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December 9, 2004  
File No.: 241455.00016

British Columbia Utilities Commission  
6th Floor  
900 Howe Street  
Vancouver, B.C. V6Z 2N3

**Attention: Robert J. Pellatt**  
**Commission Secretary**

Dear Sirs/Mesdames:

**Re: Terasen Gas (Vancouver Island) Inc. ("TGVI")**  
**Application for a Certificate of Public Convenience and Necessity ("CPCN")**  
**LNG as Storage Project (Project No. 369,8377)**

During the hearing on December 8 I advised the Commission that TGVI would file the terms under which TGVI is prepared to provide long-term gas transportation service to the ICP and Duke Point generation facilities. Attached is a summary of the principal terms for transportation arrangements with BC Hydro as proposed by TGVI.

With respect to peaking gas arrangements, TGVI previously provided a preliminary draft of a peaking gas agreement. It is Attachment 2 to the TGVI response to BCUC Information Request 65.2 (at the end of the BCUC tab in Exhibit B-10).

Yours truly,

**FASKEN MARTINEAU DuMOULIN LLP**

"Original signed by C.B. Johnson"

C.B. Johnson

CBJ/vde

Encl.

cc: Registered Intervenors

DM\_VAN/241455-00016/6279108.1

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Vancouver Calgary Toronto Montréal Québec City New York London Johannesburg

**TRANSPORTATION SERVICE ARRANGEMENTS**  
**Summary of Principal Terms as Proposed by**  
**Terasen Gas (Vancouver Island) Inc.**

**1. Parties**

British Columbia Hydro & Power Authority ("BC Hydro"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas Inc ("TGI").

**2. Purpose**

2.1 BC Hydro requires natural gas transportation service to transport the fuel requirements for the Island Cogeneration Project ("ICP") at Campbell River and the Duke Point Power Project ("DPP") at Duke Point on Vancouver Island.

2.2 TGVI owns and operates the natural gas transmission system from Eagle Mountain to Vancouver Island and the transmission and distribution system on Vancouver Island, and intends to expand its system to meet the transportation service agreement described herein.

2.3 BC Hydro and TGVI each currently contract for firm transportation service across the Coastal Transmission System ("CTS") from Huntingdon to Eagle Mountain owned and operated by TGI.

2.4 TGVI currently provides firm natural gas transportation service to the plant gate of ICP and will use reasonable efforts to provide by May 1, 2007 firm natural gas transportation service to the plant gate of DPP to meet the contract demand under the transportation service agreement described herein for both of ICP and DPP.

2.5 The parties intend to enter into a Transportation Service Agreement (the "TSA") for firm and interruptible service from Huntingdon to ICP and DPP plant gates based on the terms outlined in this Term Sheet.

**3. General Terms and Conditions**

3.1 The TSA will substantially be in the form of the draft firm transportation agreement attached as Schedule A and will incorporate the provisions of the TGVI General Terms and Conditions for Gas Transportation Service, in force from time to time, ("GT&Cs") unless otherwise stated in this Term Sheet or the draft transportation agreement. If there is a conflict between the terms set out in this Term Sheet and the draft TSA or the GT&Cs, then the terms in this Term Sheet will govern.

**4. Term**

4.1 The Service Commencement Dates for transportation service under the TSA are:

a) The ICP Service Commencement Date is January 1, 2007 (the "ICP Service Commencement Date"), and

b) The DPP Service Commencement Date will occur on a date specified by BC Hydro that is not less than 60 days after written notice is received from

BC Hydro, (the "DPP Service Commencement Date"), provided that the DPP Service Commencement Date will not be earlier than May 1, 2007, and will not be later than November 1, 2007, unless TGVI and BC Hydro otherwise agree.

- 4.2 The initial term (the "Initial Term") for transportation service under the TSA will expire as follows:
  - a) The ICP Initial Term will expire on April 12, 2022, and
  - b) The DPP Initial Term will expire on the 25<sup>th</sup> anniversary of the DPP Service Commencement Date.
- 4.3 Subject to 4.5, BC Hydro may extend the Initial Term for ICP or DPP, or for both of them for successive renewal terms (a "Renewal Term") of two years each by giving written notice to TGVI not less than 12 months prior to the end of the applicable Initial Term or any subsequent Renewal Term, as the case may be, provided that if TGVI is required to make any material facility additions or upgrades to its system in order to continue to provide service under the TSA during the Renewal Term, then the aforesaid notice period will be 24 months prior to the end of the applicable Initial Term or subsequent Renewal Term, as the case may be.
- 4.4 If TGVI requires facility additions or upgrades to its system in order to provide service under the TSA during any Renewal Term, then TGVI may require that, as a condition of the renewal, the renewal term shall be extended for the time required to recover the costs of such additions or upgrades, up to a maximum of 10 years.

## **5. Contract Demand**

- 5.1 Firm Contract Demand under the TSA for the ICP Delivery Point ("ICP CD") will be 45,000 GJ per day.
- 5.2 Firm Contract Demand under the TSA for the DPP Delivery Point ("DPP CD") will be 44,600 GJ per day.
- 5.3 TGVI's obligation for firm deliveries under the TSA is limited to the Contract Demand associated with the ICP Delivery Point and the DPP Delivery Point.
- 5.4 Subject to clause 5.3, on a non-firm basis, but in priority to all other interruptible deliveries to third parties, BC Hydro can nominate under the TSA any quantity of gas up to the combined Contract Demand for ICP and DPP of 89,600 GJ/d for delivery at ICP or DPP, without attracting interruptible transportation charges.
- 5.5 BC Hydro may nominate under the TSA on a non-firm basis, but subject to available capacity and with the same priority to all other interruptible deliveries, any quantity of gas up to the combined Contract Demand for ICP and DPP of 89,600 GJ/d for delivery to any other delivery point or points on the TGVI system as alternate delivery points for any day or days during which there is an Outage Event at ICP and/or DPP, as a result of which the full applicable Contract Demand at the generator is not required, without attracting interruptible transportation charges.

**6. Receipt and Delivery Point**

- 6.1 The Receipt Point will be the Huntingdon Delivery Area as defined in the Duke Energy Transmission (Westcoast) General Terms and Conditions.
- 6.2 The Delivery Points will be:
  - a) The ICP Delivery Point is the point at which the TGVI system connects with the facilities of ICP, and
  - b) The DPP Delivery Point is the point at which the TGVI system connects with the facilities of DPP.

**7. Service Levels**

- 7.1 Under the TSA, TGVI shall provide on each day of the term daily firm service of the ICP CD and the DPP CD, subject TGVI's rights under clause 7.2.
- 7.2 Under the TSA, during the period from January 1 to March 1 and November 1 to December 31; TGVI will have the right to purchase and receive both the gas commodity and firm capacity associated with the ICP CD, upon reasonable notice. The total peaking volume in any calendar year will not exceed the product of ICP CD times 53 hours divided by 24, or 99,375 GJs.
- 7.3 Under the TSA, TGVI shall provide interruptible transportation service. For clarity, TGVI is under no obligation to add new facilities in order to provide for interruptible transportation service.

**8. Demand Charge**

- 8.1 For daily firm service, during the contract term BC Hydro shall pay a monthly demand charge to TGVI based on the TGVI's approved toll for such firm transport service.
- 8.2 From time to time, TGVI will seek approval of the Firm Transport demand charge based on approved cost allocation and rate design principles including but not limited to the following:
  - a) Costs associated with the LNG storage facility will be considered to be associated with meeting peak demand requirements for capacity and gas supply on the TGVI system;
  - b) Allocation of transmission capacity costs to TGVI's sales customers will take into consideration the use of the LNG storage facility, and other peak shaving capability that may be available, to meet peak demand requirements for capacity and gas supply on the TGVI system.

**9. Interruptible Service Charge**

- 9.1 For interruptible service under the TSA, BC Hydro shall pay TGVI's approved toll for such service from time to time.

**10. Commodity Charge**

- 10.1 BC Hydro shall pay commodity charges equal to amounts payable by TGVI and properly allocated to BC Hydro in respect of:
- a) Taxes associated with system gas, including taxes payable under the Motor Fuel Tax Act (British Columbia), or successor legislation, and
  - b) Any excise or similar taxes payable by TGVI in respect of gas transported and delivered through the TGVI System.

**11. Peaking Service Charges**

- 11.1 For peaking service described in clause 7.2, during the period from January 1 to March 1 and November 1 to December 31, TGVI shall pay BC Hydro a monthly demand charge of \$20,000 beginning in 2007 and escalating annually at 50% of the change in CPI.
- 11.2 For purchase of peaking gas commodity, TGVI shall pay BC Hydro a commodity charge of \$15 per GJ beginning in 2007 and escalating annually at 50% of the change in CPI.

**12. Fuel**

BC Hydro shall provide fuel in kind at the Receipt Point based on the monthly allocated fuel percentages required for service on TGVI's transmission system to transport gas to the Delivery Points, including amounts for unaccounted-for-gas and meter station fuel.

**13. Expansion Facilities**

- 13.1 The Compressor Facility Agreement entered into on May 18, 2001, with effect from December 15, 2000, as amended, between the parties shall be amended such as to allow TGVI's retention of ownership of the "Compressor Facility" thereunder, and its obligation to make payment therefor in accordance with the aforesaid agreement to take effect on January 1, 2007, or on the first business day following that date, but with effect from January 1, 2007.
- 13.2 If TGVI intends to proceed with expansion facilities on its system with an in-service date at any time on after December 31, 2008, TGVI will give written notice thereof to BC Hydro not less than 30 months prior to the date such expansion facilities are expected to be in-service. The notice shall provide reasonable detail regarding the expansion facilities, including the incremental system capacity that would be required to defer the expansion. For clarity, this clause does not apply to the Mt. Hayes LNG storage facility or the Squamish compressor that are currently proposed by TGVI for installation in 2007.
- 13.3 Within 30 days after receipt of the notice described in clause 13.2, BC Hydro may elect by notice to TGVI to reduce the ICP CD and/or the DPP CD by an amount not exceeding the incremental system capacity requirement that would be required to defer the construction and operation of the expansion facilities described in TGVI's notice.

- 13.4 Alternatively, within 30 days after receipt of the notice described in clause 13.2, BC Hydro may elect to make a firm offer to TGVI regarding a peaking gas or curtailment arrangement that would avoid or defer the expansion facilities. The Parties will then have 60 days to put an agreement in place on mutually acceptable terms. Failure to reach agreement will not limit BC Hydro's right to participate as an intervenor in any regulatory approval process required for the expansion facilities.

#### **14. Contract Demand Reduction**

- 14.1 BC Hydro may elect to reduce the ICP CD and/or the DPP CD with effect on or after November 1, 2013, provided BC Hydro gives TGVI not less than 24 months written notice of that election. The Contract Demand reduction will occur on the first November 1 following the expiration of notice period.
- 14.2 If BC Hydro exercises its right to reduce its Contract Demand, BC Hydro will make a payment to TGVI such that the utility rate base is decreased by an amount equal to the then net book value of the transmission facilities that have been added to the utility rate base since the commencement of this TSA, including the Texada Compressor Facility plus 50% of the then net book value of the Mt. Hayes LNG facility currently proposed by TGVI, multiplied by the amount of the Contract Demand Reduction (expressed in GJ/d), divided by 89,600.

#### **15. Capacity on TGI's Coastal Transmission System**

- 15.1 TGVI, TGI and BC Hydro will enter into an agreement (the "BTA Capacity Assignment") whereby BC Hydro will from time to time assign to TGVI certain of its rights to capacity under the BC Hydro ByPass Transportation Agreement with TGI dated November 27, 1998 (the "BTA") for transportation from Huntingdon to Eagle Mountain as follows:
- a) The capacity assignment will be equivalent to the incremental wheeling capacity required by TGVI in addition to the capacity it holds under the PCEC Wheeling Agreement between TGVI and TGI,
  - b) TGVI will pay a demand charge to BC Hydro for the assigned capacity based on the average unit cost of capacity under the PCEC Wheeling Agreement,
  - c) BC Hydro may limit the amount of the capacity assignment to the degree it needs to reserve capacity to serve Burrard Thermal.
- 15.2 The expiry of the capacity assignment will be the earlier of the expiry date of the TSA or the BTA. For clarity, this section does not change BC Hydro's rights to terminate the BTA in accordance with the terms of that agreement.
- 15.3 BC Hydro, TGVI and Terasen Gas Inc. will enter into an agreement (the "Coordination Agreement") to co-ordinate deliveries at Burrard Thermal under the BTA in a manner that provides delivery pressure at Eagle Mountain consistent with minimum expansion of the HPTS and with Burrard Thermal operation requirements.

## 16. Approvals

- 16.1 The TSA, the BTA Capacity Assignment and the Coordination Agreement (collectively, the "Agreements") will be subject to the following having occurred on or before February 28, 2005:
- a) the approval of the Agreements by the British Columbia Utilities Commission ("BCUC"),
  - b) the Electricity Purchase Agreement dated November 16, 2004 ("CFT EPA") between BC Hydro and Duke Point Power Limited Partnership being approved by the BCUC (or the BCUC having determined to accept it for filing), and the CFT EPA having not been terminated by either of the parties thereto pursuant to section [3.2] thereof,
  - c) the approval of TGVI's application for a Certificate of Public Convenience and Necessity ("CPCN") for the LNG Storage Project or other CPCNs' that may be required to effect provision of the required transport capacity,
  - d) the approval of the Agreements of the board of directors of TGVI, TGI and BC Hydro, provided that either of them may waive this condition in respect of their own board approval.
- 16.2 TGVI, BC Hydro and TGI shall support BCUC approval of the Agreements, provided that the foregoing:
- a) does not in any way restrict BC Hydro from the exercise of its rights of intervention in any regulatory proceeding for the purpose of advancing its interests in securing the lowest cost gas transportation service,
  - b) does not in any way restrict TGVI from exercise of its rights in any regulatory proceeding to advancing cost allocation and rate design principles that meet its objective of maintaining competitive rates for all of its customers and allows for recovery of the RDDA by December 31, 2011.

**Schedule A**

**Draft Firm Service Transport Agreement**

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**FIRM TRANSPORTAION SERVICE AGREEMENT**

**For**

**TRANSPORTATION ON THE TERASEN GAS (VANCOUVER ISLAND) INC.**

**HIGH PRESSURE TRANSMISSION SYSTEM**

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- (9) "Eagle Mountain Interconnect" means the point where the TGVI System connects with the Terasen Gas System near Eagle Mountain in Coquitlam, British Columbia;
- (10) "Expiry Date" means the date as specified in Article 1;
- (11) "General Terms and Conditions for Gas Transportation Service" means TGVI's Gas Tariff, Part B, Transmission Transportation Service, as approved by the BCUC and in effect from time to time;
- (12) "High Pressure Transmission System" or "TGVI System" is the high pressure pipeline from the Eagle Mountain Interconnect to the TGVI distribution system.
- (13) "ICP" means the Island Cogeneration Plant;
- (14) "Interruptible Toll" means, in respect of each Month of the term of this Agreement, the toll for Interruptible Transportation, as specified in the table of charges and as approved and amended from time to time by the BCUC, expressed in dollars per gigajoule;
- (15) "Peaking Agreement" means the Peaking Agreement dated \_\_\_ as of the \_\_\_ day of \_\_\_\_\_, 20\_\_\_ between the Shipper and TGVI as amended and in effect from time to time;
- (16) "Service Period" means the period of time commencing at the beginning of the Day on the Commencement Date and ending at the end of the Day on the Expiry Date; and
- (17) "Terasen Gas" means Terasen Gas Inc.

3.2 Interpretation. For the purposes of this Agreement, except as otherwise expressly provided:

- (1) "Agreement" means this Agreement, together with the Table of Charges attached hereto, as it may from time to time be supplemented or amended and in effect;
- (2) all references in this Agreement to a designated "Article", "section", "subsection" or other subdivision or to a Schedule are to the designated Article, section, subsection or other subdivisions of, or Schedule to, 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 or any provision hereof; and
- (5) the singular of any term includes the plural, and vice versa, the use of any term is equally applicable to any gender and, where applicable, a body corporate 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.

#### **ARTICLE 4 TERM**

- 4.1 Term. This Agreement shall be effective as of the Commencement Date and, unless terminated earlier pursuant to the provisions hereof, shall continue in effect until the Expiry Date.
- 4.2 Renewal Option. The Shipper may request to extend the Expiry Date by one year, provided such notice is given by the Shipper to so extend the term of this Agreement at least 6 months prior to the Expiry Date of this Agreement. TGVI shall, within 90 days of receipt of this notice, confirm to the Shipper its acceptance of this extension, subject to the capacity being available on the TGVI System. Nothing in this Section shall require TGVI to undertake or proceed with an expansion project to the TGVI System to accommodate the extension.

## **ARTICLE 5**

### **FIRM TRANSPORTATION SERVICE**

- 5.1 Firm Service. Subject to the provisions of this Agreement, TGVI shall, on each Day during the Service Period, provide the Shipper with Firm Transportation Service from the Receipt Point to the Delivery Points in respect of that quantity of gas not exceeding the Contract Demand, for each Delivery Point, requested and supplied by the Shipper at the Receipt Point on such Day.
- 5.2 Contract Demand. The Contract Demand under this Agreement shall be as agreed upon by TGVI and the Shipper, and as TGVI System capacity will permit, as specified in Article 1 and Article 3.
- 5.3 Individual Delivery Point Firm Service. Subject to the availability of capacity on the TGVI system, TGVI shall on each Day during the Service Period, provide the Shipper with Firm Transportation Service in respect of that quantity of gas above the individual Delivery Point Contract Demand, but not exceeding the Total Contract Demand as requested and supplied by the Shipper at the Receipt Point on such Day.
- 5.4 Rate of Delivery. Notwithstanding section 2.07 of the General Terms and Conditions for Gas Transportation Service, the Shipper shall take delivery of gas at the Delivery Points as nearly as practicable at an hourly rate of flow equal to the quotient obtained by dividing the Authorized Quantity, for each Delivery Point, for such Day by 24, provided that in no event shall the Shipper take delivery of gas hereunder in any hour of such Day in an amount greater than 5% of the Authorized Quantity for such Day and in no event shall TGVI be required to deliver gas hereunder in any hour of such Day in an amount greater than 5% of the Authorized Quantity for such Day except as requested by the Shipper, and as approved by TGVI acting reasonably.

## **ARTICLE 6**

### **INTERRUPTIBLE TRANSPORTATION SERVICE**

- 6.1 Interruptible Service. Subject to the provisions of this Agreement, to the service elected in Article 1, and to the availability of capacity on the TGVI System, TGVI shall, on each Day during the Service Period, provide the Shipper with Interruptible Transportation Service from the Receipt Point to the Delivery Point/s requested in respect of that quantity of gas in excess of the Contract Demand requested and supplied by the Shipper at the Receipt Point on such Day.

## **ARTICLE 7**

### **TOLLS**

- 7.1 Tolls - Firm Transportation Service. The Shipper shall pay to TGVI in respect of the Firm Transportation Service provided to the Shipper hereunder in each Month of the term of this Agreement an amount equal to the sum of:
- (1) the product obtained by multiplying the Demand Toll for such Month by the product obtained by multiplying the Contract Demand by the number of Days in such Month; and
  - (2) the product obtained by multiplying the Commodity Toll for such Month by the total quantity of gas delivered to the Shipper under such service at the Delivery Point in such Month.
- 7.2 Tolls - Interruptible Transportation Service. The Shipper shall pay to TGVI in respect of the Interruptible Transportation Service provided to the Shipper in each Month of the term of this Agreement an amount equal to the sum of:
- (1) the product obtained by multiplying the Interruptible Toll for such Month by the total quantity of gas delivered to the Shipper under such service at the Delivery Point in such Month; and
  - (2) the product obtained by multiplying the Commodity Toll for such Month by the total quantity of gas delivered to the Shipper under such service at the Delivery Point in such Month.

## **ARTICLE 8**

### **RECEIPT POINT, DELIVERY POINTS AND DELIVERY PRESSURE**

- 8.1 Receipt Point. The Shipper shall in respect of the Firm Transportation Service and Interruptible Transportation Service to be provided by TGVI hereunder deliver gas to TGVI at the Receipt Point.
- 8.2 Delivery Points. TGVI shall in respect of the Firm Transportation Service and Interruptible Transportation Service to be provided by TGVI hereunder deliver gas to the Shipper at the Delivery Points.
- 8.3 Delivery Pressure. Gas delivered by TGVI to the Shipper at the Delivery Points shall be at a pressure of not less than 3,450 kPa.

## **ARTICLE 9**

### **DEFAULT**

- 9.1 Default. If the Shipper at any time (i) fails or neglects to make any payment due to TGVI under this Agreement within 30 days after payment is due, or (ii) fails or neglects to correct any default of any of the other terms, conditions, covenants, agreements or obligations imposed upon it under this Agreement, then TGVI may, in addition to any other remedy that it has, at its option and without liability therefore, upon not less than 5 days prior notice to the Shipper of such non-payment, failure or neglect (which notice may, for greater certainty, in the case of non-payment be given by TGVI during the 30 day period referred to in (i) above), suspend further transportation service to the Shipper until the default has been fully remedied, and no such suspension will relieve the Shipper from any obligation under this Agreement. If such default by the Shipper continues for a further 30 days after the suspension of service by TGVI, then TGVI may, in addition to any other remedy that it has, at its option and without liability therefore, terminate this Agreement upon not less than 5 days prior notice thereof to the Shipper (which notice may, for greater certainty, be given by TGVI during

such 30 day period), and notwithstanding such termination the Shipper shall continue to be liable for the payment of all amounts payable to TGVI during what would otherwise have been the remainder of the term of this Agreement.

- 9.2 Effect of Termination. Notwithstanding the termination of this Agreement, whether on the Expiry Date or otherwise, provisions respecting liabilities which have arisen or accrued prior to the date of termination and provisions which are specifically stated to survive the termination of this Agreement shall continue in full force and effect in accordance with their terms.

## ARTICLE 10 ARBITRATION

- 10.1 Arbitration. All disputes arising from this Agreement (other than with respect to the determination by the BCUC of the Demand Tolls and Interruptible Toll) shall, after the parties have attempted in good faith to settle the dispute between themselves, be submitted to and finally settled by arbitration under the then current rules of the British Columbia International Commercial Arbitration Centre ("BCICAC"). The arbitration will take place in Vancouver, British Columbia before a single arbitrator agreed to by the parties and will be administered by the BCICAC in accordance with its "Procedures for Cases under the BCICAC Rules". If a dispute arises under the Peaking Agreement and is pending concurrently with a dispute pending under this Agreement, based on the same or similar facts and circumstances, the parties shall consent to the consolidation of those disputes in a single arbitration proceeding, with the intent of avoiding any unnecessary multiplicity of proceedings.

## ARTICLE 11 GENERAL

- 11.1 Notices. Any notice or other communication required or permitted to be given under this Agreement will be effective only if in writing and when it is actually delivered (which delivery may be by telecopy or other telecommunications device) to the party for whom it is intended at the following address or such other address in British Columbia as such party may designate to the other party by notice in writing delivered in accordance with this section 11.1:

to TGVI:

TERASEN GAS (VANCOUVER ISLAND) Inc.  
#2400 - 1111 West Georgia Street  
Vancouver, British Columbia  
V6E 4M4

Attention:     Manager, Gas Supply  
Telecopier:   (604) XXX-XXXX

to the Shipper:

address as specified in Article 1

- 11.2 Severability. If any provision of this Agreement is found or determined to be invalid, illegal or unenforceable it shall be construed to be separate and severable from this Agreement and shall not impair the validity, legality or enforceability of any other provisions of this Agreement, and the remainder of this Agreement shall continue to be binding on the parties as if such provision had been deleted.

- 11.3 No Waiver. No waiver by either party of any default by the other in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any other or future default or defaults hereunder, whether of a like or a different character.
- 11.4 Assignment. This Agreement may not be assigned in whole or in part by either party except with the prior written consent of the other party.
- 11.5 Burden and Benefit. This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.
- 11.6 Governing Law. This Agreement and all matters arising hereunder shall be governed by the laws of British Columbia and the federal laws of Canada applicable in British Columbia.
- 11.7 Entire Agreement. This Agreement contains the whole agreement between the parties in respect of the subject matter hereof and there are no terms, conditions or collateral agreements express, implied or statutory other than as expressly set forth in this Agreement and this Agreement supersedes all of the terms of any written or oral agreement or understanding between the parties in respect of the subject matter hereof.
- 11.8 Further Assurances. Each party shall, at all times hereafter, execute and deliver all such further documents and do all such further acts and things as may be reasonably requested by the other party to give full effect to the intent and meaning of this Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first above written.

**TERASEN GAS (VANCOUVER ISLAND) INC.**

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Print Name and Office*

**[Shipper]**

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Print Name and Office*

## **Firm Transportation Service Agreement – Table of Charges**

### **Availability**

To consumers or shippers who have a Firm Transportation Service Agreement with TGVI and who take gas directly from the TGVI System.

### **Conditions**

The consumer or shipper must sign a Firm Transportation Service Agreement with TGVI. The Agreement will specify the Contract Demand. The consumer/shipper is responsible for supplying its own gas including fuel and system gas to TGVI at the interconnect to the Duke Energy/Westcoast system at Huntingdon. The consumer or shipper will adhere to the terms of the service agreement as well as the General Terms and Conditions of the TGVI Tariff Transmission Transportation Service.

### **Rates**

Firm Service (to be determined)

Interruptible Service – for gas shipped above the firm Contract Demand

Winter (November-March) (to be determined)

Summer (April-October) (to be determined)



Richard Stout  
Chief Regulatory Officer  
Phone: (604) 623-4046  
Fax: (604) 623-4407

13 December 2004

Mr. Robert Pellatt  
Commission Secretary  
British Columbia Utilities Commission  
600 Howe Street, 6<sup>th</sup> Floor  
Vancouver BC V6Z 2N3

Dear Mr. Pellatt:

**Re: Terasen Gas (Vancouver Island) Inc. ("TGV") Review of Resource Plan and Application for a Certificate of Public Convenience and Necessity ("CPCN") for a Liquefied Natural Gas Storage (LNG) Facility**

At the hearing on December 8, Mr. Kleefeld and Mr. Johnson advised the Commission that BC Hydro and TGV had reached an accommodation on the nature of any filing that TGV would make on its summary of principal terms for gas transportation arrangements (also called a "term sheet"); Mr. Kleefeld further advised the Commission that after TGV completed that filing, BC Hydro would consider what form its response, if any, would take (T6, 940-41). On December 9, Mr. Johnson filed TGV's term sheet and draft firm transportation service agreement. Mr. Johnson's letter also referred to the preliminary draft peaking gas agreement attached to TGV's response to BCUC IR 65.2.

This letter is BC Hydro's response. It has two parts. The first part summarizes the key elements of long-term gas transportation arrangements that would meet BC Hydro's needs. The second part summarizes the tolling and cost allocation principles that would need to be in place before BC Hydro would execute a negotiated long-term agreement for transportation service from TGV. One of the key principles is that, after the RDDA balance is reduced to zero, BC Hydro ratepayers should not still be required to pay for amounts relating to deferred revenue that might be caused by rates or tolls which do not recover TGV's total cost of service. Failing agreement with TGV on this and related principles, BC Hydro would rely on short-term arrangements for gas transportation or seek such other arrangements or relief that may be available to it.

BC Hydro's terms are "facility-neutral" in the sense that the transportation arrangements allow for any system expansion by TGV, whether by LNG and compression, by pipe and compression, or by a mixture of pipe, compression and curtailment. However, because of the peak-shaving nature of the LNG facility, BC Hydro believes that the cost of that facility should be assigned to the core market, as should any benefits achieved from mitigation revenue by selling LNG services to others. This principle is both described and circumscribed in the part of the response that summarizes the tolling and cost allocation principles.

## Summary of Key Transportation Principles

- Purpose:** To service Island Cogeneration Project (ICP) and the proposed Duke Point Power Plant (DPP).
- Term:** ICP – 01 January 2007 to 12 April 2022  
DPP – 25 years after Commercial Operation Date (scheduled for 01 May 2007)  
With renewal rights exercisable by BC Hydro on due notice.
- Contract Demand:** ICP – 45.0 TJ/d; DPP – 44.6 TJ/d
- Contract Demand Reductions:** BC Hydro may reduce Contract Demand on due notice, with effect not earlier than 01 November 2011, subject to payment of a Reduction Fee, if any, as follows:
- Reduction at ICP and/or DPP by 89.6 TJ/d or less on or after 01 November 2017—no fee, or
  - Reduction at ICP and/or DPP by less than 89.6 TJ/d before 01 November 2017—fee being utility rate base decreased by 50% of then undepreciated net book value of incremental expansion facilities on the high pressure transmission system, including Texada Compressor, but excluding LNG, if any, prorated to amount of reduction.
- Receipt Point:** Huntingdon Delivery Area
- Delivery Points:** ICP and DPP interconnection with TGV system, with provision for alternative delivery points in the case of generation plant outages.
- Service Levels:** Firm, up to Contract Demand, subject to curtailment option, and Interruptible.
- Curtailment:** BC Hydro may elect curtailable firm service at ICP from 53 to 240 hours per year, and at DPP from zero to 240 hours per year, by due notice on or before 01 November 2005. Curtailment available only 01 November to 01 March of following year, and after TGV terminates all interruptible service and exhausts recourse to basic supply agreements.
- Charge:** Demand charge determined in accordance with Tolling Principles (attached), plus usual properly allocated commodity charges. BC Hydro to provide fuel gas in kind.
- Expansions:** If TGV proposes expansions with in-service dates after 31 December 2008, BC Hydro may reduce Contract Demand to avoid or defer expansion.
- BTA Assignment**
- Conditions:**
- TGV to exercise "Retention Option" under the Texada Compressor Agreement, effective 01 January 2007.
  - Roll-over of existing Transportation Service Agreement, Peaking Agreement (if required) and Capacity Assignment due to expire 31 December 2004, with necessary amendment to Contract Demand
  - BCUC approval of TSA and BTA Assignment.
  - BCUC approval of DPP Electricity Purchase Agreement.
  - TGV, TGI and BC Hydro boards of directors approval.

### **Summary of Key Tolling and Cost Allocation Principles**

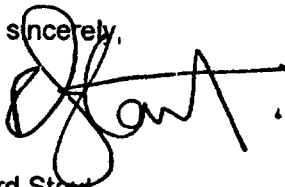
1. All system costs of service for the TGVl high pressure transmission system ("HPTS") will be rolled-in for the purposes of cost allocation and toll setting ("rolled-in HPTS cost of service").
2. The rolled-in HPTS cost of service shall include only the costs of service of the facilities necessary to provide HPTS service and shall not include any costs for the recovery of the existing ("RDDA") or any future revenue deficiency account, including the costs of income tax, financing and redemption. For clarity, the foregoing exclusion of costs for the recovery of the RDDA does not preclude recovery in accordance with paragraph 4 (b) below.
3. The "unit cost of service" is equal to the rolled-in HPTS cost of service divided by the product of:
  - a) the sum of the design peak day demand for the core market and all contract demands for firm service; and
  - b) the number of days per year.
4. Until the earlier of the existing RDDA account balance becoming zero or 01 January 2012, the Base Toll for BC Hydro shall be calculated as follows:
  - a) the unit cost of service,
  - b) a cost for recovery of the existing RDDA balance [to be determined with TGVl through analysis] on a before-tax basis,
  - c) the sum of (a) and (b) times a revenue/cost ratio of 1.25.
5. After the term of paragraph 3, the Base Toll for BC Hydro shall be solely the unit cost of service. For clarity, the Base Toll after the term of paragraph 3 will not include any income tax, financing or redemption costs of any revenue deficiency, and the revenue/cost ratio will be 1.0.
6. Except for the recovery of the existing RDDA balance, in no event will BC Hydro be subject to recovery of any amount related to deferred revenue resulting from rates or tolls that do not recover TGVl's total cost of service. For clarity, the toll derived from these principles recovers all applicable costs of service, and service to BC Hydro under this toll structure cannot and will not cause under-recovery of TGVl's cost of service, and in particular, TGVl's cost of service after the termination of royalty credits paid by the provincial government.
7. For each GJ/d of contract demand that BC Hydro elects to be curtailable, the applicable toll shall be the Base Toll reduced by 10% (the "Curtailment Toll"). The Curtailment Toll represents a fair allocation of costs to reflect curtailment and it cannot and will not cause under-recovery of TGVl's cost of service.

8. For the BC Hydro Contract Demand subject to curtailment, the total curtailment in each calendar year shall be not more than 240 hours, adjusted by any BC Hydro curtailment. For all other hours in each calendar year, service to BC Hydro will be firm, non-curtailable service. Curtailment of BC Hydro's firm service at either ICP or DPP for up to 240 hours, adjusted as aforesaid, per calendar year shall occur only:
  - a) during the period from 01 January to 01 March and 01 November to 31 December;
  - b) after all interruptible service is terminated and ceases to be in effect; and
  - c) after all supply under the Basic Supply Agreements [where the definition of Basic Supply Agreements includes peaking gas supply contracts] has been maximized.
  
9. If LNG is the expansion plan, the cost of LNG will be assigned to the core market, as well as any mitigation revenue for use of LNG by third parties. In this event, the unit cost of service of the HPTS will be determined using a core market allocation factor equal to the secondary peak having regard for the optimal use of LNG reserved for the core market. To clarify, only the portion of LNG withdrawal capacity that is reserved for the core market to meet its peaking requirements, including design peak day requirements, will be used in the determination of the HPTS cost allocation factor for the core market.

BC Hydro recognizes that, even if it were able to reach agreement with TGVI on the relevant transportation and tolling principles, the parties would then need to seek Commission review and approval of any such agreement.

Thank you for the opportunity of responding to TGVI's term sheet.

Yours sincerely,



Richard Stout  
Chief Regulatory Officer

cc. Terasen Gas (Vancouver Island) Inc.  
TGVI Resource Plan and LNG CPCN Applications Intervenors