



Janet P. Kennedy
Vice President, Regulatory Affairs & Gas Supply

Pacific Northern Gas Ltd.
2550, 1166 West Hastings Street
Vancouver, BC V6E 3X2
Tel: (604) 691-5680
Fax: (604) 697-6210
Email: jkennedy@png.ca

Via E-Mail

BCUC File: 57401

April 9, 2018

B.C. Utilities Commission
Suite 410 - 900 Howe Street
Vancouver, BC
V6Z 2N3

File No.: 4.2 (2018)

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: Application for Approval of Letter Agreement between Pacific Northern Gas Ltd. and Triton LNG Limited Partnership Dated March 29, 2018

INTRODUCTION

Since the loss of its biggest industrial customers, Pacific Northern Gas Ltd. (PNG) has filed various regulatory applications for approvals of agreements with customers for its uncontracted pipeline capacity. However, as recent as March 2016, PNG has had to notify the British Columbia Utilities Commission (Commission) of the termination of such agreements and PNG has continued its efforts to seek potential new customers to contract for the available capacity in its western system.

As such, PNG is very pleased to hereby apply for Commission approval of the letter agreement attached hereto as Appendix A (Letter Agreement) entered into between PNG and Triton LNG Limited Partnership (Triton) on March 29, 2018 for PNG to provide Triton with an option on firm and interruptible transportation service for a proposed small modular LNG or methanol export project to be located on Ridley Island, British Columbia (Proposed Project) (Application). The option is for a minimum of 20 MMcf/day of firm transportation service, increasing to approximately 50 MMcf/day of firm transportation service at Triton's election, should Triton elect to reserve additional capacity on terms to be determined by PNG (the Transportation Service).

The Letter Agreement provides that it is subject to PNG obtaining approval from the Commission. Once obtained and subject to certain additional conditions outlined below, Triton will pay PNG an initial option fee of \$0.5 million for the initial reservation of 20

MMcf/day, with additional option fees to be paid to PNG should Triton elect to reserve additional capacity. This Application sets out the reasons why PNG considers that the Commission should find the Letter Agreement to be in the public interest.

BACKGROUND INFORMATION

AltaGas Ltd. (AltaGas), PNG's parent company, has been collaborating with PNG since July 2015 to develop a business plan to utilize PNG's unutilized pipeline capacity. The collapse in global energy prices in 2014 caused many projects to be cancelled or delayed until markets returned to a more favorable situation which has been demonstrated to be the case in recent months. As a result, representatives of AltaGas formally approached PNG in July 2017 requesting information about the status of PNG's unutilized capacity with the intention of securing an option to contract all available capacity to Ridley Island, British Columbia. The purpose of the request is to provide feedstock gas for the Proposed Project that would be co-located with AltaGas's existing propane export facility at the same location. AltaGas also indicated that commencement of Transportation Service would be in the last quarter of 2020 or early 2021. PNG advised AltaGas that it could provide approximately 20 MMcf/day of gas to Ridley Island using its existing mainline transmission assets.

AltaGas subsequently requested PNG to undertake investigative works to determine the feasibility and cost of delivering an additional 30 MMcf/day to Ridley Island for a potential total of approximately 50 MMcf/day of Transportation Service. PNG advised AltaGas that an expansion scenario would require engineering studies to determine pipeline looping and compressor facilities to meet the higher contract demands. It was subsequently acknowledged that the capital additions for the expansion scenarios would be significant in terms of both cost and scope having regard to the anticipated contract term of a minimum of 20 years. The parties then commenced to negotiate the terms noted on the Letter Agreement and also the terms for a pipeline capacity expansion study cost recovery backstop agreement (Backstop Agreement) (see Appendix B).

The Letter Agreement was entered into with Triton, a joint venture partnership between AltaGas and Idemitsu Kosan Co., Ltd. (Idemitsu). Background information on these entities is provided in the next few paragraphs.

AltaGas Ltd. is a North American diversified energy infrastructure company operating in the Power, Gas Midstream and Utilities sectors with a combined asset base of over \$10 billion.

Idemitsu Kosan Co., Ltd. is a global leader in the supply of energy, petroleum, lubricants and petrochemical products and services. It is the second largest petroleum refiner in Japan and owns and operates oil platforms, refiners, and produces and sells petroleum, oils and petrochemical products. The company was established in 1911, has a global network employing 9,139 employees (as of March 31, 2017) and an asset base of over \$30 billion.

Triton LNG Limited Partnership is a wholly-owned subsidiary of the AltaGas Idemitsu Joint Venture Limited Partnership. The joint venture partnership was formed by AltaGas Ltd. and Idemitsu Kosan Co., Ltd. to pursue export opportunities to Asia. AltaGas and Idemitsu each own a 50 percent interest in the partnership.

LETTER AGREEMENT IS IN THE PUBLIC INTEREST

PNG explains below why the Commission should find the Letter Agreement and the terms of the Transportation Service for the baseline 20 MMcf/day contemplated under the Letter Agreement to be in the public interest. For ease of Commission review, PNG hereby provides a summary of the key terms of the Letter Agreement.

1. Firm Service Volume – Initial Capacity and Expanded Capacity

PNG has agreed to provide Triton with at least 20 MMcf/day of firm gas transportation service capacity (Initial Capacity) and is reviewing the alternatives to provide up to approximately 50 MMcf/day. The 20 MMcf/day represents the maximum capacity currently available to Ridley Island using existing facilities and minimum additional capital investment to supply this committed firm capacity.

As noted in section 5(d)(ii) of the Letter Agreement, PNG has until July 31, 2018 to confirm whether greater than the 20 MMcf/day and up to approximately 50 MMcf/day of firm capacity (Expanded Capacity) can be contracted to Triton. PNG will issue an expanded capacity notice (Expanded Capacity Notice) detailing the terms on which PNG would be willing to provide such Expanded Capacity to Triton. Triton will have 30 days to either accept or reject PNG's proposal for such Expanded Capacity.

PNG also notes that should Triton accept PNG's proposal for the Expanded Capacity, PNG will file a subsequent application to the Commission for approval of the facilities to be constructed as well as the tariff that will be implemented.

2. PNG Feasibility Study – Technical Scope

PNG will be analyzing the feasibility of upgrading its existing Prince Rupert Mainline (Mainline) transmission pipeline between Terrace, BC and Ridley Island, British Columbia. The goal of the study is to determine the capital and operational work required to increase flow capacity from 20 MMcf/day to approximately 50 MMcf/day additional volume delivered to Ridley Island, British Columbia. PNG's existing system will also require recommissioning in various segments upstream all the way to Summit Lake, BC.

A pre-FEED study and Class III cost estimate to assist in determining the feasibility of the project will be developed. For the 50 MMcf/day case, the scope of the project consists of the following main aspects:

- Approximately 12 km, 219.1mm OD pipeline from Galloway Station to Ridley Terminal complete with sending/receiving barrels and a downstream custody transfer meter.
- Approximately 5 km, 219.1mm OD pipeline from Compressor Station R-5 (Kitimat Lateral) connecting to the Mainline just downstream of Terrace Junction.
- New compressor site, 1000 HP (new or used equipment) at Salvus Camp (no land currently acquired).
- New compressor, 1200 HP (new or used equipment) at R-5 (to be installed on existing land).
- Operational review and recommissioning of existing assets.

PNG notes that for cases below 50 MMcf/day of firm capacity, the system would require less compression, fewer pipeline upgrades and a lower level of recommissioning. Scope items would be subtracted from the aforementioned points. While not explicitly in scope, PNG believes the costs associated with upgrades beyond 50 MMcf/day will be significantly higher on a cost/ MMcf/day basis due to the necessity to construct in difficult, mountainous terrain with remote access. For further clarity, in the scenario whereby Triton contracts for the full 50 MMcf/day on a firm basis, there would be negligible unutilized pipeline capacity available for new or existing firm and interruptible customers, therefore any future capacity requirements beyond those for the Proposed Project would necessitate a more costly pipeline upgrade project.

3. Firm Transportation Service Rate

PNG and Triton have agreed to a minimum unit demand charge for the Initial Capacity to be increased by an inflation factor with the commencement of the 11th contract year of the primary term, and should Triton exercise its option to renew, at the commencement of any new renewal term.

PNG notes that the filed Exhibit A of the Letter Agreement under Appendix A does not include the minimum unit demand charge for the Initial Capacity and has redacted this information. PNG will file an unredacted copy of the Letter Agreement to the Commission on a confidential basis. PNG requests that the negotiated minimum unit demand charge be kept confidential at this time pursuant to the Commission's Confidential Filings Practice Directive. The request for confidentiality is based on the consideration that this proposed project may not go ahead, and that the public dissemination of this information may prove detrimental to PNG's position in future contractual arrangements and thus may have an adverse effect on its ability to negotiate the best possible arrangement on behalf of its customers.

For the volumes between 20 MMcf/day to 50 MMcf/day, the unit demand charge has not yet been determined. PNG plans to design a toll calculation such that all new capital and operating costs are fully recovered from Triton, thereby eliminating the risk of asset stranding and ensuring that there are positive rate impacts for PNG's other customers

PNG considers the proposed unit demand charge for PNG's existing initial capacity of 20 MMcf/day to be just and reasonable since, based on an internal analysis, the unit demand charge for the minimum 20 MMcf/day would result in lower tolls for existing customers. PNG also understands that the economic viability of a prospective LNG or methanol project at only 20 MMcf/day is very challenging and believes that Triton would prefer a higher delivery volume than PNG currently has available.

The unit demand charge for the Expanded Capacity will not be determined until PNG has completed both the engineering study and a thorough analysis of the costs and proposed tolls following established rate design principles.

PNG considers that the Commission can determine whether the Letter Agreement is in the public interest given that the BCUC will be asked to review and approve the CPCN application that PNG will file if Triton signs for Expanded Capacity.

4. Supply of Company Use Gas

As noted in Exhibit A of the Letter Agreement, Triton will supply in kind to PNG the percentage of Company use gas required for the daily gas deliveries to Triton and currently estimated to be at most four percent. The four percent figure was sufficient when the PNG pipeline was operating at almost full capacity at the time Methanex's methanol facility was operating in the PNG service area. In other words, based on historical experience with a fully utilized pipeline, PNG is confident the quantity of Company use gas to be used by PNG to deliver gas to Triton will average at most approximately four percent of the total volume of gas delivered by PNG to Triton. Motor fuel taxes and carbon taxes are also payable by PNG on the gas it purchases for its own use and Triton will reimburse PNG accordingly for any current and future taxes paid on the Company use gas supplied by Triton to PNG.

5. Service Term

PNG considers that locking in its uncontracted firm service capacity to the Ridley Island service area for a minimum of 20 years to be reasonable.

The Letter Agreement also provides for an option for up to three subsequent 5-year term renewals based on a firm rate that would be adjusted by an inflation factor upon each renewal

term. The definitive gas transportation service agreement would detail the terms of the inflation factor.

6. Required Approvals

The Letter Agreement specifies that it is subject to approval by the Commission to be received prior to August 31, 2018.

The Commission has approved similar Memorandums of Agreement and other agreements for large-volume firm transportation services with LNG Partners LLC in 2008, Merrill Lynch Commodities, Inc. in 2009, LNG Partners LLC revised agreement in 2012, and EDF Trading Limited Assignment, Novation and Amendment agreement in 2014, with some approvals being subject to PNG filing fully executed copies of the definitive firm service agreements.

The processes for these previous applications were efficient and effective from both the customers' and PNG's point of view as it can sometimes take much longer to finalize detailed definitive transportation service agreements compared to agreeing to the major terms under a memorandum of agreement or in the current case, under a Letter Agreement. As was done previously, PNG is requesting the Commission to approve the Letter Agreement on the condition that if Triton exercises its option to contract for firm gas service, PNG will file a fully executed definitive firm gas transportation service agreement that is materially the same as the agreement contemplated under the Letter Agreement. And should Triton accept the Expanded Capacity Notice, PNG would file a separate application for approval of the facilities to be constructed as well as the tariff to be implemented.

7. Option to Contract for Firm Pipeline Capacity and Option Extension

The Letter Agreement is for reservation of 20 MMcf/day of firm transportation service, increasing to approximately 50 MMcf/day should Triton elect to reserve additional firm capacity on terms to be determined by PNG once PNG completes certain preliminary design work and approval is obtained from the British Columbia Utilities Commission.

In consideration of the payment of an Initial Option Fee of \$0.5 million, PNG is granting Triton the option to contract for firm pipeline capacity of 20 MMcf/day. The Option Fee is payable from the escrow agent to PNG on the later date of the following: (i) Commission approval of the Letter Agreement without any conditions; (ii) within 15 days of Commission approval with conditions that are acceptable to both Triton and PNG; or (iii) the date on which PNG has issued the Expanded Capacity Notice to Triton.

Upon payment of the Initial Option Fee to PNG and provided that PNG has issued the Expanded Capacity Notice, Triton will have 5 business days to either accept or reject PNG's Expanded Capacity Notice. If accepted, Triton will make an additional option fee payment

equivalent to \$25,000 for each 1 MMcf/day of Expanded Capacity accepted by Triton for reservation for the Option Period as described below.

The Option Period is defined to commence upon signing of the Letter Agreement and will expire 12 months following the date on which the Initial Option Fee is paid to PNG. Triton will also have three separate options to extend the Option Period by six months each for \$250,000 plus \$12,500 for each 1 MMcf/day of Expanded Capacity accepted by Triton for reservation.

If the option is exercised, the Option Fees paid will be credited to transportation service demand charges as per the Transportation Agreement. If the option is not exercised, PNG would keep the Option Fees and they would be available for use by PNG and its customers.

PNG is requesting to record the Option Fees received in an interest bearing deferral account for future disposition either as a credit to transportation service demand charges if the option is exercised or as a credit to customers if the option is not exercised.

8. Termination

As noted in Section 5(d), the Letter Agreement is effectively terminated under the following events: (i) Commission approval is not received by August 31, 2018; (ii) Expanded Capacity Notice is not issued by July 31, 2018; or (iii) Commission approval is received by August 31, 2018 but with conditions that are not satisfactory to both Triton and PNG. This would also result in the return of the Initial Option Fee to Triton within 10 days of such termination.

If the Letter Agreement is terminated by Triton prior to entering into the Transportation Agreement for reasons other than the reasons noted above, PNG will retain \$100,000 of the Initial Option Fee.

SUMMARY AND COMMISSION ORDER SOUGHT

PNG respectfully submits that approval of the Letter Agreement by the Commission would be in the public interest and in the best interests of PNG's customers and respectfully requests that the Commission approve the Application as presented. The approval of the Letter Agreement will provide Triton with sufficient time to decide on whether to make a significant commitment to PNG which would result in rate decreases for PNG's customers commencing in late 2020 to early 2021. PNG will be able to continue to provide highly reliable and safe service to its customers and also meet Triton firm service requirements.

PNG is providing a copy of this Application to customers and representatives of customers in the Prince Rupert corridor which include: the B.C. Public Interest Advocacy Centre, the representative of PNG's low gas volume users; BC Hydro, PNG's large industrial customer; and the marketers for several commercial and small industrial transportation customers Shell

Energy North America (Canada) and Absolute Power. PNG is requesting these parties provide the Commission with any comments or concerns they have with respect to this Application.

In closing, Triton has emphasized the need for a prompt review of this Application as they are endeavoring to obtain commitments from various parties to make their project a success. In this regard, PNG is prepared to quickly address any questions the Commission may have in respect of these arrangements and welcomes comments and questions from the parties copied by this letter. PNG therefore requests the Commission consider exercising its discretion to waive the requirement for a hearing on this submission.

However, should the Commission consider it necessary to proceed with a hearing on this Application, PNG supports the use of the Commission's Streamlined Review Process (SRP) in order to facilitate an expeditious and efficient review process. Alternately, PNG is open to a review of this Application under an expedited written process.

If you require further information or have any questions regarding this submission, please contact the undersigned.

Yours truly,



J.P. Kennedy

- cc. BC Public Interest Advocacy Centre – Leigha Worth, Executive Director & General Counsel
- Triton LNG Limited Partnership – Dan Woznow, VP & General Manager of Energy Exports
- BC Hydro – Fred James, Chief Regulatory Officer
- Shell Energy North America (Canada) Inc. – Mary McCordic, Marketing Director
- Absolute Energy – Peter Kresnyak, President

Pacific Northern Gas Ltd.

Application for Approval of Letter Agreement between PNG and Triton LNG Limited Partnership

APPENDICES

APPENDIX A – Letter Agreement between PNG and Triton

APPENDIX B – Backstop Agreement between PNG and Triton

Pacific Northern Gas Ltd.

Application for Approval of Letter Agreement between PNG and Triton LNG Limited Partnership

APPENDIX A – Letter Agreement between PNG and Triton

TRITON LNG LIMITED PARTNERSHIP
1700, 355 4th Ave. SW
Calgary, Alberta T2P 0J1

March 29, 2018

Pacific Northern Gas Ltd.
Suite 2550 - 1066 West Hastings Street
Vancouver, British Columbia
Canada V6E 3X2

Re: Option on Firm and Interruptible Gas Transportation Service

Dear Sir:

This letter agreement ("Letter Agreement") confirms the intent of the undersigned, Triton LNG Limited Partnership ("Triton") and Pacific Northern Gas Ltd. ("PNG") to seek approval of the British Columbia Utilities Commission (the "BCUC") in relation to the provision by PNG to Triton of certain firm and interruptible gas transportation service (the "Service") all as more particularly described in this Letter Agreement. Triton and PNG may each be referred to in this Letter Agreement as a "Party" and, collectively, as the "Parties".

NOW THEREFORE, in consideration of the mutual promises and obligations contained herein and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Parties agree as follows:

1. Filing with BCUC. Promptly following execution of this Letter Agreement, PNG will file this Letter Agreement with the BCUC.
2. BCUC Approval Order. PNG will take all steps reasonably required to secure BCUC approval of this Letter Agreement (the "BCUC Approval"). Triton will provide any assistance reasonably requested by PNG to secure the BCUC Approval.
3. Firm Service. The annual firm service volume to be provided by PNG shall be up to approximately 50 MMcf per day (the "Firm Service Volume"), subject to adjustment in accordance with Triton's election regarding the Expanded Capacity pursuant to Section 5(e).
4. Transportation Agreement. Following the BCUC Approval and the election of Triton regarding the Expanded Capacity pursuant to Section 5(e), PNG and Triton will negotiate in good faith and use commercially reasonable efforts to enter into, on or before January 31, 2019, a definitive transportation service agreement (the "Transportation Agreement") that (i) reflects the terms of this Letter Agreement and the indicative terms described in Exhibit A to this Letter Agreement; and (ii) is otherwise mutually acceptable to PNG and Triton. Following execution of the Transportation Agreement, PNG will file with the BCUC three (3) originally executed copies of the Transportation Agreement for acceptance as a filed tariff under the BCUC Approval.

5. Option Fees and Option Period.

- (a) Upon the later of execution of this Letter Agreement and the Escrow Agreement, Triton will deposit into an account designated by the Escrow Agent (the "Escrow Account") the sum of CDN.\$500,000.00 (the "Initial Option Fee") for the Option Period (as defined below). The terms of the Escrow Account are set forth in a separate escrow agreement (the "Escrow Agreement") by and among Triton, PNG and Farris, Vaughan, Wills & Murphy LLP (the "Escrow Agent").
- (b) Pursuant to the terms of the Escrow Agreement, the Escrow Agent will pay the Initial Option Fee to PNG upon the later of:
- (i) the date on which either:
- (A) the BCUC Approval is issued without any conditions imposed by the BCUC; or
- (B) the date on which the BCUC Approval is issued with conditions which are acceptable to both Triton and PNG in accordance with Section 5(c); or
- (ii) the date on which PNG has issued the Expanded Capacity Notice to Triton in accordance with Section 5(e),
- unless the Initial Option Fee has at such time already been returned to Triton pursuant to Section 5(d).
- (c) If the BCUC issues the BCUC Approval with conditions PNG and Triton shall have 15 business days from receipt of the BCUC Approval to provide written notice to the other Party accepting or rejecting such conditions (each in its sole discretion, acting reasonably).
- (d) If:
- (i) the BCUC Approval is not issued by August 31, 2018;
- (ii) the Expanded Capacity Notice is not issued on July 31, 2018, other than as a result of delays caused by Triton; or
- (iii) the BCUC Approval is issued by August 31, 2018 but such BCUC Approval includes conditions which are not satisfactory to both Triton and PNG pursuant to Section 5(c),

then at any time thereafter either Party may, upon delivery of a written termination notice to the Escrow Agent and the other Party, terminate this Letter Agreement. Upon termination of the Letter Agreement pursuant to this Section 5(d), the Escrow Agent will return the Initial Option Fee to Triton within 10 days of such termination, following which refund this Letter Agreement will be of no further force and effect.

- (e) On or before July 31, 2018, but subject to Section 5(g), PNG shall complete the necessary preliminary engineering and design work (the "Preliminary Design Work") to determine the capital expenditures required to provide Triton with greater than 20 MMcf per day and up to approximately 50 MMcf per day of firm service at the delivery point set out in Exhibit A to this Letter Agreement (the "Expanded Capacity"). Upon the later of completion of the Preliminary Design Work and July 31, 2018, PNG shall provide a proposal to Triton setting out the terms on which PNG would be willing to provide all or any portion of the Expanded Capacity to Triton and including any and all proposed changes to the indicative terms for the Transportation Agreement described in Exhibit A to this Letter Agreement (the "Expanded Capacity Notice"). Within 5 business days of payment of the Initial Option Fee to PNG pursuant to Section 5(b), Triton shall provide PNG with written notice either accepting or rejecting the Expanded Capacity Notice in its sole discretion together with, in the event of the acceptance thereof, the payment to PNG of CDN.\$25,000.00 for each 1 MMcf per day of Expanded Capacity so accepted by Triton for reservation during the Option Period, or the equivalent pro rata portion thereof applicable to remainder of the Option Period (the "Expanded Capacity Option Fee").
- (f) PNG will own all rights to the Preliminary Design Work. PNG will have the responsibility over the methods of performing the Preliminary Design Work in accordance with the terms of the Backstop Agreement. Representatives of PNG and Triton will meet as reasonably required to discuss and collaborate on the planning, design, and activities that interface between Triton's facility and the Expanded Capacity on PNG's pipeline system.
- (g) PNG shall not be required to commence the Preliminary Design Work until it has entered into an agreement (the "Backstop Agreement") with Triton satisfactory to PNG, acting reasonably, pursuant to which Triton agrees to reimburse PNG for all of PNG's actual internal and out-of-pocket costs incurred in carrying out the Preliminary Design Work in the event that Triton:
- (i) accepts none of the Expanded Capacity pursuant to the Expanded Capacity Notice under Section 5(e);
 - (ii) does not enter into the Transportation Agreement; or
 - (iii) having entered into the Transportation Agreement, does not exercise the Transportation Option (as defined below).

The Backstop Agreement will also provide for the reimbursement by PNG to Triton of the pro rata portion of the amounts paid by Triton pursuant to the Backstop Agreement should PNG determine, acting reasonably, that it has used all or any portion of the Preliminary Design Work to contract with a third party to provide firm service in respect of the Expanded Capacity on or before August 31, 2021.

- (h) PNG agrees that Triton shall have the first right to such Expanded Capacity and PNG shall not offer the Expanded Capacity to any other person without first

complying with its obligation to offer such Expanded Capacity to Triton pursuant to Section 5(e).

- (i) Pursuant to the Transportation Agreement, Triton will have the right, but not the obligation, to give PNG written notice of commencement of Service under the Transportation Agreement (the "Transportation Option"). Notice of exercise of the Transportation Option must be delivered by Triton on or prior to the last day of the Option Period (as defined below) and must provide for commencement of Service on a date no later than three years following the date of such notice. For the avoidance of doubt, PNG and Triton will have no obligations with respect to the Service until Triton exercises the Transportation Option.
 - (j) The "Option Period" shall commence on the date hereof and expire on the date that is 12 months following the date on which the Initial Option Fee is paid to the Escrow Agent pursuant to Section 5(a); provided that, Triton shall have three separate options to extend the Option Period by six months each, with notice of such extension provided prior to expiration of the Option Period or any extension thereof, upon payment by Triton to PNG of the aggregate of CDN.\$250,000.00 plus CDN.\$12,500.00 for each 1 MMcf per day of Expanded Capacity accepted by Triton in accordance with Section 5(e) for each such extension (the "Option Extension Fees"). The Initial Option Fee, the Expanded Capacity Option Fee and the Option Extension Fees are non-refundable (except to the extent provided in Sections 5(d) and 6(b) in respect of the Initial Option Fee). If Triton gives notice of commencement of Service under the Transportation Agreement, the Initial Option Fee, the Expanded Capacity Option Fee and any Option Extension Fees paid hereunder will be applied to the contract demand charges payable under the Transportation Agreement.
 - (k) PNG shall not take any actions whatsoever that would interfere with or limit (i) Triton's ability to exercise the Transportation Option, or (ii) PNG's ability to provide the Service pursuant to the terms of the Transportation Agreement. In this regard, during the Option Period or any extension thereof, PNG will reserve for Triton's exclusive use and will not enter into any agreements with any other party with respect to the Firm Service Volume. Triton acknowledges that PNG has obligations to provide service to residential and commercial customers as part of its normal course of business for small volumes that will not impact the Transportation Option.
6. Termination Fee. If this Letter Agreement is terminated by Triton for any reason (other than in accordance with Section 5(d)) prior to the Parties entering into the Transportation Agreement in circumstances where:
- (a) the Initial Option Fee has not been paid to PNG pursuant to Section 5(b), Triton shall pay to PNG the sum of CDN.\$100,000.00; and
 - (b) in circumstances where the Initial Option Fee has been paid to PNG pursuant to Section 5(b), PNG shall refund to Triton the sum of CDN.\$400,000.00 from the Initial Option Fee and retain the remaining sum of CDN.\$100,000.00.

7. Expenses. Each Party shall pay its own costs for all consulting, legal, accounting fees and other expenses incurred by it in connection with the preparation, negotiation, execution and delivery of this Letter Agreement, the Escrow Agreement, the Transportation Agreement and the Backstop Agreement.
8. Assignment. Any assignment of this Letter Agreement by either Party hereto shall be null and void without the express written consent of the other Party, which consent shall not be unreasonably withheld; provided, however, that Triton may, without relieving itself of its obligations under this Letter Agreement, assign its rights and delegate its obligations hereunder to an affiliate.
9. Representations and Warranties. Each Party represents and warrants to the other Party that:
 - (a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;
 - (b) the execution, delivery and performance of this Letter Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or the like applicable to it, except in each case, to the extent that the BCUC Approval has not yet been obtained;
 - (c) this Letter Agreement constitutes legally valid and binding obligations enforceable against it in accordance with its terms; subject to any bankruptcy, insolvency, reorganization and other laws affecting creditors' rights generally, and with regard to equitable remedies, the discretion of the court before which proceedings to obtain same may be pending;
 - (d) there is not pending or, to its knowledge, threatened against it or any of its affiliates any legal proceedings that could materially adversely affect its ability to perform its obligations under this Letter Agreement;
10. Governing Law, Jurisdiction and Waiver of Jury Trial. This Letter Agreement shall be governed by and shall be construed exclusively in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein, and the Parties hereto submit and attorn to the exclusive jurisdiction of the courts of the Province of British Columbia in connection with all matters and issues arising from or relating to this Agreement. Each Party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any proceedings relating to this Letter Agreement.
11. Public Statements. Regardless of whether this Letter Agreement has been filed with the BCUC, neither Party shall issue any press release or otherwise make any similar broadly issued public statements regarding this Letter Agreement or the transactions contemplated hereby unless the Party desiring to make such a public statement first provides a proposed draft to the other Party with reasonable prior notice before such statement will be issued and accommodates changes to such proposed public statement as are reasonably requested by such other Party within such reasonable notice period; provided that the Party desiring to issue such a public statement may reject any proposed change that, upon advice of outside legal counsel, would cause the Party to be unable to

comply with the timely disclosure requirements imposed by the Toronto Stock Exchange or any other stock exchange or applicable securities laws or regulations. In making any such public statements as may be permitted by the prior sentence, neither Party will be entitled to use any trademark of the other Party.

12. Entire Agreement. This Letter Agreement and the Escrow Agreement constitute the entire agreements of the Parties regarding the matters contemplated herein or related thereto, and supersede any prior agreement or understanding between the Parties, whether written or oral. No representations or warranties shall be implied or provisions added hereto in the absence of a written agreement to such effect between the Parties after the date of this Letter Agreement.
13. Invalidity. If any provision of this Letter Agreement is determined to be null and void, voidable or invalid by a court of competent jurisdiction, then for such period that the same is void or invalid, it shall be deemed to be deleted from this Letter Agreement and the remaining portions of this Letter Agreement shall remain in full force and effect.
14. Interpretation. All headings herein are intended solely for convenience of reference and shall not affect the meaning or interpretation of the provisions of this Letter Agreement. Unless expressly provided otherwise, the word "including" as used herein does not limit the preceding words or terms.
15. Counterparts. This Letter Agreement may be executed by the Parties in separate counterparts and initially delivered by facsimile transmission or otherwise, with original signature pages to follow, and all such counterparts shall together constitute one and the same instrument.

[Signature Page Follows]

Please indicate your agreement to the terms of this Letter Agreement by signing and returning a copy of this Letter Agreement to the undersigned.

Sincerely,

TRITON LNG LIMITED PARTNERSHIP, by its
general partner, **TRITON LNG INC.**

By: [Signature] *Ch. W. M.*
Name: Timothy W. Watson
~~Executive Vice President & Chief Financial Officer~~
Title: _____

By: [Signature]
Name: Yoshio Kuroki
Title: Suc. Director

Accepted and agreed as of
this 29 day of March, 2018

PACIFIC NORTHERN GAS LTD.

By: [Signature]
Name: Leigh Ann Sheji Leo
Title: President

By: [Signature]
Name: DOUG ALLEN
Title: VICE PRESIDENT FINANCE

Exhibit A
Indicative Terms for Transportation Agreement

Service:	Firm and interruptible transportation service for natural gas (the "Gas").
Primary Term:	20 Years from commencement of service.
Renewal Terms:	Three (3), five (5) year Renewal Terms, exercisable by Triton on notice.
Receipt Point:	Summit Lake (Spectra 4A Compressor Station).
Delivery Point:	Ridley Island.
Contract Demand:	20 MMcf per day up to approximately 50 MMcf per day, subject to adjustment in accordance with Triton's election regarding the Expanded Capacity pursuant to Section 5(e).
Unit Demand Charge:	<p>\$ • per GJ, plus such incremental amounts as may be included in an Expanded Capacity Notice issued by PNG pursuant to Section 5(e) and accepted by Triton.</p> <p>To be adjusted by Inflation Factor effective with commencement of the 11th contract year during the Primary Term, and upon commencement of any Renewal Term.</p>
Base Interruptible Charge:	<p>\$ • per GJ.</p> <p>To be adjusted by Inflation Factor effective with commencement of the 11th contract year during the Primary Term, and upon commencement of any Renewal Term.</p>
Inflation Factor:	The monthly Consumer Price Index for British Columbia in the "All Items" line of the report prepared by Statistics Canada for this purpose or any other similar index that replaces the B.C. Consumer Price Index (the " <u>B.C. Consumer Price Index</u> ") effective in the month immediately prior to the adjustment date divided by the B.C. Consumer Price Index effective in the month immediately prior to the commencement of the Primary Term.
Credit of Option Fees:	The aggregate of the Initial Option Fee, Expanded Capacity Option Fee and any Option Extension Fees paid by Triton will be creditable against Monthly Demand Charges payable by Triton under the Transportation Agreement.
Credit Requirements:	Triton (or affiliate or third party guarantor(s) which guarantee Triton's obligations under the Transportation Agreement) has an investment grade rating for its unenhanced long term senior unsecured debt from any two recognized rating agencies. The minimum acceptable rating from each of the identified rating agencies is:

Moody's	Baa3 or better
S&P	BBB- or better
DBRS	BBB (low) or better

or other equivalent rating from recognized rating agencies as reasonably determine by PNG, provided that, if Triton's long term senior unsecured debt is not rated, Triton can be accepted as creditworthy if PNG determines in its reasonable judgment that, notwithstanding the absence of a rating, the financial position of Triton (or an affiliate or third party guarantor which guarantees Triton's obligations under the Transportation Agreement) is equivalent to investment grade.

Company Use Gas:

Triton shall each day deliver to PNG at the Receipt Point a quantity of Gas equal to:

- (a) the percentage that the amount of Gas ("Company Use Gas") used by PNG to operate PNG's Gas transmission and distribution facilities to provide Gas service from the Receipt Point to Prince Rupert and Kitimat BC (the "Pipeline System") and required by PNG on an annual basis bears to the annual quantity of Gas deliveries by PNG to all of its customers served by the Pipeline System;

times:

- (b) the quantity of Gas nominated by Triton for the day under the Transportation Agreement, or such lesser quantity which PNG notifies Triton that it is authorized to receive,

for use by PNG for Pipeline System operations. The Contract Demand figure under the Transportation Agreement will exclude the volume of Gas so provided by Triton to PNG at the Receipt Point.

Governmental Charges:

The service charges in the Transportation Agreement are fixed for each applicable term under the Transportation Agreement, except for service charge changes required to reflect the pass through of any increases/decreases in governmental charges levied on the transportation of Gas from the Receipt Point to the Delivery Point (other than where resulting from improper operation, negligence or prior legal violations on the part of PNG, any other owner or operator of PNG's facilities or any of their affiliates or agents) including, but not limited to, (i) any Motor Fuel Taxes payable by PNG under the B.C. Motor Fuel Tax Act on that portion of the Company Use Gas supplied by Triton to PNG and used by PNG as compressor fuel; and (ii) any carbon taxes payable by PNG under the B.C. Carbon Tax Act on Gas delivered by Triton to PNG at the Receipt Point.

Pacific Northern Gas Ltd.

Application for Approval of Letter Agreement between PNG and Triton LNG Limited Partnership

APPENDIX B – Backstop Agreement between PNG and Triton

March 29, 2018

Triton LNG Limited Partnership
1700, 355 4th Ave SW
Calgary, Alberta T2P 0J1

Attention: Dan Woznow, Vice President and General Manager of Energy Exports

Dear Mr. Woznow:

Re: Pipeline Capacity Expansion Study Cost Recovery Backstop Agreement

Triton LNG Limited Partnership ("Triton") has entered into a letter agreement with Pacific Northern Gas Ltd. ("PNG") dated March 29, 2018 (the "Letter Agreement") relating to Triton's request for natural gas service from PNG for supply to Triton's proposed liquefied natural gas ("LNG") export facility to be located on Ridley Island, British Columbia or such other project as Triton may pursue, which service requires PNG to undertake an engineering study to ascertain the feasibility of expanding its current pipeline capacity to Ridley Island up to approximately 50 MMscfd (the "Study"). This backstop agreement (the "Backstop Agreement") sets out the terms and conditions under which PNG agrees to commence the preliminary engineering work applicable to the Study including completion of surveys, system design and class 3 cost estimates for any required new facilities (collectively, the "Work"). Triton and PNG may each be referred to in this Backstop Agreement as a "Party" and, collectively, as the "Parties".

In consideration of the Parties entering into this Backstop Agreement and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged by each Party), the Parties agree as follows:

1. In the event that:
 - (a) the Parties do not enter into a TSA (as defined below) in respect of the expanded capacity which is the subject matter of the Study (the "Expanded Capacity") in accordance with Section 2;
 - (b) having entered into the TSA, Triton does not give PNG written notice of commencement of service in accordance with the TSA; or
 - (c) Triton gives PNG notice that it no longer requires PNG to continue with the Study and the Work,

Triton will reimburse PNG for the Costs (as defined in Section 4) incurred by PNG in carrying out the Work. PNG currently estimates the Costs to be \$500,000.00. PNG will undertake the Work in the manner and utilizing the resources it determines to be most appropriate; provided that, PNG will use best efforts to work with Triton to perform the Work in the most cost efficient manner. PNG acknowledges and agrees that it will not expend (or commit to expenditures) which in the aggregate, exceed \$500,000.00 without the prior written consent of Triton.

2. Triton and PNG will negotiate in good faith and use commercially reasonable efforts to enter into a firm Transportation Service Agreement (the "TSA") on the terms set out in the Letter Agreement on or before January 31, 2019. The TSA will provide, among other things that, subject to BCUC approval, the Costs agreed to in this Backstop Agreement and any and all subsequent Costs agreed to by the Parties will be recovered by PNG solely by way of a take or pay obligation under the TSA.
3. For the purposes of this Backstop Agreement, "Costs" are defined as all internal costs charged to the Work by employees via PNG's timesheet process and actual out-of-pocket costs incurred by PNG in connection with the Work, whether before or after the date of this Agreement.
4. If and to the extent that PNG contracts with a third party on or before July 30, 2021 for any portion of the Expanded Capacity, PNG will reimburse Triton for the pro rata portion of the Costs paid by Triton pursuant to Section 1 should PNG determine, acting reasonably, that it has used all or any portion of the Study or the Work to contract with such third party for any Expanded Capacity.
5. PNG will invoice Triton for the Costs of the Work upon becoming entitled to reimbursement from Triton pursuant to Section 1. The invoice will include a description of the activities completed by PNG over the billing period. Triton will pay the undisputed portion of the invoiced amount at the date specified by PNG, it being understood that such date will be no earlier than ten days following the date of issuance of the invoice by PNG to Triton.
6. PNG will retain title to all of the products of the Work and, except as may be provided in the TSA, Triton will have no proprietary rights to any of the Work products.
7. Each Party shall pay its own costs for all consulting, legal, accounting fees and other expenses incurred by it in connection with the preparation, negotiation, execution and delivery of this Backstop Agreement.
8. Any assignment of this Backstop Agreement by either Party hereto shall be null and void without the express written consent of the other Party, such consent not to be unreasonably withheld, conditioned or delayed.
9. Each Party represents and warrants to the other Party that:
 - (a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;
 - (b) the execution, delivery and performance of this Backstop Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or the like applicable to it;
 - (c) this Backstop Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms; subject to any bankruptcy, insolvency, reorganization and other laws affecting creditors' rights generally, and with regard to equitable remedies, the discretion of the court before which proceedings to obtain same may be pending; and

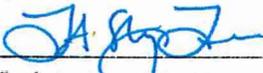
- (d) there is not pending or, to its knowledge, threatened against it or any of its affiliates any legal proceedings that could materially adversely affect its ability to perform its obligations under this Backstop Agreement.
10. This Backstop Agreement shall be governed by and shall be construed exclusively in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein, and the Parties hereto submit and attorn to the exclusive jurisdiction of the courts of the Province of British Columbia in connection with all matters and issues arising from or relating to this Backstop Agreement. Each Party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any proceedings relating to this Backstop Agreement.
 11. Neither Party shall issue any press release or otherwise make any similar broadly issued public statements regarding this Backstop Agreement or the transactions contemplated hereby unless the Party desiring to make such a public statement first provides a proposed draft to the other Party with reasonable prior notice before such statement will be issued and accommodates changes to such proposed public statement as are reasonably requested by such other Party within such reasonable notice period; provided that the Party desiring to issue such a public statement may reject any proposed change that, upon advice of outside legal counsel, would cause the Party to be unable to comply with the timely disclosure requirements imposed by the Toronto Stock Exchange or any other stock exchange or applicable securities laws or regulations. In making any such public statements as may be permitted by the prior sentence, neither Party will be entitled to use any trademark of the other Party.
 12. This Backstop Agreement constitutes the entire agreement of the Parties regarding the matters contemplated herein or related thereto, and supersedes any prior agreement or understanding between the Parties, whether written or oral. No representations or warranties shall be implied or provisions added hereto in the absence of a written agreement to such effect between the Parties after the date of this Backstop Agreement.
 13. If any provision of this Backstop Agreement is determined to be null and void, voidable or invalid by a court of competent jurisdiction, then for such period that the same is void or invalid, it shall be deemed to be deleted from this Backstop Agreement and the remaining portions of this Backstop Agreement shall remain in full force and effect.
 14. All headings herein are intended solely for convenience of reference and shall not affect the meaning or interpretation of the provisions of this Backstop Agreement. Unless expressly provided otherwise, the word "including" as used herein does not limit the preceding words or terms.
 15. This Backstop Agreement may be executed by the Parties in separate counterparts and initially delivered by facsimile transmission or otherwise, with original signature pages to follow and all such counterparts shall together constitute one and the same instrument.

[Signature Page Follows]

Please indicate your agreement to the terms of this Backstop Agreement by signing and returning a copy of this Backstop Agreement to the undersigned.

Yours truly,

PACIFIC NORTHERN GAS LTD.

By: 
Name: Leigh Ann Shoji-Lee
Title: President

Accepted and agreed as of
this 29 day of March, 2018

TRITON LNG LIMITED PARTNERSHIP,
by its general partner, **TRITON LNG INC.**

By:  *ch Watson*
Name: Timothy W. Watson
Title: Executive Vice President & Chief Financial Officer

By: 
Name: Yasuke Fumaki
Title: Vice-President