

Attachment 1.1

THIS AGREEMENT is made effective January 1, 2010.

BETWEEN:

TERASEN GAS (VANCOUVER ISLAND) INC., a corporation formed under the laws of British Columbia having an office at 16705 Fraser Highway, Surrey, British Columbia

("TGVI")

AND:

TERASEN INC., a corporation formed under the laws of British Columbia, having an office at 10th Floor, 1111 West Georgia Street, Vancouver, British Columbia

("Terasen")

WHEREAS

- A. TGVI is the owner and operator of the natural gas transmission and distribution facilities in British Columbia serving the communities of Vancouver Island and the Sunshine Coast; and
- B. TGVI wishes to retain Terasen to provide certain professional and management services to it in respect to the ownership and operations of its transmission pipeline and distribution business on the terms and conditions set out herein.

WITNESSES THAT, in consideration of the covenants and agreements herein contained, the parties covenant and agree as follows:

PART 1
INTERPRETATION

1.1 Definitions

In and for the purpose of this Agreement

- (a) **"Applicable Laws"** means any and all Laws in force and effect from time to time and applicable to the Facilities and the performance of the Services hereunder;
- (b) **"Force Majeure"** has the meaning assigned to such term in Section 9.1;
- (c) **"Governmental Authority"** means any domestic or foreign, national, federal, provincial, state, municipal or other local government or body and any division, agent, commission, board, or authority of any quasi-governmental or private body exercising any statutory, regulatory, expropriation or taxing authority under the authority of any of the foregoing, and any domestic, foreign, international,

judicial, quasi-judicial, arbitration or administrative court, tribunal, commission, board or panel acting under the authority of any of the foregoing;

- (d) **"Laws"** means all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules, regulations and municipal by-laws, whether domestic, foreign or international, any judgements, orders, writs, injunctions, decision, rulings, decrees, and awards of any Governmental Authority, and any published policies or guidelines of any Governmental Authority and including, without limitation, any principles of common law and equity,
- (e) **"Person"** includes any individual, corporation, body corporate, partnership, joint venture, association, trust, estate, incorporated or unincorporated association, any government or governmental authority however designated or constituted or any other entity of whatever nature,
- (f) **"Services"** means the professional and management services to be provided to TGVI by Terasen as more particularly described in Section 2.1.

1.2 Schedules

Schedule "A" is attached to, and is incorporated by reference into, this Agreement.

1.3 Interpretation

In and for the purpose of this Agreement

- 1) this "Agreement" means this agreement as the same may from time to time be modified, supplemented or amended in effect,
- 2) any reference in this Agreement to a designated "Article", "section" or other subdivision is to the designated Article, section or other subdivision of this Agreement,
- 3) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, section or other subdivision,
- 4) the headings are for convenience only and do not form a part of this Agreement and are not intended to interpret, define or limit the scope, extent or intent of this Agreement,
- 5) the singular of any term includes the plural, and vice versa, the use of any term is generally applicable to any gender and, where applicable, a corporation, the word "or" is not exclusive and the word "including" is not limiting (whether or not non-limiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto), and
- 6) each word and phrase used herein and not otherwise defined herein, but which has an accepted meaning in the custom and usage of the Western Canadian oil and gas transportation industry, shall have such accepted meaning.

1.4 Governing Law

Subject to Section 9.1, this Agreement will be interpreted and the rights and remedies of the parties hereto will be determined in accordance with the laws of the Province of British Columbia.

1.5 Prior Agreements

The parties agree that any prior agreements between the parties pertaining to the subject matter hereof, including the agreement effective January 1, 2004 and any amendments, are hereby cancelled and of no further effect.

PART 2 SERVICES

2.1 Services

Terasen hereby agrees to provide to TGVI those professional and management services described in Schedule "A" which Services shall include certain professional and management services provided to Terasen by its parent company, Fortis Inc. which professional and management services also benefit TGVI. .

2.2 No Obligation to Provide Additional Services

Terasen shall not perform, and Terasen shall have no obligation to perform, any services on behalf of TGVI other than as set out in this Agreement or any similar agreement.

2.3 Consultation with TGVI

Terasen will consult with TGVI as required in connection with the performance of the Services.

2.4 Independent Contractor

Nothing in this Agreement shall be construed to create or constitute a partnership or relationship of joint venture between Terasen and TGVI. In performing the Services, Terasen shall be an independent contractor. Terasen employees shall not be considered employees of TGVI for any purpose.

2.5 Compliance

In performing the Services, Terasen will comply with all Applicable Laws.

PART 3

COMPENSATION

3.1 Compensation for Services and Shared Costs

TGVI agrees to pay to Terasen for the Services to be provided and for a proportionate share of the common expenses incurred by Terasen such as shareholder expenses and director compensation the amount of \$1,622,000 per annum on a take-or-pay basis.

3.2 Amendment to Costs

The amounts set out in Section 3.1 may be amended annually by agreement between the parties to reflect any material change in the cost of providing the services or in the business operations of TGVI and to reflect annual inflationary adjustments. Any services to be provided that are not contemplated under this Agreement will be subject to additional compensation as agreed between the parties and form an amendment to this agreement in accordance with Section 10.3 below.

3.3 Invoicing

Terasen will invoice TGVI in respect of the Services no later than the 25th day following the end of the month in which such Services are provided or in such other manner as the parties may agree.

3.4 Payment

TGVI will, within thirty (30) days of receipt of an invoice from Terasen, pay to Terasen the amount specified in such invoice. Any amount to be remitted by TGVI to Terasen and not remitted on or before the date on which it is due shall thereafter bear interest. A late payment charge of 1.5% per month (18% per annum) shall be payable to Terasen on any unpaid balance after thirty (30) days of the date of invoice.

3.5 Taxes

Notwithstanding any other provision of this Agreement, the amounts paid or payable by one party to the other in accordance with this Agreement are exclusive of any value added taxes or sales taxes, which are now, or may become during the term of this Agreement, applicable to the provision of the Services. Each party shall pay to the other party any value added taxes or sales tax which one party is obligated to collect from the other at the time such taxes are due and payable.

PART 4

INDEMNIFICATION AND LIMITATION OF LIABILITY

4.1 Indemnity by TGVI

Subject to Section 4.4, TGVI will indemnify, defend and hold harmless Terasen and its directors, officers, employees, agents and contractors, from and against any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award, and cost or expense (including

reasonable legal fees and disbursements) which they may suffer or incur arising directly or indirectly, in whole or in part, in connection with this Agreement or with Terasen's provision of the Services, except and to the extent, if any, that the same results from or arises out of the wilful misconduct or gross negligence of Terasen.

4.2 Limitation of Liability of Terasen

Neither Terasen nor any of its directors, officers, employees, agents or contractors will be liable to TGVI for any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award, or cost or expense (including reasonable legal fees and disbursements) which TGVI may suffer or incur arising directly or indirectly, in whole or in part, in connection with this Agreement or with Terasen's provision of the Services, except and to the extent, if any, that the same results from or arises out of the wilful misconduct or gross negligence of Terasen.

4.3 Indemnity by Terasen

Subject to Section 4.4, Terasen will indemnify, defend and hold harmless TGVI from and against any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award and cost or expense (including reasonable legal fees and disbursements) which TGVI may suffer or incur as a result of any act or omission or error of judgement as a result of which Terasen is adjudged to have been guilty of wilful misconduct or gross negligence.

4.4 Consequential Losses

Neither party hereto will be liable to the other, whether based in contract, tort (including negligence and strict liability), under warranty or otherwise for special indirect, incidental or consequential loss or damage whatsoever, including without limitation, loss of use of equipment or facilities and loss of profits or revenues.

PART 5 COVENANTS OF TGVI

5.1 Covenants by TGVI

TGVI covenants and agrees to:

- (a) fully co-operate with Terasen in respect of all matters contemplated by or within the scope of this Agreement; and
- (b) pay on or before the due date thereof all amounts payable by TGVI to Terasen or any other Person pursuant to or as contemplated by this Agreement.

PART 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of Terasen

Terasen hereby represents and warrants to TGVl as representations and warranties which are true as at the date hereof and which will be true during the term of Terasen's appointment hereunder:

- (a) Terasen is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and Terasen has full power and authority to perform its obligations hereunder;
- (b) this Agreement constitutes a valid and binding obligation of Terasen enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defences and to the discretion of the court before which any proceeding therefore may be brought; and
- (c) Terasen possesses all of the skills and personnel required to provide the Services.

6.2 Representations and Warranties of TGVl

TGVl hereby represents and warrants to Terasen as representations and warranties which are true as at the date hereof and which will be true during the term of Terasen's appointment hereunder

- (a) TGVl is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and TGVl has full power and authority to perform its obligations hereunder; and
- (b) this Agreement constitutes a valid and binding obligation of TGVl enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defences and to the discretion of the court before which any proceeding therefore may be brought.

PART 7

DURATION, TERMINATION AND DEFAULT

7.1 Effective Date and Term

This Agreement will be effective from January 1, 2010 and will end on December 31, 2010, unless earlier terminated pursuant to the provisions hereof. Thereafter the Agreement will automatically be renewed for further one (1) year terms subject to Section 7.2 below.

7.2 Termination

Terasen's appointment hereunder may be terminated at any time:

- (a) by Terasen giving TGVl six (6) months' written notice of such termination:

- (i) if TGVVI becomes insolvent, admits in writing its inability to pay its debts as they become due or commits or threatens to commit an act of bankruptcy or if TGVVI makes a general assignment for the benefit of creditors, or any proceeding is instituted by or against TGVVI seeking to adjudicate it a bankrupt or an insolvent or seeking the dissolution, winding-up or liquidation of TGVVI or a reorganization, arrangement, moratorium, adjustment, compromise, readjustment of debt or composition of it or its debts under any law relating to bankruptcy, insolvency, moratorium, reorganization or relief of debtors or seeking the appointment of a receiver, receiver-manager, interim receiver, trustee, custodian, liquidator or other similar official or Person for it, or TGVVI consents by answer, acquiescence or otherwise to the institution of any such proceeding against it; or
 - (ii) in the event TGVVI breaches this Agreement and fails to cure such breach within thirty (30) days after receipt by TGVVI of written notice thereof from Terasen or, if such breach is not capable of being cured within such thirty (30) day period, fails to commence in good faith the curing of such breach forthwith upon receipt of written notice thereof from Terasen and to continue to diligently pursue the curing of such breach thereafter until cured and, in either case, the allegation of Terasen that TGVVI is in breach is conceded to be correct by TGVVI or found to be correct by an arbitrator pursuant to section 8.1;
- (b) by TGVVI giving Terasen six (6) months' written notice of such termination:
 - (i) if Terasen becomes insolvent, admits in writing its inability to pay its debts as they become due or commits or threatens to commit an act of bankruptcy or if Terasen makes a general assignment for the benefit of creditors, or any proceeding is instituted by or against Terasen seeking to adjudicate it a bankrupt or an insolvent or seeking the dissolution, winding-up or liquidation of Terasen or a reorganization, arrangement, moratorium, adjustment, compromise, readjustment of debt or composition of it or its debts under any law relating to bankruptcy, insolvency, moratorium, reorganization or relief of debtors or seeking the appointment of a receiver, receiver-manager, interim receiver, trustee, custodian, liquidator or other similar official or Person for it, or Terasen consents by answer, acquiescence or otherwise to the institution of any such proceeding against it; or
 - (ii) in the event Terasen breaches this Agreement and fails to cure such breach within thirty (30) days after receipt by Terasen of written notice thereof from TGVVI or, if such breach is not capable of being cured within such thirty (30) day period, fails to commence in good faith the curing of such breach forthwith upon receipt of written notice thereof from TGVVI and to continue to diligently pursue the curing of such breach thereafter until cured and, in either case, the allegation of TGVVI that Terasen is in breach is conceded to be correct by Terasen or found to be correct by an arbitrator pursuant to Section 8.1.

7.3 Duties Upon Termination

Upon expiry or termination of this Agreement for any reason, Terasen will have no further obligations under Article 2 and will promptly deliver to TGVI any material documents in the possession of Terasen pertaining to the business of TGVI.

7.4 Compensation of Terasen on Expiry or Termination

Within one (1) month after the expiry or termination of this Agreement, TGVI will pay to Terasen all amounts owing to Terasen hereunder (including any amount owing on account of the fees provided for in Article 3 calculated up to the date of expiry or termination); provided that for the purposes of this section, the fees provided for in Article 3 which are payable to Terasen on a monthly, annual or other periodic basis will be deemed to accrue due and be payable on a daily basis.

PART 8 ARBITRATION

8.1 Arbitration

For purposes of Section 7.2, any dispute between Terasen and TGVI regarding any allegation that TGVI or Terasen is in breach of this Agreement, may be submitted to and settled by arbitration in accordance with the provisions of this Section 8.1. Arbitration proceedings may be commenced by the party desiring arbitration giving notice to the other party specifying the matter to be arbitrated and requesting arbitration thereof. Such arbitration will be carried out by a single arbitrator and in accordance with the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution from time to time in force and effect. If the parties are unable to agree upon an arbitrator within ten (10) days after delivery of such notice, either of them may make application to court for appointment of an arbitrator. In the event of the failure, refusal or inability of an arbitrator to act, or continue to act, a new arbitrator will be appointed, which appointment will be made in the same manner as provided above. The decision of an arbitrator appointed as under this Section 8.1 will be final and binding upon the parties and not subject to appeal. The arbitrator will have the authority to assess the costs of the arbitration against either or both of the parties, provided that each party will bear its own witness and counsel fees. The parties will fully co-operate with the arbitrator and provide all information reasonably requested by the arbitrator. Judgement on the award of the arbitrator may be entered in any court having jurisdiction over the party against which enforcement of the award is being sought. Each party hereby irrevocably submits and consents to the jurisdiction of any such court for the purpose of rendering a judgement of any such award.

PART 9

FORCE MAJEURE

9.1 Force Majeure

In and for the purposes of this Agreement, "Force Majeure" shall mean anyone or more of the following events:

- (a) an act of God;
- (b) a war, revolution, insurrection, riot, blockade, or any other unlawful act against public order or authority;
- (c) a strike, lockout or other industrial disturbance;
- (d) a storm, fire, flood, explosion, earthquake or lightning;
- (e) a governmental restraint; or
- (f) any other event (whether or not of the kind enumerated in 9.1(a) to (e) above) which is not reasonably within the control of the party hereto claiming suspension of its obligations hereunder due to Force Majeure.

9.2 Performance Prevented by Force Majeure

If either party hereto is prevented by Force Majeure from carrying out any of its obligations hereunder, the obligations of such party, insofar as its obligations are affected by Force Majeure, shall be suspended while (but only so long as) Force Majeure continues to prevent the performance of such obligations. Any party prevented from carrying out any obligation by Force Majeure shall promptly give the other party hereto notice of Force Majeure including reasonably full particulars thereof.

9.3 Remedy of Force Majeure

A party claiming suspension of its obligations by reason of Force Majeure shall promptly remedy the cause and effect of Force Majeure described in the notice given pursuant to Section 9.2 insofar as such party is reasonably able so to do, provided that the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly in the discretion of the party hereby claiming suspension of its obligations hereunder by reason thereof; and that such party shall not be required to accede to the demands of its opponents in any strike, lockout or industrial disturbance solely to remedy promptly Force Majeure thereby constituted.

9.4 Lack of Funds Not Force Majeure

Notwithstanding anything contained in this Article 9, lack of finances shall not be considered Force Majeure nor shall Force Majeure suspend any obligation for the payment of money due hereunder.

PART 10
MISCELLANEOUS

10.1 Notice

Any notice, direction or other communication required or permitted to be given hereunder must be in writing and will be sufficiently given if delivered or sent by facsimile to the party from whom it is intended at the address of such party set out below. Any notice, direction or other communication so given will be deemed to have been given and to have been received on the day of delivery, if delivered, or on the day of sending if sent by facsimile (provided such day of delivery or sending is a Business Day and, if not, then on the first Business Day thereafter). Each party hereto may change its address for notice by notice given in the manner aforesaid.

10.2 Assignment

Neither party hereto may assign this Agreement or any of its rights hereunder without the prior written consent of the other party, such consent not to be unreasonably withheld.

10.3 Amendments

Any amendment or modification of this Agreement must be in writing and signed by the party against which such amendment or modification is sought to be enforced.

10.4 Severability

If any term or condition of this Agreement or the application hereof is determined judicially or otherwise to be invalid or unenforceable, the remainder of this Agreement and the application thereof shall not be affected and shall remain in full force and effect.

[Execution page follows]

10.5 Entire Agreement

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof. There are no representations, warranties, covenants or agreements between the parties in connection with such subject matter except as specifically set forth or referred to in this Agreement.

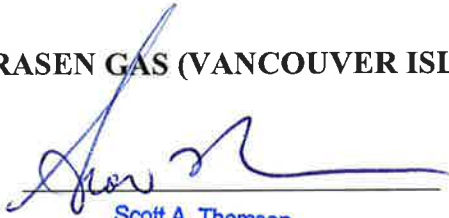
10.6 Counterparts, Facsimile

This Agreement may be executed by the execution of one or more counterparts of the execution page, which will be taken together and constitute the execution page, and one or more of such counterparts may be delivered by facsimile transmission.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on June 24, 2009.

TERASEN GAS (VANCOUVER ISLAND) INC.

By: _____



Scott A. Thomson
VP, Regulatory Affairs & CFO

Title: _____

TERASEN INC.

By: _____



Roger Dall'Antonia
VP, Corporate Development & Treasurer

Title: _____

Schedule “A”

Description of Services

SERVICES PROVIDED BY TERASEN

General Governance & Oversight Services

In addition to the specific services described below, TGV I receives the benefit of the expert advice and experience of Terasen executives, who spend their time working on various committees including the Executive Committee (comprised of the CEO and senior vice presidents of Terasen as well as the heads of each operating company and the General Counsel), the Risk Management Committee and the Operating Committee.

Treasury and Cash Management

- (1) Execute Financings
 - a. Develop financing plans
 - i. Provide assessments of financing alternatives
 - ii. Determine timing, term, rate, structure
 - b. Obtain BCUC approvals
 - c. Execute financings
 - i. Negotiation, preparation of legal documentation
 - ii. Prepare disclosure documentation
 - iii. Investor presentations
 - iv. Due diligence process
 - v. Deal execution
- (2) Cash Management
 - a. Prepare and maintain short-term cash forecasting
 - b. Execute short-term borrowing
 - i. Commercial paper issuance
 - ii. Bank borrowing
 - c. Execute short-term investing of excess funds
 - d. Negotiation of letters of credit
 - e. Execution of manual wire transfers
 - f. Establish and maintain internet based banking platform for cp issuance, fund transfers and reporting
 - g. Payment of interest, principal and fees on outstanding debt

- (3) Arrange operating credit facilities
 - a. Negotiate credit agreements
 - i. Determine terms and conditions
 - ii. Negotiate pricing and term
 - b. Manage syndication process
 - c. Obtain BCUC approval
- (4) Negotiate bank-service fees
- (5) Treasury-related controls and compliance
 - a. Develop and monitor control and compliance procedures for key Treasury procedures
- (6) Compliance reporting
 - a. Prepare and file required compliance reports with third parties
 - i. Lenders, securities commissions, BCUC
- (7) Hedging of interest rate and foreign exchange risks
 - a. Develop financial hedging plans as required
 - b. Negotiation of required documentation
 - c. Execution of derivative transaction
- (8) Prepare Derivatives Policies and Procedures;
- (9) Counterparty Credit Risk Management;
 - a. Review credit worthiness of counterparties
 - b. Determine appropriate credit limits for counterparties
 - c. Determine requirement for credit support
 - d. Negotiate appropriate credit support documentation
- (10) Interest rate and foreign exchange rate forecasting;
- (11) Regulatory submissions with respect to ROE, capital structure and financing matters;
- (12) Capital structure review and maintenance; and
- (13) Provide education and related materials from training courses and seminars attended by Treasury staff.

Investor Relations

- (1) Manage the Rating Agency Process;

- (2) Maintain investment banker and debt investor relationships;
- (3) Maintain banking and money market dealer relationships;
- (4) Investor and Shareholder communication;
- (5) Assist in preparation of annual/quarterly disclosure documents; and
- (6) Prepare annual report.

Corporate Development and Capital Management

- (1) Manage the annual strategic planning cycle;
- (2) Preparation and maintenance of the five year forecasting model used for strategic planning process and in the annual budgeting process;
- (3) Provide financial analysis and evaluation of new projects and new initiatives;
- (4) Manage the acquisition and divestiture activity;
- (5) Provide project management and/or due diligence support where required; and
- (6) Contract negotiation in support of business development initiatives.

External Reporting and Consolidation

- (1) Consolidation and preparation of monthly financial statements for TGVI and preparation of quarterly interim reports and annual audited financial statements;
- (2) Preparation of monthly reporting journal entries (consolidation, tax, accruals, etc), analytical reviews of accounts and monthly financial review package
- (3) Preparation of analysis required from prospectus and other security filing documents as requested by Treasury Department and senior management;
- (4) Preparation of quarterly and annual report to the Audit Committee;
- (5) Compilation of information in response to a variety of enquiries from operations, senior management and external bodies, such as the BCUC, external auditors and government agencies;
- (6) Research current and emerging accounting policies in Canada, the US and under International Financial Reporting (“IFRS”);
- (7) Direct response to accounting authorities in both Canada, the US and IFRS with respect to exposure drafts and pronouncements;
- (8) Project lead for Terasen on the implementation of IFRS;

- (9) Provide accounting policy advice for such issues as consistency of presentation, alternative treatments and resolution of complicated accounting policies and ensure compliance with General Accepted Accounting Principles;
- (10) Accounting advice and assistance as required.

Taxation Services

- (1) Prepare year-end and quarterly tax provisions including preparing tax calculations and working papers for current tax expense, providing information for the calculation of FIT expense and reviewing FIT calculations, preparing or reviewing the necessary journal entries, assisting auditors with external audit review, preparing tax disclosures to the financial statements and analyzing Balance Sheet tax accounts;
- (2) Prepare tax returns and all tax compliance work for TGVI, including identification and research of technical issues, filing necessary elections, agreements and information returns, requesting post filing adjustments, and reviewing assessments and interest calculations;
- (3) Calculate corporate tax instalments and arrange payment;
- (4) Prepare or review tax information and calculations in support of rate cases, annual reviews and annual reports to the BCUC; participate in regulatory working groups to provide information and guidance on tax issues;
- (5) Provide tax support for planning and forecasting groups; provide a strategic tax perspective into planning processes to optimize tax advantages for the Gas companies;
- (6) Provide leadership, guidance and consultation to finance and operations leaders on income tax and commodity tax issues; find tax solutions to complex business issues;
- (7) Monitor, identify and research tax issues resulting from tax law changes, accounting changes (such as IFRS) or business opportunities to make sound recommendations to management;
- (8) Interpret impact of industry issues on tax; participate in industry group tax committees such as Canadian Gas Association and make submissions to government bodies on issues relevant to the industry;
- (9) Monitor GST and PST (including Social Services Tax, Carbon Tax, ICE levy), including identifying issues and researching technical enquiries, coordinating filing of necessary elections, responding to queries on the application of GST or PST to particular transactions, training employees on the application of commodity taxes to revenues, disbursements and transactions, advising employees of commodity tax changes; advising in the implementation of new taxes;
- (10) Monitor tax implications of payroll and employee benefits including advising on taxable benefits and related calculations, payroll tax issues, and pension plan tax issues;

- (11) Coordinate tax audits (federal income tax, LCT, GST , various PST), provide auditors access to data, research and provide answers to auditor's requests and negotiable beneficial resolution of proposed adjustments;
- (12) Prepare and file Notices of Objection and Appeal letters and coordinate legal appeals with internal and external counsel; negotiate with tax authorities with a view to minimizing ultimate liabilities;
- (13) Establish and monitor tax department controls and ensure adherence to tax policies;
- (14) Provide ongoing training, guidance and support to tax group employees to enhance their performance levels and career development.

Internal Audit

- (1) Develop, plan and conduct audits/reviews of areas or processes of particular interest or of identified risk and prepare internal audit reports;
- (2) Conduct annual risks assessment process in conjunction with the Enterprise Risk Management group;
- (3) Monitor and evaluate the effectiveness and efficiency of controls throughout the year and summarize results to the Audit Committee of the Board of Directors;
- (4) Ensure that the TGVI Code of Business Conduct compliance management is effective by conducting the annual compliance reviews and acting as a resource when issues arise with respect to the Code of Business Conduct;
- (5) Monitor the Whistle Blower Ethics line and address issues as they arise;
- (6) Participate on various committees in the capacity of ex-officio to provide oversight and value add;
- (7) Undertake work at the request of the BC Utilities Commission regarding the activities and operations of TGVI.
- (8) Provide annual reports summarizing Internal Audit activities and findings to the BCUC as well as other reports of regulatory compliance;
- (9) Conduct post implementation reviews of major capital projects and acquisitions and report results to the Audit Committee;
- (10) Provide assistance to the external auditors in completing their external financial audits; and
- (11) Coordinate activities of various internal and external assurance providers to ensure proper coverage and minimize duplication of efforts.

Risk Management and Insurance Services

- (1) Ensure compliance with the TSX requirements on risk management by ensuring that the Board of Directors understand the principal risks of all aspects of business that TGVI is engaged in, and ensuring that there are systems in place that effectively manage and monitor those risks with a view to the long term viability of the TGVI;
- (2) Arrange for coverage based on assessed potential risk of damage or loss in asset values, disruptions in operations or potential legal liabilities;
- (3) Advise dollar value of coverage required, most appropriate coverage and proper services required;
- (4) Provide a single insurance program to achieve economies of scales and cost reductions;
- (5) Work with broker in negotiating renewals and adequacy of coverage;
- (6) Ensure competitive terms and consider all available options;
- (7) Establish procedures and provide assistance and guidance in the reporting, handling, compiling, negotiating and settlement of claims;
- (8) Provide mechanism for appropriate and timely local resolution of third party damage claims below a given threshold and payment of same;
- (9) Conduct of review of contractual agreements to protect TGVI from unnecessary assumption of risks;
- (10) Coordinate Risk Management's group participating in industry associations and education seminars;
- (11) Establish loss control standards to help ensure consistent and high degree of loss; prevention in all operating units and minimize impact when they do occur;
- (12) Ensure familiarity with policies and wordings;
- (13) Encourage and establish procedures for loss control;
- (14) Administer Certificates of Insurance;
- (15) Preparation of management reports;
- (16) Provide additional insurance for individual construction projects, as required; and
- (17) Provide bonding as required.

Corporate Secretary's Office

Schedule A
Description of Services

- (1) Ensure all continuous disclosure and governance activities required by external regulators and third parties are appropriately carried out, including Securities filings and BC Business Corporations Act requirements; and
- (2) Manage the relationship and corporate activities of the Board of Directors.
- (3) Prepare materials for Board of Directors and minutes.
- (4) Track and maintain corporate records.
- (5) Assist in preparation of corporate documentation and providing corporate information to internal and external parties.

Legal Department

- (1) Provide all legal services to TGVI other than those outsourced to outside legal counsel;
- (2) Direct the provision and management of outside legal services, primarily litigation, to TGVI;
- (3) Provide management of all litigation;
- (4) Provide legal counsel on regulatory, environmental, marketing, employment, and intellectual property;
- (5) Ensure legal compliance for press release, financial reports and other disclosure documents;
- (6) Advise TGVI on legal issues that may arise including claims, actions, real estate and other property transactions, and contracts, including the purchase of goods and services by TGVI; and
- (7) Provide general miscellaneous legal support and advice to management.

Human Resources Compensation and Planning

- (1) Consult with management on the maintenance, development and governance of employees and retiree benefit programs, pension plans, employee savings plans and employee assistance programs;
- (2) Provide assistance on annual wage and salary increases, providing labour market comparisons, establishing and implementing ad hoc increases for long term disability and pension recipients;
- (3) Ensure that employment practices are in compliance with applicable regulations and legislation through development and administration of appropriate corporate policies and procedures;
- (4) Consulting and direction on disability management guidelines and policy;

Schedule A
Description of Services

- (5) Oversee the annual preparation of the executive succession plan and present the plan to the Management Resources Committee and to the Board of Directors;
- (6) Corporate governance and direction regarding benefits carriers, benefits and pension consultants, financial services providers;
- (7) Corporate reporting to legislative bodies, CCRA, Statistics Canada, Pension Standards, as required; and
- (8) Corporate governance of salary and benefit administration, including executive and management compensation.

SERVICES PROVIDED BY FORTIS INC. ("FORTIS")

Executive Function

President & CEO

A. Strategic Direction

1. Present annually to the Board of Directors of Fortis (the "Board") a strategic plan and a business plan which must (a) be designed to achieve the corporate objectives together with an appropriate set of performance measures, (b) identify the principal strategic and operational risks of the business, and (c) include appropriate methods to manage the risks;
2. Obtain Board approval for the strategic plan and the business plans of Fortis as a precondition to the implementation of such plans;
3. Obtain Board approval for the procurement, allocation, and disposition of corporate resources for Fortis as a precondition to such procurement, allocation or disposition of such resources either;
 - a. in the approved Business Plan; or
 - b. by specific authorization of an asset transaction consistent with current business activities in an amount in excess of \$XX [insert amount] million (\$XX [insert amount] million annual aggregate) and for any share transaction (other than increased investment in an existing affiliate within the transaction size parameters noted above); and
4. Communicate the principal objectives and strategic plan for Fortis throughout Fortis.

B. Leadership and Management of Fortis

1. Lead Fortis with vision and values that are well understood, widely supported and consistently followed;
2. Foster a corporate culture which promotes ethical practices, personal integrity and the fulfilment of social responsibilities;
3. Create the appropriate environment to stimulate employee morale and productivity;
4. Manage change proactively;
5. Ensure continuous improvement in the quality and value of the products and services provided by Fortis;
6. Ensure that Fortis achieves and maintains satisfactory competitive positions within its industries; and
7. Serve as a director of Fortis.

C. Management and Organization Structure

1. Provide advice to the Board on the appointment of all officers of Fortis;
2. Assist the Board in establishing the limits of delegated authority and responsibility in conducting Fortis's business;
3. Provide annually to the Board, an evaluation of the performance of each senior manager who reports to the CEO;
4. Present for approval to the Board, an annual plan which will provide for the development and succession of senior managers of Fortis in a timely fashion;
5. Generally develop, attract, and retain a highly motivated, effective management team; and
6. Obtain Board approval for any proposed significant or material change in the organizational structure of Fortis as a precondition to the implementation of such changes.

D. Finances, Controls and Internal Systems

1. Consistently strive to achieve Fortis's annual and long-term financial goals and objectives;
2. Assist the Board in establishing an appropriate capital structure for Fortis;
3. Ensure that Fortis has systems in place to effectively monitor and manage the principal risks related to the operation of the business(es);
4. Establish and maintain the integrity of Fortis's financial controls and reporting systems and compliance of the financial information with appropriate accounting principles;
5. Establish and monitor processes and systems designed to ensure compliance with all applicable laws by Fortis, its officers and employees; and
6. Provide certification of financial matters, including the completeness and accuracy of Fortis's financial statements and, where necessary, matters relating to internal controls over financial reporting.

E. Employee Relations

1. Ensure that a process is in place to monitor compliance with the ethical standards to be observed by all officers and employees of Fortis, and ensure that a process is in place to monitor divergence from the ethical standards to be observed by all employees; and
2. Establish and maintain effective communications with employees of Fortis.

F. External Communication

1. Assist the Board in establishing and maintaining an effective communications policy with shareholders, the financial community, the media, the community at large and other stakeholders;
2. Ensure that Fortis contributes, and is perceived to contribute, to the well-being of the communities it serves; and
3. Serve as the principal representative and spokesperson of Fortis.

G. Board Relations

1. Keep the Board adequately informed, on a timely basis, with respect to all events and information which the CEO believes might materially affect Fortis, its performance, prospects, and image;
2. Provide the assistance necessary for the Chair of the Board and committees of the Board to carry out their duties;
3. Be entitled to attend all meetings of Board committees and provide Board committees the assistance necessary to carry out their mandates;
4. Assist the Board in reviewing and maintaining an up-to-date position description for the President and CEO of Fortis; and
5. Report to the Board on material use of outside consultants.

VP Finance and CFO

1. Advise and assist the Chairman of the Board and President and CEO in the development of strategies and goals in the financial planning and structure of the Group and in the control of the Company's business operations.
2. Keep the CEO informed of all relevant financial information and report on the financial status and performance of all companies in the group to the Board of Directors of Fortis Inc.
3. Responsible for all aspects of investor relations program, including shareholder communications and shareholder meetings.
4. Liaison with the investment community and market surveillance.
5. Ensure that procedures and systems necessary to maintain proper records and to afford adequate accounting controls and services are implemented throughout the organization.
6. Ensure that uniform financial policies and procedures are adhered to throughout the organization.
7. Ensure the development and maintenance of timely financial information systems.
8. Develop and maintain effective internal and external audit activities and recommend proper financial controls.

9. Develop and maintain suitable budgeting procedures and reviews.
10. Direct the planning and control of corporate cash requirements and major banking relationships.
11. Review capital expenditure plans and budgeting.
12. Plan and direct corporate financing.
13. Recommend guidelines for financial transactions between companies in the Fortis Group.
14. Ensure that adequate financial personnel resources are retained and appropriately assigned throughout the group.
15. Appraise and implement the necessary financial analysis of acquisition and/or divestiture decisions. As demanded, manage external financial consulting resources.
16. Maintain an awareness of changes in practice and procedure within the professional accounting field.
17. Act as CFO of subsidiary organizations when required.

General Counsel & Corporate Secretary

1. Prepare schedules, notices, agendas, resolutions, and minutes for the Boards of Directors of Fortis Inc. and selected subsidiaries and affiliates.
2. Coordination of all communications to Board of Directors.
3. Operation of share purchase plans.
4. Preparation of security documents including Management Information Circulars, Annual Information Forms and prospectuses.
5. Responsible for regulatory compliance, including annual returns to the registries of companies, dividend disclosure, filing of annual and quarterly reports, reports to stock exchanges, notices of Material Change, and Insider Reports.
6. Provide legal services to all corporations in the Fortis Group including, when necessary, engagement of outside legal services.

Treasury and Taxation Function

1. Manage equity financing, including both common and preference shares, and related prospectuses
2. Manage debt financing, including long-term debt and credit facility borrowings as well as borrowing rates
3. Maintaining the capital structure

Schedule A
Description of Services

4. Assist the VP finance and CFO appraise and implement the necessary financial analysis of acquisition and/or divestiture decisions
5. Cash management and forecasting activities – including dividend and interest payments and equity injections required by subsidiaries
6. Managing cash requirements of subsidiaries, as required, as it relates to intercompany loans and required equity injections
7. Debt covenant calculations and monitoring
8. Managing hedging activities related to US dollar debt
9. Preparation of annual corporate tax returns and related foreign affiliate corporate tax returns
10. Calculation of quarterly and annual Fortis Inc. corporate tax provision
11. Responsibility for utilization of non-capital and capital loss carryforwards of Fortis Inc. and coordination of tax utilization plans with applicable subsidiaries
12. Managing corporate reorganizations and tax planning
13. Manage tax implications of payroll and employee benefits including researching and advising on taxable benefits, CPP, EI and payroll tax issues
14. Preparing Fortis Inc. employee T4's, including preparing taxable benefit calculations
15. Coordination of Fortis Inc. corporate income tax or HST audits
16. Tax research associated with tax issues and changes in tax laws

Investor Relations Function

1. Manage analyst communications – including review of analysts' commentaries/research reports, conduct quarterly conference calls and respond to general analyst research inquiries.
2. Manage investor communications – including the preparation and delivery of investor presentations, road shows, web casts, teleconferences and one-on-one meetings with existing and prospective shareholders
3. Manage shareholder communications – including responding to general shareholder inquiries and the preparation, delivery and filing of documentation for quarterly and annual mailings (i.e., quarterly reports, annual report, proxy, management information circular and annual information form).
4. Coordination and preparation of Fortis's Annual Meeting including preparation of the Executive's presentation to shareholders.
5. Coordination of solicitation of proxies.
6. Preparation of Quarterly Investor Relations Reports to the Board of Directors.

Schedule A
Description of Services

7. Preparation, coordination and dissemination of media releases to newswire agencies, websites and distribution lists.
8. Monitor and maintain Fortis's media coverage.
9. Develop, host and maintain the Fortis Inc. website.
10. Monitor the websites of the Fortis Group of Companies.
11. Monitor and research the market and investment community through Bloomberg, ThomsonOne, TSX, etc.
12. Manage and maintain the Fortis Inc. dividend reinvestment and share purchase plans (i.e., Dividend Reinvestment and Share Purchase Plan, Consumer Share Purchase Plan and Employee Share Purchase Plan)
13. Coordination and preparation of Fortis's consolidated Strategic Issues document and presentation to the Board of Directors.
14. Preparation of Fortis's consolidated Business Plan presentation to the Board of Directors.
15. Manage public relations – including conference participation, the preparation of Executive speeches and responding to media inquiries.

Financial Reporting Function

1. Preparation of quarterly and annual consolidated financial statements and notes to the financial statements and the related management discussion and analysis
2. Preparation of monthly internal consolidated and non-consolidated financial statements of Fortis Inc.
3. Coordination with external auditors of the annual audit of the consolidated financial statements and quarterly review of consolidated financial statements.
4. Preparation and analysis of financial information required for prospectus and other security filing documents
5. Preparation of the Annual Information Form and providing assistance in the preparation of the Management Information Circular
6. Assisting in responding to reviews and queries of securities regulators related to continuous disclosure reporting
7. Research current and emerging accounting policies in Canada, US and that related to IFRS
8. Coordinate consistent accounting policy treatment across the Fortis group of companies related to presentation, alternative treatments and resolution of complex accounting policies to ensure compliance with GAAP

9. Oversight and coordination of conversion to International Financial Reporting Standards across the Fortis Group of companies – including coordinating research, organizing working group and steering committee sessions to discuss and resolve ongoing issues and progress, monitoring and directing progress of the overall conversion and coordination with the external auditors
10. Coordination and preparation of consolidated Business Plan document and reporting to the Board of Directors
11. Preparation of quarterly forecasted consolidated earnings and EPS
12. Responsibility for maintaining internal controls over financial reporting at Fortis Inc.

Internal Audit Function

1. Performs internal audit activities at Fortis Inc including:
 - a. coordinating the Fortis Inc. CEO and CFO internal controls certification process through maintenance of financial process documentation and annual evaluation of internal controls over financial reporting and disclosure controls. Involves ensuring that all Fortis subsidiaries are fully compliant in order to support certification by the parent company;
 - b. performing quality assurance reviews of Fortis Inc. continuous disclosures documents prior to public filing;
 - c. performing annual reviews of Fortis Inc. statutory obligations and executive expenditures;
 - d. reporting internal audit activities to the Fortis Inc. Audit Committee on a regular basis; and
 - e. coordinating compliance with corporate governance requirements
2. Provides oversight over the internal audit function at the Fortis subsidiary companies to:
 - a. ensure corporate-wide consistency in the application of internal audit methodologies and practices and in the reporting of audit results to management and audit committees;
 - b. coordinate annual audit program planning to ensure critical risk areas are addressed;
 - c. coordinate corporate-wide audit projects;
 - d. identify opportunities for audit resource and information sharing between the subsidiary internal audit groups;

- e. oversees audit program planning and reviews internal audit reports to management and Audit Committees for these subsidiaries with limited internal audit resources;
- 3. Administers and monitors reports of allegations of suspected improper conduct or wrong doing via Fortis's ethics reporting system
- 4. Development of a company-wide Enterprise Risk Management program approach

Board of Directors

The Board of Directors of Fortis Inc. is responsible for the stewardship of Fortis. The Board will supervise the management of the business and affairs of Fortis and, in particular, will:

A. Strategic Planning and Risk Management

- 1. Adopt a strategic planning process and approve, on an annual basis, a strategic plan for Fortis which considers, among other things, the opportunities and risks of the business;
- 2. Monitor the implementation and effectiveness of the approved strategic and business plan;
- 3. Assist the CEO in identifying the principal risks of Fortis's business and the implementation of appropriate systems to manage such risks;

B. Management and Human Resources

- 1. Select, appoint and evaluate the CEO, and determine the terms of the CEO's employment with Fortis;
- 2. In consultation with the CEO, appoint all officers of Fortis and determine the terms of employment, training, development and succession of senior management (including the processes for appointing, training and evaluating senior management);
- 3. To the extent feasible, satisfy itself as to the integrity of the CEO and other officers and the creation of a culture of integrity throughout Fortis;

C. Finances, Controls and Internal Systems

- 1. Review and approve all material transactions including acquisitions, divestitures, dividends, capital allocations, expenditures and other transactions which exceed threshold amounts set by the Board (including equity contributions to subsidiaries to support the investment in rate base to serve customers);
- 2. Evaluate Fortis's internal controls relating to financial and management information systems;

D. Communications

1. Adopt a communication policy that seeks to ensure that effective communications, including statutory communication and disclosure, are established and maintained with employees, shareholders, the financial community, the media, the community at large and other security holders of Fortis;
2. Establish procedures to receive feedback from stakeholders of Fortis and communications to the independent directors as a group;

E. Governance

1. Develop Fortis's approach to corporate governance issues, principles practices and disclosure;
2. Establish appropriate procedures to evaluate director independence standards and allow the Board to function independently of management;
3. Appoint from among the directors an audit committee and such other committees of the Board as deemed appropriate and delegate responsibilities thereto in accordance with their mandates;
4. Develop and monitor policies governing the operation of subsidiaries through exercise of Fortis's shareholder positions in such subsidiaries;
5. Develop and monitor compliance with Fortis's code of conduct;
6. Set expectations and responsibilities of directors, including attendance at, preparation for and participation in meetings; and
7. Evaluate and review the performance of the Board, each of its committees and its members.

THIS AMENDING AGREEMENT is made effective January 1, 2012 (the "Effective Date").

BETWEEN:

FORTISBC ENERGY (VANCOUVER ISLAND) INC.
(formerly Terasen Gas (Vancouver Island) Inc.)
16705 Fraser Highway
Surrey, British Columbia, V4N 0E8

(hereinafter referred to as "FEVI")

OF THE FIRST PART

AND:

FORTISBC HOLDINGS INC.
(formerly Terasen Inc.)
10th Floor, 1111 West Georgia Street
Vancouver, British Columbia, V6E 4M4

(hereinafter referred to as "FHI")

OF THE SECOND PART

WHEREAS:

- A. FEVI and FHI entered into an agreement dated as of January 1, 2010 (the "Agreement"); and
- B. The parties are now desirous of amending the Agreement on the following terms and conditions.

NOW THEREFORE, in consideration of the mutual promises herein and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the parties hereby covenant and agree as follows:

- 1. In this Amending Agreement, capitalized words and expressions used shall have the same meanings as are respectively assigned to them in the Agreement.
- 2. All references to "Terasen Gas (Vancouver Island) Inc." and "TGVI" shall be deleted and replaced with "FortisBC Energy (Vancouver Island) Inc." and "FEVI" respectively.
- 3. All references to "Terasen Inc." and "Terasen" shall be deleted and replaced with "FortisBC Holdings Inc." and "FHI" respectively.

4. Clause 3.1 shall be deleted and replaced with the following:

“3.1 Compensation for Services and Shared Costs

FEVI agrees to pay to FHI for the Services to be provided and for a proportionate share of the common expenses incurred by FHI such as shareholder expenses and director compensation the amount of \$1,140,100 per annum for the period of January 1, 2012 to December 31, 2012 on a take-or-pay basis and the amount of \$1,196,300 per annum for the period of January 1, 2013 to December 31, 2013 on a take-or-pay basis.”

5. This Amending Agreement shall be read together with the Agreement as modified.
6. This Amending Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the parties agree to attorn to the jurisdiction of the courts of British Columbia.
7. Words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and neuter genders; and words importing persons include individuals, sole proprietors, corporations, partnerships and unincorporated associations.
8. This Amending Agreement may be executed in counterparts with the same effect as if all parties had signed the same document. All counterparts will be construed together and will constitute one agreement.
9. All unamended terms and conditions shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amending Agreement effective the Effective Date.

FORTISBC ENERGY (VANCOUVER ISLAND) INC.

By: 

Title: Roger Dall'Antonia
Vice President, Finance & CFO

FORTISBC HOLDINGS INC.

By: 

Title: Scott Thomson
Executive Vice President, Finance,
Regulatory & Energy Supply

THIS AGREEMENT is made effective January 1, 2010.

BETWEEN:

TERASEN GAS (WHISTLER) INC. a corporation formed under the laws of British Columbia, having an office at 16705 Fraser Highway, Surrey, British Columbia

("TGW")

AND:

TERASEN INC., a corporation formed under the laws of British Columbia, having an office at 10th Floor, 1111 West Georgia Street, Vancouver, British Columbia

("Terasen")

WHEREAS

- A. TGW is the owner and operator of the natural gas transmission and distribution facilities in British Columbia serving the community of Whistler; and
- B. TGW wishes to retain Terasen to provide certain professional and management services to it in respect to the ownership and operations of its transmission pipeline and distribution business on the terms and conditions set out herein.

WITNESSES THAT, in consideration of the covenants and agreements herein contained, the parties covenant and agree as follows:

PART 1
INTERPRETATION

1.1 Definitions

In and for the purpose of this Agreement

- (a) **"Applicable Laws"** means any and all Laws in force and effect from time to time and applicable to the Facilities and the performance of the Services hereunder;
- (b) **"Force Majeure"** has the meaning assigned to such term in Section 9.1;
- (c) **"Governmental Authority"** means any domestic or foreign, national, federal, provincial, state, municipal or other local government or body and any division, agent, commission, board, or authority of any quasi-governmental or private body exercising any statutory, regulatory, expropriation or taxing authority under the authority of any of the foregoing, and any domestic, foreign, international, judicial, quasi-judicial, arbitration or administrative court, tribunal, commission, board or panel acting under the authority of any of the foregoing;

- (d) **"Laws"** means all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules, regulations and municipal by-laws, whether domestic, foreign or international, any judgements, orders, writs, injunctions, decision, rulings, decrees, and awards of any Governmental Authority, and any published policies or guidelines of any Governmental Authority and including, without limitation, any principles of common law and equity,
- (e) **"Person"** includes any individual, corporation, body corporate, partnership, joint venture, association, trust, estate, incorporated or unincorporated association, any government or governmental authority however designated or constituted or any other entity of whatever nature,
- (f) **"Services"** means the professional and management services to be provided to TGW by Terasen as more particularly described in Section 2.1.

1.2 Schedules

Schedule "A" is attached to, and is incorporated by reference into, this Agreement.

1.3 Interpretation

In and for the purpose of this Agreement

- 1) this "Agreement" means this agreement as the same may from time to time be modified, supplemented or amended in effect,
- 2) any reference in this Agreement to a designated "Article", "section" or other subdivision is to the designated Article, section or other subdivision of this Agreement,
- 3) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, section or other subdivision,
- 4) the headings are for convenience only and do not form a part of this Agreement and are not intended to interpret, define or limit the scope, extent or intent of this Agreement,
- 5) the singular of any term includes the plural, and vice versa, the use of any term is generally applicable to any gender and, where applicable, a corporation, the word "or" is not exclusive and the word "including" is not limiting (whether or not non-limiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto), and
- 6) each word and phrase used herein and not otherwise defined herein, but which has an accepted meaning in the custom and usage of the Western Canadian oil and gas transportation industry, shall have such accepted meaning.

1.4 Governing Law

Subject to Section 9.1, this Agreement will be interpreted and the rights and remedies of the parties hereto will be determined in accordance with the laws of the Province of British Columbia.

PART 2 SERVICES

2.1 Services

Terasen hereby agrees to provide to TGW those professional and management services described in Schedule "A" which Services shall include certain professional and management services provided to Terasen by its parent company, Fortis Inc. which professional and management services also benefit TGW. .

2.2 No Obligation to Provide Additional Services

Terasen shall not perform, and Terasen shall have no obligation to perform, any services on behalf of TGW other than as set out in this Agreement or any similar agreement.

2.3 Consultation with TGW

Terasen will consult with TGW as required in connection with the performance of the Services.

2.4 Independent Contractor

Nothing in this Agreement shall be construed to create or constitute a partnership or relationship of joint venture between Terasen and TGW. In performing the Services, Terasen shall be an independent contractor. Terasen employees shall not be considered employees of TGW for any purpose.

2.5 Compliance

In performing the Services, Terasen will comply with all Applicable Laws.

PART 3 COMPENSATION

3.1 Compensation for Services and Shared Costs

TGW agrees to pay to Terasen for the Services to be provided and for a proportionate share of the common expenses incurred by Terasen such as shareholder expenses and director compensation the amount of \$48,000 per annum on a take-or-pay basis.

3.2 Amendment to Costs

The amounts set out in Section 3.1 may be amended annually by agreement between the parties to reflect any material change in the cost of providing the services or in the business

operations of TGW and to reflect annual inflationary adjustments. Any services to be provided that are not contemplated under this Agreement will be subject to additional compensation as agreed between the parties and form an amendment to this agreement in accordance with Section 10.3 below.

3.3 Invoicing

Terasen will invoice TGW in respect of the Services no later than the 25th day following the end of the month in which such Services are provided or in such other manner as the parties may agree.

3.4 Payment

TGW will, within thirty (30) days of receipt of an invoice from Terasen, pay to Terasen the amount specified in such invoice. Any amount to be remitted by TGW to Terasen and not remitted on or before the date on which it is due shall thereafter bear interest. A late payment charge of 1.5% per month (18% per annum) shall be payable to Terasen on any unpaid balance after thirty (30) days of the date of invoice.

3.5 Taxes

Notwithstanding any other provision of this Agreement, the amounts paid or payable by one party to the other in accordance with this Agreement are exclusive of any value added taxes or sales taxes, which are now, or may become during the term of this Agreement, applicable to the provision of the Services. Each party shall pay to the other party any value added taxes or sales tax which one party is obligated to collect from the other at the time such taxes are due and payable.

PART 4

INDEMNIFICATION AND LIMITATION OF LIABILITY

4.1 Indemnity by TGW

Subject to Section 4.4, TGW will indemnify, defend and hold harmless Terasen and its directors, officers, employees, agents and contractors, from and against any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award, and cost or expense (including reasonable legal fees and disbursements) which they may suffer or incur arising directly or indirectly, in whole or in part, in connection with this Agreement or with Terasen's provision of the Services, except and to the extent, if any, that the same results from or arises out of the wilful misconduct or gross negligence of Terasen.

4.2 Limitation of Liability of Terasen

Neither Terasen nor any of its directors, officers, employees, agents or contractors will be liable to TGW for any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award, or cost or expense (including reasonable legal fees and disbursements) which TGW may suffer or incur arising directly or indirectly, in whole or in part, in connection with this Agreement or with Terasen's provision of the Services, except and to the extent, if any, that the same results from or arises out of the wilful misconduct or gross negligence of Terasen.

4.3 Indemnity by Terasen

Subject to Section 4.4, Terasen will indemnify, defend and hold harmless TGW from and against any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award and cost or expense (including reasonable legal fees and disbursements) which TGW may suffer or incur as a result of any act or omission or error of judgement as a result of which Terasen is adjudged to have been guilty of wilful misconduct or gross negligence.

4.4 Consequential Losses

Neither party hereto will be liable to the other, whether based in contract, tort (including negligence and strict liability), under warranty or otherwise for special indirect, incidental or consequential loss or damage whatsoever, including without limitation, loss of use of equipment or facilities and loss of profits or revenues.

PART 5 COVENANTS OF TGW

5.1 Covenants by TGW

TGW covenants and agrees to:

- (a) fully co-operate with Terasen in respect of all matters contemplated by or within the scope of this Agreement; and
- (b) pay on or before the due date thereof all amounts payable by TGW to Terasen or any other Person pursuant to or as contemplated by this Agreement.

PART 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of Terasen

Terasen hereby represents and warrants to TGW as representations and warranties which are true as at the date hereof and which will be true during the term of Terasen's appointment hereunder:

- (a) Terasen is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and Terasen has full power and authority to perform its obligations hereunder;
- (b) this Agreement constitutes a valid and binding obligation of Terasen enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defences and to the discretion of the court before which any proceeding therefore may be brought; and

- (c) Terasen possesses all of the skills and personnel required to provide the Services.

6.2 Representations and Warranties of TGW

TGW hereby represents and warrants to Terasen as representations and warranties which are true as at the date hereof and which will be true during the term of Terasen's appointment hereunder

- (a) TGW is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and TGW has full power and authority to perform its obligations hereunder; and
- (b) this Agreement constitutes a valid and binding obligation of TGW enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defences and to the discretion of the court before which any proceeding therefore may be brought.

PART 7

DURATION, TERMINATION AND DEFAULT

7.1 Effective Date and Term

This Agreement will be effective from January 1, 2010 and will end on December 31, 2010, unless earlier terminated pursuant to the provisions hereof. Thereafter the Agreement will automatically be renewed for further one (1) year terms subject to Section 7.2 below.

7.2 Termination

Terasen's appointment hereunder may be terminated at any time:

- (a) by Terasen giving TGW six (6) months' written notice of such termination:
 - (i) if TGW becomes insolvent, admits in writing its inability to pay its debts as they become due or commits or threatens to commit an act of bankruptcy or if TGW makes a general assignment for the benefit of creditors, or any proceeding is instituted by or against TGW seeking to adjudicate it a bankrupt or an insolvent or seeking the dissolution, winding-up or liquidation of TGW or a reorganization, arrangement, moratorium, adjustment, compromise, readjustment of debt or composition of it or its debts under any law relating to bankruptcy, insolvency, moratorium, reorganization or relief of debtors or seeking the appointment of a receiver, receiver-manager, interim receiver, trustee, custodian, liquidator or other similar official or Person for it, or TGW consents by answer, acquiescence or otherwise to the institution of any such proceeding against it; or
 - (ii) in the event TGW breaches this Agreement and fails to cure such breach within thirty (30) days after receipt by TGW of written notice thereof from

Terasen or, if such breach is not capable of being cured within such thirty (30) day period, fails to commence in good faith the curing of such breach forthwith upon receipt of written notice thereof from Terasen and to continue to diligently pursue the curing of such breach thereafter until cured and, in either case, the allegation of Terasen that TGW is in breach is conceded to be correct by TGW or found to be correct by an arbitrator pursuant to section 8.1;

- (b) by TGW giving Terasen six (6) months' written notice of such termination:
 - (i) if Terasen becomes insolvent, admits in writing its inability to pay its debts as they become due or commits or threatens to commit an act of bankruptcy or if Terasen makes a general assignment for the benefit of creditors, or any proceeding is instituted by or against Terasen seeking to adjudicate it a bankrupt or an insolvent or seeking the dissolution, winding-up or liquidation of Terasen or a reorganization, arrangement, moratorium, adjustment, compromise, readjustment of debt or composition of it or its debts under any law relating to bankruptcy, insolvency, moratorium, reorganization or relief of debtors or seeking the appointment of a receiver, receiver-manager, interim receiver, trustee, custodian, liquidator or other similar official or Person for it, or Terasen consents by answer, acquiescence or otherwise to the institution of any such proceeding against it; or
 - (ii) in the event Terasen breaches this Agreement and fails to cure such breach within thirty (30) days after receipt by Terasen of written notice thereof from TGW or, if such breach is not capable of being cured within such thirty (30) day period, fails to commence in good faith the curing of such breach forthwith upon receipt of written notice thereof from TGW and to continue to diligently pursue the curing of such breach thereafter until cured and, in either case, the allegation of TGW that Terasen is in breach is conceded to be correct by Terasen or found to be correct by an arbitrator pursuant to Section 8.1.

7.3 Duties Upon Termination

Upon expiry or termination of this Agreement for any reason, Terasen will have no further obligations under Article 2 and will promptly deliver to TGW any material documents in the possession of Terasen pertaining to the business of TGW.

7.4 Compensation of Terasen on Expiry or Termination

Within one (1) month after the expiry or termination of this Agreement, TGW will pay to Terasen all amounts owing to Terasen hereunder (including any amount owing on account of the fees provided for in Article 3 calculated up to the date of expiry or termination); provided that for the purposes of this section, the fees provided for in Article 3 which are payable to Terasen on a monthly, annual or other periodic basis will be deemed to accrue due and be payable on a daily basis.

PART 8

ARBITRATION

8.1 Arbitration

For purposes of Section 7.2, any dispute between Terasen and TGW regarding any allegation that TGW or Terasen is in breach of this Agreement, may be submitted to and settled by arbitration in accordance with the provisions of this Section 8.1. Arbitration proceedings may be commenced by the party desiring arbitration giving notice to the other party specifying the matter to be arbitrated and requesting arbitration thereof. Such arbitration will be carried out by a single arbitrator and in accordance with the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution from time to time in force and effect. If the parties are unable to agree upon an arbitrator within ten (10) days after delivery of such notice, either of them may make application to court for appointment of an arbitrator. In the event of the failure, refusal or inability of an arbitrator to act, or continue to act, a new arbitrator will be appointed, which appointment will be made in the same manner as provided above. The decision of an arbitrator appointed as under this Section 8.1 will be final and binding upon the parties and not subject to appeal. The arbitrator will have the authority to assess the costs of the arbitration against either or both of the parties, provided that each party will bear its own witness and counsel fees. The parties will fully co-operate with the arbitrator and provide all information reasonably requested by the arbitrator. Judgement on the award of the arbitrator may be entered in any court having jurisdiction over the party against which enforcement of the award is being sought. Each party hereby irrevocably submits and consents to the jurisdiction of any such court for the purpose of rendering a judgement of any such award.

PART 9

FORCE MAJEURE

9.1 Force Majeure

In and for the purposes of this Agreement, "Force Majeure" shall mean anyone or more of the following events:

- (a) an act of God;
- (b) a war, revolution, insurrection, riot, blockade, or any other unlawful act against public order or authority;
- (c) a strike, lockout or other industrial disturbance;
- (d) a storm, fire, flood, explosion, earthquake or lightning;
- (e) a governmental restraint; or
- (f) any other event (whether or not of the kind enumerated in 9.1(a) to (e) above) which is not reasonably within the control of the party hereto claiming suspension of its obligations hereunder due to Force Majeure.

9.2 Performance Prevented by Force Majeure

If either party hereto is prevented by Force Majeure from carrying out any of its obligations hereunder, the obligations of such party, insofar as its obligations are affected by Force Majeure, shall be suspended while (but only so long as) Force Majeure continues to prevent the performance of such obligations. Any party prevented from carrying out any obligation by Force Majeure shall promptly give the other party hereto notice of Force Majeure including reasonably full particulars thereof.

9.3 Remedy of Force Majeure

A party claiming suspension of its obligations by reason of Force Majeure shall promptly remedy the cause and effect of Force Majeure described in the notice given pursuant to Section 9.2 insofar as such party is reasonably able so to do, provided that the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly in the discretion of the party hereby claiming suspension of its obligations hereunder by reason thereof; and that such party shall not be required to accede to the demands of its opponents in any strike, lockout or industrial disturbance solely to remedy promptly Force Majeure thereby constituted.

9.4 Lack of Funds Not Force Majeure

Notwithstanding anything contained in this Article 9, lack of finances shall not be considered Force Majeure nor shall Force Majeure suspend any obligation for the payment of money due hereunder.

PART 10 MISCELLANEOUS

10.1 Notice

Any notice, direction or other communication required or permitted to be given hereunder must be in writing and will be sufficiently given if delivered or sent by facsimile to the party from whom it is intended at the address of such party set out below. Any notice, direction or other communication so given will be deemed to have been given and to have been received on the day of delivery, if delivered, or on the day of sending if sent by facsimile (provided such day of delivery or sending is a Business Day and, if not, then on the first Business Day thereafter). Each party hereto may change its address for notice by notice given in the manner aforesaid.

10.2 Assignment

Neither party hereto may assign this Agreement or any of its rights hereunder without the prior written consent of the other party, such consent not to be unreasonably withheld.

10.3 Amendments

Any amendment or modification of this Agreement must be in writing and signed by the party against which such amendment or modification is sought to be enforced.

10.4 Severability

If any term or condition of this Agreement or the application hereof is determined judicially or otherwise to be invalid or unenforceable, the remainder of this Agreement and the application thereof shall not be affected and shall remain in full force and effect.

10.5 Entire Agreement

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof. There are no representations, warranties, covenants or agreements between the parties in connection with such subject matter except as specifically set forth or referred to in this Agreement.

10.6 Counterparts, Facsimile

This Agreement may be executed by the execution of one or more counterparts of the execution page, which will be taken together and constitute the execution page, and one or more of such counterparts may be delivered by facsimile transmission.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on October 14, 2009.

TERASEN GAS (WHISTLER) INC.

By: 

Title: Scott A. Thomson
VP, Regulatory Affairs & CFO

TERASEN INC.

By: 

Title: R.L. (Randy) Jespersen
President & CEO

Schedule “A”

Description of Services

SERVICES PROVIDED BY TERASEN

General Governance & Oversight Services

In addition to the specific services described below, TGW receives the benefit of the expert advice and experience of Terasen executives, who spend their time working on various committees including the Executive Committee (comprised of the CEO and senior vice presidents of Terasen as well as the heads of each operating company and the General Counsel), the Risk Management Committee and the Operating Committee.

Treasury and Cash Management

- (1) Execute Financings
 - a. Develop financing plans
 - i. Provide assessments of financing alternatives
 - ii. Determine timing, term, rate, structure
 - b. Obtain BCUC approvals
 - c. Execute financings
 - i. Negotiation, preparation of legal documentation
 - ii. Prepare disclosure documentation
 - iii. Investor presentations
 - iv. Due diligence process
 - v. Deal execution
- (2) Cash Management
 - a. Prepare and maintain short-term cash forecasting
 - b. Execute short-term borrowing
 - i. Commercial paper issuance
 - ii. Bank borrowing
 - c. Execute short-term investing of excess funds
 - d. Negotiation of letters of credit
 - e. Execution of manual wire transfers
 - f. Establish and maintain internet based banking platform for cp issuance, fund transfers and reporting
 - g. Payment of interest, principal and fees on outstanding debt

Schedule A
Description of Services

- (3) Arrange operating credit facilities
 - a. Negotiate credit agreements
 - i. Determine terms and conditions
 - ii. Negotiate pricing and term
 - b. Manage syndication process
 - c. Obtain BCUC approval
- (4) Negotiate bank-service fees
- (5) Treasury-related controls and compliance
 - a. Develop and monitor control and compliance procedures for key Treasury procedures
- (6) Compliance reporting
 - a. Prepare and file required compliance reports with third parties
 - i. Lenders, securities commissions, BCUC
- (7) Hedging of interest rate and foreign exchange risks
 - a. Develop financial hedging plans as required
 - b. Negotiation of required documentation
 - c. Execution of derivative transaction
- (8) Prepare Derivatives Policies and Procedures;
- (9) Counterparty Credit Risk Management;
 - a. Review credit worthiness of counterparties
 - b. Determine appropriate credit limits for counterparties
 - c. Determine requirement for credit support
 - d. Negotiate appropriate credit support documentation
- (10) Interest rate and foreign exchange rate forecasting;
- (11) Regulatory submissions with respect to ROE, capital structure and financing matters;
- (12) Capital structure review and maintenance; and
- (13) Provide education and related materials from training courses and seminars attended by Treasury staff.

Investor Relations

- (1) Manage the Rating Agency Process;

- (2) Maintain investment banker and debt investor relationships;
- (3) Maintain banking and money market dealer relationships;
- (4) Investor and Shareholder communication;
- (5) Assist in preparation of annual/quarterly disclosure documents; and
- (6) Prepare annual report.

Corporate Development and Capital Management

- (1) Manage the annual strategic planning cycle;
- (2) Preparation and maintenance of the five year forecasting model used for strategic planning process and in the annual budgeting process;
- (3) Provide financial analysis and evaluation of new projects and new initiatives;
- (4) Manage the acquisition and divestiture activity;
- (5) Provide project management and/or due diligence support where required; and
- (6) Contract negotiation in support of business development initiatives.

External Reporting and Consolidation

- (1) Consolidation and preparation of monthly financial statements for TGW and preparation of quarterly interim reports and annual audited financial statements;
- (2) Preparation of monthly reporting journal entries (consolidation, tax, accruals, etc), analytical reviews of accounts and monthly financial review package
- (3) Preparation of analysis required from prospectus and other security filing documents as requested by Treasury Department and senior management;
- (4) Preparation of quarterly and annual report to the Audit Committee;
- (5) Compilation of information in response to a variety of enquiries from operations, senior management and external bodies, such as the BCUC, external auditors and government agencies;
- (6) Research current and emerging accounting policies in Canada, the US and under International Financial Reporting (“IFRS”);
- (7) Direct response to accounting authorities in both Canada, the US and IFRS with respect to exposure drafts and pronouncements;
- (8) Project lead for Terasen on the implementation of IFRS;

- (9) Provide accounting policy advice for such issues as consistency of presentation, alternative treatments and resolution of complicated accounting policies and ensure compliance with General Accepted Accounting Principles;
- (10) Accounting advice and assistance as required.

Taxation Services

- (1) Prepare year-end and quarterly tax provisions including preparing tax calculations and working papers for current tax expense, providing information for the calculation of FIT expense and reviewing FIT calculations, preparing or reviewing the necessary journal entries, assisting auditors with external audit review, preparing tax disclosures to the financial statements and analyzing Balance Sheet tax accounts;
- (2) Prepare tax returns and all tax compliance work for TGW, including identification and research of technical issues, filing necessary elections, agreements and information returns, requesting post filing adjustments, and reviewing assessments and interest calculations;
- (3) Calculate corporate tax instalments and arrange payment;
- (4) Prepare or review tax information and calculations in support of rate cases, annual reviews and annual reports to the BCUC; participate in regulatory working groups to provide information and guidance on tax issues;
- (5) Provide tax support for planning and forecasting groups; provide a strategic tax perspective into planning processes to optimize tax advantages for the Gas companies;
- (6) Provide leadership, guidance and consultation to finance and operations leaders on income tax and commodity tax issues; find tax solutions to complex business issues;
- (7) Monitor, identify and research tax issues resulting from tax law changes, accounting changes (such as IFRS) or business opportunities to make sound recommendations to management;
- (8) Interpret impact of industry issues on tax; participate in industry group tax committees such as Canadian Gas Association and make submissions to government bodies on issues relevant to the industry;
- (9) Monitor GST and PST (including Social Services Tax, Carbon Tax, ICE levy), including identifying issues and researching technical enquiries, coordinating filing of necessary elections, responding to queries on the application of GST or PST to particular transactions, training employees on the application of commodity taxes to revenues, disbursements and transactions, advising employees of commodity tax changes; advising in the implementation of new taxes;
- (10) Monitor tax implications of payroll and employee benefits including advising on taxable benefits and related calculations, payroll tax issues, and pension plan tax issues;

- (11) Coordinate tax audits (federal income tax, LCT, GST , various PST), provide auditors access to data, research and provide answers to auditor's requests and negotiable beneficial resolution of proposed adjustments;
- (12) Prepare and file Notices of Objection and Appeal letters and coordinate legal appeals with internal and external counsel; negotiate with tax authorities with a view to minimizing ultimate liabilities;
- (13) Establish and monitor tax department controls and ensure adherence to tax policies;
- (14) Provide ongoing training, guidance and support to tax group employees to enhance their performance levels and career development.

Internal Audit

- (1) Develop, plan and conduct audits/reviews of areas or processes of particular interest or of identified risk and prepare internal audit reports;
- (2) Conduct annual risks assessment process in conjunction with the Enterprise Risk Management group;
- (3) Monitor and evaluate the effectiveness and efficiency of controls throughout the year and summarize results to the Audit Committee of the Board of Directors;
- (4) Ensure that the TGW Code of Business Conduct compliance management is effective by conducting the annual compliance reviews and acting as a resource when issues arise with respect to the Code of Business Conduct;
- (5) Monitor the Whistle Blower Ethics line and address issues as they arise;
- (6) Participate on various committees in the capacity of ex-officio to provide oversight and value add;
- (7) Undertake work at the request of the BC Utilities Commission regarding the activities and operations of TGW.
- (8) Provide annual reports summarizing Internal Audit activities and findings to the BCUC as well as other reports of regulatory compliance;
- (9) Conduct post implementation reviews of major capital projects and acquisitions and report results to the Audit Committee;
- (10) Provide assistance to the external auditors in completing their external financial audits; and
- (11) Coordinate activities of various internal and external assurance providers to ensure proper coverage and minimize duplication of efforts.

Risk Management and Insurance Services

- (1) Ensure compliance with the TSX requirements on risk management by ensuring that the Board of Directors understand the principal risks of all aspects of business that TGW is engaged in, and ensuring that there are systems in place that effectively manage and monitor those risks with a view to the long term viability of the TGW;
- (2) Arrange for coverage based on assessed potential risk of damage or loss in asset values, disruptions in operations or potential legal liabilities;
- (3) Advise dollar value of coverage required, most appropriate coverage and proper services required;
- (4) Provide a single insurance program to achieve economies of scales and cost reductions;
- (5) Work with broker in negotiating renewals and adequacy of coverage;
- (6) Ensure competitive terms and consider all available options;
- (7) Establish procedures and provide assistance and guidance in the reporting, handling, compiling, negotiating and settlement of claims;
- (8) Provide mechanism for appropriate and timely local resolution of third party damage claims below a given threshold and payment of same;
- (9) Conduct of review of contractual agreements to protect TGW from unnecessary assumption of risks;
- (10) Coordinate Risk Management's group participating in industry associations and education seminars;
- (11) Establish loss control standards to help ensure consistent and high degree of loss; prevention in all operating units and minimize impact when they do occur;
- (12) Ensure familiarity with policies and wordings;
- (13) Encourage and establish procedures for loss control;
- (14) Administer Certificates of Insurance;
- (15) Preparation of management reports;
- (16) Provide additional insurance for individual construction projects, as required; and
- (17) Provide bonding as required.

Corporate Secretary's Office

Schedule A

Description of Services

- (1) Ensure all continuous disclosure and governance activities required by external regulators and third parties are appropriately carried out, including Securities filings and BC Business Corporations Act requirements; and
- (2) Manage the relationship and corporate activities of the Board of Directors.
- (3) Prepare materials for Board of Directors and minutes.
- (4) Track and maintain corporate records.
- (5) Assist in preparation of corporate documentation and providing corporate information to internal and external parties.

Legal Department

- (1) Provide all legal services to TGW other than those outsourced to outside legal counsel;
- (2) Direct the provision and management of outside legal services, primarily litigation, to TGW;
- (3) Provide management of all litigation;
- (4) Provide legal counsel on regulatory, environmental, marketing, employment, and intellectual property;
- (5) Ensure legal compliance for press release, financial reports and other disclosure documents;
- (6) Advise TGW on legal issues that may arise including claims, actions, real estate and other property transactions, and contracts, including the purchase of goods and services by TGW; and
- (7) Provide general miscellaneous legal support and advice to management.

Human Resources Compensation and Planning

- (1) Consult with management on the maintenance, development and governance of employees and retiree benefit programs, pension plans, employee savings plans and employee assistance programs;
- (2) Provide assistance on annual wage and salary increases, providing labour market comparisons, establishing and implementing ad hoc increases for long term disability and pension recipients;
- (3) Ensure that employment practices are in compliance with applicable regulations and legislation through development and administration of appropriate corporate policies and procedures;
- (4) Consulting and direction on disability management guidelines and policy;

Schedule A
Description of Services

- (5) Oversee the annual preparation of the executive succession plan and present the plan to the Management Resources Committee and to the Board of Directors;
- (6) Corporate governance and direction regarding benefits carriers, benefits and pension consultants, financial services providers;
- (7) Corporate reporting to legislative bodies, CCRA, Statistics Canada, Pension Standards, as required; and
- (8) Corporate governance of salary and benefit administration, including executive and management compensation.

SERVICES PROVIDED BY FORTIS INC. (“FORTIS”)

Executive Function

President & CEO

A. Strategic Direction

1. Present annually to the Board of Directors of Fortis (the “Board”) a strategic plan and a business plan which must (a) be designed to achieve the corporate objectives together with an appropriate set of performance measures, (b) identify the principal strategic and operational risks of the business, and (c) include appropriate methods to manage the risks;
2. Obtain Board approval for the strategic plan and the business plans of Fortis as a precondition to the implementation of such plans;
3. Obtain Board approval for the procurement, allocation, and disposition of corporate resources for Fortis as a precondition to such procurement, allocation or disposition of such resources either;
 - a. in the approved Business Plan; or
 - b. by specific authorization of an asset transaction consistent with current business activities in an amount in excess of \$XX [insert amount] million (\$XX [insert amount] million annual aggregate) and for any share transaction (other than increased investment in an existing affiliate within the transaction size parameters noted above); and
4. Communicate the principal objectives and strategic plan for Fortis throughout Fortis.

B. Leadership and Management of Fortis

1. Lead Fortis with vision and values that are well understood, widely supported and consistently followed;
2. Foster a corporate culture which promotes ethical practices, personal integrity and the fulfilment of social responsibilities;
3. Create the appropriate environment to stimulate employee morale and productivity;
4. Manage change proactively;
5. Ensure continuous improvement in the quality and value of the products and services provided by Fortis;
6. Ensure that Fortis achieves and maintains satisfactory competitive positions within its industries; and
7. Serve as a director of Fortis.

C. Management and Organization Structure

1. Provide advice to the Board on the appointment of all officers of Fortis;
2. Assist the Board in establishing the limits of delegated authority and responsibility in conducting Fortis's business;
3. Provide annually to the Board, an evaluation of the performance of each senior manager who reports to the CEO;
4. Present for approval to the Board, an annual plan which will provide for the development and succession of senior managers of Fortis in a timely fashion;
5. Generally develop, attract, and retain a highly motivated, effective management team; and
6. Obtain Board approval for any proposed significant or material change in the organizational structure of Fortis as a precondition to the implementation of such changes.

D. Finances, Controls and Internal Systems

1. Consistently strive to achieve Fortis's annual and long-term financial goals and objectives;
2. Assist the Board in establishing an appropriate capital structure for Fortis;
3. Ensure that Fortis has systems in place to effectively monitor and manage the principal risks related to the operation of the business(es);
4. Establish and maintain the integrity of Fortis's financial controls and reporting systems and compliance of the financial information with appropriate accounting principles;
5. Establish and monitor processes and systems designed to ensure compliance with all applicable laws by Fortis, its officers and employees; and
6. Provide certification of financial matters, including the completeness and accuracy of Fortis's financial statements and, where necessary, matters relating to internal controls over financial reporting.

E. Employee Relations

1. Ensure that a process is in place to monitor compliance with the ethical standards to be observed by all officers and employees of Fortis, and ensure that a process is in place to monitor divergence from the ethical standards to be observed by all employees; and
2. Establish and maintain effective communications with employees of Fortis.

F. External Communication

1. Assist the Board in establishing and maintaining an effective communications policy with shareholders, the financial community, the media, the community at large and other stakeholders;

2. Ensure that Fortis contributes, and is perceived to contribute, to the well-being of the communities it serves; and
3. Serve as the principal representative and spokesperson of Fortis.

G. Board Relations

1. Keep the Board adequately informed, on a timely basis, with respect to all events and information which the CEO believes might materially affect Fortis, its performance, prospects, and image;
2. Provide the assistance necessary for the Chair of the Board and committees of the Board to carry out their duties;
3. Be entitled to attend all meetings of Board committees and provide Board committees the assistance necessary to carry out their mandates;
4. Assist the Board in reviewing and maintaining an up-to-date position description for the President and CEO of Fortis; and
5. Report to the Board on material use of outside consultants.

VP Finance and CFO

1. Advise and assist the Chairman of the Board and President and CEO in the development of strategies and goals in the financial planning and structure of the Group and in the control of the Company's business operations.
2. Keep the CEO informed of all relevant financial information and report on the financial status and performance of all companies in the group to the Board of Directors of Fortis Inc.
3. Responsible for all aspects of investor relations program, including shareholder communications and shareholder meetings.
4. Liaison with the investment community and market surveillance.
5. Ensure that procedures and systems necessary to maintain proper records and to afford adequate accounting controls and services are implemented throughout the organization.
6. Ensure that uniform financial policies and procedures are adhered to throughout the organization.
7. Ensure the development and maintenance of timely financial information systems.
8. Develop and maintain effective internal and external audit activities and recommend proper financial controls.
9. Develop and maintain suitable budgeting procedures and reviews.
10. Direct the planning and control of corporate cash requirements and major banking relationships.

11. Review capital expenditure plans and budgeting.
12. Plan and direct corporate financing.
13. Recommend guidelines for financial transactions between companies in the Fortis Group.
14. Ensure that adequate financial personnel resources are retained and appropriately assigned throughout the group.
15. Appraise and implement the necessary financial analysis of acquisition and/or divestiture decisions. As demanded, manage external financial consulting resources.
16. Maintain an awareness of changes in practice and procedure within the professional accounting field.
17. Act as CFO of subsidiary organizations when required.

General Counsel & Corporate Secretary

1. Prepare schedules, notices, agendas, resolutions, and minutes for the Boards of Directors of Fortis Inc. and selected subsidiaries and affiliates.
2. Coordination of all communications to Board of Directors.
3. Operation of share purchase plans.
4. Preparation of security documents including Management Information Circulars, Annual Information Forms and prospectuses.
5. Responsible for regulatory compliance, including annual returns to the registries of companies, dividend disclosure, filing of annual and quarterly reports, reports to stock exchanges, notices of Material Change, and Insider Reports.
6. Provide legal services to all corporations in the Fortis Group including, when necessary, engagement of outside legal services.

Treasury and Taxation Function

1. Manage equity financing, including both common and preference shares, and related prospectuses
2. Manage debt financing, including long-term debt and credit facility borrowings as well as borrowing rates
3. Maintaining the capital structure
4. Assist the VP finance and CFO appraise and implement the necessary financial analysis of acquisition and/or divestiture decisions
5. Cash management and forecasting activities – including dividend and interest payments and equity injections required by subsidiaries

Schedule A
Description of Services

6. Managing cash requirements of subsidiaries, as required, as it relates to intercompany loans and required equity injections
7. Debt covenant calculations and monitoring
8. Managing hedging activities related to US dollar debt
9. Preparation of annual corporate tax returns and related foreign affiliate corporate tax returns
10. Calculation of quarterly and annual Fortis Inc. corporate tax provision
11. Responsibility for utilization of non-capital and capital loss carryforwards of Fortis Inc. and coordination of tax utilization plans with applicable subsidiaries
12. Managing corporate reorganizations and tax planning
13. Manage tax implications of payroll and employee benefits including researching and advising on taxable benefits, CPP, EI and payroll tax issues
14. Preparing Fortis Inc. employee T4's, including preparing taxable benefit calculations
15. Coordination of Fortis Inc. corporate income tax or HST audits
16. Tax research associated with tax issues and changes in tax laws

Investor Relations Function

1. Manage analyst communications – including review of analysts' commentaries/research reports, conduct quarterly conference calls and respond to general analyst research inquiries.
2. Manage investor communications – including the preparation and delivery of investor presentations, road shows, web casts, teleconferences and one-on-one meetings with existing and prospective shareholders
3. Manage shareholder communications – including responding to general shareholder inquiries and the preparation, delivery and filing of documentation for quarterly and annual mailings (i.e., quarterly reports, annual report, proxy, management information circular and annual information form).
4. Coordination and preparation of Fortis's Annual Meeting including preparation of the Executive's presentation to shareholders.
5. Coordination of solicitation of proxies.
6. Preparation of Quarterly Investor Relations Reports to the Board of Directors.
7. Preparation, coordination and dissemination of media releases to newswire agencies, websites and distribution lists.
8. Monitor and maintain Fortis's media coverage.
9. Develop, host and maintain the Fortis Inc. website.

10. Monitor the websites of the Fortis Group of Companies.
11. Monitor and research the market and investment community through Bloomberg, ThomsonOne, TSX, etc.
12. Manage and maintain the Fortis Inc. dividend reinvestment and share purchase plans (i.e., Dividend Reinvestment and Share Purchase Plan, Consumer Share Purchase Plan and Employee Share Purchase Plan)
13. Coordination and preparation of Fortis's consolidated Strategic Issues document and presentation to the Board of Directors.
14. Preparation of Fortis's consolidated Business Plan presentation to the Board of Directors.
15. Manage public relations – including conference participation, the preparation of Executive speeches and responding to media inquiries.

Financial Reporting Function

1. Preparation of quarterly and annual consolidated financial statements and notes to the financial statements and the related management discussion and analysis
2. Preparation of monthly internal consolidated and non-consolidated financial statements of Fortis Inc.
3. Coordination with external auditors of the annual audit of the consolidated financial statements and quarterly review of consolidated financial statements.
4. Preparation and analysis of financial information required for prospectus and other security filing documents
5. Preparation of the Annual Information Form and providing assistance in the preparation of the Management Information Circular
6. Assisting in responding to reviews and queries of securities regulators related to continuous disclosure reporting
7. Research current and emerging accounting policies in Canada, US and that related to IFRS
8. Coordinate consistent accounting policy treatment across the Fortis group of companies related to presentation, alternative treatments and resolution of complex accounting policies to ensure compliance with GAAP
9. Oversight and coordination of conversion to International Financial Reporting Standards across the Fortis Group of companies – including coordinating research, organizing working group and steering committee sessions to discuss and resolve ongoing issues and progress, monitoring and directing progress of the overall conversion and coordination with the external auditors

10. Coordination and preparation of consolidated Business Plan document and reporting to the Board of Directors
11. Preparation of quarterly forecasted consolidated earnings and EPS
12. Responsibility for maintaining internal controls over financial reporting at Fortis Inc.

Internal Audit Function

1. Performs internal audit activities at Fortis Inc including:
 - a. coordinating the Fortis Inc. CEO and CFO internal controls certification process through maintenance of financial process documentation and annual evaluation of internal controls over financial reporting and disclosure controls. Involves ensuring that all Fortis subsidiaries are fully compliant in order to support certification by the parent company;
 - b. performing quality assurance reviews of Fortis Inc. continuous disclosures documents prior to public filing;
 - c. performing annual reviews of Fortis Inc. statutory obligations and executive expenditures;
 - d. reporting internal audit activities to the Fortis Inc. Audit Committee on a regular basis; and
 - e. coordinating compliance with corporate governance requirements
2. Provides oversight over the internal audit function at the Fortis subsidiary companies to:
 - a. ensure corporate-wide consistency in the application of internal audit methodologies and practices and in the reporting of audit results to management and audit committees;
 - b. coordinate annual audit program planning to ensure critical risk areas are addressed;
 - c. coordinate corporate-wide audit projects;
 - d. identify opportunities for audit resource and information sharing between the subsidiary internal audit groups;
 - e. oversees audit program planning and reviews internal audit reports to management and Audit Committees for these subsidiaries with limited internal audit resources;
3. Administers and monitors reports of allegations of suspected improper conduct or wrong doing via Fortis's ethics reporting system
4. Development of a company-wide Enterprise Risk Management program approach

Board of Directors

The Board of Directors of Fortis Inc. is responsible for the stewardship of Fortis. The Board will supervise the management of the business and affairs of Fortis and, in particular, will:

A. Strategic Planning and Risk Management

1. Adopt a strategic planning process and approve, on an annual basis, a strategic plan for Fortis which considers, among other things, the opportunities and risks of the business;
2. Monitor the implementation and effectiveness of the approved strategic and business plan;
3. Assist the CEO in identifying the principal risks of Fortis's business and the implementation of appropriate systems to manage such risks;

B. Management and Human Resources

1. Select, appoint and evaluate the CEO, and determine the terms of the CEO's employment with Fortis;
2. In consultation with the CEO, appoint all officers of Fortis and determine the terms of employment, training, development and succession of senior management (including the processes for appointing, training and evaluating senior management);
3. To the extent feasible, satisfy itself as to the integrity of the CEO and other officers and the creation of a culture of integrity throughout Fortis;

C. Finances, Controls and Internal Systems

1. Review and approve all material transactions including acquisitions, divestitures, dividends, capital allocations, expenditures and other transactions which exceed threshold amounts set by the Board (including equity contributions to subsidiaries to support the investment in rate base to serve customers);
2. Evaluate Fortis's internal controls relating to financial and management information systems;

D. Communications

1. Adopt a communication policy that seeks to ensure that effective communications, including statutory communication and disclosure, are established and maintained with employees, shareholders, the financial community, the media, the community at large and other security holders of Fortis;

2. Establish procedures to receive feedback from stakeholders of Fortis and communications to the independent directors as a group;

E. Governance

1. Develop Fortis's approach to corporate governance issues, principles practices and disclosure;
2. Establish appropriate procedures to evaluate director independence standards and allow the Board to function independently of management;
3. Appoint from among the directors an audit committee and such other committees of the Board as deemed appropriate and delegate responsibilities thereto in accordance with their mandates;
4. Develop and monitor policies governing the operation of subsidiaries through exercise of Fortis's shareholder positions in such subsidiaries;
5. Develop and monitor compliance with Fortis's code of conduct;
6. Set expectations and responsibilities of directors, including attendance at, preparation for and participation in meetings; and
7. Evaluate and review the performance of the Board, each of its committees and its members.

THIS AMENDING AGREEMENT is made effective January 1, 2012 (the "Effective Date").

BETWEEN:

FORTISBC ENERGY (WHISTLER) INC.
(formerly Terasen Gas (Whistler) Inc.)
16705 Fraser Highway
Surrey, British Columbia, V4N 0E8

(hereinafter referred to as "FEW")

OF THE FIRST PART

AND:

FORTISBC HOLDINGS INC.
(formerly Terasen Inc.)
10th Floor, 1111 West Georgia Street
Vancouver, British Columbia, V6E 4M4

(hereinafter referred to as "FHI")

OF THE SECOND PART

WHEREAS:

- A. FEWI and FHI entered into an agreement dated as of January 1, 2010 (the "Agreement"); and
- B. The parties are now desirous of amending the Agreement on the following terms and conditions.

NOW THEREFORE, in consideration of the mutual promises herein and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the parties hereby covenant and agree as follows:

- 1. In this Amending Agreement, capitalized words and expressions used shall have the same meanings as are respectively assigned to them in the Agreement.
- 2. All references to "Terasen Gas (Whistler) Inc." and "TGW" shall be deleted and replaced with "FortisBC Energy (Whistler) Inc." and "FEW" respectively.
- 3. All references to "Terasen Inc." and "Terasen" shall be deleted and replaced with "FortisBC Holdings Inc." and "FHI" respectively.

4. Clause 3.1 shall be deleted and replaced with the following:


“3.1 Compensation for Services and Shared Costs

FEW agrees to pay to FHI for the Services to be provided and for a proportionate share of the common expenses incurred by FHI such as shareholder expenses and director compensation the amount of \$48,500 per annum for the period of January 1, 2012 to December 31, 2012 on a take-or-pay basis and the amount of \$50,200 per annum for the period of January 1, 2013 to December 31, 2013 on a take-or-pay basis.”

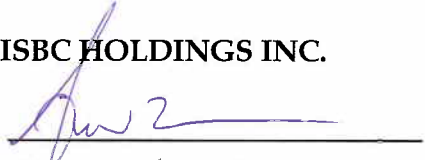
5. This Amending Agreement shall be read together with the Agreement as modified.
6. This Amending Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the parties agree to attorn to the jurisdiction of the courts of British Columbia.
7. Words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and neuter genders; and words importing persons include individuals, sole proprietors, corporations, partnerships and unincorporated associations.
8. This Amending Agreement may be executed in counterparts with the same effect as if all parties had signed the same document. All counterparts will be construed together and will constitute one agreement.
9. All unamended terms and conditions shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amending Agreement effective the Effective Date.

FORTISBC ENERGY (WHISTLER) INC.

By: 
Title: Roger Dall'Antonia
Vice President, Finance & CFO

FORTISBC HOLDINGS INC.

By: 
Title: Scott Thomson
Executive Vice President, Finance,
Regulatory & Energy Supply

Attachment 1.2

PROPOSED FORM OF AGREEMENT FOR AMALCO

THIS AGREEMENT is made effective January 1, ~~2010~~2013 (the "Effective Date").

BETWEEN:

~~TERASEN GAS~~FORTISBC ENERGY INC., a corporation formed under the laws of British Columbia having an office at 16705 Fraser Highway, Surrey, British Columbia

(~~"TGI"~~FEI)

AND:

~~TERASEN~~FORTISBC HOLDINGS INC., a corporation formed under the laws of British Columbia, having an office at 10th Floor, 1111 West Georgia Street, Vancouver, British Columbia

(~~"Terasen"~~FHI)

WHEREAS

- A. FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. were amalgamated into FEI;
- B. ~~A. TGI~~FEI is the owner and operator of the natural gas transmission and distribution facilities in British Columbia serving the communities of the Lower Mainland, Vancouver Island, Whistler and the Interior;
- C. ~~B. TGI~~FEI maintains ~~its~~ administrative offices ~~in the City of Surrey~~throughout British Columbia; and
- D. ~~C. TGI~~FEI wishes to retain ~~Terasen~~FHI to provide certain professional and management services to it in respect to the ownership and operations of its transmission pipeline and distribution business on the terms and conditions set out herein.

WITNESSES THAT, in consideration of the covenants and agreements herein contained, the parties covenant and agree as follows:

PART 1

INTERPRETATION

1.1 Definitions

In and for the purpose of this Agreement

- (a) “**Applicable Laws**” means any and all Laws in force and effect from time to time and applicable to the Facilities and the performance of the Services hereunder;
- (b) “**Force Majeure**” has the meaning assigned to such term in Section 9.1;
- (c) “**Governmental Authority**” means any domestic or foreign, national, federal, provincial, state, municipal or other local government or body and any division, agent, commission, board, or authority of any quasi-governmental or private body exercising any statutory, regulatory, expropriation or taxing authority under the authority of any of the foregoing, and any domestic, foreign, international, judicial, quasi-judicial, arbitration or administrative court, tribunal, commission, board or panel acting under the authority of any of the foregoing;
- (d) “**Laws**” means all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules, regulations and municipal by-laws, whether domestic, foreign or international, any judgements, orders, writs, injunctions, decision, rulings, decrees, and awards of any Governmental Authority, and any published policies or guidelines of any Governmental Authority and including, without limitation, any principles of common law and equity,
- (e) “**Person**” includes any individual, corporation, body corporate, partnership, joint venture, association, trust, estate, incorporated or unincorporated association, any government or governmental authority however designated or constituted or any other entity of whatever nature,
- (f) “**Services**” means the professional and management services to be provided to ~~TGI~~FHI by ~~Terasen~~FHI as more particularly described in Section 2.1.

1.2 Schedules

Schedule "A" is attached to, and is incorporated by reference into, this Agreement.

1.3 Interpretation

In and for the purpose of this Agreement

- 1) this “Agreement” means this agreement as the same may from time to time be modified, supplemented or amended in effect,
- 2) any reference in this Agreement to a designated “Article”, “section” or other subdivision is to the designated Article, section or other subdivision of this Agreement,
- 3) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, section or other subdivision,

- 4) the headings are for convenience only and do not form a part of this Agreement and are not intended to interpret, define or limit the scope, extent or intent of this Agreement,
- 5) the singular of any term includes the plural, and vice versa, the use of any term is generally applicable to any gender and, where applicable, a corporation, the word “or” is not exclusive and the word “including” is not limiting (whether or not non-limiting language (such as “without limitation” or “but not limited to” or words of similar import) is used with reference thereto), and
- 6) each word and phrase used herein and not otherwise defined herein, but which has an accepted meaning in the custom and usage of the Western Canadian oil and gas transportation industry, shall have such accepted meaning.

1.4 Governing Law

Subject to Section 9.1, this Agreement will be interpreted and the rights and remedies of the parties hereto will be determined in accordance with the laws of the Province of British Columbia.

1.5 Prior Agreements

The parties agree that any prior agreements between the parties pertaining to the subject matter hereof, including the agreement ~~effective January 1, 2004 and any amendments, including the amending agreement effective December 31, 2006,~~between FEI and FHI dated January 1, 2010 and amended on January 1, 2012, agreement between FortisBC Energy (Vancouver Island) Inc. and FHI, dated January 1, 2010 and amended on January 1, 2012 and agreement between FortisBC Energy (Whistler) Inc. and FHI dated January 1, 2010 and amended on January 1, 2012 are hereby cancelled and of no further effect.

PART 2 SERVICES

2.1 Services

~~Terasen~~FHI hereby agrees to provide to ~~TGI~~FEI those professional and management services described in Schedule "A" which Services shall include certain professional and management services provided to ~~Terasen~~FHI by its parent company, Fortis Inc., which professional and management services also benefit ~~TGI~~FEI.

2.2 No Obligation to Provide Additional Services

~~Terasen~~FHI shall not perform, and ~~Terasen~~FHI shall have no obligation to perform, any services on behalf of ~~TGI~~FEI other than as set out in this Agreement or any similar agreement.

2.3 Consultation with ~~TGI~~FEI

~~Terasen~~FHI will consult with ~~TGI~~FEI as required in connection with the performance of the Services.

2.4 Independent Contractor

Nothing in this Agreement shall be construed to create or constitute a partnership or relationship of joint venture between ~~Terasen~~FHI and ~~TGI~~FEI. In performing the Services, ~~Terasen~~FHI shall be an independent contractor. ~~Terasen~~FHI employees shall not be considered employees of ~~TGI~~FEI for any purpose.

2.5 Compliance

In performing the Services, ~~Terasen~~FHI will comply with all Applicable Laws.

PART 3 COMPENSATION

3.1 Compensation for Services and Shared Costs

~~TGI~~FEI agrees to pay to ~~Terasen~~FHI for the Services to be provided and for a proportionate share of the common expenses incurred by ~~Terasen~~FHI such as shareholder expenses and director compensation the amount of \$~~9,022,000~~12,279,413 per annum on a take-or-pay basis.

3.2 Amendment to Costs

The amounts set out in Section 3.1 may be amended annually by agreement between the parties to reflect any material change in the cost of providing the services or in the business operations of ~~TGI~~FEI and to reflect annual inflationary adjustments. Any services to be provided that are not contemplated under this Agreement will be subject to additional compensation as agreed between the parties and form an amendment to this agreement in accordance with Section 10.3 below.

3.3 Invoicing

~~Terasen~~FHI will invoice ~~TGI~~FEI in respect of the Services no later than the 25th day following the end of the month in which such Services are provided or in such other manner as the parties may agree.

3.4 Payment

~~TGI~~FEI will, within thirty (30) days of receipt of an invoice from ~~Terasen~~FHI, pay to ~~Terasen~~FHI the amount specified in such invoice. Any amount to be remitted by ~~TGI~~FEI to ~~Terasen~~FHI and not remitted on or before the date on which it is due shall thereafter bear interest. A late payment charge of 1.5% per month (18% per annum) shall be payable to ~~Terasen~~FHI on any unpaid balance after thirty (30) days of the date of invoice.

3.5 Taxes

Notwithstanding any other provision of this Agreement, the amounts paid or payable by one party to the other in accordance with this Agreement are exclusive of any value added taxes

or sales taxes, which are now, or may become during the term of this Agreement, applicable to the provision of the Services. Each party shall pay to the other party any value added taxes or sales tax which one party is obligated to collect from the other at the time such taxes are due and payable.

PART 4

INDEMNIFICATION AND LIMITATION OF LIABILITY

4.1 Indemnity by ~~TGIFEI~~

Subject to Section 4.4, ~~TGIFEI~~ will indemnify, defend and hold harmless ~~TerasenFHI~~ and its directors, officers, employees, agents and contractors, from and against any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award, and cost or expense (including reasonable legal fees and disbursements) which they may suffer or incur arising directly or indirectly, in whole or in part, in connection with this Agreement or with ~~TerasenFHI~~'s provision of the Services, except and to the extent, if any, that the same results from or arises out of the wilful misconduct or gross negligence of ~~TerasenFHI~~.

4.2 Limitation of Liability of ~~TerasenFHI~~

Neither ~~TerasenFHI~~ nor any of its directors, officers, employees, agents or contractors will be liable to ~~TGIFEI~~ for any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award, or cost or expense (including reasonable legal fees and disbursements) which ~~TGIFEI~~ may suffer or incur arising directly or indirectly, in whole or in part, in connection with this Agreement or with ~~TerasenFHI~~'s provision of the Services, except and to the extent, if any, that the same results from or arises out of the wilful misconduct or gross negligence of ~~TerasenFHI~~.

4.3 Indemnity by ~~TerasenFHI~~

Subject to Section 4.4, ~~TerasenFHI~~ will indemnify, defend and hold harmless ~~TGIFEI~~ from and against any claim, demand, loss, liability, action, lawsuit or other proceeding, judgement or award and cost or expense (including reasonable legal fees and disbursements) which ~~TGIFEI~~ may suffer or incur as a result of any act or omission or error of judgement as a result of which ~~TerasenFHI~~ is adjudged to have been guilty of wilful misconduct or gross negligence.

4.4 Consequential Losses

Neither party hereto will be liable to the other, whether based in contract, tort (including negligence and strict liability), under warranty or otherwise for special indirect, incidental or consequential loss or damage whatsoever, including without limitation, loss of use of equipment or facilities and loss of profits or revenues.

PART 5
COVENANTS OF ~~TGI~~FHI

5.1 Covenants by ~~TGI~~FHI

~~TGI~~FHI covenants and agrees to:

- (a) fully co-operate with ~~Terasen~~FHI in respect of all matters contemplated by or within the scope of this Agreement; and
- (b) pay on or before the due date thereof all amounts payable by ~~TGI~~FHI to ~~Terasen~~FHI or any other Person pursuant to or as contemplated by this Agreement.

PART 6
REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of ~~Terasen~~FHI

~~Terasen~~FHI hereby represents and warrants to ~~TGI~~FHI as representations and warranties which are true as at the date hereof and which will be true during the term of ~~Terasen~~FHI's appointment hereunder:

- (a) ~~Terasen~~FHI is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and ~~Terasen~~FHI has full power and authority to perform its obligations hereunder;
- (b) this Agreement constitutes a valid and binding obligation of ~~Terasen~~FHI enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defences and to the discretion of the court before which any proceeding therefore may be brought; and
- (c) ~~Terasen~~FHI possesses all of the skills and personnel required to provide the Services.

6.2 Representations and Warranties of ~~TGI~~FHI

~~TGI~~FHI hereby represents and warrants to ~~Terasen~~FHI as representations and warranties which are true as at the date hereof and which will be true during the term of ~~Terasen~~FHI's appointment hereunder

- (a) ~~TGI~~FHI is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and ~~TGI~~FHI has full power and authority to perform its obligations hereunder; and

- (b) this Agreement constitutes a valid and binding obligation of ~~TGI~~FHI enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defences and to the discretion of the court before which any proceeding therefore may be brought.

PART 7

DURATION, TERMINATION AND DEFAULT

7.1 Effective Date and Term

This Agreement will be effective from January 1, ~~2010~~2013 and will end on December 31, ~~2010~~2013, unless earlier terminated pursuant to the provisions hereof. Thereafter this Agreement will automatically be renewed for further one (1) year terms subject to Section 7.2 below.

7.2 Termination

~~Terasen~~FHI's appointment hereunder may be terminated at any time:

- (a) by ~~Terasen~~FHI giving ~~TGI~~FHI six (6) months' written notice of such termination:
- (i) if ~~TGI~~FHI becomes insolvent, admits in writing its inability to pay its debts as they become due or commits or threatens to commit an act of bankruptcy or if ~~TGI~~FHI makes a general assignment for the benefit of creditors, or any proceeding is instituted by or against ~~TGI~~FHI seeking to adjudicate it a bankrupt or an insolvent or seeking the dissolution, winding-up or liquidation of ~~TGI~~FHI or a reorganization, arrangement, moratorium, adjustment, compromise, readjustment of debt or composition of it or its debts under any law relating to bankruptcy, insolvency, moratorium, reorganization or relief of debtors or seeking the appointment of a receiver, receiver-manager, interim receiver, trustee, custodian, liquidator or other similar official or Person for it, or ~~TGI~~FHI consents by answer, acquiescence or otherwise to the institution of any such proceeding against it; or
- (ii) in the event ~~TGI~~FHI breaches this Agreement and fails to cure such breach within thirty (30) days after receipt by ~~TGI~~FHI of written notice thereof from ~~Terasen~~FHI or, if such breach is not capable of being cured within such thirty (30) day period, fails to commence in good faith the curing of such breach forthwith upon receipt of written notice thereof from ~~Terasen~~FHI and to continue to diligently pursue the curing of such breach thereafter until cured and, in either case, the allegation of ~~Terasen~~FHI that ~~TGI~~FHI is in breach is conceded to be correct by ~~TGI~~FHI or found to be correct by an arbitrator pursuant to section 8.1;
- (b) by ~~TGI~~FHI giving ~~Terasen~~FHI six (6) months' written notice of such termination:

- (i) if TerasenFHI becomes insolvent, admits in writing its inability to pay its debts as they become due or commits or threatens to commit an act of bankruptcy or if TerasenFHI makes a general assignment for the benefit of creditors, or any proceeding is instituted by or against TerasenFHI seeking to adjudicate it a bankrupt or an insolvent or seeking the dissolution, winding-up or liquidation of TerasenFHI or a reorganization, arrangement, moratorium, adjustment, compromise, readjustment of debt or composition of it or its debts under any law relating to bankruptcy, insolvency, moratorium, reorganization or relief of debtors or seeking the appointment of a receiver, receiver-manager, interim receiver, trustee, custodian, liquidator or other similar official or Person for it, or TerasenFHI consents by answer, acquiescence or otherwise to the institution of any such proceeding against it; or
- (ii) in the event TerasenFHI breaches this Agreement and fails to cure such breach within thirty (30) days after receipt by TerasenFHI of written notice thereof from TGIFEI or, if such breach is not capable of being cured within such thirty (30) day period, fails to commence in good faith the curing of such breach forthwith upon receipt of written notice thereof from TGIFEI and to continue to diligently pursue the curing of such breach thereafter until cured and, in either case, the allegation of TGIFEI that TerasenFHI is in breach is conceded to be correct by TerasenFHI or found to be correct by an arbitrator pursuant to Section 8.1.

7.3 Duties Upon Termination

Upon expiry or termination of this Agreement for any reason, TerasenFHI will have no further obligations under Article 2 and will promptly deliver to TGIFEI any material documents in the possession of TerasenFHI pertaining to the business of TGIFEI.

7.4 Compensation of TerasenFHI on Expiry or Termination

Within one (1) month after the expiry or termination of this Agreement, TGIFEI will pay to TerasenFHI all amounts owing to TerasenFHI hereunder (including any amount owing on account of the fees provided for in Article 3 calculated up to the date of expiry or termination); provided that for the purposes of this section, the fees provided for in Article 3 which are payable to TerasenFHI on a monthly, annual or other periodic basis will be deemed to accrue due and be payable on a daily basis.

PART 8 ARBITRATION

8.1 Arbitration

For purposes of Section 7.2, any dispute between TerasenFHI and TGIFEI regarding any allegation that TGIFEI or TerasenFHI is in breach of this Agreement, may be submitted to and settled by arbitration in accordance with the provisions of this Section 8.1. Arbitration proceedings may be commenced by the party desiring arbitration giving notice to the other party specifying the matter to be arbitrated and requesting arbitration thereof. Such arbitration will be

carried out by a single arbitrator and in accordance with the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution from time to time in force and effect. If the parties are unable to agree upon an arbitrator within ten (10) days after delivery of such notice, either of them may make application to court for appointment of an arbitrator. In the event of the failure, refusal or inability of an arbitrator to act, or continue to act, a new arbitrator will be appointed, which appointment will be made in the same manner as provided above. The decision of an arbitrator appointed as under this Section 8.1 will be final and binding upon the parties and not subject to appeal. The arbitrator will have the authority to assess the costs of the arbitration against either or both of the parties, provided that each party will bear its own witness and counsel fees. The parties will fully co-operate with the arbitrator and provide all information reasonably requested by the arbitrator. Judgement on the award of the arbitrator may be entered in any court having jurisdiction over the party against which enforcement of the award is being sought. Each party hereby irrevocably submits and consents to the jurisdiction of any such court for the purpose of rendering a judgement of any such award.

PART 9

FORCE MAJEURE

9.1 Force Majeure

In and for the purposes of this Agreement, “Force Majeure” shall mean anyone or more of the following events:

- (a) an act of God;
- (b) a war, revolution, insurrection, riot, blockade, or any other unlawful act against public order or authority;
- (c) a strike, lockout or other industrial disturbance;
- (d) a storm, fire, flood, explosion, earthquake or lightning;
- (e) a governmental restraint; or
- (f) any other event (whether or not of the kind enumerated in 9.1(a) to (e) above) which is not reasonably within the control of the party hereto claiming suspension of its obligations hereunder due to Force Majeure.

9.2 Performance Prevented by Force Majeure

If either party hereto is prevented by Force Majeure from carrying out any of its obligations hereunder, the obligations of such party, insofar as its obligations are affected by Force Majeure, shall be suspended while (but only so long as) Force Majeure continues to prevent the performance of such obligations. Any party prevented from carrying out any

obligation by Force Majeure shall promptly give the other party hereto notice of Force Majeure including reasonably full particulars thereof.

9.3 Remedy of Force Majeure

A party claiming suspension of its obligations by reason of Force Majeure shall promptly remedy the cause and effect of Force Majeure described in the notice given pursuant to Section 9.2 insofar as such party is reasonably able so to do, provided that the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly in the discretion of the party hereby claiming suspension of its obligations hereunder by reason thereof; and that such party shall not be required to accede to the demands of its opponents in any strike, lockout or industrial disturbance solely to remedy promptly Force Majeure thereby constituted.

9.4 Lack of Funds Not Force Majeure

Notwithstanding anything contained in this Article 9, lack of finances shall not be considered Force Majeure nor shall Force Majeure suspend any obligation for the payment of money due hereunder.

PART 10 MISCELLANEOUS

10.1 Notice

Any notice, direction or other communication required or permitted to be given hereunder must be in writing and will be sufficiently given if delivered or sent by facsimile to the party from whom it is intended at the address of such party set out below. Any notice, direction or other communication so given will be deemed to have been given and to have been received on the day of delivery, if delivered, or on the day of sending if sent by facsimile (provided such day of delivery or sending is a Business Day and, if not, then on the first Business Day thereafter). Each party hereto may change its address for notice by notice given in the manner aforesaid.

10.2 Assignment

Neither party hereto may assign this Agreement or any of its rights hereunder without the prior written consent of the other party, such consent not to be unreasonably withheld.

10.3 Amendments

Any amendment or modification of this Agreement must be in writing and signed by the party against which such amendment or modification is sought to be enforced.

10.4 Severability

If any term or condition of this Agreement or the application hereof is determined judicially or otherwise to be invalid or unenforceable, the remainder of this Agreement and the application thereof shall not be affected and shall remain in full force and effect.

[Execution page follows]

10.5 Entire Agreement

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof. There are no representations, warranties, covenants or agreements between the parties in connection with such subject matter except as specifically set forth or referred to in this Agreement.

10.6 Counterparts, Facsimile

This Agreement may be executed by the execution of one or more counterparts of the execution page, which will be taken together and constitute the execution page, and one or more of such counterparts may be delivered by facsimile transmission.

IN WITNESS WHEREOF, the parties hereto have executed this ~~Agreement on June 24, 2009.~~
on the Effective Date.

~~TERASEN GAS~~ FORTISBC ENERGY INC.

By: _____

Title: _____

~~TERASEN~~ FORTISBC HOLDINGS INC.

By: _____

Title: _____

Schedule “A”

Description of Services

SERVICES PROVIDED BY TERASEN FHI

General Governance & Oversight Services

In addition to the specific services described below, TGI FHI receives the benefit of the expert advice and experience of Terasen FHI executives, who spend their time working on various committees including the Executive Committee (comprised of the CEO and senior vice presidents of Terasen FHI as well as the heads of each operating company and the General Counsel), the Risk Management Committee and the Operating Committee.

Treasury and Cash Management

- (1) Execute Financings
 - a. Develop financing plans
 - i. Provide assessments of financing alternatives
 - ii. Determine timing, term, rate, structure
 - b. Obtain BCUC approvals
 - c. Execute financings
 - i. Negotiation, preparation of legal documentation
 - ii. Prepare disclosure documentation
 - iii. Investor presentations
 - iv. Due diligence process
 - v. Deal execution
- (2) Cash Management
 - a. Prepare and maintain short-term cash forecasting
 - b. Execute short-term borrowing
 - i. Commercial paper issuance
 - ii. Bank borrowing
 - c. Execute short-term investing of excess funds
 - d. Negotiation of letters of credit
 - e. Execution of manual wire transfers
 - f. Establish and maintain internet based banking platform for cp issuance, fund transfers and reporting

- g. Payment of interest, principal and fees on outstanding debt
- (3) Arrange operating credit facilities
 - a. Negotiate credit agreements
 - i. Determine terms and conditions
 - ii. Negotiate pricing and term
 - b. Manage syndication process
 - c. Obtain BCUC approval
- (4) Negotiate bank-service fees
- (5) Treasury-related controls and compliance
 - a. Develop and monitor control and compliance procedures for key Treasury procedures
- (6) Compliance reporting
 - a. Prepare and file required compliance reports with third parties
 - i. Lenders, securities commissions, BCUC
- (7) Hedging of interest rate and foreign exchange risks
 - a. Develop financial hedging plans as required
 - b. Negotiation of required documentation
 - c. Execution of derivative transaction
- (8) Prepare Derivatives Policies and Procedures;
- (9) Counterparty Credit Risk Management;
 - a. Review credit worthiness of counterparties
 - b. Determine appropriate credit limits for counterparties
 - c. Determine requirement for credit support
 - d. Negotiate appropriate credit support documentation
- (10) Interest rate and foreign exchange rate forecasting;
- (11) Regulatory submissions with respect to ROE, capital structure and financing matters;
- (12) Capital structure review and maintenance; and
- (13) Provide education and related materials from training courses and seminars attended by Treasury staff.

Investor Relations

- (1) Manage the Rating Agency Process;
- (2) Maintain investment banker and debt investor relationships;
- (3) Maintain banking and money market dealer relationships;
- (4) Investor and Shareholder communication;
- (5) Assist in preparation of annual/quarterly disclosure documents; and
- (6) Prepare annual report.

Corporate Development and Capital Management

- (1) Manage the annual strategic planning cycle;
- (2) Preparation and maintenance of the five year forecasting model used for strategic planning process and in the annual budgeting process;
- (3) Provide financial analysis and evaluation of new projects and new initiatives;
- (4) Manage the acquisition and divestiture activity;
- (5) Provide project management and/or due diligence support where required; and
- (6) Contract negotiation in support of business development initiatives.

External Reporting and Consolidation

- (1) Consolidation and preparation of monthly financial statements for ~~TGI~~FEI and preparation of quarterly interim reports and annual audited financial statements;
- (2) Preparation of monthly reporting journal entries (consolidation, tax, accruals, etc), analytical reviews of accounts and monthly financial review package
- (3) Preparation of analysis required from prospectus and other security filing documents as requested by Treasury Department and senior management;
- (4) Preparation of quarterly and annual report to the Audit Committee;
- (5) Compilation of information in response to a variety of enquiries from operations, senior management and external bodies, such as the BCUC, external auditors and government agencies;
- (6) Research current and emerging accounting policies in Canada, the US and under International Financial Reporting (“IFRS”);

- (7) Direct response to accounting authorities in both Canada, the US and IFRS with respect to exposure drafts and pronouncements;
- (8) Project lead for ~~Terasen~~FHI on the implementation of IFRS;
- (9) Provide accounting policy advice for such issues as consistency of presentation, alternative treatments and resolution of complicated accounting policies and ensure compliance with General Accepted Accounting Principles;
- (10) Accounting advice and assistance as required.

Taxation Services

- (1) Prepare year-end and quarterly tax provisions including preparing tax calculations and working papers for current tax expense, providing information for the calculation of FIT expense and reviewing FIT calculations, preparing or reviewing the necessary journal entries, assisting auditors with external audit review, preparing tax disclosures to the financial statements and analyzing Balance Sheet tax accounts;
- (2) Prepare tax returns and all tax compliance work for ~~TGI~~FEI, including identification and research of technical issues, filing necessary elections, agreements and information returns, requesting post filing adjustments, and reviewing assessments and interest calculations;
- (3) Calculate corporate tax instalments and arrange payment;
- (4) Prepare or review tax information and calculations in support of rate cases, annual reviews and annual reports to the BCUC; participate in regulatory working groups to provide information and guidance on tax issues;
- (5) Provide tax support for planning and forecasting groups; provide a strategic tax perspective into planning processes to optimize tax advantages for the Gas companies;
- (6) Provide leadership, guidance and consultation to finance and operations leaders on income tax and commodity tax issues; find tax solutions to complex business issues;
- (7) Monitor, identify and research tax issues resulting from tax law changes, accounting changes (such as IFRS) or business opportunities to make sound recommendations to management;
- (8) Interpret impact of industry issues on tax; participate in industry group tax committees such as Canadian Gas Association and make submissions to government bodies on issues relevant to the industry;
- (9) Monitor HST, GST and PST (including Social Services Tax, Carbon Tax, ICE levy), including identifying issues and researching technical enquiries, coordinating filing of necessary elections, responding to queries on the application of HST, GST or PST to particular transactions, training employees on the application of commodity taxes to

revenues, disbursements and transactions, advising employees of commodity tax changes; advising in the implementation of new taxes;

(10) Monitor tax implications of payroll and employee benefits including advising on taxable benefits and related calculations, payroll tax issues, and pension plan tax issues;

(11) Coordinate tax audits (federal income tax, LCT, [HST](#), GST , various PST), provide auditors access to data, research and provide answers to auditor's requests and negotiable beneficial resolution of proposed adjustments;

(12) Prepare and file Notices of Objection and Appeal letters and coordinate legal appeals with internal and external counsel; negotiate with tax authorities with a view to minimizing ultimate liabilities;

(13) Establish and monitor tax department controls and ensure adherence to tax policies;

(14) Provide ongoing training, guidance and support to tax group employees to enhance their performance levels and career development.

Internal Audit

(1) Develop, plan and conduct audits/reviews of areas or processes of particular interest or of identified risk and prepare internal audit reports;

(2) Conduct annual risks assessment process in conjunction with the Enterprise Risk Management group;

(3) Monitor and evaluate the effectiveness and efficiency of controls throughout the year and summarize results to the Audit Committee of the Board of Directors;

(4) Ensure that the ~~TGIF~~[FEI](#) Code of Business Conduct compliance management is effective by conducting the annual compliance reviews and acting as a resource when issues arise with respect to the Code of Business Conduct;

(5) Monitor the Whistle Blower Ethics line and address issues as they arise;

(6) Participate on various committees in the capacity of ex-officio to provide oversight and value add;

(7) Undertake work at the request of the BC Utilities Commission regarding the activities and operations of ~~TGIF~~[FEI](#).

(8) Provide annual reports summarizing Internal Audit activities and findings to the BCUC as well as other reports of regulatory compliance;

(9) Conduct post implementation reviews of major capital projects and acquisitions and report results to the Audit Committee;

(10) Provide assistance to the external auditors in completing their external financial audits; and

- (11) Coordinate activities of various internal and external assurance providers to ensure proper coverage and minimize duplication of efforts.

Risk Management and Insurance Services

- (1) Ensure compliance with the TSX requirements on risk management by ensuring that the Board of Directors understand the principal risks of all aspects of business that ~~TGI~~FEI is engaged in, and ensuring that there are systems in place that effectively manage and monitor those risks with a view to the long term viability of the ~~TGI~~FEI;
- (2) Arrange for coverage based on assessed potential risk of damage or loss in asset values, disruptions in operations or potential legal liabilities;
- (3) Advise dollar value of coverage required, most appropriate coverage and proper services required;
- (4) Provide a single insurance program to achieve economies of scales and cost reductions;
- (5) Work with broker in negotiating renewals and adequacy of coverage;
- (6) Ensure competitive terms and consider all available options;
- (7) Establish procedures and provide assistance and guidance in the reporting, handling, compiling, negotiating and settlement of claims;
- (8) Provide mechanism for appropriate and timely local resolution of third party damage claims below a given threshold and payment of same;
- (9) Conduct of review of contractual agreements to protect ~~TGI~~FEI from unnecessary assumption of risks;
- (10) Coordinate Risk Management's group participating in industry associations and education seminars;
- (11) Establish loss control standards to help ensure consistent and high degree of loss; prevention in all operating units and minimize impact when they do occur;
- (12) Ensure familiarity with policies and wordings;
- (13) Encourage and establish procedures for loss control;
- (14) Administer Certificates of Insurance;
- (15) Preparation of management reports;
- (16) Provide additional insurance for individual construction projects, as required; and
- (17) Provide bonding as required.

Corporate Secretary's Office

- (1) Ensure all continuous disclosure and governance activities required by external regulators and third parties are appropriately carried out, including Securities filings and BC Business Corporations Act requirements; and
- (2) Manage the relationship and corporate activities of the Board of Directors.
- (3) Prepare materials for Board of Directors and minutes.
- (4) Track and maintain corporate records.
- (5) Assist in preparation of corporate documentation and providing corporate information to internal and external parties.

Legal Department

- (1) Provide all legal services to ~~TGIF~~FEI other than those outsourced to outside legal counsel;
- (2) Direct the provision and management of outside legal services, primarily litigation, to ~~TGIF~~FEI;
- (3) Provide management of all litigation;
- (4) Provide legal counsel on regulatory, environmental, marketing, employment, and intellectual property;
- (5) Ensure legal compliance for press release, financial reports and other disclosure documents;
- (6) Advise ~~TGIF~~FEI on legal issues that may arise including claims, actions, real estate and other property transactions, and contracts, including the purchase of goods and services by ~~TGIF~~FEI; and
- (7) Provide general miscellaneous legal support and advice to management.

Human Resources Compensation and Planning

- (1) Consult with management on the maintenance, development and governance of employees and retiree benefit programs, pension plans, employee savings plans and employee assistance programs;
- (2) Provide assistance on annual wage and salary increases, providing labour market comparisons, establishing and implementing ad hoc increases for long term disability and pension recipients;

- (3) Ensure that employment practices are in compliance with applicable regulations and legislation through development and administration of appropriate corporate policies and procedures;
- (4) Consulting and direction on disability management guidelines and policy;
- (5) Oversee the annual preparation of the executive succession plan and present the plan to the Management Resources Committee and to the Board of Directors;
- (6) Corporate governance and direction regarding benefits carriers, benefits and pension consultants, financial services providers;
- (7) Corporate reporting to legislative bodies, CCRA, Statistics Canada, Pension Standards, as required; and
- (8) Corporate governance of salary and benefit administration, including executive and management compensation.

SERVICES PROVIDED BY FORTIS INC. (“FORTIS”) WHICH BENEFIT FEI

In addition to the specific services described above, FEI receives the benefit of the expert advice and experience of Fortis executives.

Executive Function

President & CEO

A. Strategic Direction

1. Present annually to the Board of Directors of Fortis (the “Board”) a strategic plan and a business plan which must (a) be designed to achieve the corporate objectives together with an appropriate set of performance measures, (b) identify the principal strategic and operational risks of the business, and (c) include appropriate methods to manage the risks;
2. Obtain Board approval for the strategic plan and the business plans of Fortis as a precondition to the implementation of such plans;
3. Obtain Board approval for the procurement, allocation, and disposition of corporate resources for Fortis as a precondition to such procurement, allocation or disposition of such resources either;
 - a. in the approved Business Plan; or
 - b. by specific authorization of an asset transaction consistent with current business activities in an amount in excess of \$XX [insert amount] million (\$XX [insert amount] million annual aggregate) and for any share transaction (other than increased investment in an existing affiliate within the transaction size parameters noted above); and
4. Communicate the principal objectives and strategic plan for Fortis throughout Fortis.

B. Leadership and Management of Fortis

1. Lead Fortis with vision and values that are well understood, widely supported and consistently followed;
2. Foster a corporate culture which promotes ethical practices, personal integrity and the fulfilment of social responsibilities;
3. Create the appropriate environment to stimulate employee morale and productivity;
4. Manage change proactively;

5. Ensure continuous improvement in the quality and value of the products and services provided by Fortis;
6. Ensure that Fortis achieves and maintains satisfactory competitive positions within its industries; and
7. Serve as a director of Fortis.

C. Management and Organization Structure

1. Provide advice to the Board on the appointment of all officers of Fortis;
2. Assist the Board in establishing the limits of delegated authority and responsibility in conducting Fortis's business;
3. Provide annually to the Board, an evaluation of the performance of each senior manager who reports to the CEO;
4. Present for approval to the Board, an annual plan which will provide for the development and succession of senior managers of Fortis in a timely fashion;
5. Generally develop, attract, and retain a highly motivated, effective management team; and
6. Obtain Board approval for any proposed significant or material change in the organizational structure of Fortis as a precondition to the implementation of such changes.

D. Finances, Controls and Internal Systems

1. Consistently strive to achieve Fortis's annual and long-term financial goals and objectives;
2. Assist the Board in establishing an appropriate capital structure for Fortis;
3. Ensure that Fortis has systems in place to effectively monitor and manage the principal risks related to the operation of the business(es);
4. Establish and maintain the integrity of Fortis's financial controls and reporting systems and compliance of the financial information with appropriate accounting principles;
5. Establish and monitor processes and systems designed to ensure compliance with all applicable laws by Fortis, its officers and employees; and
6. Provide certification of financial matters, including the completeness and accuracy of Fortis's financial statements and, where necessary, matters relating to internal controls over financial reporting.

E. Employee Relations

1. Ensure that a process is in place to monitor compliance with the ethical standards to be observed by all officers and employees of Fortis, and ensure that a process is in place to monitor divergence from the ethical standards to be observed by all employees; and
2. Establish and maintain effective communications with employees of Fortis.

F. External Communication

1. Assist the Board in establishing and maintaining an effective communications policy with shareholders, the financial community, the media, the community at large and other stakeholders;
2. Ensure that Fortis contributes, and is perceived to contribute, to the well-being of the communities it serves; and
3. Serve as the principal representative and spokesperson of Fortis.

G. Board Relations

1. Keep the Board adequately informed, on a timely basis, with respect to all events and information which the CEO believes might materially affect Fortis, its performance, prospects, and image;
2. Provide the assistance necessary for the Chair of the Board and committees of the Board to carry out their duties;
3. Be entitled to attend all meetings of Board committees and provide Board committees the assistance necessary to carry out their mandates;
4. Assist the Board in reviewing and maintaining an up-to-date position description for the President and CEO of Fortis; and
5. Report to the Board on material use of outside consultants.

VP Finance and CFO

1. Advise and assist the Chairman of the Board and President and CEO in the development of strategies and goals in the financial planning and structure of the Group and in the control of the Company's business operations.
2. Keep the CEO informed of all relevant financial information and report on the financial status and performance of all companies in the group to the Board of Directors of Fortis Inc.
3. Responsible for all aspects of investor relations program, including shareholder communications and shareholder meetings.

4. Liaison with the investment community and market surveillance.
5. Ensure that procedures and systems necessary to maintain proper records and to afford adequate accounting controls and services are implemented throughout the organization.
6. Ensure that uniform financial policies and procedures are adhered to throughout the organization.
7. Ensure the development and maintenance of timely financial information systems.
8. Develop and maintain effective internal and external audit activities and recommend proper financial controls.
9. Develop and maintain suitable budgeting procedures and reviews.
10. Direct the planning and control of corporate cash requirements and major banking relationships.
11. Review capital expenditure plans and budgeting.
12. Plan and direct corporate financing.
13. Recommend guidelines for financial transactions between companies in the Fortis Group.
14. Ensure that adequate financial personnel resources are retained and appropriately assigned throughout the group.
15. Appraise and implement the necessary financial analysis of acquisition and/or divestiture decisions. As demanded, manage external financial consulting resources.
16. Maintain an awareness of changes in practice and procedure within the professional accounting field.
17. Act as CFO of subsidiary organizations when required.

General Counsel & Corporate Secretary

1. Prepare schedules, notices, agendas, resolutions, and minutes for the Boards of Directors of Fortis Inc. and selected subsidiaries and affiliates.
2. Coordination of all communications to Board of Directors.
3. Operation of share purchase plans.
4. Preparation of security documents including Management Information Circulars, Annual Information Forms and prospectuses.
5. Responsible for regulatory compliance, including annual returns to the registries of companies, dividend disclosure, filing of annual and quarterly reports, reports to stock exchanges, notices of Material Change, and Insider Reports.
6. Provide legal services to all corporations in the Fortis Group including, when necessary, engagement of outside legal services.

Treasury and Taxation Function

1. Manage equity financing, including both common and preference shares, and related prospectuses
2. Manage debt financing, including long-term debt and credit facility borrowings as well as borrowing rates
3. Maintaining the capital structure
4. Assist the VP finance and CFO appraise and implement the necessary financial analysis of acquisition and/or divestiture decisions
5. Cash management and forecasting activities – including dividend and interest payments and equity injections required by subsidiaries
6. Managing cash requirements of subsidiaries, as required, as it relates to intercompany loans and required equity injections
7. Debt covenant calculations and monitoring
8. Managing hedging activities related to US dollar debt
9. Preparation of annual corporate tax returns and related foreign affiliate corporate tax returns
10. Calculation of quarterly and annual Fortis Inc. corporate tax provision
11. Responsibility for utilization of non-capital and capital loss carryforwards of Fortis Inc. and coordination of tax utilization plans with applicable subsidiaries
12. Managing corporate reorganizations and tax planning
13. Manage tax implications of payroll and employee benefits including researching and advising on taxable benefits, CPP, EI and payroll tax issues
14. Preparing Fortis Inc. employee T4's, including preparing taxable benefit calculations
15. Coordination of Fortis Inc. corporate income tax or HST audits
16. Tax research associated with tax issues and changes in tax laws

Investor Relations Function

1. Manage analyst communications – including review of analysts' commentaries/research reports, conduct quarterly conference calls and respond to general analyst research inquiries.

2. Manage investor communications – including the preparation and delivery of investor presentations, road shows, web casts, teleconferences and one-on-one meetings with existing and prospective shareholders
3. Manage shareholder communications – including responding to general shareholder inquiries and the preparation, delivery and filing of documentation for quarterly and annual mailings (i.e., quarterly reports, annual report, proxy, management information circular and annual information form).
4. Coordination and preparation of Fortis's Annual Meeting including preparation of the Executive's presentation to shareholders.
5. Coordination of solicitation of proxies.
6. Preparation of Quarterly Investor Relations Reports to the Board of Directors.
7. Preparation, coordination and dissemination of media releases to newswire agencies, websites and distribution lists.
8. Monitor and maintain Fortis's media coverage.
9. Develop, host and maintain the Fortis Inc. website.
10. Monitor the websites of the Fortis Group of Companies.
11. Monitor and research the market and investment community through Bloomberg, ThomsonOne, TSX, etc.
12. Manage and maintain the Fortis Inc. dividend reinvestment and share purchase plans (i.e., Dividend Reinvestment and Share Purchase Plan, Consumer Share Purchase Plan and Employee Share Purchase Plan)
13. Coordination and preparation of Fortis's consolidated Strategic Issues document and presentation to the Board of Directors.
14. Preparation of Fortis's consolidated Business Plan presentation to the Board of Directors.
15. Manage public relations – including conference participation, the preparation of Executive speeches and responding to media inquiries.

Financial Reporting Function

1. Preparation of quarterly and annual consolidated financial statements and notes to the financial statements and the related management discussion and analysis
2. Preparation of monthly internal consolidated and non-consolidated financial statements of Fortis Inc.
3. Coordination with external auditors of the annual audit of the consolidated financial statements and quarterly review of consolidated financial statements.

4. Preparation and analysis of financial information required for prospectus and other security filing documents
5. Preparation of the Annual Information Form and providing assistance in the preparation of the Management Information Circular
6. Assisting in responding to reviews and queries of securities regulators related to continuous disclosure reporting
7. Research current and emerging accounting policies in Canada, US and that related to IFRS
8. Coordinate consistent accounting policy treatment across the Fortis group of companies related to presentation, alternative treatments and resolution of complex accounting policies to ensure compliance with GAAP
9. Oversight and coordination of conversion to International Financial Reporting Standards across the Fortis Group of companies – including coordinating research, organizing working group and steering committee sessions to discuss and resolve ongoing issues and progress, monitoring and directing progress of the overall conversion and coordination with the external auditors
10. Coordination and preparation of consolidated Business Plan document and reporting to the Board of Directors
11. Preparation of quarterly forecasted consolidated earnings and EPS
12. Responsibility for maintaining internal controls over financial reporting at Fortis Inc.

Internal Audit Function

1. Performs internal audit activities at Fortis Inc including:
 - a. coordinating the Fortis Inc. CEO and CFO internal controls certification process through maintenance of financial process documentation and annual evaluation of internal controls over financial reporting and disclosure controls. Involves ensuring that all Fortis subsidiaries are fully compliant in order to support certification by the parent company;
 - b. performing quality assurance reviews of Fortis Inc. continuous disclosures documents prior to public filing;
 - c. performing annual reviews of Fortis Inc. statutory obligations and executive expenditures;
 - d. reporting internal audit activities to the Fortis Inc. Audit Committee on a regular basis; and
 - e. coordinating compliance with corporate governance requirements

2. Provides oversight over the internal audit function at the Fortis subsidiary companies to:
 - a. ensure corporate-wide consistency in the application of internal audit methodologies and practices and in the reporting of audit results to management and audit committees;
 - b. coordinate annual audit program planning to ensure critical risk areas are addressed;
 - c. coordinate corporate-wide audit projects;
 - d. identify opportunities for audit resource and information sharing between the subsidiary internal audit groups;
 - e. oversees audit program planning and reviews internal audit reports to management and Audit Committees for these subsidiaries with limited internal audit resources;
3. Administers and monitors reports of allegations of suspected improper conduct or wrong doing via Fortis's ethics reporting system
4. Development of a company-wide Enterprise Risk Management program approach

Board of Directors

The Board of Directors of Fortis Inc. is responsible for the stewardship of Fortis. The Board will supervise the management of the business and affairs of Fortis and, in particular, will:

A. Strategic Planning and Risk Management

1. Adopt a strategic planning process and approve, on an annual basis, a strategic plan for Fortis which considers, among other things, the opportunities and risks of the business;
2. Monitor the implementation and effectiveness of the approved strategic and business plan;
3. Assist the CEO in identifying the principal risks of Fortis's business and the implementation of appropriate systems to manage such risks;

B. Management and Human Resources

1. Select, appoint and evaluate the CEO, and determine the terms of the CEO's employment with Fortis;

2. In consultation with the CEO, appoint all officers of Fortis and determine the terms of employment, training, development and succession of senior management (including the processes for appointing, training and evaluating senior management);
3. To the extent feasible, satisfy itself as to the integrity of the CEO and other officers and the creation of a culture of integrity throughout Fortis;

C. Finances, Controls and Internal Systems

1. Review and approve all material transactions including acquisitions, divestitures, dividends, capital allocations, expenditures and other transactions which exceed threshold amounts set by the Board (including equity contributions to subsidiaries to support the investment in rate base to serve customers);
2. Evaluate Fortis's internal controls relating to financial and management information systems;

D. Communications

1. Adopt a communication policy that seeks to ensure that effective communications, including statutory communication and disclosure, are established and maintained with employees, shareholders, the financial community, the media, the community at large and other security holders of Fortis;
2. Establish procedures to receive feedback from stakeholders of Fortis and communications to the independent directors as a group;

E. Governance

1. Develop Fortis's approach to corporate governance issues, principles practices and disclosure;
2. Establish appropriate procedures to evaluate director independence standards and allow the Board to function independently of management;
3. Appoint from among the directors an audit committee and such other committees of the Board as deemed appropriate and delegate responsibilities thereto in accordance with their mandates;
4. Develop and monitor policies governing the operation of subsidiaries through exercise of Fortis's shareholder positions in such subsidiaries;
5. Develop and monitor compliance with Fortis's code of conduct;
6. Set expectations and responsibilities of directors, including attendance at, preparation for and participation in meetings; and

7. Evaluate and review the performance of the Board, each of its committees and its members.

Document comparison by Workshare Professional on Wednesday, October 26, 2011
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Input:	
Document 1 ID	file://S:/Inc/General Counsel & CRO/Legal/Sarah Mamoser/300 Agreements/Shared Services Agreements/3.162 TGI & TI/3.162 TGI & TI Corporate Services Contract.doc
Description	3.162 TGI & TI Corporate Services Contract
Document 2 ID	file://S:/Inc/General Counsel & CRO/Legal/Sarah Mamoser/300 Agreements/Shared Services Agreements/Amalco Draft Agreement/FHI and Amalco Proposed Corporate Services Contract.doc
Description	FHI and Amalco Proposed Corporate Services Contract
Rendering set	standard

Legend:	
Insertion	
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Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

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Deletions	154
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	311

Attachment 1.3

Effective: OCT 16 1997 L-64-1997

BCUC Secretary: Original signed by R.J. Pellatt

[FortisBC Energy Inc.]

T R A N S F E R P R I C I N G P O L I C Y

***For Provision of Utility Resources and Services
August 1997***

SCOPE

This policy addresses the pricing of resources and services provided by [FortisBC Energy Inc. (FortisBC Energy)] to:

- ◆ Non-Regulated Businesses (NRBs); and
- ◆ Divisions of the Utility providing unregulated products or services (collectively NRBs).

[FortisBC Energy Inc.] will ensure that it receives adequate compensation for the resources and services provided, thereby protecting ratepayers from subsidising unregulated activities.

The Transfer Pricing Policy will be used in conjunction with the [FortisBC Energy Inc.] Code of Conduct for Provision of Utility Resources and Services dated August, 1997. However, this policy does not replace [FortisBC Energy]/NRB contracts and undertakings in existence prior to approval of this Transfer Pricing Policy.

DEFINITIONS

[FortisBC Energy Inc.]	<i>May be abbreviated as follows: [FortisBC Energy], the Utility, or the Company, and may also include employees of the Company.</i>
Commission	<i>British Columbia Utilities Commission.</i>
Competitive Market Price (or Market Value)	<i>The price that would be paid for a resource or service in a fully functioning, competitive (unregulated) market. Alternatively, the prices of goods or services that can serve as substitutes for the resources or services being offered may also be used.</i>
Development	<i>The translation of research findings or other knowledge into a plan or design for new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.</i>
Guidelines	<i>Retail Markets Downstream of the Utility Meter Guidelines published by the British Columbia Utilities Commission in April, 1997.</i>
Non-Regulated Business (NRB)	<i>An affiliate of the Utility not regulated by the Commission or a division of the Utility offering unregulated products or services. “Related NRB” refers to any NRB which uses any resources of the Utility.</i>
Research	<i>Planned investigation undertaken for the purpose and expectation of gaining new scientific or technical knowledge and understanding. Such investigation may or may not be directed towards a specific practical aim or commercial application.</i>
RMDM	<i>Acronym for “Retail Markets Downstream of the Utility Meter”, which may include any utility or energy related activity at or downstream of the utility meter.</i>
Transfer Price	<i>The price established for the provision of Utility resources and services, or the transfer of Utility assets, to an NRB or division of the Utility providing unregulated products and services. Transfer pricing for any Utility resource or service will be determined by applying the [FortisBC Energy] Transfer Pricing Policy approved by the Commission.</i>

POLICY

Transfer Prices charged to NRBs by the Utility will ensure Utility ratepayers are not adversely affected and will be established using the following pricing rules.

1. Pricing Rules

- i. If an applicable [FortisBC Energy] tariff rate exists, the Transfer Price will be set according to the tariff.
- ii. Where no tariff rate exists, the Transfer Price will be set at either the full cost (see Section 2 below) or, where feasible and practical, the Competitive Market Price, whichever is greater.
- iii. In situations where it can be shown that an alternative Transfer Price will provide greater benefits to the ratepayer, the Utility may apply to the Commission for special pricing consideration.

2. Determining Full Costs

For the purposes of this policy, costs for the resources or services being provided by the Utility to an NRB will be based on the Utility's full cost as described below. The definition of full costs will depend on the type of service or resource being provided.

For the most part the types of resources and services that can be provided to NRBs by the Utility are human resources and associated equipment and facilities. The example in Appendix A summarizes how full costs are determined for the different types of services described below in Section 2.1. The determination of full costs, specifically the cost loadings, is based on the approved Code of Business Conduct with respect to Non-Regulated Businesses of [FortisBC Energy] dated March 31, 1995, with modifications reflecting the types of resources and services involved in RMDM.

If other Utility resources or services are used by an NRB that are not described by this policy, then [FortisBC Energy] will make an application to the Commission on a case-by-case basis. An example of this would be the determination of costs for a Utility asset permanently transferred to an NRB.

2.1 Type of Service

There are three types of services: Specific Committed Service, As Required Service and Designated Subsidiary/Affiliate Service. It is important that the type of service is specified before the commencement of any service. This specification is to ensure that the correct cost loadings are applied to any Transfer Price.

i. **Specific Committed Service**

Specific Committed Service is work that is contracted for and billed regardless of whether or not work is actually performed. Typically, this work is ongoing or on a continuing basis (such as accounting) in support of NRB activities. The receiving organization (i.e. the NRB) is, in effect, requiring that the providing organization's department (i.e. [FortisBC Energy]) maintain sufficient staffing levels throughout the year in order to provide this service. The receiving organization must pay for the Specific Committed Service even if the service provided is less than originally contracted.

It is important that the description and scope of the service to be provided be defined before the commencement of such a service, including an indication whether the service is performed at the employee's normal place of work ("on-site") or at the NRB's ("off-site"). A request for Specific Committed Service may be raised or terminated at any time throughout the year. Termination of a Specific Committed Service as a result of an activity change is subject to a sixty (60) day notice period.

At the end of the fiscal year, Specific Committed Services which were not provided (unless the Utility was unable to meet its commitments) will be offset against services used in excess of those committed. Any excess service on a total pooled basis will be billed, but any deficiency will not be refunded. If there is a shortfall in the level of service provided by [FortisBC Energy] a reasonable refund may be made. In the normal course of business, the time estimates for Specific Committed Service are reviewed annually.

To determine the full cost of Specific Committed Service, the following loadings are applied to direct labour costs: concessions loading, benefits loading and general overhead loading. Also facility and/or equipment charges are made if applicable. Appendix A, Column 1 shows an example of determining full cost for Specific Committed Service, both "on-site" and "off-site".

ii. **As Required Service**

As Required Service is work that is not specifically committed to by the receiving organization. The providing organization charges the cost of the actual time incurred to perform the work to the receiving organization. Typically, this is work that is not or cannot be budgeted in advance.

As Required Service must be specified to be either for an extended term (greater or equal to three months) or short term (less than three months) period prior to the commencement of the work. In addition, it must be identified whether the individual providing the services will work at his or her normal place of work ("on-site") or at the NRB's ("off-site").

To determine the full cost of As Required Service, the following loadings are applied to direct labour costs: concessions loading, benefits loading, general overhead loading, supervision loading and an availability charge loading. Also facility and/or equipment charges are made if applicable. Appendix A, Column 2 shows an example of determining full cost for As Required Service.

In certain situations, the Utility will need to retain the immediate right to recall the employee being contracted to the NRB for an As Required Service. In these situations the availability charge will be waived. Prior notification to the Commission is required to waive the availability charge for As Required Service.

iii. **Designated Subsidiary/Affiliate Service**

A Designated Subsidiary/Affiliate is a related company that is designated by [FortisBC Energy] and approved by the Commission to receive reduced loadings in the Transfer Price. The designation relates to the additional benefits that the related company provides to [FortisBC Energy]'s customers, employees or to the economic development of the Province of British Columbia.

A Designated Subsidiary/Affiliate receives services on the same basis as the As Required Service described above. To determine the full cost of Designated Subsidiary/Affiliate Service, the following loadings are applied to direct labour costs: concessions loading, benefits loading and a general overhead loading. Appendix A, Column 3 shows an example of determining full cost for A Designated Subsidiary/Affiliate Service.

The Commission may approve a subsidiary or affiliate with this status but exclude specific activities or projects of that subsidiary (e.g. projects taking place in certain geographic locations). Similarly, certain work to be performed for an NRB relating to a specific service, project or product may be designated by [FortisBC Energy] and approved by the Commission to receive reduced loadings.

3. Costs Relating to the Transfer of Activities from the Utility to NRB

3.1 Transfer Costs

Activities initially undertaken within the regulated Utility may, from time to time, be transferred to an NRB with Commission approval. Costs associated with transferring an activity to an NRB, and the start-up of NRB activities, shall be borne by the NRB. To the extent that these activities involve Utility resources during the transfer, the NRB shall reimburse the Utility using the appropriate pricing rules as defined in Section 1. Costs relating to the termination of an activity within the Utility shall be borne by the Utility.

3.2 Research Costs

As research is regarded as a continuing activity required to maintain the Utility's business and its effectiveness, such expenses shall be borne by the Utility. However, where it is evident that certain research activities are clearly directed towards specific non-regulated pursuits, the Utility will ensure it is compensated by the NRB according to the pricing rules defined in Section 1, net of any quantifiable benefits received by the Utility.

3.3 Development Costs

Development costs for new products and services transferred to an NRB will be tracked and charged to the NRB according to the pricing rules defined in Section 1, net of any quantifiable benefits received by the Utility.

4. Employment Issues

This section provides the guidelines which [FortisBC Energy] will follow in addressing the issues of employee transfers and human resource sharing between the Utility and NRBs. These guidelines implicitly recognize the fact that Utility ratepayers can realize significant benefits when employees have the opportunity to work for NRBs, by providing Utility employees with opportunities to expand their breadth of experience, enhance their skills and attributes, and continue their career development by taking advantage of the diversity of the [FortisBC Holdings Inc.] organization.

Accordingly, it is not the intent of these guidelines to restrict employee transfers or human resource sharing, but rather to ensure that the benefits gained by employees can be brought back to the Utility and realized by ratepayers, and ratepayers are not negatively impacted. In all cases of Utility employee transfers or human resource sharing, the terms of transfers or sharing must be clearly understood by the Utility, NRB and the employee prior to commencement, and properly documented.

These guidelines distinguish between three distinct types of human resource issues: Rotational Transfers, Non-Rotational Transfers and Human Resource Sharing.

4.1 Rotational Transfers

Rotational Transfers represent a career training and development vehicle, in which employees are transferred between the Utility and an NRB on a full-time basis, for a period of time not to exceed 3 years. In these instances, the salary and associated benefits of the employee in question will be assumed by the NRB for the duration of the rotational transfer period. As this initiative is specifically intended as a career training and development mechanism with expected benefits back to the Utility, the individual will typically be assured of continued employment by the Utility at the conclusion of the transfer period.

4.2 Non-Rotational Transfers

Non-Rotational Transfers represent transfers of personnel between the Utility and an NRB, which are not subject to a maximum time duration. As neither the Utility nor its NRBs are required to provide preference to the other's employees in filling permanent positions, non-rotational transfers typically represent instances in which an employee has successfully responded to a posting or advertisement for a position.

In the interest of retaining qualified individuals within the [FortisBC Holdings Inc.] group of companies, and recognizing that many NRB companies already contract with the Utility for human resource services (including common payroll systems and benefits packages), a non-rotational transfer will typically be considered an employee transfer rather than a termination and re-employment. In this manner, employees will not be subjected to a termination of continued employment status and the Utility and NRB will not be required to assume the administrative burden associated with a termination and new hire process.

As a non-rotational transfer is not specifically classified as a career development and training initiative, there will typically be no assurance of employment security from the Utility, unless such assurance is considered to be in the best interest of the Utility, in which case a specific agreement should be negotiated and documented. Any recruitment or administrative costs associated with a non-rotational transfer will be borne by the entity to which the employee is transferring.

4.3 Human Resource Sharing

These guidelines specifically recognize that human resource sharing initiatives can provide a variety of benefits to the Utility and NRBs. For example, circumstances occasionally occur in which the Utility and one or more NRBs each require an individual with similar skills and attributes, but the time commitment required by each entity is insufficient to justify the hiring of a full-time person. In the absence of a human resource sharing initiative, each individual entity would likely be forced to incur the significant cost associated with securing the services of an external consultant, whereas significant cost savings could be realized by hiring an individual on a full-time basis and entering into a cost sharing arrangement. This cost sharing method may also pay future dividends to the Utility by developing in-house expertise and experience rather than developing this expertise and experience in consultants. Additionally, Utility departments or NRBs that are subject to large fluctuations in human resource requirements may have individuals that are not fully utilized at all times, but for whom termination and subsequent re-hire is not a viable option (e.g. due to uncertainty of future availability, termination costs, retraining costs, etc.). In these instances, human resource sharing provides a mechanism through which the receiving entity can fulfil short term resource demands with a qualified individual, while the employing entity can eliminate inefficient salary and benefit costs.

Human resource sharing initiatives also represent an ideal mechanism through which to realize some of the career development and training benefits associated with a rotational transfer, without having to commit to the absolute loss of an individual's services for a certain period of time.

These guidelines are predicated upon the assumption that although all of the applicable entities benefit from human resource sharing initiatives, the employing entity is assuming the greatest degree of risk due to the need to ensure continued employment or incur termination costs. Therefore, a key principle of the human resource sharing initiative proposed by [FortisBC Energy] is that the employing entity will always retain first rights on the services of the individual in question, assuming reasonable notice is provided to the entity for which the individual is providing services at a given point in time.

Employment costs, including salary and benefits, will be allocated to the various entities on a pro rata basis, in accordance with the number of hours dedicated to each entity, and in a manner consistent with the [FortisBC Energy] Code of Conduct for the Provision of Utility Resources and Services.

5. Cost Collection Procedures

5.1 Work Orders

The Utility will be responsible for setting up the appropriate work order, documenting the work order number and ensuring that the appropriate individuals charge time to it. The providing organization's accounting group (typically [FortisBC Energy]'s Financial Accounting Group) will be responsible for maintaining the work order and collecting the appropriate charges.

5.2 Time Sheets

The individuals performing the service must report all time spent on that service by coding their time to the appropriate work order numbers. This is to occur whether the type of service is Specific Committed, As Required or Designated Subsidiary/Affiliate Service. Time sheets are to be sent monthly to the immediate supervisor or [FortisBC Energy]'s Payroll Department. The NRB shall also review the validity of these time sheets.

5.3 Invoicing

The NRB will be invoiced for the contracted amount in respect of Specific Committed Service and for the appropriate time based on the actual payroll level in respect of As Required Service or Designated/Affiliate Service (subject to confidentiality of salary information) with the applicable loadings applied.

The methodology for determining a salary level is on the basis of the average pay grade in the case of Management and Exempt employees or the exact wage grade in the case of bargaining unit employees.

6. Accounting for Services

6.1 Detailed Operating & Maintenance Expense Forecast

In the event that [FortisBC Energy] makes an application to the Commission for revenues related to operations and maintenance expenses (O&M), time estimates for Specific Committed Services will need to be estimated or forecast for each of the years covered by the application. These estimates or forecasts should be consistent with the relevant costs and assumptions contained in that application.

In the event that an activity change causes a reduction in the actual level of the Specific Committed Service compared to the annual budget (or revenue requirement application), [FortisBC Energy] will use these amounts to offset additional contributions from the NRBs. Net contributions received by the Utility through Transfer Pricing for As Required Service and Designated Subsidiary/Affiliate will be held in a deferral account for future return to [FortisBC Energy]'s customers.

6.2 Operating & Maintenance Expense Forecast Determined by Formula

In the event [FortisBC Energy] makes a multi-year application to the Commission for revenues related to O&M, and the allowed O&M level is determined by means of a formula, for the duration of the test period and in accordance with the terms of the Commission Order #G-85-97, [FortisBC Energy] will be entitled to capture the financial savings, such as cost reductions resulting from intercompany charges for RMDM or other NRB activities.

7. Review of Transfer Pricing Policy

The Transfer Pricing Policy will be reviewed on an annual basis as part of the Code of Conduct compliance review. However, [FortisBC Energy] may make application to the Commission for approval of changes to the policy including the pricing rules and the formula for determining full costs as and when required.

Appendix “A”

Example of Determining Full Cost for the Three Types of Service

(for an employee at a daily base pay of \$300, concession loading of 25.48% and benefits loading of 15.75%)

Column	1		2			3
	Specific Committed Service		As Required Service			Designated Subsidiary I Affiliate
	Off-Site Full-time	On-Site Full-time	On-Site Short Term	Off-Site Short Term	Off Site Extended	
BASE PAY(Daily)	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00
PLUS:						
Concessions @ 25.48%	76.44	76.44	76.44	76.44	76.44	76.44
Benefits @ 15.75%	47.25	47.25	47.25	47.25	47.25	47.25
						423.69
GENERAL OVERHEAD	5%	10%	10%	10%	5%	5%
SUPERVISION	N/A	Direct Charge	20%	N/A	N/A	Direct Charge
AVAILABILITY CHARGE	N/A	N/A	20%	20%	20%	N/A
FACILITIES CHARGE (If Applicable)	N/A	\$100.00	\$100.00	\$100.00	N/A	N/A
EQUIPMENT CHARGE (If Applicable)	Direct Charge	Direct Charge	Direct Charge	Direct Charge	Direct Charge	N/A
TOTAL COSTS PER DAY	\$444.87	\$566.06	\$735.54	\$650.80	\$529.61	\$444.87
Cost Ratios:						
to Base Pay	1.48	1.89	2.45	2.17	1.77	1.48
to Loaded Labour	1.05	1.34	1.74	1.54	1.25	1.05

* If the agreement between the NRB and Utility includes a right to immediate recall, the availability charge is waived. Prior notification to the Commission is required to waive the availability charge for As Required Service.

Effective: OCT 16 1997 L-64-1997

BCUC Secretary: Original signed by R.J. Pellatt

[FortisBC Energy Inc.]

C O D E O F C O N D U C T

***For Provision of Utility Resources and Services
August 1997***

SCOPE

This Code of Conduct (Code) governs the relationships between [FortisBC Energy Inc. (FortisBC Energy)] and Non-Regulated Businesses (NRBs) for the provision of Utility resources, and conforms with the British Columbia Utilities Commission (Commission) “Retail Markets Downstream of the Utility Meter” (RMDM) Guidelines of April, 1997. The Commission Code of Conduct Principles from the Guidelines are attached as Appendix ‘A’.

This Code will govern the use of Utility resources for unregulated activities (products or services for which there are no Commission approved tariffs) including shared services, employment or contracting of Utility personnel, and the treatment of customer, utility, or confidential information. The Code will also determine the nature of the relationship between the Utility and NRBs and the treatment by the Utility of its’ NRBs.

The primary responsibility for administering this Code lies with [FortisBC Energy], although the Commission has jurisdiction over matters referred to in this Code. The Commission acknowledges that the Utility in the administration of the Code may have to take into account particular circumstances in respect to a particular product or service which is being provided or transferred out of the Utility, and where these issues are at variance with this Code Commission approval will be required. The Code also provides that the Commission may review complaints in relation to the Code.

The [FortisBC Energy] Transfer Pricing Policy, dated August 1997, will be used in conjunction with this Code to establish the costs and pricing for Utility resources and services.

This Code supersedes and replaces the [FortisBC Energy] Code of Business Conduct dated March 31, 1995. However, this Code does not replace contracts and undertakings between [FortisBC Energy] and NRB affiliates in existence prior to approval of the Code.

[FortisBC Energy] Code of Conduct

DEFINITIONS

[FortisBC Energy Inc.]	<i>May be abbreviated as follows: [FortisBC Energy], the Utility, or the Company, and may also include employees of the Company.</i>
Commission	<i>British Columbia Utilities Commission.</i>
Guidelines	<i>Retail Markets Downstream of the Utility Meter Guidelines published by the British Columbia Utility Commission in April, 1997.</i>
Non-Regulated Business (NRB)	<i>An affiliate of the Utility not regulated by the Commission or a division of the Utility offering unregulated products and services. “Related NRB” refers to any NRB which is an affiliate of the Utility and which uses any resources of the Utility.</i>
Ratepayers	<i>Ratepayers in most cases are considered as a whole rather than one group or rate class.</i>
RMDM	<i>Acronym for “Retail Markets Downstream of the Utility Meter”, which may include any utility or energy related activity at or downstream of the utility meter.</i>
Transfer Pricing	<i>The price established for the provision of Utility resources and services, or the transfer of Utility assets, to an NRB or division of the Utility providing unregulated products and services. Transfer pricing for any Utility resource or service will be determined by applying the [FortisBC Energy] Transfer Pricing Policy approved by the Commission.</i>

APPLICATION OF COMMISSION PRINCIPLES

1. Transfer Pricing

The Utility will conform with the Commission approved [FortisBC Energy] Transfer Pricing Policy.

2. Shared Services and Personnel

- a) This Code recognizes the need for and potential benefits to the Utility of employee transfers and human resource sharing.
- b) [FortisBC Energy] may provide shared services to NRBs, including supervision and management, while ensuring that ratepayers will not generally be negatively impacted by Utility involvement. The costs of providing such services will be as agreed upon by both parties and be in accordance with the Commission approved [FortisBC Energy] Transfer Pricing Policy.
- c) NRBs may contract for any Utility personnel using the Commission approved [FortisBC Energy] Transfer Pricing Policy, providing the Utility complies with Section 4 of this Code, Provision of Information by [FortisBC Energy Inc.], and no conflict of interest exists which will negatively impact on ratepayers.

3. Transfer of Assets or Services

The price for all transfers of assets or services shall be determined in accordance with the [FortisBC Energy] Transfer Pricing Policy approved by the Commission, and the Utility must be able to demonstrate that the benefits to the ratepayer are greater than the cost. The transfer price will reflect the potential for risk (stranded assets, future costs, etc.) and the recall availability of shared or transferred personnel to ensure the Utility receives the appropriate benefit from expertise resident in the Utility. [FortisBC Energy] will comply with acceptable business practices if it wishes to purchase assets, goods or services from an NRB.

An appropriate allocation of development costs for products or services as defined in the [FortisBC Energy] Transfer Pricing Policy, will be included in the transfer price.

4. Provision of Information by [FortisBC Energy Inc.]

[FortisBC Energy] will not provide to an NRB any information that would inhibit a competitive energy services market from functioning.

The following should act as a guideline for employees confronted with issues related to the sharing of confidential information:

- a) This Code precludes [FortisBC Energy] from releasing confidential customer specific information without the consent of that customer. If a customer agrees to a general release of customer specific information, that information must be made available to any market participant who requests it and is willing to pay costs associated with the

provision of the information, without discrimination as to access, timing, cost or content. If a customer requests customer specific information be provided to a specific market participant, only that participant may receive the information, subject to payment of associated costs incurred to provide the information.

- b) [FortisBC Energy] may disclose to any market participant that requests it and is willing to pay the appropriate transfer price customer information that is aggregated or summarized in such a way that confidential information would not ordinarily be ascertained by third parties.
- c) [FortisBC Energy] may provide or sell any non-customer specific information to any market participant that requests it and is willing to pay the appropriate transfer price.

5. Preferential Treatment

[FortisBC Energy] will not state or imply that favoured treatment will be available to customers of the Utility as a result of using any service of an NRB. In addition, no Company personnel will condone or acquiesce in any other person stating or implying that favoured treatment will be available to customers of the Company as a result of using any product or service of an NRB.

6. Equitable Access to Services

Except as required to meet acceptable quality and performance standards, and except for some specific assets or services which require special consideration as approved by the Commission, [FortisBC Energy] will not preferentially direct customers seeking competitively offered services to an NRB or a specific retailer.

7. Compliance and Complaints

- a) [FortisBC Energy] will advise all of its employees of their expected conduct pertaining to this Code, with annual updates for employees who may be directly involved with NRB activities.
- b) [FortisBC Energy] will monitor employee compliance with this Code by conducting an annual compliance review, the results of which will be summarized in a report to be filed with the Commission within 60 days of the completion of this review.
- c) Complaints by third parties about the application of this Code, or any alleged breach thereof, should be addressed in writing to the Company's [Executive Vice-President, Finance, Regulatory and Energy Supply], who will bring the matter to the immediate attention of the Company's senior management and promptly initiate an investigation into the complaint. The complainant, along with the Commission, will be notified in writing of the results of the investigation, including a description of any course of action which will be or has been taken promptly following the completion of the investigation. The Company will endeavour to complete this investigation within 30 days of the receipt of the complaint.

- d) Where [FortisBC Energy] determines that the complaint is unfounded, the Company may apply to the Commission for reimbursement of the costs of the investigation from the third party initiating the complaint or where this is not possible, for inclusion of those costs in rates.

8. Financing and Other Risks

[FortisBC Energy] will not undertake any financing or other financial assistance on behalf of an NRB that exposes utility ratepayers to additional costs or risks, unless appropriate compensation is received by [FortisBC Energy] for such financing or other financial assistance, and such financing or other financial assistance is approved by the Commission.

9. Use of Utility Name

[FortisBC Energy Inc.] agrees that newly established NRBs engaging in RMDM activities will not use the Utility's name as the primary identifier within British Columbia, and will not use the Utility name in a manner that indicates that Utility resources will support the NRB.

10. Distribution System Access

[FortisBC Energy] will treat all requests for distribution system access for the purpose of direct commodity marketing equitably and in accordance with the requirements approved for direct commodity marketing in British Columbia.

11. Amendments

In order to ensure that this Code remains workable and effective, the Company will review the provisions of this Code on an ongoing basis and as required by the Commission, but with a maximum of three years between reviews.

Amendments to this Code may be made from time to time as approved by the Commission.

Appendix 'A'

COMMISSION CODE OF CONDUCT PRINCIPLES

The Commission has established the following principles in the Guidelines which [FortisBC Energy] intends to apply to RMDM activities and the Utility's relationships with NRBs.

- i) The regulated company will not provide to the NRB any market-sensitive or confidential information that would inhibit a competitive energy services market from functioning. If customers agree to a release of customer information to the NRB, it should be provided to other market participants under the same terms and conditions and for the same price. Should an individual customer make a specific request to have information released to a particular third party, it will be released to that party only. The utility will be able to recover from the customer the costs associated with the provision of this information.
- ii) No regulated company personnel will state or imply that favoured treatment will be available to customers of the company as a result of using any service of an NRB. In addition, no regulated company personnel will condone or acquiesce in any other person stating or implying that favoured treatment will be available to customers of the company as a result of using any service of an NRB.
- iii) No regulated company personnel will preferentially direct customers seeking competitively offered services to an NRB. If a customer, or potential customer, requests from the regulated company information about products or services offered by an NRB or its competitors in downstream markets, the regulated company may provide such information, including a directory of retailers of the product or service, but shall not promote any specific retailer in preference to any other retailer.
- iv) The regulated company will formally advise all employees of expected conduct related to these principles and it will undertake to perform periodic audits of the relationships to ensure compliance with these principles. These audits will be performed no less than once a calendar year and filed with the Commission.
- v) Complaints by non-affiliated parties about the application of these principles, or any alleged breach thereof, will be brought to the immediate attention of the senior management of the regulated company and subsequently a report of the complaints, and action taken, will be filed with the Commission. The report will be filed with the Commission within one month of the complaint being made.
- vi) The financing of the utility and NRB will be accounted for entirely separately with the financing costs reflecting the risk profile of each entity. No cross-guarantees or any form of financial assistance whatsoever should be provided directly or indirectly by a utility to its NRB without approval of the Commission.

[FortisBC Energy] Code of Conduct

- vii) Use of the utility name by a related NRB will require approval by the Commission to ensure that its use will not interfere with the Commission's ability to protect ratepayers.

In those cases where retail customers have direct market access to the commodity, the utility's code of conduct will also include the following provision,

The regulated company will treat all requests for distribution system access for the purpose of direct commodity marketing equitably and according to the requirements approved for direct commodity marketing in British Columbia.



EB-2005-0254

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S. O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an application by PowerStream Inc.
and Aurora Hydro Connections Limited under section 86 of the
Ontario Energy Board Act, 1998 seeking leave for PowerStream
Inc. to acquire all outstanding shares in and subsequently to
amalgamate with Aurora Hydro Connections Limited, and for
related orders.

BEFORE

Bob Betts
Presiding Member

Pamela Nowina
Member

Paul Sommerville
Member

DECISION AND ORDER

September 19, 2005

The Application

On March 24, 2005, PowerStream Inc. (“PowerStream”) and Aurora Hydro Connections Limited (“AHCL”) (collectively, the “Applicants”) filed an application with the Ontario Energy Board (the “Board”) under section 86 of the *Ontario Energy Board Act, 1998* (the “Act”) seeking leave for PowerStream to acquire all outstanding shares in and subsequently to amalgamate with AHCL (the “Application”). The Application also seeks, as of a date to be notified by PowerStream, the cancellation of AHCL’s electricity distribution licence under section 77(5) of the Act, and an amendment to PowerStream’s electricity distribution licence under section 74 of the Act to include AHCL’s licensed service area in PowerStream’s licence.

Both PowerStream and AHCL are licensed electricity distributors.

PowerStream owns, operates and manages assets associated with the distribution of electricity within the geographic territory and municipal boundaries as outlined in Schedule 1 of its electricity distribution licence ED-2004-0420. PowerStream’s licensed service area covers the Town of Markham, the City of Vaughan and the Town of Richmond Hill. PowerStream’s ownership is currently divided as follows: 59% of the shares are owned by Vaughan Holdings Inc., which is wholly owned by the City of Vaughan; and 41% of the shares are owned by Markham Energy Corporation, which is wholly owned by the Town of Markham. Markham Energy Corporation’s ownership in PowerStream may increase by up to 2% prior to the closing of the transactions contemplated in the Application. This would be the result of the exercise by Markham Energy Corporation of an option contained in the share purchase agreement associated with the amalgamation of Markham Hydro Distribution Inc., Hydro Vaughan Distribution Inc. and Richmond Hill Hydro Inc. that resulted in the creation of PowerStream.

AHCL owns, operates and manages assets associated with the distribution of electricity within the geographic territory and municipal boundaries as outlined in Schedule 1 of its

electricity distribution licence ED-2002-0558. AHCL's licensed service area covers the Town of Aurora. AHCL is owned by Borealis Hydro Electric Holdings Inc., which is wholly owned by the Town of Aurora.

According to documentation filed with the Application, internal approvals necessary to enable the parties to enter into the agreement that underlies the proposed transactions have been obtained.

PowerStream is currently the fourth largest electricity distributor in Ontario in terms of customer numbers. Following the amalgamation, PowerStream would serve approximately 215,000 customers in the service areas currently served by PowerStream and AHCL.

PowerStream does not anticipate that it will be seeking to implement any immediate changes to the existing AHCL distribution rate orders. PowerStream has indicated that it will consider a rate harmonization plan, in accordance with the Board's Electricity Distribution Rate Handbook and any other Board requirements, following the completion of a cost allocation, cost of service and rate design study. The Share Purchase Agreement filed by the Applicants contains a covenant to the effect that, in the event that rates are harmonized, AHCL's current customers will benefit from the harmonization by a minimum of \$10,000,000 over a ten-year period from what the rates would otherwise be were AHCL to remain a stand-alone company.

A Notice of Application and Written Hearing was published as directed by the Board. Mr. Michael Evans, of Aurora TrueValue, Hydro One Networks Inc. ("Hydro One"), Newmarket Hydro Ltd. ("NHL") and Mr. Benji Keststein, representing the "New Deal Ratepayers Group", (collectively, the "Intervenors") requested and were granted intervenor status in this proceeding. The Board also received two letters of comment, one of which raised certain issues for consideration by the Board and the other of which offered support for the transactions contemplated in the Application.

The full record of this proceeding is available for review at the Board's offices. While the Board has considered the full record, the Board has summarized and referred only to those portions of the record that it considers helpful to provide context to its findings.

The Interventions

The concerns raised by Mr. Evans can generally be described as falling within three categories of issues.

The first category concerns the process surrounding the negotiation of the transactions contemplated in the Application, including whether the proper process was followed; whether the Mayor of the Town of Aurora, as a person who may have fiduciary responsibilities to the citizens of Aurora, ensured that a fair and transparent process was followed that obtained the maximum value for AHCL's distribution assets; and whether due diligence was exercised through the process, including whether appropriate legal and other advisors were retained.

The second category of issues raised by Mr. Evans relates to the purchase price and, more specifically, asserts that the price payable for the shares of AHCL is below market value.

The third category of concerns addresses issues relating to system reliability, expressed as general concerns regarding whether "supply from the south" is adequate to meet the power needs of existing customers and whether the "promise of power supply" is only for new residents and businesses in Aurora and not for existing customers. Mr. Evans also questioned the Applicants' assertion that rate benefits will arise as a result of the transactions contemplated in the Application.

The concerns raised by Mr. Kestain were much to the same effect. Mr. Kestain also indicated that the concerns of his group have to do with the contract, which he stated had not, at the date of his intervention, been made available to the general public. The

contractual provisions identified as being of interest included the length of the term, escape clauses, penalties and increases on review every three years.

As part of its intervention, NHL indicated a desire to obtain additional information that could expose issues relating to such matters as its, that is NHL's, continued access to transmission and distribution and the effects of the proposed transactions on the costs of borrowing and cash flow. However, the focus of NHL's intervention throughout this proceeding has been related to system reliability. Specifically, NHL was opposed to the inclusion of a particular provision in the Share Purchase Agreement filed by the Applicants under which PowerStream agreed to install, subject to regulatory approval, three 28 kV feeder lines "to provide sufficient capacity for load growth and enhanced reliability through redirecting of supply based upon customer requirements within Aurora". NHL argued that this provision may compromise the interests of electricity consumers in northern York region with respect to the adequacy, reliability and quality of electricity service, and suggested that the proposed approach would preclude other low cost supply options that are both more efficient and more reliable. NHL was also concerned that there may be a resulting increase in costs for NHL's customers, since NHL would expect to be required to make a capital investment in relation to the installation of the three feeder lines. This, in turn, would require NHL to incur added costs in the form of a capital investment in or contribution to other facilities identified as solutions to the supply issue in the region.

Hydro One did not take a position on the merits of the Application.

Mr. Evans requested that the Board proceed with this Application by way of oral hearing, a request that was supported by NHL.

The Combined Proceeding

On July 5, 2005, the Board issued a Procedural Order combining the subject Application with two others for the purpose of addressing common issues relating to the scope of

the issues that the Board will consider in determining applications under section 86 of the Act. The Procedural Order combined the Application with an application by Greater Sudbury Hydro Inc. for leave to acquire shares in West Nipissing Energy Services Ltd. (EB-2005-0234) and an application by Veridian Connections Inc. and Gravenhurst Hydro Electric Inc. for leave for Veridian Connections Inc. to acquire shares in and to subsequently amalgamate with Gravenhurst Hydro Electric Inc. (EB-2005-0257). The Board assigned file number RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257 to the combined proceeding.

The Procedural Order asked the parties to identify matters that they considered to be relevant to the Board's determination of applications under section 86 of the Act as well as matters they considered to be outside the scope of the Board's review. The Board also requested, without limiting the matters that the parties may wish to raise, submissions on the relevance of two specific issues:

- (i) the adequacy of the purchase price payable in relation to the proposed transaction; and
- (ii) the adequacy or integrity of, or the motivation underlying, the tendering, public consultation, public disclosure or decision-making processes associated with the proposed transaction.

The Board held an oral hearing on this matter on July 19, 2005. The Applicants made oral and written submissions in the combined proceeding. NHL also made oral and written submissions in the combined proceeding, focussing on the reliability issue previously raised by it. Mr. Evans and Mr. Kestey filed a letter reiterating their concerns regarding reliability.

The Board issued its Decision in the combined proceeding on August 31, 2005 (the "Combined Decision"). In the Combined Decision, the Board made two significant

determinations in relation to the manner in which the Board will review applications for leave to acquire shares or amalgamate under section 86 of the Act.

First, the Board determined that the factors to be considered in deciding such applications are those identified in the Board's objectives as set out in section 1 of the Act. Second, the Board determined that it will use a "no harm" test in deciding whether to approve a share acquisition or amalgamation transaction. In other words, the Board will approve a transaction if it is satisfied that the transaction will not have an adverse effect in terms of the factors identified in the Board's objectives.

Based on these two findings, the Board concluded that the price payable by a purchaser is only relevant if the price is too high and creates a financial burden on the acquiring company. In such a case, there could be an adverse effect on the economic viability of the purchaser. A price that is too low would not have an adverse effect in terms of the factors identified in the Board's objectives.

Similarly, the Board concluded that the conduct or motivation of a seller leading up to the transaction (including, for example, the amount of public consultation on, or public disclosure about, the transaction) are not in and of themselves grounds for denying the approval of a transaction. The "no harm" test looks at the effect of a transaction, not the reason for or the process preceding the transaction.

In the Combined Decision, the Board acknowledged that reliability of electricity service is a relevant consideration for the Board in determining applications for leave to acquire shares or amalgamate. However, the Board also determined that the proceeding associated with its consideration of the proposed transactions in the instant case is not the appropriate place to address this question. This is so because the Board has initiated a different, and more focussed, process to address the York Region supply issue. The Board concluded that the reliability concerns raised by NHL in these proceedings are more appropriately addressed in that process. The Board also noted that NHL would not be prejudiced by the deferral of the reliability issues to the Board's

broadier York Region supply process, stating that “any leave [the Board] might give in relation to the share acquisition and amalgamation transaction would not constitute acceptance by the Board that the installation of the three feeder lines is a solution to the supply issue, nor would it pre-determine the outcome (in whole or in part) of the broader process”.

Based on the Combined Decision, all of the issues raised by the Intervenor with respect to the Application are no longer “in scope” for this proceeding, either because they have been deferred to the Board’s broader York Region supply process (reliability issues), because they are premised on the assumption that it is incumbent on the Applicants to demonstrate that the transactions proposed in the Application will result in a benefit (the question raised by Mr. Evans regarding the rate benefits associated with the transactions), or because they have been determined not to be factors relevant to the Board’s review of applications for leave to acquire shares or amalgamate under section 86 of the Act (issues respecting the process culminating in the proposed transactions and respecting the purchase price).

By letter dated September 7, 2005, the Board received notification from NHL indicating that it was satisfied that based on assurances contained in the Combined Decision, it would have an opportunity to address the issues of most concern in the more focused York Region supply process and accordingly was withdrawing its intervention.

On September 16, 2005, a conference call was held to allow the Board to hear the views of the remaining parties on the following questions:

1. Does any Intervenor contest the Application on the basis of issues that remain in scope in this proceeding, based on the Board’s August 31, 2005 Decision?

2. If so:
- (a) what are those issues?
 - (b) what materials or evidence filed by the Applicants with respect to those issues does the Intervenor wish to test, and by what means? Is an oral hearing required for this purpose?
 - (c) does the Intervenor wish to have the Applicants produce further materials or evidence?
 - (d) does the Intervenor intend to produce evidence in support of its position in relation to the Application?

Participants in the conference call included: Ms. Long, representing the Applicants; Mr. Evans of Aurora TrueValue; Mr. Kestein, representing the New Deal Ratepayers Group; Ms. Band, Board Counsel; Mr. Baumhard, Board Staff; and Mr. Betts, Board Member, presiding over the session.

Also present were Mr. Nolan and Ms. Conboy, representing PowerStream; Mr. John Sanderson, representing AHCL; and Mr. Somerville, representing the Town of Aurora.

Ms. Long opened with submissions that all of the issues raised by the Intervenor to this time have been dealt with in the Combined Decision.

Mr. Evans' primary concern related to his apparent uncertainty regarding his eligibility for cost awards. He reiterated concerns about reliability of supply, and about generation solutions to supply problems, and indicated that he disagreed with the Combined Decision position on price, stating that the price should be based upon Market Value.

Mr. Evans requested a 30 day extension on behalf of himself and Mr. Kestein due to some delays in their receipt of documents and their lack of legal counsel to assist them in relation to this proceeding.

Mr. Kestein agreed with all points raised by Mr. Evans and reiterated his concern about the process followed by the Town of Aurora in relation to the sale of the shares of AHCL.

In her reply for the Applicants, Ms. Long stated that no new issues had been identified in the session, and further, the request for a 30 day extension was unacceptable.

Upon considering the points raised by all parties, the Board ruled as follows:

- 1) Mr. Evans, of Aurora TrueValue was advised that the Board's *Practice Direction on Cost Awards* specifically includes parties representing consumer interests as being eligible for cost awards, and confirmed that he therefore is eligible for cost awards. Mr. Evans was reminded that eligibility was not a guarantee that costs would be awarded, and further that all of this was clearly stated in the Board's *Practice Direction on Cost Awards* in his possession.
- 2) The Board rejected a request from the two Intervenor for a 30 day extension to allow them additional time to prepare for the questions put to them. Adequate time has been permitted to understand the Application, the Combined Decision and the questions put to them for discussion during the conference call, as well as to prepare their answers to those questions.
- 3) The Board ruled that Mr Evans and Mr. Kestein had reiterated past issues and failed to identify any that were not already considered in the Board's Combined Decision of August 31, 2005, or that could not be dealt with in other Board processes, such as the Board's review of the York Region

supply situation. This led to a ruling that the Board would now proceed with its deliberations on the Application based upon the evidence it had at this point in the proceeding.

As a result of a question from Mr. Betts to Mr. Evans, the Board clarified a procedural point that Mr. Evans was the Intervenor of record in this matter, not Aurora TrueValue.

Board Findings

Section 86 of the Act provides, among other things, that leave of the Board is required before an electricity distributor can amalgamate with any other corporation. In addition, under that section no person may acquire voting shares in an electricity distributor without leave of the Board if, as a result of the acquisition, the person would hold more than 20 percent of the voting securities of the distributor.

The Combined Decision has made it clear that, in deciding whether or not to grant leave in relation to the Application, the Board must determine whether the transactions contemplated in the Application will have an adverse effect on:

- (i) the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; or
- (ii) economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity or the maintenance of a financially viable electricity industry.

The Applicants have submitted that the transactions contemplated in the Application will:

- provide opportunities for efficiencies and economies of scale, which could mitigate the impact of increased upward pressure on distribution rates for electricity consumers currently served by AHCL;
- provide benefits to Aurora ratepayers due to the synergies of integrating within a larger, lower cost utility (based on figures from the years 2002 and 2003, PowerStream's operation, maintenance and administration costs per customer were approximately 25% lower than those of AHCL);
- enable better inventory management and ensure sufficient spare equipment for high reliability through the harmonization of engineering standards;
- provide electricity consumers currently served by AHCL with benefits associated with being served by a larger utility which, given its larger resources, will have an increased ability to monitor, report on and improve system reliability and power quality;
- allow PowerStream to configure its distribution network using best practices given that the service territories of the parties are geographically contiguous;
- based on an analysis of current rates, result in lower rates for electricity consumers currently served by AHCL than would be the case were AHCL to remain a stand-alone company; and
- be financed through debt financing, with interest coverage and cash flow-to-debt ratios being in accordance with all requirements of banking and Electricity Distributors Finance Corporation bond financing arrangements so as to be sufficient to satisfy the credit rating agencies.

The Board also notes that the following commitments have been made by PowerStream in the context of the transactions contemplated in the Application:

- to maintain or improve customer service levels and service offerings, including meeting or exceeding the minimum service level requirements established by the Board (including expected response times) and which are comparable to the service and reliability levels currently enjoyed by customers served by PowerStream (including on call services 24 hours a day 7 days a week);
- to establish a customer advisory committee comprised of representatives resident in Aurora that will meet quarterly with respect to rates, reliability and customer issues on a consultative basis in order to receive local input and feedback, and to maintain a local presence in the Town of Aurora; and
- to provide AHCL's current customers with a benefit from the harmonization of rates of at least \$10,000,000 over a ten-year period relative to what they would otherwise be as compared to AHCL remaining a stand-alone company.

Based on the above, the Board is satisfied that the transactions contemplated in the Application will not have an adverse effect in relation to the factors identified in its objectives as set out in section 1 of the Act. In other words, the Board is satisfied that the Application meets the "no harm" test.

The Board does, however, wish to further comment on the issue of the installation of the three feeder lines proposed to be constructed by PowerStream. As noted earlier, the Share Purchase Agreement filed by the Applicants contains a section under which PowerStream has agreed to install, within three years but subject to regulatory approval, three 28 kV feeder lines "to provide sufficient capacity for load growth and

enhanced reliability through redirecting of supply based upon customer requirements within Aurora". As noted in the Combined Decision, any leave given by the Board in relation to the transactions contemplated in the Application would not constitute acceptance by the Board that the installation of the three feeder lines is a long term solution to the supply issue, nor should it be regarded in any degree as a determination of any aspect of the broader York Region process.

The Board recognizes that PowerStream entered into this commitment prior to July 25, 2005, the date on which the Board initiated the broader York Region supply process, and accepts PowerStream's statement that the feeder line proposal does not constitute a permanent supply solution for York Region. It should not, therefore, be implemented in a manner that frustrates any aspect of the broader York Region process.

Finally, the Board notes the statement made in a letter dated June 6, 2005 filed with the Board by the Mayor of the Town of Aurora to the effect that the purchase price payable in respect of the transactions contemplated in the Application "represents a premium of some 30% over the base value of the utility as it currently stands". The Board takes this opportunity to remind the Applicants that, as noted in the Combined Decision, any premium paid in excess of the book value of acquired assets is not normally recoverable through rates.

Cost Awards

The Board received submissions and a claim for cost awards, including a suggestion for an advance toward cost awards, from Mr. Evans.

The Applicants replied with arguments that in making its determination regarding whether Mr. Evans is eligible for a cost award, the Board should consider that the issues raised by Mr. Evans with respect to price and supply are outside the scope of the Board's review, and therefore that Mr. Evans should not be granted an award of costs in order to pursue those issues. The Applicants also argued that, should the Board

determine that Mr. Evans is eligible for costs, the Board should only consider the amount of the cost award at the end of the proceeding in accordance with the Board's normal practice. The submissions of the Applicants on this issue were made prior to the Board's July 5, 2005 Procedural Order.

The Board acknowledges that, prior to its Combined Decision, there was some uncertainty regarding the scope of the issues to be considered in determining whether to grant leave in applications to acquire shares or amalgamate under section 86 of the Act. The Board finds that it would not be appropriate to deny costs to an intervenor for having raised issues that were, at the time, of potential relevance but that have subsequently been determined to be out of scope. The Board also notes that Mr. Evans did raise issues relating to reliability which, but for the York Region supply process, would have been relevant considerations for the Board in its determination of the Application.

The Board confirmed in its September 16, 2005 conference call that Mr. Evans is eligible for costs.

In this Decision, the Board has determined that Mr. Evans shall be awarded 100% of his reasonably incurred costs in connection with his participation in this proceeding. In the Combined Decision, it was noted that the Board would issue a separate decision on cost awards in relation to the combined hearing at a later date. Accordingly, Mr. Evans' entitlement to costs for his participation in the combined hearing will be determined by the Panel that presided over the combined hearing. To facilitate the processing of cost awards to Mr. Evans, he should await that Panel's determination of cost awards for the combined hearing before filing his detailed cost claim. Mr. Evans must then submit his detailed cost claim, in the form required by the Board's *Practice Direction on Cost Awards*, within 21 days of the date on which a decision on cost awards is issued by the combined hearing Panel.

The Board anticipates that the Board's costs of, and incidental to, this proceeding, which relate almost exclusively to the combined proceeding, will be addressed by the combined hearing Panel in its decision on cost awards.

THE BOARD THEREFORE ORDERS THAT:

1. PowerStream Inc. is granted leave to acquire all outstanding shares in, and subsequently to amalgamate with, Aurora Hydro Connections Limited.
2. Notice of completion of each of the share acquisition and the amalgamation shall be promptly given to the Board.
3. The Board's leave to acquire shares and amalgamate shall expire 18 months from the date of this Decision and Order. If either the share acquisition or the amalgamation has not been completed by that date, a new application for leave will be required in order for the non-completed transaction to proceed.
4. The eligible costs of Mr. Evans in relation to this Application, other than in relation to the combined proceeding, as assessed by the Board's Cost Assessment Officer, shall be paid by the Applicants upon receipt of the Board's Cost Order.

Pursuant to section 6(1) of the Act, the Management Committee of the Board has delegated to Mark Garner, an employee of the Board, the powers and duties of the Board with respect to the determination of applications under section 74 and section 77(5) of the Act. Accordingly, the Board refers to Mark Garner the application to cancel Aurora Hydro Connections Limited's electricity distribution licence and the application to amend PowerStream Inc.'s electricity distribution licence.

ISSUED at Toronto, September 19, 2005

ONTARIO ENERGY BOARD

Original signed by

Peter H. O'Dell
Assistant Board Secretary



EB-2007-0074

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by
PowerStream Inc. for an Order or Orders approving or
fixing just and reasonable rates for distribution service.

BEFORE: Cynthia Chaplin
Presiding Member

Paul Vlahos
Member

Cathy Spoel
Member

DECISION AND ORDER

On March 7, 2007, PowerStream Inc. ("PowerStream") filed an Application with the Ontario Energy Board (the "Board") pursuant to section 78 of the *Ontario Energy Board Act, 1988* for an order or orders approving or fixing just and reasonable rates for the distribution of electricity. PowerStream is a licensed distributor providing electrical service to consumers within its defined service areas as specified in its licence ED-2004-0420 in the Town of Markham ("Markham"), the Town of Richmond Hill ("Richmond Hill"), the City of Vaughan ("Vaughan"), and the Town of Aurora ("Aurora"). This Application was filed by PowerStream in response to the Board's direction in RP-2005-0020/EB2006-0409 to bring forward a proposal to harmonize its rates in 2007. Prior to this Application, four sets of rates were in effect, one for each municipality served.

Public notice of the Application was given through newspaper publication in Powerstream's service area. The evidence filed in support of the Application was made available for review by interested members of the public. While the Board has considered the entire record in this proceeding, and has found it sufficient, it has made reference in this Decision only to such parts of the record as are necessary to provide context to its findings.

To harmonize its rates, PowerStream performed the following four steps:

1. Combined the approved 2006 EDR revenue requirements of PowerStream and Aurora as adjusted for the new capital structure and PILs, and combined Retail Transmission Rates and distribution losses to produce one set of new 2006 rates using the 2006 EDR model,
2. Allocated the combined 2006 revenue requirement to the rate classes using the Board developed cost allocation model and compared those allocated costs to the revenues from the combined 2006 rates to determine the differences between the rates and allocated costs,
3. Re-aligned the combined 2006 rates by closing the differences by 25% between the allocated costs and the combined rates by rate class, and
4. Applied the re-aligned 2006 rates to the 2007 IRM model to produce the proposed rates for which PowerStream is seeking approval.

In support of this application, PowerStream pre-filed evidence and appeared at a Technical Conference held at the Board's offices on June 11, 2007.

In reviewing the evidence the Board considered the following:

1. What is the impact on revenue requirement?
2. Is the proposal to incorporate the Board's proposed cost allocation model reasonable?
3. Was the Board's final finding for the price cap index adjustment in 2007 EDR applied to the 2007 IRM Model?
4. Are the changes in the levels of the fixed monthly charges reasonable?
5. Are the total bill impacts reasonable?
6. What is an appropriate implementation date?
7. Other rate matters addressed by PowerStream in their application; combining Retail Transmission Rates, combining distribution losses, and the treatment of Regulatory Assets.

For the reasons set out below, the Board approves PowerStream's application.

Revenue Requirement Impact

The application is not revenue neutral. The 2006 revenue requirement for PowerStream increases by \$111,272 to \$104,330,964 from \$104,219,692, which represents about a 0.1% increase. The main drivers for the net change in the revenue requirement arise from the acquisition of Aurora Hydro. They are:

- Changing Aurora's Debt Equity ratio from 50/50 to 60/40, debt to equity,
- Retiring Aurora's \$12,736,000 promissory note at 7.25% and replacing it with a note at the deemed rate of 6.12%.

As a result of these changes in capital structure and debt costs, Net Income Before PILs and PILs changed, which resulted in a net increase in the revenue requirement.

The Board approves the changes in capital structure and related costs for the purposes of setting the 2006 revenue requirement as the first step in the harmonization of rates. In making this finding, the Board considered the increase in revenue requirement to be *de minimis* in the context of this application.

The Move to Allocated Costs

In the second step in harmonization PowerStream allocated its harmonized 2006 EDR costs to the rate classes using the cost allocation model issued by the Board on November 15, 2006. The combined rates were used to develop revenues for comparison to the allocated costs. PowerStream proposes to reduce the difference between the revenues and the allocated costs by 25% for each rate class. This step is revenue neutral for the utility in totality.

While the cost allocation model was developed collaboratively with stakeholders, the Board has not yet made a decision on the implementation of the model in rate making. However, as PowerStream is not proposing to fully implement the allocated costs arising from the model, there will be an opportunity to make any adjustments that might be required once the Board has made a decision on the use of the cost allocation model. The Board finds this approach to be reasonable.

Application of the Price Cap Index Adjustment to the 2007 IRM Model

The Board notes that the application by PowerStream was submitted prior to the Decision on the 2007 price cap index adjustment in the 2007 EDR. In its Decision in 2007 EDR, the Board approved a price cap index adjustment of 1.90%. PowerStream's application incorporated the default rate of 1.92% coded into the model distributed by Board staff for the 2007 EDR. The Board has reflected the approved 1.90% in setting the final rates.

Fixed Monthly Charges

The split between the fixed monthly charge and the variable charge is proposed to change upon harmonization. Every existing rate would be moved to a new common rate resulting from applying the harmonized costs to the 2006 EDR model. Thus, a change for all would naturally occur. The overall changes to the fixed/variable split in rates are not more than 3%. The Board accepts the resulting proposed fixed monthly charges.

Total Bill Impacts from Harmonization

Based on the evidence, no rate class would experience an increase greater than 10%, except for street lighting and sentinel lighting. The Board recognizes that when rates are harmonized, some customers will experience an increase and others a decrease. In the case of its residential customers, PowerStream's evidence shows that the largest increase for a typical residential customer would occur in Vaughan (2.5%) and the largest decrease in Aurora (8.2%). For General Service customers (less than 50 kW) using 2,000 kWh, the change in bills would range from +2.5% (in Markham) to -5.9% (in Aurora).

The total bill for street lighting in Markham would increase by 17.3%. However, PowerStream pointed out that Markham has mitigated the impact by contracting for supply through a third party. The total bill for sentinel lights, i.e. security lighting in farm lanes and other places, would increase by over 20%. The Board notes, however, that the maximum bill increase would only be \$3.95 due to the low monthly bill for sentinel lighting.

The Board finds these changes to be reasonable under the circumstances surrounding harmonization of PowerStream's rates.

Implementation Date

The original application did not include an implementation date. At the Technical Conference, PowerStream stated that they would not want an effective date later than November 1, 2007. PowerStream also advised that they would appreciate a month to effect the changes to the billing system and prepare customer communication material. The Board directs PowerStream to implement the rates effective November 1, 2007.

Other Rate Matters

In the process of harmonization, PowerStream also addressed the issues of combining Retail Transmission Rates and incorporating distribution losses. The proposed approach would result in all customers paying the same average rate for retail transmission service and distribution losses. The Board accepts this blending of these costs as proposed in the application.

PowerStream, however, did not propose blending the Regulatory Assets. PowerStream proposed to keep the existing charges separate in the four operating areas.

PowerStream pointed out that these costs were incurred prior to amalgamation and should therefore remain separate. The Board agrees with this and directs that PowerStream maintain the Regulatory Asset accounts separately by operating area until the rate riders associated with the Regulatory Assets account are removed.

Costs

The Board directs that the Board's costs of, and incidental to, this proceeding be paid by PowerStream immediately upon receipt of the Board's invoice.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix "A" of this Order is approved, effective November 1, 2007.
2. The Tariff of Rates and Charges set out in Appendix "A" of this Order supersedes all previous distribution rate schedules approved by the Ontario Energy Board for PowerStream Inc. and Aurora Hydro Connections Inc.

3. PowerStream Inc. shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, July 26, 2007.

ONTARIO ENERGY BOARD

Original Signed by

Peter H. O'Dell
Assistant Board Secretary

Appendix “A”

EB-2007-0074

July 26, 2007

ONTARIO ENERGY BOARD



IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Greater
Sudbury Hydro Inc. for an order approving just and
reasonable rates and other charges for electricity
distribution to be effective May 1, 2009.

BEFORE: Cathy Spoel
Presiding Member

Pamela Nowina
Member and Vice-Chair

DECISION AND ORDER

Greater Sudbury Hydro Inc. ("Greater Sudbury" or the "Applicant") filed an application with the Ontario Energy Board on December 22, 2008 under section 78 of the *Ontario Energy Board Act*, 1998, seeking approval for changes to the rates that Greater Sudbury charges for electricity distribution, to be effective May 1, 2009. Greater Sudbury is the licensed electricity distributor providing service to consumers within the City of Greater Sudbury and the Municipality of West Nipissing.

Greater Sudbury is one of about 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year.

On January 30, 2008, the Board indicated that Greater Sudbury would be one of the electricity distributors to have its rates rebased for the 2009 rate year. Accordingly, Greater Sudbury filed a cost of service application based on 2009 as the forward test year.

In its original application, Greater Sudbury requested a revenue requirement of \$23,818,357 to be recovered in new distribution rates effective May 1, 2009. If the application was approved as filed, a residential customer consuming 1,000 kWh per month would experience an increase of approximately 13.4% from the current delivery charges in the City of Greater Sudbury, and an increase of approximately 12.8% in the Municipality of West Nipissing.

The Board assigned the application file number EB-2008-0230 and issued a Notice of Application and Hearing dated January 13, 2009. The Board approved three interventions: the Consumers Council of Canada (CCC), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC).

On February 18, 2009, the Board issued Procedural Order No. 1 that provided for a phased approach to the discovery process, the first phase consisting of written interrogatories and the possibility of a technical conference at the option of the Applicant. The Applicant chose not to have a technical conference.

The Board issued Procedural Order No. 2 on March 31, 2009, seeking the views of the Applicant and all parties regarding the need for additional procedural steps in this proceeding. Intervenors and Board staff suggested that further discovery was required. Accordingly, the Board ordered a Technical Conference followed by a Settlement Conference.

The Technical Conference was held on June 2, 2009, followed by the Settlement Conference on June 3, 2009. The parties were not able to reach a settlement, nor were they able to come to agreement on an issues list to scope a potential hearing.

In Procedural Order No. 6, the Board ordered a limited oral hearing focusing on specific issues. The hearing was held in the Board's hearing room on July 23 and 24, 2009.

Board staff and intervenors filed their written submissions on September 10 and 11,

2009. The Applicant filed its Reply Argument on September 30, 2009.

The following aspects of Greater Sudbury's Application for rates were accepted by all parties:

- Transformer Ownership Allowance
- Specific Service Charges
- Loss Factors
- Rural and Remote Ratepayer Protection

THE ISSUES

The issues listed below were raised in the submissions filed by Board staff and CCC, SEC, and VECC and are addressed in the following sections of the Decision:

1. Board of Directors budget approval
2. Load Forecast
3. Other Distribution Revenue
4. Operating, Maintenance & Administrative ("OM&A") Expenses
5. Capital Expenditures and Rate Base
6. Cost of Capital and Capital Structure
7. Smart Meters
8. Lost revenue Adjustment Mechanism and Shared Savings Mechanism
9. Cost Allocation and Rate Design
10. Deferral and Variance Accounts

1. BOARD OF DIRECTORS APPROVED BUDGET

Before we deal with the specifics of the application, we will address an issue raised by SEC both in the context of OM&A expenses and the Capital Expenditures, that is whether the Board should require the Applicant to operate within the budget approved by the Applicant's board of directors in January 2009¹.

This panel of the Board agrees with the comments made by the Board in EB-2008-0187, Hydro One Networks Inc., that

¹ Response to SEC Interrogatory (Appendix 9c)

while the genesis of an application is of general interest to the Board, it is not determinative of the substantive aspects of the application. Once filed in accordance with the provisions of the legislation, applications are reviewed on their merit. The particulars surrounding the levels of approvals before a distributor makes an application, is a matter that is internal to the company itself.

Therefore the Board has not considered the budget approved by Greater Sudbury's board of directors in making our determination.

2. LOAD FORECAST

The Applicant used historical data to determine the 2008 Bridge Year and 2009 Test Year customers/connections count by class, and to determine the kWh forecast by customer class (and the kW forecast for appropriate classes). It presented variance analyses in support of these forecasts.

Methodology and Model

The forecast for the number of customers/connections by rate class was prepared using time-series analysis.

The weather-normalized load forecast was developed in a five-step process:

- a total system weather-normalized purchased energy forecast for 2008 and 2009 was developed based on a multifactor regression model
- Conservation and Demand Management ("CDM") adjustments were made to the 2008 and 2009 purchased energy forecasts
- the weather-normalized CDM-adjusted purchased energy forecast was adjusted by an historical loss factor to produce a weather-normalized *billed* energy forecast
- the forecast of *billed energy by rate class* was developed based on a forecast of customers numbers and their historical usage patterns. For each of the rate classes with weather-sensitive load, their forecasted billed energy was adjusted to ensure that the total of the billed energy forecast by rate class was equivalent to the previously-obtained total weather-normalized billed energy
- for those rate classes that use kW for the distribution volumetric billing determinant, the kWh forecast was re-stated by applying a conversion factor

to the class energy forecast based on the historical relationship between kW and kWh.

Results

The forecast resulted in a 0.3% per annum increase in the customer count, and a 0.8% per annum increase in load growth. These are the same as the historical rates of growth. The 2009 forecasted customer count is 56,751. The 2009 forecasted load is 973.5 GWh.

The Applicant used GDP data that were approximately 18 months out of date. The Applicant recalculated the load forecast twice using even more up-to-date GDP data and provided alternate forecasts that were 1.8% higher (991.0 GWh) and 2.9% higher than the filed forecast (1,002.2 GWh).

The Applicant noted that when using updated GDP data, its model predicted a load increase even though the GDP was declining. The Applicant explained that this did not make sense and thus it continued to rely on the filed forecast².

In the oral hearing the Applicant's consultant rationalized the negative correlation between GDP and load by suggesting that the negative correlation may be attributed to a "roller coaster effect" of load in the Applicant's service area over the 1998 to 2007 period³.

The Applicant acknowledged that it had included a greater reduction in its forecast due to future CDM than can be supported by the data and agreed to reduce it⁴.

Board staff submitted that the Applicant's forecasting model is fundamentally flawed as demonstrated by the negative correlation between GDP and load. Board staff also submitted that because of the model's negative correlation and the out-of-date data used in the model, no confidence can be placed in the forecasting method used and the subsequent forecast developed. However, despite this, Board staff noted that the Applicant's forecast shows the same 0.8% per annum increase as was actually experienced in the 2002-7 period. Hence, to assist the Board in its selection of a specific load forecast for setting 2009 rates, Board staff recommended that the

² Technical Conference transcript pages 7-8

³ Oral hearing transcript Day 2, pages 134-140

⁴ Undertaking J2.10

Board accept the Applicant's 2009 forecasted load of 973.5 GWh. Board staff also recommended that in future rate applications, the Applicant prepare and file a load forecast that is supported by both historical load data and the most currently-available economic data. Board staff also suggested that where the results of a sophisticated technique are unrealistic, an alternate – perhaps more basic – technique should be used instead.

VECC expressed concern that the Applicant's regression equation did not include the number of customers as a variable but, instead, used population count. It also identified concerns with the Applicant's process for weather-normalizing loads. VECC also supported the Applicant's revision to the forecast to include only a percentage of the CDM savings in the model.

VECC submitted that the 2009 load forecast should be increased by at least 1% to adjust for the Applicant's use of out-of-date data and the negative correlation in the model.

VECC also submitted that while it recommended that the Board accept the resulting value after making these adjustments, it should only be for the purpose of setting 2009 rates, and should not be viewed as acceptance of the Applicant's load forecasting methodology.

CCC supported VECC's proposed adjustments.

SEC also expressed concern with the model's negative correlation and the Applicant's reluctance to update its forecast to use more recent GDP data.

SEC was concerned with the implications of Board staff's recommendation that despite the obvious problems with the methodology, the resulting forecast is intuitively fairly accurate and should be accepted. SEC argued that the Board should not accept the forecast filed by the Applicant since it will send a signal to other Local Distribution Companies ("LDCs") that rigour in key aspects of their applications is no longer required. SEC recommended that the forecast be increased to 991.0 GWh⁵ subsequently reduced to correct for a weather-normalization error and then increased to correct for the CDM issue, be the approved forecast. Finally, SEC submitted that this type of model needs a thorough

⁵ Data used by Applicant in response to Board staff interrogatory number 2

review to ensure proper correlation is present and, for the Applicant's next rebasing, the Applicant demonstrates the model it uses is more robust.

In its Reply Argument, the Applicant acknowledged that the methodology for LDC forecasting is still evolving and anticipated that the load forecasting methodology for Ontario LDCs may be revisited for future cost of service applications. With respect to the current application, the Applicant submitted that Board Staff's approach is the most reasonable one since, notwithstanding an allegedly flawed methodology, it acknowledged the forecast increase matched the historical increase. The Applicant expressed concern that the intervenors were attacking its methodology but were then requesting the Board to force it to use the same methodology in order to reduce rates. Concerning CDM adjustments, the Applicant acknowledged that the Ontario Power Authority had prepared updated figures regarding certain electricity savings and it would be appropriate to use these. This update corresponded to an increase of 2.618 GWh in the forecast – a larger increase, the Applicant noted, than the intervenors had recommended.

Consequently, the Applicant requested that the Board approve the filed forecast plus 2.618 GWh to compensate for the reduction in CDM.

Board Findings

The Board approves the 56,751 customer forecast for 2009 as filed.

The Board approves 976,124,612 kWh as the 2009 load forecast for the purpose of setting rates. This is the filed load forecast plus the Applicant's recommended increase to compensate for a reduction in CDM savings. While cognizant of intervenors' recommendations to adopt a still higher load forecast, the Board considers the approved load forecast to be reasonable. It is consistent with historical data and a more appropriate number has not been proposed. However the Board wishes to be clear that it does not have confidence in the load forecasting methodology used by the Applicant.

The Board notes the Applicant's acknowledgement that its load forecasting methodology may have to be revisited in future cost of service rate applications. While the Board accepts that the Applicant's load forecasting methodology is substantially similar to that used previously by other LDCs and accepted by the Board as satisfactory, the Board, like Board staff and intervenors, is concerned

about the methodology. Specifically, it is concerned with the counter-intuitive negative correlation between GDP and load expressed in the Applicant's model. The Board also shares the concerns expressed by Board staff and intervenors regarding the need for applicants to demonstrate that the models they use are robust, are supported by historical load data and use up-to-date data in their forecasts. The Board expects the Applicant to demonstrate that these concerns have been addressed in its next cost of service application. As well, if the applicant uses Ontario GDP as a factor in future forecasts, the Board expects the applicant to demonstrate the applicability of Ontario's GDP to the utility's service territory.

3. OTHER DISTRIBUTION REVENUE

Greater Sudbury submitted a forecast of Other Distribution Revenue in its Argument-in-Chief equal to \$1,647,880. This amount is lower than the initial request by \$50,000, which is the forecast of revenue from the Retail Settlement Variance Accounts carrying charges.

Board staff noted that the forecast of several components of Miscellaneous Revenue are well below the average of previous years, and submitted that the forecast should either be increased or that the Applicant should provide additional evidence to reassure the Board of the accuracy of its forecast. SEC agreed with this submission. CCC suggested that the forecast was likely accurate, as the various components were all associated with interest rates. Greater Sudbury provided information in its Reply Argument⁶ about its monthly revenues from interest earnings, and showed that these amounts had declined significantly in more recent months.

Board Findings

The Board accepts that the reduction in interest rates is likely to cause a reduction in other distribution revenue and approves Greater Sudbury's forecast of \$1,647,880 as the Revenue Offset.

4. OPERATING, MAINTENANCE AND ADMINISTRATIVE ("OM&A") EXPENSES

Operating costs include OM&A expenses, depreciation and amortization expenses,

⁶ Applicant Reply Argument, para 29

payments in lieu of taxes (“PILs”), and the cost of debt. PILs are proxies for capital and income taxes that otherwise would have to be paid if the distributor were not owned by a municipality.

The final PILs allowance for ratemaking purposes is determined after the Board makes its findings on other relevant parts of the application.

Interest charges on the distributor's debt are dealt with in the cost of capital section of the Decision.

The table below shows the components of Greater Sudbury's proposed OM&A expenses for 2009 and compares them with previous years.

Greater Sudbury Hydro Inc.					
Dollars					
	2006 Board Approved	2006 Actual	2007	2008 Bridge	2009 Test
1 Operation	2,984,821	2,825,760	3,056,145	2,953,779	3,651,237
2 Maintenance	789,686	1,357,346	1,726,935	1,594,474	1,745,098
3 Billing and Collection	2,150,141	2,218,799	2,183,704	2,255,815	2,515,358
4 Community Relations	3,327	218,301	283,804	19,500	206,736
5 Administrative and General Expenses	4,578,945	2,922,543	9,004,627	3,473,245	3,756,117
6 Total OM&A Expense	10,506,920	9,542,749	16,255,215	10,296,813	11,874,546

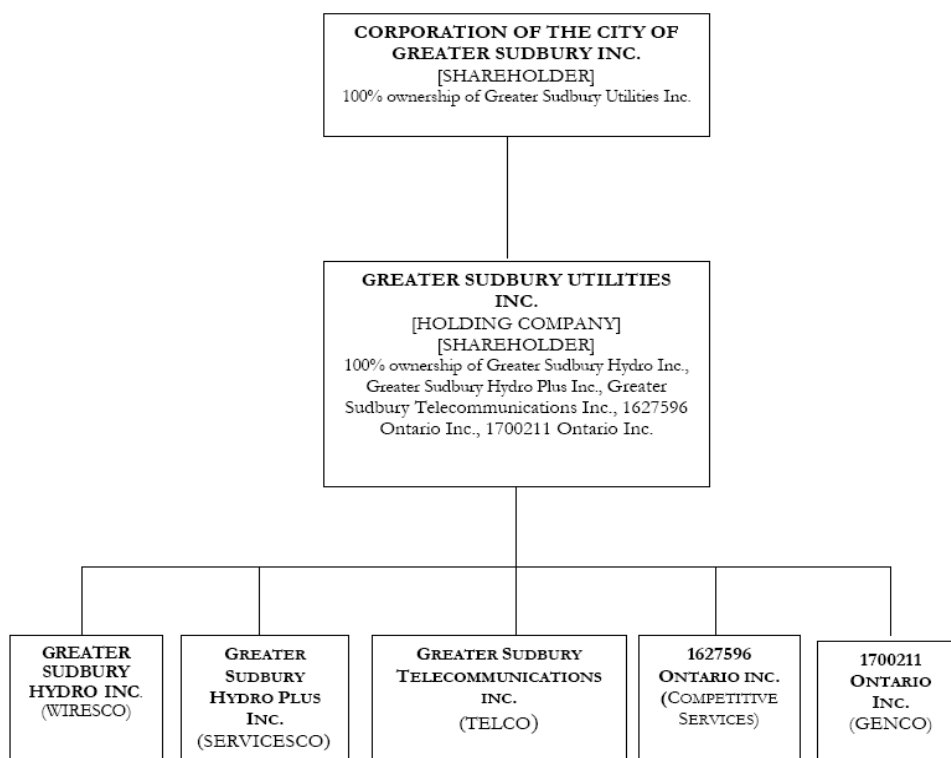
This table contains actual results for 2006, and 2007. 2008 is an estimate and 2009 is the requested test year costs. The trend is somewhat distorted due to an accounting adjustment in the 2007 actuals of \$5,912,439 for future retirement benefits. In total, the requested \$11,874,546 is an increase of \$2,331,797 or 24.4% over 2006 actuals.

The issues raised by Board staff and intervenors were related to:

- a. Shared services,
- b. Water Billing,
- c. Tree trimming,
- d. Regulatory costs,
- e. Audit costs,
- f. Compensation
- g. Control Room costs, and
- h. Enterprise Resource Planning Maintenance costs.

4 a. Shared Services

Greater Sudbury Plus Inc. (“The Plus Company”) provides all services to Greater Sudbury with the exception of CDM. While a significant portion of the Plus Company’s costs are only for Greater Sudbury, the Plus Company also provides services to other affiliates and the shareholder. The following chart provides the corporate relationships.⁷



Greater Sudbury’s evidence was that most of the Plus Company’s costs are directly attributable, and are in support of, the operation of the regulated utility. However, there are costs that are shared with affiliates. Depending on the service provided, between 90 to 97.5% of these shared costs from the Plus Company are ultimately charged to Greater Sudbury.

Greater Sudbury indicated that it would be undertaking a review of transfer pricing methodologies and intra-company cost allocations, including the water billing service, once additional requested information and interpretations from the regulator are received.

⁷ Source: Exhibit 1 Tab 1 Schedule 13

During the oral hearing Greater Sudbury provided the draft terms of reference for a proposed study, titled *Draft ARC Compliance Plan and Transfer Pricing Study*,⁸ and filed, in confidence, proposals from two consultants. Greater Sudbury indicated that the scope of work contained in the proposals would have to be refined, in part because the terms of reference of the study had not been developed with the consultants.

At the conclusion of the oral hearing, the panel invited the parties to address in argument the corporate cost allocation and transfer pricing issue with specific regard to:

- i. the scope of the corporate cost allocation and transfer pricing study;
- ii. the timing of the study;
- iii. what the Board should do with the results of the study once available, including the holding of a limited scope hearing on the matter; and
- iv. the model or approach to be followed regarding the allocation of costs of the new Customer Information System.⁹

CCC submitted that Greater Sudbury should work with Board staff to finalize the terms of reference of the study and retain an independent consultant to carry out a comprehensive review of its corporate structure, its transfer pricing methodologies, and its intra-company cost allocation. CCC also submitted that the Board should require Greater Sudbury to rebase in 2011 on the basis on the study.

SEC submitted that the study should include all affiliates of the Applicant that provide services to, or receive services from, the Applicant or the Plus Company, or whose operations affect the cost of the Applicant; and should reflect the requirements of the Board as set out in other proceedings in particular those relating to Enbridge Gas Distribution Inc's transfer pricing and corporate cost allocations issues. SEC suggested that Greater Sudbury should be encouraged, but not required, to work with stakeholders to develop and implement the study.

VECC argued that formal review of shared services should be conducted under the control of Greater Sudbury and not an affiliate for the services in question. In this

⁸ See appendix A

⁹ EB-2008-0230 Transcript Vol.2 pp. 191-194

regard, VECC submitted that the Board, under its licensing powers, should direct GSUI/the Plus Company to undertake a comprehensive review of Corporate Shared Services Allocations. VECC commented that there are many examples of such studies which should keep the study costs in line with the subject amounts.

Board staff submitted that as an alternative to holding a limited scope hearing to address the outcome of the transfer pricing study, the Board could direct Greater Sudbury to record the financial outcome of the study in a deferral account. The balances could later be reviewed as part of the next cost of service application.

Greater Sudbury disagreed with CCC's proposal to make 2011 a re-basing year. Greater Sudbury pointed to the practical limitations to preparing an application within an accelerated timeframe as well as potential structural changes within the Greater Sudbury corporate family that may occur in the interim.

With respect to the scope of the study, Greater Sudbury agreed with SEC that a Board-provided road-map was unnecessary since it would be retaining consultants experienced in conducting transfer pricing studies. Greater Sudbury submitted that it should be in control of its transfer pricing review process and not be required to consult with stakeholders, noting that it is not aware of other LDCs who have had to consult with intervenors on corporate matters. Greater Sudbury noted that it would consult with Board staff if it thought it necessary.

CCC, SEC and VECC submitted that the shareholder, and not the ratepayer, should pay for the study. Greater Sudbury suggested that if a deferral account is to be used, then it would be appropriate to track the transfer pricing study related costs in that account for recovery at the same time any adjustments to allocations are made.

4 b. Water Billing

The Plus Company provides billing services to the City of Sudbury Water Services Division based on a ten year fixed price contract set in 2004. The price is indexed. The overall cost of operating the billing system is \$3.642 million. At present approximately \$2.912 million or 80% is allocated to electricity billing and the remainder of \$729,678 is billed to the City. The contract was not subject to an RFP (Request for Proposal) process and was negotiated directly between the City and the Plus Company.

At issue is that approximately 21% of the billing costs are paid by the City of Sudbury for water billing. However, the number of bills issued for electricity and water billing customers is roughly the same, with 46,862 electricity customers and 46,482 water customers. The Applicant in its Argument submitted that water billing was less complex than electricity billing.

CCC argued that the overall billing costs should be split 50-50 with the City of Sudbury. CCC submitted that, without a completed cost allocation study, there is no reliable evidence to support the current fee. SEC proposed a similar interim solution which includes reflecting a 50-50 splitting of overall billing costs in the Greater Sudbury's revenue requirement along with the establishment of a Transfer Pricing Variance Account. The Transfer Pricing Variance Account would record difference between the amounts that are included in revenue requirement for payments back and forth with the affiliates and the City of Sudbury and the amounts that, pursuant to the transfer pricing study, should have been included in revenue requirement each year relating to those same payments.

Greater Sudbury opposed VECC's, SEC's and CCC's proposals that the revenue requirement in this proceeding reflect 50-50 split in overall billing services costs since it was without foundation, prejudicial to the outcome of the transfer pricing study and jeopardizes the existing financial advantages of the existing cost sharing arrangement for Greater Sudbury's ratepayers. Largely for the same reasons, Greater Sudbury rejected SEC's suggestion for the establishment of a variance account.

Greater Sudbury indicated that it would not object to Board staff's suggestion that the Board could direct Greater Sudbury to record the financial outcome of the transfer pricing study in a deferral account and the balances could be reviewed later as part of the next cost of service application. Greater Sudbury preferred this approach, even though it involves retroactivity, to making arbitrary adjustments to its revenue requirement before the results of the study are known and accepted.

Board Finding

The Board directs Greater Sudbury to undertake a study of all shared services, and the cost allocation method that would be most appropriate for transfer pricing. The Board notes that Greater Sudbury is addressing some outstanding Affiliate Relationships Code issues, which may result in corporate reorganization. The study

should reflect any new corporate structure that may result. Appendix A and Appendix B to this Decision are to be used by Greater Sudbury in establishing the scope of the study.

The Board will not require stakeholder involvement. Any corporate re-organization is clearly a matter for the corporation's executive and board of directors.

As for timing, the Board does not accept Greater Sudbury's position that it cannot develop a study until 2013. The Board directs Greater Sudbury to prepare an appropriate transfer pricing study through an independent third party to be completed by Dec 31, 2011, and to be filed with its next cost of service application.

The Board is concerned that the allocation factor that is currently being used may not be correct, and does not wish to wait until the next cost of service rate application to correct any re-allocation that is recommended by the study. The Board therefore orders the creation of a variance account to track the difference between the costs as currently allocated and any new allocation of costs as recommended by the study.

This variance account will work as follows: an opening credit balance in the amount of \$1,821,102 will be recorded for 2009 and for each of the subsequent IRM years. This is half of the total annual amount of operating the billing system. To the extent that the allocation study shows that the current allocation of approximately 21% is incorrect, this variance account will allow the Board to order a clearance of a portion of this variance account in favour of ratepayers to a maximum of 50% of the total billing costs. The allocation study may well show that an allocation of less than 50% is appropriate: in that a case the variance account would be cleared to ratepayers only in proportion to the amount supported by the allocation study. The Board also anticipates that a future panel of the Board may allow for some form of discovery and submissions on the allocation study in the next cost of service application. This variance account will come into effect on the effective date of this Decision (July 1, 2009). It will only capture amounts going forward from that date. To be clear, the Board is approving Greater Sudbury's requested costs of \$2,912,000 for billing in 2009 rates. The variance account will allow a future panel of the Board to determine if a portion of that amount should be returned to ratepayers based on the results of the transfer pricing study.

Regarding the cost of the study, the Board considers it appropriate to split the cost evenly between the ratepayers and the shareholder of the Applicant. Greater Sudbury is therefore permitted to record half the costs incurred in a deferral account. The costs will be reviewed at the next rebasing application.

4 c. Tree Trimming

For the 2009 test year, Greater Sudbury budgeted \$544,880 for tree trimming. The evidence shows that costs for tree trimming have increased significantly from pre 2005.¹⁰ Greater Sudbury stated that this increase is due to trees planted during a major tree planting programme in the 1970's and 1980's maturing and requiring greater attention. Board staff, CCC and SEC pointed out that tree trimming included costs for shaping the trees. Greater Sudbury replied that they do not undertake ornamental shaping of vegetation, and that they generally follow industry practice. SEC argued that the Board of Directors approved amount of \$213,696 be the allowed expense. Board staff pointed out that the proposed \$544,000 budget for tree trimming is consistent with that expended in 2006 and 2007, as well as that expected for 2008 as submitted by Greater Sudbury in evidence.¹¹

Board Finding

The Board understands that The City of Sudbury undertook to significantly increase the number of trees in the 1970's and 1980's by planting fast growing varieties of trees to overcome the scarcity of trees in the area. The Board accepts Greater Sudbury's evidence regarding the need to start regular trimming of these trees as they become a risk to Greater Sudbury's plant. The Board approves the proposed budget for tree trimming.

4 d. Regulatory Expenses

Greater Sudbury has applied for \$323,000 in expenses representing regulatory costs for 2009. These costs are:

OEB annual assessment	158,100
OEB hearing assessment	60,000
Incremental internal costs	40,000
Legal Costs	65,000
Total	<u>323,100</u>

¹⁰ Source: Exhibit 4 Tab 2 Schedule 3 page 6

¹¹ Source: Table 2 of Exhibit 4 Tab 2 Schedule 3

In undertaking J2.8, Greater Sudbury forecasted regulatory expenses to 2012. Additional costs for the *Green Energy and Green Economy Act* were included from 2010 going forward. Also included for this period were minor costs for advertising rate orders of approximately \$3,000 per year over the remaining three year period.

Intervenors submitted that the annual regulatory costs were too high, with CCC arguing that amounts should be consistent with other utilities.

In Reply, Greater Sudbury argued that the costs were not unreasonable, and that they would not include the budgeted amounts for the *Green Energy and Green Economy Act* in their costs of operations and instead would use the Board established deferral accounts that were established for such expenses.

Board Findings

The Board has examined the costs presented in undertaking J2.8 and finds the expenses for OEB assessments and legal costs to be in line with other applicants' approved costs. Although some costs may seem high, the Board accepts them as the Applicant was required to attend a technical conference, settlement conference and an oral hearing, and is located at some distance from the Board's offices in Toronto. The Board accepts Greater Sudbury's request to recover \$323,000 in regulatory costs for 2009.

4 e. Audit Expenses

Greater Sudbury's audit expenses were a subject of concern to Board staff, CCC, and SEC. During the technical conference, Mr. Pawlowicz stated that Greater Sudbury's financial audit cost was \$100,000.¹² He further confirmed that special audit work and IFRS (International Financial Reporting Standards) are also budgeted at \$50,000 each, for another \$100,000, for a total of \$200,000 for the 2009 Test Year. While some confusion arose over whether one or three auditors reviewed Greater Sudbury's operations, the Applicant clarified in its Reply Submissions that only one auditor, FCR, performed the audit.

In regards to the costs for a financial audit, Board staff, CCC, and SEC argued that \$100,000 was too high. While Board staff suggested allowing only one third of this amount, SEC suggested \$50,000.

¹² Source: Technical Conference transcript pages 79 – 80.

With respect to the budget component for IFRS, Greater Sudbury stated in their Reply that it will use the deferral accounts established by the Board for IFRS expenses. This has the effect of reducing audit costs by \$50,000 in the test year.

Board Findings

The Board finds that \$100,000 for a financial audit out of line with other utilities that it has reviewed. VECC suggested \$50,000 which the Board sees as more in line with the costs of other utilities. The Board will approve a total of \$100,000 for audit expenses for ratemaking purposes. Accordingly, the Board will allow Greater Sudbury to recover \$100,000 in audit expenses for 2009. IFRS related expenses should be recorded in the deferral account established by the Board for this purpose.

4 f. Compensation

As a result of a substation asset condition report by Costello Associates, Greater Sudbury has included two additional Powerline technicians in its O&M budget.¹³ These technicians are annualized in the budget, even though they will not be hired until December. Greater Sudbury pointed out that in an IRM environment, if they were not annualized, the rates for the subsequent years would under collect for these technicians.

Board Finding

Greater Sudbury has established the need for the Powerline technicians. The remaining question is a matter of the appropriate cost level for setting rates until the next rebasing. The Board directs greater Sudbury to build only 77% of the annual fully burdened cost for the two technicians into rates. This reflects that the technicians will be employed for 37 of the 48 months before the next rebasing.

4 g. Control Room Costs

Greater Sudbury operates a control room 24 hours a day, seven days a week. In 2006 Greater Sudbury tried to operate a 24 hours per day 5 days per week, but returned in 2007 to a 24/7 operation. The Applicant's evidence was that it is not required to operate a 24/7 control room, but it does so because the attempt at a 24/5 operation was unsatisfactory from an operating perspective.¹⁴ The Applicant's evidence was that the control room is integral to the operation of the system, monitoring real time status, dispatching repair crews, managing equipment failures

¹³ Source: Exhibit 2 Tab 1 Schedule 1 Appendix A

¹⁴ Oral Hearing Transcript, Volume 2, July 24, 2009, page 34 and 35

and issuing work protection to the crews. Additional demands are now being placed on the control room Advanced Metering Infrastructure and the Smart Meter Entity.¹⁵

In 2007 one operator was transferred to the Plus Company because Greater Sudbury felt that it could market the control room services, but it was not able to do so. Greater Sudbury now proposes to return the cost of this operator to the distribution company in 2009.¹⁶ SEC argued that the utility should not be allowed to shift the costs of a failed unregulated business to the distribution company. Greater Sudbury argued that the recovery of costs is related to returning to a 24/7 operation and is not the attempt to pass the costs of a failed business venture to the wires company.

An additional System Operator position is also budgeted in the test year to meet the additional demands of the new Advanced Metering Infrastructure and the smart meter entity. None of the parties objected to this addition.

Board Finding

The Board finds that it is reasonable to operate a 24/7 control room. While it would have been advantageous to the ratepayers if part of the cost continued to be absorbed by the Plus Company, Greater Sudbury is ultimately responsible for the costs of the proper operation of the control room. The Board will allow this cost.

4 h. Enterprise Resource Planning (“ERP”) Maintenance Costs

Greater Sudbury has included \$100,000 for maintenance of the ERP system and WIPRO.¹⁷ However these costs will not be incurred until 2010.¹⁸ SEC submitted that these costs should not be included in OM&A.

Board Finding

The Board finds the inclusion of \$100,000 in 2009 to be inappropriate. However, a total exclusion, which would not recognize the incurrence of these fees after 2009 which is during the IRM phase, would leave Greater Sudbury without the appropriate level of revenue to offset these costs. The Board finds that \$75,000 a year until the next rebasing is appropriate under the circumstances.

¹⁵ Exhibit 4 Tab 2 Schedule 1

¹⁶ Oral Hearing Transcript, Volume 2, July 24, 2009, page 36

¹⁷ Oral Hearing Transcript, Volume 2, July 24, 2009, page 44

¹⁸ Oral Hearing Transcript, Volume 2, July 24, 2009, page 47

5. RATE BASE AND CAPITAL EXPENDITURES

Greater Sudbury Hydro requested approval of \$77.5 million for the 2009 rate base. This represented an increase of 5.0% (\$3,688,970) over the Applicant's 2007 actuals and an 8.0% increase (\$5,741,786) from its 2006 actuals¹⁹.

The issues addressed in this section are:

- a. Capital Expenditures
- b. Depreciation
- c. Working capital

5 a. Capital Expenditures

In the Application, Greater Sudbury had requested 2009 capital expenditures of \$10,868,524 to be closed to rate base. However, following the oral component of the hearing this was revised to \$9,733,772 (\$10,549,192 less contributions of \$815,380). This represents an increase of approximately 56% compared to the 2008 projected level of \$6,247,968.

Table 1 lists the percentage change of the capital expenditures closing to ratebase from the 2007 actual to the 2009 Test year.

Table 1²⁰

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures (for addition to rate base)	\$4,832,251	\$6,247,968	\$9,733,772
% change as compared to the prior year		29.3%	55.8%

In its Application and at the oral hearing, Greater Sudbury expressed concern about its ability to maintain the integrity of its distribution system under its current capital spending program. Greater Sudbury referred to years of inadequate investment

¹⁹ Revised Exhibit 2/Tab 1/Schedule 2 – Page 1

²⁰ Based on Exhibit 2/Tab 3/Schedule 2

resulting in backlogs of capital projects and emphasized the need to “ramp up” its capital expenditures.

Appendix “C” sets out the capital budget included in the original application and the revised budget submitted by the applicant in the answers to the undertakings given in the oral hearing. It became evident during the oral portion of the hearing that a number of projects in the original capital budget would not become used and useful in 2009. The applicant agreed to remove these amounts from its revised budget.

It was also evident by the time of the oral hearing in the summer of 2009 that some projects would not proceed in 2009, that some priorities had changed, and that the estimated costs of some of the projects had increased or decreased since the application was filed. Most of these are noted in the “comments” portion of the table.

The issues raised by Board staff and intervenors related to capital expenditures were:

- i. The Applicant’s budgeting process and the reliability of the evidence
- ii. Smart meter costs
- iii. Extent to which projects would be used and useful
- iv. Allocation of Customer Information System capital costs to water billing

5 a (i) *Capital budgeting process*

Several of the intervenors argued that the starting point for the capital budget should be a capital spending budget approved by the Applicant’s board of directors prior to the application being filed. As noted above, the Board considers the appropriate starting point for our purposes to be the application itself, rather than an internal budget.

SEC argued that the current capital expenditure plan put forth before the Board is a result of an ongoing shortfall in capital spending on plant renewal over many years. SEC pointed to the Applicant’s description of a “slow, steady rot”²¹ of the distribution system. SEC further stated that the independent review of the Capital Asset Management Plan was not a broad look at the deficiencies of the Sudbury system;

²¹ Oral Hearing Transcript, Volume 1, July 23, 2009, page 83

rather it was a check on whether the capital plan prepared by the Applicant was “on the right track”.²²

SEC further argued that the Applicant’s three main reliability indices are better than the North American average and therefore based on the evidence before the Board it would be difficult to approve a large increase in capital spending.

SEC submitted that if the Board finds that there is a material infrastructure deficit then the responsibility for correcting it should be shared between the ratepayers and the shareholder.

In its Reply Argument, Greater Sudbury clarified that the evidence does not support the assertion that the Applicant had starved its system in order to flow money (in way of higher interest payments) to its shareholder. Greater Sudbury had in fact underinvested in its plant in an effort to keep rates down. Greater Sudbury pointed to the fact that it decided not to apply for Market Adjusted Revenue Requirement in their unbundled distribution rate application mainly to keep rates down.

Greater Sudbury also clarified that while the need for significant increases in capital spending may not always be reflected in current reliability indicators, continued underfunding of the system would lead to failures in the future.

Greater Sudbury submitted that the Board should reject SEC’s suggestion of sharing capital expenditures between the shareholder and the ratepayer and argued that its capital spending proposed for the Test Year is necessary and supported by the evidence. If the Board were to remove millions of dollars from the capital budget as suggested by SEC then it could result in several more years of underfunding of Sudbury Hydro’s infrastructure.

SEC submitted that some of the approved projects were expected to be over budget, and that there was little evidence to explain why. SEC also submitted that the revised budget bears little resemblance to the one that was subject to the discovery process, and that it was untested evidence that was provided after the oral hearing.

VECC expressed doubt with respect to Greater Sudbury’s ability to carry out its 2009 Capital Plan given the lateness of the Application and Board approval. VECC

²² Oral Hearing Transcript, Volume 1, July 23, 2009, page 26

submitted that the Capital spending projection as provided in response to Undertaking J1.5 was not credible as only 40% of the revised 2009 budget had been spent as of the end of June 2009.

CCC presented similar arguments to VECC and SEC.

Greater Sudbury argued that it has established the appropriateness of expenditures totalling \$10,540,192 that will be used and useful in the 2009 Test Year and that this value should be approved by the Board. The projected contributions amount to \$815,380, based on a percentage of the gross project expenditures. As there is a decrease in gross expenditures there was a corresponding decrease in contributions, from the original budget of \$959,585 to \$815,380.

Board Findings

The Board shares the concerns expressed by the intervenors that many of the projects in the revised capital budget were not disclosed until after the end of the discovery process. The Board cautions the Applicant against such practice in future applications. However, the Board accepts that Greater Sudbury has established a need for improving its distribution infrastructure as evident from the Capital Asset Management Report and the evidence at the oral hearing.

The Board also notes that most of the new projects in the revised budget relate to distribution system infrastructure. Some of these have been carried forward from 2008, while some of the projects in the original budget have been removed as they will not be completed in 2009. The Board acknowledges that it is not unusual for capital spending priorities to change as the year progresses, but at some point the record has to be considered complete. For these reasons, the Board accepts Greater Sudbury's revised capital spending plan with the exception of non-distribution system related projects that were added later in response to Undertaking J1.3, and with the exception of some of the specific projects noted below.

Non-distribution system related projects include the AM/FM GIS Software Carryover (\$160,610) and Webpage Design (\$21,658). The Board orders Greater Sudbury to remove these two projects from the 2009 rate base in the Draft Rate Order.

5 a (ii) Smart meters

VECC recommended a reduction of \$61,000 in meter capital related to smart meters that should be included in the respective deferral account, an adjustment that Greater Sudbury agreed to.

Board Findings

The Board orders Greater Sudbury to remove \$61,370 from the capital budget and to include it in the deferral account related to smart meters.

5 a (iii) Used and Useful

In response to Undertaking J1.2 and J1.3, Greater Sudbury provided a list of projects and costs that showed an estimated amount of \$293,906 booked to rate base in 2008 and an amount of \$2,162,992 booked to rate base in 2009 that were either not used and useful or not expected to be used and useful in those years.

Board staff submitted that Greater Sudbury should not be permitted to book these amounts to rate base as originally proposed by the applicant.

SEC noted that the \$293,906 booked to rate base in 2008 but not used and useful at that time should be reversed for the purpose of calculating the 2009 opening rate base, and the 2008 depreciation expense should be reduced.

With respect to capital expenditures of \$2.16 million that were booked to rate base in 2009, SEC noted that they had been removed from the revised capital budget presented by the Applicant.

However, SEC identified one additional item that it submitted will not be used and useful in 2009. A land purchase at a cost of \$400,000 was included in the OEB Application for the MS14 substation. This item is included in Greater Sudbury's revised budget presented to the Board for approval. SEC submitted that Greater Sudbury has admitted that this acquisition may not be completed by year end, and even if the land is acquired, it would not be used and useful until 2010²³.

The Applicant agreed that it would restate its 2009 opening rate base to reflect the amount of \$293,906 that was not used and useful in 2008. Greater Sudbury also confirmed that the \$293,906 was not included in the revised capital budget

²³ Oral Hearing Transcript, Volume 1, July 23, 2009, pages 39-41

(Undertaking J1.5). It agreed to include this amount in its closing rate base.

Board findings

The Board orders Greater Sudbury to exclude all projects that will not be used and useful for the Test Year from the 2009 rate base as laid out in the revised budget filed in response to Undertaking J1.5.

While the \$200,000 earmarked for land acquisition for the MS14 substation was not excluded from the revised budget, it appears from the evidence that the land had not been acquired at the time of the hearing and that the substation will not be built and put into service before the end of 2009. The Board therefore finds that this amount should be removed from the 2009 capital budget.

The Board also orders the Applicant to restate its 2009 opening rate base to reflect the amount of \$293,906 that was not used and useful in 2008.

5 a (iv) New Customer Information System

Greater Sudbury acquired the Advanced Utility System (AUS) Customer Information System (CIS) in 2002. In June 2006 Harris Computer Systems ("Harris") purchased AUS. On January 31, 2007, Harris announced that they would be discontinuing the AUS CIS in Ontario effective December 31, 2008. In collaboration with other utilities, Greater Sudbury explored alternatives to procure the best CIS solution at the most competitive price, and decided to acquire the SAP module which includes access to software, licensing and other costs.

Greater Sudbury is seeking \$2.1 million in capital costs related to the new CIS System and intends to include \$1,525,000 in the 2009 rate base.

Greater Sudbury currently bills water customers using the AUS system and the evidence indicates that once the new CIS system is in place, it will be used to bill water customers in addition to electricity ratepayers, although the AUS system will continue to be supported for that purpose. Although the City paid for converting water billing data to the AUS system, it did not pay any capital cost for the acquisition of that system.

Board staff argued that water billing customers would benefit from the new CIS system and accordingly should bear a part of the acquisition costs, as otherwise the

Greater Sudbury Hydro customers would bear a disproportionate share of the costs of the new system.

Board staff submitted that an appropriate allocation would be the same percentage of overall billing costs that the City is currently paying for water billing, the allocation methodology used by the Board in the Tillsonburg Hydro Inc. rate case (EB-2008-0246). As noted above in the section on OM&A expenses this is 21%. Therefore Board Staff suggested an amount of \$441,840 as a reasonable allocation to the City.

CCC and SEC both suggested that the CIS costs should be split equally between the City and Greater Sudbury pending the outcome of the transfer pricing study.

VECC recommended that if the Board accepts Greater Sudbury's argument that fixed costs of electricity billing are higher than for water, then by eliminating the depreciation charge related to the new CIS system, a 33% water and 66% electricity split is reasonable.

In its Reply Argument, Greater Sudbury disagreed with Board staff and intervenors' positions that Greater Sudbury water customers will derive some benefit from the implementation of the new CIS. Greater Sudbury pointed out that the existing AUS software remains an option for providing water billing services and will continue to be supported by the vendor for that purpose.

Greater Sudbury further indicated that the City did pay for converting water billing data to the AUS system, and the City continues to pay for the services at a rate that is just and reasonable. Greater Sudbury argued that it is in the interest of the electricity ratepayers to provide the service as otherwise they would have to bear significantly higher costs for billing and collection services, estimated at \$429,627.

Greater Sudbury also argued that implementing the 50/50 split sought by some of the intervenors would prejudge the outcome of the transfer pricing study and that there was no basis for an immediate reallocation.

Board Findings

The Board does not accept Greater Sudbury's argument that the City should not pay any of the capital cost of the CIS system even though water billing customers will receive services using this system. The Board understands Greater Sudbury's

position that the City's water service could continue to operate on the current system. However, if the City chose to continue with the current system alone, it would assume 100% of the cost of maintaining the current system and would at some point need to replace it. In addition, it is reasonable to expect that the new system will provide some benefits and features that the City could avail itself of. Therefore the Board believes that electricity ratepayers should not be burdened with 100% of the cost of the new system. The question is – what is the fair allocation of the capital cost?

Board Staff's takes the position that a reasonable allocation is the same proportion used for OM&A expenses, in this case 21% for water services and 79% for electricity services. The Board has previously said in this decision that it is not clear that this allocation is appropriate for OM&A costs and has ordered Greater Sudbury to conduct a transfer pricing study. However, in light of no other substantiated number and recognizing that the City does not require the full features of the proposed new system for water billing, the Board accepts these proportions for the purposes of capital allocation and directs Greater Sudbury to allocate \$1,204,140 (\$1,525,000 - \$320,860) of the total \$1,525,000 proposed capital spending in 2009 to ratepayers.

Summary of Board Findings for Capital Expenditures

Overall, the Board orders the following adjustments to Greater Sudbury's proposed capital spending plan for the 2009 Test Year.

Net Capital Requested in Rate Base	\$9,733,812
Less: 1. \$200,000 land for MS14 substation	\$ 200,000
2. AM/FM GIS Software Carryover	\$ 160,610
3. Webpage Design	\$ 21,658
4. Reduction in meter capital expenditures	\$ 61,370
5. Allocation of CIS capital costs to water customers	\$ 320,860
Total Approved Capital Spending Plan for 2009	\$8,969,314

In addition, Greater Sudbury is directed to remove the amount of \$293,906 from the 2008 rate base and add it to the rate base of the Test Year.

5b. Depreciation

Greater Sudbury proposed a recovery of \$5,597,110 as depreciation for the 2009 Test Year. Greater Sudbury assumed that all new additions to rate base occurred in the beginning of 2009 and accordingly included full depreciation in the first year²⁴.

Board staff submitted that Greater Sudbury's position was contrary to directions issued in the 2006 Electricity Distribution Rate Handbook of May 11, 2005 that states in Section 3.2.2 that the additions or subtractions to rate base should be presumed to occur mid year and the depreciation impact should be recorded accordingly. Board staff submitted that Greater Sudbury should use the Board directed methodology and accordingly reduce its depreciation amount for 2009 by \$405,558, the difference between Greater Sudbury's methodology and the half-year rule²⁵.

CCC and SEC agreed with Board staff. VECC suggested a further reduction of \$64,000 on the assumption that the main assets except ERP have a service life of 25 years, plus a further reduction to account for the fact that certain projects would not be used and useful in 2009.

Greater Sudbury maintained that its methodology is consistent with the Board's Accounting Procedures Handbook and submitted that its calculation of the depreciation expense was appropriate.

Greater Sudbury indicated that the reference to the half-year rule relates to Tier 1 Adjustments and related to matters such as retirements without replacement and non-routine/unusual adjustments.

Greater Sudbury further submitted that under Third Generation Incentive Regulation, the Board allows depreciation on the full value of the approved incremental capital assets beginning with the year in which they go into service.

Greater Sudbury indicated that historically it has used the full year of amortization in the year of acquisition. Greater Sudbury expressed particular concern with the application of the half-year rule in respect of its acquisition of the new CIS software. To apply the half-year rule to this asset which is fully depreciated for accounting

²⁴ Oral Hearing Transcript, Volume 1, July 23, 2009, page 55

²⁵ Response to Undertaking J1.4

purposes over 5 years, would in effect cause Greater Sudbury to under-recover in excess of \$840,000 over the life of the asset as only 50% of depreciation would make it to rate base in the Test Year.

Greater Sudbury requested that if the Board decided to apply the half-year rule for asset amortization then it should exclude the new CIS from this requirement and let Greater Sudbury amortize it on the basis of its full value in the year of acquisition.

Board Findings

The Board's policy has established the half-year rule for all electricity distributors and this has been implemented by all distributors in the 2008 and 2009 cost of service proceedings. In its Argument, Greater Sudbury has referred to the section on incremental capital modules under Third Generation Incentive Regulation that states that the half-year rule would not apply to new capital sought in excess of the materiality threshold. Under this regulation mechanism, the Board has determined that the half year rule would not apply to capital that is in excess of the threshold²⁶. If it does not meet the threshold the standard half-year rule applies. It is to be noted here that the half-year rule has been made exempt only for the portion of spending that exceeds the threshold amount and is not applicable to the entire amount of new spending.

In case the Board decides to apply the half-year rule, Greater Sudbury has requested exemption of applying the half-year rule with respect to its new CIS. The Board understands Greater Sudbury's position and agrees that it would under-recover over the life of the asset if it was to apply the half-year rule to the new CIS. Considering the circumstance of the Applicant wherein a significant asset with a short amortization period has been acquired in the Test Year, the Board will allow Greater Sudbury to amortize the CIS on the following basis. The evidence indicates that the CIS will be closed to rate base in November 2009²⁷. This means that the asset will be in rate base for a total of 38 months of the 48-month IRM period. Greater Sudbury shall recover in rates the equivalent of 38/48 (or 79.17%) of the amortized amount. In other words, in place of recovering 50% of the amount as depreciation under the half-year rule, Greater Sudbury will be able to recover approximately 80% of the amount as depreciation. However, Greater Sudbury can

²⁶ Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, September 17, 2008, EB-2007-0673, Pg.31

²⁷ Oral Hearing Transcript, Volume 1, July 23, 2009, page 50

only use the allocated amount to ratepayers (\$1,204,140) to determine the full value of the asset (see findings above on CIS system).

With respect to all other assets added to the 2009 rate base, the standard half-year rule will apply. The Board orders Greater Sudbury to recalculate depreciation based on the above findings and submit the details as part of the Draft Rate Order.

5 c. Working Capital Allowance

CCC, VECC and SEC submitted that Greater Sudbury be required to undertake a lead-lag study as part of its next rebasing. CCC noted that in cases where distribution utilities undertook a lead-lag study, the appropriate level of working capital allowance was less than 15%, which is the current proportion used by Greater Sudbury.

In its Reply, Greater Sudbury referred to other 2009 Cost of Service decisions on this matter wherein it was established that conducting a lead/lag study by individual utilities would not be the most cost effective way for testing the reasonableness of the current default proportion for working capital. Greater Sudbury submitted that the current standard can be more appropriately addressed by way of a generic proceeding.

Board Findings

The Board will not require Greater Sudbury to prepare a lead-lag study for its next rebasing application. In making this finding, the Board is mindful of the cost of an individual study and the generic nature of this issue. The Board finds that Greater Sudbury's approach of using a 15% factor to derive its working capital allowance is reasonable.

6. COST OF CAPITAL and CAPITAL STRUCTURE

With the exception of long-term debt, parties agreed that Greater Sudbury's proposed cost of capital was consistent with the Board's guidelines and the recent Cost of Capital Parameter Updates for 2009 Cost of Service Applications.

Capital Structure

Greater Sudbury's proposed capital structure is 56.67% debt and 43.33% equity.

SEC expressed concern that the utility was financing its operations using 80% debt. SEC submitted that this results in higher funds being collected from ratepayers for PILs (Payment in Lieu of Taxes) purposes that do not need to be paid out for that purpose. Secondly, a high debt ratio could lead to a higher cost of capital or the availability of additional capital could be restricted.

SEC further submitted as interest payable on affiliate debt has to be paid before any other spending, unlike a dividend, it cannot be suspended in case of urgent spending needs.

SEC submitted that the Applicant's capital structure, including its costs, benefits, risks, and other implications should be reviewed at the time of next rebasing.

The Applicant maintained that the Board has not prevented distributors from having actual capital structures that differ from their deemed capital structures for ratemaking purposes. Greater Sudbury submitted that even if the actual capital structure of distributors was an issue, it is generic in nature and should be pursued in the context of a generic proceeding. Greater Sudbury requested that the Board reject SEC's suggestion of an analysis with respect to its capital structure at the time of its next rebasing application.

Short Term Debt

Greater Sudbury has included a 4% short-term debt component as part of its proposed capital structure and has accepted the short-term debt rate of 1.33% identified in the Cost of Capital Parameter Updates for 2009 Cost of Service Applications issued on February 24, 2009.

Long Term Debt

Greater Sudbury has proposed a long term weighted debt cost of 7.01% for 2009 consisting of a Promissory Note to the City ("Note") for an amount of \$48.6 million at a rate of 7.25% and \$12.6 million of new debt that the utility intends to add. Greater Sudbury's Application indicates a rate of 6.10% for the new debt based on its initial consultation with its banker.

The Promissory Note as established by the transition board dealing with the amalgamation of the City of Greater Sudbury is in fact held by Greater Sudbury Utilities Inc. which functions as a holding corporation. Greater Sudbury Utilities Inc. has a mirror promissory note with its shareholder the City of Greater Sudbury.

In its Argument-in-Chief, the Applicant maintained that the Note should be considered embedded debt and therefore subject to a rate of 7.25% for 2009 and in subsequent rebasing proceedings. If, however, the Board determines that the Note represents affiliate debt callable on demand, then Greater Sudbury submitted that it should be subject to the Board's deemed debt rate which is currently 7.62%.

None of the parties objected to Greater Sudbury's long-term debt rate.

SEC did suggest that the Board should direct the Applicant to seek alternate debt financing arrangements at market rates in time for its next rebasing application. CCC agreed with SEC.

Common Equity

Greater Sudbury confirmed its use of the revised return on equity ("ROE") of 8.01% adopted by the Board in February 2009.

Board Findings

None of the parties expressed concerns with respect to Greater Sudbury's proposed capital structure and cost of debt. However, Greater Sudbury has raised an issue with respect to the rate on the Note held by the City and has suggested two alternatives.

The Applicant is currently paying a rate of 7.25% on the Note. Greater Sudbury has argued that should the Board consider the Note as affiliate debt callable on demand, the Board's deemed rate of 7.62% should apply. However, the Board's view is that ratepayers should not bear the burden of a higher rate than is actually being paid. The intent of the Board's policy on deemed affiliate debt rates was to prevent utilities (and their ratepayers) from paying above market rates for debt provided by an affiliate, which is not the situation in this case.

The Board directs Greater Sudbury to use a rate of 7.25% on the affiliate debt. While this debt rate will be embedded in the Applicant's rates during the IRM period,

the hearing panel does not, nor would it be appropriate to, make a finding for future rate periods.

The Board agrees with Greater Sudbury's submission that issues raised by SEC relating to its actual capital structure are of a generic nature and are outside the scope of this proceeding.

The Board accepts all other aspects of the utility's proposal with respect to capital structure and cost of capital.

7. SMART METERS

Greater Sudbury applied for a Utility-Specific Smart Meter Funding Adder, in accordance with OEB Guideline G-2008-0002. Greater Sudbury is a participant in the London RFP process and requested a smart meter funding adder of \$1.94 per month per metered customer.

The Company anticipates installing a total of 46,018 smart meters by the end of 2009 at an installed cost of \$152.00 per smart meter. Greater Sudbury confirmed that its Smart Meter Plan does not include costs to support functionality that exceeds the minimum functionality adopted in Ontario Regulation 425/06 and has not incurred and does not expect to incur any costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

Board staff did not object to the rate adder but did suggest that if the Board required Greater Sudbury to implement a rate mitigation mechanism, then reducing the smart meter rate adder could be one of the options. The intervenors did not raise any objections to Greater Sudbury's request.

The Applicant requested that the Board approve the proposed smart meter funding adder. Although Greater Sudbury did not believe that mitigation measures are necessary, it pointed out that disposition of the credit balance in the deferral and variance accounts would reduce the impact of the proposed smart meter rate adder.

Board Findings

The Board approves Greater Sudbury's request for a smart meter funding adder of

\$1.94 per month per metered customer in accordance with the Board Guideline on Smart Meter Funding and Cost Recovery.

8. LOST REVENUE ADJUSTMENT MECHANISM (“LRAM”) AND SHARED SAVING MECHANISM (“SSM”)

In its Application, Greater Sudbury requested a total combined LRAM/SSM amount of \$220,524, calculated to December 31, 2007. This was comprised of \$61,092 in lost revenue resulting from savings achieved through Sudbury Hydro’s third tranche CDM plan for the years 2005-2007; and \$159,432 in SSM recoveries. Sudbury Hydro’s third tranche CDM plan was approved by the OEB in RP-2004-0203/ EB-2004-0471. Greater Sudbury proposed to recover the total combined LRAM/SSM amount of \$220,524 through a class-specific volumetric rate rider over a two year period that would be in effect commencing in the 2009 rate year.

Greater Sudbury submitted that its LRAM and SSM-related calculations have been performed in accordance with the Board’s requirements, including those set out in the *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2008-0037) issued on March 28, 2008 (the “Guidelines”).

VECC submitted that:

1. The calculation of Mass market CDM savings includes savings from non-residential programs, and
2. The Calculation of mass market savings for 2007 does not use the OPA Every Kilowatt Counts (EKC) assumptions for kwh savings from Compact Fluorescent Light bulbs (CFLs).

In response to Undertaking J2.11, the Applicant corrected the LRAM claim for Mass Markets for 2006.

With respect to savings assumptions from CFLs, the Applicant used the Board guideline number of 104 kWh. In 2007 the Ontario Power Authority (“OPA”) changed the input assumptions for CFLs distributed under its EKC spring/ fall campaigns. The annual savings were reduced from 104 kWh for a 13/14 watt CFL to 44.3 kWh.

VECC submitted that the use of 104 kWh rather than 44.3 kWh resulted in LRAM

claims that were too high and also resulted in overstatement of CDM savings used in Load Forecasts.

VECC submitted that the Board should approve the recalculated number as presented in response to Technical Conference Undertaking number 3 and adjust Greater Sudbury's Residential LRAM claim from \$61,092 to \$29,165.

In its Reply Argument, Greater Sudbury agreed to revise the LRAM claim to \$29,165.

Board Findings

The Board accepts Greater Sudbury's revision and directs it to revise the combined LRAM/SSM recovery to \$188,597.

9. COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- a. Revenue to Cost Ratios
- b. Rate Harmonization
- c. Rate Design - Monthly Fixed Charges
- d. Low Voltage Rate Adder
- e. Retail Transmission Service Rates

9 a.Revenue to Cost Ratios

Greater Sudbury proposes 2009 revenue to cost ratios for each of its rate classes as shown in column 2 of Table 1 below. For those classes whose ratios are outside of the Board's policy range, shown in column 4, Greater Sudbury proposes to increase the relative rates in subsequent years, so that the ratio will be at the lower boundary of the range by 2011.

The proposed ratios are adjustments from existing ratios found in Greater Sudbury's Informational Filing EB-2007-0001. The ratios were corrected by Greater Sudbury for an error in the inputs²⁸ (shown in column 1), and then further adjusted to correct an error in the Board's cost allocation model that affected the ratios for all

²⁸ Exhibit 8 / 1 / 2 / Table 2

distributors²⁹ (shown in column 3).

The cost allocation studies in all cases do not include the costs and revenues of West Nipissing Energy Services Ltd, which was a separate entity in 2006 and did not file an Informational Filing cost allocation study. The 2009 ratios proposed by Greater Sudbury would apply to the distributor as it now exists, i.e. the revenue for each class would include revenue from customers in West Nipissing and the class revenue requirements are prorated from the best version of the Sudbury cost allocation study.

Table 1
Greater Sudbury Revenue to Cost Ratios

	1	2	3	4
Class	Existing Ratios (Exh 8 / 1 / 2 / Appendix A)	Ratios corrected for Transformer Ownership (Response to VECC 23(c))	Proposed Ratios for 2009 (Exh 8 / 1 / 2 / Table 3)	Range set out by the Board (EB-2007-0667)
Residential	94.61%	95.17%	96.95%	85% - 115%
GS < 50 kW	117.22%	117.97%	110.00%	80% - 120%
GS > 50 kW	121.08%	118.91%	113.88%	80% - 180%
Street Lighting	6.53%	6.60%	41.10%	70% - 120%
Sentinel Lighting	18.28%	18.45%	54.03%	70% - 120%
Unmetered Scattered Load	221.57%	223.05%	119.31%	80% - 120%

Submissions supported the ratios in column 3 as the best available starting point for re-balancing class revenues. Greater Sudbury noted that the adjustments made to the cost allocation study had a very small effect on the ratios.

The ratios of two classes are substantially below the Board's suggested range. All

²⁹ Response to VECC interrogatory 23(c), also in the record as Transcript Undertaking 1.4 at the technical conference.

parties supported the proposed 2009 ratios for Street Lighting and Sentinel Lighting as consistent with the pattern established in other Board decisions. The Applicant noted that the parties also supported the proposal to increase the ratios for those classes by equal steps in 2010 and 2011 to reach 70%.

VECC submitted that there is no basis for increasing the ratio for the Residential class, because it is already within the policy range established by the Board. SEC generally supported any movement toward 100%, including the Greater Sudbury proposal in this instance.

The increased ratios for the Residential, Street Lighting and Sentinel Lighting classes allow lower ratios for some or all of the classes with ratios above 100%. The proposed ratios are all lower than the starting point ratios. VECC submitted that there is no basis for lowering the ratios for the two General Service classes that are already within their respective policy ranges, until the ratio for the Unmetered Scattered Load class is within its range. VECC submitted that any additional revenue beyond that can be used to reduce the ratios for all classes that are above 100%. SEC and Board staff supported the 2009 ratios proposed by Greater Sudbury. Board staff suggested that the ratios could be decreased equally in 2010 and 2011 as a result of the proposed increases in Street Lighting and Sentinel Lighting ratios in those years.

Board Findings

Except for Street Lighting and Sentinel Lighting, the revenue to cost ratios are consistent with the Board's policy range. The Board finds the revenue to cost ratios proposed by Greater Sudbury to be reasonable.

The Board also accepts Greater Sudbury's proposal for 2010 and 2011 ratios for the Street Lighting and Sentinel Lighting classes. With respect to who should benefit and by how much from the resulting additional revenue, the Board accepts the Applicant's proposal to decrease the ratios of GS<50 kW, GS>50 kW and Unmetered Scattered Load by equal percentages, starting from the 2009 ratios. The Board expects that the Residential ratio will remain unchanged from its 2009 amount.

9 b. Fixed:Variable Ratios

Greater Sudbury proposed that when rate harmonization has been completed, the

proportions of revenue derived from the fixed charges and volumetric rates will be at current levels for each class. Prior to complete harmonization, there may be incidental differences as various charges and rates are brought closer together.

The parties' submissions generally supported this proposal, with two exceptions. VECC noted that the Residential Monthly Service Charge is above the ceiling amount calculated in the cost allocation study, and submitted that the charge should be reduced to bring it closer to its range and to mitigate bill impacts on the smallest customers.

SEC observed that the Monthly Service Charge proposed for the General Service > 50 kW class is substantially above the ceiling amount calculated in the cost allocation study, and submitted that the charge should be set at the ceiling (adjusted for inflation since the cost allocation study was done). SEC argued that while in other applications the Board has approved a charge above the ceiling in instances where the existing charge was already above the ceiling, in this case the approved charge in West Nipissing is below the ceiling, and approving the proposed rate would have the effect of moving the charge from within the range to outside the range. SEC noted that the customers that currently are charged the West Nipissing rate would experience a large change in their Monthly Service Charge even putting it at the ceiling, and a much larger change if above the ceiling as proposed by Greater Sudbury.

Board Findings

The Board accepts Greater Sudbury's proposal to design its rates, once fully harmonized, to achieve the fixed variable ratios at their current amounts.

The Board acknowledges VECC's observation concerning the impact on small residential customers. It points out, however, that the calculated bill impact on customers using 250 kWh per month in West Nipissing is less than 20% over the two years, though more than 10% in the first year. For the same small customer in Sudbury, the bill impact over two years would be less than 12%³⁰. Further, Greater Sudbury is proposing a rate rebate, which is addressed later in this Decision, and the effect of a rebate would go some way to reducing the bill impact. The Board

³⁰ The "full harmonization" bill impact calculations are in the response to Board staff interrogatory # 56, and are described here as being the impacts over two years although they do not include an IRM adjustment. The 2009 bill impact calculations are in the response to Board staff interrogatory # 58.

expects that the Applicant will include an update of the bill impact calculations with its Draft Rate Order, and expects the impacts of full harmonization to remain below 20%.

The Board accepts Greater Sudbury's submission that the proportion of its service area currently paying West Nipissing rates is too small to warrant changing the fixed:variable ratio for the whole GS>50 kW class. While the Board does not agree with SEC's submission concerning the fixed:variable ratio and the use of the cost allocation ceiling, the Board does accept the general point that there will be an unacceptable bill impact on some customers within that class. The bill impact on smaller customers currently paying West Nipissing rates would be nearly 30%³¹. This issue is addressed below under "harmonization".

9 c. Harmonization

Greater Sudbury proposed to harmonize all rates over a two year period, by designing rates that would apply in each class throughout the service area, with 2009 rates for customers that currently pay West Nipissing rates set half-way between the currently approved rates and the uniform rates. The 2009 rates for customers that currently pay Sudbury rates would be designed to recover the class revenue requirement, net of revenue from the customers paying the West Nipissing rates. In 2010, all customers would pay fully harmonized rates.

All parties supported Greater Sudbury's harmonization proposal, except for SEC's submission about the Monthly Service Charge as it applies to General Service customers larger than 50 kW in West Nipissing.

Board Findings

The Board finds that Greater Sudbury shall design its rates as proposed for all classes except GS>50 kW, so that harmonization occurs over two years.

The bill impacts on GS>50 kW class customers may be somewhat lower than shown in the calculations provided by the Applicant, in light of the rate rider rebate that is discussed later in this Decision, and perhaps other factors. The best information that the Board has available is that customers in West Nipissing will experience a bill impact of nearly 30% with the implementation of harmonized rates. The effect of

³¹ Response to Board staff interrogatory # 56, for customers using 60 kW and 15,000 kWh.

any IRM adjustment after 2009 would be in addition to this impact. The Board finds that the harmonization period for this class shall be three years, resulting in uniform rates throughout the service area in 2011.

With this longer harmonization period, the Board expects that in 2009, the rates applicable to West Nipissing customers in the GS>50 kW class will move one-third of the distance from the current approved rates toward the harmonized rates, followed by similar changes in 2010 and 2011. The Board recognizes that the rates to GS>50 kW class customers in the Sudbury part of the service area will be somewhat higher in 2009 than that proposed by Greater Sudbury, in order to keep the class revenue requirement at the proposed level. The same will pertain to a lesser degree in 2010. The Board notes, however, that the calculated bill impacts are quite small, and will be little affected by the longer harmonization period.

9 d. Low Voltage Adder

Greater Sudbury provided a forecast of its Low Voltage cost incurred under Hydro One distribution rates applicable to embedded distributors. Board staff submitted that the estimate should be updated to reflect the approval of Hydro One rates applicable to Sub-Transmission class customers, which now include embedded distributors along with a variety of other large customers. Staff also submitted that an adjustment should be made in the estimate to reflect the Hydro One Rate Rider # 4 which will apply for only two of the expected four years before Greater Sudbury's next rate rebasing. Greater Sudbury agreed with the position of Board staff in their submission.

Greater Sudbury submitted a detailed cost estimate with its Reply Submission. The rates assumed in the calculation are the approved rates less one-half of the approved Rate Rider # 4. The calculation is based on the assumption that there will be a number of months with the rebate followed by an approximately equal number of months without it, leading up to the next re-basing of Greater Sudbury's distribution rates. The amount of the estimated annual cost is \$170,196.

Board Findings

The Board finds that Greater Sudbury's cost forecast methodology is reasonable. However, since the effective date of this Decision is July 1, 2009, there are 22 months remaining with Hydro One's Rate Rider #4. However, Greater Sudbury's rate adder is expected to be in place for 46 months until April 30, 2013. Accordingly,

Greater Sudbury is directed to make the appropriate adjustments to its proposed rate adder.

9 e. Retail Transmission Service Rates

Greater Sudbury proposed Retail Transmission Service Rates designed to recover its cost under the Uniform Transmission Service Rates approved by the Board in EB-2007-0759. In its Reply Submission Greater Sudbury agreed with the staff submission that the rates should be updated to recover costs under the Uniform Transmission Service Rates approved by the Board in EB-2008-0272.

Greater Sudbury provided a forecast of the cost of transmission service provided by Hydro One pertaining to the portion of the load that is delivered through embedded delivery points. In its Argument-in-Chief Greater Sudbury indicated that it would update its forecast to reflect the 2009 rate order applicable to the host distributor.

Board Findings

The Board finds that Greater Sudbury's proposal to update its forecast transmission costs is acceptable, and expects the Applicant to submit documentation with its Draft Rate Order showing load quantities together with the applicable Uniform Transmission Service Rates and Hydro One Retail Transmission Service Rates.

10. DEFERRAL AND VARIANCE ACCOUNTS

Disposition of Balances

Greater Sudbury did not initially request disposition of any deferral or variance accounts in 2009, but it reconsidered this position in its Reply Submission.

Greater Sudbury filed information on its deferral and variance accounts in a continuity schedule. The table below shows the balances at year-end 2008, inclusive of projected interest up to April 30, 2009, which Greater Sudbury provided in response to Board staff supplemental interrogatory # 22. The balances shown are for the former Sudbury and West Nipissing distributors combined.

Table 2**Greater Sudbury Deferral and Variance Accounts**

	Acct. Number	Account Description	Total (\$)
1	1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	136,014
2	1508	Other Regulatory Assets – Sub-Account – Other	2809
3	1525	Miscellaneous Deferred Debits	12,177
4	1550	LV Variance Account	148,667
5	1570	Qualifying Transition Costs	219,324
6	1571	Pre-Market Opening Energy Variances	63,474
Option (a)		Sub-Total (rows 1 - 6)	582,465
7	1580	RSVA – Wholesale Market Service Charge	(2,530,339)
8	1584	RSVA – Retail Transmission Network Charge	(424,919)
9	1586	RSVA – Retail Transmission Connection Charges	438,047
10	1588	RSVA – Power (including Global Adjustment)	(90,433)
11	1590	Recovery of Regulatory Asset Balances	(566,082)
		Sub-Total (rows 7 – 11)	(3,173,726)
		Sub-Total (rows 1 – 11)	(2,591,261)
12	1588	RSVA – Power Sub-account (Global Adjustment)	506,551
Option (b)		Total (rows 1 – 12), excluding Global Adjustment	(3,097,812)

SEC submitted that the record may not be adequate to support the balances in Accounts 1570 and 1571, in particular the components related to the West Nipissing distributor. In its Reply Submission, Greater Sudbury indicated that the required supplementary disclosure and audit had been completed, and were provided in response to Board staff supplemental interrogatory number 70 parts a) and b).

Board staff noted that Greater Sudbury had also provided balances for the two former distributors separately. Staff submitted that there were three main options available for disposition of deferral and variance account balances: no disposition in 2009, disposition of balances from the table above such as option (a) or (b), and disposition of the separate balances by means of rate riders that would differ in the two former service areas. Staff also submitted that there are alternatives of larger rate riders over a shorter period such as one year or smaller rate riders over a longer period. Greater Sudbury submitted that it would be preferable to implement rate riders that would be uniform across the whole service area, and suggested that a

two-year period would be appropriate.

Board Findings

The Board finds that Greater Sudbury shall dispose of the balances as shown in Table 2 above, in the aggregate amount of (\$2,591,261). This balance includes the 1588 sub-account for the Global Adjustment, and excludes balances in several accounts related to Smart Meters and Conservation and Demand Management (not shown in the table). The Board finds that the rate rebates shall be uniform for customers throughout Greater Sudbury's service area. The Board finds that the balances shall be allocated amongst the rate classes according to the default factors described in Table 1 at page 21 of "Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative", EB-2008-0046, July 31, 2009. The Board finds that the rate riders shall be calculated to dispose of the balance over a twenty-two month period, and that the rate riders are approved from the implementation date of the Rate Order until April 30, 2011.

EFFECTIVE DATE

The Board required utilities to file their 2009 Cost of Service applications on or before August 15, 2008 in order to meet a target implementation date of May 1, 2009. Greater Sudbury filed its Application on December 22, 2008. Greater Sudbury's rates were declared interim on April 24, 2009.

VECC and SEC submitted that the Applicant had filed its application four months late and should therefore receive an effective date of September 1, 2009. SEC further submitted that in case there is a revenue sufficiency, the effective date should be May 1, 2009. SEC maintained that ratepayers should not be penalized for the tardiness of the Applicant.

Greater Sudbury in its Reply requested an effective date of May 1, 2009 citing that it was late due to unforeseen delays including the complexity of combining the rate application to reflect one amalgamated entity. Greater Sudbury indicated that concurrent with the preparation of its Application, it was undergoing a Debt Retirement Charge audit and Board's Retail Settlement Variance Account review. These simultaneous obligations pulled away much needed resources from preparing the rate application.

Board Findings

The Board understands the Applicant's position but notes that the Application was filed four months late, and even once filed, the process was prolonged in part because the Applicant initially declined to have a technical conference, was unable to settle any of the matters in dispute during the settlement conference, and was still updating its evidence at the time of the oral hearing. However, the Board does recognize that Greater Sudbury was faced with a difficult task of preparing an application that reflected the amalgamation with West Nipissing Energy Services Ltd. Considering all the exceptional circumstances, the Board approves an effective date of July 1, 2009 and the recovery of the revenue shortfall arising in the period between July 1, 2009 and the implementation of the new rates.

The Board has made findings in this Decision which change the revenue deficiency and therefore the proposed 2009 distribution rates. These are to be properly reflected in a Draft Rate Order incorporating an effective date of July 1, 2009 for the new rates.

In filing its Draft Rate Order, the Board expects Greater Sudbury to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Greater Sudbury's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates, including bill impacts. Greater Sudbury should also show detailed calculations of the revised low voltage rate adders, retail transmission service rates and variance account rate riders reflecting this Decision.

A Rate Order and a separate cost awards decision will be issued after the processes set out below are completed.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2008-0230, and be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper

copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at BoardSec@oeb.gov.on.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's Practice Directions on Cost Awards.

THE BOARD ORDERS THAT:

1. Greater Sudbury shall file with the Board, and shall also forward to SEC, CCC and VECC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.
2. SEC, CCC and VECC shall file any comments on the Draft Rate Order with the Board and forward to Greater Sudbury within 7 days of the filing of the Draft Rate Order.
3. Greater Sudbury shall file with the Board and forward to SEC, CCC and VECC responses to any comments on its Draft Rate Order within 7 days of the receipt of any submissions.
4. SEC, CCC and VECC shall file with the Board and forward to Greater Sudbury, their respective cost claims within 26 days from the date of this Decision.
5. Greater Sudbury shall file with the Board and forward to SEC, CCC and VECC any objections to the claimed costs within 40 days from the date of this Decision.
6. SEC, CCC and VECC shall file with the Board and forward to Greater Sudbury any responses to any objections for cost claims within 47 days of the date of this Decision.

7. Greater Sudbury shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, December 1, 2009.

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

Study Terms of Reference

The purposes of the ARC Compliance Plan and Transfer Pricing Study are:

1. To ensure Greater Sudbury Hydro's compliance with the Ontario Energy Board's *Affiliate Relationships Code for Electricity Distributors and Transmitters* as amended August 2008.
2. To establish a framework and business practices to ensure ongoing compliance with the *Affiliate Relationships Code*, which also provides the appropriate level of operational and cost information to support future cost-of-service rate rebasing applications.

The Study will comprise three components or phases:

PHASE 1. Obtain opinion regarding restructuring options, costs and benefits of those options with specific attention to the services currently purchased from Greater Sudbury Hydro Plus Inc.

PHASE 2. Transfer Pricing Study

Depending upon the outcomes of Phase 1, the second phase of the study will comprise a transfer pricing study to establish cost drivers and methodologies.

The study will seek to price services based on fair market value pricing, if available, purchased from Greater Sudbury Hydro Plus Inc.; and

If fair market value pricing is not available, develop a costing framework and methodology including fully allocated costing and return on invested capital to fairly allocate cost among the corporate family.

The costing framework will address cost allocation principles such as:

- Cost causality
- Elimination of cross subsidies
- Accuracy
- Transparency
- Cost effectiveness
- Stability
- Flexibility to change

PHASE 3. Ongoing Administration

The purpose of Phase 3 is to establish the pricing methodologies, information requirements and business practices to ensure ongoing compliance with the *Affiliate Relationships Code* and to provide the appropriate level of operational and cost information to support future cost-of-service rate rebasing applications.

Appendix B

Extracts from EB-2006-0001/434 pp. 79-88 pertaining to, and an elaboration on the 3- prong test.

10.8.1 The 3-prong test was defined in the Board's Decision in EBRO 493/494 and can be summarized as follows:

- 1. Cost incurrence: Were the corporate centre charges prudently incurred by, or on behalf of, the companies for the provision of services required by Ontario ratepayers?**
- 2. Cost allocation: Were the corporate centre charges allocated appropriately to the recipient companies based on the application of cost drivers/allocation factors supported by principles of cost causality?**
- 3. Cost/Benefit: Did the benefits to the Company's Ontario ratepayers equal or exceed the costs?**

10.8.2 The costs must pass all three tests. If a service, or the scope of service, is not needed by the gas distribution utility, then the cost should not be recovered from ratepayers. This is so even if the benefits may exceed the costs in question.³²

10.9.1 In the Board's view, costs will not pass this test [cost incurrence] if they relate to activities which:

- 2. go beyond the scope of the service required for a utility,**
- 3. are associated with overall governance from a shareholder perspective or "minding the investment", or**
- 4. represent additional and superfluous management layers.**

10.9.17 In order to pass this test[cost benefit], Enbridge must demonstrate that the allocated costs for a service are less than what Enbridge would incur as a stand-alone gas distribution utility. The Board also expects that there will be demonstrable scale economy benefits. In other words, in some areas, the corporate cost allocation should result in costs that are lower than the stand-alone equivalent.

³² EB-2005-0001/EB-2005-0437, *Decision with Reasons*, February 9, 2006 pp.79-80.

Appendix C

Original and Revised Capital Expenditure requested in 2009 Rate Base

Project Description	As per Application	Revised Budget following oral hearing	Comments
Meter Installations	111,370	50,000	\$61,370 related to smart meters removed from capital budget , will be added to smart meter deferral accounts
Emergency Plant Maintenance	83,849	140,000	No reason for the increase has been provided
Failed Transformers	73,676	73,676	
PCB	147,960	20,000	Represents the portion that will be used and useful in 2009
Major Repairs to Substations	750,716	897,965	No reason for the increase has been provided
MS14 Land Acquisition	400,000	200,000	
System Betterment	427,041	938,020	No reason for the increase has been provided
Overhead & Underground Services	281,100	283,893	
City Roadwork	546,030	150,000	Represents the portion that will be used and useful in 2009
Subdivisions	427,201	300,000	Represents the portion that will be used and useful in 2009
Commercial	563,600	563,600	
Beatrice - West of Buckingham	106,197	106,197	
Sherwood Park Phase 3	334,025	334,025	
Sparks Street - Restricted Conductor Rebuild	204,169	365,000	No reason for the increase has been provided
Insulator Replacement Program	937,197	400,000	Represents the portion that will be used and useful in 2009
Shaughnessy O/H to U/G Conversion	225,683		Will not be used and useful in 2009
Centennial Load Area Voltage Conversion	202,825	202,825	
44kV Motorized Switches	133,335	133,335	
44 kV and 12 kV Fault Indicators	20,622	20,622	
Tools and Equipment	170,000	170,000	
Vehicles & Leasehold Improvements	703,000	283,000	Represents the portion that will be used and useful in 2009 Not all vehicles on order will be delivered in 2009
Enterprise Resource Planning Software	540,000		Removed – will not be used and useful in 2009
Substation Security	15,000	15,000	
SAP - Billing Software	2,100,000	1,525,000	Represents the portion that will be used and useful in 2009

Jarvi Road	297,500	297,500	
28M6 Montague to Whissel	235,797	525,000	Budget increase as project will require significant amount of contracted labour
SCADA	392,907	392,907	
Pole Replacement 9M1 to 9M6		450,409	
Southlane Road		275,000	New project to allow Bell Canada to attach poles
Louis Street 22/04		174,814	Collapse of underground chamber has required a rebuild
Falconbridge Voltage Conversion		150,000	As per 2003 MADD application to the Board
Bell Park O/H to U/G conversion	62,011		Removed - will not be used and useful in 2009
Hillsdale Lakeview Rebuild	610,298		Removed – will not be used and useful in 2009
44kV Tie between 28M4 and 9M4	725,000		Removed – will not be used and useful in 2009
Am / Fm GIS Software Carryover		160,610	Advanced the purchase & conversion of the GIS system from original 2010 Capital Asset Management Plan
Barrydowne 44 kV Reconductor Carryover		150,000	Carryover of a 2008 project
Vehicle Carryover		208,888	Long lead time for delivery – 2008 year end actual adjusted
Building Carryover		149,913	Cost to build small PCB processing & storage building on site
Substation Security Carryover		4,985	Completed in 2009
Major Repairs to Substations Carryover		11,691	Substation fencing from 2008 completed in 2009
Webwood Drive		50,000	Related to changing transformers of 2 customers
Tilton Lake Rd		47,818	Charges associated with Bell Canada transfers on this major rebuild
Gary Street Carryover		305,801	Service transfers and underground installation associated with Gary Street 44 kV line rebuild
Webpage Design		21,658	Costs associated with new webpage to meet ARC guidelines
Total - Capital	\$ 11,828,109	\$ 10,549,152	
Less Contributions	\$ 959,585	\$ 815,380	
Total Capital Less Contributions	\$ 10,868,524	\$ 9,733,772	

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **MUNICIPALITY OF EAST HANTS**, on behalf of the **East Hants Regional Water Utility** and the **Shubenacadie Water Utility** for approval to amalgamate the two utilities to form the **East Hants Water Utility** and for approval of a new Schedule of Rates and Charges for Water and Water Services and a Schedule of Rules and Regulations

BEFORE: Kulvinder S. Dhillon, P.Eng., Member

APPEARING: **MUNICIPALITY OF THE DISTRICT OF EAST HANTS**
Connie Nolan, CA, CFE
Director of Finance

Lew Landers, P.Eng.
Director of Engineering Services

Scott Winters, P.Eng.
Director of Operational Services

HEARING DATE: January 26, 2010

FINAL SUBMISSIONS: February 1, 2010

DECISION DATE: February 18, 2010

DECISION: **Amalgamation of the two water utilities is approved effective April 1, 2010.**
Schedule of Rates and Charges approved, as amended.
Schedule of Rules and Regulations approved, as amended.

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I SUMMARY

[1] The Municipality of the District of East Hants (the “Municipality”) applied to the Nova Scotia Utility and Review Board (the “Board”) on behalf of its two water utilities: East Hants Regional and Shubenacadie (the “Utility”, the “Applicant”) to be amalgamated and for a new Schedule of Rates for Water and Water Services and a Schedule of Rules and Regulations, pursuant to the *Public Utilities Act* (the “Act”), R.S.N.S. 1989, c.380, as amended. The new utility is to be called East Hants Water Utility.

[2] The existing Schedules of Rates for Water and Water Service for the East Hants Regional Water Utility and the Shubenacadie Water Utility have been in effect since April 1, 2009. The existing Schedules of Rules and Regulations for each of the two utilities have been in effect since April 1, 2008.

[3] With respect to the last rate applications of both Utilities in 2007, the Board issued two separate Orders dated March 13, 2008. The Order with respect to the Shubenacadie Water Utility rate application stated that:

IT IS FURTHER ORDERED that because the Board has serious concerns that the Utility may not be sustainable under current conditions and that a continuation of significant increases in future years could well result in adverse consequences related to community sustainability and development, the Board directs that a three year financial plan be developed by the Utility which will recommend a course of action to restore financial viability to the Utility. The plan should consider required capital expenditures, related debt payments, and operating expenditures and their impact on future rates. The Board directs that the financial plan be filed with the Board no later than December 31, 2008.

[4] The Order with respect to the East Hants Regional Water Utility stated that:

IT IS FURTHER ORDERED that the Regional Water Utility further consider the issue that all costs applicable to operating each Utility should appropriately be allocated to that Utility, and file a report with the Board by December 31, 2008.

[5] The Municipality requested an extension of the filing for these two reports which was approved on November 17, 2008. On May 12, 2009, the Municipality referred to the approved extension date and requested that the Board withdraw its request for the two reports, on the proviso that a rate application, based upon an amalgamated utility, be filed with the Board by December 31, 2009. The Board approved this request on May 21, 2009.

[6] A Rate Study to support the Application dated October 2009, was submitted to the Board on November 12, 2009 [Exhibit E-1]. The Application proposes rates for the test years of 2010/11, 2011/12 and 2012/13, based upon annual consumption of 40,000 gallons for all customers, which was described by the Applicant as a conservative estimate. The Utility noted that there is great variability in the consumption volumes of customers larger than residential customers, however, it provides a guide from which each customer can estimate the proposed increases based upon their own actual usage. The following summarizes the proposed rate increases:

For 2010/11

Utility	Meter Size	Current Quarterly Water Bill (Based upon 40,000 gallons annual consumption)	Proposed Quarterly Water Bill (Based upon 40,000 gallons annual consumption)	% Increase/ Decrease
Shubenacadie	5/8" (residential)	\$ 179.23	\$ 138.03	-23.0%
	3/4"	\$ 198.84	\$ 158.78	-20.1%
	1"	\$ 238.05	\$ 200.27	-15.9%
	1.5"	\$ 336.07	\$ 303.99	- 9.5%
	2"	\$ 453.70	\$ 428.47	- 5.6%
	3"	\$ 767.37	\$ 760.39	- 0.9%
East Hants Regional	5/8" (residential)	\$ 105.74	\$ 138.03	30.5%
	3/4"	\$ 124.17	\$ 158.78	27.9%
	1"	\$ 161.03	\$ 200.27	24.4%
	1.5"	\$ 253.19	\$ 303.99	20.1%
	2"	\$ 363.77	\$ 428.47	17.8%
	3"	\$ 658.66	\$ 760.39	15.4%

For 2011/12

Utility	Meter Size	Current Quarterly Water Bill (Based upon 40,000 gallons annual consumption)	Proposed Quarterly Water Bill (Based upon 40,000 gallons annual consumption)	% Increase/ Decrease
Proposed East Hants Water Utility	5/8" (residential)	\$ 138.03	\$ 138.59	0.4%
	3/4"	\$ 158.78	\$ 159.52	0.5%
	1"	\$ 200.27	\$ 201.37	0.5%
	1.5"	\$ 303.99	\$ 306.00	0.7%
	2"	\$ 428.47	\$ 431.55	0.7%
	3"	\$ 760.39	\$ 766.36	0.8%

For 2012/13

Utility	Meter Size	Current Quarterly Water Bill (Based upon 40,000 gallons annual consumption)	Proposed Quarterly Water Bill (Based upon 40,000 gallons annual consumption)	% Increase/ Decrease
Proposed East Hants Water Utility	5/8" (residential)	\$ 138.59	\$ 140.62	1.5%
	3/4"	\$ 159.52	\$ 161.79	1.4%
	1"	\$ 201.37	\$ 204.14	1.4%
	1.5"	\$ 306.00	\$ 310.00	1.3%
	2"	\$ 431.55	\$ 437.04	1.3%
	3"	\$ 766.36	\$ 775.82	1.2%

[Exhibit E-1, pp. 44,45 and 46]

[7] The Application proposes to retain the current bulk water rate of \$8.78 per 1,000 gallons. The Application further proposes increases to the annual public fire protection charge to be paid to the Utility, by the Municipality. The combined total annual fire protection charge paid to the current two utilities is \$400,176 and the proposed increases are 1.8%, 16.9% and 8.6%, in each of 2010/11, 2011/12 and 2012/13, respectively.

[8] The public hearing was held at the Royal Canadian Legion, Branch 133, in Enfield, on January 26, 2010, with both morning and evening sessions, after due public notice. The Utility was represented by the Municipality's staff: Connie Nolan, CA, CFE, Director of Finance; Lew Landers, P.Eng., Director, Engineering Services; and Scott Winters, P.Eng., Director of Operational Services.

[9] The Board did not receive any correspondence from customers of the utilities prior to the hearing date. At the hearings, four members of the public spoke.

[10] The amalgamation of the two water utilities into the East Hants Water Utility is approved. The rate for each of the test years are approved, as amended. The Rules and Regulations are approved, as amended.

II INTRODUCTION

[11] The two current utilities serve approximately 2,482 metered customers. The Rate Study projects growth of 41 customers in 2011/12 and 39 customers in 2012/13. The Applicant stated that any major developments in the Utility's catchment area will occur beyond the test years and no new customers associated with these developments are

included in the Rate Study. There are currently no Utility customers located outside of the Municipality's boundaries. It was indicated in the Rate Study that negotiations are underway to service a portion of land owned by Irving Oil Limited, located in the Halifax Regional Municipality, and which will be the subject of a written legal agreement. The Applicant was requested by the Board to file a copy of the agreement once it has been executed, as Undertaking U-2.

[12] The source of supply for the East Hants Regional Water Utility is the Shubenacadie River. The intake for the raw water is in Enfield, where the treatment plant, which was upgraded in 2007, is located. The East Hants Regional Water Utility has three storage tanks which are located in Enfield, Lantz and the East Hants Business Park. The capacity of the treatment plant is approximately twice that of the current water withdrawal permit. The Utility is in the process of constructing an engineered spring which will pump additional water into the Shubenacadie River during low river flow conditions. Upon completion of this project, the water withdrawal rights will be increased. The costs associated with this project are included in the Rate Study.

[13] The Shubenacadie Water Utility uses Snide's Lake as its current source of supply, with the water treatment plant located adjacent to the Lake. The Utility has a small storage tank which provides balancing storage, but does not provide adequate fire flows. The Utility is now building a groundwater source of supply, a treatment plant, water tower and watermains scheduled to be commissioned in 2010, which are included in the Rate Study.

[14] In order to comply with the provisions of the Nova Scotia Environment's ("NSE") *A Drinking Water Strategy for Nova Scotia* (Drinking Water Strategy), assessment reports for each of the two utilities were filed as part of the last rate application. The East Hants Regional Water Utility is currently in compliance with the NSE Regulations. The Shubenacadie Water Utility is not in compliance and is operating under a Ministerial Order. However, it is expected to become compliant with the commissioning of the new infrastructure noted above.

[15] The Application is based upon the need to adjust and standardize the rates as a result of: increasing operating costs; capital improvements to the fire protection system and infrastructure; and recognizing reduced water consumption.

III REVENUE REQUIREMENTS

A. Operating Expenditures

[16] The operating expenses are based upon the consolidation of the two existing utilities. For the year ended March 31, 2009, the East Hants Regional Water Utility had an excess of expenditures over revenues of \$113,214, and an operating surplus balance of \$724,966. The Shubenacadie Water Utility had an excess of expenditures over revenues of \$23,827 and an operating deficit balance of \$529,630. Combining these figures results in an excess of expenditures over revenues of \$137,041 and an operating surplus balance of \$195,336 for the proposed Utility for the year ended March 31, 2009. The Application projects that at current rates, there will be increasing excesses of expenditures over

revenues for the Utility, resulting in an accumulated operating deficit of \$645,463 on March 31, 2013 [IR-32, Exhibit E-2].

[17] With respect to the accumulated operating deficit associated with the Shubenacadie Water Utility, the Applicant stated:

The recovery of the deficit for the former Shubenacadie utility will be handled by way of a lump sum payment by the municipality to the amalgamated utility. It will be set up on the general municipal fund as a receivable from the residents of Shubenacadie and paid off over a number of years as the tax revenue is levied on their tax bill. These entries will be made in the current fiscal year (2009/2010) as the first area rate was in place this year to start generating funds to pay off the deficit.

[IR-12, Exhibit E-2]

[18] During the hearing, the Board noted that there appear to be slight differences between the magnitudes of various operating expense items in the financial statements of the two utilities and the figures used in the Rate Study. Ms. Nolan explained that the difference in depreciation expense amounts is due to differences in capitalization methodologies set out in the Board's *Water Utility Accounting and Reporting Handbook* ("*Accounting Handbook*") and the Public Sector Accounting Board ("PSAB") requirements. She added that the other differences can be attributed to a reallocation of power and pumping expenses, which is normally not set out as a separate expense item in the financial statements, but is a separate line item for the purposes of the Rate Study. She further noted that she is confident with the figures presented in the Rate Study and provided a more detailed explanation of the differences in response to Undertaking U-1.

[19] The operating expenses are based on the 2009/10 operating budgets of the two current utilities, with a projected annual increase of between 2.5% and 3% for each of

the subcategories of the line items, except expenses related to the proposed capital upgrades of the two utilities and to meet NSE Regulations.

[20] The Utility explained its budgeting process in response to the Information Request [IR-33, Exhibit E- 2]. The Utility provided a table which showed the allocation of payroll and benefit costs among general operations, the sewer utility and the water utility [IR-34, Exhibit E- 2]. In response to Undertaking U-3, the Utility provided a breakdown of the expense allocations of new positions of two labourers and one environmental technologist, which are included in the Rate Study.

[21] With respect to the issue of operating efficiencies which may be gained with an amalgamated Utility, the Applicant stated:

There are no savings expected as a result of utility amalgamation. There has really only ever been one operation in as much as the same staff worked both utilities, the same vehicles were used etc. "Common services" were simply allocated between the two utilities as staff were best able to attribute them. The overall management of the utilities is provided by the management of the municipality and again was allocated to the utilities on the basis of time spent or on a judgement basis for the most senior staff. There is no reason to suggest these allocations would be any different once the utilities are amalgamated.

[Exhibit E-2, IR-28]

[22] The annual depreciation expense is based upon the Utility's proposed capital additions over the test period. The depreciation rates for the proposed assets are set out in the *Accounting Handbook*. The Utility explained that there are some differences with the depreciation rates contained in the *Accounting Handbook* and that it will be reviewing its practice this year.

[23] In 2007, an action plan was developed by the Municipality to address water loss in both of the current utilities. The current estimated water loss in the East Hants

Regional Water Utility is 30% of the total treated water, which is a decrease from the 44% reported as a part of the 2007 rate application. The Rate Study includes the costs associated with a Water Audit for the system in accordance with American Water Works Association (“AWWA”) standards in 2010/11.

[24] An AWWA/International Water Association (“IWA”) Water Audit and Water Balance Study was completed for the Shubenacadie Water Utility in 2009 by G & M Project Management and Consulting Services Limited and the estimated water loss for the system is 22.8% per year. The Study made a number of recommendations with respect to source meters, customer meters and active leak detection, which the Utility indicated are being carried out, with the associated costs included in the Rate Study. The Applicant plans to conduct annual water audits and more leak detection activities in order to further reduce the non-revenue water of the amalgamated Utility.

Findings

[25] The Board has considered the Utility’s projected operating expenses. The revenue requirements of the Rate Study are based upon projections on a go-forward basis, and do not include the recovery of past deficits, which is the appropriate methodology.

[26] The Board accepts the methodology used to determine the 2008/09 operating expenses through adding the estimated line item operating expenses of each of the two utilities. Although there appear to be some minor differences in the operating expense line item magnitudes between the financial statements and the Rate Study, the overall surplus/deficit does not differ between the two documents. The Board accepts the

Applicant's explanation that the difference in the figures between the two documents does not have a material effect on the calculation of the proposed rates. The Board further accepts the estimated operating expense increases of 2.5% to 3% for each of the test years, as well as the depreciation rates used in the Rate Study. The Board reminds the Applicant to prepare the Utility's financial statements, in accordance with the *Accounting Handbook*.

[27] The Utility has indicated that no operating efficiencies will be gained through the proposed amalgamation. The Board encourages the Utility to explore any operating efficiencies which may be gained through amalgamation, as well as other options which may be available to reduce the operating expenses. The Board is also pleased with the Utility's progress to reduce the amount of non-revenue water and encourages the Utility to continue with its efforts. Any reduction in non-revenue water will also result in a reduction of the Utility's operating expenses and thus have a positive effect on the Utility's financial health.

[28] The Board has considered the Utility's methodology of allocating costs between the Municipality and the Utility and finds the methodology to be reasonable. The Board reminds the Utility that the allocation should be as accurate as possible and reviewed periodically.

B. Capital Budget and Funding

[29] Included in the Rate Study are the Utility's forecasted capital additions of \$3,223,898 in 2009/10; \$3,336,568 in 2010/11; \$2,591,281 in 2011/12; and \$1,792,000 in 2012/13.

[30] The Utility confirmed that Board approval for all projects in the 2009/10 capital expenditures was received [IR-37, Exhibit E-2]. The projects include the improvements to the Shubenacadie system (water treatment plant, mains, storage tank) as well as the engineered spring, chlorination monitoring equipment and hydrants for the East Hants Regional system. The Applicant noted that the funding for the Shubenacadie system upgrades (water tower) project was modified in the Rate Study from that indicated in the Board's approval, as it was discovered that the external funding was slightly less than anticipated. The difference in funding (\$20,000 to \$50,000) is to be made up from the depreciation funds and -will not have a material effect on the rates.

[31] The projects in 2010/11 include a continuation of the engineered spring and water treatment plant projects, transmission mains and hydrants. In 2011/12, the capital works include hydrants, transmission mains, fire underwriter's survey, and district metering. The 2012/13 projects are hydrants, transmission mains, water connector and district metering.

[32] The proposed funding for the test years capital budgets, totaling \$7,719,849 is from the Build Canada Fund (\$2,025,842); gas tax (\$227,225); depreciation funds (\$2,067,080), Municipal reserve funds (\$2,506,702); and long term debt (\$893,000). The repayment of the long term debt is to be amortized over 20 years at 5.5% and is included

in the projected non-operating expenses. The Utility is projected to have a depreciation fund balance of \$178,806 at the end of the test period (2012/13).

Findings

[33] The Board notes that significant infrastructure works are proposed for the Utility over the test years. The work for the Shubenacadie Utility includes upgrades necessary to meet NSE Regulations. The work for the East Hants Regional Utility includes upgrades to increase capacity and transmission main upgrades. Also included are the costs associated with the Utility's water loss management program, as discussed above. Based upon the information provided, the Board finds the Utility's proposed capital program, to be reasonable. The Board further accepts the proposed funding, as set out in the Rate Study. The Board has approved the revision to the funding of the Shubenacadie water tower project, as contained in the Rate Study.

[34] The Utility is reminded that inclusion of the proposed capital projects in the Rate Study does not constitute the Board's formal approval of these projects. Separate Board approval is required for projects in excess of \$25,000 as set out in s. 35 of the *Act*.

C. Non-Operating Expenditures and Revenues

[35] Included in the revenue requirements of the Rate Study are projections of non-operating expenditures and revenues. Although non-operating revenues are indicated prior to the test period, there are no non-operating revenues projected for the test period. The Applicant stated that the decision was made not to include any interest revenue which

is currently so low that, based upon current bank balances, the possible interest revenue would have no material impact on the rates.

[36] The non-operating expenses in each of the test years consists of: debt charges, related to both existing and proposed debt, of \$428,499, \$449,562 and \$461,765, respectively; bank and finance charges, which the Utility clarified to be interest charges, of \$2,787, \$2,805 and \$2,823, respectively; and annual capital out of revenue of \$11,111 in each of the test years, which the Utility noted is related to the purchase of vehicles.

[37] The Utility explained that the existing debt charges are related to the total debt of \$5,801,780 associated with two service extensions, the East Hants Water Utility upgrades, and the Shubenacadie Water Utility water tower. The additional debt charges relate to funding the Utility's capital program, as discussed above.

[38] Based upon the assumptions of the Rate Study, the rate of return on rate base for each of the test years is 4%.

Findings

[39] The Board has considered the projected non-operating revenue and expenditures contained in the Rate Study. While there are no non-operating revenues projected over the test period of the Rate Study, it appears that the Utility includes interest on its reserve funds, including depreciation funds, as a non-operating revenue [IR-29, Exhibit E-2]. This is contrary to the policy set out on page 3030 of the *Accounting Handbook*. The Board reminds the Utility to prepare its financial statements in accordance

with the *Accounting Handbook*, including the treatment of the interest associated with the depreciation fund as a part of the fund, and not as a part of non-operating revenue.

[40] The Board finds the Utility's non-operating expenses associated with the current and past debt charges to be reasonable.

[41] The Board finds the calculated rate of return on rate base over each of the test years, to be reasonable and in accordance with the *Accounting Handbook*. The Board notes that the 4% figure is rounded and the calculated rate of return on rate base is 3.7%, 3.7% and 3.5%, over each of the test years, which the Board accepts.

IV ALLOCATIONS OF REVENUE REQUIREMENT

A. Public Fire Protection

[42] The methodology used to determine the public fire protection charges is consistent with other water utilities in the Province and the Board's *Accounting Handbook*. The Board noted during the hearing that, based upon the percentage allocations of utility plant in service shown in the Rate Study, which are rounded to no decimal places, the calculation of the annual public fire protection charges differs slightly from the figures indicated. In response to Undertaking U-4, the Applicant confirmed that these differences are due to rounding. The proposed fire protection charges are \$407,224, \$476,080 and \$516,897, respectively, for each of the test years.

[43] The Applicant indicated that the Shubenacadie system provides minimal public fire protection. The new storage tank scheduled to be commissioned in 2010 will improve the situation, however, updating additional watermains is needed to further

improve the fire flows. The Applicant added that this work is “cost prohibitive” at this time and was not included in the Rate Study. [IR-20, Exhibit E-2]

Findings

[44] The Board accepts the methodology used to determine the annual public fire protection charge, and approves the fire protection charges in each of 2010/11, 2011/12 and 2012/13 as proposed in the Application. The Board is pleased that the proposed capital works will help to improve fire flows and notes that the Rate Study includes the costs associated with a fire underwriter’s survey to be completed for each of the two systems. The Board encourages the Utility to take the necessary steps to provide adequate public fire protection to its customers in the Shubenacadie system.

B. Utility Customers

[45] The remaining revenue requirements, after the allocation to fire protection charges, are to be recovered from the Utility’s customers. The methodology used to allocate expenses and allowances to base charge, customer charge, delivery and production, is as set out in the *Accounting Handbook*.

[46] The proposed consumption charges are based upon the projected increases in the number of customers, as set out above. For the purpose of the Rate Study, it is assumed that the additional 5/8" meter customers will consume 40,000 gallons per year, while no consumption volume is added for the projected increase in larger customers. Ms. Nolan stated that the last rate studies for each of the two utilities were optimistic in terms

of the increases in customers and consumption volumes. The projections were not realized and this contributed to the excess of expenses over revenues in each of the utilities. She described the current projections as conservative.

[47] Ms. Nolan compared the proposed increases for the amalgamated Utility with the two utilities remaining as stand alone systems. In the final test year of 2012/13, as stand alone systems, an average 5/8" meter size residential customer of the East Hants Regional Water Utility is indicated to have a quarterly charge of \$119.77, while the same customer of the Shubenacadie Water Utility would have a quarterly charge of \$333.17, the highest in the Province. Ms. Nolan noted that the rationale for the amalgamation is that the Shubenacadie Utility is not viable as a stand-alone system. She added that as an amalgamated Utility, in the third test year, an average 5/8" meter residential customer of the East Hants Regional Water Utility will pay an additional \$20.85 per quarter compared to the stand-alone rate, with a proposed quarterly charge of \$140.62.

Findings

[48] The Board notes that the methodology and percentage allocations used in the Rate Study are the same as those used by the individual utilities in past applications and are also as that set out in the Board's *Accounting Handbook*. The Board accepts the methodology used in the allocation of the various expense items to base, customer, delivery and production charges in the determination of the rates to the Utility's customers.

[49] A review of the last rate applications of the two utilities indicates that the projections of number of customers and consumption were higher than the actual figures,

resulting in lower rates than necessary to break even. The Board accepts the projections as stated in the current Application.

[50] The Board notes that the rates proposed are in line with the rates recently approved for other water utilities in the Province. The Board understands that the Shubenacadie Utility is benefiting from the proposed amalgamation. However, both of the systems are operated by the same personnel and from an administrative and financial view, the proposed amalgamation appears to make sense. In addition, in the long term, there may be efficiencies gained for both systems through spreading costs over a larger customer base, particularly if the potential development in Shubenacadie takes place.

V SUBMISSIONS

[51] Four members of the public spoke during the hearing. Ron Smith, a resident of Enfield and customer of the East Hants Regional Water Utility stated that although he was initially upset with the proposed increases, he realizes that there is no alternative than to combine the two systems. He questioned the responsibility of the Shubenacadie operating deficit, which is in excess of \$500,000. Ms. Nolan confirmed that it will be paid by the Shubenacadie taxpayers through an area rate. He further questioned whether the capital costs of the proposed upgrades are included in the Rate Study. Ms. Nolan noted that the costs are included in the Application and that a small portion of the capital costs have affected the proposed rates as the majority of the funding is through grants, depreciation and reserve surpluses.

[52] In response to Mr. Smith's question with respect to staff levels of the Utility, Ms. Nolan stated that two new labourers are required as replacement positions for retirement and that there will be some duplication over a short time. Mr. Smith further stated that, in his opinion, the projected increase in customers and consumption are low. Ms. Nolan acknowledged that, and stated that because of the optimistic projections of the last studies, which were not met, the current Rate Study was prepared on a conservative basis. Mr. Smith questioned whether the Utility has considered the costs associated with proposed new developments in Lantz, to which Mr. Landers explained that such costs are not in the Rate Study.

[53] Bob Doucet, a customer of the East Hants Regional Water Utility, further questioned who pays for developments and system extensions. He was advised that the Utility can only charge water rates which have been approved by the Board, while Municipal taxes are outside of the Board's jurisdiction. Board approval is required for any infrastructure extensions and the Board reviews such requests based upon the principle of cost neutrality, so that the existing Utility customers do not pay for new development.

[54] Fred Banister, an Enfield Councillor, opined that the proposed amalgamation represents a solution to the problem that the Shubenacadie Utility cannot be sustained on its own. He added that physically there will still be two separate systems and that the application represents a passing of the financial burden from one area of the Municipality to the other, with the East Hants Regional Water Utility receiving no benefit for subsidizing the Shubenacadie Water Utility.

[55] Susan Horne, a resident of Elmsdale and a customer of the East Hants Regional Utility, stated that she is concerned with the proposed increases. She also questioned the benefit to the East Hants Regional Water Utility of amalgamation.

[56] The Board noted that this situation is not unique and that other municipalities have proposed amalgamations to solve similar problems.

VI MISCELLANEOUS RATES AND CHARGES

[57] In addition to the rates for water supply to its customers, the Application requests approval of a number of miscellaneous rates and charges, as set out in the response to Information Request IR-60 [Exhibit E-2].

[58] Proposed Item 1(c) of the Schedule of Rates and Charges states:

The rates as outlined above shall also be applicable to customers who are situated outside of the boundary of East Hants. Other charges may be applicable for these customers as negotiated by contract.

[59] Ms. Nolan explained that this note was added due to the pending legal agreement with Irving Oil Limited to supply water outside of Municipal boundaries and it is not certain at this time what other charges will be levied as a result of separate contractual agreements. The Board explained that a customer of the Utility is to be charged the same rates whether it is located inside or outside of Municipal boundaries, and that any other charges are not within the Board's jurisdiction, so Item 1(c) should be removed, to which the Applicant agreed.

[60] Ms. Nolan noted that there is no change proposed to the bulk water rate in the current Application, but that the rate will be reviewed in the future to ensure that the users of the bulk water system pay full cost of the system.

[61] The Board noted that the Schedule of Rates and Charges proposes a formula for each of the test years to determine the public fire protection charge, and that generally a formula is only added in the last test year to be used to determine the public fire protection charge in years beyond the test years. Ms. Nolan agreed that the formula can be removed for the first two test years and modified in the third year.

[62] Rate 9 'Connection/Disconnection/Reconnection Fee' is proposed in the Rate Study to have a fee of \$100 for work after normal working hours for first time violations and \$200 for successive violations. Ms. Nolan requested that the charge be changed to \$200 for all work after normal working hours, as approved by Council.

[63] The Board questioned the contents of Rate 11 'Charge for Use of Investigator/Collector' which stated that a fee of \$25 would be charged *"if in the judgement of the Utility it is warranted"*. In response to Undertaking U-5, the Utility changed the wording to *"if it is determined that the account is correct"*.

[64] During the hearing the Board noted a number of minor corrections to the Schedule of Rates, such as changing the title of Item 8 from 'Unmetered Service' to 'Temporary Service' and replacing the references to 'Commission' to 'Utility', which were acknowledged by Ms. Nolan.

[65] As a part of the responses to the Undertakings, the Utility filed revised Schedules of Rates and Charges which incorporated the changes noted above.

Findings

[66] The Board has reviewed the proposed revised Schedule of Rates and Charges, including responses to the Undertakings. The Board notes that the proposed miscellaneous charges are generally consistent with other water utilities in the Province, and finds them to be reasonable. Accordingly, the Board approves the miscellaneous charges with the changes noted above and filed by the Applicant as a part of the Undertaking responses. The Board expects that in future rate applications, the bulk water charge will be calculated on a cost to operate basis.

VII SCHEDULE OF RULES AND REGULATIONS

[67] The current Schedules of Rules and Regulations of the two utilities are similar. A list of the proposed changes to the current Schedule of Rules and Regulations was provided in response to Information Request IR-61 [Exhibit E-2].

[68] The Board questioned the Utility with respect to the proposed Regulation 6(c) 'Adjustment of Bills - Metered Customers Customer Overbilled' in terms of how the adjustment will be estimated by the Utility. In response to Undertaking U-6, the Applicant revised the Regulation to state that the adjustment will be estimated by the Utility *based on the best available data from prior periods usage records for the ratepayer*.

[69] The Board further questioned the variance of 4% in the proposed Regulation 19 'Meter Testing' noting that it is high in comparison to other utilities. The Utility agreed to amend the amount to 3%. It was further noted by the Board that there were instances

in the proposed regulations where the word 'Commission' should be replaced with 'Utility', which was acknowledged by Ms. Nolan.

[70] A revised Schedule of Regulations which included the changes noted above was filed by the Applicant as a part of the Undertaking responses.

Findings

[71] The proposed Schedule of Rules and Regulations of the Utility is generally consistent with other water utilities in the Province which have had rate applications recently approved by the Board. The Board finds the proposed changes to the Utility's Schedule of Rules and Regulations, as filed with the Undertaking responses, to be reasonable.

VIII CONCLUSION

[72] The Board approves the amalgamation of the existing two utilities of Shubenacadie and East Hants Regional effective April 1, 2010, and the amalgamated Utility is to be known as the "East Hants Water Utility". The service area of the new Utility will be the areas served by the current two utilities.

[73] The Board approves the Schedule of Rates and Charges for Water and Water Services for each of the test years, as requested by the Applicant, with the miscellaneous rates and charges as revised in the responses to the Undertakings. The approved rates are effective April 1, 2010, April 1, 2011 and April 1, 2012, as proposed by the Applicant and are attached hereto as Schedules "A", "B" and "C".

[74] The approved Schedule of Rules and Regulations is attached hereto as Schedule "D" and is effective April 1, 2010.

[75] The Applicant noted in its response to Undertaking U-2, which requested that the Utility file a copy of the signed agreement with Irving Oil Limited, is not available and will be filed in due course, once it is executed. The Utility is directed to ensure that the rates charged are Board approved rates and to file this document when available.

[76] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 18th day of February 2010.



Kulvinder S. Dhillon

K. Gillin

SCHEDULE "A"

MUNICIPALITY OF THE DISTRICT OF EAST HANTS

EAST HANTS WATER UTILITY

**Schedule of Rates and Charges
for water and water services supplied on and after April 1, 2010**

The rates set out below are the rates approved by the Board for water and water services when payment is made within twenty (20) days from the date rendered as shown on the bill.

An interest rate of 1% per month will be charged to all outstanding accounts at the end of each calendar month.

Each bill shall show the amount payable within twenty (20) days from the date rendered as shown on the bill.

In this Schedule the word "Utility" means the East Hants Water Utility.

1. Metered Service

(a) Base Charges

<u>Size of Meter</u>	<u>Quarterly</u>
5/8"	\$ 44.19
3/4"	64.93
1"	106.42
1.5"	210.15
2"	334.62
3"	666.55

(b) Consumption Rate

\$9.38 per 1,000 gallons

Minimum Bills

The minimum bill for water service shall be the Base Charge.

2. **Bulk Water Meter**

\$8.78 per 1,000 gallons.

Bulk water can only be obtained by Customers who have a Smart Card, on which financial credits have been applied. A refundable deposit of \$25.00 shall be collected by the Utility when a Smart Card is provided to a customer. The \$25.00 deposit shall be returned to the customer upon receipt of the Smart Card by the Utility, following a verification that the Smart Card is in good working order. Lost or stolen cards are the responsibility of the customer; failure to return the card to the Utility will result in default of the Customer's deposit.

3. **Public Fire Protection Service**

The Municipality of the District of East Hants shall pay the East Hants Water Utility for Public Fire Protection Services the amount of \$407,224 for twelve months beginning April 1, 2010.

4. **Rates for Sprinkler Systems**

Each building having a sprinkler system installed shall pay annually for the service as follows:

Each building having a sprinkler service pipe of 6" or less in diameter	\$300.00
Each building serviced by a sprinkler service pipe of 8" or more	\$400.00

The customer shall be responsible for the supply and installation, including all costs, of a sprinkler service pipe from the main in the street to the building, including a proper size control valve so that the service may be shut off if necessary. All materials and procedures shall meet Utility standards. The Utility shall inspect the installation of same. The portion of the service pipe that extends from the main to the street line shall become the property of the Utility, and this portion shall be maintained and eventually replaced by the Utility when necessary.

5. **Rates for Privately Owned Hydrants**

Privately owned hydrants supplied with water from the Utility's system through a connection which is not metered:

Per Hydrant per year	\$200.00
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6. **Water for Buildings or Works Under Construction**

The Utility may furnish water to any person requiring a supply thereof for the construction of a building or other works. This person shall deposit with the Utility such sums as may be determined by the Utility as is sufficient to defray the cost of making the necessary connection to any water service or main together with the cost of the meter to be installed to measure the water consumed. Upon completion of the work and the return of the meter to the Utility, a refund will be made for the cost of the meter, after deducting the cost, if any, of repairing the meter and of testing the same and after payment of the base and connection charges and the consumption rates in respect to such installation.

7. **Rates for Water Supplied from Fire Hydrants**

Whenever the use of any fire hydrant is desired for supplying water for flushing sewers, drains or any other purpose, excepting those of the Fire Department, the Utility may grant a permit containing such terms and conditions as it considers necessary, including arrangements regarding supervision of the opening and closing of the hydrant and the keeping of a record of the time such hydrant is used. A charge of \$100.00 per permit shall be charged by the Utility. The Utility may also recover the cost of staff time during supervision.

8. **Temporary Service**

When circumstances require that a service connection be made without a meter, the minimum charge during the temporary service period shall be the Base Charge prorated according to the length of time the temporary service is required. A charge of \$100.00 will apply for service connection.

9. **Connection, Disconnection, Reconnection Fee**

The Utility shall charge a \$25.00 fee for the creation of a water account, notwithstanding the fact that no physical disconnection of the system may have occurred.

The Utility shall charge a \$40.00 fee for the installation of a water meter or the inspection thereof. The fee shall be \$200.00 when a meter is installed, or inspection performed, after normal working hours of the Utility.

If a customer requests a meter replacement, not deemed necessary by the Utility, or if the customer requests a type of meter other than that deemed appropriate by the Utility (e.g. radio read vs. regular meter), the customer shall be responsible for the full cost of the meter in addition to the installation fee.

When water service has been suspended for any violation of the Rules and Regulations of the Utility, such water service shall not be re-established until a reconnection charge has been paid to the Utility. The fee shall be \$40.00 for first time violations and \$75.00 for successive violations. The fee shall be \$200.00 if done after normal working hours of the Utility.

10. **Charge for Non-Negotiable Cheque**

The Utility shall charge a \$25.00 administration fee for cheques that, due to non-negotiability, have been rejected by the Utility's bank, or for payment through a pre-authorized payment plan which has been reversed or dishonoured by the bank/financial institution.

11. **Charge for use of an Investigator/Collector**

The Utility may charge a \$25.00 fee for each visit by the Investigator/Collector to a customer whose account is being disputed or whose account is past due, if it is determined that the account is correct.

12. **Charge for Missed Appointment by Customer**

When an appointment has been made by a customer to have water service hooked up or a meter installed, or the water turned on to a property, or another visit to the property for the inception or maintenance of water service to the property and the customer fails to keep the appointment or the plumbing is not completed to allow for installation of a water meter and the Utility's staff has to return to the property, there may be a charge of \$25.00 for each visit missed if, in the judgment of the Utility, it is warranted.

13. **Charge for Theft of Service**

The Utility may charge penalties in addition to applicable water charge for each illegal water connection as follows:

1 st offence	\$200.00
2 nd offence	\$500.00

14. **Special Service Charge**

A special service charge of \$50.00 (\$200.00 if such work is performed after regular working hours) shall be charged to each customer receiving a necessary or requested service such as shutting off or turning on water service or other special service not provided for elsewhere in the schedules or the rules and regulations. In the case where the shutting off is requested because there is no operable shut-off valve serving the dwelling, an isolation valve must be installed at the customer's expense.

15. **Charge for Water Bill Copies**

the Utility may charge a fee of \$10.00 for every water bill copy issued outside of the regular billing cycle.

HST will be added to all fees as required by law.

K. Schillow

SCHEDULE "B"

MUNICIPALITY OF THE DISTRICT OF EAST HANTS

EAST HANTS WATER UTILITY

**Schedule of Rates and Charges
for water and water services supplied on and after April 1, 2011**

The rates set out below are the rates approved by the Board for water and water services when payment is made within twenty (20) days from the date rendered as shown on the bill.

An interest rate of 1% per month will be charged to all outstanding accounts at the end of each calendar month.

Each bill shall show the amount payable within twenty (20) days from the date rendered as shown on the bill.

In this Schedule the word "Utility" means the East Hants Water Utility.

1. **Metered Service**

(a) **Base Charges**

<u>Size of Meter</u>	<u>Quarterly</u>
5/8"	\$ 44.57
3/4"	65.50
1"	107.35
1.5"	211.98
2"	337.53
3"	672.34

(b) **Consumption Rate**

\$9.40 per 1,000 gallons

Minimum Bills

The minimum bill for water service shall be the Base Charge.

2. **Bulk Water Meter**

\$8.78 per 1,000 gallons.

Bulk water can only be obtained by Customers who have a Smart Card, on which financial credits have been applied. A refundable deposit of \$25.00 shall be collected by the Utility when a Smart Card is provided to a customer. The \$25.00 deposit shall be returned to the customer upon receipt of the Smart Card by the Utility, following a verification that the Smart Card is in good working order. Lost or stolen cards are the responsibility of the customer; failure to return the card to the Utility will result in default of the Customer's deposit.

3. **Public Fire Protection Service**

The Municipality of the District of East Hants shall pay the East Hants Water Utility for Public Fire Protection Services the amount of \$476,080 for twelve months beginning April 1, 2011.

4. **Rates for Sprinkler Systems**

Each building having a sprinkler system installed shall pay annually for the service as follows:

Each building having a sprinkler service pipe of 6" or less in diameter	\$300.00
Each building serviced by a sprinkler service pipe of 8" or more	\$400.00

The customer shall be responsible for the supply and installation, including all costs, of a sprinkler service pipe from the main in the street to the building, including a proper size control valve so that the service may be shut off if necessary. All materials and procedures shall meet Utility standards. The Utility shall inspect the installation of same. The portion of the service pipe that extends from the main to the street line shall become the property of the Utility, and this portion shall be maintained and eventually replaced by the Utility when necessary.

5. **Rates for Privately Owned Hydrants**

Privately owned hydrants supplied with water from the Utility's system through a connection which is not metered:

Per Hydrant per year	\$200.00
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6. **Water for Buildings or Works Under Construction**

The Utility may furnish water to any person requiring a supply thereof for the construction of a building or other works. This person shall deposit with the Utility such sums as may be determined by the Utility as is sufficient to defray the cost of making the necessary connection to any water service or main together with the cost of the meter to be installed to measure the water consumed. Upon completion of the work and the return of the meter to the Utility, a refund will be made for the cost of the meter, after deducting the cost, if any, of repairing the meter and of testing the same and after payment of the base and connection charges and the consumption rates in respect to such installation.

7. **Rates for Water Supplied from Fire Hydrants**

Whenever the use of any fire hydrant is desired for supplying water for flushing sewers, drains or any other purpose, excepting those of the Fire Department, the Utility may grant a permit containing such terms and conditions as it considers necessary, including arrangements regarding supervision of the opening and closing of the hydrant and the keeping of a record of the time such hydrant is used. A charge of \$100.00 per permit shall be charged by the Utility. The Utility may also recover the cost of staff time during supervision.

8. **Temporary Service**

When circumstances require that a service connection be made without a meter, the minimum charge during the temporary service period shall be the Base Charge prorated according to the length of time the temporary service is required. A charge of \$100.00 will apply for service connection.

9. **Connection, Disconnection, Reconnection Fee**

The Utility shall charge a \$25.00 fee for the creation of a water account, notwithstanding the fact that no physical disconnection of the system may have occurred.

The Utility shall charge a \$40.00 fee for the installation of a water meter or the inspection thereof. The fee shall be \$200.00 when a meter is installed, or inspection performed, after normal working hours of the Utility.

If a customer requests a meter replacement, not deemed necessary by the Utility, or if the customer requests a type of meter other than that deemed appropriate by the Utility (e.g. radio read vs. regular meter), the customer shall be responsible for the full cost of the meter in addition to the installation fee.

When water service has been suspended for any violation of the Rules and Regulations of the Utility, such water service shall not be re-established until a reconnection charge has been paid to the Utility. The fee shall be \$40.00 for first time violations and \$75.00 for successive violations. The fee shall be \$200.00 if done after normal working hours of the Utility.

10. **Charge for Non-Negotiable Cheque**

The Utility shall charge a \$25.00 administration fee for cheques that, due to non-negotiability, have been rejected by the Utility's bank, or for payment through a pre-authorized payment plan which has been reversed or dishonoured by the bank/financial institution.

11. **Charge for use of an Investigator/Collector**

The Utility may charge a \$25.00 fee for each visit by the Investigator/Collector to a customer whose account is being disputed or whose account is past due, if it is determined that the account is correct.

12. **Charge for Missed Appointment by Customer**

When an appointment has been made by a customer to have water service hooked up or a meter installed, or the water turned on to a property, or another visit to the property for the inception or maintenance of water service to the property and the customer fails to keep the appointment or the plumbing is not completed to allow for installation of a water meter and the Utility's staff has to return to the property,

there may be a charge of \$25.00 for each visit missed if, in the judgment of the Utility, it is warranted.

13. **Charge for Theft of Service**

The Utility may charge penalties in addition to applicable water charge for each illegal water connection as follows:

1 st offence	\$200.00
2 nd offence	\$500.00

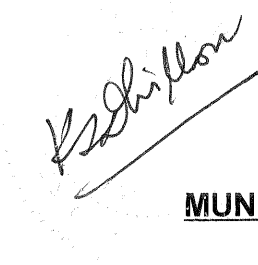
14. **Special Service Charge**

A special service charge of \$50.00 (\$200.00 if such work is performed after regular working hours) shall be charged to each customer receiving a necessary or requested service such as shutting off or turning on water service or other special service not provided for elsewhere in the schedules or the rules and regulations. In the case where the shutting off is requested because there is no operable shut-off valve serving the dwelling, an isolation valve must be installed at the customer's expense.

15. **Charge for Water Bill Copies**

the Utility may charge a fee of \$10.00 for every water bill copy issued outside of the regular billing cycle.

HST will be added to all fees as required by law.



SCHEDULE "C"

MUNICIPALITY OF THE DISTRICT OF EAST HANTS

EAST HANTS WATER UTILITY

**Schedule of Rates and Charges
for water and water services supplied on and after April 1, 2012**

The rates set out below are the rates approved by the Board for water and water services when payment is made within twenty (20) days from the date rendered as shown on the bill.

An interest rate of 1% per month will be charged to all outstanding accounts at the end of each calendar month.

Each bill shall show the amount payable within twenty (20) days from the date rendered as shown on the bill.

In this Schedule the word "Utility" means the East Hants Water Utility.

1. **Metered Service**

(a) **Base Charges**

<u>Size of Meter</u>	<u>Quarterly</u>
5/8"	\$ 45.10
3/4"	66.27
1"	108.62
1.5"	214.48
2"	341.52
3"	680.30

(b) **Consumption Rate**

\$9.55 per 1,000 gallons

Minimum Bills

The minimum bill for water service shall be the Base Charge.

2. **Bulk Water Meter**

\$8.78 per 1,000 gallons.

Bulk water can only be obtained by Customers who have a Smart Card, on which financial credits have been applied. A refundable deposit of \$25.00 shall be collected by the Utility when a Smart Card is provided to a customer. The \$25.00 deposit shall be returned to the customer upon receipt of the Smart Card by the Utility, following a verification that the Smart Card is in good working order. Lost or stolen cards are the responsibility of the customer; failure to return the card to the Utility will result in default of the Customer's deposit.

3. **Public Fire Protection Service**

The Municipality of the District of East Hants shall pay the East Hants Water Utility for Public Fire Protection Services the amount of \$516,897 annually for twelve months beginning April 1, 2012, and for years subsequent, the greater of this amount (\$516,897) or the total derived from the following formulae:

- (a) The sum of 33% of transmission and distribution, taxes and depreciation expense of the Utility and return on rate base of the immediately preceding year, plus
- (b) 10% of all other expenses, whichever is greater.

4. **Rates for Sprinkler Systems**

Each building having a sprinkler system installed shall pay annually for the service as follows:

Each building having a sprinkler service pipe of 6" or less in diameter	\$300.00
Each building serviced by a sprinkler service pipe of 8" or more	\$400.00

The customer shall be responsible for the supply and installation, including all costs, of a sprinkler service pipe from the main in the street to the building, including a proper size control valve so that the service may be shut off if necessary. All materials and procedures shall meet Utility standards. The Utility shall inspect the installation of same. The portion of the service pipe that extends from the main to

the street line shall become the property of the Utility, and this portion shall be maintained and eventually replaced by the Utility when necessary.

5. **Rates for Privately Owned Hydrants**

Privately owned hydrants supplied with water from the Utility's system through a connection which is not metered:

Per Hydrant per year	\$200.00
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6. **Water for Buildings or Works Under Construction**

The Utility may furnish water to any person requiring a supply thereof for the construction of a building or other works. This person shall deposit with the Utility such sums as may be determined by the Utility as is sufficient to defray the cost of making the necessary connection to any water service or main together with the cost of the meter to be installed to measure the water consumed. Upon completion of the work and the return of the meter to the Utility, a refund will be made for the cost of the meter, after deducting the cost, if any, of repairing the meter and of testing the same and after payment of the base and connection charges and the consumption rates in respect to such installation.

7. **Rates for Water Supplied from Fire Hydrants**

Whenever the use of any fire hydrant is desired for supplying water for flushing sewers, drains or any other purpose, excepting those of the Fire Department, the Utility may grant a permit containing such terms and conditions as it considers necessary, including arrangements regarding supervision of the opening and closing of the hydrant and the keeping of a record of the time such hydrant is used. A charge of \$100.00 per permit shall be charged by the Utility. The Utility may also recover the cost of staff time during supervision.

8. **Temporary Service**

When circumstances require that a service connection be made without a meter, the minimum charge during the temporary service period shall be the Base Charge prorated according to the length of time the temporary service is required. A charge of \$100.00 will apply for service connection.

9. **Connection, Disconnection, Reconnection Fee**

The Utility shall charge a \$25.00 fee for the creation of a water account, notwithstanding the fact that no physical disconnection of the system may have occurred.

The Utility shall charge a \$40.00 fee for the installation of a water meter or the inspection thereof. The fee shall be \$200.00 when a meter is installed, or inspection performed, after normal working hours of the Utility.

If a customer requests a meter replacement, not deemed necessary by the Utility, or if the customer requests a type of meter other than that deemed appropriate by the Utility (e.g. radio read vs. regular meter), the customer shall be responsible for the full cost of the meter in addition to the installation fee.

When water service has been suspended for any violation of the Rules and Regulations of the Utility, such water service shall not be re-established until a reconnection charge has been paid to the Utility. The fee shall be \$40.00 for first time violations and \$75.00 for successive violations. The fee shall be \$200.00 if done after normal working hours of the Utility.

10. **Charge for Non-Negotiable Cheque**

The Utility shall charge a \$25.00 administration fee for cheques that, due to non-negotiability, have been rejected by the Utility's bank, or for payment through a pre-authorized payment plan which has been reversed or dishonoured by the bank/financial institution.

11. **Charge for use of an Investigator/Collector**

The Utility may charge a \$25.00 fee for each visit by the Investigator/Collector to a customer whose account is being disputed or whose account is past due, if it is determined that the account is correct.

12. **Charge for Missed Appointment by Customer**

When an appointment has been made by a customer to have water service hooked up or a meter installed, or the water turned on to a property, or another visit to the property for the inception or maintenance of water service to the property and the customer fails to keep the appointment or the plumbing is not completed to allow for installation of a water meter and the Utility's staff has to return to the property,

there may be a charge of \$25.00 for each visit missed if, in the judgment of the Utility, it is warranted.

13. **Charge for Theft of Service**

The Utility may charge penalties in addition to applicable water charge for each illegal water connection as follows:

1 st offence	\$200.00
2 nd offence	\$500.00

14. **Special Service Charge**

A special service charge of \$50.00 (\$200.00 if such work is performed after regular working hours) shall be charged to each customer receiving a necessary or requested service such as shutting off or turning on water service or other special service not provided for elsewhere in the schedules or the rules and regulations. In the case where the shutting off is requested because there is no operable shut-off valve serving the dwelling, an isolation valve must be installed at the customer's expense.

15. **Charge for Water Bill Copies**

the Utility may charge a fee of \$10.00 for every water bill copy issued outside of the regular billing cycle.

HST will be added to all fees as required by law.

Reshillion

SCHEDULE "D"

MUNICIPALITY OF THE DISTRICT OF EAST HANTS

EAST HANTS WATER UTILITY

**Schedule of Rules and Regulations
Applicable to the Supply of Water and Water Services**

Effective April 1, 2010

1. In these Rules and Regulations, unless the context otherwise requires, the expression:

"Municipality" means the Municipality of the District of East Hants.

"Utility" means the East Hants Water Utility

"Clerk" means the Municipal Clerk of the Municipality of the District of East Hants.

"Customer" means a person, firm or corporation who, or which, contracts to be supplied with water at a specific location or locations.

"Domestic Service" means the type of service supplied to the owner, his authorized agent or to the occupant or tenant of any space or area occupied for the distinct purpose of a dwelling house, rooming house, apartment, flat, etc.

"Commercial Service" means any type of service other than domestic service and public fire protection service as herein defined.

2. **Application for Service**

The Utility may, before rendering service, require a regular application form signed by the prospective customer.

3. **Deposits**

When required, such applicant for service shall deposit with the Utility a sum equal to the estimated charges for such service for a period of six months. This deposit shall be held by the Utility as collateral security for the payment of its bills, but is not to be considered as a payment on account thereof. When such customer ceases to use the service and discharges all his liability to the Utility in respect of such service, the deposit shall be returned to him, with interest calculated on a simple

basis at the rate of bank prime less 2%, as measured at the beginning of the most recent fiscal period of the Utility.

4. **Refusal of Service**

Service may be refused or suspended to any customer who has failed to discharge all of his liabilities to the Utility.

5. **Payment of Bills**

Bills for metered service shall be rendered to customers, not in advance, at intervals of three months. All bills shall be payable within twenty (20) days after the date rendered, which date shall be clearly shown on the bill.

6. **Adjustment of Bills - Metered Customers**

- (a) If the seal of a water meter is broken, or if a water meter does not register correctly, the bill for that service shall be estimated in accordance with the best data available.
- (b) Customer Underbilled - Should it be necessary for the Utility to make a billing adjustment as a result of a customer being underbilled for any reason, such adjustment shall be retroactive for a maximum of six billings or 18 months whichever is longer. Notwithstanding the above, in the event that a billing adjustment is the result of the customer's illegal connection to the water system or wilful interference or damage of metering equipment, the billing adjustment in such circumstances will not be limited to 18 months or 6 billing periods, but rather the customer shall be responsible for all payments of such accounts from the date such illegal connection or interference to meter equipment took place.
- (c) Customer Overbilled - Should it become necessary for the Utility to make a billing adjustment as a result of a customer being overbilled for any reason, such adjustment will be estimated by the Utility based on the best available data from prior period usage records for the ratepayer and the Utility will be responsible for payment of the overbilled amount with interest calculated on the basis of current simple interest at a rate of bank prime less 2% as measured at the beginning of the most recent fiscal period of the Utility.

7. **Liability for Payment of Water Bill**

An Agreement is deemed to exist between a customer and the Utility for the supply of water service at such rates and in accordance with these regulations by virtue of:

- (a) The customer applying for and receiving approval for water service;
- (b) The customer consuming or paying for water service from the date that the customer, who is a party to an agreement pursuant to clause (a) (the customer of record), moves out of the premises, in which case the customer of record shall remain jointly and severally liable for the water service account, up to the date the Utility is notified in writing that the customer of record wishes to terminate the supply of water service.
- (c) Any person, business or corporation that receives water service without the consent of the Utility, shall be liable for the cost of such water service which cost shall be determined in the sole discretion of the Utility based on its reasonable estimate of the amount of water utilized.
- (d) At the discretion of the Utility, a property owner who rents or leases a property or self-contained unit to a tenant or lessee may be required to contract for the provision of water at the address of the property rented or leased.

8. **Estimated Readings for Billing Purposes - Metered Customers**

If the Utility is unable to obtain a meter reading for billing purposes, after exercising due diligence in the usual practice of meter reading, the bill for that service shall be estimated in accordance with the best data available, subject, however, to the provision that in no circumstance will an estimated reading be used for more than three consecutive billing periods. If an estimated bill is rendered for three consecutive billing periods, the Utility shall notify the customer by registered mail that arrangements must be made for the Utility to obtain a reading and failing such arrangements, the Utility may suspend service until such arrangements are made. When such meter reading has been obtained, the previous estimated bill or bills shall be adjusted accordingly.

9. **Suspension of Service for Non-Payment of Bills**

The Utility shall have the right to enter onto customers' premises within reasonable hours to suspend service to customers whose bills remain unpaid for more than thirty (30) days after the date rendered.

10. **Resumption of Service**

In all cases where water service has been suspended for non-payment of bills or any violation of these Rules or Regulations, service shall not be restored until all such arrears, together with a \$40.00 reconnection charge, have been paid, and where a violation existed, by the termination of the violation to the satisfaction of the Utility and the payment of a \$40.00 reconnection charge.

11. **Public Fire Protection Service Charge**

The Utility shall annually render to the Municipality of the District of East Hants, not later than the last day of February, an account for fire protection service. Such account shall be calculated in the manner set out in the Schedule of Rates.

12. **Water to be Supplied by Meter**

No water will be supplied to a domestic service or commercial service customer without a meter first being connected to the service line except in emergency situations, the Utility may elect to supply water to a customer without a meter on a temporary basis. A meter shall be installed at the very earliest opportunity.

13. **Installation, Removal and Selection of Meters**

The Utility shall determine the size and type of meter to be installed in each case. All meters shall be the property of the Utility.

In the case of multiple unit premises, the Utility may require separate meters for each dwelling unit at its discretion.

Each metered service shall have a curb stop located at the property line to permit control of the service. Each service line shall be metered individually.

The connection for the meters shall be installed with shut-off valves on both sides of the meter, to the satisfaction of and without expense to the Utility and as prescribed by the Utility.

If a meter is replaced at the request of a customer (not deemed necessary by the Utility) or if a customer requests a meter of a type different than what is felt to be necessary by the Utility (eg radio read vs. regular meter), the customer shall be responsible for costs in accordance with the rates and fees schedule.

Meters shall be installed and removed only by employees of the Utility and no other person shall install, alter, change or remove a meter without the written permission of the Utility. The connections for such meters shall be installed to the approval of and at a charge to the customer as outlined in the Schedule of Rates.

14. **Master Meters**

In the case of any existing customer or customers served by the Utility with multiple meters, the Utility may supply, at its own expense, a master meter (so called) and install the same in a suitable frost-proof box constructed by the customers to be serviced, to the satisfaction of the Utility where the service pipe for the customer(s) joins the Utility's main pipe. Each customer shall be liable to pay for the water which passes through the customer's own meter, but if the amount of the total consumption of the individual meters is less than the amount of the water which passes through the master meter, the difference in cost is to be divided equally among the group of customers; and upon failure of customers to pay their portion of this amount within forty (40) days after the bill is rendered, the Utility may suspend the water service without notice.

All customers receiving water service where there is a master meter as hereinbefore provided shall be jointly and severally liable for all the water passing through the meter and also for the minimum charges as herein set forth.

The customer, or group of customers, as the case may be, shall be responsible for the distribution of water from the Utility's master meter to the properties of a customer or customers, and the Utility shall be under no obligation to install, maintain or replace any pipes, appliances, fixtures, or other apparatus connected therewith.

15. **Meter Readers**

Each Meter Reader shall be provided with an official badge which he/she shall exhibit on request.

16. **Access to Customer's Premises**

Representatives of the Utility shall have right of access to all parts of a customer's property or premises at all reasonable hours for the purpose of inspecting any water pipes or fittings, or appliances, or discontinuing service, or for the purpose of installing, removing, repairing, reading or inspecting meters. The Utility shall have the right to suspend service to any customer who refuses such access.

17. **Location of Meters**

The Utility shall have the right to refuse service to, or suspend the service of, any customer who does not provide a place which, in the opinion of the Utility, is suitable for the meter. It should be in the building served, at or near the point of entry of the service pipe, in a place where it can be easily read and where it will not be exposed to freezing temperatures.

Where the premises of a customer are of such a nature that a meter cannot be properly installed in a building or if the building is not sufficiently frost-proof as to guarantee the safety of the meter, the Utility may order the construction of a suitable frost-proof box in which the meter can be installed. Service to such premises may be refused or suspended until such a frost-proof box approved by the Utility is installed.

18. **Damage to Water Meters**

Each customer shall be responsible for the meter installed on his service and shall protect it. He shall be liable for any damage to the meter resulting from carelessness, hot water or steam, or the action of frost or from any other cause not the fault of the Utility or its employees. The cost to the Utility occasioned by such damage to the meter shall be paid by the customer. If after the rendering of a bill by the Utility to the customer for such cost, the same is not paid within thirty (30) days from the date rendered, the supply of water to the customer concerned may be suspended until all charges are paid.

19. **Meter Testing**

On the request of a customer to have his meter tested, the Utility may charge a sum equal to the estimated cost of making the test. If the test shows that the meter is over-registering by more than 3%, the sum so deposited shall be refunded to the customer, and the bill for service rendered to such customer shall be adjusted accordingly.

20. **Plumbing to be Satisfactory**

All plumbing, pipes and fittings, fixtures, and other devices for conveying, distributing, controlling, or utilizing water which are used by a customer and are not the property of the Utility, shall be installed in the manner provided by the Regulations of and be approved by the proper official of the Municipality of the District of East Hants as set out in the By-Laws. The water shall not be turned on (except for construction or testing purposes) until the applicant for service has

satisfied the Utility that these requirements have been met. The supply of water may be discontinued to any customer at any time if, in the opinion of the proper official of the Municipality of the District of East Hants, the plumbing, pipes, fittings, fixtures, or other devices as hereinbefore mentioned, or any of them, fail to comply with the above requirements, or if any part of the water system of such customer or the meter is in any unsuitable, dirty, unsanitary or inaccessible place. Service shall not be re-established until such condition is corrected to the satisfaction of the Utility.

21. **Cross Connection Control & Backflow Prevention**

- (a) No owner, consumer, customer or other person hereinafter collectively referred to in this rule and regulation as "person" shall connect, cause to be connected, or allow to remain connected to the water system, or plumbing installation, without the express written consent of the Utility, any piping fixtures, fittings, container or appliance in a manner which, under any circumstances, may allow water, wastewater, or any other liquid, chemical or substance, to ingress or egress the water system. Connection of any customer's installation served by the Utility to any other source of water supply is prohibited.
- (b) Where, in the opinion of the Utility, there may be a risk of contamination to the potable water system, notwithstanding the provisions of subparagraph (a), the Utility may require the customer, at the customer's sole cost and expense, to install at any point on the customer's water service connection or water service pipe, one or more backflow prevention (BFP) devices, which devices shall be of a quality and type approved by the Utility.
- (c) All BFP devices shall be maintained in good working order. Such devices must be inspected and tested by a certified tester, approved by the Utility, at the expense of the customer. Such inspections shall take place upon installation, and thereafter annually, or more often if required by the Utility. The customer shall submit a report in a form approved by the Utility on any or all tests performed on a BFP device within 30 days of a test. A record card shall be displayed on or adjacent to the BFP device on which the tester shall record the name and address of the owner of the device; the location, type, manufacturer, serial number and size of the device; and the test date, the tester's initials, the tester's name, the name of his employer, and the tester's license number.
- (d) Installation, maintenance, field-testing and selection of all BFP devices shall fully conform to the latest revision of CSA B64.10 and CSA B64 series.

- (e) In the event of any breach, contravention or non-compliance by a person of any of the provisions and regulations in sub-paragraphs (a), (b), (c) or (d), the Utility may:
 - (i) suspend water service to such person, or
 - (ii) give notice to the person to correct the breach, contravention or non-compliance within 96 hours, or a specified lesser period. If the person fails to comply with such notice, the Utility may immediately thereafter suspend water service to such person.

22. **Dangerous Connections**

No connection shall be permitted to any installation, equipment or source in such a manner as may allow any contamination to pass from such installation, equipment or source into the Utility's water supply system. If any such connection exists, the Utility may discontinue the supply of water to such customer.

23. **Prohibited Devices**

Service may be refused or suspended by the Utility to any customer who installs or uses any device or appurtenance, as, for example, booster pumps, quick-opening or quick-closing valves, flushometers, rodhopper water closets, water-operated pumps or siphons, standpipes, or large outlets for supplying locomotives or ships, etc., which may occasion sudden large demands of short or long duration, thereby requiring oversize meters and pipe lines, or affect the stability or regulation of water pressure in the Utility's system. Permission to install or use any such device or appurtenance must be obtained from the Utility, which permission shall specify what special arrangements, such as elevated storage tanks, or equalizing tanks, etc., must be provided by the customer.

24. **Improper Use or Waste of Water**

No customer shall permit the improper use or waste of water, nor shall he sell or give water to any person except upon such conditions and for such purposes as may be approved in writing by the Utility.

25. **Service Pipes**

Upon receipt of an application for service to any premises located on any portion of a street through which portion a main water pipe is laid and which premises are not already provided with water service, the Utility shall install a service pipe which is

considered to be of suitable size and capacity. No pipe smaller than 1" in diameter shall be laid for any service.

The cost of supplying and laying a 1" service pipe and fittings between the main pipe and the street line shall be paid by the Utility. From the street line to the premises, the cost shall be paid by the customer.

For services larger than 1", the whole cost shall be borne by the customer. Should any person make application for more than one service to his premises, the decision as to the necessity of the additional service shall be made by the Utility, and if the additional service is installed, the total cost thereof from the main to the customer's premises, shall be paid by such applicant.

All services must be installed in accordance with the Rules and Regulations of the Municipality of the District of East Hants as set out in the By-Laws and to the satisfaction of the Utility.

When a service has been installed without objection from the customer as to the location of the same, no subsequent removal of or alteration to the position of the pipe shall be made except at the expense of the customer requesting such removal or alteration.

26. **Repairs to Service**

If a leak or other trouble occurs in a service pipe, it shall be repaired as soon as possible. If the leak or trouble occurs between the main and the street line, it shall be repaired by the Utility at its expense. If the leak or trouble occurs elsewhere on the service, it shall be repaired by the customer at his expense. The Utility may make such repairs for any customer provided the customer agrees to pay the cost of same. When required, each customer desiring the Utility to do such work, shall deposit with the Utility, a sum equal to the estimated cost of the work.

If a leak occurs on the customer's portion of his service pipe and, after being notified of same, he refuses or unduly delays to have repairs made, the Utility may discontinue the supply of water to such service pipe if, in its opinion, such action is necessary in order to prevent wastage of water. The Utility shall notify the customer affected of its intention to discontinue such supply.

27. **Unauthorized Extensions, Additions or Connections**

No person shall, without the written consent of the Utility, make or cause to be made any connections to any pipe or main or any part of the water system, or in any way obtain or use water therefrom in any manner other than as set out in these Regulations.

28. **Season for Laying Pipes**

The Utility shall not be required to lay any pipe at any season of the year or at any time which, in its opinion, is not suitable.

29. **Sprinkler Service Pipes:**

The customer shall be responsible for the cost of installing a sprinkler service pipe from the main in the street to the building, including a proper size control valve so that the service may be shut off if necessary. The Utility shall either install the service pipe or it shall supervise the installation of same. The portion of the service pipe that extends from the main to the street line shall become the property of the Utility and its portion shall be maintained and eventually replaced by the Utility when necessary.

30. **Private Fire Protection**

Fire protection lines within buildings shall be installed so that all pipes will be open and readily accessible for inspection at any time, and no connection for any purpose other than fire protection shall be made thereto. Unless approved by the Utility in writing, no fire protection line shall be connected in any way to a metered service. Payment for private fire protection service shall be at such rates as approved by the Nova Scotia Utility and Review Board.

31. **Liability of Utility**

The Utility shall not be deemed to guarantee an uninterrupted supply or a sufficient or uniform pressure and shall not be liable for any damage or injury caused or done by reason of the interruption of supply, variation of pressure or on account of the turning off or turning on of the water for any purpose.

32. **Suspending Service for Violation**

Whenever, in the opinion of the Utility, violation of any of these Rules and Regulations is existing or has occurred, the Utility may cause the water service to be suspended from the premises where such violation has occurred or is existing and may keep the same so suspended until satisfied that the cause for such action has been removed.

33. **Interference with Utility Property**

No person, unless authorized by the Utility in writing, shall draw water from, open, close, cut, break, or in any way injure or interfere with any fire hydrant, water main, water pipe, or anything the property of the Utility or obstruct the free access to any

hydrant, stop cock, meter, railway siding, building, etc., provided, however, that nothing in this paragraph contained shall be deemed to prevent an officer or member of the Fire Department engaged in the work of such Department, from using any hydrant or other source of water supply of the Utility for such purpose.

34. **Conservation Directives**

The Utility may enact conservation of water directives to its customers, if in the opinion of the Utility, such directives will permit the Utility to provide a reliable, continuous water supply to all customers serviced by the Utility.

During such times as these directives may be enacted, customers who do not comply with the directives may have their water supply suspended until such time as the customer will agree to comply with the directive or upon suspension of the water conservation directive, whichever occurs first.

In the event that water is temporarily suspended for non-compliance of a water conservation directive, the cost of turning on the service will be billed to the customer.

Attachment 13.1



BC HYDRO
2007 RATE DESIGN EXHIBIT B-47

VANCOUVER 2010
CANDIDATE CITYIT'S OUR TIME
TO SHINE**MAY 27 2003**

Ms. Patricia A. Wallace
President
Union of British Columbia Municipalities
60 - 10551 Shellbridge Way
Richmond, BC V6X 2W9

Dear Ms. Wallace:

Thank you for your letter of March 19, 2003 conveying the Union of British Columbia Municipalities' (UBCM) additional views concerning the Government's new Energy Plan: "Energy for Our Future: A Plan for BC."

With respect to electricity rates, the heritage contract will lock in the value of the existing low-cost generation for the benefit of all British Columbians. Low-cost heritage power will be made available to the distribution arm of BC Hydro. It will be blended with other sources of electricity, such as power purchases from independent power producers (IPPs). Customer electricity rates will be set to reflect the average cost of electricity, just as they are set today. To ensure electricity rates are as low as possible, the British Columbia Utilities Commission (BCUC) will review BC Hydro's electricity rates, as well as the contracts between BC Hydro and IPPs, to ensure the contracts represent the best deal for customers.

Electricity rates will be set on a postage stamp basis. This means all customers within a particular customer class will receive the same rate, regardless of their location in the Province. New rate structures will be developed, initially for large customers, to provide them with an opportunity to save on their electricity bills through efficiency investments, load shifting, or sourcing their electricity from other suppliers. I wish to stress these new rates are to provide large customers with an opportunity to reduce their electricity costs, not to increase their costs.

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BCUC reviews are public reviews, and all stakeholders, including local governments, are welcome to participate and to provide input. The BCUC is currently reviewing the Vancouver Island Generation Project, proposed for Nanaimo, as well as the terms of the proposed heritage contract. The UBCM and its members are welcome to participate in these proceedings. BC Hydro will also apply to the BCUC for a rate review by March 2004, and local governments are welcome to participate in that process as well.

The contact for background information on the BCUC, and how to participate in the ongoing Vancouver Island Generation Project and heritage contract reviews, is as follows:

Mr. Robert J. Pellatt
Commission Secretary
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Box 250
Vancouver, BC V6Z 2N3
Telephone: (604) 660-4700
Facsimile: (604) 660-1102
BC Toll Free: 1-800-663-1385
Website: <http://www.bcuc.com>

With respect to local government involvement in IPPs siting and development, regulatory agencies, such as the Environmental Assessment Office and Land and Water British Columbia Inc., always confer with local governments during the review of proposals. Local governments have authority over local zoning and planning issues and, as such, can influence how or where projects are developed. As you may know, new legislation is being considered that will require proponents to work with local approval authorities to resolve issues. I understand you have had discussions on this issue with Honourable Kevin Falcon, Minister of State for Deregulation.

On the issue of communities producing some or all of their own power, there is nothing in the Energy Plan preventing this type of activity. Municipally owned utilities are not subject to regulation by the BCUC for the electricity services they provide within municipal boundaries. However, service outside municipal boundaries is subject to BCUC regulation. There are currently six municipal utilities in British Columbia. Except for the City of Nelson, which owns a hydro-electric generating station on the Kootenay River, these utilities source their power primarily from Aquila Networks Canada and BC Hydro.

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The issue of revenue sharing is a complex one which will evolve. Accordingly, I am not able to provide you with further information at this time. However, you may be aware the new BC Heartlands Economic Strategy, announced in the Throne Speech, will see economic development plans implemented across the Province, including investments in transportation infrastructure, new opportunities for tourism, sport and recreation, and a revitalized forest industry. As well, there will be job creation in coal bed methane, and further activity in oil and gas exploration and development.

Your comment with regard to local government grants-in-lieu is noted. The Energy Plan addresses your comments regarding resource adequacy, alternative energy, and energy conservation, in a number of ways. For example, utilities, including BC Hydro, have a responsibility to ensure they have sufficient supply to meet the needs of their customers. The BCUC, as part of its supervisory functions, will review utility plans to ensure utilities have adequate resources to meet their customers' demands for electricity.

Alternative energy development is encouraged by the Energy Plan's requirement that electricity distributors pursue a voluntary goal to acquire 50 percent of new supply from BC Clean Electricity over the next 10 years.

The Energy Plan also has a number of Policy Action items to promote conservation. These include:

- updating and expanding the *Energy Efficiency Act*;
- working with the building industry, governments and others to improve energy efficiency in new and existing buildings;
- stepped rates to provide better price signals to large electricity consumers; and
- amending the *Utilities Commission Act* to remove a disincentive for energy distributors to invest in conservation and energy efficiency.

I trust this letter (along with my previous letter to you of March 5, 2003) will clarify the issues raised by the UBCM Executive.

Sincerely,

ORIGINAL SIGNED
BY MINISTER

Richard Neufeld
Minister

.../4

- 4 -

pc: Honourable Kevin Falcon
Minister of State for Deregulation

Mr. Robert J. Pellatt
Commission Secretary
British Columbia Utilities Commission

Attachment 17.8

(Provided in electronic format only due to document size and in order to conserve paper)

SUMMARY (000's)

RATE 22 ²												
L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²	
1	REVENUES											
2	Total Revenues at Proposed 2013 FEI Rates	line 3 + line 4	\$ 26,314	\$ 17,638	\$ 5,428	\$ -	\$ -	\$ -	\$ 2,486	\$ 690	\$ 72	
3	Revenue Margin at Proposed 2013 FEI Rates		\$ 13,916	\$ 9,402	\$ 2,538	\$ -	\$ -	\$ -	\$ 1,301	\$ 602	\$ 72	
4	Total Cost of Gas ³		\$ 12,398	\$ 8,236	\$ 2,890	\$ -	\$ -	\$ -	\$ 1,185	\$ 87	\$ -	
5												
6	COST OF SERVICE											
7	Total Utility Cost of Service	line 8 + line 9	\$ 30,782	\$ 21,602	\$ 5,831	\$ -	\$ -	\$ -	\$ 2,584	\$ 740	\$ 25	
8	Cost of Service Margin		\$ 18,384	\$ 13,366	\$ 2,942	\$ -	\$ -	\$ -	\$ 1,399	\$ 653	\$ 25	
9	Total Cost of Gas ³		\$ 12,398	\$ 8,236	\$ 2,890	\$ -	\$ -	\$ -	\$ 1,185	\$ 87	\$ -	
10												
11	REVENUE TO COST RATIO											
12	Revenue to Cost Ratio at Proposed 2013 FEI Rates		85%	82%	93%				96%	93%	291%	
13												
11	SURPLUS / DEFICIT											
12	Total Surplus / Deficit	line 2 - line 7	\$ (4,468)									
13	% increase to Equal Allocated Cost		32.1%									
14												
15	REVENUES (adjusted to equal COS)											
16	Total Adjusted Revenues at Proposed 2013 FEI Rates	line 17 + line 9	\$ 30,782	\$ 20,657	\$ 6,243	\$ -	\$ -	\$ -	\$ 2,904	\$ 883	\$ 95	
17	Total Adjusted Revenue Margin at Proposed 2013 FEI Rates	line 3 x line 13	\$ 18,384	\$ 12,421	\$ 3,353	\$ -	\$ -	\$ -	\$ 1,719	\$ 796	\$ 95	
18												
19	REVENUES (adjusted for R/C RATIOS) ¹		\$ 30,782	\$ 20,657	\$ 6,243	\$ -	\$ -	\$ -	\$ 2,904	\$ 883	\$ 95	
20	COST OF SERVICE (adjusted for R/C RATIOS) ¹		\$ 30,782	\$ 21,602	\$ 5,831	\$ -	\$ -	\$ -	\$ 2,584	\$ 740	\$ 25	
21												
22	REVENUE TO COST RATIO											
23	Revenue to Cost Ratio	line 19 / line 20	100%	95.6%	107.1%				112.4%	119.4%		
24												
25	REVENUE REBALANCING											
26	Adjustment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
27	Total Revenues at Proposed Rates ¹	line 28 + line 9	\$ 30,782	\$ 20,657	\$ 6,243	\$ -	\$ -	\$ -	\$ 2,904	\$ 883	\$ 95	
28	Total Revenue Margin at Proposed Rates	line 17 + line 26	\$ 18,384	\$ 12,421	\$ 3,353	\$ -	\$ -	\$ -	\$ 1,719	\$ 796	\$ 95	
29												
30	PROPOSED REVENUE TO COST RATIO											
31	Revenue to Cost Ratio at Proposed Rates	line 27 / line 20	100.0%	95.6%	107.1%				112.4%	119.4%		

Note:

- The revenues (line 27 and line 19) and cost of service (line 20) include the imputed COG number for Rate 23, 25 and 27. This is shown only for the purposes of presenting the Revenue to Cost Ratios. Please note that Rates 23, 25 and 27 do not pay for commodity and midstream charges.
- Rate 4 is a seasonal service and Rates 22 and Rate 7/27 are interruptible customer classes. The revenue to cost ratio for Rate 4, Rate 22 and Rate 7/27 are not shown in the schedule above as these rate classes do not drive system capacity additions and therefore, no demand-related costs are allocated to these customer classes in the COSA Study.
- Cost of Gas forecast is based on five-day average forward prices at August 16, 17, 18, 19, and 22, 2011, and the propane gas cost forecast is based on the Mt. Belvieu propane swap prices at August 22, 2011, consistent with the forward pricing utilized in the 2011 Third Quarter Gas Cost reports for the various entities / service areas.

Columbia (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_ 2013 Test Year
FUNCTIONALIZATION (000's)

Schedule 2

L.No.	Particulars	Total	Gas Supply Operations	LNG Storage Tilbury	LNG Storage Mt. Hayes	Transmission	Transmission SCP	Distribution	Marketing	Customer Accounting
1	Total Operating & Maintenance Expense	\$ 5,967	\$ 2	\$ 89	\$ -	\$ 1,062	\$ 141	\$ 2,743	\$ 129	\$ 1,799
2	BCH Capacity Right	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Property & Sundry Taxes	\$ 1,570	\$ -	\$ 14	\$ -	\$ 547	\$ -	\$ 1,009	\$ -	\$ -
4	Depreciation Expense	\$ 4,039	\$ 2	\$ 78	\$ -	\$ 772	\$ 190	\$ 2,996	\$ -	\$ -
5	Amortization Expense	\$ 330	\$ 0	\$ 2	\$ -	\$ 234	\$ (70)	\$ 46	\$ 116	\$ 1
6	Other Operating Revenue	\$ (1,145)	\$ -	\$ -	\$ -	\$ (534)	\$ (471)	\$ (80)	\$ -	\$ (59)
7	Other Earned Return Provisions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Income Tax	\$ 888	\$ 2	\$ 18	\$ -	\$ 287	\$ -	\$ 581	\$ -	\$ -
9	Earned Return	\$ 6,736	\$ 14	\$ 134	\$ -	\$ 2,177	\$ -	\$ 4,411	\$ -	\$ -
10	Total Cost of Service Margin	\$ 18,385	\$ 20	\$ 336	\$ -	\$ 4,545	\$ (209)	\$ 11,707	\$ 245	\$ 1,741
11										
12	Cost of Gas - Commodity	\$ 8,792	\$ 8,792	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Cost of Gas - Midstream	\$ 3,606	\$ 3,606	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Total Utility Cost of Service	\$ 30,783	\$ 12,418	\$ 336	\$ -	\$ 4,545	\$ (209)	\$ 11,707	\$ 245	\$ 1,741

Columbia (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_ 2013 Test Year
RATE BASE SUMMARY - CLASSIFICATION (000's)

Schedule 3

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	<u>Gas Plant in Service</u>									
2	Total Gas Plant in Service	\$ 117,864	\$ 83,594	\$ 20,183	\$ -	\$ -	\$ -	\$ 9,385	\$ 4,626	\$ 77
3	Demand	\$ 62,525	\$ 36,081	\$ 13,713	\$ -	\$ -	\$ -	\$ 8,298	\$ 4,432	\$ -
4	Customer	\$ 55,096	\$ 47,355	\$ 6,411	\$ -	\$ -	\$ -	\$ 1,060	\$ 193	\$ 77
5	Energy	\$ 244	\$ 158	\$ 58	\$ -	\$ -	\$ -	\$ 27	\$ 0	\$ -
6	Total Accumulated Depreciation	\$ (32,818)	\$ (23,044)	\$ (5,671)	\$ -	\$ -	\$ -	\$ (2,718)	\$ (1,370)	\$ (15)
7	Demand	\$ (18,727)	\$ (10,794)	\$ (4,112)	\$ -	\$ -	\$ -	\$ (2,490)	\$ (1,330)	\$ -
8	Customer	\$ (14,064)	\$ (12,233)	\$ (1,552)	\$ -	\$ -	\$ -	\$ (224)	\$ (40)	\$ (15)
9	Energy	\$ (27)	\$ (17)	\$ (6)	\$ -	\$ -	\$ -	\$ (3)	\$ (0)	\$ -
10	TOTAL Net Plant	\$ 85,046	\$ 60,550	\$ 14,512	\$ -	\$ -	\$ -	\$ 6,667	\$ 3,256	\$ 61
11	Demand	\$ 43,798	\$ 25,287	\$ 9,601	\$ -	\$ -	\$ -	\$ 5,808	\$ 3,102	\$ -
12	Customer	\$ 41,032	\$ 35,122	\$ 4,859	\$ -	\$ -	\$ -	\$ 835	\$ 154	\$ 61
13	Energy	\$ 217	\$ 141	\$ 52	\$ -	\$ -	\$ -	\$ 24	\$ 0	\$ -
14										
15	<u>Contribution In Aid of Construction</u>									
16	Total CIAC	\$ (5,628)	\$ (4,186)	\$ (894)	\$ -	\$ -	\$ -	\$ (370)	\$ (174)	\$ (5)
17	Demand	\$ (2,168)	\$ (1,212)	\$ (491)	\$ -	\$ -	\$ -	\$ (303)	\$ (162)	\$ -
18	Customer	\$ (3,460)	\$ (2,973)	\$ (403)	\$ -	\$ -	\$ -	\$ (67)	\$ (12)	\$ (5)
19	Energy	\$ (1)	\$ (0)	\$ (0)	\$ -	\$ -	\$ -	\$ (0)	\$ (0)	\$ -
20	Total Accumulated Amortization	\$ 1,593	\$ 1,217	\$ 242	\$ -	\$ -	\$ -	\$ 92	\$ 42	\$ 2
21	Demand	\$ 478	\$ 258	\$ 112	\$ -	\$ -	\$ -	\$ 70	\$ 38	\$ -
22	Customer	\$ 1,115	\$ 958	\$ 130	\$ -	\$ -	\$ -	\$ 21	\$ 4	\$ 2
23	Energy	\$ 0	\$ 0	\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ 0	\$ -
24	Total Net Contribution	\$ (4,035)	\$ (2,969)	\$ (652)	\$ -	\$ -	\$ -	\$ (278)	\$ (133)	\$ (3)
25	Demand	\$ (1,690)	\$ (954)	\$ (379)	\$ -	\$ -	\$ -	\$ (233)	\$ (124)	\$ -
26	Customer	\$ (2,344)	\$ (2,015)	\$ (273)	\$ -	\$ -	\$ -	\$ (45)	\$ (8)	\$ (3)
27	Energy	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ -	\$ -	\$ (0)	\$ (0)	\$ -
28										
29	<u>Work in Progress, no AFUDC</u>	\$ 524	\$ 353	\$ 96	\$ -	\$ -	\$ -	\$ 49	\$ 25	\$ 0
30	Demand	\$ 356	\$ 209	\$ 77	\$ -	\$ -	\$ -	\$ 46	\$ 24	\$ -
31	Customer	\$ 167	\$ 144	\$ 19	\$ -	\$ -	\$ -	\$ 3	\$ 1	\$ 0
32	Energy	\$ 1	\$ 1	\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ 0	\$ -
33										
34	<u>Unamortized Deferred Charges</u>									
35	Total Unamortized Deferred Charges - Rate Base	\$ 1,640	\$ 761	\$ 444	\$ -	\$ -	\$ -	\$ 291	\$ 145	\$ (2)
36	Demand	\$ 2,329	\$ 1,419	\$ 481	\$ -	\$ -	\$ -	\$ 280	\$ 149	\$ -
37	Customer	\$ (1,017)	\$ (869)	\$ (115)	\$ -	\$ -	\$ -	\$ (25)	\$ (6)	\$ (2)
38	Energy	\$ 328	\$ 212	\$ 78	\$ -	\$ -	\$ -	\$ 36	\$ 2	\$ -
39										
40	<u>Cash Working Capital</u>	\$ 288	\$ 199	\$ 52	\$ -	\$ -	\$ -	\$ 27	\$ 9	\$ 0
41	Demand	\$ 96	\$ 56	\$ 21	\$ -	\$ -	\$ -	\$ 12	\$ 7	\$ -
42	Customer	\$ 102	\$ 85	\$ 10	\$ -	\$ -	\$ -	\$ 5	\$ 1	\$ 0
43	Energy	\$ 90	\$ 58	\$ 21	\$ -	\$ -	\$ -	\$ 10	\$ 1	\$ -
44										
45	<u>Other Working Capital</u>									
46	Total Other Working Capital	\$ 3,013	\$ 1,774	\$ 652	\$ -	\$ -	\$ -	\$ 382	\$ 206	\$ (1)
47	Demand	\$ 3,163	\$ 1,896	\$ 665	\$ -	\$ -	\$ -	\$ 392	\$ 209	\$ -
48	Customer	\$ (149)	\$ (122)	\$ (13)	\$ -	\$ -	\$ -	\$ (10)	\$ (3)	\$ (1)
49	Energy	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ -	\$ -	\$ (0)	\$ (0)	\$ -
50										
51	<u>LILO, Capital Efficiency Mechanism, Others</u>	\$ (34)	\$ (26)	\$ (5)	\$ -	\$ -	\$ -	\$ (2)	\$ (1)	\$ (0)
52	Demand	\$ (9)	\$ (5)	\$ (2)	\$ -	\$ -	\$ -	\$ (1)	\$ (1)	\$ -
53	Customer	\$ (25)	\$ (22)	\$ (3)	\$ -	\$ -	\$ -	\$ (0)	\$ (0)	\$ (0)
54	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
55										
56	Total Utility Rate Base	\$ 86,442	\$ 60,643	\$ 15,100	\$ -	\$ -	\$ -	\$ 7,137	\$ 3,507	\$ 56
57	Demand	\$ 48,042	\$ 27,909	\$ 10,463	\$ -	\$ -	\$ -	\$ 6,304	\$ 3,366	\$ -
58	Customer	\$ 37,765	\$ 32,323	\$ 4,485	\$ -	\$ -	\$ -	\$ 763	\$ 138	\$ 56
59	Energy	\$ 636	\$ 411	\$ 152	\$ -	\$ -	\$ -	\$ 70	\$ 3	\$ -

Columbia (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_2013 Test Year
COST OF SERVICE SUMMARY - CLASSIFICATION (000's)

Schedule 4

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	<u>Operating & Maintenance Expense</u>									
2	Total Operating & Maintenance Expense	\$ 5,967	\$ 4,395	\$ 856	\$ -	\$ -	\$ -	\$ 484	\$ 217	\$ 14
3	Demand \$	2,271	1,318	495	-	-	-	299	159	-
4	Customer \$	3,693	3,076	361	-	-	-	186	57	14
5	Energy \$	2	2	1	-	-	-	0	0	-
6	<u>BCH Capacity Right</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Demand \$	-	-	-	-	-	-	-	-	-
8	Customer \$	-	-	-	-	-	-	-	-	-
9	Energy \$	-	-	-	-	-	-	-	-	-
10	<u>Property & Sundry Taxes</u>	\$ 1,570	\$ 1,097	\$ 276	\$ -	\$ -	\$ -	\$ 131	\$ 65	\$ 1
11	Demand \$	873	502	192	-	-	-	117	62	-
12	Customer \$	697	595	83	-	-	-	15	3	1
13	Energy \$	-	-	-	-	-	-	-	-	-
14	<u>Depreciation Expense</u>	\$ 4,039	\$ 2,944	\$ 674	\$ -	\$ -	\$ -	\$ 285	\$ 131	\$ 5
15	Demand \$	1,703	990	371	-	-	-	223	119	-
16	Customer \$	2,334	1,953	303	-	-	-	62	12	5
17	Energy \$	2	1	0	-	-	-	0	0	-
18	<u>Amortization Expense</u>	\$ 329	\$ 201	\$ 68	\$ -	\$ -	\$ -	\$ 39	\$ 21	\$ 0
19	Demand \$	311	186	66	-	-	-	39	21	-
20	Customer \$	18	16	2	-	-	-	0	0	0
21	Energy \$	0	0	0	-	-	-	0	0	-
22	<u>Other Operating Revenue</u>	\$ (1,145)	\$ (713)	\$ (228)	\$ -	\$ -	\$ -	\$ (134)	\$ (70)	\$ (0)
23	Demand \$	(1,026)	(613)	(217)	-	-	-	(128)	(68)	-
24	Customer \$	(119)	(99)	(12)	-	-	-	(6)	(2)	(0)
25	Energy \$	-	-	-	-	-	-	-	-	-
26	<u>Income Tax</u>	\$ 888	\$ 634	\$ 151	\$ -	\$ -	\$ -	\$ 69	\$ 34	\$ 1
27	Demand \$	453	262	99	-	-	-	60	32	-
28	Customer \$	433	370	51	-	-	-	9	2	1
29	Energy \$	2	1	0	-	-	-	0	0	-
30	<u>Earned Return</u>	\$ 6,736	\$ 4,807	\$ 1,145	\$ -	\$ -	\$ -	\$ 524	\$ 255	\$ 5
31	Demand \$	3,438	1,988	753	-	-	-	455	243	-
32	Customer \$	3,284	2,810	389	-	-	-	67	12	5
33	Energy \$	14	9	3	-	-	-	2	0	-
34										
35	Total Cost of Service Margin	\$ 18,384	\$ 13,366	\$ 2,942	\$ -	\$ -	\$ -	\$ 1,399	\$ 653	\$ 25
36	Demand \$	8,023	4,632	1,759	-	-	-	1,064	568	-
37	Customer \$	10,340	8,721	1,178	-	-	-	333	84	25
38	Energy \$	20	13	5	-	-	-	2	0	-
39	<u>Cost of Gas - Commodity</u>	\$ 8,792	\$ 5,813	\$ 2,039	\$ -	\$ -	\$ -	\$ 869	\$ 72	\$ -
40	Demand \$	-	-	-	-	-	-	-	-	-
41	Customer \$	-	-	-	-	-	-	-	-	-
42	Energy \$	8,792	5,813	2,039	-	-	-	869	72	-
43	<u>Cost of Gas - Midstream</u>	\$ 3,606	\$ 2,423	\$ 851	\$ -	\$ -	\$ -	\$ 316	\$ 16	\$ -
44	Demand \$	3,606	2,423	851	-	-	-	316	16	-
45	Customer \$	-	-	-	-	-	-	-	-	-
46	Energy \$	-	-	-	-	-	-	-	-	-
47	Total Utility Cost of Service	\$ 30,782	\$ 21,602	\$ 5,831	\$ -	\$ -	\$ -	\$ 2,584	\$ 740	\$ 25
48	Demand \$	11,629	7,055	2,610	-	-	-	1,380	584	-
49	Customer \$	10,340	8,721	1,178	-	-	-	333	84	25
50	Energy \$	8,813	5,827	2,044	-	-	-	871	72	-

RATE BASE SUMMARY - FUNCTIONALIZATION (000's)

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	Gas Supply Operations	\$ 636	\$ 411	\$ 152	\$ -	\$ -	\$ -	\$ 70	\$ 3	\$ -
2	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Energy	\$ 636	\$ 411	\$ 152	\$ -	\$ -	\$ -	\$ 70	\$ 3	\$ -
5										
6	LNG Storage Tilbury	\$ 1,419	\$ 851	\$ 299	\$ -	\$ -	\$ -	\$ 176	\$ 94	\$ -
7	Demand	\$ 1,419	\$ 851	\$ 299	\$ -	\$ -	\$ -	\$ 176	\$ 94	\$ -
8	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10										
11	LNG Storage Mt. Hayes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15										
16	Transmission	\$ 32,155	\$ 19,272	\$ 6,769	\$ -	\$ -	\$ -	\$ 3,988	\$ 2,126	\$ -
17	Demand	\$ 32,155	\$ 19,272	\$ 6,769	\$ -	\$ -	\$ -	\$ 3,988	\$ 2,126	\$ -
18	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20										
21	Transmission SCP	\$ (70)	\$ (42)	\$ (15)	\$ -	\$ -	\$ -	\$ (9)	\$ (5)	\$ -
22	Demand	\$ (70)	\$ (42)	\$ (15)	\$ -	\$ -	\$ -	\$ (9)	\$ (5)	\$ -
23	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25										
26	Distribution	\$ 51,624	\$ 39,779	\$ 7,731	\$ -	\$ -	\$ -	\$ 2,819	\$ 1,238	\$ 57
27	Demand	\$ 13,694	\$ 7,323	\$ 3,233	\$ -	\$ -	\$ -	\$ 2,044	\$ 1,095	\$ -
28	Customer	\$ 37,930	\$ 32,456	\$ 4,498	\$ -	\$ -	\$ -	\$ 776	\$ 143	\$ 57
29	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30										
31	Marketing	\$ 747	\$ 427	\$ 170	\$ -	\$ -	\$ -	\$ 97	\$ 53	\$ (1)
32	Demand	\$ 843	\$ 505	\$ 178	\$ -	\$ -	\$ -	\$ 105	\$ 56	\$ -
33	Customer	\$ (96)	\$ (78)	\$ (8)	\$ -	\$ -	\$ -	\$ (8)	\$ (3)	\$ (1)
34	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35										
36	Customer Accounting	\$ (69)	\$ (55)	\$ (5)	\$ -	\$ -	\$ -	\$ (5)	\$ (2)	\$ (0)
37	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	Customer	\$ (69)	\$ (55)	\$ (5)	\$ -	\$ -	\$ -	\$ (5)	\$ (2)	\$ (0)
39	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40										
41	Total Utility Rate Base	\$ 86,442	\$ 60,643	\$ 15,100	\$ -	\$ -	\$ -	\$ 7,137	\$ 3,507	\$ 56
42	Demand	\$ 48,042	\$ 27,909	\$ 10,463	\$ -	\$ -	\$ -	\$ 6,304	\$ 3,366	\$ -
43	Customer	\$ 37,765	\$ 32,323	\$ 4,485	\$ -	\$ -	\$ -	\$ 763	\$ 138	\$ 56
44	Energy	\$ 636	\$ 411	\$ 152	\$ -	\$ -	\$ -	\$ 70	\$ 3	\$ -

COST OF SERVICE SUMMARY - FUNCTIONALIZATION (000's)

RATE 22										
L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	Gas Supply Operations	\$ 12,418	\$ 8,249	\$ 2,894	\$ -	\$ -	\$ -	\$ 1,187	\$ 87	\$ -
2	Demand	\$ 3,606	\$ 2,423	\$ 851	\$ -	\$ -	\$ -	\$ 316	\$ 16	\$ -
3	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Energy	\$ 8,813	\$ 5,827	\$ 2,044	\$ -	\$ -	\$ -	\$ 871	\$ 72	\$ -
5										
6	LNG Storage Tilbury	\$ 336	\$ 201	\$ 71	\$ -	\$ -	\$ -	\$ 42	\$ 22	\$ -
7	Demand	\$ 336	\$ 201	\$ 71	\$ -	\$ -	\$ -	\$ 42	\$ 22	\$ -
8	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10										
11	LNG Storage Mt. Hayes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15										
16	Transmission	\$ 4,545	\$ 2,724	\$ 957	\$ -	\$ -	\$ -	\$ 564	\$ 300	\$ -
17	Demand	\$ 4,545	\$ 2,724	\$ 957	\$ -	\$ -	\$ -	\$ 564	\$ 300	\$ -
18	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20										
21	Transmission SCP	\$ (209)	\$ (125)	\$ (44)	\$ -	\$ -	\$ -	\$ (26)	\$ (14)	\$ -
22	Demand	\$ (209)	\$ (125)	\$ (44)	\$ -	\$ -	\$ -	\$ (26)	\$ (14)	\$ -
23	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25										
26	Distribution	\$ 11,707	\$ 8,971	\$ 1,780	\$ -	\$ -	\$ -	\$ 657	\$ 287	\$ 14
27	Demand	\$ 3,237	\$ 1,763	\$ 751	\$ -	\$ -	\$ -	\$ 471	\$ 252	\$ -
28	Customer	\$ 8,470	\$ 7,207	\$ 1,028	\$ -	\$ -	\$ -	\$ 186	\$ 35	\$ 14
29	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30										
31	Marketing	\$ 244	\$ 173	\$ 34	\$ -	\$ -	\$ -	\$ 24	\$ 11	\$ 1
32	Demand	\$ 115	\$ 69	\$ 24	\$ -	\$ -	\$ -	\$ 14	\$ 8	\$ -
33	Customer	\$ 129	\$ 104	\$ 10	\$ -	\$ -	\$ -	\$ 10	\$ 3	\$ 1
34	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35										
36	Customer Accounting	\$ 1,741	\$ 1,409	\$ 139	\$ -	\$ -	\$ -	\$ 136	\$ 46	\$ 10
37	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	Customer	\$ 1,741	\$ 1,409	\$ 139	\$ -	\$ -	\$ -	\$ 136	\$ 46	\$ 10
39	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40										
41	Total Utility Cost of Service	\$ 30,782	\$ 21,602	\$ 5,831	\$ -	\$ -	\$ -	\$ 2,584	\$ 740	\$ 25
42	Demand	\$ 11,629	\$ 7,055	\$ 2,610	\$ -	\$ -	\$ -	\$ 1,380	\$ 584	\$ -
43	Customer	\$ 10,340	\$ 8,721	\$ 1,178	\$ -	\$ -	\$ -	\$ 333	\$ 84	\$ 25
44	Energy	\$ 8,813	\$ 5,827	\$ 2,044	\$ -	\$ -	\$ -	\$ 871	\$ 72	\$ -

Columbia (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_ 2013 Test Year
ALLOCATORS SUMMARY (000's)

Schedule 7

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	Billing Determinants									
2	Sales Volume (TJ)		1,655	611	0	0	0	416	330	37
3	Midstream Sales Volume (TJ)	2,567	1,655	611	0	0	0			
4	Commodity Sales Volume (TJ)	2,200	1,455	510	0	0	0	350	330	37
5	Average No. of Customers		20,940	2,068	0	0	0	106	10	2
6										
7	Cost of Service Margin	\$ 18,384	\$ 13,366	\$ 2,942	\$ -	\$ -	\$ -	\$ 1,399	\$ 653	\$ 25
8	Demand \$	8,023	4,632	1,759	-	-	-	1,064	568	-
9	Unit Demand Charge (\$/GJ)		3.18	3.45	-	-	-	3.04	1.72	-
10	Customer \$	10,340	8,721	1,178	-	-	-	333	84	25
11	Unit Customer Charge (\$/GJ)		6.00	2.31	-	-	-	0.95	0.26	0.67
12	Energy \$	20	13	5	-	-	-	2	0	-
13	Unit Energy Charge (\$/GJ)		0.01	0.01	-	-	-	0.01	0.00	-
14										
15	Unit Cost of Service Margin (\$/GJ)		8.08	4.81	-	-	-	3.36	1.98	0.67
16										
17	Cost of Gas - Commodity	\$ 8,792	\$ 5,813	\$ 2,039	\$ -	\$ -	\$ -	\$ 869	\$ 72	\$ -
18	Demand \$	-	-	-	-	-	-	-	-	-
19	Customer \$	-	-	-	-	-	-	-	-	-
20	Energy \$	8,792	5,813	2,039	-	-	-	869	72	-
21	Unit Cost of Gas - Commodity (\$/GJ)		3.997	3.997	-	-	-	2.479	0.217	-
22										
23	Cost of Gas - Midstream	\$ 3,606	\$ 2,423	\$ 851	\$ -	\$ -	\$ -	\$ 316	\$ 16	\$ -
24	Demand \$	3,606	2,423	851	-	-	-	316	16	-
25	Customer \$	-	-	-	-	-	-	-	-	-
26	Energy \$	-	-	-	-	-	-	-	-	-
27	Unit Cost of Gas - Midstream (\$/GJ)		1.67	1.67	-	-	-	0.90	0.05	-
27										
28	Total Utility Cost of Service	\$ 30,782	\$ 21,602	\$ 5,831	\$ -	\$ -	\$ -	\$ 2,584	\$ 740	\$ 25
29	Demand \$	11,629	7,055	2,610	-	-	-	1,380	584	-
30	Customer \$	10,340	8,721	1,178	-	-	-	333	84	25
31	Energy \$	8,813	5,827	2,044	-	-	-	871	72	-
32	Unit Cost of Service (\$/GJ)		14.85	11.43	-	-	-	7.38	2.25	0.67
33										
34	Total Revenues @ Proposed Rates	\$ 30,782	\$ 20,657	\$ 6,243	\$ -	\$ -	\$ -	\$ 2,904	\$ 883	\$ 95
35	Unit Rate (\$/GJ)		14.20	12.24	-	-	-	8.29	2.68	2.56
36										
37	Total Revenue Margin @ Proposed Rates	\$ 18,384	\$ 12,421	\$ 3,353	\$ -	\$ -	\$ -	\$ 1,719	\$ 796	\$ 95
38	Unit Rate (\$/GJ)		8.54	6.57	-	-	-	4.91	2.41	2.56

SUMMARY (000's)

													RATE 22 ²	
L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²			
1	REVENUES													
2	Total Revenues at Proposed 2013 FEI Rates	line 3 + line 4	\$ 252,514	\$ 167,925	\$ 49,659	\$ 619	\$ 50	\$ -	\$ 23,762	\$ 8,937	\$ 1,563			
3	Revenue Margin at Proposed 2013 FEI Rates		\$ 136,686	\$ 91,431	\$ 23,805	\$ 173	\$ 25	\$ -	\$ 12,452	\$ 7,273	\$ 1,526			
4	Total Cost of Gas ³		\$ 115,828	\$ 76,493	\$ 25,853	\$ 446	\$ 25	\$ -	\$ 11,310	\$ 1,664	\$ 36			
5														
6	COST OF SERVICE													
7	Total Utility Cost of Service	line 8 + line 9	\$ 254,837	\$ 179,701	\$ 46,741	\$ 466	\$ 47	\$ -	\$ 21,299	\$ 6,332	\$ 252			
8	Cost of Service Margin		\$ 139,009	\$ 103,208	\$ 20,888	\$ 20	\$ 22	\$ -	\$ 9,989	\$ 4,668	\$ 215			
9	Total Cost of Gas ³		\$ 115,828	\$ 76,493	\$ 25,853	\$ 446	\$ 25	\$ -	\$ 11,310	\$ 1,664	\$ 36			
10														
11	REVENUE TO COST RATIO													
12	Revenue to Cost Ratio at Proposed 2013 FEI Rates		99%	93%	106%	133%	107%		112%	141%	621%			
13														
11	SURPLUS / DEFICIT													
12	Total Surplus / Deficit	line 2 - line 7	\$ (2,323)											
13	% increase to Equal Allocated Cost		1.7%											
14														
15	REVENUES (adjusted to equal COS)													
16	Total Adjusted Revenues at Proposed 2013 FEI Rates	line 17 + line 9	\$ 254,837	\$ 169,479	\$ 50,063	\$ 622	\$ 50	\$ -	\$ 23,974	\$ 9,061	\$ 1,589			
17	Total Adjusted Revenue Margin at Proposed 2013 FEI Rates	line 3 x line 13	\$ 139,009	\$ 92,986	\$ 24,210	\$ 176	\$ 26	\$ -	\$ 12,663	\$ 7,396	\$ 1,552			
18														
19	REVENUES (adjusted for R/C RATIOS) ¹		\$ 254,837	\$ 169,479	\$ 50,063	\$ 622	\$ 50	\$ -	\$ 23,974	\$ 9,061	\$ 1,589			
20	COST OF SERVICE (adjusted for R/C RATIOS) ¹		\$ 254,837	\$ 179,701	\$ 46,741	\$ 466	\$ 47	\$ -	\$ 21,299	\$ 6,332	\$ 252			
21														
22	REVENUE TO COST RATIO													
23	Revenue to Cost Ratio	line 19 / line 20	100%	94.3%	107.1%		108.0%		112.6%	143.1%				
24														
25	REVENUE REBALANCING													
26	Adjustment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
27	Total Revenues at Proposed Rates ¹	line 28 + line 9	\$ 254,837	\$ 169,479	\$ 50,063	\$ 622	\$ 50	\$ -	\$ 23,974	\$ 9,061	\$ 1,589			
28	Total Revenue Margin at Proposed Rates	line 17 + line 26	\$ 139,009	\$ 92,986	\$ 24,210	\$ 176	\$ 26	\$ -	\$ 12,663	\$ 7,396	\$ 1,552			
29														
30	PROPOSED REVENUE TO COST RATIO													
31	Revenue to Cost Ratio at Proposed Rates	line 27 / line 20	100.0%	94.3%	107.1%		108.0%		112.6%	143.1%				

Inland (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_ 2013 Test Year
FUNCTIONALIZATION (000's)

Schedule 2

L.No.	Particulars	Total	Gas Supply Operations	LNG Storage Tilbury	LNG Storage Mt. Hayes	Transmission	Transmission SCP	Distribution	Marketing	Customer Accounting
1	Total Operating & Maintenance Expense	\$ 48,175	\$ 16	\$ 520	\$ -	\$ 6,159	\$ 838	\$ 21,277	\$ 1,296	\$ 18,068
2	BCH Capacity Right	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Property & Sundry Taxes	\$ 11,060	\$ -	\$ 82	\$ -	\$ 3,179	\$ -	\$ 7,798	\$ -	\$ -
4	Depreciation Expense	\$ 31,444	\$ 13	\$ 456	\$ -	\$ 3,858	\$ 1,740	\$ 25,377	\$ -	\$ -
5	Amortization Expense	\$ 2,014	\$ 1	\$ 12	\$ -	\$ 1,361	\$ (405)	\$ 355	\$ 675	\$ 14
6	Other Operating Revenue	\$ (7,061)	\$ -	\$ -	\$ -	\$ (3,107)	\$ (2,741)	\$ (617)	\$ -	\$ (595)
7	Other Earned Return Provisions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Income Tax	\$ 6,275	\$ 12	\$ 103	\$ -	\$ 1,668	\$ -	\$ 4,491	\$ -	\$ -
9	Earned Return	\$ 47,103	\$ 91	\$ 773	\$ -	\$ 12,524	\$ -	\$ 33,715	\$ -	\$ -
10	Total Cost of Service Margin	\$ 139,009	\$ 133	\$ 1,946	\$ -	\$ 25,643	\$ (568)	\$ 92,396	\$ 1,971	\$ 17,487
11										
12	Cost of Gas - Commodity	\$ 84,096	\$ 84,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Cost of Gas - Midstream	\$ 31,732	\$ 31,732	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Total Utility Cost of Service	\$ 254,837	\$ 115,961	\$ 1,946	\$ -	\$ 25,643	\$ (568)	\$ 92,396	\$ 1,971	\$ 17,487

Inland (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_ 2013 Test Year
RATE BASE SUMMARY - CLASSIFICATION (000's)

Schedule 3

RATE 22										
L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	<u>Gas Plant in Service</u>									
2	Total Gas Plant in Service	\$ 833,043	\$ 600,617	\$ 136,214	\$ 103	\$ 55	-	\$ 63,513	\$ 31,948	\$ 594
3	Demand	\$ 402,690	\$ 229,905	\$ 86,608	\$ -	\$ 28	\$ -	\$ 55,628	\$ 30,521	\$ -
4	Customer	\$ 428,746	\$ 369,663	\$ 49,231	\$ 103	\$ 27	\$ -	\$ 7,705	\$ 1,424	\$ 594
5	Energy	\$ 1,607	\$ 1,049	\$ 374	\$ 1	\$ 0	\$ -	\$ 180	\$ 3	\$ 0
6	Total Accumulated Depreciation	\$ (230,647)	\$ (164,602)	\$ (38,013)	\$ (21)	\$ (14)	-	\$ (18,396)	\$ (9,480)	\$ (120)
7	Demand	\$ (120,893)	\$ (68,919)	\$ (26,039)	\$ -	\$ (8)	\$ -	\$ (16,740)	\$ (9,186)	\$ -
8	Customer	\$ (109,578)	\$ (95,568)	\$ (11,933)	\$ (21)	\$ (6)	\$ -	\$ (1,636)	\$ (293)	\$ (120)
9	Energy	\$ (177)	\$ (115)	\$ (41)	\$ (0)	\$ (0)	\$ -	\$ (20)	\$ (1)	\$ (0)
10	TOTAL Net Plant	\$ 602,396	\$ 436,015	\$ 98,200	\$ 82	\$ 41	-	\$ 45,116	\$ 22,468	\$ 474
11	Demand	\$ 281,797	\$ 160,985	\$ 60,569	\$ -	\$ 20	\$ -	\$ 38,887	\$ 21,336	\$ -
12	Customer	\$ 319,168	\$ 274,095	\$ 37,298	\$ 81	\$ 21	\$ -	\$ 6,068	\$ 1,131	\$ 474
13	Energy	\$ 1,431	\$ 934	\$ 333	\$ 1	\$ 0	\$ -	\$ 161	\$ 2	\$ 0
14										
15	<u>Contribution In Aid of Construction</u>									
16	Total CIAC	\$ (41,608)	\$ (31,234)	\$ (6,385)	\$ (6)	\$ (3)	-	\$ (2,658)	\$ (1,285)	\$ (37)
17	Demand	\$ (14,878)	\$ (8,188)	\$ (3,315)	\$ -	\$ (1)	\$ -	\$ (2,177)	\$ (1,196)	\$ -
18	Customer	\$ (26,726)	\$ (23,043)	\$ (3,069)	\$ (6)	\$ (2)	\$ -	\$ (480)	\$ (89)	\$ (37)
19	Energy	\$ (5)	\$ (3)	\$ (1)	\$ (0)	\$ (0)	\$ -	\$ (1)	\$ (0)	\$ (0)
20	Total Accumulated Amortization	\$ 12,128	\$ 9,296	\$ 1,797	\$ 2	\$ 1	-	\$ 695	\$ 325	\$ 12
21	Demand	\$ 3,511	\$ 1,867	\$ 807	\$ -	\$ 0	\$ -	\$ 540	\$ 297	\$ -
22	Customer	\$ 8,614	\$ 7,427	\$ 989	\$ 2	\$ 1	\$ -	\$ 155	\$ 29	\$ 12
23	Energy	\$ 3	\$ 2	\$ 1	\$ 0	\$ 0	\$ -	\$ 0	\$ 0	\$ 0
24	Total Net Contribution	\$ (29,481)	\$ (21,938)	\$ (4,589)	\$ (4)	\$ (2)	-	\$ (1,963)	\$ (960)	\$ (25)
25	Demand	\$ (11,367)	\$ (6,321)	\$ (2,508)	\$ -	\$ (1)	\$ -	\$ (1,637)	\$ (899)	\$ -
26	Customer	\$ (18,112)	\$ (15,616)	\$ (2,080)	\$ (4)	\$ (1)	\$ -	\$ (325)	\$ (60)	\$ (25)
27	Energy	\$ (2)	\$ (1)	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ (0)	\$ (0)	\$ (0)
28										
29	<u>Work in Progress, no AFUDC</u>	\$ 3,704	\$ 2,555	\$ 644	\$ 0	\$ 0	-	\$ 330	\$ 171	\$ 2
30	Demand	\$ 2,283	\$ 1,332	\$ 480	\$ -	\$ 0	\$ -	\$ 304	\$ 167	\$ -
31	Customer	\$ 1,413	\$ 1,218	\$ 162	\$ 0	\$ 0	\$ -	\$ 25	\$ 5	\$ 2
32	Energy	\$ 7	\$ 5	\$ 2	\$ 0	\$ 0	\$ -	\$ 1	\$ 0	\$ 0
33										
34	<u>Unamortized Deferred Charges</u>									
35	Total Unamortized Deferred Charges - Rate Base	\$ 9,307	\$ 3,629	\$ 2,678	\$ 8	\$ 31	-	\$ 1,947	\$ 1,030	\$ (15)
36	Demand	\$ 15,935	\$ 9,776	\$ 3,158	\$ -	\$ 31	\$ -	\$ 1,920	\$ 1,049	\$ -
37	Customer	\$ (8,794)	\$ (7,537)	\$ (975)	\$ (2)	\$ (1)	\$ -	\$ (212)	\$ (50)	\$ (16)
38	Energy	\$ 2,166	\$ 1,389	\$ 496	\$ 10	\$ 0	\$ -	\$ 239	\$ 31	\$ 1
39										
40	<u>Cash Working Capital</u>	\$ 1,942	\$ 1,367	\$ 333	\$ 3	\$ 0	-	\$ 178	\$ 58	\$ 3
41	Demand	\$ 517	\$ 300	\$ 109	\$ -	\$ 0	\$ -	\$ 70	\$ 38	\$ -
42	Customer	\$ 773	\$ 648	\$ 75	\$ 0	\$ 0	\$ -	\$ 36	\$ 11	\$ 3
43	Energy	\$ 652	\$ 418	\$ 149	\$ 3	\$ 0	\$ -	\$ 72	\$ 9	\$ 0
44										
45	<u>Other Working Capital</u>									
46	Total Other Working Capital	\$ 16,880	\$ 9,823	\$ 3,608	\$ (0)	\$ 1	-	\$ 2,220	\$ 1,235	\$ (7)
47	Demand	\$ 18,340	\$ 11,027	\$ 3,734	\$ -	\$ 1	\$ -	\$ 2,312	\$ 1,265	\$ -
48	Customer	\$ (1,457)	\$ (1,203)	\$ (126)	\$ (0)	\$ (0)	\$ -	\$ (92)	\$ (30)	\$ (7)
49	Energy	\$ (2)	\$ (1)	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ (0)	\$ (0)	\$ (0)
50										
51	<u>LILO, Capital Efficiency Mechanism, Others</u>	\$ (264)	\$ (205)	\$ (38)	\$ (0)	\$ (0)	-	\$ (14)	\$ (7)	\$ (0)
52	Demand	\$ (68)	\$ (35)	\$ (16)	\$ -	\$ (0)	\$ -	\$ (11)	\$ (6)	\$ -
53	Customer	\$ (197)	\$ (170)	\$ (23)	\$ (0)	\$ (0)	\$ -	\$ (4)	\$ (1)	\$ (0)
54	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
55										
56	Total Utility Rate Base	\$ 604,485	\$ 431,245	\$ 100,837	\$ 89	\$ 72	-	\$ 47,813	\$ 23,997	\$ 431
57	Demand	\$ 307,439	\$ 177,066	\$ 65,527	\$ -	\$ 51	\$ -	\$ 41,845	\$ 22,950	\$ -
58	Customer	\$ 292,795	\$ 251,436	\$ 34,331	\$ 75	\$ 19	\$ -	\$ 5,497	\$ 1,005	\$ 430
59	Energy	\$ 4,251	\$ 2,744	\$ 979	\$ 14	\$ 1	\$ -	\$ 472	\$ 42	\$ 1

Inland (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_2013 Test Year
COST OF SERVICE SUMMARY - CLASSIFICATION (000's)

Schedule 4

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	<u>Operating & Maintenance Expense</u>									
2	Total Operating & Maintenance Expense	\$ 48,175	\$ 36,404	\$ 6,306	\$ 4	\$ 8	\$ -	\$ 3,697	\$ 1,629	\$ 126
3	Demand	\$ 14,682	\$ 8,437	\$ 3,137	\$ -	\$ 1	\$ -	\$ 2,006	\$ 1,101	\$ -
4	Customer	\$ 33,476	\$ 27,957	\$ 3,165	\$ 4	\$ 7	\$ -	\$ 1,689	\$ 529	\$ 126
5	Energy	\$ 16	\$ 11	\$ 4	\$ 0	\$ 0	\$ -	\$ 2	\$ 0	\$ 0
6	<u>BCH Capacity Right</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	<u>Property & Sundry Taxes</u>	\$ 11,060	\$ 7,846	\$ 1,859	\$ 1	\$ 1	\$ -	\$ 892	\$ 451	\$ 8
11	Demand	\$ 5,653	\$ 3,213	\$ 1,221	\$ -	\$ 0	\$ -	\$ 786	\$ 432	\$ -
12	Customer	\$ 5,407	\$ 4,633	\$ 638	\$ 1	\$ 0	\$ -	\$ 106	\$ 20	\$ 8
13	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	<u>Depreciation Expense</u>	\$ 31,444	\$ 23,504	\$ 4,973	\$ 7	\$ 3	\$ -	\$ 2,002	\$ 913	\$ 43
15	Demand	\$ 10,890	\$ 6,272	\$ 2,322	\$ -	\$ 1	\$ -	\$ 1,483	\$ 813	\$ -
16	Customer	\$ 20,540	\$ 17,224	\$ 2,648	\$ 7	\$ 2	\$ -	\$ 517	\$ 100	\$ 43
17	Energy	\$ 13	\$ 8	\$ 3	\$ 0	\$ 0	\$ -	\$ 1	\$ 0	\$ 0
18	<u>Amortization Expense</u>	\$ 2,014	\$ 1,243	\$ 396	\$ 0	\$ 7	\$ -	\$ 238	\$ 129	\$ 0
19	Demand	\$ 1,854	\$ 1,106	\$ 378	\$ -	\$ 7	\$ -	\$ 235	\$ 128	\$ -
20	Customer	\$ 159	\$ 136	\$ 18	\$ 0	\$ 0	\$ -	\$ 4	\$ 1	\$ 0
21	Energy	\$ 1	\$ 1	\$ 0	\$ 0	\$ 0	\$ -	\$ 0	\$ 0	\$ 0
22	<u>Other Operating Revenue</u>	\$ (7,061)	\$ (4,478)	\$ (1,329)	\$ (0)	\$ (1)	\$ -	\$ (816)	\$ (434)	\$ (4)
23	Demand	\$ (6,006)	\$ (3,596)	\$ (1,229)	\$ -	\$ (0)	\$ -	\$ (763)	\$ (418)	\$ -
24	Customer	\$ (1,055)	\$ (882)	\$ (100)	\$ (0)	\$ (0)	\$ -	\$ (52)	\$ (16)	\$ (4)
25	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	<u>Income Tax</u>	\$ 6,275	\$ 4,548	\$ 1,021	\$ 1	\$ 0	\$ -	\$ 467	\$ 233	\$ 5
27	Demand	\$ 2,919	\$ 1,670	\$ 627	\$ -	\$ 0	\$ -	\$ 402	\$ 221	\$ -
28	Customer	\$ 3,343	\$ 2,870	\$ 391	\$ 1	\$ 0	\$ -	\$ 64	\$ 12	\$ 5
29	Energy	\$ 12	\$ 8	\$ 3	\$ 0	\$ 0	\$ -	\$ 1	\$ 0	\$ 0
30	<u>Earned Return</u>	\$ 47,103	\$ 34,140	\$ 7,662	\$ 7	\$ 3	\$ -	\$ 3,507	\$ 1,746	\$ 37
31	Demand	\$ 21,915	\$ 12,535	\$ 4,704	\$ -	\$ 2	\$ -	\$ 3,018	\$ 1,656	\$ -
32	Customer	\$ 25,098	\$ 21,546	\$ 2,937	\$ 6	\$ 2	\$ -	\$ 479	\$ 89	\$ 37
33	Energy	\$ 91	\$ 58	\$ 21	\$ 0	\$ 0	\$ -	\$ 10	\$ 1	\$ 0
34										
35	Total Cost of Service Margin	\$ 139,009	\$ 103,208	\$ 20,888	\$ 20	\$ 22	\$ -	\$ 9,989	\$ 4,668	\$ 215
36	Demand	\$ 51,907	\$ 29,637	\$ 11,160	\$ -	\$ 11	\$ -	\$ 7,167	\$ 3,932	\$ -
37	Customer	\$ 86,969	\$ 73,485	\$ 9,697	\$ 20	\$ 11	\$ -	\$ 2,807	\$ 734	\$ 215
38	Energy	\$ 133	\$ 86	\$ 31	\$ 1	\$ 0	\$ -	\$ 15	\$ 2	\$ 0
39	<u>Cost of Gas - Commodity</u>	\$ 84,096	\$ 55,105	\$ 18,599	\$ 446	\$ 22	\$ -	\$ 8,508	\$ 1,380	\$ 36
40	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
41	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
42	Energy	\$ 84,096	\$ 55,105	\$ 18,599	\$ 446	\$ 22	\$ -	\$ 8,508	\$ 1,380	\$ 36
43	<u>Cost of Gas - Midstream</u>	\$ 31,732	\$ 21,388	\$ 7,254	\$ -	\$ 2	\$ -	\$ 2,803	\$ 284	\$ -
44	Demand	\$ 31,732	\$ 21,388	\$ 7,254	\$ -	\$ 2	\$ -	\$ 2,803	\$ 284	\$ -
45	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
46	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
47	Total Utility Cost of Service	\$ 254,837	\$ 179,701	\$ 46,741	\$ 466	\$ 47	\$ -	\$ 21,299	\$ 6,332	\$ 252
48	Demand	\$ 83,639	\$ 51,025	\$ 18,414	\$ -	\$ 13	\$ -	\$ 9,970	\$ 4,217	\$ -
49	Customer	\$ 86,969	\$ 73,485	\$ 9,697	\$ 20	\$ 11	\$ -	\$ 2,807	\$ 734	\$ 215
50	Energy	\$ 84,229	\$ 55,190	\$ 18,630	\$ 446	\$ 22	\$ -	\$ 8,522	\$ 1,382	\$ 36

RATE BASE SUMMARY - FUNCTIONALIZATION (000's)

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	Gas Supply Operations	\$ 4,251	\$ 2,744	\$ 979	\$ 14	\$ 1	\$ -	\$ 472	\$ 42	\$ 1
2	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Energy	\$ 4,251	\$ 2,744	\$ 979	\$ 14	\$ 1	\$ -	\$ 472	\$ 42	\$ 1
5										
6	LNG Storage Tilbury	\$ 8,252	\$ 4,958	\$ 1,682	\$ -	\$ 1	\$ -	\$ 1,042	\$ 570	\$ -
7	Demand	\$ 8,252	\$ 4,958	\$ 1,682	\$ -	\$ 1	\$ -	\$ 1,042	\$ 570	\$ -
8	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10										
11	LNG Storage Mt. Hayes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15										
16	Transmission	\$ 186,955	\$ 112,329	\$ 38,098	\$ -	\$ 12	\$ -	\$ 23,600	\$ 12,916	\$ -
17	Demand	\$ 186,955	\$ 112,329	\$ 38,098	\$ -	\$ 12	\$ -	\$ 23,600	\$ 12,916	\$ -
18	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20										
21	Transmission SCP	\$ (398)	\$ (239)	\$ (81)	\$ -	\$ (0)	\$ -	\$ (50)	\$ (27)	\$ -
22	Demand	\$ (398)	\$ (239)	\$ (81)	\$ -	\$ (0)	\$ -	\$ (50)	\$ (27)	\$ -
23	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25										
26	Distribution	\$ 398,663	\$ 307,786	\$ 58,571	\$ 75	\$ 28	\$ -	\$ 21,809	\$ 9,954	\$ 439
27	Demand	\$ 104,126	\$ 54,927	\$ 24,101	\$ -	\$ 8	\$ -	\$ 16,184	\$ 8,906	\$ -
28	Customer	\$ 294,537	\$ 252,859	\$ 34,469	\$ 75	\$ 20	\$ -	\$ 5,626	\$ 1,049	\$ 439
29	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30										
31	Marketing	\$ 7,529	\$ 4,296	\$ 1,649	\$ (0.0)	\$ 31	\$ -	\$ 998	\$ 561	\$ (5)
32	Demand	\$ 8,504	\$ 5,091	\$ 1,727	\$ -	\$ 31	\$ -	\$ 1,070	\$ 585	\$ -
33	Customer	\$ (974)	\$ (795)	\$ (77)	\$ (0.0)	\$ (0)	\$ -	\$ (72)	\$ (24)	\$ (5)
34	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35										
36	Customer Accounting	\$ (768)	\$ (627)	\$ (61)	\$ (0.0)	\$ (0)	\$ -	\$ (57)	\$ (19)	\$ (4)
37	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	Customer	\$ (768)	\$ (627)	\$ (61)	\$ (0.0)	\$ (0)	\$ -	\$ (57)	\$ (19)	\$ (4)
39	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40										
41	Total Utility Rate Base	\$ 604,485	\$ 431,245	\$ 100,837	\$ 89	\$ 72	\$ -	\$ 47,813	\$ 23,997	\$ 431
42	Demand	\$ 307,439	\$ 177,066	\$ 65,527	\$ -	\$ 51	\$ -	\$ 41,845	\$ 22,950	\$ -
43	Customer	\$ 292,795	\$ 251,436	\$ 34,331	\$ 75	\$ 19	\$ -	\$ 5,497	\$ 1,005	\$ 430
44	Energy	\$ 4,251	\$ 2,744	\$ 979	\$ 14	\$ 1	\$ -	\$ 472	\$ 42	\$ 1

COST OF SERVICE SUMMARY - FUNCTIONALIZATION (000's)

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	Gas Supply Operations	\$ 115,961	\$ 76,579	\$ 25,884	\$ 446	\$ 25	\$ -	\$ 11,325	\$ 1,666	\$ 36
2	Demand	\$ 31,732	\$ 21,388	\$ 7,254	\$ -	\$ 2	\$ -	\$ 2,803	\$ 284	\$ -
3	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Energy	\$ 84,229	\$ 55,190	\$ 18,630	\$ 446	\$ 22	\$ -	\$ 8,522	\$ 1,382	\$ 36
5										
6	LNG Storage Tilbury	\$ 1,946	\$ 1,169	\$ 397	\$ -	\$ 0	\$ -	\$ 246	\$ 134	\$ -
7	Demand	\$ 1,946	\$ 1,169	\$ 397	\$ -	\$ 0	\$ -	\$ 246	\$ 134	\$ -
8	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10										
11	LNG Storage Mt. Hayes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15										
16	Transmission	\$ 25,643	\$ 15,407	\$ 5,226	\$ -	\$ 2	\$ -	\$ 3,237	\$ 1,772	\$ -
17	Demand	\$ 25,643	\$ 15,407	\$ 5,226	\$ -	\$ 2	\$ -	\$ 3,237	\$ 1,772	\$ -
18	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20										
21	Transmission SCP	\$ (568)	\$ (341)	\$ (116)	\$ -	\$ (0)	\$ -	\$ (72)	\$ (39)	\$ -
22	Demand	\$ (568)	\$ (341)	\$ (116)	\$ -	\$ (0)	\$ -	\$ (72)	\$ (39)	\$ -
23	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25										
26	Distribution	\$ 92,396	\$ 71,154	\$ 13,725	\$ 19	\$ 7	\$ -	\$ 5,091	\$ 2,287	\$ 113
27	Demand	\$ 24,211	\$ 13,000	\$ 5,517	\$ -	\$ 2	\$ -	\$ 3,672	\$ 2,019	\$ -
28	Customer	\$ 68,186	\$ 58,154	\$ 8,208	\$ 19	\$ 5	\$ -	\$ 1,419	\$ 268	\$ 113
29	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30										
31	Marketing	\$ 1,971	\$ 1,459	\$ 239	\$ 0	\$ 8	\$ -	\$ 180	\$ 78	\$ 7
32	Demand	\$ 675	\$ 401	\$ 136	\$ -	\$ 7	\$ -	\$ 84	\$ 46	\$ -
33	Customer	\$ 1,296	\$ 1,058	\$ 103	\$ 0	\$ 0	\$ -	\$ 96	\$ 32	\$ 7
34	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35										
36	Customer Accounting	\$ 17,487	\$ 14,274	\$ 1,386	\$ 0	\$ 6	\$ -	\$ 1,292	\$ 434	\$ 95
37	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	Customer	\$ 17,487	\$ 14,274	\$ 1,386	\$ 0	\$ 6	\$ -	\$ 1,292	\$ 434	\$ 95
39	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40										
41	Total Utility Cost of Service	\$ 254,837	\$ 179,701	\$ 46,741	\$ 466	\$ 47	\$ -	\$ 21,299	\$ 6,332	\$ 252
42	Demand	\$ 83,639	\$ 51,025	\$ 18,414	\$ -	\$ 13	\$ -	\$ 9,970	\$ 4,217	\$ -
43	Customer	\$ 86,969	\$ 73,485	\$ 9,697	\$ 20	\$ 11	\$ -	\$ 2,807	\$ 734	\$ 215
44	Energy	\$ 84,229	\$ 55,190	\$ 18,630	\$ 446	\$ 22	\$ -	\$ 8,522	\$ 1,382	\$ 36

Inland (Amalgamated Methodology)
Fully Distributed Cost of Service Allocation Study
Rate Design Filing_Common Rates_ 2013 Test Year
ALLOCATORS SUMMARY (000's)

Schedule 7

RATE 22

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	Billing Determinants									
2	Sales Volume (TJ)		15,615	5,572	112	6	0	3,983	3,228	1,049
3	Midstream Sales Volume (TJ)		15,552	5,493	112	6				
4	Commodity Sales Volume (TJ)		13,788	4,654	112	6	0	3,427	3,228	1,049
5	Average No. of Customers		214,680	20,850	8	2	0	1,008	99	20
6										
7	Cost of Service Margin	\$ 139,009	\$ 103,208	\$ 20,888	\$ 20	\$ 22	\$ -	\$ 9,989	\$ 4,668	\$ 215
8	Demand \$	51,907	29,637	11,160	-	11	-	7,167	3,932	-
9	Unit Demand Charge (\$/GJ)		2.15	2.40	-	1.90	-	2.09	1.22	-
10	Customer \$	86,969	73,485	9,697	20	11	-	2,807	734	215
11	Unit Customer Charge (\$/GJ)		5.33	2.08	0.18	2.00	-	0.82	0.23	0.21
12	Energy \$	133	86	31	1	0	-	15	2	0
13	Unit Energy Charge (\$/GJ)		0.01	0.01	0.01	0.01	-	0.00	0.00	0.00
14										
15	Unit Cost of Service Margin (\$/GJ)		6.61	3.75	0.18	3.91	-	2.91	1.45	0.21
16										
17	Cost of Gas - Commodity	\$ 84,096	\$ 55,105	\$ 18,599	\$ 446	\$ 22	\$ -	\$ 8,508	\$ 1,380	\$ 36
18	Demand \$	-	-	-	-	-	-	-	-	-
19	Customer \$	-	-	-	-	-	-	-	-	-
20	Energy \$	84,096	55,105	18,599	446	22	-	8,508	1,380	36
21	Unit Cost of Gas - Commodity (\$/GJ)		3.997	3.997	3.997	3.997	-	2.48	0.43	4.00
22										
23	Cost of Gas - Midstream	\$ 31,732	\$ 21,388	\$ 7,254	\$ -	\$ 2	\$ -	\$ 2,803	\$ 284	\$ -
24	Demand \$	31,732	21,388	7,254	-	2	-	2,803	284	-
25	Customer \$	-	-	-	-	-	-	-	-	-
26	Energy \$	-	-	-	-	-	-	-	-	-
27	Unit Cost of Gas - Midstream (\$/GJ)		1.55	1.56	-	0.41	-	0.82	0.09	-
27										
28	Total Utility Cost of Service	\$ 254,837	\$ 179,701	\$ 46,741	\$ 466	\$ 47	\$ -	\$ 21,299	\$ 6,332	\$ 252
29	Demand \$	83,639	51,025	18,414	-	13	-	9,970	4,217	-
30	Customer \$	86,969	73,485	9,697	20	11	-	2,807	734	215
31	Energy \$	84,229	55,190	18,630	446	22	-	8,522	1,382	36
32	Unit Cost of Service (\$/GJ)		13.03	10.04	4.18	8.32	-	6.21	1.96	0.24
33										
34	Total Revenues @ Proposed Rates	\$ 254,837	\$ 169,479	\$ 50,063	\$ 622	\$ 50	\$ -	\$ 23,974	\$ 9,061	\$ 1,589
35	Unit Rate (\$/GJ)		12.29	10.76	5.58	8.98	-	6.99	2.81	1.51
36										
37	Total Revenue Margin @ Proposed Rates	\$ 139,009	\$ 92,986	\$ 24,210	\$ 176	\$ 26	\$ -	\$ 12,663	\$ 7,396	\$ 1,552
38	Unit Rate (\$/GJ)		6.74	5.20	1.58	4.58	-	3.69	2.29	1.48

RESALE RESTRICTION AGREEMENT

THIS AGREEMENT entered into as of the 29th day of September, 1988

BETWEEN:

**HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE
OF BRITISH COLUMBIA,** represented by the Minister
of Energy, Mines and Petroleum Resources

(the "Province")

OF THE FIRST PART

AND:

INLAND NATURAL GAS CO. LTD., a body corporate under
the laws of the Province of British Columbia

("Inland")

OF THE SECOND PART

W H E R E A S:

- A. The Province owns all of the issued and outstanding shares (the "Shares") of B.C. Gas Inc. (the "Company");
- B. The Shares are registered in the name of the Minister of Finance and Corporate Relations on behalf of the Province;
- C. By agreement made as of July 20, 1988, the Province agreed to sell and Inland agreed to purchase the Shares from the Province;
- D. The Company has been designated as a "special company", as defined in the Hydro and Power Authority Privatization Act, S.B.C. 1988, (the "Privatization Act");

E. This Agreement is being entered into pursuant to Section 38(3) of the Privatization Act;

F. The Minister of Energy, Mines and Petroleum Resources (the "Minister") has indicated a desire that the Shares of the Company be widely held;

G. Inland intends, subject to obtaining the necessary approval under the Privatization Act and of its shareholders and regulatory authorities, to effect a corporate reorganization (the "Reorganization") of the Company, Inland, Columbia Natural Gas Limited ("Columbia"), Fort Nelson Gas Ltd. ("Fort Nelson") as contemplated by the Privatization Act, such that the successor company (the "Successor Company") resulting from such reorganization shall be a special company under the Privatization Act whose voting shares are widely held;

H. The Minister has indicated a desire that the common equity component of the capital structure of the utility operations of the Successor Company be not less than 35% (the "Equity Component") on or about October 1, 1991 and to achieve the Equity Component, Inland has developed a financing plan as set forth on Schedule A hereto;

I. Inland intends that the customers of each of the Company, Inland, Columbia and Fort Nelson will, after the Reorganization, continue to be charged separate natural gas rates;

J. It is the intention of the parties hereto that the natural gas rates of the Company, Inland, Columbia and Fort Nelson or any Successor Company (any one of which is hereby referred to as "B.C. Gas") will not be increased or altered in form until October 1, 1991, except in the manner provided in certain orders-in-council (the "Orders-in-Council") granted under the

Privatization Act and the Utilities Commission Act S.B.C. 1980, Chapter 60, (the "Utilities Commission Act") on the 29th day of September, 1988 and pursuant to the rate agreement among the Province, Inland, Columbia and Fort Nelson dated as of the 30th day of September, 1988 (the "Rate Agreement");

K. Inland expects that its revenue requirements included in natural gas rates for the customers of each of the Company, Inland, Columbia and Fort Nelson will increase by less than three percent in the twelve month period following October 1, 1991; and

L. Inland has identified various economic development initiatives in the Province of British Columbia related to its acquisition of the Shares of the Company, which it has indicated a desire to pursue, which initiatives are listed in Schedule "B" attached hereto.

NOW THEREFORE, in consideration of the premises and mutual covenants and agreements contained herein, the parties hereto represent, warrant, covenant and agree as follows:

1.0 RESALE

Inland will not sell, transfer, otherwise dispose of, pledge or encumber any of the Shares without the prior written approval of the Minister.

2.0 RATE FREEZE

Inland will not, nor will it permit B.C. Gas to, apply under the Utilities Commission Act or the Privatization Act to have the natural gas rates of Inland, the Company, Columbia or Fort Nelson increased or altered in form until October 1, 1991, except in the manner provided in the Orders in Council or the Rate Agreement, and for the application of certain tariff filings for

Inland, Columbia and Fort Nelson pursuant to orders granted prior to the date hereof by the British Columbia Utilities Commission under the Utilities Commission Act.

3.0 FEASIBILITY STUDIES

On or before October 1, 1991, Inland or B.C. Gas will complete the feasibilities studies listed in Schedule "C" attached hereto and will advise the Minister with respect to its conclusions relating to those studies.

4.0 MANAGEMENT REVIEW

4.01 On or about October 1, 1992 and every four years thereafter, the Board of Directors of Inland, or the Successor Company, will appoint an independent consultant (the "Consultant") to review and report on the management of B.C. Gas.

4.02 Inland will, and will cause B.C. Gas to, permit the Consultant to review such documents and interview its employees, officers and auditors, to the extent reasonably required, to allow the Consultant to prepare its report properly.

4.03 Inland will permit the Consultant to prepare a summary of its report for inclusion in the annual report to shareholders of Inland or B.C. Gas (if B.C. Gas is a publicly held company), which summary will state that shareholders may obtain a copy of the report at Inland's or B.C. Gas' reproduction costs therefor, from the offices of Inland or B.C. Gas.

5.0 NOTICES

Any notice or other communication provided for herein or given hereunder to a party hereto shall be in writing and shall

be delivered by double registered mail, or in person to the individual listed below:

(a) to the Minister:

Minister of Energy, Mines and Petroleum Resources
Parliament Buildings
Victoria, B.C.

(b) to Inland:

23rd Floor
1066 West Hastings Street
Vancouver, B.C.
V6E 3G3

Attention: President

or such other address with respect to a party as such party shall notify the other in writing as above provided. All notices shall be deemed made upon actual notification or mailing as provided for above, whichever shall occur earlier; provided, however, that notice by mailing shall not be deemed to have been made until delivered.

6.0 **COMPLETE AGREEMENT**

This Agreement and the schedules attached hereto contain the complete agreement between the parties hereto with respect to the transaction contemplated hereby and supersede all prior agreements and understandings among the parties with respect to such transactions. There are no restrictions, promises, representations, warranties, covenants, indemnities, or undertakings by the parties other than those expressly set forth in this Agreement and the Schedules. This Agreement may be amended, modified or terminated only by written instrument signed by all parties hereto and subject to the requirements of the Privatization Act.

7.0 GOVERNING LAW

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia.

8.0 GRAMMATICAL

All necessary changes required to make the provisions of this Agreement apply in the plural sense where necessary will in all instances be construed.

9.0 HEADINGS

The descriptive headings of the paragraphs and subparagraphs hereof are inserted for convenience only and do not constitute a part of this Agreement.

10.0

COUNTERPARTS

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute but one instrument.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date and year first above written.


SIGNED on behalf of HER
MAJESTY THE QUEEN IN RIGHT
OF THE PROVINCE OF BRITISH
COLUMBIA by the Minister
of Energy, Mines and Petroleum
in the presence of:

Witness

THE CORPORATE SEAL OF INLAND
NATURAL GAS CO. LTD. was
hereunto affixed in the
presence of:

Authorized Signatory

Authorized Signatory


Minister of Energy,
Mines and Petroleum
Resources

C/S

SCHEDULE A

INLAND NATURAL GAS CO. LTD.

**ACQUISITION OF B.C. GAS INC.
PROPOSED FINANCING PROGRAM 1988 - 1993**

	<u>Short-term Debt</u>	<u>Vendor Debt</u>	<u>Long-Term Debt</u>	<u>Vendor Equity</u>	<u>Preferred Shares</u>	<u>Common Equity</u>
<u>1988</u> July	\$ 25					
October	175	\$300		\$150		\$ 75
<u>1989</u> April	(100)				\$100 ⁽¹⁾	
<u>1990</u> October		(75)	\$ 75			
<u>1991</u> October		(75)	75	(150)		(150)
<u>1992</u> October		(75)	75			
<u>1993</u> October	_____	<u>(75)</u>	<u>75</u>	_____	_____	_____
	<u>\$100</u>	<u>\$ -</u>	<u>\$300</u>	<u>\$ -</u>	<u>\$100</u>	<u>\$225</u>

(1) The Preferred Shares may be issued in two tranches:

\$50 million on or about July 30, 1989, and
\$50 million no later than March 31, 1990.

SCHEDULE "B"

"CONFIDENTIAL"

SCHEDULE "C"

"CONFIDENTIAL"

DATED: the 29th day of September, 1988

BETWEEN:

**HER MAJESTY THE QUEEN IN RIGHT OF THE
PROVINCE OF BRITISH COLUMBIA**

AND:

INLAND NATURAL GAS CO. LTD.

AGREEMENT

OWEN, BIRD
P.O. Box 49130
Three Bentall Centre
2800 - 595 Burrard Street
Vancouver, B.C.
V7X 1J5

(Tel: 688-0401)

WPD-H/MG/8-2

File No. 1166/9

1989

THIS AGREEMENT entered into as of the 1st day of July,

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE
OF BRITISH COLUMBIA, represented by the Minister
of Energy, Mines and Petroleum Resources

(the "Province")

OF THE FIRST PART

AND:

BC GAS INC., a body corporate amalgamated under
the laws of the Province of British Columbia

("BC Gas")

OF THE SECOND PART

W H E R E A S:

- A. BC Gas was formed by the amalgamation (the "Amalgamation") of Inland Natural Gas Co. Ltd. ("Inland"), B.C. Gas Inc. ("Mainland Gas"), Columbia Natural Gas Limited ("Columbia") and Fort Nelson Gas Ltd. ("Fort Nelson");
- B. Prior to the Amalgamation, Mainland Gas was a "special company", as defined in the Hydro and Power Authority Privatization Act, S.B.C. 1988, (the "Privatization Act");
- C. Pursuant to Section 33(2) of the Privatization Act and Order in Council 684, BC Gas is a "special company";
- D. Prior to the Amalgamation, Inland held all of the issued and outstanding shares in the capital stock of Mainland Gas, and the Province and Inland entered into an agreement as of the 29th day of September, 1988 (the "Former Agreement"), pursuant to Section 38(3) of the Privatization Act;

E. The Minister of Energy, Mines and Petroleum Resources (the "Minister") desires that certain covenants of Inland in the Former Agreement be made, and carried out, by BC Gas;

F. The Minister has indicated a desire that the common equity component of the capital structure of the utility operations be not less than 35% (the "Equity Component") on or about October 1, 1991 and to achieve the Equity Component, a financing plan as set forth on Schedule A hereto, which was a schedule to the Former Agreement, was developed and is continuing to be implemented;

G. BC Gas intends that the customers of each of the former companies, namely Mainland Gas, Inland, Columbia and Fort Nelson (the "Former Companies") will, after the Amalgamation, continue to be charged separate natural gas rates;

H. It is the intention of the parties hereto that the natural gas rates of the divisions of BC Gas which were the Former Companies (the "Divisions") and of BC Gas will not be increased or altered in form until the end of September, 1991, except in the manner provided in an Order-in-Council No. 953/89 (the "Order-in-Council") granted under the Privatization Act and the Utilities Commission Act S.B.C. 1980, Chapter 60, (the "Utilities Commission Act") on the 28th day of June, 1989;

I. BC Gas expects that its revenue requirements included in natural gas rates for the customers of each of the Divisions will increase by less than three percent in the twelve month period following the end of September, 1991; and

J. BC Gas has identified various economic development initiatives in the Province of British Columbia, which it has indicated a desire to pursue, which initiatives are listed in

Schedule "B" attached hereto, which Schedule "B" was a schedule to the Former Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants and agreements contained herein, the parties hereto represent, warrant, covenant and agree as follows:

1.0 RATE FREEZE

BC Gas will not apply under the Utilities Commission Act or the Privatization Act to have the natural gas rates in the areas served by the Divisions increased or altered in form until October 1, 1991, except in the manner provided in the Order in Council.

2.0 FEASIBILITY STUDIES

On or before October 1, 1991, BC Gas will complete the feasibilities studies listed in Schedule "C" attached hereto, which Schedule "C" was a schedule to the Former Agreement, and will advise the Minister with respect to its conclusions relating to those studies.

3.0 MANAGEMENT REVIEW

3.01 On or about October 1, 1992 and every four years thereafter, the Board of Directors of BC Gas will appoint an independent consultant (the "Consultant") to review and report on the management of BC Gas.

3.02 BC Gas will permit the Consultant to review such documents and interview its employees, officers and auditors, to the extent reasonably required, to allow the Consultant to prepare its report properly.

3.03 BC Gas will permit the Consultant to prepare a summary of its report for inclusion in the annual report to shareholders of BC Gas, which summary will state that shareholders may obtain a copy of the report at BC Gas' reproduction costs therefor, from the offices of BC Gas.

4.0 NOTICES

Any notice or other communication provided for herein or given hereunder to a party hereto shall be in writing and shall be delivered by double registered mail, or in person to the individual listed below:

(a) to the Minister:

Minister of Energy, Mines and Petroleum Resources
Parliament Buildings
Victoria, B.C.

(b) to BC Gas:

23rd Floor
1066 West Hastings Street
Vancouver, B.C.
V6E 3G3

Attention: President

or such other address with respect to a party as such party shall notify the other in writing as above provided. All notices shall be deemed made upon actual notification or mailing as provided for above, whichever shall occur earlier; provided, however, that notice by mailing shall not be deemed to have been made until delivered.

5.0 COMPLETE AGREEMENT

This Agreement and the schedules attached hereto contain the complete agreement between the parties hereto with respect

to the transaction contemplated hereby and supersede all prior agreements among the parties with respect to such transactions, but does not affect any Orders in Council of the Lieutenant Governor in Council. There are no restrictions, promises, representations, warranties, covenants, indemnities, or undertakings by the parties other than those expressly set forth in this Agreement and the Schedules. This Agreement may be amended, modified or terminated only by written instrument signed by all parties hereto and subject to the requirements of the Privatization Act.

6.0 GOVERNING LAW

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia.

7.0 GRAMMATICAL

All necessary changes required to make the provisions of this Agreement apply in the plural sense where necessary will in all instances be construed.

8.0 HEADINGS

The descriptive headings of the paragraphs and subparagraphs hereof are inserted for convenience only and do not constitute a part of this Agreement.

SCHEDULE A

PROPOSED FINANCING PROGRAM 1988 - 1993

	<u>Short-term Debt</u>	<u>Vendor Debt</u>	<u>Long-Term Debt</u>	<u>Vendor Equity</u>	<u>Preferred Shares</u>	<u>Common Equity</u>
<u>1988</u> July	\$ 25					
October	175	\$300		\$150		\$ 75
<u>1989</u> April	(100)				\$100 ⁽¹⁾	
<u>1990</u> October		(75)	\$ 75			
<u>1991</u> October		(75)	75	(150)		(150)
<u>1992</u> October		(75)	75			
<u>1993</u> October		(75)	75			
	<u>\$100</u>	<u>\$ -</u>	<u>\$300</u>	<u>\$ -</u>	<u>\$100</u>	<u>\$225</u>

(1) The Preferred Shares may be issued in two tranches:

\$50 million on or about July 30, 1989, and
\$50 million no later than March 31, 1990.

SCHEDULE "B"

ECONOMIC DEVELOPMENT INITIATIVES WHICH INLAND (NOW BC GAS INC.) HAS IDENTIFIED AND WISHES TO PURSUE SUBJECT TO ECONOMIC AND FINANCIAL VIABILITY.

<u>Project</u>	<u>Capital Expenditures (1988 - 1993)</u>	<u>Status</u>
Underground Gas Storage Fraser Delta	\$75 million	- drilling and testing ongoing
East Kootenay Link Expansion	\$83-168 million	- construction planned for 1990/91
Petrochemical Plant in Southwestern B.C.	\$250 million	- major feasibility study to commence with partners
NGV Cylinders	\$3.2 million	- joint venture agreement pending
Flexible House Gas Piping	\$2.2 million	- agreement with sponsor
NGV Home Compressors	\$5 million	- market research completed - joint venture agreement pending
Gas Fireplace Assembly Plant	\$2 million	- feasibility study ongoing

SCHEDULE "C"

INITIATIVES WHICH INLAND (NOW BC GAS INC.) HAS IDENTIFIED AND IS COMMITTED TO UNDERTAKE.

<u>Initiative/Project</u>	<u>Commitment</u>
Feasibility Study for Petrochemical Plant (Southwestern B.C.)	\$500,000
Feasibility Study for Locating Gas Fireplace Assembly Plant in B.C.	\$500,000
Promotion of B.C. as Location for Gas Consuming Industries	\$250,000 (subject to matching formula of Ministry of Economic Development, and major Government)
Local Supplier Preference	5 year goal to increase purchases from B.C. based suppliers to 80% of requirements of B.C. Gas Institute a purchasing awareness program for B.C. suppliers
Local Professional/Consulting Community	Preferentially utilize B.C. based professional and consulting services.

DATED: the 1st day of July, 1989

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE
PROVINCE OF BRITISH COLUMBIA

AND:

BC GAS INC.

AGREEMENT

OWEN, BIRD
P.O. Box 49130
Three Bentall Centre
2800 - 595 Burrard Street
Vancouver, B.C.
V7X 1J5

(Tel: 688-0401)

WPD-H/MG/8A-4

File No. 1166/9

PROVINCE OF BRITISH COLUMBIA
ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. 953, Approved and Ordered JUN. 29, 1989


~~Lieutenant Governor~~
Administrator

Executive Council Chambers, Victoria JUN. 28, 1989

Amn. 1645/89, 1826/89, 594/90
Administrator

On the recommendation of the undersigned, the ~~Lieutenant Governor~~, by and with the advice and consent of the Executive Council, orders that, effective July 1, 1989,

- (a) Order in Council 1824/88 is rescinded,
- (b) Order in Council 1830/88 is amended by repealing sections 4 to 11 and schedule 2, and
- (c) the Order in Council in the attached Appendix is made.


Minister of Energy, Mines and Petroleum
Resources


Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section:- Utilities Commission Act 3, 49, 56, 62, 63 and 67; Hydro and Power Authority Privatization Act, section 18.....

Other (specify):-

June 27, 1989

1149/89/10/km

APPENDIX

BC GAS INC. ORDER

Whereas:

A. Inland Natural Gas Co. Ltd. ("Inland") has acquired all of the issued and outstanding shares of B.C. Gas Inc. ("Mainland Gas") on an acquisition that is the subject of an order under section 31 (1) of the *Hydro and Power Authority Privatization Act*;

B. Columbia Natural Gas Limited ("Columbia") and Fort Nelson Gas Ltd. ("Fort Nelson") are subsidiaries of Inland;

C. Inland, Mainland Gas, Columbia and Fort Nelson are to amalgamate as of July 1, 1989 with the continuing company constituted upon the amalgamation to be known as BC Gas Inc. ("BC Gas");

D. BC Gas, the amalgamated company, will be a successor gas operator pursuant to section 12 (2) of the *Hydro and Power Authority Privatization Act*.

Interpretation

1. (1) In this order

"Act" means the *Utilities Commission Act*;

"amalgamation" means the amalgamation of Mainland Gas, Inland, Columbia and Fort Nelson pursuant to the Amalgamation Agreement made as of the 3rd day of April, 1989, approved by Order of the Supreme Court of British Columbia dated the 7th day of June, 1989, and to be effective the 1st day of July, 1989;

"BC Gas" means BC Gas Inc. the continuing company constituted upon the amalgamation;

"Columbia" means Columbia Natural Gas Limited as it existed immediately before the amalgamation;

"Columbia Division" means the operations of BC Gas used to provide service to customers in the service area of Columbia;

"Columbia Facilities" means the plant in service owned by Columbia immediately before the amalgamation plus all additions to that plant in service;

"Commission" means the British Columbia Utilities Commission;

"Divisional Basis" means on the basis of the Columbia Division, Fort Nelson Division, Inland Division, and Lower Mainland Division;

"Fort Nelson" means Fort Nelson Gas Ltd. as it existed immediately before the amalgamation;

"Fort Nelson Division" means the operations of BC Gas used to provide service to customers in the service area of Fort Nelson;

"Fort Nelson Facilities" means the plant in service owned by Fort Nelson immediately before the amalgamation plus all additions to that plant in service;

"Inland" means Inland Natural Gas Co. Ltd. as it existed immediately before the amalgamation;

"Inland Division" means the operations of BC Gas used to provide service to customers in the service area of Inland;

"Inland Facilities" means the plant in service owned by Inland immediately before the amalgamation plus all additions to that plant in service;

"Lower Mainland Division" means the operations of BC Gas used to provide service to customers in the service area of Mainland Gas;

"Lower Mainland Facilities" means the plant in service owned by Mainland Gas prior to the amalgamation plus all additions to that plant in service;

"Mainland Gas" means B.C. Gas Inc., one of the amalgamating companies, as it existed immediately before the amalgamation;

"minister" means the Minister of Energy, Mines and Petroleum Resources.

(2) Notwithstanding that July 1st is a holiday, where a provision in this order requires that an action be taken on July 1, 1989, the action shall be taken on that day.

Rate Base

2. (1) BC Gas shall, from July 1, 1989 until the end of September, 1991, establish and maintain its rate base on a divisional basis, with a separate rate base for each of the Lower Mainland Division, the Inland Division, the Columbia Division, and the Fort Nelson Division.

(2) For the setting of rates and for all other purposes under the Act, the rate base of the Lower Mainland Division as of July 1, 1989 shall be the rate base of Mainland Gas immediately before amalgamation.

(3) For the setting of rates and for all other purposes under the Act, the rate base of the Inland Division as of July 1, 1989 shall be the rate base of Inland immediately before amalgamation.

(4) For the setting of rates and for all other purposes under the Act, the rate base of the Columbia Division as of July 1, 1989 shall be the rate base of Columbia immediately before amalgamation.

(5) For the setting of rates and for all other purposes under the Act, the rate base of the Fort Nelson Division as of July 1, 1989 shall be the rate base of Fort Nelson immediately before amalgamation.

Divisional Accounts

3. BC Gas shall, from July 1, 1989 until the end of September, 1991, establish and maintain its accounts on a divisional basis, with separate accounts for each of the Lower Mainland Division, the Inland Division, the Columbia Division, and the Fort Nelson Division.

Depreciation Rates

4. (1) From July 1, 1989 until the end of September, 1991, and of for all purposes of the Act, BC Gas shall establish and maintain its depreciation rates on a divisional basis.

(2) From July 1, 1989 until the end of September, 1991, the depreciation rates to be applied to the Lower Mainland Facilities shall be the depreciation rates in schedule 1.

(3) From July 1, 1989 until the end of September, 1991, the depreciation rates to be applied to the Inland Facilities shall be the depreciation rates set out in schedule 2.

(4) From July 1, 1989 until the end of September, 1991, the depreciation rates to be applied to the Columbia Facilities shall be the depreciation rates set out in schedule 3.

(5) From July 1, 1989 until the end of September, 1991, the depreciation rates to be applied to the Fort Nelson Facilities shall be the depreciation rates set out in schedule 4.

Accumulated Depreciation Accounts

5. (1) From July 1, 1989 until the end of September, 1991, for all purposes of the Act, BC Gas shall establish and maintain its accumulated depreciation accounts on a divisional basis.

(2) The balance in the accumulated depreciation accounts relating to the Lower Mainland Facilities, as of July 1, 1989, shall be the amount of depreciation recorded in the accounts of Mainland Gas immediately before the amalgamation.

(3) The balance in the accumulated depreciation accounts relating to the Inland Facilities, as of July 1, 1989, shall be the amount of depreciation recorded in the accounts of Inland immediately before the amalgamation.

(4) The balance in the accumulated depreciation accounts relating to the Columbia Facilities, as of July 1, 1989, shall be the amount of depreciation recorded in the accounts of Columbia immediately before the amalgamation.

(5) The balance in the accumulated depreciation accounts relating to the Fort Nelson Facilities, as of July 1, 1989, shall be the amount of depreciation recorded in the accounts of Fort Nelson immediately before the amalgamation.

Capital Cost Allowance

6. (1) BC Gas shall establish and maintain accounting schedules which identify separately for each class of assets of each of the divisions, the undepreciated capital cost related to rate base and the undepreciated capital cost related to other than rate base.

(2) For each class of assets of each of the divisions, capital cost allowance for which BC Gas has a valid claim for income tax purposes, as evidenced in its income tax records from time to time, shall be allocated pro rata, based on the undepreciated capital cost immediately before the claim of capital cost allowance, between the undepreciated capital cost which is related to rate base and the undepreciated capital cost which is related to other than rate base.

Existing Rates

7. (1) BC Gas shall, from July 1, 1989 until the end of September, 1991, establish and maintain its schedules of rates on a divisional basis, with a separate schedule of rates for each of the Lower Mainland Division, the Inland Division, the Columbia Division, and the Fort Nelson Division.

(2) The schedule of rates of the Mainland Gas Division as of July 1, 1989 shall be the schedule of rates of Mainland Gas immediately before the amalgamation.

(3) The schedule of rates of the Inland Division as of July 1, 1989 shall be the schedule of rates of Inland immediately before the amalgamation.

(4) The schedule of rates of the Columbia Division as of July 1, 1989 shall be the schedule of rates of Columbia immediately before the amalgamation.

(5) The schedule of rates of the Fort Nelson Division as of July 1, 1989 shall be the schedule of rates of Fort Nelson immediately before the amalgamation.

Notice Requirements

8. (1) Until the end of September, 1991 BC Gas shall promptly notify the Lieutenant Governor in Council by delivering written notice to the minister of any changes in

- (a) natural gas commodity prices for any of the divisions including natural gas commodity purchase prices paid by one division to another division of BC Gas,
- (b) the tolls, approved by the National Energy Board, of Westcoast Energy Inc. and of Alberta Natural Gas Company Ltd.,
- (c) the amounts payable by BC Gas to Washington Water Power Company for costs reasonably incurred that are associated with the Jackson Prairie storage facility or other costs, approved by the Lieutenant Governor in Council in advance of incurring the costs, that are reasonably incurred and are associated with other natural gas storage facilities,
- (d) the amounts payable by BC Gas or any of its divisions to Westcoast Energy Inc. arising from
 - (i) changes in contract demand that are caused other than by variations in number of customers or in customer consumption of natural gas and that are the result of
 - (A) changes in the deliverability, or capacity of natural gas storage facilities that are available to BC Gas, or any of its divisions, or
 - (B) changes in the supply of peaking gas available to BC Gas or any of its divisions, or
 - (C) the movement of customers from a sales contract basis to a service contract basis and vice versa, or
 - (D) changes in any portion of the gas supply of BC Gas or any of its divisions from a sales contract basis to a service contract basis and vice versa,
 - (ii) changes in the usage by BC Gas or any of the divisions of interruptible natural gas that is caused other than by variations in number of customers or in customer consumption of natural gas, or
 - (iii) changes in the usage by BC Gas or any of its divisions of interruptible natural gas that is caused by changes in the supply of interruptible natural gas,
- (e) the rate of, or method of calculating, any real property taxes payable by BC Gas or any of its divisions to competent taxing authorities,
- (f) the rate of any tax payable by BC Gas or any of its divisions under section 407 of the *Municipal Act* or section 398 of the *Vancouver Charter*,
- (g) the rate of any municipal franchise fees payable by BC Gas or any of its divisions, and
- (h) the rate of federal and provincial income tax (including surcharges) applicable to the utility operations of BC Gas or any of its divisions.

(2) Until the end of September, 1991 BC Gas shall notify the Lieutenant Governor in Council by delivering written notice to the minister of any changes in the weighted monthly average rate of interest payable by BC Gas on debt for a term of less than one year that is associated with the utility operations of the Lower Mainland Division.

(3) Until the end of September, 1991 BC Gas shall notify the Lieutenant Governor in Council by delivering written notice to the minister of any changes in the weighted monthly average rate of interest payable by BC Gas on debt for a term of less than one year that is associated with the utility operations of the Inland Division.

(4) Until the end of September, 1991 BC Gas shall promptly notify the Lieutenant Governor in Council by delivering written notice to the minister of any payment by BC Gas or any of its divisions of fees, levies and other charges as recovery of expenses of the government or of the Commission arising out of the administration of the Act (as described in section 140 (1.1) of the Act).

Deferral Accounts

9. BC Gas shall establish, and until the end of September, 1991, maintain deferral accounts that record and reflect

- (a) the changes described in section 8 (1) (a) to (g), and the impact on the divisions of BC Gas of those changes,
- (b) the fees, levies and charges described in section 8 (4) that are paid by BC Gas or its divisions, and the impact on the divisions of BC Gas of those changes,
- (c) the extent to which the federal and provincial income tax expense (including surcharges) associated with utility operations of each division that is actually incurred by BC Gas differs from that which it would have incurred if the average annual federal and provincial income tax rates, (including surcharges) in each of the years 1989, 1990 and 1991 were those set out below:

<u>Year</u>	<u>Federal</u>	<u>Provincial</u>	<u>Total</u>
1989	28.0%	14.0%	42.0%
1990	28.0%	14.0%	42.0%
1991	28.0%	14.0%	42.0%

- (d) the extent to which the interest expense of BC Gas, determined on a month to month basis, on debt having a term of less than one year which debt is associated with the utility operations of the Lower Mainland Division, differs from the expense that would result from a base short term interest rate of 10.2% applied to the lesser of:
 - (i) the actual debt associated with the Lower Mainland Division having a term of less than one year, or
 - (ii) 12% of the rate base associated with the Lower Mainland Division,
- (e) the extent to which the interest expense of BC Gas, determined on a month to month basis, on debt having a term of less than one year which debt is associated with the utility operations of the Inland

Division, differs from the expense that would result from a base short term interest rate of 8.5% applied to the actual debt associated with the Inland Division having a term of less than one year,

- (f) the difference between
 - (i) BC Gas revenue from customers receiving interruptible transportation service pursuant to rate schedule 2008 determined as if the per gigajoule revenue from those customers equaled the per gigajoule revenue from customers receiving on July 16, 1988 transportation service pursuant to rate schedule 2008, and
 - (ii) the revenue BC Gas would have received from those customers (net of the natural gas commodity purchase price and the commodity tolls of Westcoast Energy Inc. associated with gas service to those customers) if those customers had received interruptible gas sales service at the rate schedule 2501, and
- (g) the difference between
 - (i) the level of interruptible revenue credits actually received from Westcoast Energy Inc. (other than those associated with interruptible gas supplied for use by British Columbia Hydro and Power Authority at its Burrard Thermal electrical energy generating station), and
 - (ii) the level of the interruptible revenue credits reflected in the rates of BC Gas.

Application of Certain Deferrals

10. BC Gas shall, effective the end of September in 1989, 1990 and 1991, or more frequently as directed by the minister, apply the deferral account balance established under section 9 (g) against the deferral account balance established under section 9 (f).

Rate Schedules

11. (1) BC Gas shall, annually or as otherwise directed or agreed by the minister, in each of 1989, 1990 and 1991 file a new schedule of rates under the Act for each of its divisions.

(2) The rate schedules for each division which BC Gas files under the Act before the end of September, 1991 shall reflect an amortization over 12 months of the aggregate amount recorded in the deferral accounts required by section 9 (a) to (e) or such other amortization directed or agreed by the minister.

(3) The last schedule of rates for each division filed under the Act by BC Gas before the end of September, 1991 shall reflect an amortization over 12 months of the aggregate amounts recorded in the deferral accounts required by section 9 (a) to (e).

(4) The last schedule of rates for each division filed under the Act by BC Gas before the end of September, 1991 shall reflect the rates of each division of BC Gas that are, subject to the Act, to be effective the end of September, 1991.

(5) BC Gas shall file with the minister new schedules of rates for the Inland Division for the year beginning November 1, 1989 predicated upon the principles determined by the Commission to be appropriate in its decision dated December 11, 1987 and relating to the rate design of Inland.

Limitation on Expenses

12. (1) Until the end of September, 1991 no changes in the expenses of BC Gas or any of its divisions other than those described in section 8 shall be reflected in the rates of BC Gas and its divisions.

(2) B.C. Gas shall file with the Lieutenant Governor in Council, in care of the minister, the capital budgets of each division of BC Gas and the information the Lieutenant Governor in Council requires to monitor compliance with this order.

SCHEDULE 1
SCHEDULE OF DEPRECIATION RATES
Lower Mainland

	<u>Rate %</u>
Distribution Plant	
Mains	2.0
Measuring and Regulating Equipment	3.0
Meters	3.0
Services	2.9
Production Plant	
Miscellaneous Plant Equipment	3.0
Petroleum Gas Equipment	2.0
Storage Plant	
LNG Plant	4.0
Other Plant	
Equipment	4.0
High Pressure Storage Tanks	2.0
Contributions	
Contributions in Aid of Construction (amortization rate)	2.0
Special Assets	
Computer Equipment	
LNG Computer Equipment	20.0
Computer Equipment - Miscellaneous	20.0
Micro-Computer Systems	12.52
Computer Assisted Mapping System	22.66
General Assets	
Buildings	
Frame or Sheet Steel	3.0
Masonry	1.5
Capital Spare Equipment	10.0
Communication Equipment	
Gas Supervisory System	10.0
Microwave	5.0
Radio	10.0
Telephone	5.0
Intangible Plant	
Franchise and Consents	1.0
Miscellaneous	1.0
Organization	1.0
Land and Land Rights	No Depreciation
Miscellaneous Equipment	5.0
Office Furniture and Equipment	5.0
Patterns, Dies, Moulds	10.0

Roads, Trails and Small Bridges	2.5
Stores, Shop and Laboratory Equipment	5.0
Tools and Work Equipment	
Engineering Services	15.0
General	5.0
Transportation Equipment	
Special Work Equipment	5.5
Trailers	10.0

SCHEDULE 2
SCHEDULE OF DEPRECIATION RATES
Inland

	<u>Rate %</u>
Intangible Plant	
Utility Plant Acquisition Adjustments	1.0
Unamortized Conversion Expense	1.0
Organization Expense	1.0
Other Deferred Charges	1.0
Franchises and Consents	1.0
Other Intangible Plant	1.0
	Term of Lease
Transmission Plant	
Land and Land Rights	No Depreciation
Compressor Structures	3.0
Measuring Structures	3.0
Other Structures and Improvements	3.0
Mains	2.0
Compressor Equipment	3.0
Measuring and Regulating Equipment	3.0
Distribution Plant	
Land and Land Rights	No Depreciation
Structures and Improvements	
- Leasehold Alterations	Term of Lease
- Frame Buildings	3.0
- Masonry Buildings	1.5
Services	2.0
House Regulators and Meter Installations	3.0
Mains	2.0
NGV Compressor Equipment	6.67
Measuring and Regulating Equipment	3.0
Meters	3.0
General Plant	
Structures and Improvements	
- Leasehold Alterations	Term of Lease

- Frame Buildings	3.0
Office Furniture and Equipment	
- EDP Equipment	12.5
- All other	5.0
Transportation Equipment	15.0
Heavy Work Equipment (Account 485)	5.0
Tools and Work Equipment	5.0
Communication Equipment	
- Telemetry Equipment	10.0
- Other Structures and Equipment	5.0
Equipment on Customers' Premises	5.0
Gas Plant Held for Future Use	
Structures and Improvements	
- Frame Buildings	3.0
- Masonry Buildings	1.5
Manufacturing Equipment	3.0
Gas Holders	2.0
Contributions in Aid of Construction	
NGV Vehicle Grants	15.0
NGV Compressor Grants	6.67
Leasehold Alterations	Term of Lease
All Other (Weighted Average)	2.2

SCHEDULE 3
SCHEDULE OF DEPRECIATION RATES
Columbia

	<u>Rate %</u>
Intangible Plant	
Franchises and Consents	1.0
Transmission Plant	
Land and Land Rights	No Depreciation
Measuring and Regulating Structures	3.0
Other Structures and Improvements	3.0
Mains	2.0
Measuring and Regulating Equipment	3.0
Other Transmission Equipment	5.0
Distribution Plant	
Land and Land Rights	No Depreciation
Structures and Improvements	3.0
Services	2.0
House Regulators and Meter Installations	3.0
Mains	2.0
NGV Compressor Equipment	6.67

Measuring and Regulating Equipment	3.0
Meters	3.0
Other Distribution Equipment	5.0
General Plant	
Structures and Improvements	
- Frame Buildings	3.0
- Masonry Buildings	1.5
Office Furniture and Equipment	
- EDP Software and Equipment	12.5
- All Other	5.0
Transportation Equipment	15.0
Tools and Work Equipment	5.0
Communication Equipment	5.0
Other General Equipment	5.0
Other	
Byron Creek Transmission and Distribution Plant	5.0
Contributions in Aid of Construction	
NGV Vehicle Grants	15.0
NGV Compressor Grants	6.67
All Other (Weighted Average)	2.2

SCHEDULE 4
SCHEDULE OF DEPRECIATION RATES
Fort Nelson

	<u>Rate %</u>
Intangible Plant	
Franchises and Consents	1.0
Transmission Plant	
Land and Land Rights	No Depreciation
Structures and Improvements	
- Frame Buildings	3.0
- Masonry Buildings	1.5
Mains	2.0
Measuring and Regulating Equipment	3.0
Distribution Plant	
Land and Land Rights	No Depreciation
Structures and Improvements	
- Frame Buildings	3.0
- Masonry Buildings	1.5
Services	2.0
House Regulators and Meter Installations	3.0
Mains	2.0
NGV Compressor Equipment	6.67

Measuring and Regulating Equipment	3.0
Meters	3.0
Other Distribution Equipment	3.0
General Plant	
Land	No Depreciation
Structures and Improvements	
- Frame Buildings	3.0
- Masonry Buildings	1.5
Office Furniture and Equipment	5.0
Transportation Equipment	15.0
Heavy Work Equipment	5.0
Tools and Work Equipment	5.0
Communication Equipment	5.0
Contributions in Aid of Construction	
NGV Vehicle Grants	15.0
NGV Compressor Grants	6.67
Alaska Highway Project	2.0
All Other	3.0

May 17, 2012

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

Attention: Ms. Alanna Gillis, Acting Commission Secretary

Dear Ms. Gillis:

**Re: FortisBC Energy (Vancouver Island) Inc. ("FEVI")
Notice of Extension of Transportation Service Agreement and Peaking Gas
Management Agreement between FEVI and Vancouver Island Gas Joint Venture**

FEVI and the Vancouver Island Gas Joint Venture (the "VIGJV") entered into a Transportation Service Agreement (the "TSA") and Peaking Gas Management Agreement (the "PGMA") dated December 14, 1995. The TSA and PGMA were amended and approved by the Commission¹ in 2004 based on the Special Direction No. 2 attached to OIC 1224/04 (Attachment A). The term of the amended agreements is set to expire on December 31, 2012.

The 2004 Amended TSA (Attachment B) contained a clause that the agreement may be extended for a further five year term beyond the Renewal Period as mutually agreed to by the Parties prior to October 1, 2011. As mutually agreed to by both Parties on September 30, 2011, the TSA Renewal Period has been extended for a further five year term and will now expire on December 31, 2017.

As stated in the September 30, 2011 Letter of Extension (Attachment C), "The parties acknowledge that FortisBC may be amalgamated with certain of its affiliates during the Renewal Period and that such an amalgamation may result in changes in FortisBC's rate structures. In those circumstances, VIGJV will have the option to terminate the TSA without penalty provided that VIGJV applies for and agrees to receive gas transportation service pursuant to one of FortisBC's rate schedules available to large industrial customers. The parties acknowledge that this letter agreement is subject to the approval of the British Columbia Utilities Commission."

FEVI requests approval of the TSA extension from the Commission as all other provisions of the TSA and PGMA will continue without amendment during the Renewal Period. As

¹ British Columbia Utilities Commission Order No. G-113-04.

reflected in the amended PGMA², “the term of the PGMA will be extended to reflect the extended term of the TSA as set out in this term sheet”.

If there are any questions regarding this letter or the enclosed agreement, please contact Kevin Hodgins at 604-592-7991.

Yours very truly,

FORTISBC ENERGY (VANCOUVER ISLAND) INC.

Original signed by: Paul Craig

For: Diane Roy

Enclosure

cc (email only): Vancouver Island Gas Joint Venture

² 2004 Letter of Amendment and Extension of Transportation Service Agreement and Peaking Gas Management Services Agreement between Terasen Gas (Vancouver Island) Inc. and Vancouver Island Gas Joint Venture, Appendix 1, Section 7.4

Attachment A

ORDER IN COUNCIL 1224/04

PROVINCE OF BRITISH COLUMBIA

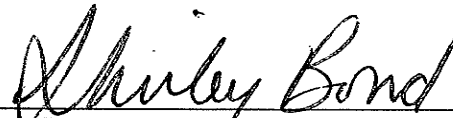
ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. 1224 , Approved and Ordered DEC 11 2004


Lieutenant Governor

Executive Council Chambers, Victoria

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and consent of the Executive Council, orders that the attached Special Direction is made.


Minister of Energy and Mines
Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section:- Vancouver Island Natural Gas Pipeline Act, R.S.B.C. 1996, c. 474, section 7 (3) and (4)

Other (specify):-

November 30, 2004

VANCOUVER ISLAND NATURAL GAS PIPELINE SPECIAL DIRECTION NO. 2 TO THE BRITISH COLUMBIA UTILITIES COMMISSION

Definitions

- 1 In this Special Direction:
 - “**Act**” means the *Vancouver Island Natural Gas Pipeline Act*;
 - “**commission**” means the British Columbia Utilities Commission;
 - “**Contract Demand**”, “**Firm Transportation Service**” and “**Interruptible Offset Gas**” have the same meanings as they have in Article 3 of the TSA;
 - “**Joint Venture**” has the same meaning as in section 1.1 of Special Direction 1;
 - “**letter agreement**” means the letter agreement, dated October 27, 2004 and attached as Schedule “A” to this Special Direction, respecting the amendment to and extension of the TSA;
 - “**Special Direction 1**” means the Vancouver Island Natural Gas Pipeline Special Direction made under Order in Council 1510/95;
 - “**Terasen**” means Terasen Gas (Vancouver Island) Inc.;
 - “**transportation tolls**” has the same meaning as in Special Direction 1;
 - “**TSA**” means the Transportation Service Agreement dated as of the 14th day of December, 1995 and attached as Exhibit F to Special Direction 1.

Application

- 2 This Special Direction is issued to the commission under section 7 (3) and (4) of the Act.

Directions relating to the letter agreement

- 3
 - (1) Despite sections 3.6 and 3.7 of Special Direction 1 but without limiting any other power the commission may have, the commission must approve the letter agreement to the extent that it
 - (a) varies the transportation tolls or other amounts payable to Terasen for the services provided to the Joint Venture under the TSA, and
 - (b) increases or decreases
 - (i) the Contract Demand for Firm Transportation Service determined in accordance with the TSA, or
 - (ii) the quantities of Interruptible Offset Gas that the Joint Venture is entitled to receive under the TSA.
 - (2) Despite subsection (1), the direction contained in that subsection does not require the commission to approve any other agreements, including, without limitation, any further definitive amending agreements, whether or not those agreements do or purport to do either or both of the following:
 - (a) incorporate any or all of the terms of the letter agreement;
 - (b) replace or supersede the terms of the letter agreement.

Attachment B

2004 AMENDED TSA AND PGMA – TGVV-VIGJV



Scott A. Thomson
Vice President,
Finance & Regulatory Affairs

16705 Fraser Highway
Surrey, B.C. V3S 2X7
Tel: (604) 592-7784
Fax: (604) 592-7890
Email: scott.thomson@terasengas.com
www.terasengas.com

November 9, 2004

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. R.J. Pellatt, Commission Secretary

Dear Sir:

**Re: Amendment and Extension of Transportation Service Agreement and
Peaking Gas Management Services Agreement between Terasen Gas
(Vancouver Island) Inc. and the Vancouver Island Gas Joint Venture**

Enclosed for information purposes is a copy of the Letter Agreement amending and extending the Transportation Service Agreement and Peaking Gas Management Agreement between TGVl and the Vancouver Island Gas Joint Venture as well as the related Term Sheet. The agreements are subject to approvals as necessary from the Province which are currently being sought.

Should you have and questions regarding the attached, please call Scott Thomson at 604 592 7784.

Yours very truly,

TERASEN GAS (VANCOUVER ISLAND) INC.

Original signed by Tom Loski

For: Scott A. Thomson

Attachment

Terasen Gas

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

Tel: (604) 576-7000

**DELIVERED BY COURIER AND E-MAIL**

October 27, 2004

Dave Hargreaves
Manager, Central Services
HOWE SOUND PULP AND PAPER L.P.
Port Melon, B.C.
V0N 2S0

Dear Mr. Hargreaves :

**Re : Amendment and Extension of Transportation Service Agreement and
Peaking Gas Management Services Agreement between Terasen Gas
(Vancouver Island) Inc. and the Vancouver Island Gas Joint Venture**

This letter agreement is further to our recent discussions regarding the principal terms for the amendment and extension of the Terasen Gas (Vancouver Island) Inc. ("TGVI")/ Vancouver Island Joint Venture ("VIGJV") Transportation Service Agreement and Peaking Gas Management Services Agreement (collectively, the "Agreements"). The purpose of this letter agreement is to set out, as set forth herein and in Appendix 1 attached (together, the "Letter Agreement"), the terms upon which TGVI and VIGJV are prepared to amend and extend the Agreements. While it is intended that the terms of this Letter Agreement shall be binding on TGVI and VIGJV once executed by the parties hereto, the parties acknowledge that they shall be executing further definitive amending agreements ("Amending Agreements") to the Agreements which will incorporate the terms of this Letter Agreement. Once executed, such Amending Agreements shall replace and supersede the terms of this Letter Agreement.


Upon the execution of this Letter Agreement by the VIGJV and TGVI, the VIGJV shall:

1. promptly adjourn or cause to be adjourned generally the hearing of the Petition filed in the Vancouver Registry of the Supreme Court of British Columbia ("Petition") under #S045062 and hold all litigation relating to this matter in abeyance until the terms of the Amending Agreements have received all necessary regulatory, governmental and other approvals and have become effective in accordance with Article 11 of Appendix 1 to this Letter Agreement; and
2. agree not to renew the agreement with BC Hydro for the assignment of 4 TJ/day of transportation capacity upon the expiration of that agreement and, pending and following receipt of all necessary regulatory, governmental and other approvals to make this Letter Agreement effective, not to take further steps to require that TGVI consent to the assignment contemplated by that agreement.

Once the requisite regulatory, governmental and other approvals have been obtained, VIGJV shall promptly cause the dismissal or discontinuance of the Petition as contemplated in Section 9.2 of Appendix 1 to this Letter Agreement.

As set out above, once executed by both parties, the terms set out in this Letter Agreement are intended to constitute a legally binding agreement amongst the parties hereto. By their respective signatures hereto, the parties acknowledge that they have all requisite corporate and other authority to enter into, execute and be bound by the terms of this Letter Agreement. Please sign below where indicated and return a fully executed copy to my attention. This Letter Agreement may be executed by facsimile and by counterparty.

Yours very truly,
TERASEN GAS (VANCOUVER ISLAND) INC.
Per:


Scott Thomson
Vice President Finance
Akf/akf
Encl.

Accepted this _____ day, of October, 2004

Pope and Talbot Ltd.

Per: _____
Name:
Title:

Western Pulp Limited

Per: _____
Name:
Title:

**Howe Sound Pulp and Paper Limited
Partnership**

Per: _____
Name:
Title:

Norske Skog Canada Limited

Per: _____
Name:
Title:

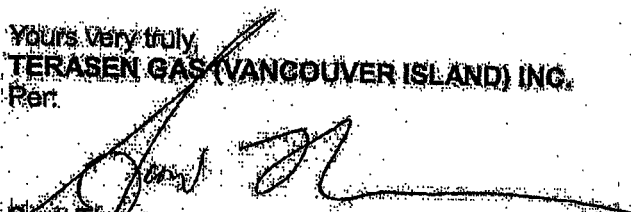
Once the requisite regulatory, governmental and other approvals have been obtained, VIG JV shall promptly cause the dismissal or discontinuance of the Petition as contemplated in Section 9.2 of Appendix 1 to this Letter Agreement.

As set out above, once executed by both parties, the terms set out in this Letter Agreement are intended to constitute a legally binding agreement amongst the parties hereto. By their respective signatures hereto, the parties acknowledge that they have all requisite corporate and other authority to enter into, execute and be bound by the terms of this Letter Agreement. Please sign below where indicated and return a fully executed copy to my attention. This Letter Agreement may be executed by facsimile and by counterparty.

Yours Very truly,

TERASEN GAS (VANCOUVER ISLAND) INC.

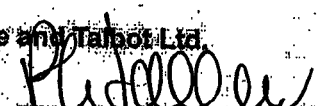
Per:


Scott Thompson
Vice President Finance
AK/fak
Enc.

Accepted this 27 day, of October, 2004

Pope and Talbot Ltd.

Per:


Name: PAUL G. SADLER
Title: GENERAL MANAGER
P+T LTD

Western Pulp Limited

Per:

Name:
Title:

Howa Sound Pulp and Paper Limited
Partnership

Per:

Name:
Title:

Norske Skog Canada Limited

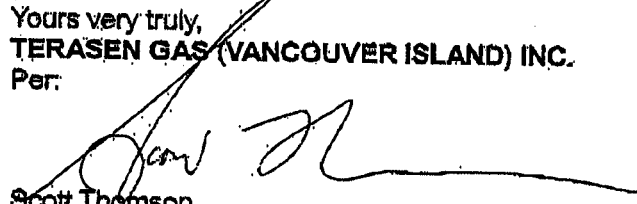
Per:

Name:
Title:

Once the requisite regulatory, governmental and other approvals have been obtained, VIGJV shall promptly cause the dismissal or discontinuance of the Petition as contemplated in Section 9.2 of Appendix 1 to this Letter Agreement.

As set out above, once executed by both parties, the terms set out in this Letter Agreement are intended to constitute a legally binding agreement amongst the parties hereto. By their respective signatures hereto, the parties acknowledge that they have all requisite corporate and other authority to enter into, execute and be bound by the terms of this Letter Agreement. Please sign below where indicated and return a fully executed copy to my attention. This Letter Agreement may be executed by facsimile and by counterparty.

Yours very truly,
TERASEN GAS (VANCOUVER ISLAND) INC.
Per:

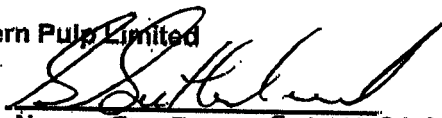

Scott Thomson
Vice President Finance
Akt/akf
Encl.

Accepted this _____ day, of October, 2004

Pope and Talbot Ltd.

Per: _____
Name:
Title:

Western Pulp Limited

Per: 
Name: STEPHEN SUTHERLAND
Title: PURCHASING MANAGER

Howe Sound Pulp and Paper Limited
Partnership

Per: _____
Name:
Title:

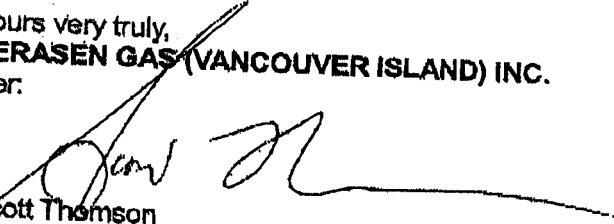
Norske Skog Canada Limited

Per: _____
Name:
Title:

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Yours very truly,
TERASEN GAS (VANCOUVER ISLAND) INC.
 Per:


 Scott Thomson
 Vice President Finance
 Akf/akf
 Encl.

Accepted this 27th day, of October, 2004

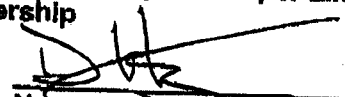
Pope and Talbot Ltd.

Per: _____
 Name: _____
 Title: _____

Western Pulp Limited

Per: _____
 Name: _____
 Title: _____

Howe Sound Pulp and Paper Limited Partnership

Per: 
 Name: DALE HARGRAVE
 Title: MANAGER, CENTRAL SERVICES

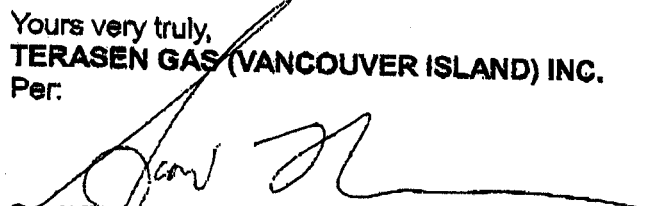
Norske Skog Canada Limited

Per: _____
 Name: _____
 Title: _____

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Yours very truly,
TERASEN GAS (VANCOUVER ISLAND) INC.
Per:


Scott Thomson
Vice President Finance
Akf/akf
Encl.

Accepted this _____ day, of October, 2004

Pope and Talbot Ltd.

Per: _____
Name: _____
Title: _____

Western Pulp Limited

Per: _____
Name: _____
Title: _____

**Howe Sound Pulp and Paper Limited
Partnership**

Per: _____
Name: _____
Title: _____

Norske Skog Canada Limited

Per: 
Name: R. H. LINDSTROM
Title: VICE PRESIDENT, STRATEGY

TRANSPORTATION AND PEAKING GAS MANAGEMENT SERVICES

1. Parties

Vancouver Island Gas Joint Venture ("VIGJV") and Terasen Gas (Vancouver Island) Inc. ("TGV") (together, the "Parties").

2. Purpose

- 2.1 The VIGJV is seeking to extend and amend its existing Transportation Service Agreement ("TSA") and the Peaking Gas Management Agreement ("PGMA") with TGV.
- 2.2 TGV owns and operates the natural gas transmission system from Eagle Mountain to Vancouver Island and the transmission and distribution system on Vancouver Island, and proposes to expand its system with a phased combination of system upgrades and liquefied natural gas ("LNG") storage.
- 2.3 TGV proposes to amend and extend each of the existing TSA and the PGMA with the VIGJV for service from Huntingdon to the VIGJV mills based on the principal terms outlined in this term sheet. The TSA and PGMA are collectively the "Agreements". Unless otherwise defined in this term sheet, all capitalized terms shall bear the meanings set out in the Agreements.

3. Term of TSA

- 3.1 The Renewal Period in the TSA will be amended and extended to be from January 1, 2005 to December 31, 2012.
- 3.2 The TSA may be extended for a five year term beyond the Renewal Period as mutually agreed by the Parties prior to October 1, 2011.

4. Quantity

- 4.1 Firm Contract Demand for the Renewal Period under the TSA will be:
 - 4.1.1 20,000 gigajoules per day for the period January 1, 2005 to December 31, 2005.
 - 4.1.2 12,500 gigajoules per day for the remainder of the Renewal Period.
- 4.2 Where a minimum Contract Demand is specified in the TSA as 30,000 gigajoules per day, it shall be amended to 8,000 gigajoules per day.

5. Toll

- 5.1 The firm demand toll shall be the Demand Toll as expressed in Schedule A of the TSA.

- 5.2 There will be three tiers of interruptible tolls for quantities each day in excess of the Contract Demand quantity.

5.2.1 For quantities of gas each day up to 20,000 gigajoules, the Interruptible Toll shall be paid on the positive difference between this quantity and the Contract Demand. The applicable Interruptible Toll for this gas shall be equivalent to the Demand Toll rate (firm demand rate). Quantities of gas delivered under this rate will be known as "Tier 1 IT".

- 5.2.2** For quantities of gas each day in excess of 20,000 gigajoules up to 30,000 gigajoules, the Interruptible Toll shall be paid as follows:

5.2.2.1 On the 1st 20,000 gigajoules of gas, the Interruptible Toll shall be paid on the positive difference between 20,000 gigajoules and the Contract Demand at the Tier 1 IT rate; and

5.2.2.2 On quantities between 20,000 gigajoules and 30,000 gigajoules the applicable Interruptible Toll payable on the quantity in excess of 20,000 gigajoules shall be as expressed in Schedule B of the TSA. Quantities of gas delivered under this rate will be known as "Tier 2 IT".

- 5.2.3** For quantities of gas each day in excess of 30,000 gigajoules, the Interruptible Toll shall be paid as follows:

5.2.3.1 On the 1st 20,000 gigajoules of gas, the Interruptible Toll shall be paid on the positive difference between 20,000 gigajoules and the Contract Demand at the Tier 1 IT rate;

5.2.3.2 On quantities between 20,000 gigajoules and 30,000 gigajoules the applicable Interruptible Toll payable on the quantity between 20,000 gigajoules and 30,000 gigajoules shall be at the Tier 2 IT rate; and

5.2.3.3 The applicable Interruptible Toll paid on the quantities in excess of 30,000 gigajoules shall be equivalent to the Demand Toll rate (firm demand rate) multiplied by 1.1. Quantities of gas delivered under this rate will be known as "Tier 3 IT".

6. Future Contract Demand Reinstatement or Reduction

- 6.1 All articles related to Contract Demand reduction will be removed from the TSA except the following:

6.1.1 The VIGJV shall have the right to reduce Contract Demand by up to 4,500 gigajoules per day during the Renewal Period. The notice period for all such reductions shall be a minimum of one year and notice will not to be given prior to January 1, 2006.

Notwithstanding the above, the minimum Contract Demand during the Renewal Period shall be 8,000 gigajoules per day.

6.1.2 The right to reduce Contract Demand as a result of Expansion Projects will remain, but will be suspended for any Expansion Projects that, when announced, are projected to have in-service dates prior to November 1, 2010. For clarity, this means that the VIGJV will not be able to reduce its Contract Demand for any Expansion Projects put in service prior to November 1, 2010

6.2 The TSA will be amended such that any reinstatement of Contract Demand above 12,000 gigajoules per day will be on an annual renewal basis (effective November 1 of each year). TGVl will give the VIGJV a minimum of six months notice as to availability of reinstatement of Contract Demand in each year. For clarity, nothing in this amendment would compel TGVl to add facilities to meet a VIGJV request for reinstatement of Contract Demand.

7. Peaking Gas Management Agreement (PGMA)

7.1 The PGMA will be amended so that after January 1, 2006 TGVl will only be able to call for Curtailment in situations of mechanical failure of TGVl facilities that would otherwise cause it to be unable to meet core market demand.

7.2 Curtailment in these circumstances will be covered under the rate and terms for Supplemental Curtailment Units under the PGMA.

7.3 TGVl will also be able to request Emergency Gas under those provisions in the PGMA (namely, only if the VIGJV is able to provide it).

7.4 The term of the PGMA will be extended to reflect the extended term of the TSA as set out in this term sheet.

8. Interruptible Offset Gas

8.1 Limitations to the size of the Interruptible Offset Gas Account in the TSA shall be amended so that the total quantity of gas in the Interruptible Offset Account shall not exceed 25 times the then current Contract Demand in any year.

8.2 When quantities are delivered from the Interruptible Offset Account for Tier 1 IT, Tier 2 IT and Tier 3 IT, removal from the Interruptible Offset Account shall be on a 1 to 1 basis.

9. Right of Assignment

9.1 The TSA will be amended to remove any right of assignment except to the new owner in the case of a change in ownership of the Owner's Mills. For clarity, this means that there will be no right to assign or otherwise extend the rights under the TSA for use anywhere other than the Owner's Mills. The Agreements shall be amended to clarify that except for such assignment, the VIGJV shall not be entitled to add, replace or substitute any entity to the VIGJV and thereby purport to

confer rights on such entity with respect to the Agreements notwithstanding any provision to the contrary in the Agreements.

9.2 The VIGJV shall promptly: (i) cause the VIGJV Petition to the Supreme Court of British Columbia, Vancouver Registry Number SO45062, to be dismissed by way of consent dismissal order; or (ii) discontinue all further proceedings relating thereto; and in either case, each of TGV and VIGJV shall bear its own costs and the parties will exchange a mutual release with respect to the claims set out therein.

9.3 There will be no other claims made to TGV regarding any assignment of VIGJV Contract Demand under the Agreements.

10. Expansion Project Related to Service to ICP and CFT Outcome

The VIGJV agrees to not oppose TGV's August 2004 CPCN application for an LNG facility for Vancouver Island.

11. Regulatory and Other Approvals

11.1 This term sheet and the amendments to the Agreements contemplated in this term sheet are subject to the approval by the British Columbia Utilities Commission ("BCUC") and receipt of other regulatory, governmental and other approvals as may be required.

11.2 TGV shall proceed promptly and in good faith to apply to the BCUC for approval of this term sheet and the amendments and extension of the Agreements as contemplated in this term sheet and both parties shall support, through intervention, appearance of counsel, evidence and argument, such application. In addition, TGV shall promptly and in good faith apply for and diligently seek all other regulatory, governmental and other regulatory approvals as may be required.

12. Requests by VIGJV for Additional Capacity which require Expansion Projects

The existing provisions in the TSA relating to Expansion Projects shall be amended to give effect to the following agreement between TGV and the VIGJV with respect to Expansion Projects, including the provisions of Section 6.1.2 above. In the event the VIGJV requires additional firm capacity, which increase in firm capacity would require TGV to undertake Expansion Projects, TGV shall undertake such projects, subject to the approval of the BCUC, provided the following conditions are met:

12.1 **Ownership** – All Expansion Projects will remain the property of TGV.

12.2 **Economic Test** – All requests for TGV to undertake Expansion Projects will be subject to the Expansion Projects satisfying the following economic test. The economic test will be a discounted cash flow analysis of the projected revenue and costs associated with the Expansion Projects. Subject to the provisions of Section 12.5 below, Expansion Projects will be deemed to be economic and will be constructed if the results of the economic test indicate a zero or positive net present value.

12.3 **Revenue** – The projected revenue to be used in the economic test will be determined by TGVJ by:

- (a) establishing consumption estimates for the VIGJV; and,
- (b) applying the appropriate revenue margins for such consumption.

12.4 **Costs** – The total costs to be used in the economic test include, without limitation, the following:

- (a) the full labour, material, and other costs necessary to construct the Expansion Project and any related facilities;
- (b) the appropriate allocation of TGVJ's overheads associated with the construction of the Expansion Project; and,
- (c) the incremental operating and maintenance expenses associated with the carrying out and implementation of the Expansion Project.

In addition to the costs identified, the economic test will include applicable taxes and the appropriate return on investment to TGVJ as approved by the BCUC.

12.5 **Contribution in Aid of Construction** – Notwithstanding the provisions of Section 12.2 above, if the economic test results indicate a negative net present value, TGVJ will nonetheless proceed with the Expansion Project provided that the shortfall in projected revenue is eliminated by contributions in aid of construction made by the VIGJV. The total required contribution in aid of construction will be paid by the VIGJV prior to commencement of construction of the Expansion Project.

Attachment C

VIGJV EXTENSION LETTER TO DECEMBER 31, 2017



**HOWE SOUND
PULP & PAPER
CORPORATION**

September 30, 2011

FortisBC (Vancouver Island) Inc.
16705 Fraser Highway
Surrey, B.C.
V3S 2X7

Attention: Kevin Hodgins

Dear Sir:

Re Extension of Transportation Service Agreement (the "TSA") between FortisBC (Vancouver Island) Inc. ("FortisBC") and Vancouver Island Gas Joint Venture (the "VIGJV")

This letter agreement is to confirm our recent discussion regarding the basis on which the term TSA will be extended.

By agreement made in October 2004 the Renewal Period of the TSA was extended to December 31, 2012. That agreement also provided that the TSA may be extended for a further five year term beyond the Renewal Period as mutually agreed by the parties before October 1, 2011. This letter confirms our mutual agreement to extend the Renewal Period for a five year term to expire on December 31, 2017.

The parties acknowledge that FortisBC may be amalgamated with certain of its affiliates during the Renewal Period and that such an amalgamation may result in changes in FortisBC's rate structures. In those circumstances, VIGJV will have the option to terminate the TSA without penalty provided that VIGJV applies for and agrees to receive gas transportation service pursuant to one of FortisBC's rate schedules available to large industrial customers. The parties acknowledge that this letter agreement is subject to the approval of the British Columbia Utilities Commission.

Except as expressly set out in this letter, all other provisions of the TSA will continue without amendment during the Renewal Period.

We would be grateful if you would please sign and return a copy of this letter to confirm our agreement. In turn, I will arrange for each of the participants in the VIGJV to provide to you a signed copy of this letter to confirm their agreement with its terms. Thank you.

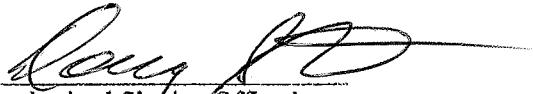
Yours truly,



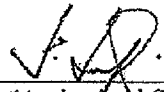
Fred Pominoff
Chair, Vancouver Island Gas Joint Venture

The terms of this letter agreement are confirmed and accepted this ___ day of September, 2011

FORTISBC (VANCOUVER ISLAND) INC.

Per: 
(Authorized Signing Officer)

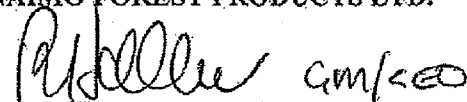
HOWE SOUND PULP & PAPER CORPORATION

Per: 
(Authorized Signing Officer)

CATALYST PAPER CORP.

Per: 
(Authorized Signing Officer)

NANAIMO FOREST PRODUCTS LTD.

Per: 
(Authorized Signing Officer)

Attachment 27.2

(Provided in electronic format only due to document size and in order to conserve paper)



FORTISBC ENERGY (VANCOUVER ISLAND) INC.

GAS TARIFF

Standard Terms and Conditions and Rates for Gas Service

Cancelled per Order No. G-XX-12 Approving FortisBC Energy Utilities
Common Rates, Amalgamation and Rate Design Application

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Original Frontispiece

Deleted: G-30-11

Deleted: March 1, 2011

Deleted: Original signed by E.M. Hamilton

This Tariff is available for public inspection at:

FortisBC Energy Operations Centre
16705 Fraser Highway
Surrey, B.C.
V4N 0E8

- and -

FortisBC Energy (Vancouver Island) Inc.
320 Garbally Road
Victoria, B.C.
V8T 2K1

The Tariff is also available for inspection on-line at the FortisBC Energy website at
www.fortisbc.com.

CANCELLER PER BCUC ORDER NO. G-XX-12

Deleted: G-30-11

Deleted: March 1, 2011

Deleted: *Original signed by E.M. Hamilton*

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: [January 1, 2014](#)

BCUC Secretary: _____ Original Page i

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PART A
DISTRIBUTION SALES
SERVICE

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Definitions

In these Terms and Conditions:

- | | | |
|------|---|-----|
| (a) | Basic Charge - Means a fixed charge required to be paid by a Customer or Service as specified in the applicable Rate Schedule, or the prorated daily equivalent charge - calculated on the basis of a 365.25-day year (to incorporate the leap year), and rounded down to four decimal places. | C/N |
| (b) | British Columbia Utilities Commission - Means the British Columbia Utilities Commission constituted under the <i>Utilities Commission Act</i> of British Columbia and includes and is also a reference to | C |
| (i) | any commission that is a successor to such commission, and | |
| (ii) | any commission that is constituted pursuant to any statute that may be passed which supplements or supersedes the <i>Utilities Commission Act</i> of British Columbia | |
| (c) | Commercial Service - Means the provision of firm Gas supplied to one Delivery Point and through one Meter Set for use in approved appliances in commercial, institutional or small industrial operations. | C |
| (d) | Customer - Means a Person who is being provided Service or who has filed an application for Service with FortisBC Energy that has been approved by FortisBC Energy. | C |
| (e) | Day - Means any period of 24 consecutive Hours beginning and ending at 7:00 a.m. Pacific Standard Time or as otherwise specified in the Service Agreement. | C |
| (f) | Delivery Point - Means the outlet of the Meter Set unless otherwise specified in the Service Agreement. | C |
| (g) | Delivery Pressure - Means the pressure of the Gas at the Delivery Point. | C |
| (h) | FortisBC Energy - Means FortisBC Energy (Vancouver Island) Inc. | C |
| (i) | Gas - Means natural gas (including odorant added by FortisBC Energy) and propane. | C |
| (j) | Gas Service - Means the delivery of Gas through a Meter Set. | C |

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- (k) **Gigajoule** - Means a measure of energy equal to one billion joules used for billing purposes. | C
- (l) **Heat Content** - Means the quantity of energy per unit volume of Gas measured under standardized conditions and expressed in megajoules per cubic metre (MJ/m³). | C
- (m) **Hour** - Means any consecutive 60 minute period. | C
- (n) **Landlord** - Means a Person who, being the owner of a property, has leased or rented it to another person, called the Tenant, and includes the agent of that owner. | C
- (o) **Main** - Means pipes used to carry Gas for general or collective use for the purposes of distribution. | C
- (p) **Main Extension** - Means an extension of one of FortisBC Energy's mains with low, distribution, intermediate or transmission pressures, and includes tapping of transmission pipelines, the installation of any required pressure regulating facilities and upgrading of existing Mains, or pressure regulating facilities on private property. | C
- (q) **Meter Set** - Means an assembly of FortisBC Energy owned metering and ancillary equipment and piping. | C
- (r) **Month** - Means a period of time for billing purposes, of 27 to 34 consecutive Days. | C
- (s) **Person** - Means a natural person, partnership, corporation, society, unincorporated entity or body public. | C
- (t) **Premises** - Means a building, a separate unit of a building, or machinery together with the surrounding land. | C
- (u) **Profitability Index** - Means the revenue to cost ratio comparing the revenues expected from a Main Extension project to the expected costs over a set period of time. | C
- (v) **Rate Schedule** - Means a schedule attached to and forming part of this Tariff, which sets out the charges for Service and certain other related terms and conditions for a class of Service. | C
- (w) **Residential Service** - Means firm Gas Service provided to the Premises of a single Customer, whether single family dwelling, separately metered single-family townhouse, rowhouse, condominium, duplex or apartment, or single-metered apartment blocks with four or less apartments. | C

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- (x) **Seasonal Service** - Means firm Gas Service provided to a Customer during the period commencing April 1st and ending November 1st. | C
- (y) **Service** - Means the provision of Gas Service or other service by FortisBC Energy. | C
- (z) **Service Agreement** - Means an agreement between FortisBC Energy and a Customer for the provision of Service. | C
- (aa) **Service Header** - Means a Gas distribution pipeline located on private property connecting three or more Service Lines or Meter Sets to a Main. | C
- (bb) **Service Line** - Means the portion of the pipeline used for the transporting of Gas from FortisBC Energy's Main distribution pipeline to the inlet of the Meter Set. In the case of a Vertical Subdivision, or multi-family housing complex, the Service Line may include the piping from the outlet of the Meter Set to the Customer's individual Premises, but not within the Customer's individual Premises. | C
- (cc) **Service Related Charges** - Include, but are not limited to, application fees, Franchise Fees, and late payment charges, plus Social Services Tax, Goods and Service Tax, or other taxes related to these charges. | C
- (dd) **Temporary Service** - Means the provision of Service for what FortisBC Energy determines will be a limited period of time. | C
- (ee) **Tenant** - Means a Person who has the temporary use and occupation of real property owned by another Person. | C
- (ff) **Vertical Subdivision** - Means a multi-storey building that has individually metered units and a common Service Header connecting banks of meters, typically located on each floor. | C
- (gg) **Year** - Means a period of 12 consecutive Months. | C

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1. Application Requirements

1.1 Requesting Services - A Person requesting FortisBC Energy

- (a) to provide Gas Service,
- (b) to provide a new Service Line,
- (c) to re-activate an existing Service Line,
- (d) to transfer an existing account,
- (e) to change the type of Service provided, or
- (f) to make alterations to an existing Service Line or Meter Set

must apply to FortisBC Energy at any of its office locations in person, by mail, by telephone, by facsimile or by other electronic means.

1.2 Required Documents - An applicant for

- (a) Residential Service may be required to sign an application and a Service Agreement provided by FortisBC Energy,
- (b) Commercial Service may be required to sign an application and a Service Agreement provided by FortisBC Energy, and
- (c) Service on other Rate Schedules must sign the applicable Service Agreement provided by FortisBC Energy.

1.3 Separate Premises / Businesses - If an applicant is requesting Service from FortisBC Energy at more than one Premises, or for more than one separately operated business, the applicant will be considered a separate Customer for each of the Premises and businesses. For the purposes of this provision, FortisBC Energy will determine whether or not any building contains one or more Premises or any business is separately operated.

1.4 Required References - FortisBC Energy may require an applicant for Service to provide reference information and identification acceptable to FortisBC Energy.

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1.5 **Rental Premises** - In the case of rental Premises, FortisBC Energy may

- (a) require an owner of rental Premises or its agent who wishes FortisBC Energy to contract directly with a Tenant to enter into an agreement with FortisBC Energy defining the responsibilities of the owner or agent for payment for Service to the Premises,
- (b) contract directly with the owner or agent of the rental Premises as a Customer of FortisBC Energy with respect to any or all Services to the Premises, or
- (c) contract directly with each Tenant as a Customer of FortisBC Energy.

1.6 **Refusal of Application** - FortisBC Energy may refuse to accept an application for Service for any of the reasons listed in Section 21 (Discontinuance of Service and Refusal of Service).

2. **Agreement to Provide Service**

2.1 **Service Agreement** - The agreement for Service between a Customer and FortisBC Energy will be

- (a) the oral or written application of the Customer which has been approved by FortisBC Energy and which is deemed to include the Standard Terms and Conditions, or
- (b) a Service Agreement signed by the Customer.

2.2 **Customer Status** - A Person becomes a Customer of FortisBC Energy when FortisBC Energy

- (a) approves the Person's application for Service, or
- (b) provides Service to the Person.

A Person who is being provided Service by FortisBC Energy but who has not applied for Service shall be served in accordance with these Standard Terms and Conditions.

2.3 **No Assignment / Transfer** - A Customer may not transfer or assign an agreement for Service without the written consent of FortisBC Energy.

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3. Conditions on Use of Service

- 3.1 **Authorized Consumption** - A Customer must not increase the maximum rate of consumption of Gas delivered to it by FortisBC Energy from that which may be consumed by the Customer under the applicable Rate Schedule nor significantly change its connected load without the written approval of FortisBC Energy, which approval will not be unreasonably withheld.
- 3.2 **Unauthorized Sale / Supply / Use** - Unless authorized in writing by FortisBC Energy, a Customer must not sell or supply Gas supplied to it by FortisBC Energy to other Persons or use Gas supplied to it by FortisBC Energy for any purpose other than as specified in the Service Agreement.

4. Rate Classification

- 4.1 **Rate Classification** - Subject to Section 4.2 (a) (Special Contracts and Tariff Supplements), Customers may be served under any Rate Schedule for which they meet the applicability criteria as set out in the appropriate Rate Schedule.
- 4.2 **Special Contracts and Tariff Supplements** - In exceptional circumstances, special contracts and tariff supplements may be negotiated between FortisBC Energy and the Customer and submitted for British Columbia Utilities Commission approval where
- (a) a minimum rate or revenue stream is required by FortisBC Energy to ensure that Service to the Customer is economic; or
 - (b) factors such as system by-pass opportunities exist or alternative fuel costs are such that a reduced rate is justified to keep the Customer on-system.
- 4.3 **Periodic Review** - FortisBC Energy may
- (a) conduct periodic reviews of the quantity of Gas delivered and the rate of delivery of Gas to a Customer to determine which Rate Schedule applies to the Customer, and
 - (b) change the Customer's charge to the appropriate charge, or
 - (c) change the Customer to the appropriate Rate Schedule.

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5. Application and Service Line Installation Fees and Charges

- 5.1 **Application Fee** - An applicant for Service must pay the applicable Application Fee set out in the Special Rate Schedule.
- 5.2 **Application Fee for Manifold Meters and Vertical Subdivisions** - Where a new Service Line is required to serve more than one Customer at a Premises and the Service is provided with Gas meters connected to a meter manifold, the Application Fee for manifold meters set out in the Special Rate Schedule will apply. Where a new Service Header is required to serve a Vertical Subdivision, the Application Fee set out in the Special Rate Schedule will apply.
- 5.3 **Waiver of Application Fee** - The Application Fee
- (a) will be waived by FortisBC Energy if Service to a Customer is reactivated after it was discontinued for any of the reasons described in Section 13.2 (Right to Restrict); and
 - (b) may be waived by FortisBC Energy if a Landlord requires Gas Service for a short period between the time a previous Tenant moves out and a new Tenant moves in.
- 5.4 **Reactivation Charges** - If
- (a) Service is terminated
 - (i) at the request of a Customer, or
 - (ii) for any of the reasons described in Section 21 (Discontinuance of Service and Refusal of Service), or
 - (iii) to permit Customers to make alterations to their Premises, and
 - (b) the same Customer or the spouse, employee, contractor, agent or partner of the same Customer requests reactivation of Service to the Premises within one Year, the applicant for reactivation must pay the greater of
 - (i) the costs FortisBC Energy incurs in de-activating and re-activating the Service, or
 - (ii) the sum of the minimum charges set out in the applicable Rate Schedule which would have been paid by the Customer between the time of termination and the time of reactivation of Service.

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5.5 **Identifying Load or Premises Served by Meter Sets** - If a Customer requests FortisBC Energy to identify the Meter Set that serves the Premises and/or load after the Meter Set was installed, the Customer will pay the cost FortisBC Energy incurs in re-identifying the Meter Set where

- (a) the Meter Set is found to be properly identified, or
- (b) the Meter Set is found to be improperly identified as a result of Customer activity, including
 - (i) a change in the legal civic address of the Premises,
 - (ii) renovating or partitioning the Premises, or
 - (iii) rerouting Gas lines after the delivery point.

6. Security for Payment of Bills

6.1 **Security for Payment of Bills** - If a Customer or applicant cannot establish or maintain credit to the satisfaction of FortisBC Energy, the Customer or applicant may be required to make a security deposit in the form of cash or an equivalent form of security acceptable to FortisBC Energy. As security for payment of bills, all Customers who have not established or maintained credit to the satisfaction of FortisBC Energy, may be required to provide a security deposit or equivalent form of security, the amount of which may not

- (a) be less than \$500 and
- (b) exceed an amount equal to the estimate of the total bill for the two highest consecutive months consumption of Gas by the Customer or applicant.

6.2 **Interest** - FortisBC Energy will pay interest to a Customer on a security deposit at the rate and at the times specified in the Special Rate Schedule. Subject to Section 6.5, if a security deposit in whole or in part is returned to the Customer for any reason, FortisBC Energy will credit any accrued interest to the Customer's account at that time.

No interest is payable

- (a) on any unclaimed deposit left with FortisBC Energy after the account for which it is security is closed, and
- (b) on a deposit held by FortisBC Energy in a form other than cash.

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- 6.3 **Refund on Deposit** - When the Customer pays the final bill, FortisBC Energy will refund any remaining security deposit plus any accrued interest or cancel the equivalent form of security.
- 6.4 **Unclaimed Refund** - If FortisBC Energy is unable to locate the Customer to whom a security deposit is payable, FortisBC Energy will take reasonable steps to trace the Customer; but if the security deposit remains unclaimed 10 Years after the date on which it first became refundable, the deposit, together with any interest accrued thereon, becomes the absolute property of FortisBC Energy.
- 6.5 **Application of Deposit** - If a Customer's bill is not paid when due, FortisBC Energy may apply all or any part of the Customer's security deposit or equivalent form of security and any accrued interest toward payment of the bill. Even if FortisBC Energy applies the security deposit or calls on the equivalent form of security, FortisBC Energy may, under Section 21 (Discontinuance of Service and Refusal of Service), discontinue Service to the Customer for failure to pay for Service on time.
- 6.6 **Replenish Security Deposit** - If a Customer's security deposit or equivalent form of security is called upon by FortisBC Energy toward paying an unpaid bill, the Customer must re-establish the security deposit or equivalent form of security before FortisBC Energy will reconnect or continue Service to the Customer.
- 6.7 **Failure to Pay** - Failure to pay a security deposit or to provide an equivalent form of security acceptable to FortisBC Energy may, in FortisBC Energy's discretion, result in discontinuance or refusal of Service as set out in Section 21 (Discontinuance of Service and Refusal of Service).

7. Term of Service Agreement

- 7.1 **Initial Term for Residential and Commercial Service** - If a Customer is being provided Residential or Commercial Service, the initial term of the Service Agreement
- (a) when a new Service Line is required will be one Year, or
 - (b) when a Main Extension is required will be for a period of time fixed by FortisBC Energy not exceeding the number of Years used to calculate the revenue in the Main Extension economic test used in Section 12 (Main Extensions).

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7.2 **Initial Term for Gas Service Other than Residential or Commercial Service** - If a Customer is being provided Gas Service other than Residential or Commercial Service, the initial term of the Service Agreement will be as specified in the Service Agreement or as specified in the appropriate Rate Schedule.

7.3 **Transfer to Residential or Commercial Service** - If a Customer is being provided Gas Service other than Residential or Commercial Service and transfers to Residential or Commercial Service, the initial term of the Service Agreement will be determined by the criteria set out in Section 7.1 (Initial Term for Residential and Commercial Service). A Customer may only transfer Service from one Rate Schedule to another Rate Schedule once a Year.

7.4 **Renewal of Agreement** - Unless

- (a) the Service Agreement or the applicable Rate Schedule specifies otherwise,
- (b) the Service Agreement is terminated under Section 8 (Termination of Service Agreement),
- (c) a refund has been made under Section 5.2 (Refund of Charges), or
- (d) the Service Agreement is for Seasonal Service,

the Service Agreement will be automatically renewed at the end of its initial term from Month to Month for Residential or Commercial Service, and from Year to Year for all other types of Gas Service.

8. Termination of Service Agreement

8.1 **Termination by Customer** - Unless the Service Agreement or applicable Rate Schedule specifies otherwise, the Customer may terminate the Service Agreement after the end of the initial term by giving FortisBC Energy at least 48 Hours notice.

8.2 **Continuing Obligation** - The Customer is responsible for, and must pay for, all Gas delivered to the Premises and is responsible for all damages to and loss of Meter Sets or other FortisBC Energy property on the Premises until the Service Agreement is terminated.

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- 8.3 **Effect of Termination** - The Customer is not released from any previously existing obligations to FortisBC Energy under the Service Agreement by terminating the agreement.
- 8.4 **Sealing Service Line** - After receiving a termination notice for a Premises and after a reasonable period of time during which a new Customer has not applied for Gas Service at the Premises, FortisBC Energy may seal off the Service Line to the Premises.
- 8.5 **Termination by FortisBC Energy** - Unless the Service Agreement or applicable Rate Schedule specifies otherwise, FortisBC Energy may terminate the Service Agreement for any reason by giving the Customer at least 48 Hours notice.

9. Delayed Consumption

- 9.1 **Additional Charges** - If a Customer has not consumed Gas
- (a) within 2 Months after the installation of the Service Line to the Customer's Premises, FortisBC Energy may charge the minimum charge for each billing period after that, and
 - (b) within one Year after installation of the Service Line to the Customer's Premises, FortisBC Energy may charge the Customer the full cost of construction and installation of the Service Line and Meter Set less the total of the minimum charges billed to the Customer to that date.
- 9.2 **Refund of Charges** - If a Customer who has paid the charges for a Service Line under Section 9.1(b) (Additional Charges) consumes Gas in the second Year after installation of the Service Line, FortisBC Energy will refund to the Customer the payments made under Section 9.1(b) (Additional Charges). If a refund is made under Section 9.2 (Refund of Charges), the term of the Service Agreement will be one Year from the time of the Customer begins consuming Gas.

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10. Service Lines

10.1 **Provided Installation** - If FortisBC Energy's Main is adjacent to the Customer's Premises, FortisBC Energy

- (a) will designate the location of the Service Lines on the Customer's Premises and determine the amount of space that must be left unobstructed around them;
- (b) will install for Residential General Service Rate No. 1, Small Commercial Service Rate No. 1, and Small Commercial Service Rate No. 2 Customers the Service Line from the Main to the Meter Set on the Customer's Premises at no additional cost to the Customer provided
 - (i) the Service Line follows the route which is the most suitable to FortisBC Energy,
 - (ii) the estimated direct cost of the Service Line does not exceed the Service Line Cost Allowance set out in the Special Rate Schedule, and
 - (iii) the distance from the front of the Customer's building or machinery to the meter does not exceed 1.5 metres;
- (c) will charge Residential General Service Rate No. 1, Small Commercial Service Rate No. 1, and Small Commercial Service Rate No. 2 Customers for the estimated direct construction costs in excess of the Service Line Cost Allowance set out in the Special Rate Schedule; and
- (d) will perform an economic test for Large Commercial Service Rate No. 1, Large Commercial Service Rate No. 2, Large Commercial Service Rate No. 3 and larger Customers and for any Customers connecting to a Service Header including Vertical Subdivisions, and, when the Profitability Index is less than 0.8, will charge the Customer a contribution sufficient to achieve a minimum Profitability Index of 0.8. The economic test will be discounted cash flow test, similar to the economic test for Main Extensions set out in Section 12.

10.2 **Extended Installation** - The Customer may make application to FortisBC Energy to extend the Service Line beyond that described in Section 10.1 (Provided Installation) (b) (iii). Upon approval by FortisBC Energy and agreement for payment by the Customer of the additional costs, FortisBC Energy will extend the Service Line only if it is on the route approved by FortisBC Energy.

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10.3 **Customer Requested Routing** - If

- (a) FortisBC Energy's Main is adjacent to the Customer's Premises, and
- (b) the Customer requests that its piping or Service Line enter its Premises at a different point of entry or follow a different route from the point or route designated by FortisBC Energy,

FortisBC Energy may charge the Customer for all additional costs as determined by FortisBC Energy to install the Service Line in accordance with the Customer's request.

10.4 **Temporary Service** - A Customer applying for Temporary Service must pay FortisBC Energy in advance for the costs which FortisBC Energy estimates it will incur in the installation and subsequent removal of the facilities necessary to supply Gas to the Customer.

10.5 **Winter Construction** - If an applicant or Customer applies for Service which requires construction when, in FortisBC Energy's opinion, frost conditions may exist, FortisBC Energy may postpone the required construction until the frost conditions no longer exist.

If FortisBC Energy carries out the construction, the applicant or Customer may be required to pay all costs in excess of the Service Line Cost Allowance which are incurred due to the frost conditions.

10.6 **Additional Connections** - If a Customer requests more than one service connection to the Premises, on the same Rate Schedule, FortisBC Energy may install the additional Service Line and may charge the Customer the Application Fee set out in the Special Rate Schedule, as well as the full cost (including overheads) for the Service Line installation. FortisBC Energy will bill the additional Service Connection from a separate meter and account. If the additional Service Connection is requested by a spouse, contractor, employee, agent or partner of the existing Customer, the same charges will apply.

10.7 **Easements and Right-of-Way** - If the Customer is not the owner of the Premises or there is intervening property between the Premises and FortisBC Energy's Mains, the Customer shall obtain for FortisBC Energy from the proper owner, in a form satisfactory to FortisBC Energy, the necessary consent or easement in writing for the installation and maintenance in said Premises and in or about such intervening property, of all necessary facilities for supplying Gas. FortisBC Energy reserves the right to acquire rights-of-way if deemed desirable by FortisBC Energy. The Customer is responsible for the costs of obtaining an easement in favour of FortisBC Energy and in a form specified by FortisBC Energy for the installation, operation and maintenance on the intervening property of all necessary facilities for supplying Gas to the Customer.

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- 10.8 **Ownership** - FortisBC Energy owns the entire Service Line from the Main up to and including the Meter Set, whether it is located inside or outside the Customer's Premises.
- 10.9 **Maintenance** - FortisBC Energy will maintain the Service Line.
- 10.10 **Supply Cut Off** - If the supply of Gas to a Customer's Premises is cut off for any reason, FortisBC Energy is not required to remove the Service Line from the Customer's property or Premises.
- 10.11 **Damage Notice** - The Customer must advise FortisBC Energy immediately of any damage occurring to the Service Line.
- 10.12 **Prohibition** - A Customer must not construct any permanent structure over a Service Line or install any air intake openings or sources of ignition which contravene government regulations, codes or FortisBC Energy's policies.
- 10.13 **No Unauthorized Changes** - No changes, extensions, connections to or replacement of, or disconnection from FortisBC Energy's Mains or Service Lines, shall be made except by FortisBC Energy's authorized employees, contractors or agents or by other persons authorized in writing by FortisBC Energy. Any change in the location of an existing Service Line
- (a) must be approved in writing by FortisBC Energy, and
 - (b) will be made at the expense of the Customer if the change is requested by the Customer or necessitated by the actions of the Customer.
- 10.14 **Site Preparation** - The Customer will be responsible for all necessary site preparation including but not limited to clearing building materials, construction waste, equipment, soil and gravel pile over the proposed service line route to the standards established by FortisBC Energy. FortisBC Energy may recover any additional costs associated with delays or site visits necessitated by inadequate or substandard site preparation by the Customer.

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11. Meter Sets and Metering

- 11.1 **Installation** - In order to bill the Customer for Gas delivered, FortisBC Energy will install one or more Meter Sets on the Customer's Premises. Unless approved by FortisBC Energy, all Meter Sets will be located outside the Customer's Premises at locations designated by FortisBC Energy.
- 11.2 **Measurement** - The quantity of Gas delivered to the Premises will be metered using apparatus approved by Customer and Corporate Affairs Canada. The amount of Gas registered by the Meter Set during each billing period will be converted to Gigajoules in accordance with the *Electricity and Gas Inspection Act* and rounded to the nearest one-tenth of a Gigajoule.
- 11.3 **Testing Meters** - If a Customer applies for the testing of a Meter Set and
- (a) the Meter Set is found to be recording incorrectly, the cost of removing, replacing and testing the meter will be borne by FortisBC Energy subject to Section 22.4 (Responsibility for Meter Set), and
 - (b) if the testing indicates that the Meter Set is recording correctly, as defined by the *Electricity and Gas Inspection Act*, the Customer must pay FortisBC Energy for the cost of removing, replacing and testing the Meter Set as set out in the Special Rate Schedule.
- 11.4 **Defective Meter Set** - If a Meter Set ceases to register, FortisBC Energy will estimate the volume of Gas delivered to the Customer according to the procedures set out in Section 16.6 (Incorrect Register).
- 11.5 **Protection of Equipment** - The Customer must take reasonable care of and protect all Meter Sets and related equipment on the Customer's Premises. The Customer's responsibility for expense, risk and liability with respect to all Meter Sets and related equipment is set out in Section 22.4 (Responsibility for Meter Set).
- 11.6 **No Unauthorized Changes** - No Meter Sets or related equipment will be installed, connected, moved or disconnected except by FortisBC Energy's authorized employees, contractors or agents or by other Persons with FortisBC Energy's written permission.

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- 11.7 **Removal of Meter Set** - As the termination of a Service Agreement, FortisBC Energy may disconnect or remove a Meter Set from the Premises if a new Customer is not expected to apply to Service for the Premises within a reasonable time.
- 11.8 **Customer Requested Meter Relocation or Modifications** - Any change in the location of a Meter Set or related equipment, or any modifications to the Meter Set, including automatic and/or remote meter reading
- (a) must be approved by FortisBC Energy in writing, and
 - (b) will be made at the expense of the Customer if the change or modification is requested by the Customer or necessitated by the actions of the Customer. If any of the changes to the Meter Set or related equipment require FortisBC Energy to incur ongoing incremental operating and maintenance costs, FortisBC Energy may recover these costs from the Customer through a Monthly charge.
- 11.9 **Meter Set Consolidations** - A Customer who has more than one Meter Set at the same Premises or adjacent Premises may apply to FortisBC Energy to consolidate its Meter Sets. If FortisBC Energy approves the Customer's application, the Customer will be charged the value for all plant abandoned except for Meter Sets that are removed to facilitate Meter Set consolidations. In addition, the Customer will be charged FortisBC Energy's full costs, including overheads, for any abandonment, Meter Set removal and alteration downstream of the new Meter Set. If a new Service Line is required, FortisBC Energy will charge the Customer the Application Fee. In addition, the Customer will be required to sign a release waiving FortisBC Energy's liability for any damages should the Customer decide to re-use the abandoned plant downstream of the new Meter Set.
- 11.10 **Delivery Pressure** - The normal Delivery Pressure is 1.75 kPa. FortisBC Energy may charge Customers who require Delivery Pressure at other than the normal Delivery Pressure the additional costs associated with providing other than the normal Delivery Pressure.
- 11.11 **Customer Requested Mobile Service** - The Customer will be charged the cost of providing temporary mobile Gas Service if the request for such Service is made by or brought on by the actions of the Customer.

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12. Main Extensions

- 12.1 **System Expansion** - FortisBC Energy will make extensions of its Gas distribution system in accordance with system development requirements.
- 12.2 **Ownership** - All extensions of the Gas distribution system will remain the property of FortisBC Energy.
- 12.3 **Economic Test** - All applications to extend the Gas distribution system to one or more new Customers will be subject to an economic test approved by the British Columbia Utilities Commission. The economic test will be a discounted cash flow analysis of the projected revenue and costs associated with the Main Extension. The Main Extension will be deemed to be economic and will be constructed if the results of the economic test indicate a Profitability Index of 0.8 or greater for an individual Main Extension.
- 12.4 **Revenue** - The projected revenue to be used in the economic test will be determined by FortisBC Energy by
- (a) estimating the number of Customers to be served by the Main Extension;
 - (b) establishing consumption estimates for each Customer;
 - (c) projecting when the Customer will be connected to the Main Extension; and
 - (d) applying the appropriate revenue margins for each Customer's consumption.

The revenue projection will take into consideration the estimated number and type of Gas appliances used and the effect variations in weather conditions have on consumption. Customers who intend to install both high efficiency gas fired space (namely an Energy Star® rated furnace or boiler) and water heating appliances (tankless water heaters, or water heaters with efficiency rating of 78 percent or greater), will receive a credit of 10 percent of the volume otherwise used for both appliances. Customers who intend to install both high efficiency gas fired space and water heating appliances and attain a minimum of LEED™ (Leadership in Energy and Environmental Design) General Certification will receive a credit of 15 percent of the volume otherwise used for both. In addition, the projected revenue from Application Fees will be included. Only those Customers expected to connect to the Main Extension within 5 Years of its completion will be considered.

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12.5 **Costs** - The total costs to be used in the economic test include, without limitation

- (a) the full labour, material, and other costs necessary to serve the new Customers including Mains, Service Lines, Meter Sets and any related facilities such as pressure reducing stations and pipelines;
- (b) the appropriate allocation of FortisBC Energy's overheads associated with the construction of the Main Extension;
- (c) the incremental operating and maintenance expenses necessary to serve the Customers; and
- (d) an allocation of system improvement costs.

In addition to the costs identified, the economic test will include applicable taxes and the appropriate return on investment as approved by the British Columbia Utilities Commission.

In cases where a larger Gas distribution Main is installed to satisfy future requirements, the difference in cost between the larger Main and the smaller Main necessary to serve the Customers supporting the application may be eliminated from the economic test.

12.6 **Contributions in Aid of Construction** - If the economic test results indicate a Profitability Index of less than 0.8, the Main Extension may proceed provided that the shortfall in revenue is eliminated by contributions in aid of construction by the Customers to be served by the Main Extension, their agents or other parties, or if there are non-financial factors offsetting the revenue shortfall that are deemed to be acceptable by the British Columbia Utilities Commission.

FortisBC Energy may finance the contributions in aid of construction for Customers. Contributions of less than \$100 per Customer may be waived by FortisBC Energy.

12.7 **Contributions Paid by Connecting Customers** - The total required contribution will be paid by the Customers connecting at the time the Main Extension is built. FortisBC Energy will collect contributions from all Customers connecting during the first five Years after the Main Extension is built. As additional contributions are received from Customers connecting to the Main Extension, partial refunds will be made to those Customers who had previously made contributions. At the end of the fifth Year, all Customers will have paid an equal contribution, after reconciliation and refunds.

For larger Main Extension projects, FortisBC Energy may use the Main Extension contribution agreement for initial contributions. Customers will be billed the contribution amount after the Main Extension is built.

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- 12.8 **Refund of Contributions** - A review will be performed annually, or more often at FortisBC Energy's discretion, to determine if a refund is payable to all Customers who have contributed to the extension.

If the review of contributions indicates that refunds are due,

- (a) individual refunds greater than \$100 will be paid at the time of the review;
- (b) individual refunds less than \$100 will be held until a subsequent review increases the refund payable over \$100, or until the end of the five-Year contributory period;
- (c) no interest will be paid on contributions that are subsequently refunded;
- (d) the total amount of refunds issued will not be greater than the original amount of the contribution; and
- (e) if, after making all reasonable efforts, FortisBC Energy is unable to locate a Customer who is eligible for a refund, the Customer will be deemed to have forfeited the contribution refund and the refund will be credited to the other Customers who contributed towards the Main Extension.

- 12.9 **Extensions to Contributory Extensions** - When a Main Extension is attached to an existing contributory Main Extension within the five-Year contributory period for the existing extension, the new extension will be evaluated using the Main Extension test to determine whether a contribution is required. A prorated portion of the total contribution for the existing contributory extension will be assigned to the new extension on the basis of expected use, point of connection, and other factors. Any contributions toward the cost of the existing extension from Customers on the new extension will be used to provide partial refunds to the contributing Customers on the existing extension. The total refunds issued will not exceed the total amount of contributions paid by Customers on the existing extension.

- 12.10 **Security** - In those situations where the financial viability of a Main Extension is uncertain, FortisBC Energy may require a security deposit in the form of cash or an equivalent form of security acceptable to FortisBC Energy.

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12A. Alternative Energy Extensions

- 12A.1 **System Expansion** - FortisBC Energy will make extensions to the FortisBC Energy system using technology that produces alternative energy, in accordance with the provisions of this Section. The alternative energy extensions include geo-exchange, solar-thermal and district energy systems which are described below.

Geo-exchange systems, also referred to as geo-thermal systems, earth exchange systems or ground and water source heat pumps, utilize the latent heat energy contained in near surface layers of the earth, ground water and surface water. A subsurface piping system contains a liquid that absorbs heat from the surrounding material and delivers it to a central heat exchanger. High efficiency heat pumps convert this latent energy into hot water or steam contained in a separate piping system that can then deliver the heat energy to where it is required for space heating and hot water uses. Centralized equipment is usually contained within specifically designed mechanical room that serves the entire development. The heat exchanger is reversed to provide space cooling, removing heat from the building(s) and returning it to the subsurface substrate.

Solar-thermal water heating systems, also called solar hybrid water heating systems, are a system of solar collection tubes and piping capture heat energy from the sun's rays and deliver it to a central heat exchanger, where it is converted to domestic hot water and distributed in a manner similar to that described above for geo-exchange systems. The solar collection tubes are located outside the building or buildings, typically on the roof, while centralized equipment is again housed in a specifically designed mechanical room.

District energy systems employ a range of energy technologies and sources to deliver piped heating (steam or hot water) and/or cooling (cool water) to multiple buildings and Customers within a neighbourhood from a central plant location or locations.

- 12A.2 **Ownership** - All alternative energy extensions will remain the property of FortisBC Energy.
- 12A.3 **Cost of Service Model** - All applications by Customers for Service using an alternative energy extension will be subject to review using a cost of service model. The cost of service model will determine the rate that a Customer will pay for the Service associated with the alternative energy extension. Service will be provided under the terms and conditions of the Service Agreement between FortisBC Energy and the Customer.

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12A.4 **Projected Energy Consumption / Number of Customers** - The projected energy consumption and number of Customers to be used in the cost of service model will be determined by FortisBC Energy by

- (a) estimating the number of Customers to be served by the alternative energy extension;
- (b) if applicable, establishing consumption estimates for each Customer; and
- (c) projecting when the Customer will be connected to the alternative energy extension.

If applicable, the revenue projection will take into consideration the estimated number and type of thermal appliances used and the effect variations in weather conditions throughout Vancouver Island have on consumption. All Customers expected to connect to the alternative energy extension will be considered in the cost of service model.

12A.5 **Costs** - The total costs to be used in the cost of service model include, without limitation

- (a) the full labour, material, and other costs necessary to serve the new Customers less any contributions in aid of construction by the Customers or third parties, grants, tax credits, or non-financial factors offsetting the full costs that are deemed to be acceptable by the British Columbia Utilities Commission;
- (b) the appropriate allocation of FortisBC Energy's overheads associated with the construction of the alternative energy extension;
- (c) depreciation expense related to the capital equipment associated with the alternative energy extension; and
- (d) the incremental operating and maintenance expenses necessary to serve the Customers.

In addition to the costs identified, the cost of service model will include applicable taxes and the appropriate return on investment as approved by the British Columbia Utilities Commission.

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13. Interruption of Service

13.1 **Regular Supply** - FortisBC Energy will use its best efforts to provide the constant delivery of Gas and the maintenance of unvaried pressures.

13.2 **Right to Restrict** - FortisBC Energy may require any of its Customers, at all times, or between specified Hours, to discontinue, interrupt or reduce to a specified degree or quantity, the delivery of Gas for any of the following purposes or reasons

- (a) in the event of a temporary or permanent shortage of Gas, when actual or perceived by FortisBC Energy,
- (b) in the event of a breakdown or failure of the supply of Gas to FortisBC Energy or of FortisBC Energy's Gas storage, distribution, or transmission systems,
- (c) in order to comply with any legal requirements
- (d) in order to make repairs or improvements to any part of FortisBC Energy's Gas distribution, storage or transmission systems,
- (e) in the event of fire, flood, explosion or other emergency in order to safeguard Persons or property against the possibility of injury or damage.

13.3 **Notice** - FortisBC Energy will, to the extent practicable, give notice of its requirements and removal of its requirements under Section 13.2 (Right to Restrict) to its Customers by

- (a) newspaper, radio or television announcement, or
- (b) notice in writing that is
 - (i) sent through the mail to the Customer's billing address,
 - (ii) left at the Premises where Gas is delivered,
 - (iii) served personally on a Customer, or
 - (iv) sent by facsimile or other electronic means to the Customer, or
- (c) oral communication.

13.4 **Failure to Comply** - If, in the opinion of FortisBC Energy, a Customer has failed to comply with any requirement under Section 13.2 (Right to Restrict), FortisBC Energy may, after providing notice to the Customer in the manner specified in Section 13.3 (Notice), discontinue Service to the Customer.

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14. Access to Premises and Equipment

- 14.1 **Access to Premises** - FortisBC Energy must have a right of entry to the Customer's Premises. The Customer must provide free access to its Premises at all reasonable times to FortisBC Energy's authorized employees, contractors and agents for the purpose of reading, testing, repairing or removing meters and ancillary equipment, turning Gas on or off, completing system leakage surveys, stopping leaks, examining pipes, connections, fittings and appliances and reviewing the use made of Gas delivered to the Customer, or for any other related purpose which FortisBC Energy requires.
- 14.2 **Access to Equipment** - The Customer must provide clear access to FortisBC Energy's equipment. The equipment installed by FortisBC Energy on the Customer's Premises will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of Service.

15. Promotions and Incentives

- 15.1 **Promotion of Gas Appliances** - FortisBC Energy may promote, sell, rent, lease, or finance natural Gas vehicle equipment, Gas appliances and related accessories and Services on a cash or finance plan basis and make reasonable charges for these Services.

16. Billing

- 16.1 **Basis for Billing** - FortisBC Energy will bill the Customer in accordance with the Customer's Service Agreement, the Rate Schedule under which the Customer is provided Service, and the fees and charges contained in the Standard Terms and Conditions.
- 16.2 **Meter Measurement** - FortisBC Energy will measure the quantity of Gas delivered to a Customer using a Meter Set and the starting point for measuring delivered quantities during each billing period will be the finishing point of the preceding billing period.

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- 16.3 **Multiple Meters** - Gas Service to each Meter Set will be billed separately for Customers who have more than one Meter Set on their Premises.
- 16.4 **Estimates** - For billing purposes, FortisBC Energy may estimate the Customer's meter readings if, for any reason, FortisBC Energy does not obtain a meter reading.
- 16.5 **Estimated Final Reading** - If a Service Agreement is terminated under Section 8.1 (Termination by Customer), FortisBC Energy may estimate the final meter reading for final billing.
- 16.6 **Incorrect Register** - If any Meter Set has failed to measure the delivered quantity of Gas correctly, FortisBC Energy may estimate the meter reading for billing purposes, subject to Section 17 (Back-Billing).
- 16.7 **Bills Issued** - FortisBC Energy may bill a Customer as often as FortisBC Energy considers necessary but generally will bill on a Monthly basis.
- 16.8 **Bill Due Dates** - The Customer must pay FortisBC Energy's bill for Service on or before the due date shown on the bill which will be
- (a) the first business Day after the twenty-first calendar Day following the billing date, or
 - (b) such other period as may be agreed upon by the Customer and FortisBC Energy.
- 16.9 **Historical Billing Information** - Customers who request historical billing information may be charged the cost of processing and providing the information.

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17. Back-Billing

- 17.1 **When Required** - FortisBC Energy may, in the circumstances specified herein, charge, demand, collect or receive from its Customers in respect of a regulated Service rendered hereunder a greater or lesser compensation than that specified in the subsisting schedules applicable to that Service.

In the case of a minor adjustment to a Customer's bill, such as an estimated bill or an equal payment plan billing, such adjustments do not require back-billing treatment to be applied.

- 17.2 **Definition** - Back-billing means the rebilling by FortisBC Energy for Services rendered to a Customer because the original billings are discovered to be either too high (over-billed) or too low (under-billed). The discovery may be made by either the Customer or FortisBC Energy, and may result from the conduct of an inspection under provisions of the federal statute, the *Electricity and Gas Inspection Act*. The cause of the billing error may include any of the following non-exhaustive reasons or combination thereof:

- (a) stopped meter
- (b) metering equipment failure
- (c) missing meter now found
- (d) switched meters
- (e) double metering
- (f) incorrect meter connections
- (g) incorrect use of any prescribed apparatus respecting the registration of a meter
- (h) incorrect meter multiplier
- (i) the application of an incorrect rate
- (j) incorrect reading of meters or data processing
- (k) tampering, fraud, theft or any other criminal act.

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- 17.3 **Application of Act** - Whenever the dispute procedure of the *Electricity and Gas Inspection Act* is invoked, the provisions of that Act apply, except those which purport to determine the nature and extent of legal liability flowing from metering or billing errors.
- 17.4 **Billing Basis** - Where metering or billing errors occur and the dispute procedure under the *Electricity and Gas Inspection Act* is not invoked, the consumption and demand will be based upon the records of FortisBC Energy for the Customer, or the Customer's own records to the extent they are available and accurate, or if not available, reasonable and fair estimates may be made by FortisBC Energy. Such estimates will be on a consistent basis within each Customer class or according to a contract with the Customer, if applicable.
- 17.5 **Tampering / Fraud** - If there are reasonable grounds to believe that the Customer has tampered with or otherwise used FortisBC Energy's Service in an unauthorized way, or there is evidence of fraud, theft or other criminal acts, or if a reasonable Customer should have known of the under-billing and failed to promptly bring it to the attention of FortisBC Energy, then the extent of back-billing will be for the duration of the unauthorized use, subject to the applicable limitation period provided by law, and the provisions of Sections 17.8 (Under-Billing) to 17.11 (Changes in Occupancy) below, do not apply.
- In addition, the Customer is liable for the direct (unburdened) administrative costs incurred by FortisBC Energy in the investigation of any incident of tampering, including the direct costs of repair, or replacement of equipment.
- Under-billing resulting from circumstances described above will bear interest at the rate normally charged by FortisBC Energy on unpaid accounts from the date of the original under-billed invoice until the amount under-billed is paid in full.
- 17.6 **Remedying Problem** - In every case of under-billing or over-billing, the cause of the error will be remedied without delay, and the Customer will be promptly notified of the error and of the effect upon the Customer's ongoing bill.
- 17.7 **Over-Billing** - In every case of over-billing, FortisBC Energy will refund to the Customer all money incorrectly collected for the duration of the error, subject to the applicable limitation period provided by law. Simple interest, computed at the short-term bank loan rate applicable to FortisBC Energy on a Monthly basis, will be paid to the Customer.

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17.8 **Under-Billing** - Subject to Section 17.5 (Tampering / Fraud), above, in every case of under-billing, FortisBC Energy will back-bill the Customer for the shorter of

- (a) the duration of the error; or
- (b) six Months for Residential or Commercial Service; and
- (c) one Year for all other Customers or as set out in a special or individually negotiated contract with FortisBC Energy.

17.9 **Terms of Repayment** - Subject to Section 17.5 (Tampering / Fraud), above, in all cases of under-billing, FortisBC Energy will offer the Customer reasonable terms of repayment. If requested by the Customer, the repayment term will be equivalent in length to the back-billing period. The repayment will be interest free and in equal instalments corresponding to the normal billing cycle. However, delinquency in payment of such instalments will be subject to the usual late payment charges.

17.10 **Disputed Back-Bills** - Subject to Section 17.5 (Tampering / Fraud), above, if a Customer disputes a portion of a back-billing due to under-billing based upon either consumption, demand or duration of the error, FortisBC Energy will not threaten or cause the discontinuance of Service for the Customer's failure to pay that portion of the back-billing, unless there are no reasonable grounds for the Customer to dispute that portion of the back-billing. The undisputed portion of the bill shall be paid by the Customer and FortisBC Energy may threaten or cause the discontinuance of Service if such undisputed portion of the bill is not paid.

17.11 **Changes in Occupancy** - Subject to Section 17.5 (Tampering / Fraud), above, back-billing in all instances where changes of occupancy have occurred, FortisBC Energy will make a reasonable attempt to locate the former Customer. If, after a period of one Year, such Customer cannot be located, the applicable over or under billing will be cancelled.

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18. Equal Payment Plan

- 18.1 **Definitions** - In this Section, "equal payment plan period" means a period of twelve consecutive Months commencing with a normal meter reading date at the Customer's Premises.
- 18.2 **Application for Plan** - A Customer may apply to FortisBC Energy by mail, by telephone, by facsimile or by other electronic means to pay fixed Monthly instalments for Gas delivered to the Customer during the equal payment plan period. Acceptance of the application will be subject to FortisBC Energy finding the Customer's credit to be satisfactory.
- 18.3 **Monthly Instalments** - FortisBC Energy will fix Monthly instalments for a Customer so that the total sum of all the instalments to be paid during the equal payment plan period will equal the total amount payable for the Gas which FortisBC Energy estimates the Customer will consume during the equal payment plan period.
- 18.4 **Changes in Instalments** - FortisBC Energy may, at any time, increase or decrease the amount of Monthly instalments payable by a Customer in light of new consumption information or changes to the Rate Schedules or the Standard Terms and Conditions.
- 18.5 **End of Plan** - Participation in the equal payment plan may be ended at any time
- (a) by the Customer giving 5 Days' notice to FortisBC Energy, or
 - (b) by FortisBC Energy, without notice, if the Customer has not paid the Monthly instalments as required.
- 18.6 **Payment Adjustment** - At the earlier of the end of the equal payment plan period for a Customer or the end of the Customer's participation in the plan under Section 18.5 (End of Plan), FortisBC Energy will
- (a) compare the amount which is payable by the Customer to FortisBC Energy for Gas actually consumed on the Customer's Premises from the beginning of the equal payment plan period to the sum of the Monthly instalments billed to the Customer from the beginning of the equal payment plan period, and
 - (b) pay to the Customer or credit to the Customer's account any excess amount or bill the Customer for any deficit amount payable.

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19. Late Payment Charge

- 19.1 **Late Payment Charge** - If the amount due for Service or Service Related Charges on any bill has not been received in full by FortisBC Energy or by an agent acting on behalf of FortisBC Energy on or before the due date specified on the bill, and the unpaid balance is \$15 or more, FortisBC Energy may include in the next bill to the Customer the late payment charge specified in the Special Rate Schedule.
- 19.2 **Equal Payment Plan** - If the Monthly instalment, Service Related Charges and payment adjustment as defined under Section 18.6 (Payment Adjustment) due from a Customer billed under the equal payment plan set out in Section 18 (Equal Payment Plan) have not been received by FortisBC Energy or by an agent acting on behalf of FortisBC Energy on or before the due date specified on the bill, FortisBC Energy may include in the next bill to the Customer the late payment charge in accordance with Section 19.1 (Late Payment Charge) on the amount due.

20. Returned Cheque Charge

- 20.1 **Dishonoured Cheque Charge** - If a cheque received by FortisBC Energy from a Customer in payment of a bill is dishonoured by the Customer's financial institution for any reason other than clerical error, FortisBC Energy may include a charge specified in the Special Rate Schedule in the next bill to the Customer for processing the returned cheque whether or not the Service has been disconnected.

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21. Discontinuance of Service and Refusal of Service

21.1 **Discontinuance With Notice and Refusal Without Notice** - FortisBC Energy may discontinue Service to a Customer with at least 48 Hours written notice to the Customer or Customer's Premises, or may refuse Service for any of the following reasons:

- (a) the Customer has not fully paid FortisBC Energy's bill with respect to Services on or before the due date,
- (b) the Customer or applicant has failed to pay any required security deposit, equivalent form of security, or post a guarantee or required increase in it by the specified date,
- (c) the Customer or applicant has failed to pay FortisBC Energy's bill in respect of another Premises on or before the due date,
- (d) the Customer or applicant occupies the Premises with another occupant who has failed to pay FortisBC Energy's bill, security deposit, or required increase in the security deposit in respect of another Premises which was occupied by that occupant and the Customer at the same time,
- (e) the Customer or applicant is in receivership or bankruptcy, or operating under the protection of any insolvency legislation and has failed to pay any outstanding bills to FortisBC Energy,
- (f) the Customer has failed to apply for Service, or
- (g) the land or portion thereof on which FortisBC Energy's facilities are, or are proposed to be located contains contamination which FortisBC Energy, acting reasonably, determines has adversely affected or has the potential to adversely effect FortisBC Energy's facilities, or the health or safety of its workers or which may cause FortisBC Energy to assume liability for clean up and other costs associated with the contamination. If FortisBC Energy, acting reasonably, determines that contamination is present it is the obligation of the occupant of the land to satisfy FortisBC Energy that the contamination does not have the potential to adversely affect FortisBC Energy or its workers. For the purposes of this Section, "contamination" means the presence in the soil, sediment or groundwater of special waste or another substance in quantities or concentrations exceeding criteria, standards or conditions established by the British Columbia Ministry of Environment or as prescribed by present and future laws, rules, regulations and orders of any other legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over the environment.

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21.2 **Discontinuance or Refusal Without Notice** - FortisBC Energy may discontinue without notice or refuse the supply of Gas or Service to a Customer for any of the following reasons:

- (a) the Customer or applicant has failed to provide reference information and identification acceptable to FortisBC Energy, when applying for Service or at any subsequent time on request by FortisBC Energy,
- (b) the Customer has defective pipe, appliances, or Gas fittings in the Premises,
- (c) the Customer uses Gas in such a manner as in FortisBC Energy's opinion
 - (i) may lead to a dangerous situation, or
 - (ii) may cause undue or abnormal fluctuations in the Gas pressure in FortisBC Energy's Gas transmission or distribution system,
- (d) the Customer fails to make modifications or additions to the Customer's equipment which have been required by FortisBC Energy in order to prevent the danger or to control the undue or abnormal fluctuations described under paragraph (c),
- (e) the Customer breaches any of the terms and conditions upon which Service is provided to the Customer by FortisBC Energy,
- (f) the Customer fraudulently misrepresents to FortisBC Energy its use of Gas or the volume delivered,
- (g) the Customer vacates the Premises,
- (h) the Customer's Service Agreement is terminated for any reason, or
- (i) the Customer stops consuming Gas on the Premises.

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22. Limitations on Liability

22.1 **Responsibility for Delivery of Gas** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss, damage, costs or injury (including death) incurred by any Customer or any Person claiming by or through the Customer caused by or resulting from, directly or indirectly, any discontinuance, suspension or interruption of, or failure or defect in the supply or delivery or transportation of, or refusal to supply, deliver or transport Gas, or provide Service, unless the loss, damage, costs or injury (including death) is directly attributable to the gross negligence or wilful misconduct of FortisBC Energy, its employees, contractors or agents provided, however, that FortisBC Energy, its employees, contractors and agents are not responsible or liable for any loss of profit, loss of revenues, or other economic loss even if the loss is directly attributable to the gross negligence or wilful misconduct of FortisBC Energy, its employees, contractors or agents.

22.2 **Responsibility Before Delivery Point** - The Customer is responsible for all expense, risk and liability with respect to

- (a) the use or presence of Gas before it passes the Delivery Point in the Customer's Premises, and
- (b) FortisBC Energy-owned facilities serving the Customer's Premises

if any loss or damage caused by or resulting from failure to meet that responsibility is caused, or contributed to, by the act or omission of the Customer or a Person for whom the Customer is responsible

22.3 **Responsibility After Delivery Point** - The Customer is responsible for all expense, risk and liability with respect to the use or presence of Gas after it passes the Delivery Point.

22.4 **Responsibility for Meter Set** - The Customer is responsible for all expense, risk and liability with respect to all Meter Sets or related equipment at the Customer's Premises unless any loss or damage is

- (a) directly attributable to the negligence of FortisBC Energy, its employees, contractors or agents, or
- (b) caused by or resulting from a defect in the equipment.

The Customer must prove that negligence or defect. For greater certainty and without limiting the generality of the foregoing, the Customer is responsible for all expense, risk and liability arising from any measures required to be taken by FortisBC Energy in order to

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ensure that the Meter Sets or related equipment on the Customer's Premises are adequately protected, as well as any updates or alterations to the Service Line(s) on the Customer's Premises necessitated by changes to the grading or elevation of the Customer's Premises or obstructions placed on such Service Line(s).

- 22.5 **Customer Indemnification** - The Customer will indemnify and hold harmless FortisBC Energy, its employees, contractors and agents from all claims, loss, damage, costs or injury (including death) suffered by the Customer or any Person claiming by or through the Customer or any third party caused by or resulting from the use of Gas by the Customer or the presence of Gas in the Customer's Premises, or from the Customer or Customer's employees, contractors or agents damaging FortisBC Energy's facilities.

23. Miscellaneous Provisions

- 23.1 **Taxes** - The rates and charges specified in the applicable Rate Schedules do not include any local, provincial or federal taxes, assessments or levies imposed by any competent taxing authorities which FortisBC Energy may be lawfully authorized or required to add to its normal rates and charges or to collect from or charge to the Customer.
- 23.2 **Conflicting Terms and Conditions** - Where anything in these Standard Terms and Conditions conflicts with special terms or conditions specified under an applicable Rate Schedule or Service Agreement, then the terms or conditions specified under the Rate Schedule or Service Agreement govern.
- 23.3 **Authority of Agents of FortisBC Energy** - No employee, contractor or agent of FortisBC Energy has authority to make any promise, agreement or representation not incorporated in these Standard Terms and Conditions or in a Service Agreement, and any such unauthorized promise, agreement or representation is not binding on FortisBC Energy.
- 23.4 **Additions, Alterations and Amendments** - The Standard Terms and Conditions, fees and charges, and Rate Schedules may, with the approval of the British Columbia Utilities Commission, be added to, cancelled, altered or amended by FortisBC Energy from time to time.
- 23.5 **Headings** - The headings of the Sections set forth in the Standard Terms and Conditions are for convenience of reference only and will not be considered in any interpretation of the Standard Terms and Conditions.

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PART B
TRANSMISSION TRANSPORTATION
SERVICE

CANCELLER PER BCUC ORDER NO. G-XX-12

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1. Definitions and Interpretation

1.1 Except where the context otherwise requires, the following terms when used in this tariff or in a Service Agreement shall have the following meanings:

- (a) **Authorized Quantity** - means the quantity of Gas, in gigajoules, authorized by FEVI for delivery to Shipper at the Delivery Points on any Day pursuant to Section 3.3 or Section 3.5.
- (b) **BCUC** - means the British Columbia Utilities Commission constituted pursuant to the *Utilities Commission Act, R.S.B.C. 1996 c.473*, or such successor or other entity as may be designated according to the laws of the Province of the British Columbia to carry out the functions of the BCUC in respect of the regulation of public utilities.
- (c) **Business Day** - means any day, excluding Saturdays, Sundays and statutory holidays.
- (d) **Commodity Toll** - means, in respect of any Firm Transportation Service or Interruptible Transportation Service, the commodity toll, expressed in dollars per gigajoule, specified for that service in the applicable Service Agreement.
- (e) **Contract Demand** - means the maximum quantity of Gas that FEVI is obligated to deliver on any Day pursuant to a Service Agreement providing for Firm Transportation Service.
- (f) **cubic metre or m³** - means the volume of Gas which occupies 1 cubic metre when such Gas is at temperature of 15°C and at an absolute pressure of 101.325 kilopascals.
- (g) **Curtailment Notice** - means a notice given by FEVI to Shipper under Section 2.4 limiting the quantities of Gas which may be delivered to Shipper at one or more of the Delivery Points on any Day.
- (h) **Day** - means a period of 24 consecutive hours beginning and ending at 0800 PST.
- (i) **DST** - means Pacific Daylight Savings Time.
- (j) **Delivered Quantity** - means in respect of any Day the total quantity of Gas, in gigajoules, delivered to Shipper at the Delivery Points.

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- (k) **Delivery Point** - means the point immediately downstream of the outlet flange of FEVI's meter installed at each point where the FEVI System connects with the facilities of Shipper as specified for each Shipper in the applicable Service Agreement.
- (l) **Demand Toll** - means, in respect of any Firm Transportation Service, the demand toll, expressed in dollars per gigajoule of Contract Demand per Day specified for that service in the applicable Service Agreement.
- (m) **FEI** - means FortisBC Energy Inc.
- (n) **FEI System** - means the FEI gas pipeline and distribution system extending from a point of connection with the Westcoast System near Huntingdon, British Columbia to a point of connection with the FEVI System in Coquitlam, British Columbia.
- (o) **FEVI** - shall mean FortisBC Energy (Vancouver Island) Inc.
- (p) **FEVI System** - means the gas transmission pipeline and related facilities owned and operated by FEVI, extending from a point of connection with the FEI System in Coquitlam, British Columbia to various Delivery Points on the Sunshine Coast and Vancouver Island.
- (q) **Firm Transportation Service** - means the obligation of FEVI to provide Gas transportation service without interruption or curtailment.
- (r) **Force Majeure** - has the meaning ascribed to it in Section 15.2.
- (s) **Gas** - means the residue remaining after natural gas 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;
 - (ii) the compression, regulation, cooling, cleaning or any other chemical or physical process to such extent as may be required in production, gathering, transmission, storage, removal from storage and delivery, provided that no diluents such as air or nitrogen are added; and
 - (iii) the addition of odorant by FEI.
- (t) **Gas Inspection Act** - means the *Electricity and Gas Inspection Act, R.S.C. 1985, c. E4* as amended, and includes the regulations enacted thereunder and in effect from time to time.
- (u) **gigajoule or GJ** - means 1,000,000,000 joules.

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- (v) **Interruptible Toll** - means, in respect of any Interruptible Transportation Service, the interruptible toll, expressed in dollars per gigajoule, specified for that service in the applicable Service Agreement.
- (w) **Interruptible Transportation Service** - means, subject to the availability of capacity on the FEVI System, the obligation of FEVI to provide Gas transportation service at Shipper's request which is subject to curtailment or interruption.
- (x) **joule** - means the amount of work done when the point of application of a force of 1 Newton is displaced a distance of 1 meter in the direction of the force.
- (y) **megajoule or MJ** - means 1,000,000 joules.
- (z) **Month** - means the period of time commencing at 0800 PST on the first Day of any month and ending at 0800 PST on the first Day of the next succeeding month.
- (aa) **Monthly Imbalance** - means in respect of Shipper, that quantity of Gas specified in a monthly system operations report provided to Shipper by FEVI pursuant to Section 5.1.
- (bb) **PST** - means Pacific Standard Time.
- (cc) **Party or Parties** - means, with respect to a Service Agreement, FEVI and/or Shipper.
- (dd) **Peaking Gas Management Agreement** - means an agreement between two or more Shippers providing for the reallocation of deliveries of Gas to one or more of such Shippers.
- (ee) **Person** - means and includes an individual, a partnership, a body corporate, a joint venture, a trust, an unincorporated syndicate, association or organization, and a government and any governmental agency or other entity.
- (ff) **petajoule or PJ** - means 1,000,000 gigajoules.
- (gg) **Planned Maintenance** - means any maintenance, repairs, improvements, expansion or other work performed on the FEVI System which is undertaken by FEVI after giving at least 14 days notice of such work to Shipper.
- (hh) **Prime Rate** - means the rate of interest per annum established and reported by the Bank of Montreal to the Bank of Canada from time to time as a reference rate of interest for the determination of interest rates that it charges to customers of varying degrees of creditworthiness in Canada for Canadian dollar loans made by it in Canada and designated by it as its "Prime Rate", as to which a certificate of the manager or acting manager of the main branch of the Bank of Montreal in Vancouver, British Columbia shall (in the absence of manifest error) be conclusive evidence.

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- (ii) **Receipt Point** - means the points where the FEI System connects with other pipelines at Huntingdon, British Columbia.
- (jj) **Receipt Quantity** - means in respect of any Day the total quantity of Gas, in gigajoules, delivered by Shipper to FEVI at the Receipt Point.
- (kk) **Service Agreement** - means a gas transportation service agreement under which FEVI provides Firm Transportation Service and/or Interruptible Transportation Service to Shipper.
- (ll) **Shipper** - means any person who enters into a Service Agreement with FEVI.
- (mm) **System Gas** - means that quantity of Gas which FEVI requires:
- (i) for fuel and other operating uses and for lost and unaccounted for Gas incurred in the operation and maintenance of the FEVI System, other than the Gas cost of which is capitalized as part of the cost of a pipeline construction or repair project; and
 - (ii) for any allowance for compressor fuel and for lost and unaccounted for Gas which FEVI is required to supply to FEI pursuant to the Wheeling Agreement.
- (nn) **Tariff** - means Part B of FEVI's Tariff concerning gas transportation service, as amended or supplemented from time to time and accepted for filing by the BCUC.
- (oo) **Westcoast** - means Westcoast Energy Inc.
- (pp) **Westcoast General Terms and Conditions** - means Westcoast's General Terms and Conditions – Service, as approved by or filed with the National Energy Board and in effect from time to time.
- (qq) **Westcoast System** - means the gas gathering, processing and transportation facilities owned by Westcoast within British Columbia, Alberta, the Yukon and the Northwest Territories.
- (rr) **Wheeling Agreement** - means the agreement dated July 3, 1989 between FEI and FEVI, as amended from time to time and accepted for filing by the BCUC.
- (ss) **Year** - means a period of 12 consecutive Months beginning at 0800 PST on January 1 and ending at 0800 PST on the next succeeding January 1.
- (tt) **10³m³** - means 1,000 cubic metres of gas.

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- 1.2 In Service Agreements and this Tariff 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 Any words or phrases that are not defined in this Tariff or in a Service Agreement and that have a generally accepted meaning in the custom usage of the natural gas industry in western Canada shall have that meaning in this Tariff and in a Service Agreement.
- 1.4 The division of Service Agreements and this Tariff into Sections, the provision of an index and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of Service Agreements or this Tariff.
- 1.5 Service Agreements and this Tariff shall be construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein and Service Agreements shall be treated in all respects as contracts made, entered into and to be wholly performed in British Columbia by parties domiciled and resident therein.
- 1.6 Where a provision of a Service Agreement or this Tariff confers a discretion or decision making power on one or more of the parties to a Service Agreement, such provisions shall be interpreted, unless otherwise expressly stated therein, as requiring the discretion or decision making power to be exercised reasonably.

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2. Service

- 2.1 Subject to the provisions of the applicable Service Agreement and this Tariff, FEVI shall, on each Day in the term of a Service Agreement providing for Firm Transportation Service, transport and deliver to Shipper at the Delivery Points that quantity of Gas, not exceeding the Contract Demand, which Shipper delivers to FEVI at the Receipt Point in conformity with the quality specifications set out in Section 10.1 on each such Day.
- 2.2 Subject to the provisions of the applicable Service Agreement and this Tariff and subject to the availability of capacity on the FEVI System, FEVI shall, on each Day in the term of a Service Agreement providing for Interruptible Transportation Service, transport and deliver to Shipper at the Delivery Points that quantity of Gas which Shipper delivers to FEVI at the Receipt Point in conformity with the quality specifications set out in Section 10.1 on each such Day.
- 2.3 FEVI will authorize Firm Transportation Service and Interruptible Transportation Service on each Day in the following priority and sequence:
- (a) Firm Transportation Service shall be given the first priority, provided that if FEVI determines that the capacity available on the FEVI System or any part thereof on any Day to serve all Shippers requesting Firm Transportation Service will not be sufficient to permit FEVI to authorize all of the Firm Transportation Service requested for that day, FEVI will allocate the available capacity to such Shippers pro rata on the basis of Contract Demand; and
 - (b) Interruptible Transportation Service shall be given second priority, provided that if FEVI determines that the capacity available on the FEVI System or any part thereof on any Day to serve all Shippers requesting that service will not be sufficient to permit FEVI to authorize all of the Interruptible Transportation Service requested for that Day, FEVI will allocate the available capacity to such Shippers pro rata on the basis of the quantities of Interruptible Transportation Service requested by such Shippers for that Day.
- 2.4 If at any time after FEVI has authorized Firm Transportation Service and Interruptible Transportation Service for any Day pursuant to Section 3.3 or Section 3.5, FEVI determines that capacity on the FEVI System or any part thereof is not sufficient to allow FEVI to satisfy all or some of the Firm Transportation Service and the Interruptible Transportation Service authorized for that Day, FEVI will curtail or interrupt service for the balance of the Day in the following priority or sequence:

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- (a) FEVI will first curtail or interrupt Interruptible Transportation Service pro rata on the basis of the quantities of Gas authorized for delivery on that Day under that service at the affected Delivery Points; and
- (b) FEVI will then curtail or interrupt Firm Transportation Service pro rata on the basis of Contract Demand at the affected Delivery Points.

FEVI shall, at least two hours prior to the effective time of the curtailment, give a Curtailment Notice to Shipper specifying the curtailment or interruption of Firm Transportation Service and Interruptible Transportation Service at one or more of the Delivery Points and the anticipated duration of the curtailment.

- 2.5 Shipper shall monitor the deliveries of Gas each Day at the Delivery Points and shall promptly upon receipt of a Curtailment Notice reduce the quantities of Gas taken by Shipper at the affected Delivery Points so as to comply with quantities, prescribed in a Curtailment Notice.
- 2.6 FEVI shall give at least 14 Days notice to Shipper of any Planned Maintenance, which notice shall specify the duration of any anticipated effect on the ability to deliver Gas at any of the Delivery Points, and shall, to the extent operating conditions on the FEVI System permit, provide all Shippers with the opportunity, pro rata on the basis of Contract Demand, to deliver additional Gas into FEVI's line pack to offset any reduction in deliveries occasioned by the Planned Maintenance.
- 2.7 Shipper shall take delivery of Gas at each of the Delivery Points as nearly as practicable at a uniform hourly rate of flow.
- 2.8 FEVI shall, to the extent reasonably practicable, schedule Planned Maintenance so as to minimize the interference with Gas deliveries to Shipper and to avoid periods of anticipated peak Gas requirements.
- 2.9 Shipper and FEVI shall cooperate with each other in order to optimize the delivery of Gas through, and the operation of, the FEVI System.
- 2.10 It is recognized by Shipper that FEVI must operate the FEVI System so as to maintain the operating stability, security and safety of the FEVI System. Shipper will comply with all reasonable requests made by FEVI to reduce or otherwise regulate the delivery of Gas to Shipper at the Delivery Points or to increase or decrease the delivery of Gas to FEVI at the Receipt Point when so advised by FEVI that such action is necessary to maintain the operating stability, security or safety of the FEVI System.

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- 2.11 Subject to Section 2.12, FEVI shall operate and maintain the FEVI System in accordance with engineering and operating practices and procedures customarily applied in the natural gas industry in western Canada.
- 2.12 FEVI retains the full and exclusive right to operate the FEVI System in a manner which, in FEVI's sole discretion, is consistent with operating conditions and obligations as they may exist from time to time.

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3. Nominations, Authorized Quantities and Deliveries of Gas

3.1 Shipper shall on each day prior to 0815 PST or DST, whichever is in effect on that day, or prior to such other time as may be agreed to in writing by Shipper and FEVI, provide FEVI by fax with a nomination schedule, in a form acceptable to FEVI, setting out for the next succeeding Day:

- (a) the quantities of Gas, in gigajoules, that Shipper desires to take at each of the Delivery Points;
- (b) the allowance for System Gas, based upon the percentage requirements specified monthly by FEVI;
- (c) the quantity of Gas required to correct any imbalance between the Delivery Quantity and the Receipt Quantity for any preceding Day or Days;
- (d) the sources of supply of the Gas to be delivered by Shipper at the Receipt Point, and the priority as between those sources; and
- (e) the quantity of Gas, if any, to be reallocated by Shipper pursuant to a Peaking Gas Management Agreement.

3.2 If, in respect of any Day, Shipper fails to provide FEVI with a nomination schedule in accordance with Section 3.1, the nomination schedule last provided by Shipper shall constitute Shipper's nomination schedule for that Day.

3.3 FEVI shall, within one hour of receiving confirmation from FEI as to the quantities of Gas authorized for delivery from Shipper's supply sources to FEVI at the Receipt Point on the next succeeding Day, provide Shipper by fax with a schedule setting out for the next succeeding Day:

- (a) the total quantity of Gas to be delivered from Shippers supply sources to FEVI at the Receipt Point;
- (b) the allowance for System Gas to be delivered to FEVI;
- (c) the adjustment required to correct any system imbalances; and
- (d) the Authorized Quantity to be delivered by FEVI to Shipper.

If FEVI does not receive confirmation from FEI respecting the quantities of Gas authorized for delivery at the Receipt Point on the next succeeding Day prior to the close of business on any Day, FEVI shall, as soon as reasonably practicable but in any event on the next day by 0800 PST or DST, whichever is in effect on that day, provide Shipper by fax with the schedule required pursuant to this Section.

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- 3.4 FEVI shall on each Day provide Shipper with a schedule setting out the capacity available on the FEVI System to deliver Gas to each of the Delivery Points on the next succeeding Day.
- 3.5 Shipper may on each day by 0815 PST or DST, whichever is in effect on that Day, or prior to such other time as may be agreed to in writing by Shipper and FEVI, provide FEVI with a revised nomination schedule for that Day, in a form acceptable to FEVI, setting out for that Day the information required pursuant to Section 3.1. FEVI shall, giving priority to the quantities of Gas previously authorized in accordance with Section 3.3 and subject to the availability of capacity at the applicable Delivery Points and the receipt of confirmation from FEI as provided in this Section, authorize the revised nominations in the priority and sequence specified in Section 2.3. FEVI shall request FEI to change the quantities authorized for delivery from Shipper's supply sources to FEVI at the Receipt Point for that Day to reflect the revised nomination given by Shipper pursuant to this Section. If FEI confirms to FEVI that the quantities of Gas authorized for delivery from Shipper's supply sources at the Receipt Point have been changed to reflect Shipper's revised nomination, FEVI shall, within one hour of receiving such confirmation, provide Shipper with a revised schedule for that Day setting out the information specified in Section 3.3. If such confirmation is not given to FEVI by FEI by 1200 PST or DST, whichever is in effect on that Day, FEVI shall by fax notify Shipper that the schedule previously provided for that Day pursuant to Section 3.3 remains in effect.
- 3.6 FEVI shall not be required to authorize or to deliver to Shipper at any Delivery Point a quantity of Gas which exceeds the design capacity of FEVI's metering and related facilities at any such Delivery Point.
- 3.7 Shipper shall give written notice to FEVI setting out the name, title, telephone and fax numbers of the Person designated by Shipper to receive Curtailment Notices, schedules and monthly system operations reports under Sections 2.4, 3.3, 3.4 and 5.1. FEVI shall give written notice to Shipper setting out the name, title, telephone and fax numbers of the Person designated by FEVI to receive nominations and revised nominations under Sections 3.3 and 3.5.
- 3.8 Where Shipper and FEVI agree to do so in writing, the nomination and other schedules to be provided by Shipper and FEVI pursuant to Sections 3.1, 3.3 and 3.5, and the monthly service operations reports to be provided by FEVI in accordance with Article 5 may be delivered by one Party to the other by means of a computerized system of communication rather than by fax.

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- 3.9 If Westcoast, FEI or any other company operating a pipeline which transports Gas for delivery through the FEVI System changes its Gas nomination and authorization procedures, FEVI shall make such amendments to this Tariff as FEVI and all Shippers agree are appropriate to reflect such changed procedures.

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4. **Receipt and Delivery Temperature and Pressure**

- 4.1 Gas delivered to FEVI at the Receipt Point shall meet or exceed the minimum, and shall not exceed the maximum, delivery pressure and temperature standards specified in the Westcoast General Terms and Conditions.
- 4.2 Gas delivered by FEVI to Shipper at the Delivery Points shall be delivered at the pressure and temperature specified in the applicable Service Agreement.

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5. Monthly Imbalances and Unauthorized Overruns

- 5.1 FEVI shall, within ten Days of the end of each Month, provide Shipper by fax with a monthly service operations report for the Month, which report shall set out:
- (a) the Receipt Quantity for each Day in the Month;
 - (b) the Delivered Quantity for each Delivery Point for each Day in the Month;
 - (c) the quantity of Gas reallocated to or by Shipper on each Day in the Month pursuant to a Peaking Gas Management Agreement;
 - (d) the required allowance for System Gas as determined for the Month in accordance with Section 6.3; and
 - (e) the resulting Monthly Imbalance.
- 5.2 Shipper shall correct the Monthly Imbalance specified in the monthly service operations report provided to Shipper in accordance with Section 5.1 in a manner acceptable to FEVI during the Month in which such report was received by Shipper or in such other Month as may be acceptable to FEVI.
- 5.3 If Shipper fails to correct the Monthly Imbalance as required pursuant to Section 5.2, FEVI may, after giving notice to Shipper, correct the Monthly Imbalance by:
- (a) increasing or reducing Gas deliveries to Shipper at the Delivery Points; or
 - (b) purchasing Gas to make up any shortfall in the Receipt Quantities for the preceding Month.

If FEVI purchases Gas to make up any such shortfall, Shipper shall pay FEVI for such Gas an amount equal to 150 percent of the amount, reflective of current market conditions, paid by FEVI to acquire and take delivery of such Gas at the Receipt Point. Amounts payable by Shipper pursuant to this Section shall be included in the statement delivered by FEVI pursuant to Section 8.1 for the Month in which FEVI purchased such Gas.

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5.4 The balancing provisions in Sections 5.1, 5.2 and 5.3 are designed to provide Shipper and FEVI with reasonable flexibility in operating their respective facilities. If, at any time during the term of a Service Agreement, those provisions are found to be unworkable by the Parties or if, at any such time, one Party determines that the other is abusing the flexibility provided, the Parties agree to renegotiate those provisions to achieve their intended result.

5.5 If on any Day Shipper takes Gas at one or more of the Delivery Points in excess of the quantity of Gas specified for any such Delivery Point in a Curtailment Notice, Shipper shall, in addition to any other amounts payable in respect of the transportation and delivery of that Gas, pay to FEVI:

- (a) in respect of that portion of the aggregate excess between 105 percent and up to and including 110 percent of the aggregate quantities specified in the Curtailment Notice, an amount per gigajoule equal to ten times the Demand Toll; and
- (b) in respect of that portion of the aggregate excess which exceeds 110 percent of the aggregate quantities specified in the Curtailment Notice, an amount per gigajoule equal to twenty times the Demand Toll.

No amount shall be payable by Shipper in accordance with this Section in respect of any Gas delivered to Shipper prior to the time at which a Curtailment Notice became effective in accordance with Section 2.4.

5.6 FEVI shall waive the payment of the amounts required to be paid by Shipper pursuant to Section 5.4 where the excess taken by Shipper did not contribute to FEVI's failure to deliver the quantities of Gas authorized for delivery during the period of curtailment to the other Shippers on the FEVI system or did not otherwise adversely affect the operations of the FEVI System.

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6. Tolls

- 6.1 Shipper shall pay to FEVI in respect of Firm Transportation Service provided by FEVI to Shipper pursuant to a Service Agreement in each Month the tolls for that Firm Transportation Service specified in the applicable Service Agreement.
- 6.2 Shipper shall pay to FEVI in respect of Interruptible Transportation Service provided by FEVI to Shipper pursuant to a Service Agreement in each Month the tolls for that Interruptible Transportation Service specified in the applicable Service Agreement.
- 6.3 In addition to the tolls payable pursuant to Section 6.1 or Section 6.2 and any other amounts payable by Shipper in accordance with this Tariff, Shipper shall in respect of each Month deliver to FEVI at the Receipt Point an allowance for System Gas equal to that quantity of Gas, in gigajoules, which is the sum of:
- (a) that percentage, specified in the Wheeling Agreement, of the aggregate of the Receipt Volumes for the Month;
 - (b) the quantity of System Gas, other than fuel for line heaters at meter stations, incurred in the operation of the FEVI System for the Month multiplied by the ratio, the numerator of which is the total of the Delivered Quantities received by Shipper in the Month and the denominator of which is the total quantities of Gas delivered at all the Delivery Points in the Month; and
 - (c) the quantity of fuel incurred in the operation of line heaters at the meter stations at the Delivery Points where Gas is delivered to Shipper in accordance with a Service Agreement, determined in accordance with Section 6.4.
- 6.4 Where Gas is delivered to two or more Shippers at any Delivery Point, the quantity of fuel for line heaters at meter stations to be delivered by each Shipper to FEVI for such Delivery Point for any Month shall be that quantity determined by multiplying the line heater fuel consumed at such Delivery Point by the ratio, the numerator of which is the total of the Delivered Quantities received by such Shipper in the Month at that Delivery Point and the denominator of which is the total quantities of Gas delivered in the Month at that Delivery Point.

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7. Demand Toll Credits

7.1 If for any reason FEVI is unable or fails to deliver at the Delivery Points on any Day the total quality of Gas, up to the Contract Demand that Shipper has in good faith requested FEVI to deliver under a Service Agreement providing for Firm Transportation Service, then, in respect of such Day, a credit in an amount equal to the product obtained by multiplying the Demand Toll by the difference between the quantity of Gas so requested and the quantity of Gas delivered by FEVI shall be applied to the monthly bill rendered by FEVI pursuant to Article 8, but no such credit shall be given if such inability to deliver by FEVI resulted from:

- (a) the inability or failure of Shipper for any reason, including Force Majeure, to deliver Gas in conformity with the quality specifications set out in Section 10.1 to FEVI at the Receipt Point;
- (b) the inability or failure of Shipper for any reason, including Force Majeure, to take delivery of Gas at any of the Delivery Points;
- (c) any act or omission of Shipper, including the taking of Gas from the FEVI System at any of the Delivery Points in excess of the Authorized Quantity.

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8. Statements and Payments

- 8.1 FEVI shall, within 15 Days following the end of each Month, deliver to Shipper a statement setting out the quantities of Gas delivered to Shipper at the Delivery Points during such Month and the amount payable by Shipper for all services provided by FEVI to Shipper during the Month. Where actual quantities of Gas are not available, estimates may be used and adjusted in a subsequent Month when actual quantities become available. Any statement delivered pursuant to this Section shall be deemed to have been delivered on the Day on which it is received by the Shipper.
- 8.2 Shipper shall, within ten Days of the receipt of the statement for any Month pursuant to Section 8.1 or within 25 Days following the end of such Month, whichever is the later, pay the amount specified therein in Canadian funds to FEVI at its principal office in Vancouver, British Columbia. If Shipper fails to make such payment, or any portion thereof, when due, interest thereon shall accrue at a rate equal to the Prime Rate in effect on the date such payment was due plus:
- (a) 2% from the date when such payment was due for the first 30 Days that such payment remains unpaid, and 5% thereafter until the same is paid where Shipper has not, during the immediately preceding six Month period, failed to make any payment when due hereunder; or
 - (b) 5% from the date when such payment was due until the same is paid where Shipper has, during the immediately preceding six Month period, failed to make any payment when due hereunder.
- 8.3 If any error is discovered in a statement rendered by FEVI pursuant to Section 8.1, such error shall be corrected by an adjustment in a subsequent statement rendered by FEVI within 30 Days of the discovery of the error; provided, however, that no adjustment shall be made for any error in a statement which is discovered more than 24 Months after the receipt of that statement by Shipper.
- 8.4 Each Party shall have the right at reasonable times to examine the books, records and charts of the other Party to the extent necessary to verify the accuracy of any statement, charge or computation made under or pursuant to the provisions of a Service Agreement and this Tariff.

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9. Letter of Credit

- 9.1 In order to secure the prompt and orderly payment of the amounts to be paid by Shipper under a Service Agreement, FEVI may require Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FEVI issued by a financial institution acceptable to FEVI in an amount equal to the maximum amount payable by Shipper under a Service Agreement for up to 184 Days of service. Where FEVI requires Shipper to provide a letter of credit and Shipper is able to provide alternative security acceptable to FEVI, FEVI will accept such security in lieu of a letter of credit.
- 9.2 FEVI may in any Month draw on the letter of credit in an amount necessary to satisfy the amount due for the previous Month when Shipper has not paid such amount within the time and in the manner provided in Section 8.2.
- 9.3 Where FEVI requires Shipper to provide and maintain a letter of credit pursuant to Section 9.1, such letter of credit, or any replacement thereof, shall have a term equal of the lesser of:
- (a) one Year; or
 - (b) the period ending one Month after the last Month in the term of the Service Agreement.
- 9.4 Shipper shall, within 120 Days of the end of each fiscal Year included in the term of a Service Agreement, provide FEVI with a copy of Shipper's audited financial statements (unless FEVI agrees to accept unaudited financial statements) for each such fiscal Year and shall, if so requested in writing by FEVI, provide FEVI within 60 Days of the end of any of the first three quarters of any such fiscal Year, interim financial statements for any such quarter.

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10. Gas Quality

- 10.1 Gas delivered by Shipper to FEVI at the Receipt Point shall meet or exceed the minimum, and not exceed the maximum quality specifications specified in the Westcoast General Terms and Conditions. Whenever the Gas offered for delivery to FEVI at the Receipt Point fails to conform with the quality specifications set out in the Westcoast General Terms and Conditions, FEVI may, without prejudice to any other rights it may have, refuse to take delivery of such Gas in which case:
- (a) FEVI shall give notice of such refusal to Shipper setting forth the reasons therefor; and
 - (b) FEVI shall, as soon as practicable, accept deliveries of Gas at the Receipt Point after the failure to conform has been remedied and notice thereof has been given to FEVI.
- 10.2 Gas delivered by FEVI to Shipper at the Delivery Points shall conform to the specifications set out in the Wheeling Agreement for Gas delivered by FEI to FEVI. Whenever the Gas delivered by FEVI to Shipper at any of the Delivery Points fails to conform with any of the specifications referred to in this Section, Shipper may, without prejudice to any other rights it may have, refuse to take delivery of such Gas, in which case:
- (a) Shipper shall give notice of such refusal to FEVI setting forth the reasons therefor; and
 - (b) Shipper shall, as soon as practicable, accept deliveries of Gas at the Delivery Points after the failure to conform has been remedied and notice thereof has been given to Shipper.

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11. Measurement

- 11.1 The unit of volume of Gas for all purposes hereunder shall be one cubic metre at an absolute pressure of 101.325 kilopascals and at a temperature of 15 degrees centigrade.
- 11.2 The provisions of Section 11.3 shall apply to the measurement of all Gas delivered by Shipper to FEVI at the Receipt Point, and the provisions of Sections 11.4 to 11.6 shall apply to the measurement of all Gas delivered by FEVI to Shipper at the Delivery Points.
- 11.3 All Gas delivered by Shipper to FEVI at the Receipt Point shall be measured as to volume, quality, heat content and heating value by Westcoast at the meters installed, operated and maintained by Westcoast at the Receipt Point or at such other instruments installed, operated and maintained by Westcoast to determine such measurements in respect of Gas delivered at the Receipt Point. Such measurements shall be made in accordance with the standards, procedures and specification set out in Westcoast's General Terms and Conditions, and such measurements and all other quality and heating value measurements as made by Westcoast shall be final and binding upon the Parties and utilized for all purposes of a Service Agreement.
- 11.4 The volume of Gas delivered by FEVI to Shipper at the Delivery Points shall be measured and computed on a daily basis by FEVI in accordance with the requirements established under the *Gas Inspection Act* with respect to orifice, positive displacement, turbine and rotary meters.
- 11.5 Corrections shall be made on a daily basis for the deviation from Boyle's Law at the pressure and temperature at which the Gas is metered. To determine the factors for such corrections, a quantitative analysis of the Gas will be made by FEVI or obtained from FEI at reasonable intervals and such factors will be obtained from data contained in the American Gas Association Manual for Determination of Supercompressibility Factors for Natural Gas – For Research Project NX19 of December 1962, as published by the American Gas Association, or any subsequent revisions thereto acceptable to both Shipper and FEVI or directed for use pursuant to the *Gas Inspection Act*. If positive displacement or turbine meters are used, the supercompressibility factor shall be squared.
- 11.6 The relative density of the Gas delivered by FEVI to Shipper at the Delivery Points shall be determined by FEVI from time to time utilizing the method prescribed in the American Gas Association Publication 2529 and samples of Gas taken from points on the FEVI System or the FEI System where the sample or samples of Gas taken are representative of the Gas delivered through the pipeline system.

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- 11.7 The flowing temperature of Gas in the meters installed and operated by FEVI shall be determined by means of temperature devices installed and operated in accordance with the requirements established under the *Gas Inspection Act*.
- 11.8 The atmospheric pressure at the actual altitude of each of the Delivery Points shall be calculated in accordance with the requirements established under the *Gas Inspection Act*.
- 11.9 The volumes of Gas delivered by Shipper to FEVI at the Receipt Point on each Day, and the volumes of Gas delivered by FEVI to Shipper at the Delivery Points on each Day shall be converted to energy units by multiplying the volume of Gas so delivered by the heat content of each cubic metre of Gas in accordance with then procedures established under the *Gas Inspection Act*. The heat content of the Gas delivered at the Delivery Points shall be measured by FEI for Gas delivered from the FEI System into the FEVI System.

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12. Measurement Equipment

- 12.1 FEVI shall install, maintain and operate suitable metering and other equipment complying with the requirements established under the *Gas Inspection Act* and necessary to measure the volume, temperature and pressure of all Gas delivered at the Delivery Points, and shall calibrate and adjust such meters and other equipment and change the charts as required.
- 12.2 Shipper shall have access to such meters and other equipment during reasonable hours, and shall be entitled to be present at the time of any installing, testing, cleaning, changing, repairing, inspecting, calibrating or adjusting done to or in connection with the meters and other measuring equipment installed and maintained by FEVI at the Delivery Points, and shall be given reasonable notice in order that it can be present.
- 12.3 Shipper may install, maintain and operate at its own expense check measuring equipment at the Delivery Points, for the purpose of checking FEVI's meters and other measuring equipment.
- 12.4 Each Party shall through testing verify the accuracy of its meters and other measuring equipment at the Delivery Points at least every two Months or at such other intervals as may be agreed to by the Parties, and whenever requested by the other Party. If, upon a requested verification, a meter or other measuring equipment is found to be registering correctly, subject to an inaccuracy not exceeding two percent, the cost of such verification shall be charged to and be borne by the Party requesting the same; otherwise, the cost of all such requested verifications shall be borne by the other Party. If, upon any test, a meter or other measuring equipment is found to be inaccurate by not more than two percent, previous readings of such equipment shall be considered correct in computing deliveries of Gas at the Delivery Points, but such equipment shall be adjusted at once to record accurately. If, upon any test, any meter or other measuring equipment is found to be inaccurate by more than two percent, then any previous readings of such equipment shall be corrected to zero error for any period which is known or can be agreed upon, but if the period is not known or cannot be agreed upon, such correction shall be for a period covering the last half of the time elapsed since the date of the last test.

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- 12.5 If a meter or other measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period of such meter or other measuring equipment is out of service or out of repair shall be estimated on the basis of the best available data, using the first of the following methods which is feasible:
- (a) by using the registration of any check measuring equipment installed and operated by Shipper, provided such equipment is registering accurately;
 - (b) by correcting the error if the percentage of error can be ascertained by calibration, test or mathematical calculations; or
 - (c) by estimating the quantities of Gas delivered to Shipper utilizing deliveries during prior periods of similar conditions when the meter or other measuring equipment was registering accurately.
- 12.6 Each Party shall cause to be preserved for a period of at least two Years, all test data, charts and other records of Gas measurement. Either Party desiring to preserve any records for a longer period may require the other Party to deliver to it such records, which shall thereafter be retained at the sole expense of the Party desiring those records.

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13. Possession and Control of Gas and Liabilities

- 13.1 FEVI shall be deemed to be in possession and control of, and responsible for all Gas received by it at the Receipt Point until such Gas is delivered by it to Shipper at the Delivery Points as if it were the owner thereof, and shall have the right at all times to commingle such Gas with other Gas in the FEVI System. Nothing in this Section shall be interpreted to effect an actual transfer of title or ownership of a Shipper's Gas to FEVI while such Gas is in FEVI's possession and control.
- 13.2 Each Party assumes full responsibility and liability for the maintenance and operation of its respective properties, facilities and equipment, and shall indemnify and save harmless the other Party from all liability and expense on account of any and all damages, claims or actions, including injury to or death of persons, arising from any act, accident, event or omission in connection with the construction, installation, presence, maintenance and operation of the property, facilities and equipment of the indemnifying Party, or in connection with Gas deemed to be in possession and control of the indemnifying Party.
- 13.3 If FEVI curtails or interrupts service in accordance with this Tariff, Shipper's sole and exclusive remedy against FEVI shall, except as otherwise provided in a Service Agreement, be the recovery of Demand Toll Credits pursuant to and in accordance with Article 7.
- 13.4 In no event shall either Shipper or FEVI be liable to the other for any indirect, special or consequential loss, damage, cost or expense whatsoever, whether based on breach of contract, negligence, strict liability or otherwise including, without limitation, loss of profits or revenues, cost of capital, loss or damages for failure to receive or deliver Gas, cost of lost, purchased or replacement Gas, cancellation or permits or certificates, and the termination of contracts.

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14. Representations and Acknowledgments

14.1 FEVI represents and warrants to Shipper that:

- (a) it has full right, power and authority to enter into a Service Agreement with Shipper; and
- (b) it has obtained all certificates, licenses, permits and authorizations necessary for the operation of the FEVI System.

14.2 Shipper represents and warrants to FEVI that:

- (a) it has full right, power and authority to enter into a Service Agreement, and that all Gas delivered to FEVI thereunder at the Receipt Point shall be free from all liens and adverse claims; and
- (b) as of the Day on which services are first provided by FEVI under a Service Agreement, Shipper shall have obtained all necessary authorizations, permits, licenses, certificates and agreements required by it for the receipt, transportation and delivery of Gas by FEVI in accordance with a Service Agreement.

14.3 Shipper acknowledges to FEVI that, as between Shipper and FEVI, Shipper is solely responsible for acquiring under contract sufficient Gas supplies or reserves, and sufficient gathering, processing and transportation capacity required to deliver to the Receipt Point the quantities of Gas to be transported and delivered by FEVI pursuant to a Service Agreement, and for obtaining all governmental authorizations and approvals required in connection therewith.

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15. Force Majeure

- 15.1 Subject to the other provisions of this Article, if either Shipper or FEVI is unable by reason of Force Majeure to perform in whole or in part any obligation or covenant imposed pursuant to a Service Agreement, with the exception of unpaid financial obligations, such failure shall be deemed not to be a breach of such obligation or covenant and the obligations of both Parties under the Service Agreement shall be suspended to the extent necessary during the continuation of any inability so caused by such Force Majeure.
- 15.2 As used in Part B of this Tariff, the term "Force Majeure" means any event or occurrence not within the control of the Party claiming Force Majeure and which by the exercise of reasonable diligence such Party is unable to prevent or overcome, including, without limiting the generality of the foregoing, any acts of God, including lightning, earthquakes, storms, washouts, landslides, fires, epidemics and floods; strikes, lockouts or other industrial disturbances; acts of the Queen's or public enemies; sabotage, wars, blockades, insurrections, riots or civil disturbances; fires, explosions, breakages of or accidents to machinery or lines of pipe; hydrate obstructions of lines of pipe; the laws, orders, rules, regulations, acts or restraints of any court or governmental or regulatory authority; and pipeline repairs. For the purposes of this Article, a Party is deemed to have control over the actions or omissions of those Persons to which it, its agents, contractors or employees have delegated, assigned or subcontracted its obligations and responsibilities.
- 15.3 Neither Party shall be entitled to the benefit of Section 15.1 under any of the following circumstances:
- (a) to the extent that the failure was caused by the negligence of the Party claiming Force Majeure;
 - (b) to the extent that the failure was caused by the Party claiming Force Majeure having failed to diligently attempt to remedy the condition by taking all reasonable acts and to resume the performance of such covenants and obligations or to resume making nominations with reasonable dispatch;
 - (c) if the failure was caused by lack of funds or is in respect of the monthly payments due hereunder;
 - (d) to the extent such failure was caused by the failure of Shipper's Gas supply or by the failure of Westcoast or any other pipeline to transport and deliver Gas to Shipper at the Receipt Point;
 - (e) to the extent the failure was caused by Shipper's inability for any reason to resell Gas to its customers in its service areas; or

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- (f) to the extent the failure was caused by the inability of Shipper for any reason to obtain materials and supplies required in its industrial or commercial operations or to market the products produced in those operations.

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16. Notices

- 16.1 Any notice, other than a Curtailment Notice, which shall or may be given hereunder shall, unless otherwise specified herein, be in writing and delivered or sent by fax or courier to such Party's address, as specified in a Service Agreement, or at such other address as either Party shall designate by written notice. Any notice delivered or sent by fax or courier shall be deemed to have been received by the addressee on the Business Day on which it was so delivered or sent or, if delivered or sent on a day other than Business Day, on the next following Business Day.

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17. Miscellaneous

- 17.1 No waiver by either Party of any default by the other in the performance of any of the provisions of a Service Agreement shall operate or be construed as a waiver of any other or future default or defaults, whether of a like or a different character.
- 17.2 A Service Agreement may be assigned in whole or in part by Shipper if Shipper has first obtained the prior written consent of FEVI, which consent shall not be unreasonably withheld.
- 17.3 A Service Agreement shall enure to the benefit of and be binding upon the Parties thereto and their respective successors and permitted assigns.
- 17.4 Nothing herein contained shall prevent either of the Parties from pledging, charging or mortgaging its rights under a Service Agreement as security for its indebtedness or obligations without the consent of the other Party. Any Person who has acquired a security interest in a Service Agreement as security for the indebtedness or obligations of either Party may, without the consent of the other Party, assign the Service Agreement to another Person in connection with the enforcement of the security interest.
- 17.5 A Service Agreement together with this Tariff incorporated therein by reference constitutes the entire agreement between the Parties and supersedes all previous agreements, understandings, negotiations and representations between the Parties.
- 17.6 No amendments or variation of a Service Agreement shall be effective and binding upon the Parties unless such amendment or variation is set forth in writing and duly executed by the Parties thereto.
- 17.7 A Service Agreement and the rights and obligations of the Parties thereunder are subject to all present and future valid laws, regulations, rules, orders and directives of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over the Parties or the subject matter of the Service Agreement.
- 17.8 Notwithstanding the termination of a Service Agreement, the provisions of Article 13 respecting liabilities and indemnities which have accrued prior to the date of termination, the provisions of Article 8 respecting statements, payments, correction of errors and the examination of records and the provisions of Article 5 respecting the correction of Monthly Imbalances shall survive the termination of the Service Agreement. The Parties shall use reasonable efforts to make all adjustments and to settle all accounts which are outstanding between the Parties as of the date of termination as soon as possible.

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PART C
RATE SCHEDULES

CANCELLER PER BCUC ORDER NO. G-XX-12

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SPECIAL RATE SCHEDULE

The following charges apply to special services and circumstances as set out in the Terms and Conditions. These charges are subject to revision based on FortisBC Energy's cost of providing such services:

1. Application Fee

Existing Installation	\$25.00
New Installation	\$25.00
New Installation – Manifold Meters	\$15.00 per meter
New Installation – Vertical Subdivision	\$25.00 per meter

2. Service Line Cost Allowance

Other than a duplex	\$1,535.00
Duplex	\$3,070.00

3. Administrative Charges

Late Payment Charge	1.5% per month (19.56% per annum) on outstanding balance
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Dishonoured Cheque Charge	\$20.00
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Interest on Cash Security Deposits

FortisBC Energy will pay interest on cash security deposits at FortisBC Energy's prime interest rate minus 2%. FortisBC Energy prime interest rate is defined as the floating annual rate of interest which is equal to the rate of interest declared from time to time by FortisBC Energy's lead bank as its "prime rate" for loans in Canadian dollars.

Payment of interest will be credited to the Customer's account in January of each Year.

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4. Metering Related Charges

Disputed Meter Testing Fees

Meters rated at less than or equal to 14.2 m³/Hour \$60.00

Meters rated greater than 14.2 m³/Hour Actual Costs of Removal and Replacement

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RESIDENTIAL GENERAL SERVICE RATE NO. 1 (RGS-1)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied to residential dwellings at one point of delivery through one meter.

Rates

Basic Daily Charge	\$0.3450
Energy Charge per GJ	\$14.325
Minimum Monthly Charge	\$10.50

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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OPTIONAL RATE RIDER A - SERVICE LINE CHARGE (Closed)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied to users served under Residential General Service Rate No. 1 (RGS-1) at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 20 GJ per Year. This optional rate rider is available to RGS-1 Customers. Customers choosing Rate Rider A will have their customer contribution requirement arising from attaching a load of less than 53 GJ reduced by \$472. Rider A is not available to reduce contribution amounts required for reasons other than the attachment of loads less than 53 GJ.

In the event that the required contribution minus \$472 is less than zero, no Customer contribution will apply. In no event will the selection of Rate Rider A result in a payment from FortisBC Energy to a Customer for the difference between \$472 and the contribution payable.

Customers taking the optional rider must choose to do so at the time of application for Service.

Rider A is not available to Customers requesting Service to a newly constructed residence or residence under construction, except where the Customer requesting Service is to be the owner occupying the residence. Rider A is not available to builders at residences constructed for resale upon completion.

Rider A is not available to Customers requesting Service to a residence or building which is to be leased or rented to Tenants.

Rider A is available to owner occupants only.

In the event that a Customer increases annual load to 53 GJ, Rate Rider A will no longer be payable.

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In the event that a Customer increases annual load, within two Years of taking Service, to a level less than or equal to 53 GJ, but more than the load contracted for at the time Service was first extended, and if requested by the Customer, a portion of any Customer contribution previously paid may be refunded to the Customer to reflect the increased load.

Rates

Monthly Charge

\$5.00

Effective January 1, 2006, Optional Rate Rider A – Service Line Charge is closed to new Customers.

CANCELLER PER BCUC ORDER NO. G-XX-12

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SMALL COMMERCIAL SERVICE RATE NO. 1 (SCS-1)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied to commercial users at one point of delivery through one meter.

Rates

Basic Daily Charge	\$0.3105
Energy Charge per GJ	\$16.940
Minimum Monthly Charge	\$9.45

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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SMALL COMMERCIAL SERVICE RATE NO. 2 (SCS-2)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 200 GJ per year. If the annual consumption is less than 200 GJ, the Customer will be reclassified to the appropriate Service rate.

Rates

Basic Daily Charge	\$1.1016
Energy Charge per GJ	\$16.455
Minimum Monthly Charge	\$33.53

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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LARGE COMMERCIAL SERVICE RATE NO. 1 (LCS-1)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 600 GJ per year. If the annual consumption is less than 600 GJ, the Customer will be reclassified to the appropriate Service rate.

Rates

Basic Daily Charge	\$2.0041
Energy Charge per GJ	\$13.353
Minimum Monthly Charge	\$61.00

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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LARGE COMMERCIAL SERVICE RATE NO. 2 (LCS-2)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 2,000 GJ per year. If the annual consumption is less than 2,000 GJ, the Customer will be reclassified to the appropriate Service rate.

Rates

Basic Daily Charge	\$3.2138
Energy Charge per GJ	\$12.311
Minimum Monthly Charge	\$97.82

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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LARGE COMMERCIAL SERVICE RATE NO. 3 (LCS-3)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 6,000 GJ per year. If the annual consumption is less than 6,000 GJ, the Customer will be reclassified to the appropriate Service rate.

Rates

Basic Daily Charge	\$6.6205
Energy Charge per GJ	\$12.015
Minimum Monthly Charge	\$201.51

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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LARGE COMMERCIAL SERVICE RATE NO. 13 (LCS-13)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To service supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 6,000 GJ per year. If the annual consumption is less than 6,000 GJ, the Customer will be reclassified to the appropriate Service rate. The Customer is required to sign a contract for Service with FortisBC Energy under this Tariff for a minimum of one Year. Service under this Rate Schedule requires daily energy use metering. The Customer is required to pay the additional cost for a meter capable of measuring daily use. Service under this Rate Schedule requires daily energy balancing and nominations to FortisBC Energy Inc. The Customer is responsible for supplying his own Gas inclusive of fuel and system Gas to FortisBC Energy Inc. at the FortisBC Energy Inc. Interconnect to the Westcoast System at Huntingdon.

Rates

Basic Daily Charge	\$6.6205
Transportation Charge per GJ	\$6.608
Minimum Monthly Charge	\$201.51

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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LARGE COMMERCIAL SERVICE RATE HIGH LOAD FACTOR (HLF)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 6,000 GJ per Year. If the annual consumption is less than 6,000 GJ, the Customer will be reclassified to the appropriate Service rate. The Customer is required to sign a contract for Service with FortisBC Energy under this Tariff for a minimum of one Year. The Customer must demonstrate a monthly coincident peak (average January and February) load factor of greater than 85%.

Rates

Basic Daily Charge	\$8.2136
Demand Charge per GJ per Month	\$47.18
Energy Charge per GJ	\$8.697
Minimum Monthly Charge	\$250.00

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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LARGE COMMERCIAL SERVICE RATE INVERSE LOAD FACTOR 150% (ILF)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied commercial users at one point of delivery through one meter.

Conditions

Annual energy consumption must equal or exceed 6,000 GJ per Year. If the annual consumption is less than 6,000 GJ, the Customer will be reclassified to the appropriate Service rate. The Customer is required to sign a contract for Service with FortisBC Energy under this Tariff for a minimum of one Year. The contract will specify a maximum daily use (Contract Demand) for the months of November, December, January, February and March. Unauthorized consumption in excess of the Contract Demand during the months of November, December, January, February and March will be subject to the Unauthorized Overrun Rate (LGS-25). Authorized consumption in excess of the Contract Demand during the months identified above will be subject to the Authorized Overrun Rate (LGS-26). Service under this Rate Schedule requires daily energy use metering. The Customer is required to pay the additional cost for a meter capable of measuring daily use.

Rates

Basic Daily Charge	\$8.2136
Energy Charge per GJ	\$10.097
Minimum Monthly Charge	\$250.00

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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APARTMENT GENERAL SERVICE RATE (AGS)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

To Gas supplied to multi-residential dwellings at one point of delivery through one meter.

Conditions

Customer must serve the common energy requirements of six or more residential units.

Rates

Basic Daily Charge	\$1.3142
Energy Charge per GJ	\$12.373
Minimum Monthly Charge	\$40.00

Notes:

Rate Rider D (Reserved for future use.)

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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UNAUTHORIZED OVERRUN RATE (LGS-25)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

For Gas supplied in excess of the Authorized Quantity to Customers at one point of delivery through one meter.

Rates

Basic Monthly Charge	\$0.00
Energy Charge per GJ	\$20.00
Minimum Monthly Charge	\$0.00

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AUTHORIZED OVERRUN RATE (LGS-26)

Available

In communities where Customers are served from distribution systems connected to the Vancouver Island Natural Gas Pipeline.

Applicable

For Gas authorized at the sole discretion of FortisBC Energy during the months of January, February, March, October, November and December, in excess of the Contract Demand to Customers at one point of delivery through one meter.

Terms

Notwithstanding Articles 3.01 and 3.02 of the Terms and Conditions Industrial Gas Sales Agreement, the Customer must request authorization from FortisBC Energy, using fax or phone for the sale of Gas in excess of their Contract Demand. The Customer must request authorization for no less than 450 GJ per Day. The Customer must have daily metering in place. If FortisBC Energy provides notice that Authorized Overrun Gas is no longer available, the Customer must curtail use of Gas in excess of his Contract Demand by 8:00 AM Pacific Clock Time on the Day following such notice from FortisBC Energy. FortisBC Energy will give notice of curtailment no later than 3:00 PM Pacific Clock Time.

Rates

Basic Monthly Charge	\$0.00
Energy Charge per GJ	105% of the midpoint price under the heading NW Sumas in the Pasha Gas Daily publication converted to Canadian Dollars per GJ using the average noonday exchange rate from the Bank of Canada for that Month and 1.055056 GJ/mmBtu, plus \$1.75 CDN/GJ
Minimum Monthly Charge	\$0.00
Minimum Payment	In the event the buyer takes less than 95% of the amount of requested Authorized Overrun Gas on a given Day, the buyer agrees to pay a minimum amount equal to 95% of the nominated and Authorized Quantity at the above LGS-26 Rate.

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CANCELLER PER BCUC ORDER NO. G-XX-12

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FORTISBC ENERGY (VANCOUVER ISLAND) INC.

NATURAL GAS VEHICLE SERVICE
RATE SCHEDULE

Effective January 1, 2010

Cancelled per Order No. G-XX-12 Approving FortisBC Energy Utilities
Common Rates, Amalgamation and Rate Design Application

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

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FortisBC Energy (Vancouver Island) Inc.
Natural Gas Vehicle Service Rate Schedule

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1. Applicability

- 1.1 **Description of Applicability** - This Rate Schedule applies to the sale of firm Gas through one meter set for the purpose of compression and dispensing as fuel to operate vehicles.
- 1.2 **Service Agreement** - FortisBC Energy will only sell Gas pursuant to an executed Service Agreement which may be amended from time to time with the consent of the British Columbia Utilities Commission.
- 1.3 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

2. Conditions of Service

- 2.1 **Conditions** - This is an optional Rate Schedule to the small Commercial Service rates and the large Commercial Service rates and is only available as part of Service under such Rate Schedules. Natural Gas Vehicle Service is available in all territory served by FortisBC Energy under the tariff of which this Rate Schedule is a part if FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 7.1 (Facilities and Equipment).
- 2.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Customer to FortisBC Energy under the Service Agreement FortisBC Energy may require the Customer to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the maximum amount payable by the Customer under this Rate Schedule and the Service Agreement for a period of 90 days. Where FortisBC Energy requires a Customer to provide a letter of credit and the Customer is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.
- 2.3 **Right to Sell** - Customer will not sell Gas except as fuel for vehicles.

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3. Sales

- 3.1 **Sale of Gas** - Subject to section 13 of the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service (Interruption of Service), FortisBC Energy will sell to the Customer and the Customer will buy from FortisBC Energy at one Delivery Point such quantity of Gas as is required by the Customer for the operation of the Customer's facilities specified in the Service Agreement estimated to be the maximum quantity per Day set out in the Service Agreement, for the charges and on all of the terms and conditions set out in either this Rate Schedule or the Service Agreement.
- 3.2 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to deliver in any one Hour more than 5% of the maximum quantity per Day set out in the Service Agreement.
- 3.3 **Pressure at Delivery Point** - All Gas delivered by FortisBC Energy at the Delivery Point to the Customer will not be at less than the pressure specified in the Service Agreement.

4. Table of Charges

- 4.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Service Agreement, the Customer will pay to FortisBC Energy all of the charges set out in the Table of Charges except as specified in the Service Agreement.

5. Term of Service Agreement

- 5.1 **Term** - The initial term of a Service Agreement for NGV Firm Gas Service will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the expiry date specified in the Service Agreement.
- 5.2 **Automatic Renewal** - Except as specified in the Service Agreement, the term of the Service Agreement will continue on a year to year basis until cancelled by either FortisBC Energy or the Customer upon not less than 6 Months' notice prior to the end of the term then in effect.

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5.3 **Early Termination** - The term of the Service Agreement is subject to early termination in accordance with section 9 (Default or Bankruptcy).

5.4 **Survival of Covenants** - Upon the termination of the Service Agreement, whether pursuant to section 9 (Default or Bankruptcy) or otherwise,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this Rate Schedule and in the Service Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Service Agreement,

will survive such termination.

6. Statement and Payments

6.1 **Statements to be Provided** - FortisBC Energy will, each month, deliver to the Customer a statement for the preceding month showing the Gas delivered to the Customer and the payment due. FortisBC Energy will, on or before the 45th day after the end of a Contract Year, deliver to the Customer a separate statement for the preceding Contract Year showing the amount required from the Customer in respect of any indemnity due under a Service Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.

6.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Customer fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy may include in the next bill to the Customer a late payment charge of 1½% per month (19.56% per annum).

6.3 **Examination of Records** - FortisBC Energy and the Customer will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Service Agreement.

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7. Measuring Equipment

- 7.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Customer and the Customer will permit FortisBC Energy, without cost to FortisBC Energy, to use the Customer's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy.
- 7.2 **Measuring Site** - If FortisBC Energy determines that it is necessary to install the facilities and equipment referred to in section 7.1 (Facilities and Equipment) on the Customer's property, the Customer will, without charge, provide a suitable site for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Customer's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Service Agreement.
- 7.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Customer. Notice of the time and nature of each test conducted in response to communications with or at the request of the Customer will be given by FortisBC Energy to the Customer sufficiently in advance to permit a representative of the Customer to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Customer is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Customer will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 7.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.

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7.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible

- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
- (b) by using the registration of any check measuring equipment if installed and accurately registering, or
- (c) by estimating the quantity of Gas delivered to the Customer during the preceding periods under similar conditions when the meter was registering accurately.

7.6 **Customer's Equipment** - The Customer may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Customer will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.

7.7 **Right to be Present** - FortisBC Energy and the Customer will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.

7.8 **Preservation of Records** - Both parties will preserve each test datum, chart and other record of Gas measurement for a period of 2 years.

8. Measurement

8.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.

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8.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Department of Consumer & Corporate Affairs of Canada and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.

8.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10^3m^3 rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

9. Default or Bankruptcy

9.1 **Default** - If the Customer at any time fails or neglects:

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Service Agreement within 30 days after payment is due, or
- (b) to cure any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Service Agreement, within 30 Days after FortisBC Energy gives to the Customer notice of such default or, in the case of a default that cannot with due diligence be cured within a period of 30 Days, the Customer fails to proceed promptly after the giving of such notice with due diligence to cure the same and thereafter to prosecute the curing of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, at its option and without liability therefore

- (a) suspend further service to the Customer and may refuse to deliver Gas to the Customer until the default has been fully remedied, and no such suspension or refusal will relieve the Customer from any obligation under this Rate Schedule or the Service Agreement, or

- (b) terminate the Service Agreement, and no such termination of the Service Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Customer for what would otherwise have been the remainder of the term of the Service Agreement.

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- 9.2 **Bankruptcy or Insolvency** - If the Customer becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Customer seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Service Agreement by giving notice in writing to the Customer and thereupon FortisBC Energy may cease further delivery of Gas to the Customer and the amount then outstanding for Gas provided under the Service Agreement will immediately be due and payable by the Customer.

10. Notice

- 10.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Service Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

If to FortisBC Energy

FORTISBC ENERGY (VANCOUVER ISLAND) INC.

MAILING ADDRESS:

16705 Fraser Highway
Surrey, B.C.
V4N 0E8

BILLING AND PAYMENT:

Attention: Industrial Billing
Telephone: 1-855-873-8773
Fax: (604) 293-2920

LEGAL AND OTHER:

Attention: Director; Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Customer, then as set out in the Service Agreement.

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10.2 **Specific Notices** - Notwithstanding section 10.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Customer as authorized to receive such notices, or
- (b) given by the Customer by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure..."Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 4 of the Service Agreement) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Natural Gas Vehicle Service Rate Schedule effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Natural Gas Vehicle Service Rate Schedule and the Service Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

11. Interpretation

11.1 **Definitions in the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service** - Except where the context requires otherwise or except as otherwise expressly provided in this Rate Schedule, all words and phrases defined in the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service and used in this Rate Schedule or in a Service Agreement have the meanings set out in the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service.

11.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the meaning of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the term of the Service Agreement will be similarly adjusted.

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11.3 **Further Definitions** - Additionally, except where the context requires otherwise, each of the words and phrases described in the Definitions have the meanings as set out in the Definitions.

11.4 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Service Agreement

- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
- (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
- (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
- (d) all words, phrases and expressions used in this Rate Schedule or in a Service Agreement that have a common usage in the gas industry and that are not defined in the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service, the Definitions or in the Service Agreement have the meanings commonly ascribed thereto in the gas industry, and
- (e) the headings of the sections set out in this Rate Schedule or in the Service Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Service Agreement.

12. Miscellaneous

12.1 **Waiver** - No waiver by either FortisBC Energy or the Customer of any default by the other in the performance of any of the provisions of this Rate Schedule or the Service Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.

12.2 **Enurement** - The Service Agreement will enure to the benefit and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.

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- 12.3 **Assignment** - The Customer will not assign the Service Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Customer from its obligations under this Rate Schedule or under the Service Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Customer.
- 12.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Service Agreement will be effective or binding upon the parties unless such amendment or variation is set forth in writing and duly executed by the parties.
- 12.5 **Proper Law** - The Service Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 12.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Service Agreement and of the terms and conditions thereof.
- 12.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Service Agreement and the rights and obligations of FortisBC Energy and the Customer under this Rate Schedule and the Service Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Customer.
- 12.8 **Further Assurances** - Each of FortisBC Energy and the Customer will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Service Agreement and to assure the completion of the transactions contemplated hereby.
- 12.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Service Agreement will be made by telegraphic transfer to, or cheque or bank cashier's cheque drawn on, a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Definitions

- (a) **British Columbia Utilities Commission** - means the British Columbia Utilities Commission constituted under the *Utilities Commission Act* of British Columbia and includes and is also a reference to
- (i) any commission that is a successor to such commission, and
 - (ii) any commission that is constituted pursuant to any statute that may be passed which supplements or supersedes the *Utilities Commission Act* of British Columbia.
- (b) **Commencement Date** - means the Day specified as the Commencement Date in the Service Agreement.
- (c) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (d) **Customer** - means a person who enters into a Service Agreement with FortisBC Energy.
- (e) **Day** - means, subject to section 11.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (f) **Definitions** - means the definitions appended to this Rate Schedule.
- (g) **Delivery Point** - means the point specified in a Service Agreement where FortisBC Energy delivers Gas to a Customer.
- (h) **Force Majeure** - means 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 the public enemy, wars, riots, blackouts, insurrections, failure or inability to secure materials or labour by reason of priority, regulations or orders of government, serious epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipes, or freezing of wells or pipelines, or the failure of Gas supply, temporary or otherwise, from a Supplier of Gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of Force Majeure by a Transporter that results in Gas being unavailable for delivery.

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- (i) **FortisBC Energy** - means FortisBC Energy (Vancouver Island) Inc.
- (j) **FortisBC Energy System** - means the Gas transmission and distribution system owned and operated by FortisBC Energy, as such system is expanded, reduced or modified from time to time.
- (k) **Franchise Fees** - means the aggregate of all monies payable by FortisBC Energy to a municipality or First Nations lands (formerly, reserves within the *Indian Act*)
- (i) for the use of the streets and other property to construct and operate the utility business of FortisBC Energy within a municipality or First Nations lands (formerly, reserves within the *Indian Act*),
 - (ii) relating to the revenues received by FortisBC Energy for services provided and Gas consumed within the municipality or First Nations lands (formerly, reserves within the *Indian Act*), and
 - (iii) relating, if applicable, to the value of Gas transported by FortisBC Energy through the municipality or First Nations lands (formerly, reserves within the *Indian Act*).
- (l) **Gas** - means the residue remaining after raw gas has been subjected to any or all of the following permissible processes
- (i) the removal of any of its constituent parts other than methane, and the removal of methane to such extent as is necessary in removing other constituents,
 - (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, gathering, transmission, transportation, storage, removal from storage and delivery, and
 - (iii) the addition of odorant by FortisBC Energy,
- but for greater certainty Gas does not include propane.
- (m) **Heat Content** - means the gross heating value of the Gas, determined on the basis of a temperature of 15° Celsius with the Gas free of all water vapour and at an absolute pressure of 101.325 kilopascals, with the products of combustion cooled to the initial temperature of the Gas and the water formed by the combustion condensed to the liquid state. The Heat Content will be expressed in megajoules per cubic metre of Gas (MJ/m³) rounded to two decimal places.
- (n) **Hour** - means any consecutive 60 minute period.

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- (o) **Month** - means, subject to any changes from time to time required by FortisBC Energy in the starting time of its Gas Day, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.
- (p) **NGV** - means natural gas for vehicles
- (q) **NGV Firm Gas Service** - means the sale and delivery of Gas on a firm basis to the Customer.
- (r) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (s) **Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, Definitions and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (t) **Service Agreement** - means an agreement between FortisBC Energy and a Customer to provide service pursuant to this Rate Schedule.
- (u) **Supplier** - means a party who sells Gas to FortisBC Energy.
- (v) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (w) **Transporter** - means, in the case of the Columbia service area, TransCanada PipeLines Limited, B.C. System, a Canadian corporation, and in the case of the Inland and Lower Mainland service areas, Westcoast Energy Inc., a Canadian corporation, and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas service or resale.
- (x) **10³m³** - means 1,000 cubic metres.

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Table of Charges

NGV Service Charge per Gigajoule \$ 2.25

Special Conditions

FortisBC Energy may, in its sole discretion, reduce the NGV Service Charge per Gigajoule to any Customer where such reduction is necessary to encourage expansion of the NGV market. Any reduction in the NGV Service Charge will be specified in the Service Agreement.

FortisBC Energy may make a promotional grant towards the cost to purchase a factory-built natural gas vehicle, or the cost to convert a vehicle to natural gas to meet requirements as set by the Government of Canada, provided that such vehicles will obtain Gas from refueling facilities in a FortisBC Energy service area. The amount of the grant would not exceed \$10 per GJ, based on estimated consumption over a one year period, up to a maximum total grant by vehicle type as listed in the table below:

Factory Built NGV Incentive Grants		
Vehicle Description	GVW (#)	Maximum Grant
Light Duty	< 10,000	\$ 2,500
Medium Duty	< 17,000	\$ 5,000
Heavy Duty	> 17,000	\$ 10,000

The amount of each grant will not exceed the 5 year projected net revenue to FortisBC Energy from each corresponding vehicle.

FortisBC Energy may also fund Special Demonstration project grants, tied to an individual vehicle purchased by a Customer. The amount of the Special Demonstration grant will not exceed the premium cost for the natural gas option for the vehicle. The total funds paid out under the Special Demonstration project grants will not exceed \$100,000 in any one year.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-17-11, current rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers have been established as interim rates, effective January 1, 2012. Final determination of rates for FortisBC Energy (Vancouver Island) Inc. Core Market sales and transportation customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent rates approved.

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**NATURAL GAS VEHICLE
SERVICE AGREEMENT**

This Agreement dated the _____ day of _____, 20____, is between
FortisBC Energy (Vancouver Island) Inc. ("FortisBC Energy") and _____

(the "Customer").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System;
- B. The Customer is the operator of _____ located in or
near _____ (the "Premises") in the Province of British Columbia,
from which the Customer desires to dispense NGV;
- C. The Customer / or _____ is the registered owner of the Premises;
- D. The Customer desires to purchase from FortisBC Energy NGV Firm Gas Service for the
Premises in accordance with the Natural Gas Vehicle Service Rate Schedule.

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

1. Specific Information

Estimated Maximum Consumption _____ Gigajoules per Day
(Maximum Day Delivery)

and _____ Gigajoules per Hour

Commencement Date: _____

Expiry Date of First Contract Term: One Year after Commencement Date

Automatic Contract Extension: Year to Year

Delivery Point: _____

Gauge Pressure at the Delivery Point: _____ kilopascals

Service Address: _____

Account Number: _____

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FortisBC Energy (Vancouver Island) Inc.
Natural Gas Vehicle Service Agreement

Address of Customer for receiving notices:

(name of Customer) Attention: _____

(address of Customer) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this Service Agreement or the Natural Gas Vehicle Service Rate Schedule to any such information is to the information set out above.

2. Rate Schedule

- 2.1 **Additional Terms** - All rates, terms and conditions set out in the Natural Gas Vehicle Service Rate Schedule or the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service, as either of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the rates, terms and conditions contained in this Service Agreement and form part of this Service Agreement and bind FortisBC Energy and the Customer as set out herein.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing and except as specified in this Service Agreement, the Customer will pay to FortisBC Energy all of the amounts set out in the Natural Gas Vehicle Service Rate Schedule for the Services provided under the Natural Gas Vehicle Service Rate Schedule and this Service Agreement.
- 2.3 **Conflict** - Where anything in either the Natural Gas Vehicle Service Rate Schedule or the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service conflicts with any of the rates, terms and conditions set out in this Service Agreement, this Service Agreement governs. Where anything in the Natural Gas Vehicle Service Rate Schedule conflicts with any of the rates, terms and conditions set out in the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales Service, the Natural Gas Vehicle Service Rate Schedule governs.

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3. Limitation on Liability and Indemnity

- 3.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment permitted under the FortisBC Energy (Vancouver Island) Inc. Tariff Part A Distribution Sales, this Service Agreement or the Natural Gas Vehicle Service Rate Schedule.
- 3.2 **Indemnity** - The Customer will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgements, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of
- (a) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges, and
 - (b) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Customer or on the delivery of Gas to the Customer by FortisBC Energy, or on any other Service provided by FortisBC Energy to the Customer.
- 3.3 These indemnities will survive the termination of this Service Agreement.

4. Force Majeure

- 4.1 **Force Majeure** - Subject to the other provisions of this section 4, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Service Agreement, the obligations of both FortisBC Energy and the Customer will be suspended to the extent necessary for the period of the Force Majeure condition.
- 4.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 4, FortisBC Energy will be deemed to have issued to the Customer a notice of curtailment.

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4.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 4.1 of this Service Agreement under any of the following circumstances

- (a) to the extent that the failure was caused by the 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 the 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 Service Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.

4.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.

4.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 4, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 4.1 of this Service Agreement.

4.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 4, Force Majeure will not relieve or release either party from its obligations to make payments to the other.

4.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will endeavour to give the Customer as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will use all diligence to restore service as quickly as possible.

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5. Arbitration

- 5.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 5.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting forth the nature of the dispute.
- 5.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 5.2 of this Service Agreement to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any Customer or supplier of the Customer, or FortisBC Energy.
- 5.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 5.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

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6. Rates

6.1 For NGV Firm Gas Service, the Customer agrees to pay (check one):

_____ the charges set out in the Table of Charges of the Natural Gas Vehicle Service Rate Schedule, which may be amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission

or

_____ the following special charges, fixed for the term of the Service Agreement.

plus the Gas Cost Recovery Charge per Gigajoule, as set out in the Table of Charges of the Natural Gas Vehicle Service Rate Schedule.

IN WITNESS WHEREOF the parties hereto have executed this Service Agreement.

FORTISBC ENERGY (VANCOUVER ISLAND) INC.

(here insert name of Customer)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.
FORT NELSON SERVICE AREA

GAS TARIFF

Stating Terms and Conditions and Rates for Gas Service
in the Fort Nelson Service Area of British Columbia

[Cancelled per Order No. G-XX-12 Approving FortisBC Energy Utilities Common Rates,
Amalgamation and Rate Design Application](#)

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FortisBC Energy Inc. Fort Nelson Service Area Tariff
Index

This Tariff is available for public inspection at:

FortisBC Energy Inc.
Operations Centre
16705 Fraser Highway
Surrey, B.C.
V4N 0E8

- and -

FortisBC Energy Inc.
Fort Nelson Service Area
3901 Nahanni Drive
Fort Nelson, B.C.
V0C 1R0

The Tariff is also available for inspection on-line at the FortisBC Energy website at
www.fortisbc.com.

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Definitions

For definitions, please refer to the FortisBC Energy Tariff under the General Terms and Conditions section.

CANCELLED PER BCUC ORDER NO. G-XX-12

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General Terms and Conditions

For General Terms and Conditions of service for the Fort Nelson Service Area, please refer to the FortisBC Energy Tariff under the General Terms and Conditions section.

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RATE CLASSIFICATION AND RATES

Domestic Service

(a) Availability

To firm gas supplied at One (1) point of delivery and through One (1) meter for use in approved appliances for all residential uses in single-family residences, separately metered single-family apartments or common areas serving strata lot owners of residential condominium complexes.

Option A is applicable to any customer qualifying for Domestic Service where the primary space heating equipment utilized on the premises was purchased and installed with the assistance of a promotional incentive provided by Company. Subsequent to providing the promotional incentive, Option A is applicable:

- (i) for a term of 120 Months,
- (ii) to all gas bills with a billing period of approximately 30 days.

Option B is applicable to any customer qualifying for Domestic Service where the primary space heating equipment utilized on the premises was not purchased and installed with the assistance of a promotional incentive provided by Company.

(b) Monthly Rate

Rate 1

Option A: Where the customer's primary space heating equipment utilized on the premises was purchased and installed with the assistance of a promotional incentive provided by the Company:

Minimum daily charge to include
the first 2 Gigajoules/month prorated
on a daily basis

\$0.5469¹ plus \$0.0391
times the amount of the
promotional incentive
divided by \$100.

R

Next 28 Gigajoules in any month
Excess of 30 Gigajoules in any month

@ \$5.952¹ per Gigajoule
@ \$5.882¹ per Gigajoule

R

Effective September 30, 1990, Option A is closed to customers who have not availed themselves of the promotional incentive prior to that date.

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Option B: Where the customer's primary space heating equipment utilized on the premises was not purchased and installed with the assistance of a promotional incentive provided by the Company:

Minimum daily charge to include
the first 2 Gigajoules/month prorated
on a daily basis

\$0.5469¹

Next 28 Gigajoules in any month
Excess of 30 Gigajoules in any month

@ \$5.952¹ per Gigajoule
@ \$5.882¹ per Gigajoule

R

R

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. Fort Nelson Service Area have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. Fort Nelson Service Area will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

Notes:

1. Rate includes the Revenue Stabilization Adjustment Amount applicable to Fort Nelson Service Area Rate 1 Customers. For the period January 1, 2012 to December 31, 2012, the Revenue Stabilization Adjustment Amount is a credit of \$0.011 per Gigajoule.

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General Service

(a) Availability

Available to all consumers.

(b) Monthly Rate

General Service

Rate 2.1: Applicable to customers who have consumed less than 6,000 Gigajoules in the twelve months ended with the most recent October billing.

Minimum daily service charge
to include the first 2 Gigajoules/month prorated
on a daily basis \$1.1521¹

R

Next 298 Gigajoules in any month @ \$6.252¹ per Gigajoule
Excess of 300 Gigajoules in any month @ \$6.166¹ per Gigajoule

R

Rate 2.2: Applicable to customers who have consumed a quantity of gas equal to or greater than 6,000 Gigajoules in the twelve months ended with the most recent October billing.

Minimum monthly service charge
to include the first 2 Gigajoules/month prorated
on a daily basis \$1.1521¹

R

Next 298 Gigajoules in any month @ \$6.252¹ per Gigajoule
Excess of 300 Gigajoules in any month @ \$6.166¹ per Gigajoule

R

With respect to customers who do not have a twelve-month consumption record, the Company shall assign the applicable rate based on a mutually agreed upon annual volume forecast.

Notes:

1. Rate includes the Revenue Stabilization Adjustment Amount applicable to Fort Nelson Service Area Rate 2.1 and 2.2 Customers. For the period January 1, 2012 to December 31, 2012, the Revenue Stabilization Adjustment Amount is a credit of \$0.011 per Gigajoule.

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Natural Gas Vehicle Fuel Service

Rate 2.3 Applicable to firm gas supplied for the purpose of being further compressed and dispensed as fuel to operate vehicles.

Minimum monthly service charge
to include the first 2 Gigajoules

\$35.19

R

Next 298 Gigajoules in any month @ \$7.003 per Gigajoule

Excess of 300 Gigajoules in any month @ \$6.915 per Gigajoule

R

The Company may make a promotional grant of up to \$1,700 per vehicle towards the vehicle conversion costs of retail customers using public refuelling facilities within the Company's service area. The amount of each grant shall not exceed the four (4) year projected net revenue from each vehicle.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. Fort Nelson Service Area have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. Fort Nelson Service Area will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

Compression/Dispensing Service

Rate 2.4: In addition to gas service rendered and charged for under Rate 2.3, Company may provide on-site compression and refuelling services at rates which are fully compensatory and filed, as required, with the British Columbia Utilities Commission.

(c) **General Conditions**

Except for Compression/Dispensing Service - Rate 2.4, service under Rates 2.1 to 2.3 is available on a monthly contract which shall continue from month to month thereafter until either party shall give to the other party at least ten (10) days prior to the expiration of any such month a written notice of desire to terminate the same, whereupon at the expiration of such month, it shall cease and terminate.

Contract for Compression/Dispensing Service - Rate 2.4 shall be for a period of not less than five (5) years with no seasonal or temporary disconnection of service.

Contract shall be automatically extended from year to year thereafter unless cancelled by either the Company or the Buyer in accordance with the terms of the Service Agreement.

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Industrial Service

(a) Availability

For industrial use only. To firm gas, no portion of which shall be re-sold, supplied at one point of delivery and through one meter.

It may be supplied to tenants of the consumer on the consumer's premises through the consumer's system. Consumers under this rate may be restricted by the Company to a total of 790 GJ per day, at the discretion of the Company.

(b) Monthly Rate

Rate 3.1: Applicable to customers with forecasted consumption for the ensuing calendar year of a quantity of gas less than 96,000 Gigajoules.

(i) Delivery Charge per Gigajoule

First	20	Gigajoules in any month @ \$2.910
Next	260	Gigajoules in any month @ \$2.690
Excess over	280	Gigajoules in any month @ \$2.174

(ii) Gas Cost Recovery Charge per Gigajoule @ \$ 3.553 | R

(iii) Minimum Monthly Delivery Charge \$ 1,826.00

(iv) Rider 5 per Gigajoule \$ (0.011)

Rate 3.2: Applicable to customers with forecasted consumption for the ensuing calendar year of a quantity of gas equal to or in excess of 96,000 Gigajoules, but less than 360,000 Gigajoules.

(i) Delivery Charge per Gigajoule

First	20	Gigajoules in any month @ \$2.910
Next	260	Gigajoules in any month @ \$2.690
Excess over	280	Gigajoules in any month @ \$2.174

(ii) Gas Cost Recovery Charge per Gigajoule @ \$ 3.553 | R

(iii) Minimum Monthly Delivery Charge \$ 1,826.00

(iv) Rider 5 per Gigajoule \$ (0.011)

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Rate 3.3: Applicable to customers with forecasted consumption for the ensuing calendar year of a quantity of gas equal to or in excess of 360,000 Gigajoules.

(i) Delivery Charge per Gigajoule

First	20	Gigajoules in any month @ \$2.910
Next	260	Gigajoules in any month @ \$2.690
Excess over	280	Gigajoules in any month @ \$2.174

(ii) Gas Cost Recovery Charge per Gigajoule @ \$ 5.553 | R

(iii) Minimum Monthly Delivery Charge \$1,826.00

(iv) Rider 5 per Gigajoule \$ (0.011)

Delivery Margin Related Rider

Rider 5 Revenue Stabilization Adjustment Charge – Applicable to Fort Nelson Service Area Rate 3.1, 3.2 and 3.3 Customers for the period January 1, 2012 to December 31, 2012.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. Fort Nelson Service Area have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. Fort Nelson Service Area will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

(c) General Conditions

- (i) This classification and rate is available only on an annual contract, which shall continue from year to year thereafter until either party shall give to the other party at least thirty (30) days prior to the expiration of any such year a written notice of desire to terminate the same, whereupon at the expiration of such year, it shall cease and terminate.
- (ii) No equipment which has been served with gas under this rate shall be served with gas under any other rate, during any calendar year while the customer's agreement for service under this rate is in force, without the permission of the Company.
- (iii) No equipment which has been served with gas under this rate shall be served with gas under any other rate, during any calendar year while the customer's agreement for service under this rate is in force, without the permission of the Company.

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FORTISBC ENERGY INC.
FORT NELSON SERVICE AREA

RATE SCHEDULE 25
GENERAL FIRM TRANSPORTATION

CANCELLED PER BCUC ORDER NO. G-XX-12

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1. Applicability

- 1.1 Description of Applicability** - This Rate Schedule applies to the provision of firm transportation service through one meter station to one Shipper.
- 1.2 Transportation Agreement** - FortisBC Energy will only transport Gas pursuant to an executed Transportation Agreement. FortisBC Energy is not offering to provide service as a common carrier.
- 1.3 British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

2. Conditions of Service

- 2.1 Conditions** - This Rate Schedule is available in all territory served by FortisBC Energy under the tariff of which this Rate Schedule is a part if
- (a) adequate capacity exists on the FortisBC Energy System,
 - (b) the Shipper has contracted for a supply of Gas, which has been approved by the British Columbia Utilities Commission and any other authorities having jurisdiction,
 - (c) the Shipper has contracted with the Transporter, or has caused to be contracted with the Transporter, firm delivery to the Interconnection Point each Day over the term of the Transportation Agreement of a quantity of Gas equal to the DTQ,
 - (d) where the Shipper is not an End-User of the Gas to be transported pursuant to the Transportation Agreement
 - (i) the End-User is specified in the Transportation Agreement,
 - (ii) the Shipper does not deliver Gas to a party other than the End-User specified in the Transportation Agreement,
 - (iii) the term of the Transportation Agreement is identical to the term of the gas supply contract between the Shipper and the End-User, which will be for a period of not less than one Contract Year, and

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- (iv) the Shipper has provided to FortisBC Energy prior to the commencement of service under this Rate Schedule in a form acceptable to FortisBC Energy the following
- (A) an irrevocable authorization from the End-User permitting FortisBC Energy access to the End-User's property, appropriate easements and right of ways on the End-User's property to lay, construct and operate the pipeline and facilities and equipment deemed necessary by FortisBC Energy to provide Gas service under this Rate Schedule, and
 - (B) a declaration from the End-User agreeing to comply with all instructions, orders, notices, directions and requests by FortisBC Energy that would be applicable to the End-User if the End-User were a Shipper under a Transportation Agreement, and
- (e) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 12.1 (Facilities and Equipment).

2.2 Security - In order to secure the prompt and orderly payment of the charges to be paid by the Shipper to FortisBC Energy under the Transportation Agreement FortisBC Energy may require the Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the maximum amount payable by the Shipper under this Rate Schedule and the Transportation Agreement for a period of 90 Days. Where FortisBC Energy requires a Shipper to provide a letter of credit and the Shipper is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

3. Transportation

3.1 Transportation of Gas - Subject to Discontinuance of Service and Refusal of Service of the General Terms and Conditions of FortisBC Energy, FortisBC Energy will transport for and deliver to the Shipper at one Delivery Point (except as otherwise specified in the Transportation Agreement) on each Day the quantity of Gas, up to the DTQ, received at the Interconnection Point from the Shipper for the charges and on all of the terms and conditions set out in either this Rate Schedule or the Transportation Agreement.

3.2 Maximum Hourly Quantities - FortisBC Energy will not be obliged to receive or deliver in one Hour more than 5% of the DTQ.

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3.3 **Pressure at Interconnection Point** - All Gas delivered to FortisBC Energy at the Interconnection Point by or on behalf of the Shipper will not be at less than the pressure specified in the Transporter's Service Terms.

3.4 **Pressure at Delivery Point** - All Gas delivered by FortisBC Energy at the Delivery Point to or on behalf of the Shipper will not be at less than the pressure specified in the Transportation Agreement.

4. Table of Charges

4.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges.

5. Unauthorized Gas Use

5.1 **Charges for Unauthorized Service** - On any Day the Shipper takes Unauthorized Overrun Gas, the Shipper will pay to FortisBC Energy the charge for Unauthorized Overrun Gas set out in the Table of Charges.

5.2 **Payments Not License** - Payments made by the Shipper to FortisBC Energy for Unauthorized Overrun Gas neither give the Shipper the right to take Unauthorized Overrun Gas, nor exclude or limit any other remedies available to FortisBC Energy for the Shipper's taking of Unauthorized Overrun Gas.

5.3 **Notice of Curtailment** - Any notice from FortisBC Energy to the Shipper with respect to the discontinuance or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and be confirmed by facsimile when such means of communication are available and will specify the quantity of Gas to which the Shipper is curtailed and the time at which such curtailment is to be made. FortisBC Energy will endeavour to give the Shipper as much notice as possible with respect to such curtailment, not to be less than 8 hours' prior notice unless prevented by Force Majeure or unless the Transporter does not provide to FortisBC Energy at least 8 hours' prior notice of reduced availability of gas.

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5.4 Default Regarding Curtailment - If the Shipper at any time fails or neglects to comply with a notice from FortisBC Energy to discontinue or curtail the Shipper's take as set out in section 6.6 (Failure to Deliver to Interconnection Point), FortisBC Energy may, in addition to any other remedy which it may then or thereafter have, at its option, without liability therefore and without any prior notice to the Shipper

- (a) turn off the valve at the Delivery Point, or
- (b) deliver such Gas and charge the Shipper for such Gas consumed on that Day the charge for Unauthorized Overrun Gas set out in the Table of Charges.

6. Nomination

6.1 Capacity on Transporter's Pipeline - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for the Shipper on the Transporter's pipeline, and from time to time when such party changes.

6.2 Requested Quantity - The Shipper will provide to FortisBC Energy by facsimile or other method approved by FortisBC Energy, prior to 7:30 a.m. Pacific local time on each day (or such other time as may be specified from time to time by FortisBC Energy) such information as may be requested by FortisBC Energy, including the Requested Quantity for the Day commencing in approximately 24 hours. It is intended that, except in circumstances beyond the Shipper's forecasting ability, the Requested Quantity will approximately equal the quantity of gas the Shipper will actually consume on such Day. If the Shipper does not notify FortisBC Energy in accordance with the foregoing, then the Requested Quantity for the Day commencing in approximately 24 hours will be deemed to be the Requested Quantity, adjusted as set out in section 6.3 (Adjustment of Requested Quantity), for the Day just commencing.

6.3 Adjustment of Requested Quantity - FortisBC Energy will adjust the Requested Quantity, described in section 6.2 (Requested Quantity), when in the reasonable opinion of FortisBC Energy any modification is required: in order to minimize the Month end balancing quantity; during any period of discontinuance or curtailment provided for in this Rate Schedule or the Transportation Agreement; or on any Day between November 1 and April 1, in any Contract Year when FortisBC Energy wishes to increase the Requested Quantity to the level available to the Shipper on the Transporter's pipeline. On any Day FortisBC Energy will be entitled to utilize the balance of the Shipper's Gas delivered at the Interconnection Point if not required by the Shipper.

6.4 Request to Transporter - FortisBC Energy will provide to the Transporter the Requested Quantity, adjusted as set out in section 6.3 (Adjustment of Requested Quantity).

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6.5 Delivery to Interconnection Point - The Shipper will cause to be delivered to the Interconnection Point on each Day a quantity of Gas at least equal to the Requested Quantity, adjusted as set out in section 6.3 (Adjustment of Requested Quantity).

6.6 Failure to Deliver to Interconnection Point - If on any Day the Authorized Quantity from the Transporter is less than the quantity provided pursuant to section 6.4 (Request to Transporter), FortisBC Energy may in its discretion discontinue or curtail service hereunder to such Authorized Quantity or may deliver additional Gas and charge the Shipper for such additional gas consumed on that Day the authorized overrun charge set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may in its discretion discontinue or curtail service to the Shippers on a basis deemed equitable by FortisBC Energy. FortisBC Energy will reallocate the deficiency if it obtains information that allows it to determine responsibility.

7. Balancing

7.1 Monthly Adjustments - FortisBC Energy will make monthly adjustments for the differences between the sum of the Authorized Quantities for the applicable Month and the applicable Monthly Transportation Quantity as follows

- (a) for over deliveries (the sum of the Authorized Quantities is greater than the Monthly Transportation Quantity) FortisBC Energy will maintain an inventory account for the Shipper and will increase the balance in the inventory account by the amount of the excess. FortisBC Energy and the Shipper will cooperate to limit the quantity of Gas maintained in the Shipper's inventory account, and
- (b) for under deliveries (the sum of the Authorized Quantities is less than the Monthly Transportation Quantity), and subject to availability of Gas, FortisBC Energy will sell to the Shipper the deficiency quantities at the authorized overrun charge set out in the Table of Charges.

7.2 Imbalance Following Termination - If FortisBC Energy has received a quantity of Gas in excess of the quantity delivered to the Shipper during the term of a Transportation Agreement, then the Shipper may request the excess quantity be returned within 90 Days following termination of the Transportation Agreement.

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8. Group Nominations and Balancing

- 8.1 Group Nomination and Balancing** - If a Customer Agent has executed a Customers' Agent Agreement, and if the members of the Customer Agent's Group are in the same division of FortisBC Energy and receive service under this Rate Schedule, the members of the Customer Agent's Group may, in the discretion of FortisBC Energy, nominate and balance on a Group basis pursuant to sections 6 (Nomination) and 7 (Balancing), as modified by this section, and the Customer Agent will be the agent for each of the members of a Group for the purposes of any and all matters set out in sections 6 (Nomination) and 7 (Balancing).
- 8.2 Monthly Transportation Quantity** - The Monthly Transportation Quantity for a Group is the sum of the Monthly Transportation Quantity for each member of the Group.
- 8.3 Estimates by Customer Agent** - The Customer Agent will notify FortisBC Energy of the Requested Quantity described in section 6.2 (Requested Quantity) on behalf of all members of a Group on an aggregate basis.
- 8.4 Charges to be Paid by Customer Agent** - The charges for Authorized Overrun Gas and Unauthorized Overrun Gas, set out in the Table of Charges, will be determined based on the quantities transported on behalf of the Group as a whole and will be paid to FortisBC Energy by the Customer Agent as specified in the Customers' Agent Agreement. Notwithstanding the foregoing, each Shipper is jointly and severally liable as principal obligant with the Customer Agent for all charges for Authorized Overrun Gas and Unauthorized Overrun Gas, set out in the Table of Charges, applicable to such Shipper.
- 8.5 Security** - FortisBC Energy may require the Customer Agent to provide security, as set out in section 2.3 (Security), with necessary changes, for the performance of the Customer Agent's obligations under the Customers' Agent Agreement.

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9. Term of Transportation Agreement

9.1 Term - The initial term of the Transportation Agreement will begin on the Commencement Date and

- (a) if the Shipper is the End-User, will expire at 8:00 a.m. Standard Time on the November 1st next following, provided that if the foregoing would result in the initial term being for a period of less than one year, then the initial term will instead expire at the end of one further Contract Year, and
- (b) if the Shipper is not the End-User, the term of the Transportation Agreement will be as described in section 2.1(d) (iii).

9.2 Automatic Renewal Where the Shipper is End-User - If the Shipper is the End-User, and except as specified in the Transportation Agreement, the term of the Transportation Agreement will continue on a year to year basis after the expiry of the initial term until cancelled by either FortisBC Energy or the Shipper upon not less than 2 months' notice prior to the end of the Contract Year then in effect. If FortisBC Energy or the Shipper fails to request an amended DTQ within 2 months prior to the end of the Contract Year then in effect, the previous DTQ will remain in effect.

9.3 Early Termination - The term of the Transportation Agreement is subject to early termination in accordance with section 15 (Default or Bankruptcy).

9.4 Survival of Covenants - Upon the termination of the Transportation Agreement, whether pursuant to section 15 (Default or Bankruptcy) or otherwise,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this Rate Schedule and in the Transportation Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Transportation Agreement,

will survive such termination.

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10. Statements and Payments

- 10.1 Statements to be Provided** - FortisBC Energy will, on or before the 15th day of each month, deliver to the Shipper a statement for the preceding month showing the Gas quantities delivered to the Shipper and the amount due. FortisBC Energy will, on or before the 45th day after the end of a Contract Year, deliver to the Shipper a separate statement for the preceding Contract Year showing the amount required from the Shipper in respect of any indemnity due under a Transportation Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 10.2 Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Shipper fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy may include in the next bill to the Customer a late payment charge of 1½% per month (19.56% per annum).
- 10.3 Examination of Records** - Each of FortisBC Energy and the Shipper will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Transportation Agreement.

11. Quality

- 11.1 Minimum Standards** - All Gas delivered to the Interconnection Point by or on behalf of the Shipper and all Gas delivered to the Delivery Point will conform to the quality specifications set out in the Transporter's Service Terms.

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12. Measuring Equipment

- 12.1 Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Shipper and the Shipper will permit FortisBC Energy, without cost to FortisBC Energy, to use the Shipper's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy.
- 12.2 Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 12.1 (Facilities and Equipment) on the Shipper's property, the Shipper will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Shipper's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Transportation Agreement.
- 12.3 Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Shipper. Notice of the time and nature of each test conducted in response to communications with or at the request of the Shipper will be given by FortisBC Energy to the Shipper sufficiently in advance to permit a representative of the Shipper to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Shipper is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Shipper will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 12.4 Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.

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12.5 Correction of Measuring Errors - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible

- (a) by correcting the error if the percentage of error is ascertained by calibration tests or mathematical calculation,
- (b) by using the registration of any check measuring equipment if installed and accurately registering, and
- (c) by estimating the quantity of Gas delivered to the Shipper during the preceding periods under similar conditions when the meter was registering accurately.

12.6 Shipper's Equipment - The Shipper may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Shipper will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.

12.7 Right to be Present - FortisBC Energy and the Shipper will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.

12.8 Preservation of Records - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

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13. Measurement

- 13.1 Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 13.2 Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Department of Consumer & Corporate Affairs of Canada and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 13.3 Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

14. Representations, Warranties and Covenants

- 14.1 Title** - The Shipper covenants with FortisBC Energy that the Shipper will have good title to all Gas to be delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, free and clear of all liens, encumbrances and claims.
- 14.2 Title Not That of FortisBC Energy** - FortisBC Energy agrees that title to all Gas transported pursuant to the Transportation Agreement remains with the Shipper.
- 14.3 Acknowledgement** - The Shipper acknowledges that the Gas transported under the Transportation Agreement will be odorized and commingled with gas within the Transporter's pipeline system and the FortisBC Energy System and the Shipper agrees to accept a proportionate share of any Gas lost by pipeline failure, fire or other similar cause that may affect the Shipper's Gas.

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15. Default or Bankruptcy

15.1 Default - If the Shipper at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Transportation Agreement within 30 days after payment is due, or
- (b) to cure any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Transportation Agreement, within 30 days after FortisBC Energy gives to the Shipper notice of such default or, in the case of a default that cannot with due diligence be cured within a period of 30 days, the Shipper fails to proceed promptly after the giving of such notice with due diligence to cure the same and thereafter to prosecute the curing of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in section 5.4 (Default Regarding Curtailment), at its option and without liability therefore

- (a) suspend further transportation service to the Shipper and may refuse to deliver Gas to the Shipper until the default has been fully remedied, and no such suspension or refusal will relieve the Shipper from any obligation under this Rate Schedule or the Transportation Agreement, or
- (b) terminate the Transportation Agreement, and no such termination of the Transportation Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Shipper for what would otherwise have been the remainder of the term of the Transportation Agreement.

15.2 Bankruptcy or Insolvency - If the Shipper becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Shipper seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right at its sole discretion, to terminate the Transportation Agreement by giving notice in writing to the Shipper and thereupon FortisBC Energy may cease further delivery of Gas to the Shipper and the amount then outstanding for Gas provided under the Transportation Agreement will immediately be due and payable by the Shipper.

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16. Notice

- 16.1 Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Transportation Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

If to FortisBC Energy FORTISBC ENERGY INC.
MAILING ADDRESS: 16705 Fraser Highway
Surrey, B.C.
V4N 0E8
BILLING AND PAYMENT: Attention: Industrial Billing
Telephone: 1-855-873-8773
Fax: (604) 293-2920
CUSTOMER RELATIONS: Attention: Commercial & Industrial Energy
Solutions
Telephone: (604) 592-7843
Fax: (604) 592-7894
LEGAL AND OTHER: Attention: Director, Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Shipper, then as set out in the Transportation Agreement.

If to the Customer Agent, then as set out in the Customers' Agent Agreement.

- 16.2 Specific Notices** - Notwithstanding section 16.1 (Notice), notices with respect to Force Majeure will be sufficient if given by FortisBC Energy in writing by facsimile, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Shipper as authorized to receive such notices.

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17. Interpretation

- 17.1 Definitions in General Terms and Conditions of FortisBC Energy** - Except where the context requires otherwise or except as otherwise expressly provided in this Rate Schedule, all words and phrases defined in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out in the General Terms and Conditions of FortisBC Energy.
- 17.2 Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the meaning of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the term of the Transportation Agreement will be similarly adjusted.
- 17.3 Further Definitions** - Additionally, except where the context requires otherwise, each of the words and phrases described in the Definitions have the meanings ascribed thereto in the Definitions.
- 17.4 Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Transportation Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Transportation Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Transportation Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Transportation Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Transportation Agreement.

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18. Miscellaneous

- 18.1 Waiver** - No waiver by either FortisBC Energy or the Shipper of any default by the other in the performance of any of the provisions of this Rate Schedule or the Transportation Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 18.2 Enurement** - The Transportation Agreement will enure to the benefit and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 18.3 Assignment** - The Shipper will not assign the Transportation Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Shipper from its obligations under this Rate Schedule or under the Transportation Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Shipper.
- 18.4 Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Transportation Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 18.5 Proper Law** - The Transportation Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 18.6 Time is of Essence** - Time is of the essence of this Rate Schedule, the Transportation Agreement and of the terms and conditions thereof.
- 18.7 Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Transportation Agreement and the rights and obligations of FortisBC Energy and the Shipper under this Rate Schedule and the Transportation Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Shipper.

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18.8 Further Assurances - Each of FortisBC Energy and the Shipper will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Transportation Agreement and to assure the completion of the transactions contemplated hereby.

18.9 Form of Payments - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Transportation Agreement will be made by telegraphic transfer to, or cheque or bank cashier's cheque drawn on, a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Definitions

- (a) **Authorized Overrun Gas** - means any Gas taken by the Shipper during a Month which is in excess of the applicable Monthly Transportation Quantity less any Unauthorized Overrun Gas taken during such Month.
- (b) **Authorized Quantity** - means the quantity of energy (in Gigajoules) for each Day approved by the Transporter for transportation service on the Transporter's pipeline system, based on the quantity requested by the Shipper, adjusted as set out in section 6.3 (Adjustment to Requested Quantity).
- (c) **British Columbia Utilities Commission** - means the British Columbia Utilities Commission constituted under the *Utilities Commission Act* of British Columbia and includes and is also a reference to
- (i) any commission that is a successor to such commission, and
 - (ii) any commission that is constituted pursuant to any statute that may be passed which supplements or supersedes the *Utilities Commission Act* of British Columbia.
- (d) **Commencement Date** - means the day specified as the Commencement Date in the Transportation Agreement.
- (e) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (f) **Customer Agent** - means a person who enters into a Customers' Agent Agreement with FortisBC Energy.
- (g) **Customers' Agent Agreement** - means an agreement between FortisBC Energy and a Customer Agent pursuant to which the Customer Agent agrees to pay to FortisBC Energy the charges for Authorized Overrun Gas and Unauthorized Overrun Gas, set out in the Table of Charges, applicable to the Group.
- (h) **Day** - means, subject to section 17.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 8:00 a.m. Standard Time.
- (i) **Definitions** - means the definitions appended to this Rate Schedule.
- (j) **Delivery Point** - means the point specified in a Transportation Agreement where FortisBC Energy delivers Gas to a Shipper.

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- (k) **DTQ or Daily Transportation Quantity** - means the maximum quantity of Gas that FortisBC Energy is obligated to transport for and deliver to a Shipper at the Delivery Point on any particular Day, which in the discretion of FortisBC Energy reasonably reflects the Shipper's requirements and which is specified in a Transportation Agreement.
- (l) **End-User** - means a person specified in a Transportation Agreement who is a consumer of Gas within the service area of FortisBC Energy.
- (m) **Force Majeure** - means 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 the public enemy, wars, riots, blackouts, insurrections, failure or inability to secure materials or labour by reason of priority, regulations or orders of government, serious epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipes, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of Force Majeure by a Transporter that results in Gas being unavailable for delivery at the Interconnection Point.
- (n) **FortisBC Energy** - means FortisBC Energy, a body corporate incorporated pursuant to the laws of the Province of British Columbia under number 0778288.
- (o) **FortisBC Energy System** - means the Gas transmission and distribution system owned and operated by FortisBC Energy, as such system is expanded, reduced or modified from time to time.
- (p) **Franchise Fees** - means the aggregate of all monies payable by FortisBC Energy to a municipality:
- (i) for the use of the municipality's streets and other property to construct and operate the utility business of FortisBC Energy,
 - (ii) relating to the revenues received by FortisBC Energy for services provided and Gas consumed within the municipality, and
 - (iii) relating, if applicable, to the value of Gas transported by FortisBC Energy through the municipality.

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(q) **Gas** - means the residue remaining after raw gas has been subjected to any or all of the following permissible processes

- (i) the removal of any of its constituent parts other than methane, and the removal of methane to such extent as is necessary in removing other constituents,
- (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, gathering, transmission, transportation, storage, removal from storage and delivery, and
- (iii) the addition of odorant by FortisBC Energy,

but for greater certainty Gas does not include propane

(r) **General Terms and Conditions of FortisBC Energy** - means the general terms and conditions of FortisBC Energy from time to time approved by the British Columbia Utilities Commission.

(s) **Group** - means a group of Shippers or End-Users who each transport Gas under this Rate Schedule, using a common gas supply pool and common nomination procedure with the Transporter, and, in the case of Shippers, who have each entered into a Transportation Agreement or, in the case of End-Users, for whom one Shipper has entered into Transportation Agreements.

(t) **Heat Content** - means the gross heating value of the Gas, determined on the basis of a temperature of 15° Celsius with the Gas free of all water vapour and at an absolute pressure of 101.325 kilopascals, with the products of combustion cooled to the initial temperature of the Gas and the water formed by the combustion condensed to the liquid state. The Heat Content will be expressed in megajoules per cubic metre of Gas (MJ/m³) rounded to two decimal places.

(u) **Hour** - means any consecutive 60 minute period.

(v) **Interconnection Point** - means a point (specified as the "Delivery Point" in the Transportation Agreement relied upon by a Shipper for the movement of gas through the Transporter's pipeline system) where the FortisBC Energy System interconnects with the facilities of one of the Transporters of FortisBC Energy, as specified in a Transportation Agreement.

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- (w) **Month** - means, subject to any changes from time to time required by FortisBC Energy in the starting time of its Gas Day, the period beginning at 8:00 a.m. Standard Time on the first day of the calendar month and ending at 8:00 a.m. Standard Time on the first day of the next succeeding calendar month.
- (x) **MTQ or Monthly Transportation Quantity** - subject to section 8.2 (Monthly Transportation Quantity), means the lesser of the following quantities of Gas
- (i) the quantity of Gas FortisBC Energy has received from a Shipper during a Month plus any imbalance carried forward from the previous Month, and
 - (ii) the quantity of Gas obtained by multiplying the DTQ by the number of days in the Month, adjusted to reflect any quantity of Gas the Shipper fails to deliver to the Interconnection Point when provided by FortisBC Energy to the Transporter pursuant to section 6.4 (Request to Transporter) and any Gas interrupted or curtailed below the DTQ, such adjustments, if overlapping, to only count once.
- (y) **Rate Schedule 25 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, the Definitions and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (z) **Requested Quantity** - means the quantity of energy for each Day requested by the Shipper for firm transportation under Rate Schedule 25.
- (aa) **Shipper** - means a person who enters into a Transportation Agreement with FortisBC Energy. If the Shipper is not an End-User, then the word "Shipper" in the context of each of Delivery Point, property, deliveries of Gas, using of Gas, consuming of Gas, taking of Gas, curtailing of Gas, interrupting of Gas, limiting the taking of Gas, receiving of Gas, purchasing of Gas, accepting of Gas, supplying of Gas and requesting quantities of Gas, will also mean "End-User".
- (ab) **Standard Time** - means Pacific Standard Time.
- (ac) **Supplier** - means a party who sells gas to a Shipper or FortisBC Energy or has access to its own supplies of gas.
- (ad) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (ae) **Transportation Agreement** - means an agreement between FortisBC Energy and a Shipper to provide service pursuant to this Rate Schedule.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Original Page 4.19

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- (af) **Transporter** - means Westcoast and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.
- (ag) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (ah) **Unauthorized Overrun Gas** - means any Gas taken on any Day by a Shipper in excess of the curtailed quantity specified in any notice from FortisBC Energy, to interrupt or curtail the Shipper's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Shipper to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.
- (ai) **Westcoast** - means Westcoast Energy Inc., a Canadian corporation.
- (aj) **"10³m³"** - means 1,000 cubic metres.

CANCELLED PER BCUC ORDER NO. C-11-12

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Table of Charges

Fort Nelson
Service Area

1. Transportation

(a)	Delivery Charge per Gigajoule of MTQ	
(i)	First 20 Gigajoules	\$ 2.91
(ii)	Next 260 Gigajoules	\$ 2.69
(iii)	Excess over 280 Gigajoules	\$ 2.74
(iv)	Minimum Delivery Charge per Month	\$ 1,806.00
(b)	Administration Charge per Month	\$ 202.00
(c)	Rider 5 per Gigajoule	\$ (0.011)

2. Sales (at the Delivery Point)

(a)	Charge per Gigajoule of Authorized Overrun Gas	Station 2 Daily Price ¹ Average for Month
(b)	Charges for Unauthorized Overrun Gas	
(i)	Per Gigajoule on first 5 percent of specified quantity	Station 2 Daily Price ¹ Average for Month
(ii)	Per Gigajoule on all gas over 5 percent of specified quantity	the Greater of \$20.00/GJ or 1.5 X the Station 2 Daily Price ¹

Delivery Margin Related Rider

Rider 1 (Reserved for future use.)

Rider 5 **Revenue Stabilization Adjustment Charge** - Applicable to Fort Nelson Service Area Rate 25 Customers for the period January 1, 2012 to December 31, 2012.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. Fort Nelson Service Area have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. Fort Nelson Service Area will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

Notes:

- Station 2 Daily Price means the Westcoast Station 2 Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Westcoast Station 2 in Canadian dollars per Gigajoule.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Second Revision of Page 4.21

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GENERAL FIRM TRANSPORTATION AGREEMENT

This Agreement is dated the ____ day of _____, 20__, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm basis through the FortisBC Energy System to _____ located in or near _____ in the Province of British Columbia in accordance with Rate Schedule 25.

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

1. Specific Information

Daily Transportation Quantity (DTQ): _____ Gigajoules per day

Customer Agent and/or Group, if applicable: _____

Commencement Date: _____

Expiry Date: _____

(only specify an expiry date if term of Transportation Agreement is not to automatically continue from year to year as set out in section 9.2 of Rate Schedule 25 or if Shipper is not End-User)

End-User: _____

(insert name of End-User only if it differs from name of Shipper)

Delivery Point: _____

Gauge pressure at the Delivery Point: _____

Interconnection Point: The point at (____ km-post ____)
where the Transporter's pipeline system
in British Columbia interconnects with
the FortisBC Energy System.

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Effective Date: January 1, 2014

BCUC Secretary: _____ Original Page 4.22

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or Rate Schedule 25 to any such information is to the information set out above.

2. Rate Schedule 25

- 2.1 Additional Terms** - All rates, terms and conditions set out in Rate Schedule 25 or the General Terms and Conditions of FortisBC Energy, as either of them may be amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, are in addition to the rates, terms and conditions contained in this Transportation Agreement and form part of this Transportation Agreement and bind FortisBC Energy and the Shipper as if set out herein.
- 2.2 Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will pay to FortisBC Energy all of the amounts set out in Rate Schedule 25 for the services provided under such Rate Schedule 25 and this Transportation Agreement.
- 2.3 Conflict** - Where anything in either Rate Schedule 25 or the General Terms and Conditions of FortisBC Energy conflicts with any of the rates, terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in Rate Schedule 25 conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, Rate Schedule 25 governs.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

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3. Limitation on Liability and Indemnity

3.1 Limitation on Liability - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any discontinuance or curtailment permitted under the General Terms and Conditions of FortisBC Energy, this Transportation Agreement or Rate Schedule 25.

3.2 Indemnity - The Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following:

- (a) any defect in title to any Gas delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, or arising from any charges that are applicable to the Gas delivered to FortisBC Energy,
- (b) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges,
- (c) nominations made in accordance with sections 6 or 8 of Rate Schedule 25 by FortisBC Energy to the Transporter with respect to the Shipper's transportation volumes, whether or not the Shipper is a member of a Group,
- (d) Gas delivered by the Shipper to FortisBC Energy failing to meet the quality specifications set out in section 11.1 of Rate Schedule 25,
- (e) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Shipper or on the delivery of Gas to the Shipper by FortisBC Energy, or on any other service provided by FortisBC Energy to the Shipper, and
- (f) all charges for Authorized Overrun Gas and Unauthorized Overrun Gas, set out in the Table of Charges, whether or not the Shipper is a member of a Group.

3.3 Principal Obligor - If the Shipper is a member of a Group, the Shipper's obligations to pay the charges for Authorized Overrun Gas and Unauthorized Overrun Gas, both set out in the Table of Charges, are that of principal obligor and not of surety and are independent of the obligations of the Shipper's Customer Agent pursuant to the Customers' Agent Agreement and a separate action or actions may be brought against the Shipper, whether or not an action is brought against the Shipper's Customer Agent and whether or not the Customer Agent can be or is joined in any such action or actions.

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- 3.4 Waiver of Defences** - For greater certainty, if the Shipper is a member of a Group, FortisBC Energy will not be bound to exhaust its recourse against the Shipper's Customer Agent before being entitled to payment from the Shipper for the charges for Authorized Overrun Gas and Unauthorized Overrun Gas, both set out in the Table of Charges; the Shipper waives all diligence, demands, notices, protests, of the Shipper's obligations for the charges for Authorized Overrun Gas and Unauthorized Overrun Gas, both set out in the Table of Charges, and any and all claims or defences relating to lack of diligence or delays in collection or enforcement of any and all other securities taken by FortisBC Energy and consents to any and all renewals and extensions of the time for payment and this agreement will not be affected by the dissolution, arrangement, reorganization or assignment for the benefit of creditors, proposal or notice of intention to make a proposal to creditors or bankruptcy of the Shipper's Customer Agent (whether voluntary or compulsory), or by any amalgamation of the Customer Agent.

4. Force Majeure

- 4.1 Force Majeure** - Subject to the other provisions of this section 4, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Transportation Agreement, the obligations of both FortisBC Energy and the Shipper will be suspended to the extent necessary for the period of the Force Majeure condition.
- 4.2 Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 4, FortisBC Energy will be deemed to have issued to the Shipper a notice of curtailment.
- 4.3 Exceptions** - Neither party will be entitled to the benefit of the provisions of section 4.1 of this agreement under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 Transportation Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.

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- 4.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 4.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 4, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 4.1 of this agreement.
- 4.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 4, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 4.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will endeavour to give the Shipper as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will use all diligence to restore service as quickly as possible.
- 4.8 **Shipper's Gas** - If FortisBC Energy curtails or discontinues transportation of Gas by reason of Force Majeure the Shipper will make its supply of Gas available to FortisBC Energy, to the extent required by FortisBC Energy, to maintain service priority to those customers or classes of customers which FortisBC Energy determines should be served.

5. Arbitration

- 5.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 5.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

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- 5.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 5.2 of this agreement to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Shipper or FortisBC Energy.
- 5.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 5.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name - Please Print)

(Name - Please Print)

DATE: _____

DATE: _____

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Effective Date: January 1, 2014

BCUC Secretary: _____ Original Page 4.27

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This Agreement is dated the ____ day of _____, 20__, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Customer Agent").

A. The Customer Agent wishes to nominate on behalf of the members of a Group for transportation service on the Transporter's pipeline system and on the FortisBC Energy System; and

B. A Shipper or Shippers have entered into Transportation Agreements with FortisBC Energy in respect of each of the members of the Group.

1. Specific Information

Beginning Date of this agreement:

(no expiry date need be specified)

(name of Customer Agent)

(address of Customer Agent)

Telephone: _____

Fax: _____

(if space is insufficient, continue list on an additional page)

BCUC Secretary: _____ Original Page 4.28

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The information set out above is hereby approved by the parties and each reference in either this agreement or Rate Schedule 25 to any such information is to the information set out above.

2. Rate Schedule 25

- 2.1 **Definitions in Rate Schedule 25** - Except where the context requires otherwise or except as otherwise expressly provided in this agreement, all words and phrases defined in Rate Schedule 25 and used in this agreement have the meanings set out in Rate Schedule 25.
- 2.2 **Applicable Provisions of Rate Schedule 25** - The terms and conditions set out in sections 10 (Statements and Payments), 13 (Measurement), 15 (Default or Bankruptcy), 16 (Notice), 17 (Interpretation) and 18 (Miscellaneous) of Rate Schedule 25 apply to this agreement, with necessary changes, including the substitution of "Customer Agent" for "Shipper", as if set out in this agreement.

3. Gas Supply Charges

- 3.1 **Payments by Customer Agent** - The Customer Agent promises as principal obligant (and not as surety) to pay to FortisBC Energy the charges for Authorized Overrun Gas and the charges for Unauthorized Overrun Gas, both set out in the Table of Charges of Rate Schedule 25, determined based on the quantities transported from time to time on behalf of the Group as a whole.

4. Changes to Group

- 4.1 **Amendment to Agreement Required** - No Shipper or End-User may be added to or deleted from the Group without amending this agreement in writing and in accordance with the terms of this section.
- 4.2 **Deletions From Group** - If the Customer Agent wishes to cease nominating for a Shipper or End-User and the Customer Agent has given to FortisBC Energy 30 days' prior notice that such Shipper or End-User wishes to cease to be a member of the Group, FortisBC Energy agrees that it will amend this agreement to delete such Shipper or End-User from the Group and thereafter the Customer Agent will not be liable for any subsequently incurred charges for Authorized Overrun Gas or Unauthorized Overrun Gas, both as set out in the Table of Charges of Rate Schedule 25, in respect of any such Shipper or End-User.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

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5. Term

5.1 Term - The term of this agreement will commence on the beginning date specified in section 1 of this agreement and will expire on the earliest to occur of the following

- (a) 30 days following notice from the Customer Agent to FortisBC Energy that the Customer Agent wishes to cease to nominate for transportation service and balance on behalf of the Group,
- (b) the expiry or termination of the Transportation Agreements of all of the members of the Group,
- (c) the expiry date specified in section 1 of this agreement, and
- (d) 30 days following notice from FortisBC Energy to the Customer Agent that FortisBC Energy no longer wishes the members of the Group to nominate and balance on a Group basis.

5.2 Survival of Covenants - Upon the termination of this agreement, whether pursuant to section 15 (Default or Bankruptcy) of Rate Schedule 25 or otherwise,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with this agreement,

will survive such termination.

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6. Representations, Warranties and Covenants

6.1 Representations and Warranties - The Customer Agent represents, warrants and covenants with FortisBC Energy as follows

- (a) the members of the Group are listed in section 1 of this agreement,
- (b) the Customer Agent is the agent of each of the members of the Group and has the authority of each of the members of the Group for the purposes of any and all matters set out in sections 6 (Nomination), 7 (Balancing) and 8 (Group Nomination and Balancing) of Rate Schedule 25, and
- (c) FortisBC Energy may rely on any act or thing done, or document executed, by the Customer Agent in connection with of any and all matters set out in sections 6 (Nomination), 7 (Balancing) and 8 (Group Nomination and Balancing) of Rate Schedule 25.

6.2 Changes in Group - The Customer Agent will give to FortisBC Energy not less than 30 days' prior notice of each addition to or deletion from the Group.

7. Limitation on Liability and Indemnity

7.1 Limitation on Liability - None of FortisBC Energy, its employees, contractors and agents will be liable in damages for or on account of any discontinuance or curtailment permitted under the General Terms and Conditions of FortisBC Energy, this agreement or Rate Schedule 25.

7.2 Indemnity - The Customer Agent will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgements, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of nominations or balancing made in accordance with sections 6, 7 or 8 of Rate Schedule 25 with respect to the Group's transportation volumes.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

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8. Arbitration

- 8.1 Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 8.2 Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting forth the nature of the dispute.
- 8.3 Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 8.2 of this agreement to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any member or former member of the Group or any Supplier of any member or former member of the Group or FortisBC Energy.
- 8.4 Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 8.5 Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

9. Principal Obligant

- 9.1 Principal Obligant** - The Customer Agent's obligations under this agreement are that of principal obligant and not of surety and are independent of the obligations pursuant to the Group's Transportation Agreements and a separate action or actions may be brought against the Customer Agent, whether or not an action is brought against any members of the Group and whether or not any members of the Group can be or are joined in any such action or actions.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

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9.2 **Waiver of Defences** - For greater certainty, FortisBC Energy will not be bound to exhaust its recourse against the members of the Group before being entitled to payment from the Customer Agent hereunder; the Customer Agent waives all diligence, demands, notices, protests, of the Customer Agent's obligations under this agreement, and any and all claims or defences relating to lack of diligence or delays in collection or enforcement of any and all other securities taken by FortisBC Energy and consents to any and all renewals and extensions of the time for payment; and this agreement will not be affected by the dissolution, arrangement, reorganization, assignment for the benefit of creditors, proposal or notice of intention to make a proposal to creditors or bankruptcy of any member of the Group (whether voluntary or compulsory), or by any amalgamation of any member of the Group.

IN WITNESS WHEREOF the parties hereto have executed this agreement.

FORTISBC ENERGY INC.

(here insert name of Customer Agent)

BY:

(Signature)

BY:

(Signature)

(Title)

(Title)

(Name - Please Print)

(Name - Please Print)

DATE:

DATE:

CANCELLED PER BCUC ORDER NO G-XV-12

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Order No.:

Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary:

Original Page 4.33



FORTISBC ENERGY (WHISTLER) INC.

TARIFF

Stating Terms and Conditions and Rates for Gas Service

Cancelled per Order No. G-XX-12 Approving FortisBC Energy Utilities
Common Rates, Amalgamation and Rate Design Application

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Original Frontispiece

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Deleted: Original signed by E.M. Hamilton

This Tariff is available for public inspection at:

FortisBC Energy Operations Centre
16705 Fraser Highway
Surrey, B.C.
V4N 0E8

- and -

FortisBC Energy (Whistler) Inc.
8021 Mons Road
Whistler, B.C.
V0N 1B8

The Tariff is also available for inspection on-line at the FortisBC Energy website at
www.fortisbc.com.

CANCELLER PER BCUC ORDER NO. G-XX-12

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Deleted: March 1, 2011

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Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: Janaury 1, 2014

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Definitions

Unless the context indicates otherwise, in these Terms and Conditions and Rate Schedules, the following words have the following meanings:

- (a) **Basic Charge** - Means a fixed charge required to be paid by a Customer for Service as specified in the applicable Rate Schedule, or the prorated daily equivalent charge - calculated on the basis of a 365.25-day year (to incorporate the leap year), and rounded down to four decimal places. C/N
- (b) **British Columbia Utilities Commission** - Means the British Columbia Utilities Commission constituted under the *Utilities Commission Act* of British Columbia and includes and is also a reference to
- (i) any commission that is a successor to such commission, and
- (ii) any commission that is constituted pursuant to any statute that may be passed which supplements or supersedes the *Utilities Commission Act* of British Columbia. C
- (c) **Commercial Service** - Means the provision of firm Gas supplied to one Delivery Point and through one Meter Set for use in approved appliances in commercial, institutional or small industrial operations. C
- (d) **Customer** - Means a Person who is being provided Service or who has filed an application for Service with FortisBC Energy that has been approved by FortisBC Energy. C
- (e) **Day** - Means any period of 24 consecutive Hours beginning and ending at 7:00 a.m. Pacific Standard Time or as otherwise specified in the Service. C
- (f) **Delivery Point** - Means the outlet of the Meter Set unless otherwise specified in the Service Agreement. C
- (g) **Delivery Pressure** - Means the pressure of the Gas at the Delivery Point. C
- (h) **FortisBC Energy** - Means FortisBC Energy (Whistler) Inc. C
- (i) **Gas** - Means natural gas (including odorant added by FortisBC Energy) and propane. C
- (j) **Gas Service** - Means the delivery of Gas through a Meter Set. C

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- (k) **Gigajoule** - Means a measure of energy equal to one billion joules used for billing purposes. C
- (l) **Heat Content** - Means the quantity of energy per unit volume of Gas measured under standardized conditions and expressed in megajoules per cubic metre (MJ/m³). C
- (m) **Hour** - Means any consecutive 60 minute period. C
- (n) **Landlord** - Means a Person who, being the owner of a property, has leased or rented it to another person, called the Tenant, and includes the agent of that owner. C
- (o) **Main** - Means pipes used to carry Gas for general or collective use for the purposes of distribution. C
- (p) **Main Extension** - Means an extension of one of FortisBC Energy's mains with low, distribution, intermediate or transmission pressures, and includes tapping of transmission pipelines, the installation of any required pressure regulating facilities and upgrading of existing Mains, or pressure regulating facilities on private property. C
- (q) **Meter Set** - Means an assembly of FortisBC Energy owned metering and ancillary equipment and piping. C
- (r) **Month** - Means a period of time for billing purposes, of 27 to 34 consecutive Days. C
- (s) **Person** - Means a natural person, partnership, corporation, society, unincorporated entity or body public. C
- (t) **Premises** - Means a building, a separate unit of a building, or machinery together with the surrounding land. C
- (u) **Profitability Index** - Means the revenue to cost ratio comparing the revenues expected from a Main Extension project to the expected costs over a set period of time. C
- (v) **Rate Schedule** - Means a schedule attached to and forming part of this Tariff, which sets out the changes for Service and certain other related terms and conditions for a class of Service. C
- (w) **Residential Service** - Means firm Gas Service provided to the Premises of a single Customer, whether single family dwelling, separately metered single-family townhouse, rowhouse, condominium, duplex or apartment, or single-metered apartment blocks with four or less apartments. C

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- (x) **Seasonal Service** - Means firm Gas Service provided to a Customer during the period commencing April 1st and ending November 1st. C
- (y) **Service** - Means the provision of Gas Service or other service by FortisBC Energy. C
- (z) **Service Agreement** - Means an agreement between FortisBC Energy and a Customer for the provision of Service. C
- (aa) **Service Header** - Means a Gas distribution pipeline located on private property connecting three or more Service Lines or Meter Sets to a Main. C
- (bb) **Service Line** - Means the portion of the pipeline used for the transporting of Gas from FortisBC Energy's Main distribution pipeline to the inlet of the Meter Set. In the case of a Vertical Subdivision, or multi-family housing complex, the Service Line may include the piping from the outlet of the Meter Set to the Consumer's individual Premises, but not within the Customer's individual Premises. C
- (cc) **Service Related Charges** - Include, but are not limited to, application fees, Franchise Fees, and late payment charges, plus Social Services Tax, Goods and Service Tax, or other taxes related to these charges. C
- (dd) **Temporary Service** - Means the provision of Service for what FortisBC Energy determines will be a limited period of time. C
- (ee) **Tenant** - Means a Person who has the temporary use and occupation of real property owned by another Person. C
- (ff) **Vertical Subdivision** - Means a multi-storey building that has individually metered units and a common Service Header connecting banks of meters, typically located on each floor. C
- (gg) **Year** - Means a period of 12 consecutive Months. C

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1. Application Requirements

1.1 Requesting Services - A Person requesting FortisBC Energy

- (a) to provide Gas Service,
- (b) to provide a new Service Line,
- (c) to re-activate an existing Service Line,
- (d) to transfer an existing account,
- (e) to change the type of Service provided, or
- (f) to make alterations to an existing Service Line or Meter Set

must apply to FortisBC Energy at any of its office locations in person, by mail, by telephone, by facsimile or by other electronic means.

1.2 Required Documents - An applicant for

- (a) Residential Service may be required to sign an application and a Service Agreement provided by FortisBC Energy,
- (b) Commercial Service may be required to sign an application and a Service Agreement provided by FortisBC Energy, and
- (c) Service on other Rate Schedules must sign the applicable Service Agreement provided by FortisBC Energy.

1.3 Separate Premises / Businesses - If an applicant is requesting Service from FortisBC Energy at more than one Premises, or for more than one separately operated business, the applicant will be considered a separate Customer for each of the Premises and businesses. For the purposes of this provision, FortisBC Energy will determine whether or not any building contains one or more Premises or any business is separately operated.

1.4 Required References - FortisBC Energy may require an applicant for Service to provide reference information and identification acceptable to FortisBC Energy.

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1.5 **Rental Premises** - In the case of rental Premises, FortisBC Energy may

- (a) require an owner of rental Premises or its agent who wishes FortisBC Energy to contract directly with a Tenant to enter into an agreement with FortisBC Energy defining the responsibilities of the owner or agent for payment for Service to the Premises,
- (b) contract directly with the owner or agent of the rental Premises as a Customer of FortisBC Energy with respect to any or all Services to the Premises, or
- (c) contract directly with each Tenant as a Customer of FortisBC Energy.

1.6 **Refusal of Application** - FortisBC Energy may refuse to accept an application for Service for any of the reasons listed in Section 21 (Discontinuance of Service and Refusal of Service).

2. **Agreement to Provide Service**

2.1 **Service Agreement** - The agreement for Service between a Customer and FortisBC Energy will be

- (a) the oral or written application of the Customer which has been approved by FortisBC Energy and which is deemed to include the Terms and Conditions, or
- (b) a Service Agreement signed by the Customer.

2.2 **Customer Status** - A Person becomes a Customer of FortisBC Energy when FortisBC Energy

- (a) approves the Person's application for Service, or
- (b) provides Service to the Person.

A Person who is being provided Service by FortisBC Energy but who has not applied for Service shall be served in accordance with these Terms and Conditions.

2.3 **No Assignment / Transfer** - A Customer may not transfer or assign an agreement for Service without the written consent of FortisBC Energy.

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3. Conditions on Use of Service

- 3.1 **Authorized Consumption** - A Customer must not increase the maximum rate of consumption of Gas delivered to it by FortisBC Energy from that which may be consumed by the Customer under the applicable Rate Schedule nor significantly change its connected load without the written approval of FortisBC Energy, which approval will not be unreasonably withheld.
- 3.2 **Unauthorized Sale / Supply / Use** - Unless authorized in writing by FortisBC Energy, a Customer must not sell or supply Gas supplied to it by FortisBC Energy to other Persons or use Gas supplied to it by FortisBC Energy for any purpose other than as specified in the Service Agreement.

4. Rate Classification

- 4.1 **Rate Classification** - Subject to Section 4.2 (a) (Special Contracts and Tariff Supplements), Customers may be served under any Rate Schedule for which they meet the applicability criteria as set out in the appropriate Rate Schedule
- 4.2 **Special Contracts and Tariff Supplements** - In exceptional circumstances, special contracts and tariff supplements may be negotiated between FortisBC Energy and the Customer and submitted for British Columbia Utilities Commission approval where
- (a) a minimum rate or revenue stream is required by FortisBC Energy to ensure that Service to the Customer is economic, or
 - (b) factors such as system by-pass opportunities exist or alternative fuel costs are such that a reduced rate is justified to keep the Customer on-system.
- 4.3 **Periodic Review** - FortisBC Energy may
- (a) conduct periodic reviews of the quantity of Gas delivered and the rate of delivery of Gas to a Customer to determine which Rate Schedule applies to the Customer; and
 - (b) change the Customer's charge to the appropriate charge, or
 - (c) change the Customer to the appropriate Rate Schedule.

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5. Application Fee and Charges

5.1 **Application Fee** - An applicant for Service must pay the applicable Application Fee set out in the Special Rate Schedule.

5.2 **Application Fee for Manifold Meters and Vertical Subdivisions** - Where a new Service Line is required to serve more than one Customer at a Premises and the Service is provided with Gas meters connected to a meter manifold, the Application fee for manifold meters set out in the Special Rate Schedule will apply. Where a new Service Header is required to service a Vertical Subdivision, the Application Fee set out in the Special Rate Schedule will apply.

5.3 **Waiver of Application Fee** - The Application Fee

- (a) will be waived by FortisBC Energy if Service to a Customer is reactivated after it was discontinued for any of the reasons described in Section 13.2 (Right to Restrict), and
- (b) may be waived by FortisBC Energy if a Landlord requires Gas Service for a short period between the time a previous Tenant moves out and a new Tenant moves in.

5.4 **Reactivation Charges** - If

- (a) Service is terminated
 - (i) at the request of a Customer, or
 - (ii) for any of the reasons described in Section 21 (Discontinuance of Service and Refusal of Service), or
 - (iii) to permit Customers to make alterations to their Premises, and
- (b) the same Customer or the spouse, employee, contractor, agent or partner of the same Customer requests reactivation of Service to the Premises within one Year, the applicant for reactivation must pay the greater of
 - (i) the costs FortisBC Energy incurs in de-activating and re-activating the Service, or
 - (ii) the sum of the minimum charges set out in the applicable Rate Schedule which would have been paid by the Customer between the time of termination and the time of reactivation of Service.

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5.5 **Identifying Load or Premises Served by Meter Sets** - If a Customer requests FortisBC Energy to identify the Meter Set that serves the Premises and/or load after the Meter Set was installed, the Customer will pay the cost FortisBC Energy incurs in re-identifying the Meter Set where

- (a) the Meter Set is found to be properly identified, or
- (b) the Meter Set is found to be improperly identified as a result of Customer activity including
 - (i) a change in the legal civic address of the Premises,
 - (ii) renovating or partitioning the Premises, or
 - (iii) rerouting Gas lines after the delivery point.

6. Security for Payment of Bills

6.1 **Security for Payment of Bills** - If a Customer or applicant cannot establish or maintain credit to the satisfaction of FortisBC Energy, the Customer or applicant may be required to make a security deposit in the form of cash or an equivalent form of security acceptable to FortisBC Energy. As security for payment of bills, all Customers who have not established or maintained credit to the satisfaction of FortisBC Energy, may be required to provide a security deposit or equivalent form of security, the amount of which may not

- (a) be less than \$50, and
- (b) exceed an amount equal to the estimate of the total bill for the two highest consecutive months consumption of Gas by the Customer or applicant.

6.2 **Interest** - FortisBC Energy will pay interest to a Customer on a security deposit at the rate and at the times specified in the Special Rate Schedule. Subject to Section 6.5, if a security deposit in whole or in part is returned to the Customer for any reason, FortisBC Energy will credit any accrued interest to the Customer's account at that time.

No interest is payable

- (a) on any unclaimed deposit left with FortisBC Energy after the account for which it is security is closed, and
- (b) on a deposit held by FortisBC Energy in a form other than cash.

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- 6.3 **Refund on Deposit** - When the Customer pays the final bill, FortisBC Energy will refund any remaining security deposit plus any accrued interest or cancel the equivalent form of security.
- 6.4 **Unclaimed Refund** - If FortisBC Energy is unable to locate the Customer to whom a security deposit is payable, FortisBC Energy will take reasonable steps to trace the Customer; but if the security deposit remains unclaimed 10 Years after the date on which it first became refundable, the deposit, together with any interest accrued thereon, becomes the absolute property of FortisBC Energy.
- 6.5 **Application of Deposit** - If a Customer's bill is not paid when due, FortisBC Energy may apply all or any part of the Customer's security deposit or equivalent form of security and any accrued interest toward payment of the bill. Even if FortisBC Energy applies the security deposit or calls on the equivalent form of security, FortisBC Energy may, under Section 21 (Discontinuance of Service and Refusal of Service), discontinue service to the Customer for failure to pay for Service on time.
- 6.6 **Replenish Security Deposit** - If a Customer's security deposit or equivalent form of security is called upon by FortisBC Energy toward paying an unpaid bill, the Customer must re-establish the security deposit or equivalent form of security before FortisBC Energy will reconnect or continue Service to the Customer.
- 6.7 **Failure to Pay** - Failure to pay a security deposit or to provide an equivalent form of security acceptable to FortisBC Energy may, in FortisBC Energy's discretion, result in discontinuance or refusal of Service as set out in Section 21 (Discontinuance of Service and Refusal of Service).

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7. Term of Service Agreement

7.1 Initial Term for Residential and Commercial Service - If a Customer is being provided Residential or Commercial Service, the initial term of the Service Agreement

- (a) when a new Service Line is required will be one Year, or
- (b) when a Main Extension is required will be for a period of time fixed by FortisBC Energy not exceeding the number of Years used to calculate the revenue in the Main Extension economic test used in Section 12 (Main Extensions).

7.2 Initial Term for Gas Service other than Residential or Commercial Service - If a Customer is being provided Gas Service other than Residential or Commercial Service, the initial term of the Service Agreement will be as specified in the Service Agreement or as specified in the appropriate Rate Schedule.

7.3 Transfer to Residential or Commercial Service - If a Customer is being provided Gas Service other than Residential or Commercial Service and transfers to Residential or Commercial Service, the initial term of the Service Agreement will be determined by the criteria set out in Section 7.1 (Initial Term for Residential and Commercial Service). A Customer may only transfer Service from one Rate Schedule to another Rate Schedule once a Year.

7.4 Renewal of Agreement - Unless

- (a) the Service Agreement or the applicable Rate Schedule specifies otherwise,
- (b) the Service Agreement is terminated under Section 8 (Termination of Service Agreement),
- (c) a refund has been made under Section 9.2 (Refund of Charges), or
- (d) the Service Agreement is for Seasonal Service,

the Service Agreement will be automatically renewed at the end of its initial term from Month to Month for Residential or Commercial Service, and from Year to Year for all other types of Gas Service.

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8. Termination of Service Agreement

- 8.1 **Termination by Customer** - Unless the Service Agreement or applicable Rate Schedule specifies otherwise, the Customer may terminate the Service Agreement after the end of the initial term by giving FortisBC Energy at least 48 Hours notice.
- 8.2 **Continuing Obligation** - The Customer is responsible for, and must pay for, all Gas delivered to the Premises and is responsible for all damages to and loss of Meter Sets or other FortisBC Energy property on the Premises until the Service Agreement is terminated.
- 8.3 **Effect of Termination** - The Customer is not released from any previously existing obligations to FortisBC Energy under the Service Agreement by terminating the agreement.
- 8.4 **Sealing Service Line** - After receiving a termination notice for a Premises and after a reasonable period of time during which a new Customer has not applied for Gas Service at the Premises, FortisBC Energy may seal off the Service Line to the Premises.
- 8.5 **Termination by FortisBC Energy** - Unless the Service Agreement or applicable Rate Schedule specifies otherwise, FortisBC Energy may terminate the Service Agreement for any reason by giving the Customer at least 48 Hours notice.

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9. Delayed Consumption

9.1 Additional Charges - If a Customer has not consumed Gas

- (a) within 2 Months after the installation of the Service Line to the Customer's Premises, FortisBC Energy may charge the minimum charge for each billing period after that, and
- (b) within one Year after installation of the Service Line to the Customer's Premises, FortisBC Energy may charge the Customer the full cost of construction and installation of the Service Line and Meter Set less the total of the minimum charges billed to the Customer to that date.

9.2 Refund of Charges - If a Customer who has paid the charges for a Service Line under Section 9.1 (b) (Additional Charges) consumes Gas in the second year after installation of the Service Line, FortisBC Energy will refund to the Customer the payments made under Section 9.1 (b) (Additional Charges). If a refund is made under Section 9.2 (Refund of Charges), the term of the Service Agreement will be one Year from the time the Customer begins consuming Gas.

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10. Service Lines

10.1 **Provided Installation** - If FortisBC Energy's Main is adjacent to the Customer's Premises, FortisBC Energy

- (a) will designate the location of the Service Lines on the Customer's Premises and determine the amount of space that must be left unobstructed around them;
- (b) will install for Residential Service the Service Line from the Main to the Meter Set on the Customer's Premises at no additional cost to the Customer, provided
 - (i) the Service Line follows the route which is the most suitable to FortisBC Energy,
 - (ii) the estimated direct cost of the Service Line does not exceed the Service Line Cost Allowance set out in the Special Rate Schedule, and
 - (iii) the distance from the front of the Customer's building or machinery to the meter does not exceed 1.5 metres;
- (c) will charge Residential Service Customers for the estimated direct construction costs in excess of the Service Line Cost Allowance set out in the Special Rate Schedule; and
- (d) will perform an economic test for Residential Service and larger Customers and for any Customers connecting to a Service Header including Vertical Subdivisions, and, when the Profitability Index is less than 1.0, will charge the Customer a contribution sufficient to achieve a minimum Profitability Index of 1.0. The economic test will be discounted cash flow test, similar to the economic test for Main Extensions set out in Section 12.

10.2 **Extended Installation** - The Customer may make application to FortisBC Energy to extend the Service Line beyond that described in Section 10.1 (Provided Installation) (b) (iii). Upon approval by FortisBC Energy and agreement for payment by the Customer of the additional costs, FortisBC Energy will extend the Service Line only if it is on the route approved by FortisBC Energy.

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10.3 **Customer Requested Routing** - If

- (a) FortisBC Energy's Main is adjacent to the Customer's Premises, and
- (b) the Customer requests that its piping or Service Line enter its Premises at a different point of entry or follow a different route from the point or route designated by FortisBC Energy,

FortisBC Energy may charge the Customer for all additional costs as determined by FortisBC Energy to install the Service Line in accordance with the Customer's request.

- 10.4 **Temporary Service** - A Customer applying for Temporary Service must pay FortisBC Energy in advance for the costs which FortisBC Energy estimates it will incur in the installation and subsequent removal of the facilities necessary to supply Gas to the Customer.

- 10.5 **Winter Construction** - If an applicant or Customer applies for Service which requires construction when, in FortisBC Energy's opinion, frost conditions may exist, FortisBC Energy may postpone the required construction until the frost conditions no longer exist.

If FortisBC Energy carries out the construction, the applicant or Customer may be required to pay all costs in excess of the Service Line Cost Allowance which are incurred due to the frost conditions.

- 10.6 **Additional Connections** - If a Customer requests more than one Service connection to the Premises, on the same Rate Schedule, FortisBC Energy may install the additional Service Line and may charge the Customer the Application Fee set out in the Special Rate Schedule, as well as the full cost (including overheads) for the Service Line installation. FortisBC Energy will bill the additional Service Connection from a separate meter and account. If the additional Service Connection is requested by a spouse, contractor, employee, agent or partner of the existing Customer, the same charges will apply.

- 10.7 **Easements & Right-of-Way** - If the Customer is not the owner of the Premises or there is intervening property between the Premises and FortisBC Energy's Mains, the Customer shall obtain for FortisBC Energy from the proper owner, in a form satisfactory to FortisBC Energy, the necessary consent or easement in writing for the installation and maintenance in said Premises and in or about such intervening property, of all necessary facilities for supplying Gas. FortisBC Energy reserves the right to acquire rights-of-way if deemed desirable by FortisBC Energy. The Customer is responsible for the costs of obtaining an easement in favour of FortisBC Energy and in a form specified by FortisBC Energy for the installation, operation and maintenance on the intervening property of all necessary facilities for supplying Gas to the Customer.

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- 10.8 **Ownership** - FortisBC Energy owns the entire Service Line from the Main up to and including the Meter Set, whether it is located inside or outside the Customer's Premises.
- 10.9 **Maintenance** - FortisBC Energy will maintain the Service Line.
- 10.10 **Supply Cut Off** - If the supply of Gas to a Customer's Premises is cut off for any reason FortisBC Energy is not required to remove the Service Line from the Customer's property of Premises.
- 10.11 **Damage Notice** - The Customer must advise FortisBC Energy immediately of any damage occurring to the Service Line.
- 10.12 **Prohibition** - A Customer must not construct any permanent structure over a Service Line or install any air intake openings or sources of ignition which contravene government regulations, codes or FortisBC Energy's policies.
- 10.13 **No Unauthorized Changes** - No changes, extensions, connections to or replacement of, or disconnection from FortisBC Energy's Mains or Service Lines, shall be made except by FortisBC Energy's authorized employees, contractors or agents or by other persons authorized in writing by FortisBC Energy. Any change in the location of an existing Service Line
- (a) must be approved in writing by FortisBC Energy, and
 - (b) will be made at the expense of the Customer if the change is requested by the Customer or necessitated by the actions of the Customer.
- 10.14 **Site Preparation** - The Customer will be responsible for all necessary site preparation including but not limited to clearing building materials, construction waste, equipment, soil and gravel piles over the proposed service line route to the standards established by FortisBC Energy. FortisBC Energy may recover any additional costs associated with delays or site visits necessitated by inadequate or substandard site preparation by the Customer.

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11. Meter Sets and Metering

- 11.1 **Installation** - In order to bill the Customer for Gas delivered, FortisBC Energy will install one or more Meter Sets on the Customer's Premises. Unless approved by FortisBC Energy, all Meter Sets will be located outside the Customer's Premises at locations designated by FortisBC Energy.
- 11.2 **Measurement** - The quantity of Gas delivered to the Premises will be metered using apparatus approved by Customer and Corporate Affairs Canada. The amount of Gas registered by the Meter Set during each billing period will be converted to Gigajoules in accordance with the *Electricity and Gas Inspection Act* and rounded to the nearest one-tenth of a Gigajoule.
- 11.3 **Testing Meters** - If a Customer applies for the testing of a Meter Set and
- (a) the Meter Set is found to be recording incorrectly, the cost of removing, replacing and testing the meter will be borne by FortisBC Energy subject to Section 22.4 (Responsibility for Meter Set), and
 - (b) if the testing indicates that the Meter Set is recording correctly, as defined by the *Electricity and Gas Inspection Act*, the Customer must pay FortisBC Energy for the cost of removing, replacing and testing the Meter Set as set out in the Special Rate Schedule.
- 11.4 **Defective Meter Set** - If a Meter Set ceases to register, FortisBC Energy will estimate the volume of Gas delivered to the Customer according to the procedures set out in Section 16.6 (Incorrect Register).
- 11.5 **Protection of Equipment** - The Customer must take reasonable care of and protect all Meter Sets and related equipment on the Customer's Premises. The Customer's responsibility for expense, risk and liability with respect to all Meter Sets and related equipment is set out in Section 22.4 (Responsibility for Meter Set).
- 11.6 **No Unauthorized Changes** - No Meter Sets or related equipment will be installed, connected, moved or disconnected except by FortisBC Energy's authorized employees, contractors or agents or by other Persons with FortisBC Energy's written permission.

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- 11.7 **Removal of Meter Set** - As the termination of a Service Agreement, FortisBC Energy may disconnect or remove a Meter Set from the Premises if a new Customer is not expected to apply to Service for the Premises within a reasonable time.
- 11.8 **Customer Requested Meter Relocation or Modifications** - Any change in the location of a Meter Set or related equipment, or any modifications to the Meter Set, including automatic and/or remote meter reading
- (a) must be approved by FortisBC Energy in writing, and
 - (b) will be made at the expense of the Customer if the change or modification is requested by the Customer or necessitated by the actions of the Customer. If any of the changes to the Meter Set or related equipment require FortisBC Energy to incur ongoing incremental operating and maintenance costs, FortisBC Energy may recover these costs from the Customer through a Monthly charge.
- 11.9 **Meter Set Consolidations** - A Customer who has more than one Meter Set at the same Premises or adjacent Premises may apply to FortisBC Energy to consolidate its Meter Sets. If FortisBC Energy approves the Customer's application, the Customer will be charged the value for all plant abandoned except for Meter Sets that are removed to facilitate Meter Set consolidations. In addition, the Customer will be charged FortisBC Energy's full costs, including overheads, for any abandonment, Meter Set removal and alteration downstream of the new Meter Set. If a new Service Line is required, FortisBC Energy will charge the Customer the Application Fee. In addition, the Customer will be required to sign a release waiving FortisBC Energy's liability for any damages should the Customer decide to re-use the abandoned plant downstream of the new Meter Set.
- 11.10 **Delivery Pressure** - The normal Delivery Pressure is 1.75 kPa. FortisBC Energy may charge Customers who require Delivery Pressure at other than the normal Delivery Pressure the additional costs associated with providing other than the normal Delivery Pressure.
- 11.11 **Customer Requested Mobile Service** - The Customer will be charged the cost of providing temporary mobile Gas Service if the request for such Service is made by or brought on by the actions of the Customer.

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12. Main Extensions

- 12.1 **System Expansion** - FortisBC Energy will make extensions of its Gas distribution system in accordance with system development requirements.
- 12.2 **Ownership** - All extensions of the Gas distribution system will remain the property of FortisBC Energy.
- 12.3 **Economic Test** - All applications to extend the Gas distribution system to one or more new Customers will be subject to an economic test approved by the British Columbia Utilities Commission. The economic test will be a discounted cash flow analysis of the projected revenue and costs associated with the Main Extension. The Main Extension will be deemed to be economic and will be constructed if the results of the economic test indicate a Profitability Index of 1.0 or greater for an individual Main Extension.
- 12.4 **Revenue** - The projected revenue to be used in the economic test will be determined by FortisBC Energy by
- (a) estimating the number of Customers to be served by the Main Extension;
 - (b) establishing consumption estimates for each Customer;
 - (c) projecting when the Customer will be connected to the Main Extension; and
 - (d) applying the appropriate revenue margins for each Customer's consumption.

The revenue projection will take into consideration the estimated number and type of Gas appliances used and the effect variations in weather conditions have on consumption. Customers who intend to install both high efficiency gas fired space (namely an Energy Star® rated furnace or boiler) and water heating appliances (tankless water heaters, or water heaters with efficiency rating of 78 percent or greater), will receive a credit of 10 percent of the volume otherwise used for both appliances. Customers who intend to install both high efficiency gas fired space and water heating appliances and attain a minimum of LEED™ (Leadership in Energy and Environmental Design) General Certification will receive a credit of 15 percent of the volume otherwise used for both. In addition, the projected revenue from Application Fees will be included. Only those Customers expected to connect to the Main Extension within 5 Years of its completion will be considered.

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12.5 **Costs** - The total costs to be used in the economic test include, without limitation

- (a) the full labour, material, and other costs necessary to serve the new Customers including Mains, Service Lines, Meter Sets and any related facilities such as pressure reducing stations and pipelines;
- (b) the appropriate allocation of FortisBC Energy's overheads associated with the construction of the Main Extension;
- (c) the incremental operating and maintenance expenses necessary to serve the Customers; and
- (d) an allocation of system improvement costs.

In addition to the costs identified, the economic test will include applicable taxes and the appropriate return on investment as approved by the British Columbia Utilities Commission.

In cases where a larger Gas distribution Main is installed to satisfy future requirements, the difference in cost between the larger Main and the smaller Main necessary to serve the Customers supporting the application may be eliminated from the economic test.

12.6 **Contributions in Aid of Construction** - If the economic test results indicate a Profitability Index of less than 1.0, the Main Extension may proceed provided that the shortfall in revenue is eliminated by contributions in aid of construction by the Customers to be served by the Main Extension, their agents or other parties, or if there are non-financial factors offsetting the revenue shortfall that are deemed to be acceptable by the British Columbia Utilities Commission.

FortisBC Energy may finance the contributions in aid of construction for Customers. Contributions of less than \$100 per Customer may be waived by FortisBC Energy.

12.7 **Contributions Paid by Connecting Customers** - The total required contribution will be paid by the Customers connecting at the time the Main Extension is built. FortisBC Energy will collect contributions from all Customers connecting during the first five Years after the Main Extension is built. As additional contributions are received from Customers connecting to the Main Extension, partial refunds will be made to those Customers who had previously made contributions. At the end of the fifth Year, all Customers will have paid an equal contribution, after reconciliation and refunds.

For larger Main Extension projects, FortisBC Energy may use the Main Extension contribution agreement for initial contributions. Customers will be billed a contribution amount after the Main Extension is built.

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- 12.8 **Refund of Contributions** - A review will be performed annually, or more often at FortisBC Energy's discretion, to determine if a refund is payable to all Customers who have contributed to the extension.

If the review of contributions indicates that refunds are due,

- (a) individual refunds greater than \$100 will be paid at the time of the review;
- (b) individual refunds less than \$100 will be held until a subsequent review increases the refund payable over \$100, or until the end of the five-Year contributory period;
- (c) no interest will be paid on contributions that are subsequently refunded;
- (d) the total amount of refunds issued will not be greater than the original amount of the contribution; and
- (e) if, after making all reasonable efforts, FortisBC Energy is unable to locate a Customer who is eligible for a refund, the Customer will be deemed to have forfeited the contribution refund and the refund will be credited to the other Customers who contributed towards the Main Extension.

- 12.9 **Extensions to Contributory Extensions** - When a Main Extension is attached to an existing contributory Main Extension within the five-Year contributory period for the existing extension, the new extension will be evaluated using the Main Extension test to determine whether a contribution is required. A prorated portion of the total contribution for the existing contributory extension will be assigned to the new extension on the basis of expected use, point of connection, and other factors. Any contributions toward the cost of the existing extension from Customers on the new extension will be used to provide partial refunds to the contributing Customers on the existing extension. The total refunds issued will not exceed the total amount of contributions paid by Customers on the existing extension.

- 12.10 **Security** - In those situations where the financial viability of a Main Extension is uncertain, FortisBC Energy may require a security deposit in the form of cash or an equivalent form of security acceptable to FortisBC Energy.

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13. Interruption of Service

13.1 **Regular Supply** - FortisBC Energy will use its best efforts to provide the constant delivery of Gas and the maintenance of unvaried pressures.

13.2 **Right to Restrict** - FortisBC Energy may require any of its Customers, at all times, or between specified Hours, to discontinue, interrupt or reduce to a specified degree or quantity, the delivery of Gas for any of the following purposes or reasons

- (a) in the event of a temporary or permanent shortage of Gas, when actual or perceived by FortisBC Energy,
- (b) in the event of a breakdown or failure of the supply of Gas to FortisBC Energy or of FortisBC Energy's Gas storage, distribution, or transmission systems,
- (c) in order to comply with any legal requirements
- (d) in order to make repairs or improvements to any part of FortisBC Energy's Gas distribution, storage or transmission systems,
- (e) in the event of fire, flood, explosion or other emergency in order to safeguard Persons or property against the possibility of injury or damage.

13.3 **Notice** - FortisBC Energy will, to the extent practicable, give notice of its requirements and removal of its requirements under Section 13.2 (Right to Restrict) to its Customers by

- (a) newspaper, radio or television announcement, or
- (b) notice in writing that is
 - (i) sent through the mail to the Customer's billing address,
 - (ii) left at the Premises where Gas is delivered,
 - (iii) served personally on a Customer, or
 - (iv) sent by facsimile or other electronic means to the Customer, or
- (c) oral communication.

13.4 **Failure to Comply** - If, in the opinion of FortisBC Energy, a Customer has failed to comply with any requirement under Section 13.2 (Right to Restrict), FortisBC Energy may, after providing notice to the Customer in the manner specified in Section 13.3 (Notice), discontinue Service to the Customer.

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14. Access to Premises and Equipment

- 14.1 **Access to Premises** - FortisBC Energy must have a right of entry to the Customer's Premises. The Customer must provide free access to its Premises at all reasonable times to FortisBC Energy's authorized employees, contractors and agents for the purpose of reading, testing, repairing or removing meters and ancillary equipment, turning Gas on or off, completing system leakage surveys, stopping leaks, examining pipes, connections, fittings and appliances and reviewing the use made of Gas delivered to the Customer, or for any other related purpose which FortisBC Energy requires.
- 14.2 **Access to Equipment** - The Customer must provide clear access to FortisBC Energy's equipment. The equipment installed by FortisBC Energy on the Customer's Premises will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of Service.

15. Promotions and Incentives

- 15.1 **Promotion of Gas Appliances** - FortisBC Energy may promote, sell, rent, lease, or finance natural Gas vehicle equipment, Gas appliances and related accessories and Services on a cash or finance plan basis and make reasonable charges for these Services.

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16. Billing

- 16.1 **Basis for Billing** - FortisBC Energy will bill the Customer in accordance with the Customer's Service Agreement, the Rate Schedule under which the Customer is provided Service, and the fees and charges contained in the Terms and Conditions.
- 16.2 **Meter Measurement** - FortisBC Energy will measure the quantity of Gas delivered to a Customer using a Meter Set and the starting point for measuring delivered quantities during each billing period will be the finishing point of the preceding billing period.
- 16.3 **Multiple Meters** - Gas Service to each Meter Set will be billed separately for Customers who have more than one Meter Set on their Premises.
- 16.4 **Estimates** - For billing purposes, FortisBC Energy may estimate the Customer's meter readings if, for any reason, FortisBC Energy does not obtain a meter reading.
- 16.5 **Estimated Final Reading** - If a Service Agreement is terminated under Section 8.1 (Termination by Customer), FortisBC Energy may estimate the final meter reading for final billing.
- 16.6 **Incorrect Register** - If any Meter Set has failed to measure the delivered quantity of Gas correctly, FortisBC Energy may estimate the meter reading for billing purposes, subject to Section 17 (Back-Billing).
- 16.7 **Bills Issued** - FortisBC Energy may bill a Customer as often as FortisBC Energy considers necessary but generally will bill on a Monthly basis.
- 16.8 **Bill Due Dates** - The Customer must pay FortisBC Energy's bill for Service on or before the due date shown on the bill which will be
- (a) the first business Day after the twenty-first calendar Day following the billing date, or
- (b) such other period as may be agreed upon by the Customer and FortisBC Energy.
- 16.9 **Historical Billing Information** - Customers who request historical billing information may be charged the cost of processing and providing the information.

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17. Back Billing

- 17.1 **When Required** - FortisBC Energy may, in the circumstances specified herein, charge, demand, collect or receive from its Customers in respect of a regulated Service rendered hereunder a greater or lesser compensation than that specified in the subsisting schedules applicable to that Service.

In the case of a minor adjustment to a Customer's bill, such as an estimated bill or an equal payment plan billing, such adjustments do not require back-billing treatment to be applied.

- 17.2 **Definition** - Back-billing means the re-billing by FortisBC Energy for Services rendered to a Customer because the original billings are discovered to be either too high (over-billed) or too low (under-billed). The discovery may be made by either the Customer or FortisBC Energy, and may result from the conduct of an inspection under provisions of the federal statute, the *Electricity and Gas Inspection Act* ("EGI Act"). The cause of the billing error may include any of the following non-exhaustive reasons or combination thereof:

- (a) stopped meter
- (b) metering equipment failure
- (c) missing meter now found
- (d) switched meters
- (e) double metering
- (f) incorrect meter connections
- (g) incorrect use of any prescribed apparatus respecting the registration of a meter
- (h) incorrect meter multiplier
- (i) the application of an incorrect rate
- (j) incorrect reading of meters or data processing
- (k) tampering, fraud, theft or any other criminal act

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- 17.3 **Application of Act** - Whenever the dispute procedure of the EGI Act is invoked, the provisions of that Act apply, except those which purport to determine the nature and extent of legal liability flowing from metering or billing errors.
- 17.4 **Billing Basis** - Where metering or billing errors occur and the dispute procedure under EGI Act is not invoked, the consumption and demand will be based upon the records of FortisBC Energy for the Customer, or the Customer's own records to the extent they are available and accurate, or if not available, reasonable and fair estimates may be made by FortisBC Energy. Such estimates will be on a consistent basis within each Customer class or according to a contract with the Customer, if applicable.
- 17.5 **Tampering / Fraud** - If there are reasonable grounds to believe that the Customer has tampered with or otherwise used FortisBC Energy's Service in an unauthorized way, or there is evidence of fraud, theft or other criminal acts, or if a reasonable Customer should have known of the under-billing and failed to promptly bring it to the attention of FortisBC Energy, then the extent of back-billing will be for the duration of the unauthorized use, subject to the applicable limitation period provided by law, and the provisions of Section 17.8 (Under-Billing) to 17.11 (Changes in Occupancy) below, do not apply.
- In addition, the Customer is liable for the direct (unburdened) administrative costs incurred by FortisBC Energy in the investigation of any incident of tampering, including the direct costs of repair, or replacement of equipment.
- Under-billing resulting from circumstances described above will bear interest at the rate normally charged by FortisBC Energy on unpaid accounts from the date of the original under-billed invoice until the amount under-billed is paid in full.
- 17.6 **Remedying Problem** - In every case of under-billing or over-billing, the cause of the error will be remedied without delay, and the Customer will be promptly notified of the error and of the effect upon the Customer's ongoing bill.
- 17.7 **Over-billing** - In every case of over-billing, FortisBC Energy will refund to the Customer all money incorrectly collected for the duration of the error, subject to the applicable limitation period provided by law. Simple interest, computed at the short-term bank loan rate applicable to FortisBC Energy on a monthly basis, will be paid to the Customer.

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17.8 **Under-billing** - Subject to Section 17.5 (Tampering / Fraud) above, in every case of under-billing, FortisBC Energy will back-bill the Customer for the shorter of:

- (a) the duration of the error; or
- (b) six Months for Residential or Commercial Service; and
- (c) one Year for all other Customers or as set out in a special or individually negotiated contract with FortisBC Energy.

17.9 **Terms of Repayment** - Subject to Section 17.5 (Tampering / Fraud) above, in all cases of under-billing, FortisBC Energy will offer the Customer reasonable terms of repayment. If requested by the Customer, the repayment term will be equivalent in length to the back-billing period. The repayment will be interest free and in equal instalments corresponding to the normal billing cycle. However, delinquency in payment of such instalments will be subject to the usual late payment charges.

17.10 **Disputed Back-Bills** - Subject to Section 17.5 (Tampering / Fraud) above, if a Customer disputes a portion of a back-billing due to under-billing based upon either consumption, demand or duration of the error, FortisBC Energy will not threaten or cause the discontinuance of Service for the Customer's failure to pay that portion of the back-billing, unless there are no reasonable grounds for the Customer to dispute that portion of the back-billing. The undisputed portion of the bill shall be paid by the Customer and FortisBC Energy may threaten or cause the discontinuance of Service if such undisputed portion of the bill is not paid.

17.11 **Changes in Occupancy** - Subject to Section 17.5 (Tampering / Fraud) above, back-billing in all instances where changes of occupancy have occurred, FortisBC Energy will make a reasonable attempt to locate the former Customer. If, after a period of one Year, such Customer cannot be located, the applicable over or under billing will be cancelled.

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18. Equal Payment Plan

- 18.1 **Definitions** - In this Section, "equal payment plan period" means a period of twelve consecutive Months commencing with a normal meter reading date at the Customer's Premises.
- 18.2 **Application for Plan** - A Customer may apply to FortisBC Energy by mail, by telephone, by facsimile or by other electronic means to pay fixed Monthly instalments for Gas delivered to the Customer during the equal payment plan period. Acceptance of the application will be subject to FortisBC Energy finding the Customer's credit to be satisfactory.
- 18.3 **Monthly Instalments** - FortisBC Energy will fix Monthly instalments for a Customer so that the total sum of all the instalments to be paid during the equal payment plan period will equal the total amount payable for the Gas which FortisBC Energy estimates the Customer will consume during the equal payment plan period.
- 18.4 **Changes in Instalments** - FortisBC Energy may, at any time, increase or decrease the amount of the Monthly instalments payable by the Customer in light of new consumption information or changes to the Rate Schedules or the Terms and Conditions.
- 18.5 **End of Plan** - Participation in the equal payment plan may be ended at any time
- (a) by the Customer giving 5 Days' notice to FortisBC Energy, or
 - (b) by FortisBC Energy, without notice, if the Customer has not paid the Monthly instalments as required.
- 18.6 **Payment Adjustment** - At the earlier of the end of the equal payment plan period for a Customer or the end of the Customer's participation in the plan under Section 18.5 (End of Plan), FortisBC Energy will
- (a) compare the amount which is payable by the Customer to FortisBC Energy for Gas actually consumed on the Customer's Premises from the beginning of the equal payment plan period to the sum of the Monthly instalments billed to the Customer from the beginning of the equal payment plan period, and
 - (b) pay to the Customer or credit to the Customer's account any excess amount or bill the Customer for any deficit amount payable.

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19. Late Payment Charge

- 19.1 **Late Payment Charge** - If the amount due for Service or Service Related Charges on any bill has not been received in full by FortisBC Energy on or before the due date specified on the bill, and the unpaid balance is \$15 or more, FortisBC Energy may include in the next bill to the Customer the late payment charge specified in the Special Rate Schedule.
- 19.2 **Equal Payment Plan** - If the Monthly instalment, Service Related Charges and payment adjustment as defined under Section 18.6 (Payment Adjustment) due from a Customer billed under the equal payment plan set out in Section 18 (Equal Payment Plan) have not been received by FortisBC Energy or by an agent acting on behalf of FortisBC Energy on or before the due date specified on the bill, FortisBC Energy may include in the next bill to the Customer the late payment charge in accordance with Section 19.1 (Late Payment Charge) on the amount due.

20. Returned Cheque Charge

- 20.1 **Dishonoured Cheque Charge** - If a cheque received by FortisBC Energy from a Customer in payment of a bill is not honoured by the Customer's financial institution for any reason other than clerical error, FortisBC Energy may include a charge specified in the Special Rate Schedule in the next bill to the Customer for processing the returned cheque whether or not the Service has been disconnected.

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21. Discontinuance of Service and Refusal of Service

21.1 **Discontinuance With Notice and Refusal Without Notice** - FortisBC Energy may discontinue Service to a Customer with at least 48 Hours written notice to the Customer or Customer's Premises, or may refuse Service for any of the following reasons:

- (a) the Customer has not fully paid FortisBC Energy's bill with respect to Services on or before the due date,
- (b) the Customer or applicant has failed to pay any required security deposit equivalent form of security, or post a guarantee or required increase in it by the specified date,
- (c) the Customer or applicant has failed to pay FortisBC Energy's bill in respect of another Premises on or before the due date,
- (d) the Customer or applicant occupies the Premises with another occupant who has failed to pay FortisBC Energy's bill, security deposit, or required increase in the security deposit in respect of another Premises which was occupied by that occupant and the Customer at the same time,
- (e) the Customer or applicant is in receivership or bankruptcy, or operating under the protection of any insolvency legislation and has failed to pay any outstanding bills to FortisBC Energy,
- (f) the Customer has failed to apply for Service, or
- (g) the land or portion thereof on which FortisBC Energy's facilities are, or are proposed to be located contains contamination which FortisBC Energy, acting reasonably, determines has adversely affected or has the potential to adversely effect FortisBC Energy's facilities, or the health or safety of its workers or which may cause FortisBC Energy to assume liability for clean up and other costs associated with the contamination. If FortisBC Energy, acting reasonably, determines that contamination is present it is the obligation of the occupant of the land to satisfy FortisBC Energy that the contamination does not have the potential to adversely affect FortisBC Energy or its workers. For the purposes of this Section, "contamination" means the presence in the soil, sediment or groundwater of special waste or another substance in quantities or concentrations exceeding criteria, standards or conditions established by the British Columbia Ministry of Environment or as prescribed by present and future laws, rules, regulations and orders of any other legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over the environment.

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21.2 **Discontinuance or Refusal Without Notice** - FortisBC Energy may discontinue without notice or refuse the supply of Gas or Service to a Customer for any of the following reasons:

- (a) the Customer or applicant has failed to provide reference information and identification acceptable to FortisBC Energy, when applying for Service or at any subsequent time on request by FortisBC Energy,
- (b) the Customer has defective pipe appliances, or Gas fittings in the Premises,
- (c) the Customer uses Gas in such a manner as in FortisBC Energy's opinion
 - (i) may lead to a dangerous situation, or
 - (ii) may cause undue or abnormal fluctuations in the Gas pressure in FortisBC Energy's Gas transmission or distribution system,
- (d) the Customer fails to make modifications or additions to the Customer's equipment which have been required by FortisBC Energy in order to prevent the danger or to control the undue or abnormal fluctuations described under paragraph (c),
- (e) the Customer breaches any of the terms and conditions upon which Service is provided to the Customer by FortisBC Energy,
- (f) the Customer fraudulently misrepresents to FortisBC Energy its use of Gas or the volume delivered,
- (g) the Customer vacates the Premises,
- (h) the Customer's Service Agreement is terminated for any reason, or
- (i) the Customer stops consuming Gas on the Premises.

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22. Limitations on Liability

- 22.1 **Responsibility for Delivery of Gas** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss, damage, costs or injury (including death) incurred by any Customer or any Person claiming by or through the Customer caused by or resulting from, directly or indirectly, any discontinuance, suspension or interruption of, or failure or defect in the supply or delivery or transportation of, or refusal to supply, deliver or transport Gas, or provide Service, unless the loss, damage, costs or injury (including death) is directly attributable to the gross negligence or wilful misconduct of FortisBC Energy, its employees, contractors or agents provided, however, that FortisBC Energy, its employees, contractors and agents are not responsible or liable for any loss of profit, loss of revenues, or other economic loss even if the loss is directly attributable to the gross negligence or wilful misconduct of FortisBC Energy, its employees, contractors or agents.
- 22.2 **Responsibility Before Delivery Point** - The Customer is responsible for all expense, risk and liability with respect to
- (a) the use or presence of Gas before it passes the Delivery Point in the Customer's Premises, and
 - (b) FortisBC Energy -owned facilities serving the Customer's Premises
- if any loss or damage caused by or resulting from failure to meet that responsibility is caused, or contributed to, by the act or omission of the Customer or a Person for whom the Customer is responsible.
- 22.3 **Responsibility After Delivery Point** - The Customer is responsible for all expense, risk and liability with respect to the use or presence of Gas after it passes the Delivery Point.
- 22.4 **Responsibility for Meter Set** - The Customer is responsible for all expense, risk and liability with respect to all Meter Sets or related equipment at the Customer's Premises unless any loss or damage is
- (a) directly attributable to the negligence of FortisBC Energy, its employees, contractors or agents, or
 - (b) caused by or resulting from a defect in the equipment.

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The Customer must prove that negligence or defect. For greater certainty and without limiting the generality of the foregoing, the Customer is responsible for all expense, risk and liability arising from any measures required to be taken by FortisBC Energy in order to ensure that the Meter Sets or related equipment on the Customer's Premises are adequately protected, as well as any updates or alterations to the Service Line(s) on the Customer's Premises necessitated by changes to the grading or elevation of the Customer's Premises or obstructions placed on such Service Line(s).

- 22.5 **Customer Indemnification** - The Customer will indemnify and hold harmless FortisBC Energy, its employees, contractors and agents from all claims, loss, damage, costs or injury (including death) suffered by the Customer or any Person claiming by or through the Customer or any third party caused by or resulting from the use of Gas by the Customer or the presence of Gas in the Customer's Premises, or from the Customer or Customer's employees, contractors or agents damaging FortisBC Energy's facilities.

23. Miscellaneous Provisions

- 23.1 **Taxes** - The rates and charges specified in the applicable Rate Schedules do not include any local, provincial or federal taxes, assessments or levies imposed by any competent taxing authorities which FortisBC Energy may be lawfully authorized or required to add to its normal rates and charges or to collect from or charge to the Customer.
- 23.2 **Conflicting Terms and Conditions** - Where anything in these Terms and Conditions conflicts with special terms or conditions specified under an applicable Rate Schedule or Service Agreement, then the terms or conditions specified under the Rate Schedule or Service Agreement govern.
- 23.3 **Authority of Agents of FortisBC Energy** - No employee, contractor or agent of FortisBC Energy has authority to make any promise, agreement or representation not incorporated in these Terms and Conditions or in a Service Agreement, and any such unauthorized promise, agreement or representation is not binding on FortisBC Energy.
- 23.4 **Additions, Alterations and Amendments** - The Terms and Conditions, fees and charges, and Rate Schedules may, with the approval of the British Columbia Utilities Commission, be added to, cancelled, altered or amended by FortisBC Energy from time to time.
- 23.5 **Headings** - The headings of the Sections set forth in the Terms and Conditions are for convenience of reference only and will not be considered in any interpretation of the Terms and Conditions.

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Rate Schedules

SPECIAL RATE SCHEDULE

The following charges apply to special services and circumstances as set out in the Terms and Conditions. These charges are subject to revision based on FortisBC Energy's cost of providing such services:

1. Application Fee

Existing Installation	\$15.00
New Installation	\$25.00
New Installation – Manifold Meters	\$25.00 per meter
New Installation – Vertical Subdivision	\$25.00 per meter

2. Service Line Cost Allowance

Other than a duplex	\$1,535.00
Duplex	\$3,070.00

3. Administrative Charges

Late Payment Charge	1.5% per month (19.56% per annum) on outstanding balance
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Dishonoured Cheque Charge	\$20.00
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Interest on Cash Security Deposits

FortisBC Energy will pay interest on cash security deposits at FortisBC Energy's prime interest rate minus 2%. FortisBC Energy prime interest rate is defined as the floating annual rate of interest which is equal to the rate of interest declared from time to time by FortisBC Energy's lead bank as its "prime rate" for loans in Canadian dollars.

Payment of interest will be credited to the Customer's account in January of each Year.

4. Metering Related Charges

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Disputed Meter Testing Fees

Meters rated at less than or equal to 14.2 m ³ /Hour	\$50.00
Meters rated greater than 14.2 m ³ /Hour	Actual Costs of Removal and Replacement

CANCELLER PER BCUC ORDER NO. G-XX-12

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GENERAL SERVICE RATE (SGS)

Available

In the Resort Municipality of Whistler where Customers are serviced from a direct extension of the existing distribution system.

Applicable

To Gas supplied to Customers at one point of delivery through one meter.

Rates

Basic Charge per Day	\$0.2464
Delivery Charge per GJ	\$10.979
Rider 5 (RSAM)	\$0.524
Gas Cost Recovery Charge per GJ	\$4.029
Minimum Monthly Charge	\$7.50

R

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for all FortisBC Energy (Whistler) Inc. customers have been established as interim, approved effective January 1, 2012. Final determination for all FortisBC Energy (Whistler) Inc. customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Fourth Revision of Page 35

RATE RIDER A GAS COST DEFERRAL ACCOUNT RECOVERY

Available

In the Resort Municipality of Whistler where Customers are serviced from a direct extension of the existing distribution system.

Applicable

To Gas supplied to Customers at one point of delivery through one meter.

Conditions

Rate Rider A is applicable to all Customers served under the General Service Rate Tariff (SGS). Rate Rider A serves to recover increased Gas costs accumulated in the Gas Cost Deferral Account.

Rate Rider A is to be applied in addition to the approved rates beginning July 1, 2001.

Rates

Rate Class

SGS

(\$0.256)/GJ

A

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for all FortisBC Energy (Whistler) Inc. customers have been established as interim, approved effective January 1, 2012. Final determination for all FortisBC Energy (Whistler) Inc. customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

C

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Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Third Revision of Page 36

RATE RIDER B

RECOVERY OF JULY TO DECEMBER 2009 APPROVED RETURN ON EQUITY AND CAPITAL STRUCTURE

Available

In the Resort Municipality of Whistler where Customers are serviced from a direct extension of the existing distribution system.

Applicable

To Gas supplied to Customers at one point of delivery through one meter.

Conditions

Rate Rider B is applicable to all Customers served under the General Service Rate Tariff (SGS).

Rates

Rate Class

SGS

\$0.00/GJ

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for all FortisBC Energy (Whistler) Inc. customers have been established as interim, approved effective January 1, 2012. Final determination for all FortisBC Energy (Whistler) Inc. customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

C

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

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Attachment 54.11



Terasen Gas Inc. ("TGVI" or the "Company") 2010-2011 Revenue Requirements and Rate Design Application	Submission Date: August 28, 2009
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 465

175.4 Provide examples of, and comment on, the methods used by other utilities to allocate peaking storage costs.

Response:

TGVI did a brief survey of peaking storage allocation methodologies at other utilities and regulated transmission companies. In its review, the Company found that cost allocation of peaking storage costs is specific to the utility or transmission company and to the type of peaking storage resource however generally those customers that benefit from the peaking resource are attributed some of those costs.

Terasen Gas Inc. ("TGVI" or the "Company") 2010-2011 Revenue Requirements and Rate Design Application	Submission Date: August 28, 2009
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Some of the important differences and considerations are as follows:

- Location of the peaking storage resource in service area or outside the service area
- Location of the peaking storage resource on the distribution or transmission system
- Benefits of the peaking storage resource to the gas or midstream portfolio to meet gas supply requirements
- Benefits of the peaking storage to transmission or distribution system capacity or reliability

The table below summarizes the results obtained from our review based on our understanding of cost allocation methodologies following discussions with the specific utilities. Also included is a description of TGI's peaking storage resources. It should be noted that it was not possible to obtain the same level of detail from the various organizations.

<u>Utility</u>	<u>Peaking Storage Description</u>	<u>Cost Allocation Overview</u>
TGI	Tilbury LNG <ul style="list-style-type: none"> • On System LNG Peaking Facility connected to the Coastal Transmission System • Provides needle peaking storage resource to meet firm demands during winter peaking conditions. Also increases system reliability by being available to mitigate upsets or outages on TGI or Spectra transmission systems. 	Allocated on peak demand to all sales and companion transportation classes (Large Commercial Rate 23 and General Firm Service Rate 25)
TGI	Midstream storage – (e.g. Aitken Creek, JPS, Mist) <ul style="list-style-type: none"> • Off-system contracted underground storage as part of midstream portfolio 	Forms part of the Cost of Gas Midstream - Fixed costs allocated on peak demand to all sales customers through Midstream charge. Variable costs allocated based on annual throughput.

<p style="text-align: center;">Terasen Gas Inc. ("TGVI" or the "Company") 2010-2011 Revenue Requirements and Rate Design Application</p>	<p>Submission Date: August 28, 2009</p>
<p style="text-align: center;">Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1</p>	<p style="text-align: center;">Page 467</p>

<u>Utility</u>	<u>Peaking Storage Description</u>	<u>Cost Allocation Overview</u>
<p>Union Gas - Ontario</p>	<p>Dawn Storage</p> <ul style="list-style-type: none"> On-System underground storage facility connected to transmission system Provides storage services to in-franchise and ex-franchise customers on and off system 	<p>Storage Costs are classified into four categories – Demand (Deliverability), Commodity, Space (Capacity), and System Integrity. Allocation of each category of costs is based on an assessment how customers benefit from that function. For example, deliverability costs are compression and related costs incurred to provide delivery from storage on design day to meet customers' firm requirements. Deliverability costs are allocated based on firm peak day deliverability requirements</p>
<p>Union Gas - Ontario</p>	<p>Hagar LNG</p> <ul style="list-style-type: none"> LNG Peak Shaving facility Connected to the Transmission System in Northern Operations area where no direct connection to Dawn Storage exists 	<p>Classified as a "System Integrity Resource" used to meet operational requirements. Costs are allocated using excess peak over annual average demand (i.e., the difference between what a rate class takes on an average day and what it requires on its peak day)</p>
<p>Puget Sound Energy ("PSE")</p>	<p>Gig Harbor LNG</p> <ul style="list-style-type: none"> Satellite LNG facility connected to the Distribution System. Allowed PSE to avoid expansion of its distribution system to serve core customers 	<p>Allocated based on peak demand to core market customers.</p>
<p>PSE, Avista, Northwest Pipeline ("NWP")</p>	<p>Jackson Prairie Storage ("JPS")</p> <ul style="list-style-type: none"> Underground storage facility connected to NWP's interstate transmission system Owned equally by NWP, Avista Utilities and PSE NWP provides storage services to third parties and also holds capacity for pipeline operations. PSE and Avista use capacity and deliverability primarily for utility customers' use. 	<p>NWP – overall costs are split based 50/50 between deliverability and capacity. Storage held for transmission operations recovered from all firm transport customers based on contract demand. PSE & Avista– majority of JPS and NWP re-delivery costs allocated to sales customers. Some portion allocated to transportation customers.</p>

<p style="text-align: center;">Terasen Gas Inc. ("TGVI" or the "Company") 2010-2011 Revenue Requirements and Rate Design Application</p>	<p>Submission Date: August 28, 2009</p>
<p style="text-align: center;">Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1</p>	<p style="text-align: center;">Page 468</p>

<u>Utility</u>	<u>Peaking Storage Description</u>	<u>Cost Allocation Overview</u>
Northwest Pipeline	<p>Plymouth LNG</p> <ul style="list-style-type: none"> LNG storage facility Connected to the NWP system Provides 3rd party peaking storage services primarily to natural gas utilities 	<ul style="list-style-type: none"> Overall costs are spit based 50/50 between deliverability and capacity. Appears that utilities holding Plymouth capacity recover costs from customers in same manner as other storage or transmission resources depending on the justification for holding the capacity.
Centra Manitoba	<p style="text-align: center;">Contracted Peaking Storage</p> <ul style="list-style-type: none"> Contracts for upstream and downstream storage No on-system storage available 	<ul style="list-style-type: none"> Transportation and storage demand charge costs are allocated 1/3 on a volumetric basis (average day) and 2/3's on a peak day basis.
TransGas	<p>Underground Storage Resources</p> <ul style="list-style-type: none"> Transmission and storage subsidiary wholly owned by SaskEnergy and has the exclusive right to transport natural gas within Saskatchewan Provides gathering, storage and transmission services to SaskEnergy, producers and industrial and commercial customers 	<ul style="list-style-type: none"> Storage costs are allocated to both the storage service and the transportation service. To the extent that storage results in reduced transmission facilities (transmission avoidance), 1/2 of the transmission savings from the use of storage are allocated to transmission. The deemed facility costs are depreciated over time. SaskEnergy in turn recovers costs of leased storage from its distribution customers based on peak day. All customers would also realize storage costs that are imbedded in TransGas transmission rates paid by SaskEnergy.
Southwest Gas - Nevada	<p>Paiute LNG</p> <ul style="list-style-type: none"> Off-system LNG peak storage facility connected to and owned and operated by Paiute Pipeline Paiute Pipeline offers open access LNG storage services Paiute Pipeline is a separately regulated transmission system that in effect forms the backbone of Southwest Gas's distribution system 	<p>Southwest Gas contracts for both transmission service and LNG Service from Paiute Pipeline.</p> <p>LNG service includes delivery to all the delivery points serving Southwest Gas service area, and therefore reduces the need to hold additional transmission capacity</p> <p>All upstream transmission capacity and storage costs forms part of Southwest Gas's cost of gas</p>

<p style="text-align: center;">Terasen Gas Inc. ("TGVI" or the "Company") 2010-2011 Revenue Requirements and Rate Design Application</p>	<p>Submission Date: August 28, 2009</p>
<p style="text-align: center;">Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1</p>	<p style="text-align: center;">Page 469</p>

<u>Utility</u>	<u>Peaking Storage Description</u>	<u>Cost Allocation Overview</u>
PG&E - California	<p>Contracted and owned storage resources</p> <ul style="list-style-type: none"> PG&E transmission system effectively holds contract and owned underground and LNG storage resources and provides services to PG&E gas utility transport and core customers as well as to third party marketers. 	<p>Transmission system holds the storage and then allocates into three categories:</p> <p>"Core Procurement" where costs are allocated to sales customers.</p> <p>"Pipeline Balancing" where costs are allocated to transmission costs which is subsequently recovered from all transport and core customers based on average throughput</p> <p>"Third Party Storage" where costs are recovered based on prorata share of injection, capacity and withdrawal rights.</p>
Northwest Natural Gas – Washington & Oregon	<p>Portland and Newport LNG</p> <ul style="list-style-type: none"> On-system LNG Peak Shaving facilities connected to the distribution system Primarily provides system capacity and reinforcement <p>Mist Storage</p> <ul style="list-style-type: none"> on-system underground storage facility used to serve service area and ex-franchise customers 	<ul style="list-style-type: none"> LNG Facilities are allocated to all firm customers (sales and transport) on the system Information was not available for Mist facilities used to serve on-system customers Variable costs allocated to sales customers
Intermountain Gas - Idaho	<p>Nampa LNG</p> <ul style="list-style-type: none"> On-system LNG Peak Shaving facilities connected to the distributions system Primarily provides system capacity 	<ul style="list-style-type: none"> Costs recovered from sales and transportation customers.

1 of 1 DOCUMENT

**MARKET STREET RAILWAY CO. v. RAILROAD COMMISSION OF
CALIFORNIA ET AL.**

Nos. 510, 511

SUPREME COURT OF THE UNITED STATES

324 U.S. 548; 65 S. Ct. 770; 89 L. Ed. 1171; 1945 U.S. LEXIS 2625

**February 26, 1945, Argued
March 26, 1945, Decided**

PRIOR HISTORY: APPEALS FROM THE SUPREME COURT OF CALIFORNIA.

APPEALS from a judgment affirming an order of the state commission which directed the railway to reduce its fares from seven to six cents. Because of uncertainty as to whether the first appeal was premature, a second appeal was taken; the second appeal is here dismissed and the first heard on the merits.

DISPOSITION: 24 Cal. 2d 378, 150 P. 2d 196, affirmed.

LAWYERS' EDITION HEADNOTES:

APPEAL, §23

finality of judgment -- effect of waiting period until judgment becomes "final." --

Headnote:[1]

A decision of a supreme court of a state becomes final, for purposes of an appeal to the Supreme Court of the United States, at the time the issues are adjudged and the decision rendered, although the rules of the state court provide that a decision by it does not become "final" until 30 days after filing and that remittitur shall not issue until the end of that period, where the waiting period so prescribed is in substance merely a limitation on the time during which the state court may reconsider its decision.

APPEAL, §23

finality -- essential elements. --

Headnote:[2]

A state court judgment, in order to be final for purposes of review by the Supreme Court of the United States, must be the final word of a final court, in the senses that: (1) it must be subject to no further review or correction in any other state tribunal, and (2) it must be an effective determination of the litigation and not of merely interlocutory or intermediate steps therein.

APPEAL, §22

finality -- effect of state designation. --

Headnote:[3]

The finality of a state court judgment, for purposes of appeal to the Supreme Court of the United States, is not controlled by the designation applied in state practice.

APPEAL, §23

test of finality. --

Headnote:[4]

A state court judgment is final, for purposes of appeal to the Supreme Court of the United States, when the issues are adjudged.

APPEAL, §23

finality -- power to reopen judgment. --

Headnote:[5]

The finality of a state court judgment, for purposes of appeal to the Supreme Court of the United States, is not deferred by the existence of a latent power in the rendering court to reopen or revise its judgment.

APPEAL, §46

finality of judgment -- effect of rehearing. --

Headnote:[6]

A timely petition for rehearing defers finality of the judgment, for purposes of an appeal to the Supreme Court of the United States, until the petition is acted upon or until the power to act upon it has expired; if a rehearing is granted, the judgment does not become final until decision is rendered thereon.

CONSTITUTIONAL LAW, §823

due process -- notice and hearing -- proceedings before state railroad commission -- inquiry into street railway rates. --

Headnote:[7]

A street railway company cannot complain of lack of notice and fair hearing in a proceeding before a street railroad commission in which its rates are reduced, upon the ground that it was not prepared for an attack on its rate structure, its attention having been diverted to other more sharply contested issues before the commission, where the order instituting the proceedings recited as one of its objects an inquiry into the "reasonableness of the rates," due notice of the proceeding was given, and there is evidence in the record, including testimony introduced by the company itself, which would have no bearing on the other questions involved except as they might involve rates.

CONSTITUTIONAL LAW, §786

due process -- surprise. --

Headnote:[8]

Surprise is not necessarily want of due process.

CONSTITUTIONAL LAW, §746

due process -- mistakes of litigant during trial. --

Headnote:[9]

A misapprehension by a litigant of the steps which its best interests require during the trial is not ground for interference with the result as a denial of due process of law.

CONSTITUTIONAL LAW, §823

due process -- proceeding before state railroad commission -- reduction of rates -- lack of expert opinion. --

Headnote:[10]

The fact that a state railroad commission's decision that traffic on a street railway would be stimulated by reducing the rates is reached by it without the aid of expert testimony does not amount to a denial of due process of law, where the commission was well acquainted with the affairs of the street railway, any expert opinion which might have been advanced would not have been binding on it, and the reduction of rates was expressly declared by it to be experimental only, the proceeding being kept open for any further orders that experience might show to be desirable.

PUBLIC SERVICE COMMISSION, §6

binding effect of expert opinion. --

Headnote:[11]

The opinion of experts is not binding on a state railroad commission in a rate proceeding before it; the weight to be given to such opinion depends on the commission's estimate of the reasonableness of the conclusions reached and the force of the reasoning behind them.

CONSTITUTIONAL LAW, §823

due process -- state railroad commission -- reference to evidence outside record. --

Headnote:[12]

Reference by a state railroad commission to evidence outside the record, on an inquiry by it into the rates and services of a street railway company, does not, although improper, amount to a denial of due process of law, where the evidence consists of monthly reports filed by the company itself with the commission covering a period subsequent to the hearing, and it is not shown that the reports were erroneous or could have been rebutted or impeached by the company.

CONSTITUTIONAL LAW, §823

due process -- proceeding before state railroad commission. --

Headnote:[13]

Due process of law, in a proceeding before a state railroad commission, requires that the commission proceed upon matters in evidence, and that the parties have an opportunity to subject the evidence to the test of cross-examination and rebuttal.

CONSTITUTIONAL LAW, §746

due process -- trivial matters. --

Headnote:[14]

Due process of law deals with matters of substance and is not to be trivialized by formal objections that have no substantial bearing on the ultimate rights of the parties.

CONSTITUTIONAL LAW, §743

due process -- state railroad commission -- street railway rates -- considering value of service. --

Headnote:[15]

The fact that a state railroad commission, in ordering a reduction of street railway rates, takes into consideration the value of the service rendered does not amount to a denial of due process of law, on the theory that a confiscatory rate is not justified merely because it is all the service is worth, where it is not shown that the rate actually fixed is confiscatory, and, in considering the value of the service, the commission was concerned only with a comparison of the service previously rendered under different rates, with a view to determining whether the higher rate was justified, from the point of view both of better service and of increased earnings to the company.

CONSTITUTIONAL LAW, §743

due process -- rate base -- street railway -- salvage value. --

Headnote:[16]

The use of a rate base of \$ 7,950,000, in fixing the rates of a street railway company is not a denial of due process of law, although the reproduction cost, the actual investment, and the amount of the company's outstanding securities are all much higher, where the company is in a bad financial position, it cannot possibly expect to earn a return based on any of the higher amounts, and the \$ 7,950,000 is the sum offered by the municipality for its properties, which offer, being substantially the amount for which the properties are afterwards sold to the municipality and which the company itself then recognizes as being the best price obtainable therefor, probably represents the true salvage value of the company's properties.

CONSTITUTIONAL LAW, §743

due process -- rates -- street railways -- reproduction cost. --

Headnote:[17]

Disregarding theoretical reproduction costs in fixing street railway rates is not a denial of due process of law, where, considering the company's obsolete equipment and the bad conditions in the street railway industry generally, no responsible person would think of reproducing such a street railway system.

CARRIERS, §230

street railway -- fair return -- attracting additional capital. --

Headnote:[18]

A street railway company, in such a bad financial condition as to make it economically impracticable to fix a rate which would give it a return on its investment, cannot claim to be entitled to a return sufficient to assure confidence in its financial integrity and to attract additional capital, where the company's financial integrity already is hopelessly undermined, it could not attract capital at any possible rate, and the investors recognize as lost a part of what they have put into the company.

CONSTITUTIONAL LAW, §529

due process -- maintenance of present values. --

Headnote:[19]

The due process clause, applicable to prevent governmental destruction of existing economic values, cannot be applied to insure such values or to restore values that have been lost by the operation of economic forces.

PUBLIC UTILITIES, §9

rates -- right to fair return. --

Headnote:[20]

The owners of a property dedicated to the public service cannot be said to suffer injury if a rate is fixed for an experimental period which probably will produce a fair return on the present fair value of the property.

PUBLIC UTILITIES, §14

fair return -- valuation -- salvage value. --

Headnote:[21]

A return based upon the salvage value of a utility is proper where the utility, due to the forces of competition and adverse economic conditions, has lost all value except salvage, even though such salvage may be only the value of its properties when sold for scrap.

CARRIERS, §230

fair return -- street railway -- capitalization of earnings. --

Headnote:[22]

The fact that an offer made by a municipality for the properties of a street railway company is calculated by a capitalization of earning power does not make it improper to take the amount of such offer as the basis of valuation in fixing the company's rates, although capitalization of earning power may not generally be a sound basis of valuation, where the company has little choice in the matter of rates, due to competition from the municipality, and it is in such a bad financial position that the return which it would earn on the salvage value of its properties, represented by the amount of the offer, is probably as large as any higher rate would produce.

CONSTITUTIONAL LAW, §743

due process -- street railway -- experimental rates. --

Headnote:[23]

The fact that a rate fixed for a street railway company, which was intended to be experimental only, was never actually tried out, does not make it a denial of due process of law, where the experiment is defeated by the company itself, as a result of a stay obtained by it and a subsequent sale of its properties.

CONSTITUTIONAL LAW, §743

due process -- street railway -- experimental rates. --

Headnote:[24]

The fixing of experimental rates for a street railway company, to be tested by experience and changed as necessary, is not forbidden by the Federal Constitution, where even the most expert could not know in advance the effect of the prescribed rates.

SYLLABUS

1. For the purpose of appeal to this Court, the judgment of the Supreme Court of California here involved became final upon that court's denial of a petition for rehearing; and an appeal was not premature though taken before expiration of the 30-day period in which, under the state law and practice, the state court could have modified the judgment. P. 551.

2. An order of the state commission requiring the appellant street railway company to reduce its base cash fare from seven to six cents, *held*, under the Fourteenth Amendment of the Federal Constitution, not a deprivation of property without due process of law. Pp. 553, 569.

(a) There is no foundation in the record for the company's contention that in the proceedings before the Commission it was given no adequate notice that its rates were under attack and therefore no opportunity for a hearing on the reasonableness of its rates. P. 558.

(b) The order was not unsupported by evidence and was not rendered invalid by the fact that the Commission evaluated the company's experience for itself without the aid of expert testimony. P. 559.

(c) The order was not invalid as based on matters outside the record. The Commission's incidental reference to the company's own reports, although they were not formally in evidence in the proceeding, did not deny due process, in the absence of any showing of error or prejudice. P. 561.

(d) As the rate prescribed by the Commission is not here found to be confiscatory, it is unnecessary to determine

whether "value of service" would justify a rate which does not yield a fair return. To the extent that the Commission was influenced by considerations of the value of the service in this case, there was no denial to the company of any constitutional right. P. 562.

(e) In view of the company's economic plight, the order was not invalid even though under the prescribed rate the company would operate at a loss. That the Commission used as a rate base the price at which the company had offered to sell its properties to the municipality, and disregarded theoretical reproduction costs, did not vitiate the order. P. 564.

The due process clause does not insure values nor require restoration of values that have been lost by the operation of economic forces.

(f) That the test of experience which the order contemplated was unavailable can not affect its constitutional validity, where the company itself, by litigation and subsequent sale of the property, had frustrated such test. P. 568.

COUNSEL: Mr. Francis R. Kirkham, with whom Messrs. Cyril Appel and Felix T. Smith were on the brief, for appellant.

Mr. Everett C. McKeage, with whom Mr. Wyman C. Knapp was on the brief, for appellees.

JUDGES: Stone, Roberts, Black, Reed, Frankfurter, Douglas, Murphy, Jackson, Rutledge

OPINION BY: JACKSON

OPINION

MR. JUSTICE JACKSON delivered the opinion of the Court.

[1]Two appeals have been taken from a single judgment of the Supreme Court of California because counsel was uncertain when the judgment became final for our jurisdictional purposes. The decision was rendered July 1, 1944; it concluded, "The order is affirmed"; a petition for rehearing was denied July 27, 1944. The first appeal was applied for and allowed on July 31, 1944. If the judgment became final on denial of rehearing, this appeal was timely. However, the California Rules on Appeal expressly provide that a decision of the Supreme Court "becomes final thirty days after filing unless otherwise ordered prior to the expiration of said 30-day period." ¹ Remittitur does not issue until the end of the 30-day period. ² It issued on August 1 and certified, according to practice, that "the foregoing is a true copy of an original judgment entered in the above entitled cause on the 1st day of July, 1944; and now remaining of record in my office." If the date of its issue, being also the date of finality fixed by the rule, governs finality for purposes of our jurisdiction, the judgment was not a final one at the time the first appeal was granted. On the chance that it might be dismissed as premature, a second appeal was presented and allowed on September 21.

¹ Rule 24 (a) provides: "[When decisions become final] All decisions of the reviewing courts shall be filed with the clerk. A decision of the Supreme Court becomes final 30 days after filing unless otherwise ordered prior to the expiration of said 30-day period. Pursuant to article VI, section 4c, of the Constitution, a decision of a District Court of Appeal becomes final as to that court, 30 days in civil cases and 15 days in criminal cases after filing, and thereafter is not subject to modification or rehearing by said court. Where an opinion is modified without change in the judgment, during the time allowed for rehearing, such modification shall not postpone the time that the decision becomes final as above provided; but if the judgment is modified during that time, the period specified herein begins to run anew, as of the date of modification." Rules on Appeal for the Supreme Court and District Courts of Appeal of the State of California, effective July 1, 1943. See 22 Cal. 2d 1.

² Rule 25 so provides. "A remittitur shall issue after the final determination of any appeal, or of any original proceeding in review in which an alternative writ or order to show cause has been issued. Unless otherwise ordered, the clerk of the Supreme Court shall issue the remittitur when a judgment of that court becomes final . . ." Rule 25 (a). "For good cause shown, or on stipulation of the parties, the Supreme Court may direct the immediate issuance of a remittitur." Rule 25 (b). For discussion of this rule see Witkin, *New California Rules*

on Appeal (1944) 17 So. Calif. L. Rev. 248 *et seq.*

[2]Our jurisdiction to review a state court judgment is confined by long-standing statute to one which is final. Judicial Code, § 237, 28 U. S. C. § 344. Final it must be in two senses: it must be subject to no further review or correction in any other state tribunal; it must also be final as an effective determination of the litigation and not of merely interlocutory or intermediate steps therein. It must be the final word of a final court.

[3][4][5][6]We have held that finality of a judgment of a state court for determining the time within which our jurisdiction to review may be invoked is not controlled by the designation applied in state practice. *Department of Banking v. Pink*, 317 U.S. 264; *Cole v. Violette*, 319 U.S. 581. The judgment for our purposes is final when the issues are adjudged. Such finality is not deferred by the existence of a latent power in the rendering court to reopen or revise its judgment. The waiting period prescribed by the statute here seems to reserve a power of that character. The decision during this period does not lack the attributes of an adjudication, it is not awaiting lapse of time to become a judgment, it merely is subject to modification. When this period runs, unless the court has moved meanwhile, it becomes powerless to change or modify the judgment. *Oakland v. Pacific Coast Lumber Co.*, 172 Cal. 332, 337, 156 P. 468; *Estate of Ross*, 189 Cal. 317, 318, 207 P. 1014. The rule is thus a limitation on the time during which the court may reconsider, which in absence of such rule might expire only with the end of the term or some other event determinative under local law. Such latent powers of state courts over their judgments are too variable and indeterminate to serve as tests of our jurisdiction. Our test is a practical one. When the case is decided, the time to seek our review begins to run. A timely petition for rehearing defers finality for our purposes until it is acted upon or until power to act upon it has expired as here it would appear to do at the end of the 30-day period.³ If rehearing is granted, the judgment is opened, and does not become final as a prerequisite to application for review by us until decision is rendered upon rehearing.

³ "The Supreme Court or a District Court of Appeal may grant a rehearing in any cause after its own decision; and any cause pending in a department of the Supreme Court may be ordered heard by the Supreme Court in bank. A rehearing or hearing in bank may be granted on petition, as provided in subdivision (b) of this rule, or on the court's own motion, prior to the time the decision becomes final therein." Rule 27 (a).

"An order of the Supreme Court granting a rehearing shall be signed by at least 4 justices assenting thereto, and filed with the clerk; and a hearing in bank after decision in department may be ordered as provided in article VI, section 2, of the Constitution. If no order is made before the decision becomes final, the petition shall be deemed denied, and the clerk shall enter a notation in the register to that effect." Rule 27 (e).

We postponed consideration of jurisdiction until hearing on the merits.⁴ We hold that this judgment became final on denial of rehearing, that the first appeal was timely and that the precautionary second appeal is duplication. Accordingly the appeal in No. 511 is dismissed and that in No. 510 is entertained upon its merits.

⁴ November 13, 1944.

The Market Street Railway Company at the commencement of these proceedings operated a system of passenger transportation by street car and by bus in San Francisco and its environs. The Railroad Commission of California instituted on its own motion an inquiry into the Company's rates and service. After hearings, an order was promulgated reducing the fare from seven to six cents.⁵ The Company, after rehearing was denied,⁶ obtained review by the Supreme Court of California. It also obtained a stay of the Commission's order, conditioned upon impounding the disputed one cent per passenger to abide settlement of the issues upon which its ownership would depend. The Supreme Court of California affirmed the order⁷ and appeal is taken to this Court. Meanwhile the Company sold its

operative properties to the City of San Francisco. The case is saved from being moot only because its decision is necessary to determine whether the Company is entitled to the impounded portion of the fares or whether the money shall be refunded to passengers making claims and unclaimed amounts thereof be paid over to the state, as required by conditions of the stay order.

5 The opinions are reported in 45 Cal. R. C. Dec. 53.

6 The opinion on rehearing is reported in 45 Cal. R. C. Dec. 162.

7 The Court's opinion is reported in 24 Cal. 2d 378, 150 P. 2d 196.

The appeal raises constitutional issues only. The contention is that the order deprives the appellant of its property without due process of law, contrary to the Fourteenth Amendment. Appellant claims denials of due process in matters of procedure in that it had no adequate notice that its rates were under attack or adequate opportunity for a hearing thereon, that the order in several vital particulars is not supported by substantial evidence or by any evidence, and that it was improperly based on matters outside of the record on which there was no opportunity to cross-examine or to be heard. It claims a taking of its property as a result of the order on the ground that it would force the Company to operate at a loss because the Commission used a rate base of \$ 7,950,000, the price at which appellant had offered to sell its operative properties to the City, and did not consider reproduction cost, historical cost, prudent investment, or capitalization bases, on any of which under conventional accounting the six-cent fare would produce no return on its property and would force a substantial operating deficit upon the Company.

The appellant in support of its contentions that it has been denied due process in procedure and has been subjected to an unconstitutional taking of its property invokes many decisions of this Court in which statements have been made that seem to support its contentions. But it should be noted at the outset that most of our cases deal with utilities which had earning opportunities, and public regulation curtailed earnings otherwise possible. But if there were no public regulation at all, this appellant would be a particularly ailing unit of a generally sick industry. The problem of reconciling the patrons' needs and the investors' rights in an enterprise that has passed its zenith of opportunity and usefulness, whose investment already is impaired by economic forces, and whose earning possibilities are already invaded by competition from other forms of transportation, is quite a different problem. The Company's practical situation throws important light both on the question whether the rate reduction has taken its property and also upon the criticisms it makes of the conduct of the hearings.

Transportation history of San Francisco follows a pattern not unfamiliar. This property has passed through cycles of competition, consolidation and monopoly, and new forms of competition; it has seen days of prosperity, decline, and salvage. In the 1850's an omnibus service began to operate in San Francisco. In the 1860's came the horse car. The 1870's saw the beginning of the cable car, for which the contour of the city was peculiarly adapted. The Market Street Railway Company was incorporated in 1893 and took over 11 of the 17 street car lines then independently operated in the city. In 1902, United Railroads of San Francisco was organized. This consolidated under one operating control properties of the Market Street Company and five other lines, comprising 229 miles of track, much of which was cable-operated. It suffered greatly from the earthquake and fire of 1906, but carried out a considerable program of reconstruction between 1906 and 1910. In 1921 it failed to pay interest on outstanding bonds. Bondholders acquired the properties and revived the Market Street Railway Company, which had been a dormant subsidiary of United, to operate them.

In 1912 the City and County of San Francisco began operation of a municipal street railway line. This line is not and never has been under the Railroad Commission's jurisdiction. It expanded rapidly, its routes in some instances parallel those of appellant, and its competition has been serious. Throughout the period of competition the municipal lines have operated on a five-cent fare. The Market Street Line also operated on a five-cent fare until July 6, 1937. In that year it

applied to the Commission for an increase to a seven-cent fare. This was denied, but a two-cent transfer charge and other adjustments were authorized. In March 1938 the Company again petitioned for a seven-cent fare, with reduction for school children. The Commission authorized a seven-cent fare, but required some concession to token buyers. A few months later the Company again asked a straight seven-cent fare and relief from the token rate. The Commission directed the Company to apply to the City for permission to abandon certain lines and to protect it against "jitney competition," stipulating that the seven-cent fare could be made effective if the City failed to respond. The City did not act, and the seven-cent fare became effective January 1, 1939.

But the increase of fare brought no increase of revenue. Both traffic and revenue continued to decline, and in 1941 reached the lowest point in twenty years. Then came war, bringing accelerated activity, increase of population of the city, rubber and gas shortage, restrictions on purchase of new and retirement of many old automobiles. Traffic and revenues showed a sudden increase. The Commission found, however, that the service had constantly deteriorated and was worse under the seven-cent fare than under the former five-cent rate. It recognized that some of the causes were beyond the Company's control. But after allowance for those causes, it also found evidence of long-time neglect, mismanagement, and indifference to urgent public need. It found the Company's service inferior to the service of the municipal lines, although appellant charged a 40 per cent higher fare. Defects in service consisted of failure to operate on schedule, long intervals between cars, followed by several cars operating with little headway, overloading, inadequate inspection, and inadequately maintained rolling stock. The Company had some 70 cars out of operation and in storage because of shortage of manpower. Its street car rolling stock was obsolete, 73 electric cars and 12 cable cars being out of service. None of the cars was modern. The municipal lines had tried to lease the unused cars for operation on its lines, but the Company refused. The City was denied priorities for purchase of new busses by federal authorities because of idle rolling stock in the city. The Commission concluded that the reason for the Company's declining to lease for a fair rental rolling stock it could not use was fear of competition. The Company was handicapped in manpower, the municipal lines offering somewhat better wages and working conditions that seemed more attractive. The entire system was suffering from deferred maintenance, the amount expended for way and structures maintenance having been steadily reduced, both in dollars and in proportion of total operating costs.

The Commission disagreed with the Company as to the use to be made of war-time increase in revenues. The Company said it had no definite plan for setting aside anything for maintenance. The management thought its first obligation was to discharge its debts. The Commission took the view that allowances for depreciation as part of the costs of operation should be spent in replacement of depreciated property, and not for payment of debts.

Reviewing the financial results of fare increases, the Commission concluded that the Company would reap no lasting benefit from rates in excess of five cents, due to the tendency of a higher rate to discourage patronage. The war traffic the Commission thought temporary. But it concluded that a six-cent fare would sufficiently stimulate traffic to leave after operating expenses approximately a six per cent return on a rate base of \$ 7,950,000. This was the figure at which the Company had offered to sell its operative properties to the City. Accordingly the Commission found the six cents to be a reasonable rate to the Company and to be all or more than the reasonable value of the services being rendered to patrons. It considered this rate to be experimental and kept the proceeding open for such further orders as might be just and reasonable. The Company applied for rehearing on substantially the grounds it urges here. Its arguments were considered at length in an opinion which denied rehearing. The Supreme Court of California overruled all of the Company's objections and affirmed the Commission's order.

The reduced rate never took effect. The Company obtained delay from the Commission and a stay order from the Court. It then sold its properties to the City, which took over and continued the seven-cent fare. So the anticipations of the Commission as to increased patronage from the rate reduction never have been put to the test of experience. Our review considers only whether the order was valid when and as made.

[7]1. Appellant says that the order is invalid because it was denied a fair hearing, given no adequate notice that its rates were under attack, and hence was afforded no opportunity for a hearing on the reasonableness of its rates. We find this contention to have no foundation in the record. The order of the Commission instituting the proceeding recited its belief

"that public interest demands an inquiry into the reasonableness of the rates, as well as the sufficiency and adequacy of the service rendered" by appellant, and investigation was ordered of both. Due notice of the proceeding was given and it was entitled an investigation "into the reasonableness of the rates and charges, and into the sufficiency and adequacy of the" service. The hearing was opened with a similar statement by the Commission. The record is replete with evidence that would have no bearing on the questions of service except as fares were involved. Experts of the Commission testified at length as to financial history and rate experience of the Company. The Company's president testified concerning the rate situation and the Company's experience with the seven-cent fare. Its counsel put in evidence the Commission's former decisions authorizing increases in fares.

[8]The Company particularly complains that it had no notice that the Commission was receiving evidence of its offer to sell its properties for \$ 7,950,000 for use as a rate base. The offer was received in evidence without limitation or statement of its purpose. Nothing appears to mislead or entrap the Company or to lull it into a sense of security. It seems simply to have assumed that no explanation of the offer was necessary. Doubtless the decision and the grounds of decision were unexpected. But surprise is not necessarily want of due process.

[9]We find that the Company had reasonable notice that its rates were under attack and was not denied opportunity to be heard thereon. We can well understand how counsel's attention became diverted to more sharply contested aspects of the case. But even if a more convincing showing were made that the Company had relevant evidence to be heard, we find no adequate excuse for the failure to offer it in the proceeding. No offer was rejected, no request for time to obtain such evidence was denied. A misapprehension by a litigant of the steps which its best interests require during a trial may be appealing grounds for a plea to the discretion of the hearing tribunal for another chance, but it is not grounds for our interference as a denial of constitutional rights.

[10]2. It is next contended that the order is invalid under the due process clause because it is unsupported by evidence and is based on the Commission's speculation and conjecture. This charge relates particularly to those findings which predict the effect of a rate reduction in stimulating traffic. The Commission's estimates and predictions do not follow any particular testimony. Appellant urges that such predictive findings may be made only on expert testimony, subject to cross-examination, explanation, and rebuttal, and may not be based on the Commission's own expert knowledge. Various considerations are advanced to show that the Commission's predictions were based on innocent analysis and were improbable.

[11]Appellant relies upon our holding in *Ohio Bell Telephone Co. v. Public Utilities Commission*, 301 U.S. 292. In that case the Commission ordered refunds "upon the strength of evidential facts not spread upon the record." This consisted "of information secretly collected and never yet disclosed. The company protested. It asked disclosure of the documents indicative of price trends, and an opportunity to examine them, to analyze them, to explain and to rebut them. The response was a court refusal. Upon the strength of these unknown documents refunds have been ordered for sums mounting into millions, the Commission reporting its conclusion, but not the underlying proofs. The putative debtor does not know the proofs today. This is not the fair hearing essential to due process. It is condemnation without trial." *Id.* at 300. Nothing of that kind occurred in this case. The basis for a judgment is here in the record. The Company itself put in evidence decisions by the Commission in which by cautious steps it permitted advance of the rates from five to seven cents. Traffic records before and after each advance are in evidence. Also in the record is the traffic experience of the competing municipal line, which did not increase its fares and which did not suffer declines in traffic and revenues comparable to those which followed this Company's increase of fares. This is not a case where the data basic to a judgment have been withheld from the record. The complaint is that the Commission formed its own conclusions without the aid of expert opinions. It is contended that the Commission should draw conclusions from these facts only upon hearing testimony of experts as to the conclusions they would draw from the facts of record. Experts' judgments, however, would not bind the Commission. Their testimony would be in the nature of argument or opinion, and the weight to be given it would depend upon the Commission's estimate of the reasonableness of their conclusions and the force of their reasoning. There is nothing to indicate that any consideration which could be advanced by an expert has not been advanced by the Company in argument and fully weighed.

We cannot say that it is a denial of due process for a commission so experienced as the record shows this Commission to have been with the affairs of this particular appellant to draw inferences as to the probable effect on traffic of a given rate decrease on such a record as we have here. Particularly would a conclusion of denial of due process be unwarranted where, as here, the Commission recognized the infirmity of any predictions, regarded its rate order as a temporary experiment for which no fixed period was set, and held open the proceeding to receive whatever lessons experience might teach. Its step here is after all only receding, on experience, from steps it earlier had taken to advance the rate, which also had been regarded as experimental and as to which experience had disappointed expectations. We find no denial of due process in these circumstances from the fact that the Commission evaluated the Company's experience for itself without the aid of expert testimony.

[12][13][14]3. It also is urged that the order is invalid under the due process clause because it is based on matters outside the record. The decision of the Commission stated that "In the eight months' period, January to August, inclusive, of 1943 the operating revenues of the company amounted to \$ 5,689,775," and compared this with the operating revenues for the same period of 1942 and found an increase of 20 per cent. On this basis it estimated the total for the full year of 1943 under the prevailing seven-cent fare. Challenged upon the ground that the operating revenues from January to August of 1943 were not in the record, the Commission admitted that these figures were taken from the appellant's monthly reports filed with the Commission. It contended that even if it was in error to refer to such reports, the error was harmless, since the record without the figures supported the reasonableness of the six-cent fare and it was therefore immaterial that the Commission used some additional figures. No contention is made here that the information was erroneous or was misunderstood by the Commission, and no contention is made that the Company could have disproved it or explained away its effect for the purpose for which the Commission used it. The most that can be said is that the Commission in making its predictive findings went outside of the record to verify its judgment by reference to actual traffic figures that became available only after the hearings closed. It does not appear that the Company was in any way prejudiced thereby, and it makes no showing that, if a rehearing were held to introduce its own reports, it would gain much by cross-examination, rebuttal, or impeachment of its own auditors or the reports they had filed. Due process, of course, requires that commissions proceed upon matters in evidence and that parties have opportunity to subject evidence to the test of cross-examination and rebuttal. But due process deals with matters of substance and is not to be trivialized by formal objections that have no substantial bearing on the ultimate rights of parties. The process of keeping informed as to regulated utilities is a continuous matter with commissions. We are unwilling to say that such an incidental reference as we have here to a party's own reports, although not formally marked in evidence in the proceeding, in the absence of any showing of error or prejudice constitutes a want of due process.

[15]4. The order is said to be invalid under the due process clause because it is based in part on the so-called "value of service" theory. It is urged that "a confiscatory rate cannot be sustained on the theory that it is an adequate price for the service independently valued" and there is no evidence justifying a rate reduction on the theory of the value of the service.

The question whether a confiscatory rate can be justified because service is bad can only be reached when we find a prescribed rate to be confiscatory. As we do not find this rate to be such, we do not need to pronounce upon the abstract doctrine as to the validity of the "value of service" theory as justifying rates that do not yield a fair return. The Commission in this case did not make an independent valuation of the service to patrons and fix rates accordingly.

The consideration of service as a justification for rates arises in this case upon a comparison of the service of the Company under the five-cent rate and under the seven-cent rate. The Commission found that the 40 per cent increase of rate had been accompanied by a deterioration of service. Some factors in the bad service were beyond the Company's control; others were found not to be without remedy by good management. Certainly if the increased fare had been accompanied by an improved service, it would be used as an argument by the Company, and a powerful one it would be, for the continuance of the higher rate. That higher rates failed to improve, failed even to maintain, service certainly removed one of the justifications for the increase which the Company was enjoying. It must not be forgotten that the increases that the Commission had allowed were also experimental. So far as the public was concerned the experiment

with the seven-cent rate yielded them no better immediate service and, because of the Company's policies, gave them no prospect of more permanent service. In fact, by discouragement of patronage it threatened the continuance of the service.

Under these circumstances the Commission did not put a monetary value on a street car ride as the basis of the fare. Using the Company's service under the five-cent fare as a standard, it found that the public -- aside from the service to war plants, which was admittedly good -- was receiving no more transportation service for seven cents than it had received at five, and at the same time the Company was not receiving increased revenues because the price of the service had exceeded the value that the public put upon it and it had thereby withdrawn its patronage.

Certainly the due process clause of the Constitution is not violated when a commission takes into consideration practical results to the public of advances which it has allowed in rates. To the extent that the Commission was influenced by considerations of the value of the service in this case, we find nothing that denies the Company any rights possessed under the Federal Constitution.

[16][17]5. The order is asserted to be invalid because it is said to be confiscatory and to compel appellant to operate at a loss. The Commission used a rate base of \$ 7,950,000, the price at which the property had been offered to the City, and the six-cent rate is not calculated to permit any return on a greater valuation. Before we consider the validity of this rate base, we may well consider what alternatives the case presents. No study of the present cost of reproduction is shown, no present fair value is suggested. Nor do we think it important. Apart from familiar objections to the reproduction-cost method, no responsible person would think of reproducing the present plant, consisting in substantial part of cable cars and obsolete equipment. There is no basis for assuming that anyone, in the light of conditions which prevail in the street-surface railroad industry generally, would consider reproducing any street railway system. It was no constitutional error to proceed to fix a rate in disregard of theoretical reproduction costs.

The Commission in 1920 made a valuation study of appellant's properties and found an historical reproduction cost of road and equipment to be \$ 29,715,147. This valuation, brought forward by adding additions and betterments and deducting retirements, shows a total amount for road and equipment as of December 31, 1942 of \$ 25,343,543.

Actual investment is not disclosed by the record. It does disclose that the book value of appellant's properties as of December 31, 1942 was \$ 41,768,505.20.

The Company's outstanding securities at the end of 1942, issued with the approval of the Commission, totaled \$ 37,921,323.96 at face value. They consisted of common stock of over \$ 10,000,000; 3 different classes of preferred stock of \$ 21,000,000; first mortgage bonds of \$ 4,217,500; equipment notes of \$ 735,748.28; and additional long-term debt of \$ 1,041,625.68.

Not one of these nor any combination of them affords a practical or possible rate base, nor does the Company suggest that allowance of any rate will earn it a return upon any of these. It has not itself ventured to ask a rate higher than seven cents, although the inadequacy of its yield to take care of the financial requirements of the Company has for some time been apparent. This company obviously is up against a sort of law of diminishing returns; the greater amount it collects per ride, the less amount it collects per car mile. It has long been recognized that this form of transportation could be preserved only by the most complete cooperation between management and public and the most enlightened efforts to make the service attractive to patrons.⁸ It is obvious that, for whatever cause, the appellant has not succeeded in maintaining its service on a paying basis.

⁸ In May of 1919 the Secretary of Commerce and the Secretary of Labor joined in a letter to President Wilson, advising him that 50 or more urban street railway systems representing a considerable percentage of the electric railway mileage was in the hands of receivers, affecting some of the largest cities of the country, and that other systems were on the verge of insolvency and the industry as a whole was virtually bankrupt. They urged the appointment of a commission to study and report upon the problem. President Wilson on June 1, 1919 named a

commission which held extensive public hearings. The first witness was ex-President William Howard Taft, speaking for the National War Labor Board, and others, including leading municipal and railway officials and such experienced persons in the problem of regulation as Newton D. Baker, Milo R. Maltbie, Morris L. Cook, Joseph B. Eastman, and many others. Proceedings of the Federal Electric Railways Commission, v. 1. An exhaustive report with many recommendations was made. See Analysis of the Electric Railway Problem prepared for the Federal Electric Railways Commission by De Los F. Wilcox, New York City, 1921. Its recommendations were extensive, including certain changes both by the municipalities and by the companies affected. The recommendations were not generally heeded by either.

[18][19]It is idle to discuss holdings of cases or to distinguish quotations in decisions of this or other courts which have dealt with utilities whose economic situation would yield a permanent profit, denied or limited only by public regulation. While the Company does not assert that it would be economically practicable to obtain a return on its investment, it strongly contends that the order is confiscatory by the tests of *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603, 605, from which it claims to be entitled to a return "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital" and to "enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed." Those considerations, advanced in that case (which was reviewed pursuant to statute rather than under the Fourteenth Amendment), concerned a company which had advantage of an economic position which promised to yield what was held to be an excessive return on its investment and on its securities. They obviously are inapplicable to a company whose financial integrity already is hopelessly undermined, which could not attract capital on any possible rate, and where investors recognize as lost a part of what they have put in. It was noted in the *Hope Natural Gas* case that regulation does not assure that the regulated business make a profit. 320 U.S. at 603; see *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U.S. 575, 590. All that was held was that a company could not complain if the return which was allowed made it possible for the company to operate successfully. There was no suggestion that less might not be allowed when the amount allowed was all that the company could earn. Without analyzing rate cases in detail, it may be safely generalized that the due process clause never has been held by this Court to require a commission to fix rates on the present reproduction value of something no one would presently want to reproduce, or on the historical valuation of a property whose history and current financial statements showed the value no longer to exist, or on an investment after it has vanished, even if once prudently made, or to maintain the credit of a concern whose securities already are impaired. The due process clause has been applied to prevent governmental destruction of existing economic values. It has not and cannot be applied to insure values or to restore values that have been lost by the operation of economic forces.

[20][21]The owners of a property dedicated to the public service cannot be said to suffer injury if a rate is fixed for an experimental period, which probably will produce a fair return on the present fair value of their property. If it has lost all value except salvage, they suffer no loss if they earn a return on salvage value. If the property has no prospect of salvage except through dismantling and sale for scrap, the scrap value for such of it as is to be scrapped may represent its present worth. In this case the owners were fortunate in having a potential buyer. Negotiations had long been under way. The operative properties were twice offered to the City of San Francisco for \$ 7,950,000 and twice the voters rejected the proposition. Ultimately the properties were sold for \$ 7,500,000. The evidence shows that the president of the Company reported to the directors "that the price mentioned is the amount that has been agreed upon for the purchase by the City and County of San Francisco of the operative properties of the Company after negotiations in respect thereto which covered a considerable period of time and, as previously mentioned, is the best price obtainable therefor." Upon this understanding the Board of Directors ratified the offer and directed the officers to consummate it.

[22]It is now contended that this offer was calculated by a capitalization of earning power and that this Court condemned such a basis of valuation in *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 601, when it said, "The heart of the matter is that rates cannot be made to depend upon 'fair value' when the value of the going enterprise depends on earnings under whatever rates may be anticipated." The pronouncement in the *Hope* case was directed to a situation where the demand for the service permitted such a range of choice in rates as would greatly affect

the value of the property. No such choice appears open to the appellant. Apart from a little brief war-time prosperity, it seems doubtful whether any rate would yield appellant's operating expenses.

Under these circumstances we do not find that anything has been taken from the appellant by the impact of public regulation. If the expectations of the Commission as to traffic increase were well founded, it would earn under this rate on the salvage value of its property, which is the only value it is shown to have. If expectations of increased traffic were unfounded, it could probably not earn a return from any rate that could be devised. We are unable to find that the order in this case is in violation of constitutional prohibitions, however unfortunate the plight of the appellant.

[23]6. The Company also contends that it is entitled to reversal because the order contemplated a test of experience, and the experiment has not taken place, and the Commission's predictions cannot be verified. However, it was the Company which defeated the experiment. A very short trial -- a period much shorter than is required to conduct a litigation -- would have indicated the effect of the rate reduction in stimulating traffic. But at the Company's request the experiment was stayed and then totally frustrated by the sale of the property. Under these circumstances the unavailability of experience to test the order cannot affect its validity. It might be grounds for an appeal to the discretion of the tribunal which rendered the order. It certainly is not a constitutional objection to be enforced by us.

[24]The fixing of future rates always involves an element of prediction. Even monopolies must sell their services in a market where there is competition for the consumer's dollar and the price of a commodity affects its demand and use. This effect may be predicted or projected, but it can be known only from experience. The many detailed objections which the Company makes to the Commission's computations of probable yield would be answered by experience. There is nothing in the order which requires that the test period should be a year or any definite time, and there is no ground for assuming that the Commission would have rejected an application to make such changes in the schedule as experience might show to be necessary, in order to produce, if possible, the revenue which it found to be needed. The Commission had not in the past been indifferent to appellant's fiscal problems. Under such circumstances we think it is not forbidden by the Constitution that there be a pragmatic test of matters which even the most expert could not know in advance. Cf. *Clark's Ferry Bridge Co. v. Public Service Commission*, 291 U.S. 227.

We have considered appellant's complaints in considerable detail because the case in so many ways departs from the usual rate case. We find no constitutional infirmity in the result or in the procedure by which it is reached. The judgment of the Supreme Court of California is therefore

Affirmed.

STRANDED COSTS

WILLIAM J. BAUMOL*

J. GREGORY SIDAK**

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Through the end of this century, the most critical regulatory issue facing electric utilities will be stranded costs, which can be defined as those costs that the utilities currently are permitted to recover through their rates but whose recovery may be impeded or prevented by the advent of competition in the industry. These costs represent expenditures incurred by a utility in the past in meeting its obligation to serve all customers within the area in which it held an exclusive franchise, granted to it under the traditional regulatory regime. Costs that face the prospect of being stranded include, among others, assets used for electricity generation, power and fuel purchasing expenditures required under long-term contracts, "regulatory assets" consisting of expenses whose recovery has been deferred to keep rates temporarily from rising, outlays required of the utilities by regulators to meet a number of social goals such as subsidies to low-income users, and incentives for supply of energy from renewable sources. These outlays have been approved by the regulatory agencies, and many were imposed on the utilities by those agencies. They have also served to hold down prices to electricity customers in the past.

However, the entry of competitors who are not burdened by such inherited expenses can prevent the utilities from recovering those costs. The desirability of such a scenario has been

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questioned on the basis of both equity and economic efficiency. At least two major types of inefficiency can result from failure to adopt a defensible policy dealing with stranded costs: they can divert business to less-efficient suppliers, whose higher operating costs are offset by freedom from any obligations imposed on the incumbent utility, and they can serve as a disincentive for future investment in the industry, condemning efficient suppliers to obsolescence and inadequate capacity.

Electric utilities in the United States may face \$200 billion or more in stranded costs as a result of the growth of independent power producers and the advent of wholesale and retail wheeling.¹ In 1994, the Federal Energy Regulatory Commission (FERC) issued a notice of proposed rulemaking on stranded costs in the electric power industry in which it described the dilemma facing numerous utilities:

During the transition to a fully competitive wholesale power market, some utilities may incur stranded costs as wholesale customers leave their systems to purchase power elsewhere. A utility may have built facilities or entered into long-term fuel or purchased power supply contracts with the reasonable expectation, based on historical experience and the behavior of its customer, that its wholesale requirements contract to sell electric energy to that customer would be renewed, and that the customer would pay its proportionate share of long-term investments and other costs incurred. If the customer is able to obtain unbundled transmission service from the utility in order to reach other power suppliers, the utility may have "stranded costs." If the utility does not have an alternative buyer for the power previously sold to the departing wholesale requirements customer, or some other means of mitigating the stranded costs, the costs must be recovered from either the departing customer or the remaining customers or borne by the utility's shareholders.²

1. See Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Notice of Proposed Rulemaking, Dkt. No. RM-94-7-000, 59 Fed. Reg. 35,274, 35,278 (proposed June 29, 1994) [hereinafter *Stranded Costs NOPR*] (reporting estimates from tens of billions of dollars to \$200 billion); AM. BAR ASS'N, ANNUAL REPORT, SECTION OF PUBLIC UTILITY, COMMUNICATIONS AND TRANSPORTATION LAW 188 (1994) (estimating \$300 billion of stranded costs); *NARUC Eyes Stranded Investment Jurisdictional Issues*, ENERGY REP., Mar. 7, 1994, at 129 (reporting \$200 billion to \$300 billion estimate by an investor-owned utility's vice president of corporate strategic planning).

2. *Stranded Costs NOPR*, *supra* note 1, at 35,276-77. FERC defines wholesale stranded costs as "any legitimate, prudent and verifiable costs incurred by a public utility or a transmitting utility to provide service to a wholesale requirements customer that subsequently becomes, in whole or in part, an unbundled transmission services customer of that public utility or transmitting utility." *Id.* at 35,274. FERC defines retail stranded costs analogously. *Id.* at 35,274-75.

In this article, we explain why it generally benefits consumers for stranded costs to be recovered as part of the price of service. In part I of this article we discuss the efficiency justifications, and in part II the equity justifications, for recovery of stranded costs. In part III, we briefly discuss the takings implications of stranded costs. In part IV, we discuss a utility's duty to mitigate stranded costs.

I. EFFICIENCY

We will show presently the nature of the consumer interest in recovery of stranded costs by the electric utilities. But even if no arrangement were made to enable the utilities to recover the bulk of their stranded costs, some portions of these costs would continue to constitute inescapable obligations for these enterprises. With regulatory consent and encouragement, they have entered into long-term contracts that require them to use high-cost sources of energy and to purchase electricity from high-cost suppliers. They are expected by the industry to have the capacity to serve unexpected increases in demand. These, and the costs of a number of social obligations, are among the expenditures that the utilities cannot expect to escape, even though, under current arrangements, a number of other electricity generators have no such expenses.

The important point here is that this disparity in obligations between the utility and its competitors in electricity generation undermines the competitive market's ability to enforce efficiency in the industry. Rather than a competitor facing barriers to entry, the utility currently serving the market faces "incumbent burdens."³ Suppose that a particular utility is more efficient than a rival and consequently can generate electricity at an incremental cost that is ten percent lower than the rival's. If the utility's inherited and inescapable cost obligations are twenty percent of its incremental costs, its less efficient rival clearly will be able to underprice the utility, despite the rival's substantially higher incremental cost of producing the electricity. This form of bypass is obviously detrimental to the interests of consumers and the efficiency of the economy. Demand will be channeled to less efficient suppliers, leading to unnecessary resources use, reduced

3. See Paul W. MacAvoy, Daniel F. Spulber & Bruce E. Stangle, *Is Competitive Entry Free? Bypass and Partial Deregulation in Natural Gas Markets*, 6 YALE J. ON REG. 209, 210 (1989).

productivity, and higher real costs. This inefficient bypass is a clear impediment to the competitiveness of the economy, and in the long run it must result in increased costs to consumers.

In addition, the net result may be financial difficulty for the utility. The effective competition from less efficient rivals who are free from inherited costs that the utility cannot escape simply may prevent the utility from recovery of even those inherited costs that obligate it to continue the corresponding outlays in the present and the future.

The proper manner to deal with this issue is to arrange for recovery of stranded costs in a way that can be described as "competitively neutral." The policy must permit rival firms to succeed only on the basis of relative efficiency, undistorted by asymmetrical obligations inherited from the past. Our forthcoming book describes an arrangement that we believe is an appropriate and efficient way to deal with the matter.

It should be emphasized that the problem described in this section is not hypothetical. Already a number of customers, notably the larger users of electricity, are switching to suppliers who can provide the energy that these customers require at prices lower than those of the utilities, because these rival suppliers are free of any obligation toward the recovery of stranded costs.⁴ The threat to efficiency of operation of the industry is real, and its consequences are likely to be substantial.

A. *Efficiency Grounds for Recovery of Stranded Costs*

It will be shown next that recovery of stranded costs serves to protect the long-term interests of consumers, because failure to do so can undermine economic efficiency by raising the cost of capital to electric utilities above the competitive level, or by creating an enduring shortage in investment for them. It also will be shown that this is a necessary but transitory step in the change from a regulatory regime that, at least in some respects, has been in conflict with the requirements of the competitive market

4. For example, in 1991 the Massachusetts Bay Transportation Authority, which operates the T subway in Boston, dropped New England Electric System as its supplier of electricity in favor of Boston Edison after the transit authority succeeded in having the Massachusetts legislature declare it to be a utility entitled to wholesale wheeling. See *Massachusetts Elec. Co.*, 66 Fed. Energy Reg. Comm'n Rep. (CCH) ¶ 61,036 (1994); *Will It Earn a Return, Will It Earn a Return? Its Fate Is Still Unlearned*, ENERGY REP., Jan. 17, 1994, at 5.

model to a new mode of mixed competition and regulation in which no such problem need arise again.

As we have seen, stranded costs arise because the advent of competition in the generation of electricity was not foreseen and probably not even foreseeable until very recently. Consequently, utility managements were led to undertake investments and to incur costs that they might not have chosen to undertake if they had known that competition and wholesale wheeling were to become prevalent. As already explained, considerable portions of those costs were incurred involuntarily by the utilities as a result of regulatory imposition of expensive public policy goals—such as requiring procurement from high-cost suppliers of power, the provision of low-cost service to impecunious customers, the award of subsidies to suppliers of energy from renewable sources, and so forth.

In a competitive and unregulated market, of course, the costs engendered by such failures of foresight, whether they do or do not have a good explanation or excuse, nevertheless always are borne by the firm. Stockholders suffer any resulting losses, and they have nowhere to turn for protection from the burden.

Why, then, seeing that we have proposed to be guided in our analysis by the competitive market model, do we conclude that it is appropriate to provide for substantial restitution of the costs of those stranded investments that earlier regulation had not rejected, in advance of their acquisition, as imprudent? The answer, as we will explain in the following discussion, is that the restitution of stranded costs will help to rectify the problems that were caused by departures from traditional regulation. Restitution of stranded costs can ensure compliance with a fundamental precept of the competitive market model for regulation: that the regulator never take any step that precludes investors in the regulated firm from the *ex ante* expectation that earnings will be sufficient in the long run to return the investors' capital plus a competitive rate of return on that investment.

This is not to say that the free market ever guarantees such a return, nor does it mean that earnings will at all times be commensurate with this goal. During recessions earnings often will be lower than this target requires, while during prosperous times the shortfall can be made up for. Moreover, investors know that the firm someday may encounter difficulties, and that all of their investments may be lost. This prospect, however, is made up for

by the possibility that the firm will turn out to have performed better than might have been anticipated. Taking both the possibility of loss and that of gain into account, investors in a free competitive market will provide resources to the firm only if the actuarially expectable return is at the competitive level—offering, on the probabilistic average, repayment of the funds provided, plus a competitive rate of return on those funds, plus a suitable payment for the risk entailed in the investment.

The pertinent competitive market principle, then, is this: firms must offer investors an actuarially expected return of the magnitude just described. Competition will prevent investors from earning more than this, for if a higher return is promised, entry will drive down the price of the firm's product to the point where the rate of return is no higher than the competitive level. Moreover, the competitive *ex ante* return never will be lower than this because then investors would refuse to supply the firm with the capital resources it needs.

Under regulation as it was conducted in the past, such an arrangement with investors was ruled out. Regulators did try to offer investors the same sort of actuarially expected return that a competitive market provides, but other regulatory rules forced regulators to take an approach to the matter very different from the competitive market's. The reason is to be found in the regulator's ceilings on the earnings of the firm. Unlike the enterprise in an unregulated competitive market, the regulated utility was prohibited from earning (aside from small and temporary deviations) any more than a "fair rate of return" on its rate base. This meant that investors could be sure that, whatever the firm's efficiency performance, they never would realize a large and lucrative return. Having precluded extraordinarily generous returns to investors in firms under their jurisdiction, regulators undertook to make up for this deviation from the competitive norm by means of another offsetting arrangement. They implicitly committed themselves to protect the regulated firm from a broad class of losses as an offset to their preclusion of large profits. Because the firm generally was selected for regulation because it characteristically possessed market power whose exercise only the regulatory rules prevented, whenever costs rose unexpectedly or a loss threatened from any other source, the regulator could prevent it by loosening the constraint on the firm's market

power, permitting it to raise prices and enhance its revenues sufficiently.

It is this arrangement, to which we refer as *the implicit regulatory compact*, that enabled the regulators to reconcile their ceilings on the earnings of utilities with the requirement of the competitive market model that, in terms of actuarially expected value, prospective investors be offered a competitive rate of return on their investments.

Failure to permit recoupment of stranded costs clearly will violate the implicit regulatory compact. Aside from any inequity that this may entail, it is also a threat to economic efficiency because of its deterrent consequences for investment. It is true that it will be too late for current investors in the utilities to do anything in response to a prohibition of recoupment. But investors can learn the lesson and conclude that investment in electric utilities, with partial regulation continuing, is to be avoided assiduously in the future. More important, other prospective investors, seeing the compact abrogated, are certain to conclude that it may well be abrogated again whenever it is convenient for the regulators, and they too may take their resources elsewhere in the economy. The resulting shortage of capital for the electric industry, and the consequent impediments to maintenance, modernization, and needed expansion, hardly can benefit the long-term interests of consumers or contribute to the efficiency and competitiveness of the economy. In short, there is a compelling efficiency reason for regulators to permit substantial recoupment of stranded costs in the course of transition to competition. Of course, once that transition has been carried out, and excessive earnings are prevented either by market forces or flexible price caps rather than rate-of-return regulation, the regulation of the utility can move closer to the requirements of the full competitive market model, and the issue of stranded costs never need recur.

It has been argued that the preceding discussion is not compelling because investors have short memories and soon will forget a once-and-for-all abrogation of the regulatory compact that left them uncompensated for the stranded outlays they had undertaken in the past. We believe the evidence is insufficient to offer us any confidence that future investors simply will ignore past mistreatment and the risk that it can occur again in the future. If stranded costs were only modest in amount, that hypothesis might be credible. The fact that their magnitude is certainly in

the tens and probably in the hundreds of billions of dollars and threatens to cut deeply into the equity of current shareholders makes such a hypothesis implausible, and certainly one that cannot be relied upon with any degree of confidence.

Having asserted that payment for stranded costs is likely to be beneficial to consumers, it is appropriate to say a few words about this apparently implausible proposition—that consumers' interests are served by compensation for stranded costs and electricity prices (at least to some users) higher than they otherwise might have been, at least in the short run.

B. *The Interests of Consumers in Cost Recovery*

In the apportionment of the burden of stranded costs, the interests of the regulated firm and those of its customers are not always identical. The regulated firm, for example, may seek prices that exceed the competitive level and that contribute monopoly profits to the firm at the expense of its consumers. In that case, the interests of the two parties obviously conflict, and preventing the adoption of such prices is a legitimate task of regulation.

Nevertheless, there is a considerable range of decisions in which the interests of firm and consumers are entirely compatible, even though sometimes they may not appear to be so. A short-term view of the matter, for example, may suggest that the lower the prices charged, the better off consumers *always* will be. Certainly that can be true *if* low prices are achieved through low costs—a development beneficial to both of the parties.

Such low prices, however, also may entail inadequate service. If price reductions are imposed in a manner that prevents the firm from covering its costs—including, in particular, its cost of capital—the victory of consumers is entirely Pyrrhic. Their short-term gains will be more than offset by the future deterioration in service, for there is no way that the regulator or the courts can force investors to fund an uncompensatory enterprise. The market mechanism dooms such a firm to deterioration and ultimate extinction as funding is denied it for maintenance, replacement, modernization, and expansion of capacity, if expansion is required by growing demand. Rates granted to consumers by the regulatory process that are too low to permit the firm to earn a competitive rate of return on its capital funds, and therefore to

elicit the capital that it needs, are a gift that the community will regret in the future.

The fundamental principle that follows from all this is that the regulator's task is to ensure that rates are as low as reasonably possible while not interfering with the regulated firm's ability to acquire the capital that the long-term interests of consumers require it to invest if it is the more efficient supplier. If misguided regulation should violate that principle, the regulators will have shown that they are willing to adopt rules that are as severely damaging to the long-run interests of consumers as they are to those of the regulated firm.

II. EQUITY

Economics does not provide a firm basis for systematic conclusions on issues of justice and equity. The issue of stranded cost recovery nevertheless raises inescapable questions of fairness.⁵ Some advocates of competition argue that such considerations are irrelevant—that, just as suppliers under competition have no entitlement to recover their sunk or any other costs, so utility companies have no such entitlement either. Therefore, they argue, to the extent that competition henceforward makes it impossible for the utility companies to collect those costs from their customers, they should be forced to write them off. Utility managers, conscious of their responsibilities to shareholders, naturally disagree vehemently.

We already have set forth the several ingredients of the utilities' case for full recovery on equity grounds. Investors committed their capital, and the companies in turn have undertaken the very large investments and contractual commitments in fulfillment of their various public service obligations and have accepted regulatory limitations on their allowable rates of return in exchange for the promise of a reasonable opportunity to recover their prudently incurred costs. The most recent regulatory reforms that have played so large a role in admitting competition into the industry—including both the Public Utility Regulatory Policies Act (PURPA)⁶ and the 1992 Energy Policy Act⁷—re-

5. This discussion is based on WILLIAM J. BAUMOL, PAUL L. JOSKOW & ALFRED E. KAHN, *THE CHALLENGE FOR FEDERAL AND STATE REGULATORS: TRANSITION FROM REGULATION TO EFFICIENT COMPETITION IN ELECTRIC POWER* 33-34 (Edison Electric Institute 1994).

6. Pub. L. No. 95-617, 92 Stat. 3117 (1978) (codified in scattered sections of 16 U.S.C.).

tained that same arrangement and assurance: the model they envision is one in which the utility companies serve as "resource portfolio managers," responsible for the supply of electric services to their retail customers, whom they continue to serve on an exclusive basis, with the continuing implicit regulatory promise of the opportunity to recover their approved costs.

The consequent allocation of risk between investors and customers is, of course, different from its allocation in unregulated industries. Unregulated markets impose on investors the full costs of investments that turn out badly but allow them to retain all the profits of ventures that turn out well; under traditional utility regulation investors neither have borne much of the former risk nor enjoyed much of the latter benefits. Under both arrangements, however, the allocation has been and is symmetrical—with large risks of loss in unregulated industries balanced by large opportunities for gain and, in the utility industries, shareholders sheltered from the risk of large losses and correspondingly denied the opportunity for big gains. And utility customers have been in the corresponding opposite position—enjoying the major part of the fruits of economically successful utility ventures and underwriting the costs of the economically unsuccessful ones.

This allocation of investment risks under which utilities have made these investments and commitments has worked to the benefit of ratepayers for many decades. Even among the present portfolio of utility investments, most investment has turned out to be economically successful. The desire of ratepayers and their representatives in the present circumstances to be sheltered from the costs of past commitments that have not met expectations is, of course, understandable. But so far as the equities are concerned, it is important to recognize that the offering of such shelter by policy makers represents an attempted abandonment of symmetry—in effect, a desire to play the game of heads-we-win, tails-you-lose. A failure now of policy makers to ensure the companies at least some reasonable level of recovery of their regulatorily approved costs in any transition to competition would leave investors, in effect, with part—a very large part—of the value of their property expropriated by the change in the rules of the game.

7. Pub. L. No. 102-486, 106 Stat. 2776 (1992) (codified in scattered titles of U.S.C.; see tables).

III. TAKINGS AND REGULATORY RISK

The possibility that the firm's investors will be precluded by regulation from obtaining a reasonable return could suggest that a "taking" of the utility's property has occurred, in violation of the Takings Clause of the Fifth Amendment.⁸ Purely as an economic matter, it is confiscatory to take someone's property by decree and without adequate compensation. This is equally true if it is the property of stockholders that is taken.

Even if the value of this property is not obvious, it can be described theoretically and estimated practically. Once again, the competitive market is usually the most helpful guide. In a competitive market, the investors in a firm that is to continue in business for the foreseeable future will be compensated, on average, just sufficiently to induce future investors to provide the capital needed for replacement, modernization, and necessary expansion. That compensation will be sufficient to achieve this effect, without any reduction in the market price of the company's stock that takes place solely to elicit the required capital.

In the process, over the lifetime of an investment, the correct competitive payment will be the amount that is just sufficient to yield the accumulation of capital that can replace the investment in question at the end of its economic life, and that, during the lifetime, will provide investors with the current competitive rate of return on investment of comparable risk. The actuarial value that investors in a competitive firm can expect to obtain at the time they make their investment will be this amount—no more and no less. Moreover, from the viewpoint of the long-run welfare of the firm's consumers, this is the optimal *ex ante* figure for compensation of investors. It is optimal because it will attract the amount of investment in the firm, current and future, that the interests of consumers require, and it will attract that investment at the lowest price (that is, at the lowest payment to investors) capable of eliciting those funds.

Consequently, any regulatory rules that prevent investors from receiving the amount of compensation just described constitutes economic confiscation. It is confiscation in terms of what investors legitimately can expect in the long run and, perhaps even more important, in terms of the benefits that the firm's consum-

8. U.S. CONST. amend. V ("nor shall private property be taken for public use without just compensation").

ers should receive in the long run. The confiscatory rules can take the form of disallowances from the firm's rate base, undue limitations on rate of return, elimination or erosion of a retail franchise without compensation for costs that it imposed upon the firm, or a variety of other restrictions imposed singly or in combination. Whatever the means by which such regulatory restrictions on investor compensation are imposed, they confiscate from consumers and investors alike what are legitimately theirs—the benefits that they can expect in any competitive market, and which only the caprice of the regulatory process denied them.

Although there is no perfect way of estimating the value that has been lost through such regulatory confiscation, the standard approaches to calculation of the cost of capital indicate the best way. The goal is to determine what stream of returns to investors will have a present value sufficient to provide for replacement of the assets of the firm as replacement is needed and will yield to investors the competitive rate of return on debt and equity given the risks inherent in the operations of the firm. Methods for estimation of the cost of capital figure for the firm in practice are well known. One also can estimate what the current replacement value of the assets of the firm is, a calculation that also is carried out in practice. These two calculations together provide the information needed to determine whether the returns permitted by a regulatory process are confiscatory. If they are, the two calculations permit an estimate of the amount of confiscation that is entailed.

Alternatively, one can seek to determine the returns currently permitted by market forces to comparable firms in competitive, unregulated markets. This second approach can be helpful, but it is complicated by the fact that regulated firms face a risk from which enterprises in unregulated markets are immune. That is the risk contributed by regulation itself—that regulatory policy can change, and change in ways that could not have been foreseen or foreseen only imperfectly, that the legitimate benefits of consumers and investors of the regulated firm will be confiscated, and so forth. Such regulatory risk is very real, but its magnitude is not easily evaluated.

Several observations are pertinent here. If no allowance is made for regulatory risk in the allowed rate of return, there is some presumption that confiscation is taking place. If "perfect hindsight" regulation is undertaken with no compensating ad-

justment in the permitted rate of return, there is confiscation. If the price of the regulated firm's stocks had been moving for some considerable period in a manner that seems in line with the stock prices of fairly comparable enterprises, a sharp drop in the relative price of the securities of the regulated firm in the wake of a substantial change in regulatory policy creates a strong presumption that the regulatory change is confiscatory. In other words, if the securities price is driven out of line with the prices of similar securities of comparable firms, it is the market's verdict that confiscation has occurred.

Ultimately, of course, whether confiscation, in the economic sense, has occurred by virtue of change in regulatory policy is a question to be decided by a court applying the relevant precedent to the facts at hand. Yet, the relevant legal issues are fundamentally economic matters, and ones that economic analysis can illuminate. Indeed, the conclusions on these issues that emerge from economic analysis are entirely consistent with the criteria enunciated by the Supreme Court in 1989 in *Duquesne Light Co. v. Barasch*.⁹ There the Court said that decisions regarding the rates of return for regulated utilities "should be commensurate with returns on investments in other enterprises having corresponding risks" and should not "jeopardize the financial integrity of the companies, either by leaving them insufficient operating capital or by impeding their ability to raise future capital."¹⁰ Our economic analysis has described the conditions under which those two requirements, which the Court considered to be implicit in the Takings Clause, are violated.

IV. MITIGATION OF STRANDED COSTS

If recovery of stranded costs is not permitted or is in good part disallowed, there may be deleterious consequences for consumers and preexisting shareholders alike. But even though recovery of stranded costs serves the interests of consumers, those interests clearly are served even more effectively if ways can be found to reduce or eliminate them—in regulatory jargon, to "mitigate" those costs. Many such costs clearly cannot be reduced, as may be true, for example, of contractual obligations undertaken in the past with regulatory encouragement. In other cases there may be

9. 488 U.S. 299 (1989).

10. *Id.* at 312, 314.

some room for mitigation—for example, if alternative and remunerative uses can be found for the stranded investments.

Stranded costs are a loss to society. As in the case of any loss of resources, parties in a position to mitigate the loss should do so. American law is replete with instances in which a party legally entitled to compensation for a harm it has suffered nonetheless is obliged to mitigate that harm if possible.¹¹ Not surprisingly, the concept of mitigation permeates FERC's reasoning on stranded costs as well. As mentioned earlier, in a 1992 ruling FERC allowed a utility to recover stranded costs but required it to mitigate the wholesale customer's stranded investment obligation when the customer leaves the transmitting utility's system.¹² Similarly, FERC's 1994 notice of proposed rulemaking on stranded costs for electric utilities states that the problem of distribution of this loss among departing customers, remaining customers, and shareholders of the utility only arises "[i]f the utility does not have an alternative buyer for the power previously sold to the departing wholesale requirements customer, or some other means of mitigating the stranded costs"¹³

Though it is clear that the utility's duty to mitigate stranded costs serves the interest of consumers, on closer inspection it is also clear that mitigation serves the utility's best interest as well. This is so because the utility's customers do not have contracts that terminate simultaneously. As customers with early expiration dates depart, they leave the as-yet-unrecovered portion of stranded costs to be borne by a dwindling number of remaining customers. But the overwhelming number of those remaining (commercial and industrial) customers can be presumed to operate in competitive markets for their own goods and services. A firm in a competitive market that is made to pay a higher price than its rivals for an essential input such as energy, particularly for the extended term envisioned in the typical supply contract for electricity, will suffer losses and eventually will cease operations. Companies that cease operations do not buy any electricity, even if they remain contractually obligated to do so.

Knowing that it cannot bankrupt its remaining customers in this manner, the utility has a strong incentive to find new custom-

11. See, e.g., RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 118-19 (4th ed. 1992) (describing the obligation to mitigate contract damages).

12. *Entergy Servs., Inc.*, 59 Fed. Energy Reg. Comm'n Rep. (CCH) ¶ 61,369 (1992).

13. *Stranded Costs NOPR*, *supra* note 1, at 35,277.

ers for its excess capacity. The obligation illustrates that the interests of the utility and consumers are indeed often entirely compatible, despite appearances to the contrary.

IV. CONCLUSION

Regulators and courts dealing with stranded costs generally are obligated to promote the interests of consumers in adequate and reliable service at a reasonable cost, but with due regard for the legitimate concerns of investors. As the analysis shows, the form of imprudence to be feared most of all is the sort of regulatory act that offers consumers some highly transitory, short-term benefits for which they later will have to pay very dearly. Failure to permit recovery of stranded costs is undoubtedly such a questionable gift.

The crucial issue for execution of a policy permitting stranded cost recovery is the means by which it should be done. Various devices have been suggested for this purpose, including an "access charge" to be imposed on every electricity customer, an "entrance fee" to be paid by every current generation competitor of the utility and every entrant, and an "exit fee" to be paid by any customer that stops purchasing its electricity from the utility. In addition, there have been suggestions proposing fuel charges, subsidies from the public sector to the utilities, and the like. Most of these give rise to difficult issues such as the determination of magnitudes for the charges that do not impede efficiency and are neutral competitively.

Another approach entails inclusion of a stranded-cost-recovery component in the price that the utility charges its rivals for transmission of their electricity. As we show in our forthcoming book, a transmission price of this sort can be carried out in a manner that is compatible with economic efficiency and is clearly neutral in its effects upon all competitors in electricity generation. A correctly constructed regime of transmission pricing therefore may provide a viable method for achieving the efficiency and equity goals that justify the recovery of stranded costs.

Case Name:

Enbridge Gas Distribution Inc. v. Ontario (Energy Board)

Between

**Enbridge Gas Distribution Inc., appellant (respondent
in appeal), and
Ontario Energy Board, respondent (appellant in appeal)**

[2006] O.J. No. 1355

210 O.A.C. 4

41 Admin. L.R. (4th) 69

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Docket: C44102

Ontario Court of Appeal
Toronto, Ontario

D.H. Doherty, M.J. Moldaver and E.E. Gillese JJ.A.

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Judgment: April 7, 2006.

(29 paras.)

Administrative law -- Judicial review and statutory appeal -- Standard of review -- Correctness -- Appeal by the Ontario Energy Board from an order of the Divisional Court setting aside the Board's order made on an application by Enbridge Gas Distribution for a rate increase and directing a new hearing before a different panel of the Board -- Appeal allowed -- Court erred in determining that Board improperly used hindsight when deciding whether added transportation costs incurred by Enbridge justified rate increase -- When impugned passage was read in context of entire judgment, it was to be read in manner consistent with the rest of the Board's reasons.

Administrative law -- Boards and tribunals -- Reasons -- Appeal by the Ontario Energy Board from an order of the Divisional Court setting aside the Board's order made on an application by

Enbridge Gas Distribution for a rate increase and directing a new hearing before a different panel of the Board -- Appeal allowed -- Court erred in determining that Board improperly used hindsight when deciding whether added transportation costs incurred by Enbridge justified rate increase -- When impugned passage was read in context of entire judgment, it was to be read in manner consistent with the rest of the Board's reasons.

Appeal by the Ontario Energy Board from an order of the Divisional Court setting aside the Board's order made on an application by Enbridge Gas Distribution for a rate increase and directing a new hearing before a different panel of the Board. The Board was charged with the responsibility of fixing the rate that Enbridge, a gas distributor and seller to consumers in Ontario, could charge customers for its gas. The Board refused in part Enbridge's application for a rate increase. On appeal to the Divisional Court, the Court held unanimously that the Board erred in law in its application of the legal test to be applied when deciding whether Enbridge was entitled to a rate increase to reflect higher transportation costs incurred by Enbridge as a result of certain agreements it had entered into. In reaching its conclusion, the Divisional court read a passage from the reasons of the Board as demonstrating, contrary to statements made earlier in the reasons of the Board, that the Board had improperly used hindsight when deciding whether the added transportation costs incurred by Enbridge justified a rate increase. On Enbridge's application for a rate increase, the Board was obliged to decide whether the rate increase sought was "just and reasonable". In making that decision, the Board was required to balance the competing interests of Enbridge and its consumers. The balancing process was achieved by the application of what was known as the "prudence" test. Enbridge was entitled to recover its costs by way of a rate increase only if those costs were "prudently" incurred. Knowledge of facts relevant to the prudence of the business decision gained after the decision was made could not be used at the second stage of the "prudence" inquiry to determine the ultimate question of whether the decision was prudent. Those facts could, however, be taken into account at the first stage in determining whether the presumption of prudence had been rebutted. As a result, the Board could use the fact that increased transportation costs had been incurred by Enbridge to decide whether the presumption of prudence was rebutted, but could not use that fact in making the ultimate determination of whether Enbridge's decision to enter into the contracts was prudent. The Divisional court held that reference to a notional deferral account as a "key element of the prudence review" indicated a misuse of hindsight in respect of all contracts under review.

HELD: Appeal allowed. The Board's order was restored. It was an error to read the words "prudence review" as referable only to the second part of the "prudence" inquiry. When the impugned passage was read in the context of the entire judgment, it could and should be read in a manner consistent with the rest of the reasons of the Board. In sum, the phrase "prudence review" was to be read as referring to the entire inquiry, which avoided creating a flat out contradiction between the impugned passage and the rest of the judgment insofar as it described the "prudence" inquiry.

Statutes, Regulations and Rules Cited:

Ontario Energy Board Act, 1998, S.O. 1998, c. 15, s. 36

Ontario Energy Act, 1998

Appeal From:

On appeal from the order of the Divisional Court (Lane, Molloy and Power JJ.) dated March 2, 2005.

Counsel:

David M. Brown and Manizeh Fancy for the appellant in appeal

J.L. McDougall, Q.C., Jerry H. Farrell and Michael D. Schafler for the respondent in appeal

The judgment of the Court was delivered by

D.H. DOHERTY J.A.:--

I

OVERVIEW

1 This is an appeal with leave by the Ontario Energy Board ("OEB") from the order of the Divisional Court that set aside the order of the OEB made on an application by Enbridge Gas Distribution Inc. ("Enbridge") for a rate increase and directing a new hearing before a different panel of the OEB.

2 Enbridge is a gas distributor and seller of gas to consumers in Ontario. The OEB is charged with the responsibility of fixing the rate that Enbridge can charge consumers for its gas. Enbridge applied for a rate increase. The OEB refused that request in part and Enbridge appealed to the Divisional Court. The Divisional Court unanimously held that the OEB erred in law in its application of the legal test to be used when deciding whether Enbridge was entitled to a rate increase to reflect higher transportation costs incurred by Enbridge as a result of certain agreements it had entered into. In reaching its conclusion, the Divisional Court read a passage from the reasons of the OEB as demonstrating, contrary to statements made earlier in the reasons of the OEB, that the OEB had improperly used hindsight when deciding whether the added transportation costs incurred by Enbridge justified a rate increase.

3 I would allow the appeal and restore the order of the OEB. When the impugned passage is read in the context of the entire judgment, it can and should be read in a manner that is consistent with the rest of the reasons of the OEB. When read in that way, the passage demonstrates no error in law.

II

FACTUAL BACKGROUND

4 Prior to 1996, Enbridge shipped gas from western Canada along the TransCanada pipeline system to Ontario. Beginning in 1996, Enbridge entered into four agreements to acquire transportation services on other pipelines. The first two agreements, Alliance 1 and Alliance 2, provided for transportation along the Alliance pipeline running from Alberta to Chicago. The third agreement, Vector 1, related to transportation along the Vector pipeline running from Chicago to southwestern Ontario. The fourth agreement, Vector 2, also related to a pipeline running from Chicago to southwestern Ontario but contemplated the transportation of gas sourced in Chicago.

5 The new routes became operational in 2000. They proved more costly than the TransCanada pipeline route. In 2000, Enbridge applied to the OEB for an increase in its rates effective in 2001. That increase was said to reflect, in part, the added costs attributable to the Alliance and Vector contracts.

6 Enbridge's application for a rate increase did not proceed to a hearing in 2000. Enbridge entered into a provisional settlement, conditional upon various contentious issues being deferred to a hearing at a later date. As a term of the 2000 settlement, Enbridge agreed to set up what was described as a "notional deferral account." This account was to record the difference between Enbridge's actual transportation costs using the Alliance/Vector pipelines and its notional costs had it used the TransCanada pipeline system.

7 Enbridge's rate increase application proceeded to hearing in June 2002. It was common ground that Enbridge had added costs as a result of the Alliance/Vector contracts. The issue was whether Enbridge was entitled to recover these costs by increasing its rates.

III

THE DECISION OF THE OEB

8 On Enbridge's application for a rate increase, the OEB was obliged by s. 36 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, to decide whether the rate increase sought was "just and reasonable." In making that decision, the OEB was required to balance the competing interests of Enbridge and its consumers. That balancing process is achieved by the application of what is known in the utility rate regulation field as the "prudence" test. Enbridge was entitled to recover its costs by way of a rate increase only if those costs were "prudently" incurred.

9 The OEB concluded that the added costs associated with the Alliance 1 and Alliance 2 contracts were not prudently incurred and therefore could not be recovered by way of a rate increase. The OEB did, however, hold that the added costs associated with Vector 1 were prudently incurred and therefore could be recovered. Finally, the OEB held that it had insufficient information to decide whether any added costs associated with the Vector 2 contract were prudently incurred by Enbridge. On its appeal to the Divisional Court, Enbridge challenged the OEB's findings with respect to the Alliance 1 and Alliance 2 contracts.

10 The approach of the OEB to the "prudence" inquiry is captured in the following extract from its reasons:

While the parties described it in somewhat varying terms, in the Board's view they were in substantial agreement on the general approach the Board should take to reviewing the prudence of a utility's decision.

The Board agrees that a review of prudence involves the following:

- * Decisions made by the utility's management should generally be presumed to be prudent unless challenged on reasonable grounds.
- * To be prudent, a decision must have been reasonable under the circumstances that were known or ought to have been known to the utility at the time the decision was made.

- * Hindsight should not be used in determining prudence, although consideration of the outcome of the decision may legitimately be used to overcome the presumption of prudence.
- * Prudence must be determined in a retrospective factual inquiry, in that the evidence must be concerned with the time the decision was made and must be based on facts about the elements that could or did enter into the decision at the time.

11 Neither the Divisional Court nor either party to this appeal takes issue with the correctness of the above quoted passage from the OEB's reasons. The "prudence" inquiry described by the Board has two stages. At the first stage, the decision of Enbridge is presumed to have been made prudently unless those challenging the decision demonstrate reasonable grounds to question the prudence of that decision. At the second stage of the inquiry, reached only if the presumption of prudence is overcome, Enbridge must show that its business decision was reasonable under the circumstances that were known to, or ought to have been known to, Enbridge at the time it made the decision.

12 In the above quoted extract from its reasons, the OEB expressly alluded to the limited role played by hindsight. Hindsight, that is knowledge of facts relevant to the prudence of the business decision gained after the decision was made, could not be used at the second stage of the "prudence" inquiry to determine the ultimate question of whether the decision was prudent. Those facts could, however, be taken into consideration at the first stage in determining whether the presumption of prudence had been rebutted.

13 The records from the notional deferral account kept by Enbridge demonstrated that, during the ten-month period for which the account operated, Enbridge's transportation costs were significantly higher under the Alliance contracts than those costs would have been had Enbridge used the TransCanada pipeline system. The amount of the added transportation costs could not have been known to Enbridge when it entered into the relevant contracts, but became known to Enbridge only after the ten-month period with the benefit of hindsight. Consequently, the OEB could use the fact of the increased transportation costs incurred by Enbridge to decide whether the presumption of prudence was rebutted, but could not use that fact in making the ultimate determination of whether Enbridge's decision to enter into the contracts was prudent.

14 After the OEB accurately described the "prudence" inquiry, it proceeded to apply that inquiry individually to the Alliance 1, Alliance 2, and Vector 1 contracts. The OEB then turned to the Vector 2 contract. That contract was somewhat different than the other three in that it provided for the transportation of gas sourced in Chicago and not Alberta. Accordingly, it was not part of the alternative transportation path created by the other three contracts.

15 In considering the Vector 2 contract, the OEB said:

The Board notes that the Vector 2 decision was independent from its previous decisions to enter into the Alliance 1 and 2 and Vector 1 contracts and was not required in order to complete the single continuous transportation path from the western Canada supply basin to southern Ontario. In addition, the Board notes that the cost consequences of the Vector 2 contract were not included in the calculation of the Notional Deferral Account, which is a key element of the Board's prudence review of the Alliance and Vector arrangements [emphasis added].

IV

THE REASONS OF THE DIVISIONAL COURT

16 The Divisional Court fastened upon reference by the OEB to the notional deferral account as "a key element of the Board's prudence review" in concluding that, despite the earlier proper description of the "prudence" inquiry by the OEB, it had improperly used hindsight gained by reference to the notional deferral account in deciding that the Alliance 1 and Alliance 2 contracts were not prudent.¹

17 The Divisional Court applied a correctness standard of review in determining whether the OEB conducted a proper "prudence" inquiry. In this court, counsel for the OEB advanced a forceful argument that the standard of review should, at the highest, be one of reasonableness. It is unnecessary to decide the correct standard of review. Assuming without deciding that correctness is the proper standard of review, the reasons of the OEB clear that standard.

18 The Divisional Court acknowledged that the OEB's reasons must be read as a whole. The court also accepted that the OEB had correctly described the "prudence" inquiry and that the Board was well aware of a distinction which had to be drawn between the use of hindsight in the first and second stage of the inquiry. Despite the OEB's clear statement of the proper test, the Divisional Court ultimately held that the reference to the notional deferral account as a "key element of the prudence review" indicated a misuse of hindsight in respect of all of the contracts, including the Alliance contracts. This single sentence demonstrated to the Divisional Court that, despite the earlier passages from the reasons, the OEB had "slipped in its application of the test and did allow hindsight to creep into its consideration of prudence."

19 In reaching this conclusion, the Divisional Court must have read the words "prudence review" in the impugned passage as referring only to the second stage of the "prudence" inquiry. On that reading, the OEB had improperly used information provided in the notional deferral account to determine the ultimate question of the prudence of the contracts.

20 The Divisional Court erred in reading the words "prudence review" as referable only to the second part of the "prudence" inquiry. Taken as a whole, the reasons indicate that the phrase "prudence review" and similar phrases (*e.g.* "review of prudence") were used throughout the reasons, not as terms of art with a fixed single meaning but in different ways in different parts of the reasons. Sometimes the phrase "prudence review" or an equivalent phrase was used to refer to the entire "prudence" inquiry. Sometimes the OEB used the phrase "prudence review" to refer only to the second stage of that inquiry at which the ultimate question of the prudence of the contracts had to be decided. For example, when describing the submissions of Enbridge at para. 3.1.1, the OEB used the phrase "prudence review" to describe the entire process, including the first stage at which the presumption of prudence operated and during which the information provided in the notional deferral account was clearly relevant. Similarly, under the heading "Board Comments and Findings" (para. 3.12) the OEB used the subheading "Review of Prudence" to describe the entire "prudence" inquiry, including the first stage. Other references to the same phrase in the reasons (*e.g.* para. 3.12.5) used the phrase in the narrower sense to refer only to the second stage of the "prudence" inquiry.

21 Considered in isolation, the phrase "prudence review" in the impugned passage from the reasons of the OEB may be open to the interpretation provided by the Divisional Court. However, the words viewed in isolation can also be taken as referring to the entire "prudence" inquiry. This

latter reading is consistent with earlier usage of similar terminology in the reasons and, more significantly, is consistent with earlier statements describing the "prudence" inquiry and the limited role played by hindsight in that inquiry. I read the phrase "prudence review" as referring to the entire inquiry, which avoids creating a flat out contradiction between that passage and the rest of the judgment insofar as it described the "prudence" inquiry.

22 Reasons are sometimes internally inconsistent and that inconsistency can demonstrate an error in law. However, the requirement that the reviewing court read reasons as a whole dictates that, where different parts of the same reasons can reasonably be read so as to maintain consistency within the reasons, that reading must be preferred over one which sends the reasons careening off in different directions and creates an error in law.

23 The reasons of the OEB, read as a whole, do not reveal any legal error in the "prudence" inquiry conducted by the OEB in respect of the Alliance 1 and Alliance 2 contracts.

V

THE OEB'S STANDING TO APPEAL

24 I will make brief reference to one additional argument made by Enbridge. It submitted that the OEB had no standing to appeal the decision of the Divisional Court to this court. Enbridge contends that the *Ontario Energy Act, 1998* gives the OEB authority to participate in an appeal taken to the Divisional Court under the right of appeal provided in that statute. Enbridge argues however, that the *Ontario Energy Act, 1998* does not give the OEB any authority to seek leave to appeal a decision of the Divisional Court in this court.

25 I agree with counsel for the OEB that, as a party to Enbridge's appeal in the Divisional Court, the OEB had standing to seek leave to appeal to this court. That standing flows not from the *Ontario Energy Act, 1998* but from s. 6(1)(a) of the *Courts of Justice Act*, R.S.O. 1990, c. C.43.

26 Enbridge blended its argument that the OEB did not have standing to appeal the order of the Divisional Court with submissions that the OEB should not be allowed to advance arguments on appeal in support of the correctness of its own decision. In *Children's Lawyer for Ontario v. Goodis* (2005), 75 O.R. (3d) 309 (C.A.), this court held that the extent to which a tribunal will be allowed to make submissions in a proceeding involving a decision of that tribunal is a matter for the discretion of the court in which the proceedings are being conducted. The court also considered the factors relevant to the exercise of that discretion in the context of a judicial review application. As this is an appeal and not a judicial review application, it may be that the *Goodis* analysis is not applicable. However, assuming in Enbridge's favour that the analysis does apply, I am satisfied that the factors identified in that analysis do not support Enbridge's contention that the OEB should not have been allowed to participate in this appeal.

27 The OEB advanced essentially two arguments on this appeal. It submitted that the Divisional Court should have used a reasonableness standard of review, and it argued that the reasons of the Board, read as a whole, did not reveal the legal error found by the Divisional Court. The OEB was the only appellant in this court. Its submissions were essential to a proper hearing of both issues.

28 I do not share Enbridge's concern that the participation of the OEB in this appeal could harm the appearance of the OEB's impartiality in any future proceedings involving Enbridge. This appeal came down to a very narrow point. Everyone agreed that the OEB had outlined the proper approach to be taken on Enbridge's application for a rate increase. The narrow question was whether the OEB

had "slipped" in one part of its analysis. There is no reason to think that the Board arguing that the reasons reveal no such "slip" should cause any legitimate concern about the impartiality, real or apprehended, of the OEB in its future dealings with Enbridge. Enbridge is after all a sophisticated entity that has a long standing relationship with the OEB. Like all regulated bodies, I am sure Enbridge wins some and loses some before the OEB. I am confident that Enbridge fully understands the role of the regulator and appreciates that each application is decided on its own merits by the OEB.

VI

29 I would allow the appeal and restore the order of the OEB. The OEB has not asked for costs and I would make no order as to costs.

D.H. DOHERTY J.A.

M.J. MOLDAVER J.A. -- I agree.

E.E. GILLESE J.A. -- I agree.

cp/e/qw/qlmxf

e/drs/qlCG/qljal

1 The Divisional Court referred to another passage from the OEB's reasons (para. 3.12.20) and suggested that the OEB had also misused hindsight in that passage. I do not propose to refer to it in detail, as the Divisional Court ultimately determined that this reference alone did not raise "serious concerns" that the OEB had misapplied the "prudence" test. It is sufficient to say that I think it raises no concerns about the misuse of hindsight. The passage indicates that subsequent events validated the risk of higher costs associated with potential in service delays. Enbridge was advised of that risk before it entered into the contracts. The nature and extent of the risk flowing from potential delays was, therefore, properly factored into the second stage of the "prudence" inquiry. The fact that the risk came to pass is some indication of the validity of the risk.

In the Court of Appeal of Alberta

Citation: ATCO Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board), 2005 ABCA 122

Date: 20050329

Docket: 0201-0015-AC

Registry: Calgary

Between:

ATCO Gas and Pipelines Ltd.

Appellant (Applicant)

- and -

Alberta Energy and Utilities Board

Respondent (Respondent)

The Court:

**The Honourable Mr. Justice Willis O'Leary
The Honourable Madam Justice Anne Russell
The Honourable Mr. Justice Neil Wittmann**

**Reasons for Judgment Reserved of The Honourable Madam Justice Russell
Concurred in by The Honourable Mr. Justice O'Leary
Concurred in by The Honourable Mr. Justice Wittmann**

Appeal from the Decision of the
Alberta Energy and Utilities Board
Dated the 13th day of December, 2001

**Reasons for Judgment of
The Honourable Madam Justice Russell**

[1] On December 13, 2001, following a Deferred Gas Account Reconciliation Hearing, the Alberta Energy and Utilities Board (the “Board”), in its Decision 2001-110, found the appellant ATCO Gas and Pipelines Ltd. (“ATCO”) acted imprudently in managing its gas supplies for the winter of 2000/2001. As a result the Board ordered ATCO to pay \$4 million to its customers to compensate them for missed cost savings. In *Atco Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board)*, 2003 ABCA 188, ATCO was granted leave to appeal that decision pursuant to s. 26 of the *Alberta Energy and Utilities Board Act*, R.S.A. 2000, c. A-17 and section 70 of the *Public Utilities Board Act*, R.S.A. 2000, c. P-45, on the following issue:

Did the Board err in law in determining the appropriate standard to be applied with respect to the prudence and reasonableness of the decision of the Applicant utility in the context of this case?

[2] The chambers judge expressly denied leave on the calculation of the \$4 million refund.

[3] The City of Calgary (“Calgary”) opposed ATCO’s application at the Reconciliation Hearing before the Board and was permitted to make submissions on this appeal.

INTRODUCTION

[4] ATCO is a gas distribution utility. It is governed by legislation which authorizes the Board to regulate public utilities and to “ensure that the public pays a fair and reasonable rate for the gas and the owner of the gas obtains a fair and reasonable return on its investment”: *Atco Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board)* (2004), 339 A.R. 250, 2004 ABCA 3 at para. 36 (“*Atco Gas*”). Customers of ATCO are charged the actual cost ATCO incurs for the gas it supplies.

[5] The Board has statutory authority to set just and reasonable rates: *Gas Utilities Act*, R.S.A. 1980, c. G-4, s. 28; *Public Utilities Board Act*, R.S.A. 1980, c. P-37, s. 81. Gas utility rates, or Gas Cost Recovery Rates (GRRs) are meant to reflect the market price a utility pays to purchase natural gas. Gas utilities generally apply semi-annually to have GRRs set by the Board. At the end of a rate period, the Board sets the upcoming rate period’s GRR through a process of reconciling the forecast costs with the actual costs incurred. To account for the risks of fluctuating costs, utilities are allowed to accumulate variances between forecast costs and actual costs: *ATCO Electric Limited v. Alberta (Energy and Utilities Board)*, 2004 ABCA 215 at para. 26 (“*ATCO Electric*”). That variance is accumulated in a Deferred Gas Account (DGA).

[6] GRRs are based on forecasts of future prices and costs, as well as any revenue surplus or deficiency incurred from the previous season as a result of the variance between actual costs and

forecast costs. GCRRs are intended to ensure any surplus will be distributed to customers, or to allow the utility to recover any deficiency, depending on the DGA balance. GCRRs are also intended to minimize future variance between actual costs and forecast costs.

[7] Where there is a significant change in gas supply costs between regular applications, a utility is encouraged to apply to the Board for approval of an adjustment to the GCRR in order to minimize the DGA balance: AEUB Order U2000 308. ATCO made such an application in January 2001.

[8] This appeal relates to the reconciliation of ATCO's DGA for the 2000/2001 winter season, and the test applied by the Board in assessing the prudence demonstrated by ATCO in managing its gas supplies during that period.

BACKGROUND

[9] ATCO owns a natural gas storage facility near Carbon, Alberta (the "Carbon facility") which is capable of storing enormous quantities of gas. A certain amount of the gas in storage is needed to provide the minimum pressure required to meet minimum design deliverability. That gas is called 'base gas', or 'cushion gas', and is a rate base asset.

[10] ATCO's practice was to purchase gas and inject it into storage at the Carbon facility during the summer months when demand was low, and to withdraw the stored gas during the winter when demand was high. The gas injected and withdrawn on a cyclical basis is called 'working gas', and is essentially gas inventory.

[11] Because the demand for gas corresponds with price, the practice of injecting and withdrawing working gas can have a favourable effect on prices, referred to as a "physical hedge."

[12] Although ATCO acknowledges the potential cost benefit to customers, it denies engaging in the practice of injecting and withdrawing gas from storage for the purpose of managing gas prices. Rather, ATCO argues its use of storage from the Carbon facility was to meet the operational requirements of the pipeline system, withdrawing gas at variable rates in order to manage fluctuations in demand.

[13] Commencing in the winter of 2000/2001, ATCO decided the Carbon facility was no longer needed for operational purposes. ATCO says its decision was based in part on previous decisions of the Board, which ATCO interpreted as not permitting it to engage in financial hedging because it would be costly over time and adversely affect retail gas market development. Other factors which led ATCO to discontinue use of the Carbon facility for operational purposes were deregulation in the gas utility industry and an abundance of gas supply in the open market in this province. ATCO claims it had no assurance of a market for its gas supply as a result of those factors. However, the Board found that the proposed deregulation of Carbon was not relevant to ATCO's use of gas storage during the 2000/2001 winter season, when the Carbon facility was still in use.

[14] Prior to the 2000/2001 winter season, ATCO had used a flexible withdrawal strategy, dependent on seasonal fluctuations in demand. During the winter of 2000/2001, ATCO changed to a flat withdrawal strategy, meaning that ATCO withdrew gas from the Carbon facility at set monthly flat rates. ATCO claims that as a result of its withdrawal strategy during that season of unprecedented high gas prices, it generated savings to its customers of about \$60 million. However, Calgary contends that savings realized from the sale of gas purchased during the summer months when gas prices were low, does not exonerate ATCO from abandoning a flexible withdrawal strategy during the winter, which would have achieved additional savings. Calgary also notes that ATCO's own expert admitted that flexibility has value in a competitive market.

[15] ATCO says its flat withdrawal strategy was designed to avoid speculation as to future prices in the day-to-day management of gas in storage, in keeping with the Board's cautions against engaging in trading.

[16] In Order U2000-161, the Board determined that the use of financial hedging had not previously been used as a method of gas portfolio management (AB VIII, E7). It rejected arguments that ATCO had acted inappropriately by failing to engage in the purchase of gas for storage and simultaneous sale of it on the forward market for later withdrawal. The Board did so on the basis that such activity would be tantamount to trading, for which it had not given any approval (AB VIII, E-8). However, in that Order, the Board recommended that:

[ATCO] revisit the issue of using financial hedging to help manage its gas portfolio and provide. . . a comprehensive cost/benefit analysis for its use prior to applying for a winter period Gas Cost Recovery Rate (GCRR) effective November 1, 2000, in order to determine if there is a general consensus among its sales customers for implementation of this form of risk management. (AB VIII, E8-E9)

[17] In a subsequent Order, U2000-183, the Board approved a storage strategy for the April 1, 2000 - March 31, 2001 storage season. That strategy allowed ATCO to buy blocks of fixed price physical gas in the summer and sell blocks of fixed price physical gas for the winter. Order U2000-183 states:

In . . . Order [U2000-161] the EUB agreed that ATCO GS acted appropriately in the circumstances at that particular time by following the DGA procedures in place, which did not include the use of forward markets or other forms of financial hedging as a method of gas portfolio management. The EUB recommended however that ATCO GS revisit the issue of using financial hedging to help manage its gas portfolio.

[18] Orders U2000-161 and 183 do not support ATCO's position that it was prohibited by the

Board from engaging in financial hedging.

[19] ATCO claims its decision to switch withdrawal strategies reflected the fact that the historical need to vary withdrawals in response to operational requirements for the pipeline system no longer existed. ATCO relies in part on expert reports recommending the best solutions for fluctuations in gas prices. Two of those reports are dated March 16 and April 2, 2001. But since ATCO's decision was made prior to the winter of 2000/2001, those reports could not possibly have influenced it. A third report, dated January 14, 2000 may be applicable, but does not expressly support ATCO's decision to cease using flexible withdrawal; it merely outlines the value and risks inherent in using various strategies.

[20] At ATCO's DGA Reconciliation Hearing in 2001, Calgary introduced a report, prepared by its expert VanderSchee, which concluded that had ATCO withdrawn gas at flexible rates in response to price fluctuations during the winter of 2000/2001 rather than withdrawing at a flat rate, it could have saved customers an additional \$8.9 million. According to VanderSchee, such a strategy avoids the need to purchase gas at elevated prices by providing a utility with some flexibility to withdraw variable amounts of gas from storage in response to fluctuations in market prices.

[21] ATCO counters that VanderSchee's report was based on hindsight, and that the recommended strategy would have required ATCO to engage in trading.

Board Decision

[22] The Board ruled that ATCO's decision to implement flat withdrawal in the context of the winter period for 2000/2001 was imprudent. In its decision, the Board applied the following test of prudence:

. . . [T]he utility would be found prudent if it exercises good judgment and makes decisions which are reasonable at the time they are made, based on information that the owner of the utility knew or ought to have known at the time the decision was made. In making a decision, a utility must take into account the best interests of its customers, while still being entitled to a fair return.

[23] The Board noted that both before and during the winter period 2000/2001, gas forecasts predicted higher gas prices. While the Board recognized that ATCO did not have the benefit of the computer program used by VanderSchee, and could not have predicted the actual price fluctuations so as to realize the optimal savings calculated with the benefit of hindsight, in the Board's view, ATCO ought to have employed a strategy similar to that described by VanderSchee. The Board accepted that VanderSchee's method was not a trading strategy.

[24] The Board held that ATCO ought to have done something to mitigate the high gas prices over the 2000/2001 winter season. The Board found that some of the options available to ATCO at the

time included: continued withdrawal of gas on a flexible basis depending on market conditions, as had been done in the past; use of the excess deliverability on days when gas prices spiked; sale of that portion it did not intend to use; or development of other strategies to deal with the forecast high gas prices.

[25] The Board estimated the total savings not realized by ATCO to be \$4 million, and ordered ATCO to refund that amount to its customers through reduced rates in the future.

RELEVANT LEGISLATION

[26] Both the appellant's and respondents' facts make reference to the *Gas Utilities Act*, R.S.A. 2000 c. G-5, the *Alberta Energy and Utilities Board Act*, R.S.A. 2000, c. A-17 and the *Public Utilities Board Act*, R.S.A. 2000, c. P-45. The gas sales in question and the decision under appeal took place prior to the coming into force of the 2000 Revised Statutes of Alberta on January 1, 2002 by proclamation O.C. 424/2001. Accordingly, although the R.S.A. 2000 statutes apply with respect to ATCO's application for leave to appeal, which occurred after the proclamation date, the matters before the Board, now under appeal, are governed by the *Gas Utilities Act*, R.S.A. 1980, c. G-4, as amended ("*GUA*"), the *Alberta Energy and Utilities Board Act*, S.A. 1994, c. A-19.5 ("*AEUBA*"), and the *Public Utilities Board Act*, R.S.A. 1980, c. P-37, as amended ("*PUBA*"). Therefore, all references in this decision are to those Acts as amended on the relevant dates.

[27] All relevant legislation is listed in Appendix A, attached hereto.

BRIEF CONCLUSIONS

[28] The only question before this Court is one of law relating to the test for prudence set by the Board. The application of the four factors of the pragmatic and functional analysis to that question results in a standard of review of reasonableness *simpliciter*.

[29] Applying that standard, we find the Board's test for prudence reasonable and dismiss ATCO's appeal.

STANDARD OF REVIEW

[30] This is an appeal from the decision of an administrative tribunal. Therefore, this Court must determine, in light of the governing legislation, the appropriate level of scrutiny to be applied on review of that decision: *Pushpanathan v. Canada (Minister of Citizenship and Immigration)*, [1998] 1 S.C.R. 982 ("*Pushpanathan*") at para. 26; *Dr. Q v. College of Physicians and Surgeons of British Columbia*, [2003] 1 S.C.R. 226, 2003 SCC 19 ("*Dr. Q*") at paras. 21-22; *Voice Construction Ltd. v. Construction & General Workers' Union, Local 92*, 2004 SCC 23 ("*Voice*") at para. 15.

[31] The standard of review must be determined by applying the pragmatic and functional analysis developed in *U.E.S., Local 298 v. Bibeault*, [1988] 2 S.C.R. 1048, which entails consideration of four contextual factors: (1) the presence or absence of a privative clause or statutory right of appeal; (2) the expertise of the tribunal relative to that of the reviewing court on the issue in question; (3) the purposes of the legislation and the provision in particular; and (4) the nature of the question – law, fact or mixed law and fact: *Pushpanathan*, *supra* at paras. 29-38; *Canada (Deputy Minister of National Revenue) v. Mattel Canada Inc.*, [2001] 2 S.C.R. 100, 2001 SCC 36 (“*Mattel*”) at para. 24; *Dr. Q*, *supra* at para. 26; *Law Society of New Brunswick v. Ryan*, [2003] 1 S.C.R. 247, 2003 SCC 20 (“*Ryan*”) at para. 27; *Voice*, *supra* at para. 16; *A.U.P.E. v. Lethbridge Community College*, 2004 SCC 28 (“*Lethbridge*”) at para. 14. None of those four factors are determinative: *Pushpanathan*, *supra* at para. 27; *Mattel*, *supra* at para. 24, but evaluated collectively, they will indicate the appropriate degree of deference to afford the administrative decision-maker.

[32] There are three standards of review, from least to most deferential: correctness, reasonableness, and patent unreasonableness: *Canada (Director of Investigation and Research) v. Southam Inc.*, [1997] 1 S.C.R. 748 at para. 30; *Baker v. Canada (Minister of Citizenship and Immigration)*, [1999] 2 S.C.R. 817 at para. 55; *Ryan*, *supra* at paras. 20 & 24.

[33] Legislative intent underlies each factor in the pragmatic and functional analysis: *Dr. Q*, *supra*; *Voice*, *supra* at para. 18. In this case, the governing legislation is the *GUA*, the *AEUBA*, and the *PUBA*. (See Appendix A)

Privative Clause/Right of Appeal

[34] Section 10 of the *AEUBA* gives the Board the same jurisdiction and powers granted to the Public Utilities Board (“PUB”). Thus, the Board has jurisdiction to “hear and determine all questions of law or of fact” pursuant to s. 30 of the *PUBA*.

[35] Section 26 of the *Alberta Energy and Utilities Board Act*, R.S.A. 2000, c. A-17 and s. 70 of the *Public Utilities Board Act*, R.S.A. 2000, c. P-45 allow for appeals from decisions of the Board on questions of law or jurisdiction where leave has been granted. Such a statutory right of appeal implies legislative intent to afford the Board less deference on questions of law or jurisdiction: *Barrie Public Utilities et al. v. Canadian Cable Television Association et al.* (2003), 304 N.R. 1, 225 D.L.R. (4th) 206 at 217 (S.C.C.) (“*Barrie*”). However, granting leave on a matter of law or jurisdiction will not necessarily attract a correctness standard: *Barrie*, *ibid*; *Alberta Energy v. Goodwell Petroleum* (2003), 339 A.R. 201, 2003 ABCA 277 at para. 23. Matters falling within the Board’s expertise will warrant deference even where there is a statutory right of appeal: *Pezim v. British Columbia (Superintendent of Brokers)*, [1994] 2 S.C.R. 557 at 591 (“*Pezim*”); *Atco Gas*, *supra* at para. 35.

[36] This factor suggests that the Board’s decision be afforded limited deference.

Relative Expertise

[37] The Board is a specialized tribunal with expertise in the area of gas utility regulation, which includes protecting the public interest by balancing the competing interests of customers and utilities: *Coalition of Citizens v. Alberta (Energy and Utilities Board)* (1996), 187 A.R. 205 at para. 14 (C.A.); *ATCO Ltd. v. Calgary Power Ltd.*, [1982] 2 S.C.R. 557 at 576; *Atco Gas*, *supra* at para. 34; *ATCO Electric* at para. 53. However, the expertise of the Board relative to that of this Court will depend on the issue in question: *Pushpanathan*, *supra* at para. 33; *Barrie*, *supra* at 219.

[38] In this case, the issue for which ATCO was granted leave is the following:

Did the Board err in law in determining the appropriate standard to be applied with respect to the prudence and reasonableness of the decision of the Applicant utility in the context of this case?

[39] This question could be understood in two ways. Did the Board have jurisdiction to set and apply a standard of prudence in reviewing ATCO's decisions? Alternatively, assuming the Board did have jurisdiction, did the Board employ the proper standard of prudence in respect of ATCO's management decisions? If it is the former, the issue involves legislative interpretation, for which the Board's expertise does not necessarily exceed that of this Court. However, if it is the latter, the issue straddles the line between statutory interpretation and industry-specific practice, in which case, the Board's expertise may very well exceed that of this Court. For the reasons that follow, I conclude the question is one of law and not of jurisdiction.

[40] In support of its position that the proper standard of review is correctness, ATCO argues that any authority the Board has in terms of denying recovery of costs or imposing obligations on ATCO to refund are matters of statutory interpretation, which go to the Board's jurisdiction. However, ATCO was not granted leave on the jurisdictional argument.

[41] ATCO argues the broad applicability of the issue respecting prudence suggests minimal deference, citing *Chieu v. Canada (Minister of Citizenship and Immigration)* (2002), 208 D.L.R. (4th) 107 at 120. While conceding the Board has expertise, ATCO says in the absence of a statutory framework, the Board has no expertise with respect to the test for prudence.

[42] ATCO's submissions on the leave question focus predominantly on what ought to be the proper test for prudence, as do submissions by the Board and by Calgary. None of the parties make submissions regarding the Board's jurisdiction to set such a test. Moreover, the issue on which leave was granted was framed as one of law and not as one of jurisdiction. Therefore, focus will be

confined to the issue of law as to whether the Board adopted the proper test of prudence.

[43] The Board enunciated its test of prudence in the context of rate-setting. Fixing just and reasonable rates is a matter squarely within the Board's expertise: *TransAlta Utilities Corp. v. Alberta Public Utilities Board* (1986), 68 A.R. 171 at para. 22 (C.A.) ("*TransAlta*"); *Industrial Power Consumers Assn. of Alberta v. TransAlta Utilities Corp.* (2000), 255 A.R. 194 at para. 4 (C.A.). The issue is polycentric and requires expertise.

[44] Given the nature of the legal issue and the context surrounding it, the expertise of this Court does not exceed that of the Board which suggests the Board must be afforded curial deference.

Legislative Purpose

[45] The purpose of the governing statutory scheme as a whole, and the specific applicable provisions in particular, must also be considered in determining the appropriate standard of review: *Dr. Q*, *supra* at para. 30; *Lethbridge*, *supra* at para. 18.

[46] The Supreme Court of Canada spoke generally to the mandate conferred on the Board by the *GUA* and the *PUBA* in *ATCO v. Calgary Power*, [1982] 2 S.C.R. 557 at 576:

It is evident from the powers accorded to the Board by the legislature in both statutes mentioned above that the legislature has given the Board a mandate of the widest proportions to safeguard the public interest in the nature and quality of the service provided to the community by the public utilities.

[47] The general legislative mandate on the Board is to protect the public interest by way of regulating public utilities. A reviewing court should grant deference where the statutory scheme governing an expert tribunal allows the tribunal to balance competing interests and address broad policy concerns: *Pezim*, *supra* at 591-92; *ATCO Electric*, *supra* at para. 56.

[48] In reconciling the DGA and setting a 'just and reasonable' prospective GCRR, the Board conducted a prudence review of the Board's management decisions respecting withdrawal from storage. The question is whether the Board applied the correct test for prudence.

[49] Specific provisions of the governing legislation that confer authority on the administrative tribunal can also be indicators of limited review.¹ Although there is no particular provision in any

¹In *TransAlta*, *supra* at para. 22, Kerans J.A. stated:

... Sometimes a legislature invites limited review not by purporting to limit the power of the reviewing court but rather by conferring delegated legislative powers on the tribunal. When the delegation is manifest, as when the tribunal is empowered to "make regulations", the matter is beyond dispute. In other cases, the delegation is not so obvious but is found in the description of the powers of a tribunal in terms which are at once imprecise and evocative. The use of elastic adjectives is usually considered by a court as an implicit granting of a power

of the governing Acts which refers to a prudence review, the applicable legislative provisions do give the Board authority to fix ‘just and reasonable’ rates, a specific mandate connected to the general legislative purpose: *Re City of Dartmouth* (1976), 17 N.S.R. (2d) 425 at 432 (S.C.A.D.). The words ‘just and reasonable’ suggest that the criteria with which the Board exercises its power is flexible and discretionary, and subject to limited review.

[50] The Board has authority to fix just and reasonable rates, taking into account retrospective considerations respecting revenues and costs: *GUA*, ss. 28(a) and 32(a); *PUBA*, ss. 81(a) and 83(a). The Board also has authority to fix just and reasonable standards to be observed by utilities: *GUA*, s. 28(c); *PUBA*, s. 81(c).

[51] The discretion to determine what is just and reasonable includes the discretion to define justness and reasonableness: see *Memorial Gardens Association (Can.) Ltd. v. Colwood Cemetery Co.* [1958] S.C.R. 353 at 357; and *TransAlta*, *supra* at para. 24, citing *Edmonton, Jasper Place et al v. Northwestern Utilities Ltd.* (1960) 34 W.W.R. 241 (Alta. S.C.A.D.). Such discretion suggests a legislative intent to give deference to the Board’s methodology in fixing rates and standards. Support for that premise is found in *Newfoundland Light & Power Co. v. P.U.C. (Bd.)* (1987), 25 Admin. L.R. 180 (NFCA). There the Court rejected the argument that the Board had exceeded its jurisdiction in determining a just and reasonable rate of return by failing to adopt a particular methodology. That decision was cited with approval in *Newfoundland (Board of Commissioners of Public Utilities) (Re)* (1998), 164 Nfld. & P.E.I.R. 60 at para. 29 (NFCA) by Green J.A., who stated:

. . . The Board therefore has a broad discretion to adopt appropriate methodologies for the calculation of allowable rates of return. So long as the methodologies chosen are not inconsistent with generally accepted sound public utility practice and the purposes and policies of the Act, and can be supported by the available opinion evidence, the determination of what constitutes a just and reasonable return in a given case will generally be within the province of the Board and will not normally be interfered with.

[52] ATCO’s customers are charged with the actual cost of gas supplied by ATCO. Actual costs incurred by a utility are reflected in the DGA balance. Those costs depend in part on that utility’s management strategy, including the execution and management of a hedging plan. Assessing management decisions may necessarily factor into a reconciliation hearing and the Board’s determination and implementation of just and reasonable rates: see Costello, K., “Should Commissions Pre-Approve a Gas Utility’s Hedging Activities?” (*NRRI*, 34th Annual Regulatory

to the tribunal to form its own “opinion” or make “policy” or to exercise a “discretion” - in fine, to make law. The key power of this Board is to fix “fair and reasonable” rates. This is a good example of a grant of a wide discretion.

Conference: Tampa, Florida, December 10, 2002).

[53] The Board's determination of the test governing its review of ATCO's management decisions accords with the general legislative mandate to serve the public interest by balancing the consumer's interest in just and reasonable rates with the utility's interest in earning a reasonable rate of return. In light of the discretionary nature of the specific rate-setting provisions, this factor suggests that deference be given by this Court.

Nature of the Question

[54] Leave to appeal is granted only on questions of law or jurisdiction, which would generally favour less deference. However, as the question relates to the management of a utility and marketing strategies, it is one for which the Board has greater expertise than does this Court. Where the question of law is at the core of the administrative decision-maker's expertise, some deference is owed to that decision-maker: *Voice, supra* at para. 29.

[55] ATCO argues the Board erred in its articulation and application of the prudence test, in finding ATCO imprudent. The application of the test is an issue of mixed fact and law. Because the governing legislation grants a right of appeal with leave only on questions of law or jurisdiction, questions of mixed fact and law can only come before this Court where there is an extricable legal question: see *Housen v. Nikolaisen*, [2002] 2 S.C.R. 235 at para. 36. The Board's application of its prudence test is an issue inextricably bound to the facts and is therefore not properly before us. The question of whether the prudence test set by the Board was correct, is extricable and is a question of law. Because it is a question which falls within the discretion granted to the Board by its governing legislation, some deference must be afforded.

Conclusion on Standard of Review

[56] In the context of this case, only one of the four *Pushpanathan* factors, the statutory right of appeal, indicates a less deferential standard. Otherwise, the Board's expertise and the governing legislation suggest the Board be given a high degree of deference, given the nature of the issue.

[57] In a decision released after oral argument concluded in this case, this Court found that because the legal question engaged was of general import, the appropriate standard to be applied to the Board's decision concerning entitlement to carrying costs is in the mid-range of judicial review spectrum, that is reasonableness. But the Court also found that "the Board enjoys expertise superior to this Court in determining the appropriate methodology for calculating prudent costs of financing a particular segment of a utility's operations": *ATCO Electric, supra* at para. 62. Thus, Fraser C.J.A. concluded the appropriate standard to apply to that decision is patent unreasonableness. However, here, the Court is not being asked to review a methodology of calculation of rates, but rather whether the Board erred in determining the appropriate standard in reviewing the reasonableness of managerial decisions.

[58] Considering the four contextual factors in this case, and the import of the prudence test to the utilities industry, I conclude the appropriate standard of review is reasonableness *simpliciter*. Applying that standard, the Court must ask "whether there is a rational basis for the decision . . . in light of the statutory framework and the circumstances of the case": ***Cartaway Resources Corp. (Re)*** (2004), 319 N.R. 1, 2004 SCC 26 at para. 49.

ANALYSIS

Did the Board err in law in determining the appropriate test to be applied with respect to the prudence and reasonableness of the decision of the Applicant utility in the context of this case?

[59] The Board concluded ATCO acted imprudently because it “could have, and ought to have, maximized the value of the ‘excess’ deliverability by using it on days when prices were spiking or by selling the deliverability it did not intend to use . . .”, and by failing to do so, ATCO “was not acting in the best interests of customers . . .” In reaching that conclusion the Board adopted the following test of prudence:

. . . a utility will be found prudent if it exercises good judgment and makes decisions which are reasonable at the time they are made, based on information the owner of the utility knew or ought to have known at the time the decision was made. In making decisions, a utility must take into account the best interests of its customers, while still being entitled to a fair return.

[60] The Board cited its earlier Decision 2000-01, wherein it stated:

[The concept of prudence]. . . has been recognized as a tool available to regulators, and in most instances involves an evaluation of whether or not a decision reflects good judgment and discretion and is reasonable in the circumstances which were known, or reasonably should have been known when the decision was made.

[61] ATCO maintains that the proper test for prudence requires the presumption of managerial prudence, and that the Board erred by failing to presume management had acted prudently. Although the Board did not expressly presume prudence, it may have done so implicitly by determining to uphold ATCO’s decision unless it was satisfied that ATCO acted unreasonably: AB I, p. F21. But ATCO also submits that mere unreasonableness or error in judgment is not sufficient to establish imprudence and that a regulator is not entitled to step into the role of a manager. In ATCO’s view, if any error was made at all, it was a mere error of judgment and not outside the realm of what any reasonable business person would do. Any such error would not constitute negligence and could thus not properly constitute imprudence.

[62] In the course of ATCO Pipelines 2003/2004 General Rate Application (Tab 18 ATCO's authorities), Calgary disputed any presumption of prudence in regulatory law that ATCO Pipelines' forecasts are reasonable, which in its view would be a reversal of the onus of proof. Further, Calgary says there is no logical reason to apply a presumption of correctness to a utility budget. Instead, Calgary says the utility has the onus of establishing the reliability of its forecast expenditure. Calgary says there is no major difference between the Board's and ATCO's articulation of the test for prudence, and that ATCO's main complaint is with the application of the test.

[63] Calgary also notes that the test applied by the Board has been applied by the Ontario Energy Board, which addressed the test for prudence in the context of rate regulation in the transportation industry in RP - 2001-0029. That Board acknowledged that a presumption of prudence on the part of a regulated utility is implicit in the framework underlying rate regulation. The Ontario Energy Board said that in considering the prudence of any action, it is engaged in a retrospective review of the reasonableness of the utility's action at a given point, and the foreseeability of any changes in circumstances is critical to that review. At para. 2.36 that Board stated:

A poor outcome does not govern the assessment of prudence. Prudence is however, called into question if the commitment was made casually, that is without a reasonable level and scope of analysis, or recklessly, or primarily for some ulterior non-utility or ulterior corporate purpose. (Calgary authorities Tab 18 p. 21)

[64] The term "prudence" is well known in the utility rate-making industry and has a significant history. Included in Calgary's materials is a 2002 paper from The National Regulatory Research Institute of Ohio State University (the "NRRI") entitled, "State Commission Regulatory Considerations Concerning Security-Related Cost Recovery in Utility Network Industries", which references a 1985 NRRI publication: *The Prudent Investment Test in the 1980's* (the "*Prudent Investment Test*"). *The Prudent Investment Test* describes the history of the concept of prudence and its use in regulated public utilities. The authors describe the concept of prudent investment as: "a regulatory oversight standard that attempts to serve as a legal basis for adjudging the meeting of utilities' public interest obligations, specifically in regard to rate proceedings": ch. 2, p. 20. The 2002 NRRI paper cited by Calgary and *The Prudent Investment Test* at 93, both suggest that before a regulator investigates the prudence of a utility, the presumption of prudence must be rebutted.

[65] As a standard in public utility regulation, prudence is described as a concept borrowed from legal principles, such as negligence. In other words, the public utility will be held to a managerial duty of care:

What is prudent is deemed to be ascertainable through the reasonable efforts of competent managers with sound and reasonable judgment. That risk is involved in managerial decision making is judicially acknowledged. But, the deliberate exposure to substantial risk in the exercise of managerial discretion is by its very nature imprudent, for risk is to be avoided, if not altogether, at least insofar as possible

under the circumstances: *The Prudent Investment Test*, p. 47.

[66] A presumption of prudence triggers an onus of proof on the party impugning managerial decisions. However, if that presumption is rebutted, a public utility's decision will be reviewed, applying an objective test of reasonableness to the facts and circumstances surrounding the decision, without relying on hindsight: *The Prudent Investment Test*, p. 93

[67] In determining whether a company had exercised proper discretion in matters requiring business judgment, the U.S. Supreme Court in *State of Missouri ex re, Southwestern Bell Telephone Company v. Public Service Commission of Missouri* 262 U.S. 276, 289 (1923), stated:

The Commission is not the financial manager of the corporation and it is not empowered to substitute its judgment for that of the directors of the corporation; nor can it ignore items charged by the utility as operating expenses unless there is an abuse of discretion in that regard by the corporate officers.

[68] In support of its submission that for actions to qualify as imprudent they must be dishonest or obviously wasteful, ATCO cites the dissenting judgment of Justice Brandeis, in footnote 1 at 289 of that case:

The term prudent investment is not used in a critical sense. There should not be excluded from the finding of the base, investments which, under ordinary circumstances, would be deemed reasonable. The term is applied for the purpose of excluding what might be found to be dishonest or obviously wasteful or imprudent expenditures. Every investment may be assumed to have been made in the exercise of reasonable judgment, unless the contrary is shown.

[69] In *West Ohio Gas Co. v. Public Utilities Commission of Ohio (No. 1)*, 294 U.S. 63, 68 (1935), at p. 25 the U.S. Supreme Court held that:

A public utility will not be permitted to include negligent or wasteful losses among its operating charges. The waste or negligence, however, must be established by evidence of one kind or another, either direct or circumstantial.

The Court continued at p. 26:

Good faith is to be presumed on the part of the manager of a business. . . In the absence of a showing of inefficiency or improvidence, a court will not substitute its judgment for theirs as to the measure of a prudent outlay.

[70] There, the Court concluded that imposition of a penalty was wholly arbitrary in the absence

of evidence showing any warning to the company that fault was imputed to it and that it must give evidence of care.

[71] The Board concedes that the standard of prudence is similar to the standard of care required in assessing negligence, but argues that with respect to a regulated public utility, the test is not what a reasonable businessman would have done in the circumstances, but rather what a reasonable public utility would have done. In *Acker v. United States*, 298 U.S. 426, 431 (1936), cited in *The Prudent Investment Test* at 32, regarding management judgment, the U.S. Supreme Court held that:

...[T]he charge is for a public service, and regulation cannot be frustrated by a requirement that the rate be made to compensate extravagant or unnecessary costs...

[72] The Board's broad discretion to set just and reasonable utilities rates must be exercised in the public interest, which requires consideration of both sides of the rate paying equation: *ATCO Electric*, *supra* at 132. That process implicitly entails scrutiny of management decisions. With respect to negotiated settlements Fraser C.J.A. held in *ATCO Electric* at para. 145 that the Board "is entitled to assume that what the utility has negotiated and agreed to is in fact in the utility's best interests." However, in the context of rate setting, the starting point for scrutinizing management decisions is the presumption that it is in the utility's interest to make prudent decisions which also reflect the interests of its customers, by avoiding needless expenditure. That presumption will matter only when the scales are evenly balanced.

[73] In this case, in determining to uphold ATCO's decision unless satisfied ATCO had acted unreasonably, the Board correctly acknowledged the presumption of prudence. The test it articulated to be applied in reviewing the prudence and reasonableness of ATCO's decisions is reasonable.

CONCLUSION

[74] ATCO's complaint with the Board's application of the prudence test involves questions of fact, and is not properly before this Court. The only matters at issue on this appeal are whether the Board properly acknowledged a presumption of prudence, and properly articulated the test of prudence, in assessing ATCO's management decisions. The Board's articulation of the prudence test is consistent with its previous decisions and with the line of authority addressing the concept of prudence in the context of public utilities. Given the governing legislation and the circumstances of this case, there is a rational basis for the test of prudence articulated and relied on by the Board in its decision.

[75] Accordingly, the appeal is dismissed.

Appeal heard on April 21, 2004

Reasons filed at Calgary, Alberta
this 29th day of March, 2005

Russell J.A.

I concur:

O’Leary J.A.

I concur:

Wittmann J.A.

Appearances:

H.M. Kay, Q.C.

L.E. Smith, Q.C.

For the Appellant

J.R. McKee

A.E. Domes

for the Respondent

P.L. Quinton-Campbell

R.B. Brander

for the Third Party

Appendix “A”

Current Legislative Provisions

Alberta Energy and Utilities Board Act, R.S.A. 2000, c. A-17

26(1) Subject to subsection (2), an appeal lies from the Board to the Court of Appeal on a question of jurisdiction or on a question of law.

(2) Leave to appeal may be obtained from a judge of the Court of Appeal only on an application made

(a) within 30 days from the day that the order, decision or direction sought to be appealed from was made, or

(b) within a further period of time as granted by the judge where the judge is of the opinion that the circumstances warrant the granting of that further period of time.

.....

Public Utilities Board Act, R.S.A. 2000, c. P-45

70(1) Subject to subsection (2), on a question of jurisdiction or on a question of law, an appeal lies from the Board to the Court of Appeal.

(2) Leave to appeal shall be obtained from a judge of the Court of Appeal on application made within one month after the making of the order, decision, rule or regulation sought to be appealed from, or within any further time that the judge under special circumstances allows, and on notice to the parties and to the Board, and on hearing those of them that appear and desire to be heard, and the costs of the application are in the discretion of the judge.

.....

Applicable Repealed Legislative Provisions

Alberta Energy and Utilities Board Act, S.A. 1994, c. A-19.5 [repealed] (“*AEUBA*”)

10(1) For the purposes of carrying out its functions, the Board has all the powers, rights and privileges of the ERCB and the PUB that are granted or provided for by any enactment or by law.

.....

Gas Utilities Act, R.S.A. 1980, c. G-4, as amended. [Repealed] (“*GUA*”)

16 When it is made to appear to the board, on the application of any owner of a gas utility

or of any municipality or person having an interest, present or contingent, in the matter in respect of which the application is made, that there is reason to believe that the tolls demanded by an owner of a gas utility exceed what is just and reasonable, having regard to the nature and quality of the service rendered or of the gas supplied, the Board

(a) may proceed to hold any investigation that it thinks fit into all matters relating to the nature and quality of the service or the gas supplied, or to the performance of the service and the tolls or charges demanded therefor,

...

(c) may disallow or change, as it thinks reasonable, any tolls or charges that, in its opinion, are excessive, unjust or unreasonable or unjustly discriminate between different persons or different municipalities, but subject however to any contract existing between the owner of the gas utility and a municipality at the time the application is made that the Board considers fair and reasonable.

...

25(1) No owner of a gas utility shall

(a) make, impose or extract any unjust or unreasonable or unjustly discriminatory or unduly preferential individual or joint rate, commutation rate or other special rate, toll, fare, charge or schedule for any gas or service supplied or rendered by it within Alberta,

...

(c) adopt, maintain or enforce any regulation, practice or measurement that is unjust, unreasonable, unduly preferential, arbitrarily or unjustly discriminatory or otherwise in contravention of law, or provide or maintain any service that is unsafe, improper or inadequate, or withhold or refuse any service that can reasonably be demanded and furnished when ordered by the Board,

...

28 The Board, either on its own initiative or on the application of a person having an interest, may by order in writing, which shall be made after giving notice to and hearing the parties interested,

(a) fix just and reasonable individual rates, joint rates, tolls or charges or schedules of them, as well as commutation and other special rates, which shall be imposed, observed and followed thereafter by the owner of the gas utility,

...

(c) fix just and reasonable standards, classifications, regulations, practices, measurements or service which shall be furnished, imposed, observed and followed thereafter by the owner of the gas utility,

...

(e) require an owner of a gas utility to supply and deliver gas to the persons, for the

purposes, at the rates, prices and charges and on the terms and conditions that the Board directs, fixes or imposes.

...

32 In fixing just and reasonable rates, tolls or charges, or schedules thereof, to be imposed, observed and followed thereafter by an owner of a gas utility,

(a) the Board may consider all revenues and costs of the owner that are in the Board's opinion applicable to a period consisting of

(i) the whole of the fiscal year of the owner in which a proceeding is initiated for the fixing of rates, tolls or charges, or schedules of them,

(ii) a subsequent fiscal year of the owner, or

(iii) 2 or more of the fiscal years of the owner referred to in subclauses (i) and (ii) if they are consecutive

and need not consider the allocation of those revenues and costs to any part of that period,

(b) the Board may give effect to that part of any excess revenue received or any revenue deficiency incurred by the owner that is in the Board's opinion applicable to the whole of the fiscal year of the owner in which a proceeding is initiated for the fixing of rates, tolls or charges, or schedules of them, that the Board determines is just and reasonable,

(c) the Board may give effect to that part of any excess revenue received or any revenue deficiency incurred by the owner after the date on which a proceeding is initiated for the fixing of rates, tolls or charges, or schedules of them, that the Board determines has been due to undue delay in the hearing and determining of the matter, and

(d) the Board shall by order approve the method by which, and the period (including any subsequent fiscal period) during which, any excess revenue received or any revenue deficiency incurred, as determined pursuant to clause (b) or (c), is to be used or dealt with.

.....

Public Utilities Board Act, R.S.A. 1980, c. P-37, as amended. [Repealed] ("***PUBA***")

30 The Board may, as to matters within its jurisdiction, hear and determine all questions of law or of fact.

...

81 The Board, either on its own initiative or on the application of a person having an

interest, may by order in writing, which shall be made after giving notice to and hearing the parties interested,

(a) fix just and reasonable individual rates, joint rates, tolls or charges or schedules thereof, as well as commutation, mileage or kilometre rate and other special rates, which shall be imposed, observed and followed thereafter by the owner of the public utility;

...

(c) fix just and reasonable standards, classifications, regulations, practices, measurements or service which shall be furnished, imposed, observed and followed thereafter by the owner of the public utility;

...

...

83(1) Subject to subsection (2), in fixing just and reasonable rates, tolls or charges, or schedules thereof, to be imposed, observed and followed by an owner of a public utility,

(a) the Board may consider all revenues and costs of the owner that are in the Board's opinion applicable to a period consisting of

- (i) the whole of the fiscal year of the owner in which a proceeding is initiated for the fixing of rates, tolls or charges, or schedules thereof,
- (ii) a subsequent fiscal year of the owner, or
- (iii) 2 or more of the fiscal years of the owner referred to in subclauses (i) and (ii) if they are consecutive,

and need not consider the allocation of those revenues and costs to any part of such a period,

...

(b) the Board may give effect to that part of any excess revenue received or any revenue deficiency incurred by the owner that is in the Board's opinion applicable to the whole of the fiscal year of the owner in which a proceeding is initiated for the fixing of rates, tolls or charges, or schedules thereof, as the Board determines is just and reasonable.

(c) the Board may give effect to such part of any excess revenue received or any revenue deficiency incurred by the owner after the date on which a proceeding is initiated for the fixing of rates, tolls or charges, or schedules thereof, as the Board determines has been due to undue delay in the hearing and determining of the matter, and

(d) the Board shall by order approve the method by which, and the period (including any subsequent fiscal period) during which, any excess revenue received or any revenue deficiency incurred, as determined pursuant to clause (b)

or (c), is to be used or dealt with.

1981, c. E-4.1, s. 17; 1984, c. 60, s. 4; 1988, c. S-13.75, s. 9; 1995, c. 11, s. 14.

Court of Appeal for British Columbia
Hemlock Valley Electrical Services Ltd. v. British Columbia (Utilities Commission)
Date: 1992-03-26

Chris W. Sanderson and Barbara Cornish, for appellant.

Gordon A. Fulton, for respondent B.C. Utilities Commission.

Patrick G. Foy, for respondent Attorney General of British Columbia.

(Doc. Vancouver CA013604)

March 26, 1992. The judgment of the court was delivered by

CUMMING J.A.:—

DECISION APPEALED FROM

[1] This is an appeal from O. G-11-91 of the British Columbia Utilities Commission (the “commission”) pronounced January 30, 1991 reaffirming the terms of O. G-77-90, made October 17, 1990, which permitted the appellant utility, Hemlock Valley Electrical Services Ltd. (“HVES”), to increase the rate it charges for the supply of electrical services, but ordered that the rate base costs be phased in over a period of three years.

[2] On March 7, 1991, pursuant to s. 115 of the *Utilities Commission Act*, S.B.C. 1980, c. 60, Toy J.A. granted leave to appeal to this court and directed that the operation of commission O. G-11-91 be stayed upon terms to which further reference will later be made.

FACTS

[3] HVES, a wholly owned subsidiary of Hemlock Valley Resorts Inc., is a small, special purpose utility which is the sole supplier of electrical service to a group of approximately 192 residential customers living in a single community located around the Hemlock Valley ski hill in the lower mainland of British Columbia. HVES also provides service to the ski hill itself.

[4] HVES was incorporated in 1979 and on June 20, 1980 was granted a certificate of public convenience and necessity by O. C-23-80 of the British Columbia Energy Commission, the predecessor of the present commission.

[5] On November 13, 1982 HVES filed a rate application with the commission (the “1982 application”). A public hearing was held on June 7, 1983 and the commission rendered its decision on July 8, 1983 (the “1983 decision”).

[6] At that time HVES' operations were described as follows:

Hemlock is a subsidiary of Hemlock Valley Recreations Ltd. ("Hemlock Recreations"), which company owns and leases land in the Hemlock Valley of the Lower Mainland of British Columbia for year-round recreational use. Hemlock provides underground electric service to residential consumers and to Hemlock Recreations for use in a ski lodge, lifts and a maintenance area; to Hemlock Property Management Ltd. for residential use on residential properties; and to Hemlock Valley Sanitary Service Ltd. for a sewer system serving the recreation area. All three companies are wholly owned subsidiaries of Hemlock Recreations.

[7] In the 1983 decision the commission declined to allow HVES a return on its rate base and ordered that electrical rates be set at 11.5¢ per kW.h with a \$15 per month minimum charge, effective July 1, 1983. The commission noted:

- (a) the Hemlock recreational area was still in the developmental stage;
- (b) the development had been materially affected by a downturn in the provincial economy;
- (c) HVES had taken significant steps to reduce the cost of power and improve the reliability of service through the interconnection with B.C. Hydro;
- (d) undertakings were given in the prospectus of Hemlock Valley Estates Limited indicating that a purchaser of property could expect that all services would have been completed and paid for by the developer from its own resources.

[8] The commission concluded that in the circumstances of HVES a reasonable approach to rates would be based on a break-even approach between revenue and expenses.

[9] In its decision of October 17, 1990 the commission said of the 1983 decision:

It is clear that in the 1983 decision the interdependency of electric and other services with the resort enterprise at Hemlock Valley was fully understood. It is also clear that the commission felt some consternation about the 7.69 per cent negative return on rate base flowing from the 1980 decision. It was also apprehensive that the continued existence of Hemlock Valley as a going concern was being "materially affected by the downturn in the provincial economy." Moreover, it was looking at the changeover from diesel generators to a tie-line with B.C. Hydro. The change in source of power was unquestionably correct in the long-term, but it imposed an annual amortization cost of \$98,840.18 for the years immediately ahead. That addition of nearly \$100,000 per year materially distorted the profit and loss statement. In the circumstances, the commission, in its 1983 decision, chose to ignore return on rate base as an appropriate means of fixing fair and reasonable rates, and chose instead a pragmatic break-even approach between revenue and expenses. It also added a small allowance for contingencies. Management of the utility was evidently prepared to accept this approach.

[10] By commission O. G-65-83, dated August 23, 1983, HVES was again ordered to amend its rates to reflect the sale of a portion of its electric utility plant to B.C. Hydro.

[11] On July 10, 1984 HV Recreations, the parent of HVES, went into receivership. HV Recreations remained in receivership until January 15, 1987 when Skipp L.J.S.C. (as he then was) approved the sale of the assets of HV Recreations, including the HVES shares, to one Michael Robbins or his assignee. Sometime after January 15, 1987 the HVES shares were transferred to Hemlock Valley Resorts Inc. ("HV Resorts"). HV Resorts remains the sole shareholder of HVES. Throughout 1987 and 1988 there were various changes in the ownership of HV Resorts and on October 27, 1988 its shares were acquired by Mr. Joseph Peters. There has been no change in the ownership of the assets or shares of HV Resorts since that date.

[12] In 1984 and again in 1986 increased rates were approved to reflect, firstly, an increase in B.C. Hydro's water rental fees and, secondly, an increase in the cost to HVES of purchasing power from B.C. Hydro.

[13] As of the spring of 1990 the rate being charged by HVES was 8.650 per kW.h. That rate had been in effect since September 26, 1986.

[14] On May 31, 1990 HVES applied to the commission to increase its tariff rates by 7.320 per kW.h, an 84.6 per cent increase. The reasons given were to permit the recovery of recently approved rate increases to B.C. Hydro, forecast operating costs and a return on rate base. In the 1990 application, HVES proposed a rate base of \$366,511 with a 13 per cent return on the debt component and a 15 per cent return on the equity component of that rate base.

[15] Prior to a public hearing the commission, by O. G-58-90, ordered that effective July 1, 1990 HVES be allowed an interim increase of 3.70 per kW.h in its rates to permit the recovery of the increased cost of purchased power from B.C. Hydro and increased operating costs. The operative part of that order read:

1. The Rate Base costs included in the Application will not form part of the interim increase allowed in item No. 2 of this Order at this time.
2. The Commission will accept, subject to timely filing, effective July 1, 1990, an amendment to its Electric Tariff Rate Schedule incorporating an increase of 3.70 cents/kW.h over existing rates on an interim basis, with the interim increase subject to refund with interest calculated at the average prime rate of the bank with which HVES conducts its business.

3. HVES, by way of a Customer Notice, is to inform each customer, as soon as possible, of the application before the Commission, the approved interim increase and the effect on average annual billings. HVES is to provide the Commission with a copy of the Customer Notice.

[16] On August 2, 1990 the commission directed that a public hearing commencing September 24, 1990 be held in respect of HVES' application of May 31, 1990 and gave directions with respect to notice of the hearing and participation by intervenors and interested persons intending to participate in the public hearing.

[17] The Hemlock Valley Ratepayers Association intervened and, we were advised, played a significant role at the hearing. Its submissions covered many areas, correcting a number of statements in the application and disputing a number of forecasts. Among other things, the rate base component in the application was opposed on the basis that the utility systems were fully paid for by the developers.

[18] The commission received evidence of complaints of unsatisfactory service, inadequate HVES accounting documentation, concerns about paying for the recreational commercial venture through utility payments (commercial power use is unmetered), detailed comments on HVES' proposed operating and maintenance expenses, comparisons to residential rates in other areas, and other matters.

[19] Following the public hearing on September 24 and 25, 1990, by commission O. G-77-90 dated October 17, 1990, the commission issued a decision (the "original decision") with respect to the 1990 application.

[20] The operative part of O. G-77-90 reads:

1. The Rate Base and Revenue Requirement for the Test Period are set out in Schedules contained in the Decision.
2. The Commission will accept, subject to timely filing, amended Electric Tariff Rate Schedules which confirm to the terms of the Commission's October 17, 1990 Decision.
3. HVES is to proceed with refunds to its customers of record on and after July 1, 1990, where necessary. Such refunds are to include interest calculated as specified in O. G-51-90.
4. HVES will comply with the several directions incorporated in the Commission Decision.

I have appended as App. A to these reasons [pp. 25-30] the schedules referred to in para. 1 of the commission order.

[21] By the original decision the commission declined to permit the full implementation of the approved rate increase immediately but instead directed that it be phased in by

increases of 1.510 per kW.h effective July 1, 1990, and 1.510 per kW.h and 0.750 per kW.h effective May 1, 1991 and May 1, 1992 respectively.

[22] It is this rate adjustment phase-in which is the principal focus of this appeal.

[23] By letter dated November 8, 1990, HVES requested that the commission reconsider certain aspects of the original decision pursuant to s. 114 of the Act on the basis that:

(a) Reconsideration was appropriate because HVES had not been provided with an opportunity to deal with the phase-in issue in its rate application;

(b) Once the commission had determined that there was a rate base and that a 13 per cent return on it was "just and reasonable," pursuant to the Act, the commission was obliged to permit HVES an opportunity to recover sufficient revenue to capture that return.

[24] On January 30, 1991, by O. G-11-91, the commission ordered that the request by HVES to vary O. G-77-90 be denied and that HVES was to proceed with refunds to customers and to comply with all other directions in that order.

[25] The operative part of O. G-11-91 reads:

Now THEREFORE the Commission orders as follows:

1. The Request, by HVES to vary the October 17, 1990 Commission Decision and Order No. G-77-90, is denied and the Commission's Reasons for Decision is attached as Appendix A.

2. The Commission reaffirms and orders HVES to proceed with refunds to customers along with other directions incorporated in its October 17, 1990 Decision and Order No. G-77-90.

[26] It is from O. G-11-91 that this appeal is taken.

GROUND OFS OF APPEAL

[27] As set out in the appellant's factum the grounds of appeal are:

that the Commission erred in pronouncing Order No. G-11-91, which reaffirmed Commission Order No. G-77-90 when Order No. G-77-90 contained an error in law ... in that the Order:

(a) failed to permit HVES the opportunity to recover a portion of its rate base costs over three years notwithstanding that the Commission had determined that that portion of its rate base costs was necessary for the establishment of rates which were just and reasonable under the *Utilities Commission Act*, S.B.C. 1980, c. 60 (the "Act");

(b) required a refund of monies which the Commission had determined were necessary to permit HVES an opportunity to receive a just and reasonable rate under the Act.

REASONS FOR THE DECISIONS OF THE COMMISSION

1. *Original Decision*

[28] In the original decision of October 17, 1990, under the heading "Determination of Rate Base," the commission, after reviewing the 1983 decision, went on to say:

This division of the commission considers that the 1983 decision was a practical decision to tide the enterprise at Hemlock Valley over a particularly difficult period. Sooner or later, however, longer-term prospects must be faced squarely. The tie-line has been amortized over five years. Evidence (Exs. 14 through 21) clearly indicates that recovery of plant expenditures was anticipated through utility rates. *Therefore the commission believes that a return to more traditional rate-making practice is justified.*

It was proposed to the commission by the intervenors at the hearing that rate base should not be recognized. The cornerstone of rate base is appraised value of utility property, which is usually taken to be original cost of plant. The commission cannot, by a stroke of the pen, eliminate the appraised value of the property; to do so would be confiscation of property ...

And concluded:

The commission has considered alternative calculations for rate base and concludes that no material difference results from any refinements which might be made. Therefore, the commission accepts the company's evidence, and finds the rate base to be \$366,511 for the test period.

[29] The commission then continued:

4.2 *Capital Structure*

The company currently has no viable capital structure of its own. Its financing has been by way of loans from the parent company. The applicant proposes a deemed 50/50 per cent debt/equity ratio in this application. It is a frequent practice of regulatory tribunals to use a notional capital structure. While 50 per cent equity is much higher than would be usual for utilities in general, the higher proportion of equity in this case can be considered as reasonable, bearing in mind the relative risks in the case of the company.

4.3 *Return on Rate Base*

The company has proposed a return of 13 per cent on the debt component, and 15 per cent on the equity component of the rate base. Standing alone, these figures certainly fall within a reasonable range in today's market. Nevertheless, the commission considers it essential to consider the particular circumstances of the company in this decision. While it is true that risky investments typically command higher returns, that position considers primarily the potential investors' point of view in placing funds at the utility's disposal. From the existing shareholders' point of view, the realization of an allowable rate of return depends upon the ability of management to run an efficient organization, and for external factors to favourably affect the prosperity of the company. Bearing in mind the interrelationship of the resort and utility elements at Hemlock, and the current circumstances of the utility, the commission cannot accept a return on equity for rate-making purposes of 15 per

cent. *For the foregoing reasons, the commission believes that a 13 per cent return on debt and a 13 per cent return on equity are both just and reasonable within the spirit of s. 65(3) and (4) of the Act, which states:*

“(3) It is a question of fact, of which the commission is the sole judge, whether a rate is unjust or unreasonable, or whether, in any case, there is undue discrimination, preference, prejudice or disadvantage in respect of a rate of service, or whether a service is offered or furnished under substantially similar circumstances and conditions.

“(4) In this section a rate is ‘unjust’ or ‘unreasonable’ if the rate is

“(a) more than a fair and reasonable charge for service of the nature and quality furnished by the utility,

“(b) insufficient to yield a fair and reasonable compensation for the service rendered by the utility, or a fair and reasonable return on the appraised value of its property, or

“(c) unjust and unreasonable for any other reason.”

[30] Under the heading “Cost of Service” the commission, over several pages, reviewed in detail various components of the cost of service which HVES estimated it would incur and for which it sought a rate sufficient to enable it to recover, and considered the objections to and criticisms of those cost components raised by the intervenors and various witnesses. It is not necessary here to review this aspect of the material in any great detail: it is sufficient to say that where the commission did not accept in full the submissions of HVES it reduced the eligible cost component by the amounts set out in the schedules to its order (see, in particular, sheet 5 of App. 1) with the result that HVES’ revenue requirements, for rate-making purposes, were reduced accordingly. The commission also made a number of directions and recommendations to the company, of which the following are examples:

The commission directs the company to prepare and file with the commission an operating budget at the beginning of each fiscal year ...

The commission therefore directs that the company provide the commission with a time schedule for the completion of the work, as well as specific advice when the work is completed. In addition, the company is directed to file a copy of its preventive maintenance program by November 1, 1990,

but these did not result in any further adjustments to the estimates of allowable and recoverable costs of service.

[31] The commission then turned its attention to the question of “quality of service” and reviewed a number of complaints and dissatisfactions expressed by the intervenors. It concludes its discussion of this issue by saying:

During the course of the hearing, the commission was impressed with the sincerity, variety and degree of expertise shown by the witnesses for the principal intervenor, the Hemlock Valley Ratepayers’ Association. It is suggested to the company that

consideration might well be given to drawing on this pool of talent. *The commission strongly recommends that a "utility consultation committee" be established by HVES, with members from the utility and representative ratepayers. Quarterly information meetings should serve to improve communications in the interest of the common goals of all the participants on the mountain.*

Apart from the recommendation which the commission made in this passage, nothing else was said by the commission with regard to quality of service and, most importantly, as will be noted later, no further adjustments were made to the rate base, rate of return or the allowable components of recoverable cost of service (other than those specifically referred to) by reason of any concern related to the quality of service provided by HVES to its customers.

[32] The commission summarized its decision as follows:

7.0 Decision Summary

7.1 Revenue Requirement

Section 44 of the *Utilities Commission Act* requires that:

"44. Every public utility shall maintain its property and equipment in a condition to enable it to furnish, and it shall furnish, a service to the public that the commission considers is in all respects adequate, safe, efficient, just and reasonable."

It is the duty of the commission to see that this is done. It is also the duty of the commission to ensure that the utility has sufficient revenue to enable it to perform these functions. However, it must always be satisfied that the level of funding provided for is within the company's ability to use efficaciously.

On the basis of the evidence presented, the commission has set a revenue requirement to satisfactorily meet the above objectives (refer to attached schedules).

7.2 Rate Adjustment Phase-In

As mentioned in s. 1.0, the application contemplated a rate increase of 84.6 per cent in the test year. The adjustments to the cost of service in this decision have mitigated some of the potential rate shock. The commission considers that a return on rate base should be allowed; however, it believes that the ratepayers should be protected from the full impact initially. In arriving at this conclusion, the commission has recognized that there was a hiatus of some seven years between applications. In addition, the future economics and the viability of the mountain are at stake.

Accordingly, the commission orders that the rate base costs be phased in over three years. The commission requires the utility to file amended rate schedules incorporating an increase of 1.51¢ per kW.h over permanent rates effective July 1, 1990, and for further increases of 1.51¢ per kW.h and 0.750 per kW.h effective May 1, 1991 and May 1, 1992, respectively.

2. Reconsideration Decision

[33] In refusing the request of HVES for reconsideration and confirming its original decision, the commission said, under the heading "Jurisdiction":

2.0 JURISDICTION

The argument made on behalf of HVES has as its essence the jurisdiction of the commission, and it is set out in the letter dated December 14, 1990.

On p. 2 of that letter, s. 65(4) of the Act is quoted in its entirety, as is s. 66(1)(a) and (b). The submission then goes on:

“The words of Section 65(1)(b) [reference should be s. 65(4)(b)] and Section 66(1)(b) of the Act are a clear statutory direction to the Commission on how to determine a just and reasonable rate. In our respectful submission, in the presence of clear language, the Commission may not disregard those statutory provisions and substitute its own opinion of what is just or reasonable in any given case.”

It is the commission’s view that the submission is flawed in that it evidently invites the commission to ignore the clear language of s. 65(4)(a) and (c), and concentrate instead only on s. 65(4)(b) which supports the position of HVES. The commission holds that, in fixing a rate, it must have due regard to the whole of s. 64. Section 66(1)(b) makes this abundantly clear:

“the Commission shall have due regard, among other things, to the fixing of a rate that is not unjust or unreasonable, within the meaning of Section 65.”

[34] After referring to and distinguishing the decision of the Supreme Court of Canada in *British Columbia Electric Railway Co. v. British Columbia Public Utilities Commission*, [1960] S.C.R. 837, 33 W.W.R. 97, 82 C.R.T.C. 32, 25 D.L.R. (2d) 689, the commission continued:

The point which seems to be missed is that the commission’s decision of October 17, 1990 must be taken as a whole and should be read and understood as such. It is not a decision on rate of return, followed by decisions at a later time on other matters. The phase-in is an integral part of the finding on just and reasonable rates. The decision as a whole should make it abundantly clear that the commission had concerns about “the nature and quality (of service) furnished by the utility.” The impact on the customers of a large percentage increase suddenly imposed was another example of an “other reason” [s. 65(4)(c)] to which the commission gave due regard in deciding to phase in the increase in three steps. The commission was not prepared to grant an immediate increase in the amount requested by the applicant, but granted instead a modest increase initially and set a target for an allowable rate of return which HVES could work towards, together with suggestions and commentary on how the company might improve its operation.

[35] The commission then turned to the question of “rate shock” and rejected the submission of HVES with respect to the three-year phase-in of the allowed rate increase. It stated its determination as follows:

The *Utilities Commission Act* places a duty upon the commission to balance all the factors which the Act includes as matters for due regard when fixing rates. HVES has emphasized one element, namely, return on the appraised value of the utility’s property in terms of typical costs of money in the financial markets. It refers, in reply to argument by HVES to “the absolute limitation imposed by s. 65(4)(b).” The commission does not accept that any such absolute limitation applies, but is of the view that counsel for HVES, at pp. 4 and 5 [There is an error in Karen Knott’s quote.] has correctly recognized the breadth of the commission’s mandate.

[36] The issue before us, simply stated, is: “was the commission right?”

DISCUSSION

[37] Any discussion of the scope of the commission’s rate-making powers begins, of necessity, with the seminal decision of the Supreme Court of Canada in *British Columbia Electric Railway Co. v. British Columbia Public Utilities Commission*, supra. In that case the Supreme Court had before it a legislative scheme prescribed by the *Public Utilities Act*, R.S.B.C. 1948, c. 277 (the “old Act”) similar to (and here the appellant submits, identical to) the scheme found in the *Utilities Commission Act* (the “new Act”). It will, I think, be convenient to set out side by side the relevant provisions of the two statutes so that their similarities or differences may be readily apparent.

OLD ACT

Interpretation.

2.(1) In this Act ...

“Unjust” and “unreasonable” as applied to rates shall be construed to include respectively injustice and unreasonableness, whether arising from the fact that rates are excessive as being more than a fair and reasonable charge for service of the nature and quality furnished by the public utility, or from the fact that rates are insufficient to yield fair compensation for the service rendered, or arising in any other manner:

16. (1) In fixing any rate

(a) The Commission shall consider all matters which it deems proper as affecting the rate.

(b) The Commission shall have due regard, among other things, to the protection of the public from rates that are excessive as being more than a fair and

NEW ACT

Discrimination in rates

65. (1) A public utility shall not make, demand or receive an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service furnished by it in the Province, or a rate that otherwise contravenes this Act, regulations, orders of the commission or other law.

(2) A public utility shall not, as to rate or service, subject any person or locality, or a particular description of traffic, to an undue prejudice or disadvantage, or extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description, and the commission may, by regulation, declare the circumstances and conditions that are substantially similar.

reasonable charge for services of the nature and quality furnished by the public utility; and to giving to the public utility a fair and reasonable return upon the appraised value of the property of the public utility used, or prudently and reasonably acquired, to enable the public utility to furnish the service.

(c) Where the public utility furnishes more than one class of service, the Commission shall segregate the various kinds of service into distinct classes or categories of service; and for the purpose of fixing the rate to be charged for the service rendered, each distinct class or category of service shall be considered as a self-contained unit, and the rates fixed for each unit shall be such as are considered just and reasonable for that unit without regard to the rates fixed for any other unit. If it is considered by the Lieutenant-Governor in Council that the rates as so determined might be inequitable or contrary to the general public interest, the Lieutenant-Governor in Council may direct that two or more classes or categories of service shall be considered as one unit in fixing the rate.

(3) It is a question of fact, of which the commission is the sole judge, whether a rate is unjust or unreasonable, or whether, in any case, there is undue discrimination, preference, prejudice or disadvantage in respect of a rate or service, or whether a service is offered or furnished under substantially similar circumstances and conditions.

(4) In this section a rate is "unjust" or "unreasonable" if the rate is

(a) more than a fair and reasonable charge for service of the nature and quality furnished by the utility,

(b) insufficient to yield a fair and reasonable compensation for the service rendered by the utility, or a fair and reasonable return on the appraised value of its property, or

(c) unjust and unreasonable for any other reason.

Rates

66. (1) In fixing a rate under this Act or regulations

(a) the commission shall consider all matters that it considers proper and relevant affecting the rate,

(b) the commission shall have due regard, among other things, to the fixing of a rate that is not unjust or unreasonable, within the meaning of section 65, and

(c) where the public utility furnishes more than one class of service, the commission shall segregate the various kinds of service into distinct classes of service; and in fixing a rate to be charged for the particular service rendered, each distinct class of service shall be considered as a self contained

unit, and shall fix a rate for each unit that it considers to be just and reasonable for that unit, without regard to the rates fixed for any other unit.

[38] The facts giving rise to the *British Columbia Electric* case are succinctly set forth in the majority judgment of Martland J. (for himself and Cartwright and Ritchie JJ.) at pp. 850-51 of the report [S.C.R.]:

The appellant and British Columbia Electric Company Limited (together called “the Company”) are related companies and between them own and operate equipment and facilities for the transportation of persons and property by railway, trolley coach and motor buses and for the production, generation and furnishing of gas and electricity, all for the public for compensation.

The Company is regulated by the Public Utilities Commission of British Columbia (called “the Commission”) pursuant to the provisions of the *Public Utilities Act*.

By appraisal the Commission ascertained the value of the property of the Company used, or prudently and reasonably acquired, to enable the Company to furnish its services. The appraisal was made as of December 31, 1942, and since then has been kept up to date. The appraised value is referred to as “the rate base”.

By Order-in-Council No. 1627, approved on July 16, 1948, the Commission was directed to consider the classes or categories of the regulated services of the Company as one unit in fixing the rates.

On September 11, 1952, the Commission after public hearing made “Findings as to Rate of Return” and decided that, “until changed financial and market circumstances convince the Commission that a different rate should be applied, the Commission will in its continuing examination of the Company’s operations apply the rate of 6.5%” on the rate base as a fair and reasonable rate of return for the Company. This decision remains unchanged.

The Company from time to time amended its rate schedules with the consent of the Commission and filed with the Commission schedules showing the rates so established. On April 23, 1958, it applied for the consent of the Commission, under s. 17 of the *Public Utilities Act*, to file amended schedules containing increased rates for its electric service on the Mainland and on Vancouver Island. On July 28, 1958, it also applied for the consent of the Commission to file amended schedules containing increased transit fares for its transit systems in Vancouver and other Mainland areas and in Victoria and surrounding areas.

Public hearings were held by the Commission and it handed down its decision with respect to the electric applications on July 14, 1958, and with respect to the transit applications on October 30, 1958.

Briefly, the decisions of the Commission accepted the proposed rate schedules submitted by the Company, except that it refused to approve the proposed increases in the principal residential electric rates on the Mainland and on Vancouver Island. It directed that those rates be scaled down by approximately 25%. In its decision with respect to electric rates the Commission stated:

“The Commission has therefore consented to the filing to be effective July 15th, 1958, of all the rate schedules submitted by the Company for the Mainland and Vancouver Island, as modified and supplemented by the Company during the course

of the hearings on its application, except the residential rate schedules and Mainland Rate 3035 for industrial users.

“The Commission has decided that the principal residential rate on the Mainland (Schedule 1109) and the principal residential rate on the Island (Schedule 1110 under which the principal divisions are Billing Codes 1110 and 1112) should be adjusted to yield not more than three-quarters of the additional revenue proposed. The adjustment must be applied primarily to reduce sharp changes in impact and lessen disproportionately large percentage increases in the consumption range of 60 KWH to 280 KWH per month. Comparable adjustments must also be made in some of the related special residential rates of lesser importance. Most of the relief would be given to the small residential user.”

At the same time the Commission decided that further increases in the commercial and industrial rates to compensate for this reduction in the proposed residential rates would not be justified.

At p. 849 Martland J. had said:

Pursuant to the provisions of subs. (1) of s. 107 of the *Public Utilities Act* of British Columbia, R.S.B.C. 1948, c. 277, the Public Utilities Commission of that Province stated a case for the opinion of the Court of Appeal of British Columbia. Five questions were submitted for the consideration of the Court, of which the first was as follows:

“(1) (a) Was the Commission right in deciding as appears in the said Reasons for Decision of 14th July, 1958, that no one of the matters and things referred to in clauses (a) and (b) of subsection (1) of Section 16 of the ‘Public Utilities Act’ should as a matter of law be given priority over any other of those matters or things and that, if a conflict arises among these matters or things, it is the Commission’s duty to act to the best of its discretion?

“(b) If the answer to question (1) (a) is ‘No’, what decision should the Commission have reached on the point?”

Question (1)(a) was answered in the affirmative. The appellant, by special leave of this Court, has appealed from that portion of the judgment of the Court of Appeal which comprises the answer given by it to question (1). The other four questions and the answers given to them are not in issue in this appeal.

[39] After summarizing the facts as I have set them out from the judgment of Martland J., his Lordship continued, at pp. 852-53:

In the reasons given for its decision the Commission deals with the effect of clauses (a) and (b) of s. 16(1) and says:

“With great respect, the Commission considers that although for this purpose the statutory duty of the Commission to have due regard to all matters which the Commission deems proper as affecting the rate might without any significant inaccuracy be described as the right of the Commission, and its statutory duty to *have due regard to giving* the utility a fair and reasonable return might without significant inaccuracy be described as the Commission’s *responsibility for giving* the utility a fair and reasonable return, there is nothing in the Act to relieve the Commission in the case now before it from complying with the language of the Act and giving due regard to all those matters to which the legislature has directed the Commission to give due regard in fixing a rate. No one of those matters should, in

the opinion of the Commission, be given as a matter of law priority over any other of those matters and if, as the legislature appears to have thought possible, a conflict arises among those matters, the Commission considers that it is its duty to act to the best of its discretion.”

The Court of Appeal concurred in this view. The judgment of the Court, delivered by Sheppard J.A., refers to this question in the following words:

“A further inquiry is what weight should be given to the matters required to be considered by Sec. 16(1)(b) and particularly to the ‘fair and reasonable return’... Although clauses (a) and (b) of Sec. 16(1) require certain matters to be considered, they do not state what weight is to be assigned by the Commission. Consequently, the Statute requires only that the Commission consider the matters falling within Sec. 16(1)(a), namely, ‘all matters which it deems proper as affecting the rate’ and those falling within Sec. 16(1)(b), namely, ‘the protection of the public’ and ‘a fair and reasonable return’ to the Utility. But the Statute does not require more, and does not require any weight to be given to these matters after they have been considered. Hence the weight to be assigned is outside any statutory requirement and must be a question of fact for the Commission in each instance.”

[40] At p. 854 he observed, “The necessity for giving a public utility fair compensation for the service which it renders appears in the definition of the words ‘unjust’ and ‘unreasonable’ in s. 2(1)” (quoted above).

[41] At pp. 855-57, Martland J. said:

Section 16, the section with which we are concerned in this appeal, also deals with this matter of fairness of rates. In addition, it spells out the method by which a public utility is to obtain fair compensation for its service; i.e., by a fair and reasonable return upon its rate base, which rate base, pursuant to s. 45, the Commission can determine by appraisal.

Section 16 deals with the duties of the Commission in fixing rates. Clause (a) of subs. (1) states that the Commission shall consider all matters which it deems proper as affecting the rate. It confers on the Commission a discretion to determine the matters which it deems proper for consideration and it requires the Commission to consider such matters.

Clause (b) of subs. (1) does not use the word “consider”, which is used in clause (a), but directs that the Commission “shall have due regard”, among other things, to two specific matters. These are:

- (i) The protection of the public from rates that are excessive as being more than a fair and reasonable charge for services of the nature and quality furnished by the public utility; and
- (ii) To giving to the public utility a fair and reasonable return upon the appraised value of its property used or prudently and reasonably acquired to enable the public utility to furnish the service.

As I read them, the combined effect of the two clauses is that the Commission, when dealing with a rate case, has unlimited discretion as to the matters which it may consider as affecting the rate, but that it must, when actually setting the rate, meet the two requirements specifically mentioned in clause (b). It would appear, reading ss. 8, 16 and 20 together, that the Act contemplates these two matters to be of primary importance in the fixing of rates.

In my opinion, therefore, these two factors should be given priority over any other matters which the Commission may consider under clause (a), or any other things to which it shall have due regard under clause (b), when it is fixing any rate.

The second portion of question (1)(a) was as to whether, in case of conflict among the matters and things referred to in clauses (a) and (b) of s. 16(1), it was the Commission's duty to act to the best of its discretion. I have already expressed my view regarding the priority as between those things specifically mentioned in clause (b) and the other matters or things referred to in clauses (a) and (b). This leaves the question as to possible conflict as between the two matters specifically mentioned in clause (b).

Clearly, as between these two matters there is no priority directed by the Act, but there is a duty imposed upon the Commission to have due regard to both of them. The rate to be imposed shall be neither excessive for the service nor insufficient to provide a fair return on the rate base. There must be a balancing of interests. In my view, however, if a public utility is providing an adequate and efficient service (as it is required to do by s. 5 of the Act), without incurring unnecessary, unreasonable or excessive costs in so doing, I cannot see how a schedule of rates, which, overall, yields less revenue than would be required to provide that rate of return on its rate base which the Commission has determined to be fair and reasonable, can be considered, overall, as being excessive. It may be that within the schedule certain rates may operate unfairly, relatively, as between different classes of service or different classes of consumers. If so, the Commission has the duty to prevent such discrimination. But this can be accomplished by adjustments of the relative impact of the various rates in the schedule without having to reduce the total revenues which the whole schedule of rates is designed to produce.

He then answered the question posed as follows:

Accordingly, it is my opinion that the answer to question (1)(a) should be "No". My answer to question (1)(b) would be that the Commission, in priority to any other matters which it may deem proper to consider under clause (a) and any of the other things referred to in clause (b) of s. 16(1), should have due regard to the two matters specifically mentioned in clause (b). In the present case, having decided that certain of the rates proposed by the appellant would impose an unreasonable burden upon certain classes of consumers, the Commission should permit the Company to submit alternative schedules of rates, which, while yielding approximately the same overall revenues, would eliminate the comparatively excessive impact of those classes of rates to which the Commission objected, until a rate schedule is devised which meets the requirements of clause (b) of s. 16(1).

[42] Locke J. delivered a separate concurring judgment in which, as appears at p. 849 of the report, he agreed specifically with the answer to the second part of the question proposed by Martland J.

[43] Both Mr. Sanderson for the appellant and Mr. Foy for the respondent Attorney General of British Columbia relied heavily upon the decision in the *British Columbia Electric* case, each asserting that it supported their opposing points of view.

[44] Mr. Foy firstly drew attention to the passage in the judgment of Martland J. at pp. 855-56 where that learned judge focused on the fact that, in s. 16 of the old Act, cl. (b) of

subs. (1) does not use the word “consider,” which is used in cl. (a), but directs that the commission “shall have due regard,” among other things, to two specific matters. He then pointed to the fact that, by virtue of the wording and structure of ss. 66(1)(b) and 65(4), and particularly by s. 65(4)(c), of the new Act, a third matter, namely, that a rate may be “unjust and unreasonable for any other reason,” has been elevated to being not merely one of the matters which the commission “considers proper and relevant affecting the rate” (its mandate under s. 66(1)(a)), but to one of the now three (formerly only two) specific matters to which the commission is directed to “have due regard.” Mr. Foy then referred to the statement of Martland J. at p. 856 that “there must be a balancing of interests.” From this he argued that the commission, in directing the three-year phase-in of the rate adjustment to ameliorate the rate shock, was simply “balancing” the interests of HVES on the one hand and its customers on the other, and contended that, in so doing, it was correctly applying the law which prescribes its mandate. It was entitled to what it did, he said, because the commission had concerns about “the nature and quality of service furnished by the utility.”

[45] Mr. Foy argued that to accede to the position of HVES would be to accord to one of the specific matters to which the commission must have due regard (the matter referred to in s. 65(4)(b)) a priority over the other two, something which cannot be done.

[46] Mr. Sanderson submitted that once the commission had settled the content of the rate base and determined a rate of return which is both just and reasonable, it cannot fix a schedule of rates which yields less revenue than would be required to provide that rate of return on its rate base. In this respect he relied upon what Martland J. said at p. 856 (above). He also referred at length to the judgment of Locke J. and drew attention firstly to this passage at p. 841:

The real question might have been stated more clearly had it asked whether as a matter of law a duty rested upon the Commission to approve rates which would produce for the appellant a fair and reasonable return upon the appraised value of the property used or prudently and reasonably acquired by it to enable it to furnish the service described in the Act when the fact as to what constituted a fair return had previously been determined by the Commission. This is the matter to be determined.

[47] Locke J., in his reasons commencing at p. 841, reviewed the legislative history of the old Act and of its predecessor, the *Water Act Amendment Act*, S.B.C. 1929, c. 67, American regulatory jurisprudence, and the common law and said at p. 846:

In my opinion the true meaning of the relevant sections of the *Public Utilities Act* is that a utility is given a statutory right to the approval of rates which will afford to it fair

compensation for the services rendered and that the quantum of that compensation is to be a fair and reasonable rate of return upon the appraised value of the property of the company referred to in s. 16(1)(b).

[48] Locke J. continued at p. 847:

Rates that fail to yield fair compensation for the service rendered are declared by s. 2 to be unjust and unreasonable as they were by s. 2 of the *Water Act Amendment Act* of 1929. The Commission is directed by s. 16(1)(b) to have due regard to fixing a rate which will give to the utility a fair and reasonable return upon the appraised value of its property used or prudently and reasonably acquired to enable it to furnish the service. It is the inclusion of the expression “shall have due regard” which has led the Commission and the Court of Appeal to conclude that this means that allowing a fair return upon the appraised value is simply one of the matters to be considered by the Commission in fixing the rate. Clearly no such interpretation could have been placed upon this expression under the provisions of the *Water Act* in view of the express provisions of s. 141C, and with great respect I think no such interpretation should be given to it in the present statute,

And at pp. 847-48:

I can find nothing in this legislation indicating an intention on the part of the Legislature to empower the Commission to deprive the utility of its common law right to be paid fair compensation for the varying services rendered or to depart from the declared intention of the Legislature in the *Water Act Amendment Act* that such companies upon whom these obligations are imposed are entitled to have the quantum of such fair compensation determined as a fair return upon the appraised value of the properties required,

And finally, at p. 848:

The obligation to approve rates which will produce the fair return to which the utility has been found entitled is, in my opinion, absolute, which does not mean that the obligation of the Commission to have due regard to the protection of the public, as required by s. 16(1)(b), is not to be discharged. It is not a question of considering priorities between “the matters and things referred to in Clauses (a) and (b) of subsection (1) of s. 16”. The Commission is directed by s. 16(1)(a) to consider all matters which it deems proper as affecting the rate but that consideration is to be given in the light of the fact that the obligation to approve rates which will give a fair and reasonable return is absolute.

[49] Mr. Sanderson accepted that the commission is required to have due regard to what is referred to in s. 65(4)(c) but submitted that, in directing the three-year phase-in of the rate adjustment with no offsetting provision to permit HVES to obtain sufficient revenue to recover the shortfall, the commission has committed the very sin which Mr. Foy charges against the utility, namely, that instead of having due regard – and giving effect – to the three specific matters set out in s. 65(4), it has accorded priority to either s. 65(4)(a) or (c) and relegated s. 65(4)(b) to simply “a matter to be considered.”

[50] Mr. Sanderson contended that if the commission was properly concerned to ameliorate the rate shock of a sharp rise in rates to be charged it could do so but only if, at the same time, it directed the filing of rate schedules which, over a reasonable period of time, would provide sufficient revenues to enable the utility to catch up and recover the shortfall. HVES, he said, is entitled to be made whole by the standards, in terms of the rate base and allowable rate of return thereon, which the commission itself fixed. It is only in this way that the commission can properly discharge its mandate and comply with the direction to have due regard to all the matters referred to in s. 65(4) without according priority to one or another of them.

[51] The addition of s. 65(4)(c) in the Act, however, is not an *alternative* to s. 65(4)(a) and (b), but rather is an *additional* basis on which rates may be found to be unjust and unreasonable. Accordingly, while rates may be unjust or unreasonable for reasons other than those set out in s. 65(4)(a) and (b), it remains the law that if a rate is insufficient to yield a fair and reasonable return on rate base, it is necessarily “unjust and unreasonable” within the meaning of s. 65(4)(b).

[52] Mr. Sanderson’s submissions continued as follows:

[53] A distinction has been drawn in the case law between regulatory systems which afford the administrative tribunal an unfettered discretion to fix rates and those which provide the tribunal with specific statutory directions as to how these rates are to be fixed: see *British Columbia Hydro & Power Authority v. Westcoast Transmission Co.*, [1981] 2 F.C. 646, 36 N.R. 33 (C.A.).

[54] The current *Utilities Commission Act* is an example of the latter. Sections 65(4)(b) and 66(1)(b) amount to a statutory direction as to how the commission is to determine a just and reasonable rate. If, as posited by Martland J., a public utility is providing an adequate and efficient service, the statute is clear: a rate is unjust or unreasonable if it fails to yield a just and reasonable return on rate base. Here, while there may be room for improvement, the commission’s recommendations with respect to quality of service referred to above are calculated to achieve what is desired. Accordingly, the commission has no discretion to fix rates which do not permit recovery of that return.

[55] The virtually identical nature of the relevant provisions of the old Act and the new Act compel the conclusion that pursuant to the new Act, HVES is similarly given a statutory right to the approval of rates which will afford it the opportunity to earn a fair and

reasonable rate of return upon the appraised value of its property. Commission O. G-77-90 denies HVES that opportunity.

[56] In my view Mr. Sanderson's submissions are sound and must be accepted.

[57] The *Utilities Commission Act* empowers the commission to determine what is a fair and reasonable rate of return upon the appraised value of the property of regulated utilities, but, having done so, requires the commission to set rates so as to allow recovery of a rate which permits an opportunity to earn that return. In this case, the commission correctly exercised its discretion to determine what a just and reasonable return was, but wrongly failed to permit HVES to charge a rate which gave it an opportunity to earn that return. For this reason, it is my view that commission O. G-77-90 cannot stand, and that O. G-I 1-91 must fall with it.

[58] With respect to Mr. Foy's able and forceful submissions they are, in my view, flawed, and for these reasons.

[59] Firstly, in directing the three-year phase-in, the commission was not balancing interests or, if it was purporting to do, it acted improperly. The proper balancing of interests which the commission carried out was done and completed when it settled the rate base, fixed the rate of return and determined the costs of operation allowable for rate-making purposes. It must be remembered that the rate base itself was the subject of much contention at the public hearing and that only after the commission had considered alternative calculations for rate base did it decide to accept HVES' evidence in this regard. It must be remembered as well that HVES had proposed a rate of return of 13 per cent on the debt component and 15 per cent on the equity component of the rate base. The commission denied HVES' request and fixed 13 per cent as the just and reasonable rate of return on both components. In addition, as can be seen from sheet 5 of the Appendix to these reasons, the commission made substantial downward adjustments to many of HVES' estimates of its costs of operation.

[60] This is the balancing of interests which the commission carried out in performing its function. HVES has accepted the commission's decision in these respects. None are the subject of this appeal. Once this balancing of interests had been performed, it was the commission's duty to have due regard to the factors referred to in s. 65(4).

[61] Secondly, I cannot accept Mr. Foy's contention that the three-year phase-in was the result of the commission's expressed concern over the quality of service. The analysis I

have made of the original decision and of the reconsideration decision in my view refutes this contention. Alternatively, if in fact the commission decreed the three-year phase-in for this suggested reason it was wrong in law in doing so for it gave an unwarranted priority to one or another of the matters set out in s. 65(4) at the sacrifice of s. 65(4)(b).

[62] Thirdly, Mr. Foy submitted that “rate shock” is a recognized phenomenon which has attracted a number of rate moderation plans, including rate base phase-ins, in the utility regulation field, and he referred to the following authorities: Bonbright, Daniels and Kamerschen, *Principles of Public Utility Rates* (1988), pp. 260-64; D. Scotto, “Post-Operational Phase-in of Utility Plant: Prolonging the Inevitable” (1983), 112 *Public Utilities Fortnightly*, September 1, pp. 28-34; I.M. Massella, “Rate Moderation Plans – Cushioning ‘Rate Shock’ “ (1984), 113 *Public Utilities Fortnightly*, February 16, pp. 52-56; *Re California-Pacific Utilities Co.*, 52 P.U.R. 3d 446 (1964); and *Re Pacific Telephone & Telegraph Co.*, 65 P.U.R. 3d 517 (1966).

[63] The underlying principle of this theory of gradualism in the implementation of new rate schedules is perhaps best explained in the article by Scotto, “Post-Operational Phase-in of Utility Plant: Prolonging the Inevitable.” There the author wrote at p. 28:

In 1982 two new terms were added to the electric utility industry’s lexicon: “rate shock” and “phase-in.” Rate shock refers to a sudden and “substantial” increase in electric rates. The concept can be illusive because the demarcation between “substantial” and “nonsubstantial” rate increases is usually a function of local political and economic sensitivities rather than a definitive, universal percentage increase. However, a 50 per cent jolt in rates would generally be considered substantial – well beyond the tolerance levels of most state commissions and ratepayers. Increases in the 20 per cent to 30 per cent vicinity, though, are more ambiguous. Rate shock is really a manifestation of the dollar disparity between rate base and new generating plant investment – the construction work in progress (CWIP) account. For a number of utilities the CWIP to net plant ratio can exceed 100 per cent, necessitating a high revenue increase – a rate shock – to reflect the plan in rate base upon commercial operation. As an alternative to the conventional one-shot hike in rates, new rate-making techniques have been proposed which are designed to spread the revenue impact of new plan investment into the postoperative years – hence, the term “phase-in”.

Post-operational phase-in can be accomplished in a variety of ways, most of which rely on accounting adjustments to protect the integrity of reported earnings. *The basic thesis in each case is the same: Capital recovery is spread over the asset’s useful life with no economic loss (at least in theory) to the utility,* (emphasis added)

[64] It can be seen that the purpose of “phase-in” is two-fold: to ameliorate the shock of suddenly imposed significant rate increases and, at the same time, to protect the integrity of the utility’s earnings. As the title to Mr. Scotto’s article itself indicates, it is merely “prolonging the inevitable.”

[65] The two regulatory decisions, *Re California-Pacific Utilities Co.*, decided in 1964, and *Re Pacific Telephone & Telegraph Co.*, decided in 1966, appear to be out of step with the main stream of American regulatory jurisprudence for, like the decision of the commission under consideration here, they did not provide for any catch up so that the utility could, over time, realize its authorized rate of return. I cannot regard them as binding or even persuasive.

[66] The power of the commission to phase in rates was perhaps presaged by Martland J. in the penultimate paragraph in his judgment in the *British Columbia Electric* case, where he said at p. 857:

... the Commission should permit the Company to submit alternative schedules of rates, which, while yielding approximately the same overall revenues, would eliminate the comparatively excessive impact of those classes of rates to which the Commission objected, *until a rate schedule is devised which meets the requirements of clause (b) of s. 16(1)*. (emphasis added)

[67] What the commission did here fails to meet the requirements of the legislation.

DISPOSITION

[68] In Pt. 4 of its factum, under the heading "Nature of Order Sought," the appellant seeks an order that:

- (a) the decision of the British Columbia Utilities Commission, dated January 30, 1991 be quashed;
- (b) that portion of the decision of the British Columbia Utilities Commission, dated October 17, 1990 requiring rates to be phased in and directing a refund be quashed;
- (c) the British Columbia Utilities Commission be directed to order HVES to file new tariff schedules permitting it to recover 13% on rate base from July 1, 1990;
- (d) monies held by Lawson, Lundell, Lawson & McIntosh pursuant to the order of Mr. Justice Toy of March 7, 1990 be paid to HVES;
- (e) costs; and
- (f) such further relief as to this Honourable Court may seem just.

[69] I think the proper course for this court to adopt is to allow this appeal and to refer the matter back to the commission with the direction that it permit, or require, HVES to file new tariff schedules which will enable it to earn 13 per cent on its determined rate base from July 1, 1990.

[70] If the commission considers it necessary or appropriate to ameliorate rate shock by directing the phasing in of such revised rates, it shall do so in a way which meets the requirements of s. 65(4) as set out in these reasons.

[71] It will be for the commission to make an order for the appropriate disposition of the funds referred to in para. (d) above.

[72] Section 118 of the Act exempts the commission from any liability for the costs of this appeal. I do not think it appropriate to order that the Attorney General, and thereby the general public, bear those costs. However, I note from para. 5.3 of the original decision and from sheet 3 of the Appendix that provision was made for the recovery, through the rates to be charged, of the sum of \$35,000 for HVES' rate application costs before the commission.

[73] Accordingly, I would direct that, failing agreement between the parties, HVES tax its costs for fees and disbursements of and incidental to this appeal and that the amount so determined be included in the rate application costs in the schedule.

Order accordingly.

HEMLOCK VALLEY ELECTRICAL SERVICES LTD.

UTILITY RATE BASE SCHEDULE 1		TEST YEAR APPLICATION	BCUC ADJUSTMENT	NO.	TEST YEAR ADJUSTED
ASSETS					
Structures and improvements		\$5,560			\$5,560
Overhead conductors and devices		44,891			44,891
UG Conductors and devices		479,504			479,504
Line transformers		90,693			90,693
PLANT IN SERVICE, opening		\$620,648	\$0		\$620,648
Additions to plant in service		0			0
Disposals		0			0
PLANT IN SERVICE, closing		620,648	0		620,648
Add: Work in progress		0			0
Less:		620,648	0		620,648
Accumulated Depreciation		(178,677)			(178,677)
NET PLANT IN SERVICE		441,971	0		441,971
WORKING CAPITAL ALLOWANCE		0			0
RATE HEARING COSTS		0			0
CONTRIBUTIONS IN AID		(75,460)			(75,460)
UTILITY RATE BASE		\$366,511	\$0		\$366,511
RETURN ON RATE BASE		14.01%	-1.01%		13.00%

HEMLOCK VALLEY ELECTRICAL SERVICES LTD.

UTILITY INCOME & RETURN SCHEDULE 2		TEST YEAR APPLICATION	BCUC ADJUSTMENT	NO.	TEST YEAR ADJUSTED
SALES VOLUME MWh		2,047			2,047
RATES					
Existing Revenue: ¢/kWh		8.65	0.00		8.65
Interim Increase %		42.77%	0.00%		42.77%
Final Increase %		84.62%			43.54%
First year phase-in: ¢/KWh			1.51		1.51
Second year phase-in: ¢/kWh			1.51		1.51
Third year phase-in: ¢/kWh			0.75		0.75
Final Rate: ¢/kWh		15.97	-3.55		12.42
Interim Rate		12.35			
REVENUE					
Existing Rates		\$177,066	\$0		\$177,066
Interim Rates		75,739			75,739
Required Increase		74,101	(72,740)		1,361
Discounts		0			0
Other Income		0			0
TOTAL REVENUE		326,906	(72,740)		254,166
Less: PURCHASED POWER		125,500	(15,371)	[1]	110,129
GROSS MARGIN		201,406	(57,369)		144,037
% excluding Other Income		61.61%	-4.94%		56.67%

Administration, Accounting and Office		68,300	(25,300)	[2]	43,000
UTILITY INCOME & RETURN SCHEDULE 2		TEST YEAR APPLICATION	BCUC ADJUSTMENT	NO.	TEST YEAR ADJUSTED
Repairs, Maintenance and Vehicle		31,000	(11,000)	[3]	20,000
Snow Removal		18,000	(18,000)	[4]	0
Depreciation		15,065			15,065
Amortization of Rate Application		10,000	1,667	[6]	11,667
OPERATING EXPENSES		142,365	(52,633)		89,732
Utility income before tax		59,041	(4,735)		54,306
INCOME TAX EXPENSE		7,693	(1,035)		6,658
EARNED RETURN		\$51,348	(\$3,700)		\$47,648
RETURN ON RATE BASE		14.01%	-1.01%		13.00%

HEMLOCK VALLEY ELECTRICAL SERVICES LTD.

INCOME TAXES SCHEDULE 3		TEST YEAR PPLICATION	BCUC ADJUSTMENT	NO.	TEST YEAR DJUSTED
UTILITY INCOME BEFORE TAX		\$59,041	(\$4,735)		\$54,306
Deduct – Interest		(23,823)	0		(23,823)
ACCOUNTING INCOME		35,218	(4,735)		30,482
Timing differences Depreciation		15,065	0		15,065
Amort, of hearing costs		10,000	1,667	[6]	11,667
Amortization of Line Costs		0			0
Capital cost allowance		(15,065)			(15,065)
Amort, of contributions					0
Overhead capitalized					0
Plant removal costs					0
Rate application costs		(30,000)	(5,000)	[6]	(35,000)
		(20,000)	(3,333)		(23,333)
TAXABLE INCOME		\$15,218	(\$8,069)		\$7,149
Income tax rate – deferred		21.84%	0.00%		21.84%
Income tax rate – current		21.84%	0.00%		21.84%
Income tax expense					
– Deferred		\$4,369	\$728		\$5,097
– Current		3,324	(1,762)		1,561
INCOME TAX EXPENSE		\$7,693	(\$1,034)		\$6,658
		=====	=====		=====

HEMLOCK VALLEY ELECTRICAL SERVICES LTD.

RETURN ON CAPITAL SCHEDULE 4		TEST YEAR APPLICATION	BCUC ADJUSTMENT	NO.	TEST YEAR ADJUSTED
Contribution in Aid		\$0	\$0		\$0
proportion		.00%	0.00%		.00%
Capital Loan		\$0	\$0		\$0
proportion		.00%	0.00%		.00%
embedded cost		.00%	0.00%		.00%
\$ return		\$0	\$0		\$0
Current Debt		\$0	\$0		\$0
proportion		.00%	0.00%		.00%
embedded cost		.00%	0.00%		.00%
\$ return		\$0	\$0		\$0
Notional debt		\$183,256	\$0		\$183,256
proportion		50.00%	\$0		50.00%
embedded cost		13.00%	0.00%		13.00%
\$ return		\$23,823	\$0		\$23,823
Preferred shares		\$0	\$0		\$0
proportion		.00%	0.00%		.00%
embedded costs		.00%	0.00%		.00%
\$ return		\$0	\$0		\$0
Common equity		\$183,256	\$0		\$183,256
proportion		50.00%	0.00%		50.00%
ROE		15.02%	-2.02%	[5]	13.00%

\$ return		\$27,525	(\$3,700)	\$23,824
TOTAL CAPITAL		\$366,511	\$0	\$366,511

HEMLOCK VALLEY ELECTRICAL SERVICES LTD.

ADJUSTMENTS			
1. \$15,371	Adjust BC Hydro charges for error in Application		
2. \$25,300	Adjust Administration, Accounting and Office expenses to approved amount.		
3. \$11,00	Adjust Repair and Maintenance expenses to approved amount.		
4. \$18,000	Eliminate Snow Removal expenses.		
5. 2.02%	Adjust return on equity to 13%		
6. \$5,000	Adjust Rate Hearing costs.		
	Rate Increase Phase-in consists of:		
		<u>Application</u>	<u>Final</u>
	Purchased Hydro	6.13	5.38
	Operating expenses	6.22	3.65
	Rate Base costs	3.62	1.13
		-----	-----
	Total	15.97	12.42
			% Increase
			17.42

Case Name:

Transcanada Pipelines Ltd. v. Canada (National Energy Board)

Between

**Transcanada Pipelines Limited, appellant, and
The National Energy Board, Canadian Association of
Petroleum Producers, Centra Gas Manitoba Inc., Coral
Energy Canada Inc., Industrial Gas Users Association,
Mirant Canada Energy Marketing, Ltd. and Ontario
Minister of Energy, respondents**

[2004] F.C.J. No. 654

[2004] A.C.F. no 654

2004 FCA 149

2004 CAF 149

319 N.R. 171

130 A.C.W.S. (3d) 1044

Docket A-327-03

Federal Court of Appeal
Toronto, Ontario

Rothstein, Noël and Sharlow JJ.A.

Heard: February 16, 2004.

Judgment: April 5, 2004.

(60 paras.)

Administrative law -- Judicial review and statutory appeal -- Standard of review -- Administrative powers or functions -- Discretionary powers -- Fettering of -- Commercial law -- Consumer protection -- Natural resources law -- Oil and gas -- Pipelines.

Appeal by Transcanada Pipelines from a decision of the National Energy Board rejecting its proposal to review and change the rate it was permitted to charge for natural gas. The tolls which the Board allowed Transcanada to charge its customers were designed to generate sufficient revenue to recover approved costs while at the same time fairly allocat-

ing charges to users in relation to the costs and benefits of different services. Transcanada argued that the Board erred, first, in taking customer interests into account in determining the rate of return on capital it allowed the natural gas transmission system to earn, and second, in fettering its discretion by refusing to depart from the automatic adjustment formula in establishing the rate of return on equity.

HELD: Appeal dismissed. The Board did not err in law in taking into account customer interests in the determination of the rate of return. The Board was not required to use a specific methodology, but only to ensure that all tolls were just and reasonable from the point of view of both Transcanada and its customers. The cost of service method applied provided compensation to Transcanada through tolls for its prudently incurred costs, including its cost of capital and its cost of equity capital. While the impact on customers should not be considered in determining the rate of return on equity because this component of the deemed capital structure was unaffected by the impact of tolls on customers, Transcanada did not establish that the Board took that factor into account for the equity determination. The impact on customers could be a factor in the determination of the cost of equity capital if any resulting increase in tolls was so significant that it would lead to rate shock if implemented all at once, but this did not occur here. There was no fettering of discretion by the use of the automatic adjustment formula for determining the cost of equity capital. The Board had considered Transcanada's alternative proposal, but decided the automatic adjustment formula remained valid.

Statutes, Regulations and Rules Cited:

National Energy Board Act, R.S.C. 1985, c. --7, ss. 21(1), 22, 22(2)(b)(i), 23(1), 60(1), 62.

National Energy Board Rules of Practice and Procedure, 1995, SOR/95-208, ss. 44, 44(2).

Counsel:

Alan J. Lenczner, Risa M. Kirshblum and Wendy Moreland, for the applicant.

Margery Fowke, for the respondent, National Energy Board.

John J. Marshall, Q.C., and Don Davies, for the respondent, Canadian Association of Petroleum Producers.

Alan Mark, for the respondent, Coral Energy Inc.

Peter C.P. Thompson, Q.C., and Vincent J. DeRose, for the respondent, Industrial Gas Users Association.

Keith F. Miller, for the respondent, Mirant Energy Marketing Canada Inc.

John Turcni and Sara Blake, for the respondent, Ontario Minister of Energy.

The judgment of the Court was delivered by

ROTHSTEIN J.A.:--

INTRODUCTION

1 This is an appeal from a February 2003 decision of the National Energy Board (RH-R-1-2002), pursuant to leave granted by this Court under section 22 of the National Energy Board Act, R.S.C. 1985, c. --7.

2 There are two issues in the appeal. The first is whether the National Energy Board ("Board") erred in taking customer or consumer interests into account in determining the rate of return on capital it would allow the appellant's Canadian Mainline natural gas transmission system ("the Mainline") to earn. The second is whether the Board erred by fettering its discretion by refusing to depart from an automatic adjustment mechanism it had used to establish the Mainline's rate of return on equity.

3 In order to understand the issues under appeal, it is first necessary to provide some background and the procedural history leading to the February 2003 decision.

BACKGROUND

4 The National Energy Board regulates interprovincial natural gas transmission pipelines. The Mainline is considered a Group 1 pipeline by the Board. Group 1 pipelines are major pipelines which are audited by the Board on a regular basis and whose operating results are continuously monitored by the Board.

5 The tolls charged for transporting natural gas on the Mainline are regulated by the Board on a cost of service basis. That means that for a future period, referred to as a "test" year, the Board, based on the evidence before it, estimates the costs to be incurred by the Mainline. The tolls which the Board allows the Mainline to charge its customers are designed to generate sufficient revenue to recover these approved costs while at the same time fairly allocating charges to users in relation to the costs and benefits of different services. Included in the cost of service, and indeed, the largest single component of the Mainline's costs, is the Mainline's cost of capital.

6 The cost of capital to a utility is equivalent to the aggregate return on investment investors require in order to keep their capital invested in the utility and to invest new capital in the utility. That return will be made in the form of interest on debt and dividends and capital appreciation on equity. Usually, that return is expressed as the rate of return investors require on their debt or equity investments.

7 The rate of return on debt is not usually controversial. It normally consists of the weighted average interest rate for the test year on the utility's outstanding long-term debt. On the other hand, the rate of return on equity is often the subject of controversy and of much debate by expert witnesses.

8 Unlike debt, where the interest rate payable is directly observable, the rate of return on equity cannot be accurately determined in advance. There are various methods experts use to estimate the rate of return on equity required by investors. The one adopted by the Board is an Equity Risk Premium methodology whereby the Board estimates a risk-free rate based on government bond rates and adds a risk premium to account for the risk associated with equity investment in a "benchmark" pipeline.

9 Once the separate rates of return on debt and equity are established, they are consolidated into a composite rate of return on capital, based on the relative amounts of debt and equity in the utility's capital structure. In order to account for varying levels of risk between pipelines, the Board constructs for each pipeline a capital structure, i.e. the relative portions of debt and equity capital needed to finance its prudently acquired assets plus its working capital, on the basis of expert evidence. The greater the risk attributed to each pipeline, the greater the required equity component of its capital structure. That is because bond investors, who are more risk averse than equity investors, will not lend funds to an enterprise unless there is sufficient equity capital invested in the enterprise to give them confidence that they will be able to recover their investment from the assets of the enterprise in the event of default.

10 For example, if the required rate of return on debt is 5%, the required rate of return on equity is 10% and the utility's capital structure, as determined by the Board, consists of 60% debt and 40% equity, the composite rate of return on capital would be $5\% \times 0.60 + 10\% \times 0.40 = 7\%$.

11 The composite rate of return on capital is then multiplied by a rate base which consists of the Board's determination, according to its accounting regulations, of the net book value of the utility's prudently acquired assets plus its working capital. Multiplying the rate of return required by investors by this rate base gives the total dollar amount of return required by investors. The product is equivalent to the utility's estimated cost of capital for the test year. That cost is added to all other costs to get the utility's total cost of service. The total is then allocated amongst the utility's customers.

12 Even though cost of capital may be more difficult to estimate than some other costs, it is a real cost that the utility must be able to recover through its revenues. If the Board does not permit the utility to recover its cost of capital, the utility will be unable to raise new capital or engage in refinancing as it will be unable to offer investors the same rate of return as other investments of similar risk. As well, existing shareholders will insist that retained earnings not be reinvested in the utility.

13 In the long run, unless a regulated enterprise is allowed to earn its cost of capital, both debt and equity, it will be unable to expand its operations or even maintain existing ones. Eventually, it will go out of business. This will harm not only its shareholders, but also the customers it will no longer be able to service. The impact on customers and ultimately consumers will be even more significant where there is insufficient competition in the market to provide adequate alternative service.

PROCEDURAL HISTORY

14 In 1994, the Board conducted a public hearing into the cost of capital of certain Group 1 pipelines including the Mainline. The purpose of the hearing was to fix the cost of capital for those pipelines for the period commencing January 1, 1995, and to establish, if possible, an automatic mechanism to adjust the rate of return on equity in the future in order to avoid the expense of litigating annual or biennial changes to the rate of return on equity.

15 As a result of that proceeding, the Board issued reasons for decision (RH-2-94) in March 1995 fixing the Mainline's return on equity for the 1995 test year at 12.25% based on a deemed capital structure of 70% debt and 30% equity. The Board's deemed capital structure did not provide for any explicit preferred share capital. Therefore, all references to equity refer to common equity.

16 The Board also established an adjustment mechanism by which the rate of return on equity would be adjusted on January 1 in 1996 and each subsequent calendar year. This mechanism was based upon the Equity Risk Premium methodology whereby:

1. a risk free (Government of Canada) bond yield forecast would be forecasted for the forthcoming year;
2. this bond yield forecast would be deducted from the bond yield forecast of the immediately preceding year;
3. this difference would be multiplied by a factor of 0.75 to determine the adjustment to the rate of return on equity;
4. the product derived in step 3 would be added to or deducted from the rate of return on equity determined by the Board for the preceding year;
5. the sum resulting from step 4 would be rounded to the nearest 25 basis points (1/100th of a percent).

17 The Mainline's rate of return on equity was adjusted according to this formula in 1996 and subsequent years, although in 1997, the Board abandoned the rounding adjustment, i.e. step 5 above.

18 By 2001, the appellant had concluded that application of the formula was understating its required rate of return on capital. Therefore, the appellant applied, pursuant to subsection 21(1) of the National Energy Board Act, for "review and variance of the [1995 decision] to allow for the determination of a fair return for TransCanada for the years 2001 and 2002." Subsection 21(1) provides:

21. (1) Subject to subsection (2), the Board may review, vary or rescind any decision or order made by it or rehear any application before deciding it.

* * *

21. (1) Sous réserve du paragraphe (2), l'Office peut réviser, annuler ou modifier ses ordonnances ou décisions, ou procéder à une nouvelle audition avant de statuer sur une demande.

19 The appellant submitted that the Board should approve a new methodology for determining the Mainline's cost of capital -- the After-Tax Weighted-Average Cost of Capital (ATWACC) methodology. Alternatively, if the ATWACC methodology was not accepted, the appellant submitted that the required rate of return on equity for the Mainline should be 12.5% for 2001 and 2002 and that based on its risk, the deemed equity component of the Mainline's capital structure should be increased to 40%.

20 As a result of the appellant's submissions, the Board conducted a hearing in February, March and April 2002. The issues at the hearing were:

1. Is the Rate of Return on Common Equity (ROE) formula, established by the Board in its RH-2-94 Decision, still appropriate for determining TransCanada's ROE?
2. Is the After Tax Weighted-Average Cost of Capital (ATWACC) methodology an appropriate regulatory approach to determining cost of capital?
3. In the event the Board decides to adopt the ATWACC methodology, what is the appropriate ATWACC for TransCanada?
4. In the event the Board declines to adopt the ATWACC methodology and it is determined that the ROE formula is no longer suitable:
 - a) What would be an appropriate methodology for determining return on capital and capital structure for TransCanada?
 - b) In applying the above-determined methodology, what would be an appropriate return on capital and capital structure for TransCanada?

5. What is the appropriate effective date for changes to TransCanada's cost of capital? (RH-4-2001 at 4).

21 By reasons for decision (RH-4-2001) dated June 2002, the Board:

1. rejected the appellant's ATWACC proposal;
2. determined that the rate of return on equity for the Mainline should continue to be based on the adjustment formula established in its 1995 decision; and
3. increased the deemed equity component of the Mainline's capital structure from 30% to 33% to account for increased business risk.

22 By application to the Board dated September 16, 2002, the appellant applied for a review and variance of the 2002 decision. This application was also made pursuant to subsection 21(1).

23 Section 44 of the National Energy Board Rules of Practice and Procedure, 1995, SOR/95-208 sets out the requirements for a review application. Subsection 44(2) provides:

44 (2) An application for review or rehearing shall contain

...

- (b) the grounds that the applicant considers sufficient, in the case of an application for review, to raise a doubt as to the correctness of the decision or order ... including

- (i) any error of law or of jurisdiction,

...

* * *

- (2) La demande de révision ou de nouvelle audition contient les éléments suivants :

...

- b) les motifs que le demandeur juge suffisants pour mettre en doute le bien-fondé de la décision ou de l'ordonnance, s'il s'agit d'une demande de révision, ... notamment :

- (i) une erreur de droit ou de compétence,

...

24 In its decision on the review & variance application (RH-R-1-2002), dated February 2003, the Board found that the appellant had not raised a doubt as to the correctness of its 2002 decision and dismissed the application for review and variance.

25 The appellant was granted leave to appeal the Board's 2003 decision to this Court.

ANALYSIS

1. Standard of Review and Approach to the Decision Being Appealed

26 In view of my conclusion that the appeal should be dismissed, it is not necessary to conduct an extensive standard of review analysis. Even on the most intrusive standard of review (correctness), it has not been demonstrated that the Board erred in law.

27 There is also a question of the extent to which the Court should consider the Board's 2002 decision, which itself was not appealed. Normally, the Court is to restrict itself to a consideration of the decision under appeal. However, when the question is whether the Board erred or came to an unreasonable or patently unreasonable result in finding in its 2003 decision that the appellant had not raised a doubt as to the correctness of the prior 2002 decision, it is necessary

to have regard, at least to some extent, to that prior decision. Rather than becoming bogged down into the intricacies of the scope of the Court's review, I am satisfied, even on an unrestricted consideration of both the 2002 and 2003 decisions, that the Board made no error of law in either case.

2. Did the Board err in considering customer or consumer interests in determining the Mainline's rate of return on capital?

28 As a preliminary point, the appellant drew a distinction between its customers and the ultimate consumers. For purposes of this decision, such a distinction is immaterial. The appellant's position is that the Mainline's return on capital should be determined solely from the perspective of the Mainline, without considering other interests, whether they be direct customers or ultimate consumers.

- a) The Board is not required to adopt any specific methodology in determining tolls.

29 The National Energy Board Act contains no provisions or directions which require the Board to determine a pipeline's rate of return on capital. The Act only requires that "all tolls be just and reasonable." Subsections 60(1) and section 62 provide:

60. (1) A company shall not charge any tolls except tolls that are
 - (a) specified in a tariff that has been filed with the Board and is in effect; or
 - (b) approved by an order of the Board.
62. All tolls shall be just and reasonable, and shall always, under substantially similar circumstances and conditions with respect to all traffic of the same description carried over the same route, be charged equally to all persons at the same rate.

* * *

60. (1) Les seuls droits qu'une compagnie peut imposer sont ceux qui sont :
 - a) soit spécifiés dans un tarif produit auprès de l'Office et en vigueur;
 - b) soit approuvés par ordonnance de l'Office.
62. Tous les droits doivent être justes et raisonnables et, dans des circonstances et conditions essentiellement similaires, être exigés de tous, au même taux, pour tous les transports de même nature sur le même parcours.

30 The authority of the Board to determine just and reasonable tolls is not limited by any statutory directions. The broad authority of the Board was well articulated by Thurlow C.J. in *British Columbia Hydro and Power Authority v. West Coast Transmission Company Ltd. et al.*, [1981] 2 F.C. 646 at 655-56 (C.A.):

There are no like provisions in part IV of the National Energy Board Act. Under it, tolls are to be just and reasonable and may be charged only as specified in a tariff that has been filed with the Board and is in effect. The Board is given authority in the broadest of terms to make orders with respect to all matters relating to them. Plainly, the Board has authority to make orders designed to ensure that the tolls to be charged by a pipeline company will be just and reasonable. But its power in that respect is not trammelled or fettered by statutory rules or directions as to how that function is to be carried out or how the purpose is to be achieved. In particular, there are no statutory directions that, in considering whether tolls that a pipeline company propose to charge are just and reasonable, the Board must adopt any particular accounting approach or device or that it must do so by determining cost of service and a rate base and fixing a fair return thereon.

31 The Board has adopted a cost of service method for determining the Mainline's tolls. Before this Court, counsel for a number of the respondents suggested different methodologies for determining just and reasonable tolls that would be open to the Board, such as:

1. tolls based on agreements between pipelines and shippers;

2. tolls based on charges of other pipelines;
3. use of base year tolls adjusted for inflation;
4. tolls based on mechanisms to encourage utilities towards greater efficiency.

As no particular methodology is required by the National Energy Board Act, the Board could have adopted a different methodology for determining just and reasonable tolls for the Mainline.

- b) Having adopted a cost of service methodology, the costs determined by the Board must be just and reasonable to both the Mainline and its users.

32 In the case of the Mainline, the Board has adopted a cost of service methodology whereby the Mainline is to be compensated through tolls for its prudently incurred costs, including its cost of capital, and in particular, its cost of equity capital. Once it did so, it had to faithfully determine the Mainline's costs based on the evidence and its own sound judgment.

33 Cost of equity for a future year cannot be directly measured and therefore must be based on estimates. The Board must choose an estimate that allows the Mainline to earn what has been termed a "fair return." In *Northwestern Utilities Ltd. v. Edmonton (City)*, [1929] S.C.R. 186 at 192-93, the Supreme Court defined a fair return in the following terms:

The duty of the Board was to fix fair and reasonable rates; rates which, under the circumstances, would be fair to the consumer on the one hand, and which, on the other hand, would secure to the company a fair return for the capital invested. By a fair return is meant that the company will be allowed as large a return on the capital invested in its enterprise (which will be net to the company) as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise.

Tolls which reflect a fair return on capital will be just and reasonable to both the Mainline and its users.

34 To put the matter another way, when the cost of service methodology is used to determine just and reasonable tolls, if the Board does not permit the Mainline to recover its costs because it has understated the Mainline's cost of equity capital, the Mainline will be unable to earn a fair return on equity. The tolls will therefore not be just and reasonable from the Mainline's point of view. On the other hand, the tolls must also be just and reasonable from the point of view of the Mainline's customers and the ultimate consumers who rely on service from the Mainline. Therefore, customers and consumers have an interest in ensuring that the Mainline's costs are not overstated. As respondents' counsel pointed out, there are numerous costing issues that may be subject to challenge. Questions may arise about, among other things, the allocation of costs between the Mainline and other divisions of the appellant; whether costs have been, or are being, prudently incurred; and whether the Mainline's compensation plans are reasonable. And, specific to this appeal, customers and consumers have an interest in ensuring that the Mainline's cost of equity is not overstated.

- c) The Board did not improperly consider the impact on customers or consumers of increasing tolls to reflect the appellant's costs.

35 In oral argument, the appellant conceded that it does not object to its customers having input into the Board's cost determinations and in particular, its cost of capital determination, provided the issues in dispute are restricted to the costs of the Mainline. However, the appellant does object to the Board taking the impact of tolls on customers and consumers into account in determining the Mainline's cost of equity capital. The appellant says that the required rate of return on equity must be determined solely on the basis of the Mainline's cost of equity capital. The impact of any resulting toll increases on customers or consumers is an irrelevant consideration in that determination. The appellant does concede that when the final tolls are being fixed, the impact on the customers and consumers may be relevant, but insists that it is irrelevant when determining the required return on equity.

36 I think that this argument is sound and in keeping with the decision of the Supreme Court in *Northwestern Utilities*. The cost of equity capital does not change because allowing the Mainline to recover it would cause an increase in tolls. Under the Board's Equity Risk Premium methodology, the cost of equity capital is driven by the Board's estimate of the risk-free interest rate and the degree of risk investors perceive in the "benchmark" pipeline. The higher the risk, the higher their required rate of return. The degree of risk specific to the Mainline is accounted for by adjustments to its deemed capital structure. Accordingly, the cost to the Mainline of providing that rate of return on the equity component of its deemed capital structure is unaffected by the impact of tolls on customers or consumers.

37 The appellant has not demonstrated that the Board took the impact on customers or consumers into account in making its determination of the Mainline's required rate of return on equity.

38 It is true that in its 2002 decision, the Board did state:

In respect of the appropriate balance of customer and investor interests, the Board notes that customer interest in rate of return matters relates most directly to the impact the approved return will have on tolls. The Board is of the view that the impact of the rate of return on tolls is a relevant factor in the determination of a fair return (RH-4-2001 at 12).

39 The appellant says it cannot tell if the Board took the impact on customers or consumers into account in making its determination of the Mainline's required rate of return on equity. There is certainly no indication in its 2002 reasons that the Board adjusted its estimate of the required rate of return on equity based upon the impact it would have on tolls. In fact, the Board simply applied the automatic adjustment formula adopted in its 1995 decision. That formula does not take into account the impact of tolls on customers or consumers.

40 It is also true that, in relation to an adjustment the Board made in the Mainline's deemed capital structure in its 2002 decision, the Board did state:

In light of the above, the Board is of the view that it would be appropriate to increase the Mainline's deemed common equity ratio from 30% to 33%. The Board notes that this increase will raise the Mainline's annual cost of service and tolls by approximately 2%. The Board has determined that the toll increase is warranted by the prospective business risk facing the Mainline and that it will not impose an undue burden on shippers (RH-4-2001 at 59).

41 As I understand the Board's reasons, in view of the Mainline's increased business risk, the equity component of its deemed capital structure was increased from 30% to 33%. Because the required rate of return on equity was greater than the required rate of return on debt, this increased the overall estimate of the Mainline's required rate of return on capital, resulting in a 2% increase in tolls.

42 While the Board observed that the increase would not be an undue burden on shippers, there is no suggestion that the increase in the equity component of the Mainline's deemed capital structure was in any way suppressed by considerations of its impact on customers or consumers. Nor, as I have said, is there any indication that the Board determined a required rate of return on equity for the Mainline and then adjusted it downward based on the impact it would have on tolls. In the absence of some indication in the Board's reasons, there is no basis for such an assumption.

- d) The Board may adopt temporary measures to ameliorate "rate shock" so long as the utility eventually recovers its costs.

43 I would add one further point. While I agree with the appellant that the impact on customers or consumers cannot be a factor in the determination of the cost of equity capital, any resulting increase in tolls may be a relevant factor for the Board to consider in determining the way in which a utility should recover its costs. It may be that an increase is so significant that it would lead to "rate shock" if implemented all at once and therefore should be phased in over time. It is quite proper for the Board to take such considerations into account, provided that there is, over a reasonable period of time, no economic loss to the utility in the process. In other words, the phased in tolls would have to compensate the utility for deferring recovery of its cost of capital. In the end, where a cost of service method is used, the utility must recover its costs over a reasonable period of time, regardless of any impact those costs may have on customers or consumers (see *Hemlock Valley Electrical Services Ltd. v. British Columbia Utilities Commission et al.*, [1992] 12 B.C.A.C. 1 at 20-21 (C.A.)). In this case, however, there is no suggestion that the Board sought to phase in or otherwise understate the Mainline's cost of capital.

3. Did the Board fetter its discretion?

- a) Appellant's arguments

44 The appellant's second alleged error of law is that the Board fettered its discretion. The appellant submits that the Board placed an inappropriate onus on the appellant to demonstrate that the cost of equity adjustment formula established by the Board in its 1995 decision, but not expressed in the National Energy Board Act or in any judicial authority, was to govern unless the appellant could persuade the Board otherwise.

45 In its factum, the appellant states that the high onus of reversal placed on it by the Board caused the Board to act "inconsistently with its obligations of impartiality as an administrative tribunal." Some of the respondents characterised this as an allegation of bias against the Board.

46 In oral argument, the appellant added that the Board wrongly discarded evidence of both the appellant and the respondents because the Board was not open to reviewing the adjustment formula.

b) The intended duration of the automatic adjustment mechanism.

47 In its 1995 decision, the Board was expressly addressing "what simplified procedure should be implemented to effect an annual adjustment to the rate of return applicable to pipelines between cost of capital proceedings" (RH-2-94 at 1). The Board explained its reasons for seeking an automatic adjustment mechanism in the following words:

In setting this matter down for hearing, it was the Board's intention to put in place means of improving the efficacy of the toll setting process for the year 1995 and beyond. The Board expressed the desire to avoid annual hearings on the cost of capital and was of the view that some automatic mechanism to adjust the return on common equity could be the most appropriate way to ensure that this return continued to be fair to all parties, while avoiding the expense of litigating annual or biennial changes in the rate of return. The Board therefore included as an issue in the RH-2-94 proceeding, the design and implementation of a predetermined adjustment mechanism to the rate of return on the common equity component. The Board's objective in this regard was to conduct detailed examinations of the pipelines' cost of capital only when significant changes had occurred in financial markets, business circumstances, or in general economic conditions (RH-2-94 at 1-2).

48 After an extensive hearing in which it considered the submissions of pipelines, shippers, governments and others, the Board established the automatic adjustment mechanism whereby the cost of equity capital would be determined. As to how long the automatic adjustment mechanism would remain in place, the Board stated:

The Board is not setting a limit on the life of the mechanism and it does not expect to reassess the rate of return on common equity in a formal hearing for at least three years. The Board has confidence that the adjustment mechanism adopted will provide an appropriate balance between the interests of pipeline company shareholders and those of shippers (RH-2-94 at 32).

49 In its 1995 decision, the Board also established a deemed capital structure for the Group 1 pipelines. As discussed above, the Mainline was deemed to have a capital structure made up of 70% debt and 30% equity. The Board expressed the view that its capital structure determination would endure for an extended period of years, but that the Board would be prepared to consider a re-assessment of capital structure if requested by a pipeline, its shippers or another interested party:

The Board also expects that the capital structure set in this hearing for each of the pipelines will endure for an extended period of years. The Board will be prepared to consider a reassessment of capital structures, likely on an individual basis, in the event of a significant change in business risk, in corporate structure or in corporate financial fundamentals. The Board does not favour routine reassessments of capital structure. For these reasons, the Board has not set out a specific date or any criteria for capital structure re-evaluation. Any reassessment of capital structure, for reasons such as those expressed above, must be at the request of the pipeline itself, its shippers or some other interested party. It would then be for the Board to assess the merits of such a request (RH-2-94 at 32).

50 The Board's Order TG/TO-1-95, which implemented the 1995 decision, set the Mainline's deemed capital structure and required that the Mainline's cost of equity capital for 1996 and subsequent years be determined through the application of the adjustment formula. The Order contained no time limit and therefore continues in force until reviewed or varied by the Board.

c) The appellant did bear the burden of showing that the automatic adjustment mechanism should no longer apply.

51 The Board applied its automatic adjustment mechanism annually until 2001 when the appellant brought its fair rate of return application, seeking a review and variance of the 1995 decision and the adoption of a new means of determining its cost of capital.

52 The appellant's position seems to be that when it brought its fair rate of return application in 2001, the Board was required to disregard entirely the automatic adjustment mechanism and start fresh -- with a clean slate as it were -- to determine the appropriate method by which to estimate the Mainline's cost of capital.

53 However, the adjustment formula was part of an order that continued to bind the appellant. Subsection 23(1) of the National Energy Board Act provides:

23. (1) Except as provided in this Act, every decision or order of the Board is final and conclusive.

* * *

23. (1) Sauf exceptions prévues à la présente loi, les décisions ou ordonnances de l'Office sont définitives et sans appel.

Section 22 allows for appeals to the Federal Court of Appeal while subsection 21(1) allows the Board to review, vary and rescind its decisions and orders. Neither the Board's 1995 decision nor the order implementing it were appealed. The adjustment formula therefore continued to apply until the appellant demonstrated to the Board that it should be replaced.

54 The hearing conducted by the Board on the appellant's fair return application was extensive. Written evidence was filed and the oral hearing proceeded for more than a month. The Board's 2002 decision was 64 pages long. The Board considered the appellant's ATWACC proposal and its alternative increased rate of return on equity proposal, reviewed the evidence of the witnesses and ultimately concluded that utilization of the automatic adjustment formula continued to yield a rate of return on equity that the Board considered to be appropriate for the Mainline.

55 However, the Board did, to some extent, accept the appellant's argument that the Mainline's business risk had increased. In order to take account of the increased risk, the Board increased the equity component of the Mainline's deemed capital structure from 30% to 33% so that the capital structure would be 33% equity and 67% debt.

56 I can detect no fettering of discretion or the placing of an improper onus on the appellant in the Board's reasons. In its 1995 decision, the Board stated that its automatic adjustment formula was to reflect a simplified procedure to determine annual adjustments to pipeline rates of return on common equity. It was therefore to continue indefinitely. When an affected party wishes to change the process, it has the onus to demonstrate that its proposal is preferable to the one which is the subject of a binding Board order. That is not an improper onus. Nor does it reflect a fettering of discretion by the Board. Most importantly, it does not give rise to any apprehension of impartiality or bias on the part of the Board.

57 In reviewing the 2002 decision, the Review and Variance Panel found in its 2003 decision that the onus was on the appellant to demonstrate that the automatic adjustment formula was no longer appropriate and that the appellant had failed to do so:

The Fair Return Application was, among other things, an application for review of the RH-2-94 Decision and related orders, pursuant to subsection 21(1) of the Act. The onus was on TransCanada to prove to the Board in RH-4-2001 that the RH-2-94 Formula was no longer appropriate for determining the Mainline's return on equity. Neither the intervenors nor the Board had the onus in the RH-4-2001 proceeding to justify the continued use of the Formula. The Formula was appropriate unless and until TransCanada persuaded the Board otherwise.

TransCanada failed to meet the burden and accordingly, the RH-2-94 Formula continued to apply. The Board was not required in the RH-4-2001 Decision to justify that the Formula was appropriate; that determination was made in the RH-2-94 proceeding (RH-R-1-2002 at 24).

I find no error on the part of the Board in that analysis or conclusion.

d) The Board did not disregard or ignore evidence.

58 As to the appellant's argument that the Board disregarded evidence, I agree that the Board did not adopt the evidence of any particular witness for or against the appellant. But that does not mean that the evidence was discarded or ignored. In cost of capital proceedings, the Board is entitled, on the basis of the evidence before it and the use of its own judgment, to choose a methodology for determining cost of capital and to estimate the cost of capital for a forthcoming year. Very often, the Board's estimate will not reflect the precise estimates of one side or the other or of one witness or another. Having regard to all the evidence, the Board will determine its own estimate. As long as that estimate is within the range of estimates put forward in the evidence and the Board demonstrates that it considered the estimates put forward, the Board cannot be said to have ignored evidence. Indeed, even if the Board's estimate is outside that range, if the Board shows that it considered the evidence submitted and provides adequate reasons for its opinion, the Board will not be found to have ignored evidence.

59 In this case, the estimates in the evidence of the required rate of return on equity ranged from 8.28% to 12.50%. The Board's reasons indicate that it considered the estimates put forward. Using its automatic adjustment formula, the Board calculated that the required rate of return on equity for the Mainline would be 9.61% in 2001 and 9.53% in 2002. I cannot see that the Board disregarded or ignored evidence in deciding to continue to utilize the automatic adjustment formula to determine the required rate of return on equity for the Mainline.

CONCLUSION

60 I would dismiss this appeal with costs.

ROTHSTEIN J.A.

NOËL J.A.:-- I agree

SHARLOW J.A.:-- I agree

cp/e/qw/qlaim

BRITISH COLUMBIA ELECTRIC }
RAILWAY CO. LTD. } APPELLANT; ¹⁹⁶⁰
*May 4, 5, 6
Oct. 4

AND

THE PUBLIC UTILITIES COMMISSION OF BRITISH
COLUMBIA, BRITISH COLUMBIA LUMBER MAN-
UFACTURERS' ASSOCIATION, THE CORPORA-
TION OF THE CITY OF VICTORIA, THE COR-
PORATION OF THE DISTRICT OF OAK BAY,
THE CORPORATION OF THE DISTRICT OF
SAANICH, CORPORATION OF THE TOWN-
SHIP OF ESQUIMALT AND CITY OF VANCOU-
VERRESPONDENTS.

ON APPEAL FROM THE COURT OF APPEAL FOR
BRITISH COLUMBIA

*Public utilities—Case stated by Public Utilities Commission—Matters to
be considered by Commission in changing rates—Order of priority to
be given to factors considered—The Public Utilities Act, R.S.B.C.
1948, c. 277, s. 16(1)(a) and (b).*

*PRESENT: Kerwin C.J. and Locke, Cartwright, Martland and
Ritchie JJ.

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The first of a series of questions submitted for the consideration of the Court of Appeal for British Columbia, in a case stated for the opinion of the Court, asked if the Public Utilities Commission of that Province was right in deciding "that no one of the matters and things referred to in clauses (a) and (b) of subsection (1) of Section 16 of the "Public Utilities Act" should as a matter of law be given priority over any other of those matters or things and that, if a conflict arises among these matters or things, it is the Commission's duty to act to the best of its discretion."

The question was answered in the affirmative. The appellant appealed from that portion of the judgment of the Court of Appeal which comprised this answer.

Held (Kerwin C.J. *dissenting*): The appeal should be allowed.

Per Locke J.: There is an absolute obligation on the part of the Commission on the application of the utility to approve rates which will produce the fair return to which the utility has been found entitled, and the obligation to have due regard to the protection of the public is also to be discharged. It is not a question of considering priorities between "the matters and things referred to in clauses (a) and (b) of subsection (1) of s. 16", but consideration of these matters is to be given by the Commission in the light of the fact that the obligation to approve rates which will give a fair and reasonable return is absolute.

Per Cartwright, Martland and Ritchie JJ.: The combined effect of the two clauses referred to is that the Commission, when dealing with a rate case, has unlimited discretion as to the matters which it may consider as affecting the rate, but it must when actually setting the rate, meet the requirements specifically mentioned in clause (b), i.e., the rate to be imposed should be neither excessive for the service nor insufficient to provide a fair return on the rate base. These two factors should be given priority over any other matters which the Commission may consider.

Although there is no priority directed by the Act as between these two matters, there is a duty imposed on the Commission to have due regard to both of them, and accordingly there must be a balancing of the interests concerned.

Per Kerwin C.J., *dissenting*: The statute does not require that any weight be given to the matters and things referred to in the two clauses after they have been considered, and therefore the weight to be assigned is a question of fact for the Commission to decide in each instance.

APPEAL from a portion of a judgment of the Court of Appeal for British Columbia¹, comprising the answer to the first of five questions submitted to it by the Public Utilities Commission. Appeal allowed, Kerwin C.J. *dissenting*.

J. W. de B. Farris, Q.C., A. Bruce Robertson, Q.C., and R. R. Dodd, for the appellant;

¹ (1959), 29 W.W.R. 533.

J. A. Clark, Q.C., for The Public Utilities Commission of British Columbia, respondent;

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T. P. O'Grady, for The Corporation of The City of Victoria, The Corporation of The District of Oak Bay, The Corporation of the District of Saanich and Corporation of The Township of Esquimalt, respondents;

R. K. Baker, for City of Vancouver, respondent.

THE CHIEF JUSTICE (*dissenting*):—Pursuant to s. 107 of the *Public Utilities Act* of British Columbia, R.S.B.C. 1948, c. 277, the Public Utilities Commission stated a case for the opinion of the Court of Appeal for that Province. The case was stated in respect of five questions but we are concerned only with Question 1 as, by order of this Court, British Columbia Electric Railway Company, Limited was granted leave to appeal only from that portion of the judgment of the Court of Appeal comprising the answer given thereto. That question is as follows:

1. (a) Was the Commission right in deciding as appears in the said Reasons for Decision of 14th July, 1958, that no one of the matters and things referred to in clauses (a) and (b) of subsection (1) of Section 16 of the "Public Utilities Act" should as a matter of law be given priority over any other of those matters or things and that, if a conflict arises among these matters or things, it is the Commission's duty to act to the best of its discretion?

(b) If the answer to question (1) (a) is "No", what decision should the Commission have reached on the point?

The Court's answer to Question 1 reads:

The Commission was right in deciding as appears in its Reasons for Decision of 14th July, 1958 that no one of the matters and things referred to in clauses (a) and (b) of subsection (1) of Section 16 of the Public Utilities Act R.S.B.C. 1948, chapter 277 should as a matter of law be given priority over any other of those matters or things and that, if a conflict arises among these matters or things, it is the Commission's duty to act to the best of its discretion.

At the conclusion of the argument the judgment of the Court of Appeal appeared to me to be correct and further consideration has confirmed me in that view. Reasons were given by Sheppard J.A. on behalf of himself and the other four members of the Court who heard the argument on the

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stated case. I adopt all that he said and would have nothing to add were it not for an argument presented on behalf of the appellant. Section 16(1)(a) and (b) read as follows:

16. (1) In fixing any rate:—

(a) The Commission shall consider all matters which it deems proper as affecting the rate:

(b) The Commission shall have due regard, among other things, to the protection of the public from rates that are excessive as being more than a fair and reasonable charge for services of the nature and quality furnished by the public utility; and to giving to the public utility a fair and reasonable return upon the appraised value of the property of the public utility used, or prudently and reasonably acquired, to enable the public utility to furnish the service:

Mr. Farris submitted that the Court of Appeal had not taken into consideration the words in (1)(b) "The Commission shall have due regard and to giving to the public utility a fair and reasonable return upon the appraised value of the property of the public utility used, or prudently and reasonably acquired, to enable the public utility to furnish the service:". However, I am satisfied upon a review of the reasons of Sheppard J.A., relevant to Question 1, and particularly of the extract transcribed below, which is the substance of his reasoning upon the matter, that he did consider and apply these words. The extract reads:

A further inquiry is what weight should be given to the matters required to be considered by Sec. 16 (1) (b) and particularly to the "fair and reasonable return". Under Sec. 16 (1) (b), the Commission is required to consider "the protection of the public" and the "giving to the public utility a fair and reasonable return". Although clauses (a) and (b) of Sec. 16 (1) require certain matters to be considered, they do not state what weight is to be assigned by the Commission. Consequently, the Statute requires only that the Commission consider the matters falling within Sec. 16 (1) (a), namely, "all matters which it deems proper as affecting the rate" and those falling within Sec. 16 (1) (b), namely, "the protection of the public" and "a fair and reasonable return" to the Utility. But the Statute does not require more, and does not require any weight to be given to these matters after they have been considered. Hence the weight to be assigned is outside any statutory requirement and must be a question of fact for the Commission in each instance.

Furthermore, as Mr. Clark pointed out, the Commission when dealing with the electric rates applications, had, under heading "III.—A Fair Return", discussed that subject; and that in their reasons for decision with reference to the transit fares applications the Commission speaks "of the misunderstanding which arose from the recent decision on

electric rates"; and that later, in the same paragraph, they said: "The 6.5% rate remains the standard of the fair and reasonable return to which the Commission has due regard".

The appeal should be dismissed but there should be no costs.

LOCKE J.:—The sections of the *Public Utilities Act*, R.S.B.C. 1948, c. 277, which must be considered in deciding the first question are quoted in the reasons of my brother Martland which I have had the advantage of reading.

The real question might have been stated more clearly had it asked whether as a matter of law a duty rested upon the Commission to approve rates which would produce for the appellant a fair and reasonable return upon the appraised value of the property used or prudently and reasonably acquired by it to enable it to furnish the service described in the Act when the fact as to what constituted a fair return had previously been determined by the Commission. This is the matter to be determined.

Some assistance in interpreting the sections of the Act is to be obtained by an examination of the earlier legislation dealing with the control of rates charged for electrical power in British Columbia.

The first statutory provision dealing with the matter appears in the *Water Act Amendment Act* of 1929 which appeared as c. 67 of the statutes of that year. This Act provided for the control of such rates and imposed upon a power company producing electrical energy by water power the duty of supplying electrical energy to the public in the manner defined. Power companies were required to file schedules of their tolls with the Water Board constituted under the *Water Act*, R.S.B.C. 1924, c. 271.

"Unjust and unreasonable" as applied to tolls was declared to include injustice and unreasonableness, whether arising from the fact that the tolls were insufficient to yield fair compensation for the service rendered or from the fact that they were excessive as being more than a fair and reasonable charge for service of the nature and quality furnished.

Section 141B authorized the Board upon the complaint of any person interested that a toll charge was unjust, unreasonable or unduly discriminatory to enquire into the matter,

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to disallow any rate found to be excessive, and to fix the tolls to be charged by the power company for its service or respecting the improvement of the service in such manner as the Board considered just and reasonable.

Section 141C read:

Every power company shall be entitled to a fair return on the value of all property acquired by it and used in providing service to the public of the nature and kind furnished by such power company or reasonably held by such power company for use in such service and the Board in determining any toll shall have due regard to that principle.

Section 141D read in part:

In considering any complaint and making any order respecting the tolls to be charged by any power company the Board shall have due regard, among other things, to allowing the company a fair return upon the value of the property of the company referred to in Clause 141C and to the protection of the public from tolls that are excessive as being more than a fair and reasonable charge for services of the nature and quality furnished by the company.

These amendments to the *Water Act* appeared as ss. 138 to 157 in the Revision of the Statutes of 1936 and these sections were repealed when the first *Public Utilities Act* was passed by the Legislature, c. 47 of the statutes of 1938.

It will be seen by an examination of the *Public Utilities Act* that in large measure the language of the amendments to the *Water Act* made in 1929 was adopted. The definition of the terms "unjust" and "unreasonable", which appeared in the 1929 amendment as part of s. 2, was reproduced in s. 2 of the Act of 1938. The prohibition against levying any unjust and unreasonable, unduly discriminatory or unduly preferential rate appearing as s. 8 of the *Public Utilities Act* merely expresses in slightly different terms the prohibition contained in s. 141B. The expression "shall have due regard" which appears in s. 16(1)(b) of the *Public Utilities Act* was apparently taken from ss. 141C and D.

The *Public Utilities Act*, however, did not, when first enacted, and does not now contain any section which declares in express terms, as did s. 141C of the *Water Act Amendment Act*, that the power company shall be entitled to a fair return on the value of its property. Had the present Act contained such a provision it appears to me to be perfectly clear that the answer to be made to the first question should differ from that given by the Court of Appeal.

Whether its omission affects the matter is to be determined.

As it has been pointed out, the utility in the present matter is required by the Act to maintain its property in such condition as to enable it to supply an adequate service to the public and to furnish that service to all persons who may be reasonably entitled thereto without discrimination and without delay. It may not discontinue its operations without the permission of the Public Utilities Commission. The utility has, so far as we are informed, a monopoly on the sale of electrical energy in the Cities of Vancouver and Victoria and in my opinion at common law the duty thus cast upon it by statute would have entitled it to be paid fair and reasonable charges for the services rendered in the absence of any statutory provision for such payment.

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I consider that, in this respect, the position of such a utility would be similar to that of a common carrier upon whom is imposed as a matter of law the duty of transporting goods tendered to him for transport at fair and reasonable rates. This has been so from very early times. In *Bastard v. Bastard*¹, in an action against a common carrier in the Court of King's Bench for the loss of a box delivered to him for carriage, in delivering judgment for the plaintiff it was said that, while there was no particular agreement as to the amount to be paid for the carriage, "then the carrier might have a *quantum meruit* for his hire".

In *Great Western Railway v. Sutton*², Blackburn J. said in part:

The obligation which the common law imposed upon him was to accept and carry all goods delivered to him for carriage according to his profession (unless he had some reasonable excuse for not doing so) on being paid a reasonable compensation for so doing.

The result of the authorities appears to me to be correctly summarized in Browne's Law of Carriers, at p. 42, where it is said:

We have already seen that the law imposes very onerous duties, and very considerable risks, upon a person who is designated a common carrier. As to his duty, he is bound by law to undertake the carriage of goods. Another man is free from any such duty until he has entered into a special agreement; but the law holds that the common carrier, by the very fact of his trade and business, has, on his side, entered into an agreement with the public to carry goods, which becomes at once a complete and binding contract when any person brings him the goods,

¹ (1679), 2 Show. 81, 89 E.R. 807.

² (1869), L.R. 4 H.L. 226 at 237, 38 L.J. Ex. 177.

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and makes the request that he should carry them to a certain person or place. To make such a contract binding upon him as a common carrier, it is not necessary that a specific sum of money should be promised or agreed upon; but where that is not the case, there is an implied undertaking upon the part of the bailor that the remuneration shall be reasonable.

The *Water Act Amendment Act* of 1929 appears to have followed closely the form of public utilities legislation in certain of the United States. There had been statutes of this nature in force in various parts of the Union for a considerable time prior to the year 1929.

I do not find that the American statutes generally declared in terms as did s. 141C of the *Water Act Amendment Act* that a power company providing service to the public should be entitled to a fair return on the value of all property acquired by it and used in providing service to the public. This method, however, of establishing a fair and reasonable rate would appear to have been followed universally.

The authorities in the American cases are to be found summarized in Nichols—Ruling Principles of Utility Regulation, at p. 49—where a passage from the judgment of the Supreme Court of the United States in *Bluefield Water Works & Improvement Co. v. West Virginia Public Service Commission*¹ is quoted reading:

Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable, and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment. This is so well settled by numerous decisions of this court that citation of the cases is scarcely necessary.

In *New Jersey Public Utility Commissioners v. New York Telephone Company*², Butler J. said:

The just compensation safeguarded to the utility by the Fourteenth Amendment is a reasonable return on the value of the property used at the time that it is being used for public service. And rates not sufficient to yield that return are confiscatory.

While without the provision made in s. 141C of the *Water Act Amendment Act* a power company compelled by the amendment to furnish electrical service on demand

¹(1923), 262 U.S. 679.

²(1925), 271 U.S. 23 at 31.

upon the conditions prescribed would in my opinion have been entitled to a fair and reasonable payment for such service, the Legislature, by s. 141C, defined the manner in which fair and reasonable rates should be established.

As I have said, the *Public Utilities Act* does not contain any provision which in terms declares the right of the utility to a fair return on the value of its property. It does, however, by the definition of the terms "unjust" and "unreasonable" adopted from the *Water Act Amendment Act* declare that these expressions include rates that are insufficient to yield fair compensation for the service rendered, and the Public Utilities Commission in the present matter have interpreted this in its context as indicating the yardstick to be used in determining the fair and reasonable return to which the appellant was entitled.

Under the powers given to the Commission by s. 45 of the Act the value of the property of the appellant used, or prudently or reasonably acquired to enable the company to furnish its services was determined as at December 31st, 1942, and since then has been kept up to date. On September 11th, 1952, the Commission, after public hearings, decided that until some change in the financial and market circumstances convinced the Commission that a different rate should be applied, the Commission would apply the rate of 6.5 per cent. on the rate base as a fair and reasonable rate of return for the company.

That decision remains unchanged and is not questioned by anyone in these proceedings.

In interpreting the statute, the position at common law of the utility after the repeal of the sections of the *Water Act* must be considered. Had the statute imposed upon the appellant the obligation to furnish service of the natures defined upon demand, without more, it would have been entitled as a matter of law to recover from a person demanding service reasonable and fair compensation. It will not in my opinion be presumed that it was the intention of the Legislature to deprive a utility of that common law right.

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In *Colonial Sugar Refining Company v. Melbourne Harbour Trust Commissioners*¹, the Judicial Committee said:

In considering the construction and effect of this Act the Board is guided by the well known principle that a statute should not be held to take away private rights of property without compensation, unless the intention to do so is expressed in clear and unambiguous terms.

In Maxwell on Statutes, 10th ed., at p. 286, the authorities are thus summarized:

Proprietary rights should not be held to be taken away by Parliament without provision for compensation unless the legislature has so provided in clear terms. It is presumed, where the objects of the Act do not obviously imply such an intention, that the legislature does not desire to confiscate the property or to encroach upon the right of persons, and it is therefore expected that, if such be its intention, it will manifest it plainly, if not in express words at least by clear implication and beyond reasonable doubt.

Subsection 6 of s. 23 of the *Interpretation Act*, R.S.B.C. 1948, c. 1, directs that every Act shall receive such fair, large and liberal construction and interpretation as will best ensure the attainment of the object of the Act. In my opinion the true meaning of the relevant sections of the *Public Utilities Act* is that a utility is given a statutory right to the approval of rates which will afford to it fair compensation for the services rendered and that the quantum of that compensation is to be a fair and reasonable rate of return upon the appraised value of the property of the company referred to in s. 16(1)(b).

The appellant in addition to the sale of electrical energy operates a public transportation system and sells gas and by an Order-in-Council made under the provisions of s. 15(1)(c) of the Statutes of 1938 it was directed that these three categories of service should be considered as one unit in fixing the rates. In the reasons delivered by the Commission upon the application to increase the rates for electricity, it is said that the appellant has never earned the approved rate of return and that the rates proposed by it, and which were not approved, would not enable it to do so even in respect of the electrical system alone.

¹[1927] A.C. 343 at 359, 96 L.J.P.C. 74.

Rates that fail to yield fair compensation for the service rendered are declared by s. 2 to be unjust and unreasonable as they were by s. 2 of the *Water Act Amendment Act* of 1929. The Commission is directed by s. 16(1)(b) to have due regard to fixing a rate which will give to the utility a fair and reasonable return upon the appraised value of its property used or prudently and reasonably acquired to enable it to furnish the service. It is the inclusion of the expression "shall have due regard" which has led the Commission and the Court of Appeal to conclude that this means that allowing a fair return upon the appraised value is simply one of the matters to be considered by the Commission in fixing the rate. Clearly no such interpretation could have been placed upon this expression under the provisions of the *Water Act* in view of the express provisions of s. 141C, and with great respect I think no such interpretation should be given to it in the present statute.

The fair compensation referred to in s. 2 of the *Water Act Amendment Act* of 1929 referred, and could only refer, to an aggregate produced by tolls sufficient to yield to the power company the fair return on the value of its property to which s. 141C declared it was entitled. The fair compensation referred to in s. 2 of the *Public Utilities Act* is in its context, in my opinion, to be construed in the same manner. The Order of the Commission of September 11th, 1952, determined what that compensation should be. The rates to be put into force to yield such fair compensation, which, at least in the case of electricity, vary in accordance with the use to which it is put and the quantities purchased, are matters to be determined by the Commission. The direction to the Commission in s. 16(1)(b) to have due regard to the protection of the public from rates that are excessive as being more than a fair and reasonable charge for the services requires it, in my opinion, to approve rates which are in its judgment fair and reasonable having in mind the purpose for which the electricity is used, the quantities purchased and such other matters as it considers justify the approval of rates which differ for different users.

I can find nothing in this legislation indicating an intention on the part of the Legislature to empower the Commission to deprive the utility of its common law right to be paid fair compensation for the varying services rendered or

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to depart from the declared intention of the Legislature in the *Water Act Amendment Act* that such companies upon whom these obligations are imposed are entitled to have the quantum of such fair compensation determined as a fair return upon the appraised value of the properties required.

I do not think it is possible to define what constitutes a fair return upon the property of utilities in a manner applicable to all cases or that it is expedient to attempt to do so. It is a continuing obligation that rests upon such a utility to provide what the Commission regards as adequate service in supplying not only electricity but transportation and gas, to maintain its properties in a satisfactory state to render adequate service and to provide extensions to these services when, in the opinion of the Commission, such are necessary. In coming to its conclusion as to what constituted a fair return to be allowed to the appellant these matters as well as the undoubted fact that the earnings must be sufficient, if the company was to discharge these statutory duties, to enable it to pay reasonable dividends and attract capital, either by the sale of shares or securities, were of necessity considered. Once that decision was made it was, in my opinion, the duty of the Commission imposed by the statute to approve rates which would enable the company to earn such a return or such lesser return as it might decide to ask. As the reasons delivered by the Commission show, the present appellant did not ask the approval of rates which would yield a return of 6.5 per cent. to which it was entitled under the Order of the Board.

I do not consider that Question (1) can be answered by a simple affirmative or negative. The obligation to approve rates which will produce the fair return to which the utility has been found entitled is, in my opinion, absolute, which does not mean that the obligation of the Commission to have due regard to the protection of the public, as required by s. 16(1)(b), is not to be discharged. It is not a question of considering priorities between "the matters and things referred to in Clauses (a) and (b) of subsection (1) of s. 16". The Commission is directed by s. 16(1)(a) to consider all matters which it deems proper as affecting the rate but that consideration is to be given in the light of the fact that the obligation to approve rates which will give a fair and reasonable return is absolute.

In my opinion the answer to be made to Question (1)(a) is that the Commission was wrong in deciding that it was not required to approve rates which in the aggregate would produce for the utility the fair return which by its order of September 11, 1952, the Commission found it to be entitled or such lower rates as the utility might submit for approval. The duty of the Commission to have due regard to the protection of the public from excessive rates referred to in the first four lines of s. 16(1)(b) refers to the approval of rates according to the use to be made by and the quantities supplied to those to whom the service is rendered.

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The second part of Question (1) reads:

If the answer to (1)(a) is "No", what decision should the Commission have reached on the point?

As to this I agree with the answer proposed by my brother Martland.

I would allow this appeal but make no order as to costs.

The judgment of Cartwright, Martland and Ritchie JJ. was delivered by

MARTLAND J.:—Pursuant to the provisions of subs. (1) of s. 107 of the *Public Utilities Act* of British Columbia, R.S.B.C. 1948, c. 277, the Public Utilities Commission of that Province stated a case for the opinion of the Court of Appeal of British Columbia. Five questions were submitted for the consideration of the Court, of which the first was as follows:

(1) (a) Was the Commission right in deciding as appears in the said Reasons for Decision of 14th July, 1958, that no one of the matters and things referred to in clauses (a) and (b) of subsection (1) of Section 16 of the "Public Utilities Act" should as a matter of law be given priority over any other of those matters or things and that, if a conflict arises among these matters or things, it is the Commission's duty to act to the best of its discretion?

(b) If the answer to question (1) (a) is "No", what decision should the Commission have reached on the point?

Question (1)(a) was answered in the affirmative. The appellant, by special leave of this Court, has appealed from that portion of the judgment of the Court of Appeal which comprises the answer given by it to question (1). The other four questions and the answers given to them are not in issue in this appeal.

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The relevant circumstances involved are contained in the case stated by the Public Utilities Commission and are as follows:

The appellant and British Columbia Electric Company Limited (together called "the Company") are related companies and between them own and operate equipment and facilities for the transportation of persons and property by railway, trolley coach and motor buses and for the production, generation and furnishing of gas and electricity, all for the public for compensation.

The Company is regulated by the Public Utilities Commission of British Columbia (called "the Commission") pursuant to the provisions of the *Public Utilities Act*.

By appraisal the Commission ascertained the value of the property of the Company used, or prudently and reasonably acquired, to enable the Company to furnish its services. The appraisal was made as of December 31, 1942, and since then has been kept up to date. The appraised value is referred to as "the rate base".

By Order-in-Council No. 1627, approved on July 16, 1948, the Commission was directed to consider the classes or categories of the regulated services of the Company as one unit in fixing the rates.

On September 11, 1952, the Commission after public hearing made "Findings as to Rate of Return" and decided that, "until changed financial and market circumstances convince the Commission that a different rate should be applied, the Commission will in its continuing examination of the Company's operations apply the rate of 6.5%" on the rate base as a fair and reasonable rate of return for the Company. This decision remains unchanged.

The Company from time to time amended its rate schedules with the consent of the Commission and filed with the Commission schedules showing the rates so established. On April 23, 1958, it applied for the consent of the Commission, under s. 17 of the *Public Utilities Act*, to file amended schedules containing increased rates for its electric service on the Mainland and on Vancouver Island. On July 28, 1958, it also applied for the consent of the Commission to file amended schedules containing increased transit fares for its transit systems in Vancouver and other Mainland areas and in Victoria and surrounding areas.

Public hearings were held by the Commission and it handed down its decision with respect to the electric applications on July 14, 1958, and with respect to the transit applications on October 30, 1958.

Briefly, the decisions of the Commission accepted the proposed rate schedules submitted by the Company, except that it refused to approve the proposed increases in the principal residential electric rates on the Mainland and on Vancouver Island. It directed that those rates be scaled down by approximately 25%. In its decision with respect to electric rates the Commission stated:

The Commission has therefore consented to the filing to be effective July 15th, 1958, of all the rate schedules submitted by the Company for the Mainland and Vancouver Island, as modified and supplemented by the Company during the course of the hearings on its application, except the residential rate schedules and Mainland Rate 3035 for industrial users.

The Commission has decided that the principal residential rate on the Mainland (Schedule 1109) and the principal residential rate on the Island (Schedule 1110 under which the principal divisions are Billing Codes 1110 and 1112) should be adjusted to yield not more than three-quarters of the additional revenue proposed. The adjustment must be applied primarily to reduce sharp changes in impact and lessen disproportionately large percentage increases in the consumption range of 60 KWH to 280 KWH per month. Comparable adjustments must also be made in some of the related special residential rates of lesser importance. Most of the relief would be given to the small residential user.

At the same time the Commission decided that further increases in the commercial and industrial rates to compensate for this reduction in the proposed residential rates would not be justified.

During the hearings it was contended by counsel for the Company that, the Commission, having determined on a fair and reasonable return to the Company, namely, 6.5%, the Commission should authorize rates which would yield that return, or whatever lesser return the Company's application requested for the time being. The Commission did not accept this contention and the rates which were approved by the Commission would yield approximately \$750,000 less per annum than those applied for by the Company would yield. The rates for which the Company sought approval themselves would not have yielded to the Company the full allowed rate of return of 6.5%.

The relevant portions of s. 16(1) of the *Public Utilities Act* provide as follows:

16. (1) In fixing any rate:—

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- (a) The Commission shall consider all matters which it deems proper as affecting the rate:
- (b) The Commission shall have due regard, among other things, to the protection of the public from rates that are excessive as being more than a fair and reasonable charge for services of the nature and quality furnished by the public utility; and to giving to the public utility a fair and reasonable return upon the appraised value of the property of the public utility used, or prudently and reasonably acquired, to enable the public utility to furnish the service:
- (c) Where the public utility furnishes more than one class of service, the Commission shall segregate the various kinds of service into distinct classes or categories of service; and for the purpose of fixing the rate to be charged for the service rendered, each distinct class or category of service shall be considered as a self-contained unit, and the rates fixed for each unit shall be such as are considered just and reasonable for that unit without regard to the rates fixed for any other unit. If it is considered by the Lieutenant-Governor in Council that the rates as so determined might be inequitable or contrary to the general public interest, the Lieutenant-Governor in Council may direct that two or more classes or categories of service shall be considered as one unit in fixing the rate:

In the reasons given for its decision the Commission deals with the effect of clauses (a) and (b) of s. 16(1) and says:

With great respect, the Commission considers that although for this purpose the statutory duty of the Commission to have due regard to all matters which the Commission deems proper as affecting the rate might without any significant inaccuracy be described as the right of the Commission, and its statutory duty to *have due regard to giving* the utility a fair and reasonable return might without significant inaccuracy be described as the Commission's *responsibility for giving* the utility a fair and reasonable return, there is nothing in the Act to relieve the Commission in the case now before it from complying with the language of the Act and giving due regard to all those matters to which the legislature has directed the Commission to give due regard in fixing a rate. No one of those matters should, in the opinion of the Commission, be given as a matter of law priority over any other of those matters and if, as the legislature appears to have thought possible, a conflict arises among those matters, the Commission considers that it is its duty to act to the best of its discretion.

The Court of Appeal concurred in this view. The judgment of the Court¹, delivered by Sheppard J.A., refers to this question in the following words:

A further inquiry is what weight should be given to the matters required to be considered by Sec. 16(1)(b) and particularly to the "fair and reasonable return". Under Sec. 16(1)(b), the Commission is required

¹(1959), 29 W.W.R. 533 at 538.

to consider "the protection of the public" and the "giving to the public utility a fair and reasonable return". Although clauses (a) and (b) of Sec. 16(1) require certain matters to be considered, they do not state what weight is to be assigned by the Commission. Consequently, the Statute requires only that the Commission consider the matters falling within Sec. 16(1)(a), namely, "all matters which it deems proper as affecting the rate" and those falling within Sec. 16(1)(b), namely, "the protection of the public" and "a fair and reasonable return" to the Utility. But the Statute does not require more, and does not require any weight to be given to these matters after they have been considered. Hence the weight to be assigned is outside any statutory requirement and must be a question of fact for the Commission in each instance.

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From this decision the present appeal is brought.

To determine the intent and meaning of clauses (a) and (b) of s. 16(1) of the Act it is necessary to consider them in relation to the other provisions of the Act, with which they must be read.

Section 5 imposes upon a public utility the duty to maintain its property and equipment in such condition as to enable it to furnish, and to furnish, service to the public in all respects adequate, safe, efficient, just and reasonable. Section 7 prevents a public utility which has been granted a certificate of public convenience and necessity or a franchise from ceasing its operations or any part of them without first obtaining the permission of the Commission.

Section 6 requires every public utility, upon reasonable notice, to furnish to all persons who may apply therefor, and be reasonably entitled thereto, suitable service without discrimination and without delay.

Sections 38, 42 and 43 contain provisions whereby, in the circumstances therein defined, a public utility may be ordered by the Commission to extend its existing services.

These four sections last mentioned involve a statutory obligation on the part of a public utility to make capital outlays for extensions of its service. A public utility which operates in a rapidly expanding community may be required to make substantial expenditures of that nature in order to keep pace with increasing demands. It must, if it is to fulfil those obligations, be able to obtain the necessary

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capital which is required, which it can only do if it is obtaining a fair rate of return upon its rate base. The meaning of a fair return was defined by Lamont J. in *Northwestern Utilities, Limited v. City of Edmonton*¹:

By a fair return is meant that the company will be allowed as large a return on the capital invested in its enterprise (which will be net to the company) as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise.

The necessity for giving a public utility fair compensation for the service which it renders appears in the definition of the words "unjust" and "unreasonable" in s. 2(1), which is as follows:

"Unjust" and "unreasonable" as applied to rates shall be construed to include respectively injustice and unreasonableness, whether arising from the fact that rates are excessive as being more than a fair and reasonable charge for service of the nature and quality furnished by the public utility, or from the fact that rates are insufficient to yield fair compensation for the service rendered, or arising in any other manner:

The word "service", which appears in this definition, is defined in the Act to include:

the use and accommodation afforded consumers or patrons, and any product or commodity furnished by a public utility; and also includes, unless the context otherwise requires, the plant, equipment, apparatus, appliances, property, and facilities employed by or in connection with any public utility in performing any service or in furnishing any product or commodity and devoted to the purposes in which the public utility is engaged and to the use and accommodation of the public:

These defined words appear in two sections of the Act which relate to the rates to be charged by a public utility.

Section 8, which is among a group of sections dealing with the duties and restrictions imposed on public utilities, provides:

8. (1) No public utility shall make demand or receive any unjust, unreasonable, unduly discriminatory, or unduly preferential rate for any service furnished by it within the Province, or any rate otherwise in violation of law; and no public utility shall, as to rates or service, subject any person or locality, or any particular description of traffic, to any undue prejudice or disadvantage, or extend to any person any form of agreement, or any rule or regulation, or any facility or privilege, except such as are regularly and uniformly extended to all persons under substantially similar circumstances and conditions in respect of service of the same description, and the Commission may by regulations declare what constitute substantially similar circumstances and conditions.

¹[1929] S.C.R. 186 at 193, 2 D.L.R. 4.

(2) It shall be a question of fact, of which the Commission shall be the sole judge, whether any rate is unjust or unreasonable, or whether in any case there is undue discrimination, preference, prejudice, or disadvantage in respect of any rate or service, or whether service is offered or furnished under substantially similar circumstances and conditions. 1938, c. 47, s. 8; 1939, c. 46, s. 5.

Section 20, which empowers the Commission to determine rates, reads as follows:

20. The Commission may upon its own motion or upon complaint that the existing rates in effect and collected or any rates charged or attempted to be charged by any public utility for any service are unjust, unreasonable, insufficient, or discriminatory, or in anywise in violation of law, after a hearing, determine the just, reasonable, and sufficient rates to be thereafter observed and in force, and shall fix the same by order. The public utility affected shall thereupon amend its schedules in conformity with the order and file amended schedules with the Commission.

It will be noted that this section, in addition to the use of the words "unjust" and "unreasonable", also uses the terms "insufficient" and "sufficient" in relation to rates.

Both of these sections contemplate a system of rates which would be fair to the consumer on the one hand and which will yield fair compensation to the public utility on the other hand.

Section 16, the section with which we are concerned in this appeal, also deals with this matter of fairness of rates. In addition, it spells out the method by which a public utility is to obtain fair compensation for its service; i.e., by a fair and reasonable return upon its rate base, which rate base, pursuant to s. 45, the Commission can determine by appraisal.

Section 16 deals with the duties of the Commission in fixing rates. Clause (a) of subs. (1) states that the Commission shall consider all matters which it deems proper as affecting the rate. It confers on the Commission a discretion to determine the matters which it deems proper for consideration and it requires the Commission to consider such matters.

Clause (b) of subs. (1) does not use the word "consider", which is used in clause (a), but directs that the Commission "shall have due regard", among other things, to two specific matters. These are:

- (i) The protection of the public from rates that are excessive as being more than a fair and reasonable charge for services of the nature and quality furnished by the public utility; and

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- (ii) To giving to the public utility a fair and reasonable return upon the appraised value of its property used or prudently and reasonably acquired to enable the public utility to furnish the service.

As I read them, the combined effect of the two clauses is that the Commission, when dealing with a rate case, has unlimited discretion as to the matters which it may consider as affecting the rate, but that it must, when actually setting the rate, meet the two requirements specifically mentioned in clause (b). It would appear, reading ss. 8, 16 and 20 together, that the Act contemplates these two matters to be of primary importance in the fixing of rates.

In my opinion, therefore, these two factors should be given priority over any other matters which the Commission may consider under clause (a), or any other things to which it shall have due regard under clause (b), when it is fixing any rate.

The second portion of question (1)(a) was as to whether, in case of conflict among the matters and things referred to in clauses (a) and (b) of s. 16(1), it was the Commission's duty to act to the best of its discretion. I have already expressed my view regarding the priority as between those things specifically mentioned in clause (b) and the other matters or things referred to in clauses (a) and (b). This leaves the question as to possible conflict as between the two matters specifically mentioned in clause (b).

Clearly, as between these two matters there is no priority directed by the Act, but there is a duty imposed upon the Commission to have due regard to both of them. The rate to be imposed shall be neither excessive for the service nor insufficient to provide a fair return on the rate base. There must be a balancing of interests. In my view, however, if a public utility is providing an adequate and efficient service (as it is required to do by s. 5 of the Act), without incurring unnecessary, unreasonable or excessive costs in so doing, I cannot see how a schedule of rates, which, overall, yields less revenue than would be required to provide that rate of return on its rate base which the Commission has determined to be fair and reasonable, can be considered, overall, as being excessive. It may be that within the schedule certain rates may operate unfairly, relatively, as

between different classes of service or different classes of consumers. If so, the Commission has the duty to prevent such discrimination. But this can be accomplished by adjustments of the relative impact of the various rates in the schedule without having to reduce the total revenues which the whole schedule of rates is designed to produce.

Accordingly, it is my opinion that the answer to question (1)(a) should be "No". My answer to question (1)(b) would be that the Commission, in priority to any other matters which it may deem proper to consider under clause (a) and any of the other things referred to in clause (b) of s. 16(1), should have due regard to the two matters specifically mentioned in clause (b). In the present case, having decided that certain of the rates proposed by the appellant would impose an unreasonable burden upon certain classes of consumers, the Commission should permit the Company to submit alternative schedules of rates, which, while yielding approximately the same overall revenues, would eliminate the comparatively excessive impact of those classes of rates to which the Commission objected, until a rate schedule is devised which meets the requirements of clause (b) of s. 16(1).

In my view the appeal should be allowed, but no costs should be payable.

Appeal allowed, Kerwin C.J. dissenting.

Solicitor for the appellant: A. Bruce Robertson, Vancouver.

Solicitors for The Public Utilities Commission of British Columbia, respondent: Clark, Wilson, Clark, White & Maguire, Vancouver.

Solicitors for The Corporation of The City of Victoria, The Corporation of The District of Oak Bay, The Corporation of The District of Saanich and Corporation of The Township of Esquimalt, respondents: Straith, O'Grady, Buchan, Smith & Whitley, Victoria.

Solicitor for City of Vancouver, respondent: R. K. Baker, Vancouver.

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Attachment 63.1



News Release

FOR IMMEDIATE RELEASE

FortisBC partners with Stz'uminus (Chemainus) First Nation and Cowichan Tribes in the ownership of Mt. Hayes natural gas storage facility

Self-contained facility lends itself to a unique ownership structure

SURREY, B.C. – January 9, 2012: On January 1, 2012 FortisBC entered into a limited partnership (Mt. Hayes Storage LP) with the Stz'uminus (Chemainus) First Nation and Cowichan Tribes who will each invest \$5.7 million (7.5 per cent in the partnership equity interest) in the Mt. Hayes natural gas storage facility, located on Vancouver Island, with FortisBC owning the remainder. Mt. Hayes Storage LP will lease the facility back to FortisBC under a long term agreement.

"The Mt. Hayes facility is a unique opportunity for this partnership structure. While the facility is integrated into our system, it is in effect a self-contained site that lends itself to this ownership structure. In addition, FortisBC has a long-standing relationship with the Stz'uminus First Nation and Cowichan Tribes, who contributed positively to the development of the facility," said Roger Dall'Antonia, vice president, strategic planning; corporate development and regulatory affairs, FortisBC.

Along with FortisBC, the Stz'uminus First Nation and Cowichan Tribes will each receive a regulated rate of return on equity, as approved by the British Columbia Utilities Commission on June 28, 2011, and also have representation on the partnership's board of directors, which will guide the ongoing operation of the Mt. Hayes facility.

"This partnership is a continuation of the long-standing relationship Cowichan has enjoyed with FortisBC since the early 90s. The opportunity will provide economic benefits to Cowichan for the next 40 years, which will directly impact member services and other Cowichan initiatives. We are pleased and honoured to be a part of this unique partnership," said Chief Alphonse, Cowichan Tribes.

"Stz'uminus First Nation continues to build and value our strong relationship and partnership with FortisBC. Our investment in the liquefied natural gas facility will create economic prosperity and benefits for our community's future," said Chief John Elliott, Stz'uminus First Nation.

The facility has created substantial economic and employment benefits, including an investment of approximately \$70 million in the region – this is due in large part to FortisBC sourcing local suppliers for goods and services.

The 20 hectare Mt. Hayes facility is located approximately six kilometres northwest of Ladysmith. The storage facility, supplied by FortisBC's existing pipeline systems, will help meet current and future gas demands throughout FortisBC's service territories. The storage tank holds 1.5 billion cubic feet of liquefied natural gas, with the structure measuring approximately 60 metres in diameter and about 50 metres high. Construction at the site began three years ago, and the facility came into service late 2011.

FortisBC is an integrated energy solutions provider focused on providing safe and reliable energy, including natural gas, electricity, propane and alternative energy solutions, at the lowest reasonable cost. FortisBC employs more than 2,300 British Columbians and serves approximately 1.1 million customers in more than 135 B.C. communities. FortisBC is indirectly wholly owned by Fortis Inc., the largest investor-owned distribution utility in Canada. FortisBC

owns and operates four regulated hydroelectric generating plants, approximately 7,000 kilometres of transmission and distribution power lines and approximately 46,000 kilometres of natural gas transmission and distribution pipelines. FortisBC Inc., FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. do business as FortisBC. Fortis Inc. shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com or www.sedar.com.

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Attachment 71.1

Rating Report**Report Date:**

May 20, 2008

Previous Report

March 16, 2007



Insight beyond the rating.

Terasen Gas Inc.

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The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 826,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Recent Actions**May 13, 2008**

Rates New Issue

April 14, 2008

Confirmed with a

Stable Trend

Rating

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

Rating Rationale

DBRS has confirmed the Purchase Money Mortgages and MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations, a favourable regulatory environment with strong ring-fencing provisions, a strong franchise area with a large customer base and stable financial profile.

The regulatory environment continues to remain stable, providing a number of cost-recovery mechanisms, which, combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. Although return on equity (ROE) has been in general decline in recent years because of the low interest rate environment (8.62% in 2008 as opposed to 9.42% in 2003), the impact on earnings and cash flow has been modest and is largely offset by increases in the rate base and in the regulatory-approved equity thickness in the capital structure (35% since 2006, up from 33% previously).

TGI continues to maintain a stable financial profile and credit metrics, reflecting the regulated nature of its operations and its limited gas-cost exposure. In the medium term, DBRS expects earnings to remain relatively stable, with some variability due to such factors as allowed ROE, population growth, new housing starts and customer conversions. Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the \$500 million revolving bank facility and long-term debt issuance. TGI's balance sheet is expected to remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved debt-to-equity ratio of 65%-35%. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Low business risk and strong regulatory framework
- (2) Strong regulatory ring-fencing provisions
- (3) Reasonably strong balance sheet and stable credit metrics
- (4) Strong franchise area with a large customer base

Challenges

- (1) Earnings and cash flow affected by lower ROE
- (2) Long-term competitiveness of natural gas relative to alternative energy sources
- (3) Volume exposure in the industrial and transportation segment

Financial Information

	12 mos. ended	For the year ended December 31				
	Mar. 31, 2008	2007	2006	2005	2004	2003
EBIT interest coverage (1)	1.96	1.95	2.00	1.94	1.94	1.93
% debt in capital structure (1)	65.8%	66.5%	64.7%	67.6%	67.1%	69.4%
Cash flow/total debt (times) (1)	8.8%	8.4%	9.7%	8.9%	9.2%	8.5%
Cash flow/capital expenditures (times)	1.32	1.35	1.47	1.52	1.61	1.27
Allowed ROE	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%
Net income bef. Extra. items (CAD millions)	74	70	68	70	71	70
Operating cash flow (CAD millions)	148	146	160	157	152	148

(1) Includes operating leases

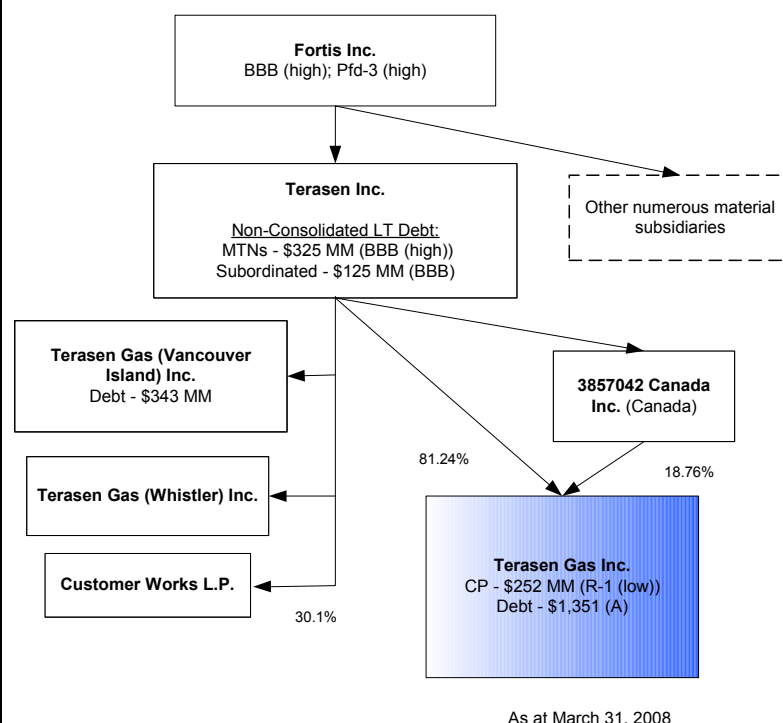
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Rating Rationale (Continued from page 1.)

The Company's credit metrics have historically remained stable and are expected to continue to do so, with minor variability. DBRS notes that while TGI's credit metrics appear weaker than those of its peers in the same rating category, this is offset by the Company's more stable credit metrics and business risk profile. Despite the significant increases in natural gas prices since 1999, the Company has maintained a competitive advantage in terms of pricing when compared with alternative energy sources in British Columbia. TGI's financial strength and credit profile over the longer term will depend to an extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment that benefits from a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the April 30, 2007, British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

(3) TGI maintains a stable balance sheet and credit metrics, reflecting the following: (a) a consistent debt-to-capital ratio, currently at 66%; (b) an EBIT interest coverage ratio historically close to 2.0 times; and (c) a cash flow-to-debt ratio that has been in the 8% to 10% range over the past five years. While the EBIT

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coverage and cash flow-to-debt ratios appear on the low end for an “A” rating compared with its gas distribution peers, historically TGI’s credit metrics have shown the most stability.

(4) TGI serves a large customer base of more than 826,000, located in a stable and growing franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges

(1) The approved ROE of 8.62% for 2008 is low and has been in gradual decline in recent years due to the low interest rate environment. Despite a modestly growing rate base (\$2.5 billion in 2008 compared with \$2.3 billion in 2004), earnings and cash flow have remained flat as a result of the lower ROE.

(2) TGI’s earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices since 1999, natural gas has maintained a competitive advantage in terms of pricing compared with electricity. It is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to BC Hydro. However, TGI’s competitive position would weaken should gas prices increase significantly for a prolonged period of time, which may affect TGI’s longer-term earnings and financial profile.

(3) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

Regulation

Regulatory Overview

- TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC annually for approval of its forecast cost-of-service, throughput, revenue and capital additions.
- TGI’s cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; income and other taxes; and a return on equity.
- TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas.
- TGI’s rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.
 - **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments in the price forecast are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.
 - **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and

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- sales customers, which account for 45% of total throughput, are not covered by this deferral account. However their usage is more predictable and less likely to be significantly affected by weather.
- TGI also has in place short-term and long-term interest rate deferral accounts to absorb interest rate fluctuations.
 - Variances between forecast and actual cost of service and revenue are generally approved by the BCUC for recovery in future rates, with the exception of excess OM&A costs and base-capital expenditures, which are subject to an incentive formula.
 - In July 2003, the BCUC approved a negotiated settlement of a performance-based rate (PBR) plan covering the 2004–2007 period.
 - Under the PBR plan, operating and maintenance costs and base-capital expenditures are subject to an incentive formula that reflects increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years (2006 and 2007).
 - The PBR plan provides for a 50-50 sharing mechanism of earnings above or below the allowed ROE.
 - In January 2007, the Company filed an application with the BCUC to extend the current PBR period for another two years, through to 2009. In March 2007, the BCUC approved the application as filed. The approved PBR is materially the same as the previously established PBR.
 - Allowed ROE is set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield. Based on this formula, for F2008, the ROE is set at 8.62%, with an equity thickness of 35%. The equity thickness was increased to 35% from 33% in 2006.
 - Forecast capital expenditures are also approved by the BCUC. For capital projects that are not covered by the annual capital plan or PBR, TGI submits a separate application to the BCUC. If actual capital costs exceed the amount approved, the excess cost may be subject to a prudence review.
 - Beginning in November 2004, commercial customers were able to purchase gas from alternative commodity suppliers. Starting in November 2007, residential customers were also able to purchase gas from alternative commodity suppliers. The unbundling will not have any financial impact on TGI as it will continue to provide delivery services to these unbundled customers and delivery margins are not expected to be affected by the migration of residential customers to alternative commodity suppliers.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (35%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

While the TGI rating is assigned predominantly on a stand-alone basis, the financial strength of its parent, Fortis Inc. (rated BBB (high)) is viewed as a positive.

Terasen Gas Inc.

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Earnings and Outlook

Consolidated Earnings

(CAD millions)	12 mos. ended	For the year ended December 31				
	Mar. 31, 2008	2007	2006	2005	2004	2003
Net revenues	509	507	517	505	498	500
EBITDA	295	293	301	302	294	298
EBIT	218	215	217	222	213	221
Gross interest expense	109	108	106	112	107	113
Pre-tax income	110	108	112	111	106	110
Income taxes	36	38	44	42	35	39
Net income (before extras)	74	70	68	70	71	70
Net income	82	78	68	65	71	70
Return on avg. common equity (bef. extras.)	8.3%	7.9%	7.8%	8.4%	9.0%	9.2%
EBIT margin (net of gas costs)	42.8%	42.3%	42.0%	44.1%	42.7%	44.2%
Rate Base	2,505	2,484	2,516	2,406	2,310	2,281
Approved common equity	35.0%	35.0%	35.0%	33.0%	33.0%	33.0%
Allowed ROE	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%

Summary

- TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its retail customer base, increases in its rate base and an increased approved equity component, all largely offset by declining allowed ROE.
 - Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract.
- Though in recent years housing starts in British Columbia have been strong, growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling. The BCUC's 2006 decision to increase TGI's equity thickness to 35% from 33% continues to have a positive impact on TGI's performance.
- The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment have exhibited stability over the past five years, and volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.
- The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments.
- Interest expense has been relatively stable since 2003 due to fairly consistent levels of total debt.

Outlook

- As a mature gas distribution utility, TGI is expected to have relatively stable earnings over the medium term, with some variability due to allowed ROE, population growth, new housing starts and customer conversions.
- In the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI's financial and credit profile.

Terasen Gas Inc.

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Financial Profile

	12 mos. ended	For year ended Dec. 31				
(CAD millions)	Mar. 31, 2008	2007	2006	2005	2004	2003
Net income before extraordinary items	74	70	68	70	71	70
Depreciation & amortization	78	79	84	79	82	77
Other non-cash adjustments	(4)	(3)	8	8	(1)	1
Cash Flow From Operations	148	146	160	157	152	148
Capital expenditures	(112)	(108)	(109)	(103)	(94)	(116)
Common dividends	(125)	(111)	(40)	(60)	(60)	(80)
Free Cash Flow Before W/C Changes	(89)	(73)	12	(7)	(2)	(48)
Working capital changes	(42)	(28)	83	(45)	40	(2)
Net Free Cash Flow	(131)	(101)	95	(51)	37	(51)
Acquisitions/divestitures	14	0	0	(42)	68	(4)
Other adjustment/comprehensive	15	11	(7)	(2)	(2)	0
Cash flow before financing	(102)	(90)	88	(95)	103	(54)
Net change in debt financing	116	89	(98)	109	(97)	52
Net change in pref. share financing	0	0	0	0	0	0
Net change in equity financing	0	0	0	0	0	0
Net Change in Cash	14	(1)	(9)	14	6	(2)
Total adjusted debt (CAD million) (1)	1,686	1,744	1,655	1,763	1,652	1,737
Cash flow/total debt (times) (1)	8.8%	8.4%	9.7%	8.9%	9.2%	8.5%
% debt in the capital structure (1)	65.8%	66.5%	64.7%	67.6%	67.1%	69.4%
EBIT interest coverage (times)	1.96	1.95	2.00	1.94	1.94	1.93
Dividend payout ratio (%)	168.8%	158.0%	58.5%	86.3%	84.7%	113.6%

(1) Includes operating leases

Summary

- TGI continues to maintain strong and stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments.
- The large dividend payment in F2007 was primarily due to the significant reduction in dividend payment in F2006.
 - Dividend payments in F2006 were modest as TGI, through retained earnings, increased its equity thickness from 33% to the new regulatory-approved 35%. Going forward, DBRS expects that dividend payments will be made in such a way as to keep the Company's debt-to-capital in line with that allowed by the regulator.
 - As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes. As such, free cash flow has varied along with the level of dividend payments in recent years. Free cash flow deficits over the past five years have been manageable and were funded with debt.
- Leverage remains reasonable at approximately 66%, offset by a slightly weak but acceptable cash flow-to-debt ratio of 8.8%. The stability of TGI's credit metrics are a key factor in its current ratings.
- While the regulatory ring-fencing helps maintain leverage and coverage ratios within the current rating category, leverage can temporarily get out of line during times of significant capital spending. At present, TGI has no major projects planned.

Outlook

- Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's \$500 million revolving bank facility and long-term debt issuance.
 - DBRS expects the capital expenditure to be approximately \$150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.

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- TGI's financial profile is expected to remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved 65%-35% debt-to-equity.
- Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Long-Term Debt Maturities and Liquidity

As at March 31, 2008

(CAD millions)	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>
Long-Term Debt	190	62	2	2	2	1,095	1,351

- Currently TGI has a five-year, \$500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2012. Approximately \$204 million was unutilized at March 31, 2008. The credit facility is used to support TGI's \$500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements (and therefore short-term debt) typically peak in the fall and winter seasons, with reductions in the spring and summer.
- The debt-repayment schedule is modest, with the exception of a large maturity in June 2008. DBRS expects TGI to refinance its maturing debt given its stable credit profile and cash flows generated from its low-risk operations.
- TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.
 - The covenant does not apply to debt issuance for refinancing, and interest expenses do not include interest expenses related to short-term debt or Purchase Money Mortgages.

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Terasen Gas Inc.
Balance Sheet

(CAD millions)

	<u>As at</u> <u>As at December 31</u>				<u>As at</u> <u>As at December 31</u>		
Assets	Mar. 31, 2008	2007	2006	Liabilities & Equity	Mar. 31, 2008	2007	2006
Cash	9	6	7	Short-term debt	252	305	217
Accounts receivable	433	310	290	L.t.d. due in one year	190	190	251
Inventories	63	187	168	A/P	254	331	408
Prepaid expenses	2	4	5	Tax payables	62	39	31
Rate stabilization accts	19	61	118	Rate stabilization acct.	73	0	0
Current Assets	527	568	588	Current Liabilities	830	865	907
Net fixed assets	2,392	2,380	2,353	Long-term debt	1,150	1,151	1,091
Rate stabilization accts	8	12	25	Deferred credits	0	78	67
Deferred charges	38	40	36	Deferred taxes	132	51	55
Long-term rec. + investments	23	23	18	Shareholders' equity	875	878	901
Total	2,988	3,022	3,020	Total	2,988	3,022	3,020

Ratio Analysis
Liquidity Ratios

	<u>12 mos. ended</u>	<u>For the year ended December 31</u>				
	<u>Mar. 31, 2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current ratio	0.63	0.66	0.65	0.74	0.53	0.66
Accumulated depreciation/gross fixed assets	n.a.	23.4%	23.5%	21.9%	21.0%	20.1%
Cash flow/total debt (1)	8.8%	8.4%	9.7%	8.9%	9.2%	8.5%
Cash flow/capital expenditure	1.32	1.35	1.47	1.52	1.61	1.27
Cash flow-dividends/capital expenditures	0.21	0.33	1.11	0.94	0.97	0.58
% debt in capital structure (1)	65.8%	66.5%	64.7%	67.6%	67.1%	69.4%
Approved common equity	35%	35%	35%	33%	33%	33%
Common dividend payout (before extras.)	168.8%	158.0%	58.5%	86.3%	84.7%	113.6%

Coverage Ratios

EBIT interest coverage (1)	1.96	1.95	2.00	1.94	1.94	1.93
EBITDA interest coverage (1)	2.64	2.64	2.84	2.70	2.75	2.65
Fixed-charges coverage (1)	1.91	1.90	1.95	1.90	1.89	1.89
Debt/EBITDA	5.71	5.95	5.50	5.85	5.61	5.83

Earnings Quality

EBIT margin, excluding cost of natural gas	42.8%	42.3%	42.0%	44.1%	42.7%	44.2%
Net margin (excluding preferred dividends)	14.5%	13.8%	13.2%	13.8%	14.2%	14.1%
Return on avg. common equity (bef. extras.)	8.26%	7.89%	7.8%	8.4%	9.0%	9.2%
Allowed ROE (2)	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%

Operating Statistics

Customers/employees	n.a.	750	679	671	670	626
Customer growth	0.9%	1.2%	1.3%	1.6%	1.5%	0.8%
Operating costs/avg. customer (CAD)	299	303	318	304	313	306
Rate base (CAD millions)	2,505	2,484	2,516	2,406	2,310	2,281
Rate base growth	0.8%	-1.3%	4.6%	4.2%	1.3%	2.1%

(1) Includes operating leases

(2) Approved ROE for 2007 is 8.37% with an equity ratio of 35%

Operating Statistics

		<u>12 mos. ended</u>	<u>For year ended December 31</u>				
		<u>Mar. 31, 2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Throughput Volumes							
Residential		n.a.	74.9	68.7	69.4	66.5	68.8
Commercial		n.a.	42.3	38.4	39.1	38.3	39.0
Small industrial		n.a.	3.4	3.8	4.2	4.9	5.6
Large industrial		n.a.	0.2	0.2	0.3	0.4	0.3
Total Natural Gas Sales Volumes	55%	n.a.	120.8	111.1	113.0	110.1	113.7
Transportation service	28%	n.a.	62.3	62.3	63.9	56.7	62.3
Throughput under fixed-price contracts	17%	n.a.	36.8	36.8	36.4	35.5	34.8
Total Throughputs (PJs)*	100%	n.a.	219.9	210.2	213.3	202.3	210.8
Customers							
Residential	90%	n.a.	742,882	733,598	723,898	712,304	701,335
Commercial	10%	n.a.	79,717	79,113	78,497	77,624	77,013
Small industrial	0%	n.a.	297	325	396	416	470
Large industrial	0%	n.a.	40	40	45	45	50
Transportation	0%	n.a.	2,041	1,956	1,907	1,741	1,512
Total (thousands)	100%	826,672	824,977	815,032	804,743	792,130	780,380

* Increase in throughput volume for F2007 reflects the amalgamation of Terasen Gas (Squamish) Inc. with TGI

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Rating Table

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

Rating History

Debt Rated	Current	2007	2006	2005	2004	2003
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Related Research

Terasen Inc., May 20, 2008.

Notes:

All figures are in Canadian dollars unless otherwise noted.

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Rating Report

Report Date:

May 27, 2009

Previous Report

May 20, 2008



Insight beyond the rating.

Terasen Gas Inc.

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The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 834,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Recent Actions

February 20, 2009

Rates New Issue

May 13, 2008

Rates New Issue

April 14, 2008

Confirmed with a Stable Trend

Rating

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

Rating Update

DBRS has confirmed the Purchase Money Mortgages and the MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations, a favourable regulatory environment with strong ring-fencing provisions, a strong franchise area with a large customer base and a stable financial profile.

The regulatory environment continues to remain stable, and provides for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allows for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. The Company's performance based regulation (PBR), which had been in place from 2004 to 2007, was extended through to 2009. TGI recently filed an application to review its allowed return on equity (ROE) and capital structure, and is expected to file a new revenue requirement application with the continuation of its numerous deferral accounts. Although the ROE has been in general decline (8.47% in 2009 as opposed to 9.42% in 2003) because of the low interest rate environment, the impact on earnings and cash flow has been modest and is largely offset by increases in the rate base, higher approved equity thickness in the capital structure (35% since 2006, up from 33% previously), incentive earnings, and stable levels of debt.

TGI continues to maintain a stable financial profile and credit metrics (albeit weaker than its peers), reflecting the regulated nature of its operations and its limited gas-cost exposure. DBRS expects lower customer growth than in the past few years due to a slowing economy, fewer new housing starts, and a shift in the housing mix to more multi-family dwellings. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Low business risk and supportive regulatory framework
- (2) Strong regulatory ring-fencing provisions
- (3) Reasonable balance sheet and stable credit metrics
- (4) Strong franchise area with a large customer base

Challenges

- (1) Earnings and cash flow affected by lower ROE
- (2) Long-term competitiveness of natural gas relative to alternative energy sources
- (3) Volume exposure in the industrial and transportation segment
- (4) Loss of PBR incentive earnings upon expiry

Financial Information

	12 mos. ended		For the year ended December 31		
	Mar. 31 '09	2008	2007	2006	2005
EBIT interest coverage (1)	1.89	1.88	1.95	2.00	1.94
% debt in capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
Cash flow/total debt (times) (1)	9.6%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditures (times)	1.21	1.24	1.35	1.47	1.52
Net income bef. extras (CAD millions)	79	78	70	68	70
Operating cash flow (CAD millions)	151	152	146	160	157

(1) Includes operating leases

Terasen Gas Inc.

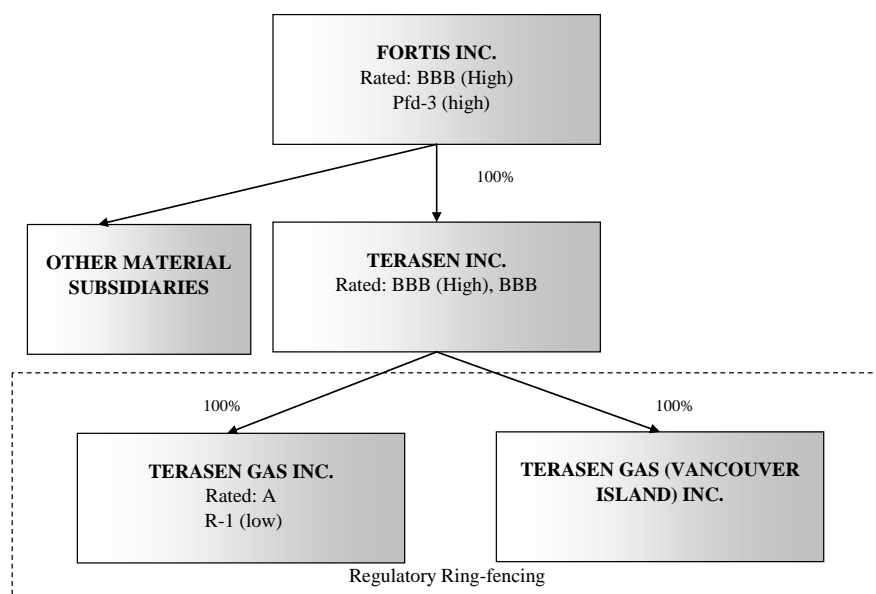
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Rating Update (Continued from page 1.)

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the \$500 million revolving bank facility (\$389 million available at March 31, 2009) and long-term debt issuance. TGI's balance sheet should remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved debt-to-equity ratio of 65% to 35%.

The Company's credit metrics have historically remained consistent and are expected to continue to do so, with minor variability. DBRS notes that while TGI's credit metrics are weaker than those of similarly-rated gas distribution peers, this has historically been offset by the Company's more stable credit metrics and business risk profile. The Company continues to maintain a price advantage relative to electricity, the primary competitor to natural gas. The current weak gas pricing environment both improves TGI's competitiveness, and reduces working capital and liquidity requirements. TGI's financial strength and credit profile over the longer term will depend to an extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment within a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the April 30, 2007, British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

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(3) TGI maintains a stable balance sheet and credit metrics, reflecting the following: (a) a debt-to-capital ratio consistently in the mid-60% area; (b) an EBIT interest coverage ratio historically close to 2.0 times; and (c) a cash flow-to-debt ratio that has been in the 8% to 10% range over the past five years. While the EBIT coverage and cash flow-to-debt ratios are on the low end for an “A” rating compared with its gas distribution peers, historically TGI’s credit metrics have shown the most stability.

(4) TGI serves a large customer base of approximately 834,000, located in a stable franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges

(1) The approved ROE of 8.47% for 2009 (8.62% in 2008) is low and has been in gradual decline in recent years due to the low interest rate environment. Despite a modestly growing rate base (\$2.5 billion in 2008 compared with \$2.3 billion in 2004), earnings and cash flow have remained flat, largely as a result of the lower ROE. Under the current adjustment mechanism, approved ROEs could trend even lower in the future, depending on Government of Canada bond (Canada Bonds) yields.

(2) TGI’s earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices from 1999 through 2008, natural gas maintained a competitive advantage in terms of pricing compared with electricity. While gas prices have retreated significantly in 2009, it is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to BC Hydro.

(3) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

(4) Under the PBR, TGI shares earnings above or below the allowed ROE on a 50/50 basis with customers. This sharing mechanism will expire along with the PBR, which will likely exert some downward pressure on earnings, as TGI’s incentive earnings averaged over \$10 million per year in 2007 and 2008.

Regulation

Regulatory Overview

- TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC annually for approval of its forecast cost-of-service, throughput, revenue and capital additions.
- TGI’s cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; income and other taxes; and a return on equity.
- TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas.
- TGI’s rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.
 - **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments in the price forecast are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.

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- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and sales customers, which account for 45% of total throughput, are not covered by this deferral account. However, their usage is more predictable and less likely to be significantly affected by weather.
- TGI also has in place short- and long-term interest rate deferral accounts to absorb interest rate fluctuations.
- Variances between forecast and actual cost of service and revenue are generally approved by the BCUC for recovery in future rates, with the exception of excess OM&A costs and base-capital expenditures, which are subject to an incentive formula.
 - In 2003, the BCUC approved a negotiated settlement of a performance-based rate (PBR) plan covering the 2004 to 2007 period. In 2007, the BCUC approved a TGI application to extend the PBR through 2009.
 - Under the PBR plan, operating and maintenance costs and base-capital expenditures are subject to an incentive formula that reflects increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during 2006 and 2007.
 - The PBR plan provides for a 50-50 sharing mechanism of earnings above or below the allowed ROE.
 - Allowed ROE is set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield. Based on this formula, for F2009, the ROE is set at 8.47% (8.62% in 2008), with an equity thickness of 35%. The equity thickness was increased to 35% from 33% in 2006.
- Declining yields on 30-year Canada Bonds have reduced approved ROEs (and could continue to do so), which, when coupled with increased credit spreads on long-term debt offerings, has resulted in a declining spread between approved ROEs and debt costs. The Company recently filed an application with the BCUC seeking changes to the current generic ROE adjustment mechanism and deemed equity thickness; TGI requested that its ROE be set at 11% (and not be adjusted by an automatic mechanism) and its equity thickness increased to 40%.
- Forecast capital expenditures are also approved by the BCUC. For capital projects that are not covered by the annual capital plan or PBR, TGI submits a separate application to the BCUC. If actual capital costs exceed the amount approved, the excess cost may be subject to a prudence review.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (35%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

Terasen Gas Inc.

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Earnings and Outlook

Consolidated Earnings

	12 mos. ended Mar. 31 '09	For the year ended December 31			
(CAD millions)	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net revenues	517	513	507	517	505
EBITDA	291	292	293	301	302
EBIT	211	214	215	217	222
Gross interest expense	112	111	108	106	112
Pre-tax income	101	103	108	112	111
Income taxes	22	25	38	44	42
Net income (before extras)	79	78	70	68	70
Net income	92	92	78	68	65
Return on avg. common equity (bef. extras.)	8.8%	8.9%	7.9%	7.8%	8.4%
EBIT margin (net of gas costs)	40.9%	41.7%	42.3%	42.0%	44.1%
Rate Base	n/a	2,510	2,484	2,516	2,406
Approved common equity	35.0%	35.0%	35.0%	35.0%	33.0%
Allowed ROE	8.47%*	8.62%	8.37%	8.80%	9.03%

* 8.47% for 2009

Summary

- TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its customer base, increases in its rate base and a stable approved equity component, all largely offset by declining allowed ROE.
 - Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract.
- Though in recent years housing starts in British Columbia have been strong, growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling. The BCUC's 2006 decision to increase TGI's equity thickness to 35% from 33% had a positive impact on TGI's performance.
- The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment have exhibited stability over the past five years, and volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.
- The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments.
- Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

- In the shorter term, earnings will likely be moderately impacted by the loss of incentive earnings upon expiry of the PBR mechanism. Over the medium term, as a mature gas distribution utility, TGI is expected to have relatively stable earnings with some variability due to allowed ROE, population growth, new housing starts and customer conversions. DBRS expects lower customer growth than in the past few years due to a slowing economy and fewer new housing starts. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs.
- Over the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI's financial and credit profile. The competitiveness of natural gas will also be affected by the provincial consumption tax on carbon-based fuels.

Terasen Gas Inc.

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Financial Profile

	12 mos. ended Mar. 31 '09	For year ended Dec. 31			
(CAD millions)	2009	2008	2007	2006	2005
Net income before extraordinary items	79	78	70	68	70
Depreciation & amortization	79	78	79	84	79
Other non-cash adjustments	(7)	(5)	(3)	8	8
Cash Flow From Operations	151	152	146	160	157
Capital expenditures	(125)	(122)	(108)	(109)	(103)
Common dividends	(58)	(100)	(111)	(40)	(60)
Free Cash Flow Before W/C Changes	(32)	(70)	(73)	12	(7)
Working capital changes	25	33	(28)	83	(45)
Net Free Cash Flow	(7)	(37)	(101)	95	(51)
Acquisitions/divestitures	0	14	0	0	(42)
Other adjustment/comprehensive	38	36	11	(7)	(2)
Cash flow before financing	31	13	(90)	88	(95)
Net change in debt financing	(23)	(5)	89	(98)	109
Net change in pref. share financing	0	0	0	0	0
Net change in equity financing	0	0	0	0	0
Net Change in Cash	8	8	(1)	(9)	14
Total adjusted debt (CAD million) (1)	1,569	1,730	1,744	1,655	1,763
Cash flow/total debt (times) (1)	9.6%	8.8%	8.4%	9.7%	8.9%
% debt in the capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
EBIT interest coverage (times)	1.89	1.88	1.95	2.00	1.94
Dividend payout ratio (%)	73.2%	127.7%	158.0%	58.5%	86.3%

(1) Includes operating leases

Summary

- TGI continues to maintain stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments.
- The relatively large dividend payments in F2007 and F2008 were primarily due to the significant reduction in dividend payment in F2006.
 - Dividend payments in F2006 were modest as TGI, through retained earnings, increased its equity thickness from 33% to the new regulatory-approved 35%. Going forward, DBRS expects that dividend payments will be made in such a way as to keep the Company's debt-to-capital in line with that allowed by the regulator.
 - As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes. As such, free cash flow has varied along with the level of dividend payments in recent years. Free cash flow deficits over the past five years have been manageable and were funded with debt.
- Leverage remains reasonable at approximately 66%, offset by a weak but acceptable cash flow-to-debt ratio, which is typically in the 8% to 10% range. The stability of TGI's credit metrics is a key factor in its current ratings.

Outlook

- Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's \$500 million revolving bank facility (\$218 million available at December 31, 2008) and long-term debt issuance.
 - DBRS expects the capital expenditure to be approximately \$150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.
- TGI's financial profile should remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved 65% to 35% debt-to-equity (unchanged from 2008).
- Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Terasen Gas Inc.

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Long-Term Debt Maturities and Liquidity

As at Dec. 31, 2008

(CAD millions)	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>	<u>Total</u>
Long-Term Debt	62	2	2	2	2	1,345	1,413

- Currently, TGI has a five-year, \$500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2013. Approximately \$389 million was unutilized at March 31, 2009. The credit facility is used to support TGI's \$500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements (and, therefore, short-term debt) typically peak in the fall and winter seasons, with reductions in the spring and summer.
- The debt-repayment schedule is very modest through to 2015. In February 2009, TGI issued \$100 million of 30-year notes, which more than pre-funds the 2009 maturities.
- TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.
 - The covenant does not apply to debt issuance for refinancing, and interest expenses do not include interest expenses related to short-term debt or Purchase Money Mortgages.

Terasen Gas Inc.

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Balance Sheet (CAD millions)

Assets	2009	2008	2007
Cash	17	13	6
Accounts receivable	388	346	310
Inventories	64	192	187
Prepaid expenses	27	3	4
Rate stabilization accts	116	54	61
Current Assets	613	608	568
Net fixed assets	2,369	2,432	2,380
Rate stabilization accts	0	0	12
Deferred charges	305	0	40
Long-term rec. + investments	101	69	23
Total	3,387	3,109	3,022

Terasen Gas Inc.

Mar. 31 As at December 31			Mar. 31 As at December 31		
2009	2008	2007	2009	2008	2007
Liabilities & Equity			Liabilities & Equity		
Short-term debt	68	239	305		
L.t.d. due in one year	62	62	190		
A/P	371	366	331		
Tax payables	62	66	39		
Rate stabilization acct.	55	24	0		
Current Liabilities	617	755	865		
Long-term debt	1,439	1,340	1,151		
Deferred credits	183	138	78		
Deferred taxes	249	1	51		
Shareholders' equity	900	875	878		
Total	3,387	3,109	3,022		

Ratio Analysis

Liquidity Ratios

	12 mos. ending Mar. 31/09	For the year ended December 31	2009	2008	2007	2006	2005
Current ratio	0.99	0.80	0.66	0.65	0.74		
Accumulated depreciation/gross fixed assets	n/a	23.8%	23.4%	23.5%	21.9%		
Cash flow/total debt (1)	9.6%	8.8%	8.4%	9.7%	8.9%		
Cash flow/capital expenditure	1.21	1.24	1.35	1.47	1.52		
Cash flow-dividends/capital expenditures	0.75	0.43	0.33	1.11	0.94		
% debt in capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%		
Approved common equity	35%	35%	35%	35%	33%		
Common dividend payout (before extras.)	73.2%	127.7%	158.0%	58.5%	86.3%		

Coverage Ratios

EBIT interest coverage (1)	1.89	1.88	1.95	2.00	1.94
EBITDA interest coverage (1)	2.61	2.55	2.64	2.84	2.70
Fixed-charges coverage (1)	1.89	1.84	1.90	1.95	1.90
Debt/EBITDA	5.40	5.93	5.95	5.50	5.85

Earnings Quality

EBIT margin, excluding cost of natural gas	40.9%	41.7%	42.3%	42.0%	44.1%
Net margin (excluding preferred dividends)	15.2%	15.3%	13.8%	13.2%	13.8%
Return on avg. common equity (bef. extras.)	8.85%	8.93%	7.89%	7.8%	8.4%
Allowed ROE	8.47% *	8.62%	8.37%	8.80%	9.03%

Operating Statistics

Customers/employees	n/a	758	750	679	671
Customer growth	n/a	1.1%	1.2%	1.3%	1.6%
Operating costs/avg. customer (CAD)	n/a	306	303	318	304
Rate base (CAD millions)	n/a	2,510	2,484	2,516	2,406
Rate base growth	n/a	1.0%	-1.3%	4.6%	4.2%

(1) Includes operating leases

* 8.47% for 2009

Operating Statistics

Throughput Volumes

	2008	2007	2006	2005	2004
Residential	78.5	74.9	68.7	69.4	66.5
Commercial	44.1	42.3	38.4	39.1	38.3
Small industrial	3.1	3.4	3.8	4.2	4.9
Large industrial	0.1	0.2	0.2	0.3	0.4
Total Natural Gas Sales Volumes	125.8	120.8	111.1	113.0	110.1
Transportation service	57.3	62.3	62.3	63.9	0.0
Throughput under fixed-price contracts	39.6	36.8	36.8	36.4	0.0
Total Throughputs (PJs)	222.7	219.9	210.2	213.3	110.1
Customers					
Residential	750,838	742,882	733,598	723,898	712,304
Commercial	81,012	79,717	79,113	78,497	77,624
Small industrial	284	297	325	396	416
Large industrial	33	40	40	45	45
Transportation	2,059	2,041	1,956	1,907	1,741
Total (thousands)	834,226	824,977	815,032	804,743	792,130

Terasen Gas Inc.

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Ratings

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

Rating History

Debt Rated	Current	2008	2007	2006	2005	2004
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Note:

All figures are in Canadian dollars unless otherwise noted.

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Rating Report

Report Date:

July 22, 2010

Previous Report

May 27, 2009



Insight beyond the rating.

Terasen Gas Inc.

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The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 840,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Rating

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

Rating Update

DBRS has confirmed the Purchase Money Mortgages and the MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations; a favourable regulatory environment, with strong ring-fencing provisions; a strong franchise area, with a large customer base; and a modestly improved financial profile.

In late 2009, TGI executed a negotiated settlement that established rates for 2010 and 2011. The settlement excluded the performance-based rate (PBR) mechanism, under which the Company had operated for the 2004 to 2009 period. The PBR had allowed TGI the opportunity to share earnings above the allowed return on equity (ROE) with customers on a 50/50 basis and had been beneficial to TGI as it had provided more than \$11 million per year in earnings, on average, in 2008 and 2009. While the loss of this PBR income would have negatively affected TGI's financial results, this was largely offset by an improvement in regulatory allowed ROE (to 9.50% from the 8.43% that would otherwise have been in effect) and equity thickness (from 35.01% to 40%). The regulatory environment also continues to provide for a number of cost-recovery mechanisms that, when combined with the general rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame.

The Company's credit metrics have historically remained consistent and are expected to continue to do so, with a modest lift from the recent regulatory changes. With the increases in approved ROE and equity thickness, partially offset by the loss of PBR, DBRS estimates an increase in the EBIT coverage metric of approximately 0.25 times and an increase of approximately 150 basis points in cash flow-to-debt over recent historicals. However, TGI's coverage metrics are expected to remain moderately lower than those of similarly rated gas distribution companies, even factoring in the improvements, a differential DBRS views as being offset by the Company's more stable credit metrics and business risk profile. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Low business risk and supportive regulatory framework
- (2) Strong regulatory ring-fencing provisions
- (3) Reasonable balance sheet and stable credit metrics
- (4) Strong franchise area, with a large customer base

Challenges

- (1) Long-term competitiveness of natural gas relative to alternative energy sources
- (2) Volume exposure in the industrial and transportation segment
- (3) ROE levels and loss of PBR incentive earnings

Financial Information

	For the 12-mos. ended Mar. 31/10	2009	2008	2007	2006	2005
EBIT interest coverage (1)	2.1	1.9	1.9	1.9	2.0	1.9
% debt in capital structure (1)	59.9%	66.4%	66.4%	66.5%	64.7%	67.6%
Cash flow/total debt (times) (1)	11.7%	9.8%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditures (times)	1.3	1.2	1.2	1.3	1.5	1.5
Net income bef. extras (CAD millions)	102	87	78	70	68	70
Operating cash flow (CAD millions)	184	170	152	146	160	157

(1) Includes operating leases

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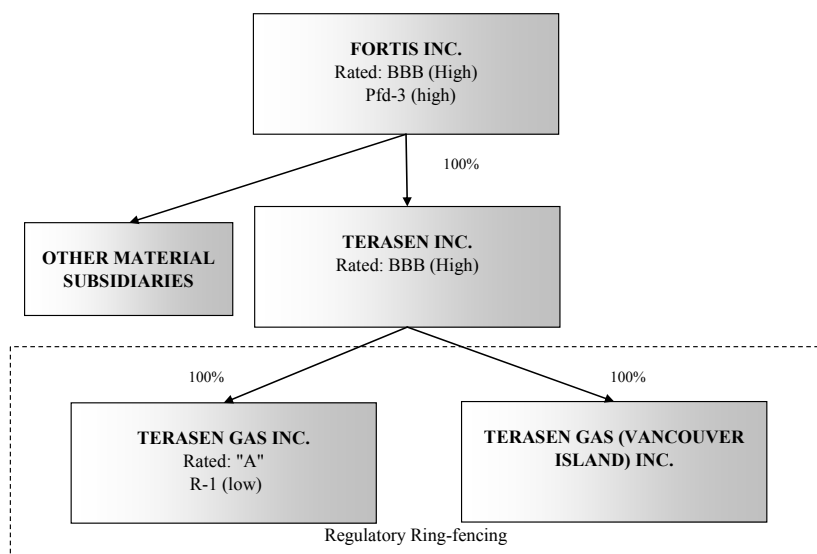
Rating Update (Continued from page 1.)

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the \$500 million revolving bank facility (\$414 million available at March 31, 2010) and long-term debt issuance. TGI's balance sheet is expected to remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the recently revised regulatory-approved debt-to-equity ratio of 60%-to-40%.

DBRS expects the lower customer growth trend to continue, with fewer new housing starts and a shift in the housing mix to more multi-family dwellings. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs.

The Company continues to maintain a price advantage relative to electricity, the primary competitor to natural gas. The current weaker gas pricing environment both improves TGI's competitiveness and reduces working capital and liquidity requirements. TGI's financial strength and credit profile over the longer term will depend to some extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment within a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the 2007 British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

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(3) TGI has historically maintained a stable balance sheet and credit metrics, with some modest improvement attributable to recent regulatory changes. While the EBIT coverage and cash flow-to-debt ratios have improved and are expected to remain at more modestly favourable levels, they remain on the lower end for an “A” rating compared with its gas distribution peers. However, DBRS remains comfortable with TGI’s rating given the inherent stability its credit metrics have shown over time.

(4) TGI serves a large customer base of approximately 840,000, located in a stable franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges

(1) TGI’s earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices through 2008, natural gas continued to maintain a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to British Columbia Hydro & Power Authority (BC Hydro).

(2) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

(3) Although the BCUC terminated the automatic ROE adjustment formula and set the approved level at 9.50% (effective July 1, 2009), it had been below 9% for the prior three years, negatively affecting earnings and cash flows. With use of the adjustment formula having been terminated, there is uncertainty as to how ROE levels will be determined in the medium and longer term; the BCUC has directed TGI to investigate alternative mechanisms. Additionally, under the prior PBR, TGI shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of this is expected to largely offset the credit metric upside of the ROE increase as TGI’s incentive earnings averaged more than \$11 million per year in 2008 and 2009.

Regulation

Regulatory Overview

TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC for approval of rates to recover its forecast cost-of-service. TGI’s cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; interest; income and other taxes; and ROE.

TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas. TGI’s rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.

- **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.

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- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and sales customers, which account for 45% of total throughput, are not covered by this deferral account. However, their usage is more predictable and less likely to be significantly affected by weather.
- TGI also has short- and long-term interest rate deferral accounts to absorb interest rate fluctuations.

Under the PBR, which was in effect from 2004 to 2009, operating and maintenance costs and base-capital expenditures were subject to an incentive formula that reflected increasing costs as a result of customer growth and inflation less a productivity factor. The PBR provided for a 50/50 sharing mechanism of earnings above or below the allowed ROE. However, in 2009, a negotiated settlement was reached that established TGI's rates for 2010 and 2011; PBR ended in 2009 and is not part of the negotiated settlement, which allows for the incorporation into rates of changes to the BCUC-determined levels of ROE and common equity.

Allowed ROE had been set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium was adjusted annually by 75% of the difference between 5.25% and the forecast yield. The common equity component of the capital structure was set at 35.01%. However, in 2009, TGI filed a BCUC application requesting an increase in the common equity component and a higher return on equity. In its decision, the BCUC determined that the ROE adjustment mechanism would no longer apply and that an ROE of 9.50% would be in effect from July 1, 2009, until amended; the BCUC directed TGI to complete a study of alternative mechanisms and report back by the end of 2010.

TGI's common equity component was also increased from 35.01% to 40%, effective January 1, 2010; TGI received a \$125 million equity injection early in January 2010 to bring its capital structure into alignment with this revision. Forecast capital expenditures are also approved by the BCUC.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (now 40%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

Terasen Gas Inc.

Report Date:
July 22, 2010

Earnings and Outlook

Consolidated Earnings

	For the 12-mos. ended Mar. 31/10	For the year ended December 31				
(CAD millions)		2009	2008	2007	2006	2005
Net revenues	550	526	513	507	517	505
EBITDA	319	297	292	293	301	302
EBIT	233	214	214	215	217	222
Gross interest expense	107	109	111	108	106	112
Pre-tax income	126	106	103	108	112	111
Income taxes	25	19	25	38	44	42
Net income (before extras)	102	87	78	70	68	70
Net income	102	87	92	78	68	65
Return on avg. common equity (bef. extras.)	10.4%	9.9%	8.9%	7.9%	7.8%	8.4%
EBIT margin (net of gas costs)	42.3%	40.7%	41.7%	42.3%	42.0%	44.1%
Rate Base*	2,542	2,547	2,510	2,484	2,516	2,406
Approved common equity	40.00%	35.01%	35.01%	35.01%	35.01%	33.00%
Allowed ROE**	9.50%	8.47%	8.62%	8.37%	8.80%	9.03%

* \$2,542 million for 2010. ** 8.47% for first six months of 2009, 9.50% for second six months

Summary

TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its customer base, increases in its rate base and a stable approved equity component, all largely offset by declining allowed ROE levels. Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract. Much of the recent modest improvement in earnings is attributable to the recent BCUC decision to increase both the common equity component and the approved ROE. Growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling.

The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment exhibit stability, and any volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.

The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments. Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

DBRS expects earnings to continue at their modestly higher levels due to the impact of the higher equity component and approved ROE, modestly offset by the negative impact of the loss of incentive earnings upon expiry of the PBR mechanism. Over the medium term, as a mature gas distribution utility, TGI is expected to have relatively stable earnings, with some variability due to allowed ROE, population growth, new housing starts and customer conversions.

Over the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI's financial and credit profile. The competitiveness of natural gas will also be affected by the provincial consumption tax on carbon-based fuels.

Terasen Gas Inc.

Report Date:
July 22, 2010

Financial Profile

	For the 12-mos. ended Mar. 31/10	2009	2008	2007	2006	2005
(CAD millions)						
Net income before extraordinary items	102	87	78	70	68	70
Depreciation & amortization	86	83	78	79	84	79
Other non-cash adjustments	(4)	0	(5)	(3)	8	8
Cash Flow From Operations	184	170	152	146	160	157
Capital expenditures	(140)	(139)	(122)	(108)	(109)	(103)
Common dividends	(75)	(67)	(100)	(111)	(40)	(60)
Free Cash Flow Before W/C Changes	(30)	(36)	(70)	(73)	12	(7)
Working capital changes	(10)	16	33	(28)	83	(45)
Net Free Cash Flow	(40)	(20)	(37)	(101)	95	(51)
Acquisitions/divestitures	0	0	14	0	0	(42)
Other adjustment/comprehensive	(13)	7	36	11	(7)	(2)
Cash flow before financing	(53)	(13)	13	(90)	88	(95)
Net change in debt financing	(86)	6	(5)	89	(98)	109
Net change in pref. share financing	0	0	0	0	0	0
Net change in equity financing	125	0	0	0	0	0
Net Change in Cash	(13)	(7)	8	(1)	(9)	14
Total adjusted debt (CAD million) (1)	1,573	1,737	1,730	1,744	1,655	1,763
Cash flow/total debt (times) (1)	11.7%	9.8%	8.8%	8.4%	9.7%	8.9%
% debt in the capital structure (1)	60%	66%	66%	67%	65%	68%
EBIT interest coverage (times)	2.1	1.9	1.9	1.9	2.0	1.9
Dividend payout ratio (%)	74%	77%	128%	158%	58%	86%

(1) Includes operating leases

Summary

TGI has maintained stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments. The recent uptick is attributable to the recent regulatory changes to ROE and equity thickness. The level of dividends is expected to continue to maintain TGI's capital structure in line with BCUC-approved levels. TGI has received a \$125 million equity injection to bring its capital structure in line with the BCUC's decision to increase the common equity component to 40%. Proceeds were largely used to reduce debt.

As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes (now 40%). Leverage has thus improved to 60%, with a commensurate modest improvement in coverage metrics expected. The stability of TGI's coverage metrics continues to be a key factor in its ratings.

Outlook

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's \$500 million revolving bank facility (\$414 million available at March 31, 2010) and long-term debt issuance. DBRS expects the capital expenditure to be approximately \$150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.

TGI's financial profile should remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the recently approved 60%-to-40% debt-to-equity ratio. With the recent regulatory changes, DBRS estimates the following improvements: cash flow-to-total debt to move from its historic 8% to 10% range to approximately 10% to 12% and EBIT-to-interest to remain greater than 2.0 times. Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Terasen Gas Inc.
Report Date:

July 22, 2010

Long-Term Debt Maturities and Liquidity
As at Mar. 31, 2010

(CAD millions)	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>
Long-Term Debt	2	2	2	2	2	1,447	1,456

TGI has a five-year, \$500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2013; \$414 million was unutilized at March 31, 2010. The credit facility is primarily used to support TGI's \$500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements typically peak in the fall and winter seasons, with reductions in the spring and summer. The debt-repayment schedule is negligible in the near term.

TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.

Terasen Gas Inc.

Report Date:

July 22, 2010

Terasen Gas Inc.

Balance Sheet

(CAD millions)

Assets	Mar. 31/10	2009	2008
Cash	4	6	13
Accounts receivable	268	277	346
Inventories	108	149	192
Prepaid expenses	2	23	3
Rate stabilization accts	146	69	54
Current Assets	528	524	608
Net fixed assets	2,429	2,489	2,432
Rate stabilization accts	0	0	0
Deferred charges	0	0	0
Long-term rec. + investments	420	355	69
Total	3,377	3,368	3,109

As at December 31			As at December 31		
Mar. 31/10	2009	2008	Mar. 31/10	2009	2008
Liabilities & Equity			Liabilities & Equity		
Short-term debt	40	204	239		
L.t.d. due in one year	2	2	62		
A/P	360	337	366		
Tax payables	41	42	66		
Rate stabilization acct.	2	12	24		
Current Liabilities	446	597	755		
Long-term debt	1,441	1,440	1,340		
Deferred credits	163	173	138		
Deferred taxes	275	276	1		
Shareholders' equity	1,051	881	875		
Total	3,377	3,368	3,109		

Ratio Analysis

Liquidity Ratios

	For the 12-mos. ended Mar. 31/10	2009	2008	2007	2006	2005
Current ratio	1.18	0.88	0.80	0.66	0.65	0.74
Accumulated depreciation/gross fixed assets	na	24.1%	23.8%	23.4%	23.5%	21.9%
Cash flow/total debt (1)	11.7%	9.8%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditure	1.32	1.22	1.24	1.35	1.47	1.52
Cash flow-dividends/capital expenditures	0.78	0.74	0.43	0.33	1.11	0.94
% debt in capital structure (1)	59.9%	66.4%	66.4%	66.5%	64.7%	67.6%
Approved common equity	40.00%	35.01%	35.01%	35.01%	35.01%	33.00%
Common dividend payout (before extras.)	73.8%	77.4%	127.7%	158.0%	58.5%	86.3%

Coverage Ratios

EBIT interest coverage (1)	2.1	1.9	1.9	1.9	2.0	1.9
EBITDA interest coverage (1)	2.9	2.6	2.6	2.6	2.8	2.7
Fixed-charges coverage (1)	2.1	1.9	1.8	1.9	2.0	1.9
Debt/EBITDA	4.9	5.9	5.9	6.0	5.5	5.8

Earnings Quality

EBIT margin, excluding cost of natural gas	42.3%	40.7%	41.7%	42.3%	42.0%	44.1%
Net margin (excluding preferred dividends)	18.5%	16.5%	15.3%	13.8%	13.2%	13.8%
Return on avg. common equity (bef. extras.)	10.41%	9.87%	8.93%	7.89%	7.8%	8.4%
Allowed ROE *	9.50%	8.47%	8.62%	8.37%	8.80%	9.03%

Operating Statistics

Customer growth	n/a	0.6%	1.1%	1.2%	1.3%	1.6%
Operating costs/avg. customer (CAD)	321	316	306	303	318	304
Rate base (CAD millions)	2,542	2,547	2,510	2,484	2,516	2,406
Rate base growth	-0.2%	1.5%	1.0%	-1.3%	4.6%	4.2%

(1) Includes operating leases

* 8.47% for first six months of 2009, 9.50% for second six months

Operating Statistics

Throughput Volumes

	2009	2008	2007	2006	2005
Residential	72.7	78.5	74.9	68.7	69.4
Commercial	42.4	44.1	42.3	38.4	39.1
Small industrial	3.0	3.1	3.4	3.8	4.2
Large industrial	0.2	0.1	0.2	0.2	0.3

Total Natural Gas Sales Volumes

Transportation service	54.0	57.3	62.3	62.3	63.9
Throughput under fixed-price contracts	36.0	39.6	36.8	36.8	36.4
Total Throughputs (PJs)	208.3	222.7	219.9	210.2	213.3

Customers

Residential	755,660	750,838	742,882	733,598	723,898
Commercial	81,274	81,012	79,717	79,113	78,497
Small industrial	251	284	297	325	396
Large industrial	31	33	40	40	45
Transportation	2,078	2,059	2,041	1,956	1,907
Total (thousands)	839,294	834,226	824,977	815,032	804,743

Terasen Gas Inc.

Report Date:
July 22, 2010

Ratings

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

Rating History

Debt Rated	Current	2009	2008	2007	2006	2005
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Related Research

- [Recent Regulatory Developments for Canadian Pipeline and Utility Companies](#), February 10, 2010.

Note:

All figures are in Canadian dollars unless otherwise noted.

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Rating Report

Report Date:
September 19, 2011
Previous Report
July 22, 2010



Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia (B.C. or the Province, rated AA (high)), serving approximately 846,000 customers and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (FTS, rated A (low)).

Commercial Paper Limit
\$500 million

Recent Actions
September 16, 2011
Confirmed

March 1, 2011
Name Change

Rating

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

Rating Rationale

On September 16, 2011, DBRS confirmed the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI or the Company, formerly known as Terasen Gas Inc.) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The ratings reflect FEI's low business risk operations within a stable regulatory environment and franchise area, strong ring-fencing provisions, as well as its relatively sound financial profile and credit metrics compared with peers. The ratings also reflect the Company's relatively low allowed ROE, loss of performance-based rate (PBR) incentive earnings, ongoing exposure to volume risk from its industrial and transportation segments and the continued challenge of natural gas' long-term competitiveness vis-à-vis alternative energy sources.

FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) are expected to file an application in the Fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The amalgamation will require the British Columbia Utilities Commission's (BCUC) approval and the Government of British Columbia's consent to proceed. At this time, DBRS anticipates that the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI provided that there are no material changes that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model. DBRS notes that FEI's current contribution to FHI's overall earnings is approximately 75% and anticipates that the bulk of the amalgamated entity's earnings will continue to be derived from FEI. Should the potential amalgamation proceed, DBRS may re-examine any impacts to FEI and the consolidated utility's credit profile as a result of changes to the capital structure or ROE. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Low business risk operations within a stable regulatory environment
- (2) Strong regulatory ring-fencing provisions
- (3) Stable financial profile and credit metrics
- (4) Strong franchise area, with a predictable customer base

Challenges

- (1) ROE level and loss of performance-based rate (PBR) incentive earnings
- (2) Volume exposure in the industrial and transportation segments
- (3) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

	LTM Jun. 30th	For the year ended December 31st				
	2011	2010	2009	2008	2007	2006
EBIT Interest Coverage ⁽¹⁾	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
% Debt in Capital Structure ⁽¹⁾	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Cash Flow/Total Debt ⁽¹⁾	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.1x	1.1x	1.2x	1.4x	1.3x	1.5x
Net Income before Extra. (C\$ millions)	74	93	87	92	70	68
Operating Cash Flow (C\$ millions)	176	177	170	166	146	160

⁽¹⁾ Includes operating leases

FortisBC Energy Inc.

Report Date:
September 19, 2011

Rating Rationale (Continued from page 1.)

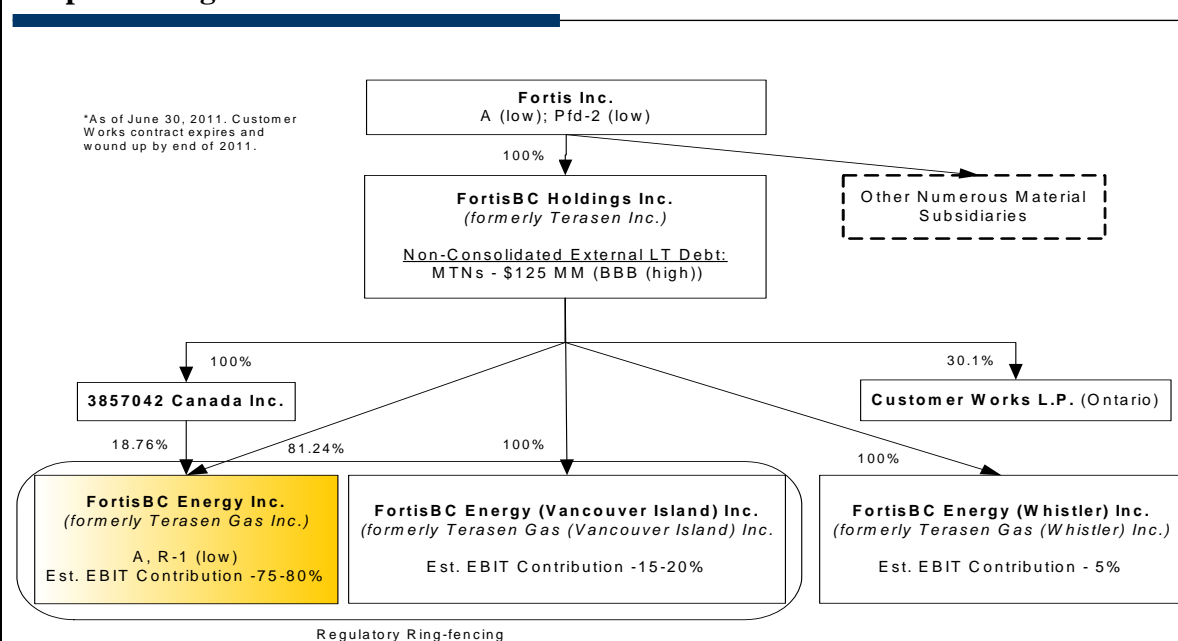
The regulatory environment in which FEI operates continues to provide for a number of cost-recovery mechanisms that, when combined with the general rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In July 2011, the BCUC approved FEI's December 2010 application to provide fuelling station infrastructure and services but denied the Company's request for a general tariff for the provision of natural gas for vehicles unless certain contractual conditions are met. Earlier in May 2011, FEI filed its 2012-2013 Revenue Requirements and Delivery Rate Application (RRA) in which the Company forecasted a rate increase of approximately 2.8% to 3.0% based on an average rate base of roughly \$2,740 million to \$2,900 million. The outcome is anticipated in the first quarter of 2012.

FEI's operating performance and credit metrics have historically been stable and are expected to continue to remain consistent. Additionally, due to increases in both the approved ROE and equity thickness as a result of regulatory changes in 2009, DBRS anticipates a continued modest lift in the Company's EBIT coverage and cash flow-to-debt metrics, despite the loss of PBR-related earnings. Despite these increases, FEI's key metrics are expected to remain moderately lower than those of similarly rated gas distribution companies, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business.

The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. DBRS expects that FEI will continue to finance any deficits with a combination of bank debt, long-term debt issuances and dividend management.

The Company, in conjunction with its holding company, FHI, and its ultimate parent, Fortis Inc. (FTS, rated A (low)), intends to transition to U.S. GAAP, as opposed to IFRS, in January 2012. The BCUC has approved FEI's request to adopt U.S. GAAP to be used for regulatory reporting purposes from January 1, 2012 to December 31, 2014 but has directed the Company to re-apply by September 1, 2014 for approval of its regulatory accounting standard effective January 1, 2015. DBRS anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis.

Simplified Organization Chart*



Rating Considerations Details

Strengths

(1) FEI's low-risk regulated operations are located in a stable regulatory environment which allows the Company to generate predictable earnings and cash flow to sustain and grow its business. Moreover, FEI operates under a full cost-of-service recovery framework and utilizes deferral accounts which further stabilizes earnings and enables the Company to adjust for the recovery/refund of any shortfalls/overages of natural gas costs from/to customers. FEI is not exposed to commodity costs (subject to a degree of recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) The regulatory ring-fencing imposed by the BCUC on FEI as a condition of the acquisition of FHI by FTS requires, among other conditions: (1) maintenance of the BCUC-approved capital structure; (2) no common dividend payment without BCUC approval if the payment would violate the first condition; (3) no financial support or guarantees for its non-regulated businesses or affiliates; and (4) no transactions with affiliates that would violate BCUC guidelines, policies or directives. The intent of the BCUC decision is to ensure that public interest is protected and that FEI, along with FEVI, will continue to operate as separate, stand-alone entities without undue parental influence.

(3) FEI has historically maintained a stable balance sheet and credit metrics, with some modest improvement attributable to the regulatory changes in 2009. While the EBIT coverage and cash flow-to-debt ratios have improved and are expected to remain at more modestly favourable levels, they remain on the lower end for an A rating compared with its gas distribution peers. However, DBRS remains comfortable with FEI's rating given the inherent low risk nature of its business, and the stability its credit metrics have shown over time.

(4) FEI serves a customer base of approximately 846,000, located in a stable franchise area that includes the City of Vancouver. The customer mix is comprised mainly of residential and commercial customers, which account for roughly 90% of the Company's distribution revenue. Although, there is no volume risk (although there is a degree of recovery lag) associated with these customer segments, DBRS expects the customer growth trend to continue to decline, with fewer new housing starts and a shift in the housing mix to more multi-family dwellings. FEI is expected to focus on retaining customers through expanded energy conservation and efficiency programs in order to offset the growth trend.

Challenges

(1) FEI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (electricity as the primary competitor) in British Columbia. Despite the significant increases in natural gas prices through 2008, natural gas continued to maintain a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected that under reasonable gas price assumptions, FEI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to British Columbia Hydro & Power Authority (BC Hydro). This current pricing environment improves both FEI's competitiveness and reduces its working capital and liquidity requirements.

(2) The Company is exposed to forecast variances related to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes and 5% of revenues but are not eligible for inclusion in the revenue stabilization deferral account. However, this volume risk is mitigated by the fact that usage by these segments is less likely to be significantly affected by weather and is therefore more predictable. FEI also annually surveys its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk are the fixed demand charges derived from this segment.

(3) In 2009, the BCUC terminated the automatic ROE adjustment formula and set the approved level at 9.50%, however, the ROE had been below 9% for the prior three years, negatively affecting earnings and cash flows. Additionally, under the prior PBR mechanism, FEI shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of PBR earnings has largely offset the credit positive impact of the ROE increase.

Regulation

Regulatory Overview

The Company is located in the Province of British Columbia (B.C. or the Province, rated AA (high)) and is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service methodology. Under this system, the Company must apply to the BCUC for approval to recover its forecasted cost-of-service from customers through rates. Typically, FEI's cost of service includes the cost of purchased gas, transportation and distribution, operating, maintenance and administrative expenses (OM&A), depreciation of facilities, interests, income, and other taxes and ROE. Accordingly, FEI's rates are based on estimates of items such as natural gas sales volumes, the cost of natural gas and interest rates.

In order to manage the forecast risks associated with these estimates, the Company employs a number of regulatory deferral accounts to mitigate potential impacts:

- **Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):** Any differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. Consequently, FEI is minimally exposed to recovery lag since balances are expected to be fully recovered or refunded within the next fiscal year, however, prices are adjusted on a quarterly basis to better reflect prevailing gas commodity prices thereby mitigating the impact of recovery lag.
- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer use throughout the year and subsequently recovered in rates over three years. The RSAM stabilizes revenues from residential and commercial customers but variances by large-volume industrial transportation and sales customers, which account for 45% of FEI's total throughput, are not included in this deferral account. However, FEI's exposure to volume risk is mitigated by the predictability in usage of these customer segments that are also less likely to be significantly affected by weather.
- FEI also utilizes short- and long-term interest rate deferral accounts to assist in absorbing the impact of interest rate fluctuations.

FEI is presently operating under a Negotiated Settlement Agreement (NSA) that allows changes to the BCUC-determined ROE (set at 9.50% for 2011) and common equity levels (set at 40.00% for 2011) to be incorporated into rates. Established in late 2009 when the BCUC determined that the ROE adjustment mechanism under which FEI operated no longer applied, the NSA set FEI's rates for 2010 and 2011 but does not include the PBR mechanism that was in effect from 2004 to 2009. Previously under the PBR, the Company's O&M costs as well as base-capital expenditures were subject to an incentive formula that reflected increasing costs due to customer growth and inflation, less a productivity factor.

The PBR had provided for a 50/50 sharing mechanism of earnings above or below the allowed ROE that was set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium was adjusted annually by 75% of the difference between 5.25% and the forecast yield. The common equity component of the capital structure was set at 35.01%; the BCUC has since increase FEI's equity level to 40.00% and the Company received a \$125 million equity injection in January 2010 to align its capital structure with this revision. While the loss of the PBR income would have negatively affected FEI's financial results, this was largely offset by an improvement in regulatory allowed ROE (to 9.50% from the 8.43% that would otherwise have been in effect) and equity thickness (from 35.01% to 40%).

Regulatory Ring-Fencing

The regulatory ring-fencing imposed by the BCUC as a condition of the acquisition of FEI by FTS in April 2007 (a continuation of the ring fencing imposed upon acquisition of the former Terasen Inc. by KMI in December 2005) is intended to ensure that public interest is protected and that FEI and FEVI will continue to operate as separate, stand-alone entities without undue parental influence.

FortisBC Energy Inc.

Report Date:
September 19, 2011

Earnings and Outlook

Consolidated Income Statement

(C\$ millions)	<i>LTM Jun. 30th</i>	<i>For the year ended December 31st</i>				
	2011	2010	2009	2008	2007	2006
Net Revenue	566	572	526	513	507	517
EBITDA	296	317	297	292	293	301
EBIT	207	226	214	214	215	217
Gross Interest Expense	106	104	109	111	108	106
Pre-tax Income	103	123	106	103	108	112
Income Tax	29	30	19	12	38	44
Core Net Income (before Extra.)	74	93	87	92	70	68
Net Income	74	93	87	92	78	68
Return on Avg. Common Eq. (before Extra.)	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
EBIT Margin (Net of Gas Costs)	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Allowed ROE*	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

* 8.47% for first six months of 2009, 9.50% for second six months

Summary

Much of the recent modest improvement in FEI's earnings is attributable to the 2009 BCUC decision to increase both the Company's common equity component and approved ROE. Notwithstanding these increases, FEI's earnings continue to remain relatively predictable due to the Company's core segment of residential and commercial customers that comprise the majority of its margin while its industrial customers are typically under contract and are less susceptible to the weather. Moreover, FEI continues to maintain very stable EBITDA and EBIT levels that are reflective of modest net additions to its customer base, increases in its rate base and an established approved equity component, all largely offset by relatively low allowed ROE levels.

Historically, FEI's gas distribution segment has accounted for more than 50% of total throughput volumes and roughly 90% of total revenues. Throughputs for this segment exhibit stability, and any volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates. However, the growth in multi-family housing continues to negatively impact net customer additions as the use of natural gas is less prevalent within these dwellings.

FEI's transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of FEI's total throughput volumes and less than 10% of total revenues. Although these segments expose the Company to a degree of volume risk, the exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments. Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

The Company's earnings are anticipated to continue at their modestly higher levels due to the impact of the higher equity component and approved ROE, offset by the negative impact of the loss of incentive earnings upon expiry of the PBR mechanism. DBRS expects that over the medium term, as typical of a mature gas distribution utility, FEI will continue to generate relatively stable earnings, with some variability related to allowed ROE, population growth, new housing starts and customer conversions.

Over the longer term, FEI's earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While FEI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position may weaken should gas prices increase significantly for a prolonged period of time, potentially negatively impacting FEI's financial and credit profile. The competitiveness of natural gas may also be affected by the provincial consumption tax on carbon-based fuels.

FortisBC Energy Inc.

Report Date:
September 19, 2011

Financial Profile

Cash Flow Statement

	<i>L TM Jun. 30th</i>	<i>For the year ended December 31st</i>				
<i>(C\$ millions)</i>	2011	2010	2009	2008	2007	2006
Net Income (before Extra.)	92	93	87	92	70	68
Depreciation & Amortization	89	91	83	78	79	84
Other Non-cash Adjustments	(4)	(7)	0	(4)	(3)	8
Operating Cash Flow	176	177	170	166	146	160
CapEx	(161)	(157)	(139)	(123)	(108)	(109)
Common Dividends	(82)	(84)	(67)	(100)	(111)	(40)
Free Cash Flow Before W/C Changes	(67)	(64)	(36)	(57)	(73)	12
Working Capital Changes	56	(15)	16	33	(28)	83
Net Free Cash Flow	(11)	(79)	(20)	(24)	(101)	95
Acquisitions/Divestitures	0	0	0	14	0	0
Other adjustment/comprehensive	0	0	0	14	0	0
Cash Flow Before Financing	176	177	170	166	146	160
Net Change in Debt Financing	(0)	(24)	6	(5)	89	(98)
Net change in Pref. Share Financing	0	0	0	0	0	0
Net Equity in Financing	0	125	0	0	0	0
Net Change in Cash	1	9	(7)	8	(1)	(9)
Total Adjusted Debt (C\$ million) ⁽¹⁾	1,576.0	1,713.3	1,738.9	1,734.4	1,738.6	1,657.6
Cash Flow/Total Debt ⁽¹⁾	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
% Debt in Capital Structure ⁽¹⁾	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
EBIT Interest Coverage ⁽¹⁾	1.9	2.1	1.9	1.9	1.9	2.0
Dividend Payout Ratio	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%

⁽¹⁾ Includes operating leases

Summary

As with FEI's earnings, the recent modest increase in the Company's stable cash flow from operations is attributable to the regulatory increases to the ROE and equity thickness in 2009. Dividends will continue to be maintained in line with FEI's BCUC-approved capital structure as, pursuant to the BCUC-imposed ring-fencing conditions, FEI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes.

Key cash-flow metrics remain moderately lower than those of similarly rated gas distribution peers, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business and notes that the stability of FEI's coverage metrics continues to be a key factor in its ratings.

Outlook

Historically, FEI's financial profile has been stable and is expected to remain relatively consistent over the medium term, with a continued modest lift in the Company's cash flow-to-debt metrics as a result of the regulatory changes in 2009 and despite the loss of PBR-related earnings. The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. Capital expenditures are expected to be approximately \$180 million annually over the short- to medium-term and DBRS expects that any deficits are to be financed with a combination of the Company's \$500 million revolving bank facility (\$411.8 million of which was available at June 30, 2011) and long-term debt issuances.

Long term, DBRS believes that, under current reasonable gas and electricity price assumptions, FEI will remain competitive relative to alternative energy sources and anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis. Moreover, DBRS anticipates that the planned amalgamation and associated rate harmonization of FEI, FEVI and FEW will not impact the credit profile of FEI provided that there are no material changes to the consolidated utility that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model.

FortisBC Energy Inc.

Report Date:
September 19, 2011

Long-Term Debt and Liquidity

DBRS views FEI's liquidity as sufficient for its funding requirements. The Company's \$500 million, five-year unsecured committed revolving credit facility with a syndicate of banks matures in August 2013 and \$411.8 million was unutilized as at June 30, 2011. The credit facility is primarily used to support FEI's \$500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Typically, gas inventory levels and working capital requirements peak in the fall and winter seasons and decline in the spring and summer.

FEI's debt-repayment schedule is negligible in the near term:

As at June 30, 2011

<i>(C\$ millions)</i>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>	<u>Total</u>
Long-Term Debt	2.6	2.6	2.6	2.6	77.5	1,370.0	1,457.9

DBRS notes that FEI's bond indenture contains an EBIT-to-interest coverage test that must be observed in order for the Company to issue additional indebtedness. To allow FEI to issue debt with a maturity term longer than 18 months, EBIT for the 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest.

FortisBC Energy Inc.

Report Date:
September 19, 2011

Balance Sheet
FortisBC Energy Inc.
(Consolidated)

(C\$ millions)	As at Jun. 30th	As at the year ended Dec. 31st				As at Jun. 30th	As at the year ended Dec. 31st			
Assets	2011	2010	2009	2008	Liabilities & Equity	2011	2010	2009	2008	
Cash	9	15	6	13	Short-Term Debt	40	178	204	239	
Accounts Receivable	231	298	277	346	Long-term Debt Due within 1 Year	3	3	2	62	
Inventories	80	136	149	192	Accounts Payable	280	368	337	366	
Prepaid Expenses & Other	14	11	23	3	Tax Payable	65	37	42	66	
Rate Stabilization Accounts	61	95	69	54	Rate Stabilization Accounts	33	4	12	24	
					Other LT Liabilities & Deferred Credits	5	12	0	0	
Current Assets	395	557	524	608	Current Liabilities	427	591	597	755	
Net Fixed Assets	2,476	2,466	2,423	2,357	Long-Term Debt	1,444	1,442	1,440	1,340	
Rate Stabilization Accounts	0	0	0	0	Deferred Credits	167	149	181	138	
Deferred Charges	0	0	0	40	Deferred Taxes	282	280	271	1	
Long-Term Investments	492	461	423	104	Common Equity	1,044	1,023	881	875	
Total	3,364	3,484	3,370	3,109	Total	3,364	3,484	3,370	3,109	

Ratio Analysis

LTM Mar. 31st

For the year ended December 31st

	2011	2010	2009	2008	2007	2006
Liquidity Ratios						
Current Ratio	0.93x	0.94x	0.88x	0.80x	0.65x	0.65x
Accum. Depr./Gross Fixed Assets	N/A	25.4%	24.2%	23.4%	23.4%	23.5%
Cash Flow/Total Debt ⁽¹⁾	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.09x	1.13x	1.22x	1.35x	1.35x	1.47x
Cash Flow-Dividend/CapEx	0.58x	0.59x	0.74x	0.54x	0.33x	1.11x
Debt in Capital Structure ⁽¹⁾	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Common Div. Payout (before Extra.)	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%
Coverage Ratios						
EBIT/Interest Expense ⁽¹⁾	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
EBITDA/Interest Expense ⁽¹⁾	2.7x	2.9x	2.6x	2.5x	2.6x	2.8x
Fixed-Charge Coverage ⁽¹⁾	1.9x	2.1x	1.9x	1.8x	1.9x	1.9x
Debt/EBITDA	5.3x	5.4x	5.9x	5.9x	5.9x	5.5x
Profitability Ratios						
EBIT Margin, excl. Cost of Gas	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Net Margin excl. Preferred Dividends	13.1%	16.3%	16.5%	17.9%	13.8%	13.2%
Return on Avg. Equity (before Prefs)	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
Allowed ROE ⁽²⁾	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%
Operating Statistics						
Customer Growth	N/A	0.8%	0.6%	1.1%	1.2%	1.3%
Op. Costs/Avg. Customer (C\$ millions)	731	353	316	306	303	318
Rate Base (C\$ millions)	2,634	2,540	2,547	2,510	2,484	2,516
Rate Base Growth	N/A	-0.3%	1.5%	1.0%	-1.3%	4.6%

⁽¹⁾ Includes operating leases

⁽²⁾ 8.47% for first six months of 2009, 9.50% for second six months

FortisBC Energy Inc.

Report Date:
September 19, 2011

Operating Statistics

For the year ended December 31st

	2010	2009	2008	2007	2006
Throughput Volumes					
Residential	65.2	72.7	78.5	74.9	68.7
Commercial	38.8	42.4	44.1	42.3	38.4
Small industrial	2.6	3.0	3.1	3.4	3.8
Large industrial	0.1	0.2	0.1	0.2	0.2
Total Natural Gas Sales Volumes	106.7	118.3	125.8	120.8	111.1
Transportation Service	54.9	54.0	57.3	62.3	62.3
Throughput Under Fixed-price Contracts	33.0	36.0	39.6	36.8	36.8
Total Throughputs (PJs)	194.6	208.3	222.7	219.9	210.2
Customers					
Residential	762,496	755,660	750,838	742,882	733,598
Commercial	81,366	81,274	81,012	79,717	79,113
Small industrial	236	251	284	297	325
Large industrial	25	31	33	40	40
Transportation	2,111	2,075	2,059	2,041	1,956
Total (thousands)*	846,234	839,291	834,226	824,977	815,032

* Increase in throughput volume for F2007 reflects the amalgamation of Terasen Gas (Squamish) Inc. with TGI

FortisBC Energy Inc.

Report Date:
September 19, 2011

Ratings

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

Rating History

Debt Rated	Current	2010	2009	2008	2007	2006
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- **FortisBC Holdings Inc.**, Rating Report, September 19, 2011.

Notes:

All figures are in Canadian dollars unless otherwise noted.

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Rating Report

Report Date:

February 29, 2012

Previous Report

September 19, 2011



Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 852,000 customers (December 2011) and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit

\$500 million

Recent Actions

September 16, 2011

Confirmed

March 1, 2011

Name Change

Rating

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

Rating Update

DBRS has confirmed the Medium-Term Notes (MTNs) & Unsecured Debentures (Debentures) and secured Purchase Money Mortgages (PMMs) ratings of FortisBC Energy Inc. (FEI or the Company) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The MTNs and Debentures have the same rating as the PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (17% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The rating confirmation reflects FEI's low-risk business with predominantly regulated operations in an economically strong area, a solid financial profile and a reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and sizable customer base (852,000 or 90% of the province's natural gas users). Competition in the Company's franchise area remains limited to electricity, with FEI retaining a competitive operating cost advantage reflecting the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40%). Although FEI's ROE and capital structure could be affected in 2013 due to a regulatory review (see Regulation), DBRS does not expect the outcome of the regulatory review to have a material impact on the Company's earnings and cash flow.

The Company's financial profile remained relatively stable in 2011, with solid debt-to-capital and interest coverage metrics. This was supported by stronger cash flow and the \$125 million equity issuance in 2010 (due to a 5% increase in deemed equity). The cash flow-to-debt metric, despite being slightly weaker than DBRS's "A" rating guidelines, has consistently improved since 2007. FEI is expected to generate negative free cash flow in 2012 as a result of capital spending (\$195 million in 2012), which is mainly due to its Customer Care Enhancement Project (CCE). DBRS expects FEI to continue to finance the deficits by managing its dividend payouts and equity issuances to the parent, as well as debt issuances, and maintaining its debt-to-capital ratio in line with the current rating. In the absence of an adverse regulatory decision on its ROE and capital structure, beyond what DBRS has expected, FEI's credit metrics are expected to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths

- (1) Low business risk and reasonable regulation
- (2) Economically strong service territory
- (3) Stable and solid financial profile
- (4) A large customer base

Challenges

- (1) Volume risk
- (2) No access to the equity market
- (3) Potential change in ROE and deemed equity
- (4) Competition from electricity

Financial Information

FortisBC Energy Inc. (FEI)

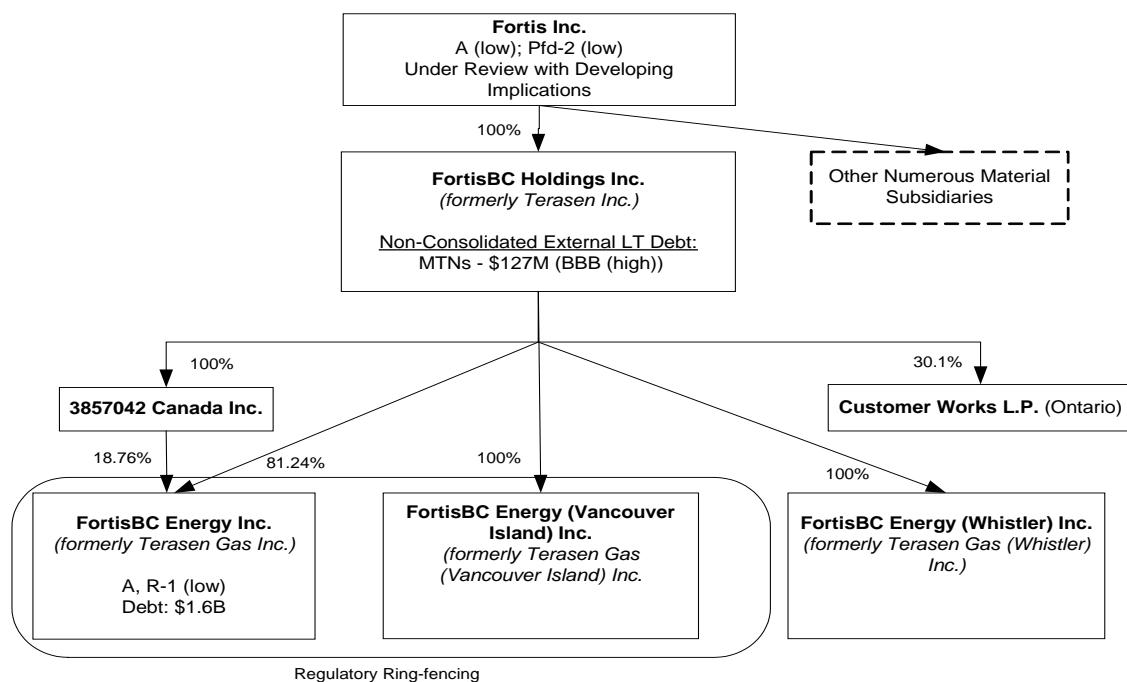
For the year ended December 31st

	2011	2010	2009	2008	2007	2006
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
% debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash flow/Capex	1.13	1.13	1.22	1.35	1.35	1.47
Net income before extra. items (C\$ millions)	102	93	87	92	73	68
Cash flow from operations (C\$ millions)	191	177	170	166	146	160
(1) Adjusted for operating leases.						

FortisBC Energy Inc.

Report Date:
February 29, 2012

Simplified Organization Chart



Potential Amalgamation

FortisBC Energy Inc, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. filed an application in the fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The application was temporarily suspended in late 2011. At this time, DBRS believes the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI, provided that there are no material changes that will negatively affect its rate base and/or its current business model or ROE and capital structure.

Rating Considerations Details

Strengths

(1) **Low business risk:** FEI's operations are predominantly regulated, as most of its earnings are generated from the natural gas transmission and distribution businesses. The competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong franchise:** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 90% of distribution revenues, 54% of throughput), whose consumption is less sensitive to economic conditions.

(3) **Solid credit metrics:** FEI has maintained its capital structure in line with the regulatory structure (required by the regulator). The current debt-to-capital level of 60% and EBIT interest coverage of 2.2 times (x) are commensurate with its current rating range. DBRS notes that FEI's cash flow-to-debt ratio was slightly weaker than the "A" rating guidelines. However, this ratio has improved consistently since 2007.

(4) **A large customer base:** FEI had a large customer base of approximately 852,000 at the end of 2011. This represented approximately 90% of natural gas users in the province. The large customer base allows the Company to operate more efficiently and carry on large capital projects that are not feasible for utilities with a smaller customer base.

Challenges

(1) **Volume risk:** The Company is exposed to volume risk on industrial and transportation customers, who accounted for approximately 46% of the Company's total throughput in 2011 (over 5% of revenue). These customers' usage is sensitive to economic conditions (such as the pulp and paper industries).

(2) **No direct access to the public equity market:** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. When deemed equity changed in 2010, increasing from 35% to 40%, the Company issued \$125 million in equity to the parent to maintain its capital structure in line with the regulator's requirement. The company's current rating incorporates DBRS's expectation that the parent will continue to provide financing support in the future if required.

(3) **Generic Cost of Capital Proceeding (GCCP):** The British Columbia Utilities Commission (BCUC) is initiating a GCCP, in which it will review setting the cost of capital for a benchmark low-risk utility (such as FEI) and establishing a return on equity automatic adjustment mechanism. This could have a material impact on FEI's ROE and deemed equity.

(4) **Competitive environment:** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to low power costs in the province. However, FEI currently benefits from a low gas price environment, which is expected to remain low for the foreseeable future.

Regulation

Overview: DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- Based on the forecast, the BCUC will set rates to permit FEI to collect all of its forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial transportation and sales customers, which account for approximately 45% of FEI's total throughput, are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rate Design

- Prior to 2010, FEI operated under a performance-based rate plan (PBR).
- In 2010 and 2011, FEI operated under a Negotiated Settlement Agreement (NSA), during which time the Company's ROE and deemed equity were at 9.50% and 40%, respectively.
- Variances in certain operating expenses, including property taxes and changes in tax rates are deferred until the next rate application.
- The Company may apply from time to time for rate changes should it incur costs that are beyond its control.
- The current ROE and the capital structure are expected to remain the same until amended by the BCUC.
- In late 2011, the BCUC notified FEI that it plans to initiate a GCCP in 2012. This proceeding may result in a change in ROE and capital structure for FEI.
- In 2011, FEI filed an application for its 2012-2013 revenue requirements and delivery rates (2012-2013 RRA). The application forecast an average rate base of \$2,760 million for 2012 and \$2,820 million for 2013. The forecast for a higher rate base reflects significant capital projects related to system integrity and reliability.
- The 2012-2013 RRA seeks a 3% increase in burn-tip rates for 2012 and a 3.1% increase for 2013.
- Rates, including interim delivery and midstream rates, for FEI residential customers increased by 3% effective January 2012 (compared to the preceding quarter) for Lower Mainland, Fraser Valley, Interior, North and the Kootenays, which included the 2012-2013 RRA request on the interim basis.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in December 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence.
- One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Earnings and Outlook

Consolidated Income Statement: FEI

For the year ended December 31st

(C\$ millions)	2011	2010	2009	2008	2007	2006
EBITDA	323	317	297	292	293	301
EBIT	233	226	214	214	215	217
Gross interest expense	108	104	109	111	108	106
Pre-tax income	129	123	106	103	108	112
Income tax	27	30	19	12	35	44
Net income before extra. items	102	93	87	92	73	68
Reported net income	102	93	87	92	78	68
Return on avg. common equity	9.8%	9.8%	9.9%	10.4%	8.2%	7.8%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

Summary

- Earnings in 2011 continued to benefit from the 2009 ROE and capital structure decision, which established higher ROE and deemed equity for 2010 and 2011, compared with previous years.
- Higher transportation volumes to the forestry and mining sectors also contributed to higher earnings in 2011. Although the forestry sector has stabilized recently, it remains very sensitive to economic conditions.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the RSAM, which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

Outlook

- The Company's 2012 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capital expenditures.
- The BCUC is initiating the GCCP in 2012, which could have a negative impact on FEI's earnings; however, DBRS does not expect the outcome of this regulatory review to have a material impact on the Company's earnings.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Financial Profile

Consolidated Cash Flow Statement: FEI

For the year ended December 31st

(C\$ millions)	2011	2010	2009	2008	2007	2006
Net income before extra. items	102	93	87	92	73	68
Depreciation & amortization	89	91	83	78	79	84
Deferred income taxes/Other	(1)	(7)	0	(4)	(5)	8
Cash flow from operations	191	177	170	166	146	160
Dividends paid	(85)	(84)	(67)	(100)	(111)	(40)
Capex	(169)	(157)	(139)	(123)	(108)	(109)
Free cash flow before WC	(63)	(64)	(36)	(57)	(73)	11
Changes in working capital (WC)	95	(15)	16	33	(28)	83
Net free cash flow	32	(79)	(20)	(24)	(101)	95
Acquisitions	0	0	0	0	0	0
Assets sales/Divestitures	0	0	0	14	0	0
Net changes in equity	0	125	0	0	0	0
Net changes in debt	(12)	(24)	6	(5)	89	(98)
Other/Adjustments by DBRS	(17)	(13)	7	22	11	(7)
Change in cash	2	9	(7)	7	(1)	(9)
(C\$ millions)						
EBITDA (\$ millions)	323	317	297	292	293	301
Total debt (\$ millions)(1)	1,709	1,712	1,737	1,733	1,740	1,652
Total debt in capital structure	60.5%	61.3%	65.2%	65.2%	65.2%	63.4%
Total debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
Total debt/EBITDA (1)	5.30	5.41	5.85	5.94	5.94	5.49
Capex/Depreciation	1.89	1.72	1.68	1.57	1.38	1.30
Dividend payout ratio	83.4%	90.1%	76.8%	109.3%	152.1%	58.5%

(1) Adjusted for operating leases.

Summary

- Cash flow from operations has increased steadily since 2007, reflecting the Company's growing rate base.
- Capital investments to support load growth and system reliability have also increased considerably over this period. This, combined with high dividend payouts (an average of 85% over the last four years), has resulted in cash flow deficits (before working capital).
- DBRS notes that a large swing in working capital in 2011 was a result of changes in deferred accounts.
- The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- When the deemed equity was raised to 40% in 2010 from 35% in 2009, the Company issued \$125 million in equity to its parent to finance cash flow deficits and to comply with the 40% equity structure.
- As a result, FEI's credit metrics improved moderately in 2010 and remained stable in 2011.
- Despite the improvement, the cash flow-to-debt ratio remained slightly weaker than the "A" rating range. However, the other two key credit metrics (debt-to-capital ratio and EBIT interest coverage) were commensurate with the current rating.

Outlook

- Cash flow deficits are expected to continue as capital expenditures are expected to remain high at \$195 million for 2012 (estimate) largely due to the CCE Project. DBRS expects the Company to continue to finance its capital expenditures by managing dividends and equity issuances to the parent as well as other debt issuances and maintaining its capital structure in line with its current rating range.
- In the absence of any adverse regulatory decisions affecting ROE or capital structure, DBRS expects FEI's credit metrics to remain relatively stable in 2012.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Long-Term Debt and Liquidity

Liquidity

Facilities (C\$ millions)	Committed	Drawn/LC	Available	Expiry
Syndicated unsecured credit facility	500	113.2	386.8	Aug-13

- The credit facility is primarily used to support FEI's \$500 million commercial paper (CP) program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter. DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period.

Debt Maturity Schedule

Debt Maturities (C\$ millions)	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Thereafter</u>	<u>Total</u>
Long-term	2.9	2.9	2.9	77.8	202.9	1,256.0	1,545.4
Short-term	65.0						65.0
Total	67.9	2.9	2.9	77.8	202.9	1,256.0	1,610.4
% of total	4%	0%	0%	5%	13%	78%	100%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when over \$200 million (or 13%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments (C\$ millions)	<u>2011</u>	<u>2010</u>
Credit facilities	65	178
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,173
Capital leases	15	13
Total	1,624	1,639
Less: Current portion and LT issue costs	(14)	(16)
Total	1,610	1,623

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only 17% of the total); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but ranks equally with the Company's secured debt.
- In December 2011, FEI issued \$100 million of unsecured MTNs, maturing in 2041. The net proceeds were used to repay a credit facility and for general corporate purposes.

FortisBC Energy Inc.

Report Date:
February 29, 2012

FortisBC Energy Inc.								
Balance Sheet (C\$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31	
	2011	2010	2009	Liabilities & Equity	2011	2010	2009	
Assets								
Cash & equivalents	17	15	6	S.T. borrowings	65	178	204	
Accounts receivable	238	298	277	Current portion L.T.D.	3	3	2	
Inventories	101	136	149	Accounts payable	304	358	337	
Others	82	108	92	Deferred tax	0	1	8	
				Others	58	51	45	
Total Current Assets	439	557	524	Total Current Liabilities	430	591	597	
Net fixed assets	2,513	2,466	2,423	Long-term debt (L.T.D.)	1,543	1,442	1,440	
Future income tax assets	0	0	0	Deferred income taxes	304	280	271	
Goodwill & intangibles	117	95	83	Other L.T. liabilities	177	149	181	
Investments & others	435	366	340	Shareholders equity	1,050	1,023	881	
Total Assets	3,503	3,484	3,370	Total Liab. & SE	3,503	3,484	3,370	

Balance Sheet &
Liquidity & Capital Ratios

For the year ended December 31st

	2011	2010	2009	2008	2007	2006
Current ratio	1.02	0.94	0.88	0.80	0.65	0.65
Net debt in capital structure	60.3%	61.1%	65.1%	65.0%	65.1%	63.3%
Total debt in capital structure	60.5%	61.3%	65.2%	65.2%	65.2%	63.4%
Total debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Net debt	12.0%	11.0%	10.3%	10.2%	8.9%	10.3%
Cash flow/Total debt	11.8%	10.9%	10.3%	10.1%	8.9%	10.3%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash flow/Capex	1.13	1.13	1.22	1.35	1.35	1.47
(Cash flow - Dividends)/Capex	0.62	0.59	0.74	0.54	0.33	1.11
Deemed common equity	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%
Dividend payout ratio	83.4%	90.1%	76.8%	109.3%	152.1%	58.5%
Coverage Ratios (times)						
EBIT gross interest coverage	2.17	2.17	1.96	1.92	1.99	2.05
EBITDA gross interest coverage	3.00	3.04	2.72	2.62	2.72	2.84
Fixed-charges coverage	2.17	2.17	1.96	1.92	1.99	2.05
Debt/EBITDA	4.99	5.13	5.55	5.62	5.62	5.18
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
Profitability Ratios						
EBITDA margin	23.8%	23.2%	20.7%	17.5%	19.2%	19.7%
EBIT margin	17.2%	16.6%	14.9%	12.8%	14.1%	14.2%
Profit margin	7.5%	6.8%	6.0%	5.5%	4.8%	4.5%
Return on equity	9.8%	9.8%	9.9%	10.4%	8.2%	7.8%
Return on capital	6.5%	6.2%	6.2%	6.4%	5.5%	5.1%
Allowed ROE	9.5%	9.5%	9.0%	8.6%	8.4%	8.8%

(1) Adjusted for operating leases.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Ratings

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

Rating History

Debt Rated	Current	2011	2010	2009	2008	2007
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- **FortisBC Holdings Inc.**, Rating Report, February 29, 2012.

Notes:

All figures are in Canadian dollars unless otherwise noted.

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Attachment 71.1.1

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Attachment 72.1

Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

Contacts

Analyst	Phone
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John Diaz/New York	212.553.1977

Key Indicators

Terasen Gas Inc.

	[1]LTM	2006	2005	2004	2003
ROE (%) [2]	8.6%	7.7%	7.8%	9.2%	9.3%
EBIT/Customer Base (US\$ MM) [3]	\$238.8	\$222.2	\$226.5	\$212.6	\$207.2
EBIT/Interest (x)	2.0x	2.0x	1.9x	2.0x	1.9x
RCF/Debt (%)	0.1%	8.0%	5.8%	7.3%	6.1%
Debt/Book Capitalization (Excluding Goodwill) (%)	67.8%	65.3%	68.7%	68.1%	71.1%
FCF/FFO (%)	-74.5%	54.9%	-63.4%	20.3%	-25.3%

[1] To September 30, 2007 [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commerical Customers (Ex. Industrial)

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Company Profile

Headquartered in Vancouver, British Columbia, Terasen Gas Inc. (TGI, A3 senior unsecured, stable) is the largest distributor of natural gas in the Province and the third largest gas distribution utility in Canada. It is a wholly-owned subsidiary of Terasen Inc. (TER, Baa2 senior unsecured, stable), a holding company which also owns 100% of the ownership interest of Terasen Gas Vancouver Island Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW), and a 30% interest in CustomerWorks, L.P. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). This low-risk regulated gas distribution company generates predictable, stable earnings and serves approximately 800,000 customers in Greater Vancouver, the Fraser Valley, and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province.

Recent Developments

TER, and consequently TGI, was acquired by Fortis Inc. (FTS, unrated) on May 17, 2007 for a total consideration of \$3.7 billion. Cash consideration paid by FTS was \$1.24 billion and assumed debt was \$2.46 billion. The cash consideration was substantially funded with a \$1.15 billion equity offering by FTS with the balance of the

consideration funded from FTS' committed credit facilities.

The acquisition was structured in such a way that, on closing, TER's main assets were the gas distribution utilities TGI, TGI and TGW.

Moody's anticipates that under FTS' ownership, TER and its gas LDC subsidiaries will be financially and operationally independent from FTS and its other subsidiaries. This approach would be consistent with FTS' approach to its other Moody's rated utility subsidiaries, FortisAlberta Inc. (FAB, Baa1 senior unsecured, stable), FortisBC Inc. (FAB, Baa2 senior unsecured, stable) and Newfoundland Power Inc. (NPI, Baa1 senior unsecured, stable).

Rating Rationale

TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). These regulatory ring-fencing conditions together with FTS' philosophy of requiring its utility operating subsidiaries to be financially and operationally independent of FTS allow Moody's to evaluate the credit profile of TGI substantially on a stand alone basis.

As described in Moody's rating methodology for North American Regulated Gas Distribution Industry (Local Distribution Companies), Moody's focuses on the following four main rating factors in assessing the relative creditworthiness of Local Distribution Companies (LDCs) such as TGI: Sustainable Profitability, Regulatory Support, Ring-Fencing, and Financial Strength and Flexibility. It is Moody's intent that in applying this methodology, investors should be able to derive a rating indication that is within two notches of the company's published rating in most instances.

FACTOR 1: SUSTAINABLE PROFITABILITY (20% weighting)

a) Return on Equity (15% weighting) - TGI's Return on Equity scores within the A range with a three year average of approximately 8.2%. In March 2006, the BCUC approved an increase in TGI's deemed equity to 35% (from 33%) and increased the equity risk premium in the automatic ROE adjustment formula by 50 basis points. While these changes result in stronger credit metrics, all else being equal, TGI continues to operate with one of the lowest deemed equity levels among its peers both in Canada and internationally. TGI has operated under a Performance Based Rate Plan (PBR) since 2004. TGI recently received approval of a negotiated settlement to extend its PBR Plan through 2009. Under the PBR plan, TGI has typically been able to earn ROE's in excess of its allowed ROE while sharing a portion of PBR savings with ratepayers. In the event that the existing PBR plan is not extended and a new PBR plan is not established, Moody's expects that TGI's metrics would weaken somewhat in 2010 and beyond. However, the impact of the termination of the PBR plan would be somewhat muted in 2010 and 2011 due to features of the current plan which provide for a phase out of the sharing of capital incentives for two years. TGI's ROE for the year ended December 31, 2006 was approximately 7.7% and is on par with those of its LDC peers within the Baa range (5-9%).

b) EBIT/Customer Base (5% weighting) - The company's three year historical average has been approximately US\$220/customer which scores in the A category for this subfactor. TGI benefits from a monopoly franchise in a mature service territory with a moderate and predictable growth profile.

FACTOR 2: REGULATORY SUPPORT (10% weighting)

TGI scores in the Aa category on this factor. The company's location in British Columbia, which enjoys a strong provincial economy and supportive regulatory climate, contributes to Moody's view of TGI as a low-risk regulated gas distribution company. Moody's considers Canada to have supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the more supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. TGI annually reviews its capital spending plans and the rate impacts thereof with the BCUC, a process which substantially reduces the risk of being unable to fully recover costs that have already been incurred.

The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics (average EBIT Interest Coverage of 2.0x and average RCF/Debt of 7.0 % over the last three years) are partially offset by the supportive regulatory environment in which TGI operates. TGI's exposure to commodity price and volume risks as well as pension funding costs and insurance costs is limited by operation of various deferral mechanisms including the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM).

FACTOR 3: RING-FENCING (10% weighting)

Relative to its peers, Moody's considers TGI's ring-fencing to be very good and scores in the Aa category. The ring-fencing provisions require that TGI maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%), restrict loans or guarantees to affiliates, and

prohibit investments in or support of non-regulated business. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes.

Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile on a stand-alone basis.

FACTOR 4: FINANCIAL STRENGTH AND FLEXIBILITY (60% weighting)

Moody's rating methodology considers the following credit metrics to be important indicators of the financial strength of local gas distribution companies:

a) EBIT/Interest (15% weighting) - TGI's EBIT/Interest Expense scores within the Ba range, with a three year historical average measuring approximately 2.0x. In the short to medium-term, Moody's expects TGI's EBIT/Interest Expense ratio to remain relatively weak at approximately 2.0x which is within the Ba range for this subfactor. TGI's EBIT to Interest Coverage for the year ended December 31, 2006 was approximately 1.9x and is on par relative to those of its LDC peers within the Ba range.

b) RCF/Debt (15% weighting) - The company's Retained Cash Flow to Debt falls within the Ba range based on a historical three year average of approximately 7.0%. While TGI's RCF/Debt was approximately 8.0% for the year ended December 31, 2006, Moody's expects TGI's RCF/Debt to remain within the Ba category. TGI's LTM RCF to Debt ratio reflects unusual dividend distributions in the past 12 months due to activities related to the change of control of the Terasen group from Knight, Inc. (formerly Kinder Morgan, Inc.) to FTS. Whereas in recent years the company declared dividends in the range of \$60 million per annum, it declared \$40 million in both Q4 2006 and Q1 2007 as well as an additional \$71 million in Q2 2007. Moody's expects that dividend distributions will return to historical or near historical levels commencing 2008.

c) Debt/Book Capitalization (Excluding Goodwill) (15% weighting) - TGI's Debt to Capitalization (Excluding Goodwill) has historically been in the mid to high 60% range and therefore falls in the Ba category. For the year ended December, 31, 2006, TGI's debt to capitalization ratio was approximately 65%. Given that TGI's capitalization is driven by the BCUC's deemed capital structure, Moody's does not anticipate any material change in TGI's capital structure in the near term.

d) FCF/FFO (15% weighting) - Historically, TGI's FCF to FFO ratio has been changeable reflecting year to year variations in capital spending levels and dividend distributions. The company's three year average FCF/FFO of approximately 3.9% scored in the Aa range whereas for the year ended December 31, 2006, FCF/FFO measured approximately 54.9%. Moody's expects the company's FCF/FFO to average in the A category going forward.

RATING METHODOLOGY IMPLIED RATING

TGI's financial metrics are generally weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Colonial Gas Company and Connecticut Natural Gas Corporation. Moody's recognizes that TGI's relatively weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE permitted by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada. However, TGI's A3 senior unsecured rating reflect Moody's view that TGI's relatively weaker financial metrics are offset to a significant degree by the supportiveness of the business and regulatory environments in which TGI operates. Moody's rating methodology model indicates an A3 rating for TGI which mirrors the company's A3, senior unsecured published rating assigned by Moody's rating committee. The methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

LIQUIDITY

In evaluating a company's liquidity, Moody's typically assumes that the company loses access to the term debt markets for a period of 12 months. In this context we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

TGI is expected to generate approximately \$165 million of adjusted funds from operations (FFO) in 2008. After dividends in the range of \$65 million and capital expenditures and working capital changes of approximately \$140 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately \$40 million in 2008.

In October 2007, TGI refinanced two debt maturities totaling \$250 million. Future debt maturities continue to be somewhat lumpy but after the 2008 and 2009 maturities of \$188 million and \$59.9 million respectively, TGI has no maturities until 2015.

During 2006, TGI replaced its bilateral credit facilities with a single \$500 million syndicated committed revolving facility which is available to support its \$500 million commercial paper (CP) program and for general corporate

purposes. This facility now has with a five year term, extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the available portion of the facility in situations of financial stress. TGI's has a relatively heavy reliance on short-term debt with \$280 million of CP outstanding at September 30, 2007. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's high levels of short-term debt relative to the size of its credit facility can limit the company's financial flexibility, as is the case in 2008 when debt maturities are relatively high. At September 30, 2007, approximately \$166 million was available under the \$500 million committed facility reflecting \$280 million of CP outstanding, an \$11.2 million overdraft and approximately \$43 million letters of credit (LCs) outstanding. Moody's recognizes that gas inventories, which are typically financed with short-term debt, tend to be at or near a peak at the end of TGI's third quarter. Accordingly, inventory levels and short-term debt are likely to be somewhat lower by TGI's December 31, 2007 year end which would increase availability under the company's credit facility, all else being equal.

Given the forecast \$40 million FCF shortfall and \$188 million of debt maturities in 2008, availability under TGI's syndicated bank credit facility could be less than TGI's forecast 2008 funding requirements. This situation could render TGI reliant upon access to the capital markets to meet a portion of its forecast 2008 funding needs. Moody's notes that TGI's credit facility provides the company with the ability to request a \$100 million increase in the size of the facility. While this accordion feature provides one possible means of addressing TGI's 2008 funding requirements, Moody's views this feature as a less reliable source of liquidity since it is subject to the banks' prior approval which may or may not be provided.

Post 2008, Moody's expects TGI's liquidity situation to be more robust. All else being equal, lower levels of debt maturities are expected to reduce TGI's funding requirements to levels which are manageable in the context of TGI's \$500 million committed bank credit facility. During 2008, Moody's expects that TGI will monitor opportunities to pre-fund its \$188 million debt maturity or to seek to institute the accordion feature in its credit agreement to the extent that availability under the \$500MM credit facility appears to be less than the company's funding requirements.

Rating Outlook

The stable outlook is predicated on TGI's low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change Rating - Up

A sustainable improvement in TGI's credit metrics could result in an increase in TGI's rating. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 9%, EBIT/Interest to approach 3x, RCF/Debt to approach 15%, Debt/Book Capitalization (Excluding Goodwill) to be below 65% and FCF/FFO to be in the range of -20% to -15%.

What Could Move Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT/Interest below 2x, RCF/Debt below 5% and/or Debt/Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				8.2%			
b) EBIT to Customer Base (5%) [3]		\$220.4					
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					
Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					

Factor 4: Financial Strength and Flexibility (60%)						
a) EBIT/Interest (15%)					1.9x	
b) Retained Cash Flow/Debt (15%)					7.0%	
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					67.4%	
d) Free Cash Flow/Funds from Operations (15%)		3.9%				
Rating:						
a) Methodology Model Implied Senior Unsecured Rating			A3			
b) Actual Senior Unsecured Equivalent Rating			A3			

[1] Three year averages (2004-2006) [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commercial Customers (Excluding Industrials)

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Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

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Key Indicators

Terasen Gas Inc.

	[1]LTM	2007	2006	2005	2004
ROE (%) [2]	8.5%	8.2%	7.7%	7.8%	9.2%
EBIT/Customer Base (US\$ MM) [3]	[4]\$274.4	\$257.4	\$222.2	\$226.5	\$212.6
EBIT/Interest (x)	2.0x	2.0x	2.0x	1.9x	2.0x
RCF/Debt (%)	2.1%	2.6%	7.8%	5.8%	7.3%
Debt/Book Capitalization (Excluding Goodwill) (%)	66.2%	66.8%	65.2%	68.7%	68.1%
FCF/FFO (%)	-82.3%	-64.8%	55.5%	-63.4%	20.3%

[1] Last twelve months ending March 31, 2008 [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commercial Customers (excluding Industrials) [4] US\$ LTM EBIT/ FYE 2007 Residential and Commercial Customers (excluding Industrials)

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Company Profile

Headquartered in Vancouver, British Columbia, Terasen Gas Inc. (TGI) is the largest distributor of natural gas in the Province and the third largest gas distribution utility in Canada. It is a wholly-owned subsidiary of Terasen Inc. (TER) which is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company based in St. John's, Newfoundland. TER is a holding company which also owns 100% of the ownership interest of Terasen Gas Vancouver Island Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW), and a 30% interest in CustomerWorks, L.P. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). This relatively low-risk regulated gas distribution company generates predictable, stable earnings and serves approximately 827,000 customers in Greater Vancouver, the Fraser Valley, and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province.

Recent Developments

On February 19, 2008, the Province of British Columbia announced the phased introduction of a carbon tax on

fossil fuels sold in the province effective July 1, 2008. The tax will progressively increase from \$10 to \$30 per tonne of carbon emissions by 2012 but will not initially apply to electricity sold in the province regardless of its origin or source of generation. TGI expects that the tax will add roughly \$0.50 to \$1.50 per GJ to the cost of natural gas sold in British Columbia. Moody's observes that the imposition of a carbon tax combined with increasing gas prices has the potential to further erode or eliminate the historic price advantage that gas has held over electricity in British Columbia and that the potential loss of gas' price advantage could negatively impact TGI's financial risk profile. However, Moody's expects that proposed electricity rate increases sought by British Columbia Hydro and Power Authority (BCH) should, to some degree, offset the impact of the carbon tax on the price competitiveness of gas in British Columbia.

Rating Rationale

TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). These regulatory ring-fencing conditions together with FTS' philosophy of requiring its utility operating subsidiaries to be financially and operationally independent of FTS allow Moody's to evaluate the credit profile of TGI substantially on a stand alone basis.

As described in Moody's rating methodology for North American Regulated Gas Distribution Industry (Local Distribution Companies), Moody's focuses on the following four main rating factors in assessing the relative creditworthiness of Local Distribution Companies (LDCs) such as TGI: Sustainable Profitability, Regulatory Support, Ring-Fencing, and Financial Strength and Flexibility. It is Moody's intent that in applying this methodology, investors should be able to derive a rating indication that is within two notches of the company's published rating in most instances.

FACTOR 1: SUSTAINABLE PROFITABILITY (20% weighting)

a) Return on Equity (15% weighting) - TGI's Return on Equity scores within the Baa range with a three year average of approximately 7.7%. In 2006, TGI's deemed equity component was increased to 35% from 33% and the equity risk premium used in the BCUC's automatic ROE adjustment formula was increased by 50 basis points. While Moody's considers these changes to be credit positive, we note that TGI continues to operate with one of the lowest deemed equity levels among its peers both in Canada and internationally. TGI has operated under a Performance Based Rate Plan (PBR) since 2004. Under the PBR plan, TGI has typically been able to earn ROE's in excess of its allowed ROE while sharing a portion of PBR savings with ratepayers. Although TGI received approval of a negotiated settlement to extend its PBR Plan through 2009, in the event that the existing PBR plan is not extended and a new PBR plan is not established, Moody's expects that TGI's metrics would weaken somewhat in 2010 and beyond. However, the impact of the termination of the PBR plan would be somewhat muted in 2010 and 2011 due to features of the current plan which provide for a phase out of the sharing of capital incentives for two years. TGI's ROE for the last twelve months (LTM) ending March 31, 2008 was approximately 8.5% and is on par with those of its LDC peers within the Baa range (5-9%).

b) EBIT/Customer Base (5% weighting) - The company's three year historical average has been approximately US\$235/customer which scores in the A category for this subfactor. TGI benefits from a monopoly franchise in a mature service territory with a moderate and predictable growth profile.

FACTOR 2: REGULATORY SUPPORT (10% weighting)

TGI scores in the Aa category on this factor. The company's location in British Columbia, which enjoys a strong provincial economy and supportive regulatory climate, contributes to Moody's view of TGI as a relatively low-risk regulated gas distribution company. Moody's considers Canada to have supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the more supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. TGI annually reviews its capital spending plans and the rate impacts thereof with the BCUC, a process which substantially reduces the risk of being unable to fully recover costs that have already been incurred.

The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics (average EBIT Interest Coverage of 1.9x and average RCF/Debt of 4.6% over the 36 month period ended March 31, 2008) are partially offset by the supportive regulatory environment in which TGI operates. TGI's exposure to commodity price and volume risks as well as pension funding costs and insurance costs is limited by operation of various deferral mechanisms including the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM).

FACTOR 3: RING-FENCING (10% weighting)

Relative to its peers, Moody's considers TGI's ring-fencing to be very good and scores in the Aa category. The ring-fencing provisions require that TGI i) maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%); ii) refrain from extending loans or guarantees to affiliates; and iii) refrain from investing in or providing support to non-regulated business. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend

payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes. Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile substantially on a stand-alone basis.

FACTOR 4: FINANCIAL STRENGTH AND FLEXIBILITY (60% weighting)

Moody's rating methodology considers the following credit metrics to be important indicators of the financial strength of local gas distribution companies:

a) EBIT/Interest (15% weighting) - TGI's EBIT to Interest Expense scores within the Ba range, with a three year historical average measuring approximately 1.9x. In the short to medium-term, Moody's expects TGI's EBIT/Interest Expense ratio to remain relatively weak at approximately 2.0x which is within the Ba range for this subfactor. TGI's EBIT to Interest Coverage for the LTM ending March 31, 2008 was approximately 2.0x and is on par relative to those of its LDC peers within the Ba range.

b) RCF/Debt (15% weighting) - The company's Retained Cash Flow to Debt falls within the B range based on a historical three year average of approximately 4.6%. While TGI's RCF/Debt was approximately 2.1% for the LTM March 31, 2008, Moody's expects TGI's RCF/Debt to return to the Ba category going forward. TGI's 2007 and LTM RCF to Debt ratio reflects unusual dividend distributions due to activities related to the change of control of the Terasen group from Knight, Inc. (formerly Kinder Morgan, Inc.) to FTS. Whereas in recent years the company declared dividends in the range of \$60 million per annum, it declared \$40 million in both Q4 2006 and Q1 2007 as well as an additional \$71 million in Q2 2007 for a total of \$111 million of dividends in 2007. Moody's expects that dividend distributions will return to historical levels commencing 2008.

c) Debt/Book Capitalization (Excluding Goodwill) (15% weighting) - TGI's Debt to Capitalization (Excluding Goodwill) has historically been in the mid to high 60% range and therefore falls in the Ba category. For the LTM ending March, 31, 2008, TGI's debt to capitalization ratio was approximately 66%. Given that TGI's capitalization is driven by the BCUC's deemed capital structure, Moody's does not anticipate any material change in TGI's capital structure in the near term.

d) FCF/FFO (15% weighting) - Historically, TGI's FCF to FFO ratio has been changeable reflecting year to year variations in capital spending levels and dividend distributions. The company's three year average FCF/FFO of approximately -16.8% scored in the A range whereas for the LTM ending March 31, 2008, FCF/FFO measured approximately -82.3%. On a forward looking basis, Moody's expects the company's average FCF/FFO to be in the Aa category.

LIQUIDITY

In evaluating a company's liquidity, Moody's typically assumes that the company loses access to new capital, other than debt available under a company's committed credit facilities, for a period of 12 months. In this context, we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

TGI is expected to generate approximately \$165 million of adjusted funds from operations (FFO) in the next 12 months. After dividends in the range of \$70 million and capital expenditures and working capital changes of approximately \$145 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately \$50 million. Although TGI has scheduled debt maturities of approximately \$190 million during the twelve months ending March 31, 2009, the company issued \$250 million MTN debentures on May 13, 2008, the proceeds of which will be utilized to retire scheduled debt maturities and for general corporate purposes. Taking into account the recent MTN issuance, TGI's funding requirement for the twelve months ending March 31, 2009 is effectively nil. After the \$188 million maturity in June 2008 and the \$59.9 million maturity in June 2009, TGI has no maturities until 2015.

TGI's \$500 million syndicated committed revolving facility matures August 2012 and is available to support its \$500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the available portion of the facility in situations of financial stress. TGI has a relatively heavy reliance on short-term debt with \$252 million of CP outstanding at March 31, 2008. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's high levels of short-term debt relative to the size of its credit facility can limit the company's financial flexibility, as was the case prior to the May 2008 MTN offering due to relatively high scheduled debt maturities. At March 31, 2008, approximately \$204 million was available under the \$500 million committed facility reflecting \$252 million of CP outstanding, and approximately \$44 million letters of credit (LCs) outstanding.

Looking forward, Moody's expects TGI's liquidity resources to be sufficient for its needs. All else being equal, low

levels of scheduled debt maturities until 2015 are expected to reduce TGI's funding requirements to levels that will be manageable in the context of TGI's \$500 million committed bank credit facility.

OPERATIONAL AND FINANCIAL INDEPENDENCE FROM PARENT, FORTIS INC.

TGI is one of a number of utility operating companies owned by FTS. Recognizing FTS' philosophy of allowing its utility subsidiaries to operate on a stand-alone basis, Moody's considers TGI, like sister companies FAB, FBC, NPI, and Terasen Gas (Vancouver Island) Inc. (TGVl), to be operationally and financially independent from FTS. FTS has consistently demonstrated good management and support of its subsidiaries, as well as the ability to maintain or rebuild good relationships with regulators of the companies that FTS has acquired. Moody's believes there is a low probability that FTS would pursue a dividend or other financial policy that would weaken TGI's financial condition given FTS' demonstrated philosophy of allowing its subsidiaries to operate on a stand-alone basis and the existence of the BCUC ring-fencing conditions. Overall, Moody's considers TGI's access to the financial resources and executive support of FTS to be a credit strength.

RATING METHODOLOGY-IMPLIED RATING

TGI's financial metrics are generally weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Connecticut Natural Gas Corporation, Public Service Co. of North Carolina, UGI Utilities and sister company, TGVl. Moody's recognizes that TGI's relatively weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE permitted by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada. However, TGI's A3 senior unsecured rating reflect Moody's view that TGI's relatively weaker financial metrics are offset to a significant degree by the supportiveness of the business and regulatory environments in which TGI operates. Moody's rating methodology model for North American LDCs indicates a Baa1 rating for TGI which is one notch below the company's A3, senior unsecured published rating assigned by Moody's rating committee. TGI's published rating exceeds the methodology-implied rating because Moody's rating committee places greater emphasis on the supportiveness of TGI's regulatory and business environments than the rating methodology model does. The methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

Rating Outlook

The stable outlook is predicated on TGI's relatively low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change the Rating - Up

Moody's considers an upward revision in TGI's rating to be unlikely in the near term. However, the rating could be positively impacted if TGI could demonstrate expectations for a sustainable improvement in TGI's credit metrics. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 10%, EBIT to Interest to approach 3.5x, RCF to Debt to approach 15%, Debt to Book Capitalization (Excluding Goodwill) to be below 65% and FCF to FFO to be in the range of -20% to -15%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT to Interest below 2x, RCF to Debt below 5% and/or Debt to Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				7.7%			
b) EBIT to Customer Base (5%) [3]			[4]\$235.4				
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					

Factor 3: Ring-Fencing (10%)						
a) Ring-Fencing		X				
Factor 4: Financial Strength and Flexibility (60%)						
a) EBIT/Interest (15%)				1.9x		
b) Retained Cash Flow/Debt (15%)					5%	
c) Debt to Book Capitalization (Excluding Goodwill) (15%)				65.2%		
d) Free Cash Flow/Funds from Operations (15%)		-16.8%				
Rating:						
a) Methodology Model Implied Senior Unsecured Rating			Baa1			
b) Actual Senior Unsecured Equivalent Rating			A3			

[1] Last twelve months ending March 31,2008 [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commercial Customers (excluding Industrials) [4] US\$ LTM EBIT/ FYE 2007 Residential and Commercial Customers (excluding Industrials)

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Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

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William L. Hess/New York	212.553.3837

Key Indicators

Terasen Gas Inc.

	[1]LTM	2008	2007	2006	2005	2004
ROE (%) [2]	4.2%	4.3%	8.1%	7.6%	7.8%	9.1%
EBIT/Customer Base (US\$ MM) [3]	[4]229.4	\$242.7	\$257.4	\$222.2	\$226.5	\$212.6
EBIT/Interest (x)	1.8x	1.8x	2.0x	2.0x	1.9x	2.0x
RCF/Debt (%)	6.7%	4.2%	2.5%	7.7%	5.7%	7.3%
Debt/Book Capitalization (Excluding Goodwill) (%)	61.0%	68.4%	66.8%	65.2%	68.7%	68.1%
FCF/FFO (%)	3.5%	-13.5%	-65.1%	55.7%	-63.7%	20.4%

[1] Last twelve months ending March 31, 2009. [2] Return on Average Equity. [3] US\$ EBIT/ Residential and Commercial Customers (excluding Industrials). [4] US\$ LTM EBIT/ FYE 2008 Residential and Commercial Customers (excluding Industrials).

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Relatively weak credit metrics partially offset by a supportive regulatory environment.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas Inc. (TGI) is the largest distributor of natural gas in British Columbia and the third largest gas distribution utility in Canada. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). It is a wholly-owned subsidiary of Terasen Inc. (TER) which is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company. TER is a holding company which also holds

100% of Terasen Gas (Vancouver Island) Inc. (TGVl) and Terasen Gas (Whistler) Inc. (TGW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

The A3 senior unsecured rating and stable outlook of TGI reflects the utility's low-risk business model and supportive regulatory environment which partially offset TGI's weak credit metrics. Moody's recognizes that the weakness of TGI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. Moody's believes that TGI's weak financial profile is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. TGI's weak financial profile causes the indicated rating under Moody's Gas LDC Rating Methodology to be one notch lower than the company's actual rating. Moody's is concerned that the BCUC's formula driven ROE mechanism and the current low interest rate environment could further pressure TGI's financial profile and its A3 rating. Moody's will closely follow the progress of TGI's May 15, 2009 cost of capital application and its pending application for 2010 rates to determine their impact on TGI's financial profile. Regulatory ring-fencing mechanisms effectively insulate TGI from its weaker parent companies, TER and FTS. Growth in TGI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. TGI enjoys good access to the term debt markets and maintains alternate liquidity resources that are generally sufficient except when large debt maturities occur during the peak gas storage season. Scheduled debt maturities are relatively modest until 2016.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, Moody's considers gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, Moody's considers regulated gas LDCs like TGI to be among the lowest risk corporate entities.

The company's location in British Columbia, which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate, contributes to Moody's view of TGI as a relatively low-risk regulated gas distribution company. Moody's considers Canada to have more supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics are partially offset by the supportive regulatory environment in which TGI operates. TGI has limited exposure to commodity price and volume risks, pension funding costs, insurance costs and interest rate volatility on short-term debt by operation of various BCUC-approved deferral mechanisms. These include the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM). In addition, on an annual basis TGI reviews its capital spending plans, and the rate impacts thereof, with the BCUC. In Moody's view this process substantially reduces the risk that TGI might be unable to fully recover its capital investments.

Growth in TGI's franchise area tends to be relatively predictable and capital spending is expected to remain relatively stable and modest in the context of TGI's asset base and depreciation expense. Moody's anticipates that TGI will be able to continue to finance capital spending with a prudent combination of internally generated funds and additional term debt.

LOW INTEREST RATES AND FORMULA DRIVEN ROE COULD PRESSURE FINANCIAL PROFILE AND EXISTING RATING

TGI's financial metrics are materially weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Public Service Co. of North Carolina, UGI Utilities and its sister company, TGVl. Moody's recognizes that TGI's weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE generated by the BCUC's automatic ROE adjustment formula. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada.

Moody's rating methodology model for North American LDCs indicates a Baa1 rating for TGI which is one notch below the company's A3 senior unsecured rating assigned by Moody's rating committee. TGI's published rating exceeds the methodology-implied rating because Moody's rating committee places greater emphasis on the supportiveness of TGI's regulatory and business environments than the rating methodology does. However, the methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

However, in the context of the current low interest rate environment and weaker economy, Moody's is becoming concerned that TGI's credit metrics could deteriorate to levels that, despite the relative supportiveness of TGI's

regulatory environment, are not commensurate with the company's existing A3 senior unsecured rating and therefore could lead to a negative rating action. Moody's notes that on May 15, 2009, TGI filed a cost of capital application with the BCUC seeking an 11% ROE on a 40% deemed equity thickness, a meaningful increase from the 8.47% ROE on a 35.01% equity base currently utilized for rate-making purposes. Moody's acknowledges that in the context of the National Energy Board's precedent setting March 19, 2009 decision in the Trans Québec and Maritimes Pipelines' rate cases, there is some reason to believe that TGI's cost of capital application could result in changes which would be positive for TGI's financial profile. Accordingly, Moody's will be following the progress of TGI's cost of capital application and its pending application for 2010 rates to determine their impact on TGI's financial profile.

Moody's notes that the improvement in TGI's debt to capitalization as at March 31, 2009 is due almost entirely to a change in Canadian GAAP and that the lower debt to capitalization ratio is not indicative of any improvement in TGI's fundamental financial condition. Effective January 1, 2009, Canadian GAAP requires regulated utilities to recognize deferred income tax liabilities and assets together with offsetting regulatory assets or liabilities.

STRONG REGULATORY RING-FENCING SEPARATES TGI FROM PARENT, TERASEN INC.

TGI is subject to a set of regulatory ring-fencing conditions originally imposed by the BCUC in 2005 and affirmed by the BCUC on FTS' acquisition of TER in May 2007 (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile substantially on a stand-alone basis. Relative to its peers, Moody's considers TGI's ring-fencing to be very good. The ring-fencing provisions require that TGI i) maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%); ii) refrain from extending loans or guarantees to affiliates; and iii) refrain from investing in or providing support to non-regulated businesses. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes.

Liquidity Profile

TGI's liquidity is expected to be sufficient to meet its anticipated funding requirements in Moody's hypothetical liquidity stress scenario which assumes that a company loses access to new capital, other than amounts available under its committed credit facilities, for a period of 4 quarters.

TGI is expected to generate approximately \$165 million of adjusted funds from operations (FFO) in the next 4 quarters. After dividends in the range of \$60 million and capital expenditures and working capital changes of approximately \$135 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately \$30 million. TGI has scheduled debt maturities of approximately \$62 million during the four quarters ending March 31, 2010 resulting in a funding requirement of approximately \$90 million. After the \$60 million maturity in June 2009, TGI has no significant maturities until 2015.

TGI's \$500 million syndicated committed revolving facility matures August 2013 and is available to support its \$500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Given availability of approximately \$389 million under TGI's credit facility at March 31, 2009, TGI has more than sufficient resources to meet its anticipated funding requirement of approximately \$90 million during the 12-month period ending March 31, 2010.

Although utilization of TGI's credit facility was limited to \$111.5 million at March 31, 2009, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of TGI's credit facility. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. This was the case prior to TGI's May 2008 MTN offering and left TGI dependent upon access to the capital markets to refinance the scheduled debt maturity.

Rating Outlook

The stable outlook is predicated on TGI's relatively low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change the Rating - Up

Moody's considers an upward revision in TGI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if TGI could demonstrate expectations for a sustainable improvement in its credit metrics. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 10%, EBIT to Interest to approach 3.5x, RCF to Debt to approach 15%, Debt to Book Capitalization (Excluding Goodwill) to be below 65% and FCF to FFO to be in the range of -20% to -15%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. In the context of a weak economy and a low interest rate environment any further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT to Interest below 2x, RCF to Debt below 5% and/or Debt to Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				6.7%			
b) EBIT to Customer Base (5%) [3]			\$245				
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					
Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)					1.9x		
b) Retained Cash Flow/Debt (15%)						4.8%	
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					66.8%		
d) Free Cash Flow/Funds from Operations (15%)		-7.7%					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			Baa1				
b) Actual Senior Unsecured Equivalent Rating			A3				

[1] Three year average (2006-2008) [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commercial Customers (excluding Industrials)

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Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]Terasen Gas Inc.

	[2]LTM	2009	2008	2007	2006	2005
(CFO Pre-WC + Interest) / Interest Expense	2.7x	2.6x	2.5x	2.4x	2.5x	2.4x
(CFO Pre-WC) / Debt	12.2%	10.3%	9.8%	8.8%	10.1%	9.0%
(CFO Pre-WC - Dividends) / Debt	7.6%	6.5%	4.2%	2.5%	7.7%	5.7%
Debt / Book Capitalization	55.9%	61.7%	68.4%	66.8%	65.2%	68.7%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

[2] Last twelve months ended March 31, 2010

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Relatively weak financial metrics partially offset by a supportive regulatory environment.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas Inc. (TGI) is the largest distributor of natural gas in British Columbia and the third largest gas distribution utility in Canada. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC).

TGI is a wholly-owned subsidiary of Terasen Inc. (TER) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company. TER is a holding company which also holds 100% of Terasen Gas (Vancouver Island) Inc. (TGV) and Terasen Gas (Whistler) Inc. (TGW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

TGI's A3 senior unsecured rating and stable outlook reflect its low-risk business model and supportive regulatory environment which partially offset its weak financial metrics. Moody's recognizes that the weakness of TGI's financial metrics relative to similarly rated U.S. peers is largely a

function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that TGI's weak financial profile is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically.

TGI's financial profile is expected to strengthen modestly in 2010 due to the BCUC's December 2009 cost of capital decision which increased TGI's allowed ROE to 9.5% and its deemed equity to 40%. Regulatory ring-fencing mechanisms effectively insulate TGI from its weaker parent companies, TER and FTS. Growth in TGI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. TGI enjoys good access to the term debt markets and maintains liquidity resources that are sufficient.

TGI's A3 rating is consistent with the A3 rating implied by our Regulated Electric and Gas Utility Rating Methodology.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas local distribution companies (LDC) to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like TGI to be among the lowest risk corporate entities.

The company's location in British Columbia, which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate, contributes to our view of TGI as a relatively low-risk regulated gas distribution company. We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. The supportiveness of the British Columbia regulatory environment is also evidenced by the fact that TGI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit TGI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, on an annual basis TGI reviews its capital spending plans, and the rate impacts thereof, with the BCUC. In our view, this process substantially reduces the risk that TGI might be unable to fully recover its capital investments. In our view, these factors more than offset the fact that deemed equity thicknesses and allowed ROEs in Canada tend to be lower than those in the U.S.

Growth in TGI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of TGI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2010 and 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occurring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2010 and 2011, we anticipate that TGI will continue to finance capital spending with a prudent combination of internally generated funds and additional term debt.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2010

TGI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, TGV. We recognize that TGI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and historically TGI's were among the lowest in Canada.

However, the BCUC's December 2009 cost of capital decision is expected to have a small positive impact on TGI's financial metrics. In that decision, TGI's allowed ROE was increased to 9.5% from 8.47% retroactive to July 1, 2009 and its deemed equity percentage was increased to 40% from 35.01% effective January 1, 2010. In order to bring TGI's actual capital structure in line with the new 40% deemed equity level, TGI raised \$125 million of common equity from its ultimate parent, FTS, in January 2010. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to be in the upper 2x range going forward versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its sub-10% level in the past few years.

The improvement in TGI's debt to capitalization as at March 31, 2010 also reflects the change in Canadian GAAP that took effect January 1, 2009 and requires regulated utilities to recognize deferred income tax liabilities. This had the effect of increasing capitalization and therefore reducing debt to capitalization since we include deferred taxes in capitalization.

Despite the increase in TGI's allowed ROE to 9.5% and deemed equity to 40%, these levels remain lower than those of U.S. gas LDCs which typically have allowed ROEs of 10% or more and deemed equity in the 50% range.

STRONG REGULATORY RING-FENCING SEPARATES TGI FROM PARENT, TERASEN INC.

We believe that TGI's ring-fencing is very good relative to that of its peers outside of British Columbia. TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, TGI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause TGI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate TGI from the greater financial and business risks of its parents, TER and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow Moody's to evaluate TGI's credit profile on a stand-alone basis.

Liquidity Profile

TGI's liquidity is expected to be sufficient to meet its anticipated funding requirements. Availability under TGI's credit agreement at March 31, 2010 was \$414 million which exceeds our \$120 million estimate of the company's funding requirement for the subsequent four quarters.

TGI's \$500 million syndicated committed revolving facility matures August 2013 and is available to support its \$500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

TGI is expected to generate approximately \$190 million of adjusted funds from operations (FFO) in the next 4 quarters. After dividends in the range of \$85 million and capital expenditures and working capital changes of approximately \$225 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately \$120 million. TGI has no material scheduled debt maturities during the four quarters ending June 30, 2011 resulting in a funding requirement of approximately \$120 million.

Although utilization of TGI's credit facility was limited to roughly \$86 million at March 31, 2010, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of TGI's credit facility. For instance, at the end of the third quarter of 2008, availability under TGI's \$500 million credit facility was only about \$175 million. We recognize that TGI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, we believe that TGI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. However, this is not a concern in the near term as TGI's next significant debt maturity occurs in September 2015.

Rating Outlook

The stable outlook is predicated on TGI's low business risk as a regulated gas distribution utility, our expectation that TGI's regulatory environment will continue to be supportive and our belief that TGI's financial profile will improve modestly in 2010.

What Could Change the Rating - Up

We consider an upward revision in TGI's rating to be unlikely in the near term due to its relatively weak financial profile. However, the rating could be positively impacted if TGI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect TGI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of TGI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of TGI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

Terasen Gas Inc.

Regulated Electric and Gas Utilities Rating Methodology	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)		X				
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)			X			
a) Market Position (10%)			X			
b) Generation and Fuel Diversity (0%)			n/a			
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)			X			
a) Liquidity (10%)						
b) CFO pre-WC + Interest / Interest (7.5%)					2.5x	
c) CFO pre-WC / Debt (7.5%)					9.6%	
d) CFO pre-WC - Dividends / Debt (7.5%)					4.4%	
e) Debt / Capitalization or Debt / RAV (7.5%)						65.6%
Rating:						
a) Methodology Implied Senior Unsecured Rating			A3			
b) Actual Senior Unsecured Rating			A3			



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Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]FortisBC Energy Inc.

	[2]LTM	2010	2009	2008	2007	2006
(CFO Pre-W/C + Interest) / Interest Expense	2.7x	2.7x	2.6x	2.5x	2.4x	2.5x
(CFO Pre-W/C) / Debt	11.3%	10.6%	10.2%	9.8%	8.8%	10.1%
(CFO Pre-W/C - Dividends) / Debt	5.4%	5.9%	6.5%	4.2%	2.5%	7.7%
Debt / Book Capitalization	57.3%	59.1%	61.8%	68.4%	66.8%	65.2%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended March 31, 2011

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

- Low-risk, cost-of-service regulated gas transmission and distribution utility
- Weak financial metrics balanced by a supportive regulatory environment
- Strong regulatory ring-fencing mechanisms insulate company from its weaker parent
- Sufficient liquidity resources

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI is a holding company which also holds 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating and stable outlook reflect its low-risk LDC business model and supportive regulatory environment which are

balanced by its weak financial metrics. We recognize that the weakness of FEI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that FEI's weak financial profile is balanced by its relatively low business risk as a gas LDC and the by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. We expect FEI's financial profile to strengthen modestly in 2012 and 2013. Regulatory ring-fencing mechanisms effectively insulate FEI from its weaker parent companies, FHI and FTS. Growth in FEI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. FEI maintains sufficient liquidity resources.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas LDCs to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI to be among the lowest risk corporate entities.

We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia (BC) is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings in BC tend to be less adversarial than those in other jurisdictions and decisions tend to be timely and balanced. The supportiveness of the BC regulatory environment is also evidenced by the fact that FEI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit FEI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of \$5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. We believe these qualitative factors balance FEI's weak financial profile.

Growth in FEI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of FEI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occurring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2011, we anticipate that FEI will continue to finance its capital spending with a prudent combination of internally generated funds, additional term debt and equity injections from FTS as required.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2012 and 2013

FEI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, FEVI. We recognize that FEI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions.

We expect FEI's cash flow to increase in 2012 and 2013 due to higher levels of non-cash depreciation and amortization expense that will be collected in revenues. The largest driver of the higher depreciation will be FEI's customer care enhancement project which is slated to be placed into service in 2012. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to approach 3x in 2012 and 2013 versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its approximately 10% level in the past few years.

POTENTIAL AMALGAMATION OF FEI, FEVI AND FEW LIKELY CREDIT NEUTRAL

FEI has indicated that during 2011 it intends to apply to the BCUC to amalgamate FEI, FEVI and FEW and harmonize rates across the amalgamated utility. In an amalgamation scenario, the senior unsecured debt of FEI and FEVI would rank *pari passu* and be supported by the combined cash flow of the amalgamated utility. While the timing and outcome of the planned amalgamation application are unknown at this time, we expect that amalgamation and rate harmonization would be credit neutral to FEI provided that there are no reductions in deemed equity levels or allowed ROE or increases in the fundamental business risks borne by the amalgamated utility.

STRONG REGULATORY RING-FENCING INSULATES FEI FROM PARENT, FHI

We believe that FEI's ring-fencing is very good relative to that of its peers outside of BC. FEI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support any non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEI from the greater financial and business risks of its parents, FHI and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow us to evaluate FEI's credit profile on a stand-alone basis.

Liquidity Profile

We expect FEI's liquidity will be sufficient to meet its funding requirements over the next four quarters.

We expect FEI to generate approximately \$215 million of CFO pre-WC during the 12 months ending June 30, 2012. After dividends in the range of \$85 million and capital expenditures and working capital changes of approximately \$255 million, we expect FEI to be free cash flow (FCF) negative by approximately \$125 million. FEI has no material scheduled debt maturities during the twelve months ending June 30, 2012 resulting in a funding requirement of approximately \$125 million.

We estimate availability under FEI's credit agreement to be roughly \$380 million which exceeds our \$125 million estimate of the company's funding requirement.

FEI's \$500 million syndicated committed revolving facility matures August 2013 and is available to support its \$500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum

75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Although utilization of FEI's credit facility was limited to roughly \$134 million at March 31, 2011, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of FEI's credit facility. For instance, at the end of the third quarter of 2008, availability under FEI's \$500 million credit facility was only about \$175 million. We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly, when material debt maturities fall within the peak storage season. Although FEI has no significant debt maturities until September 2015, the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's cash flow and increase FEI's liquidity requirements. This decision is directionally negative for credit but, at this time, not material enough to impact our rating or outlook.

Rating Outlook

The stable outlook is predicated on FEI's low business risk as a regulated gas LDC, our expectation that FEI's regulatory environment will continue to be supportive and our belief that FEI's financial profile will continue to improve modestly through 2013. The outlook also reflects our belief that if FEI, FEVI and FEW ultimately amalgamate, the amalgamation and rate harmonization would be credit neutral for FEI's credit profile.

What Could Change the Rating - Up

We consider an upward revision in FEI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if FEI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect FEI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding FEI's low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due to Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry [1][2]	Current	
Factor 1: Regulatory Framework (25%)	Measure	Score
a) Regulatory Framework		Aa
Factor 2: Ability To Recover Costs And Earn Returns (25%)		
a) Ability To Recover Costs And Earn Returns		A
Factor 3: Diversification (10%)		
a) Market Position (10%)		A
b) Generation and Fuel Diversity (0%)		
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)		
a) Liquidity (10%)		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.6x	Ba1
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	10.2%	Ba2
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	5.5%	Ba2
e) Debt/Capitalization (3 Year Avg) (7.5%)	62.9%	Ba3
Rating:		
a) Indicated Baseline Credit Assessment from Methodology Grid		A3
b) Actual Baseline Credit Assessment Assigned		A3

[3] Moody's 12-18 month Forward View As of 07/20/2011	
Measure	Score
	Aa
	A
	A
	A
2.6x-2.8x	A
9%-11%	Ba1/Baa3
5%-7%	Ba2/Ba1
57%-60%	Ba2/Ba1
	A3
	A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Financial ratios reflect three year averages for 2008, 2009 and 2010. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.



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Attachment 72.1.1

Rating Action: [Terasen Gas \(Vancouver Island\) Inc.](#)

Moody's Assigns an A3 to Terasen Gas (Vancouver Island) Inc. Senior Unsecured Debentures

Approximately \$250 Million of Debt Securities Affected

Toronto, January 30, 2008 -- Moody's Investors Service announced that it has assigned an A3 rating to Terasen Gas (Vancouver Island) Inc.'s (TGVI) proposed issuance of up to \$250 million senior unsecured debentures. The rating outlook is stable. This is the first time that Moody's has assigned a rating to TGVI.

TGVI's rating reflects the application of Moody's rating methodology for North American regulated gas distribution companies. In Moody's view, TGVI, like its sister company Terasen Gas Inc. (TGI), operates in a relatively supportive regulatory jurisdiction. Moody's views the supportiveness of the regulatory environment as offsetting, to some degree, the weakness of TGVI's financial profile in the near to medium term due to a proposed major capital project and TGVI's unique regulatory construct. Moody's analysis recognizes that TGVI's proposal to develop the Mt. Hayes LNG storage facility at an "all-in" cost that is not expected to exceed \$200 million would increase TGVI's rate base by more than 40%, however, Moody's does not consider the Mt. Hayes project to be a significant credit challenge for TGVI for a number of reasons further detailed in Moody's Credit Opinion.

Moody's analysis also considered the competitiveness of natural gas on Vancouver Island relative to alternative forms of energy and TGVI's ability to charge rates that are both competitive and sufficient to recover its costs of service. Moody's believes that the progress that TGVI has made since 2003 in recovering its regulatory assets, principally the Revenue Deficiency Deferral Account, and the prospect of higher costs for alternate forms of energy provide TGVI with some flexibility to increase its revenues to offset the scheduled cessation of provincial royalty revenues and provide for higher rate of repayment of the government repayable contributions commencing in 2012 in accordance with the Vancouver Island Natural Gas Pipeline Agreement (VINGPA).

Reflecting Moody's expectations that the Mt. Hayes project will not pose a significant credit challenge and that TGVI will be able to offset the loss of provincial royalty revenues while charging competitive rates, Moody's believes that TGVI's financial results post 2011 are likely a better reflection of TGVI's normalized operations. Accordingly, Moody's has focussed on a set of normalized financial metrics in applying our North American Regulated Gas Distribution Industry rating methodology to TGVI. While Moody's does not ignore the risks associated with the Mt. Hayes project, the cessation of royalty revenues and the repayment of the government contributions, Moody's believes that if TGVI were to encounter a situation where it was unable to recover its costs of service while charging competitive rates, there is a high likelihood that TGVI and TGI would be merged and their rates harmonized. Moody's expects that such a merger and rate harmonization would materially enhance the competitiveness of gas on Vancouver Island relative to alternative forms of energy.

Terasen Gas (Vancouver Island) Inc. is a cost of service regulated gas distribution company headquartered in Surrey, British Columbia.

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Credit Opinion: Terasen Gas (Vancouver Island) Inc.

Terasen Gas (Vancouver Island) Inc.

Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

Terasen Gas (Vancouver Island) Inc.

	[1]LTM	2007	2006	2005	2004
ROE (%) [2]	10.5%	10.5%	10.8%	10.9%	9.4%
EBIT/Customer Base (US\$) [3]	[4]\$ 654.0	\$583.6	\$508.8	\$510.6	\$462.1
EBIT/Interest (x)	2.7x	2.9x	2.6x	2.7x	2.3x
RCF/Debt (%)	11.5%	8.6%	10.6%	11.4%	11.2%
Debt/Book Capitalization (Excluding Goodwill) (%)	66.7%	67.5%	65.9%	64.5%	66.2%
FCF/FFO (%)	-25.3%	-68.0%	38.8%	-5.4%	10.3%

[1] To September 30, 2008 [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commerical Customers (Ex. Industrial) [4] EBIT/Customer base figures for the last twelve months ended September 30, 2008 are based on the most recent available customer figures (i.e. December 31, 2007)

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Relatively low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Small customer base, high cost system and relatively weak credit metrics are balanced by a history of strong regulatory and political support.

Expiry of government subsidies in 2011 could cause TGVI's rates to be uncompetitive with alternate forms of energy and lead to fuel switching.

Development of Mt. Hayes LNG storage facility.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Headquartered in Surrey, British Columbia, Terasen Gas (Vancouver Island) Inc. (TGVI) is a regulated natural gas

transmission and distribution utility serving approximately 95,000 customers on Vancouver Island and the Sunshine Coast. TGV, which has no unregulated operations, is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). TGV is one of the smallest gas utilities rated by Moody's with a 2008 mid-year rate base of approximately \$500 million.

TGV is a wholly-owned subsidiary of Terasen Inc. (TER), a holding company which also owns 100% of Terasen Gas Inc. (TGI) and Terasen Gas Whistler Inc. (TGW), and a 30% interest in CustomerWorks, L.P. TER, and consequently TGV, has been an indirect, wholly-owned subsidiary of Fortis Inc. (FTS) since May 17, 2007.

SUMMARY RATING RATIONALE

TGV's A3 senior unsecured rating and stable outlook reflect TGV's relatively low-risk business model and supportive regulatory and political environment balanced by normalized credit metrics that are generally in the Baa category. TGV's normalized financial metrics are generally weaker than those of similarly rated U.S. local distribution company (LDC) peers such as Connecticut Natural Gas Corporation, Northwest Natural Gas Company, Piedmont Natural Gas Company, Inc. and UGI Utilities, Inc. However, TGV's financial metrics are somewhat stronger than those of its sister company, TGI (A3, senior unsecured), reflecting the fact that the BCUC deems a higher level of equity for TGV (40% vs. TGI's 35%) and allows a higher ROE (70 BP premium to TGI). Moody's recognizes that the weaker financial metrics of TGV and TGI relative to similarly rated U.S. peers are largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. Moody's believes that this is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. While Moody's quantitative analysis has considered TGV's historical and forecast financial performance, Moody's believes that TGV's historical metrics are probably not representative of future performance due to the impact of regulatory deferrals and recoveries as well as government subsidies. Similarly, TGV's near-term financial forecast is distorted by ongoing recovery of regulatory deferrals, the termination of government subsidies in 2011, and elevated capital expenditures. Accordingly, Moody's has focused on a set of normalized credit metrics that remove these distortions. While Moody's does not entirely discount the potential risks associated with TGV's unique business and regulatory situation and its planned capital expenditures, we believe that these risks are manageable. Utilizing the normalized set of financial metrics, Moody's rating methodology for North American Regulated Gas Distribution Companies indicates an A3 rating for TGV which mirrors TGV's actual A3 senior unsecured rating.

DETAILED RATING CONSIDERATIONS

RELATIVELY LOW-RISK REGULATED GAS TRANSMISSION AND DISTRIBUTION UTILITY IN A SUPPORTIVE ENVIRONMENT

In general, Moody's considers gas distribution utilities to be at the low end of the risk spectrum within the universe of regulated utilities, both gas and electric. Similarly, we consider regulated utilities be generally lower risk relative to companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, Moody's considers regulated gas LDCs like TGV to be among the lowest risk corporate entities. Nevertheless, two key features of TGV's operations cause its business risk to be higher than most gas LDCs. Firstly, TGV's system has a relatively high capital cost on a per customer basis reflecting the significant investment in transmission infrastructure, including three sub-sea crossings, to reach the relatively small customer base on Vancouver Island. Secondly, as a consequence of the high capital cost of TGV's system, its costs of service and therefore its rates are high. To ensure that natural gas was roughly cost competitive with fuel oil and electricity, the Province, the BCUC and TGV agreed to cap TGV's rates at levels similar to those of alternative forms of energy. Prior to 2003, TGV's rates were insufficient to cover TGV's costs of service and the shortfall was deferred in the Revenue Deficiency Deferral Account (RDDA). TGV financed the increases in the RDDA balance by issuing Class B subordinated debt instruments which were purchased by TER.

While the high cost of TGV's system and the historically uncompetitive position of gas on Vancouver Island cause TGV's business risk to be higher than that of most gas LDCs, Moody's believes that this higher risk and TGV's relatively weak credit metrics are balanced by a long history of government support and a supportive regulatory environment. In support of its policy goal of ensuring the availability of natural gas on Vancouver Island, the Province of British Columbia has provided both financial and regulatory support to TGV and its predecessors virtually since their inception. In the past, both the Province and the Federal Government have provided financial support to TGV in the form of non-interest bearing loans. Ongoing Provincial support is provided through the Vancouver Island Natural Gas Pipeline Agreement (VINGPA) under which the Province pays royalty revenues to TGV that subsidize the cost of natural gas. The Province also provides regulatory support in the form of the Special Direction to the BCUC which governs the recovery of RDDA balances. Beginning in 2003, TGV reached a point where, with the benefit of the Provincial royalty revenues, it was able to not only recover its costs of service but begin recovering the accumulated regulatory assets (principally the RDDA) while charging rates that were roughly competitive with costs of alternative sources of energy on Vancouver Island. The terms of the Special Direction dictate that it will not expire before the RDDA balance has been fully recovered.

As the RDDA balance is recovered, TGV utilizes the cash recovered to retire the Class B subordinated debt instruments purchased by TER. TGV currently anticipates that it will have fully recovered the RDDA balance by early 2010 which, all else being equal, is expected to result in a slight reduction in TGV's rates in 2010. However, TGV's rates are expected to increase substantially in 2012 to compensate for the lack of Provincial royalty revenues which are scheduled to terminate in 2011. While Moody's anticipates that TGV may seek regulatory

approval for some mechanism to smooth out these potential rate fluctuations, there can be no assurance that the BCUC would agree to any proposals that TGVl might make. In the absence of some smoothing mechanism, TGVl's rates during the 2010 to 2012 period are expected to be somewhat volatile.

In addition to support provided by the Provincial Government, TGVl has benefited from British Columbia's economic performance, which has until recently been relatively strong. Moody's considers Canada to have supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the more supportive in Canada. This view reflects the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced although these relative strengths have been tempered somewhat by deemed equity levels and allowed ROEs that have tended to be lower than in other Canadian provinces. TGVl benefits from deemed equity levels and allowed ROEs for ratemaking purposes that are higher than those of its A3-rated sister company, TGI. For rate-making purposes, the BCUC allows TGVl a deemed equity component of 40% vs. TGI's 35% and an allowed ROE that is 70 BP higher than TGI's which tends to cause TGVl's financial metrics to be somewhat stronger than those of TGI. TGVl's more favourable rate-making inputs relative to those of TGI reflect the relatively small size of TGVl's service territory and customer base as well as its relatively high investment in fixed assets on a per customer basis. TGVl's current rate settlement expires at the end 2009 and the company expects to file a two year rate application around mid-year 2009. With the expected elimination of the RDDA balance in 2010, Moody's expects that TGVl will seek and receive regulatory protection against key business risks such as commodity prices, customer demand, interest expense, pension costs and insurance costs. TGVl's sister company, TGI, currently benefits from regulatory protection against such risks.

EXPIRY OF GOVERNMENT ROYALTY REVENUES IN 2011 ADVERSELY IMPACTS COMPETITIVENESS OF GAS RELATIVE TO ALTERNATE FORMS OF ENERGY

A material risk faced by TGVl is the competitiveness of natural gas relative to alternative forms of energy on Vancouver Island. As noted above, the development of TGVl's system was relatively expensive and only in recent years has TGVl accumulated a sufficiently large customer base to permit it to recover from ratepayers both its current costs of service and accumulated regulatory deferrals while charging rates that have been comparable to the costs of alternative forms of energy on Vancouver Island. Furthermore, TGVl has only been able to do this with the benefit of Provincial royalty revenues. The rate increases that will be required to offset the loss of Provincial royalty revenues post-2011 could cause TGVl's rates to exceed the cost of alternative forms of energy. However, we expect that the costs of alternative energy sources are likely to rise significantly over an extended period of time which could provide TGVl with some breathing room.

Nevertheless, if TGVl ultimately finds itself in a position where its rates are uncompetitive and ratepayers begin to use less gas or even convert to electricity or fuel oil, Moody's expects that TGVl and its ultimate shareholder, FTS, would seek to merge TGVl with TGI and harmonize their rates. Rate harmonization would be expected to eliminate the cost disadvantage of gas on Vancouver Island as the higher costs of TGVl's system would be spread across TGI's larger base of approximately 834,000 customers (roughly nine times the customer base of TGVl).

Clearly, FTS would be supportive of such a move as a means of preserving the value of its investment in TGVl, but Moody's also believes that the Province of British Columbia would likely be supportive as well. As noted above, the Province has long provided financial and regulatory support to TGVl in order to promote its policy goal of ensuring availability of gas on Vancouver Island. While Provincial support of amalgamation/rate harmonization is not assured, it is Moody's view that it is unlikely that the Province would simply stand by and allow the Vancouver Island gas distribution infrastructure to falter and fail given the Province's well established track-record of supporting the development of TGVl's franchise. Moody's also notes that there is precedence for such a transaction within the Terasen group of companies: on November 2, 2006, Terasen Gas (Squamish) Inc. was amalgamated with TGI and the rates of the two entities were harmonized. While TGVl is considerably larger than Terasen Gas (Squamish), we believe the Squamish transaction is a positive precedent in the event that at some point in the future, the long-term competitiveness of TGVl's rates comes into question.

DEVELOPMENT OF MT. HAYES LNG STORAGE FACILITY

In November 2007, TGVl received conditional approval from the BCUC for the 1.5 billion cubic foot Mt. Hayes liquefied natural gas (LNG) storage facility. TGVl commenced construction of the project in 2008. Based on a cost estimate of approximately \$215 million, including an allowance for funds used during construction (AFUDC), the value of the project would exceed 40% of the value of TGVl's 2008 mid-year rate base of \$500 million. However, Moody's believes that this measurement overstates both the magnitude and importance of the project for a number of reasons. Firstly, Mt. Hayes is being constructed under an Engineering Procurement Construction (EPC) contract which has shifted much of the cost and schedule risk to the EPC contractor, Chicago Bridge & Iron (CB&I), who has successfully constructed a number of similar LNG projects. Secondly, by early 2009, TGVl had hedged the majority of the Mt. Hayes cost elements that were not transferred to CB&I under the EPC contract. As of early 2009, the project was on budget, on schedule and within the \$200 million pre-AFUDC cost parameters established by the BCUC. Thirdly, the project will form part of TGVl's rate base but TGVl has entered into BCUC-approved 35 year contract with TGI under which TGI will pay for approximately two thirds of the facility's capacity in the early years of the contract. Therefore, initially only about a third of the project costs will be borne by TGVl's existing ratepayers. Over time, as TGVl grows and requires a greater share of Mt. Hayes' capacity, TGVl's ratepayers will be required to support an increasing share of the project's costs. Fourthly, Mt. Hayes is a rather modest project both in absolute terms and relative to the experience and expertise of TGVl's management team (TGVl shares a common management team with TGI, a utility with a rate base of approximately \$2.5 billion). For these reasons,

Moody's does not expect that the Mt. Hayes project will pose a significant credit challenge for TGVl.

TGVl expects to finance the development of Mt. Hayes primarily with debt until the project enters service and rate base which is currently expected to occur in 2011. Accordingly, during the construction period, TGVl's debt to capital will be elevated and its cash flow metrics will be depressed.

STRONG REGULATORY RING-FENCING SEPARATES TGVl FROM PARENT, TERASEN INC.

Moody's believes that TGVl's ring-fencing is very good relative to that of its peers outside of British Columbia. TGVl is subject to a set of regulatory ring-fencing conditions imposed by the BCUC (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). The ring-fencing conditions provide that, unless otherwise approved by the BCUC, TGVl shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause TGVl's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. Moody's believes that the BCUC ring-fencing provisions effectively insulate TGVl from the greater financial and business risks of its parents, TER and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow Moody's to evaluate TGVl's credit profile on a stand-alone basis.

Liquidity Profile

Moody's believes that TGVl has sufficient liquidity resources to meet its needs in 2009. In evaluating a company's liquidity, Moody's typically assumes that the company loses access to new capital, other than amounts available under its committed credit agreements, for a period of 12 months. In this context, we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

TGVl maintains a \$350 million syndicated committed revolving credit agreement which matures on January 13, 2011. The credit agreement contains two maintenance covenants (debt to equity not greater than 70% and EBIT to interest expense not less than 2:1). As at September 30, 2008, TGVl's leverage and coverage were 63.2% and 3.89x, respectively, leaving significant headroom under the covenants. TGVl's credit agreement does not contain language such as a Material Adverse Change (MAC) clause or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress. Moody's understands that at December 31, 2008, approximately \$235 million was available under the \$350 million committed facility reflecting approximately \$115 million drawn against this facility.

TGVl is expected to generate approximately \$40 million of adjusted funds from operations (FFO) in 2009. After dividends in the range of \$20 million and capital expenditures and working capital changes of approximately \$80 million, Moody's expects TGVl to be free cash flow (FCF) negative by approximately \$60 million in 2009. Given the forecasted \$60 million FCF shortfall and repayment of approximately \$21 million Class B Instruments, TGVl's 2009 funding requirement is expected to be approximately \$81 million. This is substantially less than the availability of approximately \$235 million under TGVl's syndicated bank credit facility at December 31, 2008.

Rating Outlook

The stable outlook is predicated on TGVl's low business risk as a regulated gas distribution utility, the expectation that the Mt. Hayes project will be successfully completed on time and on budget and the expectation that TGVl will be able to recover its costs of service while charging rates competitive with the costs of alternative forms of energy following the cessation of provincial royalty revenues in 2011.

What Could Change the Rating - Up

It is unlikely that TGVl's rating would be upgraded absent material increases in the company's deemed equity thickness and/or allowed ROE that translated to significant improvements in TGVl's key credit metrics. At the A2, senior unsecured level, Moody's would expect TGVl's ROE to be approximately 11% or more, EBIT/Interest to be approximately 2.5x or more, RCF/Debt to be approximately 8.5% or more, Debt/Book Capitalization (Excluding Goodwill) to be below 60% and FCF/FFO to be approximately 0%.

What Could Change the Rating - Down

Notwithstanding TGVl's relatively low risk business profile, sustained weakening of TGVl's financial metrics resulting from an inability to recover its costs of service, lower deemed equity thickness, lower allowed ROE or other factors could result in a reduction of TGVl's rating. For instance, ROE below 9%, EBIT/Interest below 2.0x, RCF/Debt below 7%, Debt/Book Capitalization (Excluding Goodwill) above 65% and FCF/FFO below -15% would likely cause TGVl's senior unsecured rating to fall to Baa1. If the rates required to allow TGVl to recover its costs of service are uncompetitive with alternative forms of energy on Vancouver Island and TGVl experiences stagnation or loss of customers, TGVl's rating could be negatively impacted.

Rating Factors

Terasen Gas (Vancouver Island) Inc.

Rating Factors and Sub-Factors [1]	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]			10.7%				
b) EBIT to Customer Base (5%) [3]	\$534.3						
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					
Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)				2.7x			
b) Retained Cash Flow/Debt (15%)				10.2%			
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					66.0%		
d) Free Cash Flow/Funds from Operations (15%)		-11.5%					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			A3				
b) Actual Senior Unsecured Equivalent Rating			A3				

[1] Three year averages (2005-2007) [2] Return on Average Equity [3] US\$ EBIT/ Residential and Commercial Customers (Excluding Industrials)

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Moody's Investors Service

Credit Opinion: **Terasen Gas (Vancouver Island) Inc.**

Global Credit Research - 12 Mar 2010

Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Parent: Terasen Gas Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]Terasen Gas (Vancouver Island) Inc.

	[2]LTM	2008	2007	2006	2005
(CFO Pre-W/C + Interest) / Interest Expense	4.2x	3.9x	3.8x	3.5x	3.6x
(CFO Pre-W/C) / Debt	14.5%	15.2%	13.5%	12.4%	16.5%
(CFO Pre-W/C - Dividends) / Debt	9.8%	11.6%	8.6%	10.6%	11.6%
Debt / Book Capitalization	61.2%	66.4%	67.2%	65.6%	64.2%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments [2] Last twelve months ended September 30, 2009

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Regulated gas transmission and distribution utility with no unregulated operations

High cost of service and small size balanced by strong political and regulatory support

Business risk associated with the expiry of Government royalty payments at the end of 2011

Elevated capex and leverage during construction of Mt. Hayes LNG storage facility.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas (Vancouver Island) Inc. (TGV) is a natural gas transmission and distribution utility serving approximately 98,000 customers on Vancouver Island and the Sunshine Coast. TGV, which has no unregulated operations, is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). TGV is one of the smallest gas utilities rated by Moody's with a 2009 mid-year rate base of approximately \$540 million.

TGV is a wholly-owned subsidiary of Terasen Inc. (TER), a holding company which also owns 100% of Terasen Gas Inc. (TGI) and Terasen Gas Whistler Inc. (TGW). TER has been a wholly-owned subsidiary of Fortis Inc. (FTS) since May 17, 2007.

SUMMARY RATING RATIONALE

TGV's A3 senior unsecured rating and stable outlook reflect TGV's status as a regulated gas local distribution company (LDC). However, TGV's high cost of service and small size cause its business risk to be higher than most gas LDCs. In addition, TGV's credit metrics are weaker than those of international peers. However, we view TGV's high cost of service, small size and weak metrics as being balanced by the long history of supportive regulatory and political decisions.

The rating also reflects our expectation that various factors will cause TGV's rates to rise over the next few years. Rising rates would negatively impact the competitiveness of natural gas relative to other forms of energy which could result in reduced demand for gas and even more upward pressure on rates. Notwithstanding, we anticipate that gas will remain attractive relative to electricity, which is the primary alternative in TGV's service territory, due to our expectation that electricity rates will increase significantly each year for the foreseeable future. However, if gas were to lose its cost advantage in TGV's service territory, we believe that it is likely that TGV and TGI would be merged and that rates would be harmonized across both service territories. We believe that rate harmonization would lower rates in TGV's service territory and restore gas' cost advantage.

TGV's A3 rating is consistent with the A3 rating implied by Moody's Regulated Electric and Gas Utilities Rating Methodology.

DETAILED RATING CONSIDERATIONS

HIGH COST OF SERVICE BALANCED BY STRONG POLITICAL AND REGULATORY SUPPORT

TGV's system has a high capital cost per customer and has relied heavily on regulatory and political support to ensure that its rates have been competitive with the costs of other forms of energy. TGV's high capital costs per customer reflect the significant investment in transmission infrastructure required to reach the relatively small customer base on Vancouver Island. Also, TGV's market penetration is generally lower than that of TGI.

To ensure that natural gas was roughly cost competitive with fuel oil and electricity, the Province, the BCUC and TGV agreed to a number of mechanisms. Firstly, TGV's rates have been capped at levels similar to those of alternative forms of energy. Secondly, the Province provides financial support under the Vancouver Island Natural Gas Pipeline Agreement (VINGPA) in the form of royalty revenue payments to TGV which subsidize consumers' gas costs. Thirdly, both the Province and the Federal Government have provided TGV with non-interest bearing loans.

Prior to 2003, TGV's rates were insufficient to cover TGV's costs of service and the shortfall was deferred in the Revenue Deficiency Deferral Account (RDDA). In 2003 TGV reached a point where, with the benefit of the Provincial royalty revenues, it was able to recover its costs of service and also begin to recover the accumulated regulatory assets (principally the RDDA) while charging rates that were roughly competitive with costs of alternative sources of energy on Vancouver Island. By late 2009, TGV had fully recovered the RDDA and begun to accumulate revenue surpluses.

In addition to support provided by the Provincial Government, TGV has benefited from British Columbia's economic performance, which has until recently been relatively strong. Moody's considers Canada to have supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the more supportive in Canada. This view reflects the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced.

RATE PRESSURES COULD ADVERSELY IMPACT DEMAND

There are a number of factors which we believe will cause TGV's rates to rise over the next few years. Depending on the extent of the increase in TGV's rates and the degree to which the costs of alternative sources of energy increase, it is possible that the competitiveness of TGV's rates and therefore the demand for gas within TGV's service territory could be adversely impacted. In the extreme, the loss of a cost advantage could lead to spiraling rate increases and demand destruction. While we do not believe this to be a likely scenario, if it were to occur, we expect that TGV and TGI would be merged and their rates would be harmonized. Rate harmonization would be expected to eliminate the cost disadvantage of gas on Vancouver Island as the higher costs of TGV's system would be spread across TGI's larger base of approximately 839,000 customers (more than eight times TGV's customer base).

While TGV has been able to recover its costs of service and the accumulated RDDA balances since 2003, it has only been able to do so with the benefit of the Provincial royalty payments. Under the terms of the VINGPA, these royalty payments terminate at the end of 2011. Consequently, TGV's rates will need to increase in 2012 to offset the loss of the Provincial royalty revenues. Initially, the rate impact of the loss of royalty revenues is expected to be partially mitigated by the amortization of accumulated revenue surpluses that are anticipated to occur during 2010 and 2011. Pursuant to the BCUC-approved negotiated settlement for TGV's 2010/2011 rates, the company expects to recover more than its cost of service during those two years and will record any surpluses in a new deferral account, the Rate Stabilization Deferral Account or RSDA. Following the termination of the Provincial royalty revenues, the RSDA balance will be amortized and therefore reduce the need to increase rates to offset the lost royalty revenues. However, when the RSDA has been fully amortized, TGV's rates will need to increase.

As of December 2009, the balance of TGV's Provincial and Federal non-interest bearing loans was approximately \$53 million. TGV anticipates that this amount will be repaid between 2012 and 2016. As these loans are repaid, TGV's rate base will increase by a like amount since these loans are treated as an offset to rate base for regulatory purposes.

In 2011, TGV's Mt. Hayes liquefied natural gas (LNG) storage facility (described below) is expected to enter service and increase rate base by roughly \$215 million. While the majority of the costs associated with Mt. Hayes will be covered by contractual payments from TGI, TGV's customers will have to absorb roughly one third of the costs of Mt. Hayes through higher rates.

While we see upward pressure on TGV's rates, we also expect the costs of alternative forms of energy to rise which could help preserve gas' cost advantage. For example, we note that BC Hydro applied for an effective 9.26% increase in its rates effective April 1, 2010. Moody's anticipates that the price of electricity in British Columbia will grow at well in excess of the rate of inflation for an extended period of time which could provide TGV with some breathing room.

However, we believe that the Province of British Columbia would be supportive if rate harmonization were ultimately required to preserve gas competitiveness in TGV's service territory. The Province has long provided financial and regulatory support to TGV in order to promote its policy goal of ensuring availability of gas on Vancouver Island. While Provincial support of amalgamation/rate harmonization is not assured, it is Moody's view that it is unlikely that the Province would simply stand by and allow the Vancouver Island gas distribution infrastructure to falter and fail given the Province's well established track-record of supporting the development of TGV's franchise. Moody's also notes that there is a precedent for such a transaction within the Terasen group of companies: in November 2006, Terasen Gas (Squamish) Inc. was amalgamated with TGI and the rates of the two entities were harmonized. While TGV is considerably larger than Terasen Gas (Squamish), we believe the Squamish transaction is a positive precedent in the event that at some point in the future, the long-term competitiveness of TGV's rates comes into question.

VOLATILE CREDIT METRICS IN NEAR TERM

In December 2009, the BCUC set its benchmark ROE for 2010 at 9.5% and decided to abandon its automatic ROE adjustment mechanism. In that same decision, the BCUC reduced TGV's ROE premium to 50 basis points (BP) from 70 BP. On balance, the decision is slightly positive for TGV in that TGV's 2010 ROE of 10% is higher than it would have been had the BCUC retained its automatic adjustment mechanism. Notwithstanding, we expect TGV's credit metrics to be volatile for the next few years. During 2010 and 2011, TGV's cash flows will benefit from the collection of revenues in excess of its cost of service. Commencing 2012 we expect cash flows to decline due to the cessation of the Provincial royalty revenues which will not be immediately offset by rate increases due to the non-cash amortization of revenue surpluses accumulated in 2010 and 2011. However, we expect there will be a new cash flow stream related to the Mt. Hayes project whose first full year of operation is expected to be 2012. The completion of Mt. Hayes should also cause TGV's (Moody's-adjusted) interest costs to be lower at the margin as the short-term debt used to construct the facility will be replaced with a mix of long-term debt and equity. Currently, we do not expect TGV's cash flows and metrics to stabilize until approximately 2014.

ELEVATED CAPEX DUE TO CONSTRUCTION OF MT. HAYES LNG STORAGE FACILITY

TGV is currently constructing the 1.5 bcf Mt. Hayes LNG storage facility. Based on an estimated cost of approximately

\$215 million, the value of the project would exceed 40% of TGV's 2009 rate base of roughly \$540 million. As of early 2010, the project was on schedule and within budget.

TGV plans to finance Mt. Hayes primarily with short-term debt until the project is completed and is placed in rate base (currently expected to occur in 2011). On completion we expect that TGV's ultimate parent, FTS, will provide an equity injection to bring TGV's capital structure into line with the BCUC's deemed capital structure. Accordingly, during the construction period, TGV's debt to capital will be higher than it otherwise would be and its cash flow metrics will be lower than they otherwise would be.

While the Mt. Hayes project is large relative to TGV's rate base, Moody's does not expect that its construction will pose a significant credit challenge for TGV given the progress to date and the experience of the TGI/TGV management team. Once in service, Mt. Hayes will contribute to higher rates although this impact is mitigated by a contract under which TGI bears roughly two thirds of costs of the facility.

STRONG REGULATORY RING-FENCING SEPARATES TGV FROM PARENT, TERASEN INC.

Moody's believes that TGV's ring-fencing is very good relative to that of its peers outside of British Columbia. TGV is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, TGV shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause TGV's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. Moody's believes that the BCUC ring-fencing provisions effectively insulate TGV from the greater financial and business risks of its parents, TER and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow Moody's to evaluate TGV's credit profile on a stand-alone basis.

Liquidity Profile

Moody's views TGV's liquidity resources as weak pending a renegotiation or extension of its primary credit facility. TGV maintains a \$350 million syndicated committed revolving credit agreement which matures on January 13, 2011. The credit agreement contains two maintenance covenants (debt to equity not greater than 70% and EBIT to interest expense not less than 2:1). As at September 2009, TGV's leverage and coverage were 64.4% and 4.1x, respectively, leaving reasonable headroom under the covenants. TGV's credit agreement does not contain language such as a Material Adverse Change (MAC) clause or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress. At December 2009, approximately \$194 million was available under the facility.

TGV is expected to generate approximately \$66 million of funds from operations (FFO) in 2010. After and working capital changes and capital expenditures totaling approximately \$90 million and dividends in the range of \$20 million, Moody's expects TGV to be free cash flow negative by approximately \$45 million in 2010. While the availability under TGV's credit agreement is expected to be sufficient to fund its anticipated 2010 funding requirement, we consider the fact that the facility matures within the 12 month horizon of our liquidity stress scenario to be a weakness. We anticipate that TGV will address this issue during the second quarter of 2010.

Rating Outlook

The stable outlook reflects our expectation that TGV will be able to recover its costs of service while charging rates competitive with the costs of alternative forms of energy following the cessation of provincial royalty revenues in 2011.

What Could Change the Rating - Up

We consider it unlikely that TGV's rating would be upgraded in the foreseeable future. However, an upgrade to A2 would require a combination of materially stronger metrics and improved liquidity. We would expect to see CFO pre-WC Interest Coverage in excess of 4.5x; CFO pre-WC/Debt approaching 20% and Retained Cash Flow (RCF)/Debt in the low teens on a sustainable basis. This is unlikely to occur in the absence of significant increases in deemed equity and allowed ROE.

What Could Change the Rating - Down

A downgrade to Baa1 would likely be caused by changes in political and/or regulatory policy that disadvantage gas relative to electricity and cause a weakening of TGV's financial metrics. For instance, CFO pre-WC Interest Coverage in the low 3x range; CFO pre-WC/Debt in the low teens and RCF/Debt in the mid single digit range on a sustained basis.

Rating Factors

Terasen Gas (Vancouver Island) Inc.

Regulated Electric and Gas Utilities Rating Methodology	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)			X			
Factor 2: Ability to Recover Costs and Earn Returns (25%)		X				
Factor 3: Diversification (10%)						
a) Market Position (10%)				X		
b) Generation and Fuel Diversity (0%)				n/a		
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Interest (7.5%)				X		
c) CFO pre-WC / Debt (7.5%)				X		
d) CFO pre-WC - Dividends / Debt (7.5%)				X		
e) Debt / Capitalization or Debt / RAV (7.5%)						X
Rating:						
a) Methodology Implied Senior Unsecured Rating			A3			
b) Actual Senior Unsecured Rating			A3			



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Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Parent: FortisBC Energy Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]FortisBC Energy (Vancouver Island) Inc.

	[2]LTM	2010	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	4.4x	4.5x	4.0x	4.0x	3.8x
(CFO Pre-W/C) / Debt	15.6%	14.7%	13.3%	15.5%	13.5%
(CFO Pre-W/C - Dividends) / Debt	10.3%	9.6%	8.7%	11.8%	8.6%
Debt / Book Capitalization	62.3%	63.3%	60.7%	66.4%	67.2%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items [2] Last twelve months ended March 31, 2010

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Regulated gas local distribution company (LDC) with no unregulated operations

High cost of service and small size balanced by long history of political and regulatory support

Loss of provincial royalty payments at end of 2011 will necessitate higher rates or rate harmonization with FortisBC Energy Inc.

Higher rates would reduce relative competitiveness of gas relative to electricity and potentially lead to a cycle of demand destruction and rate increases

Rate harmonization would improve relative competitiveness of gas

Capex expected to moderate significantly by 2013

Strong regulatory ring-fencing mechanisms

Weak liquidity

Corporate Profile

FortisBC Energy (Vancouver Island) Inc. (FEVI) is a gas LDC serving approximately 100,000 customers on Vancouver Island and the Sunshine

Coast in the province of British Columbia (BC). FEVI, which has no unregulated operations, is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). FEVI, which has a forecasted 2012 rate base of approximately \$788 million, is one of the smallest gas utilities that we rate.

FEVI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI), a holding company which also owns 100% of FortisBC Energy Inc. (FEI, A3 senior unsecured) and FortisBC Energy (Whistler) Inc. (FEW, unrated). FHI has been a wholly-owned subsidiary of Fortis Inc. (FTS, unrated) since May 17, 2007.

SUMMARY RATING RATIONALE

FEVI's A3 senior unsecured rating and stable outlook reflect FEVI's status as a regulated gas LDC. However, FEVI's high cost of service and small size cause its business risk to be higher than that of most gas LDCs. In addition, FEVI's credit metrics are weaker than those of international peers. However, we consider FEVI's high cost of service, small size and weak metrics to be balanced by the relatively supportive business and regulatory environments in Canada in general and FEVI's long history of supportive regulatory and political decisions in particular.

The rating also reflects our belief that FEVI's cash flow and financial metrics will be significantly weaker in 2012 due to the scheduled cessation of royalty revenues from the Province of British Columbia at the end of 2011. We believe the weakness in FEVI's metrics will be short-lived because the company will either merge and harmonize rates with sister gas LDC, FEI, causing FEVI's rates to fall or increase its rates to offset the cessation of the royalty revenue. While a significant increase in FEVI's rates would be positive for FEVI's cash flow and financial metrics, it would reduce the relative competitiveness of gas versus electricity in FEVI's service territory. If an increase in FEVI's rates were to lead to a cycle of demand destruction and further rate increases, we continue to believe that amalgamation and rate harmonization, with FEI would be the most likely outcome.

FEVI's A3 rating is consistent with the A3 rating implied by Moody's Regulated Electric and Gas Utilities Rating Methodology.

DETAILED RATING CONSIDERATIONS

SMALL SIZE AND HIGH COST OF SERVICE BALANCED BY HISTORY OF STRONG POLITICAL AND REGULATORY SUPPORT

FEVI's system has a high capital cost per customer and since inception FEVI has relied heavily on regulatory and political support to ensure that its rates have been competitive with the costs of other forms of energy. FEVI's high capital costs per customer reflect the significant investment in transmission infrastructure required to reach its relatively small customer base on the Sunshine Coast and Vancouver Island and its lower market penetration relative to other gas LDCs including FEI.

We consider Canada to have supportive regulatory and business environments relative to other jurisdictions globally. We consider the regulatory environment in BC to be one of the more supportive in Canada since regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. In addition, FEVI benefits from a number of mechanisms agreed to by the BC Government and the BCUC that were designed to ensure that FEVI's gas rates were roughly cost competitive with electricity and fuel oil.

Firstly, FEVI's rates have historically been capped such that the cost of gas has been similar to the cost of alternative forms of energy. Secondly, the provincial government has subsidized consumers' gas costs by providing FEVI with royalty revenue payments under the Vancouver Island Natural Gas Pipeline Agreement (VINGPA). In accordance with the terms of the VINGPA, the royalty payments to FEVI cease at the end of 2011. Thirdly, both the Province and the Federal Government have provided FEVI with non-interest bearing loans.

Prior to 2003, FEVI's rates were insufficient to cover FEVI's costs of service and the shortfall was deferred in the Revenue Deficiency Deferral Account (RDDA). In 2003, FEVI reached a point where, with the benefit of the provincial royalty revenues, it was able to recover more than its costs of service and therefore begin to recover the accumulated regulatory assets (principally the RDDA) while charging rates that were roughly competitive with costs of alternative sources of energy on Vancouver Island. By late 2009, FEVI had fully recovered the RDDA and began to accumulate revenue surpluses.

SCHEDULED EXPIRY OF ROYALTY REVENUES PRESSURES NEAR-TERM FINANCIAL METRICS AND MEDIUM-TERM COMPETITIVENESS

In accordance with the VINGPA, the provincial royalty revenues (approximately \$20 million in 2011) will cease at the end of 2011. We do not expect FEVI to immediately increase its rates to offset the loss of this cash flow because, subject to BCUC approval, the company plans to amortize the revenue surplus that it has accumulated since 2009. The accumulated revenue surplus, approved by the BCUC as a means of promoting rate stability, is expected to exceed \$50 million by the end of 2011. While the amortization of this regulatory liability will allow FEVI to earn its allowed ROE on an accrual accounting basis, it does nothing to offset the loss of royalty revenue cash flows. Accordingly, we expect FEVI's cash flow and financial metrics to weaken materially in 2012.

In the absence of amalgamation and rate harmonization, discussed below, once the accumulated revenue surplus has been fully amortized, FEVI will need to increase rates significantly in order to cover its costs of service. While such a rate increase would allow FEVI to earn its allowed return on equity and would strengthen its cash flow credit metrics, it would reduce the relative competitiveness of gas versus other forms of energy, principally electricity, in FEVI's service territory. Although we expect BC electricity prices to continue to rise at rates well in excess of inflation for the foreseeable future, we note that the provincial government is once again reviewing the operations of British Columbia Hydro and Power Authority (BCH, Aaa) with a view to finding the right balance between required investments and rate increases. Similarly, while we currently anticipate that gas prices will remain relatively low for the foreseeable future, we are cognizant of the historical volatility of gas prices and the fact that current prices are low relative to those that prevailed during much of the preceding decade. Accordingly, there is a risk that significant increases in FEVI's delivery rates combined with higher gas commodity costs could cause gas to be uncompetitive with electricity which could lead to a cycle of demand destruction and further gas rate increases.

FEVI AND FEI PLAN TO SEEK APPROVAL TO AMALGAMATE AND HARMONIZE RATES

In their combined 2012-2013 revenue requirements application, filed with the BCUC on May 4, 2011, FEVI and FEI stated that they plan to apply to the BCUC in 2011 for permission to amalgamate and harmonize their rates effective January 1, 2013. In addition to BCUC approval, the utilities would also require the approval of the provincial government to amalgamate.

While we cannot predict the outcome of this effort, we continue to believe that the Province of British Columbia would be supportive if rate

harmonization were ultimately required to preserve the competitiveness of gas in FEVI's service territory. The Province has long provided financial and regulatory support to FEVI in order to promote its policy goal of ensuring availability of gas on Vancouver Island. While Provincial support of amalgamation/rate harmonization is not assured, it is our view that it is unlikely that the Province would simply stand by and allow the Vancouver Island gas distribution infrastructure to falter and fail given the Province's well established track-record of supporting the development of FEVI's franchise. We also note that there is a precedent for such a transaction within the Fortis group of companies: in November 2006, Terasen Gas (Squamish) Inc. was amalgamated with FEI and the rates of the two entities were harmonized. While FEVI is considerably larger than Terasen Gas (Squamish) Inc., we believe the Squamish transaction is a positive precedent.

COMPLETION OF MAJOR CAPITAL PROJECTS WILL RESULT IN A SIGNIFICANT EQUITY INJECTION AND REDUCTION IN CAPEX

FEVI will complete two major projects during 2011 and 2012: the Mt. Hayes liquefied natural gas storage facility and the internalization of its customer care system. On completion of these projects we expect FTS/FHI to inject significant equity into FEVI to bring its actual capital structure in line with its deemed 60/40 capital structure for rate-making purposes. We expect that that equity injections will cause FEVI's debt to capital to fall into the low 50% range in 2011 from about 63% in 2010.

Once in service in 2011, the Mt. Hayes project will provide FEVI with a new stream of cash flow. Under a BCUC-approved long-term contract, FEI is obligated to pay for roughly two thirds of the cost of the Mt. Hayes facility.

While the completion of these major projects will generate incremental cash flow and reduce FEVI's free cash flow shortfall, we do not expect the incremental cash flow to offset the cessation of provincial royalty revenues in 2011.

STRONG REGULATORY RING-FENCING SEPARATES FEVI FROM PARENT COMPANIES

We believe that FEVI's ring-fencing is very good relative to that of its peers outside of BC. FEVI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEVI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEVI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support a non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEVI from the greater financial and business risks of its parents, FHI and FTS. The regulatory ring-fencing provisions combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow us to evaluate FEVI's credit profile on a stand-alone basis.

Liquidity Profile

We consider FEVI's liquidity resources to be weak pending a renegotiation or extension of its primary credit facility which is currently scheduled to mature on April 30, 2012.

FEVI is expected to generate approximately \$58 million of CFO pre-WC during the 12 months ending June 30, 2012. After dividends in the range of \$24 million and capital expenditures and working capital changes of about \$66 million, we expect FEVI to be free cash flow negative by approximately \$32 million. Since FEVI has no scheduled debt maturities during this period, we estimate that it will have a funding requirement of approximately \$32 million.

While we estimate that availability under FEVI's \$300 million syndicated committed revolving credit agreement is more than \$200 million and well in excess of FEVI's funding requirement, the credit facility is currently scheduled to expire on April 30, 2012 which is inside the 12 month horizon of our liquidity stress scenario. Accordingly, we consider FEVI's liquidity to be weak. We expect that FEVI will seek to extend the term of this facility to at least December 31, 2012 in light of the company's announced plan to pursue amalgamation with FEI and FEW effective January 1, 2013. With the completion of the Mt. Hayes project in 2011 and the internalization of the customer care system in 2012, FEVI's future capital expenditures will be materially lower than those of recent years so we anticipate that FEVI might downsize the syndicated credit facility as it did in 2010 when the facility was reduced to \$300 million from \$350 million.

The \$300 million credit agreement contains a single maintenance covenant (debt to equity not greater than 70%). As at December 2010, FEVI's leverage was 61.7% leaving reasonable headroom under the covenant. FEVI's credit agreement does not contain language such as a Material Adverse Change (MAC) clause or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Rating Outlook

The stable outlook reflects our expectation that the anticipated weakness in FEVI's cash flow and financial ratios will be short-lived. We continue to believe that if a cycle of demand destruction and rate increases were to arise, amalgamation of FEVI, FEI and FEW and the harmonization of rates across the various service territories would be the logical outcome.

What Could Change the Rating - Up

We consider it highly unlikely that FEVI's rating would be upgraded in the foreseeable future. However, an upgrade to A2 would require a combination of materially stronger metrics, improved competitiveness and improved liquidity. We would expect to see CFO pre-WC Interest Coverage in excess of 4.5x; CFO pre-WC/Debt approaching 20% and Retained Cash Flow (RCF)/Debt in the low teens on a sustainable basis. This is unlikely to occur in the absence of significant increases in FEVI's deemed equity and allowed ROE. In the absence of material decreases in gas commodity prices, which we do not believe is likely, significant increases in FEVI's deemed equity and allowed ROE would require rate increases which would exacerbate its already existing competitiveness challenges.

What Could Change the Rating - Down

A downgrade to Baa1 would likely be caused by changes in political and/or regulatory policy that disadvantages gas relative to electricity and causes a weakening of FEVI's financial metrics. For instance, CFO pre-WC Interest Coverage in the low 3x range; CFO pre-WC/Debt in the low teens and RCF/Debt in the mid single digit range on a sustained basis.

Rating Factors

FortisBC Energy (Vancouver Island) Inc.

Regulated Electric and Gas Utilities Industry [1]	[2]Current	
Factor 1: Regulatory Framework (25%)	Measure	Score
a) Regulatory Framework		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)		
a) Ability To Recover Costs And Earn Returns		Aa
Factor 3: Diversification (10%)		
a) Market Position (10%)		Baa
b) Generation and Fuel Diversity (0%)		
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)		
a) Liquidity (10%)		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.2x	Baa1
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	14.5%	Baa3
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	10.0%	Baa3
e) Debt/Capitalization (3 Year Avg) (7.5%)	63.4%	Ba3
Rating:		
a) Indicated Baseline Credit Assessment from Methodology Grid		A3
b) Actual Baseline Credit Assessment Assigned		A3

[3]Moody's 12-18 month Forward View As of 07/26/2011	
Measure	Score
	A
	Aa
	Baa
2.6x-3.4x	Ba Ba1- Baa2
10%-16%	Ba1- Baa3
5%-10%	Ba2- Baa3
52%-55%	Baa3
	A3
	A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items [2] Financial ratios reflect three year averages for 2008, 2009 and 2010. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.



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Attachment 96.3

FORTISBC ENERGY INC. - FORT NELSON AREA
CALCULATION OF AMALGAMATED CUSTOMERS' RATES
BCUC ORDER NO. G-XXX-12
RATE SCHEDULE 3 - LARGE COMMERCIAL SERVICE

APPENDIX J-3
TAB 1.4
PAGE 5

ORIGINAL RATE SCHEDULE:		PROPOSED JANUARY 1, 2014 AMALGAMATED RATES AS PER RRA		PROPOSED JANUARY 1, 2014 AMALGAMATED RATES BASED ON NO REVENUE REBALANCING			
GENERAL FIRM T-SERVICE RATE 25							
Line No.	Particulars	Fort Nelson		Fort Nelson		ANNUAL INCREASE/DECREASE	
		Volume	Rate	Annual \$		Annual \$	% of Previous Total Annual Bill
1	Transportation Delivery Charges						
2	Delivery Charge per Gigajoule						
3	i) First 20 Gigajoules	240.00	GJ x	\$2,799			
4	ii) Next 260 Gigajoules	3,120.00	GJ x	\$2,579			
5	iii) Excess over 280 Gigajoules	3,530.00	GJ x	\$2,103			
6	iv) Minimum Delivery Charge per month	12	months x	\$1,852.00			
7							
8	Administration Charge per month	12	months x	\$202.00			
9							
10	Rider 5: RSAM per GJ	6,890	GJ x	(\$0.011)			
11							
12	Commodity Related Charges						
13	Cost of Gas (Commodity Cost Recovery Charge) per GJ	6,890	GJ x	\$4,196			
14							
15	Total Transportation Charges	6,890	GJ x	\$6,880			
16							
17							
18							
19							
20							
21	Delivery Margin Related Charges						
22	Basic Charge per day	365	days x	\$4,3538		\$1,590.24	
23							
24	Delivery Charge per GJ	6,890.0	GJ x	\$2,954		\$20,353.19	
25	Rider 4 Phase-In Rider	6,890.0	GJ x	(\$3.110)		(\$21,424.81)	
26	Rider 5 RSAM	6,890.0	GJ x	(\$0.026)		(\$179.14)	
27	Subtotal Delivery Margin Related Charges per GJ					\$339.49	
28							
29	Commodity Related Charges						
30	Midstream Cost Recovery Charge per GJ	6,890.0	GJ x	\$1,055		\$7,271.25	
31	Rider 6 MCRA	0.0	GJ x	\$0.066		\$0.00	
32							
33	Cost of Gas (Commodity Cost Recovery Charge) per GJ	6,890.0	GJ x	\$4,108		\$28,302.84	
34	Subtotal Commodity Related Charges					\$35,574.09	
35							
36	Total (with effective \$/GJ rate)	6,890.0		\$5,212		\$35,913.58	(\$11,486.90) -24.23%

FORTISBC ENERGY INC. - FORT NELSON AREA
CALCULATION OF AMALGAMATED CUSTOMERS' RATES
BCUC ORDER NO. G-XXX-12
RATE SCHEDULE 3 - LARGE COMMERCIAL SERVICE

APPENDIX J-4
TAB 1.2
PAGE 5

ORIGINAL RATE SCHEDULE:		PROPOSED JANUARY 1, 2013 RATES AS PER RRA			PROPOSED JANUARY 1, 2014 AMALGAMATED RATES - BASED ON NO REVENUE REBALANCING AND EXCLUDING PHASE IN RIDER				
GENERAL FIRM T-SERVICE RATE 25									
Line No.	Particulars	Fort Nelson			Fort Nelson			ANNUAL INCREASE/DECREASE	
		Volume	Rate	Annual \$	Volume	Rate	Annual \$	Annual \$	% of Previous Total Annual Bill
1	Transportation Delivery Charges								
2	Delivery Charge per Gigajoule								
3	i) First 20 Gigajoules	240.00	GJ x	\$2,799					
4	ii) Next 260 Gigajoules	3,120.00	GJ x	\$2,579					
5	iii) Excess over 280 Gigajoules	3,530.00	GJ x	\$2,103					
6	iv) Minimum Delivery Charge per month	12 months	x	\$1,852.00					
7									
8	Administration Charge per month	12 months	x	\$202.00					
9									
10	Rider 5: RSAM per GJ	6,890	GJ x	(\$0.011)					
11									
12	Commodity Related Charges								
13	Cost of Gas (Commodity Cost Recovery Charge) per GJ	6,890	GJ x	\$4,196					
14									
15	Total Transportation Delivery & Administration Charges	6,890	GJ x	\$6,880					
16									
17									
18									
19									
20									
21	Delivery Margin Related Charges								
22	Basic Charge per day	365	days x	\$4,3538			\$1,590.24		
23									
24	Delivery Charge per GJ	6,890.0	GJ x	\$2,954			\$20,353.19		
25	Rider 5 RSAM	6,890.0	GJ x	(\$0.026)			(\$179.14)		
26	Subtotal Delivery Margin Related Charges per GJ						\$21,764.29		
27									
28	Commodity Related Charges								
29	Midstream Cost Recovery Charge per GJ	6,890.0	GJ x	\$1,055			\$7,271.25		
30	Rider 6 MCRA	0.0	GJ x	\$0.066			\$0.00		
31									
32	Cost of Gas (Commodity Cost Recovery Charge) per GJ	6,890.0	GJ x	\$4,108			\$28,302.84		
33	Subtotal Commodity Related Charges						\$35,574.09		
34									
35	Total (with effective \$/GJ rate)	6,890.0		\$8,322			\$57,338.38	\$9,937.90	20.97%

Attachment 104.1

PROJECT NAME: FortisBC Residential Customer Opinions & Amalgamation Research
DRAFT VERSION: FINAL

Sample plan:	<ul style="list-style-type: none">• Lower Mainland (n=500)• Vancouver Island (n=200)• Interior (n=200)• Fort Nelson (n=100)
Timelines:	<ul style="list-style-type: none">• Draft delivered: 3rd Feb• Survey approval: 6th Feb• Survey programming: 7th-9th Feb• Survey in-field: 10th-20th Feb• Data analysis& reporting: 21st Feb-1st Mar• Report due: March 1st (EOD)
Test link	<ul style="list-style-type: none">• TBD

INTRO TEXT

Thank you for your interest in this survey! There are no right or wrong answers – we just want your honest opinions. Please click the “next” button to proceed.

SCREENER

In this section, we have a few initial questions to learn a little about you.

Q1 _PostalCode [alpha numeric]

Please enter your postal code. Please use the following format: A1A 1A1.

[POSTAL CODE ENTRY]

REGIONAL ROLL UP NEEDED

CREATE QUOTAS BASED ON THE FOLLOWING

LOWER MAINLAND (N=500)

VANCOUVER ISLAND (N=200)

INTERIOR (N=200)

FORT NELSON (N=100)

[DQ IF RESPONDENT DOES NOT FALL INTO THE ABOVE CATEGORIES]

Q2 _FortisCustomer [single choice]

Are you a residential natural gas customer of FortisBC?

Yes

No **[DQ]**

Not sure **[DQ]**

Q3 _Primary [single choice]

Are you the person in your household who is primarily responsible for paying the utility bills each month and/or contacting providers when your home experiences a service issue?

Yes

No

GENERAL QUESTIONS

Q4 _Satisfaction

On average, how much do you pay per month for Natural Gas?

\$(NUMERIC) [RANGE IS 0-2000]

DON'T KNOW CHECK BOX

Q5 _Satisfaction [single choice slider scale]

How do you feel about the current rate you pay for natural gas?

Very inexpensive

Somewhat inexpensive

Just right

Somewhat expensive

Very expensive

Don't know

Q6 _GeneralStatements [single choice visual gird]

How much do you support or oppose the idea of paying the same rates for the following service, regardless of where you live?

[COLUMNS]

Strongly support

Somewhat support it

Neither support nor oppose it

Somewhat oppose it

Strongly oppose it

Don't know

[ROWS][RANDOMISE]

Paying the same rates for natural gas, regardless of where you live

Paying the same rates for fuel oil, regardless of where you live

Paying the same rates for electricity, regardless of where you live

Paying the same rates for telephone services, regardless of where you live

Paying the same rates for cable, regardless of where you live

Paying the same rates for gasoline, regardless of where you live

FORTISBC SPECIFIC QUESTIONS

In the next few questions, we'd like to focus on FortisBC, the company that supplies your natural gas.

[Q7 AND Q8 PUT ON SAME PAGE]

Q7 _Impression [single choice slider scale]

What is your overall impression of FortisBC?

Very positive
Somewhat positive
Neutral
Somewhat negative
Very negative
Don't know

Q8 _Satisfaction [single choice slider scale]

Overall, how satisfied are you with the service you've received from FortisBC?

Very satisfied
Somewhat satisfied
Neither satisfied nor dissatisfied
Not very satisfied
Not at all satisfied
Don't know

Q9 _Reaction [visual slider scale]

Common Rates Application

FortisBC is proposing to move to common natural gas rates and services across the province, which will be made possible by combining its three natural gas utilities into one legal entity.

Currently, customers in different regions pay different prices for natural gas service. Bringing all three natural gas utilities together as one entity will allow FortisBC to offer customers across the province consistent natural gas rates and service offerings such as Renewable Natural Gas and Customer Choice.

If this initiative is approved by the BC Utilities Commission, each customer in a given customer class will be charged the same rate and have access to the same programs and service offerings, regardless of where they live.

How much do you support this Common Rates application?

Strongly support it
Somewhat support it
Neither support nor oppose it
Somewhat oppose it
Strongly oppose it
Don't know

Q10 _ProposalAgreement [card sort]

How much do you agree or disagree with the following statements about the Common Rates application?

Common Rates Application

FortisBC is proposing to move to common natural gas rates and services across the province, which will be made possible by combining its three natural gas utilities into one legal entity.

Currently, customers in different regions pay different prices for natural gas service. Bringing all three natural gas utilities together as one entity will allow FortisBC to offer customers across the province consistent natural gas rates and service offerings such as Renewable Natural Gas and Customer Choice.

If this initiative is approved by the BC Utilities Commission, each customer in a given customer class will be charged the same rate and have access to the same programs and service offerings, regardless of where they live.

[COLUMNS]

Strongly agree
Somewhat agree
Neither agree nor disagree
Somewhat disagree
Strongly disagree
Don't know

[ROWS][RANDOMISE]

I understand the objective of the Common Rates application
The move to common natural gas pricing across the province makes sense for FortisBC customers
Common natural gas pricing will be easier to understand
I think that the Common Rate application is fair

Q11 _ReactionWithPricingImpact

[visual slider scale]

As we mentioned before, if the Common Rates application is approved, each customer in a given customer class will be charged the same rate for natural gas, regardless of where they live.

To give you more details, here are the approximate rate impact details per region.

Approximate impact of common rates on total annual bills for residential customers

Region	Total average change in rates*	Total change realized by year
Lower Mainland	4.5% increase	2015
Inland	4.3% increase	2015
Columbia	4.4% increase	2015
Fort Nelson	47.6% increase	2028
Vancouver Island	26.5% decrease	2013
Whistler	37.8% decrease	2013

**Percentage changes demonstrate impact of common rates on the proposed 2013 Revenue Requirement rates, based on gas costs held constant and average consumption by region.*

Given this information, how much do you support this Common Rates application?

Strongly support it
Somewhat support it
Neither support nor oppose it
Somewhat oppose it
Strongly oppose it
Don't know

Q12 _ProposalAgreement [card sort]

Given what you now know, how much do you agree or disagree with the following statements about the Common Rates application?

[COLUMNS]

Strongly agree
Somewhat agree
Neither agree nor disagree
Somewhat disagree
Strongly disagree
Don't know

[ROWS][RANDOMISE]

I understand the impact of the Common Rates application
The move to common natural gas pricing across the province makes sense for FortisBC customers
Common natural gas pricing will be easier to understand
I think that the Common Rate application is fair

MESSAGE TESTING

RANDOMIZE MESSAGES WITHIN BLOCK

Thank you for your responses so far. For the next few questions, we would like your opinions on some information about common rates.

[MESSAGE A BLOCK START]

Q13 _MessageA [single choice visual grid]

Common rates will provide lower rates for some customers, especially on Vancouver Island and Whistler.

If our application is approved, rates will be reduced by approximately 26 – 39 per cent for residential customers in our Vancouver Island, Sunshine Coast and Whistler regions. Rates in the Lower Mainland, Columbia and Inland service areas will increase slightly as a result of common rates – approximately 4.5 per cent by 2015.

How much do you agree or disagree with the following statements about the above information?

[COLUMNS]

Strongly agree
Somewhat agree
Somewhat disagree
Strongly disagree
Don't know

[ROWS]

It is clear
It is believable
It is informative
It shows me that Common Rates benefit me
It shows me that Common Rates benefit my community
It shows me that Common Rates will benefit BC

Q14 _Tagline

How appealing do you find the headline:

“Common rates will provide lower rates for some customers, especially on Vancouver Island and Whistler.”?

Very appealing
Somewhat appealing
Neither appealing nor unappealing
Somewhat unappealing
Very unappealing
Don't know

Q15 _MessageAHighlighter [highlighter tool]

What, if anything, do you find unclear about the information? Use the highlight tool to shade in the parts of the information that you find unclear.

[INSERT MESSAGE]

CHECK BOX – NOTHING

Q15b

Please explain why you find the highlighted sections unclear.

[VERBATIM]

[MESSAGE A BLOCK END]

[MESSAGE B BLOCK START]

Q16 _MessageB [single choice visual grid]

Common rates will provide consistency for all customers across B.C.

Our application to introduce common rates across our service areas will eliminate rate differences, allowing FortisBC to offer consistent rates and program offerings to all customers across the province.

Residential customers will be charged the same rate for natural gas, regardless of where they live. For example, a residential customer in Surrey will pay the same amount for an equivalent volume of natural gas as a residential customer in Victoria.

How much do you agree or disagree with the following statements about the above information?

[COLUMNS]

Strongly agree
Somewhat agree
Neither agree nor disagree
Somewhat disagree
Strongly disagree
Don't know

[ROWS]

It is clear
It is believable
It is informative
It shows me that Common Rates benefit me
It shows me that Common Rates benefit my community
It shows me that Common Rates will benefit BC

Q17 _Tagline

How appealing do you find the headline:

“Common rates will provide consistency for all customers across B.C.”?

Very appealing

Somewhat appealing

Neither appealing nor unappealing

Somewhat unappealing

Very unappealing

Don't know

Q18 _MessageBHighlighter [highlighter tool]

What, if anything, do you find unclear about the information? Use the highlight tool to shade in the parts of the message that you find unclear.

[INSERT MESSAGE]

CHECK BOX – NOTHING

Q18b

Please explain why you find the highlighted sections unclear.

[VERBATIM]

[MESSAGE B BLOCK END]

[MESSAGE C BLOCK START]

Q19 _MessageC [single choice visual grid]

Common rates will provide rate stability and simplicity

Moving to common rates and combining our three natural gas entities into one will make natural gas rates easier to understand and help FortisBC stabilize prices over the long-term.

FortisBC's costs to operate its business, such as investment in infrastructure and ongoing system maintenance will be spread across all customers around the province. This will help to provide rate stability for customers, particularly for those in our smaller service areas including Vancouver Island, Whistler and Fort Nelson.

How much do you agree or disagree with the following statements about the above information?

[COLUMNS]

Strongly agree
Somewhat agree
Neither agree nor disagree
Somewhat disagree
Strongly disagree
Don't know

[ROWS]

It is clear
It is believable
It is informative
It shows me that Common Rates benefit me
It shows me that Common Rates benefit my community
It shows me that Common Rates will benefit BC

Q20 _Tagline

How appealing do you find the headline:

"Common rates will provide rate stability and simplicity"?

Very appealing
Somewhat appealing
Neither appealing nor unappealing
Somewhat unappealing
Very unappealing
Don't know

Q21 _MessageDHighlighter [highlighter tool]

What, if anything, do you find unclear about the information? Use the highlight tool to shade in the parts of the message that you find unclear.

[INSERT MESSAGE]

CHECK BOX – NOTHING

Q21b

Please explain why you find the highlighted sections unclear.

[VERBATIM]

[MESSAGE C BLOCK END]

[MESSAGE D BLOCK START]

Q22 _MessageD [single choice visual grid]

Common rates will provide more programs and service offerings to all customers

Moving to common rates and combining our three natural gas entities into one will allow FortisBC to offer consistent program and service offerings to all customers, regardless of where they live.

Currently, some of FortisBC's programs and products are only available in specific service areas. For example, Renewable Natural Gas is currently available only in the Lower Mainland, Columbia and Inland regions. If our application is approved, FortisBC will expand program offerings to all customers across the province.

How much do you agree or disagree with the following statements about the above information?

[COLUMNS]

Strongly agree
Somewhat agree
Neither agree nor disagree
Somewhat disagree
Strongly disagree
Don't know

[ROWS]

It is clear
It is believable
It is informative
It shows me that Common Rates benefit me
It shows me that Common Rates benefit my community
It shows me that Common Rates benefit BC

Q23 _Tagline

How appealing do you find the headline:

"Common rates will provide more programs and service offerings to all customers"?

Very appealing
Somewhat appealing
Neither appealing nor unappealing
Somewhat unappealing
Very unappealing
Don't know

Q24 _MessageBHighlighter [highlighter tool]

What, if anything, do you find unclear about the message? Use the highlight tool to shade in the parts of the message that you find unclear.

[INSERT MESSAGE]

CHECK BOX – NOTHING

Q24b

Please explain why you find the highlighted sections unclear.

[VERBATIM]

[MESSAGE D BLOCK END]

Q25 _Feedback

Given all the information you now know, do you have any questions or concerns for FortisBC about the common rates application? Please be as specific as possible.

[VERBATIM]

CHECK BOX FOR “NOTHING”

DEMOS

(ASK FORT NELSON TELEPHONE RECRUIT ONLY)

Finally, we have a few questions to learn a little more about you – they will be used for classification purposes only.

Q26 Gender [single choice visual buttons]

Please select your gender.

Male

Female

Q27 Age –needs to be numeric open end to match ARF PQ

In what year were you born?

Q28 EmploymentStatus [single choice visual buttons]

Which category best describes your current employment status?

Employed full-time (30 or more hours per week)

Employed part-time (fewer than 30 hours per week)

Student

Currently looking for work

Homemaker

Retired

Other

Q29 Education [single choice visual buttons]

What is the highest level of formal education you have completed?

Grade school

Some high school

High school graduate

Some college/technical school

Completed college/technical school

Some university

University undergraduate degree

Some post-graduate school

Post-graduate degree

Q30 HHI [single choice visual buttons]

Which of the following ranges best describes your total annual household income before taxes?

Less than \$25,000

\$25,000 to less than \$35,000

\$35,000 to less than \$50,000

\$50,000 to less than \$75,000

\$75,000 to less than \$100,000

\$100,000 to less than \$125,000

\$125,000 or more

Don't know/prefer not to answer

Attachment 104.4

Roy Mokha
Senior Research & Evaluation Analyst
16705 Fraser Highway
Surrey, BC V4N 0E8
778.578.8095

Letter of Engagement: Residential Customer Opinions – Amalgamation Research, January 2012

Thank you for awarding us the opportunity to work with FortisBC on the Residential Customer Opinions – Amalgamation research. We look forward to working with you on this initiative. The following will outline the project specifics, including cost and timing.

Research Background and Recommended Approach:

- Identify viewpoints on the proposed changes
- Identify perceptual hurdles to overcome
- Explore communication activities and messaging for FEU to undertake
- Quantify awareness and opinion of the proposed changes
- Determine regions of BC which may require more/different messaging from other regions

Target Audience and Sample Size:

- Qualitative
 - Vision Critical will recruit 15 for 12 to show in each of the three bulletin boards (n=45).
 - Bulletin board groups will be divided as: Lower Mainland; Interior; Vancouver Island, Sunshine Coast & Whistler. All to be FortisBC residential customers, and responsible for FortisBC bill at home.
- Quantitative
 - Online survey will be conducted amongst 1000 BC residents
 - Given the challenging nature of this recruit, we strongly recommend a telephone survey instead of a phone-to-web recruit as a more cost-effective, timely methodology. The survey will need to be adapted for the telephone format – we will work in close consultation with the client to do this; some questions in the online survey and telephone survey may not be directly comparable.

Region	Completions Required	Methodology
Lower Mainland	500	Online
Interior	200	Online

Vancouver Island	200	Online
Whistler	n/a	n/a
Fort Nelson	100	Telephone*
TOTAL	1000	

*As per discussions with the client, we will make best efforts for a phone-to-web recruit, aiming for 100 online survey completes. Please note that the recruit will be challenging; we will keep track of hours the telephone interviewers spend on the recruit. Once we notice diminishing returns on effort, we will close the telephone recruit and make sure we bill you only the hours spent.

Recommended Discussion Guide Outline:

- TBD

Methodology:

- Qualitative
 - Three online bulletin board focus groups with FortisBC customers
- Quantitative
 - Online survey hosted on Angus Reid Forum amongst panelists where possible.
 - *As per discussions with the client, we will make best efforts for a phone-to-web recruit, aiming for 100 online survey completes. Please note that the recruit will be challenging; we will keep track of hours the telephone interviewers spend on the recruit. Once we notice diminishing returns on effort, we will close the telephone recruit and make sure we bill you only the hours spent.

Deliverables:

Vision Critical will be responsible for the following:

- Project management from start to finish
- Survey deployment/fieldwork
- A comprehensive report outlining findings and recommendations
- PowerPoint deck(s), or Word document as appropriate
- A short narrative summary report, including a summary of key issues by region and recommended communication and outreach activities
- Labeled SPSS files, verbatims, crosstabs
- A presentation to FortisBC summarizing key findings from the study (as mentioned in the research brief)

Project Schedule

- Below is our timeline based on the approval date of 1/30/2012.

Qualitative Research Schedule	
Project kick off & set-up	Mon, Jan 30
Screeners drafted by VC	Jan 31 st - Feb 1 st
Draft Discussion Guides design available to FortisBC	Fri Feb 3 rd
Revisions and sign off on screener	Fri Feb 3 rd
Recruitment commences (2 business weeks)	Fri, Feb 3 rd
Discussion guide updates	Wed Feb 8 th
Discussion guide sign off	Mon Feb 13 th
Fieldwork x3 OBBFGs (Topline reports and immersion sessions morning of 21 st /22 nd)	Feb 20-22 nd
Analysis & Reporting	Feb 23 rd – Mar 1 st
Presentation available	EOD Mar 1 st

Quantitative Research Schedule	
Project kick off & set-up	Mon, Jan 30 th
Draft questionnaire to FortisBC	Feb 2 nd
Final questionnaire sign off	Feb 6 th
Programming & Testing	Feb 7 th -9 th
Survey Fieldwork	Feb 10 th -20 th
Analysis & Reporting	Feb 20 th – Mar 1 st
Presentation available	EOD Mar 1 st

VISIONCRITICAL

Visionary Technology • Critical Thinking

Client: FortisBC
Project: Residential Customer Opinions – Amalgamation
Research
February 3rd, 2012

Project Costs

- Total cost for conducting the research as outlined in this proposal is \$53,000 CAD (excluding HST). Changes to project specifications will affect project costs.

We appreciate the opportunity to work with you on this initiative. Please do not hesitate to contact me with any questions or comments regarding the items outlined in this letter.

Thank You!

Upon your review of this letter, please sign on the nameplate below, scan and email back to Catriona Adam to indicate your acceptance. You may instead fax to 604.647.1005. We will invoice 50% on commission and 50% on completion of the research. If contract is terminated for any reason at any point, FortisBC is entitled to receive all compiled information and completed work that has been paid for. If contract is terminated for any reason at any point, Vision Critical will invoice FortisBC for services rendered to date and any direct costs incurred.

Please authorize the **Residential Customer Opinions – Amalgamation Research** by signing below and emailing it to catriona.adam@visioncritical.com

B. Mokha

FEB 6th, 2012

Client Signature

Date

Print Client Name ROY MOKHA

Attachment 105.1

Online BB Discussion Group:

FortisBC Residential Customer Opinions & Common Rates Research

Client:	FortisBC
Field Dates:	Feb 20 th – 22 nd
Business Challenge/Big Q: [INTERNAL ONLY - NOT TO BE SHARED WITH PARTICIPANTS]	<ol style="list-style-type: none">1) Understand residential customer perceptions and feelings toward general price changes as a benchmark.2) Gather perceptions of FortisBC in general, and with regards to customer service, and product value for money.3) Test key messaging statements amongst the target audience.<ul style="list-style-type: none">• Understand which message(s) are most influential in moving residential customers to support the amalgamated rate.• What are the res. customers' key takeaways from the amalgamated rate explanation?• Are there any missing messages that FortisBC should consider?

Day 1, Topic 1 – Introductions and Expectations

1. **Hello and welcome to the online bulletin board discussion group!**

Thank you for participating in what we hope will be an interesting discussion. This discussion is being hosted by Vision Critical; we're an independent market research firm. You'll be sharing your experiences and thoughts with our moderators Aisling & Catriona. We're hosting this discussion regarding customer service expectations. Please note your personal details are kept confidential throughout this process and thereafter. Your comments from the discussion will be combined with all other feedback, ensuring your responses are kept anonymous and confidential. Please be candid. Before we continue please make sure you've familiarized yourself with QualBoard 3.0. There is an introductory video to help you learn about the online discussion and how it works.
2. **How does the discussion in the bulletin board work?**
 - You'll answer one question at a time. Please provide rich and robust answers!
 - After you click OK to post your response, you'll see other participants' responses.
 - Please read what others have said and react to those posts you find interesting.
 - Feel free to agree or respectfully provide your alternative opinion.
 - This process is repeated for each question.
 - This is a great forum for sharing experiences, discussion and debate.

We hope you enjoy the process and engage in conversation with us and each other! So let's get

started! Just type OK to continue.

3. Here are the expectations we have of you:

- Login at the set times over the next 3 days.
- The first section of the discussion starts now. This should take you about 1 hour to complete. Feel free to complete each day's questions at once, or in smaller sections around your schedule. But please make sure you complete the questions before the new questions are posted the next day.
- New topics will be posted by 1pm PST Tuesday February 21st. Again, these should take you about 1 hour to complete.
- Closing comments and remarks will be posted by 1pm PST Wednesday February 22nd. We estimate this will take about 30 minutes.
- You will receive your incentive by answering all of the questions.
- Please note: all answers and responses must be on topic and respectful of other participants. We reserve the right to remove any inappropriate message posted by a participant.
- It's always nice to know who we're talking to - we encourage you to upload a photo (this is a photo that sits beside your comments/feedback). These images are kept confidential and will not be shared outside our project.
- Type OK to continue...

4. Questions or Difficulties

IF YOU HAVE ANY QUESTIONS you can contact Help Service or send a private message to the moderator. Any questions so far? If not, please proceed to the next post by typing 'ok'.

Day 1, Topic 2 – Introductions

1. Hello! The focus of this discussion is to learn more about customer service in BC. But first we'd like to know a little more about who we're talking with.
To start, share your first name, where you're from, what you do for a living and what you do for fun!
2. Fill in the blank...
I'm happiest when _____.
3. Now everyone's favourite: how about a typical day off for you, what do you get up to?
4. What are your favourite topics of conversation about current events and issues?
What current events or issues are you most passionate about?

Day 1, Topic 3 – Perceptions of Price Changes

1. Thinking of the different utilities you use in BC, which one's come to mind? (eg: electricity, gas, telephone, cable)
How would you describe your relationship with these different providers?
2. What do you feel are their 'success points'?
Please explain...
3. What do you think they could improve at?

4. Have you ever experienced a price change from any of these providers? Tell us about it...
5. How did the price change make you feel? (WORD ASSOCIATION)
6. How did the provider communicate the price change? (e.g.: how did you hear about it)
7. In terms of the communication around the price change:
 - What did they do well?
 - What could they have improved?

Day 1, Topic 4 – Perceptions of FortisBC

1. We're now going to focus on FortisBC. You've all been asked to participate in this discussion because you are FortisBC natural gas customers.
What words or adjectives come to mind when you think of FortisBC. Please explain...

2. FortisBC has filed an application with their regulator, the British Columbia Utilities Commission or BCUC, to introduce common rates for natural gas service across the province. An explanation of this can be found in the whitespace below.

Impacts and benefits of common rates

Combining our natural gas businesses into one means that all FortisBC customers will pay common rates for natural gas, regardless of where they live. We will also be able to expand service offerings and programs to all of our customers throughout the province.

Benefits of common rates

- Consistent rates for all of our customers across B.C.
- Simpler to understand rates.
- More programs and service offerings for all customers.

If approved, this application is revenue-neutral to FortisBC.

Please read the text and come back to answer some questions.

What are your initial impressions of this common rate application? Please explain.

3. How would you explain this to a friend or neighbour?
4. Based on what you read, are you in support of this rate change? Why/why not?
If not, what are your objections?
5. What questions or concerns do you have?
6. If common rates are introduced, some customers will see a rate decrease while others will see a rate increase. This rate will be phased in with the total impact realized by 2015. What are your reactions to the rate changes?
7. Instead of a one-time rate decrease, should a longer phase in period be considered? Why or why not?
8. Do you feel the rate change provides value to you?
 - If yes, how?
 - If no, why not?
9. What are your expectations and needs from FortisBC with regards to introducing common rates?
 - What do you expect in terms of communications, support and resources from FortisBC?
 - Any other expectations or needs?

10. Thanks for your thoughts today. Tomorrow we're going to discuss how FortisBC can best address and communicate the Common Rates application. Before you log out we'd like you to do two things:
- Reply to three posts made by other participants from today's discussion
 - Reply to any follow up comments or questions from the moderator

Please log back in tomorrow Tuesday February 21st so that you can complete the next set of questions. The questions will be posted by 3pm PST.

Day 1, Topic 5 – Closing Questions

1. Many of you asked for the 'why' behind the common rates. Here is a more detailed explanation from FortisBC on why:

The timing makes sense from a customer perspective and business perspective. FortisBC has been operating with a common management and operational structure for the past few years and amalgamating the three natural gas entities is the next logical step for our business. From a customer perspective, rates are very different across the Province and FortisBC feels that this is not fair for all of our customers.

Without common rates, FortisBC's forecasts indicate an approximate 20-40% cumulative rate increase for over 100,000 customers on Vancouver Island, Sunshine Coast and Powell River over the next three to four years. This forecasted increase is due to the expiration of the Royalty Revenue agreement with the provincial government, which expired at the end of 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the region 20 years ago. The proposed common rates, made possible through the amalgamation of FortisBC's three natural gas entities, will mitigate the impact of this.

Further, common rates will decrease the already high natural gas rates in Whistler, which are expected to be approximately 65% higher than natural gas rates in the Lower Mainland, Inland or Columbia regions.

- What are your initial reactions to the information?
 - How does it make you feel about the common rates application?
 - What improvements would you make?
2. Over the past two days, many of you have been asking about the programs & services. What types of programs and services are you looking for?
3. Here is one example of a program & service FortisBC offers:

Renewable Natural Gas: Moving to common rates will allow FortisBC to offer customers the same services. For example, now for about \$5 more per month, an average home can designate 10 per cent of their natural gas to be Renewable Natural Gas. Renewable Natural Gas is natural gas, but better. It's derived from organic waste found at local landfills and farms. The gas is captured, cleaned, and then injected into our pipelines. Choosing Renewable Natural Gas helps reduce your carbon footprint and supports sustainable energy made right here in BC.

- What are your initial impressions on this service offered to all customers in the province?
 - Does this answer your questions about programs and services? Why or why not?
4. Here is one example of a program & service FortisBC offers:
- Customer Choice: Another program that customers may benefit from is Customer Choice. Customer Choice offers you the freedom to choose who you buy your natural gas from, either an independent gas marketer or FortisBC. Independent gas marketers offer the security of natural gas at long-term fixed prices. Alternatively, continue to rely upon FortisBC for natural gas at a variable, market-based rate.***

- What are your initial impressions on this service offered to all customers in the province?
- Does this answer your question about programs and services? Why or why not?

5. We're going to look at a few more statements today that aim to explain the rate change. Please read the statement below and answer the questions that follow.

Statement E:

Our application is revenue neutral to FortisBC and moving to common rates provides no direct benefit to our shareholders. Our goal is to continue to provide natural gas at affordable rates to our customers, and moving to common rates is how we achieve this.

In the whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
- How did it make you feel about the common rates application?
- Any improvements?

6. **Statement F:**

If our application to move to common rates and combine our natural gas companies is approved, we will continue to manage our business as we do today. There will be no job losses as a result of common rates.

In the whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
- How did it make you feel about the common rates application?
- Any improvements?

7. **Statement G:**

Natural gas, like oil and propane, is traded on the North American open market. Weather, supply and demand, international events and market fluctuations all affect prices. FortisBC does not explore for or produce natural gas, but buys it on the open market and passes on the cost to you, without markup. You pay what we pay. FortisBC and the BC Utilities Commission (BCUC) regularly reviews natural gas rates to ensure British Columbians receive natural gas at a fair price. We also regularly review midstream and delivery costs to store, transport and deliver gas to homes and businesses. The BCUC approves all rate adjustments.

In the whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
- How did it make you feel about the common rates application?
- Any improvements?

8. With the addition of these statements and looking back at the statements from yesterday, have these statements now addressed your concerns or info needs?

9. Are there any messages or information still missing that you would like or expect FortisBC to focus on? Please explain?

Day 2, Topic 1 – Follow-up Questions

1. Welcome back! We have a few follow-up questions based on what we discussed yesterday. The term 'common rates': – what does this mean to you? What other ways/language would be better?
2. How far in advance do you want to know about the rate change? Is it enough to know about the rate change a month in advance?
3. Where do you currently get your information with regards to things like rate changes? Why?
 - Bill insert
 - Website
 - TV
 - Newspapers
 - Letter
 - Radio
 - Other
4. BC Hydro has also recently rolled out a residential rate change, thinking back to how BC Hydro communicated this rate change...
 - What did they do well?
 - What should they have done differently? (e.g. improvements)
 - What can Fortis BC learn from the BC Hydro residential rate change?

Day 2, Topic 2 – Communicating Common Rates

1. Yesterday we focused the discussion on your perceptions and questions around FortisBC's Common Rates application. Today we would like to get your feedback on how this could best be communicated to FortisBC customers. We're going to show you some messages and ask for your feedback on these. Write 'ok' in the response area to proceed.
2. Common rates will provide consistency for all customers across the B.C.

Our application to introduce common rates across our service areas will eliminate rate differences, allowing FortisBC to offer consistent rates and service offerings to all customers across the province.

Currently, all of our customers do not pay the same rate for natural gas. With common rates, residential customers will be charged the same rate for natural gas, regardless of where they live. For example, a residential customer in Prince George or Surrey will pay the same rate for natural gas as a residential customer in Victoria or Whistler.

Now we'll look at a second statement. In the whitespace above you'll see a statement. Please read it and then answer the following questions:

 - What are your initial reactions to the information?
 - How did it make you feel about the common rates application?

- Any improvements?

3.

By aligning rates across the province, common rates will provide lower rates for some customers, especially on Vancouver Island and Whistler, and will ensure access to affordable natural gas for residential and business customers in these regions.

If our application is approved, total annual bills will be reduced by approximately 26 – 39 per cent for typical residential customers in our Vancouver Island, Sunshine Coast and Whistler regions. Typical annual bills in the Lower Mainland, Columbia and Inland service areas will increase slightly as a result of common rates, approximately 4.5 per cent total by 2015.

Insert cost matrix (sent Feb 6th)

The whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
- How did it make you feel about the common rates application?
- Any improvements?

4. Common rates will provide rate stability and simplicity

Moving to common rates and combining our three natural gas entities into one will provide long-term rate stability and simpler to understand rates.

FortisBC's costs to operate its business, such as investment in infrastructure and ongoing system maintenance, will be spread across all customers around the province. This will help to provide rate stability for customers, particularly for those in our smaller service areas such as Vancouver Island, Whistler and Fort Nelson.

Now we'll look at a third statement. In the whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
- How did it make you feel about the common rates application?
- Any improvements?

5. Common rates will provide more programs and service offerings to all customers

Moving to common rates and combining our three natural gas entities into one will allow FortisBC to offer consistent programs and service offerings to all customers, regardless of where they live.

Currently, some of FortisBC's programs and services are only available in specific service areas. For example, renewable natural gas is currently available in the Lower Mainland, Columbia and Inland regions. If our application is approved, FortisBC will expand service offerings to all customers across the province.

Now we'll look at the fourth and final statement. In the whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
- How did it make you feel about the common rates application?

- Any improvements?
6. Have these statements addressed your concerns or info needs? Which one did it best?
 7. Overall, how do these messages leave you feeling about the common rates application? WORD ASSOCIATION.
 8. Are there any messages or information missing that you would like or expect FortisBC to focus on? Please explain?

Day 2, Topic 3 –More on the Common Rates Application

1. Now we'd like you to read the following information about the common rates application. After you've read this, answer the questions below.

FortisBC's current structure:

Currently, FortisBC provides natural gas to customers across the province under three separate legal entities with entity-specific rate structures. These separate legal entities were formed as various natural gas utilities were acquired across the province. Each entity is responsible for providing natural gas service in different areas of the province and customer rates differ based on which region of the province a customer lives in. The three natural gas utilities are:

- FortisBC Energy Inc. – serving customers in the Lower Mainland, Columbia and Inland regions
 - Fort Nelson, although legally part of FortisBC Energy Inc., is treated as a separate region and has its own rate base and rate structure
- FortisBC Energy (Vancouver Island) Inc. – serving customers on Vancouver Island, Powell River and the Sunshine Coast
- FortisBC Energy (Whistler) Inc. – serving customers in Whistler and Squamish

FortisBC has filed an application with the BCUC to introduce common rates across our service areas. If the application is approved, FortisBC will combine our three natural gas entities with six distinct service areas into one entity with common rates for all customers.

Impacts and benefits of common rates

Combining our natural gas businesses into one means that all FortisBC customers will pay common rates for natural gas, regardless of where they live. We will also be able to expand service offerings and programs to all of our customers throughout the province.

Benefits of common rates:

Lower rates for some customers, especially on Vancouver Island and Whistler
 Consistent rates for all customers across B.C.
 Simpler to understand rates
 More programs and service offerings for all customers

- What are the key messages that you take away from the description above?
 - What do you think FortisBC should focus on when it communicates the common rates application to residential customers like yourselves?
2. Common rates will provide consistency for all customers across the B.C.

Our application to introduce common rates across our service areas will eliminate rate differences, allowing FortisBC to offer consistent rates and service offerings to all customers across the province.

Currently, all of our customers do not pay the same rate for natural gas. With common rates, residential customers will be charged the same rate for natural gas, regardless of where they live. For example, a residential customer in Prince George or Surrey will pay the same rate for natural gas as a residential customer in Victoria or Whistler.

Now we'll look at a second statement. In the whitespace above you'll see a statement. Please read it and then answer the following questions:

- What are your initial reactions to the information?
 - How did it make you feel about the common rates application?
 - Any improvements?
3. Yesterday some of you mentioned the 'why' behind the rate amalgamation is missing, please explain what specifically you want or need to hear?
4. Now that you know a bit more about it, have your impressions of the Common Rates application changed? Please explain. Why or why not?
5. Thanks for your thoughts today. Before you log out we'd like you to do two things:
- Reply to three posts made by other participants from today's discussion
 - Reply to any follow up comments or questions from the moderator

Please log back in tomorrow Wednesday February 22nd so that you can complete the next set of questions. The questions will be posted by 1pm EST

Day 3, Topic 1 – Next Steps

1. Lastly, many of you asked for the next steps in terms of the common rates application and BCUC decision. Attached here are a timeline as well as a website for more information.

www.fortisbc.com/commonrates

(Click the image to see larger version)

What happens now?



We are committed to listening to you, our customers and stakeholders.

2. Thank you for all your detailed responses over the past 3 days. Your feedback is greatly valued by FortisBC, and thank you for your participation in this part of the residential customer consultation process.

As promised when you were recruited you will receive your \$100 honorarium for your full participation. If you haven't already, make sure to go back and respond to any replies from the moderator or other discussion members.

Leave us a note here so we know that you've finished all the questions.

Thank you!

Attachment 106.2



16705 Fraser Highway
Surrey, BC V4N 0E8
fortisbc.com

May 28, 2012

Ms. Bev Vandersteen, Executive Director
Fort Nelson & District Chamber of Commerce
Box 196
Fort Nelson, BC V0C 1R0

Dear Ms. Vandersteen:

As you may be aware, FortisBC submitted a new application to replace the Rate Design Phase "A" Application of November 2011. After examining additional evidence required for the Application, it became apparent that it would be more efficient for a new application to be filed, rather than provide supplemental evidence. This new application has been filed as **Common Rates, Amalgamation and Rate Design Application** on April 11, 2012.

With regards to letters you have submitted on behalf of Fort Nelson and District Chamber of Commerce to the British Columbia Utilities Commission on March 1st and 2nd of 2012 FortisBC has provided a response within the application. Appendix E-16 of the application is attached for your reference.

Please feel free to contact me directly if you have any questions or concerns with regards to the responses we have provided to the BCUC.

Yours Truly,

A handwritten signature in black ink, appearing to read "Gordon Schoberg".

Gordon Schoberg
Senior Manager, Community and Government Relations

GS:rj

Encl.

FEU Response to Fort Nelson & District Chamber of Commerce Letters

The following appendix responds to particular statements in the two letters submitted to the BCUC by the Fort Nelson & District Chamber of Commerce ("FNDCC"). Please refer to Appendix E-15 for the FNDCC Submitting Comments Letter and Submitting Supplemental Comments Letter. As described in section 8 of the Application, the FEU have proposed a 15 year phase-in period to mitigate the impact of common rates on Fort Nelson customers.

#	Document Reference	For Nelson & District Chamber of Commerce Statement	FortisBC Clarification
1	March 1st FNDCC Submitting Comments (Appendix XX and BCUC Exhibit C2-2)	<i>Page 1 - "FortisBC currently has an application before the BC Utilities Commission seeking to amalgamate service areas and rates across British Columbia."</i>	Through this Application, FortisBC is proposing to amalgamate the three legal natural gas entities, and implement common rates across all of its service areas.
2	March 1st FNDCC Submitting Comments (BCUC Exhibit C2-2)	<i>Page 1 - "This application is driven by the expiry of the BC Provincial Government Royalty Agreement which subsidized the cost of natural gas delivery to Vancouver Island, Whistler and the Lower Mainland. The Royalty Agreement meant that rates in the Lower Mainland, Whistler and Vancouver Island were set below the cost of service in those areas."</i>	<p>The main principle behind amalgamation and common rates is one of fairness amongst all FEU customers. The FEU are seeking a solution that can adequately resolve the rate disparity that exists across the FEU's service areas.</p> <p>As discussed in Section 3 of the Application, the Vancouver Island Natural Gas Pipeline Agreement and Special Direction included payment by the Provincial Government of gas royalty revenues ("Royalty Revenues") to FEVI through to 2011. These Royalty Revenues mitigated fluctuations in the cost of gas to the benefit of FEVI's core market customers. With the loss of Royalty Revenues, as of December 31st 2011, FEVI's already high rates face additional pressures that will result in an increase to their rates as early as 2016, thus worsening the rate discrepancy that currently exists across the FEU's service areas.</p> <p>FEVI customers solely benefited from this agreement. Whistler and the three FEI (Mainland) service areas did not receive any Royalty Revenues and the rates in these service areas are based on their respective costs of service.</p>
3	March 1st FNDCC Submitting	<i>Page 2 - "What the application does not clearly</i>	The November 2011 Application described in detail the

	Comments (BCUC Exhibit C2-2)	state is that with the "postage stamp rate" Fort Nelson residents and businesses will go from a rate of \$7.438 to \$11.177 which equates to a 50.27% increase.	full impact of common rates and clearly stated what the impact would be on Fort Nelson customers. Please refer to Section 4 of the November 2011 Application. This Application describes the impact of common rates on Fort Nelson in section 6.7 and discusses the Fort Nelson phase-in approach to mitigate the rate impact in section 8.4.1.1.
4	March 1st FNDCC Submitting Comments (BCUC Exhibit C2-2)	<i>Page 2 – “Essentially Fort Nelson customers will take over subsidizing the Lower Mainland and Vancouver Island. To provide a “27%-51%” reduction in Whistler and Vancouver Island we are expected to incur a 50.27% increase in Fort Nelson.”</i>	Fort Nelson customers will not subsidize Lower Mainland customers. The Lower Mainland, Inland and Columbia service areas, which encompass over approximately 850,000 customers, will also see increases to their rates as a result of common rates. The service areas of FEW and FEVI will see reductions.
5	March 1st FNDCC Submitting Comments (BCUC Exhibit C2-2)	<i>Page 2 – “So the basis of the application is that it is equitable for the Fort Nelson area to pay significantly more than the cost of delivery however the Lower Mainland, Vancouver Island and Whistler should all pay significantly less than the cost of delivery! How is this equitable?”</i>	<p>Under the FEU’s proposal, the FEU are asking for approval to combine the 3 natural gas entities and set a common rate at the cost of service. Setting rates at cost of service is standard utility practice.</p> <p>As discussed in the EES Cost of Service Review Report (Appendix D-1), “Postage stamp pricing is widely accepted in the utility industry and has been adopted by the Commission in the majority of cases across the Province. The introduction of postage stamp pricing across all of the areas served by the FEU is fair and equitable to customers and generally provides some overall advantages to customers.”¹</p> <p>While FEVI and FEW will see a decrease in their rates, FEI Mainland service areas, including the Lower Mainland, will not “pay significantly less than the cost of delivery”. FEI Mainland rates will increase as a result of common rates.</p>
6	March 1st FNDCC Submitting Comments (BCUC Exhibit C2-2)	<i>Page 2 – “The other aspect not taken into consideration in the application is the fact that as a remote northern community, Fort Nelson</i>	Fort Nelson does have the highest average consumption amongst the six FEU service areas. However, based on current rates, the typical annual bill for an average Fort Nelson residential customer is less

¹ EES Consulting Report, Page Appendix D-1, Page 1

		<p><i>has a much longer cold season and thus already sees higher annual costs in natural gas usage. A 50.27% increase has a significantly larger impact in Fort Nelson than in Southern BC with warmer annual temperatures”.</i></p>	<p>than that of an average Lower Mainland or Whistler customer.</p> <p>Other areas in the Province, such as areas within the Inland and Columbia service areas, experience temperatures similar to Fort Nelson and currently pay much higher rates.</p> <p>Through the introduction of common rates, all customers within a rate class will pay the same rate per GJ leading to fairness and equality across the service areas.</p>
7	<p>March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)</p>	<p><i>Page 1 – “FortisBC was quick to point out in their application that Fort Nelson will require a 3.1 million dollar pipeline upgrade however they don't mention capital expenditures in the rest of the province which will have significantly higher price tags nor do they discuss the need to cover the costs associated with the upgrade to Whistler for the 2010 Olympics.”</i></p>	<p>The FEU do agree that there may be capital expenditures in other service areas in the future. However, if the three natural gas entities are amalgamated and common rates are introduced, the cost of service for any capital expenditure, regardless of location, would be spread out amongst the entire amalgamated customer based, resulting in a smaller increase to rates.</p> <p>Please refer to Section 6 and Appendix E-3 of this Application for further information on Fort Nelson rate impacts under the amalgamated vs. standalone entity.</p> <p>Further, the conversion of the Whistler pipeline from propane to natural gas, was not associated in any respect with the 2010 Olympics.</p> <p>Please refer to Section 3 for further information on the Whistler pipeline.</p>
8	<p>March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)</p>	<p><i>Page 2 – “There is no upside to “postage stamp” rates being applied to Fort Nelson. The cost of service delivery to Vancouver Island, Whistler and the Lower Mainland is more than the cost of service delivery to Fort Nelson. Fort Nelson should not be required to subsidize the rest of the province.”</i></p>	<p>The FEU recognize that Fort Nelson will experience rate increases as a result of the implementation of common rates and that consultation has shown that Fort Nelson customers do not believe that common rates are of benefit to them. However, common rates are fair and equitable and will result in all customers paying the same rate for natural gas service. Currently, different customers pay different rates based on the history of how the FEU have grown. Communities that are similar to Fort Nelson in many</p>

			ways are served by FEI and pay the same rate as other FEI customers in the Lower Mainland. The FEU believe it is appropriate and beneficial to all of its customers to bring an end to the rate disparity. Further, through the implementation of common rates, costs can be spread amongst a larger customer group, bringing more long-term rate stability for customers. Other benefits of common rates are discussed in section 6 of the Application.
9	March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)	<i>Page 2 – “Speaking with the representatives from FortisBC we were told it's not 50% its only 3.3 - 4.3 % annually. Just because the projected increase is spread out over several years does not change the end result which is a 50.27% increase.”</i>	Based on current information (see Section 6.7 and Appendix J-2), the full rate impact for a typical Fort Nelson residential customer will be an increase of 54.95% to their total annual bill. The FEU were open with regards to the full impact of the Fort Nelson increase, as referenced on the presented storyboards, but clarifications were made that it was not a one-time increase. Based on the phase-in proposal presented in Section 8.4.1.1 of this Application, the impact would be approximately 3.5-4.5% to the annual bill of a typical Fort Nelson residential customer, after a 5 year rate freeze, until rates are aligned.
10	March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)	<i>Page 2 – “There is also no guarantee from FortisBC that this will be the only increase as it does not take into consideration rate changes due to natural gas prices and we were told we could still potentially expect to see regular commodity price increases.”</i>	All rate changes must be approved by the British Columbia Utilities Commission. The FEU will continue to flow through any changes to the gas cost or delivery rates, as required and if approved by the BCUC, similar as they are today. Gas cost rate changes, as a result of changes in natural gas pricing, may occur in the future but cannot be forecast with any certainty. Gas cost rates are reviewed on a quarterly basis with the BCUC in order to ensure the rates charged to customers appropriately cover the cost of purchasing natural gas on their behalf. The BCUC recently approved a decrease in the Fort Nelson gas cost rates to be effective April 1, 2012.
11	March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)	<i>Page 2 – “According to FortisBC representatives an average home in Fort Nelson uses approximately 144 GJ annually</i>	The typical residential home in Fort Nelson consumes approximately 140GJ annually, while a typical Vancouver Island residential customer consumes

	C2-2-1)	<i>while a home on Vancouver Island only uses approximately 70."</i>	approximately 58.6GJ.
12	March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)	<i>Page 2 - "We need to stress there is no shortfall in the current Fort Nelson rate structure. We pay for the cost of our service delivery. The shortfall is in Vancouver Island, Whistler and the Lower Mainland where they have not paid for their cost of service delivery and had been protected by the Royalty Agreement."</i>	As discussed in #2, Royalty Revenues were only provided to FEVI. The FEW and the three FEI service areas did not receive any Royalty Revenues and their rates are based on the cost of service for each respective region.
13	March 2nd FNDCC Submitting Supplemental Comments (BCUC Exhibit C2-2-1)	<i>Page 3 - "As is illustrated above the Northern Rockies Regional Council also believes this to be an unfair rate increase however the options put before council from FortisBC clearly left the impression that the rate increase was approved and moving ahead regardless. FortisBC was only looking for their input on how the increase would proceed."</i>	<p>The options were presented to the Council by the Mayor, not the FEU, and the FEU was not asked to participate or be present for the Council Meeting. The rate increase is only being proposed at this time and has not been approved by the BCUC.</p> <p>As stated in Section 10 of the Application, FEU representatives met with the Mayor and Corporate Staff to review the proposal and at no point did the FEU representatives state that the rate increase was already approved. The FEU made it clear that while we would be proposing common rates with a phased-in approach, Fort Nelson was entitled to register as an intervener in the regulatory proceeding.</p> <p>The FEU recognize the impact that this proposal will have on Fort Nelson and it is for this reason that feedback was requested from Fort Nelson customers through the Fort Nelson Public Information Session, Quantitative Market Research and meetings with the Mayor and Corporate Staff.</p>

Attachment 107.1

November 2, 2011

Dear

I am writing today to share with you that FortisBC has filed an application with the British Columbia Utilities Commission (BCUC) proposing to amalgamate our natural gas utilities into one legal entity, with common rates and services across the province.

If the BCUC approves the application, all natural gas customers across the province will have common rates and service offerings, beginning January 1, 2013.

What does this mean?

Bringing all three natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent gas rates and services for all customers across the province.

If our application is approved, each customer in a given customer class will be charged the same rate, regardless of where they live. This provides significant benefits to a sizable portion of our customers, notably on Vancouver Island, Sunshine Coast and in Whistler over the longer-term.

We are committed to providing all our customers in British Columbia with economic and fair natural gas rates. Our application is revenue neutral to FortisBC and the proposed changes offer several benefits to many of our customers.

FortisBC's current structure

Currently, FortisBC provides natural gas to customers across the province under three separate legal entities with entity-specific rate structures. These separate legal entities were formed as various natural gas utilities were acquired across the province. The three natural gas utilities are:

- *FortisBC Energy Inc.* – serving customers in the Lower Mainland, Columbia and Inland regions
 - Fort Nelson, although legally part of FortisBC Energy Inc., is treated as a separate region and has its own rate base and rate structure
- *FortisBC Energy (Vancouver Island) Inc.* – serving customers on Vancouver Island, Powell River and the Sunshine Coast
- *FortisBC Energy (Whistler) Inc.* – serving customers in Whistler

As it stands today, each utility is responsible for providing natural gas service in a different region of the province. Natural gas rates are varied across the regions, so a customer on Vancouver Island pays a different rate than a customer in the Lower Mainland or in Whistler. Each entity also provides different service offerings by region, such as energy efficiency and conservation initiatives or renewable natural gas. For example, renewable natural gas is currently available in the Lower Mainland, Columbia and Inland regions, but not Vancouver Island, the Sunshine Coast, Whistler or Fort Nelson.

Why move to common rates?

Moving to common rates will allow FortisBC to offer consistent natural gas rates and service offerings to all of our customers throughout the province.

Without common rates, FortisBC's forecasts indicate significant rate increases for some of our customers. For example, an approximate 20 – 40 per cent cumulative rate increase over the next three to four years is indicated for Vancouver Island and Sunshine Coast customers as a result of the expiration of the Royalty Revenue agreement with the provincial government at the end of 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the Island 20 years ago. With regards to Whistler, a typical residential customer in Whistler is projected to pay 65 per cent more than a typical Lower Mainland customer in 2013 without common rates.

While Vancouver Island, Sunshine Coast and Whistler customers will see a large decrease in their natural gas rates as a result of amalgamation and common rates, FortisBC is proposing a small decrease for residential customers in the Lower Mainland, Columbia and Inland areas in 2013 and a small increase in 2014. For Fort Nelson customers, FortisBC is proposing no change to rates from the proposed 2013 revenue requirement application, currently before the BCUC, by deferring the impacts of amalgamation for a five year period after which a gradual annual increase will come into effect over a ten year period until Fort Nelson rates align with the rest of the province.

Next steps

FortisBC is committed to consulting with our customers and stakeholders, and will meet with stakeholder groups to gather information and feedback as we prepare for the next phase of the rate design application. Any proposed changes will need approval from the BCUC.

If the application is approved by the BCUC, all of FortisBC's regulated natural gas companies will be one legal entity under the name FortisBC Energy Inc. Our electric operations will remain a separate utility with a separate legal name – FortisBC Inc. – and separate rates and service offerings for electricity customers. Our customers will continue to know all of the companies under the shared name FortisBC and the ownership structure of FortisBC will remain the same, operating under our Canadian parent company, Fortis Inc.

If you would like any additional information about our filing, you are welcome to contact me directly at your convenience, at 604-592-7534 or Gord.Schoberg@fortisbc.com. You can also find more information on our website at fortisbc.com/ratedesign

Sincerely,



Gord Schoberg
Senior Manager, Community & First Nations Relations
FortisBC

Attachment 107.2

From: Greaves, Carol
Sent: March 2, 2012 11:20 AM
To: Schoberg, Gord
Subject: RE: Public Information Session

Sure. NP

Carol Greaves
Community Relations Manager
FortisBC
320 Garbally Road
Victoria, B.C.
V8T 2K1
Phone: (250) 380-5789
Mobile: (250) 888-0588
Fax: (250) 388-6876

Terasen Gas is now known as FortisBC effective March 1, 2011. My email address has changed to carol.greaves@fortisbc.com

For more information on FortisBC, please visit www.fortisbc.com

-----Original Message-----

From: Schoberg, Gord
Sent: 02/03/2012 11:05 AM
To: Greaves, Carol
Subject: FW: Public Information Session

Carol: would you be interested/available to do a presentation as noted below?

Gord

-----Original Message-----

From: Duncan-Cowichan Chamber [mailto:chamber@duncancc.bc.ca]
Sent: March 1, 2012 5:02 PM
To: Schoberg, Gord
Subject: RE: Public Information Session

Hello Gord,

Would you or a colleague consider presenting to our Chamber members about the amalgamation and its effects?

We have a March 15 luncheon coming up. Our members would be very interested in the amalgamation, and how it might affect them at their business and at home. The rationale/process involved in the amalgamation would be of interest to our members, if that information is available to share. Our members have a keen interest in all facets of business, and clearly Fortis undertook a significant decision with significant effects.

The Duncan-Cowichan Chamber of Commerce has a good mix of entrepreneurs, senior management, and representation from large companies and SME's; they'd be glad of the opportunity to dialogue as you described in your earlier email. I'm sure this event will provide Fortis with an accurate sampling of opinions/response among business here on Vancouver Island.

Our luncheons run from 11:30 - 1:00 pm., the presentation portion is 30 - 45 minutes. You'll find our members engaged, they'll offer questions and comments easily and readily. The luncheon is at the Oceanfront Suites at Cowichan Bay, and float plane service can be arranged and saves all that hassle with the ferries.

I'm off tomorrow, but would welcome an email, or call from you on my cell if/as convenient for you: 604.931.9122.

Many thanks for your consideration.

Elizabeth

K. Elizabeth Croft
Interim Manager
Duncan-Cowichan Chamber of Commerce
250.748.1111 Monday - Thursday

-----Original Message-----

From: Schoberg, Gord [mailto:Gord.Schoberg@fortisbc.com]
Sent: Tuesday, January 31, 2012 9:58 PM
To: Duncan-Cowichan Chamber
Subject: Re: Public Information Session

Elizabeth, thanks for the note. I am following up now to see what's going on. Yes, frustrating for sure. I will respond to you.

Gord

Sent from my iPad

On 2012-01-31, at 12:58 PM, "Duncan-Cowichan Chamber "
<chamber@duncancc.bc.ca>[mailto:chamber@duncancc.bc.ca]> wrote:

Hello Mr. Schoberg,

Thank you for including the Chamber in this correspondence.

The information link provided below comes up as a "Page Not Found" error message. Thought you would like to know. (Frustrating when that kind of thing happens, no?)

We'll definitely include the date & time for the information sessions in our Friday newsletter. And the link when it's ready.

Please be sure to let us know if you happen to expand the tour to include a Duncan event; we'll be sure to inform our members.

Regards,

Elizabeth

K. Elizabeth Croft

Event Coordinator & Member Services

Duncan-Cowichan Chamber of Commerce<<http://www.duncancc.bc.ca/>>

250.748.1111 Tuesday - Friday

Deadline for Black Tie

Nominations<<http://www.duncancc.bc.ca/chamber-events/black-tie-awards/nomination-form.htm>> is Jan. 31

Who are you going to Nominate?

From: Cathy Mailhot [mailto:manager@duncancc.bc.ca]

Sent: Tuesday, January 31, 2012 12:41 PM

To: chamber@duncancc.bc.ca<mailto:chamber@duncancc.bc.ca>

Subject: FW: Public Information Session

From: FortisBC [mailto:no-reply@fortisbc.ccsend.com] On Behalf Of FortisBC

Sent: January-31-12 12:40 PM

To: manager@duncancc.bc.ca<mailto:manager@duncancc.bc.ca>

Subject: Public Information Session

[FortisBC logo]

January 30, 2012

In November of 2011 we wrote to you and other Mayors, CAOs, MLAs, First Nations and Business Leaders to provide information about an application we were filing with the British Columbia Utilities Commission (BCUC) proposing to amalgamate our three natural gas utilities into one legal entity, with common rates and services for natural gas customers across the province.

Benefits for all customers:

We strive to provide natural gas to our customers at the lowest reasonable cost possible. The amalgamation and common rate structure proposed by FortisBC would result in the following key benefits:

- * Lower rates for Vancouver Island, Sunshine Coast, Powell River and Whistler customers. Decreases to the average annual bill in the range of 27 - 45 per cent* for families and businesses in these regions.

- * Fairness and consistency for all customers throughout the province. FortisBC customers will pay the same rate for natural gas, regardless of where they live.

- * Rate simplicity and stability: Common rates will be easier to understand. The costs to operate our business will be spread across all customers, which will help to provide rate stability for customers, particularly in our smaller service areas.

- * Programs for all: FortisBC will be able to expand our service and program offerings to all customers.

Impact of amalgamation and common rates:

While Vancouver Island, Sunshine Coast and Whistler customers will see a large decrease in their natural gas rates as a result of amalgamation and common rates, we are proposing a small decrease for residential customers in the Lower Mainland, Columbia and Inland areas in 2013 and an approximate cumulative increase depending on region and consumption of 4.3 - 4.5

percent* to total annual bills by 2015. For Fort Nelson customers, we are proposing no change to rates from the proposed 2013 revenue requirement application, currently before the BCUC, by deferring the impacts of amalgamation for a five year period after which a gradual annual increase will come into effect over a ten year period until Fort Nelson rates align with the rest of the province.

Without amalgamation and a common rate structure, there would be significant rate increases for some of our customers -- for example, an approximate 20 - 40 per cent* cumulative rate increase over the next three to four years for Vancouver Island and Sunshine Coast customers. This is a result of the expiration of the Royalty Revenue agreement with the provincial government on December 31, 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the Island 20 years ago. In Whistler, a typical residential customer is projected to pay 65 per cent* more than a typical Lower Mainland customer in 2013 without common rates.

* Based on currently available information and subject to change.

We are committed to open dialogue with our customers on key initiatives and proposals.

Public Information Sessions will be conducted throughout February and the first week of March to provide customers and stakeholders with an overview of the current situation, proposed solutions, and the outcomes.

We will be encouraging feedback on the proposal at these sessions. The feedback we receive will be shared with the BCUC as part of the application process. I would like to extend an invitation to you to attend one of our local information sessions.

Victoria: February 6, 2012 | 6:00 - 8:00 p.m.
Harbour Towers, 345 Quebec Street

Courtenay: February 15, 2012 | 6:00 - 8:00 p.m.

Crown Isle Resort & Golf Community, 399 Clubhouse Drive

Vancouver: February 7, 2012 | 6:00 - 8:00 p.m.
Italian Cultural Centre, 3075 Slocan Street

Prince George: February 16, 2012 | 2:00 - 6:00 p.m.
Prince George Civic Centre, 808 Civic Plaza

Whistler: February 13, 2012 | 6:00 - 8:00 p.m.
Whistler Convention Centre, 4010 Whistler Way

Cranbrook: February 28, 2012 | 6:00 - 8 p.m.
Prestige Rocky Mountain Resort, 209 Van Horne Street

Kelowna: February 14, 2012 | 6:00 - 8:00 p.m.
Holiday Inn Express, 2429 Hwy 97 North

Fort Nelson: March 1, 2012 | 6:00 - 8 p.m.
Woodlands Inn & Suites, 3995-50th Avenue South

Surrey: March 5, 2012 | 6:00 - 8 p.m.
City Centre Library, 10350 University Drive

If you are unable to attend an information session but would like more information about our application, or to provide feedback, please visit our website at

[www.FortisBC.com/ratedesign<http://r20.rs6.net/tn.jsp?llr=bt4b7zbab&et=1109180500390&s=52302&e=001orNh1pYENEVqkHYHdyZ7gjaflvemrnmblC0XOQ-v1zoP-sFSGVqjbSJJeFBRZHS0ZfKh4LjCnN54f17fbNy9e9oDtjhHolrj14sf_RFTuexgZD_FkQeBob6McPj8h97>](http://www.FortisBC.com/ratedesign?http://r20.rs6.net/tn.jsp?llr=bt4b7zbab&et=1109180500390&s=52302&e=001orNh1pYENEVqkHYHdyZ7gjaflvemrnmblC0XOQ-v1zoP-sFSGVqjbSJJeFBRZHS0ZfKh4LjCnN54f17fbNy9e9oDtjhHolrj14sf_RFTuexgZD_FkQeBob6McPj8h97).

You are also welcome to contact me directly at your convenience, at
604-592-7534 or
Gord.Schoberg@fortisbc.com<<mailto:Gord.Schoberg@fortisbc.com>>.

Sincerely,
[Gord's signature]
Gord Schoberg
Senior Manager, Community & First Nations Relations FortisBC

Forward

email<<http://ui.constantcontact.com/sa/fwtf.jsp?llr=bt4b7zbab&m=1101453655649&ea=manager%40duncancc.bc.ca&a=1109180500390>>
[http://img.constantcontact.com/letters/images/SafeUnsubscribe_Footer_Logo_New.png]<http://visitor.constantcontact.com/do?p=un&mse=0016gbbKsaiGSrSYvVlrwuK_ytpPL7CxcU5b1gb5r8krc%3D&t=001LweMz2EIMF4nhswKOs_-LA%3D%3D&lang=001FCSs65SMrsI%3D&reason=001y5KaVIBn7_Y%3D&llr=bt4b7zbab>

[http://img.constantcontact.com/letters/images/CC_Footer_Logo_New.png]<http://www.constantcontact.com/index.jsp?cc=TEM_Basic_206>

This email was sent to manager@duncancc.bc.ca by gord.schoberg@fortisbc.com | Instant removal with SafeUnsubscribe<http://visitor.constantcontact.com/do?p=un&mse=0016gbbKsaiGSrSYvVlrwuK_ytpPL7CxcU5b1gb5r8krc%3D&t=001LweMz2EIMF4nhswKOs_-LA%3D%3D&lang=001FCSs65SMrsI%3D&reason=001y5KaVIBn7_Y%3D&llr=bt4b7zbab>T | Privacy Policy<<http://ui.constantcontact.com/roving/CCPrivacyPolicy.jsp>>.

FortisBC | 16705 Fraser Highway | Surrey | BC | V4N 0E8 | Canada

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District of Chetwynd

Box 357
Chetwynd, BC
Canada V0C 1J0

tel: (250) 401-4100
fax: (250) 401-4101
email: d-chet@gochetwynd.com

February 14, 2012

Email: gord.schoberg@fortisbc.com

Fortis BC
16705 Fraser Highway
Surrey, BC V4N 0E8

**Attention: Gord Schoberg, Senior Manager,
Community & First Nations Relations**

Dear Mr. Schoberg:

Re: Corporate Amalgamation

Chetwynd District Council received your correspondence dated January 30, 2012 at its Regular Council Meeting held February 6, 2012.

Council has requested that I write to you to determine the projected impacts of such an amalgamation on our community. Council is concerned that no consideration is being given for reduced rates for this region, particularly as we are on the upstream side of a major compressor station feeding the remainder of B.C. and certainly the millions of dollars invested in infrastructure to bring service to the rest of the Province.

It would be greatly appreciated if you can share information about the cost impacts expected for our community as a result of the amalgamation.

Yours truly,

D.B. (Doug) Fleming, ACIS, CMC
Chief Administrative Officer

Vision Statement

Chetwynd exists in order that area residents have sustainable opportunities for
Security, Health, Safety and Prosperity
in surroundings that display the best of our natural environment.

February 27, 2012

Mr. Doug Fleming
Chief Administrative Officer
District of Chetwynd
5400 North Access Road, Box 357
Chetwynd, BC
V0C 1J0

Dear Mr. Fleming:

Thank you for your letter of February 14, 2012 regarding the Fortis companies' application for common rates achieved via amalgamation. You requested information regarding the impacts to your region as a result of the application and expressed concern that no consideration is being given for reduced rates for your region.

The basic premise of the common rates application is to move to a common rate structure across the entire Fortis service area. This would result in customers paying the same rate for the same service across the Province. For the District of Chetwynd, this would result in a one-time rate increase between 3.4 and 4.3%, dependent upon rate class and consumption. In order to mitigate this rate increase in the short-term, Fortis is currently determining approaches to phase-in the increase over a period of time.

We would be pleased to provide further information on our common rates application.

Yours truly,

FORTISBC



Gord Schoberg
Senior Manager, Community and First Nations Relations

GS:rj

From: Schoberg, Gord
Sent: February 27, 2012 12:58 PM
To: Simons, Nicholas
Cc: Tournat, Kim; Hathaway, Maggie
Subject: RE: Fortis BC Rate Design Application

Nicolas Simons, MLA:

Thank you for your inquiry concerning constituents who have expressed an interest in having an information session on the Sunshine Coast due to their challenges of travelling to Vancouver Island or the Lower Mainland.

I completely understand their concern, and in developing our schedule for holding information sessions we have tried to balance competing interests of communicating with customers across the entire Province of BC. First and foremost we endeavour to effectively communicate this Application with our customers. However, given that this Application will affect approximately 1,000,000 customers scattered from Vancouver Island, throughout the Lower Mainland and Interior up to Fort Nelson, we have had to use some judgment in how many and where to hold them.

At our Victoria information session only two people showed up, six at our Courtenay event and two at our Whistler event.

This Application is very good news for customers on the Sunshine Coast, with projected decreases in residential rates of 26.4%, and even larger for commercial customers. If the Application is approved, we anticipate these rate adjustments coming into effect in 2013.

Notwithstanding our experience with these information sessions, I want to ensure we communicate with those constituents who have contacted you, and any others who have questions or concerns. If you wish to provide me with their contact information, I will contact them individually, and through our discussion determine whether there is a broader interest on the Sunshine Coast to do more communication with those communities.

Gord Schoberg
Senior Manager, Community and Aboriginal Relations

604.220.9785

-----Original Message-----

From: Simons, Nicholas [mailto:N.Simons@leg.bc.ca]
Sent: February 20, 2012 3:54 PM
To: Schoberg, Gord
Cc: Tournat, Kim; Hathaway, Maggie
Subject: Fortis BC

Gord Schoberg
Senior Manager, Community and First Nations Relations FortisBC

Hello Mr. Schoberg,

Thanks for the information regarding the information sessions on the amalgamation of three natural gas utilities into one legal entity.

Some constituents on the Sunshine Coast have expressed an interest in having a hearing closer to their home if possible, and have asked me to inquire further into this. To attend the hearings on the Lower Mainland or Vancouver Island would constitute a considerable cost in both time and money for them.

Would you consider offering an information session on the Lower Sunshine Coast (Sechelt or Gibsons) or on the Upper Sunshine Coast (Powell River)?

Regards,

Nicholas Simons, MLA
Powell River - Sunshine Coast

From: Bains, Avneet TRAN:EX <Avneet.Bains@gov.bc.ca>
Sent: February 13, 2012 1:52 PM
To: Schoberg, Gord
Subject: Public Information Sessions-February/March

Gord,

Thank you for the invitation for Minister Blair Lekstrom to attend Fortis BC's Public Information Sessions, which are being held till the first week of March. Unfortunately, he will not be able to attend any of the sessions.

Thank you once again and have a great day,

Office of the Minister
Minister of Transportation and Infrastructure

From: Mynott, Jania HLTH:EX <Jania.Mynott@gov.bc.ca>
Sent: February 10, 2012 9:19 AM
To: Schoberg, Gord
Cc: Boomer, Joanne HLTH:EX
Subject: Fortis BC Local Information Sessions
Attachments: 917617.pdf

Dear Mr. Schoberg,

On Behalf of Graham Whitmarsh, Deputy Minister of Health for British Columbia, thank you for the invitation to attend the local information sessions for Fortis BC.

Due to prior scheduling commitments, Deputy Whitmarsh is unable to attend.

Thank you again,

Jania Mynott | Program Assistant
Office of the Deputy Minister | Ministry of Health
5-3, 1515 Blanshard Street | Victoria BC | V8W 3C8
P: 250 952-1911 | F: 250-952-1909



THE CORPORATION OF DELTA
OFFICE OF THE MUNICIPAL CLERK

February 6, 2012

File No.: 05460-30
A.T. No.: 111623

Gord Schoberg, Senior Manager
Community & First Nations Relations
FortisBC
16705 Fraser Highway
Surrey BC V4N 0E8

Dear Mr. Schoberg:

**BCUC Proposal to Amalgamate Three Natural Gas Utilities into
One Legal Entity**

I wish to confirm receipt of your correspondence dated January 30, 2012 concerning the above noted subject.

Your communication has been circulated to the Mayor, Council and the Chief Administrative Officer for information; as well as the Director of Engineering for consideration and response as appropriate.

Council will receive your correspondence as part of its Regular Meeting Agenda for February 20, 2012. The agenda, including your correspondence and relevant comments and/or response, will be available for viewing on Delta's website at: www.corp.delta.bc.ca.

Thank you for your time and consideration regarding this matter.

Yours truly,

Angila Bains
Municipal Clerk

AB/rpl





Town of Qualicum Beach
PO Box 130, 201 – 660 Primrose Street
Qualicum Beach, B.C. V9K 1S7
Phone: 250.752.6921 Fax: 250.752.1243
E-mail: gbtown@qualicumbeach.com
Website: www.qualicumbeach.com

File No. 0510-20-Teraven

Date: Feb. 6, 2012

Response Sent to E: gord.schoberg@fortisbc.com

Acknowledgment

Thank you for your letter dated Jan. 30/12 regarding impact of amalgamation and common rates for Fortis BC's three utilities.

- ☒ We acknowledge receipt of your letter. Copies have been provided to: ☒ Council ☒ Staff.
- ☐ This matter has been referred to staff. Please direct any enquiries to _____ at 250. _____.
- ☒ Your correspondence has been copied to Council and added to the next Council meeting's Correspondence Log.
- ☐ This matter will be listed on an upcoming agenda for: ☐ Council's direction OR ☐ Council's information.
- ☐ Copies will be available to Council, the Chief Administrative Officer, Corporate Administrator and Director of Planning. As well, your letter will be re-circulated to Council at the Public Hearing, should this application reach that stage in the land development process.
- ☐ Your correspondence has been received in connection with the Public Hearing and copied to Council.
- ☐ Council and Staff will consider your comments when dealing with this issue.
- ☐ _____

Trudy Coates

Please telephone 250.752.6921 if you require further information.

Trudy Coates, Corporate Administrator



Town of Qualicum Beach

201 – 660 Primrose Street

PO Box 130,

Qualicum Beach, BC

V9K 1S7

From: Nancy Cooper <ncooper@district.salmon-arm.bc.ca>
Sent: February 3, 2012 3:59 PM
To: Schoberg, Gord
Subject: RE: Public Information Session

I would like to attend one of your information sessions but the closest one is in Kelowna on Feb 14 which is Valentines day. Please let me know if you schedule another one.

Nancy

From: FortisBC [mailto:no-reply@fortisbc.ccsend.com] **On Behalf Of** FortisBC
Sent: January-31-12 12:41 PM
To: Nancy Cooper
Subject: Public Information Session



January 30, 2012

In November of 2011 we wrote to you and other Mayors, CAOs, MLAs, First Nations and Business Leaders to provide information about an application we were filing with the British Columbia Utilities Commission (BCUC) proposing to amalgamate our three natural gas utilities into one legal entity, with common rates and services for natural gas customers across the province.

Benefits for all customers:

We strive to provide natural gas to our customers at the lowest reasonable cost possible. The amalgamation and common rate structure proposed by FortisBC would result in the following key benefits:

- Lower rates for Vancouver Island, Sunshine Coast, Powell River and Whistler customers. Decreases to the average annual bill in the range of 27 - 45 per cent* for families and businesses in these regions.
- Fairness and consistency for all customers throughout the province. FortisBC customers will pay the same rate for natural gas, regardless of where they live.
- Rate simplicity and stability: Common rates will be easier to understand. The costs to operate our business will be spread across all customers, which will help to provide rate stability for customers, particularly in our smaller service areas.
- Programs for all: FortisBC will be able to expand our service and program offerings to all customers.

Impact of amalgamation and common rates:

While Vancouver Island, Sunshine Coast and Whistler customers will see a large decrease

in their natural gas rates as a result of amalgamation and common rates, we are proposing a small decrease for residential customers in the Lower Mainland, Columbia and Inland areas in 2013 and an approximate cumulative increase depending on region and consumption of 4.3 - 4.5 percent* to total annual bills by 2015. For Fort Nelson customers, we are proposing no change to rates from the proposed 2013 revenue requirement application, currently before the BCUC, by deferring the impacts of amalgamation for a five year period after which a gradual annual increase will come into effect over a ten year period until Fort Nelson rates align with the rest of the province.

Without amalgamation and a common rate structure, there would be significant rate increases for some of our customers -- for example, an approximate 20 - 40 per cent* cumulative rate increase over the next three to four years for Vancouver Island and Sunshine Coast customers. This is a result of the expiration of the Royalty Revenue agreement with the provincial government on December 31, 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the Island 20 years ago. In Whistler, a typical residential customer is projected to pay 65 per cent* more than a typical Lower Mainland customer in 2013 without common rates.

** Based on currently available information and subject to change.*

We are committed to open dialogue with our customers on key initiatives and proposals.

Public Information Sessions will be conducted throughout February and the first week of March to provide customers and stakeholders with an overview of the current situation, proposed solutions, and the outcomes.

We will be encouraging feedback on the proposal at these sessions. The feedback we receive will be shared with the BCUC as part of the application process. I would like to extend an invitation to you to attend one of our local information sessions.

Victoria: February 6, 2012 | 6:00 - 8:00 p.m.
Harbour Towers, 345 Quebec Street

Vancouver: February 7, 2012 | 6:00 - 8:00 p.m.
Italian Cultural Centre, 3075 Slocan Street

Whistler: February 13, 2012 | 6:00 - 8:00 p.m.
Whistler Convention Centre, 4010 Whistler Way

Kelowna: February 14, 2012 | 6:00 - 8:00 p.m.
Holiday Inn Express, 2429 Hwy 97 North

Courtenay: February 15, 2012 | 6:00 - 8:00 p.m.
Crown Isle Resort & Golf Community, 399 Clubhouse Drive

Prince George: February 16, 2012 | 2:00 - 6:00 p.m.
Prince George Civic Centre, 808 Civic Plaza

Cranbrook: February 28, 2012 | 6:00 - 8 p.m.
Prestige Rocky Mountain Resort, 209 Van Horne Street

Fort Nelson: March 1, 2012 | 6:00 - 8 p.m.
Woodlands Inn & Suites, 3995-50th Avenue South

Surrey: March 5, 2012 | 6:00 - 8 p.m.
City Centre Library, 10350 University Drive

If you are unable to attend an information session but would like more information about our application, or to provide feedback, please visit our website at www.FortisBC.com/ratedesign. You are also welcome to contact me directly at your convenience, at 604-592-7534 or Gord.Schoberg@fortisbc.com.

Sincerely,



Gord Schoberg
Senior Manager, Community & First Nations Relations
FortisBC

[Forward email](#)



Try it FREE today.

This email was sent to ncooper@salmonarm.ca by gord.schoberg@fortisbc.com |
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FortisBC | 16705 Fraser Highway | Surrey | BC | V4N 0E8 | Canada

From: Stewart, Ashley FLNR:EX <Ashley.Stewart@gov.bc.ca>
Sent: February 3, 2012 3:16 PM
To: Schoberg, Gord
Subject: Information Sessions

Dear Mr. Schoberg,

Thank you for your letter dated January 30, 2012 inviting the Minister to attend an information session. Unfortunately the Minister is unable to attend any of the local dates.

Have a good weekend.

Ashley Stewart
Administrative Assistant to
The Honourable Steve Thomson
Minister of Forests, Lands, and Natural Resource Operations
Tel: 250-387-6240
Fax: 250-387-1040
ashley.stewart@gov.bc.ca

From: Schoberg, Gord
Sent: February 1, 2012 11:37 AM
To: Maria Doyle
Subject: RE: BCUC application
Attachments: RDA1 -Letter to External Stakeholders - Community Government and FN Relations.doc

Maria: Thanks for the response and our conversation earlier this morning. I am enclosing the letter that was sent out in early November concerning the FortisBC application to the BC Utilities Commission recommending common rates for all of our customers. As I mentioned to you, I would be pleased to answer any questions or provide any clarification that Council needs.

Take care,

Gord Schoberg

From: Maria Doyle [mailto:MDoyle@vernon.ca]
Sent: February 1, 2012 9:09 AM
To: Schoberg, Gord
Subject: BCUC application

Good morning

With reference to your email dated January 30, 2012 regarding the application Fortis has filed with BCUC, you mentioned that you had sent a letter in November 2011 to Mayors, CAOs, MLAs, First Nations and Business leaders providing information about the application.

Would you be so kind as to re-send that November 2011 letter to my attention.

Thank you.
Maria

Maria Doyle | Sr. Executive Assistant to Mayor & Chief Administrative Officer | **City of Vernon**
3400 - 30th Street | Vernon, BC V1T 5E6 | Phone: 250-550-3572 | Fax: 250-550-3573
| mdoyle@vernon.ca



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DRAFT 4 – October 27, 2011

Dear <insert name>

Thank you for meeting with FortisBC representatives recently to discuss an application with the British Columbia Utilities Commission (BCUC) proposing to amalgamate our natural gas utilities into one legal entity, with common rates and services across the province.

If the BCUC approves the application, all natural gas customers across the province will have common rates and service offerings, beginning January 1, 2013.

What does this mean?

Bringing all three natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent gas rates and services for all customers across the province.

If our application is approved, each customer in a given customer class will be charged the same rate, regardless of where they live. This provides significant benefits to a sizable portion of our customers, notably on Vancouver Island, Sunshine Coast and in Whistler over the longer-term.

We are committed to providing all our customers in British Columbia with economic and fair natural gas rates. Our application is revenue neutral to FortisBC and the proposed changes offer several benefits to many of our customers.

FortisBC's current structure

Currently, FortisBC provides natural gas to customers across the province under three separate legal entities with entity-specific rate structures. These separate legal entities were formed as various natural gas utilities were acquired across the province. The three natural gas utilities are:

- *FortisBC Energy Inc.* – serving customers in the Lower Mainland, Columbia and Inland regions
 - Fort Nelson, although legally part of FortisBC Energy Inc., is treated as a separate region and has its own rate base and rate structure
- *FortisBC Energy (Vancouver Island) Inc.* – serving customers on Vancouver Island, Powell River and the Sunshine Coast
- *FortisBC Energy (Whistler) Inc.* – serving customers in Whistler

As it stands today, each utility is responsible for providing natural gas service in a different region of the province. Natural gas rates are varied across the regions, so a customer on Vancouver Island pays a different rate than a customer in the Lower Mainland or in Whistler. Each entity also provides different service offerings by region, such as energy efficiency and conservation initiatives or renewable natural gas. For example, renewable natural gas is currently available in the Lower Mainland, Columbia and Inland regions, but not Vancouver Island, the Sunshine Coast, Whistler or Fort Nelson.

Why move to common rates?

Moving to common rates will allow FortisBC to offer consistent natural gas rates and service offerings to all of our customers throughout the province.

Without common rates, FortisBC's forecasts indicate significant rate increases for some of our customers. For example, an approximate 20 – 40 per cent cumulative rate increase over the next three to four years is indicated for Vancouver Island and Sunshine Coast customers as a result of the expiration of the Royalty Revenue agreement with the provincial government at the end of 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the Island 20 years ago. With regards to Whistler, a typical residential customer in Whistler is projected to pay 65 per cent more than a typical Lower Mainland customer in 2013 without common rates.

While Vancouver Island, Sunshine Coast and Whistler customers will see a large decrease in their natural gas rates as a result of amalgamation and common rates, FortisBC is proposing a small decrease for residential customers in the Lower Mainland, Columbia and Inland areas in 2013 and a small increase in 2014. For Fort Nelson customers, FortisBC is proposing no change to rates from the proposed 2013 revenue requirement application, currently before the BCUC, by deferring the impacts of amalgamation for a five year period after which a gradual annual increase will come into effect over a ten year period until Fort Nelson rates align with the rest of the province.

Next steps

FortisBC is committed to consulting with our customers and stakeholders, and will meet with stakeholder groups to gather information and feedback as we prepare for the next phase of the rate design application. Any proposed changes will need approval from the BCUC.

If the application is approved by the BCUC and an Order in Council is approved by the Provincial Government all of FortisBC's regulated natural gas companies will be one legal entity under the name FortisBC Energy Inc. We would appreciate your support of this Order in Council. Our electric operations will remain a separate utility with a separate legal name – FortisBC Inc. – and separate rates and service offerings for electricity customers. Our customers will continue to know all of the companies under the shared name FortisBC and the ownership structure of FortisBC will remain the same, operating under our Canadian parent company, Fortis Inc.

If you would like any additional information about our filing, you are welcome to contact me directly at your convenience, at 604-592-7534 or Gord.Schoberg@fortisbc.com. You can also find more information on our website at fortisbc.com/ratedesign

Sincerely,

Gord Schoberg

Senior Manager, Community & First Nations Relations
FortisBC

Our File: 5500-01

March 13, 2012

**VIA REGULAR MAIL
AND EMAIL (gord.schoberg@fortisbc.com)**

FortisBC
16705 Fraser Highway
Surrey, BC V4N 0E8

ATTENTION: Mr. Gord Schoberg,
Senior Manager, Community & First Nations Relations

Dear Sir:

Re: FortisBC Amalgamation Proposal

Surrey City Council has considered information in relation to the above-referenced matter and has instructed staff to invite a representative of FortisBC to appear as a delegation before Council-in-Committee to provide additional information on the rationale for the proposed amalgamation and the effects that the amalgamation will have on the City of Surrey's operation and on Surrey's residents and business owners over both the short term as well as the longer term. In this regard, we will be contacting you shortly to confirm your interest in appearing before Council and subject to your concurrence to schedule a convenient time for your delegation before Council.

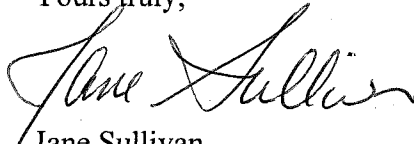
It would be helpful if the presentation to City Council included the following information:

- Information on why the amalgamation is being proposed;
- A long-range comparison of the projected rates for each of the 6 service areas across the Province for each of the years 2012 to 2022 for each of the two alternative scenarios, that is, the "status quo" scenario (without amalgamation) and the scenario with the proposed amalgamation completed;
- A long-range comparison of the existing and projected customer base (number of customers) for each of the 6 service areas for the years 2012 to 2022;
- Information about how the current and projected rates will be affected by a 3% franchise fee that is applicable in some service areas;

- Information on the effects of the amalgamation proposal on commercial, institutional and government customers; and
- Such other information as may be helpful to Council in fully understanding the reasons for and the merits of the proposal.

If you have any questions, please call the undersigned at 604-591-4213.

Yours truly,



Jane Sullivan
City Clerk

:lab

c.c. Mayor and Council
City Manager

FortisBC Common Rates through Amalgamation Proposal

Presentation for City of Surrey Council – May 7, 2012

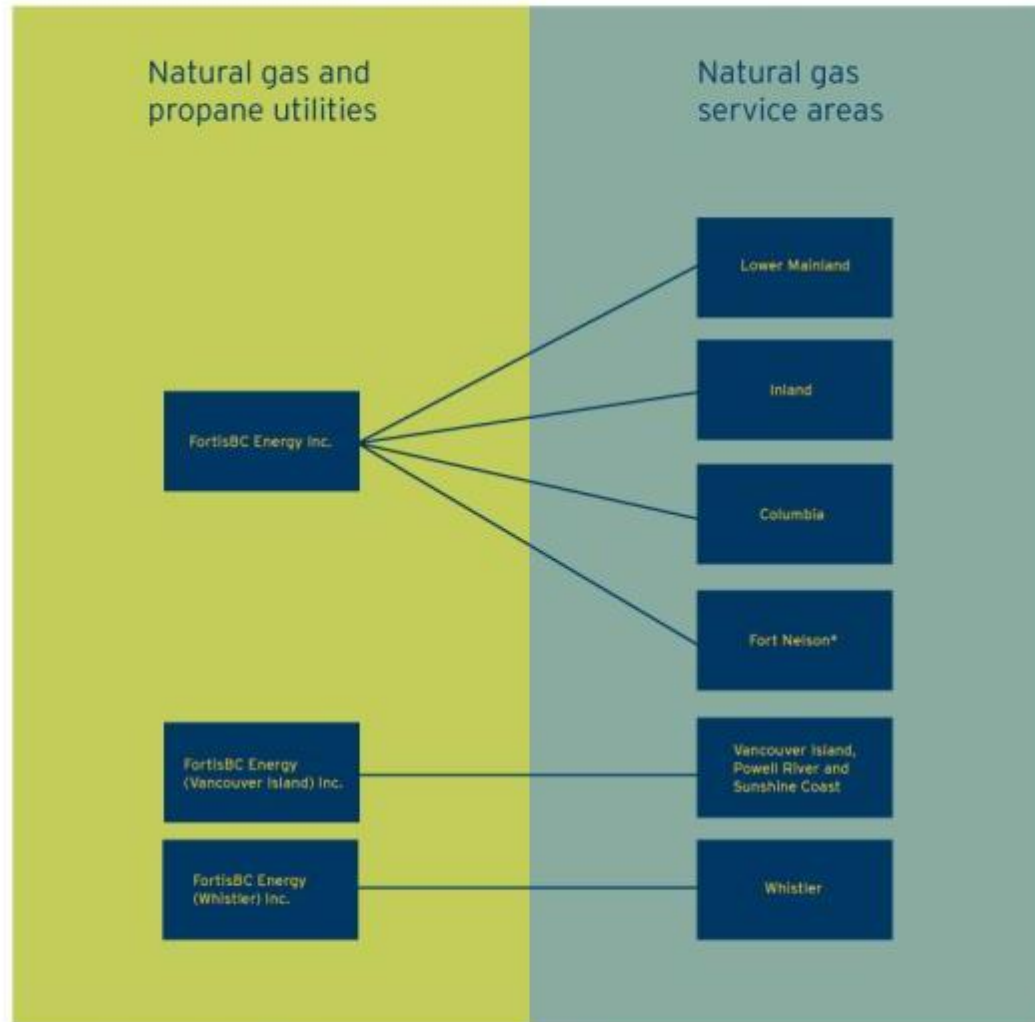
Amy Hennessy
Community & First Nations Relations Manager
Gord Schoberg
Senior Manager, Community & First Nations Relations
Paul Craig
Manager, Tariffs, Rate Design and Special Contracts

Who we are

- **FortisBC provides energy solutions to more than 1.1 million customers in 135 communities in BC.**
- **FortisBC delivers 21% of total energy consumed in BC.**



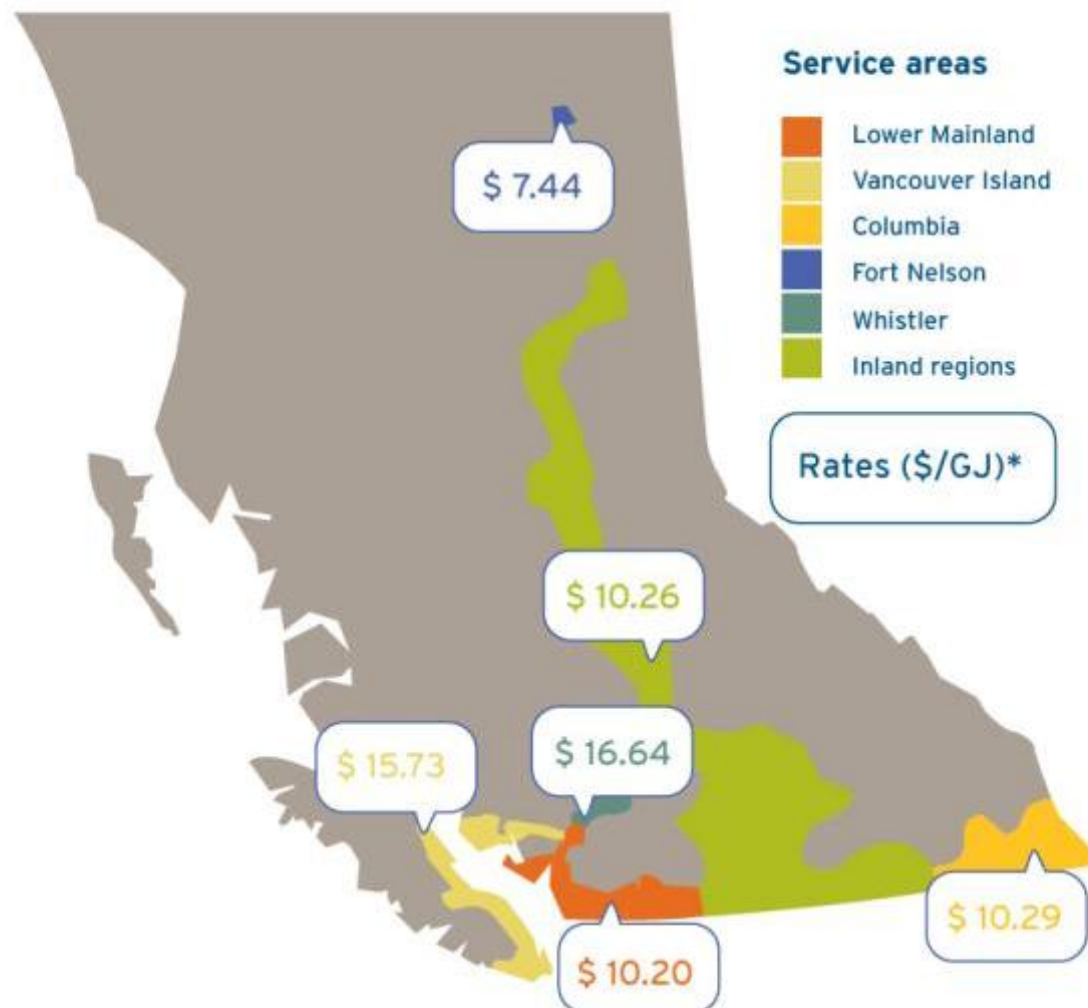
FortisBC Energy utilities today



*Fort Nelson is legally part of FortisBC Energy Inc. but is treated as a separate service area with its own rates.

Providing natural gas and propane across
British Columbia

Residential natural gas rates today



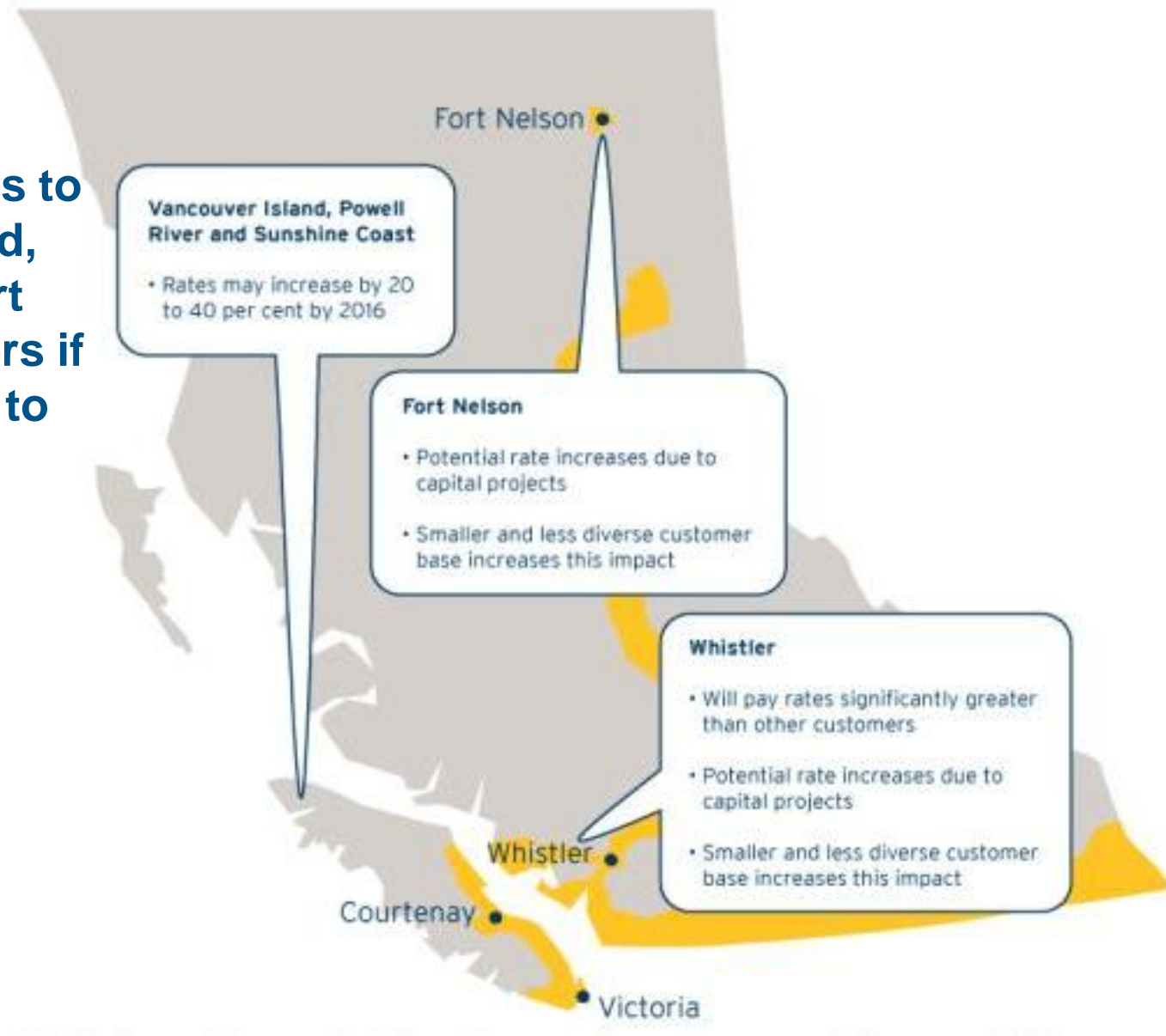
What you pay depends on where you live.

All of our customers do not pay the same rate for natural gas.

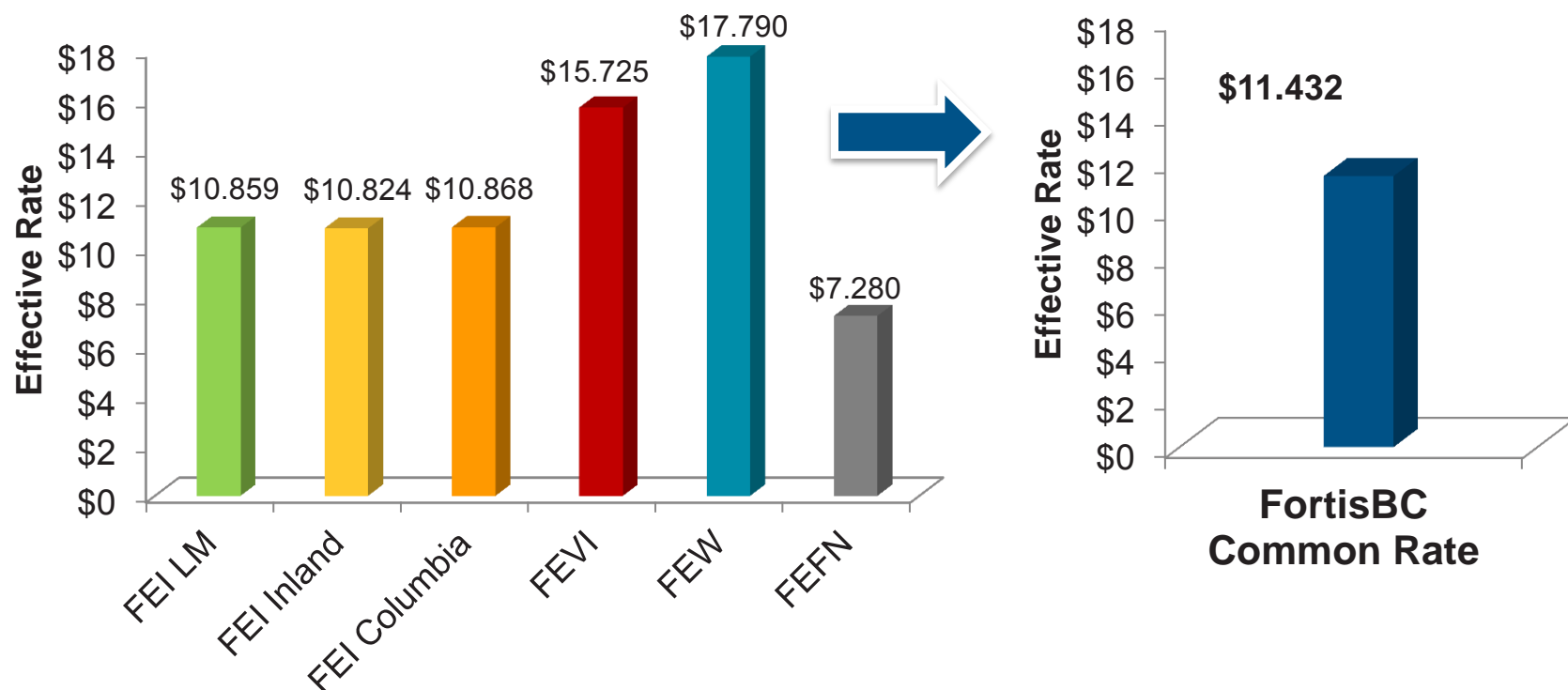
*Combined commodity, midstream and delivery rate, based on 90 GJ/year consumption and Q4-2011 cost of gas.

This material is prepared for the purposes of Stakeholder Consultation. The information contained herein is based on currently available information and good faith assumptions and has been prepared without prejudice.

Potential impacts to Vancouver Island, Whistler and Fort Nelson customers if we do not move to common rates



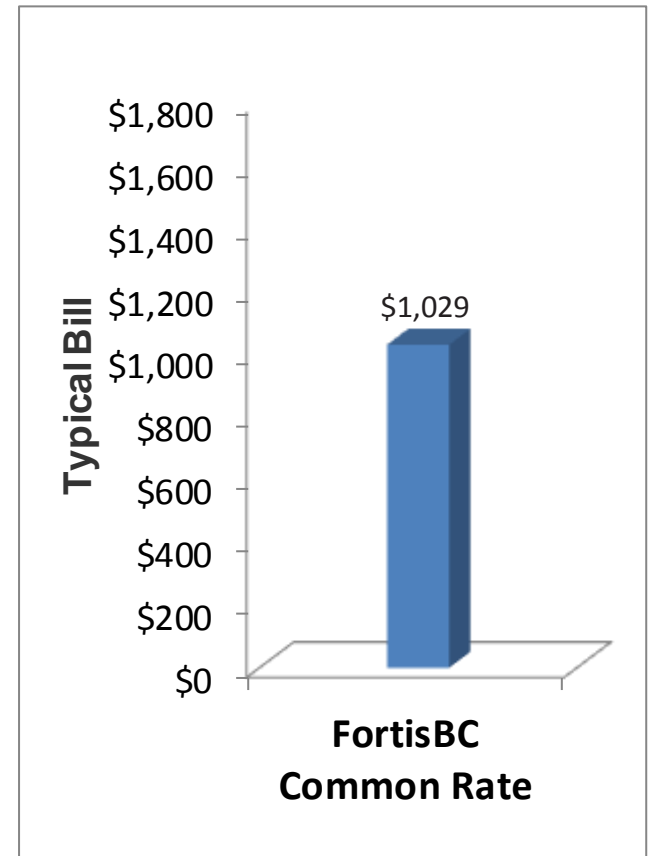
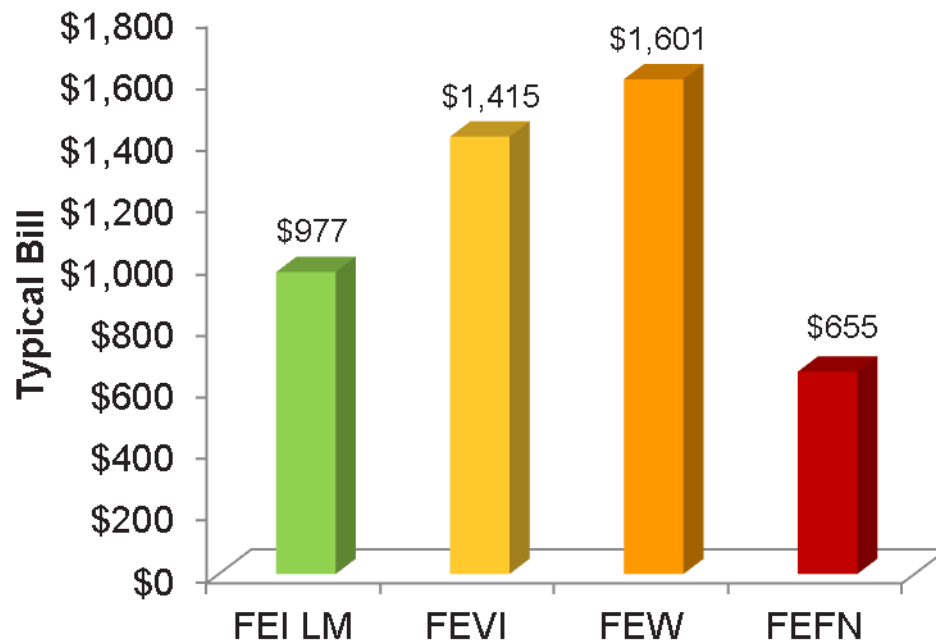
Natural Gas Rates Today vs. Proposed Common Rate



Common rates will eliminate current rate discrepancies

Typical Residential Bills – Current rate vs. Common rate

Typical Residential Bill Based On Proposed Revenue Requirement Rates vs. Proposed Common Rate



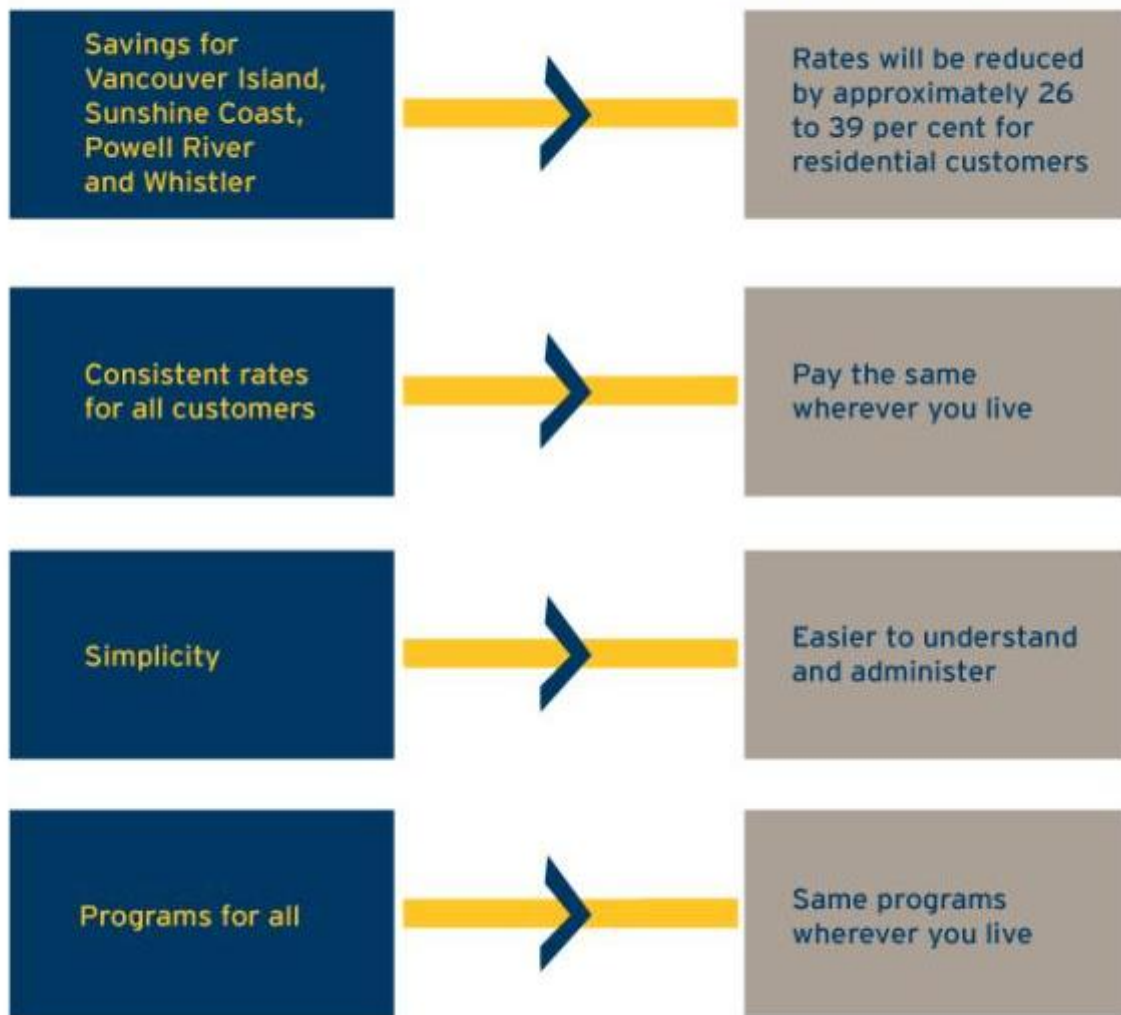
* Annual bill calculations based on 90GJ consumption

** Rates based on 2013 proposed Revenue Requirement and exclude riders

*** FEI Amalco rate does not include mitigation approaches

Benefits of common rates

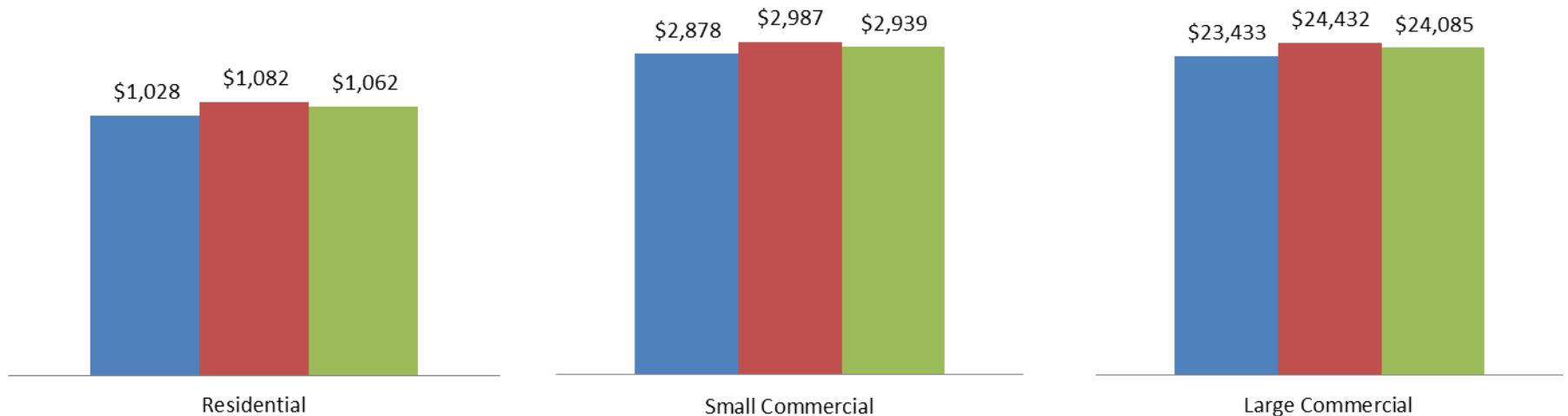
Four key benefits for natural gas customers



FEI Lower Mainland Annual Bill Impact Analysis

	Annual Bill Impacts					
	Residential		Small Commercial		Large Commercial	
Before Mitigation	5.3%	\$54	3.8%	\$109	4.3%	\$998
After Mitigation	3.3%	\$34	2.1%	\$60	2.8%	\$652

■ As Per 2013 RRA ■ Before Mitigation ■ After Mitigation



Summary

The Main Rationale Behind Common Rates and Amalgamation Is Fairness Amongst All FEU Customers

- ✓ **Common rates will be equitable for all customers and eliminate the rate discrepancies across the FEU**
- ✓ **Common rates will result in rate reductions to FEVI and FEW and long-term rate stability for FEVI, FEW and Fort Nelson**
- ✓ **Common Rates and Amalgamation will facilitate customer access to all natural gas services and realize the last remaining efficiencies to be gained from common ownership**

From: Michelle Allen <michelle@ashcroftbc.ca>
Sent: January 13, 2012 6:55 AM
To: Schoberg, Gord
Subject: RE: Amalgamation of Natural GAs Utilities

Gord

Thank you very much for the background information. I will pass it along to Mayor and Council and we will watch for more information and public meetings over the next few months.

Have a wonderful weekend.

Sincerely,

Michelle Allen,
Chief Administrative Officer
Village of Ashcroft
PO Box 129
Ashcroft, BC V0K 1A0
Phone: (250)453-9161 x 203
Fax: (250)453-9664
Toll Free: 1-877-453-9161

www.ashcroftbc.ca

-----Original Message-----

From: Schoberg, Gord [mailto:Gord.Schoberg@fortisbc.com]
Sent: January-12-12 6:15 PM
To: Michelle Allen
Subject: RE: Amalgamation of Natural GAs Utilities

Michelle:

Thank you for your questions about the history of the three utilities being considered by FortisBC for amalgamation, and rate impacts on natural gas customers in the Village of Ashcroft as it relates to the Rate Design Application currently before the B.C. Utilities Commission.

The three natural gas utilities being considered for amalgamation are FortisBC Energy Vancouver Island, FortisBC Energy Whistler and FortisBC Energy, which serves customers on the mainland of British Columbia, and which covers areas such as the Village of Ashcroft. One of these companies, FortisBC Energy, has four separate cost of service areas, being: the Lower Mainland, Fort Nelson, Columbia (in the East Kootenays), and the remainder of the Interior. So, this totals six separate rate structures across the Province, further highlighting the need to bring all these rates together under one common postage stamp rate structure. Bringing all three natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent natural gas rates and services for all customers across the province. Each of these cost of service areas represents rate structures in place for companies that were purchased between the 1970's and 2004.

For the Village of Ashcroft, and other Interior communities except for Fort Nelson, the proposal would be to reduce rates by 1.08% for residential customers, 2.27% for small commercial customers and 1.66% for large commercial customers when this is implemented. While customers on Vancouver Island and Whistler will see a substantial reduction in rates, upward pressure on rates for customers on the mainland would be mitigated by applying money from a Revenue Stabilization Deferral Account. This is the essence of the Application before the BC Utilities Commission at this time.

The application is revenue neutral to FortisBC and the proposed changes offer several benefits to many of our customers, including lower rates for some of our customers, rate stability and simplicity for all, consistent programs and services, and greater reporting and operating efficiencies.

Some of the benefits of this Rate Design Application are:

Consistent rates across the province – each customer in a given customer class (ie – residential class) will be charged the same rate for natural gas regardless of where they live. For example, residential customers on the Mainland will pay the same rate as customers on Vancouver Island.

Expanded service offerings – we will be able to expand our service offerings to all customers, such as our renewable natural gas product, which is a carbon neutral product produced from decomposing organic waste from landfills or agricultural waste.

Rate stability – the costs to operate our business will be spread across all customers around the province, which will help to provide rate stability for customers, particularly those in our smaller service areas such as Vancouver Island, Whistler and Fort Nelson.

Implementation had been planned for January 1, 2013, however supplemental information requested recently by the BC Utilities Commission may push this date back. We are now planning to engage customers in a more detailed conversation about the reasons we are doing this and impacts on them so they clearly understand what we are proposing. This communication will happen during February and March 2012, and will include customers across the province. I always welcome feedback personally, however additional opportunity to provide feedback will be provided by way of our company website, open houses and online panels and forums. A follow up letter will be sent to you and your mayor in late January or early February providing these details.

If you have more questions or comments, please feel free to contact me.

-----Original Message-----

From: Michelle Allen [mailto:michelle@ashcroftbc.ca]

Sent: January 11, 2012 9:29 AM

To: Schoberg, Gord

Subject: RE: Amalgamation of Natural GAs Utilities

Good morning Gord

I was just wondering if you have had a chance to look at our request? I know things were busy especially before Christmas but I would appreciate if you could provide me a estimated timeline. Thanks so much.

Sincerely,

Michelle Allen,
Chief Administrative Officer
Village of Ashcroft
PO Box 129

Ashcroft, BC V0K 1A0
Phone: (250)453-9161 x 203
Fax: (250)453-9664
Toll Free: 1-877-453-9161

www.ashcroftbc.ca

-----Original Message-----

From: Schoberg, Gord [mailto:Gord.Schoberg@fortisbc.com]
Sent: December-02-11 5:43 PM
To: Michelle Allen
Subject: Re: Amalgamation of Natural GAs Utilities

Michelle: Thanks for your questions. I will put together a response and get back to you.

Gord Schoberg

Sent from my iPad

On 2011-12-02, at 2:45 PM, "Michelle Allen" <michelle@ashcroftbc.ca<mailto:michelle@ashcroftbc.ca>> wrote:

Hello Gord

Council for the Village of Ashcroft received your letter dated November 2nd advising that FortisBC has filed an application to amalgamate all of the natural gas utilities under one legal entity. During the discussion a number of concerns were raised and I have been directed to ask you for the following information:

1. Could you provide a brief history of the three utilities and explain how and/or why they have such varied rate structures?
2. Could you advise which utility the Village of Ashcroft has been under?
3. Could you please provide more information regarding the impact this amalgamation will have on the residents of Ashcroft – will they see immediate increases or decreases and what are the long term projections regarding the rate structure?

I would appreciate receiving this information from you at your earliest opportunity. Should you wish to talk to me directly my contact information is listed below.

Thank you for your assistance in this matter.

Sincerely,

Michelle Allen,
Chief Administrative Officer
Village of Ashcroft
PO Box 129
Ashcroft, BC V0K 1A0
Phone: (250)453-9161 x 203

Fax: (250)453-9664
Toll Free: 1-877-453-9161

www.ashcroftbc.ca<<http://www.ashcroftbc.ca/>>

<image001.jpg>

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From: Schoberg, Gord
Sent: December 19, 2011 10:02 AM
To: mayor@hudsonshope.ca
Subject: FortisBC Rate Design Application: impact on customer's natural gas bills

Darryl Johnson, Acting Mayor of The District of Hudson's Hope:

Thank you for your inquiry about the impact of business rates on natural gas customers in Hudson's Hope as it relates to a Rate Design Application currently before the B.C. Utilities Commission.

Bringing all three natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent natural gas rates and services for all customers across the province.

The application is revenue neutral to FortisBC and the proposed changes offer several benefits to many of our customers, including lower rates for some of our customers, rate stability and simplicity for all, consistent programs and services, and greater reporting and operating efficiencies.

Consistent rates across the province – each customer in a given customer class (ie – residential class) will be charged the same rate for natural gas regardless of where they live. For example, residential customers on the Mainland will pay the same rate as customers on Vancouver Island.

Expanded service offerings – we will be able to expand our service offerings to all customers, such as our renewable natural gas product, which is a carbon neutral product produced from decomposing organic waste from landfills or agricultural waste.

Rate stability – the costs to operate our business will be spread across all customers around the province, which will help to provide rate stability for customers, particularly those in our smaller service areas such as Vancouver Island, Whistler and Fort Nelson.

For the District of Hudson's Hope, and other Interior communities except for Fort Nelson, the proposal would be to reduce rates by 1.08% for residential customers, 2.27% for small commercial customers and 1.66% for large commercial customers when this is implemented. While customers on Vancouver Island and Whistler will see a substantial reduction in rates, upward pressure on rates for customers on the mainland would be mitigated by applying money from a Revenue Stabilization Deferral Account. This is the essence of the Application before the BC Utilities Commission at this time.

Fort Nelson rates have been substantially lower than those in the rest of the province and, while their rates are proposed to increase significantly, the impact will be mitigated with a phased in approach, as negotiated with municipal officials there.

Implementation had been planned for January 1, 2013, however supplemental information requested recently by the BC Utilities Commission may push this date back. We are now planning to engage customers in a more detailed conversation about the reasons we are doing this and impacts on them so they clearly understand what we are proposing. This communication will happen during February and March 2012, and will include customers across the province. I always welcome feedback personally, however additional opportunity to provide feedback will be provided by way of our company website, open houses and online panels and forums. A follow up letter will be sent to you in late January or early February providing these details.

If you have more questions or comments, please feel free to contact me.

Gordon Schoberg

Senior Manager, Government Relations
FortisBC
16705 Fraser Hwy
Surrey, B.C.
Canada, V4N 0E8

604.220.9785 Cel phone
604.592.7534 Office
604.576.7122 Fax

November 22, 2011

Mr. Gord Schoberg, Senior Manager
Community & First Nations Relations
FortisBC
16705 Fraser Highway
Surrey, BC
V4N 0E8

Dear Mr. Schoberg:


Re: Amalgamation of Natural Gas Utilities

At their regular meeting of November 14, 2011, the Council of the District of Mackenzie received your letter regarding the application FortisBC has filed with the BC Utilities Commission, proposing to amalgamate the natural gas utilities into one legal entity, with common rates and services across the province.

Council has expressed some concern on how this amalgamation will affect Mackenzie and the long-term impact on northern communities which, due to our harsher climate and longer winter season, have much higher gas consumption than Lower Mainland and Vancouver Island communities.

Could you please provide clarification on the expected financial impacts to residents of northern communities over the long term and whether climate is being factored into any consideration in the changes to the rates?

Sincerely,
Per District of Mackenzie Council



Mark Fercho,
Chief Administrative Officer



December 9, 2011

District of Mackenzie
#1 Mackenzie Boulevard,
P.O. Bag 340
Mackenzie, B.C.
V0J 2C0

Attention: Mark Fercho, Chief Administrative Officer

Subject: Amalgamation of Natural Gas Utilities

Dear Mark:

Thank you for your letter of November 22, 2011, in which you asked several questions about this Application currently before the B.C. Utilities Commission.

You asked how this amalgamation will affect Mackenzie and the long term impact on Northern Communities. You also asked whether climate is being factored into any consideration in the changes to the rates.

Bringing all three natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent natural gas rates and services for all customers across the province.

The application is revenue neutral to FortisBC and the proposed changes offer several benefits to many of our customers, including lower rates for some of our customers, rate stability and simplicity for all, consistent programs and services, and greater reporting and operating efficiencies.

Consistent rates across the province – each customer in a given customer class (ie – residential class) will be charged the same rate for natural gas regardless of where they live. For example, residential customers on the Mainland will pay the same rate as customers on Vancouver Island.

Expanded service offerings – we will be able to expand our service offerings to all customers, such as our renewable natural gas product, which is a carbon neutral product produced from decomposing organic waste from landfills or agricultural waste.

Rate stability – the costs to operate our business will be spread across all customers around the province, which will help to provide rate stability for customers, particularly those in our smaller service areas such as Vancouver Island, Whistler and Fort Nelson.

For Mackenzie, and other Interior communities except for Fort Nelson, the proposal would be to reduce rates by 1.08% for residential customers, 2.27% for small commercial customers and 1.66% for large commercial customers when this is implemented. While customers on Vancouver Island and Whistler will see a substantial reduction in rates, upward pressure on rates for customers on the mainland would

be mitigated by applying money from a Revenue Stabilization Deferral Account. This is the essence of the Application before the BC Utilities Commission at this time.

Fort Nelson rates have been substantially lower than those in the rest of the province and, while their rates are proposed to increase significantly, the impact will be mitigated with a phased in approach, as negotiated with municipal officials there.

Weather has not been considered in this approach; otherwise, rates would vary throughout the province and not be postage stamped.

Implementation had been planned for January 1, 2013; however, supplemental information requested recently by the BC Utilities Commission may push this date back. We are now planning to engage customers in a more detailed conversation about the reasons we are doing this and impacts on them so they clearly understand what we are proposing. This communication will happen during February and March 2012, and will include commercial and industrial customers across the province. I always welcome feedback personally, however additional opportunity to provide feedback will be provided by way of our company website, open houses and online panels and forums. A follow up letter will be sent to you in late January or early February providing these details.

If you have more questions or comments, please feel free to contact me.

Yours very truly,

A handwritten signature in black ink, appearing to read 'G. Schoberg', written in a cursive style.

Gord Schoberg
Senior Manager, Community and Aboriginal Relations
FortisBC

From: Schoberg, Gord
Sent: December 8, 2011 3:07 PM
To: KOstraat@summerland.ca
Subject: FortisBC Energy Rate Design

Ken: I am pleased to respond to your questions of November 15. Please see my responses imbedded in your questions below.

Implementation had been planned for January 1, 2013, however supplemental information requested recently by the BC Utilities Commission may push this date back. We are now planning to engage customers in a more detailed conversation about the reasons we are doing this and impacts on them so they clearly understand what we are proposing. This communication will happen during February and March 2012, and will include commercial and industrial customers across the province. I always welcome feedback personally, however additional opportunity to provide feedback will be provided by way of our company website, open houses and online panels and forums. A follow up letter will be sent to you in late January or early February providing these details.

If you have further comments or questions please let me know.

Gord Schoberg
604.220.9785

From: Ken Ostraat [mailto:KOstraat@summerland.ca]
Sent: November 15, 2011 9:24 AM
To: Schoberg, Gord
Subject: FortisBC Energy Rate Design

Gord

We are in receipt of your letter regarding the rate redesign for Fortis Energy. The first question I have is what effect will your design have on commercial rates.

I've included two tables below that should make it easier to see what the impact is going to be for 2013 and what the full impact of amalgamation is. While the impact of amalgamation is an increase of 2.13% to the total annual bill of a typical Inland Small Commercial customer, typical Small Commercial customers will actually see a decrease of 2.27% to their total annual bills in 2013. The Application is requesting approval of 2013 rates only and the Phase B Application will request rates for 2014. At this time we are not sure what the rates will be for 2014 because the rates, rate classes and rate structures may change as a result of the Phase B Application.

**2013 Total Annual Bill Impact for Typical Customers
(based on average consumption)**

FEI Service Area	Impact of Amalgamation by Customer Class (%)		
	<i>Residential</i>	<i>Small Commercial</i>	<i>Large Commercial</i>
<i>Mainland</i>	-1.35%	-2.59%	-1.90%
<i>Inland</i>	-1.08%	-2.27%	-1.66%
<i>Columbia</i>	-1.45%	-2.76%	-2.14%

Impact of Amalgamation on Total Annual Bills of Typical Customers

(based on average consumption)

FEI Service Area	Impact of Amalgamation by Customer Class (%)		
	<i>Residential</i>	<i>Small Commercial</i>	<i>Large Commercial</i>
Mainland	3.64%	1.90%	2.16%
Inland	3.75%	2.13%	2.39%
Columbia	3.41%	1.75%	1.96%

What would the commercial and residential rates be if BCUC does not approve the amalgamation of the three entities for Inland customers.

If the BCUC does not approve the amalgamation, there will be no rate changes for commercial and residential customers with respect to this Rate Design Application. Amalgamation and postage stamp rates go hand in hand so without amalgamation we will not implement postage stamp rates.

Could you also include me on any mailing lists for this subject. I would also appreciate a hard copy of your submission to BCUC on this matter.

Here is a link to the Rate Design Application on the BCUC website:

http://www.bcuc.com/Documents/Proceedings/2011/DOC_28990_B-1_FEU%20Amalgamation%20Rate%20Design%20Phase%20A%20Application.pdf

Thanks you.

Kenneth Ostraat, CA | DIRECTOR OF FINANCE | (250) 494-6451

13210 Henry Avenue
PO BOX 159
Summerland, BC V0H 1Z0
www.summerland.ca



From: Schoberg, Gord
Sent: December 8, 2011 2:51 PM
To: Schoberg, Gord
Subject: RDA Response to District of West Vancouver

Today I responded to a telephone inquiry from John Wong (604.921.3420) about rate impact the District of West Vancouver could expect as a result of our amalgamation and postage stamp rates. The District operates both residential and commercial accounts, so I informed him of the numbers that were filed in our RDA.

Gordon Schoberg
Senior Manager, Government Relations
FortisBC
16705 Fraser Hwy
Surrey, B.C.
Canada, V4N 0E8

604.220.9785 Cel phone
604.592.7534 Office
604.576.7122 Fax

From: Caroline Grover <Caroline@kelownachamber.org>
Sent: December 9, 2011 4:08 PM
To: Schoberg, Gord
Subject: RE: question on common rates

Gord thank you very much for the response and we will watch for public input opportunities, Caroline

Caroline Grover
Chief Executive Officer
Kelowna Chamber of Commerce
(250) 469-7356



[Connection Advantage Influence](#)

Dec 15th – Christmas Business after Hours – Summerhill Pyramid Winery, 5 -7pm.

Dec. 8th – Chamber Luncheon – Kelowna's 3 Elected MLA's, 11:45am-1:30pm.



Join or renew your membership before December 31st and be entered to win a \$5,000 Dollar Makeover sponsored by Total Office! **[Full Details...](#)**

From: Schoberg, Gord [mailto:Gord.Schoberg@fortisbc.com]
Sent: Thursday, December 08, 2011 1:30 PM
To: Caroline Grover
Subject: RE: question on common rates

Caroline: I apologize for the delay in responding, but I will answer your questions as best I can. Bringing all three of our natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent natural gas rates and services for all of our customers across the province. Rates for small commercial customers in the Interior will go down 2.27% when implemented, whereas rates will be reduced 2.59% in the Lower Mainland and 2.76% in the Columbia region (East Kootenays). These variations are reflective of the slightly differing rates that currently exist in these three cost of service areas. For large commercial customers, rates in the Interior will fall 1.66%, whereas rates will drop 1.90% in the Lower Mainland and 2.14% in the Columbia region.

Implementation had been planned for January 1, 2013, however supplemental information requested recently by the BC Utilities Commission may push this date back. We are now planning to engage customers in a more detailed conversation about the reasons we are doing this and impacts on them so they clearly understand what we are proposing. This communication will happen during February and March 2012, and will include commercial and industrial customers across the province. I always welcome feedback personally, however additional opportunity to provide feedback will be provided by way of our company website, open houses and online panels and forums. A follow up letter will be sent to you in late January or early February providing these details.

Please feel free to continue communicating with me,

Gord Schoberg

From: Caroline Grover [\[mailto:Caroline@kelownachamber.org\]](mailto:Caroline@kelownachamber.org)
Sent: November 16, 2011 2:49 PM
To: Schoberg, Gord
Subject: question on common rates

Hello Gord, thank you for your letter outlining the proposed change and the solicitation of our opinion. We are indeed interested in the topic and will seek our members responses as well. The question that arose from our Board members today is what advantage is this proposal to Kelowna? What advantage will the common rates offer to Okanagan business? It is very clear the advantages to coastal areas, but gets a bit vague on the interior. Your comments would be appreciated.

Caroline Grover
Chief Executive Officer
Kelowna Chamber of Commerce
(250) 469-7356

November 17th - Business Expo and After Hours! 4 - 7pm
[Click here for details...](#)

November 24th - Luncheon with Guest Speaker Don Thompson on "Oils Sands and Kelowna Business Opportunities"
[Click here for details...](#)



Connection Value Influence



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_____ Information from ESET NOD32 Antivirus, version of virus signature database 6695 (20111208)

The message was checked by ESET NOD32 Antivirus.

<http://www.eset.com>

From: Schoberg, Gord
Sent: December 8, 2011 2:05 PM
To: Bev Vandersteen
Subject: RE: FortisBC application to amalgamate
Attachments: Fort Nelson Phase.docx

Bev: I apologize for the delay in responding to your questions. I have copied/pasted portions of the Rate Design Application that applies to Fort Nelson customers and have attached a Word doc of a longer portion of the Application, which show the impact of. The tables below show relative rates between the Lower Mainland (FEI), Vancouver Island (FEVI), Whistler (FEW) and, of course Fort Nelson (FEFN), and also the breakdown between residential, small commercial and large commercial customers.

The phased in approach you refer to is detailed in the attached Word doc.

You asked for a link to the full Application on the BCUC website and I am providing that for you here. Look for Fortis Energy "Amalgamation and Rate Design" on the link: <http://www.b cuc.com/Proceeding.aspx?ApplicationType=Current>

Implementation had been planned for January 1, 2013, however supplemental information requested recently by the BC Utilities Commission may push this date back. We are now planning to engage customers in a more detailed conversation about the reasons we are doing this and impacts on them so they clearly understand what we are proposing. This communication will happen during February and March 2012, and will include all customers across the province. I always welcome feedback personally, however additional opportunity to provide feedback will be provided by way of our company website, an open house in Fort Nelson and online panels and forums. A follow up letter will be sent to you in late January or early February providing these details.

Bev, please feel free to continue communication with me.

Gord Schoberg
604.220.9785

First reference to the Rate Design Application:

Fort Nelson customers historically have benefitted from the lowest per gigajoule rates in the FEU service areas. Their annual natural gas bills would require an increase of between 16%-46% at the burner tip to bring them on par with other service areas in the FEU. The FEU propose to phase-in this increase by delaying any impact of postage stamping for five years and then phase-in the increase over the subsequent 10 years. As such, typical Fort Nelson residential customers will see no impact, as a result of amalgamation, to their 2013 annual bills if amalgamation is approved. The following table demonstrates that postage stamp rates will remove the price disparity and align natural gas rates across the FEU's service areas.

Table 1-3: Amalgamation Will Align Natural Gas Rates Across FEU's Service Areas

FEU Residential Effective Rates (Based on 90GJ Annual Consumption)				
	FEI (Lower Mainland)	FEVI	FEW	FEFN
No Amalgamation (rates as of Oct 1, 2011)	\$10.199	\$15.725	\$16.644	\$7.438
Amalgamation (Jan 1, 2013 proposed rates)	\$11.177	\$11.177	\$11.177	\$11.177

The following table illustrates the full bill impact of amalgamation and postage stamping of delivery, midstream and commodity rates in 2013 on a typical customer's^[1] annual bill in each service region, both in absolute dollar and percentage terms. The 'No Amalgamation' columns reflect the impact of the 2013 delivery rates proposed in the FEU's 2012-2013 Revenue Requirements and Natural Gas Rates Application ("2012-2013 RRA"), and existing commodity and midstream rates, for each region.

Table 1-4: Annual Bill Impact Comparison for Typical Customers

Utility	No Amalgamation			Amalgamation and Postage Stamping			Variance		
	Res	Sml Com	Lrg Com	Res	Sml Com	Lrg Com	Res	Sml Com	Lrg Com
FEI	\$1,016	\$2,839	\$23,038	\$1,002	\$2,766	\$22,600	1.4%	-2.6%	-1.9%
FEVI	\$965	\$5,546	\$30,251	\$704	\$3,002	\$20,103	-27.1%	-45.9%	-33.6%
FEW	\$1,628	\$4,532	\$48,099	\$1,005	\$2,547	\$23,615	-38.3%	-43.8%	-50.9%
FEFN	\$1,014	\$3,555	\$22,383	\$1,014	\$3,555	\$17,647	0%	0%	-21.2%

As the tables illustrate, the adoption of postage stamp rates will immediately result in greater alignment in 2013, relative to the scenario with no amalgamation.

FORT NELSON RATE INCREASE

As discussed in Section 2, the natural gas distribution system in the Fort Nelson area was acquired in 1985 through the acquisition of Fort Nelson Gas Ltd. by Inland Natural Gas Co. Ltd. Fort Nelson Gas Ltd. was amalgamated in 1989 with Inland Natural Gas and currently operates as a separate service area within FEI. The tariff has been set separately for Fort Nelson from the date the Fort Nelson system was acquired to the present.

Fort Nelson customers currently pay the lowest rates in the Province by a significant margin. Based on the 2012-2013 RRA, in the absence of amalgamation, a typical Fort Nelson residential customer is expected to pay effectively \$7.480 per gigajoule for natural gas in 2013. The following table provides a comparison of projected 2013 effective residential per GJ rates across the areas served by the FEU.^[2]

Table 4-6: There Are Differences in Natural Gas Rates Across the Areas Served by the FEU

FEI	FEVI	FEW	FEFN
\$10.805	\$15.725	\$17.890	\$7.480

As illustrated by Table 4-6 above, if the status quo is maintained, in 2013, effective per gigajoule natural gas rates in Fort Nelson will correspond to 69% of FEI's rates, and approximately half of FEVI rates. Fort Nelson effective rates are already less than half of effective FEW rates.

The impact of postage stamp pricing on customers in the Fort Nelson service area will be a one-time increase of 15.5%, 20.2% and 46.2% to total annual bills for typical residential, small and large commercial customers respectively. However, the FEU have proposed to phase-in this increase to protect Fort Nelson customers from this significant one-time rate increase.

The FEU discussed various options with representatives of the Northern Rockies Regional Municipality ("NRRM") to address the rate impact associated with the adoption of postage stamp rates in the Fort Nelson service area. The representatives were generally opposed to any rate increases; however, they agreed that if the increases were to proceed the FEU should propose to phase-in the total rate increase over a 15 year period with any impact of amalgamation and postage stamp rates delayed until year six as discussed in Section 4.8.1.2.

Despite the phased-in rate increases associated with postage stamping, Fort Nelson customers do derive a benefit in the long-term. As discussed previously in Section 4.3.1.2, the Fort Nelson customer base is relatively small (approximately 2,500 customers). Any capital project upgrades or reduction in natural gas load or number of customers cause a

disproportionately large effect on customers' rates when on a stand-alone basis. Under postage stamp rates for FEI Amalco, the customer base over which these costs would be spread will be much larger than if these were only applied to the existing Fort Nelson customer base, thereby mitigating rate impacts arising from a smaller customer base with less total throughput. This will translate to more stable rates over the long-term for Fort Nelson customers.

From: Bev Vandersteen [mailto:info@fortnelsonchamber.com]

Sent: November 16, 2011 10:23 AM

To: Schoberg, Gord

Cc: Investors Group

Subject: FortisBC application to amalgamate

Good morning Mr. Schoberg,

Thank you for your letter regarding the application with the British Columbia Utilities Commission proposing FortisBC amalgamate into one entity with common rates across the province.

I note in your letter that moving to common rates across the province will provide FortisBC with the means to prevent substantial increases to rates in the lower mainland and it mentions that Fort Nelson rates will stay the same for 2013 and the impacts of amalgamation will be deferred for a five year period after which a gradual annual increase will come into effect over ten years to align Fort Nelson rates with the rest of the province.

Could you please provide me with more detail on exactly how this would affect Fort Nelson? What are our current rates in comparison to the rest of the province and what are those rates expected to be in 2014 and forward into the amalgamation period? What is the expected gradual annual increase to rates in Fort Nelson? Could you also please provide a link to the application filed with the BCUC?

Thank you,

Bev Vandersteen, Executive Director
Fort Nelson & District Chamber of Commerce
Box 196
Fort Nelson, BC
V0C 1R0
Ph (250) 774-2956
Fx (250) 774-2958
info@fortnelsonchamber.com
Visit us online at www.fortnelsonchamber.com

^[1] Typical customer's consumption level: Residential - 95 GJ (FEI), 58.6 GJ (FEVI), 90 GJ (FEW) and 140 GJ (FEFN). Small Com. - 300 GJ (FEI), 313 GJ (FEVI), 260 GJ (FEW), 460 GJ (FEFN). Large Com. - 2,800 GJ (FEI), 2,362 GJ (FEVI), 2,810 GJ (FEW), 3,100 GJ (FEFN). The burner-tip calculations include the Fort Nelson phase-in, the RSDA and the Revenue Stabilization Adjustment Mechanism ("RSAM") riders as appropriate but exclude taxes or other fees.

^[2] The calculations are based on burner-tip, excluding taxes, fees and riders for 90GJ annual consumption.

1.1.1.1 Fort Nelson Phase-in Approach

In order to mitigate the significant one-time rate increase to Fort Nelson customers, FEI Amalco will phase in the total amalgamation/postage stamp-related rate increase over 15 years. As discussed in Section 6.2.1.1.1, in developing this implementation approach, the FEU has discussed various options with the representatives from the region of Fort Nelson.

While the Northern Rockies Regional Council (“NRRC”), representing the service area of Fort Nelson, are not supportive of rate increases in general, the FEU and NRRC have agreed that the FEU should propose to phase-in the total rate increase over a 15 year period with any impact delayed until year six. This option was voted and approved as the preferred option during the NRRC meeting on September 20th, 2011¹.

According to this approach:

- In the first five years of the phase-in, Fort Nelson customers will be shielded from the initial postage stamp rate related increase but will continue to be subject to rate increases resulting from FEI Amalco revenue requirement changes as well as any changes to the commodity and/or midstream rates.
- After the initial five year period in 2018, as described below, a portion of the postage stamp and amalgamation-related cost of service increase will be flowed through, with an approximate 3.3%-4.3% annual burner-tip bill impact for typical residential customers, with the amount within this range depending on the year². This annual increase will continue through to 2027, when Fort Nelson customers reach rate parity with the Amalgamated Entity.

The shortfall arising from the phase-in of the Fort Nelson rate increases for the fifteen year period will be borne by the rest of the customers of the Amalgamated Entity.

The phase-in will be applied as follows, and an appendix (Appendix C-1) has been provided with a summary of the annual phase-in balances.

NO AMALGAMATION/POSTAGE STAMP-RELATED RATE IMPACT FROM 2013 TO 2017:

For the years 2013-2017, instead of absorbing the full impact of amalgamation, Fort Nelson customers will only experience rate increases arising from the approved FEI Amalco revenue requirement changes and/or changes to commodity and midstream rates.

To ensure a zero net bill impact arising from amalgamation and postage stamp rates for a typical Fort Nelson customer in 2013, the FEU proposes to use a negative delivery rate rider, called the Amalgamation Adjustment Rider. Using current projections of 2013 volumes and the

¹ Appendix E-2, Northern Rockies Regional Council meeting (September 20th, 2011) Meeting Minutes.

² Excluding adjustments to account for variances in actual and forecast volumes to ensure that there is no carry over balance.

amalgamated cost of service as described in Section 4.7.1 above, the 2013 phase-in rider is projected to be (\$3.347)/GJ for residential customers within the Fort Nelson service area. The total shortage arising from this phase-in approach is projected to be \$1.67 million in 2013.

The remaining FEI Amalco customers will absorb the shortfall arising from the phase-in of the Fort Nelson postage stamp rates. However, the impact will be minimal, with a positive delivery rate rider of \$0.011/GJ for residential customers.

Table 4-17 below provides an overview of the proposed rider amounts for residential, small commercial and large commercial customers for 2013, as included in Appendix C-1.

Table 4-17: Fort Nelson (Amalgamation Adjustment) Phase-in Riders For 2013

	FEI/FEVI/FEW	FEFN
Residential Phase-in Rider	\$0.011	(\$3.347)
Small Commercial Phase-in Rider	\$0.011	(\$1.557)
Large Commercial Phase-in Rider	\$0.011	(\$2.647)

As evidenced in the table, the remaining FEI Amalco customers will pay approximately one cent per gigajoule to facilitate the zero net bill impact for typical Fort-Nelson customers.

The 2014 to 2017 Fort Nelson phase-in rate riders will be adjusted to account for variances in actual and forecast volumes from the prior year and changes in volume forecasts for the upcoming year.

AMALGAMATION/POSTAGE STAMP-RELATED IMPACTS PHASED-IN FROM 2018 TO 2027:

Starting in 2018, the amalgamation-related rate increases will begin to be flowed through to Fort Nelson customers for the following ten years, ending in 2027 when Fort Nelson customer's will reach effective delivery rate parity with the Amalgamated Entity. This phase-in will be accomplished through an annual decrease of one-tenth in the amounts returned to Fort Nelson customers and recovered from all other non-bypass FEI Amalco customers via the Amalgamation Adjustment delivery rate riders. The annual rate riders will also be adjusted to account for variances in actual and forecast volumes from the prior year and changes in volume forecasts for the upcoming year.

Table 4-18: Schedule Of Fort Nelson Phase-In Of Amalgamation And Postage Stamp Rates³

Amount Returned Through Rate Rider to Fort Nelson Region (\$ Thousands)				
Year	Rate Schedule 1	Rate Schedule 2	Rate Schedule 3	Total
2017	(915)	(321)	(427)	(1,663)
2018	(824)	(289)	(384)	(1,497)
2019	(732)	(257)	(342)	(1,331)
2020	(641)	(224)	(299)	(1,164)
2021	(549)	(192)	(256)	(997)
2022	(458)	(160)	(213)	(831)
2023	(366)	(128)	(171)	(665)
2024	(275)	(96)	(128)	(499)
2025	(183)	(64)	(85)	(332)
2026	(92)	(32)	(43)	(167)
2027	-	-	-	-

The associated bill impact of this amalgamation and postage stamp rate related phase-in will be an approximate 3.3%-4.3% annual bill increase through to 2027 for Fort Nelson residential customers. Figure 4-6 provides a graphical representation of how the phase-in will operate. Similar to the initial five year period, the shortfall arising from the levelled Fort Nelson amalgamation-related rate increases will be shared across the rest of FEI Amalco's customers through a rate rider. The black vertical lines show the projected amount of negative rate rider for Fort Nelson residential customers. Table 4-19 shows the actual projected rider amounts for residential Fort Nelson customers (assuming 2013 volume forecasts) and excluding any year over year adjustments that may arise from variances in volumes.

³ Amounts before any adjustments to true-up for prior year volume variance

Figure 4-6: Fort Nelson Customers Will Be Phased-in Through A Delivery Rate Rider⁴

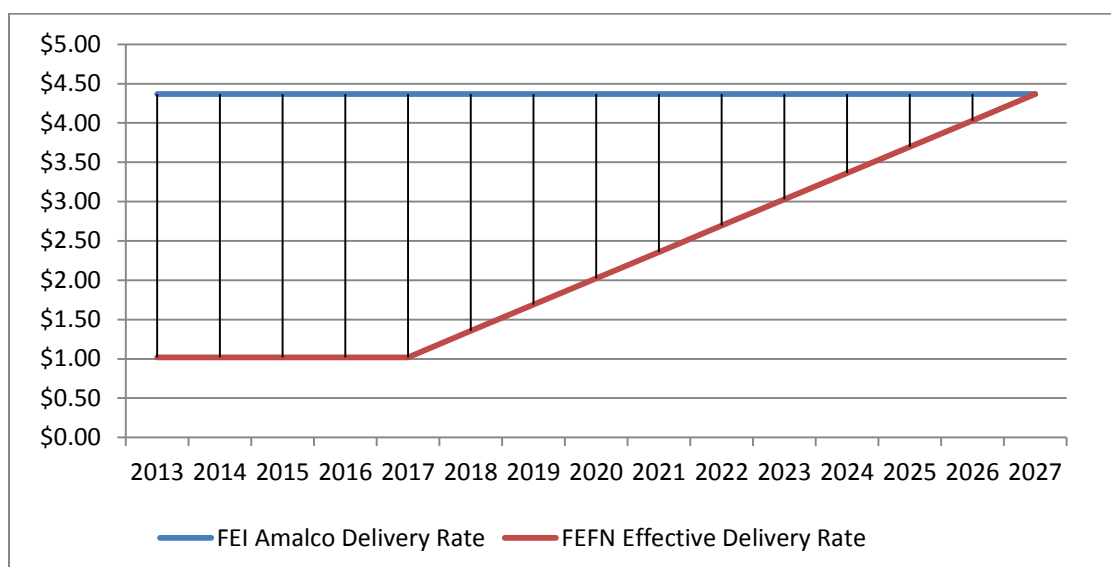


Table 4-19: Fort Nelson Phase-in Rider Projections For Residential Customers⁵

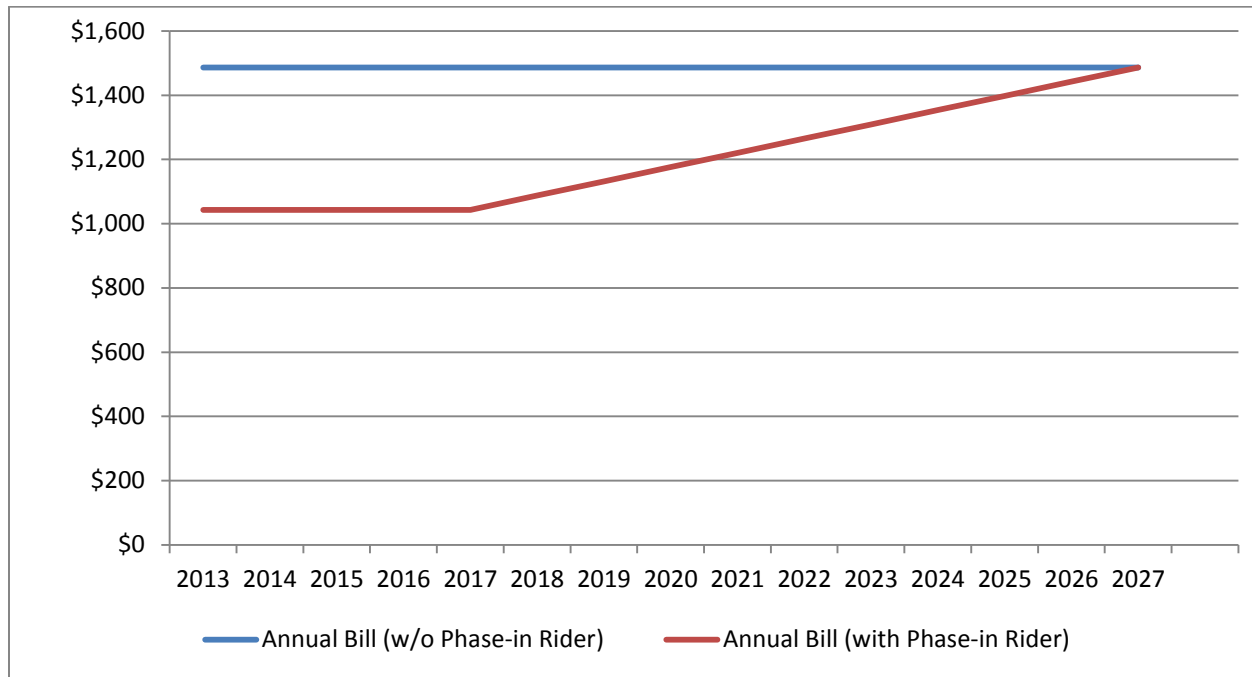
2013-17	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
(\$3.347)	(\$3.01)	(\$2.678)	(\$2.343)	(\$2.01)	(\$1.67)	(\$1.34)	(\$1.00)	(\$0.67)	(\$0.33)	\$0.00

A Fort Nelson customer will have the same basic charge, commodity, midstream and delivery rates as all other customers in the same rate class of FEI Amalco, with the exception of the phase-in rider (existing FEI customers will also have an RSDA rider that Fort Nelson customers will not receive). This highlights the consolidation of the FEU and provides consistency with the rest of FEI Amalco. The following figure shows the related bill impact for Fort Nelson residential customers under two scenarios: 1) with the phase-in rider; and, 2) without the phase-in rider.

⁴ For the purposes of this analysis, the FEI Amalco delivery rates assume no revenue requirement related changes beyond 2013. Please note that any rate impact that is not related to amalgamation and postage stamp rates will be flowed through to Fort Nelson customers including FEI Amalco revenue requirement changes.

⁵ Please note that the analysis is premised on there being no variance in volumes. Variances in volume are likely to occur, as such the 2014 to 2027 Fort Nelson phase-in riders will be adjusted each year to account for variances in actual and forecast volumes. For example, actual volumes less than forecast (i.e. negative variance) in the previous year would cause an increase in the following year's rider.

Figure 4-7: Fort Nelson Customers Will Be Phased-in Over A 15-year Period⁶



The phase-in rider will spread the impact of the one-time rate increase for Fort Nelson customers over 15 years to moderate the postage stamp rate increases. During this period, Fort Nelson customers will still be subject to changes in delivery rates arising from FEI Amalco revenue requirements, as well as any changes in commodity and midstream rates. Despite the short-term rate increases, the FEU believes Fort Nelson customers will benefit from postage stamp rates in the long term for the reasons discussed earlier in Section 4.3.

⁶ The burner-tip calculations are based on 140GJ of consumption and include the Fort Nelson phase-in rider but exclude any other fees or taxes. For the purposes of this analysis, the calculations assume no change to revenue requirement triggered delivery, commodity or midstream rates. Please note that Fort Nelson customers will continue to face rate changes arising from approved FEI Amalco revenue requirement adjustments as well as changes to commodity and/or midstream rates. The Fort Nelson phase-in rider is designed to mitigate the initial amalgamation/postage stamp related rate increases only.

From: Schoberg, Gord
Sent: November 15, 2011 7:06 PM
To: draven@revelstoke.ca
Cc: dlevesque@revelstoke.ca
Subject: RE: FortisBC Energy: Rate Design Application to the BCUC

David: I am providing some more information that will hopefully answer what would seem to be two obvious questions from the information I sent earlier today.

First, the reason that rates for customers in Revelstoke will actually decrease marginally during 2013, even though the concept of postage stamp rates and absorbing cost from Vancouver Island customers would suggest rates should go up, is because we are buffering customers in Revelstoke, and throughout the Mainland gas system, by applying money from our Rate Stabilization Deferral Account (RSDA).

Secondly, since this Application before the BC Utilities Commission only deals with rates for 2013, we do not yet know what impact this will have on rates in 2014, and onward.

Please let me know if I can answer or clarify any more information.

Gord Schoberg
604.220.9785

From: Schoberg, Gord
Sent: November 15, 2011 11:57 AM
To: 'draven@revelstoke.ca'
Cc: 'dlevesque@revelstoke.ca'
Subject: FortisBC Energy: Rate Design Application to the BCUC

David: Thank you for your voice mail message yesterday inquiring about the specific rate impact to Fortis' propane customers in Revelstoke as a result of our plans to amalgamate our companies and create postage stamp rates across our gas system. I spoke to Dawn in your office this morning, and we agreed it seemed best to provide a response to you by e-mail rather than voice mail.

While I am seeking additional background information with respect to the information provided below, I am advising the following:

- As a result of amalgamation, typical Revelstoke residential customers will see a one-time increase of 12.9% to their delivery rate, which will translate into a 1.93% increase to their total annual bills.
- To offset the impact of amalgamation and postage stamp rates, FortisBC is proposing to defer the one-time increase and **decrease rates in 2013**. The current proposal would result in a *decrease of 1.0% to delivery rates* with an *overall decrease of 0.14% to the total annual bill* of a typical Revelstoke residential customer.

So in essence, rates will decrease in 2013 and if all else stays equal, rates will increase the following year.

David, When I receive additional information about specific impact to rates in 2014 and onwards I will forward this to you.

Gordon Schoberg
Senior Manager, Government Relations
FortisBC
16705 Fraser Hwy
Surrey, B.C.
Canada, V4N 0E8

604.220.9785 Cel phone
604.592.7534 Office
604.576.7122 Fax

From: Schoberg, Gord
Sent: May 9, 2012 4:40 PM
To: fcheung@langleycity.ca
Subject: FortisBC Energy Rate Design Application with the BCUC
Attachments: Stakeholder Letter Jan30 FINAL.DOCX; RDA Nov 2 2011 letter to City of Langley.docx

Francis, I received a phone call from Paula of your office and asked me to send you the two letters that have been sent to CAO's and Mayors in municipalities within which FortisBC operates gas pipeline systems. I am pleased to do so, and invite you to contact me if you have any questions or comments.

Regards,

Gordon Schoberg
Senior Manager, Government Relations
FortisBC
16705 Fraser Hwy
Surrey, B.C.
Canada, V4N 0E8

604.220.9785 Cel phone
604.592.7534 Office
604.576.7122 Fax

November 2, 2011

Francis Cheung
Chief Administrative Officer
City of Langley
20399 Douglas Crescent
Langley, BC V3A 4B3

Dear Francis Cheung:

I am writing today to share with you that FortisBC has filed an application with the British Columbia Utilities Commission (BCUC) proposing to amalgamate our natural gas utilities into one legal entity, with common rates and services across the province.

If the BCUC approves the application, all natural gas customers across the province will have common rates and service offerings, beginning January 1, 2013.

What does this mean?

Bringing all three natural gas utilities together as one entity will eliminate rate discrepancies and allow FortisBC to offer consistent gas rates and services for all customers across the province.

If our application is approved, each customer in a given customer class will be charged the same rate, regardless of where they live. This provides significant benefits to a sizable portion of our customers, notably on Vancouver Island, Sunshine Coast and in Whistler over the longer-term.

We are committed to providing all our customers in British Columbia with economic and fair natural gas rates. Our application is revenue neutral to FortisBC and the proposed changes offer several benefits to many of our customers.

FortisBC's current structure

Currently, FortisBC provides natural gas to customers across the province under three separate legal entities with entity-specific rate structures. These separate legal entities were formed as various natural gas utilities were acquired across the province. The three natural gas utilities are:

- *FortisBC Energy Inc.* – serving customers in the Lower Mainland, Columbia and Inland regions
 - Fort Nelson, although legally part of FortisBC Energy Inc., is treated as a separate region and has its own rate base and rate structure
- *FortisBC Energy (Vancouver Island) Inc.* – serving customers on Vancouver Island, Powell River and the Sunshine Coast
- *FortisBC Energy (Whistler) Inc.* – serving customers in Whistler

As it stands today, each utility is responsible for providing natural gas service in a different region of the province. Natural gas rates are varied across the regions, so a customer on Vancouver Island pays a different rate than a customer in the Lower Mainland or in Whistler. Each entity also provides different service offerings by region, such as energy efficiency and conservation initiatives or renewable natural gas. For example, renewable natural gas is currently available in the Lower Mainland, Columbia and Inland regions, but not Vancouver Island, the Sunshine Coast, Whistler or Fort Nelson.

Why move to common rates?

Moving to common rates will allow FortisBC to offer consistent natural gas rates and service offerings to all of our customers throughout the province.

Without common rates, FortisBC's forecasts indicate significant rate increases for some of our customers. For example, an approximate 20 – 40 per cent cumulative rate increase over the next three to four years is indicated for Vancouver Island and Sunshine Coast customers as a result of the expiration of the Royalty Revenue agreement with the provincial government at the end of 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the Island 20 years ago. With regards to Whistler, a typical residential customer in Whistler is projected to pay 65 per cent more than a typical Lower Mainland customer in 2013 without common rates.

While Vancouver Island, Sunshine Coast and Whistler customers will see a large decrease in their natural gas rates as a result of amalgamation and common rates, FortisBC is proposing a small decrease for residential customers in the Lower Mainland, Columbia and Inland areas in 2013 and a small increase in 2014. For Fort Nelson customers, FortisBC is proposing no change to rates from the proposed 2013 revenue requirement application, currently before the BCUC, by deferring the impacts of amalgamation for a five year period after which a gradual annual increase will come into effect over a ten year period until Fort Nelson rates align with the rest of the province.

Next steps

FortisBC is committed to consulting with our customers and stakeholders, and will meet with stakeholder groups to gather information and feedback as we prepare for the next phase of the rate design application. Any proposed changes will need approval from the BCUC.

If the application is approved by the BCUC, all of FortisBC's regulated natural gas companies will be one legal entity under the name FortisBC Energy Inc. Our electric operations will remain a separate utility with a separate legal name – FortisBC Inc. – and separate rates and service offerings for electricity customers. Our customers will continue to know all of the companies under the shared name FortisBC and the ownership structure of FortisBC will remain the same, operating under our Canadian parent company, Fortis Inc.

If you would like any additional information about our filing, you are welcome to contact me directly at your convenience, at 604-592-7534 or Gord.Schoberg@fortisbc.com. You can also find more information on our website at fortisbc.com/ratedesign

Sincerely,



Gord Schoberg
Senior Manager, Community & First Nations Relations
FortisBC

January 30, 2012

Dear XXXXX:

In November of 2011 we wrote to you and other Mayors, CAOs, MLAs, First Nations and Business Leaders to provide information about an application we were filing with the British Columbia Utilities Commission (BCUC) proposing to amalgamate our three natural gas utilities into one legal entity, with common rates and services for natural gas customers across the province.

Benefits for all customers:

We strive to provide natural gas to our customers at the lowest reasonable cost possible. The amalgamation and common rate structure proposed by FortisBC would result in the following key benefits:

- **Lower rates** for Vancouver Island, Sunshine Coast, Powell River and Whistler customers. Decreases to the average annual bill in the range of 27 – 45 per cent* for families and businesses in these regions.
- **Fairness and consistency** for all customers throughout the province. FortisBC customers will pay the same rate for natural gas, regardless of where they live.
- **Rate simplicity and stability:** Common rates will be easier to understand. The costs to operate our business will be spread across all customers, which will help to provide rate stability for customers, particularly in our smaller service areas.
- **Programs for all:** FortisBC will be able to expand our service and program offerings to all customers.

Impact of amalgamation and common rates:

While Vancouver Island, Sunshine Coast and Whistler customers will see a large decrease in their natural gas rates as a result of amalgamation and common rates, we are proposing a small decrease for residential customers in the Lower Mainland, Columbia and Inland areas in 2013 and an approximate cumulative increase depending on region and consumption of 4.3 - 4.5 percent* to total annual bills by 2015. For Fort Nelson customers, we are proposing no change to rates from the proposed 2013 revenue requirement application, currently before the BCUC, by deferring the impacts of amalgamation for a five year period after which a gradual annual increase will come into effect over a ten year period until Fort Nelson rates align with the rest of the province.

Without amalgamation and a common rate structure, there would be significant rate increases for some of our customers -- for example, an approximate 20 – 40 per cent* cumulative rate increase over the next three to four years for Vancouver Island and Sunshine Coast customers. This is a result of the expiration of the Royalty Revenue agreement with the provincial government on December 31, 2011. This agreement was put in place to help offset the cost to Vancouver Island customers of bringing natural gas to the Island 20 years ago. In Whistler, a typical residential customer is projected to pay 65 per cent* more than a typical Lower Mainland customer in 2013 without common rates.

** Based on currently available information and subject to change.*

We are committed to open dialogue with our customers on key initiatives and proposals.

Public Information Sessions will be conducted throughout February and the first week of March to provide customers and stakeholders with an overview of the current situation, proposed solutions, and the outcomes.

We will be encouraging feedback on the proposal at these sessions. The feedback we receive will be shared with the BCUC as part of the application process. I would like to extend an invitation to you to attend one of our local information sessions.

Victoria: February 6, 2012 | 6:00 – 8:00 p.m.
Harbour Towers, 345 Quebec Street

Vancouver: February 7, 2012 | 6:00 – 8:00 p.m.
Italian Cultural Centre, 3075 Slocan Street

Whistler: February 13, 2012 | 6:00 – 8:00 p.m.
Whistler Convention Centre, 4010 Whistler Way

Kelowna: February 14, 2012 | 6:00 – 8:00 p.m.
Holiday Inn Express, 2429 Hwy 97 North

Courtenay: February 15, 2012 | 6:00 – 8:00 p.m.
Crown Isle Resort & Golf Community, 399 Clubhouse Drive

Prince George: February 16, 2012 | 2:00 – 6:00 p.m.
Prince George Civic Centre, 808 Civic Plaza

Cranbrook: February 28, 2012 | 6:00 – 8 p.m.
Prestige Rocky Mountain Resort, 209 Van Horne Street

Fort Nelson: March 1, 2012 | 6:00 – 8 p.m.
Woodlands Inn & Suites, 3995-50th Avenue South

Surrey: March 5, 2012 | 6:00 – 8 p.m.
City Centre Library, 10350 University Drive

If you are unable to attend an information session but would like more information about our application, or to provide feedback, please visit our website at www.FortisBC.com/ratedesign. You are also welcome to contact me directly at your convenience, at 604-592-7534 or Gord.Schoberg@fortisbc.com.

Sincerely,



Gord Schoberg
Senior Manager, Community & First Nations Relations
FortisBC

Attachment 110.1

(Provided in electronic format only due to document size and in order to conserve paper)



FORTISBC ENERGY INC.

GENERAL TERMS AND CONDITIONS

FortisBC Energy Inc. General Terms and Conditions
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Definitions

Unless the context indicates otherwise, in the General Terms and Conditions of FortisBC Energy and in the rate schedules of FortisBC Energy the following words have the following meanings:

Basic Charge	Means a fixed charge required to be paid by a Customer for Service as specified in the applicable Rate Schedule, or the prorated daily equivalent charge – calculated on the basis of a 365.25-day year (to incorporate the leap year), and rounded down to four decimal places.
Biogas	Means raw gas substantially composed of methane that is produced by the breakdown of organic matter in the absence of oxygen.
Biomethane	Means Biogas purified or upgraded to pipeline quality gas.
Biomethane Service	Means the Service provided to Customers under Rate Schedules 1B for Residential Biomethane Service, 2B for Small Commercial Biomethane Service, 3B for Large Commercial Biomethane Service, 11B for Large Volume Interruptible Biomethane Service, and 30 for Off-System Interruptible Biomethane Sales
British Columbia Utilities Commission	Means the British Columbia Utilities Commission constituted under the <i>Utilities Commission Act</i> of British Columbia and includes and is also a reference to <ul style="list-style-type: none">(i) any commission that is a successor to such commission, and(ii) any commission that is constituted pursuant to any statute that may be passed which supplements or supersedes the <i>Utilities Commission Act</i> of British Columbia
Carbon Offsets	Means what FortisBC Energy will purchase as a mechanism to balance demand-supply for Biomethane in the event of an undersupply of Biomethane in order to retain the greenhouse gas reductions that Customers would have received from Biomethane supply. One Carbon Offset represents the reduction of one metric ton of carbon dioxide or its equivalent in other greenhouse gases.
Commercial Service	Means the provision of firm Gas supplied to one Delivery Point and through one Meter Set for use in approved appliances in commercial, institutional or small industrial operations.
Commodity Cost Recovery Charge	Is as defined in the Table of Charges of the various FortisBC Energy Rate Schedules.

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FortisBC Energy Inc. General Terms and Conditions
Definitions

Commodity Unbundling Service	Means the service provided to Customers under Rate Schedule 1U for Residential Unbundling Service, Rate Schedule 2U for Small Commercial Commodity Unbundling Service and Rate Schedule 3U for Large Commercial Commodity Unbundling Service.
Conversion Factor	Means a factor, or combination of factors, which converts gas meter data to Gigajoules or cubic metres for billing purposes.
Customer	Means a Person who is being provided Service or who has filed an application for Service with FortisBC Energy that has been approved by FortisBC Energy.
Day	Means any period of 24 consecutive Hours beginning and ending at 7:00 a.m. Pacific Standard Time or as otherwise specified in the Service Agreement.
Delivery Point	Means the outlet of the Meter Set unless otherwise specified in the Service Agreement.
Delivery Pressure	Means the pressure of the Gas at the Delivery Point.
First Nations	Means those First Nations that have attained legally recognized self-government status pursuant to self-government agreements entered into with the Federal Government and validly enacted self-government legislation in Canada.
Franchise Fees	<p>Means the aggregate of all monies payable by FortisBC Energy to a municipality or First Nations</p> <p>(i) for the use of the streets and other property to construct and operate the utility business of FortisBC Energy within a municipality or First Nations lands (formerly, reserves within the <i>Indian Act</i>),</p> <p>(ii) relating to the revenues received by FortisBC Energy for Gas consumed within the municipality or First Nations lands (formerly, reserves within the <i>Indian Act</i>), <u>or</u></p> <p>(iii) relating, if applicable, to the value of Gas transported by FortisBC Energy through the municipality or First Nations lands (formerly, reserves within the <i>Indian Act</i>).</p>
FortisBC Energy	Means FortisBC Energy Inc., a body corporate incorporated pursuant to the laws of the Province of British Columbia under number <u>xxxxxxx</u> .

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FortisBC Energy Inc. General Terms and Conditions
Definitions

FortisBC Energy System	Means the Gas transmission and distribution system owned and operated by FortisBC Energy, as such system is expanded, reduced or modified from time to time for distribution services .
Gas	Means natural gas (including odorant added by FortisBC Energy) and propane and Biomethane.
Gas Service	Means the delivery of Gas through a Meter Set.
General Terms & Conditions of FortisBC Energy	Means these general terms and conditions of FortisBC Energy from time to time approved by the British Columbia Utilities Commission.
Gigajoule	Means a measure of energy equal to one billion joules used for billing purposes.
Heat Content	Means the quantity of energy per unit volume of Gas measured under standardized conditions and expressed in megajoules per cubic metre (MJ/m ³).
Hour	Means any consecutive 60 minute period.
Hydronic Heating System	A heating / cooling system where water is heated or cooled and distributes hot water through pipes to radiators or to another style of water-to-air heat exchanger.
Landlord	A Person who, being the owner of a property, has leased or rented it to another person, called the Tenant, and includes the agent of that owner.
Main	Means pipes used to carry Gas for general or collective use for the purposes of distribution.
Main Extension	Means an extension of one of FortisBC Energy's mains with low, distribution, intermediate or transmission pressures, and includes tapping of transmission pipelines, the installation of any required pressure regulating facilities and upgrading of existing Mains, or pressure regulating facilities on private property.
Marketer	Means a Person who has entered into an agreement to supply a Customer under Commodity Unbundling Service.
Meter Set	Means an assembly of FortisBC Energy owned metering and ancillary equipment and piping.
Midstream Cost Recovery Charge	Is as defined in the Table of Charges of the various FortisBC Energy Rate Schedules.

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FortisBC Energy Inc. General Terms and Conditions
Definitions

Month	Means a period of time, for billing purposes, of 27 to 34 consecutive Days.
Municipal Operating Fees	Has the same meaning as Franchise Fees.
Other Service	Means the provision of Service other than Gas Service including, but not limited to, rental of equipment, natural gas vehicle fuel compression, alterations and repairs, merchandise purchases, and financing.
Other Service Charges	Means charges for rental, natural gas vehicle fuel compression service, damages, alterations and repairs, financing, insurance and merchandise purchases, and late payment charges, Franchise Fees, Social Service Tax, Goods and Services Tax or other taxes related to these charges.
Person	Means a natural person, partnership, corporation, society, unincorporated entity or body politic.
Premises	Means a building, a separate unit of a building, or machinery together with the surrounding land.
Profitability Index	The revenue to cost ratio comparing the revenues expected from a Main Extension project to the expected costs over a set period of time.
Rate Schedule	Means a schedule attached to and forming part of this Tariff, which sets out the charges for Service and certain other related terms and conditions for a class of Service.
Residential Premises	Means the Premises of a single Customer, whether single family dwelling, separately metered single-family townhouse, rowhouse, condominium, duplex or apartment, or single-metered apartment blocks with four or less apartments.
Residential Service	Means firm Gas Service provided to a Residential Premises.
Rider	Means an additional charge or credit attached to a rate.
Seasonal Service	Means firm Gas Service provided to a Customer during the period commencing April 1 st and ending November 1 st .
Service	Means the provision of Gas Service or other service by FortisBC Energy.
Service Agreement	Means an agreement between FortisBC Energy and a Customer for the provision of Service.

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FortisBC Energy Inc. General Terms and Conditions
Definitions

Service Header

Means a Gas distribution pipeline located on private property connecting three or more Service Lines or Meter Sets to a Main.

Service Line

Means that portion of FortisBC Energy's gas distribution system extending from a Main or a Service Header to the inlet of the Meter Set. In case of a Vertical Subdivision, or multi-family housing complex, the Service Line may include the piping from the outlet of the Meter Set to the Customer's individual Premises, but not within the Customer's individual Premises.

Service Related Charges

Include, but are not limited to, application fees, Franchise Fees, and late payment charges, plus Social Services Tax, Goods and Service Tax, or other taxes related to these charges.

Standard Fees & Charges Schedule

Means the schedule attached to and forming part of the General Terms and Conditions which lists the various fees and charges relating to Service provided by FortisBC Energy as approved from time to time by the British Columbia Utilities Commission.

Temporary Service

Means the provision of Service for what FortisBC Energy determines will be a limited period of time.

Tenant

A Person who has the temporary use and occupation of real property owned by another Person.

Thermal Energy

Means the delivery, storage, transport, sale or provision of an agent for the production of heat or cold.

Thermal Metering

Thermal / heat meters measure the energy which, in a heat-exchange circuit, is absorbed or given up by the heat conveying liquid. The thermal / heat meter indicates the quantity of heat in legal units.

Vertical Subdivision

Means a multi-storey building that has individually metered units and a common Service Header connecting banks of meters, typically located on each floor.

Year

Means a period of 12 consecutive Months.

10³m³

Means 1,000 cubic metres.

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FortisBC Energy Inc. General Terms and Conditions
Definitions

Areas Served by FortisBC Energy

These General Terms and Conditions of FortisBC Energy refer to the following areas served by FortisBC Energy: Mainland, Fort Nelson, Vancouver Island and Whistler.

Mainland Area Means the areas including, but not limited to, the following locations and surrounding areas of

Abbotsford	New Westminster
Anmore	North Vancouver City
Belcarra	North Vancouver Dist.
Burnaby	Pitt Meadows
Chilliwack	Port Coquitlam
Coquitlam	Port Moody
Delta	Richmond
Harrison Hot Springs	Squamish
Hope	Surrey
Kent	Vancouver
Langley City	West Vancouver
Langley District	White Rock
Maple Ridge	
Matsqui	
Mission	
Armstrong	Nelson
Ashcroft	Okanagan Falls
Bear Lake	Oliver
Cache Creek	100 Mile House
Castlegar	108 Mile House
Chase	150 Mile House
Chetwynd	Osoyoos
Christina Lake	Oyama
Clinton	Peachland
Coldstream	Penticton

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FortisBC Energy Inc. General Terms and Conditions
Definitions

Mainland Area
(continued)

Collettville	Prince George
Craigmont	Princeton
Falkland	Quesnel
Ferguson Lake	Revelstoke
Fruitvale	Robson
Gibraltar Mines	Rosland
Grand Forks	Salmo
Greenlake	Salmon Arm
Greenwood	Savona
Hedley	Shelley
Hixon	Sorrento
Honeymoon Creek	Spallumcheen
Hudson's Hope	Summerland
Kamloops	Trail
Kelowna	Vernon
Keremeos	Warfield
Lac La Hache	Westbank
Lakeview Heights	Westwold
Logan Lake	Williams Lake
Lumby	Winfield
MacKenzie	Woodsdale
Merritt	
Midway	
Montrose	
Naramata	
Cranbrook	Jaffray
Creston	Kimberley
Elkford	Sparwood
Fernie	Yahk
Galloway	

Fort Nelson Area

Means the areas including, but not limited to, the following locations and surrounding areas of

Fort Nelson
Prophet River

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**Vancouver Island
and Whistler Areas**

Means the areas including, but not limited to, the following
locations and surrounding areas of

Campbell River
Central Saanich
Colwood
Comox
Courtenay

Port Alberni
Powell River
Qualicum Beach
Saanich
Sechelt

Cumberland
Duncan
Esquimalt
Gibsons
Highlands

Sechelt Indian Band
Sidney
Sooke
Squamish
Sunshine Coast

Ladysmith
Langford
Lantzville
Metchosin
Nanaimo

Victoria
View Royal
Whistler

North Cowichan
North Saanich
Oak Bay
Parksville
Pemberton

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PART A
DISTRIBUTION SALES
and
SERVICE

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1. Application Requirements

1.1 Requesting Services - A Person requesting FortisBC Energy

- (a) to provide Gas Service,
- (b) to provide a new Service Line,
- (c) to re-activate an existing Service Line,
- (d) to transfer an existing account,
- (e) to change the type of Service provided, or
- (f) to make alterations to an existing Service Line or Meter Set

must apply to FortisBC Energy at any of its office locations in person, by mail, by telephone, by facsimile or by other electronic means.

1.2 Required Documents - An applicant for

- (a) Residential Service may be required to sign an application and a Service Agreement provided by FortisBC Energy,
- (b) Commercial Service may be required to sign an application and a Service Agreement provided by FortisBC Energy, and
- (c) Service on other Rate Schedules must sign the applicable Service Agreement provided by FortisBC Energy.

1.3 Separate Premises / Businesses - If an applicant is requesting Service from FortisBC Energy at more than one Premises, or for more than one separately operated business, the applicant will be considered a separate Customer for each of the Premises and businesses. For the purposes of this provision, FortisBC Energy will determine whether or not any building contains one or more Premises or any business is separately operated.

1.4 Required References - FortisBC Energy may require an applicant for Service to provide reference information and identification acceptable to FortisBC Energy.

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Part A

1.5 **Rental Premises** - In the case of rental Premises, FortisBC Energy may

- (a) require an owner of rental Premises or its agent who wishes FortisBC Energy to contract directly with a Tenant to enter into an agreement with FortisBC Energy defining the responsibilities of the owner or agent for payment for Service to the Premises,
- (b) contract directly with the owner or agent of the rental Premises as a Customer of FortisBC Energy with respect to any or all Services to the Premises, or
- (c) contract directly with each Tenant as a Customer of FortisBC Energy.

1.6 **Refusal of Application** - FortisBC Energy may refuse to accept an application for Service for any of the reasons listed in Section 23 (Discontinuance of Service and Refusal of Service).

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Part A

2. Agreement to Provide Service

2.1 **Service Agreement** - The agreement for Service between a Customer and FortisBC Energy will be

- (a) the oral or written application of the Customer which has been approved by FortisBC Energy and which is deemed to include the General Terms and Conditions, or
- (b) a Service Agreement signed by the Customer.

2.2 **Customer Status** - A Person becomes a Customer of FortisBC Energy when FortisBC Energy

- (a) approves the Person's application for Service, or
- (b) provides Service to the Person.

A Person who is being provided Service by FortisBC Energy but who has not applied for Service shall be served in accordance with these General Terms and Conditions.

2.3 **No Assignment / Transfer** - A Customer may not transfer or assign an agreement for Service without the written consent of FortisBC Energy.

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3. Conditions on Use of Service

- 3.1 **Authorized Consumption** - A Customer must not increase the maximum rate of consumption of Gas delivered to it by FortisBC Energy from that which may be consumed by the Customer under the applicable Rate Schedule nor significantly change its connected load without the written approval of FortisBC Energy, which approval will not be unreasonably withheld.
- 3.2 **Unauthorized Sale / Supply / Use** - Unless authorized in writing by FortisBC Energy, a Customer must not sell or supply Gas supplied to it by FortisBC Energy to other Persons or use Gas supplied to it by FortisBC Energy for any purpose other than as specified in the Service Agreement.

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4. Rate Classification

4.1 **Rate Classification** - Subject to Section 4.2 (a) (Special Contracts and Tariff Supplements), Customers may be served under any Rate Schedule for which they meet the applicability criteria as set out in the appropriate Rate Schedule.

4.2 **Special Contracts and Tariff Supplements** - In exceptional circumstances, special contracts and tariff supplements may be negotiated between FortisBC Energy and the Customer and submitted for British Columbia Utilities Commission approval where

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- (a) a minimum rate or revenue stream is required by FortisBC Energy to ensure that service to the Customer is economic; or
- (b) factors such as system by-pass opportunities exist or alternative fuel costs are such that a reduced rate is justified to keep the Customer on-system.

4.3 **Periodic Review** - FortisBC Energy may

- (a) conduct periodic reviews of the quantity of Gas delivered and the rate of delivery of Gas to a Customer to determine which Rate Schedule applies to the Customer, and
- (b) change the Customer's charge to the appropriate charge, or
- (c) change the Customer to the appropriate Rate Schedule.

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5. Application Fee and Charges

- 5.1 **Application Fee** - An applicant for Service must pay the applicable application fee set out in the Standard Fees and Charges Schedule.
- 5.2 **Application Fee for Manifold Meters and Vertical Subdivisions** - Where a new Service Line is required to serve more than one Customer at a Premises and the Service is provided with Gas meters connected to a meter manifold, the application fee for manifold meters set out in the Standard Fees and Charges Schedule will apply. Where a new Service Header is required to serve a Vertical Subdivision, the application fee set out in the Standard Fees and Charges Schedule will apply.
- 5.3 **Waiver of Application Fee** - The application fee
- (a) will be waived by FortisBC Energy if Service to a Customer is reactivated after it was discontinued for any of the reasons described in Section 13.2 (Right to Restrict), and
 - (b) may be waived by FortisBC Energy if a Landlord requires Gas Service for a short period between the time a previous Tenant moves out and a new Tenant moves in.
- 5.4 **Reactivation Charges** - If
- (a) Service is terminated
 - (i) at the request of a Customer, or
 - (ii) for any of the reasons described in Section 23 (Discontinuance of Service and Refusal of Service), or
 - (iii) to permit Customers to make alterations to their Premises, and

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- (b) the same Customer or the spouse, employee, contractor, agent or partner of the same Customer requests reactivation of Service to the Premises within one Year, the applicant for reactivation must pay the greater of
 - (i) the costs FortisBC Energy incurs in de-activating and re-activating the Service, or
 - (ii) the sum of the minimum charges set out in the applicable Rate Schedule which would have been paid by the Customer between the time of termination and the time of reactivation of Service.

5.5 Identifying Load or Premises Served by Meter Sets - If a Customer requests FortisBC Energy to identify the Meter Set that serves the Premises and/or load after the Meter Set was installed, the Customer will pay the cost FortisBC Energy incurs in re-identifying the Meter Set where

- (a) the Meter Set is found to be properly identified, or
- (b) the Meter Set is found to be improperly identified as a result of Customer activity, including
 - (i) a change in the legal civic address of the Premises,
 - (ii) renovating or partitioning the Premises, or
 - (iii) rerouting Gas lines after the Delivery Point.

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6. Security for Payment of Bills

6.1 **Security for Payment of Bills** - If a Customer or applicant cannot establish or maintain credit to the satisfaction of FortisBC Energy, the Customer or applicant may be required to make a security deposit in the form of cash or an equivalent form of security acceptable to FortisBC Energy. As security for payment of bills, all Customers, who have not established or maintained credit to the satisfaction of FortisBC Energy, may be required to provide a security deposit or equivalent form of security, the amount of which may not

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- (a) be less than \$50, and
- (b) exceed an amount equal to the estimate of the total bill for the two highest consecutive Months consumption of Gas by the Customer or applicant.

6.2 **Interest** - FortisBC Energy will pay interest to a Customer on a security deposit at the rate and at the times specified in the Standard Fees and Charges Schedule. Subject to Section 6.5, if a security deposit in whole or in part is returned to the Customer for any reason, FortisBC Energy will credit any accrued interest to the Customer's account at that time.

No interest is payable

- (a) on any unclaimed deposit left with FortisBC Energy after the account for which it is security is closed, and
- (b) on a deposit held by FortisBC Energy in a form other than cash.

6.3 **Refund of Deposit** - When the Customer pays the final bill, FortisBC Energy will refund any remaining security deposit plus any accrued interest or cancel the equivalent form of security.

6.4 **Unclaimed Refund** - If FortisBC Energy is unable to locate the Customer to whom a security deposit is payable, FortisBC Energy will take reasonable steps to trace the Customer; but if the security deposit remains unclaimed 10 Years after the date on which it first became refundable, the deposit, together with any interest accrued thereon, becomes the absolute property of FortisBC Energy.

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- 6.5 **Application of Deposit** - If a Customer's bill is not paid when due, FortisBC Energy may apply all or any part of the Customer's security deposit or equivalent form of security and any accrued interest toward payment of the bill. Even if FortisBC Energy applies the security deposit or calls on the equivalent form of security, FortisBC Energy may, under Section 23 (Discontinuance of Service and Refusal of Service), discontinue Service to the Customer for failure to pay for Service on time.
- 6.6 **Replenish Security Deposit** - If a Customer's security deposit or equivalent form of security is called upon by FortisBC Energy towards paying an unpaid bill, the Customer must re-establish the security deposit or equivalent form of security before FortisBC Energy will reconnect or continue Service to the Customer.
- 6.7 **Failure to Pay** - Failure to pay a security deposit or to provide an equivalent form of security acceptable to FortisBC Energy may, in FortisBC Energy's discretion, result in discontinuance or refusal of Service as set out in Section 23 (Discontinuance of Service and Refusal of Service).

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7. Term of Service Agreement

7.1 Initial Term for Residential and Commercial Service - If a Customer is being provided Residential or Commercial Service, the initial term of the Service Agreement

- (a) when a new Service Line is required will be one Year, or
- (b) when a Main Extension is required will be for a period of time fixed by FortisBC Energy not exceeding the number of Years used to calculate the revenue in the Main Extension economic test used in Section 12 (Main Extensions).

7.2 Initial Term for Gas Service other than Residential or Commercial Service - If a Customer is being provided Gas Service other than Residential or Commercial Service, the initial term of the Service Agreement will be as specified in the Service Agreement or as specified in the appropriate Rate Schedule.

7.3 Transfer to Residential or Commercial Service - If a Customer is being provided Gas Service other than Residential or Commercial Service and transfers to Residential or Commercial Service, the initial term of the Service Agreement will be determined by the criteria set out in Section 7.1 (Initial Term for Residential and Commercial Service). A Customer may only transfer Service from one Rate Schedule to another Rate Schedule once a Year.

7.4 Renewal of Agreement - Unless

- (a) the Service Agreement or the applicable Rate Schedule specifies otherwise,
- (b) the Service Agreement is terminated under Section 8 (Termination of Service Agreement),
- (c) a refund has been made under Section 9.2 (Refund of Charges), or
- (d) the Service Agreement is for Seasonal Service,

the Service Agreement will be automatically renewed at the end of its initial term from Month to Month for Residential or Commercial Service, and from Year to Year for all other types of Gas Service.

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8. Termination of Service Agreement

- 8.1 **Termination by Customer** - Unless the Service Agreement or applicable Rate Schedule specifies otherwise, the Customer may terminate the Service Agreement after the end of the initial term by giving FortisBC Energy at least 48 Hours notice.
- 8.2 **Continuing Obligation** - The Customer is responsible for, and must pay for, all Gas delivered to the Premises and is responsible for all damages to and loss of Meter Sets or other FortisBC Energy property on the Premises until the Service Agreement is terminated.
- 8.3 **Effect of Termination** - The Customer is not released from any previously existing obligations to FortisBC Energy under the Service Agreement by terminating the agreement.
- 8.4 **Sealing Service Line** - After receiving a termination notice for a Premises and after a reasonable period of time during which a new Customer has not applied for Gas Service at the Premises, FortisBC Energy may seal off the Service Line to the Premises.
- 8.5 **Termination by FortisBC Energy** - Unless the Service Agreement or applicable Rate Schedule specifies otherwise, FortisBC Energy may terminate the Service Agreement for any reason by giving the Customer at least 48 Hours written notice.

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9. Delayed Consumption

9.1 Additional Charges - If a Customer has not consumed Gas

- (a) within 2 Months after the installation of the Service Line to the Customer's Premises, FortisBC Energy may charge the minimum charge for each billing period after that, and
- (b) within one Year after installation of the Service Line to the Customer's Premises, FortisBC Energy may charge the Customer the full cost of construction and installation of the Service Line and Meter Set less the total of the minimum charges billed to the Customer to that date.

9.2 Refund of Charges - If a Customer who has paid the charges for a Service Line under Section 9.1(b) (Additional Charges) consumes Gas in the second Year after installation of the Service Line, FortisBC Energy will refund to the Customer the payments made under Section 9.1(b) (Additional Charges). If a refund is made under Section 9.2 (Refund of Charges), the term of the Service Agreement will be one Year from the time the Customer begins consuming Gas.

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10. Service Lines

10.1 **Provided Installation** - If FortisBC Energy's Main is adjacent to the Customer's Premises, FortisBC Energy

- (a) will designate the location of the Service Lines on the Customer's Premises and determine the amount of space that must be left unobstructed around them,
- (b) will install for Rate 1 and 2 Customers the Service Line from the Main to the Meter Set on the Customer's Premises at no additional cost to the Customer provided
 - (i) the Service Line follows the route which is the most suitable to FortisBC Energy,
 - (ii) the estimated direct cost of the Service Line does not exceed the Service Line Cost Allowance set out in the Standard Fees and Charges Schedule, and
 - (iii) the distance from the front of the Customer's building or machinery to the meter does not exceed 1.5 metres;
- (c) will charge Rate 1 and 2 Customers for the estimated direct construction costs in excess of the Service Line Cost Allowance set out in the Standard Fees and Charges Schedule, and
- (d) will perform an economic test for Rate 3 and larger Customers and for any Customers connecting to a Service Header including Vertical Subdivisions, and, when the Profitability Index of the test is less than 0.8, will charge the Customer a contribution sufficient to achieve a minimum Profitability Index of 0.8. The economic test will be discounted cash flow test, similar to the economic test for Main Extensions set out in Section 12.

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10.2 **Extended Installation** - The Customer may make application to FortisBC Energy to extend the Service Line beyond that described in Section 10.1 (Provided Installation) part (b) (iii). Upon approval by FortisBC Energy and agreement for payment by the Customer of the additional costs, FortisBC Energy will extend the Service Line only if it is on the route approved by FortisBC Energy.

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10.3 **Customer Requested Routing** - If

- (a) FortisBC Energy's Main is adjacent to the Customer's Premises, and
- (b) the Customer requests that its piping or Service Line enter its Premises at a different point of entry or follow a different route from the point or route designated by FortisBC Energy,

FortisBC Energy may charge the Customer for all additional costs as determined by FortisBC Energy to install the Service Line in accordance with the Customer's request.

10.4 **Temporary Service** - A Customer applying for Temporary Service must pay FortisBC Energy in advance for the costs which FortisBC Energy estimates it will incur in the installation and subsequent removal of the facilities necessary to supply Gas to the Customer.

10.5 **Winter Construction** - If an applicant or Customer applies for Service which requires construction when, in FortisBC Energy's opinion, frost conditions may exist, FortisBC Energy may postpone the required construction until the frost conditions no longer exist.

If FortisBC Energy carries out the construction, the applicant or Customer may be required to pay all costs in excess of the Service Line Cost Allowance which are incurred due to the frost conditions.

10.6 **Additional Connections** - If a Customer requests more than one Service Line to the Premises, on the same Rate Schedule, FortisBC Energy may install the additional Service Line and may charge the Customer the Application Fee set out in the Standard Fees and Charges Schedule, as well as the full cost (including overheads) for the Service Line installation. FortisBC Energy will bill the additional Service Line from a separate meter and account. If the additional Service Line is requested by a spouse, contractor, employee, agent or partner of the existing Customer, the same charges will apply.

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10.7 **Easement Required** - If an intervening property is located between the Customer's Premises and FortisBC Energy's Main, the Customer is responsible for the costs of obtaining an easement in favour of FortisBC Energy and in a form specified by FortisBC Energy, for the installation, operation and maintenance on the intervening property of all necessary facilities for supplying Gas to the Customer.

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10.8 **Ownership** - FortisBC Energy owns the entire Service Line from the Main up to and including the Meter Set, whether it is located inside or outside the Customer's Premises. In case of a Vertical Subdivision, or multi-family housing complex, the Service Line may include the piping from the outlet of the Meter Set to the Customer's individual Premises, but not within the Customer's individual Premises.

10.9 **Maintenance** - FortisBC Energy will maintain the Service Line, subject to section 24.2 (Responsibility Before Delivery Point).

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10.10 **Supply Cut Off** - If the supply of Gas to a Customer's Premises is cut off for any reason, FortisBC Energy is not required to remove the Service Line from the Customer's property or Premises.

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10.11 **Damage Notice** - The Customer must advise FortisBC Energy immediately of any damage occurring to the Service Line.

10.12 **Prohibition** - A Customer must not construct any permanent structure over a Service Line or install any air intake openings or sources of ignition which contravene government regulations, codes or FortisBC Energy policies.

10.13 **No Unauthorized Changes** - No changes, extensions, connections to or replacement of, or disconnection from FortisBC Energy's Mains or Service Lines, shall be made except by FortisBC Energy's authorized employees, contractors or agents or by other Persons authorized in writing by FortisBC Energy. Any change in the location of an existing Service Line

(a) must be approved in writing by FortisBC Energy, and

(b) will be made at the expense of the Customer if the change is requested by the Customer or necessitated by the actions of the Customer.

10.14 **Site Preparation** - The Customer will be responsible for all necessary site preparation including but not limited to clearing building materials, construction waste, equipment, soil and gravel piles over the proposed service line route to the standards established by FortisBC Energy. FortisBC Energy may recover any additional costs associated with delays or site visits necessitated by inadequate or substandard site preparation by the Customer.

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11. Meter Sets & Metering

- 11.1 **Installation** - In order to bill the Customer for Gas delivered, FortisBC Energy will install one or more Meter Sets on the Customer's Premises. Unless approved by FortisBC Energy, all Meter Sets will be located outside the Customer's Premises at locations designated by FortisBC Energy.
- 11.2 **Measurement** - The quantity of Gas delivered to the Premises will be metered using apparatus approved by Consumer and Corporate Affairs Canada. The amount of Gas registered by the Meter Set during each billing period will be converted to Gigajoules in accordance with the *Electricity and Gas Inspection Act* and rounded to the nearest one-tenth of a Gigajoule.
- 11.3 **Testing Meters** - If a Customer applies for the testing of a Meter Set and
- (a) the Meter Set is found to be recording incorrectly, the cost of removing, replacing and testing the meter will be borne by FortisBC Energy subject to Section 24.4 (Responsibility for Meter Set), and
 - (b) if the testing indicates that the Meter Set is recording correctly, as defined by the *Electricity and Gas Inspection Act*, the Customer must pay FortisBC Energy for the cost of removing, replacing and testing the Meter Set as set out in the Standard Fees and Charges Schedule.
- 11.4 **Defective Meter Set** - If a Meter Set ceases to register, FortisBC Energy will estimate the volume of Gas delivered to the Customer according to the procedures set out in Section 16.6 (Incorrect Register).
- 11.5 **Protection of Equipment** - The Customer must take reasonable care of and protect all Meter Sets and related equipment on the Customer's Premises. The Customer's responsibility for expense, risk and liability with respect to all Meter Sets and related equipment is set out in Section 24.4 (Responsibility for Meter Set).
- 11.6 **No Unauthorized Changes** - No Meter Sets or related equipment will be installed, connected, moved or disconnected except by FortisBC Energy's authorized employees, contractors or agents or by other Persons with FortisBC Energy's written permission.

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11.7 **Removal of Meter Set** - At the termination of a Service Agreement, FortisBC Energy may disconnect or remove a Meter Set from the Premises if a new Customer is not expected to apply for Service for the Premises within a reasonable time.

11.8 **Customer Requested Meter Relocation or Modifications** - Any change in the location of a Meter Set or related equipment, or any modifications to the Meter Set, including automatic and/or remote meter reading

(a) must be approved by FortisBC Energy in writing, and

(b) will be made at the expense of the Customer if the change or modification is requested by the Customer or necessitated by the actions of the Customer. If any of the changes to the Meter Set or related equipment require FortisBC Energy to incur ongoing incremental operating and maintenance costs, FortisBC Energy may recover these costs from the Customer through a Monthly charge.

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11.9 **Meter Set Consolidations** - A Customer who has more than one Meter Set at the same Premises or adjacent Premises may apply to FortisBC Energy to consolidate its Meter Sets. If FortisBC Energy approves the Customer's application, the Customer will be charged the value for all plant abandoned except for Meter Sets that are removed to facilitate Meter Set consolidations. In addition, the Customer will be charged FortisBC Energy's full costs, including overheads, for any abandonment, Meter Set removal and alteration downstream of the new Meter Set. If a new Service Line is required, FortisBC Energy will charge the Customer the Application Fee. In addition, the Customer will be required to sign a release waiving FortisBC Energy's liability for any damages should the Customer decide to re-use the abandoned plant downstream of the new Meter Set.

11.10 **Delivery Pressure** - The normal Delivery Pressure is 1.75 kPa. FortisBC Energy may charge Customers who require Delivery Pressure at other than the normal Delivery Pressure the additional costs associated with providing other than the normal Delivery Pressure.

11.11 **Customer Requested Mobile Service** - The Customer will be charged the cost of providing temporary mobile Gas Service if the request for such service is made by or brought on by the actions of the Customer.

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12. Main Extensions

- 12.1 **System Expansion** - FortisBC Energy will make extensions of its Gas distribution system in accordance with system development requirements.
- 12.2 **Ownership** - All extensions of the Gas distribution system will remain the property of FortisBC Energy.
- 12.3 **Economic Test** - All applications to extend the Gas distribution system to one or more new Customers will be subject to an economic test approved by the British Columbia Utilities Commission. The economic test will be a discounted cash flow analysis of the projected revenue and costs associated with the Main Extension. The Main Extension will be deemed to be economic and will be constructed if the results of the economic test indicate a Profitability Index of 0.8 or greater for an individual main extension.
- 12.4 **Revenue** - The projected revenue to be used in the economic test will be determined by FortisBC Energy by
- (a) estimating the number of Customers to be served by the Main Extension;
 - (b) establishing consumption estimates for each Customer;
 - (c) projecting when the Customer will be connected to the Main Extension; and
 - (d) applying the appropriate revenue margins for each Customer's consumption.

The revenue projection will take into consideration the estimated number and type of Gas appliances used and the effect variations in weather conditions throughout the applicable areas served by FortisBC Energy have on consumption. Customers who intend to install both high efficiency gas fired space (namely an Energy Star rated furnace or boiler) and water heating appliances (tankless water heaters, or water heaters with efficiency rating of 78 percent or greater), will receive a credit of 10 percent of the volume otherwise used for both appliances. Customers who intend to install both high efficiency gas fired space and water heating appliances and attain a minimum of LEED™ (Leadership in Energy and Environmental Design) General Certification will receive a credit of 15 percent of the volume otherwise used for both. In addition, the projected revenue from Application Fees will be included. Only those Customers expected to connect to the Main Extension within 5 Years of its completion will be considered.

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12.5 **Costs** - The total costs to be used in the economic test include, without limitation

- (a) the full labour, material, and other costs necessary to serve the new Customers including Mains, Service Lines, Meter Sets and any related facilities such as pressure reducing stations and pipelines;
- (b) the appropriate allocation of FortisBC Energy's overheads associated with the construction of the Main Extension;
- (c) the incremental operating and maintenance expenses necessary to serve the Customers; and
- (d) an allocation of system improvement costs.

In addition to the costs identified, the economic test will include applicable taxes and the appropriate return on investment as approved by the British Columbia Utilities Commission.

In cases where a larger Gas distribution Main is installed to satisfy future requirements, the difference in cost between the larger Main and the smaller Main necessary to serve the Customers supporting the application may be eliminated from the economic test.

12.6 **Contributions in Aid of Construction** - If the economic test results indicate a Profitability Index of less than 0.8, the Main Extension may proceed provided that the shortfall in revenue is eliminated by contributions in aid of construction by the Customers to be served by the Main Extension, their agents or other parties, or if there are non-financial factors offsetting the revenue shortfall that are deemed to be acceptable by the British Columbia Utilities Commission.

FortisBC Energy may finance the contributions in aid of construction for Customers. Contributions of less than \$100 per Customer may be waived by FortisBC Energy.

12.7 **Contributions Paid by Connecting Customers** - The total required contribution will be paid by the Customers connecting at the time the Main Extension is built. FortisBC Energy will collect contributions from all Customers connecting during the first five Years after the Main Extension is built. As additional contributions are received from Customers connecting to the main extension, partial refunds will be made to those Customers who had previously made contributions. At the end of the fifth Year, all Customers will have paid an equal contribution, after reconciliation and refunds.

For larger Main Extension projects, FortisBC Energy may use the Main Extension Contribution Agreement for initial contributions. Customers will be billed the contribution amount after the Main Extension is built.

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- 12.8 **Refund of Contributions** - A review will be performed annually, or more often at [FortisBC Energy's](#) discretion, to determine if a refund is payable to all Customers who have contributed to the extension.

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If the review of contributions indicates that refunds are due,

- (a) individual refunds greater than \$100 will be paid at the time of the review;
- (b) individual refunds less than \$100 will be held until a subsequent review increases the refund payable over \$100, or until the end of the five-Year contributory period;
- (c) no interest will be paid on contributions that are subsequently refunded;
- (d) the total amount of refunds issued will not be greater than the original amount of the contribution; and
- (e) if, after making all reasonable efforts, FortisBC Energy is unable to locate a Customer who is eligible for a refund, the Customer will be deemed to have forfeited the contribution refund and the refund will be credited to the other Customers who contributed towards the Main Extension.

- 12.9 **Extensions to Contributory Extensions** - When a Main Extension is attached to an existing contributory Main Extension within the five-Year contributory period for the existing extension, the new extension will be evaluated using the Main Extension Test to determine whether a contribution is required. A prorated portion of the total contribution for the existing contributory extension will be assigned to the new extension on the basis of expected use, point of connection, and other factors. Any contributions toward the cost of the existing extension from Customers on the new extension will be used to provide partial refunds to the contributing Customers on the existing extension. The total refunds issued will not exceed the total amount of contributions paid by Customers on the existing extension.

- 12.10 **Security** - In those situations where the financial viability of a Main Extension is uncertain, FortisBC Energy may require a security deposit in the form of cash or an equivalent form of security acceptable to FortisBC Energy.

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12A. Alternative Energy Extensions

- 12A.1 **System Expansion** - FortisBC Energy will make extensions to the FortisBC Energy System using technology that produces alternative energy, in accordance with the provisions of this section. The alternative energy extensions include geo-exchange, solar-thermal and district energy systems which are described below:

Geo-exchange systems, also referred to as geo-thermal systems, earth exchange systems or ground and water source heat pumps, utilize the latent heat energy contained in near surface layers of the earth, ground water and surface water. A subsurface piping system contains a liquid that absorbs heat from the surrounding material and delivers it to a central heat exchanger. High efficiency heat pumps convert this latent energy into hot water or steam contained in a separate piping system that can then deliver the heat energy to where it is required for space heating and hot water uses. Centralized equipment is usually contained within specifically designed mechanical room that serves the entire development. The heat exchanger is reversed to provide space cooling, removing heat from the building(s) and returning it to the subsurface substrate.

Solar-thermal water heating systems, also called solar hybrid water heating systems, are a system of solar collection tubes and piping capture heat energy from the sun's rays and deliver it to a central heat exchanger, where it is converted to domestic hot water and distributed in a manner similar to that described above for geo-exchange systems. The solar collection tubes are located outside the building or buildings, typically on the roof, while centralized equipment is again housed in a specifically designed mechanical room.

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District energy systems employ a range of energy technologies and sources to deliver piped heating (steam or hot water) and/or cooling (cool water) to multiple buildings and customers within a neighbourhood from a central plant location or locations.

- 12A.2 **Ownership** - All alternative energy extensions will remain the property of FortisBC Energy.

- 12A.3 **Cost of Service Model** - All applications by Customers for service using an alternative energy extension will be subject to review using a cost of service model. The cost of service model will determine the rate that a customer will pay for the service associated with the alternative energy extension. Service will be provided under the terms and conditions of the Service Agreement between FortisBC Energy and the Customer.

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12A.4 **Projected Energy Consumption/Number of Customers** - The projected energy consumption and number of customers to be used in the cost of service model will be determined by FortisBC Energy by

- (a) estimating the number of Customers to be served by the alternative energy extension;
- (b) if applicable, establishing consumption estimates for each Customer; and
- (c) projecting when the Customer will be connected to the alternative energy extension.

If applicable, the projection will take into consideration the estimated number and type of thermal appliances used and the effect variations in weather conditions throughout all areas served by FortisBC Energy have on consumption. All Customers expected to connect to the alternative energy extension will be considered in the cost of service model.

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12A.5 **Costs** - The total costs to be used in the cost of service model include, without limitation

- (a) the full labour, material, and other costs necessary to serve the new Customers less any contributions in aid of construction by the Customers or third parties, grants, tax credits, or non-financial factors offsetting the full costs that are deemed to be acceptable by the British Columbia Utilities Commission;
- (b) the appropriate allocation of FortisBC Energy's overheads associated with the construction of the alternative energy extension;
- (c) depreciation expense related to the capital equipment associated with the alternative energy extension; and
- (d) the incremental operating and maintenance expenses necessary to serve the Customers.

In addition to the costs identified, the cost of service model will include applicable taxes and the appropriate return on investment as approved by the British Columbia Utilities Commission.

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12B. Vehicle Fuelling Stations

- 12B.1 Compression and Dispensing Service for Compressed Natural Gas (CNG) Fueling and Fuel Storage and Dispensing Service for Liquefied Natural Gas (LNG) Fueling –** FortisBC Energy will provide CNG and LNG Services to vehicles in accordance with the provisions of this section.

CNG or LNG Service will be provided under the terms and conditions of a Service Agreement between FortisBC Energy and the Customer. The Service Agreement must comply with the provisions of this Section of the General Terms and Conditions.

The CNG and LNG Services are described below:

CNG Service will typically consist of:

- (a) installing and maintaining a CNG fueling station, including, but not limited to, the compression, gas dryer /dehydrator, high pressure storage, dispensing equipment; and
- (b) dispensing of compressed natural gas.

LNG Service will typically consist of:

- (a) transport and delivery of the LNG from FortisBC Energy's LNG facilities to the Customer premises by LNG tankers, the service charge for which will be determined pursuant to Rate Schedule 16;
- (b) installing and maintaining an LNG fueling station, including, but not limited to, the storage, vaporizer, pump, dispensing equipment; and
- (c) dispensing of liquefied natural gas.

- 12B.2 Ownership** - All CNG and LNG fueling stations, temporary or permanent, will remain the property of FortisBC Energy, regardless of whether they are located on the customer's property. The ownership includes all components of the fueling station(s).

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12B.3 **Cost of Service Recovery** - Customers will be charged a "take-or-pay" rate (i.e. minimum contract demand) under the Service Agreement that recovers the present value of the cost of service associated with provision of CNG or LNG Service over the term of the Service Agreement, as calculated pursuant to section 12B.4, where the minimum contract demand stipulated in the Service Agreement is the forecast consumption based on the forecast number of vehicles served by the vehicle fueling station.

12B.4 **Calculation of Cost of Service** – The total costs to be used in determining the cost of service to be recovered from the Customer under the Service Agreement include, without limitation

- (a) the actual capital investment in the fueling station including any associated labour, material, and other costs necessary to serve the Customer, less any contributions in aid of construction by the Customer or third parties, grants, tax credits or non-financial factors offsetting the full costs that are deemed to be acceptable by the British Columbia Utilities Commission;
- (b) depreciation and net negative salvage rates and expense related to the capital assets associated with the vehicle fueling station;
- (c) all operating and maintenance expenses, with no adjustment for capitalized overhead, necessary to serve the Customer, escalated annually by British Columbia CPI inflation rates as published by BC Stats monthly; and
- (d) an allowance for overhead and marketing costs relating to developing NGV Fueling Station Agreements to be recovered from the Customer.

In addition to the costs identified, the cost of service recovery will include applicable property and incomes taxes and the appropriate return on rate base as approved by the British Columbia Utilities Commission for FortisBC Energy.

12B.5 **Customer's Obligation at the Expiration of Initial Term of the Service Agreement** - If, at the expiry of the initial term of an executed Service Agreement, the Customer does not wish to renew the Service Agreement, the Customer can terminate the Service Agreement provided the Customer agrees to pay any unrecovered capital costs (including the positive or negative salvage value) associated with the fueling stations, or agrees to similar provisions that permit recovery from the Customer of the remaining un-depreciated capital costs of the fueling station. Examples of such provisions include, but are not limited to, adjusting the contract rate or adjusting the contract term.

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13. Interruption of Service

- 13.1 **Regular Supply** - FortisBC Energy will use its best efforts to provide the constant delivery of Gas and the maintenance of unvaried pressures.
- 13.2 **Right to Restrict** - FortisBC Energy may require any of its Customers, at all times or between specified Hours, to discontinue, interrupt or reduce to a specified degree or quantity, the delivery of Gas for any of the following purposes or reasons:
- (a) in the event of a temporary or permanent shortage of Gas, whether actual or perceived by FortisBC Energy,
 - (b) in the event of a breakdown or failure of the supply of Gas to FortisBC Energy or of FortisBC Energy's Gas storage, distribution, or transmission systems,
 - (c) in order to comply with any legal requirements,
 - (d) in order to make repairs or improvements to any part of FortisBC Energy's Gas distribution, storage or transmission systems,
 - (e) in the event of fire, flood, explosion or other emergency in order to safeguard Persons or property against the possibility of injury or damage.
- 13.3 **Notice** - FortisBC Energy will, to the extent practicable, give notice of its requirements and removal of its requirements under Section 13.2 (Right to Restrict) to its Customers by
- (a) newspaper, radio or television announcement, or
 - (b) notice in writing that is
 - (i) sent through the mail to the Customer's billing address,
 - (ii) left at the Premises where Gas is delivered,
 - (iii) served personally on a Customer, or
 - (iv) sent by facsimile or other electronic means to the Customer, or
 - (c) oral communication.

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- 13.4 **Failure to Comply** - If, in the opinion of FortisBC Energy, a Customer has failed to comply with any requirement under Section 13.2 (Right to Restrict), FortisBC Energy may, after providing notice to the Customer in the manner specified in Section 13.3 (Notice), discontinue Service to the Customer.

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14. Access to Premises and Equipment

14.1 **Access to Premises** - FortisBC Energy must have a right of entry to the Customer's Premises. The Customer must provide free access to its Premises at all reasonable times to FortisBC [Energy's](#) authorized employees, contractors and agents for the purpose of reading, testing, repairing or removing meters and ancillary equipment, turning Gas on or off, completing system leakage surveys, stopping leaks, examining pipes, connections, fittings and appliances and reviewing the use made of Gas delivered to the Customer, or for any other related purpose which FortisBC Energy requires.

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14.2 **Access to Equipment** - The Customer must provide clear access to FortisBC Energy's equipment. The equipment installed by FortisBC Energy on the Customer's Premises will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of Service.

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15. Promotions and Incentives

- 15.1 **Promotion of Gas Appliances** - FortisBC Energy may promote, sell, rent, lease, or finance natural Gas vehicle equipment, Gas appliances and related accessories and services on a cash or finance plan basis and make reasonable charges for these Services.

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16. Billing

- 16.1 **Basis for Billing** - FortisBC Energy will bill the Customer in accordance with the Customer's Service Agreement, the Rate Schedule under which the Customer is provided Service, and the fees and charges contained in the General Terms and Conditions.
- 16.2 **Meter Measurement** - FortisBC Energy will measure the quantity of Gas delivered to a Customer using a Meter Set and the starting point for measuring delivered quantities during each billing period will be the finishing point of the preceding billing period.
- 16.3 **Multiple Meters** - Gas Service to each Meter Set will be billed separately for Customers who have more than one Meter Set on their Premises.
- 16.4 **Estimates** - For billing purposes, FortisBC Energy may estimate the Customer's meter readings if, for any reason, FortisBC Energy does not obtain a meter reading.
- 16.5 **Estimated Final Reading** - If a Service Agreement is terminated under Section 8.1 (Termination by Customer), FortisBC Energy may estimate the final meter reading for final billing.
- 16.6 **Incorrect Register** - If any Meter Set has failed to measure the delivered quantity of Gas correctly, FortisBC Energy may estimate the meter reading for billing purposes, subject to Section 19 (Back-Billing).
- 16.7 **Bills Issued** - FortisBC Energy may bill a Customer as often as FortisBC Energy considers necessary but generally will bill on a Monthly basis.
- 16.8 **Bill Due Dates** - The Customer must pay FortisBC Energy's bill for Service on or before the due date shown on the bill which will be
- (a) the first business Day after the twenty-first calendar Day following the billing date, or
 - (b) such other period as may be agreed upon by the Customer and FortisBC Energy.
- 16.9 **Historical Billing Information** - Customers who request historical billing information may be charged the cost of processing and providing the information.

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17. Thermal Energy

- 17.1 All references to Gas shall be deemed to include a reference to Thermal Energy. For example, Gas Service shall be deemed to include the delivery of Thermal Energy through a Meter Set. Notwithstanding the foregoing, the meaning of Gas Distribution System shall be deemed not to include a hydronic heating system that delivers energy to Residential Customers but shall include the meters that measure the amount of energy by Residential Customers in a Vertical Subdivision.

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18. Section Reserved for Future Use

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19. Back-Billing

- 19.1 **When Required** - FortisBC Energy may, in the circumstances specified herein, charge, demand, collect or receive from its Customers in respect of a regulated Service rendered hereunder a greater or lesser compensation than that specified in the subsisting schedules applicable to that Service.

In the case of a minor adjustment to a Customer's bill, such as an estimated bill or an equal payment plan billing, such adjustments do not require back-billing treatment to be applied.

- 19.2 **Definition** - Back-billing means the rebilling by FortisBC Energy for Services rendered to a Customer because the original billings are discovered to be either too high (over-billed) or too low (under-billed). The discovery may be made by either the Customer or FortisBC Energy, and may result from the conduct of an inspection under provisions of the federal statute, the *Electricity and Gas Inspection Act* ("EGI Act"). The cause of the billing error may include any of the following non-exhaustive reasons or combination thereof:

- (a) stopped meter
- (b) metering equipment failure
- (c) missing meter now found
- (d) switched meters
- (e) double metering
- (f) incorrect meter connections
- (g) incorrect use of any prescribed apparatus respecting the registration of a meter
- (h) incorrect meter multiplier
- (i) the application of an incorrect rate
- (j) incorrect reading of meters or data processing
- (k) tampering, fraud, theft or any other criminal act.

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- 19.3 **Application of Act** - Whenever the dispute procedure of the *EG/ Act* is invoked, the provisions of that Act apply, except those which purport to determine the nature and extent of legal liability flowing from metering or billing errors.
- 19.4 **Billing Basis** - Where metering or billing errors occur and the dispute procedure under the *EG/ Act* is not invoked, the consumption and demand will be based upon the records of FortisBC Energy for the Customer, or the Customer's own records to the extent they are available and accurate, or if not available, reasonable and fair estimates may be made by FortisBC Energy. Such estimates will be on a consistent basis within each Customer class or according to a contract with the Customer, if applicable.
- 19.5 **Tampering / Fraud** - If there are reasonable grounds to believe that the Customer has tampered with or otherwise used FortisBC Energy's Service in an unauthorized way, or there is evidence of fraud, theft or other criminal acts, or if a reasonable Customer should have known of the under-billing and failed to promptly bring it to the attention of FortisBC Energy, then the extent of back-billing will be for the duration of the unauthorized use, subject to the applicable limitation period provided by law, and the provisions of Sections 19.8 (Under-Billing) to 19.11 (Changes in Occupancy), below, do not apply.
- In addition, the Customer is liable for the direct (unburdened) administrative costs incurred by FortisBC Energy in the investigation of any incident of tampering, including the direct costs of repair, or replacement of equipment.
- Under-billing resulting from circumstances described above will bear interest at the rate normally charged by FortisBC Energy on unpaid accounts from the date of the original under-billed invoice until the amount under-billed is paid in full.
- 19.6 **Remedying Problem** - In every case of under-billing or over-billing, the cause of the error will be remedied without delay, and the Customer will be promptly notified of the error and of the effect upon the Customer's ongoing bill.
- 19.7 **Over-billing** - In every case of over-billing, FortisBC Energy will refund to the Customer all money incorrectly collected for the duration of the error, subject to the applicable limitation period provided by law. Simple interest, computed at the short-term bank loan rate applicable to FortisBC Energy on a Monthly basis, will be paid to the Customer.

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- 19.8 **Under-billing** - Subject to Section 19.5 (Tampering / Fraud), above, in every case of under-billing, FortisBC Energy will back-bill the Customer for the shorter of
- (a) the duration of the error; or
 - (b) six Months for Residential or Commercial Service; and
 - (c) one Year for all other Customers or as set out in a special or individually negotiated contract with FortisBC Energy.
- 19.9 **Terms of Repayment** - Subject to Section 19.5 (Tampering / Fraud), above, in all cases of under-billing, FortisBC Energy will offer the Customer reasonable terms of repayment. If requested by the Customer, the repayment term will be equivalent in length to the back-billing period. The repayment will be interest free and in equal instalments corresponding to the normal billing cycle. However, delinquency in payment of such instalments will be subject to the usual late payment charges.
- 19.10 **Disputed Back-bills** - Subject to Section 19.5 (Tampering / Fraud), above, if a Customer disputes a portion of a back-billing due to under-billing based upon either consumption, demand or duration of the error, FortisBC Energy will not threaten or cause the discontinuance of Service for the Customer's failure to pay that portion of the back-billing, unless there are no reasonable grounds for the Customer to dispute that portion of the back-billing. The undisputed portion of the bill shall be paid by the Customer and FortisBC Energy may threaten or cause the discontinuance of Service if such undisputed portion of the bill is not paid.
- 19.11 **Changes in Occupancy** - Subject to Section 19.5 (Tampering / Fraud), above, back-billing in all instances where changes of occupancy have occurred, FortisBC Energy will make a reasonable attempt to locate the former Customer. If, after a period of one Year, such Customer cannot be located, the applicable over or under billing will be cancelled.

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20. Equal Payment Plan

- 20.1 **Definitions** - In this Section, "equal payment plan period" means a period of twelve consecutive Months commencing with a normal meter reading date at the Customer's Premises.
- 20.2 **Application for Plan** - A Customer may apply to FortisBC Energy by mail, by telephone, by facsimile or by other electronic means to pay fixed Monthly instalments for Gas delivered to the Customer during the equal payment plan period. Acceptance of the application will be subject to FortisBC Energy finding the Customer's credit to be satisfactory.
- 20.3 **Monthly Instalments** - FortisBC Energy will fix Monthly instalments for a Customer so that the total sum of all the instalments to be paid during the equal payment plan period will equal the total amount payable for the Gas which FortisBC Energy estimates the Customer will consume during the equal payment plan period.
- 20.4 **Changes in Instalments** - FortisBC Energy may, at any time, increase or decrease the amount of Monthly instalments payable by a Customer in light of new consumption information or changes to the Rate Schedules or the General Terms and Conditions.
- 20.5 **End of Plan** - Participation in the equal payment plan may be ended at any time
- (a) by the Customer giving 5 Days' notice to FortisBC Energy, or
 - (b) by FortisBC Energy, without notice, if the Customer has not paid the Monthly instalments as required.
- 20.6 **Payment Adjustment** - At the earlier of the end of the equal payment plan period for a Customer or the end of the Customer's participation in the plan under Section 20.5 (End of Plan), FortisBC Energy will
- (a) compare the amount which is payable by the Customer to FortisBC Energy for Gas actually consumed on the Customer's Premises from the beginning of the equal payment plan period to the sum of the Monthly instalments billed to the Customer from the beginning of the equal payment plan period, and
 - (b) pay to the Customer or credit to the Customer's account any excess amount or bill the Customer for any deficit amount payable.

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21. Late Payment Charge

- 21.1 **Late Payment Charge** - If the amount due for Service or Service Related Charges on any bill has not been received in full by FortisBC Energy or by an agent acting on behalf of FortisBC Energy on or before the due date specified on the bill, and the unpaid balance is \$15 or more, FortisBC Energy may include in the next bill to the Customer the late payment charge specified in the Standard Fees and Charges Schedule.
- 21.2 **Equal Payment Plan** - If the Monthly instalment, Service Related Charges and payment adjustment as defined under Section 20.6 (Payment Adjustments) due from a Customer billed under the equal payment plan set out in Section 20 (Equal Payment Plan) have not been received by FortisBC Energy or by an agent acting on behalf of FortisBC Energy on or before the due date specified on the bill, FortisBC Energy may include in the next bill to the Customer the late payment charge in accordance with Section 21.1 (Late Payment Charge) on the amount due.

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22. Returned Cheque Charge

- 22.1 **Dishonoured Cheque Charge** - If a cheque received by FortisBC Energy from a Customer in payment of a bill is not honoured by the Customer's financial institution for any reason other than clerical error, FortisBC Energy may include a charge specified in the Standard Fees and Charges Schedule in the next bill to the Customer for processing the returned cheque whether or not the Service has been disconnected.

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23. Discontinuance of Service and Refusal of Service

23.1 **Discontinuance With Notice and Refusal Without Notice** - FortisBC Energy may discontinue Service to a Customer with at least 48 Hours written notice to the Customer or Customer's Premises, or may refuse Service for any of the following reasons:

- (a) the Customer has not fully paid FortisBC Energy's bill with respect to Services on or before the due date,
- (b) the Customer or applicant has failed to pay any required security deposit, equivalent form of security, or post a guarantee or required increase in it by the specified date,
- (c) the Customer or applicant has failed to pay FortisBC Energy's bill in respect of another Premises on or before the due date,
- (d) the Customer or applicant occupies the Premises with another occupant who has failed to pay FortisBC Energy's bill, security deposit, or required increase in the security deposit in respect of another Premises which was occupied by that occupant and the Customer at the same time,
- (e) the Customer or applicant is in receivership or bankruptcy, or operating under the protection of any insolvency legislation and has failed to pay any outstanding bills to FortisBC Energy,
- (f) the Customer has failed to apply for Service, or
- (g) the land or portion thereof on which FortisBC Energy's facilities are, or are proposed to be, located contains contamination which FortisBC Energy, acting reasonably, determines has adversely affected or has the potential to adversely affect FortisBC Energy's facilities, or the health or safety of its workers or which may cause FortisBC Energy to assume liability for clean up and other costs associated with the contamination. If FortisBC Energy, acting reasonably, determines that contamination is present it is the obligation of the occupant of the land to satisfy FortisBC Energy that the contamination does not have the potential to adversely affect FortisBC Energy or its workers. For the purposes of this Section, "contamination" means the presence in the soil, sediment or groundwater of special waste or another substance in quantities or concentrations exceeding criteria, standards or conditions established by the British Columbia Ministry of Environment, Lands and Parks or as prescribed by present and future laws, rules, regulations and orders of any other legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over the environment.

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23.2 **Discontinuance or Refusal Without Notice** - FortisBC Energy may discontinue without notice or refuse the supply of Gas or Service to a Customer for any of the following reasons:

- (a) the Customer or applicant has failed to provide reference information and identification acceptable to FortisBC Energy, when applying for Service or at any subsequent time on request by FortisBC Energy,
- (b) the Customer has defective pipe, appliances, or Gas fittings in the Premises,
- (c) the Customer uses Gas in such a manner as in FortisBC Energy's opinion
 - (i) may lead to a dangerous situation, or
 - (ii) may cause undue or abnormal fluctuations in the Gas pressure in FortisBC Energy's Gas transmission or distribution system,
- (d) the Customer fails to make modifications or additions to the Customer's equipment which have been required by FortisBC Energy in order to prevent the danger or to control the undue or abnormal fluctuations described under paragraph (c),
- (e) the Customer breaches any of the terms and conditions upon which Service is provided to the Customer by FortisBC Energy,
- (f) the Customer fraudulently misrepresents to FortisBC Energy its use of Gas or the volume delivered,
- (g) the Customer vacates the Premises,
- (h) the Customer's Service Agreement is terminated for any reason, or
- (i) the Customer stops consuming Gas on the Premises.

23.3 **Application to Former Tariffs** - Section 23.1 (Discontinuance With Notice and Refusal Without Notice), parts (c), (d) and (e), apply to bills rendered under these General Terms and Conditions and under the following former tariffs:

Lower Mainland - Gas Tariff,

Inland - Gas Tariff B.C.E.C. No. 2,

Columbia - Gas Tariff B.C.U.C. No.1.

[BC Gas Tariff](#)

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[Terasen Gas Inc. Tariff](#)

[FortisBC Energy Inc. Gas Tariff](#)

[FortisBC Energy Inc. Fort Nelson Service Area Gas Tariff](#)

[FortisBC Energy \(Vancouver Island\) Inc. Gas Tariff](#)

[FortisBC Energy \(Whistler\) Inc. Gas Tariff](#)

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24. Limitations on Liability

- 24.1 **Responsibility for Delivery of Gas** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss, damage, costs or injury (including death) incurred by any Customer or any Person claiming by or through the Customer caused by or resulting from, directly or indirectly, any discontinuance, suspension or interruption of, or failure or defect in the supply or delivery or transportation of, or refusal to supply, deliver or transport Gas, or provide Service, unless the loss, damage, costs or injury (including death) is directly attributable to the gross negligence or wilful misconduct of FortisBC Energy, its employees, contractors or agents provided, however that FortisBC Energy, its employees, contractors and agents are not responsible or liable for any loss of profit, loss of revenues, or other economic loss even if the loss is directly attributable to the gross negligence or wilful misconduct of FortisBC Energy, its employees, contractors or agents.
- 24.2 **Responsibility Before Delivery Point** - The Customer is responsible for all expense, risk and liability with respect to
- (a) the use or presence of Gas before it passes the Delivery Point in the Customer's Premises, and
 - (b) FortisBC Energy-owned facilities serving the Customer's Premises
- if any loss or damage caused by or resulting from failure to meet that responsibility is caused, or contributed to, by the act or omission of the Customer or a Person for whom the Customer is responsible.
- 24.3 **Responsibility After Delivery Point** - The Customer is responsible for all expense, risk and liability with respect to the use or presence of Gas after it passes the Delivery Point.

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24.4 **Responsibility for Meter Set** - The Customer is responsible for all expense, risk and liability with respect to all Meter Sets or related equipment at the Customer's Premises unless any loss or damage is

- (a) directly attributable to the negligence of FortisBC Energy, its employees, contractors or agents, or
- (b) caused by or resulting from a defect in the equipment. The Customer must prove that negligence or defect.

For greater certainty and without limiting the generality of the foregoing, the Customer is responsible for all expense, risk and liability arising from any measures required to be taken by FortisBC Energy in order to ensure that the Meter Sets or related equipment on the Customer's Premises are adequately protected, as well as any updates or alterations to the Service Line(s) on the Customer's Premises necessitated by changes to the grading or elevation of the Customer's Premises or obstructions placed on such Service Line(s).

24.5 **Customer Indemnification** - The Customer will indemnify and hold harmless FortisBC Energy, its employees, contractors and agents from all claims, loss, damage, costs or injury (including death) suffered by the Customer or any Person claiming by or through the Customer or any third party caused by or resulting from the use of Gas by the Customer or the presence of Gas in the Customer's Premises, or from the Customer or Customer's employees, contractors or agents damaging FortisBC Energy's facilities.

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25. Miscellaneous Provisions

- 25.1 **Taxes** - The rates and charges specified in the applicable Rate Schedules do not include any local, provincial or federal taxes, assessments or levies imposed by any competent taxing authorities which FortisBC Energy may be lawfully authorized or required to add to its normal rates and charges or to collect from or charge to the Customer.
- 25.2 **Conflicting Terms and Conditions** - Where anything in these General Terms and Conditions conflicts with special terms or conditions specified under an applicable Rate Schedule or Service Agreement, then the terms or conditions specified under the Rate Schedule or Service Agreement govern.
- 25.3 **Authority of Agents of FortisBC Energy** - No employee, contractor or agent of FortisBC Energy has authority to make any promise, agreement or representation not incorporated in these General Terms and Conditions or in a Service Agreement, and any such unauthorized promise, agreement or representation is not binding on FortisBC Energy.
- 25.4 **Additions, Alterations and Amendments** - The General Terms and Conditions, fees and charges, and Rate Schedules may, with the approval of the British Columbia Utilities Commission, be added to, cancelled, altered or amended by FortisBC Energy from time to time.
- 25.5 **Headings** - The headings of the Sections set forth in the General Terms and Conditions are for convenience of reference only and will not be considered in any interpretation of the General Terms and Conditions.

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26. Direct Purchase Agreements

- 26.1 **Collection of Incremental Direct Purchase Costs** - Where FortisBC Energy incurs any costs relating to implementing, providing or facilitating the direct purchase arrangements of a Customer, agent, broker or marketer, FortisBC Energy may, subject to BCUC approval, collect those costs from the Customer, agent, broker or marketer. Such costs may include the costs of arranging, acquiring or transporting substitute Gas supplies as well as any other costs or obligations relating to the direct purchase arrangement that are incurred by FortisBC Energy. FortisBC Energy can bill the Customer for such costs as part of the regular FortisBC Energy bill for Service.
- 26.2 **Direct Purchase Customers Returning to FortisBC Energy System Supply** - Where a Customer has acquired Gas under a direct purchase arrangement and later wishes to return to the system Gas supply of FortisBC Energy,
- (a) FortisBC Energy may require that the Customer provide FortisBC Energy up to one Year's written notice before the date on which the Customer wishes to return to system Gas supply,
 - (b) FortisBC Energy will supply the Customer with system Gas when the Customer wishes to return to system Gas supply if FortisBC Energy is able to secure additional Gas supply and transportation to accommodate the Customer, and
 - (c) FortisBC Energy may, subject to BCUC approval, charge the Customer for any costs associated with the Customer returning to system Gas supply. Such costs may include, among other things, the costs of securing additional Gas supply and transportation to accommodate the Customer. FortisBC Energy can bill the Customer for such costs as part of the regular FortisBC Energy bill for Service.

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27. Commodity Unbundling Service

27.1 In the event a Customer enters into a Gas supply contract with a Marketer for Commodity Unbundling Service under Rate Schedule 1U, 2U or 3U, the following terms and conditions will apply:

- (a) The Customer must sign a Notice of Appointment of Marketer as notification to FortisBC Energy that the Marketer has the authority to do what is required with respect to the Customer's enrolment in Commodity Unbundling Service, including entering into the necessary Commodity Unbundling Service agreements and related Rate Schedules. Such Notice of Appointment of Marketer shall also authorize FortisBC Energy to share with the Marketer certain historical and ongoing consumption information and to verify the Commodity Cost Recovery Charge used to bill the Customer as directed by the Marketer.
- (b) FortisBC Energy shall be entitled to rely solely on communications from the Marketer with respect to the enrolment of the Customer in Commodity Unbundling Service and with respect to the termination or expiry of any contract between the Customer and Marketer.
- (c) FortisBC Energy will bill the Customer a Commodity Cost Recovery Charge according to the price indicated by the Marketer. Such price must be expressed as a single fixed price per Gigajoule in Canadian dollars. Such price shall not include amounts payable by the Customer to the Marketer for services other than the Gas commodity cost. The price may only be changed by Marketer no more than once per year on the anniversary of the Customers' enrolment in Commodity Unbundling Service with such Marketer. FortisBC Energy shall have no obligation to verify that the price communicated by the Marketer is the price agreed to between the Customer and the Marketer.
- (d) FortisBC Energy will continue to bill the Customer as per the billing, payment, credit and collections policies set out in these General Terms and Conditions.
- (e) The Customer shall make payment to FortisBC Energy based on the total charges on the bill and under no circumstances will payments be prorated between the various charges on the bill. Payments made by Customers to FortisBC Energy pursuant to the bills rendered by FortisBC Energy shall be made without any right of deduction or set-off and regardless of any rights or claims the Customers may have against the Marketer.

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Part A

- (f) Non-payment of any amounts designated as Commodity Cost Recovery Charge charged on the bill shall entitle FortisBC Energy to the same recourse as non-payment of any other FortisBC Energy service charges and may result in termination of service by FortisBC Energy in accordance with these General Terms and Conditions and any applicable Rate Schedules. In the event FortisBC Energy terminates the Customer's service, the subject Customer will be removed from the Commodity Unbundling Service. Should the Customer wish to re-enrol in Commodity Unbundling Service, the Customer will be required to re-apply for service with FortisBC Energy as per the then existing General Terms and Conditions and then be required to enrol as a new participant in order to be eligible for Commodity Unbundling Service.
- (g) FortisBC Energy is not responsible for the terms of any of the Customer's contract(s) with the Marketer. Provision of Commodity Unbundling Service in no way makes FortisBC Energy liable for any obligation incurred by a Marketer vis-à-vis the Customer or third parties.
- (h) In the event the British Columbia Utilities Commission issues an order to FortisBC Energy to return Customers to FortisBC Energy as supplier of last resort, the Customer will be returned with no notice to the FortisBC Energy standard system supply rate with no interruption of service upon the then applicable terms and conditions of FortisBC Energy system supply service. In the event there are incremental costs associated with returning the Customer to the standard system supply rate, these costs may be recovered by FortisBC Energy directly from the Customer.
- (i) The Customer's enrolment in Commodity Unbundling Service shall be on a Premises specific basis.

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28. Biomethane Service

- 28.1 **Notional Gas** - Customers agree and recognize that the location of generation facilities will determine where Biomethane will physically be introduced to the FortisBC Energy System and that Customers receiving Biomethane Service may not receive actual Biomethane at their Premises, but instead be contributing to the cost for FortisBC Energy to deliver an amount of Biomethane proportionate to the Customer's Gas usage into the FortisBC Energy System.
- 28.2 **Biomethane Physical Delivery** - Customers located in the vicinity of Biomethane generation facilities may receive Biomethane as a component of Gas in such proportion as FortisBC Energy determines in its sole discretion.
- 28.3 **Reduced Supply** - Customers agree and recognize that the production of Biomethane is subject to biological processes and production levels may fluctuate. Customers registered for Biomethane Service for applicable Rate Schedules 1B, 2B and 3B, agree that in the event that Biomethane production does not provide sufficient gas supply, FortisBC Energy may purchase Carbon Offsets in an amount equivalent to the greenhouse gas reduction that would have been achieved through Biomethane supply, and at a price not to exceed the funding received from Customers registered for Biomethane Service.
- 28.4 **Price Determination** - Customers registered for Biomethane Service will be billed for Gas pursuant to their applicable Rate Schedule. The cost of Biomethane will be based on the cost of acquiring Biomethane, including, but not limited to commodity, production, infrastructure, equipment and operating costs required to deliver pipeline quality Gas.
- 28.5 **Biomethane Customers** - Customers registered for Biomethane Service will be charged a Biomethane Energy Recovery Charge based on a calculation that will deem the Customer's Gas usage to be a pre-determined percentage of Biomethane and pre-determined percentage of conventionally sourced Gas. Applicable Rate Schedules will be reviewed and updated quarterly with regard to the price of conventionally sourced Gas and annually with regard to the price of Biomethane with rate changes subject to BCUC approval.

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Part A

28.6 **Enrolment** - In the event a Customer enters into a Service Agreement with FortisBC Energy for Biomethane Service under Rate Schedule 1B, Rate Schedule 2B or Rate Schedule 3B, the following terms and conditions will apply:

- (a) **Notice** - the Customer will provide notification to FortisBC Energy that he or she wishes to receive Biomethane Service, and FortisBC Energy will provide confirmation to the Customer once the Customer is registered for Biomethane Service.
- (b) **Eligibility** - the number of Customers eligible to receive Biomethane Service will be limited and the determination of eligibility will be made by FortisBC Energy in its discretion, acting reasonably.
- (c) **Change in Rate** - Customers registered for Biomethane Service will be charged for Gas at the rates set out in Rate Schedule 1B, Rate Schedule 2B or Rate Schedule 3B. FortisBC Energy will use reasonable efforts to switch Customers to Rate Schedule 1B, Rate Schedule 2B or Rate Schedule 3B in a timely manner. However, Rate Schedule 1B, Rate Schedule 2B or Rate Schedule 3B rates will only be commenced on the first day of a Month, therefore, Customers registered for Biomethane Service within one (1) week on the last day of a Month may not be switched to Rate Schedule 1B, Rate Schedule 2B or Rate Schedule 3B until five (5) weeks after their registration date.
- (d) **Biomethane Offering** - Biomethane Service is available in all areas served by FortisBC Energy except Revelstoke.
- (e) **Moving** - If a Customer registered for Biomethane Service moves to a new Premises within the areas served by FortisBC Energy described above, that Customer may remain registered for Biomethane Service at the new Premises.
- (f) **Switching Back to FortisBC Energy Standard Rate Schedule** - Customers may at any time request to terminate Biomethane Service and be returned to a FortisBC Energy conventional Gas Rate Schedule. On receiving notice that a Customer wishes to return to conventional Gas Service, FortisBC Energy will return that Customer to the applicable FortisBC Energy conventional Gas Rate Schedule in accordance with the FortisBC Energy General Terms and Conditions.
- (g) **Switching to a Gas Marketer Contract** - Customers may at any time request to terminate Biomethane Service and receive their commodity from a Gas Marketer. On receiving notice that a Customer has entered into an agreement with a Gas Marketer, FortisBC Energy will process this request in accordance with Section 27.
- (h) **Program Termination** - FortisBC Energy reserves the right to remove and/or terminate Customers from Biomethane Service at any time.

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Standard Fees and Charges Schedule

Application Fee	
Existing Installation	\$25.00
New Installation	\$25.00
New Installation - Manifold Meters	\$25.00 per meter
New Installation - Vertical Subdivision	\$25.00 per meter
Service Line Cost Allowance	
Other than a duplex	\$1,535.00
Duplex	\$3,070.00

Administrative Charges

Late Payment Charge 1.5% per month (19.56% per annum) on outstanding balance

Dishonoured Cheque Charge \$20.00

Interest on Cash Security Deposits

FortisBC Energy will pay interest on cash security deposits at FortisBC Energy's prime interest rate minus 2%. FortisBC Energy prime interest rate is defined as the floating annual rate of interest which is equal to the rate of interest declared from time to time by FortisBC Energy's lead bank as its "prime rate" for loans in Canadian dollars.

Payment of interest will be credited to the Customer's account in January of each Year.

Metering Related Charges

Disputed Meter Testing Fees

Meters rated at less than or equal to 14.2 m³/Hour \$60.00

Meters rated greater than 14.2 m³/Hour Actual Costs of Removal and Replacement

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Attachment 118.1

(Provided in electronic format only due to document size and in order to conserve paper)



FORTISBC ENERGY INC.

**RATE SCHEDULE 4
SEASONAL FIRM GAS SERVICE**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Service Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Commencement Date** - means the day specified as the Commencement Date in the Service Agreement.
- (b) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (c) **Customer** - means a person who enters into a Service Agreement with FortisBC Energy.
- (d) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (e) **Delivery Point** - means the point specified in a Service Agreement where FortisBC Energy delivers Gas to a Customer.
- (f) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a transporter that results in Gas being unavailable for delivery.
- (g) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.

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- (h) **Off-Peak Period** - means the period commencing 7:00 a.m. Pacific Standard Time April 1 to 7:00 a.m. Pacific Standard Time November 1.
- (i) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (j) **Peak Period** - means the period beginning at the expiry of one Off-Peak Period and ending at the commencement of the next following Off-Peak Period.
- (k) **Rate Schedule 4 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (l) **Service Agreement** - means an agreement between FortisBC Energy and a Customer to provide service pursuant to this Rate Schedule.
- (m) **Supplier** - means a party who sells Gas to FortisBC Energy.
- (n) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (o) **Transporter** - means, TransCanada PipeLines Limited, B.C. System, Nova Gas Transmission Ltd., Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas service or resale.
- (p) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (q) **Unauthorized Gas** - means any Gas service taken by a Customer during the Peak Period without the prior written consent of FortisBC Energy.

- 1.2 **Change in Definition of "Day"** - FortisBC Energy may, amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the terms of the Service Agreement will be similarly adjusted.

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2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule applies to the sale of Gas, no portion of which may be resold, through one meter station to one Customer who, pursuant to this Rate Schedule, consumes Gas during the Off-Peak Period, except as otherwise agreed upon.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy will only sell Gas under this Rate Schedule to Customers in all areas, served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if

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- (a) the Customer has entered into a Seasonal Firm Gas Service Agreement (Service Agreement),
- (b) adequate Gas volumes for such service are available,
- (c) adequate capacity exists on the FortisBC Energy System,
- (d) at all times during the Off-Peak Period, the Customer will use Gas purchased under this Rate Schedule as the only Gas for the facilities specified in the Service Agreement, and
- (e) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 8.1 (Facilities and Equipment).

- 3.2 **Security** - In order to secure the prompt and orderly payment of charges to be paid by the Customer to FortisBC Energy under the Service Agreement, FortisBC Energy may require the Customer to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Customer under this Rate Schedule and the Service Agreement for a period of 90 Days. Where FortisBC Energy requires a Customer to provide a letter of credit and the Customer is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

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4. Sales

- 4.1 **Sale of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service), FortisBC Energy will sell to the Customer and the Customer will buy from FortisBC Energy at the Delivery Point such quantity of Gas as is required by the Customer for the operation of the Customer's facilities specified in the Service Agreement, estimated to be the maximum quantity per Day set out in the Service Agreement, for the charges and on all of the terms and conditions set out in either this Rate Schedule or the Service Agreement.
- 4.2 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to deliver in any one Hour more than 5% of the maximum quantity per Day set out in the Service Agreement.
- 4.3 **Extension of Off-Peak Period** - FortisBC Energy may, in its sole discretion, extend Gas service beyond the Off-Peak Period in response to a request by the Customer and the Customer will be charged the Extension Period Charges set out in the Table of Charges. If the Customer takes Gas service beyond the Off-Peak Period without the prior written consent of FortisBC Energy, the Customer will be charged the Unauthorized Gas Charge set out in the Table of Charges.
- 4.4 **Gas Pressure** - Where specifically requested by the Customer, FortisBC Energy may agree to deliver Gas to the Customer at the Delivery Point at a minimum pressure specified in the Customer's Service Agreement. The Customer will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas from the Transporter at the pressure specified in the Transporter's Service Terms.

5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Service Agreement, the Customer will pay to FortisBC Energy all of the charges set out in the Table of Charges.

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6. Term of Service Agreement

- 6.1 **Term** - The initial term of the Service Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1st next following, provided that if the foregoing would result in the initial term being for a period of less than one year, then the initial term will instead expire at the end of one further Contract Year.
- 6.2 **Automatic Renewal** - Except as specified in the Service Agreement, the term of the Service Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Customer upon not less than 2 months notice prior to the end of the Contract Year then in effect.
- 6.3 **Early Termination** - The term of the Service Agreement is subject to early termination in accordance with section 10 (Default or Bankruptcy).
- 6.4 **Survival of Covenants** - Upon the termination of the Service Agreement, whether pursuant to section 10 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Service Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Service Agreement,
- will survive such termination.

7. Statement and Payments

- 7.1 **Statements to be Provided** - FortisBC Energy will, each month, deliver to the Customer a statement for the preceding month showing the Gas quantities delivered to the Customer and the amount due. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Customer a separate statement for the preceding Contract Year showing the amount required from the Customer in respect of any indemnity due under this Rate Schedule or a Service Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.

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- 7.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Customer fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Customer a late payment charge of 1.5% per month (19.56% per annum) on the outstanding amount.
- 7.3 **Examination of Records** - Each of FortisBC Energy and the Customer will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Service Agreement.

8. Measuring Equipment

- 8.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Customer and the Customer will permit FortisBC Energy, without cost to FortisBC Energy, to use the Customer's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy.
- 8.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 8.1 (Facilities and Equipment) on the Customer's property, the Customer will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Customer's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Service Agreement.

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- 8.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Customer. Notice of the time and nature of each test conducted in response to communications with or at the request of the Customer will be given by FortisBC Energy to the Customer sufficiently in advance to permit a representative of the Customer to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Customer is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Customer will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 8.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.
- 8.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and
 - (c) by estimating the quantity of Gas delivered to the Customer during the preceding periods under similar conditions when the meter was registering accurately.
- 8.6 **Customer's Equipment** - The Customer may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Customer will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.

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- 8.7 **Right to be Present** - FortisBC Energy and the Customer will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 8.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

9. Measurement

- 9.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 9.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 9.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

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10. Default or Bankruptcy

10.1 Default - If the Customer at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Service Agreement within 30 days after payment is due, or
- (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Service Agreement, within 30 days after FortisBC Energy gives to the Customer notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Customer fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, at its option and without liability therefore

- (a) suspend further service to the Customer and may refuse to deliver Gas to the Customer until the default has been fully remedied, and no such suspension or refusal will relieve the Customer from any obligation under this Rate Schedule or the Service Agreement, or
- (b) terminate the Service Agreement, and no such termination of the Service Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Customer for what would otherwise have been the remainder of the term of the Service Agreement.

10.2 Bankruptcy or Insolvency - If the Customer becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Customer seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Service Agreement by giving notice in writing to the Customer and thereupon FortisBC Energy may cease further delivery of Gas to the Customer and the amount then outstanding for Gas provided under the Service Agreement will immediately be due and payable by the Customer.

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11. Notice

- 11.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Service Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT:	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
CUSTOMER RELATIONS:	Attention: Commercial & Industrial Energy Solutions Telephone: (604) 592-7843 Fax: (604) 592-7894
LEGAL AND OTHER:	Attention: Director, Legal Services Telephone: (604) 443-6512 Fax: (604) 443-6540

If to the Customer, then as set out in the Service Agreement.

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11.2 **Specific Notices** - Notwithstanding section 11.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Customer as authorized to receive such notices, or
- (b) given by the Customer by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure... "Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 13) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 4 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure... "Please be advised that (name of Company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 4 and the Service Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

12. Indemnity and Limitation on Liability

12.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of Gas service permitted under the General Terms and Conditions of FortisBC Energy or this Rate Schedule.

12.2 **Indemnity** - The Customer will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following

- (a) Franchise Fees not otherwise collected by FortisBC Energy, under the Table of Charges, and
- (b) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Customer or on the delivery of Gas to the Customer by FortisBC Energy, or on any other service provided by FortisBC Energy to the Customer.

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13. Force Majeure

- 13.1 **Force Majeure** - Subject to the other provisions of this section 13, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Service Agreement, the obligations of both FortisBC Energy and the Customer will be suspended to the extent necessary for the period of the Force Majeure condition.
- 13.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 13, FortisBC Energy will be deemed to have issued to the Customer a notice of curtailment.
- 13.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 13.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Service Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 13.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 13.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 13, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 13.1.

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- 13.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 13, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 13.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Customer as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacement to minimize interruption of Gas service to the Customer and to restore service as quickly as possible.
- 13.8 **Alteration of Facilities** - The Customer will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Customer and to restore such facilities after the Force Majeure condition ends.

14. Arbitration

- 14.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Service Agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 14.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.
- 14.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 14.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Customer or FortisBC Energy.

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- 14.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 14.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

15. Interpretation

- 15.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Service Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Service Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Service Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Service Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Service Agreement.

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16. Miscellaneous

- 16.1 **Waiver** - No waiver by either FortisBC Energy or the Customer of any default by the other in the performance of any of the provisions of this Rate Schedule or the Service Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 16.2 **Enurement** - The Service Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 16.3 **Assignment** - The Customer will not assign the Service Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Customer from its obligations under this Rate Schedule or under the Service Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Customer.
- 16.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Service Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 16.5 **Proper Law** - The Service Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 16.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Service Agreement and of the terms and conditions thereof.
- 16.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Service Agreement and the rights and obligations of FortisBC Energy and the Customer under this Rate Schedule and the Service Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Customer.

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- 16.8 **Further Assurances** - Each of FortisBC Energy and the Customer will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Service Agreement and to assure the completion of the transactions contemplated hereby.
- 16.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Service Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

Mainland Area Fort Nelson Area Vancouver Island and Whistler Areas

Delivery Margin Related Charges

1. Basic Charge per Day	\$ X	\$ X	\$ X
2. Delivery Charge per Gigajoule			
(a) Off-Peak Period	\$ X	\$ X	\$ X
(b) Extension Period	\$ X	\$ X	\$ X
3. Rider 2 per Gigajoule	\$ X	\$ X	\$ X
4. Rider 4 per Gigajoule	\$ X	\$ X	\$ X

Commodity Related Charges

5. Commodity Cost Recovery Charge per Gigajoule			
(a) Off-Peak Period	\$ X	\$ X	\$ X
(b) Extension Period	\$ X	\$ X	\$ X
6. Midstream Cost Recovery Charge per Gigajoule			
(a) Off-Peak Period	\$ X	\$ X	\$ X
(b) Extension Period	\$ X	\$ X	\$ X
7. Rider 6 per Gigajoule	\$ X	\$ X	\$ X
Subtotal of per Gigajoule Commodity Related Charges			
(a) Off-Peak Period	\$ X	\$ X	\$ X
(b) Extension Period	\$ X	\$ X	\$ X

8. Unauthorized Gas Charge per Gigajoule during peak period	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹
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Delivery Margin Related Riders

Rider 2 Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014

Rider 3 (Reserved for future use.)

Rider 4 Phase In Rider – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

Rider 5 **Revenue Stabilization Adjustment Charge** - Not applicable.

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Commodity Cost Recovery Related Riders

Rider 1 **Propane Surcharge** - Not applicable.

Midstream Cost Recovery Related Riders

Rider 6 Midstream Cost Reconciliation Account - Applicable to all Customers served by FortisBC Energy, excluding Revelstoke, for the Year ending December 31, 2014.

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Franchise Fee Charge of 3.09% of the aggregate of the above charges is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per Month - The minimum charge per Month, applicable only to Months in which Gas is consumed, will be the aggregate of the Basic Charge and the Franchise Fee Charge.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

Notes:

1. **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada, for each Day. For each Day during weekends or holidays and/or other periods during which the Gas Daily may not be published, the NW Sumas Daily Midpoint Price will be deemed to be the average of the prices quoted in Gas Daily on the Day immediately before and after the period for which the Daily Gas was not published. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoules per MMBtu.

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**SEASONAL FIRM
GAS SERVICE AGREEMENT**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Customer").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System;
- B. The Customer is the owner and operator of a _____ located in or near _____, British Columbia; and
- C. The Customer desires to purchase from FortisBC Energy seasonal firm Gas service for such facilities in accordance with Rate Schedule 4 and the terms set out herein.

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

1. Specific Information

Estimated Maximum Quantity _____ Gigajoules per day

Commencement Date: _____

Expiry Date: _____
(only specify expiry date if term not automatically renewed as set out in section 6.2 of Rate Schedule 4)

Delivery Point: _____

Pressure at the Delivery Point: _____
(only specify where applicable as set out in section 4.4 of Rate Schedule 4)

Service Address: _____

Account Number: _____

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Address of Customer for receiving notices:

(name of Customer) Attention: _____

(address of Customer) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or Rate Schedule 4 to any such information is to the information set out above.

2. Rate Schedule 4

- 2.1 **Additional Terms** - All rates, terms and conditions set out in Rate Schedule 4 and the General Terms and Conditions of FortisBC Energy, as either of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Service Agreement and form part of this Service Agreement and bind FortisBC Energy and the Customer as if set out herein.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Customer will pay to FortisBC Energy all of the amounts set out in Rate Schedule 4 for the services provided under that Rate Schedule and this Service Agreement.
- 2.3 **Conflict** - Where anything in either Rate Schedule 4 or the General Terms and Conditions of FortisBC Energy conflicts with any of the rates, terms and conditions set out in this Service Agreement, this Service Agreement governs. Where anything in Rate Schedule 4 conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, Rate Schedule 4 governs.

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- 2.4 **Acknowledgement** - The Customer acknowledges receiving and reading a copy of Rate Schedule 4 and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out herein.

IN WITNESS WHEREOF the parties hereto have executed this Service Agreement.

FORTISBC ENERGY INC.

(here insert name of Customer)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 5
GENERAL FIRM SERVICE**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise, all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Service Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Commencement Date** - means the day specified as the Commencement Date in the Service Agreement.
- (b) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (c) **Customer** - means a person who enters into a Service Agreement with FortisBC Energy.
- (d) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (e) **Delivery Point** - means the point specified in a Service Agreement where FortisBC Energy delivers Gas to a Customer.
- (f) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in Gas being unavailable for delivery.
- (g) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.

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- (h) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (i) **Rate Schedule 5 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (j) **Service Agreement** - means an agreement between FortisBC Energy and a Customer to provide service pursuant to this Rate Schedule.
- (k) **Supplier** - means a party who sells Gas to FortisBC Energy.
- (l) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (m) **Transporter** - means TransCanada PipeLines Limited, B.C. System, Nova Gas Transmission Ltd., Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.
- (n) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.

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- 1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the term of the Service Agreement will be similarly adjusted.

2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule applies to the sale of firm Gas, no portion of which may be resold, through one meter station to a Customer. For greater certainty, firm Gas service under this Rate Schedule means the Gas FortisBC Energy is obligated to sell to a Customer on a firm basis subject to interruption or curtailment pursuant to sections 10 (Default for Bankruptcy), 13 (Force Majeure) and the General Terms and Conditions of FortisBC Energy.

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- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy will only sell Gas under this Rate Schedule to Customers in the areas served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if

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- (a) the Customer has entered into a General Firm Service Agreement (Service Agreement),
- (b) adequate Gas volumes for such service are available,
- (c) adequate capacity exists on the FortisBC Energy System,
- (d) the Customer purchases under this Rate Schedule all of the Gas required for its facilities specified in the Service Agreement, and
- (e) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 8.1 (Facilities and Equipment).

- 3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Customer to FortisBC Energy under the Service Agreement, FortisBC Energy may require the Customer to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Customer under this Rate Schedule and the Service Agreement for a period of 90 Days. Where FortisBC Energy requires a Customer to provide a letter of credit and the Customer is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

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3.3 **Warning Relating to Interruptible Transportation Service or Interruptible Sales** - A Customer wishing to switch at the end of the term of an interruptible Transportation Agreement or an interruptible Gas Service Agreement to firm Gas service under this Rate Schedule must

- (a) give 12 months prior notice to FortisBC Energy of the Customer's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such cost.

Notwithstanding section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Customer on less than 12 months prior notice if FortisBC Energy is able, with such shorter notice, to arrange for the firm purchase and transportation of Gas for sales under this Rate Schedule.

4. **Sales**

4.1 **Sale of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service), FortisBC Energy will sell to the Customer and the Customer will buy from FortisBC Energy at the Delivery Point such quantity of Gas as is required by the Customer for the operation of the Customer's facilities specified in the Service Agreement, estimated to be the maximum quantity per Day set out in the Service Agreement, for the charges and on all of the terms and conditions set out in either this Rate Schedule or the Service Agreement.

4.2 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to deliver in any one Hour more than 5% of the maximum quantity per Day set out in the Service Agreement.

4.3 **Gas Pressure** - Where specifically requested by the Customer, FortisBC Energy may agree to deliver Gas to the Customer at the Delivery Point at a minimum pressure specified in the Customer's Service Agreement. The Customer will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas from the Transporter at the pressure specified in the Transporter's Service Terms.

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5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Service Agreement, the Customer will pay to FortisBC Energy all of the charges set out in the Table of Charges.

6. Term of Service Agreement

- 6.1 **Term** - The initial term of the Service Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1 next following, provided that if the foregoing would result in the initial term being for a period of less than one year, then the initial term will instead expire at the end of one further Contract Year.
- 6.2 **Automatic Renewal** - Except as specified in the Service Agreement, the term of the Service Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Customer subject to section 3.3 upon not less than 2 months notice prior to the end of the Contract year then in effect.
- 6.3 **Early Termination** - The term of the Service Agreement is subject to early termination in accordance with section 10 (Default or Bankruptcy). The Customer will reimburse FortisBC Energy for any net incremental utility Gas supply costs incurred by FortisBC Energy as a result of the Customer cancelling the Service Agreement prior to the end of the Contract Year then in effect. This reimbursement will include only those costs which are approved by the British Columbia Utilities Commission, and were unavoidable and could not be reduced by mitigation.
- 6.4 **Survival of Covenants** - Upon the termination of the Service Agreement, whether pursuant to section 10 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Service Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Service Agreement,

will survive such termination.

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7. Statement and Payments

- 7.1 **Statements to be Provided** - FortisBC Energy will, each month, deliver to the Customer a statement for the preceding month showing the Gas quantities delivered to the Customer and the amount due. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Customer a separate statement for the preceding Contract Year showing the amount required from the Customer in respect of any indemnity due under this Rate Schedule or a Service Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 7.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Customer fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Customer a late payment charge of 1½% per month (19.56% per annum) on the outstanding amount.
- 7.3 **Examination of Records** - Each of FortisBC Energy and the Customer will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Service Agreement.

8. Measuring Equipment

- 8.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Customer and the Customer will permit FortisBC Energy, without cost to FortisBC Energy, to use the Customer's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy. Communication facilities and equipment will be installed at the cost of the Customer.

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- 8.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 8.1 (Facilities and Equipment) on the Customer's property, the Customer will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Customer's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Service Agreement.
- 8.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Customer. Notice of the time and nature of each test conducted in response to communications with or at the request of the Customer will be given by FortisBC Energy to the Customer sufficiently in advance to permit a representative of the Customer to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Customer is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Customer will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 8.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.
- 8.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and

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- (c) by estimating the quantity of Gas delivered to the Customer during the preceding periods under similar conditions when the meter was registering accurately.

- 8.6 **Customer's Equipment** - The Customer may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Customer will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 8.7 **Right to be Present** - FortisBC Energy and the Customer will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 8.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

9. Measurement

- 9.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 9.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 9.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

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10. Default or Bankruptcy

10.1 Default - If the Customer at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Service Agreement within 30 days after payment is due, or
- (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Service Agreement, within 30 days after FortisBC Energy gives to the Customer notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Customer fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, at its option and without liability therefore

- (a) suspend further service to the Customer and may refuse to deliver Gas to the Customer until the default has been fully remedied, and no such suspension or refusal will relieve the Customer from any obligation under this Rate Schedule or the Service Agreement, or
- (b) terminate the Service Agreement, and no such termination of the Service Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Customer for what would otherwise have been the remainder of the term of the Service Agreement.

10.2 Bankruptcy or Insolvency - If the Customer becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Customer seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Service Agreement by giving notice in writing to the Customer and thereupon FortisBC Energy may cease further delivery of Gas to the Customer and the amount then outstanding for Gas provided under the Service Agreement will immediately be due and payable by the Customer.

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11. Notice

- 11.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Service Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT:	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
CUSTOMER RELATIONS:	Attention: Commercial & Industrial Energy Solutions Telephone: (604) 592-7843 Fax: (604) 592-7894
LEGAL AND OTHER:	Attention: Director, Legal Services Telephone: (604) 443-6512 Fax: (604) 443-6540

If to the Customer, then as set out in the Service Agreement.

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11.2 **Specific Notices** - Notwithstanding section 11.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Customer as authorized to receive such notices, or
- (b) given by the Customer by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure..."Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 13) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 5 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure..."Please be advised that (name of Company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 5 and the Service Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

12. Indemnity and Limitation on Liability

12.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of Gas Service permitted under the General Terms and Conditions of FortisBC Energy, or this Rate Schedule.

12.2 **Indemnity** - The Customer will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following

- (a) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges, and
- (b) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Customer or on the delivery of Gas to the Customer by FortisBC Energy, or on any other service provided by FortisBC Energy to the Customer.

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13. Force Majeure

- 13.1 **Force Majeure** - Subject to the other provisions of this section 13, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Service Agreement, the obligations of both FortisBC Energy and the Customer will be suspended to the extent necessary for the period of the Force Majeure condition.
- 13.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 13, FortisBC Energy will be deemed to have issued to the Customer a notice of curtailment.
- 13.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 13.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Service Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 13.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 13.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 13, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 13.1.

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- 13.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 13, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 13.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Customer as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacements to minimize interruption of Gas service to the Customer and to restore service as quickly as possible.
- 13.8 **Alteration of Facilities** - The Customer will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Customer and to restore such facilities after the Force Majeure condition ends.

14. Arbitration

- 14.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Service Agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 14.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting forth the nature of the dispute.
- 14.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 14.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Customer or FortisBC Energy.

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- 14.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 14.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

15. Interpretation

- 15.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Service Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Service Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the definitions or in the Service Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set forth in this Rate Schedule or in the Service Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Service Agreement.

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16. Miscellaneous

- 16.1 **Waiver** - No waiver by either FortisBC Energy or the Customer of any default by the other in the performance of any of the provisions of this Rate Schedule or the Service Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 16.2 **Enurement** - The Service Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 16.3 **Assignment** - The Customer will not assign the Service Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Customer from its obligations under this Rate Schedule or under the Service Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Customer.
- 16.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Service Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 16.5 **Proper Law** - The Service Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 16.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Service Agreement and of the terms and conditions thereof.
- 16.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Service Agreement and the rights and obligations of FortisBC Energy and the Customer under this Rate Schedule and the Service Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Customer.

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- 16.8 **Further Assurances** - Each of FortisBC Energy and the Customer will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Service Agreement and to assure the completion of the transactions contemplated hereby.
- 16.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Service Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

	Mainland Area	Fort Nelson Area	Vancouver Island and Whistler Areas
Delivery Margin Related Charges			
1. Basic Charge per Month	\$ X	\$ X	\$ X
2. Demand Charge per Month per Gigajoule of Daily Demand ¹	\$ X	\$ X	\$ X
3. Delivery Charge per Gigajoule	\$ X	\$ X	\$ X
4. Rider 2 per Gigajoule	\$ X	\$ X	\$ X
5. Rider 4 per Gigajoule	\$ X	\$ X	\$ X
Commodity Related Charges			
6. Commodity Cost Recovery Charge per Gigajoule	\$ X	\$ X	\$ X
7. Midstream Cost Recovery Charge per Gigajoule	\$ X	\$ X	\$ X
8. Rider 6 per Gigajoule	\$ X	\$ X	\$ X
Subtotal of per Gigajoule Commodity Related Charges	\$ X	\$ X	\$ X
Delivery Margin Related Riders			
Rider 2	Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014		
Rider 3	(Reserved for future use.)		
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FortisBC Energy Inc.
Rate Schedule 5

Rider 4 **Phase In Rider** – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

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Rider 5 **Revenue Stabilization Adjustment Charge** - Not applicable.

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Commodity Cost Recovery Related Riders

Rider 1 **Propane Surcharge** - Not applicable.

Midstream Cost Recovery Related Riders

Rider 6 **Midstream Cost Reconciliation Account** - Applicable to all Customers served by FortisBC Energy, excluding Revelstoke, for the Year ending December 31, 2014.

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Notes:

1. Daily Demand is equal to 1.25 multiplied by the greater of
 - (a) the Customer's highest average daily consumption of any month during the winter period (November 1 to March 31), or
 - (b) one half of the Customer's highest average daily consumption of any month during the summer period (April 1 to October 31).

The calculation of Daily Demand will be based on the Customer's actual gas use during the preceding Contract Year.

Franchise Fee Charge of 3.09% of the aggregate of the above charges is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per Month - The minimum charge per Month will be the aggregate of the Basic Charge, Demand Charges and the Franchise Fee Charge.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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**GENERAL FIRM
SERVICE AGREEMENT**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy ") and _____ (the "Customer").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System;
- B. The Customer is the owner and operator of a _____ located in or near _____, British Columbia; and
- C. The Customer desires to purchase from FortisBC Energy firm Gas for such facilities in accordance with Rate Schedule 5 and the terms set out herein.

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

1. Specific Information

Estimated Maximum Quantity _____ Gigajoules per day

Commencement Date: _____

Expiry Date: _____
(only specify an expiry date if term of Service Agreement is not automatically continue from year to year as set out in section 6.2 of Rate Schedule 5)

Delivery Point: _____

Pressure at the Delivery Point: _____
(only specify where applicable as set out in section 4.3 of Rate Schedule 5)

Service Address: _____

Account Number: _____

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Address of Customer for receiving notices:

(name of Customer) Attention: _____

(address of Customer) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or Rate Schedule 5 to any such information is to the information set out above.

2. Rate Schedule 5

- 2.1 **Additional Terms** - All rates, terms and conditions set out in Rate Schedule 5 and the General Terms and Conditions of FortisBC Energy, as either of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Service Agreement and form part of this Service Agreement and bind FortisBC Energy and the Customer as if set out herein.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Customer will pay to FortisBC Energy all of the amounts set out in Rate Schedule 5 for the services provided under that Rate Schedule and this Service Agreement.
- 2.3 **Conflict** - Where anything in either Rate Schedule 5 or the General Terms and Conditions of FortisBC Energy conflicts with any of the rates, terms and conditions set out in this Service Agreement, this Service Agreement governs. Where anything in Rate Schedule 5 conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, Rate Schedule 5 governs.

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- 2.4 **Acknowledgement** - The Customer acknowledges receiving and reading a copy of Rate Schedule 5 and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein.

IN WITNESS WHEREOF the parties hereto have executed this Service Agreement.

FORTISBC ENERGY INC.

(here insert name of Customer)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 6
NATURAL GAS VEHICLE SERVICE**

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1. Applicability

- 1.1 **Description of Applicability** - This Rate Schedule applies to the sale of firm Gas through one meter set for the purpose of compression and dispensing as fuel to operate vehicles.
- 1.2 **Service Agreement** - FortisBC Energy will only sell Gas pursuant to an executed Service Agreement which may be amended from time to time with the consent of the British Columbia Utilities Commission.
- 1.3 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

2. Conditions of Service

- 2.1 **Conditions** - This Rate Schedule is available to eligible Customers served by FortisBC Energy under the tariff of which this Rate Schedule is a part if
- (a) adequate Gas volumes for such service are available,
 - (b) adequate capacity exists in the FortisBC Energy System,
 - (c) the Customer purchases under this Rate Schedule all of the Gas required for its facilities specified in the Service Agreement; and
 - (d) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 7.1 (Facilities and Equipment).
- 2.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Customer to FortisBC Energy under the Service Agreement FortisBC Energy may require the Customer to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the maximum amount payable by the Customer under this Rate Schedule and the Service Agreement for a period of 90 days. Where FortisBC Energy requires a Customer to provide a letter of credit and the Customer is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.
- 2.3 **Right to Sell** - Customer will not sell Gas except as fuel for vehicles.

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3. Sales

- 3.1 **Sale of Gas** - Subject to section 13 of the General Terms and Conditions (Interruption of Service), FortisBC Energy will sell to the Customer and the Customer will buy from FortisBC Energy at one Delivery Point such quantity of Gas as is required by the Customer for the operation of the Customer's facilities specified in the Service Agreement estimated to be the maximum quantity per day set out in the Service Agreement, for the charges and on all of the terms and conditions set out in either this Rate Schedule or the Service Agreement.
- 3.2 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to deliver in any one hour more than 5% of the maximum quantity per day set out in the Service Agreement.
- 3.3 **Pressure at Delivery Point** - All Gas delivered by FortisBC Energy at the Delivery Point to the Customer will not be at less than the pressure specified in the Service Agreement.

4. Table of Charges

- 4.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Service Agreement, the Customer will pay to FortisBC Energy all of the charges set out in the Table of Charges except as specified in the Service Agreement.

5. Term of Service Agreement

- 5.1 **Term** - The initial term of a Service Agreement for NGV Firm Gas Service will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the expiry date specified in the Service Agreement.
- 5.2 **Automatic Renewal** - Except as specified in the Service Agreement, the term of the Service Agreement will continue on a year to year basis until cancelled by either FortisBC Energy or the Customer upon not less than 6 Months' notice prior to the end of the term then in effect.

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5.3 **Early Termination** - The term of the Service Agreement is subject to early termination in accordance with section 9 (Default or Bankruptcy).

5.4 **Survival of Covenants** - Upon the termination of the Service Agreement, whether pursuant to section 9 (Default or Bankruptcy) or otherwise,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this Rate Schedule and in the Service Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Service Agreement,

will survive such termination.

6. Statement and Payments

6.1 **Statements to be Provided** - FortisBC Energy will, each month, deliver to the Customer a statement for the preceding month showing the Gas delivered to the Customer and the payment due. FortisBC Energy will, on or before the 45th day after the end of a Contract Year, deliver to the Customer a separate statement for the preceding Contract Year showing the amount required from the Customer in respect of any indemnity due under a Service Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.

6.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Customer fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy may include in the next bill to the Customer a late payment charge of 1½% per month (19.56% per annum).

6.3 **Examination of Records** - FortisBC Energy and the Customer will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Service Agreement.

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7. Measuring Equipment

- 7.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Customer and the Customer will permit FortisBC Energy, without cost to FortisBC Energy, to use the Customer's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy.
- 7.2 **Measuring Site** - If FortisBC Energy determines that it is necessary to install the facilities and equipment referred to in section 7.1 (Facilities and Equipment) on the Customer's property, the Customer will, without charge, provide a suitable site for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Customer's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Service Agreement.
- 7.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Customer. Notice of the time and nature of each test conducted in response to communications with or at the request of the Customer will be given by FortisBC Energy to the Customer sufficiently in advance to permit a representative of the Customer to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Customer is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Customer will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 7.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.

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- 7.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible.
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and
 - (c) by estimating the quantity of Gas delivered to the Customer during the preceding periods under similar conditions when the meter was registering accurately.
- 7.6 **Customer's Equipment** - The Customer may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Customer will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 7.7 **Right to be Present** - FortisBC Energy and the Customer will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 7.8 **Preservation of Records** - Both parties will be preserve each test datum, chart and other record of Gas measurement for a period of 2 years.

8. Measurement

- 8.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.

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8.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Department of Consumer & Corporate Affairs of Canada and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.

8.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10^3m^3 rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

9. Default or Bankruptcy

9.1 **Default** - If the Customer at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Service Agreement within 30 days after payment is due, or
- (b) to cure any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Service Agreement, within 30 Days after FortisBC Energy gives to the Customer notice of such default or, in the case of a default that cannot with due diligence be cured within a period of 30 Days, the Customer fails to proceed promptly after the giving of such notice with due diligence to cure the same and thereafter to prosecute the curing of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, at its option and without liability therefore

- (a) suspend further service to the Customer and may refuse to deliver Gas to the Customer until the default has been fully remedied, and no such suspension or refusal will relieve the Customer from any obligation under this Rate Schedule or the Service Agreement, or
- (b) terminate the Service Agreement, and no such termination of the Service Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Customer for what would otherwise have been the remainder of the term of the Service Agreement.

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- 9.2 **Bankruptcy or Insolvency** - If the Customer becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Customer seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Service Agreement by giving notice in writing to the Customer and thereupon FortisBC Energy may cease further delivery of Gas to the Customer and the amount then outstanding for Gas provided under the Service Agreement will immediately be due and payable by the Customer.

10. Notice

- 10.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Service Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT:	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
LEGAL AND OTHER:	Attention: Director, Legal Services Telephone: (604) 443-6512 Fax: (604) 443-6540

If to the Customer, then as set out in the Service Agreement.

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10.2 **Specific Notices** - Notwithstanding section 10.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Customer as authorized to receive such notices, or
- (b) given by the Customer by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure... "Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 4 of the Service Agreement) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 6 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure... "Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 6 and the Service Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

11. Interpretation

11.1 **Definitions in General Terms and Conditions of FortisBC Energy** - Except where the context requires otherwise or except as otherwise expressly provided in this Rate Schedule, all words and phrases defined in the General Terms and Conditions and used in this Rate Schedule or in a Service Agreement have the meanings set out in the General Terms and Conditions.

11.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the meaning of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the term of the Service Agreement will be similarly adjusted.

11.3 **Further Definitions** - Additionally, except where the context requires otherwise, each of the words and phrases described in the Definitions have the meanings as set out in the Definitions.

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11.4 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Service Agreement

- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
- (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
- (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
- (d) all words, phrases and expressions used in this Rate Schedule or in a Service Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Service Agreement have the meanings commonly ascribed thereto in the gas industry, and
- (e) the headings of the sections set out in this Rate Schedule or in the Service Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Service Agreement.

12. Miscellaneous

12.1 **Waiver** - No waiver by either FortisBC Energy or the Customer of any default by the other in the performance of any of the provisions of this Rate Schedule or the Service Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.

12.2 **Enurement** - The Service Agreement will enure to the benefit and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.

12.3 **Assignment** - The Customer will not assign the Service Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Customer from its obligations under this Rate Schedule or under the Service Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Customer.

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- 12.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Service Agreement will be effective or binding upon the parties unless such amendment or variation is set forth in writing and duly executed by the parties.
- 12.5 **Proper Law** - The Service Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 12.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Service Agreement and of the terms and conditions thereof.
- 12.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Service Agreement and the rights and obligations of FortisBC Energy and the Customer under this Rate Schedule and the Service Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Customer.
- 12.8 **Further Assurances** - Each of FortisBC Energy and the Customer will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Service Agreement and to assure the completion of the transactions contemplated hereby.
- 12.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Service Agreement will be made by telegraphic transfer to, or cheque or bank cashier's cheque drawn on, a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Definitions

- (a) **British Columbia Utilities Commission** - means the British Columbia Utilities Commission constituted under the *Utilities Commission Act* of British Columbia and includes and is also a reference to
- (i) any commission that is a successor to such commission, and
 - (ii) any commission that is constituted pursuant to any statute that may be passed which supplements or supersedes the *Utilities Commission Act* of British Columbia.
- (b) **Commencement Date** - means the Day specified as the Commencement Date in the Service Agreement.
- (c) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (d) **Customer** - means a person who enters into a Service Agreement with FortisBC Energy.
- (e) **Day** - means, subject to section 11.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (f) **Definitions** - means the definitions appended to this Rate Schedule.
- (g) **Delivery Point** - means the point specified in a Service Agreement where FortisBC Energy delivers Gas to a Customer.
- (h) **Force Majeure** - means 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 the public enemy, wars, riots, blackouts, insurrections, failure or inability to secure materials or labour by reason of priority, regulations or orders of government, serious epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipes, or freezing of wells or pipelines, or the failure of Gas supply, temporary or otherwise, from a Supplier of Gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of Force Majeure by a Transporter that results in Gas being unavailable for delivery.

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- (i) **FortisBC Energy** - means FortisBC Energy Inc., a body corporate incorporated pursuant to the laws of the Province of British Columbia under number ~~XXXXXXXX~~
- (j) **FortisBC Energy System** - means the Gas transmission and distribution system owned and operated by FortisBC Energy, as such system is expanded, reduced or modified from time to time.
- (k) **Franchise Fees** - means the aggregate of all monies payable by FortisBC Energy to a municipality or First Nations lands (formerly, reserves within the *Indian Act*)
- (i) for the use of the streets and other property to construct and operate the utility business of FortisBC Energy within a municipality or First Nations lands (formerly, reserves within the *Indian Act*),
 - (ii) relating to the revenues received by FortisBC Energy for services provided and Gas consumed within the municipality or First Nations lands (formerly, reserves within the *Indian Act*), and
 - (iii) relating, if applicable, to the value of Gas transported by FortisBC Energy through the municipality or First Nations lands (formerly, reserves within the *Indian Act*).
- (l) **Gas** - means the residue remaining after raw gas has been subjected to any or all of the following permissible processes
- (i) the removal of any of its constituent parts other than methane, and the removal of methane to such extent as is necessary in removing other constituents,
 - (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, gathering, transmission, transportation, storage, removal from storage and delivery, and
 - (iii) the addition of odorant by FortisBC Energy,
- but for greater certainty Gas does not include propane.
- (m) **General Terms and Conditions** - means the general terms and conditions of FortisBC Energy from time to time approved by the British Columbia Utilities Commission.
- (n) **Heat Content** - means the gross heating value of the Gas, determined on the basis of a temperature of 15° Celsius with the Gas free of all water vapour and at an absolute pressure of 101.325 kilopascals, with the products of combustion cooled to the initial temperature of the Gas and the water formed by the combustion condensed to the liquid state. The Heat Content will be expressed in megajoules per cubic metre of Gas (MJ/m³) rounded to two decimal places.

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- (o) **Hour** - means any consecutive 60 minute period.
- (p) **Month** - means, subject to any changes from time to time required by FortisBC Energy in the starting time of its Gas Day, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.
- (q) **NGV** - means natural gas for vehicles
- (r) **NGV Firm Gas Service** - means the sale and delivery of Gas on a firm basis to the Customer.
- (s) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (t) **Rate Schedule 6 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, Definitions and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (u) **Service Agreement** - means an agreement between FortisBC Energy and a Customer to provide service pursuant to this Rate Schedule.
- (v) **Supplier** - means a party who sells Gas to FortisBC Energy.
- (w) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (x) **Transporter** - means ~~TransCanada PipeLines Limited, B.C. System, Nova Gas Transmission Ltd., Westcoast Energy Inc., FortisBC Huntingdon Inc.,~~ and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas ~~transportation~~, or resale.
- (y) **10³m³** - means 1,000 cubic metres.

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Table of Charges

	<u>Mainland Area</u>	<u>Fort Nelson Area</u>	<u>Vancouver Island and Whistler Areas</u>
Delivery Margin Related Charges			
1. Basic Charge per Day	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
2. Delivery Charge per Gigajoule	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
3. Rider 2 per Gigajoule	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
4. Rider 4 per Gigajoule	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
Commodity Related Charges			
5. Commodity Cost Recovery Charge per Gigajoule	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
6. Midstream Cost Recovery Charge per Gigajoule	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
7. Rider 6 per Gigajoule	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
Subtotal of per Gigajoule Commodity Related Charges	\$ <u>X</u>	\$ <u>X</u>	\$ <u>X</u>
Delivery Margin Related Riders			
Rider 2	<u>Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014</u>		
Rider 3	(Reserved for future use.)		
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Rider 4 Phase In Rider – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

Rider 5 Revenue Stabilization Adjustment Charge - Not applicable.

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Rider 7 (Reserved for future use)

Commodity Cost Recovery Related Riders

Rider 1 Propane Surcharge - Not applicable.

Midstream Cost Recovery Related Riders

Rider 6 Midstream Cost Reconciliation Account - Applicable to all Customers served by FortisBC Energy, excluding Revelstoke, for the Year ending December 31, 2014.

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Franchise Fee Charge, if applicable, will be payable in addition to the above charges.

Minimum Charge per Month - The minimum charge per Month, will be the Basic Charge and, if applicable, the Franchise Fee Charge as specified in the Service Agreement.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

Special Conditions

FortisBC Energy may, in its sole discretion, reduce the Delivery Charge per Gigajoule to any Customer where such reduction is necessary to encourage expansion of the NGV market. Any reduction in the Delivery Charge will be specified in the Service Agreement.

FortisBC Energy may make a promotional grant towards the cost to purchase a factory-built NGV vehicle, or the cost to convert a vehicle to natural gas to meet requirements as set by the Government of Canada, provided that such vehicles will obtain Gas from refuelling facilities in an area served by FortisBC Energy. The amount of the grant would not exceed \$10 per GJ, based on estimated consumption over a one year period, up to a maximum total grant by vehicle type as listed in the table below:

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FortisBC Energy Inc.
Rate Schedule 6

Factory Built NGV Incentive Grants		
Vehicle Description	GVW (#)	Maximum Grant
Light Duty	< 10,000	\$ 2,500
Medium Duty	< 17,000	\$ 5,000
Heavy Duty	> 17,000	\$ 10,000

The amount of each grant will not exceed the 5 year projected net revenue to FortisBC Energy from each corresponding vehicle.

FortisBC Energy may also fund Special Demonstration project grants, tied to an individual vehicle purchased by a customer. The amount of the Special Demonstration grant will not exceed the premium cost for the natural gas option for the vehicle. The total funds paid out under the Special Demonstration project grants will not exceed \$100,000 in any one year.

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NATURAL GAS VEHICLE SERVICE AGREEMENT

This Agreement dated the _____ day of _____, 20____, is between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Customer").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System;
- B. The Customer is the operator of _____ located in or near _____ (the "Premises") in the Province of British Columbia, from which the Customer desires to dispense NGV;
- C. The Customer / or _____ is the registered owner of the Premises;
- D. The Customer desires to purchase from FortisBC Energy NGV Firm Gas Service for the Premises in accordance with Rate Schedule 6.

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

1. Specific Information

Estimated Maximum Consumption _____ Gigajoules per day
(Maximum Day Delivery)

and _____ Gigajoules per hour

Commencement Date: _____

Expiry Date of First Contract Term: One year after commencement date

Automatic Contract Extension: Year to Year

Delivery Point: _____

Gauge Pressure at the Delivery Point: _____ kilopascals

Service Address: _____

Account Number: _____

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Address of Customer for receiving notices:

(name of Customer) Attention: _____

(address of Customer) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this Service Agreement or Rate Schedule 6 to any such information is to the information set out above.

2. Rate Schedule 6

- 2.1 **Additional Terms** - All rates, terms and conditions set out in Rate Schedule 6 or the General Terms and Conditions, as either of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the rates, terms and conditions contained in this Service Agreement and form part of this Service Agreement and bind FortisBC Energy and the Customer as if set out herein.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing and except as specified in this Service Agreement, the Customer will pay to FortisBC Energy all of the amounts set out in Rate Schedule 6 for the services provided under Rate Schedule 6 and this Service Agreement.
- 2.3 **Conflict** - Where anything in either Rate Schedule 6 or the General Terms and Conditions of FortisBC Energy conflicts with any of the rates, terms and conditions set out in this Service Agreement, this Service Agreement governs. Where anything in Rate Schedule 6 conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, Rate Schedule 6 governs.

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3. Limitation on Liability and Indemnity

- 3.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment permitted under the General Terms and Conditions of FortisBC Energy, this Service Agreement or Rate Schedule 6.
- 3.2 **Indemnity** - The Customer will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgements, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of
- (a) Franchise fees not otherwise collected by FortisBC Energy under the Table of Charges, and
 - (b) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Customer or on the delivery of Gas to the Customer by FortisBC Energy, or on any other service provided by FortisBC Energy to the Customer.
- 3.3 These indemnities will survive the termination of this Agreement.

4. Force Majeure

- 4.1 **Force Majeure** - Subject to the other provisions of this section 4, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Service Agreement, the obligations of both FortisBC Energy and the Customer will be suspended to the extent necessary for the period of the Force Majeure condition.
- 4.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 4, FortisBC Energy will be deemed to have issued to the Customer a notice of curtailment.

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4.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 4.1 of this agreement under any of the following circumstances

- (a) to the extent that the failure was caused by the 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 the 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 Service Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.

4.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.

4.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 4, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 4.1 of this agreement.

4.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 4, Force Majeure will not relieve or release either party from its obligations to make payments to the other.

4.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will endeavour to give the Customer as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will use all diligence to restore service as quickly as possible.

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5. Arbitration

- 5.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 5.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting forth the nature of the dispute.
- 5.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 5.2 of this agreement to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Customer or FortisBC Energy.
- 5.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 5.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

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6. Rates

6.1 For NGV Firm Gas Service, the Customer agrees to pay (check one):

_____ the charges set out in the Table of Charges of Rate Schedule 6, which may be amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission

or

_____ the following special charges, fixed for the term of the Service Agreement.

plus the Gas Cost Recovery Charge per Gigajoule, as set out in the Table of Charges of Rate Schedule 6.

IN WITNESS WHEREOF the parties hereto have executed this Service Agreement.

FORTISBC ENERGY INC.

(here insert name of Customer)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 7
GENERAL INTERRUPTIBLE SERVICE**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise, all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Service Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Commencement Date** - means the Day specified as the Commencement Date in the Service Agreement.
- (b) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (c) **Customer** - means a person who enters into a Service Agreement with FortisBC Energy.
- (d) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive Hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (e) **Delivery Point** - means the point specified in a Service Agreement where FortisBC Energy delivers Gas to a Customer.
- (f) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of Gas supply, temporary or otherwise, from a Supplier of Gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in Gas being unavailable for delivery.
- (g) **Interruption Period** - means the period or periods during which the Customer is required pursuant to section 4.2 (Curtailment), 4.3 (Notice of Curtailment) or section 14 (Force Majeure) to interrupt or curtail the receipt of Gas.

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- (h) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first Day of the calendar Month and ending at 7:00 a.m. Pacific Standard Time on the first Day of the next succeeding calendar Month.
- (i) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (j) **Rate Schedule 7 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (k) **Service Agreement** - means an agreement between FortisBC Energy and a Customer to provide service pursuant to this Rate Schedule.
- (l) **Supplier** - means a party who sells Gas to FortisBC Energy or has access to its own supplies of Gas.
- (m) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (n) **Transporter** - means TransCanada's PipeLines Limited, B.C. System, Nova Gas Transmission Ltd., Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.
- (o) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (p) **Unauthorized Overrun Gas** - means any Gas taken on any Day by a Customer in excess of the curtailed quantity specified in any notice from FortisBC Energy to interrupt or curtail the Customer's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Customer to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.

1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 Hours will be made and the term of the Service Agreement will be similarly adjusted.

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2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule applies to the provision of a bundled interruptible transportation service and the sale of firm Gas, no portion of which may be resold, through one meter station to a Customer. For greater certainty, interruptible transportation service under this Rate Schedule means the provision by FortisBC Energy of transportation service to a Customer which may be interrupted or curtailed by FortisBC Energy pursuant to sections 4.2 (Curtailment), 11 (Default or Bankruptcy) and 14 (Force Majeure) and the General Terms and Conditions of FortisBC Energy. For greater certainty, firm Gas supply under this Rate Schedule means the Gas FortisBC Energy is obligated to sell to a Customer on a firm basis subject to interruption or curtailment pursuant to sections 11 (Default for Bankruptcy), 14 (Force Majeure) and the General Terms and Conditions of FortisBC Energy.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy will only sell Gas under this Rate Schedule to Customers under the FortisBC Energy tariff of which this Rate Schedule is a part if the following conditions are met:
- (a) the Customer has entered into a General Interruptible Service Agreement (Service Agreement),
 - (b) adequate Gas volumes for such service are available,
 - (c) adequate capacity exists on the FortisBC Energy System,
 - (d) at all times when adequate quantities of Gas are available for sale by FortisBC Energy to the Customer at the facilities specified in the Service Agreement, the Customer will use such Gas as the only Gas for such facilities,
 - (e) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 9.1 (Facilities and Equipment), and
 - (f) the Customer has provided FortisBC Energy with no less than 2 Months notice of their intention to receive service under this Rate Schedule.

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3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Customer to FortisBC Energy under the Service Agreement, FortisBC Energy may require the Customer to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Customer under this Rate Schedule and the Service Agreement for a period of 90 Days. Where FortisBC Energy requires a Customer to provide a letter of credit and the Customer is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

3.3 **Warning Relating to Firm Sales or Firm Transportation Rate Schedule** - A Customer wishing to switch at the end of the term of an interruptible Service Agreement to a firm Gas sales or firm transportation Rate Schedule must comply with the requirements set out in the applicable Rate Schedule, including the following

- (a) give 12 Months prior notice to FortisBC Energy of the Customer's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such cost.

Notwithstanding section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Customer on less than 12 Months' prior notice if FortisBC Energy is able, with such shorter notice, to arrange for the firm purchase and transportation of Gas under a Firm Sales Rate Schedule, or transportation of Gas under a Firm Transportation Rate Schedule.

4. Sales

4.1 **Sale of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service), FortisBC Energy will sell to the Customer and the Customer will buy from FortisBC Energy at the Delivery Point such quantity of Gas as is required by the Customer for the operation of the Customer's facilities specified in the Service Agreement, estimated to be the maximum quantity per Day set out in the Service Agreement, for the charges and on all of the terms and conditions set out in either this Rate Schedule or the Service Agreement.

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- 4.2 **Curtailment** - If at any time FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate the Customer's request for interruptible Gas service under this Rate Schedule, FortisBC Energy may, for any length of time, interrupt or curtail the delivery of Gas to the Customer at the Delivery Point under this Rate Schedule.
- 4.3 **Notice of Curtailment** - Each notice from FortisBC Energy to the Customer with respect to the interruption or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and/or fax and will specify the quantity of Gas to which the Customer is curtailed and the time at which such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Customer as much notice as possible with respect to such curtailment, not to be less than 2 Hours' prior notice unless prevented by Force Majeure.
- 4.4 **Default Regarding Curtailment** - The Customer will comply with each notice from FortisBC Energy to interrupt or curtail the Customer's take. If the Customer at any time fails or neglects to comply with a notice from FortisBC Energy to interrupt or curtail the Customer's take, FortisBC Energy may, in addition to any other remedy that it may then or thereafter have, at its option, without liability therefore and without any prior notice to the Customer
- (a) turn off the valve at the Delivery Point, or
- (b) deliver such Gas and charge the Customer for such Gas consumed on that Day the charge for Unauthorized Overrun Gas set out in the Table of Charges.
- 4.5 **Failure to Comply** - If during any one Contract Year the Customer fails or neglects to comply with three notices from FortisBC Energy to interrupt or curtail the Customer's take, unless the Customer provides to FortisBC Energy assurances, to the satisfaction of FortisBC Energy, that the Customer will comply with all further interruption or curtailment notices, FortisBC Energy may, in addition to any other remedy that it may then or thereafter have, at its option and without liability therefor, switch the Customer to a firm Gas sales Rate Schedule, beginning at the commencement of the next following Month. If the Customer and FortisBC Energy do not execute a new Service Agreement pursuant to the firm Gas sales Rate Schedule, from the date of such switch the Service Agreement will be deemed to be a Service Agreement pursuant to the firm Gas sales Rate Schedule, with all necessary changes.
- 4.6 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to deliver in any one Hour more than 5% of the maximum quantity per Day set out in the Service Agreement.

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- 4.7 **Gas Pressure** - Where specifically requested by the Customer, FortisBC Energy may agree to deliver Gas to the Customer at the Delivery Point at a minimum pressure specified in the Customer's Service Agreement. The Customer will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas from the Transporter at the pressure specified in the Transporter's Service Terms.

5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Service Agreement, the Customer will pay to FortisBC Energy all of the charges set out in the Table of Charges.

6. Unauthorized Gas Use

- 6.1 **Charges for Unauthorized Service** - On any Day the Customer takes Unauthorized Overrun Gas, the Customer will pay to FortisBC Energy the unauthorized overrun charge set out in the Table of Charges.
- 6.2 **Payments Not License** - Payments made by the Customer to FortisBC Energy for Unauthorized Overrun Gas neither give the Customer the right to take Unauthorized Overrun Gas, nor exclude or limit any other remedies available to FortisBC Energy for the Customer's taking of Unauthorized Overrun Gas.

7. Term of Service Agreement

- 7.1 **Term** - The initial term of the Service Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1 next following, provided that if the foregoing would result in the initial term being for a period of less than one Year, then the initial term will instead expire at the end of one further Contract Year.

- 7.2 **Automatic Renewal** - Except as specified in the Service Agreement, the term of the Service Agreement will continue from Year to Year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Customer, subject to section 3.3, upon not less than 2 Months notice prior to the end of the Contract Year then in effect.
- 7.3 **Early Termination** - The term of the Service Agreement is subject to early termination in accordance with section 11 (Default or Bankruptcy).
- 7.4 **Survival of Covenants** - Upon the termination of the Service Agreement, whether pursuant to section 11 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Service Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Service Agreement,
- will survive such termination.

8. Statement and Payments

- 8.1 **Statements to be Provided** - FortisBC Energy will, on or about the 15th Day of each Month, deliver to the Customer a statement for the preceding Month showing the Gas quantities delivered to the Customer and the amount due. FortisBC Energy will, on or about the 45th Day after the end of a Contract Year, deliver to the Customer a separate statement for the preceding Contract Year showing the amount required from the Customer in respect of any indemnity due under this Rate Schedule or a Service Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one Year after the date of the statement.
- 8.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business Day after the 21st calendar Day following the billing date. If the Customer fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Customer a late payment charge of 1½% per Month (19.56% per annum) on the outstanding amount.

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- 8.3 **Examination of Records** - Each of FortisBC Energy and the Customer will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Service Agreement.

9. Measuring Equipment

- 9.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Customer and the Customer will permit FortisBC Energy, without cost to FortisBC Energy, to use the Customer's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy. Communication facilities and equipment will be installed at the cost of the Customer.
- 9.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 9.1 (Facilities and Equipment) on the Customer's property, the Customer will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Customer's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Service Agreement.
- 9.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Customer. Notice of the time and nature of each test conducted in response to communications with or at the request of the Customer will be given by FortisBC Energy to the Customer sufficiently in advance to permit a representative of the Customer to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Customer is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Customer will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.

- 9.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 Months.
- 9.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and
 - (c) by estimating the quantity of Gas delivered to the Customer during the preceding periods under similar conditions when the meter was registering accurately.
- 9.6 **Customer's Equipment** - The Customer may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Customer will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 9.7 **Right to be Present** - FortisBC Energy and the Customer will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business Hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 9.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 Years.

10. Measurement

- 10.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 10.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 10.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

11. Default or Bankruptcy

11.1 Default - If the Customer at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Service Agreement within 30 Days after payment is due, or
- (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Service Agreement, within 30 Days after FortisBC Energy gives to the Customer notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 Days, the Customer fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in sections 4.4 (Default Regarding Curtailment), 4.5 (Failure to Comply) and 6 (Unauthorized Gas Use), at its option and without liability therefore

- (a) suspend further service to the Customer and may refuse to deliver Gas to the Customer until the default has been fully remedied, and no such suspension or refusal will relieve the Customer from any obligation under this Rate Schedule or the Service Agreement, or

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- (b) terminate the Service Agreement, and no such termination of the Service Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Customer for what would otherwise have been the remainder of the term of the Service Agreement.

- 11.2 **Bankruptcy or Insolvency** - If the Customer becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Customer seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Service Agreement by giving notice in writing to the Customer and thereupon FortisBC Energy may cease further delivery of Gas to the Customer and the amount then outstanding for Gas provided under the Service Agreement will immediately be due and payable by the Customer.

12. Notice

- 12.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Service Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
CUSTOMER RELATIONS:	Attention: Commercial & Industrial Energy Solutions Telephone: (604) 592-7843 Fax: (604) 592-7894

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LEGAL AND OTHER:

Attention: Director, Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Customer, then as set out in the Transportation Agreement.

12.2 **Specific Notices** - Notwithstanding section 12.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Customer as authorized to receive such notices, or
- (b) given by the Customer by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure..."Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 14) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 7 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 7 and the Service Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

13. **Indemnity and Limitation on Liability**

13.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of Gas service permitted under the General Terms and Conditions of FortisBC Energy or this Rate Schedule.

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13.2 **Indemnity** - The Customer will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following

- (a) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges, and
- (b) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Customer or on the delivery of Gas to the Customer by FortisBC Energy, or on any other service provided by FortisBC Energy to the Customer.

14. Force Majeure

14.1 **Force Majeure** - Subject to the other provisions of this section 14, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Service Agreement, the obligations of both FortisBC Energy and the Customer will be suspended to the extent necessary for the period of the Force Majeure condition.

14.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 14, FortisBC Energy will be deemed to have issued to the Customer a notice of curtailment.

14.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 14.1 under any of the following circumstances

- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Service Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.

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- 14.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 14.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 14.1.
- 14.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 14, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 14.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Customer as much notice as possible with respect to such interruption, not to be less than 8 Hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacements to minimize interruption of Gas service to the Customer and to restore service as quickly as possible.
- 14.8 **Alteration of Facilities** - The Customer will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Customer and to restore such facilities after the Force Majeure ends.

15. Arbitration

- 15.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Service Agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 15.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.

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- 15.3 **Arbitrator** - The parties will have 10 Days from receipt of the demand referred to in section 15.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Customer or FortisBC Energy.
- 15.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 Days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 Days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 15.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

16. Interpretation

- 16.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Service Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Service Agreement that have a common usage in the Gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Service Agreement have the meanings commonly ascribed thereto in the Gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Service Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Service Agreement.

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17. Miscellaneous

- 17.1 **Waiver** - No waiver by either FortisBC Energy or the Customer of any default by the other in the performance of any of the provisions of this Rate Schedule or the Service Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 17.2 **Enurement** - The Service Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 17.3 **Assignment** - The Customer will not assign the Service Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Customer from its obligations under this Rate Schedule or under the Service Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Customer.
- 17.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Service Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 17.5 **Proper Law** - The Service Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 17.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Service Agreement and of the terms and conditions thereof.
- 17.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Service Agreement and the rights and obligations of FortisBC Energy and the Customer under this Rate Schedule and the Service Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Customer.

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- 17.8 **Further Assurances** - Each of FortisBC Energy and the Customer will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Service Agreement and to assure the completion of the transactions contemplated hereby.
- 17.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Service Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on, a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

	<u>Mainland Area</u>	<u>Fort Nelson Area</u>	<u>Vancouver Island and Whistler Areas</u>
Delivery Margin Related Charge			
1. Basic Charge per Month	\$ X	\$ X	\$ X
2. Delivery Charge per Gigajoule (not in excess of curtailment notice)	\$ X	\$ X	\$ X
3. Rider 2 per Gigajoule	\$ X	\$ X	\$ X
4. Rider 4 per Gigajoule	\$ X	\$ X	\$ X
Commodity Related Charges			
5. Commodity Cost Recovery Charge per Gigajoule	\$ X ¹	\$ X ¹	\$ X ¹
6. Midstream Cost Recovery Charge per Gigajoule	\$ X ¹	\$ X ¹	\$ X ¹
7. Rider 6 per Gigajoule	\$ X	\$ X	X
Subtotal of per Gigajoule Commodity Related Charges	\$ X	\$ X	\$ X
8. Charge for Unauthorized Overrun Gas			
(i) Per Gigajoule on first 5 percent of specified quantity	Sumas Daily Price ^{2, 3}	Sumas Daily Price ^{2, 3}	Sumas Daily Price ^{2, 3}
(ii) Per Gigajoule on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ² .	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ² .	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ² .

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Delivery Margin Related Riders

Rider 2 Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014

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Rider 3 (Reserved for future use.)

Rider 4 Phase In Rider – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

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Rider 5 Revenue Stabilization Adjustment Charge - Not applicable.

Commodity Cost Recovery Related Riders

Rider 1 Propane Surcharge - Not applicable.

Midstream Cost Recovery Related Riders

Rider 6 Midstream Cost Reconciliation Account - Applicable to all Customers served by FortisBC Energy, excluding Revelstoke, for the Year ending December 31, 2014.

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Franchise Fee Charge of 3.09% of the aggregate of the above charges is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the municipal boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per Month - The minimum charge per Month will be the basic charge and the Franchise Fee Charge.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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Notes:

1. **Commodity and Midstream Cost Recovery Charges** - the commodity and midstream cost recovery charges are subject to change in accordance with changes to the Rate Schedule 5 commodity and midstream cost recovery charges.
2. **Sumas Daily Price** - "Sumas Daily Price" means the Canadian Gas NW Sumas Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to \$CDN per Gigajoule using the noon exchange rate as quoted by the Bank of Canada one business Day prior to Gas flow date. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
3. **Unauthorized Overrun Gas** - The charges on the first 5 percent of Unauthorized Overrun Gas are subject to change at any time that there is a change in the rates to residential customers.

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GENERAL INTERRUPTIBLE SERVICE AGREEMENT

This Agreement is dated _____, 20____, between FortisBC Energy Inc.
("FortisBC Energy") and _____ (the "Customer").

WHEREAS:

FortisBC Energy owns and operates the FortisBC Energy System;

The Customer is the owner and operator of a _____ located in
or near _____, British Columbia; and

The Customer desires to purchase from FortisBC Energy bundled interruptible Gas
transportation service and firm gas supply for such facilities in accordance with Rate
Schedule 7 and the terms set out herein.

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

1. Specific Information

Estimated Maximum Quantity _____ Gigajoules per day

Commencement Date: _____

Expiry Date: _____
(only specify an expiry date if term of Service Agreement is not to automatically continue
from year to year as set out in section 7.2 of Rate Schedule 7)

Delivery Point: _____

Pressure at the Delivery Point: _____
(only specify where applicable as set out in section 4.7 of Rate Schedule 7)

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Address of Customer for receiving notices:

(name of Customer) Attention: _____

(address of Customer) Telephone: _____

_____ Fax: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or Rate Schedule 7 to any such information is to the information set out above.

2. Rate Schedule 7

- 2.1 **Additional Terms** - All rates, terms and conditions set out in Rate Schedule 7 and the General Terms and Conditions of FortisBC Energy, as either of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Service Agreement and form part of this Service Agreement and bind FortisBC Energy and the Customer as if set out herein.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Customer will pay to FortisBC Energy all of the amounts set out in Rate Schedule 7 for the services provided under that Rate Schedule and this Service Agreement.
- 2.3 **Conflict** - Where anything in either Rate Schedule 7 or the General Terms and Conditions of FortisBC Energy conflicts with any of the rates, terms and conditions set out in this Service Agreement, this Service Agreement governs. Where anything in Rate Schedule 7 conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, Rate Schedule 7 governs.

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- 2.4 **Acknowledgment** - The Customer acknowledges receiving and reading a copy of Rate Schedule 7 and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, the Customer acknowledges that it is able to accommodate interruption or curtailment of Gas service and releases FortisBC Energy from any liability for the Customer's inability to accommodate an interruption or curtailment of Gas service.

IN WITNESS WHEREOF the parties hereto have executed this Service Agreement.

FORTISBC ENERGY INC.

(here insert name of Customer)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 22
LARGE VOLUME TRANSPORTATION**

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Rate Schedule 22

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Authorized Quantity** - means, subject to interruptions or curtailments as provided in section 4 (Transportation) or due to provisions of the Transportation Agreement, the quantity of energy (in Gigajoules) for each Day approved by the Transporter for transportation service on the Transporter's pipeline system, based on the quantity requested pursuant to section 8.2 (Requested Quantity), adjusted as set out in section 8.3 (Adjustment of Requested Quantity) or the quantity of energy approved for sale by FortisBC Energy under an applicable Rate Schedule, or any component or aggregate of these quantities, as the context requires.
- (b) **Backstopping Gas** - means Gas made available by FortisBC Energy as an interruptible backup supply if on any Day the Authorized Quantity is less than the Requested Quantity, adjusted as set out in section 8.3 (Adjustment of Requested Quantity).
- (c) **Balancing Gas** - means any Gas taken during a Day which is in excess of the Authorized Quantity, subject to section 9.2 (Provision of Gas Balancing).
- (d) **Commencement Date** - means the day specified as the Commencement Date in the Transportation Agreement or a Sales Agreement, as the context requires.
- (e) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (f) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (g) **Delivery Point** - means the point specified in a Sales or Transportation Agreement where FortisBC Energy delivers Gas to a Customer or a Shipper.
- (h) **Demand Surcharge Quantity** - has the meaning ascribed thereto in section 7.3 (Demand Surcharge).

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- (i) **DTQ or Daily Transportation Quantity** - means the Firm DTQ.
- (j) **Firm DTQ** - means the maximum quantity of Gas that FortisBC Energy is obligated to transport for and deliver on a firm basis to a Shipper at the Delivery Point on any particular Day, which reasonably reflects the Shipper's requirements and is specified in a Transportation Agreement.
- (k) **Firm MTQ** - means the firm transportation quantity delivered during a Month under this Rate Schedule, more specifically described as the lesser of the following quantities of Gas
 - (i) the quantity of Gas FortisBC Energy has sold to or received from a Shipper during a Month plus any imbalance carried forward from the previous Month, and
 - (ii) the quantity of Gas obtained by multiplying the Firm DTQ by the number of Days in the Month, adjusted to reflect any quantity of Gas the Shipper fails to deliver to the Interconnection Point when provided by FortisBC Energy to the Transporter and any adjustment pursuant to section 6.3 (Reduced MTQ), such adjustments, if overlapping, to only count once.
- (l) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in Gas being unavailable for delivery at the Interconnection Point.
- (m) **Group** - means a group of Shippers who each transport Gas under a transportation Rate Schedule, have a common Shipper Agent, and who have each entered into a Transportation Agreement.
- (n) **Interconnection Point** - means a point where the FortisBC Energy System interconnects with the facilities of one of the Transporters of FortisBC Energy, as specified in a Transportation Agreement.
- (o) **Interruptible MTQ** - means the interruptible transportation quantity delivered during a Month under this Rate Schedule, more specifically described as the quantity of Gas delivered to a Shipper at the Delivery Point during a Month, less the Firm MTQ and any Unauthorized Overrun Gas taken during that Month.

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- (p) **Minimum Quantity** - means 12,000 Gigajoules per Month modified by any adjustments for curtailment or Force Majeure as set out in section 6.2 (Minimum Charge Credits).
- (q) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.
- (r) **MTQ or Monthly Transportation Quantity** - means the firm Monthly Transportation Quantity or the interruptible Monthly Transportation Quantity, or both, as the context requires.
- (s) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (t) **Rate Schedule 22 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (u) **Rate Schedule 22A** - means Rate Schedule 22A, including all rates, terms and conditions, and the Table of Charges appended thereto, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (v) **Rate Schedule 22B** - means Rate Schedule 22B, including all rates, terms and conditions, and the Table of Charges appended thereto, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (w) **Requested Quantity** - means the quantity of energy for each Day requested for firm and interruptible transportation under Rate Schedule 22, or for sales by FortisBC Energy under an applicable Rate Schedule, or any component or aggregate of these quantities, as the context requires.
- (x) **Sales Agreement** - means an agreement between FortisBC Energy and the Shipper for the sale of Gas pursuant to an applicable Rate Schedule, as the context requires.
- (y) **Shipper** - means a person who enters into a Transportation Agreement with FortisBC Energy who is also the consumer of the Gas transported.
- (z) **Shipper Agent** - means a person who enters into a Shipper Agent Agreement with FortisBC Energy.

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- (aa) **Shipper Agent Agreement** - means an agreement between FortisBC Energy and a Shipper Agent pursuant to which the Shipper Agent agrees to act as agent for a Group.
- (bb) **Supplier** - means a party who sells Gas to a Shipper or FortisBC Energy or has access to its own supplies of Gas.
- (cc) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule, or in the specific context of Rate Schedules 22A and 22B, the Table of Charges appended to such respective Rate Schedule.

(dd) **Transportation Agreement** - means an agreement between FortisBC Energy and a Shipper to provide service pursuant to a transportation Rate Schedule.

(ee) **Transportation Areas** - for the purposes of this Rate Schedule, means the following transportation areas when applying to group nomination and balancing.

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**Lower Mainland
Transportation Area**

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Abbotsford</u>	<u>New Westminster</u>
<u>Anmore</u>	<u>North Vancouver City</u>
<u>Belcarra</u>	<u>North Vancouver Dist.</u>
<u>Burnaby</u>	<u>Pitt Meadows</u>
<u>Chilliwack</u>	<u>Port Coquitlam</u>
<u>Coquitlam</u>	<u>Port Moody</u>
<u>Delta</u>	<u>Richmond</u>
<u>Harrison Hot Springs</u>	<u>Squamish</u>
<u>Hope</u>	<u>Surrey</u>
<u>Kent</u>	<u>Vancouver</u>
<u>Langley City</u>	<u>West Vancouver</u>
<u>Langley District</u>	<u>White Rock</u>
<u>Maple Ridge</u>	
<u>Matsqui</u>	
<u>Mission</u>	

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**Inland
Transportation Area**

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Armstrong</u>	<u>Nelson</u>
<u>Ashcroft</u>	<u>Okanagan Falls</u>
<u>Bear Lake</u>	<u>Oliver</u>
<u>Cache Creek</u>	<u>100 Mile House</u>
<u>Castlegar</u>	<u>108 Mile House</u>
<u>Chase</u>	<u>150 Mile House</u>
<u>Chetwynd</u>	<u>Osoyoos</u>
<u>Christina Lake</u>	<u>Oyama</u>
<u>Clinton</u>	<u>Peachland</u>
<u>Coldstream</u>	<u>Penticton</u>
<u>Collettville</u>	<u>Prince George</u>
<u>Craigmont</u>	<u>Princeton</u>
<u>Falkland</u>	<u>Quesnel</u>
<u>Ferguson Lake</u>	<u>Revelstoke</u>
<u>Fruitvale</u>	<u>Robson</u>
<u>Gibraltar Mines</u>	<u>Rossland</u>
<u>Grand Forks</u>	<u>Salmo</u>
<u>Greenlake</u>	<u>Salmon Arm</u>
<u>Greenwood</u>	<u>Savona</u>
<u>Hedley</u>	<u>Shelley</u>
<u>Hixon</u>	<u>Sorrento</u>
<u>Honeymoon Creek</u>	<u>Spallumcheen</u>
<u>Hudson's Hope</u>	<u>Summerland</u>
<u>Kamloops</u>	<u>Trail</u>
<u>Kelowna</u>	<u>Vernon</u>
<u>Keremeos</u>	<u>Warfield</u>
<u>Lac La Hache</u>	<u>Westbank</u>
<u>Lakeview Heights</u>	<u>Westwold</u>
<u>Logan Lake</u>	<u>Williams Lake</u>
<u>Lumby</u>	<u>Winfield</u>
<u>MacKenzie</u>	<u>Woodsdale</u>
<u>Merritt</u>	
<u>Midway</u>	
<u>Montrose</u>	
<u>Naramata</u>	

**Columbia
Transportation Area**

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Cranbrook</u>	<u>Jaffray</u>
<u>Creston</u>	<u>Kimberley</u>
<u>Elkford</u>	<u>Sparwood</u>
<u>Fernie</u>	<u>Yahk</u>
<u>Galloway</u>	

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- (ff) **Transporter** - means ~~TransCanada PipeLines Limited, B.C. System, Nova Gas Transmission Ltd., Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.~~
- (gg) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (hh) **Unauthorized Overrun Gas** - means any Gas taken on any Day in excess of the curtailed quantity specified in any notice to interrupt or curtail a Shipper's take, or to interrupt or curtail a Group's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Shipper or a Group to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.
- (ii) **Unauthorized Transportation Service** - means any transportation service utilized in excess of the curtailed quantity specified in any notice to interrupt or curtail transportation service.

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- 1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the term of the Transportation Agreement will be similarly adjusted.

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2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule applies to the provision of firm and/or interruptible transportation service (subject to a minimum of 12,000 Gigajoules per Month) through the FortisBC Energy System and through one meter station to one Shipper except as previously agreed upon. For greater certainty, firm transportation service under this Rate Schedule means the transportation service FortisBC Energy is obligated to provide to a Shipper on a firm basis subject to interruption or curtailment pursuant to sections 17 (Default or Bankruptcy), 20 (Force Majeure) and the General Terms and Conditions of FortisBC Energy. Interruptible transportation service means the provision by FortisBC Energy of transportation service to a Shipper which may be interrupted or curtailed by FortisBC Energy pursuant to sections 4.2 (Curtailment), 17 (Default or Bankruptcy), 20 (Force Majeure) and the General Terms and Conditions of FortisBC Energy.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy does not provide transportation service as a common carrier. FortisBC Energy will only transport Gas under this Rate Schedule to Shippers in the territory served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if
- (a) the Shipper has entered into a Transportation Agreement,
 - (b) adequate capacity exists on the FortisBC Energy System, and
 - (c) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 14.1 (Facilities and Equipment).

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3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Shipper to FortisBC Energy under the Transportation Agreement, FortisBC Energy may require the Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Shipper under this Rate Schedule and the Transportation Agreement for a period of 90 Days. Where FortisBC Energy requires a Shipper to provide a letter of credit and the Shipper is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

3.3 **Warning if Switching from Interruptible to Firm Transportation Service or Sales** - A Shipper wishing to switch from interruptible transportation or interruptible sales to a firm sales Rate Schedule, or to firm transportation under this Rate Schedule, or to increase their Firm DTQ under this Rate Schedule must comply with the requirements for Firm service set out in the applicable Rate Schedule, including the following

- (a) give 12 months prior notice to FortisBC Energy of the Shipper's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such costs.

Notwithstanding Section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Shipper on less than 12 months' prior notice if FortisBC Energy is able, with such shorter notice, to arrange for the firm purchase and firm transportation of Gas under a firm sales Rate Schedule, or transportation under a firm transportation Rate Schedule.

4. Transportation

4.1 **Transportation of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service) and all of the terms and conditions of this Rate Schedule, FortisBC Energy will on each Day transport for and deliver to the Shipper at the Delivery Point the Authorized Quantity, or the Shipper's portion of the Group's Authorized Quantity, received at the Interconnection Point from the Transporter, up to the Requested Quantity, where adequate capacity exists on the FortisBC Energy System. On each Day, if the Shipper's Gas received at the Interconnection Point is not consumed by the Shipper or is not authorized for delivery to the Shipper, FortisBC Energy will be entitled to utilize such Gas subject to all the terms of this Rate Schedule and the Transportation Agreement.

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- 4.2 **Curtailment** - If at any time FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate the Shipper's request for interruptible transportation FortisBC Energy may, for any length of time, interrupt or curtail transportation service under this Rate Schedule. Consistent with the provisions of section 8.6 (Failure to Deliver to Interconnection Point), if at any time FortisBC Energy, acting reasonably, determines that it is not able to provide Balancing Gas or Backstopping Gas, FortisBC Energy may curtail the Shipper's take to the lesser of the Authorized Quantity or the Firm DTQ.
- 4.3 **Notice of Curtailment** - Each notice from FortisBC Energy to the Shipper with respect to the interruption or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and/or by fax and will specify the quantity of Gas to which the Shipper is curtailed and the time at which such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such curtailment, not to be less than 2 hours prior notice unless prevented by Force Majeure.
- 4.4 **Default Regarding Curtailment** - The Shipper will comply with each notice to interrupt or curtail the Shipper's take. If the Shipper at any time fails or neglects to comply with a notice to interrupt or curtail the Shipper's take, FortisBC Energy may, in addition to any other remedy that it may then or thereafter have, at its option, without liability therefor and without any prior notice to the Shipper
- (a) turn off the valve at the Delivery Point, or
 - (b) deliver such Gas and charge the Shipper for such Gas consumed on that Day the unauthorized overrun charges set out in the Table of Charges.
- 4.5 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to receive or deliver in one Hour more than 5% of the quantity of Gas that the Shipper is authorized to receive on any Day.
- 4.6 **Gas Pressure** - Where specifically requested by the Shipper, FortisBC Energy may agree to deliver Gas to the Shipper at the Delivery Point at a minimum pressure specified in the Shipper's Transportation Agreement. The Shipper will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas at the Interconnection Point at the pressure specified in the Transporter's Service Terms.

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5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges, whether or not the Shipper is a member of a Group. The Shipper Agent may elect to pay to FortisBC Energy the charges for the Backstopping Gas and the Balancing Gas taken, and any Unauthorized Overrun Gas taken for members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.

6. Minimum Charge

- 6.1 **Minimum Charge** - The minimum charge for any Month will be based upon a Minimum Quantity of 12,000 Gigajoules for that Month. The minimum charge will be calculated as the sum of the following:
- (a) the Basic Charge and Administration Charge,
 - (b) the Delivery Charge per Month per Gigajoule of Firm DTQ times the Firm DTQ, (if applicable),
 - (c) the Delivery Charge per Gigajoule of Firm MTQ times (the Firm MTQ or the Minimum Quantity, whichever is less), (if applicable),
 - (d) the Delivery Charge per Gigajoule of Interruptible MTQ times (the Minimum Quantity less the Firm MTQ, if a positive amount), plus
 - (e) the Franchise Fee Charge, (if applicable).

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- 6.2 **Minimum Charge Credits** - If on any Day either FortisBC Energy fails to deliver to the Shipper the quantity of Gas that the Shipper has requested and delivered to the Interconnection Point on that Day, or the Shipper is entitled to relief by reason of Force Majeure, then a prorata credit will apply to the applicable delivery charges for firm service and an adjustment will apply to the Minimum Quantity set out in section 6.1 (Minimum Charge). The Minimum Quantity will be reduced by the quantity that would have been delivered in the absence of the curtailment. Provided, however, in the case of Force Majeure arising out of strike or lockout, the credit provisions will apply for no more than 90 Days in any Contract Year with the Minimum Quantity for each Month prorated by the number of Days of Force Majeure in that Month.
- 6.3 **Reduced MTQ** - The Firm MTQ will be reduced by the firm quantities on which credits have been calculated under section 6.2 (Minimum Charge Credits).
- 6.4 **Delivery Rate during Force Majeure** - In respect of all Gas received by the Shipper while the Shipper is entitled to relief by reason of Force Majeure, the Shipper will pay a delivery charge equivalent to three times the applicable delivery charge set out in the Table of Charges (calculated on a per unit basis at 100 percent load factor).
- 6.5 **Limitation on Minimum Charge Credits** - Notwithstanding section 6.2 (Minimum Charge Credits), no credit will apply in respect of an event of Force Majeure that has occurred upstream of the Transporter, or for Gas sold, delivered or transported on an interruptible basis to the Interconnection Point.

7. Unauthorized Use

- 7.1 **Charges for Unauthorized Service** - On any Day a Shipper takes Unauthorized Overrun Gas and/or Unauthorized Transportation Service, the Shipper will pay to FortisBC Energy the unauthorized overrun charge set out in the Table of Charges. The Shipper Agent may elect to pay these charges for the members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.

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7.2 **Payments Not License** - Payments made to FortisBC Energy for Unauthorized Overrun Gas or Unauthorized Transportation Service neither give the right to take Unauthorized Overrun Gas or Unauthorized Transportation Service, nor exclude or limit any other remedies available to FortisBC Energy for the taking or use of Unauthorized Overrun Gas or Unauthorized Transportation Service.

7.3 **Demand Surcharge** - If on three or more Days during a Contract Year, a Shipper which is not a member of a Group, or a Group, takes Gas in excess of the greater of

(a) 110% of a curtailed quantity specified by FortisBC Energy in accordance with section 4.3 (Notice of Curtailment), or

(b) a curtailed quantity specified by FortisBC Energy in accordance with section 4.3 (Notice of Curtailment) plus 100 Gigajoules,

the demand surcharge set out in the Table of Charges will apply. The demand surcharge will be calculated and become payable at the end of a Month of the third or more occurrence, on the average of the two largest quantities of Unauthorized Overrun Gas or Unauthorized Transportation Service taken (the "Demand Surcharge Quantity") as follows:

Demand Surcharge equals the product of:

the Demand Surcharge per Gigajoule specified in the Table of Charges

times 12

times the Demand Surcharge Quantity.

7.4 **Recalculation of Demand Surcharge** - The demand surcharge will be recalculated if the Shipper or the Group again uses Unauthorized Overrun Gas or Unauthorized Transportation Service which causes the Demand Surcharge Quantity to increase. Any additional demand surcharge will become payable at the end of the Month in which a new Demand Surcharge Quantity is established.

8. Nomination

8.1 **Capacity on Transporter's Pipeline** - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for the Shipper on the Transporter's pipeline, and from time to time when such party changes.

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- 8.2 **Requested Quantity** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy, prior to 7:30 a.m. Pacific Clock Time on each Day (or such other time as may be specified from time to time by FortisBC Energy) such information as may be requested by FortisBC Energy, which will include, but is not limited to, the Shipper's Requested Quantity for the Day commencing in approximately 24 hours. If the Shipper does not notify FortisBC Energy in accordance with the foregoing, then the Shipper's Requested Quantity for the Day commencing in approximately 24 hours will be deemed to be the Shipper's Requested Quantity, adjusted as set out in section 8.3 (Adjustment of Requested Quantity), for the Day just commencing. The Shipper's Requested Quantity each Day will equal the Shipper's best estimate of the quantity of Gas the Shipper will actually consume on such Day.
- 8.3 **Adjustment of Requested Quantity** - FortisBC Energy may adjust, in consultation with the Shipper, the Shipper's Requested Quantity, described in section 8.2 (Requested Quantity), when in the reasonable opinion of FortisBC Energy such modification is required in order to limit the build up of inventory account quantities.
- 8.4 **Request to Transporter** - FortisBC Energy will provide to the Transporter the Shipper's Requested Quantity, adjusted as set out in section 8.3 (Adjustment of Requested Quantity).
- 8.5 **Delivery to Interconnection Point** - The Shipper will cause to be delivered to the Interconnection Point on each Day a quantity of Gas at least equal to the Shipper's Requested Quantity, adjusted as set out in section 8.3 (Adjustment of Requested Quantity).
- 8.6 **Failure to Deliver to Interconnection Point** - If on any Day the Authorized Quantity from the Transporter is less than the quantity requested from the Transporter pursuant to section 8.4 (Request to Transporter), then, in addition to curtailments permitted under section 4 (Transportation), FortisBC Energy may, in its discretion, interrupt or curtail service hereunder to the lesser of such Authorized Quantity or the Firm DTQ. Alternatively, FortisBC Energy may deliver additional Gas to the Shipper at the Interconnection Point and charge the Shipper the charge for Backstopping Gas as set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may, in its discretion, interrupt or curtail service to the Shippers on a prorata or another basis deemed equitable by FortisBC Energy based on available information. FortisBC Energy will reallocate the deficiency if it obtains information that allows it to determine responsibility and FortisBC Energy will disclose to the Shippers how it allocated or reallocated the deficiency.

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- 8.7 **Authorized Quantity** - FortisBC Energy will take such action as is reasonable in all the circumstances to advise the Shipper or the Shipper Agent if the Authorized Quantity is less than the Requested Quantity.
- 8.8 **Determination of DTQ** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy 30 Days prior to the Commencement Day of each Contract Year the Shipper's Firm DTQ for the following Contract Year. If a Shipper appoints a Shipper Agent to act on its behalf, the Shipper authorizes the Shipper Agent to determine the Firm DTQ set out in the Transportation Agreement, for each Contract Year. This authorization will remain in effect for the term of the Transportation Agreement or so long as the Shipper Agent acts as agent for the Shipper, whichever period is shorter.

9. Gas Balancing

- 9.1 **Gas Balancing** - Gas balancing hereunder is intended for matching day to day imbalances that cannot be reasonably forecast by the Shipper. Subject to all the terms of this Rate Schedule, FortisBC Energy will on each Day balance for the Shipper at the Interconnection Point the difference between the Shipper's Authorized Quantity under the Transportation Agreement and its actual consumption of Gas.
- 9.2 **Provision of Gas Balancing** - When on any Day the Shipper requires Gas for balancing, FortisBC Energy will
- (a) return Gas to the Shipper up to the amount available in the Shipper's inventory account pursuant to section 9.4 (Adjustments to Inventory).
 - (b) Quantities of Gas above the amount available in the Shipper's inventory will be sold to the Shipper at the Daily Index Option commodity charge set out in the Table of Charges; and
 - (c) for quantities of Gas needed to balance actual consumption that exceeds the greater of 100 Gigajoules or 20 percent of the Shipper's Authorized Quantity, charge the Shipper the Balancing Gas charge at the rate set out in the Table of Charges.
- 9.3 **Curtailment of Gas Balancing** - FortisBC Energy may for any reason and for any length of time, interrupt or curtail Gas balancing under this Rate Schedule.

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- 9.4 **Adjustments to Inventory** - When on any Day the Shipper delivers more Gas to the Interconnection Point than its actual consumption, except for Gas purchased by FortisBC Energy under Section 20.8, FortisBC Energy will maintain an inventory account for the Shipper and will increase the balance in the account by the excess amount received. FortisBC Energy reserves the right to limit Gas quantities maintained in the Shipper's inventory account and will from time to time in consultation with the Shipper return excess inventory at no charge to the Shipper; this will not relieve the Shipper from its obligation to provide accurate nominations pursuant to section 8.2 (Requested Quantity).
- 9.5 **Imbalance Following Termination** - If FortisBC Energy has received a quantity of Gas in excess of the quantity delivered to the Shipper during the term of a Transportation Agreement, then the Shipper may request the excess quantity be returned within 90 Days following termination of the Transportation Agreement.

10. Group Nominations and Balancing

- 10.1 **Group Nomination and Balancing** - If a Shipper appoints a Shipper Agent and becomes a member of a Group and if the Shipper and Shipper Agent have agreed to execute or have executed a Shipper Agent Agreement, and if the members of the Group are in the same Transportation Area as defined in Section 1.1(ee) of this Rate Schedule, and receive service under a transportation Rate Schedule, the Shipper Agent will nominate and balance on behalf of all members of the Group on an aggregate basis pursuant to sections 8 (Nomination) and 9 (Gas Balancing) of this Rate Schedule, as modified by this section, and the Shipper Agent will be the agent for each of the members of a Group for the purposes of any and all matters set out in sections 8 (Nomination) and 9 (Gas Balancing). The Shipper Agent may also elect, pursuant to the Shipper Agent Agreement, to pay some or all of the charges specified in sections 5.1 and 7.1 for and on behalf of the Shippers in its Group. The Shipper acknowledges and agrees that FortisBC Energy may rely, for the purpose of payment allocations, on verbal notification from the Shipper Agent of such election as a basis for the Shipper Agent's authority to act on behalf of Shipper. Where the Shipper Agent fails to execute a Shipper Agent Agreement, the Shipper will be deemed to be and treated by FortisBC Energy as an individual Group of one Shipper, except for the purposes of sections 10.5 and 12.1 hereunder, and will be deemed to have agreed to purchase Gas from FortisBC Energy pursuant to the applicable transportation schedule and will accordingly be responsible for the payment of all charges thereunder, including any and all Balancing Gas and Unauthorized Overrun Gas charges attributable to that Shipper.

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- 10.2 **Requested Quantity from Shipper Agent** - The Shipper Agent will notify FortisBC Energy of the Shipper's Requested Quantity described in section 8.2 (Requested Quantity) on behalf of all members of a Group on an aggregate basis. If the Shipper Agent does not so notify FortisBC Energy, then the Group's Requested Quantity for the Day commencing in approximately 24 hours will be deemed to be the Group's quantity pursuant to section 8.2 (Requested Quantity) for the Day just commencing.
- 10.3 **Determination of Charges** - The charges for Backstopping Gas, Balancing Gas, Unauthorized Overrun Gas and Demand Surcharges, set out in the Table of Charges, will be determined based on the quantities transported on behalf of all members of the Group on an aggregate basis. The charges for Unauthorized Transportation Service will be determined based on the quantities delivered to each Shipper.
- 10.4 **Security** - FortisBC Energy may require the Shipper Agent to provide security, as set out in section 3.2 (Security), with necessary changes, for the performance of the Shipper Agent's obligations under the Shipper Agent Agreement.
- 10.5 **Notices To and From Shipper Agents** - If the Shipper is a member of a Group then:
- (a) communications regarding curtailments or interruptions arising from Gas supply constraints and limitations, quantities of Gas requested and quantities of Gas authorized will be between the Shipper Agent for the Group and FortisBC Energy; and
 - (b) notices from FortisBC Energy with respect to interruption or curtailment pursuant to section 4.3 (Notice of Curtailment) arising from Gas supply constraints or limitations will be to the Shipper Agent for the Group and will specify the quantity of Gas to which the Group is curtailed and the time at which such curtailment is to be made; it will be the responsibility of the Shipper Agent to notify Shippers which are members of the Group of interruptions or curtailments.

11. Term of Transportation Agreement

- 11.1 **Term** - The initial term of the Transportation Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1st next following, provided that if the foregoing results in an initial term of less than one year, then the initial term will instead expire at the end of one further Contract Year.

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- 11.2 **Automatic Renewal** - Except as specified in the Transportation Agreement, the term of the Transportation Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Shipper, subject to section 3.3 (Warning if Switching from Interruptible to Firm Transportation Service or Sales) upon not less than 2 months notice prior to the end of the Contract Year then in effect.
- 11.3 **Early Termination** - The term of the Transportation Agreement is subject to early termination in accordance with section 17 (Default or Bankruptcy).
- 11.4 **Survival of Covenants** - Upon the termination of the Transportation Agreement, whether pursuant to section 17 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Transportation Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Transportation Agreement,
- will survive such termination.

12. Statements and Payments

- 12.1 **Statements to be Provided** - FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper a statement for the preceding month showing the Gas quantities delivered to the Shipper and the amount due. If the Shipper is a member of a Group then the statement and the calculation of the amount due from the Shipper will be based on information supplied by the Shipper Agent, or based on other information available to FortisBC Energy, as set out in the Shipper Agent Agreement. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Shipper a separate statement for the preceding Contract Year showing the amount required from the Shipper in respect of any indemnity due under this Rate Schedule or a Transportation Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.

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12.2 **Payment and Interest** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 10th calendar day following the billing date. If the Shipper fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, interest on the outstanding amount will accrue, at the rate of interest declared by the chartered bank in Canada principally used by FortisBC Energy, 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 30 days that such payment remains unpaid and 5% thereafter until the same is paid where the Shipper has not, during the immediately preceding 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 where the Shipper has, during the immediately preceding 6 month period, failed to make any payment when due hereunder.

12.3 **Examination of Records** - Each of FortisBC Energy and the Shipper will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Transportation Agreement.

13. Quality

13.1 **Minimum Standards** - All Gas delivered to the Interconnection Point by or on behalf of the Shipper and all Gas delivered to the Delivery Point will conform to the quality specifications set out in the Transporter's Service Terms.

14. Measuring Equipment

14.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Shipper and the Shipper will permit FortisBC Energy, without cost to FortisBC Energy, to use the Shipper's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy. Communication facilities and equipment will be installed at the cost of the Shipper.

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- 14.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 14.1 (Facilities and Equipment) on the Shipper's property, the Shipper will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Shipper's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Transportation Agreement.
- 14.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Shipper. Notice of the time and nature of each test conducted in response to communications with or at the request of the Shipper will be given by FortisBC Energy to the Shipper sufficiently in advance to permit a representative of the Shipper to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Shipper is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Shipper will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 14.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.
- 14.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible.
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and

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- (c) by estimating the quantity of Gas delivered to the Shipper during the preceding periods under similar conditions when the meter was registering accurately.

- 14.6 **Shipper's Equipment** - The Shipper may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Shipper will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 14.7 **Right to be Present** - FortisBC Energy and the Shipper will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 14.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

15. Measurement

- 15.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 15.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 15.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to one decimal place and energy will be specified in Gigajoules rounded to the nearest Gigajoule.

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16. Representations, Warranties and Covenants

- 16.1 **Title** - The Shipper represents and warrants to FortisBC Energy that the Shipper will have good title to all Gas to be delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, free and clear of all liens, encumbrances and claims.
- 16.2 **Title Not That of FortisBC Energy** - FortisBC Energy agrees that title to all Gas transported pursuant to the Transportation Agreement remains with the Shipper.
- 16.3 **Acknowledgement** - The Shipper acknowledges that the Gas transported under the Transportation Agreement will be commingled with Gas within the FortisBC Energy System.

17. Default or Bankruptcy

- 17.1 **Default** - If the Shipper at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Transportation Agreement within 30 days after payment is due, or
- (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Transportation Agreement, within 30 days after FortisBC Energy gives to the Shipper notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Shipper fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in sections 4.4 (Default Regarding Curtailment) and 7 (Unauthorized Use), at its option and without liability therefore

- (a) suspend further transportation service to the Shipper and may refuse to deliver Gas to the Shipper until the default has been fully remedied, and no such suspension or refusal will relieve the Shipper from any obligation under this Rate Schedule or the Transportation Agreement, or

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- (b) terminate the Transportation Agreement, and no such termination of the Transportation Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Shipper for what would otherwise have been the remainder of the term of the Transportation Agreement.

- 17.2 **Bankruptcy or Insolvency** - If the Shipper becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Shipper seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Transportation Agreement by giving notice in writing to the Shipper and thereupon FortisBC Energy may cease further delivery of Gas to the Shipper and the amount then outstanding for Gas provided under the Transportation Agreement will immediately be due and payable by the Shipper.

18. Notice

- 18.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Transportation Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT:	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
CUSTOMER RELATIONS:	Attention: Commercial & Industrial Energy Solutions Telephone: (604) 592-7843 Fax: (604) 592-7894

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LEGAL AND OTHER:

Attention: Director, Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Shipper, then as set out in the Transportation Agreement.

If to the Shipper Agent, then as set out in the Shipper Agent Agreement.

18.2 **Specific Notices** - Notwithstanding section 18.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Shipper as authorized to receive such notices, or
- (b) given by the Shipper by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure..."Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 20) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 22 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 22 and the Transportation Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

19. Indemnity and Limitation on Liability

19.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of transportation service permitted under the General Terms and Conditions of FortisBC Energy or this Rate Schedule.

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- 19.2 **Indemnity** - The Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following:
- (a) any defect in title to any Gas delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, or arising from any charges that are applicable to the Gas delivered to FortisBC Energy,
 - (b) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges,
 - (c) nominations made in accordance with section 8 or 10 of this Rate Schedule by FortisBC Energy to the Transporter with respect to the Shipper's transportation volumes whether or not the Shipper is a member of a Group,
 - (d) Gas delivered by the Transporter or Shipper to FortisBC Energy failing to meet the quality specifications set out in section 13.1 of this Rate Schedule, and
 - (e) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Shipper or on the delivery of Gas to the Shipper by FortisBC Energy, or on any other service provided by FortisBC Energy to the Shipper.
- 19.3 **Principal Obligant** - If the Shipper is a member of a Group, the obligations of each of the Shipper Agent (acting for and on behalf of the Shippers that are members of the Group) and the Shipper (in the event of the failure of the Shipper Agent to make such payments and limited to the charges related to that Shipper) to pay to, or to the order of, FortisBC Energy the charges for Backstopping Gas, Balancing Gas, unauthorized overruns and Demand Surcharges set out in the Table of Charges, are those of principal obligant and not of surety and are independent of the respective obligations of the Shipper Agent and the Shipper towards each other pursuant to the Shipper Agent Agreement.

20. Force Majeure

- 20.1 **Force Majeure** - Subject to the other provisions of this section 20, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Transportation Agreement, the obligations of both FortisBC Energy and the Shipper will be suspended to the extent necessary for the period of the Force Majeure condition.

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- 20.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 20, FortisBC Energy will be deemed to have issued to the Shipper a notice of curtailment.
- 20.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 20.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Transportation Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 20.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 20.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 20 and subject to section 6.2 (Minimum Charge Credits), 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 20.1.
- 20.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 20, Force Majeure will not relieve or release either party from its obligations to make payments to the other.

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- 20.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacement to minimize interruption or curtailment of transportation service to the Shipper, and to restore service as quickly as possible.
- 20.8 **Shipper's Gas** - If FortisBC Energy curtails or interrupts transportation of Gas by reason of Force Majeure the Shipper will make its supply of Gas available to FortisBC Energy, to the extent required by FortisBC Energy, to maintain service priority to those customers or classes of customers which FortisBC Energy determines should be served. FortisBC Energy, in its sole discretion, will either increase the balance in the Shipper's inventory account by the amount taken by FortisBC Energy and return an equivalent quantity of Gas to the Shipper as soon as reasonable, or pay the Shipper an amount equal to either FortisBC Energy's average Gas cost, or the Shipper's average Gas cost, for the Day(s) during which such Gas was taken, whichever Gas cost the Shipper, in its sole discretion, elects.
- 20.9 **Alteration of Facilities** - The Shipper will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Shipper and to restore such facilities after the Force Majeure condition ends.

21. Arbitration

- 21.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Transportation Agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 21.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.

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- 21.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 21.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Shipper or FortisBC Energy.
- 21.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 21.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

22. Interpretation

- 22.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Transportation Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Transportation Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Transportation Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Transportation Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Transportation Agreement.

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23. Miscellaneous

- 23.1 **Waiver** - No waiver by either FortisBC Energy or the Shipper of any default by the other in the performance of any of the provisions of this Rate Schedule or the Transportation Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 23.2 **Enurement** - The Transportation Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 23.3 **Assignment** - The Shipper will not assign the Transportation Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Shipper from its obligations under this Rate Schedule or under the Transportation Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Shipper.
- 23.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Transportation Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 23.5 **Proper Law** - The Transportation Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 23.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Transportation Agreement and of the terms and conditions thereof.
- 23.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Transportation Agreement and the rights and obligations of FortisBC Energy and the Shipper under this Rate Schedule and the Transportation Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Shipper.

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- 23.8 **Further Assurances** - Each of FortisBC Energy and the Shipper will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Transportation Agreement and to assure the completion of the transactions contemplated hereby.
- 23.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Transportation Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

	Mainland Area	Fort Nelson Area	Vancouver Island and Whistler Areas	
Transportation				
(a) Basic Charge per Month	\$ X	\$ X	\$ X	Deleted: Lower Deleted: ¶ Deleted: Inland¶ Deleted: Columbia¶ Deleted: 3,664.00 Deleted: 3,664.00 Deleted: 3,664.00
(b) Delivery Charge for firm transportation service	subject to negotiation and prior approval by the British Columbia Utilities Commission	subject to negotiation and prior approval by the British Columbia Utilities Commission	subject to negotiation and prior approval by the British Columbia Utilities Commission	
(c) Delivery Charge per Gigajoule	\$ X	\$ X	\$ X	Deleted: 0.844 Deleted: 0.844 Deleted: 0.844
(d) Rider 2 per Gigajoule	\$ X	\$ X	\$ X	Deleted: 3 Deleted: 0.000 Deleted: 0.000 Deleted: 0.000
(e) Rider 4 per Gigajoule	\$ X	\$ X	\$ X	Deleted: e
(f) Unauthorized Overrun Charges				
(i) Per Gigajoule charge on first 5 percent of specified quantity	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹	
(ii) Per Gigajoule charge on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or the Sumas Daily Price ¹ x 1.5	The greater of \$20.00/GJ or the Sumas Daily Price ¹ x 1.5	The greater of \$20.00/GJ or the Sumas Daily Price ¹ x 1.5	
(iii) Demand Surcharge per Gigajoule of Demand Surcharge Quantity	\$ X ²	\$ X ²	\$ X ²	Deleted: 17.00 Deleted: 17.00 Deleted: 17.00 Deleted: f
(g) Charge per Gigajoule of Balancing Service provided (over the greater of 100 Gigajoules or 20% of Rate Schedule 22 Authorized Quantity) ³				Formatted: Superscript Deleted: 0.30 Deleted: 0.30 Deleted: 1.10 Deleted: 1.10 Deleted: G-177-11 Deleted: 2012 Deleted: Original signed by Alanna Gillis Deleted: First Revision of
(i) between and including April 1 and October 31	\$ X	\$ X	\$ X	
(ii) between and including November 1 and March 31	\$ X	\$ X	\$ X	
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FortisBC Energy Inc.
Rate Schedule 22

	<u>Mainland Area</u>	<u>Fort Nelson Area</u>	<u>Vancouver Island and Whistler Areas</u>
(h) Charge per Gigajoule of Balancing and Backstopping Gas	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(i) Administration Charge per Month	\$ X	\$ X	\$ X
Rider 1	Propane Surcharge - Not applicable.		
Rider 2	Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014		
Rider 3	(Reserved for future use.)		
Rider 4	Phase In Rider – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.		
Rider 5	Revenue Stabilization Adjustment Charge - Not applicable.		

Franchise Fee Charge of 3.09% of the aggregate of the above charges is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

Notes:

- Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
- The demand surcharge is calculated in accordance with section 7.3 (Demand Surcharge). A sample calculation is attached to the tariff.
- This charge is not applicable to the Columbia Area under the Mainland Area.

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EXAMPLE CALCULATIONS FOR RATE SCHEDULE 22

1. Minimum Charge (Section 6.1) Calculation

For an interruptible Shipper, the Minimum Charge for the month of November (assuming no curtailments) would be:

Minimum Charge

(a) Basic Charge and Administration Charge

\$ ~~X~~

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(b) Delivery Charge for Interruptible MTQ
(\$~~X~~/GJ x 12,000 GJ)

~~X~~

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(c) If the Shipper is located in one of the Interior
service areas, in most cases a Franchise Fee charge
will also apply (\$~~X~~ x 3.09%)

~~X~~

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\$ ~~X~~

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Provincial and Federal taxes (Social security tax and G.S.T.) will apply to the applicable total bill as calculated above.

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2. Demand Surcharge (Section 6.3) Calculation

Assume a Shipper operating in the Mainland area is curtailed to 1/2 the Firm DTQ on December 7, 8 and 9, equal to 1,000 Gigajoules (the "curtailed quantity").

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On those Days, the Shipper actually consumes 1,150, 1,200 and 1,300 Gigajoules, so has exceeded 110% of its curtailed quantity on three occasions in December.

The Demand Surcharge Quantity, based on the maximum 2 Days of Unauthorized Overrun Gas, is:

$$= \frac{(1,200 - 1,000) + (1,300 - 1,000)}{2}$$

$$= \frac{500}{2}$$

$$= 250 \text{ Gigajoules}$$

The Demand Surcharge is:

$$= \$X \times 12 \times 250$$

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$$= \$X$$

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule:

- ☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 27

Type of Service:

- ☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ:

_____ Gigajoules per day

Shipper Agent and / or Group, if applicable:

Commencement Date:

Expiry Date:

(only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point:

Pressure at the Delivery Point:

(only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address:

Account Number:

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnection with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in
either this agreement or the applicable transportation Rate Schedule to any such
information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 27

- 2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation
Rate Schedule (22, 22A, 22B, 23, 25, or 27) and the General Terms and Conditions of
FortisBC Energy, as any of them may be amended by FortisBC Energy and approved
from time to time by the British Columbia Utilities Commission, are in addition to the terms
and conditions contained in this Transportation Agreement and form part of this
Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this
Transportation Agreement.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will
pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate
Schedule for the services provided under such Rate Schedule and this Transportation
Agreement.

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name - Please Print)

(Name - Please Print)

DATE: _____

DATE: _____

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APPENDIX A
NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy
(Name of Shipper)
that Shipper has appointed _____ (the Shipper Agent) to
(Name of Shipper Agent)
act as agent for Shipper in all matters relating to gas supply and to transportation service on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that Shipper wishes to be a member of a Group and the Shipper will cause the Shipper Agent to enter into a Shipper Agent Agreement or other agreement with FortisBC Energy that binds the Shipper Agent to pay the charges which the Shipper Agent elects to pay for and on behalf of the Shipper.
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy with information which will be used by FortisBC Energy to bill Shipper for Backstopping Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.

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7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it will not dispute the information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that the Shipper Agent may elect to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement and Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC Energy then notwithstanding any election that has been made by the Shipper Agent to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement, FortisBC Energy will bill Shipper directly on the bases set out in section 3.9 of the standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing information used by FortisBC Energy the Shipper will deal with the Shipper Agent to resolve that disagreement. Disputes between the Shipper and the Shipper Agent shall not constitute a basis for non-payment by Shipper to FortisBC Energy of the amounts billed.
8. Shipper shall provide FortisBC Energy with 30 days notice, except with the prior approval from FortisBC Energy, if Shipper wishes to leave the Group, to be effective on the beginning of the next calendar month following the expiry of the notice period.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 10 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____

(Signature)

(Title)

(Name - Please Print)

DATE: _____

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Effective Date: January 1, 2014

BCUC Secretary: _____ Original Page TA-22.5

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SHIPPER AGENT AGREEMENT

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper Agent").

WHEREAS:

- 1.0 The Shipper Agent wishes to act as agent on behalf of all members of a Group in respect of transportation service on the FortisBC Energy System; and
- 2.0 The Shippers who are members of the Group have entered into Transportation Agreements with FortisBC Energy.

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

1. Specific Information

Members of Group:
(if space is insufficient, continue list on an additional page)

Commencement Date of this agreement:

Expiry Date of this agreement:

(no expiry date need be specified)

Address of Shipper Agent for receiving notices:

(name of Shipper Agent)

(address of Shipper Agent)

Attention: _____

Telephone: _____

Fax: _____

Alternate Tel(s): _____

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The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable Transportation Rate Schedules to any such information is to the information set out above.

2. Definitions

- 2.1 **Definitions in Rate Schedule 22** - Except where the context requires otherwise or except as otherwise expressly provided in this agreement, all words and phrases defined in Rate Schedule 22 or in the General Terms or Conditions of FortisBC Energy have the meanings set out in the Rate Schedule 22 and in the General Terms and Conditions of FortisBC Energy.

3. Shipper Agent Obligations

- 3.1 **Management of Balancing Gas** - The Shipper Agent is responsible for the management of all Balancing Gas for the Group and its members.
- 3.2 **Management of Backstopping Gas** - The Shipper Agent is responsible for the management of all Backstopping Gas supplied by FortisBC Energy to the Group and its members.
- 3.3 **Management of Peaking Gas Service** - The Shipper Agent is responsible for the management of all Peaking Gas supplied by FortisBC Energy to the Group and its members as well as the return of Peaking Gas Quantities and any Replacement Gas.
- 3.4 **Management of West to East SCP Transportation Service Imbalances** - The Shipper Agent is responsible for the management of Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service under Rate Schedule 40 supplied by FortisBC Energy to the Group and its members.
- 3.5 **Group Nominations and Balancing** - The Shipper Agent will provide Group nomination and balancing to FortisBC Energy in accordance with the sections of the applicable transportation Rate Schedules except where a Shipper under Rate Schedules 22, 22A or 22B is a members of the Group, in which case section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis.

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- 3.6 **Standard Gas Supply Priority Schedule (Standard Priority Schedule)** - Before the Commencement Date of this agreement and before the commencement of each Contract Year the Shipper Agent will provide to FortisBC Energy a Standard Priority Schedule which will advise FortisBC Energy of the priority between members of the Group if a constraint or limitation of Gas supply occurs. The Shipper Agent may provide to FortisBC Energy a revised Standard Priority Schedule from time to time and will provide to FortisBC Energy a revised Standard Priority Schedule if there is a change in membership of the Group.
- 3.7 **Gas Supply Constraints or Limitations** - Upon receipt of a notice from FortisBC Energy of curtailment or interruptions pursuant to section 4.4 (Notice of Gas Supply Constraint or Limitation) Shipper Agent will determine the allocation of Gas supply between members of the Group and will notify the Shippers which are members of the Group of the curtailment or interruption. Within two hours of receipt of notice from FortisBC Energy pursuant to section 4.4, or such longer period as FortisBC Energy considers reasonable in the circumstances, the Shipper Agent will provide to FortisBC Energy a schedule setting out the Gas supply allocation for the Group to apply during that curtailment or interruption. If the Shipper Agent fails to provide a schedule setting out the Gas supply allocation for the Group to apply during the curtailment or interruption then FortisBC Energy will curtail Shippers on the basis set out in the Standard Priority Schedule.
- 3.8 **Monthly Billing Information** - At the end of each month, and within two business days of FortisBC Energy providing to the Shipper Agent a schedule pursuant to section 4.2 (Monthly Provision of Data), the Shipper Agent will provide to FortisBC Energy an allocation schedule setting out the daily Gas takes of each member of the Group and identifying for each member of the Group the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40. The Shipper Agent will also notify FortisBC Energy which charges the Shipper Agent elects to pay on behalf of the members of the Group and, if notice is not received, FortisBC Energy will bill the Shippers directly.

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- 3.9 **Lack of Allocation Information** - If, at the end of a month, the Shipper Agent fails to provide to FortisBC Energy the monthly allocation schedule pursuant to section 3.8 (Monthly Billing Information) then FortisBC Energy will bill on the basis of the best available information. For Balancing Gas FortisBC Energy will bill on a basis proportional to the actual takes of the Shippers during the month. For Backstopping Gas FortisBC Energy will bill on a basis proportional to the actual Day-to-Day takes of the Shippers during the Days when Backstopping Gas was supplied. For Unauthorized Overrun Gas FortisBC Energy will bill on the basis of the schedule(s) setting out the Gas supply allocation for the Group provided to FortisBC Energy pursuant to section 3.8, or if the Shipper Agent fails to provide a schedule pursuant to section 3.8, then on the basis of the applicable Standard Priority Schedule provided by the Shipper Agent pursuant to section 3.6. For Replacement Gas FortisBC Energy will bill on a basis proportional to actual Day-to-Day takes of the Non-Bypass Shippers during the Day for which the Peaking Gas Quantities were not returned. For Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service FortisBC Energy will bill on a basis proportional to the Peak Day Demand of the Non-Bypass Shippers. If further information becomes available, FortisBC Energy will adjust the billings on the basis of the further information.
- 3.10 **Lack of Gas Supply or Nomination** - If the Shipper Agent becomes aware that a Supplier has ceased, or will cease, to supply Gas to a member of the Group; or if the Shipper Agent provides to FortisBC Energy a Requested Quantity for the Group which does not include a quantity for a member of the Group, due to a lack of Gas supply to the member of the Group or due to concerns about a possible lack of Gas supply to the member of the Group, then the Shipper Agent will immediately notify FortisBC Energy. If the Shipper Agent fails to so notify FortisBC Energy then the Shipper Agent is liable to FortisBC Energy for the price of any Gas which FortisBC Energy delivers to that member of the Group after the time when the Shipper Agent should have provided notice to FortisBC Energy.
- 3.11 **Charges for Extra Services** - If FortisBC Energy incurs extra expenses from a Shipper Agent failing to provide information, or failing to provide information in a timely manner, or failing to provide correct information, or otherwise failing to meet its obligations under this agreement, then FortisBC Energy may charge the Shipper Agent for such extra expenses and the Shipper Agent agrees to pay FortisBC Energy the reasonable extra expenses incurred as a result of such failure.

4. FortisBC Energy Obligations

- 4.1 **Weekly Provision of Data** - Twice a week FortisBC Energy will provide to the Shipper Agent a schedule setting out FortisBC Energy's best available data on the daily takes of the Group.

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- 4.2 **Monthly Provision of Data** - Within 10 working days after the end of each month FortisBC Energy will provide to the Shipper Agent a schedule setting out the daily takes of each member of the Group.
- 4.3 **Capacity Constraints** - If FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate interruptible transportation service to any member of the Group then FortisBC Energy will directly notify that Shipper pursuant to Notice of Curtailment section of the applicable Rate Schedule and will deal directly with the Shipper if the Shipper takes Unauthorized Overrun Gas or Unauthorized Transportation Service.
- 4.4 **Notice of Gas Supply Constraint or Limitation** - If Gas supply constraints or limitations occur; either due to a constraint or limitation of supply from FortisBC Energy of Backstopping Gas or Balancing Gas, or a constraint or limitation of supply from another Supplier; FortisBC Energy will notify the Shipper Agent of any curtailment or interruption, will specify the quantity of Gas to which the Group in aggregate is curtailed and the time at which time such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper Agent as much notice as possible with respect to such curtailment or interruption, not to be less than 4 hours prior notice unless prevented by Force Majeure.
- 5. Changes to Group**
- 5.1 **Amendments to Group** - Schedule "A" sets out the Shippers who are the members of the Group represented by the Shipper Agent to this agreement. No additions or deletions may be made to the Group without the Shipper Agent providing notice to FortisBC Energy of such additions and deletions through provision to FortisBC Energy of an amended Schedule "A" showing such additions and deletions and the effective dates of such additions and deletions in accordance with section 5 of this agreement.
- 5.2 **Deletions From Group** - If the Shipper Agent wishes to cease acting as agent for a Shipper or a Shipper wishes to cease being a member of the Group, upon receipt by FortisBC Energy of not less than, except with the prior approval from FortisBC Energy, 30 days prior written notice from either the Shipper or Shipper Agent and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of deletion of the Shipper from the Group, such Shipper shall be deleted from the Group effective on the beginning of the next calendar month following the expiry of the notice period.

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- 5.3 **Additions To Group** - If the Shipper Agent wishes to add a Shipper to a Group and the Shipper wishes to be added to the Group, and the Shipper has entered into a Transportation Agreement and completed an Appendix "A" - Notice of Appointment of Shipper Agent, and both the Shipper and the Shipper Agent have given to FortisBC Energy not less than, except with the prior approval from FortisBC Energy, 30 days prior written notice of such addition and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of the addition of the Shipper to the Group, such Shipper shall be added to the Group effective on the beginning of the next calendar month following the expiry of the notice period.

6. Statements and Payments

- 6.1 **Statements to be Provided** - If the Shipper Agent elects to pay some or all of the charges for Gas taken by the Shippers as described in section 3.8, FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper Agent a statement for the preceding month showing the Gas quantities, and the applicable charges for which the Shipper Agent is responsible and the amount due. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 6.2 **Payment and Interest** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to, or to the order of, FortisBC Energy at its Surrey, British Columbia office (mailing address: P.O. Box 6666 Stn. Terminal, Vancouver, B.C., V6B 6M9), or such other place in Canada as it will designate, on or before the 1st business day after the 10th calendar day following the billing date. If the Shipper Agent or Shipper fails or neglects to make any payment required under this Shipper Agent Agreement, or any portion thereof, to or to the order of FortisBC Energy when due, interest on the outstanding amount will accrue, at the rate of interest declared by the chartered bank in Canada principally used by FortisBC Energy, 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 30 days that such payment remains unpaid and 5% thereafter until the same is paid where the Shipper Agent or Shipper has not, during the immediately preceding 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 where the Shipper Agent or Shipper has, during the immediately preceding 6 month period, failed to make any payment when due hereunder.

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7. Term

- 7.1 **Term** - The term of this agreement will commence on the commencement date specified in section 1 of this agreement and will expire either
- (a) 30 days following notice from the Shipper Agent that the Shipper Agent wishes to cease to nominate for transportation service and balancing on behalf of the Group, or
 - (b) the expiry or termination of the Transportation Agreements of all of the members of the Group, or
 - (c) the expiry date specified in section 1 of this agreement, or
 - (d) 5 days following notice from FortisBC Energy to the Shipper Agent, and to the Shippers which are members of the Group, under section 10.1 (Failure to Provide Information or Default).

whichever date is earlier.

- 7.2 **Survival of Covenants** - Upon the termination of this agreement,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this agreement relating to the obligation of either of the parties to provide information to the other in connection with this agreement,

will survive such termination.

8. Representations, Warranties and Covenants

- 8.1 **Representations and Warranties** - The Shipper Agent represents and warrants to and covenants with FortisBC Energy as follows

- (a) the members of the Group are listed in section 1 of this agreement,

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- (b) the Shipper Agent is the agent of each of the members of the Group and has the authority of each of the members of the Group for the purposes of any and all matters set out in the applicable transportation Rate Schedule and this agreement, and
- (c) FortisBC Energy may rely on any act or thing done, or document executed, by the Shipper Agent in connection with of any and all matters set out in the applicable transportation Rate Schedule and this agreement.

9. Limitation on Liability and Indemnity

9.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment of transportation service or Gas supply.

9.2 **Indemnity** - The Shipper Agent will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.

10. Disbanding of the Group

10.1 **Failure to Provide Information** - If the Shipper Agent fails to provide FortisBC Energy with the information or schedules which the Shipper Agent is required to provide to FortisBC Energy pursuant to this agreement or is otherwise in breach of this agreement then, acting reasonably in the circumstances and on 5 days notice to the Shipper Agent and to the members of the Group, FortisBC Energy may disband the Group and deal directly with the Shippers which were members of the Group.

10.2 **Default** - If any Shipper which is a member of the Group is in default under the Default or Bankruptcy section of the applicable Rate Schedule or becomes bankrupt or insolvent, then that Shipper will cease to be a member of the Group.

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11. Arbitration

- 11.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 11.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.
- 11.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 11.2 to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of either of the parties or their respective successors of affiliates, any supplier of the Shipper or FortisBC Energy, or any member of the Group.
- 11.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 11.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

12. Notice

- 12.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other party.

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13. Acknowledgement

- 13.1 **Acknowledgement** - The Shipper Agent acknowledges receiving and reading a copy of Rate Schedules 22, 22A, 22B, 23, 25 and 27 and the General Terms and Conditions of FortisBC Energy and will comply with and be bound by all terms and conditions set out therein

IN WITNESS WHEREOF the parties hereto have executed this agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper Agent)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 22A
TRANSPORTATION SERVICE (CLOSED)**

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1. Applicability

- 1.1 **Description of Applicability** - This Rate Schedule applies to the provision of firm and interruptible transportation service through one meter station (except as otherwise specified in the Transportation Agreement) to the following existing large industrial Shipper at the specified location.

<u>NAME OF SHIPPER</u>	<u>LOCATION OF SHIPPER</u>
Zellstoff Celgar Ltd.	Castlegar
Cominco Ltd.	Trail
Pope & Talbot Ltd.	Castlegar
Domtar Pulp and Paper Products Inc.	Kamloops
Weyerhaeuser Company Limited	Kamloops
Consumers Packaging Inc.	Lavington
Federated Co-operatives Limited	Canoe
FMC of Canada Limited	Prince George
Highland Valley Copper	Logan Lake
Moly-Cop Canada	Kamloops
Northwood Pulp & Timber Ltd.	Prince George
Tolko Industries Ltd.	Kamloops
Cariboo Pulp & Paper Company	Quesnel
Finlay Forest Industries Ltd.	Mackenzie
Fletcher Challenge Canada Limited	Mackenzie
Husky Oil Operations Ltd. Prince George Refinery	Prince George
Louisiana-Pacific Canada Ltd.	Chetwynd
Canadian Forest Products Ltd. (Canfor) Prince George Pulp	Prince George
Northwood Pulp and Timber Limited	Prince George
Quesnel River Pulp Company	Quesnel

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For greater certainty, firm transportation service under this Rate Schedule means the transportation service FortisBC Energy is obligated to provide to a Shipper on a firm basis subject to interruption or curtailment pursuant to sections 17 (Default or Bankruptcy) and 20 (Force Majeure) of Rate Schedule 22 and the General Terms and Conditions of FortisBC Energy. Interruptible transportation service under this Rate Schedule means the provision by FortisBC Energy of transportation service to a Shipper which may be interrupted or curtailed by FortisBC Energy pursuant to sections 4.2 (Curtailment), 17 (Default or Bankruptcy) and 20 (Force Majeure) of Rate Schedule 22 and the General Terms and Conditions of FortisBC Energy.

- 1.2 **Transportation Agreement** - FortisBC Energy will only transport Gas under this Rate Schedule pursuant to an executed Transportation Agreement under Rate Schedule 22.
- 1.3 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

2. Definitions

- 2.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Business Day** - means a Day that commences on other than a Saturday, a Sunday, or a statutory holiday in the Province of British Columbia.
- (b) **EKE** - means the East Kootenay Exchange, an Interconnection Point where the FortisBC Energy System interconnects with the facilities of TransCanada PipeLines Limited, B.C. System.
- (c) **Firm EKE Receipt Service** - means the firm receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area, as described in section 6.1.
- (d) **Inland Service Area, Columbia Service Area, Lower Mainland Service Area or Fort Nelson Service Area – refers to specific areas or locations as they were previously identified and included in FortisBC Energy Inc. General Terms and Conditions (Order G-28-11, effective March 1, 2011).**

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- (e) **Interruptible EKE Receipt Service** - means the interruptible receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area or the Lower Mainland Service Area, as described in section 6.2.
- (f) **Non-Bypass Shipper** - means a Shipper that receives service under Rate Schedule 23, 25 or 22A and pays rates as set out in the standard Table of Charges for the applicable Rate Schedule.
- (g) **Peak Day Demand** - means the quantity of energy used for the purposes of determining the Peaking Gas and EKE Receipt Service available to a Non-Bypass Shipper, as calculated pursuant to section 5.4.
- (h) **Peaking Gas** - means Gas which is provided to the Shipper by FortisBC Energy in accordance with the provisions of section 5.
- (i) **Peaking Gas Quantity** - means the Peaking Gas available to a Non-Bypass Shipper on a Day, determined pursuant to the provisions of section 5.5.
- (j) **Replacement Gas** - means Gas which is provided to a Shipper by FortisBC Energy in the event the Shipper fails to return Peaking Gas Quantity pursuant to section 5.7.
- (k) **Requested Peaking Gas Quantity** - means the quantity of energy for each Day requested as Peaking Gas under this Rate Schedule.
- (l) **Southern Crossing Pipeline** - means the pipeline and other facilities constructed by FortisBC Energy from EKE to an interconnection with existing FortisBC Energy facilities near Oliver that will enable FortisBC Energy to transport Gas between EKE and the Delivery Point.
- (m) **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada, one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
- (n) **Transporter** - means TransCanada PipeLines Limited, B.C. System, ~~Nova Gas Transmission Ltd.~~, Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.

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3. Table of Charges

- 3.1 **Charges** - In respect of transportation service pursuant to Rate Schedule 22A and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges attached hereto. For greater certainty it is expressly confirmed that the Table of Charges attached to Rate Schedule 22 does not apply to this Rate Schedule 22A.

4. Terms and Conditions

- 4.1 **Other Terms and Conditions** - The terms and conditions set out in Rate Schedule 22 apply to and form part of this Rate Schedule, with necessary changes and bind FortisBC Energy and the Shipper as if set out in this Rate Schedule, except as excluded by operation of section 4.2 (Inapplicable Terms and Conditions).

- 4.2 **Inapplicable Terms and Conditions** - The following terms and conditions set out in Rate Schedule 22 do not apply, and are not incorporated by reference, into this Rate Schedule and shall not be construed in any way to affect the meaning or intent of any provision this Rate Schedule:

- section 2 (Applicability)
- section 5 (Table of Charges)

If any term or provision of this Rate Schedule is inconsistent with any term or provision of Rate Schedule 22, the term or provision of this Rate Schedule will prevail.

- 4.3 **Shippers on Bypass Rates** - Shippers who have executed long term service agreements on rates, terms and conditions competitive with a bypass pipeline alternative remain subject to the rates, terms and conditions set out in the respective long term service agreement.
- 4.4 **Curtailement of Firm Service** - Subject to section 4.5 (Firm Curtailment Alternative), FortisBC Energy may, in order to serve its firm Gas sales Customers, curtail firm transportation under this Rate Schedule and use the Shipper's Gas up to a maximum daily quantity of 1/2 the Firm DTQ for a maximum of 5 Days during each Contract Year. If FortisBC Energy and the Shipper agree, the Shipper may, from time to time, be curtailed by less than 1/2 the Firm DTQ and may be curtailed the balance of such one Day curtailement on a subsequent Day.

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- 4.5 **Firm Curtailment Alternative** - Where FortisBC Energy determines that adequate capacity exists on the FortisBC Energy System, Shipper may elect to execute an agreement with FortisBC Energy that makes available to FortisBC Energy peaking supplies during the period November 1 through March 31 of each Contract Year in order to avoid curtailment pursuant to section 4.4 (Curtailment of Firm Service). Peaking supplies will equal 1/2 the Firm DTQ for:
- (a) a maximum of 10 Days where the Gas must be nominated by the Shipper with the Transporter in advance of the Day that the peaking supplies are required, or
 - (b) a maximum of 5 Days where the Shipper is able to and makes available to FortisBC Energy peaking supplies on the Day that the peaking supplies are required.

The Shipper will notify FortisBC Energy of its election to provide peaking supplies under option (a) or (b) above prior to the commencement of each Contract Year.

- 4.6 **Adjustment to Firm Curtailments** - If the Shipper has a Firm DTQ that is subject to curtailment under section 4.4 (Curtailment of Firm Service), commencing on the first Day of the Month following a Month during which the Shipper becomes subject to a demand surcharge or recalculated surcharge, firm curtailments applicable to the Shipper will be modified, subject to the determination by FortisBC Energy that adequate capacity exists on its system. The adjustment will equal the lesser of the Demand Surcharge Quantity calculated in section 7.3 (Demand Surcharge) of Rate Schedule 22 and the amount otherwise subject to firm curtailment.

- 4.7 **Shipper's Gas** - Part of the Gas to be transported under this Rate Schedule forms an important and integral part of the Gas supply of FortisBC Energy used to meet the requirements of its firm Customers. Shipper commits to deliver to FortisBC Energy at the Interconnection Point Gas a quantity equal to 1/2 the Shipper's Firm DTQ when FortisBC Energy exercises its right pursuant to section 4.4 (Curtailment of Firm Service) to curtail firm transportation and use the Shipper's Gas. It is reasonably foreseeable that FortisBC Energy may be unable to meet its requirements to deliver Gas to its firm Customers if Shipper fails to meet its commitment hereunder to deliver Gas to FortisBC Energy. If Shipper fails to meet its commitment to deliver Gas to FortisBC Energy, FortisBC Energy has the right to immediately obtain substitute supplies of Gas in quantities equivalent in energy to the Gas which Shipper fails to deliver. Shipper will reimburse FortisBC Energy for all reasonable costs paid by FortisBC Energy in acquiring and delivering substitute supplies of Gas, including any demand and commodity tolls incurred. Shipper will reimburse FortisBC Energy for the reasonable costs paid by FortisBC Energy to acquire and deliver substitute supplies upon demand by FortisBC Energy at any time after such costs are actually incurred by FortisBC Energy. The costs of substitute supplies that are recoverable by FortisBC Energy from

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Shipper shall not exceed the costs that were or would have been incurred in acquiring and delivering the lowest cost Gas which was at the time available to FortisBC Energy in the Service Area in which Shipper is located and of which FortisBC Energy would reasonably have been expected to have been aware, given the immediacy of the Gas needs of FortisBC Energy. For the purposes of this section, the Shipper's commitment to deliver Gas to FortisBC Energy shall not be lessened by any occurrence other than an event of Force Majeure on the facilities of the Transporter.

5. Peaking Gas Service

5.1 **Applicability** - In each Contract Year, Peaking Gas Service is available only to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area, and for which the Transportation Agreement was in effect on the 1st Day of November of the subject Contract Year.

5.2 **15-Day Maximum** - A Non-Bypass Shipper may request Peaking Gas for a maximum of 15 Days during each Contract Year. Any Day for which any portion of the Shipper's Peaking Gas Quantity is requested and authorized will be considered one of the 15 Days of Peaking Gas entitlement even if the quantity of authorized Peaking Gas is not used or only partially used.

5.3 **Contract Year 2000/2001** - Should the Southern Crossing Pipeline ("SCP") not be fully operational by the 1st Day of November 2000, the number of Days for which Peaking Gas may be requested during the Contract Year which commences on the 1st Day of November 2000 will be:

$$\frac{\text{the number of Days that SCP is operational during the 2000/2001 Contract Year} * 15}{365}$$

rounded to the nearest whole number. Peaking Gas may only be requested after the SCP has become fully operational.

5.4 **Peak Day Demand** - For purposes of determining the Peaking Gas Quantity available to a Non-Bypass Shipper on a Day, the Peak Day Demand of a Rate Schedule 22A Shipper is the DTQ set out in the Shipper's Transportation Agreement.

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Effective Date: January 1, 2014

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5.5 **Peaking Gas Quantity** - The quantity of Peaking Gas available on a Day to a Non-Bypass Shipper ("Peaking Gas Quantity") will be a percentage of that Shipper's Peak Day Demand. The Peaking Gas Quantity available to Non-Bypass Shippers for the next Contract Year will be determined by FortisBC Energy, and FortisBC Energy will in writing notify each Non-Bypass Shipper of that Shipper's Peaking Gas Quantity, at least 30 Days prior to the commencement of each Contract Year. The Peaking Gas Quantity available to a Non-Bypass Shipper in a Contract Year will be:

- (a)
$$\frac{\text{Total Non-Bypass Transport Demand}}{\text{Forecast Sales Demand} + \text{Non-Bypass Transport Demand}} = \text{Peaking Gas Factor}$$
- (b)
$$\text{Peaking Gas Factor} * \text{SCP Peaking Gas} = \text{Non-Bypass Transport Volume}$$
- (c)
$$\frac{\text{Non-Bypass Transport Volume}}{\text{Non-Bypass Transport Demand}} = \text{Peaking Gas Percentage}$$
- (d)
$$\text{Peaking Gas Percentage} * \text{a Non-Bypass Shipper's Peak Day Demand} = \text{Peaking Gas Quantity}$$

Where:

"Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers for the Contract Year commencing the next November 1; "Forecast Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all Gas sales Customers of FortisBC Energy excluding those in the Fort Nelson Service Area; and "SCP Peaking Gas" is the quantity of peaking Gas available to FortisBC Energy in the Year commencing the next November 1 due to the operation of the Southern Crossing Pipeline.

5.6 **Requested Peaking Gas Quantity** - Shipper will notify FortisBC Energy of its Requested Peaking Gas Quantity pursuant to nomination procedures described in section 8.2 of Rate Schedule 22 except as otherwise described in section 5.6 (a) and 5.6 (b) below. The Requested Peaking Gas Quantity must be explicitly stated on the nomination and may be less than but may not exceed the Shipper's Peaking Gas Quantity described in section 5.5.

- (a) **Prior Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment for the next or subsequent Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity for the next Day up until one Hour prior to the evening nomination cycle on the Day preceding the Day for which notice of curtailment has been given.

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- (b) **Same Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment to be effective during that Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity up until one Hour after the notice of curtailment has been given by FortisBC Energy; provided that FortisBC Energy has usable nomination cycles available during that Day with the Transporter(s). Requests for Requested Peaking Gas Quantity received after the time when FortisBC Energy has usable nomination cycles available during that Day will be authorized only on an as available basis. If notice of Requested Peaking Gas Quantity is given to FortisBC Energy during the Day for which Peaking Gas is being requested then the Peaking Gas Quantity available to Shipper on that Day will be reduced consistent with the elapsed pro-rata practices of applicable Transporter(s).
- (c) **Non-Curtailment Days** - On Days for which FortisBC Energy has not given notice of curtailment, requests for Peaking Gas Quantity shall be made in accordance with the provisions described in section 8.2 of Rate Schedule 22.

5.7 **Return of Peaking Gas Quantity** - FortisBC Energy will, within 4 business days following the date for which Peaking Gas is authorized, provide to the Shipper a statement indicating the amount of Peaking Gas authorized and used, and this will be the statement used for the purposes of tracking the authorization and use of Peaking Gas. Peaking Gas must be returned to FortisBC Energy within 6 Business Days of the Day in respect of which it was authorized. Shipper must notify FortisBC Energy that it is returning Peaking Gas Quantity with its nomination for Requested Quantity described in section 8.2 of Rate Schedule 22. Peaking Gas returned will be applied against the earliest Peaking Gas Quantity authorized and not yet returned. Shipper has option to elect to return Peaking Gas from the Peaking gas inventory which is kept for this purpose. If Peaking Gas is not returned to FortisBC Energy within 6 Business Days, FortisBC Energy will provide Shipper with an equivalent quantity of Replacement Gas. The charge for Replacement Gas will be as set out in the Table of Charges.

5.8 **Last Gas Ordered** - Peaking Gas Quantity will be considered the last Gas ordered and taken during the Day.

5.9 **Transport of Peaking Gas Quantity** - Peaking Gas Quantity will be deemed to be provided to the Shipper at the Interconnection Point, and the volumes consumed by the Shipper will be included in the Shipper's monthly transport volume for the purposes of calculating monthly transport charges.

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6. Access to East Kootenay Exchange (EKE) Interconnection Point

6.1 Firm EKE Receipt Service

- (a) **Applicability** - Firm receipt service access from the EKE Interconnection Point ("Firm EKE Receipt Transport") is available to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area and for which the Shipper has a Transportation Agreement which is effective on the August 1st preceding the subject Contract Year ("Inland Non-Bypass Shippers").
- (b) **Availability** - The total quantity of Firm EKE Receipt Service available in aggregate to Inland Non-Bypass Shippers ("EKE Transport Volume") will be determined by FortisBC Energy for each Contract Year. FortisBC Energy shall publish the EKE Transport Volume which is available for the next Contract Year by July 31 of each Year. The EKE Transport Volume shall be determined as follows:

$$\frac{\text{Inland Non-Bypass Transport Demand} * \text{ITS Constraint}}{\text{Forecast Inland Sales Demand} + \text{Inland Non-Bypass Transport Demand}} = \text{EKE Transport Volume}$$

Where:

"Inland Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers in the Inland Service Area for the Contract Year commencing the next November 1; "Forecast Inland Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all firm Gas sales Customers of FortisBC Energy in the Inland Service Area; and "ITS Constraint" is the capacity of the FortisBC Energy Interior transmission system available to flow Gas from Oliver in a northbound direction during periods of peak demand.

- (c) **Election** - Annual elections for Firm EKE Receipt Service for the next Contract Year must be submitted in writing by Shippers to FortisBC Energy within 5 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume. The election must indicate the quantity of Firm EKE Receipt Service requested. The quantity requested must not exceed the Shipper's Peak Day Demand. FortisBC Energy will pro-rate the Firm EKE Receipt Service requests based on the requested quantities if aggregate Firm EKE Receipt Service requests exceed the available EKE Transport Volume. FortisBC Energy will notify Shippers of the Shippers' quantity of Firm EKE Receipt Service within 10 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume.

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6.2 Interruptible EKE Receipt Service

- (a) **Applicability** - Interruptible receipt service access to the EKE Interconnection Point ("Interruptible EKE Receipt Service") is available only to Non-Bypass Shippers for which Gas is delivered to a Delivery Point in the Inland Service Area ("Eligible Interruptible Non-Bypass Shippers").
- (b) **Quantity Available** - The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be determined by FortisBC Energy. In determining the quantity of Interruptible EKE Receipt Service available FortisBC Energy will take into account system delivery constraints including the requirement to flow Gas from the facilities of Westcoast Energy Inc. into the Inland Service Area, and the quantity of Firm EKE Receipt Service not utilized. The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be a pro-rata portion of the aggregate available demands of all firm Gas sales Customers and all firm transportation Customers in the Inland and Lower Mainland Service Areas.
- (c) **Maximum Nomination** - A Shipper may not request Interruptible EKE Receipt Service in excess of the Shipper's Peak Day Demand less the Firm EKE Receipt Service of the Shipper. If FortisBC Energy receives requests for Interruptible EKE Receipt Service in excess of the aggregate available Interruptible EKE Receipt Service available for the Day (as determined in 6.2 (b)), FortisBC Energy will apportion the available Interruptible EKE Receipt Service on a pro-rata basis of requested Interruptible EKE Receipt Service.

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Table of Charges

Transportation

(a) **Basic Charge** per Month

\$ ~~X~~

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(b) **Delivery Charges** for firm transportation

(i) per Month per Gigajoule of Firm DTQ

\$ ~~X~~

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(ii) per Gigajoule of Firm MTQ

\$ ~~X~~

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(c) **Delivery Charges** per Gigajoule of Interruptible MTQ

\$ ~~X~~

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(d) **Rider 2** per Gigajoule

\$ ~~X~~

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(e) **Unauthorized Overrun Charges**

(i) per Gigajoule charge on first 5 percent of specified quantity

Sumas Daily Price¹

(ii) per Gigajoule charge on all Gas over 5 percent of specified quantity

The greater of
\$20.00/GJ or
1.5 x the Sumas
Daily Price¹

(iii) Demand Surcharge per Gigajoule of Demand Surcharge Quantity

\$ ~~X~~²

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FortisBC Energy Inc.
Rate Schedule 22A

(f) **Charge per Gigajoule of Balancing Service provided**
(over the greater of 100 Gigajoules or 20% of Rate
Schedule 22 Authorized Quantity)

(i) between and including April 1 and October 31

\$

X

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Service Area

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(ii) between and including November 1 and March 31

\$

X

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(g) **Charge per Gigajoule of Backstopping Gas**

Sumas Daily Price¹

(h) **Replacement Gas³**

Sumas Daily Price¹
Plus 20 Percent

(i) **Administration Charge per Month**

\$

X

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Rider 1 Propane Surcharge - Not applicable.

Rider 2 **Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014**

Rider 3 (Reserved for future use.)

Deleted: (Reserved for future use.)

Rider 5 Revenue Stabilization Adjustment Charge - Not applicable.

Deleted: Rider 4 (Reserved for future use.)

Franchise Fee Charge of 3.09% of the aggregate of the above charges is payable (in addition to the above charges) if the facilities to which Gas is delivered under Rate Schedule 22A are located within the boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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Notes:

1. As defined under Section 2.1(1), the Sumas Daily Price quoted each day will apply to gas consumed on that gas day.
2. The demand surcharge is calculated in accordance with section 7.3 (Demand Surcharge) of Rate Schedule 22.
3. The Sumas Daily Price for the sixth Business Day following the Day for which the Peaking Gas was authorized plus 20 percent.

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc.
("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule: ☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 27

Type of Service: ☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ: _____ Gigajoules per day

Shipper Agent and / or Group, if applicable: _____

Commencement Date: _____

Expiry Date: _____
(only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point: _____

Pressure at the Delivery Point: _____
(only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address: _____

Account Number: _____

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnects with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable transportation Rate Schedule to any such information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 27

2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25, or 27) and the General Terms and Conditions of FortisBC Energy, as any of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Transportation Agreement and form part of this Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this Transportation Agreement.

2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate Schedule for the services provided under such Rate Schedule and this Transportation Agreement.

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY:

(Signature)

BY:

(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE:

DATE:

Order No.:

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Effective Date:

January 1, 2014

BCUC Secretary:

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APPENDIX A
NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy that Shipper has appointed _____ (the Shipper Agent) to act as agent for Shipper in all matters relating to gas supply and to transportation service on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that Shipper wishes to be a member of a Group.
(Name of Shipper) (Name of Shipper Agent)
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy with information which will be used by FortisBC Energy to bill Shipper for Backstopping Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.
7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it will not dispute the information provided to FortisBC Energy by the Shipper Agent. Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC Energy then FortisBC Energy will bill Shipper on the bases set out in section 3.7 of the standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing information used by FortisBC Energy the Shipper will deal with the Shipper Agent to resolve that disagreement.

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8. Shipper will use its best efforts to provide FortisBC Energy with at least 30 days notice if Shipper wishes to leave the Group.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 9 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____

(Signature)

(Title)

(Name - Please Print)

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 22B
TRANSPORTATION SERVICE (CLOSED)**

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Effective November 1, 1996¶

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1. Applicability

- 1.1 **Description of Applicability** - This Rate Schedule applies to the provision of firm and interruptible transportation service through one meter station (except as otherwise specified in the Transportation Agreement) to the following existing large industrial Shipper at the specified location.

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<u>NAME OF SHIPPER</u>	<u>LOCATION OF SHIPPER</u>
Cominco Ltd.	Kimberley
Crestbrook Forest Industries Ltd.	Skookumchuck
Fording Coal Limited (Fording River)	Elkford
Elkview Coal Corporation (Balmer)	Sparwood
Fording Coal Limited (Greenhills)	Elkford
Line Creek Resources Ltd.	Sparwood

For greater certainty, firm transportation service under this Rate Schedule means the transportation service FortisBC Energy is obligated to provide to a Shipper on a firm basis subject to interruption or curtailment pursuant to sections 17 (Default or Bankruptcy) and 20 (Force Majeure) of Rate Schedule 22 and the General Terms and Conditions of FortisBC Energy. Interruptible transportation service under this Rate Schedule means the provision by FortisBC Energy of transportation service to a Shipper which may be interrupted or curtailed by FortisBC Energy pursuant to sections 4.2 (Curtailment), 17 (Default or Bankruptcy) and 20 (Force Majeure) of Rate Schedule 22 and the General Terms and Conditions of FortisBC Energy.

- 1.2 **Transportation Agreement** - FortisBC Energy will only transport Gas under this Rate Schedule pursuant to an executed Transportation Agreement under Rate Schedule 22.
- 1.3 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

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2. Table of Charges

- 2.1 **Charges** - In respect of transportation service pursuant to Rate Schedule 22B and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges attached hereto. For greater certainty it is expressly confirmed that the Table of Charges attached to Rate Schedule 22 does not apply to this Rate Schedule 22B.
- 2.2 Inland Service Area, Columbia Service Area or Lower Mainland Service Area – refer to specific areas or locations as they were previously identified and included in FortisBC Energy Inc. General Terms and Conditions (Order G-28-11, effective March 1, 2011).

3. Terms and Conditions

- 3.1 **Other Terms and Conditions** - The terms and conditions set out in Rate Schedule 22 apply to and form part of this Rate Schedule, with necessary changes, and bind FortisBC Energy and the Shipper as if set out in this Rate Schedule, except as excluded by operation of section 3.2 (Inapplicable Terms and Conditions).
- 3.2 **Inapplicable Terms and Conditions** - The following terms and conditions set out in Rate Schedule 22 do not apply, and are not incorporated by reference, to this Rate Schedule 22B and shall not be construed in any way to affect the meaning or intent of any provision of Rate Schedule:
- section 2 (Applicability)
 - section 5 (Table of Charges)
 - section 8 (Nomination)
 - section 9 (Gas Balancing)
 - section 10 (Group Nominations and Balancing)

If any term or provision of this Rate Schedule is inconsistent with any term or provision of Rate Schedule 22, the term or provision of this Rate Schedule will prevail.

4. Increases to Firm DTQ

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- 4.1 **Increases to Firm DTQ** - For any increase to the Shipper's Firm DTQ above the Shipper's lowest Firm DTQ as set on or after January 1, 1994 Delivery Charges will be subject to negotiation.

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5. Nomination

- 5.1 **Capacity on Transporter's Pipeline** - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for the Shipper on the Transporter's pipeline, and from time to time when such party changes.
- 5.2 **Requested Quantity** - The Shipper's Requested Quantity each Day will equal the Shipper's best estimate of the quantity of Gas the Shipper will actually consume on such Day.
- 5.3 **Request to Transporter** - Shipper will provide to the Transporter as directed by the Transporter the Shipper's Requested Quantity. Such quantity will not include requests for Gas sold by FortisBC Energy.
- 5.4 **Delivery to Interconnection Point** - The Shipper will arrange to have delivered to the Interconnection Point on each Day the Shipper's Requested Quantity.
- 5.5 **Failure to Deliver to Interconnection Point** - If on any Day the Authorized Quantity from the Transporter is less than the quantity requested from the Transporter pursuant to section 5.3 (Request to Transporter), FortisBC Energy may, in its discretion, interrupt or curtail service hereunder to such Authorized Quantity. Alternatively, FortisBC Energy may deliver additional Gas to the Shipper at the Interconnection Point and charge the Shipper the charge for Backstopping Gas as set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may, in its discretion, interrupt or curtail service to the Shippers on a prorata basis or another basis deemed equitable by FortisBC Energy based on available information. FortisBC Energy will reallocate the deficiency as soon as reasonable if it obtains information that allows it to determine responsibility and FortisBC Energy will disclose to the Shippers how it allocated or reallocated the deficiency.

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6. Gas Balancing

- 6.1 **Gas Balancing by Transporter** - Gas balancing hereunder is intended for matching day to day imbalances that cannot be reasonably forecast by the Shipper. The Shipper will arrange to have delivered each Day to the Interconnection Point a quantity of Gas equal to the Shipper's actual Gas consumption. It is acknowledged that FortisBC Energy and the Shipper will rely on the Transporter to each Day balance for the Shipper the difference between the Shipper's Authorized Quantity from the Transporter and the Shipper's deliveries to the Transporter. When on any Day the Shipper requires Gas for balancing, the Shipper will arrange for the Transporter to deliver Balancing Gas to the Shipper as it deems appropriate.
- 6.2 **Gas Balancing by FortisBC Energy** - FortisBC Energy will not provide any Gas to the Shipper for balancing purposes and will not maintain a Gas inventory account for the Shipper.
- 6.3 **Other Rate Schedule and Balancing** - If the Shipper has elected to purchase Gas under an applicable Rate Schedule from FortisBC Energy, the Shipper will be subject to section 9 (Gas Balancing) of Rate Schedule 22 for such Gas.

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Table of Charges

		Columbia Service Area (Except Elkview Coal)	Elkview Coal Corporation	
Transportation				
(a)	Basic Charge per Month	\$ X	\$ X	Deleted: 4,537.00
(b)	Delivery Charges for firm transportation			Deleted: 4,537.00
(i)	per Month per Gigajoule of Firm DTQ	\$ X	\$ X	Deleted: 8.636
				Deleted: 1.960
(ii)	per Gigajoule of Firm MTQ	\$ X	\$ X	Deleted: 0.092
				Deleted: 0.092
(c)	Delivery Charges per Gigajoule of Interruptible MTQ			
(i)	between and including April 1 and October 31	\$ X	\$ X	Deleted: 0.861
				Deleted: 0.216
(ii)	between and including November 1 and March 31	\$ X	\$ X	Deleted: 1.239
				Deleted: 0.308
(d)	Rider 2 per Gigajoule	\$ X	\$ X	Deleted: 3
				Deleted: 0.000
(e)	Unauthorized Overrun Charges			Deleted: 0.000
(i)	per Gigajoule charge on first 5 percent of specified quantity	Sumas Daily Price ¹	Sumas Daily Price ¹	
(ii)	per Gigajoule charge on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	
(iii)	Demand Surcharge per Gigajoule of Demand Surcharge Quantity	\$ X ²	\$ X ²	Deleted: 17.00
				Deleted: 17.00
(f)	Charge per Gigajoule of Backstopping Gas	Sumas Daily Price ¹	Sumas Daily Price ¹	
(g)	Administration Charge per Month	\$ X	\$ X	Deleted: 78.00
				Deleted: 78.00
				Deleted: G-177-11
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Rider 1 **Propane Surcharge** - Not applicable.

Rider 2 **Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014**

Rider 3 (Reserved for future use.)

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Rider 5 **Revenue Stabilization Adjustment Charge** - Not applicable.

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Franchise Fee Charge of 3.09% of the aggregate of the above charges is payable (in addition to the above charges) if the facilities to which Gas is delivered under Rate Schedule 22B are located within the municipal boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Notes:

1. **Sumas Daily Price** - means the “NW Sumas” Daily Midpoint Price as set out in Gas Daily’s Daily Price Survey for gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada, for each Day. For each Day during weekends or holidays and/or other periods during which the Gas Daily may not be published, the NW Sumas Daily Midpoint Price will be deemed to be the average of the prices quoted in Gas Daily on the Day immediately before and after the period for which the Daily Gas was not published. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
2. The demand surcharge is calculated in accordance with section 7.3 (Demand Surcharge) of Rate Schedule 22.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission’s decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc.
("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule:

☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 27

Type of Service:

☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ:

_____ Gigajoules per day

Shipper Agent and / or Group, if applicable:

Commencement Date:

Expiry Date:

_____ (only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point:

Pressure at the Delivery Point:

_____ (only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address:

Account Number:

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnects with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in
either this agreement or the applicable transportation Rate Schedule to any such
information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 27

2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation
Rate Schedule (22, 22A, 22B, 23, 25, or 27) and the General Terms and Conditions of
FortisBC Energy, as any of them may be amended by FortisBC Energy and approved
from time to time by the British Columbia Utilities Commission, are in addition to the terms
and conditions contained in this Transportation Agreement and form part of this
Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this
Transportation Agreement.

2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will
pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate
Schedule for the services provided under such Rate Schedule and this Transportation
Agreement.

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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APPENDIX A
NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy
that Shipper has appointed _____ (the Shipper Agent) to
act as agent for Shipper in all matters relating to gas supply and to transportation service
on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that
Shipper wishes to be a member of a Group.
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate
nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper
under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing)
of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its
members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas
supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility
of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the
constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority
schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas
supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy
with information which will be used by FortisBC Energy to bill Shipper for Backstopping
Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.
7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information
provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the
information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it
will not dispute the information provided to FortisBC Energy by the Shipper Agent.
Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC
Energy then FortisBC Energy will bill Shipper on the bases set out in section 3.7 of the
standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay
FortisBC Energy as billed, and if Shipper Agent Agreement of FortisBC Energy. Shipper
agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing
information used by FortisBC Energy the Shipper will deal with the Shipper Agent to
resolve that disagreement.

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8. Shipper will use its best efforts to provide FortisBC Energy with at least 30 days notice if Shipper wishes to leave the Group.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 9 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____

(Signature)

(Title)

(Name - Please Print)

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 23
COMMERCIAL TRANSPORTATION SERVICE**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Authorized Quantity** - means the quantity of energy (in Gigajoules) for each Day approved by the Transporter(s) for transportation service on the Transporter's pipeline system, based on the quantity requested pursuant to section 7.2 (Requested Quantity), adjusted as set out in section 7.3 (Adjustment of Requested Quantity) or the quantity of energy approved for sale by FortisBC Energy under an applicable Rate Schedule, or any component or aggregate of these quantities, as the context requires.
- (b) **Backstopping Gas** - means Gas made available by FortisBC Energy as an interruptible backup supply if on any Day the Authorized Quantity is less than the Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- (c) **Balancing Gas** - means any Gas taken during a Month which is in excess of the Authorized Quantity, subject to section 8.1 (Monthly Adjustments).
- (d) **Business Day** - means a Day that commences on other than a Saturday, a Sunday, or a statutory holiday in the Province of British Columbia.
- (e) **Capacity Factor** - means the Shipper's average daily use of Gas divided by the product of the average daily use of Gas for the Month of greatest use during the winter period (November 1 to March 31) multiplied by 1.25.
- (f) **Commencement Date** - means the day specified as the Commencement Date in the Transportation Agreement.
- (g) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (h) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.

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- (i) **Delivery Point** - means the point specified in a Transportation Agreement where FortisBC Energy delivers Gas to a Shipper.
- (j) **DTQ or Daily Transportation Quantity** - means the maximum quantity of Gas that FortisBC Energy is obligated to transport for and deliver to a Shipper at the Delivery Point on any particular Day, which in the discretion of FortisBC Energy reasonably reflects the Shipper's requirements and which is specified in a Transportation Agreement.
- (k) **EKE** - means the East Kootenay Exchange, an Interconnection Point where the FortisBC Energy System interconnects with the facilities of TransCanada PipeLines Limited, B.C. System.
- (l) **Firm EKE Receipt Service** - means the firm receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area, as described in section 11.1.
- (m) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in Gas being unavailable for delivery at the Interconnection Point.
- (n) **Group** - means a group of Shippers who each transport Gas under a transportation Rate Schedule, have a common Shipper Agent, and who have each entered into a Transportation Agreement.
- (o) **Inland Service Area, Columbia Service Area, Lower Mainland Service Area or Fort Nelson Service Area** - refers to specific areas or locations as they were previously identified and included in FortisBC Energy Inc. General Terms and Conditions (Order G-28-11, effective March 1, 2011).
- (p) **Interconnection Point** - means a point where the FortisBC Energy System interconnects with the facilities of one of the Transporters of FortisBC Energy, as specified in a Transportation Agreement.
- (q) **Interruptible EKE Receipt Service** - means the interruptible receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area or the Lower Mainland Service Area, as described in section 11.2.

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- (r) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.
- (s) **Non-Bypass Shipper** - means a Shipper that receives service under Rate Schedule 23, 25 or 22A and pays rates as set out in the standard Table of Charges for the applicable Rate Schedule.
- (t) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (u) **Peak Day Demand** - means the quantity of energy used for the purposes of determining the Peaking Gas and EKE Receipt Service available to a Non-Bypass Shipper, as calculated pursuant to section 10.4.
- (v) **Peaking Gas** - means Gas which is provided to the Shipper by FortisBC Energy in accordance with the provisions of section 10.
- (w) **Peaking Gas Quantity** - means the Peaking Gas available to a Non-Bypass Shipper on a Day, determined pursuant to the provisions of section 10.5.
- (x) **Rate Schedule 23 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (y) **Replacement Gas** - means Gas which is provided to a Shipper by FortisBC Energy in the event the Shipper fails to return Peaking Gas Quantity pursuant to section 10.7.
- (z) **Requested Quantity** - means the quantity of energy for each Day requested for firm transportation under this Rate Schedule.
- (aa) **Requested Peaking Gas Quantity** - means the quantity of energy for each Day requested as Peaking Gas under this Rate Schedule.
- (bb) **Shipper** - means a person who enters into a Transportation Agreement with FortisBC Energy who is also the consumer of the Gas transported.
- (cc) **Shipper Agent** - means a person who enters into a Shipper Agent Agreement with FortisBC Energy.
- (dd) **Shipper Agent Agreement** - means an agreement between FortisBC Energy and a Shipper Agent pursuant to which the Shipper Agent agrees to act as agent for a Group.

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- (ee) **Southern Crossing Pipeline** - means the pipeline and other facilities constructed by FortisBC Energy from EKE to an interconnection with existing FortisBC Energy facilities near Oliver that will enable FortisBC Energy to transport Gas between EKE and the Delivery Point.
- (ff) **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada, one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
- (gg) **Supplier** - means a party who sells Gas to a Shipper or FortisBC Energy or has access to its own supplies of Gas.
- (hh) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (ii) **Transportation Agreement** - means an agreement between FortisBC Energy and a Shipper to provide service pursuant to a transportation Rate Schedule.
- (jj) **Transportation Areas** - for the purposes of this Rate Schedule, means the following transportation areas when applying to group nomination and balancing

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**Lower Mainland
Transportation Area**

**Means the areas including, but not limited to, the
following location and surrounding areas of**

<u>Abbotsford</u>	<u>New Westminster</u>
<u>Anmore</u>	<u>North Vancouver City</u>
<u>Belcarra</u>	<u>North Vancouver Dist.</u>
<u>Burnaby</u>	<u>Pitt Meadows</u>
<u>Chilliwack</u>	<u>Port Coquitlam</u>
<u>Coquitlam</u>	<u>Port Moody</u>
<u>Delta</u>	<u>Richmond</u>
<u>Harrison Hot Springs</u>	<u>Squamish</u>
<u>Hope</u>	<u>Surrey</u>
<u>Kent</u>	<u>Vancouver</u>
<u>Langley City</u>	<u>West Vancouver</u>
<u>Langley District</u>	<u>White Rock</u>
<u>Maple Ridge</u>	
<u>Matsqui</u>	
<u>Mission</u>	

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Inland Transportation Area

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Armstrong</u>	<u>Nelson</u>
<u>Ashcroft</u>	<u>Okanagan Falls</u>
<u>Bear Lake</u>	<u>Oliver</u>
<u>Cache Creek</u>	<u>100 Mile House</u>
<u>Castlegar</u>	<u>108 Mile House</u>
<u>Chase</u>	<u>150 Mile House</u>
<u>Chetwynd</u>	<u>Osoyoos</u>
<u>Christina Lake</u>	<u>Oyama</u>
<u>Clinton</u>	<u>Peachland</u>
<u>Coldstream</u>	<u>Penticton</u>
<u>Collettville</u>	<u>Prince George</u>
<u>Craigmont</u>	<u>Princeton</u>
<u>Falkland</u>	<u>Quesnel</u>
<u>Ferguson Lake</u>	<u>Revelstoke</u>
<u>Fruitvale</u>	<u>Robson</u>
<u>Gibraltar Mines</u>	<u>Rossland</u>
<u>Grand Forks</u>	<u>Salmo</u>
<u>Greenlake</u>	<u>Salmon Arm</u>
<u>Greenwood</u>	<u>Savona</u>
<u>Hedley</u>	<u>Shelley</u>
<u>Hixon</u>	<u>Sorrento</u>
<u>Honeymoon Creek</u>	<u>Spallumcheen</u>
<u>Hudson's Hope</u>	<u>Summerland</u>
<u>Kamloops</u>	<u>Trail</u>
<u>Kelowna</u>	<u>Vernon</u>
<u>Keremeos</u>	<u>Warfield</u>
<u>Lac La Hache</u>	<u>Westbank</u>
<u>Lakeview Heights</u>	<u>Westwold</u>
<u>Logan Lake</u>	<u>Williams Lake</u>
<u>Lumby</u>	<u>Winfield</u>
<u>MacKenzie</u>	<u>Woodsdale</u>
<u>Merritt</u>	
<u>Midway</u>	
<u>Montrose</u>	
<u>Naramata</u>	

Columbia Transportation Area

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Cranbrook</u>	<u>Jaffray</u>
<u>Creston</u>	<u>Kimberley</u>
<u>Elkford</u>	<u>Sparwood</u>
<u>Fernie</u>	<u>Yahk</u>
<u>Galloway</u>	

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- (kk) **Transporter** - means, in the case of the Columbia Service Area, TransCanada PipeLines Limited, B.C. System, and in the case of the Inland Service Area and Lower Mainland Service Area, Westcoast Energy Inc., FortisBC Huntingdon Inc., TransCanada PipeLines Limited, B.C. System and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.
- (ll) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (mm) **Unauthorized Overrun Gas** - means any Gas taken on any Day in excess of the curtailed quantity specified in any notice, to interrupt or curtail a Shipper's take, or to interrupt or curtail a Group's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Shipper or a Group to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.

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- 1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 Hours will be made and the term of the Transportation Agreement will be similarly adjusted.

2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule is applicable to Shippers with a normalized annual consumption at one Premises of greater than 2,000 Gigajoules of firm Gas, for use in approved appliances in commercial, institutional or small industrial operations.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy does not provide transportation service as a common carrier. FortisBC Energy will only transport Gas under this Rate Schedule to Shippers in the areas served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if:

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- (a) the Shipper has entered into a Transportation Agreement,
- (b) adequate capacity exists on the FortisBC Energy System, and
- (c) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 15.1 (Facilities and Equipment).

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3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Shipper to FortisBC Energy under the Transportation Agreement, FortisBC Energy may require the Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Shipper under this Rate Schedule and the Transportation Agreement for a period of 90 Days. Where FortisBC Energy requires a Shipper to provide a letter of credit and the Shipper is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

3.3 **Warning if Switching from Interruptible to Firm Transportation Service or Sales** - A Shipper wishing to switch from interruptible transportation or interruptible sales to firm transportation under this Rate Schedule must

- (a) give 12 months prior notice to FortisBC Energy of the Shipper's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such costs.

Notwithstanding section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Shipper on less than 12 months prior notice if FortisBC Energy is able, with such shorter notice, to arrange for firm transportation of Gas under this Rate Schedule.

4. Transportation

4.1 **Transportation of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service), and all of the terms and conditions of this Rate Schedule, FortisBC Energy will on each Day transport for and deliver to the Shipper at the Delivery Point the Authorized Quantity, or the Shipper's portion of the Group's Authorized Quantity, received at the Interconnection Point from the Transporter up to the DTQ. On each Day, if the Shipper's Gas received at the Interconnection Point is not consumed by the Shipper or is not authorized for delivery to the Shipper, FortisBC Energy will be entitled to utilize such Gas subject to all the terms of this Rate Schedule and the Transportation Agreement.

4.2 **Curtailement** - Consistent with the provisions of section 7.6 (Failure to Deliver to Interconnection Point), if at any time FortisBC Energy, acting reasonably, determines that it is not able to provide Balancing Gas or Backstopping Gas, FortisBC Energy may curtail the Shipper's take to the lesser of the Authorized Quantity or the DTQ.

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- 4.3 **Notice of Curtailment** - Each notice from FortisBC Energy to the Shipper with respect to the interruption or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and/or fax and will specify the quantity of Gas to which the Shipper is curtailed and the time at which such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such curtailment, not to be less than 8 Hours prior notice unless prevented by Force Majeure or unless the Transporter does not provide to FortisBC Energy at least 8 Hours prior notice of reduced availability of gas.
- 4.4 **Default Regarding Curtailment** - The Shipper will comply with each notice to interrupt or curtail the Shipper's take. If the Shipper at any time fails or neglects to comply with a notice to interrupt or curtail the Shipper's take as set out in section 7.6 (Failure to Deliver to Interconnection Point), FortisBC Energy may, in addition to any other remedy which it may then or thereafter have, at its option, without liability therefor and without any prior notice to the Shipper
- (a) turn off the valve at the Delivery Point, or
 - (b) deliver such Gas and charge the Shipper for such Gas consumed on that Day the unauthorized overrun charge set out in the Table of Charges.
- 4.5 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to receive or deliver in one Hour more than 5% of the quantity of Gas that the Shipper is authorized to receive on any Day.
- 4.6 **Gas Pressure** - Where specifically requested by the Shipper, FortisBC Energy may agree to deliver Gas to the Shipper at the Delivery Point at a minimum pressure specified in the Shipper's Transportation Agreement. The Shipper will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas at the Interconnection Point at the pressure specified in the Transporter's Service Terms.

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5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges whether or not the Shipper is a member of a Group. The Shipper Agent may elect to pay to FortisBC Energy the charges for the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40 for members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.

6. Unauthorized Gas Use

- 6.1 **Charges for Unauthorized Service** - On any Day a Shipper takes Unauthorized Overrun Gas, the Shipper will pay to FortisBC Energy the unauthorized overrun charge set out in the Table of Charges. The Shipper Agent may elect to pay these charges for the members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.
- 6.2 **Payments Not License** - Payments made to FortisBC Energy for Unauthorized Overrun Gas neither give the right to take Unauthorized Overrun Gas, nor exclude or limit any other remedies available to FortisBC Energy for the Shipper's taking of Unauthorized Overrun Gas.
- 6.3 **Demand Surcharge** - If the Shipper is a member of a Group which includes a Shipper under Rate Schedules 22, 22A or 22B then the Group and its members will be subject to Demand Surcharges under section 7 (Unauthorized Use) of Rate Schedule 22.

7. Nomination

- 7.1 **Capacity on Transporter Pipeline(s)** - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for the Shipper on the Transporter pipeline(s), and thereafter from time to time on a prompt basis when such party changes.

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- 7.2 **Requested Quantity** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy, prior to 7:30 a.m. Pacific Clock Time on each Day (or such other time as may be specified from time to time by FortisBC Energy) such information as may be requested by FortisBC Energy, which will include, but is not limited to, the Shipper's Requested Quantity for the Day commencing in approximately 24 Hours and the portion of the Requested Quantity to be delivered to FortisBC Energy at each applicable Interconnection Point. If the Shipper does not notify FortisBC Energy in accordance with the foregoing, then the Shipper's Requested Quantity for the Day commencing in approximately 24 Hours will be deemed to be the Shipper's Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity), for the Day just commencing. The Shipper's Requested Quantity for each Day will equal the Shipper's best estimate, at the time of notification to FortisBC Energy of the Requested Quantity, of the quantity of Gas the Shipper will actually consume on such Day.
- 7.3 **Adjustment of Requested Quantity** - FortisBC Energy may adjust, in consultation with the Shipper, the Shipper's Requested Quantity, described in section 7.2 (Requested Quantity), when in the reasonable opinion of FortisBC Energy such modification is required in order to minimize the Month end balancing quantity.
- 7.4 **Request to Transporter** - FortisBC Energy will provide to the Transporter(s) the portion of the Shipper's Requested Quantity to be delivered to FortisBC Energy at the Interconnection Point with the Transporter, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.5 **Delivery to Interconnection Point** - Each Day the Shipper will cause to be delivered to the applicable Interconnection Point a quantity of Gas at least equal to the portion of the Shipper's Requested Quantity from that Interconnection Point, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.6 **Failure to Deliver to Interconnection Point** - If on any Day the Authorized Quantity from a Transporter is less than the quantity requested from the Transporter pursuant to section 7.4 (Request to Transporter), FortisBC Energy may, in its discretion, interrupt or curtail service hereunder to the lesser of such Authorized Quantity or the DTQ. Alternatively, FortisBC Energy may deliver additional Gas to the Shipper at the subject Interconnection Point and charge the Shipper the charge for Backstopping Gas as set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may, in its discretion, interrupt or curtail service to the Shippers on a prorata basis or another basis deemed equitable by FortisBC Energy based on available information. FortisBC Energy will reallocate the deficiency as soon as reasonable if it obtains information that allows it to determine responsibility and FortisBC Energy will disclose to the Shippers how it allocated or reallocated the deficiency.

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- 7.7 **Authorized Quantity** - FortisBC Energy will take such action as is reasonable in all the circumstances to advise the Shipper or the Shipper Agent if the portion of the Authorized Quantity from a Transporter is less than the portion of the Requested Quantity to be delivered to FortisBC Energy at the Interconnection Point with the Transporter.
- 7.8 **Determination of DTQ** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy 30 Days prior to the Commencement Date of each Contract Year the Shipper's DTQ for the following Contract Year. If a Shipper appoints a Shipper Agent to act on its behalf, the Shipper authorizes the Shipper Agent to determine the DTQ set out in the Transportation Agreement, for each Contract Year. This authorization will remain in effect for the term of the Transportation Agreement or so long as the Shipper Agent acts as agent for the Shipper, whichever period is shorter.

8. Gas Balancing

- 8.1 **Monthly Adjustments** - With the exception of unreturned Peaking Gas, FortisBC Energy will make adjustments at the end of each Month for the differences between the sum of the Authorized Quantities and the Shipper's actual consumption as measured daily by FortisBC Energy as follows
- (a) for overdeliveries (the sum of the Authorized Quantities is greater than the Shipper's actual monthly consumption) FortisBC Energy will maintain an inventory account for the Shipper and will increase the balance in the inventory account by the excess amount received. FortisBC Energy reserves the right to limit Gas quantities maintained in the Shipper's inventory account and will from time to time in consultation with the Shipper return excess inventory at no charge to the Shipper; this will not relieve the Shipper from its obligation to provide accurate nominations pursuant to section 7.2 (Requested Quantity), and
 - (b) except in the case of Backstopping Gas and Unauthorized Overrun Gas, for underdeliveries (the sum of the Authorized Quantities is less than the Shipper's actual Monthly consumption as measured by FortisBC Energy), FortisBC Energy will sell to the Shipper the deficiency quantities at the Balancing Gas charge set out in the Table of Charges.
- 8.2 **Imbalance Following Termination** - If FortisBC Energy has received a quantity of Gas in excess of the quantity delivered to the Shipper during the term of a Transportation Agreement, then the Shipper may request the excess quantity be returned within 90 Days following termination of the Transportation Agreement.
- 8.3 **Balancing of Peaking Gas** - Balancing of Peaking Gas is described in section 10.7.

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9. Group Nominations and Balancing

- 9.1 **Group Nomination and Balancing** - If a Shipper appoints a Shipper Agent and becomes a member of a Group and if the Shipper and Shipper Agent have agreed to execute or have executed a Shipper Agent Agreement, and if the members of the Group are in the same Transportation Area as defined in Section 1.1(ji), and receive service under a transportation Rate Schedule, the Shipper Agent will nominate and balance on behalf of all members of the Group on an aggregate basis pursuant to sections 7 (Nomination), 8 (Gas Balancing), 10 (Peaking Gas) and 11 (EKE Receipt Service) of this Rate Schedule, as modified by this section, and the Shipper Agent will be the agent for each of the members of a Group for the purposes of any and all matters set out in sections 7 (Nomination), 8 (Gas Balancing), 10 (Peaking Gas) and 11 (EKE Receipt Service). Notwithstanding the foregoing, where a Shipper under Rate Schedules 22, 22A or 22B is a member of the Group, section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis. The Shipper Agent may also elect pursuant to the Shipper Agent Agreement, to pay some or all of the charges specified in sections 5.1 and 6.1 for and on behalf of the Shippers in its Group. The Shipper acknowledges and agrees that FortisBC Energy may rely, for the purpose of payment allocations, on verbal notification from the Shipper Agent of such election as a basis for the Shipper Agent's authority to act on behalf of Shipper. Where the Shipper Agent fails to execute a Shipper Agent Agreement, the Shipper will be deemed to be and treated by FortisBC Energy as an individual Group of one Shipper, except for the purposes of sections 9.5 and 13.1 hereunder, and will be deemed to have agreed to purchase Gas from FortisBC Energy pursuant to the applicable transportation schedule and will accordingly be responsible for the payment of all charges thereunder, including any and all Balancing Gas and Unauthorized Overrun Gas charges attributable to that Shipper.
- 9.2 **Requested Quantity from Shipper Agent** - The Shipper Agent will notify FortisBC Energy of the Shipper's Requested Quantity described in section 7.2 (Requested Quantity) on behalf of all members of a Group on an aggregate basis. If the Shipper Agent does not so notify FortisBC Energy, then the Group's Requested Quantity for the Day commencing in approximately 24 Hours will be deemed to be the Group's quantity pursuant to section 8.2 (Requested Quantity) for the Day just commencing.
- 9.3 **Determination of Charges** - The charges for Backstopping Gas, Balancing Gas, Unauthorized Overrun Gas and Replacement Gas set out in the Table of Charges, and Demand Surcharges as set out in the Rate Schedule 22 Table of Charges, will be determined based on the quantities transported on behalf of all members of the Group on an aggregate basis. The charges for Unauthorized Transportation Service will be determined based on the quantities delivered to each Shipper.

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9.4 **Security** - FortisBC Energy may require the Shipper Agent to provide security, as set out in section 3.2 (Security), with necessary changes, for the performance of the Shipper Agent's obligations under the Shipper Agent Agreement.

9.5 **Notices To and From Shipper Agents** - If the Shipper is a member of a Group then:

- (a) communications regarding curtailments or interruptions arising from Gas supply constraints and limitations, quantities of Gas requested and quantities of Gas authorized will be between the Shipper Agent for the Group and FortisBC Energy; and
- (b) notices from FortisBC Energy with respect to interruption or curtailment pursuant to section 4.3 (Notice of Curtailment) arising from Gas supply constraints or limitations will be to the Shipper Agent for the Group and will specify the quantity of Gas to which the Group is curtailed and the time at which such curtailment is to be made; it will be the responsibility of the Shipper Agent to notify Shippers which are members of the Group of interruptions or curtailments.

10. Peaking Gas Service

10.1 **Applicability** - In each Contract Year, Peaking Gas Service is available only to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area, Lower Mainland Service Area or Columbia Service Area and for which the Transportation Agreement was in effect on the 1st Day of November of the subject Contract Year.

10.2 **15-Day Maximum** - A Non-Bypass Shipper may request Peaking Gas for a maximum of 15 Days during each Contract Year. Any Day for which any portion of the Shipper's Peaking Gas Quantity is requested and authorized will be considered one of the 15 Days of Peaking Gas entitlement even if the quantity of authorized Peaking Gas is not used or only partially used.

10.3 **Contract Year 2000/2001** - Should the Southern Crossing Pipeline ("SCP") not be fully operational by the 1st Day of November 2000, the number of Days for which Peaking Gas may be requested during the Contract Year which commences on the 1st Day of November 2000 will be:

the number of Days that SCP is operational during the 2000/2001 Contract Year * 15
365

rounded to the nearest whole number. Peaking Gas may only be requested after the SCP has become fully operational.

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- 10.4 **Peak Day Demand** - For purposes of determining the Peaking Gas Quantity available to a Non-Bypass Shipper on a Day, the Peak Day Demand of a Rate Schedule 23 Shipper is equal to 1.25 times the Shipper's highest average daily consumption of any month in the winter period from November through March of the preceding Contract Year. In instances respecting which it is agreed by FortisBC Energy and Shipper that a Shipper's Gas consumption during the preceding Contract Year is not indicative of prospective consumption, FortisBC Energy will set the Peak Day Demand of that Shipper after consultation with that Shipper.
- 10.5 **Peaking Gas Quantity** - The quantity of Peaking Gas available on a Day to a Non-Bypass Shipper ("Peaking Gas Quantity") will be a percentage of that Shipper's Peak Day Demand. The Peaking Gas Quantity available to Non-Bypass Shippers for the next Contract Year will be determined by FortisBC Energy, and FortisBC Energy will in writing notify each Non-Bypass Shipper of that Shipper's Peaking Gas Quantity, at least 30 days prior to the commencement of each Contract Year. The Peaking Gas Quantity available to a Non-Bypass Shipper in a Contract Year will be:
- (a)
$$\frac{\text{Total Non-Bypass Transport Demand}}{\text{Forecast Sales Demand} + \text{Non-Bypass Transport Demand}} = \text{Peaking Gas Factor}$$
 - (b)
$$\text{Peaking Gas Factor} * \text{SCP Peaking Gas} = \text{Non-Bypass Transport Volume}$$
 - (c)
$$\frac{\text{Non-Bypass Transport Volume}}{\text{Non-Bypass Transport Demand}} = \text{Peaking Gas Percentage}$$
 - (d)
$$\text{Peaking Gas Percentage} * \text{a Non-Bypass Shipper's Peak Day Demand} = \text{Peaking Gas Quantity}$$

Where:

"Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers for the Contract Year commencing the next November 1; "Forecast Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all Gas sales Customers of FortisBC Energy excluding those in the Fort Nelson Service Area; and "SCP Peaking Gas" is the quantity of peaking gas available to FortisBC Energy in the Year commencing the next November 1 due to the operation of the Southern Crossing Pipeline.

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- 10.6 **Requested Peaking Gas Quantity** - Shipper will notify FortisBC Energy of its Requested Peaking Gas Quantity pursuant to nomination procedures described in section 7.2 except as otherwise described in section 10.6 (a) and 10.6 (b) below. The Requested Peaking Gas Quantity must be explicitly stated on the nomination and may be less than but may not exceed the Shipper's Peaking Gas Quantity described in section 10.5.
- (a) **Prior Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment for the next or subsequent Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity for the next Day up until one Hour prior to the evening nomination cycle on the day preceding the Day for which notice of curtailment has been given.
- (b) **Same Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment to be effective during that Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity up until one Hour after the notice of curtailment has been given by FortisBC Energy; provided that FortisBC Energy has usable nomination cycles available during that Day with the Transporter(s). Requests for Requested Peaking Gas Quantity received after the time when FortisBC Energy has usable nomination cycles available during that Day will be authorized only on an as available basis. If notice of Requested Peaking Gas Quantity is given to FortisBC Energy during the Day for which Peaking Gas is being requested then the Peaking Gas Quantity available to Shipper on that Day will be reduced consistent with the elapsed pro-rata practices of applicable Transporter(s).
- (c) **Non-Curtailment Days** - On Days for which FortisBC Energy has not given notice of curtailment, requests for Peaking Gas Quantity shall be made in accordance with the provisions described in section 7.2.
- 10.7 **Return of Peaking Gas Quantity** - FortisBC Energy will, within 4 business days following the date for which Peaking Gas is authorized, provide to the Shipper a statement indicating the amount of Peaking Gas authorized and used, and this will be the statement used for the purposes of tracking the authorization and use of Peaking Gas. Peaking Gas must be returned to FortisBC Energy within 6 Business Days of the Day in respect of which it was authorized. Shipper must notify FortisBC Energy that it is returning Peaking Gas Quantity with its nomination for Requested Quantity described in section 7.2. Peaking Gas returned will be applied against the earliest Peaking Gas Quantity authorized and not yet returned. Shipper has option to elect to return Peaking Gas from the Peaking Gas inventory which is kept for this purpose. If Peaking Gas is not returned to FortisBC Energy within 6 Business Days, FortisBC Energy will provide Shipper with an equivalent quantity of Replacement Gas. The charge for Replacement Gas will be as set out in the Table of Charges.

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- 10.8 **Last Gas Ordered** - Peaking Gas Quantity will be considered the last Gas ordered and taken during the Day.
- 10.9 **Transport of Peaking Gas Quantity** - Peaking Gas Quantity will be deemed to be provided to the Shipper at the Interconnection Point, and the volumes consumed by the Shipper will be included in the Shipper's monthly transport volume for the purposes of calculating monthly transport charges.

11. Access to East Kootenay Exchange (EKE) Interconnection Point

11.1 Firm EKE Receipt Service

- (a) **Applicability** - Firm receipt service access from the EKE Interconnection Point ("Firm EKE Receipt Transport") is available to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area and for which the Shipper has a Transportation Agreement which is effective on the August 1st preceding the subject Contract Year ("Inland Non-Bypass Shippers").
- (b) **Availability** - The total quantity of Firm EKE Receipt Service available in aggregate to Inland Non-Bypass Shippers ("EKE Transport Volume") will be determined by FortisBC Energy for each Contract Year. FortisBC Energy shall publish the EKE Transport Volume which is available for the next Contract Year by July 31 of each Year. The EKE Transport Volume shall be determined as follows:

$$\frac{\text{Inland Non-Bypass Transport Demand} \times \text{ITS Constraint}}{\text{Forecast Inland Sales Demand} + \text{Inland Non-Bypass Transport Demand}} = \text{EKE Transport Volume}$$

Where:

"Inland Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers in the Inland Service Area for the Contract Year commencing the next November 1; "Forecast Inland Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all firm Gas sales Customers of FortisBC Energy in the Inland Service Area; and "ITS Constraint" is the capacity of the FortisBC Energy Interior transmission system available to flow Gas from Oliver in a northbound direction during periods of peak demand.

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- (c) **Election** - Annual elections for Firm EKE Receipt Service for the next Contract Year must be submitted in writing by Shippers to FortisBC Energy within 5 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume. The election must indicate the quantity of Firm EKE Receipt Service requested. The quantity requested must not exceed the Shipper's Peak Day Demand. FortisBC Energy will pro-rate the Firm EKE Receipt Service requests based on the requested quantities if aggregate Firm EKE Receipt Service requests exceed the available EKE Transport Volume. FortisBC Energy will notify Shippers of the Shippers' quantity of Firm EKE Receipt Service within 10 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume.

11.2 Interruptible EKE Receipt Service

- (a) **Applicability** - Interruptible receipt service access to the EKE Interconnection Point ("Interruptible EKE Receipt Service") is available only to Non-Bypass Shippers for which Gas is delivered to a Delivery Point in the Inland Service Area and Lower Mainland Service Area ("Eligible Interruptible Non-Bypass Shippers").
- (b) **Quantity Available** - The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be determined by FortisBC Energy. In determining the quantity of Interruptible EKE Receipt Service available FortisBC Energy will take into account system delivery constraints including the requirement to flow Gas from the facilities of Westcoast Energy Inc. into the Inland Service Area, and the quantity of Firm EKE Receipt Service not utilized. The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be a pro-rata portion of the aggregate available demands of all firm Gas sales Customers and all firm transportation Customers in the Inland and Lower Mainland Service Areas.
- (c) **Maximum Nomination** - A Shipper may not request Interruptible EKE Receipt Service in excess of the Shipper's Peak Day Demand less the Firm EKE Receipt Service of the Shipper. If FortisBC Energy receives requests for Interruptible EKE Receipt Service in excess of the aggregate available Interruptible EKE Receipt Service available for the Day (as determined in 11.2 (b), FortisBC Energy will apportion the available Interruptible EKE Receipt Service on a pro-rata basis of requested Interruptible EKE Receipt Service.
- (d) **Incremental Costs** - Shippers will be responsible for incremental costs associated with transportation on the facilities of Westcoast Energy Inc. from the Inland Service Area to the Lower Mainland Service Area (if applicable).

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12. Term of Transportation Agreement

- 12.1 **Term** - The initial term of the Transportation Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1st next following, provided that if the foregoing results in an initial term of less than one year, then the initial term will instead expire at the end of one further Contract Year.
- 12.2 **Automatic Renewal** - Except as specified in the Transportation Agreement, the term of the Transportation Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Shipper, subject to section 3.3, (Warning if Switching from Interruptible to Firm Transportation Service or Sales) upon not less than 2 months notice prior to the end of the Contract Year then in effect.
- 12.3 **Early Termination** - The term of the Transportation Agreement is subject to early termination in accordance with section 18 (Default or Bankruptcy).
- 12.4 **Survival of Covenants** - Upon the termination of the Transportation Agreement, whether pursuant to section 18 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Transportation Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Transportation Agreement, will survive such termination.

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13. Statements and Payments

- 13.1 **Statements to be Provided** - FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper, a statement for the preceding month showing the Gas quantities delivered to the Shipper and the amount due. If the Shipper is a member of a Group then the statement and the calculation of the amount due from the Shipper will be based on information supplied by the Shipper Agent, or based on other information available to FortisBC Energy, as set out in the Shipper Agent Agreement. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Shipper a separate statement for the preceding Contract Year showing the amount required from the Shipper in respect of any indemnity due under this Rate Schedule or a Transportation Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 13.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Shipper fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Shipper a late payment charge of 1.5% per month (19.56% per annum) on the outstanding amount.
- 13.3 **Examination of Records** - Each of FortisBC Energy and the Shipper will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Transportation Agreement.

14. Quality

- 14.1 **Minimum Standards** - All Gas delivered to an Interconnection Point by or on behalf of the Shipper and all Gas delivered to the Delivery Point will conform to the quality specifications set out in the applicable Transporter's Service Terms.

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15. Measuring Equipment

- 15.1 **Facilities and Equipment** - FortisBC Energy will, at the cost to the Shipper, install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Shipper and the Shipper will permit FortisBC Energy, without cost to FortisBC Energy, to use the Shipper's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy.
- 15.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 15.1 (Facilities and Equipment) on the Shipper's property, the Shipper will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Shipper's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Transportation Agreement.
- 15.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Shipper. Notice of the time and nature of each test conducted in response to communications with or at the request of the Shipper will be given by FortisBC Energy to the Shipper sufficiently in advance to permit a representative of the Shipper to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Shipper is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Shipper will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 15.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.

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15.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible

- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
- (b) by using the registration of any check measuring equipment if installed and accurately registering, and
- (c) by estimating the quantity of Gas delivered to the Shipper during the preceding periods under similar conditions when the meter was registering accurately.

15.6 **Shipper's Equipment** - The Shipper may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Shipper will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.

15.7 **Right to be Present** - FortisBC Energy and the Shipper will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.

15.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

16. Measurement

16.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.

16.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.

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- 16.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10^3m^3 rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

17. Representations, Warranties and Covenants

- 17.1 **Title** - The Shipper represents and warrants with FortisBC Energy that the Shipper will have good title to all Gas to be delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, free and clear of all liens, encumbrances and claims.
- 17.2 **Title Not That of FortisBC Energy** - FortisBC Energy agrees that title to all Gas transported pursuant to the Transportation Agreement remains with the Shipper.
- 17.3 **Acknowledgement** - The Shipper acknowledges that the Gas transported under the Transportation Agreement will be commingled with Gas within the FortisBC Energy System.

18. Default or Bankruptcy

- 18.1 **Default** - If the Shipper at any time fails or neglects
- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Transportation Agreement within 30 days after payment is due, or
 - (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Transportation Agreement, within 30 days after FortisBC Energy gives to the Shipper notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Shipper fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

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then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in section 4.4 (Default Regarding Curtailment), and 6 (Unauthorized Gas Use), at its option and without liability therefore

- (a) suspend further transportation service to the Shipper and may refuse to deliver Gas to the Shipper until the default has been fully remedied, and no such suspension or refusal will relieve the Shipper from any obligation under this Rate Schedule or the Transportation Agreement, or
- (b) terminate the Transportation Agreement, and no such termination of the Transportation Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Shipper for what would otherwise have been the remainder of the term of the Transportation Agreement.

18.2 **Bankruptcy or Insolvency** - If the Shipper becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Shipper seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Transportation Agreement by giving notice in writing to the Shipper and thereupon FortisBC Energy may cease further delivery of Gas to the Shipper and the amount then outstanding for Gas provided under the Transportation Agreement will immediately be due and payable by the Shipper.

19. Notice

19.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Transportation Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

If to FortisBC Energy FORTISBC ENERGY INC.

MAILING ADDRESS: 16705 Fraser Highway
Surrey, B.C.
V4N 0E8

BILLING AND PAYMENT: Attention: Industrial Billing
Telephone: 1-855-873-8773
Fax: (604) 293-2920

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LEGAL AND OTHER: Attention: Director, Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Shipper Agent, then as set out in the Shipper Agent Agreement.

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Shipper as authorized to receive such notices, or
- (b) given by the Shipper by telephone (to be confirmed by fax) in the following manner:

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 23 and the Transportation Agreement effective 7:00 a.m. Pacific Standard Time (date of Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

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20. Indemnity and Limitation on Liability

- 20.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of transportation service permitted under the General Terms and Conditions of FortisBC Energy, or this Rate Schedule.
- 20.2 **Indemnity** - The Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following
- (a) any defect in title to any Gas delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, or arising from any charges that are applicable to the Gas delivered to FortisBC Energy,
 - (b) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges,
 - (c) nominations made in accordance with sections 7 or 9 of this Rate Schedule by FortisBC Energy to the Transporter with respect to the Shipper's transportation volumes, whether or not the Shipper is a member of a Group,
 - (d) Gas delivered by the Transporter or Shipper to FortisBC Energy failing to meet the quality specifications set out in section 14.1 of this Rate Schedule, and
 - (e) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Shipper or on the delivery of Gas to the Shipper by FortisBC Energy, or on any other service provided by FortisBC Energy to the Shipper.
- 20.3 **Principal Obligor** - If the Shipper is a member of a Group, the obligations of each of the Shipper Agent (acting for and on behalf of the Shippers that are members of the Group) and the Shipper (in the event of the failure of the Shipper Agent to make such payments and limited to the charges related to that Shipper) to pay to, or to the order of, FortisBC Energy, the charges for Backstopping Gas, Balancing Gas, Replacement Gas, unauthorized overruns set out in the Table of Charges, and Demand Surcharges set out in the Rate Schedule 22 Table of Charges, are those of principal obligor and not of surety and are independent of the respective obligations of the Shipper Agent and the Shipper towards each other pursuant to the Shipper Agent Agreement.

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21. Force Majeure

- 21.1 **Force Majeure** - Subject to the other provisions of this section 21, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Transportation Agreement, the obligations of both FortisBC Energy and the Shipper will be suspended to the extent necessary for the period of the Force Majeure condition.
- 21.2 **Curtailement Notice** - If FortisBC Energy claims suspension pursuant to this section 21, FortisBC Energy will be deemed to have issued to the Shipper a notice of curtailment.
- 21.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 21.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Transportation Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 21.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 21.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 21, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 21.1.

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- 21.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 21, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 21.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacements to minimize interruptible or curtailment of transportation service to the Shipper, and to restore service as quickly as possible.
- 21.8 **Shipper's Gas** - If FortisBC Energy curtails or interrupts transportation of Gas by reason of Force Majeure the Shipper will make its supply of Gas available to FortisBC Energy, to the extent required by FortisBC Energy, to maintain service priority to those customers or classes of customers which FortisBC Energy determines should be served. FortisBC Energy, in its sole discretion, will either increase the balance in the Shipper's inventory account by the amount taken by FortisBC Energy and return an equivalent quantity of Gas to the Shipper as soon as reasonable, or pay the Shipper an amount equal to either FortisBC Energy's average Gas cost, or the Shipper's average Gas cost, for the Day(s) during which such Gas was taken, whichever Gas cost the Shipper, in its sole discretion, elects.
- 21.9 **Alteration of Facilities** - The Shipper will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Shipper and to restore such facilities after the Force Majeure condition ends.

22. Arbitration

- 22.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Service Agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 22.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.

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BCUC Secretary: _____ Original Page R-23.28

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- 22.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 22.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Shipper or FortisBC Energy.
- 22.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 22.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

23. Interpretation

- 23.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Transportation Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Transportation Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Transportation Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Transportation Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Transportation Agreement.

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24. Miscellaneous

- 24.1 **Waiver** - No waiver by either FortisBC Energy or the Shipper of any default by the other in the performance of any of the provisions of this Rate Schedule or the Transportation Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 24.2 **Enurement** - The Transportation Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 24.3 **Assignment** - The Shipper will not assign the Transportation Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Shipper from its obligations under this Rate Schedule or under the Transportation Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Shipper.
- 24.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Transportation Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 24.5 **Proper Law** - The Transportation Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 24.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Transportation Agreement and of the terms and conditions thereof.
- 24.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Transportation Agreement and the rights and obligations of FortisBC Energy and the Shipper under this Rate Schedule and the Transportation Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Shipper.

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- 24.8 **Further Assurances** - Each of FortisBC Energy and the Shipper will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Transportation Agreement and to assure the completion of the transactions contemplated hereby.
- 24.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Transportation Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

	<u>Mainland Area</u>	<u>Fort Nelson Area</u>	<u>Vancouver Island and Whistler Areas</u>
1. Transportation			
(a) Basic Charge per Month	\$ X	\$ X	\$ X
(b) Delivery Charge per Gigajoule	\$ X	\$ X	\$ X
(c) Administration Charge per Month	\$ X	\$ X	\$ X
2. Sales			
(a) Charge per Gigajoule of Balancing Gas supplied	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month
(b) Charges for Backstopping Gas	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(c) Replacement Gas ²	Sumas Daily Price ¹ plus 20 Percent	Sumas Daily Price ¹ plus 20 Percent	Sumas Daily Price ¹ plus 20 Percent
(d) Unauthorized Overrun Charges			
(i) Per Gigajoule on first 5 percent of specified quantity	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(ii) Per Gigajoule on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹
3. Rider 2 per Gigajoule	\$ X	\$ X	\$ X
<u>4. Rider 4 per Gigajoule</u>	<u>\$ X</u>	<u>\$ X</u>	<u>\$ X</u>
5. Rider 5 per Gigajoule	\$ X	\$ X	\$ X

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Order No.: G-177-11

Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2012

BCUC Secretary: Original signed by Alanna Gillis

First Revision of Page R-23.30

Rider 1 **Propane Surcharge** - Not applicable.

Rider 2 **Rate Stabilization Deferral Account Allocation** – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014

Rider 3 (Reserved for future use.)

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Rider 4 **Phase In Rider** – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

Rider 5 **Revenue Stabilization Adjustment Charge** - Applicable to all Customers served by FortiBC Energy for the Year ending December 31, 2014.

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Franchise Fee Charge of 3.09% of the aggregate of the above charges, is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the municipal boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per month - The minimum charge per month will be the aggregate of the Basic Charge, the transportation administration charge and the Franchise Fee charge.

Notes:

1. As defined under Section 1.1, the Sumas Daily Price quoted each Day will apply to gas consumed on that gas day.
2. The Sumas Daily Price for the sixth Business Day following the Day for which the Peaking Gas was authorized plus 20 percent.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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Effective Date: January 1, 2014

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule:

- ☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 27

Type of Service:

- ☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ:

_____ Gigajoules per day

Shipper Agent and / or Group, if applicable:

Commencement Date:

Expiry Date:

(only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point:

Pressure at the Delivery Point:

(only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address:

Account Number:

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

Effective Date: January 1, 2014

BCUC Secretary: _____ Original Page TA-23.1

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnection with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable transportation Rate Schedule to any such information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 27

- 2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25, or 27) and the General Terms and Conditions of FortisBC Energy, as any of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Transportation Agreement and form part of this Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this Transportation Agreement.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate Schedule for the services provided under such Rate Schedule and this Transportation Agreement.

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name - Please Print)

(Name - Please Print)

DATE: _____

DATE: _____

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APPENDIX A
NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy
(Name of Shipper)
that Shipper has appointed _____ (the Shipper Agent) to
(Name of Shipper Agent)
act as agent for Shipper in all matters relating to gas supply and to transportation service on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that Shipper wishes to be a member of a Group, and the Shipper will cause the Shipper Agent to enter into a Shipper Agent Agreement or other agreement with FortisBC Energy that binds the Shipper Agent to pay the charges which the Shipper Agent elects to pay for and on behalf of the Shipper.
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy with information which will be used by FortisBC Energy to bill Shipper for Backstopping Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.

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7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it will not dispute the information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that the Shipper Agent may elect to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement and Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC Energy then notwithstanding any election that has been made by the Shipper Agent to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement, FortisBC Energy will bill Shipper directly on the bases set out in section 3.9 of the standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing information used by FortisBC Energy the Shipper will deal with the Shipper Agent to resolve that disagreement. Disputes between the Shipper and the Shipper Agent shall not constitute a basis for non-payment by Shipper to FortisBC Energy of the amounts billed.
8. Shipper will use its best efforts to provide FortisBC Energy with at least 30 days notice if Shipper wishes to leave the Group.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 10 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____
(Signature)

(Title)

(Name - Please Print)

DATE: _____

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SHIPPER AGENT AGREEMENT

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper Agent").

WHEREAS:

- 1.0 The Shipper Agent wishes to act as agent on behalf of all members of a Group in respect of transportation service on the FortisBC Energy System; and
- 2.0 The Shippers who are members of the Group have entered into Transportation Agreements with FortisBC Energy.

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

1. Specific Information

Members of Group:
(if space is insufficient, continue list on an additional page)

Commencement Date of this agreement:

Expiry Date of this agreement:

(no expiry date need be specified)

Address of Shipper Agent for receiving notices:

(name of Shipper Agent)

(address of Shipper Agent)

Attention: _____

Telephone: _____

Fax: _____

Alternate Tel(s): _____

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The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable Transportation Rate Schedules to any such information is to the information set out above.

2. Definitions

- 2.1 **Definitions in Rate Schedule 23** - Except where the context requires otherwise or except as otherwise expressly provided in this agreement, all words and phrases defined in Rate Schedule 23 or in the General Terms or Conditions of FortisBC Energy have the meanings set out in the Rate Schedule 23 and in the General Terms and Conditions of FortisBC Energy.

3. Shipper Agent Obligations

- 3.1 **Management of Balancing Gas** - The Shipper Agent is responsible for the management of all Balancing Gas for the Group and its members.
- 3.2 **Management of Backstopping Gas** - The Shipper Agent is responsible for the management of all Backstopping Gas supplied by FortisBC Energy to the Group and its members.
- 3.3 **Management of Peaking Gas Service** - The Shipper Agent is responsible for the management of all Peaking Gas supplied by FortisBC Energy to the Group and its members as well as the return of Peaking Gas Quantities and any Replacement Gas.
- 3.4 **Management of West to East SCP Transportation Service Imbalances** - The Shipper Agent is responsible for the management of Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service under Rate Schedule 40 supplied by FortisBC Energy to the Group and its members.
- 3.5 **Group Nominations and Balancing** - The Shipper Agent will provide Group nomination and balancing to FortisBC Energy in accordance with the sections of the applicable transportation Rate Schedules except where a Shipper under Rate Schedules 22, 22A or 22B is a members of the Group, in which case section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis.

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- 3.6 **Standard Gas Supply Priority Schedule (Standard Priority Schedule)** - Before the Commencement Date of this agreement and before the commencement of each Contract Year the Shipper Agent will provide to FortisBC Energy a Standard Priority Schedule which will advise FortisBC Energy of the priority between members of the Group if a constraint or limitation of Gas supply occurs. The Shipper Agent may provide to FortisBC Energy a revised Standard Priority Schedule from time to time and will provide to FortisBC Energy a revised Standard Priority Schedule if there is a change in membership of the Group.
- 3.7 **Gas Supply Constraints or Limitations** - Upon receipt of a notice from FortisBC Energy of curtailment or interruptions pursuant to section 4.4 (Notice of Gas Supply Constraint or Limitation) Shipper Agent will determine the allocation of Gas supply between members of the Group and will notify the Shippers which are members of the Group of the curtailment or interruption. Within two hours of receipt of notice from FortisBC Energy pursuant to section 4.4, or such longer period as FortisBC Energy considers reasonable in the circumstances, the Shipper Agent will provide to FortisBC Energy a schedule setting out the Gas supply allocation for the Group to apply during that curtailment or interruption. If the Shipper Agent fails to provide a schedule setting out the Gas supply allocation for the Group to apply during the curtailment or interruption then FortisBC Energy will curtail Shippers on the basis set out in the Standard Priority Schedule.
- 3.8 **Monthly Billing Information** - At the end of each month, and within two business days of FortisBC Energy providing to the Shipper Agent a schedule pursuant to section 4.2 (Monthly Provision of Data), the Shipper Agent will provide to FortisBC Energy an allocation schedule setting out the daily Gas takes of each member of the Group and identifying for each member of the Group, the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40. The Shipper Agent will also notify FortisBC Energy which charges the Shipper Agent elects to pay on behalf of the members of the Group and, if notice is not received, FortisBC Energy will bill the Shippers directly.

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- 3.9 **Lack of Allocation Information** - If, at the end of a month, the Shipper Agent fails to provide to FortisBC Energy the monthly allocation schedule pursuant to section 3.8 (Monthly Billing Information) then FortisBC Energy will bill on the basis of the best available information. For Balancing Gas FortisBC Energy will bill on a basis proportional to the actual takes of the Shippers during the month. For Backstopping Gas FortisBC Energy will bill on a basis proportional to the actual Day-to-Day takes of the Shippers during the Days when Backstopping Gas was supplied. For Unauthorized Overrun Gas FortisBC Energy will bill on the basis of the schedule(s) setting out the Gas supply allocation for the Group provided to FortisBC Energy pursuant to section 3.8, or if the Shipper Agent fails to provide a schedule pursuant to section 3.8, then on the basis of the applicable Standard Priority Schedule provided by the Shipper Agent pursuant to section 3.6. For Replacement Gas FortisBC Energy will bill on a basis proportional to actual Day-to-Day takes of the Non-Bypass Shippers during the Day for which the Peaking Gas Quantities were not returned. For Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service FortisBC Energy will bill on a basis proportional to the Peak Day Demand of the Non-Bypass Shippers. If further information becomes available, FortisBC Energy will adjust the billings on the basis of the further information.
- 3.10 **Lack of Gas Supply or Nomination** - If the Shipper Agent becomes aware that a Supplier has ceased, or will cease, to supply Gas to a member of the Group; or if the Shipper Agent provides to FortisBC Energy a Requested Quantity for the Group which does not include a quantity for a member of the Group, due to a lack of Gas supply to the member of the Group or due to concerns about a possible lack of Gas supply to the member of the Group, then the Shipper Agent will immediately notify FortisBC Energy. If the Shipper Agent fails to so notify FortisBC Energy then the Shipper Agent is liable to FortisBC Energy for the price of any Gas which FortisBC Energy delivers to that member of the Group after the time when the Shipper Agent should have provided notice to FortisBC Energy.
- 3.11 **Charges for Extra Services** - If FortisBC Energy incurs extra expenses from a Shipper Agent failing to provide information, or failing to provide information in a timely manner, or failing to provide correct information, or otherwise failing to meet its obligations under this agreement, then FortisBC Energy may charge the Shipper Agent for such extra expenses and the Shipper Agent agrees to pay FortisBC Energy the reasonable extra expenses incurred as a result of such failure.

4. FortisBC Energy Obligations

- 4.1 **Weekly Provision of Data** - Twice a week FortisBC Energy will provide to the Shipper Agent a schedule setting out FortisBC Energy's best available data on the daily takes of the Group.

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- 4.2 **Monthly Provision of Data** - Within 10 working days after the end of each month FortisBC Energy will provide to the Shipper Agent a schedule setting out the daily takes of each member of the Group.
- 4.3 **Capacity Constraints** - If FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate interruptible transportation service to any member of the Group then FortisBC Energy will directly notify that Shipper pursuant to Notice of Curtailment section of the applicable Rate Schedule and will deal directly with the Shipper if the Shipper takes Unauthorized Overrun Gas or Unauthorized Transportation Service.
- 4.4 **Notice of Gas Supply Constraint or Limitation** - If Gas supply constraints or limitations occur; either due to a constraint or limitation of supply from FortisBC Energy of Backstopping Gas or Balancing Gas, or a constraint or limitation of supply from another Supplier; FortisBC Energy will notify the Shipper Agent of any curtailment or interruption, will specify the quantity of Gas to which the Group in aggregate is curtailed and the time at which time such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper Agent as much notice as possible with respect to such curtailment or interruption, not to be less than 4 hours prior notice unless prevented by Force Majeure.

5. Changes to Group

- 5.1 **Amendments to Group** - Schedule "A" sets out the Shippers who are the members of the Group represented by the Shipper Agent to this agreement. No additions or deletions may be made to the Group without the Shipper Agent providing notice to FortisBC Energy of such additions and deletions through provision to FortisBC Energy of an amended Schedule "A" showing such additions and deletions and the effective dates of such additions and deletions in accordance with section 5 of this agreement.
- 5.2 **Deletions From Group** - If the Shipper Agent wishes to cease acting as agent for a Shipper and a Shipper wishes to cease being a member of the Group, upon receipt by FortisBC Energy of not less than 30 days prior written notice from both the Shipper and Shipper Agent and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of deletion of the Shipper from the Group, such Shipper shall be deleted from the Group upon the effective date specified in the amended Schedule "A". A Shipper will be deleted from a Group effective November 1 of a Year if FortisBC Energy receives not less than 30 days prior written notice from either the Shipper or Shipper Agent.

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- 5.3 **Additions To Group** - If the Shipper Agent wishes to add a Shipper to a Group and the Shipper wishes to be added to the Group, and the Shipper has entered into a Transportation Agreement and completed an Appendix "A" - Notice of Appointment of Shipper Agent, and both the Shipper and the Shipper Agent have given to FortisBC Energy not less than 30 days prior written notice of such addition and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of the addition of the Shipper to the Group, such Shipper shall be added to the Group upon the effective date specified in Schedule "A".

6. Statements and Payments

- 6.1 **Statements to be Provided** - If the Shipper Agent elects to pay some or all of the charges for Gas taken by the Shippers as described in section 3.8, FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper Agent a statement for the preceding month showing the Gas quantities, and the applicable charges for which the Shipper Agent is responsible and the amount due. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 6.2 **Payment and Interest** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to, or to the order of, FortisBC Energy at its Surrey, British Columbia office (mailing address: P.O. Box 6666 Stn. Terminal, Vancouver, B.C., V6B 6M9), or such other place in Canada as it will designate, on or before the 1st business day after the 10th calendar day following the billing date. If the Shipper Agent or Shipper fails or neglects to make any payment required under this Shipper Agent Agreement, or any portion thereof, to or to the order of FortisBC Energy when due, interest on the outstanding amount will accrue, at the rate of interest declared by the chartered bank in Canada principally used by FortisBC Energy, 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 30 days that such payment remains unpaid and 5% thereafter until the same is paid where the Shipper Agent or Shipper has not, during the immediately preceding 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 where the Shipper Agent or Shipper has, during the immediately preceding 6 month period, failed to make any payment when due hereunder.

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7. Term

- 7.1 **Term** - The term of this agreement will commence on the commencement date specified in section 1 of this agreement and will expire either
- (a) 30 days following notice from the Shipper Agent that the Shipper Agent wishes to cease to nominate for transportation service and balancing on behalf of the Group, or
 - (b) the expiry or termination of the Transportation Agreements of all of the members of the Group, or
 - (c) the expiry date specified in section 1 of this agreement, or
 - (d) 5 days following notice from FortisBC Energy to the Shipper Agent, and to the Shippers which are members of the Group, under section 10.1 (Failure to Provide Information or Default).

whichever date is earlier.

- 7.2 **Survival of Covenants** - Upon the termination of this agreement,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this agreement relating to the obligation of either of the parties to provide information to the other in connection with this agreement,

will survive such termination.

8. Representations, Warranties and Covenants

- 8.1 **Representations and Warranties** - The Shipper Agent represents and warrants to and covenants with FortisBC Energy as follows

- (a) the members of the Group are listed in section 1 of this agreement,

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- (b) the Shipper Agent is the agent of each of the members of the Group and has the authority of each of the members of the Group for the purposes of any and all matters set out in the applicable transportation Rate Schedule and this agreement, and
- (c) FortisBC Energy may rely on any act or thing done, or document executed, by the Shipper Agent in connection with of any and all matters set out in the applicable transportation Rate Schedule and this agreement.

9. Limitation on Liability and Indemnity

9.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment of transportation service or Gas supply.

9.2 **Indemnity** - The Shipper Agent will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.

10. Disbanding of the Group

10.1 **Failure to Provide Information** - If the Shipper Agent fails to provide FortisBC Energy with the information or schedules which the Shipper Agent is required to provide to FortisBC Energy pursuant to this agreement or is otherwise in breach of this agreement then, acting reasonably in the circumstances and on 5 days notice to the Shipper Agent and to the members of the Group, FortisBC Energy may disband the Group and deal directly with the Shippers which were members of the Group.

10.2 **Default** - If any Shipper which is a member of the Group is in default under the Default or Bankruptcy section of the applicable Rate Schedule or becomes bankrupt or insolvent, then that Shipper will cease to be a member of the Group.

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11. Arbitration

- 11.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 11.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.
- 11.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 11.2 to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of either of the parties or their respective successors or affiliates, any supplier of the Shipper or FortisBC Energy, or any member of the Group.
- 11.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 11.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

12. Notice

- 12.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other party.

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13. Acknowledgement

- 13.1 **Acknowledgement** - The Shipper Agent acknowledges receiving and reading a copy of Rate Schedules 22, 22A, 22B, 23, 25 and 27 and the General Terms and Conditions of FortisBC Energy and will comply with and be bound by all terms and conditions set out therein.

IN WITNESS WHEREOF the parties hereto have executed this agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper Agent)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 25
GENERAL FIRM TRANSPORTATION SERVICE**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Authorized Quantity** - means the quantity of energy (in Gigajoules) for each Day approved by the Transporter(s) for transportation service on the Transporter's pipeline system, based on the quantity requested pursuant to section 7.2 (Requested Quantity), adjusted as set out in section 7.3 (Adjustment of Requested Quantity) or the quantity of energy approved for sale by FortisBC Energy under an applicable Rate Schedule, or any component or aggregate of these quantities, as the context requires.
- (b) **Backstopping Gas** - means Gas made available by FortisBC Energy as an interruptible backup supply if on any Day the Authorized Quantity is less than the Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- (c) **Balancing Gas** - means any Gas taken during a Month which is in excess of the Authorized Quantity, subject to section 8.1 (Monthly Adjustments).
- (d) **Business Day** - means a Day that commences on other than a Saturday, a Sunday, or a statutory holiday in the Province of British Columbia.
- (e) **Commencement Date** - means the day specified as the Commencement Date in the Transportation Agreement.
- (f) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (g) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (h) **Delivery Point** - means the point specified in a Transportation Agreement where FortisBC Energy delivers Gas to a Shipper.

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- (i) **DTQ or Daily Transportation Quantity** - means the maximum quantity of Gas that FortisBC Energy is obligated to transport for and deliver to a Shipper at the Delivery Point on any particular Day, which in the discretion of FortisBC Energy reasonably reflects the Shipper's requirements and which is specified in a Transportation Agreement.
- (j) **EKE** - means the East Kootenay Exchange, an Interconnection Point where the FortisBC Energy System interconnects with the facilities of TransCanada PipeLines Limited, B.C. System.
- (k) **Firm EKE Receipt Service** - means the firm receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area, as described in section 11.1.
- (l) **Force Majeure** - means 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 the 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 of machinery or lines of pipes, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in Gas being unavailable for delivery at the Interconnection Point.
- (m) **Group** - means a group of Shippers who each transport Gas under a transportation Rate Schedule, have a common Shipper Agent, and who have each entered into a Transportation Agreement.
- (n) **Inland Service Area, Columbia Service Area, Lower Mainland Service Area or Fort Nelson Service Area** - refers to specific areas or locations as they were previously identified and included in FortisBC Energy Inc. General Terms and Conditions (Order G-28-11, effective March 1, 2011).
- (o) **Interconnection Point** - means a point where the FortisBC Energy System interconnects with the facilities of one of the Transporters of FortisBC Energy, as specified in a Transportation Agreement.
- (p) **Interruptible EKE Receipt Service** - means the interruptible receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area or the Lower Mainland Service Area, as described in section 11.2.
- (q) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of

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the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.

- (r) **Non-Bypass Shipper** - means a Shipper that receives service under Rate Schedule 23, 25 or 22A and pays rates as set out in the standard Table of Charges for the applicable Rate Schedule.
- (s) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (t) **Peak Day Demand** - means the quantity of energy used for the purposes of determining the Peaking Gas and EKE Receipt Service available to a Non-Bypass Shipper, as calculated pursuant to section 10.4.
- (u) **Peaking Gas** - means Gas which is provided to the Shipper by FortisBC Energy in accordance with the provisions of section 10.
- (v) **Peaking Gas Quantity** - means the Peaking Gas available to a Non-Bypass Shipper on a Day, determined pursuant to the provisions of section 10.5.
- (w) **Rate Schedule 25 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (x) **Replacement Gas** - means Gas which is provided to a Shipper by FortisBC Energy in the event the Shipper fails to return Peaking Gas Quantity pursuant to section 10.7.
- (y) **Requested Quantity** - means the quantity of energy for each Day requested for firm transportation under this Rate Schedule.
- (z) **Requested Peaking Gas Quantity** - means the quantity of energy for each Day requested as Peaking Gas under this Rate Schedule.
- (aa) **Shipper** - means a person who enters into a Transportation Agreement with FortisBC Energy who is also the consumer of the Gas transported.
- (bb) **Shipper Agent** - means a person who enters into a Shipper Agent Agreement with FortisBC Energy.
- (cc) **Shippers Agent Agreement** - means an agreement between FortisBC Energy and a Shipper Agent pursuant to which the Shipper Agent agrees to act as agent for a Group.
- (dd) **Southern Crossing Pipeline** - means the pipeline and other facilities constructed by FortisBC Energy from EKE to an interconnection with existing FortisBC Energy

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facilities near Oliver that will enable FortisBC Energy to transport Gas between EKE and the Delivery Point.

- (ee) **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
- (ff) **Supplier** - means a party who sells Gas to a Shipper or FortisBC Energy or has access to its own supplies of Gas.
- (gg) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of by the British Columbia Utilities Commission, appended to this Rate Schedule.
- (hh) **Transportation Agreement** - means an agreement between FortisBC Energy and a Shipper to provide service pursuant to a transportation Rate Schedule.
- (ii) **Transporter** - means, TransCanada PipeLines Limited, B.C. System, ~~Nova Gas Transmission Ltd.~~, Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.
- (jj) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (kk) **Unauthorized Overrun Gas** - means any Gas taken on any Day in excess of the curtailed quantity specified in any notice to interrupt or curtail a Shipper's take or to interrupt or curtail a Group's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Shipper or a Group to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.

- 1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 Hours will be made and the term of the Transportation Agreement will be similarly adjusted.

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2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule applies to the provision of firm transportation service through the FortisBC Energy System and through one meter station to one Shipper. For greater certainty, firm transportation service under this Rate Schedule means the transportation service FortisBC Energy is obligated to provide to a Shipper on a firm basis subject to interruption or curtailment pursuant to sections 16 (Default or Bankruptcy), 19 (Force Majeure) and the General Terms and Conditions of FortisBC Energy.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy does not provide transportation service as a common carrier. FortisBC Energy will only transport Gas under this Rate Schedule to Shippers in the territory served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if:
- (a) the Shipper has entered into a Transportation Agreement,
 - (b) adequate capacity exists on the FortisBC Energy System, and
 - (c) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 15.1 (Facilities and Equipment).

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3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Shipper to FortisBC Energy under the Transportation Agreement, FortisBC Energy may require the Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Shipper under this Rate Schedule and the Transportation Agreement for a period of 90 Days. Where FortisBC Energy requires a Shipper to provide a letter of credit and the Shipper is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

3.3 **Warning if Switching from Interruptible to Firm Transportation Service or Sales** - A Shipper wishing to switch from interruptible transportation or interruptible sales to firm transportation under this Rate Schedule must

- (a) give 12 months prior notice to FortisBC Energy of the Shipper's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such costs.

Notwithstanding section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Shipper on less than 12 months prior notice if FortisBC Energy is able, with such shorter notice, to arrange for firm transportation of Gas under this Rate Schedule.

4. Transportation

4.1 **Transportation of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service), and all of the terms and conditions of this Rate Schedule, FortisBC Energy will on each Day transport for and deliver to the Shipper at the Delivery Point the Authorized Quantity, or the Shipper's portion of the Group's Authorized Quantity, received at the Interconnection Point from the Transporter up to the DTQ. On each Day, if the Shipper's Gas received at the Interconnection Point is not consumed by the Shipper or is not authorized for delivery to the Shipper, FortisBC Energy will be entitled to utilize such Gas subject to all the terms of this Rate Schedule and the Transportation Agreement.

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- 4.2 **Curtailment** - Consistent with the provisions of section 7.6 (Failure to Deliver to Interconnection Point), if at any time FortisBC Energy, acting reasonably, determines that it is not able to provide Balancing Gas or Backstopping Gas, FortisBC Energy may curtail the Shipper's take to the lesser of the Authorized Quantity or the DTQ.
- 4.3 **Notice of Curtailment** - Each notice from FortisBC Energy to the Shipper with respect to the interruption or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and/or fax and will specify the quantity of Gas to which the Shipper is curtailed and the time at which such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such curtailment, not to be less than 8 Hours prior notice unless prevented by Force Majeure or unless the Transporter does not provide to FortisBC Energy at least 8 Hours prior notice of reduced availability of gas.
- 4.4 **Default Regarding Curtailment** - The Shipper will comply with each notice to interrupt or curtail the Shipper's take. If the Shipper at any time fails or neglects to comply with a notice to interrupt or curtail the Shipper's take as set out in section 7.6 (Failure to Deliver to Interconnection Point), FortisBC Energy may, in addition to any other remedy which it may then or thereafter have, at its option, without liability therefor and without any prior notice to the Shipper
- (a) turn off the valve at the Delivery Point, or
 - (b) deliver such Gas and charge the Shipper for such Gas consumed on that Day the unauthorized overrun charge set out in the Table of Charges.
- 4.5 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to receive or deliver in one Hour more than 5% of the quantity of Gas that the Shipper is authorized to receive on any Day.
- 4.6 **Gas Pressure** - Where specifically requested by the Shipper, FortisBC Energy may agree to deliver Gas to the Shipper at the Delivery Point at a minimum pressure specified in the Shipper's Transportation Agreement. The Shipper will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas at the Interconnection Point at the pressure specified in the Transporter's Service Terms.

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5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges whether or not the Shipper is a member of a Group. The Shipper Agent may elect to pay to FortisBC Energy the charges for the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40 for members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.

6. Unauthorized Gas Use

- 6.1 **Charges for Unauthorized Service** - On any Day a Shipper takes Unauthorized Overrun Gas, the Shipper will pay to FortisBC Energy the unauthorized overrun charge set out in the Table of Charges. The Shipper Agent may elect to pay these charges for the members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.
- 6.2 **Payments Not License** - Payments made to FortisBC Energy for Unauthorized Overrun Gas neither give the right to take Unauthorized Overrun Gas, nor exclude or limit any other remedies available to FortisBC Energy for the Shipper's taking of Unauthorized Overrun Gas.
- 6.3 **Demand Surcharge** - If the Shipper is a member of a Group which includes a Shipper under Rate Schedule 22, 22A or 22B then the Group and its members will be subject to Demand Surcharges under section 7 (Unauthorized Use) of Rate Schedule 22.

7. Nomination

- 7.1 **Capacity on Transporter Pipeline(s)** - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for the Shipper on the Transporter pipeline(s), and thereafter from time to time on a prompt basis when such party changes.

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- 7.2 **Requested Quantity** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy, prior to 7:30 a.m. Pacific Clock Time on each Day (or such other time as may be specified from time to time by FortisBC Energy) such information as may be requested by FortisBC Energy, which will include, but is not limited to, the Shipper's Requested Quantity for the Day commencing in approximately 24 Hours and the portion of the Requested Quantity to be delivered to FortisBC Energy at each applicable Interconnection Point. If the Shipper does not notify FortisBC Energy in accordance with the foregoing, then the Shipper's Requested Quantity for the Day commencing in approximately 24 Hours will be deemed to be the Shipper's Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity), for the Day just commencing. The Shipper's Requested Quantity for each Day will equal the Shipper's best estimate, at the time of notification to FortisBC Energy of the Requested Quantity, of the quantity of Gas the Shipper will actually consume on such Day.
- 7.3 **Adjustment of Requested Quantity** - FortisBC Energy may adjust, in consultation with the Shipper, the Shipper's Requested Quantity, described in section 7.2 (Requested Quantity), when in the reasonable opinion of FortisBC Energy such modification is required in order to minimize the Month end balancing quantity.
- 7.4 **Request to Transporter** - FortisBC Energy will provide to the Transporter(s) the portion of the Shipper's Requested Quantity to be delivered to FortisBC Energy at the Interconnection Point with the Transporter, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.5 **Delivery to Interconnection Point** - Each Day the Shipper will cause to be delivered to the applicable Interconnection Point a quantity of Gas at least equal to the portion of the Shipper's Requested Quantity from that Interconnection Point, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.6 **Failure to Deliver to Interconnection Point** - If on any Day the Authorized Quantity from a Transporter is less than the quantity requested from the Transporter pursuant to section 7.4 (Request to Transporter), FortisBC Energy may, in its discretion, interrupt or curtail service hereunder to the lesser of such Authorized Quantity or the DTQ. Alternatively, FortisBC Energy may deliver additional Gas to the Shipper at the subject Interconnection Point and charge the Shipper the charge for Backstopping Gas as set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may, in its discretion, interrupt or curtail service to the Shippers on a prorata basis or another basis deemed equitable by FortisBC Energy based on available information. FortisBC Energy will reallocate the deficiency as soon as reasonable if it obtains information that allows it to determine responsibility and FortisBC Energy will disclose to the Shippers how it allocated or reallocated the deficiency.

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- 7.7 **Authorized Quantity** - FortisBC Energy will take such action as is reasonable in all the circumstances to advise the Shipper or the Shipper Agent if the portion of the Authorized Quantity from a Transporter is less than the portion of the Requested Quantity to be delivered to FortisBC Energy at the Interconnection Point with the Transporter.
- 7.8 **Determination of DTQ** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy 30 Days prior to the Commencement Date of each Contract Year the Shipper's DTQ for the following Contract Year. If a Shipper appoints a Shipper Agent to act on its behalf, the Shipper authorizes the Shipper Agent to determine the DTQ set out in the Transportation Agreement, for each Contract Year. This authorization will remain in effect for the term of the Transportation Agreement or so long as the Shipper Agent acts as agent for the Shipper, whichever period is shorter.

8. Gas Balancing

- 8.1 **Monthly Adjustments** - With the exception of unreturned Peaking Gas, FortisBC Energy will make adjustments at the end of each Month for the differences between the sum of the Authorized Quantities and the Shipper's actual consumption as measured daily by FortisBC Energy as follows
- (a) for overdeliveries (the sum of the Authorized Quantities is greater than the Shipper's actual monthly consumption) FortisBC Energy will maintain an inventory account for the Shipper and will increase the balance in the inventory account by the excess amount received. FortisBC Energy reserves the right to limit Gas quantities maintained in the Shipper's inventory account and will from time to time in consultation with the Shipper return excess inventory at no charge to the Shipper; this will not relieve the Shipper from its obligation to provide accurate nominations pursuant to section 7.2 (Requested Quantity), and
 - (b) except in the case of Backstopping Gas and Unauthorized Overrun Gas, for underdeliveries (the sum of the Authorized Quantities is less than the Shipper's actual Monthly consumption as measured by FortisBC Energy), FortisBC Energy will sell to the Shipper the deficiency quantities at the Balancing Gas charge set out in the Table of Charges.
- 8.2 **Imbalance Following Termination** - If FortisBC Energy has received a quantity of Gas in excess of the quantity delivered to the Shipper during the term of a Transportation Agreement, then the Shipper may request the excess quantity be returned within 90 Days following termination of the Transportation Agreement.

- 8.3 **Balancing of Peaking Gas** - Balancing of Peaking Gas is described in section 10.7.

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9. Group Nominations and Balancing

- 9.1 **Group Nomination and Balancing** - If a Shipper appoints a Shipper Agent and becomes a member of a Group and if the Shipper and Shipper Agent have agreed to execute or have executed a Shipper Agent Agreement, and if the members of the Group are in the same Service Area of FortisBC Energy and receive service under a transportation Rate Schedule, the Shipper Agent will nominate and balance on behalf of all members of the Group on an aggregate basis pursuant to sections 7 (Nomination), 8 (Gas Balancing), 10 (Peaking Gas) and 11 (EKE Receipt Service) of this Rate Schedule, as modified by this section, and the Shipper Agent will be the agent for each of the members of a Group for the purposes of any and all matters set out in sections 7 (Nomination), 8 (Gas Balancing), 10 (Peaking Gas) and 11 (EKE Receipt Service). Notwithstanding the foregoing, where a Shipper under Rate Schedules 22, 22A or 22B is a member of the Group, section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis. The Shipper Agent may also elect, pursuant to the Shipper Agent Agreement, to pay some or all of the charges specified in sections 5.1 and 6.1 for and on behalf of the Shippers in its Group. The Shipper acknowledges and agrees that FortisBC Energy may rely, for the purpose of payment allocations, on verbal notification from the Shipper Agent of such election as a basis for the Shipper Agent's authority to act on behalf of the Shipper. Where the Shipper Agent fails to execute a Shipper Agent Agreement, the Shipper will be deemed to be and treated by FortisBC Energy as an individual Group of one Shipper, except for the purposes of sections 9.5 and 13.1 hereunder, and will be deemed to have agreed to purchase Gas from FortisBC Energy pursuant to the applicable transportation schedule and will accordingly be responsible for the payment of all charges thereunder, including any and all Balancing Gas and Unauthorized Overrun Gas charges attributable to that Shipper.
- 9.2 **Requested Quantity from Shipper Agent** - The Shipper Agent will notify FortisBC Energy of the Shipper's Requested Quantity described in section 7.2 (Requested Quantity) on behalf of all members of a Group on an aggregated basis. If the Shipper Agent does not so notify FortisBC Energy, then the Group's Requested Quantity for the Day commencing in approximately 24 Hours will be deemed to be the Group's quantity pursuant to section 7.2 (Requested Quantity) for the Day just commencing.
- 9.3 **Determination of Charges** - The charges for Backstopping Gas, Balancing Gas, Unauthorized Overrun Gas and Replacement Gas, set out in the Table of Charges, and Demand Surcharges as set out in the Rate Schedule 22 Table of Charges, will be determined based on the quantities transported on behalf of all members of the Group on an aggregate basis. The charges for Unauthorized Transportation Service will be determined based on the quantities delivered to each Shipper.

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9.4 **Security** - FortisBC Energy may require the Shipper Agent to provide security, as set out in section 3.2 (Security), with necessary changes, for the performance of the Shipper Agent's obligations under the Shipper Agent Agreement.

9.5 **Notices To and From Shipper Agents** - If the Shipper is a member of a Group then:

- (a) communications regarding curtailments or interruptions arising from Gas supply constraints and limitations, quantities of Gas requested and quantities of Gas authorized will be between the Shipper Agent for the Group and FortisBC Energy; and
- (b) notices from FortisBC Energy with respect to interruption or curtailment pursuant to section 4.3 (Notice of Curtailment) arising from Gas supply constraints or limitations will be to the Shipper Agent for the Group and will specify the quantity of Gas to which the Group is curtailed and the time at which such curtailment is to be made; it will be the responsibility of the Shipper Agent to notify Shippers which are members of the Group of interruptions or curtailments.

10. Peaking Gas Service

10.1 **Applicability** - In each Contract Year, Peaking Gas Service is available only to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area, Lower Mainland Service Area or Columbia Service Area and for which the Transportation Agreement was in effect on the 1st Day of November of the subject Contract Year.

10.2 **15-Day Maximum** - A Non-Bypass Shipper may request Peaking Gas for a maximum of 15 Days during each Contract Year. Any Day for which any portion of the Shipper's Peaking Gas Quantity is requested and authorized will be considered one of the 15 Days of Peaking Gas entitlement even if the quantity of authorized Peaking Gas is not used or only partially used.

10.3 **Contract Year 2000/2001** - Should the Southern Crossing Pipeline ("SCP") not be fully operational by the 1st Day of November 2000, the number of Days for which Peaking Gas may be requested during the Contract Year which commences on the 1st Day of November 2000 will be:

the number of Days that SCP is operational during the 2000/2001 Contract Year * 15
365

rounded to the nearest whole number. Peaking Gas may only be requested after the SCP has become fully operational.

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- 10.4 **Peak Day Demand** - For purposes of determining the Peaking Gas Quantity available to a Non-Bypass Shipper on a Day, the Peak Day Demand of a Rate Schedule 25 Shipper is equal to Daily Demand as defined in Note 2 of the Table of Charges. In instances respecting which it is agreed by FortisBC Energy and Shipper that a Shipper's Gas consumption during the preceding Contract Year is not indicative of prospective consumption, FortisBC Energy will set the Peak Day Demand of that Shipper after consultation with that Shipper.
- 10.5 **Peaking Gas Quantity** - The quantity of Peaking Gas available on a Day to a Non-Bypass Shipper ("Peaking Gas Quantity") will be a percentage of that Shipper's Peak Day Demand. The Peaking Gas Quantity available to Non-Bypass Shippers for the next Contract Year will be determined by FortisBC Energy, and FortisBC Energy will in writing notify each Non-Bypass Shipper of that Shipper's Peaking Gas Quantity, at least 30 Days prior to the commencement of each Contract Year. The Peaking Gas Quantity available to a Non-Bypass Shipper in a Contract Year will be:
- (a)
$$\frac{\text{Total Non-Bypass Transport Demand} = \text{Peaking Gas Factor}}{\text{Forecast Sales Demand} + \text{Non-Bypass Transport Demand}}$$
 - (b)
$$\text{Peaking Gas Factor} * \text{SCP Peaking Gas} = \text{Non-Bypass Transport Volume}$$
 - (c)
$$\frac{\text{Non-Bypass Transport Volume} = \text{Peaking Gas Percentage}}{\text{Non-Bypass Transport Demand}}$$
 - (d)
$$\text{Peaking Gas Percentage} * \text{a Non-Bypass Shipper's Peak Day Demand} = \text{Peaking Gas Quantity}$$

Where:

"Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers for the Contract Year commencing the next November 1; "Forecast Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all Gas sales Customers of FortisBC Energy excluding those in the Fort Nelson Service Area; and "SCP Peaking Gas" is the quantity of peaking Gas available to FortisBC Energy in the Year commencing the next November 1 due to the operation of the Southern Crossing Pipeline.

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- 10.6 **Requested Peaking Gas Quantity** - Shipper will notify FortisBC Energy of its Requested Peaking Gas Quantity pursuant to nomination procedures described in section 7.2 except as otherwise described in section 10.6 (a) and 10.6 (b) below. The Requested Peaking Gas Quantity must be explicitly stated on the nomination and may be less than but may not exceed the Shipper's Peaking Gas Quantity described in section 10.5.
- (a) **Prior Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment for the next or subsequent Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity for the next Day up until one Hour prior to the evening nomination cycle on the Day preceding the Day for which notice of curtailment has been given.
- (b) **Same Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment to be effective during that Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity up until one Hour after the notice of curtailment has been given by FortisBC Energy; provided that FortisBC Energy has usable nomination cycles available during that Day with the Transporter(s). Requests for Requested Peaking Gas Quantity received after the time when FortisBC Energy has usable nomination cycles available during that Day will be authorized only on an as available basis. If notice of Requested Peaking Gas Quantity is given to FortisBC Energy during the Day for which Peaking Gas is being requested then the Peaking Gas Quantity available to Shipper on that Day will be reduced consistent with the elapsed pro-rata practices of applicable Transporter(s).
- (c) **Non-Curtailment Days** - On Days for which FortisBC Energy has not given notice of curtailment, requests for Peaking Gas Quantity shall be made in accordance with the provisions described in section 7.2.
- 10.7 **Return of Peaking Gas Quantity** - FortisBC Energy will, within 4 business days following the date for which Peaking Gas is authorized, provide to the Shipper a statement indicating the amount of Peaking Gas authorized and used, and this will be the statement used for the purposes of tracking the authorization and use of Peaking Gas. Peaking Gas must be returned to FortisBC Energy within 6 Business Days of the Day in respect of which it was authorized. Shipper must notify FortisBC Energy that it is returning Peaking Gas Quantity with its nomination for Requested Quantity described in section 7.2. Peaking Gas returned will be applied against the earliest Peaking Gas Quantity authorized and not yet returned. Shipper has option to elect to return Peaking Gas from the Peaking Gas inventory which is kept for this purpose. If Peaking Gas is not returned to FortisBC Energy within 6 Business Days, FortisBC Energy will provide Shipper with an equivalent quantity of Replacement Gas. The charge for Replacement Gas will be as set out in the Table of Charges.

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- 10.8 **Last Gas Ordered** - Peaking Gas Quantity will be considered the last Gas ordered and taken during the Day.
- 10.9 **Transport of Peaking Gas Quantity** - Peaking Gas Quantity will be deemed to be provided to the Shipper at the Interconnection Point, and the volumes consumed by the Shipper will be included in the Shipper's monthly transport volume for the purposes of calculating monthly transport charges.

11. Access to East Kootenay Exchange (EKE) Interconnection Point

11.1 Firm EKE Receipt Service

- (a) **Applicability** - Firm receipt service access from the EKE Interconnection Point ("Firm EKE Receipt Transport") is available to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area and for which the Shipper has a Transportation Agreement which is effective on the August 1st preceding the subject Contract Year ("Inland Non-Bypass Shippers").
- (b) **Availability** - The total quantity of Firm EKE Receipt Service available in aggregate to Inland Non-Bypass Shippers ("EKE Transport Volume") will be determined by FortisBC Energy for each Contract Year. FortisBC Energy shall publish the EKE Transport Volume which is available for the next Contract Year by July 31 of each Year. The EKE Transport Volume shall be determined as follows:

$$\frac{\text{Inland Non-Bypass Transport Demand} \times \text{ITS Constraint}}{\text{Forecast Inland Sales Demand} + \text{Inland Non-Bypass Transport Demand}} = \text{EKE Transport Volume}$$

Where:

"Inland Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers in the Inland Service Area for the Contract Year commencing the next November 1; "Forecast Inland Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all firm Gas sales Customers of FortisBC Energy in the Inland Service Area; and "ITS Constraint" is the capacity of the FortisBC Energy Interior transmission system available to flow Gas from Oliver in a northbound direction during periods of peak demand.

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- (c) **Election** - Annual elections for Firm EKE Receipt Service for the next Contract Year must be submitted in writing by Shippers to FortisBC Energy within 5 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume. The election must indicate the quantity of Firm EKE Receipt Service requested. The quantity requested must not exceed the Shipper's Peak Day Demand. FortisBC Energy will pro-rate the Firm EKE Receipt Service requests based on the requested quantities if aggregate Firm EKE Receipt Service requests exceed the available EKE Transport Volume. FortisBC Energy will notify Shippers of the Shippers' quantity of Firm EKE Receipt Service within 10 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume.

11.2 Interruptible EKE Receipt Service

- (a) **Applicability** - Interruptible receipt service access to the EKE Interconnection Point ("Interruptible EKE Receipt Service") is available only to Non-Bypass Shippers for which Gas is delivered to a Delivery Point in the Inland Service Area and Lower Mainland Service Area ("Eligible Interruptible Non-Bypass Shippers").
- (b) **Quantity Available** - The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be determined by FortisBC Energy each Day. In determining the quantity of Interruptible EKE Receipt Service available FortisBC Energy will take into account system delivery constraints including the requirement to flow Gas from the facilities of Westcoast Energy Inc. into the Inland Service Area, and the quantity of Firm EKE Receipt Service not utilized. The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be a pro-rata portion of the aggregate available demands of all firm Gas sales Customers and all firm transportation Customers in the Inland and Lower Mainland Service Areas.
- (c) **Maximum Nomination** - A Shipper may not request Interruptible EKE Receipt Service in excess of the Shipper's Peak Day Demand less the Firm EKE Receipt Service of the Shipper. If FortisBC Energy receives requests for Interruptible EKE Receipt Service in excess of the aggregate available Interruptible EKE Receipt Service available for the Day (as determined in 11.2 (b)), FortisBC Energy will apportion the available Interruptible EKE Receipt Service on a pro-rata basis of requested Interruptible EKE Receipt Service.
- (d) **Incremental Costs** - Shippers will be responsible for incremental costs associated with transportation on the facilities of Westcoast Energy Inc. from the Inland Service Area to the Lower Mainland Service Area (if applicable).

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12. Term of Transportation Agreement

- 12.1 **Term** - The initial term of the Transportation Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1st next following, provided that if the foregoing results in an initial term of less than one year, then the initial term will instead expire at the end of one further Contract Year.
- 12.2 **Automatic Renewal** - Except as specified in the Transportation Agreement, the term of the Transportation Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Shipper, subject to section 3.3, (Warning if Switching from Interruptible to Firm Transportation Service or Sales) upon not less than 2 months notice prior to the end of the Contract Year then in effect.
- 12.3 **Early Termination** - The term of the Transportation Agreement is subject to early termination in accordance with section 18 (Default or Bankruptcy).
- 12.4 **Survival of Covenants** - Upon the termination of the Transportation Agreement, whether pursuant to section 18 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Transportation Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Transportation Agreement, will survive such termination other and to pay the other any monies owing as at the date of termination in connection with the Transportation Agreement.
- will survive such termination.

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13. Statements and Payments

- 13.1 **Statements to be Provided** - FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper, a statement for the preceding month showing the Gas quantities delivered to the Shipper and the amount due. If the Shipper is a member of a Group then the statement and the calculation of the amount due from the Shipper will be based on information supplied by the Shipper Agent, or based on other information available to FortisBC Energy, as set out in Shipper Agent Agreement. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Shipper a separate statement for the preceding Contract Year showing the amount required from the Shipper in respect of any indemnity due under this Rate Schedule or a Transportation Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 13.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Shipper fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Shipper a late payment charge of 1½% per month (19.56% per annum) on the outstanding amount.
- 13.3 **Examination of Records** - Each of FortisBC Energy and the Shipper will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Transportation Agreement.

14. Quality

- 14.1 **Minimum Standards** - All Gas delivered to an Interconnection Point by or on behalf of the Shipper and all Gas delivered to the Delivery Point will conform to the quality specifications set out in the applicable Transporter's Service Terms.

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15. Measuring Equipment

- 15.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Shipper and the Shipper will permit FortisBC Energy, without cost to FortisBC Energy, to use the Shipper's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy. Communication facilities and equipment will be installed at the cost of the Shipper.
- 15.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 15.1 (Facilities and Equipment) on the Shipper's property, the Shipper will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Shipper's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Transportation Agreement.
- 15.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Shipper. Notice of the time and nature of each test conducted in response to communications with or at the request of the Shipper will be given by FortisBC Energy to the Shipper sufficiently in advance to permit a representative of the Shipper to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Shipper is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Shipper will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 15.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.

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- 15.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and
 - (c) by estimating the quantity of Gas delivered to the Shipper during the preceding periods under similar conditions when the meter was registering accurately.
- 15.6 **Shipper's Equipment** - The Shipper may at its own expense install, maintain and operate its own measuring equipment for the purpose of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Shipper will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 15.7 **Right to be Present** - FortisBC Energy and the Shipper will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 15.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

16. Measurement

- 16.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 16.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standards volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.

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- 16.3 **Conversion of Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10^3m^3 rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

17. Representations, Warranties and Covenants

- 17.1 **Title** - The Shipper represents and warrants with FortisBC Energy that the Shipper will have good title to all Gas to be delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, free and clear of all liens, encumbrances and claims.
- 17.2 **Title Not That of FortisBC Energy** - FortisBC Energy agrees that title of all Gas transported pursuant to the Transportation Agreement remains with the Shipper.
- 17.3 **Acknowledgement** - The Shipper acknowledges that the Gas transported under the Transportation Agreement will be commingled with Gas within the FortisBC Energy System.

18. Default or Bankruptcy

- 18.1 **Default** - If the Shipper at any time fails or neglects
- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Transportation Agreement within 30 days after payment is due, or
 - (b) to correct any default to any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Transportation Agreement, within 30 days after FortisBC Energy gives to the Shipper notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Shipper fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

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then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in section 4.4 (Default Regarding Curtailment), and 6 (Unauthorized Gas Use), at its option and without liability therefore

- (a) suspend further transportation service to the Shipper and may refuse to deliver Gas to the Shipper until the default has been fully remedied, and no such suspension or refusal will relieve the Shipper from any obligation under this Rate Schedule or the Transportation Agreement, or
- (b) terminate the Transportation Agreement, and no such termination of the Transportation Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Shipper for what would otherwise have been the remainder of the term of the Transportation Agreement.

18.2 **Bankruptcy or Insolvency** - If the Shipper becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Shipper seeks protection from the demands of its creditors pursuant to any legislation enacted for the purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Transportation Agreement by giving notice in writing to the Shipper and thereupon FortisBC Energy may cease further delivery of Gas to the Shipper and the amount then outstanding for Gas provided under the Transportation Agreement will immediately be due and payable by the Shipper.

19. Notice

19.1 Notice - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Transportation Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

If to FortisBC Energy FORTISBC ENERGY INC.

MAILING ADDRESS: 16705 Fraser Highway
Surrey, B.C.
V4N 0E8

BILLING AND PAYMENT: Attention: Industrial Billing
Telephone: 1-855-873-8773
Fax: (604) 293-2920

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LEGAL AND OTHER: Attention: Director, Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Shipper Agent, then as set out in the Shipper Agent Agreement.

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Shipper as authorized to receive such notices, or
- (b) given by the Shipper by telephone (to be confirmed by fax) in the following manner:

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 25 and the Transportation Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

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20. Indemnity and Limitation on Liability

- 20.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of transportation service permitted under the General Terms and Conditions of FortisBC Energy, or this Rate Schedule.
- 20.2 **Indemnity** - The Shipper will indemnify and hold harmless each FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following
- (a) any defects in title to any Gas delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, or arising from any charges that are applicable to the Gas delivered to FortisBC Energy,
 - (b) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges,
 - (c) nominations made in accordance with sections 7 or 9 of this Rate Schedule by FortisBC Energy to the Transporter with respect to the Shipper's transportation volumes, whether or not the Shipper is a member of a Group,
 - (d) Gas delivered by the Transporter or Shipper to FortisBC Energy failing to meet the quality specifications set out in section 14.1 of this Rate Schedule, and
 - (e) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Shipper or on the delivery of Gas to the Shipper by FortisBC Energy, or on any other service provided by FortisBC Energy to the Shipper.
- 20.3 **Principal Obligor** - If the Shipper is a member of a Group, the obligations of each of the Shipper Agent (acting for and on behalf of the Shippers that are members of the Group) and the Shipper (in the event of the failure of the Shipper Agent to make such payments and limited to the charges related to that Shipper) to pay to, or to the order of, FortisBC Energy the charges for Backstopping Gas, Balancing Gas, Replacement Gas, unauthorized overruns set out in the Table of Charges, and Demand Surcharges set out in the Rate Schedule 22 Table of Charges, are those of principal obligor and not of surety and are independent of the respective obligations of the Shipper Agent and the Shipper towards each other pursuant to the Shipper Agent Agreement.

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21. Force Majeure

- 21.1 **Force Majeure** - Subject to other provisions of this section 21, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Transportation Agreement, the obligations of both FortisBC Energy and the Shipper will be suspended to the extent necessary for the period of the Force Majeure condition.
- 21.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 21, FortisBC Energy will be deemed to have issued to the Shipper a notice of curtailment.
- 21.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 21.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Transportation Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 21.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 21.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 21, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 21.1.

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- 21.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 21, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 21.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacements to minimize interruptible or curtailment of transportation service to the Shipper, and to restore service as quickly as possible.
- 21.8 **Shipper's Gas** - If FortisBC Energy curtails or interrupts transportation of Gas by reason of Force Majeure the Shipper will make its supply of Gas available to FortisBC Energy, to the extent required by FortisBC Energy, to maintain service priority to those customers or classes of customers which FortisBC Energy determines should be served. FortisBC Energy, in its sole discretion, will either increase the balance in the Shipper's inventory account by the amount taken by FortisBC Energy and return an equivalent quantity of Gas to the Shipper as soon as possible, or pay the Shipper an amount equal to either FortisBC Energy's average Gas cost, or the Shipper's average Gas cost, for the Day(s) during which such Gas was taken, whichever Gas cost the Shipper, in its sole discretion, elects.
- 21.9 **Alteration of Facilities** - The Shipper will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Shipper and to restore such facilities after the Force Majeure condition ends.

22. Arbitration

- 22.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Service Agreement will be resolved by a single arbitrator pursuant to the Commercial Arbitration Act of British Columbia or successor legislation, save as expressly provided herein.
- 22.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.

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- 22.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 22.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Shipper or FortisBC Energy.
- 22.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 22.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

23. Interpretation

- 23.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Transportation Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor of such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Transportation Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Transportation Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Transportation Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Transportation Agreement.

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24. Miscellaneous

- 24.1 **Waiver** - No waiver by either FortisBC Energy or the Shipper of any default by the other in the performance of any of the provisions of this Rate Schedule or the Transportation Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 24.2 **Enurement** - The Transportation Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.
- 24.3 **Assignment** - The Shipper will not assign the Transportation Agreement or any of its rights and obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Shipper from its obligations under this Rate Schedule or under the Transportation Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Shipper.
- 24.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendments or variation of the Transportation Agreement will be effective or binding upon the parties unless such amendments or variation is set out in writing and duly executed by the parties.
- 24.5 **Proper Law** - The Transportation Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 24.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Transportation Agreement and of the terms and conditions thereof.
- 24.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Transportation Agreement and the rights and obligations of FortisBC Energy and the Shipper under this Rate Schedule and the Transportation Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Shipper.

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- 24.8 **Further Assurances** - Each of FortisBC Energy and the Shipper will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions intent and meaning of this Rate Schedule and the Transportation Agreement and to assure the completion of the transactions contemplated hereby.
- 24.9 **Form of Payment** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Transportation Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

1. Transportation

	<u>Mainland Area</u>	<u>Fort Nelson Area</u>	<u>Vancouver Island and Whistler Areas</u>
(a) Basic Charge per Month	\$ X	\$ X	\$ X
(b) Demand Charge per Month per Gigajoule of Daily Demand	\$ X²	\$ X	\$ X
(c) Delivery Charge per Gigajoule	\$ X	\$ X	\$ X
(d) Administration Charge per Month	\$ X	\$ X	\$ X

2. Sales

(a) Charge per Gigajoule of Balancing Gas supplied	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month
(b) Charges for Backstopping Gas	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(c) Replacement Gas ³	Sumas Daily Price ¹ plus 20 Percent	Sumas Daily Price ¹ plus 20 Percent	Sumas Daily Price ¹ plus 20 Percent
(d) Unauthorized Overrun Charges			
(i) Per Gigajoule on first 5 percent of specified quantity	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(ii) Per Gigajoule on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹

3. Rider 2 per Gigajoule	\$ X	\$ X	\$ X
4. Rider 4 per Gigajoule	\$ X	\$ X	\$ X

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Rider 1 **Propane Surcharge** - Not applicable.

Rider 2 **Rate Stabilization Deferral Account Allocation** – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014

Rider 3 (Reserved for future use.)

Rider 4 **Phase In Rider** – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

Rider 5 **Revenue Stabilization Adjustment Charge** - Not applicable.

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Franchise Fee Charge of 3.09% of the aggregate of the above charges, is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the municipal boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per month - The minimum charge per month will be the aggregate of the Basic Charge, Demand Charges, the Transportation Administration charge and the Franchise Fee charge.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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Notes:

1. **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
2. Daily Demand is equal to 1.25 multiplied by the greater of:
 - (a) the Customer's highest average daily consumption of any month during the winter period (November 1 to March 31), or
 - (b) one half of the Customer's highest average daily consumption of any month during the summer period (April 1 to October 31).

The calculation of Daily Demand will be based on the Customer's actual gas use during the preceding Contract Year.
3. The Sumas Daily Price for the sixth Business Day following the Day for which the Peaking Gas was authorized plus 20 percent.

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule:

- ☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 27

Type of Service:

- ☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ:

_____ Gigajoules per day

Shipper Agent and / or Group, if applicable:

Commencement Date:

Expiry Date:

(only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point:

Pressure at the Delivery Point:

(only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address:

Account Number:

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnection with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable transportation Rate Schedule to any such information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 27

2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25, or 27) and the General Terms and Conditions of FortisBC Energy, as any of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Transportation Agreement and form part of this Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this Transportation Agreement.

2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate Schedule for the services provided under such Rate Schedule and this Transportation Agreement.

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name - Please Print)

(Name - Please Print)

DATE: _____

DATE: _____

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APPENDIX A
NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy
(Name of Shipper)
that Shipper has appointed _____ (the Shipper Agent) to
(Name of Shipper Agent)
act as agent for Shipper in all matters relating to gas supply and to transportation service on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that Shipper wishes to be a member of a Group, and the Shipper will cause the Shipper Agent to enter into a Shipper Agent Agreement or other agreement with FortisBC Energy that binds the Shipper Agent to pay the charges which the Shipper Agent elects to pay for and on behalf of the Shipper.
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy with information which will be used by FortisBC Energy to bill Shipper for Backstopping Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.

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7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it will not dispute the information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that the Shipper Agent may elect to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement and Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC Energy then notwithstanding any election that has been made by the Shipper Agent to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement, FortisBC Energy will bill Shipper directly on the bases set out in section 3.9 of the standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing information used by FortisBC Energy the Shipper will deal with the Shipper Agent to resolve that disagreement. Disputes between the Shipper and the Shipper Agent shall not constitute a basis for non-payment by Shipper to FortisBC Energy of the amounts billed.
8. Shipper shall provide FortisBC Energy with 30 days notice, except with the prior approval from FortisBC Energy, if Shipper wishes to leave the Group, to be effective on the beginning of the next calendar month following the expiry of the notice period.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 10 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____

(Signature)

(Title)

(Name - Please Print)

DATE: _____

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SHIPPER AGENT AGREEMENT

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper Agent").

WHEREAS:

- 1.0 The Shipper Agent wishes to act as agent on behalf of all members of a Group in respect of transportation service on the FortisBC Energy System; and
- 2.0 The Shippers who are members of the Group have entered into Transportation Agreements with FortisBC Energy.

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

1. Specific Information

Members of Group:
(if space is insufficient, continue list on an additional page)

Commencement Date of this agreement:

Expiry Date of this agreement:

(no expiry date need be specified)

Address of Shipper Agent for receiving notices:

(name of Shipper Agent)

(address of Shipper Agent)

Attention: _____

Telephone: _____

Fax: _____

Alternate Tel(s): _____

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The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable Transportation Rate Schedules to any such information is to the information set out above.

2. Definitions

- 2.1 **Definitions in Rate Schedule 25** - Except where the context requires otherwise or except as otherwise expressly provided in this agreement, all words and phrases defined in Rate Schedule 25 or in the General Terms or Conditions of FortisBC Energy have the meanings set out in the Rate Schedule 25 and in the General Terms and Conditions of FortisBC Energy.

3. Shipper Agent Obligations

- 3.1 **Management of Balancing Gas** - The Shipper Agent is responsible for the management of all Balancing Gas for the Group and its members.
- 3.2 **Management of Backstopping Gas** - The Shipper Agent is responsible for the management of all Backstopping Gas supplied by FortisBC Energy to the Group and its members.
- 3.3 **Management of Peaking Gas Service** - The Shipper Agent is responsible for the management of all Peaking Gas supplied by FortisBC Energy to the Group and its members as well as the return of Peaking Gas Quantities and any Replacement Gas.
- 3.4 **Management of West to East SCP Transportation Service Imbalances** - The Shipper Agent is responsible for the management of Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service under Rate Schedule 40 supplied by FortisBC Energy to the Group and its members.
- 3.5 **Group Nominations and Balancing** - The Shipper Agent will provide Group nomination and balancing to FortisBC Energy in accordance with the sections of the applicable transportation Rate Schedules except where a Shipper under Rate Schedules 22, 22A or 22B is a members of the Group, in which case section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis.

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- 3.6 **Standard Gas Supply Priority Schedule (Standard Priority Schedule)** - Before the Commencement Date of this agreement and before the commencement of each Contract Year the Shipper Agent will provide to FortisBC Energy a Standard Priority Schedule which will advise FortisBC Energy of the priority between members of the Group if a constraint or limitation of Gas supply occurs. The Shipper Agent may provide to FortisBC Energy a revised Standard Priority Schedule from time to time and will provide to FortisBC Energy a revised Standard Priority Schedule if there is a change in membership of the Group.
- 3.7 **Gas Supply Constraints or Limitations** - Upon receipt of a notice from FortisBC Energy of curtailment or interruptions pursuant to section 4.4 (Notice of Gas Supply Constraint or Limitation) Shipper Agent will determine the allocation of Gas supply between members of the Group and will notify the Shippers which are members of the Group of the curtailment or interruption. Within two hours of receipt of notice from FortisBC Energy pursuant to section 4.4, or such longer period as FortisBC Energy considers reasonable in the circumstances, the Shipper Agent will provide to FortisBC Energy a schedule setting out the Gas supply allocation for the Group to apply during that curtailment or interruption. If the Shipper Agent fails to provide a schedule setting out the Gas supply allocation for the Group to apply during the curtailment or interruption then FortisBC Energy will curtail Shippers on the basis set out in the Standard Priority Schedule.
- 3.8 **Monthly Billing Information** - At the end of each month, and within two business days of FortisBC Energy providing to the Shipper Agent a schedule pursuant to section 4.2 (Monthly Provision of Data), the Shipper Agent will provide to FortisBC Energy an allocation schedule setting out the daily Gas takes of each member of the Group and identifying for each member of the Group the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40. The Shipper Agent will also notify FortisBC Energy which charges the Shipper Agent elects to pay on behalf of the members of the Group and, if notice is not received, FortisBC Energy will bill the Shippers directly.

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- 3.9 **Lack of Allocation Information** - If, at the end of a month, the Shipper Agent fails to provide to FortisBC Energy the monthly allocation schedule pursuant to section 3.8 (Monthly Billing Information) then FortisBC Energy will bill on the basis of the best available information. For Balancing Gas FortisBC Energy will bill on a basis proportional to the actual takes of the Shippers during the month. For Backstopping Gas FortisBC Energy will bill on a basis proportional to the actual Day-to-Day takes of the Shippers during the Days when Backstopping Gas was supplied. For Unauthorized Overrun Gas FortisBC Energy will bill on the basis of the schedule(s) setting out the Gas supply allocation for the Group provided to FortisBC Energy pursuant to section 3.8, or if the Shipper Agent fails to provide a schedule pursuant to section 3.8, then on the basis of the applicable Standard Priority Schedule provided by the Shipper Agent pursuant to section 3.6. For Replacement Gas FortisBC Energy will bill on a basis proportional to actual Day-to-Day takes of the Non-Bypass Shippers during the Day for which the Peaking Gas Quantities were not returned. For Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service FortisBC Energy will bill on a basis proportional to the Peak Day Demand of the Non-Bypass Shippers. If further information becomes available, FortisBC Energy will adjust the billings on the basis of the further information.
- 3.10 **Lack of Gas Supply or Nomination** - If the Shipper Agent becomes aware that a Supplier has ceased, or will cease, to supply Gas to a member of the Group; or if the Shipper Agent provides to FortisBC Energy a Requested Quantity for the Group which does not include a quantity for a member of the Group, due to a lack of Gas supply to the member of the Group or due to concerns about a possible lack of Gas supply to the member of the Group, then the Shipper Agent will immediately notify FortisBC Energy. If the Shipper Agent fails to so notify FortisBC Energy then the Shipper Agent is liable to FortisBC Energy for the price of any Gas which FortisBC Energy delivers to that member of the Group after the time when the Shipper Agent should have provided notice to FortisBC Energy.
- 3.11 **Charges for Extra Services** - If FortisBC Energy incurs extra expenses from a Shipper Agent failing to provide information, or failing to provide information in a timely manner, or failing to provide correct information, or otherwise failing to meet its obligations under this agreement, then FortisBC Energy may charge the Shipper Agent for such extra expenses and the Shipper Agent agrees to pay FortisBC Energy the reasonable extra expenses incurred as a result of such failure.

4. FortisBC Energy Obligations

- 4.1 **Weekly Provision of Data** - Twice a week FortisBC Energy will provide to the Shipper Agent a schedule setting out FortisBC Energy's best available data on the daily takes of the Group.

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- 4.2 **Monthly Provision of Data** - Within 10 working days after the end of each month FortisBC Energy will provide to the Shipper Agent a schedule setting out the daily takes of each member of the Group.
- 4.3 **Capacity Constraints** - If FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate interruptible transportation service to any member of the Group then FortisBC Energy will directly notify that Shipper pursuant to Notice of Curtailment section of the applicable Rate Schedule and will deal directly with the Shipper if the Shipper takes Unauthorized Overrun Gas or Unauthorized Transportation Service.
- 4.4 **Notice of Gas Supply Constraint or Limitation** - If Gas supply constraints or limitations occur; either due to a constraint or limitation of supply from FortisBC Energy of Backstopping Gas or Balancing Gas, or a constraint or limitation of supply from another Supplier; FortisBC Energy will notify the Shipper Agent of any curtailment or interruption, will specify the quantity of Gas to which the Group in aggregate is curtailed and the time at which time such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper Agent as much notice as possible with respect to such curtailment or interruption, not to be less than 4 hours prior notice unless prevented by Force Majeure.

5. Changes to Group

- 5.1 **Amendments to Group** - Schedule "A" sets out the Shippers who are the members of the Group represented by the Shipper Agent to this agreement. No additions or deletions may be made to the Group without the Shipper Agent providing notice to FortisBC Energy of such addition and deletions through provision to FortisBC Energy of an amended Schedule "A" showing such additions and deletions and the effective dates of such additions and deletions in accordance with section 5 of this agreement.
- 5.2 **Deletions From Group** - If the Shipper Agent wishes to cease acting as agent for a Shipper or a Shipper wishes to cease being a member of the Group, upon receipt by FortisBC Energy of not less than, except with the prior approval from FortisBC Energy, 30 days prior written notice from either the Shipper or Shipper Agent and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of deletion of the Shipper from the Group, such Shipper shall be deleted from the Group effective on the beginning of the next calendar month following the expiry of the notice period.

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- 5.3 **Additions To Group** - If the Shipper Agent wishes to add a Shipper to a Group and the Shipper wishes to be added to the Group, and the Shipper has entered into a Transportation Agreement and completed an Appendix "A" - Notice of Appointment of Shipper Agent, and both the Shipper and the Shipper Agent have given to FortisBC Energy not less than, except with the prior approval from FortisBC Energy, 30 days prior written notice of such addition and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of the addition of the Shipper to the Group, such Shipper shall be added to the Group effective on the beginning of the next calendar month following the expiry of the notice period.

6. Statements and Payments

- 6.1 **Statements to be Provided** - If the Shipper Agent elects to pay some or all of the charges for Gas taken by the Shippers as described in section 3.8, FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper Agent a statement for the preceding month showing the Gas quantities, and the applicable charges for which the Shipper Agent is responsible and the amount due. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 6.2 **Payment and Interest** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to, or to the order of, FortisBC Energy at its Surrey, British Columbia office (mailing address: P.O. Box 6666 Stn. Terminal, Vancouver, B.C., V6B 6M9), or such other place in Canada as it will designate, on or before the 1st business day after the 10th calendar day following the billing date. If the Shipper Agent or Shipper fails or neglects to make any payment required under this Shipper Agent Agreement, or any portion thereof, to or to the order of FortisBC Energy when due, interest on the outstanding amount will accrue, at the rate of interest declared by the chartered bank in Canada principally used by FortisBC Energy, 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 30 days that such payment remains unpaid and 5% thereafter until the same is paid where the Shipper Agent or Shipper has not, during the immediately preceding 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 where the Shipper Agent or Shipper has, during the immediately preceding 6 month period, failed to make any payment when due hereunder.

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7. Term

- 7.1 **Term** - The term of this agreement will commence on the commencement date specified in section 1 of this agreement and will expire either
- (a) 30 days following notice from the Shipper Agent that the Shipper Agent wishes to cease to nominate for transportation service and balancing on behalf of the Group, or
 - (b) the expiry or termination of the Transportation Agreements of all of the members of the Group, or
 - (c) the expiry date specified in section 1 of this agreement, or
 - (d) 5 days following notice from FortisBC Energy to the Shipper Agent, and to the Shippers which are members of the Group, under section 10.1 (Failure to Provide Information or Default).

whichever date is earlier.

- 7.2 **Survival of Covenants** - Upon the termination of this agreement,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this agreement relating to the obligation of either of the parties to provide information to the other in connection with this agreement,

will survive such termination.

8. Representations, Warranties and Covenants

- 8.1 **Representations and Warranties** - The Shipper Agent represents and warrants to and covenants with FortisBC Energy as follows

- (a) the members of the Group are listed in section 1 of this agreement,

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- (b) the Shipper Agent is the agent of each of the members of the Group and has the authority of each of the members of the Group for the purposes of any and all matters set out in the applicable transportation Rate Schedule and this agreement, and
- (c) FortisBC Energy may rely on any act or thing done, or document executed, by the Shipper Agent in connection with of any and all matters set out in the applicable transportation Rate Schedule and this agreement.

9. Limitation on Liability and Indemnity

9.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment of transportation service or Gas supply.

9.2 **Indemnity** - The Shipper Agent will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.

10. Disbanding of the Group

10.1 **Failure to Provide Information** - If the Shipper Agent fails to provide FortisBC Energy with the information or schedules which the Shipper Agent is required to provide to FortisBC Energy pursuant to this agreement or is otherwise in breach of this agreement then, acting reasonably in the circumstances and on 5 days notice to the Shipper Agent and to the members of the Group, FortisBC Energy may disband the Group and deal directly with the Shippers which were members of the Group.

10.2 **Default** - If any Shipper which is a member of the Group is in default under the Default or Bankruptcy section of the applicable Rate Schedule or becomes bankrupt or insolvent, then that Shipper will cease to be a member of the Group.

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11. Arbitration

- 11.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 11.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.
- 11.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 11.2 to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of either of the parties or their respective successors of affiliates, any supplier of the Shipper or FortisBC Energy, or any member of the Group.
- 11.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 11.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

12. Notice

- 12.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other party.

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13. Acknowledgement

- 13.1 **Acknowledgement** - The Shipper Agent acknowledges receiving and reading a copy of Rate Schedules 22, 22A, 22B, 23, 25 and 27 and the General Terms and Conditions of FortisBC Energy and will comply with and be bound by all terms and conditions set out therein.

IN WITNESS WHEREOF the parties hereto have executed this agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper Agent)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 26
NGV TRANSPORTATION SERVICE**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Authorized Quantity** - means the quantity of energy (in Gigajoules) for each Day approved by the Transporter(s) for transportation service on the Transporter's pipeline system, based on the quantity requested pursuant to section 7.2 (Requested Quantity), adjusted as set out in section 7.3 (Adjustment of Requested Quantity) or the quantity of energy approved for sale by FortisBC Energy under an applicable Rate Schedule, or any component or aggregate of these quantities, as the context requires.
- (b) **Backstopping Gas** - means Gas made available by FortisBC Energy as an interruptible backup supply if on any Day the Authorized Quantity is less than the Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- (c) **Balancing Gas** - means any Gas taken during a Month which is in excess of the Authorized Quantity, subject to section 8.1 (Monthly Adjustments).
- (d) **Business Day** - means a Day that commences on other than a Saturday, a Sunday, or a statutory holiday in the Province of British Columbia.
- (e) **Capacity Factor** - means the Shipper's average daily use of Gas divided by the product of the average daily use of Gas for the Month of greatest use during the winter period (November 1 to March 31) multiplied by 1.25.
- (f) **Commencement Date** - means the day specified as the Commencement Date in the Transportation Agreement.
- (g) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (h) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.

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- (i) **Delivery Point** - means the point specified in a Transportation Agreement where FortisBC Energy delivers Gas to a Shipper.
- (j) **DTQ or Daily Transportation Quantity** - means the maximum quantity of Gas that FortisBC Energy is obligated to transport for and deliver to a Shipper at the Delivery Point on any particular Day, which in the discretion of FortisBC Energy reasonably reflects the Shipper's requirements and which is specified in a Transportation Agreement.
- (k) **EKE** - means the East Kootenay Exchange, an Interconnection Point where the FortisBC Energy System interconnects with the facilities of TransCanada PipeLines Limited, B.C. System.
- (l) **Firm EKE Receipt Service** - means the firm receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area, as described in section 11.1.
- (m) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in Gas being unavailable for delivery at the Interconnection Point.
- (n) **Group** - means a group of Shippers who each transport Gas under a transportation Rate Schedule, have a common Shipper Agent, and who have each entered into a Transportation Agreement.
- (o) **Inland Service Area, Columbia Service Area, Lower Mainland Service Area or Fort Nelson Service Area** - refers to specific areas or locations as they were previously identified and included in FortisBC Energy Inc. General Terms and Conditions (Order G-28-11, effective March 1, 2011).
- (p) **Interconnection Point** - means a point where the FortisBC Energy System interconnects with the facilities of one of the Transporters of FortisBC Energy, as specified in a Transportation Agreement.
- (q) **Interruptible EKE Receipt Service** - means the interruptible receipt service by which the Shipper provides Gas to FortisBC Energy at EKE for firm transportation to a Delivery Point in the Inland Service Area or the Lower Mainland Service Area, as described in section 11.2.

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- (r) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.
- (s) **Non-Bypass Shipper** - means a Shipper that receives service under Rate Schedule 23, 25 or 22A and pays rates as set out in the standard Table of Charges for the applicable Rate Schedule.
- (t) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (u) **Peak Day Demand** - means the quantity of energy used for the purposes of determining the Peaking Gas and EKE Receipt Service available to a Non-Bypass Shipper, as calculated pursuant to section 10.4.
- (v) **Peaking Gas** - means Gas which is provided to the Shipper by FortisBC Energy in accordance with the provisions of section 10.
- (w) **Peaking Gas Quantity** - means the Peaking Gas available to a Non-Bypass Shipper on a Day, determined pursuant to the provisions of section 10.5.
- (x) **Rate Schedule 26 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (y) **Replacement Gas** - means Gas which is provided to a Shipper by FortisBC Energy in the event the Shipper fails to return Peaking Gas Quantity pursuant to section 10.7.
- (z) **Requested Quantity** - means the quantity of energy for each Day requested for firm transportation under this Rate Schedule.
- (aa) **Requested Peaking Gas Quantity** - means the quantity of energy for each Day requested as Peaking Gas under this Rate Schedule.
- (bb) **Shipper** - means a person who enters into a Transportation Agreement with FortisBC Energy who is also the consumer of the Gas transported.
- (cc) **Shipper Agent** - means a person who enters into a Shipper Agent Agreement with FortisBC Energy.
- (dd) **Shipper Agent Agreement** - means an agreement between FortisBC Energy and a Shipper Agent pursuant to which the Shipper Agent agrees to act as agent for a Group.

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- (ee) **Southern Crossing Pipeline** - means the pipeline and other facilities constructed by FortisBC Energy from EKE to an interconnection with existing FortisBC Energy facilities near Oliver that will enable FortisBC Energy to transport Gas between EKE and the Delivery Point.
- (ff) **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada, one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.
- (gg) **Supplier** - means a party who sells Gas to a Shipper or FortisBC Energy or has access to its own supplies of Gas.
- (hh) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission, appended to this Rate Schedule.
- (ii) **Transportation Agreement** - means an agreement between FortisBC Energy and a Shipper to provide service pursuant to a transportation Rate Schedule.
- (jj) **Transporter** - means, in the case of the Columbia Service Area, TransCanada PipeLines Limited, B.C. System, and in the case of the Inland Service Area and Lower Mainland Service Area, Westcoast Energy Inc., FortisBC Huntingdon Inc., TransCanada PipeLines Limited, B.C. System and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.
- (kk) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (ll) **Unauthorized Overrun Gas** - means any Gas taken on any Day in excess of the curtailed quantity specified in any notice, to interrupt or curtail a Shipper's take, or to interrupt or curtail a Group's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Shipper or a Group to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.

- 1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 Hours will be made and the term of the Transportation Agreement will be similarly adjusted.

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2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule is applicable to Shippers with a normalized annual consumption at one Premises of greater than 2,000 Gigajoules of firm Gas. The Gas being shipped under this Rate Schedule must be used in fuel for vehicles.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy does not provide transportation service as a common carrier. FortisBC Energy will only transport Gas under this Rate Schedule to Shippers in the territory served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if:
- (a) the Shipper has entered into a Transportation Agreement,
 - (b) adequate capacity exists on the FortisBC Energy System, and
 - (c) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 15.1 (Facilities and Equipment).
- 3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Shipper to FortisBC Energy under the Transportation Agreement, FortisBC Energy may require the Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Shipper under this Rate Schedule and the Transportation Agreement for a period of 90 Days. Where FortisBC Energy requires a Shipper to provide a letter of credit and the Shipper is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

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3.3 **Warning if Switching from Interruptible to Firm Transportation Service or Sales - A**
Shipper wishing to switch from interruptible transportation or interruptible sales to firm transportation under this Rate Schedule must

- (a) give 12 months prior notice to FortisBC Energy of the Shipper's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such costs.

Notwithstanding section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Shipper on less than 12 months prior notice if FortisBC Energy is able, with such shorter notice, to arrange for firm transportation of Gas under this Rate Schedule.

3.4 **Right to Sell** - Customer will not sell Gas except as fuel for vehicles.

4. **Transportation**

4.1 **Transportation of Gas** - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service), and all of the terms and conditions of this Rate Schedule, FortisBC Energy will on each Day transport for and deliver to the Shipper at the Delivery Point the Authorized Quantity, or the Shipper's portion of the Group's Authorized Quantity, received at the Interconnection Point from the Transporter up to the DTQ. On each Day, if the Shipper's Gas received at the Interconnection Point is not consumed by the Shipper or is not authorized for delivery to the Shipper, FortisBC Energy will be entitled to utilize such Gas subject to all the terms of this Rate Schedule and the Transportation Agreement.

4.2 **Curtailement** - Consistent with the provisions of section 7.6 (Failure to Deliver to Interconnection Point), if at any time FortisBC Energy, acting reasonably, determines that it is not able to provide Balancing Gas or Backstopping Gas, FortisBC Energy may curtail the Shipper's take to the lesser of the Authorized Quantity or the DTQ.

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- 4.3 **Notice of Curtailment** - Each notice from FortisBC Energy to the Shipper with respect to the interruption or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and/or fax and will specify the quantity of Gas to which the Shipper is curtailed and the time at which such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such curtailment, not to be less than 8 Hours prior notice unless prevented by Force Majeure or unless the Transporter does not provide to FortisBC Energy at least 8 Hours prior notice of reduced availability of gas.
- 4.4 **Default Regarding Curtailment** - The Shipper will comply with each notice to interrupt or curtail the Shipper's take. If the Shipper at any time fails or neglects to comply with a notice to interrupt or curtail the Shipper's take as set out in section 7.6 (Failure to Deliver to Interconnection Point), FortisBC Energy may, in addition to any other remedy which it may then or thereafter have, at its option, without liability therefor and without any prior notice to the Shipper
- (a) turn off the valve at the Delivery Point, or
 - (b) deliver such Gas and charge the Shipper for such Gas consumed on that Day the unauthorized overrun charge set out in the Table of Charges.
- 4.5 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to receive or deliver in one Hour more than 5% of the quantity of Gas that the Shipper is authorized to receive on any Day.
- 4.6 **Gas Pressure** - Where specifically requested by the Shipper, FortisBC Energy may agree to deliver Gas to the Shipper at the Delivery Point at a minimum pressure specified in the Shipper's Transportation Agreement. The Shipper will reimburse FortisBC Energy for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas at the Interconnection Point at the pressure specified in the Transporter's Service Terms.

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5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges whether or not the Shipper is a member of a Group. The Shipper Agent may elect to pay to FortisBC Energy the charges for the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40 for members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.

6. Unauthorized Gas Use

- 6.1 **Charges for Unauthorized Service** - On any Day a Shipper takes Unauthorized Overrun Gas, the Shipper will pay to FortisBC Energy the unauthorized overrun charge set out in the Table of Charges. The Shipper Agent may elect to pay these charges for the members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.
- 6.2 **Payments Not License** - Payments made to FortisBC Energy for Unauthorized Overrun Gas neither give the right to take Unauthorized Overrun Gas, nor exclude or limit any other remedies available to FortisBC Energy for the Shipper's taking of Unauthorized Overrun Gas.
- 6.3 **Demand Surcharge** - If the Shipper is a member of a Group which includes a Shipper under Rate Schedules 22, 22A or 22B then the Group and its members will be subject to Demand Surcharges under section 7 (Unauthorized Use) of Rate Schedule 22.

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7. Nomination

- 7.1 **Capacity on Transporter Pipeline(s)** - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for the Shipper on the Transporter pipeline(s), and thereafter from time to time on a prompt basis when such party changes.
- 7.2 **Requested Quantity** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy, prior to 7:30 a.m. Pacific Clock Time on each Day (or such other time as may be specified from time to time by FortisBC Energy) such information as may be requested by FortisBC Energy, which will include, but is not limited to, the Shipper's Requested Quantity for the Day commencing in approximately 24 Hours and the portion of the Requested Quantity to be delivered to FortisBC Energy at each applicable Interconnection Point. If the Shipper does not notify FortisBC Energy in accordance with the foregoing, then the Shipper's Requested Quantity for the Day commencing in approximately 24 Hours will be deemed to be the Shipper's Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity), for the Day just commencing. The Shipper's Requested Quantity for each Day will equal the Shipper's best estimate, at the time of notification to FortisBC Energy of the Requested Quantity, of the quantity of Gas the Shipper will actually consume on such Day.
- 7.3 **Adjustment of Requested Quantity** - FortisBC Energy may adjust, in consultation with the Shipper, the Shipper's Requested Quantity, described in section 7.2 (Requested Quantity), when in the reasonable opinion of FortisBC Energy such modification is required in order to minimize the Month end balancing quantity.
- 7.4 **Request to Transporter** - FortisBC Energy will provide to the Transporter(s) the portion of the Shipper's Requested Quantity to be delivered to FortisBC Energy at the Interconnection Point with the Transporter, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.5 **Delivery to Interconnection Point** - Each Day the Shipper will cause to be delivered to the applicable Interconnection Point a quantity of Gas at least equal to the portion of the Shipper's Requested Quantity from that Interconnection Point, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).

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- 7.6 **Failure to Deliver to Interconnection Point** - If on any Day the Authorized Quantity from a Transporter is less than the quantity requested from the Transporter pursuant to section 7.4 (Request to Transporter), FortisBC Energy may, in its discretion, interrupt or curtail service hereunder to the lesser of such Authorized Quantity or the DTQ. Alternatively, FortisBC Energy may deliver additional Gas to the Shipper at the subject Interconnection Point and charge the Shipper the charge for Backstopping Gas as set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may, in its discretion, interrupt or curtail service to the Shippers on a prorata basis or another basis deemed equitable by FortisBC Energy based on available information. FortisBC Energy will reallocate the deficiency as soon as reasonable if it obtains information that allows it to determine responsibility and FortisBC Energy will disclose to the Shippers how it allocated or reallocated the deficiency.
- 7.7 **Authorized Quantity** - FortisBC Energy will take such action as is reasonable in all the circumstances to advise the Shipper or the Shipper Agent if the portion of the Authorized Quantity from a Transporter is less than the portion of the Requested Quantity to be delivered to FortisBC Energy at the Interconnection Point with the Transporter.
- 7.8 **Determination of DTQ** - The Shipper will provide to FortisBC Energy by fax or other method approved by FortisBC Energy 30 Days prior to the Commencement Date of each Contract Year the Shipper's DTQ for the following Contract Year. If a Shipper appoints a Shipper Agent to act on its behalf, the Shipper authorizes the Shipper Agent to determine the DTQ set out in the Transportation Agreement, for each Contract Year. This authorization will remain in effect for the term of the Transportation Agreement or so long as the Shipper Agent acts as agent for the Shipper, whichever period is shorter.

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8. Gas Balancing

- 8.1 **Monthly Adjustments** - With the exception of unreturned Peaking Gas, FortisBC Energy will make adjustments at the end of each Month for the differences between the sum of the Authorized Quantities and the Shipper's actual consumption as measured daily by FortisBC Energy as follows
- (a) for overdeliveries (the sum of the Authorized Quantities is greater than the Shipper's actual monthly consumption) FortisBC Energy will maintain an inventory account for the Shipper and will increase the balance in the inventory account by the excess amount received. FortisBC Energy reserves the right to limit Gas quantities maintained in the Shipper's inventory account and will from time to time in consultation with the Shipper return excess inventory at no charge to the Shipper; this will not relieve the Shipper from its obligation to provide accurate nominations pursuant to section 7.2 (Requested Quantity) , and
 - (b) except in the case of Backstopping Gas and Unauthorized Overrun Gas, for underdeliveries (the sum of the Authorized Quantities is less than the Shipper's actual Monthly consumption as measured by FortisBC Energy), FortisBC Energy will sell to the Shipper the deficiency quantities at the Balancing Gas charge set out in the Table of Charges.
- 8.2 **Imbalance Following Termination** - If FortisBC Energy has received a quantity of Gas in excess of the quantity delivered to the Shipper during the term of a Transportation Agreement, then the Shipper may request the excess quantity be returned within 90 Days following termination of the Transportation Agreement.
- 8.3 **Balancing of Peaking Gas** - Balancing of Peaking Gas is described in section 10.7.

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9. Group Nominations and Balancing

- 9.1 **Group Nomination and Balancing** - If a Shipper appoints a Shipper Agent and becomes a member of a Group and if the Shipper and Shipper Agent have agreed to execute or have executed a Shipper Agent Agreement, and if the members of the Group are in the same Service Area of FortisBC Energy and receive service under a transportation Rate Schedule, the Shipper Agent will nominate and balance on behalf of all members of the Group on an aggregate basis pursuant to sections 7 (Nomination), 8 (Gas Balancing), 10 (Peaking Gas) and 11 (EKE Receipt Service) of this Rate Schedule, as modified by this section, and the Shipper Agent will be the agent for each of the members of a Group for the purposes of any and all matters set out in sections 7 (Nomination), 8 (Gas Balancing), 10 (Peaking Gas) and 11 (EKE Receipt Service). Notwithstanding the foregoing, where a Shipper under Rate Schedules 22, 22A or 22B is a member of the Group, section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis. The Shipper Agent may also elect pursuant to the Shipper Agent Agreement, to pay some or all of the charges specified in sections 5.1 and 6.1 for and on behalf of the Shippers in its Group. The Shipper acknowledges and agrees that FortisBC Energy may rely, for the purpose of payment allocations, on verbal notification from the Shipper Agent of such election as a basis for the Shipper Agent's authority to act on behalf of Shipper. Where the Shipper Agent fails to execute a Shipper Agent Agreement, the Shipper will be deemed to be and treated by FortisBC Energy as an individual Group of one Shipper, except for the purposes of sections 9.5 and 13.1 hereunder, and will be deemed to have agreed to purchase Gas from FortisBC Energy pursuant to the applicable transportation schedule and will accordingly be responsible for the payment of all charges thereunder, including any and all Balancing Gas and Unauthorized Overrun Gas charges attributable to that Shipper.
- 9.2 **Requested Quantity from Shipper Agent** - The Shipper Agent will notify FortisBC Energy of the Shipper's Requested Quantity described in section 7.2 (Requested Quantity) on behalf of all members of a Group on an aggregate basis. If the Shipper Agent does not so notify FortisBC Energy, then the Group's Requested Quantity for the Day commencing in approximately 24 Hours will be deemed to be the Group's quantity pursuant to section 8.2 (Requested Quantity) for the Day just commencing.
- 9.3 **Determination of Charges** - The charges for Backstopping Gas, Balancing Gas, Unauthorized Overrun Gas and Replacement Gas set out in the Table of Charges, and Demand Surcharges as set out in the Rate Schedule 22 Table of Charges, will be determined based on the quantities transported on behalf of all members of the Group on an aggregate basis. The charges for Unauthorized Transportation Service will be determined based on the quantities delivered to each Shipper.

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9.4 **Security** - FortisBC Energy may require the Shipper Agent to provide security, as set out in section 3.2 (Security), with necessary changes, for the performance of the Shipper Agent's obligations under the Shipper Agent Agreement.

9.5 **Notices To and From Shipper Agents** - If the Shipper is a member of a Group then:

- (a) communications regarding curtailments or interruptions arising from Gas supply constraints and limitations, quantities of Gas requested and quantities of Gas authorized will be between the Shipper Agent for the Group and FortisBC Energy; and
- (b) notices from FortisBC Energy with respect to interruption or curtailment pursuant to section 4.3 (Notice of Curtailment) arising from Gas supply constraints or limitations will be to the Shipper Agent for the Group and will specify the quantity of Gas to which the Group is curtailed and the time at which such curtailment is to be made; it will be the responsibility of the Shipper Agent to notify Shippers which are members of the Group of interruptions or curtailments.

10. Peaking Gas Service

10.1 **Applicability** - In each Contract Year, Peaking Gas Service is available only to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area, Lower Mainland Service Area or Columbia Service Area and for which the Transportation Agreement was in effect on the 1st Day of November of the subject Contract Year.

10.2 **15-Day Maximum** - A Non-Bypass Shipper may request Peaking Gas for a maximum of 15 Days during each Contract Year. Any Day for which any portion of the Shipper's Peaking Gas Quantity is requested and authorized will be considered one of the 15 Days of Peaking Gas entitlement even if the quantity of authorized Peaking Gas is not used or only partially used.

10.3 **Peak Day Demand** - For purposes of determining the Peaking Gas Quantity available to a Non-Bypass Shipper on a Day, the Peak Day Demand of a Rate Schedule 26 Shipper is equal to 1.25 times the Shipper's highest average daily consumption of any month in the winter period from November through March of the preceding Contract Year. In instances respecting which it is agreed by FortisBC Energy and Shipper that a Shipper's Gas consumption during the preceding Contract Year is not indicative of prospective consumption, FortisBC Energy will set the Peak Day Demand of that Shipper after consultation with that Shipper.

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10.4 **Peaking Gas Quantity** - The quantity of Peaking Gas available on a Day to a Non-Bypass Shipper ("Peaking Gas Quantity") will be a percentage of that Shipper's Peak Day Demand. The Peaking Gas Quantity available to Non-Bypass Shippers for the next Contract Year will be determined by FortisBC Energy, and FortisBC Energy will in writing notify each Non-Bypass Shipper of that Shipper's Peaking Gas Quantity, at least 30 days prior to the commencement of each Contract Year. The Peaking Gas Quantity available to a Non-Bypass Shipper in a Contract Year will be:

- (a)
$$\frac{\text{Total Non-Bypass Transport Demand}}{\text{Forecast Sales Demand} + \text{Non-Bypass Transport Demand}} = \text{Peaking Gas Factor}$$
- (b)
$$\text{Peaking Gas Factor} * \text{SCP Peaking Gas} = \text{Non-Bypass Transport Volume}$$
- (c)
$$\frac{\text{Non-Bypass Transport Volume}}{\text{Non-Bypass Transport Demand}} = \text{Peaking Gas Percentage}$$
- (d)
$$\text{Peaking Gas Percentage} * \text{a Non-Bypass Shipper's Peak Day Demand} = \text{Peaking Gas Quantity}$$

Where:

"Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers for the Contract Year commencing the next November 1; "Forecast Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all Gas sales Customers of FortisBC Energy excluding those in the Fort Nelson Service Area; and "SCP Peaking Gas" is the quantity of peaking gas available to FortisBC Energy in the Year commencing the next November 1 due to the operation of the Southern Crossing Pipeline.

10.5 **Requested Peaking Gas Quantity** - Shipper will notify FortisBC Energy of its Requested Peaking Gas Quantity pursuant to nomination procedures described in section 7.2 except as otherwise described in section 10.6 (a) and 10.6 (b) below. The Requested Peaking Gas Quantity must be explicitly stated on the nomination and may be less than but may not exceed the Shipper's Peaking Gas Quantity described in section 10.5.

- (a) **Prior Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment for the next or subsequent Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity for the next Day up until one Hour prior to the evening nomination cycle on the day preceding the Day for which notice of curtailment has been given.

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- (b) **Same Day Notices of Curtailment** - On a Day when FortisBC Energy has given notice of curtailment to be effective during that Day, a Shipper may notify FortisBC Energy of its Requested Peaking Gas Quantity up until one Hour after the notice of curtailment has been given by FortisBC Energy; provided that FortisBC Energy has usable nomination cycles available during that Day with the Transporter(s). Requests for Requested Peaking Gas Quantity received after the time when FortisBC Energy has usable nomination cycles available during that Day will be authorized only on an as available basis. If notice of Requested Peaking Gas Quantity is given to FortisBC Energy during the Day for which Peaking Gas is being requested then the Peaking Gas Quantity available to Shipper on that Day will be reduced consistent with the elapsed pro-rata practices of applicable Transporter(s).
- (c) **Non-Curtailment Days** - On Days for which FortisBC Energy has not given notice of curtailment, requests for Peaking Gas Quantity shall be made in accordance with the provisions described in section 7.2.

- 10.6 **Return of Peaking Gas Quantity** - FortisBC Energy will, within 4 business days following the date for which Peaking Gas is authorized, provide to the Shipper a statement indicating the amount of Peaking Gas authorized and used, and this will be the statement used for the purposes of tracking the authorization and use of Peaking Gas. Peaking Gas must be returned to FortisBC Energy within 6 Business Days of the Day in respect of which it was authorized. Shipper must notify FortisBC Energy that it is returning Peaking Gas Quantity with its nomination for Requested Quantity described in section 7.2. Peaking Gas returned will be applied against the earliest Peaking Gas Quantity authorized and not yet returned. Shipper has option to elect to return Peaking Gas from the Peaking Gas inventory which is kept for this purpose. If Peaking Gas is not returned to FortisBC Energy within 6 Business Days, FortisBC Energy will provide Shipper with an equivalent quantity of Replacement Gas. The charge for Replacement Gas will be as set out in the Table of Charges.
- 10.7 **Last Gas Ordered** - Peaking Gas Quantity will be considered the last Gas ordered and taken during the Day.
- 10.8 **Transport of Peaking Gas Quantity** - Peaking Gas Quantity will be deemed to be provided to the Shipper at the Interconnection Point, and the volumes consumed by the Shipper will be included in the Shipper's monthly transport volume for the purposes of calculating monthly transport charges.

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11. Access to East Kootenay Exchange (EKE) Interconnection Point

11.1 Firm EKE Receipt Service

- (a) **Applicability** - Firm receipt service access from the EKE Interconnection Point ("Firm EKE Receipt Transport") is available to Non-Bypass Shippers for Gas which is delivered to a Delivery Point in the Inland Service Area and for which the Shipper has a Transportation Agreement which is effective on the August 1st preceding the subject Contract Year ("Inland Non-Bypass Shippers").
- (b) **Availability** - The total quantity of Firm EKE Receipt Service available in aggregate to Inland Non-Bypass Shippers ("EKE Transport Volume") will be determined by FortisBC Energy for each Contract Year. FortisBC Energy shall publish the EKE Transport Volume which is available for the next Contract Year by July 31 of each Year. The EKE Transport Volume shall be determined as follows:

$$\frac{\text{Inland Non-Bypass Transport Demand} * \text{ITS Constraint}}{\text{Forecast Inland Sales Demand} + \text{Inland Non-Bypass Transport Demand}} = \text{EKE Transport Volume}$$

Where:

"Inland Non-Bypass Transport Demand" is the aggregate Peak Day Demand of all Non-Bypass Shippers in the Inland Service Area for the Contract Year commencing the next November 1; "Forecast Inland Sales Demand" is the FortisBC Energy forecast of the aggregate peak day demand for the Year commencing the next November 1 for all firm Gas sales Customers of FortisBC Energy in the Inland Service Area; and "ITS Constraint" is the capacity of the FortisBC Energy Interior transmission system available to flow Gas from Oliver in a northbound direction during periods of peak demand.

- (c) **Election** - Annual elections for Firm EKE Receipt Service for the next Contract Year must be submitted in writing by Shippers to FortisBC Energy within 5 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume. The election must indicate the quantity of Firm EKE Receipt Service requested. The quantity requested must not exceed the Shipper's Peak Day Demand. FortisBC Energy will pro-rate the Firm EKE Receipt Service requests based on the requested quantities if aggregate Firm EKE Receipt Service requests exceed the available EKE Transport Volume. FortisBC Energy will notify Shippers of the Shippers' quantity of Firm EKE Receipt Service within 10 Business Days of the date on which FortisBC Energy publishes the EKE Transport Volume.

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11.2 Interruptible EKE Receipt Service

- (a) **Applicability** - Interruptible receipt service access to the EKE Interconnection Point ("Interruptible EKE Receipt Service") is available only to Non-Bypass Shippers for which Gas is delivered to a Delivery Point in the Inland Service Area and Lower Mainland Service Area ("Eligible Interruptible Non-Bypass Shippers").
- (b) **Quantity Available** - The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be determined by FortisBC Energy. In determining the quantity of Interruptible EKE Receipt Service available FortisBC Energy will take into account system delivery constraints including the requirement to flow Gas from the facilities of Westcoast Energy Inc. into the Inland Service Area, and the quantity of Firm EKE Receipt Service not utilized. The quantity of Interruptible EKE Receipt Service available to Eligible Interruptible Non-Bypass Shippers will be a pro-rata portion of the aggregate available demands of all firm Gas sales Customers and all firm transportation Customers in the Inland and Lower Mainland Service Areas.
- (c) **Maximum Nomination** - A Shipper may not request Interruptible EKE Receipt Service in excess of the Shipper's Peak Day Demand less the Firm EKE Receipt Service of the Shipper. If FortisBC Energy receives requests for Interruptible EKE Receipt Service in excess of the aggregate available Interruptible EKE Receipt Service available for the Day (as determined in 11.2 (b), FortisBC Energy will apportion the available Interruptible EKE Receipt Service on a pro-rata basis of requested Interruptible EKE Receipt Service.
- (d) **Incremental Costs** - Shippers will be responsible for incremental costs associated with transportation on the facilities of Westcoast Energy Inc. from the Inland Service Area to the Lower Mainland Service Area (if applicable).

12. Term of Transportation Agreement

- 12.1 **Term** - The initial term of the Transportation Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1st next following, provided that if the foregoing results in an initial term of less than one year, then the initial term will instead expire at the end of one further Contract Year.

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- 12.2 **Automatic Renewal** - Except as specified in the Transportation Agreement, the term of the Transportation Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Shipper, subject to section 3.3, (Warning if Switching from Interruptible to Firm Transportation Service or Sales) upon not less than 2 months notice prior to the end of the Contract Year then in effect.
- 12.3 **Early Termination** - The term of the Transportation Agreement is subject to early termination in accordance with section 18 (Default or Bankruptcy).
- 12.4 **Survival of Covenants** - Upon the termination of the Transportation Agreement, whether pursuant to section 18 (Default or Bankruptcy) or otherwise,
- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
 - (b) all of the provisions in this Rate Schedule and in the Transportation Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Transportation Agreement, will survive such termination.

13. Statements and Payments

- 13.1 **Statements to be Provided** - FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper, a statement for the preceding month showing the Gas quantities delivered to the Shipper and the amount due. If the Shipper is a member of a Group then the statement and the calculation of the amount due from the Shipper will be based on information supplied by the Shipper Agent, or based on other information available to FortisBC Energy, as set out in the Shipper Agent Agreement. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Shipper a separate statement for the preceding Contract Year showing the amount required from the Shipper in respect of any indemnity due under this Rate Schedule or a Transportation Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.

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- 13.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Shipper fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Shipper a late payment charge of 1.5% per month (19.56% per annum) on the outstanding amount.
- 13.3 **Examination of Records** - Each of FortisBC Energy and the Shipper will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Transportation Agreement.

14. Quality

- 14.1 **Minimum Standards** - All Gas delivered to an Interconnection Point by or on behalf of the Shipper and all Gas delivered to the Delivery Point will conform to the quality specifications set out in the applicable Transporter's Service Terms.

15. Measuring Equipment

- 15.1 **Facilities and Equipment** - FortisBC Energy will, at the cost to the Shipper, install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Shipper and the Shipper will permit FortisBC Energy, without cost to FortisBC Energy, to use the Shipper's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy.

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- 15.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 15.1 (Facilities and Equipment) on the Shipper's property, the Shipper will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Shipper's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Transportation Agreement.
- 15.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Shipper. Notice of the time and nature of each test conducted in response to communications with or at the request of the Shipper will be given by FortisBC Energy to the Shipper sufficiently in advance to permit a representative of the Shipper to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Shipper is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Shipper will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.
- 15.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.
- 15.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and

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- (c) by estimating the quantity of Gas delivered to the Shipper during the preceding periods under similar conditions when the meter was registering accurately.

- 15.6 **Shipper's Equipment** - The Shipper may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Shipper will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 15.7 **Right to be Present** - FortisBC Energy and the Shipper will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 15.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

16. Measurement

- 16.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 16.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 16.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

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17. Representations, Warranties and Covenants

- 17.1 **Title** - The Shipper represents and warrants with FortisBC Energy that the Shipper will have good title to all Gas to be delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, free and clear of all liens, encumbrances and claims.
- 17.2 **Title Not That of FortisBC Energy** - FortisBC Energy agrees that title to all Gas transported pursuant to the Transportation Agreement remains with the Shipper.
- 17.3 **Acknowledgement** - The Shipper acknowledges that the Gas transported under the Transportation Agreement will be commingled with Gas within the FortisBC Energy System.

18. Default or Bankruptcy

18.1 **Default** - If the Shipper at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Transportation Agreement within 30 days after payment is due, or
- (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Transportation Agreement, within 30 days after FortisBC Energy gives to the Shipper notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Shipper fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in section 4.4 (Default Regarding Curtailment), and 6 (Unauthorized Gas Use), at its option and without liability therefore

- (a) suspend further transportation service to the Shipper and may refuse to deliver Gas to the Shipper until the default has been fully remedied, and no such suspension or refusal will relieve the Shipper from any obligation under this Rate Schedule or the Transportation Agreement, or

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- (b) terminate the Transportation Agreement, and no such termination of the Transportation Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Shipper for what would otherwise have been the remainder of the term of the Transportation Agreement.

- 18.2 **Bankruptcy or Insolvency** - If the Shipper becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Shipper seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Transportation Agreement by giving notice in writing to the Shipper and thereupon FortisBC Energy may cease further delivery of Gas to the Shipper and the amount then outstanding for Gas provided under the Transportation Agreement will immediately be due and payable by the Shipper.

19. Notice

- 19.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Transportation Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT:	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
CUSTOMER RELATIONS:	Attention: Commercial & Industrial Energy Solutions Telephone: (604) 592-7843 Fax: (604) 592-7894

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LEGAL AND OTHER:

Attention: Director, Legal Services
Telephone: (604) 443-6512
Fax: (604) 443-6540

If to the Shipper, then as set out in the Transportation Agreement.

If to the Shipper Agent, then as set out in the Shipper Agent Agreement.

19.2 **Specific Notices** - Notwithstanding section 19.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Shipper as authorized to receive such notices, or
- (b) given by the Shipper by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure..."Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 21) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 26 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 26 and the Transportation Agreement effective 7:00 a.m. Pacific Standard Time (date of Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

20. Indemnity and Limitation on Liability

20.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of transportation service permitted under the General Terms and Conditions of FortisBC Energy, or this Rate Schedule.

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20.2 **Indemnity** - The Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following

- (a) any defect in title to any Gas delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, or arising from any charges that are applicable to the Gas delivered to FortisBC Energy,
- (b) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges,
- (c) nominations made in accordance with sections 7 or 9 of this Rate Schedule by FortisBC Energy to the Transporter with respect to the Shipper's transportation volumes, whether or not the Shipper is a member of a Group,
- (d) Gas delivered by the Transporter or Shipper to FortisBC Energy failing to meet the quality specifications set out in section 14.1 of this Rate Schedule, and
- (e) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Shipper or on the delivery of Gas to the Shipper by FortisBC Energy, or on any other service provided by FortisBC Energy to the Shipper.

20.3 **Principal Obligant** - If the Shipper is a member of a Group, the obligations of each of the Shipper Agent (acting for and on behalf of the Shippers that are members of the Group) and the Shipper (in the event of the failure of the Shipper Agent to make such payments and limited to the charges related to that Shipper) to pay to, or to the order of, FortisBC Energy, the charges for Backstopping Gas, Balancing Gas, Replacement Gas, unauthorized overruns set out in the Table of Charges, and Demand Surcharges set out in the Rate Schedule 22 Table of Charges, are those of principal obligant and not of surety and are independent of the respective obligations of the Shipper Agent and the Shipper towards each other pursuant to the Shipper Agent Agreement.

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21. Force Majeure

- 21.1 **Force Majeure** - Subject to the other provisions of this section 21, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Transportation Agreement, the obligations of both FortisBC Energy and the Shipper will be suspended to the extent necessary for the period of the Force Majeure condition.
- 21.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 21, FortisBC Energy will be deemed to have issued to the Shipper a notice of curtailment.
- 21.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 21.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Transportation Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 21.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 21.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 21, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 21.1.

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- 21.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 21, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 21.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacements to minimize interruptible or curtailment of transportation service to the Shipper, and to restore service as quickly as possible.
- 21.8 **Shipper's Gas** - If FortisBC Energy curtails or interrupts transportation of Gas by reason of Force Majeure the Shipper will make its supply of Gas available to FortisBC Energy, to the extent required by FortisBC Energy, to maintain service priority to those customers or classes of customers which FortisBC Energy determines should be served. FortisBC Energy, in its sole discretion, will either increase the balance in the Shipper's inventory account by the amount taken by FortisBC Energy and return an equivalent quantity of Gas to the Shipper as soon as reasonable, or pay the Shipper an amount equal to either FortisBC Energy's average Gas cost, or the Shipper's average Gas cost, for the Day(s) during which such Gas was taken, whichever Gas cost the Shipper, in its sole discretion, elects.
- 21.9 **Alteration of Facilities** - The Shipper will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Shipper and to restore such facilities after the Force Majeure condition ends.

22. Dispute Resolution

- 22.1 **Mediation** - Where any dispute arises out of or in connection with this Rate Schedule or the service provided under it, FortisBC Energy and the Shipper agree to try to resolve the dispute by participating in a structured mediation conference with a mediator under the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution.

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- 22.2 **Arbitration** - If FortisBC Energy and the Shipper fail to resolve the dispute through mediation, the unresolved dispute shall be referred to, and finally resolved or determined by arbitration under the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution. Unless FortisBC Energy and the Shipper agree otherwise the arbitration will be conducted by a single arbitrator.
- 22.3 **Written Award** - The arbitrator shall issue a written award that sets forth the essential findings and conclusions on which the award is based. The arbitrator will allow discovery as required by law in arbitration proceedings.
- 22.4 **Failure to Render a Decision** - If the arbitrator fails to render a decision within thirty (30) days following the final hearing of the arbitration, any party to the arbitration may terminate the appointment of the arbitrator and a new arbitrator shall be appointed in accordance with these provisions. If FortisBC Energy and the Shipper are unable to agree on an arbitrator or if the appointment of an arbitrator is terminated in the manner provided for above, then either FortisBC Energy or the Shipper shall be entitled to apply to a judge of the British Columbia Supreme Court to appoint an arbitrator and the arbitrator so appointed shall proceed to determine the matter mutatis mutandis in accordance with the provisions of this section.
- 22.5 **Award** - The arbitrator shall have the authority to award
- (a) money damages;
 - (b) interest on unpaid amounts from the date due;
 - (c) specific performance; and
 - (d) permanent relief.
- 22.6 **Costs** - The costs and expenses of the arbitration, but not those incurred by the parties, shall be shared equally, unless the arbitrator determines that a specific party prevailed. In such a case, the non-prevailing party shall pay all costs and expenses of the arbitration, but not those of the prevailing party.
- 22.7 **Obligations Continue** - The parties will continue to fulfill their respective obligations pursuant to this Rate Schedule and the Transportation Agreement during the resolution of any dispute in accordance with this section 22.

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23. Interpretation

- 23.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Transportation Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Transportation Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Transportation Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Transportation Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Transportation Agreement.

24. Miscellaneous

- 24.1 **Waiver** - No waiver by either FortisBC Energy or the Shipper of any default by the other in the performance of any of the provisions of this Rate Schedule or the Transportation Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 24.2 **Enurement** - The Transportation Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.

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- 24.3 **Assignment** - The Shipper will not assign the Transportation Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Shipper from its obligations under this Rate Schedule or under the Transportation Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Shipper.
- 24.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Transportation Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 24.5 **Proper Law** - The Transportation Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 24.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Transportation Agreement and of the terms and conditions thereof.
- 24.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Transportation Agreement and the rights and obligations of FortisBC Energy and the Shipper under this Rate Schedule and the Transportation Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Shipper.
- 24.8 **Further Assurances** - Each of FortisBC Energy and the Shipper will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Transportation Agreement and to assure the completion of the transactions contemplated hereby.
- 24.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Transportation Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia.

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Table of Charges

	Mainland Area	Fort Nelson Area	Vancouver Island and Whistler Areas
1. Transportation			
(a) Basic Charge per Month	\$ X	\$ X	\$ X
(b) Delivery Charge per Gigajoule	\$ X	\$ X	\$ X
(c) Administration Charge per Month	\$ X	\$ X	\$ X
2. Sales			
(a) Charge per Gigajoule of Balancing Gas supplied	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month
(b) Charges for Backstopping Gas	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(c) Replacement Gas ²	Sumas Daily Price ¹ plus 20 Percent	Sumas Daily Price ¹ plus 20 Percent	Sumas Daily Price ¹ plus 20 Percent
(d) Unauthorized Overrun Charges			
(i) Per Gigajoule on first 5 percent of specified quantity	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(ii) Per Gigajoule on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹
3. Rider 2 per Gigajoule	\$ X	\$ X	\$ X
4. Rider 4 per Gigajoule	\$ X	\$ X	\$ X

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Rider 1 **Propane Surcharge** - Not applicable.

Rider 2 **Rate Stabilization Deferral Account Allocation** – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014

Rider 3 (Reserved for future use.)

Rider 4 **Phase In Rider** – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.

Franchise Fee Charge of 3.09% of the aggregate of the above charges, is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the municipal boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per month - The minimum charge per month will be the aggregate of the Basic Charge, the transportation administration charge and the Franchise Fee charge.

Special Conditions

FortisBC Energy may, in its sole discretion, reduce the Charge per Gigajoule to any Customer where such reduction is necessary to encourage expansion of the NGV market. Any reduction in the Charge will be specified in the Transportation Agreement.

FortisBC Energy may make a promotional grant towards the cost to purchase a factory-built NGV vehicle, or the cost to convert a vehicle to natural gas to meet requirements as set by the Government of Canada, provided that such vehicles will obtain Gas from refueling facilities in a FortisBC Energy service area. The amount of the grant would not exceed \$10 per GJ, based on estimated consumption over a one year period, up to a maximum total grant by vehicle type as listed in the table below:

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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It is a condition of the grant that the Customer be provided Service under this Rate Schedule.

Factory Built NGV Incentive Grants		
Vehicle Description	GVW (#)	Maximum Grant
Light Duty	< 10,000	\$ 2,500
Medium Duty	< 17,000	\$ 5,000
Heavy Duty	> 17,000	\$ 10,000

The amount of each grant will not exceed the 5-year projected net revenue to FortisBC Energy from each corresponding vehicle.

FortisBC Energy may also fund Special Demonstration project grants, tied to an individual vehicle purchased by a customer. The amount of the Special Demonstration grant will not exceed the premium cost for the natural gas option for the vehicle. The total funds paid out under the Special Demonstration project grants will not exceed \$100,000 in any one year.

Notes:

1. As defined under section 1.1, the Sumas Daily Price quoted each Day will apply to gas consumed on that gas day.
2. The Sumas Daily Price for the sixth Business Day following the Day for which the Peaking Gas was authorized plus 20 percent.

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25, 26 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule:

☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 26 ☐ 27

Type of Service:

☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ:

_____ Gigajoules per day

Shipper Agent and / or Group, if applicable:

Commencement Date:

Expiry Date:

(only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point:

Pressure at the Delivery Point:

(only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address:

Account Number:

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnection with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in
either this agreement or the applicable transportation Rate Schedule to any such
information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 26 / 27

2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation
Rate Schedule (22, 22A, 22B, 23, 25, 26 or 27) and the General Terms and Conditions of
FortisBC Energy, as any of them may be amended by FortisBC Energy and approved
from time to time by the British Columbia Utilities Commission, are in addition to the terms
and conditions contained in this Transportation Agreement and form part of this
Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this
Transportation Agreement.

2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will
pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate
Schedule for the services provided under such Rate Schedule and this Transportation
Agreement.

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25, 26 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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APPENDIX A
NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy
(Name of Shipper)
that Shipper has appointed _____ (the Shipper Agent) to
(Name of Shipper Agent)
act as agent for Shipper in all matters relating to gas supply and to transportation service on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that Shipper wishes to be a member of a Group, and the Shipper will cause the Shipper Agent to enter into a Shipper Agent Agreement or other agreement with FortisBC Energy that binds the Shipper Agent to pay the charges which the Shipper Agent elects to pay for and on behalf of the Shipper.
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy with information which will be used by FortisBC Energy to bill Shipper for Backstopping Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.

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7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it will not dispute the information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that the Shipper Agent may elect to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement and Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC Energy then notwithstanding any election that has been made by the Shipper Agent to pay some or all of the charges for Gas identified in section 3.8 of the standard form Shipper Agent Agreement, FortisBC Energy will bill Shipper directly on the bases set out in section 3.9 of the standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing information used by FortisBC Energy the Shipper will deal with the Shipper Agent to resolve that disagreement. Disputes between the Shipper and the Shipper Agent shall not constitute a basis for non-payment by Shipper to FortisBC Energy of the amounts billed.
8. Shipper will use its best efforts to provide FortisBC Energy with at least 30 days notice if Shipper wishes to leave the Group.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 10 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____
(Signature)

(Title)

(Name - Please Print)

DATE: _____

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SHIPPER AGENT AGREEMENT

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper Agent").

WHEREAS:

- 1.0 The Shipper Agent wishes to act as agent on behalf of all members of a Group in respect of transportation service on the FortisBC Energy System; and
- 2.0 The Shippers who are members of the Group have entered into Transportation Agreements with FortisBC Energy.

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

1. Specific Information

Members of Group:
(if space is insufficient, continue list on an additional page)

Commencement Date of this agreement:

Expiry Date of this agreement:

(no expiry date need be specified)

Address of Shipper Agent for receiving notices:

(name of Shipper Agent)

(address of Shipper Agent)

Attention: _____

Telephone: _____

Fax: _____

Alternate Tel(s): _____

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The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable Transportation Rate Schedules to any such information is to the information set out above.

2. Definitions

- 2.1 **Definitions in Rate Schedule 26** - Except where the context requires otherwise or except as otherwise expressly provided in this agreement, all words and phrases defined in Rate Schedule 26 or in the General Terms or Conditions of FortisBC Energy have the meanings set out in the Rate Schedule 26 and in the General Terms and Conditions of FortisBC Energy.

3. Shipper Agent Obligations

- 3.1 **Management of Balancing Gas** - The Shipper Agent is responsible for the management of all Balancing Gas for the Group and its members.
- 3.2 **Management of Backstopping Gas** - The Shipper Agent is responsible for the management of all Backstopping Gas supplied by FortisBC Energy to the Group and its members.
- 3.3 **Management of Peaking Gas Service** - The Shipper Agent is responsible for the management of all Peaking Gas supplied by FortisBC Energy to the Group and its members as well as the return of Peaking Gas Quantities and any Replacement Gas.
- 3.4 **Management of West to East SCP Transportation Service Imbalances** - The Shipper Agent is responsible for the management of Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service under Rate Schedule 40 supplied by FortisBC Energy to the Group and its members.
- 3.5 **Group Nominations and Balancing** - The Shipper Agent will provide Group nomination and balancing to FortisBC Energy in accordance with the sections of the applicable transportation Rate Schedules except where a Shipper under Rate Schedules 22, 22A or 22B is a members of the Group, in which case section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis.

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- 3.6 **Standard Gas Supply Priority Schedule (Standard Priority Schedule)** - Before the Commencement Date of this agreement and before the commencement of each Contract Year the Shipper Agent will provide to FortisBC Energy a Standard Priority Schedule which will advise FortisBC Energy of the priority between members of the Group if a constraint or limitation of Gas supply occurs. The Shipper Agent may provide to FortisBC Energy a revised Standard Priority Schedule from time to time and will provide to FortisBC Energy a revised Standard Priority Schedule if there is a change in membership of the Group.
- 3.7 **Gas Supply Constraints or Limitations** - Upon receipt of a notice from FortisBC Energy of curtailment or interruptions pursuant to section 4.4 (Notice of Gas Supply Constraint or Limitation) Shipper Agent will determine the allocation of Gas supply between members of the Group and will notify the Shippers which are members of the Group of the curtailment or interruption. Within two hours of receipt of notice from FortisBC Energy pursuant to section 4.4, or such longer period as FortisBC Energy considers reasonable in the circumstances, the Shipper Agent will provide to FortisBC Energy a schedule setting out the Gas supply allocation for the Group to apply during that curtailment or interruption. If the Shipper Agent fails to provide a schedule setting out the Gas supply allocation for the Group to apply during the curtailment or interruption then FortisBC Energy will curtail Shippers on the basis set out in the Standard Priority Schedule.
- 3.8 **Monthly Billing Information** - At the end of each month, and within two business days of FortisBC Energy providing to the Shipper Agent a schedule pursuant to section 4.2 (Monthly Provision of Data), the Shipper Agent will provide to FortisBC Energy an allocation schedule setting out the daily Gas takes of each member of the Group and identifying for each member of the Group, the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40. The Shipper Agent will also notify FortisBC Energy which charges the Shipper Agent elects to pay on behalf of the members of the Group and, if notice is not received, FortisBC Energy will bill the Shippers directly.

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- 3.9 **Lack of Allocation Information** - If, at the end of a month, the Shipper Agent fails to provide to FortisBC Energy the monthly allocation schedule pursuant to section 3.8 (Monthly Billing Information) then FortisBC Energy will bill on the basis of the best available information. For Balancing Gas FortisBC Energy will bill on a basis proportional to the actual takes of the Shippers during the month. For Backstopping Gas FortisBC Energy will bill on a basis proportional to the actual Day-to-Day takes of the Shippers during the Days when Backstopping Gas was supplied. For Unauthorized Overrun Gas FortisBC Energy will bill on the basis of the schedule(s) setting out the Gas supply allocation for the Group provided to FortisBC Energy pursuant to section 3.8, or if the Shipper Agent fails to provide a schedule pursuant to section 3.8, then on the basis of the applicable Standard Priority Schedule provided by the Shipper Agent pursuant to section 3.6. For Replacement Gas FortisBC Energy will bill on a basis proportional to actual Day-to-Day takes of the Non-Bypass Shippers during the Day for which the Peaking Gas Quantities were not returned. For Positive Imbalances and Negative Imbalances for West to East SCP Transportation Service FortisBC Energy will bill on a basis proportional to the Peak Day Demand of the Non-Bypass Shippers. If further information becomes available, FortisBC Energy will adjust the billings on the basis of the further information.
- 3.10 **Lack of Gas Supply or Nomination** - If the Shipper Agent becomes aware that a Supplier has ceased, or will cease, to supply Gas to a member of the Group; or if the Shipper Agent provides to FortisBC Energy a Requested Quantity for the Group which does not include a quantity for a member of the Group, due to a lack of Gas supply to the member of the Group or due to concerns about a possible lack of Gas supply to the member of the Group, then the Shipper Agent will immediately notify FortisBC Energy. If the Shipper Agent fails to so notify FortisBC Energy then the Shipper Agent is liable to FortisBC Energy for the price of any Gas which FortisBC Energy delivers to that member of the Group after the time when the Shipper Agent should have provided notice to FortisBC Energy.
- 3.11 **Charges for Extra Services** - If FortisBC Energy incurs extra expenses from a Shipper Agent failing to provide information, or failing to provide information in a timely manner, or failing to provide correct information, or otherwise failing to meet its obligations under this agreement, then FortisBC Energy may charge the Shipper Agent for such extra expenses and the Shipper Agent agrees to pay FortisBC Energy the reasonable extra expenses incurred as a result of such failure.

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4. FortisBC Energy Obligations

- 4.1 **Weekly Provision of Data** - Twice a week FortisBC Energy will provide to the Shipper Agent a schedule setting out FortisBC Energy's best available data on the daily takes of the Group.
- 4.2 **Monthly Provision of Data** - Within 10 working days after the end of each month FortisBC Energy will provide to the Shipper Agent a schedule setting out the daily takes of each member of the Group.
- 4.3 **Capacity Constraints** - If FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate interruptible transportation service to any member of the Group then FortisBC Energy will directly notify that Shipper pursuant to Notice of Curtailment section of the applicable Rate Schedule and will deal directly with the Shipper if the Shipper takes Unauthorized Overrun Gas or Unauthorized Transportation Service.
- 4.4 **Notice of Gas Supply Constraint or Limitation** - If Gas supply constraints or limitations occur; either due to a constraint or limitation of supply from FortisBC Energy of Backstopping Gas or Balancing Gas, or a constraint or limitation of supply from another Supplier; FortisBC Energy will notify the Shipper Agent of any curtailment or interruption, will specify the quantity of Gas to which the Group in aggregate is curtailed and the time at which time such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper Agent as much notice as possible with respect to such curtailment or interruption, not to be less than 4 hours prior notice unless prevented by Force Majeure.

5. Changes to Group

- 5.1 **Amendments to Group** - Schedule "A" sets out the Shippers who are the members of the Group represented by the Shipper Agent to this agreement. No additions or deletions may be made to the Group without the Shipper Agent providing notice to FortisBC Energy of such additions and deletions through provision to FortisBC Energy of an amended Schedule "A" showing such additions and deletions and the effective dates of such additions and deletions in accordance with section 5 of this agreement.

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- 5.2 **Deletions From Group** - If the Shipper Agent wishes to cease acting as agent for a Shipper and a Shipper wishes to cease being a member of the Group, upon receipt by FortisBC Energy of not less than 30 days prior written notice from both the Shipper and Shipper Agent and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of deletion of the Shipper from the Group, such Shipper shall be deleted from the Group upon the effective date specified in the amended Schedule "A". A Shipper will be deleted from a Group effective November 1 of a Year if FortisBC Energy receives not less than 30 days prior written notice from either the Shipper or Shipper Agent.
- 5.3 **Additions To Group** - If the Shipper Agent wishes to add a Shipper to a Group and the Shipper wishes to be added to the Group, and the Shipper has entered into a Transportation Agreement and completed an Appendix "A" - Notice of Appointment of Shipper Agent, and both the Shipper and the Shipper Agent have given to FortisBC Energy not less than 30 days prior written notice of such addition and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of the addition of the Shipper to the Group, such Shipper shall be added to the Group upon the effective date specified in Schedule "A".

6. Statements and Payments

- 6.1 **Statements to be Provided** - If the Shipper Agent elects to pay some or all of the charges for Gas taken by the Shippers as described in section 3.8, FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper Agent a statement for the preceding month showing the Gas quantities, and the applicable charges for which the Shipper Agent is responsible and the amount due. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 6.2 **Payment and Interest** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to, or to the order of, FortisBC Energy at its Surrey, British Columbia office (mailing address: P.O. Box 6666 Stn. Terminal, Vancouver, B.C., V6B 6M9), or such other place in Canada as it will designate, on or before the 1st business day after the 10th calendar day following the billing date. If the Shipper Agent or Shipper fails or neglects to make any payment required under this Shipper Agent Agreement, or any portion thereof, to or to the order of FortisBC Energy when due, interest on the outstanding amount will accrue, at the rate of interest declared by the chartered bank in Canada principally used by FortisBC Energy, for loans in Canadian dollars to its most creditworthy commercial borrowers payable on demand and commonly referred to as its "prime rate", plus

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- (a) 2% from the date when such payment was due for the first 30 days that such payment remains unpaid and 5% thereafter until the same is paid where the Shipper Agent or Shipper has not, during the immediately preceding 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 where the Shipper Agent or Shipper has, during the immediately preceding 6 month period, failed to make any payment when due hereunder.

7. Term

7.1 **Term** - The term of this agreement will commence on the commencement date specified in section 1 of this agreement and will expire either

- (a) 30 days following notice from the Shipper Agent that the Shipper Agent wishes to cease to nominate for transportation service and balancing on behalf of the Group, or
- (b) the expiry or termination of the Transportation Agreements of all of the members of the Group, or
- (c) the expiry date specified in section 1 of this agreement, or
- (d) 5 days following notice from FortisBC Energy to the Shipper Agent, and to the Shippers which are members of the Group, under section 10.1 (Failure to Provide Information or Default).

whichever date is earlier.

7.2 **Survival of Covenants** - Upon the termination of this agreement,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this agreement relating to the obligation of either of the parties to provide information to the other in connection with this agreement,

will survive such termination.

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8. Representations, Warranties and Covenants

8.1 **Representations and Warranties** - The Shipper Agent represents and warrants to and covenants with FortisBC Energy as follows

- (a) the members of the Group are listed in section 1 of this agreement,
- (b) the Shipper Agent is the agent of each of the members of the Group and has the authority of each of the members of the Group for the purposes of any and all matters set out in the applicable transportation Rate Schedule and this agreement, and
- (c) FortisBC Energy may rely on any act or thing done, or document executed, by the Shipper Agent in connection with of any and all matters set out in the applicable transportation Rate Schedule and this agreement.

9. Limitation on Liability and Indemnity

9.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment of transportation service or Gas supply.

9.2 **Indemnity** - The Shipper Agent will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.

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10. Disbanding of the Group

- 10.1 **Failure to Provide Information** - If the Shipper Agent fails to provide FortisBC Energy with the information or schedules which the Shipper Agent is required to provide to FortisBC Energy pursuant to this agreement or is otherwise in breach of this agreement then, acting reasonably in the circumstances and on 5 days notice to the Shipper Agent and to the members of the Group, FortisBC Energy may disband the Group and deal directly with the Shippers which were members of the Group.
- 10.2 **Default** - If any Shipper which is a member of the Group is in default under the Default or Bankruptcy section of the applicable Rate Schedule or becomes bankrupt or insolvent, then that Shipper will cease to be a member of the Group.

11. Dispute Resolution

- 11.1 **Mediation** -Where any dispute arises out of or in connection with this Rate Schedule or the service provided under it, FortisBC Energy and the Shipper agree to try to resolve the dispute by participating in a structured mediation conference with a mediator under the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution.
- 11.2 **Arbitration** - If FortisBC Energy and the Shipper fail to resolve the dispute through mediation, the unresolved dispute shall be referred to, and finally resolved or determined by arbitration under the National Arbitration Rules of the ADR Institute of Canada Inc. for Dispute Resolution. Unless FortisBC Energy and the Shipper agree otherwise the arbitration will be conducted by a single arbitrator.
- 11.3 **Written Award** - The arbitrator shall issue a written award that sets forth the essential findings and conclusions on which the award is based. The arbitrator will allow discovery as required by law in arbitration proceedings.

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- 11.4 **Failure to Render a Decision** - If the arbitrator fails to render a decision within thirty (30) days following the final hearing of the arbitration, any party to the arbitration may terminate the appointment of the arbitrator and a new arbitrator shall be appointed in accordance with these provisions. If FortisBC Energy and the Shipper are unable to agree on an arbitrator or if the appointment of an arbitrator is terminated in the manner provided for above, then either FortisBC Energy or the Shipper shall be entitled to apply to a judge of the British Columbia Supreme Court to appoint an arbitrator and the arbitrator so appointed shall proceed to determine the matter *mutatis mutandis* in accordance with the provisions of this Section.
- 11.5 **Award** - The arbitrator shall have the authority to award:
- (a) money damages;
 - (b) interest on unpaid amounts from the date due;
 - (c) specific performance; and
 - (d) permanent relief.
- 11.6 **Costs** - The costs and expenses of the arbitration, but not those incurred by the parties, shall be shared equally, unless the arbitrator determines that a specific party prevailed. In such a case, the non-prevailing party shall pay all costs and expenses of the arbitration, but not those of the prevailing party.
- 11.7 **Obligations Continue** - The parties will continue to fulfill their respective obligations pursuant to this Rate Schedule and the Transportation Agreement during the resolution of any dispute in accordance with this section 22.

12. Notice

- 12.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other party.

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13. Acknowledgement

- 13.1 **Acknowledgement** - The Shipper Agent acknowledges receiving and reading a copy of Rate Schedules 22, 22A, 22B, 23, 25, 26 or 27 and the General Terms and Conditions of FortisBC Energy and will comply with and be bound by all terms and conditions set out therein.

IN WITNESS WHEREOF the parties hereto have executed this agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper Agent)

BY: _____

(Signature)

BY: _____

(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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FORTISBC ENERGY INC.

**RATE SCHEDULE 27
GENERAL INTERRUPTIBLE TRANSPORTATION**

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1. Definitions

1.1 **Definitions** - Except where the context requires otherwise all words and phrases defined below or in the General Terms and Conditions of FortisBC Energy and used in this Rate Schedule or in a Transportation Agreement have the meanings set out below or in the General Terms and Conditions of FortisBC Energy. Where any of the definitions set out below conflict with the definitions in the General Terms and Conditions of FortisBC Energy, the definitions set out below govern.

- (a) **Authorized Quantity** - means the quantity of energy (in Gigajoules) for each Day approved by the Transporter for transportation service on the Transporter's pipeline system, based on the quantity requested by the Shipper, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- (b) **Backstopping Gas** - means Gas made available by FortisBC Energy as an interruptible backup supply if on any Day the Authorized Quantity is less than the Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- (c) **Balancing Gas** - means any Gas taken during a Month which is in excess of the Authorized Quantity, subject to section 8.1 (Monthly Adjustments).
- (d) **Commencement Date** - means the day specified as the Commencement Date in the Transportation Agreement.
- (e) **Contract Year** - means a period of 12 consecutive Months commencing at the beginning of the 1st Day of November and ending at the beginning of the next succeeding 1st Day of November.
- (f) **Day** - means, subject to section 1.2 (Change in Definition of "Day"), any period of twenty-four consecutive hours beginning and ending at 7:00 a.m. Pacific Standard Time.
- (g) **Delivery Point** - means the point specified in a Transportation Agreement where FortisBC Energy delivers Gas to a Shipper.

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- (h) **Force Majeure** - means 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 the 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, or freezing of wells or pipelines, or the failure of gas supply, temporary or otherwise, from a Supplier of gas, which act of Force Majeure was not due to negligence of the party claiming Force Majeure. Further, Force Majeure will also include a declaration of force majeure by a Transporter that results in gas being unavailable for delivery at the Interconnection Point.
- (i) **Group** - means a group of Shippers who each transport Gas under a transportation Rate Schedule, have a common Shipper Agent, and who have each entered into a Transportation Agreement.
- (j) **Interruption Period** - means the period or periods during which the Shipper is required pursuant to sections 4.2 (Curtailment), 4.3 (Notice of Curtailment), or 19 (Force Majeure) to interrupt, cease, limit or curtail the receipt of Gas.
- (k) **Interconnection Point** - means a point where the FortisBC Energy System interconnects with the facilities of one of the Transporters of FortisBC Energy, as specified in a Transportation Agreement.
- (l) **Month** - means, subject to any changes from time to time required by FortisBC Energy, the period beginning at 7:00 a.m. Pacific Standard Time on the first day of the calendar month and ending at 7:00 a.m. Pacific Standard Time on the first day of the next succeeding calendar month.
- (m) **Pacific Clock Time** - means Pacific Standard Time or Daylight Savings Time as it applies in Surrey, British Columbia.
- (n) **Rate Schedule 27 or this Rate Schedule** - means this Rate Schedule, including all rates, terms and conditions, and the Table of Charges, as amended from time to time by FortisBC Energy with the consent of the British Columbia Utilities Commission.
- (o) **Requested Quantity** - means the quantity of energy for each Day requested for interruptible transportation under this Rate Schedule.
- (p) **Shipper** - means a person who enters into a Transportation Agreement with FortisBC Energy who is also the consumer of the Gas transported.

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- (q) **Shipper Agent** - means a person who enters into a Shipper Agent Agreement with FortisBC Energy.
- (r) **Shippers Agent Agreement** - means an agreement between FortisBC Energy and a Shipper Agent pursuant to which the Shipper Agent agrees to act as agent for a Group.
- (s) **Supplier** - means a party who sells Gas to a Shipper or FortisBC Energy or has access to its own supplies of Gas.
- (t) **Table of Charges** - means the table of prices, fees and charges, as amended from time to time by FortisBC Energy with the consent of by the British Columbia Utilities Commission, appended to this Rate Schedule.
- (u) **Transportation Agreement** - means an agreement between FortisBC Energy and a Shipper to provide service pursuant to a transportation Rate Schedule.
- (v) **Transportation Areas** - for the purposes of this Rate Schedule, means the following transportation areas when applying to group nomination and balancing.

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**Lower Mainland
Transportation Area**

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Abbotsford</u>	<u>New Westminster</u>
<u>Anmore</u>	<u>North Vancouver City</u>
<u>Belcarra</u>	<u>North Vancouver Dist.</u>
<u>Burnaby</u>	<u>Pitt Meadows</u>
<u>Chilliwack</u>	<u>Port Coquitlam</u>
<u>Coquitlam</u>	<u>Port Moody</u>
<u>Delta</u>	<u>Richmond</u>
<u>Harrison Hot Springs</u>	<u>Squamish</u>
<u>Hope</u>	<u>Surrey</u>
<u>Kent</u>	<u>Vancouver</u>
<u>Langley City</u>	<u>West Vancouver</u>
<u>Langley District</u>	<u>White Rock</u>
<u>Maple Ridge</u>	
<u>Matsqui</u>	
<u>Mission</u>	

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**Inland
Transportation Area**

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Armstrong</u>	<u>Nelson</u>
<u>Ashcroft</u>	<u>Okanagan Falls</u>
<u>Bear Lake</u>	<u>Oliver</u>
<u>Cache Creek</u>	<u>100 Mile House</u>
<u>Castlegar</u>	<u>108 Mile House</u>
<u>Chase</u>	<u>150 Mile House</u>
<u>Chetwynd</u>	<u>Osoyoos</u>
<u>Christina Lake</u>	<u>Oyama</u>
<u>Clinton</u>	<u>Peachland</u>
<u>Coldstream</u>	<u>Penticton</u>
<u>Collettville</u>	<u>Prince George</u>
<u>Craigmont</u>	<u>Princeton</u>
<u>Falkland</u>	<u>Quesnel</u>
<u>Ferguson Lake</u>	<u>Revelstoke</u>
<u>Fruitvale</u>	<u>Robson</u>
<u>Gibraltar Mines</u>	<u>Rossland</u>
<u>Grand Forks</u>	<u>Salmo</u>
<u>Greenlake</u>	<u>Salmon Arm</u>
<u>Greenwood</u>	<u>Savona</u>
<u>Hedley</u>	<u>Shelley</u>
<u>Hixon</u>	<u>Sorrento</u>
<u>Honeymoon Creek</u>	<u>Spallumcheen</u>
<u>Hudson's Hope</u>	<u>Summerland</u>
<u>Kamloops</u>	<u>Trail</u>
<u>Kelowna</u>	<u>Vernon</u>
<u>Keremeos</u>	<u>Warfield</u>
<u>Lac La Hache</u>	<u>Westbank</u>
<u>Lakeview Heights</u>	<u>Westwold</u>
<u>Logan Lake</u>	<u>Williams Lake</u>
<u>Lumby</u>	<u>Winfield</u>
<u>MacKenzie</u>	<u>Woodsdale</u>
<u>Merritt</u>	
<u>Midway</u>	
<u>Montrose</u>	
<u>Naramata</u>	

**Columbia
Transportation Area**

Means the areas including, but not limited to, the following locations and surrounding areas of

<u>Cranbrook</u>	<u>Jaffray</u>
<u>Creston</u>	<u>Kimberley</u>
<u>Elkford</u>	<u>Sparwood</u>
<u>Fernie</u>	<u>Yahk</u>
<u>Galloway</u>	

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- (w) **Transporter** - means ~~TransCanada PipeLines Limited, B.C. System, Nova Gas Transmission Ltd., Westcoast Energy Inc., FortisBC Huntingdon Inc., and any other gas pipeline transportation company connected to the facilities of FortisBC Energy from which FortisBC Energy receives Gas for the purposes of Gas transportation or resale.~~
- (x) **Transporter's Service Terms** - means the general terms and conditions of the applicable Transporter, as filed with and approved from time to time by the National Energy Board or other applicable governmental authority.
- (y) **Unauthorized Overrun Gas** - means any Gas taken on any Day in excess of the curtailed quantity specified in any notice to interrupt or curtail a Shipper's take or to interrupt or curtail a Group's take, and for greater certainty, Unauthorized Overrun Gas includes all Gas taken by a Shipper or a Group to the extent that the obligation of FortisBC Energy to deliver such Gas is suspended by reason of Force Majeure.
- (z) **Unauthorized Transportation Service** - means any transportation service utilized in excess of the curtailed quantity specified in any notice from FortisBC Energy to interrupt or curtail transportation service.

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- 1.2 **Change in Definition of "Day"** - FortisBC Energy may amend the definition of "Day" from time to time to suitably align its operations with those of its Transporters. If FortisBC Energy amends the definition of "Day", a pro-rata adjustment of quantities of Gas and charges to account for any Day of more or less than 24 hours will be made and the term of the Transportation Agreement will be similarly adjusted.

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2. Applicability

- 2.1 **Description of Applicability** - This Rate Schedule applies to the provision of interruptible transportation service through the FortisBC Energy System and through one meter station to one Shipper. For greater certainty, interruptible transportation service under this Rate Schedule means the provision by FortisBC Energy of transportation service to a Shipper which may be interrupted or curtailed by FortisBC Energy pursuant to sections 4.2 (Curtailment), 16 (Default or Bankruptcy) and 19 (Force Majeure) and the General Terms and Conditions of FortisBC Energy.
- 2.2 **British Columbia Utilities Commission** - This Rate Schedule may be amended from time to time with the consent of the British Columbia Utilities Commission.

3. Conditions of Service

- 3.1 **Conditions** - FortisBC Energy does not provide transportation service as a common carrier. FortisBC Energy will only transport Gas under this Rate Schedule to Shippers in the areas served by FortisBC Energy under the FortisBC Energy tariff of which this Rate Schedule is a part if:
- (a) the Shipper has entered into a Transportation Agreement,
 - (b) adequate capacity exists on the FortisBC Energy System, and
 - (c) FortisBC Energy has installed at the Delivery Point the facilities and equipment referred to in section 13.1 (Facilities and Equipment).
- 3.2 **Security** - In order to secure the prompt and orderly payment of the charges to be paid by the Shipper to FortisBC Energy under the Transportation Agreement, FortisBC Energy may require the Shipper to provide, and at all times maintain, an irrevocable letter of credit in favour of FortisBC Energy issued by a financial institution acceptable to FortisBC Energy in an amount equal to the estimated maximum amount payable by the Shipper under this Rate Schedule and the Transportation Agreement for a period of 90 Days. Where FortisBC Energy requires a Shipper to provide a letter of credit and the Shipper is able to provide alternative security acceptable to FortisBC Energy, FortisBC Energy may accept such security in lieu of a letter of credit.

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3.3 Warning if Switching from Interruptible to Firm Transportation Service or Sales - A Shipper wishing to switch from interruptible transportation or interruptible sales to a firm sales Rate Schedule or to firm transportation must comply with the requirements for firm service set out in the applicable Rate Schedule, including the following

- (a) give 12 months prior notice to FortisBC Energy of the Shipper's desire to do so, and
- (b) after receiving an estimate from FortisBC Energy of costs FortisBC Energy will reasonably incur to provide such service, agree to reimburse FortisBC Energy for any such costs.

Notwithstanding section 3.3(a), FortisBC Energy will make reasonable efforts to accommodate a Shipper on less than 12 months' prior notice if FortisBC Energy is able, with such shorter notice, to arrange firm transportation of Gas under a firm sales Rate Schedule, or transportation under a firm transportation Rate Schedule.

4. Transportation

4.1 Transportation of Gas - Subject to section 13 of the General Terms and Conditions of FortisBC Energy (Interruption of Service) and all of the terms and conditions of this Rate Schedule, FortisBC Energy will on each Day transport for and deliver to the Shipper at the Delivery Point the Authorized Quantity, or the Shipper's portion of the Group's Authorized Quantity, received at the Interconnection Point from the Transporter, up to the DTQ where adequate capacity exists on the FortisBC Energy System. On each Day, if the Shipper's Gas received at the Interconnection Point is not consumed by the Shipper or is not authorized for delivery to the Shipper, FortisBC Energy will be entitled to utilize such Gas subject to all the terms of this Rate Schedule and the Transportation Agreement.

4.2 Curtailment - If at any time FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate the Shipper's request for interruptible transportation FortisBC Energy may, for any length of time, interrupt or curtail transportation service under this Rate Schedule. Consistent with the provisions of section 7.6 (Failure to Deliver to Interconnection Point), if at any time FortisBC Energy, acting reasonably, determines that it is not able to provide Balancing Gas or Backstopping Gas, FortisBC Energy may curtail the Shipper's take to the lesser of the Authorized Quantity or the DTQ.

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- 4.3 **Notice of Curtailment** - Each notice from FortisBC Energy to the Shipper with respect to the interruption or curtailment by FortisBC Energy of deliveries of Gas to the Delivery Point will be by telephone and/or fax and will specify the quantity of Gas to which the Shipper is curtailed and the time at which such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such curtailment, not to be less than 2 hours prior notice unless prevented by Force Majeure.
- 4.4 **Default Regarding Curtailment** - The Shipper will comply with each notice to interrupt or curtail the Shipper's take. If the Shipper at any time fails or neglects to comply with a notice to interrupt or curtail the Shipper's take, FortisBC Energy may, in addition to any other remedy that it may then or thereafter have, at its option, without liability therefor and without any prior notice to the Shipper
- (a) turn off the valve at the Delivery Point, or
 - (b) deliver such Gas and charge the Shipper for such Gas consumed on that Day the unauthorized overrun charge set out in the Table of Charges.
- 4.5 **Failure to Comply** - If during any one Contract Year the Shipper fails or neglects to comply with three notices from FortisBC Energy to interrupt or curtail the Shipper's take, unless the Shipper provides to FortisBC Energy assurances, to the satisfaction of FortisBC Energy, that the Shipper will comply with all further interruption or curtailment notices, FortisBC Energy may, in addition to any other remedy that it may then or thereafter have, at its option and without liability therefor, switch the Shipper to a firm transportation Rate Schedule, beginning at the commencement of the next following Contract Month. If the Shipper and FortisBC Energy do not execute a new Transportation Agreement pursuant to the firm transportation Rate Schedule, from the date of such switch, the Transportation Agreement will be deemed to a Transportation Agreement pursuant to the firm transportation Rate Schedule, with all necessary changes.
- 4.6 **Maximum Hourly Quantities** - FortisBC Energy will not be obliged to receive or deliver in one Hour more than 5% of the quantity of Gas that the Shipper is authorized to receive on any day.
- 4.7 **Gas Pressure** - Where specifically requested by the Shipper, FortisBC Energy may agree to deliver Gas to the Shipper at the Delivery Point at the minimum pressure specified in the Shipper's Transportation Agreement. The Shipper will reimburse FortisBC Energy from time to time for costs it reasonably incurs in maintaining such minimum pressure above that set out in the General Terms and Conditions of FortisBC Energy. FortisBC Energy's ability to maintain a minimum pressure at the Delivery Point is subject to FortisBC Energy receiving Gas at the Interconnection Point at the pressure specified in the Transporter's Service Terms.

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5. Table of Charges

- 5.1 **Charges** - In respect of all quantities of Gas delivered to the Delivery Point pursuant to this Rate Schedule and the Transportation Agreement, the Shipper will pay to FortisBC Energy all of the charges set out in the Table of Charges whether or not the Shipper is a member of a Group. The Shipper Agent may elect to pay to FortisBC Energy the charges for the Backstopping Gas and the Balancing Gas taken, and any Unauthorized Overrun Gas taken for members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.

6. Unauthorized Use

- 6.1 **Charges for Unauthorized Service** - On any Day a Shipper takes Unauthorized Overrun Gas and/or Unauthorized Transportation Service, the Shipper will pay to FortisBC Energy the unauthorized overrun charge set out in the Table of Charges. The Shipper Agent may elect to pay these charges for the members of its Group. In the event the Shipper Agent fails to make an election or withdraws an election to pay these charges for and on behalf of the Shippers which are members of its Group, FortisBC Energy will bill the Shippers directly.
- 6.2 **Payments Not License** - Payments made to FortisBC Energy for Unauthorized Overrun Gas or Unauthorized Transportation Service neither give the right to take Unauthorized Overrun Gas or Unauthorized Transportation Service, nor exclude or limit any other remedies available to FortisBC Energy for taking of Unauthorized Overrun Gas or Unauthorized Transportation for Service.
- 6.3 **Demand Surcharge** - If the Shipper is a member of a Group which includes a Shipper under Rate Schedules 22, 22A or 22B then the Group and its members will be subject to Demand Surcharges under section 7 (Unauthorized Use) of Rate Schedule 22.

7. Nomination

- 7.1 **Capacity on Transporter's Pipeline** - The Shipper will on or before the Commencement Date notify FortisBC Energy of the identity of the party holding capacity for Shipper on the Transporter's pipeline, and from time to time when such party changes.

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- 7.2 **Requested Quantity** - The Shipper will provide FortisBC Energy by fax or other method approved by FortisBC Energy, prior to 7:30 a.m. Pacific Clock Time on each Day (or such other time as may be specified from time to time by FortisBC Energy) such information as may be requested by FortisBC Energy, which will include, but is not limited to, the Shipper's Requested Quantity for the Day commencing in approximately 24 hours. If the Shipper does not notify FortisBC Energy in accordance with the foregoing, the Shipper's Requested Quantity for the Day commencing in approximately 24 hours will be deemed to be the Shipper's Requested Quantity, or adjusted as set out in section 7.3 (Adjustment of Requested Quantity), for the Day just commencing. The Shipper's Requested Quantity each Day will equal the Shipper's best estimate, at the time of the notification to FortisBC Energy of the Requested Quantity, of the quantity of Gas the Shipper will actually consume on such Day.
- 7.3 **Adjustment of Requested Quantity** - FortisBC Energy may adjust, in consultation with the Shipper, the Shipper's Requested Quantity, described in section 7.2 (Requested Quantity), when in the reasonable opinion of FortisBC Energy such modification is required in order to minimize the Month end balancing quantity.
- 7.4 **Request to Transporter** - FortisBC Energy will provide to the Transporter the Shipper's Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.5 **Delivery to Interconnection Point** - The Shipper will cause to be delivered to the Interconnection Point on each Day a quantity of Gas at least equal to the Shipper's Requested Quantity, adjusted as set out in section 7.3 (Adjustment of Requested Quantity).
- 7.6 **Failure to Deliver to Interconnection Point** - If on any day the Authorized Quantity from the Transporter is less than the quantity requested from the Transporter pursuant to section 7.4 (Request to Transporter), in addition to curtailments permitted under section 4 (Transportation), FortisBC Energy may, in its discretion, interrupt or curtail service hereunder to such Authorized Quantity. Alternatively, FortisBC Energy may deliver additional Gas to the Shipper at the Interconnection Point and charge the Shipper the charge for Backstopping Gas as set out in the Table of Charges. If FortisBC Energy is unable to ascertain which Shipper's supply has caused a deficiency, FortisBC Energy may, in its discretion, interrupt or curtail service to the Shippers on a prorata basis or another basis deemed equitable by FortisBC Energy based on available information. FortisBC Energy will reallocate the deficiency as soon as reasonable if it obtains information that allows it to determine responsibility and FortisBC Energy will disclose to the Shippers how it allocated or reallocated the deficiency.

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- 7.7 **Authorized Quantity** - FortisBC Energy will take such action as is reasonable in all the circumstances to advise the Shipper or the Shipper Agent if the Authorized Quantity is less than the Requested Quantity.

8. Gas Balancing

- 8.1 **Monthly Adjustments** - FortisBC Energy will make adjustments at the end of each Month for the differences between the sum of the Authorized Quantities and the Shipper's actual consumption as measured daily by FortisBC Energy as follows

- (a) for overdeliveries (the sum of the Authorized Quantities is greater than the Shipper's actual daily consumption FortisBC Energy will maintain an inventory account for the Shipper and will increase the balance in the inventory account by the excess amount received. FortisBC Energy reserves the right to limit Gas quantities maintained in the Shipper's inventory account and will from time to time in consultation with the Shipper return excess inventory at no charge to the Shipper; this will not relieve the Shipper from its obligation to provide accurate nominations pursuant to section 7.2 (Requested Quantity) and
- (b) except in the case of Backstopping Gas and Unauthorized Overrun Gas, for underdeliveries (the sum of the Authorized Quantities is less than the Shipper's actual Monthly consumption as measured by FortisBC Energy), FortisBC Energy will sell to the Shipper the deficiency quantities at the Balancing Gas charge set out in the Table of Charges.

- 8.2 **Imbalance Following Termination** - If FortisBC Energy has received a quantity of Gas in excess of the quantity delivered to the Shipper during the term of a Transportation Agreement, then the Shipper may request the excess quantity be returned within 90 Days following termination of the Transportation Agreement.

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9. Group Nomination and Balancing

- 9.1 **Group Nomination and Balancing** - If a Shipper appoints a Shipper Agent and becomes a member of a Group and if the Shipper and Shipper Agent have agreed to execute or have executed a Shipper Agent Agreement, and if the members of the Group are in the same Transportation Area as defined in Section 1.1(v) and receive service under a transportation Rate Schedule, the Shipper Agent will nominate and balance on behalf of all members of the Group on an aggregate basis pursuant to sections 7 (Nomination) and 8 (Gas Balancing) of this Rate Schedule, as modified by this section, and the Shipper Agent will be the agent for each of the members of a Group for the purposes of any and all matters set out in sections 7 (Nomination) and 8 (Gas Balancing). Notwithstanding the foregoing, where Shipper under Rate Schedules 22, 22A or 22B is a member of the Group, section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis. The Shipper Agent may also elect, pursuant to the Shipper Agent Agreement, to pay some or all of the charges specified in sections 5.1 and 6.1 for and on behalf of the Shippers in its Group. The Shipper acknowledges and agrees that FortisBC Energy may rely, for the purpose of payment allocations, on verbal notification from the Shipper Agent of such election as a basis for the Shipper Agent's authority to act on behalf of Shipper. Where the Shipper Agent fails to execute a Shipper Agent Agreement, the Shipper will be deemed to be and treated by FortisBC Energy as an individual Group of one Shipper, except for the purposes of sections 9.5 and 11.1 hereunder, and will be deemed to have agreed to purchase Gas from FortisBC Energy pursuant to the applicable transportation schedule and will accordingly be responsible for the payment of all charges thereunder, including any and all Balancing Gas and Unauthorized Overrun Gas charges attributable to that Shipper.
- 9.2 **Requested Quantity from Shipper Agent** - The Shipper Agent will notify FortisBC Energy of the Shipper's Requested Quantity, described in section 7.2 (Requested Quantity) on behalf of all members of the Group on an aggregate basis. If the Shipper Agent does not so notify FortisBC Energy, then the Group's Requested Quantity for the Day commencing in approximately 24 hours will be deemed to be the Group's quantity pursuant to section 7.2 (Requested Quantity) for the Day just commencing.
- 9.3 **Determination of Charges** - The charges for Backstopping Gas, Balancing Gas, Unauthorized Overrun Gas, set out in the Table of Charges, and Demand Surcharges as set out in the Rate Schedule 22 Table of Charges, will be determined based on the quantities transported on behalf of all members of the Group on an aggregate basis. The charges for Unauthorized Transportation Service will be determined based on the quantities delivered to each Shipper.

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9.4 **Security** - FortisBC Energy may require the Shipper Agent to provide security, as set out in section 3.2 (Security), with necessary changes, for the performance of the Shipper Agent's obligations under the Shipper Agent Agreement.

9.5 **Notices to and From Shipper Agents** - If the Shipper is a member of a Group then:

- (a) communications regarding curtailments or interruptions arising from Gas supply constraints and limitations, quantities of Gas requested and quantities of Gas authorized will be between the Shipper agent for the Group and FortisBC Energy; and
- (b) notices from FortisBC Energy with respect to interruption or curtailment pursuant to section 4.3 (Notice of Curtailment) arising from Gas supply constraints or limitations will be to the Shipper Agent for the Group and will specify the quantity of Gas to which the Group is curtailed and the time at which such curtailment is to be made; it will be the responsibility of the Shipper Agent to notify Shippers which are members of the Group of interruptions or curtailments.

10. Term of Transportation Agreement

10.1 **Term** - The initial term of the Transportation Agreement will begin on the Commencement Date and will expire at 7:00 a.m. Pacific Standard Time on the November 1st next following, provided that if the foregoing results in an initial term of less than one year, then the initial term will instead expire at the end of one further Contract Year.

10.2 **Automatic Renewal** - Except as specified in the Transportation Agreement, the term of the Transportation Agreement will continue from year to year after the expiry of the initial term unless cancelled by either FortisBC Energy or the Shipper, subject to section 3.3 (Warning if Switching from Interruptible to Firm Transportation Service or Sales), upon not less than 2 months notice prior to the end of the Contract Year then in effect.

10.3 **Early Termination** - The term of the Transportation Agreement is subject to early termination in accordance with section 16 (Default or Bankruptcy).

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10.4 **Survival of Covenants** - Upon the termination of the Transportation Agreement, whether pursuant to section 16 (Default or Bankruptcy) or otherwise,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this Rate Schedule and in the Transportation Agreement relating to the obligation of any of the parties to account to or indemnify the other and to pay to the other any monies owing as at the date of termination in connection with the Transportation Agreement,

will survive such termination.

11. **Statements and Payments**

11.1 **Statements to be Provided** - FortisBC Energy will, on or about the 15th day of each month, deliver to the Shipper, a statement for the preceding month showing the Gas quantities delivered to the Shipper and the amount due. If the Shipper is a member of a Group then the statement and the calculation of the amount due from the Shipper will be based on information supplied by the Shipper Agent, or based on other information available to FortisBC Energy, as set out in the Shipper Agent Agreement. FortisBC Energy will, on or about the 45th day after the end of a Contract Year, deliver to the Shipper a separate statement for the preceding Contract Year showing the amount required from the Shipper in respect of any indemnity due under this Rate Schedule or a Transportation Agreement. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.

11.2 **Payment and Late Payment Charge** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to FortisBC Energy at its Vancouver, British Columbia office, or such other place in Canada as it will designate, on or before the 1st business day after the 21st calendar day following the billing date. If the Shipper fails or neglects to make any payment required under this Rate Schedule, or any portion thereof, to FortisBC Energy when due, FortisBC Energy will include in the next bill to the Shipper a late payment charge of 1½% per month (19.56% per annum) on the outstanding amount.

11.3 **Examination of Records** - Each of FortisBC Energy and the Shipper will have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation or demand made pursuant to any provisions of this Rate Schedule or the Transportation Agreement.

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12. Quality

- 12.1 **Minimum Standards** - All Gas delivered to the Interconnection Point by or on behalf of the Shipper and all Gas delivered to the Delivery Point will conform to the quality specifications set out in the Transporter's Service Terms.

13. Measuring Equipment

- 13.1 **Facilities and Equipment** - FortisBC Energy will install, maintain and operate at the Delivery Point such metering and communications facilities and equipment as FortisBC Energy determines are necessary or desirable for measuring the quantity of Gas delivered pursuant to this Rate Schedule to the Shipper and the Shipper will permit FortisBC Energy, without cost to FortisBC Energy, to use the Shipper's communications lines and power for the purpose of installing, maintaining and operating the measuring equipment of FortisBC Energy. Communication facilities and equipment will be installed at the cost of the Shipper.
- 13.2 **Measuring Site** - If FortisBC Energy reasonably determines that it is necessary to install the facilities and equipment referred to in section 13.1 (Facilities and Equipment) on the Shipper's property, the Shipper will, without charge, provide a suitable site along with utilities and enclosures for the installation of the facilities and equipment of FortisBC Energy. FortisBC Energy will at all times have clear access to the site and to all of its facilities and equipment. All facilities and equipment installed by FortisBC Energy on the Shipper's property will remain the property of FortisBC Energy and may be removed by FortisBC Energy upon termination of the Transportation Agreement.
- 13.3 **Calibration and Test of Measuring Equipment** - The accuracy of the measuring equipment of FortisBC Energy will be verified by standard tests and methods at regular intervals and at other times at the initiative of FortisBC Energy or upon the reasonable request of the Shipper. Notice of the time and nature of each test conducted in response to communications with or at the request of the Shipper will be given by FortisBC Energy to the Shipper sufficiently in advance to permit a representative of the Shipper to be present. If during a test the measuring equipment is found to be registering inaccurately, it will be adjusted at once to read as accurately as possible. The results of each test and adjustment, if any, made by FortisBC Energy, whether or not the Shipper is present for such test, will be accepted until the next test. All tests of such measuring equipment of FortisBC Energy will be made at the expense of FortisBC Energy, except that the Shipper will bear the expense of tests made at its request if the measuring equipment is found to be inaccurate by an amount equal to 2% or less.

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- 13.4 **Inaccuracy Exceeding 2%** - If upon any test the measuring equipment is found to be inaccurate by an amount exceeding 2%, any previous readings of such equipment will be corrected to zero error for any period during which it is definitely known or is agreed upon that the error existed. If the period is not definitely known or is not agreed upon, such correction will be for a period covering the last half of the time elapsed since the date of the last test. Provided that under no circumstances will an adjustment be made for a period of more than the preceding 12 months.
- 13.5 **Correction of Measuring Errors** - If the measuring equipment is out of service or out of repair so that the quantity of Gas delivered cannot be correctly determined by the reading thereof, the Gas delivered during the period such measuring equipment is out of service or out of repair will be estimated on the basis of the best available data, using the first of the following methods which is feasible
- (a) by correcting the error if the percentage of error is ascertained by calibration test or mathematical calculation,
 - (b) by using the registration of any check measuring equipment if installed and accurately registering, and
 - (c) by estimating the quantity of Gas delivered to the Shipper during the preceding periods under similar conditions when the meter was registering accurately.
- 13.6 **Shipper's Equipment** - The Shipper may at its own expense install, maintain and operate its own measuring equipment for the purposes of monitoring or checking the measuring equipment of FortisBC Energy, provided that the Shipper will install such equipment so as not to interfere with the operation of the measuring equipment of FortisBC Energy.
- 13.7 **Right to be Present** - FortisBC Energy and the Shipper will have the right to inspect all equipment installed or furnished by the other and the charts and other measurement or test data of the other at all times during business hours, and to be present at the time of any installing, testing, cleaning, changing, repairing, calibrating or adjusting done in connection with the measuring equipment of the other party, but all such activities will be performed by the party furnishing the measuring equipment.
- 13.8 **Preservation of Records** - Both parties will cause to be preserved each test datum, chart and other record of Gas measurement for a period of 2 years.

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14. Measurement

- 14.1 **Unit of Volume** - The unit of volume of Gas for all purposes hereunder will be 1 cubic metre at a temperature of 15° Celsius and an absolute pressure of 101.325 kilopascals.
- 14.2 **Determination of Volume** - Gas delivered hereunder will be metered using metering apparatus approved by the Standards Division, Industry Canada, Office of Consumer Affairs and the determination of standard volumes delivered hereunder will be in accordance with terms and conditions pursuant to the *Electricity and Gas Inspection Act* of Canada.
- 14.3 **Conversion to Energy Units** - In accordance with the *Electricity and Gas Inspection Act* of Canada, volumes of Gas delivered each Day will be converted to energy units by multiplying the standard volume by the Heat Content of each unit of Gas. Volumes will be specified in 10³m³ rounded to two decimal places and energy will be specified in Gigajoules rounded to one decimal place.

15. Representations, Warranties and Covenants

- 15.1 **Title** - The Shipper represents and warrants with FortisBC Energy that the Shipper will have good title to all Gas to be delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, free and clear of all liens, encumbrances and claims.
- 15.2 **Title Not That of FortisBC Energy** - FortisBC Energy agrees that title to all gas transported pursuant to the Transportation Agreement remains with the Shipper.
- 15.3 **Acknowledgement** - The Shipper acknowledges that the Gas transported under the Transportation Agreement will be commingled with Gas within the FortisBC Energy System.

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16. Default or Bankruptcy

16.1 Default - If the Shipper at any time fails or neglects

- (a) to make any payment due to FortisBC Energy or to any other person under this Rate Schedule or the Transportation Agreement within 30 days after payment is due, or
- (b) to correct any default of any of the other terms, covenants, agreements, conditions or obligations imposed upon it under this Rate Schedule or the Transportation Agreement, within 30 days after FortisBC Energy gives to the Shipper notice of such default or, in the case of a default that cannot with due diligence be corrected within a period of 30 days, the Shipper fails to proceed promptly after the giving of such notice with due diligence to correct the same and thereafter to prosecute the correcting of such default with all due diligence,

then FortisBC Energy may in addition to any other remedy that it has, including the rights of FortisBC Energy set out in section 4.4 (Default Regarding Curtailment) and 6 (Unauthorized Use), at its option and without liability therefore

- (a) suspend further transportation service to the Shipper and may refuse to deliver Gas to the Shipper until the default has been fully remedied, and no such suspension or refusal will relieve the Shipper from any obligation under this Rate Schedule or the Transportation Agreement, or
- (b) terminate the Transportation Agreement, and no such termination of the Transportation Agreement pursuant hereto will exclude the right of FortisBC Energy to collect any amount due to it from the Shipper for what would otherwise have been the remainder of the term of the Transportation Agreement.

16.2 Bankruptcy or Insolvency - If the Shipper becomes bankrupt or insolvent or commits or suffers an act of bankruptcy or insolvency or a receiver is appointed pursuant to a statute or under a debt instrument or the Shipper seeks protection from the demands of its creditors pursuant to any legislation enacted for that purpose, FortisBC Energy will have the right, at its sole discretion, to terminate the Transportation Agreement by giving notice in writing to the Shipper and thereupon FortisBC Energy may cease further delivery of Gas to the Shipper and the amount then outstanding for Gas provided under the Transportation Agreement will immediately be due and payable by the Shipper.

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17. Notice

- 17.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this Rate Schedule or under the Transportation Agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other in accordance with the following:

<u>If to FortisBC Energy</u>	FORTISBC ENERGY INC.
MAILING ADDRESS:	16705 Fraser Highway Surrey, B.C. V4N 0E8
BILLING AND PAYMENT:	Attention: Industrial Billing Telephone: 1-855-873-8773 Fax: (604) 293-2920
CUSTOMER RELATIONS:	Attention: Commercial & Industrial Energy Solutions Telephone: (604) 592-7843 Fax: (604) 592-7894
LEGAL AND OTHER:	Attention: Director, Legal Services Telephone: (604) 443-6512 Fax: (604) 443-6540

If to the Shipper, then as set out in the Transportation Agreement.

If to the Shipper Agent, then as set out in the Shipper Agent Agreement.

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17.2 **Specific Notices** - Notwithstanding section 17.1 (Notice), notices with respect to Force Majeure will be sufficient if:

- (a) given by FortisBC Energy in writing by fax, or orally in person, or by telephone (to be confirmed in writing) to the person or persons designated from time to time by the Shipper as authorized to receive such notices, or
- (b) given by the Shipper by telephone (to be confirmed by fax) in the following manner:

To claim Force Majeure..."Please be advised that (name of company and location of plant) has (reason for claiming Force Majeure as provided in section 19) and hereby claims suspension by reason of Force Majeure in accordance with the terms of Rate Schedule 27 effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to become effective, but not to be retroactive)."

To terminate Force Majeure..."Please be advised that (name of company and location of plant) requests a return to normal natural gas service in accordance with Rate Schedule 27 and the Transportation Agreement effective 7:00 a.m. Pacific Standard Time (date Force Majeure suspension to end, but not to be retroactive) whereby the suspension by reason of Force Majeure currently in force will be terminated."

18. Indemnity and Limitation on Liability

18.1 **Limitation on Liability** - FortisBC Energy, its employees, contractors or agents are not responsible or liable for any loss or damages for or on account of any interruption or curtailment of transportation service permitted under the General Terms and Conditions of FortisBC Energy or this Rate Schedule.

18.2 **Indemnity** - The Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from or out of each of the following

- (a) any defect in title to any Gas delivered to FortisBC Energy at the Interconnection Point on behalf of the Shipper from Suppliers other than FortisBC Energy, or arising from any charges that are applicable to the Gas delivered to FortisBC Energy,

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- (b) Franchise Fees not otherwise collected by FortisBC Energy under the Table of Charges,
- (c) nominations made in accordance with section 7 or 9 of this Rate Schedule by FortisBC Energy to the Transporter with respect to the Shipper's transportation volumes, whether or not the Shipper is a member of a Group,
- (d) Gas delivered by the Transporter or Shipper to FortisBC Energy failing to meet the quality specifications set out in section 12.1 of this Rate Schedule, and
- (e) all federal, provincial, municipal taxes (or payments made in lieu thereof) and royalties, whether payable on the delivery of Gas to FortisBC Energy by the Shipper or on the delivery of Gas to the Shipper by FortisBC Energy, or on any other service provided by FortisBC Energy to the Shipper.

18.3 **Principal Obligant** - If the Shipper is a member of a Group, the obligations of each of the Shipper Agent (acting for and on behalf of the Shippers that are members of the Group) and the Shipper (in the event of the failure of the Shipper Agent to make such payments and limited to the charges related to that Shipper) to pay to, or to the order of, FortisBC Energy the charges for Backstopping Gas, Balancing Gas, unauthorized overruns set out in the Table of Charges, and Demand Surcharges set out in the Rate Schedule 22 Table of Charges, are those of principal obligant and not of surety and are independent of the respective obligations of the Shipper Agent and the Shipper towards each other pursuant to the Shipper Agent Agreement.

19. Force Majeure

19.1 **Force Majeure** - Subject to the other provisions of this section 19, if either party is unable or fails by reason of Force Majeure to perform in whole or in part any obligation or covenant set out in this Rate Schedule under which service is rendered or in the Transportation Agreement, the obligations of both FortisBC Energy and the Shipper will be suspended to the extent necessary for the period of the Force Majeure condition.

19.2 **Curtailment Notice** - If FortisBC Energy claims suspension pursuant to this section 19, FortisBC Energy will be deemed to have issued to the Shipper a notice of curtailment.

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- 19.3 **Exceptions** - Neither party will be entitled to the benefit of the provisions of section 19.1 under any of the following circumstances
- (a) to the extent that the failure was caused by the 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 the 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 the Rate Schedule or the Transportation Agreement, the party claiming suspension will have given to the other party notice to the effect that the party is unable by reason of Force Majeure (the nature of which will be specified) to perform the particular covenants or obligations.
- 19.4 **Notice to Resume** - The party claiming suspension 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 the covenants or obligations.
- 19.5 **Settlement of Labour Disputes** - Notwithstanding any of the provisions of this section 19, 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 it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement will deprive the party of the benefit of section 19.1.
- 19.6 **No Exemption for Payments** - Notwithstanding any of the provisions of this section 19, Force Majeure will not relieve or release either party from its obligations to make payments to the other.
- 19.7 **Periodic Repair by FortisBC Energy** - FortisBC Energy may temporarily shut off the delivery of Gas for the purpose of repairing or replacing a portion of the FortisBC Energy System or its equipment and FortisBC Energy will make reasonable efforts to give the Shipper as much notice as possible with respect to such interruption, not to be less than 8 hours' prior notice except when prevented by Force Majeure. FortisBC Energy will make reasonable efforts to schedule repairs or replacement to minimize interruption or curtailment of transportation service to the Shipper, and to restore service as quickly as possible.

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- 19.8 **Shipper's Gas** - If FortisBC Energy curtails or interrupts transportation of Gas by reason of Force Majeure the Shipper will make its supply of Gas available to FortisBC Energy, to the extent required by FortisBC Energy, to maintain service priority to those customers or classes of customers which FortisBC Energy determines should be served. FortisBC Energy, in its sole discretion, will either increase the balance in the Shipper's inventory account by the amount taken by FortisBC Energy and return an equivalent quantity of Gas to the Shipper as soon as reasonable, or pay the Shipper an amount equal to either FortisBC Energy's average Gas cost, or the Shipper's average Gas cost, for the Day(s) during which such Gas was taken, whichever Gas cost the Shipper, in its sole discretion, elects.
- 19.9 **Alteration of Facilities** - The Shipper will pay to FortisBC Energy all reasonable costs associated with the alteration of facilities made at the discretion of FortisBC Energy to measure quantities reduced by reason of Force Majeure claimed by the Shipper and to restore such facilities after the Force Majeure condition ends.

20. Arbitration

- 20.1 **Arbitration** - Any dispute between the parties arising from this Rate Schedule or the Service Agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 20.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.
- 20.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 20.2 of this Rate Schedule to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of any of the parties or their respective successors or affiliates, any customer or supplier of the Shipper or FortisBC Energy.
- 20.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.

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- 20.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

21. Interpretation

- 21.1 **Interpretation** - Except where the context requires otherwise or except as otherwise expressly provided, in this Rate Schedule or in a Transportation Agreement
- (a) all references to a designated section are to the designated section of this Rate Schedule unless otherwise specifically stated,
 - (b) the singular of any term includes the plural, and vice versa, and the use of any term is equally applicable to any gender and, where applicable, body corporate,
 - (c) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity,
 - (d) all words, phrases and expressions used in this Rate Schedule or in a Transportation Agreement that have a common usage in the gas industry and that are not defined in the General Terms and Conditions of FortisBC Energy, the Definitions or in the Transportation Agreement have the meanings commonly ascribed thereto in the gas industry, and
 - (e) the headings of the sections set out in this Rate Schedule or in the Transportation Agreement are for convenience of reference only and will not be considered in any interpretation of this Rate Schedule or the Transportation Agreement.

22. Miscellaneous

- 22.1 **Waiver** - No waiver by either FortisBC Energy or the Shipper of any default by the other in the performance of any of the provisions of this Rate Schedule or the Transportation Agreement will operate or be construed as a waiver of any other or future default or defaults, whether of a like or different character.
- 22.2 **Enurement** - The Transportation Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns, including without limitation successors by merger, amalgamation or consolidation.

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- 22.3 **Assignment** - The Shipper will not assign the Transportation Agreement or any of its rights or obligations thereunder without the prior written consent of FortisBC Energy which consent will not be unreasonably withheld or delayed. No assignment will release the Shipper from its obligations under this Rate Schedule or under the Transportation Agreement that existed prior to the date on which the assignment takes effect. This provision applies to every proposed assignment by the Shipper.
- 22.4 **Amendments to be in Writing** - Except as set out in this Rate Schedule, no amendment or variation of the Transportation Agreement will be effective or binding upon the parties unless such amendment or variation is set out in writing and duly executed by the parties.
- 22.5 **Proper Law** - The Transportation Agreement will be construed and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- 22.6 **Time is of Essence** - Time is of the essence of this Rate Schedule, the Transportation Agreement and of the terms and conditions thereof.
- 22.7 **Subject to Legislation** - Notwithstanding any other provision hereof, this Rate Schedule and the Transportation Agreement and the rights and obligations of FortisBC Energy and the Shipper under this Rate Schedule and the Transportation Agreement are subject to all present and future laws, rules, regulations and orders of any legislative body, governmental agency or duly constituted authority now or hereafter having jurisdiction over FortisBC Energy or the Shipper.
- 22.8 **Further Assurances** - Each of FortisBC Energy and the Shipper will, on demand by the other, execute and deliver or cause to be executed and delivered all such further documents and instruments and do all such further acts and things as the other may reasonably require to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Rate Schedule and the Transportation Agreement and to assure the completion of the transactions contemplated hereby.
- 22.9 **Form of Payments** - All payments required to be made under statements and invoices rendered pursuant to this Rate Schedule or the Transportation Agreement will be made by wire transfer to, or cheque or bank cashier's cheque drawn on, a Canadian chartered bank or trust company, payable in lawful money of Canada at par in immediately available funds in Vancouver, British Columbia

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Table of Charges

1. Transportation

	<u>Mainland Area</u>	<u>Fort Nelson Area</u>	<u>Vancouver Island and Whistler Areas</u>
(a) Basic Charge per Month	\$ X	\$ X	\$ X
(b) Delivery Charge per Gigajoule	\$ X	\$ X	\$ X
(c) Administration Charge per Month ²	\$ X	\$ X	\$ X

2. Sales

(a) Charge per Gigajoule of Balancing Gas supplied	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month	Sumas Daily Price ¹ Average for the Month
(b) Charge for Backstopping Gas	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(c) Unauthorized Overrun Charges			
(i) Per Gigajoule on first 5 percent of specified quantity	Sumas Daily Price ¹	Sumas Daily Price ¹	Sumas Daily Price ¹
(ii) Per Gigajoule on all Gas over 5 percent of specified quantity	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹	The greater of \$20.00/GJ or 1.5 x the Sumas Daily Price ¹

3. Rider 2 per Gigajoule

\$ ~~X~~ \$ ~~X~~ \$ ~~X~~

4. Rider 4 per Gigajoule

\$ ~~X~~ \$ ~~X~~ \$ ~~X~~

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Rider 1 **Propane Surcharge** - Not applicable.

Rider 2 **Rate Stabilization Deferral Account Allocation – Applicable to all Customers in locations listed under the Mainland area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014**

Rider 3 (Reserved for future use.)

Rider 4 **Phase In Rider – Applicable to all Customers listed under the Fort Nelson area in the Definitions of the General Terms and Conditions for the Year ending December 31, 2014.**

Rider 5 **Revenue Stabilization Adjustment Charge** - Not applicable.

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Franchise Fee Charge of 3.09% of the aggregate of the above charges, is payable (in addition to the above charges) if the facilities to which Gas is delivered under this Rate Schedule are located within the municipal boundaries of a municipality or First Nations lands (formerly, reserves within the *Indian Act*) to which FortisBC Energy pays Franchise Fees.

Minimum Charge per month - The minimum charge per Month will be the aggregate of the Basic Charge, the Transportation Administration Charge and the Franchise Fee Charge.

Notes:

1. **Sumas Daily Price** - means the "NW Sumas" Daily Midpoint Price as set out in Gas Daily's Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas, converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada one business day prior to Gas flow date, for each Day. Energy units are converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.

Interim Rate Establishment – Pursuant to the British Columbia Utilities Commission Order No. G-177-11, current delivery rates for FortisBC Energy Inc. all non-bypass customers have been established as interim rates, effective January 1, 2012. Final determination of delivery rates for FortisBC Energy Inc. non-bypass customers will be subject to the Commission's decision on the FortisBC Energy Utilities 2012 and 2013 Revenue Requirements and Natural Gas Rates Application. Any refund or under-collection following the final determination of delivery rates will be addressed by way of a rate rider to refund or collect from customers the variance in interim rates versus permanent delivery rates approved.

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**TRANSPORTATION AGREEMENT FOR
RATE SCHEDULES 22, 22A, 22B, 23, 25 AND 27**

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper").

WHEREAS:

- A. FortisBC Energy owns and operates the FortisBC Energy System; and
- B. The Shipper has requested that FortisBC Energy arrange for the transportation of Gas on a firm and/or interruptible basis through the FortisBC Energy System to _____ located in or near _____ British Columbia in accordance with a transportation Rate Schedule as set out below and the terms set out herein.

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

1. Specific Information

Applicable Rate Schedule:

- ☐ 22 ☐ 22A ☐ 22B
☐ 23 ☐ 25 ☐ 27

Type of Service:

- ☐ Firm ☐ Interruptible
☐ Firm and Interruptible

Firm DTQ / DTQ:

_____ Gigajoules per day

Shipper Agent and / or Group, if applicable:

Commencement Date:

Expiry Date:

(only specify expiry date if term not automatically renewed as set out in the Automatic Renewal section of the applicable transportation Rate Schedule)

Delivery Point:

Pressure at the Delivery Point:

(only specify where applicable as set out in the Gas Pressure section of the applicable transportation Rate Schedule)

Service Address:

Account Number:

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Interconnection Point: The point at (_____ km-post _____)
where the Transporter's pipeline system in
British Columbia interconnection with the
FortisBC Energy System

Address of Shipper for receiving notices:

(name of Shipper) Attention: _____

(address of Shipper) Telephone: _____

_____ Fax: _____

_____ Email: _____

The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable transportation Rate Schedule to any such information is to the information set out above.

2. Rate Schedule 22 / 22A / 22B / 23 / 25 / 27

- 2.1 **Additional Terms** - All rates, terms and conditions set out in the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25, or 27) and the General Terms and Conditions of FortisBC Energy, as any of them may be amended by FortisBC Energy and approved from time to time by the British Columbia Utilities Commission, are in addition to the terms and conditions contained in this Transportation Agreement and form part of this Transportation Agreement and bind FortisBC Energy and the Shipper as if set out in this Transportation Agreement.
- 2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, the Shipper will pay to FortisBC Energy all of the amounts set out in the applicable transportation Rate Schedule for the services provided under such Rate Schedule and this Transportation Agreement.

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- 2.3 **Conflict** - Where anything in either the applicable transportation Rate Schedule or the General Terms and Conditions of FortisBC Energy conflicts with any of the terms and conditions set out in this Transportation Agreement, this Transportation Agreement governs. Where anything in the applicable transportation Rate Schedule conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of FortisBC Energy, the Rate Schedule governs.
- 2.4 **Member of a Group** - Where the Shipper will be a member of a Group which has a Shipper Agent acting as agent for the members of the Group, Shipper must complete Appendix "A" attached to this Transportation Agreement and Shipper thereby agrees that the terms and conditions of Appendix "A" form part of this Transportation Agreement and bind the Shipper as if set out in this Transportation Agreement.
- 2.5 **Acknowledgement** - The Shipper acknowledges receiving and reading a copy of the applicable transportation Rate Schedule (22, 22A, 22B, 23, 25 or 27) and the General Terms and Conditions of FortisBC Energy and agrees to comply with and be bound by all terms and conditions set out therein. Without limiting the generality of the foregoing, where the transportation service is interruptible, the Shipper acknowledges that it is able to accommodate such interruption or curtailment and releases FortisBC Energy from any liability for the Shipper's inability to accommodate such interruption or curtailment of transportation service.

IN WITNESS WHEREOF the parties hereto have executed this Transportation Agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

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APPENDIX A NOTICE OF APPOINTMENT OF SHIPPER AGENT

1. _____ (Shipper) hereby gives notice to FortisBC Energy
that Shipper has appointed _____ (the Shipper Agent) to
act as agent for Shipper in all matters relating to gas supply and to transportation service
on the FortisBC Energy System. Shipper also gives notice to FortisBC Energy that
Shipper wishes to be a member of a Group and the Shipper will cause the Shipper Agent
to enter into a Shipper Agent Agreement or other agreement with FortisBC Energy that
binds the Shipper Agent to pay the charges which the Shipper Agent elects to pay for and
on behalf of the Shipper.
2. Shipper acknowledges and agrees that the Shipper Agent will provide aggregate
nominations for the Group to FortisBC Energy.
3. Shipper acknowledges and agrees that if the Group includes a member which is a Shipper
under Rate Schedule 22, 22A, or 22B then section 10 (Group Nominations and Balancing)
of Rate Schedule 22 will apply to the Group on an aggregate basis, and the Group and its
members will be subject to the Demand Surcharge provisions of Rate Schedule 22.
4. Shipper acknowledges and agrees that when there are constraints or limitations of Gas
supply FortisBC Energy will notify the Shipper Agent and it will then be the responsibility
of the Shipper Agent to notify Shipper of any curtailment or interruption arising from the
constraint or limitation of Gas supply.
5. Shipper acknowledges and agrees that the Shipper Agent will provide Gas supply priority
schedules to FortisBC Energy which will advise FortisBC Energy of the allocation of Gas
supply amongst members of the Group during constraints or limitations of Gas supply.
6. Shipper acknowledges and agrees that the Shipper Agent will provide FortisBC Energy
with information which will be used by FortisBC Energy to bill Shipper for Backstopping
Gas, Balancing Gas, unauthorized overrun charges and Demand Surcharges.

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7. Shipper acknowledges that FortisBC Energy will bill Shipper on the basis of information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that it is bound by the information supplied to FortisBC Energy by the Shipper Agent and Shipper agrees that it will not dispute the information provided to FortisBC Energy by the Shipper Agent. Shipper agrees that the Shipper Agent may elect to pay some or all of the charges for Gas identified in section 3.6 of the standard form Shipper Agent Agreement and Shipper acknowledges that if the Shipper Agent fails to provide information to FortisBC Energy then notwithstanding any election that has been made by the Shipper Agent to pay some or all of the charges for Gas identified in section 3.6 of the standard form Shipper Agent Agreement, FortisBC Energy will bill Shipper directly on the bases set out in section 3.7 of the standard form Shipper Agent Agreement of FortisBC Energy. Shipper agrees to pay FortisBC Energy as billed, and if Shipper disagrees with any of the billing information used by FortisBC Energy the Shipper will deal with the Shipper Agent to resolve that disagreement. Disputes between the Shipper and the Shipper Agent shall not constitute a basis for non-payment by Shipper to FortisBC Energy of the amounts billed.
8. Shipper shall provide FortisBC Energy with 30 days notice, except with the prior approval from FortisBC Energy, if Shipper wishes to leave the Group, to be effective on the beginning of the next calendar month following the expiry of the notice period.
9. Shipper acknowledges and agrees that FortisBC Energy may disband the Group pursuant to section 10 of the standard form Shipper Agent Agreement.
10. Shipper will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.
11. Shipper acknowledges receiving a copy of the standard form Shipper Agent Agreement of FortisBC Energy.

(here insert name of Shipper)

BY: _____

(Signature)

(Title)

(Name - Please Print)

DATE: _____

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Effective Date: January 1, 2014

BCUC Secretary: _____ Original Page TA-27.5

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SHIPPER AGENT AGREEMENT

This Agreement is dated _____, 20____, between FortisBC Energy Inc. ("FortisBC Energy") and _____ (the "Shipper Agent").

WHEREAS:

- 1.0 The Shipper Agent wishes to act as agent on behalf of all members of a Group in respect of transportation service on the FortisBC Energy System; and
- 2.0 The Shippers who are members of the Group have entered into Transportation Agreements with FortisBC Energy.

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

1. Specific Information

Members of Group:
(if space is insufficient, continue list on an additional page)

Commencement Date of this agreement:

Expiry Date of this agreement:

(no expiry date need be specified)

Address of Shipper Agent for receiving notices:

(name of Shipper Agent)

(address of Shipper Agent)

Attention: _____

Telephone: _____

Fax: _____

Alternate Tel(s): _____

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The information set out above is hereby approved by the parties and each reference in either this agreement or the applicable Transportation Rate Schedules to any such information is to the information set out above.

2. Definitions

- 2.1 **Definitions in Rate Schedule 22** - Except where the context requires otherwise or except as otherwise expressly provided in this agreement, all words and phrases defined in Rate Schedule 22 or in the General Terms or Conditions of FortisBC Energy have the meanings set out in the Rate Schedule 22 and in the General Terms and Conditions of FortisBC Energy.

3. Shipper Agent Obligations

- 3.1 **Management of Balancing Gas** - The Shipper Agent is responsible for the management of all Balancing Gas for the Group and its members.
- 3.2 **Management of Backstopping Gas** - The Shipper Agent is responsible for the management of all Backstopping Gas supplied by FortisBC Energy to the Group and its members.
- 3.3 **Group Nominations and Balancing** - The Shipper Agent will provide Group nomination and balancing to FortisBC Energy in accordance with the sections of the applicable transportation Rate Schedules except where a Shipper under Rate Schedules 22, 22A or 22B is a members of the Group, in which case section 9 (Gas Balancing) and section 10 (Group Nomination and Balancing) of Rate Schedule 22 will apply to the Group on an aggregate basis.
- 3.4 **Standard Gas Supply Priority Schedule (Standard Priority Schedule)** - Before the Commencement Date of this agreement and before the commencement of each Contract Year the Shipper Agent will provide to FortisBC Energy a Standard Priority Schedule which will advise FortisBC Energy of the priority between members of the Group if a constraint or limitation of Gas supply occurs. The Shipper Agent may provide to FortisBC Energy a revised Standard Priority Schedule from time to time and will provide to FortisBC Energy a revised Standard Priority Schedule if there is a change in membership of the Group.

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- 3.5 **Gas Supply Constraints or Limitations** - Upon receipt of a notice from FortisBC Energy of curtailment or interruptions pursuant to section 4.4 (Notice of Gas Supply Constraint or Limitation) Shipper Agent will determine the allocation of Gas supply between members of the Group and will notify the Shippers which are members of the Group of the curtailment or interruption. Within two hours of receipt of notice from FortisBC Energy pursuant to section 4.4, or such longer period as FortisBC Energy considers reasonable in the circumstances, the Shipper Agent will provide to FortisBC Energy a schedule setting out the Gas supply allocation for the Group to apply during that curtailment or interruption. If the Shipper Agent fails to provide a schedule setting out the Gas supply allocation for the Group to apply during the curtailment or interruption then FortisBC Energy will curtail Shippers on the basis set out in the Standard Priority Schedule.
- 3.6 **Monthly Billing Information** - At the end of each month, and within two business days of FortisBC Energy providing to the Shipper Agent a schedule pursuant to section 4.2 (Monthly Provision of Data), the Shipper Agent will provide to FortisBC Energy an allocation schedule setting out the daily Gas takes of each member of the Group and identifying for each member of the Group the Backstopping Gas and the Balancing Gas taken, any Unauthorized Overrun Gas taken, any Replacement Gas incurred, and any Positive Imbalance and Negative Imbalance incurred under Rate Schedule 40. The Shipper Agent will also notify FortisBC Energy which charges the Shipper Agent elects to pay on behalf of the members of the Group and, if notice is not received, FortisBC Energy will bill the Shippers directly.
- 3.7 **Lack of Allocation Information** - If, at the end of a month, the Shipper Agent fails to provide to FortisBC Energy the monthly allocation schedule pursuant to section 3.6 (Monthly Billing Information) then FortisBC Energy will bill on the basis of the best available information. For Balancing Gas FortisBC Energy will bill on a basis proportional to the actual takes of the Shippers during the month. For Backstopping Gas FortisBC Energy will bill on a basis proportional to the actual Day-to-Day takes of the Shippers during the Days when Backstopping Gas was supplied. For Unauthorized Overrun Gas FortisBC Energy will bill on the basis of the schedule(s) setting out the Gas supply allocation for the Group provided to FortisBC Energy pursuant to section 3.6, or if the Shipper Agent fails to provide a schedule pursuant to section 3.6, then on the basis of the applicable Standard Priority Schedule provided by the Shipper Agent pursuant to section 3.4. If further information becomes available, FortisBC Energy will adjust the billings on the basis of the further information.

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- 3.8 **Lack of Gas Supply or Nomination** - If the Shipper Agent becomes aware that a Supplier has ceased, or will cease, to supply Gas to a member of the Group; or if the Shipper Agent provides to FortisBC Energy a Requested Quantity for the Group which does not include a quantity for a member of the Group, due to a lack of Gas supply to the member of the Group or due to concerns about a possible lack of Gas supply to the member of the Group, then the Shipper Agent will immediately notify FortisBC Energy. If the Shipper Agent fails to so notify FortisBC Energy then the Shipper Agent is liable to FortisBC Energy for the price of any Gas which FortisBC Energy delivers to that member of the Group after the time when the Shipper Agent should have provided notice to FortisBC Energy.
- 3.9 **Charges for Extra Services** - If FortisBC Energy incurs extra expenses from a Shipper Agent failing to provide information, or failing to provide information in a timely manner, or failing to provide correct information, or otherwise failing to meet its obligations under this agreement, then FortisBC Energy may charge the Shipper Agent for such extra expenses and the Shipper Agent agrees to pay FortisBC Energy the reasonable extra expenses incurred as a result of such failure.

4. FortisBC Energy Obligations

- 4.1 **Weekly Provision of Data** - Twice a week FortisBC Energy will provide to the Shipper Agent a schedule setting out FortisBC Energy's best available data on the daily takes of the Group.
- 4.2 **Monthly Provision of Data** - Within 10 working days after the end of each month FortisBC Energy will provide to the Shipper Agent a schedule setting out the daily takes of each member of the Group.
- 4.3 **Capacity Constraints** - If FortisBC Energy, acting reasonably, determines that it does not have capacity on the FortisBC Energy System to accommodate interruptible transportation service to any member of the Group then FortisBC Energy will directly notify that Shipper pursuant to Notice of Curtailment section of the applicable Rate Schedule and will deal directly with the Shipper if the Shipper takes Unauthorized Overrun Gas or Unauthorized Transportation Service.

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- 4.4 **Notice of Gas Supply Constraint or Limitation** - If Gas supply constraints or limitations occur; either due to a constraint or limitation of supply from FortisBC Energy of Backstopping Gas or Balancing Gas, or a constraint or limitation of supply from another Supplier; FortisBC Energy will notify the Shipper Agent of any curtailment or interruption, will specify the quantity of Gas to which the Group in aggregate is curtailed and the time at which time such curtailment is to be made. FortisBC Energy will make reasonable efforts to give the Shipper Agent as much notice as possible with respect to such curtailment or interruption, not to be less than 4 hours prior notice unless prevented by Force Majeure.

5. Changes to Group

- 5.1 **Amendments to Group** - Schedule "A" sets out the Shippers who are the members of the Group represented by the Shipper Agent to this agreement. No additions or deletions may be made to the Group without the Shipper Agent providing notice to FortisBC Energy of such additions and deletions through provision to FortisBC Energy of an amended Schedule "A" showing such additions and deletions and the effective date of such additions and deletions in accordance with section 5 of this agreement.
- 5.2 **Deletions From Group** - If the Shipper Agent wishes to cease acting as agent for a Shipper or a Shipper wishes to cease being a member of the Group, upon receipt by FortisBC Energy of not less than, except with the prior approval from FortisBC Energy, 30 days prior written notice from either the Shipper or Shipper Agent and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of deletion of the Shipper from the Group, such Shipper shall be deleted from the Group effective on the beginning of the next calendar month following the expiry of the notice period.
- 5.3 **Additions To Group** - If the Shipper Agent wishes to add a Shipper to a Group and the Shipper wishes to be added to the Group, and the Shipper has entered into a Transportation Agreement and completed an Appendix "A" - Notice of Appointment of Shipper Agent, and both the Shipper and the Shipper Agent have given to FortisBC Energy not less than, except with the prior approval from FortisBC Energy, 30 days prior written notice of such addition and provided that the Shipper Agent has provided to FortisBC Energy an amended Schedule "A" showing the effective date of the addition of the Shipper to the Group, such Shipper shall be added to the Group effective on the beginning of the next calendar month following the expiry of the notice period.

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6. Statements and Payments

- 6.1 **Statements to be Provided** - If the Shipper Agent elects to pay some or all of the charges for Gas taken by the Shippers as described in section 3.6, FortisBC Energy will, on or about 15th day of each month, deliver to the Shipper Agent a statement for the preceding month showing the Gas quantities, and the applicable charges for which the Shipper Agent is responsible and the amount due. Any errors in any statement will be promptly reported to the other party as provided hereunder, and statements will be final and binding unless questioned within one year after the date of the statement.
- 6.2 **Payment and Interest** - Payment for the full amount of the statement, including federal, provincial and municipal taxes or fees applicable thereon, will be made to, or to the order of, FortisBC Energy Inc. at its Surrey, British Columbia office (mailing address: P.O. Box 6666 Stn. Terminal, Vancouver, B.C., V6B 6M9), or such other place in Canada as it will designate, on or before the 1st business day after the 10th calendar day following the billing date. If the Shipper Agent or Shipper fails or neglects to make any payment required under this Shipper Agent Agreement, or any portion thereof, to or to the order of FortisBC Energy when due, interest on the outstanding amount will accrue, at the rate of interest declared by the chartered bank in Canada principally used by FortisBC Energy, 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 30 days that such payment remains unpaid and 5% thereafter until the same is paid where the Shipper Agent or Shipper has not, during the immediately preceding 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 where the Shipper Agent or Shipper has, during the immediately preceding 6 month period, failed to make any payment when due hereunder.

7. Term

- 7.1 **Term** - The term of this agreement will commence on the commencement date specified in section 1 of this agreement and will expire either
- (a) 30 days following notice from the Shipper Agent that the Shipper Agent wishes to cease to nominate for transportation service and balancing on behalf of the Group, or

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- (b) the expiry or termination of the Transportation Agreements of all of the members of the Group, or
- (c) the expiry date specified in section 1 of this agreement, or
- (d) 5 days following notice from FortisBC Energy to the Shipper Agent, and to the Shippers which are members of the Group, under section 10.1 (Failure to Provide Information or Default).

whichever date is earlier.

7.2 Survival of Covenants - Upon the termination of this agreement,

- (a) all claims, causes of action or other outstanding obligations remaining or being unfulfilled as at the date of termination, and,
- (b) all of the provisions in this agreement relating to the obligation of either of the parties to provide information to the other in connection with this agreement,

will survive such termination.

8. Representations, Warranties and Covenants

8.1 Representations and Warranties - The Shipper Agent represents and warrants to and covenants with FortisBC Energy as follows

- (a) the members of the Group are listed in section 1 of this agreement,
- (b) the Shipper Agent is the agent of each of the members of the Group and has the authority of each of the members of the Group for the purposes of any and all matters set out in the applicable transportation Rate Schedule and this agreement, and
- (c) FortisBC Energy may rely on any act or thing done, or document executed, by the Shipper Agent in connection with of any and all matters set out in the applicable transportation Rate Schedule and this agreement.

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9. Limitation on Liability and Indemnity

- 9.1 **Limitation on Liability** - Neither FortisBC Energy, its employees, contractors or agents will be liable in damages for or on account of any interruption or curtailment of transportation service or Gas supply.
- 9.2 **Indemnity** - The Shipper Agent will indemnify and hold harmless each of FortisBC Energy, its employees, contractors and agents from and against any and all adverse claims, losses, suits, actions, judgments, demands, debts, accounts, damages, costs, penalties and expenses (including all legal fees and disbursements) arising from any act or omission of the Shipper Agent related to the agency created by the Shipper Agent Agreement.

10. Disbanding of the Group

- 10.1 **Failure to Provide Information** - If the Shipper Agent fails to provide FortisBC Energy with the information or schedules which the Shipper Agent is required to provide to FortisBC Energy pursuant to this agreement or is otherwise in breach of this agreement then, acting reasonably in the circumstances and on 5 days notice to the Shipper Agent and to the members of the Group, FortisBC Energy may disband the Group and deal directly with the Shippers which were members of the Group.
- 10.2 **Default** - If any Shipper which is a member of the Group is in default under the Default or Bankruptcy section of the applicable Rate Schedule or becomes bankrupt or insolvent, then that Shipper will cease to be a member of the Group.

11. Arbitration

- 11.1 **Arbitration** - Any dispute between the parties arising from this agreement will be resolved by a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia or successor legislation, save as expressly provided herein.
- 11.2 **Demand for Arbitration** - Either party may commence arbitration proceedings by sending to the other party a demand for arbitration setting out the nature of the dispute.

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- 11.3 **Arbitrator** - The parties will have 10 days from receipt of the demand referred to in section 11.2 to agree upon the arbitrator, failing which either party may apply to the Supreme Court of British Columbia to select the arbitrator. The arbitrator must be sufficiently qualified by education and training to decide the particular questions in dispute. Unless otherwise agreed, the arbitrator may not be a past or present employee, officer or director of either of the parties or their respective successors or affiliates, any supplier of the Shipper or FortisBC Energy, or any member of the Group.
- 11.4 **Commencement and Decision** - The arbitrator will proceed immediately to hear and determine the matter in dispute and will render a written decision, signed by the arbitrator, within 45 days after the appointment, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, if the arbitrator fails to render a decision within 60 days after the appointment then either party may elect to have a new arbitrator appointed in like manner as if none had previously been appointed.
- 11.5 **Decision** - The decision of the arbitrator will be final and binding upon the parties and the parties will abide by the decision and perform the terms and conditions thereof.

12. Notice

- 12.1 **Notice** - Any notice, request, statement or bill that is required to be given or that may be given under this agreement will, unless otherwise specified, be in writing and will be considered as fully delivered when mailed, personally delivered or sent by fax to the other party.

13. Acknowledgement

- 13.1 **Acknowledgement** - The Shipper Agent acknowledges receiving and reading a copy of Rate Schedules 22, 22A, 22B, 23, 25 and 27 and the General Terms and Conditions of FortisBC Energy and will comply with and be bound by all terms and conditions set out therein

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IN WITNESS WHEREOF the parties hereto have executed this agreement.

FORTISBC ENERGY INC.

(here insert name of Shipper Agent)

BY: _____
(Signature)

BY: _____
(Signature)

(Title)

(Title)

(Name – Please Print)

(Name – Please Print)

DATE: _____

DATE: _____

Order No.: _____ Issued By: Diane Roy, Director, Regulatory Affairs

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Attachment 127.1

FORTISBC ENERGY INC. (AMALGAMATED)
Fully Distributed Cost of Service Allocation Study_BCUC IR1.127.1
Rate Design Filing_Common Rates_ 2013 Test Year
SUMMARY (000's)

Schedule 1

				RATE 22 ²										Spl Contracts, Bypass, Rate 22A & Rate 22B ⁵	
L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²				
1	REVENUES														
2	Total Revenues at Proposed 2013 FEI Rates	line 3 + line 4	\$ 1,330,682	\$ 795,934	\$ 241,068	\$ 1,074	\$ 504	\$ 11,866	\$ 187,133	\$ 46,483	\$ 8,448	\$ 38,171			
3	Revenue Margin at Proposed 2013 FEI Rates ⁴		\$ 707,662	\$ 414,446	\$ 110,258	\$ 314	\$ 249	\$ 11,866	\$ 89,379	\$ 34,589	\$ 8,390	\$ 38,171			
4	Total Cost of Gas ³		\$ 623,020	\$ 381,488	\$ 130,810	\$ 761	\$ 255	\$ -	\$ 97,754	\$ 11,894	\$ 58	\$ -			
5															
6	COST OF SERVICE														
7	Total Utility Cost of Service	line 8 + line 9	\$ 1,389,870	\$ 879,559	\$ 240,627	\$ 812	\$ 469	\$ 905	\$ 180,215	\$ 40,078	\$ 1,326	\$ 45,879			
8	Cost of Service Margin		\$ 766,849	\$ 498,071	\$ 109,817	\$ 51	\$ 214	\$ 905	\$ 82,461	\$ 28,184	\$ 1,267	\$ 45,879			
9	Total Cost of Gas ³		\$ 623,020	\$ 381,488	\$ 130,810	\$ 761	\$ 255	\$ -	\$ 97,754	\$ 11,894	\$ 58	\$ -			
10															
11	SURPLUS / DEFICIT														
12	Total Surplus / Deficit	line 2 - line 7	\$ (59,187)												
13	% increase to Equal Allocated Cost		8.4%												
14															
15	REVENUES (adjusted to equal COS)														
16	Total Adjusted Revenues at Proposed 2013 FEI Rates	line 17 + line 9	\$ 1,389,870	\$ 830,598	\$ 250,290	\$ 1,101	\$ 525	\$ 12,858	\$ 194,608	\$ 49,376	\$ 9,150	\$ 41,363			
17	Total Adjusted Revenue Margin at Proposed 2013 FEI Rates	line 3 x line 13	\$ 766,849	\$ 449,110	\$ 119,480	\$ 340	\$ 270	\$ 12,858	\$ 96,854	\$ 37,482	\$ 9,092	\$ 41,363			
18															
19	REVENUES (adjusted for R/C RATIOS) ¹		\$ 1,512,488	\$ 830,598	\$ 250,290	\$ 1,101	\$ 525	\$ 12,858	\$ 233,256	\$ 109,501	\$ 32,995	\$ 41,363			
20	COST OF SERVICE (adjusted for R/C RATIOS) ¹		\$ 1,512,488	\$ 879,559	\$ 240,627	\$ 812	\$ 469	\$ 905	\$ 218,863	\$ 100,203	\$ 25,171	\$ 45,879			
21															
22	REVENUE TO COST RATIO														
23	Revenue to Cost Ratio	line 19 / line 20	100%	94.4%	104.0%		112.1%		106.6%	109.3%		90.2%			
24															
25	REVENUE REBALANCING														
26	Adjustment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
27	Total Revenues at Proposed Rates ¹	line 28 + line 9	\$ 1,512,488	\$ 830,598	\$ 250,290	\$ 1,101	\$ 525	\$ 12,858	\$ 233,256	\$ 109,501	\$ 32,995	\$ 41,363			
28	Total Revenue Margin at Proposed Rates	line 17 + line 26	\$ 766,849	\$ 449,110	\$ 119,480	\$ 340	\$ 270	\$ 12,858	\$ 96,854	\$ 37,482	\$ 9,092	\$ 41,363			
29															
30	PROPOSED REVENUE TO COST RATIO														
31	Revenue to Cost Ratio at Proposed Rates	line 27 / line 20	100.0%	94.4%	104.0%		112.1%		106.6%	109.3%		90.2%			

Note:

- The revenues (line 27 and line 19) and cost of service (line 20) include the imputed COG number for Rate 23, 25 and 27. This is shown only for the purposes of presenting the Revenue to Cost Ratios. Please note that Rates 23, 25 and 27 do not pay for commodity and midstream charges.
- Rate 4 is a seasonal service and Rates 22 and Rate 7/27 are interruptible customer classes. The revenue to cost ratio for Rate 4, Rate 22 and Rate 7/27 are not shown in the schedule above as these rate classes do not drive system capacity additions and therefore, no demand-related costs are allocated to these customer classes in the COSA Study.
- Cost of Gas forecast is based on five-day average of the November 1, 2, 3, 4, and 7, 2011 forward prices, and which reflect the forward prices utilized in the various FEU 2011 Fourth Quarter Gas Cost reports.
- Revenue Margin includes UAF allocation to rate classes.
- The revenue to cost ratio for special contracts, bypass and closed industrial Rate 22A and Rate 22B (line 31) has no commodity and midstream gas costs and revenues.

FORTISBC ENERGY INC. (AMALGAMATED)

Fully Distributed Cost of Service Allocation Study_BCUC IR1.127.1

Rate Design Filing_Common Rates_2013 Test Year

Schedule 2

FUNCTIONALIZATION (000's)

L.No.	Particulars	Total	Gas Supply Operations	LNG Storage Tilbury	LNG Storage Mt. Hayes	Transmission	Transmission SCP	Distribution	Marketing	Customer Accounting
1	Total Operating & Maintenance Expense	\$ 243,770	\$ -	\$ 2,609	\$ 4,236	\$ 41,385	\$ 7,537	\$ 100,365	\$ 5,371	\$ 82,267
2	BCH Capacity Right	\$ 244	\$ -	\$ -	\$ -	\$ 244	\$ -	\$ -	\$ -	\$ -
3	Property & Sundry Taxes	\$ 61,924	\$ -	\$ 377	\$ 1,076	\$ 16,378	\$ 5,621	\$ 38,472	\$ -	\$ -
4	Depreciation Expense	\$ 171,007	\$ -	\$ 2,349	\$ 7,050	\$ 34,157	\$ 9,766	\$ 117,684	\$ -	\$ -
5	Amortization Expense	\$ 12,458	\$ (2)	\$ 49	\$ 158	\$ 8,245	\$ (1,888)	\$ 1,359	\$ 4,474	\$ 63
6	Other Operating Revenue	\$ (40,019)	\$ -	\$ -	\$ (18,039)	\$ (181)	\$ (14,827)	\$ (4,412)	\$ -	\$ (2,560)
7	Other Earned Return Provisions	\$ (97)	\$ -	\$ (1)	\$ (4)	\$ (24)	\$ (8)	\$ (59)	\$ -	\$ -
8	Income Tax	\$ 36,742	\$ -	\$ 502	\$ 1,581	\$ 9,276	\$ 2,907	\$ 22,477	\$ -	\$ -
9	Earned Return	\$ 280,821	\$ -	\$ 3,841	\$ 12,081	\$ 70,893	\$ 22,215	\$ 171,791	\$ -	\$ -
10	Total Cost of Service Margin	\$ 766,849	\$ (2)	\$ 9,726	\$ 8,139	\$ 180,373	\$ 31,322	\$ 447,676	\$ 9,845	\$ 79,770
11										
12	Cost of Gas - Commodity	\$ 459,919	\$ 459,919	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Cost of Gas - Midstream	\$ 163,102	\$ 163,102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Total Utility Cost of Service	\$ 1,389,870	\$ 623,018	\$ 9,726	\$ 8,139	\$ 180,373	\$ 31,322	\$ 447,676	\$ 9,845	\$ 79,770

FORTISBC ENERGY INC. (AMALGAMATED)
Fully Distributed Cost of Service Allocation Study_BCUC IR1.127.1
Rate Design Filing_Common Rates_ 2013 Test Year
RATE BASE SUMMARY - CLASSIFICATION (000's)

Schedule 3

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27	Spl Contracts, Bypass, Rate 22A & Rate 22B
1	<u>Gas Plant in Service</u>										
2	Total Gas Plant in Service	\$ 5,204,738	\$ 3,249,449	\$ 794,290	\$ 291	\$ 724	\$ 5,329	\$ 581,491	\$ 195,084	\$ 3,870	\$ 374,209
3	Demand	\$ 3,097,411	\$ 1,473,192	\$ 551,670	\$ -	\$ 368	\$ 4,395	\$ 512,545	\$ 181,031	\$ -	\$ 374,209
4	Customer	\$ 2,107,327	\$ 1,776,258	\$ 242,620	\$ 291	\$ 355	\$ 933	\$ 68,946	\$ 14,053	\$ 3,870	\$ -
5	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Total Accumulated Depreciation	\$ (1,422,596)	\$ (880,776)	\$ (217,630)	\$ (64)	\$ (183)	\$ (1,507)	\$ (162,295)	\$ (54,970)	\$ (830)	\$ (104,341)
7	Demand	\$ (881,982)	\$ (419,421)	\$ (157,917)	\$ -	\$ (106)	\$ (1,307)	\$ (146,972)	\$ (51,917)	\$ -	\$ (104,341)
8	Customer	\$ (540,614)	\$ (461,355)	\$ (59,712)	\$ (64)	\$ (77)	\$ (200)	\$ (15,323)	\$ (3,053)	\$ (830)	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	TOTAL Net Plant	\$ 3,782,142	\$ 2,368,673	\$ 576,660	\$ 228	\$ 541	\$ 3,822	\$ 419,196	\$ 140,113	\$ 3,040	\$ 269,868
11	Demand	\$ 2,215,429	\$ 1,053,771	\$ 393,753	\$ -	\$ 263	\$ 3,088	\$ 365,573	\$ 129,114	\$ -	\$ 269,868
12	Customer	\$ 1,566,712	\$ 1,314,903	\$ 182,908	\$ 228	\$ 278	\$ 733	\$ 53,623	\$ 10,999	\$ 3,040	\$ -
13	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14											
15	<u>Contribution In Aid of Construction</u>										
16	Total CIAC	\$ (425,839)	\$ (261,386)	\$ (63,109)	\$ (24)	\$ (58)	\$ (453)	\$ (45,738)	\$ (15,303)	\$ (321)	\$ (39,447)
17	Demand	\$ (251,156)	\$ (114,146)	\$ (42,997)	\$ -	\$ (29)	\$ (376)	\$ (40,023)	\$ (14,138)	\$ -	\$ (39,447)
18	Customer	\$ (174,683)	\$ (147,240)	\$ (20,112)	\$ (24)	\$ (29)	\$ (77)	\$ (5,715)	\$ (1,165)	\$ (321)	\$ -
19	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	Total Accumulated Amortization	\$ 118,407	\$ 75,020	\$ 17,544	\$ 7	\$ 17	\$ 123	\$ 12,375	\$ 4,110	\$ 99	\$ 9,111
21	Demand	\$ 64,521	\$ 29,601	\$ 11,340	\$ -	\$ 8	\$ 99	\$ 10,612	\$ 3,750	\$ -	\$ 9,111
22	Customer	\$ 53,885	\$ 45,420	\$ 6,204	\$ 7	\$ 9	\$ 24	\$ 1,763	\$ 359	\$ 99	\$ -
23	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Total Net Contribution	\$ (307,433)	\$ (186,365)	\$ (45,564)	\$ (17)	\$ (42)	\$ (330)	\$ (33,363)	\$ (11,193)	\$ (222)	\$ (30,337)
25	Demand	\$ (186,635)	\$ (84,545)	\$ (31,657)	\$ -	\$ (21)	\$ (276)	\$ (29,411)	\$ (10,388)	\$ -	\$ (30,337)
26	Customer	\$ (120,798)	\$ (101,820)	\$ (13,908)	\$ (17)	\$ (20)	\$ (53)	\$ (3,952)	\$ (806)	\$ (222)	\$ -
27	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28											
29	<u>Work in Progress, no AFUDC</u>	\$ 19,418	\$ 11,519	\$ 3,135	\$ 1	\$ 3	\$ 22	\$ 2,483	\$ 850	\$ 10	\$ 1,396
30	Demand	\$ 14,051	\$ 6,995	\$ 2,517	\$ -	\$ 2	\$ 19	\$ 2,308	\$ 814	\$ -	\$ 1,396
31	Customer	\$ 5,367	\$ 4,524	\$ 618	\$ 1	\$ 1	\$ 2	\$ 176	\$ 36	\$ 10	\$ -
32	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
33											
34	<u>Unamortized Deferred Charges</u>										
35	Total Unamortized Deferred Charges - Rate Base	\$ 68,411	\$ 14,789	\$ 8,913	\$ 10	\$ 154	\$ 92	\$ 9,917	\$ 3,361	\$ (28)	\$ 31,204
36	Demand	\$ 86,310	\$ 32,169	\$ 10,357	\$ -	\$ 151	\$ 100	\$ 9,120	\$ 3,208	\$ -	\$ 31,204
37	Customer	\$ (26,273)	\$ (22,441)	\$ (3,181)	\$ (4)	\$ (2)	\$ (8)	\$ (581)	\$ (27)	\$ (29)	\$ -
38	Energy	\$ 8,374	\$ 5,061	\$ 1,737	\$ 14	\$ 4	\$ -	\$ 1,378	\$ 180	\$ 1	\$ -
39											
40	<u>Cash Working Capital</u>	\$ 10,310	\$ 6,505	\$ 1,653	\$ 6	\$ 4	\$ 8	\$ 1,384	\$ 371	\$ 16	\$ 363
41	Demand	\$ 3,530	\$ 1,744	\$ 632	\$ -	\$ 0	\$ 5	\$ 581	\$ 205	\$ -	\$ 363
42	Customer	\$ 3,370	\$ 2,701	\$ 314	\$ 0	\$ 2	\$ 3	\$ 242	\$ 93	\$ 15	\$ 0
43	Energy	\$ 3,410	\$ 2,060	\$ 707	\$ 6	\$ 2	\$ -	\$ 561	\$ 73	\$ 0	\$ -
44											
45	<u>Other Working Capital</u>										
46	Total Other Working Capital	\$ 101,420	\$ 41,535	\$ 15,504	\$ (0)	\$ 6	\$ 128	\$ 13,835	\$ 4,835	\$ (41)	\$ 25,618
47	Demand	\$ 108,392	\$ 46,967	\$ 16,073	\$ -	\$ 11	\$ 137	\$ 14,482	\$ 5,104	\$ -	\$ 25,619
48	Customer	\$ (6,973)	\$ (5,432)	\$ (569)	\$ (0)	\$ (5)	\$ (9)	\$ (647)	\$ (269)	\$ (41)	\$ (0)
49	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50											
51	<u>LILO, Capital Efficiency Mechanism, Others</u>	\$ (1,150)	\$ (843)	\$ (169)	\$ (0)	\$ (0)	\$ (1)	\$ (102)	\$ (32)	\$ (1)	\$ -
52	Demand	\$ (362)	\$ (179)	\$ (79)	\$ -	\$ (0)	\$ (1)	\$ (77)	\$ -	\$ -	\$ -
53	Customer	\$ (788)	\$ (664)	\$ (91)	\$ (0)	\$ (0)	\$ (0)	\$ (26)	\$ (5)	\$ (1)	\$ -
54	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
55											
56	Total Utility Rate Base	\$ 3,673,117	\$ 2,255,814	\$ 560,132	\$ 227	\$ 665	\$ 3,741	\$ 413,350	\$ 138,305	\$ 2,772	\$ 298,112
57	Demand	\$ 2,240,716	\$ 1,056,923	\$ 391,597	\$ -	\$ 406	\$ 3,072	\$ 362,576	\$ 128,030	\$ -	\$ 298,113
58	Customer	\$ 1,420,618	\$ 1,191,770	\$ 166,091	\$ 208	\$ 253	\$ 669	\$ 48,835	\$ 10,021	\$ 2,771	\$ (0)
59	Energy	\$ 11,784	\$ 7,121	\$ 2,444	\$ 19	\$ 6	\$ -	\$ 1,938	\$ 253	\$ 1	\$ -

COST OF SERVICE SUMMARY - CLASSIFICATION (000's)

RATE 22												Spl Contracts, Bypass, Rate 22A & Rate 22B	
L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27			
1	<u>Operating & Maintenance Expense</u>												
2	Total Operating & Maintenance Expense	\$ 243,770	\$ 164,056	\$ 30,658	\$ 11	\$ 91	\$ 363	\$ 27,062	\$ 9,974	\$ 747		\$ 10,806	
3	Demand \$	95,778	\$ 46,100	\$ 17,108	\$ 2	\$ 12	\$ 215	\$ 15,868	\$ 5,627	\$ 41		\$ 10,806	
4	Customer \$	147,991	\$ 117,957	\$ 13,550	\$ 10	\$ 80	\$ 148	\$ 11,194	\$ 4,347	\$ 707		-	
5	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
6	<u>BCH Capacity Right</u>	\$ 244	\$ 106	\$ 36	-	\$ 0	\$ 0	\$ 33	\$ 12	\$ -		\$ 57	
7	Demand \$	244	\$ 106	\$ 36	\$ -	\$ 0	\$ 0	\$ 33	\$ 12	\$ -		\$ 57	
8	Customer \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
9	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
10	<u>Property & Sundry Taxes</u>	\$ 61,924	\$ 38,252	\$ 9,655	\$ 4	\$ 9	\$ 69	\$ 7,187	\$ 2,412	\$ 49		\$ 4,287	
11	Demand \$	37,574	\$ 17,888	\$ 6,780	\$ -	\$ 5	\$ 57	\$ 6,323	\$ 2,234	\$ -		\$ 4,287	
12	Customer \$	24,350	\$ 20,363	\$ 2,875	\$ 4	\$ 4	\$ 12	\$ 864	\$ 178	\$ 49		-	
13	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
14	<u>Depreciation Expense</u>	\$ 171,007	\$ 112,011	\$ 25,764	\$ 17	\$ 30	\$ 167	\$ 17,268	\$ 5,547	\$ 229		\$ 9,973	
15	Demand \$	82,125	\$ 39,400	\$ 14,502	\$ -	\$ 10	\$ 111	\$ 13,398	\$ 4,730	\$ -		\$ 9,973	
16	Customer \$	88,882	\$ 72,610	\$ 11,262	\$ 17	\$ 21	\$ 55	\$ 3,870	\$ 817	\$ 229		-	
17	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
18	<u>Amortization Expense</u>	\$ 12,458	\$ 5,665	\$ 1,779	\$ 0	\$ 44	\$ 15	\$ 1,594	\$ 564	\$ 4		\$ 2,793	
19	Demand \$	11,513	\$ 4,906	\$ 1,691	\$ -	\$ 43	\$ 14	\$ 1,527	\$ 538	\$ -		\$ 2,793	
20	Customer \$	947	\$ 761	\$ 88	\$ 0	\$ 0	\$ 1	\$ 67	\$ 25	\$ 4		-	
21	Energy \$	(2)	\$ (1)	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ (0)	\$ (0)	\$ (0)		-	
22	<u>Other Operating Revenue</u>	\$ (40,019)	\$ (21,188)	\$ (6,323)	\$ (0)	\$ (6)	\$ (31)	\$ (5,603)	\$ (1,981)	\$ (23)		\$ (4,863)	
23	Demand \$	(34,435)	\$ (16,677)	\$ (5,783)	\$ -	\$ (4)	\$ (26)	\$ (5,236)	\$ (1,846)	\$ -		\$ (4,863)	
24	Customer \$	(5,584)	\$ (4,511)	\$ (540)	\$ (0)	\$ (3)	\$ (5)	\$ (367)	\$ (135)	\$ (23)		-	
25	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
26	<u>Income Tax</u>	\$ 36,742	\$ 23,051	\$ 5,584	\$ 2	\$ 5	\$ 37	\$ 4,042	\$ 1,349	\$ 30		\$ 2,642	
27	Demand \$	21,334	\$ 10,125	\$ 3,783	\$ -	\$ 3	\$ 30	\$ 3,512	\$ 1,240	\$ -		\$ 2,642	
28	Customer \$	15,408	\$ 12,925	\$ 1,801	\$ 2	\$ 3	\$ 7	\$ 530	\$ 109	\$ 30		-	
29	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
30	<u>Earned Return</u>	\$ 280,821	\$ 176,179	\$ 42,679	\$ 17	\$ 40	\$ 285	\$ 30,889	\$ 10,311	\$ 230		\$ 20,190	
31	Demand \$	163,060	\$ 77,389	\$ 28,912	\$ -	\$ 19	\$ 230	\$ 26,841	\$ 9,480	\$ -		\$ 20,190	
32	Customer \$	117,761	\$ 98,790	\$ 13,768	\$ 17	\$ 21	\$ 55	\$ 4,049	\$ 831	\$ 230		-	
33	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
34													
35	Total Cost of Service Margin	\$ 766,849	\$ 498,071	\$ 109,817	\$ 51	\$ 214	\$ 905	\$ 82,461	\$ 28,184	\$ 1,267		\$ 45,879	
36	Demand \$	377,138	\$ 179,211	\$ 67,017	\$ 2	\$ 87	\$ 631	\$ 62,257	\$ 22,012	\$ 41		\$ 45,879	
37	Customer \$	389,714	\$ 318,861	\$ 42,800	\$ 49	\$ 126	\$ 274	\$ 20,205	\$ 6,172	\$ 1,226		-	
38	Energy \$	(2)	\$ (1)	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ (0)	\$ (0)	\$ (0)		-	
39	<u>Cost of Gas - Commodity</u>	\$ 459,919	\$ 277,933	\$ 95,389	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58		\$ -	
40	Demand \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
41	Customer \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
42	Energy \$	459,919	\$ 277,933	\$ 95,389	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58		-	
43	<u>Cost of Gas - Midstream</u>	\$ 163,102	\$ 103,555	\$ 35,421	\$ -	\$ 23	\$ -	\$ 22,098	\$ 2,004	\$ -		\$ -	
44	Demand \$	163,102	\$ 103,555	\$ 35,421	\$ -	\$ 23	\$ -	\$ 22,098	\$ 2,004	\$ -		-	
45	Customer \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
46	Energy \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		-	
47	Total Utility Cost of Service	\$ 1,389,870	\$ 879,559	\$ 240,627	\$ 812	\$ 469	\$ 905	\$ 180,215	\$ 40,078	\$ 1,326		\$ 45,879	
48	Demand \$	540,239	\$ 282,766	\$ 102,439	\$ 2	\$ 111	\$ 631	\$ 84,355	\$ 24,016	\$ 41		\$ 45,879	
49	Customer \$	389,714	\$ 318,861	\$ 42,800	\$ 49	\$ 126	\$ 274	\$ 20,205	\$ 6,172	\$ 1,226		-	
50	Energy \$	459,916	\$ 277,931	\$ 95,388	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58		-	

L.No.	Particulars	Total	Total Distribution	Total T-Service	RATE 22								Spl Contracts, Bypass, Rate 22A & Rate 22B	
					RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27		
1	Gas Supply Operations	\$ 11,784	\$ 11,784	\$ -	\$ 7,121	\$ 2,444	\$ 19	\$ 6	\$ -	\$ 1,938	\$ 253	\$ 1	\$ -	
2	Demand \$	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Customer \$	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Energy \$	11,784	11,784	-	7,121	2,444	19	6	-	1,938	253	1	-	-
5														
6	LNG Storage Tilbury	\$ 41,717	\$ 37,343	\$ 4,374	\$ 23,690	\$ 8,120	\$ -	\$ 5	\$ -	\$ 7,321	\$ 2,580	\$ -	\$ -	
7	Demand \$	41,717	37,343	4,374	23,690	8,120	-	5	-	7,321	2,580	-	-	-
8	Customer \$	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Energy \$	-	-	-	-	-	-	-	-	-	-	-	-	-
10														
11	LNG Storage Mt. Hayes	\$ 202,467	\$ 139,163	\$ 63,304	\$ 88,285	\$ 30,261	\$ -	\$ 20	\$ -	\$ 27,282	\$ 9,615	\$ -	\$ 47,004	
12	Demand \$	202,467	139,163	63,304	88,285	30,261	-	20	-	27,282	9,615	-	47,004	
13	Customer \$	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Energy \$	-	-	-	-	-	-	-	-	-	-	-	-	-
15														
16	Transmission	\$ 989,048	\$ 678,953	\$ 310,094	\$ 430,726	\$ 147,639	\$ -	\$ 97	\$ 1,250	\$ 133,103	\$ 46,908	\$ -	\$ 229,325	
17	Demand \$	989,048	678,953	310,094	430,726	147,639	-	97	1,250	133,103	46,908	-	229,325	
18	Customer \$	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Energy \$	-	-	-	-	-	-	-	-	-	-	-	-	-
20														
21	Transmission SCP	\$ 305,472	\$ 261,345	\$ 44,127	\$ 165,796	\$ 56,830	\$ -	\$ 37	\$ 481	\$ 51,235	\$ 18,057	\$ -	\$ 13,036	
22	Demand \$	305,472	261,345	44,127	165,796	56,830	-	37	481	51,235	18,057	-	13,036	
23	Customer \$	-	-	-	-	-	-	-	-	-	-	-	-	-
24	Energy \$	-	-	-	-	-	-	-	-	-	-	-	-	-
25														
26	Distribution	\$ 2,084,865	\$ 1,976,519	\$ 108,349	\$ 1,523,847	\$ 309,213	\$ 208	\$ 352	\$ 1,963	\$ 187,405	\$ 59,107	\$ 2,772	\$ -	
27	Demand \$	664,140	579,743	84,397	331,995	143,114	-	98	1,294	138,558	49,081	-	-	
28	Customer \$	1,420,725	1,396,775	23,949	1,191,852	166,099	208	253	669	48,847	10,026	2,772	-	
29	Energy \$	-	1	2	-	-	-	-	-	-	-	-	-	
30														
31	Marketing	\$ 41,727	\$ 3,305	\$ 550	\$ 19,384	\$ 5,920	\$ 0.1	\$ 151	\$ 53	\$ 5,481	\$ 1,962	\$ 26	\$ 8,748	
32	Demand \$	37,872	3,305	550	16,430	5,632	-	148	48	5,077	1,789	-	8,748	
33	Customer \$	3,855	-	-	2,954	289	0.1	3	5	404	173	26	-	
34	Energy \$	-	-	-	-	-	-	-	-	-	-	-	-	
35														
36	Customer Accounting	\$ (3,962)	\$ (3,395)	\$ (563)	\$ (3,036)	\$ (297)	\$ (0.1)	\$ (3)	\$ (5)	\$ (415)	\$ (178)	\$ (27)	\$ -	
37	Demand \$	-	-	-	-	-	-	-	-	-	-	-	-	
38	Customer \$	(3,962)	(3,395)	(565)	(3,036)	(297)	(0.1)	(3)	(5)	(415)	(178)	(27)	(0)	
39	Energy \$	-	1	2	-	-	-	-	-	-	-	-	-	
40														
41	Total Utility Rate Base	\$ 3,673,117	\$ 3,105,017	\$ 530,234	\$ 2,255,814	\$ 560,132	\$ 227	\$ 665	\$ 3,741	\$ 413,350	\$ 138,305	\$ 2,772	\$ 298,112	
42	Demand \$	2,240,716	1,699,852	506,846	1,056,923	391,597	-	406	3,072	362,576	128,030	-	298,113	
43	Customer \$	1,420,618	1,393,379	23,384	1,191,770	166,091	208	253	669	48,835	10,021	2,771	(0)	
44	Energy \$	11,784	11,786	4	7,121	2,444	19	6	-	1,938	253	1	-	

L.No.	Particulars	Total	RATE 22							Spl Contracts, Bypass, Rate 22A & Rate 22B	
			RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27	
1	Gas Supply Operations	\$ 623,018	\$ 381,487	\$ 130,810	\$ 761	\$ 255	\$ -	\$ 97,754	\$ 11,894	\$ 58	\$ -
2	Demand	\$ 163,102	\$ 103,555	\$ 35,421	\$ -	\$ 23	\$ -	\$ 22,098	\$ 2,004	\$ -	\$ -
3	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Energy	\$ 459,916	\$ 277,931	\$ 95,388	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58	\$ -
5											
6	LNG Storage Tilbury	\$ 9,726	\$ 5,523	\$ 1,893	\$ -	\$ 1	\$ -	\$ 1,707	\$ 602	\$ -	\$ -
7	Demand	\$ 9,726	\$ 5,523	\$ 1,893	\$ -	\$ 1	\$ -	\$ 1,707	\$ 602	\$ -	\$ -
8	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10											
11	LNG Storage Mt. Hayes	\$ 8,139	\$ 3,549	\$ 1,217	\$ -	\$ 1	\$ -	\$ 1,097	\$ 387	\$ -	\$ 1,890
12	Demand	\$ 8,139	\$ 3,549	\$ 1,217	\$ -	\$ 1	\$ -	\$ 1,097	\$ 387	\$ -	\$ 1,890
13	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15											
16	Transmission	\$ 180,373	\$ 78,490	\$ 26,915	\$ 2	\$ 18	\$ 307	\$ 24,289	\$ 8,584	\$ 41	\$ 41,727
17	Demand	\$ 180,373	\$ 78,490	\$ 26,915	\$ 2	\$ 18	\$ 307	\$ 24,289	\$ 8,584	\$ 41	\$ 41,727
18	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20											
21	Transmission SCP	\$ 31,322	\$ 17,000	\$ 5,827	\$ -	\$ 4	\$ 49	\$ 5,253	\$ 1,852	\$ -	\$ 1,337
22	Demand	\$ 31,322	\$ 17,000	\$ 5,827	\$ -	\$ 4	\$ 49	\$ 5,253	\$ 1,852	\$ -	\$ 1,337
23	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25											
26	Distribution	\$ 447,676	\$ 326,180	\$ 66,959	\$ 48	\$ 80	\$ 427	\$ 40,609	\$ 12,727	\$ 647	\$ -
27	Demand	\$ 143,544	\$ 72,911	\$ 30,569	\$ -	\$ 21	\$ 270	\$ 29,373	\$ 10,399	\$ -	\$ -
28	Customer	\$ 304,132	\$ 253,269	\$ 36,390	\$ 48	\$ 59	\$ 156	\$ 11,235	\$ 2,328	\$ 647	\$ -
29	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30											
31	Marketing	\$ 9,845	\$ 6,192	\$ 1,031	\$ 0	\$ 47	\$ 13	\$ 1,146	\$ 450	\$ 39	\$ 925
32	Demand	\$ 4,033	\$ 1,738	\$ 596	\$ -	\$ 43	\$ 5	\$ 537	\$ 189	\$ -	\$ 925
33	Customer	\$ 5,812	\$ 4,454	\$ 435	\$ 0	\$ 5	\$ 8	\$ 609	\$ 261	\$ 39	\$ -
34	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	Customer Accounting	\$ 79,770	\$ 61,138	\$ 5,975	\$ 1	\$ 63	\$ 110	\$ 8,360	\$ 3,583	\$ 540	\$ -
37	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	Customer	\$ 79,770	\$ 61,138	\$ 5,975	\$ 1	\$ 63	\$ 110	\$ 8,360	\$ 3,583	\$ 540	\$ -
39	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40											
41	Total Utility Cost of Service	\$ 1,389,870	\$ 879,559	\$ 240,627	\$ 812	\$ 469	\$ 905	\$ 180,215	\$ 40,078	\$ 1,326	\$ 45,879
42	Demand	\$ 540,239	\$ 282,766	\$ 102,439	\$ 2	\$ 111	\$ 631	\$ 84,355	\$ 24,016	\$ 41	\$ 45,879
43	Customer	\$ 389,714	\$ 318,861	\$ 42,800	\$ 49	\$ 126	\$ 274	\$ 20,205	\$ 6,172	\$ 1,226	\$ -
44	Energy	\$ 459,916	\$ 277,931	\$ 95,388	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58	\$ -

FORTISBC ENERGY INC. (AMALGAMATED)
Fully Distributed Cost of Service Allocation Study_BCUC IR1.127.1
Rate Design Filing_Common Rates_ 2013 Test Year
ALLOCATORS SUMMARY (000's)

Schedule 7

L.No.	Particulars	Total	RATE 22								Spl Contracts, Bypass, Rate 22A & Rate 22B	
			RATE 1	RATE 2	RATE 4	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27		
1	Billing Determinants											
2												
3	Sales Volume (TJ)	162,502	74,862	26,997	185	56	11,504	28,499	14,579	5,819	40,133	
4	Midstream Sales Volume (TJ)	125,322	74,800	26,918	185	56	-	20,940	2,408	14	-	
5	Commodity Sales Volume (TJ)	111,962	67,660	23,221	185	56	-	18,417	2,408	14	-	
6	Average No. of Customers	971,089	877,036	85,717	18	21	21	7,384	786	105	32	
7												
8	Cost of Service Margin	\$ 766,849	\$ 498,071	\$ 109,817	\$ 51	\$ 214	\$ 905	\$ 82,461	\$ 28,184	\$ 1,267	\$ 45,879	
9	Demand	\$ 377,138	\$ 179,211	\$ 67,017	\$ 2	\$ 87	\$ 631	\$ 62,257	\$ 22,012	\$ 41	\$ 45,879	
10	Unit Demand Charge (\$/GJ)		\$ 2.39	\$ 0.90	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.83	\$ 0.29	\$ 0.00	\$ 0.61	
11	Customer	\$ 389,714	\$ 318,861	\$ 42,800	\$ 49	\$ 126	\$ 274	\$ 20,205	\$ 6,172	\$ 1,226	\$ -	
12	Unit Customer Charge (\$/GJ)		\$ 4.26	\$ 0.57	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.27	\$ 0.08	\$ 0.02	\$ -	
13	Energy	\$ (2)	\$ (1)	\$ (0)	\$ (0)	\$ (0)	\$ -	\$ (0)	\$ (0)	\$ (0)	\$ -	
14	Unit Energy Charge (\$/GJ)		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ -	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ -	
15												
16	Unit Cost of Service Margin (\$/GJ)		\$ 6.65	\$ 4.07	\$ 0.28	\$ 3.79	\$ 0.08	\$ 2.89	\$ 1.93	\$ 0.22	\$ 1.14	
17												
18	Cost of Gas - Commodity	\$ 459,919	\$ 277,933	\$ 95,389	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58	\$ -	
19	Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
20	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
21	Energy	\$ 459,919	\$ 277,933	\$ 95,389	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58	\$ -	
22	Unit Cost of Gas - Commodity (\$/GJ)		\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ -	\$ 4.11	\$ 4.11	\$ 4.11	\$ -	
23												
24	Cost of Gas - Midstream	\$ 163,102	\$ 103,555	\$ 35,421	\$ -	\$ 23	\$ -	\$ 22,098	\$ 2,004	\$ -	\$ -	
25	Demand	\$ 163,102	\$ 103,555	\$ 35,421	\$ -	\$ 23	\$ -	\$ 22,098	\$ 2,004	\$ -	\$ -	
26	Customer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
27	Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
28	Unit Cost of Gas - Midstream (\$/GJ)		\$ 1.38	\$ 1.32	\$ -	\$ 0.41	\$ -	\$ 1.06	\$ 0.83	\$ -	\$ -	
29												
30	Total Utility Cost of Service	\$ 1,389,870	\$ 879,559	\$ 240,627	\$ 812	\$ 469	\$ 905	\$ 180,215	\$ 40,078	\$ 1,326	\$ 45,879	
31	Demand	\$ 540,239	\$ 282,766	\$ 102,439	\$ 2	\$ 111	\$ 631	\$ 84,355	\$ 24,016	\$ 41	\$ 45,879	
32	Customer	\$ 389,714	\$ 318,861	\$ 42,800	\$ 49	\$ 126	\$ 274	\$ 20,205	\$ 6,172	\$ 1,226	\$ -	
33	Energy	\$ 459,916	\$ 277,931	\$ 95,388	\$ 761	\$ 232	\$ -	\$ 75,655	\$ 9,890	\$ 58	\$ -	
34	Unit Cost of Service (\$/GJ)		\$ 11.75	\$ 8.91	\$ 4.38	\$ 8.31	\$ 0.08	\$ 6.32	\$ 2.75	\$ 0.23	\$ 1.14	
35												
36	Total Revenues @ Proposed Rates	\$ 1,389,870	\$ 830,598	\$ 250,290	\$ 1,101	\$ 525	\$ 12,858	\$ 194,608	\$ 49,376	\$ 9,150	\$ 41,363	
37	Unit Rate (\$/GJ)		\$ 11.10	\$ 9.27	\$ 5.94	\$ 9.31	\$ 1.12	\$ 6.83	\$ 3.39	\$ 1.57	\$ 1.03	
38												
39	Total Revenue Margin @ Proposed Rates	\$ 766,849	\$ 449,110	\$ 119,480	\$ 340	\$ 270	\$ 12,858	\$ 96,854	\$ 37,482	\$ 9,092	\$ 41,363	
	Unit Rate (\$/GJ)		\$ 6.00	\$ 4.43	\$ 1.83	\$ 4.79	\$ 1.12	\$ 3.40	\$ 2.57	\$ 1.56	\$ 1.03	

Attachment 128.1

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 1
West Region

L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	RATE 22 ² NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²
1	REVENUES										
2	Total Revenues at Proposed 2013 FEI Rates	line 3 + line 4	\$ 1,004,618	\$ 605,922	\$ 183,383	\$ 441	\$ 452	\$ 11,910	\$ 157,556	\$ 35,993	\$ 6,876
3	Revenue Margin at Proposed 2013 FEI Rates ⁴		\$ 515,094	\$ 311,594	\$ 82,865	\$ 139	\$ 224	\$ 11,910	\$ 74,754	\$ 26,782	\$ 6,828
4	Total Cost of Gas ³		\$ 489,524	\$ 294,328	\$ 100,519	\$ 303	\$ 228	\$ -	\$ 82,803	\$ 9,211	\$ 47
5											
6	COST OF SERVICE										
7	Total Utility Cost of Service	line 8 + line 9	\$ 1,052,422	\$ 680,385	\$ 185,572	\$ 331	\$ 418	\$ 985	\$ 152,160	\$ 29,383	\$ 1,102
8	Cost of Service Margin		\$ 562,898	\$ 386,057	\$ 85,053	\$ 29	\$ 190	\$ 985	\$ 69,357	\$ 20,172	\$ 1,055
9	Total Cost of Gas ³		\$ 489,524	\$ 294,328	\$ 100,519	\$ 303	\$ 228	\$ -	\$ 82,803	\$ 9,211	\$ 47
10											
11	SURPLUS / DEFICIT										
12	Total Surplus / Deficit	line 2 - line 7	\$ (47,804)								
13	% increase to Equal Allocated Cost		9.3%								
14											
15	REVENUES (adjusted to equal COS)										
16	Total Adjusted Revenues at Proposed 2013 FEI Rates	line 17 + line 9	\$ 1,052,422	\$ 634,840	\$ 191,073	\$ 454	\$ 473	\$ 13,015	\$ 167,367	\$ 38,282	\$ 7,198
17	Total Adjusted Revenue Margin at Proposed 2013 FEI Rates	line 3 x line 13	\$ 562,898	\$ 340,511	\$ 90,555	\$ 152	\$ 245	\$ 13,015	\$ 84,517	\$ 29,067	\$ 7,151
18											
19	REVENUES (adjusted for R/C RATIOS) ¹		\$ 1,052,422	\$ 634,840	\$ 191,073	\$ 454	\$ 473	\$ 13,015	\$ 198,622	\$ 82,630	\$ 26,619
20	COST OF SERVICE (adjusted for R/C RATIOS) ¹		\$ 1,052,422	\$ 680,385	\$ 185,572	\$ 331	\$ 418	\$ 985	\$ 184,652	\$ 74,656	\$ 20,497
21											
22	REVENUE TO COST RATIO										
23	Revenue to Cost Ratio	line 19 / line 20	100%	93.3%	103.0%		113.1%		107.6%	110.7%	

Note:

- The revenues (line 19) and cost of service (line 20) include the imputed COG number for Rate 23, 25 and 27. This is shown only for the purposes of presenting the Revenue to Cost Ratios. Please note that Rates 23, 25 and 27 do not pay for commodity and midstream charges.
- Rate 4 is a seasonal service and Rates 22 and Rate 7/27 are interruptible customer classes. The revenue to cost ratio for Rate 4, Rate 22 and Rate 7/27 are not shown in the schedule above as these rate classes do not drive system capacity additions and therefore, no demand-related costs are allocated to these customer classes in the COSA Study.
- Cost of Gas forecast is based on five-day average of the November 1, 2, 3, 4, and 7, 2011 forward prices, and which reflect the forward prices utilized in the various FEU 2011 Fourth Quarter Gas Cost reports.
- Revenue Margin includes UAF allocation to rate classes.

L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	RATE 22 ² NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²
1	REVENUES										
2	Total Revenues at Proposed 2013 FEI Rates	line 3 + line 4	\$ 286,818	\$ 189,803	\$ 57,249	\$ 631	\$ 50	\$ -	\$ 28,971	\$ 10,588	\$ 1,609
3	Revenue Margin at Proposed 2013 FEI Rates ⁴		\$ 153,321	\$ 102,246	\$ 27,115	\$ 173	\$ 25	\$ -	\$ 14,287	\$ 7,876	\$ 1,598
4	Total Cost of Gas ³		\$ 133,497	\$ 87,557	\$ 30,134	\$ 458	\$ 25	\$ -	\$ 14,684	\$ 2,712	\$ 11
5											
6	COST OF SERVICE										
7	Total Utility Cost of Service	line 8 + line 9	\$ 299,562	\$ 207,888	\$ 56,124	\$ 478	\$ 45	\$ -	\$ 27,743	\$ 9,104	\$ 264
8	Cost of Service Margin		\$ 166,065	\$ 120,331	\$ 25,990	\$ 20	\$ 20	\$ -	\$ 13,059	\$ 6,391	\$ 253
9	Total Cost of Gas ³		\$ 133,497	\$ 87,557	\$ 30,134	\$ 458	\$ 25	\$ -	\$ 14,684	\$ 2,712	\$ 11
10											
11	SURPLUS / DEFICIT										
12	Total Surplus / Deficit	line 2 - line 7	\$ (12,744)								
13	% increase to Equal Allocated Cost		8.3%								
14											
15	REVENUES (adjusted to equal COS)										
16	Total Adjusted Revenues at Proposed 2013 FEI Rates	line 17 + line 9	\$ 299,562	\$ 198,302	\$ 59,503	\$ 646	\$ 53	\$ -	\$ 28,956	\$ 10,317	\$ 1,759
17	Total Adjusted Revenue Margin at Proposed 2013 FEI Rates	line 3 x line 13	\$ 166,065	\$ 110,745	\$ 29,369	\$ 188	\$ 27	\$ -	\$ 14,264	\$ 7,604	\$ 1,748
18											
19	REVENUES (adjusted for R/C RATIOS) ¹		\$ 299,562	\$ 198,302	\$ 59,503	\$ 646	\$ 53	\$ -	\$ 36,348	\$ 26,095	\$ 6,183
20	COST OF SERVICE (adjusted for R/C RATIOS) ¹		\$ 299,562	\$ 207,888	\$ 56,124	\$ 478	\$ 45	\$ -	\$ 33,953	\$ 23,961	\$ 4,714
21											
22	REVENUE TO COST RATIO										
23	Revenue to Cost Ratio	line 19 / line 20	100%	95.4%	106.0%		115.8%		107.1%	108.9%	

Note:

- The revenues (line 19) and cost of service (line 20) include the imputed COG number for Rate 23, 25 and 27. This is shown only for the purposes of presenting the Revenue to Cost Ratios. Please note that Rates 23, 25 and 27 do not pay for commodity and midstream charges.
- Rate 4 is a seasonal service and Rates 22 and Rate 7/27 are interruptible customer classes. The revenue to cost ratio for Rate 4, Rate 22 and Rate 7/27 are not shown in the schedule above as these rate classes do not drive system capacity additions and therefore, no demand-related costs are allocated to these customer classes in the COSA Study.
- Cost of Gas forecast is based on five-day average of the November 1, 2, 3, 4, and 7, 2011 forward prices, and which reflect the forward prices utilized in the various FEU 2011 Fourth Quarter Gas Cost reports.
- Revenue Margin includes UAF allocation to rate classes.

L.No.	Particulars	Total	Gas Supply Operations	LNG Storage Tilbury	LNG Storage Mt. Hayes	Transmission	Transmission SCP	Distribution	Marketing	Customer Accounting
1	Total Operating & Maintenance Expense	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	TGI Wheeling Charge (TGVI Expense)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	BCH Capacity Right	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3	Operating Lease Payments (Equipment, Vehicle)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4	TGVI Wheeling Charge (TGW Expense)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3	Property & Sundry Taxes	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4	Depreciation Expense	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
5	Amortization Expense	ion model result	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6	Other Operating Revenue	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7	Other Earned Return Provisions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8	Income Tax	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
9	Earned Return	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10	Total Cost of Service Margin	\$ 562,898	\$ -	\$ 7,553	\$ 6,321	\$ 110,752	\$ 24,337	\$ 344,681	\$ 7,629	\$ 61,625
11										
12	Cost of Gas - Commodity	\$ 361,809	\$ 361,809	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Cost of Gas - Midstream	\$ 127,715	\$ 127,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Total Utility Cost of Service	\$ 1,052,422	\$ 489,524	\$ 7,553	\$ 6,321	\$ 110,752	\$ 24,337	\$ 344,681	\$ 7,629	\$ 61,625

L.No.	Particulars	Total	Gas Supply Operations	LNG Storage Tilbury	LNG Storage Mt. Hayes	Transmission	Transmission SCP	Distribution	Marketing	Customer Accounting
1	Total Operating & Maintenance Expense	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	TGI Wheeling Charge (TGVI Expense)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	BCH Capacity Right	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3	Operating Lease Payments (Equipment, Vehicle)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4	TGVI Wheeling Charge (TGW Expense)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3	Property & Sundry Taxes	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4	Depreciation Expense	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
5	Amortization Expense	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6	Other Operating Revenue	ion model result	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7	Other Earned Return Provisions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8	Income Tax	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
9	Earned Return	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10	Total Cost of Service Margin	\$ 166,065	\$ -	\$ 2,172	\$ 1,818	\$ 31,731	\$ 6,985	\$ 102,996	\$ 2,216	\$ 18,147
11										
12	Cost of Gas - Commodity	\$ 98,110	\$ 98,110	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Cost of Gas - Midstream	\$ 35,387	\$ 35,387	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Total Utility Cost of Service	\$ 299,562	\$ 133,497	\$ 2,172	\$ 1,818	\$ 31,731	\$ 6,985	\$ 102,996	\$ 2,216	\$ 18,147

This Schedule is not available for the Two-Region COSA model. The Two-Region model results are taken by combining costs for each function from the other COSA models.
The Rate Base was not tracked by the classification categories or by the account categories shown in Schedule 3.

This Schedule is not available for the Two-Region COSA model. The Two-Region model results are taken by combining costs for each function from the other COSA models.
The Rate Base was not tracked by the classification categories or by the account categories shown in Schedule 3.

This Schedule is not available for the Two-Region COSA model. The Two-Region model results are taken by combining costs for each function from the other COSA models.
The Cost of Service was not tracked by the classification categories or by the account categories shown in Schedule 4.

This Schedule is not available for the Two-Region COSA model. The Two-Region model results are taken by combining costs for each function from the other COSA models.
The Cost of Service was not tracked by the classification categories or by the account categories shown in Schedule 4.

Two Region Distribution Only
Fully Distributed Cost of Service Allocation Study
Rate Design Filing _Common Rates_2013 Test Year
FUNCTIONALIZATION (000's)

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 5
West Region

L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	RATE 22 ²		RATE 3/23	RATE 5/25	RATE 7/27 ²
								NON BYPASS				
1	Delivery Sales Volume - Total System		162,502	74,862	26,997	185	56	11,504		28,499	14,579	5,819
2	Delivery Sales Volume - Region		129,249	57,319	20,621	74	51	11,504		23,926	11,022	4,733
3												
4	Total System Rate Base by Function (Prior to Distribution)											
5	Gas Supply Operations		\$ 11,784	\$ 7,121	\$ 2,444	\$ 19	\$ 6	\$ -	\$ 1,938	\$ 253	\$ 1	
6	LNG Storage Tilbury		\$ 41,717	\$ 23,690	\$ 8,120	\$ -	\$ 5	\$ -	\$ 7,321	\$ 2,580	\$ -	
7	LNG Storage Mt. Hayes		\$ 202,467	\$ 114,978	\$ 39,411	\$ -	\$ 26	\$ -	\$ 35,530	\$ 12,522	\$ -	
8	Transmission		\$ 989,048	\$ 560,742	\$ 192,205	\$ -	\$ 126	\$ 1,627	\$ 173,281	\$ 61,067	\$ -	
9	Transmission SCP		\$ 305,472	\$ 173,187	\$ 59,363	\$ -	\$ 39	\$ 502	\$ 53,518	\$ 18,862	\$ -	
10	Marketing		\$ 41,727	\$ 24,344	\$ 7,620	\$ 0	\$ 153	\$ 67	\$ 7,014	\$ 2,503	\$ 26	
11	Customer Accounting		\$ (3,962)	\$ (3,036)	\$ (297)	\$ (0)	\$ (3)	\$ (5)	\$ (415)	\$ (178)	\$ (27)	
12	Sum of Rate Base (Prior to Distribution)		\$ 1,588,253	\$ 901,026	\$ 308,867	\$ 19	\$ 351	\$ 2,191	\$ 278,188	\$ 97,609	\$ 1	
13												
14	Total System Rate Base by Function \$/GJ (Prior to Distribution)											
15	Gas Supply Operations	line 5 / line 1	\$ 0.07	\$ 0.10	\$ 0.09	\$ 0.11	\$ 0.11	\$ -	\$ 0.07	\$ 0.02	\$ 0.00	
16	LNG Storage Tilbury	line 6 / line 1	\$ 0.26	\$ 0.32	\$ 0.30	\$ -	\$ 0.09	\$ -	\$ 0.26	\$ 0.18	\$ -	
17	LNG Storage Mt. Hayes	line 7 / line 1	\$ 1.25	\$ 1.54	\$ 1.46	\$ -	\$ 0.46	\$ -	\$ 1.25	\$ 0.86	\$ -	
18	Transmission	line 8 / line 1	\$ 6.09	\$ 7.49	\$ 7.12	\$ -	\$ 2.23	\$ 0.14	\$ 6.08	\$ 4.19	\$ -	
19	Transmission SCP	line 9 / line 1	\$ 1.88	\$ 2.31	\$ 2.20	\$ -	\$ 0.69	\$ 0.04	\$ 1.88	\$ 1.29	\$ -	
20	Marketing	line 10 / line 1	\$ 0.26	\$ 0.33	\$ 0.28	\$ 0.00	\$ 2.70	\$ 0.01	\$ 0.25	\$ 0.17	\$ 0.00	
21	Customer Accounting	line 11 / line 1	\$ (0.02)	\$ (0.04)	\$ (0.01)	\$ (0.00)	\$ (0.06)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)	
22	Sum of Rate Base (Prior to Distribution)	line 12 / line 1	\$ 9.77	\$ 12.04	\$ 11.44	\$ 0.11	\$ 6.22	\$ 0.19	\$ 9.76	\$ 6.70	\$ 0.00	
23												
24	Specific Region Rate Base											
25	Gas Supply Operations	line 15 * line 2	\$ 9,372	\$ 5,452	\$ 1,867	\$ 8	\$ 5	\$ -	\$ 1,627	\$ 192	\$ 1	
26	LNG Storage Tilbury	line 16 * line 2	\$ 33,181	\$ 18,139	\$ 6,202	\$ -	\$ 5	\$ -	\$ 6,146	\$ 1,951	\$ -	
27	LNG Storage Mt. Hayes	line 17 * line 2	\$ 161,036	\$ 88,034	\$ 30,102	\$ -	\$ 23	\$ -	\$ 29,829	\$ 9,467	\$ -	
28	Transmission	line 18 * line 2	\$ 786,657	\$ 429,337	\$ 146,808	\$ -	\$ 113	\$ 1,627	\$ 145,476	\$ 46,167	\$ -	
29	Transmission SCP	line 19 * line 2	\$ 242,963	\$ 132,602	\$ 45,342	\$ -	\$ 35	\$ 502	\$ 44,931	\$ 14,260	\$ -	
30	Marketing	line 20 * line 2	\$ 33,188	\$ 18,639	\$ 5,821	\$ 0	\$ 137	\$ 67	\$ 5,888	\$ 1,892	\$ 21	
31	Customer Accounting	line 21 * line 2	\$ (3,151)	\$ (2,325)	\$ (227)	\$ (0)	\$ (3)	\$ (5)	\$ (349)	\$ (135)	\$ (22)	
32	Sum of Rate Base (Prior to Distribution)		\$ 288,938	\$ 187,933	\$ 63,745	\$ 12	\$ 35	\$ -	\$ 38,877	\$ 21,609	\$ 0	
33	Distribution		\$ 1,636,504	\$ 1,190,798	\$ 245,140	\$ 117	\$ 294	\$ 1,783	\$ 160,994	\$ 35,186	\$ 2,191	
34	Sum of Rate Base (With Distribution)		\$ 1,925,443	\$ 1,378,731	\$ 308,886	\$ 129	\$ 329	\$ 1,783	\$ 199,871	\$ 56,795	\$ 2,191	

Two Region Distribution Only
Fully Distributed Cost of Service Allocation Study
Rate Design Filing _Common Rates_2013 Test Year
FUNCTIONALIZATION (000's)

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 5
East Region

L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	RATE 22 ²		RATE 3/23	RATE 5/25	RATE 7/27 ²
								NON BYPASS				
1	Delivery Sales Volume - Total System		162,502	74,862	26,997	185	56	11,504		28,499	14,579	5,819
2	Delivery Sales Volume - Region		33,253	17,543	6,376	112	6	-		4,573	3,557	1,086
3												
4	Total System Rate Base by Function (Prior to Distribution)											
5	Gas Supply Operations		\$ 11,784	\$ 7,121	\$ 2,444	\$ 19	\$ 6	\$ -	\$ 1,938	\$ 253	\$ 1	
6	LNG Storage Tilbury		\$ 41,717	\$ 23,690	\$ 8,120	\$ -	\$ 5	\$ -	\$ 7,321	\$ 2,580	\$ -	
7	LNG Storage Mt. Hayes		\$ 202,467	\$ 114,978	\$ 39,411	\$ -	\$ 26	\$ -	\$ 35,530	\$ 12,522	\$ -	
8	Transmission		\$ 989,048	\$ 560,742	\$ 192,205	\$ -	\$ 126	\$ 1,627	\$ 173,281	\$ 61,067	\$ -	
9	Transmission SCP		\$ 305,472	\$ 173,187	\$ 59,363	\$ -	\$ 39	\$ 502	\$ 53,518	\$ 18,862	\$ -	
10	Marketing		\$ 41,727	\$ 24,344	\$ 7,620	\$ 0	\$ 153	\$ 67	\$ 7,014	\$ 2,503	\$ 26	
11	Customer Accounting		\$ (3,962)	\$ (3,036)	\$ (297)	\$ (0)	\$ (3)	\$ (5)	\$ (415)	\$ (178)	\$ (27)	
12	Sum of Rate Base (Prior to Distribution)		\$ 1,588,253	\$ 901,026	\$ 308,867	\$ 19	\$ 351	\$ 2,191	\$ 278,188	\$ 97,609	\$ 1	
13												
14	Total System Rate Base by Function \$/GJ (Prior to Distribution)											
15	Gas Supply Operations	line 5 / line 1	\$ 0.07	\$ 0.10	\$ 0.09	\$ 0.11	\$ 0.11	\$ -	\$ 0.07	\$ 0.02	\$ 0.00	
16	LNG Storage Tilbury	line 6 / line 1	\$ 0.26	\$ 0.32	\$ 0.30	\$ -	\$ 0.09	\$ -	\$ 0.26	\$ 0.18	\$ -	
17	LNG Storage Mt. Hayes	line 7 / line 1	\$ 1.25	\$ 1.54	\$ 1.46	\$ -	\$ 0.46	\$ -	\$ 1.25	\$ 0.86	\$ -	
18	Transmission	line 8 / line 1	\$ 6.09	\$ 7.49	\$ 7.12	\$ -	\$ 2.23	\$ 0.14	\$ 6.08	\$ 4.19	\$ -	
19	Transmission SCP	line 9 / line 1	\$ 1.88	\$ 2.31	\$ 2.20	\$ -	\$ 0.69	\$ 0.04	\$ 1.88	\$ 1.29	\$ -	
20	Marketing	line 10 / line 1	\$ 0.26	\$ 0.33	\$ 0.28	\$ 0.00	\$ 2.70	\$ 0.01	\$ 0.25	\$ 0.17	\$ 0.00	
21	Customer Accounting	line 11 / line 1	\$ (0.02)	\$ (0.04)	\$ (0.01)	\$ (0.00)	\$ (0.06)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)	
22	Sum of Rate Base (Prior to Distribution)	line 12 / line 1	\$ 9.77	\$ 12.04	\$ 11.44	\$ 0.11	\$ 6.22	\$ 0.19	\$ 9.76	\$ 6.70	\$ 0.00	
23												
24	Specific Region Rate Base											
25	Gas Supply Operations	line 15 * line 2	\$ 2,411	\$ 1,669	\$ 577	\$ 12	\$ 1	\$ -	\$ 311	\$ 62	\$ 0	
26	LNG Storage Tilbury	line 16 * line 2	\$ 8,537	\$ 5,552	\$ 1,918	\$ -	\$ 1	\$ -	\$ 1,175	\$ 630	\$ -	
27	LNG Storage Mt. Hayes	line 17 * line 2	\$ 41,431	\$ 26,944	\$ 9,308	\$ -	\$ 3	\$ -	\$ 5,701	\$ 3,055	\$ -	
28	Transmission	line 18 * line 2	\$ 202,391	\$ 131,405	\$ 45,397	\$ -	\$ 12	\$ -	\$ 27,805	\$ 14,900	\$ -	
29	Transmission SCP	line 19 * line 2	\$ 62,509	\$ 40,585	\$ 14,021	\$ -	\$ 4	\$ -	\$ 8,588	\$ 4,602	\$ -	
30	Marketing	line 20 * line 2	\$ 8,539	\$ 5,705	\$ 1,800	\$ 0	\$ 15	\$ -	\$ 1,125	\$ 611	\$ 5	
31	Customer Accounting	line 21 * line 2	\$ (811)	\$ (712)	\$ (70)	\$ (0)	\$ (0)	\$ -	\$ (67)	\$ (43)	\$ (5)	
32	Sum of Rate Base (Prior to Distribution)		\$ 288,938	\$ 187,933	\$ 63,745	\$ 12	\$ 35	\$ -	\$ 38,877	\$ 21,609	\$ 0	
33	Distribution		\$ 454,619	\$ 350,186	\$ 67,454	\$ 75	\$ 28	\$ -	\$ 25,188	\$ 11,192	\$ 496	
34	Sum of Rate Base (With Distribution)		\$ 743,557	\$ 538,118	\$ 131,199	\$ 87	\$ 63	\$ -	\$ 64,065	\$ 32,801	\$ 496	

Two Region Distribution Only
Fully Distributed Cost of Service Allocation Study
Rate Design Filing _Common Rates_2013 Test Year
FUNCTIONALIZATION (000's)

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 6
West Region

		RATE 22 ²									
L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²
1	Delivery Sales Volume - Total System		162,502	74,862	26,997	185	56	11,504	28,499	14,579	5,819
2	Delivery Sales Volume - Region		129,249	57,319	20,621	74	51	11,504	23,926	11,022	4,733
3											
4	Total System Margin by Function (Prior to Distribution)										
5	LNG Storage Tilbury		\$ 9,726	\$ 5,523	\$ 1,893	\$ -	\$ 1	\$ -	\$ 1,707	\$ 602	\$ -
6	LNG Storage Mt. Hayes		\$ 8,139	\$ 4,622	\$ 1,584	\$ -	\$ 1	\$ -	\$ 1,428	\$ 503	\$ -
7	Transmission		\$ 142,484	\$ 80,506	\$ 27,606	\$ 2	\$ 18	\$ 400	\$ 24,970	\$ 8,896	\$ 85
8	Transmission SCP		\$ 31,322	\$ 17,758	\$ 6,087	\$ -	\$ 4	\$ 52	\$ 5,488	\$ 1,934	\$ -
9	Marketing		\$ 9,845	\$ 6,717	\$ 1,211	\$ 0	\$ 47	\$ 15	\$ 1,308	\$ 507	\$ 39
10	Customer Accounting		\$ 79,770	\$ 61,138	\$ 5,975	\$ 1	\$ 63	\$ 110	\$ 8,360	\$ 3,583	\$ 540
11	Sum of Margin (Prior to Distribution)		\$ 281,286	\$ 176,264	\$ 44,357	\$ 3	\$ 135	\$ 576	\$ 43,261	\$ 16,026	\$ 665
12											
13	Total System Margin by Function \$/GJ (Prior to Distribution)										
14	LNG Storage Tilbury	line 5 / line 1	\$ 0.06	\$ 0.07	\$ 0.07	\$ -	\$ 0.02	\$ -	\$ 0.06	\$ 0.04	\$ -
15	LNG Storage Mt. Hayes	line 6 / line 1	\$ 0.05	\$ 0.06	\$ 0.06	\$ -	\$ 0.02	\$ -	\$ 0.05	\$ 0.03	\$ -
16	Transmission	line 7 / line 1	\$ 0.88	\$ 1.08	\$ 1.02	\$ 0.01	\$ 0.33	\$ 0.03	\$ 0.88	\$ 0.61	\$ 0.01
17	Transmission SCP	line 8 / line 1	\$ 0.19	\$ 0.24	\$ 0.23	\$ -	\$ 0.07	\$ 0.00	\$ 0.19	\$ 0.13	\$ -
18	Marketing	line 9 / line 1	\$ 0.06	\$ 0.09	\$ 0.04	\$ 0.00	\$ 0.84	\$ 0.00	\$ 0.05	\$ 0.03	\$ 0.01
19	Customer Accounting	line 10 / line 1	\$ 0.49	\$ 0.82	\$ 0.22	\$ 0.01	\$ 1.12	\$ 0.01	\$ 0.29	\$ 0.25	\$ 0.09
20	Sum of Margin (Prior to Distribution)	line 11 / line 1	\$ 1.73	\$ 2.35	\$ 1.64	\$ 0.01	\$ 2.39	\$ 0.05	\$ 1.52	\$ 1.10	\$ 0.11
21											
22	Specific Region Margin										
23	LNG Storage Tilbury	line 14 * line 2	\$ 7,553	\$ 4,223	\$ 1,444	\$ -	\$ 1	\$ -	\$ 1,431	\$ 454	\$ -
24	LNG Storage Mt. Hayes	line 15 * line 2	\$ 6,321	\$ 3,534	\$ 1,209	\$ -	\$ 1	\$ -	\$ 1,198	\$ 380	\$ -
25	Transmission	line 16 * line 2	\$ 110,752	\$ 61,557	\$ 21,058	\$ 1	\$ 17	\$ 400	\$ 20,934	\$ 6,717	\$ 69
26	Transmission SCP	line 17 * line 2	\$ 24,337	\$ 13,578	\$ 4,643	\$ -	\$ 4	\$ 51	\$ 4,601	\$ 1,460	\$ -
27	Marketing	line 18 * line 2	\$ 7,629	\$ 5,136	\$ 924	\$ 0	\$ 43	\$ 15	\$ 1,097	\$ 383	\$ 32
28	Customer Accounting	line 19 * line 2	\$ 61,625	\$ 46,747	\$ 4,558	\$ 0	\$ 57	\$ 110	\$ 7,009	\$ 2,705	\$ 439
29	Sum of Margin (Prior to Distribution)		\$ 218,217	\$ 134,776	\$ 33,835	\$ 1	\$ 121	\$ 575	\$ 36,270	\$ 12,099	\$ 540
30	Distribution		\$ 344,681	\$ 251,099	\$ 51,173	\$ 28	\$ 69	\$ 408	\$ 33,358	\$ 8,027	\$ 519
31	Sum of Margin (Including Distribution)		\$ 562,898	\$ 385,875	\$ 85,007	\$ 29	\$ 190	\$ 984	\$ 69,628	\$ 20,127	\$ 1,059

Two Region Distribution Only
Fully Distributed Cost of Service Allocation Study
Rate Design Filing _Common Rates_2013 Test Year
FUNCTIONALIZATION (000's)

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 6
East Region

		RATE 22 ²									
L.No.	Particulars	Reference	Total	RATE 1	RATE 2	RATE 4 ²	RATE 6	NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27 ²
1	Delivery Sales Volume - Total System		162,502	74,862	26,997	185	56	11,504	28,499	14,579	5,819
2	Delivery Sales Volume - Region		33,253	17,543	6,376	112	6	-	4,573	3,557	1,086
3											
4	Total System Margin by Function (Prior to Distribution)										
5	LNG Storage Tilbury		\$ 9,726	\$ 5,523	\$ 1,893	\$ -	\$ 1	\$ -	\$ 1,707	\$ 602	\$ -
6	LNG Storage Mt. Hayes		\$ 8,139	\$ 4,622	\$ 1,584	\$ -	\$ 1	\$ -	\$ 1,428	\$ 503	\$ -
7	Transmission		\$ 142,484	\$ 80,506	\$ 27,606	\$ 2	\$ 18	\$ 400	\$ 24,970	\$ 8,896	\$ 85
8	Transmission SCP		\$ 31,322	\$ 17,758	\$ 6,087	\$ -	\$ 4	\$ 52	\$ 5,488	\$ 1,934	\$ -
9	Marketing		\$ 9,845	\$ 6,717	\$ 1,211	\$ 0	\$ 47	\$ 15	\$ 1,308	\$ 507	\$ 39
10	Customer Accounting		\$ 79,770	\$ 61,138	\$ 5,975	\$ 1	\$ 63	\$ 110	\$ 8,360	\$ 3,583	\$ 540
11	Sum of Margin (Prior to Distribution)		\$ 281,286	\$ 176,264	\$ 44,357	\$ 3	\$ 135	\$ 576	\$ 43,261	\$ 16,026	\$ 665
12											
13	Total System Margin by Function \$/GJ (Prior to Distribution)										
14	LNG Storage Tilbury	line 5 / line 1	\$ 0.06	\$ 0.07	\$ 0.07	\$ -	\$ 0.02	\$ -	\$ 0.06	\$ 0.04	\$ -
15	LNG Storage Mt. Hayes	line 6 / line 1	\$ 0.05	\$ 0.06	\$ 0.06	\$ -	\$ 0.02	\$ -	\$ 0.05	\$ 0.03	\$ -
16	Transmission	line 7 / line 1	\$ 0.88	\$ 1.08	\$ 1.02	\$ 0.01	\$ 0.33	\$ 0.03	\$ 0.88	\$ 0.61	\$ 0.01
17	Transmission SCP	line 8 / line 1	\$ 0.19	\$ 0.24	\$ 0.23	\$ -	\$ 0.07	\$ 0.00	\$ 0.19	\$ 0.13	\$ -
18	Marketing	line 9 / line 1	\$ 0.06	\$ 0.09	\$ 0.04	\$ 0.00	\$ 0.84	\$ 0.00	\$ 0.05	\$ 0.03	\$ 0.01
19	Customer Accounting	line 10 / line 1	\$ 0.49	\$ 0.82	\$ 0.22	\$ 0.01	\$ 1.12	\$ 0.01	\$ 0.29	\$ 0.25	\$ 0.09
20	Sum of Margin (Prior to Distribution)	line 11 / line 1	\$ 1.73	\$ 2.35	\$ 1.64	\$ 0.01	\$ 2.39	\$ 0.05	\$ 1.52	\$ 1.10	\$ 0.11
21											
22	Specific Region Margin										
23	LNG Storage Tilbury	line 14 * line 2	\$ 2,172	\$ 1,300	\$ 449	\$ -	\$ 0	\$ -	\$ 275	\$ 147	\$ -
24	LNG Storage Mt. Hayes	line 15 * line 2	\$ 1,818	\$ 1,088	\$ 376	\$ -	\$ 0	\$ -	\$ 230	\$ 123	\$ -
25	Transmission	line 16 * line 2	\$ 31,731	\$ 18,955	\$ 6,551	\$ 1	\$ 2	\$ -	\$ 4,026	\$ 2,181	\$ 16
26	Transmission SCP	line 17 * line 2	\$ 6,985	\$ 4,181	\$ 1,444	\$ -	\$ 0	\$ -	\$ 885	\$ 474	\$ -
27	Marketing	line 18 * line 2	\$ 2,216	\$ 1,581	\$ 287	\$ 0	\$ 5	\$ -	\$ 211	\$ 124	\$ 7
28	Customer Accounting	line 19 * line 2	\$ 18,147	\$ 14,395	\$ 1,418	\$ 1	\$ 6	\$ -	\$ 1,348	\$ 878	\$ 101
29	Sum of Margin (Prior to Distribution)		\$ 63,069	\$ 41,500	\$ 10,526	\$ 2	\$ 13	\$ -	\$ 6,974	\$ 3,929	\$ 125
30	Distribution		\$ 102,996	\$ 79,026	\$ 15,513	\$ 19	\$ 7	\$ -	\$ 5,798	\$ 2,510	\$ 124
31	Sum of Margin (Including Distribution)		\$ 166,065	\$ 120,526	\$ 26,039	\$ 20	\$ 20	\$ -	\$ 12,772	\$ 6,439	\$ 248

Two Region Distribution Only
Fully Distributed Cost of Service Allocation Study
Rate Design Filing _Common Rates_2013 Test Year

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 7
West Region

ALLOCATORS SUMMARY (000's)

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	RATE 22			
							NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	<u>Billing Determinants</u>									
2										
3	Sales Volume (TJ)	129,249	57,319	20,621	74	51	11,504	23,926	11,022	4,733
4	Midstream Sales Volume (TJ)	97,986	57,319	20,621	74	51	-	17,873	2,045	5
5	Commodity Sales Volume (TJ)	107,837	52,143	17,864	74	51	-	21,951	11,022	4,733
6	Average No. of Customers	708,870	639,463	62,360	10	19	21	6,236	677	83
7										
8	<u>Cost of Service Margin</u>	\$ 562,898	\$ 386,057	\$ 85,053	\$ 29	\$ 190	\$ 985	\$ 69,357	\$ 20,172	\$ 1,055
9	Unit Cost of Service Margin (\$/GJ)		\$ 6.74	\$ 4.12	\$ 0.39	\$ 3.75	\$ 0.09	\$ 2.90	\$ 1.83	\$ 0.22
10										
11	<u>Cost of Gas - Commodity</u>	\$ 361,809	\$ 214,192	\$ 73,383	\$ 303	\$ 209	\$ -	\$ 64,113	\$ 7,477	\$ 47
12	Unit Cost of Gas - Commodity (\$/GJ)		\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ -	\$ 2.92	\$ 0.68	\$ 0.01
13										
14	<u>Cost of Gas - Midstream</u>	\$ 127,715	\$ 80,136	\$ 27,136	\$ -	\$ 19	\$ -	\$ 18,689	\$ 1,734	\$ -
15	Unit Cost of Gas - Midstream (\$/GJ)		\$ 1.40	\$ 1.32	\$ -	\$ 0.38	\$ -	\$ 1.05	\$ 0.85	\$ -
16										
17	<u>Total Utility Cost of Service</u>	\$ 1,052,422	\$ 680,385	\$ 185,572	\$ 331	\$ 418	\$ 985	\$ 152,160	\$ 29,383	\$ 1,102
18	Unit Cost of Service (\$/GJ)		\$ 11.87	\$ 9.00	\$ 4.50	\$ 8.24	\$ 0.09	\$ 6.36	\$ 2.67	\$ 0.23
19										
20	<u>Total Revenues @ Proposed Rates</u>	\$ 1,052,422	\$ 634,840	\$ 191,073	\$ 454	\$ 473	\$ 13,015	\$ 167,367	\$ 38,282	\$ 7,198
21	Unit Rate (\$/GJ)		\$ 11.08	\$ 9.27	\$ 6.16	\$ 9.32	\$ 1.13	\$ 7.00	\$ 3.47	\$ 1.52
22										
23	<u>Total Revenue Margin @ Proposed Rates</u>	\$ 562,898	\$ 340,511	\$ 90,555	\$ 152	\$ 245	\$ 13,015	\$ 84,564	\$ 29,071	\$ 7,151
24	Unit Rate (\$/GJ)		\$ 5.94	\$ 4.39	\$ 2.06	\$ 4.83	\$ 1.13	\$ 3.53	\$ 2.64	\$ 1.51

Two Region Distribution Only
Fully Distributed Cost of Service Allocation Study
Rate Design Filing _Common Rates_2013 Test Year
ALLOCATORS SUMMARY (000's)

Response BCUC IR1.128.1 - Two Region COSA Using regional midstream rates

Schedule 7
East Region

L.No.	Particulars	Total	RATE 1	RATE 2	RATE 4	RATE 6	RATE 22			
							NON BYPASS	RATE 3/23	RATE 5/25	RATE 7/27
1	<u>Billing Determinants</u>									
2										
3	Sales Volume (TJ)	33,253	17,543	6,376	112	6	-	4,573	3,557	1,086
4	Midstream Sales Volume (TJ)	27,336	17,481	6,298	112	6	-	3,067	363	9
5	Commodity Sales Volume (TJ)	29,586	15,517	5,357	112	6	-	3,952	3,557	1,086
6	Average No. of Customers	262,219	237,573	23,357	8	2	-	1,148	109	22
7										
8	<u>Cost of Service Margin</u>	\$ 166,065	\$ 120,331	\$ 25,990	\$ 20	\$ 20	- \$	13,059	\$ 6,391	\$ 253
9	Unit Cost of Service Margin (\$/GJ)		\$ 6.86	\$ 4.08	\$ 0.18	\$ 3.60	- \$	2.86	\$ 1.80	\$ 0.23
10										
11	<u>Cost of Gas - Commodity</u>	\$ 98,110	\$ 63,741	\$ 22,006	\$ 458	\$ 23	- \$	11,542	\$ 2,413	\$ 11
12	Unit Cost of Gas - Commodity (\$/GJ)		\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	- \$	2.92	\$ 0.68	\$ 0.01
13										
14	<u>Cost of Gas - Midstream</u>	\$ 35,387	\$ 23,816	\$ 8,128	\$ -	\$ 2	- \$	3,142	\$ 299	\$ -
15	Unit Cost of Gas - Midstream (\$/GJ)		\$ 1.36	\$ 1.29	\$ -	\$ 0.41	- \$	1.02	\$ 0.82	\$ -
16										
17	<u>Total Utility Cost of Service</u>	\$ 299,562	\$ 207,888	\$ 56,124	\$ 478	\$ 45	- \$	27,743	\$ 9,104	\$ 264
18	Unit Cost of Service (\$/GJ)		\$ 11.85	\$ 8.80	\$ 4.29	\$ 8.11	- \$	6.07	\$ 2.56	\$ 0.24
19										
20	<u>Total Revenues @ Proposed Rates</u>	\$ 299,562	\$ 198,302	\$ 59,503	\$ 646	\$ 53	- \$	28,956	\$ 10,317	\$ 1,759
21	Unit Rate (\$/GJ)		\$ 11.30	\$ 9.33	\$ 5.79	\$ 9.39	- \$	6.33	\$ 2.90	\$ 1.62
22										
23	<u>Total Revenue Margin @ Proposed Rates</u>	\$ 166,065	\$ 110,745	\$ 29,369	\$ 188	\$ 27	- \$	14,272	\$ 7,605	\$ 1,748
24	Unit Rate (\$/GJ)		\$ 6.31	\$ 4.61	\$ 1.68	\$ 4.88	- \$	3.12	\$ 2.14	\$ 1.61