ERICA HAMILTON
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: http://www.bcuc.com

BRITISH COLUMBIA UTILITIES COMMISSION

LETTER L-18-14

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 43379

VIA EMAIL
gas.regulatory.affairs@fortisbc.com

May 13, 2014

Ms. Diane Roy
Director, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc.
British Columbia Utilities Commission Order G-45-14 Compliance Filing
2013 – 2016 Gas Supply Mitigation Incentive Program (GSMIP) Term Sheet

On December 19, 2013, by Letter L-76-13, the British Columbia Utilities Commission (Commission) accepted a term sheet for the Gas Supply Mitigation Incentive Plan (GSMIP) for a three year-term from November 1, 2013 to October 31, 2016 (2013-2016 GSMIP Term Sheet).

On April 14, 2014, FEI and FortisBC Energy (Vancouver Island) Inc. filed a revised 2013-2016 GSMIP Term Sheet for Commission acceptance (the Filing) as required by Order G-45-14. This order approved FortisBC Energy Inc.'s (FEI) request to add Asset Management Agreements and NOVA Gas Transmission Limited Pooling Arrangements activities to the non-benchmarked category of the 2013-2016 GSMIP Term Sheet beginning November 1, 2013. Order G-45-14 also directed FEI to file an amended 2013-2016 GSMIP Term Sheet for Commission acceptance within 30 days.

On May 5, 2014, the Commission received further revisions of the 2013-2016 GSMIP Term Sheet (Revised Filing).

The Commission reviewed the Filing and Revised Filing and accepts the accompanying 2013-2016 GSMIP Term Sheet (Amended 2013-2016 GSMIP Term Sheet) as filed in the Revised Filing. The Amended 2013-2016 GSMIP Term Sheet, attached as Appendix A to this letter, will replace the 2013-2016 GSMIP Term Sheet accepted under Letter L-76-13.

Yours truly,

Erica Hamilton

CM/cms
Enclosure

2013-2016 Gas Supply Mitigation Incentive Program (GSMIP) TERM SHEET

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2013-2016 GSMIP TERM SHEET

A. MODEL DESIGN AND TERM

The British Columbia Utilities Commission (the Commission) approved, as per Order G-174-13 dated October 24, 2013, the extension of the term of the FortisBC Energy Inc. (FEI) Gas Supply Mitigation Incentive Program (GSMIP) for the period from November 1, 2013 to October 31, 2016 (the 2013-2016 GSMIP). Order G-174-13 also approved the inclusion of mitigation activities performed by FEI on behalf of FortisBC Energy (Vancouver Island) Inc. (FEVI) in the 2013-2016 GSMIP. The intent of having the GSMIP apply to both FEI and FEVI mitigation activities is to ensure that there is no bias in FEI's mitigation efforts for each of the two utilities, and that mitigation activities are based on delivering the maximum value for both FEI and FEVI customers while maintaining supply security and reliability.

The GSMIP model design incorporates a blended approach of eligible mitigation revenue and a comparison to a base benchmark. FEI's total incentive payment amount is a function of the mitigation revenue achieved as well as the performance of FEI compared to a base benchmark for those mitigation activities where a benchmark applies.

The payment of an incentive payment for any gas contract year under this program is subject to FEI meeting the firm load requirements of both FEI and FEVI's core customers during that year. A gas contract year is from November 1 to the following October 31. The incentive payment FEI shareholders receive under the GSMIP will be reviewed and approved annually by the Commission.

The 2013-2016 GSMIP will be in effect from November 1, 2013 through October 31, 2016, and so will apply for the 2013/14, 2014/15 and 2015/16 gas contract years.

B. TOTAL MITIGATION DESCRIPTION

FEI and FEVI have surplus gas supply, transportation and storage capacity to sell at certain times of the year when customer demand is less than the amount of resources available. Throughout the contract year, FEI and FEI on behalf of FEVI, forecasts what resources will be needed for customer demand and then FEI mitigates the remaining assets. FEI mitigates costs for both FEI and FEVI customers by focusing on opportunities to optimize asset utilization for transportation, storage and off-system supply sales. The GSMIP model breaks down the transactions associated with the aforementioned activities into the following categories: Benchmarked Mitigation Activities, Non-Benchmarked Mitigation Activities, and New Mitigation Activities. Combined, these activities are referred to as Total Mitigation.

The FEI and FEVI gas supply portfolios will each receive the benefit of the mitigation activities realized based on their respective share of the gas supply assets/resources mitigated. Further, the calculation of the incentive payment is determined first by applying the applicable percentage to the mitigation revenue in the three different categories, and then the total incentive is adjusted by a fixed adjustment. Each utility will contribute to the overall incentive payment to the FEI shareholders on the same basis as the mitigation revenues are allocated.

C. TRANSACTION DESCRIPTIONS – BENCHMARKED ACTIVITIES

Benchmarked Activities are those cost mitigation activities for which a reasonable benchmark has been established to measure the relative performance of FEI's cost mitigation efforts against. Current Benchmarked Activities include:

1. Spot Commodity Resale Mitigation: The Commodity Resale transaction only occurs when surplus supply has been purchased in excess of what is needed to serve core load. When FEI and/or FEVI have excess purchased supply, FEI on behalf of itself and on behalf of FEVI, has the option to sell it back at the same market hub, or transport it to sell to a downstream market. FEI will look for transactions that yield the highest expected net-back value, given the constraints on what is operationally feasible. The total cost recovery revenue associated with Spot Commodity Resale is the Actual Sales Volume multiplied by the Actual Sales Price. Nevertheless, the Spot Commodity Resale Mitigation Revenue booked to GSMIP is calculated as follows:

*Actual Sales Volumes * Actual Sales Prices*

minus

*Deemed Purchase Volumes * Deemed Purchase Price @ relevant hub*

minus

Transportation Variable Charges

equals

Spot Commodity Resale Mitigation Revenue

The Deemed Purchase Volume is the actual sales volume plus the applicable pipeline fuel volume for transportation from where the gas is available to the sales point.

The Deemed Purchase Price is the reported Platts Gas Daily Common High price on the date of sale at the relevant hub where the surplus gas is available, which is normally Station 2 or NOVA Inventory Transfer (NIT).

> The Platts Gas Daily Common High is the Platts Midpoint plus 50% of the Absolute Range. The Platts Gas Daily Midpoint is the volume-weighted average of all deals reported to Platts at a given market location, excepting any outliers that are not used, and which is reported in Platts *Gas Daily*, a daily industry publication that provides pricing data at major North American interstate and intrastate pipeline market hubs and pooling points. The Absolute Range is the range between the absolute low and absolute high of deals reported, excluding the outliers that are not used.

2. Benchmarked Transportation Mitigation: FEI on behalf of itself and on behalf of FEVI, can mitigate unutilized transportation capacity by entering into a supply purchase from others at an upstream market and entering into a corresponding sale to others at a downstream market. Benchmarked Transportation Mitigation transactions are those conducted on Spectra T-South for both FEI and FEVI, and on Foothills, Southern Crossing Pipeline (SCP) and Intra-Alberta NOVA for FEI. Only SCP transportation mitigation revenue that is recorded in the Midstream Cost Reconciliation Account is eligible for GSMIP. The Transportation Mitigation transactions could be a spot market transaction or a forward market transaction. Actual sales volumes are net of pipeline fuel. Transportation Mitigation Revenue for each transaction is calculated as shown below:

   *Actual Sales Volumes * Actual Sales Prices*

   minus

   *Actual Purchase Volumes * Actual Purchase Prices*

   minus

   Transportation Variable Charges

   equals

   Transportation Mitigation Revenue

3. Capacity Release Mitigation: FEI, on behalf of itself and on behalf of FEVI, may also mitigate unutilized transportation capacity by entering into Capacity Release transactions, whereby FEI, and FEI on behalf of FEVI, releases capacity to a third party who then pays FEI and/or FEVI for the right to use its transportation capacity. In a Capacity Release transaction, FEI and/or FEVI is not responsible for any variable costs when a third party uses the transportation capacity. The Capacity Release transactions could be a spot market transaction or a forward market transaction. Capacity Release transactions are conducted on Spectra T-South, Foothills and Intra-Alberta Nova. Capacity Release Mitigation Revenue

is calculated for each transaction as the total amount of revenue received for release of the capacity, as shown below:

*Actual Capacity Release Volumes * Actual Capacity Release Prices*

equals

Spot or Forward Capacity Release Mitigation Revenue

4. Total Benchmarked Mitigation Revenue: The Total Benchmarked Mitigation Revenue is calculated as follows:

Spot Commodity Resale Mitigation Revenue

plus

Benchmarked Transportation Mitigation Revenue

plus

Capacity Release Mitigation Revenue

equals

Total Benchmarked Mitigation Revenue

D. TRANSACTION DESCRIPTIONS – NON-BENCHMARKED ACTIVITIES

Non-Benchmarked Activities are those cost mitigation activities for which no reasonable benchmark has been established to measure the relative performance of FEI's cost mitigation efforts against. Current Non-Benchmarked Activities include:

1. Storage Mitigation or Park and Loan Activity: If FEI and/or FEVI have available gas storage capacity and the near price is lower than the forward market price, FEI on behalf of itself and/or FEI on behalf of FEVI, will enter into a purchase in the nearby month and a sale for a higher price in the forward month. This is referred to as a Park transaction.

   An example of a Park: If June gas prices are $4.50 Cdn/GJ and August prices are $4.80 Cdn/GJ, then FEI can purchase gas in June and forward sell August, to lock in a spread of $.30 Cdn/GJ. FEI would contemplate the transaction so long as it didn't negatively impact its ability to fill storage for serving winter customer load, and if the storage carrying costs were less than the value of the price spread between the June purchase and the August sale transactions.

If at any time that FEI and/or FEVI have surplus storage capacity relative to projected loads, FEI, on behalf of itself and/or on behalf of FEVI, may elect to sell FEI and/or FEVI's inventory to a third party who will pay a premium, and return the inventory to FEI and/or FEVI, respectively, at a future date. This is referred to as a Loan transaction.

The Cost to Carry is the time value of money difference of holding the gas in storage for the given time period, which could be positive or negative.

Storage transactions are conducted using the Aitken Creek storage facility and FEI's Alberta storage assets. Storage transactions can be a single transaction of the difference paid for the Park and Loan exchange or it could be a separate purchase and sale.

For a Park and Loan transacted as a single transaction, the calculation of Storage Mitigation Revenue is shown below:

*Actual Park or Loan Volumes * Actual Park or Loan Prices*

minus

Cost to Carry

equals

Storage Mitigation Revenue

For a Storage transaction that is composed of a purchase and sale transaction, the calculation of Storage Mitigation Revenue is shown below:

*Actual Sales Volumes * Actual Sales Prices*

minus

*Actual Purchase Volumes * Actual Purchase Prices*

minus

Cost to Carry

equals

Storage Mitigation Revenue

2. T-North Transportation and Capacity Release Mitigation: From time to time, FEI and/or FEVI may have additional T-North Transportation capacity, which could be mitigated or released. Because there are not significant transactions reported for supply arrangements on T–North, there is no reliable index to use for benchmarking purposes. As a result, transportation mitigation and capacity release transactions on T-North are part of the Non-Benchmarked Activities. The T-North Transportation Mitigation Revenue is calculated using the same methodology as the Benchmarked Transportation Mitigation Revenue. The T-North Capacity

Release Mitigation Revenue calculation uses the same methodology as the Capacity Release Mitigation Revenue in the Benchmarked Activities.

3. Nova Transportation Mitigation: From time to time, FEI may have unutilized Nova Transportation capacity on the day, which could be released to other shippers. Due to market changes, the transport price difference between NIT to Empress has been fluctuating from positive to negative. The spread between these price points has been largely negative since the winter of 2009, thus resulting in a negative benchmark. Since no reasonable benchmark can be established at this time, Nova Transportation mitigation will be part of the Non-Benchmarked activities. The Nova Transportation Mitigation Revenue is calculated using the same methodology as the Benchmarked Transportation Mitigation Revenue.

4. Nova and T-South Interior Forward Capacity Releases: From time to time, FEI may have unutilized Nova and T-South Interior capacity (excess capacity in the summer months from April to October). FEI would release this excess capacity for a forward summer month. For NOVA Forward Capacity Releases, there is no forward pricing available at Empress which traditionally would be used as a proxy to establish a benchmark. Similarly, for the T-South Interior Forward Capacity Releases, there is no sales hub near this location to benchmark against. As a result, Nova and T-South Interior Forward Capacity Releases are part of Non-Benchmarked Activities. The Nova and T-South Interior Forward Capacity Releases Revenue calculation uses the same methodology as the Capacity Release Mitigation Revenue in the Benchmarked Activities.

5. Liquids Extraction: From time to time, FEI may be able to enter into transactions where a party will pay a portion of the proceeds of the sale of natural gas liquids (such as ethane and propane) that can be extracted from company-owned gas. These transactions occur at processing plants for which there is no reliable index pricing data. As a result, Liquids Extraction is part of the Non-Benchmarked Activities. The Liquids Extraction Mitigation Revenue is the total revenue received by FEI from the natural gas Liquids Extraction contracts that FEI has negotiated.

6. Forward Commodity Resale Mitigation: At times, when FEI and/or FEVI has surplus supply and surplus storage capacity, and forward market prices exceed the spot market price and the Cost to Carry, FEI, on behalf of itself and on behalf of FEVI, will forward sell surplus commodity. Due to the difficulty in benchmarking storage, and because a Forward Commodity Resale Mitigation transaction utilizes storage capacity, this transaction is similar to a Storage Mitigation transaction and is part of the Non-Benchmarked Activities. The calculation of Forward Commodity Resale Mitigation Revenue for each transaction is as follows:

*Actual Forward Sales Volumes * Actual Sales Prices*

minus

*Deemed Volumes Purchased * Deemed Purchase Prices*

minus

Net Transportation Costs and Cost to Carry

equals

Forward Commodity Resale Mitigation Revenue

Deemed Volumes Purchased and Deemed Purchase Prices have the same meaning as for the calculation of Spot Commodity Resale Mitigation Revenue, except that the Deemed Purchase Prices will be determined as of the date when the Forward Commodity Resale was entered into.

7. Transportation Asset Management Agreement (AMA): FEI holds firm transportation capacity on NWP. FEI can generate mitigation revenue from the Northwest Pipeline (NWP) capacity under an AMA. Under an AMA, FEI is able maintain full operational flexibility to meet customer load requirements. While FEI is unable to transact buy/sells in the United States (US), by entering into an AMA with a counterparty that can transact in both Canada and the US, this enables FEI to mitigate unutilized transport capacity and generate additional mitigation revenue on behalf of customers. The revenue under the AMA is realized through a monthly demand charge which is shared by FEI and FEVI.

   As no reasonable benchmark can be established for these transactions, AMA is classified as a non-benchmarked activity.

8. Pooling on the Nova System: Nova allows delivery shippers at any export point to assign their extraction rights to another shipper. This assignment instruction is called "Pooling" whereby the assignor's extraction rights are then pooled with the assignee's extraction rights. FEI has developed two opportunities to use pooling to increase mitigation revenues for FEI customers. FEI can pool other shippers' volumes through it's Cochrane Extraction agreement and receive a revenue split for the pooled volumes. FEI can also pool its volume through other counterparties' extraction arrangements. FEI's decision to flow through an extraction plant is evaluated based on which transaction will provide greater mitigation revenue and the counterparties requirements. As no reasonable benchmark can be established for these transactions, Pooling on the Nova system is classified as a non-benchmarked activity.

9. Total Non-Benchmarked Mitigation Revenue: Total Non-Benchmarked Mitigation Revenue is calculated as follows:

Storage Mitigation Revenue

plus

T-North Transportation Mitigation Revenue

plus

T-North Capacity Release Mitigation Revenue

plus

Nova Transportation Mitigation

plus

Nova and T-South Interior Forward Capacity Releases

plus

Liquids Extraction Revenue

plus

Forward Commodity Resale Mitigation Revenue

plus

Transportation Asset Management Agreement (AMA) Revenue

plus

Pooling on Nova System Revenue

equals

Total Non-Benchmarked Mitigation Revenue

E. TRANSACTION DESCRIPTIONS - NEW ACTIVITY

New Activity includes mitigation transactions which FEI, and FEI on behalf of FEVI,does not currently undertake in its management of the FEI's and FEVI's portfolio of gas supply contracts, pipeline contracts, storage capacity and liquids extraction transactions. As a result, New Activity refers to mitigation activities that have not been developed yet. New Activity does not include opportunities created by changes to gas supply purchases or pipeline or storage capacities or changes to pipeline or storage tariffs that do not create new services offerings. The mitigation revenue from a New Activity will be calculated in a way that is consistent with the calculation of mitigation revenue for other GSMIP activities.

A New Activity must be approved as such by the Commission to be included in GSMIP. The mitigation revenue from a New Activity will be calculated from the date that the New Activity transaction first occurred and after a twelve consecutive month period each New Activity will be reclassified to either the Benchmarked or Non-Benchmarked categories as appropriate.

F. BASE BENCHMARK

The Base Benchmark is designed to measure how FEI performed relative to a conservative base utility for the Benchmarked Activities. FEI's performance relative to the Base Benchmark impacts the percentage amount it earns of the Total Benchmarked Mitigation Revenue booked to GSMIP achieved in the Gas Year. The more FEI can outperform the Base Benchmark, the greater the potential incentive payment. The prices used in determining the Base Benchmark are as follows:

- Spot market transactions to sell will be benchmarked against the reported Platts Common Low price, and spot market transactions to purchase will be benchmarked against the reported Platts Common High prices, at the market point on the date of the transaction. Forward market transactions to sell will be benchmarked against the Bid prices and forward market transactions to purchase will be benchmarked against the Offer prices, as reported by OneX for the market point on the date that the transaction took place. Conversions such as for currency exchange, heating value and quantity will be calculated consistent with conventional gas industry practice.

  As described in the Commodity Resale section above, the Platts Common High is the Platts Midpoint plus 50% of the Absolute Range. The Platts Common Low is the Platts Midpoint less 50% of the Absolute Range. The Absolute Range is the range between the absolute low and absolute high of deals reported, excluding the outliers that are not used.

  Bid is the price on the forward market that a buyer is willing to buy gas and Offer is the price on the forward market that a seller is willing to sell gas. OneX is an independent broker who brings parties together to transact energy forward market transactions among market participants, including utilities, traders, marketers, banks and producers.

- Market Concentration Adjustment: A Market Concentration Adjustment may be used for spot transactions. In the event that FEI and FEVI's combined market share in any given season at any market hub exceeds 40% of the reported traded volume in Platts *Gas Daily*, the prices used to determine the Base Benchmark will be the Platts Midpoint price for spot transactions at the market hub. FEI and FEVI's combined market share will be calculated as the volume of FEI's reported transactions to Platts compared to the total transactions reported by Platts *Gas Daily* at each of the 4 major hubs: Station 2, Sumas, AECO and Kingsgate. FEI reports all fixed price transactions to Platts.

G. BASE BENCHMARK CALCULATION

1. Spot Commodity Resale Base Benchmark: The Spot Commodity Resale Base Benchmark is calculated as follows:

*Actual Sales Volumes * Platts Common Low @ relevant hub*

minus

*Deemed Purchase Volumes * Platts Common High*

minus

Transportation Variable Charges

equals

Spot Commodity Resale Base Benchmark

The Deemed Purchase Volumes has the same meaning as for the calculation of the Spot Commodity Resale Mitigation Revenue, and the Platts Common High is for the point where the surplus gas is available, corresponding to the Deemed Purchase Prices.

2. <u>Spot Transportation Mitigation Base Benchmark:</u> The Transportation Mitigation Base Benchmark is calculated as follows:

*Actual Sales Volume * Platts Common Low @ sales hub*

Minus

*Actual Purchase Volume * Platts Common High @ purchase hub*

Minus

Transportation Variable Charges

Equals

Spot Transportation Mitigation Base Benchmark

3. <u>Forward Transportation Mitigation Base Benchmark:</u> The Transportation Mitigation Base Benchmark is calculated as follows:

*Actual Sales Volume * Bid Price @ sales hub*

Minus

*Actual Purchase Volume * Offer Price @ purchase hub*

Minus

Transportation Variable Charges

Equals

Forward Transportation Mitigation Base Benchmark

4. <u>Spot Capacity Release Base Benchmark:</u> The Spot Capacity Release Base Benchmark is calculated as follows:

Actual Capacity Released Volumes Platts Common Low @ relevant sales hub*

Minus

*Actual Capacity Released Volume+ relevant pipeline fuel volume) * Platts Common High @ relevant purchase hub*

Minus

Transportation Variable Charges

Equals

Spot Capacity Release Base Benchmark

5. <u>Forward Capacity Release Base Benchmark:</u> The Forward Capacity Release Base Benchmark is calculated as follows:

Actual Capacity Released Volume Bid price @ relevant sales hub*

Minus

*(Actual Capacity Released + relevant pipeline fuel volume) * Offer price @ relevant purchase hub*

Minus

Transportation Variable Charges

Equals

Forward Capacity Release Base Benchmark

6. Total Base Benchmark: Total Base Benchmark is calculated as follows:

Spot Commodity Resale Base Benchmark

Plus

Spot Transportation Mitigation Base Benchmark

Plus

Forward Transportation Mitigation Base Benchmark

Plus

Spot Capacity Release Base Benchmark

Plus

Forward Capacity Release Base Benchmark

Equals

Total Base Benchmark

H. CAPACITY FACTOR ADJUSTED TOTAL BENCHMARKED MITIGATION REVENUE

To insure that FEI, and FEI on behalf of FEVI,will be focused on utilizing excess transportation through commodity resales downstream, transportation mitigation or capacity releases, a volumetric benchmark has been established. A Capacity Factor Penalty will be assessed on transportation transactions on a given pipeline for a given season, if the combined FEI and FEVI Capacity Factor on that pipeline falls below the overall Benchmarked Pipeline Capacity Factor for that season. The seasonal periods are November-March and April-October. The two pipelines for which there are publicly available capacity factors measuring the flow of gas volumes across the pipeline are Spectra's T-South segment and TransCanada's Foothills system.

In the event the combined FEI and FEVI's Capacity Factor falls below the capacity factor on either of those pipelines for a particular season, FEI and FEVI's penalty would be a reduction in revenue eligible for an incentive payment equal to the difference between the Transportation Mitigation Revenue and the corresponding Base Benchmarks for that particular pipeline and season.

The Benchmarked Pipeline Capacity Factor is calculated as the total reported flows on the pipeline segment during the seasonal period divided by the corresponding maximum available flow capacity.

The combined FEI and FEVI Capacity Factor is calculated as the sum of FEI and FEVI's total actual flows on the pipeline segment during the seasonal period divided by sum of FEI and FEVI's total contracted capacity excluding capacity released on the pipeline segment.

In the event that the combine FEI and FEVICapacity Factor for a particular season on an applicable pipeline segment is less than the corresponding Benchmarked Pipeline Capacity Factor, a Capacity Factor Penalty for the applicable pipeline segment and season will be calculated as:

Applicable Benchmarked Transportation Mitigation Revenue

Minus

Applicable Spot Transportation Mitigation Base Benchmark

Minus

Applicable Forward Transportation Mitigation Base Benchmark

Equals

Capacity Factor Penalty for specific pipeline segment and season

The Capacity Factor Adjusted Total Benchmarked Mitigation Revenue is then calculated as:

Total Benchmarked Mitigation Revenue

Minus

All Capacity Factor Penalties for the applicable time period

Equals

Capacity Factor Adjusted Total Benchmarked Mitigation Revenue

An example of the application of the Capacity Factor Penalty where FEI and FEVI's Benchmarked Revenue is not impacted for T-South capacity for the April 2010 – October 2010 is shown below:

- April 2010 – October 2010 T-South combined FEI and FEVI Capacity Factor = 76.36%
- April 2010 – October 2010 T-South Benchmarked Pipeline Capacity Factor = 64.71%

The combined FEI and FEVI Capacity Factor is greater than the Benchmarked Pipeline Capacity Factor, so there is no adjustment to the Total Benchmarked Mitigation Revenue.

An example of the application of the Capacity Factor Penalty where FEI and FEVI's Benchmarked Mitigation Revenue is impacted for T-South capacity for the April 2009 – October 2009 is shown below:

- April 2009 – October 2009 T-South combined FEI and FEVI Capacity Factor = 64%
- April 2009 – October 2009 T-South Benchmarked Pipeline Capacity Factor = 66%

The T-South Pipeline Benchmarked Capacity Factor is greater than the corresponding T-South combined FEI and FEVI Capacity Factor. Therefore, for April through October 2009, a Capacity Factor Penalty is calculated as shown below and then applied to the Total Benchmarked Mitigation Revenue.

Applicable T-South Transportation Mitigation Revenues

Minus

Applicable T-South Transportation Base Benchmarks

Equals

T-South Capacity Factor Penalty

I. INCENTIVE PERCENTAGE:

1. Benchmarked Activity Incentive Percentage: The Benchmarked Activity Incentive Percentage is determined from the Market Performance Factor.

   i. <u>Market Performance Factor: The Market Performance Factor is calculated as follows:</u>

Capacity Factor Adjusted Total Benchmarked Mitigation Revenue

divided by

Total Base Benchmark

multiplied by 100 percent

Equals

Market Performance Factor

The Market Performance Factor is expressed as a percentage to one decimal place (e.g. 128.2 percent).

The Market Performance Factor (MPF) is used to determine the Benchmarked Activity Incentive Percentage (BAIP) as detailed below:

For MPF between 100 and 131 %, BAIP = 2.45 % + 0.05 % * (MPF-100)

For MPF between 131 and 136 %, BAIP = 4.00 %

For MPF of 136 and greater, BAIP = 4.00 + 0.04 % * (MPF -136)

The Benchmarked Activity Incentive Percentage is expressed as a percentage to two decimal places.

2. Non-Benchmarked Activity Incentive Percentage:

For Non-Benchmarked Activities, a constant 4% incentive percentage is applied to the related mitigation revenue.

3. New Activity Incentive Percentage:

For any new mitigation activities that FEI develops on behalf of itself and on behalf of FEVI and which the Commission determines is a New Activity, a constant 12% incentive percentage is applied to the related mitigation revenue.

4. Fixed Adjustment

The Total Incentive Payment will include a fixed $165,000[1] reduction each year in order to align the incentive payments under the current GSMIP model with the historical incentive payments under the previous GSMIP model and account for the inclusion of FEVI mitigation revenues.

J. INCENTIVE PAYMENT

The Incentive Payment for each gas contract year is calculated as follows:

*Capacity Factor Adjusted Total Benchmarked Mitigation Revenue **
Benchmarked Activity Incentive Percentage

Plus

*Total Non-Benchmarked Activity Mitigation Revenue * 4 percent*

Plus

*Total New Activity Mitigation Revenue * 12 percent*

[1] The $165,000 fixed reduction will be allocated as $150,000 reduction of mitigation revenues earned on FEI assets approved in the FEI Annual Contracting Plan (ACP) and $15,000 reduction of mitigation revenues earned on FEVI assets approved in the FEVI ACP. The revenues and reductions of FEI and FEVI will be tracked separately in the GSMIP model.

Minus

$165,000

Equals

Total Incentive Payment

K. REPORTING REQUIREMENTS

FEI will provide two reports per annum to the Commission. The reports will also be made available, if requested, to stakeholders representing customer groups on a confidential basis.

- The first report will follow the winter period which ends March of each year. This report will consist of all transactions to date with a GSMIP summary to date. There will be a high level summary of any activities that FEI deems to be "New". FEI will provide a model that breaks out the mitigation revenues and incentive payments for each of FEI and FEVI.
- In the second report, also referred to as the Year End Report, FEI on behalf of itself and on behalf of FEVI will provide all transaction data, a GSMIP Summary, and a written report of the market changes from the previous year. "New Activities" will be explained in detail along with a comprehensive plan to transition the activity to a "Benchmarked Activity" if possible. A New Activity must be approved as such by the Commission to be included in GSMIP. The incentive related to New Activities must be approved by the Commission in the annual review of the GSMIP. Any modifications to the GSMIP model for the upcoming year would need to be presented in the Year End Report of the previous year. Capacity Factor adjustments and Market Concentration measurements will be detailed in the Year End Report as well.

In order to maintain the confidence of all parties involved with the design of the current GSMIP model, a full review of the mechanism is required if there is a difference during any of the three years in the 2013-2016 term of plus or minus $500,000 from the historical GSMIP payout of $1.1 Million. Once FEI is aware that a $500,000 or greater variance is likely to occur, the Commission will be informed in order to have a timely review of the model. A variance of this magnitude does not mean that the model is not working in its expected capacity; however, a review will be conducted to explain the variances.

Any incentive payment will be subject to review and approval by the Commission.