

June 20, 2012

British Columbia Public Interest Advocacy Centre  
Suite 209 – 1090 West Pender Street  
Vancouver, BC  
V6E 2N7

Attention: Ms. Leigha Worth, Acting Executive Director

Dear Ms. Worth:

**Re: FortisBC Energy Inc. (“FEI”) Kingsvale-Oliver Reinforcement (“KOR”) Project Stage 2a Project Development Costs and Accounting Treatment (the “Application”)**

**Response to the British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al (“BCOAPO”) Information Request (“IR”) No. 1**

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On March 30, 2012, FEI filed the Application as referenced above. In accordance with Commission Order No. G-64-12 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If there are any questions regarding the attached, please contact Joe Mazza, Director, Resource Development at (604) 592-7917.

Yours very truly,

**FORTISBC ENERGY INC.**

***Original signed by: Paul Craig***

**For:** Diane Roy

Attachment

cc (e-mail only): Commission Secretary  
Registered Parties



FortisBC Energy Inc. ("FEI" or the "Company") Application for Approval of Kingsvale-Oliver Reinforcement Project ("KORP", "KOR Project", or the "Project") Stage 2a Project Development Costs and Accounting Treatment	Submission Date: June 20, 2012
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**1.0 Reference: Exhibit B-1, Document Requests**

1.1 Please provide a copy of the following documents:

- The application filed on March 17, 2010 and the BCUC Decision on the application; and
- The Market Assessment by Navigant Consulting mentioned on page 47.

**Response:**

Please refer to Attachment 1.1a for the March 17, 2010 Application and the BCUC decision respectively.

Please refer to Confidential Attachment 1.1b for the Market Assessment by Navigant Consulting. Pursuant to the Commission's Practice Directive on Confidential Filings, FEI requests that the Market Assessment (the "Assessment") filed as Confidential Attachment 1.1b be treated confidentially. This Assessment represents the results of proprietary work undertaken by Navigant Consulting and is subject to confidentiality requirements requested by Navigant Consulting. Additionally, the information contained is commercially sensitive as it helps partially shape FEI's strategy in the marketplace.

In accordance with the Practice Directive, FEI requests that the Assessment only be made available to interveners representing customer groups for the exclusive purpose of this proceeding and upon execution of an Undertaking of Confidentiality.



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**2.0 Reference: Exhibit B-1-1, Clarification Letter and Exhibit B-1, page 50 Table 5.1**

2.1 Please indicate whether the stage referred to as "Stage 2a" was ever previously identified as such and, if so, please indicate where it was first identified as such.

**Response:**

As described in FEI's May 10 Clarification Letter (Exhibit B-1-1), Stage 2a is the first part of Stage 2 that was described in the original T-South Enhanced Service Application. Stage 2a activities do not increase the scope of Stage 2, rather they are a portion of the work for Stage 2. Ultimately, "Stage 2a" is an interim stage that provides further assessment prior to making commitments on the major regulatory and environmental aspects, whereby a more significant financial and resource commitment is required to a specific pipeline route and compression arrangement. As an interim funding stage, Stage 2a will allow for further assessment of the commercial and technical feasibility of the Project, including assessment of specific issues and sub-alternatives, prior to entering into the more costly aspects of Stage 2, where there is a higher level of Project definition and commercial support

FEI created the "Stage 2a" term during the preliminary assessment phase, and has refined the scope of the specific activities; however, FEI has been aware of the need for these activities, since FEI's Application to Provide Firm Transportation Service to Westcoast Energy Inc. dated March 17, 2010.

The high level breakdown of the Project, by Stages, that FEI has completed or planned includes:

- Stage 1 – Preliminary Assessment
- Stage 2 – Regulatory Requirements
  - Stage 2a – Additional Feasibility Studies
  - Stage 2b – EA-CPCN Application and Approvals

Includes conducting detailed and extensive environmental studies; obtaining agreements with First Nations and Landowners; undertaking further conceptual engineering; and the preparation, submittal, review and approval of an Environmental Certificate ("EA") from the BC Environmental Assessment Office and a Certificate of Public Convenience and Necessity ("CPCN") from the BCUC.

- Stage 3 – Detailed Engineering, Procurement and Construction



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Includes incorporation of all requirements gathered in previous Stages and obtaining other approvals in order to prepare and execute detailed plans to construct and place the pipeline and compressor stations in-service.

- Stage 4 – Restoration

After the facilities have been placed in-service, includes all remaining work to restore the right of ways and to close out the Project.

2.2 The table entitled "Project Development Activity - Deliverable Costs – Supplemental Breakdown (\$ thousands)" at Attachment B provides information with respect to the status of the Project as at February 29, 2012. Please update this table to reflect the current status.

**Response:**

Please see the following updated table of the Project Development Activity – Deliverable Costs – Supplemental Breakdown (\$ thousands) - that reflects the status of the Project as of May 31, 2012.



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**Project Development Activity Costs - Deliverable Costs - Supplemental Breakdown (\$ thousands)**

Project Development Activity - Deliverable	Stage 1				Stage 2a				Stage 1 & Stage 2a	
	Plan (1)	To May 31, 2012 (2)	Estimate To Completion (3)	Forecast at Final (4) (2 + 3)	Plan (5)	To May 31, 2012 (6)	Estimate To Completion (7)	Forecast at Final (8) (6 + 7)	Combined Forecast at Final (9) (4 + 8)	Variance (10) (1 + 5 - 9)
Project Office project management pre-development and regulatory services including EAO/FN/Govt/Public meetings, presentations, planning, cost estimates, budgets, reports & submissions, travel, helicopter, and legal	500	457	43	500	148		148	148	648	0
LIDAR mapping data collection					110		110	110	110	0
Environment environmental consulting including impacts assessment, and field research, Project Description, Terms of Reference & draft EAC Application Information Requirements (dAIR), public consultation support and archaeology overview assessments in the Coldwater, USIB and LSIB territory	540	453	87	540	30		30	30	570	0
Traditional Use Studies					240		240	240	240	0
Engineering route center line definition, access road selection, geotechnical, terrain stability, HDD studies, and bore holes, construction cost estimate, mapping, compression conceptual design, capital cost and schedule estimate	460	384	76	460					460	0
LIDAR analysis, route confirmation					125		125	125	125	0
First Nations Capacity funding and consulting services, (see note 2 re archaeological assessment and traditional use studies)	210	162	48	210					210	0
additional capacity and consultant support					52		52	52	52	0
Landowner Communication Initial Landowner Contact	35	30	5	35					35	0
Further Land Owner contact and Open Houses (Public Meetings)					70		70	70	70	0
Commercial Development	200	151	49	200	25		25	25	225	0
Contingency	55	39	16	55	50		50	50	105	0
<b>Total</b>	<b>\$2,000</b>	<b>\$1,676</b>	<b>\$324</b>	<b>\$2,000</b>	<b>\$850</b>	<b>\$0</b>	<b>\$850</b>	<b>\$850</b>	<b>\$2,850</b>	<b>\$0</b>

NOTES:

- Above Table provides a further breakdown of costs shown in Table 5.1 of the FortisBC KORP - Project Assessment Comprehensive Update (Stage 1) Report dated March 30, 2012.
- Initial description had archaeological assessment and traditional use studies in the First Nations category, however, budget for this work is in Environmental category.
- Stage 1 Change - allocated \$25,000 from Contingency to Landowner Communication



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- 2.3 Please indicate whether the information presented in Attachment B of Exhibit B-1-1 varies in any respect with the information presented in Table 5.1 of Exhibit B-1. If applicable, please update Table 5.1 to reflect the current project status.

**Response:**

The information presented in Attachment B of Exhibit B-1-1 dated May 10, 2012 does not vary with the information presented in Table 5.1 of Exhibit B-1 dated March 30, 2012 except for the following:

1. Initial description had archeological assessment and traditional use studies in the First Nations category; now budget for this work is in the Environmental category; and
2. Stage 1 change – allocated \$25,000 from Contingency to Landowner Communication.

Please see the following updated Table 5.1 to May 31, 2012, to reflect the current Project status.

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**Table 5.1: Project Development Activity Costs (\$ thousands)**

Project Development Activity Costs ( <i>in thousands</i> )	Plan		Actual Cost to May 31, 2012 Stage 1	Forecast at Final	
	Stage 1	Stage 2A		Stage 1	Stage 2A
Project Office project management, legal costs, pre-development and regulatory	\$500	\$258	\$457	\$500	\$258
Environment environmental consulting including: impacts assessment, Project Description, Terms of Reference & write EAC Application, public consultation	\$540	\$270	\$453	\$540	\$270
Engineering route and access road selection, geotechnical, terrain stability, HDD studies, construction cost estimate, detailed mapping, compression conceptual design, cost and schedule	\$460	\$125	\$384	\$460	\$125
First Nations consultation, capacity building, archaeological assessment and traditional use studies	\$210	\$52	\$162	\$210	\$52
Landowner Communication	\$10	\$70	\$30	\$35	\$70
Commercial Development	\$200	\$25	\$151	\$200	\$25
Contingency	\$80	\$50	\$39	\$55	\$50
<b>Total</b>	<b>\$2,000</b>	<b>\$850</b>	<b>\$1,676</b>	<b>\$2,000</b>	<b>\$850</b>

2.4 A note under the above mentioned table indicates that \$25,000 of the contingency funds has been reallocated. Please provide the amount originally approved for contingency funds and provide specifics on any other use of contingency funds to date.



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**Response:**

By Commission Order No. No. G-70-10 dated April 13, 2010, the Commission approved Stage 1 preliminary feasibility assessments costs to a maximum of \$2.0 million.

FEI initially allocated \$80,000 of the approved \$2 million as contingency funds. As indicated in the updated information provided in FEI's Clarification Letter of May 10, 2012, the contingency amount has been reduced by \$25,000 to \$55,000 and the Landowner Communication – Project Development Activity – Deliverable has been increased by \$25,000, from \$10,000 to \$35,000, to reflect the costs for these activities.

Overall, FEI does not expect to exceed the Commission approved funding limit of \$2.0 million for Stage 1.

Actual costs for miscellaneous activities allocated to contingency funds include initial use of helicopter services, third-party consulting and information technology support.

2.5 If applicable, please update the Gantt chart at Attachment A.

**Response:**

The Gantt chart presented in Attachment A of FEI's Clarification Letter dated May 10, 2012, (Exhibit B-1-1) is still current.





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**3.0 Reference: Exhibit B-1, Cover Letter page 2**

3.1 The cover letter indicates that the BCUC "*directed FEI to file the final (emphasis added) Project Assessment Report from Stage 1 by March 31, 2012 ... .*" The evidence indicates that Stage 1 has not yet been completed. Does FEI intend to file a further report when Stage 1 has been completed?

**Response:**

FEI intends to file a second assessment report with the Commission in Q1/2013 as the next progress report. It will include accomplishments achieved as a result of undertaking the final remaining balance of Stage 1 activities, as well as those of Stage 2a.

FEI's Comprehensive Update Report of March 30, 2012, includes most of the final aspects of the preliminary feasibility assessment. However, the schedule to complete certain remaining deliverables had to be extended from what was originally contemplated due to limitations with availability of certain external stakeholders. FEI's Comprehensive Update Report met the March 31, 2012 deadline with respect to the aspects of the preliminary feasibility assessment that it could control.

The comprehensive update report contains sufficient assessment of the KOR Project to make the determination that it is appropriate to complete Stage 1 and also advance to Stage 2a.



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**4.0 Reference: Exhibit B-1, Cover Letter page 2**

**Preamble:** The referenced page states: "FEI is in discussion with Spectra Energy on commercial arrangements, and is considering an Open Season for later in 2012."

4.1 Please indicate the subject services and conditions of the Open Season that were being considered, e.g., the period, subject capacity and service quality, financial commitments, etc.

**Response:**

FEI is currently working with Spectra on the commercial aspects of the Project, which includes discussions on the timing and conditions under which Spectra would conduct an Open Season.

Spectra would hold the Open Season to sell the capacity on KORP. Spectra will offer shippers an Open Season document that describes how prospective shippers may submit a request for KORP and the process Spectra will follow to evaluate the requests for service and award service.

Spectra's Open Season documents typically contain a description of the service, the amount of service available, minimum term required, the toll estimates. Prospective shippers will submit a request for service including the minimum contract demand that would be acceptable in the event that pro-rationing of expansion service is required. During a binding Open Season the submission of a request for service constitutes a formal offer by the prospective shipper. Spectra would also describe the allocation and award of service. A prospective shipper which is awarded service is obligated to execute and deliver a firm service agreement for the service awarded, without modification or amendment, and provide any required financial security in respect of that service, within a specified timeframe of receipt of the firm service agreement from Spectra. Spectra would also provide key dates and deadlines within the Open Season document. For example, Spectra would outline when the open season commences, when it closes, anticipated date for notifying prospective shippers, and anticipated date for sending agreements to shippers who are awarded service.

Spectra would therefore be responsible for all the necessary commercial and operational arrangements with the shippers. Like the T-South Enhanced Service, though, Spectra would become a firm shipper on the FEI/KORP system.

While the discussions are commercially sensitive and still ongoing, it is important to further define and evaluate the nature and certainty of commercial commitment, such as long-term service agreements with creditworthy shippers. The contemplated transportation agreement between Spectra and FEI will also need to be a long-term commitment to ensure that customers



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continue to receive long-term benefits from the KOR Project. FEI and Spectra are exploring a number of considerations for the Project and related service offerings, including the minimum threshold capacity commitments, costs, Project scale, tolling methodology, and operations.

FEI and Spectra have carried-out a number of meetings with prospective shippers including producers, marketers and end-use utilities. FEI and Spectra are in the process of assessing the information that has been gathered to determine the timing and conditions of a Spectra Open Season to ensure that it is successful. The decision to proceed with an Open Season, and timing thereof, will be made after assessing the commercial aspects of Stage 1 and Stage 2a.

- 4.2 Please provide an update with respect to the Open Season that was contemplated.

**Response:**

Please refer to the response to BCOAPO IR 1.4.1.



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**5.0 Reference: Exhibit B-1, Cover Letter page 2 and Appendix 5**

**Preamble:** The referenced page states: "FEI believes that these approvals are necessary to maintain the progress on the development of KORP. Delaying or suspending development work at this stage has the potential to result in longer term costs, re-work and schedule delays, including the cost and schedule impacts of re-engaging stakeholders and First Nations."

5.1 Does this excerpt indicate that FEI will suspend development work should it believe itself subject to any risk of non-recovery of costs incurred from ratepayers at any point in the Project?

**Response:**

As discussed in the response to BCUC IR 1.1.1, FEI expects to recover all prudently incurred costs associated with the development of the KOR Project and believes the proposal to continue to fund the project feasibility costs related to Stage 2a activities through the revenues received by Spectra under the Enhanced Service arrangement is appropriate. FEI will delay or suspend development work, at any point in the Project, if and when the Project assessment activities lead FEI to believe that the Project is not feasible or unlikely to proceed.

5.2 Please provide the estimated date at which absent BCUC approval for the subject proposals FEI would suspend work on the Project.

**Response:**

If the request to fund Stage 2a activities through the SCP deferral account is not approved, FEI would likely suspend the proposed technical work planned for Stage 2a (i.e. Project Office, Environmental, Engineering, First Nations and Landowner Communications) at the completion of the scope of work associated with Stage 1 activities (approximately sometime in Q3 2012). It is highly unlikely any issue will arise between now and the completion of Stage 1 that will make the Project not feasible.



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- 5.3 Please confirm that the Gantt chart in Appendix 5 indicates that First Nations, Government, and Stakeholder Engagement is planned for the entire period 2010 Q3 through 2017 Q3.

**Response:**

Confirmed. As shown in Appendix 5 – Planning, Approval, Engineering & Construction High Level Project Schedule of FEI's Comprehensive Update Report (Stage 1) dated March 30, 2012, First Nations, Government and Stakeholder Engagement is planned at varying levels of involvement for the entire period – Q3 2010 to Q3 2017.



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**6.0 Reference: Exhibit B-1-1, Clarification Letter page 3 and**

**TGI 2010 Long Term Resource Plan, Exhibit B-1, page 175**

**Preamble:** The Clarification Letter states that the full Stage 2 Regulatory Requirements is expected to cost over \$5M, while the referenced page from the TGI LTRP Application indicated a Stage 2 cost for this project of \$6M.

6.1 Please confirm that FEI has not received any approvals for Stage 2 funding to date. If unable to so confirm, please explain.

**Response:**

Confirmed. FEI has not received BCUC approval for Stage 2 funding, or parts thereof. As explained in Exhibit B-1-1, the funding approval sought for in this Project report is for commencement of Stage 2 development on a limited scale.

6.2 Please provide FEI's most recent estimate for the costs of Stage 2 of the Project broken down by category and, if it varies materially from any previous estimate provided to the BCUC, please provide a variance explanation.

**Response:**

The Project development costs for Stage 2a in the amount of \$850,000 has not changed from that shown in Attachment B of FEI's Clarification Letter dated May 10, 2012 (Exhibit B-1-1).

For the remaining development for Stage 2 (i.e. Stage 2b), it is currently estimated to be approximately \$5 million based on the information currently available. Any update to the estimate, and associated breakdown by category for Stage 2b, is dependent on factors that include receiving the final version of the Application Information Requirements from the BC Environmental Assessment Office and Canadian Environmental Assessment Agency, more feedback from First Nations, and the outcome of an Open Season. Based on this forthcoming new information, FEI will more definitively determine the cost-breakdown for Stage 2b prior to requesting Commission approval.



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**7.0 Reference: Exhibit B-1, Executive Summary, page 2**

7.1 Please provide the allocation by rate class of the "at least \$36 million of accumulated benefits" that FEI expects the T-South Enhanced Service to deliver to its customers.

**Response:**

Please see the table below showing the benefits allocated by rate class. Based on the cost causality principle, these accumulated benefits are allocated to rate classes on the basis of coincident peak day demand for each rate class.

<b>Rate Class</b>	<b>% Allocation</b>	<b>Allocation (in \$000's)</b>
RATE 1	58.12%	\$ 20,923
RATE 2	18.46%	\$ 6,646
RATE 3/23	16.40%	\$ 5,905
RATE 5/25	6.79%	\$ 2,443
RATE 6	0.01%	\$ 5
RATE 22 (Non-Bypass Firm)	0.22%	\$ 78
	<b>100%</b>	<b>\$ 36,000</b>



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**8.0 Reference: Exhibit B-1, page 5 and page 13, Figure 2.4**

**Preamble:** The referenced page 5 states: *"The Company believes there is a strong potential to expand the benefits of the T-South Enhanced Service, including increased demand charge revenue, further T-South toll savings, and improved access to competitively priced and reliable gas supply in a rapidly changing market."*

8.1 Given that Figure 2.4 indicates that there is significant un-contracted capacity for the entire period April 2012 through October 2014, please explain what sustains the Company's beliefs quoted above.

**Response:**

As explained on pages 12 to 13 of the Report (Exhibit B-1), it is normal course of business to have lag-time between when contracts expire and when new contracts are initiated. T-South Enhanced Service, as it is offered today by Spectra, is a short-term option. As short-term contracts expire, some shippers will re-contract and others may not. Market participants, such as producers, marketers and end-use markets, will acquire resources for different reasons. It is anticipated that, as we enter the summer months, there will be greater interest in the T-South Enhanced Service. This pattern occurred in 2010: the T-South Enhanced Service pilot was not fully contracted when it was initially offered in May 2010, yet by mid-summer 2010, shippers had secured the remaining T-South Enhanced Service contracts. Typically the wider differentials between Kingsgate and Huntingdon prices (Kingsgate higher than Huntingdon) occur during the July to September timeframe, which makes the optionality provided by the T-South Enhanced service more valuable. FEI and Spectra have been in discussion with various parties, and FEI believes the market optionality associated with T-South Enhanced will encourage re-contracting of the Spectra system.

8.2 Do the contracted capacities shown include T-South Basic Service contracts also? If so, please provide a breakdown between Basic and Enhanced contracted levels.

**Response:**

This response is being filed confidentially under separate cover, pursuant to the Commission's Practice Directive on Confidential Filings, Spectra has provided this information and requested that FEI file it with the Commission only on a confidential basis as it contains commercially sensitive forecasts that are not available to the public.





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**9.0 Reference: Exhibit B-1, pages 12 and 13, Figures 2.3 and 2.4**

9.1 Does FEI agree that most shippers seeking firm transportation service over a period of greater than one year usually try to make arrangements for transportation and have contracts in place before their current contracts expire?

**Response:**

No, shippers seeking firm transportation service over a period greater than one year do not necessarily try to have arrangements in place before their current contracts expire. There are a number of market participants, such as producers, marketers and end-use utilities, that contract for resources for various terms and for various reasons.

With respect to FEI's own contracting practices governed under the Annual Contracting Plan, if FEI has identified the need for a resource to meet core load requirements, FEI would endeavour to secure firm contracts prior to other contracts expiring. The resources acquired may be the same or different than those previously held.

Other market participants, such as marketing companies, may enter and exit the market, acquiring or allowing contract terms to expire, for other reasons. For instance, a marketing company may have a market view with respect to pricing or have revised its strategic direction. These participants will typically pick up a resource and resell the resource to an end-use market such as a utility. These market participants may not always re-contract a resource once the contracted term expires. They may participate in the market in other forms (i.e. buying and selling at trading hubs).

9.2 In comparing the two figures cited, it appears that the current T-South capacity is in excess of current demand. Please comment.

**Response:**

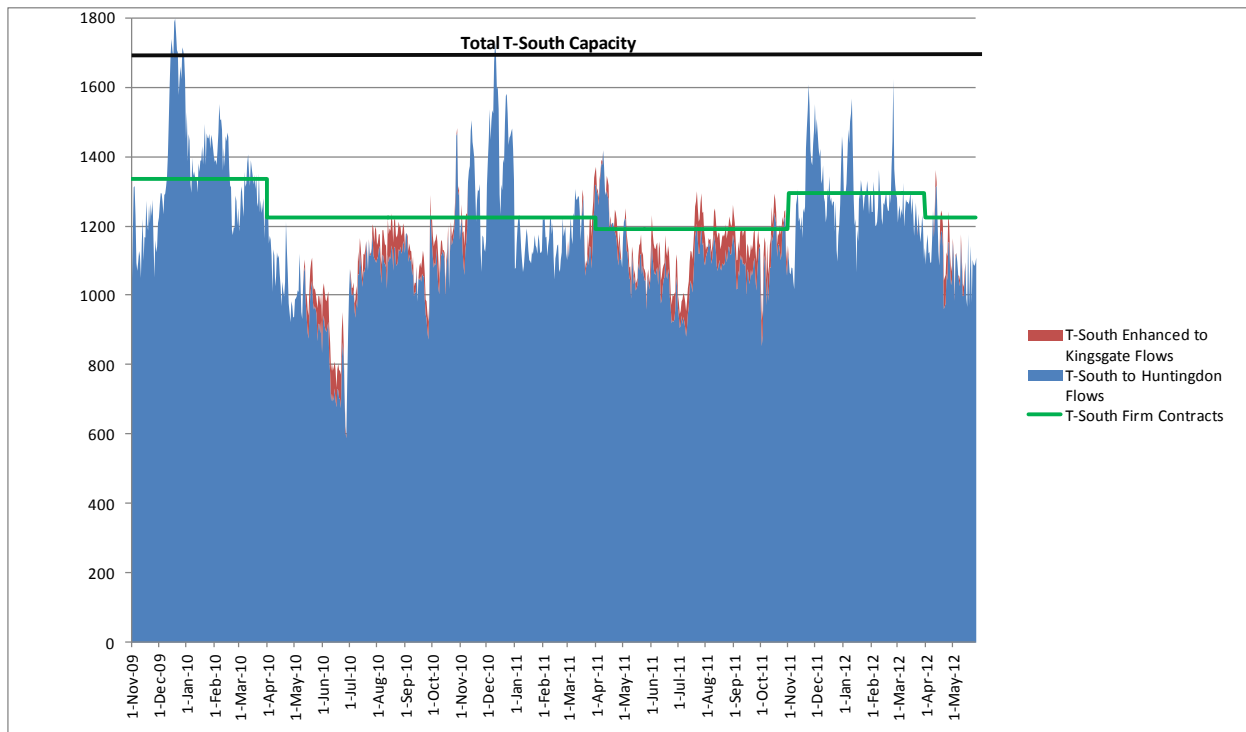
Exhibit B-1, pages 12 and 13, Figures 2.3 and 2.4 do not depict the total T-South contracts nor the actual T-South or T-South Enhanced flows. Rather, the Figures 2.3 and 2.4 illustrate the maximum T-South Enhanced Service contracts available for contracting and the actual firm contracted T-South Enhanced Service capacity. Currently, there is some uncontracted T-South Enhanced Service that is available for contracting. As discussed in the response to BCOAPO IR 1.8.1, it is normal course of business to have lag-time between when contracts expire and when new contracts are initiated.



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The chart below depicts the total firm contracts on T-South (including T-South Enhanced) and the actual flows to Huntingdon in blue and to Kingsgate via T-South Enhanced Service contracts in red. The black line represents the total T-South Capacity that can be contracted.

**Figure 1: T-South Flows to Huntingdon and Kingsgate, T-South Firm Contracts, Total T-South Capacity**



Note: T-South Firm Contracts includes T-South Enhanced Service Contracts.

As shown in the chart above, the T-South pipeline flows at maximum capacity on very cold winter days in the Pacific Northwest ("PNW") through a combination of firm and interruptible ("IT") services. Currently there are a number of shippers on the Spectra system that flow IT contracts from Station 2 to Huntingdon instead of holding firm contracts on the pipeline. The chart also shows a drop in flows from Station 2 to Huntingdon during the summer months. The T-South Enhanced Service was introduced by Spectra to encourage firm re-contracting of T-South by providing T-South shippers with another delivery option at times when demand in the BC and PNW markets are lower, typically in the summer months. The red area in the chart shows these flows to Kingsgate via the T-South Enhanced Service.



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9.3 Is any firm capacity that is un-contracted on T-South made available for non-firm transportation customers?

**Response:**

The non-firm transportation customers can contract for transportation services, on an interruptible basis, for T-South capacity to any delivery point on the Spectra system and only pay when they use the capacity. For example, a non-firm shipper can contract for interruptible Station 2 to Huntingdon capacity. Shippers who contract on an interruptible basis are not guaranteed delivery. Non-firm shippers cannot contract for interruptible transportation service on the T-South Enhanced Service. However, FEI can utilise any capacity on its system that is not contracted to support firm contracts under the T-South Enhanced Service to support its overall mitigation activities.



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**10.0 Reference: Exhibit B-1, pages 14 and 15, Tables 2.1 and 2.3**

- 10.1 Notes below the cited tables indicate that the FEI T-South toll savings have been calculated from estimates provided by Spectra. Please provide the assumptions used by Spectra, the calculations used by Spectra to derive toll savings estimates, and show how FEI used the information provided by Spectra to calculate the figures shown.

**Response:**

This response and Attachment 10.1 is being filed confidentially under separate cover, pursuant to the Commission's Practice Directive on Confidential Filings, Spectra has provided this information and requested that FEI file it with the Commission only on a confidential basis as it contains commercially sensitive forecasts that are not available to the public.

- 10.2 Please confirm that the toll savings shown in Table 2.3 represent savings of 3.14% in 2010 and 4.32% in 2011.

**Response:**

Confirmed.



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**11.0 Reference: Exhibit B-1, page 14, Table 2.2**

11.1 Please provide an update to this table in the event that any of the data is stale.

**Response:**

An update to Table 2.2 is not required as there has been no change to the data.



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**12.0 Reference: Exhibit B-1, page 18**

*Preamble:* The referenced page states: *"It had been anticipated that Ruby pipeline would be used to meet California demand requirements and subsequently flows from Kingsgate to Malin would be reduced potentially reducing the value of the Service."*

12.1 Please explain why FEI believes that this possibility is unlikely to occur in the future when further contracting and re-contracting on substitute pipelines is possible.

**Response:**

FEI appreciates that the market dynamics are continually changing. However, FEI and Spectra both plan that shippers who will be contracting for the capacity on KORP will be required to enter into long term contracts.

As described in CEC IR 1.9.1, the KORP will facilitate the expansion of Spectra's T-South Enhanced Service offering based on an integrated service that will primarily serve the PNW market during the winter months. An integrated service using T-South/KORP/SCP would make T-South more attractive for shippers, given the ability to deliver at either Huntingdon or Kingsgate depending on demand and market conditions.



FortisBC Energy Inc. ("FEI" or the "Company") Application for Approval of Kingsvale-Oliver Reinforcement Project ("KORP", "KOR Project", or the "Project") Stage 2a Project Development Costs and Accounting Treatment	Submission Date: June 20, 2012
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**13.0 Reference: Exhibit B-1, pages 45-47, Section 5.5,**

**Potential Significant Project Risks**

- 13.1 Has FEI quantified, estimated, or otherwise tried to analyze the magnitude of the identified potential risks e.g., by simulation, scenario analysis, etc.?

**Response:**

FEI has to date tried to analyze the magnitude of the identified potential risks on a qualitative basis only (low, moderate or high) via input from internal and external personnel knowledgeable and experienced in the subject matter (construction, environmental, First Nations, local authorities and public).

In addition to the discussion provided in Section 5.5, please also refer to Appendix 4 of the Comprehensive Update Report (Stage 1) dated March 30, 2012, where the number of environmental issues identified that could affect regulatory agency approval, Project cost and schedule are shown.

FEI has also undertaken further work to address Public Issues discussed in section 5.5.5 of Exhibit B-1 that focused mainly on the Kingsvale – Oliver route and Yahk Compressor Station & Pipeline. FEI had the first round of open houses during June 11 to 15, 2012. While the intent of these meetings was primarily to obtain feedback from the public whether the BC Environmental Assessment Office's ("BCEAO") Application Information Requirements document is adequate, the meetings also represented an opportunity to discuss current aspects of the Project with potential landowners. FEI's general feeling is that the public that attended the open houses have no major objections with the Project. While favourable, this observation does not mean more in-depth and comprehensive consultation is not required or the risks have been completely identified, quantified or mitigated. Rather, it reinforces FEI's belief that FEI needs to further build on the good will by gathering and assessing more information promptly.

Furthermore, in order to have a more quantitative, global assessment of significant Project risks FEI intends to conduct a Monte Carlo style of cost risk assessment once all of the information has been gathered as part of the Stage 2b work so that a robust Application for a Certificate of Public Convenience and Necessity for the KOR Project can be prepared. Until the detailed Stage 2b environmental field studies are completed, there is insufficient information to render a meaningful, detailed quantitative cost risk assessment.



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- 13.2 Please provide the type of information, events, etc. that would lead FEI to abandon this Project at some future date before completion.

**Response:**

The KOR Project will not proceed as it is currently contemplated, as an integrated service with Spectra, unless it is underpinned by a successful open season by Spectra. This includes both sufficient contracting levels and contract terms with shippers. Prior to undertaking an open season, FEI and Spectra must have certain degree of certainty with respect to commercial aspects between the parties. In addition, KORP must continue to show sufficient benefits for both FEI's and Spectra's customers to justify the Project to move forward based on Stage 1 and Stage 2a technical and commercial assessment. Other factors include the completion of an Environmental Assessment, First Nations consultation, obtaining regulatory approvals, and ensuring acceptable cost estimates.

Based on the information gathered and work done in Stage 1 so far, FEI does not anticipate any information and/or events that would lead FEI to abandon this Project before the completion of Stage 2a.





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**14.0 Reference: Exhibit B-1, page 27**

**Preamble:** The referenced page states: *"Another limiting factor is FEI's Foothills capacity on the NGTL system that is held in FEI's ACP."*

14.1 Is it possible for FEI to contract for more NGTL capacity? If so, has this option been investigated?

**Response:**

Yes, FEI could contract for incremental TransCanada BC Foothills capacity and this option is being investigated. However, TransCanada's current tariff would require FEI to pay the full toll (ABC border to Kingsgate) of approximately \$0.075/GJ for incremental service from Yahk to Kingsgate, approximately 8 kms. At this time it is anticipated that a bypass pipeline would be more economical given the proposed volumes and the relatively short distance, and therefore FEI may be able to negotiate a bypass toll arrangement with TransCanada at a lower rate.

Please note that the primary reason Spectra cannot offer more than 87 MMcf/d of T-South Enhanced Service is due to the physical constraints that exist on FEI's current pipeline capacity between Kingsvale and Oliver.



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**15.0 Reference: Exhibit B-1, page 22**

**Preamble:** The referenced page states: *"NGTL continues to aggressively expand into BC, bypassing the Spectra Energy T-North system, with the development of a number of pipeline projects situated to access BC shale supply."*

15.1 Does this transportation capacity expansion inform the economics of the KORP in any way?

**Response:**

NGTL expansions that bypass Spectra Energy T-North system do not impact the economics of KORP, but do underlie the importance of making the Spectra system more attractive to shippers. There is a significant amount of potential supply in northern BC. To realize the full supply potential, shippers require incremental markets. NGTL expansions that bypass the Spectra system impact the availability and liquidity of gas supply and utilization of the Spectra system, which likely could impact FEI's overall cost of gas. KORP is an alternative to encourage some of this supply to flow onto the Spectra Energy T-North system and to encourage re-contracting of the T-South system.

15.2 Overall, does the KORP mainly divert existing shipping on alternative pipelines or does the KORP mainly increase the throughputs overall?

**Response:**

In order to realize the full potential of BC shale gas, and to increase throughput overall from the producing region, it is important that more markets can be accessed by shippers. For FEI customers, with most of the supply transported on the Spectra Energy system, it is important to have the Spectra Energy system remain competitive. This includes increasing the diversity and accessibility of markets, while ensuring FEI has the continued ability to contract for cost-effective and reliable supply for our customers.

KORP provides an opportunity to increase the overall throughput on the Spectra system by providing shippers greater access to the Kingsgate market. It also will increase the throughput to Huntingdon during the winter months. It is possible that KORP will divert some supply that was flowing on alternative pipelines; however, since demand in the region is forecast to grow,



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the flows will likely be incremental flows over time. As discussed on page 19 of Exhibit B-1, Wood Mackenzie's market analysis predicts that demand at Kingsgate will increase from 1.8 bcf/d in 2015 to 2.1 bcf/d by 2020. Additionally, recent forecasts by TransCanada have also shown flows to Kingsgate rising again as a result of declining production in the Rockies.



FortisBC Energy Inc. ("FEI" or the "Company") Application for Approval of Kingsvale-Oliver Reinforcement Project ("KORP", "KOR Project", or the "Project") Stage 2a Project Development Costs and Accounting Treatment	Submission Date: June 20, 2012
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**16.0 Reference: Exhibit B-1, page 42**

**Preamble:** The referenced page states: *"In addition to the Kingsvale to Oliver section, a new 8.5 km Yahk – Kingsgate interconnect has been considered as a means to connect to GTN at the Canada-USA Border. Although FEI is investigating an option for a by-pass agreement on the Foothills system, the cost of constructing the bypass has been included in the cost of the KOR Project for the purposes of this Report."*

- 16.1 Does constructing the bypass depend on whether or not its cost would be lower than the cost of bypass tolls on the Foothills system? If not, please explain why not.

**Response:**

Yes, constructing the bypass would depend on whether or not its cost would be lower than the cost of bypass tolls on the Foothills system and/or current tariff rates. In order to make this assessment, however, FEI does need to investigate the feasibility and costs of building a bypass pipeline. Please also see the response to BCOAPO IR 1.14.1.

**Attachment 1.1a**

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**Tom A. Loski**  
Chief Regulatory Officer

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March 17, 2010

Regulatory Affairs Correspondence  
Email: [regulatory.affairs@terasengas.com](mailto:regulatory.affairs@terasengas.com)

British Columbia Utilities Commission  
6<sup>th</sup> Floor, 900 Howe Street  
Vancouver, BC  
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: Terasen Gas Inc. (“Terasen Gas” or the “Company”)  
Application to Provide Firm Transportation Service to Westcoast Energy Inc.**

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Terasen Gas respectfully submits the attached Application to Provide Firm Transportation Service to Westcoast Energy Inc. (“Spectra Energy”) under Tariff Supplement No. I-9 (the “Application”) for approval by the British Columbia Utilities Commission (the “Commission”). As a result of the expected net benefits to Terasen Gas customers of a minimum of \$8.6 million based on initial, firm contract demand commitments, Terasen Gas is seeking the following approvals from the Commission:

1. Commission approval of the executed agreement between Terasen Gas and Spectra Energy for Firm Transportation Service Agreement (the “Agreement”) provided in Appendix A<sup>1</sup>, Commission approval of the proposed accounting treatment for the associated revenues, and Commission endorsement of the original copies of Tariff Supplement No. I-9 pages, including the revised Tariff Supplement Index page, also provided in Appendix A. The Company is requesting Commission approval of the Agreement prior to April 15, 2010 in order that Spectra Energy can meet its contractual obligations with shippers; and
2. Commission approval to record the costs of the preliminary feasibility assessment to expand the existing capacity on its system through the revenue obtained under the Agreement in the Southern Crossing Pipeline Mitigation Revenues Variance (“SCP Mitigation”) deferral account by up to a maximum of \$2 million over the two-year term of the Agreement.

The BC natural gas marketplace is rapidly changing with a significant increase in unconventional production forecast in the province. As a result, regional infrastructure players have been aggressively pursuing new projects to increase the take-away capacity east to Alberta and to markets abroad. As a part of the Company’s strategy to ensure the on-going cost effective accessibility of BC supply and optimize regional infrastructure, the Company has been working with Spectra Energy to develop a new transportation service to

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<sup>1</sup> Exhibit A to the Agreement (page 24) was confidential prior to endorsement by the parties and upon endorsement; the parties have agreed it no longer requires confidentiality.

facilitate re-contracting on the T-South system that will ultimately improve the liquidity in the BC marketplace.

Spectra Energy recently completed a binding open season November 20, 2009 for firm service that allows shippers to transport gas from Station 2 to either Huntingdon or Kingsgate. In order to be able to offer this service, Spectra Energy will become a firm shipper on the Terasen Gas system. The Agreement between Terasen Gas and Spectra Energy is found in Appendix A.

The Company is also proposing to undertake a preliminary feasibility study to address the associated physical constraints on the Terasen Gas transmission system between Kingsvale and Oliver. This incremental capacity would help to further encourage the efficient use of regional infrastructure and reduce the peak day constraints at Huntingdon. The outcome of this study will be a scope of work for a potential expansion project including detailed cost and schedule information along with an assessment of the market potential.

If you have any questions regarding the Application please contact Brent Graham at (604) 592-7857.

Sincerely,

**TERASEN GAS INC.**

***Original signed:***

Tom A. Loski

Attachments

cc (email only): Greg Staple and Rob Whitwham, Spectra Energy  
Jim Quail, British Columbia Public Interest Advocacy Centre  
David Craig, Commercial Energy Consumers Association of British Columbia



**Provision of Firm Transportation Service to  
Westcoast Energy Inc.  
("Spectra Energy")**

**March 16, 2010**



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## 1. Executive Summary

In this Application, Terasen Gas Inc (“Terasen Gas” or the “Company”) is requesting approval of a firm transportation service agreement with Westcoast Energy Inc. (“Spectra Energy”) (the “Agreement”) whereby Spectra Energy will hold up to 87 million cubic feet per day (“MMcf/d”) of firm west to east capacity across Terasen Gas’ transmission system, including the Southern Crossing Pipeline. This arrangement allows Spectra Energy to put forward a new service offering to shippers on its Westcoast T-South transmission System (the “T-South Enhanced Service”) that offers an alternate delivery point at Kingsgate. Terasen Gas is further requesting funding of expenditures related market studies and feasibility for expansion of the Terasen Gas transmission system to support potential future extension and expansion of this service.

Terasen Gas believes that approvals requested in this Application will support optimization of existing BC infrastructure and facilitate the development of, and secure access to, northern BC unconventional gas supply for its customers. It also sets the foundation for the Company to evaluate the feasibility of expanding its transmission system between Kingsvale and Oliver. This incremental capacity would help to further encourage the efficient use of regional infrastructure and has the potential to reduce the constraints at Huntingdon during peak periods.

Gas sourced from BC is an integral part of meeting Terasen Gas customer and the Pacific Northwest (“PNW”) regional demand. The BC natural gas marketplace is rapidly changing as a significant increase in unconventional production is expected to come on stream in the near future. Industry participants have referred to the development of shale gas with terms such as ‘radical’ and ‘game changing’. A combination of a bullish BC production outlook, a bearish outlook for Alberta production and increased intra-Alberta demand, 3.5 billion cubic feet per day (“Bcf/d”) of incremental take-away capacity out of BC to eastern markets and abroad is being proposed over the next five years. In comparison, only 1.9 Bcf/d of growth in BC production is forecast over the same period as the significant increase in shale gas production is offset by continuing decline in conventional production. As export capacity out of BC increases and competition for supply intensifies, ensuring the long term accessibility of cost-effective BC supply is a key consideration for Terasen Gas customers.

Spectra Energy’s transportation system stretches from producing areas in northeastern British Columbia to the BC/U.S. border at Huntingdon/Sumas. Although increases in BC production are expected to be significant, the Spectra Energy T-South system, the main transportation capacity serving Huntingdon/Sumas remains only 72% subscribed under firm annual contracts due to reduced demand during warmer weather. Terasen Gas has been collaborating with Spectra Energy on a regional energy solution that promotes the efficient use of existing pipeline infrastructure and encourages firm producer commitment to the BC and PNW marketplace. As a result, Spectra Energy recently completed a binding open season that provides to shippers firm transportation service between Station 2 and alternate delivery points to either Huntingdon or Kingsgate for a two year pilot project. By providing an option to access the Kingsgate market the T-South Enhanced Service adds value to existing Spectra Energy T-South capacity, thereby promoting shippers to contract for incremental of firm capacity. In order to be able to offer this service, Spectra Energy will become a firm shipper on the Terasen Gas system and contract for up to 87 MMcf/d of capacity.

As a result of this initiative with Spectra Energy, Terasen Gas customers will benefit from increased liquidity in the BC marketplace, decreased T-South tolls and incremental Southern Crossing Pipeline (“SCP”) mitigation revenue. **Over the course of the two year pilot program being proposed, the incremental net benefit to Terasen Gas customers will be a minimum of \$8.6 million based on initial firm contract demand commitments.** The Company proposes that these incremental revenues be credited to the Midstream Commodity Reconciliation Account (“MCRA”) and the SCP Mitigation Revenues Variance (“SCP Mitigation”) deferral account, consistent with current practices and using existing allocation methodology.

Spectra Energy and Terasen Gas are using the pilot project as a means to assess the long term market potential of this service in BC as well as to establish operating practices. In conjunction with the pilot project, the Company is proposing to undertake a preliminary feasibility study to address options to overcome the physical constraints on the Terasen Gas system between Kingsvale and Oliver. The outcome of this study will be a scope of work of a potential expansion project including detailed cost and schedule information and a market feasibility assessment.

By approving the enclosed Application, Terasen Gas customers will benefit from both short and long term regional infrastructure solutions designed to provide continued access to cost effective BC supply.

Because of these benefits to customers, Terasen Gas is seeking the following approvals from the Commission in this Application:

1. Approval of the firm transportation agreement between Terasen Gas and Spectra Energy under Tariff Supplement No. I-9, attached as Appendix A, and for the proposed accounting treatment for the associated revenues.
2. Approval to record the costs of the preliminary feasibility assessment to expand the existing capacity on its system through the revenue obtained under the Agreement in SCP Mitigation Revenues Variance (“SCP Mitigation”) deferral account by up to \$2 million over the two-year term of the Agreement.

## 2. Introduction

Gas sourced from BC is a key part of meeting Terasen Gas' and the PNW customer demand. Currently approximately 82% of Terasen Gas' peak day demand and 85% of the base-load, annual supply is met with BC supply.

In response to a bullish outlook for new, unconventional production in BC, declining production in Alberta and rising intra-Alberta demand, there are a number of pipelines and infrastructure projects being pursued to increase the incremental take away from BC to Alberta and or export markets by 3.5 Bcf/d. These activities create both challenges and opportunities for the Company to continue to deliver on the objectives of the Annual Contracting Plan described below:

1. To contract for cost-effective supply resources which ensure safe and reliable natural gas deliveries to meet core customer design peak day and annual requirements while mitigating against potential upstream and downstream supply disruptions.
2. To develop a portfolio resource mix which incorporates price diversity and provides contracting flexibility for both short-term and longer-term planning.

The focus of this Application will be to review the Company's strategic initiative with Spectra Energy to encourage the efficient use of regional infrastructure and secure long term access to northern BC gas supply for our customers. The T-South Enhanced Service is particularly important to Terasen Gas customers given the number of proposals by regional infrastructure players to move northern BC supply to eastern markets and abroad. The Company is also proposing to evaluate the feasibility of expanding the system between Kingsvale and Oliver as part of this process.

In addition to the enclosed Application, as a part of the Annual Contracting Plan for 2010/11, the Company will be submitting to the Commission a study of the BC natural gas supply and markets in accordance with Commission Order No. L-11-10 (the "Northern BC Study").

The Application is presented in the following manner:

### **Section 3: Regional Market Dynamics**

This section describes the Company's reliance on natural gas supply from northern BC, the forecast increase in BC unconventional production along with the pipeline infrastructure projects being pursued by other parties to export this new supply source out of BC

### **Section 4: Terasen Gas and Spectra Energy Systems**

This section describes how the Terasen Gas and Spectra Energy systems currently operate and the constraints on the systems.

### **Section 5: Terasen Gas and Spectra Energy Solution**

This section summarizes the T-South Enhanced Service being proposed by the two parties along with the associated benefits to prospective shippers and Terasen Gas customers from increased liquidity, lower tolls and the optimization of regional pipeline capacity.

**Section 6: Agreement Summary & Revenue Allocation Methodology**

This section outlines the key terms of the Agreement found in Appendix A. This section also outlines the proposed methodology to allocate the revenue generated as a part of the Agreement.

**Section 7: Regional Infrastructure Strategy**

This section focuses on the Company's strategy to relieve the constraints on the Terasen Gas and Spectra Energy transmission system and the associated benefits.

**Section 8: Conclusions and Recommendations**

This section summarizes the benefits to Terasen Gas customers and the recommendations to approve the Agreement and the funding of costs associated with technical and market feasibility studies through the SCP Mitigation deferral account.

**Appendix A**

This section includes a copy of the Agreement and Tariff Supplement No. I-9.

**Appendix B**

This section provides a detailed breakout of the preliminary feasibility activities.

### 3. Regional Market Dynamics

The Terasen Gas and Terasen Gas (Vancouver Island) Inc. 2009/10 Annual Contracting Plans<sup>2</sup> (the "2009/10 ACP") shows that gas sourced from within BC accounts for approximately 82% of Terasen Gas peak day requirements and approximately 85% of annual requirements . Given the critical role BC supply plays and will continue to hold in the Company's resource portfolio, maintaining the long term accessibility of cost effective supply at Station 2 is a critical issue for Terasen Gas customers.

This section outlines the production outlook for the Western Canadian Sedimentary Basin ("WCSB"), BC and Alberta, the flow of BC production and the demand drivers, the influx of new infrastructure projects to increase the take-away capacity out of BC and finally, the BC pricing dynamics.

#### **3.1. Production and Markets**

The majority of the production in northern BC has traditionally served BC and Pacific Northwest markets, primarily what is referred to as the "I-5 Corridor" from Huntingdon/Sumas to Portland. Over the past several years, movement of BC supply to serve more liquid Alberta and eastern markets has been increasing and is becoming a significant portion of total BC production. Figure 1 shows the market areas served by northern BC production.

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<sup>2</sup> Filed with the Commission June 30, 2009

Figure 1: BC Market Areas

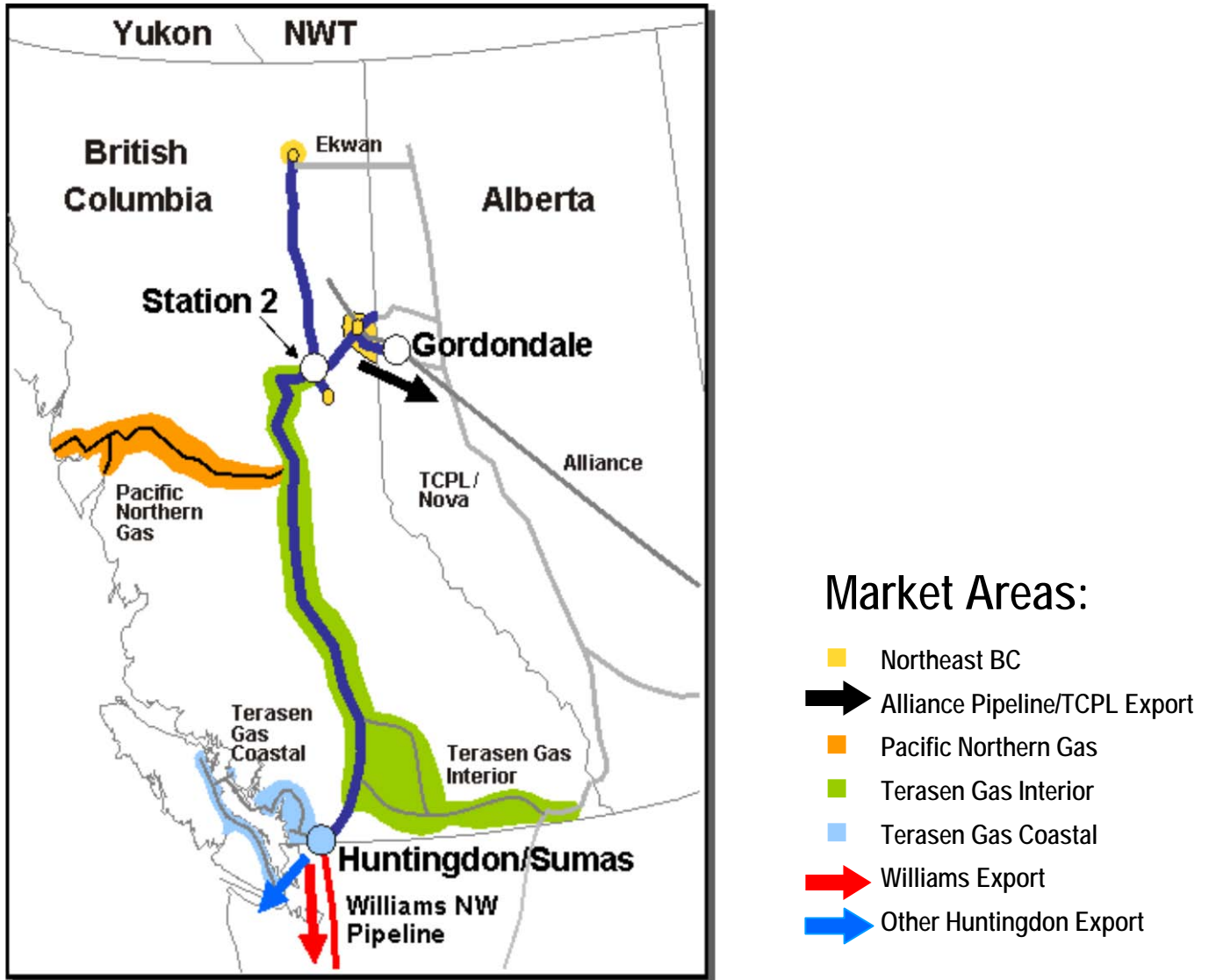


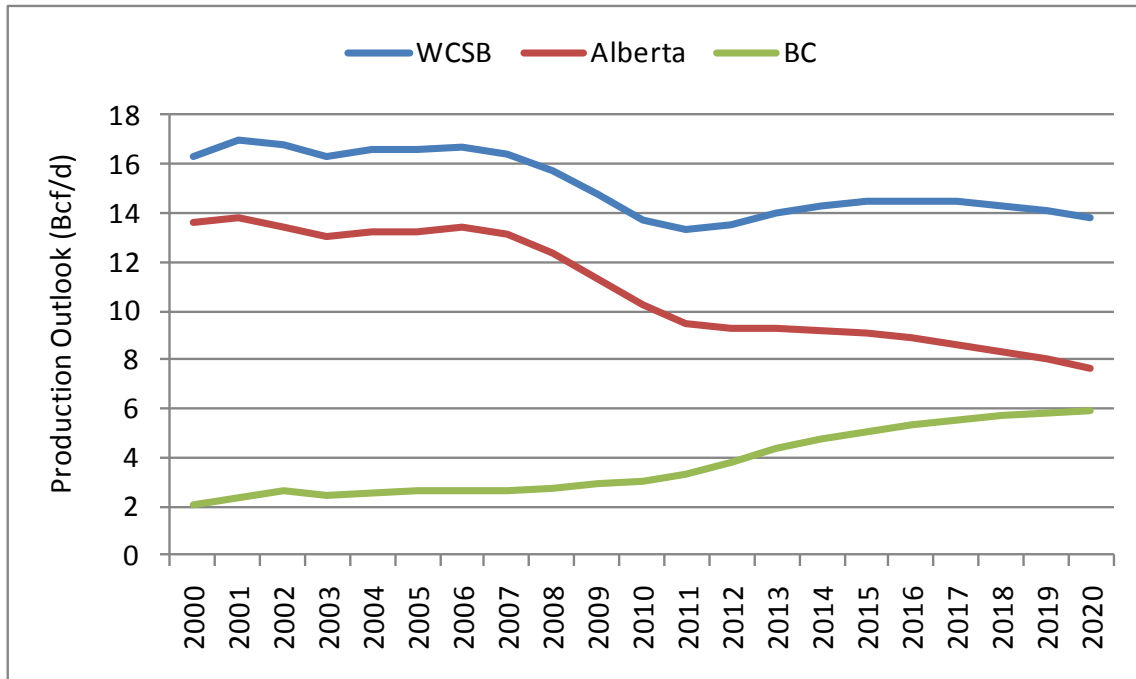
Figure 2 shows the National Energy Board (“NEB”) reference case production outlook for the Western Canadian Sedimentary Basin (“WCSB”), Alberta and BC.<sup>3</sup> Between 2000 and 2009, the WCSB production decreased by 1.6 Bcf through a combination of Alberta decreasing by 2.3 Bcf/d and BC increasing by 0.9 Bcf/d. The trend of Alberta production decreasing and BC production increasing is forecast to continue even further-from 2009 to 2020, the WCSB decreases by 1 Bcf/d as Alberta decreases by 3.7 Bcf/d whereas BC increases by 3 Bcf/d.

Over the entire outlook period from 2000 to 2020, Alberta production is forecast to nearly drop in half whereas BC production is expected to triple. The driver for the dramatic increase in BC production is the Montney and Horn River unconventional plays in northeastern BC. The

<sup>3</sup> 2009 NEB Reference Case Scenario: Canadian Energy Demand and Supply to 2020 (July 2009)

Montney is a tight gas geological zone near Dawson Creek, BC with NEB estimates of gas in place as high as 500 trillion cubic feet (“Tcf”) while the Horn River shale play northeast of Fort Nelson is estimated to contain up to 600<sup>+</sup> Tcf of gas<sup>4</sup>.

**Figure 2: 2009 NEB Reference Case Production Outlook**



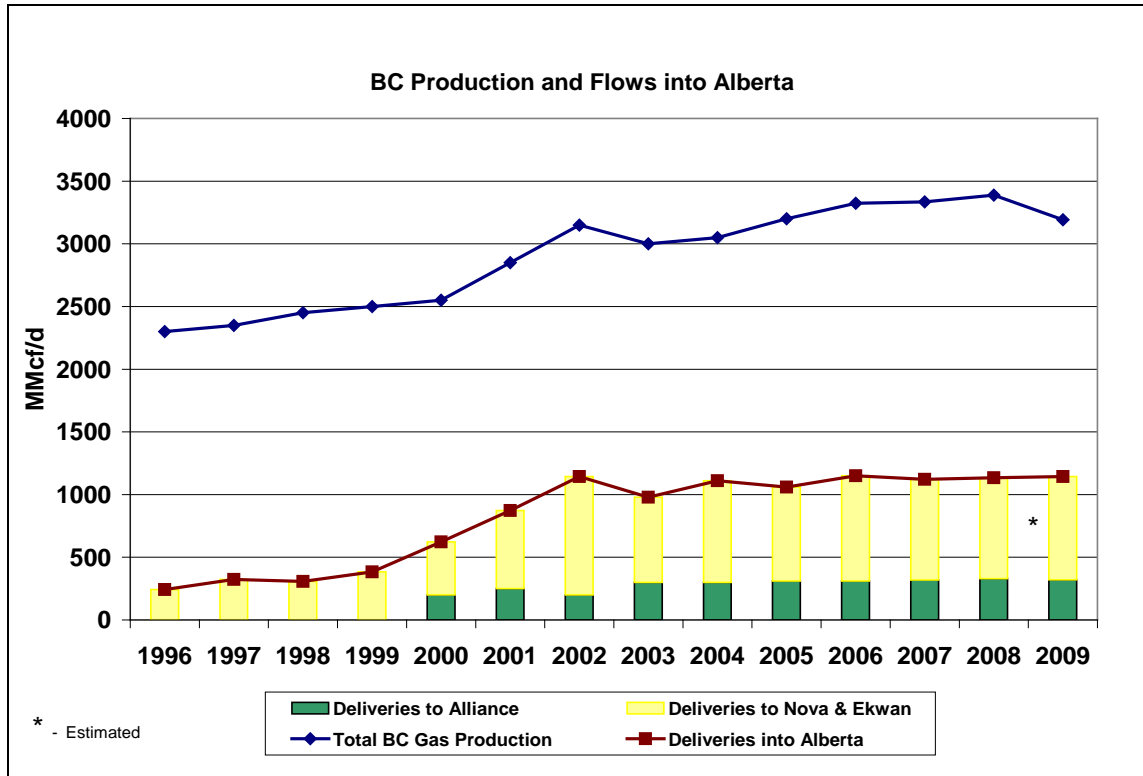
An increase in BC production should be a positive development for BC consumers, however, as illustrated in Figure 3, there has been an increasing trend over time of BC production being exported into Alberta and markets further east. The use of natural gas in the oil sands has been the main driver of increased Alberta demand. Over the next five years, industry estimates are for oil sand demand to double from approximately 1 to 2 Bcf/d.

As will be discussed in the next section, the Nova Gas Transmission Ltd. (“NGTL”) and other parties have been aggressively pursuing pipeline infrastructure projects intended to export new supply sources out of BC into markets including Alberta, markets served by pipelines exporting off NGTL and markets abroad. For the PNW and in particular, Terasen Gas customers, the competition for BC supply could mean the possibility of reduced access to gas supply and/or higher prices and increased volatility at Station 2 and Sumas.

<sup>4</sup> NEB Energy Briefing Note: A Primer for Understanding Canadian Shale Gas (November, 2009)  
Recoverable gas may be on the order of 20% of gas in place



Figure 3: BC Production and Flows into Alberta (MMcf/d)



### 3.2. Infrastructure Proposals

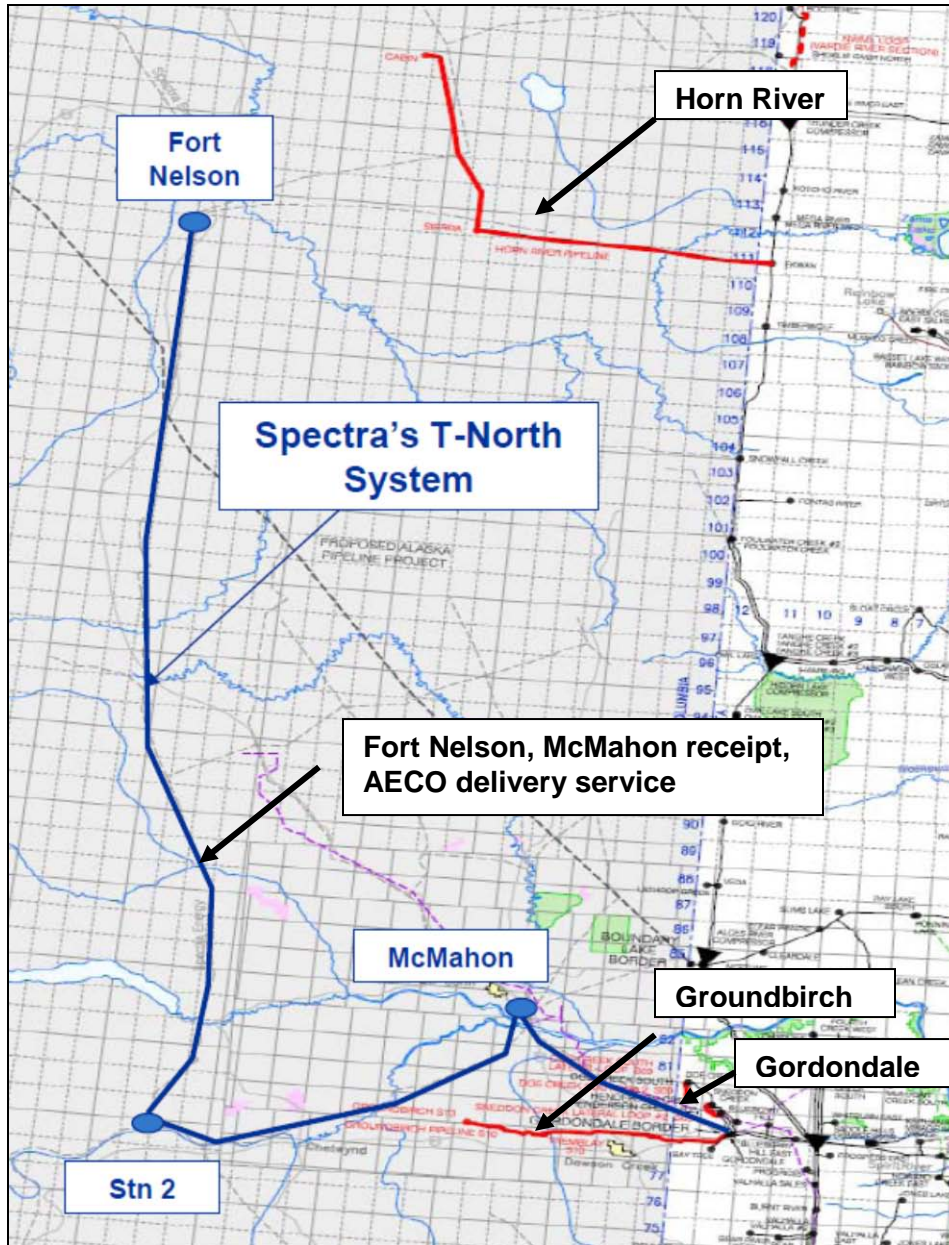
The BC and PNW markets served by the current Spectra Energy system are relatively small and have historically been winter peaking markets. It is recognised that if the full potential of BC unconventional supply is to be realised, producers must have access to more liquid markets. As a result, in response to the favourable supply potential in BC, several new transmission and infrastructure projects have been proposed to bring new supplies to Alberta and other markets. Terasen Gas anticipates that advancement of these proposals discussed below could have implications on Terasen Gas’ ability to contract for cost effective supply in BC.

#### 3.2.1. NGTL Proposals

In early 2009 TransCanada was successful in obtaining approvals to move its Alberta system (known as “NGTL”) from provincial jurisdiction to federal jurisdiction under the NEB. The significance of this development is that it allows NGTL to extend its integrated transmission system beyond provincial borders and apply for rolled-in rate treatment and avoid rate stacking. This will increase NGTL’s competitiveness to attract BC gas onto its system relative to Spectra Energy or Alliance. NGTL has since proposed three significant projects to move gas from BC into the AECO market and to export points leaving Alberta:

- NGTL received strong commercial support in a binding open season for the Groundbirch pipeline with firm gas transportation contracts that will reach 1.1 Bcf/d by 2014. The Groundbirch pipeline is also scalable to 1.7 Bcf/d. The proposed Groundbirch pipeline will be 78 kilometres long and is expected to commence service in the fourth quarter of 2010. NGTL received NEB approval for the Groundbirch pipeline project on March 4, 2010.
- In February 2010, NGTL filed their Horn River project application with the NEB. The Horn River pipeline is a 155 kilometres long pipeline that incorporates Encana's existing Ekwan pipeline and connects with NGTL's Alberta pipeline network. Horn River has an initial design capacity of 696 MMcf/d with 90% firm commitments equal to 625 MMcf/d. Of the 625 MMcf/d, 503 MMcf/d is incremental firm service and the remainder is from the existing Ekwan pipeline. The Horn River pipeline adds 282 MMcf/d of incremental capacity over the original Ekwan pipeline. The Horn River pipeline project is expected to be in service by mid 2012, subject to Regulatory approvals.
- Finally, NGTL has proposed a Fort Nelson and McMahon plant outlet receipt with delivery to the Alberta AECO market (the "Ft Nelson/ Ft St John Service"). In order to provide this service, NGTL will either contract for T-North capacity on the Spectra Energy system or make commercial arrangements with Spectra Energy T-North shippers with capacity to Gordondale to assign their capacity to NGTL. A non-binding open season was conducted in the summer of 2008 and to date NGTL has not made the results available to the public.

Figure 4: NGTL's Horn River & Groundbirch Pipelines & Fort Nelson, McMahon Receipt, AECO Delivery Service



The main consideration for Terasen Gas customers related to the NGTL Ft Nelson/ Ft St John proposal is the potential impact of this service on the Station 2 and Sumas markets. At this point it is unknown whether or not Station 2 would be a delivery point under the NGTL Ft Nelson/Ft St John Service. And, it is also unclear how the tolling would work in the event that Station 2 was available as a delivery point. If Station 2 was not made a delivery point under this service it would effectively reduce liquidity of the Station 2 market and has the potential to reduce physical access to Station 2 supply to Spectra Energy T-South shippers. The Company

is actively representing customers' interests in the on-going regulatory process surrounding the NGTL Ft Nelson/Ft St John Service.

### **3.2.2. Spectra Energy Proposals**

Spectra Energy held an open season in November 2008 to address new supply coming on stream in the Montney and Peace regions that will result in additional capacity serving Station 2 but also supply being exported to the NGTL system at Gordondale. Spectra Energy held a binding open season for two services: 1) capacity running east from McMahon, BC on the T-North system through Gordondale and onto the NGTL system, see Figure 4, and 2) capacity running from east to west from Gordondale to McMahon. The firm capacities were contracted at 153 MMcf/d and 110 MMcf/d respectively. Spectra Energy has expanded its capacity to Gordondale to 334 MMcf/d effective January 2010.

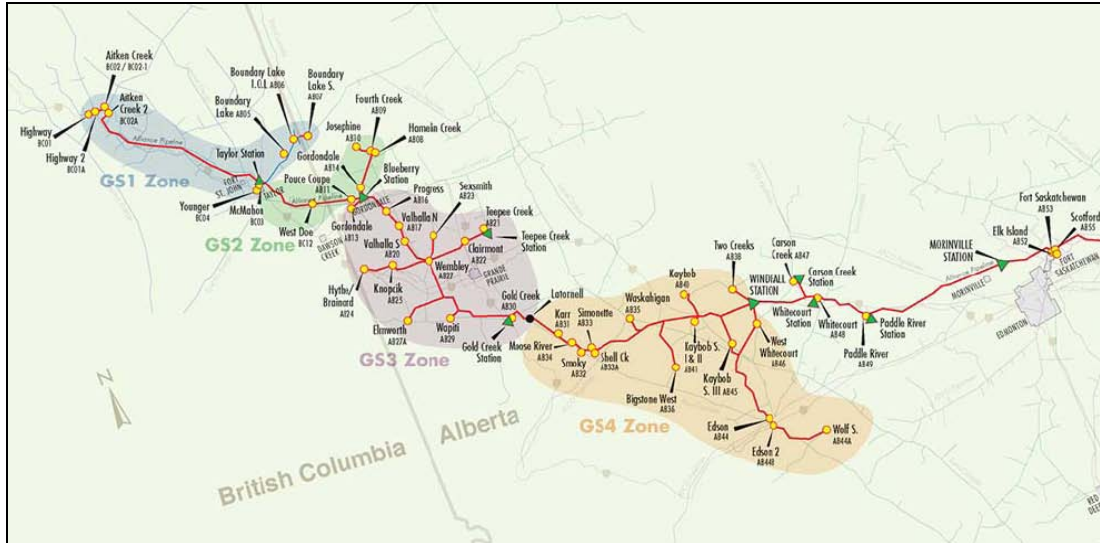
As discussed more fully in Section 5, in November 2009 Spectra Energy also concluded an open season for the T-South Enhanced Service which will allow shippers to hold T-South capacity to move gas from Station 2 to either Huntingdon/Sumas or to Kingsgate at the connection of the TransCanada BC system with GTN. This service provides shippers with alternative access to more liquid Alberta or California markets at times when demand in the BC and PNW markets are lower, typically in the summer months. In order to provide this service, Terasen Gas and Spectra Energy have entered into an agreement whereby Terasen Gas will provide Spectra Energy firm transportation service from the interconnect with T-South at Kingsvale to Kingsgate at the BC/Idaho border. This service will be provided using Terasen Gas' existing 12" pipeline from Kingsvale to Oliver (the "Kingsvale-Oliver Pipeline"), SCP from Oliver to Yahk, and Terasen Gas' contracted capacity on TransCanada's BC System from Yahk to Kingsgate.

### **3.2.3. Other Proposals**

Alliance also recently had several open seasons in response to the recent developments in northern BC that could increase take-away out of BC. The first was a binding open season that ran from June 1 to July 15, 2009 to expand capacity to receive incremental gas onto its gathering system at new or existing receipt points up to 500 MMcf/d. The second open season was a non-binding package for Canadian delivery service that would enable deliveries off its system in Canada to new interconnections at either AECO or other points. The impact of these two expansions will be increased opportunity for Alliance shippers to gather gas from BC and deliver into AECO, similar to the NGTL expansions. To date, the results of the open season have not been made public.

Most recently, Alliance had a binding open season for 20 MMcf/d of service from northeast BC/northwest Alberta to Chicago that closed March 2, 2010.

Figure 5: Alliance Gathering Receipt Zones

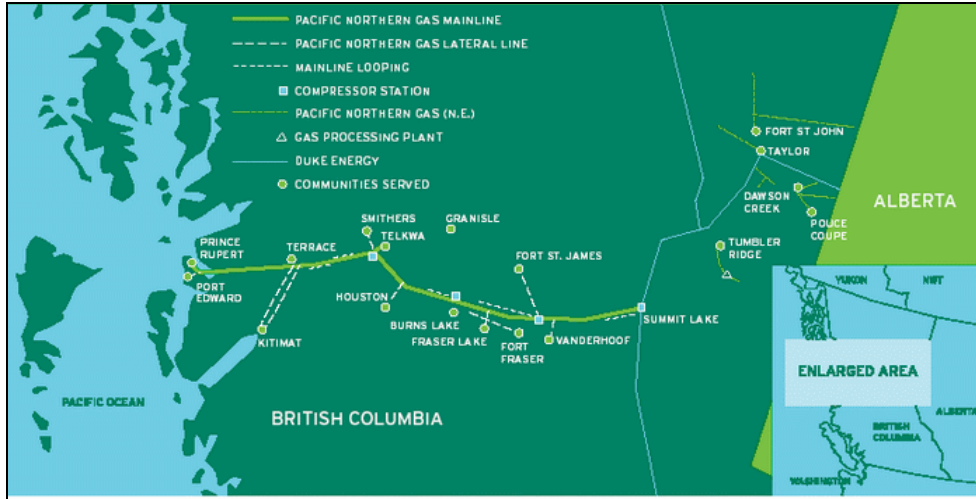


Finally, an LNG export project in BC proposes to ship northern BC supply on the Spectra Energy system to Summit Lake, then along the proposed 463 kilometre Pacific Trail Pipeline to Kitimat where the gas would be liquefied and then exported to markets abroad such as Asia and Europe. The pipeline project proposes to increase the existing transmission capacity from 115 MMcf/d on the PNG system to up to approximately 900 MMcf/d for the LNG terminal. The total budget for the project is approximately \$4.2 billion<sup>5</sup> excluding upgrades necessary on the Spectra Energy system from Station 2 to Summit Lake. The proponents of this project suggest that the pipeline and LNG terminal could be in operation as early as 2013. To date, several non-binding, memorandum of understanding agreements associated with the project have been announced and on January 13, 2010 Apache Canada Ltd. announced it acquired 51 percent of Kitimat LNG Inc.

<sup>5</sup> *Kitimat LNG Pipeline Takes Another Step Forward.* Vancouver Sun (April 9, 2009)



**Figure 6: Proposed Pacific Trails Pipeline**



In summary, the production outlook for northeastern BC is bullish. Alberta production is expected to continue to decline while intra-Alberta demand is expected to increase. As a result, NGTL and Alliance have been aggressively pursuing pipeline infrastructure projects intended to export this new supply source out of BC into Alberta. In addition, new, northern BC production could be used to serve markets abroad including Asia and Europe through LNG export at Kitimat. Cumulatively, the pipeline expansion projects in BC could lead to 3.5 Bcf/d of incremental take-away capacity out of BC over the next five years:

NGTL-Groundbirch	1,656
NGTL-Horn River	282
Alliance	500
Spectra Energy-Gordondale	153
Pacific Trail Pipeline/LNG Export	885
<b>Total (MMcfd)</b>	<b>3,476</b>

In comparison to 3.5 Bcf/d of incremental take-away capacity, the BC production is forecast to increase by only 1.9 Bcf/d from 2009 to 2014.<sup>6</sup> The increased competition for BC supply could ultimately lead to higher prices and increased volatility at Station 2 and Sumas, the Company's main sources of supply. Longer term, the NEB forecasts BC production to continue to increase by 3 Bcf/d from 2009 to 2020.

### **3.3. Regional Pricing**

The following section describes the pricing dynamics in BC at Station 2, Sumas and Kingsgate.

#### **3.3.1. Station 2**

Historically when Spectra Energy supply destined to the Station 2 marketplace exceeds demand onto the T-South system to Huntingdon/Sumas, the remaining supply will move from BC via the Alliance system and the T-North system to Gordondale. Under this scenario when the Station 2

<sup>6</sup> 2009 NEB Reference Case Scenario: Canadian Energy Demand and Supply to 2020 (July 2009)

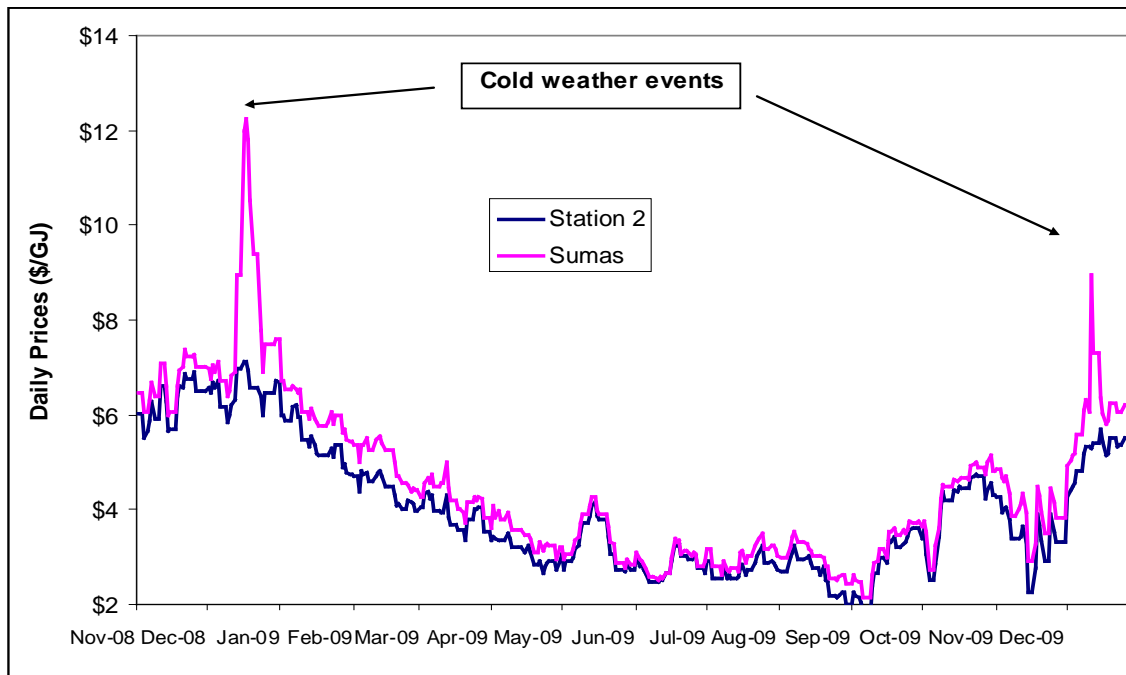
supply exceeds T-South demand, the Station 2 price trades at a discount to the AECO price in Alberta. For example, in the summer, of 2009 Station 2 traded \$0.11 per gigajoule (“GJ”) lower than AECO when supply at Station 2 exceeded demand at Station 2. This pricing scenario can also occur during the winter months when demand in Lower Mainland and PNW is lower due to weather or power generation demand.

The opposite is typically true when supply is insufficient to meet demand. Supply has to be bid away from markets served by NGTL and Alliance resulting in Station 2 trading at a premium to AECO. For example, in the early part of the winter of 2009 when cold weather and infrastructure constraints in the PNW caused a significant increase in demand for Station 2 supply, Station 2 traded \$0.24/GJ above AECO from December 5, to December 15, 2009. In early December 2008 Station 2 traded around \$0.90/GJ above AECO.

### 3.3.2. Sumas

Sumas is a seasonal market driven by winter demand. As illustrated in Figure 7, when there are constraints in the PNW due to cold weather events such as those experienced in December of 2008 and 2009, the relative price of Sumas increases dramatically.

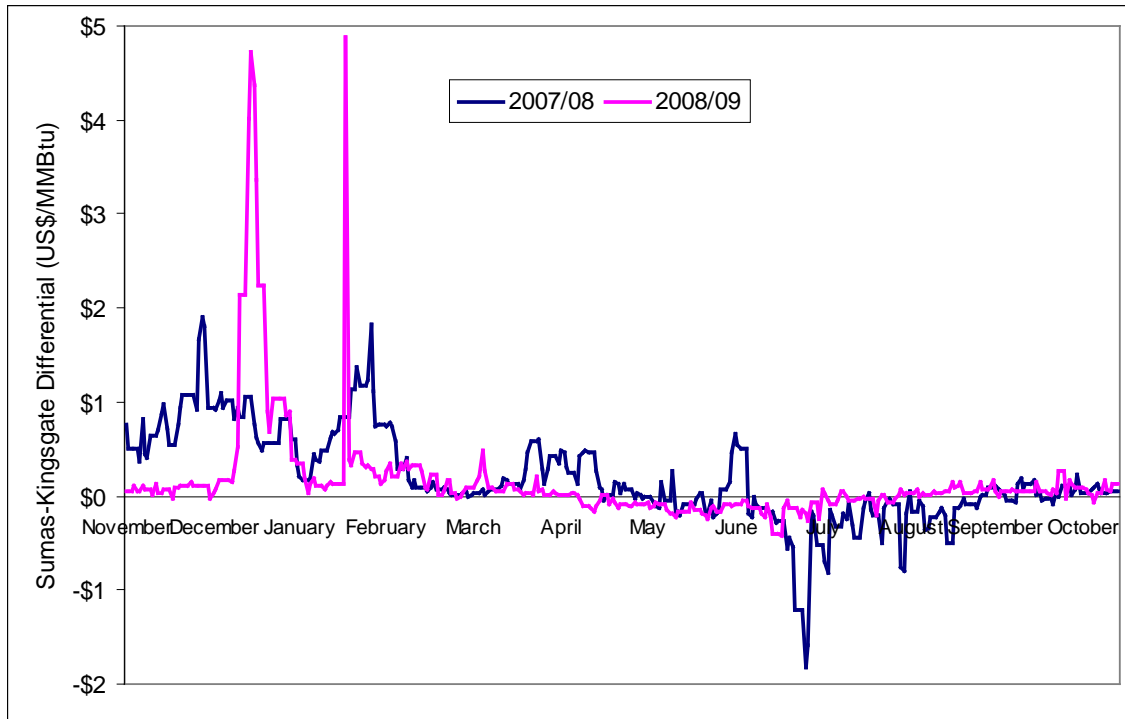
Figure 7: Sumas and Station 2 daily prices



### 3.3.3. Kingsgate

In contrast to Sumas, Kingsgate is a seasonal market driven by summer demand. As temperatures rise in the summer, the demand for supply onto the Gas Transmission Northwest (“GTN”) pipeline serving the California markets increases and the drives the price higher. Figure 8 illustrates how the Sumas market trades above Kingsgate in the winter and below in the summer.

**Figure 8: Kingsgate-Huntingdon Seasonal Price Differential**



In summary, Station 2 pricing is affected by whether BC supply flows on a firm basis through to the Station 2 marketplace or must be bid away from alternative markets. The proposals to export supply east to Alberta discussed previously could result in buyers at Station 2 having to bid this supply away triggering increased price volatility at Station 2. Firm commitment by producers to flow supply through to Station 2 and down to the Sumas market is paramount in maintaining the long term accessibility of cost effective supply at Station 2 for Terasen Gas and PNW customers.

As will be discussed in the next section, Terasen Gas and Spectra Energy have developed a transportation solution that will provide shippers in northern BC supply access to yearly demand by capitalizing on the Sumas and Kingsgate price diversity discussed above.



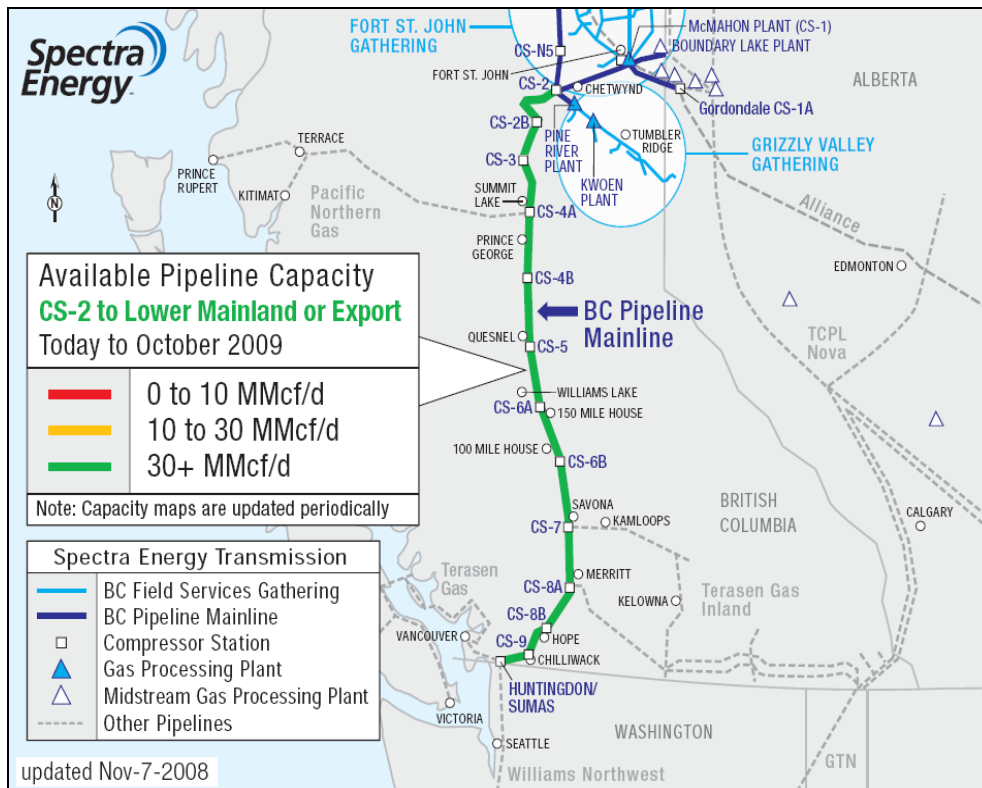
## 4. Spectra Energy and Terasen Gas Pipeline Systems

The following section will describe how the Spectra Energy and Terasen Gas transmission systems, including SCP, are currently operating and the constraints on the two systems.

### 4.1. Spectra Energy

The T-North system serves to transport natural gas supply to Station 2, Gordondale, Alliance and the Aitken Creek storage facility. The T-South system, seen in Figure 9, is the key transmission system serving the Terasen Gas Interior and Lower Mainland systems as well as Pacific Northern Gas and exports at Huntingdon/Sumas. The T-South system receives supply at either Station 2 or Kingsvale and delivers to downstream markets.

**Figure 9: Spectra Energy Service from Station 2 to Lower Mainland or Export (“T-South”)**

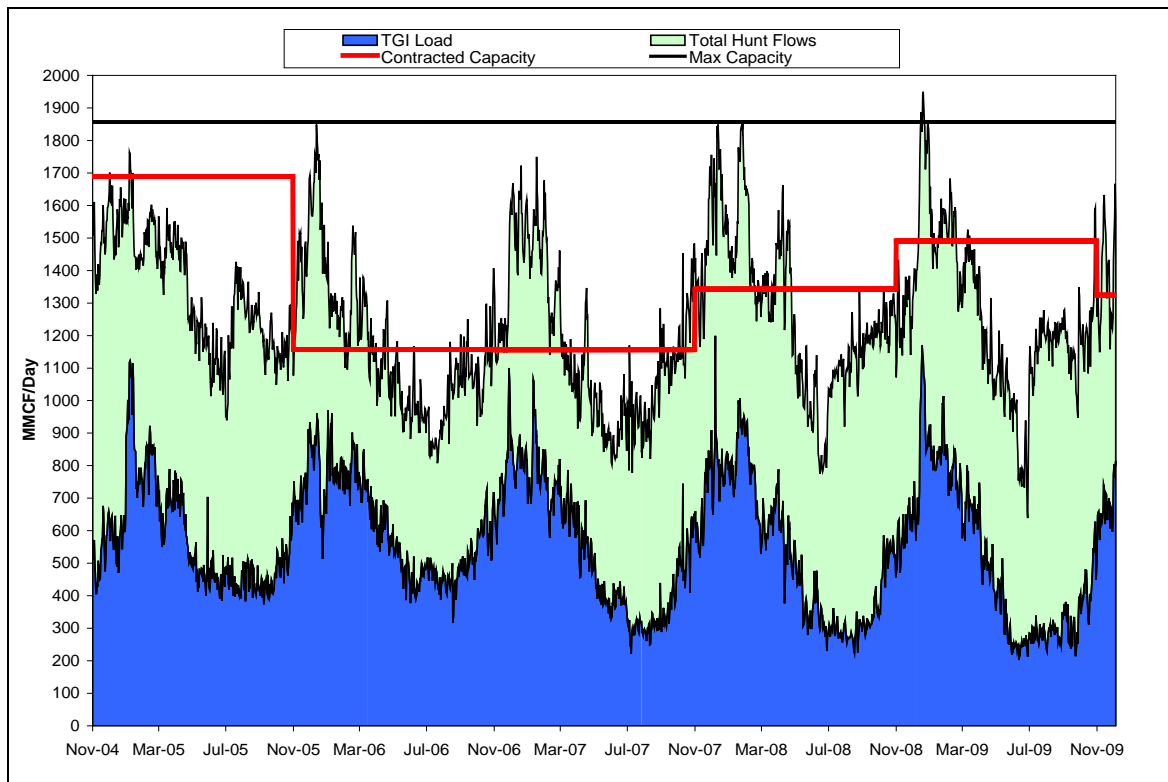


Terasen Gas is Spectra Energy’s single biggest shipper on its transmission system. The data below shows Terasen Gas made up 33% of Spectra Energy’s average 2008 market daily deliveries:

Market Delivery Point	MMcfd
Northeast BC	57
Alliance	175
PNG	17
Terasen Gas Interior	89
Terasen Gas Lower Mainland	410
Williams NWP Export	719
Other Huntingdon Export	66
Total	1,533

T-South is currently 72% subscribed under firm annual contracts. T-South is however constrained on winter peak days. The pipeline flows at maximum capacity on very cold winter days in the Pacific Northwest through a combination of firm and interruptible (“IT”) services. As seen in Figure 10 during the prolonged cold spell in December 2008 T-South flowed at maximum capacity. At that same time in Dec 2008 the Sumas daily midpoint price traded over US\$12/MMBtu as illustrated previously in Figure 7.

**Figure 10: Huntingdon Flows, T-South Contracted Capacity & Maximum Capacity**



The impact of the constraints at Huntingdon can cause the Sumas price to increase dramatically during cold weather events. A recent example occurred on December 11, 2009 when the Sumas daily high price was US\$14/MMBtu, over double the previous day and US\$8/MMBtu above the Station 2 price. In contrast to the winter months, in the summer time, the flows at Huntingdon drop dramatically due to decreased PNW regional demand.

The ability to access a summer market can greatly improve the T-South utilization by providing optionality to T-South Enhanced Service shippers to access both the Sumas and Kingsgate markets.

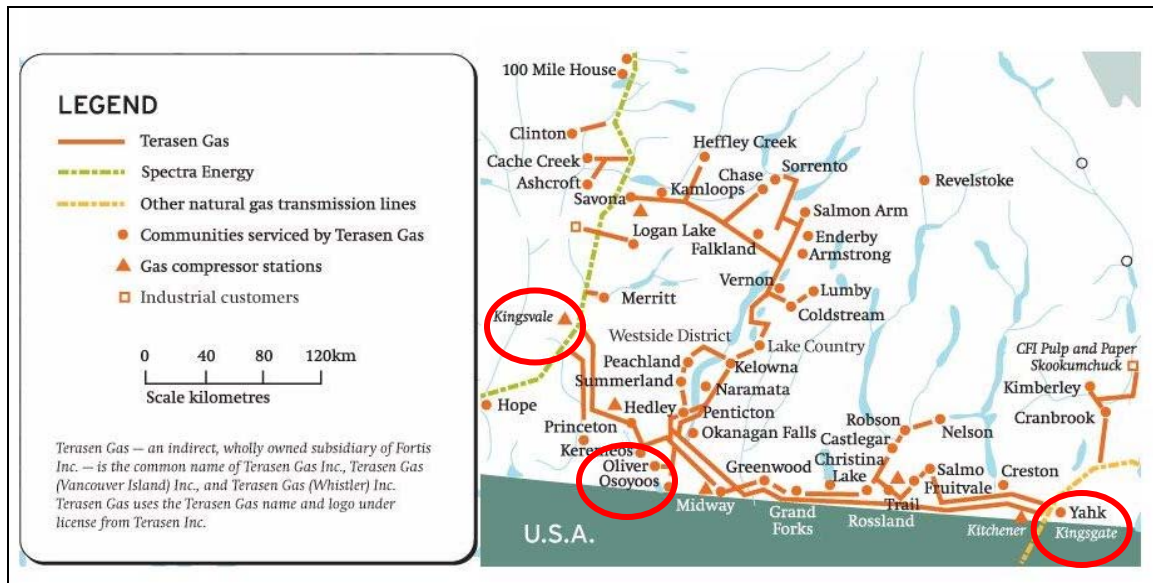
Terasen Gas' SCP and Interior Transmission System, the systems facilitating access to the Kingsgate market for the T-South Enhanced Service, will be described in the following section.

#### 4.2. Terasen Gas Interior Transmission System and SCP

Pursuant to its Annual Contracting Plan, the Company utilizes SCP, a 24-inch pipeline between Yahk and Oliver, primarily to transport both its Alberta and Kingsgate supply to the interior and to the Lower Mainland via Spectra Energy Kingsvale South. In addition, Terasen Gas provides firm transportation service to Northwest Natural Gas Company ("NW Natural") from Yahk to Sumas via Spectra Energy Kingsvale South.

The Company contracts for capacity on both the NGTL system to bring Alberta supply to the Alberta-BC border and the TransCanada's Foothills system to bring the supply to the Terasen Gas system at Yahk. The Company also contracts for peaking gas supply at Kingsgate and backhauls the supply to Yahk. A portion of this supply goes to serve the Interior load and the remainder travels along the 12-inch pipeline between Kingsvale and Oliver (the "Kingsvale-Oliver Pipeline") and ultimately ends up serving the load at the Lower Mainland. Flows on SCP are limited by the steady state throughput capacity (the "Peak Day Capacity") of the Kingsvale-Oliver Pipeline and system serving the Interior.

Figure 11: Terasen Gas Interior Transmission System and SCP (Kingsvale, Oliver & Yahk circled)



In addition to using its transmission system to meet peaking and seasonal needs of its firm customers and transporting supply for third party shippers, the Company mitigates its

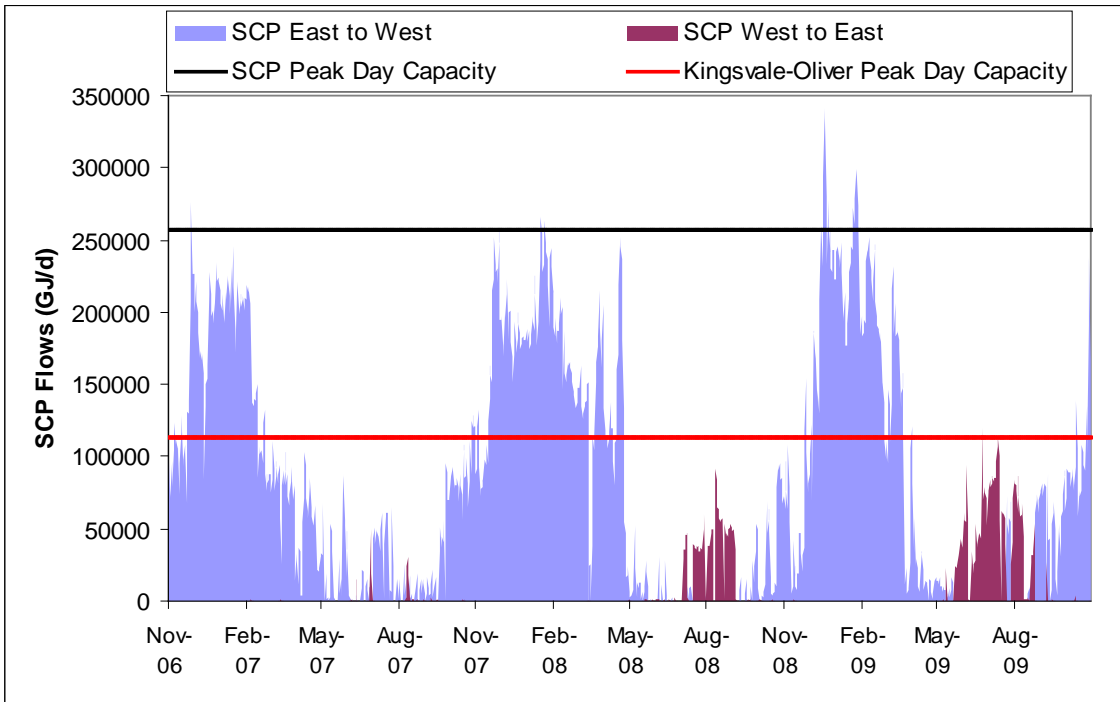
transmission system along with contracted capacity on the Spectra Energy and Foothills systems in response to demand and market conditions through the following activities:

- Buying Station 2 and selling Kingsgate.
- Buying AECO and selling Kingsgate
- Buying AECO and selling Huntingdon
- Assigning Foothills capacity in the summer
- Re-selling excess AECO commodity supply at Kingsgate

Historically, the net revenue generated from these activities has been allocated to customers through the Midstream Commodity Reconciliation Account ("MCRA") and through the delivery margin. This allocation methodology has been intended to reflect the principle that customers paying for SCP in the delivery margin should share in the mitigation associated with SCP and T-South Inland (Kingsvale) transportation resources. The allocations to the delivery margin are captured in the SCP Mitigation deferral account. The allocation formula is based on the total SCP capacity relative to T-South resources in the Terasen Gas portfolio. Over the past few years, 19% of net revenue generated in the winter has been allocated to the MCRA and 81% to the SCP Mitigation deferral account. In the summer, 29% has been allocated to the MCRA and 71% to the SCP Mitigation deferral account.

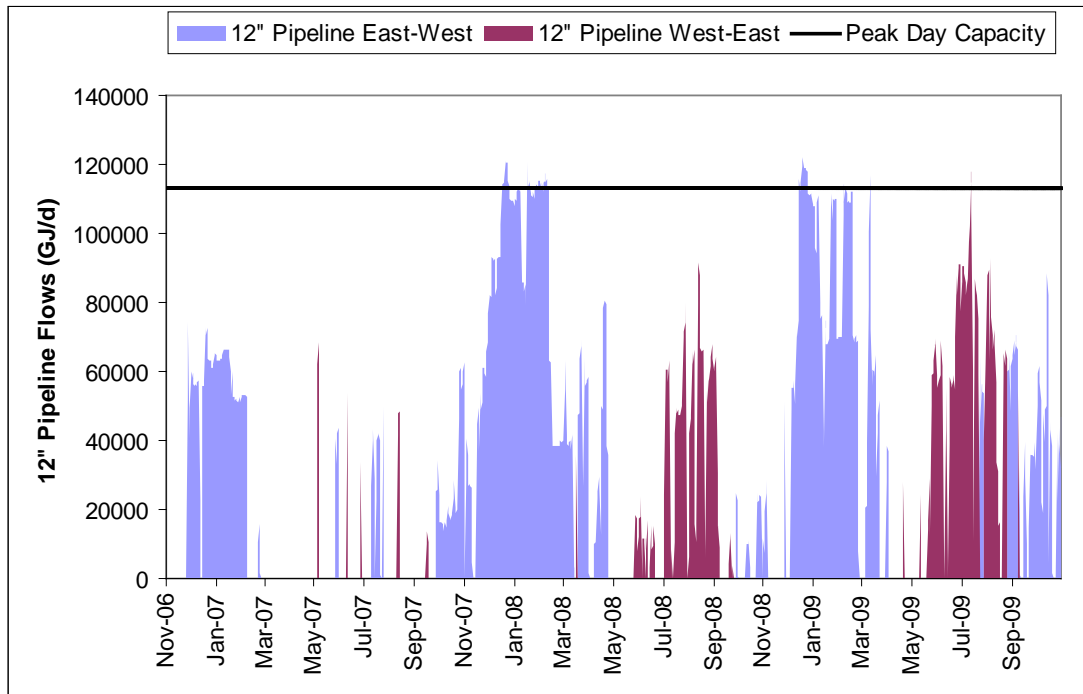
The annual flows on SCP over the past four years are illustrated in Figure 12. During the winter months the Company uses SCP to meet its seasonal and peaking demand and to resell excess Alberta supply at Huntingdon and as well as to provide firm transportation to NW Natural. The figure also illustrates that for several days during the cold spell in December of 2008, SCP exceeded its Peak Day Capacity as the Company used SCP to meet Interior and Lower Mainland loads. By operating with transient flows on SCP rather than steady state flows (i.e. through timely use of line pack), the Company was able to exceed the Peak Day Capacity on the coldest days. During the summer months the Company has been utilizing SCP for mitigation purposes by flowing west to east from Station 2 to Kingsgate and thereby adding value to its existing T-South capacity.

Figure 12: SCP Daily Flows & Peak Day Capacity



As shown in Figure 12 above, the capacity of SCP is approximately 239 MMcfd (257 TJ/d) while the maximum throughput on the Kingsvale-Oliver Pipeline is approximately 105 MMcfd (113 TJ/d). As a result, west to east flows on Southern Crossing to Yahk are constrained by the capacity of the Kingsvale-Oliver Pipeline. East to west flows on SCP are similarly constrained by take away capacity of the Kingsvale-Oliver Pipeline with the remaining throughput is dependent on the weather related demand in the Terasen Gas' interior service area. Figure 13 shows the throughput on the Kingsvale-Oliver Pipeline only over the same period and shows that the utilisation of the pipeline to meet demand and create value for customers has been increasing over time. There were 11 winter days in 2008 and 9 in 2009 where the maximum capacity was exceeded on the Kingsvale-Oliver Pipeline to meet seasonal and peak demand. In addition, from December 15, 2008 to January 8, 2009, the Kingsvale-Oliver Pipeline load factor was 99%.

**Figure 13: Kingsvale-Oliver Pipeline Daily Flows & Peak Day Capacity**



As seen in the summers of 2008 and 2009, the Company has been increasingly moving supply west to east on SCP and Kingsvale-Oliver Pipeline. For example, from late June to early July 2009 the Kingsvale-Oliver Pipeline flowed at approximately 80% load factor and on two days the pipeline was over 100% load factor. During this period alone, the Company generated approximately \$600,000 in gas cost savings by mitigating these transportation resources on behalf of customers.

Terasen Gas believes that if SCP was not constrained by the capacity of the Kingsvale-Oliver Pipeline, there could have been higher utilization of the pipeline to meet the peak and seasonal winter demands of customers in the Lower Mainland as well as further use of the system for third party transportation and mitigation purposes.

The next section describes the regional energy solution that was developed by the Company and Spectra Energy working together to increase the efficient use of infrastructure within BC and to secure access to northern BC supply.

## 5. Terasen Gas and Spectra Energy Solution

As was previously discussed there are numerous infrastructure projects intended to export the new northern BC supply source out of BC into Alberta and export markets. Terasen Gas and Spectra Energy have been working together to develop strategies that promote the efficient use of existing pipeline infrastructures operated by both companies and encourages firm producer commitment to the BC marketplace as an alternative to connecting directly to the NGTL system. As a result of these activities, Spectra Energy and Terasen Gas have developed a solution that adds value to Spectra Energy's T-South service by providing shippers the option to access the Kingsgate market through the Company's interior transmission system and SCP. The two components of the T-South Enhanced Service are as follows:

- Spectra Energy and Terasen Gas enter into the Agreement whereby Terasen Gas provides Spectra Energy firm transportation service from Kingsvale to Kingsgate. This service will be provided using existing capacity on the Terasen Gas Kingsvale-Oliver Pipeline and SCP from Oliver to Yahk, and Terasen Gas' contracted capacity on TransCanada's BC System from Yahk to Kingsgate.
- Spectra Energy offers an Enhanced T-South Service, whereby from period to period shippers can elect to transport their gas from Station 2 to either Huntingdon/Sumas or to Kingsgate. This service provides shippers with alternative access to more liquid Alberta or California markets at times when demand in the BC and PNW markets are lower, typically in the summer months. Spectra Energy is responsible for all the necessary commercial and operational arrangements with shippers upstream of Kingsvale and downstream of Kingsgate.

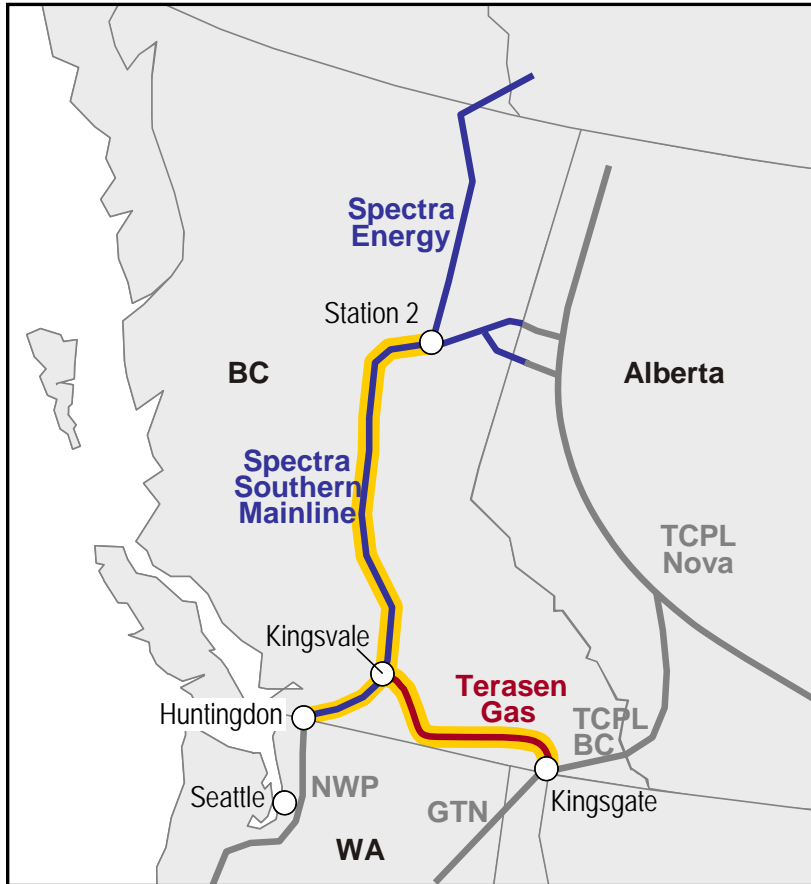
The T-South Enhanced Service is made possible by utilizing existing un-contracted capacity on Spectra Energy's T-South system and Terasen Gas' transmission system between Kingsvale and Yahk along with the Company's contracted capacity on TransCanada's BC Foothills system. As a result the initial capacity that is available is limited to a maximum of 87 MMcf/d. The T-South Enhanced Service is initially offered on a two year pilot basis.

Spectra Energy concluded an open season for the T-South Enhanced Service in November 2009 and obtained firm commitments for the initial contract capacity of 49.5 MMcf/d. The Company and Spectra Energy are continuing to market the T-South Enhanced Service to prospective shippers in order to secure commitments up to the maximum of 87 MMcf/d.

Spectra Energy is responsible for all the necessary commercial and operational arrangements with shippers upstream of Kingsvale and downstream of Kingsgate for such purposes. Capital upgrades are not required on either the Terasen Gas or Spectra Energy systems as existing infrastructure is being utilized.



Figure 14: Spectra Energy Enhanced T-South Service



The Company's ability to create value for customers under the Agreement is limited at 87 MMcf/d based on two factors. As discussed in section 4.2, the first is the physical constraint of the Kingsvale-Oliver Pipeline. The west to east deliverability of SCP at Yahk is approximately 250 MMcf/d whereas the Kingsvale-Oliver Pipeline is approximately 90 MMcf/d in the summer.

The other factor limiting the Company in generating customer value is that the Company only holds 93 MMcf/d of year-round Foothills capacity as a part of the ACP to bring AECO supply onto the Terasen Gas system at Yahk. In the summer time, approximately 6 MMcf/d of demand in the Columbia region is served using this Foothills capacity. Currently a firm service between Yahk and Kingsgate (a distance of approximately 8 kilometres) does not exist under the Foothills tariff so the Company is not able to contract for incremental capacity at a relatively low, distance based toll.

### 5.1. Benefits to the PNW

As covered in an earlier section, Spectra Energy's T-South system typically has lower value in the summer when demand drops. In contrast, demand and prices at Kingsgate are higher in the summer when the demand onto the GTN pipeline serving the California market picks up due to warmer weather.

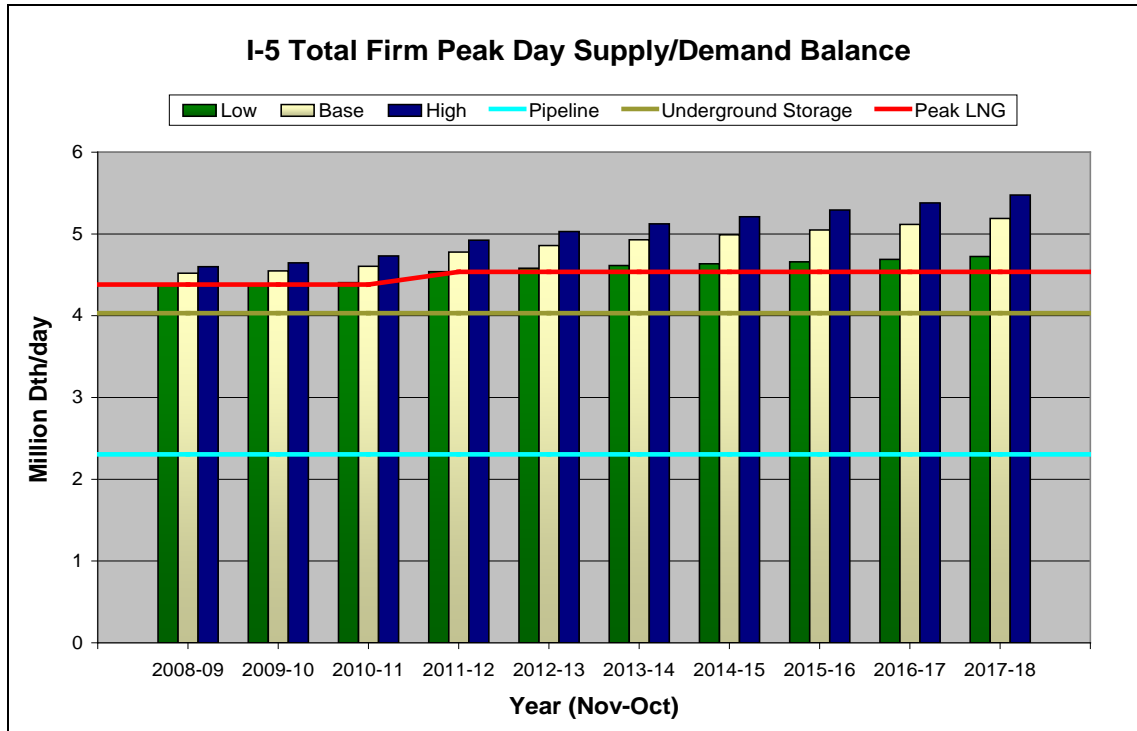


The T-South Enhanced Service brings together the best of both markets with access to Huntingdon in the winter and Kingsgate in the summer, thereby creating a strong value proposition for prospective shippers. There are numerous northern BC producers and marketers that hold long term firm GTN capacity to flow Alberta supply down Foothills to Kingsgate and then south to Malin in northern California. The T-South Enhanced Service would give producers and marketers the ability to flow from northern BC production to the Kingsgate market through the Spectra Energy and Terasen Gas pipeline systems. The Company estimates that over the last three years the relative value of T-South would have increased by \$0.05 per gigajoule ("GJ") if a T-South shipper had access to Kingsgate.

Under this T-South Enhanced Service, shippers will pay the T-South Export toll and have the choice for delivery at either Huntingdon or Kingsgate. The revenue collected by Spectra Energy associated with the T-South Enhanced Service, less the amount paid to Terasen Gas under the Agreement, will be credited against the Spectra Energy cost of service. Spectra Energy made provisions in the open season that ensured that the T-South Enhanced Service represented incremental contracting on T-South and existing shippers could not de-contract their current service in exchange for the T-South Enhanced Service. As a result of the incremental contracting on T-South, the forecast annual toll reduction is 1.3 cents per Mcf based on the initial contract capacity of 49.5 MMcfd. The toll reduction rises to 1.7 cents per Mcf if the T-South Enhanced Service were to be fully contracted.

In addition to the value proposition to producers and marketers, a combination of factors suggests that there may also be incremental demand for the T-South Enhanced Service from downstream participants in the I-5 corridor. The tight balance between the firm peak day demand and the available resources in the I-5 corridor can be seen in Figure 15 from the Northwest Gas Association ("NWGA") 2008 Outlook Study. The tight supply-demand balance suggests that parties in the I-5 corridor may seek to match their supply source with firm transportation capacity as resources become increasingly scarce during peak periods.

**Figure 15: I-5 Peak Day Demand versus Regional Resources**



The two pipeline infrastructure projects being pursued in the PNW, Bluebridge and Palomar, also indicates that shippers are seeking to expand the available transportation capacity in the region. Both of these projects were proposed before the dramatic increase in the forecast for BC unconventional production when the Western Canadian Sedimentary Basin (“WCSB”) was forecast to decline. As well as concerns about the decline in the WCSB, the limited liquidity at Station 2 and Sumas were likely considerations that led parties to pursue these projects rather than contract on T-South.

While the T-South Enhanced Service does not add incremental capacity to the PNW it does add value to T-South capacity by providing downstream natural gas utilities access to northern BC supply for winter load purposes and a market at Kingsgate to resell excess supply in the summer months. It is also expected that the T-South Enhanced Service serves to improve the liquidity in the BC marketplace. An expansion of the system between Kingsvale and Oliver would provide incremental supply to the region at both Huntingdon and Kingsgate as will be discussed in more detail in Section 7, Regional Infrastructure Strategy.

In summary, the forecasted increase in BC production presents an opportunity to attract incremental PNW shippers to the T-South system. The advantages of the T-South Enhanced Service over the other proposed projects in the PNW include the following:

- Access to growing northern BC unconventional production
- Immediate access to service through existing infrastructure
- No additional capital costs for the pilot phase
- A competitive toll that avoids toll stacking
- Access to Kingsgate markets for reselling excess supply during summer months

- Sets the foundation for the Company to evaluate the feasibility of expanding the system between Kingsvale and Oliver. This incremental capacity would bring more supply to the PNW at minimal cost.

## **5.2. Benefits to Terasen Gas Customers**

By entering into the Agreement with Spectra Energy, Terasen Gas customers will benefit in three key ways.

The first benefit is access to competitively priced, reliable supply for customers paying for commodity supply sourced in BC via the Commodity Cost Reconciliation Account (“CCRA”) and the Midstream Commodity Reconciliation Account (“MCRA”). Transporting BC production on the Spectra Energy T-South system on a firm basis helps to improve liquidity in the BC marketplace.

The second benefit is lower costs to hold T-South in the midstream portfolio. The T-South system is a key part of the Annual Contracting Plan (“ACP”) resource portfolio to meet customer demand requirements. As such, Terasen Gas is the largest holder of T-South service on the Spectra Energy system. As discussed earlier, the T-South toll savings based on the initial contract capacity are 1.3 cents per Mcf, equivalent to a decrease of \$2.1 million per year for costs that would otherwise have to be recovered in midstream rates from Terasen Gas Utilities’ customer rates. If the service were fully contracted at 87 MMcf/d, the T-South toll savings would be 1.7 cents per Mcf, equivalent to \$2.7 million per year.

The third benefit relates to the optimization of the Terasen Gas transmission system paid for by customers paying the midstream cost recovery charges and delivery margin as well as the Foothills capacity recovered in the midstream costs. Under the terms of the Agreement, the Company will be paid a minimum of \$3.2 million per year for the services it is providing Spectra Energy based on the initial contract demand of 49.5 MMcf/d. The Company would be paid \$5.7 million per year if the service was fully contracted at 87 MMcf/d. The Company expects to continue to mitigate the remaining 37 MMcf/d of available capacity as it has historically and does not foresee any opportunity costs associated with the T-South Enhanced Service.

In summary, Terasen Gas customers will benefit from access to competitively priced, BC supply as well as from a minimum of \$5.3 million per year over two years from T-South toll savings of \$2.1 million and \$3.2 million in incremental mitigation revenue based on initial contract demand. The maximum benefit would be \$8.4 million per year from \$2.7 million per year in T-South toll savings and \$5.7 million per year in incremental mitigation revenue based on contract demand of 87 MMcf/d.

## 6. Agreement Summary & Revenue Allocation Methodology

The following section summarizes the key terms of the Agreement between Spectra Energy and Terasen Gas. The full Agreement and Tariff Supplement No. I-9 are included as Attachment A.

### 6.1. Services

Terasen Gas will provide to Spectra Energy daily firm natural gas transportation service across its system during the term of this Agreement. The Company will be providing receipt of the authorized quantity of gas plus fuel at Kingsvale and the subsequent delivery at Kingsgate.

The initial contract demand will be 49.5 MMcf/d ( $1401.8 \times 10^3 \text{m}^3$ ) based on the outcome of the binding open season for the T-South Enhanced Service that closed November 20, 2009. The final contract capacity could be as high as 87 MMcf/d ( $2,465 \times 10^3 \text{m}^3$ ). In the event that additional shippers request service before May 1, 2010 another open season will be conducted.

### 6.2. Term of Service

The term of the Agreement is two years commencing May 1, 2010 and terminating April 30, 2012.

The Company and Spectra Energy have agreed to prove out the T-South Enhanced Service under a pilot program, consistent with the way Spectra Energy typically introduces new services. Service to Huntingdon was made available December 1, 2010 while the Terasen Gas portion of the T-South Enhanced Service will be available May 1, 2010 allowing time for back-office processes to be established and Commission approval to be secured.

Spectra Energy and Terasen Gas are using the pilot project as a means to assess the long term market potential of the Station 2-Kingsgate service as well as to establish safe and reliable operating practices. The T-South Enhanced Service will be available until April 30, 2012 and renewal of the pilot program will be subject to Terasen Gas and Spectra Energy agreeing to extend the program. The terms of any potential extension would be determined at that time.

### 6.3. Delivery Charges

For up to 87 MMcf/d ( $2,465 \times 10^3 \text{m}^3$ ) of contract demand, the monthly demand charge for the contract term shall be the product of the number of days in the month and Cdn \$0.179 per Mcf (Cdn\$6.35 per  $10^3 \text{m}^3$ ) of contract capacity. The demand charge paid to the Company represents an average of 43% of the Spectra Energy 2009 Huntingdon delivery area, two year term differentiated rate toll.

As seen in Table 1, under the terms of the Agreement the Company will be paid a guaranteed minimum of \$3.2 and up to \$5.7 million per year if fully contracted at 87 MMcf/d in each of the two years of the pilot program.

**Table 1: Contract Demand & Payment to Terasen Gas**

	Units	Initial	Maximum
Contract Demand	MMcfd	49.5	87
Contract Demand	10 <sup>3</sup> m <sup>3</sup> d	1,402	2,465
Daily Payment to Company	Cdn\$/Mcf	0.179	0.179
Daily Payment to Company	Cdn\$/103m <sup>3</sup>	6.35	6.35
Annual Payment to the Company	Cdn\$ Million	\$3.2	\$5.7

#### **6.4. Revenue Allocation Methodology**

The revenue generated from the Agreement is considered to be SCP mitigation revenue and the Company proposes, consistent with current practice, that it be allocated between the SCP Mitigation deferral account and the MCRA. Further, as discussed in Section 4.2, the allocation methodology proposed is consistent with current practices for SCP mitigation revenue including purchasing Station 2 and selling Huntingdon, purchasing Station 2 and selling Kingsgate and purchasing AECO and selling Huntingdon. Based on the current allocation methodology, 19% of the revenue would be allocated to the MCRA and 81% to the SCP Mitigation deferral account. In the summer, 71% would be allocated to the MCRA and 29% to the SCP Mitigation deferral account. For an annual revenue stream, this allocation is approximately equivalent to a 50/50 split between MCRA and the SCP Mitigation deferral account.

Based on the above methodology, the \$3.2 million per year paid to the Company will be allocated \$1.6 million to the MCRA and \$1.6 million to the SCP Mitigation deferral account. Consistent with Commission Order No. G-141-09, dated November 26, 2009, and the Negotiated Settlement Agreement, attached as Appendix A to that Order, on the Terasen Gas 2010-2011 Revenue Requirements and Delivery Rates Application, the balance within the SCP Mitigation deferral account as at December 31, 2011 will be amortized through delivery rates over a three year period beginning in 2012.

## 7. Regional Infrastructure Strategy

As discussed in section 5, through the efficient use of existing infrastructure the T-South Enhanced Service provides benefits to Terasen Gas customers from improved BC market conditions, increased mitigation revenue, and decreased T-South tolls. As summarized in section 5.2, Terasen Gas customers will benefit at minimum from \$5.3 million per year from the two year pilot project. Terasen Gas and Spectra Energy are using the pilot project as a means to establish the market potential for the Station 2-Kingsgate service as well as to establish sound operating practises.

In conjunction with the pilot project, the Company is also proposing to undertake a preliminary feasibility study to address the physical constraints on the Terasen Gas system. The potential benefits to Terasen Gas customers of embarking on this regional infrastructure project are summarized below.

As discussed earlier, ensuring continued access to cost-effective, reliable BC supply is a critical issue with 3.5 Bcf/d of incremental take-away capacity out of the province being proposed. By alleviating the physical constraint on the Kingsvale-Oliver Pipeline, the Company would be in a position to provide additional capacity to Spectra Energy and add value to its existing T-South capacity by providing shippers with greater market diversification. By increasing the value of T-South and re-contracting on the Spectra Energy system, it improves the liquidity of the BC marketplace. In this way, the Company has an opportunity to keep a portion of the 3 Bcf/d of BC production growth forecast from 2009 to 2020 flowing on the Spectra Energy and Terasen Gas systems.

Terasen Gas' system between Kingsvale and Yahk is bi-directional, and expanding the Kingsvale-Oliver Pipeline capacity will also allow Terasen Gas to deliver incremental gas on to the Spectra Energy T-South system at Kingsvale during cold weather events. Based on a preliminary assessment, it is expected that the deliverability at Huntingdon could be increased up to 100 MMcfd with minimal capital investment required by Spectra Energy. This incremental capacity would help address the peak constraints at Huntingdon during cold weather events and lessen the impact of Operational Flow Orders ("OFO") on the Northwest Pipeline system. The additional gas could be sourced from Alberta or Kingsgate and flow across the Terasen Gas system and onto the Spectra Energy system at Kingsvale. In the preliminary market assessment, the Company will also be exploring the feasibility of contracting for incremental Alberta supply or Kingsgate supply to replace existing peaking resources or to fill incremental requirements.

The following section summarizes the preliminary feasibility assessment activities as well as the Company's proposal to fund these activities through the revenue generated from the Agreement.

### **7.1. Expansion Related Activities**

To address the physical constraint on the Transmission system, Terasen Gas plans to develop a proposal to reinforce its transmission system in the BC Interior. The Project is expected to consist of a new pipeline loop between Kingsvale and Oliver, additional compression capability,

and a new pipeline between Yahk and Kingsgate or contracting for incremental capacity on the Foothills system. See Appendix B for a more detailed description of the project and the proposed development activities.

Terasen Gas currently expects the new pipeline would parallel most of the existing Kingsvale-Oliver Pipeline, although other routes would be considered. Table 2 below summarizes the forecasted costs and timeline for project development. See Appendix B (page 5) for further details.

The proposed development activities are divided into two stages prior to the Company filing a Certificate of Public Convenience and Necessity (“CPCN”) Application. In Stage 1, Terasen Gas plans to perform preparatory engineering, environmental, construction, land use, socio economic impact and stakeholder identification studies to determine the initial feasible route and, as applicable, compressor site alternatives. These studies will provide the framework of the conceptual design of the pipeline and compressor facilities. Stage 2 involves field studies, options analysis, consultation, and regulatory applications. These two development stages are expected to require a period of nearly three years in aggregate.

Terasen Gas is proposing to commence Stage 1 activities in the second quarter 2010 with the objective of completing the technical feasibility and market assessment by second quarter 2011. Based on the results of Stage 1 activities, the Company will assess the timing and support for proceeding with Stage 2 activities leading to a potential CPCN. The earliest Stage 2 activities would commence is 2011; however, the timing may be delayed depending on market conditions at that time.

**Table 2: Project development costs and timeline**

	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2	Q3 Year 2	Q4 Year 2	Q1 Year 3	Q2 Year 3	Q3 Year 3	Q4 Year 3
<b>Stage 1</b> Preliminary Assessment, Issue Identification		\$2 million										
<b>Stage 2</b> Field Studies, Consultation, Option Selections, Regulatory Applications					\$6 million							

The Company is proposing to record the costs related to third party costs with respect to the Stage 1 activities in the SCP Mitigation deferral account; thereby expensing the Stage 1 preliminary assessment costs against the incremental revenues received from Spectra Energy pursuant to the Agreement. Specifically, the Company is requesting approval to record the Stage 1 preliminary assessment costs, up to a maximum amount of \$2 million, in the SCP Mitigation deferral account over the two-year term of the Agreement. The Company is not requesting any approvals related to Stage 2 activities at this time.

The net benefits to customers, comprised of the payment to the Company under the Agreement plus the T-South toll savings minus the Stage 1 costs are summarized in Table 3. Over the two



year pilot program, the net benefits from customers is between \$8.6 million based on the initial firm contract demand and \$14.8 million if the service was fully contracted.

**Table 3: Net Benefits to Customers**

	Minimum	Maximum
Annual Payment to the Company	\$3.2	\$5.7
Annual T-South Toll Savings	\$2.1	\$2.7
<b>Annual Total</b>	<b>\$5.3</b>	<b>\$8.4</b>
<b>2 Year Pilot Total</b>	<b>\$10.6</b>	<b>\$16.8</b>
Stage 1 Expenses	-2.0	-2.0
<b>Net Benefits to Customers</b>	<b>\$8.6</b>	<b>\$14.8</b>

By adding incremental capacity to the existing Kingsvale-Oliver Pipeline, the Company could expand the service provided to Spectra Energy and also support additional capacity to Sumas during cold winter events. The Company believes that this allows for more efficient use of existing BC infrastructure based on the combined Spectra Energy and Terasen Gas systems which in turn will improve the liquidity in the BC marketplace as well as alleviating price volatility by adding additional capacity to serve the BC and Pacific Northwest markets. The current arrangements with Spectra Energy supporting the two year pilot T-South Enhanced Service offering presents an opportunity to perform this feasibility work and the Company believes it is appropriate those activities be funded by the revenues received from Spectra Energy under the Agreement.



## 8. Conclusions and Recommendations

Terasen Gas has established a strategic relationship with Spectra Energy to develop a regional energy solution in response to the forecast increase in BC production and the aggressive expansion projects to increase take-away capacity out of BC. The T-South Enhanced Service offered by Spectra Energy enhances the traditional T-South service by providing access to the Kingsgate market which is most attractive to shippers when summer demand is highest in California.

The re-contracting on the Spectra Energy system due to the T-South Enhanced Service is expected to increase liquidity in the BC marketplace, lower T-South tolls and create incremental mitigation value for Terasen Gas customers. Over the course of the two year pilot program, the net benefits to Terasen Gas customers are expected to amount to a guaranteed minimum of \$8.6 million based on the current contract demand and up to \$14.8 million if the service was fully contracted.

In conjunction with the pilot project, the Company is also proposing to undertake a preliminary feasibility study to address the physical constraints on the Terasen Gas system. Some of the potential long-term benefits to Terasen Gas customers of embarking on this regional infrastructure project include improved liquidity in the BC marketplace, alleviating price volatility by adding additional capacity in the PNW, and system betterment to the Terasen Gas transmission system.

As a result of the expected benefits to our customers, Terasen Gas is seeking approval from the Commission for the following:

1. Approval, pursuant to Section 60 and 61 of the *ACT* of the firm transportation agreement between Terasen Gas and Spectra Energy and Tariff Supplement No. I-9, attached in Appendix A, and for approval of the proposed accounting treatment for the associated revenues.
2. Approval to record the costs of the preliminary feasibility assessment to expand the existing capacity on its system through the revenue obtained under the Agreement in the SCP Mitigation Revenues Variance ("SCP Mitigation") deferral account by up to a maximum of \$2 million over the two-year term of the Agreement.

## **Appendix A: Agreement and Tariff Supplement I-9**



**FIRM TRANSPORTATION SERVICE AGREEMENT**

**BETWEEN**

**TERASEN GAS INC.**

**AND**

**WESTCOAST ENERGY INC.**

**March 12, 2010**

**THIS FIRM TRANSPORTATION SERVICE AGREEMENT** is dated March 12, 2010 with effect as of and from May 1, 2010.

**BETWEEN:**

**TERASEN GAS INC.**, a company incorporated under the laws of British Columbia and having its registered office at 1111 West Georgia Street, Vancouver, British Columbia, Canada

(hereinafter called "**Terasen Gas**")

**AND:**

**WESTCOAST ENERGY INC.**, a corporation incorporated under the laws of Canada and having its head office at 1055 West Georgia Street, Vancouver, British Columbia, Canada

(hereinafter called "**Westcoast**")

**WHEREAS:**

- A. Terasen Gas owns and operates natural gas transmission pipeline facilities, including the Southern Crossing Pipeline, extending from the Receipt Point near Kingsvale, British Columbia to the interconnection with the Foothills System near Yahk, British Columbia and contracts with Foothills for firm transportation capacity from Yahk, British Columbia to the Delivery Point near Kingsgate, British Columbia;
- B. Terasen Gas will use the capacity on its facilities and its contracted capacity on the Foothills System to provide Westcoast with firm transportation service from the Receipt Point to the Delivery Point; and
- C. The Parties have agreed to enter into this Firm Transportation Service Agreement effective May 1, 2010, subject to the fulfillment of the conditions set out in Section 3.2.

**NOW THEREFORE THIS AGREEMENT WITNESSES THAT**, in consideration of the terms, conditions and limitations contained herein, the Parties agree as follows:

**ARTICLE 1**

**DEFINITIONS AND INTERPRETATION**

- 1.1 **Definitions:** Except where the context requires otherwise, the following terms and abbreviations, when used in this Agreement, have the meanings set out below:
  - (a) "**Affiliate**", when used to indicate a relationship with a Party, means another Person that, directly or indirectly through one or more intermediaries or otherwise, controls, is controlled by or is under common control with, such Party. A corporation shall be deemed to be an Affiliate of another corporation if one of them is directly or indirectly controlled by the other or if each of them is directly or indirectly controlled by the same Party or Person.

- (b) "**Agreement**" means this Firm Transportation Service Agreement together with Exhibit A attached hereto, as amended, supplemented or restated by the Parties from time to time.
- (c) "**Authorized Quantity**" means the quantity of gas authorized by Terasen Gas for delivery for the account of Westcoast at the Delivery Point on any Day pursuant to Article 6.
- (d) "**Authorized Receipt Quantity**" means the quantity of gas including Fuel Gas authorized by Terasen Gas for delivery by Westcoast to Terasen Gas at the Receipt Point on any Day pursuant to Article 6.
- (e) "**Average Annual Heating Value**" has the meaning given to that term in the Westcoast General Terms and Conditions.
- (f) "**BCUC**" means the British Columbia Utilities Commission.
- (g) "**Business Day**" means any day except Saturday, Sunday and any federal banking or statutory holiday observed in the Province of British Columbia.
- (h) "**Central Clock Time**" or "**CCT**" means Central Standard Time or Central Daylight Savings Time, whichever is in effect on any Day.
- (i) "**Commodity Charges**" has the meaning given to that term in Section 4.3.
- (j) "**Contract Quantity**" means the maximum quantity of gas specified in Exhibit A which Terasen Gas is obligated to deliver on any Day to the Delivery Point for the account of Westcoast pursuant to this Agreement.
- (k) "**Contract Quantity Credit**" means any credits provided by Terasen Gas to Westcoast pursuant to Article 13.
- (l) "**Cubic Metre**" means that volume of gas, which at a temperature of fifteen degrees (15°) Celsius and at an absolute pressure of 101.325 kilopascals occupies one cubic metre.
- (m) "**Cumulative Imbalance**" means the sum, whether positive or negative, of the uncorrected Draft Imbalances and Pack Imbalances incurred on each Day.
- (n) "**Daily Demand Charge**" means the amount specified as such in Exhibit A.
- (o) "**Day**" means a period of twenty-four (24) consecutive hours, beginning and ending at 9:00 a.m. Central Standard Time or at such other time as may be specified in the Westcoast General Terms and Conditions.
- (p) "**Delivery Point**" means the point on the international boundary between Canada and the United States of America near Kingsgate, British Columbia, where the Foothills System connects with the gas transmission pipeline system owned and operated by Gas Transmission Northwest Corporation.

- (q) **"Demand Charge"** means the monthly amount specified as such in Exhibit A.
- (r) **"Draft Imbalance"** means in respect of any Day, an Imbalance resulting from the Receipt Quantity being less than the Authorized Quantity for the Day.
- (s) **"East Kootenay Exchange"** means the point where the Terasen Gas Facilities connect with the Foothills System near Yahk, British Columbia.
- (t) **"Elapsed Pro Rata Quantity"** means in respect of gas delivered by Terasen Gas to the Delivery Point during any part of a Day pursuant to one or more authorizations for service given by Terasen Gas in accordance with Article 6, the sum of the quantities of gas determined in respect of each of those authorizations as follows:
  - (i) in the case of an authorization which comes into effect at the beginning of the Day pursuant to Sections 6.4 and 6.5, a quantity of gas equal to that determined by (A) dividing the Authorized Quantity by 24 and (B) multiplying the quotient so obtained by the number of hours during which the authorization was or would have been in effect; and
  - (ii) in the case of an authorization which comes into effect during the Day pursuant to Sections 6.4 and 6.6, a quantity of gas equal to that determined by (A) subtracting from the then current Authorized Quantity the sum of the quantities determined in accordance with this definition for each of the prior authorizations for service, if any, in effect during the Day and (B) multiplying the difference so obtained by a fraction, the numerator of which is the number of hours during which the then current authorization was or would have been in effect and the denominator of which is the number of hours remaining in the Day following the time at which the then current authorization came into effect.
- (u) **"Evening Nomination Cycle"** means the Nomination Cycle for any Day in respect of which Westcoast is required to give a nomination to Terasen Gas on the immediately preceding Day by the time specified for that Nomination Cycle in Section 6.5.
- (v) **"Firm Service"** has the meaning given to that term in Section 2.1.
- (w) **"Foothills"** means Foothills Pipe Lines (South BC) Ltd., its successors and assigns.
- (x) **"Foothills Fuel Gas Percentage"** means in respect of gas transmitted through the Foothills System, the quantity of gas, expressed as a percentage, which is required to be delivered to Foothills as the allowance for Fuel Gas consumed in the operation of the Foothills System.
- (y) **"Foothills System"** means the gas transmission pipeline facilities owned and operated by Foothills and extending between the East Kootenay Exchange and the Delivery Point.

- (z) **"Force Majeure"** has the meaning given to that term in Section 14.1.
- (aa) **"Fuel Gas"** means gas required by Terasen Gas and Foothills for fuel consumed in operations.
- (bb) **"gas"** means the residue remaining after natural gas produced from wells has been subjected to any or all of the following permissible processes:
  - (i) the removal of any constituent parts other than methane, and the removal of methane to such extent as is necessary in removing other constituents; and
  - (ii) the compression, regulation, cooling, cleaning or any other chemical or physical process other than the addition of diluents, such as air or nitrogen, to such extent as may be required in its production, transmission, storage, removal from storage and delivery.
- (cc) **"gigajoule"** or **"GJ"** means one billion (1,000,000,000) joules.
- (dd) **"Imbalance"** means in respect of any Day, the difference between the Authorized Quantity and the Receipt Quantity for the Day.
- (ee) **"Imbalance Correction"** means any correction of a Cumulative Imbalance made by Westcoast in accordance with Section 7.4 or by Terasen Gas in accordance with Section 7.5.
- (ff) **"Intra-Day Nomination Cycles"** means the Intra-Day 1 Nomination Cycle and the Intra-Day 2 Nomination Cycle and **"Intra-Day Nomination Cycle"** means either one of those Nomination Cycles.
- (gg) **"Intra-Day 1 Nomination Cycle"** means the Nomination Cycle for any Day in respect of which Westcoast is required to give a nomination to Terasen Gas during the Day by the time specified for that Nomination Cycle in Section 6.6.
- (hh) **"Intra-Day 2 Nomination Cycle"** means the Nomination Cycle for any Day in respect of which Westcoast is required to give a nomination to Terasen Gas during the Day by the time specified for that Nomination Cycle in Section 6.6.
- (ii) **"joule"** means the work done when the point of application of a force of one Newton is displaced a distance of one metre in the direction of the force.
- (jj) **"kPa"** means kilopascals of pressure absolute.
- (kk) **"megajoule"** or **"MJ"** means one million (1,000,000) joules.
- (ll) **"Month"** means a period of time commencing at the beginning of the first Day in a calendar month and ending at the beginning of the first Day in the next succeeding calendar month.
- (mm) **"NEB"** means the National Energy Board of Canada.

- (nn) "**Nomination Cycles**" means the Timely Nomination Cycle, the Evening Nomination Cycle, the Intra-Day 1 Nomination Cycle and the Intra-Day 2 Nomination Cycle, and "**Nomination Cycle**" means any one of those Nomination Cycles.
- (oo) "**Pack Imbalance**" means in respect of any Day, an Imbalance resulting from the Receipt Quantity being in excess of the Authorized Quantity for the Day.
- (pp) "**Party**" means a party to this Agreement and "**Parties**" means both of them.
- (qq) "**Person**" means any person other than the Parties to this Agreement.
- (rr) "**Quantity**" or "**quantity**" means, when used in this Agreement in respect of gas, the quantity of that gas in gigajoules.
- (ss) "**Receipt Point**" means the point where the Westcoast System connects with the Terasen Gas Facilities at Westcoast's Meter Station No. 31 near Kingsvale, British Columbia.
- (tt) "**Receipt Quantity**" means in respect of any Day, the quantity of gas equal to the Authorized Receipt Quantity, net of the allowance for Fuel Gas, authorized by Terasen Gas for delivery to it by Westcoast at the Receipt Point on any such Day.
- (uu) "**Service Interruption**" has the meaning given that term in Section 13.1.
- (vv) "**Terasen Fuel Gas Percentage**" means in respect of the Terasen Gas Facilities, the quantity of gas, expressed as a percentage, which Westcoast is required to deliver to Terasen Gas as the allowance for Fuel Gas for the Terasen Gas Facilities.
- (ww) "**Terasen Gas Facilities**" means the natural gas transmission pipeline facilities, including the Southern Crossing Pipeline, owned and operated by Terasen Gas and extending between the Receipt Point and the East Kootenay Exchange.
- (xx) "**thermal equivalent**" means in respect of any volume of gas, the energy content of that volume of gas determined based on its Total Heating Value.
- (yy) "**Timely Nomination Cycle**" means the Nomination Cycle for any day in respect of which Westcoast is required to give a nomination to Terasen Gas on the immediately preceding Day by the time specified for that Nomination Cycle in Section 6.5.
- (zz) "**Total Heating Value**" means the number of joules produced by the combustion, at a constant pressure, of one Cubic Metre of gas at a temperature of 15 degrees Celsius, free of all water vapour, and at an absolute pressure of 101.325 kPa, with the products of combustion cooled to the initial temperature of the gas and air, and all water formed by the combustion reaction condensed to the liquid state.



- (aaa) "**Westcoast General Terms and Conditions**" means Westcoast's General Terms and Conditions – Service as filed with the NEB and in effect or as otherwise approved by the NEB from time to time.
- (bbb) "**Westcoast System**" means the raw gas transmission, processing and gas transmission facilities owned and operated by Westcoast extending from points within British Columbia, Alberta, the Yukon and the Northwest Territories to points on the international boundary between Canada and the United States of America near Huntingdon, British Columbia.
- (ccc) "**Westcoast Toll Schedules**" means Westcoast's Toll Schedules – Service as filed with the NEB and in effect or as otherwise approved by the NEB from time to time.
- (ddd) "**10<sup>3</sup>m<sup>3</sup>**" means 1,000 Cubic Metres of gas.
- 1.2 **Included Words:** In this Agreement words importing the singular shall include the plural, and vice versa, and words importing the masculine gender shall include the feminine gender, and vice versa, and words importing persons shall include firms and corporations, and vice versa.
- 1.3 **Headings and Divisions:** The division of this Agreement into articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.
- 1.4 **Change in Total Heating Value:** If, during the term of this Agreement, the Westcoast General Terms and Conditions are to be amended to change the Average Annual Heating Values of gas delivered into Westcoast's main transmission pipelines, Westcoast shall redetermine the Total Heating Value of the gas to be delivered by Westcoast to Terasen Gas at the Receipt Point and give written notice of such redetermined Total Heating Value to Terasen Gas. Terasen Gas and Westcoast shall amend this Agreement to give effect to such change in the Total Heating Value of gas to be delivered by Westcoast to Terasen Gas including the resulting change in the Contract Quantity and such amendments shall become effective for all purposes of this Agreement on the same Day as the changes in the Average Annual Heating Values come into effect in accordance with the Westcoast General Terms and Conditions.

## ARTICLE 2

### SERVICES

- 2.1 **Nature of Service:** Subject to the provisions of this Agreement, Terasen Gas shall provide to Westcoast on each Day in the term of this Agreement firm natural gas transportation service ("**Firm Service**") consisting of:
- (a) the receipt from Westcoast at the Receipt Point on each such Day of a quantity of gas not exceeding the Contract Quantity plus the required allowance for Fuel Gas for both the Terasen Gas Facilities and the Foothills System; and

- (b) the Delivery at the Delivery Point for the account of Westcoast on each such Day of a quantity of gas not exceeding the Contract Quantity.

Firm Service hereunder shall not be subject to curtailment or interruption except as provided in Article 14, or by reason of scheduled maintenance, repair or modification of the Terasen Gas Facilities or the Foothills System.

### ARTICLE 3

#### TERM OF SERVICE

3.1 **Term:** Subject to Sections 3.2 and 3.3, the term of this Agreement shall be the two year period commencing at the beginning of the Day on May 1, 2010 and terminating at the end of the Day commencing on April 30, 2012.

3.2 **Conditions:** This Agreement shall not come into force and effect unless the following conditions have been fulfilled prior to April 15, 2010:

- (a) the BCUC, on the application of Terasen Gas, shall have granted all orders and approvals required by Terasen Gas pursuant to the *Utilities Commission Act* (British Columbia) to provide Firm Service to Westcoast pursuant to, and in accordance with the terms of, this Agreement for the term hereof; and
- (b) such amendments to the Westcoast Toll Schedules and the Westcoast General Terms and Conditions as are required by Westcoast to perform its obligations to those shippers which have entered into firm service agreements with Westcoast providing for firm transportation service between Westcoast's Compressor Station No. 2 and the Delivery Point shall have been filed by Westcoast with the NEB and have come into effect in accordance with their terms or shall otherwise been approved by an order of the NEB.

#### 3.3 Early Termination

- (a) If Westcoast fails to pay the full amount outstanding in respect of any monthly statement for a period of thirty (30) Days after the suspension of Firm Service by Terasen Gas pursuant to Section 9.5, Terasen Gas may, in addition to any other remedy it may have, terminate this Agreement effective on the day written notice of termination is given by Terasen Gas to Westcoast.
- (b) If Westcoast
  - (i) makes an assignment or any general arrangement for the benefit of its creditors;
  - (ii) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause under any bankruptcy or similar law for the protection of creditors or has such petition filed against it and such proceeding remains undismissed for 30 Days;
  - (iii) otherwise becomes bankrupt or insolvent (however evidenced); or

(iv) is unable to pay its debts as they fall due;

Terasen Gas may terminate this Agreement forthwith without notice.

(c) Notwithstanding any other provision in this Agreement, if any U.S. federal or state or Canadian federal or provincial law, rule, order, opinion, enactment or regulation of any governmental authority or any court renders all or substantially all of this Agreement illegal or unenforceable, then Westcoast shall have the right to terminate this Agreement upon written notice to Terasen Gas. Westcoast may not terminate this Agreement if the Parties mutually agree to amend this Agreement to conform with such law, rule, order, opinion, enactment or regulation provided that such amendment shall be in writing and signed by both Parties.

3.4 **Survival:** Notwithstanding the termination of this Agreement, the provisions of Articles 4, 7, 9 and 13 shall survive the termination of this Agreement and Terasen Gas and Westcoast shall, as soon as reasonably possible, settle all outstanding payments and obligations which have accrued under this Agreement up to and including the Day upon which this Agreement terminated.

#### ARTICLE 4

##### DELIVERY CHARGES

4.1 **Monthly Charges:** Westcoast shall pay to Terasen Gas in respect of the Firm Service provided in each Month in the term of this Agreement, an amount equal to the Demand Charge specified in Section 4.2 and the Commodity Charges specified in Section 4.3.

4.2 **Demand Charge:** The Demand Charge payable by Westcoast in respect of each Month in the Term of this Agreement shall be an amount equal to the Demand Charge specified in Exhibit A less the amount of any Contract Quantity Credits to which Westcoast is entitled for the Month in accordance with Article 13.

4.3 **Commodity Charges:** In addition to the Demand Charge specified in Section 4.2, Westcoast shall also pay to Terasen Gas commodity charges ("**Commodity Charges**") equal to the sum of:

- (a) the amount of tax on Fuel Gas consumed in operations on the Terasen Gas Facilities payable by Terasen Gas under the *Motor Fuel Tax Act* (British Columbia) or any successor legislation, allocated by Terasen Gas to Westcoast for the Month in respect of the Firm Service provided under this Agreement, plus
- (b) the amount of tax on Fuel Gas consumed in operations on the Terasen Gas Facilities payable by Terasen Gas under the *Carbon Tax Act* (British Columbia) or any successor legislation, allocated by Terasen Gas to Westcoast for the Month in respect of the Firm Service provided under this Agreement; plus

- (c) the amount of any new tax on Fuel Gas consumed in operations on the Terasen Gas Facilities payable by Terasen Gas under any legislation enacted or otherwise applicable in British Columbia during the term of this Agreement, allocated by Terasen Gas to Westcoast for the Month in respect of the Firm Service provided under this Agreement.

## ARTICLE 5

### FUEL GAS

- 5.1 **Fuel Percentages:** At least seven days prior to the first Day in each Month in the term of this Agreement, Terasen Gas shall give written notice to Westcoast specifying the Foothills Fuel Gas Percentage and the Terasen Fuel Gas Percentage applicable to gas to be transported under this Agreement on any Day in each such Month. The Foothills Fuel Gas Percentage shall be that percentage posted by Foothills. The Terasen Fuel Gas Percentage determined by Terasen Gas for the second and subsequent Months in the term of this Agreement shall include an adjustment based on the difference between the quantity of Fuel Gas for the Terasen Gas Facilities delivered by Westcoast to Terasen Gas at the Receipt Point during the immediately preceding Month and the actual quantity of Fuel Gas consumed in the Terasen Gas Facilities in providing Firm Service hereunder during the immediately preceding Month.
- 5.2 **Units:** Fuel Gas will be calculated on an energy basis and rounded to the nearest GJ.

## ARTICLE 6

### NOMINATIONS AND AUTHORIZATIONS OF SERVICE

- 6.1 **Nominations:** If Westcoast requires Firm Service on any Day, Westcoast may give a nomination to Terasen Gas in the Timely Nomination Cycle which nomination shall be given in accordance with Section 6.2 and prior to the applicable time specified in Section 6.5 and, subject to Section 6.3, if Westcoast:
  - (a) requires any Firm Service on any such day in addition to that, if any, previously authorized by Terasen Gas for the Day in a prior Nomination Cycle; or
  - (b) wishes to reduce the Firm Service previously authorized by Terasen Gas for any such Day in a prior Nomination Cycle,

Westcoast may give a nomination to Terasen Gas in the Evening Nomination Cycle, the Intra-Day 1 Nomination Cycle or the Intra-Day 2 Nomination Cycle, which nomination shall be given in accordance with Section 6.2 and prior to the applicable times specified for each of those Nomination Cycles in Sections 6.5 and 6.6.

- 6.2 **Content of Nominations:** A nomination given by Westcoast to Terasen Gas in accordance with Section 6.1 shall include the following information:

- (a) the total quantity of gas, including Fuel Gas, to be delivered by Westcoast to Terasen Gas at the Receipt Point;
- (b) the quantity of gas to be delivered as the allowance for Fuel Gas required in the operation of the Terasen Gas Facilities;
- (c) the quantity of gas, including Fuel Gas, to be delivered by Terasen Gas to Foothills at the East Kootenay Exchange;
- (d) the quantity of gas to be delivered as the allowance for Fuel Gas required in the operation of the Foothills System; and
- (e) the quantity of gas to be delivered by Terasen Gas for the account of Westcoast at the Delivery Point.

6.3 **Limitation, Intra-Day Nomination Cycles:** If Westcoast gives a nomination to Terasen Gas during any Day in accordance with Section 6.1 to reduce the Firm Service previously authorized by Terasen Gas for that Day in accordance with Section 6.4, such a nomination shall not be for Firm Service in respect of a quantity of gas which is less than the Elapsed Pro Rata Quantity.

6.4 **Authorizations:** Where Westcoast has given a nomination to Terasen Gas for service on any Day in any Nomination Cycle in accordance with Section 6.1, Terasen Gas will, prior to the applicable time for such Nomination Cycle specified in Sections 6.5 and 6.6, notify Westcoast of the Authorized Quantity of gas to be delivered for the account of Westcoast at the Delivery Point and the Authorized Receipt Quantity of gas to be delivered by Westcoast to Terasen Gas at the Receipt Point.

6.5 **Timely and Evening Nomination Cycles:** Nominations made by Westcoast for Firm Service on any Day in the Timely Nomination Cycle and the Evening Nomination Cycle in accordance with Section 6.1 shall be given by Westcoast to Terasen Gas on the preceding Day prior to the applicable time specified in the following table, and notification of the Firm Service authorized for the Day in either such Nomination Cycle shall be given by Terasen Gas in accordance with Section 6.4 on the preceding Day prior to the applicable time specified in the following table:

Nomination Cycle	Nomination	Authorization
Timely	1130 CCT	1630 CCT
Evening	1800 CCT	2200 CCT

Such authorizations shall become effective at the beginning of the Day in respect of which they are given by Terasen Gas.

6.6 **Intra-Day Nomination Cycles:** Nominations made by Westcoast for Firm Service on any Day in the Intra-Day 1 Nomination Cycle and the Intra-Day 2 Nomination Cycle in accordance with Section 6.1 shall be given by Westcoast to Terasen Gas during the Day prior to the applicable time specified in the following table, notification of the Firm Service authorized for the day in an Intra-Day Nomination Cycle shall be given by Terasen Gas in accordance with Section 6.4 prior to the applicable time

specified in the following table and such authorizations shall become effective during the Day at the times specified in the following table:

Nomination Cycle	Nomination	Authorization	Effective Time
Intra-Day 1	1000 CCT	1400 CCT	1700 CCT
Intra-Day 2	1700 CCT	2100 CCT	2100 CCT

- 6.7 **Adjustment of Authorization:** Notwithstanding any authorization for Firm Service given by Terasen Gas in the Intra-Day 2 Nomination Cycle in accordance with Section 6.4, the Firm Service previously authorized for Westcoast will be subsequently reduced to a quantity of gas equal to the greater of that quantity specified in the final confirmation given by Gas Transmission Northwest Corporation to Foothills and the Elapsed Pro Rata Quantity if the confirmation given by Gas Transmission Northwest Corporation to Foothills in the Intra-Day 2 Nomination Cycle reduces the quantity of gas that Gas Transmission Northwest Corporation will accept at the Delivery Point for the account of Westcoast. Any change in any authorization made in accordance with this Section 6.7 shall be made by Terasen Gas and communicated to Westcoast within one hour of the receipt of the final confirmation given by Gas Transmission Northwest Corporation, and shall become effective as at the time it is so communicated by Terasen Gas to Westcoast.
- 6.8 **Communications:** All nominations, authorizations, confirmations and other communications to be given by each of Terasen Gas and Westcoast to the other in accordance with this Article 6 and Articles 5 and 7 shall be in writing and delivered by means of an electronic mail transmission system and in the file format, if any, agreed to by Terasen Gas and Westcoast or, if either the Terasen Gas or Westcoast electronic mail transmission system is not available on any Day, shall be delivered by facsimile copier, in each case addressed to Terasen Gas or to Westcoast as follows:

**Terasen Gas Inc.**

16705 Fraser Highway  
Surrey, B.C. V3S 2X7

Attention: Midstream Services Representative

Telephone: (604) 592-7799  
Facsimile: (604) 592-7895  
Email: [tradelog@terasengas.com](mailto:tradelog@terasengas.com)  
Pager: (604) 632-6634

**Westcoast Energy Inc.**

Suite 2600, 425 1st Street SW  
Fifth Avenue Place, East Tower  
Calgary, AB T2P 3L8

Attention: Gas Scheduling

Telephone: (403) 699-1600 or 1-877-675-6747  
Facsimile: (403) 699-1619  
Email: [GasSchedAB@spectraenergy.com](mailto:GasSchedAB@spectraenergy.com)

- 6.9 **Changes in Nomination Cycles:** If, during the term of this Agreement, and as a result of changes adopted by the North American Energy Standards Board, Westcoast determines that it will amend the Westcoast General Terms and Conditions to change the Nomination Cycles, including the times at which nominations and authorizations are to be given and the times at which authorizations are to become effective, Westcoast shall give written notice of such changes to Terasen Gas. Terasen Gas and Westcoast shall amend this Agreement to give effect to such changes in the Nomination Cycles, and such amendments shall become effective for all purposes of this Agreement on the same Day as such changes in the Nomination Cycles come into effect in accordance with the Westcoast General Terms and Conditions.

## ARTICLE 7

### IMBALANCES

- 7.1 **Balancing:** Westcoast shall use all reasonable efforts at all times, based on the best information available to it, to balance the Receipt Quantity with the Authorized Quantity for each Day. Any differences between the Receipt Quantity and the Authorized Quantity which occurs on any Day shall be recorded as a Draft Imbalance or a Pack Imbalance, as the case may be, for each such Day.
- 7.2 **Tracking Imbalances:** Terasen Gas shall record the Draft Imbalance or Pack Imbalance incurred on each Day and determine the Cumulative Imbalance as of the end of each Day.
- 7.3 **Imbalance Reporting:** Terasen Gas shall on each Day prior to 0930 hours CCT provide Westcoast with a report setting out for the immediately preceding Day, the Draft Imbalance or the Pack Imbalance, if any, incurred on that Day and the Cumulative Imbalance as at the end of that Day.
- 7.4 **Imbalance Corrections by Westcoast:** After providing Westcoast with a report on any Day in accordance with Section 7.3, Terasen Gas may request Westcoast to correct, in whole or in part, the Cumulative Imbalance specified in that report on the next succeeding Day or within such other period of time as may be agreed upon by the Parties. Where Westcoast receives such a request from Terasen Gas, Westcoast will, subject to the availability of pipeline capacity, increase or decrease the quantity of gas to be delivered to Terasen Gas at the Receipt Point on such Day or during such period of time in order to effect the requested correction of the Cumulative Imbalance.
- 7.5 **Imbalance Corrections by Terasen Gas:** If Westcoast does not correct a Cumulative Imbalance in accordance with a request made by Terasen Gas pursuant to Section 7.4, Terasen Gas may on one or more Days adjust the Authorized Quantity for any such Day or adjust the Authorized Receipt Quantity for any such Day to the extent required to correct the Cumulative Imbalance. Terasen Gas shall give notice to Westcoast in accordance with Section 6.8 of any Imbalance Correction to be made by Terasen Gas in accordance with this Section 7.5.

## ARTICLE 8

### DAILY DELIVERIES OF GAS

- 8.1 **Delivery Obligations:** On each Day in the term of this Agreement:
- (a) Terasen Gas shall deliver at the Delivery Point for the account of Westcoast a quantity of gas equal to the Authorized Quantity for each such Day as determined in accordance with Article 6; and
  - (b) Westcoast shall deliver to Terasen Gas at the Receipt Point a quantity of gas equal to the Authorized Receipt Quantity for each such Day as determined in accordance with Article 6, as adjusted for any Imbalance Correction made by Westcoast in accordance with Section 7.4.
- 8.2 **Receipt Point Pressure:** Westcoast shall deliver to Terasen Gas the Authorized Receipt Quantity to Terasen Gas at the Receipt Point at the applicable pressure specified in the Westcoast General Terms and Conditions.
- 8.3 **Commingled:** Terasen Gas shall be deemed to be in possession of, and control of, and responsible for all gas received by it at the Receipt Point until such gas is delivered by it for the account of Westcoast at the Delivery Point. Terasen Gas shall have the right to commingle such gas with other gas in the Terasen Gas Facilities and in the Foothills System.

## ARTICLE 9

### STATEMENT AND PAYMENTS

- 9.1 **Monthly Statements:** Within ten (10) days of the end of each Month in the term of this Agreement, Terasen Gas shall deliver to Westcoast a statement setting out for each Day in each such Month the actual quantity of Fuel Gas consumed in the operation of the Terasen Gas Facilities allocated by Terasen Gas to Westcoast for each such Day in respect of the Firm Service provided under this Agreement.
- 9.2 **Invoices:** Within twenty (20) days of the end of each Month in the term of this Agreement, Terasen Gas shall deliver to Westcoast an invoice specifying the amount payable by Westcoast in respect of the Firm Service provided by Terasen Gas to Westcoast during each such Month.
- 9.3 **Payment:** Payment of an invoice delivered by Terasen Gas to Westcoast in any Month in accordance with Section 9.2 shall be made by Westcoast in readily available Canadian Funds on or before the later of (i) the twenty fifth (25th) day of the Month, and (ii) the fifth Business Day following receipt by Westcoast of the invoice delivered to it by Terasen Gas pursuant to Section 9.2.
- 9.4 **Failure to Pay:** If Westcoast fails or neglects to make any payment required under this Agreement to Terasen Gas when due, interest on the outstanding amount will accrue, at the annual rate of interest declared by the chartered bank in Canada principally used by Terasen Gas, for loans in Canadian dollars to its most



creditworthy commercial borrowers payable on demand and commonly referred to as its "prime rate", plus:

- (a) 2% from the date when such payment was due for the first thirty (30) Days that such payment remains unpaid and 5% thereafter until the same is paid when Westcoast has not, during the immediately preceding six (6) Month period, failed to make any payment when due hereunder; or
- (b) 5% from the date when such payment was due to and including the date the same is paid when Westcoast has, during the immediately preceding six (6) Month period, failed to make any payment when due hereunder.

9.5 **Service Suspension:** If Westcoast fails to pay the amount of any invoice when payment is due, Terasen Gas may, upon giving Westcoast thirty (30) days prior written notice, suspend any and all Firm Service being or to be provided to Westcoast pursuant to this Agreement. If, following the suspension of Firm Service hereunder, Westcoast pays the full amount due and payable to Terasen Gas, Terasen Gas shall within two Business Days recommence the provision of Firm Service pursuant to this Agreement.

9.6 **Examination of Records:** Each of Terasen Gas and Westcoast shall have the right, at its own expense, at reasonable times and upon reasonable notice to examine, audit, and to obtain copies of the books, records and charts of the other Party, only to the extent reasonably necessary to verify accuracy of any statement, charge, payment, computation, or any claim for underpayment or overpayment. This right to examine, audit, and to obtain copies shall not be available with respect to proprietary information not directly relevant to transactions under this Agreement. All invoices and billings shall be conclusively presumed final and accurate and all associated claims for under or over payments shall be deemed waived unless such invoices or billings are objected to in writing, with adequate explanation and/or documentation, within two (2) years after the Month in which the Firm Service was provided under this Agreement. All retroactive adjustments under this Article 9 shall be paid in full by the Party owing payment within thirty (30) days of notice and substantiation of such inaccuracy.

## ARTICLE 10

### WARRANTY OF OWNERSHIP OR CONTROL AND ELIGIBILITY FOR TRANSPORTATION

10.1 **Westcoast's Warranty:** Westcoast warrants that all gas delivered to Terasen Gas for transportation under this Agreement shall be validly under the control of Westcoast. Westcoast will indemnify Terasen Gas and save it, its directors, officers, agents and employees and its successors and assigns, harmless from all suits, actions, damages, costs, losses, expenses (including reasonable legal fees) and regulatory proceedings, arising from breach of this warranty or any misrepresentation relating thereto.

10.2 **Terasen Gas' Warranty:** Terasen Gas warrants that it has a duly executed transportation agreement with Foothills for firm transportation service from a receipt point at the Alberta/British Columbia border near Coleman, Alberta, to the Delivery

Point. This agreement currently has a service termination date of October 31, 2011 and Terasen Gas has, and will exercise, its right to renew that agreement in order that Terasen Gas will have adequate capacity available to it on the Foothills System to provide Firm Service to Westcoast in accordance with this Agreement during its term.

## ARTICLE 11

### QUALITY OF GAS

- 11.1 **Receipt Point:** The gas delivered by Westcoast to Terasen Gas at the Receipt Point for transportation to the Delivery Point shall conform with the applicable quality specifications contained in the Westcoast General Terms and Conditions.
- 11.2 **Delivery Point:** The gas delivered by Terasen Gas for Westcoast's account at the Delivery Point under this Agreement shall have the constituent parts that result from the commingling of gas from various sources in the Terasen Gas Facilities and the Foothills System and shall conform with Foothills' gas quality specifications for gas to be delivered at the Delivery Point.
- 11.3 **Non Conforming Gas:** If gas delivered by Westcoast to Terasen Gas at the Receipt Point shall fail to conform at any time with the gas quality specifications referred to in Section 11.1, then Terasen Gas shall give written notice of such deficiency to Westcoast and may, at its option, refuse to accept delivery of gas from Westcoast at the Receipt Point until such time as such deficiency has been remedied by Westcoast. Any such refusal by Terasen Gas shall not relieve Westcoast from the obligation to pay the Demand Charge payable by Westcoast pursuant to this Agreement.

## ARTICLE 12

### MEASUREMENT

- 12.1 **Volumetric Unit:** The unit of volume of gas for all purposes hereunder shall be one thousand (1,000) Cubic Metres (" $10^3\text{m}^3$ ").
- 12.2 **Energy Unit:** The unit of energy of gas for all purposes hereunder shall be one GJ.
- 12.3 **Measurement:** The volume and quantity of gas delivered by Westcoast to Terasen Gas at the Receipt Point on each Day in the term of this Agreement shall be measured by Westcoast at its Meter Station No. 31 located at the Receipt Point.
- 12.4 **Measuring Equipment and Procedures:** The provisions of Articles 13 and 14 of the Westcoast General Terms and Conditions respecting gas measurement, measuring equipment and the preservation of measurement records shall apply in respect of all gas delivered by Westcoast to Terasen Gas at the Receipt Point.
- 12.5 **Rounding:** The volume of gas shall be specified in  $10^3\text{m}^3$  to one decimal place and energy shall be specified in GJs rounded to the nearest GJ.

## ARTICLE 13

### CONTRACT QUANTITY CREDITS

- 13.1 **Service Interruption:** If on any Day and for any reason, Terasen Gas is unable to provide Westcoast with the Firm Service nominated by Westcoast for any such Day (hereafter a "**Service Interruption**") then, subject to Sections 13.2 (a) and (b), Westcoast will be entitled to a credit for any such Day in respect of that Service Interruption in an amount equal to the product obtained by multiplying the Daily Demand Charge by the ratio, the numerator of which is the quantity of gas nominated by Westcoast in respect of which Terasen Gas was unable to provide Firm Service and the denominator of which is the Contract Quantity.
- 13.2 **Demand Charge Obligation:** Westcoast will not be entitled to receive a credit pursuant to Section 13.1:
- (a) for any period of time during a Service Interruption when Westcoast is unable for reasons other than the Service Interruption to deliver gas to Terasen Gas at the Receipt Point; or
  - (b) for any period of time during a Service Interruption when Terasen Gas was unable to receive gas from Westcoast at the Receipt Point due to the scheduled maintenance, repair or modification of the Terasen Gas Facilities or the Foothills System. To the extent practicable, Terasen Gas will use commercially reasonable efforts to cause repairs or maintenance to be made to minimize interruption or curtailment of Firm Service to Westcoast under this Agreement, and to restore service as quickly as possible.
- 13.3 **Make-Up Gas:** If Terasen Gas and Westcoast agree, Terasen Gas may allow Westcoast to deliver to Terasen Gas for receipt at the Receipt Point additional quantities of gas as make-up gas for that quantity which Terasen Gas was unable to receive and deliver for Westcoast's account during a Service Interruption. In such event Westcoast will not be entitled to receive a credit in respect of any such gas so received and delivered by Terasen Gas.

## ARTICLE 14

### FORCE MAJEURE

- 14.1 **Force Majeure:** In this Agreement the term "Force Majeure" means:
- (a) any acts of God, strikes, lockouts, or other industrial disturbances, civil disturbances, arrests and restraints of rulers or people, interruptions by government or court orders, present or future valid orders of any regulatory body having proper jurisdiction, acts of a public enemy, wars, riots, blackouts, insurrections, failure or inability to secure materials or labour by reason of regulations or orders of government, serious epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipes, which act of Force Majeure was not due to the wilful act or negligence of the Party claiming Force Majeure; and

- (b) in the case of Terasen Gas, includes any such event or occurrence that results in the Foothills System not being available, in whole or in part, to provide transportation service between the East Kootenay Exchange and the Delivery Point.
- 14.2 **Failure to Perform due to Force Majeure:** If either Party fails to perform an obligation set out in this Agreement and such failure is caused or materially contributed to by Force Majeure, the failure shall be deemed not to be a breach of the obligation of that Party.
- 14.3 **Prorating Gas:** If an event of Force Majeure partially curtails Terasen Gas' ability to provide the Firm Service contemplated in this Agreement, the remaining available capacity will be shared pro-rata among Westcoast and other shippers with firm transportation service on the Terasen Gas Facilities and the Foothills System based on the other shippers' contracted capacities.
- 14.4 **No Relief:** Notwithstanding the provisions of Section 14.2, Force Majeure shall not relieve Westcoast from its obligation to pay, each Month, the Demand Charge specified in Exhibit A, nor relieve Terasen Gas from its obligation to provide Westcoast with Contract Quantity Credits in accordance with Article 13.
- 14.5 **Exceptions:** Neither Party shall be entitled to the benefit of the provisions of Section 14.2 under any of the following circumstances:
- (a) to the extent that the failure was caused by the wilful act, negligence or contributory negligence of the Party claiming suspension;
  - (b) to the extent that the failure was caused by the Party claiming suspension having failed to diligently attempt to remedy the condition and to resume the performance of its covenants or obligations with reasonable dispatch; or
  - (c) unless as soon as possible after the happening of the occurrence relied on or as soon as possible after determining that the occurrence was in the nature of Force Majeure and would affect the claiming Party's ability to observe or perform any of its covenants or obligations under this Agreement, the Party claiming Force Majeure will have given to the other Party notice to the effect that the Party is unable by reason of Force Majeure to observe or perform its covenants or obligations.
- 14.6 **Notice to Resume:** The Party giving notice of Force Majeure will likewise give notice, as soon as possible after the Force Majeure condition has been remedied, to the effect that it has been remedied and that the Party has resumed, or is then in a position to resume, the performance of its covenants or obligations.
- 14.7 **Settlement of Labour Disputes:** Notwithstanding any of the provisions of this Article 14, the settlement of labour disputes or industrial disturbances will be entirely within the discretion of the particular Party involved and the Party may make settlement of any such dispute or disturbance at the time and on terms and conditions as it may deem to be advisable and subject to the provisions of Section 14.4 no delay in making settlement will deprive the Party of the benefit of Section 14.2.

## ARTICLE 15

### DISPUTE RESOLUTION

- 15.1 **Resolution of Disputes:** In the event that any dispute, claim, question or disagreement arises between the Parties out of or in connection with this Agreement or its performance (a "**Dispute**"), the Parties shall, upon the written request of either Party, attempt to settle the Dispute by negotiation. If the Dispute has not been settled by negotiation for any reason within thirty (30) days of the giving of such written request by a Party and if the Parties have not entered into a written agreement to resolve the Dispute by arbitration in accordance with Section 15.2 within forty-five (45) days of the giving of such written request, either Party may thereafter commence an action or other legal proceedings with respect to the Dispute.
- 15.2 **Arbitration:** If a Dispute has not been settled by negotiation within the time specified in Section 15.1, the Parties may enter into a written agreement providing for the resolution of the Dispute by arbitration, which agreement shall set out the substance of the Dispute and the process for arbitration of the Dispute including the venue of the arbitration, the number of arbitrators, the appointment of the arbitrators and other matters which the Parties consider to be necessary or desirable for the conduct of the arbitration. There shall be no arbitration of any Dispute except for an arbitration provided for in a written agreement made by the Parties in accordance with this Section 15.2.

## ARTICLE 16

### NOTICES

- 16.1 **Method of Notices:** Unless provided otherwise in this Agreement, any notice, request or other communication called for in this Agreement shall be in writing and shall be sent by personal delivery, by courier or by facsimile to either Westcoast or Terasen Gas at the address or facsimile number designated below. Unless changed by a notice given in accordance with this Section 16.1, the addresses and facsimile numbers of the Parties are as follows:

Terasen Gas:	<b>Terasen Gas Inc.</b> 16705 Fraser Highway Surrey, British Columbia V4N 0E8
Attention:	Cynthia Des Brisay Vice President, Gas Supply and Transmission
Telephone:	(604) 592-7837
Facsimile:	(604) 592-7620

Westcoast:           **Westcoast Energy Inc.**  
2600 Fifth Avenue Place, East Tower  
425 – 1st Street SW  
Calgary, Alberta  
T2P 3L8

Attention:           Robert Whitwham  
Vice President, Pipeline

Telephone:          (403) 699-1999

Facsimile:          (403) 699-1998

A notice, request or other communication is considered to have been given in accordance with this Section 16.1, if delivered personally or by courier, on the date of delivery if it is a Business Day and delivery was made prior to 4:00 p.m. local time in the place of receipt and otherwise on the next Business Day or, if transmitted by facsimile, on the Business Day following the date of confirmation of transmission by the originating facsimile.

## ARTICLE 17

### FINANCIAL ASSURANCES

17.1 **Credit Requirements:** In order to secure the prompt and orderly payment of the amounts to be paid by Westcoast to Terasen Gas under this Agreement, Terasen Gas may require Westcoast to provide, from time to time and at Terasen Gas' sole discretion, sufficient information to demonstrate that Westcoast meets one of the following credit requirements:

- (a) Westcoast, or an Affiliate which guarantees Westcoast's obligations under this Agreement, has an investment grade rating (minimum BBB minus or above) for its long term unsecured debt from a bond rating agency acceptable to Terasen Gas; or
- (b) Westcoast, or an Affiliate which guarantees Westcoast's obligations under this Agreement, is able to demonstrate to Terasen Gas' satisfaction, acting reasonably, that the financial position of Westcoast, or its Affiliate which guarantees Westcoast's obligations under this Agreement, is such that Westcoast's obligations under this Agreement will be met.

Where Westcoast has not qualified under Section 17.1(a) or 17.1(b) at the time credit worthiness is being determined, or at any time thereafter if Terasen Gas has reasonable grounds for insecurity regarding payment under this Agreement, Terasen Gas may require Westcoast to provide by the end of the fifth (5th) Business Day after the request is received by Westcoast, and at all times maintain, an irrevocable letter of credit in favour of Terasen Gas issued by a financial institution acceptable to Terasen Gas, and in a form acceptable to Terasen Gas, in an amount equal to the estimated maximum amount payable by Westcoast under this Agreement for seventy (70) days of Firm Service. Where Terasen Gas requires Westcoast to provide a letter of credit and Westcoast is able to provide alternative security

acceptable to Terasen Gas, Terasen Gas will accept such security in lieu of a letter of credit.

- 17.2 **Failure to Provide Security:** If Westcoast fails to provide security for payment in accordance with Section 17.1 within five (5) Business Days of the receipt by Westcoast of a request by Terasen Gas therefor, Terasen Gas may, upon giving Westcoast two (2) Business Days prior notice, suspend all Firm Service being or to be provided to Westcoast pursuant to this Agreement. If, at any time during such period of suspension, Westcoast provides Terasen Gas with the security for payment required in accordance with Section 17.1, Terasen Gas will within two (2) Business Days commence or recommence to provide Firm Service to Westcoast pursuant to this Agreement. If the failure by Westcoast to provide security for payment continues for a period of two (2) Business Days from the day on which Firm Service is suspended by Terasen Gas, Terasen Gas may, upon giving two (2) Business Days prior written notice to Westcoast, terminate this Agreement. Notwithstanding the suspension of Firm Service pursuant to this Section 17.2, Westcoast shall continue to be liable to Terasen Gas for the payment of all Demand Charges and other amounts accruing and the performance of all obligations arising under this Agreement for the remainder of its term.

## ARTICLE 18

### SUCCESSORS AND ASSIGNS

- 18.1 **Enurement:** This Agreement shall be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns. As between the Parties, any assignment of this Agreement made in accordance with Section 18.2 or Section 18.3 shall become effective on the first (1<sup>st</sup>) day of the Month following written notice that such assignment has been effected.
- 18.2 **Assignment by Terasen Gas:** Terasen Gas, without obtaining any approvals or consents from Westcoast, may assign the Agreement to any Affiliate of Terasen Gas which acquires all or substantially all of the natural gas transmission pipeline assets of Terasen Gas, including the Southern Crossing Pipeline. Except as provided for in this Section 18.2, Terasen Gas shall not assign this Agreement, or its rights and benefits under this Agreement, to any other Person.
- 18.3 **Assignment by Westcoast:** Westcoast may assign this Agreement, or its rights and obligations under the Agreement, provided any assignee complies with the credit requirements in Section 17.1 and Westcoast obtains the prior written consent of Terasen Gas to the assignment, which consent shall not be unreasonably withheld or delayed.

## ARTICLE 19

### GENERAL PROVISIONS

- 19.1 **Governing Law:** This Agreement shall be construed and enforced in accordance with the laws of British Columbia and the federal laws of Canada applicable therein and shall be treated in all respects as a contract made, entered into, and to be wholly performed in British Columbia. Each Party hereby irrevocably attorns and submits to

the exclusive jurisdiction of the courts of the Province of British Columbia situate in the City of Vancouver and hereby waives objection to the venue of any proceeding in such courts or that any such court provides an inconvenient forum.

- 19.2 **Amendments:** This Agreement may only be amended, varied or otherwise modified by a written agreement executed by the Parties.
- 19.3 **No Consequential Damages:** In no event will either Terasen Gas or Westcoast be liable to the other for any indirect, special, punitive, incidental or consequential loss, damage, cost or expense whatsoever, whether based on breach of contract, tort, strict liability or otherwise including without limitation, loss of profits or revenues, loss of opportunity, loss or damages for failure to deliver gas, cost of replacement or substitute gas, cancellation of licenses, permits or authorizations, and the termination or cancellation of contracts.
- 19.4 **Waiver:** No waiver of any provision of this Agreement will constitute a waiver of any other provision, whether or not similar. No waiver shall be binding unless executed in writing by the Party to be bound by the waiver. A Party's failure or delay in exercising any right under this Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a Party from any other or further exercise of that right or the exercise of any other right it may have.
- 19.5 **Entire Agreement:** This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter hereof, and supersedes all prior agreements, understandings, negotiations and discussions, whether written or oral, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties with respect to the subject matter of this Agreement, except as specifically set forth in this Agreement.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement as of the date set forth on page 1 of this Agreement.


TERASEN GAS INC.

By:   
(Signature)

Cynthia Des Brisay  
(Name - please print)

Vice President  
Gas Supply & Transmission  
(Title)

WESTCOAST ENERGY INC.

By:   
(Signature)

Robert L. Whitwham  
(Name - please print)

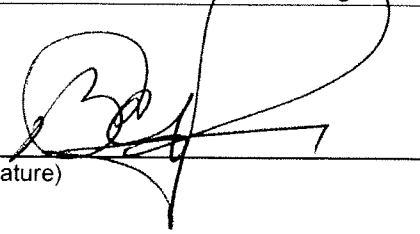
Vice-President, Pipeline  
(Title)



Terasen Gas Inc. and Westcoast Energy Inc.  
Firm Transportation Service Agreement

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By:

  
\_\_\_\_\_  
(Signature)

Bruce E. Pydee

(Name – please print)

Vice-President,

Regulatory Affairs and General Counsel

(Title)

CONFIDENTIAL

**EXHIBIT A**

**Contract Quantity**

1. Subject to adjustment in accordance with Section 1.4 of this Agreement, the Contract Quantity, based on a maximum daily volume of  $1\,401.8\ 10^3\text{m}^3$  and a Total Heating Value of gas delivered at the Receipt Point of 38.25 MJ per cubic meter, is 53 618.9 gigajoules per Day.

**Demand Charge**

2. The Demand Charge for Firm Service provided in each Month in the term of this Agreement, based upon an agreed rate of \$6.34 per  $10^3\text{m}^3$  for a maximum daily volume not exceeding  $2\,465\ 10^3\text{m}^3$ , shall be the amount obtained by multiplying \$8,887.41 (the "**Daily Demand Charge**") by the number of Days in each such Month.

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I-1	Reserved for Future Use.		
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I-6	Northwest Natural Gas Company - Amendment and Restatement of Firm Transportation Service Agreement	11/01/04	10/31/20
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BCUC Secretary: \_\_\_\_\_



**TARIFF SUPPLEMENT NO. I-9**

**FIRM TRANSPORTATION SERVICE AGREEMENT**

**BETWEEN**

**WESTCOAST ENERGY INC.**

**AND**

**TERASEN GAS INC.**

**Effective May 1, 2010**

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Order No.:

Issued By: Tom Loski, Chief Regulatory Officer

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**THIS FIRM TRANSPORTATION SERVICE AGREEMENT** is dated March 12, 2010 with effect as of and from May 1, 2010.

**BETWEEN:**

**TERASEN GAS INC.**, a company incorporated under the laws of British Columbia and having its registered office at 1111 West Georgia Street, Vancouver, British Columbia, Canada

(hereinafter called "**Terasen Gas**")

**AND:**

**WESTCOAST ENERGY INC.**, a corporation incorporated under the laws of Canada and having its head office at 1055 West Georgia Street, Vancouver, British Columbia, Canada

(hereinafter called "**Westcoast**")

**WHEREAS:**

- A. Terasen Gas owns and operates natural gas transmission pipeline facilities, including the Southern Crossing Pipeline, extending from the Receipt Point near Kingsvale, British Columbia to the interconnection with the Foothills System near Yahk, British Columbia and contracts with Foothills for firm transportation capacity from Yahk, British Columbia to the Delivery Point near Kingsgate, British Columbia;
- B. Terasen Gas will use the capacity on its facilities and its contracted capacity on the Foothills System to provide Westcoast with firm transportation service from the Receipt Point to the Delivery Point; and
- C. The Parties have agreed to enter into this Firm Transportation Service Agreement effective May 1, 2010, subject to the fulfillment of the conditions set out in Section 3.2.

**NOW THEREFORE THIS AGREEMENT WITNESSES THAT**, in consideration of the terms, conditions and limitations contained herein, the Parties agree as follows:

**ARTICLE 1**

**DEFINITIONS AND INTERPRETATION**

1.1 **Definitions:** Except where the context requires otherwise, the following terms and abbreviations, when used in this Agreement, have the meanings set out below:

- (a) "**Affiliate**", when used to indicate a relationship with a Party, means another Person that, directly or indirectly through one or more intermediaries or otherwise, controls, is controlled by or is under common control with, such Party. A corporation shall be deemed to be an Affiliate of another corporation if one of them is directly or indirectly controlled by the other or if each of them is directly or indirectly controlled by the same Party or Person.

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- (b) **"Agreement"** means this Firm Transportation Service Agreement together with Exhibit A attached hereto, as amended, supplemented or restated by the Parties from time to time.
- (c) **"Authorized Quantity"** means the quantity of gas authorized by Terasen Gas for delivery for the account of Westcoast at the Delivery Point on any Day pursuant to Article 6.
- (d) **"Authorized Receipt Quantity"** means the quantity of gas including Fuel Gas authorized by Terasen Gas for delivery by Westcoast to Terasen Gas at the Receipt Point on any Day pursuant to Article 6.
- (e) **"Average Annual Heating Value"** has the meaning given to that term in the Westcoast General Terms and Conditions.
- (f) **"BCUC"** means the British Columbia Utilities Commission.
- (g) **"Business Day"** means any day except Saturday, Sunday and any federal banking or statutory holiday observed in the Province of British Columbia.
- (h) **"Central Clock Time"** or **"CCT"** means Central Standard Time or Central Daylight Savings Time, whichever is in effect on any Day.
- (i) **"Commodity Charges"** has the meaning given to that term in Section 4.3.
- (j) **"Contract Quantity"** means the maximum quantity of gas specified in Exhibit A which Terasen Gas is obligated to deliver on any Day to the Delivery Point for the account of Westcoast pursuant to this Agreement.
- (k) **"Contract Quantity Credit"** means any credits provided by Terasen Gas to Westcoast pursuant to Article 13.
- (l) **"Cubic Metre"** means that volume of gas, which at a temperature of fifteen degrees (15°) Celsius and at an absolute pressure of 101.325 kilopascals occupies one cubic metre.
- (m) **"Cumulative Imbalance"** means the sum, whether positive or negative, of the uncorrected Draft Imbalances and Pack Imbalances incurred on each Day.
- (n) **"Daily Demand Charge"** means the amount specified as such in Exhibit A.
- (o) **"Day"** means a period of twenty-four (24) consecutive hours, beginning and ending at 9:00 a.m. Central Standard Time or at such other time as may be specified in the Westcoast General Terms and Conditions.
- (p) **"Delivery Point"** means the point on the international boundary between Canada and the United States of America near Kingsgate, British Columbia, where the Foothills System connects with the gas transmission pipeline system owned and operated by Gas Transmission Northwest Corporation.

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- (q) **"Demand Charge"** means the monthly amount specified as such in Exhibit A.
- (r) **"Draft Imbalance"** means in respect of any Day, an Imbalance resulting from the Receipt Quantity being less than the Authorized Quantity for the Day.
- (s) **"East Kootenay Exchange"** means the point where the Terasen Gas Facilities connect with the Foothills System near Yahk, British Columbia.
- (t) **"Elapsed Pro Rata Quantity"** means in respect of gas delivered by Terasen Gas to the Delivery Point during any part of a Day pursuant to one or more authorizations for service given by Terasen Gas in accordance with Article 6, the sum of the quantities of gas determined in respect of each of those authorizations as follows:
- (i) in the case of an authorization which comes into effect at the beginning of the Day pursuant to Sections 6.4 and 6.5, a quantity of gas equal to that determined by (A) dividing the Authorized Quantity by 24 and (B) multiplying the quotient so obtained by the number of hours during which the authorization was or would have been in effect; and
  - (ii) in the case of an authorization which comes into effect during the Day pursuant to Sections 6.4 and 6.6, a quantity of gas equal to that determined by (A) subtracting from the then current Authorized Quantity the sum of the quantities determined in accordance with this definition for each of the prior authorizations for service, if any, in effect during the Day and (B) multiplying the difference so obtained by a fraction, the numerator of which is the number of hours during which the then current authorization was or would have been in effect and the denominator of which is the number of hours remaining in the Day following the time at which the then current authorization came into effect.
- (u) **"Evening Nomination Cycle"** means the Nomination Cycle for any Day in respect of which Westcoast is required to give a nomination to Terasen Gas on the immediately preceding Day by the time specified for that Nomination Cycle in Section 6.5.
- (v) **"Firm Service"** has the meaning given to that term in Section 2.1.
- (w) **"Foothills"** means Foothills Pipe Lines (South BC) Ltd., its successors and assigns.
- (x) **"Foothills Fuel Gas Percentage"** means in respect of gas transmitted through the Foothills System, the quantity of gas, expressed as a percentage, which is required to be delivered to Foothills as the allowance for Fuel Gas consumed in the operation of the Foothills System.
- (y) **"Foothills System"** means the gas transmission pipeline facilities owned and operated by Foothills and extending between the East Kootenay Exchange and the Delivery Point.
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- (z) "**Force Majeure**" has the meaning given to that term in Section 14.1.
- (aa) "**Fuel Gas**" means gas required by Terasen Gas and Foothills for fuel consumed in operations.
- (bb) "**gas**" means the residue remaining after natural gas produced from wells has been subjected to any or all of the following permissible processes:
- (i) the removal of any constituent parts other than methane, and the removal of methane to such extent as is necessary in removing other constituents; and
  - (ii) the compression, regulation, cooling, cleaning or any other chemical or physical process other than the addition of diluents, such as air or nitrogen, to such extent as may be required in its production, transmission, storage, removal from storage and delivery.
- (cc) "**gigajoule**" or "**GJ**" means one billion (1,000,000,000) joules.
- (dd) "**Imbalance**" means in respect of any Day, the difference between the Authorized Quantity and the Receipt Quantity for the Day.
- (ee) "**Imbalance Correction**" means any correction of a Cumulative Imbalance made by Westcoast in accordance with Section 7.4 or by Terasen Gas in accordance with Section 7.5.
- (ff) "**Intra-Day Nomination Cycles**" means the Intra-Day 1 Nomination Cycle and the Intra-Day 2 Nomination Cycle and "**Intra-Day Nomination Cycle**" means either one of those Nomination Cycles.
- (gg) "**Intra-Day 1 Nomination Cycle**" means the Nomination Cycle for any Day in respect of which Westcoast is required to give a nomination to Terasen Gas during the Day by the time specified for that Nomination Cycle in Section 6.6.
- (hh) "**Intra-Day 2 Nomination Cycle**" means the Nomination Cycle for any Day in respect of which Westcoast is required to give a nomination to Terasen Gas during the Day by the time specified for that Nomination Cycle in Section 6.6.
- (ii) "**joule**" means the work done when the point of application of a force of one Newton is displaced a distance of one metre in the direction of the force.
- (jj) "**kPa**" means kilopascals of pressure absolute.
- (kk) "**megajoule**" or "**MJ**" means one million (1,000,000) joules.
- (ll) "**Month**" means a period of time commencing at the beginning of the first Day in a calendar month and ending at the beginning of the first Day in the next succeeding calendar month.
- (mm) "**NEB**" means the National Energy Board of Canada.

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- (nn) "**Nomination Cycles**" means the Timely Nomination Cycle, the Evening Nomination Cycle, the Intra-Day 1 Nomination Cycle and the Intra-Day 2 Nomination Cycle, and "**Nomination Cycle**" means any one of those Nomination Cycles.
- (oo) "**Pack Imbalance**" means in respect of any Day, an Imbalance resulting from the Receipt Quantity being in excess of the Authorized Quantity for the Day.
- (pp) "**Party**" means a party to this Agreement and "**Parties**" means both of them.
- (qq) "**Person**" means any person other than the Parties to this Agreement.
- (rr) "**Quantity**" or "**quantity**" means, when used in this Agreement in respect of gas, the quantity of that gas in gigajoules.
- (ss) "**Receipt Point**" means the point where the Westcoast System connects with the Terasen Gas Facilities at Westcoast's Meter Station No. 31 near Kingsvale, British Columbia.
- (tt) "**Receipt Quantity**" means in respect of any Day, the quantity of gas equal to the Authorized Receipt Quantity, net of the allowance for Fuel Gas, authorized by Terasen Gas for delivery to it by Westcoast at the Receipt Point on any such Day.
- (uu) "**Service Interruption**" has the meaning given that term in Section 13.1.
- (vv) "**Terasen Fuel Gas Percentage**" means in respect of the Terasen Gas Facilities, the quantity of gas, expressed as a percentage, which Westcoast is required to deliver to Terasen Gas as the allowance for Fuel Gas for the Terasen Gas Facilities.
- (ww) "**Terasen Gas Facilities**" means the natural gas transmission pipeline facilities, including the Southern Crossing Pipeline, owned and operated by Terasen Gas and extending between the Receipt Point and the East Kootenay Exchange.
- (xx) "**thermal equivalent**" means in respect of any volume of gas, the energy content of that volume of gas determined based on its Total Heating Value.
- (yy) "**Timely Nomination Cycle**" means the Nomination Cycle for any day in respect of which Westcoast is required to give a nomination to Terasen Gas on the immediately preceding Day by the time specified for that Nomination Cycle in Section 6.5.
- (zz) "**Total Heating Value**" means the number of joules produced by the combustion, at a constant pressure, of one Cubic Metre of gas at a temperature of 15 degrees Celsius, free of all water vapour, and at an absolute pressure of 101.325 kPa, with the products of combustion cooled to the initial temperature of the gas and air, and all water formed by the combustion reaction condensed to the liquid state.

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- (aaa) "**Westcoast General Terms and Conditions**" means Westcoast's General Terms and Conditions – Service as filed with the NEB and in effect or as otherwise approved by the NEB from time to time.
- (bbb) "**Westcoast System**" means the raw gas transmission, processing and gas transmission facilities owned and operated by Westcoast extending from points within British Columbia, Alberta, the Yukon and the Northwest Territories to points on the international boundary between Canada and the United States of America near Huntingdon, British Columbia.
- (ccc) "**Westcoast Toll Schedules**" means Westcoast's Toll Schedules – Service as filed with the NEB and in effect or as otherwise approved by the NEB from time to time.
- (ddd) "**10<sup>3</sup>m<sup>3</sup>**" means 1,000 Cubic Metres of gas.
- 1.2 **Included Words:** In this Agreement words importing the singular shall include the plural, and vice versa, and words importing the masculine gender shall include the feminine gender, and vice versa, and words importing persons shall include firms and corporations, and vice versa.
- 1.3 **Headings and Divisions:** The division of this Agreement into articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.
- 1.4 **Change in Total Heating Value:** If, during the term of this Agreement, the Westcoast General Terms and Conditions are to be amended to change the Average Annual Heating Values of gas delivered into Westcoast's main transmission pipelines, Westcoast shall redetermine the Total Heating Value of the gas to be delivered by Westcoast to Terasen Gas at the Receipt Point and give written notice of such redetermined Total Heating Value to Terasen Gas. Terasen Gas and Westcoast shall amend this Agreement to give effect to such change in the Total Heating Value of gas to be delivered by Westcoast to Terasen Gas including the resulting change in the Contract Quantity and such amendments shall become effective for all purposes of this Agreement on the same Day as the changes in the Average Annual Heating Values come into effect in accordance with the Westcoast General Terms and Conditions.

## ARTICLE 2

### SERVICES

- 2.1 **Nature of Service:** Subject to the provisions of this Agreement, Terasen Gas shall provide to Westcoast on each Day in the term of this Agreement firm natural gas transportation service ("**Firm Service**") consisting of:
- (a) the receipt from Westcoast at the Receipt Point on each such Day of a quantity of gas not exceeding the Contract Quantity plus the required allowance for Fuel Gas for both the Terasen Gas Facilities and the Foothills System; and

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- (b) the Delivery at the Delivery Point for the account of Westcoast on each such Day of a quantity of gas not exceeding the Contract Quantity.

Firm Service hereunder shall not be subject to curtailment or interruption except as provided in Article 14, or by reason of scheduled maintenance, repair or modification of the Terasen Gas Facilities or the Foothills System.

### ARTICLE 3

#### TERM OF SERVICE

3.1 **Term:** Subject to Sections 3.2 and 3.3, the term of this Agreement shall be the two year period commencing at the beginning of the Day on May 1, 2010 and terminating at the end of the Day commencing on April 30, 2012.

3.2 **Conditions:** This Agreement shall not come into force and effect unless the following conditions have been fulfilled prior to April 15, 2010:

- (a) the BCUC, on the application of Terasen Gas, shall have granted all orders and approvals required by Terasen Gas pursuant to the *Utilities Commission Act* (British Columbia) to provide Firm Service to Westcoast pursuant to, and in accordance with the terms of, this Agreement for the term hereof; and
- (b) such amendments to the Westcoast Toll Schedules and the Westcoast General Terms and Conditions as are required by Westcoast to perform its obligations to those shippers which have entered into firm service agreements with Westcoast providing for firm transportation service between Westcoast's Compressor Station No. 2 and the Delivery Point shall have been filed by Westcoast with the NEB and have come into effect in accordance with their terms or shall otherwise been approved by an order of the NEB.

#### 3.3 Early Termination

- (a) If Westcoast fails to pay the full amount outstanding in respect of any monthly statement for a period of thirty (30) Days after the suspension of Firm Service by Terasen Gas pursuant to Section 9.5, Terasen Gas may, in addition to any other remedy it may have, terminate this Agreement effective on the day written notice of termination is given by Terasen Gas to Westcoast.
- (b) If Westcoast
  - (i) makes an assignment or any general arrangement for the benefit of its creditors;
  - (ii) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause under any bankruptcy or similar law for the protection of creditors or has such petition filed against it and such proceeding remains undismissed for 30 Days;
  - (iii) otherwise becomes bankrupt or insolvent (however evidenced); or

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(iv) is unable to pay its debts as they fall due;

Terasen Gas may terminate this Agreement forthwith without notice.

(c) Notwithstanding any other provision in this Agreement, if any U.S. federal or state or Canadian federal or provincial law, rule, order, opinion, enactment or regulation of any governmental authority or any court renders all or substantially all of this Agreement illegal or unenforceable, then Westcoast shall have the right to terminate this Agreement upon written notice to Terasen Gas. Westcoast may not terminate this Agreement if the Parties mutually agree to amend this Agreement to conform with such law, rule, order, opinion, enactment or regulation provided that such amendment shall be in writing and signed by both Parties.

3.4 **Survival:** Notwithstanding the termination of this Agreement, the provisions of Articles 4, 7, 9 and 13 shall survive the termination of this Agreement and Terasen Gas and Westcoast shall, as soon as reasonably possible, settle all outstanding payments and obligations which have accrued under this Agreement up to and including the Day upon which this Agreement terminated.

#### ARTICLE 4

##### DELIVERY CHARGES

4.1 **Monthly Charges:** Westcoast shall pay to Terasen Gas in respect of the Firm Service provided in each Month in the term of this Agreement, an amount equal to the Demand Charge specified in Section 4.2 and the Commodity Charges specified in Section 4.3.

4.2 **Demand Charge:** The Demand Charge payable by Westcoast in respect of each Month in the Term of this Agreement shall be an amount equal to the Demand Charge specified in Exhibit A less the amount of any Contract Quantity Credits to which Westcoast is entitled for the Month in accordance with Article 13.

4.3 **Commodity Charges:** In addition to the Demand Charge specified in Section 4.2, Westcoast shall also pay to Terasen Gas commodity charges ("**Commodity Charges**") equal to the sum of:

(a) the amount of tax on Fuel Gas consumed in operations on the Terasen Gas Facilities payable by Terasen Gas under the *Motor Fuel Tax Act* (British Columbia) or any successor legislation, allocated by Terasen Gas to Westcoast for the Month in respect of the Firm Service provided under this Agreement, plus

(b) the amount of tax on Fuel Gas consumed in operations on the Terasen Gas Facilities payable by Terasen Gas under the *Carbon Tax Act* (British Columbia) or any successor legislation, allocated by Terasen Gas to Westcoast for the Month in respect of the Firm Service provided under this Agreement; plus

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- (c) the amount of any new tax on Fuel Gas consumed in operations on the Terasen Gas Facilities payable by Terasen Gas under any legislation enacted or otherwise applicable in British Columbia during the term of this Agreement, allocated by Terasen Gas to Westcoast for the Month in respect of the Firm Service provided under this Agreement.

## ARTICLE 5

### FUEL GAS

- 5.1 **Fuel Percentages:** At least seven days prior to the first Day in each Month in the term of this Agreement, Terasen Gas shall give written notice to Westcoast specifying the Foothills Fuel Gas Percentage and the Terasen Fuel Gas Percentage applicable to gas to be transported under this Agreement on any Day in each such Month. The Foothills Fuel Gas Percentage shall be that percentage posted by Foothills. The Terasen Fuel Gas Percentage determined by Terasen Gas for the second and subsequent Months in the term of this Agreement shall include an adjustment based on the difference between the quantity of Fuel Gas for the Terasen Gas Facilities delivered by Westcoast to Terasen Gas at the Receipt Point during the immediately preceding Month and the actual quantity of Fuel Gas consumed in the Terasen Gas Facilities in providing Firm Service hereunder during the immediately preceding Month.
- 5.2 **Units:** Fuel Gas will be calculated on an energy basis and rounded to the nearest GJ.

## ARTICLE 6

### NOMINATIONS AND AUTHORIZATIONS OF SERVICE

- 6.1 **Nominations:** If Westcoast requires Firm Service on any Day, Westcoast may give a nomination to Terasen Gas in the Timely Nomination Cycle which nomination shall be given in accordance with Section 6.2 and prior to the applicable time specified in Section 6.5 and, subject to Section 6.3, if Westcoast:
- (a) requires any Firm Service on any such day in addition to that, if any, previously authorized by Terasen Gas for the Day in a prior Nomination Cycle; or
  - (b) wishes to reduce the Firm Service previously authorized by Terasen Gas for any such Day in a prior Nomination Cycle,

Westcoast may give a nomination to Terasen Gas in the Evening Nomination Cycle, the Intra-Day 1 Nomination Cycle or the Intra-Day 2 Nomination Cycle, which nomination shall be given in accordance with Section 6.2 and prior to the applicable times specified for each of those Nomination Cycles in Sections 6.5 and 6.6.

- 6.2 **Content of Nominations:** A nomination given by Westcoast to Terasen Gas in accordance with Section 6.1 shall include the following information:

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- (a) the total quantity of gas, including Fuel Gas, to be delivered by Westcoast to Terasen Gas at the Receipt Point;
  - (b) the quantity of gas to be delivered as the allowance for Fuel Gas required in the operation of the Terasen Gas Facilities;
  - (c) the quantity of gas, including Fuel Gas, to be delivered by Terasen Gas to Foothills at the East Kootenay Exchange;
  - (d) the quantity of gas to be delivered as the allowance for Fuel Gas required in the operation of the Foothills System; and
  - (e) the quantity of gas to be delivered by Terasen Gas for the account of Westcoast at the Delivery Point.
- 6.3 **Limitation, Intra-Day Nomination Cycles:** If Westcoast gives a nomination to Terasen Gas during any Day in accordance with Section 6.1 to reduce the Firm Service previously authorized by Terasen Gas for that Day in accordance with Section 6.4, such a nomination shall not be for Firm Service in respect of a quantity of gas which is less than the Elapsed Pro Rata Quantity.
- 6.4 **Authorizations:** Where Westcoast has given a nomination to Terasen Gas for service on any Day in any Nomination Cycle in accordance with Section 6.1, Terasen Gas will, prior to the applicable time for such Nomination Cycle specified in Sections 6.5 and 6.6, notify Westcoast of the Authorized Quantity of gas to be delivered for the account of Westcoast at the Delivery Point and the Authorized Receipt Quantity of gas to be delivered by Westcoast to Terasen Gas at the Receipt Point.
- 6.5 **Timely and Evening Nomination Cycles:** Nominations made by Westcoast for Firm Service on any Day in the Timely Nomination Cycle and the Evening Nomination Cycle in accordance with Section 6.1 shall be given by Westcoast to Terasen Gas on the preceding Day prior to the applicable time specified in the following table, and notification of the Firm Service authorized for the Day in either such Nomination Cycle shall be given by Terasen Gas in accordance with Section 6.4 on the preceding Day prior to the applicable time specified in the following table:

Nomination Cycle	Nomination	Authorization
Timely	1130 CCT	1630 CCT
Evening	1800 CCT	2200 CCT

Such authorizations shall become effective at the beginning of the Day in respect of which they are given by Terasen Gas.

- 6.6 **Intra-Day Nomination Cycles:** Nominations made by Westcoast for Firm Service on any Day in the Intra-Day 1 Nomination Cycle and the Intra-Day 2 Nomination Cycle in accordance with Section 6.1 shall be given by Westcoast to Terasen Gas during the Day prior to the applicable time specified in the following table, notification of the Firm Service authorized for the day in an Intra-Day Nomination Cycle shall be given by Terasen Gas in accordance with Section 6.4 prior to the applicable time

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specified in the following table and such authorizations shall become effective during the Day at the times specified in the following table:

Nomination Cycle	Nomination	Authorization	Effective Time
Intra-Day 1	1000 CCT	1400 CCT	1700 CCT
Intra-Day 2	1700 CCT	2100 CCT	2100 CCT

- 6.7 **Adjustment of Authorization:** Notwithstanding any authorization for Firm Service given by Terasen Gas in the Intra-Day 2 Nomination Cycle in accordance with Section 6.4, the Firm Service previously authorized for Westcoast will be subsequently reduced to a quantity of gas equal to the greater of that quantity specified in the final confirmation given by Gas Transmission Northwest Corporation to Foothills and the Elapsed Pro Rata Quantity if the confirmation given by Gas Transmission Northwest Corporation to Foothills in the Intra-Day 2 Nomination Cycle reduces the quantity of gas that Gas Transmission Northwest Corporation will accept at the Delivery Point for the account of Westcoast. Any change in any authorization made in accordance with this Section 6.7 shall be made by Terasen Gas and communicated to Westcoast within one hour of the receipt of the final confirmation given by Gas Transmission Northwest Corporation, and shall become effective as at the time it is so communicated by Terasen Gas to Westcoast.
- 6.8 **Communications:** All nominations, authorizations, confirmations and other communications to be given by each of Terasen Gas and Westcoast to the other in accordance with this Article 6 and Articles 5 and 7 shall be in writing and delivered by means of an electronic mail transmission system and in the file format, if any, agreed to by Terasen Gas and Westcoast or, if either the Terasen Gas or Westcoast electronic mail transmission system is not available on any Day, shall be delivered by facsimile copier, in each case addressed to Terasen Gas or to Westcoast as follows:

**Terasen Gas Inc.**

16705 Fraser Highway  
Surrey, B.C. V3S 2X7

Attention: Midstream Services Representative

Telephone: (604) 592-7799  
Facsimile: (604) 592-7895  
Email: [tradelog@terasengas.com](mailto:tradelog@terasengas.com)  
Pager: (604) 632-6634

**Westcoast Energy Inc.**

Suite 2600, 425 1st Street SW  
Fifth Avenue Place, East Tower  
Calgary, AB T2P 3L8

Attention: Gas Scheduling

Telephone: (403) 699-1600 or 1-877-675-6747  
Facsimile: (403) 699-1619  
Email: [GasSchedAB@spectraenergy.com](mailto:GasSchedAB@spectraenergy.com)

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- 6.9 **Changes in Nomination Cycles:** If, during the term of this Agreement, and as a result of changes adopted by the North American Energy Standards Board, Westcoast determines that it will amend the Westcoast General Terms and Conditions to change the Nomination Cycles, including the times at which nominations and authorizations are to be given and the times at which authorizations are to become effective, Westcoast shall give written notice of such changes to Terasen Gas. Terasen Gas and Westcoast shall amend this Agreement to give effect to such changes in the Nomination Cycles, and such amendments shall become effective for all purposes of this Agreement on the same Day as such changes in the Nomination Cycles come into effect in accordance with the Westcoast General Terms and Conditions.

## ARTICLE 7

### IMBALANCES

- 7.1 **Balancing:** Westcoast shall use all reasonable efforts at all times, based on the best information available to it, to balance the Receipt Quantity with the Authorized Quantity for each Day. Any differences between the Receipt Quantity and the Authorized Quantity which occurs on any Day shall be recorded as a Draft Imbalance or a Pack Imbalance, as the case may be, for each such Day.
- 7.2 **Tracking Imbalances:** Terasen Gas shall record the Draft Imbalance or Pack Imbalance incurred on each Day and determine the Cumulative Imbalance as of the end of each Day.
- 7.3 **Imbalance Reporting:** Terasen Gas shall on each Day prior to 0930 hours CCT provide Westcoast with a report setting out for the immediately preceding Day, the Draft Imbalance or the Pack Imbalance, if any, incurred on that Day and the Cumulative Imbalance as at the end of that Day.
- 7.4 **Imbalance Corrections by Westcoast:** After providing Westcoast with a report on any Day in accordance with Section 7.3, Terasen Gas may request Westcoast to correct, in whole or in part, the Cumulative Imbalance specified in that report on the next succeeding Day or within such other period of time as may be agreed upon by the Parties. Where Westcoast receives such a request from Terasen Gas, Westcoast will, subject to the availability of pipeline capacity, increase or decrease the quantity of gas to be delivered to Terasen Gas at the Receipt Point on such Day or during such period of time in order to effect the requested correction of the Cumulative Imbalance.
- 7.5 **Imbalance Corrections by Terasen Gas:** If Westcoast does not correct a Cumulative Imbalance in accordance with a request made by Terasen Gas pursuant to Section 7.4, Terasen Gas may on one or more Days adjust the Authorized Quantity for any such Day or adjust the Authorized Receipt Quantity for any such Day to the extent required to correct the Cumulative Imbalance. Terasen Gas shall give notice to Westcoast in accordance with Section 6.8 of any Imbalance Correction to be made by Terasen Gas in accordance with this Section 7.5.

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## ARTICLE 8

### DAILY DELIVERIES OF GAS

- 8.1 **Delivery Obligations:** On each Day in the term of this Agreement:
- (a) Terasen Gas shall deliver at the Delivery Point for the account of Westcoast a quantity of gas equal to the Authorized Quantity for each such Day as determined in accordance with Article 6; and
  - (b) Westcoast shall deliver to Terasen Gas at the Receipt Point a quantity of gas equal to the Authorized Receipt Quantity for each such Day as determined in accordance with Article 6, as adjusted for any Imbalance Correction made by Westcoast in accordance with Section 7.4.
- 8.2 **Receipt Point Pressure:** Westcoast shall deliver to Terasen Gas the Authorized Receipt Quantity to Terasen Gas at the Receipt Point at the applicable pressure specified in the Westcoast General Terms and Conditions.
- 8.3 **Commingled:** Terasen Gas shall be deemed to be in possession of, and control of, and responsible for all gas received by it at the Receipt Point until such gas is delivered by it for the account of Westcoast at the Delivery Point. Terasen Gas shall have the right to commingle such gas with other gas in the Terasen Gas Facilities and in the Foothills System.

## ARTICLE 9

### STATEMENT AND PAYMENTS

- 9.1 **Monthly Statements:** Within ten (10) days of the end of each Month in the term of this Agreement, Terasen Gas shall deliver to Westcoast a statement setting out for each Day in each such Month the actual quantity of Fuel Gas consumed in the operation of the Terasen Gas Facilities allocated by Terasen Gas to Westcoast for each such Day in respect of the Firm Service provided under this Agreement.
- 9.2 **Invoices:** Within twenty (20) days of the end of each Month in the term of this Agreement, Terasen Gas shall deliver to Westcoast an invoice specifying the amount payable by Westcoast in respect of the Firm Service provided by Terasen Gas to Westcoast during each such Month.
- 9.3 **Payment:** Payment of an invoice delivered by Terasen Gas to Westcoast in any Month in accordance with Section 9.2 shall be made by Westcoast in readily available Canadian Funds on or before the later of (i) the twenty fifth (25th) day of the Month, and (ii) the fifth Business Day following receipt by Westcoast of the invoice delivered to it by Terasen Gas pursuant to Section 9.2.
- 9.4 **Failure to Pay:** If Westcoast fails or neglects to make any payment required under this Agreement to Terasen Gas when due, interest on the outstanding amount will accrue, at the annual rate of interest declared by the chartered bank in Canada principally used by Terasen Gas, for loans in Canadian dollars to its most

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- creditworthy commercial borrowers payable on demand and commonly referred to as its "prime rate", plus:
- (a) 2% from the date when such payment was due for the first thirty (30) Days that such payment remains unpaid and 5% thereafter until the same is paid when Westcoast has not, during the immediately preceding six (6) Month period, failed to make any payment when due hereunder; or
  - (b) 5% from the date when such payment was due to and including the date the same is paid when Westcoast has, during the immediately preceding six (6) Month period, failed to make any payment when due hereunder.
- 9.5 **Service Suspension:** If Westcoast fails to pay the amount of any invoice when payment is due, Terasen Gas may, upon giving Westcoast thirty (30) days prior written notice, suspend any and all Firm Service being or to be provided to Westcoast pursuant to this Agreement. If, following the suspension of Firm Service hereunder, Westcoast pays the full amount due and payable to Terasen Gas, Terasen Gas shall within two Business Days recommence the provision of Firm Service pursuant to this Agreement.
- 9.6 **Examination of Records:** Each of Terasen Gas and Westcoast shall have the right, at its own expense, at reasonable times and upon reasonable notice to examine, audit, and to obtain copies of the books, records and charts of the other Party, only to the extent reasonably necessary to verify accuracy of any statement, charge, payment, computation, or any claim for underpayment or overpayment. This right to examine, audit, and to obtain copies shall not be available with respect to proprietary information not directly relevant to transactions under this Agreement. All invoices and billings shall be conclusively presumed final and accurate and all associated claims for under or over payments shall be deemed waived unless such invoices or billings are objected to in writing, with adequate explanation and/or documentation, within two (2) years after the Month in which the Firm Service was provided under this Agreement. All retroactive adjustments under this Article 9 shall be paid in full by the Party owing payment within thirty (30) days of notice and substantiation of such inaccuracy.

## ARTICLE 10

### WARRANTY OF OWNERSHIP OR CONTROL AND ELIGIBILITY FOR TRANSPORTATION

- 10.1 **Westcoast's Warranty:** Westcoast warrants that all gas delivered to Terasen Gas for transportation under this Agreement shall be validly under the control of Westcoast. Westcoast will indemnify Terasen Gas and save it, its directors, officers, agents and employees and its successors and assigns, harmless from all suits, actions, damages, costs, losses, expenses (including reasonable legal fees) and regulatory proceedings, arising from breach of this warranty or any misrepresentation relating thereto.
- 10.2 **Terasen Gas' Warranty:** Terasen Gas warrants that it has a duly executed transportation agreement with Foothills for firm transportation service from a receipt point at the Alberta/British Columbia border near Coleman, Alberta, to the Delivery

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Point. This agreement currently has a service termination date of October 31, 2011 and Terasen Gas has, and will exercise, its right to renew that agreement in order that Terasen Gas will have adequate capacity available to it on the Foothills System to provide Firm Service to Westcoast in accordance with this Agreement during its term.

## ARTICLE 11

### QUALITY OF GAS

- 11.1 **Receipt Point:** The gas delivered by Westcoast to Terasen Gas at the Receipt Point for transportation to the Delivery Point shall conform with the applicable quality specifications contained in the Westcoast General Terms and Conditions.
- 11.2 **Delivery Point:** The gas delivered by Terasen Gas for Westcoast's account at the Delivery Point under this Agreement shall have the constituent parts that result from the commingling of gas from various sources in the Terasen Gas Facilities and the Foothills System and shall conform with Foothills' gas quality specifications for gas to be delivered at the Delivery Point.
- 11.3 **Non Conforming Gas:** If gas delivered by Westcoast to Terasen Gas at the Receipt Point shall fail to conform at any time with the gas quality specifications referred to in Section 11.1, then Terasen Gas shall give written notice of such deficiency to Westcoast and may, at its option, refuse to accept delivery of gas from Westcoast at the Receipt Point until such time as such deficiency has been remedied by Westcoast. Any such refusal by Terasen Gas shall not relieve Westcoast from the obligation to pay the Demand Charge payable by Westcoast pursuant to this Agreement.

## ARTICLE 12

### MEASUREMENT

- 12.1 **Volumetric Unit:** The unit of volume of gas for all purposes hereunder shall be one thousand (1,000) Cubic Metres (" $10^3\text{m}^3$ ").
- 12.2 **Energy Unit:** The unit of energy of gas for all purposes hereunder shall be one GJ.
- 12.3 **Measurement:** The volume and quantity of gas delivered by Westcoast to Terasen Gas at the Receipt Point on each Day in the term of this Agreement shall be measured by Westcoast at its Meter Station No. 31 located at the Receipt Point.
- 12.4 **Measuring Equipment and Procedures:** The provisions of Articles 13 and 14 of the Westcoast General Terms and Conditions respecting gas measurement, measuring equipment and the preservation of measurement records shall apply in respect of all gas delivered by Westcoast to Terasen Gas at the Receipt Point.
- 12.5 **Rounding:** The volume of gas shall be specified in  $10^3\text{m}^3$  to one decimal place and energy shall be specified in GJs rounded to the nearest GJ.

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**ARTICLE 13**

**CONTRACT QUANTITY CREDITS**

- 13.1 **Service Interruption:** If on any Day and for any reason, Terasen Gas is unable to provide Westcoast with the Firm Service nominated by Westcoast for any such Day (hereafter a "**Service Interruption**") then, subject to Sections 13.2 (a) and (b), Westcoast will be entitled to a credit for any such Day in respect of that Service Interruption in an amount equal to the product obtained by multiplying the Daily Demand Charge by the ratio, the numerator of which is the quantity of gas nominated by Westcoast in respect of which Terasen Gas was unable to provide Firm Service and the denominator of which is the Contract Quantity.
- 13.2 **Demand Charge Obligation:** Westcoast will not be entitled to receive a credit pursuant to Section 13.1:
- (a) for any period of time during a Service Interruption when Westcoast is unable for reasons other than the Service Interruption to deliver gas to Terasen Gas at the Receipt Point; or
  - (b) for any period of time during a Service Interruption when Terasen Gas was unable to receive gas from Westcoast at the Receipt Point due to the scheduled maintenance, repair or modification of the Terasen Gas Facilities or the Foothills System. To the extent practicable, Terasen Gas will use commercially reasonable efforts to cause repairs or maintenance to be made to minimize interruption or curtailment of Firm Service to Westcoast under this Agreement, and to restore service as quickly as possible.
- 13.3 **Make-Up Gas:** If Terasen Gas and Westcoast agree, Terasen Gas may allow Westcoast to deliver to Terasen Gas for receipt at the Receipt Point additional quantities of gas as make-up gas for that quantity which Terasen Gas was unable to receive and deliver for Westcoast's account during a Service Interruption. In such event Westcoast will not be entitled to receive a credit in respect of any such gas so received and delivered by Terasen Gas.

**ARTICLE 14**

**FORCE MAJEURE**

- 14.1 **Force Majeure:** In this Agreement the term "Force Majeure" means:
- (a) any acts of God, strikes, lockouts, or other industrial disturbances, civil disturbances, arrests and restraints of rulers or people, interruptions by government or court orders, present or future valid orders of any regulatory body having proper jurisdiction, acts of a public enemy, wars, riots, blackouts, insurrections, failure or inability to secure materials or labour by reason of regulations or orders of government, serious epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipes, which act of Force Majeure was not due to the wilful act or negligence of the Party claiming Force Majeure; and

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- (b) in the case of Terasen Gas, includes any such event or occurrence that results in the Foothills System not being available, in whole or in part, to provide transportation service between the East Kootenay Exchange and the Delivery Point.
- 14.2 **Failure to Perform due to Force Majeure:** If either Party fails to perform an obligation set out in this Agreement and such failure is caused or materially contributed to by Force Majeure, the failure shall be deemed not to be a breach of the obligation of that Party.
- 14.3 **Prorating Gas:** If an event of Force Majeure partially curtails Terasen Gas' ability to provide the Firm Service contemplated in this Agreement, the remaining available capacity will be shared pro-rata among Westcoast and other shippers with firm transportation service on the Terasen Gas Facilities and the Foothills System based on the other shippers' contracted capacities.
- 14.4 **No Relief:** Notwithstanding the provisions of Section 14.2, Force Majeure shall not relieve Westcoast from its obligation to pay, each Month, the Demand Charge specified in Exhibit A, nor relieve Terasen Gas from its obligation to provide Westcoast with Contract Quantity Credits in accordance with Article 13.
- 14.5 **Exceptions:** Neither Party shall be entitled to the benefit of the provisions of Section 14.2 under any of the following circumstances:
- (a) to the extent that the failure was caused by the wilful act, negligence or contributory negligence of the Party claiming suspension;
  - (b) to the extent that the failure was caused by the Party claiming suspension having failed to diligently attempt to remedy the condition and to resume the performance of its covenants or obligations with reasonable dispatch; or
  - (c) unless as soon as possible after the happening of the occurrence relied on or as soon as possible after determining that the occurrence was in the nature of Force Majeure and would affect the claiming Party's ability to observe or perform any of its covenants or obligations under this Agreement, the Party claiming Force Majeure will have given to the other Party notice to the effect that the Party is unable by reason of Force Majeure to observe or perform its covenants or obligations.
- 14.6 **Notice to Resume:** The Party giving notice of Force Majeure will likewise give notice, as soon as possible after the Force Majeure condition has been remedied, to the effect that it has been remedied and that the Party has resumed, or is then in a position to resume, the performance of its covenants or obligations.
- 14.7 **Settlement of Labour Disputes:** Notwithstanding any of the provisions of this Article 14, the settlement of labour disputes or industrial disturbances will be entirely within the discretion of the particular Party involved and the Party may make settlement of any such dispute or disturbance at the time and on terms and conditions as it may deem to be advisable and subject to the provisions of Section 14.4 no delay in making settlement will deprive the Party of the benefit of Section 14.2.
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ARTICLE 15

**DISPUTE RESOLUTION**

- 15.1 **Resolution of Disputes:** In the event that any dispute, claim, question or disagreement arises between the Parties out of or in connection with this Agreement or its performance (a "**Dispute**"), the Parties shall, upon the written request of either Party, attempt to settle the Dispute by negotiation. If the Dispute has not been settled by negotiation for any reason within thirty (30) days of the giving of such written request by a Party and if the Parties have not entered into a written agreement to resolve the Dispute by arbitration in accordance with Section 15.2 within forty-five (45) days of the giving of such written request, either Party may thereafter commence an action or other legal proceedings with respect to the Dispute.
- 15.2 **Arbitration:** If a Dispute has not been settled by negotiation within the time specified in Section 15.1, the Parties may enter into a written agreement providing for the resolution of the Dispute by arbitration, which agreement shall set out the substance of the Dispute and the process for arbitration of the Dispute including the venue of the arbitration, the number of arbitrators, the appointment of the arbitrators and other matters which the Parties consider to be necessary or desirable for the conduct of the arbitration. There shall be no arbitration of any Dispute except for an arbitration provided for in a written agreement made by the Parties in accordance with this Section 15.2.

ARTICLE 16

**NOTICES**

- 16.1 **Method of Notices:** Unless provided otherwise in this Agreement, any notice, request or other communication called for in this Agreement shall be in writing and shall be sent by personal delivery, by courier or by facsimile to either Westcoast or Terasen Gas at the address or facsimile number designated below. Unless changed by a notice given in accordance with this Section 16.1, the addresses and facsimile numbers of the Parties are as follows:

Terasen Gas:	<b>Terasen Gas Inc.</b> 16705 Fraser Highway Surrey, British Columbia V4N 0E8
Attention:	Cynthia Des Brisay Vice President, Gas Supply and Transmission
Telephone:	(604) 592-7837
Facsimile:	(604) 592-7620

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Westcoast: **Westcoast Energy Inc.**  
2600 Fifth Avenue Place, East Tower  
425 – 1st Street SW  
Calgary, Alberta  
T2P 3L8

Attention: Robert Whitwham  
Vice President, Pipeline  
Telephone: (403) 699-1999  
Facsimile: (403) 699-1998

A notice, request or other communication is considered to have been given in accordance with this Section 16.1, if delivered personally or by courier, on the date of delivery if it is a Business Day and delivery was made prior to 4:00 p.m. local time in the place of receipt and otherwise on the next Business Day or, if transmitted by facsimile, on the Business Day following the date of confirmation of transmission by the originating facsimile.

## ARTICLE 17

### FINANCIAL ASSURANCES

17.1 **Credit Requirements:** In order to secure the prompt and orderly payment of the amounts to be paid by Westcoast to Terasen Gas under this Agreement, Terasen Gas may require Westcoast to provide, from time to time and at Terasen Gas' sole discretion, sufficient information to demonstrate that Westcoast meets one of the following credit requirements:

- (a) Westcoast, or an Affiliate which guarantees Westcoast's obligations under this Agreement, has an investment grade rating (minimum BBB minus or above) for its long term unsecured debt from a bond rating agency acceptable to Terasen Gas; or
- (b) Westcoast, or an Affiliate which guarantees Westcoast's obligations under this Agreement, is able to demonstrate to Terasen Gas' satisfaction, acting reasonably, that the financial position of Westcoast, or its Affiliate which guarantees Westcoast's obligations under this Agreement, is such that Westcoast's obligations under this Agreement will be met.

Where Westcoast has not qualified under Section 17.1(a) or 17.1(b) at the time credit worthiness is being determined, or at any time thereafter if Terasen Gas has reasonable grounds for insecurity regarding payment under this Agreement, Terasen Gas may require Westcoast to provide by the end of the fifth (5th) Business Day after the request is received by Westcoast, and at all times maintain, an irrevocable letter of credit in favour of Terasen Gas issued by a financial institution acceptable to Terasen Gas, and in a form acceptable to Terasen Gas, in an amount equal to the estimated maximum amount payable by Westcoast under this Agreement for seventy (70) days of Firm Service. Where Terasen Gas requires Westcoast to provide a letter of credit and Westcoast is able to provide alternative security

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acceptable to Terasen Gas, Terasen Gas will accept such security in lieu of a letter of credit.

- 17.2 **Failure to Provide Security:** If Westcoast fails to provide security for payment in accordance with Section 17.1 within five (5) Business Days of the receipt by Westcoast of a request by Terasen Gas therefor, Terasen Gas may, upon giving Westcoast two (2) Business Days prior notice, suspend all Firm Service being or to be provided to Westcoast pursuant to this Agreement. If, at any time during such period of suspension, Westcoast provides Terasen Gas with the security for payment required in accordance with Section 17.1, Terasen Gas will within two (2) Business Days commence or recommence to provide Firm Service to Westcoast pursuant to this Agreement. If the failure by Westcoast to provide security for payment continues for a period of two (2) Business Days from the day on which Firm Service is suspended by Terasen Gas, Terasen Gas may, upon giving two (2) Business Days prior written notice to Westcoast, terminate this Agreement. Notwithstanding the suspension of Firm Service pursuant to this Section 17.2, Westcoast shall continue to be liable to Terasen Gas for the payment of all Demand Charges and other amounts accruing and the performance of all obligations arising under this Agreement for the remainder of its term.

## ARTICLE 18

### SUCCESSORS AND ASSIGNS

- 18.1 **Enurement:** This Agreement shall be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns. As between the Parties, any assignment of this Agreement made in accordance with Section 18.2 or Section 18.3 shall become effective on the first (1<sup>st</sup>) day of the Month following written notice that such assignment has been effected.
- 18.2 **Assignment by Terasen Gas:** Terasen Gas, without obtaining any approvals or consents from Westcoast, may assign the Agreement to any Affiliate of Terasen Gas which acquires all or substantially all of the natural gas transmission pipeline assets of Terasen Gas, including the Southern Crossing Pipeline. Except as provided for in this Section 18.2, Terasen Gas shall not assign this Agreement, or its rights and benefits under this Agreement, to any other Person.
- 18.3 **Assignment by Westcoast:** Westcoast may assign this Agreement, or its rights and obligations under the Agreement, provided any assignee complies with the credit requirements in Section 17.1 and Westcoast obtains the prior written consent of Terasen Gas to the assignment, which consent shall not be unreasonably withheld or delayed.

## ARTICLE 19

### GENERAL PROVISIONS

- 19.1 **Governing Law:** This Agreement shall be construed and enforced in accordance with the laws of British Columbia and the federal laws of Canada applicable therein and shall be treated in all respects as a contract made, entered into, and to be wholly performed in British Columbia. Each Party hereby irrevocably attorns and submits to

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- the exclusive jurisdiction of the courts of the Province of British Columbia situate in the City of Vancouver and hereby waives objection to the venue of any proceeding in such courts or that any such court provides an inconvenient forum.
- 19.2 **Amendments:** This Agreement may only be amended, varied or otherwise modified by a written agreement executed by the Parties.
- 19.3 **No Consequential Damages:** In no event will either Terasen Gas or Westcoast be liable to the other for any indirect, special, punitive, incidental or consequential loss, damage, cost or expense whatsoever, whether based on breach of contract, tort, strict liability or otherwise including without limitation, loss of profits or revenues, loss of opportunity, loss or damages for failure to deliver gas, cost of replacement or substitute gas, cancellation of licenses, permits or authorizations, and the termination or cancellation of contracts.
- 19.4 **Waiver:** No waiver of any provision of this Agreement will constitute a waiver of any other provision, whether or not similar. No waiver shall be binding unless executed in writing by the Party to be bound by the waiver. A Party's failure or delay in exercising any right under this Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a Party from any other or further exercise of that right or the exercise of any other right it may have.
- 19.5 **Entire Agreement:** This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter hereof, and supersedes all prior agreements, understandings, negotiations and discussions, whether written or oral, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties with respect to the subject matter of this Agreement, except as specifically set forth in this Agreement.

**IN WITNESS WHEREOF** the Parties hereto have executed this Agreement as of the date set forth on page 1 of this Agreement.


**TERASEN GAS INC.**

By:   
(Signature)

Cynthia Des Brisay  
(Name – please print)

Vice President  
Gas Supply & Transmission  
(Title)

**WESTCOAST ENERGY INC.**

By:   
(Signature)

Robert L. Whitwham  
(Name – please print)

Vice-President, Pipeline  
(Title)

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By:

(Signature)

Bruce E. Pydee

(Name – please print)

Vice-President,  
Regulatory Affairs and General Counsel  
(Title)

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CONFIDENTIAL

**EXHIBIT A**

**Contract Quantity**

1. Subject to adjustment in accordance with Section 1.4 of this Agreement, the Contract Quantity, based on a maximum daily volume of  $1\,401.8\ 10^3\text{m}^3$  and a Total Heating Value of gas delivered at the Receipt Point of 38.25 MJ per cubic meter, is 53 618.9 gigajoules per Day.

**Demand Charge**

2. The Demand Charge for Firm Service provided in each Month in the term of this Agreement, based upon an agreed rate of \$6.34 per  $10^3\text{m}^3$  for a maximum daily volume not exceeding  $2\,465\ 10^3\text{m}^3$ , shall be the amount obtained by multiplying \$8,887.41 (the "**Daily Demand Charge**") by the number of Days in each such Month.

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Effective Date: May 1, 2010

BCUC Secretary: \_\_\_\_\_

Tariff Supplement I-9  
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## Appendix B: Kingvale-Oliver Reinforcement Assessment

### Introduction and Project Description

Terasen Gas is proposing to undertake project development activities leading to the expansion of its transmission system in the BC Interior. If implemented, The Kingsvale-Oliver Reinforcement Project (“KORP” or the “Project”) would remove the physical constraints on the Terasen Gas transmission system. The scope of the Project is expected to include: 1) adding a new pipeline loop between Kingsvale and Oliver, or, another suitable route, 2) adding compression capability, and 3) building a new pipeline between Yahk and Kingsgate as an alternative to contracting for incremental capacity on the Foothills system.

Terasen Gas has carried out preliminary analysis on a new 161 km pipeline between Kingsvale and Oliver. The Company anticipates the new pipeline loop would substantially parallel the existing Kingsvale-Oliver Pipeline. Beginning at the Oliver ‘Y’, the expected route would generally loop the existing 12” Kingsvale-Oliver Pipeline for the first 43 km to a location west of Keremeos and then turn west, climbing out of the Similkameen River Valley to follow the green-field route originally selected for the Inland Pacific Connector (“IPC”) Project for the next 24 km. At a location south east of Princeton, the route leaves the IPC route and continues green-field for 29 km as it turns to the north west to cross the Similkameen River through a narrow gap between large and small lot private properties to rejoin the existing 12” pipeline north of Princeton and follow the existing 3” and 12” pipeline right-of-way for the final 65 km to Kingsvale. While this conceptual route is considered most probable, Terasen Gas will consider other routing alternatives, including a more green-field route that connects Kingsvale with Oliver further north and closer to the Okanagan Connector highway. See Figure A below showing the preliminary alignment of the preferred route from Kingsvale to Oliver

In addition to the required pipeline loop, the requirement for new compression facilities will also be evaluated at locations and capacities yet to be determined along the route of the proposed pipeline, as well as along the route of the SCP.

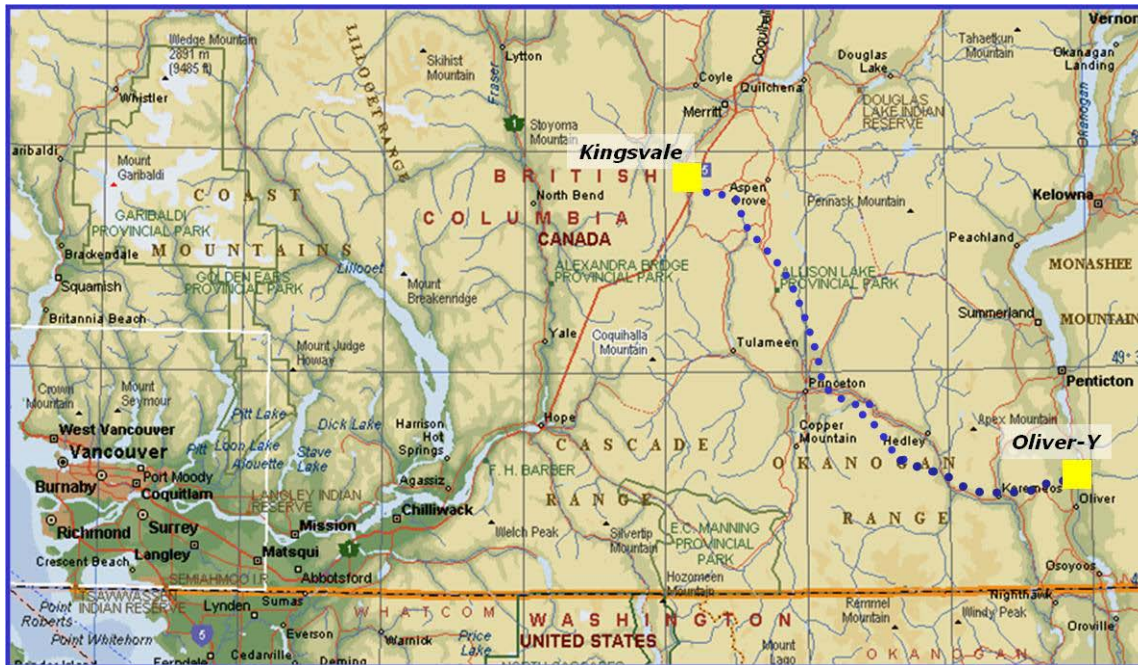
There is also a constraint in the East Kootenay that would need to be addressed in the scope of the KORP. For 8 km between Yahk and Kingsgate, Terasen Gas will investigate installing a new pipeline that parallels the TransCanada Pipelines Limited (“TCPL”) Foothills System, as an alternative to contracting with TCPL for incremental capacity on its Foothills System.

Two development stages are planned to occur over a period of nearly three years prior to commencement of construction. Stage 1 involves preliminary assessment and issues identification. Based on the results of Stage 1, Stage 2 would involve field studies, options analysis, consultation, and regulatory applications and approvals.

At a preliminary examination level, it is expected that the route that generally parallels existing disturbances is quite likely feasible from a technical and environmental perspective. It is anticipated that First Nations and other public issues will likely be the most sensitive to resolve. Based on a recent aerial review of the route and other Terasen Gas information, the following preliminary issues have been identified and will require further study:

- Constructing within the overlapping traditional territories of potentially 17 to as many as 23 First Nations communities.
- Crossing the Blind Creek Indian Reserve east of Keremeos.
- Resolving issues related to SARA-listed species (plant and animal) in the Similkameen Valley.
- Crossing the Ashnola Indian Reserve west of Keremeos.
- Crossing the Similkameen River in a built-up area of large and small lot private properties east of Princeton that will may require lengthy horizontal drilling.
- Crossing a congested subdivision area along green-field route (north of Princeton Castle Resort).
- Crossing numerous large lot residential and farm properties along the existing right of way for approximately 7 km north of Princeton.
- Abutting new Hydro corridor versus Terasen Gas ROW where practical.

Figure A: Preferred Route from Kingsvale to Oliver



## **Project Development Activities**

A detailed summary of the approach to developing the KORP is described below. Preliminary assessment (“Stage 1”) activities are necessary to confirm the feasibility of the preferred route. Subsequent activities (“Stage 2”) are required to seek environmental, First Nations, public and regulatory approval for the proposed project prior to commencement of construction.

### **Stage 1 – Preliminary Assessment**

In Stage 1, Terasen Gas plans to perform preparatory engineering, environmental, construction, land use, socio economic impact and stakeholder identification studies to determine the initial feasible route and, as applicable, compressor site alternatives. These studies will provide the framework of the conceptual design of the pipeline and compressor stations. The results from Stage 1 will culminate in a Project Assessment Study, which will establish the conceptual scope of the project and the associated conceptual project cost estimate and schedule, including the identification of issues that must be addressed in order for the Project to proceed in an orderly manner. Upon completion of this preliminary work, Terasen Gas expects to have a high degree of assurance that a new pipeline loop can in fact be constructed on or around the initial feasible route and/or that a new compressor station(s) can be built at or near the desired location(s). In addition, Terasen Gas will have a more refined schedule and cost estimate for the Project.

Stage 1 will provide the framework for Stage 2, which will encompass all of the requirements of the BC Environmental Assessment Act, the Canadian Environmental Assessment Act, and the CPCN Application and subsequent preparation and filing of documents for approval of same.

The activities in Stage 1 include the following:

- Undertake route and access road reconnaissance with engineering and environmental teams.
- Undertake preliminary geotechnical assessment to assist the route and site selection studies.
- Initiate wildlife and vegetation assessments and rare and endangered species studies.
- Initiate fish and fish habitat research to select potential crossings sites, establish crossing methods, confirm fish presence and habitat status and determine potential environmental impacts with specific reference to possible Harmful Alteration, Disruption or Destruction (HADD) impacts.
- Undertake archaeological overview assessment.
- Undertake Ecological Land Classification assessment and mapping.
- Initiate First Nations and public consultation.
- Undertake preliminary Land Use and Socio-Economic studies to assist in route and site selection.
- Complete digital aerial photography required for Stage 2 and prepare initial digital route maps.
- Initiate contact with Local and Regional Governments and Government Ministries.
- Undertake assessment of route amendment alternatives resulting from consultation and field research activities.
- Establish potential compression requirements, initiate compressor site selection and initial site environmental assessment.

- Prepare and file BC Environmental Assessment Office (“BCEAO”) / Canadian Environmental Assessment Agency (“CEAA”) Project Description.
- Finalize BCEAO/CEAA Terms of Reference for Environmental Application.
- Complete Cost Estimate and Schedule for project completion.
- Prepare and file Commission “Project Assessment Report”.

Terasen Gas will also be exploring the possibility of either building a new pipeline between Yahk and Kingsgate or contracting with TCPL for incremental Foothills capacity based on the 8 kilometre distance from Yahk to Kingsgate. Currently the Foothills tolls are distance based, although a firm service from Yahk to Kingsgate does not exist under the Foothills tariff.

In addition, Terasen Gas will collaborate with Spectra Energy and prospective shippers to evaluate the market potential for expansion of the Kingsvale-Oliver Pipeline and the potential commercial arrangements between the two companies. Upon completion of Stage 1, Terasen Gas anticipates being in a position to begin seeking shipper commitments to ensure sufficient interest and support of an expansion project prior to engaging in the next stage of development activities.

### **Stage 2 – Regulatory Requirements**

Following Stage 1, if Terasen Gas decides to proceed with the Project, the Company would anticipate filing an Application with the Commission to seek approval to create a new deferral account to capture the costs associated with expansion activities beyond Stage 1.

Stage 2 of the development of the Project will involve further feasibility assessments, detailed environmental, engineering and land use/socio-economic assessments, as well as continued consultation with First Nations, the public, landowners and regulatory authorities having jurisdiction and adjustments to address issues and obstacles, and the iterative process of pipeline route and compression siting finalization culminating in the filing of the BCEAO/CEAA Environmental Assessment Application.

The activities in Stage 2 include the following:

- Continue First Nations consultation.
- Undertake detailed route confirmation to establish the precise footprint of the project land disturbance including detailed engineering studies such as geotechnical, terrain stability, and horizontal drilling testing.
- Complete detailed environmental studies in all disciplines to establish specific project impacts and proposed mitigation including:
  - Biological Field Studies,
  - Physical Field Studies,
  - Socio-economic and Land Use Studies,
  - Forestry Studies,
  - Water Quality/Quantity Studies,
  - Archaeology/Heritage Studies,
  - Traditional Use Studies,
  - Cumulative Effects Assessment,
  - Noise Assessment-compressor Stations, and



- Dispersion Modelling-compressor Stations.
- Complete final compressor site selection and environmental assessment.
- Prepare detailed project mapping, including digital route and site aerial mosaics.
- Undertake detailed EA Public Consultation and Open Houses.
- Develop preliminary plans and program commitments including, for example:
  - Environmental Protection Plan,
  - HADD Mitigation and Compensation Plan,
  - Forest Fire Protection Plan,
  - Emergency Response Plan,
  - Access Management Plan, and
  - Restoration Plan.
- Prepare BCEAA and CEAA Application.
- Prepare CPCN Application.

As indicated in Stage 1, Terasen Gas would make a determination on a more refined construction schedule as a deliverable of Stage 1. Presently, Terasen Gas is of the view that the earliest possible construction date would be 2014 if Stage 2 activities were to commence immediately following the completion of Stage 1. In this case, Terasen Gas would file a CPCN Application at the end of Stage 2, which would be in the fourth quarter of 2012. The decision to proceed with Stage 2 will not be made until the results of Stage 1 activities are fully assessed.

With sufficient information gathered and incorporated into a Project Execution Plan to adequately demonstrate the feasibility of the Project, and the applicable documents having been submitted to the BCEAO and the CEAA for environmental approval and the Commission for regulatory approval. Stage 2 will conclude upon BCEAO and Commission approvals of the Project.

The Project Plan generated in Stage 2 will form the basis for next phase of the Project (Stage 3), which will involve detailed engineering design, permit submissions, procurement, construction management and right of way acquisition.

The costs associated with Stage 2 are currently estimated to be \$6 million.





DRAFT ORDER

IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Terasen Gas Inc.

for Approval of a Firm Transportation Service Agreement between Terasen Gas Inc. and Westcoast Energy Inc.,  
and for Accounting Treatment of Preliminary Feasibility Assessment Costs (the "Application")

**BEFORE:**

[March \_\_, 2010]

**WHEREAS:**

- A. On March 17, 2010, Terasen Gas Inc. ("Terasen Gas") applied, pursuant to Sections 60 and 61 of the *Utilities Commission Act* (the "Act"), for approval of a Firm Transportation Service Agreement between Terasen Gas and Westcoast Energy Inc. Effective May 1, 2010 (the "Agreement"), for approval of the proposed accounting treatment for the revenues, and for endorsement of the Tariff Supplement No. I-9; and
- B. The Application also requests approval of the proposed accounting treatment of preliminary feasibility assessment costs related to expansion of the existing capacity on the Terasen Gas transmission system; and
- C. The Agreement allows for up to 87 million cubic feet per day of firm west to east capacity across Terasen Gas' transmission system, including the Southern Crossing Pipeline ("SCP"), effective May 1, 2010 to April 30, 2012; and
- D. Terasen Gas proposes the incremental revenues resulting from the Agreement be accounted for in a manner consistent with current practices and allocated between the Southern Crossing Pipeline Mitigation Revenues Variance and the Midstream Cost Reconciliation Account deferral accounts; and
- E. Terasen Gas requests the preliminary feasibility assessment costs related to expansion of the existing capacity on the Terasen Gas transmission system within the BC Interior, to a maximum amount of \$2.0 million, be charged to the SCP Mitigation Revenues Variance deferral account and thereby offset against the increased mitigation revenues resulting from the Agreement; and



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to Order No. G-XX-10  
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F. The Commission has reviewed the Application, and considers that it is in the public interest and should be approved.

**NOW THEREFORE** pursuant to sections 60 and 61 of the Act the Commission orders as follows:

1. The Commission approves the Firm Transportation Service Agreement between Terasen Gas and Westcoast Energy Inc. effective May 1, 2010, and the proposed accounting treatment of the revenues.
2. The Commission endorses Tariff Supplement No. I-9.
3. The Commission approves the preliminary feasibility assessment costs related to the expansion of the existing capacity on the Terasen Gas transmission system, to a maximum of \$2.0 million, be charged against the SCP Mitigation Revenues Variance deferral account.

**DATED** at the City of Vancouver, in the Province of British Columbia, this            day of March, 2010.

BY ORDER



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-70-10**

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IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Terasen Gas Inc.  
for Approval of a Firm Transportation Service Agreement  
between Terasen Gas Inc. and Westcoast Energy Inc.  
and for Accounting Treatment of Stage 1 Costs for a Pipeline System Expansion Study

**BEFORE:** L.F. Kelsey, Commissioner

April 13, 2010

**O R D E R**

**WHEREAS:**

- A. On March 17, 2010, Terasen Gas Inc. (Terasen Gas) applied, pursuant to sections 60 and 61 of the *Utilities Commission Act* (the Act), for approval of a Firm Transportation Service Agreement between Terasen Gas and Westcoast Energy Inc. (Spectra Energy) effective May 1, 2010 (the Agreement), as Tariff Supplement No. I-9, and for approval of the proposed accounting treatment for the revenue under the Agreement (the Application); and
- B. The Agreement provides Spectra Energy up to 87 million cubic feet per day of firm west to east capacity across the Terasen Gas transmission system, including the Southern Crossing Pipeline (SCP), effective May 1, 2010 to April 30, 2012; and
- C. Terasen Gas proposes the incremental revenue resulting from the Agreement be accounted for in a manner consistent with current practices, and allocated between the SCP Mitigation Revenues Variance deferral account and the Midstream Cost Reconciliation Account; and
- D. In the Application, Terasen Gas also requests that the Stage 1 preliminary feasibility assessment costs related to expansion of the existing capacity of the Terasen Gas transmission system in the BC Interior, to a maximum amount of \$2.0 million, be charged to the SCP Mitigation Revenues Variance deferral account and thereby offset against the mitigation revenues resulting from the Agreement; and
- E. Terasen Gas states that, if it decides at the end of the Stage 1 assessment of the transmission system expansion project to continue the development of the project, it anticipates requesting British Columbia Utilities Commission (Commission) approval of a new deferral account for the \$6 million cost of Stage 2 to continue the development of the expansion project; and
- F. A condition precedent of the Agreement requires approval from the Commission by April 15, 2010 for Terasen Gas to provide firm service to Spectra Energy under the Agreement; and
- G. Commission Order G-57-10 established a written hearing to obtain comments on the Application; and

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

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- H. By letter dated April 1, 2010, the British Columbia Old Age Pensioners' Organization, *et al* submitted comments on the Application that supported the Agreement and did not oppose the proposed treatment of Stage 1 study costs; and
- I. Terasen Gas filed its Reply Submission on April 6, 2010; and
- J. The Commission has reviewed the Application and related submissions, observes the lack of opposition to the Terasen Gas requests, and determines that the Application should be approved.

**NOW THEREFORE** pursuant to sections 60 and 61 of the Act the Commission orders as follows:

1. The Commission approves the Agreement as Tariff Supplement No. I-9, effective May 1, 2010, for the period May 1, 2010 through April 30, 2012.
2. The Commission approves the proposed accounting treatment for the revenue that Terasen Gas receives under the Agreement, as set out in the Application.
3. The Commission approves that future Stage 1 preliminary feasibility assessment costs related to the expansion of the capacity of the Terasen Gas transmission system, to a maximum of \$2.0 million, be charged to the SCP Mitigation Revenues Variance deferral account.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 13th day of April 2010.

BY ORDER

*Original signed by:*

L.F. Kelsey  
Commissioner

**Attachment 1.1b**

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**FILED CONFIDENTIALLY**

**Attachment 10.1**

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**FILED CONFIDENTIALLY**