

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

2006 ANNUAL REVIEW &
MID-TERM ASSESSMENT REVIEW WORKSHOP
November 15, 2006

AGENDA REVIEW

Scott Thomson

AGENDA

- **Agenda**
 - **Welcome / Introduction**
 - **Terasen Opening Remarks & Report**
 - 2006 Priorities
 - 2007 Priorities
 - **Gas Commodity and Midstream Cost Outlook**
 - **Terasen Gas (Squamish) Inc.**
 - Update on Amalgamation
- **Scott Thomson**
 - **Bill Grant**
 - **Randy Jespersen**
 - **David Bennett**
 - **Jason Wolfe**

Break

2007 PBR Cost Drivers

- Customers, Volumes and Margin
 - Formula Driven Rate Base and Plant Additions
 - Formula O&M Expenses
 - Other Cost of Service Items
- **Greg Caza**
 - **Raakel Iskanius**
 - **Raakel Iskanius**
 - **Raakel Iskanius**

AGENDA - Page 2

■ 2007 Revenue Requirements and Rate Outlook

- Tom Loski

- Earnings Sharing Mechanism Results
- Revenue Requirement Results
- Overall Customer Rate Impacts

Lunch Break

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

- Customer Care & SQI's
- 5 Year Major Capital Plan

- Danielle Wensink

- Shane Hiebert

■ KMI Acquisition Order

- Integration Activities
- Best Practices Review

- Scott Thomson

■ Code of Conduct & Transfer Pricing Policy

- Andrew Lee

■ Mid-Term Settlement Review

- Tom Loski

■ 2008 Revenue Requirement

- Tom Loski

■ Conclusions

- Scott Thomson &
Bill Grant

Welcome/Introduction


**Bill Grant
BCUC**


Terasen Gas Opening Remarks

Randy Jespersen
President

Terasen Gas 2006 Priorities (as stated at 2005 Annual Review)



- Continued Focus on Operational Excellence
 - Safety, Customer Satisfaction, Cost Containment, Environmental Responsibility 

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

Terasen Gas 2006 Priorities (as stated at 2005 Annual Review, cont'd)



■ Successful IBEW Contract Negotiations



■ Project Development

■ Whistler Pipeline CPCN



■ District Energy Utilities (Whistler, East False Creek)



■ LNG Storage or ?

■ Other ✓ details on following slide

■ Increase Market Share of Multi-Family units



■ Financial Performance



■ Expedient Integration with KMI

■ Practices and Philosophies

■ Best Practice Sharing



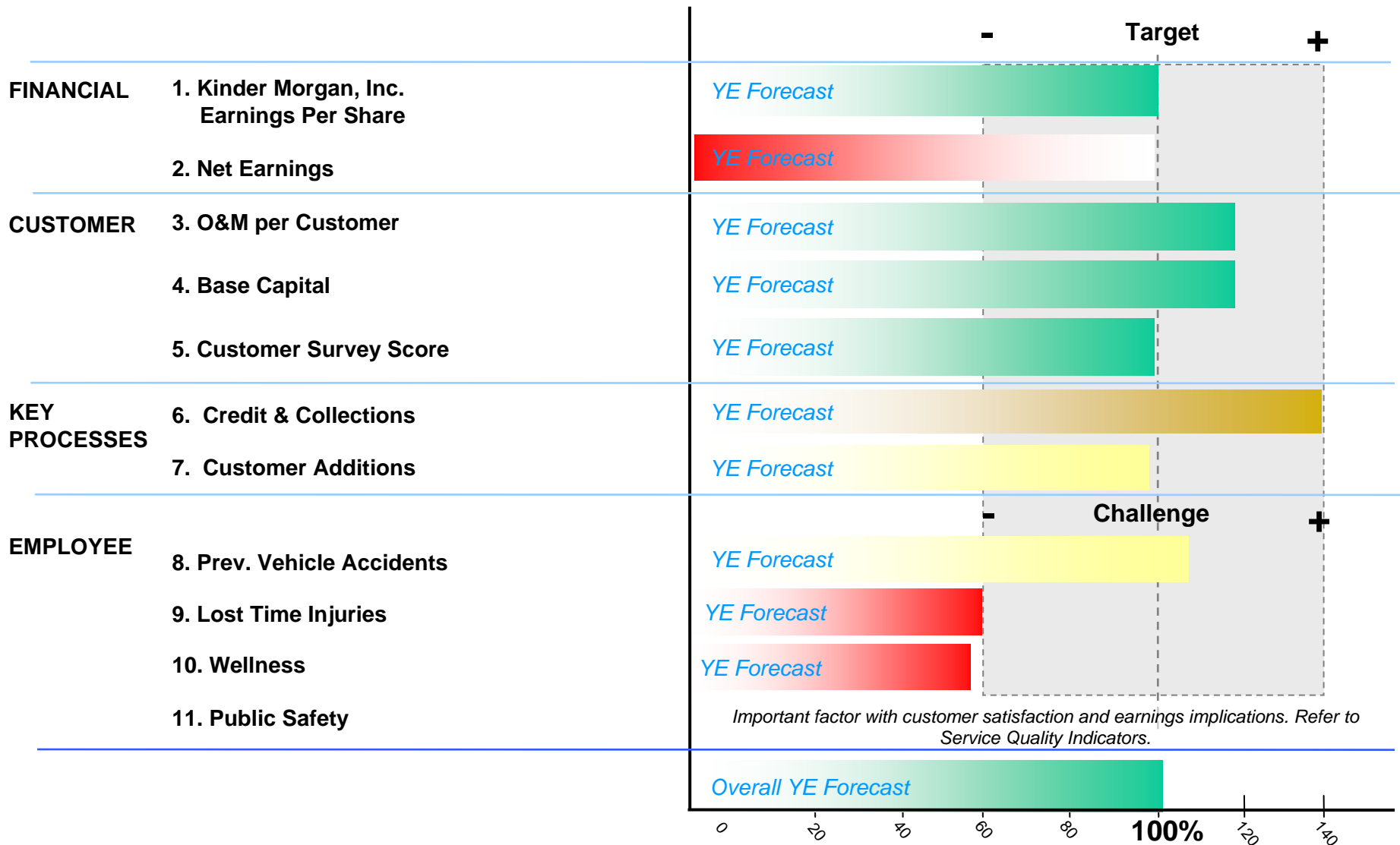
Terasen Gas 2006 Priorities & Accomplishments

- ROE/Cost of Capital Hearing Decision
- Vancouver Low Pressure System CPCN Approved
- Residential Unbundling CPCN Approved
- Banner to Energy Conversion Completed
- Resource Plans Filed
- TG Squamish Amalgamation



Terasen Gas Group 2006 Scorecard

September 2006 Results



Terasen Gas 2007 Priorities and Beyond

- Continued Focus on Operational Excellence
 - Safety, Customer Satisfaction, Cost Containment, Environmental Responsibility
 - Integrity Programs
- Retain, Attract & Motivate Employees
- Successful COPE Collective Agreement Negotiations
- Residential Unbundling Implementation

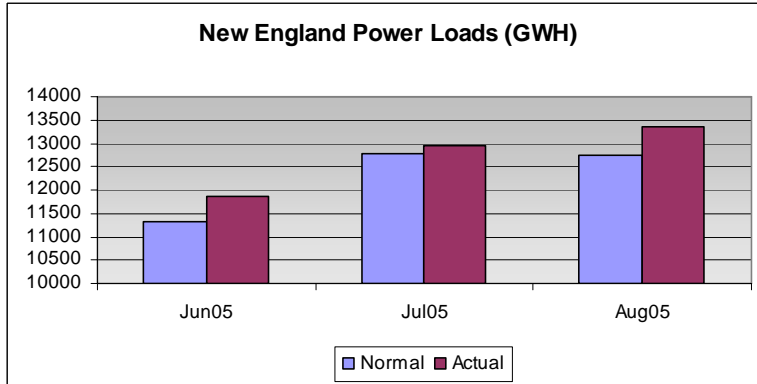
Terasen Gas 2007 Priorities and Beyond

- Financial Performance
- Increase share of Multi-Family Units
 - BC Hydro rate design
 - Load shedding
- Project Development
 - Whistler Pipeline on budget/schedule
 - Mt. Hayes LNG
 - Other
- 2004-2007 PBR Settlement Extension...

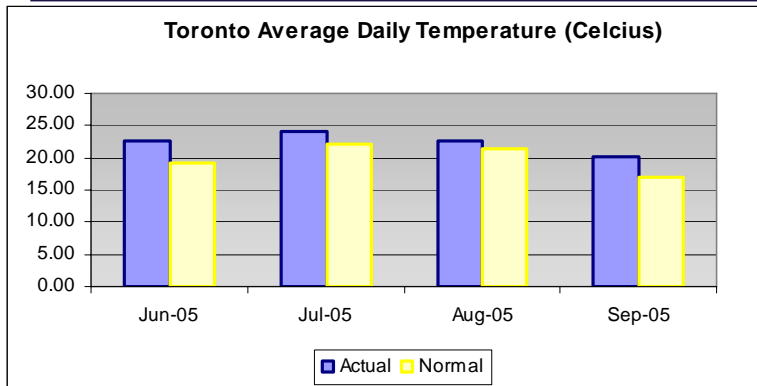
Gas Commodity & Midstream Cost Outlook

David Bennett

2005 - Gas Consumer's "Annus Horribilis"

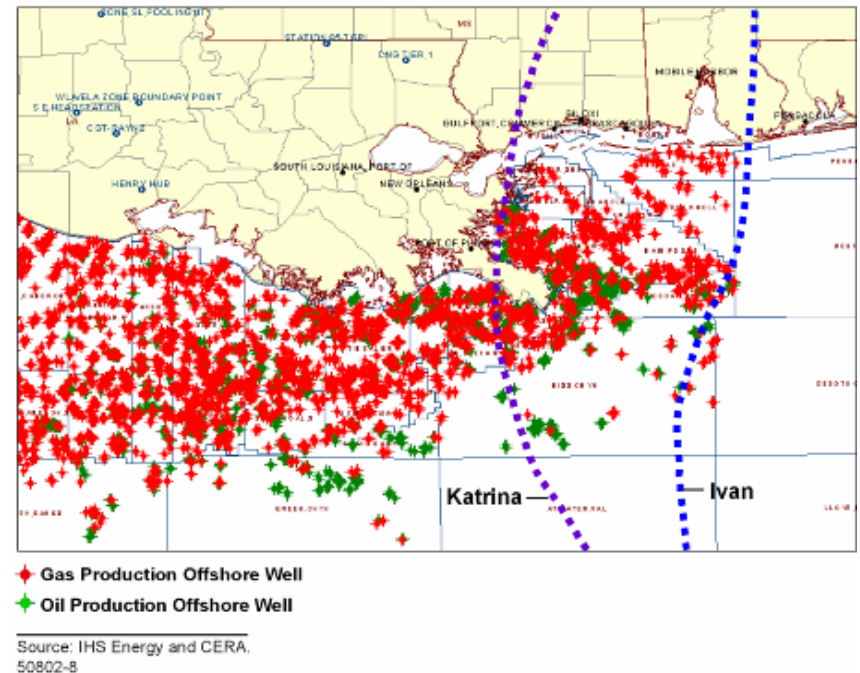


Power Loads 4% higher than Normal



Temperatures 12% higher than Normal

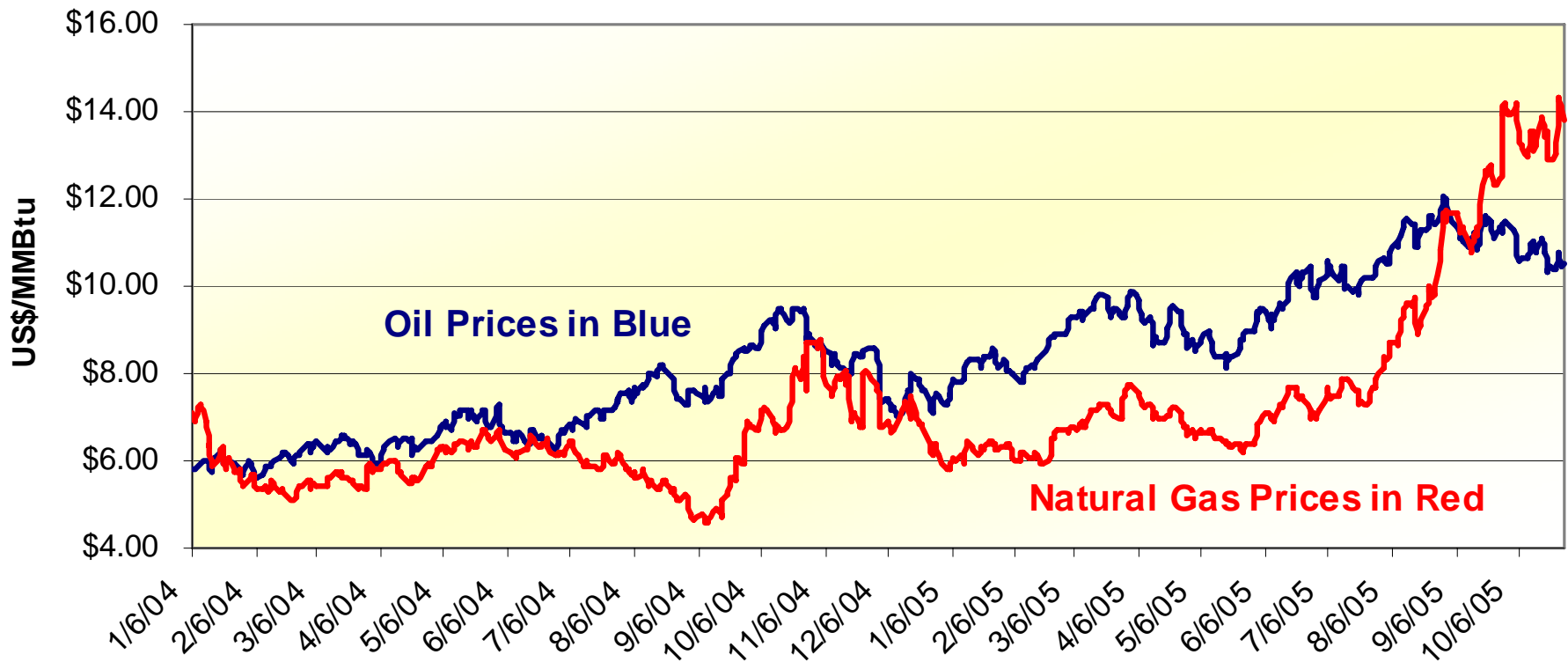
Figure 1
Hurricane Paths and Gulf of Mexico Production



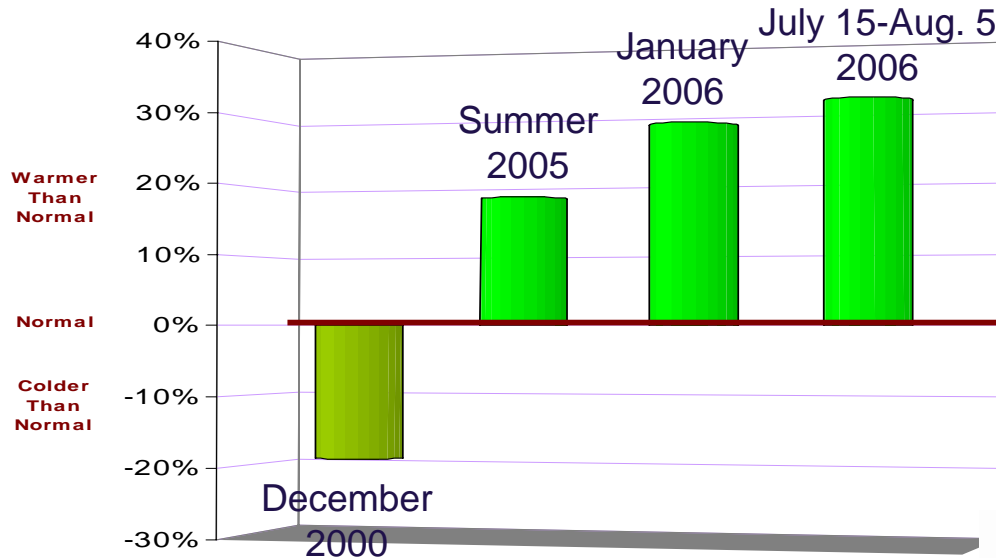
Over 80% of Gulf Gas Production Cut by Hurricanes (20% of North American Supply)

2005 - Both Oil and Gas Prices At All Time Highs

Nymex Natural Gas vs Oil 2004-05 Prompt Month Prices



2006 – Markets Stabilize



High prices

Warm winter weather

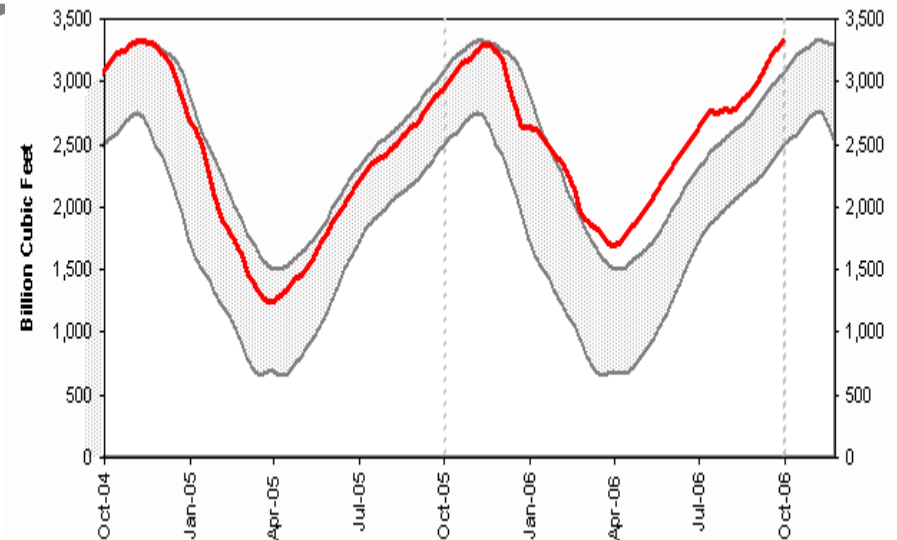
No supply disruptions

= Record Gas in Storage

January 2006 – record warmth

Summer 2006 – hotter than 2005

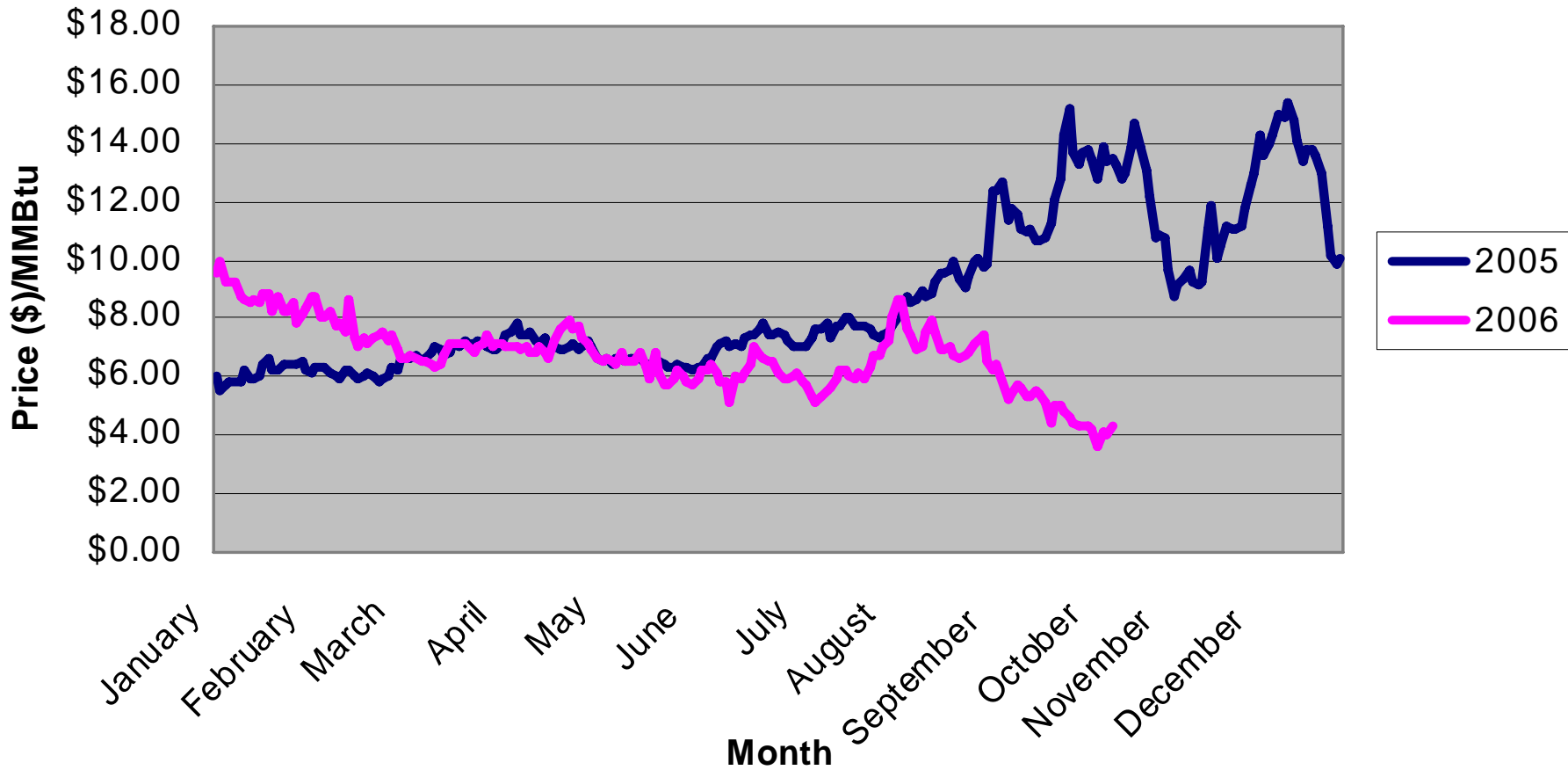
But No Hurricanes!



Source: American Gas Association

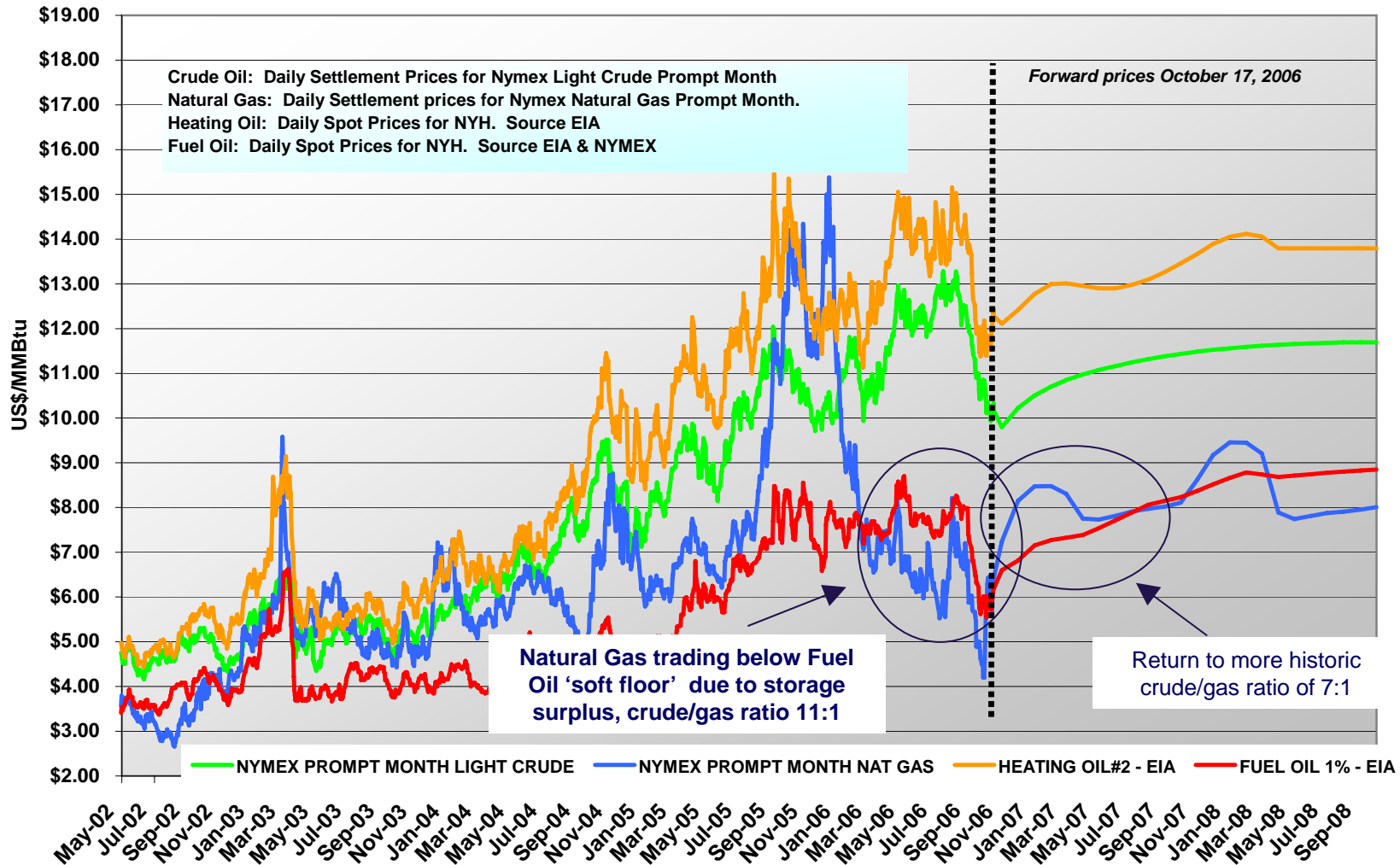
Market Fundamentals Prevail - Prices Drop

Henry Hub Spot Price (\$US/MMBtu)



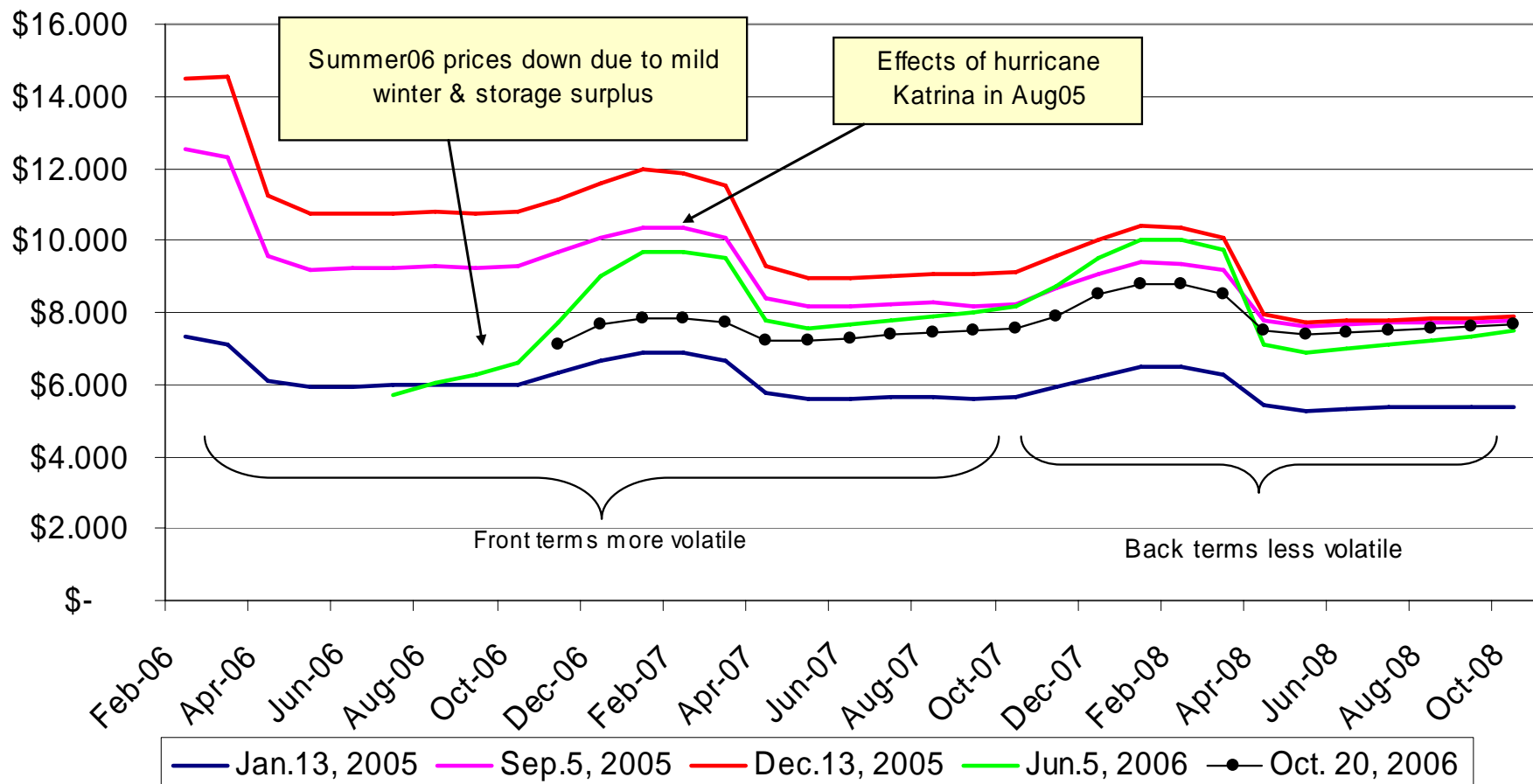
Natural Gas vs. Other Fuels

Competing Fuel Prices

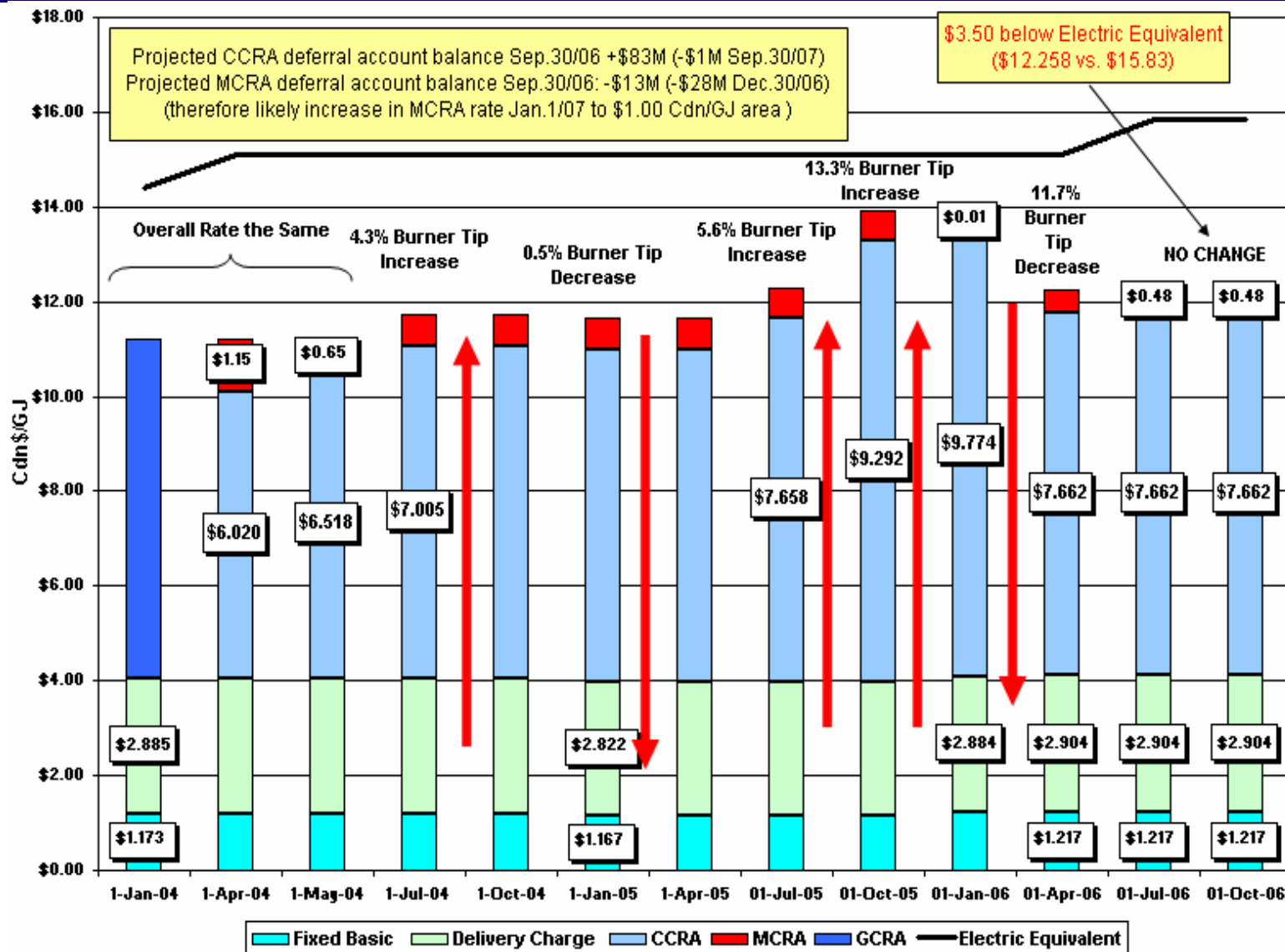


Forward Prices Now Relatively Flat

Changes in Forward Aeco Curve (\$Cdn/GJ)



TGI Lower Mainland Residential Rates



CCRA - TG Rate is Less Volatile Than Market

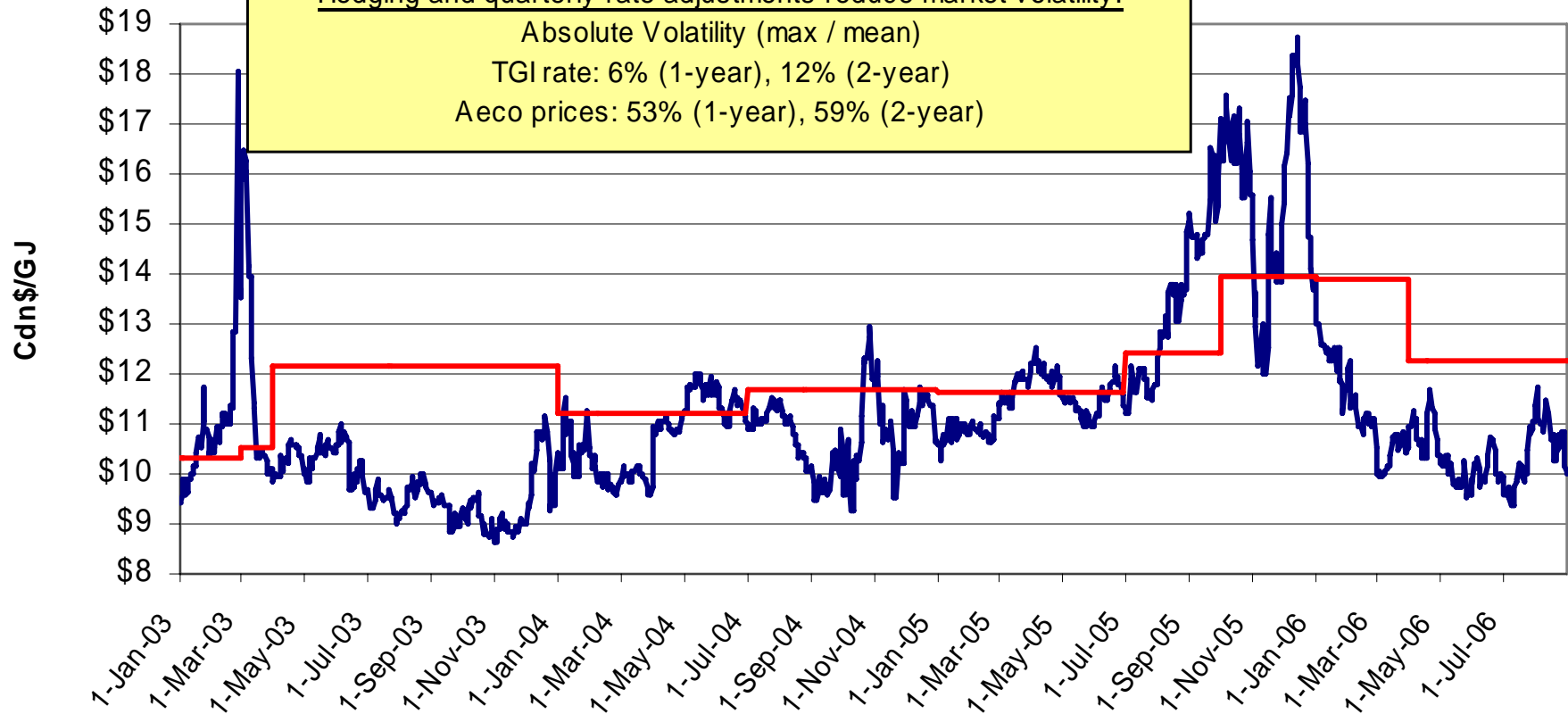
TGI Rate versus Aeeco Spot Price

Hedging and quarterly rate adjustments reduce market volatility:

Absolute Volatility (max / mean)

TGI rate: 6% (1-year), 12% (2-year)

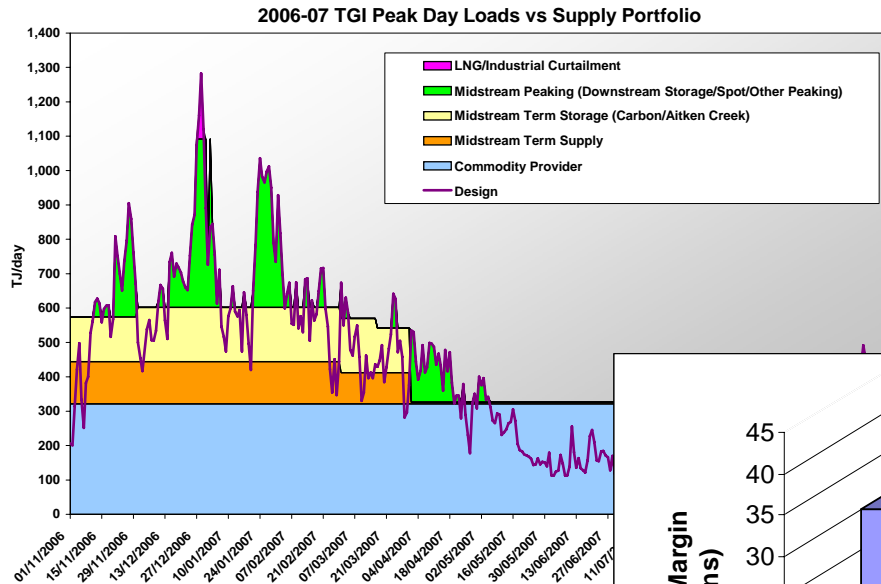
Aeeco prices: 53% (1-year), 59% (2-year)



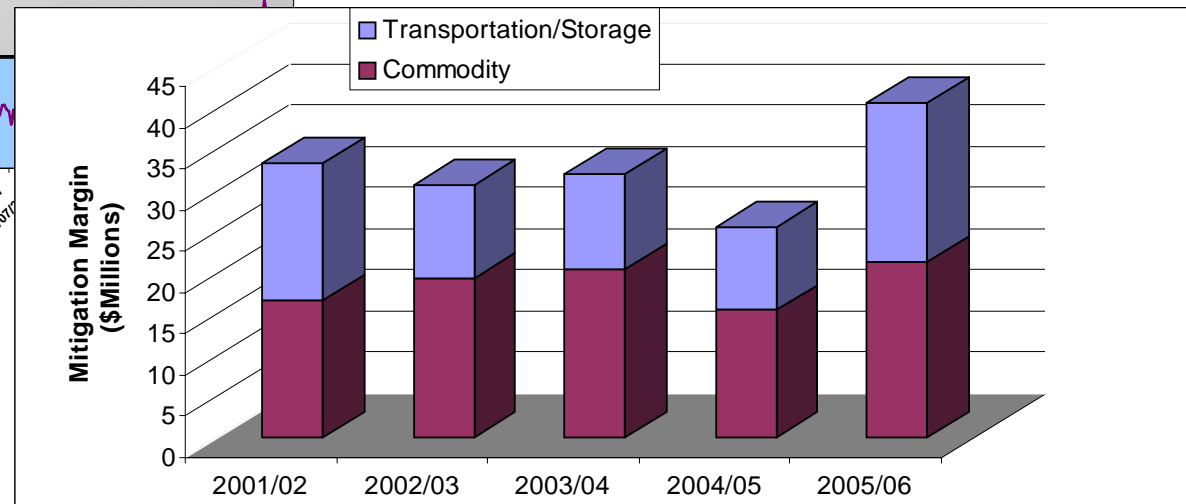
Note: AEEO daily scaled up for TGI fixed basic, delivery and midstream rate

— Aeeco Daily — TGI Rate

MCRA – Cost of Managing Peaks and Valleys



Gas Supply Mitigation Activity 2001 - 2006



Note: Graph does not include SCP mitigation

■ Customer retained 97% of margin in 2006

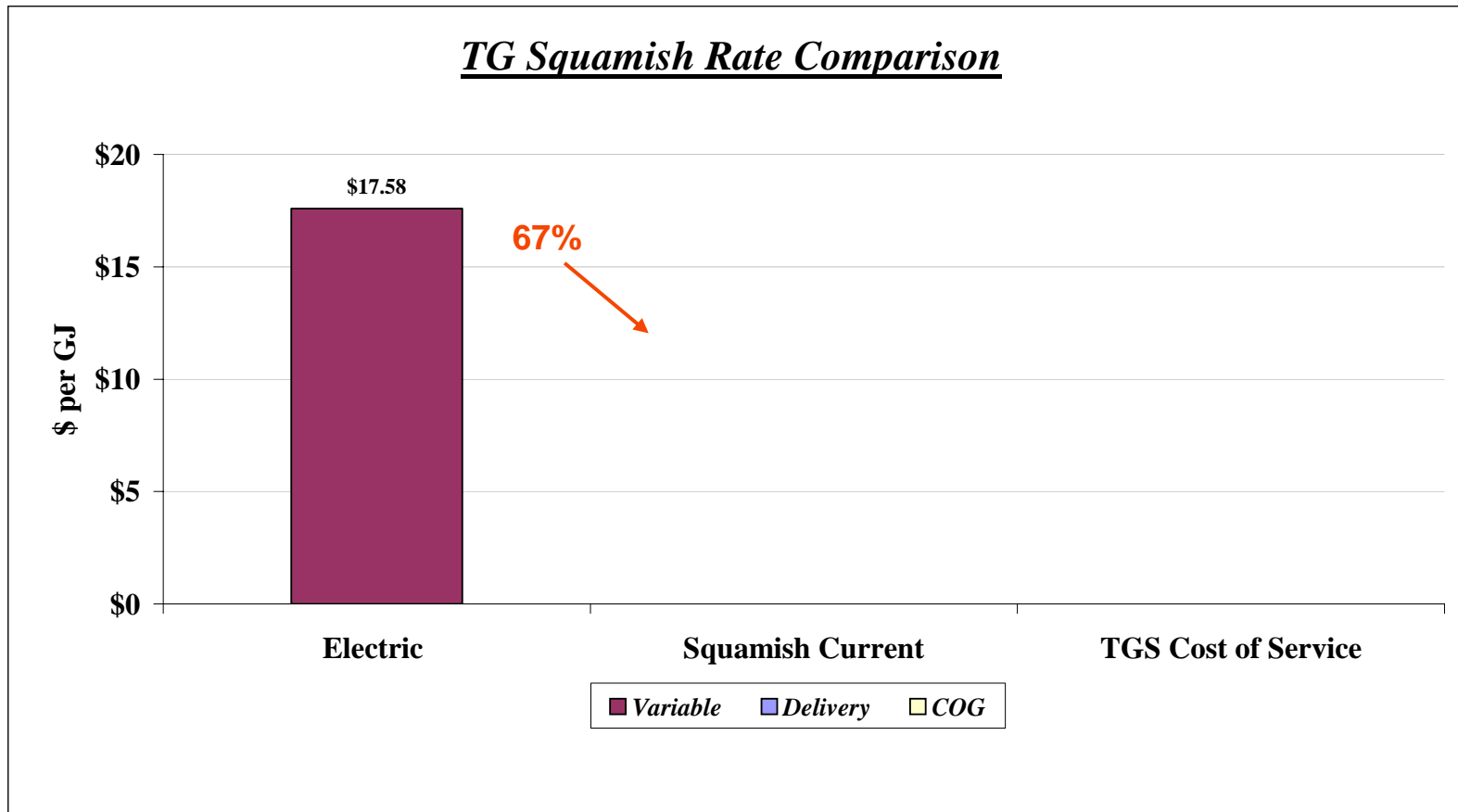
Summary

- In 2005 gas prices and volatility were pushed by a confluence of circumstances, in 2006 the market stabilized
- Supply/demand balance is tight in the short term but is sufficient in the long term
- Terasen is managing the supply portfolio to retain competitiveness to other energy sources and lower rate volatility
 - Rates have been below the electric equivalent since 2004
 - Price risk management activities have meant lower rate volatility than the market
 - 99% probability that rates will be below the electric equivalent for the upcoming year (based on current volatility)
- Terasen Midstream activity is focused on optimizing the portfolio while ensuring reliability of supply

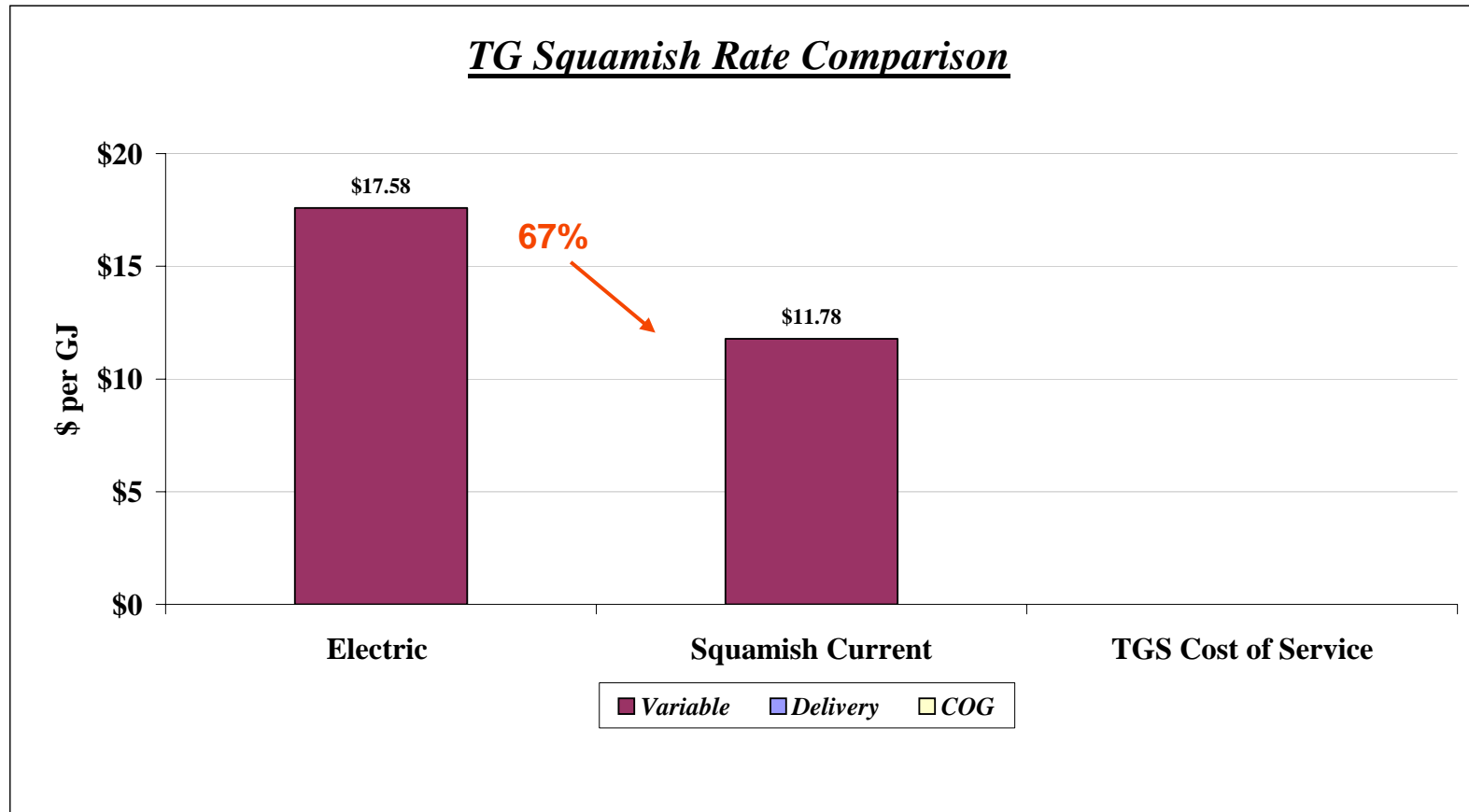
Terasen Gas (Squamish) Inc. Update on Amalgamation

Jason Wolfe

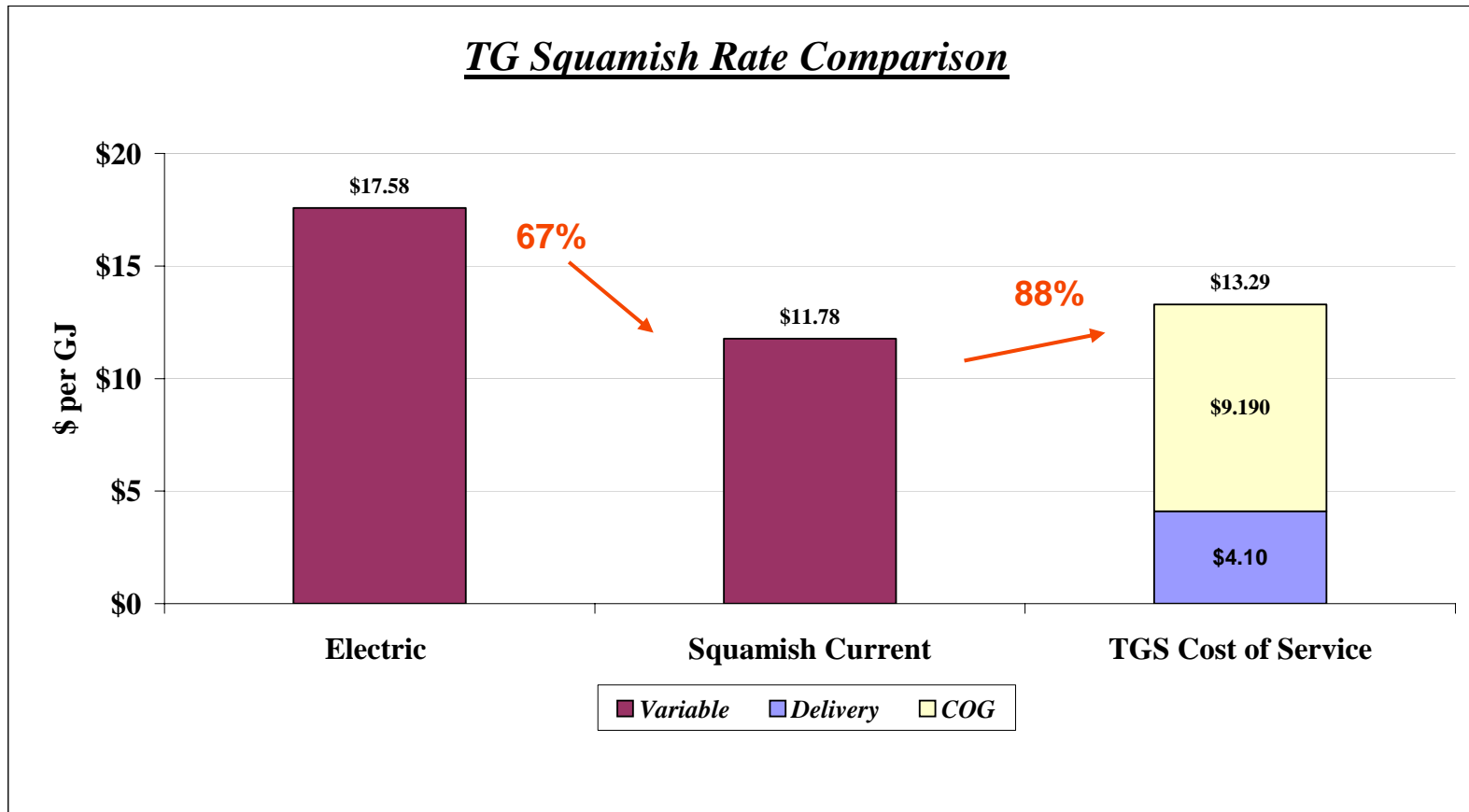
Terasen Gas (Squamish) Inc. Historical Agreements/Approvals



Terasen Gas (Squamish) Inc. Historical Agreements/Approvals



Terasen Gas (Squamish) Inc. Historical Agreements/Approvals



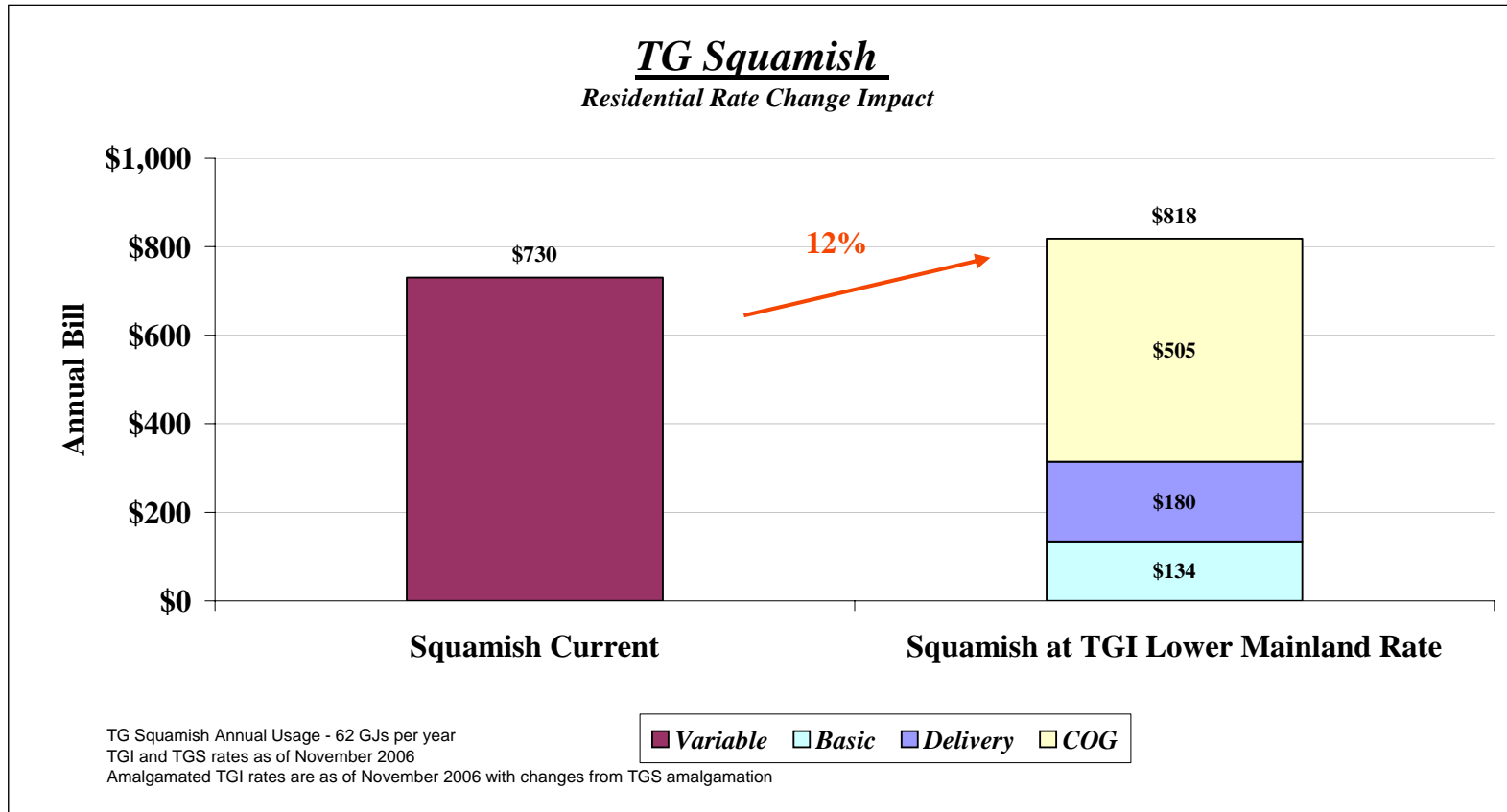
Terasen Gas (Squamish) Inc.

- Effect of Agreements
 - Regulatory Model Broken
 - Customers are not paying their Cost of Service
 - TGS unable to add economic customers
 - Development and growth restricted in greater Squamish area

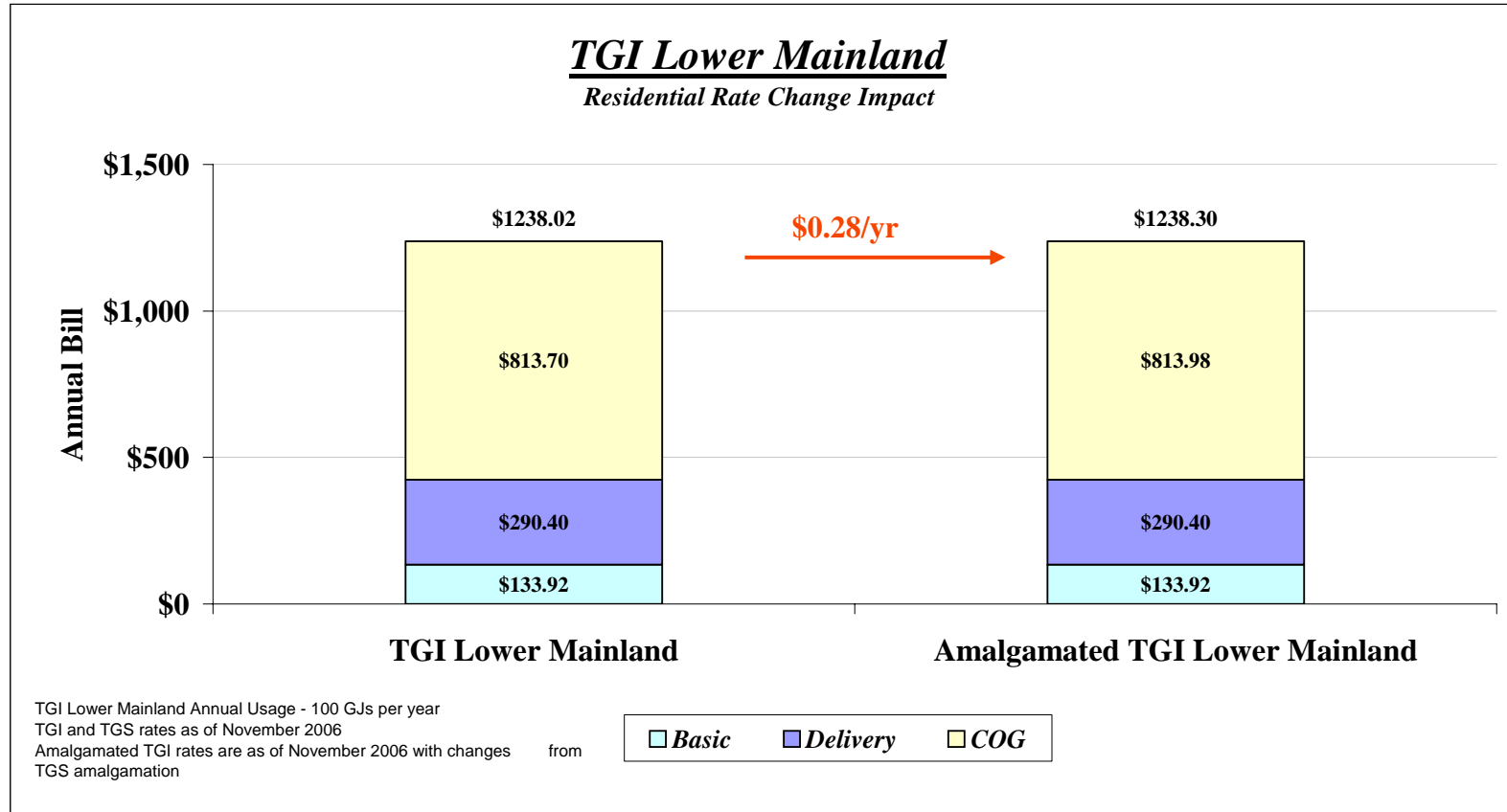
Squamish Termination Agreement

- Negotiations with Province to Change Regulatory Model
 - Termination Agreement
 - Payment to Province – net of TGS and Province liabilities
 - Terminate RSA and RSFCA
 - Terminate MX Obligations
 - Amend Transport Service Agreement - \$1.05 toll
 - Special Directions and Regulation
- TGS and TGI to amalgamate – TGS customers to be treated as TGI lower mainland customers

Squamish Customer Rate Impact



Terasen Gas Customer Rate Impact



Amalgamated TGI

■ Effect of Amalgamation

- Regulation of customers in TGS the same as TGI
- TGI Main Extension Test to be used, therefore able to add economic customers, quickly and efficiently
- TGS customers have access to all TGI programs such as Energy Efficiency, Commodity Unbundling

Reviews and Approvals

- Compliance
 - Rate Base Deferral Account
 - as part of the TGI Annual Review
 - Amendment to TGS/TGVI Transport Service Agreement
 - fixing of tolls and amending term
 - TGI Tariff Changes
 - addition of Squamish to Lower Mainland Service Area
- Approval
 - Cancellation of TGS Tariff
 - Cancellation of TGI Tariff Supplement I-3

2007 Forecast

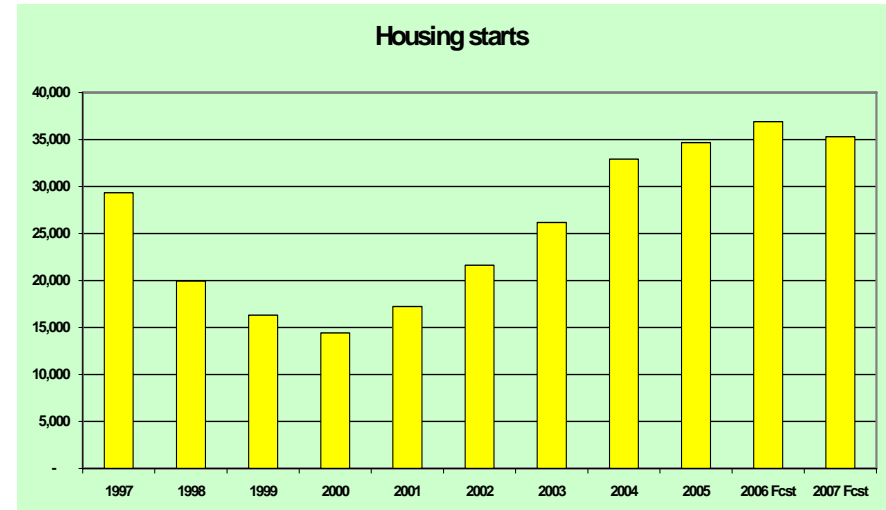
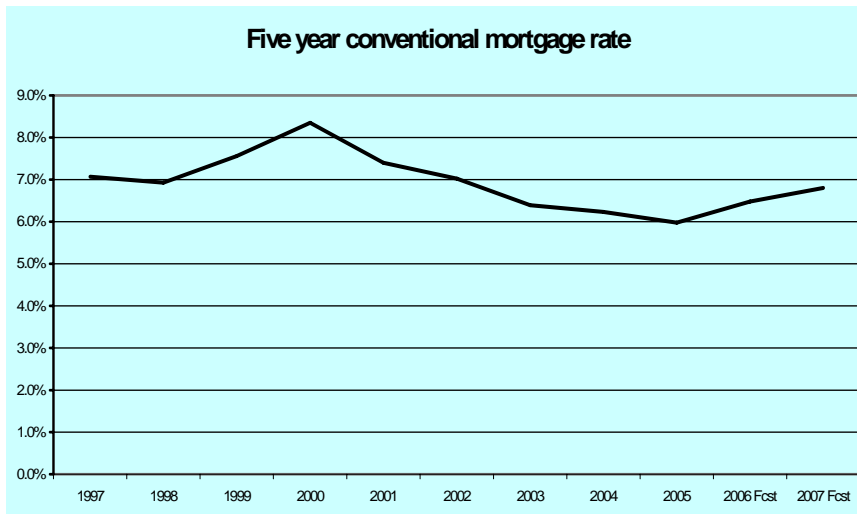
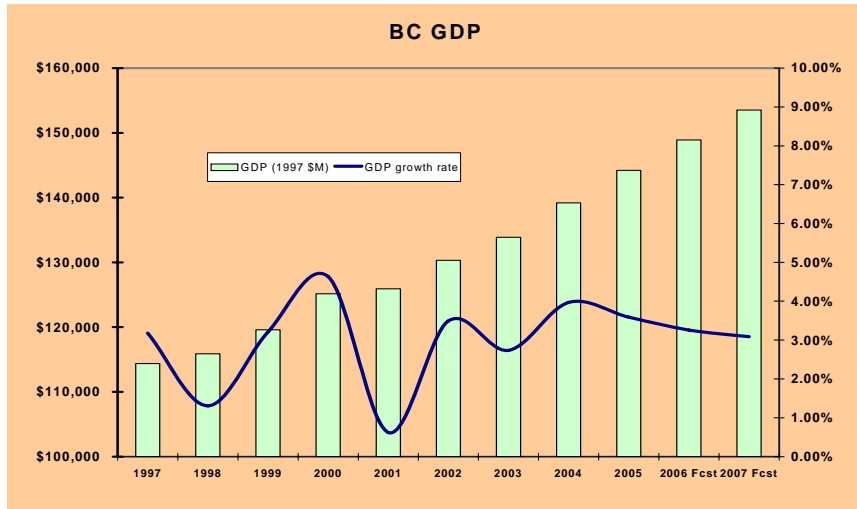
Customers, Volumes and Margin

Greg Caza

Outline

- The Economic Fundamentals
 - BC Economy
 - New Housing Outlook
- Customer Additions
 - Key Drivers
 - 2006 Projection & 2007 Forecast
- Use Rates
- Industrial Volumes & Margin
- Forecast Risks

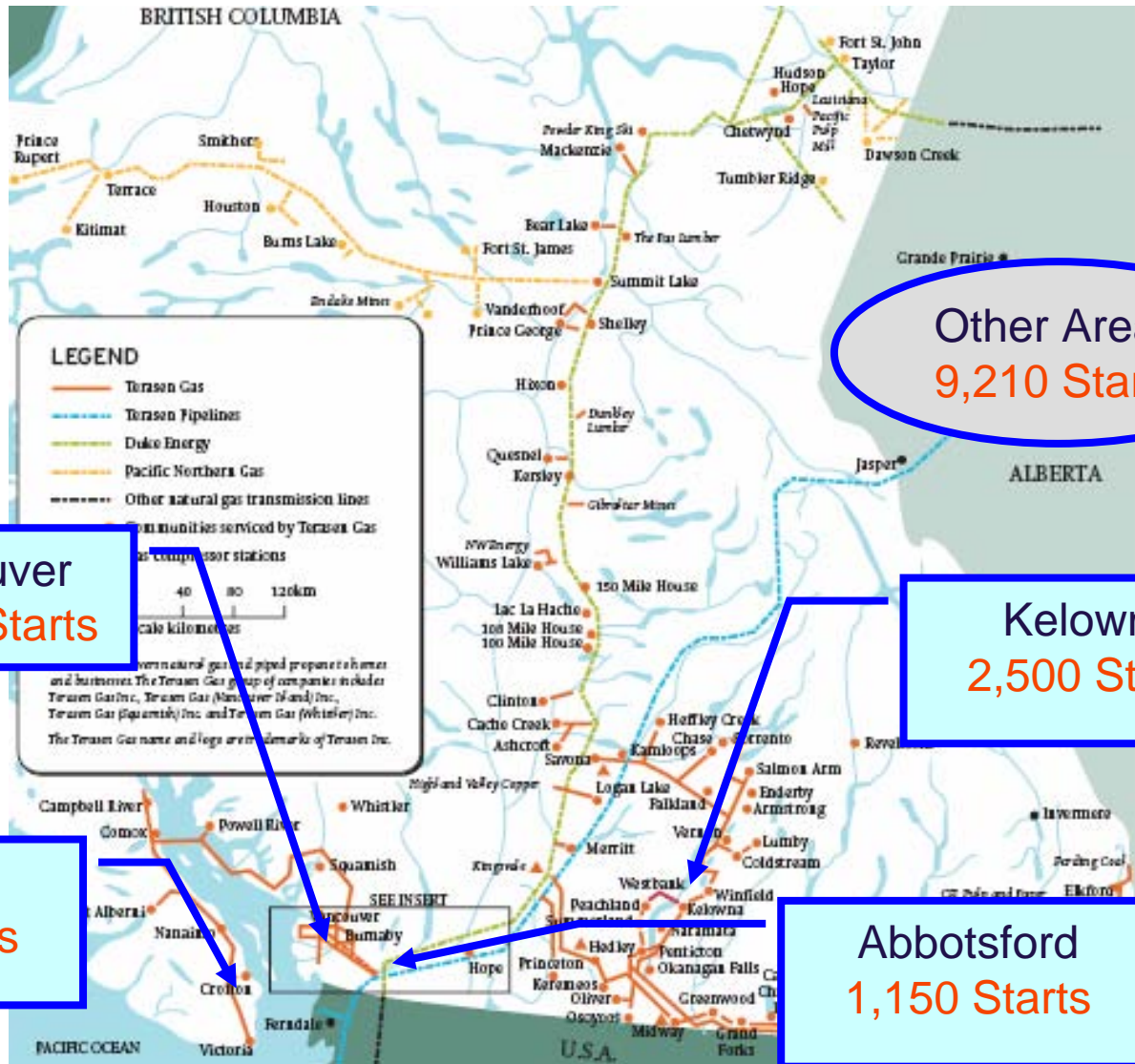
The BC Economy



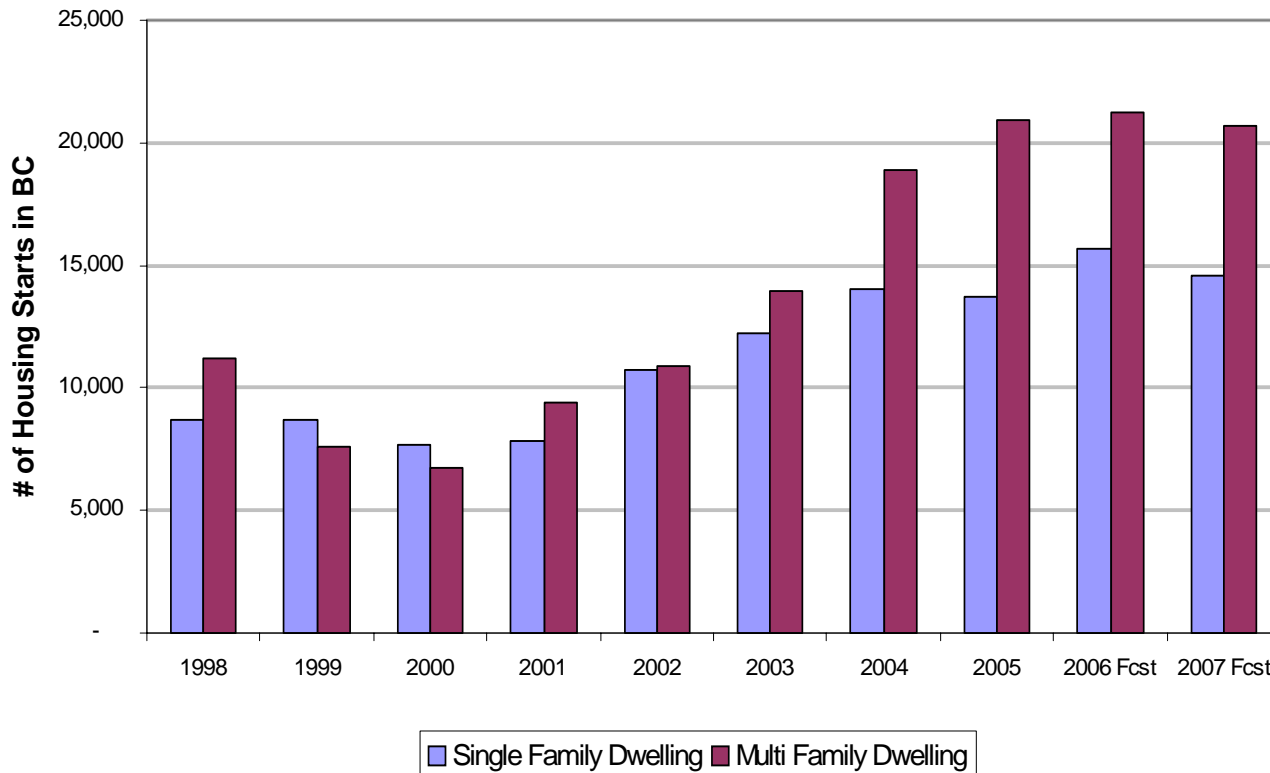
2007 CMHC Housing Starts Forecast

TOTAL
35,300

4% decrease
from 2006



Housing Types



- Small reduction in housing starts in 2007
- MFD market share may start to stabilize, but remain high
- Housing affordability becoming an issue
- Developers facing challenges
 - Land availability
 - Labour
 - Construction costs

MFDs (% of Total Starts)

2005 = 60% 2006 = 57% 2007 = 59%

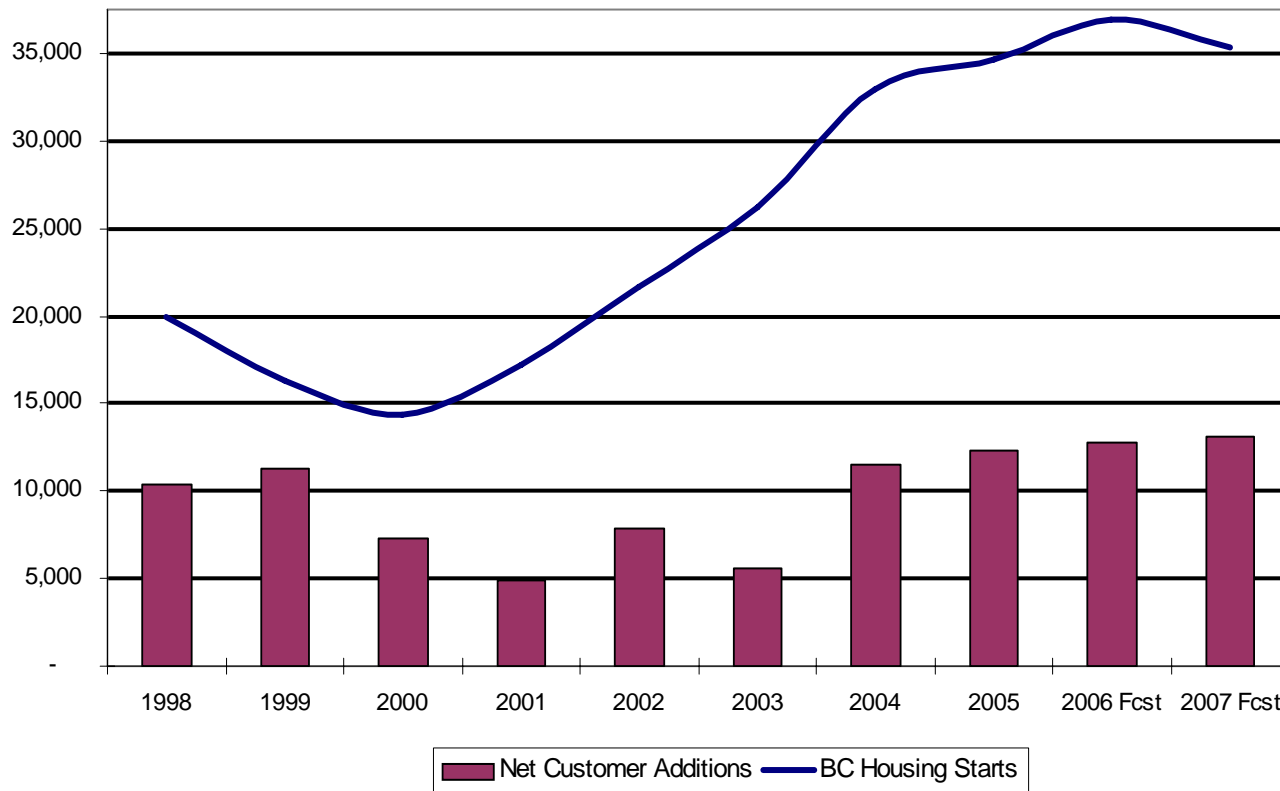
CMHC Forecast History – BC Housing Starts

| Forecast | 2004 | 2005 | 2006 | 2007 |
|----------|---------------|---------------|---------------|---------------|
| Feb-03 | 24,000 | | | |
| Aug-03 | 24,600 | | | |
| Nov-03 | 27,000 | | | |
| Feb-04 | | 27,000 | | |
| May-04 | 30,000 | 30,700 | | |
| Aug-04 | 31,700 | 32,400 | | |
| Feb-05 | 32,925 | 33,600 | 31,100 | |
| May-05 | | | 31,600 | |
| Feb-06 | | 34,667 | 32,600 | 31,300 |
| May-06 | | | 37,000 | 34,900 |
| Nov-06 | | | 36,900 | 35,300 |

- Housing forecasts are subject to frequent and significant revisions in changing markets
- Variance between initial forecast and final actuals
 - 2004 = +37%
 - 2005 = +28%

| | |
|--|----------------------|
| | Initial Forecast |
| | Last Forecast Update |
| | Final Actuals |

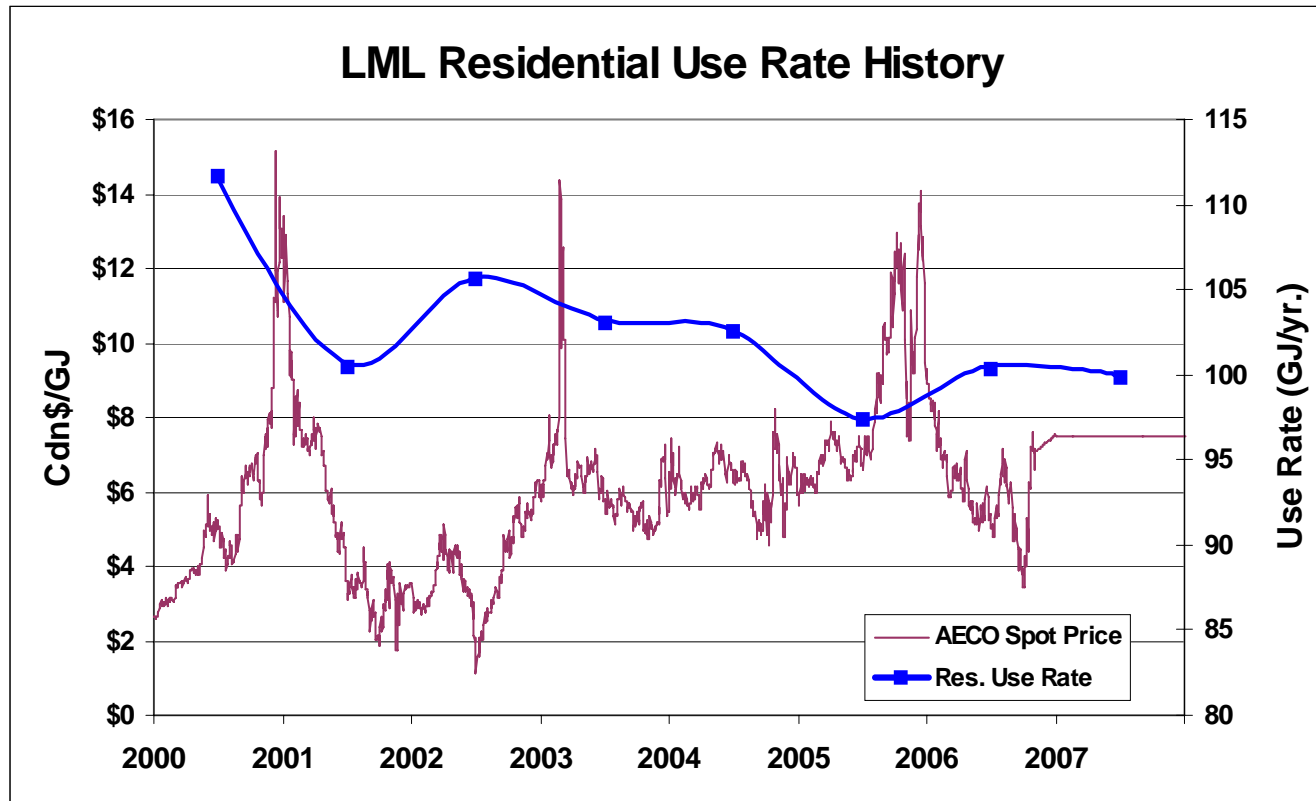
TGI Customer Additions Forecast



- **2007 account additions expected to resemble 2006 results**
- **Additions slightly higher in 2007 as some 2006 starts won't be ready for nat. gas service until 2007**

2006 Projected = 12,726
2007 Forecast = 13,145

Residential Use Rates



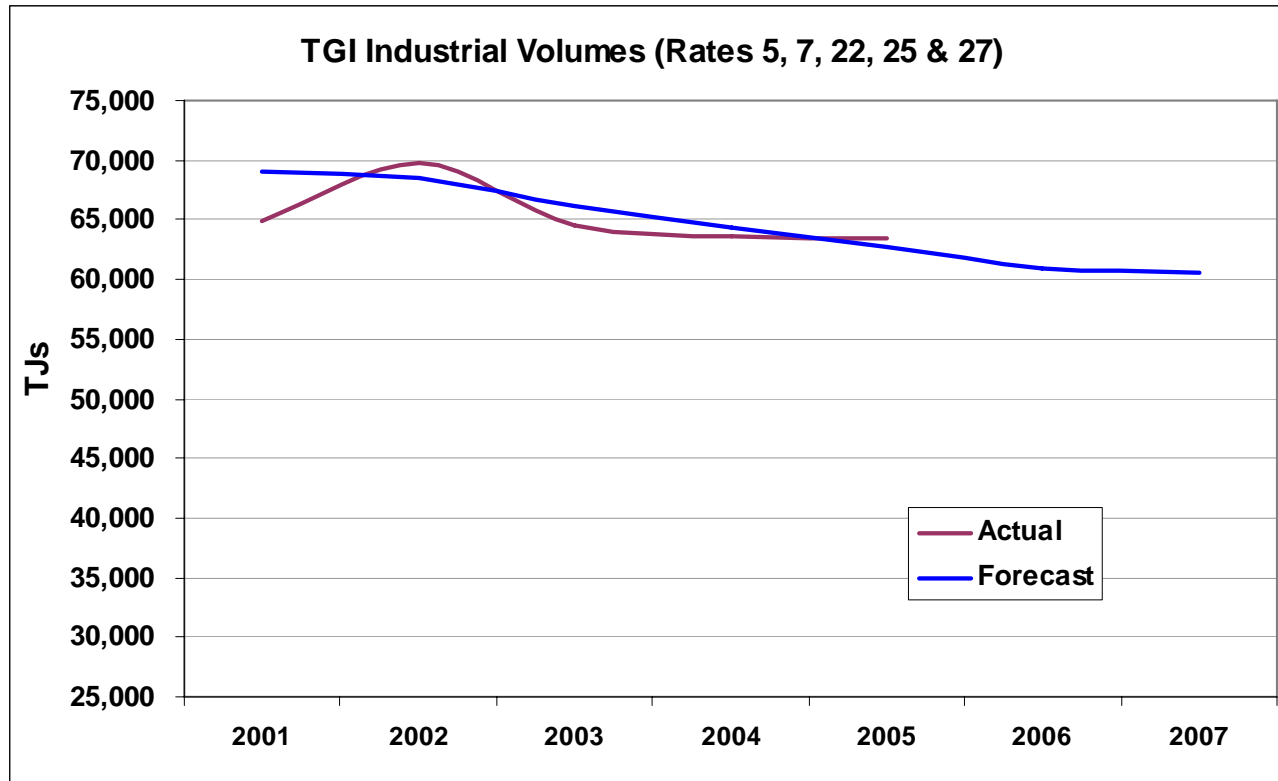
- Partial rebound foreseen in 2006 after 2005 price shock
- Commodity costs stabilizing but remaining high
- Decreasing use rate trend continues
 - Improved appliance efficiency
 - Improved home insulation
 - More MFDs & smaller homes
 - Electric space heater use

Industrial & Transportation Rates Forecasting Methodology



- Industrial & Transportation forecast is determined from direct customer feedback
- Customer survey for Rates 7, 22, 25, & 27
- Forecast derived from survey responses & most recent 12 month of actual demand where no response received
 - 775 customers surveyed
 - 353 responded, or 46% (48% in 2005)
 - Respondents responsible for 71% of volume (70% in 2005)
 - All responses with a +/- 15% change in volume from expected volume were validated via follow-up calls

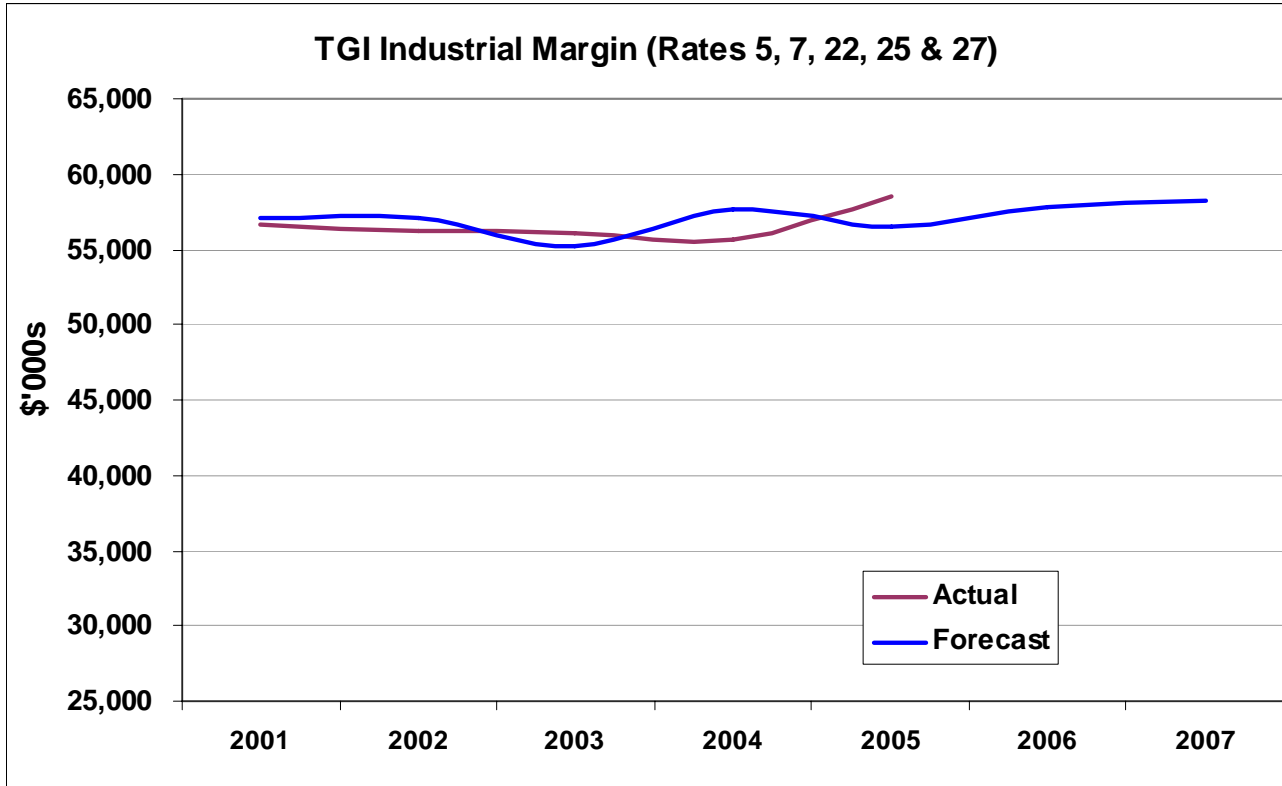
Industrial Volume



- **Impact of 2005 commodity price is dissipating**
 - Fuel switching and efficiency improvements are still ongoing, but not at the same rate as 2005
- **Majority of volume decrease in 2007 attributable to mill closures**

2007 volumes to remain relatively stable ~ -0.7% from 2006 Projected

Industrial Margin



- Slight increase in margin for 2007 in spite of volume decrease
- Result of growth in Rate 25 and decrease in Rates 22 & 27

2007 margins to remain relatively stable ~ +0.7% from 2006 Projected

Forecast Risks

- Housing affordability
 - Increasing prices
 - Increasing interest rates
- Slow down in new construction
 - Labour shortage
 - Construction costs
 - Land availability
- Economic factors
 - Stronger Canadian dollar & decreased competitiveness in export market – i.e. forest industry
- Competitiveness of natural gas
 - Increase in commodity costs
 - Competitive position with regards to other energy sources

2007 PBR Cost Drivers

Raakel Iskanius

2007 Revenue Requirements

Cost Drivers

| | 2006 Projected | 2007 Forecast | Impact on Formulas |
|--------------------------------|-------------------|------------------|----------------------------------|
| Customer Additions | 12,726 | 13,385 | Customer addition driven capital |
| Customers - End of Year | 812,091 | 828,700 | Customer addition driven capital |
| Average Customer | 803,686 | 820,347 | O&M and Other base capital |
| Change in Average Customers | 12,093 | 13,587 | O&M |
| Customer Growth Percentage | 1.53% | 1.69% | O&M |
| B.C. Inflation (CPI) | | 2.00% | O&M and Capital |
| Adjustment Factor - 66% of CPI | | 1.32% | O&M and Capital |

2007 Revenue Requirements

Formula Based Capital Expenditures



CUSTOMER ADDITION DRIVEN CAPITAL EXPENDITURES

| | |
|---------------------------------------------------------------------|------------|
| Customer Addition Driven Capital Expenditures Per Customer Addition | \$2,162.50 |
| Number of Customers Additions | 13,385 |
| Target Customer Addition Driven Capital Expenditures (\$000) | \$28,945 |

OTHER BASE CAPITAL EXPENDITURES

| | |
|------------------------------------------------|----------|
| Other Base Capital Expenditures Per Customer | \$88.53 |
| Average Number of Customers | 820,347 |
| Target Other Base Capital Expenditures (\$000) | \$72,625 |

| | | |
|------------------------------------------------------------------|---|-------------------------|
| Total Base Capital Additions excluding Forecast CPCN Addition | = | <u><u>\$101,570</u></u> |
|------------------------------------------------------------------|---|-------------------------|

2007 Revenue Requirements Capital Plant Additions (\$000)



| | 2006 <u>Adjusted</u> | 2007 <u>Forecast</u> |
|------------------------------------------------------|-------------------------|-------------------------|
| Base Capital Expenditures | \$98,002 | \$101,570 |
| Add - WIP Changes | (292) | (375) |
| Add - AFUDC | 959 | 987 |
| Add - Overhead Capitalized | <u>27,243</u> | <u>27,535</u> |
| Total Base Capital Additions to Gas Plant in Service | <u>\$125,912</u> | <u>\$129,717</u> |
| CPCN Additions to Opening Gas Plant in Service | <u>4,336</u> | <u>8,137</u> |
| Total Plant Additions | <u><u>\$130,248</u></u> | <u><u>\$137,854</u></u> |

2007 Revenue Requirements

Utility Rate Base (\$000)



| | <u>2006 Approved</u> | <u>2007 Forecast</u> |
|----------------------------------------|--------------------------|--------------------------|
| Net Plant in Service, Mid-Year | \$2,318 | \$2,356 |
| Gas in Storage | 183 | 134 |
| Unamortized Deferred Charges, Mid-Year | 13 | (8) |
| Other Rate Base Items | (8) | (8) |
| Utility Rate Base | <u>\$2,506</u> | <u>\$2,474</u> |

2007 Revenue Requirements

Formula Based O&M Expense (\$000)



| | <u>2007 Forecast</u> |
|----------------------------------------|--------------------------|
| Gross 2006 O&M | \$196,001 |
| Multiply (1 + Customer Growth) | x 101.68% |
| Multiply (1 + CPI - Adjustment Factor) | x 100.68% |
| Add Pension & Insurance Adjustment | + <u>(1,195)</u> |
| Gross 2007 Adjusted O&M | \$199,462 |
| Capitalized Overhead | (27,535) |
| Fort Nelson O&M | (639) |
| Vehicle Lease | <u>(2,016)</u> |
| Net 2007 Utility O&M | <u><u>\$169,272</u></u> |

■ Property Taxes

- Reforecast annually and defer variances
- 2007 forecast of \$44.5 million (\$3.1 million over 2006 Approved)

■ Depreciation and Amortization

- Based on approved depreciation rates and amortization periods

■ Other Operating Revenues

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

■ Income Taxes

- Eliminated LCT in 2006; no provision for LCT expense in 2007
- 2007 corporate income tax rate is set at 33.0%

■ Debt & Interest Rates

- Unfunded debt rate is set at 4.75% based on current outlook for short-term rates
- Issued \$120 million long-term on September 25, 2006 at 5.55% coupon rate

■ Return on Equity and Capital Structure

- 8.80141% ROE in Annual Review advance materials
- 35.01238% Common Equity component

Provincial Sales Tax (“PST”) reassessment

- B.C. Ministry of Small Business and Revenue (“MSBR”) has assessed approximately \$36 million PST on Southern Crossing Pipeline Project for the audit period August 1, 2000 to November 30, 2005.
- MSBR’s view is that the pipe and compressors are tangible personal property and has assessed PST on services to install the pipeline on the basis that labour services to tangible personal property are taxable => Terasen Gas does not agree with reassessment

Provincial Sales Tax (“PST”) reassessment (cont’d)

- Terasen Gas is appealing on the reassessment, but will remit a \$10 million payment to prevent accrual interest.
- As PST reassessment was imposed on Terasen Gas by an outside authority over which TGI has no control, TGI seeks to collect a rate base deferral account for the \$10 million remittance along with the cost of the appeal.
- When the appeal is resolved, Terasen Gas will seek a Commission Order for the disposition of the deferral account.

2007 Revenue Requirements & Rate Outlook

Tom Loski

2007 Revenue Requirements Earning Sharing Mechanism



| <u>2006 Projected ESM</u> | <u>(\$ Millions)</u> |
|-------------------------------------------------------|----------------------|
| After Tax 2006 Incentive Earnings ⁽¹⁾ | <u>\$11.0</u> |
| 50:50 Sharing with Customers (Net-of-Tax) | <u>\$5.5</u> |
| Customers' Share of Pre-Tax Surplus | \$8.2 |
| 2005 ESM True-Up Incentive (Pre-Tax) | <u>4.5</u> |
| Total Earnings Sharing to be distributed to customers | <u>\$12.7</u> |

Note (1): 2006 Annual Review and Mid-Term Assessment Review, Section A, Tab 10, Page 6, Line 12

2007 Revenue Requirements

Summary of 2007 Rate Decrease



| | <u>(\$ Millions)</u> | |
|---------------------------------------------|----------------------|------------------------|
| Reasons for Decrease | | |
| Customer growth | (\$2.1) | |
| Change in Pension and Insurance forecast | (2.7) | |
| Elimination of Large Corporations Tax | (4.7) | |
| Higher Income Tax Deductions | (1.0) | |
| Lower Rate Base | (3.3) | |
| TGS Revenue Decrease | <u>(0.1)</u> | |
| | | (\$13.9) |
| Offsetting Increase | | |
| Higher O&M per Formula | 4.2 | |
| Higher Property Taxes | 3.0 | |
| Higher Interest Expense | 2.0 | |
| Higher Depreciation and Amortization | <u>0.6</u> | |
| | | 9.8 |
| Earnings Sharing | | <u>(12.7)</u> |
| Net Revenue Decrease After Earnings Sharing | | <u><u>(\$16.8)</u></u> |

2007 Revenue Requirements RSAM Update



| | (\$ Millions) |
|-----------------------------------------------|----------------------|
| RSAM balance at January 1, 2006 | \$39.1 |
| 2006 Projected RSAM Activity | |
| New RSAM Additions | \$8.0 |
| RSAM Rider Recovery | <u>(12.6)</u> |
| RSAM balance decrease (after tax) | <u>(4.6)</u> |
| RSAM balance at December 31, 2006 (after tax) | <u><u>\$34.5</u></u> |

- For the 9 months ended September 30, 2006, weather in the Terasen Gas service territory has been 6% warmer than normal.
- 2006 RSAM rider of \$0.166/GJ is projected to decrease by \$0.020/GJ (pre-tax) to \$0.146/GJ in 2007, based on 3-year amortization for a pre-tax 2007 total rider of \$17.2 million.

2007 Revenue Requirements

Customer Bill Impact (Lower Mainland)



| LOWER MAINLAND Customers | Proposed Decrease | | 2007 Delivery Margin | | |
|-----------------------------------------------|--------------------|----------------|--------------------------|-----------------|-----------------------------------------|
| | Delivery Margin | ESM Rider 3 | ROE shortfall Rider 2 | RSAM Rider 5 | Related Charges % Decrease over 2006 |
| Rate Schedule 1 - Residential Service | -0.82% | -1.09% | -0.24% | -0.51% | -2.66% |
| Rate Schedule 2 -Small Commercial Service | -0.82% | -1.03% | -0.24% | -0.62% | -2.71% |
| Rate Schedule 3 - Large Commercial Service | -0.80% | -1.08% | -0.19% | -0.81% | -2.88% |
| Rate Schedule 4 - Seasonal Service | -0.90% | -1.03% | 0.00% | n/a | -1.93% |
| Rate Schedule 5 -General Firm Service | -0.88% | -0.93% | -0.14% | n/a | -1.95% |
| Rate Schedule 6 - NGV Stations | -0.83% | -1.19% | -0.12% | n/a | -2.14% |

2007 Revenue Requirements

Customer Bill Impact (Lower Mainland)



| LOWER MAINLAND Customers | Proposed Decrease | | ROE shortfall Rider 2 | RSAM Rider 5 | 2007 Delivery Margin Related Charges % Decrease over 2006 |
|--------------------------------------------------|--------------------|----------------|--------------------------|-----------------|-----------------------------------------------------------------|
| | Delivery Margin | ESM Rider 3 | | | |
| Rate Schedule 7 - Interruptible Sales | -0.86% | -0.99% | -0.15% | n/a | -2.00% |
| Rate Schedule 22 - Large Industrial T-Service | -0.88% | -1.18% | -0.26% | n/a | -2.32% |
| Rate Schedule 23 - Large Commercial T-Service | -0.84% | -1.07% | -0.19% | -0.80% | -2.90% |
| Rate Schedule 25 - General Firm T-Service | -0.89% | -1.13% | -0.17% | n/a | -2.19% |
| Rate Schedule 27 - Interruptible T-Service | -0.87% | -1.17% | -0.18% | n/a | -2.22% |

Customer Care & Service Quality Indicators

Danielle Wensink

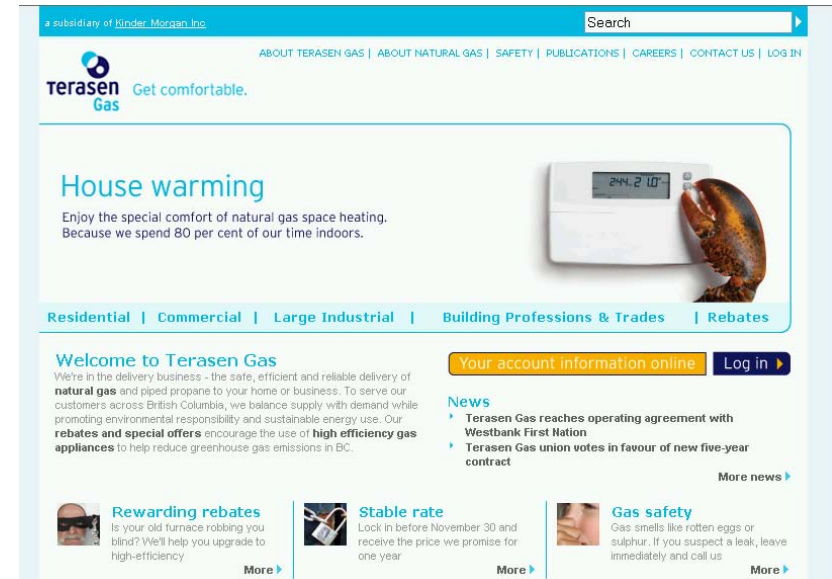
Customer Care Overview

- Contact points for current and future customers
 - Call centres
 - Correspondence
- Meter to cash process management
 - Meter reading
 - Billing
 - Credit and collections



Customer Care Initiatives

- Call centre satisfaction tracking
- Winter preparedness training
- Customer communications



- Customer attachment experience improvements
- Web site enhancements

Service Quality Indicators

| Performance Indicator | | 2004 Actuals | 2005 Actuals | 2006 YTD (Q3) Actuals | 2006 Target |
|-----------------------|------------------------------------------------------------------------------------------|------------------|------------------|--------------------------|------------------------------|
| 1 | Emergency Response Time - Time Dispatched to Site - Emergency - Blowing Gas | 21:36 minutes | 21:42 minutes | 21:18 minutes | <21:06 minutes |
| 2 | Speed of Answer – Emergency (% of calls answered within 30 sec.) | 97.9% | 98.8% | 98.9% | >95% |
| 3 | Speed of Answer – Non- Emergency (% of calls answered within 30 sec.) | 77.5% | 76.9% | 78.1% | >75% |
| 4 | Transmission Reportable Incidents | 3 | 3 | 1 | ≤2 |
| 5(a) | Index of Customer Bills Not Meeting Criteria | 1.93 | 1.97 | 0.67 | < 5 |
| 5(b) | Percent of Transportation Customer Bills Accurate | 96.6% | 99.9% | 99.9% | >99.5% |

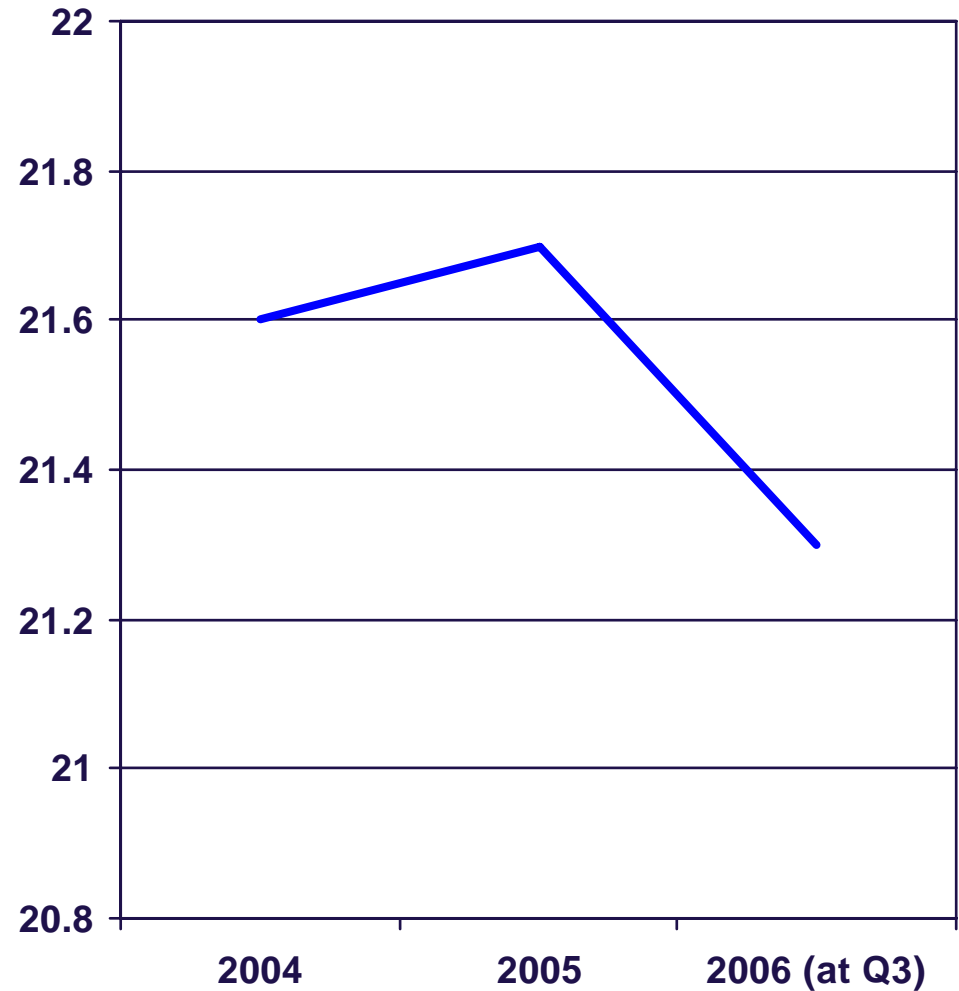
Service Quality Indicators (cont'd)

| Performance Indicator | | 2004 Actuals | 2005 Actuals | 2006 YTD (Q3) Actuals | 2006 Target |
|-----------------------|-----------------------------------------------------|--------------|--------------|-----------------------|-------------|
| 6 | Meter Exchange Appointment Activity | 93.5% | 94.3% | 94.2% | >92.2% |
| 7 | Transportation Meter Measurement First Report < 10% | 98.0% | 99.5% | 99.3% | >90.0% |
| 8 | Independent Customer Satisfaction Survey | 75.3% | 77.2% | 77.3% | n/a |
| 9 | Number of Customer Complaints to BCUC | 191 | 121 | 120 | n/a |
| 10 | Number of Prior Period Adjustments | 18 | 14 | 15 | n/a |

| Directional Indicators | | | | |
|------------------------|-----------------------------------------------------|-----------------------|-----------------------|----------------------|
| 1 | Leaks per Kilometre of Distribution Mains | 0.0045 (150 leaks) | 0.0034 (120 leaks) | 0.0018 (63 leaks) |
| 2 | Number of Third Party Distribution System Incidents | 1,492 | 1,457 | 1,210 |

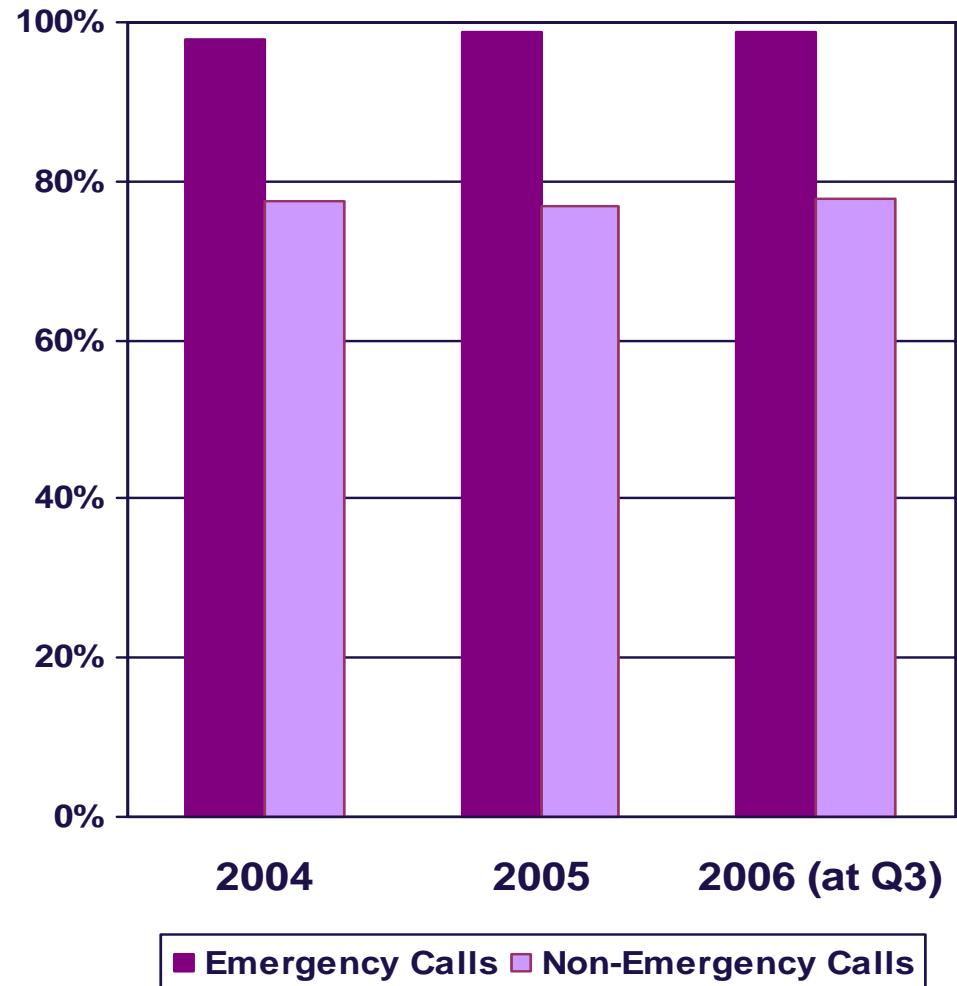
Emergency Response Time

- Time from dispatch to site arrival for pulled main / blowing gas
- Target: 21.1 minutes
- YTD (Q3 2006) result: 21.3 minutes
 - 12s over target
- 2006 year end result:
 - Anticipated at or near target

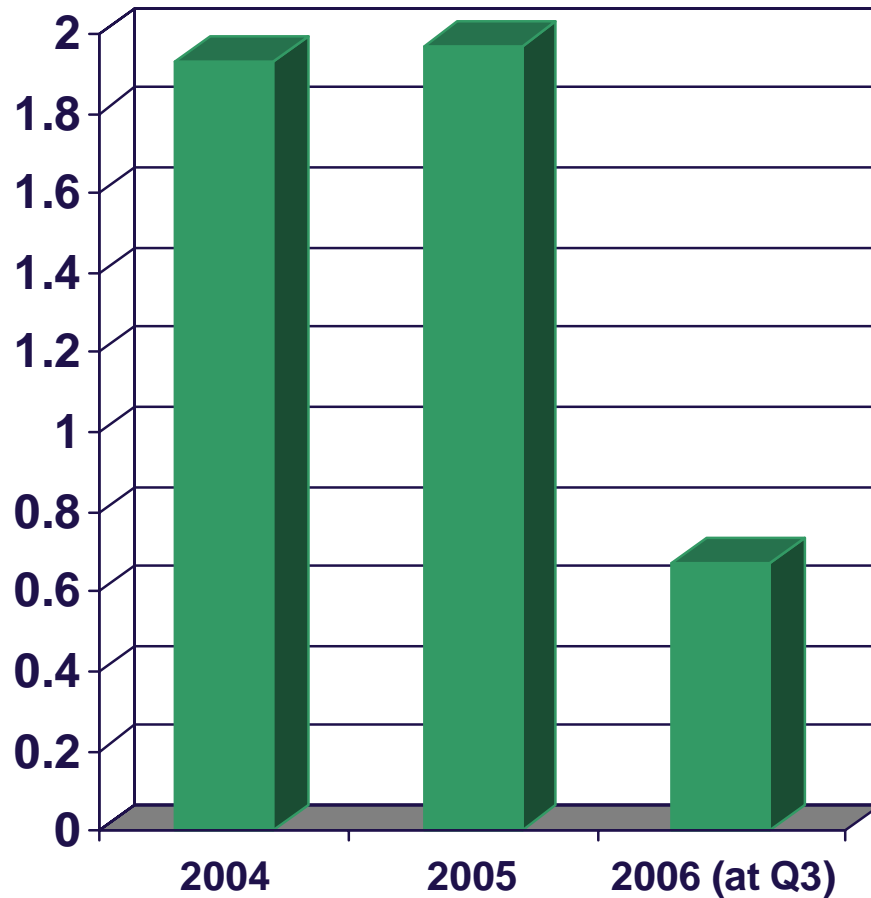


Speed of Answer - % within 30 seconds

- Live response by a Terasen Gas representative
- Performance continues above target:
 - Emergency >95%
 - Non-emergency >75%

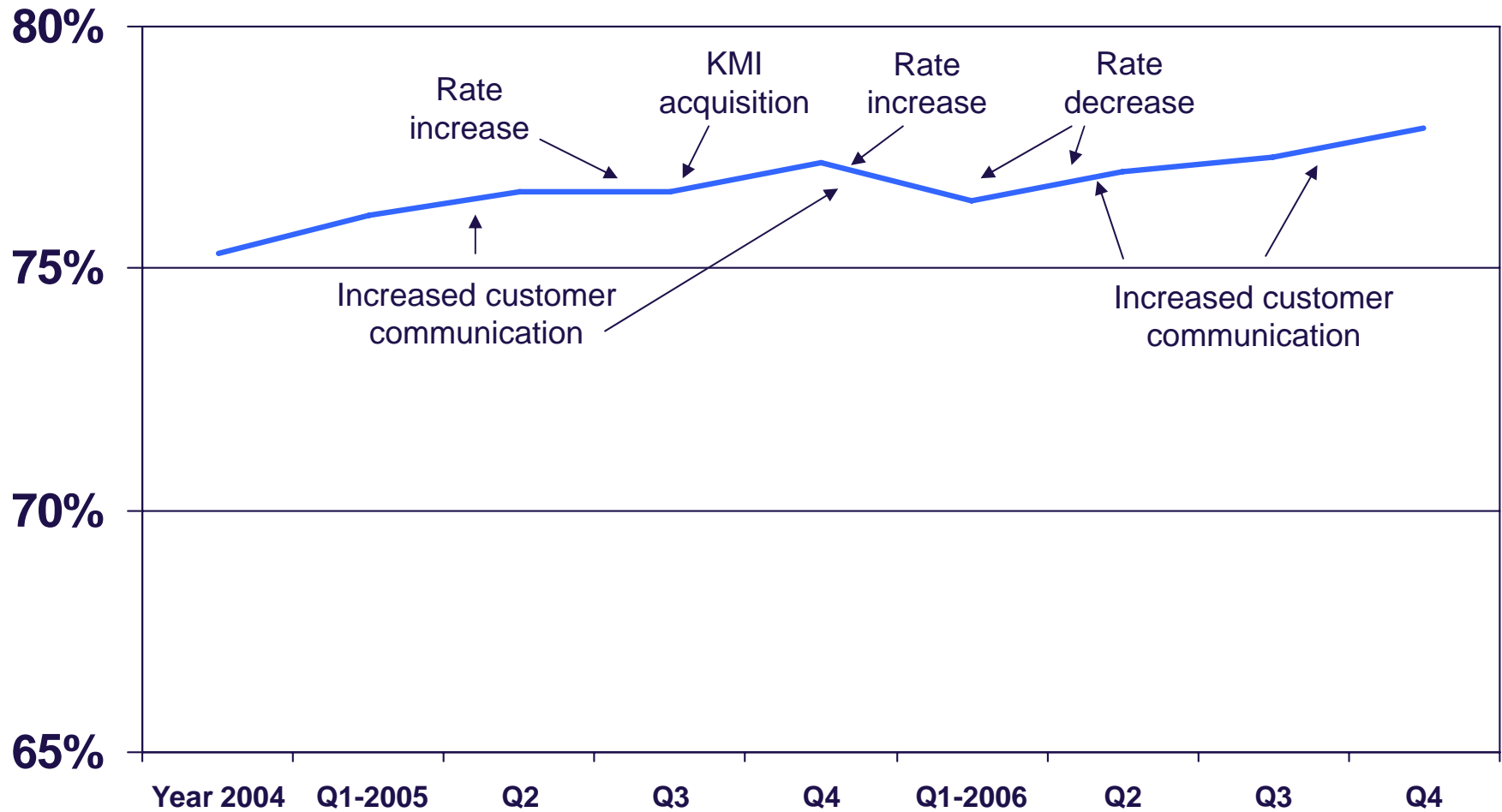


Billing Activity Index

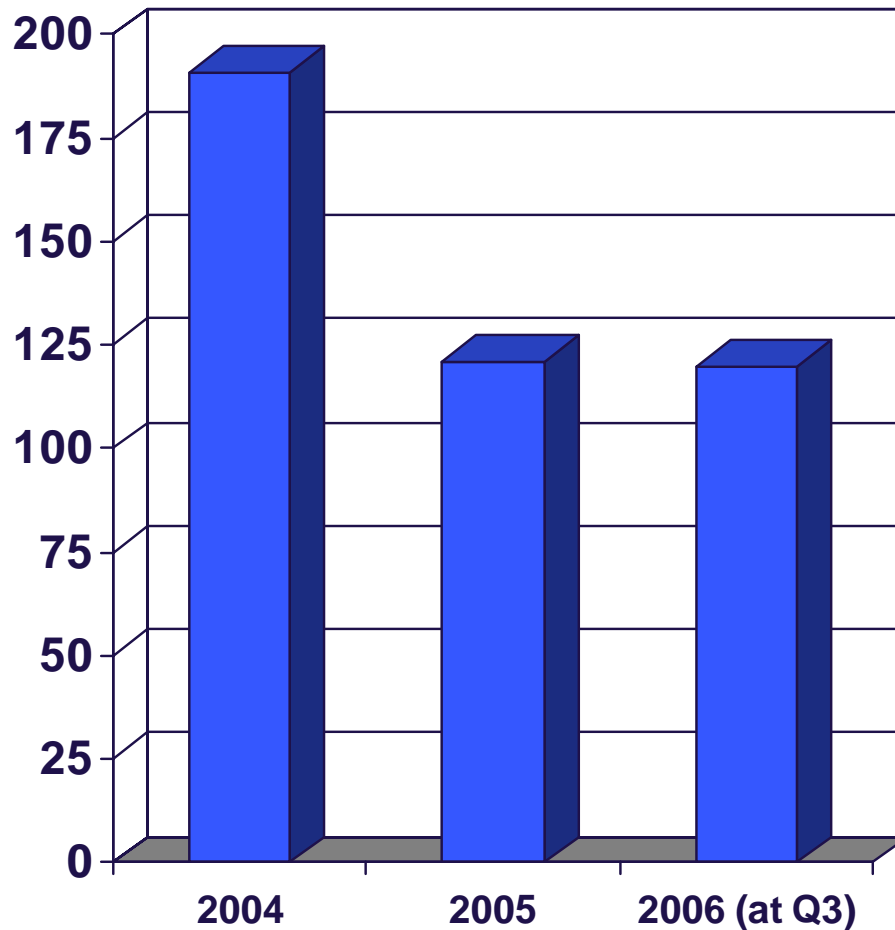


- Composite indicator combining:
 - Billing accuracy
 - Timeliness
 - Completion
- Target index ≤ 5

Customer Satisfaction Survey



Complaints to BCUC



- Increase over 2005
 - Higher Q1 and Q2 volumes
 - Q3 volumes returned to typical level

Five Year Major Capital Plan

Shane Hiebert

Background

Capital categorized into two categories and six types:

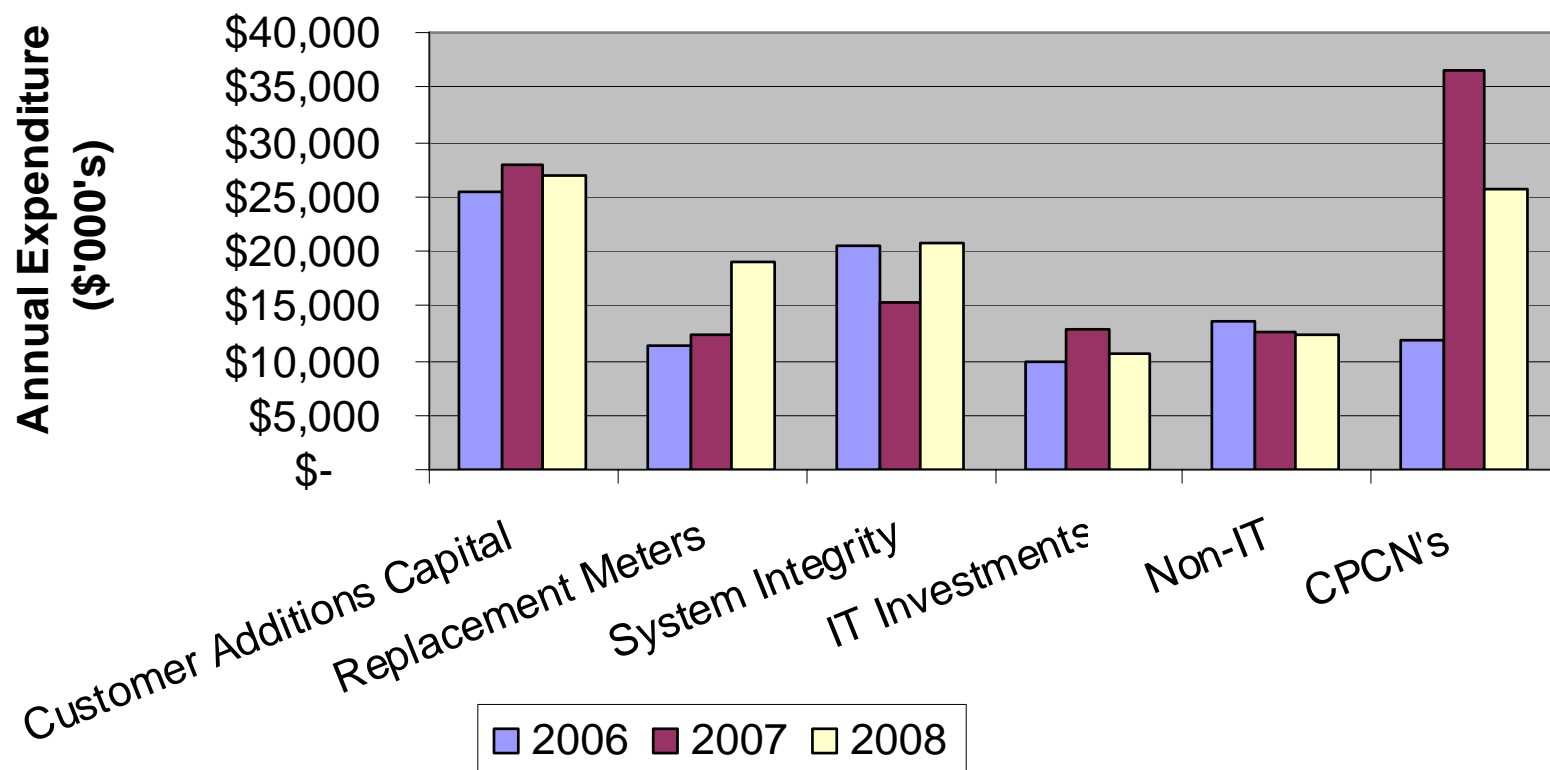
Regular Capital

- 1) Capital expenditures necessary to attach new customers (Mains, Services, & new Meters)
- 2) Replacement meters & regulators for existing customers
- 3) Capital expenditures allocated to maintain system integrity and reliability (Transmission and Distribution)
- 4) Capital expenditures for IT Investments
- 5) Capital expenditures for Non-IT
 - System renewals, alterations, tools, equipment & other

6) CPCN Projects

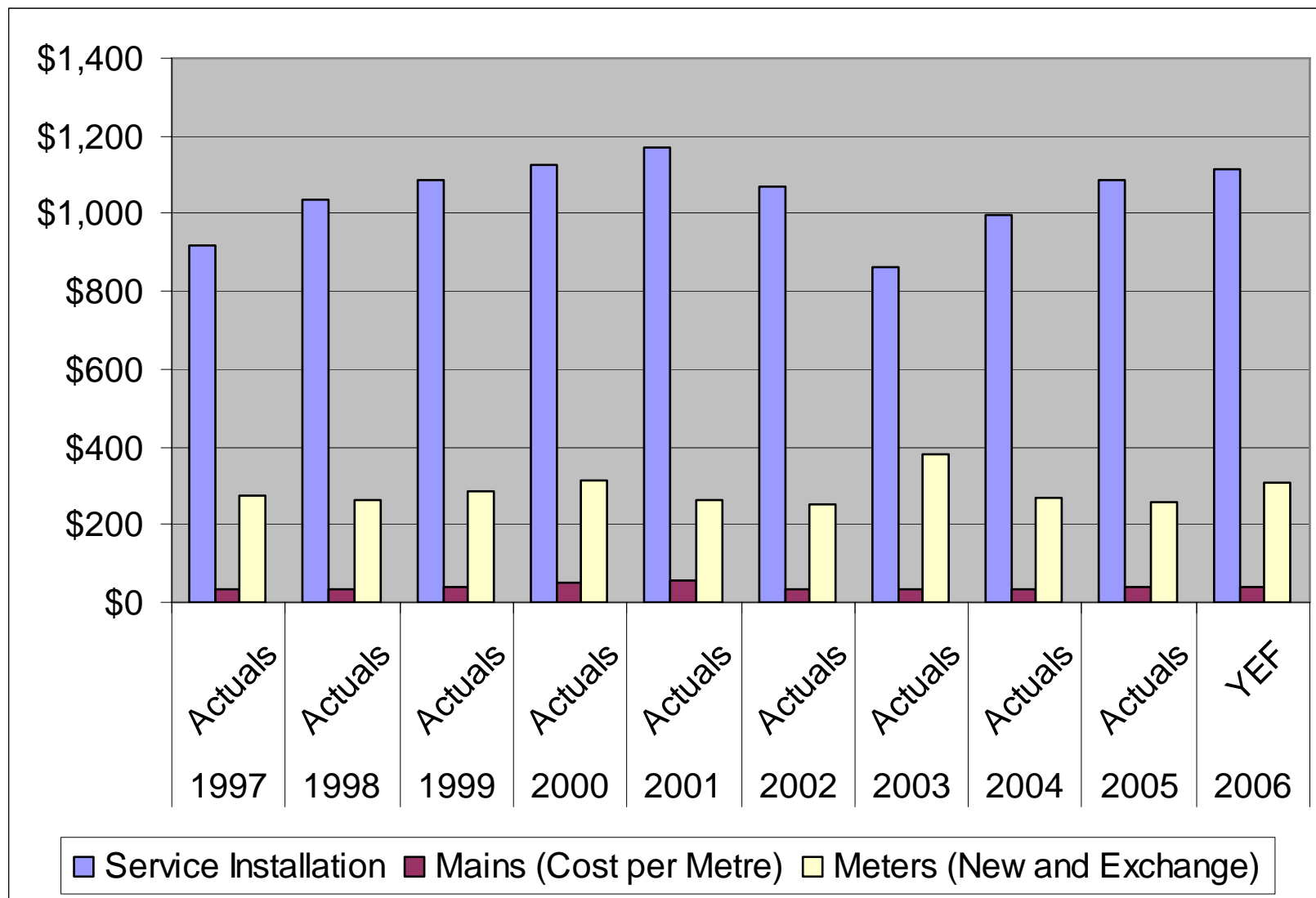
- Projects over \$5 million
- Approved individually and are outside of PBR process

Regular Capital and CPCN's Forecast Expenditures (2006-2008)



Note: Capital Expenditures include expenditures for Squamish service area, representing approximately 1.0% in 2007 and 0.5% in 2008 and subsequent years.

Customer Attachment Capital Expenditures 10 Year Historical Average Unit Costs



Regular Capital 5 Year Forecast

| Regular Capital (\$millions) | 2006 Projection | 2007 Forecast | 2008 Forecast | 2009 Forecast | 2010 Forecast | 2011 Forecast |
|------------------------------------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Customer Additions Capital | \$25.5 | \$ 27.9 | \$26.9 | \$ 28.1 | \$30.2 | \$ 33.2 |
| Other Regular Capital | \$55.6 | \$52.9 | \$63.0 | \$56.2 | \$58.0 | \$59.7 |
| Total Customer Driven and Other Regular Capital | \$81.1 | \$80.8 | \$90.0 | \$84.3 | \$88.2 | \$93.0 |

Major Capital Project Expenditure Forecasts System Integrity (2006 – 2008)

| No. | Major System Integrity Projects (Transmission & Distribution) | 2006 Projection | 2007 Forecast | 2008 Forecast | Total for Period |
|-----|------------------------------------------------------------------|--------------------|------------------|------------------|---------------------|
| 1 | Prince George #2 Lateral | \$0.6M | \$1.1M | - | \$1.7M |
| 2 | Clearbrook-Riverside Road Loop (Abbotsford) | - | - | \$1.2M | \$1.2M |
| 3 | Kootenay River Crossing (Shoreacres) | \$0.1M | \$0.1M | \$3.0M | \$3.1M |
| 4 | Columbia River Crossing (Brilliant) | \$0.1M | \$0.1M | \$3.0M | \$3.1M |
| 5 | Golden Ears Bridge | - | \$0.9M | \$1.0M | \$1.9M |
| 6 | Tilbury LNG Coldbox Upgrade | \$0.1M | \$0.8M | \$2.3M | \$3.1M |
| 7 | Secondary Containment | \$2.5M | - | - | \$2.5M |
| 8 | SCADA Upgrade | - | \$0.4M | \$1.2M | \$1.6M |
| | Total | \$3.4M | \$3.2M | \$11.5M | \$18.1M |

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

Major Capital Project Expenditure Forecasts IT and Non-IT (2006 – 2008)

| | IT and Non-IT Projects (\$ millions) | 2006 Projection | 2007 Forecast | 2008 Forecast | Total for Period |
|---|-----------------------------------------------------------|--------------------|------------------|------------------|---------------------|
| 1 | Order Fulfillment Enhancement (Annual Program) | \$0.4M | \$0.5M | \$0.1M | \$1.0M |
| 2 | MobileUP Replacement | \$0.2M | \$3.6M | \$0.3M | \$4.1M |
| 3 | AM/FM GIS for Transmission | \$0.5M | | | \$0.5M |
| 4 | Café (Customer Attraction Front End) | \$0.4M | | | \$0.4M |
| 5 | SAP Core Application Upgrade | | \$0.3M | \$2.3M | \$2.5M |
| 6 | Desktop & Laptop Refresh | \$1.1M | \$0.6M | \$1.0M | \$2.7M |
| | Total Transmission & Distribution Projects | \$2.6M | \$5.0M | \$3.6M | \$11.2M |

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

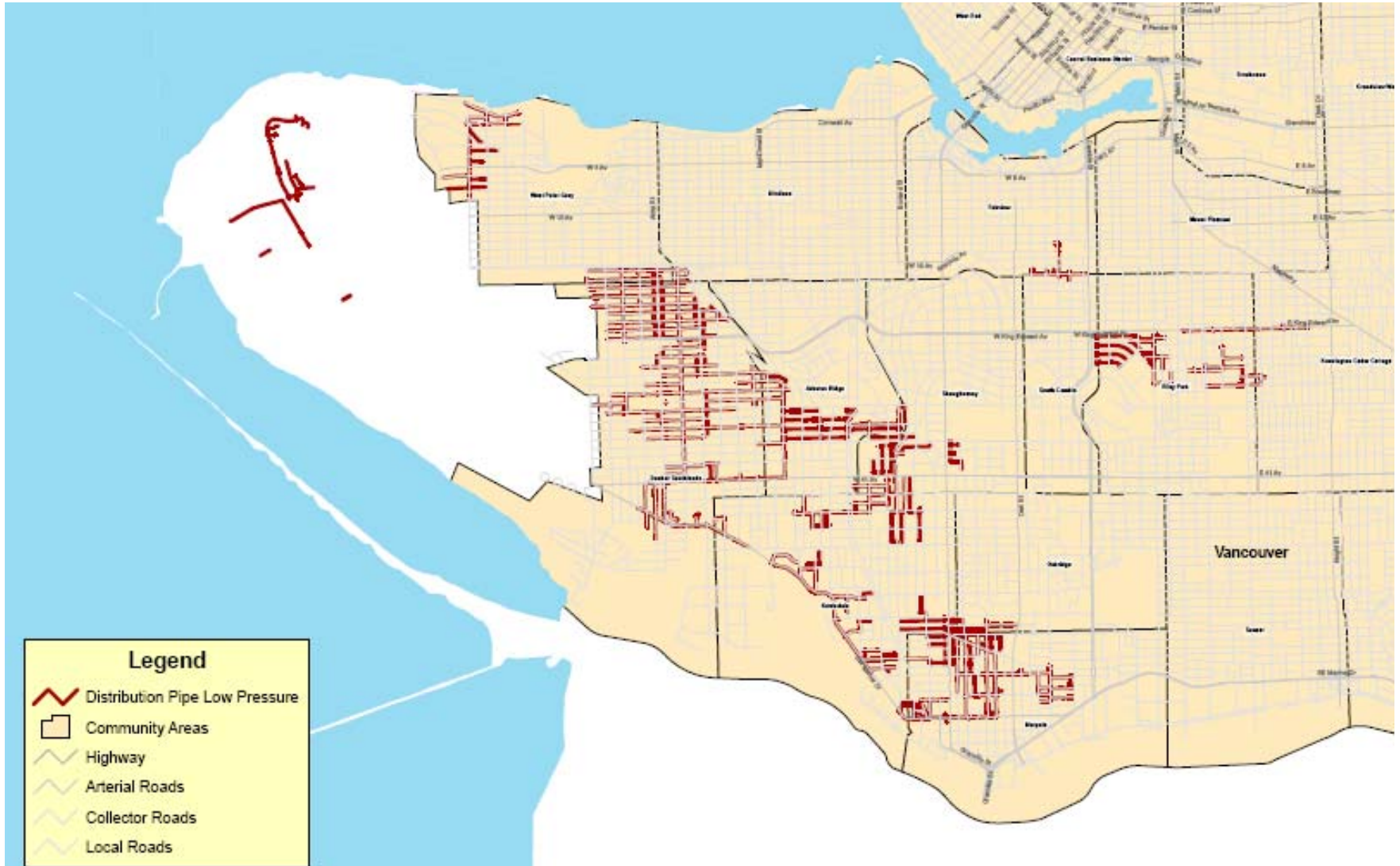
CPCN Capital Projects 2006 – 2008 Approved & Anticipated Projects



| (\$ millions) | 2006 Projection | 2007 Forecast | 2008 Forecast | Total for Period |
|-----------------------------------------------------|--------------------|------------------|------------------|---------------------|
| <u>Approved CPCN's</u> | | | | |
| Vancouver Low Pressure Replacement | \$5.7M | \$8.7M | \$8.7M | \$23.1M |
| Residential Unbundling | \$5.1M | \$7.1M | | \$12.2M |
| <u>Current and Potential CPCN's</u> | | | | |
| Mission IP Pipeline System Upgrade | \$0.9M | \$7.3M | \$0.1M | \$8.4M |
| Gateway Project | \$0.2M | \$11.9M | \$9.3M | \$21.4M |
| Fraser River (South Bank South Arm) Rehabilitation | | \$1.5M | \$7.5M | \$9.0M |
| Total Approved, Current and Potential CPCN's | \$12.0M | \$36.5M | \$25.6M | \$74.1M |

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

Approved CPCN's Vancouver Low Pressure Replacement Project



Approved CPCN's Vancouver Low Pressure Replacement Project



Approved CPCN's Vancouver Low Pressure Replacement Project



Approved CPCN's Residential Unbundling Program



The advertisement is a vertical rectangular card. At the top right is the Terasen Gas logo. Below it is a blue horizontal bar with the text "CUSTOMER CHOICE" in white. Underneath the bar is the text "Natural gas pricing. Your say. Your way." in a small, black, sans-serif font. The main headline "Everyone likes having a choice" is written in a large, blue, sans-serif font. Below the headline is a cartoon illustration of a hand holding a large, grey, multi-button remote control. The hand is red with black outlines and is pointing the remote towards a television set in the background. The television screen shows a man's face. In the bottom left corner of the card, there is a blue rectangular box with the text "CUSTOMER CHOICE SEAL HERE" in white. At the very bottom of the card, there is a blue horizontal bar with the website address "www.terasengas.com" in white.

TERASEN
Gas

CUSTOMER CHOICE

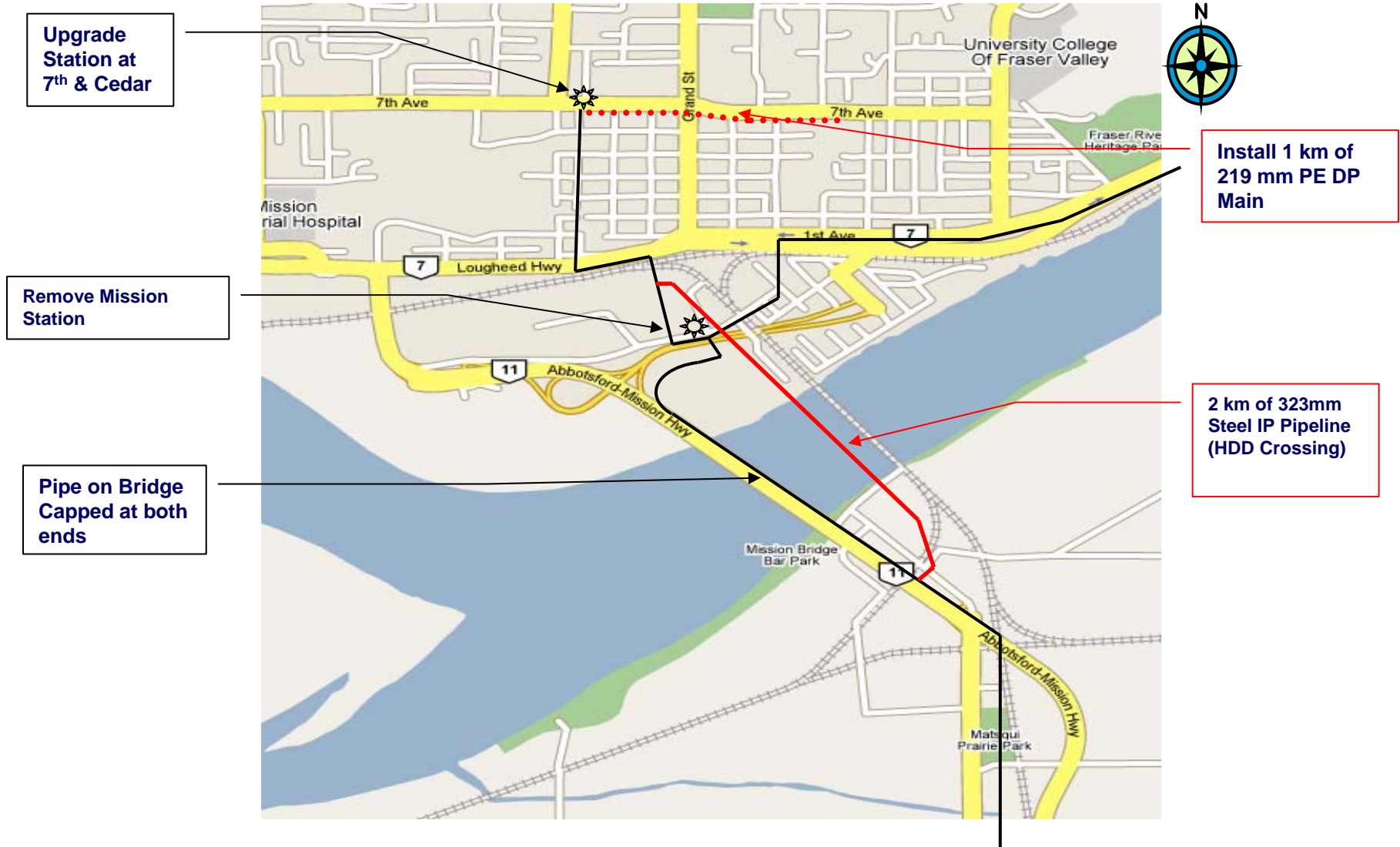
Natural gas pricing. Your say. Your way.

Everyone likes
having a choice

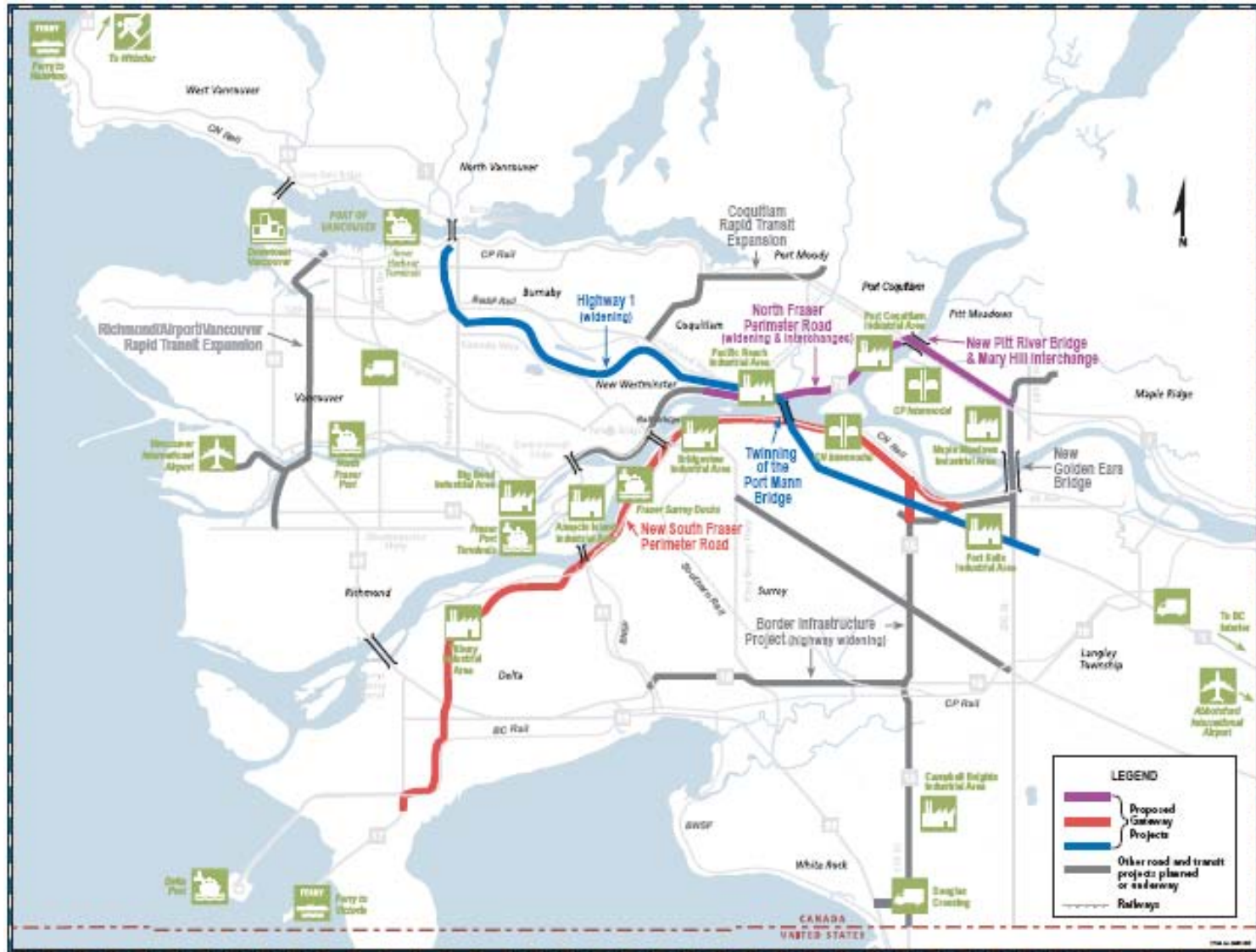
**CUSTOMER
CHOICE
SEAL HERE**

www.terasengas.com

Current CPCN Application Mission IP Pipeline System Upgrade



Potential CPCN's Gateway Project



Potential CPCN's Gateway Project



- Current designs for Gateway Project will require Terasen Gas to undertake major Transmission and Distribution system modifications and relocations.
- Terasen Gas not currently in a position to quantify or assume extent of costs which will be borne by MoT.
- CPCN for Gateway Project will possibly be filed in 2007.
- Project currently estimated at \$21.4 million

Potential CPCN's Fraser River Crossing SBSA Rehabilitation



- Project involves making seismic upgrades to 20" & 24" underwater pipeline crossings of the South Arm of the Fraser River serving Vancouver & Richmond
- In 2006, it was identified that both pipelines at risk of loss of integrity
- Based upon current information, CPCN expected to be filed in 2007 with project completion in 2008
- Project currently estimated at \$9 million

Summary

- Customer Additions Capital unit costs driven by external contractor costs
- Number of meters replacements returns to roughly pre-2006 levels in 2008
- 8 major System Integrity Projects (includes Kootenay and Shoreacres River Crossings, LNG Coldbox Upgrade)
- 6 major IT & Non-IT Projects (includes MobileUP Replacement, Desktop/Laptop Refresh & SAP Upgrade)
- 2 approved CPCN's (Vancouver Low Pressure & Residential Unbundling)
- 3 current & potential CPCN's (Mission IP, Gateway, and Fraser River Rehabilitation)

KMI Acquisition Order & Best Practices Review

Scott Thomson

Integration Applications

- Corporate Services
 - Internal Audit
 - General Counsel & Secretary
 - Treasury

- Operational Services & Data/Server Locations
 - EH&S
 - Property Lease Management & Data
 - OSC Compliance & Data

Best Practices Review

- As stated during the acquisition process, KMI, in conjunction with TGI, to examine opportunities for best practice enhancements to operations, relationships, and practices.
- Although not meant to be a comprehensive business process review, opportunities have been identified and implemented.
- Results to filed with the Commission November 30, 2006.

Code of Conduct & Transfer Pricing Policy

Andrew Lee CA.CIA
Manager – Internal Audit

Code of Conduct

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

Transfer Pricing Policy

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

Compliance Reviews

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

Internal Audit Review

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

Item 8 of the Code of Conduct regarding Financing and Other Risks states:

[Terasen Gas] will not undertake any financing or other financial assistance on behalf of an NRB that exposes utility ratepayers to additional costs or risks, unless appropriate compensation is received by [Terasen Gas] for such financing or other financial assistance, and such financing or other financial assistance is approved by the Commission.

IAS Report

Reservation of Opinion Paragraph

- Payroll processing for Kinder Morgan Canada [Affiliate] commenced April 1, 2006.
- For a 5 month period from April to August, Terasen advanced funds to cover the Affiliates employee direct deposits and payroll remittances. The outstanding balance ranged from \$349,000 to \$6,985,000. The amount outstanding as at August is \$581,000.
- It was management's intention to charge interest on the funds and was calculated at the higher of borrowing cost between Terasen Gas and the Affiliate. The interest amounts to \$53,600 to the end of August but had not been recorded.
- As well, a committed service contract had not been finalized and was in progress at the time of this review thus no charges had been recorded or invoiced to the Affiliate.
- To ensure no future payroll funding is provided by Terasen Gas on behalf of the Affiliate, Management has put in place additional preventive controls. Terasen Inc. treasury will have a blanket authorization to transfer funds from the Affiliate to cover payroll and remittance amounts.

Based on my review, except for the financing of an affiliated company as described in the preceding paragraph, nothing has come to my attention that causes me to believe that Terasen Gas Inc. is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period January 1, 2006 to August 31, 2006.

Signed:
W. Garner Dotson
VP, Internal Audit
September 29, 2006

- Reviewed TGI's compliance ... for the eight month period ended from January 1, 2006 to August 31, 2006, in accordance with Canadian generally accepted standards for review engagements.
- Procedures included a review of the Internal Audit Service report and the work they performed in connection with their report.

“Based on our review, except for the financing of an affiliated company as described in their report, nothing has come to our attention that causes us to believe that the Terasen Gas Inc. is not in compliance with the Code of Conduct and Transfer Pricing Policy...”

Signed:

PricewaterhouseCoopers LLP, Chartered Accountants

October 6, 2006

Mid-Term Settlement Review

Tom Loski

Objectives of PBR Settlement

- Business Imperative – *Increase Customer Value*
 - Upon meeting quality, safety & reliability levels
 - Pursue strategies that will:
 - Lower unit costs by realizing economies of scale
 - Lower overall costs by investing in efficiencies
- Regulatory Model must address
 - Periodic establishment of the prudent costs to provide service
 - Encouragement and enablement of a continuous & aggressive pursuit of economies, efficiencies & greater revenues

PBR Design Principles

- Align interests of customers and utility
- Administratively simple & easy to understand
- Facilitate meaningful communication with stakeholders
- Be sufficiently comprehensive
- Promote efficiency & motivate economic decision-making by utility
- Encourage innovation & continuous improvement throughout full term
- Sufficiently long term to permit economic payback for investments
- Promote high degree of planning certainty for utility and customers
- Incent the utility to continuously & aggressively pursue efficiencies
- Allow flexibility to respond to changing and varied circumstances
- Maintain the quality of service

- Four year term (2004 to 2007)
- O&M expense
 - Built in, and escalating productivity
 - 50:50 sharing customers & shareholders
- Capital Efficiency Mechanism
- Earnings Sharing Mechanism
- Service Quality Indicators
- Regulatory Oversight
 - Annual reviews
 - Mid Term Assessment Review
- No Surprises
 - Customer Advisory Council

Mid-Term Settlement Review

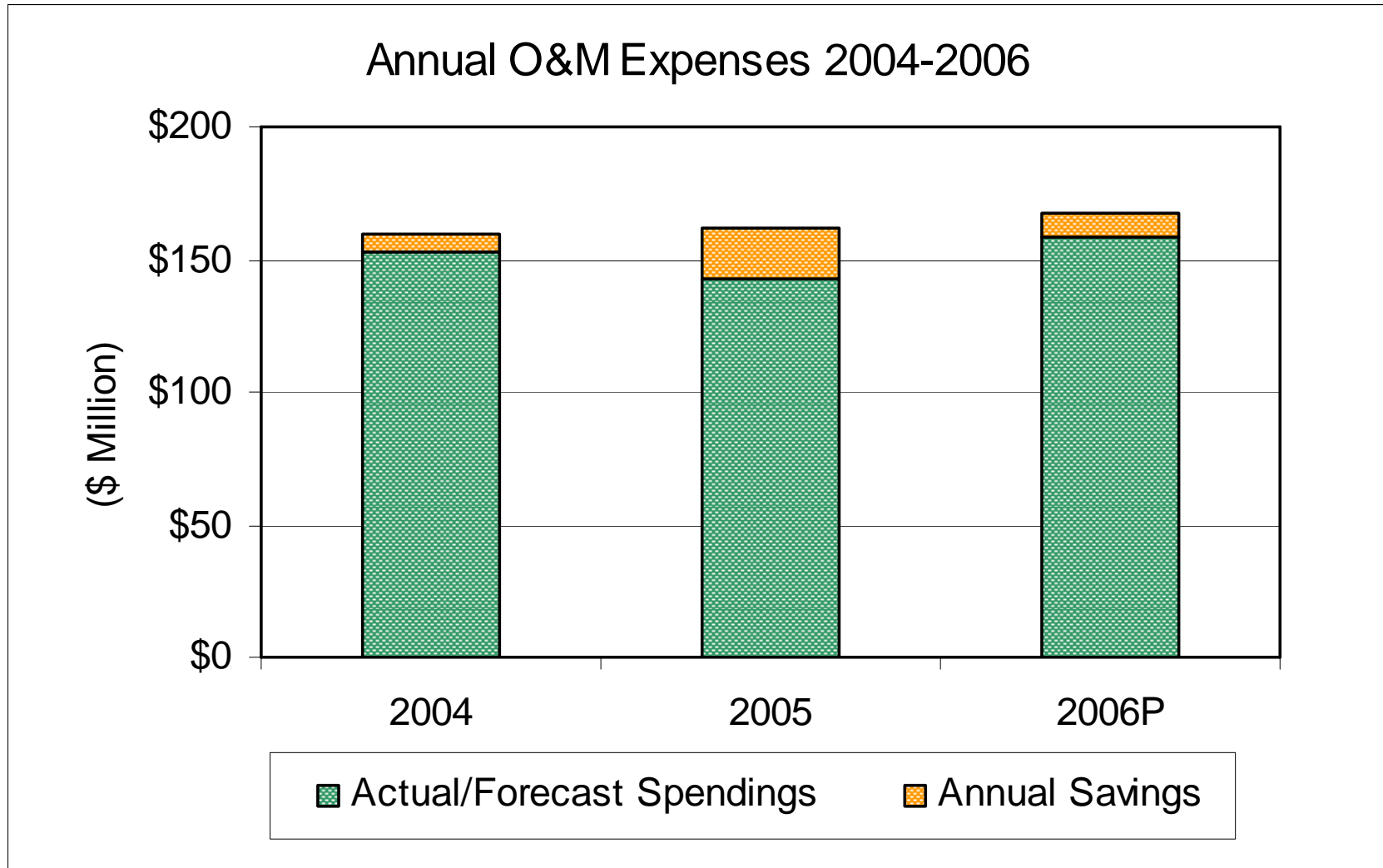
Operational Efficiencies Achieved = O&M Savings

TGI/TGVI Restructuring & Integration

- ✓ Successful execution of restructuring and integration
- ✓ Seamless transition to common management, processes and technologies
- ✓ Reduced 115 FTE in total (56 in TGI and 59 in TGVI)
- ✓ Delivered net benefits of \$8 million to TGI and \$2 million to TGVI per year
- ✓ Shared 50:50 with TGI customers on net benefits during the PBR term

Mid-Term Settlement Review

Operational Efficiencies Achieved = O&M Savings



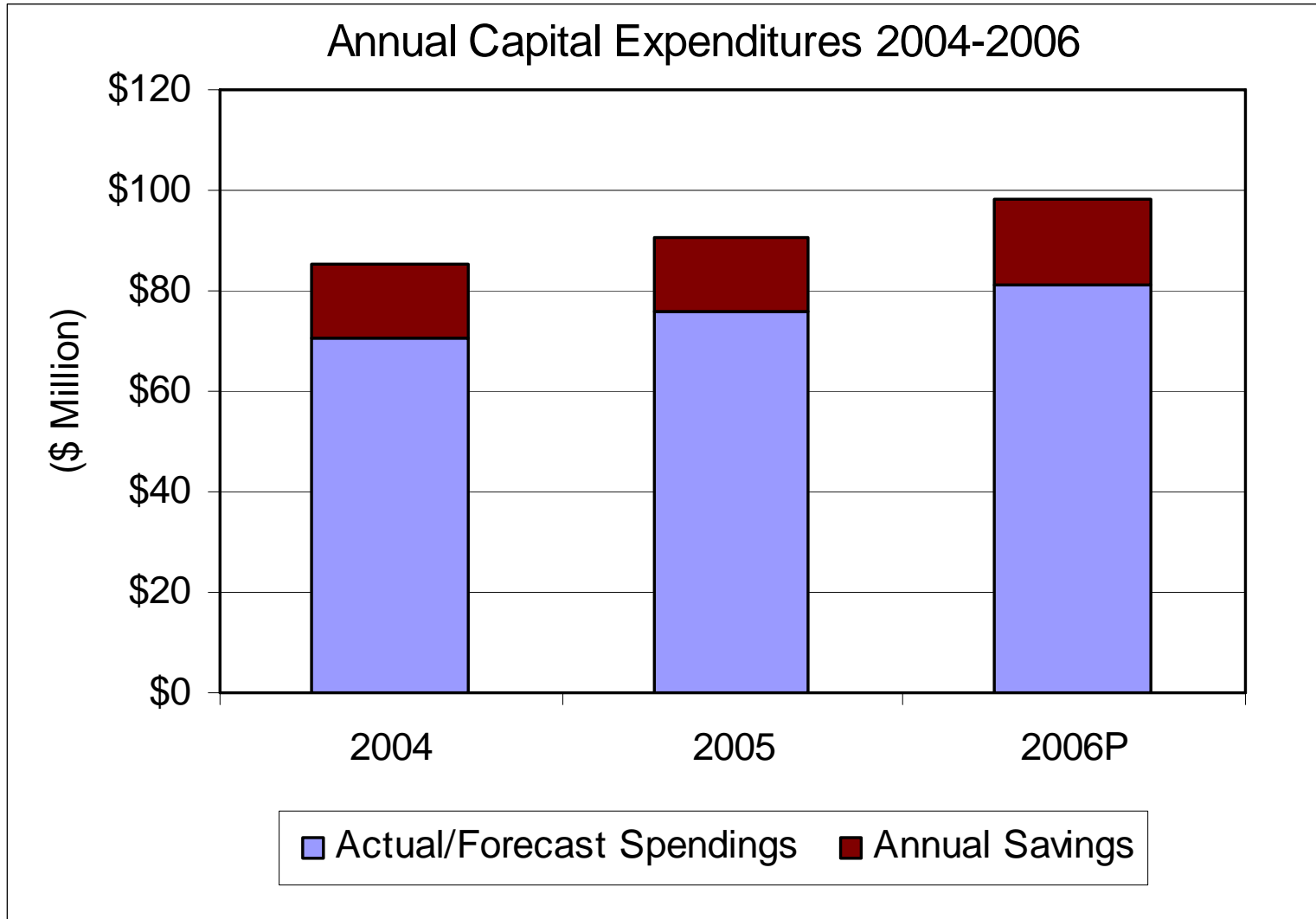
Mid-Term Settlement Review

Capital Expenditures



- ✓ PBR plan strengthened incentive for Terasen Gas to control its capital spending on items other than CPCNs
- ✓ Variances between formula-based and actual base capital expenditures flow through earnings sharing mechanism
- ✓ achieved => actual capital spending is expected to be approximately \$47 million less than allowed for the period 2004 – 2006
- ✓ Customers share of the benefit is approximately \$2.9 million
- ✓ Capital incentive mechanism includes 2 year phase-out period

Mid-Term Settlement Review Capital Expenditures



Mid-Term Settlement Review

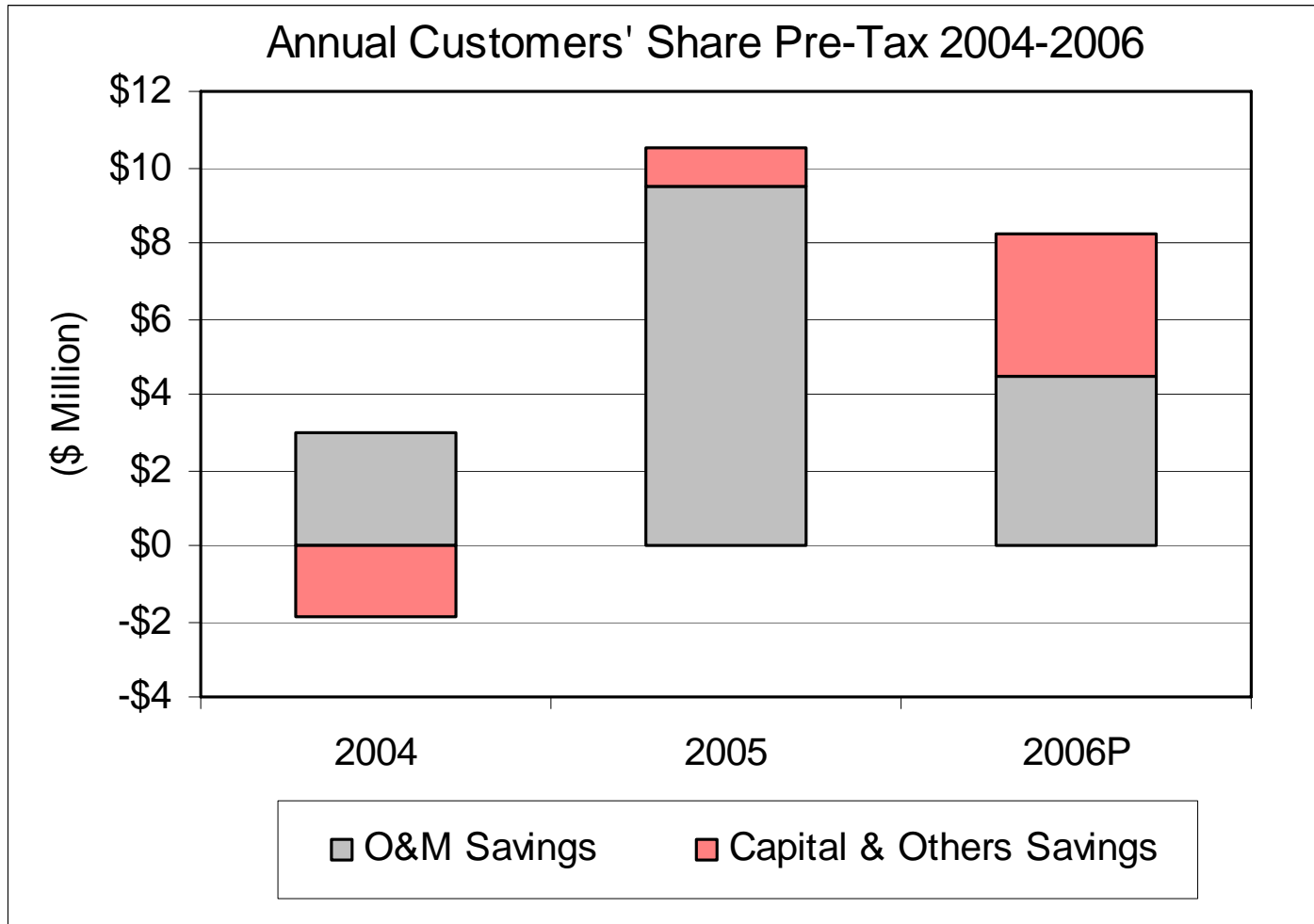
Financial Outcomes – Earnings Sharing



| | <u>2004</u> | <u>2005</u> | <u>2006P</u> | <u>Average</u> |
|---------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| ROE - Achieved Before Earnings Sharing | 9.34% | 10.78% | 10.10% | 10.08% |
| ROE - Approved | <u>9.15%</u> | <u>9.03%</u> | <u>8.80%</u> | <u>8.99%</u> |
| Achieved Incentive ROE Before Earnings Sharing | <u><u>0.19%</u></u> | <u><u>1.75%</u></u> | <u><u>1.30%</u></u> | <u><u>1.08%</u></u> |
| Achieved Incentive ROE After Earnings Sharing | <u><u>0.10%</u></u> | <u><u>0.88%</u></u> | <u><u>0.65%</u></u> | <u><u>0.54%</u></u> |
| ROE - Achieved After Earnings Sharing | <u><u>9.25%</u></u> | <u><u>9.91%</u></u> | <u><u>9.45%</u></u> | <u><u>9.53%</u></u> |
| Customers' Share - Pre-Tax (Total) | <u>\$ 1.1</u> | <u>\$ 10.5</u> | <u>\$ 8.2</u> | <u>\$ 19.9</u> |

Mid-Term Settlement Review

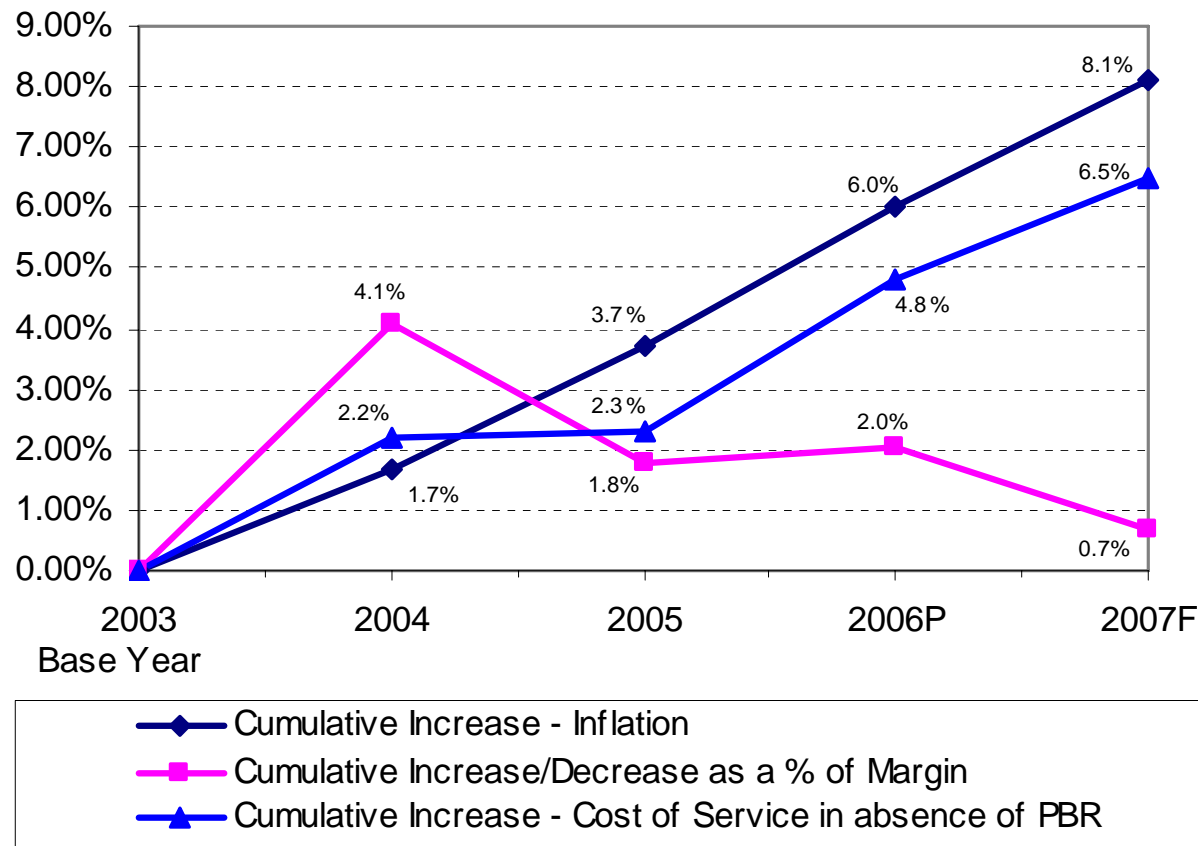
Financial Outcomes – Earnings Sharing Benefits



Mid-Term Settlement Review

Earnings Sharing Benefits

Customer Rate Changes Comparison to Inflation



Mid-Term Settlement Review

Key Aspects of PBR Settlement

Service Quality Indicators

- ✓ Integral part of incentive regulation is to maintain acceptable levels of service quality
- ✓ Parties agreed to an expanded group of 10 SQI's as well as 2 directional indicators which are reported at each Annual Review
- ✓ All SQI benchmarks have been materially met to-date

Mid-Term Settlement Review Summary



Terasen Gas believes the PBR settlement has been successful for all parties:

■ Customers

- ✓ Share an estimated pre-tax Incentive of \$19.9 million through Earnings Sharing Mechanism from 2004 to 2006

■ Stakeholders

- ✓ Regular and frequent interaction with Terasen Gas and interested parties (e.g. Customer Advisory Council)
- ✓ “No surprises”
- ✓ A high degree of ongoing oversight by BCUC
- ✓ More efficient Regulation than annual Revenue Requirement Proceedings

Mid-Term Settlement Review Summary



- Looking forward, Terasen Gas believes it would be appropriate to extend the time frame of the present PBR settlement beyond 2007.
- Terasen Gas expects increasing financial pressures in 2007 and beyond due to the impact of economic conditions in Western Canada driving higher labour and material costs.
- An extension of the current PBR model and settlement period will contribute to continued alignment between Terasen Gas and its customers' interests where any benefits realized through further capital and operational efficiencies will be shared.

Mid-Term Settlement Review Questions

Settlement Extension

Tom Loski

Conclusion

Scott Thomson
Bill Grant