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July 12, 2005

British Columbia Utilities Commission
Sixth Floor - 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Mr. Robert J. Pellatt, Commission Secretary

Dear Sir:

**Re: Terasen Gas Inc. (“Terasen Gas”)
Application for Approval of Transactions with respect to Southern
Crossing Pipeline (“SCP”) and Inland Pacific Connector (“IPC”)
Submission of Terasen Gas Presentation from June 29, 2005 Workshop**

Terasen Gas submitted to the British Columbia Utilities Commission (the “Commission”), its application for approval of certain transactions with respect to SCP and IPC on June 1, 2005.

Subsequently, the Commission issued Orders G-55-05 and L-38-05, establishing a regulatory agenda and workshop. On June 29, 2005 the workshop was held and Terasen Gas made a presentation to Commission and Registered Intervenors explaining the events and rationale which have led to this application.

This presentation is attached and is submitted to Commission as an exhibit for the convenience of all concerned.

We trust the Commission finds this in order. Should you have any questions with respect to this application, please contact Tom Loski at (604) 592-7464.

Yours truly,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson

Attachments

Cc: Registered Intervenors



Terasen Gas Inc. SCP/IPC Application Workshop

June 29, 2005

Contact Information

Tom Loski, Director Regulatory Affairs
604 592-7464
tom.loski@terasengas.com

Introduction

- Application submitted June 1, 2005
 - Previous Application submitted December 5, 2002
 - Approval of PG&E and NWN Transaction in 2002
 - Linkage to June 1, 2005 Application
- Consultation with several Stakeholder representatives
- Key Issues raised
 - Customer Rate Impacts – Core and Transportation Customers
 - SCP Peaking service – Transportation Customers

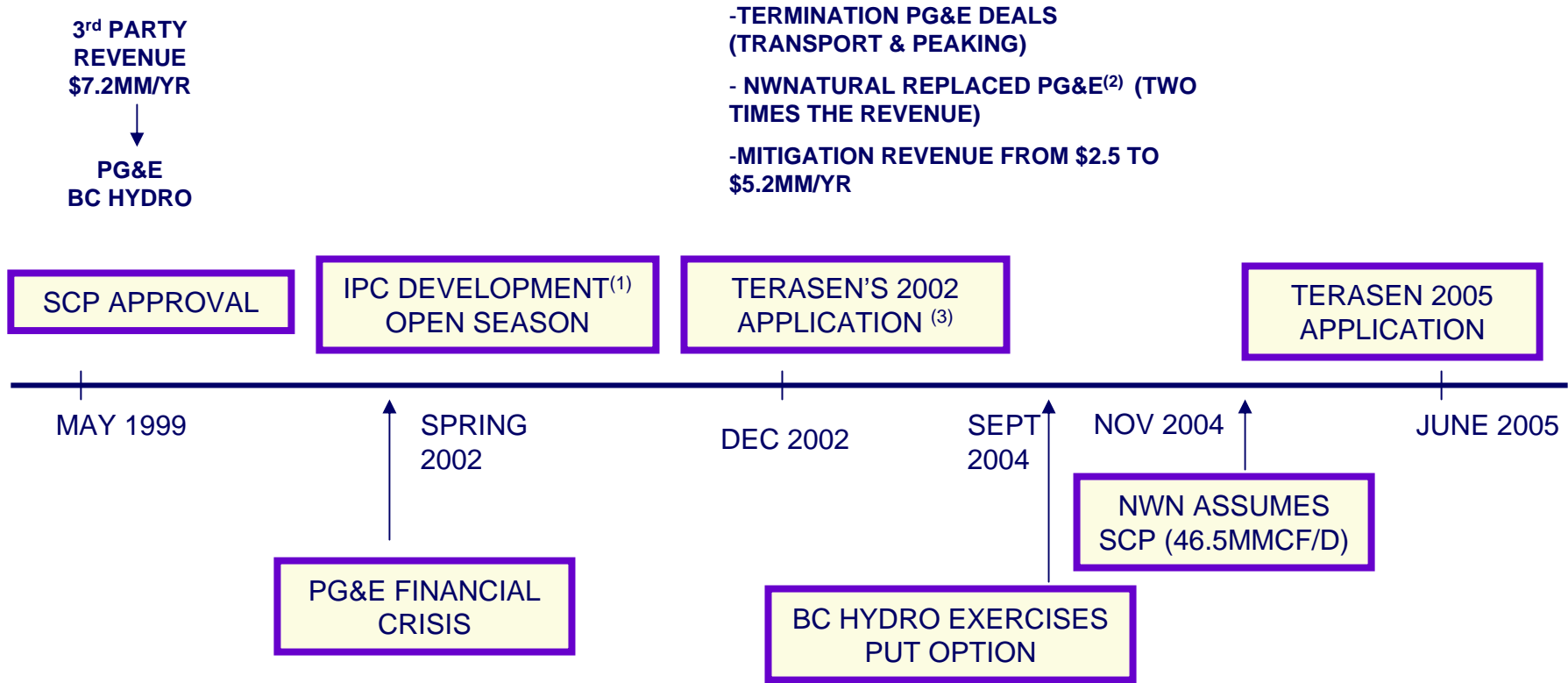
Agenda

- Review specifics items for which approval is sought
- SCP and IPC Background
- Customer Benefits
- Cost allocations and Customer impacts
- Summary
- Next Steps

Specific Items included in Application

- Recovery methodology for PG&E Termination payments
- Recovery of SCP Deferral account
- Approval of Terasen gas use of BCH SCP capacity as part of Midstream Resource Portfolio
- Allocation methodology
- Cost recovery methodology for IPC development costs

Timeline of Events



(1) IPC was developed as a solution to constrained marketplace

(2) By signing up NWN we added incremental revenue to core and keep Westcoast future costs lower than what they would otherwise be

-Avoided \$5.5 MM in Capital spend (which is a regional benefit)

(3) We also asked that BCH 'PUT' capacity be used for core and IPC costs to be recovered

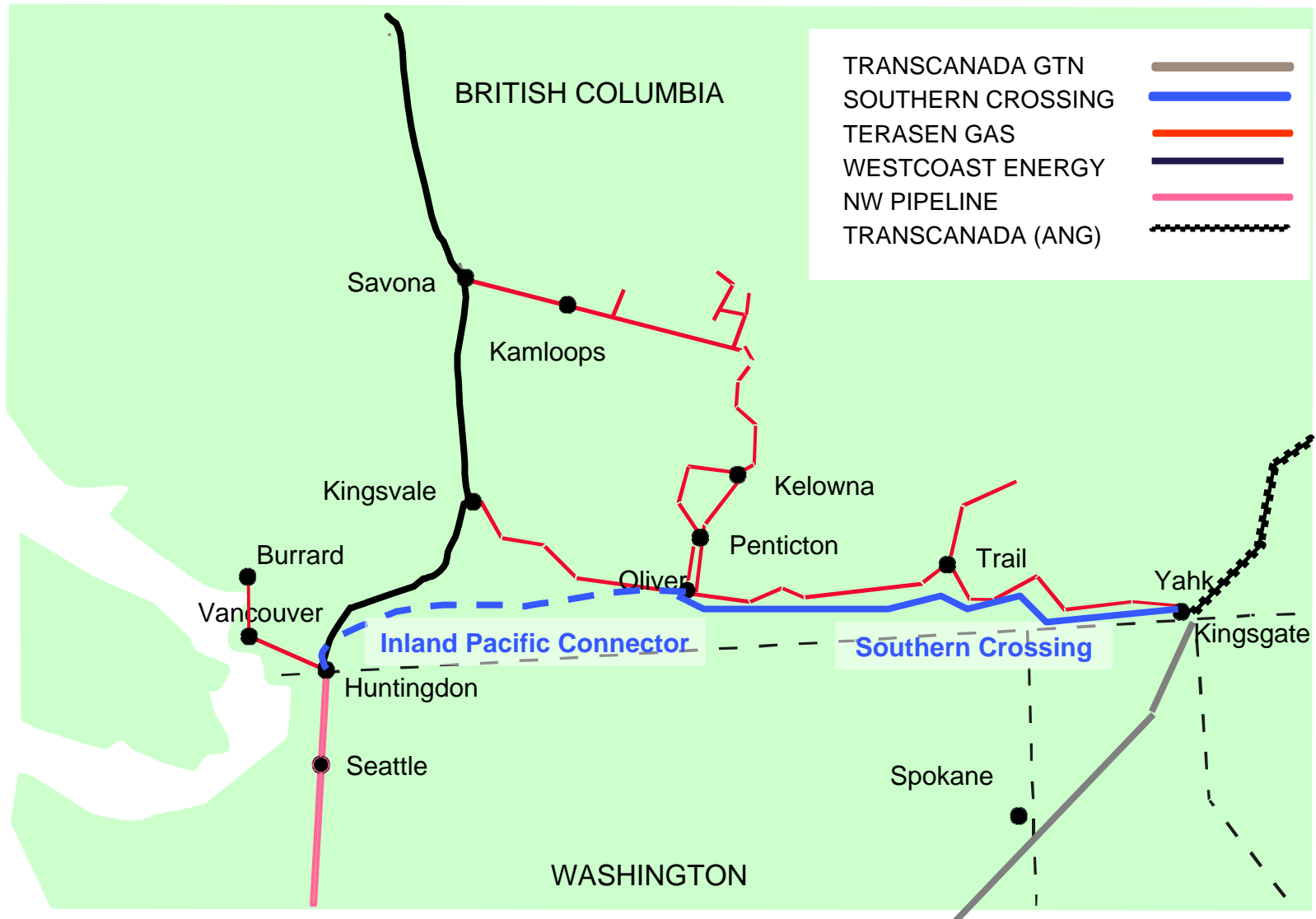
SCP/IPC Background

June 29, 2005

Contact Information

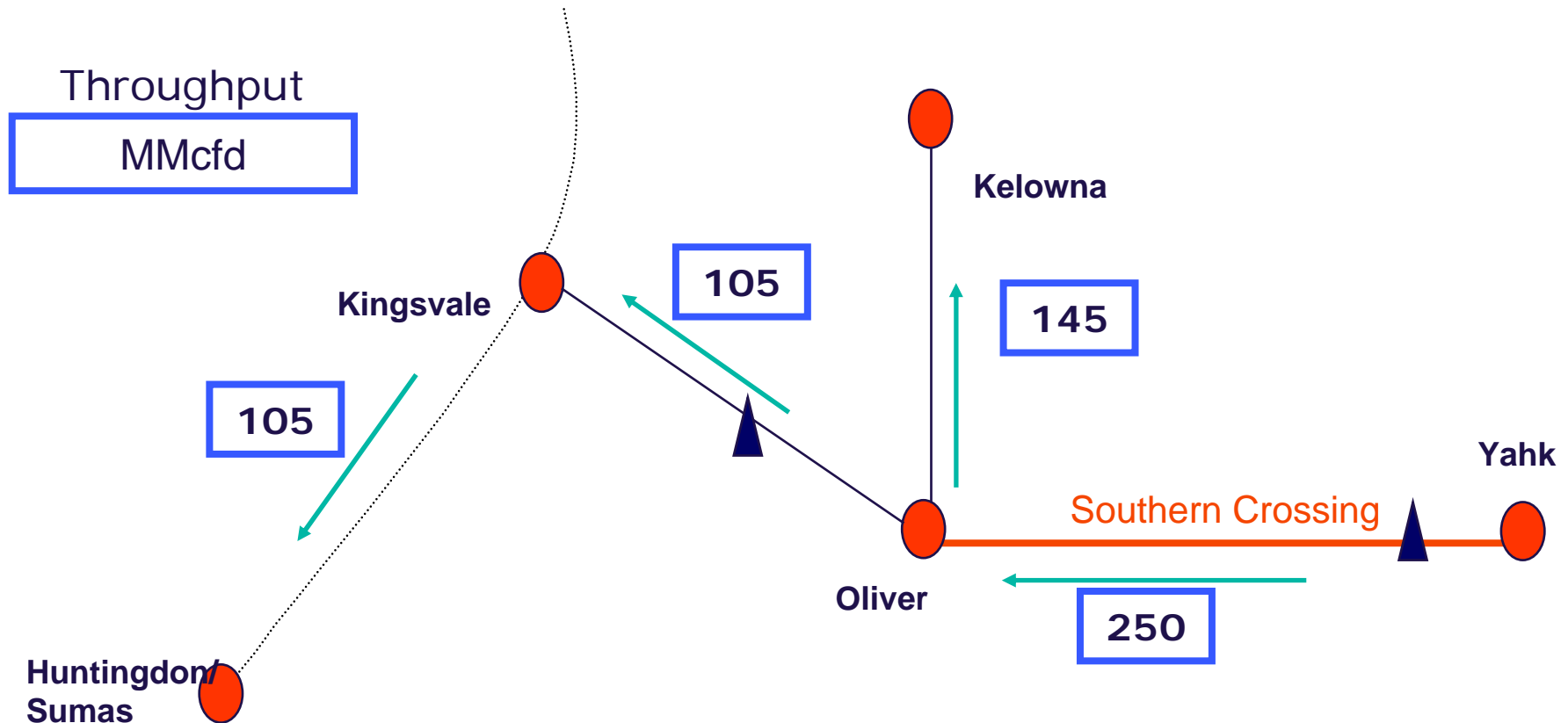
Cynthia Des Brisay
Director, Business Development
cynthia.desbrisay@terasegas.com

Southern Crossing Pipeline



Southern Crossing Pipeline (SCP)

- 312 km, 24" pipeline from Yahk to Oliver
- Approval May 1999 based on expenditure cap of \$414M
- In-service December 2001 for total cost of \$395M



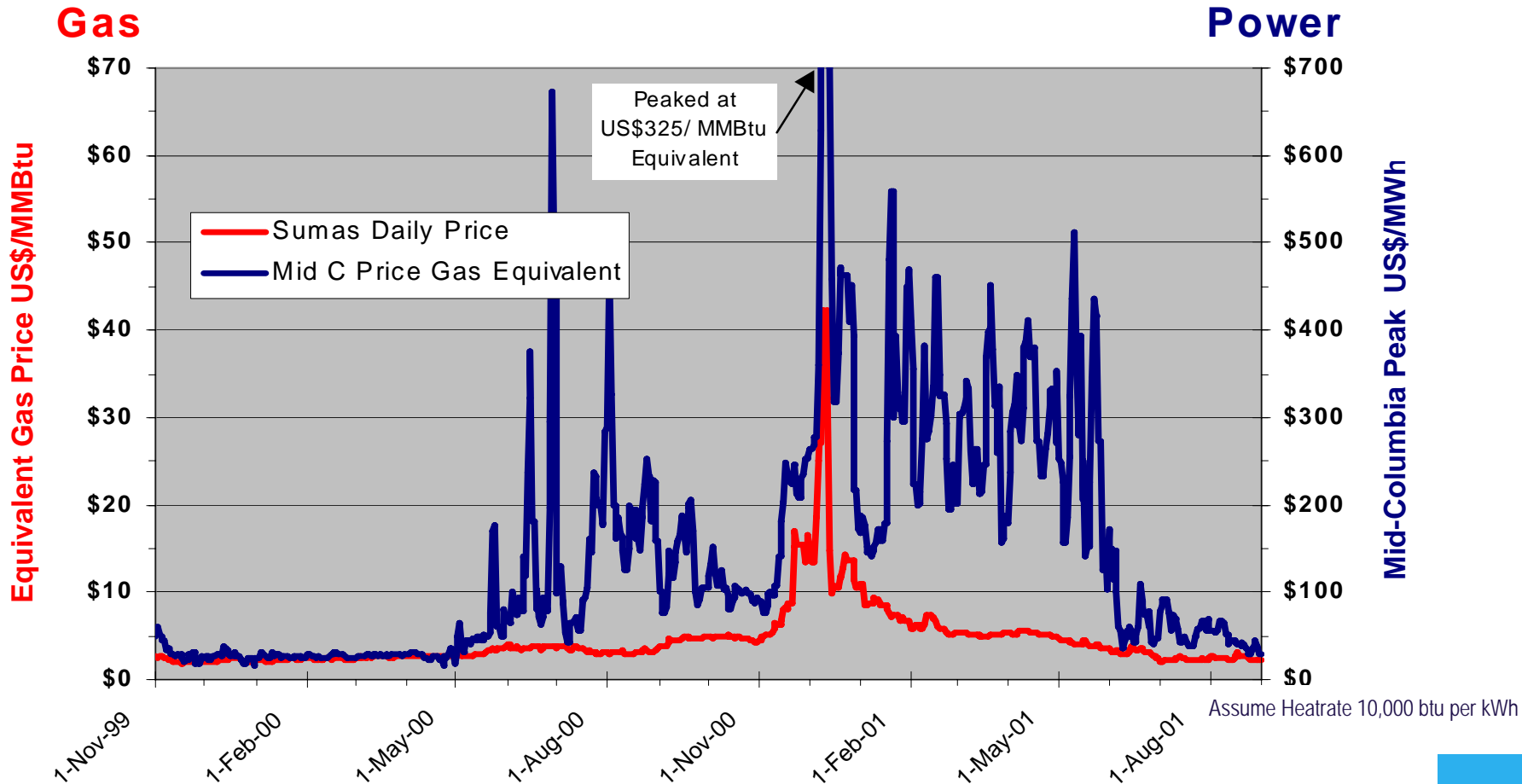
Southern Crossing Pipeline (SCP)

SCP Transportation Service

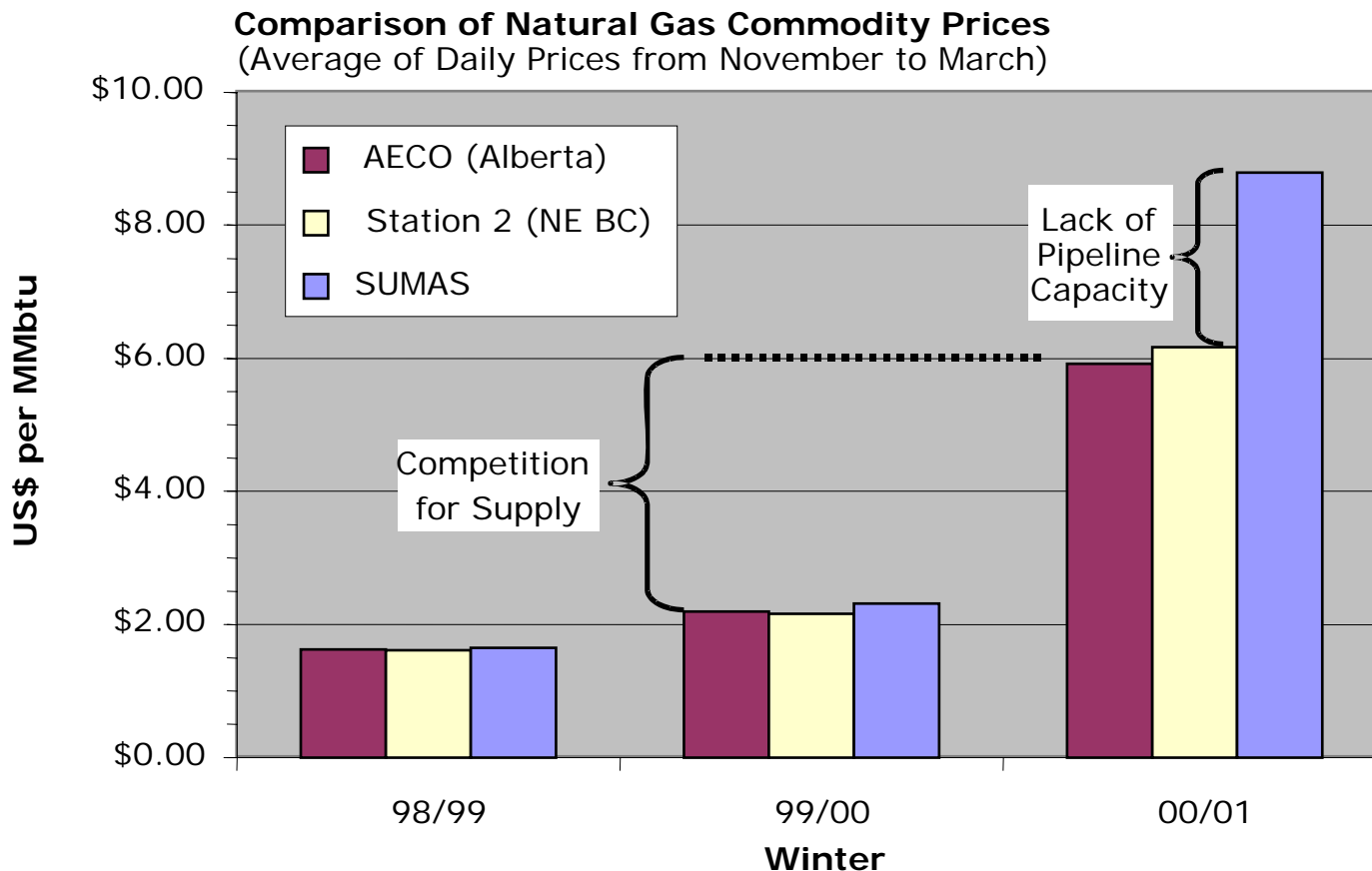
- Initial agreements with BC Hydro and PG&E Energy Trading Canada:
 - 52.5 mmcf/d firm service (total 105 mmcf/d)
 - Matching 15 days Peaking Gas Arrangements at Huntingdon
 - Demand Charges \$3.6 million (total \$7.2M)
 - 10 year terms ending November 2010 with renewal rights
- Separate agreement gave BC Hydro a “Put Option” whereby it could assign its SCP rights and obligations to Terasen Inc

WINTER 2000/01

- Unprecedented increase in demand driven largely by gas fired generation resulted in extreme price volatility



- IPC and other regional pipeline expansion projects were proposed to meet the lack of capacity serving the Sumas Market place

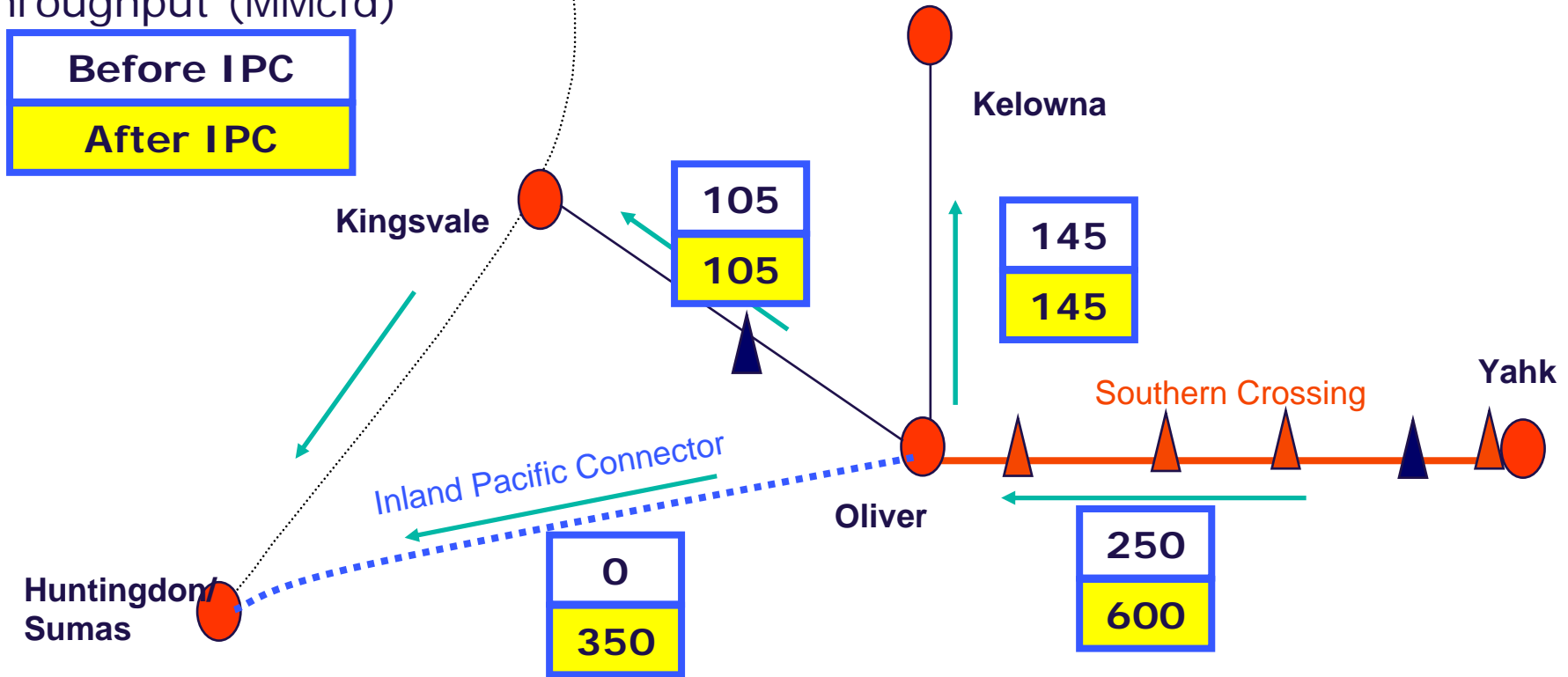


Inland Pacific Connector (IPC)

- Compression additions increase throughput on SCP
- New 153 km 24# pipeline built from Oliver to Huntingdon
- Increases capacity to Huntingdon by 300-350 mmcfd

Throughput (MMcfd)

Before IPC
After IPC



Events Unfolded

- PG&E Energy Trading faced financial crisis from fall-out of California energy crunch
- NW Natural required firm transport capacity upstream from Huntington/Sumas and actively supported IPC
- IPC development deferred due to changing market conditions
- Arrangement negotiated between PG&E, TGI and NW Natural to use PG&E SCP capacity to meet NW Natural's commitment for IPC capacity
- Net benefit to utility customers
 - Locked in value of SCP Capacity to 2020
 - Net \$2.5 to 5.2 million per year additional revenue
 - Protection from PG&E credit risk

SCP/IPC Impact on Westcoast

- Westcoast also responded with a competitive project to IPC involving a 200 mmcf/d expansion proposal
- TGI negotiated “reduced build” alternative that allowed in to contract for Kingsvale South only capacity to match SCP
 - New Kingsvale South toll established
 - Released long haul T-South capacity
 - TGI savings of approximately \$5.5 million per annum
 - All Westcoast customers benefited
- Kingsvale South capacity offers platform for further optimization of Westcoast and SCP capacity
- IPC as a viable alternative results in better positioning for regional LDCs relative to the producer community

2002 Application

- Approval of termination of PG&E ETC contracts and long term transportation agreement with NW Natural
 - Significant net revenue to flow to customers
 - Protection from PG&E credit risk
- Recovery of IPC development costs beginning in 2006 if project had not proceeded
 - Recognition of benefits realized by customers
 - NWN/PG&E arrangement
 - Westcoast
- SCP capacity to be returned to the Utility if BC Hydro exercises put option
 - Terasen Gas in best position to optimize value of the capacity between its own portfolio or third party transactions

BCUC Decision

- Commission Letter No. L-48-02
 - Approval of PG&E/NWN transactions
 - Prepared to approve future return of BC Hydro SCP Capacity provided TGI is reimbursed for any net costs
 - Prepared to review future application for recovery of the IPC expenditures if the project is deferred substantially based on the value delivered by IPC including the NWN arrangements

BC Hydro “Put Option”

- BC Hydro gave notice in Sept 2004 that it was exercising its put option, effective Nov 2005
- Assignment of all rights and obligations of the SCP arrangements to Terasen Inc for remaining primary term (to October 2010)
- TGI assessed the value of assuming the SCP capacity in its midstream resource portfolio
 - Optimization of the portfolio reduces costs by \$5.5 to 6.5 million per year
 - Net Savings over and above replacement of BC Hydro demand charges approximately \$2 to 3 million

IPC Status

- Requirement for new regional infrastructure was driven by unprecedented demand growth lead by gas fired generation
- Current Market conditions creates uncertainty in timing
 - Regional industrial load
 - never recovered from 2000/2001 volatility
 - continues to be dampened by high commodity prices
 - Gas Fired Power Generation
 - 2000 MW of new load has been built (vs. 6000 MW proposed by 2005)
 - Many projects deferred or cancelled
 - Commercial and Residential
 - Good recovery from 2000/01 price spikes
 - Strong economy, growing population, record housing starts
 - Growth in heating loads supports new storage over pipe
- Requirement for new regional pipeline capacity likely to be substantially deferred

2005 Application

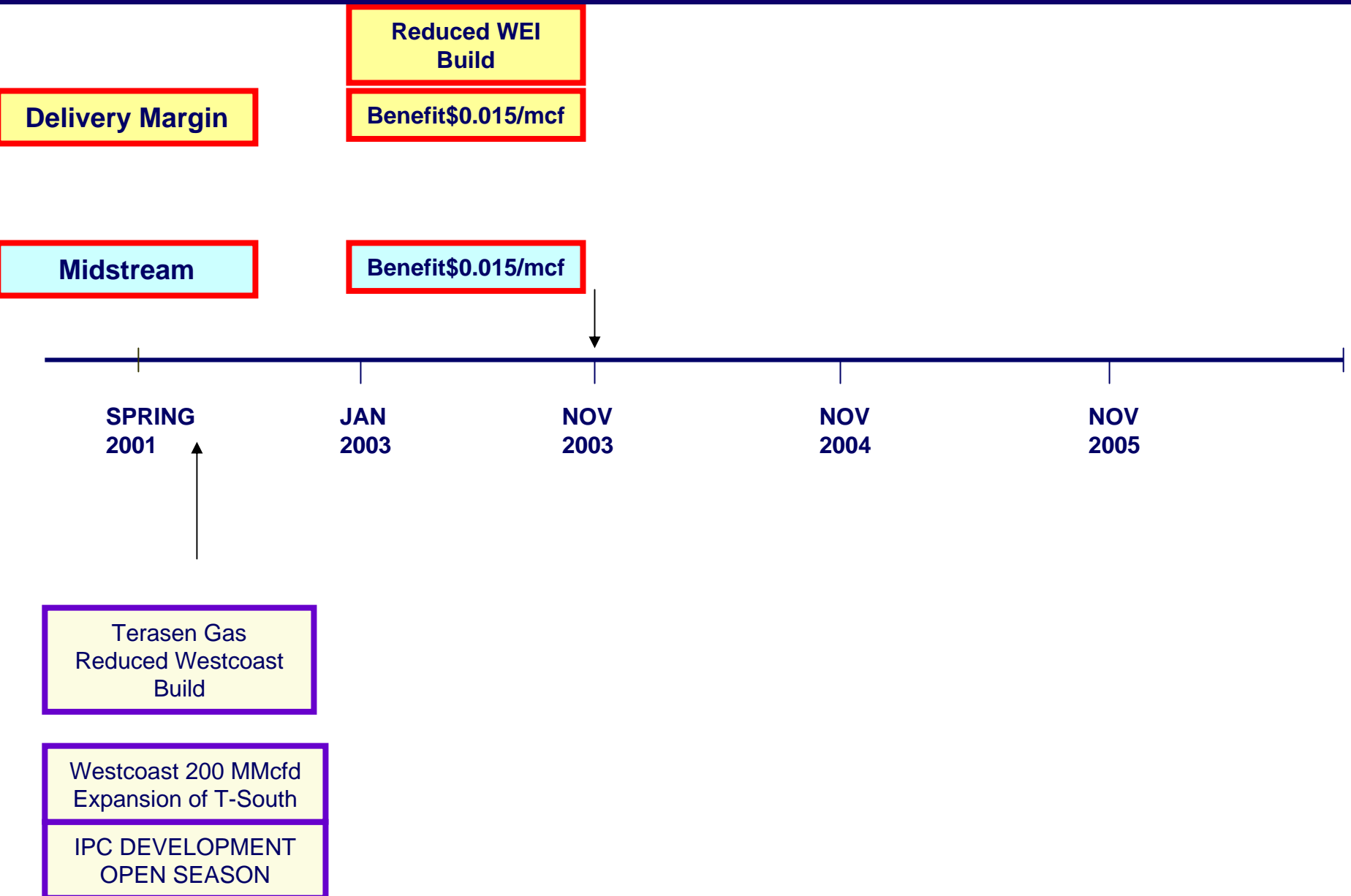
- Treatment of payments related to NW Natural and PG&E transactions
- Terasen Gas assumes SCP capacity currently held by BC Hydro and make corresponding changes to optimize Midstream portfolio
- Recovery mechanism to recover IPC development costs beginning in January 2006
- Proposed allocation of costs and benefits

Customer Benefits

June 29, 2005

Tania Specogna, Manager Gas Supply

SCP Arrangements Impact on Terasen Customers



Terasen Gas Inc (TGI) 2003 Reduced Westcoast Build



■ Stn2

WEI

■ Savona

Aeco

TGI releases
(105 mmcf/d)
T-South LH

■ Kingsvale

■ Oliver

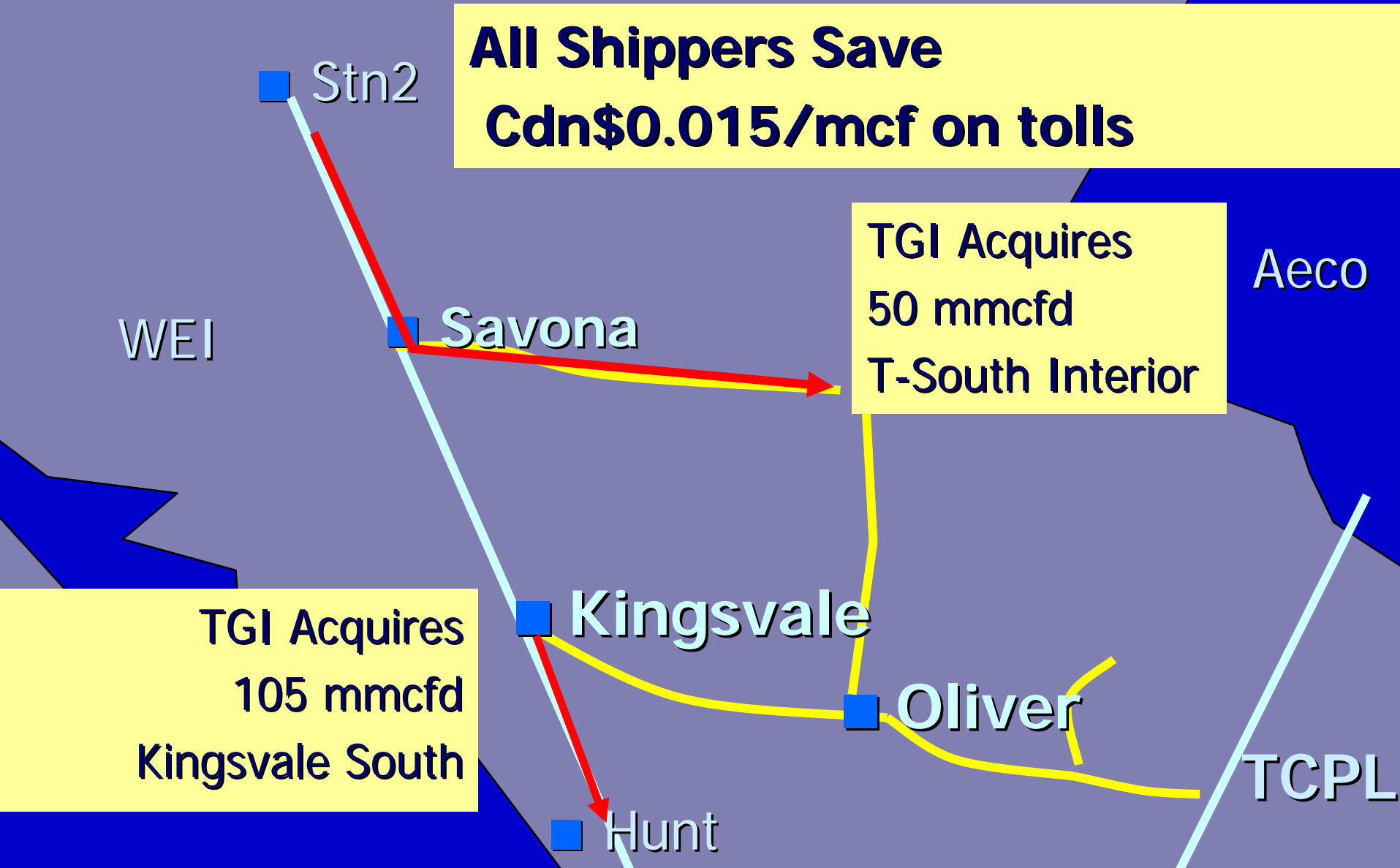
■ Hunt

TCPL

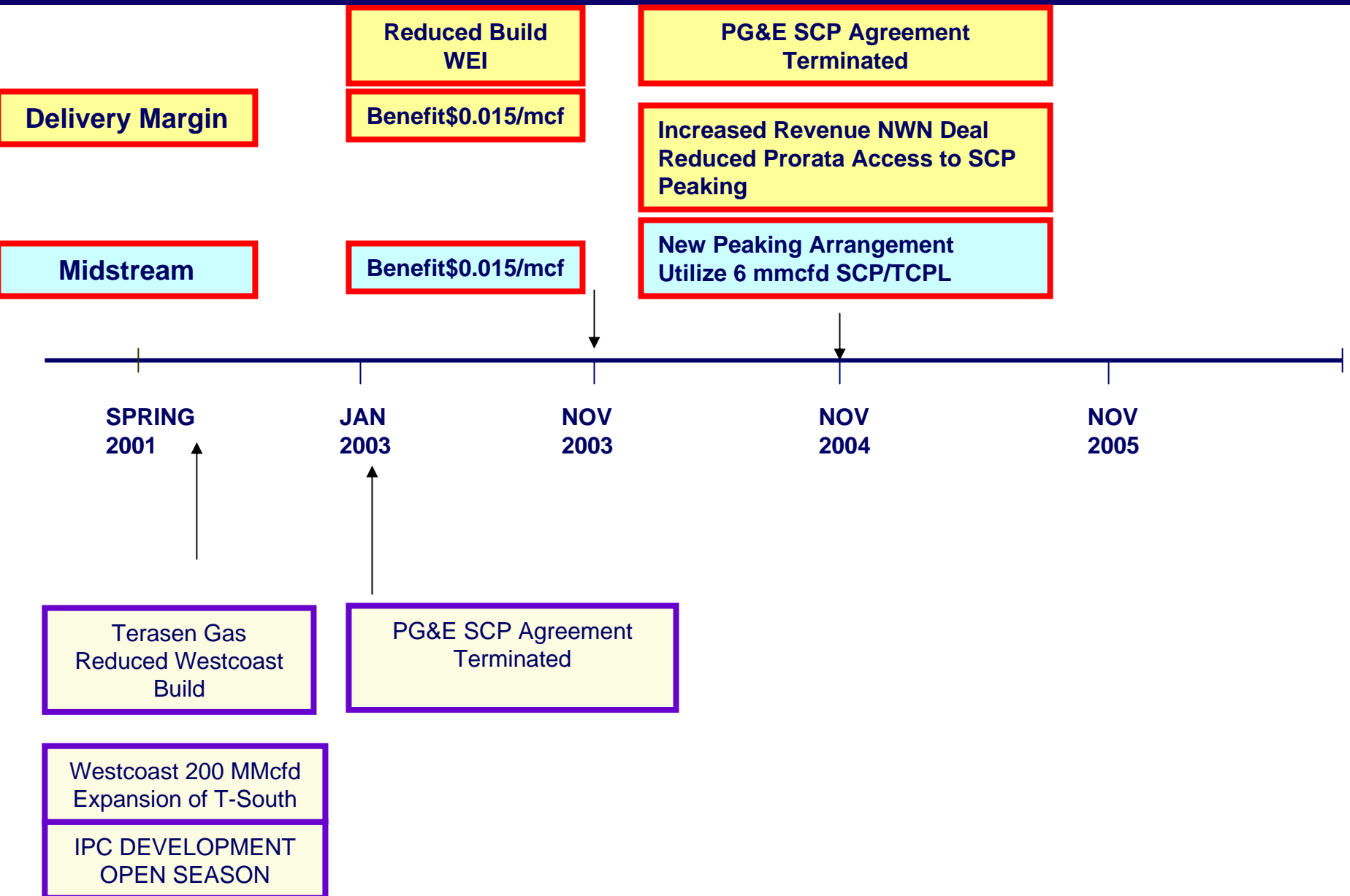
Terasen Gas Inc (TGI)

2003 Reduced Westcoast Build

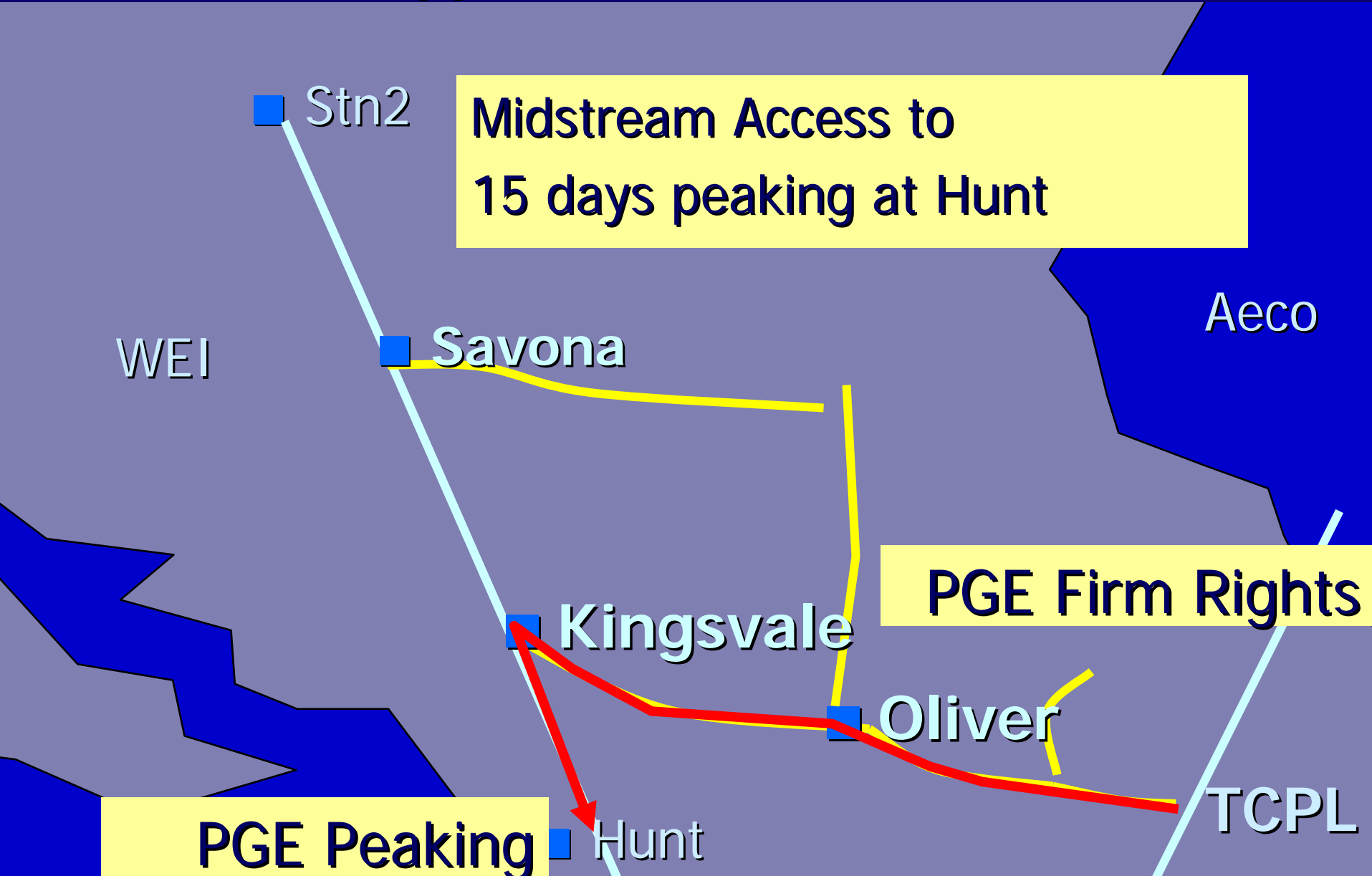
**All Shippers Save
Cdn\$0.015/mcf on tolls**



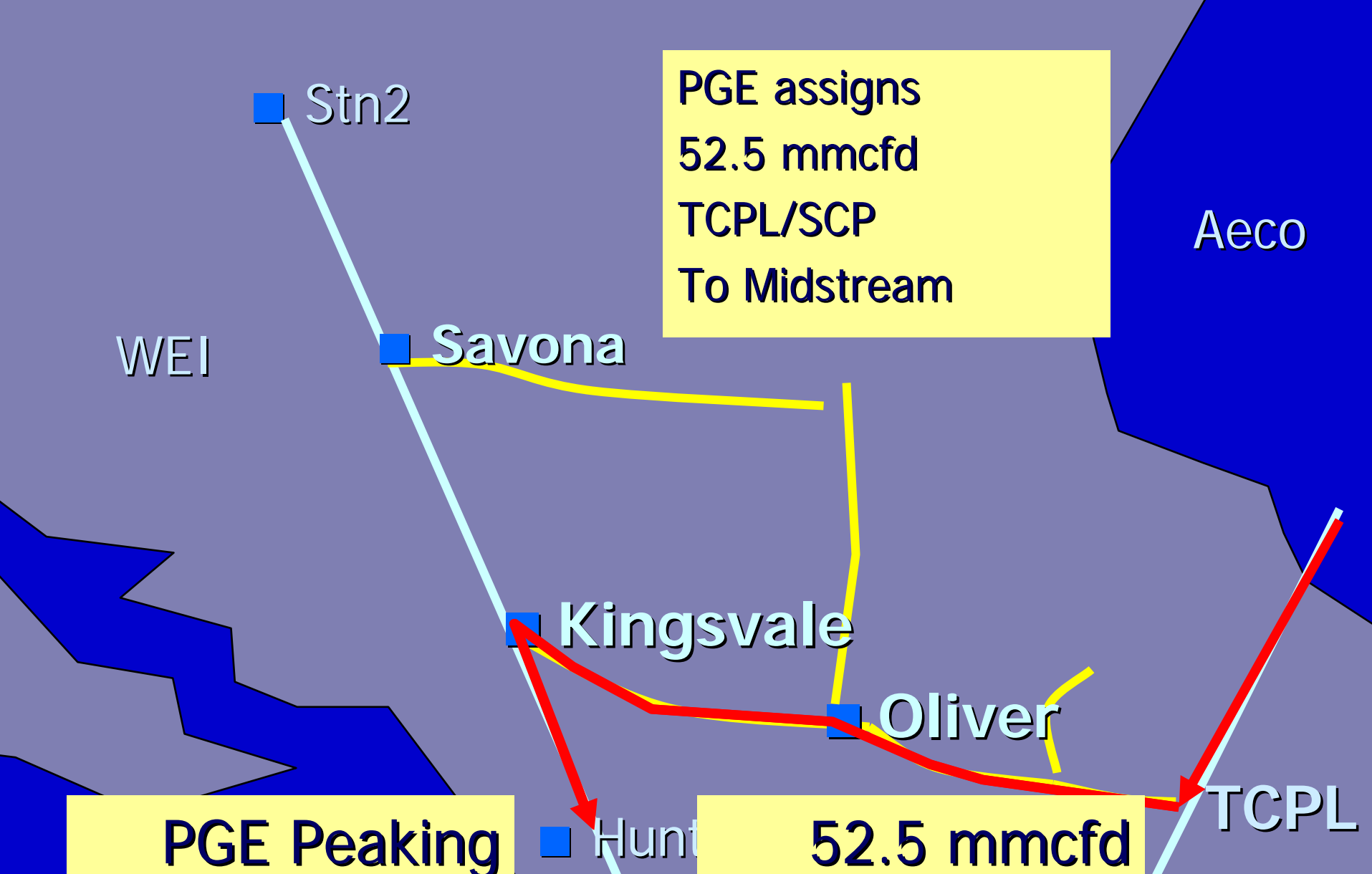
SCP Arrangements Impact on Terasen Customers



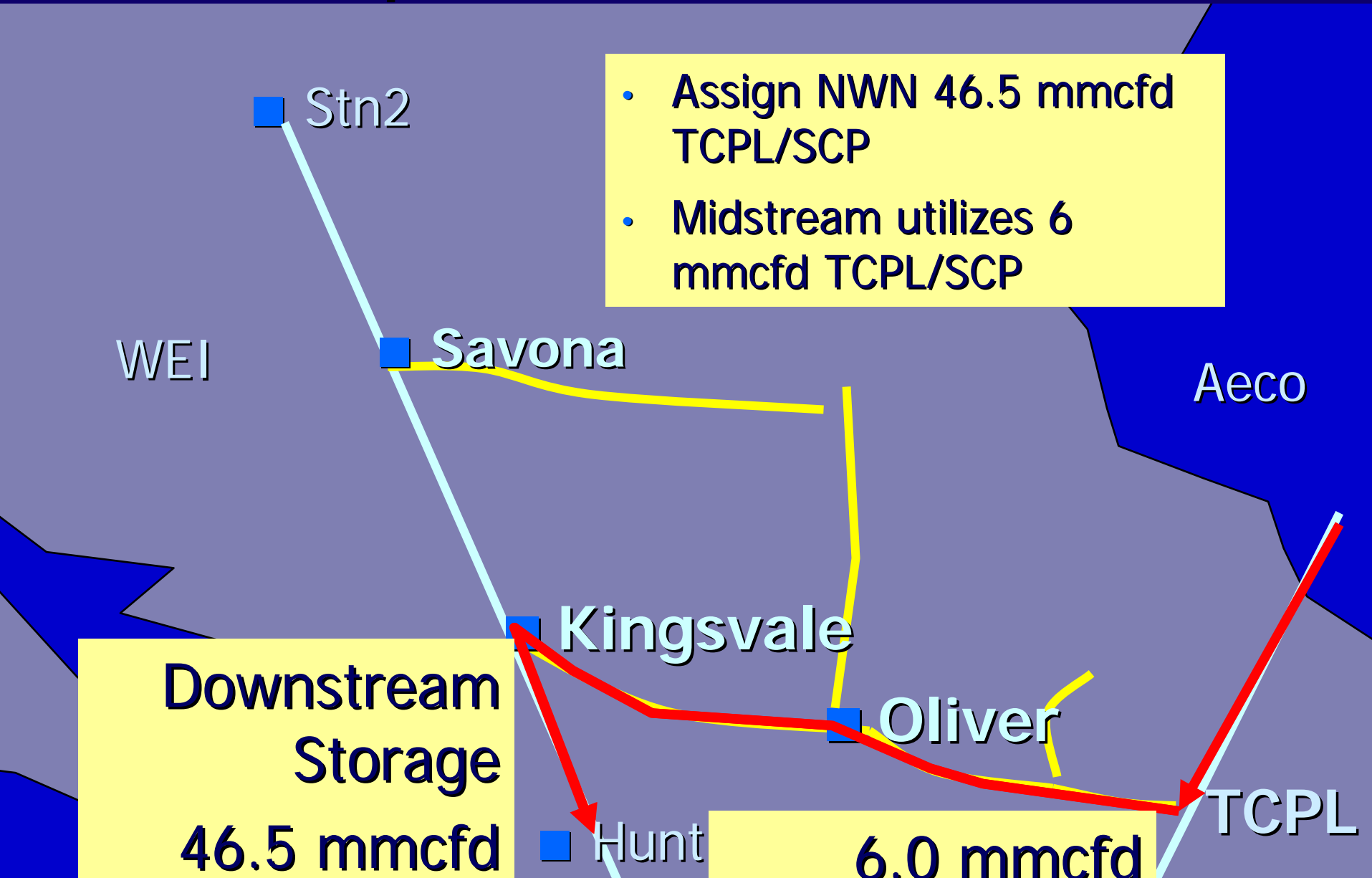
PG&E SCP Shipper 52.5 mmcf/d



PG&E SCP Arrangement Terminated Midstream Impact Jan 2003 – Nov 2004

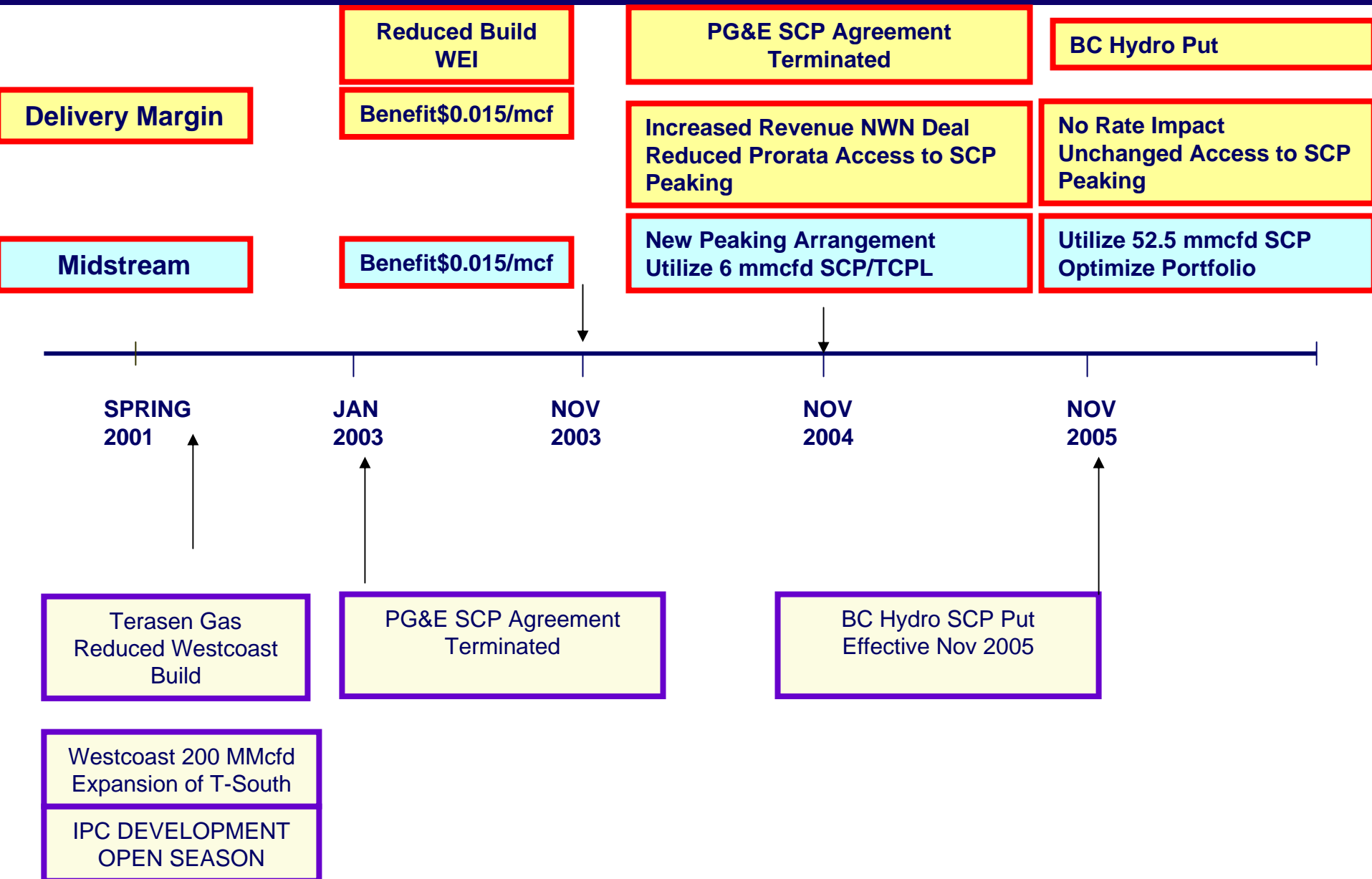


PG&E SCP Arrangement Terminated Midstream Impact Nov 2004

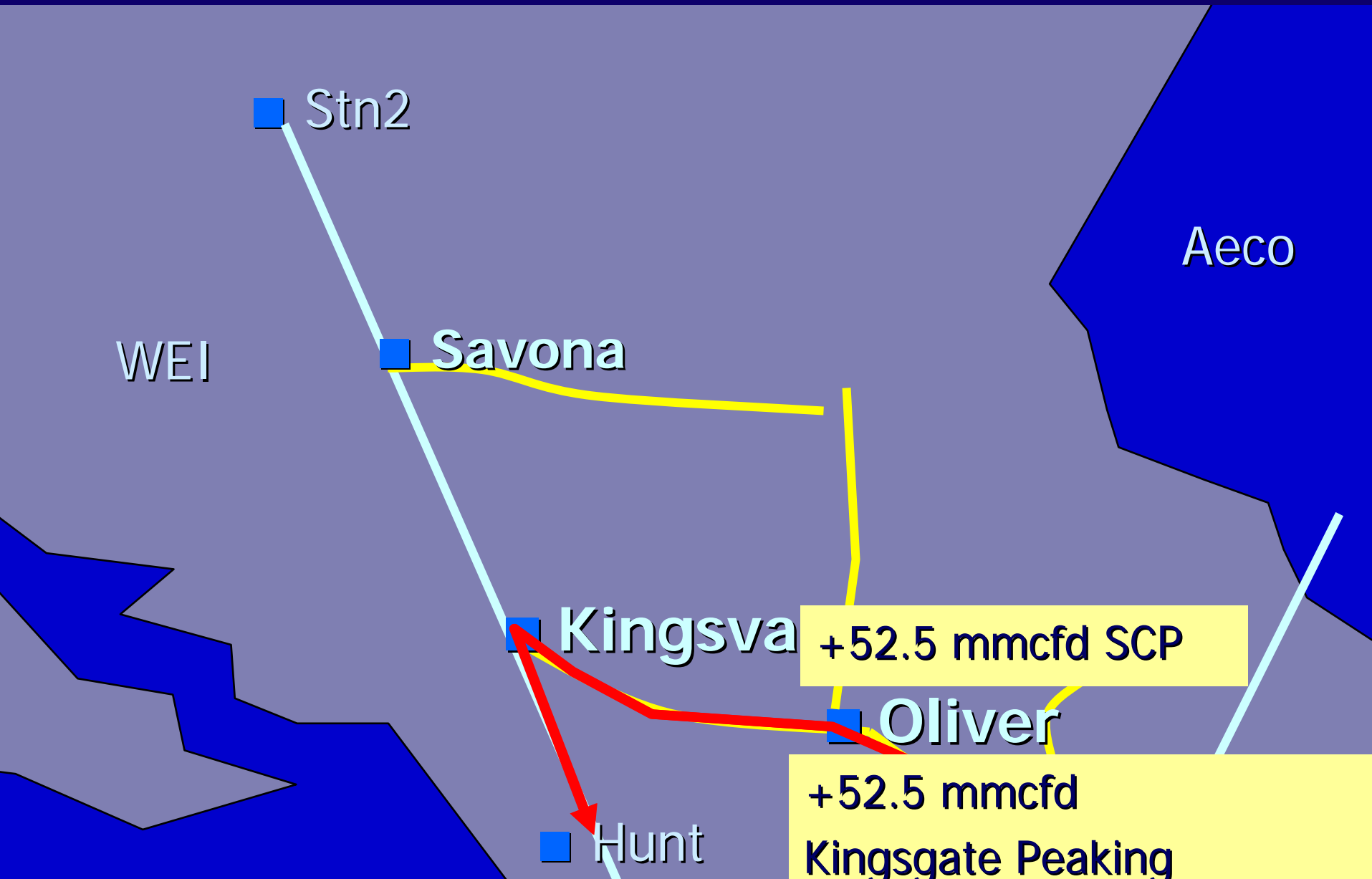


SCP Arrangements

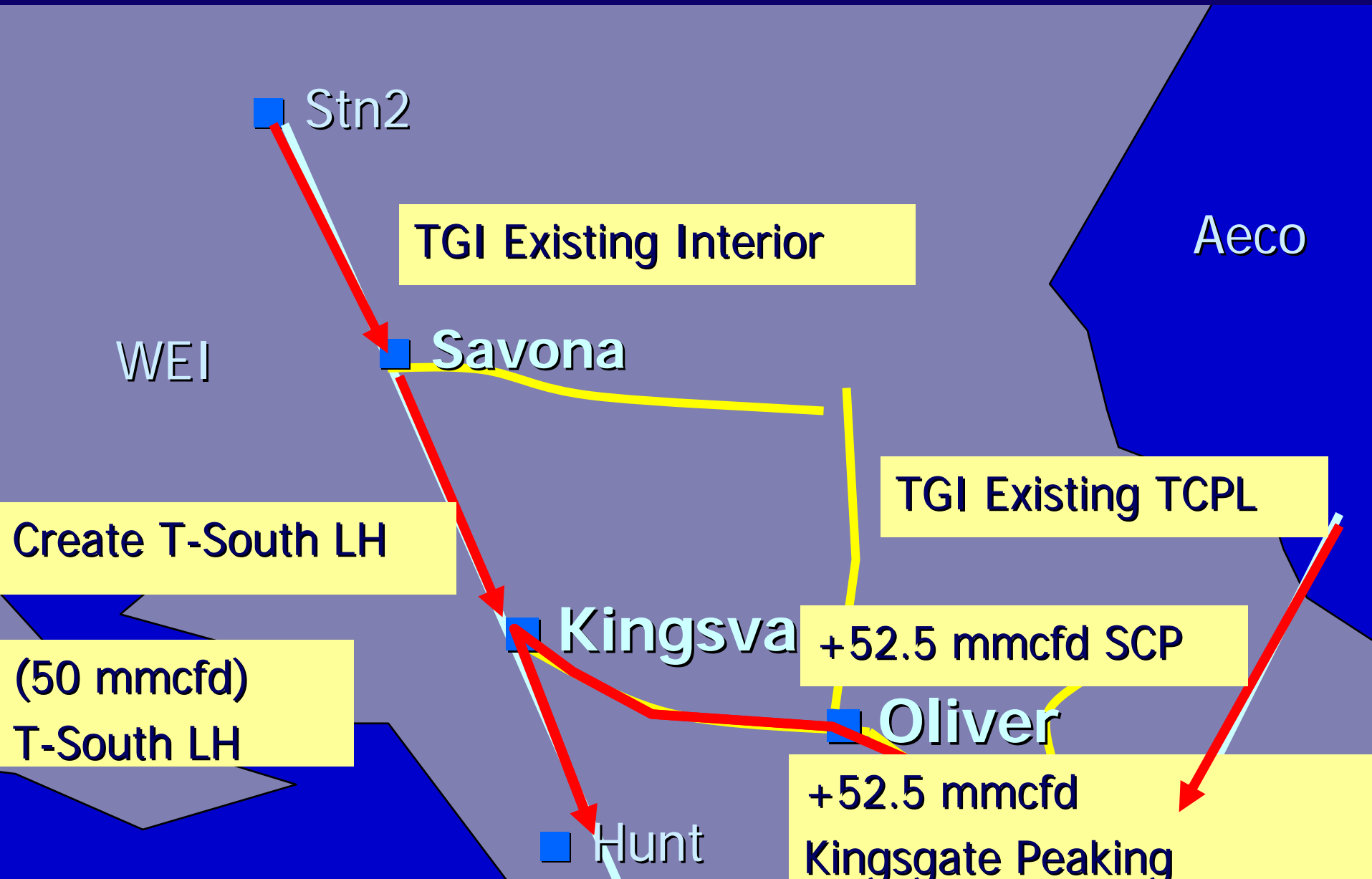
Impact on Terasen Customers



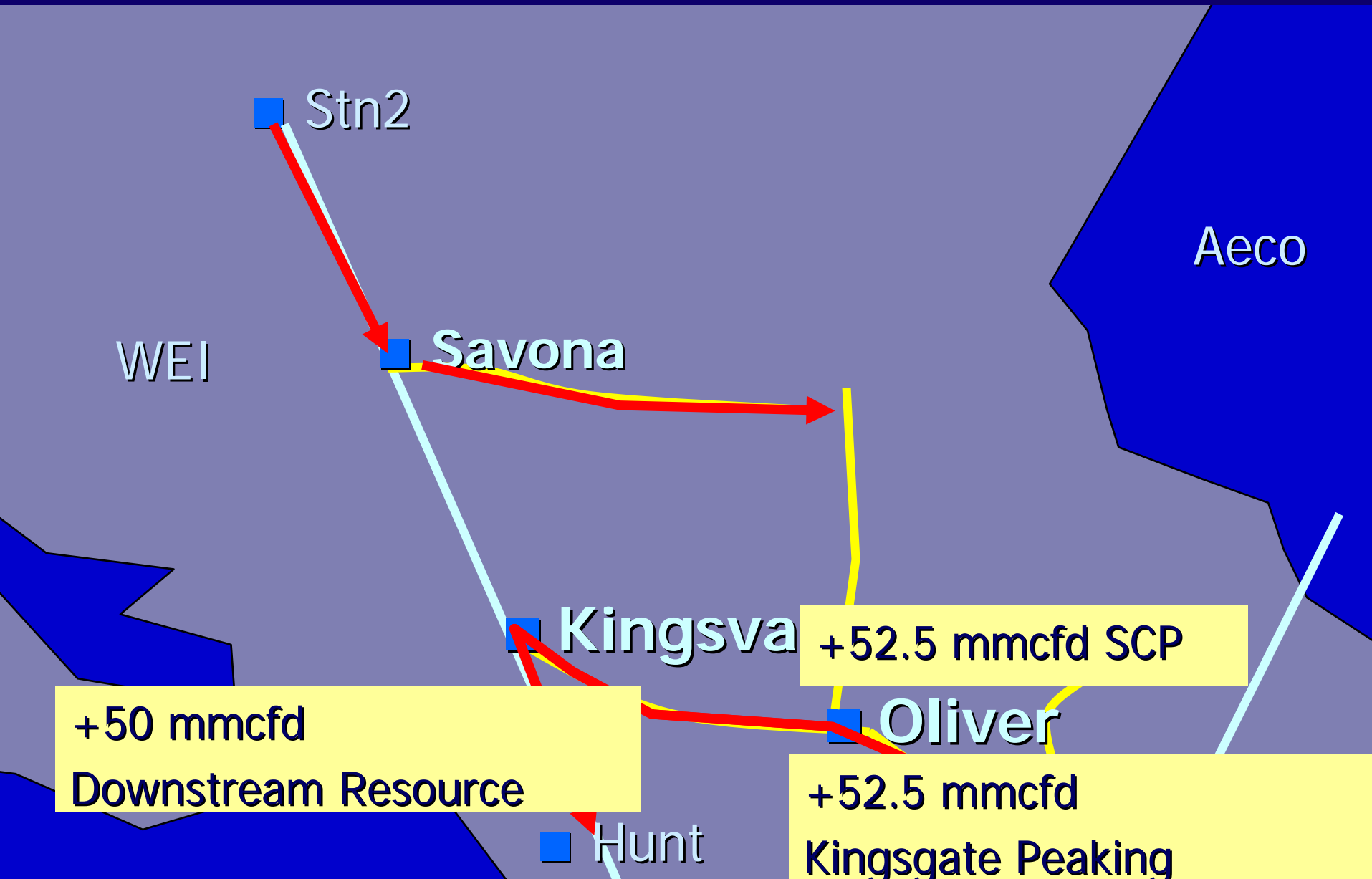
BC Hydro Put Midstream Impact Nov 2005 Peak Day



BC Hydro Put Midstream Impact Nov 2005 NON Peak Day



BC Hydro Put Midstream Impact Nov 2005 Peak Day



Summary Impact SCP Arrangements



- All Customers Benefit
 - Terasen Westcoast Reduced Build (\$0.015/mcf) savings to all Shippers
 - Increased Revenue from NWN arrangement
 - Access to Prorata Share of SCP Peaking
 - Optimization of Midstream Portfolio

Allocations and Customer Impacts

June 29, 2005

Contact Information

Tom Loski, Director Regulatory Affairs
604 592-7464
tom.loski@terasengas.com

Allocations and Customer Impacts

PG&E Termination and NWN Agreements - One year snapshot



2006		
Midstream	Transaction	Margin
	NWN Revenue	\$7,298
	PG&E Termination Payments	-\$825
\$1,131	Incremental Midstream benefits / (costs)	
	SCP Deferral Account	-\$503
	PG&E Payments from 04/05	-\$158
\$1,131	Total PG&E & NWN Impacts	\$5,812
	PG&E Revenue	-\$3,600
\$1,131	PG&E Termination and NWN Agreements	\$2,212
Revised Attachment 3a @ 6.02% (\$000's)		

Allocations and Customer Impacts

BC Hydro Put Option - One year snapshot



2006		
Midstream	Transaction	Margin
\$6,899	Release of WEI capacity	
-\$1,168	Huntingdon Resources	
\$275	Kingsgate Peaking	
-\$3,600	Allocation	\$3,600
\$2,406	Total BC Hydro Put with Allocations	\$3,600
	BC Hydro revenue	-\$3,600
\$2,406	Net BC Hydro Put	\$0
<i>Revised Attachment 3a @ 6.02% (\$000's)</i>		

Allocations and Customer Impacts

IPC Cost recovery

- Capital Costs of \$5.801 million (per Attachment 4), including AFUDC
- Include as part of SCP rate base
- Recover costs through revenue requirement and delivery rates commencing in 2006

2006		
Midstream	Transaction	Margin
	Incremental revenue Requirement	-\$600
<i>Revised Attachment 3a @ 6.02% (\$000's)</i>		

Allocations and Customer Impacts Transactions Summary – One year snapshot

2006		
Midstream	Transaction	Margin
\$1,131	PG&E Termination and NWN Agreements	\$5,812
\$2,406	BC Hydro Put Option after Allocation	\$3,600
\$0	IPC Development Costs	-\$600
\$3,537	Total Benefit / (Costs) of new Transactions	\$8,812
\$0	Reduced SCP 3rd Party Revenue	-\$7,200
\$3,537	Net Benefit of Transactions as proposed	\$1,612
<i>Revised Attachment 3a @ 6.02% (\$000's)</i>		

Allocations and Customer Impacts

Transactions Summary – NPV through 2010

NPV thru 2010		
Midstream	Transaction	Margin
\$5,560	PG&E Termination and NWN Agreements	\$30,715
\$9,142	BC Hydro Put Option after Allocation	\$14,296
\$0	IPC Development Costs	-\$2,277
\$14,701	Total Benefit / (Costs) of new Transactions	\$42,734
\$0	Reduced SCP 3rd Party Revenue	-\$31,987
\$14,701	Net Benefit of Transactions as proposed	\$10,747
Revised Attachment 3a @ 6.02% (\$000's)		

Summary

- PG&E and NWN agreements approved in 2002
 - Significant benefits to Customers
- IPC development efforts benefited Terasen Gas customers
 - WEI segmentation and reduced capital spend
- Terasen Gas use of SCP as Midstream resource results in benefit to customers
 - Proposed Allocation shares benefit with Midstream and Delivery Margin
- Aggregate set of transactions result in significant benefit to all customers

Next Steps

Commission Order No. G-55-05, June 10, 2005

- Friday July 8th Commission IRs to TGI
- Friday July 15th Intervenor IRs to TGI
- Friday August 5th TGI Responds to IRs
- Friday August 19th Intervenor Comments filed
- Tuesday August 30th TGI Reply Comments
- ?? Decision