



British Columbia
Utilities Commission

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LETTER L-27-16

VIA EMAIL

gas.regulatory.affairs@fortisbc.com

September 29, 2016

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

Dear Ms. Roy:

Re: FortisBC Energy Inc.
Gas Supply Mitigation Incentive Program (GSMIP) for the Period November 1, 2016 to October 31, 2019
Order G-141-16 – GSMIP Term Sheet Compliance Filing

By Order G-141-16, the British Columbia Utilities Commission (Commission) approved the FortisBC Energy Inc. (FEI) Gas Supply Mitigation Incentive Program (GSMIP) extension for a three year term for the period November 1, 2016 to October 31, 2019 (2016-2019 GSMIP), subject to the terms set out in that Order.

In Directive 2 of Order G-141-16, FEI was directed to notify stakeholders when GSMIP reports are filed with the Commission to keep stakeholders informed and revise the 2016-2019 GSMIP Term Sheet accordingly. On September 19, 2016, in compliance with Order G-141-16, FEI filed a revised 2016-2019 GSMIP Term Sheet for Commission acceptance.

The Commission reviewed the filing and considers that the revised 2016-2019 GSMIP Term Sheet meets the terms set out in Directive 2 of Order G-141-16. The Commission accepts the revised 2016-2019 GSMIP Term Sheet, attached as Appendix A to this letter.

Yours truly,

*Original signed by
Patrick Wruck for:*

Laurel Ross

LC/cms
Attachment

2016-2019 Gas Supply Mitigation Incentive Program (GSMIP) TERM SHEET

Table of Contents

- A. Model Design and Term
- B. Total Mitigation Description
- C. Transaction Descriptions - Benchmarked Activities
 - 1. Spot Commodity Resale Mitigation
 - 2. Benchmarked Transportation Mitigation
 - 3. Capacity Release Mitigation
 - 4. Total Benchmarked Mitigation Revenue
- D. Transaction Descriptions - Non-Benchmarked Activities
 - 1. Storage Mitigation or Park and Loan Activity
 - 2. T-North Transportation and Capacity Release Mitigation
 - 3. NOVA Transport Mitigation
 - 4. NOVA and T-South Interior Forward Capacity Release
 - 5. Liquids Extraction
 - 6. Forward Commodity Resale Mitigation
 - 7. Transportation Asset Management Agreement (AMA)
 - 8. Pooling on the NOVA System
 - 9. Total Non-Benchmarked Mitigation Revenue
- E. Transaction Descriptions - New Activity
- F. Base Benchmark
- G. Base Benchmark Calculation
 - 1. Spot Commodity Resale Base Benchmark
 - 2. Spot Transportation Mitigation Base Benchmark
 - 3. Forward Transportation Mitigation Base Benchmark
 - 4. Spot Capacity Release Base Benchmark
 - 5. Forward Capacity Release Base Benchmark
 - 6. Total Base Benchmark
- H. Capacity Factor Adjusted Total Benchmarked Mitigation Revenue
- I. Incentive Percentage
 - 1. Benchmarked Activity Incentive Percentage
 - i. Market Performance Factor
 - 2. Non-Benchmarked Activity Incentive Percentage
 - 3. New Activity Incentive Percentage
 - 4. Fixed Adjustment
- J. Incentive Payment
- K. Reporting Requirements

2016-2019 GSMIP TERM SHEET

A. MODEL DESIGN AND TERM

The British Columbia Utilities Commission (the Commission) approved, as per Order G-141-16 dated August 29, 2016, the extension of the term of the FortisBC Energy Inc. (FEI) Gas Supply Mitigation Incentive Program (GSMIP) for the period from November 1, 2016 to October 31, 2019 (the 2016-2019 GSMIP).

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 its 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. FEI will withdraw the approved incentive amounts from the Midstream Cost Reconciliation Account.

The 2016-2019 GSMIP will be in effect from November 1, 2016 through October 31, 2019, and so will apply for the 2016/17, 2017/18 and 2018/19 gas contract years.

B. TOTAL MITIGATION DESCRIPTION

FEI has 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 forecasts what resources will be needed for customer demand and then FEI mitigates the remaining assets. FEI mitigates costs for 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 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.

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 has excess purchased supply, FEI 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:

$$\begin{aligned}
 & \text{Actual Sales Volumes} * \text{Actual Sales Prices} \\
 & \quad \text{minus} \\
 & \text{Deemed Purchase Volumes} * \text{Deemed Purchase Price @ relevant hub} \\
 & \quad \text{minus} \\
 & \text{Transportation Variable Charges} \\
 & \quad \text{equals} \\
 & \text{Spot Commodity Resale Mitigation Revenue}
 \end{aligned}$$

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 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, Foothills, Southern Crossing Pipeline (SCP) and Intra-Alberta NOVA. Only SCP transportation mitigation revenue, on unutilized capacity, 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:

$$\begin{aligned} & \text{Actual Sales Volumes} * \text{Actual Sales Prices} \\ & \text{minus} \\ & \text{Actual Purchase Volumes} * \text{Actual Purchase Prices} \\ & \text{minus} \\ & \text{Transportation Variable Charges} \\ & \text{equals} \\ & \text{Transportation Mitigation Revenue} \end{aligned}$$

3. Capacity Release Mitigation: FEI may also mitigate unutilized transportation capacity by entering into Capacity Release transactions, whereby FEI releases capacity to a third party who then pays FEI for the right to use its transportation capacity. In a Capacity Release transaction, FEI 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:

$$\begin{aligned} & \text{Actual Capacity Release Volumes} * \text{Actual Capacity Release Prices} \\ & \text{equals} \\ & \text{Spot or Forward Capacity Release Mitigation Revenue} \end{aligned}$$

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

$$\begin{aligned} & \text{Spot Commodity Resale Mitigation Revenue} \\ & \text{plus} \\ & \text{Benchmarked Transportation Mitigation Revenue} \\ & \text{plus} \\ & \text{Capacity Release Mitigation Revenue} \\ & \text{equals} \\ & \text{Total Benchmarked Mitigation Revenue} \end{aligned}$$

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 has available gas storage capacity and the near price is lower than the forward market price, FEI 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 has surplus storage capacity relative to projected loads, FEI may elect to sell its inventory to a third party who will pay a premium, and return the inventory to FEI 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:

$$\begin{aligned} & \text{Actual Park or Loan Volumes} * \text{Actual Park or Loan Prices} \\ & \quad \text{minus} \\ & \quad \text{Cost to Carry} \\ & \quad \text{equals} \\ & \text{Storage Mitigation Revenue} \end{aligned}$$

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

$$\begin{aligned}
 & \text{Actual Sales Volumes} * \text{Actual Sales Prices} \\
 & \quad \text{minus} \\
 & \text{Actual Purchase Volumes} * \text{Actual Purchase Prices} \\
 & \quad \text{minus} \\
 & \text{Cost to Carry} \\
 & \quad \text{equals} \\
 & \text{Storage Mitigation Revenue}
 \end{aligned}$$

2. T-North Transportation and Capacity Release Mitigation: From time to time, FEI 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 has surplus supply and surplus storage capacity, and forward market prices exceed the spot market price and the Cost to Carry, FEI 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:

$$\begin{aligned}
 & \text{Actual Forward Sales Volumes} * \text{Actual Sales Prices} \\
 & \quad \text{minus} \\
 & \text{Deemed Volumes Purchased} * \text{Deemed Purchase Prices} \\
 & \quad \text{minus} \\
 & \text{Net Transportation Costs and Cost to Carry} \\
 & \quad \text{equals} \\
 & \text{Forward Commodity Resale Mitigation Revenue}
 \end{aligned}$$

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.

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 its 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:

$$\begin{aligned}
 & \text{Storage Mitigation Revenue} \\
 & \quad \text{plus} \\
 & \text{T-North Transportation Mitigation Revenue} \\
 & \quad \text{plus} \\
 & \text{T-North Capacity Release Mitigation Revenue} \\
 & \quad \text{plus} \\
 & \text{NOVA Transportation Mitigation} \\
 & \quad \text{plus} \\
 & \text{NOVA and T-South Interior Forward Capacity Releases} \\
 & \quad \text{plus} \\
 & \text{Liquids Extraction Revenue} \\
 & \quad \text{plus} \\
 & \text{Forward Commodity Resale Mitigation Revenue} \\
 & \quad \text{plus} \\
 & \text{Transportation Asset Management Agreement (AMA) Revenue} \\
 & \quad \text{plus} \\
 & \text{Pooling on NOVA System Revenue} \\
 & \quad \text{equals} \\
 & \text{Total Non-Benchmarked Mitigation Revenue}
 \end{aligned}$$

E. TRANSACTION DESCRIPTIONS - NEW ACTIVITY

New Activity includes mitigation transactions which FEI does not currently undertake in its management of the 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's 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's 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:

$$\begin{aligned}
 & \text{Actual Sales Volumes} * \text{Platts Common Low @ relevant hub} \\
 & \quad \text{minus} \\
 & \text{Deemed Purchase Volumes} * \text{Platts Common High} \\
 & \quad \text{minus} \\
 & \text{Transportation Variable Charges} \\
 & \quad \text{equals} \\
 & \text{Spot Commodity Resale Base Benchmark}
 \end{aligned}$$

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. Spot Transportation Mitigation Base Benchmark: The Transportation Mitigation Base Benchmark is calculated as follows:

$$\begin{aligned}
 & \text{Actual Sales Volume} * \text{Platts Common Low @ sales hub} \\
 & \quad \text{Minus} \\
 & \text{Actual Purchase Volume} * \text{Platts Common High @ purchase hub} \\
 & \quad \text{Minus} \\
 & \text{Transportation Variable Charges} \\
 & \quad \text{Equals} \\
 & \text{Spot Transportation Mitigation Base Benchmark}
 \end{aligned}$$

3. Forward Transportation Mitigation Base Benchmark: The Transportation Mitigation Base Benchmark is calculated as follows:

$$\begin{aligned}
 & \text{Actual Sales Volume} * \text{Bid Price @ sales hub} \\
 & \quad \text{Minus} \\
 & \text{Actual Purchase Volume} * \text{Offer Price @ purchase hub}
 \end{aligned}$$

Minus
Transportation Variable Charges
Equals
Forward Transportation Mitigation Base Benchmark

4. Spot Capacity Release Base Benchmark: 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. Forward Capacity Release Base Benchmark: 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:

$$\begin{aligned} & \text{Spot Commodity Resale Base Benchmark} \\ & \text{Plus} \\ & \text{Spot Transportation Mitigation Base Benchmark} \\ & \text{Plus} \\ & \text{Forward Transportation Mitigation Base Benchmark} \\ & \text{Plus} \\ & \text{Spot Capacity Release Base Benchmark} \\ & \text{Plus} \\ & \text{Forward Capacity Release Base Benchmark} \\ & \text{Equals} \\ & \text{Total Base Benchmark} \end{aligned}$$

H. CAPACITY FACTOR ADJUSTED TOTAL BENCHMARKED MITIGATION REVENUE

To insure that FEI 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 FEI's 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 FEI's Capacity Factor falls below the capacity factor on either of those pipelines for a particular season, FEI'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 FEI Capacity Factor is calculated as FEI's total actual flows on the pipeline segment during the seasonal period divided by FEI's total contracted capacity excluding capacity released on the pipeline segment.

In the event that FEI's Capacity 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:

$$\begin{array}{r}
 \text{Applicable Benchmarked Transportation Mitigation Revenue} \\
 \text{Minus} \\
 \text{Applicable Spot Transportation Mitigation Base Benchmark} \\
 \text{Minus} \\
 \text{Applicable Forward Transportation Mitigation Base Benchmark} \\
 \text{Equals} \\
 \text{Capacity Factor Penalty for specific pipeline segment and season}
 \end{array}$$

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

$$\begin{array}{r}
 \text{Total Benchmarked Mitigation Revenue} \\
 \text{Minus} \\
 \text{All Capacity Factor Penalties for the applicable time period} \\
 \text{Equals} \\
 \text{Capacity Factor Adjusted Total Benchmarked Mitigation Revenue}
 \end{array}$$

An example of the application of the Capacity Factor Penalty where FEI'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 FEI Capacity Factor = 76.36%
- April 2010 – October 2010 T-South Benchmarked Pipeline Capacity Factor = 64.71%

The FEI 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'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 FEI 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 FEI 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. Market Performance Factor: The Market Performance Factor is calculated as follows:

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 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 \$200,000 reduction each year. Based on using the target 4% incentive percentage, this reduction equates to no incentive payment earned on the first \$5 million of eligible mitigation revenue.

J. INCENTIVE PAYMENT

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

$$\begin{aligned}
 & \text{Capacity Factor Adjusted Total Benchmarked Mitigation Revenue} * \\
 & \quad \text{Benchmarked Activity Incentive Percentage} \\
 & \quad \text{Plus} \\
 & \text{Total Non-Benchmarked Activity Mitigation Revenue} * 4 \text{ percent} \\
 & \quad \text{Plus} \\
 & \text{Total New Activity Mitigation Revenue} * 12 \text{ percent} \\
 & \quad \text{Minus} \\
 & \quad \$200,000 \\
 & \quad \text{Equals} \\
 & \text{Total Incentive Payment}
 \end{aligned}$$

K. REPORTING REQUIREMENTS

FEI will provide two reports per annum to the Commission and notify stakeholders when these reports have been filed with 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 and discussing the factors, including an update on the market conditions, contributing to the mitigation results. 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.
- In the second report, also referred to as the Year End Report, FEI will provide all transaction data, a GSMIP Summary, and a written report discussing the factors,

including the market conditions, contributing to the mitigation results and 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.

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