APPENDIX 1.5

Terasen

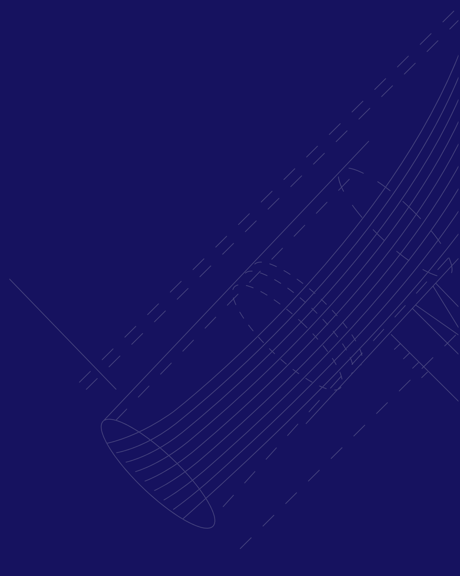
Growing Value Annual Report 2004

Growing opportunities

Over the past five years, Terasen has generated value for stakeholders through operational excellence, new project development and expansion of our existing activities. Today we have a solid portfolio of opportunities to ensure our ongoing growth.

Terasen is a leading provider of energy transportation and utility infrastructure management services. We have two strong base businesses—natural gas distribution and petroleum transportation—and an emerging business in water and utility services. Terasen is headquartered in Vancouver, Canada and its shares trade on the Toronto Stock Exchange (symbol: TER).

Contents



Growth opportunities

across our three businesses

Water and utility services

Growth opportunities of more than $100 million.

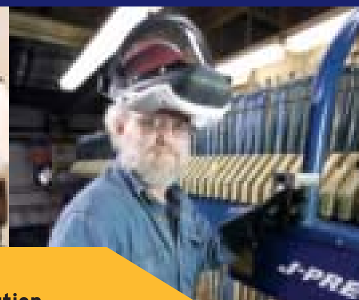
Pursue high potential municipal water and sewer projects in Western Canada.

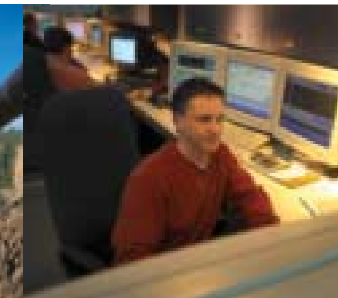
Pursue complementary growth opportunities associated with Fairbanks sewer and water acquisition.

Terasen Gas
Terasen Gas is the largest distributor of natural gas in British Columbia, serving over 875,000 customers in more than 125 communities. These services are provided primarily by Terasen Gas and Terasen Gas (Vancouver Island). Both companies also operate gas transmission systems.

Terasen Pipelines
Terasen Pipelines is one of the largest petroleum transportation businesses in North America. We own and operate Trans Mountain Pipe Line—which extends from Edmonton to Vancouver and Washington State—and Corridor Pipeline, which extends from the Athabasca oilsands to Edmonton. We also operate and own a one-third interest in the Express and Platte pipeline systems from Alberta to the U.S. Rocky Mountain region and Midwest.

Terasen Water and Utility Services
Terasen Water and Utility Services is the largest private sector provider of water and wastewater products and services in Western Canada. We operate 90 water and wastewater systems in over 50 communities throughout B.C., Alberta and Alaska. We are also a leading operator of outsourced utility services.





Natural gas transmission and distribution

Vancouver Island LNG Project

Decision anticipated in early 2005. Also potential for additional compression facilities.

Inland Pacific Connector

Proposed gas transmission line connecting Southern Crossing Pipeline to Huntingdon. Likely not required until 2007-2008. Project cost: $300 to $500 million.

Whistler Expansion Project

Potential to replace existing propane system.

Petroleum transportation

Express Expansion Project

Capacity addition of 108,000 barrels per day. Completion in April 2005. Project cost: U.S.$100 million.

TMX Project

Proposed multi-stage expansion providing up to 550,000 bpd of new capacity to either a northern or southern port. The first phase (TMX1) could be fully onstream by late 2008. Total projected cost: $2.2 to $2.6 billion.

Corridor Expansion Project

To meet expansion plans for the Athabasca Oil Sands Project. Involves partial looping of the Corridor Pipeline system. Projected cost: up to $600 million.

Heartland Terminal Project

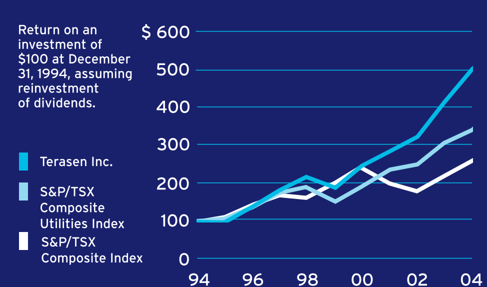
Proposed tank and cavern storage of 5 to 7 million barrels northeast of Edmonton. Potential in-service date of 2006 with completion by 2010. Projected cost: up to $120 million.

Financial highlights

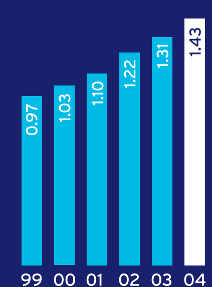
Total shareholder return
Shareholder return including dividends was 19 per cent in 2004. Over the past 10 years, Terasen's annual shareholder return has outperformed both its peer group and the S&P/TSX Composite Index.

Earnings growth
We continue to deliver shareholder value through six per cent annual earnings growth with a corresponding growth in dividends. We are committed to achieving our financial targets while maintaining a low risk profile and focusing on our core businesses.

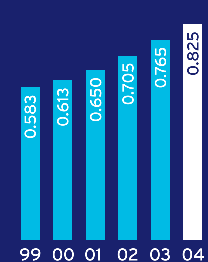
Shareholder return



Earnings per share
Before non-recurring items
Dollars



Dividends per share
Dollars



Financial results
Dollar amounts in millions except per share data

Years ended December 31	2004	2003	2002
Gross revenues	**$ 1,957.0**	$ 1,876.6	$ 1,707.2
Earnings applicable to common shares	**149.8**	132.7	105.8
Operating cash flow	**342.0**	269.8	318.1
Total assets	**4,970.6**	4,921.3	4,522.4
Earnings per share	**1.43**	1.28	1.22
Dividends per share	**0.825**	0.765	0.705
Book value per share	**13.04**	12.51	12.00
Return on common equity	**11.2%**	10.7%	11.7%

Non-recurring items are material gains or losses that, in management's opinion, are not expected to occur on a regular basis. Further explanation of non-recurring items can be found on page 47.

John M. Reid
President and Chief Executive Officer

President's message

At Terasen we are driven by a fundamental commitment to grow value—for our shareholders, for our customers and for the communities where we live and work. Over recent years we have achieved significant success in our endeavours and with a portfolio of well-managed businesses that enjoy outstanding potential for further growth, we are well positioned to sustain this success to the ongoing benefit of all our stakeholders.

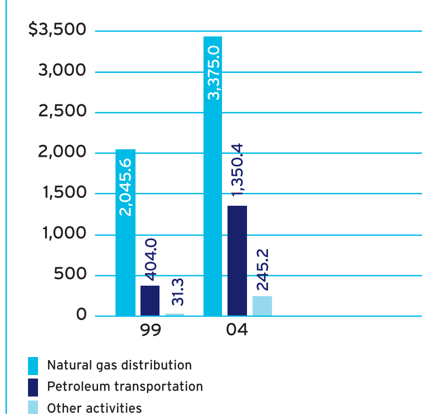
For several years now, the senior management team and I have pursued fulfillment of a very straightforward objective: to consistently deliver low double-digit returns to shareholders through a combination of dividends and earnings growth of at least six per cent per year. I am pleased to report that we achieved this objective in 2004 for the seventh consecutive year.

Terasen's earnings per share for the year increased to $1.43 in 2004 from $1.28 in 2003. In 2004, earnings adjusted to exclude unrealized hedge gains relating to the company's investment in Clean Energy amounted to $1.40 per share, as compared to 2003 earnings of $1.31 per share, adjusted for the impact of a restructuring charge. This represents an increase of 6.9 per cent.

Dividends were increased by 7.8 per cent in April 2004 and the total return to shareholders for the year was 19 per cent. In February 2005 the Board increased the quarterly dividend rate by 7.1 per cent to $0.225 per share.

Advancing the dividend increase from the second to the first quarter better reflects the results of the past year and the prospects for growth in the current year, and ties our dividend payout more effectively to our fiscal year.

Assets
In millions



Assets have more than doubled over the past five years, reflecting completion of value-enhancing projects and acquisitions.

We create shareholder and customer value through operational excellence, consistent financial performance and sustained growth.

Two core businesses and one developing business

Our tight focus on executing the specific measures embodied in our corporate strategy has delivered substantial value for the last several years. As we look to the future and our continuing commitment to our shareholders, our intent is to maintain the tight focus that we have had on our three operating businesses and our critical core competencies. This focus has served us well over the past few years and our potential for future value delivery continues to grow. Natural gas distribution and petroleum transportation are our core businesses and are well established. Our water and utility services business is a developing enterprise which has now grown to a size sufficient to be segregated in our financial reports. All three businesses enjoy prospects for solid growth through new project development, acquisitions and expansion of our existing activities.

Growing with our customers

This is an exciting time to be in the petroleum pipeline business. With the Alberta oilsands undergoing tremendous growth, Western Canadian daily crude production is estimated by the Canadian Association of Petroleum Producers to increase over the next 10 years by 1.1 million barrels, requiring significant growth in pipeline capacity linking production to downstream market refining. In anticipation of this growth, during the past year we have made a concerted effort to better understand and develop effective solutions to meet the needs of producers. Our customer-driven approach to pipeline development is providing positive results, such as the encouraging responses we received to our request for Expressions of Interest in our proposal to develop the TMX project, our ongoing discussions around further pipeline capacity within the oilsands, and the expansion of our Express pipeline system scheduled to come into service in April 2005.

Petroleum transportation capitalizes on the development of the Alberta oilsands

Growing from strength

The current economic resurgence in British Columbia offers very positive prospects for our natural gas utilities. The housing boom in 2004 saw us add more customers to our system than we

Earnings (loss) applicable to common shares

Dollar amounts in millions except per share data

Years ended December 31	2004		2003	
		Per Share		Per Share
Natural gas distribution	**$ 95.9**	**$ 0.92**	$ 98.8	$ 0.95
Petroleum transportation	**70.9**	**0.68**	56.2	0.54
Water and utility services	**6.6**	**0.06**	4.1	0.04
Other activities	**(23.6)**	**(0.23)**	(23.0)	(0.22)
Earnings before non-recurring items	**149.8**	**1.43**	136.1	1.31
Non-recurring items	**–**	**–**	(3.4)	(0.03)
Earnings applicable to common shares	**$ 149.8**	**$ 1.43**	$ 132.7	$ 1.28

had in any year in the previous decade. With increased investor confidence, a growing demand for B.C.'s natural resources and a growing provincial population, we anticipate steady growth in our natural gas business both for direct end-user gas consumption markets and in support of new gas-fired generation within the province. Adding to our optimism is a growing interest in developing a regional approach to energy infrastructure planning in the Pacific Northwest, which will support such projects as our proposed Inland Pacific Connector Pipeline.

Growing with our communities

This growing economic activity and the migration of population into Alberta and British Columbia places huge demands on water services at a time when many municipalities are relying on water and wastewater infrastructure developed in the decades prior to the 1970s. Municipal leaders are beginning to recognize the merits of private sector involvement in water and wastewater operations. Reflecting this new reality, in 2004 we entered into agreements to operate the municipal sewer system of the City of Langford on Vancouver Island and to purchase a 50 per cent interest in the water and wastewater treatment and distribution systems of Fairbanks, Alaska. These advances, combined with Terasen's easily transferable expertise in reliable operation of pipeline systems, place us in a strong position to prosper in this developing business. It is our belief that in the future the water segment of our business will come to resemble our natural gas distribution business—a substantial, regulated, low-risk utility.

Our water business builds on our utility expertise

Investing in our communities

Terasen clearly recognizes that, in addition to economic issues, the long-term viability of our business demands that we sustain a responsible approach in all our endeavours. It is a fundamental principle that social, environmental and safety considerations are critical factors in the decision-making process that guides our activities.

We are committed to supporting strong, vibrant communities in the places where we do business—for both philosophical and practical reasons. We believe strongly in the theory that success breeds success. Successful communities attract new

Terasen is growing value for shareholders through:

Focus
We are focused on low-risk businesses where we can capitalize on our core operating and project management competencies and our geographic strength.

Reliability
We are leveraging our asset management capabilities and strong stakeholder relationships to deliver reliable and consistent results.

Growth
We have substantial growth opportunities compared to the size of our asset base.

capital investment and economic activity. Safe, healthy communities with superior amenities and a high standard of living attract new residents, including skilled workforces. And all of these elements contribute to the ongoing success of our company.

In keeping with this approach, our efforts and investments in community support are highly focused—in the areas of environmental protection and enhancement, education and community development. It is a matter of pride to note that a major aspect of Terasen's community presence is the participation of our employees, individually and in groups.

We focus on the environment, education and community development

Canadians continue to debate the most effective ways to meet Canada's obligations under the Kyoto Accord. Terasen continues to play a leadership role in efforts to manage and reduce greenhouse gas emissions. In 2004, Terasen Gas was awarded gold level reporting status and was named best in industry class by the Voluntary Challenge Registry—the only two-time winner of this award in our industry. Also in 2004, Terasen Pipelines achieved silver level reporting status.

Looking ahead

We enter 2005 poised to continue delivering on our promise of sustained growth and superior value for shareholders. Clearly, we have the necessary asset base and we have significant opportunities. And, even more important, we have highly skilled and committed employees who have played such a central role in Terasen's success to date. In all, the outlook is both encouraging and exciting.

John M. Reid
President and Chief Executive Officer
February 17, 2005

Mark L. Cullen
Chairman of the Board

Chairman's message

On behalf of the Board of Directors, I am pleased to report to you and to commend our management team and employees for another year of achievement.

Excellence in governance and ethical standards is the foundation of Terasen's Board and management culture. Within this environment, your Board works together as a team, bringing the skills and experience of our directors to guide, advise and monitor management in the development and execution of strategies to deliver long-term value to shareholders.

For many years we have adopted leading governance practices and we are committed to meeting or exceeding the prevailing benchmarks going forward.

Governance matters were again a strong focus in 2004. We revised our Board and committee mandates to better reflect our responsibilities. We conducted a thorough review of the Board's operational effectiveness and made changes. We reinforced our commitment to keep directors' interests aligned with those of shareholders, by replacing the granting of stock options to directors with deferred share units that cannot be accessed until a director leaves the Board. We also increased minimum share ownership guidelines for directors and senior executives.

Assuring the integrity of our financial statements and controls is paramount. Last year we implemented CEO/CFO certification of financial statements and management continued work to evaluate and improve our internal financial controls systems.

Terasen's growth over the past 10 years has been very gratifying with significant expansion of our gas distribution and oil transportation businesses and the successful development of our water utility business. Over this period, shareholders have enjoyed double digit returns, increasing annual dividends and a record share price. We are proud of our management team and their achievements in creating value for our shareholders.

While we cannot predict the future, we can assure shareholders that the strategic focus for the Board and management remains unchanged: consistent growth in earnings and dividends at relatively low risk given our mostly regulated business environment.

At this year's annual meeting, two of our long-serving directors—Brian Canfield and Dr. David Strangway—will not be standing for re-election. We thank them for their many contributions and counsel and wish them every success in their future endeavours. This year, we welcomed Randolph Aldridge to our Board and we look forward to benefiting from his experience in the U.S. and Canadian oil and gas industry.

Mark L. Cullen
Chairman of the Board
February 17, 2005

We continue to maintain a low-risk profile while pursuing growth opportunities in line with our focus on being a leading provider of energy transportation and utility asset management services.

Growing with our customers

Terasen Pipelines — one of the largest petroleum transportation businesses in North America — is working with customers to deliver growing production from Alberta's oilsands to meet escalating demand in Washington State, California, the U.S. Midwest and Asia.

Production from the Alberta oilsands is growing and shippers and refiners need to move this extra production to California, other parts of the U.S., and Asia. As oilsands production continues to grow, there is increasing demand for petroleum transportation.

Petroleum transportation

We are significantly expanding our petroleum transportation businesses—increasing the capacity of all four pipeline systems: Trans Mountain, Corridor, Express and Platte—and developing a number of other projects. At the same time, we are striving to add value for customers by tailoring these initiatives to accommodate their growing need to transport a variety of petroleum products from production sites to markets.

During 2004, deliveries on our pipeline systems increased substantially over those of the previous year, reflecting higher volumes of crude oil supply from Western Canada and growing demand for oil on the West Coast, the Rocky Mountain states and in the U.S. Midwest. 2004 was also the first full year of operations of the Corridor pipeline.

Adding capacity to the Express and Platte pipelines

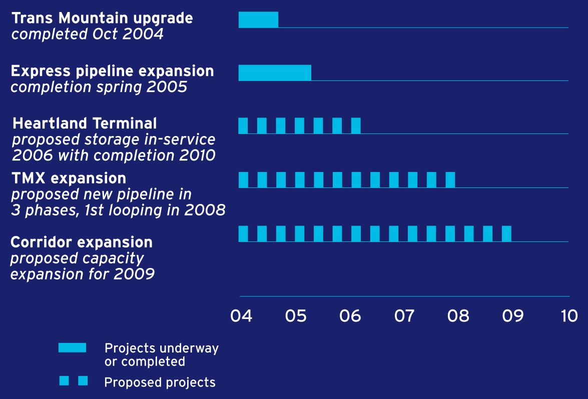
Our expansion of the Express pipeline will be completed and ready for service in April 2005—on-time and on-budget. This increase is designed to meet the rising demand for petroleum supply to the Rocky Mountain states and to serve the growing delivery needs of Western Canadian producers. The expansion will increase total system capacity to 280,000 barrels per day (bpd) from 172,000 bpd.

We also expect to complete the enhancement of the Platte pipeline capacity by 20,000 bpd between Casper and Guernsey, Wyoming in 2005. This expansion, in conjunction with the added Express capacity, will allow increased deliveries into Denver, Colorado and Wood River, Illinois.

Our goal in any acquisition is to acquire pipeline systems that serve areas of growing demand—and then expand capacity to meet this demand. When Terasen acquired a one-third interest in the Express and Platte pipeline systems two years ago, that was exactly the plan. With this goal achieved, we are actively exploring opportunities to acquire additional pipelines with similar growth potential.

We are increasing the capacity of our four oil pipelines

Timeline of projects



The TMX project gives shippers the choice of expanding to a northern or southern port, while adding capacity in stages to match growth in supply and demand.

Upgrading the capacity of the Trans Mountain system

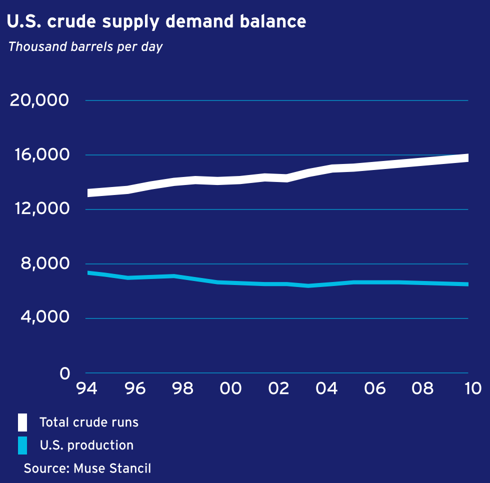
In October 2004, we completed expansion of the Trans Mountain system capacity by 27,000 bpd. As the only petroleum pipeline connecting Alberta to the West Coast, the Trans Mountain system needed this upgrade to meet the increasing demand for Alberta crude oil in Washington State and California.

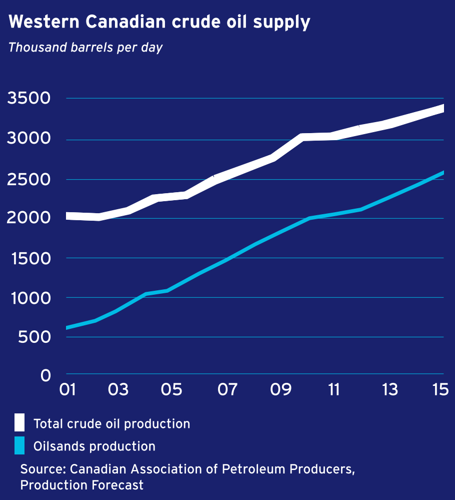
We're advancing our proposed TMX project

The TMX project is a major expansion along the route of our Trans Mountain system that will enable increased transportation of oil to the West Coast for tanker shipment to markets in California and Asia.

The company was pleased and encouraged by the strong response from a broad range of parties, including existing and new customers, to a TMX Expressions of Interest process which ended in January 2005. Shippers indicated the need for more capacity by 2008, with further expansion by 2010. The next phase of work is to finalize a commercial framework and tolls with prospective shippers and seek formal commitments to TMX in the second quarter of 2005.

The TMX project enjoys several key advantages over competing proposals. First, it can be built in stages, which enables us to add capacity as production grows and markets develop. This reduces risk for customers and the pipeline. Second, because it uses existing transportation corridors, the need for additional land acquisition can be minimized. Third, significant new capacity can be added in the first phase of TMX while preserving the options of expanding through to Vancouver, which would be more attractive for shipments to Washington State or California, or continuing on to





Connecting growing supply to growing demand
As domestic demand in the U.S. continues to outpace domestic production, Terasen Pipelines is actively pursuing the opportunity to link this expanding market with growing output from the Alberta oilsands.

Kitimat or Prince Rupert. A northern port could be preferred if customers intend to ship significant volumes of petroleum to Asia.

Looking ahead to a significant expansion of the Corridor pipeline

We are adding 15,000 bpd of bitumen capacity, along with the required diluent capacity, to the Corridor pipeline by removing bottlenecks on the system. This project will also be completed in 2005.

We are currently working with the Athabasca Oil Sands Project (AOSP) partners on plans for a further major expansion of Corridor within five years. The AOSP partners intend to increase production at their Muskeg River Mine, north of Fort McMurray, and the Corridor pipeline is a key component of this project, connecting the mine to the project's upgrader north of Edmonton.

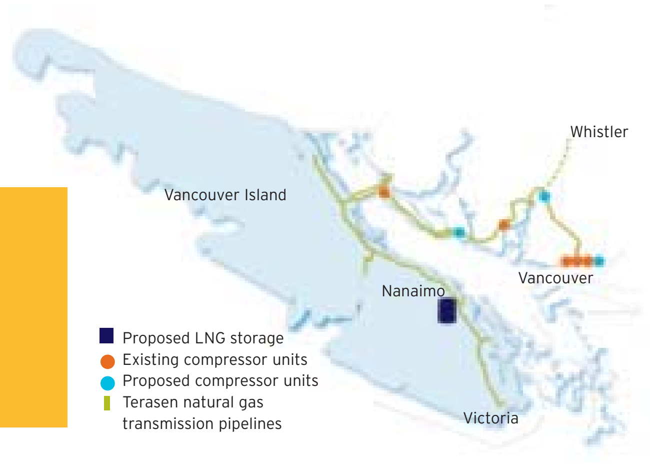
The production growth plans of the AOSP partners will require the construction of a new pipeline to meet their needs. This gives us the opportunity to work with other potential shippers in the oilsands region to meet their needs at the same time. If successful, the Corridor expansion could be integrated with our previously proposed Bison pipeline. This integration would offer many economic and land use benefits, and we are continuing to evaluate its commercial aspects.

Heartland Terminal

Terasen is working with a number of customers on the Heartland Terminal, a proposed new terminal facility northeast of Edmonton near Shell's Scotford Refinery. This project would handle growing oilsands production and provide additional flexibility and product segregation for customers.

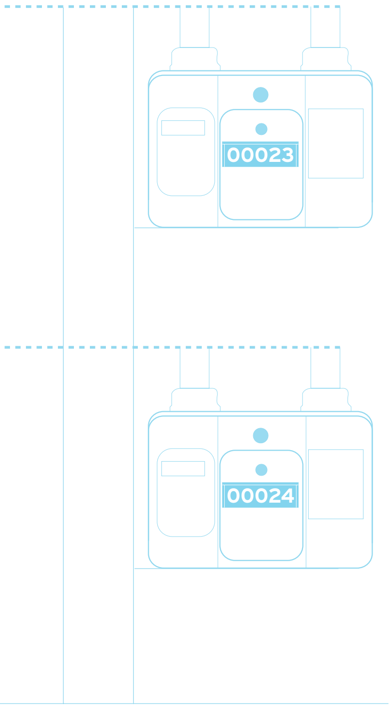
Growing from strength

Terasen Gas — the largest natural gas distributor in the Pacific Northwest — is well positioned to participate in providing the gas infrastructure to meet the needs of regional growth — safely, efficiently and reliably.



Terasen is pursuing initiatives to expand capacity to deliver additional natural gas to Vancouver Island, including an LNG storage facility and additional pipeline compression.

Natural gas transmission and distribution



In 2004 we successfully integrated and restructured our mainland, Vancouver Island and Whistler regulated utility operations under a single management team. By increasing efficiencies, using common technology platforms and integrating key business processes, we have created a foundation of expertise that is transferable to other acquisition opportunities.

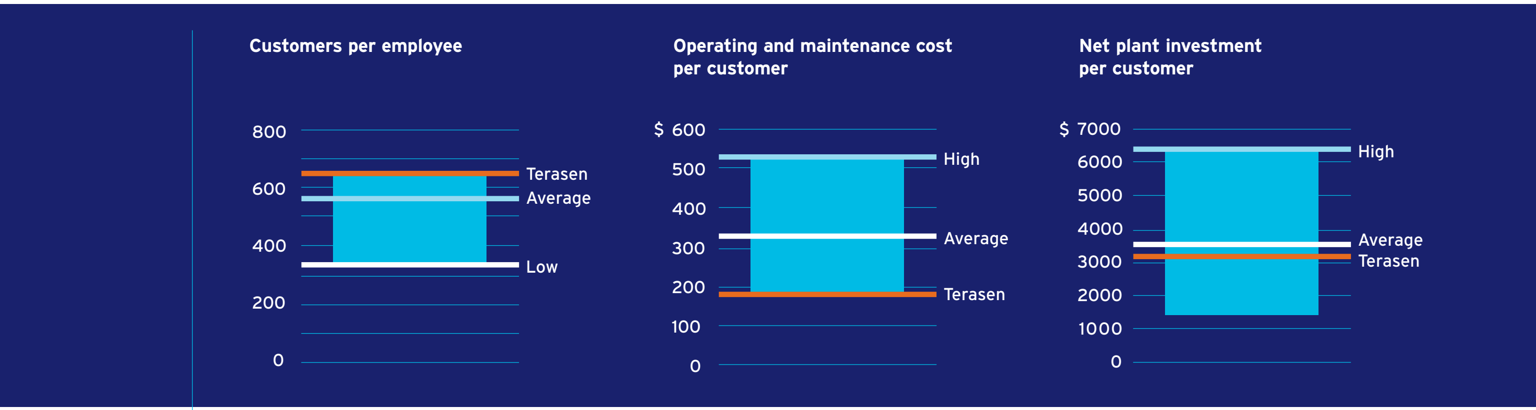
Our success has resulted in reduced operating costs, including lower costs to connect new customers. At the same time, we have met or surpassed the service quality indicators required for safety, cost, customer satisfaction and environmental responsibility under performance-based regulation. In particular, we achieved significant improvement in satisfaction among builders and developers, a group vitally important to increasing market capture. We achieved these improvements largely through the hard work and focused performance of our employees, who faced the significant challenges created by a substantial increase in new housing construction.

Increasing our customer base

We added almost 16,000 new customers in 2004, reflecting stronger economic growth in B.C., particularly in Greater Vancouver and the Okanagan. We now have over 875,000 customers throughout the province, and we set a new goal to have one million customers by 2010.

Increasing market share of natural gas in new construction

We intend to increase our share of the market for natural gas in new multi-family housing developments, which make up about 60 per cent of the residential construction market in British Columbia. To better access and serve this market, we are streamlining our processes with builders and developers, and we have created key account contacts to make it easier for major developers to work with us. As space efficiency is a key consideration in high-rise multi-family developments, we are also working to have small gas meters available in order to provide for individual metering for each unit.



A leader in operating efficiency
In addition to delivering outstanding safety and reliability, our long-term focus on performance excellence has made Terasen's natural gas distribution segment an industry leader in operational efficiency. The number of customers per employee is the highest in the industry, while costs associated with operating and maintenance and net plant investment per customer are among the lowest in the industry.

Other ways to increase our customer base to one million by 2010 include working with BC Hydro on demand-side management and partnering with communities to assess how we can best serve them in the future.

Expanding capacity to Vancouver Island

We are advancing plans to build a liquefied natural gas (LNG) facility southwest of Nanaimo which—together with expansion of compression capacity to Vancouver Island—will serve to strengthen the reliability of gas supply for customers on Vancouver Island. The LNG plant will enable storage of natural gas near major centres, in keeping with B.C.'s energy policy, while the overall increase in gas capacity will help fuel the additional electricity generation needed to meet demand.

In 2004 the Cowichan Regional District issued siting and rezoning approval for the LNG project, as well as general expressions of support. The facility is targeted for completion in the summer of 2007.

Helping Whistler meet its energy infrastructure needs

Whistler is a growing community and as it prepares for the 2010 Winter Olympics, energy infrastructure management is key. The municipality is nearing capacity of our existing propane plant and we are working closely with Whistler to determine future energy requirements for housing, recreation and transit. Options being explored range from a new gas pipeline to Whistler, centralized energy infrastructure to ground source heat pumps. The community is expected to make its decision on long-term energy infrastructure by mid-2005.

Inland Pacific Connector

Terasen Gas is taking a leadership role in regional demand/supply planning for British Columbia and the Pacific Northwest region. Along with major load-serving organizations, such as gas distribution companies and electricity companies with gas-fired generators, we recently collaborated on a study that assessed future demand growth for natural gas in the Pacific Northwest.

A growing population and ever-increasing demand for electricity is a challenge for British Columbia, especially Vancouver Island. Helping customers switch to high-efficiency natural gas heating systems will reduce demand, ensuring the most energy-efficient fuel is used for home heating.

Terasen Gas embarked on a series of programs throughout 2004 to raise consumer awareness about energy efficiency. Special offers encouraged consumers to convert to home-heating systems carrying the ENERGY STAR® label, and were made possible with cooperation from Natural Resources Canada, BC Hydro and various equipment manufacturers.

Homeowners were offered up to $1,350 in rebates when they converted to energy-efficient natural gas appliances. As a result, Terasen Gas was recognized as a leader in the promotion of energy efficiency, winning the 2004 Industry Advocate Award from Natural Resources Canada.

The report, published in the summer of 2004, determined that significant capacity expansion will be needed by 2008 to meet growing demand.

We have completed the first phase of the provincially led environmental review process on our proposed Inland Pacific Connector Pipeline project. With the proposed LNG storage facility and the preparatory work done on the Inland Pacific Connector, we are well positioned to respond to the marketplace as demand for natural gas grows.

In 2004, Terasen Gas helped roll out a program for small business owners called Natural Gas Unbundling, which separates the natural gas commodity from delivery costs. Under this program, small businesses can choose to buy natural gas from independent gas marketers who offer contracts for the natural gas commodity at a fixed price for a fixed period of time, ranging from one to five years. Terasen continues to deliver the gas and look after all billing and service functions. Approximately 10 per cent of our commercial customers opted for this program. We also introduced a Stable Rate Option for residential customers who wish to lock in the commodity price of natural gas for one year. One of the aims of this trial program is to educate customers about the cost and pricing of natural gas, while ensuring that the risks of offering a fixed rate to customers are appropriately managed.

More choice for customers when buying natural gas

Our ongoing gas purchasing strategy strives to keep the cost of gas for our customers as low as possible, dampens price volatility and helps to ensure that our rates remain competitive with consumer costs for electricity in B.C., which are among the lowest in North America. The cost of natural gas, which flows directly through to the consumer, makes up roughly two-thirds of a residential customer's bill.

Growing with our communities

Terasen Water and Utility Services is working closely with communities to meet their needs for reliable and cost-effective water and energy systems and related utility management services.

Terasen is the largest private sector provider of water and wastewater products and services in Western Canada. We operate 90 water and wastewater systems in over 50 communities throughout B.C., Alberta and Alaska.

Water and utility services

We continue to build our water business by offering municipalities a full range of water and wastewater treatment and distribution products, systems and services. This market features outstanding potential for ongoing growth as communities everywhere face the need to upgrade infrastructure and invest in new technology to meet increasingly high standards for water and effluent quality.

To expand our established position in Alberta and British Columbia we are targeting small to medium-sized municipalities whose existing water and sewage infrastructures need major expansion to keep pace with population growth. For example, in 2004 we began operating the municipal sewer system for the City of Langford on Vancouver Island under a long-term contract, and we will own expansions to the sewer system. Elsewhere, similar arrangements enable other communities to benefit from our expertise, experience and investment strengths. We also provide water metering operations in a number of locations in Canada and the United States.

Our broad range of capabilities enables us to develop long-term relationships with municipalities—often starting by providing water infrastructure products or meter installations and services. We then gain a deeper understanding of the community's needs, and are able to offer solutions through additional services in utility infrastructure and management.

We are developing long-term relationships with municipalities

During 2004 we acquired a 50 per cent interest in Fairbanks Sewer and Water in Alaska—an operation that we believe provides an example of how our business will be run in the future. It is a privately held company that supplies comprehensive water and wastewater treatment and distribution services to the City of Fairbanks, a community of 82,000 residents, and it operates under the jurisdiction of the Regulatory Commission of Alaska. We anticipate that many, if not all, water systems will eventually come under regulatory oversight similar to the structures governing natural gas and electricity operations.

Investing in our communities

Strong societies thrive on dedication and shared purpose. We are committed to actively working in partnerships that enhance the vitality and long-term sustainability of the communities where we operate.

Reducing greenhouse gas emissions
In 2004, for the sixth consecutive year, Terasen Gas was awarded gold level reporting status from the Voluntary Challenge and Registry (VCR), reflecting our efforts to manage greenhouse gas emissions. We also earned the VCR's leadership award for our industry sector—the only company in this sector to receive this award twice.

These honours acknowledge our initiative in setting reduction targets and taking specific actions to achieve them. In 2004, Terasen Gas voluntarily set a more challenging standard for its efforts, establishing year 2000 emission levels as its new baseline for comparing and reporting current year performance. Previous submissions used a 1990 emissions baseline for comparison. For the most current reporting period, operating emissions were five per cent below 2000 levels—and down a total of 14 per cent after accounting for offset project reductions. The role of the VCR was recently incorporated into the Canadian Standards Association (CSA). Terasen Gas plans to continue in the program under the CSA.

Terasen Pipelines achieved VCR silver level reporting status in 2004 and 2003 and has registered to take part in the American Petroleum Institute Climate Change Program.

Our community investment program is aimed at enhancing the strength of our communities by supporting initiatives that focus on the environment, education and community development.

Environmental Community Outreach

Terasen's focus on supporting clean air and water is reflected in our Environmental Community Outreach (ECO) program, which since its start in 1999 has contributed to the success of a number of fish and wildlife habitat enhancement projects on Vancouver Island. The program was expanded in 2004 to include projects in the Greater Vancouver area.

In partnership with Douglas College's Institute of Urban Ecology, ECO completed its first Vancouver area project in early December, aiding the Institute's Green Links program. Green Links creates ecological links between wildlife habitats by increasing the amount of native vegetation in sensitive areas. For this project Terasen employee volunteers removed invasive plant species, cleaned up sites to prepare them for planting and installed bird boxes along a stream in Surrey.

Reducing water consumption

In a program aimed to help communities reduce water consumption, in 2004 Terasen designed and managed successful volunteer water metering projects in Kamloops and Surrey. In the program, residents volunteer to have their water consumption monitored by meters installed by Terasen.




Education

Support for education is a key thrust of our commitment to strong communities, with a particular focus on training in engineering, sciences and trades. In 2004, Terasen provided bursaries for students at 26 post-secondary institutions along our petroleum pipeline routes in Canada and the United States—including eight new bursaries at U.S. schools along the routes of the Express and Platte systems.

In keeping with our interest in supporting strong First Nations communities in B.C., Terasen established an endowment at Vancouver Community College in 2004, aimed at helping Aboriginal students to upgrade their skills and go on to university. Terasen is also the lead sponsor of the Chinook Program at the University of British Columbia's Sauder School of Business. This program offers First Nations students certificate, diploma and undergraduate education in management, training future Aboriginal leaders in the practices of commerce and industry. We are working with other B.C. companies to increase support for the Chinook program.

Employee-led giving programs

In 2004, Warm Hearts, a program developed and managed by Terasen Gas employees to support health and well-being in the communities where they live and work, celebrated its 10th anniversary. Since the program's start in 1994, employees have donated $341,000 to more than 44 charitable organizations throughout British Columbia.

Terasen employees make a difference

Terasen employees are long-standing supporters of the United Way. Our fundraising campaigns surpassed their goals in 2004 and focused on increasing involvement by employees and retirees.

Creating partnerships with Aboriginal communities

For a number of years, Terasen has been building mutually beneficial working relationships with First Nations groups. Our efforts acknowledge the fact that Aboriginal bands are increasingly significant landowners in areas where we operate. In 2004, the company adopted a

Terasen supports Calgary's 'Forever Green' program, dedicated to expanding the city's urban forest. In September 2004, company employees, family members and friends planted over 200 seedlings at a popular riverside park. This complements our ongoing support of the Tree Canada initiative, which encourages community tree planting and tending to combat CO_2 emissions.

formal Statement of Principles for Aboriginal relations, spelling out our commitment to conduct business in a manner that respects the social, economic and cultural interests and expectations of First Nations communities.

Terasen has formal, written agreements and memorandums of understanding with a number of Aboriginal bands, including a long-term contractual arrangement with the Cowichan on eastern Vancouver Island. Several more agreements are currently in process. In 2004, Terasen Utility Services signed a major memorandum of understanding with the Kamloops Indian Band—the largest the company has established with a First Nations community. Terasen Utility Services will be working with the Kamloops Indian Band to develop industrial, commercial and residential land that can't be connected to the existing sewage system. The proposed development will provide a new sewer infrastructure, sewage treatment and other utility services on band land. Benefits to the band community include job and training prospects, as well as opportunities for further property and business development.

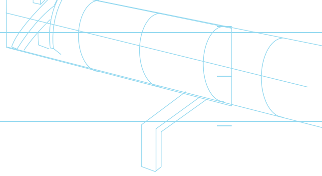
Our Aboriginal partnerships generate opportunities

Consulting with our stakeholders

A number of activities during 2004 reflected our commitment to consultation with community stakeholders who provided valuable input into our major project planning processes. On Vancouver Island, we conducted public consultation sessions to discuss our proposal to build a liquefied natural gas facility. The process enabled us to gain public support for siting of the proposed facility.

In preparation for our proposed TMX pipeline project, we have started discussions with Aboriginal groups, held a workshop with key Western Canadian environmental organizations and have begun to contact landowners and residents located in close proximity to project activities.





Natural gas division improves safety record
Terasen Gas has reduced the frequency of lost time injuries and recordable vehicle accidents in its operations, reflecting a sustained emphasis on improving employee safety.

Frequency of Lost Time Injuries

2000	2001	2002	2003*	2004*
1.76	2.13	1.81	1.27	1.11

Frequency of lost time injuries is measured by the number of incidents per 200,000 hours worked.

Frequency of Recordable Vehicle Accidents

2000	2001	2002	2003*	2004*
4.71	4.64	4.07	3.61	3.44

Frequency of recordable vehicle accidents is measured by the number of accidents per million kilometres driven.

*Includes Terasen Gas Vancouver Island

Lower Lonsdale Energy Corporation

An innovative heating system developed and implemented by Terasen Utility Services in partnership with the City of North Vancouver won three major awards in 2004, including a national Energy Efficiency Award for outstanding development and promotion of energy efficiency. The Lower Lonsdale energy project involves an interconnected system of mini plants, installed in new and existing buildings and using high-efficiency boilers. Combined, they generate as much heat energy as one large plant can, but more efficiently and cost-effectively. Approximately three million square feet of new residential and commercial space is being redeveloped in North Vancouver's Lonsdale area. Because of advance planning, the mini heating plants can be installed cost-effectively in new construction. The first mini plant is complete and the second will be completed in mid-2005. Terasen Utility Services will be able to apply this new efficient energy expertise in future high-density residential and commercial developments.

Innovative project wins national energy efficiency award

Educating the public about safety

Public safety is fundamental to our business

This year, Terasen joined with the Propane Gas Association of Canada to create a propane gas safety brochure. Terasen Gas previously developed components of the B.C. Fire Services curriculum *Getting to Know Fire* in an attempt to increase the public's understanding of gas safety and emergency preparedness.

In 2004, Terasen provided funding to 32 rural, county and city fire departments that provide first response to any emergency along the oil pipeline from the Canadian border to Wood River, Illinois.

The pipelines division formalized an Integrated Public Awareness Program,

The positive response we receive from communities when we develop major projects reflects Terasen's commitment to doing business in a responsible and respectful manner. This community approval rating is a valuable asset when seeking support for future initiatives.

designed to educate members of our communities on issues such as pipeline damage prevention and effective emergency response, as well as informing them about ongoing maintenance projects. The public plays an important role in helping to prevent pipeline emergencies resulting from third-party damage and right-of-way encroachment.

Community investment funding applications now on-line

Community groups can now apply for funding from Terasen's community investment program faster and easier through a new on-line application process.

Applications and selection criteria are available at:

www.terasen.com
www.terasengas.com
www.terasenpipelines.com
www.terasenwaterworks.com
www.terasenutilityservices.com

MD&A at a Glance

This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes for the years ended December 31, 2004 and 2003. In this MD&A, we, us, our, the Company and Terasen mean Terasen Inc., its subsidiaries, joint ventures and investments in significantly influenced companies. Terasen Gas refers to Terasen Gas Inc., TGVI refers to Terasen Gas (Vancouver Island) Inc., Trans Mountain refers to Terasen Pipelines (Trans Mountain) Inc., Corridor refers to Terasen Pipelines (Corridor) Inc., Terasen Pipelines refers to Terasen Pipelines Inc., Express refers to the Express and Platte Pipeline Systems; and Water and Utility Services refers to Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc., Terasen's 50% interest in Fairbanks Sewer and Water Inc. and Terasen's 30% interest in CustomerWorks LP.

Performance Highlights – provides an overview of the financial and operational achievements of 2004 and a look ahead at the opportunities for 2005.

About Terasen – describes Terasen's vision, core businesses and strategy.

Key Risk and Success Factors – discusses key factors influencing the Company's financial and operating performance and the risk management activities designed to mitigate the risks associated with the key success factors.

Financial and Capital Management – provides a detailed discussion of how we manage our financial and capital resources.

Financial Results – provides a comparative review of the financial performance for the consolidated Company over the past two years. It also provides an analysis of the performance of the separate business units.

Business Development – reviews the Company's activities with regard to system expansions and growth by acquisition.

Critical Accounting Policies and Estimates – provides a summary of the critical accounting policies and estimates used in the preparation of the Company's consolidated financial statements.

Review of 2004

Earnings Growth – In 2004, Terasen reported earnings of $149.8 million, an increase of $17.1 million over earnings of $132.7 million in 2003. On a per share basis, earnings increased to $1.43 per share in 2004, compared with $1.28 per share in 2003. Included in 2004 earnings was a $3.3 million gain arising from Clean Energy's price risk management activities. Excluding the gain, Terasen's earnings were $146.5 million, or $1.40 per share, up 6.9% over 2003 earnings per share before non-recurring items of $1.31.

Dividend Increase and Stock Split – On April 22, 2004, Terasen's Board of Directors approved a 7.8% increase in Terasen's quarterly cash dividend and a two-for-one stock split of the Company's common shares outstanding. All per share amounts have been restated to reflect the two-for-one stock split, which took effect on June 7, 2004.

Natural Gas Distribution – Achieved operating efficiencies between Terasen's mainland and Vancouver Island natural gas utilities, which were shared between shareholders and customers, and offset the impact of the lower allowed return on equity.

Trans Mountain Expansion – An upgrade of the Trans Mountain pipeline which increased capacity by 27,000 barrels per day (bpd) was completed in 2004.

Express Pipeline Expansion – Construction commenced on an expansion on the Express Pipeline System, which will provide an additional 108,000 bpd of capacity and is expected to be completed by April 2005.

Fairbanks Acquisition – In 2004, Terasen acquired a 50 per cent interest in Fairbanks Sewer and Water Inc. (FSW). FSW provides water and wastewater treatment and water distribution and wastewater collection services to Fairbanks, Alaska, an area of 82,000 residents.

Performance Highlights

EARNINGS (LOSS) APPLICABLE TO COMMON SHARES[1]

Years ended December 31	**2004**		2003		2002	
In millions of dollars except per share amounts		**Per Share**		Per Share		Per Share
Natural gas distribution						
Terasen Gas	**$ 69.7**	**$ 0.67**	$ 72.6	$ 0.70	$ 69.5	$ 0.80
TGVI	**26.2**	**0.25**	26.2	0.25	22.9	0.27
	95.9	**0.92**	98.8	0.95	92.4	1.07
Petroleum transportation						
Trans Mountain	**39.4**	**0.38**	35.8	0.35	29.3	0.34
Corridor	**15.6**	**0.15**	10.7	0.10	—	—
Express System	**15.9**	**0.15**	9.7	0.09	—	—
	70.9	**0.68**	56.2	0.54	29.3	0.34
Water and utility services	**6.6**	**0.06**	4.1	0.04	0.9	0.01
Other activities	**(23.6)**	**(0.23)**	(23.0)	(0.22)	(16.8)	(0.20)
Earnings before non-recurring items	**149.8**	**1.43**	136.1	1.31	105.8	1.22
Non-recurring items[2]	**—**	**—**	(3.4)	(0.03)	—	—
Earnings applicable to common shares	**$ 149.8**	**$ 1.43**	$ 132.7	$ 1.28	$ 105.8	$ 1.22

[1]*All per share amounts have been restated to reflect the two-for-one stock split, which took effect in June 2004.*
[2]*Non-recurring items is a non-GAAP measure which is described in detail in the section "Non-GAAP measures".*

Outlook for 2005

Looking ahead to 2005, Terasen remains focused on its strategy of delivering reliable and steady growth through investments in low risk businesses. Earnings growth can be achieved by applying Terasen's core competencies and skills to a larger asset base.

Dividend Increase – In February 2005, the Board of Directors of Terasen approved an increase in its common dividend per share to $0.225 per quarter, up 7.1%, from $0.21 per quarter. In previous years Terasen had increased its common dividend in the second quarter of the year. 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.

Petroleum Transportation – Terasen will continue to benefit from the unique opportunity presented by the growth in petroleum production in Western Canada. The Company is working closely with the shipping community to provide transportation solutions evolving from growth in the Alberta oilsands. During 2005, Trans Mountain will continue to pursue the development of the TMX project, which would increase capacity to the west coast by up to 625,000 bpd by 2010.

Natural Gas Distribution – Terasen's natural gas distribution business will continue to focus on operational efficiencies and pursue opportunities for new customer additions. Terasen Gas will also continue to pursue opportunities such as the delivery of additional gas transportation capacity and TGVI will work with Island communities and stakeholders to support the installation of a liquefied natural gas storage facility on Vancouver Island to serve both existing and new customers, and new gas-fired power generation.

Water and Utility Services – The Company's water and utility services business will continue to build on its base business through greenfield projects in Western Canada and further expansion opportunities from recent acquisitions.

Financial Objectives – We believe we are well-positioned to continue to deliver on our targeted growth in annual earnings per share of 6%.

ABOUT TERASEN

VISION

Terasen's vision is to be a leading provider of energy transportation and utility asset management services. Our vision is characterized by the pursuit of operational excellence at all times, with a commitment to providing consistent and steady financial performance. Terasen's competency is the provision of operating services associated with gas distribution, petroleum transportation, and water and wastewater distribution. We have developed an asset management concept, which can employ financial partners and high quality service providers to optimize the cost of capital and deliver operating efficiencies both with existing operations and potential acquisitions. In the role of asset manager, the Company creates shareholder and customer value by leveraging a combination of operational excellence, financial excellence and focused business development.

Operational Excellence

The strength of Terasen's business is its ability to operate physical assets for the benefit of customers. Given the regulated nature of Terasen's core businesses, the Company can create value through incentive regulatory arrangements that allow Terasen to share with customers the benefits of cost efficiencies and reliable customer service. To capitalize on these opportunities, Terasen is focused on achieving operational excellence through strong performance in system reliability, cost management, customer satisfaction, safety and environmental responsibility.

Financial Excellence

Terasen's low-risk business profile has been achieved through a variety of means, including a focus on growth in regulated businesses, disciplined capital investment criteria in non-regulated businesses, maintenance of sound regulatory constructs such as deferral accounts, risk mitigation through long-term contracts and a strategic focus on complementary assets and geographical locations. Terasen's low-risk profile has enabled it to achieve a cost-efficient capital structure and reliable access to capital markets. In addition, the Company has developed relationships with financial partners who can provide access to cost-effective pools of capital.

Focused Business Development

Terasen can create value through the development of new infrastructure projects, greenfield expansions and selective acquisitions. This includes securing commitments from customers to reduce the risk profile of investments, and managing construction risk to complete projects on time and on budget. Terasen also pursues selective acquisitions where there is the opportunity for value creation; where the Company can reduce costs or increase revenues through integration with existing operations, where a cost of capital reduction can be achieved, or where there is opportunity for post-acquisition expansion. The Company has also created value by growing its non-regulated businesses that have been developed from Terasen's core competencies of safe, efficient and reliable operation of distribution systems.

CORE BUSINESSES

Natural Gas Distribution

Terasen's natural gas distribution operations consist primarily of Terasen Gas and TGVI in addition to several small related utility operations. Terasen Gas is the largest distributor of natural gas in British Columbia, serving more than 792,000 customers in more than 100 communities. Major areas served by Terasen Gas are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the

province. TGVI serves approximately 81,000 customers on Vancouver Island and the Sunshine Coast area and Terasen Gas (Whistler) serves approximately 2,000 customers in the Whistler region. Terasen Gas and TGVI provide transmission and distribution services to their customers, and obtain natural gas supplies on behalf of residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and from Alberta, through Terasen's Southern Crossing Pipeline.

Petroleum Transportation

Terasen's petroleum transportation operations are the Trans Mountain, Corridor, Express and Platte pipelines. Trans Mountain transports crude oil and refined products from Edmonton, Alberta to Burnaby, British Columbia and also delivers Canadian crude oil to several refineries in Washington State. Trans Mountain also owns the Westridge Marine Terminal, which is located at tidewater in the Port of Vancouver, and a jet fuel pipeline connecting to Vancouver International Airport. Corridor owns a dual pipeline system which transports diluted bitumen and diluent between the Muskeg River mine near Fort McMurray and the Shell upgrader north of Edmonton, Alberta. Corridor commenced commercial operations in May 2003. Terasen also owns a one-third interest in the Express Pipeline and the Platte Pipeline which transports crude oil from Hardisty, Alberta to the Rocky Mountain region of the United States and on to Wood River, Illinois.

Water and Utility Services

Terasen's water and utility services operations include Terasen Waterworks, Terasen Utility Services, Terasen's 50% interest in Fairbanks Sewer & Water and Terasen's 30% interest in CustomerWorks LP. Terasen Waterworks provides water and wastewater infrastructure products and services primarily in Western Canada. Terasen Utility Services is a provider of outsourced utility services, operating over 90 systems in more than 50 communities, as well as several other utility contracts throughout North America. CustomerWorks provides billing and customer care services for almost 2.6 million customers to utilities, municipalities and retail energy companies. CustomerWorks has outsourced the provision of its customer care services to an entity owned and operated by Accenture Inc.

STRATEGY

Terasen's core competencies are in the management and operation of infrastructure assets, in particular transmission and distribution utilities and petroleum pipelines. Our strategy is designed to take advantage of these competencies and create value by applying these competencies and skills to a larger asset base. Growth in assets is expected through a combination of organic growth, greenfield expansions and accretive merger or acquisition opportunities.

Natural Gas Transmission and Distribution

Near term growth opportunities for Terasen's natural gas transmission and distribution business will be to focus on increasing new customer capture rates and maintaining the efficiencies achieved through the operational integration of Terasen Gas and TGVI. Through programs and activities designed to deliver operational excellence together with incentivized regulatory arrangements, Terasen derives value from its natural gas transmission and distribution assets. The Company's long term growth objective for its natural gas distribution business is to capitalize on its operating competencies by combining additional transmission and distribution assets with its existing asset base. The competencies applicable to natural gas distribution are also applicable to electricity distribution and water distribution.

Petroleum Transportation

Terasen's key strategic objective for its petroleum transportation business continues to be to respond to the transportation needs of crude oil and refined products shippers and capitalize on the growth opportunities arising from the Alberta oilsands. The expected growth of bitumen and synthetic crude oil production in Alberta will require additional pipeline capacity, both to move production to the Alberta pipeline hubs, and to move production from Alberta to downstream markets in Western Canada, the United States and offshore. The value of existing Trans Mountain pipeline assets continues to be enhanced through strong throughput, incentive regulation, and continuing delivery of operational excellence.

Expansion initiatives in support of this strategy include the capacity upgrade completed in 2004, the current expansion of the Express System and the development of TMX and the Bison Pipeline. The Company is working closely with shippers to address their needs for pipeline capacity and actively developing the right pipeline solutions to provide value for both our shippers and shareholders.

Water and Utility Services

Terasen's water and utility services business is positioned as Western Canada's private sector market leader in the provision of water and wastewater infrastructure products and services and is a primary operator for outsourced utility services. The water and utility services business strategy is to lever off the core competencies and processes of Terasen's existing businesses and provide efficient and flexible solutions at all points along the water distribution value chain. Its operations include the design, build and operation of water and wastewater treatment plants and distribution/collection systems, the supply of products, as well as the provision of outsourced utility services. The primary market for Terasen water and utility services is growing municipalities with significant needs for water and utility infrastructure that are looking for opportunities to lower their cost of providing these services.

KEY RISK AND SUCCESS FACTORS

Terasen's operating and financial performance is influenced by a number of success factors which include, but are not limited to, the following:

- Appropriate regulatory arrangements
- Appropriate risk management and governance processes
- Safe, reliable and efficient asset management processes
- Focused business development activities
- Energy market conditions
- Ready access to capital markets

The following is a discussion of these success factors and the activities Terasen undertakes to mitigate associated risks.

REGULATORY ARRANGEMENTS

Regulated businesses represented 96% of Terasen's asset base at December 31, 2004. Accordingly, it is essential that Terasen maintain good relationships with its various regulators and customer representatives. Appropriate, incentivized regulatory arrangements provide Terasen's regulated businesses with an opportunity to manage costs and service quality, resulting in a sharing of benefits between customers and shareholders. Through the regulatory process, the British Columbia Utilities

Commission (BCUC) approves the return on equity which Terasen Gas and TGVI are allowed to earn, in addition to various other aspects of utility operations. Fair regulatory treatment that allows Terasen Gas and TGVI to earn a risk adjusted rate of return comparable to that available on alternative, similar investments is essential for ongoing capital attraction and growth.

Trans Mountain is in discussions with shippers regarding the commercial terms for a new Incentive Toll Settlement (ITS) to replace the current ITS which is set to expire at the end of 2005. Terasen's other businesses also have in place a number of performance based regulatory frameworks which provide for additional returns based on operating efficiencies. There is a risk that upon expiry of existing agreements, new agreements may not provide the same opportunities for returns from efficiencies that exist today.

Regulation – Terasen Gas

Terasen Gas is regulated by the BCUC, which approves rates for services and issues certificates for the construction of major facilities. Traditionally, rates have been set using the cost of service approach to utility regulation. Since 1996, however, incentive-based regulation has been used in the rate-setting process in order to enhance value to customers and provide opportunities for enhanced returns to shareholders.

Rate Deferral Accruals

Terasen Gas' rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas, and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.

Two mechanisms to ameliorate unanticipated changes in sales volumes, such as changes caused by weather, have been implemented specifically for Terasen Gas. The first, originally called the Gas Cost Reconciliation Account (GCRA), relates to the recovery of all gas costs through a deferral account which captures all variances (overages and shortfalls) from forecasts. Balances are either refunded to or recovered from customers via an application with the BCUC. Creation of the GCRA was approved by the BCUC in October 1993; effective April 2004 the GCRA was split into two new deferral accounts called the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA). The CCRA and MCRA were created to support commodity unbundling and the refund/recovery mechanism works the same as that used for the GCRA. The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (RSAM).

The RSAM and CCRA/MCRA accounts reduce Terasen Gas' earnings exposure to related risks by deferring any variances between projected and actual gas consumption and gas costs, and refunding or recovering those variances in rates in subsequent periods. Variances in usage by large volume, industrial transportation and sales customers are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

Recovery of the deferral account balances in rates charged to customers led to a decline in the regulatory deferral accounts during the year. In 2004, the net balances of the RSAM and CCRA/MCRA accounts declined to $14.1 million from $38.5 million in 2003.

In order to ensure that the balances in the CCRA/MCRA account are recovered on a timely basis, Terasen Gas prepares quarterly calculations to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas costs.

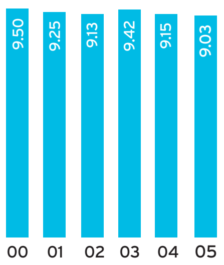
Short-term and long-term interest rate deferral accounts are also in place to absorb interest rate fluctuations. The interest rate deferral accounts which were in place during 2004 effectively fixed the interest expense on short-term funds attributable to Terasen Gas' regulated assets at 3.25% during 2004. The effective fixed short-term interest rate for 2005 has been set at 4.00%. Any variations from this rate throughout the year are recorded in deferral accounts.

The Company's pension obligations are funded by pension plan investments in a variety of assets, including equities, where investment returns may be insufficient to meet pension obligation liabilities. The majority of the Company's pension obligations relate to regulated businesses, where pension deficits are generally recoverable through the regulatory process. As part of the 2004-2007 Performance Based Rate Plan (PBR) settlement for Terasen Gas, a new deferral account was established for pension costs. In addition, the PBR settlement set forth a new deferral account for insurance premiums, which had not been included in previous regulatory settlements.

Allowed Return on Equity (ROE)

Terasen Gas' allowed ROE is determined annually based on a formula that applies a risk premium to a forecast of long-term Government of Canada bond yields. For 2005, the application of the ROE formula set Terasen Gas' allowed ROE at 9.03%, down from 9.15% in 2004. The ROE reduction reflects lower forecasted long-term bond yields for 2005, compared to those used in the 2004 ROE calculation.

Terasen Gas Inc.
Allowed Return on Equity
Percent



Allowed returns in 2004 and 2005 decreased due to lower bond yields.

2004-2007 Performance Based Rate Plan

In July 2003, Terasen Gas received BCUC approval of a negotiated settlement for a 2004-2007 PBR. The PBR settlement establishes a process for determining Terasen Gas' delivery charges and incentive mechanisms for improved operating efficiencies. The four-year agreement includes incentives for Terasen Gas to operate more efficiently through the sharing of the benefits between Terasen Gas and its customers. The PBR Settlement includes 10 service quality measures designed to ensure Terasen Gas maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between Terasen Gas and interested parties regarding its current performance and future activities.

Operation and maintenance costs and base capital expenditures are subject to an incentive formula reflecting increasing costs due to customer growth and inflation, less a productivity factor based on 50 percent of inflation during the first two years of the PBR and 66 percent of inflation during the last two years. Base capital expenditure amounts are a function of customer numbers and projected customer additions. The PBR Settlement provides for a 50/50 sharing mechanism of earnings above or below the allowed return on equity, beginning in 2004.

Upon expiry of the 2004-2007 PBR, there is no certainty as to whether a new negotiated settlement will be entered into, or what the terms of a new settlement might be.

Natural Gas Commodity Unbundling

Over the past several years, Terasen Gas, the BCUC, and interested parties have laid the groundwork for the introduction of natural gas commodity unbundling for commercial customers. On May 1, 2004, commercial customers of Terasen Gas became eligible to sign up to buy their natural gas commodity supply from third party suppliers beginning November 1, 2004. Terasen Gas will continue to provide delivery of the natural gas. Approximately 78,000 commercial customers are eligible to participate in commodity unbundling. By December 2004, 2,067 customers elected to participate in this program. The introduction of the unbundling program is not expected to have a material impact on the Company's financial results.

Regulation – TGVI

TGVI is also regulated by the BCUC. In 1995, an agreement was entered into between TGVI, the Province of British Columbia (the Province) and the Government of Canada, which included a Special Direction that was issued to the BCUC. The agreement, which expires no sooner than 2011, includes the following terms:

- TGVI receives, for the benefit of its customers, an annual payment until 2011 from the Province based on the wellhead price of natural gas in B.C. This payment amounted to $33.2 million in 2004.

- The accumulated revenue deficiency resulting from overall revenues being below the cost of service prior to 2003 had been recorded in a Revenue Deficiency Deferral Account (RDDA). When Terasen acquired TGVI, the amount of the RDDA was $85 million, for which Terasen paid a price of $61 million. The accumulated RDDA recorded on Terasen's consolidated financial statements totaled $45.6 million as at December 31, 2004, corresponding to a balance for TGVI regulatory purposes of $61.1 million, down $14.2 million from December 31, 2003. Terasen is committed to fund these revenue deficiencies by purchasing preferred shares or subordinated debt issued by TGVI. The BCUC was directed to set rates beginning in 2003 that amortize the RDDA balance over the shortest period reasonably possible, having regard for TGVI's competitive position relative to alternative energy sources and the desirability of reasonable rates.

- Any variances in the achieved ROE in a particular year from the allowed ROE (other than variances resulting from operation and maintenance costs) are deferred and recorded in the RDDA. The RDDA accumulated by TGVI is funded by the Company. Recovery of the deficiency through rates charged to customers is dependent upon regulatory approval and must be balanced against maintaining the competitiveness of TGVI's service relative to alternative energy sources. As a result, most risks associated with TGVI's annual financial results (other than operating costs) are, subject to BCUC approval, transferred to customers through the RDDA. The Company began recovery of the deficiency in 2003.

TGVI's three-year regulatory settlement took effect January 1, 2003. It provides for a continuation of the operation and maintenance cost incentive arrangements previously in place, and increases the allowed ROE for TGVI to a rate that is 0.50% higher than the allowed ROE for Terasen Gas, which equates to 9.53% for 2005. TGVI's allowed ROE in 2004 was 9.65%.

To ensure prompt recovery of the RDDA, the BCUC has approved a rate-setting mechanism for TGVI whereby customer rates are set at levels in excess of TGVI's cost of service, but below comparable electric rates. This has resulted in significant RDDA amortization in both 2003 and 2004.

Regulation – Trans Mountain

The National Energy Board (NEB) regulates the Canadian portion of Trans Mountain's crude oil and refined products pipeline system. The NEB authorizes pipeline construction and establishes tolls and conditions of service.

In November 2000, Trans Mountain and shipper representatives reached a negotiated agreement to determine Trans Mountain's tolls for the period 2001-2005. This ITS was approved by the NEB on March 22, 2001 to take effect as of January 1, 2001.

The 2001-2005 ITS establishes base tolls, within a band of approximately 179,000 to 201,000 bpd, on Trans Mountain's Canadian mainline for the term of the settlement. Base tolls are set using a throughput level of approximately 189,000 bpd. Any revenue shortfalls arising from annual throughput levels below 179,000 bpd are recovered from the shippers. Incremental revenues arising from annual throughput above 201,000 bpd are shared equally between Trans Mountain and the shippers. The base tolls do not escalate with inflation unless Canadian inflation rates increase above 3.5%. Trans Mountain keeps all of the benefits achieved through productivity initiatives and operating efficiencies.

Trans Mountain has initiated discussions with shipper representatives to extend or renew the 2001-2005 ITS. There is no certainty as to whether a new toll settlement will be entered into, or what the terms of a new toll settlement might be. Trans Mountain's earnings could be materially negatively impacted in 2006 depending on the final tolling arrangements with shippers.

The toll charged for the U.S. portion of Trans Mountain's pipeline in Washington State falls under the jurisdiction of the Federal Energy Regulatory Commission (FERC). Regulation by FERC is on a complaint basis. There were no complaints in 2004.

Regulation – Corridor

As an intra-provincial pipeline system, Corridor is subject to the jurisdiction of the Alberta Energy and Utilities Board (AEUB). With respect to Corridor, matters such as rates of return, construction and operation of facilities, and tolls are governed by contractual arrangements with shippers.

The Firm Service Agreement (FSA) between Corridor and its shippers sets pipeline tolls based on conventional cost of service mechanisms. The FSA is a 25-year agreement, with return on equity linked to prevailing long Canada bond yields. Shell Canada Limited, Chevron Canada Limited and Western Oil Sands L.P. have entered into a long-term ship-or-pay contract with Corridor for 60%, 20% and 20%, respectively, of the available capacity on the Corridor Pipeline.

Regulation – Express System

The Canadian segment of the Express Pipeline is regulated by the NEB as a Group 2 pipeline, which results in rates and terms of service being regulated on a complaint basis only. The U.S. segment of the Express Pipeline and the Platte Pipeline are regulated by the FERC, which regulates the rates and terms of service of a common carrier. FERC has additionally established methods by which pipelines may increase their rates.

Express committed rates are subject to a 2% inflator adjustment on April 1 of each year. Uncommitted or ceiling rates for both the U.S. segment of Express Pipeline and Platte Pipeline are subject to adjustment in accordance with FERC's annual indexation formula. Platte has historically been unable to charge its ceiling rates and has had to discount its rates because of market fundamentals in the Chicago/Wood River refining region. With changes in market conditions over the past year, Platte has been able to successfully remove and/or reduce many of its discounts. Today, Platte only has discounts from Casper and Guernsey to Wood River and from Casper to Guernsey; all other rates are at the applicable ceiling level.

Additionally, movements on the Platte Pipeline within the State of Wyoming are regulated by the Wyoming Public Service Commission (WPSC), which regulates the tariffs and terms of service of public utilities that operate in the State of Wyoming. The WPSC standards applicable to rates are similar to those of the FERC and the NEB.

In late 2003 and 2004, Terasen conducted open seasons to obtain long-term commitments for a portion of its current uncommitted capacity and for expansion capacity, the latter available in April 2005. The results of the open seasons were very positive and based upon current capacity of 172,000 bpd, Express has 85% committed through long-term contracts. Post-expansion, Express will have 84% of the 280,000 bpd total capacity contracted. These contracts expire in 2007, 2012, 2014 and 2015 in amounts of 1%, 40%, 11% and 32% of total capacity, respectively. These contracts provide for committed tolls for transportation on the Express System, which can be increased each year by up to 2%. The remaining capacity is made available to shippers as uncommitted capacity and was fully utilized in 2004.

RISK MANAGEMENT AND GOVERNANCE

In order to ensure that operating and financial results meet customer, regulatory and shareholder expectations, an effective system of risk management and governance is essential. Terasen has an Enterprise Risk Management (ERM) framework, methodology, and risk management process across the organization to ensure that significant business risks are identified, evaluated and appropriately managed and monitored. Terasen's corporate governance practices are described more fully in Terasen's management proxy circular in connection with the 2004 annual shareholders' meeting.

Pursuant to Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (MI52-109), Terasen's management is actively evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures in consultation with external consultants. The evaluation is being conducted under the supervision of, and with the participation of, the President and Chief Executive Officer and the Senior Vice President, Finance and Chief Financial Officer.

Terasen takes its responsibilities under MI52-109 very seriously. Terasen is leveraging the existing ERM framework, methodology, and risk management process to apply a consistent risk-based approach to certification compliance efforts. Terasen's rigorous risk management and reporting mechanisms, together with tight linkage between risk management and the annual enterprise-wide internal audit plan, are factors that reduce the enterprise's risk with regards to potential misrepresentations, misstatements and internal control weaknesses.

ASSET MANAGEMENT

The focus of asset management is to ensure reliable, cost effective, quality service with full regard for the safety of employees and the public while operating in an environmentally responsible manner. Appropriate regulatory arrangements provide incentives to manage costs and maintain or improve service quality. Once opportunities are available, asset management skills are key to capitalizing on these incentives.

At the core of Terasen's businesses is the ability to safely, reliably and efficiently provide energy transportation and utility infrastructure management services. In the provision of these services, the Company has implemented an operating and risk management framework to enable it to consistently achieve its financial and operating targets. In addition, the framework has enabled Terasen to leverage its operating expertise to additional utility businesses, providing further opportunities for value creation.

The natural gas distribution and petroleum transportation businesses maintain comprehensive facility risk assessment, pipeline integrity management and damage prevention programs, and pipeline security systems as preventive measures to mitigate the risk of a pipeline failure or other loss of system integrity. These programs are intended to reduce both the likelihood and severity of the business interruption and/or environmental liability that could result from a pipeline failure or loss of integrity.

The actions necessary to abandon pipeline systems at the eventual end of their useful lives have not been defined and the costs of these actions are not currently determinable and may not be fully recovered in rates or tolls. Until such time as the specified requirements of abandonment and the funding mechanism for the eventual recovery of negative salvage is determined, the Company's petroleum transportation and gas distribution businesses, like those of other Canadian pipeline systems, make no provision for these amounts.

Terasen's operating subsidiaries could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas or a compromise to water or sewer distribution systems operated and/or maintained by the Company. Terasen has taken all reasonable and prudent steps to minimize its exposure in the case of a catastrophic event or environmental upset. The Company conducts its operations under the direction of an Environmental Management System which specifies impacts, control measures and audit protocols. The Company also has an insurance program that provides coverage for liability and property damage.

Terasen has detailed emergency preparedness plans in place to respond to natural disasters, accidents and emergencies, and regularly tests these plans in simulations involving employees and other emergency response organizations. The Company is also committed to monitor and assess its safety and environmental performance regularly. Terasen incorporates safety performance measures into its employee compensation system, sets targets and objectives for environmental performance, and conducts safety and environmental audits.

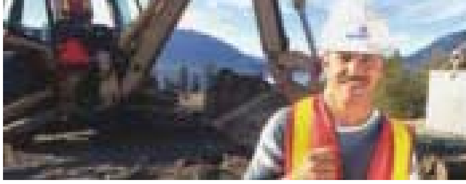
Safety and environmental management is a key aspect of effective asset management. Terasen Gas has established programs to use resources more efficiently and effectively including a greenhouse gas management program, industrial waste recycling and salvage shop operations. For the sixth consecutive year, Terasen Gas was awarded gold level reporting status from Canada's Climate Change Voluntary Challenge and Registry (VCR). In 2003, Terasen Gas received the VCR Leadership award, becoming the only company in its sector to receive the honour twice, having previously received the award in 2001. The VCR ranking acknowledges Terasen Gas' efforts to develop specific measures and voluntarily set reduction targets. In 2003 Terasen Gas reduced its operating emissions 5% below 2000 levels (before offsets) and 14% below 2000 levels, after accounting for offset project emission reductions. These results were accomplished through operational efficiencies, equipment selection and offset project investment.

Through the terms of its regulatory settlements, Terasen Gas has been successful in achieving and exceeding its productivity targets and capitalizing on incentives. A recent independent analysis of operating costs found that Terasen Gas was the best performer among ten Canadian gas distribution utilities on the measures of customers per employee and operating costs per customer.

Terasen's petroleum transportation business has also taken steps to improve operating cost efficiency under Trans Mountain's Incentive Toll Settlement.

BUSINESS AND PROJECT DEVELOPMENT

Terasen's success in business and project development is expected to come through a combination of greenfield expansions of existing assets and accretive acquisitions of complementary assets. The Company is working closely with its customers in each area of its business to develop opportunities which create value for both the customers and its shareholders.



In 2004, Terasen continued to demonstrate its project management skills through the on-time completion of the Trans Mountain pipeline capacity upgrade, which added 27,000 bpd of throughput. The risks associated with construction projects require that the Company maintains strong project management capabilities. The construction of the Southern Crossing and Corridor pipelines on-time and on-budget, along with existing pipeline expansions, has demonstrated Terasen's project management and execution skills, which will continue to be applied to new infrastructure construction opportunities. A key aspect of construction project management for Terasen is ensuring that contractors are responsible for risks that they can best manage.

Through the acquisition of TGVI, the Express System, and several water and utility service providers, Terasen has demonstrated its ability to successfully integrate acquisitions and achieve operating efficiencies. In the end, the ability to successfully integrate new acquisitions will have a significant impact on the Company's ability to achieve value-accretive acquisitions.

Terasen actively pursues development and acquisition opportunities in North America, where these opportunities are in related businesses, are compatible with Terasen's operating competencies, are located in a manageable region, and above all provide a positive financial impact. The entry into new markets and non-regulated businesses may require the Company to undertake additional risk, such as currency risk or regulatory risk. In order to proceed with projects that may expose Terasen to additional risk, the Company requires above-normal returns from the project and active risk management and other mitigating strategies are employed.

ENERGY MARKET CONDITIONS

Terasen's financial performance, business development success, and acquisition opportunities are impacted by energy market conditions including, but not limited to, general economic conditions, market competitiveness, changes in demand and supply, and commodity prices. The Company has in place various risk management activities designed to mitigate the impact of these factors on its operating and financial performance. The following is a discussion of the key energy market conditions that affect Terasen's business and the activities designed to manage the Company's exposure to market risk.

Competitiveness – Natural gas maintains a competitive advantage in terms of pricing when compared with alternative sources of energy in British Columbia. However, because electricity prices in British Columbia continue to be set based on the historical average cost of production (primarily hydro-electric dams), rather than based on market forces, they have remained artificially low compared to market priced electricity and, as a result, marginally higher than market-based natural gas costs. Over time, these pricing signals may distort energy use decisions by British Columbia consumers, thereby decreasing the use of natural gas by customers. Terasen Gas and TGVI are working with BC Hydro on demand side management and partnering with communities to assess how the Company can best serve them in the future.

Trans Mountain's pipeline to the West Coast of North America and the Express System to the U.S. Rocky Mountains and Midwest are two of several pipeline alternatives for Western Canadian petroleum production, and throughput on these pipelines may decline if overall petroleum production in Alberta declines or if tolls become uncompetitive compared to alternatives. The Company's oil transportation business competes against other pipeline companies who could be in a position to offer different tolling structures, which may provide a competitive advantage in new pipeline development. Throughput on Trans Mountain may decline in situations where West Coast petroleum prices, net of transportation costs, are relatively lower than alternative prices in the U.S. Midwest. Throughput on the Express System may decline as a result of reduced petroleum product demand in the U.S. Rocky Mountains.

Impact of Changes in Economic Conditions – New customer additions at Terasen Gas and TGVI are typically a result of population growth and new housing starts, which are affected by the state of the provincial economy. The Company is also affected by changes in trends in housing starts from single-family dwellings to multi-family dwellings, for which natural gas has a lower penetration rate. While new housing starts have increased in B.C. in 2004, growth of new multi-family housing starts has significantly outpaced that of new single-family housing starts.

Fluctuations in natural gas use per residential and commercial customer, whether arising from weather or price levels, are deferred and recovered in customer rates and have no earnings impact on the Company.

Throughput on Terasen's petroleum pipelines and future business development is dependent on the supply of, and demand for, crude oil and other liquid hydrocarbons, particularly from the Alberta oilsands. Changes in the business environment, such as a decline in crude oil prices, an increase in production costs from higher feedstock prices, supply disruptions, or higher development costs, could result in a slowing of supply from the Alberta oilsands. In addition, changes in the regulatory environment or governmental policies, such as the Kyoto Protocol, may have an impact on the supply of crude oil.

Throughput on Terasen's petroleum pipelines may decline as a result of changes in business conditions. However, under the ITS for the Trans Mountain Canadian mainline, this risk is mitigated by a mechanism that permits Trans Mountain to recover revenue shortfalls arising from average throughput below 179,000 bpd through toll adjustments in subsequent years. Declines in Express revenues are mitigated by shipper firm service contracts as noted in the section "Regulation – Express System". Throughput on the Corridor pipeline is backed by long-term take-or-pay contracts with the shippers.

Commodity Prices – The Company employs a number of tools to reduce its exposure to natural gas price volatility. These include purchasing gas for storage and adopting hedging strategies, which include a combination of both physical and financial transactions, to reduce price volatility and ensure natural gas commodity costs remain competitive against electric rates. Activities related to the hedging of gas prices are approved by the BCUC and gains or losses accrue entirely to customers. The Company's commodity derivatives are discussed more fully in the section "Financial Instruments".

Deregulation of the electric industry, particularly in Alberta and Montana, has increased Terasen's price risk associated with the operation of the Trans Mountain and Express pipeline systems. Terasen has developed a two-year power purchasing plan to mitigate the risk associated with fluctuations in power prices, and a power management system is being used to more effectively predict power usage.

Natural Gas Supply – By bringing the Southern Crossing Pipeline into service in 2000, Terasen Gas has improved the security and competitiveness of the gas supply arrangements in place for Terasen Gas' customers. To the extent possible, Terasen Gas and TGVI have also minimized gas supply and price risk through the use of long-term transportation, storage and supply contracts, hedging instruments, and a diverse supply portfolio.

However, regional market prices have been higher from time to time than prices elsewhere in North America as a result of insufficient peak pipeline capacity to serve the increasing demand for natural gas in B.C. and the U.S. Pacific Northwest. In addition, Terasen Gas and TGVI continue to be dependent on a limited selection of pipeline and storage providers, particularly in the Vancouver, Fraser Valley and Vancouver Island service areas where the majority of the Company's natural gas distribution customers are located. Terasen is actively exploring opportunities to cost-effectively expand pipeline capacity to the Lower Mainland through initiatives such as the Inland Pacific Connector Project – a proposal to extend the Southern Crossing Pipeline from Oliver (in the interior of British Columbia) to the regional natural gas trading hub of Sumas, near Vancouver.

Terasen Gas and TGVI are critically dependent on a single source transmission pipeline. Terasen Gas is reducing its dependency on the Duke transmission system by increasing its scale and diversification of gas supply through the development of the Southern Crossing Pipeline and proposed Inland Pacific Connector. In the event of a service disruption on the transmission system, the Vancouver Island portion of the system could be affected for an extended period of time, thereby affecting revenues. Proceeding with the proposed liquefied natural gas (LNG) storage facility on Vancouver Island would serve to reduce this exposure. Terasen Gas is also supporting TGVI in its efforts to provide additional gas transportation capacity on Vancouver Island. A more detailed discussion of TGVI's expansion plans is outlined in the section "Business Development". Terasen Gas has indicated to the BCUC, its willingness to lease storage capacity on the system if TGVI proceeds with the expansion.

ACCESS TO CAPITAL

In order to meet the capital investment and return requirements of its businesses, Terasen must have reliable access to cost effective capital. The Company's requirements for capital and access to capital are discussed more fully under "Liquidity and Capital Resources".

The development of income-oriented investment vehicles, such as income trusts, has lowered the cost of capital for certain companies and increased the prices that can be paid for acquisitions of certain infrastructure assets. In some circumstances, a corporate financing structure such as Terasen's stand-alone structure is unable to achieve a cost of capital that is as low as these alternative structures. In order to remain competitive in the pursuit of certain acquisitions, it may be necessary for Terasen to develop alternative structures that deliver a lower cost of capital or make the size of the transaction more reasonable from a risk management perspective.

An example of such an alternative structure is the consortium formed by Terasen to acquire the Express System. Terasen and two major Canadian pension funds each own a one-third interest in the Express System. The structure developed by Terasen results in a pairing of the pension funds' financial capabilities with Terasen's operating capabilities, while delivering attractive overall returns to Terasen on its investment.

Earnings and cash flow volatility arise from general financial market risk, including movements in interest rates and fluctuations in the Canadian dollar relative to other foreign currencies. Terasen has established risk management policies to oversee the use of derivative financial instruments designed to offset its exposure to financial market risk. Continuous monitoring and regular reporting to senior management are in place to assess the derivative activity. The Company does not use derivative financial instruments to engage in speculative transactions. The financial instruments outstanding are described in the section "Financial Instruments".

Interest Rates – Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has 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, TGVI and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline. As a result, if short-term interest rates increased by 1.0% for an extended period of time, the estimated impact on Terasen's annual consolidated net earnings would be a reduction of approximately $3.1 million, whereas a similar decrease in long-term interest rates would be expected to decrease annual net earnings by approximately $10.9 million. Terasen has hedging programs in place for its interest rate and foreign exchange risks which have been factored into the sensitivities described above, and which are described in note 16 to the consolidated financial statements.

Foreign Exchange – In addition, a component of Terasen's earnings, principally earnings from Trans Mountain's U.S. pipeline, the Express System and U.S.-based water and utility services operations, 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 Cdn$1.1 million.

Counterparty Credit Risk – The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. The Company is also exposed to significant credit risk on physical off-system natural gas sales. Because it deals with high credit quality institutions in accordance with established credit approval practices, the Company does not expect any counterparties to fail to meet their obligations.

The sensitivities described above are based on Terasen's business profile as at December 31, 2004 and may change over time as a result of changes in Terasen's business profile.

FINANCIAL AND CAPITAL MANAGEMENT

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Cash Flow

Cash from operations refers to cash generated before the impact of working capital and deferral accounts. In 2004, Terasen generated $296.3 million in cash from operations, up $7.0 million from the year prior. The increase in cash from operations was primarily attributable to higher earnings for the year as adjusted for non-cash charges such as depreciation and amortization. Cash from operations was reduced by $14.3 million in 2004 as earnings from the Express System exceeded distributions, which were reinvested. Cash flow from operating activities, which includes the impact of changes in working capital and deferral accounts, increased to $342.0 million in 2004 from $269.8 million in 2003. In addition to higher earnings, cash flow from operating activities increased as a result of an increase in non-cash working capital balances in 2003, which were attributable to construction during 2002.

Terasen's working capital requirements fluctuate seasonally based on natural gas consumption. Given the low-risk, regulated nature of its business, Terasen is able to maintain negative working capital balances. Terasen maintains adequate committed credit facilities to meet its working capital requirements. On an annual basis, Terasen generates sufficient cash flow to meet its working capital requirements.

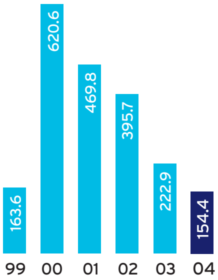
Capital Expenditures

Capital expenditures totaled $154.4 million in 2004 compared with $222.9 million in 2003. The primary reason for the decline in capital spending was the construction of the Corridor pipeline project, which was completed in 2003. The major capital expenditure in 2004 was the expansion of the Trans Mountain pipeline. In addition, Terasen acquired a 50% share of FSW and other smaller water and utility service companies for $57.9 million, which is not included in the table below. Actual capital spending in 2004 and forecast capital spending in 2005 is summarized as follows:

Capital Expenditures

In millions of dollars	**2004 Actual**	2005 Forecast
Natural gas distribution		
Terasen Gas	**$ 93.9**	$ 170.0
TGVI	**18.4**	70.0
	112.3	240.0
Petroleum transportation		
Trans Mountain	**28.0**	40.0
Terasen Pipelines Inc.	**2.6**	—
Corridor	**0.4**	10.0
	31.0	50.0
Water and utility services	**7.8**	50.0
Other	**3.3**	10.0
Total	**$ 154.4**	$ 350.0

Terasen Inc. Consolidated Capital Expenditures
$ Millions



Capital expenditures are expected to increase in 2005 to support a variety of projects.

Projected Capital Expenditures

Terasen has estimated total 2005 consolidated capital expenditures of $350 million. Major capital expenditures in 2005 for Terasen Gas and TGVI include 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 expenditures on the construction of a liquefied natural gas storage facility on Vancouver Island ($23 million). Major project expenditures for pipeline transportation include the further development of the TMX project ($13.5 million) and the Corridor pipeline de-bottlenecking ($6.5 million). Water and utility services capital requirements in 2005 are primarily focused on greenfield development opportunities and minor acquisitions. The Company expects to finance capital expenditures with a combination of long-term debt, short-term borrowings and internally generated funds.

In April 2005, the US$100 million expansion of the Express System is expected to be completed. During July 2004, the Express partnership completed a long-term debt issue of US$110 million to finance the expansion. These expenditures are not included in the estimates above as Express is accounted for using the equity method.

Coverage Ratios

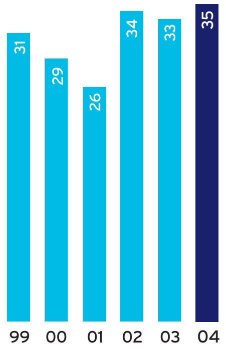
Due to the capital intensive nature of the Company's businesses and the need to raise debt frequently in the fixed income market, maintenance of its financial ratios is a priority for Terasen. The most significant ratios are considered to be interest coverage and equity as a percentage of total capital.

Financial Ratios	2004	2003
Interest coverage	**2.4**	2.1
Equity to total capital (as at December 31)	**35%**	33%
Common equity to total capital (as at December 31)	**32%**	30%

Interest coverage for Terasen improved in 2004 compared to 2003 mainly as a result of higher earnings and lower interest rates. Interest coverage is targeted to be at or above 2.0.

Equity to total capital includes the Capital Securities, which will be reclassified as a liability effective January 1, 2005. Prospectively, Terasen will target a common equity component of total capital (excluding capital securities) of between 30% and 33%. The Company does not anticipate any material changes in the relative mix or cost of its capital resources.

Terasen Inc. Equity to Total Capital
Percent



Terasen's financial strength has increased significantly.

Public Issues

In September 2003, Terasen Gas issued $150 million of medium term note debentures at a floating interest rate. In April 2004, Terasen Gas issued $150 million of 30-year medium term note debentures at an interest rate of 6.50%. In September 2004, Terasen Inc. issued $125 million of 10-year medium term note debentures at an interest rate of 5.56%.

In February 2005, Corridor issued $150 million each of 5-year and 10-year unsecured debentures at rates of 4.24% and 5.033%, respectively. Proceeds were used to repay commercial paper issued by Corridor. Funds generated from the issuance of medium term note debentures were used for general corporate purposes.

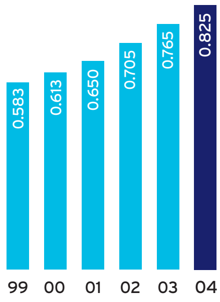
Lines of Credit

As at December 31, 2004, the Company had lines of credit in place totaling $1,527 million to finance cash requirements, comprising $300 million at Terasen, $500 million at Terasen Gas, $215 million at TGVI, and $512 million at Corridor. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issuance. Bank lines of $540 million were unutilized at the end of 2004. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the Canadian market at rates generally below bank prime. Terasen does not have, nor does it expect to have, any defaults or arrears.

Dividends

Dividends and distributions on common shares and capital securities totaled $93.0 million in 2004, compared to $86.1 million in 2003. The increase reflects an increase in the dividends paid on common shares in 2004.

Terasen Inc. Dividends Paid Per Share
Dollars



Dividends have increased consistently alongside earnings growth.

Restrictions on Dividends

Terasen Gas is not legally restricted from transferring funds to Terasen Inc., but is expected to maintain equity components similar to its respective deemed equity. Dividends that reduce equity below deemed levels could have adverse regulatory consequences. TGVI has restrictions on its ability to issue dividends within its credit agreements. Corridor's credit agreement restricts its ability to issue dividends subject to certain debt-to-total capital requirements. Cash distributions from Express are subject to limitations in the Express financing agreements and decisions made by the Express Board of Directors, which Terasen does not control. In 2004, none of these restrictions constrained the distribution of subsidiary earnings not otherwise needed for reinvestment.

Credit Ratings

Securities issued by Terasen, Terasen Gas, Trans Mountain and Corridor are rated by DBRS Inc. (DBRS) and Moody's Investors Service Inc. (Moody's). The ratings assigned to securities issued by the Terasen group of companies are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Company's various securities at December 31, 2004.

Credit Ratings	DBRS	Moody's
Terasen Inc.		
Commercial paper	R-1 (Low)	
Unsecured long-term debt	A (Low)	A3
Capital securities	BBB (High)	Baa1
Terasen Gas Inc.		
Commercial paper	R-1 (Low)	
Secured long-term debt	A	A1
Unsecured long-term debt	A	A2
Terasen Pipelines (Trans Mountain) Inc.		
Commercial paper	R-1 (Low)	
Unsecured long-term debt	A (Low)	
Terasen Pipelines (Corridor) Inc.		
Commercial paper	R-1 (Low)	
Unsecured long-term debt	A	A2

After reassessing its relationship with Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies (Canada) Corporation (S&P), Terasen decided early in 2004 to discontinue the engagement of S&P to provide credit ratings on the debt of Terasen and Terasen Gas. Terasen believes the credit ratings issued by Moody's and DBRS will be sufficient to service the requirements of creditors and maintain the Company's access to capital. S&P continues to provide an unsolicited rating on Terasen's outstanding debt based on publicly available information. As of December 31, 2004, Terasen's unsecured long-term debt was rated BBB- by S&P.

There is a provision in Terasen's $300 million credit facilities that a downgrade below BBB (low) or Baa3 by DBRS or Moody's, respectively, would shorten the remaining term of Terasen's credit facility to ten months.

Contractual Obligations

The table below sets forth Terasen's financial obligations due in the years indicated.

In millions of dollars	Total	2005	2006-2007	2008-2010	2011 and later
Long-term debt	$ 2,572.5	$ 414.5	$ 932.5	$ 517.1	$ 708.4
Capital lease obligations	10.8	2.2	4.4	4.2	—
Operating leases	252.8	24.1	44.3	59.9	124.5
Purchase obligations[1]	1,197.9	766.8	395.1	36.0	—
Other long-term obligations	44.5	1.2	2.7	4.8	35.8
Total contractual obligations	$ 4,078.5	$ 1,208.8	$ 1,379.0	$ 622.0	$ 868.7

[1]Purchase obligations includes gas purchase contracts that are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect at December 31, 2004.

Gas purchase agreements contain provisions whereby Terasen Gas and TGVI could be obliged to provide security to gas suppliers if they have reasonable grounds. Terasen has arranged committed credit facilities that the Company believes would be adequate to meet these requirements.

Off-Balance Sheet Arrangements

In 2000, Terasen Gas entered into a leasing arrangement with a syndicate of Canadian banks and the BCG Coastal Facilities Trust, a special-purpose entity, to finance new building facilities in the Greater Vancouver area. The Coastal Facilities synthetic lease agreement had been accounted for as an off-balance sheet item. As at December 31, 2004, the value of the Coastal Facilities leasing agreement was approximately $49.4 million. Lease payments of approximately $4.5 million were made by Terasen Gas in 2004.

In 2004, Terasen Gas applied to the BCUC for and received approval to unwind the synthetic lease and include the Coastal Facilities assets in rate base. On January 4, 2005, Terasen Gas paid approximately $49.4 million to BCG Coastal Facilities Trust to unwind the synthetic lease. Accordingly, payments related to this operating lease are not included in the above table. The Coastal Facilities assets have been included in the Terasen Gas rate base commencing January 2005.

Other than the Coastal Facilities lease, which has been refinanced, there are no other material off-balance sheet agreements.

FINANCIAL INSTRUMENTS

Fair Value Estimates

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2004, or by using available quoted market prices, is estimated at $2,818.2 million. The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Derivative Instruments

The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices, interest rates and foreign currency exchange rates. As approved by the regulator, derivatives are used to manage natural gas price risk in the natural gas distribution operations. The majority of the natural gas supply contracts have floating rather than fixed prices. The Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in a deferral account (MCRA and CCRA) and, subject to regulatory approval, are passed through in future rates to customers.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives. Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through regulatory deferral accounts. Certain foreign currency risks in the natural gas distribution operations are managed through the use of foreign currency derivatives on behalf of customers.

The Company's earnings from the U.S. portion of Trans Mountain's crude oil pipeline system and the Company's investment in the Express System are subject to foreign currency risk. The Company's earnings are also subject to translation risk associated with certain Express System assets and liabilities. The Company manages these foreign currency exposures through the use of foreign currency derivatives.

Asset (Liability) *in millions*	Number of swaps	Term to maturity	**December 31, 2004** Carrying Value	Fair Value	December 31, 2003 Carrying Value	Fair Value
Interest Rate Swaps						
Terasen Inc.[1]	2	05/06–12/08	**$ 0.4**	**$ 5.4**	$ 0.4	$ 5.3
TGVI[1]	4	05/06–12/08	**(0.5)**	**(3.2)**	(1.5)	(4.8)
Natural Gas Commodity Swaps						
Terasen Gas and TGVI[2]	139	02/05–10/06	**1.9**	**(8.3)**	(7.8)	6.3
Clean Energy[3]	7	01/05–12/09	**6.5**	**6.5**	—	—
Foreign Currency Swaps						
Terasen Inc.[4]	2	01/05	**(0.6)**	**(0.6)**	0.8	0.8
Terasen Gas	—	—	**—**	**—**	—	(0.9)

[1]The interest rate derivatives entered into by Terasen Inc. resulted in a $3.6 million contribution to earnings in 2004, compared with a $2.2 million contribution in 2003. The derivatives entered into by TGVI relate to regulated operations and any resulting gains or losses are recorded in a deferral account (RDDA), subject to regulatory approval, and passed through to customers in future rates.
[2]The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.
[3]Clean Energy enters into natural gas commodity derivatives to manage its exposure to the cost of natural gas. Effective January 1, 2004, gains and losses on these transactions are recognized in income in accordance with the Company's adoption of the new accounting guideline on hedging relationships. During the twelve months ended December 31, 2004, $6.5 million of gross unrealized pre-tax gains were recognized in income. The carrying and fair value of Clean Energy's natural gas commodity swap represents Terasen's 45.0% ownership interest.
[4]The change in fair value of the derivatives of $0.7 million has been included in the earnings contribution from the Express System for the twelve months ended December 31, 2004.

OUTSTANDING SHARE DATA

December 31, 2004

Common shares issued and outstanding	114,355,665
Less: Common shares held by Terasen Pipelines (Trans Mountain) Inc.	9,184,188
	105,171,477
8.0% capital securities issued and outstanding	$ 125,000,000
Options outstanding	2,905,487
Options exercisable	1,369,365

The 8.0% capital securities are exchangeable on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. A maximum of 125,000,000 common shares could be issued if this right was exercised.

FINANCIAL RESULTS

EARNINGS PERFORMANCE

In 2004, Terasen reported earnings of $149.8 million, an increase of $17.1 million over earnings of $132.7 million in 2003. On a per share basis, earnings increased to $1.43 per share in 2004, compared with $1.28 per share in 2003. Included in 2004 earnings was a $3.3 million gain arising from Clean Energy's price risk management activities. Clean Energy makes use of natural gas derivatives as part of its price risk management strategy and is exposed to quarterly mark-to-market valuations. Excluding the gain, Terasen's earnings were $146.5 million, or $1.40 per share, up 6.9% over 2003 earnings per share before non-recurring items of $1.31.

During the year, dividends paid per common share were $0.825, up 7.8% from $0.765 per share in 2003. In April 2004, Terasen's Board of Directors approved a two-for-one stock split of the Company's common shares outstanding. All per share amounts have been restated to reflect the two-for-one stock split, which took effect in June 2004.

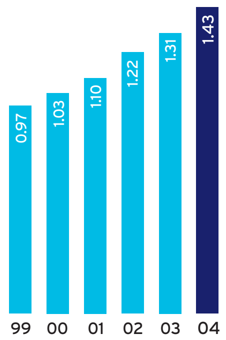
In the fourth quarter of 2004, net earnings were $53.9 million, or $0.51 per share, compared with earnings of $50.9 million, or $0.49 per share in the fourth quarter of 2003. The increase in earnings in the fourth quarter was driven mainly by an increase in earnings contribution from Trans Mountain and Express. Terasen recorded a $3.4 million restructuring charge in the fourth quarter of 2003, associated with the operational integration of Terasen Gas and TGVI.

Earnings applicable to common shares were $149.8 million in 2004 compared to $132.7 million in 2003. An analysis of the increase in earnings is as follows:

In millions of dollars

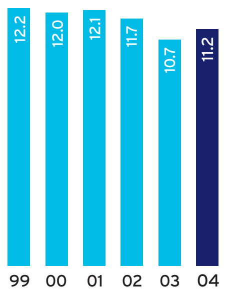
Earnings applicable to common shares for 2003	$ 132.7
Non-recurring items in 2003[1]	3.4
Earnings before non-recurring items in 2003	136.1
Natural Gas Distribution	
Reduction in allowed ROE	(2.4)
Operational efficiencies	4.1
Introduction of earnings sharing mechanism	(4.7)
Other items	0.1
Petroleum Transportation	
Increase in earnings from the Express System (before foreign exchange loss)	2.6
Express foreign exchange loss in 2003	3.6
Increase in earnings from the Corridor pipeline (full year in 2004)	4.9
Higher throughput and other items	3.6
Water and Utility Services	
Organic growth in water and utility services business	1.3
Contributions from Fairbanks and other minor acquisitions	1.2
Other Activities	
Higher corporate expenses, financing costs, and other items	(3.9)
Gain on Clean Energy's price risk management activities	3.3
Earnings applicable to common shares for 2004	$ 149.8

Terasen Inc.
Earnings Per Share
(Before Non-Recurring Items)
Dollars



Terasen has consistently delivered on its target of six per cent annual earnings per share growth.

Terasen Inc.
Return on Common Equity
(Before Non-Recurring Items)
Percent



Despite lower interest rates, the company has sustained attractive returns on equity.

Earnings applicable to common shares were $132.7 million in 2003 compared to $105.8 million in 2002. An analysis of the increase in earnings is as follows:

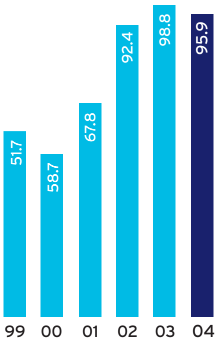
In millions of dollars

Earnings applicable to common shares for 2002	$ 105.8
Natural Gas Distribution	
Increase in RDDA discount accretion	2.5
Lower income tax rates and other items	3.9
Petroleum Transportation	
Earnings from the acquisition of the Express System (before foreign exchange loss)	13.3
Express foreign exchange loss	(3.6)
Earnings from the Corridor pipeline	10.7
Higher throughput and other items	6.5
Water and Utility Services	
Growth in water and utility services business	3.2
Other Activities	
Higher corporate expenses, financing costs, and other items	(8.5)
Lower write-down of investment in Westport Innovations Inc.	2.3
Earnings before non-recurring items in 2003	136.1
Non-recurring items[1]	(3.4)
Earnings applicable to common shares for 2003	$ 132.7

NON-GAAP MEASURES

[1]Terasen discloses earnings before non-recurring items in order to assist investors in evaluating which components of the Company's earnings are likely to be sustainable in future years. For this purpose, the Company identifies non-recurring items, which are material gains and losses that, in management's opinion, arise from events or circumstances that are not expected to occur on a regular basis. Earnings before non-recurring items do not have any standardized meaning prescribed by generally accepted accounting principles, and therefore may not be comparable to similar measures presented by other Canadian issuers of securities. In 2003, Terasen incurred a non-recurring restructuring charge of $3.4 million after-tax related to the integration of Terasen Gas and TGVI. There were no material non-recurring items in 2004.

Natural Gas Distribution Earnings
(Before Non-Recurring Items)
$ Millions



A lower allowed ROE in 2004 was offset by efficiency gains.

Natural Gas Distribution

In millions of dollars	**2004**	2003	2002
Revenues	**$ 1,494.1**	$ 1,497.9	$ 1,402.7
Operating expenses			
Cost of natural gas	**885.4**	889.7	807.2
Operation and maintenance	**190.5**	184.2	179.3
Depreciation and amortization	**98.7**	92.5	92.6
Property and other taxes	**47.1**	48.6	46.9
	1,221.7	1,215.0	1,126.0
Operating income	**272.4**	282.9	276.7
Financing costs	**126.2**	135.5	136.8
Earnings before income taxes	**146.2**	147.4	139.9
Income taxes	**50.3**	48.6	47.5
Earnings before non-recurring items	**95.9**	98.8	92.4
Non-recurring items	**—**	(3.4)	—
Earnings applicable to common shares	**$ 95.9**	$ 95.4	$ 92.4

Revenues from natural gas distribution declined to $1,494.1 million during 2004 from $1,497.9 million in 2003. Revenues are set at levels designed to recover the cost of delivery service of Terasen Gas and TGVI, together with the cost of the natural gas commodity. As a result, changes in consumption levels and changes in the commodity cost of natural gas do not materially impact revenue or earnings due to regulatory deferral accounts. The decline in revenue in 2004 was attributable to lower consumption, which more than offset the increase in the commodity cost recovered in rates charged to customers, which became effective in the third quarter of 2004.

Terasen Gas net customer additions during 2004 were 11,750, while TGVI's net number of customers increased by 4,233 in 2004. This brings the total number of utility customers to 875,166 at year-end. The total increase of 15,983 customers in 2004 was up from the 8,484 net customer additions recorded in 2003. Solid economic conditions and continued strength in new housing starts in British Columbia helped drive the net customer additions in 2004.

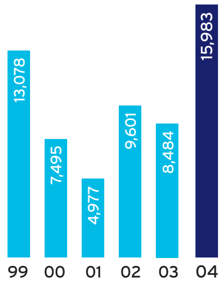
Terasen Gas industrial sales volumes decreased by 621 terajoules while transportation volumes increased by 511 terajoules from the previous year. Terasen Gas earns approximately the same margin regardless of whether a customer contracts for sales or transportation service. In 2004, the cost of natural gas declined to $885.4 million, from $889.7 million in 2003. Lower natural gas sales volume in 2004 more than offset the increase in the commodity cost of natural gas during the year.

Operating and maintenance expenses (excluding a $5.2 million pre-tax restructuring charge in 2003) increased to $190.5 million in 2004 from $184.2 million in 2003. The primary driver of higher operating expenses was an increase in insurance costs and transmission integrity costs, which are recoverable through customer rates. Depreciation and amortization increased by $6.2 million as a result of a higher rate base and an increase in the approved rate of depreciation and amortization.

Financing costs declined to $126.2 million in 2004 from $135.5 million in the previous year. The decline was mainly a result of lower short-term debt balances and lower interest rates.

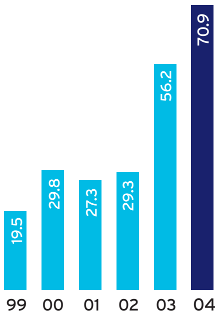
Revenue from natural gas distribution declined to $495.7 million in the fourth quarter of 2004, down from $517.6 million in the same period of 2003. Revenue declined as a result of lower natural gas sales volumes due to warmer weather relative to the corresponding quarter of 2003. Earnings before non-recurring items from natural gas distribution declined to $42.6 million in the fourth quarter of 2004, from $44.8 million in the fourth quarter of 2003, mainly as a result of the lower allowed ROE. The natural gas distribution business recorded a $3.4 million restructuring charge in the fourth quarter of 2003.

Natural Gas Distribution Customer Additions



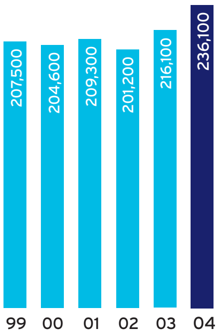
Customer additions grew as a result of strong housing starts in B.C.

Petroleum Transportation Earnings
(Before Non-Recurring Items)
$ Millions



Earnings have grown from $29.3 million in 2002 to $70.9 million in 2004 as a result of strong throughput, greenfield projects and acquisitions.

Trans Mountain Canadian Mainline Throughput
Barrels per day



Growth in Alberta oilsands production is contributing to strong pipeline throughput.

Petroleum Transportation

In millions of dollars	**2004**	2003	2002
Revenues	**$ 225.5**	$ 200.0	$ 136.0
Operating expenses			
Operation and maintenance	**66.0**	57.0	43.8
Depreciation and amortization	**35.9**	30.0	17.1
Property and other taxes	**22.5**	21.0	18.7
	124.4	108.0	79.6
Operating income	**101.1**	92.0	56.4
Financing costs	**22.5**	23.2	9.5
Earnings before contribution from Express	**78.6**	68.8	46.9
Contribution from Express	**15.0**	8.0	—
Earnings before income taxes	**93.6**	76.8	46.9
Income taxes	**22.7**	20.6	17.6
Earnings applicable to common shares	**$ 70.9**	$ 56.2	$ 29.3

Transportation Volumes

(bpd)	**2004**	2003	2002
Trans Mountain Canadian mainline	**236,100**	216,100	201,200
Trans Mountain U.S. mainline	**91,700**	54,600	47,800
Express System	**175,300**	171,200	167,000

Actual throughput on the Corridor Pipeline does not impact earnings as all of Corridor's capacity is contracted through ship-or-pay arrangements.

Revenues from petroleum transportation operations increased to $225.5 million in 2004 from $200.0 million in 2003. The increase was primarily a result of increased throughput on the Trans Mountain mainline and contributions from the Corridor Pipeline, which began commercial operations on May 1, 2003.

Average throughput on Trans Mountain's Canadian mainline increased to 236,100 bpd in 2004 from 216,100 bpd in 2003. Throughput on Trans Mountain remained solid throughout the year as there continued to be strong west coast demand for product from the Alberta oilsands. U.S. mainline deliveries averaged 91,700 bpd in 2004, compared to 54,600 bpd in 2003. Higher demand from Washington State and California refiners drove the increase in throughput on the U.S. mainline.

As discussed previously under Regulatory Arrangements, Trans Mountain's Canadian mainline is subject to a regulatory settlement that mitigates the impact on earnings of variations in throughput volumes outside a defined band. However, Trans Mountain's U.S. pipeline in Washington State is not subject to the same regulatory arrangements, and fluctuations in throughput on that pipeline will have a direct impact on petroleum transportation revenues and earnings. Fluctuations in throughput on the Express System will have a direct impact on Terasen's equity share of earnings, subject to the floor provided by the Express System's ship-or-pay contracts.

Operation and maintenance expenses increased to $66.0 million in 2004 from $57.0 million in 2003. Higher power costs, consistent with increased throughput, and Corridor's full-year of operations were the main drivers of increased operation and maintenance expense. Depreciation and amortization increased by $5.9 million to $35.9 million in 2004 as a result of the full-year contribution from the Corridor Pipeline.

Financing costs in 2004 were $22.5 million, compared with $23.2 million in 2003. The lower cost of financing was mainly due to lower interest rates.

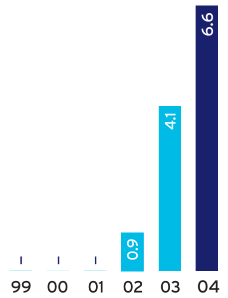
The share of earnings from the Express System increased to $15.0 million in 2004 from $8.0 million in 2003. In 2003, the earnings contribution from Express included a $3.6 million foreign exchange loss. The increase in earnings contribution from Express in 2004 was a result of increased throughput, combined with earnings from reinvested cash distributions.

Revenue from petroleum transportation declined to $58.5 million in the fourth quarter of 2004, compared to $60.0 million in the fourth quarter of 2003. The decline in fourth quarter revenue was a result of lower tolls on Trans Mountain's Canadian mainline, which more than offset higher throughput during the period. Petroleum transportation reported earnings of $19.9 million in the fourth quarter of 2004, compared with $17.9 million in the fourth quarter of 2003. Higher earnings were driven by operating efficiencies at Trans Mountain and an increase in contributions from Express.

Water and Utility Services

In millions of dollars	**2004**	2003	2002
Revenues	**$ 201.6**	$ 152.5	$ 123.1
Operating expenses			
Cost of revenues	**152.4**	115.4	94.8
Operation and maintenance	**28.3**	21.4	22.7
Depreciation and amortization	**9.3**	8.0	4.1
Property and other taxes	**0.2**	0.1	0.2
	190.2	144.9	121.8
Operating income	**11.4**	7.6	1.3
Financing costs	**1.0**	0.9	—
Earnings before income taxes	**10.4**	6.7	1.3
Income taxes	**3.8**	2.6	0.4
Earnings applicable to common shares	**$ 6.6**	$ 4.1	$ 0.9

Water and Utility Services Earnings
(Before Non-Recurring Items)
$ Millions



Earnings in 2004 were $6.6 million, up 61% from 2003.

Results prior to 2002 are included in Other Activities.

Water and utility services increased revenue by 32% in 2004 to $201.6 million from $152.5 million in 2003. The year-over-year increase in revenue was a result of growth in existing operations and the impact of the FSW acquisition and other minor acquisitions made in 2003 and 2004. Strong economic conditions in B.C. and Alberta helped to drive growth in the waterworks business.

In 2004, cost of revenues increased by 32% to $152.4 million, up from $115.4 million in 2003. Operation and maintenance expense in 2004 increased by 32% to $28.3 million, from $21.4 million in 2003. The increase in operation and maintenance expense and cost of revenues is consistent with the increase in revenues.

Depreciation and amortization increased in 2004, as compared with 2003, primarily as a result of the impact of acquisitions. Financing costs in 2004 remained essentially unchanged relative to 2003 as higher debt levels were offset by lower interest rates.

In the fourth quarter of 2004, revenue from water and utility services increased to $51.3 million from $32.9 million in the corresponding quarter of 2003. Operating income increased to $1.4 million for the three months ended December 31, 2004, compared with $1.3 million for the same period in 2003. Positive contributions from acquisitions

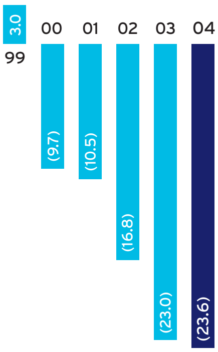
combined with growth in existing operations drove the increase in operating income in the fourth quarter. The increase was partially offset by higher depreciation and business development costs in the fourth quarter of 2004, as compared with the fourth quarter of 2003. Overall, earnings contribution from the water and utility services business was $0.7 million in the fourth quarter of 2004, compared with $0.4 million in the corresponding quarter of 2003.

Other Activities

In millions of dollars	**2004**	2003	2002
Revenues	**$ 35.8**	$ 26.2	$ 45.4
Operating expenses			
Cost of revenues	**21.9**	17.0	25.4
Operation and maintenance	**18.1**	17.0	15.8
Depreciation and amortization	**3.2**	2.9	1.8
Property and other taxes	**0.3**	0.2	0.3
	43.5	37.1	43.3
Operating income (loss)	**(7.7)**	(10.9)	2.1
Financing costs	**16.9**	16.4	14.5
Loss before income taxes	**(24.6)**	(27.3)	(12.4)
Income tax (recovery)	**(7.6)**	(11.0)	(2.3)
Net loss	**(17.0)**	(16.3)	(10.1)
Capital securities distributions, net of income taxes	**6.6**	6.7	6.7
Loss applicable to common shares	**$ (23.6)**	$ (23.0)	$ (16.8)

Revenues from other activities increased to $35.8 million in 2004 from $26.2 million in 2003. Higher revenues were a result of improved operations in Terasen's International business and Clean Energy. Terasen intends to exit its International consulting business after the completion of existing contracts and commitments.

Other Activities Earnings (Loss)
(Before Non-Recurring Items)
$ Millions



Other activities include Clean Energy, Terasen International and corporate administration and financing costs.

The operating loss from other activities improved to $7.7 million in 2004 from a loss of $10.9 million in 2003, which was primarily attributable to a $3.3 million after-tax gain from Clean Energy's price risk management activities. The gain was associated with Terasen's share of the increase of the fair values of Clean Energy's outstanding natural gas positions. Clean Energy makes use of natural gas derivatives as part of its price risk management strategy and is exposed to quarterly mark-to-market valuations.

Financing costs in 2004 were relatively unchanged from 2003 as higher outstanding debt balances were offset by lower interest rates.

In the fourth quarter of 2004, losses from other activities were $9.3 million, up from $8.8 million in the same quarter of 2003. The higher operating loss was due to an increase in financing costs and a lower tax recovery, as compared with the fourth quarter of 2003.

Annual Financial Information

(dollars in millions except per share amounts)	2004	2003	2002
		Year Ended December 31	
Revenues	**$ 1,957.0**	$ 1,876.6	$ 1,707.2
Net earnings	**156.4**	139.4	112.5
Earnings applicable to common shares	**149.8**	132.7	105.8
Per common share – basic[1]	**1.43**	1.28	1.22
Per common share – fully diluted[1]	**1.42**	1.27	1.21
Dividends per common share[1]	**0.825**	0.765	0.705
Total assets	**4,970.6**	4,921.3	4,522.4
Long-term debt[2]	**2,166.6**	2,301.1	2,123.4
Current portion of long-term debt	**416.7**	51.8	108.9

[1]*All per share amounts have been restated to reflect the 2-for-1 share split, which took effect in June 2004.*
[2]*Excluding current portion of long-term debt.*

Quarterly Financial Information

	Quarter Ended							
	2004				2003			
(dollars in millions except per share amounts)	**Dec.**	**Sept.**	**June**	**Mar.**	Dec.	Sept.	June	Mar.
Revenues	**$ 616.4**	**$ 327.1**	**$ 365.3**	**$ 648.2**	$ 615.7	$ 304.5	$ 400.4	$ 556.0
Earnings (loss) applicable to common shares								
Natural gas distribution								
Terasen Gas[1]	**$ 36.2**	**$ (13.3)**	**$ (1.2)**	**$ 48.0**	$ 37.5	$ (14.4)	$ (1.9)	$ 51.4
TGVI	**6.4**	**6.8**	**6.3**	**6.7**	7.3	7.1	5.8	6.0
	42.6	**(6.5)**	**5.1**	**54.7**	44.8	(7.3)	3.9	57.4
Petroleum transportation								
Trans Mountain	**11.2**	**8.8**	**9.0**	**10.4**	10.0	7.9	9.6	8.3
Corridor	**3.8**	**3.9**	**4.0**	**3.9**	4.0	3.8	2.9	—
Express System	**4.9**	**3.8**	**3.2**	**4.0**	3.9	2.8	(0.3)	3.3
	19.9	**16.5**	**16.2**	**18.3**	17.9	14.5	12.2	11.6
Water and utility services	**0.7**	**3.3**	**2.6**	**—**	0.4	2.2	2.1	(0.6)
Other activities	**(9.3)**	**(3.2)**	**(6.0)**	**(5.1)**	(8.8)	(5.9)	(3.6)	(4.7)
Earnings before non-recurring items	**53.9**	**10.1**	**17.9**	**67.9**	54.3	3.5	14.6	63.7
Non-recurring items	**—**	**—**	**—**	**—**	(3.4)	—	—	—
Earnings applicable to common shares	**$ 53.9**	**$ 10.1**	**$ 17.9**	**$ 67.9**	$ 50.9	$ 3.5	$ 14.6	$ 63.7
Per common share – basic[2]	**$ 0.51**	**$ 0.10**	**$ 0.17**	**$ 0.65**	$ 0.49	$ 0.03	$ 0.14	$ 0.62
Per common share – fully diluted[2]	**$ 0.51**	**$ 0.10**	**$ 0.17**	**$ 0.64**	$ 0.48	$ 0.03	$ 0.14	$ 0.61

[1]*Earnings from Terasen Gas have been restated to adjust for changes in the quarterly accounting for income tax. Previously, Terasen Gas' annual tax expense had been allocated based on income tax estimated to be collected in rates 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. The change affects income tax expense and net earnings reported for each of the quarters but has no impact on annual income tax expense and net earnings.*

[2]*Earnings (loss) per share in each quarter have been determined based on the weighted average number of common shares outstanding during each quarter. The weighted average number of common shares outstanding was recalculated on a calendar year basis for annual results. Earnings (loss) per share by quarter do not necessarily add to the total of the year due to changes in the weighted average number of common shares outstanding during the year. All per share amounts have been restated to reflect the 2-for-1 share split, which took effect in June 2004.*

SEASONALITY

Because of natural gas consumption patterns, the natural gas distribution operations of Terasen Gas normally generate higher net earnings in the first and fourth quarters, which are offset by net losses in the second and third quarters. The Company's water and utility services business, which is relatively less significant than the Company's natural gas distribution operations, typically experiences stronger second and third quarter results, offset by weaker first and fourth quarter results, based on the level of construction and general economic activity. Earnings from Terasen's petroleum pipeline operations are not subject to material fluctuations due to seasonality. As a result, interim earnings statements are not indicative of earnings on an annual basis.

BUSINESS DEVELOPMENT

INLAND PACIFIC CONNECTOR

The Inland Pacific Connector is a proposed natural gas transmission line connecting the Southern Crossing pipeline to the Lower Mainland and Sumas. The advancement of the project is dependent on potential shippers and their requirements to diversify supply sources. The potential size of the project is $300 to $500 million.

VANCOUVER ISLAND GAS SUPPLY

TGVI is actively pursuing alternatives for the supply of additional natural gas capacity to Vancouver Island. The Company is responding to the need for delivery of increased gas supply and, accordingly, is supporting plans for new gas-fired power generation on Vancouver Island. TGVI's proposal for new natural gas capacity involves a combination of compression and pipeline looping as well as the addition of an LNG storage facility on Vancouver Island. The expansion costs are estimated at approximately $100 to $120 million for the additional compression and the new LNG storage facility. The proposed facility would have the capacity to hold one billion cubic feet of natural gas.

On February 16, 2005, the BCUC approved the LNG storage facility, subject to several conditions including the execution of a long-term Transportation Service Agreement (TSA) with B.C. Hydro. TGVI plans to work with B.C. Hydro and others to meet these conditions and proceed with the project, but there is no certainty that a TSA will ultimately be executed.

MUNICIPAL LEASING TRANSACTIONS

Certain municipalities in Terasen Gas' service area have an option to purchase the gas distribution franchise within their municipal boundary. In order to address these purchase options, the Company has developed a leasing arrangement that allows Terasen Gas to continue to operate the gas distribution assets by effectively selling the assets to the municipality and leasing them back for a 17 year period. After 17 years, Terasen Gas has an option to repurchase the assets at depreciated value. At December 31, 2004, Terasen Gas had entered into transactions involving a total value of $143 million. If all of the eligible municipalities execute similar transactions, the total value (including those already completed) is expected to be approximately $164 million.

ACQUISITION OF EXPRESS PIPELINE

On January 9, 2003, a consortium including Terasen, Borealis Infrastructure Management Inc., and Ontario Teachers' Pension Plan acquired the Express System from EnCana Corporation. The purchase price was $1,203.5 million, including assumed debt of $578.8 million. Terasen's share of the equity portion of the purchase price was $206.7 million. Each of the three consortium members owns an equal interest in the Express System. Terasen Pipelines operates the Express System on behalf of the consortium.

EXPANSION OF EXPRESS SYSTEM

During December 2003, Terasen held an open-season for current and expansion capacity on the Express System. Given the significant demand for capacity by the Shippers, Terasen, on behalf of the owners, is proceeding with both Phase I and Phase II of its expansion plans for the Express System. In total, the expansion will add 108,000 bpd in capacity, bringing the total capacity on the Express System to 280,000 bpd. Both phases of the expansion are expected to be completed by April 2005 at an estimated cost of approximately US$100 million. During July 2004, the Express partnership completed a long-term debt issue of US$110 million to finance the expansion.

TRANS MOUNTAIN EXPANSION

In 2004, Terasen completed an expansion of the Trans Mountain mainline that added an additional 27,000 bpd of capacity at a cost of $19 million. The expansion went into service on October 1, 2004.

CORRIDOR EXPANSION/BISON PIPELINE PROJECT

Terasen has been working with Shell and its partners in the Athabasca Oil Sands Project toward expanding the Corridor Pipeline from 155,000 bpd to 300,000 bpd. Expansion of the system would be undertaken in phases, with the first phase consisting of de-bottlenecking the existing system by adding pumping capacity. This phase would increase capacity by approximately 35,000 bpd and would be in service by the fall of 2005. The estimated cost of phase one is $6.5 million. The scope of the phase one expansion has received approval from the Corridor Shippers' Committee. The second phase is under review and would expand the system by an additional 110,000 bpd. The estimated cost of this expansion is $500 to $600 million and is expected be in service by 2009. Terasen is also working on additional expansion opportunities, which would increase capacity on the Corridor system to 500,000 bpd. Such an expansion could provide the opportunity for spare capacity that could be used by third party shippers or made available for marketing to other oilsands producers.

TMX

During 2004, Trans Mountain continued development of TMX, the proposed staged expansion of the existing Trans Mountain system between Edmonton, Alberta and Burnaby, or the west coast of British Columbia. In 2004, the Company continued to develop the technical, regulatory and commercial components of the project. In December, Trans Mountain issued an expression of interest to solicit non-binding support for the project. With sufficient support the Company intends to finalize the commercial and tolling framework prior to holding an open season for binding commitments by mid-2005. Initial interim expansion capacity of 35,000 bpd could be available by the end of 2006 at a capital cost of $200 million, with a further 40,000 bpd available by the end of 2008 at an additional cost of $375 million (TMX1). TMX1 could be followed by additional expansions with total expenditures (including TMX1) of up to $2.2 to $2.6 billion, depending on the scale of the capacity required by shippers.

The staged approach to the proposed TMX expansion enables shippers to make progressive decisions, thereby reducing the overall risk to the producers and the pipeline. It also allows the shippers access to incremental expansion capacity in advance of making a decision on the southern or northern port option. Finally, the proposed southern routing for the TMX project follows much of the existing right-of-way for Trans Mountain pipeline, reducing the time, effort and cost required in securing access to the land. While the Company believes the TMX project offers a more attractive alternative to competing projects, ultimately it is the shipper's commitments that will determine the successful project.

Project development expenditures for TMX in 2004 totaled $3.8 million. The Company expects to spend an additional $7 to $12 million prior to receiving binding support for the project.

ACQUISITION OF FAIRBANKS SEWER AND WATER

On July 31, 2004, Terasen acquired a 50 per cent interest in Fairbanks Sewer and Water Inc. FSW provides water and wastewater treatment and water distribution and wastewater collection services to Fairbanks, Alaska, an area of 82,000 residents. The Company paid $40.8 million (US$30.5 million) for its 50 per cent interest, and Terasen and the current owners each have the option to have Terasen acquire the remaining 50 per cent at fair market value in 2009. FSW is regulated by the Regulatory Commission of Alaska.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Terasen's critical accounting policies are defined as those that are both significant to the representation of the Company's financial position and operations and those that require management to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that management believes to be reasonable and prudent under the circumstances. These estimates and assumptions are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained and as the general operating environment changes. The Company believes the following are the most critical accounting policies and estimates used in the preparation of its consolidated financial statements.

RATE REGULATION

The Company follows generally accepted accounting principles, which may differ for regulated operations from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agencies render their decisions on rate applications and generally involve the timing of revenue and expense recognition to ensure that the actions of the regulator, which create assets and liabilities, have been reflected in the financial statements.

The accounting for these items is based on an expectation of the future actions of the regulator. For example, Terasen Gas does not record future income taxes related to its regulated operations as the taxes payable method is prescribed by the regulator for rate-making purposes and there is reasonable expectation that all such future income taxes will be recovered in rates when they become payable. Similarly, the deferral of differences between amounts included in rates and actual experience for specified expenses is based on the expectation that the regulator will approve the refund to or recovery from ratepayers of the deferred balance, normally in the following year.

If the regulator's future actions are different from the Company's expectations, the timing and amount of the recovery of liabilities or refund of assets, recorded or unrecorded, could be substantially different from that reflected in the financial statements.

DEPRECIATION EXPENSE

Terasen's regulated property, plant and equipment assets are depreciated on a straight-line basis at rates approved by regulatory authorities. Depreciation rates require the use of management estimates of the useful lives of the assets. The cost of depreciable property retired, together with the removal costs less salvage, are recoverable based on the cost of providing the products or services. The Company's non-regulated property, plant and equipment assets are depreciated according to their estimated useful life.

CHANGES IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

Effective January 1, 2005, the Canadian Institute of Chartered Accountants (CICA) amended Section 3860 "Financial Instruments– Disclosure and Presentation", which requires obligations that can be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. This amendment will require Terasen to retroactively classify $125.0 million of capital securities as debt rather than as a component of shareholder's equity, with an annual pre-tax expense of $10 million to be recorded as financing costs, as opposed to a direct charge to retained earnings. There is no impact on earnings per share or earnings applicable to common shares.

VARIABLE INTEREST ENTITIES

The CICA has adopted Accounting Guideline 15 "Consolidation of Variable Interest Entities", which requires entities to consolidate those companies in which it holds a significant interest if it meets certain risk and reward criteria. On January 4th, 2005, Terasen Gas unwound its Coastal Facilities lease agreement and the assets have been included in the Terasen Gas rate base commencing January 2005.

RATE REGULATED ENTITIES

In 2003 the CICA reintroduced proposals to develop accounting standards for rate regulated enterprises which could have a significant impact on the Company's regulated operations. Although the CICA continues to deliberate on recognition and measurement issues related to rate regulation, in September 2004 the CICA issued a draft Guideline for comment on disclosures by entities with rate regulated operations. The proposed Guideline addresses certain aspects of disclosure and presentation of information in the financial statements of entities which have rate-regulated operations. The proposed disclosures are comprised of general information that facilitates an understanding of the effects of rate regulation on an entity's financial statements and additional information on how specific financial statement items have been affected. If approved, the draft guideline could be effective for annual and interim periods beginning on or after April 1, 2005.

ASSET RETIREMENT OBLIGATIONS

On January 1, 2004, the Company adopted the new CICA standard for recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under the new standard the fair value of a liability for an asset retirement obligation must be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset, which is then expensed over the asset's estimated useful life. The liability is accreted over the estimated useful life of the asset through charges to expenses.

As the fair value of future removal and site restoration costs is not currently determinable, the adoption of this policy does not result in the recording of an asset retirement liability and therefore the financial statements have not been impacted by this new standard. In addition, for regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates.

HEDGING RELATIONSHIPS

Effective January 1, 2004, the Company adopted the new accounting guideline on hedging relationships which specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation, and effectiveness of hedges. The guideline also identifies situations where hedge accounting is to be discontinued. The Company has met the criteria for all designated hedging relationships. The accounting treatment for financial instruments substantially conforms with those used in the Company's most recent annual consolidated financial statements.

FORWARD LOOKING STATEMENT

When used in this report, the words "anticipate", "expect", "project", "believe", "estimate", "forecast" and similar expressions are intended to identify forward looking statements, which include statements relating to pending and proposed projects or possible acquisitions. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers and in the case of possible acquisitions, obtaining financing, acquiring assets or companies at an appropriate price and the ability to effect synergies in a timely and cost-effective manner.

ADDITIONAL INFORMATION

Additional information relating to Terasen Inc., including its Annual Information Form, is available on SEDAR at www.sedar.com.

Management's Responsibility

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, include amounts that are based on management's best estimates and judgments. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss and that reliable financial records are maintained. These systems are monitored by internal auditors.

KPMG LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such audits in the following report. In order to provide their opinion on these consolidated financial statements, the shareholders' auditors review the system of internal controls and conduct their work to the extent they consider appropriate.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting and internal control. The Audit Committee meets with the internal auditors, the independent auditors and management to discuss auditing and financial matters and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board for consideration in approving the consolidated financial statements for issuance to the shareholders.

John M. Reid
President and Chief Executive Officer

Gordon R. Barefoot
Senior Vice President, Finance, and Chief Financial Officer

Vancouver, Canada
February 2, 2005

Auditors' Report To The Shareholders

We have audited the consolidated statements of financial position of Terasen Inc. as at December 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
February 2, 2005

Consolidated Statements of Earnings

In millions of dollars, except per share data

Years ended December 31	2004	2003
Revenues		
Natural gas distribution	**$ 1,494.1**	$ 1,497.9
Petroleum transportation	**225.5**	200.0
Water and utility services	**201.6**	152.5
Other activities	**35.8**	26.2
	1,957.0	1,876.6
Expenses		
Cost of natural gas	**885.4**	889.7
Cost of revenues from water and utility services and other activities	**174.3**	132.4
Operation and maintenance	**302.9**	284.8
Depreciation and amortization	**147.1**	133.4
Property and other taxes	**70.1**	69.9
	1,579.8	1,510.2
Operating Income	**377.2**	366.4
Financing costs (note 14)	**166.6**	176.0
Earnings before share of earnings of Express System and income taxes	**210.6**	190.4
Share of earnings of Express System (note 3)	**15.0**	8.0
Earnings before income taxes	**225.6**	198.4
Income taxes (note 15)	**69.2**	59.0
NET EARNINGS	**156.4**	139.4
Capital securities distributions, net of income taxes (note 11)	**6.6**	6.7
EARNINGS APPLICABLE TO COMMON SHARES	**$ 149.8**	$ 132.7
Common shares–weighted average (millions)	**104.7**	103.8
BASIC EARNINGS PER COMMON SHARE (note 11)	**$ 1.43**	$ 1.28
DILUTED EARNINGS PER COMMON SHARE (note 11)	**$ 1.42**	$ 1.27

Consolidated Statements of Retained Earnings

In millions of dollars

Years ended December 31	2004	2003
Retained earnings, beginning of year	**$ 355.5**	$ 302.2
Net earnings	**156.4**	139.4
	511.9	441.6
Dividends on common shares	**86.4**	79.4
Capital securities distributions, net of income taxes	**6.6**	6.7
	93.0	86.1
Retained earnings, end of year	**$ 418.9**	$ 355.5

Consolidated Statements of Financial Position

In millions of dollars

As at December 31		**2004**		2003
Assets				
Current assets				
Cash and short-term investments	**$**	**20.0**	$	1.5
Accounts receivable		**348.6**		404.3
Inventories of gas in storage and supplies		**189.2**		142.4
Prepaid expenses		**11.2**		13.4
Current portion of rate stabilization accounts (note 7)		**27.1**		21.6
		596.1		583.2
Property, plant and equipment (note 6)		**3,892.5**		3,882.4
Investment in Express System (note 3)		**218.9**		204.6
Goodwill		**128.0**		101.9
Rate stabilization accounts (note 7)		**60.6**		75.7
Other assets (note 8)		**74.5**		73.5
	$	**4,970.6**	$	4,921.3
Liabilities and Shareholders' Equity				
Current liabilities				
Short-term notes	**$**	**248.0**	$	553.9
Accounts payable and accrued liabilities		**369.8**		369.6
Income and other taxes payable		**36.4**		43.9
Current portion of rate stabilization accounts (note 7)		**27.6**		6.2
Current portion of long-term debt (note 9)		**416.7**		51.8
		1,098.5		1,025.4
Long-term debt (note 9)		**2,166.6**		2,301.1
Other long-term liabilities and deferred credits (note 10)		**140.7**		99.8
Future income taxes (note 15)		**68.7**		67.5
		3,474.5		3,493.8
Shareholders' equity				
Capital securities (note 11)		**125.0**		125.0
Common shares (note 11)		**883.4**		868.7
Contributed surplus (note 11)		**132.5**		131.4
Retained earnings		**418.9**		355.5
Cumulative currency translation adjustment		**(12.7)**		(2.1)
		1,547.1		1,478.5
Less cost of common shares held by Terasen Pipelines (Trans Mountain) Inc.		**51.0**		51.0
		1,496.1		1,427.5
	$	**4,970.6**	$	4,921.3

Approved by the Board:

Mark L. Cullen
Director

John M. Reid
Director

Consolidated Statements of Cash Flows

In millions of dollars

Years ended December 31	2004	2003
Cash flow provided by (used for)		
Operating activities		
Net earnings	$ 156.4	$ 139.4
Adjustments for non-cash items		
Depreciation and amortization	147.1	133.4
Share of earnings from Express System, net of (in excess of) cash distributions	(14.3)	2.1
Future income taxes	(0.5)	9.4
Other	7.6	5.0
	296.3	289.3
Decrease in rate stabilization accounts	31.0	50.7
Changes in non-cash working capital	14.7	(70.2)
	342.0	269.8
Investing activities		
Property, plant and equipment	(154.4)	(222.9)
Acquisition of water and utility services businesses (note 3)	(57.9)	—
Acquisition of Express System (note 3)	—	(206.7)
Proceeds on sale of natural gas distribution assets (note 10)	64.6	—
Proceeds on sale of other property, plant and equipment	0.9	—
Other assets	(13.4)	(2.3)
	(160.2)	(431.9)
Financing activities		
Increase (decrease) in short-term notes	(305.9)	113.9
Increase in long-term debt	339.1	461.4
Reduction of long-term debt	(118.2)	(340.8)
Issue of common shares, net of issue costs (note 11)	14.7	10.1
Dividends and distributions on common shares and capital securities	(93.0)	(86.1)
	(163.3)	158.5
Net increase (decrease) in cash	18.5	(3.6)
Cash at beginning of year	1.5	5.1
Cash at end of year	$ 20.0	$ 1.5
Supplemental cash flow information		
Interest paid in the year	$ 162.7	$ 184.7
Income taxes paid in the year	78.1	47.9

Cash is defined as cash or bank indebtedness.

Terasen Inc. ("Terasen" or the "Company") provides energy transportation and utility asset management services. Terasen operates in three primary business segments which are separately managed to assess operational performance.

(a) Natural gas distribution operations involve the transmission and distribution of natural gas and propane for residential, commercial, institutional, and industrial customers in British Columbia. The operations are conducted through Terasen Gas Inc. ("Terasen Gas"), serving the Lower Mainland and interior of British Columbia, Terasen Gas (Vancouver Island) Inc. ("TGVI"), serving Vancouver Island and the Sunshine Coast, Terasen Gas (Whistler) Inc., and Terasen Gas (Squamish) Inc.

(b) Petroleum transportation operations are carried out through Terasen Pipelines (Trans Mountain) Inc. ("Trans Mountain"), which owns and operates a common carrier pipeline system for crude and refined petroleum products transported from Edmonton, Alberta to Vancouver, British Columbia and Washington State, Terasen Pipelines (Corridor) Inc. ("Corridor"), a pipeline in northern Alberta transporting diluted bitumen, and the one-third owned entities Express Pipeline LP and Express US Holdings LP ("the Express System"). The Express System transports crude oil from Hardisty, Alberta, through the Rocky Mountain region of the United States and on to Wood River, Illinois.

(c) Water and utility services operations includes providing water and wastewater treatment services, water distribution and wastewater collection, meter reading, meter fleet management and installation services as well as product sales related to the water, sewer and irrigation markets. These operations are provided through Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc., Terasen Utility Services (U.S.) Inc. (collectively "Terasen Water and Utility Services"), the Company's 50% interest in Fairbanks Sewer and Water Inc. ("FSW") and the Company's 30% interest in CustomerWorks LP ("CWLP").

(d) Other activities include international consulting activities, the Company's 45% (2003 – 44%) proportionate interest in Clean Energy Fuels Corp. ("Clean Energy") and corporate financing costs and administration charges.

The Company operates in Canada and the United States, but at the present time the United States operations are not of sufficient size to be reportable as either operating or geographic segments.

On April 25, 2003, the Company changed its name from BC Gas Inc. to Terasen Inc.

1. Significant Accounting Policies

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and reflect the following summary of significant accounting policies.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its proportionate share of the accounts of jointly-controlled entities. Investments in entities which are not subsidiaries or joint ventures, but over which the Company exercises significant influence, are accounted for using the equity method.

Certain of the prior year comparative figures have been reclassified to conform with the current year's presentation.

Foreign Currency Translation

The Company translates its self-sustaining U.S. dollar denominated water and utility service businesses' and Clean Energy's financial statements into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, revenue and expense items are translated at average rates of exchange for the period, and the exchange gains and losses arising on the translation of the financial statements are recorded in the cumulative currency translation adjustment account in Shareholders' equity.

The Company's U.S.-based petroleum transportation operations are integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date, with the exception of certain long-term debt in the Express System, which is considered to be a hedge of U.S. dollar denominated revenues in the Express System. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect on the dates the assets were acquired or liabilities assumed. Revenues and expenses are translated at the average rates of exchange prevailing during the month the transactions occurred. Under this method, exchange gains and losses on translation are reflected in income when incurred.

Regulation

The natural gas distribution companies are subject to the regulation of the British Columbia Utilities Commission ("the BCUC"). The Trans Mountain and Express System operations are governed by contractual arrangements with shippers and are regulated in Canada by the National Energy Board and, in the United States, tariff matters are regulated by the Federal Energy Regulatory Commission.

Corridor's operations are governed by contractual arrangements with shippers and are subject to regulation by the Alberta Energy and Utilities Board ("the AEUB"). FSW is regulated by the Regulatory Commission of Alaska.

These regulatory authorities exercise statutory authority over such matters as rates of return, construction and operation of facilities, accounting practices, rates and tolls, and contractual agreements with customers.

In order to recognize the economic effects of regulation, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under generally accepted accounting principles for non-regulated businesses.

Inventories

Inventories of gas in storage are valued at weighted-average cost. Supplies and other inventories are valued at the lower of cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures for system expansions, betterments and replacements, an allocation of overhead costs and an allowance for funds used during construction. When allowed by the regulators, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

Depreciation of regulated assets is recorded on a straight-line basis over their useful lives. Depreciation rates for regulated assets are approved by the respective regulator, and for non-regulated assets requires the use of management estimates of the useful lives of assets. Depreciation of nonregulated equipment is recorded using the declining balance method.

The cost of regulated depreciable property retired, together with removal costs less salvage, is charged to accumulated depreciation, as is any gain or loss incurred on disposal.

Impairment of Long-Lived Assets

On January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") standard for recognizing, measuring and disclosing impairment of long-lived assets held for use. A long-lived asset is tested for recoverability when events or changes in circumstances indicate that its carrying amount may not be recoverable. The new standard has had no impact on the Company's financial results.

Asset Retirement Obligations

On January 1, 2004, the Company adopted the new CICA standard for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under the new standard the fair value of a liability for an asset retirement obligation must be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated long-lived asset, which is then expensed over the asset's estimated useful life. The liability is accreted over the useful life of the asset through charges to expenses.

As the fair value of future removal and site restoration costs is not currently determinable, the adoption of the policy does not result in the recording of an asset retirement liability and therefore the financial statements have not been impacted by the new standard. In addition, for regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates or tolls.

Rate Stabilization Accounts

TGVI maintains a BCUC approved Revenue Deficiency Deferral Account ("RDDA") to accumulate unrecovered costs of providing service to customers or to drawdown such costs where earnings exceed an allowed return as set by the BCUC. The RDDA has accumulated the allowed earnings in excess of achieved earnings prior to 2003 and is to be recovered through future rates. During the years ended December 31, 2004 and 2003, the RDDA has decreased as achieved earnings have exceeded the allowed return.

Terasen Gas is authorized by the BCUC to maintain rate stabilization accounts to mitigate the effect on its earnings of unpredictable and uncontrollable factors, namely volume volatility caused principally by weather and natural gas cost volatility. The Revenue Stabilization Adjustment Mechanism ("RSAM") accumulates the margin impact of variations in the actual versus forecast volume use for residential and commercial customers.

In 2004, the Gas Cost Reconciliation Account ("GCRA"), which accumulates differences between actual natural gas costs and forecast natural gas costs as recovered in base rates, was replaced by the Commodity Cost Reconciliation Account ("CCRA") and the Midstream Cost Reconciliation Account ("MCRA"). The two new accounts were approved by the BCUC to segregate costs that are allocable to all sales customers (MCRA) and all residential customers and certain commercial and industrial customers for whom Terasen Gas acquires gas supply (CCRA).

All rate stabilization account balances for both TGVI and Terasen Gas are amortized and recovered through rates as approved by the BCUC.

Deferred Charges

The Company defers certain costs which the regulatory authorities or contractual arrangements require or permit to be recovered through future rates or tolls. Deferred charges are amortized over various periods as approved by the regulator and depending on the nature of the costs.

Deferred charges include long-term debt issue costs which are amortized over the term of the related debt.

Deferred charges not subject to regulation relate to projects which may benefit future periods and will be capitalized on completion, expensed on project abandonment, or are being amortized on a straight-line basis over their useful lives.

Goodwill

Goodwill represents the excess of an investment over the fair value of the net assets acquired. Goodwill is not amortized and is tested annually for impairment by comparing the book value with the fair value of the goodwill of the reporting unit to which the goodwill is attributable. Any deficiency in the book value compared to the fair value will be recognized as an impairment loss.

Revenue Recognition

The Company recognizes revenues when products have been delivered or services have been performed.

The natural gas distribution utilities record revenues from natural gas sales on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year and adjusted for the Revenue Stabilization Adjustment Mechanism and other BCUC-approved orders.

For the petroleum transportation operations, revenues are recorded when products are delivered and adjusted according to terms prescribed by toll settlements with the shippers and approved by the respective regulator.

For the water and utility services operations revenues are recorded when services have been performed or products have been delivered.

Derivative Financial Instruments

The Company utilizes derivatives and other financial instruments to manage its exposure to changes in foreign currency exchange, interest rates and energy commodity prices.

A derivative must be designated and effective to be accounted for as a hedge. The Company designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet, specific firm commitments or anticipated transactions. The Company also assesses, both at inception and on an ongoing basis, whether the derivative instruments that are used in each hedging transaction are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

As approved by the regulator, derivatives are used to manage natural gas commodity price risk in the natural gas distribution operations. The majority of natural gas supply contracts have floating, rather than fixed prices. The Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in deferral accounts (CCRA and MCRA), and subject to regulatory approval, are passed through in future rates to customers.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives with payments and receipts under interest rate swap contracts being recognized as adjustments to financing costs.

Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through regulatory deferral accounts. Certain foreign currency risks in the natural gas distribution operations are managed on behalf of customers through the use of foreign currency derivatives.

The Company's earnings from the U.S. portion of Trans Mountain's crude oil pipeline system and the Company's investment in the Express System are subject to foreign currency risk. The Company's earnings are also subject to translation risk associated with certain Express System assets and liabilities. The Company manages some of these foreign currency exposures through the use of foreign currency derivatives.

Unless otherwise approved by regulation, if a derivative instrument is terminated or ceases to be effective prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Any subsequent changes in the value of the derivative instrument are reflected in income.

Non-hedge derivatives are marked to market at the balance sheet date with fluctuations in value charged to earnings.

Post-Employment Benefit Plans

The Company sponsors a number of employee benefits plans. These plans include both defined benefit and defined contribution pension plans, and various other post-retirement benefit plans.

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined as the employee provides service, except when the regulator requires costs to be expensed as paid. The Company uses the projected benefit method based on years of service and management's best estimates of expected returns on plan assets, salary escalation, retirement age of employees, mortality and expected future health-care costs. The discount rate used to value liabilities is based on AA Corporate bond yields. The Company accrues the cost of defined benefit pensions and post-employment benefits as the employee provides services, except when the regulator requires costs to be expensed as paid.

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of assets as of December 31, 2004 is calculated as the average of the market value of invested assets at December 31, 2004 and two actuarially determined extrapolated market values of invested assets at December 31, 2004. The two extrapolated market values are calculated by using the market value of invested assets at December 31, 2002 rolled forward to December 31, 2004 using 2003 and 2004 net contributions and assumed investment returns, and the market value of invested assets at December 31, 2003 rolled forward to December 31, 2004 using 2004 net contributions and assumed investment returns. These three amounts are then averaged to determine the market-related value of plan assets used in calculating net benefit expense.

Adjustments, in excess of 10% of the greater of the accrued benefit obligation and plan asset fair value, that result from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group covered by the plan. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

Defined contribution plan costs are expensed by the Company as contributions are payable.

Income Taxes

The Company's regulated gas and petroleum operations account for and recover income tax expense in rates as prescribed by their respective regulators. This includes accounting for income taxes by the taxes payable method and accounting for certain deferral and rate stabilization accounts on a net of realized tax basis. Therefore, future income taxes related to temporary differences are not recorded. The taxes payable method is followed as there is a reasonable expectation that all future income taxes will be recovered in rates when they become payable.

The Company's non-regulated operations and FSW follow the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Future income tax assets and liabilities are measured at the tax rate that is expected to apply when the temporary differences reverse.

Stock-Based Compensation

The Company has a Share Option Plan whereby officers, directors and certain key employees may be granted options to purchase common shares. The Company uses the fair value based method for valuing stock options granted on or after January 1, 2003. Under the fair value based method, compensation cost is measured at the fair value at the date of grant and is expensed over the award's vesting period.

Prior to January 1, 2003, the Company used the settlement method of accounting for stock options, whereby any consideration paid by employees on the exercise of stock options was credited to common shares and no compensation expense was recognized.

The Company has issued Deferred Share Units ("DSU's") to senior management and Board members under long-term compensation programs and also as an optional form of compensation to Board members. The DSU's are marked-to-market at the end of each quarter and gains or losses are recognized in earnings. The DSU's notionally earn dividends that are reinvested as additional DSU's when dividends are paid, and are paid out in cash only on retirement or termination of the individual receiving them.

2. Segment Disclosures

2004	Natural gas distribution	Petroleum transportation	Water and utility services	Other activities	Total
Revenues	**$ 1,494.1**	**$ 225.5**	**$ 201.6**	**$ 35.8**	**$ 1,957.0**
Cost of natural gas	**885.4**	**—**	**—**	**—**	**885.4**
Cost of revenues from water and utility services and other activities	**—**	**—**	**152.4**	**21.9**	**174.3**
Operation and maintenance	**190.5**	**66.0**	**28.3**	**18.1**	**302.9**
Depreciation and amortization	**98.7**	**35.9**	**9.3**	**3.2**	**147.1**
Property and other taxes	**47.1**	**22.5**	**0.2**	**0.3**	**70.1**
	1,221.7	**124.4**	**190.2**	**43.5**	**1,579.8**
Operating income	**272.4**	**101.1**	**11.4**	**(7.7)**	**377.2**
Financing costs	**126.2**	**22.5**	**1.0**	**16.9**	**166.6**
Share of (earnings) of Express System	**—**	**(15.0)**	**—**	**—**	**(15.0)**
Income taxes (recovery) on earnings	**50.3**	**22.7**	**3.8**	**(7.6)**	**69.2**
Net earnings (loss)	**95.9**	**70.9**	**6.6**	**(17.0)**	**156.4**
Earnings (loss) applicable to common shares	**95.9**	**70.9**	**6.6**	**(23.6)**	**149.8**
Earnings (loss) per common share	**0.92**	**0.68**	**0.06**	**(0.23)**	**1.43**
Total assets	**3,375.0**	**1,350.4**	**186.7**	**58.5**	**4,970.6**
Goodwill	**76.5**	**—**	**40.8**	**10.7**	**128.0**
Capital expenditures	**112.3**	**31.0**	**7.8**	**3.3**	**154.4**

2003	Natural gas distribution	Petroleum transportation	Water and utility services	Other activities	Total
Revenues	$ 1,497.9	$ 200.0	$ 152.5	$ 26.2	$ 1,876.6
Cost of natural gas	889.7	—	—	—	889.7
Cost of revenues from water and utility services and other activities	—	—	115.4	17.0	132.4
Operation and maintenance	189.4	57.0	21.4	17.0	284.8
Depreciation and amortization	92.5	30.0	8.0	2.9	133.4
Property and other taxes	48.6	21.0	0.1	0.2	69.9
	1,220.2	108.0	144.9	37.1	1,510.2
Operating income	277.7	92.0	7.6	(10.9)	366.4
Financing costs	135.5	23.2	0.9	16.4	176.0
Share of (earnings) of Express System	—	(8.0)	—	—	(8.0)
Income taxes (recovery) on earnings	46.8	20.6	2.6	(11.0)	59.0
Net earnings (loss)	95.4	56.2	4.1	(16.3)	139.4
Earnings (loss) applicable to common shares	95.4	56.2	4.1	(23.0)	132.7
Earnings (loss) per common share	0.92	0.54	0.04	(0.22)	1.28
Total assets	3,422.6	1,337.6	115.7	45.4	4,921.3
Goodwill	76.5	—	12.0	13.4	101.9
Capital expenditures	135.1	77.2	10.1	0.5	222.9

The segmented disclosures in these consolidated financial statements have been changed from those reported in the December 31, 2003 annual financial statements and now include the water and utility services business as a separate reportable segment which was previously included in other activities. This segment includes Terasen Water and Utility Services as well as Terasen's 50% share of FSW and 30% share of CWLP. The comparative segment information has been restated to reflect this change.

3. Acquisitions and Related Financings

Water and Utility Services Acquisitions

On July 31, 2004, the Company acquired a 50 per cent interest in FSW. FSW provides water and wastewater treatment and water distribution and wastewater collection services to Fairbanks, Alaska. The Company paid $40.8 million for its 50 per cent interest after working capital adjustments. The Company has accounted for the acquisition of FSW using the purchase method and has proportionately consolidated its 50 per cent of operations since the date of acquisition.

The Company and the other owners of FSW each have the option to have Terasen acquire the remaining 50 per cent interest in FSW at fair market value in 2009.

During 2004, the Company also acquired 100 per cent of two businesses and increased its investment in two other businesses that provide meter reading, meter fleet management and installation services in Canada and the United States. The Company paid $17.1 million for the interest in these businesses after working capital adjustments. The earnings of these acquired businesses have been included in the statement of earnings from the date of acquisition.

The following table provides the allocation of the purchase price over the assets and liabilities acquired:

	FSW	Other	Total
Working capital	$ 2.2	$ 7.1	$ 9.3
Property, plant and equipment	27.0	1.6	28.6
Goodwill	24.0	8.0	32.0
Other assets	0.5	0.4	0.9
Future income taxes	(2.0)	—	(2.0)
Long-term debt assumed	(10.9)	—	(10.9)
Total cash paid	$ 40.8	$ 17.1	$ 57.9

Express System

On January 9, 2003, a consortium including the Company, Borealis Infrastructure Management Inc. and the Ontario Teachers' Pension Plan Board acquired the Express Group of companies, which includes Express Pipeline LP. and Express Holdings (U.S.A.) LP. from EnCana Corporation. Each of the three consortium members owns an equal interest in the Express System. The total purchase price was $1,203.5 million, including assumed debt of $578.8 million. The Company's share of the purchase price was $206.7 million.

The Company exercises significant influence over the Express System and, accordingly, accounts for its one-third investment in the Express System using the equity method. Under the equity method the investment has been initially recorded at cost, and is subsequently adjusted to recognize the Company's share of earnings of the Express System and is reduced by distributions.

4. Restructuring

During the year ended December 31, 2003, the Company's natural gas distribution operations undertook a management and administrative restructuring and integration. The initiative was undertaken to generate efficiencies and harmonize processes and systems between Terasen Gas and TGVI. As a result of the restructuring, natural gas distribution operations recorded a charge of $3.4 million in 2003 and $0.7 million in 2004, net of previously recorded accruals, tax and the deferral of an amount for future recovery from customers through rates. The pre-tax charges have been included in operations and maintenance expense.

5. Investments in Jointly-Controlled Entities

The Company has a 50% interest in FSW, a 45% interest in Clean Energy and a 30% interest in CWLP for which it uses the proportionate consolidation method of accounting. The Company's proportionate share of assets, liabilities, revenues, expenses, and cash flows related to these entities is summarized as follows:

	2004	2003
Current assets	**$ 27.1**	$ 20.4
Long-term assets (including property, plant and equipment and goodwill)	**121.0**	80.6
Current liabilities	**41.3**	29.8
Long-term liabilities	**20.4**	8.7
Revenues	**77.7**	60.7
Expenses (including financing costs and income tax)	**71.8**	58.7
Net income	**5.9**	2.0
Cash flows from operating activities	**7.8**	26.7
Cash flows from investing activities	**(7.5)**	(7.6)
Cash flows from financing activities	**0.2**	(1.8)

6. Property, Plant and Equipment

2004	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book value
Natural gas distribution	**2.40%**	**$ 3,009.6**	**$ 542.5**	**$ 2,467.1**
Petroleum pipeline systems	**2.51%**	**1,295.0**	**295.9**	**999.1**
Water and utility plant and distribution systems	**3.71%**	**34.0**	**1.8**	**32.2**
Plant, buildings and equipment	**8.98%**	**404.4**	**160.3**	**244.1**
Land and land rights	**0.25%**	**152.6**	**2.6**	**150.0**
		$ 4,895.6	**$ 1,003.1**	**$ 3,892.5**

2003	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book value
Natural gas distribution	2.36%	$ 2,979.2	$ 486.7	$ 2,492.5
Petroleum pipeline systems	2.54%	1,260.0	265.6	994.4
Water and utility plant and distribution systems	6.01%	5.2	1.0	4.2
Plant, buildings and equipment	8.47%	404.6	153.2	251.4
Land and land rights	0.23%	141.8	1.9	139.9
		$ 4,790.8	$ 908.4	$ 3,882.4

7. Rate Stabilization Accounts

	2004	2003
Current Assets		
RDDA	**$ 12.9**	$ 12.8
RSAM	**11.1**	8.8
GCRA	**2.7**	—
Gas Cost Variance Account (TGVI)	**0.4**	—
	27.1	21.6
Long-Term Assets		
RDDA	**32.7**	43.5
RSAM	**27.9**	32.2
	60.6	75.7
Current Liabilities		
MCRA	**(27.6)**	—
GCRA	**—**	(2.5)
Gas Cost Variance Account (TGVI)	**—**	(3.7)
	(27.6)	(6.2)
Net rate stabilization accounts	**$ 60.1**	$ 91.1

The current portion of the rate stabilization accounts represents the amounts expected to be recovered in rates over the next twelve months. Actual recoveries will vary depending on actual natural gas consumption and recovery amounts approved by the BCUC.

The RSAM account is anticipated to be recovered in rates over three years. Recovery of the RSAM balance is dependent upon annually approved rates and actual gas consumption volumes. The MCRA and CCRA accounts, which succeeded the GCRA account in 2004, are anticipated to be fully recovered or paid within the next fiscal year.

8. Other Assets

	2004	2003
Deferred charges		
Regulated	**$ 46.2**	$ 47.9
Non-regulated	**13.7**	13.8
Investments	**1.3**	2.6
Long-term receivables	**13.3**	9.2
	$ 74.5	$ 73.5

9. Long-Term Debt

	2004	2003
Terasen Inc.		
(a) Medium Term Note Debentures:		
6.30% Series 1, due December 1, 2008	**$ 200.0**	$ 200.0
4.85% Series 2, due May 8, 2006	**100.0**	100.0
5.56% Series 3, due September 15, 2014	**125.0**	—
	425.0	300.0
Terasen Gas Inc.		
(b) Purchase Money Mortgages:		
11.80% Series A, due September 30, 2015	**74.9**	74.9
10.30% Series B, due September 30, 2016	**200.0**	200.0
(c) Debentures and Medium Term Note Debentures:		
9.75% Series D, due December 17, 2006	**20.0**	20.0
10.75% Series E, due June 8, 2009	**59.9**	59.9
6.20% Series 9, due June 2, 2008	**188.0**	188.0
6.95% Series 11, due September 21, 2029	**150.0**	150.0
6.50% Series 12, due July 20, 2005	**200.0**	200.0
6.50% Series 13, due October 16, 2007	**100.0**	100.0
6.15% Series 16, due July 31, 2006	**100.0**	100.0
Floating Rate Series 17, interest rate of 2.93% (2003 – 3.02%) due September 26, 2005	**150.0**	150.0
6.50% Series 18, due May 1, 2034	**150.0**	—
Various series, weighted average interest rate of 9.63% (2002 – 9.63%) due in 2005	**45.0**	45.0
Obligations under capital leases, at 6.23% (2003 – 6.20%)	**10.8**	11.7
	1,448.6	1,299.5
Terasen Gas (Vancouver Island) Inc.		
(d) Syndicated credit facility at short-term floating rates, weighted average interest rate of 3.35% (2003 – 3.51%) with annual repayments of $5.4 million in 2005 and maturities of $176.5 million in 2006 and $33.0 million in 2009	**214.9**	220.4
Terasen Pipelines (Trans Mountain) Inc.		
(e) Debentures:		
10.75% Series B, due November 22, 2004	**—**	30.0
11.50% Series C, due June 20, 2010	**35.0**	35.0
	35.0	65.0
Terasen Pipelines (Corridor) Inc.		
(f) Commercial Paper at short-term floating rates, weighted average interest rate of 2.51% (2003 – 2.69%)	**446.0**	464.0
Other long-term debt	**13.8**	4.0
Total long-term debt	**2,583.3**	2,352.9
Less: current portion of long-term debt	**416.7**	51.8
	$ 2,166.6	$ 2,301.1

Terasen Inc. Medium Term Note Debentures:

The Company's Medium Term Note Debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 21, 2001.

Terasen Gas Inc. Purchase Money Mortgages:

The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on Terasen Gas' Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425 million.

Terasen Gas Inc. Debentures and Medium Term Note Debentures:
Terasen Gas' debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

Terasen Gas (Vancouver Island) Inc. Bank Syndicate:
The credit facility from the syndicate of banks is secured by a first floating charge over all of the assets of TGVI, assignment of certain material contracts, and assignment of royalty revenue and interruptible incentive payments.

Terasen Pipelines (Trans Mountain) Inc. Debentures:
The Trans Mountain debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated February 18, 1987, as amended and supplemented.

Terasen Pipelines (Corridor) Inc. Commercial Paper:
The commercial paper program to finance the Corridor pipeline is supported by a syndicated bank credit facility that is committed until November 21, 2006.

The Company's Series 1 and Series 3 Medium Term Note Debentures, Terasen Gas' Series B Purchase Money Mortgages, Series E Debentures, and Series 11, Series 13, Series 16 and Series 18 Medium Term Note Debentures, and Trans Mountain's Series C Debentures are redeemable in whole or in part at the option of the Company at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond.

Required principal repayments over the next five years are as follows:

2005	$	416.7
2006		834.4
2007		102.5
2008		390.5
2009		95.5

Required principal repayments in 2006 include $446.0 million in repayments with respect to Corridor which has been refinanced subsequent to year end as described in Note 19.

10. Other Long-Term Liabilities and Deferred Credits

		2004		2003
Pension and other post-employment benefit liabilities	**$**	**30.8**	$	20.5
Deferred gains for sale of natural gas distribution assets		**60.3**		30.2
Deferred payment		**33.9**		31.9
Other deferred credits/liabilities		**15.7**		17.2
	$	**140.7**	$	99.8

The deferred gains on sale of natural gas distribution assets occurred upon the sale and leaseback of pipeline assets to certain municipalities in 2001, 2002 and 2004. The pre-tax gains of $66.5 million on combined cash proceeds of $135.9 million are being amortized over the 17-year terms of the operating leases that commenced at the time of the sale transactions. These operating lease commitments are included in the table in Note 17.

The deferred payment resulted from the Company's acquisition of TGVI effective January 1, 2002. The deferred payment has a face value of $52.0 million but was discounted at January 1, 2002 to a present value of $28.2 million. The payment is due on December 31, 2011 or sooner if TGVI realizes revenues from transportation revenue contracts to serve power-generating plants which may be constructed in TGVI's service area. If any part of the deferred payment is paid prior to December 31, 2011, the difference between the payment and the carrying value of the debt will be treated as contingent consideration for the acquisition of TGVI and will be added to the cost of the purchase at that time.

Other deferred credits/liabilities includes amounts resulting from the Company's acquisition of TGVI effective January 1, 2002.

11. Capital Securities and Share Capital

Authorized Share Capital

The Company is authorized to issue 750,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value.

Capital Securities

On April 19, 2000, the Company issued $125.0 million of 8.0% Capital Securities with a term to maturity of 40 years for gross proceeds of $123.7 million. The Company may elect to defer payments on these securities and settle such deferred payments in either cash or common shares, and has the option to settle principal at maturity through the issuance of common shares. Accordingly, the capital securities have been classified as equity. The securities are exchangeable at the option of the holder on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. Distributions on these securities, net of related income taxes, are deducted from net earnings for the purposes of calculating earnings applicable to common shares.

Stock Split

On June 14, 2004 the Company carried out a two-for-one stock split effected by paying a stock dividend of one additional common share for each common share held as of June 7, 2004.

All equity-based benefit plans have been amended to reflect the additional shares or options resulting from the stock split. All share and per share data has been amended for comparative and current periods to reflect the stock split.

Common Shares

Changes in the issued and outstanding common shares are as follows:

	2004		2003	
	Number	Amount	Number	Amount
Outstanding, beginning of year	**113,338,942**	**$ 868.7**	112,548,010	$ 858.6
Issued under: Share option plan	**1,009,761**	**14.5**	781,802	9.9
Employee share purchase plan	**6,962**	**0.2**	9,130	0.2
	114,355,665	**$ 883.4**	113,338,942	$ 868.7
Less common shares held by Trans Mountain	**9,184,188**		9,184,188	
Outstanding, end of year	**105,171,477**		104,154,754	

As at December 31, 2004, Trans Mountain owned 8.0% (2003 – 8.1%) of the common shares of Terasen Inc. The cost of these shares is shown as a deduction from shareholders' equity.

Reserved for Issue

At December 31, 2004 the number of common shares reserved for issue to meet rights outstanding is as follows:

Under share option plan	5,166,617
Under dividend reinvestment and share purchase plan	4,125,152
Under payroll deduction employee share purchase plan	808,994
	10,100,763

Earnings Per Share

Earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares and dilutive stock options outstanding at the beginning of or granted during the year. The Company's performance based share options are considered to be contingently issuable shares and have been included in the treasury stock method calculation only if all performance criteria of the options have been satisfied. The possible exchange of the $125.0 million Capital Securities into common shares has not been included in the treasury stock method calculation since similar obligations in the past have been paid wholly in cash.

	2004		2003	
	Weighted average shares	Earnings	Weighted average shares	Earnings
Earnings applicable to common shares		**$ 149.8**		$ 132.7
Weighted average common shares	**104.7**		103.8	
Add: weighted average number of shares that would be issued under treasury stock method	**1.0**		1.0	
	105.7	**$ 149.8**	104.8	$ 132.7
Earnings per share		**$ 1.43**		$ 1.28
Diluted earnings per share		**$ 1.42**		$ 1.27

Shareholder Rights Plan

The Company established a Shareholder Rights Plan in 2003 that is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Rights issued under the plan become exercisable when a person or party acquires or announces the intention to acquire 20% or more of the Company's outstanding common shares without complying with certain provisions set out in the plan or without approval of the Board of Directors of the Company. Each common share outstanding is entitled to one right, which entitles the rights holder, other than the acquiring person or party, the right to purchase common shares of the Company at 50% of the then market price.

12. Share Option Plan and Stock-Based Compensation

Share Option Plan

The Company has a Share Option Plan whereby officers and certain key employees may be granted options to purchase a maximum of 12,600,000 unissued common shares with terms up to ten years. There are two categories of options which have been issued under the Share Option Plan, Regular Share Options and Performance Based Share Options. The option exercise price is the closing sale price of the common shares on the Toronto Stock Exchange on the trading day prior to the date the option is granted.

Regular Share Options

Since 2000, the Company has granted options with eight-year terms which are exercisable on a cumulative basis and vest at one-third per year on the anniversary of the option grant date. Prior to 2000, the Company granted options with ten-year terms which are exercisable on a cumulative basis at 20% per year.

Regular Share Options Outstanding

	2004		2003	
	Shares under option	Weighted average exercise price	Shares under option	Weighted average exercise price
Outstanding, beginning of year	**1,118,822**	**$ 14.31**	1,518,792	$ 13.68
Options granted during the year	**24,800**	**23.93**	127,144	14.28
Options exercised	**(537,716)**	**13.39**	(497,716)	12.21
Options forfeited and expired	**(40,038)**	**17.46**	(29,398)	16.98
Outstanding, end of year	**565,868**	**$ 15.40**	1,118,822	$ 14.31
Options exercisable, end of year	**348,857**	**$ 13.25**	710,354	$ 12.28

	Options outstanding			Options exercisable	
Exercise price range	Shares under option	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable at year-end	Weighted average exercise price
$6.94 – $13.33	180,780	$ 11.07	2.1	180,780	$ 11.07
$14.13 – $15.50	130,648	14.71	3.6	130,648	14.71
$17.56 – $24.00	254,440	18.82	5.6	37,429	18.68
	565,868	$ 15.40	4.0	348,857	$ 13.25

During 2004 the Company identified a number of regular share options that had been granted in 1994 and 1995 that had not been reflected in the outstanding balances upon the conversion of share option records to the external transfer agent in 1997. These 151,316 share options with a weighted average exercise price of $7.05 have been included in the continuity table above as an adjustment to the January 1, 2003 balance previously reported.

Performance-Based Share Options

The Company has granted performance-based share options with eight-year terms. The options vest at one-third per year on the anniversary of the option grant dates, subject to the market price of the Company's common shares reaching 125% of the option's exercise price for at least 10 out of 15 consecutive trading days within four years of the option grant date. If the market price requirement is not attained within four years of grant date, the participant is still eligible to exercise two-thirds of the granted options if the common share price reaches 125% of the option's exercise price for at least 10 out of 15 consecutive trading days during the subsequent four years.

Performance-Based Share Options Outstanding

	2004		2003	
	Shares under option	Weighted average exercise price	Shares under option	Weighted average exercise price
Outstanding, beginning of year	**2,304,398**	**$ 17.08**	1,892,184	$ 15.53
Options granted during the year	**716,600**	**23.88**	744,200	19.82
Options exercised	**(472,045)**	**15.53**	(284,086)	13.57
Options forfeited and expired	**(209,334)**	**19.68**	(47,900)	19.26
Outstanding, end of year	**2,339,619**	**$ 19.24**	2,304,398	$ 17.08
Options exercisable, end of year	**1,020,508**	**$ 16.27**	909,598	$ 12.79

	Options outstanding			Options exercisable	
Exercise price range	Shares under option	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable at year-end	Weighted average exercise price
$11.25 – $13.63	264,950	$ 12.77	2.8	264,950	$ 12.77
$15.50 – $17.56	795,134	16.97	4.8	567,534	16.75
$19.60 – $23.88	1,279,535	21.99	6.6	188,024	19.73
	2,339,619	$ 19.24	5.6	1,020,508	$ 16.27

Stock-Based Compensation

In 2004, 741,400 stock options were granted (2003 – 871,344) at an average exercise price of $23.88 (2003 – $19.01) under the Company's Share Option Plan. The Company has applied the fair value based method of accounting for stock options granted after January 1, 2003. Reported earnings for 2004 include a compensation charge of $1.2 million (2003 – $0.6 million) representing the fair value of options granted in 2003 and 2004 amortized over their respective vesting periods, with a corresponding increase to contributed surplus. Had the Company used the fair value based method to account for stock options granted during 2002, pro forma earnings and earnings per share would have been as follows:

		2004	2003
Net earnings (in millions)	As reported	**$ 156.4**	$ 139.4
	Pro forma	**$ 155.2**	$ 138.2
Earnings applicable to common shares (in millions)	As reported	**$ 149.8**	$ 132.7
	Pro forma	**$ 148.6**	$ 131.5
Basic earnings per common share	As reported	**$ 1.43**	$ 1.28
	Pro forma	**$ 1.42**	$ 1.27
Diluted earnings per common share	As reported	**$ 1.42**	$ 1.27
	Pro forma	**$ 1.41**	$ 1.26

A Black-Scholes model was used to calculate stock option fair values. The weighted average fair value of options granted in 2004 was $2.40 (2003 – $2.77). Significant assumptions in valuing the options are as follows:

	2004		2003	
	Regular Options	Performance Based	Regular Options	Performance Based
Interest rate	**3.5 – 3.7%**	**3.5%**	3.8 – 4.2%	4.3 – 4.4%
Expected volatility	**15.1 – 15.4%**	**15.4%**	16.8 – 17.8%	16.2 – 17.8%
Expected life	**5 years**	**6 years**	5 years	6 years

Deferred Share Units

The Company has issued Deferred Share Units ("DSU's") to certain senior employees and directors as compensation. At December 31, 2004, there were 52,859 (2003 – 22,104) DSU's outstanding, which had a fair value and carrying value of $1.5 million (2003 – $0.5 million). The liability is included in other long-term liabilities and deferred credits.

13. Employee Benefit Plans

The Company is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, which provide pension benefits in excess of statutory limits, and defined contributory plans. The Company also provides post-employment benefits other than pensions for retired employees. The following is a summary of each type of plan:

Defined Benefit Plans

Retirement benefits under the defined benefit plans are based on employees' years of credited service and remuneration. Company contributions to the plan are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were at December 31, 2002 and December 31, 2001 and the date of the next required valuations are December 31, 2005 and December 31, 2004. The December 31, 2004 valuation will not be completed until the second quarter of 2005. The expected weighted average remaining service life of employees covered by the defined benefit pension plans is 11.8 years (2003 – 11.8 years).

Defined Contribution Plan

Effective in 2000 for Terasen Gas and 2003 for petroleum transportation operations, all new non-union employees become members of defined contribution pension plans. Company contributions to the plan are based upon employee age and pensionable earnings for employees of the natural gas distribution operations and pensionable earnings for employees of the petroleum transportation operation.

Supplemental Plans

Certain employees are eligible to receive supplemental benefits under both the defined benefit and defined contribution plans. The supplemental plans provide pension benefits in excess of statutory limits. The supplemental plans are unfunded and are secured by letters of credit.

Other Post-Employment Benefits

The Company provides retired employees with other post-employment benefits that include, depending on circumstances, supplemental health, dental and life insurance coverage. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation. The most recent actuarial valuations were completed as at December 31, 2002. The expected weighted average remaining service life of employees covered by these benefit plans is 9.9 years (2003 – 9.9 years).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The financial positions of the employee defined benefit pension plans and other benefit plans are presented in aggregate in the tables below:

	Defined benefit pension plans		Other benefit plans	
	2004	2003	**2004**	2003
Plan assets				
Fair value, beginning of year	**$ 255.3**	$ 221.2	**$ —**	$ —
Acquisition of Express System	**—**	1.9	**—**	—
Actual return on plan assets	**26.7**	31.1	**—**	—
Employers' contributions	**5.5**	10.2	**1.5**	1.2
Employees' contributions	**2.9**	3.0	**—**	—
Benefits and settlements paid	**(15.2)**	(11.4)	**(1.4)**	(1.1)
Other	**(0.7)**	(0.7)	**(0.1)**	(0.1)
Fair value, end of year	**274.5**	255.3	**—**	—
Accrued benefit obligation				
Obligation, beginning of year	**276.7**	250.8	**61.0**	49.9
Acquisition of Express System	**—**	1.4	**—**	0.6
Current service cost	**8.1**	7.9	**1.3**	1.5
Interest cost	**17.2**	16.6	**3.9**	3.4
Employees' contributions	**2.9**	3.0	**—**	—
Benefits and settlements paid	**(15.2)**	(11.4)	**(1.4)**	(1.1)
Change in discount rate	**7.8**	8.3	**2.5**	2.4
Actuarial (gain) loss	**—**	(1.4)	**—**	11.5
Past service cost and other	**0.5**	1.5	**—**	(7.2)
Balance, end of year	**298.0**	276.7	**67.3**	61.0
Funded status – plan deficit	**(23.5)**	(21.4)	**(67.3)**	(61.0)
Unamortized transitional obligation (benefit)	**(27.2)**	(31.0)	**6.2**	7.8
Unamortized actuarial loss	**43.2**	47.8	**32.0**	32.1
Unamortized past service costs	**9.0**	8.7	**(3.2)**	(3.5)
Accrued benefit asset (liability)	**$ 1.5**	$ 4.1	$ **(32.3)**	$ (24.6)

The net accrued benefit liability is included in other long-term liabilities and deferred credits (Note 10).

Included in the accrued benefit obligation and fair value of the plan assets at year-end are the following amounts in respect of plans with accrued benefit obligations in excess of fair value of assets:

	Pension benefit plans		Other benefit plans	
	2004	2003	**2004**	2003
Accrued benefit obligations:				
Unfunded plans	**$ 28.0**	$ 25.3	**$ 67.3**	$ 61.0
Funded plans	**156.5**	142.7	**—**	—
	184.5	168.0	**67.3**	61.0
Fair value of plan assets	**151.9**	135.1	**—**	—
Funded status deficit	**$ (32.6)**	$ (32.9)	**$ (67.3)**	$ (61.0)

The accrued benefit obligations for unfunded pension benefit plans are secured by letters of credit.

The net benefit plan expense is as follows:

	Pension benefit plans		Other benefit plans	
	2004	2003	**2004**	2003
Current service cost	**$ 8.1**	$ 7.9	**$ 1.3**	$ 1.5
Interest cost on projected benefit obligations	**17.2**	16.6	**3.9**	3.4
Actual return on plan assets	**(26.7)**	(31.1)	**—**	—
Net actuarial losses	**7.8**	6.9	**2.5**	14.0
Past service costs	**0.5**	0.3	**—**	(8.6)
Net benefit plan expense before adjustments	**6.9**	0.6	**7.7**	10.3
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual and expected return on plan assets	**7.7**	13.0	**—**	—
Difference between actual and recognized actuarial gains (losses) in year	**(5.2)**	(6.1)	**0.1**	(13.0)
Difference between actual and recognized past service costs in year	**0.1**	0.3	**(0.3)**	8.7
Amortization of transitional obligation (benefit)	**(3.4)**	(3.4)	**1.6**	2.7
Other	**1.5**	0.6	**—**	—
Net benefit plan expense	**$ 7.6**	$ 5.0	**$ 9.1**	$ 8.7
Defined contribution plan expense	**$ 2.3**	$ 1.6		
	$ 9.9	$ 6.6		

Benefit Plan Assets

The weighted-average asset allocation by asset category of the Company's funded defined benefit pension plans is as follows:

	2004	2003
Equity securities	**55%**	58%
Fixed income securities	**40%**	36%
Other assets	**5%**	6%
Total assets	**100%**	100%

The investment policy for benefit plan assets is to optimize the risk-return using a portfolio of various asset classes. The Company's primary investment objectives are to secure registered pension plans, and maximize investment returns in a cost-effective manner while not compromising the security of the respective plans. The pension plans utilize external investment managers to manage the investment policy. Assets in the plan are held in trust by independent third parties.

The pension plans do not directly hold any shares of the Company.

Significant Assumptions

The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments. The expected rate of return on plan assets assumption is reviewed annually by management, in conjunction with actuaries. The assumption is based on the expected returns for the various asset classes, weighted by the portfolio allocation.

The weighted average significant actuarial assumptions used to determine the accrued benefit obligation and the benefit plan expense are as follows:

	Pension benefit plans		Other benefit plans	
	2004	2003	**2004**	2003
Accrued benefit obligation				
Discount rate at December 31, based on AA Corporate bonds	**6.00%**	6.25%	**6.00%**	6.25%
Rate of compensation increase	**3.50%**	3.39%	**—**	—
Net benefit plan expense				
Discount rate at January 1, based on AA Corporate bonds	**6.25%**	6.25%	**6.25%**	6.25%
Expected rate of return on plan assets	**7.50%**	7.50%	**—**	—

The assumed health-care cost trend rates for other post-employment benefit plans are as follows:

	2004	2003
Extended health benefits		
Initial health care cost trend rate	**9.0%**	10.0%
Annual rate of decline in trend rate	**1.0%**	1.0%
Ultimate health care cost trend rate	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2008**	2008
Medical Services Plan Benefits Premium trend rate	**4.0%**	4.0%

A one percentage-point change in assumed health-care cost trend rates would have the following effects:

2004	One percentage-point increase	One percentage-point decrease
Effect on total of the service costs and interest cost components of the benefit plan expense	**$ 1.1**	**$ (1.0)**
Effect on accrued benefit obligation	**13.1**	**(10.8)**

Cash Flows

Total cash contributions for employee benefit plans consist of:

	Pension benefit plans	
	2004	2003
Funded plans	**$ 4.3**	$ 9.4
Beneficiaries of unfunded plans	**2.7**	2.0
Defined contribution plans	**2.3**	1.6
Total	**$ 9.3**	$ 13.0

The contributions for 2005 are anticipated to be approximately the same as 2004 for both the defined pension benefit plans and other benefit plans.

Benefit Changes

Effective January 1, 2004, the Company modified its post-employment benefit program for non-union active employees in order to provide future retirees with more choice of coverage and to reduce the Company's exposure to future health and group life cost increases. The new plan is predominantly a defined contribution plan incorporating a Company-paid health spending account, a security health plan and life insurance. Provincial medical services plan premiums will now be paid by the retiree.

All plan members who have retired on or before December 31, 2004 receive benefits under the plans that were in effect when they retired, which includes the payment of provincial medical services plan premiums by the Company. Employees electing to retire during 2005 will have a choice between the new and old plan, and employees retiring after December 31, 2005 will participate in the new plan.

These assumptions, including the post-employment benefit plan changes, were included in the calculation of the accrued benefit obligation at December 31, 2003 and 2004.

14. Financing Costs

	2004	2003
Interest and expense on long-term debt	**$ 141.6**	$ 155.6
Interest on short-term debt	**26.1**	29.0
Interest capitalized	**(1.1)**	(8.6)
	$ 166.6	$ 176.0

15. Income Taxes

Provision For Income Taxes

	2004	2003
Current income taxes	**$ 69.7**	$ 49.6
Future income taxes	**(0.5)**	9.4
	$ 69.2	$ 59.0

Variation in Effective Income Tax Rate

Consolidated income taxes vary from the amount that would be computed by applying the Canadian and United States Federal, British Columbia and Alberta combined statutory income tax rate of 34.52% (2003–36.47%) to earnings before income taxes as shown in the following table:

	2004	2003
Earnings before income taxes	**$ 225.6**	$ 198.4
Combined statutory income tax rate	**34.52%**	36.47%
Combined income taxes at statutory rate	**$ 77.9**	$ 72.4
Increase (decrease) in income taxes resulting from:		
Capital cost allowance and other deductions claimed for income tax purposes		
over amounts recorded for accounting purposes	**(14.7)**	(19.4)
Large Corporations Tax in excess of surtax	**6.6**	7.8
Non-deductible expenses and non-taxable income	**5.5**	7.5
Benefit of tax rate changes on losses	**(0.4)**	(3.3)
Equity income not subject to tax	**(3.3)**	(2.6)
Other	**(2.4)**	(3.4)
Actual consolidated income taxes	**$ 69.2**	$ 59.0
Effective income tax rate	**30.67%**	29.74%

Future Income Taxes

The net future income tax liability of the Company of $68.7 million (2003–$67.5 million) relates primarily to the tax effect of temporary differences on non-regulated property, plant and equipment balances.

As a result of the Company accounting for income taxes following the taxes payable method for its natural gas distribution and petroleum transportation regulated operations, the Company has not recognized net future income tax liabilities amounting to $278.7 million at December 31, 2004 (2003–$263.5 million) and has not recognized a future income tax expense of $15.2 million for the year ended December 31, 2004 (2003–$17.9 million), all of which were calculated using the asset and liability method.

16. Financial Instruments

Fair Value Estimates

The carrying values of cash and short-term investments, accounts receivable, short-term notes and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments.

The fair value of the Company's investment in the Express System is estimated to approximate its carrying value.

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2004, or by using available quoted market prices, is estimated at $2,818.2 million (2003 – $2,565.3 million). The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Derivative Instruments

The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices, interest rates and foreign currency exchange rates.

Asset (Liability) December 31 (in millions)	Number of swaps	Term to maturity (years)	**2004** Carrying Value	**2004** Fair Value	2003 Carrying Value	2003 Fair Value
Interest Rate Swaps						
Terasen Inc.	2	1 – 4	**$ 0.4**	**$ 5.4**	$ 0.4	$ 5.3
TGVI	4	1 – 4	**(0.5)**	**(3.2)**	(1.5)	(4.8)
Natural Gas Commodity Swaps						
TGI and TGVI	139	Up to 2	**1.9**	**(8.3)**	(7.8)	6.3
Clean Energy	7	Up to 5	**6.5**	**6.5**	—	—
Foreign Currency Swaps						
Terasen Inc.	2	1	**(0.6)**	**(0.6)**	0.8	0.8
TGI	—	—	**—**	**—**	—	(0.9)

The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.

Clean Energy, an entity in which the Company holds a 45% interest, has purchased gas forward contract positions to offset future commodity supply contracts. Since these contracts have not been specifically designated as hedges, these positions are marked-to-market at each balance sheet date and gains or losses are reported in the statement of earnings as cost of revenues from other activities. During the year ended December 31, 2004 the Company has included in earnings an amount of $3.3 million (2003 – nil) net of tax and estimated selling expenses pertaining to the Company's proportionate share of Clean Energy's gas forward contracts.

The derivatives entered into by TGVI relate to regulated operations and any resulting gains or losses are recorded in a deferral account (RDDA), subject to regulatory approval, and passed through to customers in future rates.

As at December 31, 2004, the Company had two U.S. dollar foreign currency derivatives outstanding which are being used to mitigate foreign currency exposure in the investment in the Express System and Terasen International Inc. The change in fair value of the derivative to mitigate foreign currency exposure in the Express System of $0.6 million loss (2003 – $0.8 million income) has been included in the earnings of the Express System.

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Because it deals with high credit quality institutions in accordance with established credit approval practices, the Company does not expect any counterparties to fail to meet their obligations.

17. Commitments & Contingencies

The Company's subsidiaries and proportionately consolidated entities have entered into operating leases for certain building space and natural gas distribution assets. In addition, Terasen Gas and TGVI have entered into gas purchase contracts and Trans Mountain has entered into a contract to purchase power at fixed rates that expires in 2005, which cumulatively represent future purchase obligations.

The following table sets forth the Company's operating lease and gas and power purchase obligations due in the years indicated:

	Operating leases	Purchase obligations	Total
2005	$ 24.1	$ 766.8	$ 790.9
2006	23.0	324.5	347.5
2007	21.3	70.6	91.9
2008	21.4	20.1	41.5
2009	19.8	15.9	35.7
2010 and later	143.2	—	143.2
	$ 252.8	$ 1,197.9	$ 1,450.7

Gas purchase contract commitments are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect at December 31, 2004.

On January 4, 2005 Terasen Gas terminated an operating lease for a certain building and paid $49.4 million to acquire the related building. Accordingly, payments related to this operating lease are not included in the above table. Effective January 4, 2005 the building is included in property, plant and equipment and has been included in Terasen Gas' rate base revenue requirement for 2005.

In prior years, TGVI received non-interest bearing, repayable loans from the Federal and Provincial governments of $50 million and $25 million respectively, in connection with the construction and operation of the Vancouver Island natural gas pipeline. The government loans are repayable in any fiscal year after 2002 and prior to 2012 under certain circumstances and subject to the ability of TGVI to obtain non-government subordinated debt financing on reasonable commercial terms. As approved by the BCUC, these loans have been recorded as a government grant and have reduced the amounts reported for property, plant and equipment. The Company anticipates that all of the repayment criteria may be met in 2005 and, if met, will result in an estimated repayment of $5.8 million of these loans in 2005. As the loans are repaid and replaced with non-governmental loans, plant and equipment and long-term debt will increase in accordance with the approved capital structure, as will the rate base used in determining rates. The amounts are not included in the obligations in the table above as the amounts and timing of repayments is dependent upon the approved RDDA recovery each year and the ability to replace the loans with non-government subordinated debt financing on reasonable commercial terms.

A number of claims and lawsuits seeking damages and other relief are pending against the Company. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial statements.

18. Guarantees

The Company has, for a fee, arranged for the issuance of a letter of credit in the amount of US$13.4 million on behalf of co-investors in the Express System to fund the Debt Service Reserve Account required under the Express System's trust indenture. The letter of credit is subject to annual renewal. If the letter of credit is drawn upon, the Company will have recourse to the co-investors, major Canadian pension funds.

The Company has, for a fee, provided indemnities with respect to performance bonds issued on behalf of Clean Energy in the amount of US$7.2 million. These performance bonds secure construction projects undertaken by Clean Energy, and have expiry dates of one year from the date of issue.

19. Subsequent Event

On February 1, 2005, Corridor issued $150 million principal amount of unsecured debentures, Series A, maturing February 2, 2010 at an interest rate of 4.24%, and $150 million principal amount of unsecured debentures, Series B, maturing February 2, 2015 at an interest rate of 5.033%. The proceeds were used to repay a portion of Corridor's outstanding commercial paper. Concurrently with this financing, Corridor replaced its credit facility due November 21, 2006 with a new credit facility with annual renewal provisions. Corridor's commercial paper will accordingly be classified as short-term debt prospectively.

Unaudited
Dollar amounts in millions

Years ended December 31	**2004**	2003	2002	2001	2000	1999
Statements of earnings						
Operating revenue	**$ 1,957.0**	$ 1,876.6	$ 1,707.2	$ 1,666.3	$ 1,305.6	$ 1,040.6
Operating expenses	**1,579.8**	1,510.2	1,370.7	1,371.1	1,049.0	784.7
Operating income	**377.2**	366.4	336.5	295.2	256.6	255.9
Other expenses	**166.6**	176.0	160.8	148.3	131.0	121.6
Share of (earnings) of Express System	**(15.0)**	(8.0)	—	—	—	—
Income taxes	**69.2**	59.0	63.2	55.9	8.9	48.4
Non-controlling interest	**—**	—	—	—	4.0	4.7
Net earnings	**156.4**	139.4	112.5	91.0	112.7	81.2
Capital securities distributions	**6.6**	6.7	6.7	6.4	3.9	—
Earnings applicable to common shares	**$ 149.8**	$ 132.7	$ 105.8	$ 84.6	$ 108.8	$ 81.2
Assets						
Current assets	**$ 596.1**	$ 583.2	$ 482.9	$ 503.5	$ 631.2	$ 270.7
Property, plant and equipment (net)	**3,892.5**	3,882.4	3,779.2	3,079.9	2,727.6	2,185.1
Investment in Express System	**218.9**	204.6	—	—	—	—
Other assets	**263.1**	251.1	260.3	122.3	154.3	25.1
Total assets	**$ 4,970.6**	$ 4,921.3	$ 4,522.4	$ 3,705.7	$ 3,513.1	$ 2,480.9
Liabilities and Shareholders' Equity						
Current liabilities	**$ 1,098.5**	$ 1,025.4	$ 878.9	$ 857.7	$ 1,094.4	$ 712.4
Long-term debt	**2,166.6**	2,301.1	2,123.4	1,928.0	1,561.9	1,001.8
Other long-term liabilities and deferred credits	**140.7**	99.8	96.4	23.1	—	—
Other liabilities	**68.7**	67.5	58.1	56.8	47.3	140.4
Shareholders' equity	**1,496.1**	1,427.5	1,365.6	840.1	809.5	626.3
Total liabilities and shareholders' equity	**$ 4,970.6**	$ 4,921.3	$ 4,522.4	$ 3,705.7	$ 3,513.1	$ 2,480.9
Cash Flow Data						
Operating cash flow	**$ 342.0**	$ 269.8	$ 318.1	$ 59.8	$ 179.3	$ 124.1
Capital expenditures	**$ 154.4**	$ 222.9	$ 395.7	$ 469.8	$ 620.6	$ 163.6

Unaudited
Dollar amounts in millions

Years ended December 31	**2004**	2003	2002	2001	2000	1999
Natural Gas Distribution Operations						
Revenues						
Residential	**$ 836.8**	$ 828.8	$ 779.6	$ 813.6	$ 627.8	$ 493.2
Commercial	**411.5**	409.6	382.3	442.2	336.3	262.2
Small industrial	**70.4**	77.6	76.7	73.6	52.3	26.7
Large industrial and other	**30.6**	33.7	27.4	6.8	7.7	8.8
Total natural gas sales revenue	**1,349.3**	1,349.7	1,266.0	1,336.2	1,024.1	790.9
Transportation	**95.1**	90.9	83.8	56.1	41.0	38.4
Other	**49.7**	57.3	52.9	28.0	20.3	15.4
Total natural gas revenue	**$ 1,494.1**	$ 1,497.9	$ 1,402.7	$ 1,420.3	$ 1,085.4	$ 844.7
Natural gas volumes *(billion cubic feet)*						
Sales volumes	**111.2**	116.7	126.0	110.8	124.0	121.8
Transportation volumes	**65.8**	67.1	61.3	53.9	56.3	57.6
Throughput under fixed-price contracts	**16.0**	11.7	22.6	63.9	57.9	38.0
Total natural gas volumes	**193.0**	195.5	209.9	228.6	238.2	217.4
Customers at year end	**875,166**	859,183	850,699	767,855	762,878	755,383
Rate base – Terasen Gas Inc.	**$ 2,310.1**	$ 2,280.6	$ 2,223.8	$ 2,249.8	$ 1,715.1	$ 1,637.4
Rate base – Terasen (Vancouver Island)	**459.3**	457.3	472.9	N/A	N/A	N/A
	$ 2,769.4	$ 2,737.9	$ 2,696.7	$ 2,249.8	$ 1,715.1	$ 1,637.4
Petroleum Transportation Operations						
Revenues	**$ 225.5**	$ 200.0	$ 136.0	$ 143.1	$ 132.5	$ 129.4
Transportation volumes *(bpd)*						
Trans Mountain						
Canadian mainline	**236,100**	216,100	201,200	209,300	204,600	207,500
U.S. mainline *(included in Canadian mainline)*	**91,700**	54,600	47,800	73,400	65,200	61,900
Express Sytem	**175,300**	171,200	N/A	N/A	N/A	N/A
Kilometres of pipelines						
Natural gas distribution operations	**44,168**	43,777	43,196	37,430	37,197	36,581
Petroleum transportation operations	**4,720**	4,720	1,477	1,477	1,477	1,477
Employees *(consolidated)*	**2,553**	2,082	2,051	1,782	1,966	1,869

Unaudited

Years ended December 31		**2004**		2003		2002		2001		2000		1999
Ratios												
Return on average common equity		**11.2%**		10.7%		11.7%		12.1%		12.0%		12.2%
Dividend payout ratio		**58%**		60%		57%		59%		43%		55%
Interest coverage ratio		**2.4**		2.1		2.1		2.0		2.2		2.1
Equity to total capital		**35%**		33%		34%		26%		29%		31%
Common shares outstanding–weighted average[1]		**104.7**		103.8		86.4		76.7		76.6		76.5
Data Per Common Share[1]												
Earnings before non-recurring items	**$**	**1.43**	$	1.31	$	1.22	$	1.10	$	1.03	$	0.97
Earnings after non-recurring items	**$**	**1.43**	$	1.28	$	1.22	$	1.10	$	1.42	$	1.06
Dividends	**$**	**0.825**	$	0.765	$	0.705	$	0.650	$	0.613	$	0.583
Operating cash flow	**$**	**3.27**	$	2.60	$	3.68	$	0.78	$	2.34	$	1.62
Common equity	**$**	**13.04**	$	12.51	$	12.00	$	9.32	$	8.93	$	8.18
Market price range–High	**$**	**28.59**	$	24.25	$	21.25	$	18.44	$	16.75	$	15.70
Market price range–Low	**$**	**21.50**	$	18.08	$	16.28	$	14.50	$	10.75	$	10.23
Market price range–Close	**$**	**27.71**	$	23.98	$	19.08	$	16.60	$	16.68	$	12.70

[1]All share and per share data has been restated to reflect the 2-for-1 share split, which took effect in June 2004.

Unaudited
In millions, except where stated otherwise[1]

	Three months ended				Year ended
2004	March	June	September	December	December
Revenues	**$ 648.2**	**$ 365.3**	**$ 327.1**	**$ 616.4**	**$ 1,957.0**
Net earnings	**$ 69.5**	**$ 19.6**	**$ 11.7**	**$ 55.6**	**$ 156.4**
Earnings applicable to common shares	**$ 67.9**	**$ 17.9**	**$ 10.1**	**$ 53.9**	**$ 149.8**
Data per common share[1]					
Basic earnings	**$ 0.65**	**$ 0.17**	**$ 0.10**	**$ 0.51**	**$ 1.43**
Diluted earnings	**$ 0.64**	**$ 0.17**	**$ 0.10**	**$ 0.51**	**$ 1.42**
Dividends paid	**$ 0.195**	**$ 0.210**	**$ 0.210**	**$ 0.210**	**$ 0.825**
Common share trading–TSX[1]					
High	**$ 25.00**	**$ 24.86**	**$ 25.05**	**$ 28.59**	**$ 28.59**
Low	**$ 22.18**	**$ 21.50**	**$ 23.07**	**$ 24.35**	**$ 21.50**
Close	**$ 24.41**	**$ 23.62**	**$ 24.61**	**$ 27.71**	**$ 27.71**
Volume	**12.7**	**9.5**	**6.6**	**5.4**	**34.2**
Common shares outstanding–weighted average[1]	**104.4**	**104.7**	**104.8**	**105.0**	**104.7**

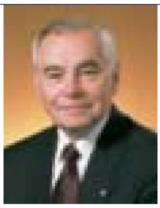
2003					
Revenues	$ 556.0	$ 400.4	$ 304.5	$ 615.7	$ 1,876.6
Net earnings	$ 65.4	$ 16.2	$ 5.2	$ 52.6	$ 139.4
Earnings applicable to common shares	$ 63.7	$ 14.6	$ 3.5	$ 50.9	$ 132.7
Data per common share[1]					
Basic earnings	$ 0.62	$ 0.14	$ 0.03	$ 0.49	$ 1.28
Diluted earnings	$ 0.61	$ 0.14	$ 0.03	$ 0.48	$ 1.27
Dividends paid	$ 0.180	$ 0.195	$ 0.195	$ 0.195	$ 0.765
Common share trading–TSX[1]					
High	$ 20.00	$ 22.37	$ 22.47	$ 24.25	$ 24.25
Low	$ 18.08	$ 18.25	$ 20.88	$ 21.57	$ 18.08
Close	$ 18.48	$ 21.78	$ 21.75	$ 23.98	$ 23.98
Volume	9.2	12.4	11.4	8.2	41.2
Common shares outstanding–weighted average[1]	103.5	103.8	103.9	104.1	103.8

[1]All share and per share data has been restated to reflect the 2-for-1 share split, which took effect in June 2004.

Board of Directors

Mark L. Cullen

Randolph C. Aldridge
1, 2



Brian A. Canfield
1, 2

Thomas S. Chambers
1, 2

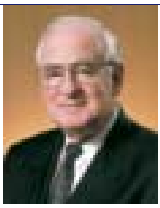
Pierre Choquette
1, 3

Ida J. Goodreau
3, 4

Eric P. Newell
1, 4

Michael W. O'Brien
1, 3

John M. Reid



James M. Stanford
3, 4

Dr. David W. Strangway
2, 3

Douglas W. G. Whitehead
2, 4

Committees of the Board

1 Audit Committee
2 Corporate Governance & Nominating Committee
3 Health, Environment & Safety Committee
4 Management Resources Committee

Terasen Inc. directors are also directors of Terasen Gas Inc. and Terasen Pipelines (Trans Mountain) Inc.

Executive Officers

John M. Reid

Richard T. Ballantyne

Gordon R. Barefoot

Brett T. Hodson

Randall L. Jespersen

Patrick D. Lloyd

Stephen M. G. Richards

Stephen J. Swaffield

Mark L. Cullen, of Vancouver, British Columbia, is Chairman of the Board of Terasen Inc. and former Vice Chairman of RBC Dominion Securities. During the past five years he has been a director of Bentall Corporation, British Columbia Ferry Corporation, Canfor Corporation, MacDonald Dettwiler & Associates Limited and Weldwood of Canada Limited. He is currently a director of Wajax Limited. He joined the Board of Terasen in 1998.

Randolph C. Aldridge, of San Antonio, Texas, is an energy industry consultant. He has held senior management positions with Koch Industries, including Chairman of Koch Pipelines Canada, President of Koch Canada, and President of Koch Oil Co., U.S. He serves on the Board of the Free Trade Alliance and is a member of the Texas A&M Chemical Engineering Advisory Council. He joined the Board of Terasen in 2005. **1, 2**

Brian A. Canfield, of Point Roberts, Washington, is Chairman of TELUS Corporation and former Chairman, President and CEO of BC Telecom. He serves on the boards of Suncor Energy Inc. and the Canadian Public Accountability Board. He joined the Board of Terasen in 1996. **1, 2**

Thomas S. Chambers, F.C.A. of Vancouver, British Columbia, is a corporate director and business advisor with Senior Partner Services Ltd. He serves on the boards of Norske Skog Canada Limited, Elephant and Castle Group Inc., Mill and Timber Group, the BC Cancer Foundation and the Victorian Order of Nurses. He joined the Board of Terasen in 2003. **1, 2**

Pierre Choquette, of Vancouver, British Columbia, is Chairman of the Board of Methanex Corporation. From 2003 to 2004 he was Chairman and CEO and from 1994 to 2003 he was President and CEO of Methanex. He previously held senior positions with NOVA Corporation and Polysar Ltd. He joined the Board of Terasen in 2003. **1, 3**

Ida J. Goodreau, of Vancouver, British Columbia, is President and CEO of the Vancouver Coastal Health Authority. She is also a director of Shell Canada Limited. She previously held senior executive positions with Norske Skog, Fletcher Challenge Canada Limited, Tasman Pulp and Paper, and Union Gas Ltd. She joined the Board of Terasen in 2002. **3, 4**

Eric P. Newell, O.C. of Edmonton, Alberta, is Chancellor of the University of Alberta. He is also Chairman of Careers: The Next Generation Foundation and is former Chairman and CEO of Syncrude Canada Ltd. He serves on the boards of Nexen Inc., Canfor Corporation, C.D. Howe Institute and the Alberta Energy Research Institute and is policy advisor to the Learning Partnership. He joined the Board of Terasen in 2004. **1, 4**

Michael W. O'Brien, of Canmore, Alberta, is a director of Suncor Energy Inc., PrimeWest Energy Inc., and Shaw Communications Inc. Prior to retiring in 2002, he was Executive V.P. and CFO of Suncor Energy Inc. He is also a member of the Board of Trustees for the Nature Conservancy of Canada. He joined the Board of Terasen in 2002. **1, 3**

John M. Reid, of Vancouver, British Columbia, is President and CEO of Terasen Inc. Before joining Terasen, he worked with Scott Paper Limited in senior financial positions and as President and CEO. He serves on the boards of Methanex Corporation, the Conference Board of Canada and the Board of Governors of the University of British Columbia. He is also a member of the Canadian Council of Chief Executives and the Business Council of B.C. He joined the Board of Terasen in 1997.

James M. Stanford, O.C. of Calgary, Alberta, is President of Stanford Resource Management Inc. and former President and CEO of Petro-Canada. He is Chair of the Canadian Foundation for Sustainable Development Technology, and serves on the boards of EnCana Corporation, NOVA Chemicals Corporation, Inco Limited, OMERS Resources, Iogen Corporation and OPTI Canada Inc. He joined the Board of Terasen in 2001. **3, 4**

Dr. David W. Strangway, of Vancouver, British Columbia, is President of Sea to Sky University. He served as President and CEO of the Canada Foundation for Innovation from 1998 to 2004 and as President of the University of British Columbia from 1985 to 1997. He has served on numerous scientific and academic committees. He joined the Board of Terasen in 1991. **2, 3**

Douglas W. G. Whitehead, of Vancouver, British Columbia, is President and CEO of Finning International Inc. Prior to joining Finning, he was President and CEO of Fletcher Challenge Canada Limited. He serves on the boards of Ballard Power Systems Inc., Belkorp Industries Inc., the Conference Board of Canada and the University of British Columbia. He is a member of the Canadian Council of Chief Executives. He joined the Board of Terasen in 2000. **2, 4**

John M. Reid, President and Chief Executive Officer, joined Terasen in 1995 as Executive Vice President, Finance and Chief Financial Officer. He has served as president and CEO since 1997. Please see the more detailed description above.

Richard T. Ballantyne was named President of Terasen Pipelines in 2002. He has worked with Terasen for 18 years through its predecessors Trans Mountain Pipe Line and BC Gas Utility Ltd. Rich is a board member of the Canadian Energy Pipeline Association, the Association of Oil Pipelines and the Pipeline Division of the American Petroleum Institute.

Gordon R. Barefoot was named Senior Vice President, Finance and Chief Financial Officer in 2004, having previously held the positions of Senior Vice President, Planning and Development and Senior Vice President, Multi Utility Services. Gord is Chairman of the Board of Vancouver Community College and has served on the Alberta Financial Review Commission and the British Columbia Fiscal Review Panel.

Brett T. Hodson was named President of Terasen Water and Utility Services in 2001, having held a number of positions in the areas of marketing, resource planning and market/business development at Terasen Gas. He has worked in the energy and utility industry for 14 years.

Randall L. Jespersen was appointed President of Terasen Gas in 2002, having previously held the positions of Senior Vice President, Energy Delivery Services and Senior Vice President, Gas Supply. He is past chair of the Western Energy Institute and is a board member of the Canadian Gas Association. Randy is a member of the United Way Community Campaign Cabinet for B.C.'s Lower Mainland.

Patrick D. Lloyd is Senior Vice President, Human Resources and Government Affairs. Since joining Terasen's predecessor Inland Natural Gas in 1980, he has held senior vice president roles in Operations, Gas Supply, Finance, IT, Government and Regulatory Affairs and Customer Service. Patrick has served as Chairman of the Canadian Gas Association, as a board member of the American Gas Association and on the executive committee of the International Gas Union.

Stephen M. G. Richards joined Terasen in 1988 and was appointed Senior Vice President, General Counsel and Corporate Secretary in 2005, overseeing the legal, governance and risk management affairs for the Terasen group of companies. He serves on a number of national and provincial professional and community boards.

Stephen J. Swaffield was appointed Senior Vice President, Corporate Development in 2004. Prior to joining the company, he was an investment banker with RBC Capital Markets where he assisted Terasen with the acquisition of Centra BC and the financing of the Express Pipeline.

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on Wednesday, May 4, 2005 at the Fairmont Waterfront Hotel in Vancouver, British Columbia.

Dividend Reinvestment and Share Purchase Plan

Registered holders of the Company's Common shares (except residents of the United States) may elect to reinvest their cash dividends in new Common shares. Participants in the Plan may also make optional cash payments of up to $20,000 per calendar year to purchase additional Common shares. Optional cash payments must be received by the Registrar and Transfer Agent by the last days of January, April, July and October to be reinvested on the following dividend payment date. There are no brokerage commissions payable on shares purchased pursuant to the Plan. For an information package on the Plan, or to register in the Plan, please contact Shareholder Relations.

Employee Share Purchase Plan

Terasen employees may contribute from 2% to 6% of their earnings through payroll deductions to purchase the Company's Common shares. Shares are purchased at 100% of the market price.

Common Share Distribution

Approximately 99.5% of the outstanding Common shares are owned by residents of Canada. The following table summarizes the distribution of shares at December 31, 2004.

	Shareholders	Shares
Canada	5,863	113,832,462
USA	87	429,192
Others	30	94,011
Total	5,980	114,355,665

Common Shares

December 22, 1971 Closing Price: $3.25[1]
February 22, 1994 Closing Price: $7.75[1]

[1]*Adjusted for the two-for-one stock splits on November 18, 1985 and June 3, 2004.*

Registrar and Transfer Agent

Shareholder accounts, including dividend payments, direct deposit service and the transfer of shares are handled by the Company's registrar and transfer agent:

CIBC Mellon Trust Company
16th Floor, 1066 West Hastings Street
Vancouver, B.C. V6E 3X1
Telephone: 604-688-4330
Toll-free: 1-800-387-0825
Fax: 604-688-4301
Web site: www.cibcmellon.com

Duplicate Annual and Interim Reports
To eliminate duplicate mailings of annual and quarterly reports, please contact CIBC Mellon Trust Company.

Shares Listed (Symbol: TER)
The Toronto Stock Exchange

Scheduled Dividend Payment Dates
February 28, 2005
May 31, 2005
August 31, 2005
November 30, 2005

Shareholder Relations
Inquiries regarding the Company's Dividend Reinvestment and Share Purchase Plan and all other inquiries or comments by shareholders regarding the Company should be directed to:
Liza Yuzda
Telephone: 604-443-6566
Toll-free (Canada): 1-800-667-9177
Fax: 604-443-6630
E-mail: shareholder@terasen.com

Investor Relations
Portfolio managers, investment analysts and other investors requesting financial information regarding Terasen should contact:
David Bryson
Telephone: 604-443-6527
Fax: 604-443-6673
E-mail: investor.relations@terasen.com

Internet
www.terasen.com

Corporate Offices

Terasen Inc.
24th Floor
1111 West Georgia Street
Vancouver, B.C. V6E 4M4
Telephone: 604-443-6500

Terasen Gas
16705 Fraser Highway
Surrey, B.C. V3S 2X7
Telephone: 604-576-7000

Terasen Pipelines
#2700, 300 - 5th Avenue SW
Calgary, Alberta T2P 5J2
Telephone: 403-514-6400

Terasen Utility Services
1128 Burdette Street
Richmond, B.C. V6V 2Z3
Telephone: 604-273-4987

Project management: Arlette Communication Inc. Design: Signals Design Group. Printing: Hemlock Printers. Printed on recycled paper.

Terasen

Terasen Inc.
24th Floor
1111 West Georgia Street
Vancouver, B.C. V6E 4M4
Telephone: 604-443-6500

APPENDIX 2.1

Terasen Gas Inc. - 1988-1993 Summary

Series	Pricing Supp.	Amount	Issue Date	Mat. Date	Coupon	Benchmark Yield	Spread	Ratings at Issuance DBRS	Moody's	CBRS/S&P
E	N/A	$60,000,000	June 8/89	June 8/99	10.55%	9.420%	113[4]	A	-	B++
F	N/A	$100,000,000	Aug 26/92	Aug 26/02	8.375%	7.174%	122	A	-	B++
G	N/A	$75,000,000	July 28/93	July 28/98	7.250%	6.593%	83	A	-	B++
H	N/A	$50,000,000	July 28/93	July 28/03	8.150%	7.270%	90	A	-	B++

Terasen Gas Inc. - MTN Summary

Series	Pricing Supp.[1]	Amount	Issue Date	Mat. Date	Coupon	Benchmark Yield	Spread	Ratings at Issuance DBRS	Moody's	CBRS/S&P
1	1 (92)	$5,000,000	Dec 18/92	Dec 18/97	8.25%	7.390%	95	A	-	B++
1	2 (92)	$250,000	Dec 18/92	Dec 18/97	8.25%	7.419%	95	A	-	B++
	Total Ser. 1	(matured)		Dec 18/97	8.25%					
2	3 (92)	$715,000	Dec 18/92	Dec 18/95	8.00%	7.188%	85	A	-	B++
	Total Ser. 2	(matured)		Dec 18/95	8.00%					
3	4 (92)	$5,000,000	May 20/93	May 20/98	8.75%	7.050%	95	A	-	B++
3	5 (92)	$1,040,000	Jun 15/93	May 20/98	8.75%	6.951%	96	A	-	B++
	Total Ser. 3	(matured)		May 20/98	8.75%					
4	6 (92)	$5,000,000	Jun 30/93	Jun 30/98	7.38%	6.808%	94	A	-	B++
4	7 (92)	$5,000,000	Jun 30/93	Jun 30/98	7.38%	6.765%	95	A	-	B++
	Total Ser. 4	(matured)		Jun 30/98	7.38%					
5	1 (93)	$25,000,000	Oct 14/94	Oct 14/99	8.80%	8.381%	50	A	-	B++
5	2 (93)	$30,000,000	Nov 23/94	Oct 14/99	8.80%	8.707%	52	A	-	B++
	Total Ser. 5	(matured)		Oct 14/99	8.80%					
6	3 (93)	$20,000,000	Feb 9/95	Feb 9/05	9.80%	9.311%	70	A	-	B++
6	4 (93)	$14,000,000	Mar 15/95	Feb 9/05	9.80%	8.686%	64	A	-	B++
6	5 (93)	$6,000,000	Mar 15/95	Feb 9/05	9.80%	8.695%	64	A	-	B++
	Total Ser. 6	(matured)		Feb 9/05	9.80%					
7	6 (93)	$5,000,000	Jun 29/95	Jun 29/05	8.25%	7.710%	58	A	-	B++
	Total Ser. 7	$5,000,000		Jun 29/05	8.25%					
8	1 (95)	$20,000,000	Feb 1/96	Feb 1/01	6.75%	6.584%	25	A	-	B++
	Total Ser. 8	(matured)		Feb 1/01	6.75%					
9	2 (95)	$55,000,000	Oct 21/97	Jun 2/08	6.20%	5.757%	45	A	-	B++
	2 (97)	$58,000,000	Nov 19/98	Jun 2/08	6.20%	5.186%	80	A	-	B++(High)
	3 (97)	$75,000,000	Sep 21/99	Jun 2/08	6.20%	5.748%	80	A	-	A(Low)
	Total Ser. 9	$188,000,000		Jun 2/08	6.20%					
10	1 (97)	$50,000,000	Feb 2/98	Feb 2/01	5.10%	5.100%	14	A	-	B++
	Total Ser. 10	(matured)		Feb 2/01	5.10%					
11	4 (97)	$150,000,000	Sep 21/99	Sep 21/29	6.95%	5.901%	112	A	-	A(low)
	Total Ser. 11	$150,000,000		Sep 21/29	6.95%					
12	1 (99)	$200,000,000	Jul 20/00	Jul 20/05	6.50%	6.127%	57	A	-	A(low)
	Total Ser. 12	$200,000,000		Jul 20/05	6.50%					
13	2 (99)	$100,000,000	Oct 16/00	Oct 16/07	6.50%	5.808%	75	A	-	A(low)
	Total Ser. 13	$100,000,000		Oct 16/07	6.50%					
14	3 (99)	$50,000,000	Oct 23/00	Oct 23/03	6.00%	5.799%	26	A	-	A(low)
	Total Ser. 14	(matured)		Oct 23/03	6.00%					
15	4 (99)	$75,000,000	Dec 11/00	Dec 11/02	6.00%	5.524%	53	A	-	A(low)[2]
	Total Ser. 15	(matured)		Dec 11/02	6.00%					
16	5 (99)	$100,000,000	Jul 30/01	Jul 31/06	6.15%	5.451%	73	A	-	BBB+
	Total Ser. 16	$100,000,000		Jul 31/06	6.15%					
17	1 (01)	$150,000,000	Sep 26/03	Sep 26/05	BAs+35	N/A	35	A	A2	BBB
	Total Ser. 17	$150,000,000		Sep 26/05	BAs+35					
18	1 (03)	$150,000,000	Apr 29/04	May 1/34	6.50%	5.279%	127	A	A2	BBB[3]
	Total Ser. 18	$150,000,000		May 1/34	6.50%					
19	2 (03)	$150,000,000	Feb 25/05	Feb 26/35	5.90%	4.759%	118	A	A2	BBB[3]
	Total Ser. 19	$150,000,000		Feb 26/35	5.90%					

Terasen Gas Inc. - Purchase Money Mortage Summary

Series	Pricing Supp.	Amount	Issue Date	Mat. Date	Coupon	Benchmark Yield	Spread	Ratings at Issuance DBRS	Moody's	CBRS/S&P
A	N/A	$75,000,000	Nov 21/90	Sep 30/15	11.80%	10.640%	116	A	-	B++
B	N/A	$200,000,000	Sep 8/91	Sep 30/16	10.300%	9.290%	104	A	-	B++

Terasen Inc. - MTN Summary

Series	Pricing Supp.[1]	Amount	Issue Date	Mat. Date	Coupon	Benchmark Yield	Spread	Ratings at Issuance DBRS	Moody's	CBRS/S&P
1	1 (2001)	$200,000,000	Nov 30/01	Dec 1/08	6.30%	5.141%	117	A(low)	A3	BBB[3]
	Total Ser. 1	$200,000,000		Dec 1/08	6.30%					
2	2 (2002)	$100,000,000	May 8/03	May 8/06	4.85%	3.945%	95	A(low)	A3	BBB[3]
	Total Ser. 2	$100,000,000		May 8/06	4.85%					
3	1 (2003)	$125,000,000	Sep 15/04	Sep 15/14	5.56%	4.634%	93	A(low)	A3	BBB-[3]
	Total Ser. 3	$125,000,000		Sep 15/14	5.56%					

[1] Number in brackets denotes the year of the shelf prospectus used
[2] CBRS aquired by Standard and Poors Oct 31/00
[3] Unsolicited rating, Standard and Poors rating relationship ended Apr/04
[4] Approximation using historical data

Year	Terasen Inc Year End Share Price	Allowed ROE
1988	$12.88	13.5% [2]
1989	$15.25	13.5% [2]
1990	$14.75	13.5% [2]
1991	$17.13	13.5% [2]
1992	$14.75	13.50%
1993	$16.63	13.00%
1994	$13.50	10.65%
1995	$16.00	12.00%
1996	$20.30	11.00%
1997	$27.80	10.25%
1998	$30.50	10.00%
1999	$25.40	9.25%
2000	$33.25	9.50%
2001	$33.19	9.25%
2002	$38.16	9.13%
2003	$47.80	9.42%
2004	$27.71 [1]	9.15%

[1] A 2 for 1 share split took effect June 2004

[2] 13.5% reflects the allowed ROE of Inland, during a transition period from July '88 to Oct '91 regulated by Lieuteneant Governor in Council of BC

APPENDIX 4.3.3

Terasen Gas (Vancouver Island) Inc.

Rating Agency Presentation

July 18, 2005

Contact Information		
	Roger Dall'Antonia Assistant Treasurer Terasen Inc.	Tel: (604) 443-6517 E-mail: roger.dall'antonia@terasen.com
	Rich Ternieden Managing Director RBC Capital Markets	Tel: (416) 842-6468 E-mail: richard.ternieden@rbccm.com

Presentation Team

Scott Thomson

Vice President, Finance and Regulatory Affairs

Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.

Roger Dall'Antonia

Assistant Treasurer

Terasen Inc.

Rich Ternieden

Managing Director

RBC Capital Markets

Table of Contents

Executive Summary

Overview

- Terasen Gas (Vancouver Island) Inc. ("TGVI"), a wholly-owned subsidiary of Terasen Inc., is a regulated natural gas transmission and distribution utility providing service to Vancouver Island and the Sunshine Coast of B.C.
  - Customer base of approximately 81,000 customers
  - 155 TJ/d designed throughout capacity
  - Rate base as at December 31, 2004 was approximately $441 million
- TGVI is refinancing its debt portfolio with a combination of debentures and bank debt
  - $200 million to $250 million senior unsecured debentures, term up to 10 years
  - $150 million senior unsecured 5-year bank facility
  - $20 million subordinated unsecured 7-year bank facility
- Financing is planned for Fall 2005
- TGVI is seeking a solid investment grade rating on the debenture offering

Credit Highlights

- Attractive Business Fundamentals
  - Increasing customer growth (4.2% CAGR over past 3 years)
  - Expanding rate base supporting load growth
  - Large residential customer base, approximately 72,000 customers
  - Industrial base accounts for 26% of margin, over half from BC Hydro
  - Solid operating history, joint operations with Terasen Gas
  - Strong ownership by Terasen Inc.
- Supportive Regulatory Framework
  - British Columbia Utilities Commission (“BCUC”) regulated
  - Rate base cost of service recovery
  - Deemed capital structure 65%/35%
  - Allowed ROE set at 400 bps premium to benchmark interest rates

Credit Highlights (cont'd)

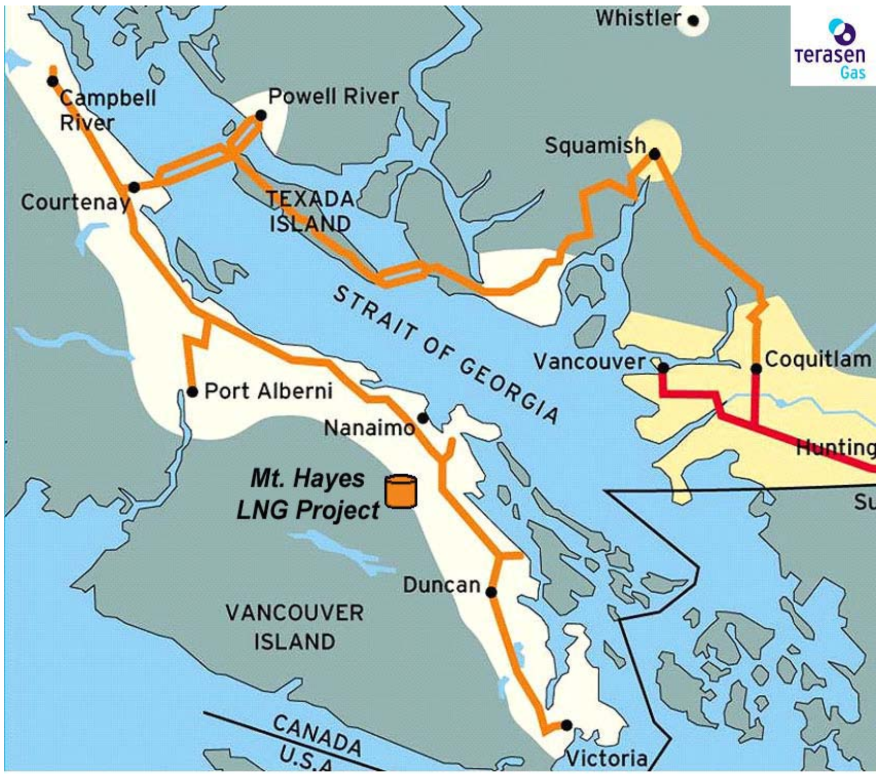
- Strong Contractual Arrangements
  - Vancouver Island Natural Gas Pipeline Agreement ("VINGPA") provides royalty payment which mitigates gas cost fluctuations through to 2011
  - Special Direction by the Province of BC dictates BCUC regulation on rate base cost of service recovery basis
  - Joint Venture Transportation Service Agreement ("JV TSA") with seven mills through 2012 provides for daily volume of firm service
  - Negotiating with BC Hydro for term agreement for Island Cogeneration Plant
- Solid Financial Profile
  - ROE of 9.53% (2005)
  - Deemed capital structure of 65% debt / 35% equity
  - Solid coverage ratios - EBITDA/Interest of 4.1X (Dec. 31, 2004)
  - Corporate style covenant package

Introduction to TGVI

Overview of TGVI

- TGVI is a regulated natural gas transmission and distribution utility
  - Transmission line from BC mainland to Vancouver Island
  - Distribution system serving Vancouver Island and Sunshine Coast
- TGVI was a result of a financial restructuring of two affiliated entities
  - Pacific Coast Energy Corporation ("PCEC"), which constructed the transmission line between BC mainland and Vancouver Island in 1991
  - Centra Gas British Columbia Inc., which was awarded the natural gas distribution on Vancouver Island in 1989
- Westcoast Energy, as owner of both companies, formed the combined entity as Centra Gas British Columbia Inc., in 1995
- Terasen Inc. acquired Centra Gas BC from Westcoast Energy March 2002 and renamed the company Terasen Gas (Vancouver Island) Inc.

Service Territory



TGVI

TGI

- TGVI provides transmission between the BC mainland and Vancouver Island and distribution on Vancouver Island and the Sunshine Coast
  - 614 km of transmission pipelines
  - 5,038 km of distribution pipelines
  - 155 TJ per day designed throughout capacity
- TGVI serves 41 communities
  - Vancouver Island and Sunshine Coast population ~735,000
- Rate base as at December 31, 2004 was approximately $441 million

Residential and Commercial Demand

- Customer Base
  - 2004 Residential customer base approximately 71,900
    - 4.6% CAGR since 2001
    - Forecast 4.0% CAGR next 5 years
  - 2004 Commercial customer base is approximately 8,800
    - 1.6% CAGR since 2001
    - Forecast 1.2% CAGR next 5 years
- 2004 Revenue and Margin
  - Residential comprises 37.2% of revenue and 37.8% of margin
  - Commercial comprises 43.5% of revenue and 36.2% of margin

Industrial Demand

- Three industrial customers, BC Hydro, Vancouver Island Joint Venture ("VIJV"), and Terasen Gas (Squamish)
- BC Hydro
  - Firm and interruptible service for gas supply to Island Cogeneration Plant
  - BC Hydro comprised 10.9% of revenue and 14.6% of margin in 2004
- Vancouver Island Joint Venture
  - Joint venture between Howe Sound Pulp and Paper Limited Partnership, Norske Skog Canada Limited, Pope and Talbot Ltd, and Western Pulp Limited – represents 7 pulp mills
  - Firm transportation services through 2012
  - VIJV comprised 8.2% of revenue and 11.1% of margin in 2004
- Terasen Gas (Squamish) comprised 0.2% of revenue and 0.3% of margin in 2004

Margin and Revenue

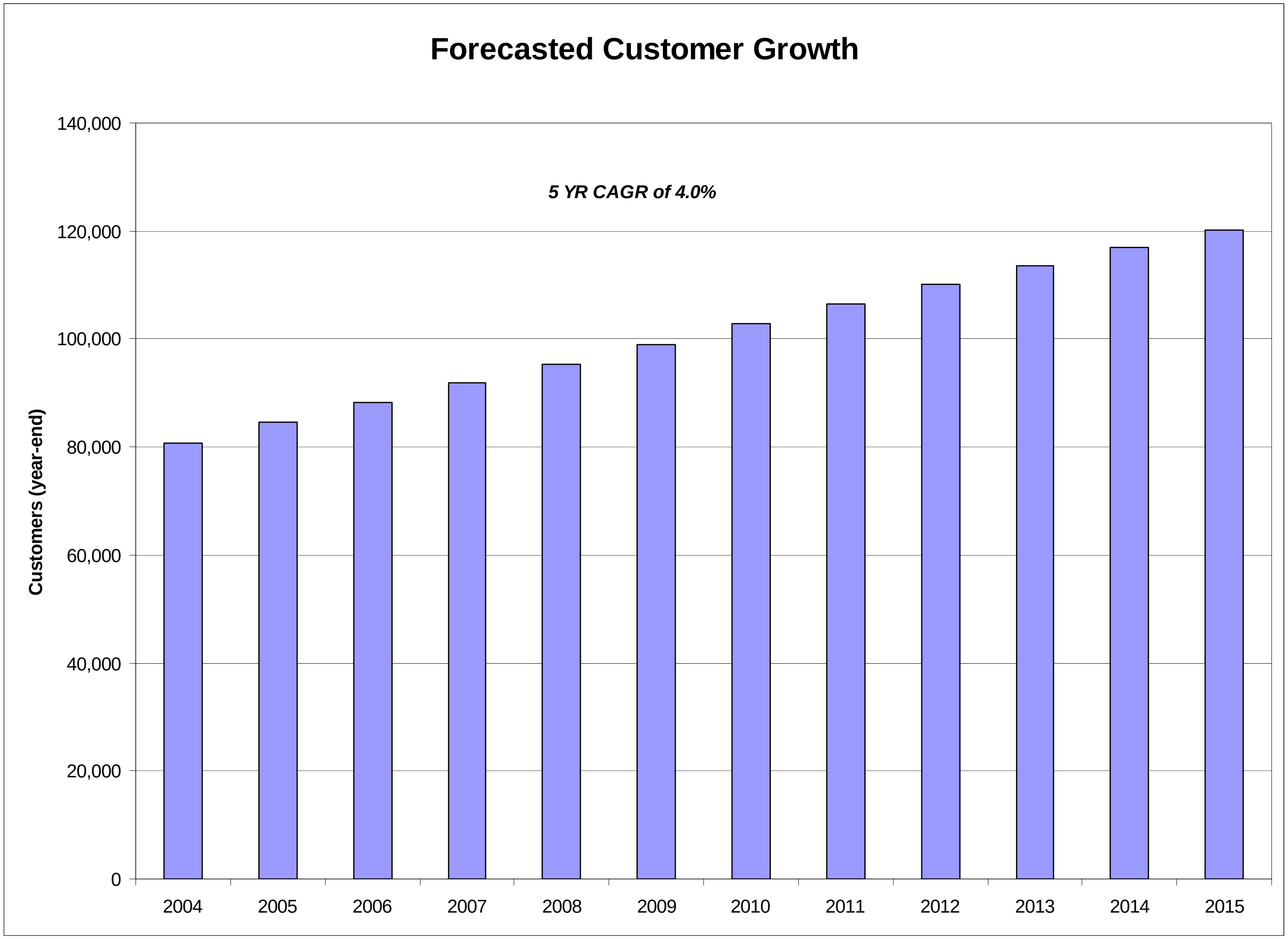
- TGVI Margin by Customer Class

	2000	2001	2002	2003	2004
Residential	$34,117	$29,370	$34,399	$41,186	$42,215
Commercial	$36,645	$31,866	$32,836	$41,601	$40,448
Transportation	$13,796	$16,753	$21,684	$28,256	$29,113
Total	**$84,558**	**$77,989**	**$88,919**	**$111,043**	**$111,776**

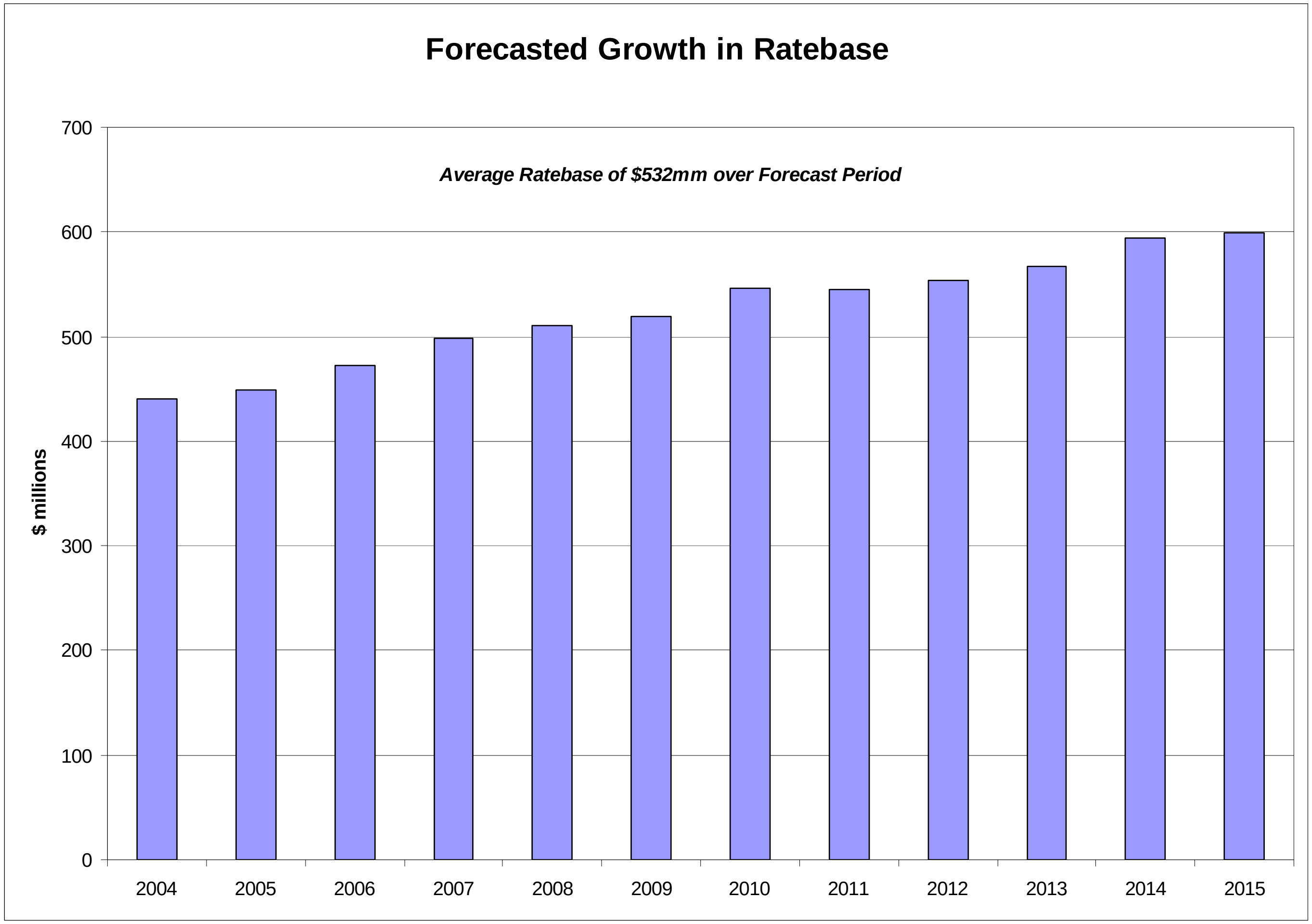
- TGVI Revenue by Customer Class

	2000	2001	2002	2003	2004
Residential	$42,941	$41,683	$46,585	$56,993	$56,051
Commercial	$52,548	$54,682	$55,255	$70,391	$65,632
Transportation	$13,796	$16,753	$21,684	$28,256	$29,113
Total	**$109,285**	**$113,118**	**$123,525**	**$155,640**	**$150,796**

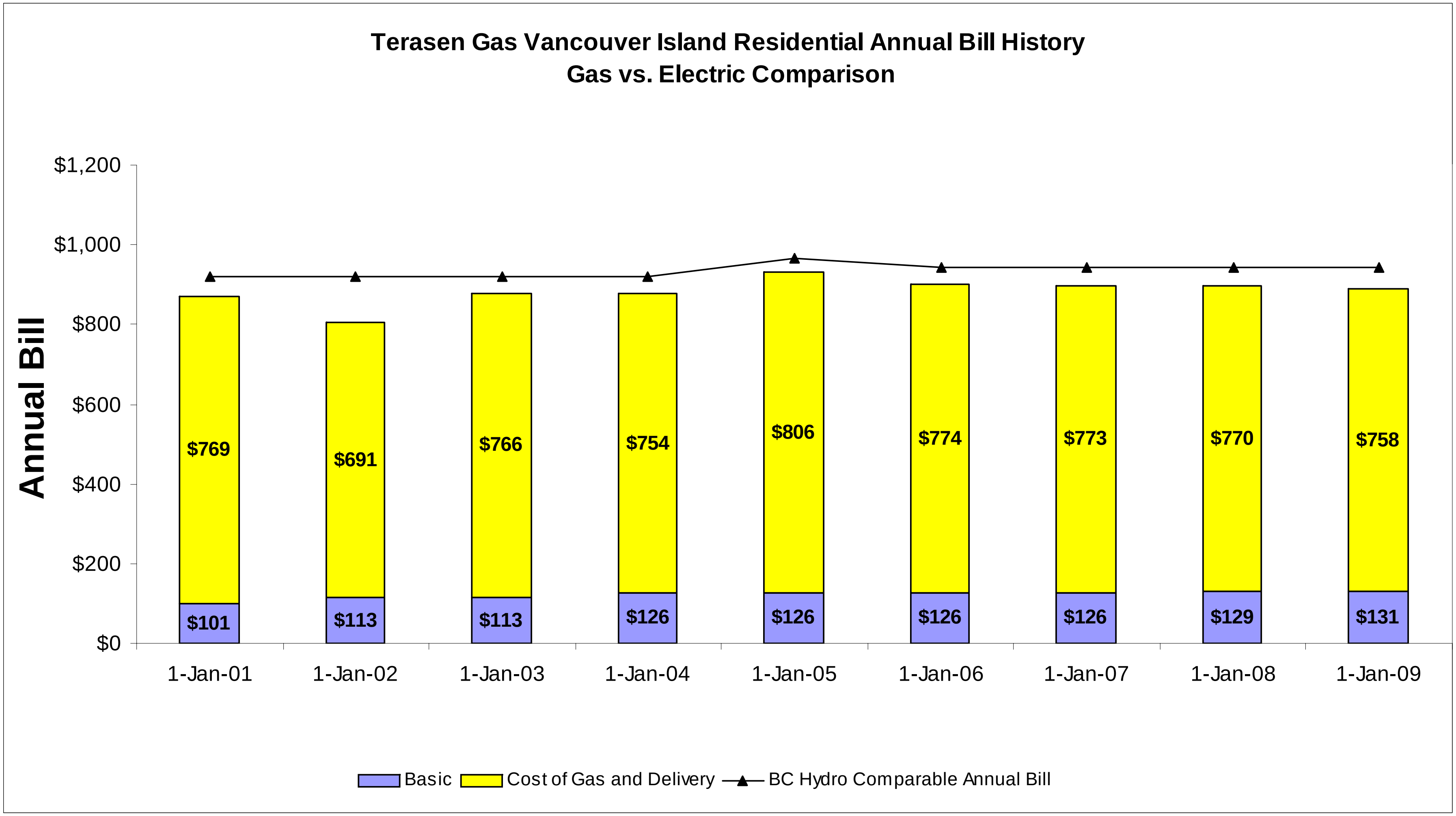
Customer Growth



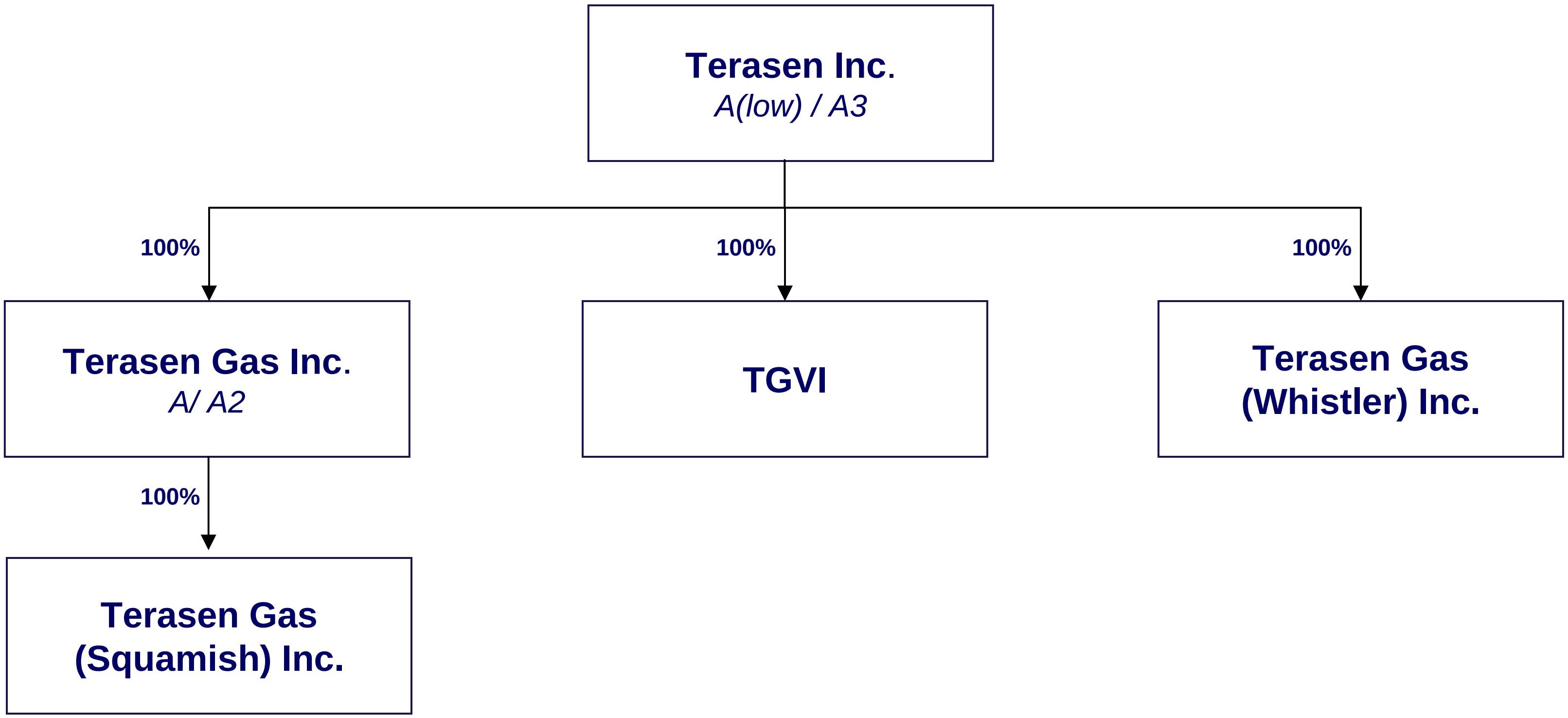
Rate Base Growth



Competitiveness



Ownership Structure



Common Management Structure

- Ownership and Operatorship
  - Terasen Inc. owns and operates Terasen Gas Inc., the major gas distribution utility in British Columbia
    - 800,000 customers in over 100 communities
      - Represents ~87% of the natural gas users in BC
    - 44,163 km of pipelines for use in natural gas transmission and distribution system
    - Rate base of ~$2,310 million
    - Assets of ~$2,747 million
  - In addition, Terasen Inc., owns two smaller gas distribution utilities in BC, Terasen Gas (Whistler) and Terasen Gas (Squamish)
- Terasen Gas Inc. and TGVI share a common management and administrative structure

Regulatory Environment

British Columbia Utilities Commission

- TGVI is regulated in accordance with regulatory principles generally applied by the BCUC
  - Rate structure determined on a forward test year basis
  - Principles of full cost of service recovery and allowed return on equity
    - Utilization of deferrals for revenues and costs
  - Deemed capital structure consists of 65% debt, 35% equity
  - Formula-based return on equity which includes risk premium over benchmark interest rates
    - Current premium of 400 bps, includes 50 bps premium over BCUC benchmark utility ROE

2003 – 2005 Settlement

- Current settlement provides for full cost of service recovery and includes incentive arrangement whereby operation and maintenance cost savings retained by TGVI
- 2005 allowed ROE of 9.53%
- Since 2003 BCUC has allowed for rates over and above requirement for cost of service recovery to generate revenue surpluses
- Upper limit on rates set relative to competitive alternatives by customer class, primarily electric
- Purpose is to amortize Revenue Deficiency Deferral Account (“RDDA”), as described under Vancouver Island Natural Gas Pipeline Agreement and Revenue Deficiency Deferral Account slides

2006 – 2007 Revenue Requirement

- Recently filed rate application for 2006 – 2007
  - Deemed capital structure 60% debt:40% equity
  - Allowed ROE 600 bps over benchmark interest rates
  - Maintain revenue surplus mechanism
  - Maintain incentive mechanism on operation and maintenance costs
- Will pursue a negotiated settlement instead of a regulatory hearing
- Negotiated settlement will be sought by September, if not forthcoming, rate hearing likely in October 2005

Capital Structure and Generic ROE

Terasen

- TGI and TGVI filed generic application
- Review of capital structure and generic ROE formula
- Requested capital structure:
  - 62%/38% TGI
  - 60%/40% TGVI
- Generic 525 bps risk premium, additional 75 bps for TGVI
  - Symmetrical adjustment of 75% of changes in long Canada rates around 5.25%

Contractual Arrangements

Vancouver Island Natural Gas Pipeline Agreement

- TGVI's predecessor entities commenced natural gas transmission and distribution operations in 1991
- To ensure the long-run viability of the new utilities, in 1995 the Province and Westcoast Energy negotiated the Vancouver Island Natural Gas Pipeline Agreement ("VINGPA")
- Key elements:
  - Province of BC to make royalty payments to TGVI from 1996 through 2011
    - Payments tied to natural gas price to subsidize cost of service and assist building customer base
  - Province to issue the Special Direction to the BCUC
    - Government directive dictating the regulatory principles to be applied to TGVI
  - TGVI's parent company to provide financial support for annual revenue deficiencies from 1996 through 2011
    - Deficiencies arise as customer rates capped relative to competitive alternatives, resulting in actual revenue below required revenue
    - Annual revenue deficiencies have been accumulated in the RDDA
    - Deficiencies funded by issuance of Class B Instruments (sub-debt), held by Terasen Inc.
  - Federal and Provincial governments execute Pacific Coast Energy Pipeline Agreement ("PCEPA"), amending payment terms of original government contributions provided to construct the transmission assets

Revenue Deficiency Deferral Account

- Annual revenue deficiencies accumulate in the RDDA
- Funded annually by the issuance of Class B Instruments by TGVI to its parent
- RDDA and Class B Instruments are balance sheet items but are not included as part of rate base for rate design purposes
- As per Special Direction (see next slide) rates set in excess of required revenue to amortize RDDA and repay Class B Instruments
- RDDA is the general deferral account for revenue and cost variances
  - Variances in estimates for given test year flow through RDDA balance, and amount of annual RDDA amortization is amended accordingly
- December 31, 2004 balance ~$61 million
- TGVI expects full amortization prior to 2011

Special Direction to the BCUC

- Special Direction is a Province of BC directive to the BCUC specifying key regulatory principles to be applied to TGVI
- Special Direction to be in effect to the latest of:
  - Full amortization of RDDA
  - VIJV TSA expiration, no later than January 1, 2011
  - Terasen Gas (Squamish) TSA expiration
- Special Direction states that TGVI is to be regulated by the BCUC in accordance with generally applied regulatory principles on a forward test year basis for cost of service recovery
- Until December 31, 2003, Special Direction specified rate design for various customer classes
- Commencing January 1, 2004, rate design based on cost of service recovery
- Commencing January 1, 2003, BCUC to allow rates to provide for repayment of Class B Instruments and amortization of RDDA "over shortest period reasonably possible, having regard for competitive position relative to alternative energy…"

Pacific Coast Energy Pipeline Agreement

Terasen

- TGVI transmission assets between BC mainland and Vancouver Island constructed with government assistance
  - Canada Repayable Contribution of $50 million
  - British Columbia Repayable Contribution of $25 million
  - The Government Contributions are non-interest bearing subordinated obligations
  - Recorded as a credit to PP&E, thereby a reduction to rate base
- PCEPA executed between Government of Canada, Province of BC and Pacific Coast Energy Corporation as part of financial restructuring under VINGPA
  - Government Contributions to be subordinated in priority to senior debt
  - Scheduled repayment commences in 2012 - $20 million p.a. until Canada repaid, $10 million p.a. until BC repaid
  - Early repayment occurs in any year where Class B Instrument repayment occurs, with payment amount equal to one half of the Class B repayment
  - All repayments subject to availability of non-government financing on commercially reasonable terms, subordinated to Class B Instruments, up to 65% of repayment amount (35% of repayment to come from equity)
- Repayment of Government Contributions reduces credit to PP&E, increasing rate base, with the non-government debt and equity funding the repayment becoming part of rate base capital structure

Transportation Service Agreements

- TGVI has in place two primary transportation agreements
  1. BC Hydro
     - 45 TJ/day firm service and additional interruptible service
     - Supplies fuel requirement for the 250 MW Island Cogeneration Plant
     - Expires October 31, 2005
     - Currently renegotiating term deal with BC Hydro for Island Cogeneration Plant requirements
  2. Vancouver Island Joint Venture
     - TSA covers the period through 2012
       - 20 TJ/d for 2005
       - 12.5 TJ/d maximum, 8.0 TJ/d minimum for 2006 through 2012
     - JV participants severally responsible: Norske - 50.5%; Pope & Talbot – 20%; Howe Sound - 12.5%; Western – 17%

Financial Review

Historical Financial Performance

Terasen

C$ thousands	Year Ended December 31,			
	2001	**2002**	**2003**	**2004**
Sales	$148,573	$142,281	$190,007	$187,425
EBITDA	$43,035	$51,569	$72,643	$77,656
EBITDA Margin	*29.0%*	*36.2%*	*38.2%*	*41.4%*
EBITDA / Interest	1.7x	2.2x	3.2x	4.1x
FFO / Interest (1)	1.8x	2.1x	2.8x	3.4x
Debt / Capitalization	62.5%	63.0%	61.9%	62.4%

1. FFO equals earnings from continued operations plus depreciation and amortization

Forecast Financial Performance

Terasen

C$ thousands	Year Ended December 31,					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Sales	$204,417	$205,900	$209,290	$212,362	$213,824	$210,553
EBITDA	$70,712	$64,455	$72,514	$74,940	$78,211	$77,119
EBITDA Margin	*34.6%*	*31.3%*	*34.6%*	*35.3%*	*36.6%*	*36.6%*
EBITDA / Interest	4.2x	3.6x	3.9x	4.2x	4.7x	4.7x
Adj. EBITDA / Interest (1)	4.8x	3.9x	4.0x	3.9x	3.9x	3.8x
FFO / Interest (2)	3.7x	3.3x	3.5x	3.7x	4.0x	4.1x
Debt / Capitalization	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%

1. Adjusts for revenue deficiency/surplus
2. FFO equals earnings from continued operations plus depreciation and amortization

Financing

TGVI RFP

Debt Capital Structure - $millions

	Dec. 31
Interco Advances	$70
Term Facility	$210
Class B Debt	$61
Gov't Repayables	$75

	Proposed
Operating Facility	$150
Debentures	$250
Bank Sub-Debt	$20
Gov't Repayables	$45

- Dec. 31, 2004 Debt Capital Structure
  - Interco Advances – Terasen Inc.
  - Bank Term Facility
  - Class B Instruments – Terasen Inc.
  - Gov't Repayables – Gov't of Canada and Province of BC
- Proposed Debt Capital Structure - 2011
  - Operating Facility – four to five bank syndicate
  - Debentures – Canadian institutional investors
  - Bank Sub-debt – RBC

Debt Portfolio Refinancing Structure

Terasen

- $420 million unsecured financing package:
  - $200 million - $250 million 5 to 10 year senior debentures to refinance existing bank debt and Terasen advances
  - $150 million 5-year senior operating credit facility for working capital and to fund near term capital expenditures
  - $20 million 7-year sub-debt facility to finance repayment of Government Contributions in accordance with PCEPA
- Sub-debt to be subordinated to Class B Instruments that have funded RDDA
  - Sub-debt drawn annually to fund 65% repayment of Gov't Contributions
  - Sub-debt becomes part of rate base capital structure when drawn
  - Facility will become senior ranking once Class B Instruments repaid
- Operating facility and sub-debt facility differentiated primarily by pricing

Summary Debenture Terms

Issuer:	Terasen Gas (Vancouver Island) Inc.
Offering:	Senior Unsecured Debentures ▪ Tranche A: $100 - $125 million due [•] ▪ Tranche B: $100 - $125 million due [•]
Repayment:	Bullet maturity
Form of Offering:	Rated Private Placement
Redemption:	Standard Canada call price
Ranking:	Pari Passu with other senior debt
Financial Covenants:	Incurrence Test: Funded debt not to exceed 75% of total capitalization
Positive Covenants:	Financial Statements, Notice of default
Negative Covenants:	Negative Pledge, Merger and Amalgamation, Dividend Restriction
Events of Default:	Cross Default and breach of Material Agreements

Credit Attributes

Fundamental Credit Strengths

- Fundamental Business Strengths
  - Attractive growth profile
  - Rate base growth
  - Strong residential customer base
  - Proven owner/operator
- Positive Regulatory Environment
  - BCUC regulated
  - Rate base cost of service recovery
- Strong contractual arrangements
  - VINGPA royalty payments offset gas cost
  - TSA with seven mills through 2012
- Solid financial profile with appropriate covenant package

Appendix

Appendix A: Financial Forecast

Income Statement

terasen

REVENUE	2005 F	2006 F	2007 F	2008 F	2009 F	2010 F
Total Net Revenue	167,287	166,189	171,411	175,127	177,942	175,960
Cost of Sales	89,842	96,685	91,437	90,820	88,706	86,566
Gross Margin	*77,445*	*69,504*	*79,974*	*84,306*	*89,236*	*89,393*
Deferral/Amortization of GCVA	(769)	(1,061)	0	0	0	0
Other Income (including interest income)	359	364	373	382	389	396
Royalty Credit	36,770	39,346	37,505	36,853	35,494	34,198
Revenue Net of Cost of Sales	**113,806**	**108,154**	**117,853**	**121,542**	**125,118**	**123,987**
EXPENSES						
Gross Operating Expenses	32,622	29,830	30,708	30,216	30,738	31,348
Direct Charges & Allocations to Affiliates	(224)	(228)	(233)	(238)	(242)	(247)
Capitalization	(4,626)	(4,773)	(4,913)	(4,835)	(4,918)	(5,016)
Total Net O&M Expenses	27,772	24,829	25,562	25,144	25,578	26,085
Total Other Expenses	31,343	33,482	35,101	35,483	35,630	36,186
Operating Income	**54,691**	**49,843**	**57,190**	**60,915**	**63,910**	**61,715**
Financial Expenses						
Interest - Long-term	10,017	11,375	11,875	11,875	11,875	11,875
Interest - Short-term	2,046	2,645	3,077	3,151	3,405	3,549
Interest - Subordinated Bank Debt (Govt Loan)	104	293	440	579	750	845
Interest Capitalized	(54)	(138)	(62)	0	(233)	0
Pref Dividends / Sub Debt Interest	4,924	3,921	3,135	2,197	1,020	0
Total Financial Expenses	*17,037*	*18,095*	*18,464*	*17,802*	*16,817*	*16,269*
Net Income Before Tax	**37,653**	**31,748**	**38,726**	**43,112**	**47,093**	**45,447**
LCT & Income Taxes	12,090	8,968	13,258	14,302	15,722	15,420
Special Direction Provision & Other	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)
	27,430	24,647	27,335	30,678	33,238	31,893
Net Revenue Deficiency (Surplus)	(12,451)	(9,752)	(11,640)	(14,594)	(16,901)	(14,671)
Special Direction Provision & Other	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)
Rate Base Earnings	**13,112**	**13,028**	**13,827**	**14,217**	**14,469**	**15,355**
O&M Less than Allowed	3,647	1,000	1,000	0	0	0
Equity Portion of AFUDC	102	222	98	0	374	0
Other non rate base adjustments	(64)	(129)	(129)	(129)	(129)	(129)
Net Income	**16,797**	**14,121**	**14,797**	**14,088**	**14,714**	**15,226**

Balance Sheet

	2005 F	2006 F	2007 F	2008 F	2009 F	2010 F
Total Current Assets (incl fin contracts)	**44,020**	**45,847**	**46,099**	**45,943**	**46,762**	**47,580**
Fixed Assets (Includes WIP)	591,339	638,003	667,838	692,676	743,972	762,036
Less: Accum. Depreciation	138,637	154,292	171,381	189,098	207,225	226,619
Total Fixed Assets	**452,702**	**483,710**	**496,457**	**503,578**	**536,747**	**535,418**
Deferred Charges						
Revenue Deficiency	48,646	38,894	27,254	12,660	0	0
Deferreds & Other	17,275	17,764	17,096	17,419	17,791	18,230
Total Deferred Charges	**65,921**	**56,658**	**44,350**	**30,080**	**17,791**	**18,230**
TOTAL ASSETS	**562,643**	**586,215**	**586,906**	**579,601**	**601,300**	**601,228**
Bank Advance (Net Cash)	53,502	72,513	75,767	74,429	88,656	81,781
Current Portion RDDA	12,451	9,752	11,641	14,594	12,661	0
Other Current Liabilities	27,506	28,056	28,618	29,190	29,774	30,369
Total Current Liabilities	**93,460**	**110,321**	**116,025**	**118,213**	**131,091**	**112,150**
Long Term Bond Debenture	125,000	125,000	125,000	125,000	125,000	125,000
10 Year Bond Debenture	125,000	125,000	125,000	125,000	125,000	125,000
Subordinated Bank Debt (Govt Loan)	4,624	8,670	11,840	15,623	20,366	20,366
Rate Stabilization Fund	0	0	0	0	4,241	18,912
TOTAL LIABILITIES	**348,083**	**368,992**	**377,865**	**383,836**	**405,697**	**401,428**
SHAREHOLDERS EQUITY						
Capital Stock A	77,477	77,477	77,477	77,477	77,477	77,477
Retained Earnings	88,437	100,852	104,311	105,628	118,126	122,324
Common Equity	165,914	178,329	181,788	183,105	195,603	199,801
Preferred Stock	0	0	0	0	0	0
Rate Stabilization Fund	0	0	0	0	0	0
Class B Instruments	48,646	38,894	27,254	12,660	(0)	(0)
Total Revenue Deficiency/Rate Stabilization	48,646	38,894	27,254	12,660	(0)	(0)
Total S/H Equity	**214,560**	**217,224**	**209,042**	**195,765**	**195,603**	**199,800**
Total Liabilities & Equity	**562,643**	**586,215**	**586,906**	**579,601**	**601,300**	**601,228**

Cash Flow Statement

Terasen

	2005 F	2006 F	2007 F	2008 F	2009 F	2010 F
Operating Activities						
Net Income	16,797	14,121	14,797	14,088	14,714	15,226
Net Revenue (Deficiency) Surplus	12,451	9,752	11,640	14,594	16,901	14,671
Equity Portion of AFUDC	(102)	(222)	(98)	0	(374)	0
Depreciation	14,966	15,655	17,089	17,718	18,127	19,394
Amortization	2,034	2,730	2,148	1,142	1,093	1,026
Financing charges & amort.	0	0	0	0	0	0
Change in working capital	(307)	(1,276)	309	728	(235)	(223)
Net Cash from operations	**45,840**	**40,760**	**45,884**	**48,269**	**50,226**	**50,094**
Investing Activities						
Deferred Additions	(3,256)	(2,404)	(666)	(650)	(650)	(650)
Plant Additions (net of retirements)	(31,244)	(41,031)	(25,676)	(19,832)	(44,439)	(18,879)
Net Cash used by investing	**(34,500)**	**(43,435)**	**(26,342)**	**(20,482)**	**(45,089)**	**(19,529)**
Financing Activities						
LTD 1 - Utility Tranche additions	0	0	0	0	0	0
LTD 1 - Utility Tranche repaid	(134,724)	0	0	0	0	0
LTD 2 - Expansion Tranche additions	0	0	0	0	0	0
LTD 2 - Expansion Tranche repaid	(41,610)	0	0	0	0	0
LTD 3 - Pioneer Tranche additions	(31,737)	0	0	0	0	0
Current Due to Related Parties	(64,509)					
Current Portion Interco Advances	(5,422)					
Long Term Bond Debenture	125,000	0	0	0	0	0
10 Year Bond Debenture	125,000	0	0	0	0	0
Subordinated Bank Debt (Govt Loan)	4,624	4,047	3,169	3,783	4,743	0
Government Loan receipt (repaid)	(7,113)	(6,225)	(4,876)	(5,820)	(7,297)	0
Common Shares issued	0	0	0	0	0	0
Common Dividends	(20,163)	(1,706)	(11,338)	(12,771)	(2,216)	(11,029)
Preferred Shares Issued/(Matured)	0	0	0	0	0	0
Preferred Shares Redeemed	0	0	0	0	0	0
Class B Instruments Issued	6,533	4,924	3,921	3,135	2,197	1,020
Class B Instruments Redeemed	(20,760)	(17,375)	(13,673)	(14,775)	(16,790)	(13,681)
Net Cash from Financing	**(64,881)**	**(16,336)**	**(22,796)**	**(26,448)**	**(19,364)**	**(23,689)**
Cash, year begin (Through Bank Adv 2005 on)	39	(53,502)	(72,513)	(75,766)	(74,429)	(88,656)
Change in cash	(53,541)	(19,011)	(3,254)	1,338	(14,227)	6,875
Cash, year end	(53,502)	(72,513)	(75,766)	(74,429)	(88,656)	(81,780)

Terasen Gas (Vancouver Island) Inc
INPUTS

			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Economic Assumptions													
	Inflation		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
	Long Canada Bonds		5.53%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	Exchange Rate		$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83
	Tax Rates												
	Income Tax		34.50%	34.50%	35.06%	35.62%	35.62%	35.62%	35.62%	35.62%	35.62%	35.62%	35.62%
	LCT		0.175%	0.125%	0.063%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
	Revenue Tax		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Property Tax (Growth @ CPI)		1.44%	1.47%	1.50%	1.53%	1.56%	1.59%	1.62%	1.65%	1.69%	1.72%	1.76%
	GLJ Forecast (Sumas Spot USD/mmbtu)	Jul, 2005	6.15	6.55	6.20	6.05	5.80	5.55	5.55	5.55	5.65	5.80	5.90
Regulatory Assumptions													
	Equity Ratio		35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
	Benchmark Utility Rate		9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
	Risk Premium		0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
	Allowed ROE		9.53%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	BC Hydro Rate Growth as % of Inflation			50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Financing Assumptions													
	LTD 1 - Utility Tranche additions		0	0	0	0	0	-	-	-	-	-	-
	LTD 1 - Utility Tranche repaid		(134,724)	0	0	0	0	-	-	-	-	-	-
	LTD 2 - Expansion Tranche additions		0	0	0	0	0	-	-	-	-	-	-
	LTD 2 - Expansion Tranche repaid		(41,610)	0	0	0	0	-	-	-	-	-	-
	LTD 3 - Pioneer Tranche additions		(31,737)	0	0	0	0	-	-	-	-	-	-
	Long Term Bond Debenture		125,000	0	0	0	0	-	-	-	-	-	-
	10 Year Bond Debenture		125,000	0	0	0	0	0	0	0	100,000	0	0
	Subordinated Bank Debt (Govt Loan Repayment)		7,113	6,225	4,876	5,820	7,297	0	0	18,668	10,000	10,000	5,000
	Long Term Bond Debenture Rate		4.75%	4.80%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	10 Year Bond Debenture Rate		4.25%	4.30%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
	Bankers' Acceptances		2.75%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
	Bank Debt		3.25%	4.00%	4.00%	4.05%	4.05%	4.05%	4.00%	4.05%	4.00%	4.00%	4.00%
	Sub Debt Rate		3.35%	4.10%	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.10%	4.10%	4.10%
	RDDA Financing		8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%
	LTD Repayment Proxy Years	40											

Terasen Gas (Vancouver Island) Inc
INPUTS

			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capital Assumptions													
	No LNG/No Duke Point												
	Weighted Average Dep'n Rate		2.33%	2.32%	2.42%	2.43%	2.42%	2.45%	2.45%	2.45%	2.45%	2.46%	2.47%
Customer Additions													
		2004 Y/E Actuals											
	Totals	80693	3803	3837	3486	3466	3562	3946	3687	3682	3470	3439	3183
Customer Use Rates (GJ/Annum)													
	RGS		59	59	58	58	57	57	57	57	57	57	57
	AGS		1,316	1,325	1,325	1,325	1,325	1,325	1,325	1,325	1,325	1,325	1,325
	SCS-1		68	66	65	65	64	63	63	63	63	63	63
	SCS-2		303	294	292	289	287	285	285	285	285	285	285
	LCS-1		904	898	898	898	898	898	898	898	898	898	898
	LCS-2		2,413	2,326	2,326	2,326	2,326	2,326	2,326	2,326	2,326	2,326	2,326
	LCS-3		17,905	16,645	16,645	16,645	16,645	16,645	16,645	16,645	16,645	16,645	16,645
	HLF		33,761	37,532	37,532	37,532	37,532	37,532	37,532	37,532	37,532	37,532	37,532
	ILF		14,841	12,480	12,480	12,480	12,480	12,480	12,480	12,480	12,480	12,480	12,480
	CRR		73,066	75,510	75,510	75,510	75,510	75,510	75,510	75,510	75,510	75,510	75,510
Transport Volumes (GJ/Annum)													
	BC Hydro		16,425,000	16,425,000	16,425,000	16,470,000	16,425,000	16,425,000	16,425,000	16,470,000	16,425,000	16,425,000	16,425,000
	VIGJV		7,300,000	4,562,500	4,562,500	4,575,000	4,562,500	4,562,500	4,562,500	4,575,000	4,562,500	4,562,500	4,562,500
	Squamish		360,748	375,132	388,987	403,901	418,285	432,367	446,524	461,136	474,991	487,634	500,580

		Actual 2003	Actual 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
Distribution Sales Customers														
Customers														
Previous Year, carry forward		73,971	76,533	80,693	84,496	88,333	91,819	95,285	98,847	102,793	106,480	110,162	113,632	117,071
Current year additions		2,562	4,167	3,803	3,837	3,486	3,466	3,562	3,946	3,687	3,682	3,470	3,439	3,183
Customers, year-end		76,533	80,693	84,496	88,333	91,819	95,285	98,847	102,793	106,480	110,162	113,632	117,071	120,254
% Customers Added		3.5%	5.4%	4.7%	4.5%	3.9%	3.8%	3.7%	4.0%	3.6%	3.5%	3.1%	3.0%	2.7%
% PJ's Added		0.4%	1.5%	1.9%	0.3%	1.7%	1.6%	1.6%	1.6%	2.1%	2.0%	1.9%	1.8%	1.8%
Energy Sold & Transported														
Sales Volumes, PJ														
Total Annual Volume		11.17	11.34	11.55	11.58	11.78	11.97	12.16	12.36	12.62	12.87	13.12	13.36	13.60
Gas Used - Centra		0.00	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07
Total Purchased		11.17	11.40	11.61	11.64	11.84	12.03	12.22	12.42	12.68	12.94	13.19	13.43	13.67
JV Contract Demand TJ/d		37.6	37.6	20.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Transmission (PJ)														
Joint Venture	(Demand)	13.73	13.77	7.30	4.56	4.56	4.58	4.56	4.56	4.56	4.58	4.56	4.56	4.56
Squamish		0.35	0.36	0.36	0.38	0.39	0.40	0.42	0.43	0.45	0.46	0.47	0.49	0.50
BC Hydro	(Demand)	12.39	13.19	16.43	16.43	16.43	16.47	16.43	16.43	16.43	16.47	16.43	16.43	16.43
Total Energy Transported PJ		26.47	27.31	24.09	21.36	21.38	21.45	21.41	21.42	21.43	21.51	21.46	21.48	21.49
Gas Used - High Pressure Transmission System		1.43	0.35	0.38	0.54	0.26	0.27	0.28	0.28	0.29	0.30	0.31	0.32	0.33
Total Transmission Energy		27.90	27.66	24.47	21.90	21.64	21.72	21.68	21.70	21.73	21.81	21.77	21.79	21.81
Total System Purchase		39.07	39.06	36.08	33.54	33.48	33.75	33.90	34.12	34.41	34.75	34.96	35.22	35.48

	Actual 2003	Actual 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
RATE BASE SCHEDULES													
Gross Plant in Service													
Additions	19,762	16,822	25,038	32,929	33,792	26,326	20,173	43,307	19,115	19,520	19,373	37,051	19,410
Retirements	(6,766)	0	(1,817)	(1,853)	(1,890)	(1,928)	(1,966)	(2,006)	(2,046)	(2,087)	(2,842)	(3,517)	(7,293)
Gross Plant in Service-y/e	603,156	619,977	643,198	674,275	706,177	730,575	748,781	790,083	807,152	824,585	841,117	874,651	886,767
Average Balance - Mid Year	596,657	611,567	631,588	658,737	690,226	718,376	739,678	769,432	798,617	815,868	832,851	857,884	880,709
Accumulated Depreciation													
Depreciation Expense	14,159	14,357	14,966	15,655	17,089	17,718	18,127	19,394	19,788	20,185	20,590	21,558	21,888
Retirements	(6,675)	51	(1,747)	(1,777)	(1,813)	(1,849)	(1,886)	(1,924)	(1,962)	(2,002)	(2,755)	(3,429)	(7,203)
Accumulated Depreciation-y/e	109,685	124,092	137,312	151,190	166,466	182,334	198,574	216,044	233,870	252,053	269,889	288,018	302,703
Average Balance - Mid Year	105,943	116,889	130,702	144,251	158,828	174,400	190,454	207,309	224,957	242,962	260,971	278,953	295,360
Net Mid-Year Plant in Service	490,713	494,678	500,886	514,486	531,398	543,976	549,224	562,123	573,660	572,907	571,880	578,931	585,349
Adjustment For Jan 1 Additions			0	3,200	7,227	3,207	0	12,173	0	0	0	8,673	0
Mid-Year Allocated Net Common Plant	(104)	(104)	(104)	(104)	(104)	(104)	(104)	(104)	(104)	(104)	(104)	(104)	(104)
Mid-Year Contributions	(66,728)	(68,080)	(65,992)	(60,293)	(55,557)	(51,024)	(45,280)	(42,446)	(43,261)	(34,334)	(20,000)	(10,000)	(2,500)
Year End Contributions	(67,416)	(68,985)	(62,999)	(57,588)	(53,527)	(48,521)	(42,039)	(42,854)	(43,668)	(25,000)	(15,000)	(5,000)	(0)
Working Capital RB & LNG Gas	13,993	13,994	14,301	15,577	15,268	14,541	14,776	14,999	15,295	15,597	15,904	16,218	16,538
Average Ratebase	437,875	440,487	449,091	472,865	498,232	510,596	518,615	546,744	545,589	554,065	567,680	593,718	599,283

INCOME STATEMENT

	Actual 2003	Actual 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
REVENUE													
Total Distribution Sales Revenue	127,692	121,683	143,785	145,710	149,235	152,705	155,452	158,357	162,200	169,408	177,182	186,684	193,126
Joint Venture Revenue	12,093	12,386	6,534	4,126	4,167	4,221	4,251	4,294	4,337	3,185	3,302	3,430	3,469
Squamish Revenue	350	349	379	394	408	424	439	454	469	1,569	1,676	1,788	1,857
BC Hydro Revenue	15,812	16,379	16,589	15,960	17,600	17,777	17,799	12,855	12,635	11,464	11,887	12,347	12,488
Total High Pressure Transmission Revenue	28,256	29,113	23,502	20,480	22,176	22,422	22,489	17,603	17,440	16,218	16,866	17,565	17,815
Total Net Revenue	155,640	150,796	167,287	166,189	171,411	175,127	177,942	175,960	179,640	185,626	194,048	204,249	210,941
Cost of Sales	72,818	78,370	89,842	96,685	91,437	90,820	88,706	86,566	88,420	90,222	93,517	97,604	100,922
Gross Margin	*82,822*	*72,426*	*77,445*	*69,504*	*79,974*	*84,306*	*89,236*	*89,393*	*91,220*	*95,404*	*100,531*	*106,645*	*110,019*
Deferral/Amortization of GCVA	-5837.7	6931.8	(769)	(1,061)	0	0	0	0	0				
Other Income (including interest income)	275	453	359	364	373	382	389	396	406	424	443	467	483
Royalty Credit	34,059	36,126	36,770	39,346	37,505	36,853	35,494	34,198	34,354	0	0	0	0
LNG Storage Revenue			0	0	0	0	0	0	0	0	0	0	0
Revenue Net of Cost of Sales	**111,317**	**115,937**	**113,806**	**108,154**	**117,853**	**121,542**	**125,118**	**123,987**	**125,980**	**95,827**	**100,974**	**107,111**	**110,502**
EXPENSES													
Gross Operating Expenses	31,772	32,522	32,622	29,830	30,708	30,216	30,738	31,348	31,940	32,555	33,179	33,775	34,462
Direct Charges & Allocations to Affiliates	(216)	(221)	(224)	(228)	(233)	(238)	(242)	(247)	(252)	(257)	(262)	(268)	(273)
Capitalization	(5,208)	(5,028)	(4,626)	(4,773)	(4,913)	(4,835)	(4,918)	(5,016)	(5,110)	(5,209)	(5,309)	(5,404)	(5,514)
Total Net O&M Expenses	26,347	27,273	27,772	24,829	25,562	25,144	25,578	26,085	26,577	27,089	27,608	28,103	28,675
Other Expenses													
Terasen Gas Wheeling Charge	4,168	4,297	4,309	4,309	4,468	4,653	4,662	4,671	4,625	4,634	4,643	4,653	4,662
Compressor lease	1,748	1,748	1,748	1,748	1,748	1,748	828	0	0	0	0	0	0
Amortization of Deferreds	0	863	907	1,915	1,333	327	278	211	211	211	211	211	211
Depreciation	14,228	14,137	14,966	15,655	17,089	17,718	18,127	19,394	19,788	20,185	20,590	21,558	21,888
De-Amort of Govt Loan	1,137	1,568	1,127	815	815	815	815	815	815	0	0	0	0
Municipal, Motor Fuel & Provincial Sales Taxes	6,841	7,233	8,285	9,040	9,648	10,222	10,921	11,096	11,279	11,821	12,525	12,954	13,696
Total Other Expenses	*28,121*	*29,845*	*31,343*	*33,482*	*35,101*	*35,483*	*35,630*	*36,186*	*36,718*	*36,851*	*37,969*	*39,375*	*40,457*
Operating Income	**56,848**	**58,819**	**54,691**	**49,843**	**57,190**	**60,915**	**63,910**	**61,715**	**62,684**	**31,887**	**35,396**	**39,633**	**41,370**
Financial Expenses													
Interest - Long-term	15,202	10,626	10,017	11,375	11,875	11,875	11,875	11,875	11,875	11,875	14,125	16,375	16,375
Interest - Short-term	2,448	2,243	2,046	2,645	3,077	3,151	3,405	3,549	3,062	3,547	2,759	1,449	2,055
Interest - Subordinated Bank Debt (Govt Loan)	0	0	104	293	440	579	750	845	845	423	0	0	0
Interest Capitalized			(54)	(138)	(62)	0	(233)	0	0	0	(160)	0	(232)
Pref Dividends / Sub Debt Interest	5,382	6,265	4,924	3,921	3,135	2,197	1,020	0	0	0	0	0	0
Total Financial Expenses	*23,032*	*19,133*	*17,037*	*18,095*	*18,464*	*17,802*	*16,817*	*16,269*	*15,782*	*15,845*	*16,723*	*17,824*	*18,198*
Net Income Before Tax	**33,817**	**39,685**	**37,653**	**31,748**	**38,726**	**43,112**	**47,093**	**45,447**	**46,903**	**16,042**	**18,673**	**21,809**	**23,172**
LCT & Income Taxes	7,829	12,471	12,090	8,968	13,258	14,302	15,722	15,420	16,097	4,950	5,886	7,194	7,584
Special Direction Provision & Other	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)	0	0	0	0
	27,855	29,081	27,430	24,647	27,335	30,678	33,238	31,893	32,672	11,092	12,786	14,615	15,588
Net Revenue Deficiency (Surplus)	(12,597)	(14,191)	(12,451)	(9,752)	(11,640)	(14,594)	(16,901)	(14,671)	(15,486)	6,361	5,095	4,087	3,290
Special Direction Provision & Other	-1,867	-1,867	-1,867	-1,867	-1,867	-1,867	-1,867	-1,867	-1,867	0	0	0	0
Rate Base Earnings	**13,391**	**13,024**	**13,112**	**13,028**	**13,827**	**14,217**	**14,469**	**15,355**	**15,319**	**17,453**	**17,882**	**18,702**	**18,877**
O&M Less than Allowed	2,790	2,220	3,647	1,000	1,000	0	0	0	0	0	0	0	0
Equity Portion of AFUDC			102	222	98	0	374	0	0	0	266	0	373
Other non rate base adjustments	-2,362	-11	-64	-129	-129	-129	-129	-129	-129	-129	-129	-129	-129
Net Income	**13,820**	**15,233**	**16,797**	**14,121**	**14,797**	**14,088**	**14,714**	**15,226**	**15,190**	**17,324**	**18,019**	**18,573**	**19,122**

	Actual 2003	Actual 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
CASHFLOW STATEMENT													
Operating Activities													
Net Income	13,820	15,233	16,797	14,121	14,797	14,088	14,714	15,226	15,190	17,324	18,019	18,573	19,122
Net Revenue (Deficiency) Surplus	12,597	14,227	12,451	9,752	11,640	14,594	16,901	14,671	15,486	(6,361)	(5,095)	(4,087)	(3,290)
Equity Portion of AFUDC			(102)	(222)	(98)	0	(374)	0	0	0	(266)	0	(373)
Depreciation	14,228	14,137	14,966	15,655	17,089	17,718	18,127	19,394	19,788	20,185	20,590	21,558	21,888
Amortization	1,137	2,431	2,034	2,730	2,148	1,142	1,093	1,026	1,026	211	211	211	211
Financing charges & amort.	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in working capital	9,706	(8,044)	(307)	(1,276)	309	728	(235)	(223)	(296)	(302)	(308)	(314)	(320)
Net Cash from operations	**51,487**	**37,983**	**45,840**	**40,760**	**45,884**	**48,269**	**50,226**	**50,094**	**51,194**	**31,058**	**33,151**	**35,941**	**37,238**
Investing Activities													
RDDA Interim Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Additions	(1,569)	(4,952)	(3,256)	(2,404)	(666)	(650)	(650)	(650)	(650)	(650)	(650)	(650)	(650)
Plant Additions (net of retirements)	(17,295)	(19,926)	(31,244)	(41,031)	(25,676)	(19,832)	(44,439)	(18,879)	(19,031)	(19,435)	(36,633)	(19,617)	(43,624)
Net Cash used by investing	**(18,864)**	**(24,878)**	**(34,500)**	**(43,435)**	**(26,342)**	**(20,482)**	**(45,089)**	**(19,529)**	**(19,681)**	**(20,085)**	**(37,283)**	**(20,267)**	**(44,274)**
Financing Activities													
LTD 1 - Utility Tranche additions	0	0	0	0	0	0	0	0	0	0	0	0	0
LTD 1 - Utility Tranche repaid	(4,279)	(4,317)	(134,724)	0	0	0	0	0	0	0	0	0	0
LTD 2 - Expansion Tranche additions	0	0	0	0	0	0	0	0	0	0	0	0	0
LTD 2 - Expansion Tranche repaid	(1,069)	(1,054)	(41,610)	0	0	0	0	0	0	0	0	0	0
LTD 3 - Pioneer Tranche additions	18	6	(31,737)	0	0	0	0	0	0	0	0	0	0
Current Due to Related Parties			(64,509)										
Current Portion Interco Advances	(14,828)	16,726	(5,422)										
Long Term Bond Debenture			125,000	0	0	0	0	0	0	0	0	0	0
10 Year Bond Debenture			125,000	0	0	0	0	0	0	0	100,000	0	0
Subordinated Bank Debt (Govt Loan)			4,624	4,047	3,169	3,783	4,743	0	0	(20,366)	(0)	(0)	(0)
Government Loan receipt (repaid)	(0)	0	(7,113)	(6,225)	(4,876)	(5,820)	(7,297)	0	0	(18,668)	(10,000)	(10,000)	(5,000)
Common Shares issued	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Dividends	(15,350)	(11,872)	(20,163)	(1,706)	(11,338)	(12,771)	(2,216)	(11,029)	(15,483)	(10,793)	(8,550)	(15,489)	(9,368)
Preferred Shares Issued/(Matured)	0	0	0	0	0	0	0	0	0	0	0	0	0
Preferred Shares Redeemed	(85,025)	0	0	0	0	0	0	0	0	0	0	0	0
Class B Instruments Issued	87,921	5,818	6,533	4,924	3,921	3,135	2,197	1,020	0	0	0	0	0
Class B Instruments Redeemed	0	(18,415)	(20,760)	(17,375)	(13,673)	(14,775)	(16,790)	(13,681)	0	0	0	0	0
Net Cash from Financing	**(32,612)**	**(13,108)**	**(64,881)**	**(16,336)**	**(22,796)**	**(26,448)**	**(19,364)**	**(23,689)**	**(15,483)**	**(49,827)**	**81,450**	**(25,489)**	**(14,368)**
Cash, year begin (Through Bank Adv 2005 on)	31	42	39	(53,502)	(72,513)	(75,766)	(74,429)	(88,656)	(81,780)	(65,750)	(104,605)	(27,287)	(37,101)
Change in cash	11	(3)	(53,541)	(19,011)	(3,254)	1,338	(14,227)	6,875	16,030	(38,855)	77,318	(9,814)	(21,405)
Cash, year end	42	39	(53,502)	(72,513)	(75,766)	(74,429)	(88,656)	(81,780)	(65,750)	(104,605)	(27,287)	(37,101)	(58,506)

BALANCE SHEET

	Actual 2003	Actual 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
Total Current Assets (incl fin contracts)	**38,684**	**43,174**	**44,020**	**45,847**	**46,099**	**45,943**	**46,762**	**47,580**	**48,483**	**49,405**	**50,344**	**51,303**	**52,280**
Fixed Assets (Includes WIP)	535,799	554,007	591,339	638,003	667,838	692,676	743,972	762,036	780,253	818,357	865,256	894,873	943,870
Less: Accum. Depreciation	109,685	123,671	138,637	154,292	171,381	189,098	207,225	226,619	246,407	266,592	287,182	308,740	330,628
Total Fixed Assets	**426,114**	**430,336**	**452,702**	**483,710**	**496,457**	**503,578**	**536,747**	**535,418**	**533,846**	**551,765**	**578,074**	**586,132**	**613,242**
Deferred Charges													
Revenue Deficiency	75,324	61,097	48,646	38,894	27,254	12,660	0	0	0	0	0	0	0
Deferreds & Other	15,246	14,926	17,275	17,764	17,096	17,419	17,791	18,230	18,669	19,108	19,547	19,986	20,425
Total Deferred Charges	**90,570**	**76,023**	**65,921**	**56,658**	**44,350**	**30,080**	**17,791**	**18,230**	**18,669**	**19,108**	**19,547**	**19,986**	**20,425**
TOTAL ASSETS	**555,368**	**549,533**	**562,643**	**586,215**	**586,906**	**579,601**	**601,300**	**601,228**	**600,999**	**620,278**	**647,965**	**657,422**	**685,948**
Current Due to Related Parties	48,617	64,509	0	0	0	0	0	0	0	0	0	0	0
Bank Advance (Net Cash)	0	(39)	53,502	72,513	75,767	74,429	88,656	81,781	65,751	104,606	27,287	37,102	58,506
Current Portion RDDA	18,046	14,227	12,451	9,752	11,641	14,594	12,661	0	0	0	0	0	0
Current Long Term		5,422	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	34,055	26,967	27,506	28,056	28,618	29,190	29,774	30,369	30,977	31,596	32,228	32,873	33,530
Total Current Liabilities	**100,718**	**111,086**	**93,460**	**110,321**	**116,025**	**118,213**	**131,091**	**112,150**	**96,728**	**136,202**	**59,516**	**69,975**	**92,037**
LTD 1- Utility	144,375	134,724	0	0	0	0	0	0	0	0	0	0	0
LTD 2 - Expansion	42,953	41,610	0	0	0	0	0	0	0	0	0	0	0
LTD 3 - Pioneer	33,000	31,737	0	0	0	0	0	0	0	0	0	0	0
Long Term Bond Debenture	0	0	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
10 Year Bond Debenture	0	0	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	225,000	225,000	225,000
Subordinated Bank Debt (Govt Loan)	0	0	4,624	8,670	11,840	15,623	20,366	20,366	20,366	(0)	(0)	(0)	(0)
Rate Stabilization Fund			0	0	0	0	4,241	18,912	34,398	28,037	22,942	18,855	15,565
TOTAL LIABILITIES	**321,046**	**319,157**	**348,083**	**368,992**	**377,865**	**383,836**	**405,697**	**401,428**	**401,491**	**414,239**	**432,457**	**438,829**	**457,602**
SHAREHOLDERS EQUITY													
Capital Stock A	77,477	77,477	77,477	77,477	77,477	77,477	77,477	77,477	77,477	77,477	77,477	77,477	77,477
Retained Earnings	88,440	91,802	88,437	100,852	104,311	105,628	118,126	122,324	122,031	128,562	138,031	141,115	150,869
Common Equity	165,917	169,279	165,914	178,329	181,788	183,105	195,603	199,801	199,508	206,039	215,508	218,592	228,346
Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0
Rate Stabilization Fund			0	0	0	0	0	0	0	0	0	0	0
Class B Instruments	68,405	61,097	48,646	38,894	27,254	12,660	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Revenue Deficiency/Rate Stabilization	68,405	61,097	48,646	38,894	27,254	12,660	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total S/H Equity	**234,322**	**230,376**	**214,560**	**217,224**	**209,042**	**195,765**	**195,603**	**199,800**	**199,507**	**206,038**	**215,508**	**218,592**	**228,346**
Total Liabilities & Equity	**555,368**	**549,533**	**562,643**	**586,215**	**586,906**	**579,601**	**601,300**	**601,228**	**600,998**	**620,277**	**647,965**	**657,421**	**685,948**
BALANCE CHECK	0	0	0	0	0	0	0	0	0	0	0	0	0

APPENDIX 4.3.5

BC Gas Utility Ltd.

Current Report: April 16, 2002
Previous Report: January 17, 2001

Geneviève Lavallée, CFA/Matthew Kolodzie, P.Eng.
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RATING

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

RATING HISTORY	Current	2001	2000	1999	1998	1997	1996
Long-Term Debt	"A"	"A"	"A"	"A"	"A"	"A"	"A"
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

RATING UPDATE

BC Gas Utility Ltd.'s ("the Company") earnings were up sharply in 2001 to $67.2 million (16% or $9.3 million increase over 2000) due to the full-year earnings contribution from the Southern Crossing Pipeline, although some of the positive earnings impact was offset by the reduction in the approved ROE to 9.25% from 9.50% in 2000 and the reduced sales due to energy efficiency measures and fuel switching by industrial customers who have dual-fuel capability. Operating cash flows increased due to the sharp increase in the rate base (from Southern Crossing), but remained insufficient to internally fund capital expenditures and dividends. As a result, external financing was required and was met through debt issuance, although leverage was little impacted. However, coverage ratios deteriorated slightly due to the reduction in the corporate income tax rate and the use of the flow-through method of taxation.

Despite the negative impact going forward on coverage ratios as a result of the lower corporate income tax rate, the outlook for BC Gas Utility remains reasonably favourable. The Company is currently developing an enhanced, multi-year incentive regulatory framework with its stakeholders to take effect in 2003 that encompasses both it and Centra Gas B.C., recently acquired by its parent, BC Gas Inc. Over the longer term, the Company should benefit from the new settlement provided the framework is at least as favourable as the previous agreement that expired at the end of 2001. Over the near term (2002), the Company's earnings are expected to grow in line with customer growth as its distribution rates have been kept unchanged from 2001. Customer growth is expected to improve in 2002 relative to 2001 due to the improved economic environment in British Columbia and the lower gas prices, which had a dampening effect on demand in 2001. The Company is expected to continue to generate free cash flow deficits over the next few years if it maintains its dividend payout at $60 million. Debt issuance and equity injections from its parent will be required to maintain its target capital structure of 67/33 debt/equity. Over the medium and longer term, the Company should begin to generate free cash flow surpluses. The Company's earnings and cash flows will continue to be sensitive to changes in interest rates through approved ROEs, and it will continue to face a certain degree of competition in the multi-residential customer class from electricity due to the low electricity rates in British Columbia.

RATING CONSIDERATIONS

Strengths:

- Regulation contributes to relative financial stability
- Southern Crossing enhances earnings and cash flows, provides access to alternative sources of supply
- Competitive advantages of gas versus alternative fuels
- Diversified customer base

Challenges:

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

FINANCIAL INFORMATION

For the year ending December 31	2001	2000	1999	1998	1997	1996
Fixed-charges coverage (times)	1.82	1.77	1.90	1.88	1.84	1.68
% debt in capital structure	68.4%	67.3%	67.2%	65.9%	67.6%	68.3%
Cash flow/total debt (times)	0.09	0.08	0.09	0.09	0.08	0.10
Cash flow/capital expenditures (times)	0.98	0.25	0.85	0.99	0.90	0.98
Approved ROE	9.25%	9.50%	9.25%	10.00%	10.25%	11.00%
Net income before extra items ($ millions)	67.2	61.9	59.5	59.3	58.2	56.4
Operating cash flow ($ millions)	142.4	120.1	113.3	109.8	95.0	110.5
Throughput volumes (bcf)	162.2	178.0	182.5	169.3	175.0	184.5

THE COMPANY

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

AUTHORIZED PAPER AMOUNT Limited to $500 million.

REGULATION

BC Gas Utility Ltd. is regulated by the British Columbia Utilities Commission ("BCUC"). The regulatory environment is among the more progressive in Canada. British Columbia-based utilities were among the first utilities in Canada to operate under an incentive-based regulation. BC Gas Utility operated under an incentive regulatory settlement during the 1998-2001 period. The Company had filed a 2002 Revenue Requirement Application, but withdrew the application due to BC Gas Inc.'s acquisition of Centra Gas B.C. and the new provincial energy policy. The Company is currently developing an enhanced, multi-year regulatory framework with its stakeholders to take effect in 2003 that encompasses both distribution utilities. The new settlement may be margin-based rather than cost-based. As a result of the withdrawal of its 2002 rate application, the Company's distribution rates for 2002 will remain at their 2001 levels. In addition, the ROE reset mechanism and interest deferral accounts will not apply during 2002. The approved ROE is typically formula-based, using a 350 basis point risk premium above forecast long Canada bond yields 6% or lower. Annual adjustments capture 80% of the change in yields when forecast yields are higher than 6% and 100% of the change when forecast yields are lower than 6%. Deemed equity remains at 33% for 2002.

BC Gas Utility has the following deferral accounts, which reduce short-term earnings fluctuations/risks. (1) Gas Cost Reconciliation Account (GCRA). The Company is permitted to periodically, subject to BCUC approval, recover from (or remit to) customers any variances in gas prices from forecast. Historically, variances are amortized and recovered over a two to three-year period with price adjustments normally made on a semi-annual basis. (2) Rate Stabilization Adjustment Mechanism (RSAM). Weather-induced revenue fluctuations for residential and commercial customers are amortized and recovered over a two-year period. BC Gas is, however, still exposed to the economic cyclicality of non-RSAM customers, principally industrial and transportation service customers, who account for roughly 35% of total volume throughputs. (3) Interest Rate Deferral Accounts, which smooth the impact of fluctuations in both short-term and long-term interest rates.

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

RATING CONSIDERATIONS

Strengths: (1) The regulatory environment in which the Company operates provides a high degree of financial stability. Formula-based ROEs and performance-based regulation (the Company is currently developing a new incentive regulatory framework to begin in 2003) minimize regulatory lag, streamline the regulatory process, and encourage utilities to improve operating efficiencies. Regulation also allows for the recovery (and/or remittance to customers) of variances from forecasts in prudently incurred gas costs. In addition, the Company is allowed to utilize several deferral accounts that help smooth earnings and reduce business and operating risks: (a) weather-induced revenue fluctuations for residential and commercial customers; and (b) interest rate fluctuations, both of which are amortized and recovered in future rates. These deferral accounts do not impact cash flows and artificially inflate interest coverage ratios over the short term (i.e., during periods of warmer than normal temperatures), but the impact is reversed as deferral balances are recovered.

(2) The Southern Crossing Pipeline project became operational in November 2000, and added about $410 million to rate base in 2001. In addition to providing a significant boost to earnings and cash flows in 2001 and providing an ongoing contribution to earnings over the longer term as the costs are recovered in delivery margin rates across almost all customer classes, the new line provides the Company with access to lower-cost alternate sources of gas supply from Alberta.

(3) Despite the volatility experienced in gas prices last year, natural gas remains one of the most economical fuel sources for home heating and is a more environmentally friendly fuel source for electricity generation than oil and nuclear. As gas costs are transportation sensitive, the Company's close proximity to sources of supplies helps it maintain competitive rates relative to other sources of energy.

(4) The Company has a diversified customer base and has limited exposure to a single customer, which reduces earnings volatility. Residential customers account for about 40% of volume throughputs, commercial customers just over 20% and industrial customers about 40% of throughputs.

Challenges: (1) The Company has consistently generated insufficient operating cash flows to internally fund its capital expenditures and dividend payments. While the Company's parent has provided the necessary equity injections to maintain a stable capital structure, the combination of rising debt levels and declining ROEs have resulted in a deterioration in coverage ratios since 1998.

(2) The Company's earnings and cash flows are sensitive to the economic cycle and to interest rates through approved ROEs. About 35% of gas volumes are delivered to industrial customers, who are sensitive to economic cycles. In terms of interest rates, a 25 basis point change in approved ROEs would impact net earnings by about $1.8 million. While an approved ROE was not set for 2002 due to the Company's withdrawal of its 2002 rate application, this remains a challenge over the longer term, especially in periods of falling interest rates as we have seen over the past few years.

(3) While natural gas is one of the lowest-cost fuel sources for home heating, the Company faces competitive pressures

from the low electricity rates in British Columbia due to the dominance of hydro-based generation. The competitive pressures are largely on the multi-residential side.

(4) The Company faces forecast risk related to customer additions. Earnings are negatively impacted if actual customer additions are significantly below the Company's forecast.

(5) The use of the flow-through method of taxation has resulted in an unrecorded deferred income tax liability of $216.5 million as at December 2001. The flow-through method of taxation, whereby the Company collects taxes as paid, results in lower revenue collections, thereby reducing operating income and weakening coverage ratios. The recovery of this liability in future rates is not assured.

EARNINGS AND OUTLOOK

Consolidated results	For years ended December 31					
($ millions)	2001	2000	1999	1998R	1997	1996
Net revenues	489.2	420.9	401.1	402.8	389.3	359.8
EBITDA	307.5	261.8	253.2	250.7	234.2	219.0
EBIT	231.9	194.8	190.8	189.4	178.9	163.0
Net interest expense	124.4	91.1	82.6	80.6	77.9	81.6
Net income	67.2	57.9	50.8	49.4	43.1	59.2

	For years ended December 31					
Throughput Volumes	2001	2000	1999	1998	1997	1996
Residential	62.849	69.531	70.344	65.016	66.280	72.433
Commercial	38.107	42.170	43.705	40.996	45.602	49.819
Small Industrial	7.585	9.301	7.314	5.328	4.605	3.906
Large Industrial	0.632	1.445	1.896	5.870	6.592	4.316
Transportation Service	53.006	55.535	58.334	52.103	51.923	53.995
Total (billions of cubic feet)	162.179	177.981	181.593	169.313	175.001	184.470
Growth in volume throughputs	(8.9%)	(2.0%)	7.3%	(3.3%)	(5.1%)	9.7%
Customers						
Residential	687,375	682,401	676,513	664,584	655,517	641,364
Commercial	78,756	78,948	78,249	76,547	75,714	74,443
Small Industrial	515	602	619	411	340	233
Large Industrial	61	66	74	84	129	131
Transportation	1,141	856	630	668	602	230
Total (thousands)	767,848	762,873	756,085	742,294	732,302	716,401
Growth in customer base	0.7%	0.9%	1.9%	1.4%	2.2%	2.5%

The Company's net income was up 16% or $9.3 million in 2001 to $67.2 million due to the full-year earnings contribution from the Southern Crossing Pipeline, although some of the positive impact was offset by the reduction in the approved ROE to 9.25% from 9.50% in 2000 and the sharp reduction in volume throughputs due to energy efficiency measures and fuel switching by industrial customers that have dual-fuel capability. Net interest expense increased sharply in 2001 to $124.4 million from $91.1 million the previous year as a result of: (a) higher long-term debt associated with the increase in the rate base from the Southern Crossing Pipeline, (b) the refinancing of $75 million in preferred shares with long-term debt, and (c) the higher level of short-term debt during much of the year to finance the higher accounts receivable and inventories as a result of the high gas prices during the first half of the year. However, the higher interest costs had little impact on the Company's net earnings as these costs are largely recovered in rates.

Outlook: Net income is expected to be up marginally in 2002 driven by new customer additions and the resulting increase in volume throughputs. While the Company's Revenue Requirement Settlement expired at the end of 2001, the Company chose to withdraw its 2002 Revenue Requirement Application due to a number of factors. Instead, it is currently developing an enhanced regulatory framework with its stakeholders to take effect in 2003 to reflect its parent's acquisition of Centra Gas B.C. and the new provincial energy policy. As a result, its distribution rates for 2002 will remain at 2001 levels. Over the medium term, the Company's earnings will be driven by economic growth and the resulting impact on customer and volume growth. Earnings will also be influenced by the new performance-based regulatory framework that is ultimately approved by the BCUC, as well as the impact of the new provincial energy policy on the competitiveness of gas versus electricity in British Columbia.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

($ millions)	2001	2000	1999	Stress Testing Year 1	Year 2	Year 3
EBITDA	307.5	261.8	253.2	292.1	292.1	292.1
Net income before extraordinary items	67.2	57.9	50.8	47.2	43.0	40.6
Depreciaton	75.6	67.0	62.4	74.6	76.1	76.8
Other non-cash adjustments	(0.4)	(4.8)	0.1	0.0	0.0	0.0
Operating cash flow	142.4	120.1	113.3	121.9	119.2	117.4
Capital expenditures	(146.0)	(472.5)	(133.8)	(130.0)	(100.0)	(100.0)
Common dividends	(60.0)	(56.1)	(64.3)	(60.0)	(60.0)	(60.0)
Cash flow before working capital changes	(63.6)	(408.5)	(84.8)	(68.1)	(40.8)	(42.6)
Working capital changes	(106.9)	2.3	(28.2)	0.0	0.0	0.0
Free cash flow	(170.5)	(406.2)	(113.0)	(68.1)	(40.8)	(42.6)
Net investments/adjustments	45.4	(10.9)	3.7	0.0	0.0	0.0
Net debt financing	94.4	376.3	100.1	68.1	40.8	42.6
Net pref. share financing	0.0	(75.0)	0.0	0.0	0.0	0.0
Net equity financing	0.0	141.1	21.9	0.0	0.0	0.0
Net change in cash	(30.7)	25.3	12.7	0.0	0.0	0.0
Cash flow/capital expenditures (times)	0.98	0.25	0.85	0.94	1.19	1.17
Cash flow/total debt (times) (1)	0.09	0.08	0.09	0.07	0.07	0.06
% debt in the capital structure (1)	68.4%	67.3%	67.2%	69.6%	70.6%	71.6%
Fixed-charges coverage (times)	1.82	1.77	1.90	1.57	1.50	1.46

(1) All preferred shares treated as debt equivalents.

Financial Profile: Despite the sharp increase in earnings and cash flows and the sharp reduction in capital expenditures due to the completion of Southern Crossing, operating cash flows remained insufficient in 2001 to internally fund capital expenditures and common dividends. Including working capital changes, the Company also continued to generate a free cash flow deficit. As a result, the Company required external financing to fund its cash flow deficiency. This was achieved through debt issuance and the use of the cash proceeds ($47.5 million) from the sale of certain gas pipeline assets. The Company's leverage deteriorated slightly, as did its EBIT and EBITDA coverages due to the reduction in corporate income tax rates and the flow-through method of taxation, whereby tax savings are passed through to customers in the form of lower rates. Despite the deterioration, leverage and coverage ratios remain reasonable for a relatively stable, regulated utility. Note that the Company's fixed-charges coverage improved in 2001 due to the refinancing of preferred shares with lower cost long-term debt.

Outlook: Operating cash flows are expected to remain relatively stable in 2002, but are expected to continue to be insufficient to internally fund the projected $130 million in capital expenditures and assumed common dividends of $60 million. As a result, it is expected that the Company's level of debt will continue to rise and, assuming no equity financing or additional asset dispositions, its leverage will edge higher as well. However, once a new incentive-based regulatory is in place, the Company should see its operating cash flows improve and should reduce its leverage back down to the target 67%. Given that the Company's operations are almost entirely regulated, that the competitiveness of gas versus electricity has improved, and that the economy appears to have rebounded, coverage and cash flow/total debt ratios should gradually strengthen over time.

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various adverse scenarios.
Assumptions: BC Gas Utility's EBITDA declines 5% in Year 1 and remains flat thereafter; capital expenditures are $130 million in Year 1 and $100 million in each of the subsequent years, and common dividends remain at $60 million per year.

DBRS stress tests financial results to measure earnings and cash flow sensitivities and their impact on key debt ratios. Under the above scenario, the Company's operating cash flow would remain insufficient to internally fund all of its requirements. Leverage would edge higher, while interest coverage and cash flow/debt would deteriorate. Given that virtually all of the Company's activities are regulated, DBRS expects that the Company would make the necessary adjustments to the common dividend payout, capital expenditures, and/or receive an equity injection from its parent to maintain a stable financial profile.

LONG-TERM DEBT MATURITIES AND BANK LINES

Long-Term Debt Maturity Schedule – as at March 31, 2002

($ millions)	2002	2003	2004	2005	2006	2007 and beyond
Long-term debt	177.4	102.4	2.4	247.4	122.4	774.8
% of total	12.4%	7.2%	0.2%	17.3%	8.6%	54.3%

Maturities are reasonably well staggered over the next five years. While there is some refinancing risk, DBRS expects the Company will have little difficulty refinancing the above amounts.

The Company has 364-day revolving committed lines of credit totalling $500 million, which are used to support its $500 million commercial paper program, as well as for general corporate purposes. As at March 31, 2002, $351 million was unutilized.

BC Gas Utility Ltd.

Balance Sheet

($ millions)	As at December 31				As at December 31		
Assets	2001	2000	1999	Liabilities & Equity	2001	2000	1999
Cash	0	27	2	Short-term debt	237	169	220
Accounts receivable	222	416	156	A/P + accrueds	302	584	161
Inventories	101	81	38	Ltd. due in 1 year	177	73	77
Prepaids + other	4	3	2	Current liabilities	716	825	458
PVGA	106	45	33	Deferred taxes	1	1	1
Current Assets	434	573	232	Deferred gain	23	0	0
Net fixed assets	2,261	2,215	1,802	Long-term debt	1,249	1,324	892
PVGA	42	105	0	Debt equiv pref	0	0	0
Deferred charges	16	16	9	Preferred equity	0	0	75
Long-term rec + investments	4	2	2	Shareholders' equity	768	761	618
Total	2,757	2,910	2,044	Total	2,757	2,910	2,044

Ratio Analysis

	For years ending December 31						
Liquidity Ratios	2001	2000	1999	1998	1997	1996	1995
Current ratio	0.61	0.69	0.51	0.34	0.32	0.48	0.42
Accumulated depreciation/gross fixed assets	17.5%	16.7%	18.7%	17.1%	16.3%	14.8%	13.3%
Cash flow/total debt (1)	0.09	0.08	0.09	0.09	0.08	0.10	0.08
Cash flow/capital expenditure	0.98	0.25	0.85	0.99	0.90	0.98	0.64
Cash flow-dividends/capital expenditures	0.56	0.14	0.37	0.61	0.51	0.61	0.34
% debt in capital structure (1)	68.4%	67.3%	67.2%	65.9%	67.6%	68.3%	68.4%
Deemed common equity	33%	33%	33%	33%	33%	33%	33%
Common dividend payout (before extras.)	89.3%	96.9%	126.5%	85.6%	86.3%	86.0%	93.4%
Coverage Ratios							
EBITDA interest coverage	2.41	2.55	3.01	3.04	2.96	2.65	2.37
EBIT interest coverage	1.82	1.90	2.27	2.30	2.26	1.97	1.77
Fixed charges coverage	1.82	1.77	1.90	1.88	1.84	1.68	1.57
Earnings Quality/Operating Efficiency and Statistics							
EBIT margin, excluding cost of natural gas	47.4%	46.3%	47.6%	47.0%	46.0%	45.3%	44.0%
Net margin (excluding preferred dividends)	13.7%	13.7%	12.7%	12.3%	12.4%	13.5%	13.3%
Return on avg. common equity (bef. extras)	8.8%	8.4%	8.3%	8.6%	9.0%	9.2%	8.8%
Approved ROE	9.25%	9.50%	9.25%	10.00%	10.25%	11.00%	12.00%
Degree day deficiency - % normal (interior)	94.6%	99.9%	94.7%	89.7%	98.5%	116.1%	96.7%
(coastal)	102.3%	103.1%	101.6%	91.3%	94.1%	108.1%	89.9%
Customers/employees	594	521	515	482	432	427	411
Customer growth	0.7%	0.9%	1.9%	1.4%	2.2%	2.5%	2.6%
Operating costs/avg. customer (2)	$282	$253	$238	$247	$248	$238	$228
Rate base ($ millions)	2,208	1,690	1,637	1,559	1,517	1,441	1,333
Rate base growth	30.7%	3.2%	5.0%	2.8%	5.3%	8.1%	#DIV/0!
Kilometres of pipelines	37,430	37,197	36,581	36,473	35,971	35,335	34,401
Rate base/km of pipeline (thousands)	$59.0	$45.4	$44.8	$42.7	$42.2	$40.8	$38.8
Rate base/throughput volumes (millions per bcf)	$13.6	$9.5	$9.0	$9.2	$8.7	$7.8	$7.9

(1) All preferred shares treated as debt equivalents. (2) Operating costs excludes municipal + property taxes.

BC Gas Inc.

Current Report: July 9, 2002
Previous Report: November 29, 2001

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RATING

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

RATING HISTORY

	Current	2001	2000	1999	1998	1997
Medium Term Note Debentures	A (low)	A (low)	NR	NR	NR	NR
Subordinated Unsecured Debentures	BBB (high)y	BBB (high)y	BBB (high)y	NR	NR	NR
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

y: denotes hydrid security

RATING UPDATE

Following a deterioration in its financial profile in 2001, BC Gas Inc. ("BC Gas" or "the Company") registered a modest improvement for the 12 months ended March 31, 2002. On a consolidated basis, leverage (DBRS-adjusted) fell back down to its 2000 level as a result of the equity issue in Q1 2002, which was partly used to finance the Centra BC acquisition, and fixed-charges coverage rebounded somewhat from its dip down in 2001. Earnings and cash flows were up relative to 2001, largely as a result of the earnings contribution from the recently acquired Centra BC, but also due to better results from Trans Mountain Pipe Line Company Ltd. ("TMPL"). Despite the growth in earnings and operating cash flows, the Company continued to record a free cash flow deficit due to the significant amount of capital expenditures, largely related to the Corridor Pipeline project.

The medium-term outlook for BC Gas remains stable, despite the low interest rate environment and the negative impact it has on the regulated earnings of its gas distribution operations. The Company's earnings and cash flows should improve in 2003 when the Corridor Pipeline becomes fully operational. The performance of the non-regulated portfolio should also improve as a result of the sale of the wholesale water supply business and the Company's participation in two new low-risk, non-regulated entities. TMPL is expected to remain an important contributor to BC Gas's earnings and cash flows, although its business risk profile is now higher as a result of the new incentive toll settlement for 2001-2005. One of the more significant challenges the Company faces over the next three years, which could cause a deterioration in its credit profile, is the potentially heavy financing needs and the risk of cost over-runs related to two proposed projects (Bison Pipeline and the Inland Pacific Connector), where total needs are currently estimated at $1.3 billion.

RATING CONSIDERATIONS

Strengths:

- Regulated subsidiaries a stable source of income and cash flow
- New operations will enhance future earnings and cash flow
- Non-consolidated balance sheet and key debt ratios expected to remain relatively favourable

Challenges:

- Gas distribution operations sensitive to interest rates
- Business risks TMPL faces related to competitive pressures and the new incentive toll settlement
- Construction cost risk on Corridor project
- Potentially heavy financing needs over medium term

FINANCIAL INFORMATION

Highlights

	12 mos. ending	For years ending December 31				
Consolidated Basis	March, 2002	2001	2000	1999	1998	1997
Fixed-charges coverage (times)	1.76	1.69	1.93	2.16	2.22	2.21
Cash flow/total adj. debt (times) (1)	0.07	0.08	0.08	0.11	0.09	0.09
% adj. debt in capital structure (1)	72.3%	75.3%	72.3%	71.9%	73.7%	72.4%
Net income before extra items ($ millions) (2)	98	91	83	78	77	71
Operating cash flow ($ millions) (2)	198	189	173	174	156	145
Gas distribution throughputs (bcf)	n/a	164.7	180.3	179.4	169.2	175.0
Oil pipeline throughputs (thousands bbl/day)	n/a	209.3	204.6	207.5	252.6	229.7
Non-Consolidated Basis						
Fixed-charges coverage (times)	n/a	4.89	5.90	10.21	16.00	12.78
Cash flow/total adj. debt (times) (1)	n/a	0.33	0.39	0.53	0.41	0.23
% adj. debt in capital structure (1)	n/a	24.0%	20.0%	19.8%	23.7%	18.1%
Dividend income from subs. ($ millions)	n/a	99.2	80.3	79.4	79.4	47.4

THE COMPANY

BC Gas Inc. is a holding company that owns 100% of BC Gas Utility Ltd. (a natural gas distributor), 100% of the recently acquired Centra BC (a natural gas distributor comprised of Centra Gas B.C. Inc. and Centra Gas Whistler Inc.), and 100% of Trans Mountain Pipe Line Company Ltd. (an oil pipeline that ships from Alberta into B.C. and the U.S. north west). BC Gas Inc. also has interests in a variety of small non-regulated businesses and owns 100% of Corridor Pipeline Ltd., which is currently constructing a pipeline in Northern Alberta to transport diluted bitumen. See separate reports for detailed analysis of BC Gas Utility Ltd., Trans Mountain Pipe Line Company Ltd., and Corridor Pipeline Ltd.

AUTHORIZED PAPER AMOUNT Limited to $200 million.

RATING PHILOSOPHY

The rating of BC Gas Inc. is based on the following considerations: (1) the strength of the non-consolidated balance sheet and cash flows; (2) the credit worthiness of the wholly owned operating subsidiaries: BC Gas Utility Ltd. (“A” / R-1 (low)), Trans Mountain Pipe Line Company Ltd. (A (low) / R-1 (low)), Corridor Pipeline Ltd. (pipeline still under construction – currently guaranteed by BC Gas Inc.), and Centra BC (not rated separately); and (3) the benefits of business (pipeline-gas distribution), product (oil-gas), and geography (B.C.-Alberta and U.S. pacific northwest) diversification. For a more detailed analysis on the rated operating subsidiaries, see separate DBRS reports on BC Gas Utility, Trans Mountain Pipe Line and Corridor Pipeline.

RATING CONSIDERATIONS

Strengths: (1) The Company's earnings and cash flows are generated primarily from dividend payments from wholly owned regulated utility operations. Approximately 60% of non-consolidated income in 2001 came from BC Gas Utility, while the remainder came from TMPL, a profitable oil pipeline. The earnings contributions from regulated activities are expected to increase with the acquisition of Centra BC and the completion of the Corridor Pipeline project in late 2002, and will continue to dominate the Company’s earnings as its focus remains on regulated businesses.

(2) The completion of the Southern Crossing Pipeline Project (began full operations in November 2000 and added about $410 million to BC Gas Utility’s rate base), the acquisition of Centra BC, and the upcoming completion of the Corridor Pipeline project will all increase the Company’s earnings, cash flows, and earnings diversification.

(3) The Company’s non-consolidated balance sheet and key financial ratios remain relatively strong. Even with the significant capital expenditures/investments undertaken by the Company over the past two years, leverage has remained reasonable and the key financial ratios have remained strong.

Challenges: (1) The earnings and cash flows of the Company’s gas distribution operations (BC Gas Utility and the recently acquired Centra BC) are sensitive to long-term interest rates through approved ROEs. The low interest rate environment in recent years has resulted in lower approved ROEs, which has had a negative impact on earnings.

(2) TMPL faces a variety of business risks, increasing the volatility of its earnings and cash flows. (a) Crude oil producers in the western Canadian sedimentary basin (WCSB) have consistently received higher netbacks by shipping to PADD II/Chicago via the Enbridge system. Long-term supply/demand trends favour the growing importance of WCSB crude oil shipments into the PADD II market. The west coast market served by TMPL and the Express/Platte pipeline system through the U.S. Rocky Mountain region, into Chicago, are alternative routes for WSCB producers. This makes TMPL a swing pipeline for WCSB producers, used mainly when market conditions warrant. (b) The U.S. operation of TMPL (about 35% of TMPL’s EBIT comes from its U.S. operation) is exposed to market risks as they affect throughputs, given that tolls have been fixed for 15 years (without any complaints). (c) Under the new incentive toll settlement (for 2001-2005) covering the Canadian operation of TMPL, TMPL’s tolls are fixed for throughputs between 28,500 and 32,000 cubic metres/day (throughputs have averaged 35,000 cubic metres/day over the last five years) and will not be inflation-adjusted unless the Canadian inflation rate rises above 3.5%.

(3) Although a significant portion of the Corridor Pipeline project has already been completed (about $570 million of the total projected cost of $690 million), the Company (indirectly) bears the risk of any remaining potential cost over-runs in specified amounts for the project, excluding the impact of certain agreed-upon escalators. Furthermore, the Company guarantees the commercial paper issued by Corridor Pipeline Ltd. to finance the Corridor Pipeline project. Once it is completed, BC Gas is required to inject equity into the standalone operation.

(4) The proposed $800 million Bison Pipeline (oil pipeline) and $495 million Inland Pacific Connector (gas pipeline), expected to be undertaken over the next three years, could require significant capital from the Company, depending on how the projects are financed. Furthermore, they would face the risk of construction cost over-runs.

EARNINGS AND OUTLOOK

Earnings Section

Income Statement (Consolidated) ($ millions)	12 mos. ending March 2002	2001	2000	1999	1998	1997	1996
		For years ended December 31					
Net revenues	763.9	734.5	647.2	598.4	586.8	558.7	538.4
EBITDA	404.4	390.3	342.8	339.0	345.1	321.9	309.7
Depreciation and amortization	99.6	95.1	86.2	83.1	84.6	77.9	78.4
EBIT	304.8	295.2	256.6	255.9	260.5	244.0	231.3
Net interest costs	166.6	163.7	126.0	118.6	117.6	110.3	122.0
Pre-tax income	153.6	146.9	139.1	138.3	144.0	134.6	110.1
Net income (before extras. and pfd)	97.9	91.0	82.7	78.2	76.5	71.1	87.0
Net income (available to common)	91.4	84.6	108.8	81.2	71.2	50.8	105.6

Segmented Earnings (Consolidated) ($ millions)	%	2001	2000	1999	1998	1997	1996
		For years ended December 31					
Gas distribution	79%	231.9	194.8	190.8	189.4	178.9	163.0
Petroleum transportation	20%	60.3	49.8	48.0	51.5	48.4	51.1
Other/corporate	1%	3.1	11.9	17.1	19.6	16.7	17.2
EBIT	100%	295.2	256.6	255.9	260.5	244.0	231.3
Gas distribution	75%	67.8	58.7	51.7	51.8	45.1	59.6
Petroleum transportation	30%	27.3	22.3	19.5	22.9	20.4	20.5
Other/corporate	-5%	(4.1)	1.7	7.0	1.5	6.0	6.9
Net income (before extras.)	100%	91.0	82.7	78.2	76.2	71.5	87.0
Extraordinary/unusual items		-	30.0	7.0	-	(15.0)	23.9
Preferred dividends/capital sec. dist'n		6.4	3.9	4.0	5.3	5.3	5.3

Non-consolidated basis earnings table

Income Statement (Non-consolidated) ($ millions)	2001	2000	1999	1998	1997	1996
	For years ended December 31					
Dividend income	99.6	80.6	79.7	79.6	47.9	93.0
EBIT	96.0	77.9	77.6	76.8	44.4	91.3
Net interest costs	8.9	6.1	7.5	(2.9)	(2.7)	4.5
Pre-tax income (before prefs.)	74.3	80.7	65.5	79.7	37.8	137.6

Consolidated basis:

- Acquisition of Centra BC the primary driver of increase in net income for the 12 months ending March 31, 2002
- Net income (before extraordinary items) up in 2001 due to: (1) full-year earnings contribution from the Southern Crossing Pipeline (included in rate base of BC Gas Utility), (2) higher throughput volumes and incentives under TMPL's new incentive toll agreement, and (3) lower interest costs at TMPL
- Weak performance from non-regulated activities due to: (1) high financing costs of new capital investments; and, and (2) weaker economic conditions for water services business

Non-consolidated basis:

- EBIT and pre-tax income up, largely due to increased dividends from TMPL
- Increased EBIT offset somewhat by higher net interest expense due to $200 million MTN issue

Outlook:

- Earnings should generally grow alongside economic growth and the competitiveness of natural gas and oil

Gas Distribution:

- Earnings contribution from gas distribution will be influenced by: (1) economic growth (impact on customer additions and volume throughputs), and (2) new performance-based regulatory framework approved by the BCUC
- Gas distribution earnings should remain stable
- Weaker financial profile of Centra BC relative to BC Gas Utility should have little negative impact
- Centra BC's financial profile should improve beginning in 2003: rate structure changes and it begins recovering its deferred revenue deficiency deferral account

Petroleum transportation:

- Earnings contribution from petroleum transportation will get a boost in 2003 from Corridor Pipeline
- TMPL's earnings highly dependent on its ability to control costs due to new incentive toll agreement. (1) Fixed tolls do not escalate with inflation unless the CPI inflation rate is above 3.5%
- TMPL faces volume risk for U.S. operation, and for Canadian operation, but only within a defined throughput range

Non-regulated:

- Earnings profile of non-regulated portfolio should improve over longer term due to two new low-risk, non-regulated entities and sale of the wholesale water supply business

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS (Non-consolidated)

Financial Profile & Stress Test

Non-consolidated basis	For the year ending December 31			Stress Testing		
($ millions)	2001	2000	1999	Year 1	Year 2	Year 3
EBIT	96.0	77.9	77.6	94.6	94.6	94.6
Net income (after prefs.)	68.0	76.8	65.5	44.3	39.8	35.6
Non-cash adjustments	14.0	(2.1)	16.8	0.0	0.0	0.0
Operating cash flow	82.0	74.7	82.3	44.3	39.8	35.6
Common dividends pd. out	(55.8)	(52.6)	(49.9)	(26.6)	(23.9)	(21.4)
Free cash flow	26.2	22.1	32.4	17.7	15.9	14.2
Investments	(96.5)	(168.4)	30.7	(370.0)	(175.0)	0.0
Free cash flow before financing	(70.3)	(146.3)	63.1	(352.3)	(159.1)	14.2
Net debt financing	61.0	6.1	(23.0)	172.3	159.1	(14.2)
Net capital securities financing	0.0	122.3	0.0	0.0	0.0	0.0
Net equity financing	(0.8)	(0.1)	(10.8)	180.0	0.0	0.0
Net change in cash	(10.1)	(18.0)	29.3	0.0	0.0	0.0
Cash flow/total adj. debt (times) (1)	0.33	0.39	0.53	0.11	0.07	0.06
% adj. debt in capital structure (1)	24.0%	20.0%	19.8%	29.9%	36.6%	35.7%
Fixed-charges coverage (times)	4.89	5.90	10.21	4.54	3.32	2.66

(1) Subordinated debt (capital securities) given 80% equity treatment.
Assumptions: Year 1 EBIT falls 5% and stays flat thereafter. Year 1 also includes the acquisiton and financing of Centra BC. After Year 1, all free cash flow deficits after investments are projected to

Financial Profile:

- Free cash flow deficit remained in 2001 due to high investments in subsidiaries
- A $200 million MTN issue (the Company's only long-term debt outstanding) financed the deficit
- Leverage increased to 24% (DBRS-adjusted basis), and key coverage ratios deteriorated slightly due to debt issue
- Financial profile remains reasonable for a holding company structure

Outlook:

- Operating cash flow expected to grow over next two years due to increased dividend payments: acquisition of Centra BC and completion of Corridor Pipeline
- Free cash flow deficit after investments in 2002 due to acquisition of Centra BC
- Centra BC acquisition was financed 44% debt / 56% equity
- Interest coverage and cash flow ratios should improve modestly over next two years
- Free cash flow deficit expected to continue in 2003 due to: (1) required equity contribution to Corridor Pipeline (expected to be fully operational in early 2003 – equity contribution could occur in late 2002), and (2) potential investment in Bison Pipeline
- If Bison Pipeline goes ahead, free cash flow deficits could continue on a non-consolidated basis until 2005, depending on how the project is financed
- Any free cash flow deficits expected to be financed with debt and equity such that target consolidated capital structure of 70% debt / 30% equity is maintained
- If no further acquisitions/major investments undertaken, Company should generate free cash flow surpluses

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various adverse scenarios.
Assumptions: BC Gas Inc.'s EBITDA declines 5% in Year 1 and remains flat thereafter; investments/acquisitions are $370 million in Year 1 (Centra BC & Corridor Pipeline), $175 million in Year 2, and zero in Year 3; common dividend payout projected at 60% of net income; and free cash flow deficits debt financed.

- Under the above assumptions, free cash flow deficits will result due to the size of the projected investments
- Very little of the projected investments could be financed internally
- Under assumptions, leverage would rise sharply and key financial ratios would deteriorate significantly
- Highly likely that Company would issue new equity to maintain capital structure

LONG-TERM DEBT MATURITIES AND BANK LINES

Debt and Commitments ($ millions)	As at March 31		As at Dec. 31
(consolidated)	2002	**(non-consolidated)**	2001
Short-term notes	800	Short-term debt	24.0
Current portion of long-term debt	184	Contingent liabilities *	404.0
Long-term debt	1,742	Long-term debt	200.0
Total debt	2,727	Total	628.0

The Company's direct long-term debt currently consists of only a $200 million, six-year MTN. However, the Company guarantees the commercial paper issued by Corridor Pipeline, which stood at $570 million at June 30, 2002.

The Company has a 364-day $200 million operating line of credit that can be converted into a three-year term facility. The bank lines support its $200 million commercial paper program.

CAPITAL PROJECTS

Corridor Pipeline: The $690 million, 493 km Corridor Pipeline Project is owned by Corridor Pipeline Limited, a wholly owned subsidiary of BC Gas Inc. The pipeline will be operated by another wholly owned subsidiary of BC Gas Inc., Trans Mountain Pipe Line Company Ltd. TMPLC has many years of experience operating a liquids pipeline from Alberta to northeast B.C. and Washington State. The Corridor pipeline system will link two facilities that are part of the $5.7 billion Athabasca Oil Sands Project, jointly owned by Shell Canada Limited (60%), Chevron Canada Resources Limited (20%), and Western Oil Sands Inc (20%). Corridor will transport diluted bitumen from the Muskeg River Mine in Fort McMurray, Alberta (currently under construction), to an upgrader that is being built adjacent to Shell Canada's Scotford refinery in Fort Saskatchewan, Alberta. Corridor will also connect the upgrader to refineries and pipeline terminals in the Edmonton area (including TMPL), as well as provide storage facilities. Operation of the Corridor pipeline will be backed by a long-term ship-or-pay contract with Shell Canada-Chevron Canada-Western Oil Sands. The project is being financed entirely with commercial paper issued by Corridor Pipeline Limited (100% guaranteed by BC Gas Inc.).

As at June 30, 2002, about $570 million had been spent on the project. The project remains on schedule and within budget, with initial start-up of the pipeline system scheduled for mid-2002, and revenues under the firm service agreement with the shippers expected to start in early 2003 (see separate DBRS report on Corridor Pipeline Limited for further details on the project).

Bison Pipeline: The Bison Pipeline is a proposed $800 million, 516 km pipeline to transport bitumen from the Athabasca oil sands to the Edmonton area. The Bison Pipeline project is owned by Bison Pipeline Limited, a wholly owned subsidiary of BC Gas Inc. Bison Pipeline is currently involved in joint engineering and technical studies with potential shippers. It is planning to file an application with the Alberta Energy Utilities Board in the summer of 2002.

Inland Pacific Connector: The Inland Pacific Connector is a proposed $495 million, 246 km gas pipeline that would extend the Southern Crossing Pipeline (owned by BC Gas Utility) to the market hub at Sumas. The Company is currently firming up expressed shipper interest.

BC Gas Inc.

Balance Sheet (Consolidated)
($ millions)

Assets	March 2002	2001	2000	**Liabilities & Equity**	March 2002	2001	2000
		As at December 31				As at December 31	
Cash	0	2	22	Short-term debt	800	709	515
Accounts receivable	296	271	460	A/P + accrueds	311	329	635
Inventories	55	117	97	L.t.d. due in 1 year	184	224	73
Prepaids + other	72	114	52	Current liabilities	1,296	1,262	1,222
Current assets	422	504	631	Long-term debt	1,742	1,524	1,434
Net fixed assets	3,577	3,080	2,728	Def'd income taxes	52	57	47
Long-term rec + investments	63	20	11	Other long-term liab.	93	23	0
Goodwill + def'd charges	198	102	143	Capital securities	125	125	125
Total	4,260	3,706	3,513	Shareholders' equity	952	715	685
				Total	4,260	3,706	3,513

Ratio Analysis	12 mos. ending	For years ending December 31						
Liquidity Ratios	March 2002	2001	2000	1999	1998	1997	1996	1995
Current ratio	0.33	0.40	0.52	0.38	0.26	0.27	0.47	0.35
Accumulated depr./gross fixed assets	-	20%	20%	23%	22%	21%	19%	18%
Cash flow/total debt	0.07	0.08	0.09	0.11	0.09	0.09	0.10	0.08
Cash flow/adj. total debt (1)	0.07	0.08	0.08	0.11	0.09	0.09	0.10	0.08
Cash flow/capital expenditures	2.69	0.40	0.28	1.07	1.21	1.11	1.17	0.72
Cash flow/capex (BC Gas Utility)	-	0.98	0.25	0.85	0.99	0.90	0.98	0.64
Cash flow/capex (Trans Mountain)	-	3.16	2.81	1.68	1.68	1.68	1.68	1.68
Cash flow-dividends/capex	0.30	0.30	0.20	0.79	0.89	0.81	0.88	0.49
% debt in capital structure	71.7%	74.5%	71.4%	71.9%	73.7%	72.4%	70.3%	73.2%
% adj. debt in capital structure (1)	72.3%	75.3%	72.3%	71.9%	73.7%	72.4%	70.3%	73.2%
Common dividend payout (before extras.) (2)	55.4%	58.9%	59.5%	60.1%	59.0%	59.4%	46.0%	77.5%
Coverage Ratios								
EBITDA interest coverage	2.43	2.38	2.72	2.86	2.93	2.92	2.54	2.21
EBIT interest coverage	1.83	1.80	2.04	2.16	2.22	2.21	1.90	1.62
Fixed-charges coverage	1.76	1.69	1.93	1.90	1.92	1.90	1.65	1.45
EBIT interest coverage (non-consolidated)	n/a	10.77	12.56	10.21	16.00	12.78	10.14	5.01
Fixed-charges coverage (non-consolidated)	n/a	4.89	5.90	10.21	16.00	12.78	10.14	5.01
Profitability Ratios								
EBIT margin	21.8%	20.8%	23.6%	30.3%	35.1%	32.8%	32.8%	28.1%
EBIT margin, excludes cost of natural gas	39.9%	40.2%	39.6%	42.8%	44.4%	43.7%	43.0%	40.8%
Net margin (before extraordinary items)	12.8%	12.4%	12.8%	13.1%	13.0%	12.7%	16.2%	10.7%
Return on common equity	11.0%	12.1%	12.0%	12.2%	12.1%	10.8%	13.6%	16.7%
Operating Efficiency and Statistics								
Throughputs – Gas distribution (bcf)	n/a	164.7	180.3	179.4	169.2	175.0	182.5	170.2
- Oil pipeline (000s bbl/day)	n/a	209.3	204.6	207.5	252.6	229.7	249.6	223.6
- U.S. deliveries (incl. in oil pipeline) (thousands bbl/day)	n/a	73.4	65.2	61.9	101.4	94.4	102.5	83.6
- Jet fuel (000s bbl/day)	n/a	19.3	19.8	20.1	20.5	20.6	21.1	17.9
Approved ROE – Gas utility		9.25%	9.50%	9.25%	10.00%	10.25%	11.00%	12.00%
- Oil pipeline (Cdn. Mainline)		#	#	#	#	#	#	12.25%

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

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

#: negotiated settlement

BC Gas Inc.

Non-consolidated Balance Sheet

($ millions)	As at December 31				As at December 31		
Assets	2001	2000	1999	**Liabilities & Equity**	2001	2000	1999
BC Gas Utility investment (at cost)	643.0	599.6	581.4	Current liabilities	7.3	5.4	2.3
TMPL investment (at cost)	178.9	167.5	163.6	Short-term debt	24.0	166.5	156.0
Other investments (at cost)	192.7	178.3	29.1	Long-term debt	200.0	-	-
Other assets	31.8	17.1	17.5	Preferred securities	125.0	125.0	-
Total	1,046.4	962.5	791.6	Common equity	690.5	665.6	633.3
				Total	1,046.8	962.5	791.6

Non-consolidated income

($ millions)	For years ended December 31							
	2001	2000	1999	1998	1997	1996	1995	1994
Dividends from BC Gas Utility	60.0	56.1	64.3	42.3	41.6	41.6	41.1	37.4
Net dividends from TMPL*	39.2	24.2	15.1	37.1	5.8	50.9	9.2	6.5
Other dividend income	0.4	0.3	0.3	0.2	0.5	0.5	0.5	0.7
Total dividend income	99.6	80.6	79.7	79.6	47.9	93.0	50.7	44.6
Operating expenses	3.6	2.7	2.1	2.8	3.5	1.7	1.3	0.7
EBIT	96.0	77.9	77.6	76.8	44.4	91.3	49.4	43.9
Interest expense	8.9	6.2	7.6	4.8	3.5	9.0	9.9	3.2
Interest income	0.0	0.1	0.1	7.7	6.2	4.5	2.62	
Other income	(18.1)	6.9	(12.5)	0.0	(13.0)	51.8	n/a	
Income before taxes	69.0	78.7	57.6	79.7	34.1	138.6	42.2	40.8
Income taxes	(5.4)	(2.0)	(7.9)	-	(3.7)	1.0	n/a	-
Net income	74.3	80.7	65.5	79.7	37.8	137.6	42.2	40.8
Preferred secur. distn	6.4	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Net income (avail. to common)	68.0	76.8	65.5	79.7	37.8	137.6	42.2	40.8

*Gross dividends from TMPL for 1998 and 1996 were $62.1 and $62.7 million, respectively. Net dividends are net of BC Gas investment.

Terasen Gas Inc.

(formerly BC Gas Utility Ltd.)

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

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RATING

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

RATING HISTORY

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

RATING UPDATE

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

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

RATING CONSIDERATIONS

Strengths:

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

Challenges:

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

FINANCIAL INFORMATION

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

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

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

THE COMPANY

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

AUTHORIZED PAPER AMOUNT Limited to Cdn$500 million

Regulation

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

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

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

Rating Considerations

Strengths: (1) The regulatory environment within which the Company operates provides a high degree of financial stability. Since 1996, the regulatory environment has consisted of formula-based ROEs and incentive-based regulation, which minimize regulatory lag, streamline the regulatory process, and encourage utilities to improve operating efficiencies. The framework within which Terasen Gas operates allows for the recovery (and/or remittance to customers) of variances from forecasts in prudently incurred gas costs. In addition, the Company is allowed to utilize several deferral accounts that help smooth earnings and reduce business and operating risks: (a) variances from forecast in use per customer for residential and commercial customers; and (b) interest rate fluctuations, both of which are amortized and recovered in future rates. However, these deferral accounts do not impact cash flows and can artificially inflate interest coverage ratios over the short term (i.e. during periods of warmer-than-normal temperatures), but the impact is reversed as deferral balances are recovered.

(2) The Southern Crossing Pipeline project, which became operational in November 2000, provides the Company with access to lower-cost alternative sources of gas supply from Alberta. This is especially favourable during periods of high natural gas prices.

(3) The Company has a diversified customer base and has limited exposure to a single customer, which reduces earnings volatility. Residential customers account for about 40% of volume throughputs, commercial customers just over 20% and industrial customers about 40% of throughputs.

Challenges: (1) The Company has consistently generated insufficient operating cash flows to internally fund its capital expenditures and dividend payments. While this has not yet resulted in a deterioration in the Company's credit quality, largely due to periodic equity injections by its parent, growing debt levels combined with further declines in approved ROEs if interest rates continue to fall, could result in a weaker financial profile.

(2) The Company's earnings and cash flows are sensitive to the economic cycle, and to interest rates through approved ROEs. Industrial customers, who account for about 40% of gas volumes or 13% of margins, are sensitive to the economic cycle. In terms of interest rates, a 25 basis point change in approved ROEs would impact net earnings by about $1.9 million. While the approved ROE was set at 9.42% for 2003, slightly above the average over the 1999-2001 period (approved ROE not set for 2002 due to the Company's withdrawal of its 2002 rate application), the sensitivity to interest rates remains a challenge over the longer term, especially in periods of low and falling interest rates as we have seen over the past four years.

(3) In times of high natural gas prices, the Company faces not only reduced gas throughputs on the industrial side, but also competitive pressures from those customers having dual fuel switching capabilities. In addition, the Company faces ongoing competitive pressures on the residential side,

primarily multi-residential, from the low electricity rates in British Columbia due to the dominance of hydro-based generation.

(4) The Company faces forecast risk related to customer additions. Earnings are negatively impacted if actual customer additions are significantly below the Company's forecast.

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

EARNINGS AND OUTLOOK

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

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

Summary:

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

Outlook:

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

Financial Profile and Sensitivity Analysis

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

Summary:

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

Outlook:

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

Sensitivity Analysis:

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

Key Assumptions:

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

Under This Scenario:

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

LONG-TERM DEBT MATURITIES AND BANK LINES

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

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

Summary:

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

Outlook:

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

Terasen Gas Inc.

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

Terasen Gas Inc.

Balance Sheet

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

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

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

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

(3) Operating costs excludes municipal + property taxes.

Terasen Inc.

(formerly BC Gas Inc.)

Report Date: August 19, 2003
Press Released: August 18, 2003
Previous Report: July 9, 2002

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RATING

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

y: denotes hybrid security

RATING HISTORY

	Current	2002	2001	2000	1999	1998	1997
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Medium Term Note Debentures	A (low)	A (low)	A (low)	NR	NR	NR	NR
Unsecured Subordinated Debentures	BBB (high)y	BBB (high)y	BBB (high)y	BBB (high)y	NR	NR	NR

RATING UPDATE

The ratings for Terasen Inc. ("Terasen" or the "Company") are being confirmed as listed above. On a consolidated basis, Terasen's financial profile improved in 2002 and during the first half of 2003 due to: (1) the two equity issues in 2002 that strengthened the balance sheet; and (2) the acquisition of Terasen Gas (Vancouver Island) Inc. (previously Centra Gas BC) in early 2002 and improved results at Terasen Pipelines (Trans Mountain) ("TPTM"), which improved cash flow and coverage ratios. On a non-consolidated basis, Terasen's key cash flow and coverage ratios deteriorated in 2002 due to lower dividend income from subsidiaries and higher interest expense. Its financial profile, however, remains reasonable for an A (low)-rated holding company of primarily regulated businesses. The medium-term outlook for Terasen remains stable, largely due to increased earnings and cash flow diversification from the Company's acquisitions and continued investments in primarily regulated businesses. In early 2003, Terasen acquired a one-third interest in the Express Pipeline System ("Express"), which was immediately accretive to earnings, but might not pay dividends and contribute to cash flows for about five years for tax reasons. However, the completion of the Corridor Pipeline in May 2003 should begin providing substantial earnings and cash flows in 2004. Over the near term, little improvement is expected in key financial ratios due to higher debt levels (up about $255 million during the first half of 2003 on a non-consolidated basis) and the lack of dividend payments from Terasen Pipelines (Corridor) Inc. ("Corridor") in 2003. However, once Corridor starts paying dividends in 2004, the higher operating cash flows combined with reduced projected capital investments should result in a modest improvement in key cash flow and coverage ratios. One of the key risks to Terasen's financial profile over the medium term remains a continued low interest rate environment, which would continue to negatively impact earnings and cash flows through the approved ROE. The new performance-based regulation frameworks for both gas distribution subsidiaries offer the potential to offset the negative impact of continued low interest rates.

RATING CONSIDERATIONS

Strengths:

- Relatively stable dividend income from regulated subsidiaries
- Increasing diversification from acquisitions and completion of Corridor Pipeline
- Non-consolidated balance sheet and key financial ratios remain reasonable

Challenges:

- Gas distribution operations sensitive to interest rates
- Business risks faced by TPTM related to competitive pressures and the incentive toll settlement
- Potentially heavy financing needs over medium term

FINANCIAL INFORMATION

	12 mos. ended	For the year ended December 31				
Consolidated Basis	June 2003	2002	2001	2000	1999	1998
Fixed-charges coverage (times)	1.87	1.79	1.69	1.93	1.90	1.92
Cash flow/total adj. debt (1)	9.0%	8.8%	7.6%	8.4%	10.9%	9.4%
% adj. debt in capital structure (1)	67.3%	66.8%	75.3%	72.3%	71.9%	73.7%
Net income before extra. items/prefs. ($ millions) (2)	129	117	91	83	78	77
Operating cash flow ($ millions) (2)	258	237	189	173	174	156
Gas distribution throughputs (bcf) (3)	180.5	187.3	164.7	180.3	179.4	169.2
Oil pipeline throughputs (thousands bbl/day) (4)	216.2	201.2	209.3	204.6	207.5	252.6
Non-Consolidated Basis						
Fixed-charges coverage (times)	n/a	3.36	4.97	5.90	10.21	16.00
Cash flow/total adj. debt (times) (1)	n/a	29.3%	33.6%	39.0%	52.8%	40.6%
% adj. debt in capital structure (1)	n/a	17.9%	24.0%	20.0%	19.8%	23.7%
Dividend income from subs. ($ millions)	n/a	92.7	101.2	80.6	79.7	79.6

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

THE COMPANY Terasen Inc. (formerly BC Gas Inc.) is a holding company that owns 100% of Terasen Gas Inc. and 100% of Terasen Gas (Vancouver Island) Inc. (both natural gas distributors), 100% of Terasen Pipelines (Trans Mountain) Inc. (an oil pipeline that ships from Alberta into B.C. and the U.S. north-west), and 100% of Terasen Pipelines (Corridor) Inc. (a recently completed pipeline in northern Alberta to transport diluted bitumen). Terasen also owns or has interests in a variety of small non-regulated businesses, as well as having a one-third interest in Express/Platte Pipeline System (acquired in January 2003). See separate reports for detailed analysis of these companies.

AUTHORIZED PAPER AMOUNT Limited Cdn$200 million

Rating Philosophy

The rating of Terasen is based on the following considerations:

(1) the strength of the non-consolidated balance sheet and cash flows;
(2) the credit worthiness of the following wholly owned operating subsidiaries;
    (a) Terasen Gas Inc. [A / R-1 (low)],
    (b) Terasen Pipelines (Trans Mountain) Inc. [A (low)/ R-1 (low)],
    (c) Terasen Pipelines (Corridor) Inc. [R-1 (low)], and
    (d) Terasen Gas (Vancouver Island) Inc. [not rated separately];
(3) the credit worthiness and characteristics of its other investments; and
(4) the benefits of business (pipeline gas distribution), product (oil and gas), and geographic diversification (B.C.-Alberta, and the western U.S.).

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

Rating Considerations

Strengths: (1) The Company's earnings and cash flows are generated primarily from dividend payments from wholly owned regulated utility operations, whose earnings tend to be relatively stable. The majority of Terasen’s income continues to come from the gas distribution businesses, with just under 90% of its dividend income in 2002 coming from Terasen Gas Inc., both directly and indirectly (through a subsidiary that owns only shares in Terasen Gas Inc.), and from Terasen Gas (Vancouver Island). TPTM, a profitable oil pipeline, has also been an important contributor to dividend income in the past. It is expected that the stability of Terasen’s dividend income will increase further once Corridor begins making dividend payments in 2004. Given Terasen’s focus on regulated businesses, its earnings and cash flows are expected to remain relatively stable over the longer term.

(2) The acquisition of Terasen Gas (Vancouver Island) Inc. (previously Centra Gas (BC) and Centra Gas (Whistler)) in 2002, the acquisition of the one-third interest in the Express system in January 2003 and the start of commercial operations of the Corridor pipeline in May 2003 has improved the Company’s earnings diversification, providing increased stability to its income and cash flows.

(3) Despite the recent deterioration, Terasen’s key financial ratios remain reasonable for the current rating. The Company’s non-consolidated balance sheet and key financial ratios have deteriorated somewhat over the past two years as a result of the acquisitions and large capital investments, combined with the delay in receiving dividend payments from these investments.

Challenges: (1) The earnings and cash flows of the Company’s gas distribution operations are sensitive to long-term interest rates through approved ROEs. The low interest rate environment over the past five years has resulted in lower approved ROEs, which has had a negative impact on earnings and on key cash flow and coverage ratios, especially in 2000 and 2001.

(2) TPTM faces a variety of business risks, which increase the volatility of its earnings and cash flows. (a) Crude oil producers in the western Canadian sedimentary basin (“WCSB”) have consistently received higher netbacks by shipping to PADD II/Chicago via Enbridge Pipelines Inc.’s system. Long-term supply/demand trends favour the growing importance of WCSB crude oil shipments into the PADD II market. The West Coast market served by TPTM and the Express/Platte pipeline system through the U.S. Rocky Mountain region, into Chicago, are alternative routes for WSCB producers. This makes TPTM a swing pipeline for WCSB producers, used mainly when market conditions warrant. (b) The U.S. operation of TPTM (about one quarter of TPTM’s EBIT comes from its U.S. operation) is exposed to market risks as they affect throughputs, given that tolls have been set indefinitely, without any complaints. (c) Under the incentive toll settlement (for 2001-2005) covering the Canadian operation of TPTM, TPTM’s tolls are fixed for throughputs between 28,500 and 32,000 cubic metres/day (throughputs have averaged about 32,500 cubic metres/day since 1999) and will not be inflation-adjusted unless the Canadian inflation rate rises above 3.5%.

(3) The proposed $800 million Bison Pipeline (oil pipeline) and $495 million Inland Pacific Connector (gas pipeline), expected to be undertaken over the next three years, could require significant capital from the Company, depending on how the projects are financed. Furthermore, they would face the risk of construction cost overruns.

EARNINGS AND OUTLOOK

Income Statement (Consolidated) ($ millions)	12 mos. ended June 2003	For the year ended December 31 2002	2001	2000	1999	1998
Net revenues	935.2	900.0	734.5	647.2	598.4	586.8
EBITDA	478.2	457.0	390.3	342.8	339.0	345.1
Depreciation and amortization	120.7	115.6	95.1	86.2	83.1	84.6
EBIT	357.5	341.4	295.2	256.6	255.9	260.5
Gross interest expense	180.5	179.7	163.7	126.0	118.6	117.6
Net interest expense	161.5	160.8	148.3	117.5	117.6	116.5
Pre-tax income	196.0	180.6	146.9	139.1	138.3	144.0
Net income (before extras. and pfd.)	129.4	116.6	91.0	82.7	78.2	76.5
Net income (available to common)	118.5	105.8	84.6	108.8	81.2	71.2
Return on average common equity (bef. extras.)	9.7%	11.2%	12.1%	12.0%	12.2%	12.1%

Segmented Earnings (Consolidated) ($ millions)	%	For the year ended December 31 2002	2001	2000	1999	1998
Gas distribution	81%	276.7	231.9	194.8	190.8	189.4
Petroleum transportation	17%	56.4	60.3	49.8	48.0	51.5
Other/corporate	2%	8.3	3.1	11.9	17.1	19.6
EBIT	100%	341.4	295.2	256.6	255.9	260.5
Gas distribution	82%	92.4	67.8	58.7	51.7	51.8
Petroleum transportation	26%	29.3	27.3	22.3	19.5	22.9
Other/corporate	-8%	(9.2)	(4.1)	1.7	7.0	1.8
Net income (before extras.)	100%	112.5	91.0	82.7	78.2	76.5
Extraordinary/unusual items		(4.1)	-	30.0	7.0	-
Preferred dividends/capital sec. dist'n		6.7	6.4	3.9	4.0	5.3
Net income (available to common)		101.7	84.6	108.8	81.2	71.2

Income Statement (Non-consolidated) ($ millions)	For the year ended December 31 2002	2001	2000	1999	1998
Dividend income	92.7	101.2	80.6	79.7	79.6
EBIT	88.7	97.6	77.9	77.6	76.8
Gross interest expense	15.6	8.9	6.2	7.6	4.8
Net interest expense	13.6	8.8	6.1	7.5	(2.9)
Pre-tax income (before non-recurring/prefs.)	87.6	95.3	80.7	65.5	79.7
Net income (available to common)	76.0	69.6	76.8	65.5	79.7

Summary:

Consolidated basis:

- Both EBIT and net income are up for the 12 months ended June 30, 2003, relative to 2002.
  - Primarily due to higher throughput volumes at TPTM.
  - Acquisition of one-third interest in Express system in January 2003, as well as the start of commercial operation of Corridor pipeline in May 2003 also contributed to stronger results.
  - Gas distribution operations were essentially flat.
- In 2002, increase in EBIT and net income came from acquisition of Terasen Gas (Vancouver Island).
  - Non-regulated businesses recorded improved results, but was offset by a $4.1 million after-tax write-down on an investment.

Non-consolidated basis:

- EBIT was down in 2002 due to sharply lower dividend payments from TPTM ($9.2 million compared to $39.2 million in 2001).
- Interest expense was up significantly due to the full-year interest expense impact of $200 million debt issue in late 2001 and accrued interest on deferred payment associated with the acquisition of Terasen Gas (Vancouver Island).

Outlook:

Consolidated basis:

- EBIT and net income should improve during the remainder of 2003 and in 2004 from:
  - Full-year earnings contribution from Corridor pipeline;
  - Full-year impact of the higher rates at Terasen Gas (Vancouver Island) due to the higher ROE and the start of the recovery of its deferred revenue deficiency deferral account; and
  - Projected earnings growth from the Express system.
- Beyond 2004, EBIT and earnings are expected to remain relatively stable with incremental earnings growth coming from:
  - Improving results from the non-regulated businesses; and
  - Customer additions at the gas distribution businesses.

- Risks over the medium term include:
  - A continued low interest environment, which would continue to negatively impact the ROEs and earnings of the gas distribution businesses;
  - Ability of TPTM to control its costs as fixed tolls do not escalate with inflation unless the CPI inflation rate is above 3.5%; and
  - Throughput volume risk for TPTM's U.S. operation, and for its Canadian operation but only within a defined throughput range.

Non-consolidated basis:

- Assuming stable dividend payments from Terasen's subsidiaries, recurring net income is expected to be somewhat weaker in 2003:
  - Interest expense will be higher due to the debt issue in May 2003, which partly funded the equity capital injection into Corridor pipeline.
  - No dividends are expected from Corridor pipeline in 2003.
- Corridor is expected to start paying dividends in 2004, which will provide a boost to dividend income.
- No dividend payments are expected from the Express investment over the medium term.
- Given that the majority of Terasen's dividend income comes from regulated businesses, which have relatively stable income profiles, it is expected that Terasen's net income will remain stable over the medium to longer term.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

Consolidated basis	12 mos. ended	For the year ended Dec. 31		**Sensitivity Analysis**		
($ millions)	June 2003	2002	2001	Year 1	Year 2	Year 3
EBITDA	478.2	457.0	390.3	454.3	454.3	454.3
Net income (bef. extras, after prefs.)	122.6	109.9	84.6	73.3	69.4	65.5
Depreciation & amortization	120.7	115.6	95.1	118.6	121.1	123.5
Non-cash adjustments	15.0	11.8	8.8	0.0	0.0	0.0
Operating Cash Flow	258.3	237.3	188.5	191.9	190.4	189.0
Capital expenditures	(295.1)	(395.7)	(469.8)	(200.0)	(200.0)	(200.0)
Common dividends	(70.2)	(59.8)	(49.8)	(44.0)	(41.6)	(39.3)
Gross Free Cash Flow	(107.0)	(218.2)	(331.1)	(52.1)	(51.2)	(50.3)
Changes in working capital & rate stabilization acct.	(58.6)	74.1	(135.1)	0.0	0.0	0.0
Free Cash Flow	(165.6)	(144.1)	(466.2)	(52.1)	(51.2)	(50.3)
Net investments	(211.2)	(315.2)	14.9	0.0	0.0	0.0
Net debt financing	34.3	(11.9)	435.2	52.1	51.2	50.3
Net capital securities financing	0.0	0.0	0.0	0.0	0.0	0.0
Net equity financing/other	296.7	474.2	(4.2)	0.0	0.0	0.0
Net change in cash	(45.8)	3.0	(20.3)	0.0	0.0	(0.0)
Cash flow/total adj. debt (times) (1)	9.02%	8.80%	7.60%	6.58%	6.42%	6.27%
% adj. debt in capital structure (1)	67.3%	66.8%	75.3%	67.3%	67.2%	67.2%
Fixed-charges coverage (times)	1.87	1.79	1.69	1.52	1.49	1.45

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

Summary:

- Terasen's financial profile has improved noticeably since 2001, with key cash flow and coverage ratios for the twelve months ended June 30, 2003, back to historical averages and those consistent with the current rating.
- Key drivers of the improvement include:
  - Increases in operating cash flows and declines in capital expenditures, resulting in reduced gross free cash flow deficits; and
  - Two equity issues in 2002, which funded a significant portion of the free cash flow deficits and acquisitions in 2002 and 2003.
- As a result of the equity issuance, the Company's capital structure improved from 75% adjusted debt/capital to 67% adjusted debt/capital.

Outlook:

- Terasen's operating cash flows should increase during the rest of 2003 and in 2004 due to the start of Corridor pipeline's commercial operations in May 2003.
  - The Express System is not expected to pay dividends over the medium term and, therefore, will not provide an additional boost to Terasen's cash flows.
- Higher operating cash flows combined with projected lower capital expenditures (under $200 million annually), will result in a much lower free cash flow deficit.
  - Only minimal external financing is expected to be required.
  - Significant external financing may be required if Bison Pipeline and/or Inland Pacific Connector go ahead, depending on how the projects are financed.
- Terasen's financial profile should remain relatively stable over the medium term, with key cash flow and coverage ratios remaining in line with current levels.
  - The primary risk to these ratios is a continued low interest environment, which would continue to negatively impact the ROEs, earnings, and cash flows of the gas distribution businesses.

Non-consolidated basis	For the year ended December 31			**Senstivity Analysis**		
($ millions)	2002	2001	2000	2003	Year 2	Year 3
EBIT	88.7	97.6	77.9	84.0	84.0	84.0
Net income (bef. extras, after prefs.)	80.9	89.0	76.8	69.8	56.4	55.3
Non-cash adjustments	0.3	(5.4)	(2.1)	0.0	0.0	0.0
Operating Cash Flow	81.2	83.6	74.7	69.8	56.4	55.3
Common dividends pd. out	(66.3)	(55.8)	(52.6)	(55.8)	(45.1)	(44.3)
Gross Free Cash Flow	14.9	27.8	22.1	14.0	11.3	11.1
Change in working capital	10.5	1.2	0.0	0.0	0.0	0.0
Free Cash Flow	25.4	29.0	22.1	14.0	11.3	11.1
Investments	(498.7)	(84.5)	(168.4)	(400.0)	(30.0)	(30.0)
Free Cash Flow Before Financing	(473.3)	(55.5)	(146.3)	(386.0)	(18.7)	(18.9)
Net debt financing	(4.0)	61.0	6.1	386.0	18.7	18.9
Net capital securities financing	0.0	0.0	122.3	0.0	0.0	0.0
Net equity financing	475.0	(0.8)	(0.1)	0.0	0.0	0.0
Net change in cash	(2.3)	4.7	(18.0)	0.0	0.0	0.0
Cash flow/total adj. debt (times) (1)	29.3%	33.6%	39.0%	11.0%	8.6%	8.2%
% adj. debt in capital structure (1)	17.9%	24.0%	20.0%	33.1%	33.6%	34.0%
Fixed-charges coverage (times)	3.43	4.97	5.91	2.85	1.97	1.93

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

Summary:

- Terasen's financial profile weakened further in 2002, but remains acceptable for an A (low)-rated holding company of primarily regulated businesses.
- The Company's two equity issues in 2002 were sufficient to fully finance its acquisition of Terasen Gas (Vancouver Island), as well as its investments in existing subsidiaries.
  – Equity issuance reduced per cent debt in the capital structure to 18% at the end of 2002 from 24% the previous year.
- Reduced dividend income and higher interest expense, however, resulted in a noticeable deterioration in fixed-charges coverage and a reduction in cash flow/debt in 2002.

Outlook:

- Assuming no change in dividend payments from subsidiaries, operating cash flow expected to be down somewhat in 2003 due to higher interest payments and lack of dividend payment from Corridor.
  – Higher interest payments due to issuance of a $100 million Medium-Term Note in May 2003, and higher short-term debt.
  – Debt issuance partly funded the equity capital injection into Corridor pipeline.
  – Corridor expected to begin making dividend payments in 2004.
- Per cent debt in capital structure will be higher in 2003 (closer to 25%), while key cash flow and interest coverage ratios expected to deteriorate slightly.
- In 2004, operating cash flows should increase and subsequently, grow alongside growth in net income of subsidiaries over the medium term.
  – Do not expect dividend income from Express system over the medium term.
  – Cash flows are expected to remain more than sufficient to cover dividend payments and annual investments of about $30 million.
  – Key cash flow and interest coverage ratios expected to remain acceptable for the current rating.
- External financing expected to be required only if significant projects are undertaken (i.e., Bison Pipeline and/or Inland Pacific Connector) or for additional acquisitions.

Sensitivity Analysis:

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

Key Assumptions:

- EBIT declines 5% in 2003, and remains flat thereafter. No dividend payments from Corridor or the Express system are projected during this period.
- Dividend payments projected at 80% of net income. Investments in 2003 include interest in the Express system, equity injection into Corridor, and a modest amount of other investments in subsidiaries. Investments beyond 2003 projected at $30 million per year.
- Free cash flow deficits are 100% debt financed.

Outcomes, under this scenario:

- Per cent debt in the capital structure would increase, but not dramatically.
- Key cash flow and coverage ratios would deteriorate significantly, and would no longer be acceptable for an A (low)-rated holding company structure.
- DBRS would expect the Company to either significantly reduce its dividends or access the equity market in order to maintain the rating.

LONG-TERM DEBT MATURITIES AND BANK LINES

Debt and Commitments	As at June 30		As at Dec. 31
($ millions) **(Consolidated)**	2003	**(Non-Consolidated)**	2002
Short-term notes	999	Short-term debt	22
Current portion of long-term debt	109	Contingent liabilities (1)	487
Long-term debt	1,730	Long-term debt (adj.) (2)	255
Total debt	2,838	Total	764

(1) Terasen Inc. guarantees the commercial paper issued by Terasen Pipelines (Corridor) for the Corridor Project.

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

Summary:

- As at June 30, 2003, the Company's direct long-term debt consisted of:
  - A $100 million Medium-Term Notes maturing May 8, 2006; and
  - A $200 million Medium-Term Notes maturing December 1, 2008.
- In addition, it also had $155 million outstanding under its commercial paper program.
- It continues to guarantee the commercial paper issued by Terasen Pipelines (Corridor) Inc., which stood at $511 million at June 30, 2003.
  - However, it is the Company's intention to remove the guarantee on the commercial paper in the near future.
- As at June 30, 2003, Terasen's per cent adjusted debt in the capital structure (non-consolidated) was about 28% excluding the Corridor guarantee.
- The Company currently has a 364-day $200 million operating line of credit, which can be converted into a three-year term facility. The bank lines support its $200 million commercial paper program.
- For detailed information on long-term debt maturities and bank lines of operating subsidiaries, please see separate DBRS reports.

Outlook:

- Terasen is currently renegotiating its credit facility.
- Terasen's per cent debt in the capital structure on a non-consolidated basis is expected to stay in the 20%-25% range, assuming no further acquisitions.
  - On a consolidated basis, it is expected to remain close to the Company's target of 67% debt.

DESCRIPTION OF OPERATIONS

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

- Terasen Gas Inc. is the largest natural gas distributor in British Columbia, serving approximately 90% of the province's natural gas users.
  - It is regulated by the British Columbia Utilities Commission ("BCUC") and operates under a performance-based settlement.
  - A new settlement was reached with stakeholders and approved in July 2003 by the BCUC for the period 2004-2007.
  - Terasen Gas Inc. is wholly owned by Terasen Inc.
- Terasen Gas (Vancouver Island) Inc. is a natural gas distribution utility serving Vancouver Island and the Sunshine Coast of British Columbia.
  - It is regulated by the BCUC. A new settlement was negotiated with stakeholders in 2002 and was approved in January 2003 by the BCUC. The new settlement is for three years and was effective January 1, 2003.

  - Terasen Gas (Vancouver Island) Inc. is wholly owned by Terasen Inc.
- TPTM operates an oil pipeline system (1,260 kilometres with a capacity of 281,000 barrels/day) transporting crude oil and refined products from Alberta and north-eastern British Columbia to the West Coast, servicing refineries in Vancouver and Washington state.
  - It also owns and operates Westridge Marine Terminal in Vancouver harbour, where crude oil is loaded aboard ocean-going vessels and aviation fuel is landed and stored.
  - It has another pipeline (41 kilometres) that transport aviation fuel from the Westridge Marine Terminal and refineries and distribution terminals in the Burnaby area to the Vancouver International Airport.
  - It is regulated by three separate regulatory bodies: (1) Canadian portion of the crude oil and refined product pipeline system by the National Energy Board; (2) U.S. portion of the pipeline by Federal Energy Regulatory Commission on a complaint basis; and (3) Aviation turbine fuel pipeline by the BCUC.
  - TPTM is wholly owned by Terasen Inc. and has a 10.5% ownership in its parent.
- Corridor owns a 493-kilometre pipeline linking two facilities that are part of the $5.7 billion Athabasca Oil Sands Project, jointly owned by Shell Canada Limited (60%), Chevron Canada Resources Limited (20%), and Western Oil Sands Inc. (20%).
  - The pipeline began commercial operations in May 2003 and transports diluted bitumen from the Muskeg River Mine in Fort McMurray, Alberta, to an upgrader adjacent to Shell Canada's Scotford refinery in Fort Saskatchewan, Alberta.
  - Corridor also connects the upgrader to refineries and pipeline terminals in the Edmonton area (including the Trans Mountain Pipeline), as well as providing storage facilities.
  - Operation of the Corridor pipeline is backed by a long-term ship-or-pay contract with Shell Canada-Chevron Canada-Western Oil Sands.
  - The pipeline is operated by TPTM
  - Revenue requirements are governed by contractual arrangements with the above three shippers and are subject to regulation by the Alberta Energy and Utilities Board.
  - Terasen Pipelines (Corridor) Inc. is wholly owned by Terasen Inc.
- Terasen Inc. has a one-third interest in the Express/Platte Pipeline System.
  - The Express System consists of the Express Pipeline and the Platte Pipeline, transporting crude oil from Hardisty, Alberta to the Wood River, Illinois area.
  - The Express System is regulated by three separate regulatory bodies: (1) The Canadian segment of the Express Pipeline is regulated by the National Energy Board, with tolls regulated on a complaint basis only; (2) The Platte Pipeline and the U.S. segment of the Express Pipeline are regulated by the Federal Energy Regulatory Commission, with tolls also regulated on a complaint basis; and (3) Petroleum transportation on the Platte Pipeline within the state of Wyoming is regulated by the Wyoming Public Service Commission, with tolls regulated on a similar basis to those of the National Energy Board and the Federal Energy Regulatory Commission.
- Terasen Inc. has interests in a number of smaller, non-regulated energy and utility services businesses including:
  - Terasen Waterworks (Supply) Inc.,
  - Terasen International Inc.;
  - A 30% interest in CustomerWorks; and
  - A 44% interest in ENRG, an alternative fuel re-fuelling company.

Terasen Inc.
(Consolidated)

Balance Sheet
($ millions)

Assets	As at June 2003	As at December 31 2002	2001	Liabilities & Equity	As at June 2003	As at December 31 2002	2001
Cash	2	5	2	Short-term debt	999	927	709
Accounts receivable	279	299	271	A/P + accrueds	323	330	329
Inventories	122	98	117	L.t.d. due in one year	109	109	224
Prepaids + other	50	80	114	Current liabilities	1,430	1,366	1,262
Current assets	453	483	504	Long-term debt	1,730	1,636	1,524
Net fixed assets	3,823	3,779	3,080	Def'd income taxes	63	58	57
Long-term rec + investments	221	22	20	Other long-term liab.	100	96	23
Goodwill + def'd charges	241	239	102	Capital securities	125	125	125
Total	4,738	4,522	3,706	Shareholders' equity	1,289	1,241	715
				Total	4,738	4,522	3,706

Ratio Analysis	12 mos. ended	For year ended December 31						
Liquidity Ratios	June 2003	2002	2001	2000	1999	1998	1997	1996
Current ratio	0.32	0.35	0.40	0.52	0.38	0.26	0.27	0.47
Accumulated depr./gross fixed assets	21%	18%	20%	20%	23%	22%	21%	19%
Cash flow/total debt	9.10%	8.88%	7.67%	8.53%	10.86%	9.42%	9.39%	10.03%
Cash flow/total adj.debt (1)	9.02%	8.80%	7.60%	8.43%	10.86%	9.42%	9.39%	10.03%
Adj. debt/EBITDA	5.99	5.90	6.36	5.97	4.74	4.80	4.79	4.83
Cash flow/capital expenditures	0.88	0.60	0.40	0.28	1.07	1.21	1.11	1.17
Cash flow/capex (Terasen Gas)	-	1.34	0.98	0.25	0.85	0.99	0.90	0.98
Cash flow/capex (Trans Mountain)	-	2.54	3.16	2.81	1.68	1.68	1.68	1.68
Cash flow-dividends/capex	0.64	0.45	0.30	0.20	0.79	0.89	0.81	0.88
% debt in capital structure	66.7%	66.2%	74.5%	71.4%	71.9%	73.7%	72.4%	70.3%
% adj. debt in capital structure (1)	67.3%	66.8%	75.3%	72.3%	71.9%	73.7%	72.4%	70.3%
Average coupon on long-term debt	6.41%	5.90%	6.22%	8.14%	8.63%	9.23%	9.50%	n/a
Common dividend payout (before extras.) (2)	49.1%	54.4%	58.9%	59.5%	60.1%	59.0%	59.4%	46.0%
Coverage Ratios								
EBIT interest coverage	1.98	1.90	1.80	2.04	2.16	2.22	2.21	1.90
EBITDA interest coverage	2.65	2.54	2.38	2.72	2.86	2.93	2.92	2.54
Fixed-charges coverage	1.87	1.79	1.69	1.93	1.90	1.92	1.90	1.65
EBIT interest coverage (non-consolidated)	n/a	5.68	10.95	12.56	10.21	16.00	12.78	10.14
Fixed-charges coverage (non-consolidated)	n/a	3.36	4.97	5.90	10.21	16.00	12.78	10.14
Profitability Ratios								
EBIT margin	25.6%	24.3%	20.8%	23.6%	30.3%	35.1%	32.8%	32.8%
EBIT margin, excludes cost of natural gas	38.2%	37.9%	40.2%	39.6%	42.8%	44.4%	43.7%	43.0%
Net margin (before extraordinary items)	13.8%	13.0%	12.4%	12.8%	13.1%	13.0%	12.7%	16.2%
Return on average common equity	9.7%	11.2%	12.1%	12.0%	12.2%	12.1%	10.8%	13.6%
Operating Efficiency and Statistics								
Throughputs – Gas distribution (bcf) (3)	180.5	187.3	164.7	180.3	179.4	169.2	175.0	182.5
- Oil pipeline (thousands bbl/day) (4)	216.2	201.2	209.3	204.6	207.5	252.6	229.7	249.6
- U.S. deliveries (incl. in oil pipeline) (thousands bbl/day)	53.8	47.8	73.4	65.2	61.9	101.4	94.4	102.5
- Jet fuel (thousands bbl/day)	16.0	18.5	19.3	19.8	20.1	20.5	20.6	21.1
Approved ROE – Gas utility (Terasen Gas Inc. only)	9.42%	9.13%	9.25%	9.50%	9.25%	10.00%	10.25%	11.00%
- Oil pipeline (Cdn. Mainline)	#	#	#	#	#	#	#	#

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

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

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

#: negotiated settlement

Terasen Gas Inc.

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

RATING

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

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RATING HISTORY

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

RATING UPDATE

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

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

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

RATING CONSIDERATIONS

Strengths:

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

Challenges:

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

FINANCIAL INFORMATION

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

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

THE COMPANY

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

AUTHORIZED PAPER AMOUNT Limited to Cdn$500 million.

REGULATION

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

RATING CONSIDERATIONS

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

(2) The Southern Crossing Pipeline project, which became operational in November 2000, provides the Company with access to lower-cost alternative sources of gas supply from Alberta. This is especially favourable during periods of high natural gas prices.

(3) The Company has a diversified customer base and has limited exposure to a single customer, which reduces earnings volatility. Residential customers account for about 60% of gas revenues, commercial customers just over 30% of gas revenues, and industrial customers about 10% of gas revenues. In addition, Terasen Gas serves a strong franchise area (Vancouver), which is densely populated.

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

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

EARNINGS AND OUTLOOK

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

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

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

Summary:

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

Outlook:

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

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

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

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

Summary:

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

Outlook:

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

Sensitivity Analysis:

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

Assumptions:

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

Outcomes:

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

LONG-TERM DEBT MATURITIES AND BANK LINES

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

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

Summary:

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

Outlook:

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

Terasen Gas Inc.

Balance Sheet

($ millions)

Assets	As at Mar. 2004	As at December 31 2003	2002	**Liabilities & Equity**	As at Mar. 2004	As at December 31 2003	2002
Cash	4.7	0.0	0.0	Short-term debt	250.5	357.2	352.1
Accounts receivable	297.5	318.0	230.0	A/P + accrueds	270.8	316.6	245.8
Inventories	49.1	113.6	74.2	L.t.d. due in one year	42.2	2.2	102.3
Prepaids + other	4.7	5.8	4.9	**Current Liabilities**	563.5	676.0	700.2
Rate stabilization accts	3.6	6.3	62.4	Deferred taxes	0.5	0.5	0.5
Current Assets	359.6	443.7	371.5	Deferred gain	49.6	51.9	52.0
Net fixed assets	2,274.2	2,285.8	2,245.0	Long-term debt	1,256.6	1,297.3	1,148.0
Rate stabilization accts	28.3	32.2	14.3	Debt equiv. pref.	0.0	0.0	0.0
Deferred charges	21.3	23.9	20.6	Preferred equity	0.0	0.0	0.0
Long-term rec. + investments	5.7	5.1	6.9	Shareholders' equity	818.9	765.0	757.6
Total	2,689.1	2,790.7	2,658.3	**Total**	2,689.1	2,790.7	2,658.3

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

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

(2) Operating costs excludes municipal + property taxes.

Terasen Inc.

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RATING

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

y: denotes hybrid security

RATING HISTORY

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

RATING UPDATE

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

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

RATING CONSIDERATIONS

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

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

FINANCIAL INFORMATION

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

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

THE COMPANY

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

AUTHORIZED PAPER AMOUNT Limited to Cdn$300 million.

RATING APPROACH

The rating of Terasen is based on the following considerations:

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

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

RATING CONSIDERATIONS

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

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

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

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

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

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

EARNINGS AND OUTLOOK

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

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

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

Summary:

Consolidated Basis:

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

Non-consolidated Basis:

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

Outlook:

Consolidated Basis:

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

- Already announced/underway pipeline expansion projects to accommodate increasing throughput volumes;
- Customer additions and higher allowed ROEs from rising interest rates, at both gas distribution companies; and
- Improved performance from non-regulated/water and utility businesses.

• Key risks to Terasen's medium-term outlook include:
  - Re-negotiation of TPTM's toll agreement;
  - The inability of non-regulated/water and utility businesses to generate positive returns;
  - Inability of Terasen Gas to achieve productivity improvements and efficiencies under the new rate plan; and
  - Construction risks associated with the proposed large-scale expansion projects to TPTM, if undertaken.

Non-consolidated basis:

• Net income should be lower in 2004 as TPTM's dividend payments return to a more normal, sustainable level.
  - Corridor started making dividend payments in 2004, which will offset some of the drop from TPTM.

• Beyond 2004, net income should become increasingly stable given Terasen's more diversified sources of dividend income.
  - TPTM will likely remain more volatile, but dividend income from Corridor, modest distributions from Express, and dividends over time from its other/non-regulated portfolio should help stabilize earnings.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

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

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

Summary:

• Terasen's key financial ratios have continued to improve, with the completion of the Corridor pipeline project in 2003 resulting in significantly lower capital expenditures and higher operating cash flows.
  - The higher throughput volumes at TPTM and the Express acquisition also contributed to the increase in operating cash flows, particularly in Q1 2004.

• Given the above factors, Terasen recorded a much smaller free cash flow deficit in 2003 and, for the 12 months ended March 31, 2004, recorded a surplus.

Outlook:

• Terasen's operating cash flows should remain generally stable given the increased diversification, and be able to fund annual capital expenditures of $200 million and a 60% dividend payout.

• The Express system is expected to pay modest dividends over the medium term, providing a small boost to Terasen's cash flows.

• Absent any large-scale projects, Terasen's financial profile should remain relatively stable.

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

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

Summary:

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

Outlook:

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

Sensitivity Analysis:

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

Assumptions:

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

Outcomes:

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

LONG-TERM DEBT MATURITIES AND BANK LINES

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

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

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

Summary:

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

Outlook:

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

DESCRIPTION OF OPERATIONS

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

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

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

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

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

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

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

Terasen Pipelines (Corridor) Inc. ("TPC") (wholly owned by Terasen Inc.)

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

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

Other investments

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

Terasen Inc.

(Consolidated)

Balance Sheet

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

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

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

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

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

#: negotiated settlement

Terasen Gas Inc.

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

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Rating

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

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

Rating History

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

Rating Update

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

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

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

Rating Considerations

Strengths:

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

Challenges:

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

Financial Information

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

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

The Company

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

Authorized Paper Amount

Limited to $500 million

Regulation

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

Rating Considerations

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

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

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

Earnings and Outlook

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

Summary:

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

Outlook:

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

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

- Over the longer term, Terasen Gas should benefit from the rising electricity prices in British Columbia, which will further improve the price competitiveness of gas versus electricity.
- As well, the Company continues to pursue operational efficiencies from the integration of TGVI, particularly with regard to the installation of a liquefied natural gas (LNG) storage facility on the island.
  - This would provide additional transportation earnings for Terasen Gas.
- The completion of the 252 MW Duke Point power plant on Vancouver Island, expected in May 2007, will also provide Terasen Gas with additional earnings growth potential from greater throughput volumes.
  - Ongoing developments with the resort Municipality of Whistler to develop a sustainable energy strategy should provide further earnings growth for Terasen Gas.
  - This project includes the construction of a natural gas pipeline from Squamish to Whistler, providing additional transportation earnings for the Company.

FINANCIAL RISK PROFILE AND OUTLOOK

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

Summary:

- Terasen Gas' financial profile has experienced a modest improvement over the past five years, despite the low allowed ROEs.
  - Fixed-charges coverage has improved to almost 2.0 times, and
  - Cash flow/debt has been has improved to over 9.0%.
- Although key financial ratios are low relative to Canadian peers, they are acceptable for the rating given the existence of the various deferral accounts and the high degree of stability of the ratios.
- Cash flow from operations remains insufficient to fully fund both capital expenditures and dividend payments to its parent.
  - However, the Company can manage its dividend payouts in order to maintain its capital structure, typically within BCUC-approved levels.
- Terasen Gas's capital structure has remained relatively stable, around the deemed capital structure of 33% common equity/67% debt.

Outlook:

- Terasen Gas' financial profile is expected to remain relatively stable over the medium term.
  - Operating cash flows and key financial ratios will continue to be pressured by the low permitted ROE in 2005 and could come under additional pressure if the Company is unable to achieve the productivity improvements and efficiencies required under the new performance-based rate plan.
- Cash flow from operations will continue to be insufficient to fund both annual capital expenditures and dividend payments under current dividend payout.
- However, free cash flow deficits are manageable.

LONG-TERM DEBT MATURITIES AND BANK LINES

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

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

Summary:

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

Outlook:

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

Terasen Gas Inc.

Balance Sheet

($ millions)	As at	As at December 31			As at	As at December 31	
Assets	March 31, 2005	2004	2003	**Liabilities & Equity**	March 31, 2005	2004	2003
Cash	122.3	1.7	0.0	Short-term debt	102.5	107.0	357.2
Accounts receivable	296.4	252.9	318.0	A/P + accrueds	310.0	301.4	316.6
Inventories	96.1	151.5	113.6	L.t.d. due in one year	357.2	397.2	2.2
Prepaids + other	4.9	5.7	5.8	**Current Liabilities**	769.7	805.6	676.0
Rate stabilization accts	10.8	13.8	6.3	Deferred taxes	0.5	0.5	0.5
Current Assets	530.5	425.6	443.7	Deferred gain	80.7	80.2	51.9
Net fixed assets	2,311.5	2,260.0	2,285.8	Long-term debt	1,201.2	1,051.4	1,297.3
Rate stabilization accts	28.5	27.9	32.2	Debt equiv. pref.	0.0	0.0	0.0
Deferred charges	25.2	25.5	23.9	Preferred equity	0.0	0.0	0.0
Long-term rec. + investments	8.0	8.2	5.1	Shareholders' equity	851.6	809.5	765.0
Total	2,903.7	2,747.2	2,790.7	**Total**	2,903.7	2,747.2	2,790.7

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

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

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

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PRESS RELEASE

Thursday, August 18, 2005

Terasen Gas Inc.

Confirms at A & R-1 (low)

Date of Release: August 2, 2005

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

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

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

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

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

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

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Issuers in This Press Release

Terasen Gas Inc.

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PRESS RELEASE

Thursday, August 18, 2005

Terasen Inc.

Places Under Review with Negative Implications

Date of Release: August 2, 2005

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

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Latest Event
Terasen Inc.	Commercial Paper	Under Review - Negative	R-1 (low)	--	UR-neg. 2005-08-02	Aug 2, 2005
Terasen Inc.	Medium-Term Note Debentures	Under Review - Negative	A (low)	--	UR-neg. 2005-08-02	Aug 2, 2005
Terasen Inc.	Unsecured Subordinated Debentures	Under Review - Negative	BBB (high)y	--	UR-neg. 2005-08-02	Aug 2, 2005

Dominion Bond Rating Service (“DBRS”) has today placed the ratings of Terasen Inc. (“Terasen” or the “Company”) “Under Review with Negative Implications”.

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

DBRS’s review of the merger transaction will focus on a number of issues, including the following:

(1) Impact of the transaction on Terasen’s non-consolidated capital structure going forward is an important issue for the current ratings. Currently, DBRS expects that Terasen would support the funding of the potentially large capital projects at Terasen’s subsidiaries with a significant equity component to be raised by Terasen. The proposed transaction creates uncertainties with respect to the potential financial policies of Terasen, which could potentially have negative implications for its future financial profile. At the same time, DBRS recognizes that ownership by KMI provides substantially improved access to capital markets for Terasen, particularly in the U.S.

(2) Ownership by a lower-rated entity (KMI was rated BBB by DBRS prior to being placed “Under Review with Negative Implications”) could expose Terasen to increased dividend payments to support KMI’s higher debt load as a result of this transaction. DBRS will also review the implications of the Terasen acquisition on KMI’s credit profile.

DBRS’s review of the proposed transaction will also focus on a number of other issues, including the impact on the business and financial risk profile of the combined entity, as well as the tax, legal, and regulatory issues of the cross border transaction.

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

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Terasen Inc.

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Moody's Investors Service

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Rating Action: Terasen Inc.

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

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

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

The following ratings were assigned:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Rating Action: Terasen Inc.

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

Approximately CAD 3 Billion of Debt Securities Affected

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

The following ratings are confirmed:

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

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

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

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

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

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

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

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

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

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

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

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Credit Opinion
15 JUL 2004

Credit Opinion: Terasen Inc.

Terasen Inc.

Vancouver, British Columbia, Canada

Ratings

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

Contacts

Analyst	Phone
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Mihoko Manabe/New York	1.212.553.1653
John Diaz/New York	

Key Indicators

Terasen Inc.

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

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

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

Opinion

Credit Strengths

- Regulated businesses represent 97% of the asset base

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

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

Credit Challenges

- Structural subordination of holdco debt

- Higher risk nature of petroleum pipeline investments

- Transformation/execution risk related to proposed petroleum pipeline expansion

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

- Negative free cash flow in 2004

- Relatively high leverage and short-term debt

Rating Rationale

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

Rating Outlook

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

What Could Change the Rating - UP

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

What Could Change the Rating - DOWN

- Execution and financial risks associated with major acquisitions or developments

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

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

Recent Developments

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

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

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

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

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

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

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Credit Opinion
15 AUG 2005

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

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

Contacts

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

Key Indicators

Terasen Inc.

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

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

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

Opinion

Credit Strengths

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

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

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

Credit Challenges

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

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

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

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

- Structural subordination of holdco debt

Rating Rationale

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

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

Rating Outlook

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

What Could Change the Rating - UP

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

What Could Change the Rating - DOWN

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

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

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

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

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Terasen Inc., Subsidiaries Ratings Lowered Upon Review, Off Watch; Outlook Stable

Publication date: 26-Jun-2003

Analyst(s): Daniel Parker, CFA, New York (1) 212-438-1848;
Damian DiPerna, Toronto (1) 416-507-2561

Credit Rating: BBB/Stable/--

Rationale

On June 26, 2003, Standard & Poor's Ratings Services lowered its ratings on utility holding company Terasen Inc., including its long-term corporate credit rating to 'BBB' from 'BBB+'. At the same time, the ratings were removed from CreditWatch, where they were placed March 6, 2003. The outlook is stable.

The long-term corporate credit ratings on subsidiaries, Terasen Gas and Terasen Pipelines (Trans Mountain) Inc. were also lowered to 'BBB' from 'BBB+' and removed from CreditWatch, where they were placed March 6, 2003. The ratings on Express Pipeline L.P. and Express Pipeline Partnership continue to be rated on a stand-alone basis as the project continues to meet Standard & Poor's criteria for bankruptcy-remote entities. Terasen has about C$2.8 billion of total debt outstanding.

The downgrade follows Standard & Poor's review of the consolidated business and financial profile of Terasen, including the regulatory environment, and the company's business plan. Although the business risk profile is still considered strong, credit metrics such as funds from operations interest coverage and debt to capital were too weak for the ratings category. Gas distribution regulation in British Columbia rates quite highly from a credit perspective, although it is not exceptionally better than other jurisdictions. In Standard & Poor's view, given the same level of business risk, a weaker financial profile indicates a higher level of credit risk.

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

The ratings on Terasen reflect the company's above-average business position and its highly leveraged financial profile. The company's business profile is characterized by its two gas distribution subsidiaries, Terasen Gas and Terasen Gas (Vancouver Island), which have dominant market positions and account for more than 95% of natural gas customers in British Columbia. In addition, Terasen Pipelines (Trans Mountain) Inc. is the only multiproduct shipping system from Alberta to British Columbia and the Pacific coast. Terasen Pipelines (Corridor) Inc. is a dedicated pipeline that transports bitumen from the Albian oil sands project to Shell Canada Ltd.'s upgrader in Edmonton, Alta. The Express Pipeline system transports petroleum from Hardisty, Alta., to refineries in the western and midwestern U.S. Regulated gas distribution and petroleum transportation account for virtually all of Terasen’s assets and operating income. Standard & Poor's expects the utilities and pipelines will continue to provide stable earnings and cash flows.

Terasen's below-average financial risk profile reflects the regulatory constraints imposed on its subsidiaries' capital structures. The stability of the cash flows from the pipelines and natural gas distribution businesses helped to offset Terasen's overall leverage and cash flow protection measures. Nevertheless, these measures likely will remain at levels commensurate with the 'BBB' ratings category, as the company pursues its selective growth strategy.

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

Liquidity.

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

Outlook

The stable outlook reflects Standard & Poor's expectations of steady operating performance of both the gas distribution and petroleum transportation segments. The financial profile is expected to modestly improve and that any major capital projects or acquisitions will not materially increase consolidated business risk and will be financed in line with the current capital structure.

Ratings List

Terasen Inc.	To	From
Corporate credit rating	BBB	BBB+/Watch Neg/--
Senior unsecured	BBB-	BBB/Watch Neg
Commercial paper		
Canadian national scale	A2	A-1(Low)/Watch Neg
Subordinated	BB+	BBB-/Watch Neg

Terasen Gas		
Corporate credit rating	BBB	BBB+/Watch Neg/--
Senior secured	A-	A-/Watch Neg
Senior unsecured	BBB	BBB+/Watch Neg
Commercial paper		
Canadian national scale	A2	A-1(Low)/Watch Neg

Terasen Pipelines (Trans Mountain)Inc.

Corporate credit rating	BBB	BBB+/Watch Neg/--
Senior unsecured	BBB	BBB+/Watch Neg
Commercial paper		
Canadian national scale	A2	A-1(Low)/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Credit Ratings Actions.

STANDARD & POOR'S CANADIAN RATINGS

Publication date: 07-Aug-2003
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Terasen Inc

Credit Analysts: Daniel Parker, CFA, New York (1) 416-507-2559; Damian DiPerna, Toronto (1) 416-507-2561

Corporate Credit Rating

BBB/Stable/--

Business Profile

1 2 3 4 5 6 7 8 9 10

Financial policy:
Below average
Debt maturities:
Required principal repayments:
2003 C$108.9 mil.
2004 C$38.9 mil.
2005 C$253.2 mil.
2006 C$788.7 mil.
2007 C$102.3 mil.

Outstanding Rating(s)

Terasen Inc	
Sr unsecd debt	
Local currency	BBB-
CP	
Local currency	A-2
Sub debt	
Local currency	BB+

Corporate Credit Rating History

May 8, 2001	BBB+
June 26, 2003	BBB

Company Contact
David Bryson (604) 443-6527

Major Rating Factors

Strengths:

- Monopoly gas distribution franchises with no commodity risk
- Strong competitive position for petroleum transportation businesses
- Ninety-seven percent of revenues derived from regulated businesses

Weaknesses:

- Highly leveraged financial profile limits financial flexibility
- Volume throughput risk for petroleum transportation businesses
- Fuel switching by industrial gas customers

Rationale

The ratings on utility holding company Terasen Inc. (Terasen) reflect the company's very strong consolidated business profile and weak financial profile, including subsidiaries Terasen Gas, Terasen Gas (Vancouver Island) or TGVI, Terasen Pipelines (Trans Mountain) Inc., and Terasen Pipelines (Corridor) Inc. Express Pipeline L.P. and Express Pipeline Partnership continue to be rated on a stand-alone basis as the Express Pipeline project continues to meet Standard & Poor's Ratings Services' criteria for bankruptcy-remote entities. Terasen has about C$2.8 billion of total debt outstanding. The outlook is stable.

The company's business profile is characterized by its two gas distribution subsidiaries, Terasen Gas and TGVI, which have dominant market positions and account for more than 95% of natural gas customers in British Columbia. In addition, Terasen Pipelines (Trans Mountain) is the only multiproduct shipping system from Alberta to British Columbia and the Pacific coast. Terasen Pipelines (Corridor) is a dedicated pipeline that transports bitumen from the Albian oil sands project to Shell Canada Ltd.'s upgrader in Edmonton, Alta. The Express Pipeline system transports petroleum from Hardisty, Alta., to refineries in the western and midwestern U.S. Regulated gas distribution and petroleum transportation account for the majority of Terasen's assets and virtually all of its operating income. Standard & Poor's expects the company's utilities and pipelines will continue to provide stable earnings and cash flows.

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

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

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

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

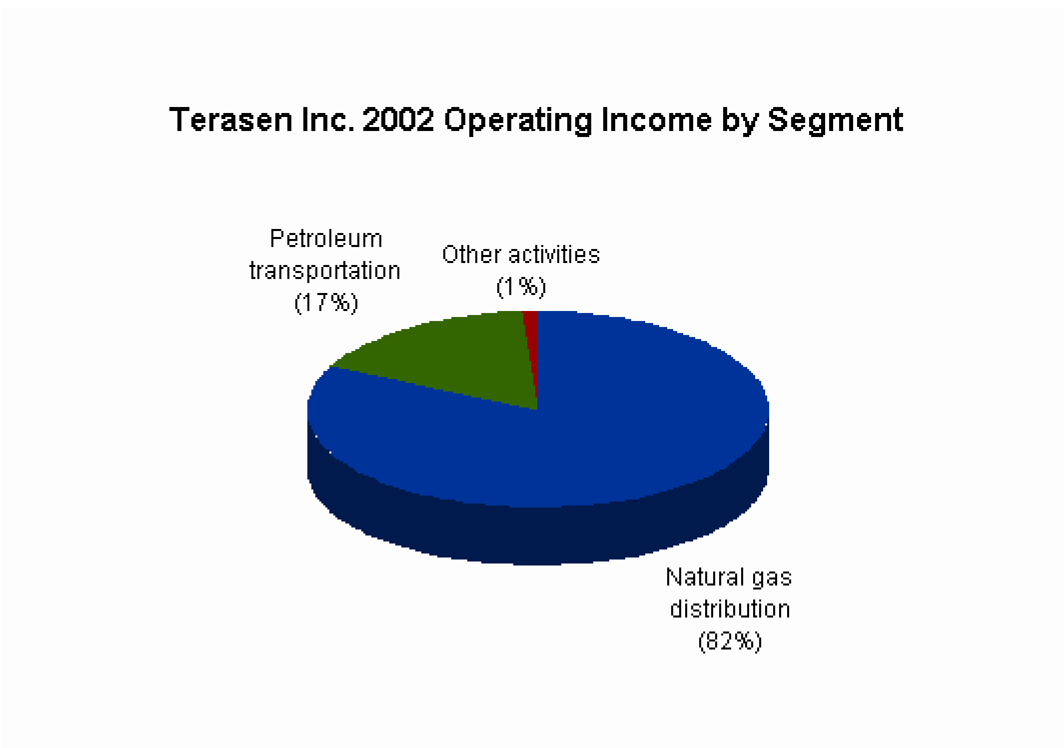
a C$200 million authorized CP program, Terasen Gas has a C$500 million CP program, Terasen Pipelines (Trans Mountain) has a C$125 million CP program, and Terasen Pipelines (Corridor) has a C$700 million CP program.

Outlook

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

Business Description

Terasen is involved in the distribution of natural gas and the transportation of crude and refined petroleum products. Ninety-seven percent of assets and 94% of revenues are regulated. With the acquisition of an interest of Express Pipeline in January 2003 and the commencement of commercial operations on Corridor Pipeline in the second quarter of 2003, petroleum transportation is expected to account for about one-third of Terasen's operating income.



Business Profile

Gas Distribution

Regulation.

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

TGVI has a separate regulatory arrangement that reflects the historical support of the provincial government for a natural gas distribution network on Vancouver Island. The utility receives an annual payment (C$18 million in 2002) from the provincial government based on the wellhead price of natural gas in British Columbia to help offset subsidized customer rates. Historically, customer rates did not cover the full cost of providing service, although these rates ended in December 2002. Nevertheless, the cumulative revenue shortfall has been recorded in a revenue deficiency account (which stood at C$65 million at December 2002). The BCUC has been directed to set rates beginning in 2003 to amortize the deferral balance as quickly as possible, but with regard for the utility's competitive position relative to alternative energy sources. Standard & Poor's expects the recovery of the deferral will be ongoing until the agreement with the government expires in 2011.

In Standard & Poor's view, the regulation for both Terasen Gas and TGVI should result in stable financial performance, as revenues and all major costs are relatively certain. Nevertheless, while the deferral accounts and rate setting process are effective, many other jurisdictions around the world have adopted similar mechanisms for mitigating financial risk. Thus, Terasen Gas and TGVI's stable financial performance and overall business risk profile is not exceptionally different than other regulated utilities. Therefore, the regulation is considered weak in comparison with international peers with regard to the allowed returns on equity (9.42% for Terasen Gas and 9.92% for TGVI) and thin deemed equity layers (33% for Terasen Gas and 35% for TGVI). The combination of low profitability and high leverage results in an overall financial profile that is weak.

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

The March 2002 acquisition of TGVI (C$334 million) resulted in the addition of 70,000 customers, most of which reside on Vancouver Island or in Whistler. These areas are faster growing (four-year compound annual growth rate of 5.4%) and have much lower gas penetration rates than other areas of British Columbia, estimated at 48% versus more than 90% for Terasen Gas. Still, starting in 2003, the deferral amortization will be recovered through increased rates (10%-20%), which will likely slow the customer-growth rate.

TGVI has seven major customers in the pulp and paper industry that account for about 16% of operating margin. Also, British Columbia Hydro & Power Authority is pursuing new power plants on Vancouver Island to replace aging underwater transmission cables.

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

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

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

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

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

Petroleum Transportation

Regulation.
Terasen Pipelines (Trans Mountain) is regulated by the National Energy Board, the FERC, and the BCUC, but primarily operates under a negotiated incentive toll settlement (2001-2005) with the Canadian Association of Petroleum Producers and Chevron Canada Ltd.

The settlement exposes the Canadian operations to a limited amount of throughput risk with a range of 2,000 cubic meters per day above the base throughput level (30,000 cubic meters) to 1,500 cubic meters per day below the base level. There is no toll adjustment to reflect variances within this band. Excess revenue (throughput above the range) is shared fifty-fifty by way of a credit to subsequent years' tolls. Revenue shortfalls are recovered from shippers by means of a surcharge to subsequent years' tolls. Also, any uninsured expenditures or liability in excess of C$5 million is borne by the shippers. The U.S. portion of the pipeline's throughput does not operate under a negotiated settlement and is regulated by the FERC. The tolls have been in place since the 1980s and have not been altered as none of the shippers have complained.

Terasen Pipelines (Corridor) is regulated by the Alberta Energy and Utilities Board but operates under a negotiated Firm Service Agreement (FSA) with Shell Canada, Chevron Canada, and Western Oil Sands Ltd. Obligations are several. The FSA is a long-term ship-or-pay contract and provides for recovery of all operating costs, depreciation, taxes and financing costs, plus an allowed return on equity. There is no force majeure clause available to shippers.

The National Energy Board regulates the Canadian portion of the Express system, with tolls being regulated on a complaint-basis only. The U.S. portion of the Express system is regulated by the FERC, also on a complaint-basis only.

Markets.
Terasen Pipelines (Trans Mountain) is the only pipeline option to Canada's west coast and the northwest U.S. As such, it is also affected by the economies of British Columbia and the U.S. northwest. Terasen Pipelines (Trans Mountain) links up to one refinery (Chevron Canada Ltd.) and three product terminals (Petro-Canada, Shell Canada, and Imperial Oil Ltd.) in Vancouver. The U.S. system is the only pipeline that delivers to four large refineries (BP West Coast Products LLC, Shell Oil Co., Tesoro Petroleum Corp., and Phillips 66 Co.) in Washington State with distillation capacity of 570,000 barrels per day. The Canadian market is not growing but remains stable while the U.S. market is expected to show above-average growth.

Terasen Pipelines (Corridor) is a dedicated pipeline serving the Athabasca Oil Sands project, which is 60% owned by Shell Canada, 20% by Chevron Canada, and 20% by Western Oil Sands. Output from the project will have a ready market as the U.S. continues to be a net importer.

The Express Pipeline system is a 1,717 mile-long, batch-mode crude oil pipeline system running from Hardisty, Alta., to Casper, Wyo., on the Express Pipeline, and then from Casper, Wyo., to Wood River, Ill., on the refurbished Platte Pipeline system. Express should benefit as the growth in Canadian crude exports to the U.S. is expected to continue. Both the second and fourth Petroleum Administration for Defense District (PADD II and PADD IV) are short crude due to declining supply and increasing demand, and Standard & Poor's expects this trend to continue.

Operations.
Terasen Pipelines (Trans Mountain) operates efficiently and can transport both crude and refined products. Terasen Pipelines (Trans Mountain)'s sustainable capacity for total deliveries is about 39,300 cubic meters per day for light crude out of Edmonton, plus British Columbia crude oil received at Kamloops. The U.S. system has a sustainable capacity of about 23,800 cubic meters per day and connects to four refineries in northwest Washington. There are no long-term contracts with shippers; capacity is bid for each month. Chevron Canada has historically taken 40% of Canadian capacity. Petro-Canada, Imperial Oil, and Shell Canada would account for the majority

of Canadian deliveries. U.S. deliveries are to Shell, Tesoro, and Tosco.

Corridor Pipeline is a critical link in a C$6.2 billion dollar project. Because of the size of the reserves (1.6 billion barrels, with initial production of 155 million barrels per day) the pipeline will remain in operation for at least 25 years. The major risk for the project is to ensure that it is available for service, as the firm service agreement mitigates the volume throughput risk.

The biggest risks of operating the Express system are the ability to contain costs and to market capacity. Since a substantial portion of the revenues is essentially fixed because of the Transportation Service Agreements, escalating expenses or lower-than-expected volumes could negatively affect cash available for debt service. Therefore, if the project is not able to sign up expected uncommitted volumes, it must have the flexibility to lower operating costs. The three key operating cost components are the operating and maintenance contract costs, property taxes, and power costs. The largest and most variable of these three components is power costs, which are not hedged.

Competitive position.
With the January 2003 acquisition of the Express Pipeline system, Terasen now operates two of the three major crude export systems from the Western Canadian Sedimentary Basin. Terasen Pipelines (Trans Mountain)'s pipeline system represents the only pipeline link from the oil fields of Alberta and refineries located in Edmonton to the west coast of Canada. Deliveries to the U.S. northwest are more competitive as exports are sensitive to the relative pricing of Canadian crude versus offshore or U.S. sources, primarily from Alaska. The majority of supply is currently accommodated by Alaskan sources.

Express Pipeline transports crude into PADD IV and PADD II. Canadian supply is expected to increase into PADD IV as U.S. domestic production has declined, and portions of this market are relatively inaccessible from the Gulf Coast.

The primary source of competition for Canadian crude exports is the much larger Enbridge system, which delivers liquids to the U.S. midwest (PADD II) and has very competitive tolls.

Terasen Pipelines (Corridor) does not face any competition as it was constructed to be the only link between the Athabasca oil sands mining operation and Shell Canada's upgrader situated near Edmonton.

Financial Policy: Below average
Terasen maintains an aggressive financial policy, with debt to capital of about 67%. Standard & Poor's expects the company's financial policies will remain stable, assuming the risk level of its subsidiaries does not increase.

Financial Profile

Profitability and cash flow protection.
The company has demonstrated consistent earnings growth and generates stable cash flows, albeit the credit metrics are weak with funds from operations interest cover at 2.2x and FFO to total debt of 9%. Although weather variability can have a short-term effect, the ultimate impact is minimized. Profitability at the gas distribution utilities is constrained by the regulatory arrangements. Profitability at Terasen Pipelines (Trans Mountain)

and Express Pipeline is influenced by throughput on the pipeline systems. Standard & Poor's view is that the thin interest coverage allows very little protection for unforeseen circumstances or poor operating or financial performance.

Capital structure and financial flexibility.
Financial flexibility is limited by the aggressive capital structure. Acquisitions or new projects would need to be financed with an appropriate combination of debt and equity. Capital expenditures are expected to scale back after several years of significant spending on Terasen Pipelines (Corridor) and the Southern Crossing pipelines. Terasen has several potential pipeline projects, including Bison, and the Inland Connector Pipeline, which could require significant capital spending of about C$1.5 billion in total.

The company's existing debt maturity schedule has large maturities in 2005 and 2006, although Standard & Poor's expects the company will refinance a large portion of the Terasen Pipelines (Corridor) debt in the next year to balance out the debt maturity profile. The company's cash generation is weak in relation to its total debt load (FFO to total debt of 9%) and thus, failure to refinance and balance out the debt maturity profile would increase the financial risk.

Table 1 Terasen Inc. Peer Comparison*

	Terasen Inc.	Gaz Metropolitain Inc.¶	Enbridge Inc.	TransCanada Pipelines Ltd.	Standard & Poor's utility benchmark ratios
Rating	BBB/Stable/--	A-/Stable/--	A-/Negative/--	A-/Negative/--	BBB
Adj. EBIT interest coverage (x)	1.8	2.6	1.9	2.2	1.8-2.8
Adj. FFO/interest cover (x)	2.2	4.1	2.5	2.7	2.1-3.1
Adj. FFO/total debt (%)	8.9	21.3	10.2	15.4	14-20
Adj. total debt/capital (%)	66.2	61.6	59.1	62.1	53-61
Net cash flow/capex (%)	44.9	152.5	61.4	213.0	75+
Return on average equity (%)	11.5	18.9	12.1	14.0	N/A
Pretax return on capital (%)	9.0	11.2	7.7	12.5	13.5+

*All numbers are for fiscal 2002. ¶Gaz Metropolitain has a Sept. 30 year-end. N/A--Not applicable.

Table 2 Terasen Inc. Financial Summary

	--Year ended Dec. 31--				
	2002	**2001**	**2000**	**1999**	**1998**
Income statement (mil. C$)					
Gross revenues	1,707.2	1,666.3	1,305.6	1,040.6	925.0
Operating expenses (excl DD&A)	1,255.1	1,276.0	962.8	701.6	579.9

Depreciation and amortization	115.6	95.1	86.2	82.6	84.6
AFUDC and other income/expense	0.0	0.0	(17.5)	(4.7)	(4.6)
EBIT	336.5	295.2	239.1	251.7	255.9
Net interest expense	160.8	148.3	117.5	121.6	121.8
Pretax income	175.7	146.9	121.6	130.1	134.1
Income taxes	63.2	55.9	8.9	48.9	62.9
Net income from continuing ops	112.5	91.0	112.7	81.2	71.2
Earnings protection					
EBIT interest coverage (x)	1.8	1.7	1.8	2.0	2.0
Adjusted EBIT interest coverage (x)	1.8	1.7	1.8	2.0	2.0
EBITDA interest coverage (x)	2.4	2.2	2.5	2.7	2.7
AFUDC and other income/earnings (%)	0.0	0.0	(0.2)	(0.1)	(0.1)
Return on avg. common equity (%)	11.5	13.0	17.2	13.4	12.1
Common dividend payout (%)	53.2	54.7	41.6	54.9	59.0
Annual expense growth (excl DD&A) (%)	(1.6)	32.5	37.2	21.0	(5.2)
Operating expenses (excl DD&A)/revenues (%)	73.5	76.6	73.7	67.4	62.7
Cash flow (mil. C$)					
Net income	112.5	91.0	112.7	81.2	71.2
Depreciation and amortization	115.6	95.1	86.2	82.6	84.6
Other noncash items	15.9	8.8	(22.5)	10.6	0.3
Funds from operations (FFO)	244.0	194.9	176.4	174.4	156.1
Common dividends	(60.0)	(49.8)	(50.8)	(44.6)	(42.0)
Net cash flow (NCF)	184.1	145.1	125.6	129.8	114.1
Working capital changes	74.1	(135.1)	2.9	(50.3)	(75.9)
Capital expenditures	(395.7)	(469.8)	(620.6)	(163.6)	(128.7)
Discretionary cash flow	(137.6)	(459.8)	(492.1)	(84.1)	(90.5)
Cash flow adequacy					
FFO interest coverage (x)	2.2	2.0	2.2	2.4	2.3
Adjusted FFO interest coverage (x)	2.2	2.0	2.2	2.4	2.3
FFO/avg. total debt (%)	9.1	8.2	9.5	11.2	10.2
Adjusted FFO /avg. total debt (%)	8.9	8.1	9.5	11.2	10.4
NCF/capital expenditures (%)	44.9	29.5	20.2	79.3	88.7
Balance sheet (mil. C$)					
Cash	5.1	2.1	22.4	5.6	0.0
Gross plant	4,597.5	3,831.8	3,427.2	2,805.4	2,775.5
Net plant	3,779.2	3,079.9	2,727.6	2,154.7	2,168.6
Total assets	4,540.0	3,705.7	3,513.1	2,450.5	2,466.1
Short-term debt	548.9	528.6	459.5	529.2	674.6
Long-term debt	2,123.4	1,928.0	1,561.9	1,001.8	906.7
Common equity	1,240.6	715.1	684.5	626.3	590.0
Total capitalization	4,037.9	3,296.7	2,830.9	2,232.3	2,246.3
Total off-balance-sheet obligations	0.0	102.6	63.8	55.3	20.0
Balance-sheet ratios					

Short-term debt/total capital (%)	13.6	16.0	16.2	23.7	30.0
Long-term debt/total capital (%)	52.6	58.5	55.2	44.9	40.4
Total debt/total capital (%)	66.2	74.5	71.4	68.6	70.4
Common equity/total capital (%)	30.7	21.7	24.2	28.1	26.3
Adjusted total debt/total capital (%)	66.2	75.3	72.0	69.3	70.7
DD&A--Depreciation, depletion, and amortization. AFUDC--Allowance for funds used during construction.					

STANDARD & POOR'S CANADIAN RATINGS

Publication date: 01-Oct-2003
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Terasen Gas

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

Corporate Credit Rating

BBB/Stable/A-2

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

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

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

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Rationale

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

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

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

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

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

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

Outlook

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

Business Description

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

Business Profile

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

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

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

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

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

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

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

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

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

Financial Policy

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

Financial Profile

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

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

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

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

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

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

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Research:

Terasen Gas Inc.

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

BBB/Stable/NR

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

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

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

Major Rating Factors

Strengths:

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

- Efficient operator

Weaknesses:

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

Rationale

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

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

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

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

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

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

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

Liquidity.

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

Outlook

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

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

Table 1 Terasen Gas Ltd.--Peer Comparison*

Industry Sector: Gas Distribution Utilities--Canada

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

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

Table 2 Terasen Gas Ltd.--Financial Summary*

Industry Sector: Gas Distribution Utilities--Canada

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

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

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Research:

Terasen Inc.

Publication date: 17-Dec-2004
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Corporate Credit Rating

BBB/Stable/NR

Financial policy:
Below average
Debt maturities:
2004 C$51.8 million
2005 C$416.2 million
2006 C$838.9 million
2007 C$102.3 million
2008 C$390.3 million
Bank lines/Liquid assets:
Terasen Inc. and its subsidiaries have lines of credit in place totaling C$1,533 million.
Company Contact
David Bryson, Treasurer (604) 443-6527

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

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

Major Rating Factors

Strengths:

- Stable gas distribution franchises with no commodity risk

- Exclusive long-term contracts for petroleum transportation businesses
- Ninety-seven percent of revenues derived from regulated businesses

Weaknesses:

- Highly leveraged financial profile limits financial flexibility
- Volume throughput risk for petroleum transportation businesses
- Fuel switching by industrial gas customers

Rationale

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

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

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

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

Liquidity.

Standard & Poor's assesses Terasen's consolidated liquidity position to be adequate, given the company's stable cash flow generation, its ability to access capital markets, and its available bank facilities. With slightly over C$1.5 billion in committed bank lines of credit (which are used seasonally), the company and its subsidiaries have adequate funds available for operating purposes. As at Sept. 30, 2004, C$460 million of the credit lines were unused. The credit facilities primarily serve to back up the company's CP programs.

Outlook

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

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

Business Description

Terasen owns and operates Terasen Gas Inc., Terasen Gas (Vancouver Island) or TGVI, Terasen Pipelines (Trans Mountain) Inc., and Terasen Pipelines (Corridor) Inc. Express Pipeline L.P. and Express Pipeline Partnership continue to be rated on a standalone basis as the Express Pipeline project meets Standard & Poor's criteria for bankruptcy-remote entities.

Terasen is involved primarily in the distribution of natural gas and the transportation of crude and refined petroleum products. Ninety-seven percent of assets and 90.5% of revenues are regulated. Following the acquisition of an interest of Express Pipeline in January 2004, and the commencement of commercial operations on the Corridor Pipeline, petroleum transportation accounted for 25% of Terasen's operating income at the end of 2003. Terasen is also involved, to a lesser extent, in the water and utility services business.

Business Profile

Natural Gas Distribution

Regulation.

The British Columbia Utilities Commission regulates both Terasen Gas and TGVI, although there are differences between the arrangements. B.C.'s regulatory framework has evolved to an incentive-based system that enhances value to both customers and shareholders, from a recovery of all costs and a regulated rate-of-return system. Standard & Poor's views some aspects of the regulation, including the deferral accounts, as quite favorable as they mitigate commodity-price risk and enhance cash flow stability. The regulation, however, is considered weak in comparison with international peers with regard to the allowed ROE (9.03% for Terasen Gas and 9.53% for TGVI for 2005) and thin deemed equity layers (33% for Terasen Gas and 35% for TGVI).

TGVI has a separate regulatory arrangement that reflects the historical support of the provincial government, in the form of subsidy payments, for a natural gas distribution network on Vancouver Island. Historically, customer rates did not cover the full cost of providing service, and the subsidies are designed to offset the rate shortfall. Standard & Poor's expects the recovery of the deferral will be ongoing until the agreement with the government expires in 2011.

In Standard & Poor's view, the regulation for both Terasen Gas and TGVI should result in stable financial performance, as revenues and all major costs are relatively certain. Nevertheless, although the deferral accounts and rate setting process are effective, many other jurisdictions around the world have adopted similar mechanisms for mitigating financial risk. As a result, Terasen Gas and TGVI's financial performance and overall business risk profile is not exceptionally different than other BBB' rated regulated utilities. Furthermore, the regulation is considered weak in comparison with international peers with regard to the allowed ROE (9.03% for Terasen Gas and 9.53% for TGVI in 2005) and thin deemed equity layers (33% for Terasen Gas and 35% for TGVI). The combination of low profitability and high leverage results in an overall financial profile that is weak.

Markets.

Currently, Terasen Gas has over 860,000 customers, which represent about 95% of the existing natural gas users in British Columbia. Although the forest products sector dominates the British Columbia economy and accounts for about 60% of the industrial market volumes, Terasen Gas does not have significant customer concentration risk with about 1,150 industrial accounts. Of those accounts, 155 industrial customers have interruptible service, and unexpected changes in industrial consumption can have an effect on the company's earnings, although the utility can seek regulatory relief if industrial margins fall significantly below forecasts. TGVI serves about 77,000 customers, most of who reside on Vancouver Island or in Whistler, including seven pulp and paper mills and a natural gas-fired cogeneration facility. Standard & Poor's views the forest products industry in North America to be under pressure. Risks arising from exposure to customers in a volatile industry such as this are mitigated by the industrial customers relatively smaller contribution to overall customer and volume composition when compared with the residential and commercial segments.

Operations.

Terasen Gas is one of the more efficient gas distribution companies in Canada as measured by operating margin, operating costs per customer, and customers per employee. The integration of TGVI has resulted in the realization of some operational efficiencies.

Competitive position.

The gas distribution subsidiaries do not face direct competition. Nevertheless, alternative energy sources, primarily electricity, can be a factor for competition because British Columbia's abundance of hydroelectric power translates into very low rates for electricity. The previous government had instituted a rate freeze on electricity, but under the new government rates are expected to increase. In addition, due to environmental concerns it is highly unlikely that any new hydro dams will be built. Plans for new electricity generation are gas powered and would likely benefit Terasen Gas or TGVI. Natural gas still enjoys a price advantage over other fuel alternatives and dominates the residential single-family category for fuel of choice. Heating oil can be quite cost competitive, however, when gas prices rise, resulting in fuel-switching among a small percent of Terasen's industrial customers and possibly a reduction in industrial margin.

Petroleum Transportation

Regulation.

Although various regulatory bodies, including the National Energy Board (NEB), Alberta Energy and Utilities Board, and FERC, govern over the different pipelines, most operate outside the regulatory frameworks in place by virtue of their negotiated settlements with shippers.

Terasen Pipelines (Trans Mountain) primarily operates under a negotiated incentive toll settlement (2001-2005) with the Canadian Association of Petroleum Producers and Chevron Canada Ltd. Although the settlement exposes the Canadian operations to a limited amount of throughput risk excess revenue (generated from throughput volumes above 201,280 barrels per day (bpd)) is shared fifty-fifty by way of a credit to subsequent years' tolls. The U.S. portion of the pipeline's throughput does not operate under a negotiated settlement and is regulated by the FERC. The tolls have been in place since the 1980s and have not been altered as none of the shippers have complained. The Firm Service Agreement under which Terasen Pipelines (Corridor) operates is a long-term ship-or-pay contract that provides for recovery of all operating costs, depreciation, financing costs, and an allowed ROE. The Express system is regulated by the NEB for the Canadian portion and the FERC for the U.S. portion. Tolls are regulated on a complaint basis only.

Markets.

Terasen Pipelines (Trans Mountain) is the only pipeline option to Canada's west coast and the northwest U.S. Because of this, it is also affected by the economies of British Columbia and the northwest U.S. Terasen Pipelines (Trans Mountain) links up to one refinery and three product terminals in Vancouver. The U.S. system is the only pipeline that delivers to four large refineries in Washington State. The Canadian market is expected to remain stable while the U.S. market is expected to show increased demand.

Terasen Pipelines (Corridor) is a dedicated pipeline serving the Athabasca Oil Sands project. As a significant portion of the pipeline's throughput is dedicated to Shell Canada Ltd.'s Scotford refinery, output from the pipeline has a ready market.

The Express Pipeline system should benefit as the growth in Canadian crude exports to the U.S. is expected to continue. Both the second and fourth Petroleum Administration for Defense District (PADD II and PADD IV) are short crude due to declining supply and increasing demand, and

Standard & Poor's expects this trend to continue.

Operations.

Most operating risks on the Canadian portion of the Trans Mountain system are mitigated by the incentive toll settlement in place. On the U.S. system, there are no long-term contracts in place with shippers; capacity is bid for each month, exposing the pipeline to throughput risk.

The biggest risks of operating the Express system are the ability to contain costs and to market capacity. Since a substantial portion of the revenues is essentially fixed because of the Transportation Service Agreements (TSAs), escalating expenses or lower-than-expected volumes could negatively affect cash available for debt service. Therefore, if the project is not able to sign up expected uncommitted volumes, it must have the flexibility to lower operating costs. The three key operating cost components are the operating and maintenance contract costs, property taxes, and power costs. The largest and most variable of these three components is power costs. The Express Pipeline has a design capacity of 172,000 bpd and will be expanded to 282,000 bpd by April 2005. The project has signed new TSAs through 2014 and 2015 for 105,000 bpd of capacity to supplement existing TSAs covering 126,000 bpd.

In addition, there are no meaningful operating risks associated with the Corridor pipeline. The firm service agreement on the Corridor pipeline mitigates the volume throughput risk, as the shippers have made a take-or-pay commitment to transport a total 150,000 bpd of bitumen and 65,000 bpd of diluent in the pipeline.

Financial Profile

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

Accounting.

Terasen's consolidated financial statements are prepared in accordance with Canadian GAAP. No material changes to Canadian GAAP or the accounting policies adopted by the company are expected in the foreseeable future that would materially alter the financial statements as presented. In addition to the adjustments for operating leases, Standard & Poor's makes an offsetting adjustment to Terasen's total debt outstanding for the amounts relating to purchased gas-in-storage. The gas-in-storage amounts are financed using the company's CP program, and are reported as part of short-term debt. Given the expectation of full recovery of the commodity costs under regulatory recovery provisions, Standard & Poor's views these amounts as working capital items, therefore, the amounts are removed from short-term debt and added to the company's accounts payable.

Profitability and cash flow.

Terasen has demonstrated relatively stable margins, given the full-cost pass through on the regulated assets and throughput stability on the pipelines. Although weather variability can have a short-term effect, the regulated assets' deferral accounts ultimately mitigate this variability. Profitability at the gas distribution utilities is constrained by the regulatory arrangements. Profitability at Terasen Pipelines (Trans Mountain) and Express Pipeline is influenced by throughput on the pipeline systems.

Although the company has generated stable cash flows, Standard & Poor's view the coverages generated under the regulatory framework as weak with funds from operations (FFO) interest coverage at 2.4x and FFO-to-total debt of 10%. The double leverage at the parent company level and the initial use of 100% debt financing for the Corridor pipeline also exacerbate Terasen's credit metrics. The thin interest coverage allows very little protection for unforeseen circumstances or poor operating or financial performance.

Capital structure and financial flexibility.

Financial flexibility is limited by the aggressive consolidated capital structure. Acquisitions or new projects would need to be financed with an appropriate combination of debt and equity, if leverage is to improve. Capital expenditures are expected to scale back after several years of significant spending on Corridor and the Southern Crossing pipelines. Nevertheless, capital spending on future expansion projects, such as the Corridor expansion, the proposed Bison Pipeline, and the TMX expansion, is currently estimated at C$3.0 billion. Terasen's consolidated capital structure would remain under pressure if the company were to finance these projects consistent with its previous financing policies; however, the full effect on its cash flow protection measures would depend on the returns generated by these assets.

The company's existing debt maturity schedule has large maturities in 2005 and 2006, although Standard & Poor's expects the company will refinance a large portion of the Terasen Pipelines (Corridor) debt in the next year to balance out the debt maturity profile. The company's cash generation is weak in relation to its total debt load, and thus, failure to refinance and balance out the debt maturity profile would increase the financial risk.

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

Table 1 Terasen Inc.--Peer Comparison *

Industry Sector: Gas Distribution Utilities--Canada					
		--Average of past three fiscal years--			
	Sector median	Terasen Inc.	Enbridge Inc.	Gaz Metro Inc.	TransCanada PipeLines Ltd.
Rating		BBB/Stable/NR	A-/Stable/--	A-/Stable/--	A-/Negative/--
(Mil. C$)					
Sales	1,766.7	1,750.0	4,484.3	1,803.9	5,273.3
Net income from continuing operations	117.7	114.3	502.1	149.7	800.3
Funds from operations (FFO)	251.9	243.7	811.8	310.9	1,497.3
Capital expenditures	153.2	362.8	601.5	93.8	494.0
Total debt	1,589.5	2,688.0	7,033.8	1,356.7	11,365.7
Preferred stock	57.3	125.0	593.6	0.0	1,062.7
Total capital	2,923.1	3,899.8	10,860.8	2,193.6	18,195.7
Ratios					
EBIT interest coverage (x)	1.9	1.8	2.2	2.5	2.2
FFO interest coverage (x)	2.5	2.2	2.6	4.2	2.3
Return on common equity (%)	11.6	11.6	16.8	18.1	13.9
NCF/capital expenditures (%)	68.5	48.0	87.6	178.8	191.7
FFO/total debt (%)	12.3	9.4	11.4	23.2	12.4
Total debt/capital (%)	63.9	68.9	64.8	61.9	62.5

*Adjusted for off-balance-sheet obligations and capital operating leases. NCF--Net cash flow.

Table 2 Terasen Inc --Financial Summary *

Industry Sector: Gas Distribution Utilities--Canada							
	--Average of past three fiscal years--		--Fiscal year ended Dec. 31st--				
Rating history			BBB/Stable/A-2	BBB+/Watch Neg/--	BBB+/Stable/--	NR.	NR.
	Sector median	Issuer	2003	2002	2001	2000	1999
(Mil. C$)							
Sales	1,766.7	1,750.0	1,876.6	1,707.2	1,666.3	1,305.6	1,040.6
Net income from continuing operations	117.7	114.3	139.4	112.5	91.0	112.7	81.2
Funds from operations (FFO)	251.9	243.7	292.3	244.0	194.9	176.4	174.4
Capital expenditures	153.2	362.8	222.9	395.7	469.8	620.6	163.6
Total debt	1,589.5	2,688.0	2,898.4	2,723.1	2,442.7	1,988.6	1,536.9
Preferred stock	57.3	125.0	125.0	125.0	125.0	125.0	0.0
Total capital	2,923.1	3,899.8	4,328.0	4,088.7	3,282.8	2,798.1	2,238.2
Ratios							
EBIT interest coverage (x)	1.9	1.8	1.9	1.7	1.7	1.8	2.0
FFO interest coverage (x)	2.5	2.2	2.4	2.2	2.0	2.2	2.4
Return on common equity (%)	11.6	11.6	11.0	11.5	13.0	17.2	13.4
NCF/capital expenditures (%)	68.5	48.0	92.5	44.9	29.5	20.2	79.3
FFO/total debt (%)	12.3	9.4	10.3	9.2	8.5	9.9	11.5
Total debt/capital (%)	63.9	68.9	67.0	66.6	74.4	71.1	68.7

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

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Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

July 15, 2005
Research Comment
Pipelines

Karen Taylor, CFA
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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.

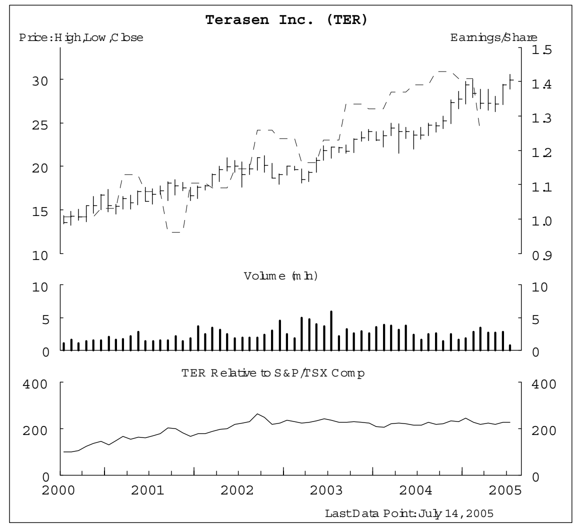
Valuation

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

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.

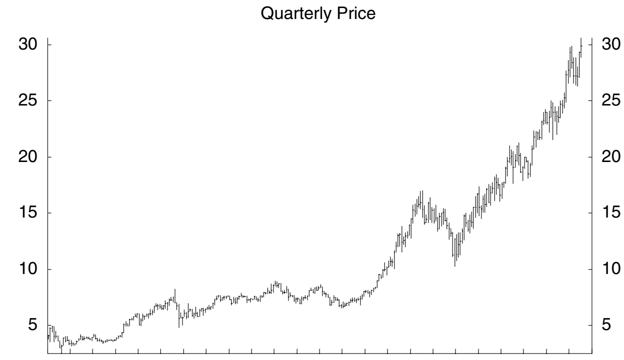
Table 1. Consolidated Summary Sheet

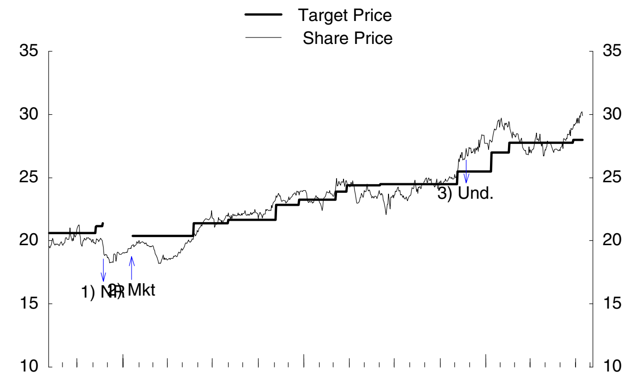
18/07/2005 Karen J. Taylor
Current Price: $30.10 BMO Nesbitt Burns Inc.
12-Month Target Price: $28.00
Rate of Return: -3.99% Recommendation: Underperform

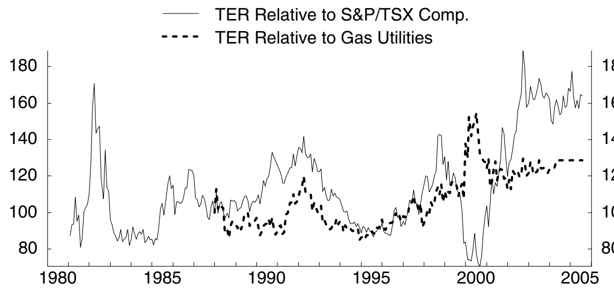
	Year Ending December 31							
	1999	2000	2001	2002	2003	2004	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.54
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07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

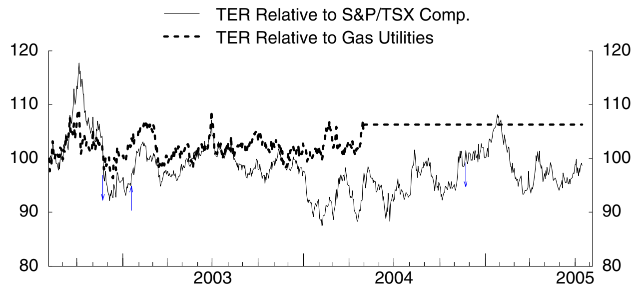
Source: BMO Nesbitt Burns

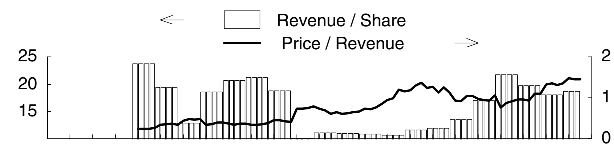
Terasen Inc. (TER)

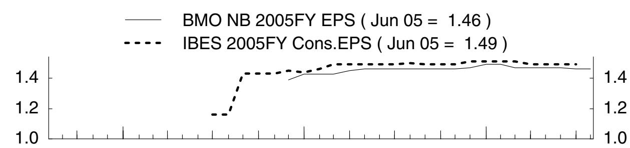


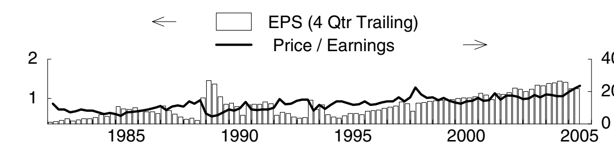


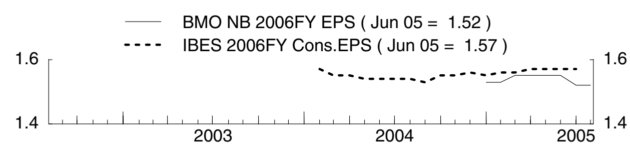












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34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

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	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.

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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 26, 2005
Research Comment
Pipelines

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Assoc: Keith Carpenter

Investor Meetings with Management; No Change in View - Underperform

Event

On May 19 and May 20, we hosted a series of investor meetings and luncheon with Terasen Inc.'s senior management, including Randy Jesperson, President, Terasen Gas Inc., Gordon Barefoot, SVP and Chief Financial Officer, Terasen Inc. and David Bryson, Treasurer, Terasen Inc.

Impact

Neutral.

Forecasts

No change.

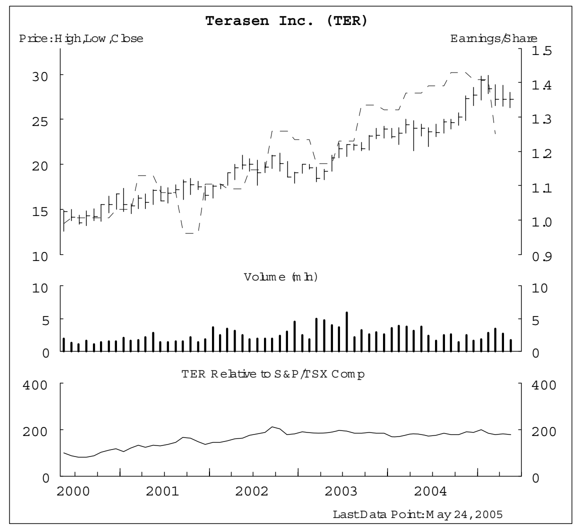
Valuation

Our target price of $27.75 reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.55 (12.5%), 1.75x 2006E book value per share of $14.34 (12.5%), and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We rate the shares of Terasen Underperform.

Price (24-May)	$27.25	52-Week High	$29.91
Target Price	$27.75	52-Week Low	$22.00



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.47	$1.55
P/E			18.5x	17.6x
CFPS	$2.58	$3.27	$3.07	$3.24
P/CFPS			8.9x	8.4x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,113	$6,259
EBITDA ($mm)	$503	$521	$588	$625
EV/EBITDA	10.5x	11.0x	10.4x	10.0x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.60a	$0.23	$0.09	$0.55

Dividend	$0.90	Yield	3.3%
Book Value	$13.47	Price/Book	2.0x
Shares O/S (mm)	105.3	Mkt. Cap ($mm)	$2,869
Float O/S (mm)	105.3	Float Cap ($mm)	$2,869
Wkly Vol (000s)	529	Wkly $ Vol (mm)	$13.9
Net Debt ($mm)	$3,165.7	Next Rep. Date	28-Jul (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2005E: $1.49; 2006E: $1.57

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.

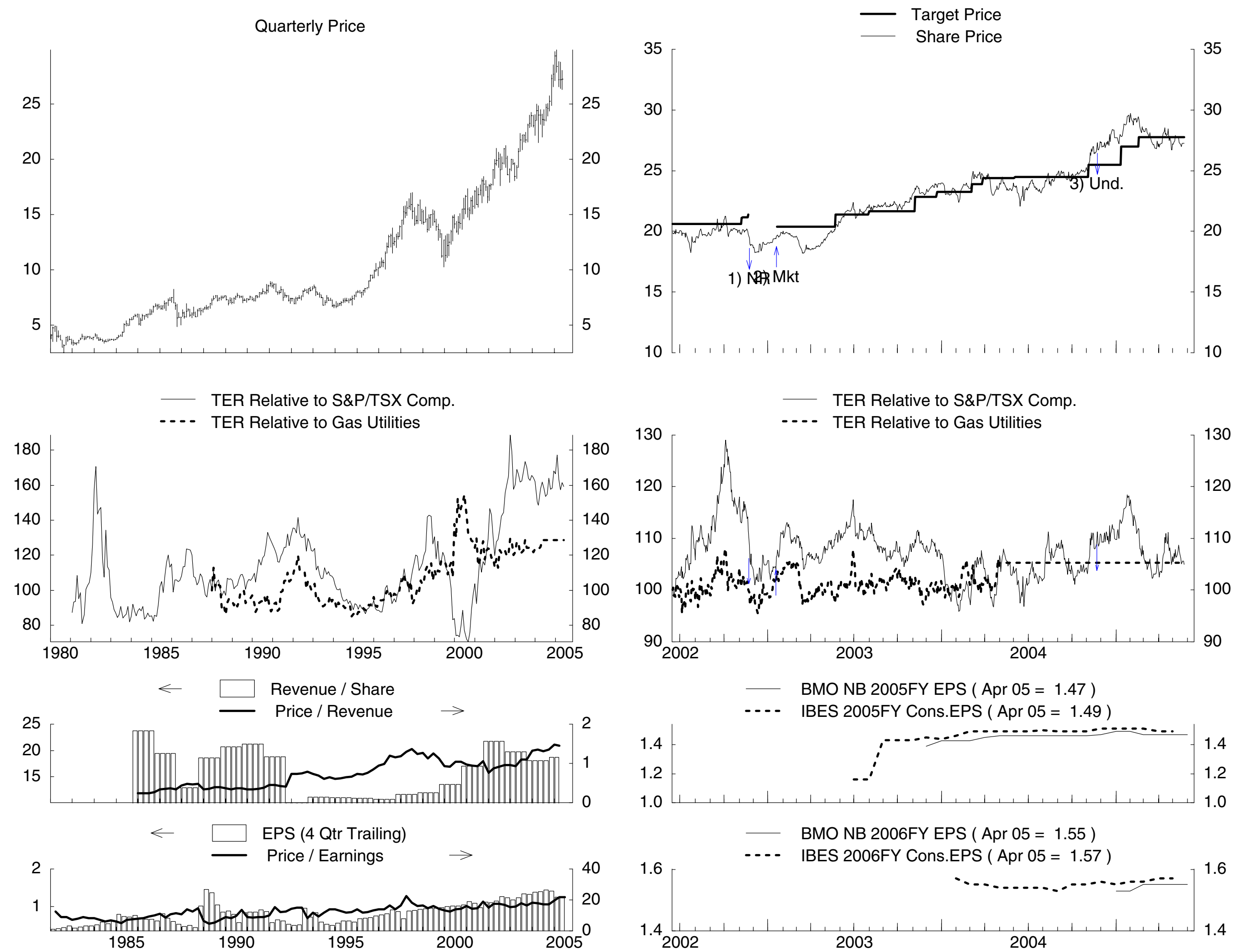
Table 2. Consolidated Summary Sheet

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.

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

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	37%	43%	45%
Hold	Market Perform	47%	44%	47%
Sell	Underperform	16%	13%	8%

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

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

Ratings Key

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

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

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

Dissemination of Research

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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)

November 24, 2004
Research Comment
Pipelines

Stock Rating: Underperform ↓
Industry Rating: Underperform

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

BCUC Releases 2005 ROE; Rating Lowered to Underperform

Event

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

Impact

Neutral.

Forecasts

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

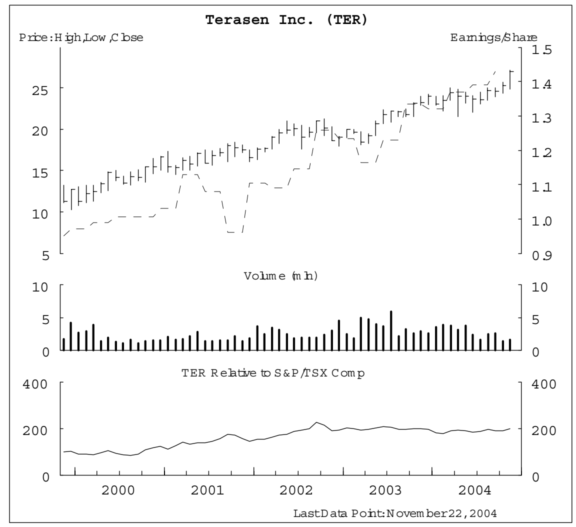
Valuation

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

Recommendation

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

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



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

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

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

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

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

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

Table 1. Consolidated Summary Sheet

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

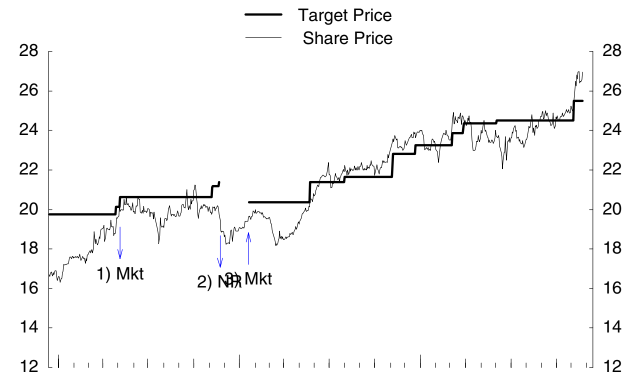
	Year Ending December 31							
	1999	2000	2001	2002	2003	2004E	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.47	$1.51
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.48	$1.53
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.94	$0.93	$0.93
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.66	$0.69	$0.71
Water/Other Businesses	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.19)	($0.14)	($0.11)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87	$0.91
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	58.8%	59.5%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	104.7	104.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.02	$13.64	$14.25

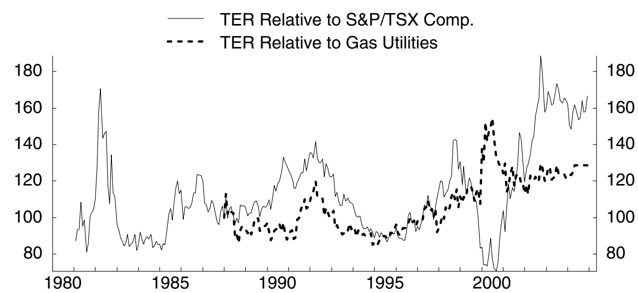
Market Valuation	1999	2000	2001	2002	2003	2004E	2005E	2006E
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	-	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	-	-	-
Price: Current	-	-	-	-	-	$27.31	-	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	-	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	-	-	-
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%

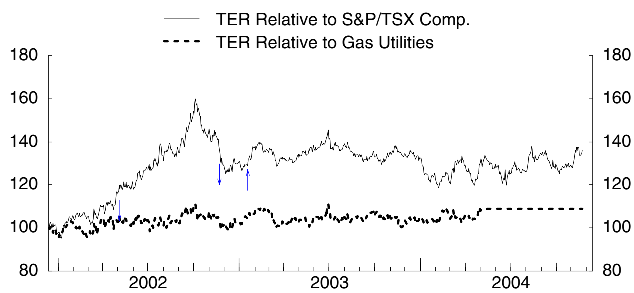
Balance Sheet ($mm)	1999	2000	2001	2002	2003	2004E	2005E	2006E
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	779.3	1,650.7	1,753.1
Debt (L-T)	1,001.8	1,561.9	1,928.0	2,123.4	2,301.1	2,174.9	1,336.0	1,233.7
Deferred Taxes	35.0	47.3	56.8	58.1	67.5	58.1	58.1	58.1
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	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%

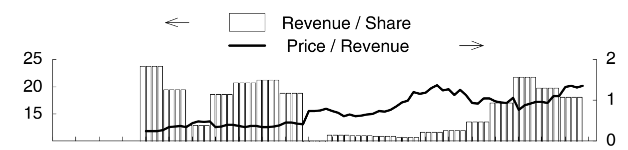
Income Statement ($mm)	1999	2000	2001	2002	2003	2004E	2005E	2006E
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	147.5	155.5	159.2
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	147.5	155.5	159.2
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	250.0	259.8	265.2

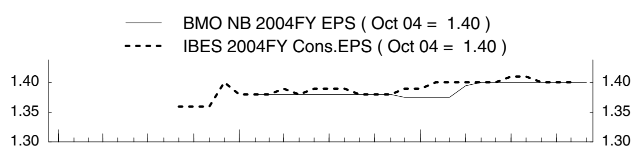
Terasen Inc. (TER)

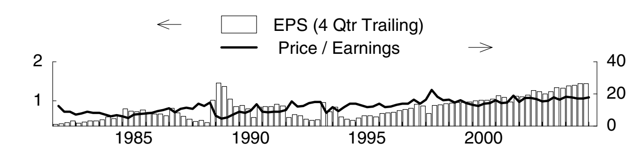


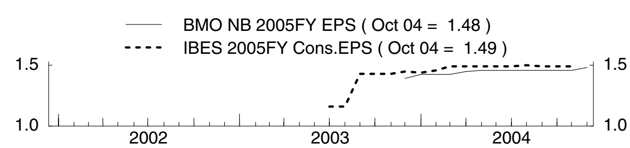












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34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

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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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 IB. 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

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: Market Perform
Industry Rating: Underperform

November 5, 2004
Research Comment
Pipelines

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Assoc: Andrew Shufelt/Keith Carpenter

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

Event

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

Impact

Neutral.

Forecasts

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

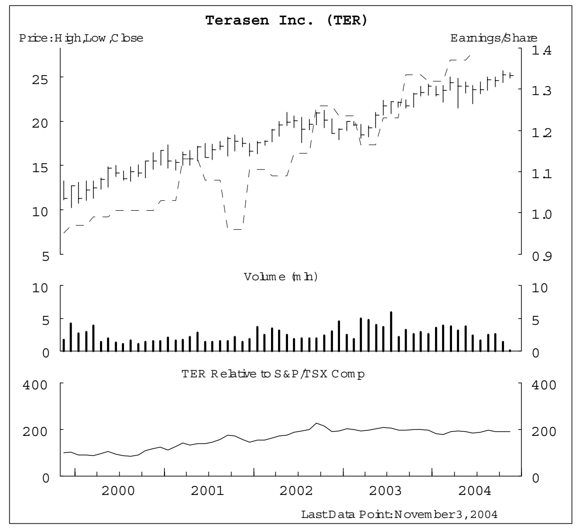
Valuation

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

Recommendation

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

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



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

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

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

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

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

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

Details & Analysis

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

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

- Contribution on the Express Pipeline of $3.8 million in the quarter is approximately $1.0 million ($0.01 per share) higher than the quarterly run-rate implicit in our financial model. We note that although the pipeline is presently being expanded to 280,000 bbls/d from the current capacity of 172,000 bbls/d and that shipper agreements are in place for total capacity of approximately 247,000 bbls/d, until the expansion is in-service on April 1, 2005, the sale of pipeline capacity that is not presently subject to contracts (approximately 30,000 bbls/d) due to higher volumes available for transportation to PADD IV enhances the contribution from the pipeline.
- Contribution from the Water and Utility Services segment in Q3/04 was approximately $0.02 per share higher than expected. Quarterly results include the contribution from Fairbanks Sewer & Water Inc., acquired on July 31, 2004. The acquisition has been fully incorporated into our financial model since the transaction was announced on April 21, 2004.

Earnings by Segment are set out in Table 1 below.

Table 1. Q3/04 Earnings by Segment

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

Source: Company Reports, BMO Nesbitt Burns

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

Estimates

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

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

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

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

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

Table 2. Projects In Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$110	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d - Confirmed December 22
Corridor Pipeline	75,000 bbls/d	C$120	2008/9	NA	Increase Capacity to 230,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	NA	NA	2010	NA	Looping of Pipeline; Third Train Muskeg to 290,000 bbls/d
Bison Pipeline	175,000 bbls/d	C$410	Post 2010	NA	New Pipeline Proposal - Dependent Upon Jackpine Mine Development
Bison Pipeline - Phase I	150,000 bbls/d	C$190	Post 2010	NA	Increase Capacity to 325,000 from 172,000 bbls/d
Bison Pipeline - Phase II	345,000 bbls/d	C$430	Post 2010	NA	Increase Capacity to 670,000 from 325,000 bbls/d
Trans Mountain - Loop I	75,000 bbls/d	C$6-700	Late 2008	NA	Increase Capacity to 300,000 from 225,000 bbls/d
Trans Mountain - Loop II	100,000 bbls/d	C$6-700	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Trans Mountain - Loop III	350,000 bbls/d	C$8-900	2011	NA	Increase Capacity to 750,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	NA	2011	NA	Increase Capacity by 550,000 above TX 1 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

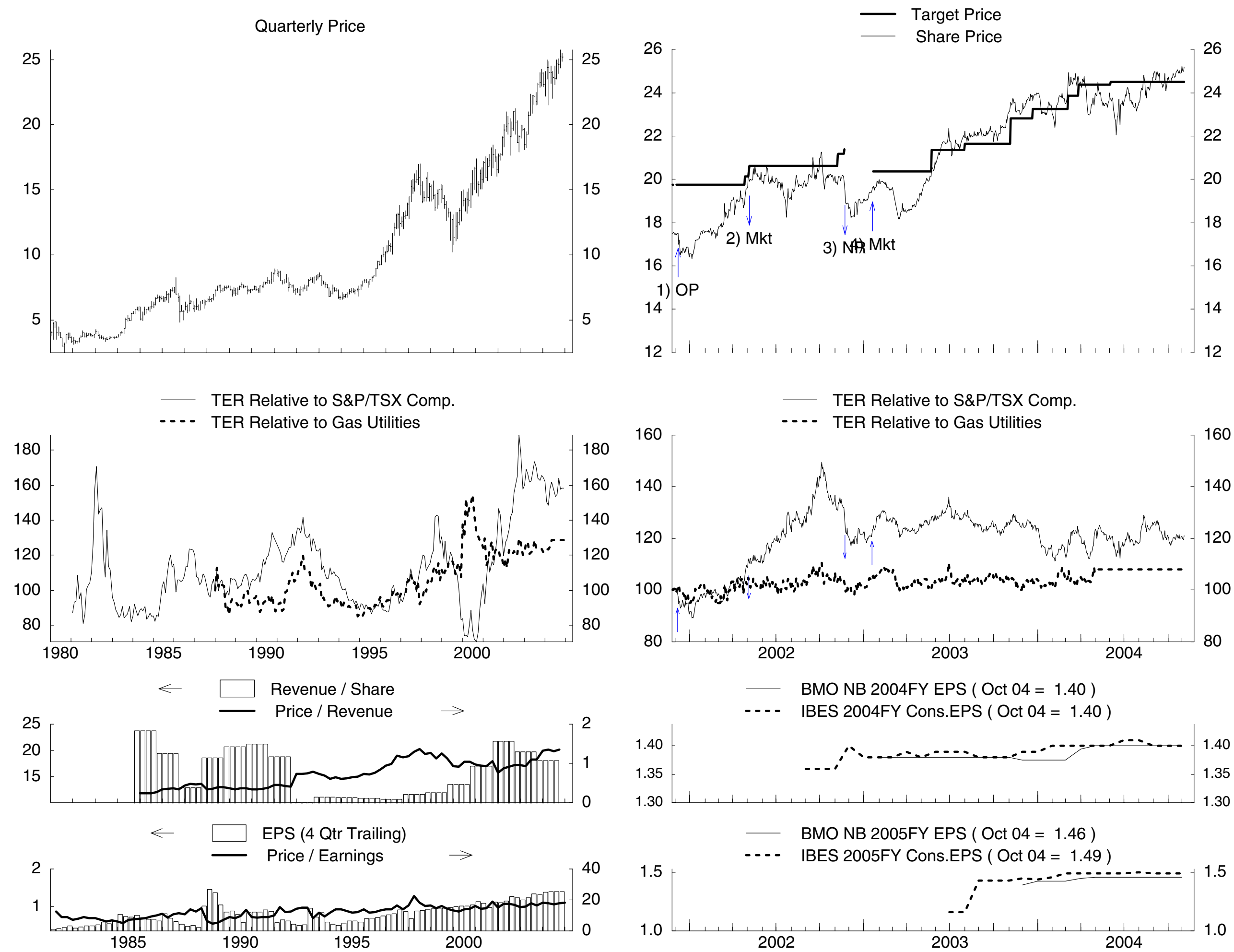
		1999	2000	2001	2002	2003	2004E	2005E	2006E
Diluted EPS (Prior to One-Time Items)		$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.48	$1.52
Total EPS (Prior to One-Time Items)		$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.49	$1.54
Segmented EPS:	Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.93	$0.94	$0.94
	Trans 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	1999	2000	2001	2002	2003	2004E	2005E	2006E
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)	1999	2000	2001	2002	2003	2004E	2005E	2006E
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 ($mm)	1999	2000	2001	2002	2003	2004E	2005E	2006E
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	148.1	156.6	160.3
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	148.1	156.6	160.3
Cash Flow from Operations ($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.

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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.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

November 6, 2003
Research Comment
Gas & Electrical

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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.

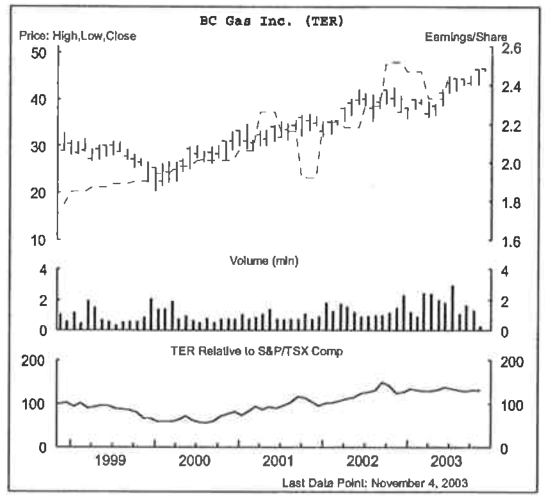
Valuation

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.

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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.

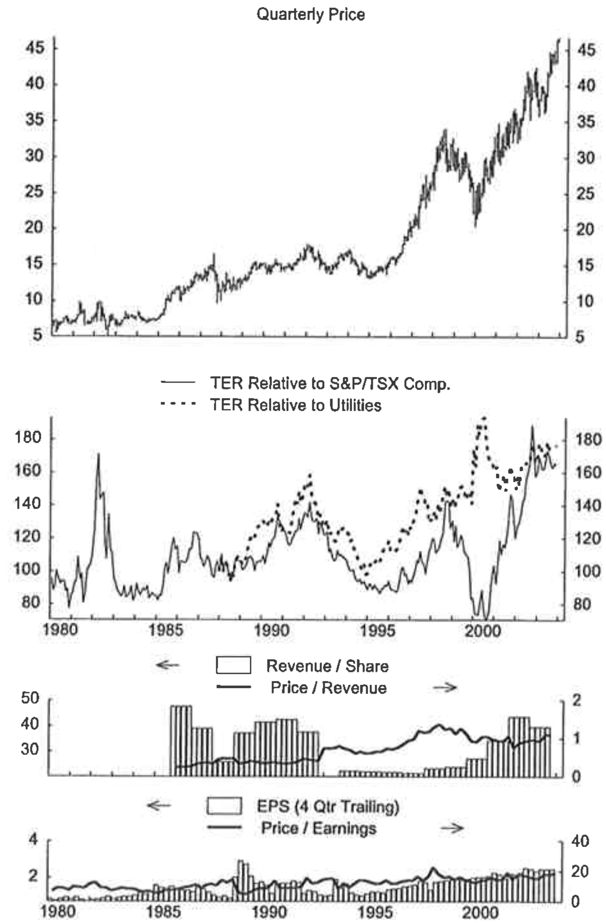
Recommendation

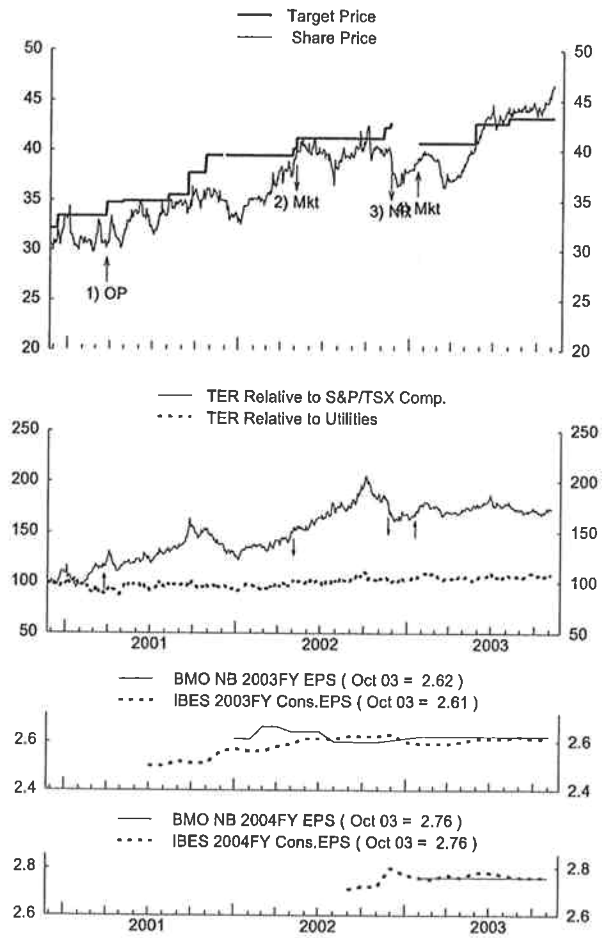
We believe the shares are reasonably valued at present levels. We rate the shares Market Perform.

11/5/2003			Karen J. Taylor
Current Price:	$47.13		BMO Nesbitt Burns Inc.
12-Month Target Price:	$45.65		
Rate of Return:	0.27%	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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BC Gas

(BCG-TSX)

April 28, 2003
Research Comment
Gas & Electrical

Stock Rating: Market Perform
Industry Rating: Underperform

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Assoc: Andrew Shufelt

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.

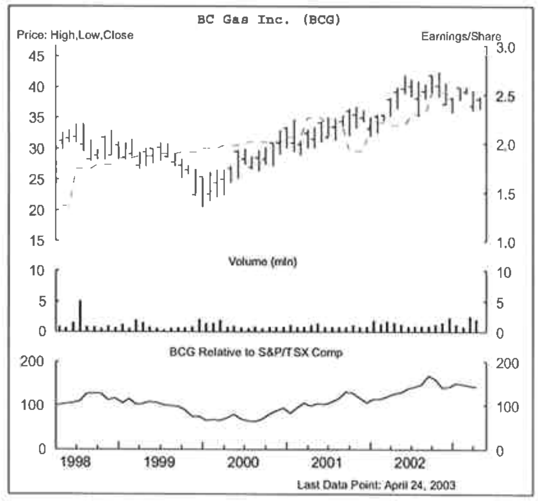
Valuation

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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Assoc: Andrew Shufelt

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.

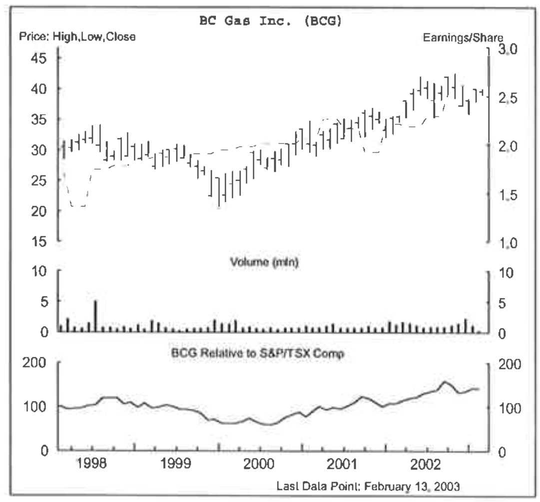
Valuation

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:

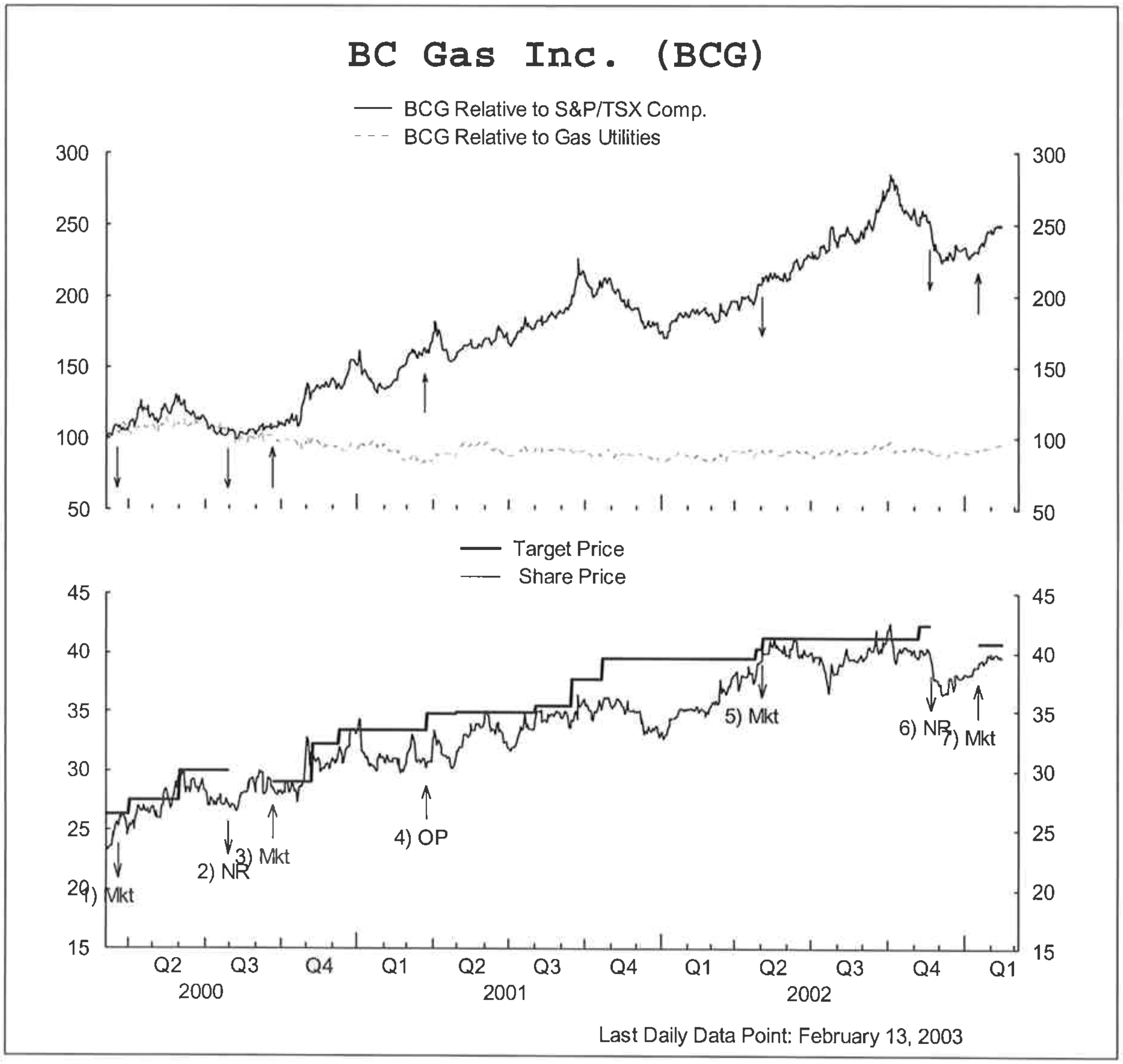
- $12 million contribution from the Express Pipeline System in fiscal 2003 and 2004;
- We believe the Corridor Pipeline will be in service by April 1, 2003. The pipeline will commence commercial operations on the first day of the month of the following the date production volumes from the Athabasca Oil 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)

Stock Rating: Market Perform
Industry Rating: Underperform

November 7, 2002
Research Comment
Gas & Electrical

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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.

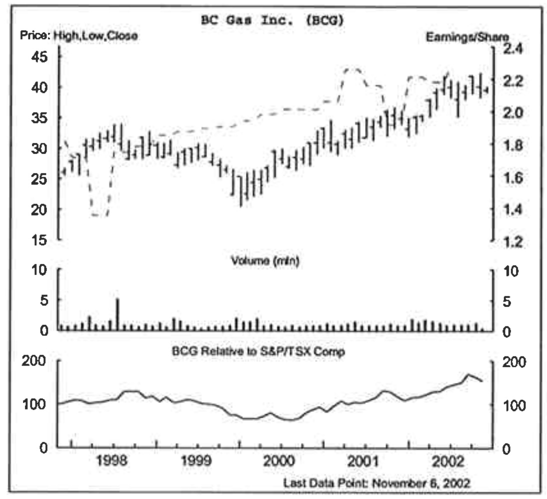
Impact
Slightly positive.

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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Assoc: Andrew Shufelt

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.

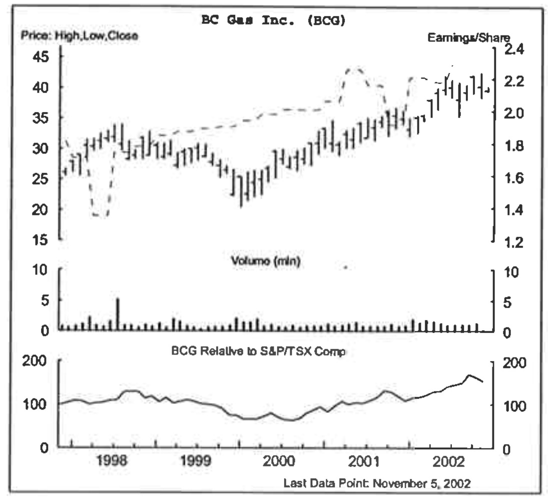
Valuation

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

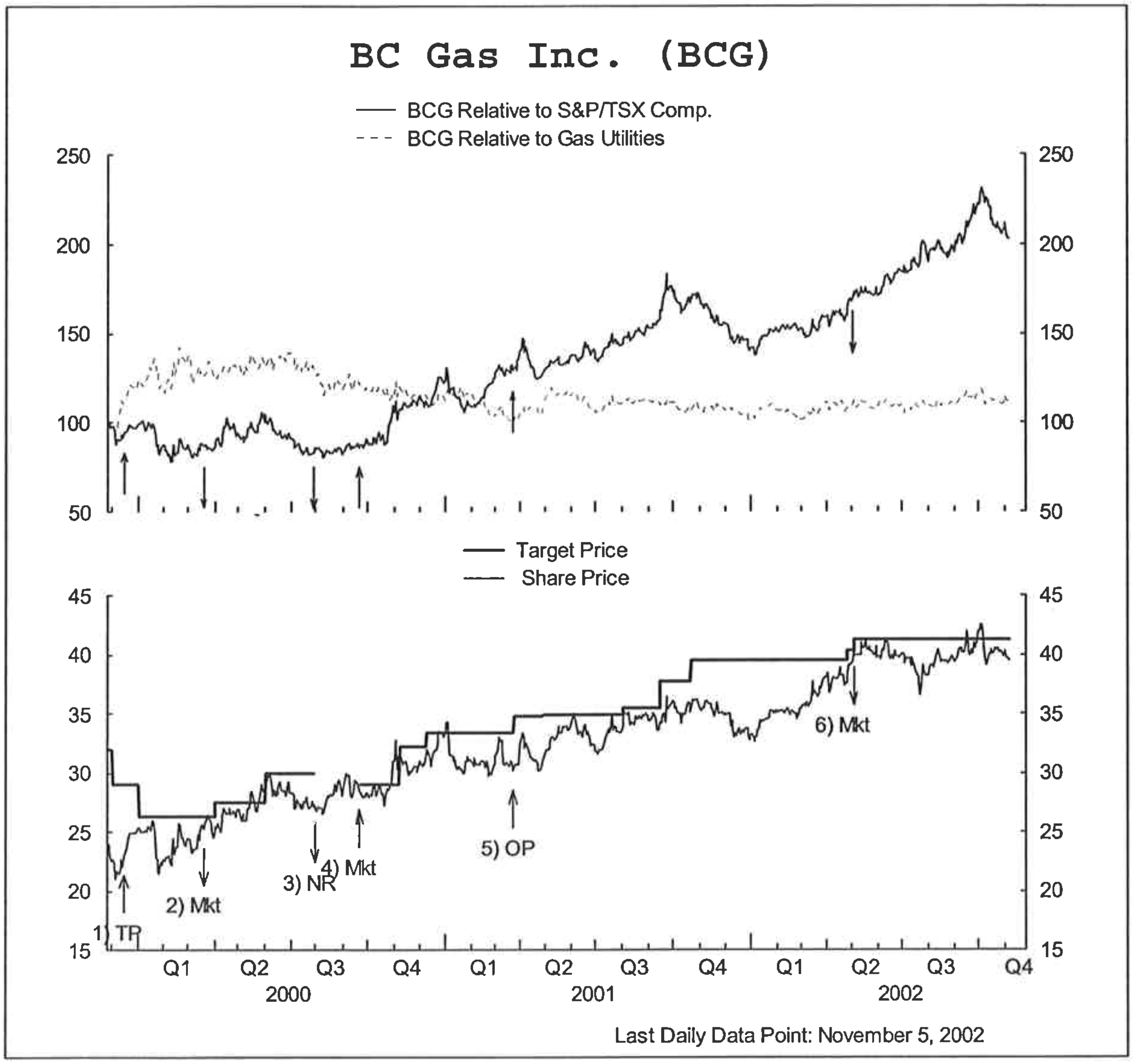
Decisions from these proceedings are expected from the BCUC in late 2002 or in Q1/03. As discussed above, we believe that a certain amount of rebasing is likely. As a result, our 2003 and 2004 estimates increase only modestly to reflect higher incentive gains, but at a rate lower than realized year to 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**

Price (10 – Oct)	$41.65	52-Week High	$42.50
Target Price	$41.25	52-Week Low	$32.07

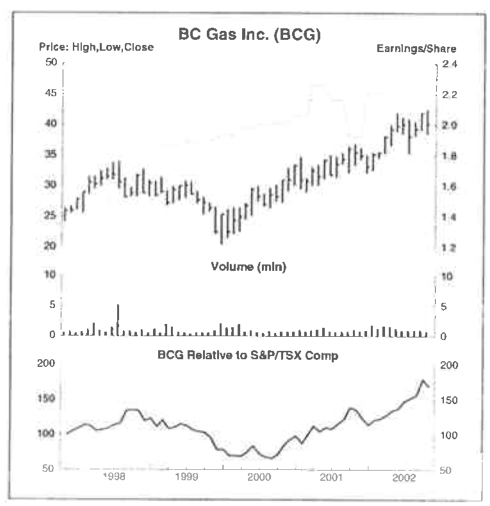
(FY – Dec)	2001A	2002E	2003E
EPS (diluted)	$2.19	$2.35	$2.60
P/E		17.7x	16.0x
CFPS	$1.56	$4.64	$4.86
P/CF		8.9x	8.6x
Div.	$1.30	$1.41	$1.53
EV ($mm)	4,234	4,930	5,123
EBITDA ($mm)	457	495	495
EV/EBITDA	9.3x	10.0x	10.3x

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

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.



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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.

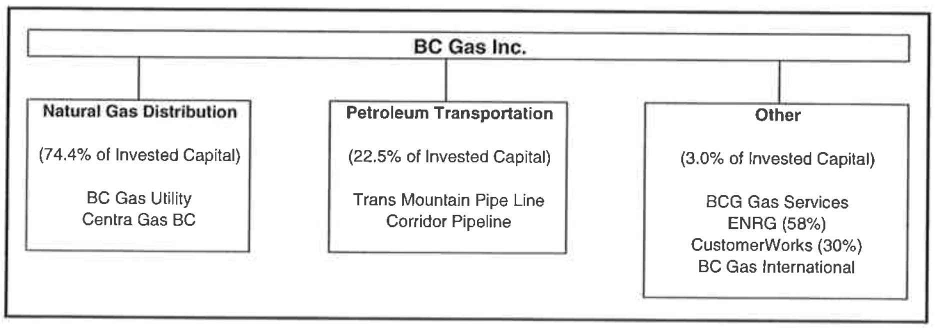
B. Organizational Structure

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

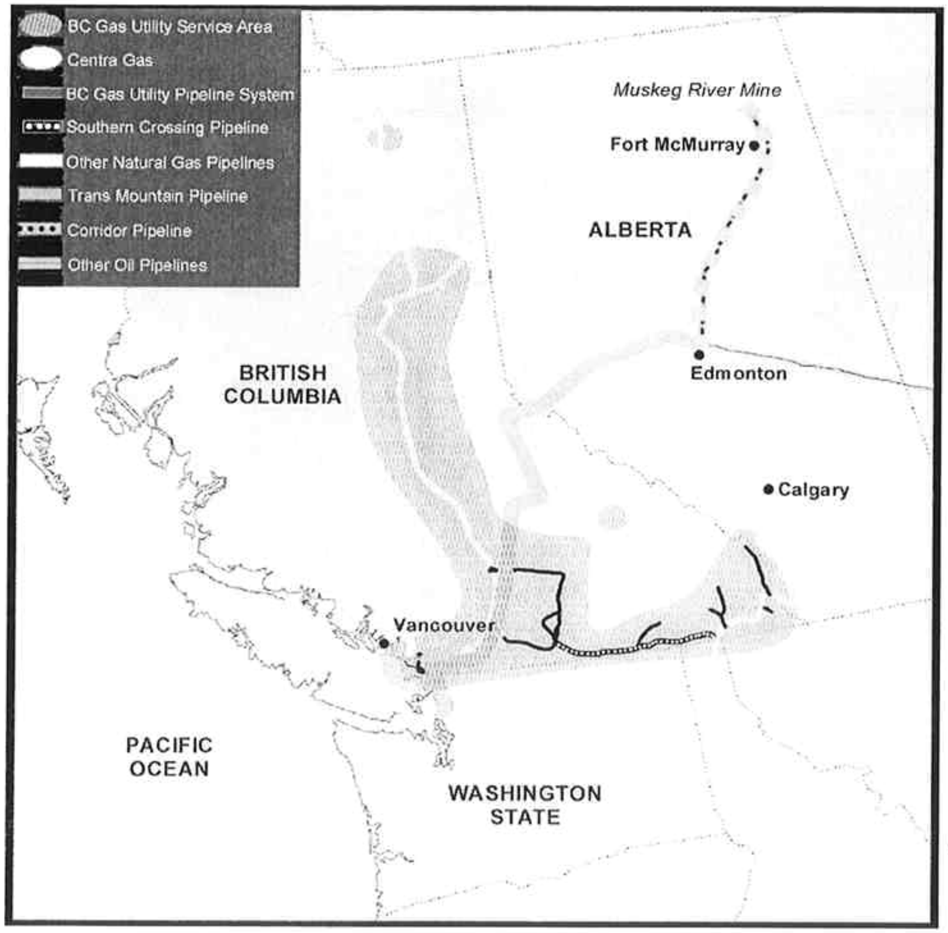
1. Natural Gas Distribution

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%).

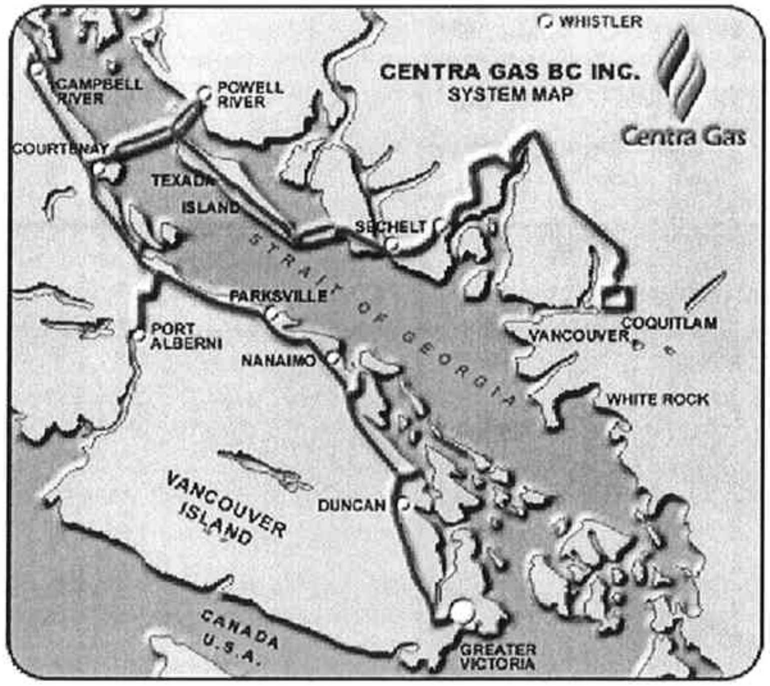
Chart 2: *BC Gas Utility Service Area*



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.

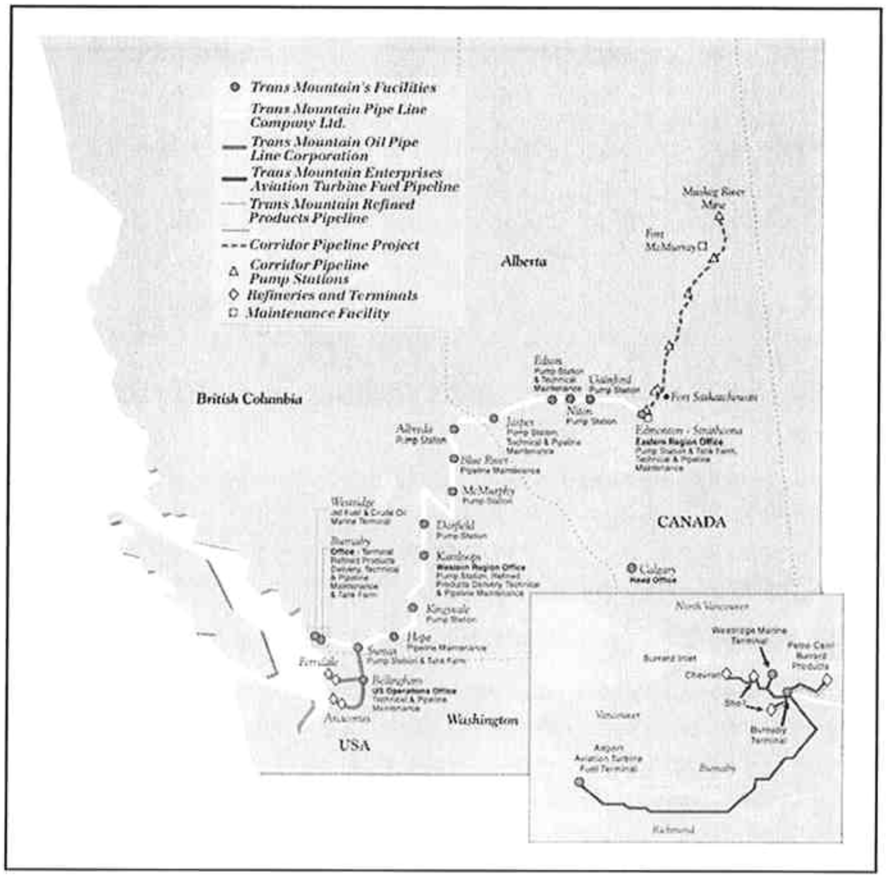
3. Present in-franchise opportunities include improved natural gas penetration rates by potential customers (residential, commercial and large industrial) and the promise of additional load from future power generating facilities on Vancouver Island, such as the proposed 265 MW Vancouver Island Generation 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 m³/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 m³/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.

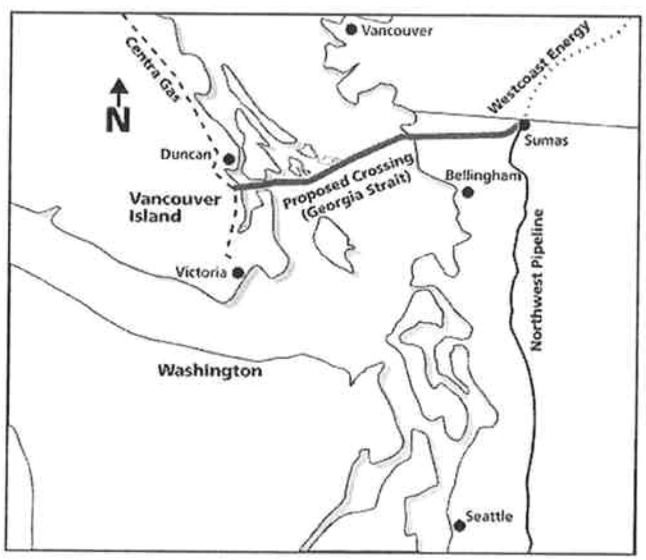
2. Expansion of the Natural Gas Distribution Network

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).

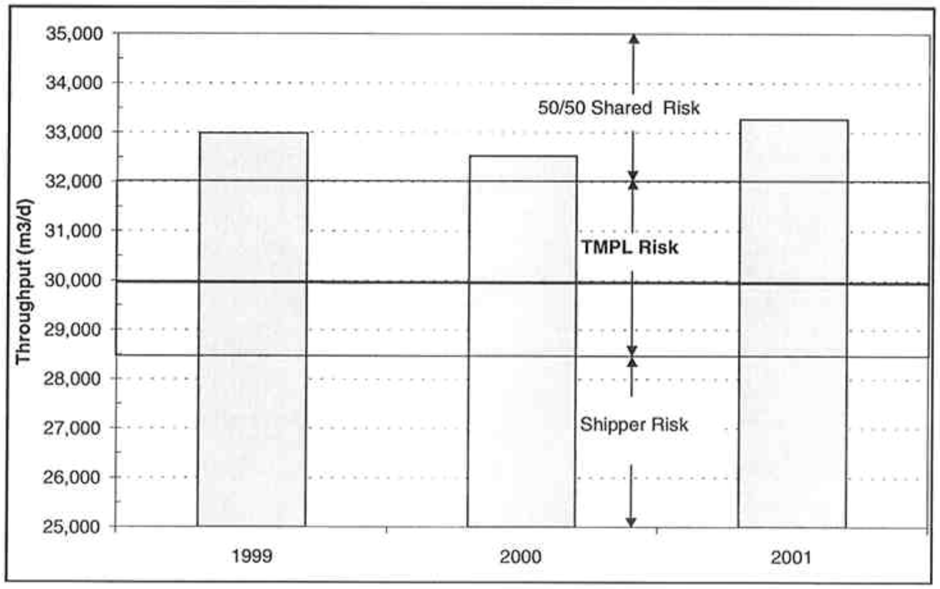
The Canadian portion of the Trans Mountain mainline is subject to incentive regulation; the initial agreement was in effect from 1996 to 2000. Under the auspices of this Performance Based Ratemaking agreement, the company completed an organizational restructuring, reducing staff levels by 25% and relocating 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.

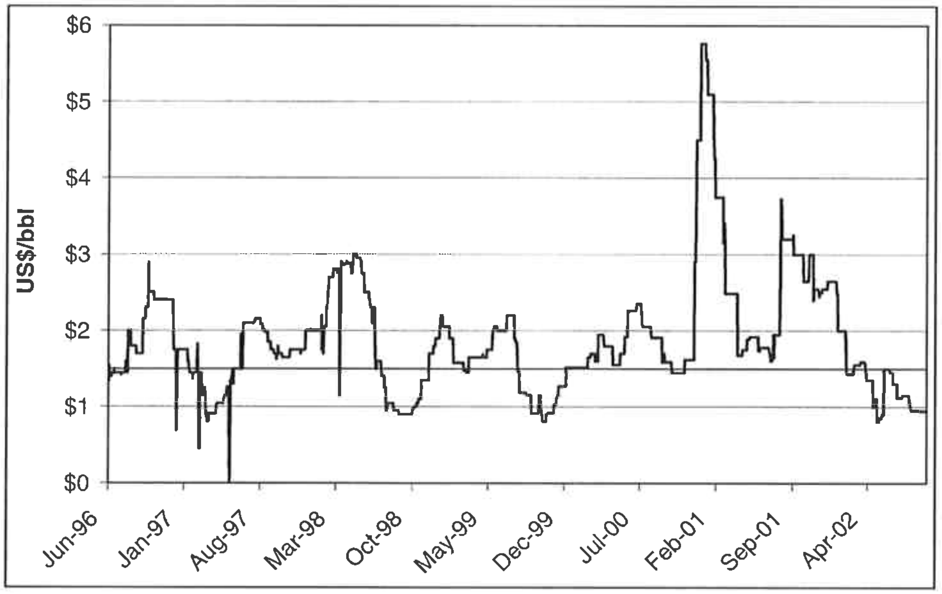
***Chart 7:** Incentive Regulation Risk/Benefit*



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.

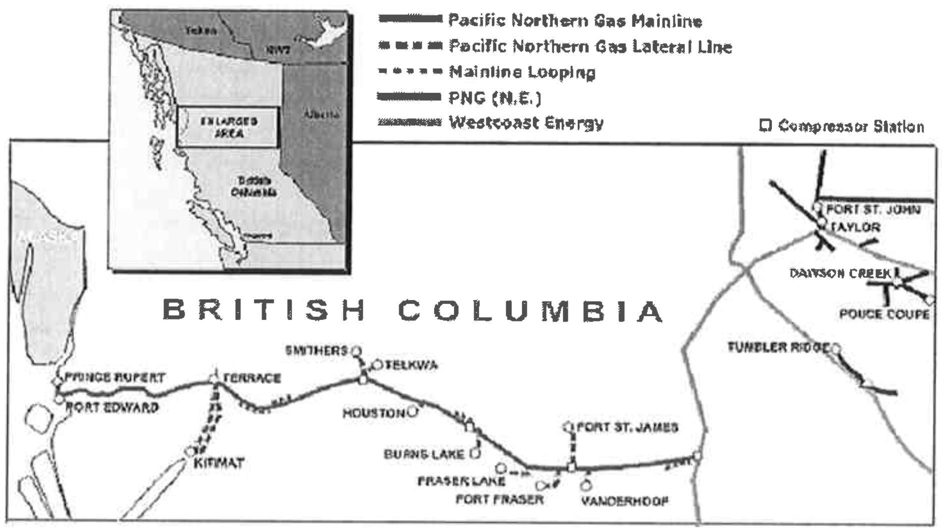
3. **Competition to Trans Mountain Pipe Line:** Trans Mountain Pipe Line is currently the only major pipeline system transporting crude oil volumes from Alberta to British Columbia and the Pacific Northwest. Enbridge is considering the construction of the $2.5–3.0 billion Gateway pipeline that would 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.

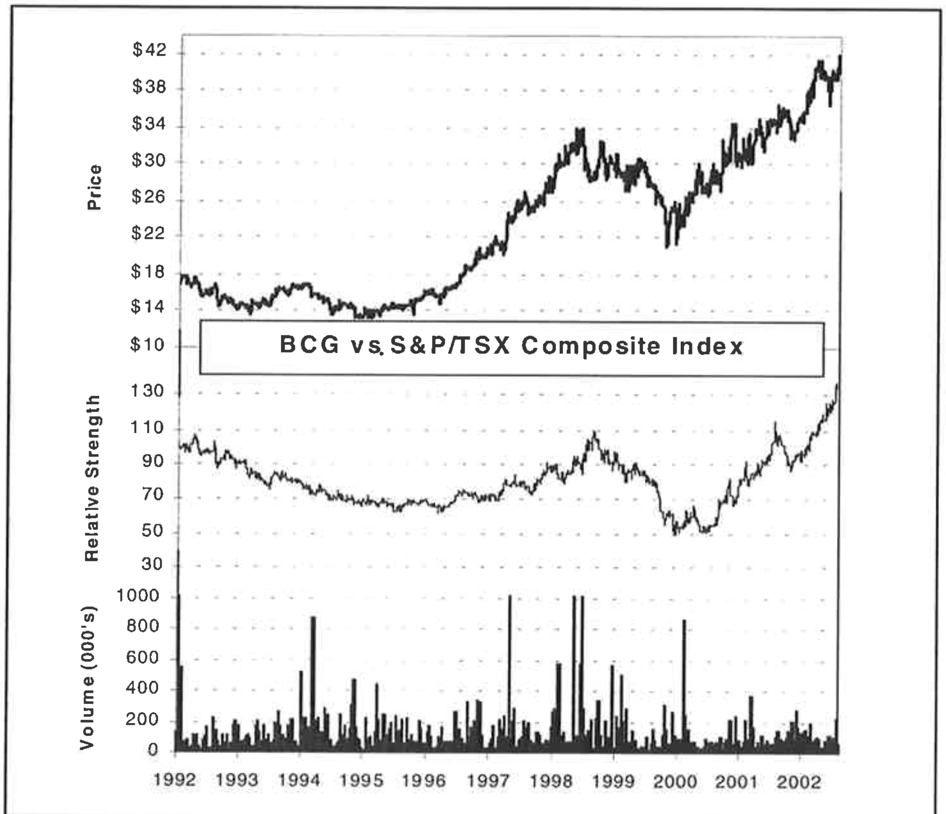
H. Valuation

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.

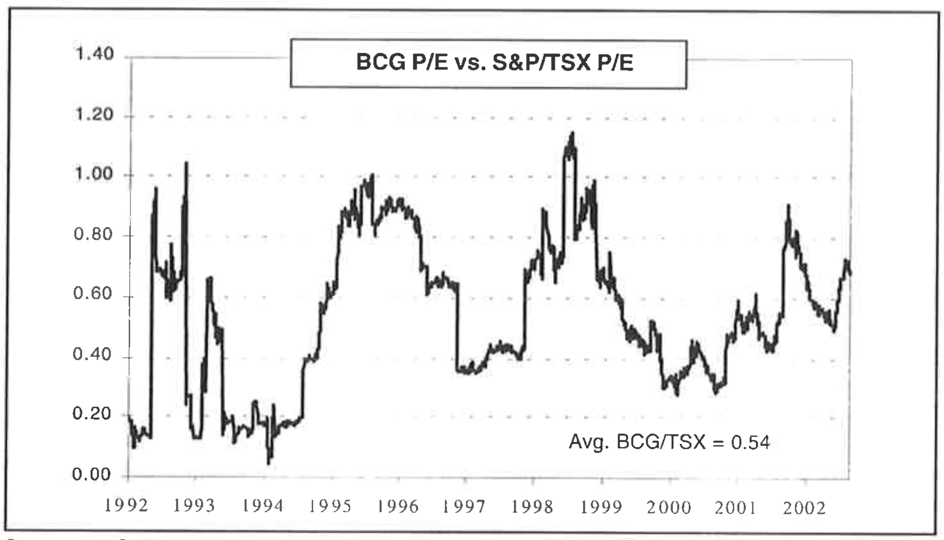
The shares of BC Gas appear to be reasonably valued, as illustrated by each of the following graphical measures of value: relative strength versus the S&P/TSX Composite Index (Chart 10), price-to-earnings versus the price-to-earnings multiple of the S&P/TSX Composite Index (Chart 11), yield versus the 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*



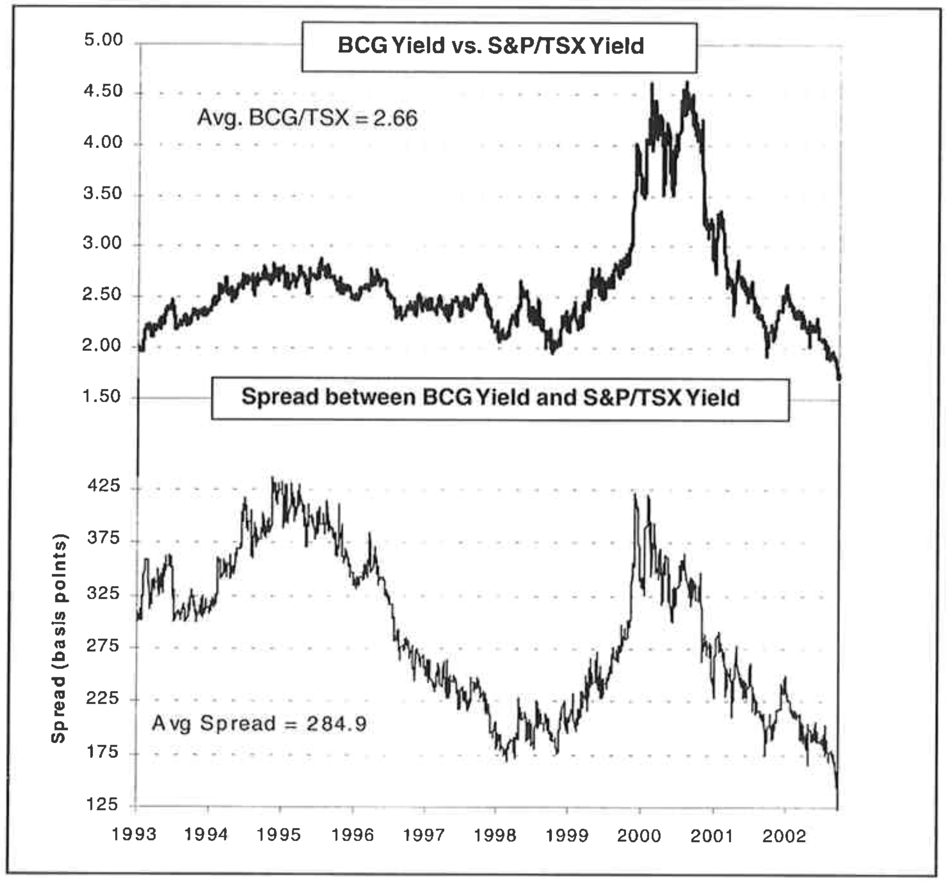
Source: BMO Nesbitt Burns

***Chart 11:** BC Gas Price-to-Earnings Multiple versus the Price-to-Earnings Multiple of the S&P/TSX Composite Index*



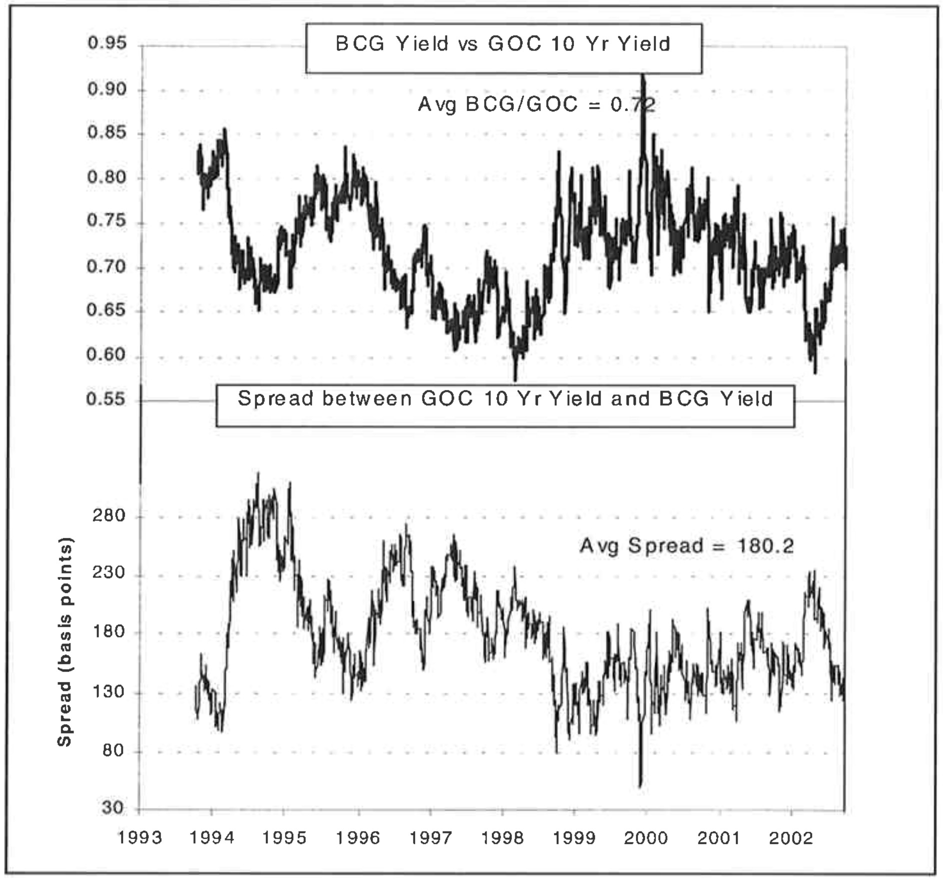
Source: BMO Nesbitt Burns

***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

Company	TSX Ticker	Price (C$) 2-Oct-2002	Shares O/S (mm)	Market Cap ($mm)	Earnings per Share 1999	2000	2001	2002E	2003E	P/E Ratios 2000	2001	2002E	2003E	Dividend Rate	Yield	12-Month Target	Total Return	Rating
Canadian Pipelines																		
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																		
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																		
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%**

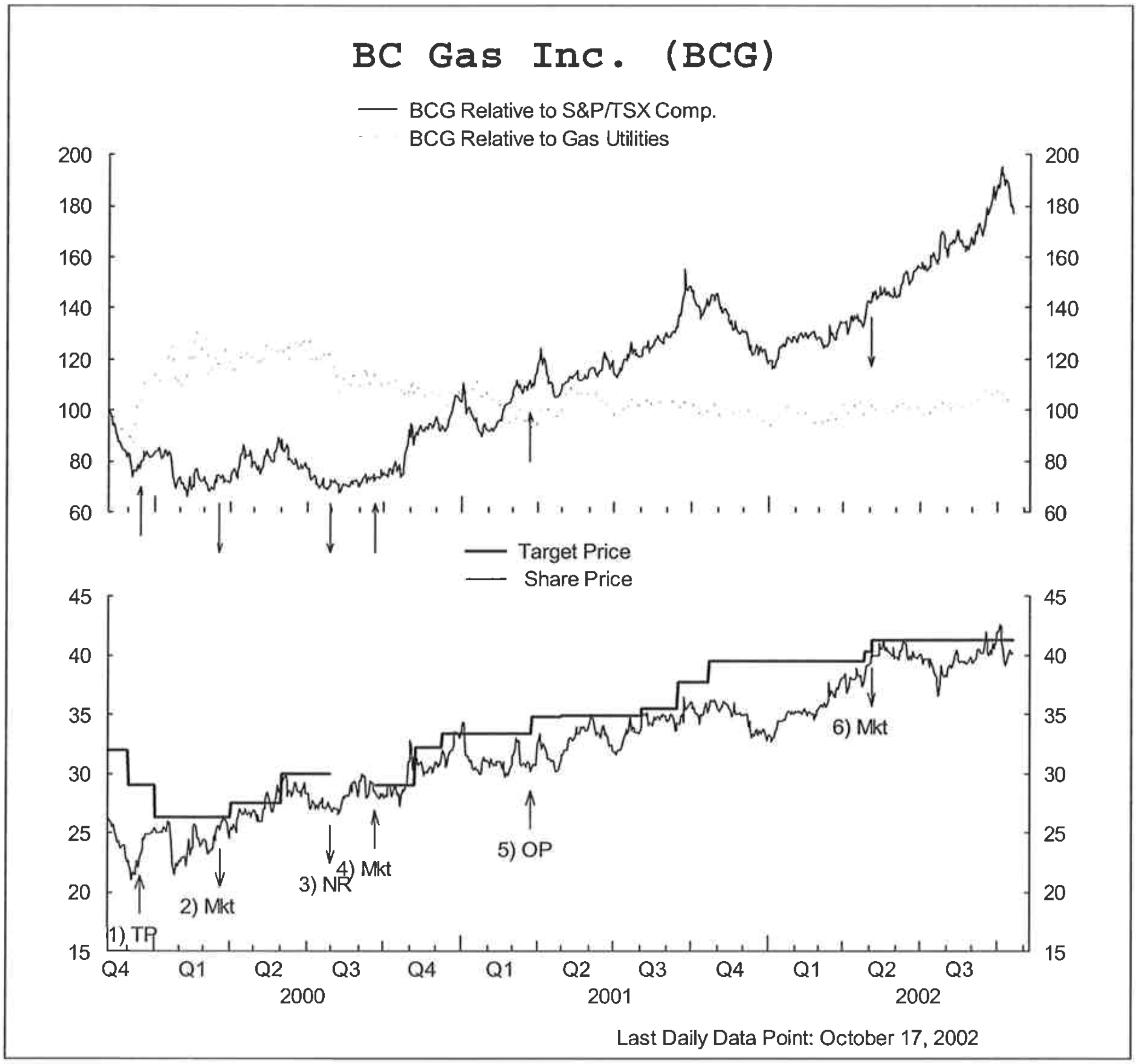
Notes:

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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BMO Nesbitt Burns Research

BC Gas
(BCG-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

August 1, 2002
Research Comment
Gas & Electrical

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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.

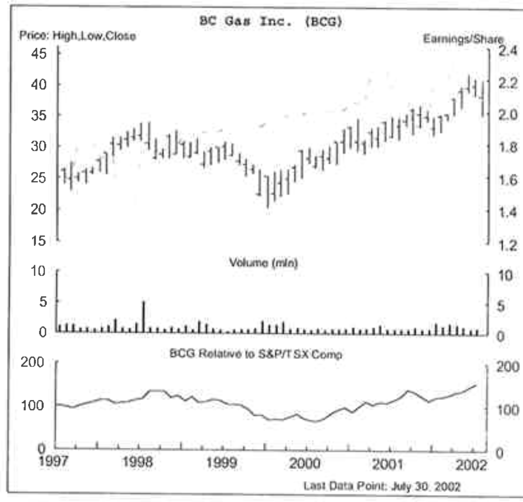
Impact
Neutral.

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	Quarterly EPS
	2003E $2.64 to $2.60	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-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.

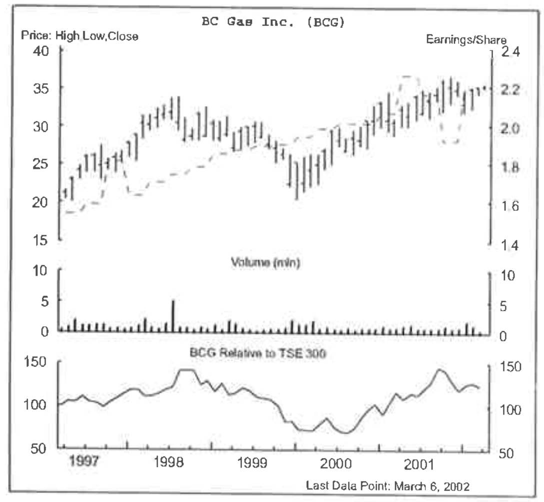
Valuation

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

BMO Nesbitt Burns Research

BC Gas Inc.

(BCG-TSE)

Stock Rating: Outperform
Industry Rating: Outperform

October 23, 2001
Research Comment
Gas & Electrical

Karen Taylor, CFA
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Assoc: Saijal Patel, CGA

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.

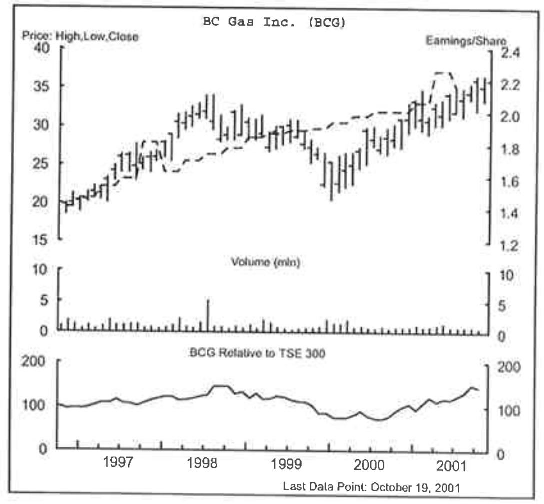
Valuation

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

Current Price:	$35.10
12-Month Target Price:	$39.50
Rate of Return:	16.2%

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	$2.18	$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

Terasen Inc.

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

HOLD | Target price: CAD$28.00

Bob Hastings
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Juan Plessis
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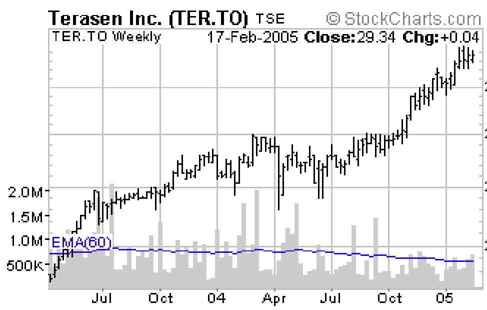
Company Statistics:

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	2004	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution			
Terasen Gas	$37.5	$36.2	(3%)
Terasen Gas Vancouver Island	$7.3	$6.4	(12%)
	$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%
	$17.9	$19.9	11%
Water & Utility Services	$0.4	$0.7	75%
Other businesses	($7.0)	($9.3)	(33%)
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%
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%)
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%
Express System[1]	173,871	175,400	1%
Total	392,345	393,900	0%

Change in allocating tax expense in quarter causes restatement of 4Q03 earnings: no impact to full year results.

Lower allowed ROE and no sharing mechanism in 2004.

Higher throughput and 2003 earnings impacted by F/X loss.

First and fourth quarters typically generate lower revenue & earnings.

Includes $1 mln mark to market hedging loss at Clean Energy.

New accounting change allocating taxes distorts 4Q EPS. Full year in-line with expectations.

Stock split effective June 2004.

Strong volumes in higher margin area; up 2.8% from Q3.

Source: Canaccord Research

Figure 2: Terasen Inc. 2004 full year financial details

	Full Year			
	2003	**2004**	**Favourable/ (Unfavourable)**	
Net Earnings (Loss): (mlns)				
Natural gas distribution				
Terasen Gas	$72.6	$69.7	(4%)	Integration of Terasen Gas & TGVI achieves operating efficiencies. Partly offset by lower allowed ROE and absence of sharing mechanism.
Terasen Gas Vancouver Island	$25.1	$26.2	4%	BCUC approves construction of $100 mln LNG storage facility subject to transportation agreement with BC Hydro.
	$97.7	$95.9	(2%)	
Petroleum transportation				
Trans Mountain	35.8	39.4	10%	Increased throughput.
Corridor	10.7	15.6	46%	Increased throughput.
Express System	9.7	15.9	64%	Contribution for full year; expansion expected to be completed in April/05.
	56.2	70.9	26%	
Water & Utility Services	$4.1	$6.6	61%	Driven by organic and acquisition growth.
Other businesses	($21.2)	($23.6)	11%	Includes $3.3 mln mark to market hedging gain in Clean Energy.
Total Recurring Income	**$136.8**	**$149.8**	9%	
Non-recurring items	($4.1)	$0.0	n.m.	
Net Income	$132.7	$149.8	(13%)	
Net Earnings (Loss) Per Share:				
Natural gas distribution				
Terasen Gas	$0.70	$0.67	(5%)	
Terasen Gas Vancouver Island	$0.24	$0.25	3%	
	$0.94	$0.92	(3%)	
Petroleum transportation				
Trans Mountain	$0.34	$0.38	9%	
Corridor	$0.10	$0.15	n.m.	
Express System	$0.09	$0.15	n.m.	
	$0.54	$0.68	25%	
Water & Utility Services	$0.04	$0.06		
Other businesses	($0.20)	($0.23)	10%	
Reported EPS before unusual items	**$1.32**	**$1.43**	9%	6% EPS growth target.
Unusual items	($0.04)	$0.00	(100%)	
Reported EPS after unusual items	**$1.28**	**$1.43**	12%	Increases dividend 7.1% to $0.90/share.
Average Shares O/S (mlns)	103.8	104.7	1%	
Gas Volumes (petajoules)				
Sales	125.6	121.6	(3%)	
Transportation	62.3	72	16%	
Throughput under fixed-price contracts	22.5	17.5	(22%)	
Total	210.4	211.1	0%	
Oil Pipeline Deliveries (bbls/day)				
Canadian mainline	161,500	144,400	(11%)	
US mainline	54,600	91,700	68%	
Express System	171,200	175,300	2%	
Total	387,300	411,400	6%	

Source: Canaccord Research

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain 's U.S. pipeline and the Express System, are denominated in U.S. dollars. As a result, an annual decline of $0.10 in the price of a U.S. dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of February 9, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	124	39.0%
Speculative Buy	56	17.6%
Hold	111	34.9%
Sell	27	8.5%
Total	318	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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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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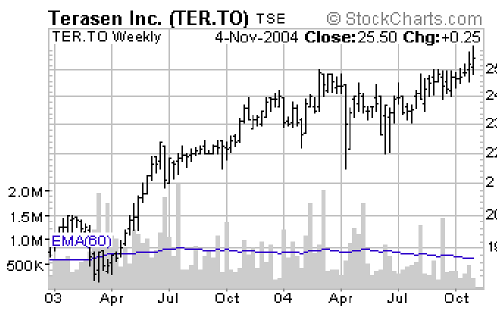
Company Statistics:

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)	Comment
Net Earnings (Loss): (mlns)				
Natural gas distribution				
Terasen Gas	($25.5)	($24.8)	3%	Integration of Terasen Gas & TGVI achieves operating efficiencies. Partly offset by lower allowed ROE and absence of sharing mechanism.
Terasen Gas Vancouver Island	$6.0	$6.8	13%	
	($19.5)	($18.0)	8%	
Petroleum transportation				
Trans Mountain	$7.9	$8.8	11%	Increased throughput along with lower opex and mtce cost
Corridor	$3.8	$3.9	3%	
Express System	$2.8	$3.8	36%	Mainly due to higher volumes.
	$14.5	$16.5	14%	
Water and utility services	$2.2	$3.3	50%	Continued growth in asset base; Fairbanks acquisition adds to earnings.
Other businesses	($5.9)	($3.2)	46%	Includes a $2 mln (2¢ per share) mark to market gain in Clean Energy.
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%	Beats consensus of 7¢; mark to market added 2¢.
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%)	Stock split effective June 2004. Shown here for comparative purposes.
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%	Strong volumes in higher margin area but down from Q2 due to higher Canadian demand.
Express System	174,700	178,200	2%	
Total	407,800	419,300	3%	

Source: Canaccord Research

Investment risks

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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:

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Company	Disclosure
Terasen Inc.	None

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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

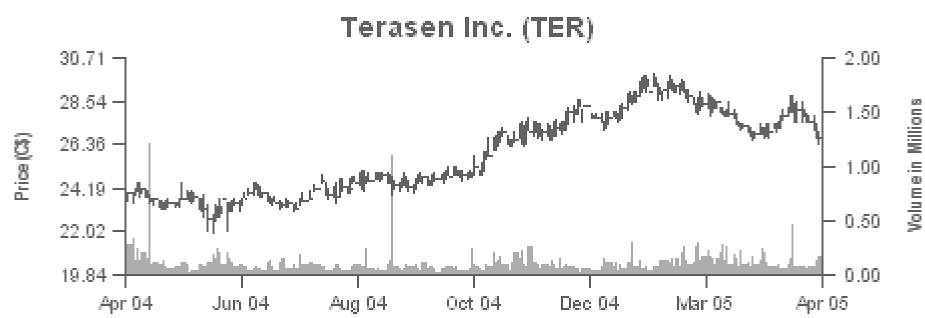
- Terasen reported normalized Q1'05 EPS of $0.60 vs. our estimate of $0.58 and $0.63 in Q1'04. A temporary reduction in oil pipeline volumes caused the weakness and was factored into our numbers. We are maintaining our estimates and target price.

- 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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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 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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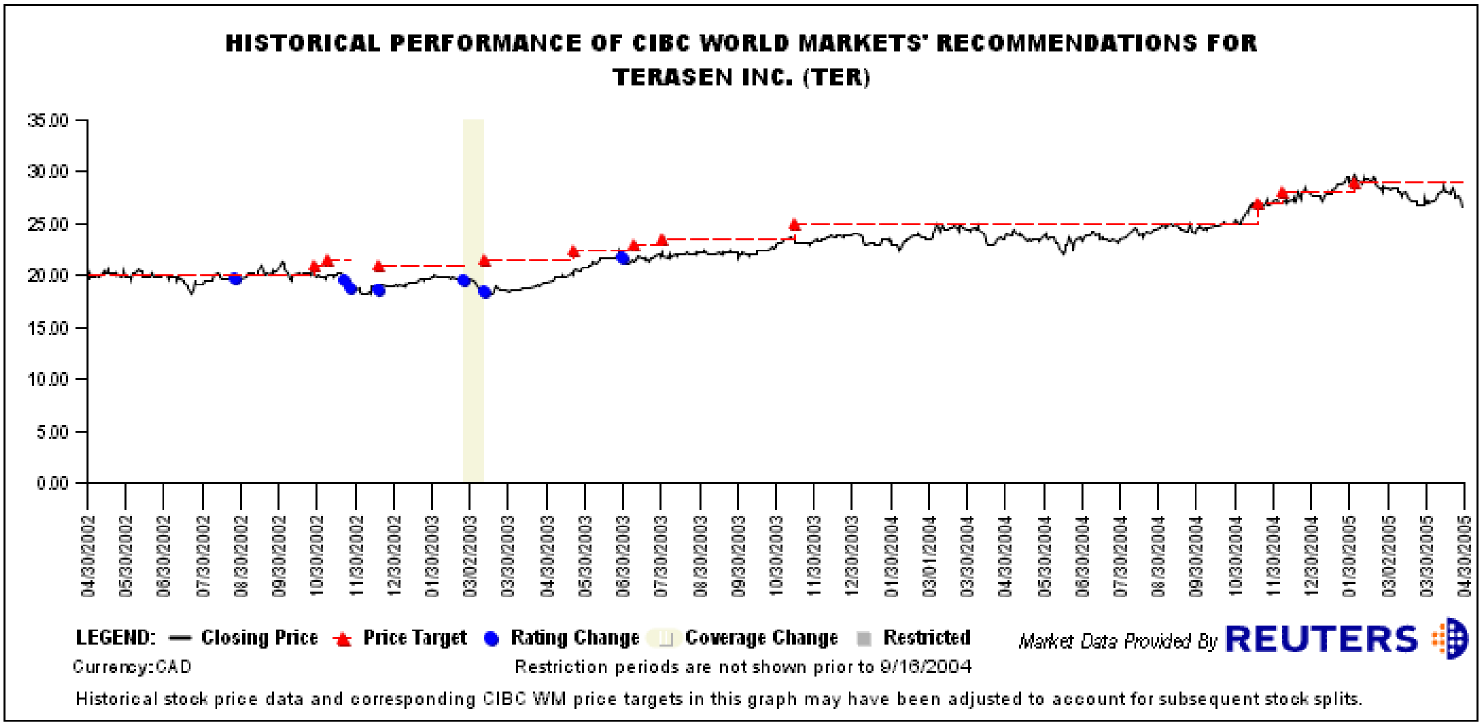
CIBC World Markets Price Chart



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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

CIBC World Markets

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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.
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Sector Outperformer (Buy)	290	33.8%	Sector Outperformer (Buy)	177	61.0%
Sector Performer (Hold/Neutral)	390	45.4%	Sector Performer (Hold/Neutral)	215	55.1%
Sector Underperformer (Sell)	149	17.3%	Sector Underperformer (Sell)	75	50.3%
Restricted	17	2.0%	Restricted	16	94.1%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 04 May 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	27.3%	Sector Outperformer (Buy)	1	33.3%
Sector Performer (Hold/Neutral)	6	54.5%	Sector Performer (Hold/Neutral)	4	66.7%
Sector Underperformer (Sell)	2	18.2%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

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CIBC World Markets

Equity Research
Earnings Update

February 18, 2005

Pipelines, Utilities, & Power

Terasen Inc.

Solid Earnings, But Slightly Lower Than Expected

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$29.00
TER-TSX (2/17/05)	$29.34
Key Indices: TSXUtils	
3-5-Yr. EPS Gr. Rate (E)	6.0%
52-week Range	$21.50-$29.91
Shares Outstanding	104.9M
Float	104.9M Shrs
Avg. Daily Trading Vol.	94,104
Market Capitalization	$3,077.8M
Dividend/Div Yield	$0.90 / 3.1%
Fiscal Year Ends	December
Book Value	$13.04 per Shr
2005 ROE (E)	11.0%
LT Debt	$2,583.3M
Preferred	$125.00M
Common Equity	$1,371.1M
Convertible Available	Yes

Earnings per Share	Prev	Current
2004	$1.42E	$1.40A
2005	$1.55E	$1.50E
2006	$1.55E	$1.50E
P/E		
2004	20.7x	21.0x
2005	18.9x	19.6x
2006	18.9x	19.6x

Dividends per Share	
2002	$0.705
2003	$0.765
2004	$0.825
2005E	$0.90

Debt to Total Capital	
2002	66.2%
2003	67.0%
2004	65.4%

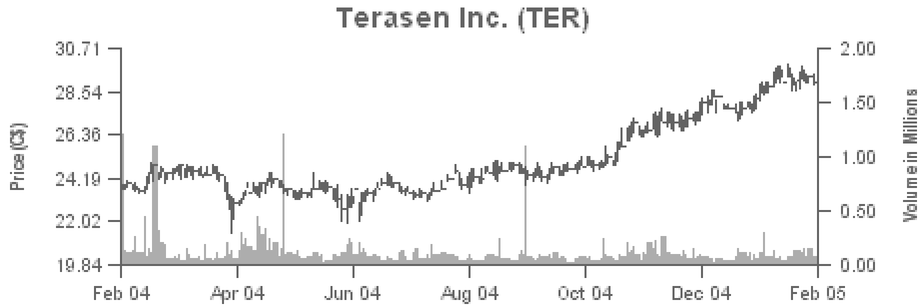
Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

- Terasen reported normalized 2004 EPS of $1.40 vs. our estimate of $1.42 and $1.33 in 2003. A dividend increase of 7% was in line with expectations. We are reducing our estimates by $0.05, but maintaining our $29 target price.
- Gas Distribution earnings are falling due to lower allowed ROEs that move in lockstep with forecast long bond yields. A regulatory hearing in Q3 of this year could help offset this impact going forward, if the BCUC allows for a change in the ROE formula or increase in equity ratio.
- Oil Pipeline earnings remain strong, and offset the decline in Gas Distribution. We see visible growth of 6% in 2005 due to ongoing growth in the segment. However, near-term oil sands production and refinery issues cause us to slightly reduce EPS estimates.
- We are not raising our $29 target price even though the stock is already trading at that level. The TMX project is well developed and makes sense but faces stiff competition. In that context, we believe Terasen shares are fully valued.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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 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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2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

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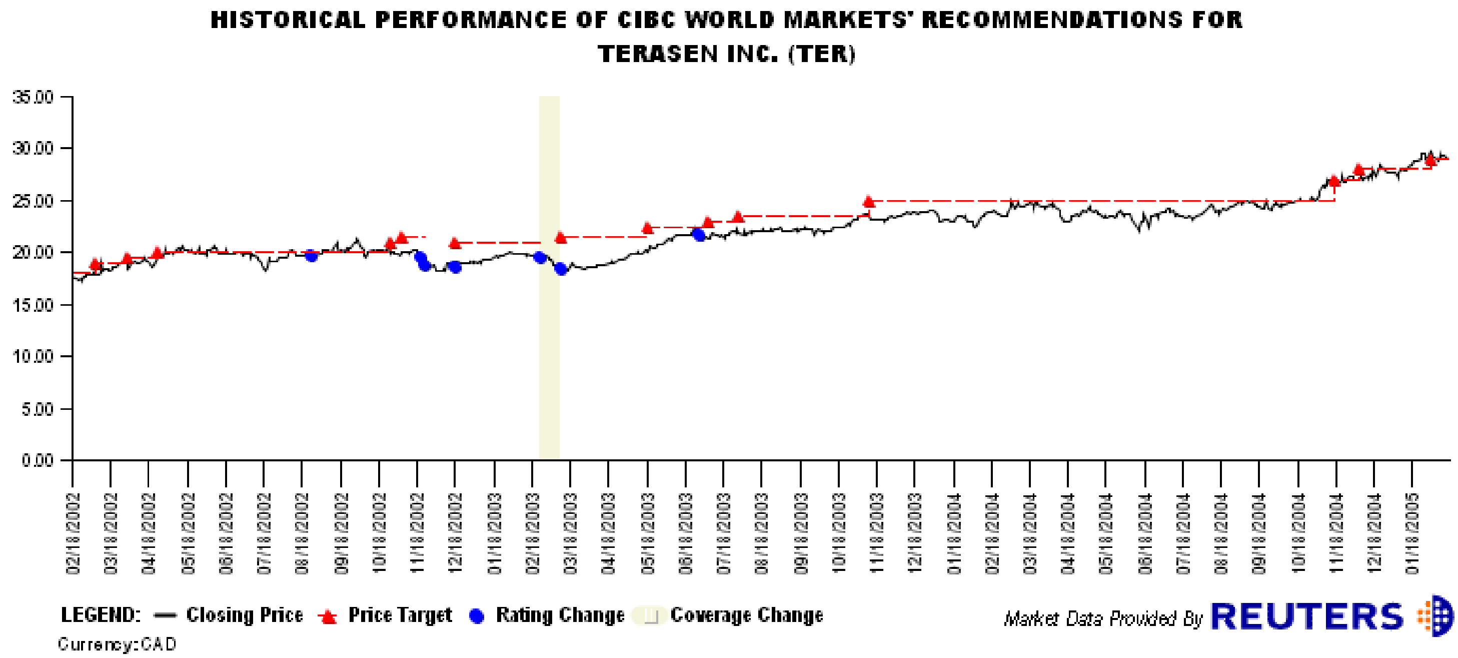
CIBC World Markets Price Chart



Historical stock price data and corresponding CIBC World Markets price targets in this chart may have been adjusted to account for subsequent stock splits.

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
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

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(as of 17 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	284	33.3%	Sector Outperformer (Buy)	174	61.3%
Sector Performer (Hold/Neutral)	402	47.2%	Sector Performer (Hold/Neutral)	229	57.0%
Sector Underperformer (Sell)	165	19.4%	Sector Underperformer (Sell)	75	45.5%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 17 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, TA, TER, TRP.

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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%

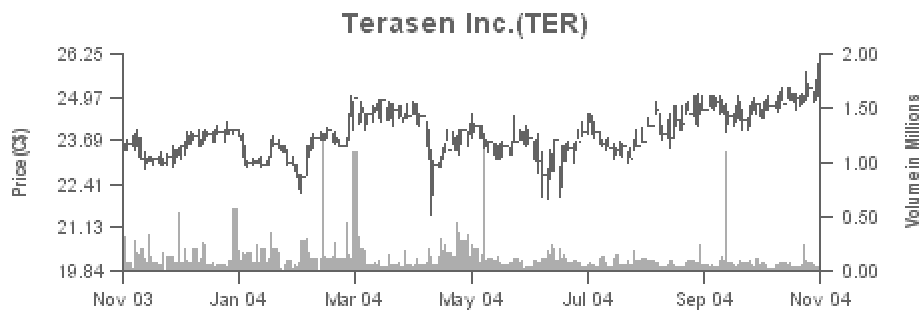
Company Description

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).

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 11/4/2004:

Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $51.60, Sector Performer)
TransCanada Corp. (7) (TRP-TSX, $27.24, Sector Outperformer)
Westport Innovations Inc. (2a, 2c, 2e, 2g) (WPT-TSX, $1.56, Sector Outperformer)

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

2f) CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

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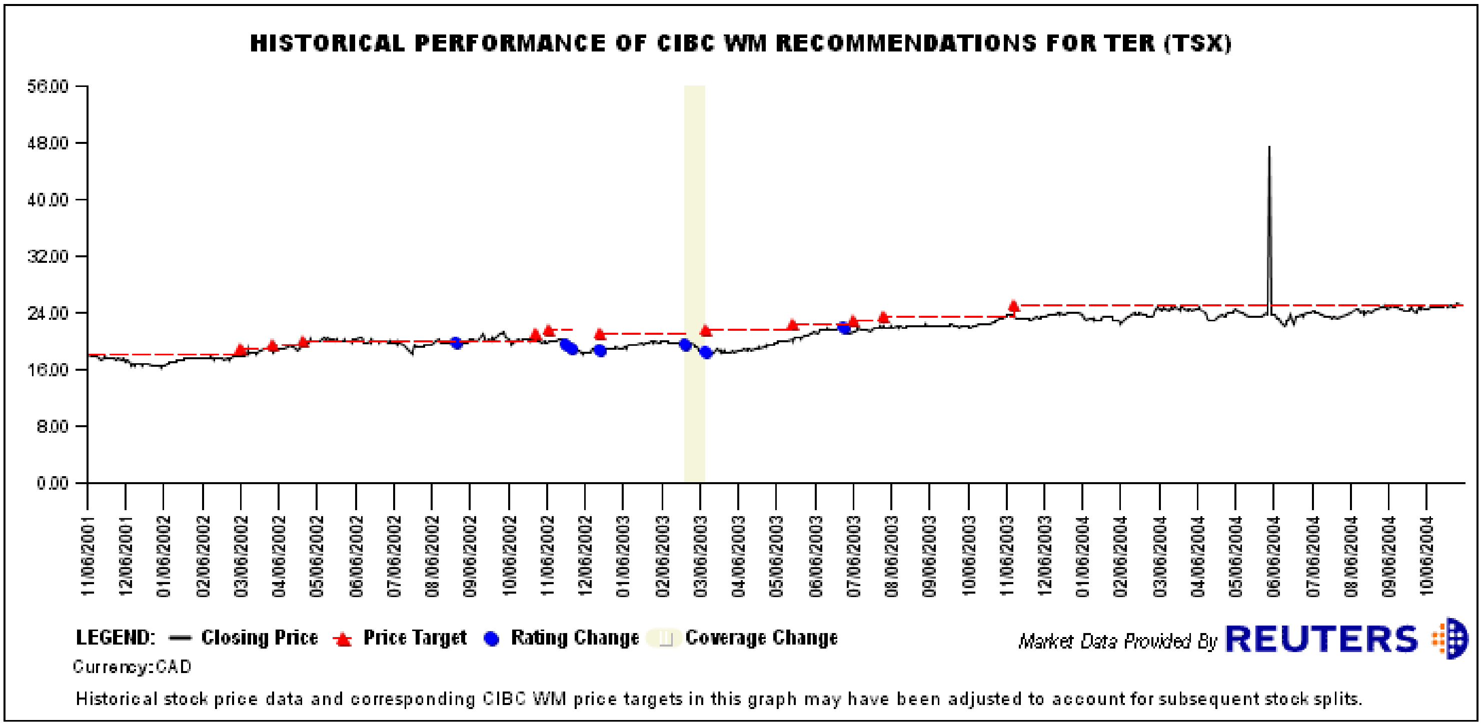
CIBCWM Price Chart



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.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Coverage Universe

(as of 04 Nov 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	303	33.0%	Sector Outperformer (Buy)	208	68.6%
Sector Performer (Hold/Neutral)	425	46.3%	Sector Performer (Hold/Neutral)	256	60.2%
Sector Underperformer (Sell)	190	20.7%	Sector Underperformer (Sell)	101	53.2%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 04 Nov 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	25.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	4	80.0%
Sector Underperformer (Sell)	1	12.5%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Canadian Pipelines & Utilities Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, TA, TER, TRP.

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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

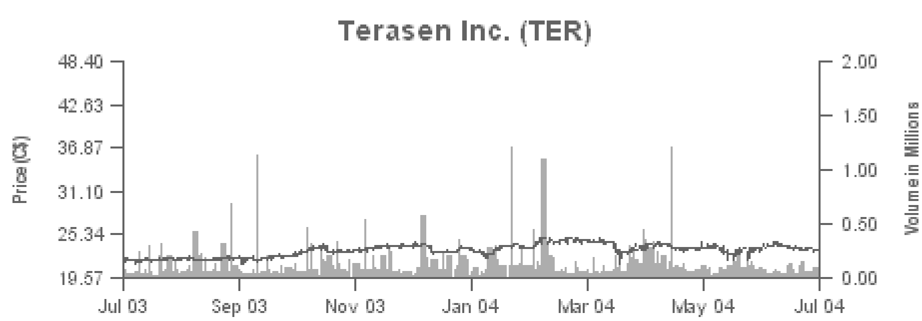
- Terasen reported normalized Q2'04 EPS of $0.10 vs. our estimate of $0.12 and $0.08 in Q2'03. We are making minor downward adjustments to our EPS estimates to reflect lower tolls on Trans Mountain. However, our $25 target price remains intact.

- 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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1 (416) 956-3229
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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.

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2004 Current	$0.75A	$0.10A	($0.06E)	$0.61E	$1.40E
2005 Prior	--	--	--	--	$1.53E
2005 Current	--	--	--	--	$1.50E

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Stock Prices as of 7/29/2004:

Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $50.65, Sector Performer)

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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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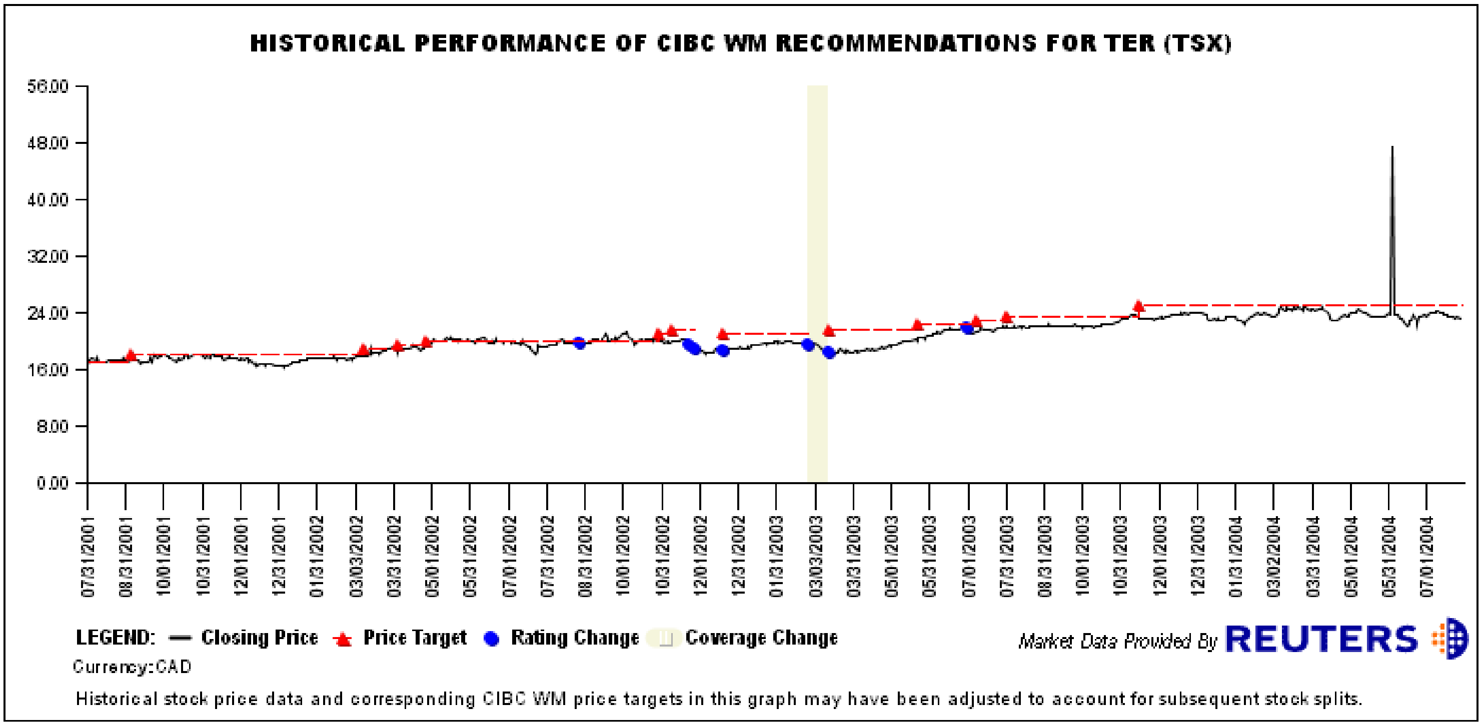
CIBCWM Price Chart



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

CIBC World Markets

CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBCWM is restricted*** from rating the stock.
Company Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and S&P/TSX Composite in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Coverage Universe

(as of 29 Jul 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	312	35.4%	Sector Outperformer (Buy)	199	63.8%
Sector Performer (Hold/Neutral)	396	44.9%	Sector Performer (Hold/Neutral)	236	59.6%
Sector Underperformer (Sell)	172	19.5%	Sector Underperformer (Sell)	82	47.7%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 29 Jul 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	50.0%	Sector Performer (Hold/Neutral)	2	50.0%
Sector Underperformer (Sell)	1	12.5%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Canadian Pipelines & Utilities Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, TA, TER, TRP.

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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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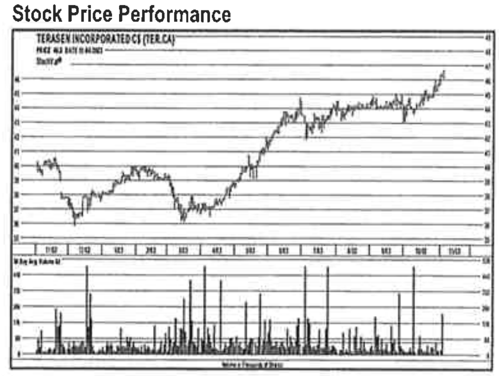
Earnings Per Share	Prior	Current
2002		$2.54
2003E		$2.65
2004E		$2.85
P/E		
2002		18.6x
2003E		17.8x
2004E		16.5x

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.

See "Legal Disclaimer" and "Important Disclosure Footnotes" sections at the end of this report for important disclosures, including potential conflicts of interest.
See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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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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.

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.
www.bcgas.com

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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 write-down 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

Initiating Coverage

Company Rating:	*Sector Outperformer*
Sector Weighting:	*Overweight*

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

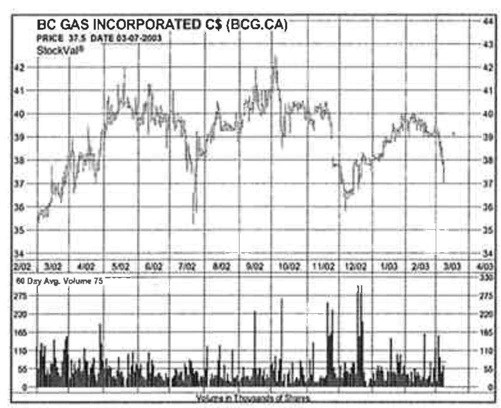
Dividends Per Share

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.

CIBC

CIBC WORLD MARKETS

Equity Research

Company Rating:	Sector Performer
Sector Weighting:	Market Weight

February 17, 2003

Company Update

BC Gas Inc.

Maintaining Outlook Following Excellent 2002 Results

- 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.

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

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.

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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**

CIBC

CIBC WORLD MARKETS

Equity Research

Company Rating:	*Sector Underperformer*
Sector Weighting:	*Market Weight*

November 7, 2002

Earnings Update

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.

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

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BC Gas Inc.

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

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.

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COMPANY UPDATE

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

Opportunities Abound

- **We have recently returned from a roadtrip with Terasen management. As a result, we have increased confidence that there are real opportunities for stable growth in the short- and long-term. Growth will be driven from oil sands infrastructure needs. Terasen has a pipeline of approximately $4 billion worth of proposed projects for the next five years.**

- **Among the growth projects, the most material are 1) Corridor expansion (1 million bpd, $7 to 900 million investment) and 2) TransMountain expansion (75 kbpd expansion for $570 million with confidence, and possibly an additional 550 kbpd expansion for $1.7 to 2.0 billion, depending on the route taken). There are additional growth projects, but these are the most material. Refer to page 2 for a complete list of projects.**

- **We are increasing the probability of the TMX expansion winning over Enbridge's Gateway proposal from 50% to 75% because 1) it is staged, so matches oil sands production growth more closely; 2) we believe the market for incremental crude demand is the U.S., not Asia; 3) the southern route already exists, so we believe there will be less aboriginal land claim issues than any northern route proposals; 4) there is an incremental addition of 550 kbpd versus Gateway's 400 kbpd; 5) with a looped system, there is the possibility of having two separate quality pipelines (one crude, one refined product), a valuable proposition for the shippers. We do not eliminate the chances of Gateway proceeding, as we cannot ignore China's love of mega-projects.**

- **How will the growth be financed? We estimate Terasen will have a debt/cap level of 69% at year-end. The target level is 67 to 70%. Therefore, if the Corridor expansion proceeds (likely), we estimate Terasen will raise $200 million in equity to maintain 70% debt/cap.**

- **Risks in the short-term: renegotiation of the incentive tolling agreement, expected before year-end.**

- **Valuation: our target of $26.50 implies 18x 05 EPS. We believe the stock will stay expensive, owing to its attractive risk/return and therefore advise long-term investors to buy on share price weakness.**

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

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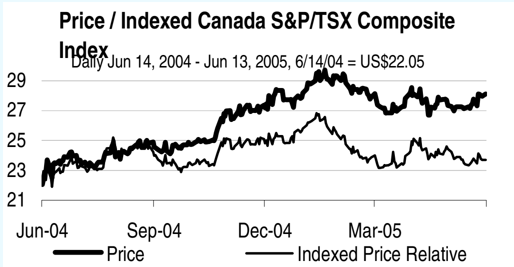
Rating	NEUTRAL*
Price (13 Jun 05)	28.11 (C$)
Target price (12 months)	26.50 (C$)
52 week high - low	29.71 - 22.05
Market cap. (C$m)	2,961.11
Enterprise value (C$m)	6,210.91
Region / Country	Americas / Canada
Sector	Pipelines
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	14 June 2005

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



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)

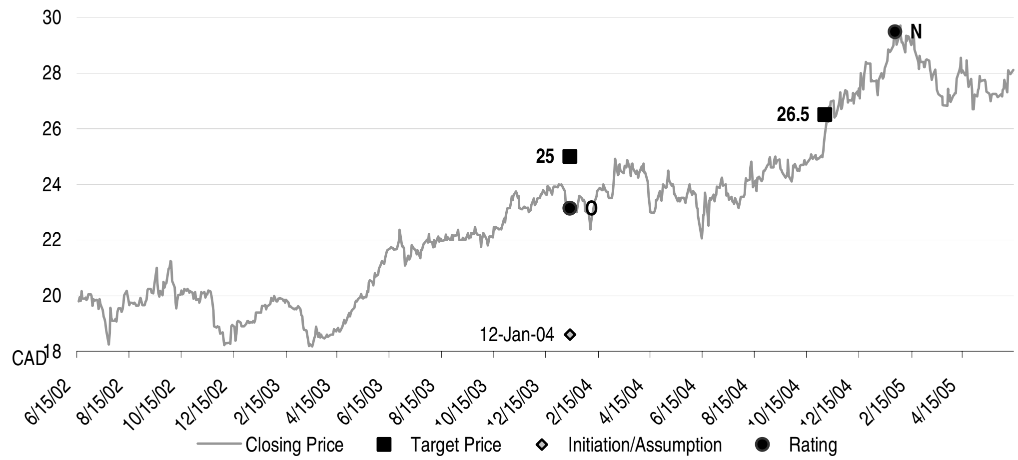
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, CA, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

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



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

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

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

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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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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Global Ratings Distribution

Outperform/Buy*	39%	(54% banking clients)
Neutral/Hold*	43%	(54% banking clients)
Underperform/Sell*	15%	(45% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

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COMPANY UPDATE

CREDIT SUISSE | FIRST BOSTON
Equity Research

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.

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EARNINGS

CREDIT SUISSE FIRST BOSTON
Equity Research

BC Gas Inc.

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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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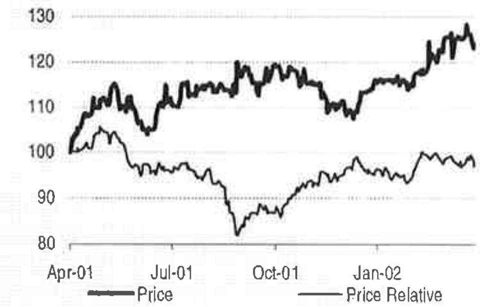
Recommendation	HOLD
Price (25 Apr 02)	38.30 (C$)
Target price (12 months)	39.00 (C$)
52 week high - low	39.49 - 30.20
Market cap. (C$m)	1,669.88
Enterprise value (C$m)	4,515.0
Region / Country	Americas / Canada
Sector	Pipelines & Utilities
Date	26 April 2002

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.

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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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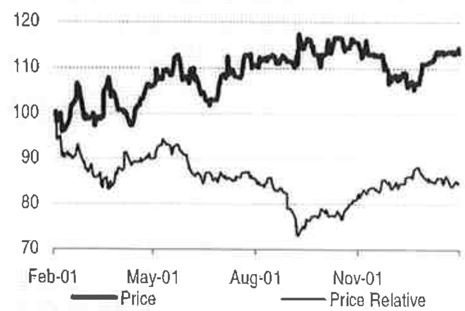
Please see our full-length initiating coverage report on BC Gas dated Oct. 29/2001

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.

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INITIATION

BC Gas Inc.

BCG.TO

High Quality Utility But Valuation May Not Sustain - Initiating With A Hold And $38 Target Price

- **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.**

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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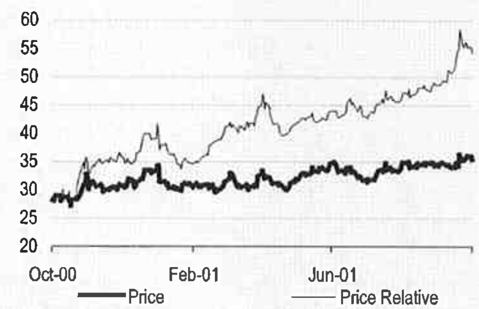
Recommendation	**HOLD**
Price (26 Oct 01)	**36.10 (C$)**
Target price (12 months)	**38.00 (C$)**
52 week high - low	**36.88 - 27.25**
Market cap. (C$m)	**1 382.63**
Enterprise value (C$m)	**3,809**
Region / Country	**Americas / Canada**
Sector	**Pipelines & Utilities**
Date	**29 October 2001**

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.

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).

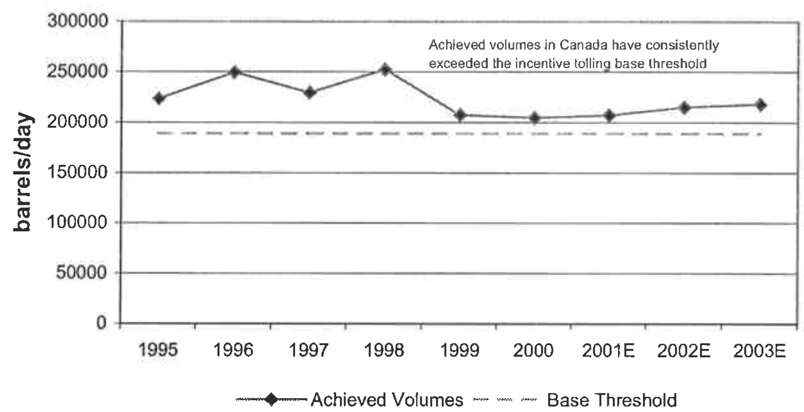
For the first time, the tolling framework on Trans Mountain gives BC Gas upside (and limited downside risk) to the growing oil production volumes in the Western Canadian Sedimentary Basin. From 1996 until this year, the Canadian portion of the pipeline (regulated by the National Energy Board) operated 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

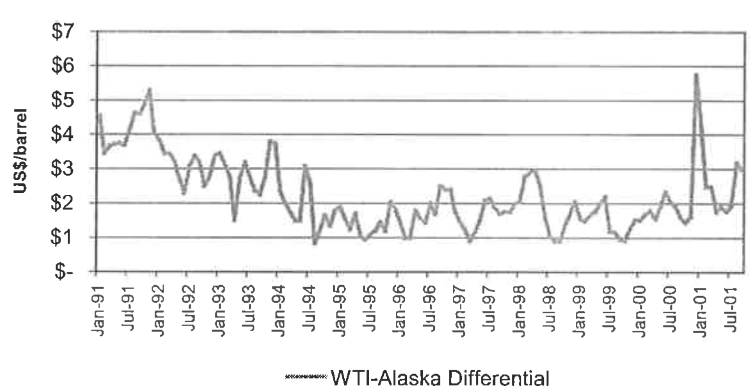


Source: Company data, CSFB estimates.

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.

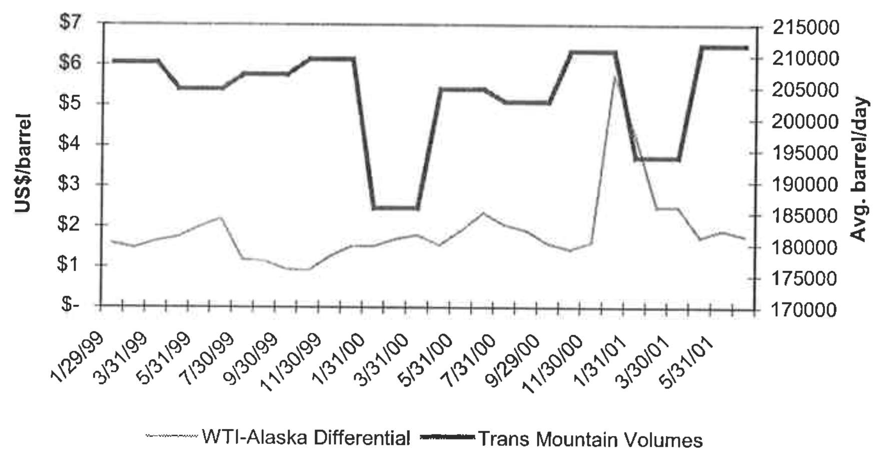
Exhibit 2: Price Differential Between WTI And Alaskan Crude



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.

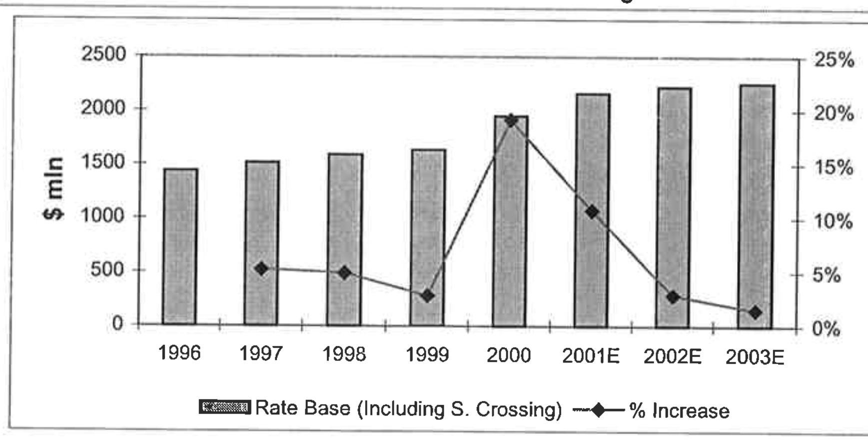
Initial start-up of the system is scheduled for mid-2002, but we do not anticipate BC Gas will record any earnings associated with the project until 2003. The company has not disclosed its return on investment, which will be derived from tolls negotiated with the producers. In our forecasts, we have 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.

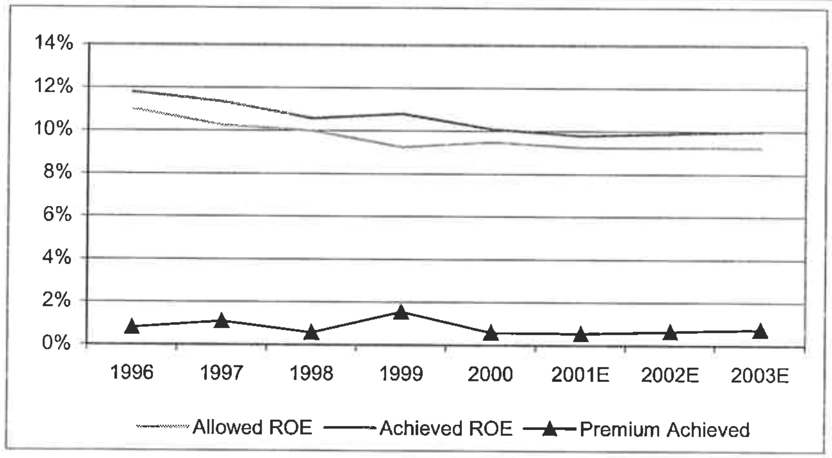
BC Gas will effectively earn the same return on its investment in Southern Crossing as it does on the other distribution utility assets. This return is notionally set by the BC Utilities Commission (BCUC), but can be exceeded under the terms of a performance-based regulatory framework, in place since 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.

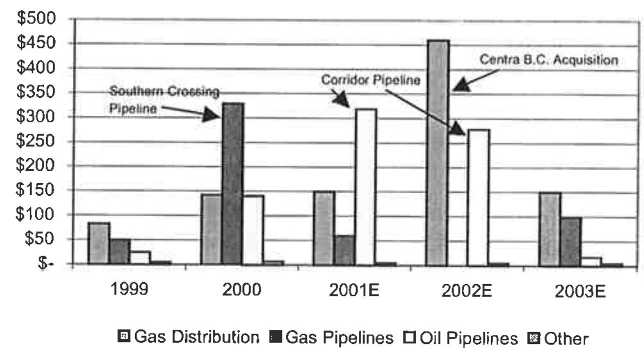
The supplies business levers the company's scale in utility equipment purchasing, primarily related to meters, pipes and valves. The company sells these supplies primarily to municipal water utilities across British Columbia. The services business is involved in energy services such as energy distribution 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

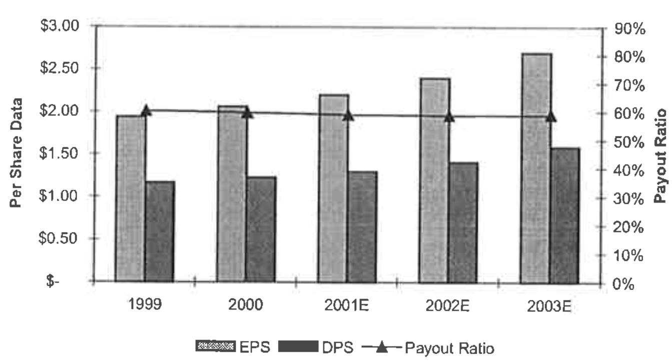


Source: Company data, CSFB estimates.

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



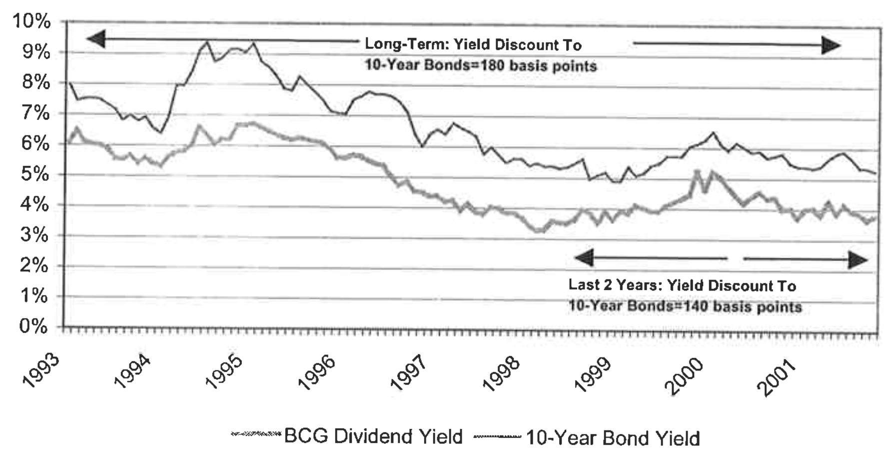
Source: CSFB estimates.

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**



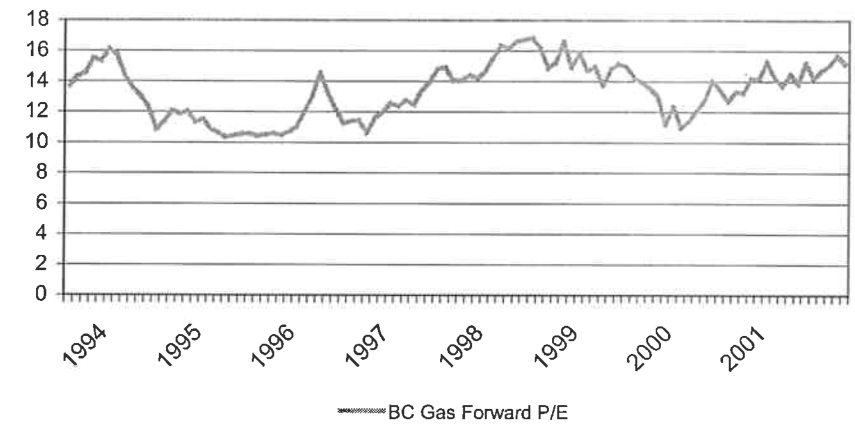
Source: CSFB estimates.

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.

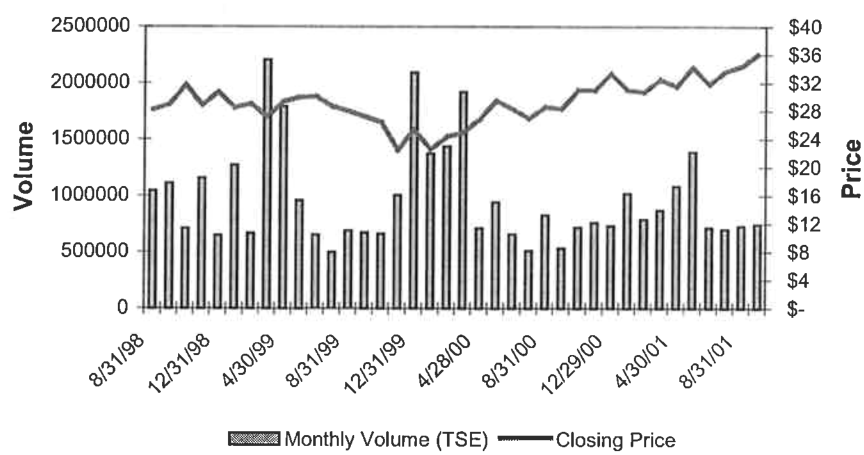
Exhibit 10: BC Gas Forward P/E Multiple



Source: CSFB estimates.

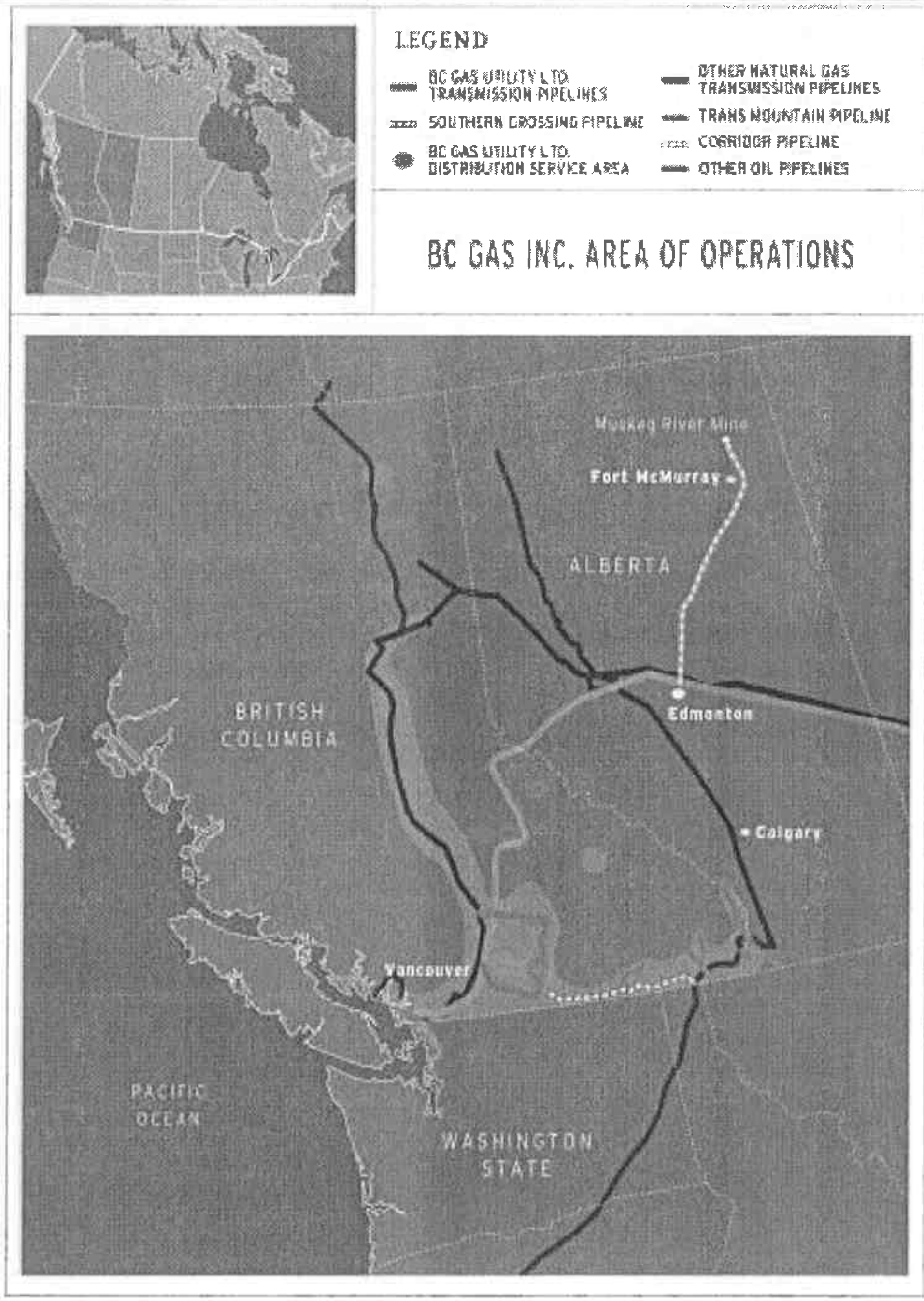
Our $38 target price implies a one-year total return of about 9%. Our Hold rating on the stock factors other considerations, including the relatively low risk nature of the company's earnings, and the potential for BC Gas to participate in Canadian pipeline and utility sector consolidation.

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

Company	Ticker	Rating/ Analyst	Price 10/26/2001	52-Wk Range High	52-Wk Range Low	EPS 1999	EPS 2000	EPS 2001E	EPS 2002E	P/E 1999	P/E 2000	P/E 2001E	P/E 2002E	P/E Rel. To Group 2001E	P/E Rel. To Group 2002E	Dividend Rate	Dividend Yield	Payout 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

	Shares	MC	Inst.	52-Week %change		Cash Flow Per Share				P/CF Ratios				Book	Price/	ROE	Debt to	% Unreg.
Company	(mil)	($bil)	Owners	High	Low	1999	2000	2001E	2002E	1999	2000	2001E	2002E	Value	Book	2001E	Cap	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)..

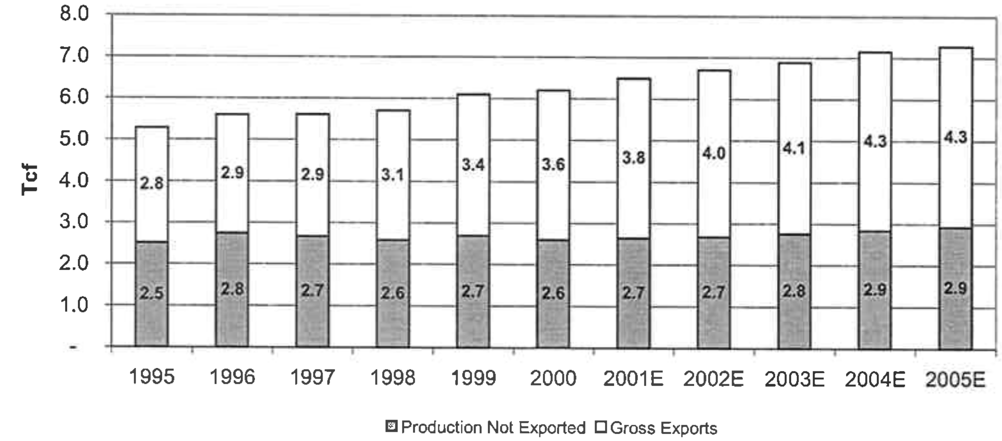
Exhibit 19: Canadian Natural Gas Exports By Export Point

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.

N.B.: CREDIT SUISSE FIRST BOSTON CORPORATION may have, within the last three years, served as a manager or co-manager of a public offering of securities for or makes a primary market in issues of any or all of the companies mentioned.

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NATIONAL BANK FINANCIAL

May 5, 2005

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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February 18, 2005

NATIONAL BANK FINANCIAL

TER (T)	Cdn$29.34
Stock Rating:	Underperform (Unchanged)
Target:	Cdn$24.50 (Was $24.15)
Risk Rating:	Average (Unchanged)

Terasen Inc.

2004 Results a Penny Higher Than Expected

Petroleum Transportation Leads Y/Y Growth

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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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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July 29, 2004

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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SECONDARY STOCK RATING: Under Review – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

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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 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.
** 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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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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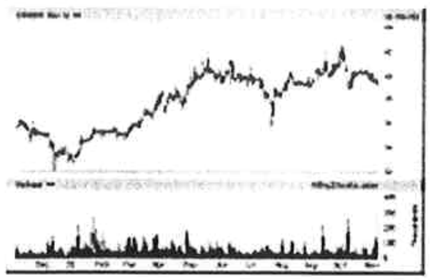
Summary

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



www.bigcharts.com

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	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.

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.

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: 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	12/02E	12/03E	P/E Ratios 12/02E	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

Morning Focus – Canada

March 8, 2002

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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 22nd, 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.

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.

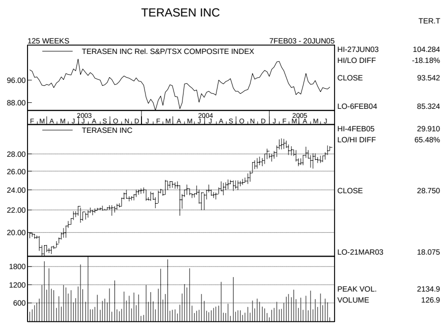
The acquisition of Centra Gas B.C. and Centra Whistler's common equity for \$208 mln represents a common equity premium of around 30%, an attractive premium for BC Gas given the company's current price-to-book ratio of about 1.75 times. In addition to the acquisition of the common shares of Centra Gas 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.

RBC Capital Markets

Research Comment

June 21, 2005



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

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

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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

For Required Disclosures, please see page 2.

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

Event

BC Hydro recently abandoned its Duke Point Power Project.

Investment Opinion

- **Unexpected decision from BC Hydro.** BC Hydro recently decided to abandon its proposed $285 million Duke Point Power Project. The provincially owned utility claimed that the B.C. Court of Appeal's decision to hear an appeal of the project by a number of intervenors resulted in a great risk that the plant would not be built in time. We had not expected this decision given the progress that had been made on the project.
- **Decision may mean potential delay for Terasen's LNG storage facility.** Terasen had been working with BC Hydro on finalizing a long-term Transportation Service Agreement that would have resulted in the construction of a LNG storage facility to serve the Duke Point Power Project. Notwithstanding BC Hydro's decision, Terasen's management believes that there still could be a need for its proposed LNG storage facility in the future. As a result, Terasen is considering the possibility of filing for regulatory approval to construct the facility at a later date.
- **EPS estimates reduced to reflect regulatory uncertainty**. Given the uncertainty regarding whether the provincial regulator will approve another application for a LNG storage facility on Vancouver Island, we have decided to exclude the potential impact of the LNG facility from our financial forecast. Accordingly, we have reduced our 2006 and 2007 EPS estimates for Terasen from $1.57 and $1.60, respectively, to $1.56 and $1.58.
- **Valuation.** Our target price of $32.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 3.0%.

Details

BACKGROUND

BC Hydro recently decided to abandon its proposed $285 million Duke Point Power Project on Vancouver Island. The provincially owned utility claimed that the B.C. Court of Appeal's decision to hear an appeal of the project by a number of intervenors resulted in a great risk that the plant would not be built in time.

We were surprised by BC Hydro's decision, particularly given the progress that had been made on the project. BC Hydro had already spent $70 million on turbines and other equipment related to the project. This amount does not include the $50 million spent on the Georgia Strait Crossing (GSX) pipeline project that was cancelled in late 2004. The GSX project was designed to supply natural gas to BC Hydro's power plant and other facilities on Vancouver Island.

Following the cancellation of the GSX project, Terasen Gas Vancouver Island (TGVI) had been working with BC Hydro on finalizing a long-term Transportation Service Agreement (TSA) to serve the Duke Point Power Project. In February 2005, the British Columbia Utilities Commission (BCUC) approved Terasen's application to construct a liquefied natural gas storage facility on Vancouver Island subject to the execution of the TSA.

IMPLICATIONS

Notwithstanding BC Hydro's decision, Terasen's management believes that there still could be a need for its proposed LNG storage facility on Vancouver Island in the future. As a result, Terasen is considering the possibility of filing another application with the BCUC for the construction of the LNG storage facility at a later date.

Given the uncertainty regarding whether the BCUC will approve another application for a LNG storage facility on Vancouver Island, we have decided to exclude the potential impact of the LNG facility from our financial forecast. Accordingly, we have reduced our 2006 and 2007 EPS estimates for Terasen from $1.57 and $1.60, respectively, to $1.56 and $1.58.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.50 reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 3.0%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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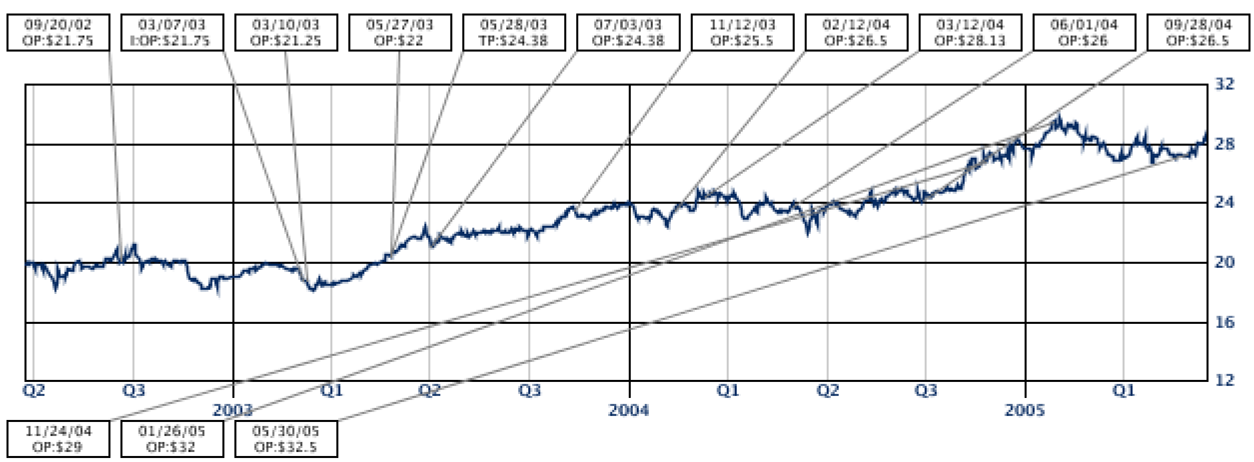
For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform 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]	398	43.50	138	34.67
HOLD [SP]	437	47.76	128	29.29
SELL [U]	80	8.74	28	35.00

Rating and Price Target History for: Terasen Inc. as of 06-17-2005



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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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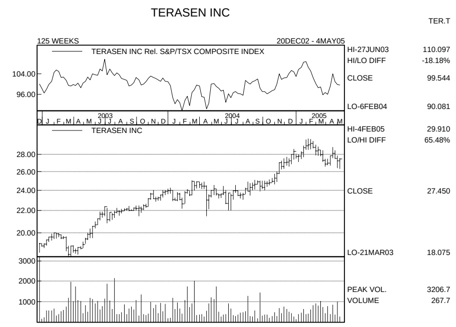
Research Comment

May 5, 2005



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Q1/05 Results In Line With Expectations; On Track for 2005

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Price:	$27.45	Price Target:	$32.00
52-Wk High:	$29.91	52-Wk Low:	$22.00
Float (MM):	105.4	Debt-to-Cap:	0.68
Shs O/S (MM):	114.6	Mkt Cap (MM):	$2,894
Dividend:	$0.90	Yield:	3.3%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2003A	2004A	2005E	2006E
EPS				
Basic	$1.37	$1.40	$1.48	$1.57
Diluted	$1.36	$1.39	$1.47	$1.56
P/E	20.0	19.6	18.5	17.5
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.60A	$0.22	$0.12	$0.54

All values in C$ unless otherwise noted.

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

For Required Disclosures, please see page 4.

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

Event

Terasen announced its first quarter results.

Investment Opinion

- **Q1/05 results in line with expectations.** Terasen's normalized EPS were $0.60 in Q1/05 compared to our estimate of $0.61 and $0.63 in Q1/04. Lower-than-expected results from Petroleum Transportation were largely offset by higher-than-expected results from Water and Utility Services and Other Activities. As expected, petroleum transportation throughput was negatively impacted by a temporary decline in production from the Alberta oilsands and refinery turnarounds.
- **Guidance for 2005 unchanged.** Notwithstanding the decline in first quarter results, Terasen's management is confident that it will achieve its target of 6% EPS growth in 2005. In the second quarter, Trans Mountain returned to operating at full capacity and was at 35% apportionment for May nominations. Management expects throughput to remain strong through the remainder of the year. Further, the recent completion of the Express pipeline expansion should provide increased earnings through the remainder of the year. Based on this outlook, we remain comfortable with our 2005 EPS estimate.
- **Outlook for 2006 still somewhat uncertain**. The earnings outlook for 2006 will depend on the outcome of Trans Mountain's negotiations with its shippers on the renewal of the existing Incentive Toll Settlement (ITS), which expires at the end of 2005. Given the preliminary nature of Trans Mountain's negotiations with its shippers, Terasen's management was unable to provide guidance with respect to the expected impact of the ITS renewal. Developments with respect to Terasen's TMX Project could also impact 2006 earnings. Pending additional information on the outcome of the ITS negotiations and the TMX project, we are maintaining our 2006 EPS estimate at this time.
- **Business development activities continue.** Terasen continues to work on a number of potential growth opportunities including development of the TMX Project and LNG Storage Facility, as well as the expansion of the Corridor Pipeline and Express System.
- **Valuation.** Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.97 and a required dividend yield of 2.95%.

Details

In general, the Q1/05 results were in line with our expectations. Terasen's normalized EPS were $0.60 in Q1/05 compared to our estimate of $0.61 and $0.63 in Q1/04. Lower-than-expected results from Petroleum Transportation were largely offset by higher-than-expected results from Water and Utility Services and Other Activities. As expected, petroleum transportation throughput was negatively impacted by a temporary decline in production from the Alberta oilsands, as well as maintenance turnarounds at refineries connected the Trans Mountain pipeline. Terasen's first quarter financial results are summarized in Exhibit 1.

Exhibit 1: Financial Results Summary ($MM Except EPS or Otherwise Indicated)

	For 3 months Ended Mar. 31			
	2005	2004	RBC CM Est. Q1/05	Comments
Natural Gas Distribution				
Terasen Gas	$ 49.0	$ 48.0	$ 48.9	Operating efficiencies and customer growth more than offset lower allowed ROE in 2005.
Terasen Gas (Vancouver Island)	6.7	6.7	6.6	
	55.7	54.7	55.5	
Petroleum Transportation				
Trans Mountain	5.4	10.4	6.6	Q1/05 results negatively impacted by production outages in the Alberta oilsands and refinery turnarounds.
Corridor	3.6	3.9	4.0	Lower allowed return on equity in Q1/05.
Express	3.7	4.0	4.3	Q1/05 results negatively impacted by production outages in the Alberta oilsands
	12.7	18.3	14.9	
Water and Utility Services	0.8	-	(0.0)	
Other Activities	(5.5)	(6.8)	(6.5)	Q1/05 results reflect lower corporate expenses and improved operations at Clean Energy.
Normalized earnings	$ 63.7	$ 66.2	$ 63.9	
Normalization adjustments:				
Mark-to-market gain at Clean Energy	2.6	1.7		
Reported earnings	$ 66.3	$ 67.9	$ 63.9	
Weighted average shares outstanding (MM)	105.3	104.4	105.2	
Normalized EPS	$ 0.60	$ 0.63	$ 0.61	

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were $49.0 million in Q1/05 compared to $48.0 million in Q1/04. Operating efficiencies and customer growth at Terasen Gas more than offset the lower allowed rate of return on equity in 2005.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $12.7 million in Q1/05 compared to earnings of $18.3 million in Q1/04. The first quarter results were negatively impacted by lower throughput volumes on Trans Mountain's mainline, which were attributable to temporary production outages in the Alberta oilsands and refinery turnarounds. In Q1/05, throughput averaged 170,000 bpd on Trans Mountain's Canadian mainline and 44,500 bpd on the U.S. mainline. In comparison, throughput averaged 240,400 bpd on the Canadian mainline and 93,300 bpd on the U.S. mainline in Q1/04. Based on March 2005 presentation by Terasen to the National Energy Board, we had expected Q1/05 throughput of approximately 175,000 bpd on the Canadian mainline and 40,000 bpd on the U.S. mainline.

Earnings from the Express System decreased from $4.0 million in Q1/04 to $3.7 million in Q1/05. The Q1/05 contribution from Express was also negatively impacted by the temporary production outages in the Alberta oilsands. Reflecting a lower allowed return on equity, earnings from the Corridor Pipeline declined by $0.3 million from $3.9 million in Q1/04 to $3.6 million Q1/05.

Water and Utility Services

Normalized earnings from Water and Utility Services increased from nil in Q1/04 to $0.8 million in Q1/05. The increase reflected continued growth in the base waterworks and utility service business combined with a small contribution from Fairbanks Sewer and Water Inc., which was acquired on July 31, 2004.

Other Activities
Excluding mark-to-market gains for natural gas derivative positions at Clean Energy, normalized earnings from Other Activities increased from ($6.8) million in Q1/04 to ($5.5) million in Q1/05. The increase was attributed to a reduction in corporate expenses and improved operations at Clean Energy.

EPS Estimates

Notwithstanding the decline in first quarter results, Terasen's management is confident that it will achieve its target of 6% EPS growth in 2005. In the second quarter, Trans Mountain returned to operating at full capacity and was at 35% apportionment for May nominations. Management expects throughput to remain strong through the remainder of the year. Further, the recent completion of the Express pipeline expansion should provide increased earnings through the remainder of the year. Based on the Q1/05 results and the expected outlook for the remainder of the year, we remain comfortable with our 2005 EPS estimate at this time.

The earnings outlook for 2006 will depend on the outcome of Trans Mountain's negotiations with its shippers on the renewal of the existing Incentive Toll Settlement (ITS), which expires at the end of 2005. In our financial forecast, we have assumed a $3 million decline in earnings at Trans Mountain in 2006 compared to 2004. Our 2006 EPS estimate would be negatively impacted if the renewal of the ITS reduced Trans Mountain's annual earnings contribution below $36 million. Given the preliminary nature of Trans Mountain's negotiations with its shippers, Terasen's management was unable to provide guidance with respect to the expected impact of the ITS renewal. Developments with respect to Terasen's TMX Project could also impact 2006 earnings. Pending additional information on the outcome of the ITS negotiations and the TMX project, we are maintaining our 2006 EPS estimate at this time.

Outlook

TMX Project
Terasen continues to work on its TMX project including developing the technical, regulatory and commercial components of the project. The pump station expansion project, which falls under the first phase of the TMX project, has received good interest from shippers. Through the construction of 13 new pump stations, the $205 million project would add 35,000 bpd of incremental capacity in 2006. Terasen is also working with potential domestic and overseas shippers on finalizing an interim commercial and tolling framework in the second quarter prior to holding an open season for long-term commitments for the first phase of the project. The open season could be held as early as June or July 2005.

Corridor Pipeline
Shell Canada recently filed regulatory applications to expand the capacity at its Muskeg River Mine and Scotford Upgrader. To accommodate the expected increase in production volumes, Terasen is actively working with Shell and its partners in the Athabasca Oil Sands Project on potentially expending the Corridor Pipeline from 155,000 bpd to 300,000 bpd by 2009 with 90,000 bpd increments every two years thereafter. Terasen is presently working on the first phase of the project, which consists of de-bottlenecking the existing system by adding pumping capacity at an estimated cost of $6.5 million. The first phase is expected to be in service by the fall of 2005. The second phase would expand the Corridor Pipeline by an additional 110,000 bpd at an estimated cost of $700 million to $800 million. Terasen is also working on expansion opportunities to ship third party volumes on the Corridor Pipeline.

Express System
In April 2005, Terasen completed its expansion plans for the Express System increasing total capacity by 108,000 bpd to 280,000 bpd at a total cost of approximately US$100 million. Approximately 84% of the total capacity is committed under long-term contracts. Terasen expects to start shipping uncommitted volumes in June or July 2005. The company has started to work on further expansion opportunities of the Express System to provide incremental capacity into PADD II, PADD V or possibly PADD III.

LNG Storage Facility
Terasen Gas Vancouver Island (TGVI) is working with BC Hydro on finalizing a long-term Transportation Service Agreement (TSA) to serve the Duke Point Power Project on Vancouver Island. In February 2005, the British Columbia Utilities Commission (BCUC) approved the construction of a liquefied natural gas storage facility on Vancouver Island subject to the execution of the TSA. According to Terasen, it has made substantial progress with respect to its negotiations with BC Hydro.

In April 2005, a B.C. Court of Appeal judge dismissed an appeal motion filed by third parties seeking to overturn the BCUC's decision to approve BC Hydro's electricity purchase agreement with Pristine Power, which will construct the Duke Point Power Project. The third parties have filed a request to have a three-judge Appeal Court panel review the original ruling and a hearing has been set for June 3, 2005. Notwithstanding the appeal hearing, Terasen remains optimistic that the LNG storage facility will proceed ahead.

Summary

The Q1/05 results were generally in line with our expectations. We remain comfortable with our current 2005 EPS estimate. Terasen's 2006 earnings outlook is somewhat unclear given the expiry of Trans Mountain's current ITS and the uncertainty with respect to its renewal. On the positive side, Terasen has a number of potential organic growth opportunities within its existing businesses.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

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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.
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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.
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	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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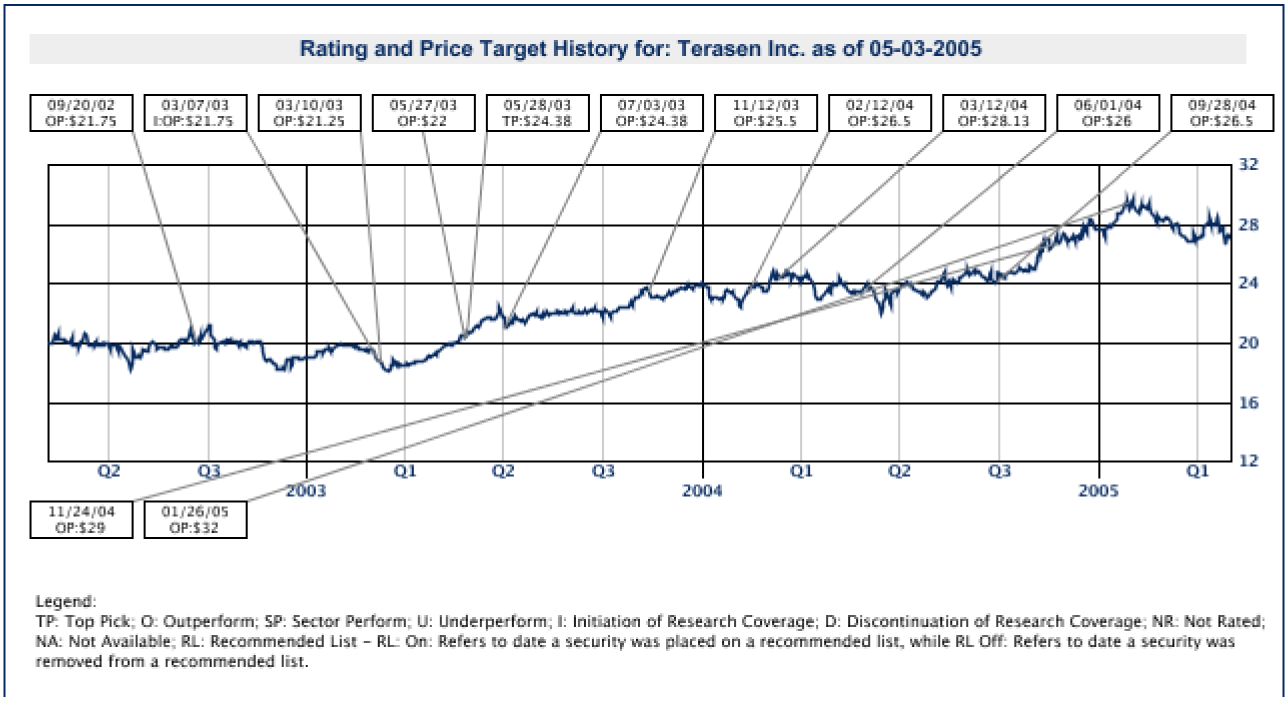

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RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

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

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

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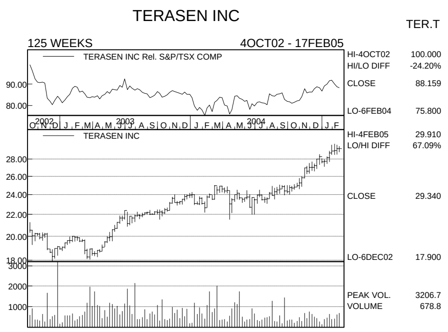
Terasen Inc.

(TSX: TER)

Outperform

Average Risk

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



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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.

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.

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.

Details

Overall, the 2004 results were in line with our expectations. Terasen's normalized EPS was $1.40 in 2004 compared to our estimate of $1.41 and $1.37 in 2003. Lower-than-expected results from Natural Gas Distribution and Other Activities were largely offset by higher-than-expected Petroleum Transportation results. Terasen's 2004 financial results are summarized in Exhibit 1.

Exhibit 1: 2004 Financial Results Summary ($MM Except EPS or Otherwise Indicated)

	For 3 mos. ended Dec. 31		For 12 mos. ended Dec. 31		
	2004	2003	2004	2003	Comments
Natural gas distribution					
Terasen Gas	$36.2	$37.5	$69.7	$72.6	Results prior to Q4/04 restated to reflect change in accounting for income tax expense.
Terasen Gas (Vancouver Island)	6.4	7.3	26.2	26.2	
	42.6	44.8	95.9	98.8	$2.7 million lower-than-expected.
Petroleum transportation					
Trans Mountain	11.2	10.0	39.4	36.8	
Corridor	3.8	4.0	15.6	10.7	
Express System	4.9	3.9	15.9	13.3	
	19.9	17.9	70.9	60.8	$2.4 million higher-than-expected.
Water and utility services	0.7	0.4	6.6	4.1	
Other activities	(8.3)	(7.0)	(26.9)	(21.2)	$1.0 million lower than expected.
Normalized earnings	$54.9	$56.1	$146.5	$142.5	
Restructuring charge		(3.4)		(3.4)	Terasen Gas
Westport Innovations writedown		(1.8)		(1.8)	Other activities
Impact of forest fires in Q3/03				(1.0)	Trans Mountain
Foreign exchange loss at Express				(3.6)	Express System
Mark-to-market gains (losses) at Clean Energy	(1.0)		3.3		Other activities
Reported earnings	$53.9	$50.9	$149.8	$132.7	
Weighted average shares outstanding (MM)	105.0	104.1	104.7	103.8	
Normalized EPS	$0.52	$0.54	$1.40	$1.37	

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were $95.9 million in 2004 compared to $98.8 million in 2003. The decline was attributed to a reduction in the allowed returns on equity at Terasen Gas (Vancouver Island) ("TGVI") and Terasen Gas (-$2.4 million) and the introduction of an earnings sharing mechanism for operating efficiencies (-$4.7 million), partially offset by operating efficiencies achieved through the integration of the Terasen Gas and TGVI operations (+$4.1 million).

In Q4/04, the accounting for income tax expense at Terasen Gas was changed. Under the new accounting methodology, income tax expense is determined by applying the effective annual tax rate to pre-tax income in the quarter. Previously, Terasen Gas allocated annual income tax expense was based on budgeted sales revenue for the four quarters. Reflecting the change in accounting, Terasen Gas' quarterly results prior to Q4/04 were restated. According to Terasen, the change in accounting had no impact on annual financial results. However, it should be noted that recurring earnings from Natural Gas Distribution declined by $0.7 million during the first nine months of 2004 instead of increasing by $1 million as previously reported by Terasen. Based on the previously reported results and our forecast for a modest decline in Q4/04 earnings at Terasen Gas and TGVI, we had expected a relatively flat contribution from Natural Gas Distribution in 2004 compared to 2003.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $70.9 million in 2004 compared to earnings of $60.8 million in 2003. Notwithstanding slightly lower-than-expected throughput volumes on the Trans Mountain Canadian mainline, earnings from Petroleum Transportation were higher-than-expected due to operating efficiencies at Trans Mountain and increased earnings from the Express System.

Water and Utility Services

Normalized earnings from Water and Utility Services increased from $4.1 million in 2003 to $6.6 million in 2004. The increase reflected growth in existing operations, as well as contributions from acquisitions including Fairbanks Sewer & Water Inc. The Fairbanks acquisition was completed on July 31, 2004.

Other Activities

Excluding a $3.3 million after-tax mark-to-market gain for natural gas derivative positions at Clean Energy, earnings from Other Activities decreased from ($21.2) million to ($26.9) million. The decrease largely reflects higher income tax expense in 2004.

Dividend Increase

Yesterday, Terasen's Board of Directors approved a 7.1% increase to the annual dividend from $0.84 to $0.90. The increase was in line with our expectations, but the timing was earlier than expected. In previous years, Terasen increased its common dividend in the second quarter. According to Terasen, the decision to increase the dividend in the first quarter reflects strong results, a positive outlook for 2005 and aligns the dividend increase with the company's fiscal year.

EPS Estimates / Management Guidance

For 2005, Terasen's management is targeting EPS growth of 6% from a base of $1.40. EPS growth is expected to be driven by incremental earnings from Trans Mountain and the Express System expansion, operating efficiencies and customer growth in the Natural Gas Distribution business, and continued growth in the water and utility services business. During the first few months of 2005, management expects temporary weakness in throughput volumes on the Trans Mountain system primarily due to production outages in the Alberta oil sands and west coast refinery turnarounds.

Largely reflecting weaker throughput volumes on the Trans Mountain system, we have reduced our 2005 EPS estimate from $1.54 to $1.50. The outlook for 2006 will depend on the outcome of Trans Mountain's negotiations with its shippers with respect to a new Incentive Toll Settlement (ITS). Management expects to reach a satisfactory agreement on a new ITS and remains committed to delivering on its target of 6% annual EPS growth. Pending additional information on the new ITS, we are maintaining our 2006 EPS estimate of $1.57 at this time.

Outlook

ITS

Trans Mountain has initiated discussions with its shippers regarding the commercial terms for a new ITS, which would replace the current ITS that is set to expire at the end of 2005. Depending on the final tolling arrangement with shippers, Trans Mountain's earnings could be materially negatively impacted in 2006. However, as previously stated, management expects to reach a satisfactory agreement on a new ITS.

TMX

Terasen is working with shippers on finalizing the commercial and tolling framework for its TMX project prior to holding an open season for binding commitments by mid-2005. The company expects to spend an additional $7 to $12 million prior to receiving binding support for the project. At this time, negotiations for the tolling framework for the TMX project and discussions for a new ITS are being conducted separately. However, an umbrella tolling agreement with shippers is not out of the question in the future.

If Terasen proceeds with the first phase of the project (TMx1), it expects to recognize an allowance for funds used during construction (AFUDC) during the construction period. Booking AFUDC could mitigate the potential negative earnings impact associated with a new ITS. TMx1 would be constructed in two phases. The first phase would add 35,000 bpd of capacity by the end of 2006 through the addition of pump stations along the pipeline system at an estimated cost of $205 million. The second phase would involve looping 178 kilometres of the system, providing an additional 40,000 bpd by the end of 2008 at an estimated cost of $365 million.

2005 Capital Expenditures Program

Terasen is forecasting $350 million of capital expenditures in 2005 compared to $154.4 million in 2004. Major capital expenditures in 2005 include the unwinding of a synthetic lease that was previously entered into by Terasen Gas to finance new building facilities in the Greater Vancouver area ($50 million), the purchase and upgrade of the Texada Island compressor station ($15 milllion), initial expenditures for TGVI's proposed LNG storage facility ($23 million), further development of Trans Mountain's TMX Project ($13.5 million) and Corridor Pipeline de-bottlenecking ($6.5 million). The 2005 capital expenditures budget also includes minor acquisitions at the water and utility services business. Terasen expects to finance the planned capital expenditures with internally generated funds and debt.

Vancouver Island Capacity Expansion

On February 16, the British Columbia Utilities Commission (BCUC) approved TGVI's proposal to build a $100 million LNG storage facility near Nanaimo, subject to several conditions, including the execution of a long-term Transportation Service Agreement (TSA) with BC Hydro substantially in the form indicated as acceptable by the BCUC. Yesterday, the BCUC approved BC Hydro's agreement to purchase electricity from Duke Point Power Limited Partnership's proposed power plant, subject to BC Hydro entering into a long-term TSA with TGVI to serve the proposed power plant. In reaction to the BCUC decision, the Joint Industry Electricity Steering Committee announced plans to appeal the regulator's ruling to the appropriate court in the next several days. TGVI plans to work with BC Hydro on a TSA, but there is no certainty that a TSA will ultimately be executed as highlighted by the expected legal action.

Corridor Expansion
Terasen has been working with Shell and its partners on the potential expansion of the Corridor Pipeline from 155,000 bpd to 300,000 bpd. Expansion of the system is expected to be undertaken in phases. The first phase, which has been approved by the shippers, involves de-bottlenecking the existing system by adding pumping capacity. The initial phase is expected to add 35,000 bpd of capacity by the fall of 2005 at an estimated cost of $6.5 million. The second phase would increase system capacity by 110,000 bpd at an estimated cost of $500-$600 million. This phase is under review and, if approved, is expected to be in service by 2009.

Summary

Notwithstanding the potential risk to earnings associated with a new Incentive Tolling Settlement at Trans Mountain and the temporary decline in throughput volumes expected on the Trans Mountain System in the first few months of 2005, we believe that the overall growth outlook for Terasen remains positive given the number of potential opportunities that are available to the company. Key events to watch for in 2005 include the outcome of the discussions on a new ITS and the TMX project.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen’s earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain’s Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

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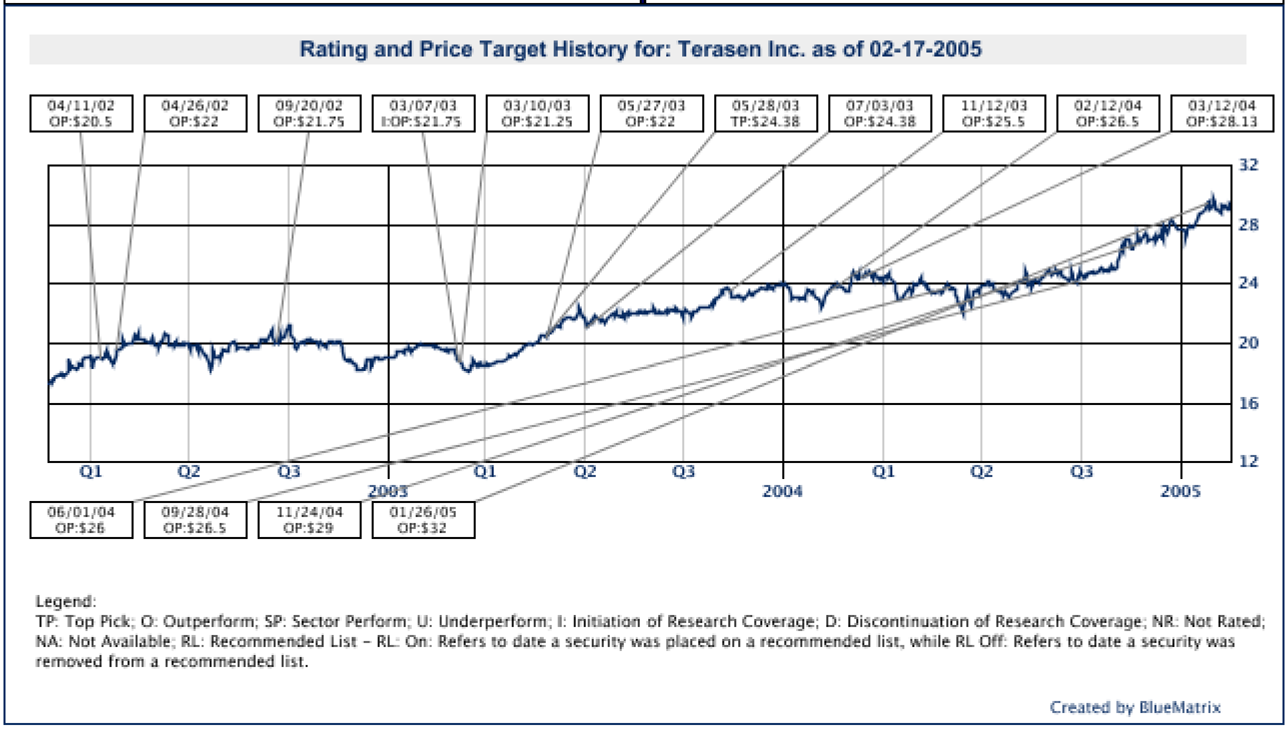
	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	416	46.64	150	36.06
HOLD [SP]	399	44.73	107	26.82
SELL [U]	77	8.63	14	18.18



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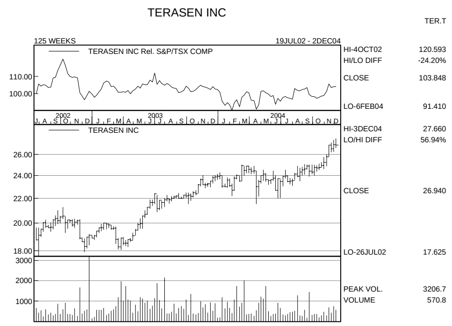
Research Comment

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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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.

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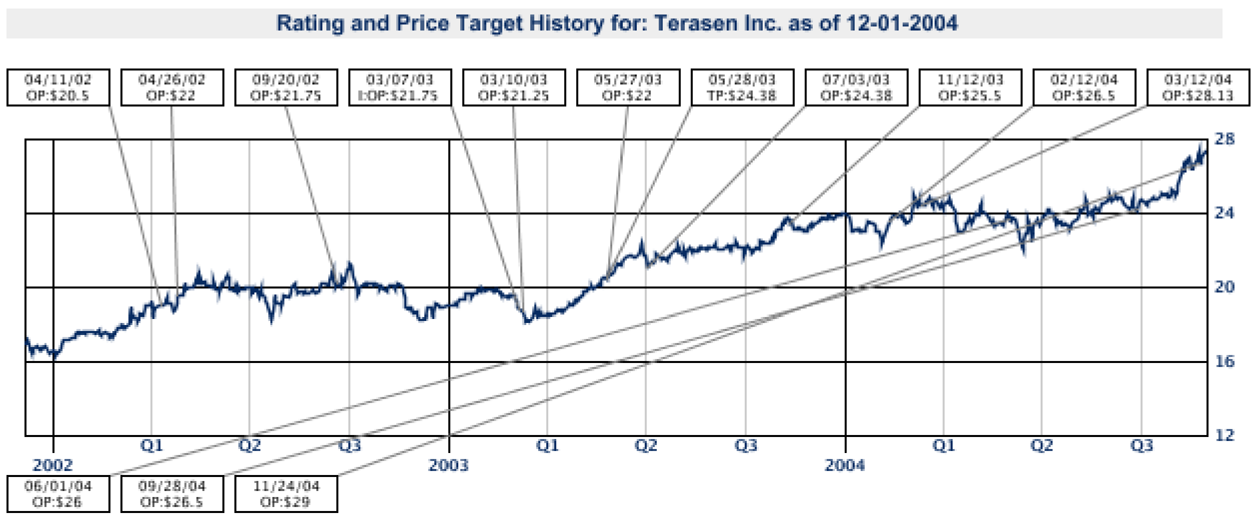
Rating	Count	Percent	Count	Percent
BUY [TP/O]	416	46.12	161	38.70
HOLD [SP]	393	43.57	102	25.95
SELL [U]	93	10.31	11	11.83



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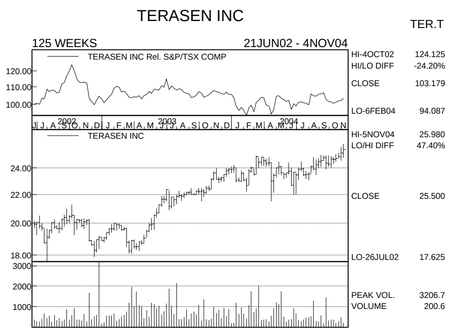

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Price:	$25.50	Price Target:	$26.50
52-Wk High:	$25.74	52-Wk Low:	$21.50
Float (MM):	104.9	Debt-to-Cap:	0.67
Shs O/S (MM):	114.1	Mkt Cap (MM):	$2,675
Dividend:	$0.84	Yield:	3.3%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2003A	2004E	2005E	2006E
EPS				
Basic	$1.37	$1.41	$1.54	$1.57
Diluted	$1.36	$1.40	$1.53	$1.56
P/E	18.6	18.1	16.6	16.2
EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.12	($0.08)	$0.62
2004E	$0.76A	$0.10A	($0.03)A	$0.58
2005E	$0.80	$0.13	($0.04)	$0.65

All values in C$ unless otherwise noted.

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

For Required Disclosures, please see page 4.

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

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

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

Event

Terasen reported its third quarter financial results.

Investment Opinion

- **Q3/04 results slightly higher than expected.** Terasen's normalized EPS was ($0.03) in Q3/04 compared to our estimate of ($0.05) and ($0.08) in Q3/03. Higher-than-expected results from Natural Gas Distribution, Water and Utility Services and Other Activities were partially offset by lower-than-expected results from Trans Mountain.
- **Businesses continue to perform well.** Terasen continues to benefit from strong throughput volumes at Trans Mountain and Express and operating efficiencies achieved through the integration of Terasen Gas and Terasen Gas (Vancouver Island). In addition, the water business is performing well.
- **Guidance for 2004 in line with expectations.** Management reiterated its previous guidance for 2004 normalized EPS in the high $1.30s. In light of the guidance, we remain comfortable with our 2004 EPS estimate of $1.41.
- **Growth outlook remains positive.** We believe recent developments provide support for the expansion of the Corridor Pipeline and the Terasen Gas (Vancouver Island) system. In addition, Terasen plans to seek non-binding expressions of interest for the TMX project by the end of 2004 with an open season to follow in mid-2005.
- **Valuation.** Our target price of $26.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.93 and a required dividend yield of 3.50%. Terasen is ranked Outperform, Average Risk.

Details

Terasen's normalized EPS was ($0.03) in Q3/04 compared to our estimate of ($0.05) and ($0.08) in Q3/03. Higher-than-expected results from Natural Gas Distribution, Water and Utility Services and Other Activities were partially offset by lower-than-expected results from Trans Mountain. Terasen's third quarter results are summarized in Exhibit 1.

Exhibit 1: Third Quarter Financial Results ($MM Except EPS or Otherwise Indicated)

	For 3 months Ended Sept. 30			
	2004	RBC CM Est. Q3/04	2003	Comments
Natural Gas Distribution				
Terasen Gas	$ (24.8)	$ (25.3)	$ (25.5)	Operating efficiencies from integration of Terasen Gas and TGVI partially offset by lower allowed rate of return on equity at both utilities.
Terasen Gas (Vancouver Island)	6.8	6.4	6.1	
	(18.0)	(18.9)	(19.4)	
Petroleum Transportation				
Trans Mountain	8.8	9.5	8.9	
Corridor	3.9	4.0	3.8	
Express	3.8	3.5	2.6	Higher throughput volumes on a year-over-year basis.
	16.5	17.0	15.3	
Water and Utility Services	3.3	2.8	2.2	Improvement partially reflects acquisition of Fairbanks Sewer & Water.
Other Activities	(5.2)	(6.5)	(5.9)	Year-over-year improvement reflects lower financing costs.
Normalized earnings	$ (3.4)	$ (5.6)	$ (7.8)	
Fx gain at Express			0.2	
Estimated impact of B.C. forest fires on TMPL results			(1.0)	
One-time regulatory adjustment at TGVI			1.0	
Mark-to-market gain at Clean Energy	2.0			
Reported earnings	$ (1.4)	$ (5.6)	$ (7.6)	
Weighted average shares outstanding (MM)	104.8	104.7	103.9	
Normalized EPS	$ (0.03)	$ (0.05)	$ (0.08)	

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were ($18.0) million in Q3/04 compared to ($19.4) million in Q3/03. The year-over-year improvement reflects operating efficiencies achieved through the integration of the Terasen Gas and Terasen Gas (Vancouver Island) operations, which were partially offset by lower allowed returns on equity at the utilities and the sharing of operating efficiencies between shareholders and customers starting in 2004.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $16.5 million in Q3/04 compared to earnings of $15.3 million in Q3/03. The year-over-year increase was primarily attributable to higher throughput volumes on Express, which increased from 174,700 bpd in Q3/03 to 178,200 bpd in Q3/04. Throughput on the Trans Mountain System also increased, reflecting strong demand for Alberta oil sands' product. Volumes on the Trans Mountain Canadian mainline increased from 233,100 bpd in Q3/03 to 241,400 bpd in Q3/04, while volumes on the Trans Mountain U.S. mainline rose from 55,700 bpd in Q3/03 to 86,900 bpd in Q3/04.

Water and Utility Services

Normalized earnings from Water and Utility Services increased from $2.2 million in Q3/03 to $3.3 million in Q3/04. The increase reflected growth in existing operations, as well as contributions from acquisitions including Fairbanks Sewer & Water Inc. The Fairbanks acquisition was completed on July 31, 2004.

Other Activities

Excluding a $2.0 million mark-to-market gain for natural gas derivative positions at Clean Energy, earnings from Other Activities increased from ($5.9) million to ($5.2) million. The increase was largely due to a decline in financing costs as a result of lower interest rates.

SUMMARY

Overall, the results were slightly better than we had expected. Terasen continues to benefit from strong throughput volumes at Trans Mountain and Express and from operating efficiencies achieved through the integration of Terasen Gas and Terasen Gas (Vancouver Island). In addition, the water business is performing well.

EPS Estimates / Management Guidance

During its third quarter conference call, Terasen's management reiterated its previous guidance for 2004 EPS in the high $1.30s, which excludes any mark-to-market earnings/losses from Clean Energy. In light of management's guidance, we remain comfortable with our 2004 EPS estimate of $1.41.

Outlook

Vancouver Island Capacity Expansion

On November 3, 2004, BC Hydro announced that it had offered an electricity purchase agreement to Duke Point Power Limited Partnership. Subject to regulatory approval, Duke Point will construct a 252 MW, gas-fired combined cycle power plant near Nanaimo, B.C. We believe the announcement will provide the necessary support for Terasen's proposal to meet increased demand for natural gas on Vancouver Island by providing additional compression on the Terasen Gas (Vancouver Island) system and constructing a new LNG storage facility. Terasen's project has an estimated cost of $100 million. According to BC Hydro, Terasen's proposal is significantly less expensive than the Georgia Strait Crossing pipeline that was proposed by BC Hydro and Williams Cos. to provide natural gas supply to Vancouver Island. The British Columbia Utilities Commission will hold a hearing for Terasen's proposal on November 17, 2004. A decision is expected by the end of January 2005. If approved, the facilities could be in service by June 2007.

Corridor Expansion

On September 21, 2004, Shell Canada announced plans to increase bitumen production at the Athabasca Oil Sands Project (AOSP) from 155,000 bpd to 270,000-290,000 bpd by 2010. Over the next three years, Shell Canada has proposed a number of debottlenecking projects at the Muskeg River Mine and Scotford Upgrader to increase the bitumen production rate to 180,000-200,000 bpd. Over the 2006 to 2010 period, planned expansions of the Muskeg River Mine and Scotford Upgrader are expected to further increase bitumen throughputs by approximately 90,000 bpd.

Shell Canada and its partners hold an option for an additional 75,000 bpd of transportation capacity on the Corridor Pipeline. Terasen had planned to install four new pump stations at a cost of approximately $120 million if the pipeline capacity option was exercised. The planned expansions announced by Shell Canada in September 2004 are considerably greater than originally envisioned. As the installation of new pump stations on the Corridor Pipeline would not result in sufficient transportation capacity to accommodate the expected increase in production from AOSP by 2010, Terasen is evaluating the possibility of constructing a new pipeline to accommodate the increased production. Under this scenario, Shell Canada would be the anchor shipper on the new pipeline and other producers would be invited to ship their product along the same pipeline. The project would replace the Bison Pipeline, a project that Terasen had proposed to transport bitumen from the Athabasca oil sands to the Edmonton area.

TMX Update

During its third quarter conference call, Terasen provided an update on its TMX project. The company continues to hold discussions with interested shippers on its proposal. Terasen plans to seek non-binding expressions of interest by the end of 2004 with an open season to follow in mid-2005.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $26.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.93 and a required dividend yield of 3.50%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

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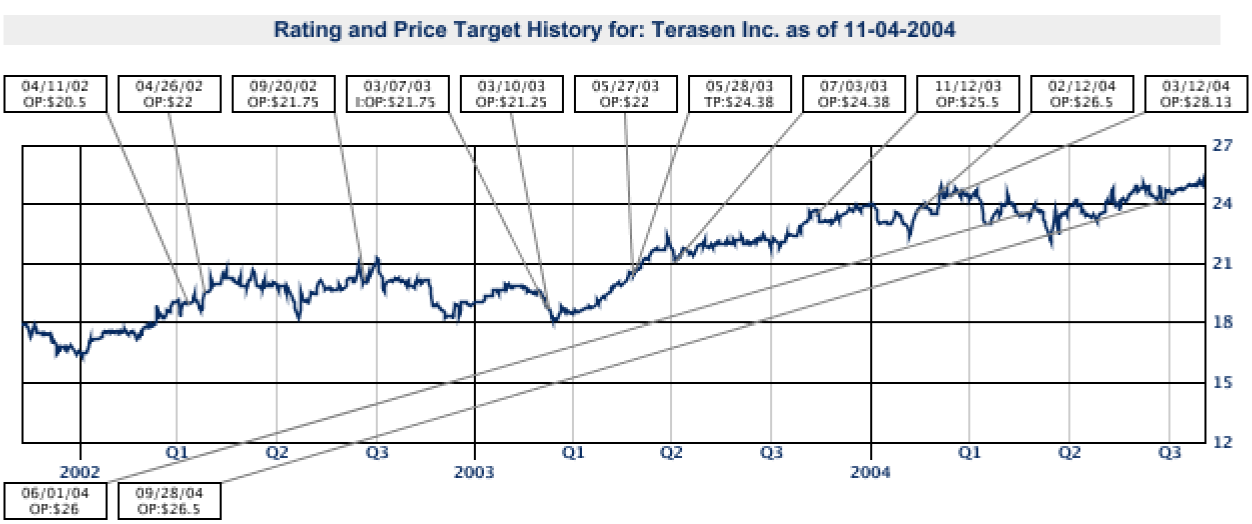

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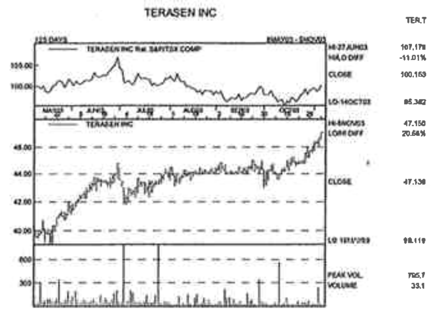

Terasen Inc.

(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.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

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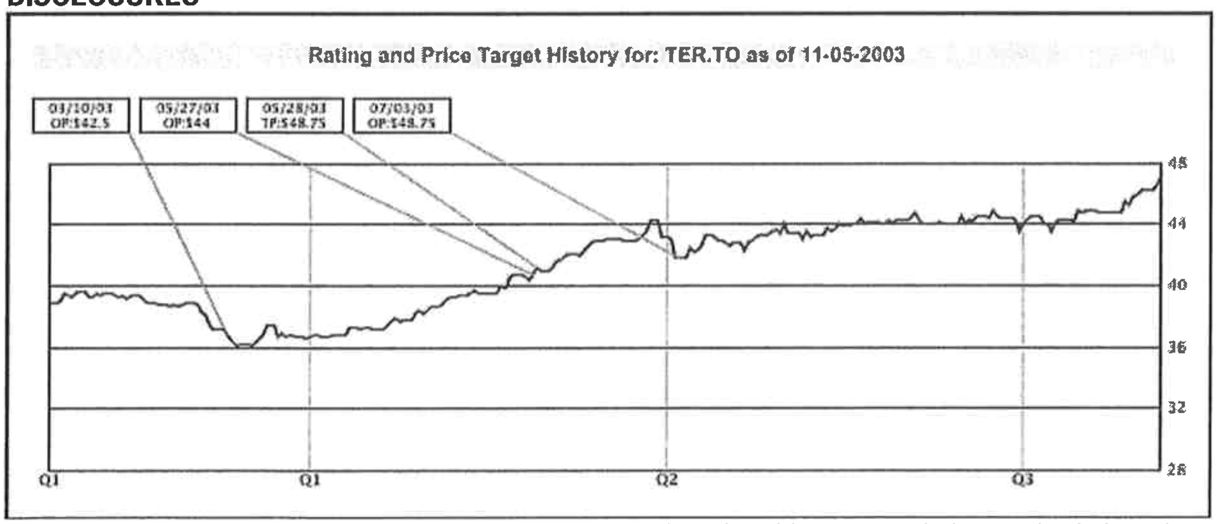

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SELL [U]	98	12.96	7	7.14

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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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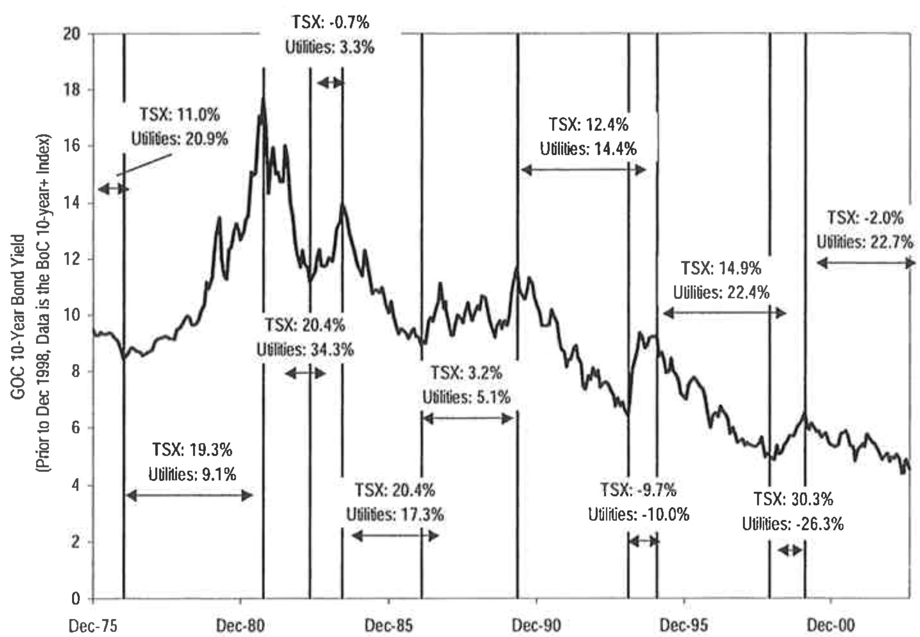
Introduction

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

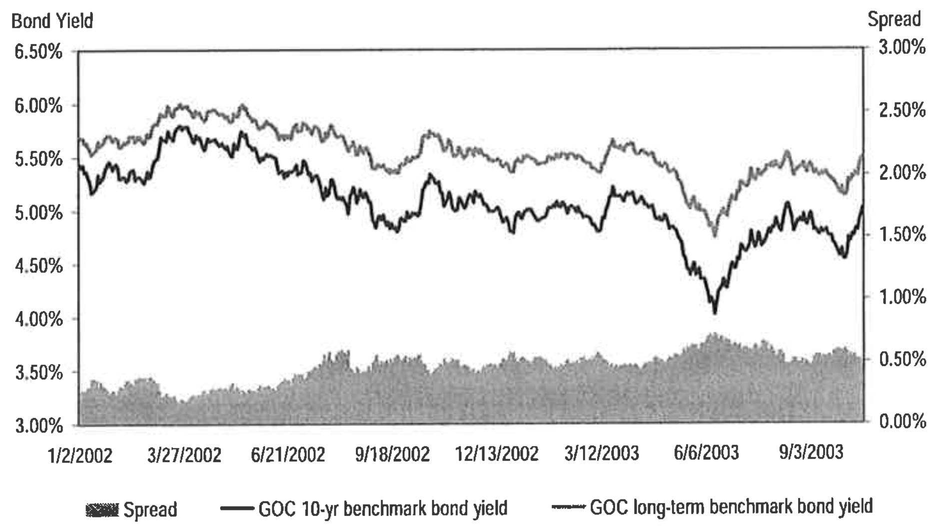


Source: Bank of Canada; RBC Capital Markets

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

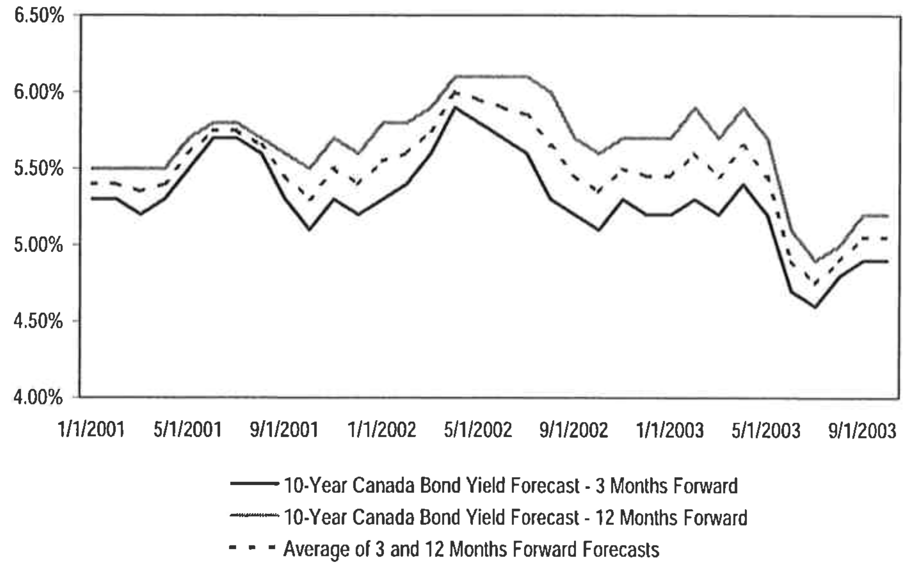
Consensus Forecasts

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.

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

		PRICE	Earnings per Share[1] Basic / *Earnings per Share Fully Diluted*				P/E Ratio		Current Dividend/	Current	Payout Ratio (%)		1-Year		
	Tick	4-Nov-03	FY02	FY03(E)	FY04(E)	FY05(E)	FY04E	FY05E	Distrib.	Yield	FY04E	FY05E	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.

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			IB Serv./Past 12 Mos.	
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HOLD [SP]	333	44.05	56	16.82
SELL [U]	95	12.57	6	6.32

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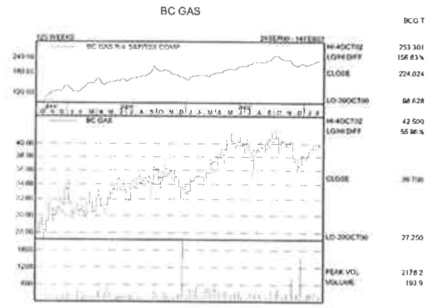


BC Gas Inc.

(TSX: BCG)

Outperform

Average Risk

2002 Financial Results Higher Than Expected; Resuming Coverage with Outperform Ranking

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

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.

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

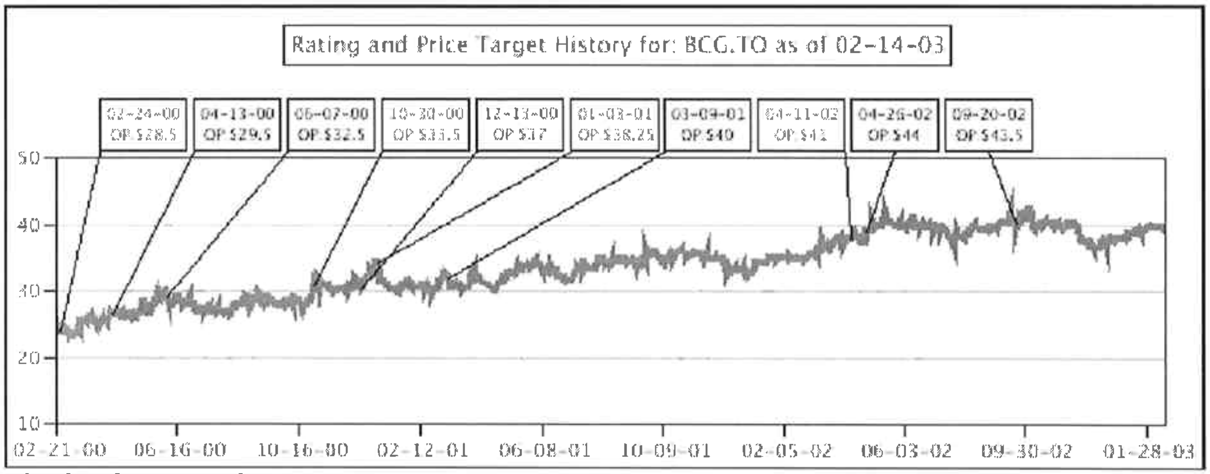
Target Price and Recommendation

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 warrants, rights or securities convertible into the common shares of BC Gas Inc.

EXPLANATION OF RBC CAPITAL MARKETS RATING SYSTEM

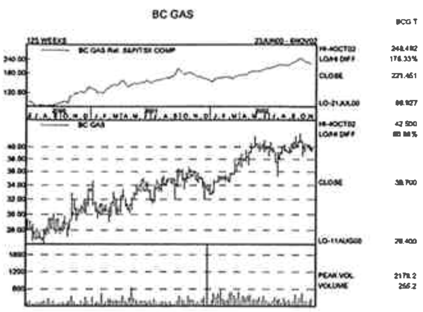
Definitions Of Rating Categories

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.

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).

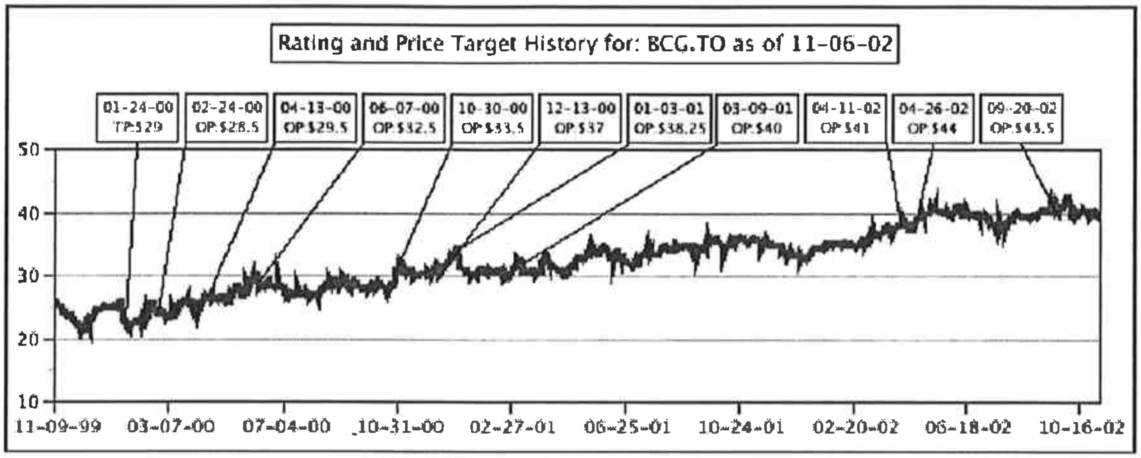
We have revised our financial model to reflect the higher-than-expected third quarter results and a higher forecast contribution from Centra BC through our forecast period. Accordingly, we have increased our 2002, 2003 and 2004 EPS estimates from $2.40, $2.57 and $2.70 respectively to $2.50, $2.67, and $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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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
Morning Comment

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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

(All values in C$ unless otherwise noted.)

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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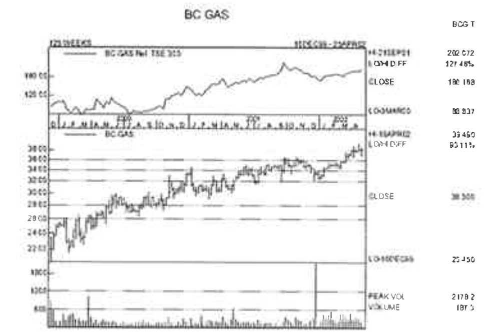
BC GAS INC. **TSE - *BCG - $38.30**

BC Gas First Quarter Results Higher than Expected;
Target Price Increased to Reflect $0.12 Increase in Annual Dividend

		Old 1 Yr. Target	$41.00
Stock Rating	**Outperform**	**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):

	Q1/02	Q1/01	Per Share Q1/02	Per Share 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 DOMINION SECURITIES

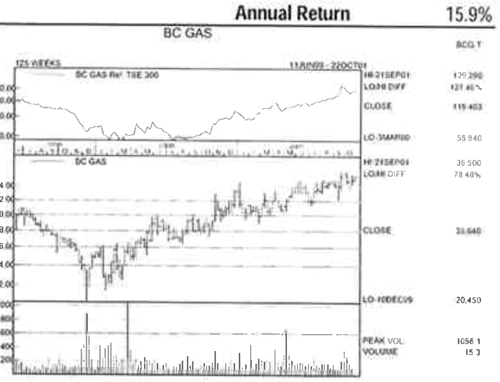
October 23, 2001
Morning Comment
Maureen E. Howe, Ph.D. (604) 257-7195
Fai Lee, CGA, Associate (604) 257-7662

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.

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.

Company Comment
Friday, July 29, 2005

Terasen Inc.

(TER-T C$31.64)

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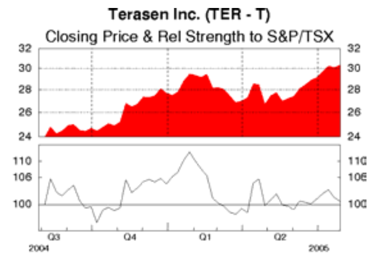
Rating: 2-Sector Perform	**Target**	1-Yr:	$32.00	**ROR**	1-Yr:	4.0%	**Est. NTM Div.**	$0.90
Risk Ranking: Low		2-Yr:	$33.00		2-Yr:	10.0%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 19x P/E on averaged 2006E 2007E EPS							**Yield**	2.8%

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.

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.

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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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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.

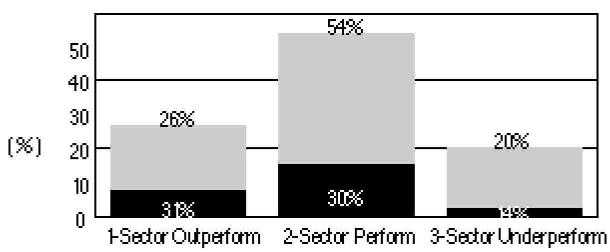
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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*



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* As at June 30, 2005.

Source: Scotia Capital.

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Company Comment

Friday, May 20, 2005

Terasen Inc.

(TER-T C$27.20)

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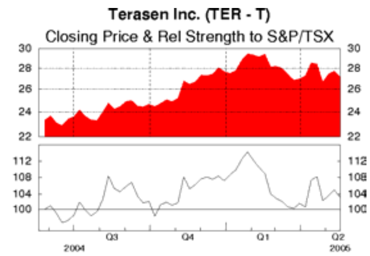
Rating: 2-Sector Perform	**Target**	1-Yr:	$29.00	**ROR**	1-Yr:	9.9%	**Est. NTM Div.**	$0.90
Risk Ranking: Low		2-Yr:	$29.00		2-Yr:	13.2%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 18x P/E on 2006E EPS							**Yield**	3.3%

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

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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.

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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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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.

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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
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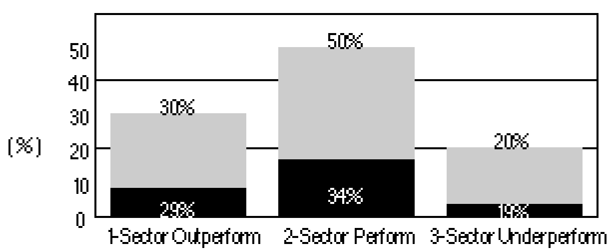
Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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Source: Scotia Capital.

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Equity Research DAILY Edge

Company Comment
Friday, February 18, 2005

Terasen Inc.

(TER-T C$29.34)

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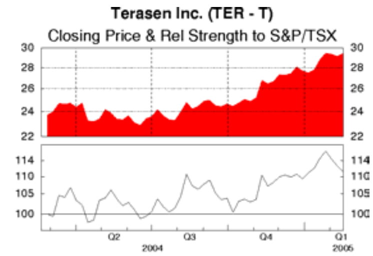
Turan Quettawala, CFA – 416-863-7846
turan_quettawala@scotiacapital.com

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

Q4/04 EPS Lower Than Expected

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

SC Online Analyst Link

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.

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.

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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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* *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.

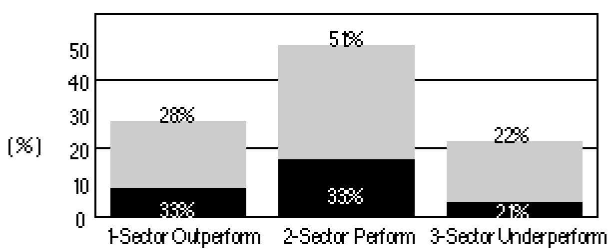
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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 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

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%

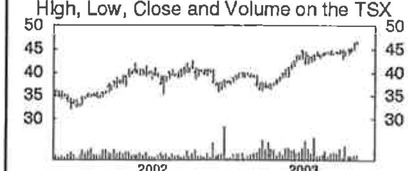
Source: Reuters; Company reports; Scotia Capital estimates.
Historical price multiple calculations use FYE prices.

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)
High, Low, Close and Volume on the TSX



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.

THE DAILY EDGE

Back to EDGE at a Glance

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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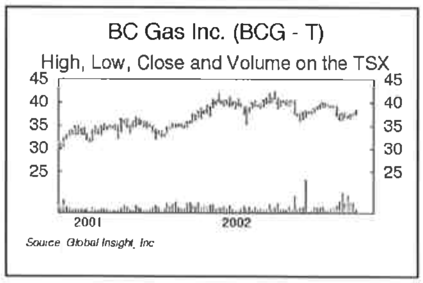
Apr 25, 2003: $38.08	**1-Yr Target: $41.00**	**1-Yr ROR: 11.7%**	**ROE 03E: 12.4%**	**I/B/E/S EPS 2003E: $2.59**
Dividend: $1.52	**2-Yr Target: $42.00**	**2-Yr ROR: 18.3%**	**BVPS 03E: $21.53**	**I/B/E/S EPS 2004E: $2.76**

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



- **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.

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
2001A	1.59 A	-0.08 A	-0.58 A	1.28 A	2.21	15.0
2002A	1.70 A	0.03 A	-0.44 A	1.23 A	2.45	15.6
2003E	1.77	0.03	-0.30	1.10	2.60	15.3
2004E	1.80	0.10	-0.25	1.20	2.85	13.9

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

Capitalization	
Shares O/S (M)	56.3
Total Value($M)	2,234
Float O/S (M)	56.3
Float Value($M)	2,234
TSX Weight	0.35%

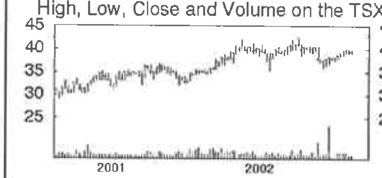
Share Impact and Valuation

- **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		

BC Gas Inc. (BCG - T)

High, Low, Close and Volume on the TSX



Source: Global Insight, Inc

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.

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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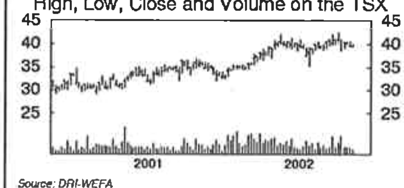
Nov 6, 2002: $39.70	**1-Yr Target: $42.00**	**1-Yr ROR: 9.4%**	**ROE 02E: 12.1%**	**I/B/E/S EPS 2002E: $2.40**
Dividend: $1.42	**2-Yr Target: $42.00**	**2-Yr ROR: 12.9%**	**BVPS 02E: $20.40**	**I/B/E/S EPS 2003E: $2.62**
Qtly EPS (f.d.) (Next Release: 1-Feb-03)				**Valuation: 15.5x P/E on AVG 2003E/2004E EPS**

Y/E December 31	Mar	Jun	Sep	Dec	Year	P/E	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	16.5	Total Value($M)	1,733
2003E	1.78	0.04	-0.30	1.10	2.62	15.2	Float O/S (M)	43.7
2004E	1.80	0.10	-0.25	1.15	2.80	14.2	Float Value($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

BC Gas Inc. (BCG - T)
High, Low, Close and Volume on the TSX



- **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%

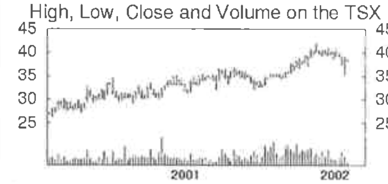
Share Impact and Valuation

- **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.

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.

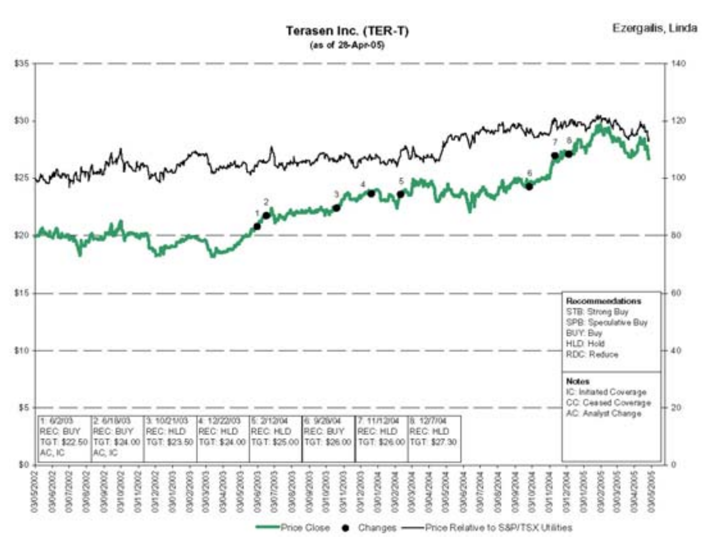
We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and leverage to growing volumes in the oil sands. Terasen has traded at a premium to the sector, and we expect this premium to continue.

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



For full disclosures, please see the final page(s) of this document.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
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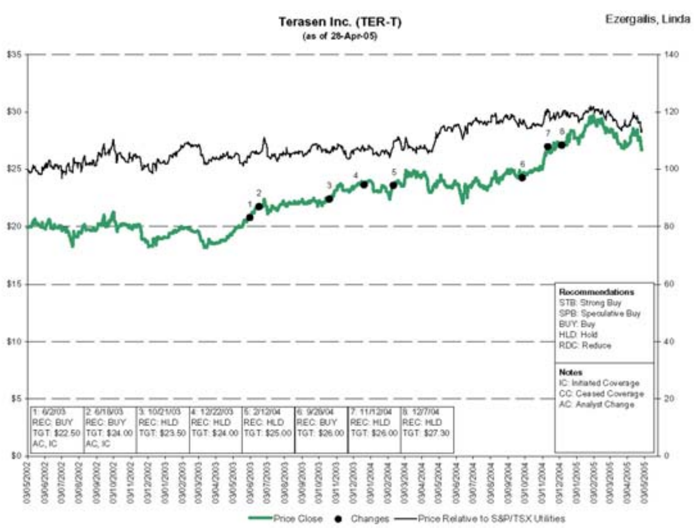
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 45 %, Speculative Buy: 4 %, Hold: 44 %, Reduce: 7 % Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 48%, Speculative Buy: 33% ; Hold: 30%, Reduce: 31%.

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Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

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

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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.

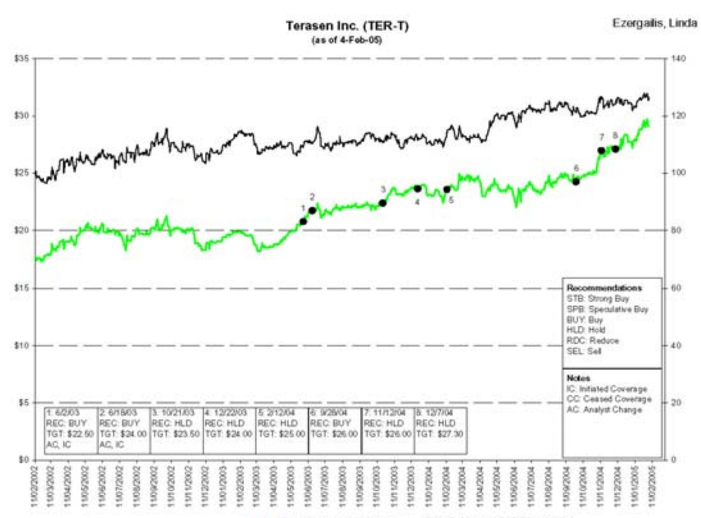
Valuation - Our $29.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.3%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (versus historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 77% (versus historical 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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Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14

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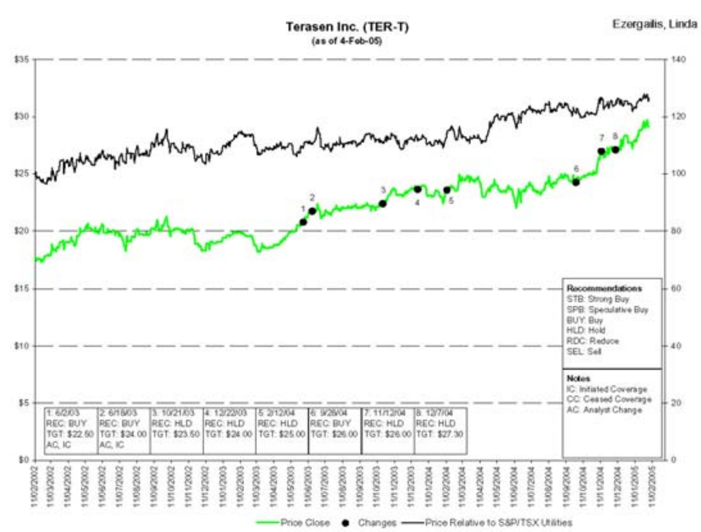
Price Graphs



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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:
All figures in Canadian dollars, unless otherwise specified.

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.

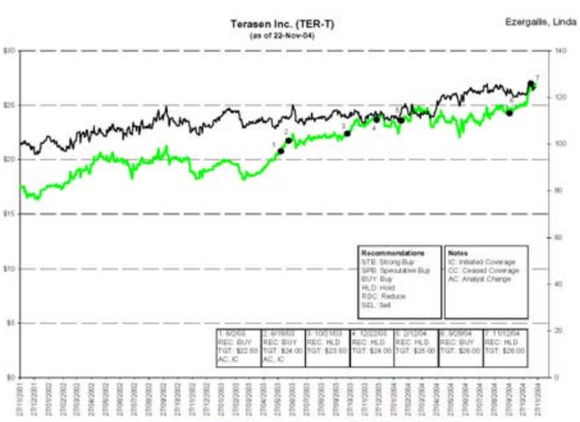
Valuation - Our $26.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.8%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (vs. historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 75% (vs. historical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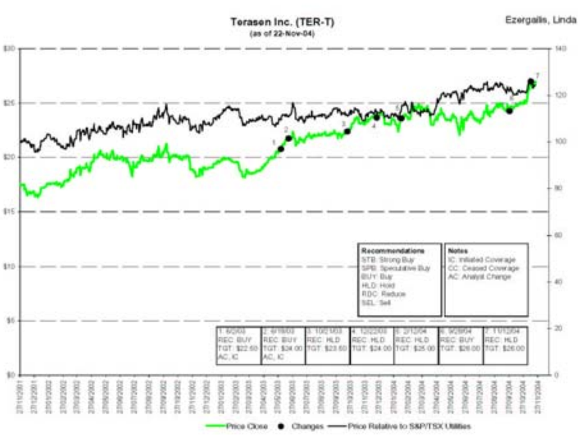
Price Graphs



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Definition of Research Ratings
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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

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:
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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.

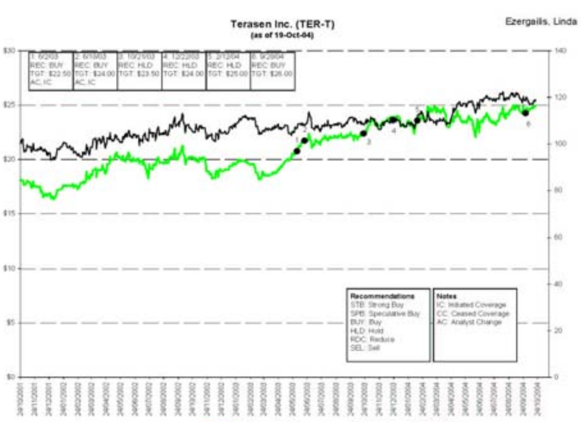
We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and strong fundamentals of its petroleum transportation business. Terasen has recently been trading at a premium to the sector, and we expect this 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



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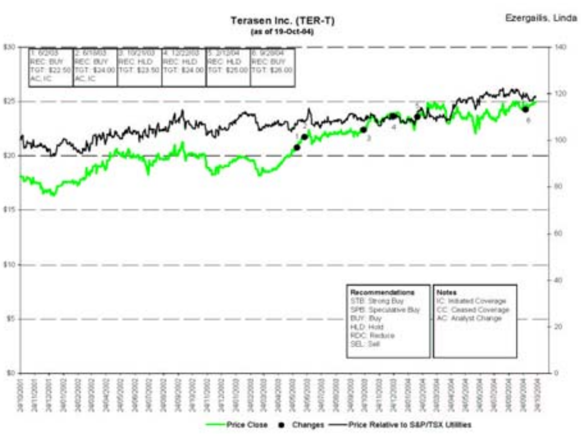
Price Graphs



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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.

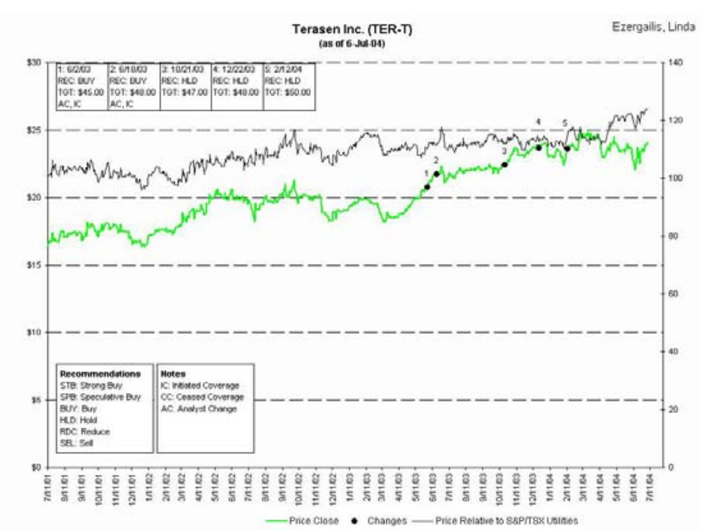
Key Risks to Target Price

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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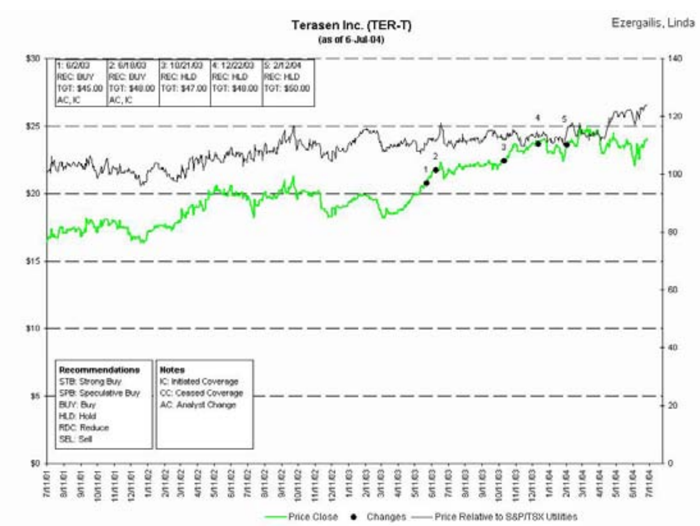

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TD Newcrest
The Equity Division of TD Securities

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

					Per-Share Data				Ratios		Valuations			
Market Data		Financial Data		Year	EPS	Div	BV	CF	ROE	Debt/Cap.	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.
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- 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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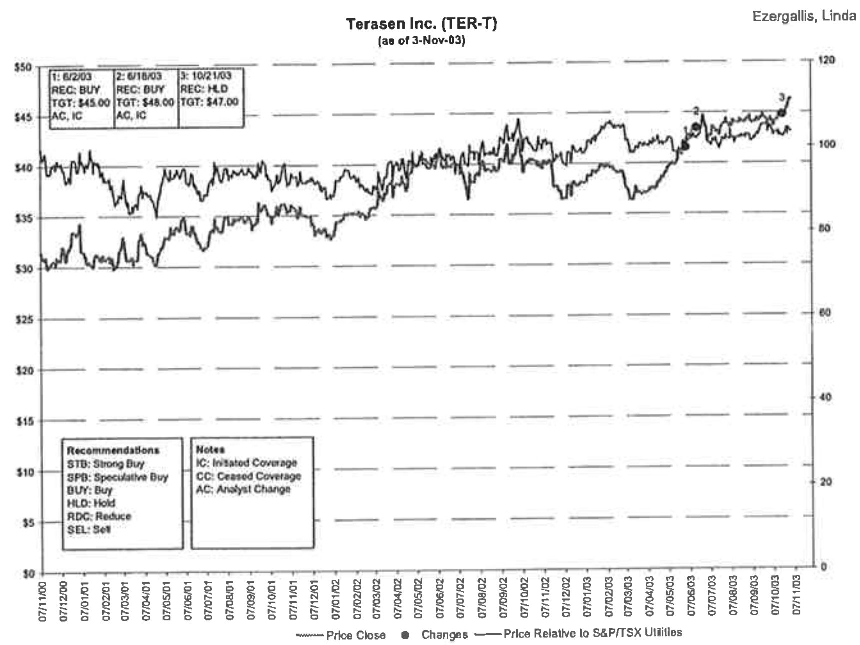
Price Graphs



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BUY:	The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
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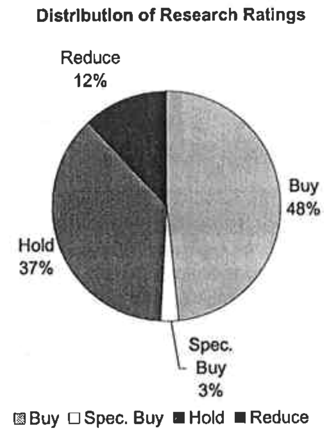
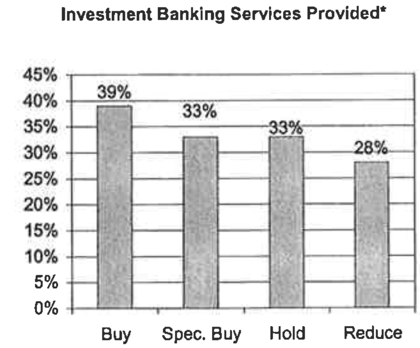
REDUCE:	The stock's total return is expected to be negative over the next 12 months.

Distribution of Research Ratings



Current as of October 31, 2003.



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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 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	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

APPENDIX 6.1

Portfolio Transactions

Foreign Investment in Canada

	Money Market			Bonds		
	Sales	Purchases	Net	Sales	Purchases	Net
1985	25714	-26291	-577			11066
1986	32843	-30452	2391			22541
1987	40140	-37600	2540			7530
1988	65696	-56405	9291			15568
1989	91762	-90622	1140			17458
1990	95605	-89963	5642			14329
1991	122677	-118249	4428			26620
1992	254211	-249312	4899			18480
1993	246090	-236793	9297	463621	-432174	31447
1994	371398	-370493	905	610632	-594637	15995
1995	328447	-331856	-3409	545168	-514439	30729
1996	389236	-396556	-7320	741258	-723305	17953
1997	316257	-313887	2370	1102981	-1096815	6166
1998	316349	-316218	131	915848	-905511	10337
1999	234938	-248147	-13209	615625	-631024	-15399
2000	217931	-217107	824	441499	-462956	-21457
2001	188125	-195474	-7349	487829	-446827	41002
2002	192543	-188761	3782	464747	-445943	18804
2003	217077	-218539	-1462	650178	-641885	8293
2004	205705	-206135	-430	621175	-601112	20063

Portfolio Transactions
Canadian Investment /

Stocks			Total	Total		Money Market		
Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
8502	-7306	1196			11685			0
13994	-13246	748			25680			0
31854	-27593	4261			14331			0
16145	-18978	-2833			22026			0
23543	-20521	3022			21620			0
15875	-17880	-2005			17966			0
16061	-18025	-1964			29084			0
17156	-16849	307			23686			0
37398	-27240	10158	747109	-696207	50902			0
46020	-41584	4436	1028050	-1006714	21336			0
38505	-44489	-5984	912120	-890784	21336			0
65836	-62592	3244	1196330	-1182453	13877			0
95542	-91555	3987	1514780	-1502257	12523			0
118654	-121010	-2356	1350851	-1342739	8112			0
132766	-122954	9812	983329	-1002125	-18796			0
245570	-220553	25017	905000	-900616	4384			0
231551	-230222	1329	907505	-872523	34982			0
214642	-222678	-8036	871932	-857382	14550	76547	-78299	-1752
215251	-206269	8982	1082506	-1066693	15813	92811	-96119	-3308
284218	-269470	14748	1111098	-1076717	34381	122085	-123754	-1669

% of GDP	% of GDP		% of GDP	% of GDP
1.75%	-1.50%			
2.73%	-2.58%			
5.70%	-4.94%			
2.63%	-3.10%			
3.58%	-3.12%			
2.33%	-2.63%			
2.34%	-2.63%			
2.45%	-2.41%			
5.14%	-3.75%		102.74%	-95.74%
5.97%	-5.39%		133.36%	-130.59%
4.75%	-5.49%		112.55%	-109.92%
7.87%	-7.48%		142.95%	-141.30%
10.82%	-10.37%		171.60%	-170.18%
12.97%	-13.23%		147.64%	-146.75%
13.51%	-12.52%		100.09%	-102.00%
22.81%	-20.49%		84.06%	-83.66%
20.90%	-20.78%		81.90%	-78.74%
18.60%	-19.29%		75.54%	-74.28%
17.70%	-16.96%		89.01%	-87.71%
22.03%	-20.89%		86.12%	-83.45%

Abroad

Bonds			Stocks			All securities		
Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
24127	-24877	-750	12591	-13762	-1171	36718	-38639	-1921
31828	-32006	-178	21758	-24496	-2738	53586	-56502	-2916
63660	-64535	-875	33706	-35772	-2066	97366	-100307	-2941
33326	-33401	-75	20305	-24714	-4409	53631	-58115	-4484
48538	-50141	-1603	25227	-29095	-3868	73765	-79236	-5471
50242	-50316	-74	24960	-27483	-2523	75202	-77799	-2597
52832	-54494	-1662	29384	-39387	-10003	82216	-93881	-11665
79175	-80576	-1401	32131	-42479	-10348	111306	-123055	-11749
73588	-78657	-5069	49268	-62078	-12810	122856	-140735	-17879
134804	-134369	435	62179	-71541	-9362	196983	-205910	-8927
158830	-159914	-1084	76467	-82714	-6247	235297	-242628	-7331
219397	-221466	-2069	81275	-98523	-17248	300672	-319989	-19317
241875	-248517	-6642	156976	-162184	-5208	398851	-410701	-11850
354139	-361203	-7064	148433	-163865	-15432	502572	-525068	-22496
242779	-245257	-2478	239858	-260481	-20623	482637	-505738	-23101
302204	-306167	-3963	306171	-366136	-59965	608375	-672303	-63928
375731	-377653	-1922	315627	-351281	-35654	691358	-728934	-37576
524338	-530567	-6229	646774	-665633	-18859	1247659	-1274499	-26840
501649	-509623	-7974	589233	-593671	-4438	1183693	-1199413	-15720
492263	-507527	-15264	513506	-515098	-1592	1127854	-1146379	-18525

% of GDP	% of GDP
7.56%	-7.96%
10.45%	-11.02%
17.42%	-17.95%
8.75%	-9.48%
11.22%	-12.05%
11.06%	-11.44%
12.00%	-13.70%
15.89%	-17.57%
16.89%	-19.35%
25.55%	-26.71%
29.03%	-29.94%
35.93%	-38.24%
45.18%	-46.53%
54.93%	-57.39%
49.13%	-51.48%
56.51%	-62.45%
62.39%	-65.79%
108.10%	-110.42%
97.33%	-98.62%
87.42%	-88.85%

Direct Investment						
Canadian Investment Abroad			Foreign Investment in Canada			GDP Current
outflows	inflows	Net	outflows	inflows	Net	Prices
-16432	11158	-5274	-43854	45726	1872	485714
-25379	20515	-4864	-14647	18612	3965	512541
-40240	30798	-9442	-11878	22637	10759	558949
-17513	9853	-7660	-13572	21111	7539	613094
-18572	12337	-6235	-19018	26133	7115	657728
-16027	9917	-6110	-12654	21502	8848	679921
-16486	9801	-6685	-15524	18824	3300	685367
-15089	10750	-4339	-17400	23107	5707	700480
-18655	11302	-7353	-17027	23131	6104	727184
-24297	11603	-12694	-19626	30834	11208	770873
-27874	12141	-15733	-23834	36537	12703	810426
-32863	15005	-17858	-23668	36803	13135	836864
-49387	17449	-31938	-25725	41683	15958	882733
-84244	33287	-50957	-24412	58242	33830	914973
-47734	22110	-25624	-42294	79056	36762	982441
-104535	38183	-66352	-53129	152326	99197	1076577
-98690	42888	-55802	-41118	83963	42845	1108048
-77975	35984	-41991	-31161	64912	33751	1154204
-69964	39905	-30059	-31147	40044	8897	1216191
-90328	28592	-61736	-51489	59675	8186	1290185

% of GDP	% of GDP	% of GDP	% of GDP
-3.38%	2.30%	-9.03%	9.41%
-4.95%	4.00%	-2.86%	3.63%
-7.20%	5.51%	-2.13%	4.05%
-2.86%	1.61%	-2.21%	3.44%
-2.82%	1.88%	-2.89%	3.97%
-2.36%	1.46%	-1.86%	3.16%
-2.41%	1.43%	-2.27%	2.75%
-2.15%	1.53%	-2.48%	3.30%
-2.57%	1.55%	-2.34%	3.18%
-3.15%	1.51%	-2.55%	4.00%
-3.44%	1.50%	-2.94%	4.51%
-3.93%	1.79%	-2.83%	4.40%
-5.59%	1.98%	-2.91%	4.72%
-9.21%	3.64%	-2.67%	6.37%
-4.86%	2.25%	-4.30%	8.05%
-9.71%	3.55%	-4.93%	14.15%
-8.91%	3.87%	-3.71%	7.58%
-6.76%	3.12%	-2.70%	5.62%
-5.75%	3.28%	-2.56%	3.29%
-7.00%	2.22%	-3.99%	4.63%

APPENDIX 6.2.1

	Total Assets	Total Assets Canadian	Total Assets Foreign	Total Bonds	Canadian Bonds	Foreign Bonds	Total Stocks
1993	310534	269194	41340	129543	128224	1319	119367
1994	308591	263428	45163	121588	120152	1436	119962
1995	355718	299734	55984	139387	137484	1903	144938
1996	417269	347912	69357	150979	149077	1902	185109
1997	465372	381822	83550	172144	168090	4054	205811
1998	508535	406160	102375	194033	186496	7537	210342
1999	561877	448451	113426	194297	189960	4337	252274
2000	594821	417112	123709	221678	214910	6768	239342
2001	581873	453684	128189	209854	205377	4477	232675
2002	553358	428782	124576	203284	199016	4268	208477
2003	621500	475672	145829	206599	212763	3836	247224
2004	686032	517868	165164	237039	231004	6035	266236

	Foreign -Total	Foreign-Bonds
1993	13.31%	1.02%
1994	14.64%	1.18%
1995	15.74%	1.37%
1996	16.62%	1.26%
1997	17.95%	2.36%
1998	20.13%	3.88%
1999	20.19%	2.23%
2000	20.80%	3.05%
2001	22.03%	2.13%
2002	22.51%	2.10%
2003	23.46%	1.86%
2004	24.08%	2.55%

Canadian Stocks	Foreign Stocks	Total Short-term	Canadian Short-term	Foreign Short-term	Total Other	Canadian Other	Foreign Other
89789	29578	24306	23862	444	37318	27319	9999
90114	29848	25212	24500	712	41829	28662	13167
109195	35743	23909	23372	537	47484	29683	17801
143408	41701	25018	24404	614	56163	31023	25140
158331	41484	22351	21234	1117	65066	34167	30899
152852	57490	27669	27045	624	76491	39767	36724
190840	61434	25600	24861	739	89706	42790	46919
177362	61980	27393	26768	625	106408	52072	54336
163039	69636	31490	30550	990	107854	54768	53086
142579	65898	30418	30078	340	111179	57109	54070
170394	76830	30348	29844	504	127328	62670	64659
181169	85066	31046	30574	472	148712	75121	73591

Foreign-Stocks	Foreign-Short-Term	Foreign-Other
24.78%	1.83%	26.79%
24.88%	2.82%	31.48%
24.66%	2.25%	37.49%
22.53%	2.45%	44.76%
20.16%	5.00%	47.49%
27.33%	2.26%	48.01%
24.35%	2.89%	52.30%
25.90%	2.28%	51.06%
29.93%	3.14%	49.22%
31.61%	1.12%	48.63%
31.08%	1.66%	50.78%
31.95%	1.52%	49.49%

APPENDIX 6.3.1

	Bank of Canada		Federal Reserve
	Cdn US Exchange Rate	**Trade Weighted Index**	**US Broad Dollar Trade Weighted Index**
1989	0.84	104.03	66.91
1990	0.86	104.44	71.42
1991	0.84	106.12	74.36
1992	0.82	99.97	76.92
1993	0.77	94.03	83.79
1994	0.73	88.29	90.88
1995	0.73	86.84	92.66
1996	0.73	88.21	97.46
1997	0.72	88.06	104.43
1998	0.68	82.67	115.89
1999	0.67	82.14	116.03
2000	0.67	82.85	119.44
2001	0.65	80.21	125.91
2002	0.64	78.87	126.66
2003	0.72	87.04	119.08
2004	0.77	92.47	113.55
2005	0.81	96.78	110.10

APPENDIX 8.1

STANDARD & POOR'S
CANADIAN RATINGS

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Canadian Utility Regulation Reassessed as a Ratings Factor

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

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

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

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

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

A Tradition of High Leverage

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

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

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

Standard & Poor's Global Framework for Utility Analysis

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

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

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

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

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

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

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

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

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

Linking Utilities' Financial Profiles to Ratings

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

Table 1 Financial Ratio Benchmarks: Rating Category Midpoints

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

FFO--Funds from operations.

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

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

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

Questions for Discussion and Next Steps

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

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

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

Ratings That Could Be Revisited

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

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

Table 2 Ratings on CreditWatch With Negative Implications

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

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

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

The McGraw-Hill Companies

APPENDIX 15.1

Terasen Gas Inc.
2005 ROE Application

BCUC IR1 - 15.1

	TGI Annual Bill - Lower Mainland					
	2000	2001	2002	2003	2004	2005
	(Sep 00)	(Oct 01)	(Jan 02)	(Apr 03)	(Jul 04)	(Jul 05)
Annual Usage (GJ)	110	110	110	110	110	110
Basic Charge	$92	$92	$120	$124	$129	$128
Delivery Charge	$256	$290	$275	$284	$296	$294
Commodity Cost	$711	$818	$739	$932	$863	$930
Total Gas Bill	$1,059	$1,200	$1,134	$1,340	$1,288	$1,353
Electricity Bill - BC Hydro	$1,587	$1,587	$1,587	$1,587	$1,664	$1,664
Gas/Electricity Advantage	33%	24%	29%	16%	23%	19%

Rates are as at the applicable month identified.

Terasen Gas Inc.
2005 ROE Application

BCUC IR1 - 15.1

Direct-Atco North RS-1 (Gas)

	Direct-Atco North RS-1 (Gas) - Annual Bill					
	2000	2001	2002	2003	2004	2005
	(Jul 00)	(Dec 01)	(Dec 02)	(Dec 03)	(Dec 04)	(Jun 05)
Annual Usage (GJ)	110	110	110	110	110	110
Fixed Monthly Commodity Charge (Direct)	$166	$142	$142	$156	$62	$62
Fixed Delivery Charge (Atco)					$135	$153
Variable Delivery Charge per GJ (Atco)	$216	$113	$101	$111	$109	$123
Gas Cost Recovery Charge (Direct)	$482	$345	$584	$576	$776	$585
Variable Commodity Charge (Direct)					$2	$2
Riders						
Production Rider	$0	$0	-$6	$0	$0	$0
Revenue Shortfall Rider			$0	$0	$24	$0
Total Gas Bill	$863	$601	$822	$843	$1,108	$925
Electricity Bill - Direct - Atco Electric	$2,052	$4,720	$2,613	$3,971	$2,913	* $3,002
Gas/Electricity Advantage	58%	87%	69%	79%	62%	69%

Direct-Atco Electric Rates Source - Sample Bill Calculations from Atco Electric
* Please note that this is an updated annual bill calculation for 2005.

All annual bills are best estimates based on the information provided from each utility.

Terasen Gas Inc.
2005 ROE Application

BCUC IR1 - 15.1

Union Gas RS-M2

		Union Gas RS-M2 - Annual Bill					
		2000	2001	2002	2003	2004	2005
		(Jan 00)	(Nov 01)	(Apr 02)	(Oct 03)	(Oct 04)	(Apr 05)
Annual Usage (GJ)		110	110	110	110	110	110
Customer Charge		$90	$90	$90	$120	$144	$168
Delivery Charge							
First	648	$248	$248	$248	$362	$179	$159
next	2136	$0	$0	$0	$0	$0	$0
next	57432	$0	$0	$0	$0	$0	$0
next	125064	$0	$0	$0	$0	$0	$0
All Additional		$0	$0	$0	$0	$0	$0
Commodity and Fuel Rate		$892	$426	$462	$727	$838	$730
Gas Transportation Rate		$97	$121	$121	$129	$116	$114
Riders							
Inventory Rider per GJ		$0	$116	$0	$0	$0	$0
Total Gas Bill		$1,328	$1,001	$921	$1,338	$1,276	$1,171
Electricity Bill - Toronto Hydro		*	*	*	*	*	$ 2,791
Gas/Electricity Advantage		*	*	*	*	*	58%

* Awating response back from Toronto Hydro.

All annual bills are best estimates based on the information provided from each utility.

Terasen Gas Inc.
2005 ROE Application

BCUC IR1 - 15.1

Enbridge RS-1

	Enbridge RS-1 - Annual Bill					
	2000	2001	2002	2003	2004	2005
	(Jun 00)	(Sep 01)	(Oct 02)	(Oct 03)	(Oct 04)	(Apr 05)
Annual Usage (GJ)	110	110	110	110	110	110
Basic Charge	$120	$120	$120	$120	$315	$315
Variable Charge(s) per GJ	$820	$1,129	$952	$1,301	$1,226	$1,056
Total Gas Bill	$940	$1,249	$1,072	$1,421	$1,541	** $1,371
Electricity Bill - Toronto Hydro	*	*	*	*	*	$ 2,791
Gas/Electricity Advantage	*	*	*	*	*	51%

* Awating response back from Toronto Hydro.
** Please note that this is an updated annual bill calculation for 2005.

All annual bills are best estimates based on the information provided from each utility.

Terasen Gas Inc.
2005 ROE Application

BCUC IR1 - 15.1

NW Natural RS-2 OR
Rate Schedule 2
Residential Sales Service

	NW Natural RS-2 OR - Annual Bill					
	2000	2001	2002	2003	2004	2005
	(Dec 00)	(Oct 01)	(Oct 02)	(Oct 03)	(Oct 04)	(Jun 05)
Annual Usage (GJ)	110	110	110	110	110	110
Total Gas Bill	*	*	*	*	*	$ 1,550
** Electricity Bill	$2,194	$2,232	$2,170	$2,160	$2,163	$2,116
Gas/Electricity Advantage	*	*	*	*	*	27%

* NW Natural historical rate information not available at this time.

** Source: Rates are effective, including fixed charges.
Rates are exclusive of Public Purpose Charges.
Please note that this is an updated annual bill calculation for 2005.

All annual bills are best estimates based on the information provided from each utility.

Terasen Gas Inc.
2005 ROE Application

BCUC IR1 - 15.1

Gaz Metro D1
Rate Schedule 1
Residential Service

	Gaz Metro D1 - Annual Bill					
	2000	2001	2002	2003	2004	2005
	(Annual)	(Annual)	(Annual)	(Annual)	(Annual)	(Oct 04)
Annual Usage (GJ)	110	110	110	110	110	110
Total Gas Bill	$1,361	$1,741	$1,496	$1,698	$1,717	* $1,972
** Electricity Bill - Hydro Quebec	$1,658	$1,658	$1,658	$1,658	$1,733	$1,760
Gas/Electricity Advantage	18%	-5%	10%	-2%	1%	-12%

* Please note that this is an updated annual bill calculation for 2005.

** Source: Annual *Hydro-Quebec Comparison of Electricity Prices in Major North American Cities*
Rates are effective, including fixed charges, and the April 2005 Annual Bill differs from the initial application amount of $1,612.

All annual bills are best estimates based on the information provided from each utility.

APPENDIX 18.2.5.1

BC GAS UTILITY LTD.
CUSTOMER WEIGHTING FACTORS
LOWER MAINLAND 1996

Line No.	Meter Type (a)	Meter Cost (b)	Meter Set w/o Meter (c)	Instruments (d)	Telecount (e)	Customer Service (f)	A.M.R. (g)	Service Lateral (h)	Total Cost (i)	Number of Meters (j)	Col (i) * Col (j) (k)	Class Per Unit Cost (l)	Weighted Cost (m)
	Rate 1 – Residential												
1	200	$75	$77	$0	$0	$94	$0	$831	$1,077	426,051	$458,856,927	$1,077	1.00
2	200 w/ IRP AMR	75	77	0	0	94	225	831	1,302	179	233,058	1,302	1.20
3	400	173	77	0	0	94	0	831	1,175	12,651	14,864,925	1,175	1.09
4	400 w/ IRP AMR	173	77	0	0	94	225	831	1,400	6	8,400	1,400	1.29
5	800	742	77	0	0	94	0	831	1,744	728	1,269,632	1,744	1.61
6	1M	962	77	0	0	572	0	831	2,441	136	331,976	2,441	2.26
7	2 M	1,276	860	0	0	572	0	831	3,539	18	63,702	3,539	3.27
8	3 M	1,438	860	0	0	572	0	831	3,701	19	70,319	3,701	3.42
9	5 M	1,939	860	0	0	572	0	1,695	5,066	5	25,330	5,066	4.68
10	7 M	2,428	860	0	0	2,265	0	1,695	7,248	4	28,992	7,248	6.70
										439,797	$475,753,261	$1,082	1.00

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BC GAS UTILITY LTD.
CUSTOMER WEIGHTING FACTORS
LOWER MAINLAND 1996

Line No.	Meter Type	Meter Cost	Meter Set w/o Meter	Instruments	Telecount	Customer Service	A.M.R.	Service Lateral	Total Cost	Number of Meters	Col (i) * Col (j)	Class Per Unit Cost	Weighted Cost
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
	Rate 2 – Small Commercial Service												
1	200	$75	$77	$0	$0	$94	$0	$831	$1,077	26,206	$28,223,862	$1,077	1.00
2	200 w/ IRP AMR	75	77	0	0	94	225	831	$1,302	193	$251,286	$1,302	1.20
3	400	173	77	0	0	94	0	831	1,175	11,510	13,524,250	1,175	1.09
4	400 w/ IRP AMR	173	77	0	0	94	225	831	1,400	69	96,600	1,400	1.29
5	800	742	77	0	0	94	0	831	1,744	6,192	10,798,848	1,744	1.61
6	800 w/ IRP AMR	742	77	0	0	94	225	831	1,969	22	43,318	1,969	1.82
7	800/ID	742	77	3,188	0	94	0	831	4,932	2	9,864	4,932	4.56
8	1M	962	77	0	0	572	0	831	2,441	1,789	4,366,949	2,441	2.26
9	1M w/ IRP AMR	962	77	0	0	572	225	831	2,666	6	15,996	2,666	2.46
10	1M/ID	962	77	0	0	572	0	831	2,441	7	17,087	2,441	2.26
11	2 M	1,276	860	0	0	572	0	831	3,539	611	2,162,329	3,539	3.27
12	2 M w/ IRP AMR	1,276	860	0	0	572	225	831	3,764	2	7,528	3,764	3.48
13	3 M	1,438	860	0	0	572	0	831	3,701	541	2,002,241	3,701	3.42
14	3 M / IRP AMR	1,438	860	0	0	572	225	831	3,926	8	31,408	3,926	3.63
15	3 M/ID	1,120	860	3,188	0	572	0	831	6,571	25	164,275	6,571	6.07
16	5 M	1,939	860	0	0	572	0	1,695	5,066	159	805,494	5,066	4.68
17	5 M w/ IRP AMR	1,939	860	0	0	572	225	1,695	5,291	1	5,291	5,291	4.89
18	5 M/ID	1,627	860	3,188	0	572	0	1,695	7,942	16	127,072	7,942	7.34
19	7 M	2,428	860	0	0	2,265	0	1,695	7,248	33	239,184	7,248	6.70
20	7 M/ID	2,187	860	3,188	0	2,265	0	1,695	10,195	3	30,585	10,195	9.42
21	11M/ID	2,535	8,500	3,188	0	2,265	0	1,695	18,183	1	18,183	18,183	16.81
										47,396	$62,941,650	$1,328	1.23

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BC GAS UTILITY LTD.
CUSTOMER WEIGHTING FACTORS
LOWER MAINLAND 1996

Line No.	Meter Type	Meter Cost	Meter Set w/o Meter	Instruments	Telecount	Customer Service	A.M.R.	Service Lateral	Total Cost	Number of Meters	Col (i) * Col (j)	Class Per Unit Cost	Weighted Cost
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
	Rate 3 – Large Commercial Service												
1	200	$75	$77	$0	$0	$94	$0	$831	$1,077	9	$9,693	$1,077	1.00
2	400	173	77	0	0	94	0	831	1,175	109	128,075	1,175	1.09
3	800	742	77	0	0	94	0	831	1,744	1,137	1,982,928	1,744	1.61
4	800 w/ IRP AMR	742	77	0	0	94	225	831	1,969	6	11,814	1,969	1.82
5	800/ID	742	77	3,188	0	94	0	831	4,932	2	9,864	4,932	4.56
6	1M	962	77	0	0	572	0	831	2,441	953	2,326,273	2,441	2.26
7	1M w/ IRP AMR	962	77	0	0	572	225	831	2,666	6	15,996	2,666	2.46
8	1M/ID	962	77	0	0	572	0	831	2,441	27	65,907	2,441	2.26
9	2 M	1,276	860	0	0	572	0	831	3,539	430	1,521,770	3,539	3.27
10	2 M w/ IRP AMR	1,276	860	0	0	572	225	831	3,764	2	7,528	3,764	3.48
11	3 M	1,438	860	0	0	572	0	831	3,701	1,033	3,823,133	3,701	3.42
12	3 M w/ IRP AMR	1,438	860	0	0	572	225	831	3,926	16	62,816	3,926	3.63
13	3 M/ID	1,120	860	3,188	0	572	0	831	6,571	115	755,665	6,571	6.07
14	5 M	1,939	860	0	0	572	0	1,695	5,066	634	3,211,844	5,066	4.68
15	5 M w/ IRP AMR	1,939	860	0	0	572	225	1,695	5,291	7	37,037	5,291	4.89
16	5 M/ID	1,627	860	3,188	0	572	0	1,695	7,942	140	1,111,880	7,942	7.34
17	7 M	2,428	860	0	0	2,265	0	1,695	7,248	212	1,536,576	7,248	6.70
18	7 M w/ IRP AMR	2,428	860	0	0	2,265	225	1,695	7,473	8	59,784	7,473	6.91
19	7 M/ID	2,187	860	3,188	0	2,265	0	1,695	10,195	70	713,650	10,195	9.42
20	7 M/ID w/ AMR	2,187	860	3,188	0	2,265	2,639	1,695	12,834	2	25,668	12,834	11.86
21	11M/ID	2,535	8,500	3,188	0	2,265	0	1,695	18,183	34	618,222	18,183	16.81
22	16M/ID	3,100	8,500	3,188	0	2,265	0	1,695	18,748	5	93,740	18,748	17.33
23	T18	11,242	8,500	3,188	0	2,265	0	1,695	26,890	1	26,890	26,890	24.86
24	T30	12,100	8,500	3,188	0	2,265	0	2,831	28,884	3	86,652	28,884	26.70
										4,961	$18,243,405	$3,677	3.40

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APPENDIX 26.5

Deferral Account(s)	Description	Terasen Gas Inc	TGVI	Union Gas Limited	Enbridge	Gaz Metro	ATCO Gas
Commodity Cost Reconciliation Account (CCRA)	Collects difference between actual incurred gas costs and recoveries from rates – differences are collected from or refunded to customers (commodity gas costs in this account relate to the annual normalized volumes at the receipts points plus fuel in-kind as approved in the Annual Contracting Plan).	Yes	Yes (See GCVA)	Yes	Yes	Yes	Yes
Midstream Cost Reconciliation Account (MCRA)	Collects difference between actual incurred midstream costs and recoveries from rates – differences are collected from or refunded to customers (midstream costs include pipeline and storage resources, spot / seasonal / peaking purchases, and sale activities as approved in the Annual Contracting Plan to manage load variability).	Yes	Yes (See GCVA)	Yes	Yes	Yes	Yes
Revenue Stabilization Adjustment Mechanism (RSAM)	Stabilizes the margins recovered from residential and commercial customers. The RSAM stabilizes delivery margin received from these customer classes on a use per customer basis. If customer use rates vary from the forecast levels used to set the rates, whether due to weather variances or other causes, the Company records the delivery charge differences in the RSAM account for refunding or charging through a rate rider to the RSAM rate classes over the ensuing three years.	Yes	No	Please refer to Note 1.	No	Yes	No
Property Tax deferral account	Collects differences between actual property taxes and forecasted property tax	Yes	No	No	No	No	Unknown
Pension Cost deferral account	Collects differences between actual pension costs and cost of service based	Yes	Yes	No	No	No	Unknown
Insurance Cost deferral account	Collects differences between actual insurance and cost of service based	Yes	Yes	No	No	No	Yes
Post Employment Benefits deferral account	Captures income tax payments along with unamortized OPEB costs associated with other post employment benefits	Yes	No	No	No	No	Unknown
Deferred Interest on Short Term and Long Term Debt	Interest expense deferred due to difference between actual interest rates and interest rate approved by the Commission as well as difference due to timing of long term debt issues from that approved by the Commission.	Yes	No	No	No	[2] Yes	Unknown
Long Term Debt Issue and Expense	To amortize the discount or premium and issue costs over the life of the medium and long term debt	Yes	[2] Yes	[2] Yes	[2] Yes	[2] Yes	Unknown
Deferred Interest on Commodity Cost and/or Midstream Cost Recon	Difference of actual versus forecast average balance of MCRA / CCRA times the composite interest rate	Yes	No	Yes	Yes	No	Unknown
Deferred Interest on RSAM	Difference of actual versus forecast average balance of RSAM times the composite interest rate	Yes	No	NA	No	No	No
Commercial Commodity Unbundling Program deferral accounts	Collects costs related to the implementation and annual operation of the Commercial Commodity Unbundling program.	Yes	No	No	[3] Yes	No	Unknown
Stable Commodity Rate Residential Service Program deferral accou	Collects costs related to the implementation and annual operation of the Stable Commodity Rate Residential Service program.	Yes	No	N/A	No	No	Unknown
Demand Side Management (DSM) deferral accounts	Various DSM programs	Yes	Yes	Yes	Yes	No	Unknown
Southern Crossing Pipeline Revenue deferral accounts	Differences between actual and approved. Collects variances of SCP Third Party Revenues from that forecast as per BCUC Orders G-124-00 and G-123-01.	Yes	No	N/A	N/A	N/A	N/A
Revenue Deficiency Deferral Account (RDDA)	As per the Special Direction, the Commission shall determine the balance in the RDDA, which shall equal, at any particular time: i) The total of all Annual Revenue Deficiencies incurred on or before that time, plus ii) The total of Class A or B instruments that are deemed to have been issued to finance the annual revenue deficiencies pursuant to paragraph 2.10(h) of the Special Direction, on or before that time, less iii) The total of Class A or B instruments redeemed or repaid pursuant to paragraph 2.10(i), of the Special Direction, on or before that time.	No	Yes	No	No	No	No
Gas Cost Variance Account (GCVA)	Difference between actual and approved cost of gas	See CCRA / MCRA	Yes	Yes	Yes	Yes	Yes
Pacific Coast Energy Corp Start Up Costs deferral account	Start up costs incurred prior to Oct 91 – amortized at 2.5%/year	N/A	Yes	N/A	N/A	N/A	N/A
Customer Information System Banner Development Costs deferral account	Banner Customer Information System development and implementation costs prior to year 2000 - amortized at 10.0%/year.	N/A	Yes	Possibly	N/A	N/A	N/A
Compressor Fired Hours deferral account	Accumulates an accrual annually based on fired hours to cover for major overhaul costs.	No	Yes	N/A	N/A	N/A	N/A
Texada Compressor Operating Costs deferral account		N/A	Yes	N/A	N/A	N/A	N/A
Various capital project deferral accounts		Yes	Yes	No	Sometimes	Typically	Unknown
Other miscellaneous deferral accounts		Yes	Yes	Yes	Yes	Yes	Yes

Notes:

[1] Lost revenue adjustment mechanism.

[2] All utilities shown defer and amortize long term debt issuance costs either through regulatory deferral accounts or by capitalizing costs in their balance sheets and amortizing as part of the liability.

[3] See vote decision attached.

Terasen Gas are not aware of any database which provides a comprehensive listing of deferral accounts by Canadian Utility. Deferral account data has been obtained through the following sources: ATCO Gas Survey - August 2005 (Responses received only from Union Gas, ATCO Gas, Terasen Gas, and TGVI) and Information provided by email to Terasen Gas staff.)

This graph excludes those deferral accounts that other utilities do have however that Terasen Gas or Terasen Gas (Vancouver Island) do not have.

10. DEFERRAL ACCOUNTS

There are three categories of deferral accounts, namely, the Gas Supply-Related Accounts, the Storage and Transportation-Related Accounts and Other Deferral Accounts.

10.1 PROPOSED CHANGES TO GAS DEFERRAL ACCOUNTS

New Deferral Accounts

Union proposed to establish the following new deferral accounts:

1. North Purchase Gas Variance Account (179-105)
2. South Purchase Gas Variance Account (179-106)
3. Spot Gas Variance Account (179- 107)
4. Unabsorbed Demand Cost (UDC) Variance Account (179-108)
5. Inventory Revaluation Account (179-109)

10.2 PROPOSED ACCOUNT CLOSURES

Union proposed to close the following deferral accounts:

1. Firm Supply Purchase Gas Variance Account (“PGVA”) (179-80)

2. Other Purchased Gas Costs Account (179-68)

3. TCPL tolls & Fuels - Southern Operations Area (179-67)

4. Incremental Unbundling Costs (179-101)

5. Pipeline Integrity (179-104)

The Board approved the proposed new deferral accounts in its Accounting Orders, RP-2003-063/EB-2003-0087/EB-2003-0097, dated November 19, 2003. The Board also approved the closure of deferral accounts 179-80, 179-68 and 179-67.

10.3 PROPOSED CHANGES TO OTHER DEFERRAL ACCOUNTS

New Account - Gas Distribution Access Rule (GDAR) Deferral Account

Union proposed to create a new account to capture the difference between the forecasted incremental cost to implement the appropriate process and system changes to comply with GDAR and the actual costs incurred. Union estimated that it would incur capital costs of $4.78 million and operating and maintenance expenses of $1.3 million.

Lost Revenue Adjustment Mechanism Deferral Account (179-75)

Union proposed to modify the calculation of the amounts recorded in this account, which was originally established in E.B.R.O. 499 to record any margin variances resulting from the impact of the energy savings realized from Union's DSM programs. The Board approved the continuation of this account in its RP-1999-0017 Decision.

Union proposed to build the 2004 target into its demand forecast for 2004. Upon the completion of the 2004 plan year, Union will evaluate the results and a true-up will be recorded in the LRAM deferral account for variances in the number of program participants.

Storage and Transportation Related Deferral Accounts: Combination of Balancing Service Deferral Account (179-70) and Short- term Storage Services account (179-71)

Union requested approval to combine the Balancing Service Deferral Account (179-70) and Short- term Storage Services account (179-71) into one account. Union proposed to close account 179-71 and expand the scope of account 179-70 to include the net revenue generated from the short-term storage services account (179-71). The services deferred in the existing 179-70 and 179-71 accounts were similar in nature. Balancing services were provided through a combination of storage and loans depending upon the availability of the assets. The disposition of each of these deferral accounts was based on the same allocation methodology. As such, combining these accounts would have no impact on the allocation of account balances to customers.

The following storage and transportation related accounts remain unchanged.

Transportation and exchange deferral account (179-69);

Long-term peak storage deferral account (179-72);

Miscellaneous S&T deferral account (179-73); and

Other Direct Purchase Services deferral account (179-74).

The pipeline integrity account was established in RP-2001-0029 to record the incremental cost incurred by Union to meet new provincial pipeline integrity regulations. Union's cost of service forecast for 2004 includes costs associated with meeting the guidelines established by the new regulations. The projected balance as of December 31, 2003 is $3.358 million. Union requested that the Board approve closure of this deferral account following the disposition of the 2003 deferral account balance.

10.4 DISPOSITION OF THE 2003 DEFERRAL ACCOUNT BALANCES

Gas Supply Related Deferral Accounts

Firm Supply Purchase Gas Variance Deferral Account (179-80)

Union proposed to allocate the 2003 balance, net of deferral recovery adjustments to firm rate classes in the Northern and Eastern Operations Area, and all rate classes in the Southern Operations Area, in proportion to system sales volume in 2002.

Other Purchased Gas Costs Deferral Account (“OPGCA”) (179-68)

Load Balancing

According to Union, as of December 31, 2003, the projected load balancing account was $44.837 million. In EB-2003-0056, the Board approved the prospective recovery of these costs, net of amounts recovered in rates. Union proposed to recover $36.036 million, net of deferral recovery adjustments from sales service and direct purchase customers in the Southern Operations area and $8.801 million, net of deferral recovery adjustments from sales service and direct purchase customers in the Northern and Eastern Operations area.

The allocation of the load balancing related costs to individual rate classes was based on the March 31 imbalances for each rate class. Union will ensure that summer peaking and higher base load customers will only pay the appropriate share of the increased gas costs attributable to the increased winter demand.

Flexibility

According to Union, as of December 31, 2003, the projected Flexibility - South account was $61.227 million. Flexibility-related costs in the OPGCA represent the difference between the landed costs of all non-TCPL supplies and the Ontario Landed Reference Price, net of any Load Balancing costs.

In EB-2003-0056, the Board approved recovery from all general service customers in the Southern Operations area and Northern and Eastern Operations area. Union is now proposing to recover $61.227 million, net of deferral recovery adjustments from sales service and direct purchase customers in the Southern Operations area. Union will ensure that summer peaking and higher base load customers will only pay the appropriate share of the increased gas costs attributable to the increased winter demand.

Inventory Revaluation

According to Union, as of December 31, 2003, the projected inventory revaluation account was a credit balance of $15.707 million. The allocation of Inventory Revaluation in the South will be to all rate classes in proportion to 2003 system sales volume in the Southern Operations Area. In the North, allocation will be to rate classes in proportion to firm 2003 system sales volume in the Northern and Eastern Operations Area.

10.5 SOUTHERN OPERATIONS AREA GAS SUPPLY-RELATED DEFERRAL ACCOUNTS

TCPL Tolls and Fuel (179-67)

Union proposed to allocate the 2003 balance to all rate classes in the Southern Operations area in proportion to 2003 sales service volume.

10.6 NORTHERN AND EASTERN OPERATIONS AREA GAS SUPPLY-RELATED DEFERRAL ACCOUNTS

Heating Value Deferral Account (179-89)

The balance will be allocated to the Rate 01 and Rate 10 classes in proportion to firm 2003 system sales, ABC-T and bundled-T delivery volume for those rate classes.

TCPL Tolls and Fuel Deferral Account (179-100)

Tolls, Load Balancing Account, Capacity Assignments

Union proposed to allocate the net balance to rate classes in the Northern and Eastern Operations area in proportion to the firm 2003 sales service, ABC-T and Bundled-T delivery volumes.

Fuel

Union proposed to allocate the compressor fuel component, net of prospective recovered revenue, to rate classes in proportion to firm 2003 sales service volumes in the Northern and Eastern Operations area.

10.7 2003 STORAGE AND TRANSPORTATION RELATED DEFERRAL ACCOUNTS

Transportation and Exchange Services (179-69)

Union proposed to allocate the balance to firm C1 and M12 customers and in-franchise customers in proportion to actual 2003 available capacity. Further, Union proposed to allocate the balance allocated to in-franchise customers in the Southern Operations Area to rate classes in proportion to E.B.R.O. 499 design peak day demand. Finally, Union proposed to allocate the balance to customers in the Northern and Eastern Operations Area, by virtue of their use of transportation systems in the Southern Operations Area, to rate classes in proportion to the allocation of 1999 storage demand costs as approved in E.B.R.O. 499.

Short-term Storage and other Balancing Services Deferral Account (179-70/71)

Union proposed to allocate the 2003 balance related to off-peak storage between in-franchise and ex-franchise customers, including customers in the Northern and Eastern Operations Area, in proportion to the allocation of peak storage, as approved in rates. Union proposed to allocate the amount related to C1 firm short-term deliverability between in-franchise and ex-franchise customers in proportion to the allocation of the 1999 storage deliverability. Consistent with the approach outlined in RP-2001- 0029, Union proposed to recover $60,000 in forecast Load Balancing Account charges that were credited to EGDI in 2003. Union proposed that the balance related to in-franchise customers in the Southern Operations Area be allocated among rate classes in proportion to E.B.R.O. 499 design peak day demand and the balance related to in-franchise customers in the Northern and Eastern Operations Area, by virtue of their use of storage in the Southern Operations Area, be allocated among rate classes in proportion to the allocation of 1999 storage demand costs, as approved in E.B.R.O. 499.

Long-Term Peak Storage Services Deferral Account (179-72), Other S&T Services Deferral Account (179-73) and Other Purchase Services Deferral Account (179-74)

Union proposed to allocate the aggregate 2003 balance to in-franchise rate classes in the Southern Operations Area in proportion to E.B.R.O. 499 design peak day demand and in-franchise rate classes in the Northern and Eastern Operations Area, by virtue of their use of storage in the Southern Operations Area, in proportion to the allocation of 1999 storage demand costs, as approved in E.B.R.O. 499.

10.8 ALLOCATION OF OTHER DEFERRAL ACCOUNTS

Deferred Customer Rebates/Charges Deferral Account (179-26)

Union proposed to allocate the balance to rate classes in proportion to the 1999 Board- approved number of General Service customers in the Northern and Eastern Operations and Southern Operations area.

Comprehensive Customer Information Program Deferral Account (179-56)

Union proposed to allocate the balance to rate classes in proportion to the 1999 Board-approved weighted-average number of small volume consumers in the Northern and Eastern Operations and Southern Operations area, as approved in RP-2000-0078.

Direct Purchase Revenue and Payments Deferral Account (179-60)

Union proposed to allocate the balance to rate classes in the Southern Operations Area in proportion to E.B.R.O. 499 Dawn-Trafalgar design day demand. This allocation was the same as that used to allocate the amount approved in rates.

Lost Revenue Adjustment Mechanism (“LRAM”) Deferral Account (179-75)

Union proposed to allocate the 2003 balance to in-franchise customers in proportion to the margin reduction attributable to DSM activities.

Incremental Unbundling Costs Deferral Account (179-101)

There was no allocation required as the balance was zero.

Intra-period WACOG Deferral Account (179-102)

Union proposed to allocate the 2003 balance to rate classes in proportion to the allocation of the pass-through items that the intra-period WACOG charge relates to.

Unbundled Services Unauthorized Storage Overrun Deferral Account (179-103)

There was no allocation required as the balance was zero.

Pipeline Integrity Deferral Account (179-104)

Union proposed to allocate the balance to rate classes in proportion to 1999 total other transmission demand-related costs in the Southern Operations Area and in proportion to 1999 total distribution-related costs in the Northern and Eastern Operations Area as was approved for the 2002 balance in the account.

APPENDIX 27.1.1

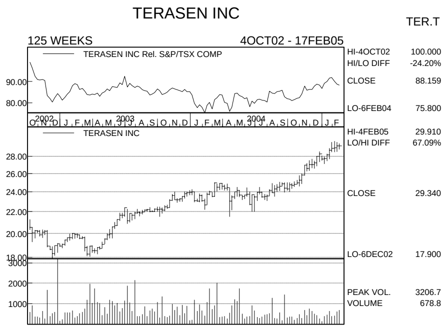
Terasen Inc.

(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.

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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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.

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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.

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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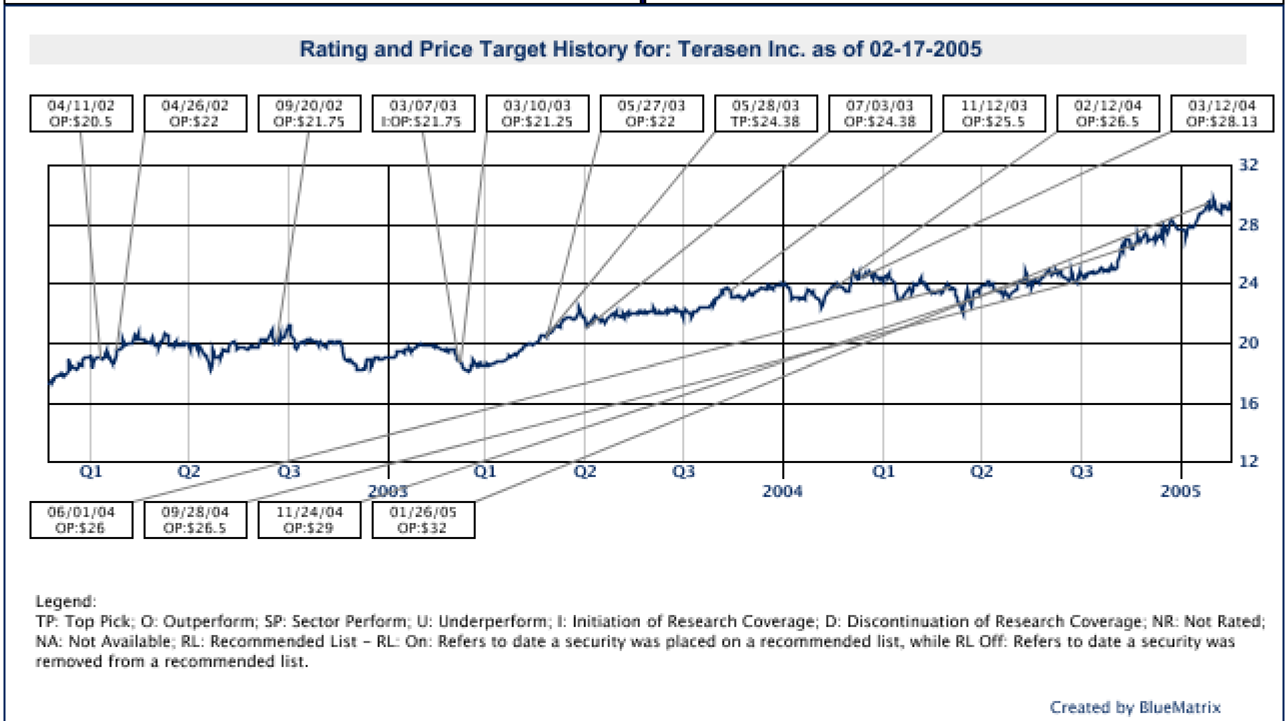
Distribution of Ratings, Firmwide

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



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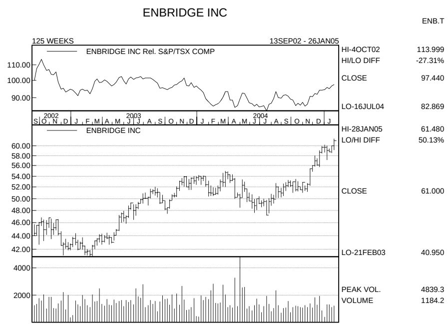
RBC Capital Markets

Research Comment

January 27, 2005



Enbridge Inc.

(TSX: ENB; NYSE: ENB)

Outperform

Average Risk

ENB Q4 Earnings Slightly Higher than Expected

Management Continues to Search for Acquisitions

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Price:	$61.00	Price Target:	$68.00
52-Wk High:	$61.48	52-Wk Low:	$47.25
Float (MM):	156.2	Debt-to-Cap:	0.65
Shs O/S (MM):	172.8	Mkt Cap (MM):	$10,541
Dividend:	$2.00	Yield:	3.28%
Strategic Shareholders:		Noverco-10%	

(FY Dec)	2003A	2004E	2005E	2006E
EPS				
Basic	$2.82	$3.02	$3.23	$3.31
Diluted	$2.79	$2.99	$3.20	$3.28
P/E	21.6	20.2	18.9	18.4

EPS	Q1	Q2	Q3	Q4
2003A	$0.82	$1.39	$0.39	$0.23
2004E	$0.95A	$1.34A	0.43A	0.32A
2005E	$0.94	$0.77	$0.60	$0.93

All values in C$ unless otherwise noted.

EPS figures may not be consistent with GAAP.

Estimates are normalized for weather and unusual and non-recurring items.

For Required Disclosures, please see page 5.

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

P/E Ratio analysis is based on normalized 2004 Earnings

Event

Enbridge's normalized Q4/04 EPS were $0.32 compared to our estimate of $0.27 and last year's normalized EPS for Q4 of $0.23.

Investment Opinion

- **Q4 earnings higher than forecast.** Enbridge's earnings for the fourth quarter were slightly better than expected due to improved performance in Enbridge Gas Distribution (EGD). The earnings from EGD are quarter-lagged and relate to the 3 months ended September 30, 2004, which are included in the company's Q4/04 results. Enbridge is changing the year-end for EGD and will no longer quarter-lag the subsidiary's results. Normalized earnings for EGD for the three months ended Dec. 31, 2004 were significantly lower due to higher expenses than those achieved for the same period in 2003.
- **Annual earnings closer to our estimate.** Due to normalizing adjustments that reduced earlier quarters in 2004, Enbridge's normalized 12-month earnings for 2004 of $3.02 were closer to our estimate of $3.00.
- **Dividend increased $0.17 to new annual rate of $2.00 per share.** Enbridge's dividend increase was consistent with our forecast and our target price of $68.00.
- **Long-term strategy unchanged.** Enbridge's long-term strategy remains: achieving operational excellence; expanding and extending existing pipelines; acquiring growth oriented infrastructure opportunities at the "Inc." level; acquiring mature infrastructure opportunities at Enbridge Income Fund (ENF) and Enbridge Energy Partners (EEP); and, measured entry into complimentary businesses such as LNG, power generation and gas storage.
- **2005 EPS guidance of $3.20 to $3.30 is consistent with our estimate of $3.23.** Earnings growth in 2005 is expected to come from a full year contribution from the Enbridge Offshore assets, organic growth and acquisitions at EEP and ENF, increased earnings from the Athabasca pipeline system, improved earnings at Customer Works and improvement in the annual results of Aux Sable.
- **Valuation.** Our target price is $68.00 (unchanged) and reflects a $2.17 per share 12-month dividend distribution one-year forward and a required yield of 3.20%. Enbridge is ranked Outperform, Average Risk.

Details

EARNINGS ANALYSIS

Fourth quarter EPS was higher than expected at $0.32 compared to our estimate of $0.27. Last year's Q4 normalized EPS was $0.23. The variance was smaller between Enbridge's full year normalized results of $3.02 and our estimate of $3.00 due to normalizing adjustments that impacted the results booked in the first nine months of the year. Last year's 12-month normalized EPS was $2.82. Higher than forecast results from Enbridge Gas Distribution (EGD) accounted for essentially all of the improvement over our forecast.

Due to a September 30th year-end for EGD, Enbridge has been quarter-lagging the results from the Gas Distribution operations in its reported financials. The company received permission from the Ontario Energy Board (OEB) to change the year-end of EGD to December 31 in order to align it with that of Enbridge's operations. In its 2004 reported results, Enbridge included five quarters of earnings from EGD, Noverco equity earnings and earnings from Other Distribution operations. Our normalizing adjustments exclude the additional quarter of Gas Distribution earnings, referred to as "Q5". However, as shown below, the earnings contribution during "Q5", which was the October through December period, were significantly lower than those included in Enbridge's Q1 2004 results (which were earned during the period October through December 2003). The difference was due to an after-tax charge of approximately $2.5 million during "Q5" which related to the return to EGD's customers of a disallowance by the OEB of shared services costs, $5 million of higher after-tax expenses incurred at EGD during the quarter, and approximately $5 million of lower after-tax expenses incurred by EGD for the same period last year.

Exhibit 1 below sets out the results for the comparable periods.

Exhibit 1: Comparison of Quarter Over Quarter Results for Enbridge Gas Distribution ($MM except per share amounts)

	3 mo. Ended Dec. 31, 2004 (Q5 2004)	3 mo. Ended Dec. 31, 2003 (Q1 2004)
Enbridge Gas Distribution	$48.0	$11.5
Noverco	12.0	13.6
Other Gas Distribution	1.7	2.0
Normalizing Adjustments:		
Colder than normal weather	(1.0)	(2.1)
Regulatory disallowances		4.6
Dilution gain in Noverco on Gaz Metro unit issuance		(1.1)
Revalue of future income taxes due to tax rate changes		45.4
Normalized earnings from Gas Distribution	$60.7	$73.9
Per share	$0.36	$0.45
Weighted number of shares outstanding (MM)	167.0	166.2

Normalizing adjustments

Source: Company reports; RBC Capital Markets

Although results have declined considerably during the past quarter at EGD, they do not impact either our normalized results, or the normalized results as calculated by management of Enbridge. However, when Enbridge reports its 2005 12-month EPS, presumably they will be compared to normalized 2004 EPS that are $0.09 lower than the normalized earnings provided today for 2004. Using Enbridge's normalizing adjustments, the comparable 2004 EPS next year will be $2.95 as compared to $3.04.

Other areas of the company's operations were essentially in-line with our expectations with no large surprises. Enbridge's segmented earnings for the 3-month and 12-month period ending December 31, 2004, and our normalizing adjustments, are set out in Exhibit 2.

Exhibit 2: Normalized Earnings Analysis ($MM except per share amounts)

	For 3 Months Ended Dec. 31		For 12 Months Ended Dec. 31	
	2004	2003	2004	2003
Liquids Pipelines				
Enbridge System	$ 41.0	$ 48.5	$ 171.6	$ 162.0
Athabasca System	10.2	9.6	42.8	44.8
NW System	2.1	2.1	7.8	8.3
Saskatchewan System	-	-	-	3.1
Feeder Pipelines and Other	(1.3)	(7.2)	(2.3)	(4.7)
	52.0	53.0	219.9	213.5
Gas Pipelines				
Alliance Pipeline	9.9	13.3	37.4	59.9
Vector Pipeline	4.7	4.2	16.4	10.2
	14.6	17.5	53.8	70.1
Sponsored Investments				
Enbridge Energy Partners	8.6	7.6	28.6	27.3
Enbridge Income Fund	8.1	10.1	30.0	17.6
	16.7	17.7	58.6	44.9
Gas Distribution and Services				
Enbridge Gas Distribution	(37.7)	(40.9)	109.3	93.8
CustomerWorks/ECS	7.9	3.6	20.5	16.9
Noverco	(3.7)	(4.4)	22.1	20.5
Other Gas Distribution	0.5	(0.8)	8.5	6.8
Enbridge Gas New Brunswick	0.9	1.0	3.7	4.4
Gas Services	(2.6)	(4.7)	(2.8)	(5.9)
Aux Sable	3.9	1.3	7.3	(6.9)
Other	(3.2)	2.3	10.6	11.1
	(34.0)	(42.6)	179.2	140.7
International				
OCENSA/CITCol	9.2	8.3	33.0	32.3
CLH	13.2	13.8	48.6	46.3
Jose Terminal and Other	(2.4)	(1.9)	(8.0)	(6.3)
	20.0	20.2	73.6	72.3
Corporate	(15.1)	(28.0)	(81.3)	(75.6)
Normalized Earnings	$ 54.2	$ 37.8	$ 503.8	$ 465.9
Normalized Earnings per Share (Basic)	$ 0.32	$ 0.23	$ 3.02	$ 2.82
Normalizing Adjustments				
Cold (warm) weather impact	1.1	1.9	23.4	46.1
Regulatory receivable writedown at Enbridge Gas Distribution		(26.0)		(26.0)
Elimination of quarter lag basis	57.2		57.2	
Impairment loss on Calmar gas plant	(8.2)		(8.2)	
Gain on sale of AltaGas			97.8	
Regulatory disallowances - redistributed across quarters	0.5	(4.1)		
Enbridge Energy Partners dilution gain		11.1	7.6	20.3
Dilution gain at Noverco on Gaz Metro unit issuance		6.0	1.1	6.0
Dilution gain - AltaGas			8.0	
Unbilled revenue adjustment		0.6		
Gain on sale of assets to Enbridge Income Fund				169.1
Tax rate reductions			(45.4)	(7.1)
Regulatory disallowance by OEB				(7.1)
Reported earnings	$ 104.8	$ 27.3	$ 645.3	$ 667.2
Reported EPS (Basic)	$0.63	$0.16	$3.86	$4.03
Weighted Average Shares (millions)	167.0	166.2	167.2	165.5

Source: Company reports; RBC Capital Markets

Strategy

Enbridge spent a considerable amount of time during its conference call with investors reviewing its strategy.

With respect to its liquids pipelines, which represent 40% of the company's earnings base, Enbridge remains focused on positioning itself for the next decade of growth in oilsand crude production. While there were no expansions on the Mainline in 2004, Enbridge is looking to expand and extend its oil pipeline system in the future. In this regard, management unfolded its revised two-phase proposal for its Southern Access pipeline. Phase I of this proposal would add 125,000 bpd of capacity from Superior to Chicago at a cost of US$250 million, Phase II would add 95,000 bpd of capacity from Superior to Chicago at a cost of US$150 million, Phase III would add 130,000 bpd of capacity from Superior to Chicago at a cost of $300 million, and the final Phase would add the ability to move product further south into Wood River or Patoka, Illinois. The proposed in-service date for these proposals ranges for 2007-2009 for Phase I and extends to 2009-2011 for the later phases.

Enbridge's Gateway project is continuing under development. During 2005, Enbridge will seek founding shipper commitments. Management stated that up to 80% of such commitments could come from Asian refineries. After successfully securing such commitments, Enbridge will seek a Memorandum of Understanding with shippers, hold a formal open season to obtain firm transportation agreements, undertake an environmental assessment and file its regulatory application. The targeted in-service date is late 2009. Enbridge stated that it is still projects $2.5 billion in construction costs and a US$1.75 per barrel toll.

Other crude oil projects that Enbridge is continuing to pursue are the Alberta oil pipeline proposals, including Waupisoo (180,000 bpd, $350 million), the Long Lake Pipeline (60,000 bpd) and the Surmont Pipeline (50,000 bpd). In addition, Enbridge has filed a National Energy Board application to recover US$10 million through rolled-in Mainline tolls to subsidize its reversal of the Spearhead pipeline.

One of the challenges facing the company is the renegotiation of its Incentive Tolling Agreement on its Mainline. When this agreement was first implemented in 1995, it was based on a 12.50% ROE. The current Multi-Pipeline allowed ROE is 9.46%. Enbridge believes that the primary objective of shippers is not to focus on a cost of service based tolling methodology, but to incent Enbridge to provide new services such as batch quality, delivery predictability, capacity reliability, change order flexibility and risk sharing (please refer to our October 6th, 2004 *Morning Comment* for Enbridge for a detailed discussion of the renegotiation of its Incentive Based Tolling Agreement).

In addition to its oil pipeline development activities, Enbridge is looking for acquisitions of mature infrastructure opportunities for both Enbridge Energy Partners and the Enbridge Income Fund. Further, the company is interested in measured investments in complimentary businesses such as LNG, power generation and gas storage. Management stated that it intends to undertake its third international investment in 2005.

Outlook

Earnings guidance for 2005 was an EPS range of $3.20 to $3.30. The year over year improvement in earnings is expected to originate from a full year's earnings from Enbridge Offshore, organic and acquisition growth at EEP and ENF, improved earnings from the Athabasca System and Customer Works, and improvement in the annual earnings for Aux Sable. Management stated that it expected the Board to keep the dividend payout in the range of 60%. As expected, Enbridge announced a $0.17 increase in its dividend to a new annual rate of $2.00 per share.

Conclusion

Enbridge's earnings were slightly better than expected during the year due to better than forecast earnings at EGD. The range of EPS guidance provided for 2005 is consistent with our estimate of $3.23. While there were some pluses and minuses to our segmented 2005 forecast earnings following the conference call, our 2005 estimate remains $3.23. Further, the announced dividend increase was consistent with our forecast and our target price remains $68.00.

While we applaud the many proposals being pursued by management, and the enthusiasm with which they pursue these opportunities, it is sometimes difficult to assess the potential success of the various projects based on management's descriptions. For example, they state they are very optimistic about their LNG site in Quebec, although it seems to us to be a long-shot. Further, at Enbridge Day, the proposed Beacon Gas pipeline to move gas from the Rockies to Chicago was characterized as the "best proposal out there", although it didn't merit mention in today's conference call. Nevertheless, it is fair to say that, notwithstanding the long lead times, the build-out of crude oil infrastructure associated with the oilsand development in western Canada appears to be one of the most exciting opportunities in the North American energy infrastructure industry. Enbridge remains ranked Outperform, Average Risk.

Valuation

Our one-year target price is $68.00. Our target price reflects a $2.17 per share 12-month dividend distribution one-year forward and a required yield of 3.20%. We believe a required yield of 3.20% is appropriate based on expected interest rate levels, Enbridge's growth prospects and its risk profile.

Price Target Impediments

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.

Company Description

Enbridge is involved in energy transportation and distribution in North America and internationally.

Required Disclosures

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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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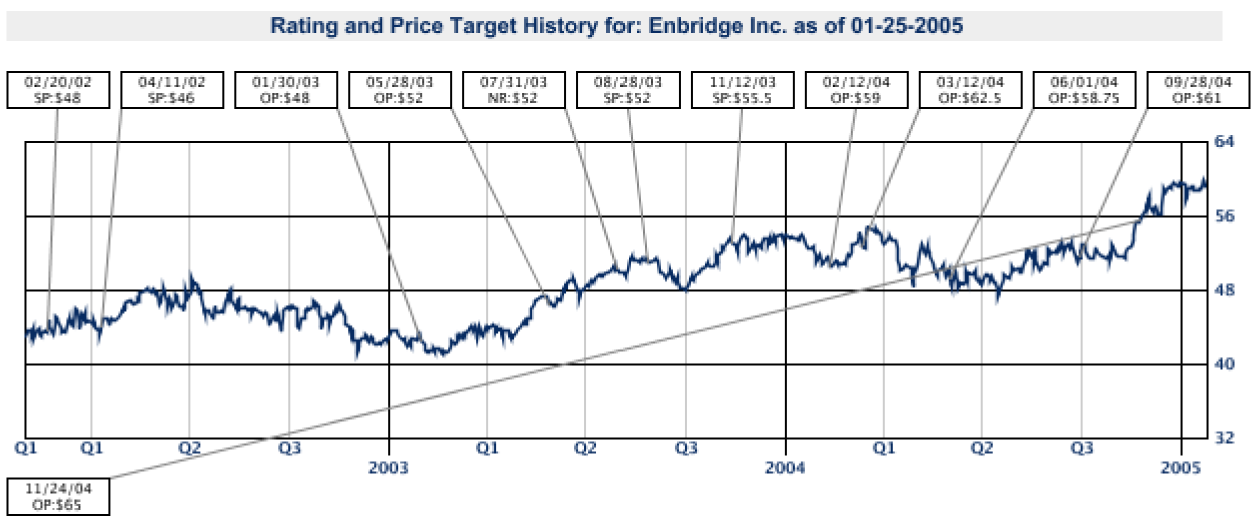
Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	412	46.50	151	36.65
HOLD [SP]	387	43.68	104	26.87
SELL [U]	87	9.82	14	16.09



Legend:
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Equity Research
Earnings Update

February 18, 2005

Pipelines, Utilities, & Power

Terasen Inc.

Solid Earnings, But Slightly Lower Than Expected

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$29.00
TER-TSX (2/17/05)	$29.34
Key Indices: TSXUtils	
3-5-Yr. EPS Gr. Rate (E)	6.0%
52-week Range	$21.50-$29.91
Shares Outstanding	104.9M
Float	104.9M Shrs
Avg. Daily Trading Vol.	94,104
Market Capitalization	$3,077.8M
Dividend/Div Yield	$0.90 / 3.1%
Fiscal Year Ends	December
Book Value	$13.04 per Shr
2005 ROE (E)	11.0%
LT Debt	$2,583.3M
Preferred	$125.00M
Common Equity	$1,371.1M
Convertible Available	Yes

Earnings per Share	Prev	Current
2004	$1.42E	$1.40A
2005	$1.55E	$1.50E
2006	$1.55E	$1.50E
P/E		
2004	20.7x	21.0x
2005	18.9x	19.6x
2006	18.9x	19.6x

Dividends per Share	
2002	$0.705
2003	$0.765
2004	$0.825
2005E	$0.90

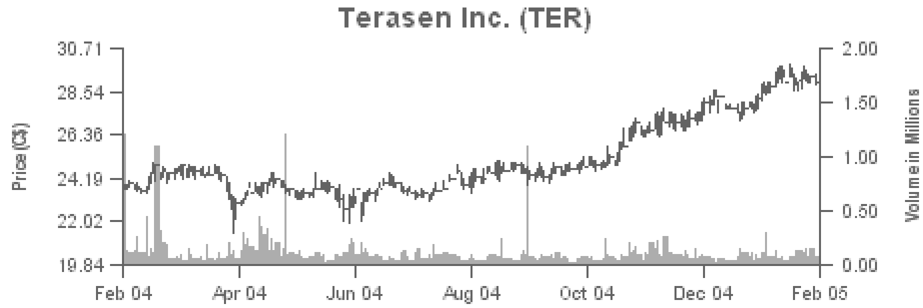
Debt to Total Capital	
2002	66.2%
2003	67.0%
2004	65.4%

Company Description
Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

- Terasen reported normalized 2004 EPS of $1.40 vs. our estimate of $1.42 and $1.33 in 2003. A dividend increase of 7% was in line with expectations. We are reducing our estimates by $0.05, but maintaining our $29 target price.
- Gas Distribution earnings are falling due to lower allowed ROEs that move in lockstep with forecast long bond yields. A regulatory hearing in Q3 of this year could help offset this impact going forward, if the BCUC allows for a change in the ROE formula or increase in equity ratio.
- Oil Pipeline earnings remain strong, and offset the decline in Gas Distribution. We see visible growth of 6% in 2005 due to ongoing growth in the segment. However, near-term oil sands production and refinery issues cause us to slightly reduce EPS estimates.
- We are not raising our $29 target price even though the stock is already trading at that level. The TMX project is well developed and makes sense but faces stiff competition. In that context, we believe Terasen shares are fully valued.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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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 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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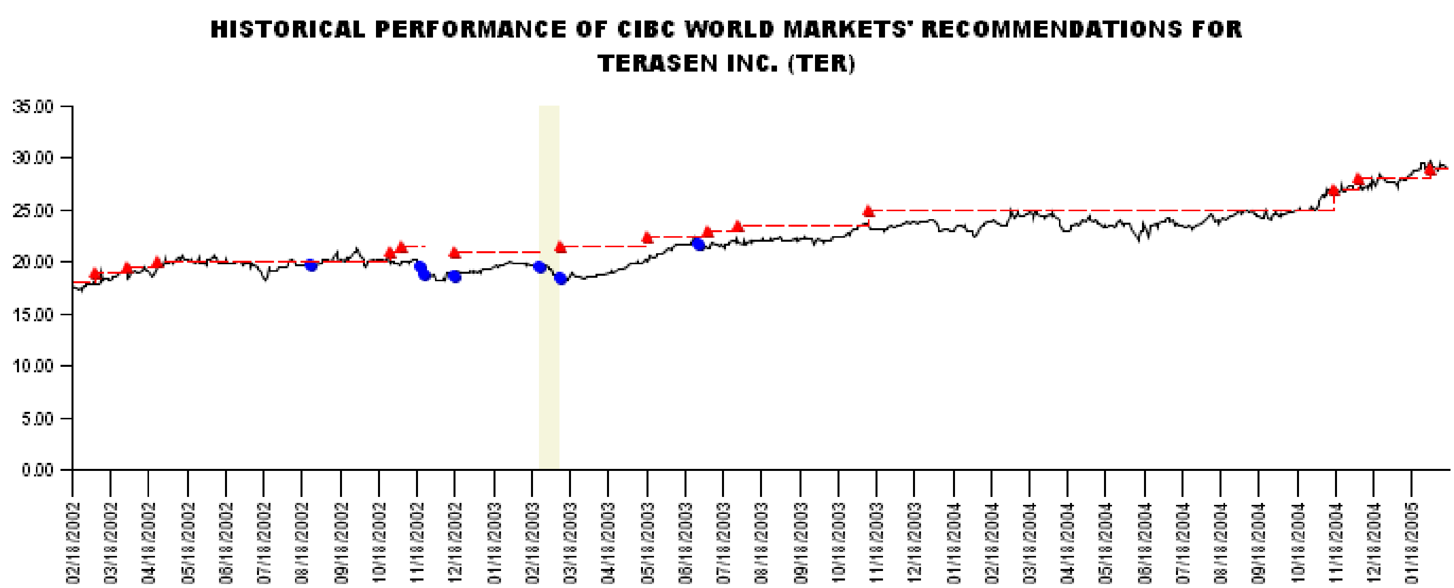

HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR TERASEN INC. (TER)

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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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.

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Sector Performer (Hold/Neutral)	402	47.2%	Sector Performer (Hold/Neutral)	229	57.0%
Sector Underperformer (Sell)	165	19.4%	Sector Underperformer (Sell)	75	45.5%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 17 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, TA, TER, TRP.

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CIBC World Markets

Equity Research
Earnings Update

January 26, 2005

Canadian Pipelines & Utilities

Enbridge Inc.

Raising Target on Solid Guidance and Dividend Growth

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$65.00
ENB-TSX (1/26/05)	$61.00

Key Indices: Toronto, S&P/TSX 60

3-5-Yr. EPS Gr. Rate (E)	6.0%
52-week Range	$47.25-$61.15
Shares Outstanding	172.8M
Float	167.5M Shrs
Avg. Daily Trading Vol.	312,655
Market Capitalization	$10,543.0M
Dividend/Div Yield	$2.00 / 3.3%
Fiscal Year Ends	December
Book Value	$22.29 per Shr
2005 ROE (E)	13.5%
LT Debt	$6,118.5M
Preferred	$125.00M
Common Equity	$3,853.2M
Convertible Available	No

Earnings per Share	**Prev**	**Current**
2004	$3.00E	$3.02A
2005	$3.15E	$3.20E
2006	$3.30E	$3.40E
P/E		
2004	20.3x	20.2x
2005	19.4x	19.1x
2006	18.5x	17.9x

Dividends Per Share		
2002		$1.52
2003		$1.66
2004		$1.83
2005	$1.96	$2.00

Debt to Total Capital	
2002	64.4%
2003	64.1%
2004	65.4%

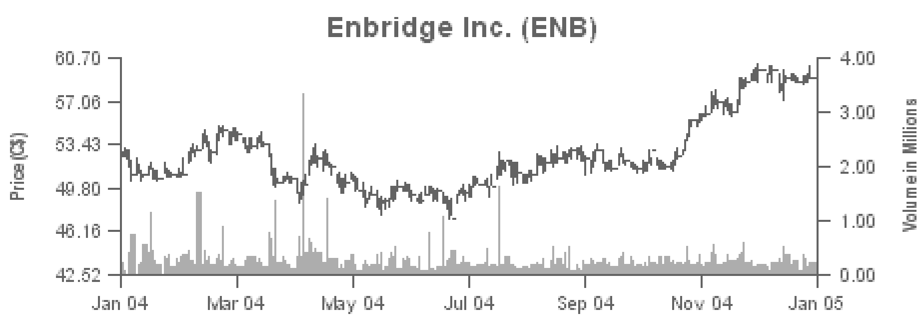
Company Description
Enbridge is a North American pipeline, midstream and natural gas distribution company.

www.enbridge.com

- Enbridge reported normalized Q4'04 EPS of $0.33 vs. our estimate of $0.30 and $0.20 in Q4'03. Company guidance and the dividend increase were slightly above our expectations. We are raising our EPS estimates and target price to $65 from $60.
- In a period when sources of earnings growth from Enbridge have not been obvious, the company managed to achieve solid growth of about 7%. We attribute the surprise to non-core segments Aux Sable and Enbridge Commercial Services.
- We take the solid 2005 guidance ($3.20 - $3.30) as an indication the tolling renewal agreement on its main oil pipeline system is well in hand, if not quite finalized. This accomplishment diminishes one of the major risks on the stock.
- As a result of the slightly higher earnings estimates, reduced risk, and low interest rate environment, we are raising our target price by $5 to $65. Enbridge is rated at Sector Performer but remains one of our preferred core holdings in the pipeline and utility group.

P/E ratio analysis based on normalized earnings.

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

Enbridge reported normalized Q4'04 EPS of $0.33 vs. our estimate of $0.30 and $0.20 in Q4'03. For the full year 2004 we normalized EPS to $3.02 vs. $2.81 in 2003. Company guidance and the dividend increase were slightly above our expectations. We are raising our EPS estimates by $0.05 in 2005 and $0.10 in 2006, reflecting improved earnings in Commercial Services and Aux Sable. We are raising our target price to $65, reflecting higher dividends and lower bond yields.

For a full breakdown and analysis of earnings by segment, please see the appendix to this comment.

Non-Core Business Units Pull Enbridge Up to 7% Growth

In a period when sources of earnings growth from Enbridge have not been obvious, the company has managed to achieve solid growth of about 7% and provide guidance for similar growth in 2005. Other than an impressive result in 2004 from costs saving efforts in Gas Distribution, near-term growth from the oil pipeline and gas distribution businesses has been less visible than normal. We attribute the continued EPS growth to an upside surprise in non-core segments:

- ***Aux Sable –*** The earnings turnaround in 2004 from Aux Sable amounts to about $14 million or more than $0.08 in EPS. Based on a basket of natural gas liquids, we estimate the spread moved from -$0.68/MMBtu in Q4'03 to $0.61/MMBtu in Q4'04. Enbridge is only hedged 25% on its exposure in 2005 so the EPS contribution from Aux Sable could be $0.10 in 2005.

- ***Enbridge Commercial Services –*** Earnings from Enbridge Commercial Services have gone from about $10 million in 2002 to our estimate of $22 million in 2005. This division provides utility billing services and the improvement is based in part on extension of the asset life (lower depreciation) and in part on customer growth.

We think the ability to drive solid growth outside of the core pipeline businesses is a testament to the company's strength and management ability. However, we are left with some concern that the multiple on Enbridge's stock could suffer unless earnings growth comes back to the core businesses in the next year or two. Movements in earnings from businesses such as Aux Sable are unpredictable and not as reliable as pipeline earnings.

Mainline Tolling Appears Well in Hand

If oil pipeline growth is limited near-term, the good news is that downside on the businesses now also appears small and growth should return over time. We have expressed concerns about a new tolling agreement on the Enbridge System that expired at the end of 2004. While a new agreement has not been finalized, we expect an announcement soon.

We take the solid 2005 EPS guidance ($3.20 - $3.30) as an indication the tolling renewal agreement on its main oil pipeline system is well in hand, if not quite finalized. The ROE on part of the pipeline will likely be pushed all the way back to the National Energy Board allowed return of 9.46%, but earnings on expansion projects such as Terrace may be fully preserved. This accomplishment diminishes one of the major risks on the stock and should allow for growth to resume in 2006.

2005-6 Growth Still Comes From "Untraditional" Drivers

Finalizing the oil pipeline tolling agreement protects downside near-term but does not add significant growth relative to 2004 levels probably until 2007 or so. The other core business division, Enbridge Gas Distribution, should also see at best modest growth over the next two years as ROEs have declined.

Over the next two years a lot of the growth must come from new and non-traditional sources:

- Gulf Offshore Gas Pipelines
- Aux Sable
- Enbridge Commercial Services
- Possible sale of stake in Enbridge Income Fund (ENF.UN-TSX, Sector Performer)
- Possible acquisition of international or other assets

By 2007, we should see an acceleration of growth from core businesses again. Enbridge is well positioned to build a new pipeline inside Alberta (Waupisoo) and Enbridge Gas Distribution could enter into incentive regulation.

Valuation Appears Rich But Not Out of Line With Group

Enbridge is one of several Canadian pipeline and utility stocks that has gone through our target price lately. While the growth outlooks on some of the companies are solid, in most investing climates the growth rates simply do not justify the 18x – 20x earnings multiples the stocks have achieved.

In this low interest rate environment, however, multiples remain high. We make the following observations and draw these conclusions on owning Enbridge and the sector now:

- The market is valuing these stocks almost solely on yield.
- Canadian bond yields will probably drop further before they rise.
- Owning a Market Weight position in the sector is still a good idea.
- Dividend growth (not just yield) is a major factor driving valuation.
- Enbridge's dividend growth (9.3% in '05) is at the top of the group.
- Enbridge's yield is still not the lowest in the group despite its rally.
- Owning Enbridge as a core holding in this climate makes sense.

Our stock rating remains at Sector Performer, mostly just because the free cash yield on Enbridge (6.6%) is lower than TransCanada's (8.5%) (TRP-TSX, Sector Outperformer) and we think TransCanada now has sufficient earnings to raise its dividend as well. Our $65 target price on Enbridge is based on a 3.3% forward yield assuming the company raises its dividend to $2.15 in 2006. It also implies a 19.1x multiple of our $3.40 2006 EPS estimate.

Appendix: Summary of Q4'04 and Full Year 2004 Results

We normalized Enbridge's reported Q4'04 EPS of $0.63 to $0.33, by excluding weather impact and stub quarters from Enbridge Gas Distribution (EGD), Noverco and other smaller gas distribution utilities' results ($0.35) and the impairment loss taken on the Calmar gas plant ($0.05). Operating 2004 earnings came in at $3.02 per share, representing 7.5% year-over-year growth.

Exhibit 1. Segmented Earnings for Enbridge Inc.

(data in C$ millions, unless otherwise stated)

	Q4/04A	Q4/03A	2004A	2003A
Liquids Pipelines				
Enbridge System	$41.0	$48.5	$171.6	$162.0
Enbridge Athabasca System	$10.2	$9.6	$42.8	$44.8
Enbridge NW System	$2.1	$2.1	$7.8	$8.3
Enbridge Saskatchewan	-	$0.0	-	$3.1
Feeder Pipelines and Other	($1.3)	($7.2)	($2.3)	($4.7)
Total Liquids Pipelines	$52.0	$53.0	$219.9	$213.5
Gas Pipelines				
Alliance Pipeline (U.S.)	$9.9	$13.3	$37.4	$40.3
Alliance Pipeline (Canada)	-	-	-	$19.6
Vector Pipeline	$4.7	$4.2	$16.4	$10.2
Total Gas Pipelines	$14.6	$17.5	$53.8	$70.1
Sponsored Investments				
Enbridge Energy Partners	$8.6	$7.6	$28.6	$27.3
Enbridge Income Fund	$8.1	$10.1	$30.0	$17.6
Total Sponsored Investments	$16.7	$17.7	$58.6	$44.9
Gas Distribution and Services				
Enbridge Gas Distribution	($37.2)	($44.4)	$109.3	$93.5
Enbridge Commercial Services	$7.9	$3.6	$20.5	$16.9
Noverco	($3.7)	($4.4)	$22.1	$20.5
Other Gas Distribution Operations	($1.2)	($0.8)	$6.8	$6.6
Enbridge Gas New Brunswick	$0.9	$1.0	$3.7	$4.4
Gas Services	($2.6)	($4.7)	($2.8)	($5.9)
Aux Sable	$3.9	$1.3	$7.3	($6.9)
AltaGas	-	$3.7	$13.1	$12.3
Other	($1.5)	($1.4)	($0.2)	($1.2)
Total Gas Distribution and Services	($33.5)	($46.1)	$179.8	$140.2
International				
OCENSA/CITCOL	$9.2	$8.3	$33.0	$32.3
CLH	$13.2	$13.8	$48.6	$46.3
Jose Terminal and Other	($2.4)	($1.9)	($8.0)	($6.3)
Total International	$20.0	$20.2	$73.6	$72.3
Corporate	($15.1)	($28.0)	($81.3)	($76.6)
Operating Earnings for Common	**$54.7**	**$34.3**	**$504.4**	**$464.4**
Unusual Items	$49.0	($8.9)	$19.7	($13.9)
Weather Impact	$1.1	$1.9	$23.4	$46.1
Gain on Asset Sales	$0.0	$0.0	$97.8	$169.1
Reported Earnings for Common	$104.8	$27.3	$645.3	$665.7
Average Shares Outstanding (mln)	167.2	165.1	167.3	165.5
Operating EPS from Continuing Operations	**$0.33**	**$0.20**	**$3.02**	**$2.81**
Reported EPS	$0.63	$0.17	$3.86	$4.02

Notes:

1. Unusual items in Q4/04 include an extra quarter of gas distribution earnings ($57.2 million), and $8.2 million (after-tax) impairment loss on Calmar gas plant.
2. Unusual items in 2004 relate to $7.6 mln dilution gain on EEP (Q1), $1.1 mln dilution gain on Noverco (GZM unit issuance), changes in provincial taxes (Alberta and Ontario), corresponding future income taxes revaluation ($47.6 million charge at EGD), $8 million dilution gain, $97.8 milllion gain on sale in AltaGas investment (Q2 & Q3), $8.2 million impairment loss on Calmar gas plant (Q4), and $57.2 million in gas distribution earnings (Q4).
3. Unusual items in 2003 relate to $20.3 million (after-tax) dilution gain on EEP (Q2 & Q4), changes in provincial and federal tax rates (Q2), regulatory disallowances for Enbridge Gas Distribution of capacity on Alliance and Vector (Q1), $6 million dilution gain on Noverco (Q4) and $26 million regulatory writedown at Gas Distribution (Q4).

Source: Company reports and CIBC World Markets Inc.

Liquids Pipelines

Fourth quarter earnings from the Enbridge System decreased by about $7.5 million year-over-year due to higher power and oil loss costs as well as timing of operating and maintenance costs (total after-tax impact of about $4 million in Q4). But we assume that Enbridge System earnings will be lower in 2005 than the $171.6 million earned in 2004. The new tolling agreement is expected to be finalized by April 1.

Both Q4 and full year 2004 earnings from the Athabasca System benefited from the addition of the Hardisty storage facilities (completed in Q4'03) offset by higher taxes (no longer benefiting from tax loss carryforwards).

Gas Pipelines

While Alliance Pipeline (U.S.) reported earnings reflect higher ownership interest, a stronger Canadian dollar was also a drag in 2004. Alliance's Q4'03 results included an upward adjustment to rate base, which contributed to the lower year-over-year comparison.

In 2004, Vector's earnings benefited from higher volume throughput (running full at 1 Bcf/day), higher ownership stake (acquired Q4'03) and lower interest costs. Vector should continue to operate well in 2005, considering it is fully contracted through to the end of 2006.

Sponsored Investments

Earnings from Enbridge Energy Partners (EEP-NYSE, Sector Performer) were up in Q4 and full year 2004 as a result of organic growth (higher Lakehead volumes and favourable liquids processing margins) and accretive acquisitions (Mid-Continent assets and North Texas system).

Gas Distribution and Services

Excluding the positive weather impact ($1.1 million) and stub quarter ($48 million), Enbridge Gas Distribution's Q4 normalized earnings came in essentially flat (loss of $37.2 million vs. $39.8 million in Q4'03). EGD achieved a 10% ROE, resulting in almost $20 million (pre-tax) over-earnings shared equally between customers and EGD for the fiscal year 2004.

Q4 earnings from CustomerWorks/ECS came in higher than expected, primarily as a result of lower depreciation expense (extension of the billing system's depreciable life) and customer growth.

Aux Sable finished 2004 on a strong note (contributing $3.9 million in Q4 earnings compared to $1.3 million in Q4'03), on the back of positive frac spreads (averaged $0.61 in Q4'04 vs. negative $0.68 last year). The Aux Sable partners have already hedged about 25% of the plant's annual processing volumes through to October 2005. This should effectively lock in positive earnings for the first half of 2005.

International

International operations posted solid full year results, reflecting good operating performance from CLH Spain (7% volume growth). But Q4 earnings were flat year-over-year primarily from one-time restructuring costs at CLH Spain and a one-time operating loss from the consulting business (included in Other).

Corporate

Corporate costs came in lower than expected at $15.1 million in Q4'04 vs. $28 million in Q4'03. Management provided 2005 guidance of $80-$85 million, reflecting some interest savings from debt reduction and preferred securities redemption offset by higher business development costs.

Exhibit 2. Segmented Operating Earnings Contribution

Years Ending December 31	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	2005E	2006E
Energy Transportation								
Enbridge System	$162.0	$41.2	$41.5	$47.9	$41.1	$171.7	$162.0	$167.0
Enbridge Athabasca System	$44.8	$10.7	$10.3	$11.6	$10.2	$42.8	$43.5	$46.5
Enbridge (NW) System	$8.3	$1.9	$2.0	$1.8	$2.1	$7.8	$8.0	$8.2
Enbridge Energy Partners	$27.3	$7.0	$7.1	$5.9	$8.6	$28.6	$29.5	$34.1
Enbridge Income Trust	$17.6	$7.5	$7.5	$6.9	$8.1	$30.0	$31.0	$33.1
Spearhead Pipeline							$0.0	$6.0
Shell Offshore Gas Assets							$40.0	$42.0
Frontier Pipeline	$0.2	$0.0	$0.0	$0.2	($0.2)	$0.0	$0.0	$0.0
Enbridge Saskatchewan	$3.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Enbridge North Dakota	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Mustang	($0.1)	($0.3)	($0.3)	($0.3)	($0.2)	($1.0)	($1.0)	($1.0)
Chicap	$0.8	$0.2	$0.0	$0.2	($0.4)	$0.0	$0.0	$1.0
EnbridgeToledo	($0.2)	$0.3	$0.2	$0.2	($0.5)	$0.2	$0.2	$0.2
Other Feeder	($0.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Feeder Pipelines (total)	$3.3	$0.2	($0.1)	$0.3	($1.3)	($0.8)	($0.8)	($0.8)
Midcoast	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Alliance Pipeline	$59.9	$9.0	$9.7	$8.8	$9.9	$37.4	$38.3	$39.4
Vector Pipeline	$10.2	$4.0	$4.2	$3.5	$4.7	$16.4	$16.7	$16.7
Aux Sable	($6.9)	$1.3	($1.8)	$3.9	$3.9	$7.3	$15.0	$15.0
AltaGas	$12.3	$3.5	$7.0	$0.8	$0.0	$11.3	$0.0	$0.0
Other	($8.4)	($1.4)	$1.0	$0.0	$0.0	($0.4)	($1.0)	($1.0)
Total Energy Transportation	$330.3	$84.9	$88.5	$91.4	$87.3	$352.1	$382.2	$406.2
Energy Distribution								
Enbridge Consumers Gas	$93.5	$57.0	$115.9	($26.4)	($37.2)	$109.3	$109.1	$112.1
Enbridge Commercial Services	$16.9	$4.9	$4.3	$3.4	$7.9	$20.5	$22.0	$23.0
Noverco	$20.5	$10.9	$15.0	($0.1)	($3.7)	$22.1	$21.0	$21.0
Enbridge Gas New Brunswick	$4.4	$1.1	$0.6	$1.1	$0.9	$3.7	$4.0	$4.0
Small Distribution Cos.	$6.6	$2.0	$4.9	$1.1	($1.2)	$6.8	$6.8	$6.8
Other/Gas Services	($3.2)	$1.6	($0.6)	$0.8	($4.1)	($2.3)	($2.0)	($2.0)
Total Energy Distribution	$138.7	$77.5	$140.1	($20.1)	($37.4)	$160.1	$160.9	$164.9
Energy Services (Discont'd)								
Total Energy Services	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
International								
OCENSA/CITCOL	$32.3	$7.8	$8.1	$7.9	$9.2	$33.0	$33.0	$33.0
Jose Terminal	($0.4)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
CLH Spain	$46.3	$9.8	$14.7	$10.9	$13.2	$48.6	$50.9	$52.4
Other	($5.9)	($1.4)	($1.5)	($2.7)	($2.4)	($8.0)	($6.0)	($6.0)
Total International	$72.3	$16.2	$21.3	$16.1	$20.0	$73.6	$77.9	$79.4
Corporate & Other								
Total Corporate & Other	($75.6)	($24.3)	($26.0)	($15.9)	($15.1)	($81.3)	($80.6)	($72.7)
Operating Earnings For Common	**$465.8**	**$154.3**	**$223.9**	**$71.5**	**$54.9**	**$504.5**	**$540.4**	**$577.8**
Unusual Items	($13.9)	($44.0)	$8.0	$6.7	$49.0	$19.7	$0.0	$0.0
Weather Impact	$46.1	$2.1	$16.5	$3.7	$1.1	$23.4	$0.0	$0.0
Gains on Asset Sales	$169.1			$97.8	$0.0	$97.8		
Reported Earnings For Common	$667.1	$112.4	$248.4	$179.7	$105.0	$645.4	$540.4	$577.8
Average Shares o/s (mln)	165.5	166.8	167.0	168.0	167.9	167.3	168.6	170.1
Operating Earnings Per Share	**$2.81**	**$0.93**	**$1.34**	**$0.43**	**$0.33**	**$3.02**	**$3.20**	**$3.40**
Reported Earnings Per Share	$4.03	$0.67	$1.49	$1.07	$0.63	$3.86	$3.20	$3.40
Operating EPS From Continuing Ops	**$2.81**	**$0.93**	**$1.34**	**$0.43**	**$0.33**	**$3.02**	**$3.20**	**$3.40**

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

Our target price of C$65 (previously C$60) is based a forward 3.3% dividend yield (off of our 2006 dividend estimate of $2.15). It also implies a 19.1x multiple of our C$3.40 2006 EPS forecast. Enbridge's earnings and dividend growth rate has been among the highest of the Canadian pipelines and utilities group, with a relatively low-risk profile, given its few non-regulated assets. We also believe that Enbridge has solid long-term growth and free cash available for asset acquisitions. For these reasons, we continue to use a target multiple at a premium to the group average for the Canadian pipeline and utility stocks.

Key Risks to Price Target

Enbridge 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 impact of negative regulatory decisions, and weak commodity prices. Increased competition in oil pipelining introduces risks to returns on existing and new oil pipeline assets. Our EPS estimates assume Enbridge continues to earn a high return on its Mainline (tolls must be renewed by April 1). Increased competition for pipeline and utility assets by financial players also raises risks to returns on possible acquisitions.

The pipeline and utility sector, as a whole, is sensitive to changes in Canadian long-term bond yields. If broader market risk dissipates and bond yields rise, shares could be negatively impacted.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2004 Actual	$0.93A	$1.34A	$0.43A	$0.33A	$3.02A
2005 Prior	--	--	--	--	$3.15E
2005 Current	--	--	--	--	$3.20E
2006 Prior	--	--	--	--	$3.30E
2006 Current	--	--	--	--	$3.40E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

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2a Enbridge Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

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2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Enbridge Inc. in the next 3 months.

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Stock Prices as of 01/26/2005:

Enbridge Energy Partners, L.P. (EEP-NYSE, US$53.43, Sector Performer)
Enbridge Income Fund (2a, 2c, 2e, 2g, 7) (ENF.UN-TSX, $13.55, Sector Performer)
TransCanada Corp. (7) (TRP-TSX, $30.35, Sector Outperformer)

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9	A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
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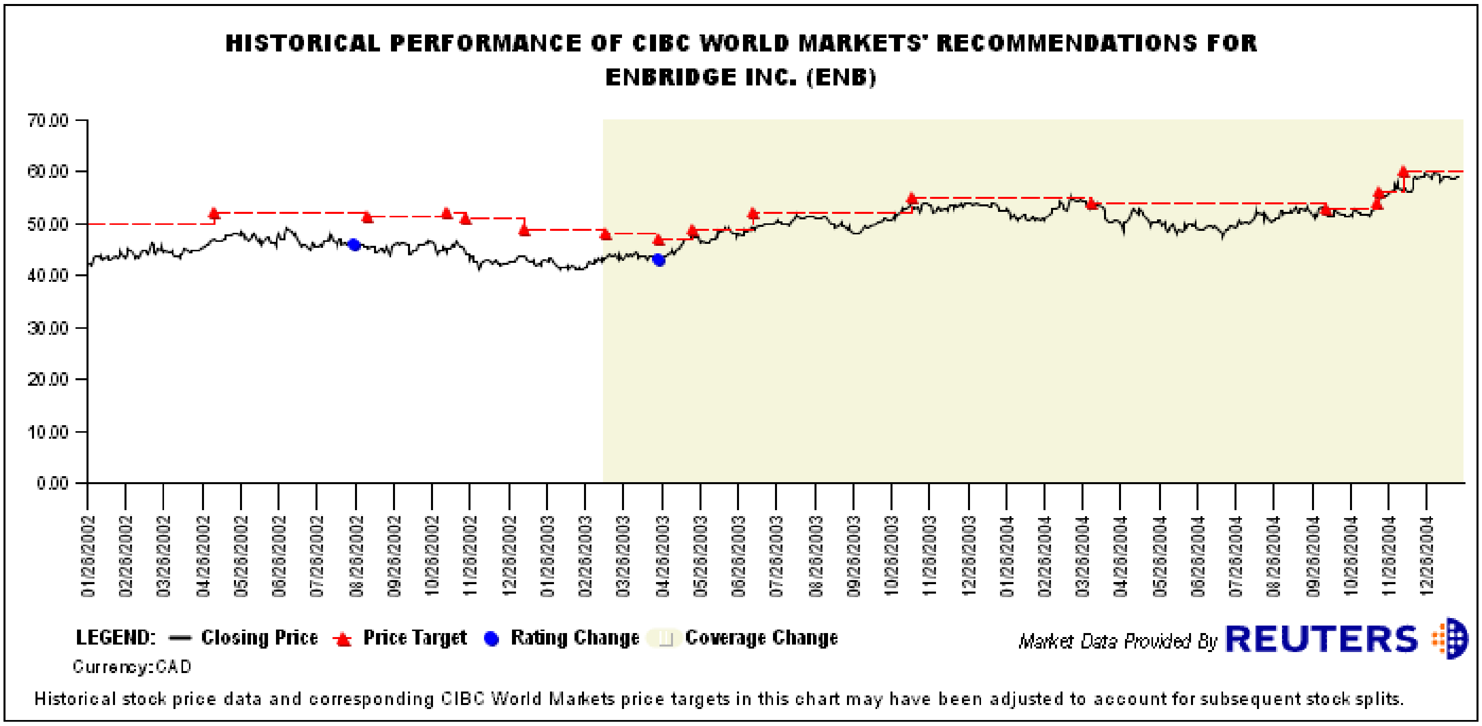
11	The equity securities of this company are restricted voting shares.
12	The equity securities of this company are subordinate voting shares.
13	The equity securities of this company are non-voting shares.
14	The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR ENBRIDGE INC. (ENB)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/06/2002	▲	47.00	B	52.00	Peter Case
08/26/2002	●	46.10	SO	52.00	Peter Case
09/04/2002	▲	45.70	SO	51.50	Peter Case
11/08/2002	▲	45.26	SO	52.00	Peter Case
11/22/2002	▲	44.27	SO	51.00	Peter Case
01/07/2003	▲	43.77	SO	49.00	Peter Case
03/13/2003	▲□	43.40	SO	48.00	Matthew Akman
04/25/2003	▲●	43.05	SP	47.00	Matthew Akman
05/21/2003	▲	47.26	SP	49.00	Matthew Akman
07/09/2003	▲	49.15	SP	52.00	Matthew Akman
11/12/2003	▲	53.15	SP	55.00	Matthew Akman
04/02/2004	▲	53.25	SP	54.00	Matthew Akman
10/05/2004	▲	52.00	SP	53.00	Matthew Akman
11/15/2004	▲	52.78	SP	54.00	Matthew Akman
11/17/2004	▲	53.45	SP	56.00	Matthew Akman
12/06/2004	▲	56.50	SP	60.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 26 Jan 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	289	33.1%	Sector Outperformer (Buy)	186	64.4%
Sector Performer (Hold/Neutral)	406	46.5%	Sector Performer (Hold/Neutral)	233	57.4%
Sector Underperformer (Sell)	177	20.3%	Sector Underperformer (Sell)	87	49.2%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 26 Jan 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	25.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	4	50.0%	Sector Performer (Hold/Neutral)	3	75.0%
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.NV.X, CU.NV, EMA, ENB, FTS, TA, TER, TRP.

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APPENDIX 28

l companies are not on Schedule 5

RATES OF RETURN ON COMMON EQUITY ADOPTED BY REGULATORY BOARDS FOR CANADIAN UTILITIES

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
Electric Utilities												
AltaLink	NA	NA	NA	NA	NA	NA	NA	NA	9.40	9.60	9.50	
ATCO Electric	11.88	11.25	a/	a/	a/	a/	a/	a/	9.40	9.60	9.50	
FortisAlberta Inc.	NA	NA	NA	NA	NA	NA	NA	9.50	9.50	9.60	9.50	
FortisBC Inc.	12.25	11.25	10.50	10.25	9.50	10.00	9.75	9.53	9.82	9.55	f/	
Hydro One	NA	NA	NA	NA	NA	9.35	9.88	9.88	9.88	9.88	9.88	
Newfoundland Power			NA	9.25	9.25	9.59	9.59	9.05	9.75	9.75	9.24	
Nova Scotia Power			NA	NA	NA	NA	NA	10.15	NA	NA	9.80	e/
TransAlta Utilities			a/	b/	9.25	9.25	NA	9.40	NA	NA	NA	
Gas Distributors												
ATCO Gas	g/	g/	10.50	9.38	NA	NA	9.75	9.75	9.50	9.50	9.50	
Centra Gas Ontario			11.25	10.69	c/	c/	c/	c/	NA	NA	NA	
Enbridge Gas Distribution Inc			11.50	10.30	9.51	9.73	9.54	9.66	9.69	9.41	9.57	
Gaz Metro			11.50	10.75	9.64	9.72	9.60	9.67	9.89	9.45	9.69	
Pacific Northern Gas			11.00	10.75	10.00	10.25	10.00	9.88	10.17	9.80	f/	
Terasen Gas			10.25	10.00	9.25	9.50	9.25	9.13	9.42	9.15	9.03	
Union Gas			11.00	10.44	9.61	9.95	9.95	NA	NA	9.62	NA	
Gas Pipelines (NEB)												
Nova Gas Transmission Ltd. d/			10.67	10.21	9.58	9.90	na	na	na	9.60	9.50	
TransCanada Pipelines			10.67	10.21	9.58	9.90	9.61	9.53	9.79	9.56	9.46	
Westcoast Energy			10.67	10.21	9.58	9.90	9.61	9.53	9.79	9.56	9.46	

Note: 1) Maritime Electric: Over the period 1994 - 2003, ME's rates could be no greater than 110% of those charged by NB Power. The Company returned to cost of service regulation January 1, 2004. Rates are currently frozen at 2003 levels pending a de

2) Enbridge Pipelines: Effective 1995, EP has operated under a negotiated settlement with CAPP. Return is tied to operating efficiencies and maximizing utilization.

a/ Negotiated settlement, details not available.
b/ Negotiated settlement, implicit ROE made public is 10.5%.
c/ Merged with Union Gas.
d/ 1996 to 2003, negotiated settlement.
e/ Negotiated settlement awaiting NSUARB approval.
f/ 2005 rate application currently pending.
g/ 1996: 11.88% (ATCO Gas and Pipelines North); 12.25% (ATCO Gas and Pipelines South)

Source: Regulatory Decisions

ACTUAL RETURNS
OF MAJOR CANADIAN ELECTRIC AND GAS UTILITIES

Company	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Electric Utilities										
AltaLink L.P. [1/]	na	na	na	na	na	na	na	9.00	7.70	5.90
ATCO Electric (Transco & Disco) [2/]		13.3	13.10	12.70	12.30	11.70	11.40	11.80	12.70	11.70
FortisAlberta Inc.	na	na	na	na	na	-0.70	4.20	6.90	8.80	8.10
FortisBC Inc.	12.42	12.57	11.94	10.26	10.48	10.00	10.20	8.24	10.88	10.59
Newfoundland Power		10.9	12.40	9.40	9.90	11.60	12.10	10.70	10.20	10.10
Nova Scotia Power	11.5	10.6	10.60	9.50	11.10	10.90	10.90	9.80	10.80	10.00
Gas Distributors										
ATCO Gas [2/]										
Enbridge Gas Distribution	12.7	13.1	13.90	11.97	10.77	10.83	10.03	11.81	13.14	9.49
Gaz Metropolitain [3/]			18.90	19.10	17.70	17.90	17.50	18.90	18.10	18.20
Pacific Northern Gas	11.09	13.6	10.95	8.72	10.16	10.31	7.66	6.36	8.25	8.41
Terasen Gas	12.03	11.8	11.27	9.70	9.97	10.12	9.31	10.03	10.23	9.30
Union Gas	12.10	12.1	12.50	12.30	11.10	10.10	10.10	11.45	11.90	10.45
Pipelines										
Alberta Natural Gas	12.25	11.25	10.67	10.21	9.58	9.90	6.86	9.53	8.21	8.51
Foothills	12.25	11.25	10.67	10.21	9.58	9.90	9.61	9.53	9.79	9.56
TransCanada Pipelines Ltd. (mainline)	12.56	11.83	11.15	10.63	9.64	9.99	10.01	9.95	10.18	10.18
TransQuebec & Maritimes	12.65	11.83	10.94	10.32	9.94	9.96	10.21	9.80	10.21	9.84
Westcoast Energy Inc.	na	na	na	na	na	na	na	na	na	10.28

[1/] 2002 and 2003 are for 12 months ending April 2003 and April 2004; 2004 represents 8 months of information (change in year-end to 12/31)
[2/] Data are for CU. Inc.; data not readily available for ATCO Gas, ATCO Electric-Transmission and ATCO Electric-Distribution separately.
[3/] Reported for partnership.

Source: Regulatory filings for FortisBC, Enbridge Gas, PNG, Terasen, Union and the pipelines. DBRS for the remainder.

APPENDIX 32.1.1.1

TREND IN INTEREST RATES AND OUTSTANDING BOND YIELDS
(Percent Per Annum)

		Government Securities											
		T-BILLS		10 Year		Long-Term		Canada Bonds Over 10	Canadian Inflation	Scotia Capital Long-Term	Canadian A-Rated	Spread Between Cdn. A Rated and	Exchange Rates (Canadian dollars
Year		Canadian	U.S. a/	Canadian	U.S.	Canadian	U.S. b/	Years c/	Indexed Bonds	Corporates	Utility Bonds d/	Long Canada	in U.S. funds)
1993	q1	5.84	2.96	7.65	6.28	8.27	6.98	8.38	4.57	9.54	9.54	1.27	0.79
	q2	4.91	3.01	7.46	5.99	8.11	6.87	8.12	4.39	9.16	9.35	1.24	0.79
	q3	4.52	3.02	6.99	5.62	7.63	6.29	7.58	4.21	8.50	8.84	1.21	0.77
	q4	4.11	3.09	6.76	5.61	7.42	6.19	7.31	3.94	8.20	8.58	1.17	0.75
1994	q1	4.29	3.42	7.09	6.07	7.67	6.74	7.48	3.80	8.33	8.79	1.11	0.75
	q2	6.28	3.96	8.49	7.08	8.69	7.33	8.67	4.38	9.52	10.09	1.40	0.72
	q3	5.48	4.61	8.99	7.33	9.13	7.55	9.14	4.67	9.92	10.11	0.97	0.73
	q4	6.11	5.36	9.12	7.84	9.25	7.94	9.23	4.80	10.00	10.24	0.99	0.73
1995	q1	7.99	5.73	8.89	7.48	9.01	7.61	8.99	4.86	9.80	9.99	0.98	0.71
	q2	7.34	5.58	8.00	6.62	8.32	6.91	8.19	4.48	8.93	9.38	1.06	0.73
	q3	6.47	5.32	8.05	6.32	8.45	6.71	8.28	4.76	8.97	9.30	0.86	0.74
	q4	5.76	5.15	7.39	5.89	7.85	6.18	7.66	4.61	8.37	8.44	0.60	0.74
1996	q1	5.11	4.92	7.39	5.91	7.95	6.37	7.71	4.78	8.40	8.41	0.45	0.73
	q2	4.70	5.04	7.75	6.72	8.17	6.95	7.99	4.87	8.60	8.58	0.40	0.73
	q3	4.14	5.13	7.37	6.78	7.88	7.00	7.65	4.71	8.22	8.23	0.35	0.73
	q4	2.89	5.08	6.30	6.34	6.99	6.60	6.67	4.07	7.23	7.19	0.21	0.74
1997	q1	2.96	5.11	6.54	6.64	7.24	6.91	6.94	4.19	7.50	7.52	0.27	0.74
	q2	3.00	5.12	6.49	6.64	7.03	6.90	6.80	4.26	7.28	7.30	0.27	0.72
	q3	3.18	5.06	5.85	6.18	6.39	6.45	6.16	4.06	6.64	6.59	0.20	0.72
	q4	3.89	5.14	5.55	5.84	5.98	6.07	5.79	4.07	6.38	6.34	0.37	0.71
1998	q1	4.44	5.08	5.41	5.63	5.76	5.93	5.60	4.07	6.25	6.22	0.45	0.70
	q2	4.82	4.99	5.39	5.58	5.63	5.80	5.53	3.90	6.09	6.05	0.42	0.69
	q3	4.92	4.76	5.36	5.12	5.59	5.35	5.50	4.00	6.31	6.23	0.64	0.66
	q4	4.75	4.34	5.02	4.72	5.38	5.10	5.23	4.12	6.25	6.16	0.77	0.65
1999	q1	4.73	4.41	5.07	5.03	5.34	5.41	5.23	4.13	6.13	6.15	0.81	0.66
	q2	4.55	4.53	5.34	5.56	5.54	5.80	5.50	4.07	6.40	6.34	0.80	0.68
	q3	4.92	4.76	5.36	5.12	5.59	5.35	5.50	4.00	6.31	6.23	0.64	0.66
	q4	4.75	4.34	5.02	4.72	5.38	5.10	5.23	4.12	6.25	6.16	0.77	0.65
2000	q1	5.09	5.59	6.22	6.38	5.98	6.16	6.10	3.91	7.14	7.07	1.09	0.69
	q2	5.54	5.68	6.01	6.18	5.72	5.96	5.96	3.74	7.21	7.05	1.33	0.68
	q3	5.58	6.05	5.79	5.86	5.58	5.78	5.82	3.64	7.07	7.09	1.50	0.67
	q4	5.57	6.09	5.54	5.46	5.56	5.62	5.67	3.48	7.10	7.15	1.59	0.65
2001	q1	4.96	4.64	5.44	5.01	5.76	5.45	5.69	3.41	7.05	7.18	1.42	0.65
	q2	4.36	4.42	5.78	5.40	5.95	5.77	6.00	3.56	7.25	7.40	1.45	0.65
	q3	3.64	3.10	5.48	4.84	5.82	5.44	5.86	3.67	7.13	7.24	1.41	0.64
	q4	2.11	1.86	5.22	4.72	5.53	5.32	5.58	3.68	6.95	7.20	1.67	0.63
2002	q1	2.10	1.78	5.52	5.12	5.78	5.66	5.81	3.71	6.97	7.23	1.45	0.63
	q2	2.57	1.74	5.51	5.02	5.83	5.72	5.81	3.52	6.99	7.14	1.30	0.65
	q3	2.83	1.66	5.07	4.09	5.56	5.13	5.52	3.36	7.01	7.26	1.70	0.63
	q4	2.69	1.33	4.98	3.99	5.48	5.11	5.45	3.39	6.95	7.23	1.75	0.64
2003	q1	2.96	1.17	5.01	3.85	5.49	4.93	5.43	3.09	6.92	7.22	1.73	0.67
	q2	3.14	1.05	4.59	3.60	5.17	4.71	5.09	3.04	6.42	6.72	1.56	0.72
	q3	2.70	0.96	4.75	4.30	5.30	5.28	5.26	3.11	6.40	6.69	1.39	0.72
	q4	2.62	0.95	4.78	4.31	5.29	5.22	5.24	2.90	6.24	6.47	1.18	0.77
2004	q1	2.12	0.94	4.41	4.00	5.09	4.96	4.99	2.50	5.92	6.17	1.08	0.76
	q2	1.98	1.13	4.74	4.60	5.29	5.35	5.22	2.38	6.25	6.48	1.19	0.74
	q3	2.23	1.58	4.66	4.26	5.14	5.08	5.13	2.29	6.19	6.37	1.23	0.77
	q4	2.53	2.11	4.40	4.22	4.92	4.93	4.87	2.18	5.90	6.09	1.17	0.83
2005	q1	2.47	2.67	4.27	4.33	4.72	4.70	4.69	2.05	5.67	5.86	1.13	0.82
Annual													
	1990	12.81	7.49	10.76	8.55	10.69	8.61	10.85		11.91	12.13	1.44	0.86
	1991	8.73	5.38	9.42	7.86	9.72	8.14	9.76		10.80	11.00	1.28	0.84
	1992	6.59	3.43	8.05	7.01	8.68	7.67	8.77	4.62	9.90	10.01	1.33	0.82
	1993	4.84	3.02	7.22	5.87	7.86	6.59	7.85	4.28	8.85	9.08	1.22	0.77
	1994	5.54	4.34	8.43	7.08	8.69	7.39	8.63	4.41	9.44	9.81	1.12	0.73
	1995	6.89	5.44	8.08	6.58	8.41	6.85	8.28	4.68	9.02	9.29	0.88	0.73
	1996	4.21	5.04	7.20	6.44	7.75	6.73	7.50	4.61	8.11	8.38	0.63	0.73
	1997	3.26	5.11	6.11	6.32	6.66	6.58	6.42	4.14	6.95	7.19	0.53	0.72
	1998	4.73	4.79	5.30	5.26	5.59	5.54	5.47	4.02	6.22	6.38	0.79	0.68
	1999	4.69	4.71	5.55	5.68	5.72	5.91	5.69	4.07	6.64	6.92	1.20	0.67
	2000	5.45	5.85	5.89	5.98	5.71	5.88	5.89	3.69	7.13	7.02	1.31	0.67
	2001	3.78	3.34	5.49	4.99	5.77	5.50	5.76	3.59	7.09	7.25	1.48	0.65
	2002	2.55	1.63	5.27	4.56	5.67	5.41	5.65	3.49	6.98	7.22	1.55	0.64
	2003	2.86	1.03	4.78	4.02	5.31	5.03	5.26	3.04	6.50	6.78	1.46	0.72
	2004	2.21	1.44	4.55	4.27	5.11	5.08	5.05	2.34	6.06	6.28	1.17	0.77

a/ Rates on new issues.

b/ 20-year constant maturities for 1974-1978; 30-year maturities, 1978-January 2002. Theoretical 30-year yield, February 2002 forward.

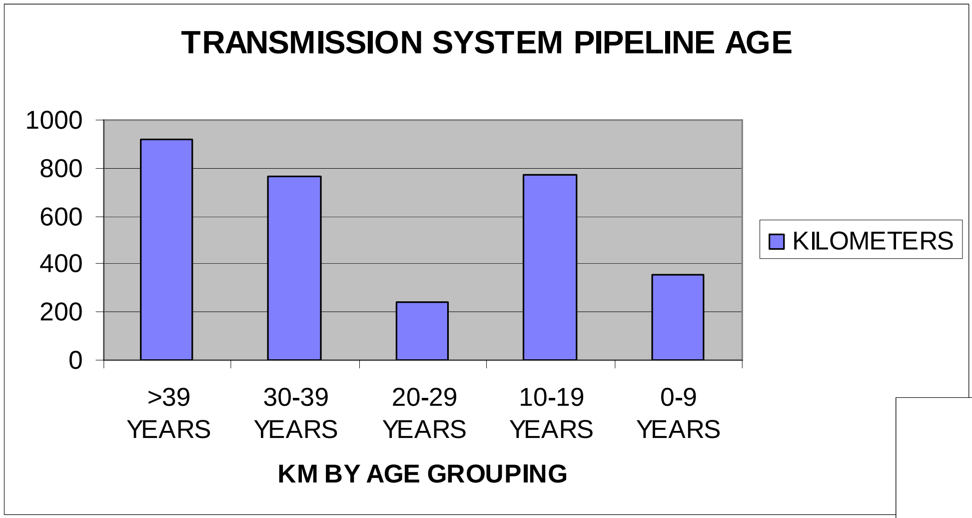
c/ Terms to maturity of l0 years or more.

d/ Series is comprised of the CBRS Utilities Index through 1995; CBRS 30-year Utilities Index from 1996- August 2000;
a series of liquid long-term utility bonds maintained by Foster Associates from September 2000 forward.

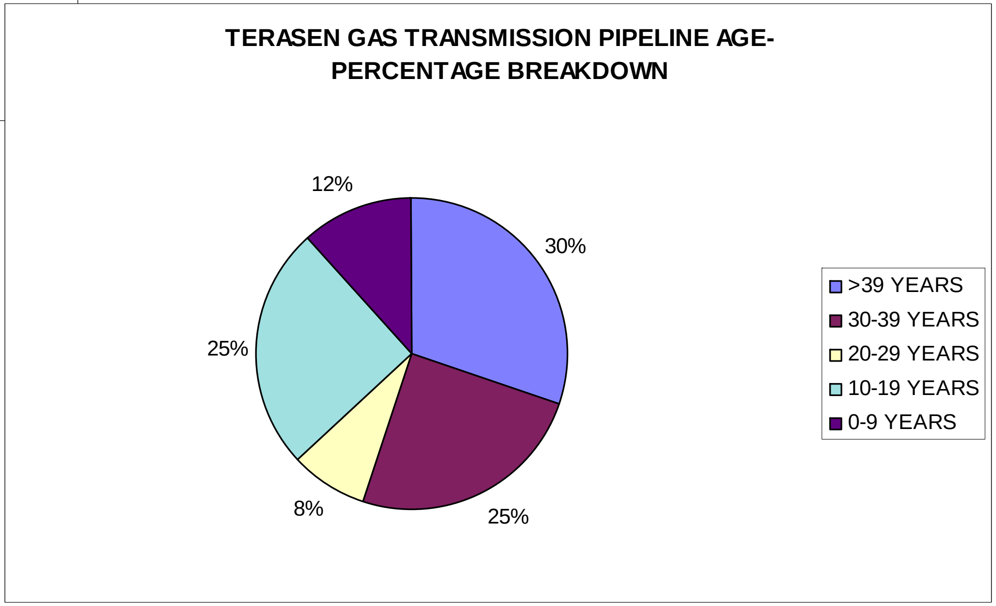
Source: Bank of Canada Review; CBRS; Globe and Mail; Annual Statistical Digest (Federal Reserve System);
Federal Reserve Bulletin (various issues), U.S. Treasury website.

APPENDIX 43.1

Pipeline Integrity – System Age



- First portions of system constructed in 1957
- Internal inspection programs commenced in 1988



- At the end of 2005, all transmission pipelines ≥ 8” will have been smart-pigged at least once

APPENDIX 46.2.1

IMPACT OF CHANGE IN CAPITAL STRUCTURE ON COST OF EQUITY (TGVI)

THEORY 1:

The overall cost of capital is invariant to changes in the capital structure. The cost of equity rises as the debt ratio rises, but the after-tax weighted average cost of capital stays the same.

Formula for After-Tax Weighted Average Cost of Capital:

$WACC_{AT}$ = (Debt Cost)(1-tax rate)(Debt Ratio) + (Equity Cost)(Equity Ratio)

ASSUMPTIONS:

Debt Cost = Current Cost of Long Term Debt for A rated utility
= 6.35%

Equity Cost = Recommended Return on Equity for Benchmark Utility
= 10.5%

Tax Rate = 34.5%

STEPS:

1. Estimate $WACC_{AT}$ @ 47.5% common equity ratio

   $WACC_{AT}$ = (6.35%)(1-.345)(52.5%) + (10.5%)(47.5%)
   = 7.17%

2. Estimate Cost of Equity at 40% common equity ratio with $WACC_{AT}$ unchanged at 7.17%

   $WACC_{AT}$ = (Debt Cost)(1-tax rate)(Debt Ratio) + (Equity Cost)(Equity Ratio)
   7.17% = (6.35%)(1-.345)(60%) + (X)(40%)

   Cost of Equity at 40.0% Common Equity Ratio = 11.7%

3. Difference between Equity Return at 47.5% and 40% common equity ratios:
   11.7% - 10.5% = 1.2% (120 basis points)

THEORY 2:

After-Tax Cost of Capital Declines as Debt Ratio Rises; Cost of Equity Rises

ASSUMPTIONS:

Debt Cost	=	Current Cost of Long Term Debt for A rated utility
	=	6.35%
Equity Cost	=	Recommended Return on Equity for Benchmark Utility
	=	10.5%
Tax Rate	=	34.5%

STEPS:

1. Estimate $WACC_{AT}$ @ 47.5% common equity ratio

$$WACC_{AT} = (6.35\%)(1-.345)(52.5\%) + (10.5\%)(47.5\%)$$
$$= 7.17\%$$

2. Estimate $WACC_{AT}$ @ 40% common equity ratio (60% debt ratio)

$$WACC_{AT(\text{new debt ratio})} = WACC_{AT(\text{old debt ratio})} \text{ x } (1\text{-t x Debt Ratio}_{\text{new}})/(1\text{-t x Debt Ratio}_{\text{old}})$$

$$WACC_{AT(\text{new debt ratio})} = 7.17\% \frac{(1-.345 \text{ x } 60.0\%)}{(1-.345 \text{ x } 52.5\%)}$$

$$WACC_{AT(\text{new debt ratio})} = 6.945\%$$

3. Estimate Cost of Equity at new $WACC_{AT}$ at higher debt ratio:

$WACC_{AT(\text{new debt ratio})}$ = (Debt Cost)(1-tax rate)(Debt Ratio) + (Equity Cost)(Equity Ratio)

6.945% = (6.35%)(1-.345)(67%) + (X)(40%)

Cost of Equity at 40% equity ratio = 11.12%

4. Difference between Equity Return at 40% and 47.5% common equity ratios:
11.12% - 10.5% = 0.6% (60 basis points)

ESTIMATE OF IMPACT OF CHANGE IN CAPITAL STRUCTURE ON COST OF EQUITY

60-120 BASIS POINTS

APPENDIX 48.2.1.1

Legend: Table 327-0007: Consulting engineering services price indexes; Canada; Total
v92715 engineering; Total price (Index, 1997=100) [D496200]

Annual	v92715
1989	85.9
1990	89.9
1991	92.7
1992	95.6
1993	96.8
1994	97.4
1995	98.2
1996	98.4
1997	100
1998	102.6
1999	106
2000	107.8
2001	111.8
2002	109.6
2003	110.8

Legend:	Table 330-0006: Raw materials price indexes; Canada; Raw materials, total
v1576432	(Index, 1997=100) [P6502]
Monthly	v1576432
Jan-81	73.8
Feb-81	73.2
Mar-81	73.8
Apr-81	73.8
May-81	74.9
Jun-81	78.1
Jul-81	79.5
Aug-81	79.6
Sep-81	79
Oct-81	81
Nov-81	80.2
Dec-81	77.4
Jan-82	80.2
Feb-82	81.4
Mar-82	81.4
Apr-82	81.9
May-82	82.9
Jun-82	82.6
Jul-82	84.6
Aug-82	84.1
Sep-82	84.5
Oct-82	83.5
Nov-82	83
Dec-82	83.3
Jan-83	85
Feb-83	85.9
Mar-83	85.6
Apr-83	86.6
May-83	86.6
Jun-83	86.6
Jul-83	86.3
Aug-83	86.9
Sep-83	86.5
Oct-83	86.9
Nov-83	86.5
Dec-83	87.1
Jan-84	87.7
Feb-84	88.1
Mar-84	89
Apr-84	89.6
May-84	89.7
Jun-84	89.7
Jul-84	89.3
Aug-84	88.1
Sep-84	87.8
Oct-84	87.2
Nov-84	90.7
Dec-84	90.7
Jan-85	90.5
Feb-85	91
Mar-85	91.3
Apr-85	91.1
May-85	91.1
Jun-85	90
Jul-85	88.7

Aug-85	88.2
Sep-85	87.8
Oct-85	88.9
Nov-85	90.3
Dec-85	91.1
Jan-86	88.1
Feb-86	82.2
Mar-86	75.6
Apr-86	70.2
May-86	70.2
Jun-86	71
Jul-86	70
Aug-86	70.5
Sep-86	72.1
Oct-86	72.5
Nov-86	73.1
Dec-86	73.5
Jan-87	75
Feb-87	76.2
Mar-87	75.6
Apr-87	76.7
May-87	79.3
Jun-87	80.6
Jul-87	81.5
Aug-87	82.5
Sep-87	82
Oct-87	81.5
Nov-87	81.6
Dec-87	81.4
Jan-88	79.8
Feb-88	77.8
Mar-88	77.1
Apr-88	77.1
May-88	78.4
Jun-88	78.7
Jul-88	77.5
Aug-88	76
Sep-88	75.5
Oct-88	74.9
Nov-88	74.6
Dec-88	75.4
Jan-89	77.4
Feb-89	77.8
Mar-89	80.1
Apr-89	80.9
May-89	81.4
Jun-89	80.8
Jul-89	80.6
Aug-89	79.9
Sep-89	78.5
Oct-89	79
Nov-89	78.5
Dec-89	77.9
Jan-90	78.5
Feb-90	80.6
Mar-90	80.6
Apr-90	78.6
May-90	78.2

Jun-90	76.7
Jul-90	76.3
Aug-90	81
Sep-90	87.4
Oct-90	92.4
Nov-90	92.8
Dec-90	89
Jan-91	86.6
Feb-91	82.1
Mar-91	78.8
Apr-91	77.3
May-91	76.3
Jun-91	76.4
Jul-91	75.9
Aug-91	76
Sep-91	75.4
Oct-91	75.9
Nov-91	76
Dec-91	73.8
Jan-92	72.8
Feb-92	74.6
Mar-92	74.9
Apr-92	75.9
May-92	78.2
Jun-92	80.1
Jul-92	80
Aug-92	79.6
Sep-92	81.1
Oct-92	80.3
Nov-92	81.5
Dec-92	80.6
Jan-93	80
Feb-93	81.5
Mar-93	82.5
Apr-93	83.3
May-93	84.7
Jun-93	84.6
Jul-93	83.2
Aug-93	83.3
Sep-93	82.7
Oct-93	82.7
Nov-93	81.1
Dec-93	80.2
Jan-94	81.6
Feb-94	83.6
Mar-94	84.4
Apr-94	87.2
May-94	90.1
Jun-94	91.9
Jul-94	93.2
Aug-94	93
Sep-94	90.6
Oct-94	91.9
Nov-94	94.6
Dec-94	95.2
Jan-95	98.2
Feb-95	99.4
Mar-95	99.8

Apr-95	100.3
May-95	99.6
Jun-95	99.6
Jul-95	98.4
Aug-95	97.8
Sep-95	95.8
Oct-95	93.1
Nov-95	93.4
Dec-95	96.3
Jan-96	95.8
Feb-96	96.7
Mar-96	99.7
Apr-96	102.4
May-96	102.8
Jun-96	100.4
Jul-96	100.8
Aug-96	102
Sep-96	102.9
Oct-96	103.2
Nov-96	101.9
Dec-96	104.1
Jan-97	104.2
Feb-97	102.8
Mar-97	102
Apr-97	99.8
May-97	102.1
Jun-97	99.6
Jul-97	99.8
Aug-97	100.2
Sep-97	98.4
Oct-97	99
Nov-97	97.9
Dec-97	94.2
Jan-98	91.5
Feb-98	89.9
Mar-98	87.6
Apr-98	89
May-98	88.7
Jun-98	85.9
Jul-98	86.3
Aug-98	85.5
Sep-98	86.5
Oct-98	86.2
Nov-98	84
Dec-98	80.8
Jan-99	83.4
Feb-99	82.7
Mar-99	86.7
Apr-99	89.9
May-99	91.1
Jun-99	90.6
Jul-99	94.1
Aug-99	97
Sep-99	100.6
Oct-99	99.7
Nov-99	102.9
Dec-99	106.7
Jan-00	107.6

Feb-00	110.7
Mar-00	112.8
Apr-00	106.3
May-00	112.4
Jun-00	115.2
Jul-00	113.5
Aug-00	116.1
Sep-00	120.2
Oct-00	121
Nov-00	123.5
Dec-00	116.7
Jan-01	118.6
Feb-01	119.8
Mar-01	119.3
Apr-01	118.8
May-01	119
Jun-01	116.3
Jul-01	114.3
Aug-01	114.1
Sep-01	110.7
Oct-01	105
Nov-01	101.8
Dec-01	100.7
Jan-02	102.8
Feb-02	105.1
Mar-02	110.8
Apr-02	112.4
May-02	113.6
Jun-02	110.8
Jul-02	112.7
Aug-02	114.4
Sep-02	117.5
Oct-02	117.5
Nov-02	114
Dec-02	119.1
Jan-03	125.1
Feb-03	129.7
Mar-03	124.5
Apr-03	116.1
May-03	112.3
Jun-03	111.4
Jul-03	109.4
Aug-03	110.2
Sep-03	107.4
Oct-03	108.5
Nov-03	110.2
Dec-03	113.2

Legend: v1574377 Table 329-0039: Industry price indexes, by major commodity aggregations and stage of processing; Canada; Total, all commodities (Index, 1997=100) [P4000]

v1574452 Table 329-0039: Industry price indexes, by major commodity aggregations and stage of processing; Canada; Machinery and equipment, second stage (Index, 1997=100) [P4075]

v1574501 Table 329-0039: Industry price indexes, by major commodity aggregations and stage of processing; Canada; Machinery and equipment, capital equipment (Index, 1997=100) [P4124]

v1574544 Table 329-0039: Industry price indexes, by major commodity aggregations and stage of processing; Canada; Machinery and equipment, other (Index, 1997=100) [P4167]

Monthly	v1574377	v1574452	v1574501	v1574544
Dec-77	42.2			
Jan-78	42.8			
Feb-78	43			
Mar-78	43.5			
Apr-78	44.1			
May-78	44.3			
Jun-78	44.6			
Jul-78	44.8			
Aug-78	45.2			
Sep-78	45.6			
Oct-78	46.6			
Nov-78	46.8			
Dec-78	47			
Jan-79	48.3			
Feb-79	49.2			
Mar-79	49.6			
Apr-79	50.2			
May-79	50.6			
Jun-79	50.9			
Jul-79	51.5			
Aug-79	51.9			
Sep-79	52.7			
Oct-79	53.6			
Nov-79	53.8			
Dec-79	54.3			
Jan-80	56.4			
Feb-80	56.7			
Mar-80	56.4			
Apr-80	56.8			
May-80	57.1			
Jun-80	57.5			
Jul-80	58			
Aug-80	58.8			
Sep-80	59.4			
Oct-80	60.3			
Nov-80	60.8			
Dec-80	60.9			
Jan-81	61.7			
Feb-81	62.1			
Mar-81	62.5			
Apr-81	63.1			
May-81	63.6			
Jun-81	64.2			
Jul-81	64.7			
Aug-81	65.2			

Sep-81	65.3			
Oct-81	65.9			
Nov-81	65.8			
Dec-81	66			
Jan-82	66.7			
Feb-82	67.2			
Mar-82	67.6			
Apr-82	68.1			
May-82	68.4			
Jun-82	68.8			
Jul-82	68.9			
Aug-82	68.8			
Sep-82	69.3			
Oct-82	69.4			
Nov-82	69.2			
Dec-82	69.3			
Jan-83	69.3			
Feb-83	69.3			
Mar-83	69.9			
Apr-83	70.3			
May-83	70.6			
Jun-83	71.2			
Jul-83	71.4			
Aug-83	71.5			
Sep-83	71.4			
Oct-83	71.7			
Nov-83	71.6			
Dec-83	72			
Jan-84	72.6			
Feb-84	72.9			
Mar-84	73.4			
Apr-84	73.9			
May-84	73.9			
Jun-84	74			
Jul-84	74.6			
Aug-84	74.6			
Sep-84	74.5			
Oct-84	74.5			
Nov-84	74.8			
Dec-84	75			
Jan-85	75.4			
Feb-85	75.5			
Mar-85	76			
Apr-85	76			
May-85	76.1			
Jun-85	76.1			
Jul-85	76.1			
Aug-85	76			
Sep-85	76.1			
Oct-85	76.4			
Nov-85	76.5			
Dec-85	77			
Jan-86	76.9	75.3	76.6	76.2
Feb-86	76.8	75.4	76.7	76.2
Mar-86	76.6	75.5	76.8	76.2
Apr-86	76.5	75.5	76.9	76.2
May-86	76	75.6	76.9	76.2
Jun-86	76.2	75.9	77.3	76.5

Jul-86	76.4	76	77.6	77.3
Aug-86	76.8	76.5	77.8	77.3
Sep-86	76.9	76.5	77.8	77.4
Oct-86	77.4	76.5	77.8	77.4
Nov-86	77.4	76.6	77.8	77.4
Dec-86	77.2	76.6	77.8	77.4
Jan-87	77.6	77.4	78.5	79.5
Feb-87	77.4	77.4	78.5	79.5
Mar-87	77.4	77.5	78.4	79.7
Apr-87	77.9	77.7	78.7	79.9
May-87	78.6	78	78.9	80.1
Jun-87	78.7	78.1	79	80.1
Jul-87	79.1	78.4	79.3	80.1
Aug-87	79.6	78.4	79.3	80.3
Sep-87	79.6	78.4	79.3	80.3
Oct-87	79.9	78.4	79.3	80.5
Nov-87	80.4	78.6	79.5	80.7
Dec-87	80.6	78.8	79.6	80.8
Jan-88	81.3	79.9	80.5	82.2
Feb-88	81	80	80.5	82.2
Mar-88	81.2	80.1	80.7	82.2
Apr-88	81.6	80.1	80.7	82.2
May-88	82	80.3	81	82.2
Jun-88	82.2	80.5	81.4	82.3
Jul-88	82.6	81.2	81.7	82.6
Aug-88	82.9	81.7	82.3	83
Sep-88	82.9	82	82.7	83.2
Oct-88	83	82	82.7	83.2
Nov-88	83.5	82.5	83.2	83.5
Dec-88	83.5	82.4	83.2	83.4
Jan-89	84.1	83.4	84	83.9
Feb-89	84	83.8	84.3	87.9
Mar-89	84.3	84.3	85	88.4
Apr-89	84.2	84.5	85.1	88.6
May-89	84.2	84.8	85.4	88.8
Jun-89	84.3	84.9	85.5	88.4
Jul-89	84.2	85.3	85.9	88.8
Aug-89	84.1	85.3	86	88.8
Sep-89	83.8	85.7	86.4	88.8
Oct-89	83.7	85.8	86.5	88.4
Nov-89	83.5	85.9	86.7	88.4
Dec-89	83.3	86	86.8	88.4
Jan-90	83.4	86.4	87.1	88.7
Feb-90	84.1	86.9	87.6	88.8
Mar-90	83.9	86.8	87.5	88.8
Apr-90	83.7	86.8	87.4	88.9
May-90	84.2	86.9	87.6	88.9
Jun-90	84	86.9	87.6	88.8
Jul-90	83.7	86.9	87.4	88.8
Aug-90	83.9	86.9	87.4	88.8
Sep-90	84.6	87.1	87.6	88.9
Oct-90	84.9	87.3	87.7	91.5
Nov-90	85.1	87.4	87.8	91.7
Dec-90	85.2	87.5	87.9	91.6
Jan-91	85.3	87.8	88.2	92.6
Feb-91	84.9	87.9	88.4	92.7
Mar-91	84.2	88	88.6	92.7
Apr-91	83.7	87.9	88.6	92.8

May-91	83.4	88.1	88.6	92.7
Jun-91	83.3	88.2	88.7	92.8
Jul-91	83.1	88.4	88.7	92.8
Aug-91	82.6	88.4	88.8	92.9
Sep-91	82.5	88.4	88.9	91.9
Oct-91	82.4	88.4	88.8	91.8
Nov-91	82.4	88.4	88.9	92.9
Dec-91	82.3	88.4	88.8	92.5
Jan-92	82	88.9	89	92.2
Feb-92	82.8	89	89.3	92.4
Mar-92	83	89.2	89.4	92.4
Apr-92	82.8	89.3	89.4	92.5
May-92	83.4	89.5	89.6	92.7
Jun-92	83.6	89.4	89.5	92.6
Jul-92	83.7	89.4	89.6	92.2
Aug-92	83.9	89.3	89.6	92.3
Sep-92	84.4	89.6	89.9	92.6
Oct-92	84.9	90.5	91.2	95.4
Nov-92	85.2	90.6	91.4	96
Dec-92	85.5	91.1	92	96.7
Jan-93	86.2	91.1	92.1	96.5
Feb-93	86.3	91.1	92	96.3
Mar-93	86.5	91.3	92	96.3
Apr-93	86.4	91.6	92.5	96.9
May-93	86.2	91.6	92.6	97.1
Jun-93	86	91.8	92.7	97.2
Jul-93	86.1	91.9	92.7	97.2
Aug-93	86.9	92.1	93.1	97.6
Sep-93	87	92.2	93.1	97.5
Oct-93	87.5	92.9	94.2	99.6
Nov-93	87.8	93	94.3	99.6
Dec-93	88.4	93	94.3	99.4
Jan-94	88.6	93.5	94.5	99.2
Feb-94	89.6	93.8	94.9	99.7
Mar-94	90.1	94.1	95.1	100
Apr-94	90.4	94.6	95.5	100.5
May-94	91	94.6	95.6	100.5
Jun-94	92	94.6	95.5	100.2
Jul-94	92.4	95.2	95.7	100.3
Aug-94	93.3	95.3	95.9	101.8
Sep-94	93	95.1	95.6	101.2
Oct-94	93.6	95.4	95.9	101.2
Nov-94	94.7	95.9	96.4	101.4
Dec-94	95.6	96.1	96.7	101.7
Jan-95	97.8	96.4	96.6	99.9
Feb-95	98.2	96.5	96.8	99.7
Mar-95	98.7	97	97.5	100
Apr-95	98.3	97	97.3	99.5
May-95	98.3	97.2	97.3	99.4
Jun-95	99	97.4	97.5	99.9
Jul-95	99.3	97.2	97.4	101.8
Aug-95	99.2	97.2	97.4	101.9
Sep-95	99.6	97.6	97.7	101.9
Oct-95	99.2	97.7	97.8	101.7
Nov-95	99.3	98	98	101.9
Dec-95	99.7	98.3	98.5	102.2
Jan-96	99.5	98.7	98.8	101.9
Feb-96	99.4	99	99.1	102.3

Mar-96	98.8	98.9	99.2	102.1
Apr-96	98.7	99	99.4	102.4
May-96	99.6	99.1	99.5	102.4
Jun-96	99	99.3	99.7	102.5
Jul-96	98.9	99.4	99.8	102.5
Aug-96	99.6	98.8	98.8	100.5
Sep-96	99.8	98.8	99	100.4
Oct-96	99.3	99	99.2	100.5
Nov-96	99.2	99	99.1	100.3
Dec-96	99.6	98.9	98.9	99.4
Jan-97	99.4	99.1	99	99.4
Feb-97	99.5	99.4	99.3	99.6
Mar-97	99.6	99.6	99.7	99.8
Apr-97	100.4	100	100.1	100.1
May-97	100.3	99.9	100	100
Jun-97	99.9	99.9	100	100
Jul-97	99.6	100.1	100.1	99.9
Aug-97	100.3	100.2	100.3	100
Sep-97	100.1	100.2	100.2	100
Oct-97	100	100.2	100	100
Nov-97	100.5	100.5	100.5	100.4
Dec-97	100.3	100.8	100.8	100.8
Jan-98	100.3	101.3	101.2	101.3
Feb-98	100.2	101.5	101.5	101.3
Mar-98	99	101.2	101.2	100.8
Apr-98	99.9	101.7	101.7	101.2
May-98	99.9	101.9	101.9	101.5
Jun-98	100.1	102.3	102.3	102
Jul-98	100.4	102.1	102.1	101.1
Aug-98	101	102.4	102.5	101.4
Sep-98	100.5	102.7	102.7	101.4
Oct-98	101.3	103.5	103.6	102.4
Nov-98	101.3	103.6	103.8	102.7
Dec-98	100.5	103.5	103.6	101.6
Jan-99	100.4	104	103.7	101.3
Feb-99	100	103.6	103.2	100.6
Mar-99	101.1	104.2	103.9	101.3
Apr-99	101.1	103.8	103.3	100.5
May-99	101.2	103.6	103	99.9
Jun-99	101.4	103.9	103.2	99.9
Jul-99	102.9	104.2	103.5	100.3
Aug-99	103	103.9	103.5	100.2
Sep-99	103.5	104.3	103.9	100.2
Oct-99	103.5	104.5	104.2	100.4
Nov-99	103.6	104.4	104	99.9
Dec-99	104.3	104.8	104.6	100.3
Jan-00	104.2	104.9	104.4	99.7
Feb-00	105.2	105	104.5	99.8
Mar-00	106	105.2	104.7	100
Apr-00	106	105.5	105	100.3
May-00	106.4	105.6	105.1	100.4
Jun-00	106.4	105.5	104.9	100.1
Jul-00	106.4	105.5	105	100.2
Aug-00	106.4	105.6	105.1	100.5
Sep-00	106.9	105	104	98
Oct-00	107.8	105.4	104.5	98.8
Nov-00	108.6	105.8	104.9	99.5
Dec-00	107.9	105.6	104.7	99.3

Jan-01	107.5	106.3	105.4	100.5
Feb-01	107.9	106.5	105.6	100.7
Mar-01	108.5	106.7	105.6	100.9
Apr-01	108.9	106.8	105.8	100.9
May-01	109.4	106.8	105.9	101.1
Jun-01	108	106.5	105.6	100.8
Jul-01	107.2	106.1	105.4	100.9
Aug-01	107.2	106.1	105.4	100.9
Sep-01	108	106.5	106.2	101.1
Oct-01	106.4	106.5	106.2	101.1
Nov-01	106.3	106.6	106.4	101.2
Dec-01	105.3	106.9	106.7	101.7
Jan-02	106.3	107.3	107	101.8
Feb-02	106.7	107.2	106.8	101.3
Mar-02	107.4	107.2	106.8	101.3
Apr-02	107.7	107.3	106.9	101.4
May-02	107	107.1	106.6	101.2
Jun-02	106.8	107.4	107.1	102.2
Jul-02	107	107.3	107	102.1
Aug-02	107.8	107.4	107.1	101.9
Sep-02	108.7	107.6	107.3	102
Oct-02	109	107.5	107.1	101.4
Nov-02	108.7	107.5	107.1	101.3
Dec-02	108.3	107.4	106.9	101.3
Jan-03	108.8	107.6	107	101.7
Feb-03	109.7	107.5	106.9	101.6
Mar-03	109.2	107.3	106.7	101.5
Apr-03	107.2	107.1	106.5	101.3
May-03	105	106.5	105.9	100.9
Jun-03	103.9	105.8	105.1	99.8
Jul-03	105.3	106.3	105.6	100.2
Aug-03	105.7	106.3	105.6	100.1
Sep-03	105.8	106.2	105.5	100.1
Oct-03	104.6	106	105.2	99.9
Nov-03	104.2	105.7	104.8	99.4
Dec-03	104.5	105.8	105	99.5
Jan-04	105.4	105.7	104.7	99
Feb-04	107.6	106.2	105.3	99.9
Mar-04	108.3	106.4	105.6	100.1
Apr-04	109.7	106.7	106.1	100.5
May-04	111.7	107.3	106.8	101.7
Jun-04	111.2	107.2	106.6	101.3
Jul-04	111.1	107.3	106.2	100.4
Aug-04	111.5	107.4	106.5	100.5
Sep-04	110.9	107.4	106.3	100.2
Oct-04	110.3	107.2	105.9	99.6
Nov-04	108.2	106.8	105.2	98.6
Dec-04	108.3	107.2	105.6	99.2
Jan-05	109.3	108	106.6	100.4
Feb-05	110.6	108.1	106.7	100.3
Mar-05	111	107.9	106.4	99.8
Apr-05	111.5	108.2	106.8	100.3
May-05	111.4	108.6	107.2	101
Jun-05	111.4	108.5	107	100.7