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August 7, 2025

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
V6Z 2N3

Dear Commission Secretary:

Re: FortisBC Energy Inc. (FEI)

Gas Supply Mitigation Incentive Program (GSMIP) Review and Application to Extend for the Period November 1, 2025 to October 31, 2028 (Application)

FEI hereby applies to the British Columbia Utilities Commission (BCUC) for approval to extend the GSMIP for the period of November 1, 2025 to October 31, 2028 (Application). The currently approved GSMIP, term sheet and model for the period of November 1, 2022 to October 1, 2025 were approved by Order G-338-22, dated November 25, 2022. Order G-338-22 also directed FEI to file a report providing a comprehensive assessment of the GSMIP, term and model at least 60 days prior to expiry of the approved three-year term. This filing provides FEI's review of the GSMIP in compliance with Order G-338-22.

If further information is required, please contact Ilva Bevacqua, Senior Manager, Regulatory Affairs and Compliance at (604) 592-7664.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

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FortisBC Energy Inc.

Gas Supply Mitigation Incentive Program (GSMIP) Review and Application to Extend for the Period November 1, 2025 – October 31, 2028

August 7, 2025

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List of Appendices

1. INTRODUCTION AND BACKGROUND

The British Columbia Utilities Commission (BCUC) by Order G-338-22 dated November 25, 2022, approved an extension of the Gas Supply Mitigation Incentive Program (GSMIP) for FortisBC Energy Inc. (FEI or the Company) to October 31, 2025. Order G-338-22 also directed FEI to file a report providing a comprehensive assessment of the GSMIP, term sheet and model at least 60-days prior to expiry of the approved three-year term. The review undertaken by FEI is discussed in this report and includes an application for approval of a three-year extension of the GSMIP from November 1, 2025 to October 31, 2028 (Application).

FEI has been operating under a form of incentive program for its gas supply mitigation activities since 1996. The GSMIP incentive mechanism was designed to align the interests of customers and shareholders in the effective management of gas supply costs through mitigation activities, while ensuring a reliable supply of gas to meet the firm load requirements of core customers[1]. As discussed below, FEI is seeking approval to extend the GSMIP based on the model that was jointly developed by FEI and other participants in a Working Group over a period of several months in 2011, and has subsequently undergone a comprehensive assessment through stakeholder engagement sessions during 2022. FEI believes the GSMIP model, and the minor revisions completed over time, has proven to work well under different market conditions while meeting the objectives of the program.

FEI contracts its gas supply resources, which include commodity supply, transportation and storage, in accordance with the Annual Contracting Plan (ACP) on behalf of core customers. This is done with the objective of ensuring an appropriate balance of cost minimization, security, diversity and reliability of gas supply in order to meet the core customer design peak day and annual requirements. The ACP is prepared following an interactive and consultative process with the BCUC throughout the year. Once the BCUC reviews and accepts the ACP, FEI implements the plan accordingly.

Based on the objectives of the ACP it is appropriate to have an incentive program that is based on optimization and mitigation of gas supply and midstream resources to maximize savings to customers and mitigate the midstream rate. GSMIP can coexist with delivery rate setting and, as an incentive mechanism applied to midstream costs, it aims to increase efficiency, reduce costs and enhance performance to the benefit of customers.

Generating significant mitigation revenue for the benefit of customers requires ongoing effort, support and oversight from FEI. This requires FEI to have the right people, policies and procedures in place. Within the Gas Supply group, FEI provides employees with specialized skills in commodity trading, load balancing, regulatory requirements, resource procurement, contract negotiations and counterparty relationship management. FEI provides the back-office support, infrastructure and senior management oversight for accounting, risk, legal, audit, credit and

[1] Rate Schedules 1-7, and 46 customers.

contract management, thus facilitating mitigation activities and creating additional value for customers.

In 2011, the GSMIP was revised based on comprehensive consultations of the Working Group[2] that was established pursuant to the direction of the BCUC. In Order G-26-11, the BCUC outlined a set of eight "Guiding Principles" to assist the Working Group in drafting new design objectives and creating a new incentive mechanism. They are:

1. The incentive must demonstratively deliver value to ratepayers and reward ongoing innovation and true value added over and above what is reasonably expected in the normal stewardship of FEI's business.
2. Execution of the incentive program must not put the prudently planned gas supply portfolio at risk nor promote a departure from prudent gas supply management for core customers' requirements.
3. The incentive plan should fairly and appropriately align ratepayer and shareholder interests.
4. There should not be an upper limit on FEI's potential to earn an incentive but there must be a test of reasonableness and the amount earned must be justified.
5. The incentive program should apply to all mitigation activities that use commodity supply resources that represent a cost and risk to ratepayers (i.e., gas supply, storage, transportation).
6. The incentive plan should reward FEI for its innovation rather than for opportunities that arise from events that impact the industry in general (e.g., hurricanes).
7. Any incremental administrative costs must be considered and charged against the benefits of the plan.
8. The incentive payment should be the smallest amount required to obtain the desired core customer benefit.

After extensive consultation and evaluation, the incentive mechanism was redesigned to encourage FEI to maintain a high level of performance on core mitigation activities related to storage, transport, and commodity resale while also maintaining supply reliability for customers. An application for the new GSMIP was supported by all the Working Group participants and was subsequently approved on September 22, 2011, pursuant to Order G-163-11, and was in effect for the period from November 1, 2011 to October 31, 2013 (the 2011/12 and 2012/13 gas years). An application to extend the GSMIP model for the three-year period November 1, 2013 to October 31, 2016 and to include the revenue for mitigation activities FEI performed on behalf of FortisBC Energy (Vancouver Island) Inc. (FEVI) was approved on October 24, 2013, pursuant to Order G-174-13.

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[2] Working Group participants: Commercial Energy Consumers Association of British Columbia (CEC), British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners' Organization *et al* (BCOAPO), BCUC staff, FEI, and external consultant Concentric Energy Advisors, Inc.

On December 23, 2015, FEI filed its GSMIP Year End Report for the period from November 1, 2014 to October 31, 2015 (2014/15 GSMIP Report), in accordance with Order G 174-13 and the 2013-2016 GSMIP Term Sheet accepted by Letter L-15-15.

FEI's 2014/15 GSMIP incentive payment of $2,058,642 exceeded the GSMIP incentive payment variance threshold of $1.6 million. The 2013-2016 GSMIP Term Sheet states:

> 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 [BCUC] 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.

The BCUC, in Letter L-2-16 dated March 10, 2016, noted that the 2013-2016 GSMIP Term Sheet expired on October 31, 2016 and stated:

> The Commission [BCUC] considers that the review of the mechanism should be conducted and completed before the expiry date of the current GSMIP. If FEI applies for a GSMIP renewal, a full review of the mechanism can be conducted as part of the regulatory process established to review the GSMIP renewal application. If FEI does not file a GSMIP renewal application by May 6, 2016, the Commission [BCUC] will initiate the review at the beginning of June 2016.

On May 6, 2016, FEI filed an application to extend the GSMIP model and revise the Term Sheet for the Period November 1, 2016 to October 31, 2019 meeting the BCUC requirement of having FEI file a GSMIP renewal on or before May 6, 2016. The BCUC, in Order G-111-16 dated July 14, 2016, determined that a written comment process was warranted and sought stakeholder submissions before establishing any further review process. The British Columbia Public Interest Advocacy Centre, on behalf of British Columbia Old Age Pensioners' Organization et al. (BCOAPO), submitted a letter of comment regarding FEI's proposals. By Order G-141-16 dated August 29, 2016, the BCUC approved the 2016-2019 GSMIP renewal, subject to the terms set out in the order. On September 19, 2016, FEI filed a revised 2016-2019 GSMIP Term Sheet as requested. The BCUC, in Letter L-27-16 dated September 29, 2016, accepted the revised 2016-2019 GSMIP Term Sheet.

The BCUC, by Order G-232-19 dated September 26, 2019, approved the GSMIP extension application by FEI for a three-year period November 1, 2019 to October 31, 2022. The BCUC also directed FEI to file a report providing a comprehensive assessment of the GSMIP, term sheet and model at least 60 days prior to the expiry of the three-year term.

In 2022 FEI undertook a comprehensive assessment of the GSMIP model and term sheet including participation and consultation through workshops with stakeholders and included input and a report from an independent expert.[3] The workshops included a review of FEI's gas supply portfolio, regional market conditions, and the GSMIP model and term sheet with a focus on mitigation strategies, performance and mechanisms used to demonstrate, quantify and measure the extent to which the GSMIP objectives are achieved. The independent expert provided comparative research related to incentive mechanisms across North American natural gas utilities, as well as statistical analysis of components of the GSMIP. FEI demonstrated that the program delivers significant value in terms of cost savings to customers and is a conservative incentive mechanism when compared across the peer group.

On August 30, 2022 FEI filed an assessment report and application with the BCUC seeking approval for an extension of the GSMIP for a three-year period November 1, 2022 to October 31, 2025. The report and application provided a description and results of three workshops and the term sheet review undertaken by FEI and the Working Group participants. By Order G-338-22 dated November 25, 2022, the BCUC approved the GSMIP, term sheet and model for a three-year period November 1, 2022 to October 31, 2025. FEI was also directed to file a report providing a comprehensive assessment of the GSMIP, term sheet and model at least 60 days prior to the expiry of the approved three-year term.

FEI believes, for the following reasons, that the current GSMIP model should continue:

1. FEI's gas supply objectives are well established and consistent, and FEI has the firm resources in place per the ACP to meet core load requirements of design day and design year conditions.
2. The GSMIP is a well-designed and robust model that has worked well in dynamic and varying market conditions. The model provides a transparent methodology to validate performance relative to the opportunities in the market through benchmarking and to support growth in mitigation revenue. Further, GSMIP performance is reported in a clear and timely manner to the BCUC and stakeholders.
3. The current model was developed through a comprehensive consultation process in 2011 with the Working Group and was further reviewed through workshops in 2022. The current GSMIP model has been developed at a considerable cost, time and effort by all participants, and is continuing to work as intended.
4. The current model has generated total mitigation revenue of over $1,230 million between November 1, 2011 and October 31, 2024, including customer savings of over $1,194 million, as seen Table 2 (Section 4 below).

As developed by the Working Group, the GSMIP model breaks down mitigation transactions into the following categories: benchmarked mitigation activity, non-benchmarked mitigation activity, storage/forward commodity sales, and new mitigation activity. A more detailed description of each mitigation activity is included in this Application.

[3] Workshop participants: CEC, BCOAPO, BC Sustainable Energy Association (BCSEA), Residential Consumer Intervener's Association (RCIA), MoveUP (Movement of United Professionals), BCUC staff, FEI, and external consultant Atrium Economics LLC.

2. APPROVALS SOUGHT

In this Application, FEI requests approval of a three-year extension of the GSMIP from November 1, 2025 to October 31, 2028, as set out in the 2025-2028 GSMIP Term Sheet attached as Appendix A of the Application.

A draft form of order is provided in Appendix C.

3. GSMIP MODEL DESCRIPTION

The current GSMIP measures the performance of mitigation efforts in order to determine the appropriate incentive earned by the Company. The detailed model is provided in the Term Sheet in Appendix A and is summarized in this section.

All activities included in the GSMIP are based on mitigation of the gas supply portfolio resources held by FEI pursuant to its ACP, which in turn is reviewed and accepted by the BCUC. These activities have been separated into four categories: benchmarked activities, non-benchmarked activities, storage and forward commodity sales, and new activities. For benchmarked activities, Market Performance Factors (MPF) have been derived to ensure that FEI maintains a high level of performance relative to the market. These include a pricing measure, capacity factor, and market concentration factor. For a further description on MPF please see the Term Sheet in Appendix A.

The incentive payment structure for each category is as follows:

Table 1: Incentive Percentage Structure

	Activity	Incentive Percentage
1	**Benchmarked Activity**	
	Market Performance Factor (MPF) between 100% - 131%	2.45% + 0.05% * (MPF – 100)
	MPF between 131% - 136%	4.00%
	MPF of 136% and greater	4.00% + 0.04% * (MPF – 136)
2	**Non-Benchmarked Activity**	4.00%
3	**New Activity**	12.00%

3.1 *BENCHMARKED ACTIVITY*

Benchmarked activities are cost mitigation activities for which a reasonable market benchmark has been established. Benchmarked activities include daily transportation mitigation, transportation capacity releases, and spot commodity resales. FEI's incentive payout for these activities is directly related to how FEI performs relative to the base utility benchmark, the market performance factor. The more FEI can outperform the base benchmark price, the greater the potential incentive payment.

The list of Benchmarked activities included in the GSMIP Term Sheet includes the following:

- Spot Commodity Resale Mitigation;
- Monthly Commodity Resale Mitigation;
- Benchmarked Transportation Mitigation (including T-South, Southern Crossing Pipeline (SCP) and Foothills); and
- Capacity Release Mitigation.

3.2 NON-BENCHMARKED ACTIVITY

Non-Benchmarked activities are cost mitigation activities for which no reasonable market benchmark can be established.

The list of Non-Benchmarked activities includes the following (including modifications discussed in the Updates to the Model section):

- Storage Mitigation or Park and Loan Activity.
- T-North Transportation and Capacity Release Mitigation.
- NOVA Transport Mitigation.
- Liquids Extraction.
- NOVA4 and T-South Interior Forward Capacity Releases.
- Forward Commodity Resale Mitigation.
- Transportation Asset Management Agreement (AMA).
- Pooling on the NOVA System.

3.3 NEW ACTIVITY

Under the current GSMIP model, FEI is encouraged to continually improve and seek out new mitigation activities that are outside the scope of the traditional mitigation activities, while also maintaining security of supply and reliability for customers. Since the new GSMIP model began in the 2011/12 gas year, three new activities were added: Monthly Commodity Resale activities under the Benchmarked category and Transportation Asset Management Agreement (AMA), and Pooling on the NOVA System under the Non-Benchmarked category. The two latter activities were added to the Non-Benchmarked activities as no reasonable benchmark could be established. New Activities are not alterations to existing activities and it is difficult to find such opportunities in the market. FEI continues to seek out new activities which it can bring forward for approval.

3.4 PERFORMANCE MEASUREMENT

There are two performance measures adopted in the GSMIP model currently in place that were designed to ensure FEI maintains high utilization of its pipeline capacity, and to minimize FEI's impact on market prices at any one location due to FEI's buying or selling position. The outcome of these performance measures could result in a reduction to benchmarked mitigation revenue used to determine the incentive payment.

Capacity Factors

The capacity factor measures FEI's utilized capacity on the Westcoast T-South and TC Energy FoothillsBC pipelines relative to the overall pipe capacity factor on those pipelines. If FEI's

[4] TC Energy wholly owned subsidiary, NOVA Gas Transmission Ltd. (NOVA).

capacity factor falls below the capacity factor on either pipeline, there would be a reduction in mitigation revenue eligible for an incentive under the GSMIP.

Market Concentration Adjustment

A market concentration adjustment could also be applied to spot transactions that could increase market benchmarked revenue and reduce incentive payout on benchmarked activity. If FEI's market share in any given season at any market hub (Station 2, Sumas, AECO, Kingsgate) exceeds 40 percent of the reported traded volume in the Platts Gas Daily, the prices used to determine the base utility benchmark will be the Platts midpoint price for spot transactions at the market hub, as opposed to the common low and high prices.

4. CURRENT GSMIP REVENUE, INCENTIVE PAYMENT AND 2025 REVIEW

The mitigation revenue that is eligible for inclusion under GSMIP for the purposes of determining the incentive earned by the Company and incentive payments achieved since 2011/12, under the current GSMIP model, are shown below in Table 2.

Table 2: Eligible Mitigation Revenue and Incentive Payment

Gas Contract Year	Eligible Mitigation Revenue	Incentive Earned		Customer Savings	
	$Million	$Million	%	$Million	%
2023/24	$130.49	$3.89	2.98%	$126.60	97.02%
2022/23	$239.40	$7.39	3.09%	$232.01	96.91%
2021/22	$128.70	$4.64	3.61%	$124.06	96.39%
2020/21	$80.58	$2.50	3.11%	$78.08	96.89%
2019/20	$58.38	$1.46	2.50%	$56.92	97.50%
2018/19	$126.22	$3.13	2.48%	$123.09	97.52%
2017/18	$102.60	$2.59	2.52%	$100.01	97.48%
2016/17	$97.18	$2.38	2.45%	$94.80	97.55%
2015/16	$78.15	$2.08	2.66%	$76.07	97.34%
2014/15	$72.25	$2.06	2.85%	$70.19	97.15%
2013/14	$39.47	$1.23	3.12%	$38.24	96.88%
2012/13	$48.82	$1.44	2.95%	$47.38	97.05%
2011/12	$27.70	$0.89	3.21%	$26.81	96.79%
Total	**$1,229.94**	**$35.68**	**2.90%**	**$1,194.26**	**97.10%**
Average	**$94.61**	**$2.74**	**2.89%**	**$91.87**	**97.11%**

Table Notes:

1. Net of fixed adjustment. The fixed deduction of $150,000 was used in 2011-12 and 2012-13 GSMIP years. The fixed deduction of $165,000 was approved in the 2013-2016 GSMIP Application under Order G-174-13. As shown above, this amount is deducted from the gross incentive amount to calculate the incentive payment in 2014/15 and 2015/16. The fixed deduction of $200,000 was approved in the 2016-2019 GSMIP Renewal Application under Order G-141-16, and was deducted from the gross incentive amount to calculate the incentive payment in 2016/17 and 2017/18.
2. Percentage of Total Mitigation Revenues.

The mitigation revenues presented in Table 2 are the mitigation values calculated for the purpose of the GSMIP, but the actual total mitigation that the customers receive in any particular year are higher than the totals presented in Table 2. This is because of how the commodity resale benchmark within the GSMIP are reported and tracked.

As seen in Table 2 above, since the implementation of the current GSMIP model in November 2011, it has generated over $1,230 million dollars in mitigation revenue, including over $1,194 million in customer savings. The mitigation activities produced an average annual incentive earned by FEI of approximately 2.89 percent, while returning customer savings of approximately 97.11 percent of eligible revenue. The design of the model has shown to be very robust in dealing with the different market conditions that have unfolded over this timeframe. For example, the Westcoast T-South system moving from a de-contracted environment for firm service to a fully contracted one. In addition, the benchmarking mechanism for those related activities provide a transparent determination of incentive calculations working in both low and high price environments, as well as during periods of supply or demand surplus or constraints. This has been seen in periods of over-production at Station 2 and summer-based T-South maintenance constraints.

4.1 *2025 GSMIP REVIEW*

As mentioned above, FEI conducted a series of workshops in early 2022 as part of the requirement to undertake a comprehensive review of the GSMIP, seeking participation from the BCUC and key stakeholders, which would then be used to inform the report. FEI engaged with intervenor groups, BCUC staff and industry experts in the review process to ensure the objectives and guiding principles upon which the current GSMIP is based, continue to remain appropriate and continue to be achieved.

In addition to BCUC staff, FEI included notification of the stakeholder engagement sessions to the following intervenor groups involved in most FEI proceedings:

- BC Old Age Pensioners' Organization *et al;*
- BC Sustainable Energy Association;
- Commercial Energy Consumers Association of BC;
- Residential Consumer Intervenor's Association; and
- MoveUP (Movement of United Professionals).

FEI also engaged industry experts from Atrium Economics LLC (Atrium Economics) through a services contract in order to provide comparative research and analysis related to incentive mechanisms across North American natural gas utilities and statistical analysis.

Term Sheet Review

FEI believes that the 2022 comprehensive review of the GSMP, including BCUC staff, key stakeholders and industry experts, was a prudent approach to take for the renewal and extension application because the model had not been thoroughly examined in 10 years. Given the 2022 review and the workshops conducted for it, the general acceptance by stakeholder participants to continuing the GSMIP as designed, and the short time that has passed since that review, in order to be efficient and to minimize costs for customers, FEI conducted an internal process for this

2025 review. The revalidation of the GSMIP in 2022 provides recent confirmation that the model continues to operate within and meet the guiding principles.

Table 2 above illustrates that on average over 97 percent of eligible mitigation revenue is to the benefit of customers, and under 3 percent is incentive payout. The true value to ratepayers is even greater due to the performance benchmarking of commodity resale activities and the inclusion of deemed purchases.

As part of the annual reporting and incentive payment approval, FEI must meet all firm core customer load requirements for the gas year. The GSMIP as designed has ensured the prudent management and optimization of the gas supply portfolio. FEI has met all firm core load requirements during the program's existence.

FEI was able to demonstrate that the model and term sheet are transparent through benchmarking and reporting, and the program delivers significant value in terms of cost savings to customers, while providing an appropriate incentive to FEI.

FEI is requesting no changes to the current GSMIP Term Sheet. Below is discussion of the sections of the GSMIP Term Sheet.

A. *Model Design and Term*

No changes to the current term of the GSMIP are being requested. FEI seeks a continued three-year term period for the GSMIP model and term sheet from November 1, 2025 to October 31, 2028.

B. *Total Mitigation Description*

No changes to the current categorization of mitigation activities are being requested. FEI seeks to continue transactions and revenue mitigation activities under the categories of Benchmarked Mitigation Activities, Non-Benchmarked Mitigation Activities and New Mitigation Activities.

C. *Transaction Descriptions – Benchmarked Activities*

1. Spot Commodity Resale Mitigation
    - No changes are being requested to this element. FEI seeks to continue with Spot Commodity Resale Mitigation Revenue calculation utilizing the Deemed Purchase methodology and Platts Gas Daily price indexes.
2. Monthly Commodity Resale Mitigation
    - No changes are being requested. FEI seeks to continue with the Monthly Commodity Resale Mitigation Revenue calculation.
3. Benchmarked Transportation Mitigation
    - No changes are being requested. FEI seeks to continue with the Transportation Mitigation Revenue calculation.

4. Capacity Release Mitigation
    - No changes are being requested. FEI seeks to continue with the Capacity Release Mitigation Revenue calculation.
5. Total Benchmarked Mitigation Revenue
    - No changes are being requested. FEI seeks to continue with the Total Benchmark Mitigation Revenue calculation.

D. Transaction Descriptions – Non-Benchmarked Activities

1. Storage Mitigation and Park and Loan Activity
    - No changes are being requested. FEI seeks to continue with the Storage Mitigation Revenue calculation.
2. T-North Transportation and Capacity Release Mitigation
    - No changes are being requested. FEI seeks to continue with the T-North Transportation and Capacity Release Mitigation calculations.
3. NOVA Transportation Mitigation
    - No changes to the current are being requested. FEI seeks to continue with the NOVA Transportation Mitigation Revenue calculation.
4. NOVA and T-South Interior Forward Capacity Releases
    - No changes are being requested. FEI seeks to continue with the NOVA and T-South Interior Forward Capacity Releases calculation.
5. Liquids Extraction
    - No changes are being requested. FEI seeks to continue with the Liquids Extraction Mitigation Revenue calculation.
6. Forward Commodity Resale Mitigation
    - No changes are being requested. FEI seeks to continue with the Forward Commodity Resale Mitigation Revenue calculation.
7. Transportation Asset Management Agreement (AMA)
    - No changes are being requested. FEI seeks to continue with the Transportation Asset Management (AMA) Revenue calculation.
8. Pooling on the NOVA System
    - No changes are being requested. FEI seeks to continue with the Pooling on the NOVA System Mitigation Revenue calculation.

9. Total Non-Benchmarked Mitigation Revenue
    - No changes are being requested. FEI seeks to continue with the Total Non-Benchmarked Mitigation Revenue calculation.

E. Transaction Descriptions – New Activity

No changes are being requested. FEI seeks to continue with the New Activity Mitigation Revenue calculation.

F. Base Benchmark

1. Spot Market Transactions
    - No changes are being requested. FEI seeks to continue with the use of the Platts Gas Daily published indices in determining the Base Benchmark, including the Platts Common Low, Common High and Midpoint.
2. Forward Market Transactions
    - No changes are being requested. FEI seeks to continue the use of the forward market benchmark prices from ICE NGX, an electronic exchange which provides trading, central counterparty clearing and data services to the North American natural gas and electricity markets. ICE NGX generates price indices from fixed price contracts traded in ICE NGX markets.
3. Market Concentration Adjustment
    - No changes are being requested. FEI seeks to continue with the Market Concentration Adjustment as provided in the GSMIP 2025-2028 Term Sheet.

G. Base Benchmark Calculation

1. Spot Commodity Resale Benchmark
    - No changes are being requested. FEI seeks to continue with the Spot Commodity Resale Benchmark calculation.
2. Monthly Commodity Resale Mitigation Benchmark
    - No changes are being requested. FEI seeks to continue with the Monthly Commodity Resale Benchmark calculation.
3. Spot Transportation Mitigation Benchmark
    - No changes are being requested. FEI seeks to continue with the Spot Transportation Mitigation Benchmark calculation.
4. Forward Transportation Mitigation Base Benchmark
    - No changes are being requested. FEI seeks to continue with the Forward Transportation Mitigation Base Benchmark calculation.

5. Spot Capacity Release Base Benchmark
   - No changes are being requested. FEI seeks to continue with the Spot Capacity Release Base Benchmark calculation.
6. Forward Capacity Release Base Benchmark
   - No changes are being requested. FEI seeks to continue with the Spot Commodity Resale Benchmark calculation.
7. Total Base Benchmark
   - No changes are being requested. FEI seeks to continue with the Total Base Benchmark calculation.

H. Capacity Factor Adjusted Total Benchmarked Mitigation Revenue

No changes are being requested. FEI seeks to continue with the Capacity Factor Adjusted Total Benchmarked Mitigation Revenue calculation.

I. Incentive Percentage

1. Benchmarked Activity Incentive Percentage
   - No changes are being requested. FEI seeks to continue with the Benchmarked Activity Incentive Percentage and Market Factor Performance calculation.
2. Non-Benchmarked Activity Incentive Percentage
   - No changes are being requested. FEI seeks to continue with the Non-Benchmarked Activity Incentive Percentage of 4 percent.
3. New Activity Incentive Percentage
   - No changes are being requested. FEI seeks to continue with the New Activity Incentive Percentage of 12 percent.
4. Fixed Adjustment
   - No changes are being requested. FEI seeks to continue with the Fixed Adjustment of $200,000 representing no incentive payment earned on the first $5 million of eligible mitigation revenue.

J. Incentive Payment

No changes are being requested. FEI seeks to continue with the Incentive Payment calculation.

K. Reporting Requirements

No changes are being requested. FEI seeks to continue with the Reporting Requirements including a Winter Report and Year End Report.

5. GSMIP UPDATES & TERM

In this Application, FEI is seeking approval to extend the existing GSMIP for an additional three-year term effective November 1, 2025 through to October 31, 2028.

FEI has demonstrated the structure under the current GSMIP has been effective and appropriate through the prudent management of resources, generation of mitigation revenue and meeting firm core load requirements. The structure has satisfied the guiding principles, such as delivering value to ratepayers, aligning ratepayer and shareholder interests, and managing portfolio risk. The past number of years have demonstrated the model has worked the way it was designed to, through changing market conditions, upstream pipeline supply disruptions and extreme weather events. Therefore, FEI submits that approval of a three-year extension to the term of the GSMIP is just and reasonable.

6. CONCLUSION

As summarized in this report and Application, FEI has demonstrated that the GSMIP developed by the Working Group in 2011 and reconfirmed by the Working Group in 2022 is working as it was contemplated, and that customers continue to benefit from commodity, storage and transportation resource mitigation activities. FEI continues to be incented to effectively manage gas supply costs while ensuring a reliable supply of gas to core customers.

As an incentive mechanism, the GSMIP is designed to align the interests of customers and shareholders. FEI contracts for gas supply portfolio resources, pursuant to the ACP, with the objective of ensuring an appropriate balance of cost minimization, security, diversity, and reliability of gas supply in order to meet the core customer design peak day and annual requirements. Once this objective has been met, FEI mitigates gas supply portfolio costs for its customers by actively pursuing opportunities to generate revenue related to transportation, storage, and commodity as part of the overall portfolio optimization.

Since the current GSMIP model began in the 2011/12 gas year, the revenue earned and the incentive payment has varied from year to year based on market conditions and FEI's ability to capture the opportunities presented. However, the model has generated significant customer savings while providing FEI an opportunity to earn an incentive by promoting mitigation activities beyond the core obligation of serving firm load requirements and system balancing. The current GSMIP model took considerable time and effort to design with stakeholders, and independent expert and BCUC staff, is now well-established with minor revisions from time to time, and FEI believes that the performance of the GSMIP model over the years and under variable market conditions demonstrates that it continues to work as intended.

Based on the review provided in this Application, FEI requests approval to extend the GSMIP for the period of November 1, 2025 to October 31, 2028.

Appendix A

TERM SHEET (PROFORMA)

2025-2028 Gas Supply Mitigation Incentive Program (GSMIP) TERM SHEET

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2025-2028 GSMIP TERM SHEET

A. MODEL DESIGN AND TERM

The British Columbia Utilities Commission (BCUC) approved, as per Order G-XXX-XX dated Month Day, Year, the extension of the term of the FortisBC Energy Inc. (FEI) Gas Supply Mitigation Incentive Program (GSMIP) for the period from November 1, 2025 to October 31, 2028 (the 2025-2028 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 BCUC. FEI will withdraw the approved incentive amounts from the Midstream Cost Reconciliation Account.

The 2025-2028 GSMIP will be in effect from November 1, 2025 through October 31, 2028, and so will apply for the 2025/26, 2026/27 and 2027/28 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:

*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. Monthly Commodity Resale Mitigation: The Monthly Commodity Resale transaction occurs when surplus supply has been purchased in excess of what is needed to serve core load. When FEI has excess purchased supply, typically in the summer months between April and October, 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 Monthly Commodity Resale is the Actual Sales Volume multiplied by the Actual Sales Price. Nevertheless, the Monthly 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

Monthly 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 Inside FERC's Gas Market Report – Monthly Bidweek Spot Gas Prices, High price for the month at the relevant hub where the surplus gas is available, which is normally Station 2 or NOVA Inventory Transfer (NIT).

3. 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 Westcoast 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:

*Actual Sales Volumes * Actual Sales Prices*

minus

*Actual Purchase Volumes * Actual Purchase Prices*

minus

Transportation Variable Charges

equals

Transportation Mitigation Revenue

4. 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 Westcoast 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

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

Spot Commodity Resale Mitigation Revenue

Plus

Monthly 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 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:

*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 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:

*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.

   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:

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 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 BCUC 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 ICE NGX 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. ICE NGX provides electronic trading, central counterparty clearing and data services to the North American natural gas and electricity markets. ICE NGX generates price indices from fixed price contracts traded in ICE NGX markets.

Monthly market transactions to sell will be benchmarked against the reported Platts Inside FERC's Gas Market Report – Monthly Bidweek Spot Gas Low prices, and monthly market transactions to purchase will be benchmarked against the Platts Inside FERC's – Monthly Bidweek Spot Gas High prices, at the market point for the month of the transaction.

- 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:

*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>Monthly Commodity Resale Base Benchmark:</u> The Monthly Commodity Resale Base Benchmark is calculated as follows:

*Actual Sales Volumes * Platts Inside FERC's Low @ relevant hub*

minus

*Deemed Purchase Volumes * Platts Inside FERC's High*

minus

Transportation Variable Charges

equals

Monthly Commodity Resale Base Benchmark

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

3. <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

4. <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

5. 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

6. 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

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

Spot Commodity Resale Base Benchmark

Plus

Monthly 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 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 Westcoast's T-South segment and TC Energy 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:

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'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 BCUC 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:

*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*

Minus

$200,000

Equals

Total Incentive Payment

K. REPORTING REQUIREMENTS

FEI will provide two reports per annum to the BCUC and notify stakeholders when these reports have been filed with the BCUC. 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 BCUC to be included in GSMIP. The incentive related to New Activities must be approved by the BCUC 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 BCUC.

Appendix B

TERM SHEET (BLACKLINED)

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2025-2028 Gas Supply Mitigation Incentive Program (GSMIP) TERM SHEET

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B. TOTAL MITIGATION DESCRIPTION

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C. TRANSACTION DESCRIPTIONS – BENCHMARKED ACTIVITIES

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*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. Monthly Commodity Resale Mitigation: The Monthly Commodity Resale transaction occurs when surplus supply has been purchased in excess of what is needed to serve core load. When FEI has excess purchased supply, typically in the summer months between April and October, 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

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*Actual Sales Volumes * Actual Sales Prices*

minus

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

minus

Transportation Variable Charges

equals

Monthly 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 Inside FERC's Gas Market Report – Monthly Bidweek Spot Gas Prices, High price for the month at the relevant hub where the surplus gas is available, which is normally Station 2 or NOVA Inventory Transfer (NIT).

3. 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 Westcoast 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:

*Actual Sales Volumes * Actual Sales Prices*

minus

*Actual Purchase Volumes * Actual Purchase Prices*

minus

Transportation Variable Charges

equals

Transportation Mitigation Revenue

4. 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 Westcoast 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

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

Spot Commodity Resale Mitigation Revenue

Plus

Monthly 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 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.

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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:

*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 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

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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:

*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.

   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:

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 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 BCUC 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 ICE NGX for the market point on the date that the transaction took place.

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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. ICE NGX provides electronic trading, central counterparty clearing and data services to the North American natural gas and electricity markets. ICE NGX generates price indices from fixed price contracts traded in ICE NGX markets.

Monthly market transactions to sell will be benchmarked against the reported Platts Inside FERC's Gas Market Report – Monthly Bidweek Spot Gas Low prices, and monthly market transactions to purchase will be benchmarked against the Platts Inside FERC's – Monthly Bidweek Spot Gas High prices, at the market point for the month of the transaction.

- 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:

*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. Monthly Commodity Resale Base Benchmark: The Monthly Commodity Resale Base Benchmark is calculated as follows:

*Actual Sales Volumes * Platts Inside FERC's Low @ relevant hub*

minus

*Deemed Purchase Volumes * Platts Inside FERC's High*

minus

Transportation Variable Charges

equals

Monthly Commodity Resale Base Benchmark

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

3. Spot Transportation Mitigation Base Benchmark: 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

4. Forward Transportation Mitigation Base Benchmark: 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

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5. 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

6. 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

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

Spot Commodity Resale Base Benchmark

Plus

Monthly 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 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 Westcoast's T-South segment and TC Energy 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.

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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:

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'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

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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 BCUC determines is a New Activity, a constant 12% incentive percentage is applied to the related mitigation revenue.

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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:

*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*

Minus

$200,000

Equals

Total Incentive Payment

K. REPORTING REQUIREMENTS

FEI will provide two reports per annum to the BCUC and notify stakeholders when these reports have been filed with the BCUC. 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 BCUC to be included in GSMIP. The incentive related to New Activities must be approved by the BCUC in the annual review of the GSMIP. Any

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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 BCUC.

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Appendix C

DRAFT ORDER

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Utilities Commission

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ORDER NUMBER
G-xx-25

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Gas Supply Mitigation Incentive Program Review and Application to Extend
for the Period November 1, 2025 to October 31, 2028

BEFORE:
[Panel Chair]
Commissioner
Commissioner

on Date

ORDER

WHEREAS:

A. On August 7, 2025, FortisBC Energy Inc. (FEI) filed an assessment report and application with the British Columbia Utilities Commission (BCUC), pursuant to section 63 of the *Utilities Commission Act* (UCA), seeking approval for an extension of the Gas Supply Mitigation Incentive Program (GSMIP), for a three-year term for the period November 1, 2025 to October 31, 2028 (Application);

B. In the Application, FEI proposes continuation of the existing GSMIP model and Term Sheet, to be effective November 1, 2025;

C. By Order G-163-11 dated September 22, 2011, the BCUC approved the GSMIP for the period from November 1, 2011 to October 31, 2013;

D. By Order G-174-13 dated October 24, 2013, the BCUC approved extending the GSMIP for a three-year term for the period November 1, 2013 to October 31, 2016, among other things;

E. By Order G-141-16 dated August 29, 2016, the BCUC approved extending the GSMIP for a three-year term for the period November 1, 2016 to October 31, 2019;

F. By Order G-232-19 dated September 26, 2019, the BCUC approved extending the GSMIP for a three-year term for the period November 1, 2019 to October 31, 2022, among other things;

G. By Order G-338-22 dated November 25, 2022, the BCUC approved extending the GSMIP for a three-year term for the period November 1, 2022 to October 31, 2025 and directed FEI to file a report providing a comprehensive assessment of the GSMIP, term sheet and model at least 60 days prior to expiry of the approved three year term;

H. The BCUC has reviewed the Application and considers that approval is warranted.

NOW THEREFORE pursuant to section 63 of the UCA, the BCUC orders as follows:

1. The GSMIP extension proposed by FEI, including the GSMIP, term sheet and model, is approved for a three-year term for the period November 1, 2025 to October 31, 2028.

DATED at the City of Vancouver, in the Province of British Columbia, this (XX) day of (Month Year).

BY ORDER

(X. X. last name)
Commissioner