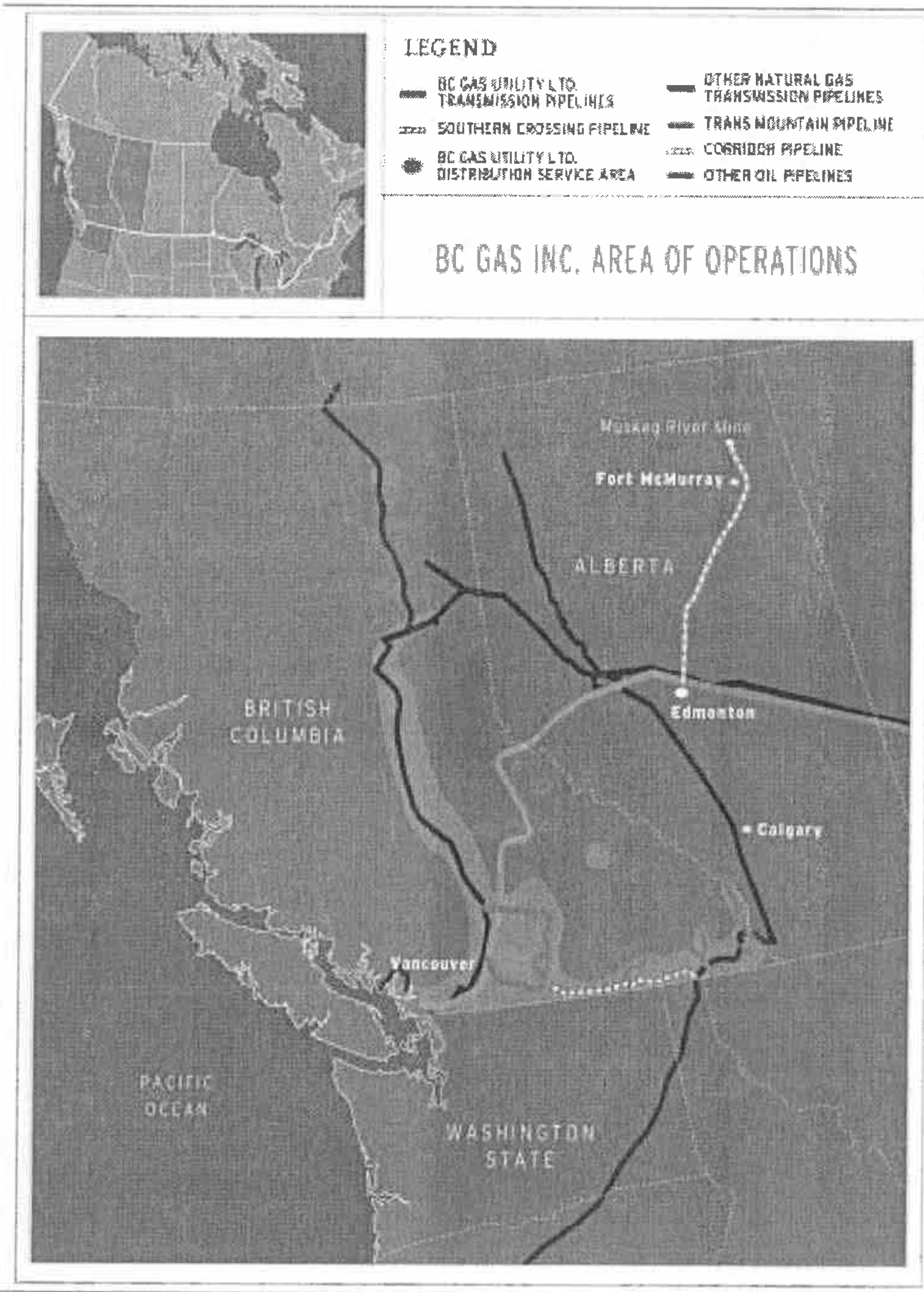
Our $38 target price implies a one-year total return of about 9%. Our Hold rating on the stock factors other considerations, including the relatively low risk nature of the company's earnings, and the potential for BC Gas to participate in Canadian pipeline and utility sector consolidation.

Exhibit 11: BC Gas Monthly Trading Volume And Share Price (TSE)



Source: Bloomberg Financial.

Exhibit 12: BC Gas Inc. Pipeline Map



Source: BC Gas Inc.

Exhibit 13: BC Gas Inc. Segmented Earnings Contribution

Years Ending December 31	1999	2000	Q1/01	Q2/01	Q3/01	Q4/01	2001E	2002E	2003E
BC Gas Utility	$51.7	$58.7	$59.8	($9.2)	($25.5)	$38.8	$63.9	$66.7	$67.8
Centra Gas B.C.								$15.4	$15.3
Petroleum Transportation	$19.5	$21.3	$5.8	$6.6	$7.1	$7.4	$26.9	$30.2	$31.7
Corridor Pipeline									$14.7
Other Activities	$3.0	$2.7	($3.1)	$0.9	$0.5	$0.7	($1.0)	($2.5)	($4.0)
Capital Securities Distributions (net of tax)		($3.9)	($1.5)	($1.4)	($1.4)	($1.4)	($5.7)	($5.6)	($10.4)
Operating earnings for common	**$74.2**	**$78.8**	**$61.0**	**($3.1)**	**($19.3)**	**$45.5**	**$84.2**	**$104.2**	**$115.1**
Unusual items	$7.0	$29.0				$0.0	$0.0	$0.0	$0.0
Reported earnings for common	$81.2	$107.8	$61.0	($3.1)	($19.3)	$45.5	$84.2	$104.2	$115.1
Average shares outstanding (mln)	38.3	38.3	38.3	38.3	38.3	38.3	38.3	43.4	43.4
Operating earnings per share	**$1.94**	**$2.06**	**$1.59**	**($0.08)**	**($0.50)**	**$1.19**	**$2.20**	**$2.40**	**$2.65**
Reported earnings per share	$2.12	$2.82	$1.59	($0.08)	($0.50)	$1.19	$2.20	$2.40	$2.65
Dividends per share	$1.17	$1.23					$1.30	$1.41	$1.59
EBITDA	$339.0	$342.8					$372.1	$462.4	$531.4
EBITDA per share	$8.86	$8.95					$9.72	$10.64	$12.24
EBIT	$255.9	$256.6					$275.0	$334.9	$373.5
EBIT per share	$6.69	$6.70					$7.19	$7.71	$8.60
Cash flow from operations	$174.4	$176.4					$190.8	$232.2	$273.5
Cash flow per share	$4.56	$4.61					$4.98	$5.35	$6.30
Book value per share (year end)	$17.70	$19.21					$19.92	$22.73	$23.54
Return on Book Value	11.7%	11.2%					11.2%	11.3%	11.5%
Shares outstanding at year-end (mln)	38.3	38.3					38.2	43.4	43.4

Source: CSFB estimates.

Exhibit 14: BC Gas Ltd. Consolidated Cash Flows

For The Years Ending December 31	1999	2000	2001E	2002E	2003E
Operating Activities					
Net earnings	$81.2	$112.7	$84.2	$104.4	$115.1
Depreciation and amortization	$83.1	$86.2	$97.1	$127.5	$157.9
Future income taxes	$9.9	($18.1)	$9.0	$0.0	$0.0
Other	$0.2	($4.4)	$0.5	$0.5	$0.5
Total Cash From Operations	$174.4	$176.4	$190.8	$232.4	$273.5
Decrease (increase) in stabilization accounts	$0.0	($105.1)	$0.0	$0.0	$0.0
Changes in non-cash working capital	($50.3)	$108.0	($100.0)	$0.0	$0.0
	$124.1	$179.3	$90.8	$232.4	$273.5
Investing Activities					
Property , plant and equipment	($163.6)	($620.6)	($533.7)	($743.4)	($198.0)
Other assets	($4.3)	($27.8)	($10.0)	($5.0)	($5.0)
Proceeds from sale of NW Energy	$25.6				
	($142.3)	($648.4)	($543.7)	($748.4)	($203.0)
Financing Activities					
Increase (decrease) in short-term notes	($22.0)	($65.0)	$420.0	($340.0)	($50.0)
Increase in long-term debt	$231.7	$558.6	$156.7	$848.1	$225.5
Reduction of long-term debt	($135.2)	($3.2)	($71.2)	($219.9)	($100.0)
Reduction of non-controlling interest	$0.0	($75.0)	$0.0	$0.0	$0.0
Issue of capital securities (net)	$0.0	$122.3	$0.0	$100.0	$0.0
Issue of common shares (net)	($0.3)	($1.0)	($2.0)	$188.0	($1.0)
Dividends on common shares & capital securities	($44.6)	($50.8)	($55.5)	($67.1)	($79.5)
	$29.6	$485.9	$448.1	$509.1	($5.0)
Net increase (decrease) in cash	$11.4	$16.8	($4.9)	($6.8)	$65.5
Cash (bank indebtedness) at start-year	($5.8)	$5.6	$22.4	$17.5	$10.7
Cash at end of year	$5.6	$22.4	$17.5	$10.7	$76.2

Source: CSFB estimates.

Exhibit 15: BC Gas Ltd. Consolidated Capitalization

For The Years Ending December 31	1999	2000	2001E	2002E	2003E
Short term debt	$452.0	$387.0	$807.0	$467.0	$417.0
	19.2%	13.2%	23.3%	11.4%	9.9%
Long term debt	$1 079.0	$1 634.4	$1 719.9	$2 348.1	$2 473.6
	45.9%	55.8%	49.6%	57.5%	59.0%
Total Debt	$1 531.0	$2 021.4	$2 526.9	$2 815.1	$2 890.6
	65.2%	69.0%	74.0%	69.9%	69.9%
Deferred taxes	$65.4	$47.3	$56.3	$56.3	$56.3
	2.8%	1.6%	1.6%	1.4%	1.3%
Non-controlling interest	$75.0	$0.0	$0.0	$0.0	$0.0
	3.2%	0.0%	0.0%	0.0%	0.0%
Preferred securities	$0.0	$125.0	$125.0	$225.0	$225.0
	0.0%	4.3%	3.6%	5.5%	5.4%
Common equity (net)	$677.3	$735.5	$762.2	$987.6	$1 022.1
	28.8%	25.1%	22.0%	24.2%	24.4%
	$2 348.7	$2 929.2	$3 470.5	$4 084.0	$4 194.0

Source: CSFB estimates.

Exhibit 16: Trans Mountain Pipe Line Forecast Earnings Contribution

For The Years Ending December 31	1999	2000	Q1/01	Q2/01	Q3/01	Q4/01	2001E	2002E	2003E
Mainline Volumes (Bbls./day)	207 589	204 726	193 950	211 721	210 000	215 000	207 000	215 000	218 000
Average Toll	$1.50	$1.55	$1.65	$1.65	$1.65	$1.65	$1.65	$1.65	$1.65
Mainline Revenue	$113.5	$115.8	$28.8	$31.7	$31.9	$32.6	$124.7	$129.5	$131.3
U.S. Volumes (Bbls./day)	61 966	65 225	56 333	76 841	75 000	75 000	70 000	75 000	80 000
Average Toll (US$)	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30
Average Exchange Rate	$0.673	$0.674	$0.650	$0.650	$0.650	$0.650	$0.650	$0.650	$0.650
C$ Revenue	$10.1	$10.6	$2.3	$3.2	$3.2	$3.2	$11.8	$12.6	$13.5
Jet Fuel Volumes (Bbls./day)	20 036	19 816	18 048	19 394	17 000	17 000	18 000	19 500	19 500
Average Toll	$0.42	$0.43	$0.52	$0.48	$0.50	$0.50	$0.50	$0.42	$0.42
Jet Fuel Revenue	$3.0	$3.1	$0.9	$0.9	$0.8	$0.8	$3.3	$3.0	$3.0
Jet Fuel Terminalling Revenue	$1.9	$1.8	$0.5	$0.5	$0.5	$0.5	$1.8	$1.8	$1.8
Total Revenue	$128.5	$131.3	$32.5	$36.3	$36.3	$37.1	$141.5	$146.9	$149.6
Operating and Maintainance Expense	$46.8	$47.0	$9.7	$11.8	$11.7	$11.9	$45.2	$46.3	$46.6
per Bbl	$0.56	$0.44	$0.40	$0.42	$0.42	$0.42	$0.42	$0.41	$0.40
Property and Other Taxes	$19.3	$18.1	$4.7	$4.7	$4.7	$4.7	$18.8	$19.2	$19.0
Depreciation and Amortization	$14.4	$16.8	$4.0	$4.0	$4.0	$4.0	$16.0	$16.0	$16.0
Operating Income	$47.9	$49.5	$14.0	$15.8	$16.0	$16.5	$61.5	$65.4	$68.0
Dividend Income	$5.4	$5.6	$1.5	$1.5	$1.5	$1.5	$6.0	$6.5	$6.4
Interest and Other Income	$0.7	$0.5	$0.1	$0.1	$0.1	$0.1	$0.5	$0.5	$0.5
Earnings Before Interest and Taxes	$54.1	$55.6	$15.6	$17.4	$17.6	$18.2	$68.0	$72.4	$74.9
Interest Expense	$15.2	$15.4	$3.9	$3.9	$3.9	$3.9	$15.6	$15.6	$15.6
Earnings Before Tax	$38.9	$40.2	$11.7	$13.5	$13.7	$14.3	$52.4	$56.8	$59.3
Income Tax Rate	39.6%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	40.0%	40.0%
Income Tax	$13.2	$14.5	$4.3	$5.1	$5.1	$5.4	$19.5	$20.1	$21.2
Net Income	**$25.6**	**$25.7**	$7.4	$8.5	$8.6	$8.9	**$32.9**	**$36.7**	**$38.1**
Eliminate Tax-Effected BCG Dividend	($5.4)	($5.6)	($1.5)	($1.5)	($1.5)	($1.5)	($6.0)	($6.5)	($6.4)
Oil Pipeline Contribution	**$19.5**	**$21.3**	**$5.8**	**$6.6**	**$7.1**	**$7.4**	**$26.9**	**$30.2**	**$31.7**

Source: CSFB estimates.

Exhibit 17: Financial Characteristics of Selected Canadian and U.S. Pipelines, Utilities and Power Generation

		Rating/	Price	52-Wk Range		Earnings Per Share				P/E Ratios				P/E Rel. To Group		Dividend		Payout
Company	Ticker	Analyst	10/26/2001	High	Low	1999	2000	2001E	2002E	1999	2000	2001E	2002E	2001E	2002E	Rate	Yield	2001E
Canadian Pipelines:																		
Enbridge Inc.	ENB	B/MA	$43.37	$45.25	$33.90	$1.98	$2.17	$2.45	$2.75	21.9	20.0	17.7	15.7	1.1	1.1	1.40	3.2%	57.1%
TransCanada PipeLines	TRP	H/MA	$19.56	$21.13	$13.90	1.08	1.22	1.40	1.50	18.1	16.0	13.9	13.1	0.9	0.9	0.90	4.6%	64.1%
Westcoast Energy	W	RES/MA	$41.85	$42.12	$29.90	1.91	2.51	-	-	21.9	16.7	-	-	-	-	1.36	3.2%	52.4%
Canadian Pipeline Avg.												***15.8***	***14.4***				***3.7%***	***57.9%***
U.S. Pipelines																		
Duke Energy	DUK	RES/CL	$38.50	$47.74	$32.41	1.80	2.10	2.80	2.85	21.4	18.3	13.8	13.5	0.9	1.0	1.10	2.9%	45.8%
El Paso	EPG	SB/CL	$49.96	$75.30	$38.00	1.80	2.69	3.30	3.70	27.8	18.6	15.1	13.5	1.0	1.0	0.85	1.7%	25.8%
Kinder Morgan, Inc.	KMI	SB/CL	$50.20	$60.00	$37.56	0.94	1.28	1.90	2.50	53.4	39.2	26.4	20.1	1.7	1.5	0.20	0.4%	10.5%
National Fuel Gas	NFG	H/CL	$23.86	$32.25	$21.96	1.49	1.61	2.10	2.00	16.0	14.8	11.4	11.9	0.7	0.9	0.96	4.0%	45.7%
Nisource	NI	B/CL	$23.16	$32.55	$22.20	1.50	1.89	1.85	2.60	15.4	12.3	12.5	8.9	0.8	0.7	1.16	5.0%	62.7%
U.S. Pipeline Average												***15.8***	***13.6***				***2.8%***	***38.1%***
Canadian Utilities																		
BC Gas	BCG	H/MA	$36.10	$36.88	$28.20	1.94	2.06	2.20	2.40	18.6	17.5	16.4	15.0	1.1	1.1	1.32	3.7%	60.0%
Canadian Utilities	CU	NR	$51.30	$56.05	$39.00	3.16	3.59	3.62	3.82	16.2	14.3	14.2	13.4	0.9	1.0	1.88	3.7%	51.9%
Caribbean Utilities ($US)	CUP.U	NR	$11.57	$13.50	$10.45	0.63	0.79	0.85	0.90	18.4	14.6	13.6	12.9	0.9	0.9	0.58	5.0%	68.2%
Emera Inc.	EMA	NR	$17.90	$18.20	$15.15	1.16	1.20	1.18	1.27	15.4	14.9	15.2	14.1	1.0	1.0	0.85	4.7%	72.0%
Fortis	FTS	NR	$43.45	$44.40	$33.10	2.24	2.36	2.78	2.98	19.4	18.4	15.6	14.6	1.0	1.0	1.88	4.3%	67.6%
Canadian Utilities Avg.												***15.0***	***14.0***				***4.3%***	***64.0%***
U.S. Utilities																		
CMS Energy	CMS	H/CL	$20.54	$32.25	$19.49	2.85	2.53	2.40	2.70	7.2	8.1	8.6	7.6	0.7	0.7	1.46	7.1%	60.8%
Consolidated Edison	ED	NR	$40.01	$43.37	$31.44	3.13	3.23	3.24	3.34	12.8	12.4	12.3	12.0	1.0	1.1	2.20	5.5%	67.9%
DTE Energy	DTE	H/NS	$41.78	$47.13	$33.12	3.33	3.27	2.89	4.22	12.5	12.8	14.5	9.9	1.2	0.9	2.06	4.9%	71.3%
Peoples Energy	PGL	H/CL	$39.37	$46.94	$31.87	2.31	2.71	3.15	3.45	17.0	14.5	12.5	11.4	1.0	1.0	2.04	5.2%	64.8%
WGL Holdings	WGL	H/CL	$27.75	$31.50	$24.81	1.47	1.77	2.05	1.90	18.9	15.7	13.5	14.6	1.1	1.3	1.28	4.6%	62.4%
U.S. Utilities Average												***12.3***	***11.1***				***5.5%***	***65.4%***
Power Generation																		
AES Corporation	AES	RES/NS	$14.64	$64.56	$11.60	0.96	1.46	-	-	15.3	10.0	-	-	0.0	0.0	0.00	0.0%	-
Calpine Corp.	CPN	SB/NS	$25.00	$58.04	$18.90	0.44	1.11	2.00	2.45	56.8	22.5	12.5	10.2	0.8	0.8	0.00	0.0%	0.0%
Mirant	MIR	B/NS	$27.45	$47.20	$19.25	n/a	0.98	1.90	2.65	n/a	28.0	14.4	10.4	0.9	0.9	0.00	0.0%	0.0%
NRG Energy Inc.	NRG	B/NS	$17.55	$37.70	$13.10	0.39	1.10	1.35	1.75	45.0	16.0	13.0	10.0	0.8	0.8	0.00	0.0%	0.0%
Orion Power	ORN	B/NS	$25.76	$34.00	$15.60	0.38	0.62	1.20	1.60	67.8	41.5	21.5	16.1	1.4	1.3	0.00	0.0%	0.0%
TransAlta Corp.	TA	B/MA	$22.02	$30.13	$19.15	0.95	1.29	1.30	1.60	23.2	17.1	16.9	13.8	1.1	1.1	1.00	4.5%	76.9%
Power Generation Avg.												***15.7***	***12.1***				***0.8%***	***15.4%***

Notes: Estimates are from CSFB analysts with the exception of ED and the Canadian utilities other than BC Gas, which are based on First Call consensus. Figures for Canadian companies in C$; figures for U.S. companies in US$. Canadian utility company ROEs are from 2000. Analysts are: Curt Launer (CL); Matthew Akman (MA); Neil Stein (NS).

Exhibit 18: Financial Characteristics of Selected Canadian and U.S. Pipelines, Utilities and Power Generation

Company	Shares (mil)	MC ($bil)	Inst. Owners	52-Week %change High	52-Week %change Low	Cash Flow Per Share 1999	Cash Flow Per Share 2000	Cash Flow Per Share 2001E	Cash Flow Per Share 2002E	P/CF Ratios 1999	P/CF Ratios 2000	P/CF Ratios 2001E	P/CF Ratios 2002E	Book Value	Price/ Book	ROE 2001E	Debt to Cap	% Unreg. 01 EBIT
Canadian Pipelines:																		
Enbridge Inc.	161.7	7.0	37%	-4.2%	27.9%	$3.25	$1.71	$4.75	$4.92	13.3	25.4	9.1	8.8	$14.67	3.0	15.6%	70%	13.2%
TransCanada PipeLines	474.5	9.3	38%	-7.4%	40.7%	2.76	3.62	2.97	3.15	7.1	5.4	6.6	6.2	11.01	1.8	12.6%	65%	11.3%
Westcoast Energy	115.9	4.9	39%	-0.6%	40.0%	4.00	4.92	5.43	5.23	10.5	8.5	7.7	8.0	22.76	1.8	11.0%	64%	20.9%
Canadian Pipeline Average												***7.8***	***7.7***			***13.1%***	***66%***	***15.1%***
U.S. Pipelines																		
Duke Energy	767.0	30	61%	-19.4%	18.8%	3.32	4.41	4.80	4.70	11.6	8.7	8.0	8.2	15.64	2.5	18.3%	51%	43.2%
El Paso	516.8	26	82%	-33.7%	31.5%	4.50	5.90	6.50	7.05	11.1	8.5	7.7	7.1	14.71	3.4	35.1%	60%	68.0%
Kinder Morgan, Inc.	115.2	5.8	57%	-16.3%	33.7%	3.15	2.45	3.25	3.90	15.9	20.5	15.4	12.9	15.76	3.2	12.2%	57%	46.1%
National Fuel Gas	80.6	1.9	43%	-26.0%	8.7%	3.33	3.57	4.53	4.65	7.2	6.7	5.3	5.1	13.62	1.8	15.3%	51%	49.8%
Nisource	205.0	4.7	95%	-28.8%	4.3%	3.94	4.35	5.30	5.70	5.9	5.3	4.4	4.1	17.40	1.3	24.0%	62%	8.0%
U.S. Pipeline Average												***8.2***	***7.5***			***21.0%***	***56%***	***43.0%***
Canadian Utilities																		
BC Gas	38.3	1.4	14%	-2.1%	28.0%	4.56	4.61	4.98	5.36	7.9	7.8	7.2	6.7	19.92	1.8	11.2%	73%	0.0%
Canadian Utilities	63.4	3.3	14%	-8.5%	31.5%	7.32	7.99			7.0	6.4			23.29	2.2	15.4%	56%	20.0%
Caribbean Utilities ($US)	23.3	0.3		-14.3%	10.7%	1.10	1.26			10.5	9.2			3.70	3.1	18.0%	41%	0.0%
Emera Inc.	87.2	1.6		-1.6%	18.2%	2.90	2.95			6.2	6.1			11.21	1.6	10.8%	51%	0.0%
Fortis	14.9	0.6		-2.1%	31.3%	5.32	6.56			8.2	6.6			27.50	1.6	8.7%	52%	5.0%
Canadian Utilities Average																***12.8%***	***55%***	***5.0%***
U.S. Utilities																		
CMS Energy	125.6	2.6	56%	-36.3%	5.4%	7.92	7.96	6.80	7.55	2.6	2.6	3.0	2.7	28.51	0.7	8.4%	73%	27.6%
Consolidated Edison	221.0	8.8		-7.7%	27.3%									25.17	1.6			
DTE Energy	142.7	6.0		-11.4%	26.1%	8.01	8.52	8.80		5.2	4.9	4.7		27.46	1.5			
Peoples Energy	35.6	1.4	46%	-16.1%	23.5%	5.33	6.33	7.00	7.50	7.4	6.2	5.6	5.2	22.79	1.7	14.2%	35%	0.0%
WGL Holdings	46.5	1.3	35%	-11.9%	11.9%	3.15	3.55	3.85	3.85	8.8	7.8	7.2	7.2	16.08	1.7	12.2%	44%	0.0%
U.S. Utilities Average												***5.2***	***5.1***			***11.6%***	***51%***	***9.2%***
Power Generation																		
AES Corporation	539.0	7.9		-77.3%	26.2%									5.77	2.5			100.0%
Calpine Corp.	279.4	7.0		-56.9%	32.3%									3.89	6.4			100.0%
Mirant	338.7	9.3		-41.8%	42.6%									12.21	2.2			100.0%
NRG Energy Inc.	50.9	0.9		-53.4%	34.0%									4.96	3.5			100.0%
Orion Power	93.1	2.4		-24.2%	96.6%									13.48	1.9			100.0%
TransAlta Corp.	168.6	3.7	26%	-35.2%	15.0%	2.49	1.12	3.95	3.69	8.8	19.7	5.6	6.0	11.61	1.9	12.7%	52%	88.0%
Power Generation Average																		***98.0%***

Notes: Estimates are from CSFB analysts with the exception of ED and the Canadian utilities other than BC Gas, which are based on First Call consensus. Figures for Canadian companies in C$; figures for U.S. companies in US$. Canadian utility company ROEs are from 2000. Analysts are: Curt Launer (CL); Matthew Akman (MA); Neil Stein (NS)..

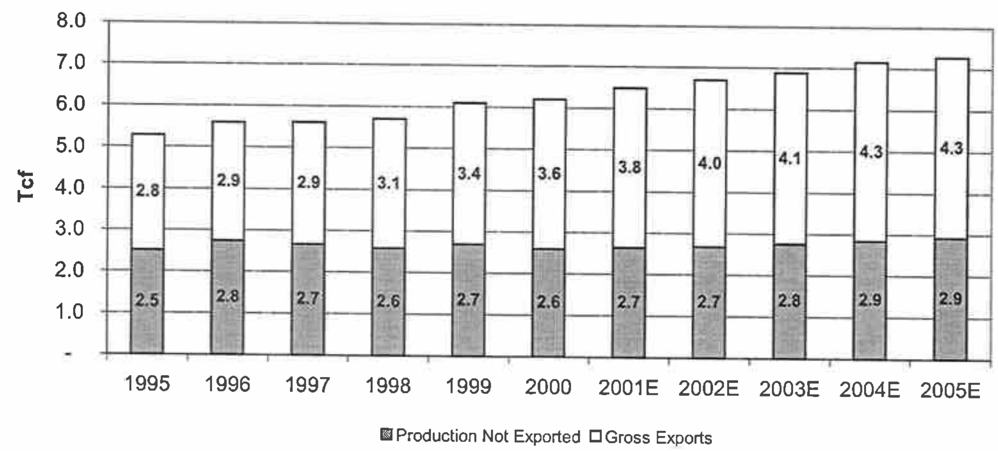
Exhibit 19: Canadian Natural Gas Exports By Export Point

Year		Huntingdon	Kingsgate	Monchy	Elmore	Emerson	Niagara	Iroquois	Other	Total
1990		161.2	512.9	336.6	0.0	298.8	90.1	0.0	37.9	1 437.5
1991		215.7	497.5	373.5	0.0	344.9	178.9	3.6	76.2	1 690.3
1992		248.7	490.2	441.2	0.0	364.8	253.7	162.4	89.1	2 050.0
1993		259.9	517.2	483.8	0.0	387.0	249.6	238.2	87.3	2 223.0
1994		279.4	722.5	522.2	0.0	389.6	261.7	251.8	105.0	2 532.3
1995		317.6	784.3	552.3	0.0	399.1	272.0	282.1	162.3	2 769.7
1996		377.8	796.5	547.5	0.0	422.0	268.8	287.5	153.1	2 853.1
1997		369.3	847.3	545.9	0.0	428.3	287.8	302.5	144.1	2 925.2
1998		423.2	854.5	558.7	0.0	485.3	305.1	318.2	168.8	3 113.8
1999		402.0	806.7	774.1	0.0	506.8	361.6	357.5	166.5	3 375.2
2000		356.5	833.4	785.0	71.4	491.1	425.0	364.9	268.8	3 596.0
2000	(to July)	206.0	484.3	456.1	0.0	290.7	235.3	214.4	139.5	2 026.4
2001	(to July)	189.4	466.0	451.5	289.0	228.6	206.0	192.5	176.3	2 199.2
2000	Jan	30.4	78.9	67.4	0.0	46.2	36.7	32.3	15.0	306.9
	Feb	30.7	70.9	62.4	0.0	43.1	35.1	31.6	18.0	291.8
	Mar	32.2	71.3	66.2	0.0	41.0	36.7	32.3	21.0	300.7
	Apr	26.8	59.3	64.5	0.0	37.2	32.2	28.3	21.8	269.9
	May	29.2	64.6	65.9	0.1	39.5	30.5	29.9	20.4	280.1
	Jun	28.2	67.3	64.5	0.1	40.0	32.4	29.4	21.3	283.1
	Jul	28.6	72.0	65.4	0.0	43.7	32.2	30.9	22.0	294.8
	Aug	33.0	63.6	66.3	0.8	42.7	33.7	29.3	25.2	294.6
	Sep	27.3	67.1	65.9	3.8	39.0	29.5	27.3	23.3	283.2
	Oct	28.9	72.5	66.3	11.4	41.9	29.5	29.0	24.1	303.6
	Nov	28.6	70.6	63.3	18.5	37.8	46.4	35.2	28.0	328.4
	Dec	32.6	75.3	67.0	37.1	39.0	49.9	29.3	29.0	359.2
2001	Jan	29.0	74.9	67.4	37.8	43.1	52.7	34.4	28.3	367.7
	Feb	27.6	68.5	48.7	37.8	31.2	34.4	28.1	25.4	301.8
	Mar	32.0	74.2	63.2	42.4	29.4	26.3	27.4	26.5	321.4
	Apr	24.4	62.9	65.7	42.7	21.9	23.0	23.7	22.6	286.9
	May	29.3	64.3	69.6	42.7	25.1	19.1	25.4	22.3	297.8
	June	19.8	59.4	62.5	41.0	33.2	22.3	26.1	23.0	287.2
	July	27.2	61.8	64.3	43.8	42.7	27.6	28.3	27.9	323.6

Elmore export point reflects Alliance Pipeline volumes. "Other" export point includes Maritimes and Northeast Pipeline volumes.

Source: CSFB estimates, National Energy Board..

Exhibit 20: Forecast Exports of Canadian Natural Gas (does not include any potential northern gas)



Source: National Energy Board, CSFB.

Exhibit 21: Canadian Crude Oil Exports (mbbl/d)

	1993	1994	1995	1996	1997	1998	1999	Q1/00	Q2/00	Q3/00	Q4/00	Q1/01	Q2/01	July
Heavy Crude	476.7	521.2	608.5	667.1	801.9	821.4	753.1	820.4	846.0	809.9	883.5	893.6	912.1	850.3
Light Crude	446.7	467.6	454.3	455.7	416.8	516.0	499.2	541.5	582.0	512.1	524.7	488.4	507.7	484.2
Total	**923.4**	**988.8**	**1 062.8**	**1 122.8**	**1 218.7**	**1 337.4**	**1 252.3**	**1 361.9**	**1 428.0**	**1 322.0**	**1 408.2**	**1 382.0**	**1 419.8**	**1 334.5**
Yr-Over-Yr Change		**7.1%**	**7.5%**	**5.6%**	**8.5%**	**9.7%**	**-6.4%**					**1.5%**	**-0.6%**	**-0.6%**

Source: National Energy Board, CSFB estimates.

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AMSTERDAM	31 20 5754 890
ATLANTA	1 404 656 9500
AUCKLAND	64 9 302 5500
BALTIMORE	1 410 223 3000
BANGKOK	62 614 6000
BEIJING	86 10 6410 6611
BOSTON	1 617 556 5500
BUDAPEST	36 1 202 2188
BUENOS AIRES	54 11 4394 3100
CHICAGO	1 312 750 3000
FRANKFURT	49 69 75 38 0
HOUSTON	1 713 220 6700
HONG KONG	852 2101 6000
JOHANNESBURG	27 11 343 2200
KUALA LUMPUR	603 2143 0366
LONDON	44 20 7888 8888
MADRID	34 91 423 16 00
MELBOURNE	61 3 9280 1888
MEXICO CITY	52 5 283 89 00
MILAN	39 02 7702 1
MOSCOW	7 501 967 8200
MUMBAI	91 22 230 6333
NEW YORK	1 212 325 2000
PALO ALTO	1 650 614 5000
PARIS	33 1 53 75 85 00
PASADENA	1 626 395 5100
PHILADELPHIA	1 215 851 1000
PRAGUE	420 2 210 83111
SAN FRANCISCO	1 415 836 7600
SÃO PAULO	55 11 3841 6000
SEOUL	82 2 3707 3700
SHANGHAI	86 21 6881 8418
SINGAPORE	65 212 2000
SYDNEY	61 2 8205 4433
TAIPEI	886 2 2715 6388
TOKYO	81 3 5404 9000
TORONTO	1 416 352 4500
WARSAW	48 22 695 0050
WASHINGTON	1 202 354 2600
WELLINGTON	64 4 474 4400
ZURICH	41 1 333 55 55

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Equity Research

UPGRADE RECOMMENDATION

BC Gas Inc.

BCG.TO

Flight to Safety Prompts Upgrade

- **Valuations in the pipelines and utilities group have expanded considerably in recent weeks. BC Gas has not participated in the recent rally, yet we consider it a high quality company and one of the safest stocks in the group. We think the valuation of BC Gas will rise in line with the group, so we are raising our rating from Hold to Buy.**
- **In the current market context, the appeal of BC Gas is in its safety and attractive dividend yield. We noted in a sector report published on July 2 that we consider BC Gas to be among the safest stocks in the group. With no exposure to power prices, weather, or commodity trading, there is little potential for negative surprises.**
- **Our forecasts indicate BC Gas will show one of the best year-over-year comparisons in the group for Q2 results, and also achieve premium utility growth through the rest of this year and next year. Rate base growth in the BC Gas utility, and the addition of the Corridor Oil Pipeline, are driving our forecast EPS growth of 9% this year and 10% next year.**
- **In recent months, we had expressed valuation concerns about BC Gas. Peak P/E multiples on the stock have typically been about 16. In May, the stock was trading at over 17 times earnings, and at the same multiple as Enbridge (ENB, 49.25, Buy, TP 52).**
- **In recent weeks, BC Gas shares have declined while Enbridge and the rest of the sector have appreciated in value. We think BC Gas should trade at a discount to Enbridge, but BC Gas is now attractively valued relative to the sector. It is trading at 16.4 times our 2002 EPS estimate, compared to Enbridge at 17.6 times and the group at 16 times.**
- **We are raising our target price on BC Gas from $39 to $42, to reflect relative group valuation. Our new target price still assumes the multiple on BC Gas will contract over time, to 15.8 times our 2003 EPS forecast. We assume some multiple contraction because we do not think the company can sustain its current EPS growth rate of almost 10%. We think long-term EPS growth rates will be closer to 5% - 6%.**
- **Our new target price implies a total one-year return of 11%, which is sufficient to merit the upgrade from Hold to Buy.**

BC Gas is a gas distribution utility with a growing pipeline business. It owns BC Gas Utility, the largest gas distribution company serving British Columbia, including Vancouver and the interior. It also owns Trans Mountain Pipe Line, the only pipeline transporting oil from Western Canada directly to the Canadian West Coast, and Southern Crossing Pipeline, transporting natural gas along the U.S. border of British Columbia.

Please see our full-length report on BC Gas dated Oct 26, 2001.

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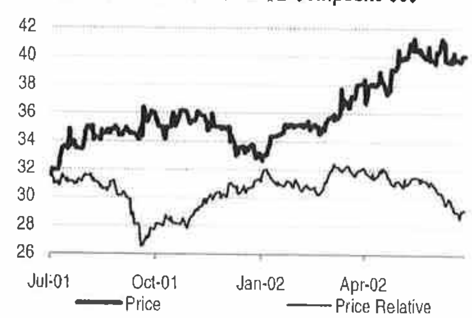
Recommendation	(formerly HOLD) BUY
Price (03 Jul 02)	39.26 (C$)
Target price (12 months)	42.00 (C$) (was 39.00)
52 week high - low	41.99 - 31.35
Market cap. (C$m)	1,711.74
Enterprise value (C$m)	4,560.0
Region / Country	Americas / Canada
Sector	Pipelines & Utilities
Date	04 July 2002

Price / Indexed Canada TSE Composite 300



On 07/03/02 the S&P/TSX Composite index closed at 7024.08.

Year	12/01A	12/02E	12/03E
EPS (CSFB adj., C$)	2.21	2.40	2.65
Prev. EPS (C$)	—	—	—
P/E (x)	17.8	16.4	14.8
P/E rel. (%)	—	—	—
Q1 EPS	1.59	1.70	—
Q2	-0.08	-0.04	—
Q3	-0.58	-0.52	—
Q4	1.28	1.33	—

Number of shares (m)	43.6	Dividend 2000A (C$)	1.23
BV/Share (03/02A, C$)	23.00	Dividend 2001A (C$)	1.30
Debt (03/02A, C$m)	2,727.0	Dividend 2002E (C$)	1.41
Debt/Total cap. (03/02A)	71.0%	Dividend yield	3.6%

Year	12/01A	12/02E	12/03E
EBIDAX (C$m)	390.3	462.4	529.4
OCFPS (C$)	5.10	5.46	6.49
P/OCF (x)	7.7	7.2	6.0
EV/EBITDA (x)	11.7	9.9	8.6
ROE	11.8%	11.1%	11.2%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

FLASH FLASH FLASH FLASH FLASH FL

CREDIT SUISSE FIRST BOSTON
Equity Research

EARNINGS

BC Gas Inc.

BCG.TO

Normalized Q3'01 Results In Line With Expectations

- **BC Gas reported Q3'01 eps of ($0.58) vs. our estimate of ($0.45) and a consensus of ($0.39). Results were in line with expectations, factoring out additional Q3'01 seasonality that should reverse in Q4'01.**
- **The BC Gas Utility contributed ($0.73) per share vs. ($0.49) last year. However, management indicated that increased seasonality accounts for $0.25 per share of the year-over-year difference, implying a normalized year-over-year improvement of $0.01 per share.**
- **The company announced it has withdrawn its 2002 rates application for BC Gas, to commence a new incentive framework on both BC Gas Utility and Centra BC in 2003. Under the company's proposal, distribution margin at BC Gas would remain the same in 2002 as it has been in 2001.**
- **If approved by the regulator, we would see this proposal as a positive. Though rates would not increase for inflation or rate base changes, the company would avoid the risk of a reduction in its allowed ROE. We had recently quantified this risk to be in the range of $0.04 - $0.05 per share, assuming allowed ROE falls to 9.0% from 9.25%.**
- **The Trans Mountain Pipeline contributed $0.17 per share vs. $0.13 last year. Petroleum transportation continues to be a significant growth engine for the company.**
- **Other activities (primarily non-regulated utility services) contributed ($0.02) per share vs. $0.02 last year. A slowing economy was responsible for the change.**
- **For 2001, we are maintaining our $2.20 eps estimate, but adjusting up our Q4'01 estimate from $1.19 to $1.27 to reflect increased seasonality. We are also maintaining our 2002 eps estimate of $2.40, on the assumption the company is successful in its rates proposal. We reiterate our Hold rating and $38 target price.**

BC Gas is a gas distribution utility with a growing pipeline business. It owns BC Gas Utility, the largest gas distribution company serving British Columbia, including Vancouver and the interior. It also owns Trans Mountain Pipe Line, the only pipeline transporting oil from Western Canada directly to the Canadian West Coast, and Southern Crossing Pipeline, transporting natural gas along the U.S. border of British Columbia.

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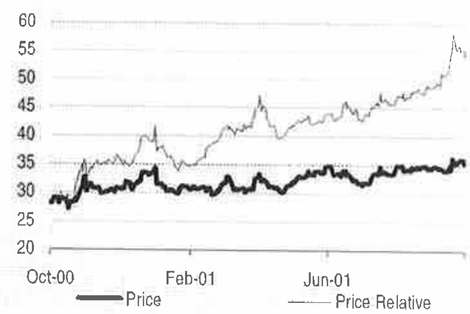
Please see our full-length initiating coverage report on BCG dated Oct. 29/2001

Recommendation	HOLD
Price (08 Nov 01)	36.05 (C$)
Target price (12 months)	38.00 (C$)
52 week high - low	36.88 - 27.25
Market cap. (C$m)	1 382.63
Enterprise value (C$m)	3,809
Region / Country	Americas / Canada
Sector	Pipelines & Utilities
Date	08 November 2001

Price / Price Relative



On 10/02/01 the Canada TSE Composite 300 index closed at 6839.58.

Year	12/00A	12/01E	12/02E
EPS (CSFB adj., C$)	2.06	2.20	2.40
Prev. EPS (C$)			
P/E (x)	17.5	16.4	15.0
P/E rel.	—	—	—
Q1 EPS	1.39	1.59	1.63
Q2	0.02	(0.08)	(0.04)
Q3	(0.34)	(0.58)	(0.52)
Q4	0.99	1.27	1.33

Number of shares (m)	38.3	Dividend (2000A)	1.23
BV/share (12/01E, C$)	19.92	Dividend (2001E)	1.30
Total debt (12/01E, C$m)	2,507	Dividend 2002E	1.38
Total debt/Total cap. (12/01E)	72.7%	Dividend yield	3.7%

Year	12/00A	12/01E	12/02E
EBITDA (C$m)	342.8	372.1	462.4
OCFPS (C$)	4.61	4.98	5.36
P/OCF (x)	7.8	7.2	6.7
EV/EBITDA (x)	11.8	10.3	8.3
ROE	11.2%	11.2%	11.3%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates.

BC GAS INC.

Rating: Sell

Jim Bartlett
July 31, 2002

- Earnings are projected to rise modestly for the next two years.
- Our twelve month target price is $37.50 per share.

BCG ($38.15) – TSE **Target Price: $37.50**

Earnings Per Share Fiscal Year Ending							
12/01	12/02E	12/03E	P/E 12/03E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
$2.21	$2.35	$2.50	15.3x	$1.44	3.8%	43.6	$41.99 - $32.07

Summary and Investment Recommendation

Earnings per share, before non-recurring items, were $1.65 for the first half of 2002 compared to $1.51 per share in the same period of 2001. Earnings per share benefitted from Centra's contribution to earnings, as well as the timing difference between the acquisition of Centra BC and the issuance of shares to finance the acquisition.

The earnings estimate for 2002 remains at $2.35 per share. Our 2003 earnings estimate remains at $2.50 per share.

Earnings of BC Gas' oil pipeline from Alberta to the West Coast have, in our opinion, more risk than is usual for a regulated utility. At the same time, common equity (excluding capital securities) was only 24.5 percent of BC Gas' total capitalization at June 30, 2002. These two factors, in our opinion, should cause the shares of BC Gas to trade at a lower multiple of earnings than other utility companies.

At the recent price of $38.15, the shares are trading at 15.3 times estimated 2003 earnings per share. Our twelve month target price is $37.50 per share, which assumes the shares trade at 15.0 times earnings. Hence, the shares are rated Sell. We prefer to recommend purchase of the common shares of TransCanada PipeLines, TransAlta and Enbridge because the balance sheets of these companies are less levered.

BC Gas Inc. Reports Second Quarter Earnings

Earnings applicable to common shares for BC Gas Inc. were $68.9 million ($1.65 per share) for the six months ended June 30, 2002 compared to $57.9 million ($1.51 per share) for the same period last year.

The increase in earnings for the first half of 2002 was primarily a result of the acquisition of Centra Gas British Columbia Inc. (Centra BC). The earnings from Centra BC are included in BC Gas' results as of January 1, 2002.

Although oil pipeline throughput to date in 2002 has been disappointing, the energy and utility services businesses are delivering strong results.

Earnings (Loss) Applicable to Common Shares:
(in millions of dollars except per share amounts)

	2002	Per Share	2001	Per Share
Natural gas distribution	$63.8	$1.53	$50.6	$1.32
Petroleum transportation	12.1	0.29	12.4	0.32
Other activities	(7.0)	(0.17)	(5.1)	(0.13)
Earnings applicable to common shares	$68.9	$1.65	$57.9	$1.51
Weighted average shares o/s (millions)	41.7		38.3	

Natural Gas Distribution

Earnings for natural gas distribution increased by $13.2 million in the first six months of 2002 as compared to 2001, mainly as a result of the acquisition of Centra BC. The earnings contribution from BC Gas Utility increased from $50.6 million in 2001 to $52.3 million in 2002, mainly as a result of lower interest costs.

As a result of the regulatory deferral accounts in place for Centra BC, the annual earnings from Centra BC are recorded relatively evenly over the quarters and do not vary as a result of seasonal gas consumption. This is unlike the quarterly results for BC Gas Utility, which are highly seasonal.

On June 17, 2002, BC Gas Utility filed an application with the B.C. Utilities Commission to determine its 2003 revenue requirement application and to initiate a process to establish a multi-year incentive regulatory settlement for BC Gas Utility. A review of the application by interested parties is currently underway and the company anticipates that discussions regarding a multi-year settlement will take place in the fall of 2002.

Petroleum Transportation

Established in 1951, Calgary-based Trans Mountain Pipe Line operates the only pipeline system transporting crude oil and petroleum products from Alberta to British Columbia and Washington State. Trans Mountain is a wholly owned subsidiary of BC Gas Inc.

Petroleum transportation operating results for the six months ended June 30 were $12.1 million in 2002 as compared to $12.4 million in 2001. This decrease was primarily a result of lower throughput on the Canadian and U.S. portions of the mainline (i.e. The Trans Mountain Pipe Line System), offset by lower interest rates and lower tax rates.

Shipments of oil on the U.S. mainline have been steadily declining as the table below shows.

	U.S. Mainline Oil Shipments m^3/day
Q2 2002	6,307
Q1 2002	8,525
2001	11,670
2000	10,365
1999	9,847
1998	16,128
1997	15,004

The oil and petroleum products are moved through the Canadian mainline from Alberta to the Vancouver area, and then a portion of it is shipped via the U.S. mainline to refineries in Washington State. As a result, shipments of oil and petroleum products on the Canadian mainline also declined from a recent peak of 40,160 cubic metres per day in 1998 to 29,044 cubic metres per day in the second quarter of 2002. Frankly, we are concerned that, if this trend continues, profits of Trans Mountain will decline in the future.

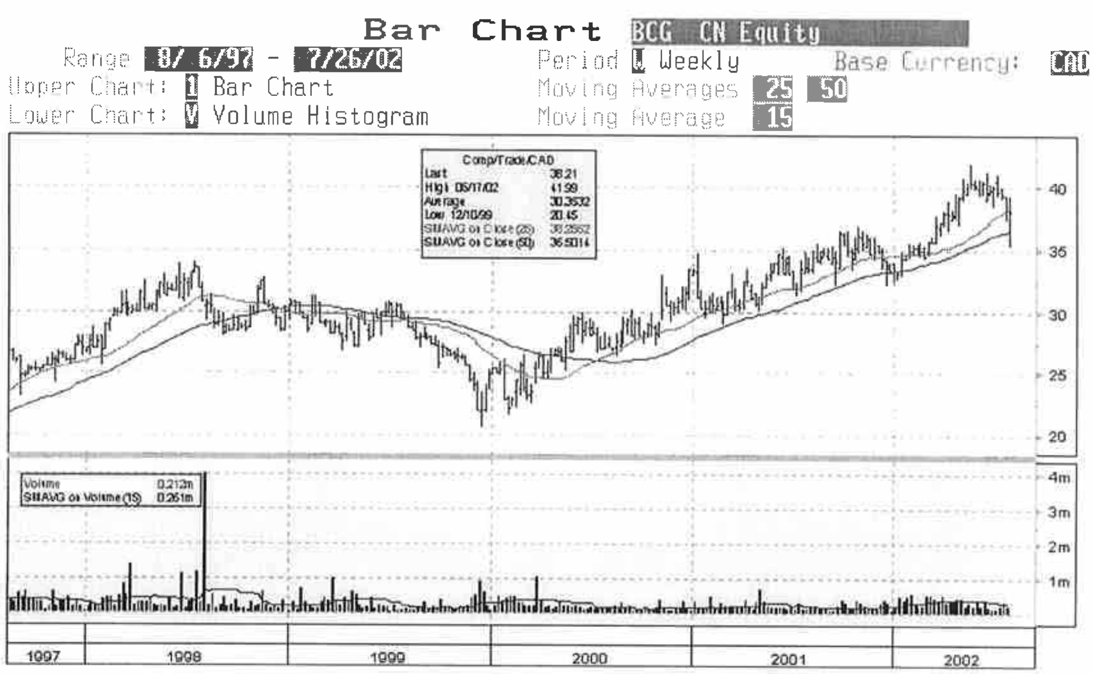
As at June 30, 2002, $566 million has been spent on the Corridor pipeline project and construction is 94 percent complete. Construction is proceeding on time and on budget. The northbound diluent pipeline has been filled and commissioning of the rest of the pipeline system is proceeding. Once commercial operations begin, which is expected to occur on March 1, 2003, the Corridor Pipeline project will begin to contribute to BC Gas' earnings. Based on current interest rates, which are a factor in the determination of Corridor's return on equity, the company expects that the earnings per share contribution from the project will be approximately $0.20 per share on an annualized basis, net of financing costs.

Other Activities
Other activities include non-regulated energy and utility services, as well as corporate interest and administration charges. Results from this segment for the first half of 2002 declined by $1.9 million compared to 2001, mainly as a result of higher financing costs associated with the acquisition of Centra BC. The increased financing costs were partially offset by improved results from the company's energy and utility services businesses, including a contribution from CustomerWorks.

Capital Structure

(in millions of dollars)

	Three months ended June 30, 2002	% of Total Capitalization
Total debt including bank debt (net)	2,760.9	72.2
Capital securities	125.0	3.3
Common equity	939.0	24.5
Total Capitalization	3,824.9	100.0



Action Now: The stock is rated Sell.

The Company: BC Gas Inc. is a leading provider of energy and utility services in British Columbia through its two principal operating subsidiaries, BC Gas Utility Ltd. and Trans Mountain Pipe Line Company Ltd., and through a number of non-regulated related businesses. BC Gas Utility is the largest distributor of natural gas in British Columbia, serving 764,000 customers in more than 100 communities. Centra Gas British Columbia Inc. delivers natural gas to 70,000 customers on Vancouver Island and the Sunshine Coast, including seven pulp mills. Trans Mountain Pipe Line owns and operates the only pipeline transporting crude oil and refined petroleum products from Alberta to British Columbia and Washington State. BC Gas common shares are traded on the Toronto Stock Exchange under the symbol BCG.

Investment Thesis: BC Gas should benefit from growing demand for its services as the population rises in British Columbia. As well, it will service the Shell Canada oil development at Fort McMurray, Alberta by providing the pipeline to move the oil to Edmonton. At current prices, the shares appear to be fully valued.

Investment Risks: The authorized rate of return of the gas distribution business varies directly with long term interest rates. Hence, earnings from the gas distribution business might not increase after 2002 if long term interest rates fall sharply. Throughput on Trans Mountain's pipeline from Alberta to the West Coast may decline in situations where West Coast oil prices are relatively lower than alternative prices in the U.S. Midwest. Generally, the company has a low risk strategic plan as it focuses on core businesses and activities that lever off the company's core competencies.

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Investment Research
ODLUM BROWN LIMITED 1800 | 609 GRANVILLE STREET, P.O. BOX 10012 PACIFIC CENTRE, VANCOUVER, BRITISH COLUMBIA CANADA V7Y 1A3

BC GAS INC.

Rating: Sell

Jim Bartlett

August 2, 2001

- Earnings are projected to rise modestly for the next two years.
- Our twelve month target price is $33.75 per share.

BCG($34.00) – TSE **Target Price: $33.75**

Earnings Per Share Fiscal Year Ending 12/00[1]	12/01E	12/02E	P/E 12/02E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
$2.06	$2.20	$2.25	15.1x	$1.32	3.9%	38.3	$35.10 - $26.40

[1]Before non-recurring income tax recoveries in respect of prior years, as well as tax recoveries related to the sale of the power plant at Williams Lake. The tax recoveries were $0.78 per share in 2000, making total earnings of $2.84 per share.

Summary and Investment Recommendation

The earnings per share estimates for 2001 and 2002 of $2.20 and $2.25, respectively, assume that Trans Mountain's earnings continue to benefit from higher throughput on the U.S. pipeline in Washington State.

The Corridor Pipeline Project is estimated to contribute $0.20 - $0.25 per share to BC Gas's annual earnings, commencing January 1, 2003.

At the current price of $34.00, the shares are trading at 15.1 times estimated 2002 earnings. Our twelve month target is $33.75 per share, or 15 times estimated 2002 earnings. We believe that the shares should trade at a lower multiple than comparable companies because the earnings of BC Gas's oil pipeline have more risk than is usual for a regulated utility. The shares are rated Sell.

BC Gas Inc. Reports Second Quarter Earnings

BC Gas Inc. reported earnings of $1.51 per share for the six months ended June 30, 2001 compared to $1.41 per share in the same period of 2000. Non-recurring items of $0.41 per share in the first half of 2000 made earnings $1.82 per share. There were no non-recurring items in the first six months of 2001.

Earnings from natural gas distribution rose to $1.32 per share in the first half of 2001 from $1.12 per share in the same period of 2000. The increase was mainly caused by an increase in rate base with the completion of the Southern Crossing Project in late 2000. Offsetting these earnings was a loss from other activities (i.e. mainly financing costs related to the Southern Crossing Project and other developments). The loss from other activities was $0.13 per share in the first six months of 2001 compared to a profit of $0.03 per share in the same period of 2000.

Net earnings of Trans Mountain Pipe Line for the first half of 2001 were $2.5 million or $0.06 per share higher than in the same period of 2000 because of an increase in throughput. The narrowing of price differentials, between West Coast and Chicago crude oil (i.e. Alberta crude prices are based on the Chicago market), caused refineries in Washington State to use more Alberta crude oil. Revenues and earnings of Trans Mountain's U.S. pipeline are directly affected by changes in U.S. throughput.

A new pipeline in Ecuador will cause the supply of oil on the west coast of the Americas to rise by 450,000 barrels per day in mid-2003. Price differentials between West Coast and Chicago crude oil may widen when that occurs. Throughput on Trans Mountain's U.S. pipeline in Washington State might decline if that were to occur.

As at June 30, 2001, $239 million has been spent on the Corridor Pipeline Project and construction is 43 percent complete. Construction should be completed in 2002. The pipeline should be consolidated into the earnings statement by January 1, 2003. The Corridor pipeline system will connect the Muskeg River Mine near Fort McMurray to Shell's refinery at Edmonton.

The tables below sets out the contribution to earnings per share by operating segment for the six months and three months ended June 30, 2001 and 2000.

Net Earnings (Loss)
(in millions of dollars except per share amounts)

Six months ended June 30	**2001**		**2000**	
		Per Share		**Per Share**
Natural gas distribution	$ 50.6	$ 1.32	$ 42.9	$ 1.12
Petroleum transportation	12.4	0.32	9.9	0.26
Other activities	(5.1)	(0.13)	1.2	0.03
Earnings before non-recurring items	57.9	1.51	54.0	1.41
Non-recurring items	-	-	15.8	0.41
Earnings applicable to common shares	$ 57.9	$ 1.51	$ 69.8	$ 1.82

Capital Structure

As of June 30, 2001, the capital structure of the company was as follows:

	Millions	Percent
Net short-term debt(1)	566.5	18.6
Long-term debt	1,641.3	53.8
Shareholders' equity	841.1	27.6
Total	3,048.9	100.0

(1) Net short-term debt is short-term notes plus current portion of long term debt minus cash.

The capital structure has, in our opinion, a maximum amount of debt.

On April 19, 2000 the company issued $125.0 million of 8.0% Capital Securities with a term to maturity of 40 years. The company has the option to settle the principal at maturity through the issuance of common shares. Accordingly, the capital securities have been classified as equity.

Prior to the completion of the Corridor Pipeline Project, we expect BC Gas to do a similar issue to top up Shareholders' equity to 30 percent of the capital structure.

Action Now: The stock is rated Sell.

The Company: BC Gas Inc. is a leading provider of energy and utility services in British Columbia through its two principal operating subsidiaries, BC Gas Utility Ltd. and Trans Mountain Pipe Line Company Ltd., and through a number of non-regulated related businesses. BC Gas Utility is the largest distributor of natural gas in British Columbia, serving 764,000 customers in more than 100 communities. Trans Mountain Pipe Line owns and operates the only pipeline transporting crude oil and refined petroleum products from Alberta to British Columbia and Washington State. BC Gas common shares are traded on the Toronto Stock Exchange under the symbol BCG.

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Investment Risks: The authorized rate of return of the gas distribution business varies directly with long term interest rates. Hence, earnings after 2001 could be lower than estimated, if long term interest rates fall sharply. Throughput on Trans Mountain's pipeline from Alberta to the West Coast may decline in situations where West Coast oil prices are relatively lower than alternative prices in the U.S. Midwest. Generally, the company has a low risk strategic plan as it focuses on core businesses and activities that lever off the company's core competencies.

BCG:2001:08

ODLUM BROWN LIMITED 1800 | 609 GRANVILLE STREET, P.O. BOX 10012 PACIFIC CENTRE VANCOUVER, BRITISH COLUMBIA CANADA V7Y 1A3

BC GAS INC.

Rating: Buy

Jim Bartlett

February 22, 2001

- Earnings are projected to rise modestly for the next three years to $2.50 per share in 2004.
- Our twelve month target price is $33.75 per share.

BCG($29.50) – TSE **Target Price: $33.75**

Earnings Per Share Fiscal Year Ending 12/00[1]	12/01E	12/02E	P/E 12/02E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
$2.06	$2.20	$2.25	13.1x	$1.24	4.2%	38.3	$34.75 - $22.50

[1]Before non-recurring income tax recoveries in respect of prior years, as well as tax recoveries related to the sale of the power plant at Williams Lake. The tax recoveries were $0.78 per share in 2000, making total earnings of $2.84 per share.

Summary and Investment Recommendation

Earnings per share were $2.06 for fiscal 2000, slightly above our earlier projection. Earnings per share for 2001 and 2002 are projected to be $2.20 and $2.25, respectively.

The company's target earnings per share for 2004 is $2.50 per share, which, in our opinion, is attainable.

At the current price of $29.50, the shares are trading at 13.1 times estimated 2002 earnings. Our twelve month target has been increased to $33.75 per share, or 15 times estimated 2002 earnings. Based on the potential gain from the current share price, plus the current dividend, we project that the total return over the next twelve months will be approximately 18.6 percent. Therefore, the rating has been raised to Buy.

2000 Earnings Per Share Up 6%

BC Gas Inc. reported earnings per share of $2.06 before non-recurring items for the year ended December 31, 2000, up $0.12 from $1.94 for the equivalent period in 1999. Earnings in 1999 included $0.13 per share of tax recoveries in respect of prior years. Earnings in 2000 exceeded our forecast of $ 1.95 per share because the Southern Crossing Project was completed on time and on budget. It, therefore, contributed more to earnings in 2000 than we had projected.

Non-recurring items of $30.0 million, or $0.78 per share, in 2000 were comprised of three items. $29.0 million in 2000 and $7.0 million in 1999 arose from income tax benefits associated with the Williams Lake Power Plant, which the company monetized in 1999. A gain of $8.5 million resulted from the effect of income tax rate reductions in calculating future income tax liabilities. Offsetting these benefits was an after tax charge of $7.5 million associated with restructuring costs at Trans Mountain Pipe Line.

Including these non-recurring items, earnings applicable to common shares for the year ended December 31, 2000 amounted to $108.8 million, or $2.84 per share, compared to $81.2 million, or $2.12 per share in 1999.

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Jim Bartlett

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BC GAS INC.

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FirstEnergy CAPITAL CORP.

FIRST FACTS

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FAX: Research 403. 262. 0666 FAX: Corporate Finance 403. 262. 0688

COMPANY: BC Gas Inc. - BCG $39.70 **November 7, 2002**

Event

- BC Gas reported results that were in line with expectations prior to normalizing for one-time items.
- Earnings were reported at a loss of $(19.1) Mm or $(0.44) per share versus FirstEnergy at $(19.2) Mm or $(0.45) per share.
- Cash flow from operations was $12.6 Mm ($0.30 per share) versus our forecast of $10.9 Mm ($0.25 per share) and the difference was almost entirely driven by higher component of future income taxes than forecast.

Year end Dec 31,		2000a	2001a	2002e	2003e	2004e
Earnings	$Mm	$ 78.8	$ 84.6	$101.1	$113.7	$ 119.0
	Basic	$ 2.06	$ 2.19	$ 2.43	$ 2.60	$ 2.72
	P/E			16.4	15.3	14.6
Cash Flow	$Mm	$176.4	$194.9	$228.1 ↑	$270.2	$ 270.4
	Basic	$ 4.60	$ 5.08	$ 5.47 ↑	$ 6.18	$ 6.19
	P/CF			7.3	6.4	6.4
EBITDA	$Mm	$373.7	$451.1	$518.8 ↓	$665.9 ↑	$ 671.0
EV/EBITDA				7.8	7.0	6.9
Book Value	$/Share	$17.14	$17.82	$22.78 ↑	$23.66 ↑	$ 24.64
Price/Book				1.7	1.7	1.6
Net Debt/Mkt. EV	%			63%	62%	62%
Net Debt/Book EV	%	73%	75%	74%	72%	70%
Shares O/S *	Mm	38.3	38.3	43.7	43.7	43.7
Market Cap.	$Mm			$1,735	$1,735	$1,735
Dividend	$/Share	$ 1.23	$ 1.32	$ 1.43	$ 1.52	$ 1.64
Dividend Yield	%			3.6%	3.8%	4.1%

Source: Company Reports and FirstEnergy Capital Corp.
* Adjusted for 4.6 Mm shares held by TMPL

Impact

- Within the results, the following segmented results were reported:
  - *Natural Gas Distribution*: Performance was ahead of expectations with a loss of $(21.4) Mm versus our outlook for $(25.0) Mm. Driving the results was a more even contribution from the Centra Gas assets as the consumption related to the asset is not as seasonal as it is with BC Gas Utility.
  - *Petroleum Transportation*: Results were right in line with expectations with earnings of $6.7 Mm versus our outlook for $6.6 Mm.
  - *Other Activities*: Offsetting the stronger than expected performance *from Natural Gas Distribution* was the performance posted by *Other Activities* which showed a loss of $(4.4) Mm versus our forecast of $(0.8) Mm. Included within the quarter was a $4.1 Mm after-tax writedown of the Company's investment in Westport Innovations, which if removed would have resulted in a loss of just $(0.3) Mm.

Outlook

- Looking ahead, a hearing related to a multi-year incentive regulatory settlement for BC Gas Utility has been scheduled to begin on November 12th. From this, the Company hopes to establish the 2003 rates for this asset and use this as the base for negotiations for a multi-year regulatory settlement going forward. As a proxy, the performance based regulation achieved by Enbridge has resulted in a lift to the allowed return on equity for Consumers Gas by approximately 100 BPS in 2001. Should the same outcome occur for BC Gas Utilities this could result in incremental earnings of $7.3 Mm or $0.17 per share.
- At the end of Q3 the Corridor pipeline was 99% complete and was 90% commissioned. The southbound diluted bitumen line will begin filling shortly and commercial operations are slated to begin March 1, 2003 (current estimates provided by FirstEnergy do not include a contribution until Q2 2003).
- We have included our forecast for 2004 with this publication. Growth is predicated on a full years contribution from the Corridor pipeline and modest incremental contributions from the Natural Gas Distribution segment as a result of a marginally higher rate base. Should a positive resolution on performance based regulation of the distribution system occur, then these estimates will likely increase.

Recommendation

- We continue to like the BC Gas story. The Company has clear visability in EPS growth through the addition of Corridor in 2003, the continued growth in the natural gas distribution business, the upside potential represented through the Bison pipeline project in 2005/6 and potential resolution of the performance based regulation for BC Gas Utilities.
- Our target price of $43.50 is based upon a forecast yield discount of 190 BPS to our Government of Canada 10-Year yield forecast for 2003 of 5.4%.
- With a total return of 13.2% we continue to rate BC Gas a Sector Perform.

OPINION: Sector Perform
12 month target $43.50
William J. Lacey, CFA

RATING SYSTEM: Top Pick (T) Outperform (O) Sector Perform (S) Underperform (U) Speculative Buy (SB)

COMPANY: BC Gas Inc. -BCG $39.70 | **November 7, 2002**

Disclosure Requirements

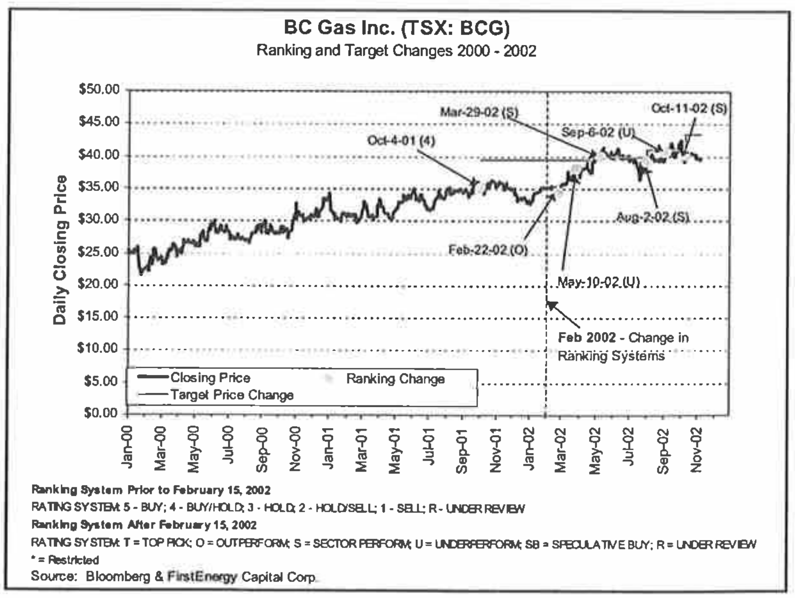
Is this an issuer related or industry related publication?	[X] Issuer	[ ] Industry
Does the Analyst have a financial interest in securities of the subject issuer? If yes, nature of the interest:	[ ] Yes	[X] No
Is FirstEnergy a market maker in the issuer's securities at the date of this report?	[ ] Yes	[X] No
Does FirstEnergy beneficially own more than 1% of any class of common equity of the issuer?	[ ] Yes	[X] No
Does FirstEnergy or the Analyst have any actual material conflicts of interest with the issuer? Explanation:	[ ] Yes	[X] No
Does the Analyst or a household member serve as a Director or Officer or Advisory Board Member of the issuer?	[ ] Yes	[X] No
Since July 9, 2002, has the Analyst received any compensation based on a specific investment banking transaction relative to this issuer?	[ ] Yes	[X] No
Has FirstEnergy managed or co-managed an offering of securities by the issuer in the past 12 months?	[ ] Yes	[X] No
Has FirstEnergy received compensation for investment banking and related services from the issuer in the past 12 months?	[ ] Yes	[X] No

Ranking System

FirstEnergy's rating system reflects our outlook for expected performance of an issuer's equity securities relative to its peer group over the next twelve months.

A *Top Pick* rating represents a security expected to provide a return materially higher than the peer group average.
An *Outperform* rating represents a security expected to provide a return greater than the peer group average.
A *Sector Perform* rating represents a security expected to provide a return in line with the peer group average.
An *Underperform* rating represents a security expected to provide a return less than the peer group average.
A *Speculative Buy* rating represents a security where the return potential is high, but the risk of a significant loss is material.

	Ranking Distribution	% Investment Banking Clients
Top Pick	12%	60%
Outperform	35%	48%
Sector Perform	33%	44%
Underperform	11%	22%
Speculative Buy	4%	67%
Under Review	0%	0%
Restricted Companies	5%	100%
Total	100%	



FirstEnergy Capital Corp. may receive or intends to seek compensation for investment banking services from all issuers under research coverage within the next three months. The compensation of the analyst and/or associate who prepared this research report is based upon, in part, the overall revenues and profitability of FirstEnergy Capital Corp.

PLEASE REFER TO THE FINAL PAGE FOR IMPORTANT REGULATORY DISCLOSURES.

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FAX: Research 403. 262. 0666 FAX: Corporate Finance 403. 262. 0688

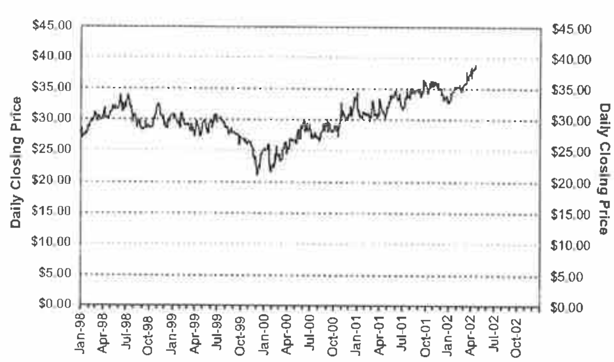
FIRST FACTS

COMPANY: BC Gas Inc. - BCG $38.50 — April 25, 2002

Year end Dec 31,		2000a	2001a	2002e	2003e
Earnings	$Mm	$78.8	$84.6	$99.0	$120.0
	Fully Diluted	$2.01	$2.19	$2.38	$2.54
	P/E		18.3	16.8	15.7
Cash Flow	$Mm	$176.4	$194.9	$215.0	$263.4
	Basic	$4.60	$5.08	$5.16	$5.58
	P/CF		7.9	7.7	7.2
EBITDA	$Mm	$373.7	$451.1	$513.4	$644.3
EV/EBITDA			7.7	7.8	6.5
Book Value	$/Share	$17.14	$17.84	$21.00	$23.40
Price/Book			2.2	1.9	1.7
Shares O/S *	Mm	38.3	38.3	43.6	49.4
Market Cap.	$Mm		$1,534	$1,744	$1,976
Dividend	$/Share	$1.23	$1.32	$1.43	$1.52
Dividend Yield	%		3.3%	3.6%	3.8%
ROE	%	11.2%	11.3%	11.3%	10.8%

Source: Company Reports and FirstEnergy Capital Corp.
* Adjusted for 4.6 Mm shares held by TMPL

BC Gas Inc. (TSE: BCG)
Short-term Statistical Review: 1998 - 2002



52 Week High	$38.93	52 Week Low	$30.15	Average Daily Trading Volume
52 Week High On	Apr 16-02	52 Week Low On	Apr-23-01	75,006 Shares

OPINION: Sector Perform
12 month target $40.00
William J. Lacey, CFA

Event

- BC Gas reported Q1 2002 results that were right in line with expectations.
- EPS was reported at $1.70/share versus FCC which was $1.71/share, and the Street which was $1.65/share.
- More significantly, the dividend was increased to $1.44 annualy from the previous level of $1.32 and our outlook for $1.40.

Impact

- Overall we were very pleased with the results that were posted for the quarter. Lower than anticipated earnings from the Gas Distribution businesses were offset by stronger performance than we had expected from Petroleum Transportation and lower losses from Other Activities.

Outlook

- Looking forward the continued pattern of visible growth continues with the company on two fronts. First, the gas distribution business will demonstrate continued growth through the integration of the Centra Gas BC assets and positioning of the assets towards the achievement of Performance Based Regulation in the future. Second, the addition of Corridor Pipeline is expected to occur in February 2003. The pipeline is currently 88% complete and at the end of Q1 2002 $494 Mm had been spent on the system.
- As announced previously, BCG has agreed to sell its wholesale waterworks supply of BCG Service Inc. to EMCO Limited for an undisclosed price. The Company willl continue to operate its waterworks services businesses which it feels are more closely alligned to its core competencies. No significant financial impact is expected as a result of the transaction.

Recommendation

- BC Gas continues to demonstrate clear and definable growth for shareholders while minimizing risk associated with that growth.
- With the increase in the dividend, we have chosen to modestly increase our target price to $40.00 from our previous outlook of $39.40. This reflects a yield differential of 200 BPS below our Government of Canada 10-Year outlook of 5.6% and reflects a P/E of 17.1x, a P/CF of 8.1x and a target yield of 3.6%, all of which are in line with 5-year averages.
- We continue to maintain our Sector Perform rating with the total return implied being 8%

RATING SYSTEM: Top Pick (T) Outperform (O) Sector Perform (S) Underperform (U) Speculative Buy (SB)

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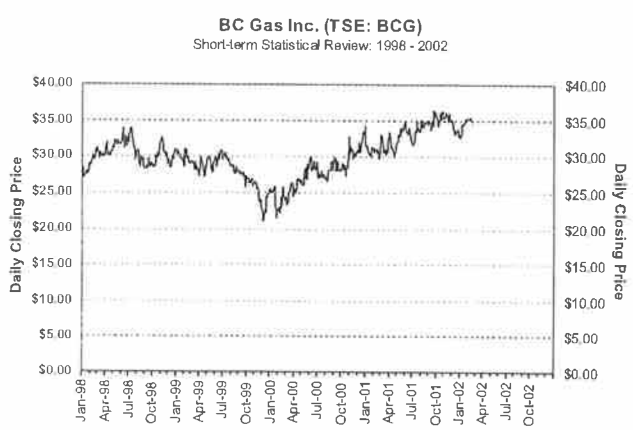
FIRST FACTS

COMPANY: BC Gas Inc. - BCG $34.83 **February 15, 2002**

Year end Dec 31,		1999a	2000a	2001e	2002e	2003e
Earnings	$Mm	$74.2	$78.8	$84.6	$105.6	$126.0
	Fully Diluted	$1.94	$2.01	$2.15	$2.37	$2.51
	P/E			15.6	14.2	13.5
Cash Flow	$Mm	$174.4	$176.4	$194.9	$219.4	$262.4
	Basic	$4.56	$4.60	$5.08	$5.04	$5.32
	P/CF			6.6	6.7	6.3
EBITDA	$Mm	$386.8	$373.7	$451.1	$524.2	$630.5
EV/EBITDA				7.1	7.2	6.3
Book Value	$/Share	$15.80	$17.14	$17.84	$18.90	$19.93
Price/Book				1.9	1.8	1.7
Shares O/S *	Mm	38.3	38.3	38.3	43.6	49.4
Market Cap.	$Mm			$1,292	$1,468	$1,663
Dividend	$/Share	$1.17	$1.23	$1.32	$1.40	$1.48
Dividend Yield	%			3.9%	4.2%	4.4%
ROE	%	11.3%	11.2%	10.7%	13.4%	13.4%

Source: Company Reports and FirstEnergy Capital Corp.
* Adjusted for 4.6 Mm shares held by TMPL



52 Week High:	$36.40	52 Week Low:	$29.75	Average Daily Trading Volume
52 Week High On:	Sep-21-01	52 Week Low On:	Feb-21-01	78,504 Shares

OPINION: Buy (4)
12 month target $39.40
William J. Lacey, CFA

Event

- BC Gas reported Q4 earnings that were slightly behind our expectations with EPS of $1.28 versus our estimate of $1.32.
- Petroleum Transportation reported earnings of $8.5 Mm (FCC $6.8 Mm) and Natural Gas Distribution reported earnings of $45.1 Mm (FCC $45.2 Mm).
- Where we differed from the earnings was significantly underestimating the impact from Other Activities of $(4.6) Mm versus our estimate of a loss of $(1.2) Mm. This result was driven in part by seasonality as well as the downturn in economic activity in Q4.
- We continue to expect to see an increase in the annual dividend rate by around $0.08 per share to $1.40 for 2002.

Impact

- Earnings estimates for 2002 and 2003 remain unchanged.

Corporate Outlook

There are several potential projects over the next few years that provide clear growth to EPS for the Company.

- *Centra Gas (2002):* A series of minor legislative amendments are required in order to close the acquisition of Centra Gas from Westcoast. The required legislation has been drafted and the Company anticipates closing the transaction by early March and results being effective January 1, 2002.
- *Corridor Pipeline (2003):* Construction is on time and within the stated budget of $690 Mm.
- *Bison Pipeline (2005):* BC Gas recently announced a proposal for the $800 Mm Bison heated bituman pipeline from Athabasca to Edmonton. The Company anticipates filing an AEUB application by July 2002 and hopes to obtain approval to proceed by Q1 2003.
- *Other:* With the potential deregulation of power markets within British Columbia, we believe that BC Gas would be well positioned to acquire a portion of the transmission assets within the province should they come available. This is due to the strong infrastructure that BCG has in place within the natural gas distribution base and the resulting efficiencies that can be garnered from such operational overlap on customers, and the lower risk nature of the power transmission business.

Summary

- BC Gas has a low risk profile with growth prospects that are visible over the next several years.
- We continue to reiterate our Buy (4) rating and our 12-month target price of $39.40.

RATING SYSTEM: 5-Buy; 4-Buy/Hold; 3-Hold; 2-Hold/Sell; 1-Sell

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COMPANY: BC Gas Inc. - BCG $36.05 **November 8, 2001**

Q3 Results

- BC Gas reported an EPS loss of $0.58 for the quarter versus our expectations for a loss of $0.38 per share. After adjusting for seasonality in the quarter, $0.25 per share, the restated loss was actually $0.33 per share. This seasonal loss will be fully recuperated in Q4 and as such management believes earnings are on track for the higher end of $2.15 to $2.20 per share.

Year end Dec 31,		1999a	2000a	2001e		2002e
Earnings	$Mm	$74.2	$78.8	$86.4		$105.2
	Fully Diluted	$1.94	$2.01	$2.20		$2.37
	P/E	13.1	16.6	16.4		15.2
Cash Flow	$Mm	$174.4	$176.4	$192.7	↑	$213.0
	Basic	$4.56	$4.60	$5.03	↑	$4.89
	P/CF	5.6	7.2	7.2		7.4
EBITDA	$Mm	$386.8	$373.7	$446.9	↑	$526.6
EV/EBITDA		5.1	7.6	7.2		7.2
Book Value	$/Share	$15.80	$17.14	$17.89	↑	$18.94
Price/Book		1.6	1.9	2.0		1.9
Shares O/S *	Mm	38.3	38.3	38.3		43.6
Market Cap.	$Mm	$972	$1,278	$1,382		$1,570
Dividend	$/Share	$1.17	$1.23	$1.32		$1.40
Dividend Yield	%			3.7%		
ROE	%	11.3%	11.2%	10.9%		13.3%

Source: Company Reports and FirstEnergy Capital Corp.
* Adjusted for 4.6 Mm shares held by TMPL
** Assumption of 5.2 Mm shares issued in 2002 for Centra Gas BC purchase

Operational Update

- *Centra Gas:* On October 22, 2001 the Company announced that it had reached an agreement to purchase Centra Gas BC for $208 Mm from Westcoast Energy Inc. (W – TSE). This acquisition was a logical addition to the BC Gas portfolio that provided immediate upside to 2002 estimate ($0.05 EPS and $0.10 CFPS). Further upside may be possible through operational synergies with the larger BC Gas Utilities, growth of the customer base on Vancouver Island and greater market penetration of existing markets. The acquisition is proceeding on schedule and is expected to close in January 2002.
- *Equity Offering:* As part of the acquisition of Centra Gas BC, BCG entered into a bought deal with a syndicate of investment banks to raise gross proceeds of $188.3 Mm. and is expected to close November 20, 2001. The financial impact was already fully incorporated into our 2002 estimates but does not effect the 2001 Q4 results due to the fact that the shares are issued as subscription receipts and as such do not effect the results until the transaction closes.
- *Regulatory Developments:* Recently BC Gas announced that it had withdrawn its 2002 revenue requirement for BC Gas Utilities. This action has been taken to align both BC Gas Utilities and Centra Gas BC and establish a base year revenue requirement upon which a multi-year agreement can be based for incentive regulation. As a result, there will be no changes to the Rate Base or Return on Equity, but the deferral accounts for both gas costs and weather impacts will remain in place. Provincial regulators have not yet fully signed off on this agreement but is anticipated shortly.
- *Southern Crossing Expansion / Inland Pacific Connector:* The Company continues to pursue environmental approvals for the project as well as looking to solicit interest from various parties. The Company is of the belief that the province still needs the gas pipeline infrastructure and will continue to focus on an in-service date in late 2004.
- *Corridor Pipeline:* The project continues to be on time and on budget and is expected to be operational by mid-Q1 2003.

Summary

- The financial performance of BCG continues to meet our expectations. With continued growth through acquisitions (Centra Gas BC) and greenfield developments (Corridor Pipeline) as well as capturing value through efficient operations, the Company continues to execute on their strategy of low risk growth. At $36.05 per share we believe the Company represents good value and continue to rate the shares a Buy (4) with a 12 month target of $39.40.

OPINION: Buy (4) 12 month target $39.40
William J. Lacey, CFA

RATING SYSTEM: 5-Buy; 4-Buy/Hold; 3-Hold; 2-Hold/Sell; 1-Sell

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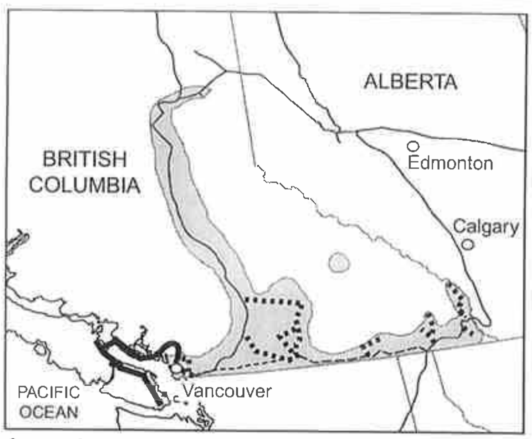
FIRST FACTS

COMPANY: BC Gas Inc. - BCG $35.64 — **October 23, 2001**

Year end Dec 31,		1999a	2000a	2001e	Pre Centra BC 2002e	Post Centra BC 2002e
Earnings	$Mm	$74.2	$78.8	$86.6	$91.2	$105.2
	Fully Diluted	$1.94	$2.01	$2.20	$2.32	$2.37
	P/E	13.1	16.6	16.2	15.3	15.1
Cash Flow	$Mm	$174.4	$176.4	$182.2	$183.9	$213.0
	Basic	$4.56	$4.60	$4.75	$4.79	$4.89
	P/CF	5.6	7.2	7.5	7.4	7.3
EBITDA	$Mm	$386.8	$373.7	$441.5	446.6	$526.6
EV/EBITDA		5.1	7.6	6.8	6.7	6.7
Book Value	$/Share	$15.80	$17.14	$17.87	$18.67	$18.91
Price/Book		1.6	1.9	2.0	1.9	1.9
Shares O/S *	Mm	38.3	38.3	38.4	38.4	43.5
Market Cap.	$Mm	$972	$1,278	$1,368	$1,367	$1,551
Dividend	$/Share	$1.17	$1.23	$1.32	$1.40	$1.40
Dividend Yield	%			3.7%		
ROE	%	11.3%	11.2%	11.0%	11.6%	13.3%

Source: Company Reports and FirstEnergy Capital Corp.
* Adjusted for 4.6 Mm shares held by TMPL
** Assumption of 5.1 Mm shares issued in 2002 for Centra Gas BC purchase



Source: Company Reports

- BC Gas Utility Ltd. - Transmission Pipelines
- Centra Gas B.C. Distribution System
- Southern Crossing Pipeline
- BC Gas Utility Ltd. - Distribution Service Area
- Other Natural Gas Transmission Pipelines
- Inland Pacific Connector

OPINION: Buy (4)
12 month target $39.40
William J. Lacey, CFA

BC Gas to Acquire Centra Gas B.C.

- BCG will acquire Centra Gas common shares for $208 Mm from Westcoast Energy Inc. (W - TSE). In addition, the preferred equity component is to be paid in two installments, $32 Mm at closing (expected early Q1 2002) and $52 Mm by 2011. Furthermore, $298 Mm in debt is assumed for this transaction, $70 Mm through parent advances and $228 Mm in assumed long-term debt.
- On an Enterprise Value to Book Value basis, the transaction represents a multiple of only 1.04x.
- Of the total cash requirements, $180 Mm is to be financed through the issuance of common shares and $130 Mm will be additional BC Gas Inc. debt.
- Based on an assumed rate base of $455 Mm, a deemed equity component of 35% and an allowable ROE of 9.4%, and adjusting for financing and Performance Based Regulation (PBR) allowances, we have assumed that earnings will increase by $14.0 Mm in 2002.

Strategic Fit

- Centra Gas B.C. is a Local Distribution Company (LDC) focused on Vancouver Island and the Sunshine Coast and currently has approximately 70,000 customers.
- Centra Gas BC was a logical acquisition by BC Gas as the asset base is complementary to the broader distribution service area that the Company currently operates.
- PBR provides further opportunities to capture value if the two operations can coordinate services and reduce overall Operations and Maintenance expenditures by Centra.
- Relative to BC Gas, the market penetration for customers on existing gas mains for Centra is only 48% versus over 90% for BCG.
- As a result of the potential decommissioning of the undersea power transmission cables from mainland BC to Vancouver Island and the resultant growth in gas-fired power generation, the potential for significant growth in gas transmission revenues exists.

Summary

- We believe that the announced acquisition of Centra makes a lot of sense and further strengthens the overall asset base of the Company.
- The Company has a mandate of undertaking low-risk projects that provide visible growth in earnings. This acquisition continues to reinforce this strategy and we think that further upside will be captured as the full benefits of integrating the Company are realized.
- We continue to believe that an investment in BC Gas represents good value and as such have maintained our Buy (4) rating and our 12-month target of $39.40.

RATING SYSTEM: 5-Buy; 4-Buy/Hold; 3-Hold; 2-Hold/Sell; 1-Sell

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BC Gas Inc. - BCG

TSE $35.50

Initiating Coverage

Highlights:

- Long term growth prospects for earnings are visible through the recent commissioning of the Southern Crossing Pipeline and the addition of the Corridor Pipeline in 2003.
- The Company has established itself as having a disciplined approach to investing in focused markets in projects that have a low amount of risk.
- Growth in the future will continue to be focused on opportunities within Western Canada.
- Further opportunities that expand upon the current asset base within the BCG portfolio will continue to be examined, but will not be pursued if viewed as being growth for growth's sake.
- With the current underlying volatility in equities markets we believe that an investment in BC Gas will provide a sanctuary to investors who are looking for a Company with a low-risk growth profile and a strong history of growing the dividend.

MORE ENERGY THAN EVER

William J. Lacey, CFA
Research Analyst,
Pipelines

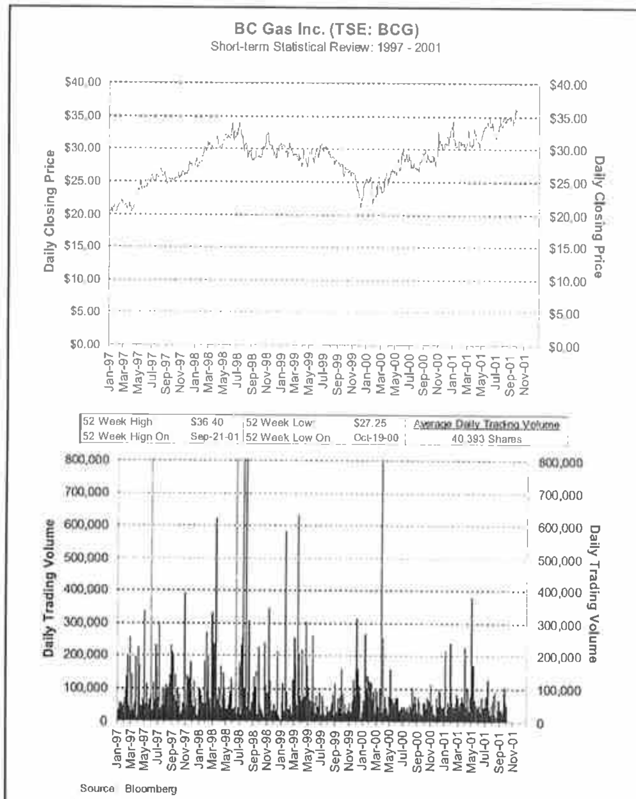
October 2, 2001

OPINION: Buy (4) 12 month target $39.25

Financial Highlights

Year end Dec 31,		1999a	2000a	2001e	2002e
Earnings	$Mm	$74.2	$78.8	$86.6	$91.2
	Fully Diluted	$1.94	$2.01	$2.20	$2.32
	P/E	13.1	16.6	16.1	15.3
Cash Flow	$Mm	$174.4	$176.4	$182.2	$183.9
	Basic	$4.56	$4.60	$4.75	$4.79
	P/CF	5.6	7.2	7.5	7.4
EBITDA	$Mm	$386.8	$373.7	$441.5	$446.6
EV/EBITDA		5.1	7.6	6.8	6.7
Book Value	$/Share	$15.80	$17.14	$17.87	$18.67
Price/Book		1.6	1.9	2.0	1.9
Shares O/S *	Mm	38.3	38.3	38.4	38.4
Market Cap.	$Mm	$972	$1,278	$1,363	$1,363
Dividend	$/Share	$1.17	$1.23	$1.32	$1.40
Dividend Yield	%			3.7%	
ROE	%	11.3%	11.2%	11.0%	11.6%

Source: Company Reports and FirstEnergy Capital Corp.
* Adjusted for 4.6 Mm shares held by TMPL



FirstEnergy CAPITAL CORP.

Summary and Recommendation

BC Gas (BCG –TSE) is an energy delivery company with very focused operations that are primarily within Alberta and British Columbia. With the natural gas distribution business the majority of investment is within the growing corridor of Southern BC with a view towards further significant development, potentially in 2004. On the liquids pipeline front the Company has been a long time participant in the movement of crude oil out of the WCSB through its wholly owned subsidiary Trans Mountain Pipe Line. This area has also experienced growth with the commitment to build the Corridor Pipeline to help move volumes out of the oil sands project in the Muskeg River that is being developed by Shell, Chevron and Western Oil Sands. As a result, BCG has positioned itself for several years of strong growth in both its earnings and cash flow.

The operations of BC Gas are focused primarily within Western Canada.

With the current lines of business that BCG is involved in, we believe that there are several comparables within our Canadian Pipeline universe upon which to base our valuation. We believe that the pipeline universe is an appropriate benchmark due to the increasing growth of the Petroleum Transportation business and our belief that this segment will represent almost 38% of earnings in 2003 versus 27% in 2000. As has been the case with all of the companies within this sector, prices have appreciated significantly since capital markets first came under pressure in September 2000. Since the downturn the TSE Pipeline Index has seen itself appreciate by 37% and BC Gas has seen a respectable total return of 25% versus the broader TSE 300 which has declined by 40%. In the table below we have outlined all of the comparable companies and valuation parameters in order to help arrive at what we feel is a reasonable one year target price for the Company. With continued volatility in equities markets and a flight to quality we believe that investors that are looking for a financially strong company with decent growth prospects and a dividend that provides a yield of 3.6% should own this stock. As a result, with this publication we are initiating coverage with a Buy (4) recommendation and a 12-month target of $39.25.

The Canadian pipeline companies provide a suitable proxy for valuing the Company.

Comparable Valuations for Canadian Pipeline Companies

			2002e					
Company	Symbol	Price	EPS	P/E	CFPS	P/CF	Dividend	Yield
Enbridge Inc.	ENB	$43.50	$2.77	15.7	$5.77	7.5	$1.48	3.4%
TransCanada PipeLines Limited	TRP	$20.38	$1.41	14.5	$3.27	6.2	$0.98	4.8%
Westcoast Energy Inc.	W	$41.30	$2.68	15.4	$6.26	6.6	$1.44	3.5%
Simple Average				*15.2*		*6.8*		*3.9%*
BC Gas Inc.	BCG	$35.50	$2.32	15.3	$4.79	7.4	$1.40	3.9%

Source: FirstEnergy Capital Corp.

BC Gas Utility Ltd.

A wholly owned subsidiary of BCG, BC Gas Utility Ltd. is the largest natural gas distribution company in British Columbia with 763,923 customers at the end of Q2 2001. Historically, this segment has been the largest contributor to the overall earnings of the Company with 1999 representing 70% and 2000 at 73%. Unlike the two largest natural gas distribution companies within Canada (Union Gas and Consumers Gas), earnings are not normalized but a rather accounted for on the Balance Sheet in a Rate Stabilization Account, thereby reducing the volatility that can normally result from colder or warmer than normal weather.

BC Gas Utility is the largest gas distribution company within British Columbia.

In November of 2000 the Company completed the single largest infrastructure development in its history with the commissioning of the Southern Crossing Pipeline Project. The project was designed to help encourage competitive pricing for sourcing natural gas and was also developed to help ensure reliability of supply for the Company. At a cost of $396 Mm, this 303 km 24 inch high pressure pipeline

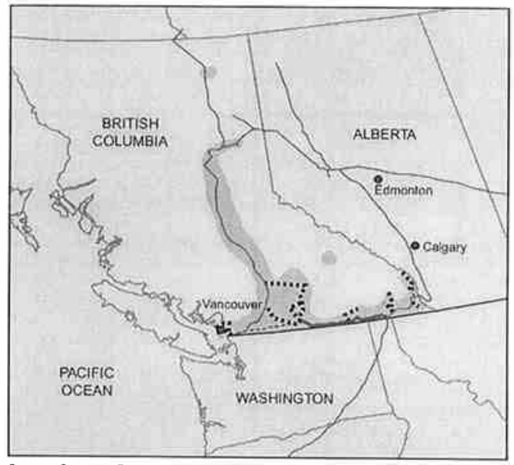
The Southern Crossing Pipeline increased the gas distribution rate base by almost 20%.

If the $495 Mm Pacific Connector Pipeline is built it will further increase the gas distribution rate base by another 21% and will increase EPS by $0.12.

TMPL is the only pipeline in the world that transports refined products, light oil and heavy oil in the same line.

system connects the existing BC Gas system to gas transmission infrastructure within Alberta. Initially the pipeline is designed to transport 250 Mmcf per day and can be expanded to 600 Mmcf through the addition of compression. After rolling this pipeline into the rate base of the Company, the full year earnings impact of the system is expected to be around $12 Mm, but is not expected to significantly alter the overall seasonal nature of the earnings from the business.

BC Gas Utility Assets



Source: Company Reports

In an effort to further expand the business, BC Gas is currently examining the potential of building the Inland Pacific Connector Pipeline. If built, this 246 km 24 inch pipeline is estimated to cost $495 Mm and would work towards establishing surety of supply for its existing systems by connecting the Southern Crossing Pipeline near Oliver, B.C. to the Huntingdon market hub in the Fraser Valley. This project is still in the early stages of development through the solicitation of interest in an open season for shippers and also for the public consultation process. If completed, we estimate that the project would contribute $15.3 Mm to earnings based upon the current rate structure and would be accretive to 2004 earnings by $0.12 per share.

Incentive Agreements: Similar to other pipeline utility business models, BC Gas Utility also has an incentive agreement in place for its operations. The agreement was initially put into place in 1996 and extended until December 31, 2001, at which point the Company hopes to have negotiated a longer-term agreement under which it can operate. Under the current terms of the agreement the Company is essentially limited to managing the O&M costs to the benefit of the Company. Looking forward, it is hoped that the Company can negotiate a comprehensive performance based management structure wherein the Company will be able to set a fixed margin requirement with the British Columbia Utilities Commission (BCUC) and try to optimize the underlying cost structures to its benefit.

Petroleum Transportation

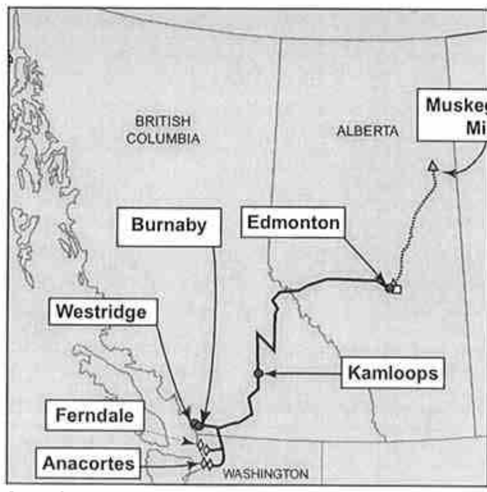
This segment of the business within BCG contains all of the liquids pipeline investments that the Company currently owns.

Trans Mountain Pipe Line (TMPL) System: The Trans Mountain Pipe Line System is a batch operated pipeline that ships a diversified set of products down its system. For the majority of its shipments the system carries volumes of light crude oil, distillates, gasoline and methyl tertiary butyl ether (MTBE), though at times the system has also been known to make shipments of heavy oil. The system is essentially an express design wherein a majority of the volumes are loaded at the Edmonton tank farm, with smaller volumes being provided from the Pembina West pipeline near Kamloops, British Columbia. Deliveries are provided at Kamloops (Refined Products), Westridge (Jet Fuel and Crude Oil), Burnaby (Refined Products), Anacortes (Crude Oil) and Ferndale (Crude Oil).

Incentive Tolling Settlement (ITS): On November 5, 2000 TMPL announced that it had reached an agreement to extend its ITS for another five years effective January 1, 2001. Under the terms of the agreement TMPL agreed to accept the risks and rewards of throughput variance between predetermined bands of 28,500 m^3 and 32,000 m^3 per day, with the tolls for the system being based on average throughput of 30,000 m^3. Any excess gains as a result of throughputs that are higher than the predetermined band is to be shared on a 50/50 basis with shippers on the system, while losses as a result of being below the band are absorbed 100% by the shippers. In addition to the throughput incentives, the Company also has agreements in place wherein if it can reduce the overall cost of operations for the system, the full benefit will flow through to TMPL.

Corridor Pipeline: The 493 km Corridor Pipeline is a new pipeline being constructed that will connect the Athabasca Oil Sands Project located in Muskeg River to the upgrader being built next to Shell's Scotfort Refinery. The system will comprise of a 24 inch pipeline that will transport 215,000 barrels per day of diluted bitumen from the mine site to the upgrader, and there will be a 12 inch return line that will send 65,000 barrels per day of diluent from the upgrader back to the mine site. In addition, further pipelines will be constructed to connect from the upgrader to marketing terminals in Edmonton. The pipeline was designed to minimize the overall capital costs up front for the companies involved in the oil sands project, namely Shell Canada (60%), Chevron (20%) and Western Oil Sands (20%) through optimizing sizing for initial production versus building the pipeline for ultimate capacity several years down the road. The overall cost of the project is estimated at $688 Mm with Corridor directly responsible for $460 Mm of the project and the remaining $228 Mm being flowed through to Shell. The portion that the Company is responsible for relates to pipeline and pump station construction and the balance of this has been locked in through fixed price contracts. As a slightly different twist to the construction phase of the project, the system is being financed entirely through short-term debt and the interest is being capitalized. In many other pipeline projects, the most recent being Alliance, the Company would typically receive an Allowance for Funds Used During Construction (AFUDC) and as a result would receive a non-cash earnings component during the construction phase. As a result, the Company will not book any earnings until the system is commissioned, which at this point we have assumed will be mid Q1 2003. If and when the pipeline is required to be expanded the capacity can be increased by approximately 50% at very low cost through the addition of mid-point compression.

PETROLEUM TRANSPORTATION ASSETS



Source: Company Reports

- —— Trans Mountain Pipe Line Company Ltd.
- ········ Corridor Pipeline Project
- ◊ Refineries and Terminals
- ● Trans Mountain's Facilities
- Δ Corridor Pipeline Pump Stations
- □ Maintenance Facility

The Corridor Pipeline Project levers off of the experience garnered by owning TMPL and presents new opportunities to participate in the growing production coming out of the Athabasca Oil Sands.

Energy and Utility Services

BC Gas has entered into several businesses that are at various stages of development and to date as a group have not made a significant contribution to the overall financial growth of the organization. We have outlined the businesses that the Company is currently involved in below.

Customerworks: Recently BC Gas and Enbridge Inc. created a joint venture to provide customer management solutions for utilities, municipalities and retail energy companies within Canada. The premise behind the deal will be to create a business that will support a number of services across the entire "meter-to-cash" process. The companies contributed the call centres, billing operations and customer information systems and will initially have a customer base approaching 3.5 million. Full scale operations are expected by January 1, 2002, though the operations began officially on August 1, 2001.

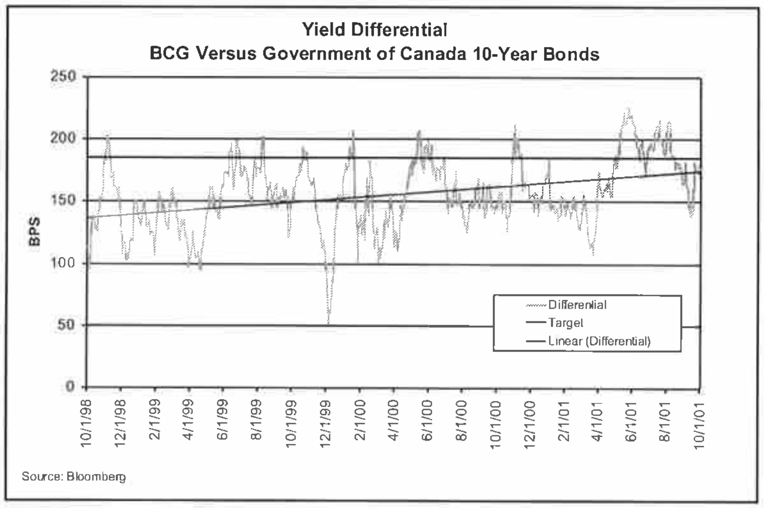
BCG Services Inc.: Waterworks and other water-related businesses is the primary focus of this business line within BCG and encompasses a variety of clients ranging from municipalities, resorts, institutions and industrial customers. The Company has been active in acquiring water related businesses, purchasing four companies throughout 1999 and 2000. In addition to this base line of business, the Company believes that there are opportunities to capture incremental value through providing supplementary services to existing clients through other businesses that the Company is involved in such as measurement, billing and customer management solutions.

Measurement Technologies: Created out of a partnership with Invensys plc, Measurement Solutions International (MSI) was formed to capture opportunities that may arise through the management and maintenance of measurement assets across North America. Commodities that could fall under this would include power, natural gas and water. Opportunities are currently being explored with several companies within the northeast United States. In addition, the Company believes that additional markets may develop as Measurement Canada, an organization run by the Government of Canada that provides meter inspection services for gas and power utilities, withdraws from the market in favour of independent services.

Homeworks: A customer service driven business directed at the residential end of the market, Homeworks is focused on a variety of businesses that complement the larger utility. Specifically, this segment works on retrofitting houses to capture value through the addition of higher efficiency technologies. Broadening its focus beyond natural gas, the Company has expanded to include water services by focusing on septic tank service and installation. Finally, in moving down the natural gas value chain the Company offers various services for heating related products to complement its alliance with Lennox Inc. Layered across this business is a separate financing program offered to the customers to help increase the ease of undertaking various programs while attempting to increase margins experienced by Homeworks.

BC Gas International: This segment of the business provides consulting and engineering services around the world. At present two significant projects are underway. First, in the United Arab Emirates the Company is working with a local partner on the second phase of a natural gas distribution system in the country. Further projects may arise as the country anticipates developing two additional phases. More recently, the Company announced that it had been awarded a 5-year contract in conjunction with Enbridge Inc. (ENB – TSE) to operate the natural gas transmission system owned by the Oman Gas Company in the Sultanate of Oman.

BCG eFuels Inc.: Focused on developing clean transportation fuels, BCG eFuels has become the largest provider of Compressed Natural Gas (CNG) for vehicles in British Columbia and has plans to grow this business in select markets within both Canada and the United States. In an effort to broaden its potential markets and involve new investors, the Company sold a minority interest to Westport Innovations Inc., a company that has developed high-pressure direct injection natural gas fuel systems for diesel engines, in order to help penetrate the heavy truck market. In addition, eFuels also signed a 3-year agreement with Ford Motor Company to support marketing of natural gas vehicles to commercial fleets in Vancouver,



Yield differentials for BCG versus Government of Canada 10-Year Bonds have steadily widened over the past few years ....

Toronto and Phoenix. More recently, BCG eFuels Inc. merged with Pickens Fuel Corp. and as a result has become the largest natural gas fuel provider for vehicles throughout North America.

Financial Forecast

Regulated Businesses: Looking forward, we have chosen to keep the rates established by the various regulatory jurisdictions for allowable Return on Equity fixed at the same level as that which was established for 2001. As a result, for BC Gas Utility, we have used a base ROE of 9.25%, whereas for the Petroleum Transportation business we have modeled our forecast based on a ROE of 9.61%. In addition to these baseline economics there are various allowances for upside based upon the underlying contracts which provide room for incremental earnings through performance based management.

Non-Regulated Businesses: With the new businesses that BC Gas has undertaken, we view these as being still in the infancy of their development. As such, from a financial perspective, we have attributed nominal positive contributions from this segment of around $0.5 Mm per quarter to earnings on a forward looking basis, which is in line with previous results. As the businesses mature, we believe that there is upside to these estimates but will await further developments prior to adjusting our forecast.

Valuation

BC Gas has a demonstrated ability to increase earnings and dividends over the long term through the undertaking of significant capital programs with strong underpinning economics while positioning for growth through efficient operation of the businesses. Over the five year period from 1996 to 2000 EPS grew at a CAGR of 8.6% while the dividend grew at 8.0%. Looking forward, we see continued growth in the earnings as a result of the Southern Crossing Pipeline contribution. Therefore, we are forecasting EPS to increase by a CAGR of 6.1% over the next few years with dividends also growing by a similar amount. Farther afield, we believe that this growth rate can be maintained with the commissioning of Corridor early in 2003 and the potential addition of the Inland Pacific Connector Pipeline Project in late 2004.

... and we believe this momentum will continue with the visibility in EPS and dividend growth over the next several years.

In the chart above we have shown the yield of BC Gas as it relates the Government of Canada 10-Year bond. During the same five year period as outlined previously, GOC bonds have enjoyed a continual declining yield. Since late 1998 the yield differential between the long bond proxy and the BC Gas yield has been widening steadily from around 140 BPS to around 165 BPS recently. Based on our views of stable growth and the potential for increases in the dividend, we have chosen to base our target price off of a Government of Canada 10 Year yield of 5.4% and a yield differential of 185 BPS. As a result, we have established a 12-month target price of $39.25 which reflects 16.9x 2002 EPS and 8.2x CFPS.

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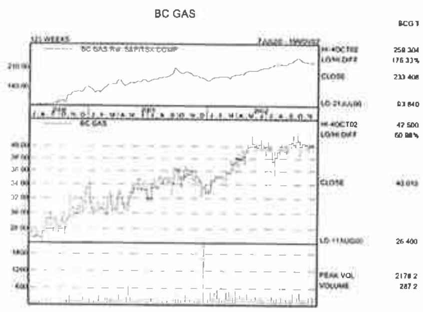
RBC Capital Markets

Research Comment

November 20, 2002



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Price:	$40.01	**Price Target:**	$43.50
52 Wk High:	$42.50	**52 Wk Low:**	$32.07
Float (MM):	43.7	**Debt-to-Cap:**	0.7
Shares Out:	48.3	**Market Cap (MM):**	$1,932
Dividend:	$1.44	**Yield:**	3.60%
Major Shareholders:		TransMountain (9.5%)	

(FY Dec)	2001A	2002E	2003E	2004E
EPS				
Old Basic	$2.21	$2.50	$2.67	$2.81
Old Diluted	$2.19	$2.48	$2.65	$2.79
New Basic	$2.21	$2.50	**$2.60**	**$2.75**
New Diluted	$2.19	$2.48	**$2.57**	**$2.73**
P/E (x)	18.1	16.0	15.4	14.5

All values in C$ unless otherwise noted.

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

BC Gas Inc.

(TSX: BCG)

Outperform

Average Risk

BC Gas and Partners Buy Express Pipeline
Estimates Reduced to Reflect Equity Issue

Event

BC Gas, Borealis Infrastructure and the Ontario Teachers' Pension Plan have entered into an agreement to acquire the Express Pipeline System from EnCana for $1.175 billion, including assumed debt of approximately $582 million.

Investment Conclusion

BC Gas will assume a one-third equity position in the pipeline consortium to purchase the Express Pipeline and will be the manager/operator of the pipeline. The Company's equity investment will be $198 million. In order to finance the acquisition, and to strengthen the Company's balance sheet following the construction of the Corridor Pipeline, BC Gas will issue $300 million in common equity. The equity issue will reduce the Company's debt/capital from 74% to approximately 68%. Our analysis indicates that de-leveraging the balance sheet will more than offset the positive earnings per share impact from the acquisition. However, the Company anticipates that an expansion of the Express Pipeline could be undertaken as early as 2004, with a positive EPS impact of approximately $0.10 per share at that time. The acquisition fits with the Company's strategy of participating in oilsands growth and is consistent with our Outperform ranking on the stock. Our one-year target price remains $43.50.

Valuation

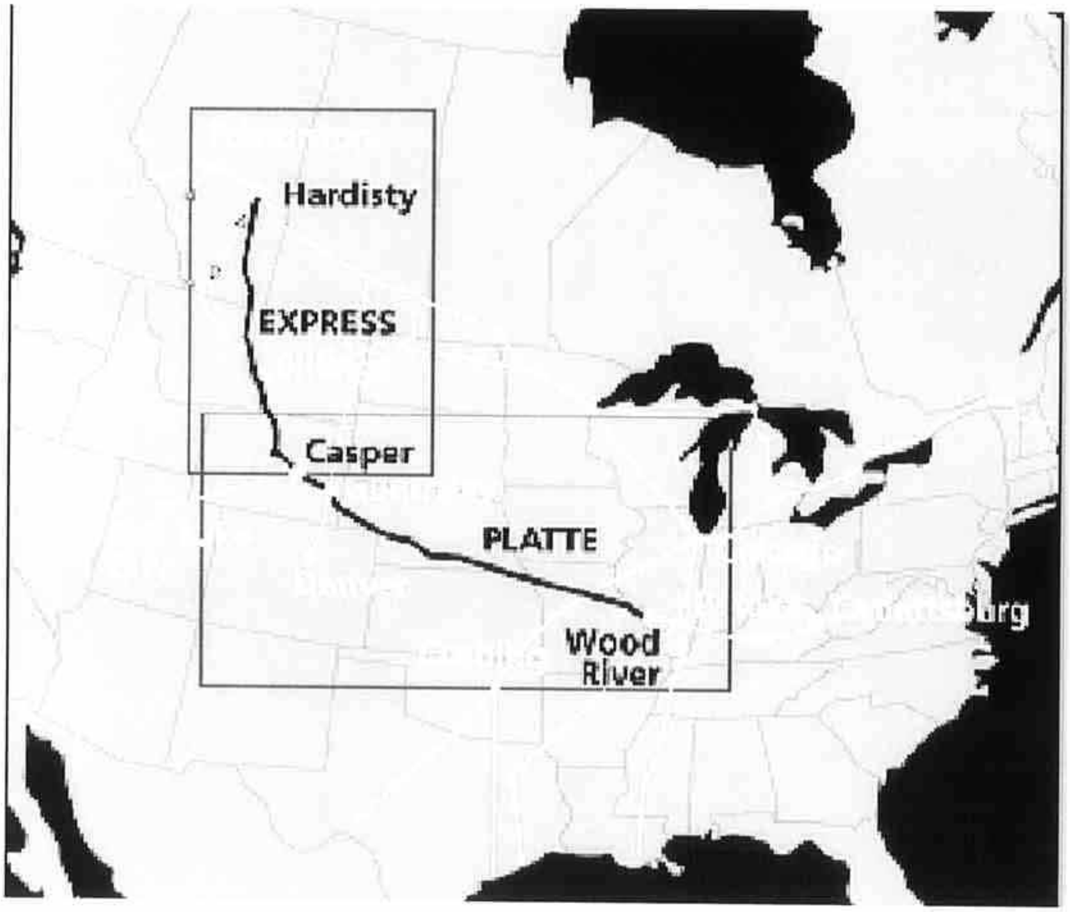
Our valuation for BC Gas is based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for BC Gas. Our target price of $43.50 is based on a forecast dividend of $1.56 and required dividend yield of 3.6%.

Impediment

Our target price for BC Gas of $43.50 reflects a forecast $0.12 increase in its annual dividend from $1.44 to $1.56 per share. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and BC Gas' dividend yield will increase as BC Gas continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Our earnings and dividend estimates are predicated on the successful completion of the Corridor Pipeline and a stable regulatory environment in British Columbia. Should BC Gas receive a negative decision from the B.C. Utilities Commission regarding its performance-based regulatory proposal, or some other aspect of its operations, the company's earnings may fail to reach our target, having negative share price implications.

Details

BC Gas currently owns two major petroleum pipelines, the TransMountain Pipe Line that moves petroleum from Alberta to the B.C. Lower Mainland and into Washington, and the Corridor Pipeline that moves bitumen from Fort McMurray to refining capacity in Edmonton. The Express Pipeline System consists of two major pipelines. The 24-inch Express pipeline is a 170,000 barrels per day (bpd) system running from Hardisty, Alberta to Casper, Wyoming. The system also includes the 20-inch Platte Pipeline that has a capacity of 150,000 bpd and runs from Casper to Wood River Illinois. Please refer to the illustration below.



The transaction is subject to regulatory approvals (Competition Act/Hart Scott Rodino, AEUB/Alberta Environment, Wyoming Public Service Commission), and is expected to be finalized in January 2003.

BC Gas will earn a 1/3 share of the Express net income. In addition, the transaction has been structured such that the tax benefits will flow to BC Gas. BC Gas will also receive management fees for operating the system. The Company expects the total contribution in 2003 will be approximately $12 million. According to the presentation on BC Gas' website, BC Gas will equity account its investment in the Express Pipeline. We would normally analyze an investment of this type assuming a 60/40 debt-to-equity ratio. As our analysis indicates below, based on this assumption, and in conjunction with the other information provided by the Company, the earnings per share impact of the Express investment is approximately $0.02 to BC Gas in 2003.

BC Gas also intends to access the public common equity markets to reduce the leverage on its balance sheet. As at the end of Q3 2002, BC Gas had approximately 74% debt in its capital structure. The Company had previously stated that, upon completing construction of the Corridor Pipeline, it would issue capital securities to reduce its financial leverage. Based on the information provided yesterday, we assume that pressure from the credit rating agencies has resulted in BC Gas issuing additional common equity instead of the capital securities. Yesterday, both Moody's (current BC Gas rating of A3) and S&P (current BC Gas rating of BBB+) placed BC Gas on negative watch following the announcement of the Express investment. Issuing the $300 million in common equity will reduce the debt-to-capital ratio to a more acceptable 68%. However, the dilution from the additional equity reduces our forecast EPS for the Company by $0.09. When added to the Express EPS accretion, the net impact to our 2003 EPS estimate is a $0.07 per share reduction from $2.67 to $2.60. We have reduced our 2004 EPS estimate from $2.81 to $2.75. Our analysis is set out below.

Express EPS Impact		(millions except per share amounts)
Common equity required for Express purchase - 40% of purchase price		$79
Assumed issue price		$39.00
Number of new shares issued		2.03
Net to BC Gas		$76
Dilution		4%
Express system equity investment		$198
Forecast earnings contribution		$12
Interest expense @ 5%		($6)
Net earnings improvement		$6
EPS pick-up		$0.13
Dilution		($0.12)
Earnings per share improvement		$0.02
De-levering the Balance Sheet		(millions except per share amounts)
Common equity issued		$221
Assumed issue price		$39.00
Number of new shares issued		5.66
Net to BC Gas		$212
Dilution		12%
Reduced interest expense	5%	$11
Per share improvement		$0.22
Dilution		($0.32)
		($0.09)
Net impact of combined transaction		($0.07)

The Express Pipeline has take-or-pay contracts for 65% of the available throughput capacity on the Express System, and will enter marketing agreements with EnCana for the next two years. Based on forecast petroleum production increases, BC Gas expects that it will undertake an expansion of the Express System as early as 2004, increasing capacity by 108,000 bpd for an additional investment of only US$80 million. The Company estimates that, if this expansion is undertaken, the earnings per share impact would be $0.10.

We view the Express transaction as positive to BC Gas both with respect to its current earnings per share, and with respect to the growth potential it provides the Company. We had not expected the additional equity issue and are disappointed in the dilution that the issue will have on the Company's earnings. Nevertheless, the equity issue does leave BC Gas in a stronger financial position and should remove any equity overhang that may have been impacting the Company's share price.

Conference Call

BC Gas will host a conference call and webcast at 5:15 a.m. PST (8:15 a.m. EST) on November 20, 2002 to discuss the transaction. The live webcast of the call, replay and presentation slides will be available at www.bcgas.com, under "Investor". The dial-in number for the conference call is 1-866-546-6145.

Company Description

BC Gas is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

DISCLOSURE

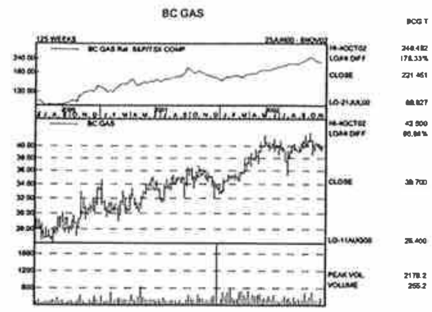
NASD/NYSE rules require member firms to assign all rated stocks to one of three rating categories--Buy, Hold/Neutral, or Sell--regardless of a firm's own rating categories. Although RBCCM does not consider all stocks that its analysts rate as Sector Perform to be equivalent to a Hold/Neutral rating,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

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

RBC Capital Markets

Research Comment

November 7, 2002



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Price:	$39.70	**Price Target:**	$43.50
52 Wk High:	$42.50	**52 Wk Low:**	$32.07
Float (MM):	43.7	**Debt-to-Cap:**	0.7
Shares Out:	48.3	**Market Cap (MM):**	$1,918
Dividend:	$1.44	**Yield:**	3.63%
Major Shareholders:		TransMountain (9.5%)	

(FY Dec)	2001A	2002E	2003E	2004E
EPS				
Old Basic	$2.21	$2.40	$2.57	$2.70
Old Diluted	$2.19	$2.38	$2.54	$2.67
New Basic	$2.21	**$2.50**	**$2.67**	**$2.81**
New Diluted	$2.19	**$2.48**	**$2.65**	**$2.79**
P/E (x)	18.0	15.9	14.9	14.1

All values in C$ unless otherwise noted.

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

BC Gas Inc.

(TSX: BCG)

Outperform

Average Risk

Third Quarter Earnings Higher Than Expected

Event

Yesterday, BC Gas reported normalized EPS of $(0.34) in Q3/02 compared to EPS of $(0.58) in Q3/01.

Investment Conclusion

BC Gas' normalized results were significantly higher than our EPS estimate of $(0.43) for Q3/02. The difference between our estimate and actual results after normalization was attributable to higher-than-forecast earnings from the newly acquired Centra BC. We have revised our financial model to reflect the third quarter results and a higher forecast contribution from Centra BC through our forecast period. Accordingly, we have increased our 2002, 2003 and 2004 EPS estimates from $2.40, $2.57 and $2.70 respectively to $2.50, $2.67, and $2.81. In light of the higher-than-expected third quarter results, we reiterate our Outperform ranking for BC Gas.

Valuation

Our valuation for BC Gas is 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 BC Gas. Our target price of $43.50 is based on a forecast dividend of $1.56 and required dividend yield of 3.6%.

Impediment

Our target price for BC Gas of $43.50 reflects a forecast $0.12 increase in its annual dividend from $1.44 to $1.56 per share. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and BC Gas' dividend yield will increase as BC Gas continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Our earnings and dividend estimates are predicated on the successful completion of the Corridor Pipeline and a stable regulatory environment in British Columbia. Should BC Gas receive a negative decision from the B.C. Utilities Commission regarding its performance-based regulatory proposal, or some other aspect of its operations, the company's earnings may fail to reach our target, having negative share price implications.

Details

Q3 Results

After normalizing for a $4.1 million after-tax writedown of its investment in Westport Innovations Ltd., BC Gas' normalized EPS were $(0.34) in Q3/02 compared to our estimate of $(0.43) and EPS of $(0.58) in Q3/01. The difference between our estimate and actual results was attributable to higher-than-expected earnings from Centra BC, the newly acquired distribution business on Vancouver Island. BC Gas acquired Centra BC from Westcoast Energy on March 7, 2002.

Exhibit 1 outlines BC Gas' third quarter results by segment.

Exhibit 1 Third Quarter Results

	Q3/02	Q3/01	Per Share Q3/02	Per Share Q3/01
Natural gas distribution	$ (21.4)	$ (27.9)	$ (0.49)	$ (0.73)
Petroleum transportation	6.7	6.4	0.15	0.17
Other activities	(0.3)	(0.8)	(0.01)	(0.02)
Normalized earnings	$ (15.0)	$ (22.3)	$ (0.34)	$ (0.58)
Non-recurring items	(4.1)	-	(0.09)	-
Reported earnings	$ (19.1)	$ (22.3)	$ (0.44)	$ (0.58)
Weighted Avg. Shares Outstanding (MM)			43.7	38.3

Source: BC Gas, RBC Capital Markets

Description of Operating Results

Natural Gas Distribution

BC Gas' natural gas distribution business recorded a loss of $21.4 million in Q3/02 compared to a loss of $27.9 million in Q3/01. The $6.5 million improvement was attributable to the acquisition of Centra BC in 2002 ($5.6 million) and lower interest costs at BC Gas Utility ($0.9 million). We had underestimated the contribution from Centra BC and miscalculated the allocation of BC Gas Utility's earnings between Q3 and Q4.

A hearing is scheduled to begin on November 12, 2002 on BC Gas Utility's application with the B.C. Utilities Commission to determine its 2003 revenue requirement and initiate a process to establish a multi-year incentive regulatory settlement for the utility. BC Gas hopes to reach a settlement in Q1/03. BC Gas also expects to begin negotiations with key stakeholders on multi-year regulatory settlement for Centra BC. It hopes to reach a settlement for Centra BC in late Q4/02 or Q1/03.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business were $6.7 million in Q3/02 compared to $6.4 million in Q3/01.The benefit of lower interest costs and increased throughput on the Canadian mainline due to higher tanker loadings was partially offset by lower throughput on the U.S. mainline.

The Company indicated that construction on the Corridor pipeline project is 99% complete and commissioning is 90% complete. The project is expected to contribute to BC Gas' earnings after the pipeline begins commercial operations, which is expected to occur on March 1, 2003.

Other Activities

After normalizing for the Westport Innovations writedown, earnings from other activities increased from a loss of $0.8 million in Q3/01 to a loss of $0.3 million in Q3/02. BC Gas acquired its investment in Westport Innovations at a cost of $15.50 per share. The Company has written down its investment to $6.00 per share, reflecting the 12-month trailing average closing price as at September 30, 2002.

Earnings Estimates

BC Gas' management indicated that it was comfortable with higher end of the range of analysts' estimates from $2.35 to $2.43. However, management acknowledged that it was not normalizing for the $4.1 million writedown in Q3/02 ($0.10 per share).

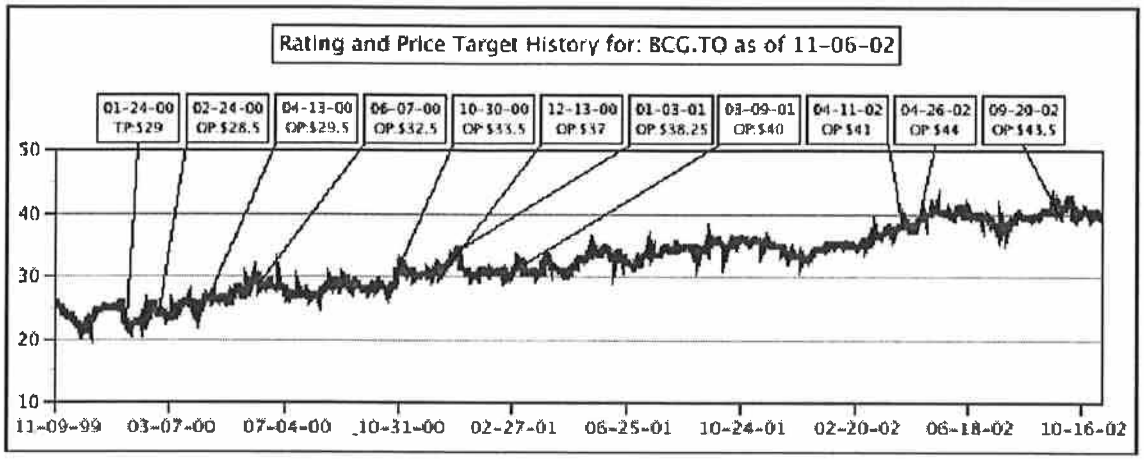
We have revised our financial model to reflect the higher-than-expected third quarter results and a higher forecast contribution from Centra BC through our forecast period. Accordingly, we have increased our 2002, 2003 and 2004 EPS estimates from $2.40, $2.57 and $2.70 respectively to $2.50, $2.67, and $2.81.

It should be noted that results going forward will be impacted by higher dilution than in 2002. Centra BC's earnings were included in BC Gas' results effective January 1, 2002 but the common share issuance related to acquisition of Centra BC was not completed until March 7, 2002. If the shares were issued effective January 1, 2002, BC Gas' 2002 EPS would be approximately $0.05 lower.

Company Description

BC Gas is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

DISCLOSURE



Distribution of Ratings, Firmwide

RBC Capital Markets

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	407	48.45	100	24.57
HOLD [SP]	345	41.07	49	14.20
SELL [U]	81	9.64	7	8.64

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.

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A household member or members of the author(s) of this report or a person contributing to this report hold(s) a long position in the common shares of BC Gas Inc.

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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.

RBC Capital Markets

August 1, 2002
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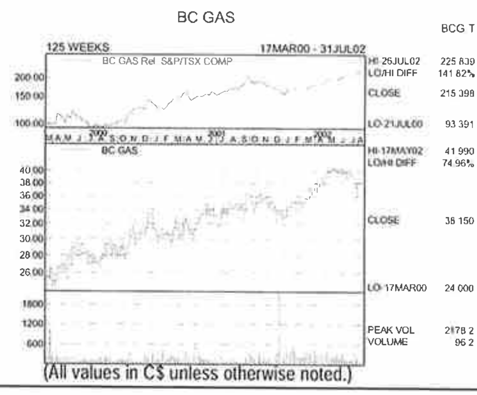
BC GAS INC.

TSE - BCG – $38.15

Q2 Results Consistent with Expectations; 2003 and 2004 EPS Estimates Increased

Stock Rating	**Outperform**	**1 Yr. Target**	$44.00
Risk Qualifier	**Average**	**Annual Return**	19.1%

No. of Shares Outstanding				48.2
Float (MM)				43.6
Market Capitalization ($MM)				1,838.8
Value of Float ($MM)				1,663.3
Major Shareholders				Trans Mountain (9.5%)
Year End				Dec. 31
52-Week Price Range				$32.07-$41.99
Debt/Total Capital				0.7
Dividend	$1.44	Yield		3.8%
Book Value	$21.85	Price/Book		1.75
	2001	**2002E**	**2003E**	**2004E**
Old EPS - basic ($)	2.21	2.40	2.53	2.68
Old EPS - diluted ($)	2.19	2.38	2.50	2.65
New EPS - basic ($)	2.21	2.40	**2.57**	**2.70**
New EPS - diluted ($)	2.19	2.38	**2.54**	**2.67**
P/E (X)	17.3	15.9	14.8	14.1



For pertinent disclosure, please see *DISCLOSURE* section at the end of this report.

EVENT

Yesterday, BC Gas reported its second quarter financial results. Earnings per share were $0.03 in Q2/02 compared to our estimate of $0.02 and EPS of -$0.08 in Q2/01. The year-over-year increase in BC Gas' results was primarily attributable to earnings from Centra BC, which was acquired in March 2002. We have revised our financial model for BC Gas to reflect increased future contributions from the company's energy and utility services businesses. Accordingly, our EPS estimates for 2003 and 2004 increase from $2.53 and $2.68, respectively, to $2.57 and $2.70. Our ranking of Outperform – Average risk and target price of $44.00 remain unchanged.

IMPLICATION

Natural Gas Distribution

BC Gas' natural gas distribution business recorded a loss of $3.0 million in Q2/02 compared to a loss of $9.2 million in Q2/01. The improvement reflects $5.2 million of earnings from Centra BC. Earnings from Centra BC are recorded relatively evenly over the quarters and do not reflect the highly seasonal earnings pattern experienced by BC Gas Utility. The remaining $1 million of improvement was attributable to lower interest costs at BC Gas Utility. On June 17, 2002, BC Gas Utility filed an application with the B.C. Utilities Commission (BCUC) to determine its 2003 revenue requirement and initiate a process to establish a multi-year incentive regulatory settlement for the utility. Centra BC is also expected to file a similar application with the BCUC within the next few days. Discussions on a multi-year settlement for BC Gas Utility are expected to take place in the fall of 2002.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business were $5.6 million in Q2/01 compared to $6.6 million in Q2/02. The decline was mainly attributable to lower throughput on the Canadian and U.S. portions of the mainline. Canadian throughput decreased from about 211,000 barrels per day (bpd) in Q1/01 to 183,000 bpd in Q2/02. Under its incentive tolling settlement, Trans Mountain's tolls are based on a throughput forecast of 188,700 bpd and it has accepted the risk and benefit of variances in annual throughput within a range of 201,280 bpd and 179,265 bpd. Trans Mountain also shares 50% of the excess revenue if actual throughput for any calendar year exceeds 201,280 bpd but is protected from downside risk for throughput levels below 179,265 bpd.

Throughput on the U.S. portion of the mainline declined from approximately 97,000 bpd in Q2/01 to about 40,000 bpd in Q2/02. We estimate that the EPS impact to BC Gas of a 10,000 bpd change in annual throughput on the U.S. oil pipeline is approximately $0.02-$0.03. The decline in U.S. mainline throughput was attributable to a refinery fire that reduced Midwestern demand for Canadian crude and increased throughput volumes to Washington State in 2001, lower refinery margins in Washington State, lower Canadian production of preferred light crude, and process changes at the Tesoro refinery in Washington State enabling its increased use of Alaskan North Slope crude.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, recorded a loss of $1.5 million in Q2/02 compared to a loss of $0.5 million in Q2/01. The decrease in earnings from other activities was primarily attributable to higher financing costs associated with the Centra BC acquisition, partially offset by the contribution from CustomerWorks.

Segmented Earnings

The table below summarizes the earnings from BC Gas' three business segments:

Earnings Analysis (MM$ except per share amounts):				Per Share	
	Q2/02	Q2/01		Q2/02	Q2/01
Natural gas distribution	$ (3.0)	$ (9.2)		$ (0.07)	$ (0.24)
Petroleum transportation	5.6	6.6		0.13	0.17
Other activities	(1.5)	(0.5)		(0.03)	(0.01)
Normalized earnings	$ 1.1	$ (3.1)		$ 0.03	$ (0.08)
Non-recurring items	-	-		-	-
Reported earnings	$ 1.1	$ (3.1)		$ 0.03	$ (0.08)
Weighted Avg. Shares Outstanding (MM)				43.6	38.3

Earnings Guidance

BC Gas stated that financial analysts' estimates for the Company's earnings range from $2.35 to $2.42 per share, and that management was comfortable with the higher end of the range. Our 2002 EPS estimate of $2.40 per share is consistent with this guidance. We have revised our financial model for BC Gas to reflect increased future contributions from the company's energy and utility services businesses. Accordingly, our EPS estimates for 2003 and 2004 increase from $2.53 and $2.68 respectively, to $2.57 and $2.70.

VALUATION & CONCLUSION

Yesterday, BC Gas reported its second quarter financial results. Earnings per share were $0.03 in Q2/02 compared to our estimate of $0.02 and EPS of -$0.08 in Q2/01. The year-over-year increase in BC Gas' results was primarily attributable to earnings from Centra BC, which was acquired in March 2002. We have revised our financial model for BC Gas to reflect increased future contributions from the company's energy and utility services businesses. Accordingly, our EPS estimates for 2003 and 2004 increase from $2.53 and $2.68, respectively, to $2.57 and $2.70. Our ranking of Outperform – Average risk and target price of $44.00 remain unchanged.

Our target price for BC Gas of $44.00 reflects a $0.10 increase in its annual dividend from $1.44 to $1.54 per share. In April 2002, BC Gas increased its annual dividend by $0.12. We expect a smaller increase in 2003 based on our assumption that BC Gas will try to maintain a target payout ratio of approximately 55% – 60%. Our target price also incorporates our view that the spread between the 10-year Government of Canada Bond yield and BC Gas' dividend yield will increase as BC Gas continues to build upon its successful record of achieving stable earnings growth while maintaining a low risk profile. Our earnings and dividend estimates are predicated on the successful completion of the Corridor Pipeline and a stable regulatory environment in British Columbia. Should BC Gas receive a negative decision from the B.C. Utilities Commission regarding its performance based regulatory proposal, or regarding some other aspect of its operations, the company's earnings may fail to reach our target, having negative share price implications.

RBC Capital Markets

April 26, 2002
Morning Comment
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Maria Bassianiotis, CFA, Associate (604) 275-7611

BC GAS INC. — TSE - *BCG - $38.30

BC Gas First Quarter Results Higher than Expected;
Target Price Increased to Reflect $0.12 Increase in Annual Dividend

Stock Rating	**Outperform**	Old 1 Yr. Target	$41.00
		New 1 Yr. Target	**$44.00**
Risk Qualifier	**Average**	**Annual Return**	18.6%

No. of Shares Outstanding				48.2
Float (MM)				43.6
Market Capitalization ($MM)				1,846.1
Value of Float ($MM)				1,669.9
Major Shareholders				Trans Mountain (9.5%)
Year End				Dec. 31
52-Week Price Range				$30.20-$39.49
Debt/Total Capital				0.7
Dividend	$1.44	Yield		3.8%
Book Value	$21.85	Price/Book		1.75
	2000	**2001**	**2002E**	**2003E**
Basic EPS ($)	2.06	2.21	2.40	2.53
F.D. EPS ($)	2.04	2.19	2.38	2.50
P/E (X)	18.8	17.5	16.1	15.3

(All values in C$ unless otherwise noted.)

EVENT

Yesterday, BC Gas reported its first quarter financial results. Earnings per share were $1.70 in Q1/02 compared to our estimate of $1.65 and EPS of $1.59 in Q1/01. The year-over-year increase in BC Gas' results was primarily attributable to the acquisition of Centra BC. Earnings from Centra BC were included in BC Gas' results as of January 1, 2002. While earnings were higher than we had expected, we remain comfortable with our 2002 EPS estimate of $2.40. BC Gas' Board of Directors also announced a $0.12 increase in the company's annual dividend from $1.32 to $1.44. We were only expecting an $0.08 increase in BC Gas' annual dividend. To reflect the higher-than-expected dividend increase, we are increasing our target price from $41.00 to $44.00. Our new target price reflects a 3.5% dividend yield on a forecast dividend of $1.56.

IMPLICATION

Natural Gas Distribution

BC Gas' natural gas distribution business recorded earnings of $66.8 million in Q1/02 compared to earnings of $59.8 million in Q1/01. The earnings contribution from BC Gas Utility increased from $59.8 million in 2001 compared to $60.5 million in 2002 mainly as a result of lower interest costs. Unlike BC Gas Utility, the annual earnings from Centra BC are spread out relatively evenly over the quarters due to its regulatory deferral accounts.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business increased from $5.8 million in Q1/01 to $6.5 million in Q1/02. The increase was due to higher throughput on the Canadian portion of the mainline, lower interest rates and lower tax rates. There was a small drop in the throughput on the U.S. portion of the pipeline; however, this decline had no material impact on earnings per share during the quarter.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, recorded a loss of $5.5 million in Q1/02 compared to a loss of $4.6 million in Q1/01. The decrease in earnings from other activities was primarily attributable to higher financing costs associated with the Centra BC acquisition.

Segmented Earnings

The table below summarizes the earnings from BC Gas' three business segments:

Earnings Analysis (MM$ except per share amounts):			Per Share	
	Q1/02	Q1/01	Q1/02	Q1/01
Natural gas distribution	$ 66.8	$ 59.8	$ 1.68	$ 1.56
Petroleum transportation	6.5	5.8	0.16	0.15
Other activities	(5.5)	(4.6)	(0.14)	(0.12)
Normalized earnings	$ 67.8	$ 61.0	$ 1.70	$ 1.59
Non-recurring items	-	-	-	-
Reported earnings	$ 67.8	$ 61.0	$ 1.70	$ 1.59
Weighted Avg. Shares Outstanding (MM)			39.8	38.3

Outlook

BC Gas continues to implement its strategy of providing shareholders with low risk earnings per share growth in the range of 6% and targets a 60% payout ratio. The increase in the dividend of 12 cents signals management's confidence in its ability to deliver on its strategy. Projects that the Company is currently pursuing include the following:

- BC Gas is completing the $688 million Corridor Pipeline project that is designed to move bitumen from the oils sands to Shell's upgrader plant near Edmonton. The project is on time and on budget and is currently being filled with bitumen.
- BC Gas is engaged in studies with Petro-Canada and TrueNorth Energy to construct the Bison Pipeline, connecting the oil sands to the Edmonton area. The project represents an initial investment of $800 million increasing to about $1 billion when it reaches its maximum potential.
- The Company is pursing the development of the Inland Pacific Connector, which would extend the Southern Crossing Pipeline south and west to the Lower Mainland region of British Columbia.
- The B.C. Government's interim report of the Task Force on Energy Policy has called for regulation in B.C. to be more performance-based than in the past. In this regard, the Company is optimistic regarding the negotiation of a new performance based regulatory settlement for BC Gas Utility and for Centra BC to take effect January 1, 2003.
- At the Annual General Meeting held in Vancouver yesterday, the CEO stated that BC Gas would be interested in purchasing the electric distribution assets of BC Hydro. While the interim report of the Task Force on Energy Policy has not explicitly addressed the privatization of BC Hydro assets, management believes that there is no obvious reason why these assets would remain in a Crown corporation.

Earnings Guidance

BC Gas stated that financial analysts' estimates for the Company's earnings range from $2.33 to $2.41 per share, and that the Company's management was comfortable with the upper end of that range. Our 2002 EPS estimate of $2.40 per share is consistent with this guidance.

CONCLUSION

Yesterday, BC Gas reported its first quarter financial results. Earnings per share were $1.70 in Q1/02 compared to our estimate of $1.65 and EPS of $1.59 in Q1/01. The year-over-year increase in BC Gas' results was primarily attributable to the acquisition of Centra BC. Earnings from Centra BC were included in BC Gas' results as of January 1, 2002. While earnings were higher than we had expected, we remain comfortable with our 2002 EPS estimate of $2.40. BC Gas' Board of Directors also announced a $0.12 increase in the company's annual dividend from $1.32 to $1.44. We were only expecting an $0.08 increase in BC Gas' annual dividend. To reflect the higher-than-expected dividend increase, we are increasing our target price from $41.00 to $44.00. Our new target price reflects a 3.5% dividend yield on a forecast dividend of $1.56. BC Gas is ranked Outperform – Average risk.

* Within the past 36 months, RBC Dominion Securities has undertaken an underwriting liability or had provided advice for a fee with respect to the securities of this company.

RBC Capital Markets

March 8, 2002
Morning Comment
Maureen Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

BC GAS INC. **TSE - BCG - $35.95**

BC Gas Completes Centra B.C. Acquisition; Will Issue Common Shares to Receipt Holders

Stock Rating	**Outperform**	**1 Yr. Target**	$40.00
Risk Qualifier	**Average**	**Annual Return**	14.9%

No. of Shares Outstanding				48.1
Float (MM)				43.5
Market Capitalization ($MM)				1,729.2
Value of Float ($MM)				1,563.8
Major Shareholders				Trans Mountain (9.6%)
Year End				Dec. 31
52-Week Price Range				$30.10-$36.88
Debt/Total Capital				0.7
Dividend	$1.32	Yield		3.7%
Book Value	$21.96	Price/Book		1.64
	2000	**2001**	**2002E**	**2003E**
Basic EPS ($)	2.06	2.21	2.40	2.53
F.D. EPS ($)	2.04	2.19	2.38	2.50
P/E (X)	17.6	16.4	15.1	14.4

(All values in C$ unless otherwise noted.)

Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

BC Gas has completed its acquisition of Centra Gas British Columbia Inc. and Centra Gas Whistler Inc. from Westcoast Energy. In accordance with the terms of the BC Gas Inc. Subscription Receipts, BC Gas will issue 5.208 million common shares to the holders of the outstanding receipts. Upon the exchange of the subscription receipts for common shares, holders will also receive $0.33 per subscription receipt that was paid to the escrow agent on February 28, 2002, along with accrued interest.

IMPLICATION

In October 2001, BC Gas entered into an agreement with Westcoast Energy to acquire Centra B.C. and Centra Whistler for $590 million including the assumption of $298 million in long-term debt and the purchase of $84 million of preferred shares. Under the terms of their agreement, the acquisition was effective January 1, 2002. Based on our assumptions, we estimated an earnings impact of $0.06 per share to BC Gas commencing in 2002 (see October 23, 2001 *Morning Comment*).

To finance its acquisition, BC Gas issued 5.208 million subscription receipts in November 2001. Upon closing of its acquisition from Westcoast, each receipt would be automatically converted into one BC Gas common share. Each holder would also receive an equivalent amount for any dividends declared during the period that would be paid to the escrow agent, along with accrued interest. With the completion of its acquisition of Centra Gas British Columbia Inc. and Centra Gas Whistler Inc., BC Gas will issue 5.208 million common shares to the holders of the outstanding receipts. Upon the exchange of the subscription receipts for common shares, holders will also receive $0.33 per subscription receipt that was paid to the escrow agent on February 28, 2002, along with accrued interest.

CONCLUSION

BC Gas has completed its acquisition of Centra Gas British Columbia Inc. and Centra Gas Whistler Inc. from Westcoast Energy. In accordance with the terms of the BC Gas Inc. Subscription Receipts, BC Gas will issue 5.208 million common shares to the holders of the outstanding receipts. Upon the exchange of the subscription receipts for common shares, holders will also receive $0.33 per subscription receipt that was paid to the escrow agent on February 28, 2002, along with accrued interest. BC Gas is ranked Outperform - Average risk, with a one-year target of $40.00.

RBC Capital Markets

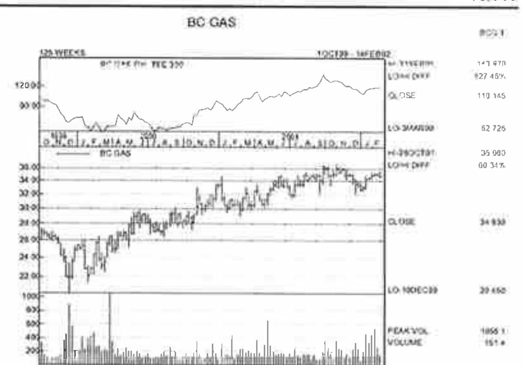
February 15, 2002
Morning Comment
Maureen Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

BC GAS INC. **TSE - BCG – $34.83**

BC Gas 2001 Earnings Consistent with Expectations

Stock Rating	Outperform	1 Yr. Target	$40.00
Risk Qualifier	Average	Annual Return	18.6%

No. of Shares Outstanding				48.1
Float (MM)				43.5
Market Capitalization ($MM)				1,675.3
Value of Float ($MM)				1,515.1
Major Shareholders				Trans Mountain (9.6%)
Year End				Dec. 31
52-Week Price Range				$29.00-$36.88
Debt/Total Capital				0.7
Dividend	$1.32	Yield		3.8%
Book Value	$21.96	Price/Book		1.59
	2000	**2001**	**2002E**	**2003E**
Basic EPS ($)	2.06	2.21	2.40	2.53
F.D. EPS ($)	2.04	2.19	2.38	2.50
P/E (X)	17.1	15.9	14.6	13.9



(All values in C$ unless otherwise noted.)

Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

Yesterday, BC Gas reported its fourth quarter and year-end financial results. Fully-diluted earnings per share before non-recurring items were $2.19 in 2001 compared to our estimate (adjusted for dilution) of $2.18 and recurring fully diluted EPS of $2.04 in 2000. For the quarter, the Company reported recurring earnings per share of $1.28 in Q4/01 compared to $0.99 in Q4/00. The year-over-year increases in BC Gas' quarterly and full-year results were primarily attributable to higher throughput volumes on the Company's U.S. oil pipeline system and rate base growth, mostly arising from the completion of the Southern Crossing Pipeline. Fourth quarter earnings were also positively impacted by increased seasonality. BC Gas' management reiterated their strategy of focusing on its core business, low risk operations and sustained growth. BC Gas is ranked Outperform with a one-year target of $40.00.

IMPLICATION

Strategy

Management stated that the Company would continue to emphasize its themes of focusing on the core business of transmission of energy, it would continue to focus on low risk businesses, and would continue to strive for sustained growth. In this regard, BC Gas pointed out that it has no international operations and no energy trading exposure. The businesses of the Company remain infrastructure businesses underpinned by capital assets.

Earnings Guidance

BC Gas stated that consensus estimates for the Company's earnings range from $2.30 to $2.41 per share, and that management was comfortable with the mid to upper end of that range. Our 2002 Basic estimate of $2.40 per share is consistent with this guidance.

Natural Gas Distribution

BC Gas' natural gas distribution business recorded earnings of $67.8 million in 2001 compared to earnings of $58.7 million in 2000. Earnings increased in 2001 due to rate base growth, which was mostly attributable to the completion of the Southern Crossing Pipeline in November 2000. Higher rate base was partially offset by a decrease in the utility's allowed rate of return from 9.5% in 2000 to 9.25% in 2001. Earnings in Q4/01 were $45.1 million compared to $34.7 million in Q4/00. The increase in fourth quarter earnings was attributable to rate base growth and increased earnings seasonality. The increased earnings seasonality is due to fixed costs being incurred evenly throughout the year while recovery of the fixed costs in rates is based on gas sales, which are higher in the first and fourth quarters than in the second and third quarters. The increase in rate base has increased the seasonality effect leading to higher earnings in the first and fourth quarters and higher losses in the second and third quarters. Over the entire year, the increased variability in quarterly earnings cancels out.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business increased from $21.3 million in 2000 to $27.3 million in 2001. The increase was mostly due to higher throughput on the U.S. portion of the mainline and productivity improvements. Volumes on the U.S. portion of Trans Mountain's mainline increased significantly from 65,196 barrels per day (bpd) in 2000 to 73,411 bpd in 2001. We estimate that the EPS impact to BC Gas of a 10,000 bpd change in annual throughput on the U.S. oil pipeline is approximately $0.02-$0.03.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, recorded a loss of $10.5 million in 2001 compared to a loss of $1.2 million in 2000. The decrease in earnings from other activities in 2001 was primarily attributable to higher financing costs associated with new capital investments as well as weaker economic conditions for the company's non-regulated energy and utility services businesses.

Segmented Earnings

The table below summarizes the earnings from BC Gas' three business segments:

Earnings Analysis (MM$):	**Q4 2001**	**Q4 2000**		**2001**	**2000**	
Natural gas distribution	$ 45.1	$ 34.7		$ 67.8	$ 58.7	
Petroleum transportation	8.5	6.3		27.3	21.3	
Other activities	(4.6)	(3.0)		(10.5)	(1.2)	
Normalized earnings	$ 49.0	$ 38.0		$ 84.6	$ 78.8	
Non-recurring items	-	13.7	(a)	-	30.0	(b)
Reported earnings	$ 49.0	$ 51.7		$ 84.6	$ 108.8	

Earnings Per Share Analysis:	**Q4 2001**	**Q4 2000**		**2001**	**2000**	
Natural gas distribution	$ 1.18	$ 0.91		$ 1.77	$ 1.53	
Petroleum transportation	0.22	0.16		0.71	0.56	
Other activities	(0.12)	(0.08)		(0.27)	(0.03)	
Normalized earnings	$ 1.28	$ 0.99		$ 2.21	$ 2.06	
Non-recurring items	-	0.36	(a)	-	0.78	(b)
Reported earnings	$ 1.28	$ 1.35		$ 2.21	$ 2.84	

(a) Income tax benefit from monitization of Williams Lake Power Plant ($5.2 MM) and positive impact of corporate income tax rate reductions ($8.5 MM)

(b) Income tax benefit from monitization of Williams Lake Power Plant ($29 MM); positive impact of corporate income tax rate reductions ($8.5 MM) and one-time after-tax charge for TMPL restructuring ($7.5 MM)

In our previously published estimate for 2001 of $2.20, we had assumed that there would be no dilution. The change to the Treasury method of accounting this year has resulted in approximately $0.02 of dilution. For comparison purposes, our previous EPS estimate for 2001 should be decreased from $2.20 to $2.18.

CONCLUSION

Yesterday, BC Gas reported its fourth quarter and year-end financial results. Fully-diluted earnings per share before non-recurring items were $2.19 in 2001 compared to our estimate (adjusted for dilution) of $2.18 and recurring fully diluted EPS of $2.04 in 2000. For the quarter, the Company reported recurring earnings per share of $1.28 in Q4/01 compared to $0.99 in Q4/00. The year-over-year increases in BC Gas' quarterly and full-year results were primarily attributable to higher throughput volumes on the

Company's U.S. oil pipeline system and rate base growth, mostly arising from the completion of the Southern Crossing Pipeline. Fourth quarter earnings were also positively impacted by increased seasonality. BC Gas' management reiterated their strategy of focusing on its core business, low risk operations and sustained growth. BC Gas is ranked Outperform with a one-year target of $40.00.

RBC Capital Markets

January 16, 2002
Morning Comment
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BC GAS INC.

TSE - BCG – $34.40

BC Gas Announces $800 Million Bison Pipeline Project

Stock Rating - Risk Qualifier	**Outperform - Average Risk**	**1 Yr. Target**	$40.00
		Annual Return	20.1%

No. of Shares Outstanding				48.1
Float (MM)				43.5
Market Capitalization ($MM)				1,654.6
Value of Float ($MM)				1,496.4
Major Shareholders				Trans Mountain (9.6%)
Year End				Dec. 31
52-Week Price Range				$29.00-$36.88
Debt/Total Capital				0.7
Dividend	$1.32	Yield		3.8%
Book Value	$21.96	Price/Book		1.57
	2000	**2001E**	**2002E**	**2003E**
EPS ($)	2.06	2.20	2.40	2.53
P/E (X)	16.7	15.6	14.3	13.6

(All values in C$ unless otherwise noted.)

Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

BC Gas' wholly-owned subsidiary, Bison Pipeline Ltd., has announced a proposed $800 million pipeline to transport bitumen from the Athabasca oil sands to the Edmonton area in Alberta. The 516-km pipeline will have an initial capacity of 100,000 bpd. Subject to regulatory and other necessary approvals and commercial arrangements with shippers, the pipeline is expected to be in service by mid-2005.

IMPLICATION

Bison Pipeline is working with potential shippers, including TrueNorth Energy and Petro-Canada, on joint engineering and technical studies. Petro-Canada has filed an application with the Alberta Energy Utilities Board (AEUB) to develop its bitumen production facilities and TrueNorth Energy plans to file a similar application. Bison Pipeline is planning to file an AEUB application in July 2002 and expects to receive final regulatory approval in the first quarter of 2003. The planned regulatory schedule would allow for completion of the Bison Pipeline in time to meet the earliest shippers' planned production schedule of mid-2005. When fully developed, the Bison pipeline system will have an ultimate capacity of up to 450,000 bpd and it is expected to cost approximately $1 billion.

The Bison Pipeline system will be able to ship bitumen with minimal use of diluent. The preferred design option for the project calls for an insulated pipeline but Bison Pipeline is willing to consider alternatives such as the more conventional dilbit system. In order to service multiple shippers, each with potentially different products, Bison Pipeline will be designed to operate as a batch system. A number of access points into the system will allow different shippers to ship on the pipeline as production in the Athabasca oil sands region grows.

For producers not planning to process their bitumen production in the Fort McMurray area, Bison Pipeline has identified the following advantages of its proposed pipeline: minimizing or eliminating the use of diluent at production facilities; providing shippers with access to a more varied diluent market in Edmonton resulting in more competitive pricing and reduced cost; and, improving integration for shippers with processing facilities in the Edmonton area.

To estimate the EPS impact during the first full year of operation, we have assumed a 25% equity component and we have assumed that shares would have to be issued to finance the equity investment. The remainder of the project's costs will be financed with hybrid securities (5%) and debt (70%). We have also assumed a return on equity of 10.75%, a share issuance price of $48.40 and earnings not including the pipeline of $2.84 per share. Based on our assumptions, we have calculated an earnings per share impact of $0.20 in the first full year of the pipeline's operation. Our calculations are outlined below.

Bison Pipeline Project		
Initial cost of Bison Pipeline		$800 million
Equity component (assumed)		25%
Equity investment		$200 million
Return on equity (assumed)		10.75%
Share issuance price (assumed price in 2005)		$48.40
Additional shares issued		4.1 million
Weighted average shares outstanding after issuance		47.6 million
Estimated earnings excluding Bison Pipeline		$2.84 per share
Equity earnings from Bison Pipeline		$21.5 million
EPS Impact (first full year of operation)		
EPS impact of Bison Pipeline	$	0.45
Dilution		(0.25)
EPS impact	$	0.20

Source RBC Capital Markets

Since the completion date of the project falls outside of our current forecast range and in light of the preliminary nature of the project, we are maintaining our current EPS estimates at this time. Nevertheless, we view BC Gas' project announcement positively. It provides an example of the type of projects that BC Gas has pursued to grow its core business while retaining its low-risk profile.

CONCLUSION

BC Gas' wholly-owned subsidiary, Bison Pipeline Ltd., has announced a proposed $800 million pipeline to transport bitumen from the Athabasca oil sands to the Edmonton area in Alberta. The 516-km pipeline will have an initial capacity of 100,000 bpd. Subject to regulatory and other necessary approvals and commercial arrangements with shippers, the pipeline is expected to be in service by mid-2005. Based on our assumptions, we have calculated an earnings per share impact of $0.20 in the first full year of the pipeline's operation. Since the completion date of the project falls outside of our current forecast range and in light of the preliminary nature of the project, we are maintaining our current EPS estimates at this time. BC Gas is ranked Outperform – Average Risk with a one-year target of $40.00.

RBC
DOMINION
SECURITIES

October 23, 2001
Morning Comment

Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

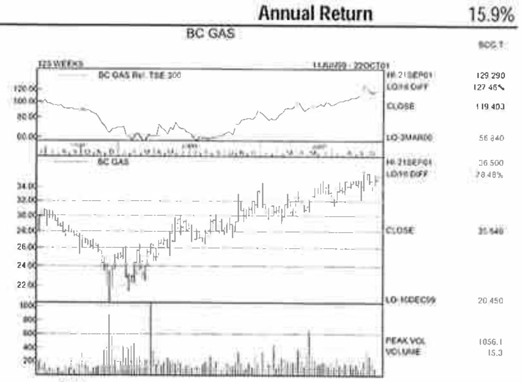
BC GAS INC.

TSE - BCG - $35.64

BC Gas Acquires Centra B.C. in $590 Million Transaction - Earnings Per Share Estimates Increased

Stock Rating (Recommendation)	**2 (OUTPERFORM)**	**1 Yr. Target**	$40.00
Industry Rating	**3 (UNDERPERFORM)**	**Annual Return**	15.9%

No. of Shares Outstanding		- Basic (MM)		42.9
		- Fully Diluted (MM)		42.9
Float (MM)				38.3
Market Capitalization ($MM)				1,529.0
Value of Float ($MM)				1,365.0
Major Shareholders				Trans Mountain (10.7%)
Year End				Dec. 31
52-Week Price Range				$27.35-$36.50
Debt/Total Capital				0.7
Dividend	$1.32	Yield		3.7%
Book Value	$21.96	Price/Book		1.62
	2000	**2001E**	**2002E**	**2003E**
Old EPS ($)	2.06	2.20	2.34	2.47
New EPS ($)	2.06	2.20	**2.40**	**2.53**
P/E (X)	17.3	16.2	14.9	14.1



(All values in C$ unless otherwise noted.)

* Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

BC Gas has entered into an agreement with Westcoast Energy to acquire Centra B.C. and Centra Whistler. The acquisition has a total value of $590 million and is expected to be immediately accretive to earnings by $0.06 per share commencing in 2002. This acquisition is consistent with the Company's strategy of investing in low risk assets while providing consistent and predictable EPS growth. We have increased our earnings per share estimates for the Company by $0.06 in each of 2002 and 2003. Our new estimates for these years are $2.40 and $2.53, respectively. The acquisition increases the visibility of EPS growth for BC Gas and reinforces our 2 (OUTPERFORM) ranking on the stock.

Implication

Centra B.C. is the gas distribution utility on Vancouver Island and is a natural fit with BC Gas' existing gas distribution business throughout the remainder of the province of British Columbia. Centra B.C. has 70,000 customers representing an approximate 10% increase over BC Gas' existing customer base of 762,000 customers. Centra B.C. also owns the gas transmission line that moves gas from the B.C. mainland to Vancouver Island. Centra Whistler only accounts for $8 million of the transaction amount and is the propane distribution system in Whistler, B.C.

Centra B.C. has been achieving a 13% annual growth rate in its customer base but its penetration rate is still a relatively low 48% compared to the BC Gas penetration rate for on-main customers of over 90%. As such, there is significant opportunity for BC Gas to grow the customer base of the Centra operations with a relatively modest investment of capital. In addition, the requirement of additional generation capacity on Vancouver Island introduces the potential of new gas-fired power plant development which should provide increased gas-load for the existing pipeline system and further increase the competitiveness of the natural gas distribution system.

Earnings Impact

BC Gas will pay a $208 million for the equity of Centra B.C. and Centra Whistler reflecting a 1.3X premium to book value. It will also assume $298 million in debt associated with the rate base of the assets. Finally, BC Gas will purchase preferred shares of $84 million, which earn a return of 6.1%. However, BC Gas will only pay $32 million for these shares at the close of the transaction with the balance of $52 million being due in 2011 or sooner if additional revenues associated with new power plant development on Vancouver Island are generated. The Company plans to issue $180 million in equity and the balance will be funded with debt issued by BC Gas. **Reflecting the discounted value of the preferred shares the price to book value paid by BC Gas for Centra B.C. is 1.1X and the P/E multiple is 14.0X 2001 EPS.** BC Gas is currently trading at a 16.2X P/E multiple based on our new EPS forecast.

On its conference call, management stated that it expected the acquisition to add approximately $0.06 to EPS. Our calculation see below of the estimated EPS impact of the acquisition is consistent with management's guidance:

In millions except per share amounts				2001F	2002F	2003F
Total average rate base of Centra B.C.				$436	$455	$455
Allowed equity thickness				35%	35%	35%
Allowed ROE				9.40%	9.40%	9.40%
Regulated contribution from mainline				16.0	15.0	15.0
Less: PCEC payment				(1.9)	(1.9)	(1.9)
				$14.1	$13.1	$13.1
Additional sources of income:						
Over-earning at Centra				1.1	1.1	-
Preferred dividend				-	5.3	5.9
Synergies after-tax				-	-	1.0
Total earnings contributions				$15.2	$19.5	$20.0
Additional costs to BC Gas						
Increase in the PV of the future liability related to the pref share payment					(1.8)	(1.9)
Interest on $32 million in financing for pref share	$32 million	4.0%	after-tax		(1.3)	(1.3)
Interest on other debt financing not in rate base	$29 million	4.0%	after-tax		(1.2)	(1.2)
Incremental depreciation					(0.5)	(0.5)
Total costs					(4.7)	(4.9)
Additional earnings to BCG					$14.7	$15.1
Previous BCG earnings					$89.6	$94.5
Previous BCG shares outstanding					38.3	38.3
Previous EPS					$2.34	$2.47
New BCG earnings					104.3	109.7
New BCG shares outstanding					43.4	43.4
New EPS					$2.40	$2.52
EPS impact					**$0.06**	**$0.06**

CONCLUSION

BC Gas announced it has entered into an agreement to purchase Centra B.C. and Centra Whistler from Westcoast Energy for a total consideration of approximately $590 million. When all aspects of the transaction are taken into consideration the price to book value paid for the assets is 1.1X and the P/E multiple is 14X 2001 earnings. Based on our calculations we expect the transaction will add $0.06 to earnings per share in 2002 and 2003. Accordingly, we have increased our EPS estimates for BC Gas for 2001 and 2002 from $2.34 and $2.47 to our new estimates of $2.40 and $2.53. This acquisition is consistent with the Company's strategy of investing in low risk assets while providing consistent and predictable EPS growth. We believe the transaction increases the visibility of BC Gas' EPS growth and reinforces our 2 (OUTPERFORM) ranking on the stock.

RBC DOMINION SECURITIES

July 31, 2001
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

BC GAS INC. — TSE - BCG – $33.40

Q2 Results In Line With Expectations;
Increased Seasonality and Higher Throughput U.S. Oil Volumes Drive Results

Stock Rating (Recommendation)	2 (OUTPERFORM)	1 Yr. Target	$40.00
Industry Rating	2 (MARKETPERFORM)	Annual Return	23.7%

No. of Shares Outstanding		- Basic (MM)	42.9
		- Fully Diluted (MM)	42.9
Float (MM)			38.3
Market Capitalization ($MM)			1,432.9
Value of Float ($MM)			1,279.2
Major Shareholders			Trans Mountain (10.7%)
Year End			Dec. 31
52-Week Price Range			$26.40-$35.10
Debt/Total Capital			0.7
Dividend	$1.32	Yield	4.0%
Book Value	$21.96	Price/Book	1.52

	2000	2001E	2002E	2003E
EPS ($)	2.06	2.20	2.34	2.47
P/E (X)	16.2	15.2	14.3	13.5

(All values in C$ unless otherwise noted.)

EVENT

Yesterday, BC Gas reported its second quarter financial results. Earnings before non-recurring items for Q2 2001 were $(0.08) compared to $0.02 for Q2 2000. The second quarter results were in line with our estimate of $(0.09). The year-over-year decrease in BC Gas' quarterly EPS was mainly attributable to increased seasonality that was partially offset by higher throughput volumes on the Company's U.S. oil pipeline system, Trans Mountain Corp. BC Gas is ranked 2 (OUTPERFORM) with a one-year target of $40.00.

Conference Call

BC Gas will host a conference call today (i.e. July 31, 2001) at 10:00 a.m. Eastern time to discuss its second quarter financial results. The access number is 1-800-273-9672 or 416-695-5806. An instant replay will also be available by calling 1-800-408-3053 or 416-695-5800 (passcode: "bcgas" or 22427).

Implication

Natural Gas Distribution

BC Gas' natural gas distribution business recorded a loss of $9.2 million in Q2 2001 compared to a loss of $6.3 million in Q2 2000. The higher loss in Q2 2001 was mainly attributable to increased earnings seasonality, as well as a decrease in the utility's allowed rate of return from 9.5% in 2000 to 9.25% in 2001. The increased earnings seasonality is due to fixed costs being incurred evenly throughout the year while recovery of the fixed costs in rates is based on gas sales, which are lower in the second and third quarters than the first and fourth quarters. The increase in rate base has increased the seasonality effect leading to higher earnings in the first and fourth quarters and higher losses in the second and third quarters. Over the entire year, the increased variability in quarterly earnings cancels out.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business increased from $4.7 million in Q2 2000 to $6.6 million in Q2 2001. The increase was mostly due to higher throughput on the U.S. portion of the mainline. **Volumes on the U.S. portion of Trans Mountain's mainline increased significantly from 67,498 barrels per day (bpd) in Q2 2000 to 97,081 bpd in Q2 2001.** We estimate that the EPS impact to BC Gas of a 10,000 bpd change in annual throughput on the U.S. oil pipeline is approximately $0.02-$0.03. According to the Company, throughput in 2001 has benefited from a narrowing in the price differentials between Alberta crude oil and offshore crude oil, which has improved the price competitiveness of Alberta crude oil on the U.S. west coast.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, recorded a loss of $0.5 million in Q2 2001 compared to earnings of $2.2 million in Q2 2000. The $2.7 million decrease in earnings from other activities in Q2 2001 was primarily attributable to higher financing costs associated with new capital investments.

Segmented Earnings

The table below summarizes the earnings from BC Gas' three business segments:

Earnings Analysis (MM$ except per share amounts):

			Per Share	
	Q2 2001	**Q2 2000**	**Q2 2001**	**Q2 2000**
Natural gas distribution	$ (9.2)	$ (6.3)	$ (0.24)	$ (0.16)
Petroleum transportation	6.6	4.7	0.17	0.12
Other activities	(0.5)	2.2	(0.01)	0.06
Normalized earnings	$ (3.1)	$ 0.6	$ (0.08)	$ 0.02
Non-recurring items	-	7.9 (a)	-	0.21
Reported earnings	$ (3.1)	$ 8.5	$ (0.08)	$ 0.22

Notes:
(a) Income tax benefit from monitization of Williams Lake Power Plant (NW Energy)

CONCLUSION

Yesterday, BC Gas reported its second quarter financial results. Earnings before non-recurring items for Q2 2001 were $(0.08) compared to $0.02 for Q2 2000. The second quarter results were in line with our estimate of $(0.09). The year-over-year decrease in BC Gas' quarterly EPS was mainly attributable to increased seasonality that was partially offset by higher throughput volumes on the Company's U.S. oil pipeline system, Trans Mountain Corp. BC Gas is ranked 2 (OUTPERFORM) with a one-year target of $40.00.

* Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

RBC DOMINION SECURITIES

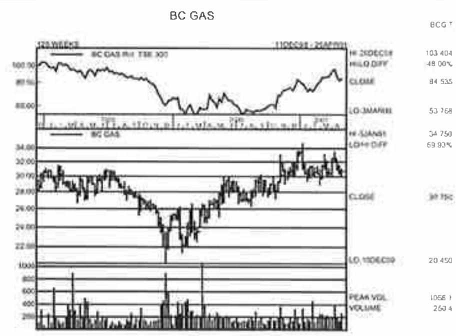
April 27, 2001
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

BC GAS INC. — TSE - BCG – $30.75

Q1 Results Higher Than Expected Due to Seasonality - 2001 EPS Outlook Unchanged
Annual Dividend Increased by $0.08

Stock Rating (Recommendation)	2 (OUTPERFORM)	**1 Yr. Target**	$40.00
Industry Rating	**2 (MARKETPERFORM)**	**Annual Return**	34.4%

No. of Shares Outstanding		- Basic (MM)		42.9
		- Fully Diluted (MM)		42.9
Float (MM)				38.3
Market Capitalization ($MM)				1,319.2
Value of Float ($MM)				1,177.7
Major Shareholders				Trans Mountain (10.7%)
Year End				Dec. 31
52-Week Price Range				$25.15-$34.75
Debt/Total Capital				0.7
Dividend	$1.32	Yield		4.3%
Book Value	$22.40	Price/Book		1.37
	1999	**2000**	**2001E**	**2002E**
EPS ($)	1.94	2.06	2.20	2.34
P/E (X)	15.9	14.9	14.0	13.1



(All values in C$ unless otherwise noted.)

EVENT

Yesterday, BC Gas reported its first quarter financial results. Earnings before non-recurring items for Q1 2001 were $1.59 compared to $1.39 for Q1 2000. The first quarter results were higher than our estimate of $1.46 due to increased seasonality. BC Gas' Board of Directors also increased the Company's annual dividend by $0.08 from $1.24 to $1.32. The increase in the annual dividend is higher than our forecast of $0.06 per share. BC Gas remains ranked 2 (OUTPERFORM) with a one-year target of $40.00.

IMPLICATION

Natural Gas Distribution

Earnings from BC Gas' natural gas distribution business were $59.8 million in Q1 2001 compared to $49.2 million in Q1 2000. The increase was mainly attributable to increased earnings seasonality as well as rate base growth, which is mostly attributable to the completion of the Southern Crossing Pipeline. The increased earnings seasonality is due to fixed costs being incurred evenly throughout the year while recovery of the fixed costs in rates is based on gas sales, which are higher in the first and fourth quarters. The increase in rate base has increased the seasonality effect leading to higher earnings in the first and fourth quarters and higher losses in the second and third quarters. Over the entire year, the increased variability in quarterly earnings cancels out. As such, our 2001 EPS estimate of $2.20 remains unchanged. Partially offsetting the increased seasonality and rate base growth was the decrease in the utility's allowed rate of return from 9.5% in 2000 to 9.25% in 2001.

BC Gas Utility continues to actively pursue an extension of its Southern Crossing Pipeline. The proposed $460 million Inland Pacific Connector project will add approximately 300 mmcf/d of new capacity as early as late 2003.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business increased by $0.6 million from $5.2 million in Q1 2000 to $5.8 million in Q1 2001. The increase was attributed to increased throughput on the Canadian and U.S. portions of the mainline and higher incentive earnings resulting from productivity improvements under Trans Mountain's new 2001-2005 Incentive Toll Settlement, which was approved by the National Energy Board on March 22, 2001.

While Trans Mountain is exposed to some throughput risk within a defined range of throughput volume on the Canadian portion of its mainline under its new incentive toll settlement, the majority of its exposure to throughput risk is on the U.S. portion of its mainline. Volumes on the U.S. portion of Trans Mountain's mainline increased from 53,534 barrels per day (bpd) in Q1 2000 to 56,308 bpd in Q1 2001. According to BC Gas' management, nominations on the U.S. portion for April and May are in excess of 62,900 bpd. The EPS impact to BC Gas of a 10,000 bpd change in annual throughput on the U.S. oil pipeline is approximately $0.03.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, recorded a loss of $4.6 million in Q1 2001 compared to a loss of $1 million in Q1 2000. Of the $3.6 million decrease in earnings from other activities in Q1 2001, $2.3 million is attributable to higher financing costs associated with new capital investments and the reduced tax benefit of financing costs due to lower tax rates. The remaining $1.3 million is associated with BC Gas' water supply and services business. The Company's water business typically experiences weaker results in the first quarter. Reduced economic activity in B.C. also negatively impacted the water business.

Unusual Items

For comparison purposes, we have treated the following item as non-recurring:

- Income tax benefits associated with the monetization of its Williams Lake Power Plant (NW Energy) of $7.9 million ($0.21 per share) in Q1 2000.

Segmented Earnings

The table below summarizes the earnings from BC Gas' three business segments:

Earnings Analysis (MM$ except per share amounts):			Per Share	
	Q1 2001	Q1 2000	Q1 2001	Q1 2000
Natural gas distribution	$ 59.8	$ 49.2	$ 1.56	$ 1.28
Petroleum transportation	5.8	5.2	0.15	0.14
Other activities	(4.6)	(1.0)	(0.12)	(0.03)
Normalized earnings	$ 61.0	$ 53.4	$ 1.59	$ 1.39
Non-recurring items	-	7.9	-	0.21
Reported earnings	$ 61.0	$ 61.3	$ 1.59	$ 1.60

Earnings Estimates

The difference between BC Gas' earnings per share in Q1 2001 of $1.59 and our estimate of $1.46 is mainly attributable to increased earnings seasonality. We expect the difference will be offset by lower earnings in the second and third quarters. As such, we are maintaining our earnings estimates at this time. Please note that our 2001 EPS estimate of $2.20 is at the high end of the range of $2.14 to $2.20 that management provided in their earnings guidance.

CONCLUSION

Yesterday, BC Gas reported its first quarter financial results. Earnings before non-recurring items for Q1 2001 were $1.59 compared to $1.39 for Q1 2000. The first quarter results were higher than our estimate of $1.46 due to increased seasonality. BC Gas' Board of Directors also increased the Company's annual dividend by $0.08 from $1.24 to $1.32. The increase in the annual dividend is higher than our forecast of $0.06 per share. BC Gas remains ranked 2 (OUTPERFORM) with a one-year target of $40.00.

*Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

RBC DOMINION SECURITIES

February 16, 2001
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

BC GAS INC.

TSE - BCG – $31.00

Q4 Results In Line With Expectations

Stock Rating (Recommendation)	2 (OUTPERFORM)	**1 Yr. Target**	$38.25
Industry Rating	2 (MARKETPERFORM)	**Annual Return**	27.4%

No. of Shares Outstanding		- Basic (MM)		42.9
		- Fully Diluted (MM)		42.9
Float (MM)				38.3
Market Capitalization ($MM)				1,329.9
Value of Float ($MM)				1,187.3
Major Shareholders				Trans Mountain (10.7%)
Year End				Dec. 31
52-Week Price Range				$22.50-$34.75
Debt/Total Capital				0.7
Dividend	$1.24	Yield		4.0%
Book Value	$21.14	Price/Book		1.47
	1999	**2000**	**2001E**	**2002E**
EPS ($)	1.94	2.06	2.20	2.34
P/E (X)	16.0	15.0	14.1	13.2

(All values in C$ unless otherwise noted.)

EVENT

Yesterday, BC Gas reported its fourth quarter and year-end financial results. Earnings before non-recurring items for 2000 were $2.06 compared to $1.94 for 1999. The results for 2000 were in line with our estimate of $2.07. Earnings per share before non-recurring items for Q4 2000 were $0.99 compared to $0.94 for the comparable period in 1999. Including non-recurring items, BC Gas reported earnings per share of $2.84 for 2000 compared to $2.12 for 1999.

IMPLICATION

Natural Gas Distribution

Earnings from BC Gas' natural gas distribution business were $58.7 million in 2000 compared to $51.7 million in 1999. The increase was attributed to rate base growth and an increase in the allowed return on common equity from 9.25% in 1999 to 9.5% in 2000. However, the increase does not fully reflect certain corporate financing costs incurred to finance the Southern Crossing Pipeline. BC Gas has decided to include corporate financing costs in Other Activities to be consistent with reporting practices within its peer group of Canadian companies and to avoid making arbitrary allocation decisions.

BC Gas' Southern Crossing Pipeline went into service on November 29, 2000. The total cost of the project is estimated at $410 million. As a condition of approval from the British Columbia Utilities Commission, BC Gas was responsible for any cost overruns above 10 percent on the original estimated cost of $376 million. As the estimated cost of Southern Crossing Pipeline is below the $413.6 million threshold set by the regulator, the entire amount incurred to build the pipeline is expected to flow into the utility's ratebase. For 2001, the utility's ratebase is estimated at $2.19 billion.

Petroleum Transportation
Earnings for BC Gas' petroleum transportation business increased by $1.8 million from $19.5 million in 1999 to $21.3 million in 2000. The increase was attributed to improved operating performance and higher throughput on the U.S. mainline. Throughput on the U.S. mainline increased from 61,937 bbl/d in 1999 to 65,196 bbl/d for Q3 2000. However, throughput levels are still significantly below 1998 levels of 101,445 bbl/d due to the lower relative price of Alaska North Slope oil compared to West Texas Intermediate.

Other Activities
Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, recorded a loss of $1.2 million in 2000 compared to $3.0 million of earnings in 1999. Earnings in 2000 were lower as BC Gas no longer had the benefit of $4.9 million in tax loss carryforwards, which were used up in 1999. However, earnings from BC Gas' water supply and services companies acquired in 1999 partially offset the benefit from the previously available tax loss carryforwards.

Unusual Items
For comparison purposes, we have treated the following items as non-recurring items:

- A $7.5 million ($0.20 per share) one-time after-tax charge to earnings that was recognized in Q3 2000 for the restructuring and relocation of Trans Mountain from Vancouver to Calgary;
- Income tax benefits associated with the monetization of its Williams Lake Power Plant (NW Energy) of $29 million ($0.76 per share) in 2000 and $7 million ($0.18 per share) in 1999; and
- A $8.5 million ($0.22 per share) gain in 2000 from the effect of income tax rate reductions in calculating future income tax liabilities.

Segmented Earnings
The table below summarizes the earnings from BC Gas' three business segments:

Earnings Analysis:	**Q4 2000**	**Q4 1999**	**2000**	**1999**
Natural gas distribution	$ 34.7	$ 29.7	$ 58.7	$ 51.7
Petroleum transportation	6.3	5.9	21.3	19.5
Other activities	(3.0)	0.2	(1.2)	3.0
Normalized earnings	$ 38.0	$ 35.8	$ 78.8	$ 74.2
Non-recurring items	13.7	7.0	30.0	7.0
Reported earnings	$ 51.7	$ 42.8	$ 108.8	$ 81.2

Earnings Per Share Analysis:	**Q4 2000**	**Q4 1999**	**2000**	**1999**
Natural gas distribution	$ 0.90	$ 0.77	$ 1.53	$ 1.35
Petroleum transportation	0.17	0.16	0.56	0.51
Other activities	(0.08)	0.01	(0.03)	0.08
Normalized earnings per share	$ 0.99	$ 0.94	$ 2.06	$ 1.94
Non-recurring items	0.36	0.18	0.78	0.18
Reported earnings per share	$ 1.35	$ 1.12	$ 2.84	$ 2.12

Growth Outlook
During its fourth quarter analyst conference call, BC Gas' management expressed confidence in achieving 5% to 6% EPS growth in 2001. They also stated that they were comfortable with analysts' 2001 estimates, which are in the range of $2.14 to $2.20. Earnings growth in 2001 is expected to come from a higher ratebase at the utility associated with the completion of the Southern Crossing Pipeline, Trans Mountain's new five-year incentive agreement covering 2001-2005, and higher expected petroleum volumes on U.S. Mainline.

CONCLUSION

Yesterday, BC Gas reported its Q4 and year-end financial results. Earnings before non-recurring items for 2000 were $2.06 compared to $1.94 for 1999. The results for 2000 were in line with our estimate of $2.07. Earnings per share before non-recurring items for Q4 2000 were $0.99 compared to $0.94 for the comparable period in 1999. BC Gas is ranked 2 (OUTPERFORM) with a one-year target of $38.25.

Scotia Capital
THE DAILY EDGE

Back to EDGE at a Glance

Investment Views For Thursday, November 21, 2002

BC Gas Inc.*

(BCG $39.51)

33% Express Pipeline

3-Hold, Low

Sam Kanes, CFA, CA — *416-863-7798*
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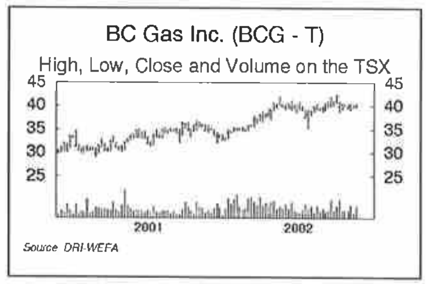
Nov 20, 2002: $39.51	**1-Yr Target: $42.00**	**1-Yr ROR: 9.9%**	**ROE 02E: 12.1%**	**I/B/E/S EPS 2002E: $2.40**
Dividend: $1.42	**2-Yr Target: $42.00**	**2-Yr ROR: 13.5%**	**BVPS 02E: $20.40**	**I/B/E/S EPS 2003E: $2.62**
Qtly EPS (f.d.) (Next Release: 1-Feb-03)				**Valuation: 15.5x P/E on AVG 2003E/2004E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.0	Shares O/S (M)	43.7
2002E	1.70 A	0.03 A	-0.44 A	1.12	2.41	16.4	Total Value($M)	1,725
2003E	1.78	0.04	-0.30	1.10	2.62	15.1	Float O/S (M)	43.7
2004E	1.80	0.10	-0.25	1.15	2.80	14.1	Float Value($M)	1,725
							TSX Weight	0.32%

Source: Reuters; Company reports; Scotia Capital estimates
Historical price multiple calculations use FYE prices.

Share Impact and Valuation



- **Initially Neutral on the Purchase Price but Strategically Positive Acquisition Long Term:** BC Gas Inc. (BCG) announced that it will take a 33% interest in a $1.175B acquisition of the Express Pipeline. The $300M equity deal commitment was a bit of a negative surprise as it will reduce the EPS accretion prospects from Corridor due to the elimination of a proposed $100M capital security transaction that would have had taxable interest expense. We surmise that tougher treatment for equity purposes by Moody's or S&P on equity hybrids has led to this change in BCG's financing plans. BCG management reiterated its comfort with the upper end of the 2002 analyst estimate in an EPS range of $2.35 to $2.43 per share.
- **Valuation:** Our BCG one-year share price target remains unchanged for now at $42.00, as there has been no change to guidance of a 6% to 7% EPS growth rate in 2003. Longer term, there should be some significant EPS growth from this deal as Express oil pipeline expansions eventually proceed. The Express Pipeline acquisition (2001/2002/2003 closing est.) was initially done at 16.5x P/E ($12M of 2003 earnings divided by BCG's $198M net purchase price). The Corridor oil pipeline will begin contributing to EPS as of March 1, 2003, but at lower economics due to more shares outstanding. Scotia Economics' forecast calls for slightly rising 10-year Canada rates by late 2003 to 5.5% from today's 5.1%, slightly negative for high yielding stock valuation. The 50 basis point cut by the U.S. Fed is meant to stimulate the economy and therefore economically sensitive stocks that have outperformed income vehicles lately. We continue to believe that defensive, high yielding stocks like BCG will relatively underperform the TSX average in 2003, as our economists are positive on economic recovery prospects.

Developments

- **Express Pipeline History:** This Alberta-based oil export pipeline had a rough start economically. It was originally built in 1997 by AEC and TransCanada with a relatively weak set of 5-, 10-, and 15-year shipper contracts that supported 65% of the Express Pipeline initial throughput. BCG stated that the majority of these shipper contracts will expire in nine years with one for 10,000 bpd expiring in 2004 and several others in four years. Currently, the 172,000 bpd pipeline is running full at a 65% contract and 35% spot mix. AEC has committed to taking any uncommitted space on Express in an upcoming Open Season for two years at the 15-year established contract rates. The late 1990s acquisition of the Platte Pipeline system in the United States helped Express oil reach new U.S. markets. However, a major leak on this 50-year old pipeline system then led to materially reduced throughput pressures for a number of years on Platte, while the Express Pipeline System did not run at full capacity as the shipper contracts were above market oil price differentials. After AEC bought back the 50% Express Pipeline interest from TransCanada, in 2000, AEC continued to repair the Platte System to a level whereby the U.S. Department of Transport lifted the pressure restrictions to the current 130,000 bpd (cost of $120M over five years). The Express Pipeline is capable of moving oil ranging from synthetic to heavy.

- **Canadian Oil Production Growth:** We believe Alberta is entering a period of rapid oil sands production expansion with or without Kyoto, and that Canadian crude continues to take refinery market share from the United States. This supports the future growth case for the Express Pipeline. BCG estimated that a US$80M potential expansion to 280,000 bpd in two to three years could add $0.10 per share plus to BCG earnings.
- **Financing:** BCG stated that it will issue $300M of equity to wrap up equity requirements for both its Corridor oil pipeline project and its 33% Express pipeline acquisition. This will take its equity base to 33%, split 30% equity and 3% capital securities. BCG's previous financing guidance called for issuing $100M in capital securities that have hybrid equity features was discarded. The negative watch put on BCG's credit by both Moody's and S&P was likely why. Assuming $198M of the upcoming BCG equity issue was used for the $198M of net equity required by BCG to close the deal (33% of $1.175B, less $582M of debt assumed), the initial 2003 EPS effect would be slightly negative. If one assumed BCG's 67% debt capitalization posit the deal for the $198M, and 100% tax realization of interest expense, BCG could add $0.03 to $0.05 per share to 2003 EPS on a pro forma 50M shares (43.7M outstanding plus 7.7M assumed issued at $39.00 per share).
- **Strategic:** We believe this is unquestionably a logical acquisition for BCG as it is a geographic expansion of its existing western Canada oil pipeline business. We expected either BCG, Enbridge, or Pembina would be the logical buyers of EnCana's Express oil pipeline in our Q4/02 Energy Utility Outlook report. Inter Pipeline Fund (IPL.UN), formerly Koch Pipelines Canada, L.P., purchased EnCana's 70% Cold Lake interest for $425M, lifting its stake to 85%.
- **Pipeline Valuation:** EnCana (ECA.TO) expects to book a $250M after-tax gain on the two sales of its pipeline interests. The deals gave EnCana $1.6B of proceeds and its stock was up $1.00 per share on the news as the proceeds were better than oil and gas analysts expected at over 11x EBITDA. The proceeds appear to be close to full value from an income trust valuation perspective on existing EBITDA. In EnCana's merger document, it estimated EBITDA of $140M from the two interests but did not split out their respective contributions. Neither did BCG. We estimated that up to a 10x EBITDA would be paid after seeing deals in the 8.5x to 9.0x EBITDA range for regulated assets such as Cornwall Electric this year, followed by the Alliance Pipeline transactions that were also done at 8.5x EBITDA. We did not get further Express EBITDA clarity on the BCG conference call. BCG also did not specify how the $12M of earnings expected in 2003 from Express would be split between a) equity earnings, b) the pipeline operating fee that Teachers and Borealis will pay BCG, and c) some modest tax synergies that BCG will initially enjoy from the transaction. The auction bid process was apparently active and income trusts are setting price levels for energy infrastructure assets these days.

Scotia Capital
THE DAILY EDGE

Back to EDGE at a Glance

Investment Views For Thursday, November 07, 2002

BC Gas Inc.*

(BCG $39.70)

Q3/02 EPS

3-Hold, Low

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Nov 6, 2002: $39.70	**1-Yr Target: $42.00**	**1-Yr ROR: 9.4%**	**ROE 02E: 12.1%**	**I/B/E/S EPS 2002E: $2.40**
Dividend: $1.42	**2-Yr Target: $42.00**	**2-Yr ROR: 12.9%**	**BVPS 02E: $20.40**	**I/B/E/S EPS 2003E: $2.62**
Qtly EPS (f.d.) (Next Release: 1-Feb-03)				**Valuation: 15.5x P/E on AVG 2003E/2004E EPS**

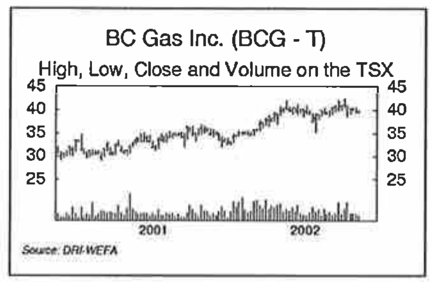
Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.0
2002E	1.70 A	0.03 A	-0.44 A	1.12	2.41	16.5
2003E	1.78	0.04	-0.30	1.10	2.62	15.2
2004E	1.80	0.10	-0.25	1.15	2.80	14.2

Capitalization	
Shares O/S (M)	43.7
Total Value($M)	1,733
Float O/S (M)	43.7
Float Value($M)	1,733
TSX Weight	0.32%

Source: Reuters; Company reports; Scotia Capital estimates

Historical price multiple calculations use FYE prices.

Share Impact and Valuation



- **Weaker (Than We Expected) Q3/02 EPS, Better-Than-Expected Q4/02 EPS.** BC Gas Inc. (BCG) announced a Q3/02 loss of $0.44 per share that included a $0.10 per share writedown for its investment in Westport Innovations ($15.50 per share acquisition cost, written down to $6.00 per share). The "Other activities" loss was flat YOY after adjusting for the Westport writedown. The First Call average loss of $0.34 per share matched BCG's recurring Q3/02. Our $0.22 per share loss estimate was simply too optimistic as management was happy with its Q3/02 results **and** its 2002 reported analyst EPS range of $2.35 to $2.43 that **includes** the $0.10 per share loss on its Westport share ownership. This range implies that Q4/02 EPS will be materially better than we expected, offsetting our overly optimistic Q3/02 estimate.
- **Valuation:** Our BCG one-year target price remains $42.00 per share (15x P/E on Q4/03-Q3/04 EPS, a 3.8% pro forma dividend yield on a $1.52 per share estimated dividend in 2003). The Corridor oil pipeline will begin contributing to EPS as of March 1, 2003, but not sooner due to contractual agreements. Scotia Economics forecasts slightly rising 10-year Canada rates by late 2003 to 5.5% from today's 5.1%, slightly negative for high-yielding stock valuation. The 50 basis point cut by the U.S. Fed is meant to stimulate the economy and therefore economically sensitive stocks. We continue to believe that defensive, high-yielding stocks like BC Gas will relatively underperform the TSX average over the next year, as Scotia Economics is positive on economic recovery prospects.

Developments

- **Q302 Natural Gas Distribution:** This segment's earnings improved to a $21.4M loss from a $27.9M loss in Q3/01. $5.6M was due to the Centra BC results that were in Q3/02 but not Q3/01. Centra BC earnings are relatively smooth on a quarterly basis at about $5.2M to $5.6M per quarter prior to corporate debt cost allocation. BCG has filed for 2003 rates with the British Columbia Utilities Commission and continues to work on a multi-year performance-based ratemaking (PBR) structure settlement. Hearings of about two weeks or less will start next week on BCG's 2003 proposal that was filed in June/July 2002. Centra BC is also in a negotiation process for resolution on rates for about three years that it hopes wraps up by late Q1/03. Its process and probability of requiring a hearing are less clear at this time. Some level of risk may be taken on for higher potential returns if it can be mitigated. There will likely be downward 2003 adjustments on budgeted interest expenses that have benefited BCG by \$4.4M after tax in year-to-date 2002. BCG also had a one-time benefit of two months of Centra Gas results prior to its 5.2M share March 2002 equity issue. The Q3/02 interest expense benefit portion was not broken out but will be broken out going forward. Nine-month YTD allowed ROE at BC Gas is tracking mildly above its allowed 9.13%.

- **Q3/02 Petroleum Transportation**: Q3/02 EPS contribution was down \$0.02 to \$0.15 per share due to the March 2002 share issue. While oil throughput to the United States was down again, tanker loading through the Westridge terminal offset the U.S. throughput shortfall. BCG's five-year agreement assumes volume will be in the 30,000 cubic metres per day area. Corridor is now 99% complete and on budget. Full year EPS pickup will be about \$0.20 per share and assumes: (1) \$100M of hybrid capital securities get issued that 100% qualify as equity with rating agencies and (2) the balance of Corridor's equity requirement continues to be financed at short-term debt rates.
- **B.C. Energy Policy:** The new B.C. Government's Energy Policy was scheduled to be issued in September 2002, but wasn't. If/when issued, it could lead to the possible sale of B.C. Hydro's Power Distribution business. A preliminary report from an appointed task force recommended splitting B.C. Hydro into separate generation, transmission, and distribution segments. BCG is a logical bidder for the B.C. Hydro distribution division.

BC Gas Inc.*

(BCG $38.15)

Q2/02 Mildly Positive

3-Hold, Low

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Jul 31, 2002: $38.15	**1-Yr Target: $40.00**	**1-Yr ROR: 8.6%**	**ROE 02E: 12.1%**	**I/B/E/S EPS 2002E: $2.39**
Dividend: $1.44	**2-Yr Target: $42.00**	**2-Yr ROR: 17.6%**	**BVPS 02E: $20.46**	**I/B/E/S EPS 2003E: $2.61**

Qtly EPS (f.d.) (Next Release: 31-Oct-02) **Valuation: 14.5x P/E on AVG 2003E/04E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.0
2002E	1.70 A	0.03 A	-0.22	0.90	2.41	15.8
2003E	1.78	0.04	-0.20	1.00	2.62	14.6
2004E	1.80	0.10	-0.20	1.10	2.80	13.6

Source: Reuters; Company reports; Scotia Capital estimates
Historical price multiple calculations use FYE prices.

Capitalization	
Shares O/S (M)	42.9
Total Value($M)	1,638
Float O/S (M)	42.9
Float Value($M)	1,638
TSX Weight	0.31%

Share Impact and Valuation

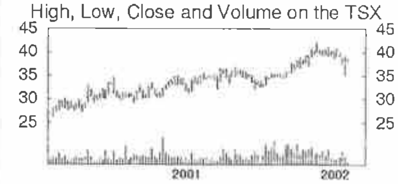
- **Mildly Positive Q2/02 EPS:** BC Gas announced Q2/02 EPS of $0.03, mildly above our $0.02 per share loss estimate and First Call's average of a loss of $0.04 per share. The favourable impact of the Centra BC acquisition on earnings and slightly better financing costs at BC Gas were the reasons cited, partly offset by weaker Petroleum Transportation results. Post-2002 EPS growth prospects remain on track and management is comfortable with the high end of the current analyst range for 2002E EPS of $2.35 to $2.42. The Corridor oil pipeline project is 93% complete and on budget with a March 2003 commercial start-up date.
- **Valuation:** We lifted our BC Gas one-year target price by $1.00 to $40.00 per share (14.5x P/E on 2003E/2004E EPS averaged, 3.8% pro forma dividend yield on a $1.52 per share estimated dividend in 2003). We nudged up our 2003E EPS to $2.62 per share from $2.58 per share on EPS guidance on the BC Gas Corridor project. Corridor will begin contributing in Q2/03. Our Scotia Economics' forecast calls for modestly rising rates by late 2002 through 2003 to 6.1% for 10-year Canadas from today's 5.2%, modestly negative for relative dividend yield valuation.

Pertinent Revisions (BCG)

	New	Old
1-Yr Target:	**$40.00**	**$39.00**
2-Yr Target:	**$42.00**	**$41.00**
EPS03E:	$2.62	$2.58

BC Gas Inc. (BCG - T)

High, Low, Close and Volume on the TSX



Source S&P DRI

Developments

- **Q2/02 Natural Gas Distribution:** This segment's earnings increased by $6.2M, of which $1M was due to lower-than-allowed-for interest cost and $5.2M was delivered from its Centra BC acquisition prior to corporate debt cost allocation. We were guided to expect Centra BC to deliver steady earnings on a quarterly basis in the $5.2M area pre-financing due to the nature of how earnings seasonality is adjusted. BC Gas has filed for 2002/2003 rates with the BCUC. It continues to negotiate for a five-year PBR structure. Centra BC is expected to file shortly.
- **Q1/02 Petroleum Transportation:** Weaker Q2/02 oil throughput of 30.4M m3/day versus 32.2M m3/day in Q2/02 led to a $0.04 per share reduction in contribution ($1M). BC Gas' five-year agreement assumes volume will be in the 30M m3/day area. Lower West Coast refinery margins using Alberta oil was the main reason cited for lower oil throughput; this is expected to continue short-term. Oil tankers from Vancouver have improved as Canadian oil producers experiment with exporting to some California and Far East markets. TMPL is pursuing other cost reductions that are expected to be minor. Corridor is now 93% completed and its northbound diluents line is full. Confidentiality agreements limit guidance and Corridor's future contributions will be buried with TransMountain's results. Full year EPS pick-up is expected to be about $0.020

per share **assuming**: a) $100M of hybrid capital securities get issued that 100% qualifies as equity with rating agencies and b) the balance of Corridor's equity requirement is financed at short-term debt rates. Since another $100M capital securities issue would only take hybrid securities to 5% of total capitalization, BCG believes credit rating agencies will accept that.

- **BC Energy Policy:** The new B.C. government's Energy Policy is expected in September 2002. It could lead to the possible sale of BC Hydro's Power Distribution business. A preliminary report from an appointed task force recommended splitting BC Hydro into separate generation, transmission, and distribution segments. We believe BC Gas is a logical bidder for the BC Hydro distribution division.
- **Corporate:** In Q3/02, BC Gas issued $200M in a corporate debt deal plus another $60M in Q1/02 for the completion of the Corridor Oil Pipeline. The announced sale of its wholesale water works supply business to Emco has been called off. This business was profitable in Q2/02, as was the 30% Customer Works entity.

BC Gas Inc.*

(BCG $39.09)

Q1/02 Mildly Positive

3-Hold, Low

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Apr 29, 2002: $39.09	**1-Yr Target: $39.00**	**1-Yr ROR: 3.5%**	**ROE 02E: 12.1%**	**I/B/E/S EPS 2002E: $2.39**
Dividend: $1.44	**2-Yr Target: $41.00**	**2-Yr ROR: 12.3%**	**BVPS 02E: $20.46**	**I/B/E/S EPS 2003E: $2.60**

Qtly EPS (f.d.) (Next Release: 25-Jul-02) **Valuation: 15x P/E multiple using 2003E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	3.39	11.5
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	17.7
2002E	1.70 A	-0.02	-0.34	1.07	2.41	16.2
2003E	1.76	0.00	-0.29	1.11	2.58	15.2

Source: Reuters; Company reports; Scotia Capital estimates

Capitalization	
Shares O/S (M)	42.9
Total Value ($M)	1,678
Float O/S (M)	42.9
Float Value ($M)	1,678
TSE Weight	0.27%

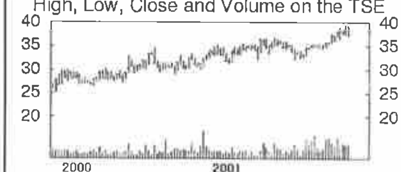
Share Impact and Valuation

- **Mildly Positive Q1/02 EPS:** BC Gas announced Q1/02 earnings of $1.70 per share, slightly above our $1.66 per share estimate. The favourable impact of the Centra BC acquisition on earnings and slightly better financing costs at BC Gas were the reasons cited. EPS growth prospects remain on track and management guided 2002 EPS toward the high end of a $2.32 per share to $2.41 per share analyst range. The Corridor oil pipeline project is 88% complete and on budget with a February 2003 commercial start-up date. We anticipate some opportunities to develop from the B.C. government's proposed Energy Plan that may break up BC Hydro. The dividend was raised 9% to $1.44 per share.
- **Valuation:** We lifted our BC Gas one-year share price target by $1.00 per share to $39.00 per share. This begins to reflect 33% of 2004E EPS, more management confidence that our $2.41 per share 2002 estimate may be reasonable, and the 9% higher dividend. Corridor earnings beginning in February 2003 could surprise on the upside. Our Economics forecast calls for modestly rising rates by late 2002 through 2003, to 6.3% for 10-year Canadas from today's 5.7%, modestly negative for valuation. BC Gas remains an alternative equity investment for previous Westcoast Energy shareholders due to its similar gas utility and oil and gas pipeline mix.

Pertinent Revisions (BCG)	**New**	**Old**
1-Yr Target:	**$39.00**	**$38.00**
2-Yr Target:	**$41.00**	**$40.00**

BC Gas Inc. (BCG - T)

High, Low, Close and Volume on the TSE



Source: S&P DRI

Developments

- **Q1/02 Natural Gas Distribution:** This segment's earnings increased 11% YOY to $66.8M due mainly to the Centra BC acquisition. For 2002, BC Gas decided to remain with its 2001 rates for now. Its allowed 2002 ROE would have fallen to 9.13% from the previously allowed 9.5% had BC Gas applied for 2002 rates.
- **Q1/02 Petroleum Transportation:** Oil throughput was up 3%, supporting a $0.7M Q1/02 earnings increase to $6.5M.
- **B.C. Energy Policy:** It is still too early to know what the new B.C. government's Energy Policy will look like. It will be issued in two to three months and could lead to the possible sale of BC Hydro's Power Distribution business. A preliminary report from an appointed task force recommended splitting BC Hydro into separate generation, transmission, and distribution segments. BC Gas expressed an interest in bidding

for the BC Hydro distribution division in its press release. BC Gas believes that its potential gas/water/electricity multi-utility could add value to the citizens of British Columbia.

- **Corporate:** Last fall, BC Gas did a $200M corporate debt deal, and another $60M was issued recently. These issues support the construction of the Corridor Oil Pipeline. The announced sale of its wholesale water works supply business to Emco is being made at about book value. Proceeds are expected to be used to reduce corporate debt.

RATINGS: 1-Strong Buy; 2-Buy; 3-Hold; 4-Reduce; 5-Sell; 6-Under Review; 7-Tender; 8-Venture **RISK**: Low; Moderate; Market; Above Market; Venture

*Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee within the past 24 months with respect to securities marked with an asterisk.

BC Gas Inc.*

(BCG $34.83)

Q4/01 In Line

2-Buy, Low

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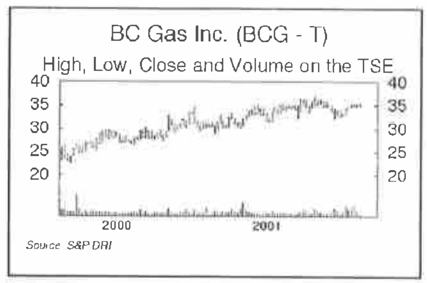
Feb 14, 2002: $34.83	**1-Yr Target: $38.00**	**1-Yr ROR: 12.9%**	**ROE 02E: 12.1%**	**I/B/E/S EPS 2002E: $2.36**
Dividend: $1.32	**2-Yr Target: $40.00**	**2-Yr ROR: 22.4%**	**BVPS 02E: $20.46**	**I/B/E/S EPS 2003E: N/A**

Qtly EPS (FD) (Next Release: 8-May-02) — **Valuation: 1-yr target based on 15x P/E multiple 2003E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	3.39	10.3	Shares O/S (M)	42.9
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.8	Total Value ($M)	1,495
2002E	1.66	-0.02	-0.30	1.07	2.41	14.5	Float O/S (M)	42.9
2003E	1.76	0.00	-0.29	1.11	2.58	13.5	Float Value ($M)	1,495
							TSE Weight	0.22%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation



- **Neutral On Q4/01, Remain Positive on Potential Long-Term Growth:** BC Gas announced Q4/01 EPS of $1.28 per share, which matched our forecast. Long-term growth prospects improved with the recently proposed $800M Alberta pipeline project called the Bison Pipeline. The completion of the BC Gas Corridor oil pipeline for Shell Canada is on schedule for Q1/03, and remains on budget at $690M. The other possible BC Gas pipeline project is the expansion of the BC Gas Southern Crossing gas pipeline after 2005. We anticipate some opportunities to develop from the B.C. government's proposed Energy Plan that may break up BC Hydro.
- **Valuation:** We set BC Gas's one-year share price target at an unchanged $38.00 per share, using a 15x P/E on estimated 2003 EPS of $2.58 per share, with Corridor earnings beginning in Q2/03. Our economics forecast calls for modestly rising rates by late 2002 through 2003, to 6.25% for 10-year Canada bonds from today's 5.4%, modestly negative for valuation. In our view, BC Gas remains an alternative equity investment for Westcoast Energy shareholders due to its similar gas utility and oil and gas pipeline mix.

Developments

- **Q4/01 Natural Gas Distribution Detail:** Natural Gas Distribution earnings increased 30% YOY to $45.1M, due mainly to the $400M rate base insertion for the Corridor gas pipeline, and to a lesser degree, earnings seasonality shifts. Corridor raised the BC Gas rate base by 20% in 2001, lifting baseline earnings by 20% in isolation. The quarterly seasonal earnings shifts caused by this insertion helped Q4/01. 2002 quarterly EPS will finally become comparable again with previous 2001 results. For 2002, BC Gas will remain on 2001 rates, as going for new rates under the existing regulations would push its allowed ROE down to 9.13% from the previously allowed 9.5%. The effective 2001 ROE was 9.44%. On the closing of Centra B.C. deal, management remains very confident of a closing in early March 2002.
- **Q4/01 Petroleum Transportation:** Strong Q4/01 at $8.5M was up $2.2M YOY on strong oil throughput volumes.
- **Bison Pipeline Project:** This 30-inch heated bitumen-based line, slated to service Alberta oil sands, is expected to be capable of running up to 60% of capacity with no diluent or heat requirement. Initial customers could be Petro-Canada and True North (78% owned by Koch Industries), which are conducting joint engineering and technical studies with BC Gas. In late Q4/01, Petro-Canada announced its Meadow Lake Oil Sands Project, with an accompanying refinery conversion project for 2006 - 2007. Initial production is targeted at 80,000 bpd. An additional 100,000

bpd for 2008 2009 is expected. For True North, its Fort Hills project would initially produce about 90,000 bpd by mid-2005. Filing will be some time in the summer of 2002 for a targeted regulatory approval by Q1/03.

BC Gas Inc.*

(BCG $34.40)

Long-Term Prospect

2-Buy, Low

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Jan 15, 2002: $34.40	**1-Yr Target: $38.00**	**1-Yr ROR: 14.3%**	**ROE 02E: 12.4%**	**I/B/E/S EPS 2001E: $2.19**
Dividend: $1.32	**2-Yr Target: $40.00**	**2-Yr ROR: 24.0%**	**BVPS 02E: $19.91**	**I/B/E/S EPS 2002E: $2.36**

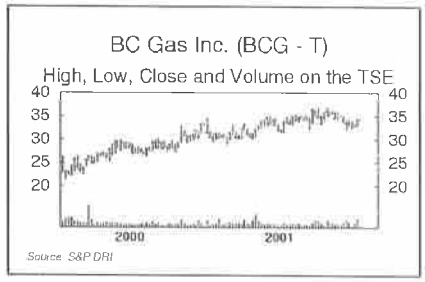
Qtly EPS (FD) (Next Release: 8-Feb-02) **Valuation: 1-yr target based on 15x P/E multiple 2003E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	2.84	12.1	Shares O/S (M)	42.9
2001E	1.60 A	-0.08 A	-0.34	1.04	2.22	15.5	Total Value ($M)	1,477
2002E	1.66	-0.02	-0.30	1.07	2.41	14.3	Float O/S (M)	42.9
2003E	1.76	0.00	-0.29	1.11	2.58	13.3	Float Value ($M)	1,477
							TSE Weight	0.21%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Potential Long-Term Positive:** BC Gas announced yet another growth pipeline project called the Bison Pipeline. This could follow the completion of the BC Gas Corridor oil pipeline currently under construction for Shell Canada*. The other possible BC Gas pipeline project is the expansion of the Southern Crossing gas pipeline.
- **Valuation:** We target BC Gas' share price one year out at $38.00/share since interest rates backed up during Nov-Dec/01. Our Economics forecast calls for rising rates by late 2002. Our one-year share price target of $38.00 assumes a 15x P/E on estimated 2003 EPS of $2.58/share. BC Gas remains an alternative equity investment to Westcoast Energy* due to its similar gas utility and oil and gas pipeline mix.



Developments

- **Bison Pipeline:** This 30-inch bitumen-based line will not require ANY diluent, which is a scarce commodity in the Alberta oil sands. The bitumen will be heated up to 120 degrees Celsius to flow the 10-degree API bitumen to Edmonton. This will require a thick two- to three-inch insulation coating with a further polyethylene coating on the outside of the insulation to keep out moisture. It will be configured to initially run at 100,000 bpd with an ultimate capacity of 450,000 bpd. The initial capital cost of $800M would rise to $1B when fully developed. The line will be capable of running up to 60% of capacity with NO diluent OR heat requirement.
- **Customers:** The customers that the Bison project is initially trying to get are Petro-Canada and True North (78% owned by Koch Industries). In late Q4/01, Petro-Canada announced its Meadow Lake Oil Sands project with an accompanying refinery conversion project for 2006-07. Initial production is targeted at 80,000 bpd. An additional 100,000 bpd for 2008-09 is expected. For True North, its Fort Hills project would initially produce about 90,000 bpd by mid-2005.
- **Economics/Timing:** It is premature to speculate on the potential economics of this mid-2005 oil pipeline project. The timing of a BC Gas Board decision to proceed is about 14 months away according to Trans Mountain's President, Tom Doyle. Clearly, the economics have to be satisfactory for the project to proceed.

BC Gas Inc.
(BCG $35.64)
Accretive Deal
2-Buy, Low

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Oct 22, 2001: $35.64	**1-Yr Target: $41.00**	**1-Yr ROR: 18.7%**	**ROE 01E: 12.0%**	**I/B/E/S EPS 2001E: $2.18**
Dividend: $1.32	**2-Yr Target: $43.00**	**2-Yr ROR: 28.1%**	**BVPS 01E: $18.97**	**I/B/E/S EPS 2002E: $2.31**

Qtly EPS (FD) (Next Release: 8-Nov-01) **Valuation: 1-yr target based on 16.5x P/E multiple 02E+03E Avg. EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	2.94	12.1	Shares O/S (M)	42.9
2001E	1.60 A	-0.08 A	-0.34	1.04	2.22	16.1	Total Value ($M)	1,529
2002E	1.66	-0.02	-0.30	1.07	2.41	14.8	Float O/S (M)	42.9
2003E	1.76	0.00	-0.29	1.11	2.58	13.8	Float Value ($M)	1,529
							TSE Weight	0.24%

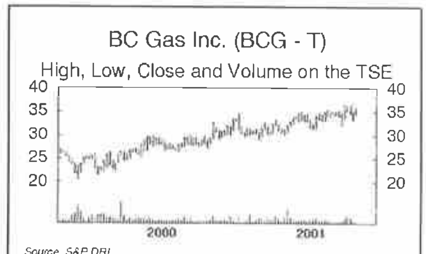
Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Positive By $1/share on Centra B.C. Acquisition:** The acquisition of Centra B.C. is viewed favourably due to 1) immediate $0.06 EPS addition with no increased risk, and 2) increased share liquidity once BC Gas issues $180M of new equity (12%-13% increase in shares outstanding). BC Gas stated that the deal is "spot on our strategy". We agree. BC Gas has the greatest potential synergies from owning Centra B.C.'s geographically related gas utility and pipeline assets. These potential cost/efficiency synergies ($0.02-$0.04/share net to shareholders?) may be split 50:50 between BC Gas shareholders and BC Gas and Centra B.C. customers based on other regulated transactions in the U.S. The potential shareholder benefits were not factored into the deal that is a modest 1.3x price-to-book (15x P/E). We assume a January 1/02 deal closure will add $0.06/share to 2002 and $0.08/share to 2003.
- **Valuation:** We target BC Gas' share price one-year out at $41.00/share, up $1.00/share, using a 16.5x P/E on estimated 2002/03 EPS averaged of $2.49. We lifted our BC Gas recommendation to a 2-Buy and P/E multiple (along with TransCanada's* and Enbridge's*) after Duke Energy proposed to take over Westcoast Energy* on September 16/01. Westcoast shareholders should consider BC Gas as an alternative investment due to its similar gas utility and gas and oil pipeline mix.

Pertinent Revisions (BCG)

	New	Old
1-Yr Target:	$41.00	$40.00
2-Yr Target:	$43.00	$42.00
EPS02E:	$2.41	$2.35



Developments

- **Centra Gas B.C.:** BC Gas is paying $200M for Centra Gas B.C., a regulated gas utility and gas pipeline as well as $8M for Centra Whistler, a propane distributor. BC Gas will pay $32M at closing and $52M in deferred payments to purchase the preferred shares of Centra B.C. while assuming its long-term debt of $298M. Centra B.C. began operations in 1992 after a gas pipeline was built to Vancouver Island by Westcoast Energy. Delays in the timing of adding customers led to a number of settlements with the BC government in 1995 including a revenue deficiency deferral account that will be recouped prior to 2011. Conventional rate setting methods are to begin in 2003.
- **Valuation:** BC Gas is paying 1.3x price-to-regulated-book of $160M ($455M rate base times allowed 35% equity) which is very modest relative to other regulated transactions during the past ten years. However, the purchase price on a P/E basis is a little higher at 15x. This is due to the

1995 Centra B.C. regulatory framework agreement with the B.C. government that led to a subtraction of $1.9M from annual earnings until 2011. Centra B.C. 2002-03 growth will likely be a modest 3%-4%/year until the economy improves and/or new gas burning generation on the Island is built. The allowed return for Centra B.C. is similar to that for BC Gas. In 2002, BC Gas expects Centra B.C. to earn 9.4% ROE plus 0.8%-1.1% in additional ROE from incentive plan cost efficiencies ($1.2M-$1.5M/yr estimated).

- **Synergies:** The Centra B.C. incentive agreement covers internal operating and maintenance efficiencies. This will remain in place until the end of 2002. BC Gas sees material cost synergy value in merging its operations with Centra B.C. going forward but would not estimate potential at this stage.
- **Timing:** Approvals are required from the BCUC and the Province of British Columbia. BC Gas anticipates good support for this transaction given Duke's proposed acquisition of Vancouver, B.C.-based Westcoast Energy. BC Gas has spoken to the appropriate parties. The BC Gas deal is NOT contingent to the Duke-Westcoast Energy takeover vote in mid-Dec./01.
- **Financing:** To close the transaction, BC Gas intends to issue $180M of equity and $130M of debt prior to year-end. BCG will also acquire debt of $298M, of which $228M will be fixed with a bank syndicate as long-term debt and $70M will be in parent advances. After the equity and debt financing, BC Gas will be back on its targeted 30% equity/70% debt structure. This is similar to Enbridge's and TransCanada's balance sheets.

Scotia Capital

THE DAILY EDGE

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Investment Views For Tuesday, August 7, 2001

BC Gas Inc.

(BCG $34.65)

Q2/01 in Line

3-Hold, Low

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Aug 3, 2001: $34.65	**1-Yr Target: $37.00**	**1-Yr ROR: 10.6%**	**ROE 01E: 11.8%**	**I/B/E/S EPS 2001E: $2.17**
Dividend: $1.32	**2-Yr Target: $39.00**	**2-Yr ROR: 20.2%**	**BVPS 01E: $18.87**	**I/B/E/S EPS 2002E: $2.30**

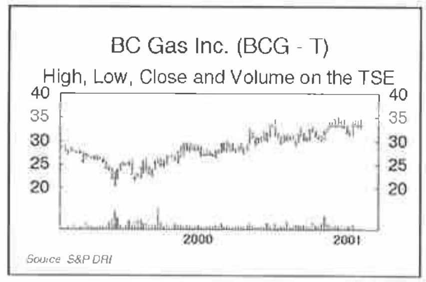
Qtly EPS (Next Release: 30-Oct-01) **Valuation: 1-yr target based on 15x P/E multiple 02E+03E Avg. EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	2.84	12.2
2001E	1.60 A	-0.08 A	-0.34	1.04	2.22	15.6
2002E	1.62	-0.02	-0.30	1.05	2.35	14.7
2003E	1.75	0.00	-0.29	1.11	2.57	13.5

Source: Reuters; Company reports; Scotia Capital estimates

Capitalization	
Shares O/S (M)	42.9
Total Value ($M)	1,486
Float O/S (M)	42.9
Float Value ($M)	1,486
TSE Weight	0.21%

Share Impact and Valuation



- **Neutral on Q2/01, Mildly Positive on Corridor for 2003:** BC Gas reported a Q2/01 loss of $0.08/share recurring, in line with our $0.09/share estimate. We believe that BC Gas can grow its earnings 5%-6%/year through 2002. Management stated that it continues to be comfortable with this growth and a $2.14-$2.24/share 2001 EPS range. However, guidance was given toward the upper end. Accordingly, we have nudged up our $2.18/share estimate to $2.22/share for 2001. We have also raised our 2003 estimate to $2.57, up $0.07/share on more defined, expected earnings contributions from BCG's $690M Corridor oil pipeline project that remains "on time and on budget".
- **Valuation:** We target BC Gas' price target one-year out at $37.00/share, up $1.00/share, using a 15x P/E on estimated 2002/03 EPS averaged of $2.46/share (up $0.03/share). We are recognizing 2003 Corridor earnings based on a 10% ROE on a 75%/25% assumed debt/equity for the Corridor project, which may or may not be reasonable. A variety of other regulated and non-regulated growth initiatives are underway. These could support BCG's EPS growth in the 6%-7% area versus 5%-6%.

Developments

- **Natural Gas Distribution:** Q2/01 utility losses increased to $0.24/share versus $0.16/share in Q2/00. This was due solely to seasonality shifts caused by the now defined $396M capital expenditure for the Southern Crossing gas pipeline being put into 2001 rates. A lower 2001 ROE of 9.25% on its gas utility (versus 2000's allowed 9.5% ROE) will partly offset materially higher 2001 gas utility earnings on a 20% higher $2.1B rate base.
- **Petroleum Transportation:** TMPL reported $0.17/share for Q2/01 versus $0.12/share in Q2/00, a favourable surprise. TMPL is beginning to capture some efficiencies on relocating its employees to Calgary. TMPL is also taking throughput variance risk/reward between 28,500M^3/day and 32,000M^3/day with a baseline 30,000M^3/day toll assumption. Q2/01 throughput was at the high end. TMPL keeps 100% of the productivity achievements under its new five-year shipper agreement.
- **Other:** BC Gas' Other activities lost $0.13/share versus a gain of $0.03/share in Q2/00. This was mainly due to higher financing charges for its two large projects and, to a lesser extent, due to seasonally weak water business results.
- **Southern Crossing Expansion Prospects:** BCG's proposed $500M, 300 mmcf/d Inland Pacific Connector gas pipeline project did not get

enough shipper support due mainly to Westcoast's* 200 mmcf/day incremental capacity being subscribed to first. The BCG project does not compete with TRP's* announced 346 mmcf/day BC pipeline project which routes into PGT's BC-to-California border pipelines. If it proceeds, November 2004 is now the likely timing for completion of this gas pipeline expansion that would feed into Sumas, BC.

- BCG's management stated that the shipper support received was about 60% of "what we feel comfortable with", without defining comfortable. There are various conditions in some of the shipper contracts that depend on approvals of various gas burning generation projects (IPP and cogen) in the Pacific Northwest.
- **Other Non-Regulated Projects:** BCG recently announced a services contract in Oman with Enbridge*, an expansion into natural gas fuel infrastructure and a proposed merger with Enbridge service staff (Customerworks) to enhance and deregulate energy customer service offerings throughout Canada.
- **Financing:** BCG will likely issue more capital securities (hybrid equity) in late 2002/03 to capitalize its Corridor oil pipeline project, which is currently financed with 100% debt. Only interest expense is being paid by Shell/Chevron, the key sponsors for the Corridor initial start-up. Target financial structure is about 25% equity, 5% hybrid equity and 70% debt. Actual capital structure of BCG consolidated may be a little thinner on equity initially if the credit rating agencies allow. BCG's capital structure target is similar to Enbridge's actual capital structure which qualifies as an A credit by DBRS. If it is unable to proceed with further projects, such as the Inland Pacific Connector, BCG has no intention of issuing equity through 2003.

THE DAILY EDGE

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Investment Views For Friday, April 27, 2001

BC Gas Inc.
(BCG $30.75)
Q1/01 OK
3-Hold, Low

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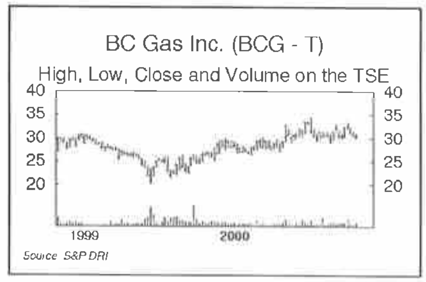
Apr 26, 2001: $30.75	**1-Yr Target: $34.00**	**1-Yr ROR: 14.9%**	**ROE 01E: 11.7%**	**I/B/E/S EPS 2000E: $2.16**
Dividend: $1.32	**2-Yr Target: $36.00**	**2-Yr ROR: 25.7%**	**BVPS 01E: $18.88**	**I/B/E/S EPS 2001E: $2.28**
Qtly Earnings (Next Release: 26-Jul-01)				**Valuation: 14.5 x P/E multiple 2002E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
1999A	1.35 A	-0.01 A	-0.34 A	1.12 A	2.12	14.5	Shares O/S (M)	38.3
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	2.84	10.8	Total Value ($M)	1,178
2001E	1.60 A	-0.09	-0.38	1.02	2.15	14.3	Float O/S (M)	38.3
2002E	1.52	0.02	-0.28	1.06	2.32	13.3	Float Value ($M)	1,178
							TSE Weight	0.17%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Neutral on Q1/01:** BC Gas reported Q1/01 earnings of $1.60/share recurring, materially up over our $1.45/share estimate. Management publicly stated that the year would be in line with a 5%-6% EPS growth rate; therefore, Q1's high EPS will be offset by Q2/Q3 weakness. We believe that BC Gas can grow its earnings 5%-6%/year to the $2.15-$2.20/share range. Q2/01 is expected to be a materially deeper loss due to the seasonality shift. BCG raised its annual dividend to $1.32/share, up from $1.24/share.
- **Valuation:** We target BC Gas' price one-year out at $34.00/share using a 14.5x P/E on unchanged, estimated 2002 EPS of $2.32 (9.7% ROE assumed for the gas utility).



Developments

- **Natural Gas Distribution:** Q1/01 utility earnings grew to $59.8M from $49.2M YOY due to materially higher seasonal EPS effects and 2001's larger $2.1B gas utility rate base due to the inclusion of the $400M rounded Southern Crossing project. This seasonal effect is due to rate base costs being smoothly allocated during the year versus the cost effects of seasonal gas consumption. A lower 9.25% ROE on its gas utility (versus 2000's allowed 9.5% ROE) will partly offset higher 2001 gas utility earnings. BC Gas is up about 50 bps on its Q1/01 ROE.
- **Petroleum Transportation:** TMPL reported $0.15/share for Q1/01 versus $0.14/share in Q1/00, in line with expectations. TMPL is beginning to capture some efficiencies on relocating its employees to Calgary. TMPL is taking throughput variance risk between 28,500M³/day and 32,000M³/day with a baseline 30,000M³/day toll assumption. TMPL will keep 100% of the productivity achievements but be exposed to 100% of any inflation. On a net basis, TMPL expects to be ahead on this new shipper agreement.
- **Other:** BC Gas' Other category lost $4.6M or ($0.12)/share, up from a loss of $1.0M or ($0.03)/share in Q4/99 as a result of higher financing charges ($2.3M) due to its two large projects and $1.3M YOY relating to the larger water business that normally suffers a Q1/01 loss. The water supply business performed to management's expectations. A new incentive tolling mechanism is hoped for within the next 3-4 months with a minimum of a continuation of today's incentive tolling. This depends on the new BC Government and how and when it sets the BCUC Board.
- **Southern Crossing Expansion:** Rates are not yet clear for this proposed $500M rounded expansion that could come onstream in late 2003. It is unclear how much of the cost will go to the utility versus to new shippers. An open season will begin April 30-May 1/01. Incremental versus rolled in tolling issues are not yet clear. The constraint at Sumas versus AECO gas prices is currently $4/mcf. Westcoast* wants to increase its capacity 200 mmcf/day at Sumas while BC Gas is proposing 300 mmcf/day to Sumas.

Scotia Capital

THE DAILY EDGE

BC Gas Inc.

(BCG $31.00)

Q4/00 Firm

3-Hold, Low

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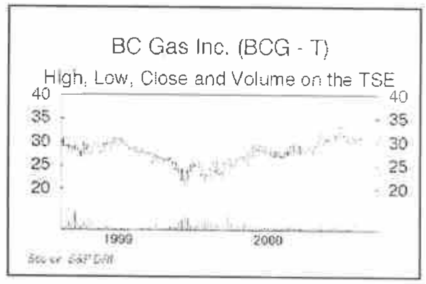
Feb 15, 2001: $31.00	**1-Yr Target: $34.00**	**1-Yr ROR: 13.7%**	**ROE 02E: 11.9%**	**I/B/E/S EPS 2000E: $2.04**
Dividend: $1.24	**2-Yr Target: $36.00**	**2-Yr ROR: 24.1%**	**BVPS 02E: $19.96**	**I/B/E/S EPS 2001E: $2.17**

	Qtly Earnings						Capitalization	
Y/E December 31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/E**	Shares O/S (M)	38.3
1999A	1.35 A	-0.01 A	-0.34 A	1.12 A	2.12	14.6	Total Value ($M)	1,187
2000A	1.60 A	0.15 A	-0.15 A	1.24 A	2.84	10.9	Float O/S (M)	38.3
2001E	1.44	-0.01	-0.30	1.02	2.15	14.4	Float Value ($M)	1,187
2002E	1.52	0.02	-0.28	1.06	2.32	13.4	TSE Weight	0.16%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Slightly Favourable:** BC Gas reported Q4/00 earnings of $0.99/share recurring versus $0.94 in 1999 ($2.06/share recurring versus $1.94/share recurring in 1999). Higher-than-expected 10.1% ROE on its gas utility (allowed 9.5% ROE) and favourable seasonality helped Q4/00 EPS. Non-recurring 2000 items totaling $0.78/share included: 1) $0.76/share for Williams Lake tax gains (now complete), 2) $0.23/share for reduced tax rates, and 3) ($0.21)/share for TransMountain restructuring costs. We believe that BC Gas can grow its earnings 5%-6%/year.
- **Valuation:** We target BCG's price one year out at $34/share using a 14.5x P/E on unchanged, estimated 2002 EPS of $2.32 (9.7% ROE assumed for the gas utility).



Developments

- **Natural Gas Distribution:** Q4/00 utility earnings were $1.53/share versus $1.35/share in Q4/99 on a) a firm 10.1% ROE versus BCG's allowed 9.5% ROE for 2000 (9.25% in 1999), and b) seasonality effects. ROE for 2001 will fall 25 bps to 9.25% due to the BCUC ROE formu la. The larger $2.1B rate base for 2001 versus $1.71B (est.) in 1999 is due to the inclusion of the Southern Crossing project. The $410M South ern Crossing cost should all be included into rate base. Growth in the rate base continues to alter the seasonality of results (i.e., greater EPS in Q1/Q4 and greater losses in Q2/Q3). This is due to rate base costs being smoothly allocated during the year versus the cost effects of seasonal g as consumption.
- **Petroleum Transportation:** TMPL reported $0.17/share for Q4/00 versus $0.16/share in Q4/99, in line. The $7.5M write-off taken by BC Gas should help TMPL capture significant efficiencies on relocating its employees. A five-year extension of its shipper agreement w as approved by the NEB. TMPL will get to keep 25% of its accumulated savings under the 1996-2000 agreement (amount not given). In exchange, TMPL w ill take throughput variance risk between 28,500M3/day and 32,000M3/day with a baseline 30,000M3/day toll assumption. TMPL will keep 100 % of the productivity achievements but be exposed to 100% of any inflation. On a net basis, TMPL expects to be ahead on this new shipper agreement.
- **Other:** BCG's other category lost $0.08/share versus a gain of $0.01/share in Q4/99. Higher financing charges due to its two large pro jects and no further tax recovery recognition in Q4/00 as in Q4/99 led to the loss. The water supply business performed to management's e xpectations.
- **Outlook/Financing:** Capital expenditures for 2001 will total $550M, of which $300M for Corridor and $210M for the gas utility being the largest pieces. A commercial paper program is being used for financing Corridor until Q4/2002. With Southern Crossing in operation, the focus has turned to the construction of the Corridor oil pipeline for Shell Canada, of which a small portion was finished in Q4/00. Cost and timing incentives/penalties were not disclosed and the project to date is on time and on budget. Earlier this year, BC Gas issued $125 M of unsecured 40-year Capital Securities (CapS) which the Credit Rating Agencies gave a full equity credit.

Scotia Capital
THE DAILY EDGE

BC Gas Inc.
(BCG $31.50)
Q3/00 Flat
3-Hold, Low

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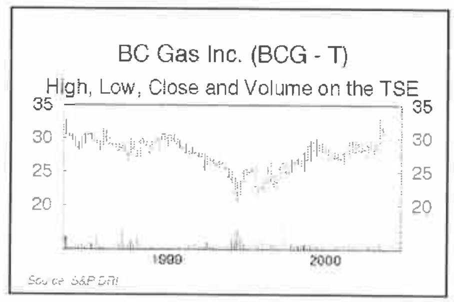
Nov 7, 2000: $31.50	**1-Yr Target: $33.00**	**1-Yr ROR: 8.7%**	**ROE 01E: 11.7%**	**I/B/E/S EPS 2000E: $2.05**
Dividend: $1.24	**2-Yr Target: $35.00**	**2-Yr ROR: 19.0%**	**BVPS 01E: $18.79**	**I/B/E/S EPS 2001E: $2.18**

	Quarterly Earnings						Capitalization	
Y/E December 31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/E**	Shares O/S (M)	38.3
1999A	1.35 A	-0.01 A	-0.34 A	1.12 A	2.12	14.9	Total Value ($M)	1,206
2000E	1.60 A	0.15 A	-0.15 A	1.16	2.76	11.4	Float O/S (M)	38.3
2001E	1.44	-0.01	-0.30	1.02	2.15	14.7	Float Value ($M)	1,206
2002E	1.52	0.02	-0.28	1.06	2.32	13.6	TSE Weight	0.15%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation



- **Neutral:** BC Gas reported a loss of ($0.34)/share versus ($0.34)/share in Q3/99 and our reported loss estimate of ($0.15)/share or a recurring ($0.36)/share. We had expected only the gain of $0.21/share for Williams Lake tax benefits but missed the July/00 announcement that BC Gas would write off $7.5M after tax in Q3/00, which mostly offset the Williams Lake tax gain. We still believe that 5%-6%/year recurring EPS growth is reasonable for BC Gas as YTD recurring earnings of $1.07/share are up 7% YOY.
- **Valuation:** We target BCG's share price 14 months out at $33/share, up $1/share, using a 14x P/E on unchanged estimated 2002 EPS of $2.32/share.

Developments

- **Natural Gas Distribution:** Q3/00 turned in a loss of ($18.9M), slightly worse than the loss of ($18.5M) in Q3/99. BCG's allowed 9.5% ROE for 2000 will likely drop back in 2001 to the 9.25% ROE allowed in 1998 based on the BCUC formula. More seasonality in Q3/00 earnings was viewed as appropriate by BCG management due to the impact from a larger rate base. This will continue in Q2/Q3 2001. The project cost of the Southern Crossing gas pipeline will reach $410M versus the $376M originally applied for. BCG has earnings protection on the first 10% overrun on the project so post-2000 earnings from this project will be 10% higher, which will offset the likely lower 2001 ROE.
- **Petroleum Transportation:** TMPL reported $0.13/share versus $0.11/share in Q3/99. YTD throughput of 32,200M3 is modestly improving due to a favourable spread in WTI versus Alaska oil prices. The $7.5M write-off will help TMPL capture significant efficiencies on relocating its employees. A five-year extension of its shipper agreement has been agreed to at an MOU level that is subject to final NEB approval. TMPL will get to keep 25% of its accumulated savings under the 1996-2000 agreement (amount not given). TMPL will take on throughput variance risk between 28,500M3/day and 32,000M3/day with a baseline 30,000M3/day toll assumption. TMPL will keep 100% of the productivity achievements but be exposed to 100% of any inflation. On a net basis, TMPL expects to be ahead on this new shipper agreement. We can't tell yet without some financial parameters.
- **Other:** BCG's water business earnings improvements have offset some non-recurring tax loss carry-forwards in other income in Q3/1999.
- **Financing:** Earlier this year, BC Gas issued $125M of unsecured 40-year Capital Securities (CapS) with a 10-year put to support its Southern Crossing and Corridor pipeline project equity requirements. The credit rating agencies rank this instrument full equity credit.

Company Update

BC Gas

Opinion:	Buy
Recent Price:	C$39.85
Suitability:	Growth & Income
Opinion Date:	08/29/2002
Symbol:	BCG.T
Exchange:	TSE
52–Week Price Range:	C$41.99 – C$32.07
Annual Dividend:	C$1.44
Dividend Yield:	3.6%
Dividend Payment:	quarterly FEB, MAY, AUG, NOV
Sector:	Utilities

	EPS	P/E
2002 Estimate	C$2.39	16.7x
2003 Estimate	C$2.64	15.1x
5–yr Estimated Dividend Growth Rate:		4%
5–yr Estimated EPS Growth Rate:		5%
Fiscal Year Ends:		December
Next Earnings Release Date:		11/08/02

Analysts: Brian Youngberg, CFA
Lanny Pendill IV

See the last page of this report for additional disclosures.

Edward Jones expects to receive or intends to seek compensation from this company for investment banking services within the next three months.

It is the policy of Edward Jones that analysts are not permitted to own shares in the companies they follow.

Analysts are not directly compensated based upon investment banking transactions or activities.

Edward Jones Dollar Cost Averaging Plan available, Canada Only.

Edward Jones Dividend Reinvestment Plan available, Canada Only.

All figures are in Canadian dollars.

Company Overview

BC Gas (BCG) is the largest natural gas utility in British Columbia, serving over 840,000 customers from Vancouver to the Fraser Valley. With its recent acquisition of Centra Gas, the company also serves Vancouver Island and the Sunshine Coast. BC Gas also owns and operates several different natural gas and liquids pipelines that stretch from Northern Alberta across to Vancouver, BC. Trans Mountain is its largest pipeline, transporting oil and petroleum over 1,260 KM from Edmonton to the West Coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas also provides other energy–related services such as utility billing, meter reading, and alternative fuel vehicle services.

Investment Summary

We rate BC Gas a Buy for investors seeking growth and income. We feel the shares are attractive given the strength of its regulated operations that provide 100% of earnings, growth potential from new pipeline projects, and its attractive and growing dividend.

Industry Outlook

We feel the fundamentals are in place for continued growth in the natural gas industry. Natural gas is the cleanest and most efficient fossil fuel, which is part of the reason why almost 90% of the new electric generation in the marketplace have chosen natural gas as their primary fuel source. Natural gas usage has increased over 35% over the last decade and is projected to grow 25–30% over the next ten years given its abundance and reliability. While traditional regulated electric and gas utilities are monopolies, those in deregulated provinces will gradually see competition for power generation as well as customer choice. Deregulated markets have higher risks resulting from competition. Pipelines are generally regulated by the National Energy Board and typically compete with other pipelines. As the result of growing demand, in addition to customer growth at the utility level, we expect the average earnings growth in the Utility Sector to be around 5% and dividend growth at 2% for the next 3–5 years.

Company Outlook

BC Gas' service area is experiencing increased population growth in Vancouver and the surrounding areas which should bode well for the utility. The company also has several pipeline projects coming on–line which will provide an opportunity for growth over the next 3–5 years. The Corridor Pipeline which is expected to begin operation in March 2003, will be the worlds longest dedicated bitumen (a petroleum–based tar like material) pipeline connecting the New Muskeg River Mine in Northern Alberta to a Shell refinery in Edmonton. The proposed Bison Pipeline will also transport Bitumen stock option expenses reduced earnings by less than 4% in 2001 compared to a peer average of over 8%. The company does not rely on mark to market accounting as the regulated utility and pipelines account for all of its earnings. The utility also has a weather–normalization adjustment in its rates which helps minimize the impact of unusual weather and makes earnings more predictable.

Management

John Reid has been the CEO of BC Gas since 1997 and is one of the reasons why the company has stuck to its regulated strategy. John understands the business in which they operate and appreciates investor's desire for regular dividend increases. Prior to serving as CEO, John was the CFO for BC Gas. Milt Woensdregt has been the CFO since 1998. Under the current management's tenure, BC Gas has produced an average annual total return to shareholders of approximately 12%.

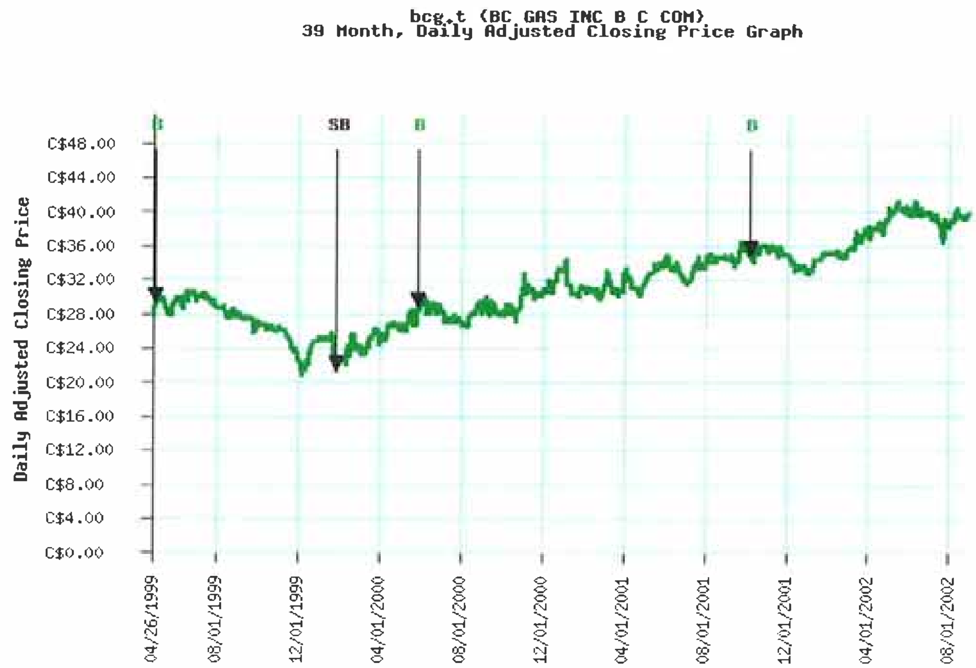
The Board of Directors for BC Gas come from a variety of different backgrounds including energy, construction, and the telecommunications industries. Positively, only 2 of the 13 members on the board are affiliated with BC Gas which helps to eliminate potential conflicts of interest and provides the necessary checks and balances.

Review of Recent Quarter

07/31/02: BC Gas reported second quarter EPS of C$0.03 compared to a loss of (C$0.08) for the same period last year. The resulting increase was primarily due to the acquisition of Centra Gas and lower interest rates on debt. These results were partially offset by lower earnings from Trans Mountain Pipeline due to a decline in throughput volumes given weak demand in the U.S., and lower production levels of oil in Canada. Work on the Corridor Pipeline continues on time and on budget, with commercial operations scheduled to begin in March 2003. We expect the new pipeline to add approximately C$0.20 EPS on an annualized basis. We are pleased with the results and remain comfortable with our 2002 EPS estimate of C$2.39. However, we have increased our 2003 estimate to $C2.64 form $C2.51 based primarily on the expected contribution from the Corridor Pipeline.

Recent News

03/06/02: We recently met with the management team at BC Gas to get an update on their Centra acquisition and various projects. We expect the Centra acquisition to close by the end of this week and to add to earnings retroactively as of January 1, 2002. Centra Gas will add approximately 70,000 new customers to their existing base of 762,000, a 9% increase. The Corridor Pipeline is on budget and should be complete by spring 2003. The company is currently engaged in feasibility studies with Petro–Canada and TrueNorth



Buy – (B)	Hold – (H)	Sell – (S)	FYI – (FI)
Buy this stock. We believe its fundamentals and price are compelling.	Keep this stock. The fundamentals and/or valuation do not warrant adding to current holdings but are not expected to worsen to warrant reducing your position. Or, a special situation with the company exists, such as a takeover or merger, that justifies no current action.	Sell this stock. This stock should be sold because the fundamentals have deteriorated, and (for the foreseeable future) a recovery is highly uncertain, or the stock is overvalued, making the possibility of a positive return unlikely.	For your information. Factual, no opinion.

As of 8/28/2002	All Companies followed by Research		Companies followed that are also investment banking clients	
	Number	Percentage	Number	Percentage
Buy	159	62%	20	13%
Hold	50	19%	6	12%
Sell	49	19%	4	8%
Total	258	100%	30	12%

Opinions used from October 6, 2001 – September 2002 : Buy – (B) – See definition above. **Accumulate – (AC)** – Build holdings in this stock, over time. The company's long term prospects are favorable, but the fundamentals and/or price are not as compelling as with a "Buy." The stock of this company is a good candidate for dollar cost averaging. **Maintain – (MT)** – See "Hold" Definition from above. **Reduce – (RD)** – Reduce your holding in this stock due to concerns about the fundamentals and/or price. New money should not be invested in the stock, and current holdings could be used as a source of funds for other, more attractive investments. **Sell – (S)** – See definiton above.

Opinions used prior to October 6, 2001 : Strong Buy – (SB) – Stock is expected to outperform the S&P 500 for the next 6–12 months as well as the next 3–5 years. There should be a compelling reason to buy the stock today. Utilities should outperform the S&P Utility index for the same time frame. **Buy – (B)** – Stock is expected to outperform the S&P 500 over the next 3–5 years, but the near–term prospects are less attractive than a "Strong Buy." Utilities are expected to perform in line with their industry as measured by the S&P Utility Index, and to provide secure current income plus the potential for rising income over the next 3–5 years. **Hold – (H)** – New money should not be invested in the stock and stock could be used as a source of funds in a portfolio if money is needed. Stock may underperform the S&P 500 for the next 6–12 months, but is expected to perform in line with the S&P 500 over the next 3–5 years. Utilities where rising income is not expected and/or the stock is expected to underperform the S&P Utility Index for the next 6–12 months and inline with the index for the next 3–5 years. **Sell – (S)** – Stock should be sold because the fundamentals have deteriorated with little chance of recovery for the foreseeable future. Stock is expected to underperform the S&P 500 for the next 6–12 months as well as the next 3–5 years. Utilities with a high risk of a dividend reduction and/or poor long–term outlook. Stock is expected to underperform the S&P Utility Index.

Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Youngberg, CFA / Pendill
Suitability:	Growth & Income	**Date:**	August 20, 2002

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$39.48	**EPS - F02E / F03E:**	C$2.39 / C$2.64
52-week Range:	C$41.99 - C$32.07	**P/E - F02E / F03E:**	16.5 / 14.9
Dividend:	C$1.44	**5-yr. EPS Growth Est.:**	5%
Yield:	3.7%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F02E:**	60%

Company Overview: BC Gas is the largest natural gas utility in British Columbia, serving over 840,000 customers from Vancouver to the Fraser Valley. With its recent acquisition of Centra Gas, the company also serves Vancouver Island and the Sunshine Coast. BC Gas also owns and operates several different natural gas and liquids pipelines that stretch from Northern Alberta across to Vancouver, BC. Trans Mountain is its largest pipeline, transporting oil and petroleum over 1,260 KM from Edmonton to the West Coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas also provides other energy-related services such as utility billing, meter reading, and alternative fuel vehicle services.

Recent News: 07/31/02: BCG reported second quarter EPS of C$0.03 compared to a loss of (C$0.08). The resulting increase was primarily due to the acquisition of Centra Gas and lower interest rates on debt. These results were partially offset by lower earnings from Trans Mountain Pipeline due to a decline in throughput volumes given weak demand in the U.S., and lower production levels of oil in Canada. Work on the Corridor Pipeline continues on time and on budget, with commercial operations scheduled to begin in March 2003. We expect the new pipeline to add approximately C$0.20 EPS on an annualized basis. We are pleased with the results and remain comfortable with our 2002 EPS estimate of C$2.39. However, we have increase our 2003 estimate to $C2.64 from $C2.51 based on the expected contribution from the Corridor Pipeline.

03/06/02: We recently met with the management team at BCG to get an update on their Centra acquisition and various projects. We expect the Centra acquisition to close by the end of this week and to add to earnings retroactively as of January 1, 2002. Centra Gas will add approximately 70,000 new customers to their existing base of 762,000, a 9% increase. The Corridor pipeline is on budget and should be complete by spring 2003. BCG is currently engaged in feasibility studies with Petro-Canada and TrueNorth Energy for its Bison pipeline and expects to make application with the regulatory agencies by July 2002. Finally, the company is firming up shipper interest for the proposed Inland Pacific Connector which they hope to have in service by late 2004.

Valuation: BCG shares are trading at a premium to its peer group and compared to their historic average based on most valuation measures. We feel the shares deserve a premium given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. As a result, we think the shares represent an attractive buying opportunity for growth and income investors who are looking for a lower risk utility with an attractive, growing dividend.

Investment Risks:

- Rising long-term interest rates can cause utility stocks to decline
- Warmer winter weather can depress earnings and the stock price
- The company's earnings and stock price can be negatively impacted by low oil prices
- Adverse regulatory decisions can negatively impact earnings and the stock price

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Notes:

o Available for Edward Jones Dollar Cost Averaging Program in Canada

o Available for Edward Jones Dividend Reinvestment in Canada

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BC Gas

Opinion:	Buy	**Analyst:**	Youngberg, CFA / Pendill
Suitability:	Growth & Income	**Date:**	August 14, 2002

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$39.45	**EPS - F02E / F03E:**	C$2.39 / C$2.64
52-week Range:	C$41.99 - C$32.07	**P/E - F02E / F03E:**	16.5 / 14.9
Dividend:	C$1.44	**5-yr. EPS Growth Est.:**	5%
Yield:	3.7%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F02E:**	60%

Company Overview:

Investment Summary:

We rate shares of BCG a Buy for investors seeking growth and income.

Attractive Cash Dividend

BCG stock pays an attractive cash dividend which the company raises on a regular basis. This is an important feature for investors seeking growth in addition to rising income. We expect annual increases in the cash dividend in line with earnings growth. BCG most recently raised it 9% in April 2002, more than we expected.

New Projects Increase Growth Potential

BCG has three new projects under construction or in development: Inland Pacific Connector, an expansion to the Southern Crossing pipeline which will connect to the market hub in Sumas; Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta; and Bison Pipeline, which will transport bitumen from the Athabasca Oil Sands to Edmonton. These should add substantially to earnings over the next five years.

Growth with Predictable Earnings Base

BCG's two major businesses, BC Gas Utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on demand.

Attractive and Growing Service Area

BC Gas' service area is experiencing increased population growth in Vancouver and surrounding areas. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses. The recent acquisition of Centra Gas which closed in March 2002, should also help to fuel growth at the utility level. Centra serves over 75,000 customers on Vancouver Island and the Sunshine Coast.

Recent News:

07/31/02: BCG reported second quarter EPS of C$0.03 compared to a loss of (C$0.08). The resulting increase was primarily due to the acquisition of Centra Gas and lower interest rates on debt. These results were partially offset by lower earnings from Trans Mountain Pipeline due to a decline in throughput volumes given weak demand in the U.S., and lower production levels of oil in Canada. Work on the Corridor Pipeline continues on time and on budget, with commercial operations scheduled to begin in March 2003. We expect the new pipeline to add approximately C$0.20 EPS on an annualized basis. We are pleased with the results and remain comfortable with our 2002 EPS estimate of C$2.39. However, we have increase our 2003 estimate to $C2.64 from $C2.51 based on the expected contribution from the Corridor Pipeline.

03/06/02: We recently met with the management team at BCG to get an update on their Centra acquisition and various projects. We expect the Centra acquisition to close by the end of this week and to add to earnings retroactively as of January 1, 2002. Centra Gas will add approximately 70,000 new customers to their existing base of 762,000, a 9% increase. The Corridor pipeline is on budget and should be complete by spring 2003. BCG is currently engaged in feasibility studies with Petro-Canada and TrueNorth Energy for its Bison pipeline and expects to make application with the regulatory agencies by July 2002. Finally, the company is firming up shipper interest for the proposed Inland Pacific Connector which they hope to have in service by late 2004.

Valuation:

BCG shares are trading at a premium to its peer group and compared to their historic average based on most valuation measures. We feel the shares deserve a premium given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. As a result, we think the shares represent an attractive buying opportunity for growth and income investors who are looking for a lower risk utility with an attractive, growing dividend.

Investment Risks:

- Rising long-term interest rates can cause utility stocks to decline
- Warmer winter weather can depress earnings and the stock price
- The company's earnings and stock price can be negatively impacted by low oil prices
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Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Youngberg, CFA / Pendill
Suitability:	Growth & Income	**Date:**	April 25, 2002

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$38.30	**EPS - F02E / F03E:**	C$2.39 / C$2.51
52-week Range:	C$39.49 - C$30.12	**P/E - F02E / F03E:**	16.0 / 15.3
Dividend:	C$1.44	**5-yr. EPS Growth Est.:**	5%
Yield:	3.5%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F02E:**	60%

Company Overview: Based in Vancouver, B.C., BC Gas (BCG) serves over 842,000 customers from Vancouver to the Fraser Valley and the interior British Columbia. BC Gas Utility, which is over two-thirds of total company earnings, is the largest natural gas utility in British Columbia. Trans Mountain, which represents the remainder of the company's earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the West Coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend which the company raises on a regular basis. This is an important feature for investors seeking growth in addition to rising income. We expect annual increases in the cash dividend in line with earnings growth. BCG most recently raised it 9% in April 2002, more than we expected.

New Projects Increase Growth Potential
BCG has three new projects under construction or in development: Inland Pacific Connector, an expansion to the Southern Crossing pipeline which will connect to the market hub in Sumas; Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta; and Bison Pipeline, which will transport bitumen from the Athabasca Oil Sands to Edmonton. These should add substantially to earnings over the next five years.

Growth with Predictable Earnings Base
BCG's two major businesses, BC Gas Utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on demand.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth in Vancouver and surrounding areas. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses. The recent acquisition of Centra Gas which closed in March 2002, shoulc

also help to fuel growth at the utility level. Centra serves over 75,000 customers on Vancouver Island and the Sunshine Coast.

Recent News:

04/25/02: BCG reported EPS of C$1.70 compared to C$1.59 last year, exceeding the consensus estimate by $0.05. The resulting 6.9% increase is due primarily to the Centra Gas acquisition and lower interest expense at the utility. BCG showed improvement over the prior year in every business segment and added over 10% to its customer base through the combination of organic growth and the acquisition. Management confirmed that all of its current projects are on track and on budget. BCG also announced a 9% increase in the annual dividend to C$1.44 from C$1.32, more than we expected. We have increased our 2002 estimate to C$1.39 from C$1.34 due to the stronger than expected performance during the first quarter.

03/06/02: We recently met with the management team at BCG to get an update on their Centra acquisition and various projects. We expect the Centra acquisition to close by the end of this week and to add to earnings retroactively as of January 1, 2002. Centra Gas will add approximately 70,000 new customers to their existing base of 762,000, a 9% increase. The Corridor pipeline is on budget and should be complete by spring 2003. BCG is currently engaged in feasibility studies with Petro-Canada and TrueNorth Energy for its Bison pipeline and expects to make application with the regulatory agencies by July 2002. Finally, the company is firming up shipper interest for the proposed Inland Pacific Connector which they hope to have in service by late 2004.

Valuation:

BCG shares are trading at a premium to its peer group and compared to their historic average based on most valuation measures. We feel the shares deserve a premium given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. As a result, we think the shares represent an attractive buying opportunity for growth and income investors who are looking for a lower risk utility with an attractive, growing dividend.

Investment Risks:

- Rising long-term interest rates can cause utility stocks to decline
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Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Youngberg, CFA / Pendill
Suitability:	Growth & Income	**Date:**	April 2, 2002

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$38.88	**EPS - F02E / F03E:**	C$2.34 / C$2.48
52-week Range:	C$38.90 - C$30.10	**P/E - F02E / F03E:**	16.6 / 15.7
Dividend:	C$1.32	**5-yr. EPS Growth Est.:**	5%
Yield:	3.4%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F02E:**	56%

Company Overview: Based in Vancouver, B.C., BC Gas (BCG) serves over 832,000 customers from Vancouver to the Fraser Valley and the interior British Columbia. BC Gas Utility, which is over two-thirds of total company earnings, is the largest natural gas utility in British Columbia. Trans Mountain, which represents the remainder of the company's earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the West Coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend which the company raises on a regular basis. This is an important feature for investors seeking growth in addition to rising income. We expect annual increases in the cash dividend in line with earnings growth.

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Recent News:

03/06/02: We recently met with the management team at BCG to get an update on their Centra acquisition and various projects. We expect the Centra acquisition to close by the end of this week and to add to earnings retroactively as of January 1, 2002. Centra Gas will add approximately 70,000 new customers to their existing base of 762,000, a 9% increase. The Corridor pipeline is on budget and should be complete by spring 2003. BCG is currently engaged in feasibility studies with Petro-Canada and TrueNorth Energy for its Bison pipeline and expects to make application with the regulatory agencies by July 2002. Finally, the company is firming up shipper interest for the proposed Inland Pacific Connector which they hope to have in service by late 2004.

02/14/02: BCG reported fourth quarter EPS from continuing operations of C$1.28 compared to C$0.99 for the same period last year. For the year, EPS was up 7% to C$2.21 compared to C$2.06 last year. Earnings from the gas distribution business were higher primarily due to the completion of the Southern Crossing Pipeline which went into service in late 2000. Results from Trans Mountain were higher due to productivity improvements and an increase in the volume of petroleum transported. Management stated that the Corridor Pipeline is on schedule and on budget with anticipated completion by spring 2003. The completion of the Centra Gas acquisition is pending due to an amendment which needs to be signed by the legislature. The amendment has been drafted and given a high priority by the legislature which will meet in early March. We expect the amendment to be signed at that time and expect the acquisition to be accretive to earnings immediately.

Valuation:

BCG shares are trading at a premium to its peer group and compared to their historic average based on most valuation measures. We feel the shares deserve a premium given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. As a result, we think the shares represent an attractive buying opportunity for growth and income investors who are looking for a lower risk utility with an attractive, growing dividend.

Investment Risks:

- Rising long-term interest rates can cause utility stocks to decline
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Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Pendill / Youngberg, CFA
Suitability:	Growth & Income	**Date:**	February 14, 2002

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$34.99	**EPS - F02E / F03E:**	C$2.34 / C$2.48
52-week Range:	C$36.88 - C$29.00	**P/E - F02E / F03E:**	15.0 / 14.1
Dividend:	C$1.32	**5-yr. EPS Growth Est.:**	5%
Yield:	3.8%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F02E:**	56%

Company Overview: Based in Vancouver, B.C., BC Gas (BCG) serves over 762,000 customers from Vancouver to the Fraser Valley and the interior British Columbia. BC Gas Utility, which is over two-thirds of total company earnings, is the largest natural gas utility in British Columbia. Trans Mountain, which represents the remainder of the company's earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the West Coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend which the company raises on a regular basis. This is an important feature for investors seeking growth in addition to rising income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase Growth Potential
BCG has three new projects under construction or in development: Southern Crossing expansion, a new gas pipeline to bring more natural gas to Vancouver; Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta; and Bison Pipeline, which will transport bitumen from the Athabasca Oil Sands to Edmonton. These should add substantially to earnings over the next five years.

Growth with Predictable Earnings Base
BCG's two major businesses, BC Gas Utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on demand.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth in Vancouver and surrounding areas. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses. The anticipated close of the Centra Gas acquisition in March 2002, should also help to fuel growth at the utility level.

Recent News: 02/14/02: BCG reported fourth quarter EPS from continuing operations of C$1.28 compared to C$0.99 for the same period last year. For the year, EPS was up 7% to C$2.21 compared to C$2.06 last year. Earnings from the gas distribution business were higher primarily due to the completion of the Southern Crossing Pipeline which went into service in late 2000. Results from Trans Mountain were higher due to productivity improvements and an increase in the volume of petroleum transported. Management stated that the Corridor Pipeline is on schedule and on budget with anticipated production commencing in April 2002. The completion of the Centra Gas acquisition is pending due to an amendment which needs to be signed by the legislature. The amendment has been drafted and given a high priority by the legislature which will meet in early March. We expect the amendment to be signed at that time and expect the acquisition to be accretive to earnings immediately.

Valuation: BCG shares appear to be fairly valued based on most historical valuation measures. We feel the shares deserve a premium given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. As a result, we think the shares represent an attractive buying opportunity for growth and income investors who are looking for a lower risk utility with an attractive, growing dividend.

Investment Risks: Rising long-term interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

Adverse regulatory decisions can negatively impact earnings and the stock price. The company is subject to periodic rate reviews by utility commissions, the outcomes of which can be uncertain.

Notes:

- **Available for Edward Jones Dollar Cost Averaging Program in Canada.**
- **Available for Edward Jones Dividend Reinvestment in Canada.**
- **It is the policy of Edward Jones that analyst not own shares in companies they follow.**

Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	September 4, 2001
Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$34.16	**EPS - F01E/F02E:**	C$2.15 / C$2.25
52-week Range:	C$35.45 -C$27.25	**P/E - F01E/F02E:**	15.9 / 15.2
Dividend:	C$1.32	**5-yr. EPS Growth Est.:**	5%
Yield:	3.9%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F01E:**	61%

Company Overview: BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing expansion, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These should add meaningfully to earnings over the next 3-5 years.

Growth with Predictable Earnings Base
BCG's two major businesses, the utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth as Vancouver and surrounding areas increase in popularity. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses.

Recent News:	07/31/01 (C$33.20 - Buy): BCG reported a seasonal loss of $0.08 per share compared with positive earnings of $0.02 in the same quarter last year. For the first half of 2001, earnings are up 7%. The decline in earnings for the 2nd quarter is due primarily to strong growth in the seasonal natural gas business, which makes most of its money in the winter and typically loses money in the summer. Trans Mountain had a very strong quarter, with earnings up 42% due to strong demand for oil on the West Coast. Partially offsetting the earnings growth so far this year was higher interest expense due to financing the construction of Southern Crossing pipeline, which went into service late last year. Management indicated its comfort with consensus earnings estimates for the full year, and we are maintaining our C$2.15 estimate. Overall, results are very strong and our outlook is for more of the same. We maintain our Buy rating.
Valuation:	BCG shares are valued at a slight premium to its peers on a price/earnings and dividend yield basis. We view this premium as justified given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. We believe the stock presents attractive long-term value due to the earnings growth outlook, attractive current dividend and rising dividend potential.
Investment Risks:	Rising interest rates can cause utility stocks to decline. Warmer winter weather can depress earnings and the stock price. The company's earnings and stock price can be negatively impacted by low oil or gas prices. Adverse regulatory decisions can negatively impact earnings and the stock price. The company is subject to periodic rate reviews by utility commissions, the outcome of which can be uncertain.
Notes:	**o Available for Edward Jones Dollar Cost Averaging Program in Canada.** **o Available for Edward Jones Dividend Reinvestment in Canada.**

Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	July 31, 2001

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities
Recent Price:	C$33.20	**EPS - F01E/F02E:**	C$2.15 / C$2.25
52-week Range:	C$35.10 -C$26.40	**P/E - F01E/F02E:**	15.4 / 14.8
Dividend:	C$1.32	**5-yr. EPS Growth Est.:**	5%
Yield:	4.0%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F01E:**	61%

Company Overview: BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing expansion, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These should add meaningfully to earnings over the next 3-5 years.

Growth with Predictable Earnings Base
BCG's two major businesses, the utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth as Vancouver and surrounding areas increase in popularity. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses.

Recent News: 07/31/01 (C$33.20 - Buy): BCG reported a seasonal loss of $0.08 per share compared with positive earnings of $0.02 in the same quarter last year. For the first half of 2001, earnings are up 7%. The decline in earnings for the 2nd quarter is due primarily to strong growth in the seasonal natural gas business, which makes most of its money in the winter and typically loses money in the summer. Trans Mountain had a very strong quarter, with earnings up 42% due to strong demand for oil on the West Coast. Partially offsetting the earnings growth so far this year was higher interest expense due to financing the construction of Southern Crossing pipeline, which went into service late last year. Management indicated its comfort with consensus earnings estimates for the full year, and we are maintaining our C$2.15 estimate. Overall, results are very strong and our outlook is for more of the same. We maintain our Buy rating.

Valuation: BCG shares are valued at a slight premium to its peers on a price/earnings and dividend yield basis. We view this premium as justified given the company's consistent earnings growth, lower risk profile and strong dividend growth track record. We believe the stock presents attractive long-term value due to the earnings growth outlook, attractive current dividend and rising dividend potential.

Investment Risks: Rising interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

Adverse regulatory decisions can negatively impact earnings and the stock price. The company is subject to periodic rate reviews by utility commissions, the outcome of which can be uncertain.

Notes:
- **Available for Edward Jones Dollar Cost Averaging Program in Canada.**
- **Available for Edward Jones Dividend Reinvestment in Canada.**

Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	April 26, 2001

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities - Gas
Recent Price:	C$30.75	**EPS - F01E/F02E:**	C$2.15 / C$2.25
52-week Range:	C$34.75 -C$25.15	**P/E - F01E/F02E:**	14.3 / 13.7
Dividend:	C$1.32	**5-yr. EPS Growth Est.:**	5%
Yield:	4.3%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F01E:**	61%

Company Overview:

BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary:

We rate shares of BCG a Buy for investors seeking growth and income.

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing expansion, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These should add meaningfully to earnings over the next 3-5 years.

Growth with Predictable Earnings Base
BCG's two major businesses, the utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth as Vancouver and surrounding areas increase in popularity. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses.

Recent News:

04/26/01 (C$30.75 - Buy): BCG reported first quarter earnings per share of $1.59 compared with $1.39 in the same quarter last year, a 14% increase. The strong earnings growth was primarily due to the Southern Crossing pipeline, which came on line in late 2000. The pipeline is transporting much-needed natural gas to the Vancouver area. Demand has been so strong that the company is considering expanding its capacity. TransMountain posted an 11% rise in profits due to increased demand for crude oil in Washington state, and that demand is accelerating in recent months. Other activities hurt earnings growth due to higher interest costs and a seasonal loss in the water business. The results overall were strong, but due to the significant new assets in place as a result of Southern Crossing, the company's 4th and 1st quarters will see increased earnings while the 2nd and 3rd quarters will see lower earnings. The net result is higher total earnings on a larger asset base. We maintain our Buy.

BCG announced a 6.5% increase in its cash dividend, to C$0.33 per quarter. This is a signal that the board is optimistic about the company's future outlook.

Valuation:

BCG shares are valued at a slight premium to its peers on a price/earnings and dividend yield basis, but we view this premium as justified given the company's consistent earnings growth and strong dividend growth track record. We continue to believe the stock presents attractive long-term value due to the earnings growth potential and rising dividend.

Investment Risks:

Rising interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

Adverse regulatory decisions can negatively impact earnings and the stock price. The company is subject to periodic rate reviews by utility commissions, the outcome of which can be uncertain.

Notes:

o **Available for Edward Jones Dollar Cost Averaging Program in Canada.**
o **Available for Edward Jones Dividend Reinvestment in Canada.**

Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	April 16, 2001

Symbol/Exchange:	BCG.T/TSE	**S&P Sector:**	Utilities - Gas
Recent Price:	C$31.50	**EPS - F00A/F01E:**	C$2.06/C$2.15
52-week Range:	C$34.75 -C$24.50	**P/E - F00A/F01E:**	15.3 / 14.7
Dividend:	C$1.24	**5-yr. EPS Growth Est.:**	5%
Yield:	4.9%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F01E:**	58%

Company Overview: BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These should add meaningfully to earnings over the next 3-5 years.

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BCG's two major businesses, the utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth as Vancouver and surrounding areas increase in popularity. The demand for natural gas is growing as more residential and business customers request gas for space heating, cooking, water heating and other common uses.

Recent News: 02/15/01 ($30.99 - Buy): BCG announced recurring earnings per share for the full year 2000 of $2.06, up $0.12 compared to 1999. The company has completed the construction of the Southern Crossing Pipeline on time and within budget. BCG's largest segment, natural gas distribution, benefited from an increased authorized return on equity in 2000 of 9.5%, up from 9.25% in 1999. Maintain Buy.

11/07/00 ($31.50 - Buy): BCG reported 3rd quarter earnings per share of -$0.34, the same as last year's third quarter. Gas utilities typically report losses in the summer months due to low seasonal demand for natural gas. Year to date, BCG reported $1.07 earnings per share, up 7% from last year. The improvement is due to better results at the utility and Trans Mountain Pipeline. Trans Mountain had a strong 3rd quarter, posting a 19% increase in earnings as volumes increased on the U.S. mainline as Canadian oil became more price competitive. BC Gas continues to deliver solid, predictable results with no surprises. The previously-announced restructuring at Trans Mountain and new 5-year shipping agreements should increase the unit's earnings potential. Maintain Buy.

Valuation: BCG shares are valued at a slight premium to its peers on a price/earnings and dividend yield basis, but we view this premium as justified given the company's consistent earnings growth and strong dividend growth track record. We continue to believe the stock presents attractive long-term value due to the earnings growth potential and rising dividend.

Investment Risks: Rising interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

Adverse regulatory decisions can negatively impact earnings and the stock price. The company is subject to periodic rate reviews by utility commissions, the outcome of which can be uncertain.

Notes:

o Available for Edward Jones Dollar Cost Averaging Program in Canada.
o Available for Edward Jones Dividend Reinvestment in Canada.

Merrill Lynch

FlashNote

Canada
Natural Gas-Local Distribution Companies

25 April 2002

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BC Gas Inc.

Centra Assets Boost Earnings – Dividend Raised

NEUTRAL

Reason for Report: Change in Estimates

Long Term BUY

Company

YBCG; C$38.30; B-3-2-7

Volatility Risk: Average

Reported EPS (Dec): 2001A C$2.19; 2002E C$2.40; 2003E C$2.53

- **BC Gas reported first-quarter results that were slightly ahead of our expectations. EPS (basic) for the quarter was C$1.70 compared to our estimate of C$1.65 and C$1.59 in 1Q01. Earnings growth was driven largely by earnings contribution from the newly acquired Centra Gas natural gas distribution assets. The new business contributed roughly C$6.3 million to distribution earnings, a level that the company believes should be maintained evenly through the year in view of the regulatory framework for Centra Gas. This run rate is higher than we had assumed, prompting an upward revision to our EPS estimates for 2002 and 2003 from C$2.33 and C$2.47 to C$2.40 and C$2.53, respectively. Higher sustainable earnings levels have also prompted BC Gas to increase its quarterly dividend by 9%, to C$0.36.**
- **Near-term earnings growth is expected to be driven by distribution rate base growth, the addition of the Centra Gas natural gas distribution assets in 2002 and the completion of the Corridor Pipeline in 2003. Construction on Corridor is now 88% complete and BC Gas has commenced filling the pipeline with diluent. BC Gas has spent C$494 million of the C$690 million of capital budgeted for the project and anticipates that commercial operations will begin on time in February 2003.**
- **Longer term, BC Gas is positioning itself to benefit from the strong growth in oil sands production that is expected over the next decade. BC Gas has proposed the Bison Pipeline Project, an C$800 million, 100,000 b/d high temperature insulated pipeline that would transport bitumen from the oil sands region to the refining market near Edmonton.**
- **We are maintaining our 'Neutral/Buy' opinions for BC Gas. The shares currently reflect valuation multiples that are in line with its Canadian energy utility peer group. BC Gas's current yield implies a spread of 230 basis points below the Long Canada Bond rate, a level at that is at the high end of the historical range and ahead of the long-term historical median of 190 basis points. Combined with our expectation for rising short-term interest rates and a flattening yield curve, we believe the shares are fairly valued at current levels.**

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10148108

14 February 2002

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BC Gas Inc.

Steady Growth

NEUTRAL

Reason for Report: Change in Estimates

Long Term
BUY

Company

YBCG; C$34.83; B-3-2-7

Volatility Risk: Average

Reported EPS (Dec): 2000A C$2.00; 2001A C$2.19; 2002E C$2.33; 2003E C$2.47

- **BC Gas reported fourth quarter and annual results that were in line with our expectations. Basic EPS from continuing operations for 4Q01 was C$1.28, compared to our estimate of C$1.26, and C$0.99 in 4Q00. Annual results reflected EPS (continuing diluted) of C$2.19, compared to C$2.00 in 2000. Earnings growth in 2001 was driven largely by rate base additions in BC Gas's natural gas distribution business and higher pipeline throughput levels in the transportation segment. Near-term growth is expected to come from the addition of the Centra Gas distribution assets in 2002 and the completion of the Corridor pipeline in 2003.**
- **In the fourth quarter, BC Gas offered to acquire the established Centra Gas natural gas distribution assets in British Columbia. The Centra Gas system is comprised of 3,600 kilometres of distribution pipeline serving approximately 70,000 customers. The deal, which is expected to close in early March, should begin contributing to earnings effective January 1st in the range of C$13 million to C$15 million for 2002. The assets also present potential upside from rate base growth opportunities and synergies derived from the potential blending of operations with BC Gas's existing franchise.**
- **BC Gas's Corridor pipeline project is expected provide growth in 2003, with earnings contribution commencing midyear when the pipeline is expected to begin commercial operations. The C$690 million pipeline, which will transport up to 150,000 b/d of bitumen produced from the Athabasca Oil Sands Project, is on schedule and budget, with over 70% of the construction activities complete.**
- **BC Gas is continuing to position itself to benefit from the strong growth in oil sands production that is expected over the next decade. BC Gas has proposed the Bison Pipeline Project, an C$800 million 100,000 b/d high temperature insulated pipeline that would transport bitumen from the oil sands region to the refining market near Edmonton.**
- **We are revising our 2002 EPS estimate from C$2.26 to C$2.33 and establishing our 2003 EPS estimate of C$2.47. We are maintaining our 'Neutral/Buy' opinions for BC Gas.**

15 January 2002

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BC Gas Inc.

Positioning Itself for Oil Sands Growth

NEUTRAL

Reason for Report: Company Update

Long Term BUY

Company

YBCG; C$34.45; B-3-2-7

Volatility Risk: Average

Reported EPS (Dec): 2000A C$2.00; 2001E C$2.15; 2002E C$2.26

- **BC Gas has filed public disclosure documents for the Bison Pipeline Project, an C$800 million 100,000 b/d high temperature insulated pipeline that would transport bitumen from the Athabasca oil sands region to the refining market near Edmonton. BC Gas is involved in joint engineering and technical studies with potential shippers in the region, including Petro-Canada and TrueNorth Energy. Petro-Canada recently detailed its C$5.5 billion oil sands strategy, which includes multiple *in situ* oil sand projects and conversion of its Edmonton refinery to process 85,000 b/d of bitumen. The MacKay River project is expected to yield production of 30,000 b/d by the end of 2002, followed by the Meadow Creek project, which could produce 80,000 b/d of bitumen by 2007. TrueNorth and its partner UTS Energy have proposed a 190,000 b/d oil sands operation, with the first phase potentially in operation in 2005.**
- **If the project proceeds, it would complement BC Gas's existing oil sands pipeline business. BC Gas is currently constructing the C$690 million Corridor pipeline, which will transport up to 150,000 b/d of bitumen produced from the Athabasca Oil Sands Project to Shell Canada's new upgrader near Edmonton.**
- **BC Gas is attempting to position itself to benefit from the strong growth in oil sands production that is expected over the next decade. We expect oil sands production to grow from roughly 600,000 b/d in 2001 to over 1.7 million b/d by 2010. Competitors to move higher volumes from the oil sands production include Enbridge and the Alberta Oil Sands Pipeline (AOSPL), which was recently acquired by Pembina Pipeline Corp.**
- **BC Gas is scheduled to report fourth quarter and year-end 2001 results on February 14. We expect the company to report EPS (basic) of C$1.26 for 4Q01 compared to C$0.99 for 4Q00.**

9 November 2001

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BC Gas Inc.

Increased Seasonality Impacts Quarter

Reason for Report: Company Update

Company

YBCG; C$36.05; B-3-2-7

Reported EPS (Dec): 2000A C$2.00; 2001E C$2.15; 2002E C$2.26

- **We are maintaining our 'Neutral/Accumulate' opinions for BC Gas. The shares offer a prospective dividend yield of 3.6%, which we believe is secure, and reflect P/E multiples of 16.8x 2001E and 16.0x 2002E EPS. These remain ahead of the U.S. LDCs, which reflect P/E multiples in the range of 14.6x 2001E and 13.4x 2002E EPS and offer yields of around 4.7%.**
- **BC Gas reported third quarter results that were below our expectations. EPS from continuing operations was negative C$0.58, compared to our estimate of negative C$0.37, and negative C$0.33 in 3Q00. Rate base growth of BC Gas's gas distribution business has increased the earnings seasonality effect causing the lower than anticipated earnings in the quarter.**
- **The company should see incremental earnings growth from the C$690 million Corridor pipeline project in 2003, which will transport crude and diluent from Shell Canada's (YSHC, C$42.09, A-2-1-7) Athabasca oil sands project. We expect the pipeline to be in-service in 2Q03. BC Gas could also potentially build the Inland Pacific Connector pipeline, a proposed 246 km natural gas system with a projected cost of C$495 million and start-up expected in 2004.**
- **Subsequent to the quarter, BC Gas offered to acquire established natural gas distribution assets in British Columbia. If approved by regulators, BC Gas will acquire regulated utility assets, including 3,600 kilometers of transmission and distribution pipeline serving approximately 70,000 residential/ commercial and 7 industrial customers in British Columbia.**
- **BC Gas owns and operates a gas distribution business with roughly 760,000 customers as well as a 225,000 b/d crude oil and refined products pipeline system that runs from Edmonton, Alberta to the West Coast. The company generates relatively stable earnings from these core businesses. Gas distribution accounts for 66% of the company's earnings. Slower economic growth in B.C. has reduced the rate of growth in the distribution business. However, earnings prospects should improve with the completion of the Corridor project. We expect EPS to improve from C$2.00 in 2000 to C$2.15 in 2001 and C$2.26 in 2002.**

RC#10131312

Merrill Lynch

FlashNote

Canada
Natural Gas-Local Distribution Companies

23 October 2001

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BC Gas Inc.

Backyard Acquisition Should be Accretive in 2002

Reason for Report: Change in Estimates

Company

YBCG; C$35.64; B-3-2-7

Reported EPS (Dec): 2000A C$2.00; 2001E C$2.15; 2002E C$2.26

- **BC Gas has offered to acquire Westcoast Energy's (YW/WE, C$42.07, RSTR) British Columbia natural gas distribution assets (with the exception of Pacific Northern Gas Inc.) for total consideration of C$590 million. If approved by regulators, BC Gas will acquire regulated utility assets, including 3,600 kilometres of transmission and distribution pipeline serving approximately 70,000 residential/commercial and 7 industrial customers along British Columbia's Sunshine Coast and on Vancouver Island.**
- **BC Gas believes the potential for cost synergies exists given the excellent fit with the company's existing utility franchise, which serves approximately 764,000 distribution customers. By our estimates, the inclusion of the Westcoast assets would push BC Gas's franchise coverage to over 98% of all natural gas users in British Columbia. More importantly, according to BC Gas the new assets appear well positioned to grow earnings through improved penetration rates on existing infrastructure in addition to several natural gas-fired power generation projects that are contemplated for Vancouver Island.**
- **The assets, based on 2002E, are priced at 14.8x price/earnings, 3.3x price/EBITDA, and 1.3x price/book value, compared to 20 U.S. natural gas transactions from 1999-present in the range of 20.5x P/E, 7.2x P/EBITDA, and 2.7x P/BV *(see Table 28 from Donato Eassey's October 3, 2001 "Natural Gas Monitor")*. This reflects the regulated return on equity of 9.4% and deemed common equity component of 35% for the Westcoast assets, which are both sharply lower than those enjoyed by comparable U.S. utilities.**
- **BC Gas proposes to finance the transaction through debt and the issuance of new common shares valued at approximately C$180 million, which by our estimates would represent a 14% increase in the number of shares outstanding. The acquired assets should contribute earnings in the range of C$14.0 to C$15.0 million in 2002, which after accounting for higher financing charges and increased share count, should lead to earnings accretion of C$0.05 per share. Our forecast does not incorporate revenue growth from increased gas sales or synergies derived from the blending of operations, which would require both regulatory approval and time.**
- **While we are maintaining our 2001 EPS estimate of C$2.15, we are increasing out 2002 EPS estimate to C$2.26, from C$2.21. BC Gas will report results for 3Q01 on November 9th. We expect a loss of C$0.37, compared to a loss of C$0.34 in 3Q00.**

Merrill Lynch

Bulletin

Canada
Natural Gas-Pipelines

31 July 2001

Randy J. Ollenberger
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BC Gas Inc.

Expectations Met in Second Quarter – Only Modest Growth Expected before 2003

NEUTRAL

Reason for Report: Company Update

Long Term ACCUMULATE

Price: C$33.50

Estimates (Dec)	2000A	2001E	2002E
EPS:	2.00	2.15	2.21
P/E:	16.8x	15.6x	15.2x
EPS Change (YoY):		7.5%	2.8%
Consensus EPS: (First Call: 27-Jul-2001)		2.18	2.30
Cash Flow/Share:	4.61	4.63	4.77
Price/Cash Flow:	7.3x	7.2x	7.0x
Enterprise Value/EBITDA:	11.6x	8.6x	8.9x
Gross Dividend:	1.22	1.30	1.32
Gross Yield:	3.6%	3.9%	3.9%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$1,273 / 38
Book Value/Share (Jun-2000):	C$20.02
Price/Book Ratio:	1.7x
ROE 2001E Average:	11.4%
LT Liability % of Capital:	68.0%
Est. 5 Year EPS Growth:	6.8%
2001E P/E Rel. to Home Mkt:	NA

Stock Data

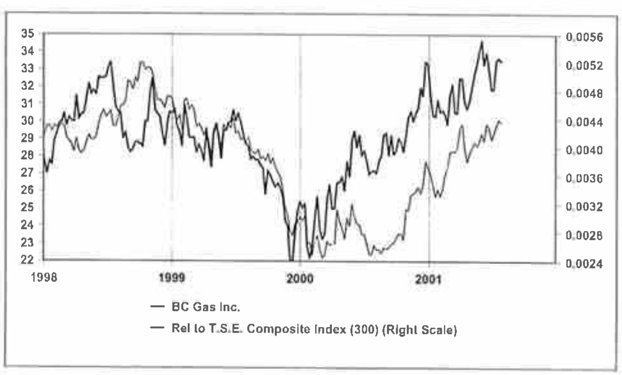
52-Week Range:	C$35.10-C$26.40
Symbol / Exchange:	YBCG / Toronto
Brokers Covering (First Call):	7
Exchange Rate:	CAD1.5350/USD
Free Float:	NA

For full investment opinion definitions, see footnotes.
All figures are in local currency (Canadian dollar) except where otherwise noted.

Highlights:

- **We are maintaining our 'Neutral/Accumulate' opinions for BC Gas. The shares offer a dividend yield of 3.9% and reflect P/E multiples of 15.6x 2001E and 15.2x 2002E EPS. These remain ahead of the U.S. LDC's, which reflect P/E multiples in the range of 14.2x 2001E and 13.1x 2002E EPS and offer yields in the range of 4.7%. We see only modest earnings upside from current levels prior to 2003.**
- **The company should see incremental earnings growth from the C$690 million Corridor pipeline project in 2003, which will transport crude and diluent from Shell Canada's (YSHC, A-2-1-7, C$41.30) Athabasca oil sands project. We expect the pipeline to be in-service in 2Q03. BC Gas will also potentially build the Inland Pacific Connector pipeline, a proposed 246 km natural gas system with a projected cost of C$495 million and start-up in 2004.**
- **BC Gas reported 2Q01 results that were in line with our expectations. EPS (diluted) from continuing operations was negative C$0.08 compared to our estimate of negative C$0.10 and last year's result of C$0.02. We are maintaining our EPS estimates for 2001 of C$2.15 and C$2.21 for 2002.**

Stock Performance



Merrill Lynch, as a full-service firm, has or may have business relationships, including investment banking relationships, with the companies in this report.

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RC#10121220

Table 1: Valuation Comparables

	Symbol	Opinion	Price	Mkt Cap (US$mm)	EPS 2000e	EPS 2001e	EPS 2002e	5-Year Growth	P/E 2001e	P/E 2002e	PEG Ratio	Yield	P/BV	ROE
AGL Resources	ATG	B-2-2-7	23.87	1,303	1.24	1.56	1.65	9%	15.3	14.5	1.7	4.5%	1.9	13%
NICOR Inc	GAS	B-1-1-7	37.11	1,692	2.84	3.00	3.30	7%	12.4	11.2	1.8	4.7%	2.3	18%
Peoples Energy	PGL	B-2-1-7	38.41	1,362	2.71	3.15	3.50	6%	12.2	11.0	2.0	5.3%	1.7	14%
Piedmont Natl	PNY	B-3-2-7	33.98	1,100	1.85	2.20	2.32	6%	15.4	14.6	2.6	4.5%	1.8	13%
Southern Union	SUG	C-3-1-9	20.35	1,076	0.35	0.34	0.70	5%	59.9	29.1	12.0	0.0%	1.4	3%
LDCs I (Large Capitalization)								**6.0%**	**15.3**	**14.5**		**4.5%**	**1.8**	**13.3%**
Atmos Energy	ATO	B-2-1-7	20.00	778	1.02	1.55	1.70	10%	12.9	11.8	1.3	5.8%	1.3	13%
BC Gas	**YBCG**	**B-3-2-7**	**33.50**	**836**	**2.00**	**2.15**	**2.21**	**7%**	**15.6**	**15.2**	**2.3**	**3.9%**	**1.7**	**11%**
Cascade Nat Gas	CGC	C-3-2-7	20.48	226	1.39	1.47	1.56	5%	13.9	13.1	2.8	2.1%	1.7	13%
Laclede Gas	LG	B-2-1-7	22.64	427	1.37	1.60	1.85	3%	14.2	12.2	4.7	5.9%	1.4	11%
New Jersey Res	NJR	B-3-1-7	43.22	770	2.69	2.95	3.18	7%	14.7	13.6	2.3	4.1%	2.0	16%
NUI Corp.	NUI	B-3-1-7	23.15	300	1.85	1.67	2.05	7%	13.9	11.3	2.0	4.2%	1.0	8%
Northwest Nat.	NWN	B-3-2-7	24.13	619	1.79	1.57	1.65	5%	15.4	14.6	3.1	5.1%	1.3	10%
Semco Energy	SEN	C-3-1-7	14.70	277	0.90	0.90	1.11	10%	16.3	13.2	1.6	5.7%	2.0	12%
South Jersey	SJI	B-2-2-7	31.27	362	2.16	2.27	2.38	5%	13.8	13.1	2.8	4.7%	1.6	13%
Southwest Gas	SWX	D-3-1-7	24.00	770	1.02	1.35	1.45	5%	17.8	16.6	3.6	3.4%	1.4	7%
LDCs II (Small Capitalization)								**5.8%**	**14.4**	**13.2**		**4.5%**	**1.5**	**11.5%**

Source: Merrill Lynch, Share prices as of July 27, 2001

Notes: per share estimates for Canadian companies in Canadian dollars, all other values U.S. dollars

[ATG, GAS, SUG, ATO, NWN, SWX] MLPF&S was a manager of the most recent public offering of securities of this company within the last three years.

[YBCG] The securities of the company are not listed but trade over-the-counter in the United States. 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. MLPF&S or its affiliates usually make a market in the securities of this company.

Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

26 April 2001

Randy J. Ollenberger
Senior Analyst
(1) 403 231-7305

Terry L. Dorward
Industry Analyst
(1) 403 231-3391

BC Gas Inc.

Solid quarter, Raising Estimates, Maintaining Opinions

NEUTRAL

Reason for Report: Change in Estimates

Long Term ACCUMULATE

Price: **C$30.35**

Estimates (Dec)	2000A	2001E	2002E
EPS:	2.00	2.15	2.21
P/E:	15.2x	14.1x	13.7x
EPS Change (YoY):		4.5%	2.9%
Consensus EPS: (First Call: 26-Apr-2001)		2.17	2.27
Cash Flow/Share:	4.61	4.63	4.77
Price/Cash Flow:	6.6x	6.6x	6.3x
Enterprise Value/EBITDA:	11.6x	10.3x	10.5x
Gross Dividend:	1.22	1.30	1.32
Gross Yield:	4.0%	4.3%	4.3%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$1,153.3 / 38
Book Value/Share (Mar-2000):	C$17.87
Price/Book Ratio:	1.7x
ROE 2001E Average:	11.4%
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	6.8%
2001E P/E Rel. to Home Mkt:	NA

Stock Data

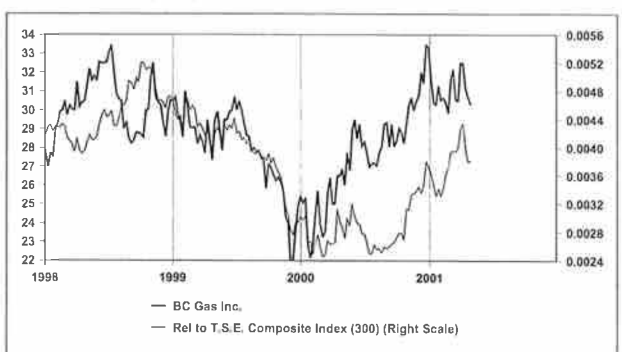
52-Week Range:	C$34.75-C$25.15
Symbol / Exchange:	YBCG / Toronto
Brokers Covering (First Call):	6
Exchange Rate:	CAD1.5426/USD
Free Float:	NA

For full investment opinion definitions, see footnotes.
All figures are in local currency (Canadian dollar) except where otherwise noted.

Highlights:

- **We are maintaining our intermediate-term 'Neutral' opinion for BC Gas. We see modest upside potential from current levels.**
- **BC Gas reported first quarter results that were ahead of our expectations. EPS (basic) from continuing operations was C$1.59 compared to our estimate of C$1.46 and last year's result of C$1.39. Earnings from gas distribution were higher than expected as a result of colder weather.**
- **We are raising EPS estimate for 2001 from C$2.09 to C$2.15 and for 2002, from C$2.15 to C$2.21. The revisions reflect stronger year-to-date performance and prospects for modest growth in 2002 from rate base additions to the distribution business. Longer-term, the company should see incremental earnings growth from the C$690 million Corridor pipeline projects, which will transport crude and diluent from the Shell Athabasca oil sands plant. We expect the pipeline to be in-service in early 2003.**
- **BC Gas shares offer a secure prospective dividend yield of 4.3% and reflect P/E multiples of 14.1x 2001E and 13.7x 2002E EPS. These are ahead of the U.S. LDC's, which reflect P/E multiples in the range of 13.0x 2001E and 12.0x 2002E EPS.**

Stock Performance



Merrill Lynch & Co.
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RC#10148279

Table 1: BC Gas Financial Summary (C$/share)

	1996	1997	1998	1999	2000	2001e	2002e	2003e	2004e	2005e
Utility	1.43	1.17	1.34	1.35	1.64	1.33	1.33	1.34	1.36	1.49
Pipelines	0.49	0.51	0.60	0.50	0.32	0.60	0.67	0.80	1.06	1.13
Other Activities	0.61	(0.41)	(0.09)	0.26	0.47	0.25	0.25	0.25	0.25	0.25
Reported Basic	2.53	1.27	1.85	2.11	2.42	2.18	2.25	2.39	2.67	2.87
EPS (continuing basic)	1.48	1.63	1.85	1.94	2.06	2.18	2.25	2.39	2.67	2.87
EPS (continuing diluted)	1.40	1.61	1.82	1.90	2.00	2.15	2.21	2.35	2.61	2.81
CFPS (diluted)	3.85	4.15	2.05	3.17	4.40	4.63	4.77	5.59	5.97	6.26
EBITDA (Diluted)	7.13	7.80	8.75	8.60	8.67	10.29	10.52	12.56	13.07	13.37
EV/EBITDA	8.5	9.0	8.9	8.3	11.6	10.2	10.4	8.7	8.2	7.9
DPS	0.90	0.98	1.09	1.16	1.22	1.30	1.32	1.32	1.32	1.32
ROE (%)	17.6%	8.3%	12.1%	13.4%	16.6%	11.9%	11.7%	11.8%	12.5%	12.6%
Long Term Liabilities (%)	61.4%	67.5%	67.0%	63.4%	62.7%	65.0%	65.9%	65.1%	63.8%	62.3%
Payout Ratio(%)	64.2%	60.4%	59.8%	61.1%	61.2%	60.5%	59.8%	56.3%	50.5%	46.9%
Interest Coverage	1.9	2.2	2.2	2.2	2.1	2.0	2.1	1.9	2.0	2.1
EPS Annual Growth(%)	23.7%	-34.1%	13.4%	4.9%	6.2%	5.9%	3.0%	6.3%	11.6%	7.6%

Source: Merrill Lynch estimates

Merrill Lynch

Bulletin

Canada
Natural Gas-Pipelines

16 February 2001

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BC Gas Inc.

Earnings in Line

NEUTRAL

Reason for Report: Company Update

Long Term ACCUMULATE

Price: **C$31.00**

Estimates (Dec)	2000A	2001E	2002E
EPS:	2.00	2.09	2.15
P/E:	15.5x	14.8x	14.4x
EPS Change (YoY):	3.1%	4.5%	6.1%
Consensus EPS: (First Call: 15-Feb-2001)	2.03	2.16	2.30
Cash Flow/Share:	4.61	4.36	4.52
Price/Cash Flow:	6.7x	7.1x	6.9x
Enterprise Value/EBITDA:	9.2x	9.1x	9.1x
Gross Dividend:	1.23	1.24	1.24
Gross Yield:	4.0%	4.0%	4.0%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$1,178 / 38
Book Value/Share (Mar-2000):	C$17.87
Price/Book Ratio:	1.7x
ROE 2000E Average:	11.4%
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	6.8%

Stock Data

52-Week Range:	C$34.75-C$22.50
Symbol / Exchange:	YBCG / Toronto
Brokers Covering (First Call):	6
Exchange Rate:	CAD1.5270/USD
Free Float:	NA

For full investment opinion definitions, see footnotes.
All figures are in Canadian dollars except where otherwise noted.

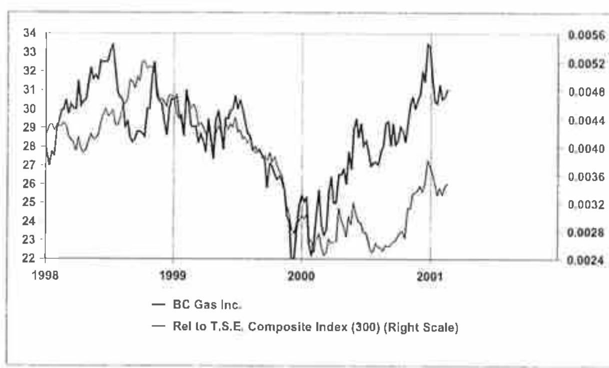
Investment Highlights:

- **We are maintaining our intermediate-term "Neutral" opinion for BC Gas. We believe the shares are fairly valued at current levels.**
- **BC Gas shares offer a secure dividend yield of 4.0% and reflect a P/E of 14.4x 2002E EPS. The estimated five-year EPS growth rate is 6.8% (CAGR).**

Fundamental Highlights:

- **BC Gas reported fourth quarter and annual results that were in line with our expectations. EPS (diluted) from continuing operations was C$2.00 for 2000 versus our estimate of C$1.97 per share and last year's result of C$1.91.**
- **Our EPS (continuing diluted) estimates for 2001 and 2002 remain unchanged at C$2.09 and C$2.15 respectively.**

Stock Performance



RC#10104797

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Global Securities Research & Economics Group
Global Fundamental Equity Research Department

BC Gas

(BCG-TSX)

Stock Rating: **Market Perform**
Stock Price: **$40.01**
Target Price: **$42.35**

November 20, 2002
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
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Karen.Taylor@bmonb.com
Assoc: Andrew Shufelt

Express Pipeline System Acquisition Conf. Call

Impact

Neutral

Details & Analysis

The conference call relating to this proposed acquisition is complete. We note that: (1) after reflecting the full transaction details, we believe that the transaction is neutral to potentially slightly dilutive to our current estimates profile; (2) we have not priced in the potential expansion of the Trans Mountain Pipe Line and the Express System, as both are subject to the results from a tender for shipper interest; (3) strategic fit is strong and the visibility of earnings per share growth in 2004 and beyond has improved; (4) transaction valuation is on the "high" side of fair; and (4) acquisition is conservatively financed, with a target debt/equity ratio of 67%/33%.

Please Refer to the Final Page for Important Legal Disclosures

BMO Nesbitt Burns Research

BC Gas

(BCG-TSX)

November 20, 2002
Research Comment
Gas & Electrical

Stock Rating: **Market Perform**
Industry Rating: **Underperform**

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Assoc: Andrew Shufelt

BC Gas Consortium Agrees to Acquire Express Pipeline System; No Change in View

Event

BC Gas Inc. and a consortium comprised of OMERS and the Ontario Teachers' Pension Plan have announced that they have agreed to acquire a 100% interest in the Express Pipeline System from EnCana Corporation for a total enterprise value of $1.175 billion. The consortium will assume approximately $582 million of non-recourse, project debt. The net equity investment will equal $593 million; BC Gas' proportionate equity investment is $198 million.

Impact

Neutral. We believe that the transaction is strategically important for BC Gas. It helps crystallize the company's participation in the transportation of incremental liquids volumes to the continental U.S., consistent with the opportunity we highlighted in our October 10 report entitled *Pipe Dreams II—Opportunities in Black Gold.*

Forecasts

The company plans to issue $300 million of common equity to fund its equity investment in the Express Pipeline ($198 million) and its equity investment in the Corridor Pipeline (replacing a planned $100 million preferred security issue in Q1/03). Our 2002 diluted estimate remains unchanged at $2.50 per share and our 2003 and 2004 estimates decline by $0.04 to $2.62 and $2.76, respectively.

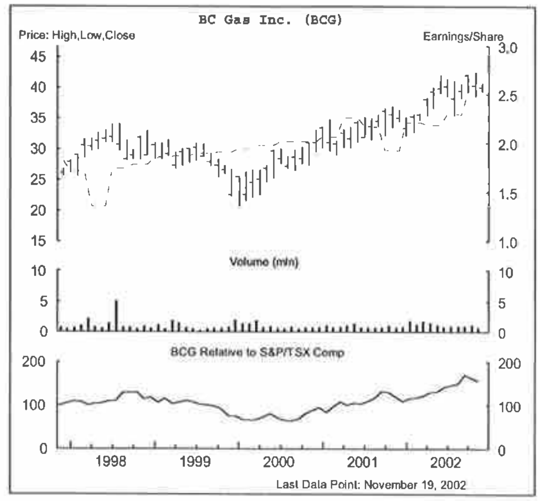
Valuation

Our target price of $42.80 reflects 2004 estimated earnings per share and the following weighted average approach: 14x price-to-earnings (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

No change in view. We rate the shares Market Perform.

Price (19-Nov)	$40.01	**52-Week High**	$42.50
Target Price	$42.80↑	**52-Week Low**	$32.07



(FY-Dec.)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.50	$2.62↓
P/E			16.0x	15.3x
CFPS	$4.58	$1.56	$4.55	$4.89
P/CFPS			8.8x	8.2x
Div.	$1.23	$1.30	$1.41	$1.53
EV ($mm)	$3,132	$4,244	$4,835	$5,025
EBITDA ($mm)	$350	$390	$436	$456
EV/EBITDA	8.9x	10.9x	11.1x	11.0x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.56a	$0.03a	-$0.35a	$1.33

Dividend	$1.41	**Yield**	3.5%
Book Value	$23.58	**Price/Book**	1.7x
Shares O/S (mm)	43.7	**Mkt. Cap ($mm)**	$1,747
Float O/S (mm)	43.7	**Float Cap ($mm)**	$1,747
Wkly Vol (000s)	275	**Wkly $ Vol (mm)**	$10.4
Net Debt ($mm)	$2,967.9	**Next Rep. Date**	13-Feb (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.45; 2003E: $2.65

Changes	Annual EPS	Target
	2003E $2.66 to $2.62	$42.35 to $42.80

Event

BC Gas Inc. and a consortium comprised of OMERS and the Ontario Teachers' Pension Plan have announced that they have agreed to acquire a 100% interest in the Express Pipeline System from EnCana Corporation for a total enterprise value of $1.175 billion. The consortium will assume approximately $582 million of non-recourse, project debt. The net equity investment will equal $593 million; BC Gas' proportionate equity investment is $198 million.

The Express Pipeline System is comprised of two pipelines:

- 172,000 bbl/day Express Pipeline that transports Canadian liquids to the U.S. Rocky Mountain states of Montana, Wyoming and Utah (Petroleum Administration Defence District IV – PADD IV).
- 150,000 bbl/day Platte Pipeline that transports liquid petroleum from PADD IV to markets in the southern portion of the Midwestern U.S. (PADD II).

Analysis

We believe that the following points are relevant with respect to this proposed transaction:

- We believe that the transaction is strategically important for BC Gas, as it helps crystallize the company's participation in the transportation of incremental liquids volumes to the continental U.S., consistent with the opportunity we highlighted in our October 10 report entitled *Pipe Dreams II – Opportunities in Black Gold*.
- The acquisition appears to be priced at 16.5x price-to-earnings, where "earnings" include BC Gas' one-third interest in the equity income from the pipeline, fees and incentive payments associated with the operation of the pipeline (Trans Mountain Pipe Line – 100% BC Gas will be the operator) and the tax benefits (unquantified and unspecified) associated with the purchase.

  Based on EBITDA estimates for both the Cold Lake and Express System put forth by other parties for 2003 (including EnCana) and excluding operating fees and incentive payments and tax benefits, it appears that the transaction was priced at 11.75x EV/EBITDA.

  We believe that the transaction was priced on the "high side" of fair value.
- The contract profile of the Express Pipeline System has been significantly "reworked" and considerable work appears to have been done to develop demand for Canadian petroleum products in the markets served by the system since we last analyzed the attractiveness of the assets. In particular, we note that the pipeline has the following contract structure:
  - 65% of the Express Pipeline's capacity of 172,000 bbls/d is subject to medium to long-term take-or-ship contracts. The average credit rating of the contracting shippers is BBB+, with EnCana (rated A- by Standard & Poor's and Baa1 by Moody's Investors

Service) taking the "lion's share" of the capacity. Contracts for 10,000 bbls/day and 6,000 bbls/day of take-or-ship throughput expire in 2004 and 2006, respectively, with the residual contracts for committed volumes expiring over the remainder of the period until 2012.

- EnCana has undertaken to bid into a short-term auction process for uncommitted capacity and use the capacity that is not otherwise acquired. This arrangement is expected to continue until the end of 2004.
- Uncommitted volumes do not appear to be sold at a discount to the 15-year toll. The pipeline is presently operating at or near design capacity of 172,000 bbls/day (we believe, however, that the 15-year toll is less than 10-year toll).
- The expansion opportunities on the Express Pipeline System (Express – to 280,000 bbls/day from 172,000 bbls/day) and a further 45,000 bbls/day on the Trans Mountain Pipe Line (from 247,189 bbls/day) are relatively inexpensive, at an estimated cost of US$80 million (100% of the cost, or US$27 million—BC Gas' one-third contribution) and $30 million, respectively. Contracts are not yet in place to support these expansion opportunities.

- The acquisition will be conservatively funded by BC Gas Inc. On a stand-alone basis, the proposed debt/equity structure is approximately 50/50. After eliminating the proposed preferred securities issue of approximately $100 million and replacing it with further common equity, we believe that consolidated debt (including deferred taxes) will total about 68% of total capitalization by year-end 2003 (consolidated equity is estimated to equal 32% of total capitalization). The actual capital structure will be similar to the 67%/33% target identified on the conference call. We note that these financial ratios would not be quite as robust, were the company to proportionately consolidate this transaction, rather than use the equity accounting treatment expected (the difference in our financial model at year-end 2003 is approximately 1% of total capital).

Estimates

Our revised estimates profile (as highlighted in the attached Consolidated Summary Sheet) reflects the following key assumptions:

- $300 million equity issue very late in 2002 or very early in 2003 (notionally settled in early 2003).
- $12 million contribution from the Express Pipeline System in fiscal 2003, in line with management's guidance. The contribution is expected to be similar in fiscal 2004.
- No operating synergies (other than those implicitly included in management's guidance) are assumed.

- The possible expansion of the Express and Trans Mountain Pipe Line Systems are not included. With respect to the Express pipeline, we expect two open season announcements: the first to solicit contracts for approximately 35% of the pipeline's current capacity that is presently not subject to long-term ship-or-pay arrangements, and a second open season to guage shipper interest in incremental long-term transportation capacity. A similar process to ascertain shipper interest and negotiate a contract structure would be expected for Trans Mountain Pipe Line.
- We have not changed our dividend payment expectations over the forecast period. They remain at $1.53 and $1.61, respectively in 2003 and 2004.
- The company believes that the proposed equity issue will likely result in the reaffirmation of the present senior unsecured credit ratings of BC Gas Inc. and BC Gas Utility. We have therefore assumed no change in corporate borrowing costs and assume that the company is able to refinance debt maturities over the forecast period on terms and conditions similar to those currently in place.

Valuation

Our target price of $42.80 reflects 2004 estimated earnings per share and the following weighted average approach: 14x price-to-earnings (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

We believe that the shares are reasonably valued at present levels. We rate the shares Market Perform.

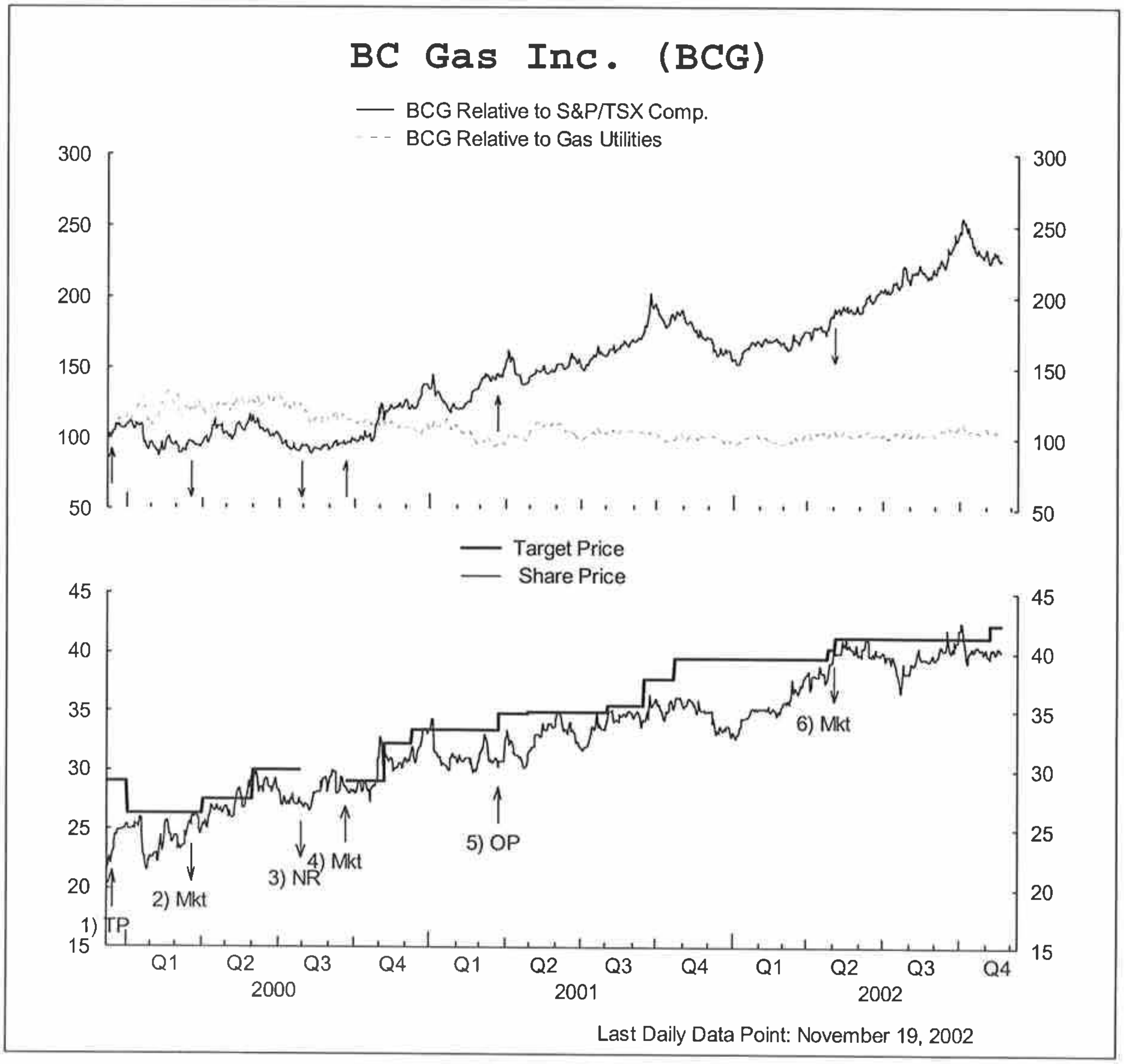
Table 1. Consolidated Summary Sheet

11/20/2002

Current Price:	$39.75	Karen J. Taylor/Sue McNamara
12-Month Target Price:	$42.80	BMO Nesbitt Burns Inc.
Rate of Return:	11.52%	Recommendation: Market Perform

	Year Ended December 31						
	1998	1999	2000	2001	2002E	2003E	2004E
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$2.04	$2.19	$2.50	$2.62	$2.76
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.06	$2.21	$2.52	$2.64	$2.78
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.14	$1.81	$1.82
Trans Mountain Pipe Line	$0.60	$0.51	$0.56	$0.71	$0.59	$1.04	$1.13
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.21)	($0.21)	($0.17)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.41	$1.53	$1.61
Payout Ratio	58.9%	60.1%	59.5%	58.8%	56.0%	58.0%	57.7%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.4	51.1	51.1
Net Book Value	$15.67	$16.61	$18.10	$19.01	$22.01	$25.68	$26.86
Market Valuation							
Price: High	$33.95	$31.00	$33.45	$36.40	-	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	-	-	-
Price: Current	-	-	-	-	$39.75	-	-
P/E Ratio: High	18.4	16.0	16.24	16.47	-	-	-
P/E Ratio: Low	14.6	10.8	10.44	13.46	-	-	-
P/E Ratio: Current	-	-	-	-	15.8	15.1	14.3
Price/Book Value: High	2.24	1.92	1.85	1.91	-	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.56	-	-	-
Price/Book Value: Current	-	-	-	-	1.81	1.55	1.48
Yield: High Price	3.21%	3.76%	3.66%	3.57%	-	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	-	-	-
Yield: Current Price	-	-	-	-	3.55%	3.85%	4.04%
Balance Sheet ($mm)							
Debt (S-T)	448.7	431.3	367.6	905.5	978.3	1,061.5	1,068.6
Debt (L-T)	1,101.5	1,078.9	1,538.6	1,894.6	1,968.3	1,967.0	1,965.7
Deferred Taxes	36.3	35.0	47.3	47.3	47.3	47.3	47.3
Minority Interest	150.0	75.0	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
Shareholders' Equity	608.6	645.1	703.6	727.6	955.7	1,312.3	1,372.4
	2,345.1	2,265.3	2,782.1	3,700.0	4,074.6	4,513.1	4,578.9
Balance Sheet (%)							
Debt (S-T)	19.1%	19.0%	13.2%	24.5%	24.0%	23.5%	23.3%
Debt (L-T)	47.0%	47.6%	55.3%	51.2%	48.3%	43.6%	42.9%
Deferred Taxes	1.5%	1.5%	1.7%	1.3%	1.2%	1.0%	1.0%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.5%	3.4%	3.1%	2.8%	2.7%
Shareholders' Equity	26.0%	28.5%	25.3%	19.7%	23.5%	29.1%	30.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)							
Net Profit After-Tax	81.2	82.8	82.8	84.7	109.3	134.8	142.1
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	78.8	84.7	109.3	134.8	142.1
Cash Flow from Operations ($mm)	80.1	117.0	175.4	59.9	204.0	231.8	241.3

Note: Current Price reflects intra-day pricing



BCG - Rating as of 9-Dec-99 = OP

	Date	Rating Change	Share Price
1	15-Dec-99	OP to TP	$23.00
2	20-Mar-00	TP to Mkt	$25.25
3	28-Jul-00	Mkt to NR	$27.20
4	20-Sep-00	NR to Mkt	$28.50
5	22-Mar-01	Mkt to OP	$30.15
6	2-May-02	OP to Mkt	$40.50

BC Gas

(BCG-TSX)

November 7, 2002
Research Comment
Gas & Electrical

Stock Rating: Market Perform
Industry Rating: Underperform

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Estimates Refined Following Q3/02 Results

Event

We have refined our 2003 and 2004 earnings per share estimates pursuant to a further conversation with management relating to third-quarter financial results. We are moderately more confident in the sustainability of earnings in the regulated natural gas segment, particularly as it relates to Centra Gas BC.

Impact

Slightly positive.

Forecasts

Estimated 2002 diluted earnings per share of $2.50 remain unchanged. Our 2003 and 2004 diluted EPS estimates increase by approximately $0.03 per share, to $2.66 and $2.80 from $2.63 and $2.77, respectively.

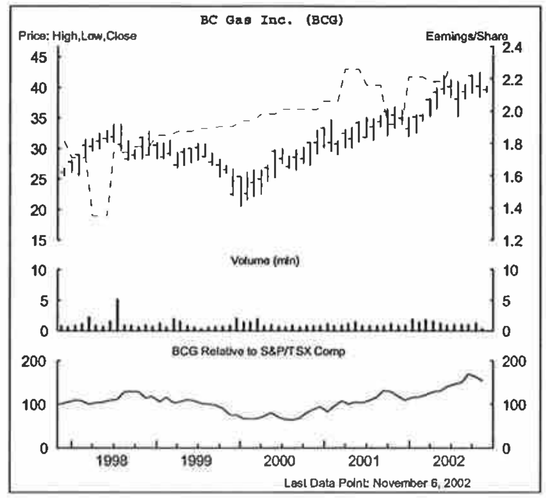
Valuation

Our target price of $42.35 reflects our 2004 estimates and the following weighted average valuation approach: 14x price-to-earnings (12.5%), 1.75x price-to-book value (12.5%) and a target yield of 3.75% (75%).

Recommendation

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

Price (6-Nov)	$39.70	**52-Week High**	$42.50
Target Price	$42.35	**52-Week Low**	$32.07



(FY-Dec.)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.50	$2.66↑
P/E			15.9x	14.9x
CFPS	$4.58	$1.56	$4.55	$4.89
P/CFPS			8.7x	8.1x
Div.	$1.23	$1.30	$1.41	$1.53
EV ($mm)	$3,132	$4,244	$4,841	$5,034
EBITDA ($mm)	$417	$457	$488	$517
EV/EBITDA	7.5x	9.3x	9.9x	9.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.56a	$0.03a	-$0.35a	$1.33

Dividend	$1.41	Yield	3.6%
Book Value	$23.58	Price/Book	1.7x
Shares O/S (mm)	43.7	Mkt. Cap ($mm)	$1,733
Float O/S (mm)	43.7	Float Cap ($mm)	$1,733
Wkly Vol (000s)	273	Wkly $ Vol (mm)	$10.3
Net Debt ($mm)	$2,967.9	Next Rep. Date	13-Feb (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.39; 2003E: $2.62

Changes — **Annual EPS**
2003E $2.63 to $2.66

Analysis

We have had a further conversation with management pursuant to the third-quarter earnings announcement. We believe that the following points are incremental to the analysis presented in our research comment this morning:

- We are moderately more confident that year-to-date performance at Centra Gas BC is sustainable in future fiscal periods. We note that while our view with respect to the contribution from Centra Gas BC on a total consolidated basis has not changed significantly, the distribution of this return (between utility and corporate "mezzanine" allocations) does change. In particular, the expected realized utility return on equity is likely lower than anticipated in our earlier research comment and the benefit associated with corporate "mezzanine" allocations and accounting issues is higher, as delineated below.
- The company has changed the manner in which it accounts for the Centra Gas BC acquisition versus the presentation at the time the transaction was announced on October 22, 2001. The changes are material on a full-year basis (and increase the contribution from the asset by approximately $2.4 million per annum on a consolidated corporate basis or $0.06 per share).
- We are somewhat disappointed that these changes were not disclosed; however, while estimated earnings per share are positively affected, cash flow is not. Accordingly, we are not increasing our estimated dividend payments in fiscal 2003 and 2004. We believe that the dividend is the primary driver of value.

Estimates

Estimated 2002 diluted earnings per share of $2.50 remain unchanged. Our 2003 and 2004 diluted EPS estimates increase by approximately $0.03 per share, to $2.66 and $2.80 from $2.63 and $2.77, respectively, and reflect the revised accounting presentation discussed above.

Valuation

Our target price of $42.35 reflects our 2004 estimates and the following weighted average valuation approach: 14x price-to-earnings (12.5%), 1.75x price-to-book value (12.5%) and a target yield of 3.75% (75%).

Recommendation

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

BC Gas

(BCG-TSX)

November 7, 2002
Research Comment
Gas & Electrical

Stock Rating: Market Perform
Industry Rating: Underperform

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Better Than Expected Q3/02 Results; No Change in View

Event

BC Gas reported Q3/02 earnings per share from continuing operations net of one-time items of ($0.35) versus ($0.58) in Q3/01. We expected ($0.57) per share. The variance is largely attributable to a higher-than-expected contribution from Centra Gas BC (acquired effective January 1, 2002) and lower interest costs at BC Gas Utility. During the quarter, the company recorded a $4.1 million ($0.09 per share) after-tax writedown relating to BC Gas' investment in Westport Innovations Ltd.

Impact

Slightly positive.

Forecasts

We have increased our 2002 earnings per share estimate (diluted) to better reflect year-to-date performance, specifically the higher-than-expected contribution from Centra Gas BC and lower interest expenses at BC Gas Utility. Our estimated fiscal 2002 EPS increases to $2.50 from $2.35. Our 2003 and 2004 estimates increase slightly to $2.63 and $2.77, from $2.60 and $2.74.

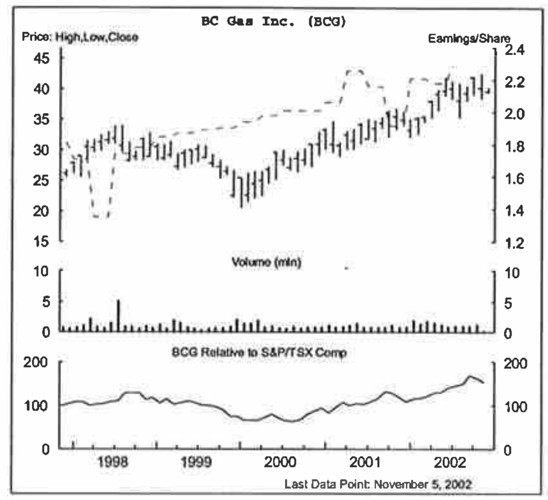
Valuation

We have increased our target price to $42.25 to reflect full-year estimated 2004 EPS (diluted) of $2.77, estimated book value per share of $24.31 and anticipated dividends per share of $1.61. Our target price reflects the following weighted average valuation approach: 14x price-to-earnings ratio (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

We believe the shares are reasonably valued. Our rating is Market Perform.

Price (5-Nov)	$39.50	**52-Week High**	$42.50
Target Price	$42.25↑	**52-Week Low**	$32.07



(FY-Dec.) Diluted	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.50↑	$2.63↑
P/E			15.8x	15.0x
CFPS	$4.58	$1.56	$4.55	$4.89
P/CFPS			8.7x	8.1x
Div.	$1.23	$1.30	$1.41	$1.53
EV ($mm)	$3,132	$4,244	$4,841	$5,034
EBITDA ($mm)	$417	$457	$488	$517
EV/EBITDA	7.5x	9.3x	9.9x	9.7x

Quarterly EPS Basic	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.56a	$0.03a	-$0.35a	$1.33↓

Dividend	$1.41	**Yield**	3.6%
Book Value	$23.58	**Price/Book**	1.7x
Shares O/S (mm)	43.7	**Mkt. Cap ($mm)**	$1,724
Float O/S (mm)	43.7	**Float Cap ($mm)**	$1,724
Wkly Vol (000s)	273	**Wkly $ Vol (mm)**	$10.3
Net Debt ($mm)	$2,967.9	**Next Rep. Date**	13-Feb (E)

Notes: Q1/02 EPS does not reflect $0.05/share dilution from equity issue on March 8, 2002.
Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.39; 2003E: $2.62

Changes	Annual EPS	Quarterly EPS	Target
	2002E $2.35 to $2.50 2003E $2.60 to $2.63	Q4/02E $1.34 to $1.33	$41.25 to $42.25

Event

BC Gas reported Q3/02 earnings per share from continuing operations net of one-time items of ($0.35) versus ($0.58) in Q3/01. We expected ($0.57) per share. The variance is largely attributable to a higher-than-expected contribution from Centra Gas BC (acquired effective January 1, 2002) and lower interest costs at BC Gas Utility. During the quarter, the company recorded a $4.1 million ($0.09 per share) after-tax writedown relating to BC Gas' investment in Westport Innovations Ltd.

Analysis

Table 1. Segment Earnings Per Share

Segment	Q3/02	Q3/01	% Change	9M/02	9M/01	% Change
Natural Gas Distribution						
BC Gas Utility	($0.62)	($0.73)	15.1%	$0.60	$0.59	1.7%
Centra Gas BC	0.13	0.00	nm	0.40	0.00	nm
	(0.49)	(0.73)	32.9%	1.00	0.59	69.5%
Trans Mountain Pipeline	0.15	0.17	-11.8%	0.44	0.49	-10.2%
Other	(0.01)	(0.02)	50.0%	(0.17)	(0.15)	-13.3%
Total	($0.35)	($0.58)	39.7%	$1.27	$0.93	36.6%

Natural Gas Distribution

The contribution from the natural gas distribution segment increased approximately 33% versus Q3/01. Centra Gas BC contributed $0.13 per share during the quarter and $0.40 per share for 9M/02. The approximate 15% improvement from BC Gas Utility during the quarter versus Q3/01 is largely attributable to a decrease in interest costs (estimated annual savings of $4 million after-tax year to date and approximately $0.9 million during Q3/02). The critical issue to assess when evaluating Q3/02 performance is the company's ability to sustain strong operating performance (largely due to efficiencies post acquisition at Centra Gas BC) beyond the current fiscal period. Both BC Gas Utility and Centra Gas BC are presently in the process of determining 2003 rates with stakeholders. It is likely that a certain amount of rebasing is to be expected (i.e., efficiency gains and interest rate savings are likely to be shared with ratepayers by setting marginally lower rates for 2003 than would otherwise be the case).

Petroleum Transportation

Trans Mountain Pipe Line's contribution to earnings decreased during the quarter by approximately 12% to $0.15 per share versus $0.17 per share in Q3/01. Lower throughput on the Canadian mainline (slightly offset by increased tanker loadings) and the lower throughput on the U.S. mainline were partially mitigated by lower interest rates and a lower tax rate.

Other Activities

Other Activities contributed a loss of $0.01 per share (prior to a one-time charge of $4.1 million resulting from the writedown of the company's investment in Westport Innovations Ltd.) versus a loss per share of $0.02 in Q3/01. Although not delineated in the press release, improvements were achieved across all of the non-regulated business lines (CustomerWorks, BCG Services, BCG International and ENRG), mitigating the interest cost associated with approximately $350 million of unallocated debt ($150 million short term and $200 million long term).

Estimates

We have increased our 2002 earnings per share estimate (diluted) to better reflect year-to-date performance, specifically the higher-than-expected contribution from Centra Gas BC and lower interest expenses at BC Gas Utility. Our estimated fiscal 2002 EPS (diluted) increases to $2.50 from $2.35. Our 2003 and 2004 estimates increase slightly to $2.63 and $2.77, from $2.60 and $2.74.

Our revised earnings contribution from Centra Gas BC reflects efficiencies and synergies from the acquisition by BC Gas Inc. (effective January 1, 2002). We had previously assumed no merger synergies. We believe that Centra Gas BC is likely earning a return on equity that is slightly more than the presently allowed return on equity of approximately 9.40%.

Both BC Gas Utility and Centra Gas BC have impending regulatory proceedings with the British Columbia Utilities Commission (BCUC):

- **BC Gas Utility.** The hearing to consider BC Gas Utility's 2003 Revenue Requirement and Multi-Year Performance Based Ratemaking application begins on November 12, 2002.
- **Centra Gas BC.** The Phase 1 Revenue Requirements Negotiations Sessions relating to Central Gas BC's application for approval of 1999 to 2001 Revenue Deficiencies and 2003 to 2005 Revenue Requirements and Application for Approval of Rate Design and Proposed 2003 Rates begin on November 25 in Victoria, BC. The Phase 2 Rate Design Negotiation Session commences on December 3

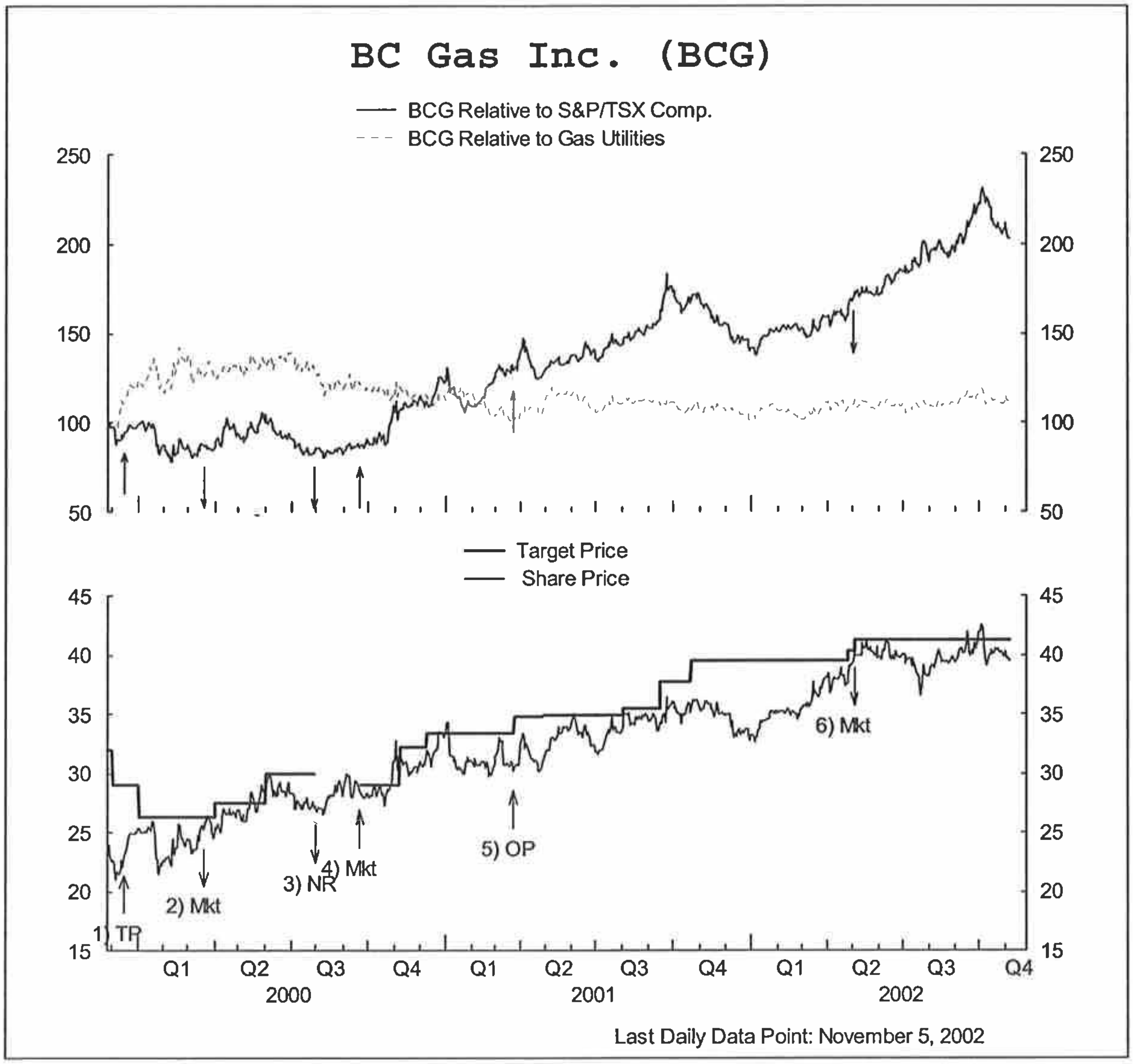
Decisions from these proceedings are expected from the BCUC in late 2002 or in Q1/03. As discussed above, we believe that a certain amount of rebasing is likely. As a result, our 2003 and 2004 estimates increase only modestly to reflect higher incentive gains, but at a rate lower than realized year to date.

Valuation

We have increased our target price to $42.25 to reflect full-year estimated 2004 EPS (diluted) of $2.77, estimated book value per share of $24.31 and anticipated dividends per share of $1.61. Our target price reflects the following weighted average valuation approach: 14x price-to-earnings ratio (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

We believe the shares are reasonably valued at present levels. Our rating is Market Perform.



BCG - Rating as of 25-Nov-99 = OP

	Date	Rating Change	Share Price
1	15-Dec-99	OP to TP	$23.00
2	20-Mar-00	TP to Mkt	$25.25
3	28-Jul-00	Mkt to NR	$27.20
4	20-Sep-00	NR to Mkt	$28.50
5	22-Mar-01	Mkt to OP	$30.15
6	2-May-02	OP to Mkt	$40.50

BMO Nesbitt Burns

BC Gas Inc.

(BCG – TSX)

October 22, 2002
Toronto, Ontario

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Stock Rating:	**Market Perform**
Industry Rating:	**Underperform**

Earnings Leverage to Opportunities in Black Gold

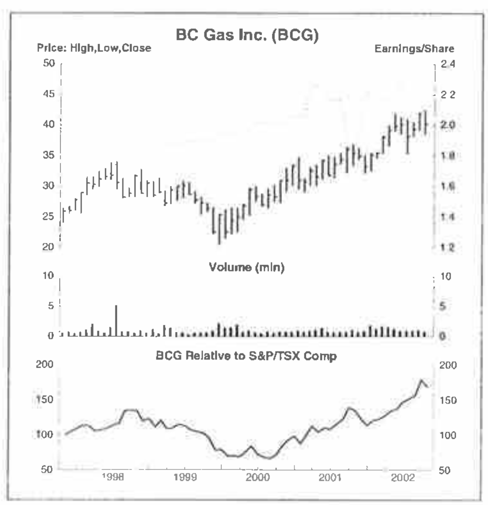
Highlights

- BC Gas Inc. is a publicly traded holding company with three key businesses: natural gas distribution (BC Gas Utility Ltd.), crude oil and refined products transportation (Trans Mountain Pipe Line Company Ltd.), and non-regulated energy and utility services.
- The company has targeted an earnings per share growth rate that is slightly in excess of 6% per annum, and we believe it will execute a strategy of increasing the intensity of utility services within targeted geographies, including the lower mainland of British Columbia, Vancouver Island, the Pacific Northwestern United States, and Alberta.
- We believe the shares of BC Gas are likely to be attractive to investors for the following reasons: 1) Management is highly capable and well regarded; 2) Focus on value has been an effective discipline to date and is expected to be so in the future; and 3) Belief that the strategy of increasing the intensity of utility services will likely make the targeted EPS growth achievable.
- Our target price of $41.25 reflects the following weighted average valuation approach: 14.0 times price to earnings ratio (12.5%); 1.75 times book value (12.5%); and 3.75% target trading yield.
- We believe the shares are reasonably valued at present levels. We rate BC Gas Market Perform.

Price (10 – Oct)	$41.65	**52-Week High**	$42.50
Target Price	$41.25	**52-Week Low**	$32.07

(FY – Dec)	**2001A**	**2002E**	**2003E**
EPS (diluted)	$2.19	$2.35	$2.60
P/E		17.7x	16.0x
CFPS	$1.56	$4.64	$4.86
P/CF		8.9x	8.6x
Div.	$1.30	$1.41	$1.53
EV ($mm)	4,234	4,930	5,123
EBITDA ($mm)	457	495	495
EV/EBITDA	9.3x	10.0x	10.3x

Dividend	$1.41	**Yield**	3.4%
Book Value	$24.40	**Price/Book**	1.7x
Shares O/S (mm)	44	**Mkt. Cap (b)**	$1.8
Float O/S (mm)	44	**Float Cap (b)**	$1.8



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A. Business Summary

BC Gas Inc. is a publicly traded holding company with three key businesses: natural gas distribution (BC Gas Utility Ltd.), crude oil and refined products transportation (Trans Mountain Pipe Line Company Ltd.), and non-regulated energy and utility services. BC Gas owns a 100% interest in the $396 million Southern Crossing natural gas transportation pipeline and the $690 million Corridor Pipeline project.

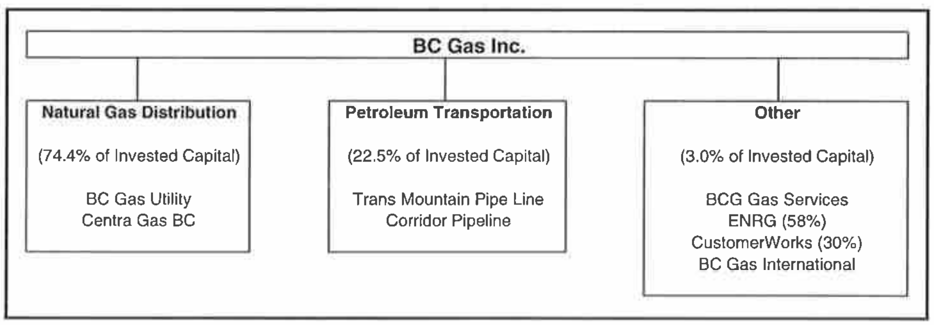
B. Organizational Structure

BC Gas has three key business segments:

1. Natural gas distribution;
2. Petroleum transportation; and
3. Non-regulated energy and utility services.

The key operating assets in each business segment are presented below in Chart 1.

***Chart 1:** Organizational Structure of BC Gas Inc.*



Note: 100% ownership unless otherwise noted
Source: BC Gas, BMO Nesbitt Burns

C. Key Business Segments

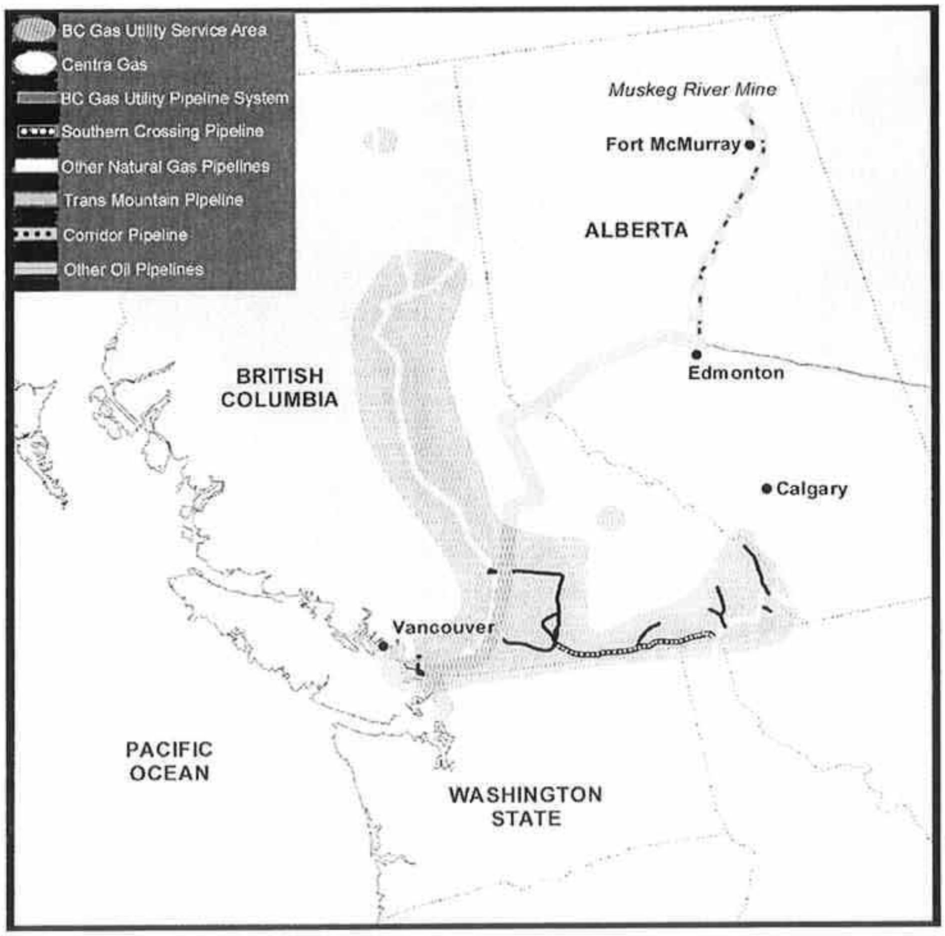
1. Natural Gas Distribution

BC Gas Utility transmits and distributes natural gas to approximately 767,000 customers in British Columbia. The utility's service area extends from Vancouver to the Fraser Valley and the interior of the province. BC Gas Utility's customer base includes:

- 767,000 residential, commercial and industrial customers as of December 31, 2001, representing approximately 90% of existing gas users in British Columbia.
- 590 industrial account customers, 540 or 92% of which arrange for some or all of their own gas supply and use BC Gas Utility's distribution network solely for transportation.

- 640 large-volume commercial customers also with independent purchase arrangements. 135 industrial customers are on interruptible service and the majority of these customers have the capability to switch to alternative fuels.
- The two largest industrial segments served are pulp and paper (36%) and wood products (13%).

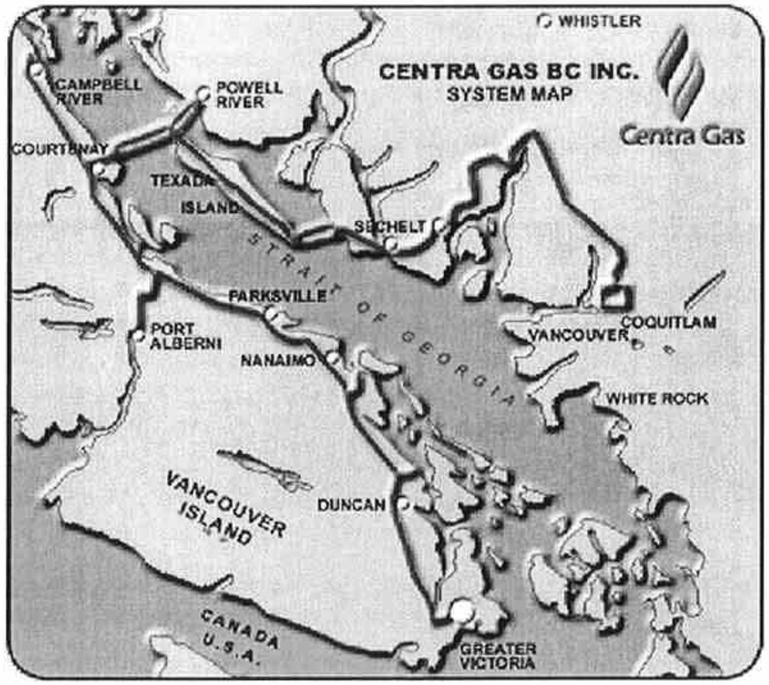
Chart 2: *BC Gas Utility Service Area*



Source: BC Gas

Centra Gas British Columbia: BC Gas Utility acquired Centra Gas BC and Centra Whistler from Westcoast Energy in March 2002 for $590 million. The acquisition extended BC Gas Utility's geographical footprint into a utility service area that is immediately adjacent to its current franchise area. Centra Gas BC owns and operates the distribution system (2,830 kilometres) on Vancouver Island and along the sunshine coast of British Columbia, serving 71,000 customers. The utility also owns and operates a 737-kilometre natural gas transmission pipeline from the Greater Vancouver area, traversing underwater to Vancouver Island. Centra Whistler distributes propane gas to approximately 2,000 residential and commercial customers in the Whistler area, using approximately 125 kilometres of pipeline.

Chart 3: *Centra Gas BC Service Area and Transmission System*



Source: BC Gas

Centra Gas provides transportation service to seven pulp and paper mills under long-term transportation service agreements, expiring January 1, 2006. The mills have the option to renew these agreements for a further five years until 2011. The maximum daily contracted volume under the agreements is 35.65 mmcf/d.

We believe the acquisition of Centra Gas BC is attractive for the following reasons:

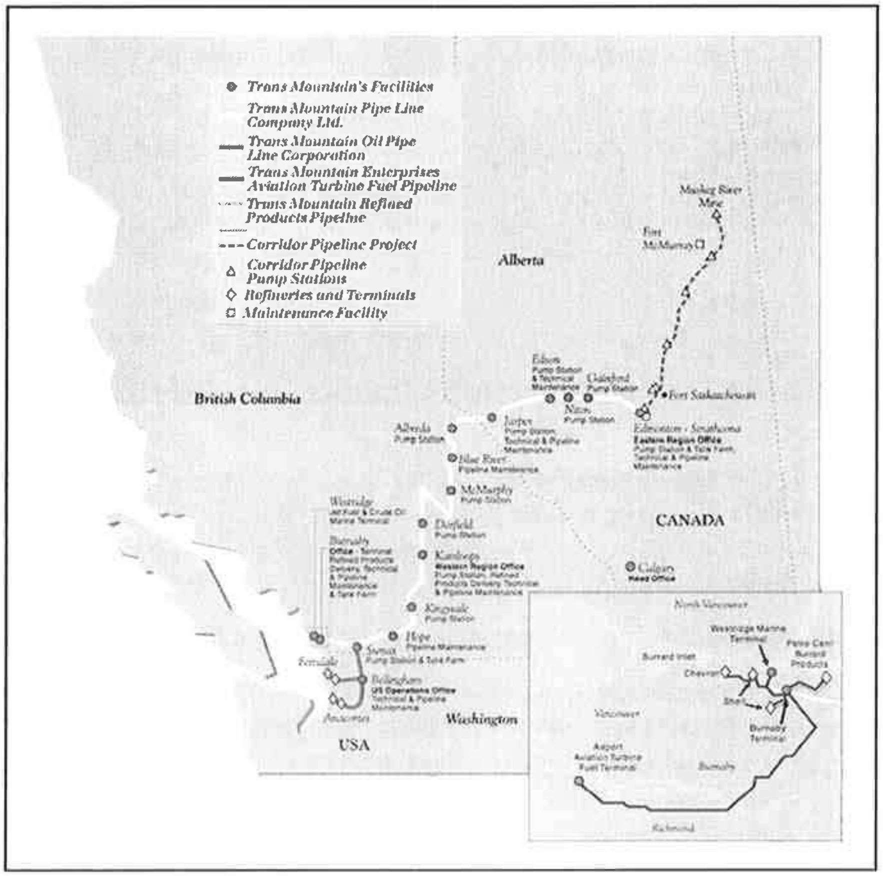
1. The acquisition is an extension of BC Gas' geographical footprint into a utility service area that is immediately adjacent to its current franchise area. We believe operational synergies are likely; however, as set out below, we do not assume the positive contribution from synergies in our estimates profile.
2. The acquisition is centred on BC Gas' area of core competencies and does not require the organization to acquire additional skill sets or operating competencies in order to effectively operate and realize the estimated contribution per annum.
3. Present in-franchise opportunities include improved natural gas penetration rates by potential customers (residential, commercial and large industrial) and the promise of additional load from future power generating facilities on Vancouver Island, such as the proposed 265 MW Vancouver Island Generation project (BC Hydro) and the existing Elk Falls Cogeneration (Calpine Corporation – 30%, Calpine Power Income Fund – 70%).

2. Petroleum Transportation

Trans Mountain Pipe Line owns and operates a 1,150-kilometre common carrier pipeline that transports crude petroleum and refined petroleum products from Edmonton to destinations in the interior and on the West Coast of British Columbia. The mainline connects to the Westridge

Marine Terminal at the Port of Vancouver. Trans Mountain also owns and operates a contiguous pipeline system in the United States that delivers petroleum to four refineries in Washington state (total capacity 23,800 m^3/d). Trans Mountain additionally owns and operates a pipeline that delivers jet fuel from refineries in British Columbia to the Vancouver airport. Sustainable capacity on the mainline is 39,300 m^3/d (247,189 bbls/d) for light crude oil. Capacity is typically reduced when the pipeline transports heavy oil.

***Chart 4:** Trans Mountain Pipe Line System Map*



Source: Trans Mountain Pipe Line

Shipments of refined petroleum represented 35.2% of 2001 throughput. Seven shippers represented 73% of Trans Mountain's 2001 revenues.

Oil Sands Pipelines: Producers in the oil sands regions have presented plans and projects that, if all completed, would increase daily oil sands production to 3.15 mmbbls/d, at an estimated total capital investment of approximately $43.52 billion, through 2015. BC Gas is actively involved in the transmission requirements associated with oil sands development and is a sponsor of two projects:

1. The proposed Bison pipeline; and
2. Corridor pipeline, which is scheduled to be in commercial operation by Q2/03.

3. Other Businesses

CustomerWorks (30%–BC Gas) is a limited partnership formed with Enbridge (70%) that offers comprehensive customer services for utilities, municipalities and energy services companies. CustomerWorks started full-scale operations on January 1, 2002. The company operates a network of call centres for customer service and will additionally provide billing support and meter reading for BC Gas Utility's operations and Enbridge's utility operations, representing a total of 3.3 million customers. BC Gas transferred 140 employees from the utility operations to the new partnership on January 1, 2002. CustomerWorks outsourced its customer care services to Accenture in July 2002.

BCG Services distributes waterworks supplies (pipes, valves, meters) and provides complementary waterworks services (meter installation, meter reading, hot tapping, valve maintenance, hydrant maintenance) to municipal, industrial, commercial and agricultural customers. Key contracts signed by the company include:

- Three-year water meter reading contract with the City of Surrey, British Columbia to design and implement the city's voluntary water meter installation program, marketing and public relations;
- Five-year contract in conjunction with CustomerWorks providing customer care and meter reading services for water and electricity for the City of Kelowna, which commenced in January 2002; and
- BCG Services provides energy and utility services to Intrawest's Panorama resort in British Columbia.

BCG International provides consulting services in the areas of natural gas vehicle technology, gas distribution operations, training and utility privatization programs. The company has conducted activities in Russia, India, Pakistan, Turkey and Romania. BC Gas International is currently involved in two major projects in the Persian Gulf:

1. Working with a local company in the United Arab Emirates on a three-phase project to construct a natural gas distribution system. Phase One of the project was completed in June 2000 and consisted of the construction of a short section of high pressure natural gas transmission line and approximately 170 kilometres of gas distribution mains, as well as meter installations, house piping and appliance conversions for up to 25,000 customers. The $60 million Phase II involves the construction of additional facilities to connect a further 33,500 customers in the City of Sharjah to the system installed in Phase I. Phase II was completed in March 2002. The third phase of the project commenced in April 2002 and involves a continuation of the project work conducted under Phases I and II, extending the natural gas distribution network to a further 2,000 customers.
2. In Oman, BC Gas, in partnership with Enbridge and OHI Petroleum and Energy Services, was awarded a $42 million contract to operate and maintain natural gas transmission facilities owned by the Oman Gas Company. The contract includes a 1,000-kilometre pipeline expansion scheduled for completion in late 2002.

BC Gas has no capital invested in any of these international endeavours.

ENRG (58%–BC Gas) resulted from the merger of BCG eFuels Inc. and Pickens Fuel Corporation in June 2001. ENRG supplies vehicular natural gas (both compressed natural gas and liquefied natural gas) and related services in key markets in North America. The company's customer base includes more than 25,000 fleet vehicles, fuelling at more than 90 locations. ENRG focuses on fleet customers in the taxi, waste removal, transit and airport industries. ENRG owns and operates Natural Gas Vehicle fueling stations at nine airports. Future growth in this segment is likely to result from the conversion of fleet vehicles using diesel fuel to natural gas.

D. Strategic Overview

BC Gas has a strong track record of delivering shareholder value. Over 1995–2001, earnings per share have increased to $2.21 from $1.16, a compound annual growth rate of approximately 11.4%. The average realized return on equity over a similar period is 10.62%, with the return on equity reaching 11.64% in fiscal 2001 versus 8.06% in 1995.

The company has targeted an earnings per share growth rate that is slightly in excess of 6% per annum, and we believe it will execute a strategy of increasing the intensity of utility services within targeted geographies, including the lower mainland of British Colombia, Vancouver Island, the Pacific Northwestern United States, and Alberta. We believe management will continue its focus on creating value by:

1. Implementing the next generation of incentive regulation;
2. Expanding natural gas distribution and regional natural gas transmission infrastructure;
3. Building on recent success to capture incremental oil sands development opportunities; and
4. Pursing multi-utility opportunities, such as natural gas, electric power distribution and water.

1. *Incentive Regulation*

Incentive regulation has been used by the company in the recent past to increase the return on equity invested in regulated energy infrastructure. We believe PBR is the more desirable regulatory approach versus cost of service regulation due to:

- Increased potential for earnings per share growth, as the company is motivated to reduce operating costs and to reduce the capital intensity of future growth; and
- Alignment of shareholder and utility ratepayer interests by sharing the rewards/benefits associated with improved efficiencies.

BC Gas Utility filed its 2003 Revenue Requirement Application and Multi-Year Performance Based Ratemaking Proposal (PBR) in June 2003. The filing includes:

- An increase in revenue requirement equal to 1.25% ($15.4 million) of total current revenues, effective January 1, 2003. The proposed increase is required to offset a shortfall in revenue, resulting from lower natural gas consumption by residential and commercial customers.

- Continuation of weather normalization and gas cost deferral accounts. Gas costs will also continue to be passed through to customers.
- Centra Gas BC is to be treated as a separate entity. Centra filed its own 2003 Revenue Requirement Application and Multi-Year Performance Based Ratemaking Proposal in Q3/02.
- A deferral account to collect variances between actual and forecast property and other taxes. The company is currently being reassessed for British Columbia Capital Tax for 1995–2001. BC Gas Utility has proposed that it be permitted to defer the cost of the appeal process and the amount of any reassessment. A three-year rate rider commencing January 1, 2004 is proposed to amortize any net deferred balance in the account into customer rates.
- BC Gas has elected not to make additional insurance expenditures relating to increased coverage for events such as war and terrorism, and increased coverage and deductibles for damages and business interruption. Instead, the company has requested that the BCUC approve a deferral account to collect any losses that may arise should any such events occur. Deferred balances would be amortized or recovered in future customer rates, in accordance with direction from the BCUC.
- The company has proposed the next phase of Performance Based Ratemaking. The proposed new five-year plan (2003–2007) focuses less on reducing operating and maintenance costs and more on outputs such as price and quality of service. The company has proposed a Delivery Rate Setting Mechanism (DRSM) relating customer delivery charges (excluding gas costs) to changes in the rate of inflation. The formula would be set as Subsequent Year's Rates = Current Year's Rates times (1 + British Columbia Consumer Price Index).
- BC Gas Utility has proposed an earnings sharing mechanism related to the Return on Equity. A collar of plus/minus 200 basis points would be established around a reference ROE (equal to the current BCUC generic ROE calculated annually, plus 100 basis points). Within the plus/minus 200 basis point band, BC Gas Utility would assume all performance risk. Sharing of risk/reward would occur on a 50/50 basis in a band plus/minus 201–300 basis points around the reference ROE. An achieved ROE that is greater or less than the reference ROE plus/minus 300 basis points would trigger a regulatory review of utility performance and the PBR mechanism by the BCUC. BC Gas Utility believes the collar provides the strongest incentive for the company to seek productivity gains and realize efficiencies.
- The BCUC is expected to issue its decision on BC Gas Utility's 2003 Performance Based Ratemaking application in late 2002.

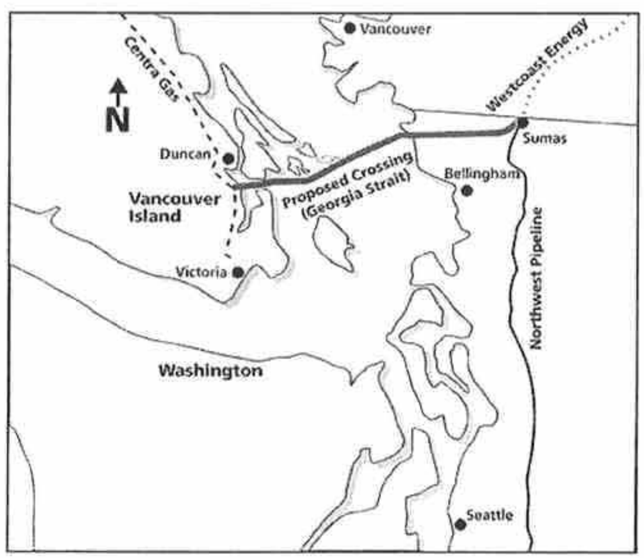
2. Expansion of the Natural Gas Distribution Network

New Gas-Fired Generation: Centra Gas BC's present franchise opportunities include the prospective addition of load from new electric power generating facilities on Vancouver Island. Demand for electric power on Vancouver Island is expected to grow by 1.4% per annum (approximately 30 MW per annum) from a baseload of 688 MW. It is expected that distributed natural gas-fired generating located on Vancouver Island will be used, not only to meet incremental demand but also to improve the reliability and security of the existing load, presently served by an aging interconnect with mainland British Columbia. Generation (Calpine Power Income Fund's natural gas-fired facility and BC Hydro's hydroelectric facilities) on the island provides approximately 20% of peak demand requirements of 2,160 MW for the island. The remaining 80% of peak demand requirements is provided from the mainland via undersea transmission cables, certain of which are scheduled to be retired by 2007.

BC Hydro has submitted an application to the BC Environmental Assessment Office to construct a 265 MW natural gas-fired combined cycle facility at a site adjacent to the Harmac sawmill near Nanaimo. Construction is expected to start in Q1/03 and the plant is expected to be in service in November 2004. BC Hydro is considering the addition of a further gas-fired facility in 2007; however, the provincially owned utility has stated its preference to have incremental demand met by the increased use of renewable and alternative sources of electric power, and through conservation measures.

New Gas Transmission Infrastructure: Centra Gas BC's transmission pipeline system that connects Vancouver Island to the mainland is presently operating at design capacity. BC Hydro and The Williams Companies have proposed to construct the Georgia Strait Crossing Pipeline to transport additional sources of natural gas to the island. This 136-kilometre project is designed to transport natural gas from the Sumas/Huntingdon supply hub to markets in northwest Washington and Vancouver Island, connecting to the Centra Gas BC system northwest of Shawnigan Lake, Vancouver Island. The $260 million pipeline is designed to transport 94 mmcf/d of gas and was initially expected to be in service in late fall 2003. The hearing at the NEB to consider the application for the Canadian facilities was postponed in June 2002 and a new date has yet to be determined. The regulatory process to consider the U.S. portion of the pipeline has been completed. The Federal Energy Regulation Commission (FERC) granted environmental approval in July 2002 and a Certificate of Public Convenience and Necessity was issued in September 2002.

***Chart 5:** Proposed Route of Georgia Strait Crossing Pipeline*



Source: Georgia Strait Crossing Pipeline

Centra Gas BC is expected to benefit from higher throughput transported to Vancouver Island by the proposed Georgia Strait Crossing pipeline.

The Williams Companies is in the process of divesting pipeline and gas gathering assets in order to strengthen its balance sheet and liquidity. If Williams were to sell its interest in Georgia Strait, we believe BC Gas would be a likely buyer.

Inland Pacific Connector: In order to increase both the absolute supply of natural gas and increase the diversity of natural gas supply to the lower mainland service area, BC Gas successfully completed construction of the 303-kilometre Southern Crossing pipeline in November 2001. This $396 million project delivers Alberta gas from an interconnect with the TransCanada PipeLine system at Yahk, B.C., across the interior to Oliver, B.C.

The second phase of BC Gas Utility's gas supply plan is the $495 million Inland Pacific Connector. This 246-kilometre project would extend from the terminus of Southern Crossing to the market hub at Sumas. BC Gas Utility is currently working to secure firm transportation service contracts from third-party shippers. The pipeline has a proposed in-service date of late 2005 or 2006.

***Chart 6:** Inland Pacific Interconnector Pipeline Project*

Source: BC Gas

3. Oil Sands Pipelines

The Corridor Pipeline is currently under construction and will transport diluted bitumen from the Muskeg River Mine (Albian Oil Sands – 60% Shell Canada, 20% Western Canadian Oil Sands and 20% Chevron Canada) to the Shell Canada Scotford Upgrader, located near Fort Saskatchewan. The Corridor Pipeline is a diluent/bitumen system, with an initial capacity of 215,000 bbls/d that will transport diluted bitumen to the upgrader and 65,000 bbls/d of diluent back to the Muskeg River mine. Shell Canada and its partners (Western Oil Sands and Chevron Canada) in the Albian Sands project have entered into long-term take-or-pay agreements to transport a total of 200,000 bbls/d of bitumen, 60,000 bbls/d of diluent and 80,000 bbls/d of synthetic crude oil. The Corridor Pipeline can be expanded by a further 75,000 bbls/d, to 230,000–240,000 bbls/d, by adding intermediate pumping stations.

The Albian Sands partners have filed for regulatory approval to proceed with the next phase of their oil sands development, the Jackpine Mine. The Jackpine project is expected to produce 300,000 bbls/d of bitumen post-2010. The partners believe that the size and ultimate success of the Jackpine project will likely require additional utility infrastructure, including a large diameter pipeline to be brought on line between 2008 and 2012.

The Bison Pipeline is a proposed $800 million, 516-kilometre pipeline that would transport bitumen from TrueNorth Energy's Fort Hills oil sands production area (and possibly to Petro-Canada's Meadow Creek site) to Edmonton. An initial capacity of 100,000 bbls/d has been proposed, with an ultimate design capacity of 450,000 bbls/d (for a total capital cost of $1 billion) also under consideration. BC Gas is currently undertaking joint engineering and technical studies with TrueNorth Energy and Petro-Canada. Subject to the execution of definitive commercial agreements and the timely receipt of the regulatory approvals, construction of the pipeline is scheduled to begin in the winter of 2003–2004. The pipeline would be completed in the winter of 2004–2005 and commercial operations would start in Q2/05.

4. Pursuing Multi-Utility Operations

BC Gas will likely leverage its core competency, serving the natural gas distribution market, by expanding the portfolio of services offered to include meter reading, water services and possibly electric distribution. The latter is subject to the development of a satisfactory provincial energy policy.

British Columbia Energy Review

The government of British Columbia established the Energy Policy Task in September 2001 to develop an energy policy framework for British Columbia. The task force prepared an interim report (November 2001) and a final report was submitted to the government in March 2002. The government is currently reviewing the final report and has not yet released the report to the public. Key highlights from the interim report that are relevant to BC Gas include:

- **Market Based Rates:** The report identifies and highlights the disconnect between wholesale electric power market rates and electricity prices charged to customers. The government's present policy on electricity rates is based on historic embedded costs. Electricity rates do not necessarily reflect the incremental cost of each additional unit of supply. The report indicates that electricity rates will likely increase to reflect market prices in the future. The key issue is the transition from cost-based to market-based rates, effecting change without reducing or muting the required price signals to generate new sources of supply and encourage energy efficiency.
- **Unbundling BC Hydro:** The Task Force recommends that BC Hydro be restructured into three separate, distinct and independent entities: generation, transmission and distribution. The Task Force has not determined whether or not any of the entities should be, or will be, sold to the public market. The Task Force solicited views on the financing, structure and ownership of the transmission system and believes that in the interim, distribu-

tion should be a separate entity of the Crown, operating on commercial principles. The Task Force has not yet definitively determined whether the distribution business should be split into multiple operating companies. The Task Force has also not determined the appropriate level of regulatory oversight.

We believe BC Gas is likely a potential acquiror of some or all of the electric power distribution assets of BC Hydro, if it becomes available for sale.

E. Earnings Estimates

Our fiscal 2002 to 2004 earnings per share (diluted) estimates for BC Gas of $2.35, $2.60 and $2.74, respectively, reflect the following assumptions:

1. Estimated earnings by segment, as presented below in Table 1.

Table 1: *Earnings by Segment—2001–2004E*

	1998	1999	2000	2001	2002E	2003E	2004E
B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.02	$2.04	$2.06
Trans Mountain Pipe Line	$0.60	$0.51	$0.56	$0.71	$0.56	$0.95	$1.03
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.21)	($0.37)	($0.33)
Total Earnings Per Share	$1.85	$1.94	$2.06	$2.21	$2.37	$2.62	$2.76
Earnings Per Share (Diluted)	$1.83	$1.92	$2.04	$2.19	$2.35	$2.60	$2.74

Source: BMO Nesbitt Burns

2. Rate base, deemed equity and return on equity assumptions for BC Gas Utility, as outlined below in Table 2.

Table 2: *BC Gas Utility Rate Base and ROE Assumptions*

	1998	1999	2000	2001	2002E	2003E	2004E
BC Gas Utility:							
Average Utility Rate Base ($mm)	1,557.3	1,631.4	1,675.4	2,109.5	2,168.5	2,218.7	2,267.1
Growth Rate	2.8%	4.8%	2.7%	25.9%	2.8%	2.3%	2.2%
2001–2004E CAGR							2.4%
Allowed Return on Equity	10.00%	9.25%	9.50%	9.25%	9.25%	9.25%	9.25%
Deemed Equity	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%

Source: BMO Nesbitt Burns

BC Gas Utility filed its 2003 Revenue Requirement application with the BCUC in June 2002. No contribution from the 2003 Revenue Requirement application is assumed. Our estimates are based on the PBR framework currently in place. BC Gas Utility is regulated by the British Columbia Utilities Commission (BCUC), which approves rates for service and issues certificates of public convenience and necessity for the construction of facilities. Since 1996, incentive-based regulation has figured predominantly in BC Gas Utility's rate setting process. A negotiated settlement with stakeholders was reached in June 1997 for 1998–2000 and a one-year extension was negotiated for fiscal 2001. The key characteristics of this first, multi-year performance-based plan included:

- Assumed real productivity gains in operating and maintenance costs of 2% in each of 1998 and 1999, 3% in 2000 and 1% in 2001. Restructuring costs of up to $3 million associated with the achievement of these productivity targets were deferred and recovered in customer rates.
- New incentives for demand-side management activities and capital expenditures efficiencies were established. To the extent that the unit cost of certain programs exceeded targets and to the extent that the unit cost of capital expenditures was lower than allowed, BC Gas Utilities had the opportunity to earn a higher return on equity.
- An earnings sharing mechanism—variances in the achieved return on equity versus the allowed ROE set by the BCUC in each year were shared equally with customers.
- The ratio of capitalized overhead was reduced from 22.5% in 1997 to 20% in 1998 and 1999, and to 16% in 2000 and 2001.
- Allowed equity remained at 33% of capitalization.
- Through an annual review process, rates for each following year were adjusted to reflect projected changes in factors such as customer growth, industrial revenues, cost of natural gas, interest rates and taxes.
- The Gas Supply Mitigation Incentive Plan provides an incentive for the company to reduce gas supply costs to customers.
- The BCUC noted in December 2000 that BC Gas Utility could apply for regulatory relief should industrial margins fall significantly below forecast levels.

Two mechanisms are used to mitigate unanticipated changes in sales volumes related primarily to weather and ensure that the commodity costs of natural gas is a flow-through item to customers:

- *Gas Cost Reconciliation Account:* Gas costs are recovered via the use of a deferral account that captures the variance (positive or negative) from forecast natural gas prices. Deferral account balances at the end of the year are either refunded to or recovered from customers via an application to the BCUC.
- *Revenue Stabilization Adjustment Mechanism:* Revenues from the residential and commercial customer classes are stabilized by the use of a deferral account that captures the variance between actual customer throughput per annum and forecast throughput.

The BCUC's Return on Equity (ROE) formula is set on a sliding scale, based on long-term Government of Canada bond yields. At a forecast bond yield of 6.0%, the ROE will be 9.5%. When the forecast bond yield is above 6.0%, the ROE will increase from 9.5% by 80% of the difference between the forecast bond yield and 6.0%. When the forecast bond yield is less then 6.0%, the ROE will decrease from 9.5% by 100% of the difference between the forecast bond yield and 6.0%. The ROE formula is rounded to the nearest 0.01%. The ROE reflected in rates for 2001 and 2002 is 9.25%.

3. Centra Gas BC filed its 2003 Revenue Requirement application with the BCUC in Q3/02. No contribution from the 2003 Revenue Requirement application for Centra Gas BC is assumed. Our estimates are based on the regulatory framework currently in place. The operation of Centra Gas BC is presently governed by the Province of British Columbia; however, the regulatory regime is in transition, moving from the province to the BCUC. Presently, by way of a special direction issued by the provincial government to the BCUC in 1995, the cost of natural gas service to the distribution customers of Centra Gas BC is based upon competitive market pricing for the period of 1996 to 2002. Commencing in 2003, Centra Gas BC's distribution rates will be fixed by the BCUC in accordance with the regulatory principles applied by the Commission to other natural gas utilities in the province.

   Westcoast Energy (now Duke Energy) and the provincial government entered into the Vancouver Island Natural Gas Pipeline Agreement (VINGPA) in 1996 to restructure the financial arrangements for Centra Gas BC's distribution and transmission network. The agreement has the following key provisions:

   - The province makes quarterly payments through 2011 related to natural gas production royalties associated with deemed volumes of natural gas transported through the Vancouver Island pipeline.
   - Westcoast has agreed to provide future financial support of up to $120 million over 1996–2011 and an initial payment of $17.5 million in 1995 to finance revenue deficiencies incurred by Centra Gas BC (BC Gas Utility assumed all of Westcoast's rights and obligations under the terms of the purchase agreement).
   - The financial support provided is recorded in a deferral account and is recoverable through future customer rates.

   VINGA provides for deemed equity of 35% and a return on equity of 362.5 basis points over the forecast Government of Canada long-term bond rate. The allowed return is then reduced by $1.9 million per annum through 2011. Commencing in 2003, common equity and the return on common equity will be set by the BCUC. The BCUC is also in the process of establishing long-term cost allocation principles, to be applied when determining Centra Gas BC's future distribution rates. A rate design application by Centra BC was filed with the BCUC in Spring 2002.

   The acquisition was effective January 1, 2002, and the expected contribution from Centra Gas British Columbia is set out in Table 3.

***Table 3:** Expected Contribution—Centra Gas British Columbia*

FYE: December 31 ($ millions)	2002E	2003E	2004E
Net Plant in Service, Jan 1	455.0	455.0	459.5
Plus: Plant Additions (net)	15.0	20.0	20.0
Less: Annual Depreciation	15.0	15.5	16.0
Net Plant in Service, December 31	455.0	459.5	463.5
Average Plant in Service	455.0	459.5	463.5
Plus: Working Capital Allowance			
Less Deferred Income Taxes			
Total Rate Base	**455.0**	**459.5**	**463.5**
Deemed Common Equity Ratio	35%	35%	35%
Deemed Common Equity ($)	159.3	160.8	162.2
ROR Authorized	9.40%	9.40%	9.40%
Earnings from Rate Base	**16.5**	**16.6**	**16.8**
Plus: Earnings from P.S.	5.1	4.6	4.1
Less: ROE Reduction	1.9	1.9	1.9
Less: Amortization of PPD attributable to PP&E	0.5	0.5	0.5
Less: Annual Inc. in PV of Def. Pymt Amount	1.8	1.8	1.8
Contribution from Centra Gas British Columbia	**17.4**	**17.1**	**16.7**

Source: BMO Nesbitt Burns

4. Rate base, deemed equity and return on equity for Trans Mountain Pipeline are outlined below in Table 4.

***Table 4:** Trans Mountain Pipeline Rate Base and ROE Assumptions*

	1998	1999	2000	2001	2002E	2003E	2004E
Average Utility Rate Base ($mm)	255.1	257.4	258.4	262.3	268.9	275.2	281.2
Growth Rate	2.0%	0.9%	0.4%	1.5%	2.5%	2.3%	2.2%
2001–2004E CAGR							2.3%
Allowed Return on Equity	10.21%	9.58%	9.90%	9.61%	9.53%	9.53%	9.53%
Deemed Equity	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%

Source: BMO Nesbitt Burns

The Canadian mainline is regulated by the National Energy Board and the aviation pipeline is under the jurisdiction of the BCUC. The toll charged for the portion of the pipeline system located in the United States is subject to regulation by the Federal Energy Regulatory Commission on a complaints basis only (no complaints have been filed since the pipeline was placed in commercial service).

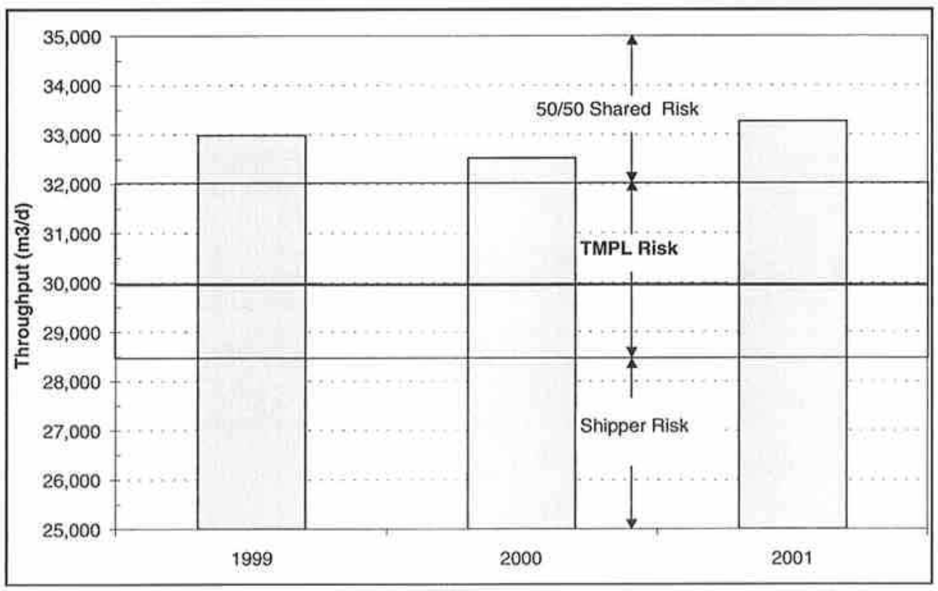
The Canadian portion of the Trans Mountain mainline is subject to incentive regulation; the initial agreement was in effect from 1996 to 2000. Under the auspices of this Performance Based Ratemaking agreement, the company completed an organizational restructuring, reducing staff levels by 25% and relocating the company's head office to Calgary, Alberta from Vancouver, British Columbia.

The National Energy Board approved a second incentive toll settlement on March 22, 2001, effective January 1, 2001. The highlights of the agreement include:

- A five-year term from January 1, 2001 to December 31, 2005.

- Two incentive tolls are in place, which are designed to provide toll reductions for specified types of traffic on Trans Mountain's pipeline system. These tolls are intended to act as an economic incentive to encourage the transportation of certain products in volumes that would not otherwise occur, such as export volumes of oil over the Westridge dock and movements of alkalyte.
- Base tolls are calculated on an agreed throughput level of 30,000 m^3/d for each year of the settlement. Trans Mountain will accept 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, as illustrated below in Chart 7. If average throughput volume is greater than 35,000 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.

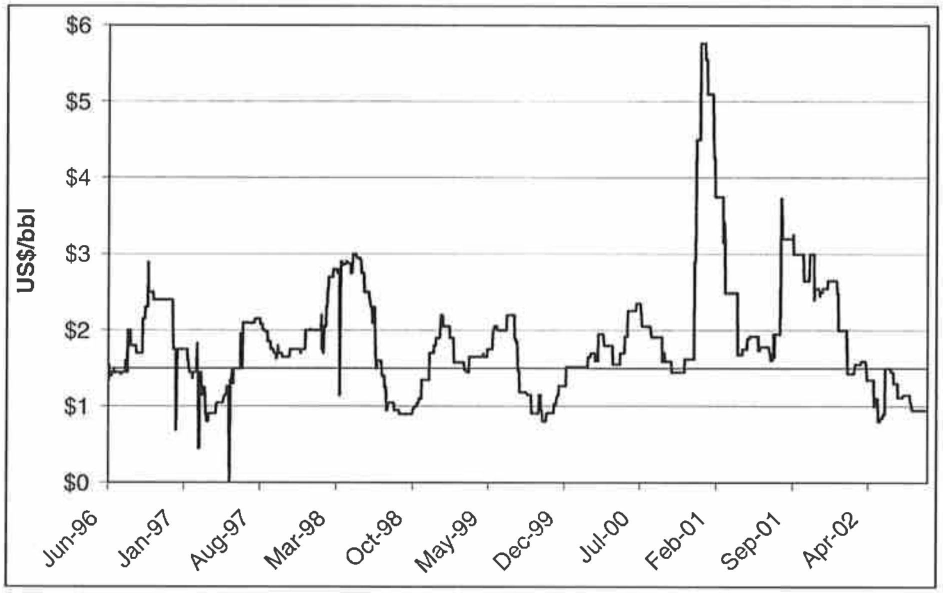
***Chart 7:** Incentive Regulation Risk/Benefit*



Source: BC Gas, BMO Nesbitt Burns

5. Estimated 2002–2004 volumes on the U.S. portion of the Trans Mountain Pipe Line are assumed to be 12,000 m^3/d. Fiscal 2001 volumes were 11,671 m^3/d. Throughput on the U.S. portion of the pipeline increased 12.6% during 2001 versus 2000, influenced by strong refined product margins in the Pacific Northwest and by favourable crude oil price differentials between WTI and alternative offshore supplies sources. We believe the WTI–Alaskan North Slope crude oil price differential will likely remain favourable (i.e., greater than US$1.50/bbl) over the forecast period.

Chart 8: *WTI – ANS Crude Oil Differential, June 1996 – Present*



Source: Bloomerg LLP, BMO Nesbitt Burns

6. The Corridor Pipeline will likely be placed in commercial service as scheduled in March 2003. We believe the Corridor will contribute approximately $0.20 per share (net of financing costs) per annum to BC Gas' consolidated earnings per share.

7. No contribution from the Bison Pipeline. Trans Mountain Pipe Line and the potential shippers are in the process of undertaking technical and engineering studies, and definitive shipping agreements have not yet been executed. A competing pipeline project sponsored by Enbridge Inc. is also in preliminary discussions with potential shippers.

8. We assume no contribution from the Inland Pacific Interconnector pipeline project. The estimated in-service date of 2005–2006 is beyond our current forecast period.

9. The international and water and energy services businesses are not material contributors over the forecast period. We assume that no capital is invested in international endeavours over the forecast period.

10. Marginal tax rate of 38% over the forecast period.

11. No common equity is issued during the forecast period. This assumption reflects estimated capital expenditures of $469.3 million in 2002, $337.5 million in 2003 and $165 million in 2004. A major acquisition is not assumed.

12. Dividends are expected to grow by 7.3% per annum over the forecast period. Dividends per share are expected to be $1.41, $1.53 and $1.61 in fiscal 2002 to fiscal 2004, respectively.

13. The dividend payout ratio is expected to remain relatively stable, decreasing slightly from 58.8% at the end of fiscal 2001 to 58.2% by fiscal 2004.

14. Debt (short term and long term) as a percentage of total capitalization is expected to average 70.2% over the forecast period. Common equity (excluding preferred shares and preferred securities) is expected to average 23.4% of total capitalization over the similar time frame. BC Gas is expected to issue $100 million of preferred securities to fund the equity investment in Corridor pipeline in 2003.

Table 5: *Debt As a Percentage of Capitalization*

	Year ending December 31			
	2001	**2002E**	**2003E**	**2004E**
Total Capitalization ($mm)				
Debt (S-T)	905.5	984.9	1,079.4	1,096.2
Debt (L-T)	1,894.6	1,968.3	1,967.0	1,965.7
Deferred Taxes	47.3	47.3	47.3	47.3
Minority Interest	0.0	0.0	0.0	0.0
Preferred Securities	125.0	125.0	225.0	225.0
Shareholders' Equity	727.6	949.1	996.5	1,046.7
	3,700.0	4,074.6	4,315.1	4,380.9
Total Capitalization (%)				
Debt (S-T)	24.5%	24.2%	25.0%	25.0%
Debt (L-T)	51.2%	48.3%	45.6%	44.9%
Deferred Taxes	1.3%	1.2%	1.1%	1.1%
Minority Interest	0.0%	0.0%	0.0%	0.0%
Preferred Securities	3.4%	3.1%	5.2%	5.1%
Shareholders' Equity	19.7%	23.3%	23.1%	23.9%
	100.0%	100.0%	100.0%	100.0%

Source: BMO Nesbitt Burns

F. Earnings Risks

Our estimates are subject to the following risks:

1. **Franchise Agreements:** In May 2001, the City of Kelowna announced a plan to lease BC Gas Utility's natural gas distribution assets within the Kelowna city limits for $50 million for a 35-year term. The amount of the lease is removed from the rate base of BC Gas Utility. A further six to eight municipalities have similar 'rights to purchase' clauses in their franchise agreements with BC Gas Utility, which places $100 million (or 6%) of the rate base 'at risk.' A 1% change in the rate base affects earnings per share by approximately $0.01.

2. **Sulphur Content on Trans Mountain Pipe Line:** Refined products shipped on Trans Mountain Pipe Line may have sulphur concentrations increased during transportation. Higher sulphur levels may adversely affect the shipper's ability to meet federally mandated reductions in the sulphur content of gasoline and diesel fuel by 2005 and 2006, respectively. Trans Mountain is working with shippers to implement measures that eliminate or otherwise mitigate the noted increases in sulphur concentration.

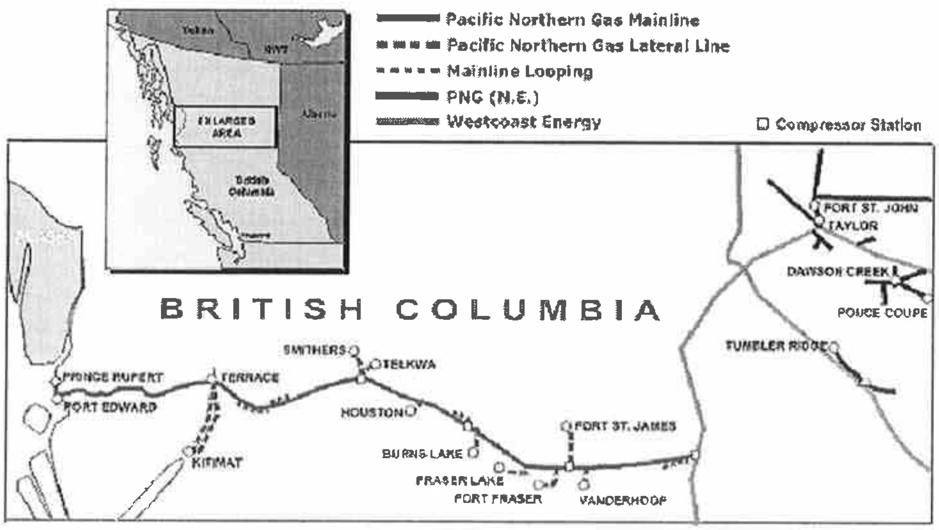
3. **Competition to Trans Mountain Pipe Line:** Trans Mountain Pipe Line is currently the only major pipeline system transporting crude oil volumes from Alberta to British Columbia and the Pacific Northwest. Enbridge is considering the construction of the $2.5–3.0 billion Gateway pipeline that would transport heavy and synthetic crude oil from the Fort

McMurray area to Prince Rupert or Kitimat, British Columbia, for transportation via tanker to Californian or Asian markets.

4. **Pacific Northern Gas:** We believe BC Gas could be 'encouraged' by the BCUC (or the provincial government) to roll the Pacific Northern Gas system into the rate base.

   Pacific Northern Gas delivers natural gas to customers in central western British Columbia. The company is highly dependent on its large industrial customers (Methanex, Skeena Cellulose, Eurocan Pulp & Paper, Alcan Smelters & Chemicals and BC Hydro) for the recovery and return of invested capital. In 2001, these five customers accounted for 69% of delivered natural gas, 25% of revenue and 56% of operating margin. Duke Energy owns 41% of the Class A non-voting shares and 100% of the Class B voting shares.

Chart 9: Pacific Northern Gas System Map



Source: Pacific Northern Gas

We believe BC Gas would likely agree to acquire PNG only if the BCUC had effectively resolved the pipeline's cost recovery issues, and even then, we believe BC Gas would only look favourably at a price less than book value per share, estimated to be $21.92 in fiscal 2003.

5. **Debt Covenants and Ratings**: BC Gas' forecast total (long-term and short-term) debt is expected to be $2.85 billion, $3.04 billion and $3.06 billion, respectively, in 2002–2004. As of June 30, 2002, BC Gas and its wholly owned subsidiaries had existing lines of credit totalling $1.75 billion, of which $645 million was unutilized. BC Gas' corporate debt and that of its wholly owned subsidiaries are currently rated above investment grade by three credit rating agencies (Table 6).

Table 6: Debt Ratings

	Moody's	Standard & Poor's	Dominion Bond Rating Service
BC Gas			
Outlook	Stable	Stable	Stable
Senior Unsecured Debt	A3	BBB	AL
Subordinated Debt	Baa1	BBB-	BBBHy
Preferred Stock	Not Rated	Not Rated	Not Rated
BC Gas Utility			
Outlook	Stable	Stable	Stable
Senior Secured Debt	A1	A-	A
Senior Unsecured Debt	A2	BBB+	A
Trans Mountain Pipe Line			
Outlook	Not Rated	Stable	Stable
Senior Unsecured Debt	Not Rated	BBB+	A (low)

Source: Bloomberg

Recent events in the United States have precipitated a reassessment of risk and the appropriateness of capital structure by the major credit rating agencies (Standard and Poor's, Moody's and Fitch) over the forecast period. We do not expect a material change in BCG's corporate credit ratings. We would make the general observation, however, that credit rating agencies have implemented new ratings standards and analytical approaches that reduce the tolerance for debt beyond targets or "agreed levels."

6. **Outcome of Regulatory Decisions:** The outcome of the revenue requirement applications before the BCUC for BC Gas Utility and Centra Gas BC is uncertain. Prospective regulatory risk is likely mitigated by the company's good relationship with the BCUC and the success (for both ratepayers and shareholders) of its first PBR settlement.

G. Investment Thesis

We believe the shares of BC Gas are likely to be attractive to investors for the following reasons:

1. Management is highly capable and well regarded;
2. Focus on value has been an effective discipline to date and is expected to be so in the future; and
3. Belief that the strategy of increasing the intensity of utility services will likely make the targeted EPS growth achievable.

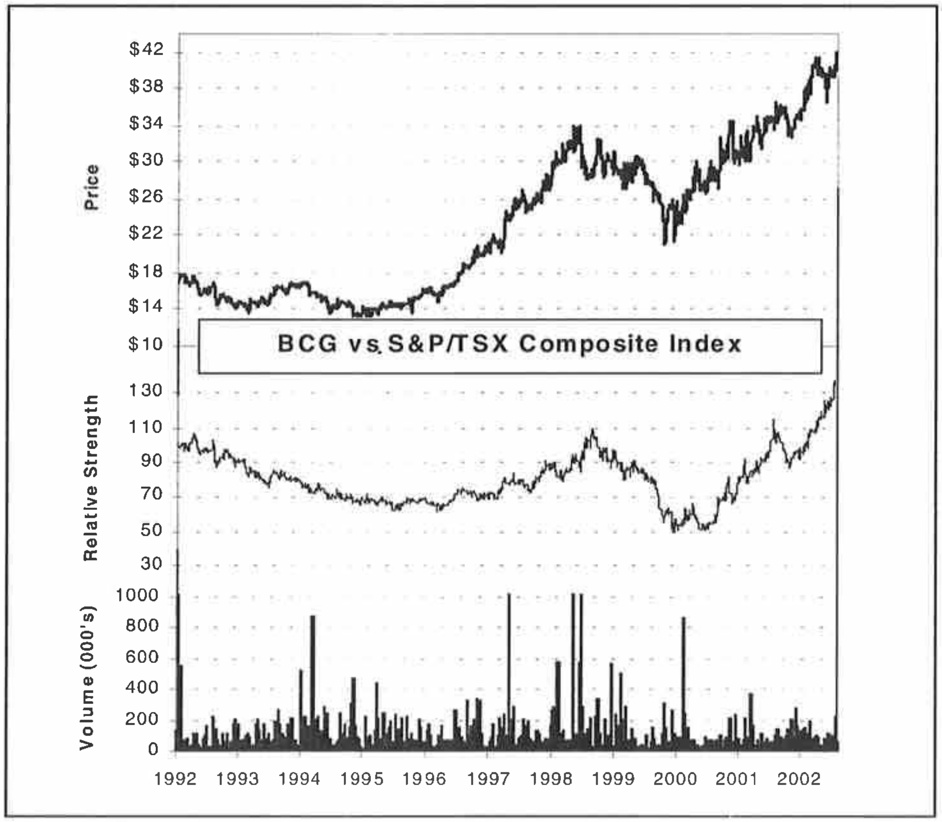
H. Valuation

At a price of $41.65, BCG's shares are trading at:

- 16.0 times 2003 estimated earnings per share (diluted) of $2.60;
- 1.8 times estimated 2003 book value per share of $22.95; and
- an average yield of 3.67%, assuming 2003 dividends per share of $1.53.

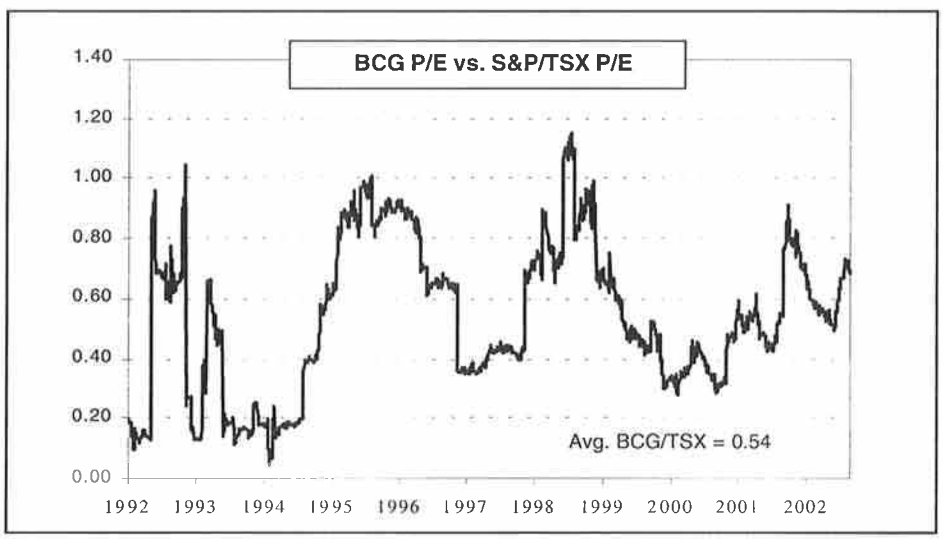
The shares of BC Gas appear to be reasonably valued, as illustrated by each of the following graphical measures of value: relative strength versus the S&P/TSX Composite Index (Chart 10), price-to-earnings versus the price-to-earnings multiple of the S&P/TSX Composite Index (Chart 11), yield versus the 10-year Government of Canada bond yield (Chart 12), and yield versus the yield of the S&P/TSX Composite Index (Chart 13).

Chart 10: *BC Gas Trading Price, Volume and Relative Strength versus the S&P/TSX Composite Index*



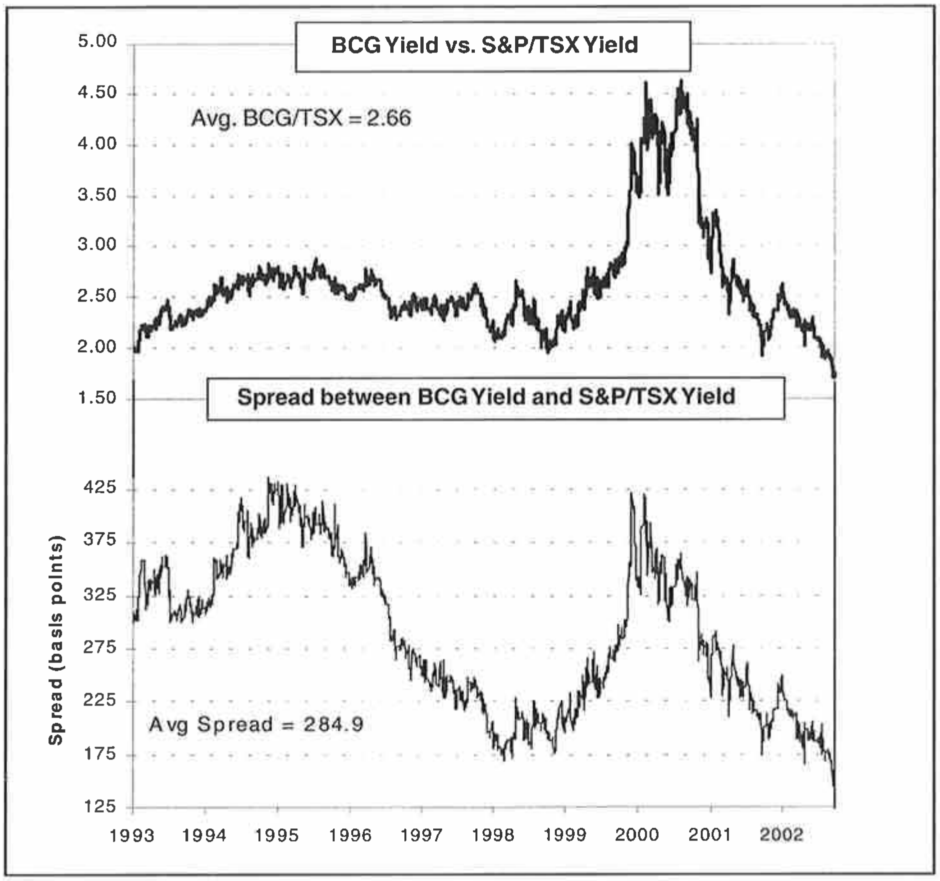
Source: BMO Nesbitt Burns

Chart 11: *BC Gas Price-to-Earnings Multiple versus the Price-to-Earnings Multiple of the S&P/TSX Composite Index*



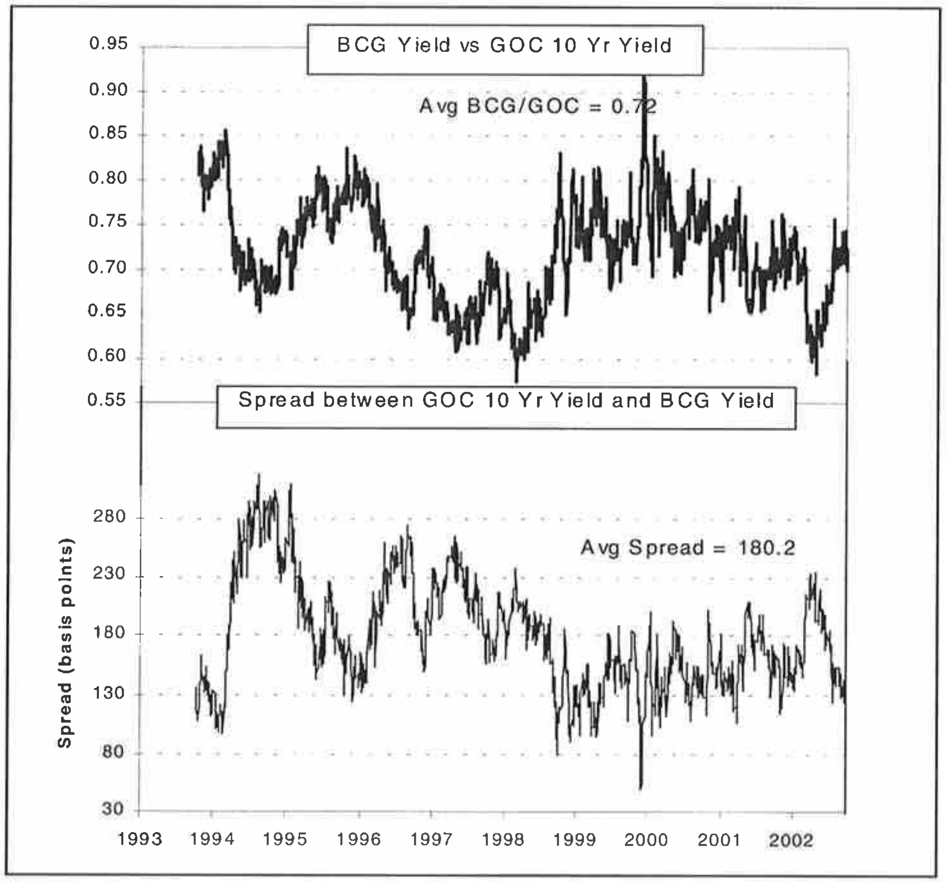
Source: BMO Nesbitt Burns

Chart 12: *BC Gas Yield versus the Yield of the S&P/TSX Composite Index*



Source: BMO Nesbitt Burns

Chart 13: *BC Gas Yield versus the 10-year Government of Canada Bond Yield*



Source: BMO Nesbitt Burns

Our target price of $41.25 reflects the following weighted average valuation approach:

- 14.0 times price to earnings ratio, assuming mid-year estimated 2003 and 2004 EPS of $2.60 and $2.74, respectively (12.5%);
- 1.75 times book value, assuming estimated mid-year 2003 and 2004 book value per share of $22.95 and $24.11, respectively (12.5%); and
- 3.75% target trading yield, assuming mid-year 2003 and 2004 estimated dividends per share of $1.53 and $1.61, respectively (75%).

Recommendation

We believe the shares are reasonably valued at present levels. We rate BC Gas Market Perform.

Appendix A—Consolidated Summary Sheet

10/2/02

Current Price:	$41.65
12-Month Target Price:	$41.25
Rate of Return:	2.42%

Recommendation: Market Perform

	Year Ended December 31						
	1998	1999	2000	2001	2002E	2003E	2004E
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$2.04	$2.19	$2.35	$2.60	$2.74
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.06	$2.21	$2.37	$2.62	$2.76
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.02	$2.04	$2.06
Trans Mountain Pipe Line	$0.60	$0.51	$0.56	$0.71	$0.56	$0.95	$1.03
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.21)	($0.37)	($0.33)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.41	$1.53	$1.61
Payout Ratio	58.9%	60.1%	59.5%	58.8%	59.5%	58.4%	58.2%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.4	43.4	43.4
Net Book Value	$15.67	$16.61	$18.10	$19.01	$21.86	$22.95	$24.11
Market Valuation							
Price: High	$33.95	$31.00	$33.45	$36.40	-	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	-	-	-
Price: Current	-	-	-	-	$41.65	-	-
P/E Ratio: High	18.4	16.0	16.24	16.47	-	-	-
P/E Ratio: Low	14.6	10.8	10.44	13.46	-	-	-
P/E Ratio: Current	-	-	-	-	17.6	15.9	15.1
Price/Book Value: High	2.24	1.92	1.85	1.91	-	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.56	-	-	-
Price/Book Value: Current	-	-	-	-	1.91	1.81	1.73
Yield: High Price	3.21%	3.76%	3.66%	3.57%	-	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	-	-	-
Yield: Current Price	-	-	-	-	3.39%	3.67%	3.85%
Balance Sheet ($mm)							
Debt (S-T)	448.7	431.3	367.6	905.5	984.9	1,079.4	1,096.2
Debt (L-T)	1,101.5	1,078.9	1,538.6	1,894.6	1,968.3	1,967.0	1,965.7
Deferred Taxes	36.3	35.0	47.3	47.3	47.3	47.3	47.3
Minority Interest	150.0	75.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	125.0	125.0	125.0	225.0	225.0
Shareholders' Equity	608.6	645.1	703.6	727.6	949.1	996.5	1,046.7
	2,345.1	2,265.3	2,782.1	3,700.0	4,074.6	4,315.1	4,380.9
Balance Sheet (%)							
Debt (S-T)	19.1%	19.0%	13.2%	24.5%	24.2%	25.0%	25.0%
Debt (L-T)	47.0%	47.6%	55.3%	51.2%	48.3%	45.6%	44.9%
Deferred Taxes	1.5%	1.5%	1.7%	1.3%	1.2%	1.1%	1.1%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.5%	3.4%	3.1%	5.2%	5.1%
Shareholders' Equity	26.0%	28.5%	25.3%	19.7%	23.3%	23.1%	23.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)							
Net Profit After-Tax	81.2	82.8	82.8	84.7	102.7	113.8	119.9
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	78.8	84.7	102.7	113.8	119.9
Cash Flow from Operations ($mm)	80.1	117.0	175.4	59.9	197.4	210.8	219.1
Key Statistics							
B.C. Gas Utility							
Average Utility Rate Base ($mm)	1,557.3	1,631.4	1,675.4	2,109.5	2,168.5	2,218.7	2,267.1
Growth Rate	2.8%	4.8%	2.7%	25.9%	2.8%	2.3%	2.2%
2001-2004 CAGR							2.4%
Allowed Return on Equity	10.00%	9.25%	9.50%	9.25%	9.25%	9.25%	9.25%
Deemed Equity	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%
Trans Mountain Pipe Line							
Average Utility Rate Base ($mm)	255.1	257.4	258.4	262.3	268.9	275.2	281.2
Growth Rate	2.0%	0.9%	0.4%	1.5%	2.5%	2.3%	2.2%
2001-2004 CAGR							2.3%
Allowed Return on Equity	10.21%	9.58%	9.90%	9.61%	9.53%	9.53%	9.53%
Deemed Equity	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%
Sensitivity							
100 bp Change ROE							
BCGU: Change Total Income	$5.1	$5.4	$5.5	$5.7	$5.9	$6.0	$6.2
BCGU: Change Per Share	$0.13	$0.14	$0.14	$0.15	$0.13	$0.14	$0.14
TMPL: Change Total Income	$1.15	$1.16	$1.16	$1.18	$1.21	$1.24	$1.27
TMPL: Change Per Share	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
100 bp Change In Deemed Equity							
BCGU: Change Total Income	$1.6	$1.6	$1.6	$1.7	$1.7	$1.8	$1.8
BCGU: Change Per Share	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04
TMPL: Change Total Income	$0.26	$0.25	$0.26	$0.25	$0.26	$0.26	$0.27
TMPL: Change Per Share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
1.00% Change in Average Rate Base							
BCGU: Change Total Income	$0.5	$0.5	$0.5	$0.5	$0.5	$0.6	$0.6
BCGU: Change Per Share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
TMPL: Change Total Income	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
TMPL: Change Per Share	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

Source: BMO Nesbitt Burns

Appendix B—Cash Flow Statement

($ millions)	1998	1999	2000	2001	2002E	2003E	2004E
CASH FROM OPERATIONS							
Income before Provisions	71.1	74.1	108.8	91.1	102.7	113.8	119.9
Depreciation	84.6	82.6	86.2	95.1	94.7	97.0	99.2
Other Non-cash Operating Items	0.3	10.6	(127.6)	11.2	0.0	0.0	0.0
Decr/(Incr) in WC	(75.9)	(50.3)	108.0	(137.5)	0.0	0.0	0.0
Cash From Continuing Operations	80.1	117.0	175.4	59.9	197.4	210.8	219.1
INVESTMENT ACTIVITIES							
CAPITAL EXPENDITURES							
BC Gas Utility	106.7	130.1	483.4	100.6	129.4	130.0	130.0
Southern Crossing Pipeline	0.0	19.6	0.0	0.0	0.0	0.0	0.0
Trans Mountain Pipe Line	16.4	14.0	14.0	20.0	20.0	20.0	20.0
Petroleum & Natural Gas/Water	0.0	4.3	0.0	0.0	0.0	172.5	0.0
Other	2.4	(25.6)	128.4	0.0	319.9	15.0	15.0
	125.5	142.4	625.8	120.6	469.3	337.5	165.0
DIVIDENDS PAID							
Common Shares	42.0	44.6	46.9	56.2	61.2	66.4	69.7
Special Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	42.0	44.6	46.9	56.2	61.2	66.4	69.7
NET CASH FLOW	(87.3)	(70.0)	(497.3)	(116.9)	(333.1)	(193.1)	(15.6)
FINANCING ACTIVITIES							
Long-Term Debt	108.3	229.2	430.6	103.9	0.0	0.0	0.0
Reduction of Long-Term Debt	(96.9)	(55.1)	96.8	(508.8)	73.7	(1.3)	(1.3)
Common Shares Issued	0.5	0.3	1.0	4.2	180.0	0.0	0.0
Common Shares Redeemed	(28.5)	(0.6)	0.0	0.0	0.0	0.0	0.0
Preferred Securities Issued	0.0	0.0	125.0	0.0	0.0	100.0	0.0
Preferred Securities Redeemed	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contributed Surplus	(2.8)	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Shares Issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Shares Redeemed	0.0	(75.0)	(75.0)	0.0	0.0	0.0	0.0
(Incr)/Decr Cash	3.3	(11.4)	(16.4)	(20.3)	0.0	0.0	0.0
Other	0.6	0.0	(1.0)	0.0	0.0	0.0	0.0
Incr/(Decr) Short-Term Debt	102.8	(17.4)	(63.7)	537.9	79.4	94.4	16.9
	87.3	70.0	497.3	116.9	333.1	193.1	15.6
BALANCE SHORT-TERM DEBT							
Opening Balance	345.9	448.7	431.3	367.6	905.5	984.9	1,079.4
Decr/(Incr) Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plus Inc/(Decr) Short-Term Debt	102.8	(17.4)	(63.7)	537.9	79.4	94.4	16.9
Closing Balance	448.7	431.3	367.6	905.5	984.9	1,079.4	1,096.2

Source: BMO Nesbitt Burns

Appendix C—Canadian Comparables

Canadian Pipelines

Company	TSX Ticker	Price (C$) 2-Oct-2002	Shares O/S (mm)	Market Cap ($mm)	EPS 1999	EPS 2000	EPS 2001	EPS 2002E	EPS 2003E	P/E 2000	P/E 2001	P/E 2002E	P/E 2003E	Dividend Rate	Dividend Yield	12-Month Target	Total Return	Rating
Enbridge	ENB	$45.95	159.4	7,323	$1.71	$1.97	$2.45	$2.62	$2.93	23.3	18.8	17.5	15.7	$1.52	3.3%	$49.25	10.5%	Outperform
Fort Chicago	FCE.UN	$8.25	73.3	605	$0.41	$0.40	$0.20	$0.39	$0.42	20.6	40.9	21.3	19.6	$0.62	7.5%	$8.70	13.0%	Market Perform
TransCanada PipeLines	TRP	$22.39	477.3	10,686	$1.10	$1.21	$1.41	$1.55	$1.60	18.5	15.9	14.4	14.0	$0.98	4.4%	$25.00	16.0%	Outperform
Group Average										20.8	25.2	17.8	16.4		5.1%			

Canadian Generation & Electric Services

Company	TSX Ticker	Price (C$) 2-Oct-2002	Shares O/S (mm)	Market Cap ($mm)	EPS 1999	EPS 2000	EPS 2001	EPS 2002E	EPS 2003E	P/E 2000	P/E 2001	P/E 2002E	P/E 2003E	Dividend Rate	Dividend Yield	12-Month Target	Total Return	Rating
ATCO [1]	ACO.X	$48.23	30.5	1,471	$3.36	$3.79	$3.91	$4.14	$4.51	12.7	12.3	11.6	10.7	$1.16	2.4%	N/A	N/A	NR
Boralex [1]	BLX.A	$3.81	24.4	93	$0.25	$0.32	$0.31	$0.20	$0.30	11.9	12.3	19.1	12.7	$0.00	nm	N/A	N/A	NR
Cdn Hydro Developers	KHD	$2.10	52.5	110	$0.05	$0.10	$0.09	$0.06	$0.08	20.8	23.5	38.1	26.5	$0.00	nm	$3.00	42.9%	Outperform
Canadian Utilities	CU	$54.00	63.3	3,419	$3.16	$3.59	$3.74	$3.85	$3.92	15.1	14.4	14.0	13.8	$1.96	3.6%	$55.50	6.4%	Market Perform
Caribbean Utilities [2]	CUP.U	$11.90	24.0	285	$0.63	$0.73	$0.78	$0.80	$0.91	16.4	15.3	14.9	13.0	$0.60	5.0%	$13.80	21.0%	Outperform
Emera Inc.	EMA	$17.60	98.1	1,727	$1.16	$1.20	$1.20	$1.06	$1.32	14.7	14.7	16.7	13.3	$0.86	4.9%	$17.00	1.5%	Underperform
TransAlta	TA	$18.70	168.4	3,148	$1.10	$0.92	$1.17	$1.25	$1.45	20.3	16.0	15.0	12.9	$1.00	5.3%	$19.00	7.0%	Underperform
Group Average										16.0	15.5	18.5	14.7		4.3%			

Canadian Gas & Electric Distribution

Company	TSX Ticker	Price (C$) 2-Oct-2002	Shares O/S (mm)	Market Cap ($mm)	EPS 1999	EPS 2000	EPS 2001	EPS 2002E	EPS 2003E	P/E 2000	P/E 2001	P/E 2002E	P/E 2003E	Dividend Rate	Dividend Yield	12-Month Target	Total Return	Rating
Alta Gas Services [1]	ALA	$9.00	41.2	371	$0.34	$0.45	$0.49	$0.74	$0.90	20.0	18.4	12.2	10.0	$0.28	3.1%	N/A	N/A	NR
BC Gas	BCG	$41.65	43.4	1,808	$1.92	$2.04	$2.19	$2.35	$2.60	20.4	19.0	17.7	16.0	$1.41	3.4%	$41.25	2.4%	Market Perform
Fortis	FTS	$50.17	16.0	802	$2.24	$2.36	$3.35	$3.60	$3.85	21.3	15.0	13.9	13.0	$1.94	3.9%	$50.65	4.8%	Outperform
Gaz Metropolitain, L.P.	GZM.UN	$18.19	110.5	2,009	$1.25	$1.30	$1.28	$1.37	$1.39	14.0	14.2	13.3	13.1	$1.28	7.0%	$18.80	10.4%	Market Perform
Pacific Northern Gas [3]	PNG.A	$14.25	3.5	51	$1.92	$1.83	$1.52	$1.76	$1.74	7.8	9.4	8.1	8.2	$0.00	nm	$16.90	18.6%	Outperform (Speculative)
Group Average										16.7	15.2	13.0	12.1		4.3%			

Notes:
[1] *Estimates from First Call.*
[2] *All figures in US$.*
[3] *Non-voting shares.*
Source: BMO Nesbitt Burns

Appendix D—U.S. Comparables

U.S. Pipelines

Company	NYSE Ticker	Price (US$) 2-Oct-2002	Shares O/S (mm) [1]	Market Cap ($mm)	Earnings per Share [1,2] 2000	2001	2002E	2003E	P/E Ratios 2000	2001	2002E	2003E	Dividend Rate	Yield	Div. Payout Ratio [3]
CMS Energy Corp.	CMS	$7.91	138.9	1,099	$2.21	$1.41	$1.50	$1.52	3.6	5.6	5.3	5.2	$0.72	9.1%	48.0%
DTE Energy Co	DTE	$42.30	162.0	6,853	$3.32	$3.48	$3.82	$4.05	12.7	12.2	11.1	10.4	$2.06	4.9%	53.9%
Duke Energy Co.	DUK	$19.76	834.2	16,484	$2.10	$2.64	$1.96	$1.92	9.4	7.5	10.1	10.3	$1.10	5.6%	56.1%
Dynegy Inc.	DYN	$1.08	417.0	450	$1.43	$2.10	$0.40	$0.42	0.8	0.5	2.7	2.6	$0.00	nm	nm
El Paso Corp	EP	$8.36	532.0	4,448	$2.70	$3.31	$1.98	$1.78	3.1	2.5	4.2	4.7	$0.87	10.4%	43.9%
Equitable Resources	EQT	$35.32	65.0	2,296	$1.72	$2.12	$2.40	$2.74	20.5	16.7	14.7	12.9	$0.68	1.9%	28.3%
Kinder Morgan Inc.	KMI	$35.01	123.2	4,314	$1.29	$1.96	$2.64	$3.17	27.1	17.9	13.3	11.0	$0.40	1.1%	15.2%
Questar Corp.	STR	$23.81	82.4	1,962	$1.74	$1.94	$1.76	$2.06	13.7	12.3	13.5	11.6	$0.72	3.0%	40.9%
Williams Companies	WMB	$2.22	520.4	1,155	$2.33	$2.35	$0.33	$0.49	1.0	0.9	6.7	4.5	$0.04	1.8%	12.1%
Group Average									**10.2**	**8.4**	**9.1**	**8.1**		**4.7%**	**37.3%**

U.S. Generation & Electric Power

Company	NYSE Ticker	Price (US$) 2-Oct-2002	Shares O/S (mm) [1]	Market Cap ($mm)	Earnings per Share [1,2] 2000	2001	2002E	2003E	P/E Ratios 2000	2001	2002E	2003E	Dividend Rate	Yield	Div. Payout Ratio [3]
AES Corp, The	AES	$2.54	535.0	1,359	$1.69	$1.35	$0.98	$1.07	1.5	1.9	2.6	2.4	$0.00	nm	nm
American Electric Power Co. Inc.	AEP	$29.68	338.8	10,056	$2.70	$3.38	$3.10	$3.27	11.0	8.8	9.6	9.1	$2.40	8.1%	77.4%
Calpine	CPN	$2.51	365.6	918	$1.11	$1.95	$0.85	$0.92	2.3	1.3	3.0	2.7	$0.00	nm	nm
Entergy Corp.	ETR	$43.08	228.8	9,859	$3.12	$3.23	$3.54	$3.85	13.8	13.3	12.2	11.2	$1.32	3.1%	37.3%
Exelon Corp.	EXC	$49.29	324.0	15,970	$3.86	$4.49	$4.66	$4.89	12.8	11.0	10.6	10.1	$1.76	3.6%	37.8%
FPL Group	FPL	$55.65	171.1	9,522	$4.38	$4.69	$4.73	$4.92	12.7	11.9	11.8	11.3	$2.32	4.2%	49.0%
Mirant Corp.	MIR	$2.18	415.0	905	$0.98	$1.95	$1.42	$1.20	2.2	1.1	1.5	1.8	$0.00	nm	nm
CenterPoint Energy	CNP	$8.97	298.5	2,677	$2.94	$2.07	$2.50	$2.60	3.1	4.3	3.6	3.5	$0.64	7.1%	25.6%
Southern Co.	SO	$29.14	712.2	20,752	$1.52	$1.62	$1.74	$1.83	19.2	18.0	16.7	15.9	$1.37	4.7%	78.7%
TXU Corp.	TXU	$38.41	269.0	10,332	$3.43	$3.78	$4.36	$4.75	11.2	10.2	8.8	8.1	$2.40	6.2%	55.0%
Group Average									**9.0**	**8.2**	**8.0**	**7.6**		**5.3%**	**51.6%**

U.S. Transmission & Distribution

Company	NYSE Ticker	Price (US$) 2-Oct-2002	Shares O/S (mm) [1]	Market Cap ($mm)	Earnings per Share [1,2] 2000	2001	2002E	2003E	P/E Ratios 2000	2001	2002E	2003E	Dividend Rate	Yield	Div. Payout Ratio [3]
Allegheny Energy Inc.	AYE	$10.38	125.9	1,307	$2.84	$3.74	$2.43	$2.51	3.7	2.8	4.3	4.1	$1.72	16.6%	70.8%
ALLETE - Minnesota Power Inc.	ALE	$21.91	81.7	1,790	$1.67	$1.87	$1.89	$2.19	13.1	11.7	11.6	10.0	$1.10	5.0%	58.2%
Alliant Energy	LNT	$19.65	90.6	1,779	$2.46	$2.42	$1.36	$2.16	8.0	8.1	14.4	9.1	$2.00	10.2%	147.1%
Aquila	ILA	$4.04	142.3	575	$2.21	$2.44	$0.96	$0.75	1.8	1.7	4.2	5.4	$0.70	17.3%	72.9%
CH Energy Group Inc.	CHG	$48.37	16.4	791	$3.09	$3.11	-	-	15.7	15.6	n/a	n/a	$2.16	4.5%	n/a
Consolidated Edison Co.	ED	$41.72	213.9	8,924	$3.23	$3.21	$3.15	$3.26	12.9	13.0	13.2	12.8	$2.22	5.3%	70.5%
DQE Inc	DQE	$15.68	57.4	900	$2.86	$0.98	$1.29	$1.32	5.5	16.0	12.2	11.9	$1.00	6.4%	77.5%
Edison International	EIX	$10.41	329.0	3,425	$1.63	$1.30	$1.70	$1.74	6.4	8.0	6.1	6.0	$0.00	nm	nm
Energy East Corp	EAS	$20.26	117.8	2,387	$2.06	$2.00	$1.62	$1.88	9.8	10.1	12.5	10.8	$0.96	4.7%	59.3%
NiSource Inc.	NI	$17.33	208.2	3,608	$1.09	$1.30	$1.91	$1.94	15.9	13.3	9.1	8.9	$1.16	6.7%	60.7%
Northeast Utilities	NU	$16.71	130.0	2,172	$1.45	$1.29	$1.32	$1.48	11.5	13.0	12.7	11.3	$0.55	3.3%	41.7%
NSTAR	NST	$41.00	53.3	2,187	$3.19	$3.22	$3.35	$3.58	12.9	12.7	12.2	11.5	$2.12	5.2%	63.3%
Pepco Holdings Inc.	POM	$20.05	107.1	2,147	$1.62	$1.83	$1.86	$1.99	12.4	11.0	10.8	10.1	$0.66	3.3%	35.6%
PG&E Corp.	PCG	$11.40	372.0	4,241	$2.54	$3.02	$2.12	$2.03	4.5	3.8	5.4	5.6	$0.00	nm	nm
PPL Corp	PPL	$32.95	147.1	4,849	$3.28	$4.24	$3.41	$3.64	10.0	7.8	9.7	9.1	$1.44	4.4%	42.2%
Public Service Enterprise Group	PEG	$31.05	206.9	6,425	$3.55	$3.67	$3.75	$3.99	8.7	8.5	8.3	7.8	$2.16	7.0%	57.6%
UIL Holdings Corp	UIL	$31.82	14.3	456	$4.20	$4.19	$3.28	$3.02	7.6	7.6	9.7	10.5	$2.88	9.1%	87.8%
WPS Resources Corp	WPS	$36.75	31.7	1,165	$2.53	$2.74	$2.51	$2.85	14.5	13.4	14.6	12.9	$2.14	5.8%	85.3%
Xcel Energy	XEL	$9.91	378.1	3,747	$2.12	$2.31	$1.54	$1.44	4.7	4.3	6.4	6.9	$0.75	7.6%	48.7%
Group Average									9.5	9.6	9.9	9.1		7.2%	67.4%

Gas & Electric Distribution

Company	NYSE Ticker	Price (US$) 2-Oct-2002	Shares O/S (mm) [1]	Market Cap ($mm)	Earnings per Share [1,2] 2000	2001	2002E	2003E	P/E Ratios 2000	2001	2002E	2003E	Dividend Rate	Yield	Div. Payout Ratio [3]
Ameren Corp	AEE	$42.29	144.4	6,107	$3.44	$3.46	$3.14	$3.28	12.3	12.2	13.5	12.9	$2.54	6.0%	80.9%
Cinergy Corp.	CIN	$33.71	169.8	5,724	$2.61	$2.75	$2.64	$2.83	12.9	12.3	12.8	11.9	$1.80	5.3%	68.2%
Constellation Energy Group	CEG	$25.37	164.0	4,161	$2.43	$2.60	$2.55	$2.75	10.4	9.8	9.9	9.2	$0.96	3.8%	37.6%
FirstEnergy Corp.	FE	$30.51	294.6	8,988	$2.69	$2.84	$2.96	$3.55	11.3	10.7	10.3	8.6	$1.50	4.9%	50.7%
NICOR Inc.	GAS	$28.95	44.3	1,282	$2.94	$3.01	$2.63	$2.92	9.8	9.6	11.0	9.9	$1.84	6.4%	70.0%
Puget Sound Energy	PSD	$20.60	87.6	1,806	$2.16	$1.31	$1.16	$1.81	9.5	15.7	17.8	11.4	$1.00	4.9%	86.2%
TECO Energy Inc.	TE	$16.32	144.7	2,362	$1.97	$2.24	$2.32	$1.75	8.3	7.3	7.0	9.3	$1.42	8.7%	61.2%
Wisconsin Energy Corp.	WEC	$24.76	116.4	2,882	$1.51	$2.04	$2.25	$2.39	16.4	12.1	11.0	10.4	$0.80	3.2%	35.6%
Group Average									11.4	11.2	11.7	10.5		5.4%	61.3%

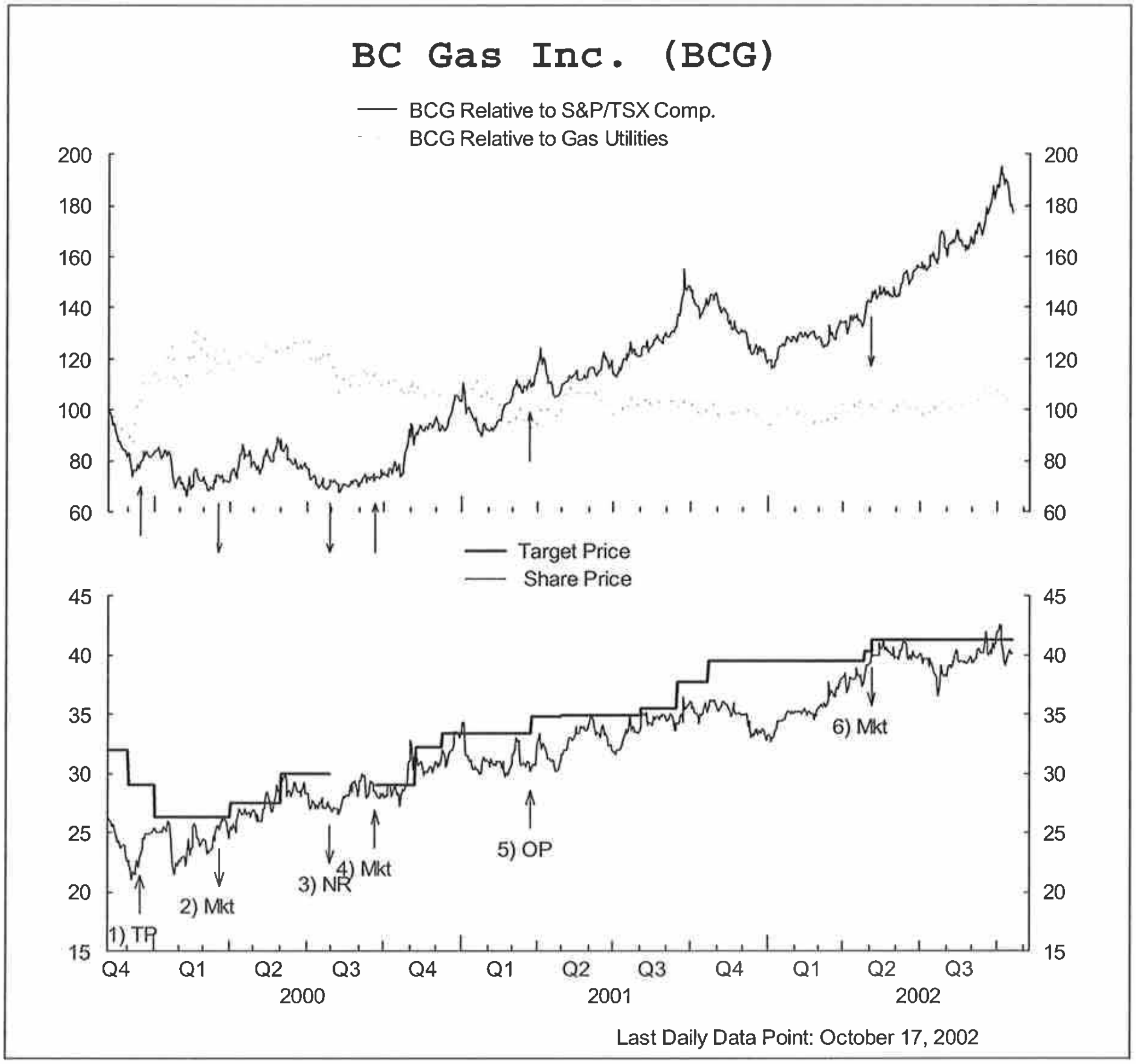
Notes:

nm = not meaningful, bold indicates reported number

[1] *Represents Weighted Ave Shares on a Diluted Basis*

[2] *Estimates from First Call.*

[3] *Div. Payout ratio based on next quarter annualized dividend and 2002E EPS.*



BCG - Rating as of 8-Nov-99 = OP

	Date	Rating Change	Share Price
1	15-Dec-99	OP to TP	$23.00
2	20-Mar-00	TP to Mkt	$25.25
3	28-Jul-00	Mkt to NR	$27.20
4	20-Sep-00	NR to Mkt	$28.50
5	22-Mar-01	Mkt to OP	$30.15
6	2-May-02	OP to Mkt	$40.50

Company Disclosure(s):

BC Gas Inc. (BCG-TSX)	2

Disclosure Key:

1 - BMO NBI has provided advice for a fee with respect to this issuer within the past 24 months.
2 - BMO NBI has undertaken an underwriting liability with respect to this issuer within the past 24 months.
3 - The research analysts and/or associates (or their household members) who prepared this research report directly or beneficially own securities of this issuer.
4 - An employee of BMO NBI is a member of the Board of Directors of this issuer.
5 - BMO NBI's Pro-Group beneficially holds a position in this issuer, which in the aggregate exceeds 5% of the outstanding class of securities.
6 - BMO NB Corp. or an affiliate has managed or co-managed a public offering of equity securities with respect to this issuer within the past 12 months.
7 - BMO NB Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.
8 - A household member of the research analyst and/or associates who prepared this research report is a member of the Board of Directors of this issuer or an advisor or officer of this issuer.
9 - BMO NB Corp. or an affiliate makes a market in this security.
10 - BMO NB Corp. or an affiliate or its officers or partners own options, rights, or warrants to purchase any securities of this issuer.
11 - BMO NB Corp. or an affiliate beneficially owns 1% or more of any class of common equity securities of this issuer.
12 - A member of the Board of Directors of Bank of Montreal is also a member of the Board of Directors of this issuer.
13 - A member of the Board of Directors of Bank of Montreal is an officer of this issuer.

Ratings Key & Definitions: TP = Top Pick - Forecast to be among the best performing stocks relative to the market (i.e., a benchmark index such as S&P/TSX Composite; S&P 500, Nasdaq Composite as appropriate for each company) and is forecast to have a one-year total return potential of 20% or more at the time the rating is assigned. No more than 10% of our coverage universe can be assigned to this rating; 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.

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients *	First Call Universe **
Buy	Top Pick	3%	5%	25%
	Outperform	42%	50%	29%
	Positive Ratings	**45%**	**55%**	**54%**
Hold	Market Perform	45%	39%	39%
Sell	Underperform	10%	6%	7%
	Neutral/Negative Ratings	**55%**	**45%**	**46%**

* 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 NB Corp. or an affiliate expects to receive or intends to seek compensation for investment banking services from all issuers under research coverage within the next 3 months.

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BC Gas

(BCG-TSX)

August 1, 2002
Research Comment
Gas & Electrical

Stock Rating: Market Perform
Industry Rating: Underperform

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Q2/02 Results Better than Expected

Event

BC Gas reported Q2/02 earnings per share of $0.03 versus ($0.08) in Q2/01. Results were better than our expectation of ($0.07) for the quarter. The variance results from 1) a difference in weighted average shares outstanding; and, 2) smoothing of quarterly earnings from Centra Gas BC (acquired effective January 1, 2002). Unlike BC Gas Utility, Centra Gas BC's earnings do not vary as a result of seasonal gas consumption.

Impact

Neutral.

Forecasts

Our 2002 earnings per share (diluted) estimate is unchanged at $2.35. We have fine-tuned our 2003 earnings per share (diluted) estimate, reducing it to $2.60 from $2.64 due to a modest change in the financing assumptions associated with the Corridor Pipeline. Our 2004 earnings per share (diluted) estimate is $2.74, reflecting a full year contribution from Corridor, is unchanged.

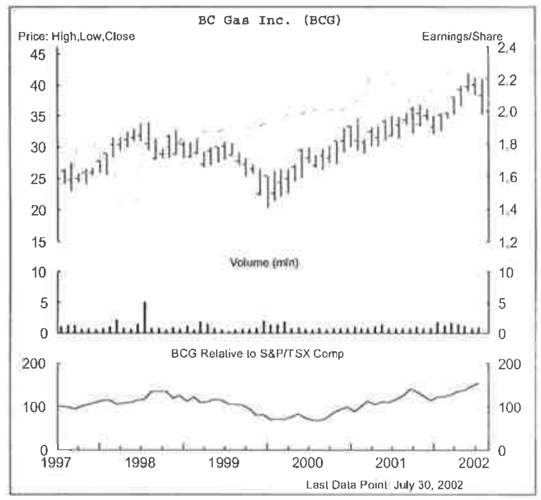
Valuation

Our target price of $41.25 reflects mid-year estimated 2003 and 2004 EPS (diluted) of $2.60 and $2.74, respectively, and the following weighted average valuation approach: 14x price-to-earnings ratio (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

We believe the shares are fairly valued at present levels. We are maintaining our Market Perform rating.

Price (30-Jul)	$38.35	**52-Week High**	$41.99
Target Price	$41.25	**52-Week Low**	$32.07



(FY-Dec.) (Diluted)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.35	$2.60↓
P/E			16.3x	14.8x
CFPS	$4.58	$1.56	$4.55	$4.89
P/CFPS			8.4x	7.8x
Div.	$1.23	$1.30	$1.41	$1.53
EV ($mm)	$3,132	$4,244	$4,825	$5,017
EBITDA ($mm)	$417	$457	$481	$520
EV/EBITDA	7.5x	9.3x	10.0x	9.7x

Quarterly EPS (Basic)	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.56a	$0.03a	-$0.57	$1.34↑

Dividend	$1.41	**Yield**	3.7%
Book Value	$24.40	**Price/Book**	1.6x
Shares O/S (mm)	43.7	**Mkt. Cap ($mm)**	$1,674
Float O/S (mm)	43.7	**Float Cap ($mm)**	$1,674
Wkly Vol (000s)	262	**Wkly $ Vol (mm)**	$9.6
Net Debt ($mm)	$2,494.2	**Next Rep. Date**	31-Oct (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.39; 2003E: $2.61

Changes

Annual EPS
2003E $2.64 to $2.60

Quarterly EPS
Q4/02E $1.32 to $1.34

Details & Analysis

BC Gas reported Q2/02 earnings per share of $0.03 versus ($0.08) in Q2/01. Results were better than our expectation of ($0.07) for the quarter. The variance results from 1) a difference in weighted average shares outstanding; and 2) smoothing of quarterly earnings from Centra Gas BC (acquired effective January 1, 2002). Unlike BC Gas Utility, Centra Gas BC's earnings do not vary as a result of seasonal gas consumption.

Table 1. Segmented Earnings

Segment	Q2/02	Q2/01
Natural Gas Distribution	($0.07)	($0.24)
Petroleum Transportation	0.13	0.17
Other Activities	(0.03)	(0.01)
Total	**0.03**	**(0.08)**

Natural Gas Distribution

Q2/02 segment performance reflected the positive contribution from Centra Gas BC. Segment contribution increased by $6.2 million versus Q2/01, $5.2 million of which is attributable to Centra Gas BC. Earnings from BC Gas Utility increased slightly to -$8.2 million from -$9.2 million in Q2/01.

2003 Rate Application

BC Gas Utility filed its 2003 Revenue Requirement Application and Multi-Year Performance Based Ratemaking Proposal in June 2002. The key aspects of the filing include:

- An increase in revenue requirement equal to 1.25% ($15.4 million) of total current revenues effective January 1, 2003. The increase is required to offset a shortfall in revenue resulting from reduced consumption of gas by residential and commercial users.
- The two weather normalizing deferral accounts will continue. Gas costs will continue to be a pass through to customers.
- Centra Gas BC is treated as a separate entity. The company will file a 2003 Revenue Requirement Application and Multi-Year Performance Based Ratemaking Proposal for Centra Gas BC in August 2002.
- A deferral account to collect variances between actual and forecast property taxes. The company is currently being reassessed for British Columbia Capital Tax for the years 1995-2001. BC Gas Utility has proposed that it be permitted to defer the cost of the appeal

process and the amount of any reassessment. A three-year rate rider, commencing January 1, 2004, is proposed to deplete any net deferred balance in the account.

- BC Gas has elected not to make additional insurance expenditures relating to increased coverage for events such as war and terrorism and increased coverage and deductibles for damages and business interruption. Instead, the company has requested that the BCUC approve a deferral account to collect any losses that may arise should any such events occur.

- The company has proposed the next phase of Performance Based Ratemaking (PBR). The new five-year plan (2003-2007) focuses less on reducing operating and maintenance costs and more on outputs such as price and quality of service. The company has proposed a Delivery Rate Setting Mechanism (DRSM), relating customer delivery charges (excluding gas costs) to changes in the rate of inflation. The formula would be set as Subsequent Year's Rates = Current Year's Rates * (1 + British Columbia Consumer Price Index).

- BC Gas has proposed an earnings-sharing mechanism related to the Return on Equity. A collar of +/- 200 basis points would be established around a reference ROE (the current BCUC generic ROE calculated annually, plus 100 basis points). In the +/- 200 basis points band, BC Gas Utility would assume all performance risk. Sharing of risk/reward would occur on a 50/50 basis in a band +/- 300 basis points around the reference ROE. An achieved ROE that falls outside of the +/- 300 basis point band would trigger an off-ramp regulatory review by the BCUC. BC Gas Utility believes the collar provides the strongest incentive for the company to seek productivity gains and realize efficiencies.

Our financial model does not reflect an outcome as outlined by the company in its application. We believe that:

- The BCUC will continue to deem the company's capital structure and the allowed equity thickness will remain at 33%.

- The DSRM formula will likely be amended to include a productivity factor.

- The BCUC will likely approve a reference ROE equal to the generic ROE (i.e. without the hundred basis points premium).

The BCUC is expected to issue its decision on 2003 Performance Based Ratemaking in late 2002.

Petroleum Transportation

Transportation volumes on the Trans Mountain Pipe Line declined both sequentially and year-over-year. Deliveries for the first six months of 2002 on the Canadian mainline declined to 33,203 m^3/d versus 34,340 m^3/d in Q2/01 and 35,323 m^3/d in 6M/01. Volumes for the first six months of 2002 on the U.S. mainline declined to 7,416 m^3/d versus 8,525 m^3/d in Q2/01 and 12,211 m^3/d in 6M/01. The decline mainly results from:

- A refinery fire at a facility in Illinois that generally receives a portion of western Canadian crude oil;
- Declines in Western Canadian production of light sour crude oil;
- Unfavourable crude oil price differentials between Western Canadian crude oil and Alaskan North Slope crude oil; and
- Lower refinery margins at U.S. Midwestern refineries that resulted in a portion of refinery capacity coming off line.

U.S. mainline transportation volumes were partially offset by increased deliveries on the Canadian mainline to the Westridge tanker terminal. The volume declines were additionally partially offset by lower year-over-year interest and tax rates.

Construction on the Corridor Pipeline was 93% complete at of the end of the quarter. Diluent has been flowing on the northbound segment of the pipeline and commissioning of the remainder of the pipeline is underway. Commercial operations are expected to begin on March 1, 2003. Construction on the Athabasca Oil Sands project by the Albian Sands partners (Shell Canada 60%, Western Oil Sands (20%), Chevron Canada (20%)) was 90% complete at the end of Q2/02. Commissioning of the $5.7 billion project is expected to occur before year-end 2002, allowing for bitumen production to commence in early 2003. We believe Corridor will contribute approximately $0.20 (net of financing costs) per annum to BC Gas' earnings per share, in line with company guidance.

Other Activities

Earnings from Other Activities decreased by $1.0 million to -$1.5 million from -$0.5 million in Q2/01. Higher financing costs associated with the acquisition of Centra Gas BC were partially offset by a positive contribution from CustomerWorks.

Forecasts

Our 2002 earnings per share (diluted) estimate is unchanged at $2.35. We have fine-tuned our 2003 earnings per share (diluted) estimate, reducing it to $2.60 from $2.64 due to a modest change in the financing assumptions associated with the Corridor Pipeline. Our 2004 earnings per share (diluted) estimate is $2.74, reflecting a full-year contribution from Corridor, is unchanged.

Valuation

Our target price of $41.25 reflects mid-year estimated 2003 and 2004 EPS (diluted) of $2.60 and $2.74, respectively, and the following weighted average valuation approach: 14x price-to-earnings ratio (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

We believe the shares are fairly valued at present levels. We are maintaining our Market Perform rating.

BC Gas

(BCG-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

July 23, 2002
Research Comment
Gas & Electrical

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BC Gas Cancels Sale of Waterworks Supply Business

Event

BC Gas has announced that it will not proceed with sale of its waterworks supply business to Emco Limited. The two parties signed a purchase and sale agreement in April 2002, which was subject to the completion of a due diligence review and the receipt of regulatory approvals. BC Gas and Emco have determined that proceeding with the transaction is not in the best interest of either party.

Impact

Neutral.

Forecasts

Our 2002 and 2003 EPS estimates of $2.35 and $2.64 are unchanged. We assumed that sale proceeds were to be used to repay the debt associated with the acquisition of these businesses (however, the positive effect on EPS was not expected to be material). BCG Services did not contribute positively to earnings in 2001, as higher market share and revenues were more than offset by higher operating and financing costs.

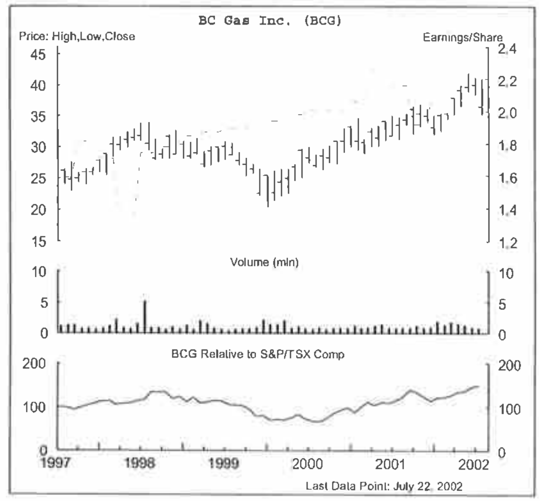
Valuation

Our target price of $41.25 reflects mid-year estimated 2003 and 2004 EPS (diluted) of $2.64 and $2.74, respectively, and the following weighted average valuation approach: 14x price-to-earnings ratio (12.5%), 1.75x price-to-book value (12.5%), and a target yield of 3.75% (75%).

Recommendation

We believe the shares are reasonably valued at present levels. Our rating is Market Perform.

Price (22-Jul)	$36.50	**52-Week High**	$41.99
Target Price	$41.25	**52-Week Low**	$32.07



(FY-Dec.)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.35	$2.64
P/E			15.5x	13.8x
CFPS	$4.58	$1.56	$4.55	$4.89
P/CFPS			8.0x	7.5x
Div.	$1.23	$1.30	$1.41	$1.53
EV ($mm)	$3,132	$4,244	$4,855	$5,047
EBITDA ($mm)	$417	$457	$481	$520
EV/EBITDA	7.5x	9.3x	10.1x	9.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.70a	-$0.07	-$0.57	$1.32

Dividend	$1.41	**Yield**	3.9%
Book Value	$23.93	**Price/Book**	1.5x
Shares O/S (mm)	39.3	**Mkt. Cap ($mm)**	$1,434
Float O/S (mm)	39.3	**Float Cap ($mm)**	$1,434
Wkly Vol (000s)	260	**Wkly $ Vol (mm)**	$9.5
Net Debt ($mm)	$2,800.1	**Next Rep. Date**	31-Jul (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.39; 2003E: $2.61

BMO Nesbitt Burns Research

BC Gas

(BCG-TSE)

April 25, 2002
Research Comment
Gas & Electrical

Stock Rating: Outperform
Industry Rating: Underperform

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Q1 2001 Results Modestly Better Than Expected; Target Price Increased - Outperform

Event

BC Gas reported Q1/02 earnings per share of $1.70 versus $1.59 in Q1/01. Results were modestly better than our expectation of $1.68 per share for the quarter. The company also announced an increase in the quarterly dividend payment to $0.36 per share from $0.33. The increase is slightly larger than expected (we expected a quarterly payment of $0.35 per share).

Impact

Slightly Positive.

Forecasts

Our 2002 and 2003 earnings estimates remain unchanged, however we are now presenting our fiscal estimate on a diluted basis. Accordingly, our diluted estimates for 2002 and 2003 are $2.35 and $2.64, respectively versus $2.37 and $2.66 basic. Our expected dividend payments increase to $1.41 and $1.53 in 2002 and 2003, respectively, up from $1.38 and $1.49 previously.

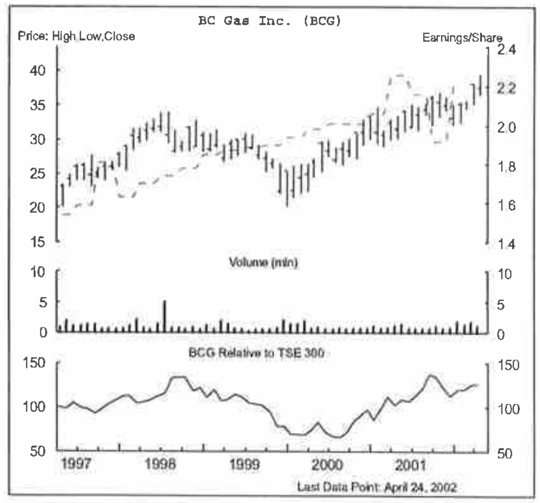
Valuation

Our new target price of $40.25 reflects a weighted average valuation approach: 14 times 2003 earning per share of $2.64 (12.5%), 1.75 times estimated 2003 book value per share of $22.99 (12.5%), and a target yield of 3.75%, assuming 2003 dividends per share of $1.53 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating.

Price (24-Apr)	$38.39	**52-Week High**	$39.49
Target Price	$40.25↑	**52-Week Low**	$30.25



(FY-Dec.) Diluted	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.35↓	$2.64↓
P/E			16.3x	14.5x
CFPS	$4.58	$1.56	$4.30	$4.64
P/CFPS			8.9x	8.3x
Div.	$1.23	$1.30	$1.41	$1.53
EV ($mm)	$3,132	$4,244	$4,785	$4,975
EBITDA ($mm)	$417	$457	$481	$520
EV/EBITDA	7.5x	9.3x	9.9x	9.6x

Quarterly EPS (Basic)	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.70a	-$0.07	-$0.57	$1.32

Dividend	$1.41	**Yield**	3.7%
Book Value	$23.93	**Price/Book**	1.6x
Shares O/S (mm)	39.3	**Mkt. Cap ($mm)**	$1,509
Float O/S (mm)	39.3	**Float Cap ($mm)**	$1,509
Wkly Vol (000s)	253	**Wkly $ Vol (mm)**	$8.8
Net Debt ($mm)	$1,906.3	**Next Rep. Date**	31-Jul (E)

Notes:
Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.38; 2003E: $2.59

Changes

Annual EPS
2002E $2.37 to $2.35
2003E $2.66 to $2.64

Target
$39.50 to $40.25

Details & Analysis

BC Gas reported first quarter 2002 EPS of $1.70 versus $1.59 in Q1/01. Results were slightly better than our expectation of $1.68. The company also announced an increase in quarterly dividend payment to $0.36 from $0.33, payable May 31, 2002. This increase is slightly better than our expectation of a quarterly payment of $0.35 per share.

Natural Gas Distribution

Q1/02 segment performance reflected the positive contribution from Centra Gas BC. Segment contribution increased by $7.0 million versus Q1/01, $6.3 million of which is attributable to Centra Gas BC. Earnings from BC Gas Utility increased slightly to $60.5 million from $59.8 million, and was mainly due to lower interest costs.

Petroleum Transportation

The Canadian portion of the TransMountain pipeline performed in line with expectations; volumes increased 3% and operating performance benefited from lower interest costs and tax rates. The increase in earnings was partially offset by a small decline in throughput on the U.S portion of the pipeline.

Other Activities

Earnings from Other Activities decreased by $0.9 million versus Q1/01, largely due to higher financing costs associated with the acquisition of Centra Gas BC. Higher interest costs were partially offset by the contribution from the international consulting and alternative vehicle fuel businesses.

Forecasts

Our 2002 and 2003 earnings estimates remain unchanged, however we are now presenting our fiscal estimates on a diluted basis. Accordingly, our diluted estimates for 2002 and 2003 are $2.35 and $2.64, respectively versus $2.37 and $2.66 basic. We have modestly increased our expected dividend payment to $1.41 and $1.53 in 2002 and 2003, respectively, up from $1.38 and $1.49 previously.

Valuation

Our new target price of $40.25 reflects a weighted average valuation approach: 14 times 2003 earning per share of $2.64 (12.5%), 1.75 times estimated 2003 book value per share of $22.99 (12.5%), and a target yield of 3.75%, assuming 2003 dividends per share of $1.53 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating.

2/14/02

Current Price:	$38.25		Karen J. Taylor/Sue McNamara
12-Month Target Price:	$40.25		BMO Nesbitt Burns Inc.
Rate of Return:	8.92%	Recommendation:	Outperform

	Year Ended December 31						
	1998	1999	2000	2001	2002E	2003E	2004E
Diluted EPS (Prior to One-Time Items)	$1.83	$1.92	$2.04	$2.19	$2.35	$2.64	$2.74
Total EPS (Prior to One-Time Items)	$1.85	$1.94	$2.06	$2.21	$2.37	$2.66	$2.76
Segmented EPS: B.C. Gas Utility	$1.34	$1.35	$1.53	$1.77	$2.02	$2.04	$2.06
Trans Mountain Pipe Line	$0.60	$0.51	$0.56	$0.71	$0.56	$0.95	$1.03
Other Businesses	($0.09)	$0.08	($0.03)	($0.27)	($0.21)	($0.33)	($0.33)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$1.09	$1.17	$1.23	$1.30	$1.41	$1.53	$1.61
Payout Ratio	58.9%	60.1%	59.5%	58.8%	59.5%	57.5%	58.2%
Average Shares (mm)	38.5	38.3	38.3	38.3	43.4	43.4	43.4
Net Book Value	$15.67	$16.61	$18.10	$19.01	$21.86	$22.99	$24.14
Market Valuation							
Price: High	$33.95	$31.00	$33.45	$36.40	-	-	-
Price: Low	$27.00	$21.00	$21.50	$29.75	-	-	-
Price: Current	-	-	-	-	$38.25	-	-
P/E Ratio: High	18.4	16.0	16.24	16.47	-	-	-
P/E Ratio: Low	14.6	10.8	10.44	13.46	-	-	-
P/E Ratio: Current	-	-	-	-	16.1	14.4	13.9
Price/Book Value: High	2.24	1.92	1.85	1.91	-	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.56	-	-	-
Price/Book Value: Current	-	-	-	-	1.75	1.66	1.58
Yield: High Price	3.21%	3.76%	3.66%	3.57%	-	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	-	-	-
Yield: Current Price	-	-	-	-	3.69%	4.00%	4.20%
Balance Sheet ($mm)							
Debt (S-T)	448.7	431.3	367.6	905.5	884.9	1,077.9	1,095.0
Debt (L-T)	1,101.5	1,078.9	1,538.6	1,894.6	1,968.3	1,967.0	1,965.7
Deferred Taxes	36.3	35.0	47.3	47.3	47.3	47.3	47.3
Minority Interest	150.0	75.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	125.0	125.0	225.0	225.0	225.0
Shareholders' Equity	608.6	645.1	703.6	727.6	949.1	998.0	1,047.9
	2,345.1	2,265.3	2,782.1	3,700.0	4,074.6	4,315.1	4,380.9
Balance Sheet (%)							
Debt (S-T)	19.1%	19.0%	13.2%	24.5%	21.7%	25.0%	25.0%
Debt (L-T)	47.0%	47.6%	55.3%	51.2%	48.3%	45.6%	44.9%
Deferred Taxes	1.5%	1.5%	1.7%	1.3%	1.2%	1.1%	1.1%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.5%	3.4%	5.5%	5.2%	5.1%
Shareholders' Equity	26.0%	28.5%	25.3%	19.7%	23.3%	23.1%	23.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)							
Net Profit After-Tax	81.2	82.8	82.8	84.7	102.7	115.3	119.6
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	78.8	84.7	102.7	115.3	119.6
Cash Flow from Operations ($mm)	80.1	117.0	175.4	59.9	197.4	212.3	218.8

BC Gas
(BCG-TSE)

Stock Rating: Outperform
Industry Rating: Underperform

April 10, 2002
Research Comment
Gas & Electrical

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BC Gas Sells Wholesale Waterworks Supply Business

Event

BC Gas has announced that it has signed an agreement to sell the wholesale waterworks supply business of its subsidiary, BCG Services Inc., to Emco Limited. BCG Services Inc. will continue to own and operate the waterworks services business. The financial terms of the transaction were not disclosed and the sale is expected to close in the second quarter.

Impact

Slightly Positive.

Forecasts

Our 2002 and 2003 earnings per share estimates of $2.37 and $2.66 are unchanged. We believe that sale proceeds are likely to be used to repay the debt associated with the acquisition of these businesses. BCG Services did not contribute positively to earnings in 2001, as higher market share and revenues were more than offset by higher operating and financing costs.

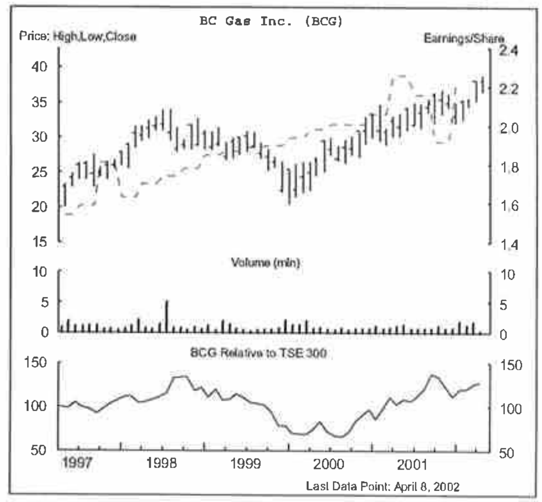
Valuation

Our target price of $39.50 reflects a weighted average valuation approach: 14x estimated 2003 earnings per share of $2.66 (12.5%), 1.75x estimated 2003 book value per share of $23.06 (12.5%) and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating.

Price (8-Apr)	$38.11	**52-Week High**	$38.90
Target Price	$39.50	**52-Week Low**	$30.12



(FY-Dec.)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.37	$2.66
P/E			16.1x	14.3x
CFPS	$4.58	$1.56	$4.30	$4.64
P/CFPS			8.9x	8.2x
Div.	$1.23	$1.30	$1.38	$1.49
EV ($mm)	$3,132	$4,244	$4,779	$4,969
EBITDA ($mm)	$417	$457	$481	$520
EV/EBITDA	7.5x	9.3x	9.9x	9.6x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.68	-$0.07	-$0.57	$1.32

Dividend	$1.34	**Yield**	3.5%
Book Value	$19.01	**Price/Book**	2.0x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,460
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,460
Wkly Vol (000s)	246	**Wkly $ Vol (mm)**	$8.5
Net Debt ($mm)	$1,906.3	**Next Rep. Date**	22-Apr (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.38; 2003E: $2.59

BC Gas

(BCG-TSE)

March 8, 2002
Research Comment
Gas & Electrical

Stock Rating: Outperform
Industry Rating: Underperform

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BC Gas Closes Acquisition of Centra Gas BC; No Change in View

Event

BC Gas announced that it has completed its purchase of Centra Gas British Columbia and Centra Gas Whistler from Westcoast Energy. As a result of the completion of the acquisition, an aggregate of 5,208,000 BC Gas common shares will be issued to the holders of the outstanding Subscription Receipts without further payment.

Impact

Neutral.

Forecasts

Our 2002 and 2003 earnings per share estimates of $2.37 and $2.66, respectively, are unchanged. Our financial model assumed that the acquisition closed in early March 2002 (with an effective date of January 1, 2002) and that the Subscription Receipts would be converted to common shares at that time.

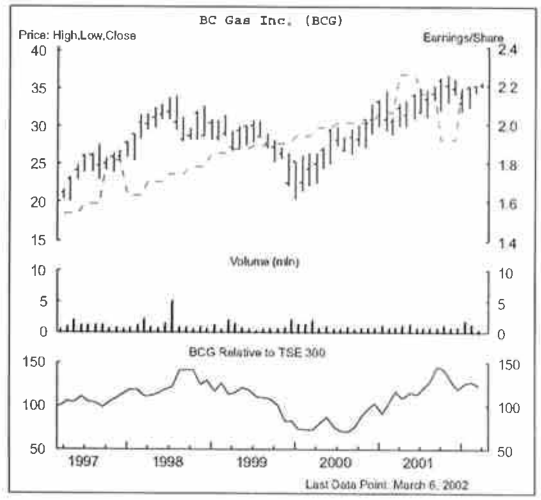
Valuation

Our target price of $39.50 reflects a weighted average valuation approach: 14x estimated 2003 earnings per share of $2.66 (12.5%), 1.75x estimated 2003 book value per share of $23.06 (12.5%) and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued. We are maintaining our Outperform rating on the stock.

Price (6-Mar)	$35.92	**52-Week High**	$36.88
Target Price	$39.50	**52-Week Low**	$30.10



(FY-Dec.)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.37	$2.66
P/E			15.2x	13.5x
CFPS	$4.58	$4.32	$4.26	$4.59
P/CFPS			8.4x	7.8x
Div.	$1.23	$1.30	$1.38	$1.49
EV ($mm)	$3,155	$4,311	$4,740	$4,926
EBITDA ($mm)	$419	$461	$475	$513
EV/EBITDA	7.5x	9.3x	10.0x	9.6x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.68	-$0.07	-$0.57	$1.32

Dividend	$1.34	**Yield**	3.7%
Book Value	$19.01	**Price/Book**	1.9x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,376
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,376
Wkly Vol (000s)	231	**Wkly $ Vol (mm)**	$7.8
Net Debt ($mm)	$1,928.8	**Next Rep. Date**	22-Apr (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2002E: $2.37; 2003E: $2.57

BC Gas
(BCG-TSE)

February 15, 2002
Research Comment
Gas & Electrical

Stock Rating: Outperform
Industry Rating: Underperform

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Fiscal 2001 Results Slightly Higher Than Expected; No Change in View

Event

BC Gas has reported fiscal 2001 EPS from continuing operations of $2.21 versus $2.06 in 2000. We expected 2001 EPS of $2.18. Results were modestly better than expected.

Impact

Positive.

Forecasts

We have reviewed and revised our earnings per share estimates over the 2002-2003 forecast period. Our new estimates are $2.37 and $2.66 for fiscal 2002 and 2003, respectively, up from $2.32 and $2.61.

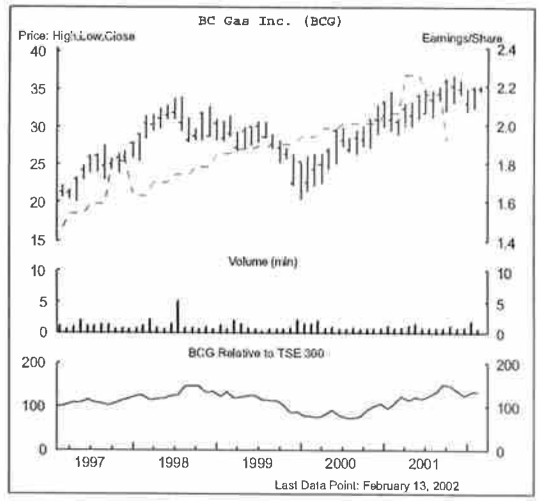
Valuation

Our target price of $39.50 reflects a weighted average valuation approach: 14 times 2003 earnings per share of $2.66 (12.5%), 1.75 times estimated 2003 book value per share of $23.06 (12.5%), and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating on the stock.

Price (13-Feb)	$35.12	**52-Week High**	$36.88
Target Price	$39.50	**52-Week Low**	$29.00



(FY-Dec.)	2000A	2001A	2002E	2003E
EPS	$2.06	$2.21	$2.37↑	$2.66↑
P/E			14.8x	13.2x
CFPS	$4.58	$4.32	$4.26	$4.59
P/CFPS			8.2x	7.7x
Div.	$1.23	$1.30	$1.38	$1.49
EV ($mm)	$3,155	$3,810	$4,408	$4,596
EBITDA ($mm)	$419	$397	$451	$489
EV/EBITDA	7.5x	9.6x	9.8x	9.4x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001A	$1.59	-$0.08	-$0.58	$1.28
2002E	$1.68↑	-$0.07↓	-$0.57↓	$1.32↑

Dividend	$1.34	**Yield**	3.8%
Book Value	$19.30	**Price/Book**	1.8x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,345
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,345
Wkly Vol (000s)	226	**Wkly $ Vol (mm)**	$7.6
Net Debt ($mm)	$1,928.8	**Next Rep. Date**	22-Apr (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E: $2.19; 2002E: $2.36

Changes

Annual EPS
2002E $2.32 to $2.37
2003E $2.61 to $2.66

Quarterly EPS
Q1/02E $1.65 to $1.68
Q2/02E -$0.07 to -$0.07
Q3/02E -$0.56 to -$0.57
Q4/02E $1.30 to $1.32

Details & Analysis

BC Gas has reported fiscal 2001 EPS from continuing operations of $2.21 versus $2.06 in 2000. We expected 2001 EPS of $2.18. Results were modestly better than expected. As illustrated below, segment performance differed slightly from our expectations.

Table 1. Segment Performance Fiscal 2001 versus Estimated Performance

	(Per Share)		
Segment	**Actual**	**Estimate**	**Variance**
Natural Gas Distribution	1.77	1.79	(0.02)
Petroleum Transportation	0.71	0.57	0.14
Other Activities	(0.27)	(0.18)	(0.09)
Earnings from Continuing Operations	2.21	2.18	0.03

Natural Gas Distribution: The growth in the contribution from BC Gas Utility largely resulted from rate base growth, attributable to the completion of the Southern Crossing Pipeline in November 2000. Conventional rate base growth from customer additions was less material due to economic conditions in the key distribution service areas. The actual return on equity in fiscal 2001 was 9.44% versus the allowed return on equity of 9.25%.

Petroleum Transportation: Attractive price differentials between Alberta and offshore crude oil prices increased the attractiveness of the U.S. westcoast market, increasing southbound volumes on the Trans Mountain Pipeline. The Incentive Tolling agreement approved by the National Energy Board in March 2001 also contributed to higher earnings. The substantial contribution was volume related. Productivity gains were sufficient to offset higher power and fuel costs associated with the higher volumes.

Other Activities: Results were negatively affected by higher financing costs associated with new capital investments, and reflected weaker economic conditions for the non-regulated water and services businesses.

Forecasts

We have reviewed and revised our earnings per share estimates over the 2002-2003 forecast period. Our new estimates are $2.37 and $2.66 for fiscal 2002 and 2003, respectively, up from $2.32 and $2.61. Our revised estimates reflect the following key assumptions:

- In-service date of the Corridor Pipeline is early 2003. We assume a total project cost of $690 million. Construction on the project is 70% complete and is proceeding on time and on budget.
- The acquisition of Centra Gas British Columbia and Centra Gas Whistler from Westcoast Energy is scheduled to close in early March 2002. Approvals from the Canadian

Competition Bureau and the B.C. Utilities Commission have been received. A minor legislative amendment is required to complete the transaction. The B.C. legislature is currently in session and the amendment is expected to pass shortly.

- We have adjusted our financial model on Trans Mountain Pipeline to better reflect the incentive tolling agreement and our estimated 2002-2003 volumes on the U.S. system of 12,000 m^3/day. Fiscal 2001 volumes were 11,671 m^3/day. We believe the WTI-ANS crude oil price differential will remain favourable over the forecast period.

We believe that management is well positioned to realize its targeted 4-6% EPS growth over the forecast period. Earnings visibility in 2003 remains strong with the anticipated completion of the Corridor Pipeline. The inventory of possible future projects also remains strong. The following proposed pipeline projects are not currently incorporated in our earnings forecast:

- **Bison Pipeline:** BC Gas is currently undertaking a joint engineering and technical study with potential shippers on the 516-kilometre Bison Pipeline. The proposed pipeline would carry bitumen from the Athabasca oil sands to the Edmonton area and has an ultimate design capacity of 450,000 bbls/d. BC Gas expects to file an application with the Alberta Energy and Utilities Board in July 2002. If the approvals process proceeds on time, the pipeline could be in service by mid-2005.

- **Inland Pacific Connector:** BC Gas is pursuing contract negotiations with interested shippers following the conclusion of an open season in June 2001. The 246-kilometre pipeline will link the Southern Crossing pipeline in Oliver to the regional marketing hub in Huntingdon. The total estimated cost is $495 million.

Valuation

Our target price of $39.50 reflects a weighted average valuation approach: 14 times 2003 earnings per share of $2.66 (12.5%), 1.75 times estimated 2003 book value per share of $23.06 (12.5%), and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating on the stock.

2/14/2002
Current Price: $34.90
12-Month Target Price: $39.50
Rate of Return: 17.1%

Karen J. Taylor
BMO Nesbitt Burns Inc.
Recommendation: Outperform

	1996	1997	1998	1999	2000	2001E	2002E	2003E
Total EPS (Prior to One-Time Items	$1.48	$1.63	$1.85	$1.94	$2.06	$2.21	$2.37	$2.66
Segmented EPS: B.C. Gas Utility	$1.13	$1.25	$1.34	$1.35	$1.53	$1.77	$2.02	$2.04
Trans Mountain Pipe Line	$0.49	$0.51	$0.60	$0.51	$0.56	$0.71	$0.56	$0.95
Other Businesses	$0.03	($0.03)	($0.09)	$0.08	($0.03)	($0.27)	($0.21)	($0.33)
Corporate Activities	($0.17)	($0.10)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.90	$0.98	$1.09	$1.17	$1.23	$1.30	$1.38	$1.49
Payout Ratio	60.8%	59.8%	58.9%	60.1%	59.5%	58.8%	58.2%	56.0%
Average Shares (mm)	41.5	40.1	38.5	38.3	38.3	38.3	43.4	43.4
Net Book Value	$15.74	$15.53	$15.67	$16.61	$18.10	$19.01	$21.89	$23.06
Market Valuation								
Price: High	$20.95	$27.95	$33.95	$31.00	$33.45	$36.40	-	-
Price: Low	$15.00	$20.25	$27.00	$21.00	$21.50	$29.75	-	-
Price: Current	-						$34.90	
P/E Ratio: High	14.2	17.1	18.4	16.0	16.24	16.47	-	-
P/E Ratio: Low	10.1	12.4	14.6	10.8	10.44	13.46	-	-
P/E Ratio: Current	-	-	-	-	-	-	14.7	13.1
Price/Book Value: High	1.37	1.86	2.24	1.92	1.85	1.91	-	-
Price/Book Value: Low	0.98	1.35	1.78	1.30	1.19	1.56	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.59	1.51
Yield: High Price	4.30%	3.49%	3.21%	3.76%	3.66%	3.57%	-	-
Yield: Low Price	6.00%	4.81%	4.04%	5.55%	5.70%	4.37%	-	-
Yield: Current Price	-	-	-	-	-	-	3.95%	4.27%
Balance Sheet ($mm)								
Debt (S-T)	358.1	345.9	448.7	431.3	366.8	35.4	9.7	196.9
Debt (L-T)	966.5	1,012.1	1,101.5	1,078.9	1,561.9	1,961.3	2,035.0	2,033.7
Deferred Taxes	38.9	34.9	36.3	35.0	47.3	47.3	47.3	47.3
Minority Interest	150.4	150.0	150.0	75.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	0.0	0.0	125.0	125.0	225.0	225.0
Shareholders' Equity	649.5	607.1	608.6	645.1	703.7	727.6	950.4	1,001.0
	2,163.4	2,150.0	2,345.1	2,265.3	2,804.7	2,896.6	3,267.4	3,503.9
Balance Sheet (%)								
Debt (S-T)	16.6%	16.1%	19.1%	19.0%	13.1%	1.2%	0.3%	5.6%
Debt (L-T)	44.7%	47.1%	47.0%	47.6%	55.7%	67.7%	62.3%	58.0%
Deferred Taxes	1.8%	1.6%	1.5%	1.5%	1.7%	1.6%	1.4%	1.3%
Minority Interest	7.0%	7.0%	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	0.0%	0.0%	4.5%	4.3%	6.9%	6.4%
Shareholders' Equity	30.0%	28.2%	26.0%	28.5%	25.1%	25.1%	29.1%	28.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	71.7	75.4	81.2	82.8	81.3	87.0	105.1	117.7
Preferred Share Dividends	10.1	10.1	10.1	8.7	2.4	2.4	2.4	2.4
Earnings to Common Shareholders	61.6	65.3	71.1	74.1	78.9	84.6	102.7	115.3
Cash Flow from Operations ($mm)	166.8	145.4	80.1	117.0	175.5	59.8	186.8	201.3

BC Gas

(BCG-TSE)

January 16, 2002
Research Comment
Gas & Electrical

Stock Rating:	**Outperform**
Industry Rating:	**Underperform**

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BC Gas Announces New Oil Sands Pipeline

Event

BC Gas has announced that it is undertaking a joint engineering and technical study with potential shippers on the $800 million, 516-kilometre Bison Pipeline. The proposed pipeline would carry bitumen from the Athabasca oil sands to the Edmonton area and has an ultimate design capacity of 450,000 bbls/d.

Impact

Positive.

Forecasts

The pipeline is not expected to be in service until mid-2005. Our 2001 to 2003 earnings per share estimates of $2.18, $2.32 and $2.61, respectively, therefore remain unchanged.

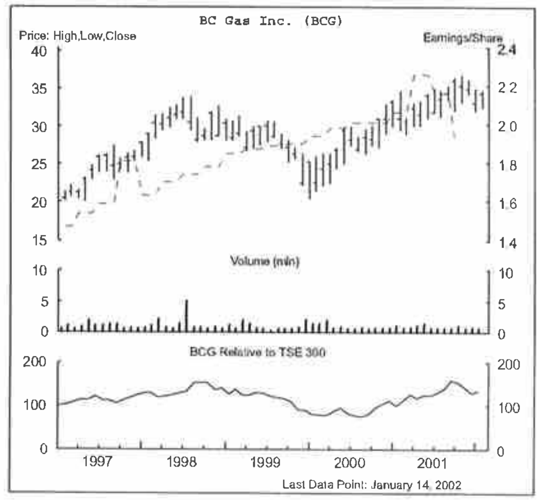
Valuation

Our target price of $39.50 reflects a weighted average valuation approach: 14 times estimated 2003 earnings per share of $2.61 (12.5%), 1.75 times estimated 2003 book value per share of $23.19 (12.5%), and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating on the stock.

Price (14-Jan)	$34.40	**52-Week High**	$36.88
Target Price	$39.50	**52-Week Low**	$29.00



(FY-Dec.)	2000A	2001E	2002E	2003E
EPS	$2.06	$2.18	$2.32	$2.61
P/E		15.8x	14.8x	13.2x
CFPS	$4.58	$4.32	$4.26	$4.59
P/CFPS		8.0x	8.1x	7.5x
Div.	$1.23	$1.30	$1.38	$1.49
EV ($mm)	$3,155	$3,767	$4,359	$4,547
EBITDA ($mm)	$419	$395	$451	$489
EV/EBITDA	7.5x	9.5x	9.7x	9.3x

Quarterly EPS	Q1	Q2	Q3	Q4
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.59a	-$0.08a	-$0.58a	$1.25
2002E	$1.65	-$0.07	-$0.56	$1.30

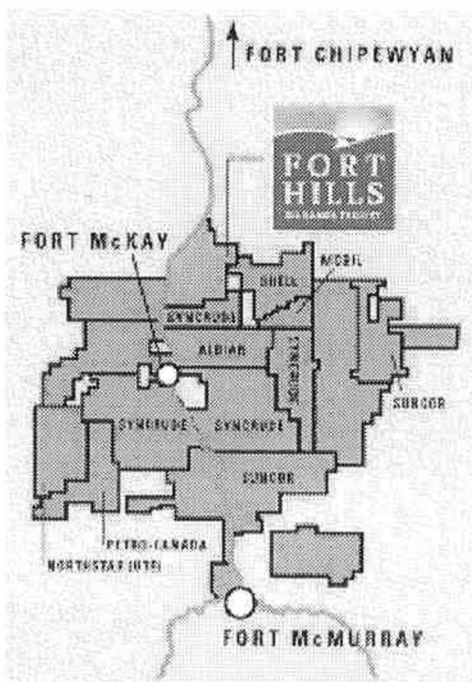
Dividend	$1.34	**Yield**	3.9%
Book Value	$19.09	**Price/Book**	1.8x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,318
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,318
Wkly Vol (000s)	211	**Wkly $ Vol (mm)**	$7.0
Net Debt ($mm)	$1,928.8	**Next Rep. Date**	14-Feb (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E: $2.19; 2002E: $2.36

Details & Analysis

BC Gas has announced that it is undertaking a joint engineering and technical study with potential shippers on the $800 million, 516-kilometre Bison Pipeline. The proposed pipeline would carry bitumen from the Athabasca oil sands to the Edmonton area and is expected to have an initial capacity of 100,000 bbls/d. The pipeline could be expanded to its ultimate design capacity of 450,000 bbls/d at a total cost of $1 billion. Joint engineering and technical studies with potential shippers, including TrueNorth and PetroCanada, are underway and BC Gas expects to file an application with the AEUB in July 2002. If the regulatory approval process proceeds as expected, construction will likely begin in late 2003, with an estimated in-service date of mid-2005.

Chart 1 Location of Oil Sands Leases in Athabasca



Source: TrueNorth Energy

Petro-Canada

Petro-Canada has a 75% interest in the Meadow Creek oil sands development with Nexen holding the remaining 25% interest. The partners submitted a regulatory application in December 2001 to the AEUB for development of their lease as well as a refinery conversion program. Petro-Canada estimates the cost of the Meadow Creek development could be in the range of $700 million to $800 million, with production of up to 80,000 bbls/d anticipated in 2007. Meadow Creek is located approximately 45 kilometres south of Fort McMurray.

TrueNorth Energy

TrueNorth, a wholly owned subsidiary of Koch Oil Sands LP, owns 78% of the Fort Hills Oil Sand Project with UTS Energy owning the remaining 22%. The partners plan to mine and process approximately 95,000 bbls/d of bitumen commencing in 2005, possibly increasing to 190,000 bbls/d by Q4/08. In June 2001, TrueNorth submitted regulatory filings to the AEUB and the Government of Alberta for the $2 billion project. Fort Hills is located approximately 90 kilometres north of Fort McMurray.

Analysis

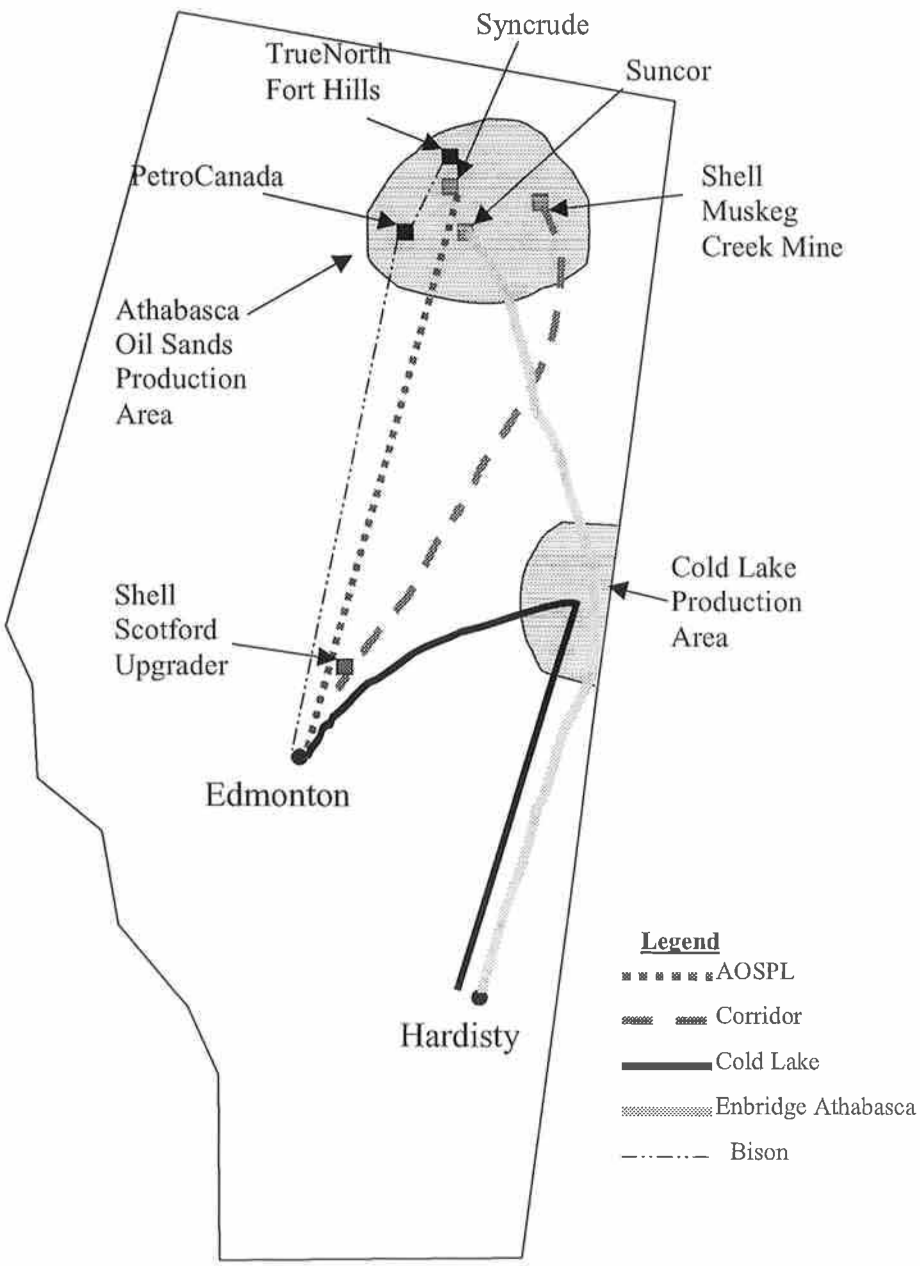
We believe this announcement is positive, as it increases BC Gas' transportation position in the Athabasca oil sands production area. BC Gas is currently constructing the 450-kilometre Corridor Pipeline, which will transport bitumen from the Shell Canada Muskeg Creek oil sands mine to Shell's Scotford Upgrader, located just outside of Edmonton. This $600 million pipeline is scheduled to be in service in early 2003.

Table 1. Oil Sands Pipelines, Proposed and In-Service

Project	Sponsor(s)	Length (km)	Peak Capacity (bbls/d)	Main Shippers	Status
Alberta Oil Sands	Pembina Pipeline	432	275,000	Syncrude	In Service
Bison Pipeline	BC Gas	516	450,000	PetroCanada, TrueNorth	2005
Cold Lake Pipeline	Koch Canada/AEC/CNQ	800	450,000	IMO, AEC, CNQ, Koch	Q1/02
Corridor Pipeline	BC Gas	493	215,000	Shell Canada	Early 2003
Enbridge Athabasca	Enbridge	550	570,000	Suncor	In Service

Sources: Company Reports, BMO Nesbitt Burns

Chart 2 Pipeline Projects and Operating Pipelines from the Oil Sands



Source: BMO Nesbitt Burns

Estimates

The pipeline is not expected to be in service until mid-2005. Our 2001 to 2003 earnings per share estimates of $2.18, $2.32 and $2.61, respectively, therefore remain unchanged.

Valuation

Our target price of $39.50 reflects a weighted average valuation approach: 14 times estimated 2003 earnings per share of $2.61 (12.5%), 1.75 times estimated 2003 book value per share of $23.19 (12.5%), and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating on the stock.

Rating Key: Top Pick – TP; Outperform – OP; Market Perform – Mkt; Underperform – Und.; Speculative – (S); Not Rated – NR

BMO NBI has undertaken an underwriting liability with respect to this issuer within the past 24 months.

BC Gas Inc.

(BCG-TSE)

Stock Rating: Outperform
Industry Rating: Outperform

October 23, 2001
Research Comment
Gas & Electrical

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BC Gas to Acquire Centra Gas British Columbia; Transaction Accretive

Event

BC Gas has announced that it has entered into an agreement to acquire Centra Gas British Columbia and Centra Gas Whistler from Westcoast Energy Inc. for total consideration of $590 million.

Impact

Positive.

Forecasts

The transaction is expected to close very early in 2002 and increase earnings per share by $0.06 prior to realization of synergies. Our earnings per share estimate of $2.18 therefore remains unchanged for 2001; however, our estimates for 2002 and 2003 increase to $2.32 and $2.62 per share, respectively, from $2.25 and $2.56.

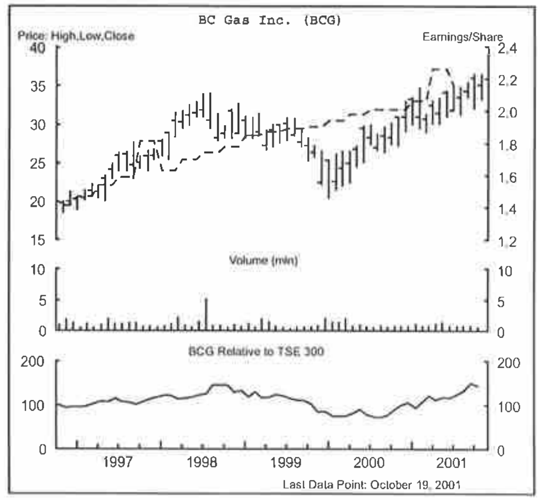
Valuation

Our new target price of $39.50 (up from $37.75) reflects a weighted average valuation approach: 14 times estimated 2003 earnings per share of $2.62 (12.5%), 1.75 times estimated 2003 book value per share of $23.20 (12.5%) and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued and we are maintaining our Outperform rating on the stock.

Price (19-Oct)	$35.10	**52-Week High**	$36.50
Target Price	$39.50↑	**52-Week Low**	$28.00



(FY-Dec.)	1999A	2000A	2001E	2002E
EPS	$1.94	$2.06	$2.18	$2.32↑
P/E			16.1x	15.1x
CFPS	$3.05	$4.58	$4.28	$4.39
P/CFPS			8.2x	8.0x
Div.	$1.17	$1.23	$1.30	$1.38
EV ($mm)	$2,711	$3,174	$3,441	$3,457
EBITDA ($mm)	$324	$421	$371	$380
EV/EBITDA	8.4x	7.5x	9.3x	9.1x

Quarterly EPS	Q1	Q2	Q3	Q4
1999A	$1.35	-$0.01	-$0.34	$0.94
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.59a	-$0.08a	-$0.43	$1.10

Dividend	$1.34	**Yield**	3.8%
Book Value	$18.79	**Price/Book**	1.9x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,344
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,344
Wkly Vol (000s)	200	**Wkly $ Vol (mm)**	$6.5
Net Debt ($mm)	$1,928.8	**Next Rep. Date**	8-Nov (E)

Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E: $2.19; 2002E: $2.31

Changes	Annual EPS	Target
	2002E $2.25 to $2.32	$37.75 to $39.50

Event

BC Gas has announced that it has entered into an agreement to acquire Centra Gas British Columbia and Centra Whistler from Westcoast Energy Inc. for total consideration of $590 million. The transaction is comprised of the following:

- Common Shares acquired of Centra Gas British Columbia - $200 million
- Common Shares acquired of Centra Gas Whistler - $8 million
- Assumption of outstanding Centra Gas Debt - $228 million
- Assumption of Westcoast holdco debt - $70 million
- Preferred Shares acquired of Centra Gas British Columbia - $84 million

The transaction is expected to close in very early 2002 and is subject to the approval of the Government of British Columbia and the British Columbia Utilities Commission (BCUC). We do not anticipate that these approvals will be unreasonably withheld and expect the transaction to close as anticipated.

Analysis

At close, BC Gas is expected to have funded the following:

- $208 million common share purchase
- $32 million of the preferred share purchase
- $70 million of Westcoast holdco debt to be assumed

for a total cash requirement at close of $310 million.

BC Gas has indicated that it will fund this requirement with a $180 million equity issue and $130 million of debt to be raised at the corporate or BC Gas holdco level. It is anticipated that the common equity issue will occur prior to the close of the transaction, with a settlement date in early 2002, coincident with the close of the announced acquisition.

We believe that the transaction is attractive for the following reasons:

1. Based on the list of comparable transactions delineated in the conference call, we believe that the transaction was reasonably priced, both on a price to earnings basis (at 14.9 times actual 2000 earnings of $14 million) and on a price to book value basis (1.3 times book value of approximately $160 million in 2000).
2. The acquisition is an extension of BC Gas' geographical footprint into a utility service area that is immediately adjacent to its current franchise area. We believe that operational

synergies are likely; however, as set out below, we do not assume the positive contribution from synergies in our revised estimates profile.

3. The acquisition is centred squarely in BC Gas' area of core competencies and does not require the organization to acquire additional skill sets or operating competencies in order to effectively operate and realize the estimated contribution per annum.

4. Utility operations of Centra Gas British Columbia may be subject to further performance gains that may be reasonably achieved within the current regulatory framework (Centra Gas is currently operating under a Performance Based Regulatory Settlement that is effective to the end of 2002). Present in-franchise opportunities include improved natural gas penetration rates by potential customers (residential, commercial and large industrial) and the promise of additional load from future power generating facilities on Vancouver Island, including the new Elk Falls Cogeneration (Calpine), the proposed 260 MW Port Alberni power plant and a third, unnamed facility under consideration.

Estimates

Our revised estimates profile of \$2.32 and \$2.62 in 2002 and 2003 (versus \$2.25 in 2002 and \$2.56 in 2003 previously) reflect the following key assumptions:

- \$180 million common equity issue settled early in 2002. We assume that approximately 5.1 million shares are issued at an average price per share of \$35. Average shares outstanding in 2002 and 2003 are assumed to be 43.4 million (up from our previous estimate of average shares of 38.3 million).
- The expected contribution from Centra Gas British Columbia is as set out in Table 1.

Table 1: Expected Contribution Centra Gas British Columbia

Contribution from Centra Gas British Columbia	2002E	2003E
Net Plant in Service, Jan 1	455.0	455.0
Plus: Plant Additions (net)	15.0	15.0
Less: Annual Depreciation	15.0	15.0
Net Plant in Service, December 31	455.0	455.0
Average Plant in Service	455.0	455.0
Plus: Working Capital Allowance		
Less Deferred Income Taxes		
Total Rate Base	455.0	455.0
Deemed Common Equity Ratio	35%	35%
Deemed Common Equity (\$)	159.3	159.3
ROR on Equity (Actual)	10.35%	10.35%
ROR Authorized	9.40%	9.40%
Earnings from Rate Base	16.5	16.5
Plus: Earnings from P.S.	5.1	5.1
Less: ROE Reduction	1.9	1.9
Less: Amortization of PPD attributable to PP&E	0.5	0.5
Less: Annual Inc. in PV of Def. Pymt Amount	1.8	1.8
Contribution from Centra Gas British Columbia	17.4	17.4

- Debt of $70 million assumed from Westcoast is a flow-through item for ratepayers.
- $60 million of debt is funded at the corporate level, increasing non-allocated financing charges and effectively reducing the after-tax contribution from the acquisition.
- Approximately 50% of the transaction's $48 million purchase price discrepancy ($208 million less $160 million book value at the end of 2000) is allocated to Property, Plant & Equipment and is depreciated over a 40-year period. The remainder is expected to be booked as goodwill and is therefore not subject to amortization.
- Westcoast Energy will carry a long-term receivable in the amount of $52 million due from BC Gas Inc. in 2011, representing that portion of the Centra Gas Preferred Shares not paid for by BC Gas at the time of close. Should incremental power generation load increase the revenues of Centra Gas British Columbia, we believe that BC Gas will "pay for" the remaining Preferred Shares prior to 2011.
- The present value of the deferred payment increases by $1.8 million per annum.
- Amount of the Preferred Securities issuance assumed in mid-2002 to fund BC Gas' equity investment in the $690 million Corridor Pipeline Project is estimated to be $100 million.

A full financial summary is set out on the next page.

Valuation

Our new target price of $39.50 (up from $37.75) reflects a weighted average valuation approach: 14 times estimated 2003 earnings per share of $2.62 (12.5%), 1.75 times estimated 2003 book value per share of $23.20 (12.5%) and a target yield of 3.75%, assuming estimated 2003 dividends per share of $1.49 (75%).

Recommendation

We believe that the shares are attractively valued at present levels. We are maintaining our Outperform rating.

10/22/01			Karen J. Taylor
Current Price:	$35.10		BMO Nesbitt Burns Inc.
12-Month Target Price:	$39.50		Recommendation: Outperform
Rate of Return:	16.2%		

	1996	1997	1998	1999	2000	2001E	2002E	2003E
Total EPS (Prior to One-Time Items)	$1.48	$1.63	$1.85	$1.94	$2.06	$2.18	$2.32	$2.62
Segmented EPS: B.C. Gas Utility	$1.13	$1.25	$1.34	$1.35	$1.53	$1.79	$2.02	$2.05
Trans Mountain Pipe Line	$0.49	$0.51	$0.60	$0.51	$0.56	$0.57	$0.51	$0.90
Other Businesses	$0.03	($0.03)	($0.09)	$0.08	($0.03)	($0.18)	($0.21)	($0.33)
Corporate Activities	($0.17)	($0.10)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.90	$0.98	$1.09	$1.17	$1.23	$1.30	$1.38	$1.49
Payout Ratio	60.8%	59.8%	58.9%	60.1%	59.5%	59.6%	59.5%	56.9%
Average Shares (mm)	41.5	40.1	38.5	38.3	38.3	38.3	43.4	43.4
Net Book Value	$15.74	$15.53	$15.67	$16.61	$18.10	$19.26	$22.07	$23.20
Market Valuation								
Price: High	$20.95	$27.95	$33.95	$31.00	$33.45	-	-	-
Price: Low	$15.00	$20.25	$27.00	$21.00	$21.50	-	-	-
Price: Current	-					$35.10		
P/E Ratio: High	14.2	17.1	18.4	16.0	16.24	-	-	-
P/E Ratio: Low	10.1	12.4	14.6	10.8	10.44	-	-	-
P/E Ratio: Current	-	-	-	-	-	16.1	15.1	13.4
Price/Book Value: High	1.37	1.86	2.24	1.92	1.85	-	-	-
Price/Book Value: Low	0.98	1.35	1.78	1.30	1.19	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.82	1.59	1.51
Yield: High Price	4.30%	3.49%	3.21%	3.76%	3.66%	-	-	-
Yield: Low Price	6.00%	4.81%	4.04%	5.55%	5.70%	-	-	-
Yield: Current Price	-	-	-	-	-	3.70%	3.93%	4.25%
Balance Sheet ($mm)								
Debt (S-T)	358.1	345.9	448.7	431.3	366.8	342.5	588.8	777.6
Debt (L-T)	966.5	1,012.1	1,101.5	1,078.9	1,561.9	1,961.3	2,035.0	2,033.7
Deferred Taxes	38.9	34.9	36.3	35.0	47.3	47.3	47.3	47.3
Minority Interest	150.4	150.0	150.0	75.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	0.0	0.0	125.0	125.0	225.0	225.0
Shareholders' Equity	649.5	607.1	608.6	645.1	703.7	737.2	958.0	1,007.0
	2,163.4	2,150.0	2,345.1	2,265.3	2,804.7	3,213.2	3,854.1	4,090.6
Balance Sheet (%)								
Debt (S-T)	16.6%	16.1%	19.1%	19.0%	13.1%	10.7%	15.3%	19.0%
Debt (L-T)	44.7%	47.1%	47.0%	47.6%	55.7%	61.0%	52.8%	49.7%
Deferred Taxes	1.8%	1.6%	1.5%	1.5%	1.7%	1.5%	1.2%	1.2%
Minority Interest	7.0%	7.0%	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	0.0%	0.0%	4.5%	3.9%	5.8%	5.5%
Shareholders' Equity	30.0%	28.2%	26.0%	28.5%	25.1%	22.9%	24.9%	24.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	71.7	75.4	81.2	82.8	81.3	85.7	103.1	116.1
Preferred Share Dividends	10.1	10.1	10.1	8.7	2.4	2.4	2.4	2.4
Earnings to Common Shareholders	61.6	65.3	71.1	74.1	78.9	83.3	100.7	113.7
Cash Flow from Operations ($mm)	166.8	145.4	80.1	117.0	175.5	165.5	184.8	199.7

Research Comment

BMO Nesbitt Burns

BC Gas

(BCG - TSE)

August 3, 2001

KAREN TAYLOR, CFA
Gas & Electrical
(416) 359-4304
Assoc: Saijal Patel, CGA

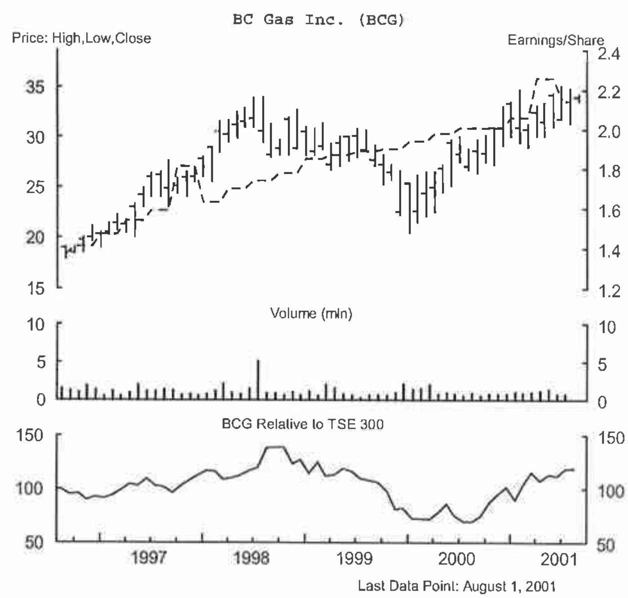
EPS Estimates and Target Price Raised; No Change in View - Outperform

Stock Rtg	Outperform	Ind. Rtg	Market Perform
Price (1-Aug)	$34.00	52-Week High	$35.10
Target Price	$35.50 ↑	52-Week Low	$26.40

(FY-Dec.)	1999A	2000A	2001E	2002E
EPS	$1.94	$2.06	$2.18 ↑	$2.25 ↑
P/E			15.6x	15.1x
CFPS	$3.05	$4.58	$4.28	$4.39
P/CFPS			7.9x	7.7x
Div.	$1.17	$1.23	$1.30	$1.37
EV ($mm)	$2,711	$3,174	$3,354	$3,361
EBITDA ($mm)	$324	$421	$368	$375
EV/EBITDA	8.4x	7.5x	9.1x	9.0x

Quarterly EPS	Q1	Q2	Q3	Q4
1999A	$1.35	-$0.01	-$0.34	$0.94
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.59 a	-$0.08 a	-$0.43	$1.10 ↑

Dividend	$1.34	Yield	3.9%
Book Value	$18.79	Price/Book	1.8x
Shares O/S (mm)	38.3	Mkt. Cap ($mm)	$1,302
Float O/S (mm)	38.3	Float Cap ($mm)	$1,302
Wkly Vol (000s)	196	Wkly $ Vol (mm)	$6.1
Net Debt ($mm)	$1,947.6	Next Rep. Date	Oct (E)



Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E:$2.18 2002E:$2.30

Changes:	Annual EPS	Quarterly EPS	Target
	2001E $2.14 to $2.18 2002E $2.20 to $2.25	Q4/01E $1.06 to $1.10	$34.90 to $35.50

EVENT: We have raised our 2001 to 2003 estimates following the release of BC Gas's second-quarter results. Our estimates increase to: $2.18, $2.25 and $2.56 from $2.14, $2.20 and $2.49 in 2001 to 2003, respectively. Our target price also increases to $35.50 from $34.90.

IMPACT: Positive.

ANALYSIS: Our revised estimates profile reflects the following key assumptions:

- Marginal increase in the incentive return earnings by BC Gas Utility – we now assume that the utility is able to earn 10.25% return on equity under the terms of the incentive agreement that expires at the end of fiscal 2001. We previously assumed an average return on equity of 10.00% per annum over the forecast period. We note that the company is continuing to negotiate with key stakeholders to either extend the current agreement or establish a new approach that is mutually acceptable.
- We have not materially changed our average rate base assumptions for BC Gas Utility. We expect rate base to average $1.75 billion in 2001, $1.80 billion in 2002 and $1.83 billion in 2003. We do not expect a material change to the deemed capital structure of 33% common equity.

- Higher incentive contribution from Trans Mountain Pipe Line, pursuant to the approval of the Renewal Incentive Toll Settlement by the National Energy Board on March 22, 2001. During the first half of 2001, we believe that productivity improvements were partially offset by higher pipeline fuel and power costs. With power costs abating, we believe that productivity improvements will be more material in the latter half of fiscal 2001 and more prevalent throughout the forecast period. Transportation volumes on the Canadian portion of the system were at the upper end of the band established by the Renewal Incentive Toll Settlement at 32,241 meters cubed (versus upper threshold of 32,000 meters cubed per day) in the second quarter. Our estimates do not yet reflect a discrete assumption regarding Canadian pipeline throughput, as 2001 is the first year of the new settlement. Our 2002 to 2003 estimates implicitly assume that throughput does not materially change from 2001 levels. We assume that throughput on the U.S. portion of the pipeline is approximately 12,000 meters cubed per day.
- In-service date of the Corridor Pipeline is early 2003. We assume a total project cost of $690 million, 25% of which is funded with preferred securities (levered equity component). We believe that absent the announcement regarding additional liquids or natural gas pipeline opportunities, the company would prefer to avoid issuing common equity. Our assumed $175 million mezzanine financing may also be reduced by up to $50 million due to the retention of incremental earnings over the forecast period.

We believe that management is well positioned to realize its targeted 4% to 6% EPS growth profile over the forecast period; however, we do note that EPS growth may be "lumpy". Should transportation volumes on the Trans Mountain Pipe Line system remain strong for the remainder of fiscal 2001, we believe that the company will likely report earnings that are higher than our revised estimate of $2.18 per share. In this situation, we believe that year-over-year earnings growth (2002 versus 2001) may well be less than the current EPS growth target since 2002 is a transition year in which no material projects are expected to be in service. Performance gains would arise solely from the incentive tolling agreement in place on the Trans Mountain Pipe Line system, robust liquids pipeline throughput versus 2001, and the potential renewal of the agreement pertaining to BC Gas Utility. Despite this challenge for 2002, earnings visibility in 2003 remains strong with the anticipated completion of the Corridor Pipeline, which should contribute to a material increase in earnings per share to our estimate of $2.56 per share.

We presently do not assume that BC Gas issues common equity over the forecast period. This assumption will change if the company is able to secure adequate firm shipping commitments in support of the planned Inland Pacific Connector Pipeline, which has an estimated cost of $495 million. If adequate shipper interest is confirmed, we would likely include an equity issue in our financial model (approximately $150 million, plus/minus $25 million).

Our dividend expectations have also increased throughout the forecast period, such that a more stable payout ratio is maintained over the period. Dividends are expected to be $1.30, $1.37 and $1.44 in fiscal 2001 to 2003, respectively, versus $1.30, $1.34 and $1.38 previously. Dividend growth is assumed to be approximately 5% per annum.

Valuation: We continue to use a weighted average valuation approach to determine our revised target price of $35.50. Our target reflects a 14.0 times price-to-earnings multiple (12.5%), assuming 2002 earnings per share of $2.25, a 1.75 times price-to-book value multiple (12.5%), assuming 2002 book value per share of $19.36 and a target trading yield of 3.75% (75%), assuming 2002 dividends per share of $1.37.

RECOMMENDATION: We believe that the shares are attractively priced at current levels and we are maintaining our Outperform rating.

Rating Key: Top Pick – TP; Outperform – OP; Market Perform – Mkt; Underperform – Und.; Speculative – (S); Not Rated – NR

BC Gas

(BCG - TSE)

July 31, 2001

KAREN TAYLOR, CFA
Gas & Electrical
(416) 359-4304
Assoc: Saijal Patel, CGA

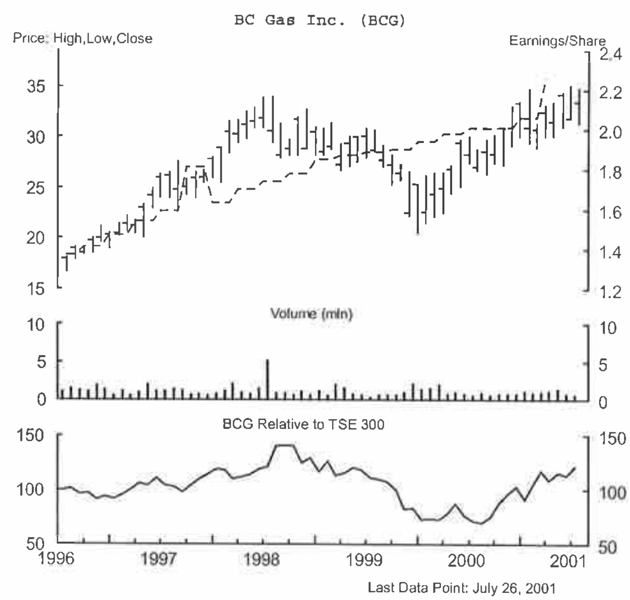
Q2 Results In Line with Expectations; No Change In View

Stock Rtg	Outperform	**Ind. Rtg**	Market Perform
Price (27-Jul)	$33.50	**52-Week High**	$35.10
Target Price	$34.90	**52-Week Low**	$26.40

(FY-Dec.)	**1999A**	**2000A**	**2001E**	**2002E**
EPS	$1.94	$2.06	$2.14	$2.20
P/E			15.7x	15.2x
CFPS	$3.05	$4.58	$4.28	$4.39
P/CFPS			7.8x	7.6x
Div.	$1.17	$1.23	$1.30	$1.34
EV ($mm)	$2,711	$3,174	$3,354	$3,361
EBITDA ($mm)	$324	$421	$368	$375
EV/EBITDA	8.4x	7.5x	9.1x	9.0x

Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
1999A	$1.35	-$0.01	-$0.34	$0.94
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.59 a	-$0.08 a	-$0.43	$1.06 ↓

Dividend	$1.34	**Yield**	4.0%
Book Value	$18.79	**Price/Book**	1.8x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,283
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,283
Wkly Vol (000s)	196	**Wkly $ Vol (mm)**	$6.1
Net Debt ($mm)	$1,947.6	**Next Rep. Date**	na



Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E:$2.18 2002E:$2.30
Changes:

Quarterly EPS
Q4/01E $1.09 to $1.06

EVENT: BC Gas reported Q2/01 earnings per share of a loss of $0.08 versus a positive contribution per share of $0.02 (prior to one-time tax gains of $0.20 per share arising from the monetization of the Williams Lake Power Plant) in Q2/00. We expected quarterly performance of a loss of $0.11 per share. Results were generally in line with expectations.

IMPACT: Neutral.

ANALYSIS: As the company has not yet held its conference call to discuss quarterly results, a full segment analysis is not yet possible.

BC Gas Utility: Utility operations were dominated by three key factors: (1) increased seasonality from the completion of the Southern Crossing Pipeline in late 2000 (at a total projected cost of $395 million); (2) higher earnings due to higher average rate base during the period; and (3) a reduction in the allowed return on equity in fiscal 2001 versus 2000 of 9.25% and 9.50%, respectively.

Trans Mountain Pipeline: Second-quarter throughput of 12,211 cubic meters per day is up 26.9% versus Q2/00 and 36.4% versus volumes in Q1/01. Our financial model assumes that throughput averages 12,000 cubic meters per day in 2001. Narrowing price differentials between Alberta and offshore crude oil prices increased the attractiveness of the U.S. westcoast market, increasing throughput. Positive gains were also noted under the new Performance Based Regulatory settlement in place. We believe that positive incentive earnings will likely offset any negative variance in expected performance due to an unfavourable transportation environment during the first quarter.

Other Activities: The contribution from BC Gas' non-regulated energy and utility services was slightly lower than expected due to higher financing charges associated with the Corridor Pipeline Project and other capital investments.

We believe that the company is on-track to meet our estimate of $2.14 for fiscal 2001.

VALUATION: Our target price of $34.90 reflects a weighted average valuation approach: 14.0 times price-to-earnings (12.5%), assuming 2002 earnings per share of $2.20; 1.75 times book value (12.5%), assuming 2002 book value per share of $19.30; and a target trading yield of 3.75% (75%), assuming 2002 dividends per share of $1.34.

RECOMMENDATION: We believe that the shares are attractively valued at present levels. We continue to rate the shares Outperform.

The company will be hosting its second quarter conference call this morning, July 31, at 10:00 a.m. Dial-in:1-800-273-9672 or 416-695-5806; Replay: 1-800-408-3053 or 416-695-5800; passcode 22427.

Rating Key: Top Pick – TP; Outperform – OP; Market Perform – Mkt; Underperform – Und.; Speculative – (S); Not Rated – NR

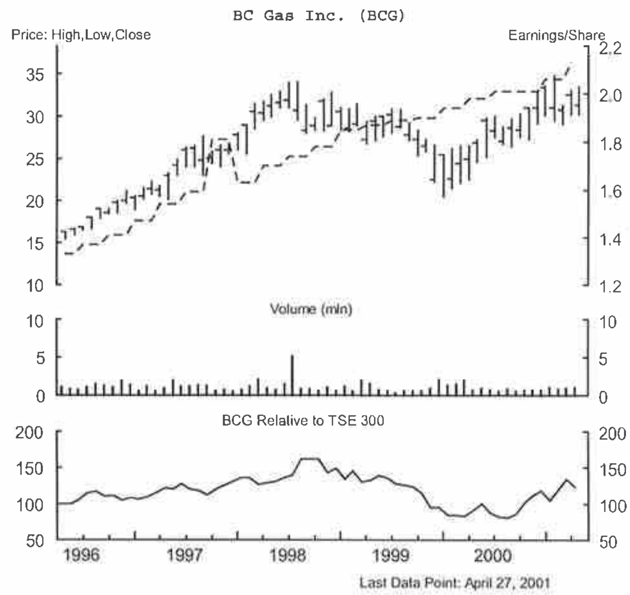
BC Gas
(BCG - TSE)

May 2, 2001

KAREN TAYLOR, CFA
Gas & Electrical
(416) 359-4304
Assoc: Saijal Patel, CGA

BC Gas Utility Leases Distribution Assets to City of Kelowna; No Change in View

Stock Rtg	Outperform	**Ind. Rtg**	Market Perform	
Price (30-Apr)	$31.55	**52-Week High**	$34.75	
Target Price	$34.90	**52-Week Low**	$25.15	
(FY-Dec.)	**1999A**	**2000A**	**2001E**	**2002E**
EPS	$1.94	$2.06	$2.14	$2.20
P/E			14.7x	14.3x
CFPS	$3.05	$4.58	$4.28	$4.39
P/CFPS			7.4x	7.2x
Div.	$1.17	$1.23	$1.30	$1.34
EV ($mm)	$2,711	$3,174	$3,302	$3,307
EBITDA ($mm)	$324	$421	$368	$375
EV/EBITDA	8.4x	7.5x	9.0x	8.8x
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
1999A	$1.35	-$0.01	-$0.34	$0.94
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.59 a	-$0.11	-$0.43	$1.09
Dividend	$1.34	**Yield**	4.2%	
Book Value	$19.14	**Price/Book**	1.6x	
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,208	
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,208	
Wkly Vol (000s)	181	**Wkly $ Vol (mm)**	$5.4	
Net Debt ($mm)	$1,529.1	**Next Rep. Date**	na	



Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E:$2.17 2002E:$2.27

EVENT: BC Gas has announced that it has reached an agreement in principle with the City of Kelowna that will see the City of Kelowna lease BC Gas Utilities' natural gas distribution assets within Kelowna's city limits for $50 million. Kelowna will make an initial payment to BC Gas of $47.5 million and the residual will be paid over the 35 year term of the lease. BC Gas will continue to operate the assets.

IMPACT: Neutral.

ANALYSIS: The announced transaction reflects the following:

- The lease agreement is designed to address the City of Kelowna's right to purchase the natural gas distribution assets of the company at fair market value, as per BC Gas' franchise agreement with the city.
- Kelowna was motivated to exercise this right due to its cost advantage as a 100% debt financed, non-taxable municipal entity.
- The rate base of the utility will not change as a result of this proposed transaction (for regulatory filing purposes). However, BC Gas Utility will pay the capital cost component of the revenue requirement associated with this $50 million of rate base (i.e., taxes, depreciation, cost of debt and cost of equity) to the City of Kelowna over the term of the lease.

- For the purpose of estimating earnings per share over the forecast period, BC Gas Utilities' rate base will decline by \$50 million, the deemed equity component of which is approximately \$16.5 million.
- Prior to mitigation (from incentive gains, savings associated with marginally lower external financing requirements and other potential benefits arising from the lease arrangement), earnings per share would likely decline by approximately \$0.04 per share (assuming a base return on equity of 9.25%). We expect the potentially negative effect of this proposed lease arrangement on estimated earnings per share to be effectively mitigated. Our estimates therefore remain unchanged.
- A further six to eight municipalities in the interior of British Columbia have similar "rights to purchase" in their respective franchise agreements with BC Gas Utility. An additional \$100 million in rate base may be subject to similar lease arrangements in the future, if this lease is approved by the British Columbia Utilities Commission.

VALUATION: Our target price of \$34.90 reflects a weighted average valuation approach: 14.0 times price-to-earnings (12.5%), assuming 2002 earnings per share of \$2.20; 1.75 times book value (12.5%), assuming 2002 book value per share of \$19.30; and a target yield of 3.75% (75%), assuming 2002 dividends per share of \$1.34.

RECOMMENDATION: We believe that the shares are attractively valued at present levels. We continue to rate the shares Outperform.

BC Gas
(BCG - TSE)

April 27, 2001

KAREN TAYLOR, CFA
Gas & Electrical
(416) 359-4304
Assoc: Saijal Patel, CGA

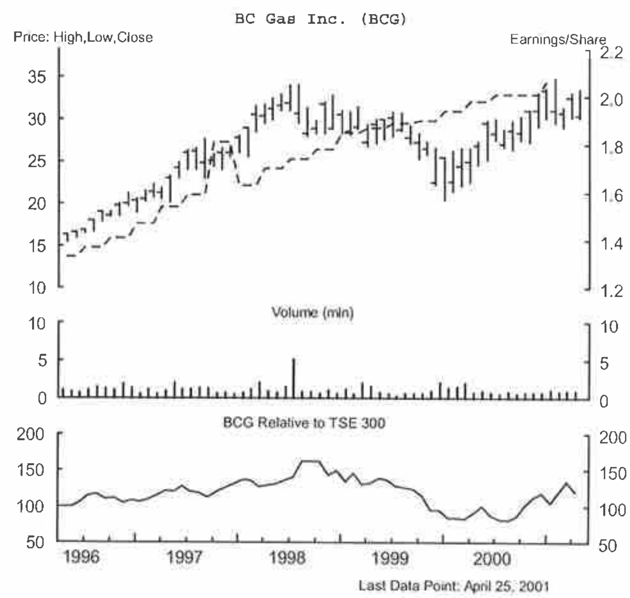
First Quarter Results Higher Than Expected; No Change in View

Stock Rtg	Outperform	**Ind. Rtg**	Market Perform
Price (25-Apr)	$30.75	**52-Week High**	$34.75
Target Price	$34.90 ↑	**52-Week Low**	$25.15

(FY-Dec.)	1999A	2000A	2001E	2002E
EPS	$1.94	$2.06	$2.14	$2.20
P/E			14.4x	14.0x
CFPS	$3.05	$4.58	$4.28	$4.39
P/CFPS			7.2x	7.0x
Div.	$1.17	$1.23	$1.26	$1.30
EV ($mm)	$2,711	$3,174	$3,302	$3,307
EBITDA ($mm)	$324	$421	$368	$375
EV/EBITDA	8.4x	7.5x	9.0x	8.8x

Quarterly EPS	Q1	Q2	Q3	Q4
1999A	$1.35	-$0.01	-$0.34	$0.94
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.59 a	-$0.11 ↓	-$0.43 ↓	$1.09 ↑

Dividend	$1.26	**Yield**	4.2%
Book Value	$17.87	**Price/Book**	1.7x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,155
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,155
Wkly Vol (000s)	178	**Wkly $ Vol (mm)**	$5.3
Net Debt ($mm)	$1,529.1	**Next Rep. Date**	n/a (E)



Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2001E:$2.17 2002E:$2.27
Changes:

Quarterly EPS
Q2/01E -$0.01 to -$0.11
Q3/01E -$0.36 to -$0.43
Q4/01E $1.05 to $1.09

Target
$34.75 to $34.90

EVENT: BC Gas reported Q1/01 earnings per share of $1.59 versus $1.39 in Q1/00 (net of one-time items of $0.21/share). We expected $1.46/share for the quarter. Although results were higher than expected, we believe the increase is largely attributable to increased seasonality in the quarterly earnings profile of BC Gas Utility. Our estimate of $2.14/share for fiscal 2001 remains unchanged.

The company also announced an increase in its quarterly dividend. The quarterly payment increased to $0.33 from $0.31, payable on May 31 to shareholders of record on May 16. We expected that the quarterly dividend would be increased to $0.32/share, effective for the third payment of the year. The announcement is therefore slightly higher and one quarter earlier than expected.

IMPACT: Positive.

ANALYSIS: Quarterly performance was largely in line with expectations, with the exception of the seasonality already noted in the regulated natural gas distribution business in British Columbia, resulting from the commissioning of the Southern Crossing Pipeline in the last quarter of 2000. We anticipate that Q2/01 and Q3/01 performance will be softer than previously anticipated. Our Q2 estimate declines to a loss of \$0.11 per share from a loss of \$0.01, and our third-quarter estimate similarly declines to -\$0.43 from -\$0.36. Our fourth-quarter estimate increases marginally to \$1.09 from \$1.05. Our expectation for the 12 months ending December 2001 remains unchanged at \$2.14.

Operating performance at Trans Mountain Pipeline was up by \$0.01/share versus Q1/00 to \$0.15 per share. Our estimates assume that volume throughput on the U.S. portion of the pipeline is approximately 12,000 m^3/day in 2001 to 2003. Throughput was approximately 8,952 m^3/day during the quarter and nominations for the months of April and May 2001 are in excess of 10,000 m^3/day.

We believe that lower-than-assumed throughput on the volume-sensitive U.S. portion of the Trans Mountain Pipeline will likely be more than offset by efficiency gains derived from the new multi-year incentive agreement recently approved by the National Energy Board, and gains resulting from the relocation of Trans Mountain's head office to Calgary. Our estimated contribution from this segment remains unchanged at \$0.56/share.

The loss from the Corporate Segment was largely in line with expectations.

Our estimates do not reflect the new pipeline proposal currently being considered by the company: the Inland Pacific Connector Project. This planned extension of the Southern Crossing Pipeline is designed to meet incremental demand for natural gas arising from electric power generation opportunities in the Pacific Northwestern United States, and mitigate the price differential between Sumas and AECO natural gas prices. The pipeline would increase natural gas transportation capacity to the southwestern British Columbia by some 300 mmcf/d at an estimated cost of \$460 million. If the expansion is able to obtain sufficient shipper support, we believe that the earliest in-service date is late 2003. We expect the company to hold an open season to obtain expressions of shipper interest at the beginning of May, 2001.

VALUATION: At a price of \$30.75, the shares are trading at 14 times estimated 2002 earnings per share of \$2.20, 1.59 times estimated 2002 book value per share of \$19.30, and are priced to yield 4.36%, assuming 2002 dividends per share of \$1.34. Our target price of \$34.90 relies on a weighted average valuation approach that reflects: a 14.0 times price-to-earnings ratio (12.5%), a 1.75 times book value ratio (12.5%) and a target trading yield of 3.75% (75%).

RECOMMENDATION: We believe that the shares are attractively priced at current levels. We continue to rate the shares Outperform with an increased target price of \$34.90.

BC Gas
(BCG - TSE)

February 16, 2001

KAREN TAYLOR, CFA
Gas & Electrical
(416) 359-4304
Assoc: Saijal Patel, CGA

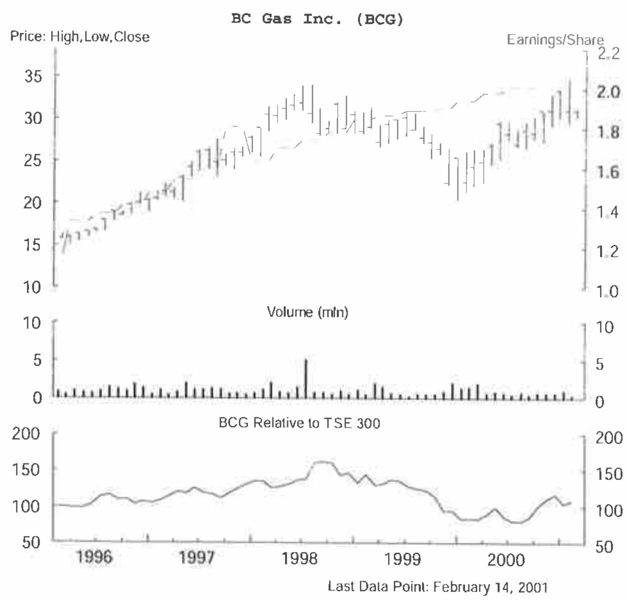
Fiscal 2000 Results Modestly Higher Than Expected; No Change in View

Stock Rtg	Market Perform	Ind. Rtg	Market Perform
Price (14-Feb)	$31.00	52-Week High	$34.75
Target Price	$33.40	52-Week Low	$22.50

(FY-Dec.)	1999A	2000A	2001E	2002E
EPS	$1.94	$2.06	$2.14	$2.20
P/E			14.5x	14.1x
CFPS	$3.05	$4.11	$4.28	$4.39
P/CFPS			7.2x	7.1x
Div.	$1.17	$1.23	$1.26	$1.30
EV ($mm)	$2,711	$3,102	$3,286	$3,291
EBITDA ($mm)	$324	$353	$366	$373
EV/EBITDA	8.4x	8.8x	9.0x	8.8x

Quarterly EPS	Q1	Q2	Q3	Q4
1999A	$1.35	-$0.01	-$0.34	$0.94
2000A	$1.39	$0.02	-$0.34	$0.99
2001E	$1.46	-$0.01	-$0.36	$1.05

Dividend	$1.26	Yield	4.1%
Book Value	$17.87	Price/Book	1.7x
Shares O/S (mm)	38.3	Mkt. Cap ($mm)	$1,187
Float O/S (mm)	38.3	Float Cap ($mm)	$1,187
Wkly Vol (000s)	198	Wkly $ Vol (mm)	$5.6
Net Debt ($mm)	$1,529.1	Next Rep. Date	na



Major Shareholders: Widely held
First Call Consensus Estimates: BC Gas Inc. (C$) 2000E:$2.03 2001E:$2.16

EVENT: BC Gas reported fiscal 2000 EPS of $2.06 from continuing operations versus $1.94 in 1999. We expected 2000 EPS of $2.02. Results were modestly better than expected. The company also reported a number of positive one-time items, which increased the total reported earnings per share to $2.84.

IMPACT: Neutral. Our estimates for 2001 and 2002 remain unchanged, despite the generally positive tone of the financial presentation.

ANALYSIS: As illustrated below, segment performance differed slightly versus our expectations.

Table 1. Segment Performance F2000 versus Estimated Performance

Segment	Actual	Estimate (Per Share)	Variance
Natural Gas Distribution	1.53	1.62	(0.09)
Petroleum Transportation	0.56	0.53	0.03
Other Activities	(0.03)	(0.13)	0.10
Earnings From Continuing Operations	$2.06	$2.02	$0.04

Natural Gas Distribution: Reported performance was positively effected by the contribution from a higher utility rate base – an increase in the allowed ROE in 2000 to 9.50% versus 9.25% in 1999. Performance varied from our estimate largely due to the actual average rate base of the Southern Crossing Pipeline that attracted non-cash equity earnings during the year versus our assumption. Our estimates assumed a higher average rate base versus the average actual amount outstanding of some $200 million. Our segment estimates for 2001 and 2002 remain unchanged and do not presume a further expansion of the Southern Crossing Pipeline.

Petroleum Transportation: Segment performance increased by approximately $1.8 million in 2000 versus 1999. We estimate that approximately 80% of this gain relates to operating efficiencies achieved during the fiscal year. We believe that the residual increase in segment contribution is attributable to a 5% or 518 m^3/d increase in throughput on the U.S. portion of the Trans Mountain Pipeline System, to 10,365 m^3/d from 9,847 m^3/d in 1999. Our estimate reflected forecast throughput of 10,000 m^3/d on the U.S. portion of the pipeline and modestly less efficiency gains. Our estimates for 2001 and 2002 reflect a per annum average throughput assumption on the U.S. portion of the pipeline of 12,000 m^3/d.

As illustrated in our February 1 edition of Wires, Pipes & Btus, the WTI – ANS spread does not currently favour the assumed level of utilization on the U.S. portion of the pipeline. We are not reducing our expected contribution from this segment in 2001 and 2002 due to the extension of the incentive tolling agreement in place on the Trans Mountain Pipeline, and our belief that we have been conservative with respect to assumed efficiency gains over the forecast period.

Other: The contribution from this segment was greater than expected largely due to the timing of certain cash transactions that were slightly different than that assumed. Interest costs were therefore somewhat lower than expected. Our estimates for 2001 and 2002 are not likely to be effected by similar issues, and therefore remain unchanged. BC Gas' multi-utility businesses are assumed to modestly contribute to segment performance over the forecast period. As set out in Table 2, there were a number of one-time items reported during the year.

Table 2. Summary of Non-Recurring Items

Non-Recurring Items (millions):	F2000	F1999
Tax Benefits: Williams Lake	29.0	7.0
Gain: Reduction Future Tax Liabilities	8.5	0.0
Charge: Restructuring Costs TMPL	(7.5)	0.0
	$30.0	$7.0
Non-Recurring Items Per Share	$0.78	$0.18

VALUATION: At a price of $31, the shares are trading 14.1 times estimated 2002 earnings per share of $2.20, 1.61 times estimated 2002 book value of $19.23 and are priced to yield 4.19%, assuming a $1.30 dividend per share in 2002. Our 12-month target price reflects 14 times price-to-earnings, 1.75 times book value and a target trading yield of 3.85%.

RECOMMENDATION: We believe that the shares are fairly valued at present levels and are maintaining our Market Perform rating.

CIBC World Markets

Equity Research

November 8, 2000

Pipelines & Utilities

BC Gas

Peter Case (416) 956-6169
Matthew Akman (416) 956-3229

Third Quarter Results In Line; Trans Mountain Secures New Toll Settlement

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- BC Gas reported a third quarter loss, before non-recurring items of $0.34 per share – equal to last year's results. Nine-month earnings before non-recurring items are $1.07 compared to $1.00 in 1999. While marginally below our estimated third quarter loss of $0.31 per share, we attribute this to increased seasonally of the gas utility, and we are not changing our full year estimate, $31.50 target price or Hold rating.

- Net non-recurring items have added $0.42 per share to year-to-date earnings. These include $23.8 million of income tax benefits relating to the sale of the Williams Lake Power Plant. A total of $29.0 million in benefits is expected by year end. Partially offsetting these benefits is the previously announced $7.5 million after tax-charge for restructuring costs at Trans Mountain Pipe Line.

- Nine-month gas distribution earnings are up 9.1% ($2.0 million) due to rate base growth and an increase in the authorized return on common equity from 9.25% in 1999 to 9.50% in 2000.

- The Southern Crossing pipeline is close to completion and will go into service later this month. The total cost is now expected to be $410 million – more than the BCUC approved budget of $376 million, but below the $416 million maximum amount that the BCUC will include in rate base and the company's cost of service.

- Nine-month petroleum transportation earnings are up 10.3% ($1.4 million) due to reduced costs and higher transportation volumes on the U.S. mainline. Trans Mountain has agreed to a new five-year incentive toll settlement with its Canadian shippers. As discussed in more detail below, the agreement will expose the company to some additional degree of volume risk, but should provide net benefits to the company going forward.

Rating: HOLD

BCG-TSE (11/07/00):	$31.50
52-Week Range:	$33.00-$20.45
Shares Outstanding:	38.3 mln.
Float:	38.3 mln.
Market Capitalization:	$1,206.0 mln.
Dividend/Yield:	$1.24/3.9%
Fiscal Year End:	December
Book Value:	$17.54 per Share
FY 2000E ROE:	11.9%
LT Debt:	$1,079.2 mln.
Preferred:	$125.0 mln.
Common Equity:	$671.8 mln.

Earnings per Share

	Prior	Current
FY 1998	$1.85	$1.85
FY 1999	$1.94	$1.94
FY 2000E	$2.05	$2.05
FY 2001E	$2.18	$2.18

P/E

FY 1998	NA
FY 1999	NA
FY 2000E	14.1x
FY 2001E	13.3x

Dividends Per Share

1998	$1.09
1999	$1.94
2000E	$1.23
2001E	$1.30

Debt/Total Capitalization

1998	61.6%
1999	63.2%
2000E	67.3%
2001E	68.1%

Company Description:
BC Gas is a gas distribution and oil transportation company. Subsidiary BC Gas Utility distributes natural gas to most of the Province of BC. The company's Trans Mountain Pipeline delivers crude oil from Alberta to BC and the Northwest U.S.

- Nine-month contribution from other activities is down by $1 million ($0.03 per share). Improved operating results from the company's energy and utility services businesses were offset in part by the absence of income tax recoveries recorded in 1999.

Table 1. BC Gas Segmented Earnings ($ mlns.)

Nine Months ending September 30	2000	1999
Gas Distribution	$24.0	$22.0
Petroleum Transportation	15.0	13.6
Other Activities	1.8	2.8
Earnings Before Non-recurring items	40.8	38.4
Non-recurring items	16.3	-
Net Earnings for Common	57.1	38.4
Average shares outstanding	38.3	38.3
EPS – Reported	$1.49	$1.00
EPS – Operating	**$1.07**	**$1.00**

- Trans Mountain's new incentive agreement returns to shippers, three-quarters of the average cost savings that Trans Mountain has been achieving under the old incentive agreement. On the other hand, Trans Mountain will retain 100 percent of the future savings that will be achieved through the restructuring of Trans Mountain and the move of its control centre and head office from Vancouver to Calgary. The net impact should be slightly positive.

- Trans Mountain's Rates will be set on an assumed throughput of 30,000 cubic meters per day. Trans Mountain will retain 100% of the benefit of higher througput levels up to 32,000 m3/day which we estimate at $0.10 per share. Thereafter, it will share the benefits 50/50 with shippers. Trans Mountain will be exposed to 100 percent of the impact of lower throughput down to 28,500 m3/day. Thereafter, shippers will absorb 100 percent of the shortfall. Throughput volumes have average 32,200 year to date and have not averaged less than 32,988 (the 1999 level) in any of the last five years.

- As a result of the new incetive toll agreement, we expect that Trans Mountain's earnings may be slightly higher in 2001 than we had previously forecast. On the other hand, the gas utility may be facing a 25 basis point reduction in its allowed ROE whereas we had previously been assuming a flat ROE. Moreover, it may be increasingly difficult to find additional costs savings to achieve in the final year of its four year incentive toll settlement.

WGR CIBC World Markets: Research Highlights - BC Gas Inc.
Apr 27 2000 10:54

BC Gas Inc.: Q1 Up Modestly As Expected/Dividend Increased; Buy

Brian Dunning 416-956-6169

BCG	Buy	FY Dec.		EPS	1998	1999	2000E	2001E
Price:	$26.30	Q1A	$1.39	Current:	$1.85	$1.94	$2.05	$2.15
Target:	$29.50	Q1E	$1.38					

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* BC Gas reported Q1 EPS from operations of $1.39 vs $1.35, and in line with our $1.38 estimate. The company also realized $7.9 million, or $0.21/share, of income tax benefits associated with the Williams Lake Power Plant which the company "transferred" to TransCanada Power L.P. A total of $29 million of earnings will be recorded in 2000 as a result of the tax benefits.
* The quarterly dividend has been increased to $0.31/share from $0.295/share. This represents a 5.1% increase in the dividend.
* The natural gas distribution division generated earnings of $1.28 vs $1.21 a year ago. The improvement was a result of ratebase growth and the higher allowed ROE of 9.50% compared to 9.25% last year.
* Petroleum transportation contributed $0.14 to earnings, down from $0.15 last year. The decline was due to lower throughput on the US portion of the Trans Mountain Pipeline due to a temporary shutdown in February of a refinery in Washington State. The company is sensitive to throughput on the US portion. US throughput declined to 8,511 m3/d compared to 10,737 a year ago. Management does expect the throughput comparisons with last year to turn favourable in the second quarter.
* Other activities cost $(0.03) in the quarter compared to $(0.01) last year. Other activities include non-regulated energy and utility services as well as corporate charges. Earnings from the water supply and services companies that were acquired last year are seasonal with peak earnings in summer months and modest losses during winter. The Water supply and service business will now be called BCG Services Inc.
* Progress continues on the two major growth projects - The Southern Crossing Pipeline (SCP) and the Corridor Pipeline. SCP is nearing completion of the clearing of the right-away and the company is evaluating construction bids. With the current tight construction and labour markets, the evaluation of the bids will determine whether the in-service date is late 2000, or 2001. A decision is expected to be made in the near future. The SCP and the Corridor project are expected to allow the company to at least meet management's target of EPS growth of around 6% for the next few years.
* Given the relative low business risk, the continuing modest growth, and the likelihood of future dividend growth, we are maintaining our Buy recommendation on shares of BC Gas.

WGR BC Gas: Q4 Results In Line; Buy
Feb 4 2000 9:49

BC Gas: Q4 Results In Line; Buy
Brian Dunning 416-956-6169

BCG	Buy	FY Dec.		EPS	1998	1999	2000E	2001E
Price:	$22.90	Q4A	$0.94	Current:	$1.85	$1.94	$2.05	$2.15
Target:	$27.00	Q4E	$0.92					

* Yesterday, BC Gas reported Q4 EPS results of $0.94 versus $0.90 during the same period in the prior year. For the year, the company reported earnings before non-recurring items of $1.94 per share, compared to $1.85 in 1998, and just ahead of our expectations of $1.92. Including non-recurring tax benefits of $7 million related to the monetization of the Williams Lake Power Plant, the company earned $2.12 per share in 1999.
* Contribution from natural gas distribution, which totaled $51.7 million, was essentially unchanged from last year. Productivity improvements and higher transportation revenue were offset by a decline in the authorized ROE from 10.0% in 1998 to 9.25% in 1999.
* For the year, petroleum transportation earnings fell 15%, to $19.5 million, due to reduced throughput on the Canadian and U.S. portions of the oil pipeline. The reduced throughput is attributed to low west coast oil prices compared to those in the midwest, as well as additional capacity on the Enbridge system. Although throughput declined 17% on the U.S. portion of the pipeline for the year, volumes began to recover in H2/99 relative to H1/99. The company is not exposed to throughput risk on the Canadian portion of the pipeline, but is on the U.S. portion.
* Results from Other Activities, which include non-regulated energy and utility services, corporate interest and administration charges, showed significant improvement, generating $3 million in earnings versus a loss of $3.5 million in 1998. Earnings from the construction of a natural gas distribution system in the United Arab Emirates, as well as the use of about $5 million of tax loss carryforwards, accounted for most of the increase.
* Management is currently looking for a one-year extension of its existing (three-year) incentive regulatory agreement at the utility, which expires at the end of 2000. The company is encouraged by the discussions to date and expects to have a finalized agreement in place by May. Management hopes that the extension will allow them the time to negotiate a new multi-year (five-year) incentive agreement, with expanded incentives. Due to the opportunities provided by the incentive agreement, the gas utility earned around 75 basis points above its allowed ROE in 1999, while lowering tolls for customers.
* Construction is proceeding on the Southern Crossing Pipeline and the company continues to target a start-up date of November 2000, although this date is subject to revision. Construction on the $690-million Corridor Pipeline is set to begin in Q2/00, and the pipeline is expected to be in service by the end of 2002.
* The company has a three-prong strategy, which is expected to provide opportunities for growth longer term. The strategy is focused on: 1) strengthening and expanding its base business by focusing on its regulatory framework, infrastructure development and productivity improvements; 2) expanding into a multi-utility business, such as offering water and electricity services; and, 3) enhancing and expanding the services provided to its existing customer base.
* A modest recovery in throughput on the U.S. portion of the TransMountain system should help earnings in 2000, though the first quarter throughput is likely to remain low. Growth over the next few years is expected from the benefits of incentive regulation (though need to negotiate extensions), coupled with new infrastructure projects such as the Southern Crossing Pipeline and Corridor Pipeline projects. We maintain our Buy recommendation.

WGR CIBC World Markets: Research Highlights - BC Gas
Dec 13 1999 10:07

BC Gas: Notes From Corridor Pipeline Conference Call; Buy
Brian Dunning 416-956-6169

BCG	Buy	FY Dec.	EPS	1997	1998	1999E	2000E
Price:	$21.50		Current:	$1.63	$1.85	$1.92	$2.05
Target:	$27.00						

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* Yesterday, BC Gas held a conference call to discuss the recently-approved Corridor Pipeline project (see our Research Highlight dated December 8, 1999) and review the company's overall strategy.
* The $690-million Corridor Pipeline is expected to be in service in November 2002, with construction beginning in Q2/00. Management plans to finance the project using a mix of debt, internally-generated funds and potentially some preferred shares. The company expects that the equity requirements of both the Corridor Pipeline and the Southern Crossing Pipeline will be satisfied by the previously-announced sale of its Williams Lake power plant and does not expect to have to issue any additional common equity for these projects.
* The company will not book any contribution from the Corridor Pipeline until it is in service (i.e., no AFUDC). Coupled with the Southern Crossing Pipeline, the Corridor Pipeline should allow BC Gas to experience earnings growth through at least 2003 of 6%-8% per year.
* In reviewing its strategy, management stated its commitment to taking a measured and balanced approach to investing in new projects and growing the business. The company's strategy is focused on: 1) strengthening and expanding its base business by focusing on its regulatory framework, infrastructure development and productivity improvements; 2) expanding into a multi-utility business, such as also offering water and electricity services; and, 3) enhancing and expanding the services provided to its current customer base. The company plans to be rather conservative and measured in making multi-utility type investments.
* BC Gas expects that existing productivity improvements will earn the company 50 basis points above its allowed ROE at both the utility and Trans Mountain in 2000. Furthermore, management is particularly encouraged by initial discussions regarding new regulatory agreements, as incentive agreements at both the gas utility and Trans Mountain expire at the end of 2000.
* Recently, the company's share price has suffered from the net redemptions and cash outflows being experienced by the entire sector, as well as the negative investor response to events at other companies, such as TransCanada PipeLines. Given positive project announcements and strong fundamentals (i.e., a nice mix of earnings growth with low relative risk), we maintain our Buy recommendation on shares of BC Gas.

WGR CIBC World Markets: Research Highlights - BC Gas
Dec 8 1999 9:45

BC Gas: Corridor Pipeline Gets Approval; Buy

Brian Dunning 416-956-6169

BCG	Buy	FY Dec.	EPS	1997	1998	1999E	2000E
Price:	$21.95		Current:	$1.63	$1.85	$1.92	$2.05
Target:	$27.00						

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* The Corridor Pipeline project is becoming a reality for BC Gas as Shell, Chevron, and Western Oil Sands L.P. have announced that they will proceed with their Athabasca Oil Sands project. The Corridor Pipeline will link the Muskeg River Mine north of Fort McMurray and the Scotford Upgrader, which will be constructed near Fort Saskatchewan.
* The Corridor Pipeline will extend 450 km and will transport diluent north to the mine and carry diluted bitumen south to the upgrader. The system also includes a 43-km delivery pipeline system, which will transport supplemental feedstocks to the upgrader and synthetic products from the upgrader to refinery and pipeline terminals at Edmonton-Strathcona.
* The $690-million pipeline project is expected to be fully operational by the end of 2002, with construction beginning in Q2/2000. The project will be wholly owned by BC Gas, and operated by Trans Mountain (wholly owned by BC Gas). Shell has chosen not to exercise an option to take an interest in the pipeline given the heavy capital requirements of the oil sands project.
* We are assuming that a base return will be provided by Shell's volumes, with potential upside coming from additional third-party shippers. However, no ROE targets nor capital structure are being disclosed at this time. We are not expecting any contribution from the project until the pipeline is in service (i.e., no AFUDC). More details may be available following a conference call with BC Gas' management on Thursday.
* Coupled with the Southern Crossing Pipeline, the Corridor Pipeline project should allow BC Gas to continue growing earnings through at least 2003 at a 6% to 8% rate. Macro events have recently hurt the share price of BC Gas as the entire sector is suffering from net redemptions and cash outflows, plus tax loss selling, plus negative sentiment stemming from company-specific issues at other companies. Despite positive project announcements and a lower risk profile, BC Gas' share price decline this year is very similar in magnitude to that of TransCanada's. The fundamentals of the company, including earnings and dividend growth, support our Buy recommendation.

CIBC World Markets

BC Gas: Q3/99 Results In Line; Buy
Brian Dunning 416-956-6169

BCG	Buy	FY Dec.	EPS	1997	1998	1999E	2000E
Price: $26.25	Q3A	($0.34)	Current:	$1.63	$1.85	$1.92	$2.05
Target: $31.00	Q3E	($0.34)					

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* BC Gas reported Q3/99 EPS of ($0.34) compared to ($0.35) in Q3/98, and in line with our estimate. During the seasonally weak quarter, the company experienced a net loss of $12.8 million vs. $13.6 million last year.
* Year-to-date earnings for the natural gas distribution segment were $22.0 million compared to $21.0 million last year. The increase is attributable to productivity improvements and higher transportation revenue offset by a reduction in the allowed return on equity to 9.25% for 1999 vs. 10.0% in 1998.
* Results for the Petroleum Transportation segment fell $3.8 million to $13.6 million for the first nine months of 1999 relative to the same period last year. This is mainly due to reduced throughput levels on both the Canadian and U.S. mainlines resulting from low West Coast oil prices compared to those in the Midwest as well as increased capacity on the Enbridge system. YTD throughput levels on the U.S. mainline have fallen 43.0% to 9,611 cubic metres per day relative to last year. However, as a result of a decline in the WTI-ANSW spread, throughput levels are improving and nominations for November are close to 12,000 cubic metres per day, which should help Q4 results.
* BC Gas has received approval from the Alberta Energy and Utilities Board (AEUB) for the proposed $440-million Corridor Pipeline. The project is currently awaiting final approval of the proposed Athabasca Oil Sands Project by Shell, which is expected in the fourth quarter.
* The company experienced a $4.4-million improvement year-to-date in its Other Activities segment, which includes non-regulated energy and utility services, corporate interest and administration charges, over last year. Earnings from the construction of a natural gas distribution system in the United Arab Emirates, and the use of $3.4 million of tax loss carry-forwards were responsible for much of the improvement.
* Recovery in throughput on the U.S. portion of the TransMountain system should help earnings growth in the near term. Growth over the next few years is expected from the Southern Crossing Pipeline and the Corridor Pipeline project. We are maintaining our Buy recommendation.

BC Gas: Announces Sale Of Williams Lake Power Plant; Buy
Brian Dunning 416-956-6169

BCG	Buy	FY Dec.	EPS	1997	1998	1999E	2000E
Price: $26.90			Current:	$1.63	$1.85	$1.92	$2.05
Target: $32.50							

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* BC Gas announced yesterday that it has entered into an arrangement to sell its Williams Lake power plant to TransCanada Power L.P. BC Gas will receive $59 million from TransCanada Power and will realize an after-tax gain of approximately $36 million.
* The transaction is structured in a way that BC Gas will retain ownership for about the next 15 months, even though operating responsibility and cash flow will transfer to TransCanada Power L.P. The structure will allow BC Gas to recognize associated tax benefits and will make up a large portion of the $36-million gain.
* The $36-million gain will help finance the $376-million Southern Crossing Pipeline project.
* We expect to hear positive news over the next couple of months on the company's Corridor Pipeline project proceeding.
* Recent quarterly results have been hurt (and we expect Q3/99 to be as well) by lower oil throughput on the U.S. portion of the company's oil pipeline. However, price spreads between Alaska North Slope and WTI have recently narrowed, which usually leads to increased throughput. We would expect this trend to help results in Q4 and beyond.
* With the expectation that positive news should be forthcoming on the project front, a potential recovery in throughput, and the likelihood of earnings estimates being revised upward we are maintaining our Buy recommendation.

WGR CIBC WORLD MARKETS: Research Highlights - BC Gas
Aug 3 1999 8:39
BC Gas: Second Quarter Results Slightly Above Expectations; Buy
Brian Dunning 416-956-6169

BCG	Buy	FY Dec.	EPS	1997	1998	1999E	2000E
Price: $28.75		Q2A ($0.01)	Current:	$1.63	$1.85	$1.92	$2.05
Target: $32.50		Q2E ($0.06)					

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* BC Gas reported Q2/99 EPS of ($0.01) versus ($0.03) last year, modestly above our ($0.06) estimate. Losses for the quarter were $0.4 million versus a loss of $1.5 million in Q2/98. The second quarter is a seasonally weak quarter in which gas utilities typically report losses.
* Losses from natural gas distribution were $5.9 million in the second quarter compared to a loss of $7.1 million last year. Productivity improvements and higher transportation sales offset a decline in the 1999 allowed return on equity of 9.25%, compared to 10% in 1998.
* During the second quarter, the BCUC approved the company's proposed Southern Crossing Pipeline Project, with the condition that BC Gas will pay for any cost overruns above 10%. The company intends to complete the pipeline by November 1, 2000, but this date is subject to revision.
* Decreased throughput in both Canada and the U.S. was the primary driver of a $2.5-million earnings decline over last year in the Petroleum Transportation segment, to $3.6 million. For H1/99, U.S. mainline volumes declined 48% to 9,428 cubic metres per day. The company's earnings are really only sensitive to throughput levels in the U.S. Throughput is down due to increased capacity on the Enbridge system and low West Coast oil prices compared to the Midwest.
* The fate of the $440-million Corridor pipeline project could be determined after Shell completes its feasibility study for the proposed Athabasca Oil Sands Project in Alberta in the third quarter. A final decision will be made in the fourth quarter, after which a start-up would be scheduled for 2002.
* Results from Other Activities, which include non-regulated energy and utility services, corporate interest and administrative charges, saw a $2.4-million improvement to earnings of $1.9 million. The gain was mainly attributable from consulting on the construction of a natural gas distribution system into the United Arab Emirates and the utilization of tax loss carry-forwards. Of a total $5 million in tax loss carry-forwards, the company has used $2 million to date and is expected to utilize most of the remainder within 1999.
* With respect to BC Gas' Williams Lake electricity generation plant, the company continues to monitor market conditions for an opportunity to proceed with the issue of BCG Power Generation Limited Partnership units. Management has indicated that a decision may be made within the next few months.
* We previously raised our recommendation to Buy from Hold in May after the BCUC approved the Southern Crossing Pipeline Project. We have not yet built any contribution from the SCP into our estimates given the uncertainty surrounding the in-service date. However, when the pipeline is in service, we estimate its EPS contribution at $0.20 to $0.25 per share.
-0- (WGR) Aug/03/1999 8:39

WGR CIBC WORLD MARKETS Inc.: Research Highlights - BC Gas Inc.
Jun 16 1999 9:11

BC Gas Inc.: Company Agrees To Southern Crossing Conditions; Buy

Brian Dunning 416-956-6169

BCG	Buy	FY Dec.	EPS	1997	1998	1999E	2000E
Price:	$27.85		Current:	$1.63	$1.85	$1.92	$2.05
Target:	$32.50						

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* In May, the British Columbia Utilities Commission (BCUC) approved BC Gas' application to build the Southern Crossing Pipeline (SCP) with certain conditions. Yesterday, BC Gas accepted the conditions and expects to move quickly to get bid documents and other pre-construction work underway.
* The SCP is a 312-kilometre, 300 MMcf/d, $376-million natural gas pipeline, which will allow the company to bring natural gas from Alberta into the interior and lower mainland of B.C.
* One of the BCUC's conditions that the company has accepted is that shareholders will be responsible for cost overruns greater than 10% of the estimated $376-million budget.
* Also, BC Gas has advised the BCUC that it intends to complete the project for November 1, 2000. However, the company will also seek bids for materials and construction based on either a 2000 or 2001 start-up. The company may revise its timing to November 1, 2001, if competition from other new pipeline projects raises the costs of materials and services beyond the 10% threshold from previous estimates.
* We have not yet built any contribution from the SCP into our estimates, given the uncertainty surrounding the in-service date. However, when the pipeline is in service, we estimate its EPS contribution at $0.20 to $0.25 per share.
* Following the BCUC decision in May, we raised our ranking on shares of BC Gas to Buy. Our largest concern (besides constant interest rate worries) is lower throughput on the U.S. portion of the company's oil pipeline. However, given the recovery in oil prices and the expected return to higher production rates (an encouraging sign is that Enbridge has a 2% apportionment on some of its lines for June), the current lower throughput should prove to be temporary.

-0- (WGR) Jun/16/1999 9:10

WGR CIBC WORLD MARKETS Inc.: Research Highlights - BC Gas Inc.
May 25 1999 9:08

BC Gas Inc.: Southern Crossing Gets Go Ahead; Raised To Buy From Hold

Brian Dunning 416-956-6169

BCG	Buy(from Hold)	FY Dec. EPS	1997	1998	1999E	2000E
Price:	$27.85	Current:	$1.63	$1.85	$1.92	$2.05
Target:	$32.50					

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* The British Columbia Utilities Commission (BCUC) approved BC Gas' application to build the Southern Crossing Pipeline (SCP).
* The SCP is a 312-kilometre, 300 MMcf/d, $300-million natural gas pipeline which will allow the company to bring natural gas from Alberta into the lower mainland of B.C.
* The company also received a Project Approval Certificate from the Environmental Assessment Office. The company has not made a decision yet whether the in-service date will be late 2000 or late 2001. We are not adjusting our estimates at this time given the uncertainty about the in-service date. However, when the pipeline is in service, we estimate its EPS contribution at about $0.20/share.
* We have raised our 12-month price target to $32.50 from $31.00 and are raising our recommendation for BC Gas Inc. from Hold to Buy.
* The SCP does have the potential to bypass Westcoast Energy's pipeline system. However, under a recent tolling decision, we do not expect any negative financial implications for Westcoast. Despite this, we would not be surprised to see Westcoast's stock temporarily soften in response to the SCP decision. We would consider any softness in Westcoast's share price as a buying opportunity. (W $29.00, Buy)

-0- (WGR) May/25/1999 9:08

CIBC WOOD GUNDY: Research Highlights - BC Gas
Apr 29 1999 9:52
BC Gas: First Quarter Results Slightly Below Expectations; Dividend Increased; Hold
Brian Dunning 416-956-6169

BCG	Hold	FY Dec.	EPS	1997	1998	1999E	2000E
Price: $28.70		Q1A $1.35	Current:	$1.63	$1.85	$1.92	$2.05
Target: $31.00		Q1E $1.38	Previous:			$2.00	$2.10

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* BC Gas reported Q1/99 EPS of $1.35, versus $1.33 last year and modestly below our $1.38 estimate. The lower-than-expected results were due to lower throughput on its oil pipelines. Earnings for the quarter were $51.6 million versus $51.9 million in Q1/98. The improvement in earnings per share resulted from a reduced number of shares outstanding, due to the company's share repurchase program.
* The company also increased its dividend to an annualized rate of $1.18 per share from $1.12 per share.
* Contribution from natural gas distribution was $46.4 million, up $0.1 million from last year. Productivity improvements offset a decline in the 1999 allowed return on equity of 9.25% compared to 10% in 1998.
* Decreased throughput in both Canada and the U.S. was the primary driver of a $0.6-million decline over last year in the Petroleum Transportation segment, to $5.7 million. This was partially offset by reduced costs. U.S. mainline volumes declined 38% to 10,737 cubic metres per day, while throughput on the Canadian operations declined 18% to 36,217 cubic metres per day.
* The $350-million Southern Crossing pipeline project review by the British Columbia Utilities Commission (BCUC) is ongoing. A decision on the company's application is expected in May.
* The fate of the $440-million Corridor pipeline project could be determined after Shell completes its feasibility study for the proposed Athabasca Oil Sands Project in Alberta in the third quarter. A final decision will be made in the fourth quarter, after which a start-up would be scheduled for 2002.
* With respect to BC Gas' Williams Lake electricity generation plant, the company continues to monitor market conditions for an opportunity to proceed with the issue of BCG Power Generation Limited Partnership units.
* We are maintaining our Hold recommendation, but lowering our 1999 and 2000 EPS estimates to $1.92 and $2.05, respectively. The revised earnings reflect lower expected throughput in the Petroleum Transportation division and also the delayed monetization of the Williams Lake power project.

10:39am EST 05-Feb-99 CIBC Wood Gundy (Dunning, Brian 416-956-6169) BCG.CA BCG
BC Gas: 1998 Results In Line

BC Gas: 1998 Results In Line
Brian Dunning 416-956-6169

BCG	Hold	FY Dec.	EPS	1997	1998	1999E	2000E
Price:	$30.75	Q4A $0.90	Current:	$1.63	$1.85	$2.00	$2.10
Target:	$31.00	Q4E $0.90					

* BC Gas reported Q4/98 EPS of $0.90 versus $0.83 last year and equal to our estimate. For 1998, EPS before non-recurring items were $1.85 versus $1.63 last year. Earnings including non-recurring items were $1.85 in 1998 versus $1.27 in 1997. Part of the improvement was a result of a reduced number of shares outstanding from the company's share repurchase program.
* Contribution from natural gas distribution was $51.8 million, up from $50.2 million in 1997. Productivity improvements since the implementation of the restructuring program in early 1998 more than offset a decline in the allowed return on equity to 10% versus 10.25% in 1997.
* Increased throughput in both Canada and the U.S. helped increase contribution from the Petroleum Transportation segment to $22.9 million from $20.4 million last year.
* The $350-million Southern Crossing pipeline project review by the British Columbia Utilities Commission (BCUC) is ongoing. A decision has not been made to determine if another public hearing will be necessary.
* The fate of the Corridor pipeline project could be determined by the end of the third quarter of 1999, when Shell is scheduled to make a decision as to whether it will be proceeding with its proposed Athabasca Oil Sands Project in Alberta. Higher oil prices would make this decision easier.
* With respect to BC Gas' Williams Lake electricity generation plant, the company will continue to monitor market conditions for an opportunity to proceed with the issue of BCG Power Generation Limited Partnership units.
* We are maintaining our Hold recommendation and our 1999 and 2000 EPS estimates of $2.00 and $2.10, respectively.

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BC GAS (BCG-T, $31.50) – HOLD

Trans Mountain Signs New Five-Year Incentive Toll MOU; Offers EPS Upside

Stock Price		12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/99A	12/00E	12/01E	P/E Ratios 12/99E	12/00E	Ind. Div.	Div. Yield
$31.50	New	$30.00	-1%	38.0	$1,197	$1.81	$2.00	$2.20	15.8	14.3	$1.24	3.9%
	Old	$29.00										

All figures in C$ unless otherwise indicated.

Trans Mountain Pipe Line, a wholly owned subsidiary of BC Gas, announced it has signed a Memorandum Of Understanding (MOU) with the Canadian Association of Petroleum Producers and Chevron Canada Limited for a new five-year toll settlement for the 2001-2005 period. The agreement gives the company an incentive to control costs and improve volume throughput and should result in improved earnings for both Trans Mountain and BC Gas in 2001 and beyond. However, as we had anticipated a new agreement would be signed to replace the previously negotiated five-year settlement coming to an end on December 31, 2000, we are not revising our earnings estimate or opinion on the shares of BC Gas, although we are increasing our target price by $1.00 to reflect disagreements being reached. The stock is rated HOLD for long-term oriented investors that seek a lower risk investment offering competitive dividend income and 5%-7% annual growth.

The settlement is subject to the signing of a definitive agreement and approval by the National Energy Board (which encourages this type of settlement and we expect will make no significant changes). Essentially, Trans Mountain is able to keep 100% of any cost savings, but will be compensated if annual inflation rises above 3.5% (by 75% of the increase). The major change from the previous agreement is that Trans Mountain will share financially in some of the variations in throughput. The base level of assumed throughput is 30,000 m^3 per day. The company will absorb any lower throughput to as low as 28,500 m^3, which would cost the company a maximum of about $3 million after-tax or $0.08 per share for BC Gas. We rate this risk quite acceptable, in that the company has not averaged less than 31,000 m^3 in any of the last five years. In addition, the company will benefit by increased throughput up to 32,000 m^3 (as much s $4 million or $0.11 per BC Gas share) and share 50/50 in any increase above 32,000 m^3. Certainly, with the expansion by Enbridge, the need for coping with Alberta's constrained eastern pipeline capacity has declined, but the basic need for supplying B.C. and U.S. Pacific Northwest demand is still there. Consequently, we expect that Trans Mountain could provide over a $0.05 per share improvement to BC Gas's 2001 earnings, largely driven by lower costs and throughput at or slightly better than the benchmark level.

BC GAS (BCG-T, $31.50) – HOLD

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Increased Seasonality Impacts Third Quarter Earnings

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/99A	12/00E	12/01E	P/E Ratios 12/00E	12/01E	Ind. Div.	Div. Yield
$31.50	$30.00	-1%	38.3	$1,205	$1.81	$2.00	$2.20	15.8	14.3	$1.24	3.9%

All figures in C$ unless otherwise indicated.

We are maintaining our HOLD rating on the shares of BC Gas with a 12-month target price of $30.00 as the shares possess an attractive 4.0% dividend yield and have long-term earnings growth potential from the Southern Crossing Pipeline and Corridor Pipeline projects. The company reported a third quarter loss per share before non-recurring items of $0.34 versus a loss of $0.34 for the same period last year, slightly below the consensus estimate of a loss of $0.32. Final reported earnings were a penny higher at a loss of $0.33 vs a $0.34 loss, due to a $8.0 mln tax benefit associated with the 1999 sale of the company's Williams Lake Power Plant largely offset by a $7.5 mln after - tax restructuring charge related to the re-location of Trans Mountain Pipe Line offices from Vancouver to Calgary. Non-recurring earnings will continue to positively affect earnings next quarter through a $5.2 mln realized tax benefit from the Williams Lake Power Plant sale. Earnings for the first nine months were $1.49 vs $1.00 including non-recurring tax benefit of $0.42 in the first three quarters of 2000. A more detailed breakout of the quarterly results is included in the attached table.

The earnings were $0.02 per share below consensus and $0.05 per share below our expectations. This was due mainly to increasing seasonality of earnings as the growth in rate base causes the allocation of fixed costs to change slightly. We expect the fixed cost re-allocation will positively impact results in the fourth quarter more than originally forecast and compensate for its negative impact on third quarter earnings. We are therefore making no changes to our EPS estimates of $2.00 for 2000 and $2.20 for 2001. Earnings in 2001 will benefit from the start-up of the Southern Crossing Pipeline, continuing cost control and Trans Mountain Pipe Line's new incentive tolling agreement (please refer to the November 7, 2000 Morning Focus comment for details). Note that increasing seasonality will occur in 2001, implying lower earnings (or greater losses) in the second and third quarters offset by higher earnings in the first and fourth quarters.

BC GAS

	Third Quarter 1999	Third Quarter 2000	Favourable/ (Unfavourable)
Net Earnings (Loss):			
Natural gas distribution	($0.48)	($0.49)	-2%
Petroleum transportation	$0.11	$0.13	18%
Other businesses	($0.01)	$0.02	n/m
Reported EPS before unusual items	**($0.38)**	**($0.34)**	-11%
Unusual items	$0.04	$0.01	n/m
Reported EPS after unusual items	**($0.34)**	**($0.33)**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$15.50	$16.96	9%
Number of Gas Customers	749,302	760,140	1%
Gas Volumes (petajoules)			
Sales	15.8	14.7	-7%
Transportation	12.8	12.4	-3%
Total	28.6	27.1	-5%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	23,692	23,339	-1%
US mainline	9,971	11,095	11%
Jet fuel deliveries	4,030	3,696	-8%
Total	37,693	38,131	1%

Seasonal swing in earnings increasing - more dramatic in 2001 due to SCP; partially offset by higher ROE (from 9.25% to 9.50%) and growth in rate base.

Lower operating costs, and to a smaller extent, higher throughput on US mainline offset slight reduction of Canadian Mainline throughput.

Improved energy and water utility services operating results in 2000.

2¢ below consensus estimate; re-allocation of fixed costs increased seasonal earnings variation.

Includes $8.0 mln income tax benefits associated with sale of Williams Lake Power Plant and $7.5 mln after-tax restructuring charge in 2000; $1.6 mln tax recoveries in 1999.

Up over 3% from 2Q00 and 30% from 1Q00.

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BC GAS INC. (BCG-T, $28.00) – HOLD

$8 mln Private Placement in Westport Innovations; No Impact to Earnings Expected

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/99A	12/00E	12/01E	P/E Ratios 12/00E	12/01E	Ind. Div.	Div. Yield
$28.00	$29.00	8%	38.3	$1,071	$1.81	$2.00	$2.20	14.0	12.7	$1.24	4.4%

All figures in C$ unless otherwise indicated.

BC Gas announced yesterday that it has entered into an $8 mln private placement financing agreement to acquire shares of Westport Innovations Inc. (WPT-T). The company will purchase 516,129 shares (or 1.7%) of Westport at a price of $15.50/share, a price equal to Westport's equity financing which closed last week. Westport will use the proceeds of the private placement to acquire a 32% interest in BCG eFuels Inc., a wholly owned subsidiary of BC Gas Inc. Upon close of the transaction (expected October 31, 2000), Westport will have the right to nominate one-third of the board of directors of BCG eFuels. Currently, BCG eFuels is operating around breakeven. Consequently, this transaction is not expected to impact BC Gas's earnings, and we maintain our $2.00 and $2.20 EPS estimates for 2000 and 2001, respectively. We recommend the shares of BC Gas as a HOLD with a target price of $29.00.

BCG eFuels owns and operates 37 compressed natural gas refuelling facilities in BC and two facilities in Ontario. BCG eFuels plans to expand into Ontario and then possibly into California, Texas, and U.S. Pacific Northwest, areas where supportive government initiatives exist. The goal of BCG eFuels is to become a leading provider of alternative fuel infrastructure and turnkey alternative fuel refuelling solutions for vehicles and fleets. We are encouraged to see BC Gas continuing to pursue alternative energy investments on a conservative basis. By partnering with strong companies in the field, using its infrastructure knowledge, and by making bite-sized investments, investors are exposed to modest risk while capitalizing on a growth portion of the business.

JULY 28, 2000

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BC GAS INC. (BCG-T, $27.15) – HOLD

2Q Earnings Ahead of Estimates

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share			P/E Ratios		Ind. Div.	Div. Yield
					12/99A	12/00E	12/01E	12/00E	12/01E		
$27.15	$29.00	11%	38.3	$1,039	$1.81	$2.00	$2.20	13.6	12.3	$1.24	4.6%

All figures in C$ unless otherwise indicated.

BC Gas reported second quarter earnings per share before non-recurring items of $0.02 versus a loss of $0.01, slightly ahead of the consensus estimate of $0.00. Final reported earnings were higher at $0.22 vs a $0.01 loss, thanks to a $7.9 mln tax benefit associated with the 1999 sale of the company's Williams Lake Power Plant. Non-recurring earnings will continue to be positively affected in the second half of 2000 as a further $13.2 mln realized tax benefit from the Williams Lake Power Plant sale. Earnings for the first six months were $1.82 vs $1.34 including non-recurring tax benefit of $0.41 in the first half of 2000. A more detailed breakout of the quarterly results is included in the attached table. The stronger than anticipated earnings resulted primarily from increased throughput at Trans Mountain Pipeline. We continue to rate the shares of BC Gas HOLD with a 12-month target price of $29.00. The shares possess an attractive 4.6% dividend yield and long-term earnings growth potential from the Southern Crossing Pipeline (SCP) and Corridor Pipeline projects.

The company also made two other announcements yesterday. First, the company stated that it would be moving Trans Mountain's head office from Vancouver to Calgary, Alberta by mid-2001 so that it can be closer to its market and meet the expected demand growth of western Canadian crude oil transportation. The company plans to take advantage of Trans Mountain's move to initiate a restructuring program focused on workforce reduction. As a result, BC Gas will take a $7.5 mln or $0.20 per share charge in 3Q00. Second, BC Gas announced that it has signed a Memorandum of Understanding with BC Hydro to jointly form two unregulated companies. One company will market non-regulated products and services to residential and small commercial customers and a second company will manage customer services for both BC Hydro and BC Gas. It is encouraging that BC Gas is pursuing new opportunities for growth in areas where it has strong expertise. However, until more information is known and a deal has been signed, investors will ascribe no potential value to these ventures. By year end, the company could have a deal that could add modestly to earnings in 2001 and beyond.

BC GAS

	Second Quarter 1999	2000	Favourable/ (Unfavourable)
Net Earnings (Loss)			
Natural gas distribution	($0.15)	($0.16)	-7%
Petroleum transportation	$0.09	$0.12	33%
Other businesses	$0.05	$0.06	n/m
Reported EPS before unusual items	**($0.01)**	**$0.02**	-300%
Income tax benefit from NW Energy	$0.00	$0.20	n/m
Reported EPS after unusual items	**($0.01)**	**$0.22**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$16.18	$17.53	8%
Number of Gas Customers	748,615	759,399	1%
Gas Volumes (petajoules)			
Sales	26.9	25.1	-7%
Transportation	15.3	14.5	-5%
Total	42.2	39.6	-6%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	23,739	21,941	-8%
US mainline	8,133	10,731	32%
Jet fuel deliveries	3,395	3,178	-6%
Total	35,268	35,850	2%

Seasonal impact despite increased ROE from 9.25% to 9.50% and growth in rate base (including Southern Crossing Pipeline).

Higher throughput on US mainline and reduced operating costs. 3Q00 restructuring charge of $0.20 coming.

1999 recognition of tax recoveries offset by improved energy and water utility services operating results in 2000.

2¢ above consensus estimate.

Up 26% from 1Q00, but dropped to 9,000 - 10,000 level in July (similar to 3Q99 volumes).

Goepel McDermid

INsight

BC GAS INC.

(BCG - T, $26.30)

RECOMMENDATION: **BUY**

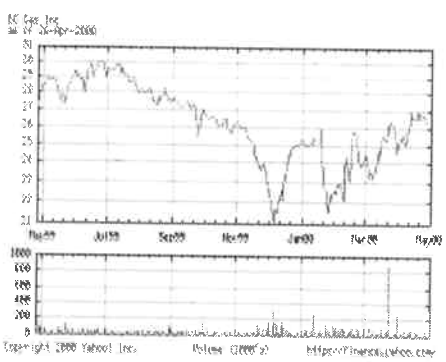
First Quarter Earnings Meet Expectations

12-MONTH
TARGET PRICE: **$29.00**

Financial Summary

	1999	2000E	2001E
EPS	$1.81	$2.00	$2.30
P/E	14.5x	13.2x	11.4x
Monthly trade volume (mlns):			1.05
BVPS (03/00)			$17.67
P/BV			1.5
Current Dividend			$1.24
Dividend Yield			4.7%
Dividend Payout Ratio (03/99)			0.62
Fiscal Year End			31-Dec
Shares Outstanding (mln)			38.3
Market Capitalization (mln)			$1,007
52-Week Hi/Lo			$30.85-$20.45
TSE 300 Index			9,378

All figures in C$ unless otherwise noted.



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BC Gas reported first quarter earnings before non-recurring items of $1.39 vs. $1.35 for the same period last year. These earnings were right in-line with consensus estimates, though Trans Mountain throughput has been weak. Earnings including the $0.21 income tax benefit from the sale of NW Energy were $1.60 versus $1.35 for the quarter. A more detailed breakout of the quarterly results is included in the attached table. We are revising our 2000 earnings estimate to $2.00 from $2.05 due to the volatility of the Trans Mountain throughput. However, we continue to rate the shares of BC Gas BUY with a one-year target price of $29.00. The shares are attractive for the earnings and dividend growth available as a result of the Southern Crossing Pipeline (SCP) and Corridor Pipeline projects over the next few years, combined with the current 4.7% dividend yield.

The 3% increase in Q/Q earnings was achieved, in part, from a 25 basis point increase in allowed return on the regulated utility. This was offset by a 21% decline in oil throughput through the company's U.S. mainline due to a temporary refinery shutdown in February. Earnings in the remainder of 2000 should benefit from further tax benefits associated with the NW Energy transactions (about $21 mln will be recognized over the remainder of 2000, which is not included in our 2000 earnings estimates of $2.00), a rebound in transportation volumes at Trans Mountain and AFUDC earned on SCP. The company will make a final determination regarding the start-up date of SCP next month, and is currently evaluating pipeline construction and installation bids submitted by contractors. We expect the project will not be delayed from its planned start-up date of November 2000.

The company also announced an increase in it dividend from $1.18 per share annually to $1.24 per share. While an increase was expected, it was modestly higher than estimated and is an indication of the company's positive outlook. It should also direct investor's attention on the stability of the company's earnings.

April 27, 2000

	First Quarter 1999	First Quarter 2000	Favourable/ (Unfavourable)
Net Earnings (Loss)			
Natural gas distribution	$1.21	$1.28	6%
Petroleum transportation	$0.15	$0.14	-7%
Other businesses	($0.01)	($0.03)	n/m
Reported EPS before unusual items	**$1.35**	**$1.39**	3%
Income tax benefit from NW Energy		$0.21	n/m
Reported EPS after unusual items	**$1.35**	**$1.60**	n/m
Average Shares O/S	38.3	38.3	0%
Book Value	$16.48	$17.67	7%
Number of Gas Customers	747,616	757,432	1%
Gas Volumes (petajoules)			
Sales	50.7	51.4	1%
Transportation	19.0	19.2	1%
Total	69.7	70.6	1%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	22,471	21,021	-6%
US mainline	10,737	8,511	-21%
Jet fuel deliveries	3,009	2,570	-15%
Total	36,217	32,102	-11%

Increase in authorized ROE from 9.25% to 9.50% and growth in rate base

Decreased throughput in both Canadian and US volumes;Temporary shutdown of Washington State refinery in Feb. 2000.

Recently acquired water services business typically has modest losses in winter followed by stronger earnings in the summer; countercyclical to the gas utility.

Earnings in-line with expectations.

February deliveries down to approx. 7,000 m3/day but at 10,000 m3/day currently and expect to average 10,000 m3/day for the year.

Goepel McDermid

INsight

BC Gas Inc.

(BCG-T, $22.90)

RECOMMENDATION: **BUY**

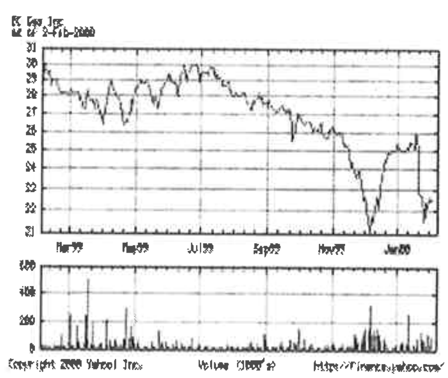
Earnings In-line with Expectations

12-MONTH
TARGET PRICE: **$29.00**

Financial Summary

	1998	1999A	2000E
EPS	$1.85	$1.94	$2.05
P/E	12.4x	11.8x	11.2x
Monthly trade volume (mlns):			0.97
BVPS (12/99)			$16.35
P/BV			1.4
Current Dividend			$1.18
Dividend Yield			5.2%
Dividend Payout Ratio (03/99)			0.61
Fiscal Year End			31-Dec
Shares Outstanding (mln)			38.3
Market Capitalization (mln)			$877
52-Week Hi/Lo			$31.40-$20.45
TSE 300 Index			8,894

All figures in C$ unless otherwise noted.



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BC Gas reported fourth quarter earnings before non-recurring items of $0.94 versus $0.90 and full year earnings of $1.94 versus $1.85, in line with expectations. Earnings including the $0.18 income tax benefit from the sale of NW Energy were $1.12 versus $0.90 for the fourth quarter and $2.12 vs $1.85 for the year. A full breakout of the quarterly results is included in the attached table. We continue to rate BC Gas BUY with a one-year target price of $29.00.

The 5% earnings growth was achieved despite a 75 basis point reduction in regulated utility return and a 17% drop in throughput at Trans Mountain Pipe Line. Offsetting these factors were a $0.13 tax recovery (up $0.09 from the $0.04 recovery in 1998), a higher utility rate base and slightly higher water utility income. Note that the company still can add over $0.30 to earnings in future years from its unutilized prior years' income tax losses.

Earnings in 2000 should benefit from further tax savings, a rebound in transportation volumes at Trans Mountain, improved utility earnings and AFUDC earned on the Southern Crossing Project (SCP). The company will make a final determination regarding the start-up date of SCP in May, but we would be quite surprised to see the project delayed from its planned November, 2000 start-up.

BC Gas is focusing on three areas for its growth. First, it will secure and expand existing business. Second, it will have multiple utility-type businesses (such as Trans Mountain, SCP, Corridor Pipeline and water utilities). Third, it will expand its range of products and services to sell into its existing customer base. To this end, the company has recently hired a person from Sprint Canada to the position of Senior Vice President Sales and Marketing. The company's strategy appears to be a low risk one, in that it builds on its existing utility and pipeline strengths. In the near term, the company is pursuing above average earnings growth from its SCP and Corridor initiatives. Longer term, earnings growth will have to come from better utilizing its existing customer base, though we expect this will take a few years to become significant.

February 4, 2000

BC GAS

	Fourth Quarter		
	1998	1999	Favourable/ (Unfavourable)
Net Earnings (Loss)			
Natural gas distribution	$0.81	$0.77	-5%
Petroleum transportation	$0.14	$0.16	14%
Other businesses	($0.05)	$0.01	n/m
Reported EPS before unusual items	**$0.90**	**$0.94**	4%
Income tax benefit from NW Energy	$0.00	$0.18	n/m
Reported EPS after unusual items	**$0.90**	**$1.12**	n/m
Average Shares O/S	38.5	38.3	-1%
Book Value	$15.42	$16.35	6%
Number of Gas Customers	742,305	756,090	2%
Gas Volumes (petajoules)			
Sales	44.2	43.1	-2%
Transportation	16.9	17.5	4%
Throughput under contract	22.0	11.6	-47%
Total	83.1	72.2	-13%
Oil Pipeline Deliveries (cubic metres/day)			
Canadian mainline	23,604	22,640	-4%
US mainline	14,039	10,547	-25%
Jet fuel deliveries	3,154	2,730	-13%
Total	40,796	35,917	-12%

Reduction in authorized ROE from 10.0% to 9.25% partially offset by productivity improvements and greater transportation revenue.

Decreased throughput in both Canadian and US volumes in 1999. Corridor Pipeline construction expected to start 2Q00.

Higher UAE project earnings and $0.05 per share of tax recoveries in 4Q99.

Earnings in-line with expectations. EPS up 5% from $1.85 in 1998 to $1.94 in 1999.

Unfortunately, the US mainline is the most profitable part of the company and it had the greatest decline.

BC GAS INC. (BCG-T, $21.75) – BUY

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Corridor Pipeline Gets Go-Ahead With Athabasca Oils Sands Project

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/98A	Earnings Per Share 12/99E	Earnings Per Share 12/00E	P/E Ratios 12/99E	P/E Ratios 12/00E	Ind. Div.	Div. Yield
$21.75	$29.00	39%	38.3	$832	$1.85	$1.95	$2.05	11.2	10.6	$1.18	5.4%

All figures in C$ unless otherwise indicated.

As expected, Shell Canada Limited, Western Oil Sands L.P. and Chevron Canada Resources have decided to proceed with the Athabasca Oil Sands Project, with BC Gas to build the Corridor Pipeline to deliver the mined heavy oil (see December 1, 1999 *Morning Focus*). Due to increased volumes, the $690 million project has expanded in size from the $400 million originally expected. Given that the company expects to make a reasonable return on the existing project, it is likely that its return could be enhanced if new partners can be encouraged to join the project and lower the unit cost of the overall project. The project is a win for the company, and in conjunction with Southern Crossing Pipeline, will drive earnings growth at close to 10% annually to 2003, well above normal internal utility growth of around 3%-5%. The shares of BC Gas reacted positively to the announcement, initially jumping as much as $2.30 to $22.30 before settling back to close at $21.75, up $0.75 for the day. All in all, a good performance by BC Gas given that only one other electric and gas utility stock was up yesterday. We continue to rate BC Gas a BUY with a one-year target price of $29.00, suggesting a target P/E of 14 times estimated 2000 earnings.

The Corridor Pipeline will be 100% owned by BC Gas. The project includes a 453-kilometre dual pipeline comprising a 12-inch line to carry diluent north to the mine and a 24-inch line to carry 150,000 barrels/day of heavy oil south from the mine to Shell's Scotford upgrader. In addition, a 43-kilometre line will carry synthetic products from Scotford to the Edmonton pipeline terminus connecting both Enbridge and Trans Mountain Pipeline. Construction will begin in the second quarter of 2000 and the pipelines will be in service by the end of 2002. Regulatory approval from the Alberta Energy and Utilities Board was granted in September 1999. The company will use project financing for the project and will not need to issue any new common equity for at least several years, if at all.

BC GAS INC. (BCG-T, $22.50) – BUY

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Share Price Weakness Puts Stock at Attractive Level

Stock Price	12-Month Target	Target Return	Shares O/S (mln)	Market Cap. (mln)	Earnings Per Share 12/98A	12/99E	12/00E	P/E Ratios 12/99E	12/00E	Ind. Div.	Div. Yield
$22.50	$29.00	34%	38.3	$861	$1.85	$1.95	$2.05	11.5	11.0	$1.18	5.2%

All figures in C$ unless otherwise indicated.

The shares of BC Gas have declined $1.50 or 6% since Friday, largely due to the spillover from investors' concerns regarding the regulatory treatment of TransAlta, along with modestly higher bond yields. However, BC Gas is not affected by the Alberta EUB decision. Note that the company already has a 9.5% allowed return set for 2000 (versus an effective 8.7% ROE for TransAlta, net of disallowances) and generally earns above the allowed return due to incentive toll setting. In addition, the company is exploring new incentive mechanisms to begin when the current three-year toll period ends at the end of 2000. Ideally, a new incentive system would improve customer rates and shareholder returns. Also, BC Gas owns Trans Mountain Pipe Line, which is on a five-year regulatory incentive system and is earning well above a 10% ROE. Trans Mountain has significant longer-term growth opportunities which could enhance its ROE longer term.

BC Gas is quite attractive for investment, offering a 5.2% dividend yield and trading at only 11.0 times estimated 2000 earnings. In addition, the $375 million Southern Crossing Pipeline will add significantly to earnings in 2001, while the $400-$700 million Corridor Pipeline (expected to be approved in a matter of weeks) should add to earnings in 2002. Consequently, earnings growth is expected to continue for some years.

NATIONAL BANK FINANCIAL

Daily Bulletin November 8, 2000 PM

BC GAS INC. – BCG (TSE) $31.20

Q3 2000 Results Consistent with Expectation…

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RECOMMENDATION: HOLD (was BUY) ◆ TARGET: $32.40 (was $32.60)

Estimates (Year-End Dec. 31)	99A	00E	01E
EPS	$1.94	$2.07	$2.17

Valuation	00E	01E
P/E	15.07	14.37

Basic Information			
52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$20.45-$33.00	$32.40	38.3	$1,195

Note: All numbers in Cdn$

…Target Price Slightly Reduced – Buy Recommendation Changed To HOLD

EPS	Q3 2000	Q3 1999	9 mos/2000	9 mos/1999
Operating	$(0.34)	$(0.34)	$1.07	$1.00

Operating EPS	2000E	2001E	2002E	Target Price
Revised	$2.07	$2.17	$2.32	$32.40
Previous	$2.07	$2.17	$2.32	$32.60

Investment Opinion

Guided by, in our view, the strongest management team ever, and aided by its Southern Crossing Pipeline (SCP) and the Corridor petroleum-pipeline projects of Trans Mountain Pipe Line, (its 100% petroleum pipeline subsidiary), BCG's projected earnings are set to escalate in the next three years. The escalation will be at annual rates in excess of those it could have expected to earn under its status quo as a somewhat diversified gas distributor. Undoubtedly, BCG has the potential of further accelerating its rate of earnings and dividend growth. This is especially possible after 2001, if it becomes the consolidator of British Columbia's gas distribution industry and/or it is allowed to participate in the potential privatization of British Columbia Hydro and Power Authority, or to work with it within the framework of an alliance. In addition, relatively modest incremental upside could result from the pursuit of complementary activities.

Segmented Earnings
($'MM, Except $ Per Share)

	Q3/2000		Mar-99		9 Months/2000		9 Months/1999	
		Per Share		Per Share		Per Share		Per Share
Gas Distribution	$ (18.9)	$ (0.49)	$ (18.5)	$ (0.48)	$ 24.0	$ 0.63	$ 22.00	$ 0.58
Petroleum Pipeline	$ 5.1	$ 0.13	$ 4.3	$ 0.11	$ 15.0	$ 0.39	$ 13.60	$ 0.35
Other Businesses	$ 0.6	$ 0.02	$ 1.4	$ 0.03	$ 1.8	$ 0.05	$ 2.80	$ 0.07
Earnings Before One-time Items	**$ (13.2)**	**$ (0.34)**	**$ (12.8)**	**$ (0.34)**	**$ 40.8**	**$ 1.07**	**$ 38.40**	**$ 1.00**
One-time Items*	$ 0.5	$ 0.01	$ -	$ -	$ 16.3	$ 0.42	$ -	$ -
Reported Earnings	$ (12.7)	$ (0.33)	$ (12.8)	$ 0.34	$ 57.1	$ 1.49	$ 38.40	$ 1.00

Note: In the first nine months 2000, BCG recorded $23.8 million of income-tax benefits resulting from the gain from the sale of Williams Lake electricity plant, offset by a restructuring charge of TMP of $7.5 million post tax.*

Third Quarter of 2000

Gas Distribution: The effects of warm weather more than offset those resulting from increases in rate base and in the allowable rate of return on the common-equity portion of rate base, and from the recording of an allowance for equity funds used during construction of SCP. BCG currently estimates the total cost of completing SCP at about $410 million. As this number is just less than 110% of the original capital-cost estimate of $376 million, BCG will not earn a return on the overrun. SCP is slated to enter service in late November 2000.

Petroleum Transmission: TMP's throughput increased somewhat over 1999 levels, owing mainly to shipments into the USA. TMP has just signed a memorandum of understanding with its shippers, covering an Incentive Toll Settlement for the second five-year term commencing in 2001. It lets TMP assume risks and rewards of throughput variations within a range of 28,500 m^3 and 32,000 m^3 per day. Below the floor, TMP is entitled to recover revenue deficiencies from its shippers. Above the ceiling, TMP and its shippers are sharing revenues equally. TMP will enjoy fully the benefits resulting from cost reductions and efficiency gains, but will lose the protection from the escalation of a price index. However, adjustments for volume variations outside the stated range and certain non-routine adjustments are still in effect. The new ITS is expected to be effective Jan. 1, 2001.

TMP has so far spent about $80 million on the Corridor Pipeline. A bank-credit facility and commercial-paper program are in effect to provide construction and operational funding.

Other Businesses: Q3 2000 results declined from a year ago, as operating results from unregulated activities improved in 2000, offsetting the recognition of income-tax benefits in 1999.

At the end of October, BCG finalized a financing agreement with Westport Innovations to strengthen an alliance to build a fueling infrastructure for natural-gas vehicles (NGV). BCG bought shares in Westport for about $8 million. Westport, in turn, used this amount to acquire a 32% interest in BCG eFuels Inc.

Valuation

In terms of valuation, we estimate for the year ending September 2002, EPS of $2.25, and a long-term corporate bond yield of 7.75%, tax-effected to 6.20%. We expect BCG to increase its current DPS of $1.24 to $1.31 by 2002. This generates a support price of $21.13. Estimated retained EPS are $0.94. We have maintained our previous multiple of 12x estimated retained EPS. This generates a residual price of $11.28. The sum of support and residual prices equals our target price of $32.41, rounded to $32.40. This number is $0.20 below our previous target price, owing to the assumption of somewhat different quarterly earnings patterns in 2001 and 2002, compared with our previous assumption.

National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
** Two or more classes of common shares exist with differential voting rights.

NATIONAL BANK FINANCIAL

Daily Bulletin

July 28, 2000 PM

BC Gas – BCG (TSE) $27.20

Q2 2000 Results Consistent with Expectation…

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Associate: Ramin Burney – (416) 869-7933 – *ramin.burney@nbfinancial.com*

RECOMMENDATION: BUY ◆ TARGET: $32.60 (WAS $32.45)

Estimates (Year-End Dec. 31)

	99A	00E	01E
EPS	$1.94	$2.07	$2.17

Valuation

	00E	01E
P/E	13.14	12.53

Basic Information

52-Week Range	12-Month Target	Shs O/S (FD mln)	Mkt. Val. ($mln)
$21.00-$30.00	$32.60	38.3 mln	$1,042 mln

Note: All numbers in Cdn$

…Buy-Recommendation Sustained. Target Price Raised from $32.45 to $32.60.

	Q2 2000	Q2 1999	H1 2000	H1 1999
EPS*	$0.02	($0.01)	$1.41	$1.34

Note: *Operating Earnings

We continue to recommend the purchase of BCG's common shares for growth and income being roughly balanced. With the completion of the $376 million Southern Crossing Pipeline in November 2000 and the $668 million Corridor Pipeline in 2002, BCG's earnings will increase in a step fashion, notably in 2001 and 2003.

BC Gas Utility reflected the customary seasonal weakness and showed a loss of $0.01 per share in the second quarter 2000, mitigated by the effects of increases in rate base and the allowable rate of return on the common-equity component of rate base from 9.25% in 1999 to 9.50% in 2000, and by a very modest contribution from Southern Crossing.

BCG's 100% subsidiary Trans Mountain Pipe Line (TMP) increased its EPS-contribution year-over-year from $0.09 in the second quarter 1999 to $0.12 in the second quarter 2000.

Other businesses increased their contribution year-over-year by $0.01 per share to $0.06 in the second quarter 2000. We have not included the non-recurring income-tax benefit of $0.20 per share from the sale of NW Energy.

In a memorandum of understanding with BC Hydro (BCH), BCG announced that both firms are considering the creation of two firms (with each of them holding an equal interest). One would jointly market non-regulated services and products to residential and small commercial firms. The second one would manage measurements, invoicing and call centres. These steps, if taken, would generate benefits to both firms resulting from more efficient operations and marketing, cost reductions and technology benefits.

TMP will restructure itself and move its head office to Calgary in 2001. Cost reductions and efficiency gains are among the principal benefits resulting from the restructuring. A new incentive-tolling agreement will be a co-product.

All in all, BCG is making good progress on all fronts, most of all in its efforts to grow earnings and dividends beyond those from the "British Columbia sand box".

For the year ending June 30, 2002, we are projecting EPS of $2.27; DPS of $1.30, and retained EPS of $0.97. Based on a long-term corporate bond yield of 7.75%, tax-effected to 6.20%, the (dividend)-support price is $20.97. In recognition of the acceleration in the growth of EPS and retained EPS, we have raised our retained-EPS multiple from 11X to 12X. This generates a residual price of $11.64, for a target price of $32.60 (rounded).

** Two or more classes of common shares exist with differential voting rights.
National Bank Financial Inc. (the Firm) is an indirect wholly owned subsidiary of National Bank of Canada.

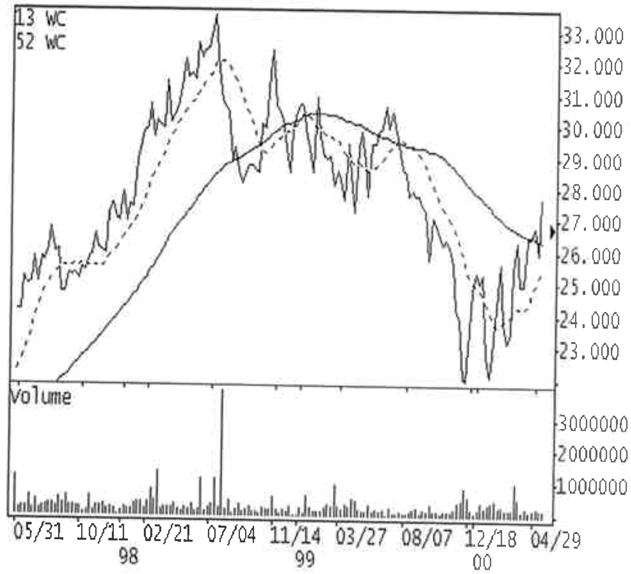
Analyst : Winfried Fruehauf, Ph.D. (416) 869-7932
Associate : Ramin Burney (416) 869-7933

BC GAS (BCG – TSE)
RECOMMENDATION: BUY
TARGET PRICE: CDN $32.45

Recommendation:			BUY		
Price Date	Current Price	52 Week High	52 Week Low	12 Mon. Target	Expected Return
05/19/2000	$ 26.80	$ 30.75	$ 21.00	$ 32.45	0.2570896
	1997	1998	1999	2000E	2001E
EPS (Oper)	$1.27	$1.85	$1.94	$2.07	$2.17
BVPS	$15.05	$15.42	$16.12	$16.95	$17.88
P/E	21.89	16.62	13.09	12.95	12.4
P/BVPS	1.8	2.0	1.6	1.6	1.5
ROE	10.7%	12.1%	12.3%	12.5%	12.5%

As at May 19, 2000			
Equity (MM)	$ 701.3	Shares O/S (MM)	38.3
Long-Term Debt (MM)	$ 1,001.8	Market Cap.(MM)	$ 1,026
Debt/Total Cap.	68.6%	Div.Per Share	$1.24
BVPS	$ 17.67	Dividend Yield	4.63%

EPS (rep)	Q1	Q2	Q3	Q4	Total
1997	$ 1.69	$ (0.42)	$ (0.61)	$ 0.61	$ 1.27
1998	$ 1.33	$ (0.03)	$ (0.35)	$ 2.37	$ 3.32
1999	$ 1.35	$ (0.01)	$ (0.34)	$ 1.12	$ 2.12
2000E	$ 1.60	-	-	-	$ -



Company Profile (all $ terms are Cdn$)

- BC Gas (BCG) is a holding company. Its largest investment is BC Gas Utility, British Columbia's largest diversified natural gas (gas) distributor. BCG also controls Trans Mountain Pipe Line (TMP), Canada's second-largest petroleum pipeline. BCG is also enlarging its energy-and utility-services business, designed to grow BCG's multi-utility business within and beyond British Columbia and to provide new products and services to BCG's customers in British Columbia. BCG is in the process of entering gas transmission in British Columbia in November of 2000, and bitumen transmission for Shell Canada and possibly others in late 2002/early 2003.

Investment Highlights

- With the sale of its Williams Lake generating station in 1999, BCG has divested its non-core assets. In 1999, capital expenditures totaled $163.6 million. Spending plans are $657 million in 2000, including $337 million for Southern Crossing Pipeline (SCP), and $128.8 million for Corridor Pipeline (CP); $439 million in 2001, including $300 million for CP; and $325 million in 2002, including $200 million for CP. In total, BCG plans to invest of $376 million in SCP (including AFUDC) and $680 million in CP (including IDC).
- BCG Utility is allowed to earn 9.50% for 2000 on the common equity segment of rate base, up from 9.25% in 1999. Assuming reasonable levels of utilization, SCP and CP are expected to become significant contributors to incremental earnings. They are designed to accelerate the rate of earnings growth.

Valuation

- Estimates for the year ending March 31, 2002: EPS $2.27; DPS $1.28; retained EPS $0.99; retained EPS-multiple 11X; long-term corporate bond yield 7.30%, tax-effected to 5.84%. Target price $32.45.

Risk Factors

- We do not anticipate fundamental changes in the regulatory environment for BC Gas Utility and view it as a modestly risky. Depressed petroleum prices may adversely affect throughput levels of TMP, and, thus, incentivized earnings. BCG's energy and related services may not reach anticipated profitability levels, although, eventually, they are expected to become earnings contributors. SCP may face by-pass risk, especially from the integration of Canadian and US pipelines.

Company Snapshot

Date

\# National Bank Financial has assumed an underwriting liability for, and/or provided financial advice for consideration to, this company during the past 12 months.
** Two or more classes of common shares exist with differential voting rights.

Aug 27 1999 9:02

BC GAS INC. (BCG - $28.25) - SEEKING TO ACCELERATE EARNINGS GROWTH THROUGH DIVERSIFICATION. BUY-RECOMMENDATION SUSTAINED

EPS	1998	1999E	2000E	2001E	Target Price
	$1.85	$1.99	$2.07	$2.17	$34.00

BCG has now the best management ever. It has largely achieved, but not exhausted, cost reduction targets. It has succeeded to operate its gas distribution business on incentive regulation, albeit to a limited extent; however, it provides some earnings upside. Growth opportunities in its service area are rather limited.

Its subsidiary, Trans Mountain Pipe Line (TMP), operates an incentivized oil pipeline between Edmonton, Vancouver and Cherry Point, Washington. Largely due to low petroleum prices earlier in 1999, TMP is expected to fall somewhat short of its previous earnings target; however, this is a temporary situation that will rectify itself. TMP has agreed with Shell Canada to build and operate a (50%) interest in the Corridor Pipeline from Fort McMurray to Scotford, Alberta. Unless Shell Canada exercises its right to back-in for a half-interest, TMP will own this line.

Energy and Utility Services are supposed to pace growth. The Southern Crossing Pipeline is to strongly support earnings growth after 2001. In addition, it is pursuing electricity generation, distribution and marketing as well as water distribution in British Columbia and elsewhere. While this business segment has much promise, it also poses a huge challenge. Provided BCG can find the right approach, Energy and Utility Services will represent the "third leg" BCG has been pursuing for years.

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BC GAS INC. (BCG - $29.05) - BRITISH COLUMBIA UTILITIES COMMISSION (BCUC) APPROVAL OF THE PROPOSED SOUTHERN CROSSING NATURAL-GAS PIPELINE PROJECT (SCNGPP). BUY-RECOMMENDATION SUSTAINED. TARGET PRICE $34.75

The BCUC has approved the $347 MM (1997 dollars), 310-km, 610-mm OD, SCNGPP from Yahk to Oliver, British Columbia. From Oliver, BCG's Interior System would then deliver gas to Kingsvale on the mainline of Westcoast Energy (W) for transportation on W's line to the Huntingdon Delivery Area (HDA). It is proposed to connect at Yahk SCNGPP with the pipeline facilities of the former Alberta Natural Gas Company to offer gas users in the Lower Mainland and the export market an additional source of gas supply (from Alberta). The BCUC has offered BCG the choice of completing the project in the gas years 2000 or 2001. As a condition of its approval, it is prepared to include in the cost of service of SCNGPP a cost overrun of up to 10%.

SCNGPP's two anchor customers, BC Hydro and PG&E Energy Trading, Canada Corporation, intend to sign contracts for 105 MMCFD of firm transportation capacity. BCG has the right to recall this capacity for up to 15 days annually for peaking purposes. The project's initial inlet capacity is 275 MMCFD. It will also serve gas markets enroute to the Lower Mainland.

What remains to be resolved in our view is tolling on the mainline of Westcoast Energy (W). BCG had sought a distance-based toll from Kingsvale to the HDA, adjusted for volume. W proposed to charge BCG its Zone 4 Option B firm toll from Station 2. The National Energy Board has recently ruled on the appropriate toll that gas transferred from BCG's Interior System onto W's mainline would attract from the point of interconnection to points of delivery, i.e. the Zone 4 toll. This toll is more than twice the toll BCG had been seeking. It would appear that the ability and willingness of BCG's two anchor shippers to pay the Zone 4 toll is crucial to the success of SCNGPP. Assuming that the tolling method is acceptable, the operating-earnings impact of SCNGPP on BCG's earnings for a full calendar year will occur in 2000 or 2001. This means that our estimated EPS of $1.99 and $2.07 for 1999 and 2000 do not reflect any contribution from SCNGPP.

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Apr 29 1999 11:51

BC GAS INC. (BCG- $28.40) - 1Q1999 EPS CONSISTENT WITH EXPECTATION. BUY-RECOMMENDATION SUSTAINED

EPS	1Q/99	1Q/98	1998	1999E	2000E	Target Price
	$1.35	$1.33	$1.85	$1.99	$2.07	$34.75

We are maintaining our buy-recommendation, recognizing that, absent the addition of a "third business-leg", EPS will likely grow relatively modestly in the foreseeable future. However, reduced opportunities for reinvestment could turn BCG into a "cash machine", allowing BCG to repurchase shares and/or pay special and/or growing regular dividends. Inasmuch as ultimate success of BCG's Southern Crossing project is BCG's aim, one ought not to underestimate that the regulator may be reluctant to allow rate increases. Instead, it may require a sharing of costs and benefits and risks and rewards. Should this happen, the project may not be attractive.

In 1Q/99, BCG had to cope with a reduced rate of return on the common-equity component of rate base of BC Gas Utility. It fell from 10% in 1Q/98 to 9.25% in 1Q/99. It is somewhat remarkable that BCG managed Trans Mountain Pipeline had to battle reduced throughput. Other activities reduced their loss from $0.02 to $0.01 per share.

For now, BCG faces relatively modest growth. For some time, it has been seeking for a "third business leg". We believe that it may be developed in the process of deregulating Canada's electricity business, although, so far, the speed of deregulation has not been very perceptible.

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Merrill Lynch

Bulletin

Canada
Natural Gas-Pipelines

28 April 2000

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BC Gas Inc.

Earnings Meet Expectations

NEUTRAL*

Reason for Report: Update

Long Term
ACCUMULATE

Price: C$26.85

Estimates (Dec)	1999A	2000E	2001E
EPS:	1.81	1.94	2.02
P/E:	14.7x	13.7x	13.3x
EPS Change (YoY):		7.2%	4.1%
Consensus EPS:		2.03	2.16
Cash Flow/Share:	3.93	4.36	4.40
Price/Cash Flow:	6.8x	6.1x	6.1x
Gross Dividend:	1.16	1.24	1.24
Gross Yield:	Nil	4.7%	4.7%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$1,012.7 / 38
Book Value/Share (March-2000):	C$17.66
Price/Book Ratio:	1.6x
ROE 2000E Average:	11.4%
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	4.8%

Stock Data

52-Week Range:	C$30.85-C$20.45
Symbol / Exchange:	YBCG / Toronto
Exchange Rate:	CAD1.4795/USD
Free Float:	NA

*Intermediate term opinion last changed on 01-Sep-1999.
For full investment opinion definitions, see footnotes.
All figures are in Canadian dollars except where otherwise noted.

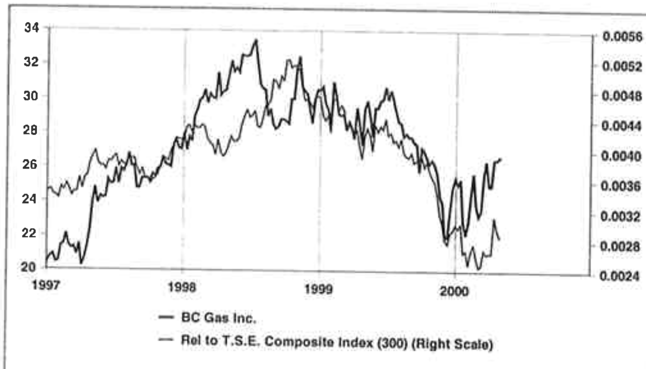
Investment Highlights:

- **We are maintaining our intermediate-term "Neutral" opinion for BC Gas. We believe the shares are fairly valued at current levels.**
- **BC Gas shares offer a secure dividend yield of 4.7% and reflect a P/E of 13.2x 2001E EPS. The estimated five-year EPS growth rate is 4.8% (CAGR). We recommend that investors seeking more substantial capital appreciation potential consider Enbridge (C$32.00, B-1-1-7). For those seeking yield, TransCanada (C$10.50, B-2-1-8) offers a much higher yield of 7.6%.**

Fundamental Highlights:

- **BC Gas reported first quarter results in line with our expectations. EPS (basic) from continuing operations were reported at C$1.39 versus our estimate of C$1.38 per share and last year's result of C$1.35.**
- **BC Gas announced it would raise its quarterly dividend to C$0.31 per share from C$0.295. This dividend increase had been anticipated. The payout ratio of 64% is still below its peers.**

Stock Performance



RC#10112001

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

Table 1: Valuation Comparables
(C$)

				EPS		P/E		5-Year	PEG			LT	
		Opinion	Price	2000e	2001e	2000e	2001e	Growth	Ratio	Yield	ROE	Liab	P/BV
Enbridge	YENB	B-1-1-7	32.00	2.14	2.42	15.0	13.2	13.7%	1.0	3.8%	15.7%	73.0%	2.4
TransCanada	YTRP	B-2-1-8	10.50	1.07	1.14	9.8	9.2	3.0%	3.1	7.6%	10.0%	72.0%	1.0
Westcoast	YW	C-2-2-7	25.00	1.99	2.11	12.6	11.8	7.8%	1.5	5.2%	9.6%	73.6%	1.2
Canadian Pipelines						12.4	11.4	8.2%	1.9	5.5%	11.8%	72.9%	1.5
BC Gas	**YBCG**	**B-3-2-7**	**26.85**	**1.94**	**2.02**	**13.8**	**13.3**	**4.8%**	**2.8**	**4.4%**	**11.4%**	**63.0%**	**1.6**
NS Power	YNSH	B-3-3-7	13.45	1.17	1.23	11.5	10.9	3.1%	3.5	6.2%	8.0%	63.1%	1.2
TransAlta Corp	YTA	B-3-2-7	14.25	1.10	1.10	13.0	13.0	5.5%	2.4	7.0%	9.0%	49.1%	1.3
Canadian Gas & Electrics						13.6	13.2	7.9%	2.4	5.9%	8.7%	55.9%	1.3

Source: Merrill Lynch

Opinions Maintained

We are reiterating our intermediate-tern "Neutral" and long-term "Accumulate" opinions for BC Gas. We believe the shares are fairly valued at current levels based on the combined dividend yield of 4.7%, P/E of 13.2x 2001E EPS and anticipated 5-year EPS growth rate of only 4.8% (CAGR). For investors seeking greater capital appreciation we recommend the shares of Enbridge (C$32.00, B-1-1-7), which has a projected EPS growth rate of 13.7% and currently trades at a similar P/E multiple. For investors seeking yield, TransCanada PipeLines (C$10.50, B-2-1-8) offers a dividend yield of 7.6%.

■ First quarter results

BC Gas reported first quarter results that were in line with our expectations. EPS from continuing operations were reported at C$1.39 versus our estimate of C$1.38 and last year's result of C$1.35.

Table 2: BC Gas First Quarter Results
(C$)

	1Q99	1Q00
Gas Distribution	1.21	1.28
Petroleum Transportation	0.15	0.14
Other	(0.01)	(0.03)
Consolidated Continuing	1.35	1.39
Tax Benefits from NW Energy	-	0.21
Reported	1.35	1.60

Source: Merrill Lynch, company reports

Distribution earnings showed year-over-year improvement as a result of a higher allowed ROE and additions to rate base. Petroleum transmission earnings were down marginally due to lower throughput on the U.S. crude oil system (the Canadian system has throughput guarantees). First quarter volumes were temporarily buoyed by increased product throughput as Edmonton refiners sought to take advantage of strong U.S. west coast refining margins that resulted from several refinery outages. We believe the company is on track to achieve our estimates of C$1.94 (diluted) for 2000 and C$2.02 for 2001.

Financial Outlook

We expect EPS to improve from C$1.81 in 1999 to C$1.94 in 2000 and C$2.02 in 2001. Gas distribution earnings should show year-over-year improvement to C$1.48 from C$1.35 in 1999. Petroleum transmission earnings are expected to remain relatively flat at C$0.51 due to reduced throughput.

Table 3: Segmented EPS Outlook
(C$)

	1997	1998	1999	2000e	2001e
Gas Distribution	1.25	1.34	1.35	1.48	1.55
Petroleum Transmission	0.51	0.60	0.51	0.51	0.56
Other Activities	(0.41)	(0.09)	0.26	0.72	(0.01)
Reported Basic	1.35	1.85	2.12	2.70	2.10
EPS (continuing basic)	1.63	1.85	1.81	1.95	2.10
EPS (continuing diluted)	1.61	1.81	1.78	1.94	2.02

Source: Merrill Lynch

[YBCG] The securities of the company are not listed but trade over-the-counter in the United States. 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. MLPF&S or its affiliates usually make a market in the securities of this company.

Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

3 February 2000

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BC Gas Inc.

Results in Line, Neutral Opinion Maintained

NEUTRAL*

Reason for Report: Company Update, Introducing 2001 Estimates

Long Term ACCUMULATE

Price: C$22.90

Estimates (Dec)	1999A	2000E	2001E
EPS:	1.81	1.94	2.02
P/E:	12.7x	11.8x	11.3x
EPS Change (YoY):		7.2%	4.1%
Cash Flow/Share:	3.93	4.36	4.40
Price/Cash Flow:	5.8x	5.3x	5.2x
Gross Dividend:	1.17	1.18	1.19
Gross Yield:	5.1%	5.2%	5.2%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$870.2 / 38.3
Book Value/Share (Dec-1999):	C$16.36
Price/Book Ratio:	1.4x
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	4.8%

Stock Data

52-Week Range:	C$31.40-C$20.45
Symbol / Exchange:	YBCG / Toronto
Bloomberg / Reuters:	/
Exchange Rate:	CAD1.4470/USD
Free Float:	NA

*Intermediate term opinion last changed on 01-Sep-1999.
For full investment opinion definitions, see footnotes.
All figures are in Canadian dollars except where otherwise noted.

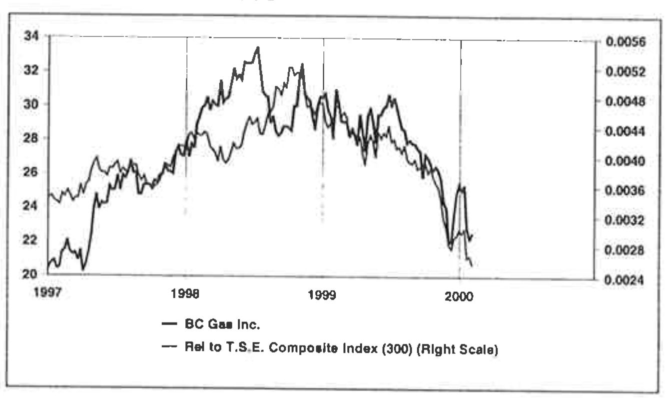
Investment Highlights:

- **Maintaining our intermediate-term "Neutral" and long-term "Accumulate" opinions.**
- **BC Gas shares offer a secure, in our opinion, and attractive dividend yield of 5.2% and trade at P/Es of 11.8x 2000E EPS and 11.3x 2001E EPS. Based on current price levels, we recommend other shares such as TransCanada PipeLines (YTRP, C$11.05, B-2-1-8) for investors seeking yield and Enbridge Inc. (YENB, C$26.65, B-1-1-7) for investors seeking a combination of yield and growth driven capital appreciation.**

Fundamental Highlights:

- **BC Gas reported Q4 and year end results slightly below our estimates. EPS (basic) from continuing operations were reported at C$1.94; however, this included a one-time tax benefit of C$0.13, which takes the continuing operations number down to C$1.81, versus our estimate of $1.85.**
- **BC Gas is expected to deliver modest earnings growth of roughly 4.8% (CAGR), primarily from two pipeline projects: C$376 million Southern Crossing Pipeline (late-2000 in-service) and C$690 million Corridor Pipeline (late-2002 in-service).**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10103497

5 November 1999

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BC Gas Inc.

Third Quarter Earnings: No Surprises

NEUTRAL*

Reason for Report: Company Update

Long Term ACCUMULATE

Price: C$26.25

Estimates (Dec)	1998A	1999E	2000E
Net Income (mn):	NA	NA	NA
EPS:	1.81	1.85	1.94
P/E:	14.5x	14.8x	13.5x
EPS Change (YoY):		-2.2%	9.6%
Cash Flow/Share:	3.93	4.01	4.36
Price/Cash Flow:	6.7x	6.5x	6.0x
Enterprise Value/EBITDA:	NA	NA	NA
Gross Dividend:	Nil	1.18	1.20
Gross Yield:	Nil	4.5%	4.6%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$997.5 / 38
Book Value/Share (Jun-1999):	C$16.20
Price/Book Ratio:	1.6x
ROE 1999E Average:	11.4%
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	4.8%
1999E P/E Rel. to Home Mkt:	NA

Stock Data

52-Week Range:	C$32.75-C$25.30
Symbol / Exchange:	YBCG / Toronto
Bloomberg / Reuters:	/
Exchange Rate:	CAD1.4677/USD
Free Float:	NA

*Intermediate term opinion last changed on 01-Sep-1999.
For full investment opinion definitions, see footnotes.
All figures are in local currency (Canadian dollar) except where otherwise noted.

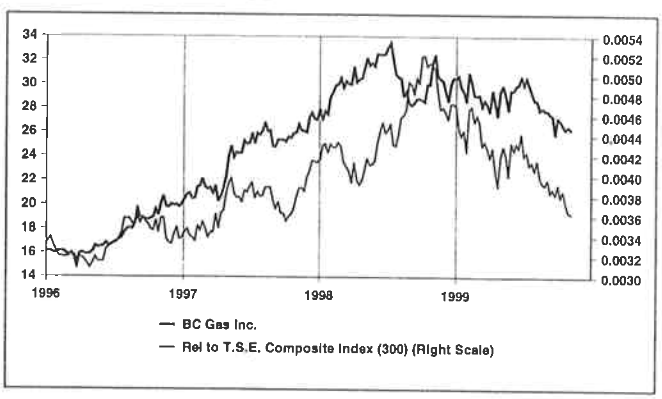
Investment Highlights:

- **BC Gas reported third quarter earnings that matched our expectations. EPS was reported as a loss of C$0.34 for the quarter, compared to a loss of C$0.35 last year. For nine months, EPS was C$1.00, up from C$0.95 in 1998.**
- **We are maintaining our neutral opinion and believe that BC Gas is fairly valued relative to its peers. Longer term, we believe that the Corridor and Southern Crossing projects could add earnings growth, thus our long-term accumulate opinion.**

Fundamental Highlights:

- **We are increasing our 1999 EPS (diluted) estimate to C$1.85 from C$1.77 to reflect year-to-date performance and our expectation for the fourth quarter. Our year-2000 estimate is unchanged at C$1.94.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10130915

Table 1: Western Canada Pipeline Market Shares

	Enbridge		Trans Mountain		Express		Other Pipelines		Western Canada	
	(000 b/d)	%	(000 b/d)	%	(000 b/d)	%	(000 b/d)	%	(000 b/d)	%
1Q97	1,407	61.9%	135	5.9%	12	0.5%	168	7.4%	551	24.3%
2Q97	1,316	61.3%	146	6.8%	41	1.9%	156	7.2%	489	22.8%
3Q97	1,408	59.9%	133	5.7%	65	2.8%	195	8.3%	549	23.4%
4Q97	1,439	59.3%	177	7.3%	93	3.8%	191	7.9%	528	21.8%
1Q98	1,434	59.4%	184	7.6%	85	3.5%	176	7.3%	535	22.2%
2Q98	1,439	61.2%	197	8.4%	79	3.4%	176	7.5%	459	19.5%
3Q98	1,345	58.9%	143	6.3%	69	3.0%	183	8.0%	543	23.8%
4Q98	1,371	60.3%	138	6.1%	81	3.5%	183	8.1%	502	22.1%
1Q99	1,260	58.2%	107	4.9%	71	3.3%	181	8.3%	546	25.2%
2Q99	1,269	55.6%	110	4.8%	80	3.5%	185	8.1%	540	23.6%
3Q99	1,206	57.1%	112	5.3%	70	3.3%	198	9.4%	528	25.0%

Source: Merrill Lynch (Canada)

No Surprises

BC Gas reported a loss for the third quarter of C$0.34, matching our expectation and marginally better than last year's loss of C$0.35. For nine months earnings are C$1.00 in 1999, compared to C$0.95 in 1999.

We are revising our 1999 earnings estimate to C$1.85 from C$1.77 to reflect year-to-date results and our expectation for the fourth quarter. Our year-2000 estimate is unchanged at C$1.94.

Table 2: Segmented EPS Outlook

		1998	1999e	2000e	2001e
Utility	1.25	1.28	1.47	1.52	1.47
Pipelines	0.51	0.59	0.47	0.49	0.52
Other Activities	(0.32)	(0.03)	0.86	(0.03)	(0.03)
Reported Basic	1.44	1.85	2.80	1.97	1.97
EPS (continuing basic)	1.63	1.85	1.91	1.97	1.97
EPS (continuing diluted)	1.60	1.82	1.85	1.94	1.93

Source: Merrill Lynch (Canada)

■ Crude Pipeline Performance

Our expectation for declining throughput on the TransMountain system as a result of low crude oil prices and expansions of the Enbridge system (producer's first choice for transportation western Canadian crude) has been borne out over the first half of the year. As shown in Table 1, **TransMountain deliveries have declined by roughly 37%** over the first nine months in 1999 to approximately 110,000 b/d from roughly 175,000 b/d over the similar period in 1998. The incentive regulation agreement in place for the Canadian portion of the pipeline system insulates shareholders from a decline in throughput. However, **the U.S. portion of the system does not have such an agreement and shareholders are exposed to fluctuations in volumes**. As a result, BC Gas' pipeline earnings have fallen by approximately 22% as the pipelines market share fell from over 8% to roughly 5.3%. By comparison, the market shares for every other pipeline have been relatively steady despite the decline in western Canadian crude production.

With the recovery in oil prices since February, we expect to see a modest increase in throughput in 1999 and a larger increase in the year 2000 as the Enbridge pipeline systems begins to fill-up. **This should lead to an improvement in pipeline earnings, though not to the levels witnessed in 1998, given the significant increase in Enbridge capacity since 1998.**

Valuation

We anticipate modest earnings growth from BC Gas (2.1% CAGR). Consequently, we view BC Gas as primarily an income play. The company offers a solid, low risk dividend yield of approximately 4.5%. However, it is below that offered by peers such as TransCanada (YTRP; C$17.0; B-2-1-7), Westcoast Energy (YW; C$ 25.5; C-2-2-7) and TransAlta (YTA; C$18.0; B-2-2-7).

7 October 1999

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BC Gas Inc.

Sale of Power Plant Announced — **NEUTRAL***

Reason for Report: Company Update

Long Term ACCUMULATE

Price: C$26.85

Estimates (Dec)	1998A	1999E	2000E
EPS:	1.81	1.77	1.94
P/E:	14.8x	15.2x	13.8x
EPS Change (YoY):		-2.2%	9.6%
Cash Flow/Share:	3.93	4.01	4.36
Price/Cash Flow:	6.8x	6.7x	6.2x
Gross Dividend:	Nil	1.18	1.20
Gross Yield:	Nil	4.4%	4.5%

Opinion & Financial Data

Investment Opinion:	B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$1,020.3 / 38
Book Value/Share (Jun-1999):	C$16.20
Price/Book Ratio:	1.7x
ROE 1999E Average:	11.4%
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	4.8%

Stock Data

52-Week Range:	C$32.75-C$25.30
Symbol / Exchange:	YBCG / Toronto
Exchange Rate:	CAD1.4703/USD
Free Float:	NA

*Intermediate term opinion last changed on 01-Sep-1999.
For full investment opinion definitions, see footnotes.
All figures are in Canadian dollars except where otherwise noted.

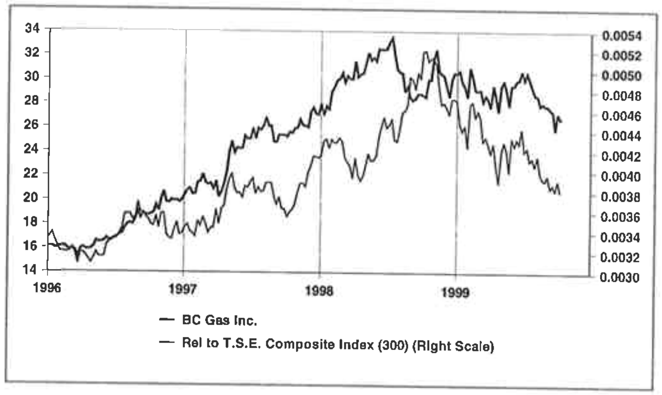
Investment Highlights:

- **BC Gas has announced the sale of its Williams Lake power plant to TransCanada Power L.P. for C$59 million. BC Gas will realize an after-tax gain of C$36 million on the transaction.**
- **We are maintaining our intermediate-term Neutral rating and continue to believe the company is fairly valued at current levels. Longer-term earnings growth is possible as the British Columbia economy improves and the Southern Crossing pipeline is brought into service. Hence, our long-term Accumulate opinion.**

Fundamental Highlights:

- **We anticipate EPS (diluted continuing operations) of C$1.77 in 1999 and C$1.94 in the year 2000.**
- **We do not expect a significant improvement in near-term performance from continuing operations. Distribution earnings are expected to be flat and pipeline earnings are expected to be down, based on reduced throughput. Trans Mountain Pipeline throughput is approximately 40% lower than last year. Third quarter deliveries are expected to be down 35% from the same period in 1998.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

Merrill Lynch

Bulletin

Canada
Natural Gas/Distribution

1 September 1999

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BC Gas Inc.

Upgrading Investment Opinion

NEUTRAL

Reason for Report: Change in Opinion

Long Term
ACCUMULATE

Price: C$27.75

Estimates (Dec)	1998A	1999E	2000E
EPS:	1.81	1.77	1.94
P/E:	15.3x	15.7x	14.3x
EPS Change (YoY):		-2.2%	9.6%
Cash Flow/Share:	3.93	4.01	4.36
Price/Cash Flow:	7.1x	6.9x	6.4x
Enterprise Value/EBITDA:	8.6x	8.6x	8.4x
Gross Dividend:	1.09	1.18	1.20
Gross Yield:	3.9%	4.3%	4.3%

Opinion & Financial Data

Investment Opinion:	B-4-3-7 to B-3-2-7
Mkt. Value / Shares Outstanding (mn):	C$1,054.5 / 38
Book Value/Share (Jun-1999):	C$16.20
Price/Book Ratio:	1.7x
ROE 1999E Average:	11.4%
LT Liability % of Capital:	63.0%
Est. 5 Year EPS Growth:	4.8%
1999E P/E Rel. to Home Mkt:	NA

Stock Data

52-Week Range:	C$32.75-C$26.75
Symbol / Exchange:	YBCG / Toronto
Exchange Rate:	CAD1.4922/USD

For full investment opinion definitions, see footnotes.
All figures are in local currency (Canadian dollar) except where otherwise noted.

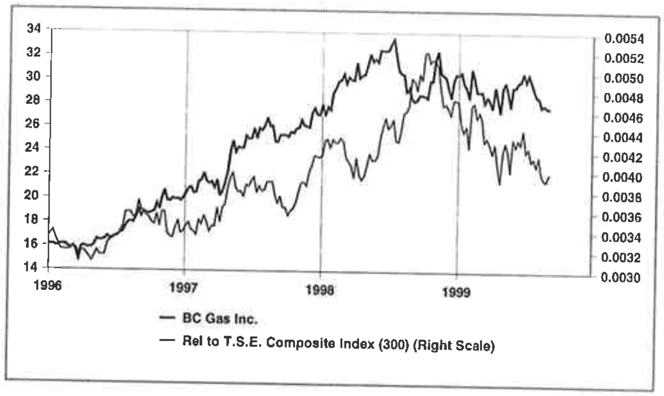
Investment Highlights:

- **We are upgrading our near and long-term investment opinions for BC Gas to "Neutral/Accumulate" from "Reduce/Neutral."**
- **BC Gas's share price has declined by approximately 13.5% since we downgraded the stock in late-1998. Based on the relative improvement in yield, we see little further downside from current levels.**
- **BC Gas' current share price implies a dividend yield of 4.3% and a P/E of 14.3x year-2000 EPS (diluted). We anticipate only modest earnings growth and continue to view the company as primarily an income play. Based on the relatively low payout ratio and limited capital spending requirements, we see ample room for the company to increase its dividend over the next several years.**

Fundamental Highlights:

- **We forecast growth in EPS from C$1.77 in 1999 to C$1.94 in 2000. Compound annual growth (1998-01) is estimated at 2.8%.**
- **Investment risks include interest rates and indirect commodity price exposure (pipeline volumes fluctuations).**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10124466

Table 1: Western Canada Crude Oil Supply and Disposition (b/d)

	Enbridge	Market Share	Trans Mountain	Market Share	Express	Market Share	Other Pipelines	Market Share	Western Canada	Market Share	Production
1Q97	1,407	62%	135	6%	12	1%	168	7%	551	24%	2,262
2Q97	1,316	61%	146	7%	41	2%	156	7%	489	23%	2,143
3Q97	1,408	60%	133	6%	65	3%	195	8%	549	23%	2,353
4Q97	1,439	59%	177	7%	93	4%	191	8%	528	22%	2,429
1Q98	1,434	60%	184	8%	85	4%	176	7%	535	22%	2,399
2Q98	1,439	62%	197	8%	79	3%	176	8%	459	20%	2,336
3Q98	1,345	59%	143	6%	69	3%	183	8%	543	24%	2,292
4Q98	1,371	61%	138	6%	81	4%	183	8%	502	22%	2,257
1Q99	1,260	58%	107	5%	71	3%	181	8%	546	25%	2,170
2Q99	1,269	60%	110	5%	80	4%	185	9%	540	25%	2,133
3Q99 (July only)	1,283	59%	90	4%	68	3%	199	9%	523	24%	2,165

Source: Merrill Lynch (Canada)

Upgrading Opinion

We are upgrading our investment opinions for BC Gas (YBCG) from "reduce/neutral" to "neutral/accumulate." BC Gas' share price has declined by roughly 14% since we adopted our near-term "reduce" opinion and is now within our objective price range of C$27.00-C$28.00. By comparison, the TSE Gas & Electric index has fallen by 10% and TSE Pipeline index by 5%.

■ Crude Pipeline Performance

Our expectation for declining throughput on the TransMountain system as a result of low crude oil prices and expansions of the Enbridge system (producer's first choice for transportation of western Canadian crude) has been borne out over the first half of the year. As shown in Table 1, TransMountain deliveries have declined by roughly 43% from the first half average in 1998 of 190,500 b/d to approximately 109,000 b/d over the similar period in 1999. The incentive regulation agreement in place for the Canadian portion of the pipeline system insulates shareholders from a decline in throughput. However, the U.S. portion of the system does not have such an agreement and shareholders are exposed to fluctuations in volumes. As a result, BC Gas' pipeline earnings have fallen by approximately 25% as the pipelines market share fell from 8% to 5%. By comparison, the market shares for every other pipeline have been relatively steady despite the decline in western Canadian crude production.

With the recovery in oil prices since February, we expect to see a modest increase in throughout in 1999 and perhaps a larger increase in the year-2000 as the Enbridge pipeline systems begins to fill-up. This should lead to an improvement in pipeline earnings, though not to the levels witnessed in 1998, given the significant increase in Enbridge capacity since 1998.

Valuations

We continue to anticipate only modest earnings growth from BC Gas (2.8% CAGR). Consequently, we view BC Gas as primarily an income play. The company offers a solid dividend yield of approximately 4.3%, which is in line with that offered by competing energy utilities such as Westcoast Energy (YW; C-2-2-7) and TransAlta (YTA; B-2-2-7). Furthermore, based on the relatively low expected payout ratio of 62% in the year-2000 and limited capital spending requirements, we see potential for BC Gas to increase its dividend in the future.

Merrill Lynch

Bulletin

Canada
Natural Gas - Distribution

25 May 1999

Randy Ollenberger
Senior Analyst
(1) 403 231-7305

BC Gas Inc.

Southern Crossing Pipeline Approved, Revising Estimates

REDUCE

Reason for Report: Company Update

Long Term NEUTRAL

Price:	**C$29.10**		
12 Month Price Objective:	C$27		

Estimates (Dec)	1998A	1999E	2000E
Net Income (mn):	NA	NA	NA
EPS:	1.81	1.77	1.94
P/E:	16.1x	16.4x	15.0x
EPS Change (YoY):		-2.2%	9.6%
Cash Flow/Share:	3.93	4.01	4.36
Price/Cash Flow:	7.4x	7.3x	6.7x
Enterprise Value/EBITDA:	NA	NA	NA
Gross Dividend:	1.09	1.18	1.20
Gross Yield:	3.7%	4.1%	4.1%

Opinion & Financial Data

Investment Opinion:	B-4-3-7
Mkt. Value / Shares Outstanding (mn):	C$1,105.8 / 38.3
Book Value/Share (Dec-1998):	C$15.42
Price/Book Ratio:	1.9x
ROE 1999E Average:	11.4%
LT Liability % of Capital:	70.0%
Est. 5 Year EPS Growth:	4.8%
1999E P/E Rel. to Home Mkt:	NA

Stock Data

52-Week Range:	C$34.00-C$26.75
Symbol / Exchange:	YBCG / Toronto
Exchange Rate:	CAD1.4557/USD
Free Float:	NA

For full investment opinion definitions, see footnotes.
All figures are in local currency (Canadian dollar) except where otherwise noted.

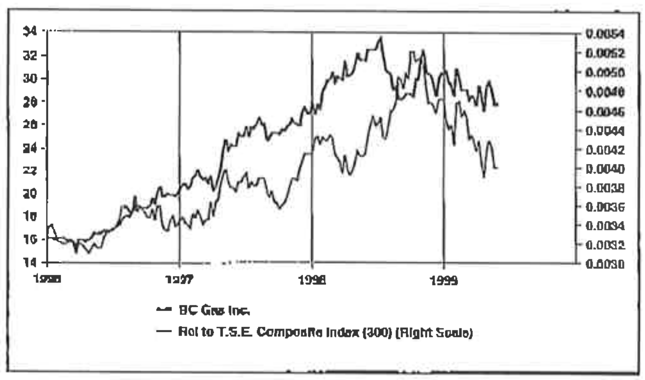
Investment Highlights:

- **BC Gas' share price has increased by approximately 4.5% following regulatory approval of its Southern Crossing application.**
- **We are maintaining our intermediate-term Reduce, long-term Neutral ratings based on BC Gas' modest rate of earnings growth and comparatively low dividend yield of 4.1%.**

Fundamental Highlights:

- **The C$376 million Southern Crossing pipeline will provide BC Gas with alternative access to Alberta natural gas. The in-service date has not been determined, however, the company expects a date of either November 2000 and November 2001. Our outlook incorporates a year-2000 start-up.**
- **Based on BC Gas' current regulated equity structure (33%) and rate of return (9.25%) we estimate incremental earnings (full-year) of approximately C$0.08 per share.**
- **We remain concerned about the potential for lower earnings from the company's crude oil pipeline business. Crude oil throughput on the Trans Mountain system has declined by over 40% compared to the same period in 1998.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10114601

RX TIME 05/26 '99 08:03

Southern Crossing Approved

The British Columbia Utilities Commission (BCUC) has approved the proposed Southern Crossing pipeline. The pipeline is expected to cost C$376 million and is anticipated to be in-service by either November 2000 or November 2001.

We are revising our financial outlook for the company to reflect the approval of the project as well as actual results to-date. Our revised outlook is shown in Table 1. We are lowering our 1999 outlook to reflect actual results incurred to-date and our view that crude oil pipeline throughput on its wholly owned subsidiary Trans Mountain Pipe Line is likely to suffer this year and next. Our year-2000 outlook is being increased to incorporate the Southern Crossing project and assumes and in-service date of November 2000. We estimate incremental earnings of approximately C$0.08 from Southern Crossing assuming the project is partially funded by equity.

Table 1: BC Gas Financial Estimates (C$)

	Revised		Previous	
	1999e	2000e	1999e	2000e
EPS (Diluted)	1.77	1.94	1.84	1.87
CFPS (Diluted)	4.01	4.18	4.06	4.18

Source: Merrill Lynch estimates

■ Project description

The Southern Crossing pipeline will run from Yahk, British Columbia to Oliver, British Columbia and deliver natural gas further west to an interconnection with the Westcoast Energy system at Kingsvale, British Columbia. Initial capability on the 24inch line will allow the delivery of 105 mmcf/d of natural gas to the Vancouver area. The pipeline will also deliver gas directly to customers in the interior of British Columbia.

■ Could lead to bypass of Westcoast mainline

The Southern Crossing pipeline system relies on the Westcoast mainline for deliveries into the lower mainland. However, the pipeline is expandable and could be completed in order to bypass the Westcoast system for delivery of at least some of the natural gas currently delivered by Westcoast into the Vancouver area.

One of the factors that could influence whether or not this occurs is how high the price of natural gas at Sumas, Washington increases following the completion of the Alliance Pipeline. In our view, the price of natural gas price on the west coast is likely to increase after Alliance is completed as additional gas is drawn eastward from northeast B.C. to meet contractual commitments on the Alliance system. This could lead to higher gas prices in the BC Gas franchise area and improve the economics of expending and extending the Southern Crossing system.

■ Crude throughput down over 40%, 1998 pipeline earnings not likely to repeat

Crude oil shipments on the Trans Mountain pipeline system have declined by over 40% compared to the same period in 1998 due to lower production levels in western Canada and expansions of the Enbridge system. The Trans Mountain pipeline system acts as a swing market for western Canadian producers, since they can receive more for the crude through eastern sales. We estimate that crude oil throughput on the Trans Mountain system has declined from a peak of 197,000 b/d in the second quarter of 1998 to 105,000 b/d in the first quarter of 1999. The Canadian portion of the Trans Mountain system is insulated from the lower throughput levels through its incentive regulation agreement. However, the U.S. system is not insulated and shareholders are exposed to any decline in throughput.

Table 2: BC Gas Segmented Earnings (C$)

	1997	1998	1999e	2000e
Gas Distribution	1.25	1.28	1.29	1.46
Crude Pipeline	0.51	0.59	0.52	0.51
Other	(0.32)	(0.03)	(0.01)	0.00
Continuing Basic	1.63	1.85	1.80	1.98
Fully Diluted	1.24	1.82	1.77	1.94

Source: Merrill Lynch estimates

Valuation

We are maintaining our intermediate-term Reduce rating for BC Gas. We believe the stock remains fairly valued based on its modest growth prospects (4.9% CAGR) and comparatively low dividend yield of 4.1%. For investors seeking a relatively high dividend yield we recommend TransCanada Pipelines (YTRP; C$19.00; B-2-3-7), which currently reflects a yield of 5.9%. For investors seeking earnings growth, combined with yield, we believe Enbridge (YENB; C$33.25; B-1-1-7) and TransAlta (YTA; C$20.95; B-2-2-7) are more attractive investment targets. Current dividend yields are 3.6% and 4.8%, respectively, with forecast CAGR earnings growth of 11% for Enbridge and 7% for TransAlta.

[YTRP] MLPF&S was a manager of the most recent public offering of securities of the company within the last three years.

[YTA, YBCG] The securities of the company are not listed but trade over-the-counter in the United States. 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. MLPF&S or its affiliates usually make a market in the securities of this company.

Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

RX TIME 05/26 '99 08:03

5 February 1999

Randy Ollenberger
Senior Analyst
(1) 403 231-7305

BC Gas Inc.

Earnings Ahead of Expectations...For Now

REDUCE*

Reason for Report: Change in Financial Estimates

Long Term
NEUTRAL

Price: **C$31.00**

Estimates (Dec)	1998A	1999E	2000E
EPS:	1.81	1.84	1.87
P/E:	17.3x	17.0x	16.7x
EPS Change (YoY):		1.7%	1.6%
Cash Flow/Share:	3.93	4.06	4.18
Price/Cash Flow:	8.0x	7.7x	7.5x
Gross Dividend:	1.08	1.12	1.16
Gross Yield:	3.5%	3.6%	3.7%

Opinion & Financial Data

Investment Opinion:	B-4-3-7
Mkt. Value / Shares Outstanding (mn):	C$1,197 / 38.3
Book Value/Share (Dec-1998):	C$16.12
Price/Book Ratio:	1.9x
ROE 1998E Average:	11.8%
LT Liability % of Capital:	67.8%
Est. 5 Year EPS Growth:	4.1%

Stock Data

52-Week Range:	C$34.00-C$28.00
Symbol / Exchange:	YBCG / Toronto
Exchange Rate:	CAD1.5125/USD
Free Float:	NA

*Intermediate term opinion last changed on 11-Nov-1998.
For full investment opinion definitions, see footnotes.
All figures are in Canadian dollars, except where otherwise noted.

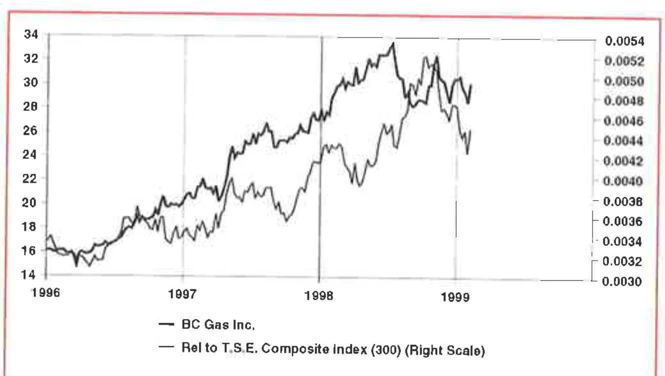
Investment Highlights:

- **BC Gas is a relatively low-risk company with a good balance sheet and secure dividend. However, we believe the company's share price reflects an underlying growth rate in earnings that will be difficult to achieve due to slower economic growth in B.C., lower regulated returns and reduced crude oil throughput.**
- **BC Gas is trading at premium valuation parameters relative to its Canadian peer group. The current dividend yield of 3.6% is below that of comparable Canadian energy utilities such as TransAlta Corp. (B-3-2-7), which is yielding 4.3%, or Westcoast Energy (C-3-2-7), which is yielding 4.2%.**

Fundamental Highlights:

- **BC Gas reported earnings for the 12 months ending December 31, 1998 of C$1.85 versus our estimate of C$1.78 and a consensus estimate of C$1.81.**
- **We are raising our 1999 and 2000 EPS estimates to C$1.84 and C$1.87, respectively, up from our previous estimates of C$1.80 and C$1.86.**

Stock Performance



Earnings Ahead of Expectations

BC Gas (YBCG; B-4-3-7) reported earnings for the 12 months ending December 31, 1998 of C$1.85, versus our estimate of C$1.78 and a consensus estimate of C$1.81. Strong performance from petroleum transportation (Trans Mountain Pipe Line) over the first six months of the year combined with lower-than-expected costs and a reduction in the number of shares outstanding were the main causes of the variance from our estimate. For 1999 and 2000, we expect modest growth in earnings to C$1.84 and C$1.87, respectively. These are up marginally from our previous estimates of C$1.80 and C$1.86.

We Expect Growth to Slow

We remain cautious regarding the rate of earnings growth for BC Gas. In particular, we expect base earnings from the company's three business segments to decline from 1998 levels. Our segmented earnings outlook is shown in Table 1.

Table 1: Segmented Earnings Outlook

	1997	1998	1999e	2000e	2001e
Utility	1.25	1.35	1.33	1.34	1.36
Pipelines	0.51	0.59	0.55	0.56	0.57
Other Activities	(0.37)	(0.09)	(0.00)	0.01	0.01
EPS (continuing basic)	1.63	1.85	1.88	1.91	1.94
EPS (diluted)	1.24	1.81	1.84	1.87	1.90

Lower regulated rate of return

Earnings from the company's natural gas distribution segment are expected to fall due to a reduction in the authorized rate of return on equity established by the British Columbia Utilities Commission (BCUC). For 1999, the BCUC has established an allowed ROE of 9.25%, down from 10% in 1998. We estimate that this will reduce base earnings by roughly C$4 million, or C$0.10 per share. Growth in utility earnings is also closely tied to growth in rate base. The slowdown in the provincial economy in B.C. has resulted in reduced rate base additions and therefore slower earnings growth.

We believe ongoing productivity improvements, revenue enhancements and some rate base additions will partially offset the lower allowed return and allow the company to report earnings of C$1.33 for 1999 versus C$1.35 in 1998.

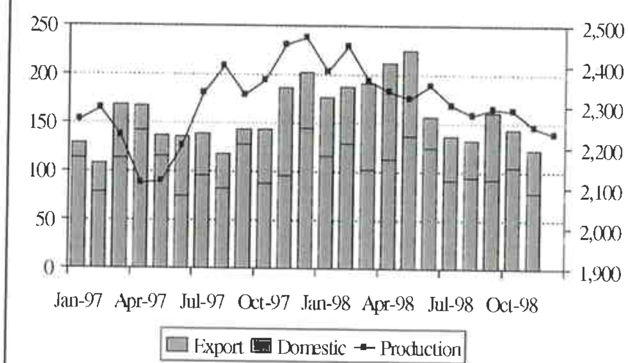
New consulting projects required

Earnings from the company's other activities, which include international consulting activities, non-regulated utility services and Williams Lake, are forecast to improve in 1999. Earnings from the company's consulting activities are expected to decline in 1999 relative to 1998 since the Halifax water treatment project is complete. However, corporate cost reductions and revenue from new projects should more than offset the decline. We forecast an improvement in earnings from other activities from a loss of C$0.09 in 1998 to breakeven in 1999.

Crude Throughput Falling

BC Gas's petroleum transportation segment has enjoyed relatively strong earnings growth over the last several years. However, we expect the rate of growth to slow and perhaps reverse as a result of declining western Canadian crude oil production and other factors. We estimate that western Canadian crude production declined by 10%, or approximately 240,000 b/d, over 1998 as a result of low crude prices. This situation has led to lower throughput on many of the crude oil pipeline systems exiting Alberta and western Canada. The Trans Mountain system enjoyed relatively strong results over the first six months of 1998 that allowed it to show an increase in average volumes over 1997. However, volumes in the fourth quarter of 1998 have deteriorated significantly and we estimate were about 60,000 b/d lower than the comparable period in 1997.

Chart 1: Pipeline Deliveries and Western Canada Crude Production (000 b/d)



Source: industry sources, Merrill Lynch estimates

Trans Mountain historically a swing market

The Trans Mountain system has historically been viewed by western Canadian producers as a "swing" market because the markets that the pipeline access have typically provided producers with prices that are about C$1-to-C$4 per barrel lower than those available from alternative markets such as Chicago. This is because West Coast crude prices are set by the price of Alaska North Slope (ANS) crude less transportation from the U.S. Gulf Coast.

Table 2: Crude Price Realizations (US$/bbl)

Enbridge System Market Prices Chicago-Light Sour Pricing		Trans Mountain Market Prices West Coast-Light Sour Pricing	
U.S. Gulf Coast Price	10.97	U.S. West Coast Price	9.31
plus: Pipeline to Chicago	1.04	minus: Pipeline to Burnaby	0.30
Chicago Price	12.02	B.C. price	9.01
less: Pipeline to Edmonton	0.96	less: Pipeline to Edmonton	0.85
Edmonton Price	11.06	Edmonton Price	8.16

This situation means that Trans Mountain is particularly sensitive to declines in production and the availability of market alternatives. The Canadian portion of the system is relatively insulated through its incentive regulation agreement; however, the U.S. portion is not. We estimate that throughput on the U.S. segment has declined from approximately 120,000 b/d at the beginning of the year to about 80,000 b/d currently. Our earnings estimates assume throughput on the U.S. segment of roughly 80,000 b/d in 1999 and beyond.

Valuation

BC Gas is a relatively low-risk company with a good balance sheet and secure dividend. However, we believe the company's share price reflects an underlying growth rate in earnings that will be difficult to achieve.

BC Gas is also trading at premium valuation parameters relative to its peers. BC Gas is currently trading at a P/E multiple of 17.0x 1999E earnings and 16.7x year-2000E earnings. This is at the high-end of the multiple range for the company's Canadian peer group, which is averaging 17.0x and 16.0x, respectively. In addition, the dividend yield of 3.6% is below that of comparable Canadian energy utilities such as TransAlta Corp. (B-3-2-7), which is yielding 4.3%, or Westcoast Energy (C-3-2-7), which is yielding 4.2%. Hence, we are maintaining our Reduce/Neutral rating for BC Gas.

Table 3: Consolidated Income Statement (C$millions, except per share)

	1994	1995	1996	1997	1998	1999e	2000e	2001e
Gas Utilities	708.0	735.5	724.3	765.8	742.4	756.6	787.4	797.8
Oil Pipelines	105.9	114.0	132.8	129.1	135.4	134.8	136.3	137.9
Other Activities	40.1	45.4	44.3	39.0	47.2	42.9	43.1	43.3
Revenue	854.0	894.9	901.4	933.9	925.0	934.3	966.8	978.9
Cost of Gas	427.3	402.0	363.0	375.2	338.2	350.3	373.1	376.5
Operating Expenses	156.0	169.0	173.6	184.2	187.6	182.2	182.3	181.2
Depreciation	61.3	67.7	78.4	77.9	84.6	88.2	91.7	95.3
Other Taxes	44.6	49.2	49.0	52.6	54.1	55.5	57.2	58.9
DD&A	6.0	6.0	6.1	-	-	-	-	-
Operating Income	158.8	201.0	231.3	244.0	260.5	258.0	262.6	267.1
Interest Expense	103.2	128.2	126.5	114.7	121.8	122.6	125.0	127.0
Other (Gains)/Losses	-	-	(36.8)	13.7	-	-	-	-
Restructuring Costs	-	-	-	9.4	-	-	-	-
Income Before Taxes	55.6	72.8	141.6	106.2	138.7	135.4	137.6	140.1
Income Taxes	8.0	22.6	32.1	49.6	62.9	58.7	59.8	61.0
Minority Interest	1.5	0.5	(0.8)	1.1	-	-	-	-
Net Income	46.1	49.7	110.3	55.5	75.8	76.7	77.8	79.1
Preferred Dividends	10.1	2.2	4.7	4.7	4.6	4.6	4.6	4.6
Net Income to Common	36.0	47.5	105.6	50.8	71.2	72.1	73.2	74.5
Average Common Shares	38.70	41.00	41.80	40.10	38.50	38.32	38.32	38.32
EPS (Basic)	0.93	1.16	2.53	1.27	1.85	1.88	1.91	1.94
EPS (Continuing)	0.93	1.18	1.48	1.63	1.85	1.88	1.91	1.94
EPS (Diluted)	0.87	1.12	2.44	1.24	1.81	1.84	1.87	1.90
DPS (Basic)	0.90	0.90	0.90	0.98	1.08	1.12	1.16	1.22
Dividend Payout Ratio(%)	0.96	0.78	0.36	0.77	0.58	0.60	0.61	0.63
CFPS (Basic)	2.87	2.60	3.99	4.25	4.05	4.18	4.30	4.43
CFPS (Diluted)	2.72	2.48	3.84	4.14	3.93	4.06	4.18	4.30
EBITDA (Basic)	5.69	6.55	7.41	8.03	8.96	9.03	9.25	9.46
EBITDA (Diluted)	5.37	6.21	7.12	7.79	8.69	8.76	8.96	9.16

12 February 1999

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Canadian Pipelines

Implications for Earnings of Excess Pipeline Capacity

Reason for Report: Industry Update

Industry

Investment Highlights:

- **We believe the two-pipeline companies that are most sensitive to declining crude oil production and the growing imbalance between natural gas supply and pipeline capacity are BC Gas (YBCG; B-4-3-7) and TransCanada PipeLines (YTRP; B-2-3-7). BC Gas's crude pipeline operation, Trans Mountain Pipe Line, accesses the lowest-price markets for western Canadian crude production. TransCanada faces growing contract risk on its Canadian mainline and Northern Border subsidiary as Alliance moves closer to completion. The company also continues to see negative returns from its investment in the Express crude oil pipeline. We believe that the company has a number of "levers" it could pull that may allow it to avoid a substantive earnings impact. In the near term though, the incremental earnings the company realized under its incentive regulation agreement through discretionary revenue are likely to diminish.**
- **Westcoast Energy (C-3-2-7) faces potential competition from the proposed Southern Crossing pipeline and to some extent Alliance, in which it has a 26.3% interest. As a potential offset, however, Westcoast's earnings improve with rising natural gas prices.**
- **Enbridge Inc. (YENB; B-2-1-7) is our top pick in the sector and continues to show the least earnings risk and, somewhat paradoxically, best growth prospects, in our view. The company's crude oil pipeline earnings are somewhat sensitive to declining crude oil production; however, its main pipeline enjoys a substantial competitive advantage that should ensure continued utilization.**

Fundamental Highlights:

- **Western Canadian crude oil declined by about 9% in 1998, while natural gas production has not increased to the level necessary to fill recent pipeline expansions. As a result, the value of pipeline capacity has dropped dramatically and is now well below its cost. This could encourage shippers to relinquish (de-contract) pipeline capacity.**
- **We expect pipeline throughput on crude systems to decline further in 1999. Natural gas systems are expected to see higher levels of throughput, although the imbalance between available gas supply and pipeline capacity is expected to persist.**
- **The exposure to excess pipeline capacity is not distributed evenly among the pipeline companies. Incentive regulation agreements, take-or-pay contracts and inherent competitive advantages all influence the results.**

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10204319

What's Going to Fill the Pipes?

The last several years witnessed a flurry of crude oil and natural gas pipeline expansions intended to take advantage of rapidly expanding western Canadian production and a growing appetite in the U.S. for Canadian energy. In 1998, virtually all of the Canadian pipelines experienced higher average throughput relative to 1997. However, the prolonged weakness in crude oil prices has begun to impact production levels and the volume of excess pipeline capacity has grown over the last six months. With the influence of competition in the pipeline sector a growing force and the regulatory paradigm constantly evolving, it is an open question whether shippers or shareholders bear the incidence of excess capacity.

Crude Production Likely to Decline Further

We estimate that western Canadian production declined by about 9% by year-end 1998. Lower production reduces the volume of crude available for shipment out of western Canada on pipelines such as Trans Mountain, Enbridge, and Express. Each of these pipelines experienced declining throughput in 1998, and we anticipate further declines in 1999 and possibly 2000.

Natural Gas Production Will Increase

Western Canada natural gas production is growing, up about 1.5% in 1998. However, it is not keeping pace with expanding pipeline capacity. As a result, the value of pipeline transportation has fallen dramatically and is now well below its estimated average cost of US$0.70/mcf. We expect western Canadian natural gas production to grow from current levels of 15.5 bcf/d over the next several years and eventually fill the majority of the available natural gas pipeline capacity. However, we believe there will be excess pipeline capacity, particularly after the Alliance pipeline is in-service in late 2000. This could result in up to 750 mmcf/d of capacity being turned back or relinquished by shippers on systems such as TransCanada and Northern Border.

Earnings Sensitivity

The two companies that we believe are most sensitive to changes in western Canadian production levels and the existence of excess pipeline capacity are BC Gas and TransCanada PipeLines. Based on our analysis, we believe 9.7% of the consolidated earnings for BC Gas are sensitive to near-term changes in crude supply. Over the longer term, we estimate slightly higher sensitivity of 14.8%. For TransCanada, we estimate near-term earnings sensitivity of 6.5% and long-term sensitivity of 20.5% for changes in crude supply and exposure to excess natural gas pipeline capacity.

Mitigating Factors

The impacts of changes in production and aggregate pipeline throughput are not distributed evenly among the pipeline companies. Incentive regulation agreements, take-or-pay contracts and inherent competitive advantages all skew the results. For example, TransCanada has numerous "levers" available to it that could reduce its earnings exposure.

Valuations

BC Gas (B-4-3-7) is trading at P/E multiples slightly ahead of its peer group, which includes TransAlta Corp. (YTA; B-3-2-7) and NS Power Holdings (YNSH; B-3-3-7). We believe that there is some downside potential in the stock based on its premium multiples and low yield relative to its modest earnings-growth prospects.

Our top pick in the group is Enbridge Inc. (B-2-1-7), which is trading at 17.5x our 1999 earnings estimate and 15.7x our year-2000 estimate. Our 12-month price objective is C$79.00, which together with its yield of 3.8%, indicates a potential total return of 20%.

TransCanada PipeLines (B-2-3-7) shares currently provide a dividend yield of 5.5%, among the highest available for TSE 300 companies. We expect the company to demonstrate relatively modest earnings growth and expect the share price to improve as the yield spread to its peers narrows to levels more consistent with past experience.

Westcoast Energy (C-3-2-7) is trading at the lowest P/E multiple in the group, at 16.0x 1999 earnings and 13.9x 2000 earnings. We believe the stock could come under some pressure following the release of its year-end 1998 results, which we would view as an opportunity to accumulate the stock, based on our positive long-term view.

[YBCG] The securities of the company are not listed but trade over-the-counter in the United States. 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. MLPF&S or its affiliates usually make a market in the securities of this company.

Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

12 February 1999

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Canadian Pipelines

Western Canada Crude Oil and Natural Gas Supply — Implications for Canadian Pipes

Reason for Report: Industry Update

Industry

Investment Highlights:

- **We believe the two-pipeline companies that are most sensitive to declining crude oil production and the growing imbalance between natural gas supply and pipeline capacity are BC Gas (YBCG; B-4-3-7) and TransCanada PipeLines (YTRP; B-2-3-7). BC Gas' crude pipeline operation, Trans Mountain Pipe Line, accesses the lowest-price markets for western Canadian crude production. TransCanada faces growing contract risk on its Canadian mainline and Northern Border subsidiary as Alliance moves closer to completion. The company also continues to see negative returns from its investment in the Express crude oil pipeline. We believe that the company has a number of "levers" it could pull that may allow it to avoid a substantive earnings impact. In the near term, though, the incremental earnings the company realized under its incentive regulation agreement through discretionary revenue are likely to diminish.**
- **Westcoast Energy (C-3-2-7) faces potential competition from the proposed Southern Crossing pipeline and to some extent Alliance, in which it has a 26.3% interest. As a potential offset, however, Westcoast's earnings improve with rising natural gas prices.**
- **Enbridge Inc. (YENB; B-2-1-7) is our top pick in the sector and continues to show the least earnings risk and, somewhat paradoxically, the best growth prospects, in our view. The company's crude oil pipeline earnings are somewhat sensitive to declining crude oil production; however, its main pipeline enjoys a substantial competitive advantage that should ensure continued utilization.**

Fundamental Highlights:

- **Western Canadian crude oil declined by about 9% in 1998, while natural gas production has not increased to the level necessary to fill recent pipeline expansions. As a result, the value of pipeline capacity has dropped dramatically and is now well below its cost. This could encourage shippers to relinquish (de-contract) pipeline capacity.**
- **We expect pipeline throughput on crude systems to decline further in 1999. Natural gas systems are expected to see higher levels of throughput, although the imbalance between available gas supply and pipeline capacity is expected to persist.**
- **The exposure to excess pipeline capacity is not distributed evenly among the pipeline companies. Incentive regulation agreements, take-or-pay contracts and inherent competitive advantages all influence the results.**

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#30204309

What's Going to Fill the Pipes?

The last several years witnessed a flurry of crude oil and natural gas pipeline expansions intended to take advantage of rapidly expanding western Canadian production and a growing appetite in the U.S. for Canadian energy. In 1998, virtually all of the Canadian pipelines experienced higher average throughput relative to 1997. However, the prolonged weakness in crude oil prices has begun to impact production levels and the volume of excess pipeline capacity has grown over the last six months. With the influence of competition in the pipeline sector a growing force and the regulatory paradigm constantly evolving, it is an open question whether shippers or shareholders bear the incidence of excess capacity.

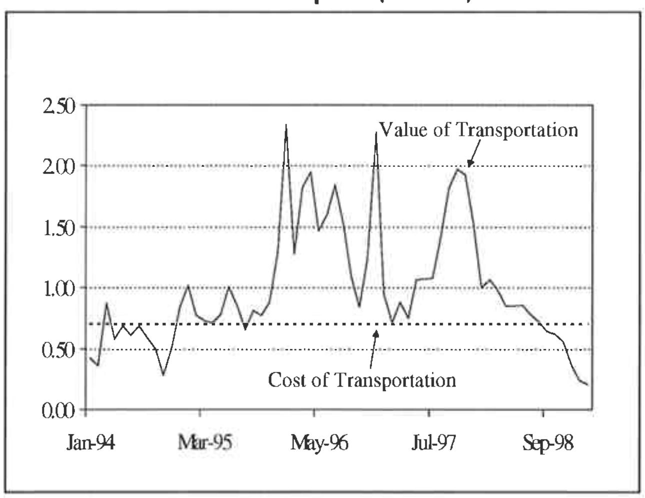
■ Crude Production Likely to Decline Further

We estimate that western Canadian production declined by about 9% by year-end 1998. Lower production reduces the volume of crude available for shipment out of western Canada on pipelines such as Trans Mountain (BC Gas), Enbridge, and Express (TransCanada). Each of these pipelines experienced declining throughput in 1998.

■ Natural Gas Production will Increase

Western Canada natural gas production is growing, up about 1.5% in 1998. However, it is not keeping pace with expanding pipeline capacity. As a result, the value of pipeline transportation has fallen dramatically and is now well below its estimated average cost of US$0.70/mcf.

Chart 1: NYMEX-AECO Basis Spread (US$/mcf)



We expect western Canadian natural gas production to grow from current levels of 15.5 bcf/d over the next several years and eventually fill the majority of the available natural gas pipeline capacity.

Table 1: Natural Gas Supply/Dispositions (bcf/d)

	1998e	1999e	2000e	2001e
Alberta	12.9	13.3	13.7	14.3
British Columbia	2.0	2.0	2.1	2.1
Saskatchewan	0.5	0.5	0.6	0.6
Mainland Territories	0.0	0.0	0.0	0.0
Western Canada Supply	15.5	15.9	16.4	17.0
Western Canada Demand	2.5	2.6	2.6	2.6
Available for Export	13.0	13.4	13.8	14.4
Export Pipeline Capacity	12.6	13.9	14.0	15.2
Shortfall/(Surplus)	0.3	(0.5)	(0.2)	(0.8)

However, we believe there will be excess pipeline capacity, particularly after the Alliance pipeline is in-service in late 2000. This could result in up to 750 mmcf/d of capacity being turned back or relinquished by shippers on systems such as TransCanada and Northern Border.

Earnings Sensitivity

Declining crude production in western Canada will reduce the volume of crude available for shipment out of western Canada. We anticipate further declines in production in 1999 and possibly 2000 that could influence the level of earnings achieved by the crude oil pipeline companies. Based on our analysis, we believe that approximately 9.7% of the consolidated earnings for BC Gas are sensitive to near-term changes in crude supply. This largely reflects the portion of BC Gas earnings attributable to its U.S. crude oil pipeline operations. Over the longer term, we see higher sensitivity of roughly 14.8% as the incentive regulation agreement underpinning the Canadian system will need to be renegotiated. For Enbridge and TransCanada, we estimate near-term earnings sensitivity of approximately 4% and 2.4%, respectively. Over the longer term, Enbridge's earnings sensitivity would be expected to increase, reflecting the renegotiation of its incentive regulation agreement.

On the natural gas side, western Canada production is increasing; however, it is not keeping pace with expanding pipeline capacity. As a result, the value of pipeline transportation has fallen below its full cost. In the near term, the main impact of surplus pipeline capacity will be felt through declining interruptible transportation volumes.

Table 2: Estimated Earnings Sensitivity (C$)

	EPS (diluted)			%Crude	%Gas	%Variable	
	1998	1999e	2000e	Pipeline	Pipeline	One-Year	Five-Years
BC Gas	1.81	1.84	1.86	29.7%	0.0%	9.7%	14.8%
Enbridge Inc.	3.28	3.89	4.34	49.4%	7.1%	4.0%	11.2%
TransCanada PipeLines	0.78	1.27	1.30	2.4%	91.0%	6.5%	20.5%
Westcoast Energy	1.52	1.86	2.15	0.0%	42.9%	5.9%	17.2%

We estimate that approximately 6.5% of TransCanada's and 5.9% of Westcoast's consolidated earnings are sensitive to the level of natural gas production and demand for pipeline capacity. Over the longer term, the sensitivity for both companies is expected to increase, reflecting the renegotiation of incentive regulation agreements and expiry of shipper contracts.

■ Mitigating Factors

The impacts of changes in production and aggregate pipeline throughput are not distributed evenly among the pipeline companies. For example, the existence of take-or-pay contracts can mitigate a pipeline's exposure to declining production levels. Natural gas pipeline companies are contract carriers that normally require shipper commitments for pipeline space. Generally, an initial contract term is 10 to 15 years, after which it becomes "renewable" at the shipper's election. TransCanada, Northern Border and Westcoast face a growing number of shipper contracts by volume that will be renewable. In an environment of surplus pipeline capacity, which is envisioned to exist after Alliance is constructed, this increases risk for the pipeline company.

Table 3: Contract Renewal Profile

	1999	2000	2001	2002	2003
TransCanada					
Renewable	1,039.7	312.2	93.2	472.5	2,059.2
Cumulative	1,051.1	1,363.3	1,456.4	1,928.9	3,988.1
%Renewable	13.4%	17.3%	18.5%	24.5%	50.7%
Northern Border					
Renewable	-	-	394.6	-	942.5
Cumulative	-	-	394.6	394.6	1,337.1
%Renewable	0.0%	0.0%	12.9%	12.9%	43.8%

Source: National Energy Board, Federal Energy Regulatory Commission

Under the current regulatory structure in Canada, TransCanada could increase the transportation rates to its remaining shippers to offset the revenue loss associated with any decontracting. Furthermore, TransCanada has a number of options available to it that could allow it to avoid an impact on earnings.

The decline in crude production in 1998 has not been evenly borne by the pipeline companies. Table 4 provides estimated pipeline throughput on the three main systems exiting Alberta: Enbridge, Trans Mountain and Express. Trans Mountain has experienced the largest reduction in throughput as a result of declining crude production. Throughput levels in the fourth quarter were down 22% from the same quarter in 1997. By comparison, Enbridge's throughput was down only 4.7%. The Express pipeline has also experienced a reduction in throughput and continues to operate under a pressure restriction.

Company Specific Considerations

BC Gas (YBCG; B-4-3-7)

BC Gas is trading at P/E multiples slightly ahead of its peer group, which includes TransAlta Corp. (YTA; B-3-2-7) and NS Power Holdings (YNSH; B-3-3-7). We believe that there is some downside potential in the stock based on its premium multiples and low yield relative to its modest earnings-growth prospects.

Enbridge (YENB; B-2-1-7)

Enbridge is our top pick in the group. The stock is trading at 17.5x our 1999 earnings estimate and 15.7x our year-2000 estimate. Our 12-month price objective is C$79.00, which together with its yield of 3.8%, indicates a potential total return of 20%.

TransCanada PipeLines (YTRP; B-2-3-7)

TransCanada shares currently provide a dividend yield of 5.5%, among the highest available for TSE 300 companies. We expect the company to demonstrate relatively modest earnings growth and expect the share price to improve as the yield spread to its peers narrows to levels more consistent with past experience.

Westcoast Energy (YW; C-3-2-7)

Westcoast is trading at the lowest P/E multiple in the group, at 16.0x 1999 earnings and 13.9x 2000 earnings. We believe the stock could come under some pressure following the release of its year-end 1998 results, which we believe could provide an opportunity to accumulate the stock, based on our positive long-term view.

Table 4: Western Canadian Crude Oil Dispositions (000 b/d)

	Enbridge			Trans Mountain			Express			Other Pipelines			Western Canada		
	Total	%Total	Change	Total	%Total	Change	Total	%Total	Change	Total	%Total	Change	Total	%Total	Change
1Q97	1,407	61.9%		135	5.9%		12	0.5%		168	7.4%		551	24.3%	
2Q97	1,316	61.3%		146	6.8%		41	1.9%		156	7.2%		489	22.8%	
3Q97	1,408	59.9%	9.0%	133	5.7%	-12.8%	65	2.8%		195	8.3%	29.3%	549	23.4%	9.5%
4Q97	1,439	59.3%	2.5%	177	7.3%	-4.7%	93	3.8%		191	7.9%	11.9%	528	21.8%	4.4%
1Q98	1,434	59.4%	2.0%	184	7.6%	36.9%	85	3.5%	637.2%	176	7.3%	4.6%	535	22.2%	-2.9%
2Q98	1,439	61.2%	9.3%	197	8.4%	34.9%	79	3.4%	94.0%	176	7.5%	13.1%	459	19.5%	-6.2%
3Q98	1,345	58.9%	-4.5%	143	6.3%	7.6%	69	3.0%	5.0%	183	8.0%	-6.3%	543	23.8%	-1.0%
4Q98	1,371	60.3%	-4.7%	138	6.1%	-22.0%	81	3.5%	-13.5%	183	8.1%	-3.8%	502	22.1%	-4.9%
1997	1,393	60.6%		148	6.4%		53	2.3%		177	7.7%		529	23.0%	
1998	1,397	60.0%	0.3%	166	7.1%	12.2%	78	3.4%	48.6%	179	7.7%	1.2%	510	21.9%	-3.7%

BC Gas
BCG - TSE)

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November 8, 2000

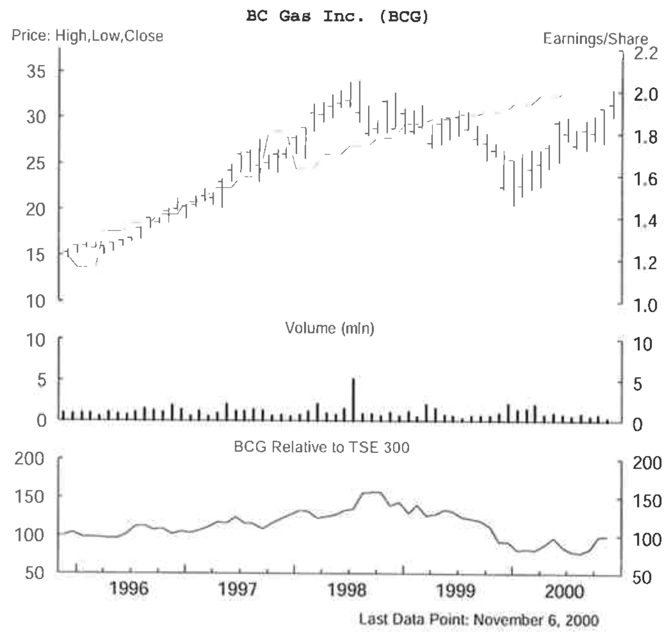
Third Quarter Results – Loss of $0.34 Share; Estimates and Target Price "Fine Tuned"

Stock Rtg	Market Perform	Ind. Rtg	Market Perform
Price (6-Nov)	$31.50	52-Week High	$33.00
Target Price	$32.20 ↑	52-Week Low	$20.45

(FY-Dec.)	1998A	1999A	2000E	2001E
EPS	$1.85	$1.94	$2.02 ↑	$2.14 ↑
P/E			15.6x	14.7x
CFPS	$2.08	$3.05	$4.09	$4.25
P/CFPS			7.7x	7.4x
Div.	$1.09	$1.17	$1.23	$1.26
EV ($mm)	$2,921	$2,711	$3,166	$3,212
EBITDA ($mm)	$324	$324	$352	$364
EV/EBITDA	9.0x	8.4x	9.0x	8.8x

Quarterly EPS	Q1	Q2	Q3	Q4
1998A	$1.33	-$0.03	-$0.35	$0.90
1999A	$1.35	-$0.01	-$0.34	$0.94
2000E	$1.39 a	$0.02 a	-$0.34 a	$0.95 ↓

Dividend	$1.24	Yield	3.9%
Book Value	$20.80	Price/Book	1.5x
Shares O/S (mm)	38.3	Mkt. Cap ($mm)	$1,206
Float O/S (mm)	38.3	Float Cap ($mm)	$1,206
Wkly Vol (000s)	245	Wkly $ Vol (mm)	$6.3
Net Debt ($mm)	$877.2	Next Rep. Date	7-Nov (E)



Changes:	Annual EPS	Quarterly EPS	Target
	2000E $2.00 to $2.02 2001E $2.11 to $2.14	Q4/00E $0.96 to $0.95	$29.00 to $32.20

EVENT: BC Gas reported third-quarter earnings per share of a loss of $0.34 versus a loss of $0.34 per share in Q3/99. We expected a loss of $0.35 per share. Results were modestly better than expected. There were two non-recurring items recorded during the quarter: an $8-million after-tax gain arising from income tax benefits associated with the monetization of the Williams Lake Power Plant ($23.8 million has been realized for the nine months ending September 2000; $29 million is expected to be realized in total during fiscal 2000) and a $7.5-million after-tax charge relating to restructuring and relocation charges at Trans Mountain Pipe Line. Trans Mountain Pipe Line has also announced that it has negotiated a Memorandum of Understanding with the Canadian Association of Petroleum Producers and Chevron Canada Limited to renew the present incentive toll settlement that expires on December 31, 2000.

IMPACT: Positive.

ANALYSIS: Third-quarter results were modestly better than expected, largely due to improved throughput on the U.S. portion of the Trans Mountain liquids pipeline system, which is volume sensitive. Throughput during the quarter averaged 10,115 m^3/d or 63,623 bbls/d versus 9,611 m^3/d or 60,453 bbls/d in Q3/99. Our fiscal 2000 estimate previously reflected throughput of 10,000 m3/d. Higher throughput and continued operating cost reductions will likely result in segment performance of $0.53 per share in fiscal 2000 versus our previous estimate of $0.51. Our EPS estimate for BC Gas thus increases to $2.02 in fiscal 2000 from $2.00.

Our fiscal 2001 and 2002 estimates also increase – from $2.11 to $2.14 and $2.15 to $2.20, respectively. Our revised estimates reflect the positive effect of lower debt financing costs at the "holdco", as debt is repaid over the forecast period with free cash flow. We expect that new debt or mezzanine financing will be incurred in the latter half of 2002 to fund BC Gas' equity investment in the Corridor Pipeline (approximately $175 million).

The proposed Incentive Toll Settlement Memorandum of Understanding (MOU) is likely to also result in productivity and operating efficiencies at Trans Mountain Pipe Line, which are included in our estimates. The MOU is subject to approval by the National Energy Board. It is expected that such approval will be forthcoming early in Q1/01. The key terms of the proposed settlement are as follows:

- 5-year term, commencing January 1, 2001 and ending December 31, 2005;
- Tolls are fixed for the duration of the Agreement and are calculated on a base throughput forecast of 30,000 m^3/d;
- Trans Mountain is at risk for the recovery of annual revenue on transportation volumes between 28,500 m^3/d and 30,000 m^3/d and receives the full benefit of throughput greater than 30,000 m^3/d and less than 32,000 m^3/d.
- If transportation volumes are greater than 32,000 m^3/d, Trans Mountain receives only 50% of these incremental revenues, net of a 15% power and fuel cost adjustment. If transportation volumes are less than 28,500 m^3/d, the resulting revenue shortfall is recovered from shippers, net of a 5% power and fuel cost adjustment.
- Tolls will be subject to an adjustment for inflation, equal to the year-over-year percentage change in CPI less 3.50%. In essence, tolls will remain unchanged if CPI is less than 3.50%.
- Specified capital additions will be tolled as non-routine adjustments and will be subject to the National Energy Board Multi-pipeline return on equity decision and a 55% debt, 45% deemed equity ratio.
- All cost savings, including those arising from Trans Mountain's announced restructuring and relocation to Calgary, are for the shareholders' account.

VALUATION: Our 12-month target price increases to $32.20 from $29.00. Our target is heavily reliant upon the yield value of the stock and reflects a 13 times price-to-earnings ratio, assuming 2002 EPS of $2.20, a 1.75 times book value, assuming 2002 book value per share of $19.23 and a target trading yield of 4%, assuming 2002 dividends per share of $1.30.

RECOMMENDATION: We believe that the shares are fairly valued at present levels and we are maintaining our Market Perform rating.

BMO Nesbitt Burns

BC Gas Inc.

(BCG – TSE)

September 22, 2000
Toronto, Ontario

Karen Taylor, CFA
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karen.taylor@bmonesbittburns.com

Stock Rating:	**Market Perform**
Industry Rating:	**Market Perform**

Initiating Coverage with an Market Perform Rating

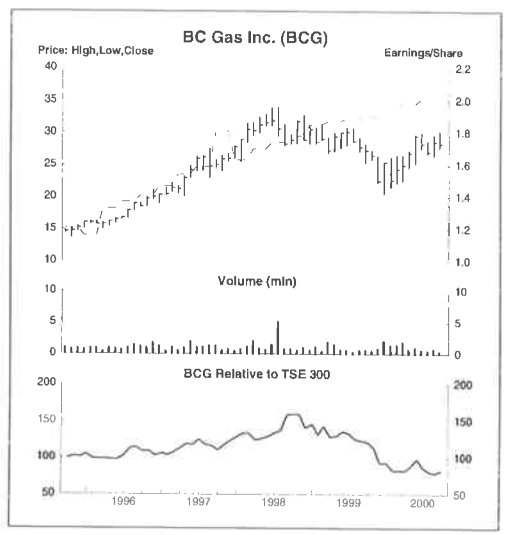
Price (19 – Sep)	$28.50	**Target Price**	$29.00
52-Week High	$30.20	**52-Week Low**	$20.45

(FY – Dec)	**1999E**	**2000E**	**2001E**
EPS	$1.94	$2.00	$2.11
P/E		14.3x	13.5x
CFPS	$3.05	$4.09	$4.25
P/CF		7.0x	6.7x
Div. ($mm)	1.17	1.23	1.26
EV ($mm)	2,711	3,170	3,215
EBITDA ($mm)	324	352	364
EV/EBITDA	8.4x	9.0x	8.8x

Dividend	$1.24	**Yield**	4.4%
Book Value	$20.80	**Price/Book**	1.4x
Shares O/S (mm)	38.3	**Mkt. Cap ($mm)**	$1,092
Float O/S (mm)	38.3	**Float Cap ($mm)**	$1,092

Highlights

- The Southern Crossing and Corridor pipeline projects provide a one-two earnings punch, increasing the visibility of earnings per share growth for the remainder of and beyond the current forecast period.
- Earnings per share and dividend growth of approximately 3.5% is expected over the forecast period. While we believe that management will likely meet its target of 6% EPS growth on average, we expect growth to be somewhat "lumpy" as key pipeline projects are placed in-service.
- At a price of $28.50, the shares are trading at an average yield of 4.50% - assuming mid-2001 and mid-2002 dividends per share of $1.28, 13.4 times mid-2001 and mid-2002 earnings per share of $2.13 and 1.5 times mid-2001 and mid-2002 equity book value of $18.89. We believe that the shares are fairly valued at present levels.
- We are initiating coverage of BC Gas with a Market Perform rating and $29 target price.



Summary and Recommendation

BC Gas is a publicly traded holding company with three key businesses: natural gas distribution (BC Gas Utility Ltd.), crude oil and refined products transportation (Trans Mountain Pipe Line company Ltd.), and non-regulated energy and utility services. BC Gas owns a 100% interest in the $376 million Southern Crossing natural gas transportation project and the $690 million Corridor Pipeline project. BC Gas recently announced that its Board of Directors approved a memorandum of understanding to pursue the creation of two companies, on a joint basis with BC Hydro. One entity is expected to provide non-regulated products and services to residential customers, and the other is likely to manage all the customer billing, measurement and call centre services for both BC Hydro and BC Gas.

Recent strength in BC Gas' share price is largely the result of improved macroeconomic and equity market conditions for interest-sensitive, value-oriented names. Second-quarter results were only modestly higher than expected, and with the exception of the joint initiatives to be undertaken with BC Hydro, there have been no other recent announcements.

We believe that the shares are fairly valued at present levels and rate the stock Market Perform.

Valuation

Our 12-month target price of $29 is based on the following:

- Target trading yield of 4.25%, assuming mid-2001 and mid-2002 dividends per share of $1.28;
- 12 times price-to-earnings ratio, assuming mid-2001 and mid-2002 earnings per share of $2.13; and
- 1.35 times book value, assuming mid-2001 and mid-2002 equity book value of $18.89 per share.

Our target price is reliant upon the yield value of the stock. BC Gas' current portfolio of existing assets and assets under development are and will likely remain dominated by long-life pipeline assets (gas and liquids). We therefore believe that yield will likely remain the driver of value over the forecast period.

Key Risks and Opportunities

The Southern Crossing and Corridor pipeline projects give BC Gas an EPS growth profile that extends beyond the current forecast period (2000 to 2002). In particular, our outlook incorporates the following:

1. **Incentive Earnings from BC Gas Utility:** The expiry of BC Gas Utility's current performance-based regulatory agreement has been extended for one year to December 31, 2001. It is expected that a new comprehensive agreement will be implemented commencing January 2002. We assume that incentive returns total approximately 50 basis points per annum over the forecast period.
2. **Trans Mountain Pipe Line:** Our estimates assume that the current incentive agreement on the Trans Mountain Pipe Line system is renewed for another multi-year period without substantial rebasing. The current five-year agreement expires at the end of 2000. We also assume that throughput on the volume-sensitive U.S. portion of the pipeline is approximately 10,000 m^3/day in 2000 and 12,000 m^3/day in 2001 and 2002.
3. **Southern Crossing Pipeline:** This $376-million, 316-km natural gas transmission pipeline is expected to provide a full year's earnings contribution in 2001 of approximately $0.32 per share (prior to the cost of mezzanine capital raised to fund the equity investment in the project). We assume that the project earns an allowed return on equity of 9.50% over the forecast period.
4. **Corridor Pipeline Project:** No contribution is expected from this project until the full Muskeg River development (mine, diluent/bitument pipeline and upgrader) is complete in early 2003. We estimate that the net contribution from this project (after equity financing costs) is approximately $0.20 per share. We believe that the Southern Crossing and Corridor pipeline projects provide a one-two earnings punch, increasing the visibility of earnings per share growth for the remainder of and beyond the current forecast period.
5. **Water and Energy Services Initiatives:** No material contribution is expected over the forecast period from BC Gas' investments in Western Water & Sewer Supplies and CPI Equipment and the planned joint ventures with BC Hydro.

Table 1

Current Price:	$28.50						
12-Month Target Price:	$29.00	$29.50		Recommendation: Market Perform			
Rate of Return:	6.1%						
	1996	**1997**	**1998**	**1999**	**2000E**	**2001E**	**2002E**
Total EPS (Prior to One-Time Items)	$1.48	$1.63	$1.85	$1.94	$2.00	$2.11	$2.15
Segmented EPS:							
B.C. Gas Utility	$1.13	$1.25	$1.34	$1.35	$1.67	$1.84	$1.88
Trans Mountain Pipe Line	$0.49	$0.51	$0.60	$0.51	$0.51	$0.53	$0.53
Other Businesses	$0.03	($0.03)	($0.09)	$0.08	($0.18)	($0.26)	($0.26)
Corporate Activities	($0.17)	($0.10)	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.90	$0.98	$1.09	$1.17	$1.23	$1.26	$1.30
Payout Ratio	60.8%	59.8%	58.9%	60.1%	61.3%	59.7%	60.5%
Average Shares (mm)	41.5	40.1	38.5	38.3	38.3	38.3	38.3
Net Book Value	$15.28	$15.04	$15.19	$16.13	$17.63	$18.47	$19.31

Market Valuation							
Price: High	$20.95	$27.95	$33.95	$31.00	-	-	-
Price: Low	$15.00	$20.25	$27.00	$21.00	-	-	-
Price: Current	-				$28.50		
P/E Ratio: High	14.2	17.1	18.4	16.0	-	-	-
P/E Ratio: Low	10.1	12.4	14.6	10.8	-	-	-
P/E Ratio: Current	-	-	-	-	14.3	13.5	13.3
Price/Book Value: High	1.37	1.86	2.24	1.92	-	-	-
Price/Book Value: Low	0.98	1.35	1.78	1.30	-	-	-
Price/Book Value: Current	-	-	-	-	1.62	1.54	1.48
Yield: High Price	4.30%	3.49%	3.21%	3.76 %	-	-	-
Yield: Low Price	6.00%	4.81%	4.04%	5.55 %	-	-	-
Yield: Current Price	-	-	-	-	4.30%	4.42%	4.56%

Balance Sheet ($mm)							
Debt (S-T)	377.0	364.8	467.6	450.2	359.7	330.5	264.7
Debt (L-T)	966.5	1,012.1	1,101.5	1,078.9	1,529.6	1,603.3	1,677.0
Deferred Taxes	38.9	34.9	36.3	35.0	35.0	36.3	35.0
Minority Interest	150.4	150.0	150.0	75.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	0.0	0.0	125.0	125.0	125.0
Shareholders' Equity	630.6	588.2	589.7	626.2	684.7	717.2	749.8
	2,163.4	2,150.0	2,345.1	2,265.3	2,734.0	2,812.4	2,851.5
Balance Sheet (%)							
Debt (S-T)	17.4%	17.0%	19.9%	19.9%	13.2%	11.8%	9.3%
Debt (L-T)	44.7%	47.1%	47.0%	47.6%	55.9%	57.0%	58.8%
Deferred Taxes	1.8%	1.6%	1.5%	1.5%	1.3%	1.3%	1.2%
Minority Interest	7.0%	7.0%	6.4%	3.3%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	0.0%	0.0%	4.6%	4.4%	4.4%
Shareholders' Equity	29.1%	27.4%	25.1%	27.6%	25.0%	25.5%	26.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 1 cont.

	1996	1997	1998	1999	2000E	2001E	2002E
Income Statement ($mm)							
Net Profit After-Tax	71.7	75.4	81.2	82.8	79.0	83.2	84.7
Preferred Share Dividends	10.1	10.1	10.1	8.7	2.4	2.4	2.4
Earnings to Common Shareholders	61.6	65.3	71.1	74.1	76.6	80.8	82.3
Cash Flow from Operations ($mm)	166.8	145.4	80.1	117.0	156.8	162.7	165.9
Key Statistics							
B.C. Gas Utility							
Average Utility Rate Base ($mm)	1,446.6	1,515.2	1,557.3	1,631.4	1,699.6	1,751.7	1,792.3
Growth Rate	7.7%	4.7%	2.8%	4.8%	4.2%	3.1%	2.3%
1999-2002 CAGR							3.2%
Allowed Return on Equity	11.00%	10.25%	10.00%	9.25%	9.50%	9.50%	9.50%
Deemed Equity	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%
Trans Mountain Pipe Line							
Average Utility Rate Base ($mm)	247.6	250.0	255.1	257.4	258.4	258.4	258.4
Growth Rate	10.2%	0.9%	2.0%	0.9%	0.4%	0.0%	0.0%
1999-2002 CAGR							0.1%
Allowed Return on Equity	11.25%	10.67%	10.21%	9.58%	9.90%	9.90%	9.90%
Deemed Equity	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%
Sensitivity							
100 bp Change ROE							
BCGU: Change Total Income	$4.8	$5.0	$5.1	$5.4	$5.6	$5.6	$5.6
BCGU: Change Per Share	$0.12	$0.12	$0.13	$0.14	$0.15	$0.15	$0.15
TMPL: Change Total Income	$1.11	$1.12	$1.15	$1.16	$1.16	$1.16	$1.16
TMPL: Change Per Share	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
100 bp Change In Deemed Equity							
BCGU: Change Total Income	$1.6	$1.6	$1.6	$1.5	$1.6	$1.6	$1.6
BCGU: Change Per Share	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04
TMPL: Change Total Income	$0.28	$0.27	$0.26	$0.25	$0.26	$0.26	$0.26
TMPL: Change Per Share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
1.00% Change in Average Rate Base							
BCGU: Change Total Income	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
BCGU: Change Per Share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
TMPL: Change Total Income	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
TMPL: Change Per Share	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

R33222

BC Gas
(BCG - TSE)

July 28, 2000

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Gas & Electrical
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Assoc: Matthew Akman

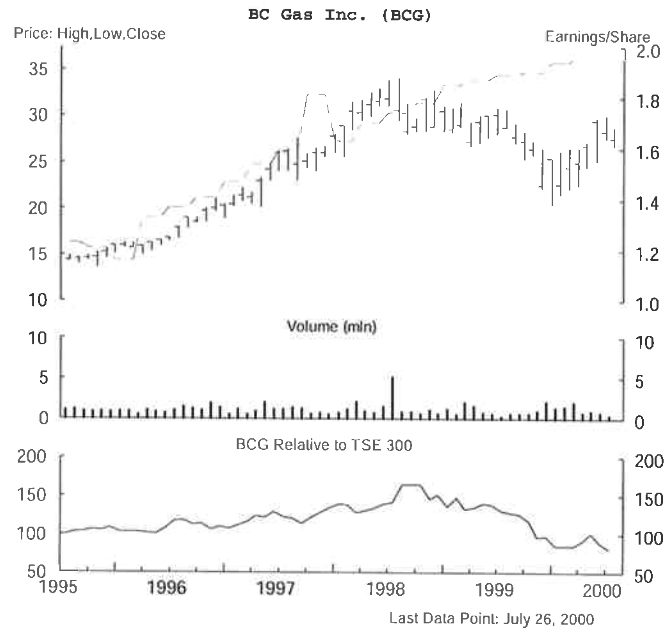
Second Quarter Results Slightly Ahead of Expectations; Major Initiatives Offer Potential for Additional Earnings Growth

Stock Rtg	Market Perform	Ind. Rtg	Underperform
Price (26-Jul)	$27.55	52-Week High	$30.00
Target Price	$30.00	52-Week Low	$20.45

(FY-Dec.)	1998A	1999A	2000E	2001E
EPS	$1.85	$1.94	$2.05	$2.18
P/E			13.4x	12.6x
CFPS	$4.05	$4.28	$4.64	$4.89
P/CFPS			5.9x	5.6x
Div.	$1.09	$1.17	$1.23	$1.30
EV ($mm)	$2,727	$2,519	$2,488	$2,488
EBITDA ($mm)	$345	$339	$357	$403
EV/EBITDA	7.9x	7.4x	7.0x	6.2x

Quarterly EPS	Q1	Q2	Q3	Q4
1998A	$1.33	-$0.03	-$0.35	$0.90
1999A	$1.35	-$0.01	-$0.34	$0.94
2000E	$1.39 a	$0.02 a	-$0.32	$0.96

Dividend	$1.24	Yield	4.5%
Book Value	$16.36	Price/Book	1.7x
Shares O/S (mm)	38.3	Mkt. Cap ($mm)	$1,055
Float O/S (mm)	na	Float Cap ($mm)	na
Wkly Vol (000s)	235	Wkly $ Vol (mm)	$5.9
Net Debt ($mm)	$877.2	Next Rep. Date	8-Nov (E)



EVENT: BC Gas reported Q2/00 EPS, before non-continuing income tax benefits of $0.02 compared with a loss of $0.01 in Q2/99 and our estimate of $0.00. This brings six-month operating EPS to $1.41 compared with $1.34 in 1999. For the six months, income tax benefits associated with the sale of the Williams Lake Power Plant contributed an additional $0.41 per share to earnings. Segmented results are set out below.

BC Gas also announced a memorandum of understanding to form two joint venture companies with BC Hydro. One company will market non-regulated products and services to residential and small commercial customers. The second company will manage all the customer billing, measurement and call centre services for both BC Hydro and BC Gas.

As well, BC Gas announced that its oil pipeline subsidiary, Trans Mountain, will be moving its Vancouver-based management and support services to Calgary by mid 2001. Trans Mountain is concurrently initiating a restructuring program, which will result in a significant reduction in its work force. In order to reflect the cost of the move and restructuring, the company will book a one-time after-tax charge of $7.5 million in the third quarter of 2000.

BC Gas
Segmented Earnings

Six months ended June 30	**2000**	**1999**
	($mm)	($mm)
Natural gas distribution	42.9	40.5
Petroleum transportation	9.9	9.3
Other activities	1.2	1.4
Tax benefits from sale	15.8	0
Net earnings	69.8	51.2
Average share outstanding	38.3	38.3
EPS - reported	$1.82	$1.34
EPS - operating	$1.41	$1.34

IMPACT: Positive. Second-quarter results were $0.02 per share above our estimate. Although at this time, we are not changing our full year estimate for 2000.

We view the plan to form a joint venture customer billing, measurement and call centre service company with BC Hydro as a significant positive. If formed, it would offer the prospect of greater efficiency and convenience for customers as well as incremental revenue for BC Gas. Until binding agreements are signed and the BCUC (regulator) determines the manner in which the costs of the system are incorporated in rates, it is not possible to quantify the impact of the joint-venture companies, but we are nonetheless encouraged by the initiative.

DETAILS: Earnings for natural gas distribution for the six months ended June 30 were $42.9 million in 2000 as compared with $40.5 million in 1999, mainly due to rate base growth and an increase in the authorized return on common equity from 9.25% in 1999 to 9.50% in 2000.

Petroleum transportation operating results for the six months ended June 30, 2000 were $9.9 million, an increase of $0.6 million compared with the corresponding period in 1999, due mainly to reduced operating costs and higher throughput on the U.S. mainline.

With the Corridor Pipeline project now under construction, Trans Mountain will be responsible for approximately $700 million in new capital investment in the Province of Alberta, all of it on behalf of customers whose offices are located in Calgary. In order to better meet the needs of its customer base and recognizing the potential for further growth opportunities in the petroleum transportation business in Alberta, Trans Mountain will be moving its Vancouver-based management and support services to Calgary by mid 2001. We expect future cost savings as a result of the restructuring and move, but the company was not willing to quantify the benefits until it has concluded negotiations with shippers for the renewal of Trans Mountains five-year incentive toll agreement.

Other activities include non-regulated energy and utility services as well as corporate interest and administration charges. Results from this segment for the six months ended June 30, 2000 were essentially unchanged from 1999, as the recognition in 1999 of income tax recoveries in respect of prior years was offset in part by improved 2000 operating results in the company's energy and utility services businesses.

CONCLUSION: We are encouraged by the slightly better-than-forecast second-quarter earnings as well as by the joint-venture initiatives with BC Hydro and the restructuring and move of Trans Mountain. However, until it is possible to quantify the impact of the latter two developments, we are not changing our earnings estimates or price target.

NBI AM: (BCG) BC Gas - Q1/00 Results
Apr 27 2000 9:09
BMO Nesbitt Burns Inc.

BC Gas
(BCG - TSE)

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Toronto, Ontario

April 27, 2000

First Quarter Earnings Reflect Increase in Allowed ROE

Price(4/26)& 52-Week Range	EPS (FY-Dec) 1999A	2000E	2001E	P/E 2000E	2001E	Mkt Cap	Div/ Yield	Rating/ Target
$26.30	$1.94	$2.05	$2.18	12.8	12.1	$1.0b	$1.18	Mkt
$30.85-$20.45							4.5%	$27.50

EVENT: BC Gas reported first quarter EPS, before non-recurring tax benefits associated with the sale of the Williams Lake Power Plant, of $1.39. This was equal to our estimate and compares to EPS of $1.35 in Q1/99. Including the non-recurring tax benefit, first quarter EPS were $1.60. The company also announced an increase to its quarterly dividend, from $0.295 to $0.31. A breakdown of EPS is set out below.

Three months ending March 31,	2000	1999
Natural gas distribution	49.2	46.4
Petroleum transportation	5.2	5.7
Other activities	(1.0)	(0.5)
Income tax benefit from NW Energy	7.9	-
Net earnings	61.3	51.6
Average shares outstanding	38.3	38.3
EPS - reported	$1.60	$1.35
EPS - operating	$1.39	$1.35

IMPACT: Neutral. The results were in line with expectations and consistent with our full-year estimate. The increase in gas distribution earnings reflects a higher rate base as well as increase in the BCUC authorized return on equity from 9.25% to 9.5%.

The small decrease in petroleum transportation earnings reflects reduced throughput on the U.S. portion of Trans Mountain's pipeline. U.S. throughput was affected by the temporary shutdown in February 2000 of a refinery in Washington State that is served by Trans Mountain. Volumes have recovered in April and nominations for May volumes are higher again.

The increased loss from other activities reflects the seasonality of the water supply and services businesses acquired in 1999.

BC Gas is currently evaluating construction bids for the Southern Crossing Pipeline. While the company has the option to defer the project's in-service date until November 2001 if the bids are not in line with the project's budgeted costs, we note that our estimates assume a November 2000 in-service date. Pipe has already been procured and clearing of the right-of-way is virtually complete.

We are maintaining our $27.50 target price and our Market Perform rating.

NBI AM: (BCG) BC Gas - 1999 Results
Feb 4 2000 9:04
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
February 4, 2000

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(416) 359-4304
Toronto, Ontario

1999 Results Slightly Ahead of Expectations;
Earnings Growth Should Re-accelerate with Major Projects

Price(2/3)& 52-Week Range	EPS (FY-Dec) 1999A	2000E	2001E	P/E 2000E	2001E	Mkt Cap	Div/ Yield	Rating/ Target
$22.90	$1.94	$2.08	$2.20	11.0	10.4	$877.1mm	$1.18	5
$31.40-$20.45							5.2%	$26.25

EVENT: BC Gas reported 1999 EPS of $1.94, before $0.18 per share of tax benefits associated with the sale of the Williams Lake Power Plant. This compares to $1.85 in 1998. Segmented results are set out below.

Year ending December 31st. ($mm)	1999 ($mm)	1998
Natural gas distribution	51.7	51.8
Petroleum transportation	19.5	22.9
Other activities	3.0	(3.5)
Tax benefits from sale	7.0	0
Net earnings	81.2	71.2
Average share outstanding	38.3	38.5
EPS - reported	$2.12	$1.85
EPS - operating	$1.94	$1.85

IMPACT: Positive. The results were $0.02 per share above our estimate and $0.04 per share above consensus. While operating earnings growth slowed to only 5% in 1999, the two major projects on which the company has embarked should generate a re-acceleration of earnings growth going forward.

DETAILS AND ANALYSIS: Gas distribution earnings were flat, as rate base growth of approximately 5% and productivity gains were offset by a reduction in the BCUC authorized return from 10.0% to 9.25%. For 2000, the authorized ROE has been increased to 9.5%. Each 25-basis-point increase in ROE adds $0.04 per share to the company's earnings.

The $3.4 million decrease in earnings from petroleum transportation is attributable to a decline in throughput destined for refineries in Washington State. Due to its incentive toll agreement, Trans Mountain is protected from throughput shortfalls on the Canadian portion of its system. However, the U.S. portion of the pipeline is regulated by the FERC and does not have this protection.

Low oil prices on the west coast of North America and additional capacity on the Enbridge system to the U.S. Midwest were responsible for the decline in U.S. destined throughput on Trans Mountain - especially during the first half of the year. Fourth quarter volumes on the U.S. mainline were slightly above 10,000 cubic meters per day compared to the full-year average of 9,847. Fourth quarter contribution from Trans Mountain was up by $0.4 million over 1998.

The improvement in other activities was mainly due to the construction of a natural gas distribution system in the United Arab Emirates and income tax recoveries in respect of previous years' losses. The latter added $5 million or $0.13 to earnings. While use of tax loss carryforwards is a one-time event that will not be repeated in 2000, we also view the shortfall in earnings at Trans Mountain as somewhat unusual.

OUTLOOK: A 25-basis-point increase in authorized ROE should produce a small improvement in core gas utility earnings this year. In addition, notwithstanding a disappointing start to 2000, the company expects improved U.S. destined volumes on Trans Mountain this year, albeit not back to levels achieved in 1998. As well, the company continues to make progress with its water supply and services initiatives. Beyond this modest core growth, however, future earnings should benefit from two major projects.

BC Gas Utility is continuing to pursue an in-service date of November 2000 for the $380 million Southern Crossing Pipeline, while still leaving itself the option to defer the in-service date to 2001 if construction bids warrant. A final decision on timing should be made by April or May. Our forecasts assume a 2000 in-service date.

As reported in December, Shell Canada and its partners have decided to proceed with the Athabasca Oil Sands initiative. This includes the $690 million Corridor Pipeline, which will deliver diluent to the Muskeg River mine and blended bitumen to Edmonton, and which will be built by BC Gas and its subsidiary Trans Mountain. Construction will begin in the second quarter and the pipeline is expected to be fully operational by the end of 2002. Unlike regulated projects, BC Gas will not accrue an allowance for equity funds used during construction. As a result, Corridor will not contribute to earnings until 2002 and will not produce a full-year contribution until 2003.

We expect that this year BC Gas will record an additional $29 million of gains resulting from the tax benefits associated with the sale of the Williams Lake plant. While these gains do not form part of our operating earnings forecast, they are significant nonetheless, as they will provide part of the equity necessary to finance the Southern Crossing and Corridor Pipelines.

In total these projects represent almost $1.1 billion of spending and will require approximately $300 million of equity. We expect that most, if not all, of this requirement can be met through retained earnings, the gain on the sale of Williams Lake, and the issue of preferred securities. As a result, we expect BC Gas will issue little or no common equity to finance these projects.

RECOMMENDATION: Based on the company's strong track record and prospects of continued earnings growth through at lest 2003, we continue to rate the stock a 5 with a target price of $26.25.

NBI AM: (BCG) BC Gas - Update
Dec 22 1999 9:05
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
December 22, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Petro-Canada Project Could be Positive for BC Gas

Price(12/21)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$24.40	$1.85	$1.92	$2.08	12.7	11.7	$934.5mm	$1.18	5
$31.40-$20.45							4.8%	$29.00

EVENT: A recent press report indicated that Petro-Canada is working on a new heavy oil project near Fort McMurray, Alta. Petro-Canada has made no announcement and we do not believe that the project details have been finalized. However, we understand that it would involve a SAGD process and that production would be shipped to the company's Edmonton refinery. Initial production would begin in 2002 at 20,000 barrels per day and could ultimately reach 80,000 barrels per day.

IMPACT: We believe that, if it proceeds, the Petro-Canada project could be positive for BC Gas. Petro-Canada would have four options for transporting the oil to Edmonton. One would be to build a pipeline of its own. While the company has made application to the AEUB, we would not expect this option to prove economic. A second option would be to use the Alberta Oil Sands Pipeline, but this pipeline is only being expanded to the extent necessary to handle additional volumes that will be produced by Syncrude. This leaves only two viable options. One is to ship on the Enbridge Athabasca pipeline and the other is to ship on the Corridor pipeline, which BC Gas is building for Shell.

Enbridge's Athabasca pipeline was only recently built and has surplus capacity. However, it delivers oil to Hardisty and we believe that Petro-Canada ultimately would like to use the oil in its Edmonton refinery. Oil could move on the Athabasca line as far as Cold Lake and then make the trip to Edmonton on the Cold Lake pipeline of AEC, but this route seems circuitous. We believe that Petro-Canada's best option, subject to negotiating a toll arrangement that is acceptable to all three parties (Shell, BC Gas and Petro-Canada), is the Corridor pipeline.

If BC Gas were to enlarge the Corridor pipeline to accommodate additional volumes from Petro-Canada, it would take the capital costs from $690 million to close to $900 million. As a result, it would likely contribute somewhat more to 2003 earnings than the $0.23 we estimated in our report of December 8, 1999.

We expect that a decision and announcement will be made sometime in Q1/2000.

RECOMMENDATION: We continue to rate BC Gas stock a 5 with a target price of $29.00.

NBI AM: Pipelines & Utilities - Update
Dec 16 1999 8:13
Nesbitt Burns Inc.

Pipelines & Utilities

PETER CASE
(416) 359-4304
Toronto, Ontario

December 16, 1999

Sector Review and Target Price Changes

For groups typically known for their defensive characteristics and low volatility, the pipeline and utility sectors' dismal performance has been unexpected. The average pipeline company (including common stocks, limited partnerships and income funds) is down 30% from its 52-week high and 23% year to date. The average utility company is down 31% from its 52-week high and 27% year to date. Even the highest quality companies in the group, where there has been no hint of any company-specific problems, have sold off with the group. In comparison, the year-to-date appreciation of the TSE is 23%.

We attribute the underperformance of the pipelines and utilities to several factors. The first is the rise in interest rates and lingering uncertainty about the future direction of rates. Second is the re-acceleration of global growth generated by recovery in Asia and Europe combined with the relentless strength of the U.S. economy. This offers the prospect of better relative earnings momentum from the more economically sensitive or cyclical sectors of the economy. Third, is the momentum driven nature of the current market environment where stocks that have underperformed are sold to invest in those that have done well. This is particularly evident with the technology stocks. For institutional investors who cannot hold a market weight in Nortel, their relative performance has been hurt all the more if they owned pipeline or utility stocks. While this has affected the whole interest rate sensitive sector, the effect for the pipeline and utility stocks has been compounded by the better relative earnings momentum of the banks and the need to make room for the recently de-mutualized life insurance companies.

A fourth factor that has come into play more recently is year-end tax loss selling. Finally, the recent surprise dividend cut by TransCanada PipeLines has only served to further poison investors' attitudes toward the whole sector, even for those companies where there is every reason to believe that the dividend is safe. We note that the concern with respect to TransAlta Corporation's dividend (would it be the next to go?) grew to the point that the company's board of directors felt compelled to issue a statement confirming its intention to maintain its current dividend.

In the short run, there is no obvious catalyst to improve the relative outlook for the group, other than the drying up of tax loss selling. However, we believe that the underperformance, combined with the group's high yield relative either to the bond market or the TSE dividend yield, has set up an attractive longer-term value proposition.

A small positive for the regulated companies (albeit outweighed by the more negative valuation impact) is that higher interest rates lead to higher regulated returns. For example, the NEB benchmark return on equity for 2000 is 9.9%, up from 9.58% in 1999 and the BCUC has increased the return on equity for BC Gas by 25 basis points for 2000 to 9.5%.

In recognition of the higher current interest rate environment as well as the possibility that persistently strong growth will take interest rates still higher in the short term, we are lowering our target prices for common stocks in the group by between 5% and 10%.

We recently lowered our target prices for TransCanada following its surprise dividend cut and for TransAlta following the punitive rate decision it received from the Alberta Energy and Utilities Board. As a result, we are making no further adjustment to our targets for these stocks at this time.
The limited partnerships and income funds, with their higher current yield and lower growth prospects, have proven to be more interest rate sensitive. We have

lowered our target prices for these companies by almost 12% on average.

Our new targets are based on a forecast long Canada bond yield of 6.25%, up from 6.0% previously. Ratings for BC Gas, Caribbean Utilities, and TransAlta Corporation have been adjusted to bring them in line with target prices and reflect recent movements in the stock prices.

Company	Price 12/10	Prev. Target	Rev. Target	Prev. Rtg.	Rev. Rtg.
Pipelines					
Enbridge	$29.45	$37.00	$35.00	4	4
TransCanada PipeLines	$12.10	$14.25	$14.25	3	3
Westcoast	$23.00	$34.00	$32.00	5	5
Utilities					
ATCO	$33.10	$41.00	$38.00	2	2
BC Gas	$22.00	$32.00	$29.00	4	5i
Canadian Utilities	$34.00	$48.00	$44.00	4	4
Caribbean Utilities	$8.75	$12.25	$11.50	5	4d
Fortis	$30.05	$37.50	$34.00	3	3
NS Power Holdings	$13.80	$19.00	$17.50	4	4
Pacific Northern Gas	$15.00	$25.00	$20.00	5	5
TransAlta Corporation	$13.50	$16.50	$16.50	2	3i
Partnerships					
AEC Pipelines, L.P.	$6.80	$8.30	$7.25	3	3
Algonquin Power I.F.	$8.50	$10.75	$9.50	4	4
Gaz Metropolitain, L.P.	$15.10	$17.50	$15.75	2	2
Koch Pipelines, L.P.	$4.85	$6.00	$5.25	3	3
Pembina Pipeline I.F.	$6.70	$8.60	$7.50	3	3
TransAlta Power, L.P.	$6.00	$8.10	$7.00	3	3
TransCanada Power, L.P.	$23.00	$29.00	$26.50	4	4

NBI AM: (BCG) BC Gas - Update
Dec 8 1999 9:06
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
December 8, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Shell Decision to Proceed with
Athabasca Oil Sands Project Positive for BC Gas

Price(12/7)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$21.75 $31.40-$20.45	$1.85	$1.92	$2.08d	11.3	10.5	$833.0mm	$1.18 5.4%	4 $29.00d

EVENT: Shell Canada and its partners announced that they are proceeding with their Athabasca Oil Sands project. BC Gas and its subsidiary Trans Mountain pipeline had previously been selected to build the Corridor Pipeline, which will link the Muskeg River mine to the Scotford upgrader in Edmonton. The total cost of the pipeline system, including links between the upgrader and refinery and pipeline terminals in the Edmonton area, is $690 million. Construction will begin in the second quarter of 2000 and the pipeline system is expected to be fully operational by the end of 2002.

IMPACT: Positive. A decision to proceed with the project had been expected, but this announcement adds more confidence to the longer-term growth outlook for BC Gas. While we no longer expect any earnings contribution from the project until 2003, the size of the project and its ultimate earnings potential has increased. The company will hold a conference call on Thursday afternoon to discuss the project. The reduction in our target price is unrelated to this event and is instead related to a revision to our interest rate outlook.

DETAILS: The Corridor Pipeline consists of a 450-km dual pipeline system which will be used to transport diluent north to the mine and diluted bitumen south to Scotford. It also includes a 43-km delivery pipeline system, which will transport supplemental feedstocks to the upgrader and synthetic products from the upgrader to refinery and pipeline terminals at Edmonton-Strathcona.

At $690 million, the project is larger than the approximately $500 million first indicated by BC Gas. The larger amount includes tanks that were originally to be built by Shell as well as interest during construction.

The company has not disclosed the tariffs agreed to by Shell, its intended capital structure or target returns. However, pending any further information that may be disclosed on Thursday, we estimate that the project could add $0.23 per share to BC Gas' earnings in 2003 23/64 the first full year of operation.
This
estimate assumes that the pipeline earns a 10% return on a common equity component of 25%.

The Corridor Pipeline, combined with the Southern Crossing natural gas pipeline, which is under construction and targeted for an in-service date of November 2000, brings the total cost of BC Gas' major projects to almost $1.1 billion. Despite this, we believe that BC Gas will have to issue little or no common equity to finance the projects.

We estimate the equity requirements for the two pipeline projects at approximately $300 million between now and the end of 2002. Of this total, $36 million will be provided by the gain on the recent sale of its Williams Lake power plant. Retained earnings should contribute approximately $90 million. We expect that BC Gas will attempt to raise the balance of $175 million through the issue of preferred securities. To date, BC Gas has not tapped this market and has adequate room in its capital structure. We would expect the rating agencies to be comfortable with this level of preferred securities in the company's capital structure, as they would only represent approximately 17% of

total equity.
A minor negative aspect of the agreement with Shell is that BC Gas will not be able to book an allowance for equity funds used during construction (AFUDC) of Corridor. This means that it will not contribute to earnings until it is in service. For this reason and due to other minor adjustments, we are lowering our 2000 EPS estimate by $0.06 and our 2001 estimate by $0.09. However, in our view, the impact of this reduction is offset by the larger ultimate earnings impact of the project.

Unrelated to any BC Gas specific developments, we are reviewing all our target prices for the utility and pipeline stocks and limited partnerships in the context of our quarterly Red Book review. In light of the higher interest rate environment and the impact that this is having on earnings multiples, we anticipate lowering target prices for most stocks by between five and ten percent. In anticipation of this we are lowering our target price for BC Gas from $32.00 to $29.00. However, in light of the recent extreme weakness in the stock (unwarranted in our view) as well as the company's prospects for sustained growth, we are reiterating our 4 rating.

NBI AM: (BCG) BC Gas - Q3/99 Results
Nov 5 1999 8:51
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
November 5, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Q3/99 Results

Price(11/4)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$26.25 $32.75-$25.30	$1.85	$1.92	$2.14	13.7	12.3	$1.0b	$1.18 4.5%	4 $32.00

EVENT: BC Gas reported a third-quarter loss of $0.34 per share compared to a third quarter loss of $0.35 per share in Q3/98. Nine-month EPS are $1.00 compared to $0.95 in 1998. Segmented results are set out below.

Nine months ending September 30	1999	1998
	($mm)	($mm)
Natural gas distribution	22.0	21.0
Petroleum transportation	13.6	17.4
Other activities	2.8	(1.6)
Net earnings	38.4	36.8
Average share outstanding	38.4	38.8
Earnings per share	$1.00	$0.95

IMPACT: Neutral. These results are equal to our estimate and in line with expectations. As was the case in the second quarter, lower results from the company's oil pipeline operations have been offset by the use of tax loss carryforwards. The use of tax loss carryforwards is a one-time event that will not last beyond the end of 1999. However, we also view the shortfall in earnings at Trans Mountain as somewhat unusual. As a result, we remain confident in the longer-term outlook for BC Gas and reiterate our 4 rating and $32.00 target price.

DETAILS: The increase in contribution from natural gas distribution is mainly due to increases in productivity and higher transportation revenue. These factors more than offset a decrease from 10.0% to 9.25% in the return on equity authorized by the B.C. Utilities Commission (BCUC). Based on the new ROE formula issued by the BCUC earlier this year, we expect an increase in authorized ROE in 2000 to 9.50%. Each 25 basis point increase in ROE adds $0.04 per share to the company's earnings.

The $3.8 million decrease in earnings from petroleum transportation is attributable to a decline in throughput destined for refineries in Washington State. Due to its incentive toll agreement, Trans Mountain is protected from throughput shortfalls on the Canadian portion of its system. The U.S. portion of the pipeline is regulated by the FERC and does not have this protection. Low oil prices on the west coast of North America and additional capacity on the

Enbridge system to the U.S. Midwest were responsible for the decline in U.S. destined throughput on Trans Mountain.

Recent improvements in the spread between the price of Alaska North Slope (ANS) crude and West Texas Intermediate (WTI) may induce more producers to look at west coast markets, which should improve fourth quarter results. Nominations on Trans Mountain's system for November were just less than 75,000 barrels per day compared to a nine-month average of 60,480 barrels per day.

The improvement in other activities was mainly due to the construction of a natural gas distribution system in the United Arab Emirates and income tax recoveries in respect of previous years. The latter added $3.4 million to earnings in the first nine months and should add an additional $1.6 million by year-end.

OUTLOOK: In addition to a small increase in regulated return and higher throughput volumes on Trans Mountain's U.S. system, future earnings should benefit from two major projects. BC Gas Utility is continuing to pursue an in-service date of November 2000 for the $380 million Southern Crossing Pipeline. A decision by Shell Canada with respect to its Athabasca Oil Sands Initiative is expected by year end. We expect a positve decision in which case BC Gas will build the approximately $500 million Corridor Pipeline to transport the bitumen to Edmonton. As a result, despite a temporary shortfall in oil pipeline earnings, we remain confident in the company's longer-term growth profile.

RECOMMENDATION: We continue to rate the stock a 4 with a target price of $32.00.

NBI AM: (BCG) BC Gas - Update
Oct 8 1999 9:48
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
October 8, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Williams Lake Power Plant Sold to TransCanada

Price(10/7)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$26.85	$1.85	$1.92	$2.14	14.0	12.5	$1.0b	$1.18	4
$32.75-$25.30							4.4%	$32.00

EVENT: BC Gas has agreed to sell its interest in the cash flow of the 66 megawatt Williams Lake power plant to TransCanada Power for $59 million. By the end of 2000, BC Gas will sell TransCanada Power the plant itself for a nominal additional consideration. Over the next five quarters, BC Gas will book an after-tax gain on the sale of $36 million.

IMPACT: Positive.

DETAILS AND ANALYSIS: The sale will be marginally positive to BC Gas's ongoing operating earnings given that it will allow the reduction of debt and that the plant was contributing less than a million dollars to BC Gas's earnings. More importantly, however, the cash proceeds and the increase in book equity that will result from the gain will reduce BC Gas's need to issue equity to finance the major projects that the company is undertaking. One of these is the $376 million Southern Crossing Pipeline Project, which the company is proposing to place in service by November 2000. Another is the approximately $500 million Corridor Pipeline which subsidiary Trans Mountain Pipe Line will build from Shell Canada's proposed Muskeg River bitumen mine to Edmonton. A final decision by Shell to proceed with the mine is expected in November.

RECOMMENDATION: We continue to rate the stock a 4 with a $32.00 target price.

NBI AM: (BCG) BC Gas - Update
Sep 29 1999 9:52
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
September 29, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Alberta Approves Corridor Pipeline

Price(9/28)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$27.25	$1.85	$1.92	$2.14	14.2	12.7	$1.0b	$1.18	4
$32.75-$25.30							4.3%	$32.00

EVENT: Yesterday, The Alberta Energy and Utilities Board approved the Corridor Pipeline, which will transport bitumen from Shell Canada's proposed Muskeg River mine near Fort McMurray to Edmonton. This represents the last regulatory approval required before Shell and its partners decide whether to proceed with the oil sands project.

IMPACT: Positive. While a final decision will not be made until later this fall, we remain optimistic that Shell and its partners will decide to proceed with the oil sands project. In this case, Trans Mountain Pipe Line, BC Gas' wholly owned liquids pipeline subsidiary, would build and own the pipeline to Edmonton. The expected in-service date is mid-2002 and we estimate that it would add about $0.16 per share to BC Gas's earnings. When combined with the Southern Crossing Pipeline, which is scheduled to go into service late in 2000, we remain confident in the company's longer-term growth prospects.

NBI AM: (BCG) BC Gas - Update
Aug 31 1999 8:55
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
August 31, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Slight Increase in 2000 Earnings Forecast

Price(8/30)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$28.00 $32.75-$26.75	$1.85	$1.92	$2.14i	14.6	13.1	$1.1b	$1.12 4.0%	4 $33.00

EVENT: 1) On Friday, August 27, the B.C. Utilities Commission issued its generic return on common equity decision. The commission ruled that when long Canada bond yields are forecast to average 6.0%, an appropriate risk premium for BC Gas Utility, would be 350 basis points. This risk premium is 15 basis points less than would have been derived from its previous formula. The commission will continue to round the result produced by its new formula to the nearest 25 basis points. As a result, if the consensus forecast for 2000 is that long Canada bond yields will remain close to the current spot rate, then BC Gas Utility's 2000 approved return on equity will be 9.25% compared to the 9.5% that would have resulted from application of the previous formula.

2) While no final decision has been reached, it is looking increasingly likely that BC Gas will adhere to a November 2000 in-service date for the Southern Crossing Project rather than defer the project until November 2001.

IMPACT: The positive impact of an earlier in-service date for Southern Crossing would slightly outweigh the negative impact of a lower authorized return in 2000. The negative impact of a 25 basis point reduction in ROE is about $0.03 per share. We estimate the positive impact of an earlier in-service date on Southern Crossing at about $0.07 per share. Our previous forecast had assumed that only $125 million of the cost of Southern Crossing would be spent by the end of 2000 whereas we are now willing to assume that the full $380 million will be spent by the end of 2000.

The net impact of the two events is that we are raising our 2000 earnings forecast for BC Gas by $0.04 per share to $2.14. This forecast continues to assume a recovery in volumes on Trans Mountain's U.S. pipeline to refineries in Washington State.

RECOMMENDATION: We continue to rate BC Gas stock a 4 with a target price of $33.00.

NBI AM: (BCG) BC Gas - Q2/99 Results
Aug 3 1999 9:41
Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
August 3, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Q2/99 Results

Price(7/30)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$28.70	$1.85	$1.92	$2.10	14.9	13.7	$1.1b	$1.12	4
$32.75-$26.75							3.9%	$33.00

EVENT: BC Gas reported a second-quarter loss of $0.01 per share compared to a second quarter loss of $0.03 per share in Q2/98. Six-month EPS are $1.34 compared to $1.30 in 1998. Six-month segmented results are set out below.

Six months ending June 30	1999 ($mm)	1998 ($mm)
Natural gas distribution	40.5	39.2
Petroleum transportation	9.3	12.4
Other activities	1.4	(1.2)
Net earnings	51.2	50.4
Average share outstanding	38.3	38.7
Earnings per share	$1.34	$1.30

IMPACT: Worse than expected results from the company's oil pipeline operations have been offset by the use of tax loss carryforwards resulting in bottom line results that are in line with expectations and consistent with our full year estimate. The use of tax loss carryforwards is a one-time event that will not last beyond the end of 1999. However, we also view the shortfall in earnings at Trans Mountain as somewhat unusual. As a result, we remain confident in the longer term outlook for BC Gas and are comfortable with our 4 rating and $33.00 target price.

DETAILS: The increase in contribution from natural gas distribution is mainly due to increases in productivity and higher transportation revenue. These factors more than offset a decrease from 10.0% to 9.25% in the return on equity authorized by the BC Utilities Commission.

The $3.1 million decrease in earnings from petroleum transportation is attributable to a 48% decline in throughput destined for refineries in Washington State. Due to its incentive toll agreement, Trans Mountain is protected from throughput shortfalls on the Canadian portion of its system. The U.S. portion of the pipeline is regulated by the FERC and does not have this protection. Low oil prices on the west coast of North America and additional capacity on the Enbridge system to the U.S. midwest were responsible for the decline in U.S. destined throughput on Trans Mountain. This trend started in the second half of 1998. As a result, we do not expect the year over year comparison for Trans Mountain to be as unfavourable for the full year as it is for the first six months. Recent improvements in the unfavourable spread between the price of Alaska North Slope (ANS) crude and West Texas Intermediate (WTI) may induce more producers to look at west coast markets, which would also help full year results.

The improvement in other activities was mainly due to earnings from the construction of a natural gas distribution system in the United Arab Emirates and income tax recoveries in respect of previous years. The latter added $2 million to earnings in the first half and should add an additional $3 million by year end.

OUTLOOK: In its quarterly conference call, management indicated that through the use of tax loss carryforwards, the company still expected to generate earnings this year in the low $1.90s. Longer term, an improvement in the relative price of ANS and WTI crude should allow for a recovery in earnings from petroleum transportation. As well, we are optimistic with respect to a favourable decision by Shell Canada to proceed with its Muskeg River bitumen mine, in which case BC Gas and Trans Mountain will build the Corridor Pipeline to transport the bitumen to Edmonton. This approximately $500 million project would significantly increase oil pipeline earnings. A decision with respect to the Corridor Pipeline is expected late this fall. In the meantime, BC Gas Utility is working toward a November 1, 2000 in-service date for the Southern Crossing natural gas pipeline. As a result, despite a temporary shortfall in oil pipeline earnings, we remain confident in the company's longer-term growth profile.

RECOMMENDATION: We continue to rate the stock a 4 with a target price of $33.00.

NBI AM: (BCG) BC GAS - UPDATE
May 25 1999 10:59

Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
May 25, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Favourable Ruling on Southern Crossing Project

Price(5/21)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$27.85	$1.85	$1.92	$2.04	14.5	13.7	$1.1b	$1.12	4
$34.00-$26.75							4.0%	$33.00

EVENT: The British Columbia Utilities Commission has given conditional approval to BC Gas' application to build the Southern Crossing Pipeline (SCP). SCP is a $376 million pipeline that BC Gas is proposing to build across Southern B.C. from Yahk to Oliver in order to meet the peak and seasonal needs of its firm sales customers. The proposed in-service date is November 1, 2000. As a condition of awarding a Certificate of Public Convenience and Necessity, the Commission will require that costs of the project beyond 110 percent of the estimated cost of $376 million be borne by shareholders, not ratepayers.

IMPACT: Positive. This is a significant win for BC Gas, which has been strongly opposed in its application by Westcoast Energy. It is too early to know whether or not BC Gas will accept the BCUC's condition and whether or not Westcoast will attempt to appeal or otherwise block the Commission's ruling. However, this decision significantly increases the odds that the SCP will be built, even if its in-service date is delayed by a year to November 1, 2001.

Based on the estimated cost of $376 million, BC Gas Utility's regulated equity ratio of 33 percent and its currently authorized return on equity of 9.25%, we estimate that SCP will add at least $0.10 per share to BC Gas earnings in its first full year of operation. This conservative estimate assumes that virtually all of the required $124 million of common equity financing is raised through the issue of new common equity by BC Gas - the balance being contributed by retained earnings. In fact, we expect that other financing options could be employed to increase the positive earnings impact of the project.

Due to the controversy surrounding the SCP project, we have not included it in our earnings estimates for BC Gas. Moreover, we will not raise our earnings forecast until BC Gas accepts the BCUC's condition and until Westcoast's response is known. Nonetheless, we view the BCUC's decision as a significant positive. We reiterate our buy recommendation, 4 rating and $33.00 one-year target price.

NBI AM: (BCG) BC GAS - Q1/99 RESULTS
Apr 29 1999 10:28

Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
April 29, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Estimates and Rating Maintained Following Q1 Results

Price(4/27)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
\$28.70 \$34.00-\$26.75	\$1.85	\$1.92	\$2.04	14.9	14.1	\$1.1b	\$1.12 3.9%	4 \$33.00

EVENT: BC Gas reported first-quarter EPS of \$1.35 compared to \$1.33 in Q1/98. The company also announced an increase in its quarterly dividend from \$0.28 to \$0.295 per share. The increase is effective with the dividend payable May 31, 1999, to shareholders of record on May 17, 1999. Segmented results were as follows:

Three months ended Mar. 31	1999 (\$mm)	1998 (\$mm)
Natural gas distribution	46.4	46.3
Petroleum transportation	5.7	6.3
Other activities	(0.5)	(0.7)
Net earnings	51.6	51.9
Average shares	38.3	38.9
Earnings per share	\$1.35	\$1.33

IMPACT: The results were \$0.05 per share better than our forecast. The difference is attributable to a stronger-than-expected performance from the utility as well as the timing of the company's share repurchase program. Contribution from the utility increased by \$0.1 million as productivity improvements and a small increase in rate base offset the impact of a 75-basis-point reduction in its authorized return on equity.

The decline in contribution from the oil pipeline was expected. Volumes on the U.S. pipeline destined for refineries in Washington State are down substantially from Q1/98 due the high differentials between the price of WTI and Alaska North Slope crude and the availability of cheaper offshore crude to west coast refiners. With increased capacity on the Enbridge system, Canadian producers can get a higher netback for their crude in the Chicago market than in Washington State. This situation may be alleviated later this year with the conversion of the BP refinery in Toledo Ohio to heavy crude and the reversal of Enbridge's line 9. Both these events may reduce the premium that is being paid for Canadian light crude in the Chicago market.

The impact of the share repurchase program will diminish as the year progresses. For the full year, we expect average shares outstanding of 38.3 million compared to 38.5 million in 1998

CONCLUSION: Despite the better-than-expected Q1 results, we are not changing our full-year estimate of $1.92. Earnings growth will slow this year due to the impact of a lower utility allowed return as well as the impact of crude oil pricing on volumes of crude on Trans Mountain's U.S. pipeline.

We remain positive on BC Gas' longer-term prospects in light of the potential growth that will result if the company is successful in building either the Southern Crossing or the Corridor pipeline projects. A decision from the BCUC on Southern Crossing is expected in May.

FIRST CALL RESEARCH NETWORK

10:00am EST 30-Mar-99 Nesbitt Burns - Canada (PETER CASE 416-359-4304) BCG
BC GAS - NEB GIVES MIXED SIGNALS FOR SOUTHERN CROSSING

Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
March 30, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

NEB Decision Gives Mixed Signals for Southern Crossing Project

Price(3/29)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$27.80 $34.00-$27.80	$1.85	$1.92	$2.04	14.5	13.6	$1.1b	$1.12 4.0%	4 $33.00

EVENT: The National Energy Board (NEB) has approved BC Gas's application to establish a new receipt point on the Westcoast Energy pipeline at Kingsvale and has ordered Westcoast to receive, transport and deliver any gas delivered at Kingsvale to the Huntingdon delivery area.

IMPACT: The NEB decision to establish a new receipt point on Westcoast's system is positive for BC Gas. However, it is only one step in BC Gas's bid to build the Southern Crossing project. Other aspects of the decision were not as positive, although the NEB has clearly not shut the door.

DETAILS: Southern Crossing is a $365 million pipeline that BC Gas is proposing to build across southern British Columbia. Intake capacity at Yahk (southeastern B.C.) would be 300 mmcf/day and delivery capacity at Kingsvale would be 105 mmcf/day. The difference would be used by BC Gas to meet its growing needs in the interior. Gas delivered to the Westcoast system at Kingsvale would be used by BC Hydro and PG&E Trading, Canada.

The NEB determined that if BC Gas requires firm capacity on the Westcoast system from Kingsvale to Huntingdon without an expansion of the Westcoast system, the result could be unused capacity on Westcoast's system north of Kingsvale. In this case, the Board determined that the appropriate toll be the full toll from Station 2 to Huntingdon (i.e., $0.245/mmcf). This helps alleviate Westcoast Energy's concerns about who would pay the cost of stranded capacity on its system. It would, however, make the economics of moving Southern Crossing gas all the way to the lower mainline more difficult.

On a more positive note, the Board also determined that if an expansion of the Westcoast system south of Kingsvale is required, it may result in "a situation where a fundamental re-examination of the Westcoast tolling system is required." If Southern Crossing is approved, BC Gas believes that it will be able to demonstrate the need to expand the Westcoast system south of Kingsvale and, therefore, that the toll that it would pay on the Westcoast system would be significantly less than the $0.245 toll from Station 2 to Huntingdon.

The NEB refused to hear BC Gas's request to force Westcoast to expand its system from Kingsvale to Huntingdon. This is not surprising given that BC Gas would only need the capacity if the Southern Crossing pipeline is approved by the British Columbia Utilities Commission, which starts its hearing of Southern Crossing March 29.

BC Gas is still optimistic that, if approved, it will be able to bring the

Southern Crossing project into service by November 1, 2000. In this situation, we would expect it to add approximately $0.10 per share to BC Gas's 2001 earnings.

CONCLUSION: While the NEB decision is encouraging for BC Gas, we believe that it is too early to incorporate any benefit of Southern Crossing in our earnings forecasts or target price for BC Gas.

RECOMMENDATION: We continue to rate BC Gas stock a 4 with a target price of $33.00.

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Note ID: 161740

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FIRST CALL RESEARCH NETWORK

10:40am EST 05-Feb-99 Nesbitt Burns - Canada (PETER CASE 416-359-4304) BCG
BC GAS - EXCELLENT GROWTH AGAIN IN 1998

Nesbitt Burns Inc.

BC Gas
(BCG - TSE)
February 5, 1999

PETER CASE
(416) 359-4304
Toronto, Ontario

Excellent Growth Again in 1998

Price(2/4)& 52-Week Range	EPS (FY-Dec) 1998A	1999E	2000E	P/E 1999E	2000E	Mkt Cap	Div/ Yield	Rating/ Target
$31.00	$1.85	$1.92	$2.04	16.1	15.2	$1.2b	$1.12	4
$34.00-$28.00							3.6%	$33.00

EVENT: BC Gas reported 1998 EPS of $1.85, up 13% from $1.63 before non-recurring items in 1997. Segmented results were as follows:

	1998 ($mm)	1997 ($mm)
Natural gas distribution	51.8	50.2
Petroleum transportation	22.9	20.4
Other activities	(3.5)	(5.4)
Operating earnings	71.2	65.2
Non-recurring items	-	(14.4)
Total earnings	71.2	50.8
Average shares	38.5	40.1
Operating EPS	$1.85	$1.63

IMPACT: Positive. These results were $0.04 per share better than our forecast and slightly higher than the consensus estimate as well.

DETAILS: Earnings from gas distribution operations increased as a result of productivity improvements flowing from the restructuring program implemented in early 1998. This plus an approximate 2.5% increase in rate base more than offset a decrease in the authorized return on equity from 10.25% to 10.0%.

Petroleum transportation earnings increased due to higher throughput levels on both the Canadian and U.S. portions of Trans Mountain's pipeline.

The reduced loss from other activities reflects earnings from the construction of a water treatment facility in Halifax and a natural gas distribution system in the United Arab Emirates. This more than offset an increase in corporate interest expense associated with additional debt assumed to fund the company's share repurchase program and an equity injection into BC Gas Utility.

OUTLOOK: The strong results of 1998 make our 1999 forecast look easily attainable. While we are maintaining our 1999 estimate for now, we see upside potential from this number if the Southern Crossing project is approved, if the company's Williams Lake power plant is sold, or if oil prices improve to the point where throughput forecasts on Trans Mountain can be raised. In the meantime, we are maintaining our 4 rating and $33.00 target.

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RBC DOMINION SECURITIES

November 8, 2000
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

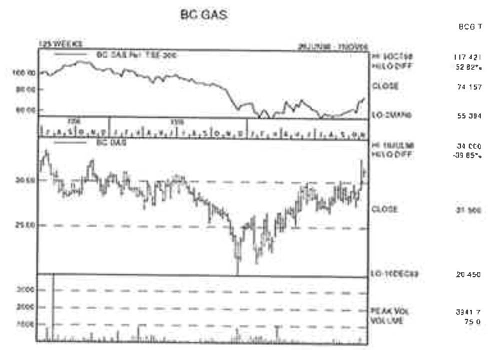
BC GAS INC.

TSE - BCG – $31.50

Q3 Results In Line With Expectations

Stock Rating (Recommendation)	**2 (OUTPERFORM)**	**1 Yr. Target**	$33.50
Industry Rating	**3 (UNDERPERFORM)**	**Annual Return**	10.3%

No. of Shares Outstanding		- Basic (MM)		42.9
		- Fully Diluted (MM)		42.9
Float (MM)				38.3
Market Capitalization ($MM)				1,351.4
Value of Float ($MM)				1,206.5
Major Shareholders				Trans Mountain (10.7%)
Year End				Dec. 31
52-Week Price Range				$20.45-$33.00
Debt/Total Capital				0.7
Dividend	$1.24	Yield		3.9%
Book Value	$17.67	Price/Book		1.78
	1999	**2000**	**2001E**	**2002E**
EPS ($)	1.94	2.07	2.20	2.34
P/E (X)	16.2	15.2	14.3	13.5



(All values in C$ unless otherwise noted.)

Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

Yesterday, BC Gas announced normalized EPS of -$0.34 for Q3 2000 compared to our estimate of -$0.32. In comparison, BC Gas' normalized EPS for Q3 1999 were -$0.34. The reason for the shortfall from our estimate is increased seasonality in the Company's earnings, resulting in lower earnings during the summer quarters, Q2 and Q3, and higher earnings during the winter quarters. The reported earnings per share for the quarter were -$0.33. The $0.01 of non-recurring earnings comprises the positive impact of the income tax benefits from the sale of the Williams Lake power plant, partially offset by a one-time charge associated with restructuring Trans Mountain Pipe Line.

IMPLICATION

The table below outlines the EPS contribution from BC Gas' three business segments:

Earnings Per Share Analysis:	**Q3 2000**	**Q3 1999**
Natural gas distribution	(0.49)	(0.48)
Petroleum transportation	0.13	0.11
Other activities	0.02	0.03
Normalized earnings per share (loss)	(0.34)	(0.34)
Non-recurring items	0.01	-
Reported earnings per share	(0.33)	(0.34)

Natural Gas Distribution

BC Gas' natural gas distribution business realized a loss of $18.9 million in Q3 2000 compared to a loss of $18.5 million in Q3 1999. Earnings were negatively impacted by the amortization of previously capitalized costs and the adoption of CICA recommendations on accounting for employee future benefits. These higher costs are recoverable in customer rates, which are collected on a seasonal basis with the majority recovered in Q1 and Q4. However, these costs are booked approximately evenly over the year resulting in the increased loss from the natural gas distribution business in Q3 2000 compared to Q3 1999. On an annual basis, there will be no earnings impact from the amortization of these costs since, as previously stated, they are fully recovered in customer rates. The positive impacts of the increase in BC Gas Utility's authorized return on common equity from 9.25% in 1999 to 9.50% in 2000 and growth in rate base were offset this quarter by the seasonal nature of recovering the higher costs.

In its conference call, BC Gas reported that the Southern Crossing Pipeline will be in service by the end of November 2000. Capital costs are expected to be within 110% of the budgeted amount of $376 million, ensuring that tolls charged will recover a return on the total investment in the project. Under the terms of approval of the project granted by the British Columbia Utility Board, the shareholders of BC Gas would incur the cost of capital overruns above 10% of the budgeted cost.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business increased by $0.8 million from $4.3 million in Q3 1999 to $5.1 million in Q3 2000. The increase was attributable to higher throughput on the U.S. mainline and lower operating costs. Throughput on the U.S. mainline increased from 62,718 bbl/d in Q3 1999 to 69,789 bbl/d for Q3 2000. Volumes for the first two months of Q4 2000 have rebounded to over 75,000 bbl/d.

As announced in Q2, a $7.5 million one-time after-tax charge to earnings for the restructuring and relocation of Trans Mountain from Vancouver to Calgary was taken during the past quarter. For comparison purposes, we have not included this one-time charge in our normalized earnings per share.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, realized $0.02 of earnings in Q3 2000 compared to $0.03 for Q3 1999. BC Gas no longer has the benefit of tax loss carryforwards, which were used up in 1999. However, earnings from BC Gas' water supply and services companies acquired in 1999 partially replaced the benefit from the previously available tax loss carryforwards.

BC Gas also realized $8.0 million or $0.21 per share from income tax benefits associated with the monetization of its Williams Lake Power Plant (NW Energy). The Company expects to recognize a total of $29 million in tax benefits associated with the power plant in 2000. For comparison purposes, we have not included these tax benefits in our normalized earnings per share.

CONCLUSION

Yesterday, BC Gas announced normalized EPS of -$0.34 for Q3 2000 compared to our estimate of -$0.32. In comparison, BC Gas' normalized EPS for Q3 1999 were -$0.34. The reason for the shortfall from our estimate is increased seasonality in the Company's earnings, resulting in lower earnings during the summer quarters, Q2 and Q3, and higher earnings during the winter quarters. BC Gas is ranked 2 (OUTPERFORM).

RBC
DOMINION
SECURITIES

November 7, 2000
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

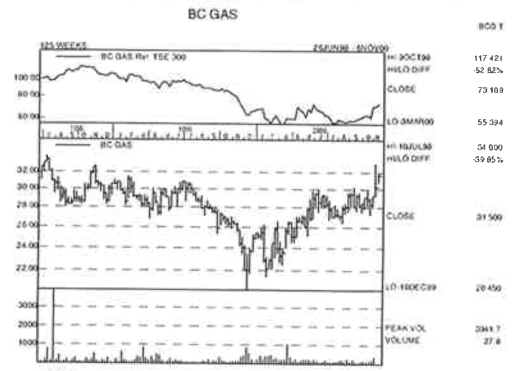
BC GAS INC.

TSE - BCG – $31.50

Trans Mountain Announces New Five-Year Incentive Toll Settlement

Stock Rating (Recommendation)	2 (OUTPERFORM)	1 Yr. Target	$33.50
Industry Rating	3 (UNDERPERFORM)	Annual Return	10.3%

No. of Shares Outstanding	- Basic (MM)			42.9
	- Fully Diluted (MM)			42.9
Float (MM)				38.3
Market Capitalization ($MM)				1,351.4
Value of Float ($MM)				1,206.5
Major Shareholders				Trans Mountain (10.7%)
Year End				Dec. 31
52-Week Price Range				$20.45-$33.00
Debt/Total Capital				0.7
Dividend	$1.24	Yield		3.9%
Book Value	$17.67	Price/Book		1.78
	1999	**2000**	**2001E**	**2002E**
EPS ($)	1.94	2.07	2.20	2.34
P/E (X)	16.2	15.2	14.3	13.5



(All values in C$ unless otherwise noted.)

Note: Maureen Howe is an associate of an insider of BC Gas. The information contained in this report has been obtained from sources other than such insider.

EVENT

BC Gas' wholly-owned subsidiary, Trans Mountain Pipe Line Company Ltd. (TMPL), announced yesterday that it has reached an agreement with the Canadian Association of Petroleum Producers and Chevron Canada Ltd. ("the Shippers") on the terms and principles for a second five-year Incentive Toll Settlement (ITS) covering 2001-2005. The first five-year settlement will expire on December 31, 2000.

IMPLICATION

Under the new ITS, TMPL will assume throughput risk within a defined range of throughput volume. In return, TMPL will receive the full benefit of any realized efficiencies and savings associated with lower costs of pipeline operations. Under the new agreement, 2001 tolls will remain in effect for the five-year period, with provision for future adjustments to reflect volume variances outside the defined range and other defined adjustments. The Final ITS Agreement will be filed with the National Energy Board for approval in December 2000.

The new toll calculation will use a base throughput forecast of 30,000 m³/day. TMPL has agreed to accept the risk and benefit of variances in annual throughput within a range of 32,000 m³/day and 28,500 m³/day. The toll will not be adjusted if annual throughput falls within this range. If actual throughput for any calendar year exceeds 32,000 m³/day, the resulting "excess" revenue (net of an incremental transportation cost allowance of 15%), will be shared 50/50 between TMPL and the Shippers by way of a credit to the subsequent year(s') tolls until fully credited to Shippers. If actual throughput for any calendar year is less than 28,500 m^3/day, the resulting revenue shortfall (net of a decremental transportation cost allowance of 5%), will be recovered from Shippers by means of a surcharge to the subsequent year(s') tolls until fully recovered from Shippers.

The toll for 2001 will be calculated using an annual revenue requirement determined in accordance with the transition rules provided in the first ITS agreement. The 2001 tolls will reflect 50% of the annualized cost savings achieved by TMPL under the first five-year ITS agreement. Going forward, TMPL will receive the full benefit of any realized efficiencies and savings associated with lower costs of pipeline operations.

Overall, we view the new ITS as a positive for TMPL and BC Gas. TMPL will benefit from any upside in throughput over 30,000 m^3/day. Even though TMPL is assuming throughput risk under the new ITS, its downside is limited to 28,500 m^3/day. As a comparison, average throughput from 1995-1999 was 36,981 m^3/day and the average volume during the first six months of 2000 was 31,102 m^3/day. In light of current oil prices, we believe the risk of throughput falling below 30,000 m^3/day is very limited. With respect to cost savings, TMPL was required under its first ITS to share 50% of any cost savings with the Shippers. While 50% of the achieved cost savings will be built into the new ITS, we believe that further cost savings are still possible in light of TMPL's current restructuring programme and its relocation to Calgary. Any after-tax cost savings going forward will flow straight to TMPL and BC Gas' bottom line.

While we expect the new ITS will result in higher earnings to BC Gas over our forecast period, we had previously assumed increasing incentive earnings from TMPL in our financial model for BC Gas and, accordingly, we are maintaining our EPS estimates at this time.

CONCLUSION

BC Gas' subsidiary, Trans Mountain Pipe Line Company Ltd., announced yesterday that it has reached an agreement with the Canadian Association of Petroleum Producers and Chevron Canada Ltd. on the terms and principles for a second five-year Incentive Toll Settlement covering 2001-2005. The first five-year settlement will expire on December 31, 2000. Overall, we view the new settlement as a positive for TMPL and BC Gas as it provides upside potential through greater throughput volumes and cost savings while downside risk from lower throughput volumes is limited. While we expect the new ITS will result in higher earnings to BC Gas over our forecast period, we had previously assumed increasing incentive earnings from TMPL in our financial model for BC Gas and, accordingly, we are maintaining our EPS estimates at this time. BC Gas is ranked 2 (OUTPERFORM) with a one-year target of $33.50.

BC GAS INC. - BC Gas and Westport Innovations Form Strategic Alliance

Stock Rating (Recommendation)	2 (OUTPERFORM)
1 Yr. Target	$32.50
Industry Rating	3 (UNDERPERFORM)
Annual Return	20.5%
No. of Shares Outstanding	- Basic (MM) 42.9
	- Fully Diluted (MM) 42.9
Float (MM)	38.3
Market Capitalization ($MM)	1,201.2
Value of Float ($MM)	1,072.4
Major Shareholders	Trans Mountain (10.7%)
Year End	Dec. 31
52-Week Price Range	$20.45-$30.20
Debt/Total Capital	0.7
Dividend	$1.24
Yield	4.4%
Book Value	$17.67
Price/Book	1.58

	1999	2000	2001E	2002E
EPS ($)	1.94	2.07	2.20	2.34
P/E (X)	14.4	13.5	12.7	12.0

(All values in C$ unless otherwise noted.)
* Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT
BC Gas and Westport Innovations have entered into a financing agreement that forms an alliance between the two companies to pursue their objectives of building refueling infrastructure for natural gas vehicles. Under the financing agreement, BC Gas will acquire 516,129 shares of Westport in a private placement at $15.50 per share, the same price as Westport's recently completed equity financing. Westport closed yesterday at $17.05. The purchase represents 1.7% of Westport's shares outstanding. Westport will use the $8 million in proceeds from the private placement to acquire a 31% interest in Vancouver-based BCG eFuels Inc., a wholly-owned subsidiary of BC Gas. Both transactions are scheduled to close by October 31, 2000.

IMPLICATION
While the transaction is not expected to contribute materially to BC Gas's EPS in the next several years, the

partnership is a natural fit with BC Gas' objective of positioning itself in the development and evolution of natural gas vehicles. Currently, BCG eFuels owns and operates 37 compressed natural gas (CNG) refueling facilities in British Columbia and two in Ontario. BCG eFuels' goal is to become a leading provider of alternative fuel infrastructure and turnkey alternative fuel refueling solutions for vehicles and fleets. The mandate of BCG eFuels includes infrastructure for vehicles operating on either CNG or liquefied natural gas (LNG). In addition, BCG eFuels will investigate opportunities for hydrogen reformation from natural gas, a requirement for vehicles using fuel cells. One of the first infrastructure targets for BCG eFuels is the State of Arizona, which recently announced significant incentives for its residents to acquire vehicles that use clean-burning alternative fuels like natural gas. Other early target markets include California, Texas and the U.S. Pacific Northwest.
Westport Innovations is a Vancouver based company that is developing fuel systems that allow diesel engines to run on gaseous fuels such as natural gas. Westport's technology is designed to reduce emissions while retaining the performance, power and fuel efficiency of the traditional diesel engine. In addition to its alliance with BC Gas, Westport is working with Cummins, Inc. of Columbus, Indiana to develop natural gas fueled diesel engines for heavy-duty trucking and electric power generation. Separately, with Ford Motor Company of Dearborn, Michigan, Westport is developing the enabling technologies for a natural gas fueled diesel engine for light-duty vehicles.

CONCLUSION
BC Gas and Westport Innovations have entered into a financing agreement that forms an alliance between the two companies to pursue their objectives of building refueling infrastructure for natural gas vehicles. We believe the overwhelming themes of the energy industry during the next decade will be environment, efficiency and technology. BC Gas' alliance with Westport serves to position BC Gas strategically with respect to these trends. Our one year target price for BC Gas is $32.50. With an all-in return of 20.5%, BC Gas is ranked 2 (OUTPERFORM).

September 26, 2000
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

RBC DOMINION SECURITIES

July 28, 2000
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

BC GAS INC.

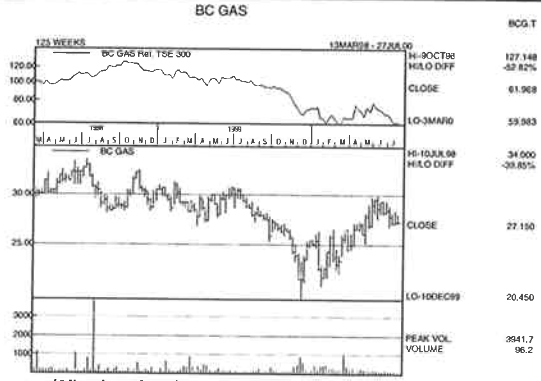
TSE - BCG – $27.15

Q2 Results In Line With Expectations;
Announces MOU with BC Hydro & Restructuring of Trans Mountain

Stock Rating (Recommendation)	**2 (OUTPERFORM)**
Industry Rating	**2 (MARKET PERFORM)**
1 Yr. Target	$32.50
Annual Return	24.3%

No. of Shares Outstanding		- Basic (MM)		42.9
		- Fully Diluted (MM)		42.9
Float (MM)				38.3
Market Capitalization ($MM)				1,164.7
Value of Float ($MM)				1,039.8
Major Shareholders				Trans Mountain (10.7%)
Year End				Dec. 31
52-Week Price Range				$20.45-$30.00
Debt/Total Capital				0.7
Dividend	$1.24	Yield		4.6%
Book Value	$17.67	Price/Book		1.54
	1999	**2000**	**2001E**	**2002E**
EPS ($)	1.94	2.07	2.20	2.34
P/E (X)	14.0	13.1	12.3	11.6

BC GAS



(All values in C$ unless otherwise noted.)

* Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

Yesterday, BC Gas announced normalized EPS of $0.02 for Q2 2000 equal to our estimate of $0.02. In comparison, BC Gas' normalized EPS for Q2 1999 were -$0.01. BC Gas also announced that its Board of Directors approved a memorandum of understanding (MOU) with BC Hydro to create two companies. One company will market non-regulated products and services to residential and small commercial customers and the other will handle customer billing, measurement and call centre services for BC Gas and BC Hydro. In addition, Trans Mountain is relocating to Calgary to better meet the needs of its customer base and capitalize on further growth opportunities in Alberta. As part of the relocation, Trans Mountain is initiating a restructuring program.

IMPLICATION

The table below outlines the EPS contribution from BC Gas' three business segments:

Earnings Per Share Analysis:	Q2 2000	Q2 1999
Natural gas distribution	(0.16)	(0.15)
Petroleum transportation	0.12	0.09
Other activities	0.06	0.05
Normalized earnings per share (loss)	0.02	(0.01)
Income tax benefits from NW Energy	0.20	-
Reported earnings per share	0.22	(0.01)

Natural Gas Distribution

BC Gas' natural gas distribution business realized a loss of $6.3 million in Q2 2000 compared to a loss of $5.9 million in Q2 1999. Earnings were negatively impacted by the amortization of previously capitalized costs and the adoption of CICA recommendations on accounting for employee future benefits. These higher costs are recoverable in customer rates, which are collected on a seasonal basis with the majority recovered in Q1 and Q4. However, these costs are booked approximately evenly over the year resulting in the increased loss from the natural gas distribution business in Q2 2000 compared to Q2 1999. The positive impacts of the increase in BC Gas Utility's authorized return on common equity from 9.25% in 1999 to 9.50% in 2000 and growth in rate base were offset this quarter by the seasonal nature of recovering the higher costs.

BC Gas also reported that work is well under way on the Southern Crossing Pipeline, which will be in service by November 2000. In Q2 2000, Southern Crossing Pipeline contributed $0.01 to $0.02 to BC Gas' earnings.

Petroleum Transportation

Earnings for BC Gas' petroleum transportation business increased by $1.1 million from $3.6 million in Q2 1999 to $4.7 million in Q2 2000. The increase was attributable to higher throughput on the U.S. mainline and lower operating costs. Throughput on the U.S. mainline increased from 53,534 bbl/d in Q1 2000 to 67,498 bbl/d for Q2 2000. In comparison, throughput in Q2 1999 was 51,159 bbl/d.

BC Gas announced that Trans Mountain is implementing a restructuring program and its Vancouver based management and support services will be relocated to Calgary by mid 2001. The relocation to Calgary is designed to better meet the needs of Trans Mountain's customer base and to capitalize on future growth opportunities in the petroleum transportation business in Alberta. A $7.5 million one-time after-tax charge to earnings for the restructuring and relocation is expected in Q3 2000.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, realized $0.06 of earnings in Q2 2000 compared to $0.05 for Q2 1999. BC Gas no longer has the benefit of tax loss carryforwards, which were used up in 1999. However, earnings from BC Gas' water supply and services companies acquired in 1999 replaced the benefit from the previously available tax loss carryforwards.

BC Gas also realized $7.9 million or $0.20 per share from income tax benefits associated with the monetization of its Williams Lake Power Plant (NW Energy). The Company expects to recognize a total of $29 million in tax benefits associated with the power plant in 2000. For comparison purposes, we have not included these tax benefits in our normalized earnings per share.

MOU with BC Hydro

BC Gas' and BC Hydro's Board of Directors approved a memorandum of understanding to create two new companies on a joint 50/50 basis. One company will market non-regulated products and services to residential and small commercial customers. The other company will handle customer billing, measurement and call centre services for BC Gas and BC Hydro. BC expects to hold on-going negotiations with BC Hydro over the next 4 to 5 months with an objective of reaching a binding agreement by the end of the year. Due to the preliminary nature of the announcement, we are maintaining our EPS estimates pending further developments.

CONCLUSION

Yesterday, BC Gas announced normalized EPS of $0.02 for Q2 2000 equal to our estimate of $0.02. In comparison, BC Gas' normalized EPS for Q2 1999 were -$0.01. BC Gas has entered into a memorandum of understanding with BC Hydro to create two jointly owned companies. One company will market non-regulated products and services to residential and small commercial customers and the other company will handle customer billing and other services for BC Gas and BC Hydro. In addition, Trans Mountain, which is relocating to Calgary to better meet the needs of its customer base and capitalize on further growth opportunities in Alberta, is initiating a restructuring program. With an all-in return of 24.3%, BC Gas is ranked 2 (OUTPERFORM).

RBC BC GAS INC. TSE - BCG - $26.30
Apr 27 2000 9:03

BC GAS INC. TSE - BCG - $26.30

Q1Results In Line With Expectations; Annual Dividend Increased by $0.06

Stock Rating (Recommendation)	2 (OUTPERFORM)
1 Yr. Target	$29.50
Industry Rating	2 (MARKET PERFORM)
Annual Return	16.9%
No. of Shares Outstanding - Basic (MM)	42.9
- Fully Diluted (MM)	42.9
Float (MM)	38.3
Market Capitalization ($MM)	1,128.3
Value of Float ($MM)	1,007.3
Major Shareholders	Trans Mountain (10.7%)
Year End	Dec. 31
52-Week Price Range	$20.45-$30.85
Debt/Total Capital	0.7
Dividend	$1.24
Yield	4.7%
Book Value	$17.67
Price/Book	1.49

	1999	2000	2001E	2002E
EPS ($)	1.94	2.07	2.20	2.34
P/E (X)	13.6	12.7	12.0	11.2

(All values in C$ unless otherwise noted.)

* Maureen Howe is an associate of an insider of BC Gas. The information contained in this (report) has been obtained from sources other than such insider.

EVENT

Yesterday, BC Gas announced normalized EPS of $1.39 for Q1 2000 compared to our estimate of $1.38 and EPS of $1.35 for Q1 1999. Compared to Q1 1999, earnings for Q1 2000 benefited from a higher allowed return on equity for BC Gas Utility, partially offset by lower throughput on the Company's U.S. oil pipeline system, Trans Mountain Corp., and higher losses from other activities. BC Gas' reported EPS of $1.60 for Q1 2000 include $0.21 per share of income tax benefits from NW Energy. As expected, BC Gas' Board of Directors increased the annual dividend by $0.06 from $1.18 to $1.24. Since the results were in line with expectations, we are maintaining our EPS estimates and one-year target price. With an all-in return of 16.9%, BC Gas is ranked 2 (OUTPERFORM).

IMPLICATION

Natural Gas Distribution

Earnings for natural gas distribution increased by $2.8 million ($0.07 per share) in Q1 2000 compared to Q1 1999. The improvement was due to an increase in BC Gas Utility's authorized return on common equity from 9.25% in 1999 to 9.50% in 2000 and growth in rate base.

BC Gas has completed the right-of-way clearing work on the Southern Crossing Pipeline Project and is in the process of evaluating bids for construction and installation of the pipeline. Although the Company intends to complete the project for an in-service date of November 1, 2000, it may revise the expected date of completion based on the results of these bids. A final decision by BC Gas on the planned in-service date is expected in May 2000.

Petroleum Transportation

Operating results for petroleum transportation in Q1 2000 were negatively affected by decreased throughput on BC Gas' U.S. oil pipeline system (53,534 bbl/d for Q1 2000 versus 67,536 bbl/d for Q1 1999). The decrease in throughput was attributable to a temporary shutdown in February 2000 of a refinery in Washington State served by Trans Mountain. Throughput in Q2 2000 is expected to show considerable improvement with 64,000 bbl/d estimated for April and over 75,000 bbl/d for May.

Other Activities

Other activities, which include non-regulated energy and utility services as well as corporate interest and administration charges, realized a loss of $0.03 per share in Q1 2000 compared to a loss of $0.01 for Q1 1999. The $0.02 reduction was attributable to the water supply and services companies acquired by BC Gas in 1999. According to the Company, its water businesses are seasonal operations and the Company expects that the modest losses in the winter months will be more than offset by strong earnings in the summer months. Furthermore, the losses from the water business were less than the Company had expected.

BC Gas also realized $7.9 million or $0.21 per share from income tax benefits associated with the monetization of its Williams Lake Power Plant (NW Energy). The Company expects to recognize a total of $29 million in tax benefits associated with the power plant in 2000. For comparison purposes, we have not included these tax benefits in our normalized earnings per share.

Annual Dividend

As expected, BC Gas' Board of Directors increased the annual dividend by $0.06 from $1.18 to $1.24. We believe that the increased annual dividend is a reflection of the Company's strong growth profile.

CONCLUSION

Yesterday, BC Gas announced normalized EPS of $1.39 for Q1 2000 compared to our estimate of $1.38 and EPS of $1.35 for Q1 1999. Compared to Q1 1999, earnings for Q1 2000 benefited from a higher allowed return on equity for BC Gas Utility, partially offset by lower throughput on the Company's U.S. oil pipeline system, Trans Mountain Corp., and higher losses from other activities. BC Gas' reported EPS of $1.60 for Q1 2000 include $0.21 per share of income tax benefits from NW Energy. As expected, BC Gas' Board of Directors increased the annual dividend by $0.06 from $1.18 to $1.24. Since the results were in line with expectations, we are maintaining our EPS estimates and one-year target price. With an all-in return of 16.9%, BC Gas is ranked 2 (OUTPERFORM).

April 27, 2000
Morning Comment

Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

RBC BC GAS INC. TSE - BCG - $22.90
Feb 4 2000 8:40
BC GAS INC. TSE - BCG - $22.90
1999 Results In Line With Expectations

Stock Rating (Recommendation)	1 (STRONG BUY)
1 Yr. Target	$29.00
Industry Rating	2 (MARKET PERFORM)
Annual Return	31.8%
No. of Shares Outstanding - Basic (MM)	42.9
- Fully Diluted (MM)	42.9
Float (MM)	38.30
Market Capitalization ($MM)	982.41
Value of Float ($MM)	877.07
Major Shareholders	Trans Mountain (10.7%)
Year End	Dec. 31
52-Week Price Range	$20.45-$31.40
Debt/Total Capital	0.71
Dividend	$1.18
Yield	5.2%
Book Value	$16.35
Price/Book	1.40

	1998	1999	2000E	2001E
EPS ($)	1.85	1.81	2.07	2.20
P/E (X)	12.4	12.7	11.1	10.4

(All values in C$ unless otherwise noted.)
*Maureen Howe is an associate of an insider of BC Gas. The information contained in this report has been obtained from sources other than such insider.

EVENT
Yesterday, BC Gas announced normalized EPS of $1.81 for 1999 compared to our estimate of $1.82 and normalized EPS of $1.85 for 1998. On a quarterly basis, BC Gas reported normalized EPS of $0.90 for Q4 1999, flat to the comparable period in 1998. Compared to 1998 results, earnings for 1999 were negatively impacted by lower throughput on the Company's U.S. oil pipeline system, Trans Mountain Corp., and BC Gas Utility's lower allowed return on equity. BC Gas' reported EPS of $2.12 for 1999 include $0.18 per share from income tax benefits from NW Energy and $0.13 from the utilization of prior years' tax losses. Since the results were in line with expectations, we are maintaining our EPS estimates and one-year target price. With an all-in return of 31.8%, BC Gas is ranked 1 (STRONG BUY).

IMPLICATION
The table below outlines the EPS contribution from BC Gas' three business segments:

Natural Gas Distribution
Earnings from natural gas distribution were marginally lower in Q4 1999 than the same period in 1998 due to a decrease in the authorized return on common equity from 10% in 1998 to 9.25% in 1999, offset by productivity improvements and higher transportation revenue. The EPS impact to BC Gas of a 25 basis point change in the allowed ROE is $0.04. Due to productivity improvements and higher transportation revenue, BC Gas Utility earned an additional 75 basis points over its allowed return, for an actual return in 1999 of about 10%. As such, the earnings contribution from the gas utility in 1999 was flat to in 1998.
BC Gas Utility is in the final year of its negotiated settlement to set the revenue requirements for the utility for the years 1998-2000. It is currently in negotiations with the British Columbia Utilities Commission and other interested parties on the establishment of a new multi-year

settlement. As an interim measure, the utility is requesting a one-year extension to its current agreement.
BC Gas has proceeded to work on the Southern Crossing Pipeline Project, which was approved by the British Columbia Utilities Commission in May 1999. Although the Company intends to complete the project for an in-service date of November 1, 2000, it may revise the expected date of completion based on the results of bids that the Company will be seeking for materials and for construction and installation of the pipeline. A final decision by BC Gas on the planned in-service date is expected in May 2000.

Petroleum Transportation
When compared to Q3 1999, throughput on BC Gas' U.S. oil pipeline system improved in Q4 1999 but still remained below 1998 levels, as shown in the table below. The Company reported that it expects throughput on the system to continue to improve in Q1 2000 by about 10-15% over volumes in Q4 1999 due to a decline in the spread between the price of West Texas Intermediate and Alaska North Slope, partially offset by the impact of a shutdown at a Washington processing plant for the month of February. The EPS impact to BC Gas of a 10,000 bpd change in annual throughput on the U.S. oil pipeline is $0.03.

Other Activities
BC Gas realized $7.0 million (or $0.18 per share) from income tax benefits associated with the monetization of its Williams Lake power plant (NW Energy). The Company expects to recognize a further $29 million in additional tax benefits associated with the power plant in 2000. Furthermore, 1999 reported earnings include $4.9 million ($0.13 per share) from the utilization of prior years' tax losses. For comparison purposes, we have not included these tax benefits in our normalized earnings per share. Earnings from the construction of a natural gas distribution system in the United Arab Emirates positively impacted earnings under this segment in 1999.

CONCLUSION
Yesterday, BC Gas announced normalized earnings per share of $1.81 for the year ended December 31, 1999, compared to our estimate of $1.82 and normalized EPS of $1.85 for 1998. Compared to 1998 results, earnings for 1999 were negatively impacted by lower throughput on the Company's U.S. oil pipeline system and BC Gas Utility's lower allowed ROE. Since the results were in line with expectations, we are maintaining our EPS estimates and one-year target price. With an all-in return of 31.8%, BC Gas is ranked 1 (STRONG BUY).

February 4, 2000
Morning Comment
Maureen Howe (604) 257-7195
Fai Lee, Associate (604) 257-7662

THE DAILY EDGE

INVESTMENT VIEWS FOR FRIDAY, APRIL 28, 2000

BC Gas Inc.

(BCG $26.65)

Q1/00 in Line — *2-Buy, Low*

Sam Kanes, CFA, CA 416-863-7798
Lise Hubbard, PhD, MBA 416-863-7846

Apr 27, 2000: $26.65	1-Yr Target: $29.00	1-Yr ROR: 13.5%	ROE 00E: 16.1%	I/B/E/S EPS 2000E: $2.04
Dividend: $1.24	2-Yr Target: $31.00	2-Yr ROR: 25.6%	BVPS 00E: $17.88	I/B/E/S EPS 2001E: $2.18

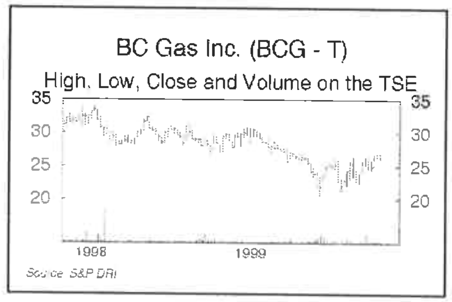
	Quarterly Earnings					
Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
1998A	1.33 A	-0.03 A	-0.35 A	0.90 A	1.85	14.4
1999A	1.35 A	-0.01 A	-0.34 A	1.12 A	2.12	12.6
2000E	1.60 A	0.15	-0.15	1.16	2.76	9.7
2001E	1.44	-0.01	-0.30	1.02	2.15	12.4

Source: Reuters; Company reports; Scotia Capital estimates

Capitalization	
Shares O/S (M)	38.3
Total Value ($M)	1,021
Float O/S (M)	38.3
Float Value ($M)	1,021
TSE Weight	0.13%

Share Impact and Valuation

- **Neutral:** BC Gas reported $1.60/share versus our $1.59/share estimate, in line. The reported number includes $0.21/share for income tax benefits from the future sale of NW Energy to TransCanada PipeLines Ltd. (TRP). We believe that 5%-6%/year EPS growth should continue for BC Gas. A $125M "Capital Securities" financing has some arguable portion that may qualify as equity. BC Gas raised its annual dividend from $1.18 to $1.24/share, a 5% increase.
- **Valuation:** We target BCG's share price one-year out at $29, using a 13.5x P/E on estimated 2001 EPS of $2.15. Our target will likely move up modestly at mid-year as we begin to recognize impacts of 2002 estimated earnings ($1-$1.50/share est.).



Developments

- **Natural Gas Distribution:** Q1/00 earnings were $1.28/share, up 6% from Q1/99's $1.21/share due to an allowed 9.5% ROE (up 25 bps or 2.7%). Management is in discussions to extend for one year its existing three-year efficiency settlement that expires in December 2000. Residential and smaller commercial customers may be able to buy gas directly from new retail suppliers, as opposed to buying from BC Gas, depending on a yet-to-be-released BCUC spring Decision. This will not hurt BC Gas' earnings, but will lessen the ability to sell other products to those customers.
- **Petroleum Transportation:** Reported a contribution of $0.14/share versus $0.15/share in Q1/99. Throughput was negatively affected by a February 2000 shutdown of a Washington State refinery served by Trans Mountain Pipeline (TMPL).
- **Capital Expenditures:** BC Gas is forecasting over $500M in capital spending in 2000, split $337M for Southern Crossing, $87M for mains, services and engineering projects, $40M for systems/computer hardware and various other.
- **Financing:** As forecast, BC Gas did issue $125M of unsecured 40-year Capital Securities (CapS) with a ten-year put to support its Southern Crossing and Corridor pipeline projects. The holder, in exchange for stock at the then current market price, can put this particular instrument back to the Company in ten years. We speculate that the credit rating agencies, which have not rated the instrument, will provide some equity credit but that it will not be at the same level of COPrS/other 49-year subordinated preferreds issued by TransCanada, Enbridge Inc.* (ENB), TransAlta Corp.* (TA) and others.

* Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to these securities.

RATINGS: 1-STRONG BUY; 2-BUY; 3-HOLD; 4-REDUCE; 5-SELL **RISK**: LOW; MODERATE; MARKET; ABOVE MARKET; VENTURE

THE DAILY EDGE

INVESTMENT VIEWS FOR THURSDAY, FEBRUARY 10, 2000

BC Gas Inc.
(BCG $22.15)

Sam Kanes, CFA, CA ***416-863-7798***
Lise Hubbard, PhD, MBA 416-863-7846

Management Interview ***2-Buy, Low***

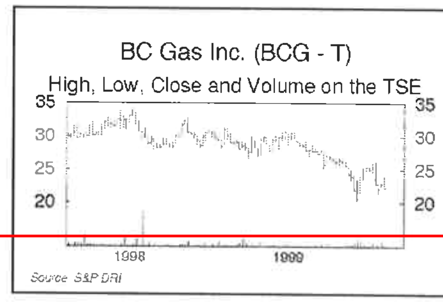
Feb 9, 2000: $22.15	**1-Yr Target: $29.00**	**1-Yr ROR: 36.3%**	**ROE 00E: 11.9%**	**I/B/E/S EPS 2000E: $2.04**
Dividend: $1.18	**2-Yr Target: $31.00**	**2-Yr ROR: 50.6%**	**Valuation P/E: 13.5**	**I/B/E/S EPS 2001E: $2.19**

	Quarterly Earnings						Capitalization	
Y/E December 31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/E**	Shares O/S (M)	38.3
1998A	1.33 A	-0.03 A	-0.35 A	0.90 A	1.85	12.0	Total Value ($M)	848.3
1999A	1.35 A	-0.01 A	-0.34 A	1.12 A	2.12	10.4	Float O/S (M)	38.3
2000E	1.40	-0.04	-0.34	0.98	2.00	11.1	Float Value ($M)	848.3
2001E	1.44	-0.01	-0.30	1.02	2.15	10.3	TSE Weight	0.12%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Mildly Favourable:** BC Gas management has been visiting the buy-side and sell-side throughout Canada this week. Our interview focused on several new longer-term strategies going forward to ensure that 5%-6%/year EPS growth continues for BC Gas.
- **Valuation:** We target BCG's share price one-year out at $29, using a 13.5x P/E on estimated 2001 EPS of $2.15.



Developments

- **Natural Gas Distribution:** Management wants to extend its existing three-year efficiency settlement that expires in December 2000. A one-year extension is likely, prior to entering into a multi-year progressive cost sharing arrangement with the support of the BCUC. Complementary utility assets that BCG would consider acquiring include: a) Pacific Northern Gas (PNG), once the BCUC solves PNG's revenue shortfall if/when Methanex (MX) shuts down Kitimat operations in late 2002, b) Westcoast Energy's* (W) Vancouver Island gas utility (now that Westcoast has sold Centra Alberta and Centra Manitoba), and/or c) B.C. Hydro's Vancouver electricity distribution business.
- **Corridor Pipeline:** BC Gas is negotiating with Petro-Canada (PCA) for incremental oil throughput for its Corridor Pipeline project. The line will initially run at 150,000 bopd for sole customer Shell Canada (SHC), out of a 250,000 bopd capacity. If BC Gas is successful in securing further oil supplies from Petro-Canada and/or others, there is a profit sharing agreement with Shell that could add to BC Gas' earnings until Shell requests the additional space.
- **Other Activities:** BC Gas acquired Richmond, B.C.-based International Plastics for an undisclosed sum. The acquisition will generate about $50M/year of revenue and was priced based on cash flow. This is the third water services-based acquisition by BC Gas with the second largest (Western Water) based in Alberta. BC Gas' waterworks strategy is to get to know each water utility well by servicing its valve/piping/meter/other needs, so that when acquisition opportunities arise, BC Gas would be well placed. BC Gas has a partnership with England-based Invensys to deliver integrated meter services (under $1M invested). Edmonton-based EPCOR has a similar strategy, combining electricity, water and now gas service. BC Gas forecasts 2000 revenue from this area to be $85M. BC Gas was awarded Phase 2 of a construction project in the United Arab Emirates which should earn $2M/year for two years, similar to the return earned in Phase 1.
- **Branding:** BC Gas is focusing on branding its name and bundling its increasing line of energy services, such as bill payment options, product ordering, home comfort servicing, meter upgrading and monitoring, etc. BC Gas will NOT invest in HVAC dealers nor will it open retail energy appliance stores as both Enbridge* Consumers Gas and Union Energy have done. Earnings for BC Gas from this area will be immaterial.

* Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to these securities.

RATINGS: 1-STRONG BUY; 2-BUY; 3-HOLD; 4-REDUCE; 5-SELL **RISK**: LOW; MODERATE; MARKET; ABOVE MARKET; VENTURE

THE DAILY EDGE

INVESTMENT VIEWS FOR THURSDAY, FEBRUARY 10, 2000

- **Southern Crossing:** There is more confidence of a May 2000 construction start now that Bannister, a pipeline contractor, has been acquired by a U.S. firm. This acquisition may allow for more competitive pipeline contractor bidding on the proposed three 100km spreads to build the $376M Southern Crossing gas pipeline project in B.C. A start date of November 1, 2000 requires a May 2000 construction start.
- **Financing:** In 2000, BC Gas will first issue $100M-$125M preferred shares and/or preferred securities to support its Southern Crossing project.

THE DAILY EDGE

INVESTMENT VIEWS FOR FRIDAY, FEBRUARY 4, 2000

BC Gas Inc.

(BCG $22.90)

Sam Kanes, CFA, CA *416-863-7798*

Lise Hubbard, PhD, MBA 416-863-7846

Q4/99 in Line ***2-Buy, Low***

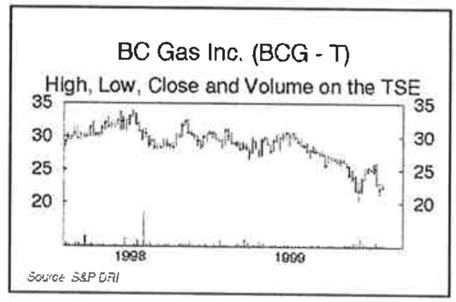
Feb 3, 2000: $22.90	**1-Yr Target: $29.00**	**1-Yr ROR: 31.8%**	**ROE 00E: 11.9%**	**I/B/E/S EPS 1999E: $1.90**
Dividend: $1.18	**2-Yr Target: $31.00**	**2-Yr ROR: 45.7%**	**Valuation P/E: 13.5**	**I/B/E/S EPS 2000E: $2.04**

	Quarterly Earnings						Capitalization	
Y/E December 31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/E**	Shares O/S (M)	38.3
1998A	1.33 A	-0.03 A	-0.35 A	0.90 A	1.85	12.4	Total Value ($M)	877.1
1999A	1.35 A	-0.01 A	-0.34 A	1.12 A	2.12	10.8	Float O/S (M)	38.3
2000E	1.40	-0.04	-0.34	0.98	2.00	11.5	Float Value ($M)	877.1
2001E	1.44	-0.01	-0.30	1.02	2.15	10.7	TSE Weight	0.13%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Neutral:** BC Gas reported $1.94 ($1.81 recurring plus $0.13 of tax recoveries) versus our $1.95 estimate, in line. Year-over-year earnings were up 5% and are still expected to rise by 6.7%/year going forward. Income tax benefits totaling $0.18/share relating to the eventual sale of the Williams Lake power plant were recorded in Q4/99 and will be recorded in each quarter in 2000.
- **Valuation:** We target BCG's share price one-year out at $29, using a 13.5x P/E on 2001 recurring EPS of $2.15. We speculate that BC Gas may keep its dividend constant at today's $1.18/share in order to increase retained earnings to support the Corridor and Southern Crossing project equity requirements.



Developments

- **Natural Gas Distribution:** Contributions of $1.35/share were flat as a lower 1999 ROE of 9.25% versus 10% ROE in 1998 was offset by productivity improvements and modest rate base growth. BC Gas is talking with its regulator to extend the existing three-year efficiency settlement that expires in December 2000. BC Gas earned about 75 bps of ROE above allowed 1999 ROE due to this plan.
- **Petroleum Pipeline:** TransMountain's results were down year over year to $0.51/share versus $0.59/share as the Alaska North Slope/Chicago oil price spread worked against shipping Alberta crude westbound. There has been some oil throughput weakness in Q1/00 due to a Washington refinery shutdown. We expect 2000 earnings of $0.57/share in our $2.00/share 2000 consolidated estimate.
- **Other Activities:** Some consulting and water supply service management earnings, as well as $0.13/share of prior period tax recoveries, made up $0.08/share in other activities. There are no other prior period tax recoveries expected going forward.
- **Corridor Pipeline:** This $690M (including capitalized interest) project will not earn any allowance for funds used during construction (non-cash AFUDC earnings), so pre-start-up earnings will be nil until 2003. We assume that Corridor earnings for 2003 will be 10% after-tax ROE, based on an initial 25% equity base totaling $17.25M/year. On today's base of 38.3M shares outstanding, this equates to earnings of $0.45/share, prior to whatever equity dilution that will be required to raise $172M of additional equity (25% of the $690M cost). We speculate that BC Gas could raise this equity in late 2002 to convert some of the Corridor debt into equity by: a) issuing 2M to 3M shares, or a 5.5% to 8.0% dilution, b) issuing other preferred shares or preferred securities, and c) utilizing retained earnings.
- **Southern Crossing:** The $371M Southern Crossing gas pipeline project in B.C. may get delayed by one year to 2001. To date, $25M has been spent. BC Gas shareholders are exposed to lower returns if the project costs exceed a 10% overrun. An in-service date for November 1, 2000

* Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to these securities.

RATINGS: 1-STRONG BUY; 2-BUY; 3-HOLD; 4-REDUCE; 5-SELL **RISK**: LOW; MODERATE; MARKET; ABOVE MARKET; VENTURE

THE DAILY EDGE

INVESTMENT VIEWS FOR FRIDAY, FEBRUARY 4, 2000

would require an early Q2/00 start of construction. The Southern Crossing project will earn a 9.5% ROE for 2000 expenditures if/when started. We assume a May 2000 start and a $0.05/share contribution to 2000 earnings.

- **Financing**: In 2000, BC Gas will first issue preferred shares and/or preferred securities to support its Southern Crossing project and its credit rating like TransAlta* (TA), TransCanada PipeLines* (TRP), and Enbridge* (ENB) did during 1998 and 1999.

* Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to these securities.

RATINGS: 1-STRONG BUY; 2-BUY; 3-HOLD; 4-REDUCE; 5-SELL **RISK**: LOW; MODERATE; MARKET; ABOVE MARKET; VENTURE

THE DAILY EDGE

INVESTMENT VIEWS FOR WEDNESDAY, DECEMBER 8, 1999

BC Gas Inc.

Sam Kanes, CFA, CA ***416-863-7798***

Lise Hubbard, PhD, MBA 416-863-7846

(BCG $21.75)

Shell's Athabasca OK'd *1-Strong Buy, Low*

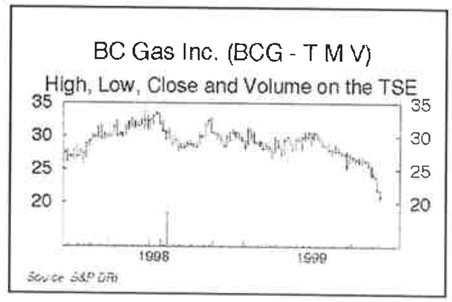
Dec 7, 1999: $21.75	**1-Yr Target: $31.00**	**1-Yr ROR: 47.9%**	**ROE 99E: 12.4%**	**I/B/E/S EPS 1999E: $1.91**
Dividend: $1.18	**2-Yr Target: $33.00**	**2-Yr ROR: 62.5%**	**BVPS 99E: $16.11**	**I/B/E/S EPS 2000E: $2.04**

	Quarterly Earnings						Capitalization	
Y/E December 31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/E**	Shares O/S (M)	38.3
1998A	1.33 A	-0.03 A	-0.35 A	0.90 A	1.85	11.8	Total Value ($M)	833.0
1999E	1.35 A	-0.01 A	-0.34 A	0.95	1.95	11.2	Float O/S (M)	38.3
2000E	1.40	-0.04	-0.34	0.98	2.00	10.9	Float Value ($M)	833.0
2001E	1.44	-0.01	-0.30	1.02	2.15	10.1	TSE Weight	0.13%

Source: Reuters; Company reports; Scotia Capital estimates

Share Impact and Valuation

- **Favourable For Long-Term EPS:** BC Gas will build the $690M Corridor oil pipeline project for Shell Canada Ltd. (SHC), now that Shell announced approval of its $3.5 billion Athabasca Oil Sands project with its partners. Material earnings growth from this new project effective 2003 is now highly likely for BC Gas.
- **Valuation:** We target BCG's share price one-year out at $31, using a 14.5x P/E on 2001 recurring EPS of $2.15. We did not change our 2001 EPS estimate as this new project will not contribute to earnings until 2003. We speculate that BC Gas will not grow its dividend from today's $1.18/share in order to increase retained earnings to support the Corridor project's equity requirements.



Developments

- **Corridor Pipeline:** BC Gas and Shell agreed to have the Corridor project expanded to include breakout tankage and terminalling, which raised capex from $500M plus $50M-$60M of capitalized interest to $690M (including capitalized interest). In its agreement with Shell, BC Gas agreed not to charge any allowance for funds used during construction (non-cash AFUDC earnings), so pre-start-up earnings will be nil until 2003. BC Gas will be entitled to capitalize interest expense at 100% of associated project expenditures until completion. We assume that Corridor earnings for 2003 will be 10% after-tax ROE, based on an initial 25% equity base totaling $17.25M/year on a $690M capital expenditure. On today's base of 38.3M shares outstanding, this equates to earnings of $0.45/share, prior to whatever equity dilution that will be required to raise $172M of additional equity (25% of the $690M cost). We speculate that BC Gas could raise this equity in late 2002 to convert some of the Corridor debt into equity by: a) issuing 2M to 3M shares, or a 5.5% to 8.0% dilution, b) issuing other preferred shares or preferred securities, and c) utilizing retained earnings.
- **Southern Crossing:** The $371M Southern Crossing gas pipeline project in B.C. may be delayed by one year to 2001, if B.C. construction contractor bids come in materially lower for 2001 than for 2000. BC Gas shareholders are exposed to lower returns if the project costs exceed a 10% overrun. An in-service date targeted for November 1, 2000 would require an early Q2/00 start of construction. The Southern Crossing project will be treated like any other capex addition to BCG's gas utility subsidiary. It would earn a 9.5% ROE for 2000 expenditures.
- **Financing:** In 2000, BC Gas will first issue preferred shares and/or preferred securities to support its Southern Crossing project and its credit rating like TransAlta* (TA), TransCanada PipeLines* (TRP), and Enbridge* (ENB) did during 1998 and 1999. Given BC Gas' dismal equity price performance this year, which has generally been in line with the average 30% correction in the sector, we highly doubt that BC Gas will issue any equity during 2000 or 2001 until all alternative equity or equity hybrid options are exhausted.

* Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to these securities.

RATINGS: 1-STRONG BUY; 2-BUY; 3-HOLD; 4-REDUCE; 5-SELL **RISK**: LOW; MODERATE; MARKET; ABOVE MARKET; VENTURE

SMI BCG - Q3 STEADY, GROWTH LIKELY
Nov 5 1999 2:39

BC GAS INC. (BCG $26.25)

Sam Kanes, CFA, CA 416-863-7798
Lise Hubbard, PhD, MBA 416-863-7846 Q3 Steady, Growth Likely

2-Buy, Low November 4, 1999

1-Yr. Target: $32.00 1-Yr. ROR: 26.4% ROE 99E: 12.4%
2-Yr. Target: $34.00 2-Yr. ROR: 38.4% BVPS 99E: $16.11
Dividend: $1.17

Quarterly Earnings

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
1998A	1.33A	-0.03A	-0.35A	0.90A	1.85	14.2
1999E	1.35A	-0.01A	-0.34A	0.95	1.95	13.5
2000E	1.40	-0.04	-0.34	0.98	2.00	13.1
2001E	1.44	-0.01	-0.30	1.02	2.15	12.2

Source: Reuters; Company reports; Scotia Capital estimates

SHARE IMPACT AND VALUATION:

- Neutral On Q3/99 Results, Mildly Favourable On Corridor Prospects: BC Gas reported EPS for Q3/99 of ($0.34) versus our ($0.35) estimate and Q3/98's ($0.35), in line. A $36M gain from the sale of the cash flow of the Williams Lake IPP will begin to be recorded evenly by BC Gas over the next five quarters, starting in Q4/99, at $7.2M per quarter.
- Valuation: We still target BCG's share price one-year out at $32, using a rounded 15.5x P/E on averaged forecast 00/01 recurring EPS of $2.00/$2.15, unchanged. We now expect 1999 EPS to be $1.95 (including $0.12/share for tax recovery), up $0.05 due to stronger earnings expectations from Trans Mountain Pipeline.

DEVELOPMENTS:

- Gas Distribution/Oil Pipeline: Gas distribution earnings for Q3/99 were flat at ($0.48)/share versus ($0.47)/share in Q3/98, while petroleum transportation results were down by $0.02/share to $0.11/share from $0.13/share in Q3/98. Oil throughput for Q3/99 was only 9,611 cubic metres/day. Throughput nominations for November have rebounded sharply to 12,000 cubic metres/day, which should support higher Q4/99 earnings. This volume pick-up is due to the Alaska North Slope-to-Chicago oil price spread narrowing to less than $1/bbl from $2/bbl earlier this year.
- Pipeline Projects: The BC Gas $500M Corridor oil pipeline project for Shell Canada Ltd. (SHC) should be decided at a November 17, 1999 Shell Board meeting with a November 19 announcement expected. We expect this project to go ahead. The $371M Southern Crossing gas pipeline project in B.C. may get delayed due to "ransom demands" from B.C. construction contractors. B.C. Gas shareholders are exposed to lower returns if the project's costs exceed a 10% overrun. An in-service date targeted for November 1, 2000 would require an early-Q2/00 start of construction. BC Gas has ordered the steel and compressors and will have a cost of carrying these orders if the project is delayed for a year.

SMI BCG - WILLIAMS IPP SOLD
Oct 9 1999 2:32

BC Gas Inc. (BCG $26.95)

Sam Kanes, CFA, CA 416-863-7798
Lise Hubbard, PhD, MBA 416-863-7846

Williams IPP Sold

2-Buy, Low Oct 8, 1999

1-Yr Target: $33.00 1-Yr ROR: 26.8%

ROE 99E: 12.1% Dividend: $1.17

BVPS 99E: $16.06

Quarterly Earnings

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E
1998A	1.33A	-0.03A	-0.35A	0.90A	1.85	14.5
1999E	1.35A	-0.01A	-0.35	0.91	1.90	14.1
2000E	1.40	-0.04	-0.34	0.98	2.00	13.4
2001E	1.44	-0.01	-0.30	1.02	2.15	12.5

Source: Reuters; Company reports; SCM estimates

Share Impact and Valuation

Mildly Favourable: BC Gas finally "sold" its Williams Lake IPP to TransCanada Power L.P. (TPL.UN), which will enjoy the income stream, but not the ownership from Williams Lake until BC Gas "puts" the ownership of the facility to TransCanada Power at the beginning of 2001. This structure received a Revenue Canada ruling that allows BC Gas to use up its unutilized tax shield from the Williams Lake plant. A $36M gain from the sale of the cash flow will be evenly recorded over the next 5 quarters at $7.2M per quarter by BC Gas.

Valuation: We target BCG one-year out at $33, using a rounded 16x P/E on averaged forecast 2000/2001 EPS of $2.00/$2.15. We still expect 1999 EPS to be $1.90 (including $0.12/share for tax recovery) because of very weak 1H/99 Trans Mountain results.

Developments

Pipeline Projects More Promising: The BC Gas $500M Corridor oil pipeline project for Shell Canada Ltd. (SHC) has an even higher probability of being built now due to: a) recent AEUB regulatory approval, and b) a Q4/99 Shell decision to proceed with its tar sands project that appears positively affected by Shell's large (about $770M) conventional oil reserve asset sell-off announced this week. The $371M Southern Crossing gas pipeline project in B.C. is going ahead with an in-service date targeted for November 1, 2000.

Financial: We had speculated in an August 3, 1999 Daily Edge article that BC Gas may need $50M to $75M of equity if both of its major pipeline projects proceeded. The Williams Lake transaction proceeds cover over half of future expected equity requirements. EPS growth may rise another 7% from $2.15 in 2001 to $2.30 in 2002 due to earnings contributions from the Corridor Pipeline project. CEO John Reid had been hopeful that the Williams Lake power plant would be sold in some fashion for net proceeds of about $1/share during Q3/99. The present value of the tax shield benefit over the next five quarters is about $0.88-$0.90/share, depending on the discount rate used.

THE DAILY EDGE SCM

INVESTMENT VIEWS FOR TUESDAY, AUGUST 3, 1999

BC Gas Inc.*

(BCG $28.70)

Sam Kanes, CFA CA **_416-863-7798_**
Lise Hubbard 416-863-7846

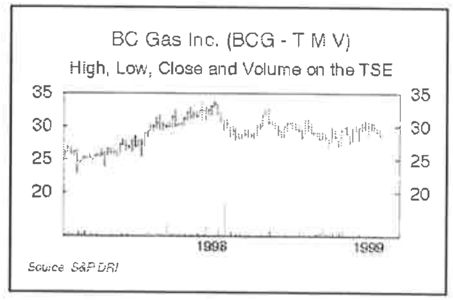
Q2/99 Recurring Neutral *2-Buy, Low*

Price (Jul 30, 1999): $28.70	**1-Year ROR: 22.5%**	**BVPS 1999E: $16.06**	**Recommendation: Buy**
1-Year Target: $34.00	**ROE 1999E: 12.1%**	**Dividend: $1.17**	**Risk: Low**

Y/E December 31	Quarterly Earnings Mar	Jun	Sep	Dec	Year	P/E	Capitalization	
1998A	1.33 A	-0.03 A	-0.35 A	0.90 A	1.85	15.5	Shares O/S (M)	38.3
1999E	1.35 A	-0.01 A	-0.35	0.91	1.90	15.1	Total Value ($M)	1,099
2000E	1.40	-0.04	-0.34	0.98	2.00	14.4	Float O/S (M)	38.3
2001E	1.44	-0.01	-0.30	1.02	2.15	13.3	Float Value ($M)	1,099
							TSE Weight	0.20%

Source: Reuters; Company reports; SCM estimates

Share Impact and Valuation



- **Neutral on Q2/99:** BCG reported a Q2/99 loss of ($0.01) or ($0.06 recurring) vs. our ($0.05) loss estimate, in line. Non-recurring earnings from a new income tax recovery structure totaled $2M in Q2 or $0.05/share with an expected further $3M in 2H/99 tax recovery expected by management.
- We value BCG at a rounded down 16.0x P/E (due to higher interest rates) on forecast 2000/2001 EPS of $2.00/$2.15 averaged, which still yields $34. We still expect 1999 EPS of $1.90 (including $0.12/share for tax recovery) due to very weak 1H/99 Trans Mountain results likely continuing for now. Given that BC Gas will begin construction of Southern Crossing soon, our previous $2.10 estimate for 2001 is now raised to $2.15. During Q2/99, we upgraded BC Gas from a 3-Hold to a 2-Buy when the stock slumped below $30 on higher interest rates.

Developments

- **Regulatory Assets:** Natural gas distribution earnings for Q2/99 were up by $1.2M year over year to a loss of ($5.9M). A lower 9.25% allowed ROE return continues to be helped by successful productivity improvements due partly to improved systems which lifted actual ROE earned to 9.75%. Oil pipeline earnings were down by a worse than expected $2.5M to $3.6M. This was due to very weak oil throughput to Washington State (down 48%) caused by: a) Enbridge*, and now Express' Platte pipeline, moving more Alberta oil to Chicago as leak problems on Platte are now resolved, and b) oil price differentials between West Texas Intermediate and Alaska North Slope (WTI higher by $2+/bbl) re-routing Canadian oil to Chicago markets instead of Washington State markets. While this differential has narrowed somewhat recently, short-term depressed oil throughput on Trans Mountain to Washington State continues.
- **Pipeline Projects Promising:** Given current $18+/bbl oil prices, the proposed Corridor oil pipeline project for Shell has a high probability of being built now (a decision will be reached by September 1999). We still think a positive decision by Shell would lift BCG's stock price by ~$1/share. The $371M Southern Crossing gas pipeline project in B.C. will go ahead this fall with an in-service date targeted for November 1, 2000.
- **Financial:** BC Gas referred during its annual meeting to needing equity. We speculate that $50M to $75M of equity may be required if both major projects proceed (now likely). It is also possible that BCG issues COPrS, or equivalent deeply subordinated debt, at a lower cost of capital, which may improve EPS by up to $0.03 to $0.04. CEO John Reid is hopeful that the Williams Lake power plant gets sold in some fashion for net proceeds of about $1/share during Q3/99.

* Within the last 12 months, ScotiaMcLeod Inc. has undertaken an underwriting liability or has provided advice for a fee with respect to this security.

RATINGS: 1-STRONG BUY; 2-BUY; 3-HOLD; 4-REDUCE; 5-SELL **RISK**: LOW; MODERATE; MARKET; ABOVE MARKET; VENTURE

SMI BCG - Q1/99 SLIGHTLY OFF

Apr 30 1999 7:00

BC GAS INC. (BCG $29.25)

Sam Kanes, CFA CA 416-863-7798 Lise Hubbard 416-863-7846

Q1/99 Slightly Off 2-Buy, Low

April 29, 1999

1-Yr. Target: $33.00 1-Yr. ROR: 16.6% BVPS 1999E: $18.30

ROE 1999E: 10.7% Dividend: $1.12

Quarterly Earnings

Y/E Dec. 31	Mar	Jun	Sep	Dec	Year	P/E
1997A	1.69A	-0.42A	-0.61A	0.61A	1.27	23.0
1998A	1.33A	-0.03A	-0.35A	0.90A	1.85	15.8
1999E	1.35A	-0.08	-0.38	1.01	1.90	15.4
2000E					2.00	14.6

Source: Reuters; Company reports; SCM estimates

SHARE IMPACT AND VALUATION:

- Neutral Overall: BCG reported Q1/99 EPS of $1.35 vs. our $1.40 estimate and Q1/98's EPS of $1.33. The quarter's EPS were slightly off from our expectations due to weaker oil pipeline earnings. The impact to share price was offset by: a) higher prospects for the BC Gas Corridor oil pipeline project due to higher oil prices, and b) a 5% dividend increase from $1.12/share to $1.18/share, effective May 31, 1999.
- We value BCG at a 16.5x target P/E on forecast 2000 EPS of $2.00, which yields $33, unchanged. Given relatively weak BCG rate base growth, a lower regulated 1999 ROE of 9.25% vs. 1998's regulated ROE of 10.0%, and flat Trans Mountain earnings due to weak oil throughput, we still expect 1999 EPS to be up slightly at $1.90 vs. 1998 EPS of $1.85. BCG's stock slumped below $30 at which point we recently upgraded BC Gas to a 2-Buy.

DEVELOPMENTS:

- Regulatory Assets: Natural gas distribution earnings were flat as expected at $46.4M. A lower 9.25% ROE return was offset by productivity improvements. Oil pipeline earnings were down 10% to $5.7M due to weak oil throughput. We forecast that Trans Mountain will have flat 1999 earnings as well. Our modest increase in 1999 estimated EPS is due to lower shares outstanding. A further stock buyback has been suspended pending possible approvals of the Southern Crossing and/or Corridor project(s).
- Pipeline Projects: Given current $18/bbl plus oil prices, the proposed Corridor oil pipeline project for Shell has a higher probability of being built. We expect Shell to decide by September 1999. A positive decision by Shell would lift BCG's stock price by ~$1/share. However, we are led to believe that the project's pipeline economics could be marginal since other competitive bids by AEC/ENB/Koch were rejected by Shell. We continue to speculate a 50:50 probability that the $340M Southern Crossing gas pipeline project in B.C. will be approved by a BCUC Decision in late May 1999. Successful approval could add to propose firm tolls by the NEB for the proposed Southern

Crossing pipeline (pending pipeline approval by the BCUC). Unfortunately for BCG, W's proposed $0.245/mcf firm toll was approved by the NEB, and was greater than BCG's desired $0.055/mcf. On the surface, even if BCG gets final BCUC approval, but no further break from the NEB on W's tolls, the Southern Crossing project may still not go ahead due to inadequate economics.

- Financial: BC Gas referred in its annual meeting to needing equity. We speculate that $50M-75M of equity may be required if both major projects proceed. It is also possible that BCG issues COPrS, or equivalent deeply subordinated debt, at a lower cost of capital which may improve EPS by up to $0.03-$0.04/share.

06:50am EST 05-Feb-99 ScotiaMcLeod Cap. Markets (Sam Kanes, CFA 416-863-7798)
BCG - Q4 FIRM

BC GAS INC. (BCG $31.00)

Sam Kanes, CFA CA 416-863-7798
Blair Wilson 416-863-7846

Q4 Firm
3-Hold, Low
February 4, 1999

1-Yr. Target: $34.00 1-Yr. ROR: 13.3% BVPS 1998E: $17.29
ROE 1998E: 11.4% Dividend: $1.12

Quarterly Earnings

Y/E Dec. 31	Mar	Jun	Sep	Dec	Year
1997A	1.69A	-0.42A	-0.61A	0.61A	1.27
1998A	1.33A	-0.03A	-0.35A	0.90A	1.85
1999E	1.40	-0.10	-0.40	1.00	1.90
2000E	1.45	-0.05	-0.35	0.95	2.00

Source: Reuters; Company reports; SCM estimates

SHARE IMPACT AND VALUATION:

- Mildly favourable as BCG reported Q4 EPS of $0.90 vs. our $0.85 estimate, and full year 1998 EPS of $1.85 vs. our estimate of $1.80 on better than expected regulatory asset contributions. We continue to watch whether the $340M Southern Crossing gas pipeline project prospects in B.C. improve, keeping 50:50 for a current probability. Successful approval would add at least $1 in value per BCG share
- We value BCG at a 17x target P/E on forecast 2000 EPS of $2.00, which yields $34, unchanged. Given relatively weak BCG rate base growth, a lower regulated 1999 ROE of 9.25% vs. 1998's regulated ROE of 10.0% (plus cost efficiencies), and flat Trans Mountain contributions due to subdued 1999 oil prices, we expect 1999 EPS will be flat at $1.90. BCG's stock rallying 7% to $31 from $29 eases our total one-year return to 13.3% now, which makes BC Gas a 3-Hold. We will revisit our recommendation if BC Gas succeeds with Southern Crossing later in Q2/99.

DEVELOPMENTS:

- Regulatory Assets: Both natural gas distribution and oil pipeline contributions were better than expected as BCG earned 11.0% ROE vs. a regulated 10.0% ROE due to productivity improvements (66 bps), and gas supply incentive (20 bps). The year 1999's regulated 9.25% ROE is a 7% drop with only a 3% rate base growth. This will mean that gas distribution contributions will be, at best, flat. The incentive agreement is in place through 2000 with renegotiations to start late in 1999 with the B.C. Commission. Trans Mountain will likely contribute flat as well after delivering 40.1K cubic metres/day vs. 36.5K in 1997, a 9% increase which yielded $2.5M additional earnings. Enbridge's mainline showed a 7% volume decrease on a Q4 year-over-year basis while 1999 midwest Canadian throughput is expected to fall another 7%. Trans Mountain is hopeful that Enbridge's Line 9 oil pipeline reversal helps throughput in 2H 1999.
- Projects: Given current oil prices, the proposed Corridor oil pipeline project for Shell is delayed several months to a possible September 1999 decision. BC Gas remains hopeful on Shell's technology and prospects. A peak LNG shaving plant still appears to be the most logical economic alternative to accommodate the 15-20 days per year of peak B.C. gas demand but

the Southern Crossing Pipeline may be a better long-term solution. The B.C. Commission may approve the $300M plus project in the next 60 days or request a full regulatory Hearing as requested by Westcoast Energy so the process "continues to unfold".

Note ID: 80535

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22 Pittsburgh Street
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TEL: 617-856-2100
FAX: 617-261-5627
EMAIL: firstcall.notes@tfn.com

BC Gas Inc. (BCG-T) C$27.15

~Karen Taylor, CFA 416-307-9389
~(TD Securities-Gas & Electric Utilities)

Q2 Results Modestly Higher Than Expected - HOLD

12-Month Target		C$29	
Projected Return		11.27%	
52-Week Range		C$21-30	
Year-End: Dec. 31			
C$	1999(A)	2000(E)	2001(E)
EPS	C$1.94	C$2.01	C$2.11
EPS	C$1.94	C$2.01	C$2.11
P/E		13.5x	12.9x
P/E		13.5x	12.9x
Dividend		C$1.23	
Yield		4.51%	
Shares O/S (mm)		38.3	

BCG reported Q2 EPS of $0.02/share vs ($0.01)/share in Q299. Results were modestly higher than our expectation of ($0.02)/share. Results reflect: 1) higher ROE on regulated gas distribution activities (9.50% vs 9.25%) and higher rate base due to the construction of the Southern Crossing Pipeline; 2) higher throughput on TMPL in April & May (approx 10,000 m cubed/d); and 3) modestly higher contribution from BCG's non-regulated water and consulting businesses. BCG reported a 1x tax benefit of $0.20/share resulting from the monetization of the Williams Lake Woodwaste power plant. Our estimates remain unchanged. The announced joint initiatives with BC Hydro are not expected to effect EPS in 00, as they are only at the MOU phase. Operating agreements have yet to be negotiated. Rationalization/productivity improvement program at TMPL will likely result in 1x item of $0.19/share in Q300 and will likely translate into additional incentive earnings. No change in view. HOLD.

TDF (BCG-T) Q1 Results In-Line With Expectations
Apr 27 2000 7:14
BC Gas Inc. (BCG-T) C$26.30

Karen Taylor, CFA 416-307-9389
Michelle Soon-Shiong, 416-308-3741
(TD Securities-Pipelines & Utilities)

Q1 Results In-Line With Expectations - HOLD

12-Month Target		C$27	
Projected Return		7.21%	
52-Week Range		C$21-30.7	
Year-End: Dec. 31			
C$	1999(A)	2000(E)	2001(E)
EPS	C$1.94	C$2.01	C$2.11
EPS	C$1.94	C$2.01	C$2.11
P/E		13.1x	12.5x
P/E		13.1x	12.5x
Dividend		C$1.2	
Yield		4.54%	
Shares O/S (mm)		38.3	

BCG reported Q100 EPS of $1.60 vs $1.35 in Q199. Qtly results included a $7.9 mln ($0.21/share) 1x gain relating to income tax benefits assoc. with the sale of the Williams Lake Power Plant. BCG expects to realize an add'l $21.1 mln ($0.55/share)in tax benefits in F2000. Excluding the positive contribution from this 1x item, performance was $1.39 vs our expectation on $1.38. Results were generally in-line with expectations. BCG also increased its dividend to $0.31 per qtr from $0.295, slightly larger than our expectation of $0.01 per qtr. Throughput on the US portion of the TMPL continues to be below our expectation of 12,000 meters cubed per day and averaged approx. 8,500 during the qtr. Throughput will likely average 10,000 meters cubed in 2000. Our estimates do not change however, as the lower contribution from TMPL will likely be offset by lower financing costs associated with a recent $125 mln issuance of Capital Securities. No change in view. HOLD.

TDF (BCG-T) F99 Results Moderately Higher Than Expected
Feb 4 2000 8:03
BC Gas Inc. (BCG-T) C$22.90

Karen Taylor, CFA 416-307-9389
(TD Securities-Pipelines & Utilities)

F99 Results Moderately Higher Than Expected - BUY

12-Month Target		C$27	
Projected Return		23.11%	
52-Week Range		C$21-31	
Year-End: Dec. 31			
C$	1998(A)	1999(A)	2000(E)
EPS	C$1.85	C$1.94	C$2.09
EPS	C$1.85	C$1.94	C$2.09
P/E		11.8x	11.0x
P/E		11.8x	11.0x
Dividend		C$1.2	
Yield		5.21%	
Shares O/S (mm)		38.3	

BCG reported Q4EPS of $0.94 vs $0.89 in Q498. We expected $0.89/share. Fiscal 99 performance of$1.94 was also moderately ahead of expectations and reflected: 1) flat y-o-y performance at BC Gas Utility and TMPL, due to a lower ROE vs F98 and lower liquids throughput, respectively. Earnings on the US portion of the TMPL pipeline are volume sensitive; 2) modest contribution from BCG's water businesses, a full year's contribution from the gas distribution construction project in the UAE, and income tax recoveries substantially accounted for improvement in y-o-y EPS. No further tax recoveries are expected (other than those resulting from the sale of Williams Lake - $29 mln in 2000) and the UAE contract ends mid-2000. Growth over the forecast period will result from implementation of the SCP and Corridor pipelines. Our revised target price incorporates TDSI's interest rate outlook for F2000. We consider the shares attractively valued at present levels. BUY.

TDF (BCG-T) Athabasca Oil Sands Project To Proceed - Corridor Pipeli
Dec 8 1999 7:23
BC Gas Inc. (BCG-T) C$21.75

Karen Taylor, CFA 416-307-9389
(TD Securities-Pipelines & Utilities)

Athabasca Oil Sands Project To Proceed - Corridor Pipeline A - BUY

12-Month Target		C$30	
Projected Return		43.25%	
52-Week Range		C$21-31	
Year-End: Dec. 31			
C$	1998(A)	1999(E)	2000(E)
EPS	C$1.85	C$1.88	C$2.09
EPS	C$1.85	C$1.88	C$2.09
P/E		11.6x	10.4x
P/E		11.6x	10.4x
Dividend		C$1.17	
Yield		5.34%	
Shares O/S (mm)		38.2	

The Corridor Pipeline is a "go" following an announcement by Shell Canada, Western Oil Sands & Chevron Canada that they will proceed with the Athabasca Oil Sands project. The Corridor Pipeline (100% BCG) is a C$690 mln, 215,000 bbls/d diluent-bitumen pipeline originating at the Muskeg Mine and terminalling at the Scotford Upgrader near Fort Saskatchewan, AB. The pipeline is expected to be in-service in late 2002. Although the pipeline is expected to take 18-months to construct, we do not expect a positive EPS contribution prior to the pipeline's in-service date. Subject to certain financing assumptions, we est. the pro-forma annual contribution from the project to be $0.20/share (.03 first year of full operation). We note that BCG has two key pipeline projects that will likely enable it to maintain an EPS growth rate of 6% p.a. beyond the current forecast period. We do not expect BCG to issue common equity to fund its equity investment. BUY.

TDF (BCG-T) BCUC and NEB Set F2000 Allowed ROEs
Dec 7 1999 7:20
BC Gas Inc. (BCG-T) C$21.00

Karen Taylor, CFA 416-307-9389
(TD Securities-Pipelines & Utilities)

BCUC and NEB Set F2000 Allowed ROEs - BUY

12-Month Target	C$30		
Projected Return	48.36%		
52-Week Range	C$21-31		
Year-End: Dec. 31			
C$	1998(A)	1999(E)	2000(E)
EPS (N)	C$1.85	C$1.88	C$2.09
EPS (O)	C$1.85	C$1.88	C$2.06
P/E		11.2x	10.0x
P/E		11.2x	10.2x
Dividend	C$1.17		
Yield	5.54%		
Shares O/S (mm)	38.2		

The British Columbia Utilities Commission (BCUC) and the National Energy Board (NEB) have established the allowed ROEs for facilities under their jurisdiction for F2000. The BCUC has determined that a rate of 9.5% (vs 9.25% in '99) is the appropriate return on common equity for the facilities of BC Gas Utility and the NEB has determined that 9.90% (vs 9.58% in '99) is the appropriate rate of return for Trans Mountain Pipe Line Company (TMPL). The established rates of return are in-line with expectations and our revised EPS estimates reflect the positive effect of the new ROEs. We note that the projected contribution from TMPL is unchanged as a result of the NEB's decision, due to the structure of TMPL's incentive tolling agreement with its shippers. We believe that the shares of BCG are attractively valued at present levels. BUY.

TDF BCG Reports Q3 EPS - BUY
Nov 5 1999 8:17
BC Gas Inc. (BCG-T) C$26.25

Karen Taylor, CFA 416-307-9389
(TD Securities-Pipelines & Utilities)

BCG Reports Q3 EPS - BUY

12-Month Target	C$30
Projected Return	18.71%
52-Week Range	C$25.8-32.5
Year-End: Dec. 31	

C$	1998(A)	1999(E)	2000(E)
EPS	C$1.85	C$1.88	C$2.06
EPS	C$1.85	C$1.88	C$2.06
P/E		14.0x	12.7x
P/E		14.0x	12.7x

Dividend	C$1.17
Yield	4.43%
Shares O/S (mm)	38.2

BCG reported Q3 EPS of -$0.34/share vs -$0.35 in Q398. Results are in-line with expectations. Qtly highlights include: (1) BCGU: lower allowed ROE was offset by productivity improvements, resulting in a $1 mln net incr. in contribution from gas distribution operations; (2) TMPL: throughput on the U.S. portion of the oil pipe line continues to lag F98 results, avging 9,611 metres cubed 9 mos y-t-d vs 16,894 metres cubed in F98. We have assumed annual throughput of 10,000 metres cubed. (3) Qtly results also reflect the positive effect of $1.6 mln of tax recoveries and the positive contribution from BCG's construction project in the United Arab Emirates. Our estimates remain unchanged. BCG has two key pipeline opportunities (Southern Crossing and Corridor Pipeline) that will likely enable the company to maintain an EPS growth rate of 6% p.a. over the forecast period. We believe the shares are attractively valued at present levels. BUY.

08:07am EST 05-Feb-99 TD Securities - Canada (Taylor, Karen) BCG BCG.CC
(BCG-T) F98 Results Slightly Better Than Expected

BC Gas Inc. (BCG-T) C$31.00

Karen Taylor, CFA 416-307-9389
(TD Securities-Pipelines & Utilities)

F98 Results Slightly Better Than Expected - BUY

12-Month Target		C$32	
Projected Return		6.76%	
52-Week Range		C$28.25-33.95	
Year-End: Dec. 31			
C$	1997(A)	1998(E)	1999(E)
EPS	C$1.63	C$1.85	C$1.97
EPS	C$1.63	C$1.85	C$1.97
P/E		16.8x	15.7x
P/E		16.8x	15.7x
Dividend		C$1.09	
Yield		3.5%	
Shares O/S (mm)		38.2	

BCG reported F98 results of $1.85 per share versus $1.63 in F97. We expected $1.83. Results were slightly better than expected. Improved performance versus 1997 (total of $0.22 per share) resulted from: (1) share repurchase program ($0.06/share); (2) higher number of customers and incentive performance at BC Gas Utility ($0.05/share); (3) higher volumes shipped on the TransMountain oil pipeline system ($0.06/share); and (4) $0.05 per share resulting from earnings from the construction of a water treatment facility in Halifax, NS and natural gas distribution system in the United Arab Emirates (consulting work). Our outlook for 1999 remains largely unchanged and we expect earnings growth of about 5% to 6% from BCG's core natural gas distribution and oil transportation businesses. BUY.

Edward Jones

BC Gas

Opinion:	Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	May 26, 2000

Symbol/Exchange:	BCG/TSE	**S&P Sector:**	Utilities
Recent Price:	C$29.45	**EPS - F00E/F01E:**	C$2.00/C$2.15
52-week Range:	C$30.85 -C$20.45	**P/E - F00E:**	14.7x
Dividend:	C$1.24	**5-yr. EPS Growth Est.:**	5%
Yield:	4.2%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F00E:**	59%

Company Overview: BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Buy for investors seeking growth and income.**

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These could add meaningfully to earnings over the next 3-5 years. We have not included these projects in our long-term earnings projections, but will do so when their contribution to BCG is more certain.

Growth with Predictable Earnings Base
BCG's two major businesses, the utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Attractive and Growing Service Area
BC Gas' service area is experiencing increased population growth as Vancouver and surrounding areas increase in popularity. The demand for natural gas is growing as more

residential and business customers request gas for space heating, cooking, water heating and other common uses.

Recent News:

05/26/00 ($28.30 - Buy): We are lowering our opinion on BCG to a Buy from Strong Buy due to valuation. The stock is up 33% since our upgrade on January 26, 2000 compared with -0.9% for the TSE Utilities Index and 5.3% for the TSE 300 Index. The stock is now trading at a slight premium to its peers on the price/earnings basis and in-line with its peers on a dividend yield basis. We continue to believe BCG stock is attractive for the long-term, but the stock is not as attractively priced as it was earlier in the year.

04/27/00 ($26.30 - S. Buy): BCG reported first quarter 2000 earnings per share share of C$1.39 compared with C$1.35 in the same quarter last year. The increase was due to higher allowed profits at BCG Gas Utility and new customer additions. Trans Mountain posted lower earnings due to weak demand for oil due to a refinery shut-down during the quarter. While we are somewhat disappointed with the Trans Mountain results, we are encouraged by the strength at the core utility and we expect Trans Mountain results to improve next quarter. BCG's new projects, such as Southern Crossing and Corridor, are in development stage and proceeding on schedule. The company also announced a 5% increase in the cash dividend, to C$1.24 per year. We believe this is a reflection of management's confidence in the company's future. Maintain Strong Buy.

Valuation:

BCG shares have performed well in 2000, up 33% from their low in January through May 26. We attribute this to renewed investor interest in utility stocks and strong earnings results from the company. The stock is valued at a slight premium to its peers on a price/earnings basis and in-line on a dividend yield basis. We continue to believe the stock presents attractive long-term value due to the earnings growth potential and rising dividend, but given the run-up in price this year, the stock is not as attractive as it was earlier this year.

Investment Risks:

Rising interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

Notes:

o **Available for Edward Jones Dollar Cost Averaging Program in Canada.**
o **Available for Edward Jones Dividend Reinvestment in Canada.**

Edward Jones

BC Gas

Opinion:	Strong Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	April 27, 2000

Symbol/Exchange:	BCG/TSE	**S&P Sector:**	Utilities
Recent Price:	C$26.30	**EPS - F99A/F00E:**	C$1.94/C$2.00
52-week Range:	C$30.85 -C$20.45	**P/E - F00E:**	13.2x
Dividend:	C$1.24	**5-yr. EPS Growth Est.:**	5%
Yield:	4.7%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F00E:**	59%

Company Overview: BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Strong Buy for investors seeking growth and income.**

Attractive Stock Price
BCG is trading at a discount to its peer group on a price/earnings basis, and its dividend yield of 5.4% is above average as well. We attribute this to general price weakness in the utility sector due to concern about rising interest rates and investor focus on fast-growing technology stocks. We believe this has created an excellent buying opportunity given BCG's strong fundamentals and earnings growth potential over the next several years. We believe this stock will outperform its peer group over the next 12 months and 3 years as the market recognizes the value in these shares.

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income. We expect annual increases in the cash dividend in line with earnings growth.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These could add meaningfully to earnings over the next 3-5 years. We have not included these projects in our long-term earnings projections, but will do so when their contribution to BCG is more certain.

Growth with Predictable Earnings Base

BCG's two major businesses, the utility and Trans Mountain, are regulated and provide stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Recent News:

04/27/00 ($26.30 - S. Buy): BCG reported first quarter 2000 earnings per share share of C$1.39 compared with C$1.35 in the same quarter last year. The increase was due to higher allowed profits at BCG Gas Utility and new customer additions. Trans Mountain posted lower earnings due to weak demand for oil due to a refinery shut-down during the quarter. While we are somewhat disappointed with the Trans Mountain results, we are encouraged by the strength at the core utility and we expect Trans Mountain results to improve next quarter. BCG's new projects, such as Southern Crossing and Corridor, are in development stage and proceeding on schedule. The company also announced a 5% increase in the cash dividend, to C$1.24 per year. We believe this is a reflection of management's confidence in the company's future. Maintain Strong Buy.

02/03/00 ($22.90 - S. Buy): BCG reported fiscal 1999 earnings per share of C$1.94 compared with C$1.85 for 1999 excluding some one-time gains. This beat our estimate by 6 cents. The increase was due to recurring tax benefits from prior years and better earnings from the construction of a natural gas distribution system in the United Arab Emirates. BC Gas, the core utility, posted flat earnings as cost cuts offset lower rates charged to customers. Trans Mountain finished a disappointing year due to lower demand for the oil it transports. We expect a recovery in Trans Mountain this year. Overall, there were no surprises and we continue with our Strong Buy.

Valuation:

BCG shares are trading about 15% off their 52-week high, which we think presents a buying opportunity. BCG shares are valued in line with its peer group on a price/earnings and price/book basis, as well as on a dividend yield basis. Given the long-term growth potential in earnings and the attractive cash dividend, we recommend investors buy these shares.

Investment Risks:

Rising interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

Notes:

o **Available for Edward Jones Dollar Cost Averaging Program in Canada.**
o **Available for Edward Jones Dividend Reinvestment in Canada.**

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BC GAS INC.

Rating: Buy

Jim Bartlett

February 7, 2000

- Earnings are projected to rise modestly for next three years.
- Our rating has been raised to Buy from Accumulate.

BCG($23.50) – TSE **Target Price: $29.25**

Earnings Per Share Fiscal Year Ending 12/99[1]	12/00E[1]	12/01E[1]	P/E 12/01E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
$1.81	$1.95	$2.10	11.2x	$1.18	5.1%	38.3	$31.40 - $20.45

[1]Before non-recurring income tax recoveries in respect of prior years, as well as tax recoveries related to the sale of the power plant at Williams Lake. The tax recoveries were $0.31 per share in 1999 and are projected to be $0.75 per share in 2000, making final earnings of $2.12 in 1999 and $2.70 in 2000.

Summary and Investment Recommendation

Small increases in rate base and the allowed return on equity of the Utility company are the reasons earnings are projected to rise to $1.95 per share in 2000.

Thereafter, earnings are projected to continue rising as the Southern Crossing Project and the Corridor Pipeline project are completed. Earnings after 2000, therefore, should steadily rise to $2.30 per share in 2003.

At the current price of $23.50, the shares are trading at 11.2 times estimated 2001 earnings from continuing operations before one-time items. Our twelve month target price is $29.25 per share. After 2001, the shares should increase in price to $34.50 per share in 2002 which price is 15 times projected 2003 earnings. The shares can be purchased for modest growth in earnings and dividends over the medium and long term. Our rating has been increased to Buy.

1999 Earnings

BC Gas reported earnings for the year ended December 31, 1999 of $81.2 million ($2.12 per share), up $10.0 million ($0.27 per share) from earnings of $71.2 million ($1.85 per share) for the equivalent period in 1998.

The application of prior years' losses increased earnings by $5.0 million, or $0.13 per share. Also, another $7.0 million, or $0.18 per share, resulted from income tax benefits associated with the Williams Lake Power Plant (NW Energy, which the company sold in 1999. A further $29 million of earnings will be recognized in the year 2000 in respect of additional tax benefits associated with the Power Plant.

Excluding the non-continuing tax benefits referred to in the preceding paragraph, earnings for the year ended December 31, 1999 amounted to $1.81 per share.

Net Earnings (Loss):
(in millions of dollars, except per share amounts)

Years ended December 31	1999		1998	
		Per Share		**Per Share**
Natural gas distribution	$51.7	$1.35	$51.8	$1.35
Petroleum transportation	19.5	0.51	22.0	0.50
Other activities[1]	3.0	0.08	(3.5)	(0.09)
Earnings before income tax benefits from NW Energy	74.2	1.94	71.2	1.85
Income tax benefits from NW Energy	7.0	0.18	--	--
Net earnings	$81.2	$2.12	$71.2	$1.85

[1] In 1999, other activities include $0.13 per share for income tax recoveries in respect of prior years.

Natural Gas Distribution

Earnings for natural gas distribution for the year ended December 31 were $51.7 million in 1999 as compared to $51.8 million in 1998, mainly due to a decrease in the authorized return on common equity from 10.0 percent in 1998 to 9.25 percent in 1999, offset by productivity improvements and higher transportation revenue. For 2000, the authorized return on common equity will be 9.5 percent. Including incentives and income from non-regulated activities, we expect the actual return on common equity to be slightly more than 10.0 percent. As the mid-year rate base is projected to rise to $1,706 million in 2000 from $1,660 million in 1999, we project that net income from natural gas distribution will rise to $54.0 million in 2000 from $51.7 million in 1999.

Work is proceeding on the Southern Crossing Pipeline Project, which was approved by the British Columbia Utilities Commission (BCUC) in May 1999. BC Gas intends to complete the project for an in-service date of November 1, 2000. However, it may revise the expected date of completion based on the results of bids that the company will be seeking for construction and installation of the pipeline. Because of the uncertainty regarding the completion of this project, we have opted for the very conservative option and have assumed it will be completed for an in-service date of November 2001. If it is completed earlier, our earnings estimate for 2001 will rise by about $0.10 per share. BC Gas will make a final decision in May 2000.

Petroleum Transportation

Petroleum transportation operating results for the year ended December 31, 1999 decreased by $3.4 million compared to the corresponding period in 1998. This was a result of decreased throughput on the Canadian and U.S. portions of the oil pipeline. Throughput to Washington State refineries in particular has been affected by additional oil pipeline capacity from Alberta to the U.S. Midwest, as well as low prices for oil on the west coast of North America compared to U.S. Midwest prices during the first half of 1999. In 2000, throughput is expected to rise and net income is estimated to rise to $20.7 million from $19.0 million in 1999.

In December 1999, Shell Canada Limited and its partners announced that the Athabasca Oil Sands initiative, which includes the company's Corridor Pipeline project, would be proceeding. Construction on the $690 million Corridor Pipeline will begin in the second quarter of 2000 and the pipeline is expected to be fully operational by the end of 2002.

Other Activities

Other activities include non-regulated energy and utility services, as well as corporate interest and administration charges. Results from this segment improved by $6.5 million for the year ended December 31, 1999 as compared to 1998. This improvement was due mainly to earnings from the construction of a natural gas distribution system in the United Arab Emirates and income tax recoveries in respect of prior years. Net income of this sector is projected to be zero in 2000, relative to a loss of $2.0 million in 1999 (before non-continuing tax benefits).

Dividends

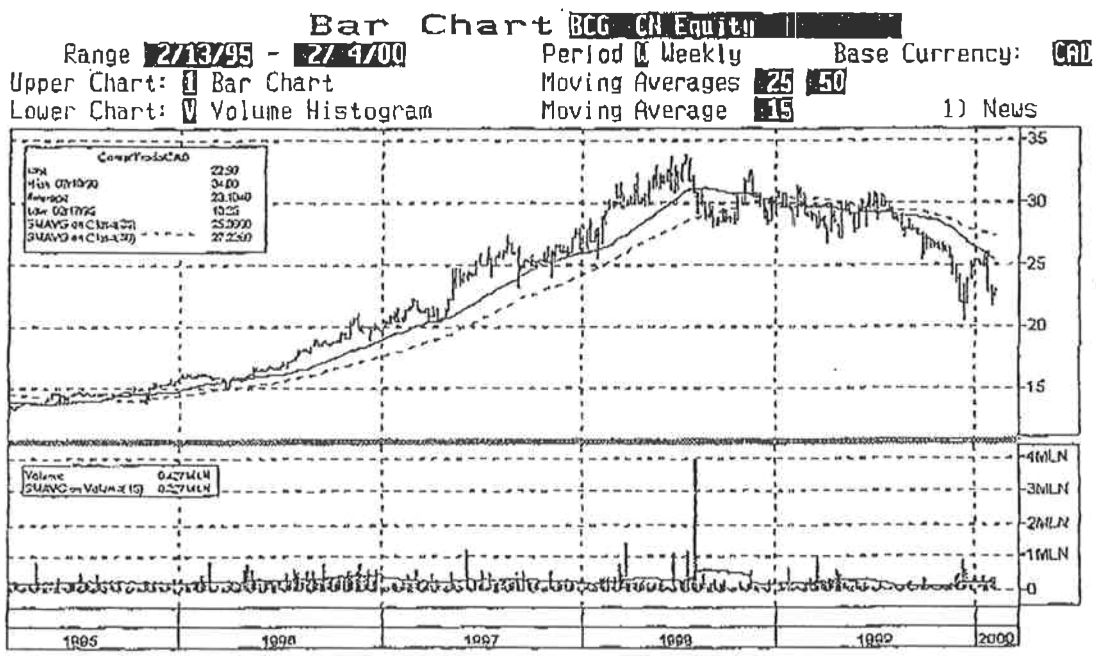
The Directors of BC Gas Inc. have declared a quarterly dividend of $0.295 per share on the issued and outstanding common shares of BC Gas Inc. The dividend is payable on February 29,2000 to shareholders of record at the close of business on February 16, 2000.

The Company

BC Gas Inc. is a leading provider of energy and utility services in British Columbia through its two principal operating subsidiaries, BC Gas Utility Ltd. And Trans Mountain Pipe Line Company Ltd., and through a number of non-regulated related businesses. BC Gas Utility is the largest distributor of natural gas in British Columbia, serving 756,000 customers in more than 100 communities. Trans Mountain Pipe Line owns and operates the only pipeline transporting crude oil and refined petroleum products from Alberta to British Columbia and Washington State. BC Gas common shares are traded on the Toronto stock exchange under the symbol BCG.

Risks

The authorized rate of return of the Utility company varies directly with long term interest rates. Hence, earnings after 2000 could be lower than estimated, if long term interest rates fall. Generally, the company has a low risk strategic plan as it focuses on core businesses and activities that lever off the company's core competencies.



Edward Jones

BC Gas

Opinion:	Strong Buy	**Analyst:**	Zach Wagner, CFA
Suitability:	Growth & Income	**Date:**	January 26, 2000

Symbol/Exchange:	BCG/TSE	**S&P Sector:**	Utilities
Recent Price:	C$22.00	**EPS - F99E/F00E:**	C$1.88/C$2.00
52-week Range:	C$31.40 -C$20.45	**P/E - F00E:**	11.0x
Dividend:	C$1.18	**5-yr. EPS Growth Est.:**	5%
Yield:	5.4%	**5-yr. Div. Growth Est.:**	4%
FP Listing:	BC Gas	**Payout Ratio - F00E:**	59%

Company Overview: BC Gas is the parent company of BC Gas Utility and Trans Mountain Pipeline. BC Gas Utility, which is two-thirds of total company earnings, is the largest natural gas utility in British Columbia, serving over 730,000 customers located from Vancouver to the Fraser Valley and the interior of B.C. Trans Mountain, which is one-third of total earnings, transports oil and petroleum products via a 1,260 km pipeline from Edmonton, Alberta to the west coast. Trans Mountain also delivers jet fuel to the Vancouver International Airport. BC Gas has been in business since 1952.

Investment Summary: **We rate shares of BCG a Strong Buy for investors seeking growth and income.**

Attractive Stock Price
BCG is trading at a discount to its peer group on a price/earnings basis, and its dividend yield of 5.4% is above average as well. We attribute this to general price weakness in the utility sector due to concern about rising interest rates and investor focus on fast-growing technology stocks. We believe this has created an excellent buying opportunity given BCG's strong fundamentals and earnings growth potential over the next several years. We believe this stock will outperform its peer group over the next 12 months and 3 years as the market recognizes the value in these shares.

Attractive Cash Dividend
BCG stock pays an attractive cash dividend that is above the dividend yield of other similar natural gas utilities. This is an attractive feature for investors seeking growth as well as strong current income.

New Projects Increase the Growth Potential
BCG has two new projects under construction or in development: Southern Crossing, a new gas pipeline to bring more natural gas to Vancouver; and Corridor Pipeline, an oil pipeline in a partnership with Shell in Alberta. These could add meaningfully to earnings over the next 3-5 years. We have not included these projects in our long-term earnings projections, but will do so when their contribution to BCG is more certain.

Growth with Predictable Earnings Base
BCG's two major businesses, the utility and Trans Mountain, are regulated and provide

stable and predictable returns. The utility delivers an essential resource to homes and businesses, the demand for which is very stable over the long-term. The utility also has a weather-normalization adjustment in its rates which helps to minimize the impact of unusual weather on the demand for natural gas.

Recent News:

01/26/00 ($22 - S. Buy): We are upgrading our opinion on BCG to Strong Buy from Buy. BCG shares are down 15% in the past week and are trading 30% off their 52-week high of C$31.40. BCG shares are trading at a discount to its peer group on a price/earnings basis. We believe this presents a very good buying opportunity. BCG is a fundamentally strong utility company with attractive growth prospects. In particular, BCG has two major pipeline projects in development that should be significant sources of earnings growth in the next several years. In addition, the stock has a dividend yield of 5.4%, which is well above the average yield for Canadian stocks. We believe the stock will outperform its peers over the next 12 months and 3 years as investors recognize the value in these shares.

BCG will report earnings on Feb. 3rd. We expect results to be on target with no surprises.

Valuation:

BCG shares are trading about 30% off their 52-week high, which we think presents a buying opportunity. BCG shares are valued at a discount its peer group on a price/earnings and price/book basis, as well as on a dividend yield basis. Given the long-term growth potential in earnings and the attractive cash dividend, we recommend investors buy these shares.

Investment Risks:

Rising interest rates can cause utility stocks to decline.

Warmer winter weather can depress earnings and the stock price.

The company's earnings and stock price can be negatively impacted by low oil or gas prices.

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BC GAS INC.

Rating: Accumulate

Jim Bartlett
November 19,1999

- Earnings projected to rise modestly for next four years.
- Since October 31, 1999, the shares have declined from \$26.45 per share to \$24.30 per share, causing us to change our rating to accumulate.

BCG(\$24.30) – TSE **Target Price: \$29.25**

Earnings Per Share Fiscal Year Ending								
12/98	12/99E[1]	12/00E[1]	P/CF 12/00E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
\$1.85	\$1.80	\$1.95	12.5x	\$1.18	4.9%	38.3	\$31.40 - \$24.15

[1]Before non-recurring income tax recoveries in respect of prior years, as well as tax recoveries related to the sale of the power plant at Williams Lake. The tax recoveries are projected to be \$0.32 per share in 1999 and \$0.75 per share in 2000, making final earnings of \$2.12 in 1999 and \$2.70 in 2000.

Summary and Investment Recommendation

Because of a small increase in the allowed return on equity of the Utility Company for 2000, we have revised our 2000 earnings estimate upwards to \$1.95 per share.

Thereafter, earnings are projected to continue rising as the Southern Crossing Project and the Corridor Pipeline project are completed. Earnings after 2000, therefore, should steadily rise to \$2.28 per share in 2003.

At the current price of \$24.30, the shares are trading at 12.5 times estimated 2000 earnings from continuing operations before one-time items. Our twelve month target price has been reduced to \$29.25 per share because we have reduced our expected price/earnings multiple to 15.0 times, as interest rates have increased sharply. After 2000, the shares should increase in price to \$34.20 per share in 2002 which price is 15 times projected 2003 earnings. The shares can be purchased for modest growth in earnings and dividends over the medium and long term. Accumulate.

Note: We recently removed BC Gas from the OB Equity Portfolio at a price of \$26.05 and bought shares of Westcoast Energy and TransCanada PipeLines. Since that time, shares of BC Gas have fallen by \$1.75. While we still favour Westcoast Energy and TransCanada PipeLines, the relative appeal of BC Gas has improved, given the recent decline in the share price.

BC Gas Inc. Reports Nine Months Results

BC Gas Inc. reported earnings per share for the nine months ended September 30, 1999 of \$1.00, up \$0.05 from \$0.95 for the equivalent period in 1998. Overall earnings for the first nine months of 1999 were \$38.4 million compared to \$36.8 million in 1998. Before one-time income tax recoveries, earnings were \$0.91 per share for the nine month period of 1999.

On October 19, 1999, BC Gas sold its interest in the cash flow of the 66-megawatt power plant at Williams Lake, British Columbia to TransCanada Power, L.P. BC Gas received \$59 million from TransCanada Power at closing, which, along with tax benefits that will be recognized in the fourth quarter of 1999 and calendar year 2000, will result in a total after-tax gain of approximately \$36 million. TransCanada Power will operate and manage the plant.

The loss of earnings from this operation will be offset by lower interest expense, as part of the funds will be used to reduce debt. The $36 million in after-tax gain is mainly tax benefits that will be recognized approximately equally over the next five quarters beginning with the fourth quarter of 1999, or approximately $0.19 per share in 1999 and $0.75 per share in 2000. These are one-time gains and are not included in our earnings estimate from continuing operations.

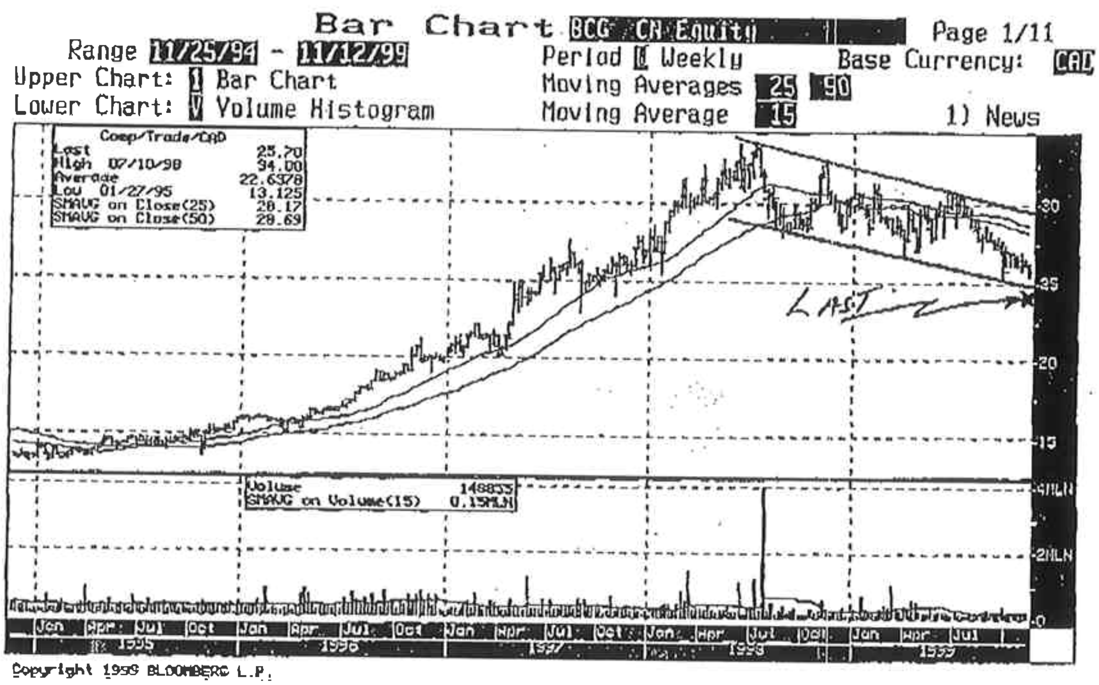
The table below sets out the contribution to earnings by operating segment for the nine months and three months ended September 30, 1999 and 1998.

Net Earnings (Loss)
(in millions of dollars, except per share amounts)

Nine months ended September 30	**1999**		**1998**	
		Per Share		**Per Share**
Natural gas distribution	$22.0	$0.58	$21.0	$0.54
Petroleum transportation	13.6	0.35	17.4	0.45
Other activities[(1)]	2.8	0.07	(1.6)	(0.04)
Net earnings[(1)]	$38.4	$1.00	$36.8	$0.95

[(1)]Includes income tax recoveries in respect of prior years of $3.4 million in 1999. Earnings, before this item, were $0.91 per share. For all of 1999, the tax recovery from this item and the sale of Williams Lake is estimated to be $12.2 million, or $0.32 per share.

Weekly Closing Price



ODLUM BROWN
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Investment Research

ODLUM BROWN LIMITED 1800 | 609 GRANVILLE STREET, P.O. BOX 10012 PACIFIC CENTRE VANCOUVER, BRITISH COLUMBIA CANADA V7Y 1A3

BC GAS INC.

Rating: Hold

- Earnings and share price projected to be flat in 1999 and 2000
- Rating changed from Buy to Hold.

Jim Bartlett
July 22, 1999

BCG($29.50) – TSE **Target Price: $30.00**

Earnings Per Share Fiscal Year Ending 12/98	12/99E	12/00E	P/CF 12/00E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
$1.85	$1.83	$1.88	15.7x	$1.18	4.0%	38.3	$34.00 - $26.75

Summary and Investment Recommendation

Because of reductions in the allowed return on equity of the Utility Company and reduced volumes on Trans Mountain, earnings of BC Gas Inc. are projected to be flat in 1999 and 2000.

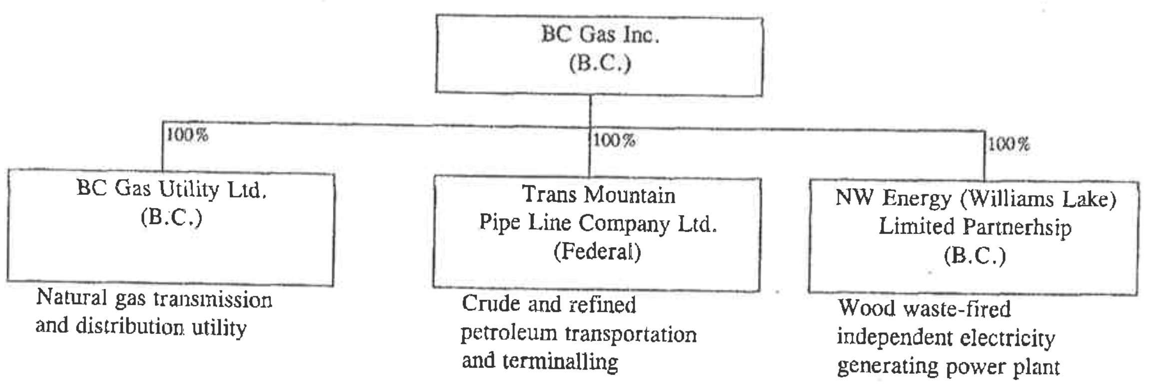
Thereafter, earnings are projected to commence rising as the Southern Crossing Project and the Corridor Pipeline project are completed. Earnings after 2000, therefore, should steadily rise to $2.28 per share in 2003.

At the current price of $29.50, the shares are trading at 15.7 times estimated 2000 earnings. As a result, we anticipate the shares will remain at approximately the same price for the next eighteen months. After that the shares should again commence increasing in price to $36.50 per share in 2003 which price is 16 times projected earnings for that year. The shares can be held for modest growth in earnings and dividends over the medium and long terms. HOLD.

Business of the BC Gas Group of Companies

BC Gas acts as a management corporation, providing strategic direction to the Utility and all of BC Gas' other subsidiaries and investments. BC Gas holds three groups of subsidiaries: (i) the companies comprising the natural gas distribution business; (ii) the companies comprising the petroleum transportation business; and (iii) the other energy and utility related subsidiaries, all forming the BC Gas group of companies.

The following chart depicts the corporate relationship of BC Gas and each of its principal operating subsidiaries as at March 31, 1999:



Source: BC Gas Inc.

The Company also owns and operates Westridge Marine Terminal in Vancouver harbour where crude oil is loaded aboard ocean-going vessels and aviation turbine fuel is landed and stored. Another Trans Mountain pipeline transports aviation turbine fuel from Westridge Marine Terminal and refineries and distribution terminals in the Burnaby area to the Vancouver International Airport.

Trans Mountain operates in a regulated environment. The Company's main pipeline operations fall under the regulatory jurisdiction of the National Energy Board. In British Columbia, the aviation turbine fuel pipeline is regulated by the British Columbia Utilities Commission. In the USA, pipeline operations are regulated by the Federal Department of Transportation and the Federal Energy Regulatory Commission.

Regulation of Canadian Pipeline System

Up to the end of 1995, the NEB used the historical cost rate base/rate of return methodology in determining the revenue requirements upon which the Company's tolls were based.

In October 1995, the Company entered into negotiations with the Canadian Association of Petroleum Producers and the principal shippers on the pipeline system. Those negotiations resulted in an agreement which was approved by the NEB and made effective January 1, 1996. The agreement provides for the determination of the Company's revenue requirement, and resulting tolls, over a five-year period which started in 1996.

The negotiated settlement allowed Trans Mountain to retain 100% of earnings up to $13.2 million in 1998, after which, in accordance with an efficiency incentive, earnings are shared 50/50 with the shippers. In addition, Trans Mountain shares certain incremental revenues resulting from an excess capacity incentive on a 50/50 basis. In 1998 the total pre-tax revenues to be credited to the shippers under both of these sharing arrangements was $4.0 million. The shippers will also receive from the Company some $0.8 million in 1999 due to higher than forecast volumes shipped in 1998.

The net earnings contribution of Trans Mountain for the period 1995 to 1999 is presented in the table below.

	-$ millions-
1999e	$21.0
1998	$22.9
1997	$20.4
1996	$20.5
1995	$15.6

Throughput on the Canadian and U.S. portions of the mainline is projected to be lower in the period 1999 to 2003, inclusive. As a result, net earnings are projected to be $21.0 million per year.

Corridor Pipeline Limited

In July 1998 Trans Mountain and its parent company BC Gas Inc., entered into an agreement with Shell Canada Limited (Shell) for the construction and operation of the Corridor pipeline system. Corridor Pipeline Limited (CPL) has been established as a direct subsidiary of BC Gas Inc. to own and operate this system.

The Corridor pipeline system will provide for the pipeline transportation of diluted bitumen produced at Shell's proposed Muskeg River Mine located approximately 70km north of Fort McMurray, Alberta to a heavy oil upgrader that Shell proposes to construct adjacent to its existing Scotford Refinery, a distance of approximately 453km. A smaller diameter parallel pipeline will trans-

1999 First Quarter Earnings

Earnings per share for the three months ended March 31, 1999 were $1.35, up $0.02 from $1.33 for the equivalent period in 1998. Earnings for the first quarter of 1999 were $51.6 million, as compared to $51.9 million in 1998. The improvement in earnings per share reflected a reduction in the number of common shares outstanding as a result of the Company's share repurchase program.

The table below sets out the contribution to earnings by operating segment for three months ended March 31, 1999 and 1998.

Net Earnings (Loss)
In millions of dollars, except per share amounts

Three months ended March 31	1999		1998	
	$	Per Share	$	Per Share
Natural gas distribution	$46.4	$1.21	$46.3	$1.19
Petroleum transportation	5.7	0.15	6.3	0.16
Other activities	(0.5)	(0.01)	(0.7)	(0.02)
Net earnings	**$51.6**	**$1.35**	**$51.9**	**$1.33**
Common shares- weighted average (millions)	**38.3**		**38.9**	

Price/Earnings Ratios and Earnings Estimates for Comparable Companies for 2003

Earnings	**PRICE:EARNINGS RATIO For 2003 Estimated**		
	2003 EPS est.	**Current Share Price**	**Price/2003 Earnings Estimate**
TransCanada	$2.00	$20.70	10.4x
B.C. Gas	$2.28	$30.50	13.3x
Westcoast	$3.25	$29.50	9.1x
TransAlta	$1.75	$22.75	13.0x
Enbridge	$2.50	$33.50	13.4x

The above table shows that based on estimated price/earnings ratios for 2003, the shares of Westcoast Energy and TransCanada Pipelines offer the best value, at this time.