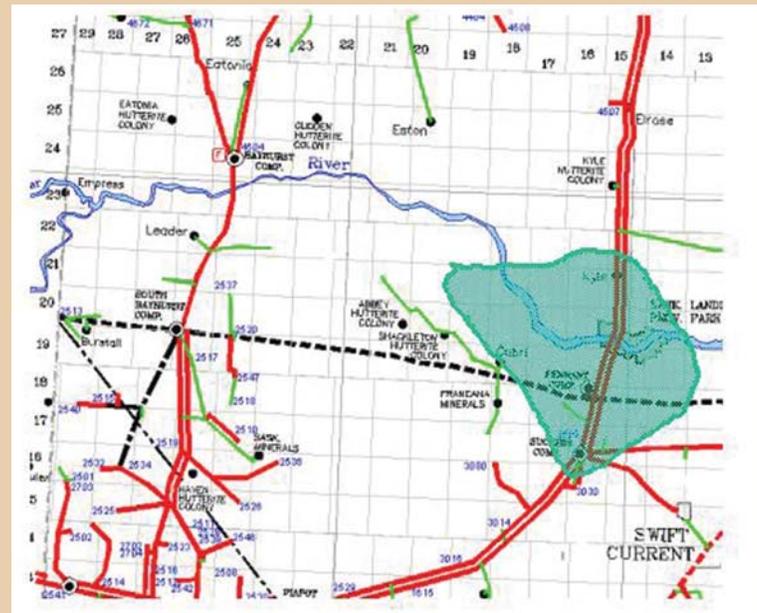


# Saskatchewan Gas Drilling Record Broken Again!

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## DID YOU KNOW ?

TransGas Key Account Managers, Debbie Brown and Chris Uhren, have been experimenting with different modes of transportation in an effort to reduce transportation costs. Nobody can say our KAMs don't go the extra mile for our customers!



Natural gas producers in Saskatchewan have already set an annual drilling record during 2002 with 1,702 gas wells cased to November 15 of this year, shattering Saskatchewan's all-time drilling record of 1,366 wells cased last year! There are lots of reasons for producers to be drilling in Saskatchewan and here are just a few.

The economic conditions for natural gas developments are very attractive: futures prices are over \$5.00/GJ; Saskatchewan has announced a package of royalty/tax changes that have been welcomed by the industry (we'll show you why); and companies are realizing strong cash flows with the high commodity prices for both crude oil and natural gas. In Saskatchewan in particular, shallow low-risk gas plays can be quickly and economically developed and flowing. Plus, the new play area in Shackleton has attracted a lot of investment since several companies are trying to get a piece of the action!

### Shackleton

TransGas receipts from the Shackleton are now over 35 TJs/day with four receipt points flowing onto our system. We are in the process of bringing on three additional receipt points and have already been fielding calls

### Shackleton Area Receipts



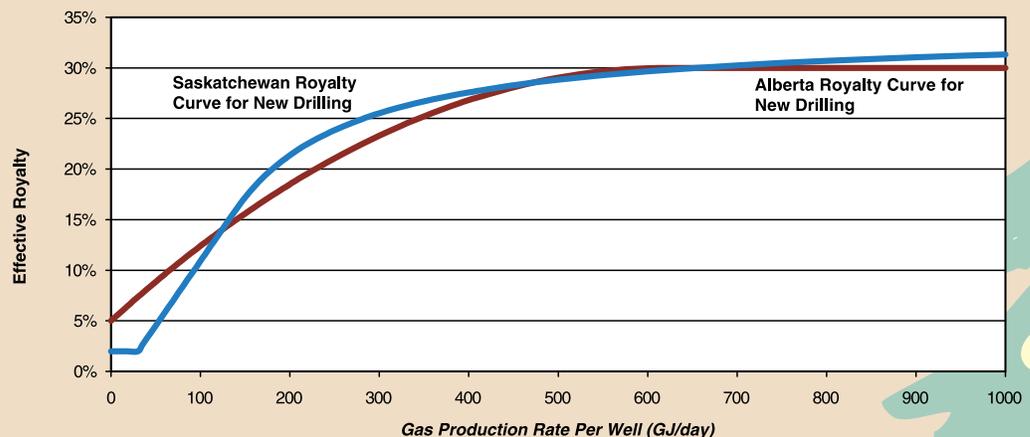
about increased receipt capacity at a couple of the points and potential new tie in points in the area! Thus, flows from this area could well exceed 50 TJs/day by the end of the year - which would amount to 8% of the total TransGas receipts of Saskatchewan production. TransGas has invested about \$6 million in new infrastructure for the Shackleton project, and we were able to build the necessary infrastructure in about 120 days to get our customers hooked up and gas flowing as quickly as possible! In addition to the activity going on in the Shackleton area, we have been quoting and contracting with several customers for other receipt points (Hatton area, Baldwinton/Unity area and Battle Creek). We are also involved in quoting for transmission facilities for several ethanol projects in the province.

2

In an October News Release, Cavell Energy Corporation announced that the initial production from the Shackleton area has increased its total corporate production by 32%. It went on to say that Shackleton is making a significant contribution to 2002 growth profitability targets. A few weeks later in a News Release, Husky said that the gas play it has assembled in this area could boost output by about 20 TJ/day (20 MMscf/day) by December and that the company plans to complete a 170 well drilling program by the end of the year. Husky has expectations that this play could boost the company's proven reserves by 2.1 billion cubic metres (75 billion cubic feet) for 2002 and by up to 7.0 billion cubic metres (250 billion cubic feet) within the next three years!

### Royalty Curves for New Natural Gas Wells

*Based on the Saskatchewan 2001 Average Price (\$5.28/GJ)*



Note: Saskatchewan royalty curve includes the 2.0% Corporation Capital Tax surcharge



# Merry Christmas



On behalf of TransGas, we would like to extend warm wishes for the very best this season has to offer!

It's been an exciting and successful 2002! Saskatchewan has had another record drilling year - by the end of December, there will be more than 1700 natural gas wells completed and cased. This eclipses the gas drilling record established in 2001! As a result, TransGas has added an additional 13 new receipt points and eight new delivery points on our system. One of the most exciting plays of 2002 was the discovery of significant volumes of gas in the Shackleton area in the southwest corner of the Province. This area is already doing well and promises to be very productive in the future too!

3

We have also taken further steps towards providing our customers with e-business solutions to improve their business activities. One service, our web-based nominations system (WebNoms), was introduced this year and has been quickly adopted by our customers.

Everyone at TransGas is looking forward to 2003 and the new challenges and opportunities that the natural gas industry will be sure to bring our way.

Christmas is a time for giving, and in the spirit of giving, TransGas has made a donation in our customers' names to Soul's Harbour Mission House. Soul's Harbour provides many services to people in need in our community. They have a feeding program that serves between 250 and 350 adults between Monday and Friday each week, as well as close to 200 elementary and high school children; counseling and addictions services; a child literacy program; and assistance to less fortunate families. It is a worthwhile Mission performing little miracles every day.

May this Christmas be filled with joy, and may all of your families be blessed this Christmas and throughout 2003!

Dean Reeve  
Executive Vice-President  
SaskEnergy and TransGas

Daryl Posehn  
Vice President, TransGas





### Royalties and Taxes

On October 7th, 2002, Saskatchewan Industry and Resources announced a package of royalty/tax changes to stimulate exploration and development activity and create jobs in the oil and gas industry. The News Release and related information can be found on the Department's web site at [www.gov.sk.ca/enermine/about/semnew.htm](http://www.gov.sk.ca/enermine/about/semnew.htm). Some important points for TransGas customers are:

1. Lower (fourth tier) production and price sensitive Crown royalty and freehold production tax curves for newly drilled wells.
2. An increase in the freehold production tax factor from 10% to 12.5% to reduce the levels of freehold production tax.
3. A new system of volume incentives for qualifying "fourth tier" wells.
4. A reduction in the Corporation Capital tax Surcharge from 3.6% to 2.0%.

Here's a scoop for potential customers - Saskatchewan's royalty/tax rate is very competitive with Alberta's and, in fact, is much lower than Alberta's for wells producing below 125 GJ/day! With the majority of Saskatchewan's gas wells producing in this range, many producers here have a royalty advantage when compared to Alberta producer with similar wells!

We are looking forward to another very busy drilling year in 2003. So don't miss out on a huge business opportunity - come do business with us in Saskatchewan! You'll be glad you did!

### Microturbine Project

SaskEnergy, SaskPower and Flatland Exploration have joined together on a microturbine project. Near Carlyle, Saskatchewan, two Cummins microturbines have been installed that utilize otherwise wasted and vented casing gas to provide operating heat to the oil battery and to produce electricity. It's a win for everyone since it helps clean up the environment, helps manage sour gas and produces power! For more information, contact Fred Hill at (306) 777-9616.



### Microturbine Cogeneration

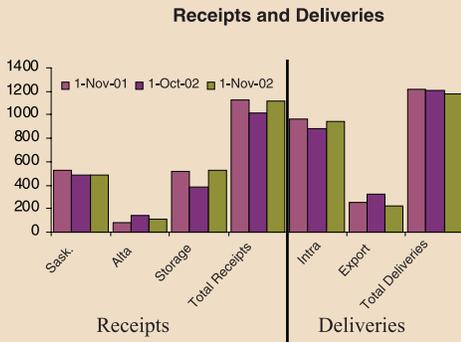
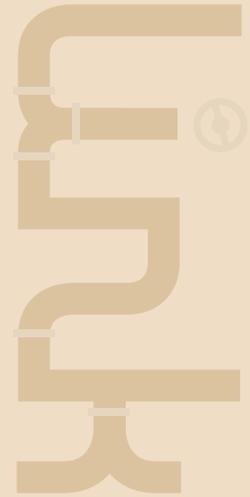
SaskEnergy, SaskPower and the Regina Health District have commissioned an innovative microturbine cogeneration project at the Regina General Hospital. The project will help SaskEnergy develop commercial, distributed energy options for other customers to consider when upgrading or building new power or heating systems. If you would like more details about this project, please contact Fred Hill at (306) 777-9616.

#### DID YOU KNOW?

TransGas rolled out the first phase of our Web Nominations system at workshops in June. If you haven't already signed up and are using the application, please call one of our Customer Services Administrators or the General Inquiries number (306) 777-9900.

# November 01 Contracting

November 1st and another gas year has come and gone. As usual, TransGas representatives in the contracting area were very busy for the weeks leading up to November! The following is a summary of November 01, 2002 firm contracting on our system as compared to October 01, 2002 and November 01, 2001.



	Nov. 1/01	Oct. 1/02	Nov. 1/02
<b>Receipts</b>			
Saskatchewan	532.6	487.6	489.6
Alberta	76.7	140.1	107.8
Storage (R-13)	516.1	384.1	523.6
<b>Total Receipts</b>	<b>1,125.4</b>	<b>1,011.8</b>	<b>1,210.0</b>
<b>Deliveries</b>			
Intra	958.9	879.7	945.2
Export	257.6	329.2	226.0
<b>Total Deliveries</b>	<b>1,216.5</b>	<b>1,208.9</b>	<b>1,180.2</b>

We are very optimistic that we will see further increases in receipt contracting as more of the wells that have been drilled this year are tied in. For the first 10 months of 2002, TransGas has seen an actual measured increase in receipts of almost 8% over the same period in 2001. A number of producers have indicated that they plan to flow on IT until production has stabilized from their new wells. Delivery contracting has remained steady from the previous year with only a minor reduction in export. This reduced export is also believed to be short-term situation we expect that more firm transportation will be taken out in the coming months.

Storage remains fully contracted with the 31,161 PJs of volume and 512 TJs/day of firm withdrawal capacity.

If you are interested in actual flows on the TransGas system, check out the Daily Operations Report under Customer Info on the TransGas web site at [www.transgas.com](http://www.transgas.com).



## Regina District Profile

Green Team

Like most places in Saskatchewan, the Regina Storage Cavern is surrounded by lots of open space. In 1994, Dean Ranford, District Operations Supervisor at the Storage Cavern, approached Gerald Oxby, General Manager of the Regina and Saskatoon district, with a plan to start replacing the aging poplars surrounding the Regina Caverns station. These poplars were planted many years ago by staff and a few had already died, while the life expectancy for the remainder was limited. This initial action resulted in a continually evolving plan until one day, in the Spring of 1995, Gerald and Dean agreed on an idea to fill up some of the



space with new trees. “At first, the focus was primarily on the environment,” Gerald says. “Tree planting was already a popular thing to do, and I thought it would be a good idea for TransGas to get involved. And besides, we had a lot of room to work with out at the Cavern.”

So the seed was planted. When the idea was brought to the Regina Safety, Health and Environment (SHE) Committee members, the response was very positive. “I thought it was a great idea - a good way to make the Cavern prettier,” says Leslie Toppings, Senior Administrative Assistant at Regina District Operations. “I didn’t realize that it would amount to what it is now. I didn’t think it would expand year after year!”



Dean and Gerald designed a plan of where to plant the trees and how we could get them at little to no cost, and the Regina SHE Committee started its campaign - collecting trees and getting the word out to employees, encouraging them to come out and help the environment. The response was phenomenal - since the program started, more than 100 employees and their families have “gone green” and helped plant about 35,000 trees. 14,000 of these trees were planted in the first year alone. Everyone from our company’s President and Chief Executive Officer, Ron Clark, to scout troupes, and preschoolers joined together evenings and weekends to plant the trees in pots and directly into the field. These potted trees are maintained until they have grown large enough to be planted in more remote areas as requests or needs arise.

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And while the trees grew, the focus of the program shifted from the environment to people. “Sure it was still important to create a natural environment for the deer, rabbits and other animals in the area,” says Gerald, “but people came to equate the Tree Planting program as a time for families to come together. The kids, in particular, see this as a real learning experience. They learn more about where their parents work, and why the environment needs to be protected.”



“I like to bring my kids out each year,” says Leslie. “One year I remember riding on the ATV with my youngest son and he asked, ‘Did I plant those trees last year?’ I was blown away by the fact that he remembered. It’s a great feeling to know that everyone involved in this tree planting initiative is building a future for our children.”

In 1998, the Regina SHE Committee unveiled a new name and new face for its Tree Planting program, calling it “The Green Team.” The new name is catching on throughout the company, as more and more people equate the Green Team with the Regina SHE Committee Tree Planting program.

As for the future, the Green Team plans on expanding its program to more areas of the province. “We already planted trees in Moosomin, Melville, at the Regina North compound, and at the Loreburn compressor station which were planted in partnership with Coleville District Operations,” says Gerald. “We’d love to have trees planted at new corporate



facilities around the province.” And if this program continues to gain steam, the Regina SHE Committee will have no problem reaching this goal.

### Baseball Canada

Several years ago, TransGas got involved with baseball in Melville when we purchased the old Dome/Amoco caverns and converted them over to a Natural Gas service. This was at a time when Melville minor sports was looking to construct baseball diamonds and recreational facilities in the community. TransGas and Melville minor sports were able to join together to reach mutual goals, as the site needed to be cleaned up and made useable for TransGas’ needs, yet would still be able to accommodate the desired athletic facilities. Better yet, the two associations reached both goals in a very cost-effective manner. The league provided manpower to assist with dismantling chain link fencing, moving buildings and pipe, and other associated work. The dismantled fence was used to construct backstops and outfield fences, pipe was used as posts to hold the backstops and fences, and the building was revamped and used for concessions, equipment storage, and a meeting/work room.

Due to the combined efforts, the Canada Cup Baseball Championships were held in Melville, Saskatchewan, for the last two years. These championships were established in 1989 in order to help Baseball Canada choose a Junior Team (players 16 to 17 years old) to represent Canada at the World Junior AAA Championships. The Canada Cup is an excellent opportunity for players to display their talent in front of major league and college scouts from across North America. TransGas/SaskEnergy is proud to have sponsored the opening barbecue for past two years through our Share the Warmth Campaign. Several employees volunteered their time to flip burgers at the welcoming barbecue held for the players and coaches.



*Gerald Oxy, Randy Hahn and Charlie Siminot talk to players at the BBQ*

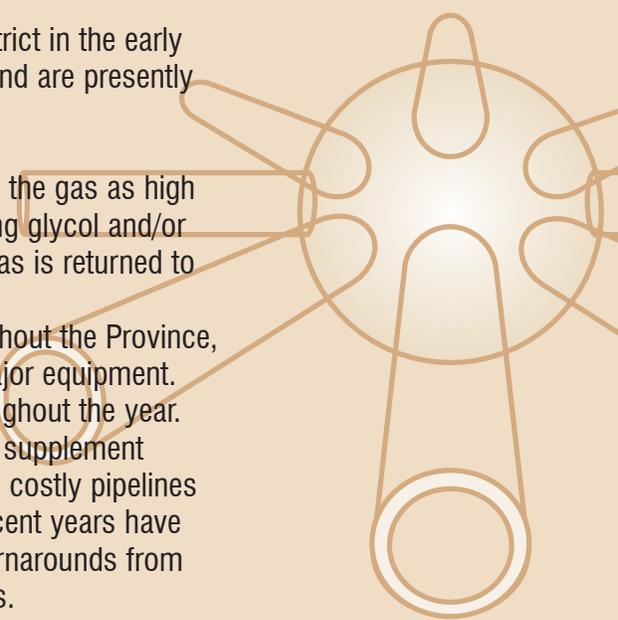
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### Storage Caverns

TransGas began developing bedded salt storage caverns in the Regina District in the early 1960’s. Caverns in this area are approximately 5500 feet below surface and are presently operating with a little more than 4 Bcf of useable volume.

When gas is injected into the caverns, compressors are used to compress the gas as high as 3200 psi. The gas is dehydrated when produced from the caverns using glycol and/or alcohol/refrigeration methods, as well as filter separators to ensure spec gas is returned to the TGL pipeline system.

The construction of caverns in the Regina area, and other locations throughout the Province, has enabled TGL to efficiently control its capital costs for pipelines and major equipment. This has been accomplished by operating pipelines close to capacity throughout the year. Traditionally, the gas is stored during the warmer months which is used to supplement supply for the colder months, therefore TGL was able to build smaller, less costly pipelines that provide high utilization. The price fluctuations of the commodity in recent years have changed the mode of operating storage facilities, which results in many turnarounds from injection to production, or vice versa, depending on the price of natural gas.





## Update on TransGas Storage Development

In our September LINK issue, we provided you with some information regarding the results of our Storage Open Season and Request for Expressions of Interest. At that time, the initial results indicated that there was an interest for 16.4 PJ of volume and 226 TJ/d of deliverability of standard TransGas storage service. There was also significant interest shown by several parties for non-standard service through the Request for Expressions of Interest process.



Customers willing to receive a final offer 84 TJ/day

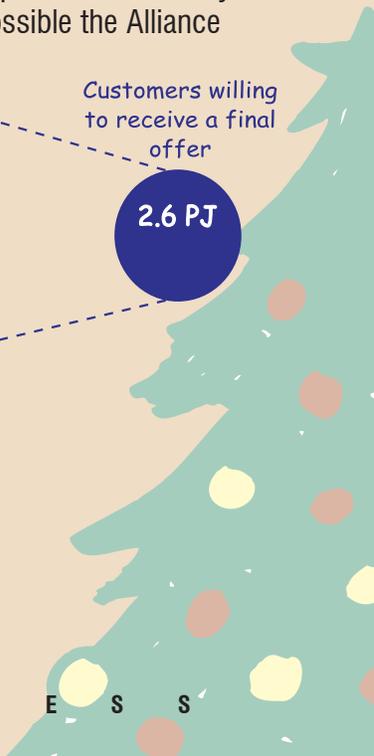
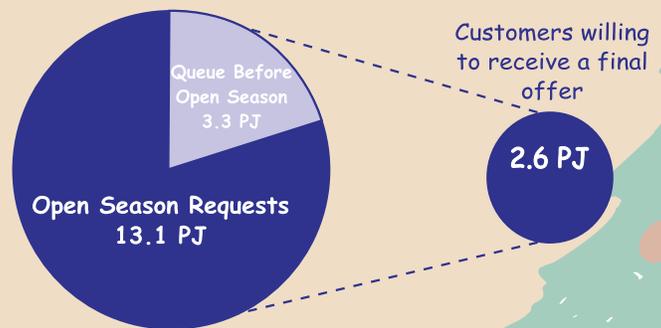
TransGas proceeded to ask for queue deposits from the respondents to the Open Season (for standard service) and provided a preliminary quotation of costs. At the end of this process, it was determined that there remains sufficient interest for a project of approximately 2.3 PJ of volume and 84 TJ/d of deliverability.

Upon our customers' acceptance of the final offers from TransGas, work will begin to provide the volume and deliverability required by those customers. Some of the required capacity may be found through optimization of existing TransGas storage facilities, however, most likely there will be a development of new salt caverns in the vicinity of Saskatoon.

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TransGas has taken steps toward addressing the expressions of interest that it has received. Now that we have defined the full extent of our customers' needs for standard storage service, we will now concentrate on coming to an agreeable business arrangement with a party or parties that want to pursue market-based storage opportunities that would not subject to the TransGas tariff. It is expected that if there remains sufficient interest for this non-tariffed service, a new salt cavern storage development will take place in the vicinity of Regina with the intention to deliver into TransCanada Pipelines and possible the Alliance Pipeline.

For more information on TransGas storage developments in Saskatchewan, call Jim Perfect (306) 777-9436 or Randy Greggains (306) 777-9489.



## TransGas E-Business Update

It's exciting to see more customers every month accessing our TransGas web applications to conduct their daily business. In October 2002 for example, two-thirds of all the nominations placed with TransGas by our customers were completed using the Web Nominations system. More and more customers are accessing their TransGas Energy Pool (TEP) accounts and checking out their business activity than ever before on the Shipper Imbalance application. Common Stream Operators (CSOs) are going on-line to see who is nominating at their meter and ensuring that they can meet the required production with CSO In-lines. CSOs are also going into Daily Allocations and reallocating gas at their meter to the proper transport contract and shipper account so that business goes smoothly. If you would like more information on our web applications, please log onto [www.transgas.com](http://www.transgas.com) and check us out or call one of our Customer Services Administrators at (306) 777-9900.

**THE NEW TRANSGAS**

**Instant service**

TransGas has changed over the last few years. So, if you haven't looked at us for a while you probably should!

Our newly developed electronic information systems allow each of our customers **instant access** to all their data. At the click of a mouse, obtain daily information and make any adjustments you need. Moving to electronic business applications is only one way we have improved our service.

**TransGas also offers:**

- 90-day connection to our transmission system.
- Competitive transportation rates.
- And much more!

So, take a close look at the **NEW** TransGas. You'll do yourself a great service!

**TransGas**  
[www.transgas.com](http://www.transgas.com)

**YOUR LINK 2 SUCCESS**



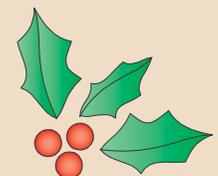
# Transportation and Storage Service Rates for 2003

On December 05, 2002, TransGas Limited (TransGas) announced that, following a three-year rate freeze, the TransGas transportation and storage service rates and charges will increase by an average of two percent (2%) effective January 01, 2003.

TransGas also announced that the transportation gas-in-kind requirement (for fuel gas and unaccounted-for gas) assessed on receipt transportation would be reduced by fifteen percent (15%) from the present assessment of 1.00 percent to an assessment of 0.85 percent. This reduction will also take effect on January 01, 2003.

TransGas last adjusted its rate levels on January 01, 1999. While TransGas customers have enjoyed frozen rates over the last three years, the Canadian economy has seen inflation of approximately ten percent (10%). Over the same period, the flows on the system have shown a modest three percent (3%) decline. TransGas has been able to limit the requirement for increased revenues such that only an inflationary two percent (2%) increase is required. TransGas has reduced operating costs in a number of areas and has actively pursued new revenue opportunities and ways to increase the level of utilization of its system to help offset this upward pressure on rates over the past four years.

There will also be a number of other policy, rate and service changes that take effect on either January 01, 2003 or May 01, 2003. Since the fall of 2001, TransGas has been





discussing these changes with its customers, primarily through the Customer Dialogue Process. The result is a package of revenue-neutral changes that will improve the quality and fairness of the services provided by TransGas. After considerable discussion, there was general acceptance by Customer Dialogue participants of the package of changes. The following is a summary of the changes that makes up this package:

➤ **Premium for Service with Short-Term Contracts**

Some customers are permitted to hold short-term contracts that allow them to manage the risk of holding more space on the pipeline than they require. Effective January 01, 2003, a premium of ten percent (10%) will be charged for such short term contracts of less than one year to enhance the fairness of the system.

➤ **Premium for Transfers of Intra-Delivery to Export Delivery**

Intra-Saskatchewan delivery transport customers are permitted to transfer contract rights to the export market that allow them to manage the risk of holding more space on the pipeline than they require. Effective January 01, 2003, a premium of ten percent (10%) will be charged for such transfers to enhance the fairness of the system.

➤ **Commodity Component of Storage Rate**

A new commodity charge is being introduced to incorporate a value of service component to the storage service tolls. Some customers move their gas into and out of storage, or cycle the gas, a number of times during the year, while others may not move all of their gas into and out of storage in a given year. An injection commodity charge will be implemented at the beginning of the next storage year, May 01, 2003. This charge of 5.07¢/GJ will be paid as gas is injected into storage.

➤ **Commercial Movement of Storage to the TransGas Energy Pool (TEP)**

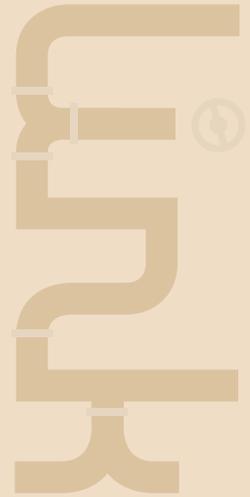
When storage service was first introduced, TEP did not exist. Storage was, therefore, commercially considered a receipt point and customers had to pay to move the gas from storage to delivery point markets. When TEP was introduced, storage remained commercially considered a receipt point. At the beginning of the next storage year, May 01, 2003, TransGas will be making a change to commercially consider storage as being located at TEP (received from receipt points in the production fields but not yet delivered to markets). This will eliminate all transport between storage and TEP.

The general consensus among the TransGas customers is that this is desirable because it:

- is fairer to customers as it better reflects the physical characteristics of the system;
- provides shipper flexibility and facilitates a more liquid marketplace;
- provides ability to structure gas deals more creatively;
- facilitates daily balancing on the system; and
- reduces revenue uncertainty.

To provide an overall revenue-neutral storage to TEP commercial change, as well as the elimination of the transport services between storage and TEP, the following rate changes will occur on May 01, 2003:





- ☛ there will be a 12.9 percent increase to all transportation service rates;
- ☛ there will be an 18.9 percent increase to storage service rates;
- ☛ there will be a further temporary storage and transportation rate adjustment (Rate Rider) for the period May 01, 2003 to April 30, 2004 to phase in the impact on customers:
  - a 3.8 percent reduction to all transportation service rates, and
  - a 15.6 percent increase to storage service rates; and
- ☛ there will be a one-time charge of 11.42¢/GJ applied to gas in storage inventory and in R-17 imbalance accounts at the end of April 30, 2003 as the gas is commercially moved to TEP.
- **Non-Rate Related Policy Changes Effective November 01, 2002**

As well as the preceding changes that have rate implications, there were several other policy changes that were part of the package of changes and became effective November 01, 2002.
- ☛ Contracts of one-year and greater now have automatic renewal rights where operationally feasible, while contracts of less than one year have no renewal rights.
- ☛ The Tariff was changed to recognize the practice of permitting one-month minimum contract term for receipt and export transportation service, while intra-Saskatchewan delivery contracts continue to have a one-year minimum term.
- ☛ Queue requests of less than five years are now ranked based on Net Present Value rather than date of request.
- ☛ To improve system construction accountability, TransGas now has the discretion to treat certain system costs as customer specific costs.

The specific rates, which reflect these changes, can be found on the TransGas website ([www.transgas.com](http://www.transgas.com)).

If you have any questions with respect to how these rate, service and policy changes will affect you, please contact your Key Account Manager, Debbie Brown at (306) 777-9687 or Chris Uhren at (306) 777-9501. If you have more general questions regarding the changes, please contact our Policies, Rates and Regulations Department: Gary Johannsson, Manager, at (306) 777-9560 or Vern Gorr, Director, at (306) 777-9556.



## TransGas 2002 system capacity available

Service	Location	Firm Status And Interruptible
A. Compression	Coleville	Yes
B. Gathering	Coleville	Yes
C. Receipt Transmission	Hatton-Success	Yes
	Bayhurst Area	Yes
	Loomis-Cypress Area	See Note 1
	Estevan-Steelman Area	See Note 1
	Coleville - Unity Area	Yes
	John Lake, Beacon Hill Areas	Yes
	TCPL Interconnects (Unity)	Yes
	TCPL Interconnects (Empress & Cold Lake)	See Note 1
D. Delivery Transmission (Export)	TCPL (Bayhurst and Success)	Yes
	Foothills (Piapot)	Yes
	Williston Basin (North Portal)	See Note 2
E. Delivery Transmission (Intra)	Various Saskatchewan Delivery Points	See Note 3
F. Storage (Volume and Deliverability)		
	- Firm	No
	- Summer Use	No

- Notes:**
1. Only interruptible available.
  2. Firm service only available April to October.
  3. Some constrained delivery laterals exist that are currently fully contracted.

## TransGas Transport & Storage Update

Total energy transported to October 31 is 281 PJ, which is about 8% greater than 2001 for the same period. TransGas storage inventory at November 1 was 29 PJ, or 92% of full, which is 3 PJ less than contracted and design full inventory. The projected net storage production for the month of November is 2 PJ.

As of November 25, approximately 95% of the currently scheduled outages for 2002 totaling over 165 have been completed. TransGas will continue to communicate plans of any outages impacting a customer's service at least 7 days prior to the outage, and will make every effort to minimize the impact.



## Upcoming Customer Workshops

TransGas will be hosting workshops for our Customers on Thursday, March 06, 2003 in Regina and on Tuesday, March 11, 2003 in Calgary. At each workshop, we will be covering TransGas Business from A to Z (for those not already familiar with TransGas business policies) and demonstrating our web applications. After lunch, we will be showing customers how to use the next phase of the Web Nominations application and demonstrate the TEP transfer and Storage transfer functionality. Also in the afternoon, we will be reviewing how our business will change May 01, 2003 with the movement of Storage from a receipt point on our system, to being located at the TransGas Energy Pool. Our workshops are always an opportunity for TransGas to meet our customers face to face and answer any questions that customers may have. Those of you who are familiar with our workshops know that we also make sure we squeeze in some fun! So be sure to mark the dates on your calendar!