

APPENDIX 3



LETTER AGREEMENT

November 20, 2014

British Columbia Hydro and Power Authority
333 Dunsmuir Street, 17th Floor
Vancouver, BC V6B 5R3

Attention: Rohan Soulsby

Dear Sirs:

Re: **British Columbia Hydro and Power Authority ("BC Hydro")**
FortisBC Energy Inc. ("FEI")
FortisBC Energy (Vancouver Island) Inc. ("FEVI")

BC Hydro, FEVI and FEI (together, the "**Parties**" and each a "**Party**") wish to agree in this letter agreement (the "**Letter Agreement**") on certain terms related to the following:

- a) the Transportation Service Agreement between BC Hydro and Terasen Gas (Vancouver Island) Inc. ("**TGVI**") dated September 19, 2007 ("**IGTSA**"), pursuant to which FEVI provides BC Hydro with long term firm transportation service ("**FTS**") and interruptible transportation service ("**ITS**") to the Island Cogeneration Project located in Campbell River on Vancouver Island, British Columbia, which is now known as Island Generation ("**IG**");
- b) the Bypass Transportation Agreement for Rate Schedule 22 dated November 27, 1998 between BC Hydro and BC Gas Utility Ltd. (the "**BTA**"), pursuant to which FEI provides BC Hydro with FTS to the thermal generating facility in Port Moody, British Columbia ("**Burrard Thermal**");
- c) the capacity assignment agreement among BC Hydro, Terasen Gas Inc. ("**TGI**") and TGVI dated September 19, 2007 (the "**CAA**"), pursuant to which BC Hydro may assign to FEVI firm gas transportation capacity available to BC Hydro under the BTA, to be used by FEVI to provide BC Hydro with FTS to IG under the IGTSA;
- d) the peaking agreement between BC Hydro and TGVI dated September 19, 2007 (the "**PA**", and together with the BTA, the IGTSA and the CAA, the "**Applicable Agreements**"), pursuant to which BC Hydro agrees to provide capacity rights to FEVI for the purposes of serving FEVI's Core Market (as defined in the PA);
- e) the long term firm transportation service that FEI expects to provide to the proposed liquefied natural gas ("**LNG**") facility at the former Woodfibre pulp mill site near Squamish, British Columbia ("**Woodfibre**"), which will be set out in a transportation service agreement between the owner of Woodfibre (or its nominee) (the "**Woodfibre Customer**") and FEI (or its successor) (the "**Woodfibre TSA**"); and
- f) the capacity sharing agreement that BC Hydro and the Woodfibre Customer may enter into pursuant to which BC Hydro would provide the Woodfibre Customer with access to firm gas

transportation capacity available to BC Hydro under the IG TSA, for the purposes of serving Woodfibre (the "**Woodfibre Capacity Agreement**").

The Parties acknowledge that, under the Applicable Agreements, FEI is a successor to BC Gas Utility Ltd. and TGI, and FEVI is a successor to TGV.

The Parties intend that certain terms of this Letter Agreement be organized into two phases:

- (a) **Phase 1:** the terms described in section 1 of this Letter Agreement, which set forth certain amendments to the BTA and IG TSA to reflect certain commercial arrangements among the Parties in relation to the delivery of gas to Burrard Thermal and IG; and
- (b) **Phase 2:** the terms described in section 2 of this Letter Agreement, which set forth certain amendments to the IG TSA and PA to reflect certain commercial arrangements among the Parties relating to BC Hydro's proposed use of its capacity under the IG TSA to facilitate the delivery of gas to Woodfibre.

Now therefore, in consideration of the mutual premises and agreements and other good and valuable consideration (the receipt and sufficiency of which is acknowledged by each Party), the Parties agree as follows:

1. PHASE 1 TERMS

1.1 **BTA Amendments (Phase 1)**: The BTA is amended as set forth in this section 1.1.

1.1.1 Notwithstanding section 3.01 of the BTA, the BTA will automatically terminate on the earlier of:

- a) October 31, 2017; and
- b) the date as of which the BTA may be terminated pursuant to article 8 of the BTA.

1.1.2 The second and third paragraphs of section 8.03 of the BTA are deleted.

1.1.3 The Parties acknowledge that in order to maintain the transmission pressure on the lateral pipeline serving Burrard Thermal (the "**Lateral Pipeline**"), FEI must be able to perform in-line inspections on the Lateral Pipeline. To perform in-line inspections on the Lateral Pipeline, FEI requires a minimum natural gas flow rate of approximately 30 TJ per Day at Burrard Thermal. The Parties will cooperate to allow FEI to pig the Lateral Pipeline at the latest date practical before the BTA is terminated for the purposes of performing in-line inspections on the Lateral Pipeline, and to permit Burrard Thermal to have the ability to consume a minimum natural gas flow rate of approximately 30 TJ per Day during the period of such in-line inspections. FEI will work with BC Hydro to prepare an implementation plan for all in-line inspections of the Lateral Pipeline, with the objective of minimizing all costs related to, or arising from, such in-line inspections.

1.2 IGTSA Amendments (Phase 1). The IGTSA is amended as set forth in this section 1.2. Capitalized terms in this section 1.2 that are used but not otherwise defined in this Letter Agreement have the meaning given in the IGTSA.

1.2.1 BC Hydro shall not exercise its right to terminate the IGTSA under section 5.1 of the IGTSA.

1.2.2 Upon termination of the CAA, the Demand Toll will be adjusted to include an allocation of costs payable by FEVI to FEI under the Wheeling Agreement at the same unit cost as other Shippers on the current FEVI System. This will initially result in an increase in the Demand Toll from \$0.858 to \$0.958 per GJ per Day. The Parties acknowledge that the Demand Toll will be reviewed from time to time and is subject to British Columbia Utilities Commission ("BCUC") approval. FEI and FEVI will not, and will cause their affiliates to not, apply to the BCUC for a Demand Toll that exceeds \$0.958 per GJ per Day at any time during the Initial Term.

1.2.3 At section 2.1(10) of the IGTSA, the definition of "Delivery Point" is deleted, and replaced with the following:

"Delivery Point" means the points where the Connecting Facilities connect to the facilities of ICP and BC Hydro's Burrard Thermal generation station in Port Moody, British Columbia;

1.2.4 At section 2.1(8) of the IGTSA, the definition of "Connecting Facilities" is deleted, and replaced with the following:

"Connecting Facilities" means the pipeline, metering and related facilities (i) installed by TGVI or FEVI to connect ICP to the FEVI System or the TGVI System, and (ii) installed by Terasen Gas Inc. or FEI to connect BC Hydro's Burrard Thermal generation station in Port Moody, British Columbia to the Terasen System or the FEI System;

1.2.5 At section 2.1(13) of the IGTSA, the definition of "Expansion Facility" is deleted, and replaced with the following:

"Expansion Facility" or "Expansion Facilities" means a material facility or facilities that TGVI or FEVI proposes to construct on the FEVI System or the TGVI System after the Commencement Date in respect of which TGVI or FEVI has provided BC Hydro an Expansion Notice pursuant to section 4.2, but excluding:

(a) the Mt. Hayes Storage Facility;

(b) any replacement of, or upgrade to, a facility in existence at the Commencement Date except to the extent that replacement facility or upgrade causes a material increase in the capacity of the TGVI System or the FEVI System; and

(c) the proposed expansion facilities to provide Firm Transportation Service to Woodfibre.

- 1.2.6 At section 2.1(12) of the IGTSA, the definition of "Dispatch Event" is deleted, and replaced with the following:

"Dispatch Event" means an event in which ICP is not operating as a result of a direction from BC Hydro, in its capacity as the purchaser of electricity from ICP, to the owner and/or operator of ICP to dispatch off ICP for market reasons;

- 1.2.7 A new section 2.1(32) of the IGTSA is added, as follows:

"Woodfibre" means the proposed liquefied natural gas facilities to be located at the former Woodfibre pulp mill site near Squamish, British Columbia.

- 1.2.8 Upon termination of the BTA, BC Hydro shall have the right to use its Firm Transportation Service under the IGTSA to nominate up to 2 TJ per Day of Gas for delivery for use at its own facilities at Burrard Thermal, and BC Hydro shall pay for any commercially reasonable modifications to the FEI facilities at Burrard Thermal that FEVI may reasonably require to allow continued Firm Transportation Service to BC Hydro at Burrard Thermal, provided however that:

- (a) FEVI shall notify BC Hydro in advance of making any such modifications for which FEVI claims payment from BC Hydro; and
- (b) BC Hydro shall have the right to cease deliveries to Burrard Thermal rather than be subject to any payment obligation in respect of such modifications.

- 1.2.9 Gas delivered by FEVI or FEI to BC Hydro at Burrard Thermal will be at a pressure of not less than 60 psig and Gas delivered by FEVI to IG will be at a pressure of not less than 500 psig.

- 1.2.10 Upon the termination of the BTA, and for the remainder of the Initial Term, under section 6.3 of the IGTSA, the minimum Contract Demand will be automatically increased from 40 TJ per Day to 45 TJ per Day, provided that the minimum Contract Demand will automatically return to 40 TJ per Day upon occurrence of either of the following conditions:

- a) the BCUC approves the Large Volume Industrial Transportation Rate Schedule 50 ("**Rate Schedule 50**") as a rate for FEI and such Rate Schedule 50 comes into effect, a customer of FEI or any of its affiliates signs a transportation service agreement under Rate Schedule 50 for service to a facility, and a customer commences delivery of Gas under Rate Schedule 50 for firm transportation service; or
- b) FEI or its affiliate commences delivery of LNG to a customer from the Tilbury Phase 1B Facilities, where "**Tilbury Phase 1B Facilities**" means the expansion of operations at the Tilbury LNG facility in Delta, British Columbia (the "**Tilbury Facility**") from Phase 1A Facilities (meaning expansion facilities to be constructed, owned and operated by a utility at Tilbury Island, Delta, British Columbia to provide liquefaction capacity of up to 40 TJ per Day of LNG) to add additional liquefaction capacity of at least 100 TJ per Day of LNG.

- 1.2.11 For greater certainty, from and following termination of the BTA, FEVI will, or will cause FEI to, provide Burrard Thermal with service in accordance with the terms of the IG TSA, and if FEI and FEVI have not amalgamated to form an amalgamated entity ("**Amalco**") at such time as the BTA is terminated such that the contractual rights of FEI and FEVI under the Applicable Agreements continue to be the rights and Interests of Amalco and Amalco continues to be liable for the obligations of FEI and FEVI under the Applicable Agreements, the Parties will use their best efforts to promptly negotiate and agree upon such additional amendments to the IG TSA and all other required relevant agreements that all Parties, acting reasonably, determine are necessary or appropriate to accommodate the provision of service to Burrard Thermal.

2. PHASE 2 TERMS

- 2.1 **Phase 2 Terms:** Subject to sections 3.1 and 3.2 of this Letter Agreement, the terms set forth in sections 2.2 and 2.3 of this Letter Agreement shall be effective from earlier of:

- a) the date as of which each of the Woodfibre TSA and the Woodfibre Capacity Agreement has come into effect; and
- b) November 1, 2016.

For greater certainty, the Parties agree and acknowledge that this Letter Agreement will not be taken to impose any commitment on the part of any person (including any Party) to negotiate or enter into either the Woodfibre TSA or the Woodfibre Capacity Agreement, and that the terms and conditions of the Woodfibre TSA and the Woodfibre Capacity Agreement, if concluded, shall be determined in the sole discretion of the parties to such agreements.

- 2.2 **IG TSA Amendments (Phase 2):** Subject to section 2.1 of this Letter Agreement, the IG TSA is amended as set forth in this section 2.2. Capitalized terms in this section 2.2 that are used but not otherwise defined in this Letter Agreement have the meaning given in the IG TSA.

- 2.2.1 After the Initial Term, BC Hydro's right to nominate and deliver Gas for delivery to Woodfibre pursuant to section 9.4 of the IG TSA shall be subject to the following conditions:

- (a) BC Hydro having renewed the Service Period for a Renewal Term of 10 years or greater following the Initial Term; and
- (b) at the time that BC Hydro nominates and delivers Gas pursuant to section 9.4 of the IG TSA, BC Hydro having a contractual obligation to deliver gas to IG (subject to any contractual rights that BC Hydro may have to interrupt, suspend or reduce gas supply in any circumstance where IG is not operating, or otherwise).

- 2.2.2 Section 9.4 of the IG TSA is deleted and replaced with the following:

Dispatch Event. If BC Hydro initiates a Dispatch Event, BC Hydro may use its Firm Transportation Service under this Agreement to nominate and deliver Gas for delivery to Woodfibre during such period, provided that:

- (1) ICP is not operating;
- (2) BC Hydro continues to be responsible for all obligations under this Agreement; and
- (3) volumes delivered to Woodfibre pursuant to this section do not exceed 40 TJ per Day.

Notwithstanding section 6.4, if BC Hydro initiates a Dispatch Event, the hourly rate of delivery to Woodfibre will be based on 1/24 of the Authorised Quantity (less the quantity of gas delivered as System Gas and inventory imbalance).

- 2.2.3 If BC Hydro wishes to use its Firm Transportation Service to nominate and deliver Gas for delivery to Woodfibre under section 9.4 of the IGTSA, BC Hydro must provide FEVI with notice of such nomination and delivery by no later than 6:00 am of the Day that precedes the Day on which BC Hydro requires that nomination and delivery of Gas for delivery to Woodfibre commence, provided that BC Hydro will use reasonable efforts to provide FEVI with notice of such nomination and delivery 48 hours prior to the time that BC Hydro requires nomination and delivery of Gas for delivery to Woodfibre to commence.
- 2.2.4 If BC Hydro is using its Firm Transportation Service during a Dispatch Event to nominate and deliver Gas for delivery to Woodfibre under section 9.4 of the IGTSA, and BC Hydro wishes to use its Firm Transportation Service to nominate and deliver Gas for delivery to IG, BC Hydro must provide FEVI with notice of such nomination and delivery by no later than 6:00 am of the Day that precedes the Day on which BC Hydro requires that nomination and delivery of Gas for delivery to Woodfibre commence, provided that BC Hydro will use reasonable efforts to provide FEVI with notice of such nomination and delivery 48 hours prior to the time that BC Hydro requires nomination and delivery of Gas for delivery to IG to commence.

If BC Hydro provides 48 hours' or less notice to FEVI, FEVI will allow deliveries to be returned to IG, provided that:

- (a) upon receipt of notification from BC Hydro, Gas deliveries to Woodfibre for the then current Day that BC Hydro has nominated for delivery to Woodfibre will stop immediately and the capacity created by the cessation of such deliveries will be made available to FEVI at no cost to prepare the FEVI System for change in deliveries to IG for the succeeding Day;
- (b) BC Hydro and the FEVI customer associated with Woodfibre make the required intraday nominations to stop delivery onto the FEVI System of the volumes of Gas that BC Hydro has nominated for delivery to Woodfibre; and
- (c) FEVI may delay the time at which deliveries are returned to IG until such time as FEVI, acting reasonably, considers the change in deliveries from Woodfibre to IG will not adversely impact the operational stability and integrity of the FEVI System, provided that FEVI shall ensure that any such delay is not more than 48 hours following the delivery of BC Hydro's notice to FEVI.

- 2.2.5 FEVI will continue to provide BC Hydro with Interruptible Transportation Service for deliveries from the Receipt Point to any Delivery Point (either IG or Burrard Thermal) subject to BC Hydro not using its Firm Transportation Service to nominate deliveries to Woodfibre as would otherwise be permitted during a Dispatch Event.
- 2.2.6 If BC Hydro elects to use its Firm Transportation Service to nominate and deliver Gas for delivery to Woodfibre under section 9.4 of the IGTSA:
- (a) FEVI will meet BC Hydro's requests for Interruptible Transportation Service only after FEVI meets its requirements for its Core Market (as defined in the PA) customers, and any requests for interruptible capacity on the FEVI System made by transportation customers other than BC Hydro and the Woodfibre Customer; and
 - (b) FEI must receive confirmation from BC Hydro (which may take the form of a copy of an agreement between BC Hydro and the Woodfibre Customer), to FEVI's satisfaction (acting reasonably), that the Woodfibre Customer has agreed that requests by the Woodfibre Customer for Interruptible Transportation Service under the Woodfibre TSA, along with requests by BC Hydro for Interruptible Transportation Service under the IGTSA, will be secondary to other Shippers.
- 2.2.7 Any payment that BC Hydro may receive from the Woodfibre Customer as a recovery of fixed or demand charges paid by BC Hydro to FEVI for Firm Transportation Service used under section 9.4 of the IGTSA (the "**Assigned FTS**") shall be shared equally between BC Hydro and FEVI. For clarity, BC Hydro may retain the entirety of, and shall have no obligation to share with FEVI, any payment that BC Hydro may receive from the Woodfibre Customer in respect of any of the following:
- (a) variable charges associated with any delivery of Gas to Woodfibre; and
 - (b) reimbursement of financial benefits that BC Hydro would have realized (as determined by BC Hydro, acting reasonably) if BC Hydro had retained the Assigned FTS to deliver Gas to IG rather than initiating a Dispatch Event at the Woodfibre Customer's request.
- 2.3 PA Amendments (Phase 2):** Subject to section 2.1 of this Letter Agreement, the PA is amended as set forth in this section 2.3.
- 2.3.1 For greater certainty, FEVI's Capacity Right pursuant to section 3.1 of the PA will continue to apply if BC Hydro has nominated some or all of the Firm Capacity for delivery to Woodfibre.
- 2.3.2 The Maximum Curtailment Volume that FEVI may nominate for use under its Capacity Right will increase from 100,000 to 200,000 GJ per Winter Period provided that FEVI shall not exceed a curtailment volume related to IG deliveries of 100,000 GJ in aggregate over any Winter Period.
- 2.3.3 FEVI's Intra-Day Additional Right pursuant to section 4.1 of the PA shall continue to apply whether or not the Firm Capacity is being used to deliver gas to IG or to Woodfibre.

- 2.3.4 Section 4.1(4) of the PA is amended by deleting the phrase "*provided that BC Hydro shall use reasonable efforts to maintain a full inventory of distillate to the extent commercially reasonable*".
- 2.3.5 Section 5.1(2) of the PA is amended by deleting the clause in its entirety and replacing it with the following:

Distillate Carrying Charge – an amount equal to one-twelfth of the product obtained by multiplying the Distillate Index Price by the lesser of the Maximum Curtailment Volume and 100,000 GJs and further multiplying by 0.08.

3. GENERAL TERMS

- 3.1. **Effective Date:** This Letter Agreement shall be effective from the date immediately following the date the conditions precedent in section 3.2 of this Letter Agreement are satisfied.
- 3.2. **Conditions Precedent:** This Letter Agreement is subject to BCUC's approval of Rate Schedule 50 as a rate for FEI, and such Rate Schedule 50 coming into effect.
- 3.3. **Authority:** Each Party represents that it has all requisite corporate and other authority to enter into, execute and be bound by the terms of this Letter Agreement.
- 3.4. **Confidentiality:** The Mutual Confidentiality and Non-Disclosure Agreement between BC Hydro and FEVI dated October 24, 2013 continues in full force and effect in accordance with its terms.
- 3.5. **Arbitration:** All disputes arising under or relating to this Letter Agreement, except only disputes in respect to which the BCUC has jurisdiction, which the BCUC is prepared to exercise, will, after the Parties have attempted for a period not exceeding 15 days in good faith to settle the dispute between themselves, be submitted to and finally settled by arbitration under the Commercial Arbitration Act. The arbitration will take place in Vancouver, British Columbia before a single arbitrator and will be administered by the British Columbia International Commercial Arbitration Centre ("BCICAC") in accordance with this "Procedures for Cases under the BCICAC Rules".
- 3.6. **Choice of Law:** This Letter Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and, subject to section 3.4 of this Letter Agreement, the Parties attorn to the jurisdiction of the courts of British Columbia.
- 3.7. **Enurement:** This Letter Agreement enures to the benefit of, and is binding upon, each of the Parties and their respective successors and permitted assigns. Without limiting the effect of the foregoing sentence:
- (a) the Parties acknowledge that FEI and FEVI, on or about December 31, 2014, intend to amalgamate with each other pursuant to the provisions of the *Business Corporations Act* (British Columbia) under the name "FortisBC Energy Inc."; and
 - (b) the Parties agree that, upon and following any amalgamation of FEI and FEVI, the contractual rights of FEI and FEVI under each of the Applicable Agreements, and

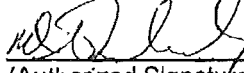
under this Letter Agreement, will continue to be the rights and interests of the entity that is formed by such amalgamation, and such amalgamated entity will continue to be liable for the obligations of FEI and FEVI under the Applicable Agreements and this Letter Agreement.

- 3.8 **Amendment:** This Letter Agreement may be amended only by an instrument in writing signed by the Parties.
- 3.9 **Entire Agreement:** This Letter Agreement, and the Applicable Agreements (as amended by this Letter Agreement), contains the whole agreement between the Parties in respect of the subject matter hereof, and there are no terms, conditions or collateral agreements express, implied or statutory other than as expressly set forth in the aforesaid agreements and the aforesaid agreements supersede all of the terms of any written or oral agreement or understanding between the Parties in respect of the subject matter hereof.
- 3.10 **Without Prejudice:** Except with respect to those matters that have been expressly agreed to by the Parties pursuant to this Letter Agreement and in the Applicable Agreements, nothing in this Letter Agreement, or in any of the Applicable Agreements, shall prejudice any positions that any of the Parties may take in the future on any and all matters brought before the BCUC in regard to FEI or FEVI's services, tolls and the GT&Cs (as defined in the IG TSA), whether those matters are initiated by BC Hydro, FEI, FEVI or any other person.
- 3.11 **Facsimile or Electronic Transmission:** This Letter Agreement may be executed by the Parties and transmitted by facsimile or electronic transmission and, if so executed and transmitted, this Letter Agreement will be for all purposes as effective as if the Parties had delivered an executed original agreement.
- 3.11 **Counterparts:** This Letter Agreement may be executed in counterparts with the same effect as if all Parties had signed the same document. All counterparts will be construed together and will constitute one and the same instrument.

If you are in agreement with the foregoing, please indicate this by signing the enclosed duplicate and returning it to us on or before 5:00 p.m. PST on November 21, 2014.

Yours truly,

FORTISBC ENERGY INC.


(Authorized Signature)
Print Name:
Michael Mulcahy