

Myers, Tobie A MNGD:EX

From: Myers, Tobie A MNGD:EX
Sent: Wednesday, January 11, 2017 8:11 AM
To: Barnetson, Luella MNGD:EX; Diacu, Raz MNGD:EX
Subject: Cabinet document
Attachments: For Norm and Ian.pdf; ATT00001.htm

From: "Nikolejsin, Dave MNGD:EX" <Dave.Nikolejsin@gov.bc.ca>
Date: January 11, 2017 at 8:08:55 AM PST
To: "Myers, Tobie A MNGD:EX" <Tobie.Myers@gov.bc.ca>
Subject: Fwd: The document

Can you also make sure mrc has this before cabinet? Thanks.

From: "Mihlar, Fazil ENV:EX" <Fazil.Mihlar@gov.bc.ca>
Date: January 10, 2017 at 2:28:00 PM PST
To: "Nikolejsin, Dave MNGD:EX" <Dave.Nikolejsin@gov.bc.ca>
Cc: "Crebo, David GCPE:EX" <David.Crebo@gov.bc.ca>, "Beltrano, Linda MNGD:EX" <Linda.Beltrano@gov.bc.ca>
Subject: The document

Signed term sheet. Good to go. Cheers! Fazil



TRANS MOUNTAIN EXPANSION PROJECT
TERM SHEET WITH RESPECT TO CONDITION 5
AS OF JANUARY 10, 2017

The purpose of this Term Sheet is to inform ongoing discussion between Trans Mountain Pipeline ULC ("Trans Mountain") and the Province of B.C. (the "Province") regarding the Trans Mountain Expansion Project (the "Project"). The information presented in this Term Sheet is without prejudice to future discussions. This Term Sheet and the ongoing discussions contemplated herein do not create any legally binding obligations.

1. Background

- 1.1. In response to growing market demand and customer contractual commitments, Trans Mountain is proposing to expand the existing Trans Mountain Pipeline System (TMPL) by 590,000 bpd from 300,000 bpd to 890,000 bpd. If approved, the Project will comprise:
 - 1.1.1. Pipeline facilities that complete a twinning of the pipeline in Alberta and British Columbia with about 981 km of new buried pipeline;
 - 1.1.2. New and modified facilities, such as pump stations and tanks; and
 - 1.1.3. Additional tanker loading facilities at the Westridge Marine Terminal in Burnaby, BC.
- 1.2. Trans Mountain has received 707,500 bpd of firm contracted shipper support for 20 years, except for 49,500 bpd which is contracted for 15 years.
- 1.3. In May 2013 the National Energy Board (NEB) approved the toll methodology and commercial contracts (RH-001-2012).
- 1.4. The form of the associated commercial contracts including the Transportation Service Agreement (TSA), Facility Support Agreement (FSA) and Toll Principles and the Pro Forma TMPL Rules and Regulations will be provided by Trans Mountain.

- 1.5. These documents provide for among other things: (i) the toll adjustment formula for capital and operating expenses including the sharing of risk; (ii) the sharing of spot revenue between Trans Mountain and shippers; and (iii) the determination of pipeline capacity and allocation of capacity between contracted shippers and spot shippers.
- 1.6. On May 19, 2016 the NEB recommended that the GIC approve the project (OH-001-2014) a summary of which will be provided by Trans Mountain.

2. BC 5 Conditions

- 2.1. In July 2012 the Province issued *Technical Analysis - Requirements for British Columbia to Consider Support for Heavy Oil Pipelines* which outlined five minimum requirements (generally referred to as the "Five Conditions") that must be met for the Province to consider support for heavy oil pipelines:

1. Successful completion of the environmental review process;
2. World-leading marine oil spill response, prevention and recovery systems for B.C.'s coastline and ocean to manage and mitigate the risks and cost of heavy oil pipelines and shipments;
3. World-leading practices for land oil-spill prevention, response and recovery systems to manage and mitigate the risks and costs of heavy oil pipelines;
4. Legal requirements regarding Aboriginal and treaty rights are addressed, and First Nations are provided with the opportunities, information and resources necessary to participate in and benefit from a heavy-oil project; and
5. British Columbia receives a fair share of the fiscal and economic benefits of a proposed heavy oil project that reflects the level, degree and nature of the risk borne by the province, the environment and taxpayers.

- 2.2. The Parties acknowledge that, as of the date of this Term Sheet, progress has been made with respect to satisfaction of Conditions 1-4 and Condition 5 remains substantially outstanding.

3. Condition 5

- 3.1. In order to address Condition 5, Trans Mountain and the Province may enter into a binding agreement (the "Agreement"). The Parties agree that:

- 3.1.1. Over the initial 20-year term of operations on the expanded pipeline, commencing upon the end of the first calendar year following the commencement of service and thereafter at the end of each calendar year, Trans Mountain will pay to the Province a portion of the revenues it collects from the Project in an amount equal to the greater of the following:
 - 3.1.1.1. A guaranteed amount of CAD\$25 million annually (the **"Guaranteed Amount"**); or
 - 3.1.1.2. The At-Risk Amount (as defined below) if the At-Risk Amount calculated in the previous calendar year is greater than CAD\$25 million.
 - 3.1.1.3. The Guaranteed Amount or the At-Risk Amount, as applicable, are herein referred to as the **"Shared Provincial Revenues"**.
- 3.1.2. The Province will target the Shared Provincial Revenues towards the BC Clean Communities program, a source of funding for projects that protect the environment and benefit communities. Examples of potential projects eligible for funding under the BC Clean Communities program include, but are not limited to, marine preservation and environmental monitoring, purchasing land for parks, restoring historic sites, cleaning up orphaned sites or spills where the polluter is unknown, restoring habitat, controlling invasive species, cleaning up beaches, rivers or public waterfront property, and establishing and promoting recycling programs in small, rural communities.
- 3.2. The Trans Mountain Expansion Project is committed to a British Columbian first policy for hiring and contracting our work in BC. Trans Mountain will make every effort to hire locally and to competitively and openly contract with BC businesses first. That means qualified British Columbians and local BC companies, including aboriginally owned and run businesses, will get first crack at the jobs building, operating and maintaining the pipeline system while ensuring the safety of our communities and waterways.
 - 3.2.1. Trans Mountain recognizes that part of achieving social license in BC, must mean that significant and long term economic benefits must flow to the people of the province in which we are building. This commitment is part of helping build that social license.

4. At-Risk Amount

- 4.1. The At-Risk Amount in any calendar year will be calculated based upon the actual at-risk spot volumes shipped on the pipeline and will be equal to the amount determined by multiplying the Province's share (the "Sharing Percentage") by those spot volumes and by the applicable spot tolls (the "At-Risk Amount").
- 4.2. In any calendar year the At-Risk Amount will not exceed CAD\$50 million.
- 4.3. The At-Risk Amount over the 20-year term will not exceed CAD\$1 billion.

5. Initial Sharing Percentage and Subsequent Adjustments

- 5.1. As described in the FSA, the capital cost of the Project considers both "Capped" (Trans Mountain risk) and "Uncapped" (shipper risk) costs. The capital cost risk sharing formula as between Trans Mountain and shippers allows for costs below the Capped amount and both above and below the Uncapped amount, to be reflected in higher or lower tolls.
- 5.2. The Sharing Percentage will initially be determined having regard for the Commencement Date Toll and any subsequent reconciliation to determine the Fixed Toll, having regard for the capital cost of the Project as described in Section 3.2 (c) and (d) of the FSA such that the CAD\$50 million At-Risk Amount is targeted.
- 5.3. Any subsequent adjustments to the toll or capacity of the pipeline during the 20-year term will result in adjustment of the Sharing Percentage that ensures the annual At-Risk Amount will not exceed CAD\$50 million. The Sharing Percentage will be adjusted according to the following formula:

$$\text{Sharing Percentage} = \$1.21 / (\text{total at-risk revenue} / \text{total at-risk volume})$$

6. Review of Shared Provincial Revenues

- 6.1. The Parties acknowledge that spot volumes may not materialize or otherwise be lower than forecasted and therefore the Province's realized At-Risk Amount revenues may be forecasted to be lower than \$1 billion.
- 6.2. The Parties also acknowledge that other circumstances may transpire that materially affect the economic viability of the Project.
- 6.3. The Parties may, upon the request of either Party, review the Agreement. Any amendments to the Agreement, including any changes to the sharing formula have to be agreed to in writing by the Parties.

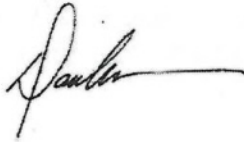
7. Support for the Project

- 7.1. Should the Parties agree that the Five Conditions have been met, the Province is prepared to be supportive of the Project.
- 7.2. The Province's support will consist of:
 - 7.2.1. Public acknowledgement that Trans Mountain has satisfied the Five Conditions.
 - 7.2.2. Endeavouring to have a timely and efficient regulatory and decision making process for all provincial regulatory matters related to the pipeline, while acknowledging statutory and regulatory requirements and other obligations, including the Province's legal obligations to First Nations. The Province intends to establish a project office and manager to work with line Agencies to facilitate these matters.
- 7.3. Nothing herein is intended to require the Province to act, or not act, in a manner that would be inconsistent with any applicable law, legal obligation or the Province's governance policies or standards of conduct or fetter the discretion of any statutory decision maker.

8. Renewal Right

- 8.1. The Parties agree that the Agreement will be renewed or extended for as long as the Project is operating (i.e. the lifecycle of the Project).
- 8.2. The Parties will negotiate in good faith the terms of the extension or renewal of the Agreement.
- 8.3. If the economic conditions are not materially different, and both parties cannot agree to new terms, then the current terms of the Agreement will continue.

Signed, this 10 day of January, 2017.



Dave Nikolejsin
Deputy Minister
Ministry of Natural Gas Development
Province of British Columbia



Ian D. Anderson
President
Kinder Morgan Canada Inc.