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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-7-11**

TELEPHONE: (604) 660-4700
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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Terasen Gas (Vancouver Island) Inc.
and Mt. Hayes (GP) Ltd. as general partner on behalf of Mt. Hayes Storage Limited Partnership
for Approvals to allow the Chemainus Indian Band and Cowichan Tribes to acquire an ownership interest
in the liquefied natural gas storage facility (LNG Storage Facility) located at Mt. Hayes,
near Ladysmith, British Columbia

BEFORE: N.E. MacMurchy, Commissioner

January 18, 2011

O R D E R

WHEREAS:

- A. On January 11, 2011 Terasen Gas (Vancouver Island) Inc. (TGVI) and Mt. Hayes (GP) Ltd. as general partner on behalf of Mt. Hayes Storage Limited Partnership (Mt. Hayes LP) submitted an application (the Application) to the British Columbia Utilities Commission (the BCUC or the Commission) seeking approvals under the *Utilities Commission Act* (the Act) to allow the Chemainus Indian Band (Chemainus) and Cowichan Tribes (Cowichan) to acquire an ownership interest in a LNG Storage Facility located at Mt. Hayes, near Ladysmith, British Columbia;
- B. The LNG Storage Facility, owned by TGVI, is currently under construction and is expected to be in service in April 2011;
- C. Under the transactions described in the Application the following would occur:
 - Beneficial ownership of the LNG Storage Facility would be transferred effective January 1, 2012 to Mt. Hayes LP at the net book value of the assets comprising the LNG Storage Facility;
 - TGVI would own a minimum of 85 percent of the limited partnership units of Mt. Hayes LP and the Chemainus and Cowichan owning, collectively, a maximum of 15 percent of the limited partnership units of Mt. Hayes LP; and
 - The LNG Storage Facility would be leased back to TGVI and operated by TGVI;
- D. Under the transactions described in the Application the capital structure of Mt. Hayes LP would be the same as the capital structure of TGVI allowed for rate-setting purposes;

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- E. Under the transactions described in the Application TGVI would make an initial loan to Mt. Hayes LP equal to 60 percent of the capital structure of Mt. Hayes LP and would make loans, as required, to Mt. Hayes LP arising from future capital expenditures on the LNG Storage Facility or from changes in the capital structure of Mt. Hayes LP due to changes in the capital structure of TGVI;
- F. Section 7.2.1 (3)(a) of Commission Order G-116-05 ordered that no Terasen Utility will lend to, guarantee or financially support any affiliates of the Terasen Utilities unless accepted by the Commission;
- G. The Application includes a loan agreement under which TGVI will lend Mt. Hayes LP the initial debt portion of the capital structure of Mt. Hayes LP (the Loan Agreement); a demand promissory note (the Grid Promissory Note) under which TGVI would lend Mt. Hayes LP funds for future capital expenditures on the LNG Storage Facility and if there is a change in the capital structure of Mt. Hayes LP arising from a change in the capital structure of TGVI; and a general security agreement (the Security Agreement) by which Mt. Hayes LP would provide TGVI with security for the amount loaned to Mt. Hayes LP under the Loan Agreement;
- H. The Application includes a 40 year facility lease (the Facility Lease) by which TGVI will lease the LNG Storage Facility from Mt. Hayes LP;
- I. The limited partnership agreement relating to Mt. Hayes LP (the Partnership Agreement) was filed on a confidential basis with the Commission as part of the Application. Pursuant to the Partnership Agreement the number of limited partnership units in Mt. Hayes LP owned by TGVI may increase if either of the limited partners fails to fund its obligations to Mt. Hayes LP, and at the end of the Facility Lease TGVI may acquire all the limited partnership units of Mt. Hayes LP;
- J. At the termination of the Facility Lease TGVI would acquire beneficial ownership of the LNG Storage Facility, either through a purchase of the LNG Storage Facility assets from Mt. Hayes LP or an acquisition of the limited partnership units in Mt. Hayes LP of the other limited partners;
- K. In the Application it is proposed that the future rates of TGVI be determined on the basis that the revenue requirements of TGVI be established with the LNG Storage Facility in rate base at its depreciated value, with the LNG Storage Facility assets being subject to normal depreciation and earning a normal return on rate base and it was proposed that the loans from TGVI to Mt. Hayes LP, the interest payments on those loans, the repayments of principal on those loans, the rent payments from TGVI to Mt. Hayes LP under the Facility Lease, the distributions from Mt. Hayes LP to its partners and any tax paid on those distributions are to be accounted for as non-utility transactions;
- L. In the Application it is proposed that the initial depreciation rates to be used by Mt. Hayes LP for the assets comprising the LNG Storage Facility be set at rates equal to TGVI's depreciation rates for similar assets as set out in the settlement agreement of TGVI's 2010 and 2011 revenue requirements, as approved pursuant to Commission Order G-140-09;
- M. At the time of filing, TGVI provided email notice and a copy of the non-confidential portions of the Application to Chemainus, Cowichan and the registered parties to the TGVI 2010-2011 Revenue Requirements Negotiated Settlement approved by Order G-140-09;
- N. TGVI considers that a written hearing process is appropriate for the review of the Application and proposes a regulatory timetable; and

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- O. The Commission considers that establishing a written public hearing and regulatory timetable for the registration of Interveners and for the review of the Application, is necessary and in the public interest.

NOW THEREFORE the Commission orders as follows:

1. The Application will be examined by a Written Public Hearing process and the Regulatory Timetable, attached as Appendix A, has been established.
2. The Application, together with any supporting materials, will be made available for inspection at the TGVI Office, 16705 Fraser Highway, Surrey, BC, V4N 0E8 and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3 and will also be available on the Terasen Gas Inc. website.
3. Interveners or Interested Parties should register with the Commission, in writing or electronic submission, by Wednesday, February 2, 2011. Interveners should specifically state the nature of their interest in the Application and identify generally the nature of the issues that they may intend to pursue during the proceeding and the nature and extent of their anticipated involvement in the review process.
4. TGVI will publish, as soon as reasonably possible following the issuance of this Order but by no later than January 28, 2011, in display-ad format, the Notice of the Application, attached as Appendix B, in local news publications to provide adequate notice to the public in the TGVI service area.
5. TGVI is to provide a copy of this Order, by email where possible, to the Chemainus, Cowichan and all registered parties to the TGVI 2010-2011 Revenue Requirements Negotiated Settlement approved by Order G-140-09.

DATED at the City of Vancouver, In the Province of British Columbia, this 18th day of January 2011.

BY ORDER

Original signed by:

Norman E. MacMurchy
Commissioner

Attachments

An Application by Terasen Gas (Vancouver Island) Inc.
and Mt. Hayes (GP) Ltd. as general partner on behalf of Mt. Hayes Storage Limited Partnership
for Approvals to allow the Chemainus Indian Band and Cowichan Tribes to acquire an ownership interest
in the liquefied natural gas storage facility (LNG Storage Facility) located at Mt. Hayes,
near Ladysmith, British Columbia

REGULATORY AGENDA AND TIMETABLE

ACTION	DATE (2011)
Intervener Registration	Friday, January 28
Commission Information Request	Friday, January 28
Intervener Information Request	Friday, February 4
TGVI Response to Information Requests	Monday, February 21
TGVI Final Written Submissions	Wednesday, March 9
Intervener Final Written Submissions	Wednesday, March 23
TGVI Reply Submissions	Wednesday, April 6



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NOTICE OF APPLICATION AND WRITTEN PUBLIC HEARING

THE APPLICATION

On January 11, 2011 Terasen Gas (Vancouver Island) Inc. (TGVI) and Mt. Hayes (GP) Ltd. as general partner on behalf of Mt. Hayes Storage Limited Partnership (Mt. Hayes LP) submitted an application (the Application) to the British Columbia Utilities Commission (the BCUC or the Commission) seeking approvals under the *Utilities Commission Act* (the Act) to allow the Chemainus Indian Band (Chemainus) and Cowichan Tribes (Cowichan) to acquire an ownership interest in a LNG Storage Facility located at Mt. Hayes, near Ladysmith, British Columbia. The LNG Storage Facility, owned by TGVI, is currently under construction and is expected to be in service in April 2011.

Under the proposed transactions described in the Application the following would occur:

- Beneficial ownership of the LNG Storage Facility would be transferred effective January 1, 2012 to Mt. Hayes LP at the net book value of the assets comprising the LNG Storage Facility;
- TGVI would own a minimum of 85 percent of the limited partnership units of Mt. Hayes LP and the Chemainus and Cowichan owning, collectively, a maximum of 15 percent of the limited partnership units of Mt. Hayes LP; and
- The LNG Storage Facility being leased back to TGVI and operated by TGVI.

However, under the proposed transaction, the capital structure of Mt. Hayes LP would be the same as the capital structure of TGVI allowed for rate-setting purposes. TGVI would make an initial loan to Mt. Hayes LP equal to 60 percent of the capital structure of Mt. Hayes LP and would make loans, as required, to Mt. Hayes LP arising from future capital expenditures on the LNG Storage Facility or from changes in the capital structure of Mt. Hayes LP due to changes in the capital structure of TGVI.

The Application also includes a request for approval of a loan agreement under which TGVI would lend Mt. Hayes LP the initial debt portion of the capital structure of Mt. Hayes LP (the Loan Agreement); a demand promissory note (the Grid Promissory Note) under which TGVI would lend Mt. Hayes LP funds for future capital expenditures on the LNG Storage Facility and if there is a change in the capital structure of Mt. Hayes LP arising from a change in the capital structure of TGVI; and a general security agreement (the Security Agreement) by which Mt. Hayes LP would provide TGVI with security for the amount loaned to Mt. Hayes LP under the Loan Agreement.

Further, the Application includes a 40 year facility lease (the Facility Lease) by which TGVI would lease the LNG Storage Facility from Mt. Hayes LP.

The limited partnership agreement relating to Mt. Hayes LP (the Partnership Agreement) was filed on a confidential basis with the Commission as part of the Application. Pursuant to the Partnership Agreement the number of limited partnership units in Mt. Hayes LP owned by TGVI may increase if either of the limited partners fails to fund its obligations to Mt. Hayes LP, and at the end of the Facility Lease TGVI may acquire all the limited partnership units of Mt. Hayes LP.

At the termination of the Facility Lease TGVI will acquire beneficial ownership of the LNG Storage Facility, either through a purchase of the LNG Storage Facility assets from Mt. Hayes LP or an acquisition of the limited partnership units in Mt. Hayes LP of the other limited partners.

The Application proposes that the future rates of TGVI be determined on the basis that the revenue requirements of TGVI be established with the LNG Storage Facility in rate base at its depreciated value, with the LNG Storage Facility assets being subject to normal depreciation and earning a normal return on rate base and it was proposed that the loans from TGVI to Mt. Hayes LP, the interest payments on those loans, the repayments of principal on those loans, the rent payments from TGVI to Mt. Hayes LP under the Facility Lease, the distributions from Mt. Hayes LP to its partners and any tax paid on those distributions are to be accounted for as non-utility transactions.

Finally, TGVI proposes that the initial depreciation rates to be used by Mt. Hayes LP for the assets comprising the LNG Storage Facility be set at rates equal to TGVI's depreciation rates for similar assets as set out in the settlement agreement of TGVI's 2010 and 2011 revenue requirements.

THE REGULATORY PROCESS

The Commission has established a Written Public Hearing and Regulatory Timetable for the regulatory review of the Application. The Regulatory Timetable can be viewed on the Commission's website at www.bcuc.com.

INTERVENTION

Persons who expect to actively participate in the Terasen Gas proceeding should register as Interveners with the Commission, and should identify the issues that they intend to pursue as well as the nature and extent of their anticipated involvement in the review process. Interveners will each receive a copy of the Application, all correspondence and filed documentation and should provide an email address, if available.

Persons not expecting to actively participate, but who have an interest in the proceeding, should register as Interested Parties. Interested Parties will receive a copy of the Executive Summary in the Application, and all Orders and Decisions issued.

Interveners and Interested Parties should register in writing, no later than Wednesday, February 2, 2011. Notification by mail, courier delivery, fax or email is acceptable.

All submissions and/or correspondence received from active participants or the general public relating to the Application will be placed on the public record and posted to the Commission's website.

PUBLIC INSPECTION OF THE DOCUMENTS

The Application and supporting materials will be available for inspection at the following locations:

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3
Internet: www.bcuc.com

Terasen Gas (Vancouver Island) Inc.
16705 Fraser Highway
Surrey, BC V6N 0E8
Internet: www.terasengas.com

For further information, please contact Ms. Erica Hamilton, Commission Secretary, as follows:

Telephone: (604) 660-4700
Facsimile: (604) 660-1102

BC Toll Free: 1-800-663-1385
E-mail: Commission.Secretary@bcuc.com