Tab C – Transportation Service and Toll Methodology

39. This section describes the terms and conditions of the service offerings that were agreed upon between Trans Mountain and the shippers who committed to Transportation Service Agreements for long-term firm service.

i) Toll Methodology

40. The Firm Service Toll consists of a fixed and a variable toll component.

Fixed Toll Component

41. The fixed toll component will be based on the as-built costs and pro-rated between designated delivery point locations on a cubic metre-kilometre basis, with the exception of Westridge tolls which will also include 100% of the costs and expenses for the Westridge Marine Terminal. The fixed toll component will cover all costs with the exception of power and uncontrollable costs.

42. Volumes that are tendered at the Edmonton, Alberta designated receipt point, and not utilizing tankage facilities at the terminal, will receive a direct injection credit applicable to the fixed toll component.

Variable Toll

43. The variable toll component is primarily intended to recover the costs of power required to provide long-term transportation service. Trans Mountain will calculate the cost of transporting light crude oil or equivalent and shippers will pay, on a monthly basis, an amount equal to the forecast light crude oil unit power rate times the cubic metre-kilometres shipped on the Expanded System. Shippers who transport heavy crude oil will be charged on the same basis, but the power rate will be multiplied by 1.2 times the light crude oil rate, to reflect the additional power costs associated with transporting heavy crude oil.

44. At the end of each calendar year, Trans Mountain will calculate the difference between the forecast power rates and the actual rates Trans Mountain incurred, as well as the actual power differential incurred for transporting heavy crude oil, and will invoice shippers to account for the

differences, whether they are positive or negative (see Appendix 8, pg. 14 of the TSA for further details).

45. The variable toll component will also include and be adjusted accordingly for the recovery of uncontrollable costs, resulting from changes in operations that are not currently anticipated or cannot be reasonably included in calculating the toll. An example of such costs is the collection of pipeline abandonment costs pursuant to Board Order RH-2-2008 (see Appendix 8, pg. 15 of the TSA for further details).

ii) Shipper Commitments and Discounts

46. At the outset of the Open Season process Trans Mountain offered a 10% discount on the fixed toll component to shippers who were willing to enter into twenty-year firm TSAs, as opposed to the base fifteen-year requirement. ~~As indicated in the previous section, all~~The majority of the shippers who entered into long-term firm service agreements opted for the twenty-year service option.

47. Following negotiations with shippers during the initial rounds of the Open Season process, Trans Mountain also subsequently offered a further discount of 7.5% on the fixed toll component to shippers who were willing to commit to firm volumes of 75,000 bpd or more throughout the term of their contracts. The discounts offered for longer-term commitments and higher volumes benefit shippers directly by providing them with lower tolls. The commitments by shippers who qualify for the 7.5% large volume discount account for ~~280~~430,000 bpd or ~~55~~61% of the total commitments for firm service.

48. Further to the results of Round 3 of the open season and the proposed expanded pipeline capacity to 890,000 bpd, Trans Mountain has reduced the Fixed Toll component of the benchmark Edmonton to Burnaby 15-year firm service toll and the Edmonton to Westridge 15-year firm service toll by $0.10/bbl. The Fixed Toll component for all other firm service tolls and uncommitted tolls for all receipt and delivery locations are reduced proportionately using the applied for tolling methodology. The Open Season Toll Limit was similarly reduced. Trans

Mountain has also reduced the estimated Variable Toll component (power) for all receipt and delivery locations reflecting the larger pipeline diameter from 30" to 36".

iii) Adjustments to the Fixed Toll

~~48.~~49. Based on Trans Mountain's initial estimates of the costs of the Expansion, indicative fixed and variable toll components for the various receipt and delivery points are shown in Table 2, Schedule B to the TSA, provided ~~on the following page~~below.

~~49.~~50. The tolls in Schedule B are based on Trans Mountain's early estimates of the project's costs. The Initial Cost Estimate is considered to be a Class IV estimate, in general accordance with American Association of Construction Engineers (AACE) international recommended practices, and has a deemed accuracy of +35%/-22.5%. Thus, the toll estimates in Schedule B should be considered as indicative within this range.

Table 2
Schedule B: Indicative Firm Service Tolls[1]
(Volumes less than 75,000 bpd)

Receipt Point	Delivery Point	Petroleum Type and Contract Term		Indicative Firm Service Toll Components ($CDN/bbl)			Open Season Toll Limit (Fixed component of Firm Service Toll) ($CDN/bbl)
				Fixed	Variable	Total	
Edmonton	Kamloops	Light	15 yr	3.~~16~~09	0.~~25~~24	3.~~41~~33	3.~~90~~83
			20 yr	2.~~84~~78	0.~~25~~24	3.~~09~~02	3.~~51~~45
Edmonton	Burnaby	Light	15 yr	4.~~43~~33	0.34	4.~~77~~67	5.~~47~~37
			20 yr	3.~~99~~90	0.34	4.~~33~~24	4.~~93~~83
Edmonton	Westridge	Light	15 yr	4.~~98~~88	0.~~35~~34	5.~~33~~	~~6.02~~
			20 yr	~~4.48~~224.39	0.~~35~~34	4.73	5.~~42~~925.33
		Heavy	15 yr		4.~~83~~		~~6.02~~
			20 yr				5.~~42~~92
				~~4.98~~88	0.~~42~~41	5.~~40~~29	5.33
				4.~~48~~39	0.~~42~~41	4.~~90~~80	
Edmonton	Sumas	Light	15 yr	4.~~23~~13	0.~~33~~32	4.~~56~~45	5.~~22~~12
			20 yr	3.~~80~~72	0.~~39~~32	4.~~19~~04	4.~~70~~61
		Heavy	15 yr	4.~~23~~13	0.39	4.52	5.~~22~~12
			20 yr	3.72	0.39	4.~~62~~	~~70~~4.61
				~~3.80~~	~~0.39~~	~~4.19~~11	
Kamloops	Burnaby	Light	15 yr	1.~~25~~22	0.10	1.~~35~~32	1.~~54~~51
			20 yr	1.~~13~~10	0.10	1.~~23~~20	1.~~39~~36
Kamloops	Sumas	Light	15 yr	1.~~05~~02	0.08	1.~~13~~10	1.~~29~~26
			20 yr	0.~~94~~92	0.08	1.~~02~~00	1.~~16~~13

Note 1: This table shows indicative toll estimates for total contract volumes less than 75,000 bpd. Service Options with a total Contract Volume greater than or equal to 75,000 bpd will receive a further 7.5% discount for the Contract Term.

~~50.~~51. Within 60 days of receiving a Certificate of Public Convenience and Necessity (CPCN), Trans Mountain will provide its shippers with a Class II/III CPCN Cost Estimate, again in accordance with AACE International recommended practices; this will have a deemed accuracy of +15%/-10% and will set out a new Revised Toll for shippers.

~~51.~~52. The Revised Toll will be calculated plus or minus $0.07 per barrel for every increase or decrease, respectively, of one hundred million dollars or portion thereof in the CPCN Cost Estimate from the Initial Cost Estimate (as distance adjusted for the various destinations other than Burnaby).

~~52.~~53. The Open Season Toll Limit, set during the Open Season, established that if the result from the CPCN Cost Estimate and the subsequent Revised Toll exceeded the Initial Cost Estimate by approximately $1.4 billion, the Open Season Toll Limit would be exceeded, and the shippers would have the right to terminate their contracts. Alternatively, Trans Mountain would have to bear the financial consequences of such escalation or otherwise not proceed with the Project.

~~53.~~54. When the Revised Toll is established a "Capped Costs Toll Limit", which is a component of the Fixed Toll, is set and cannot be increased. Based on the initial cost estimate for the Expansion, the capped costs represent approximately 75% of the project cost. Prior to the Commencement Date, Trans Mountain will deliver a Commencement Date Cost Estimate and a subsequent Commencement Date Toll. If the capped portion of the Commencement Date Cost Estimate increases from the CPCN Cost Estimate, the Capped Cost Toll Limit component of the Fixed Toll will remain the same as when it was established at CPCN. If the capped portion of the Commencement Date Cost Estimate decreases from the CPCN Cost estimate, the Capped Cost Toll Limit component of the Fixed Toll will decrease by $0.07 per $100 million. The Uncapped Costs portion of the Fixed Toll can increase or decrease by $0.07 per $100 million and will be reset at this time.

~~54.~~55. A further reset of the fixed toll component will be completed approximately 15 months after the Commencement Date, using the principles described above to reflect the final as-built costs and expenses for the Expansion.

~~55.~~56. The project costs used to establish the fixed toll component will be reduced by the amount of firm service fees that Trans Mountain has applied to the Expansion from "Firm 50" service to Westridge, in accordance with NEB Reasons for Decision RH-2-2011.

iv) Uncommitted Capacity

~~56.~~57. Capacity that is not contracted to committed shippers will normally be available for month-to-month uncommitted shippers. Such shippers will include committed shippers desiring to transport volumes in excess of their contracted amount including make-up volumes. With the firm volume commitments of ~~508,000~~707,500 bpd that have been signed to date, this means that ~~up to 33~~20% of the planned ~~755~~890,000 bpd of capacity would be available for uncommitted shipments (approximately ~~247~~180,000 bpd). Trans Mountain will retain this 20% of the nominal capacity ~~(or about 150,000 bpd)~~ for uncommitted shippers on an ongoing basis. At the same time, Trans Mountain is willing to enter into additional long-term firm service contracts ~~for the balance of the~~forcapacity that may come available ~~capacity (approximately 97,000 bpd),~~through hydraulic optimization or future expansion if the market expresses an interest~~. This capacity would be made available on the same terms and conditions as has been offered to the group of shippers who have committed to long-term firm service~~.

v) Uncommitted Toll

~~57.~~58. Under Trans Mountain's proposed toll methodology, the toll to be charged for uncommitted shipments will be set at a 10% premium to the fifteen-year firm toll. Since ~~all~~the majority of shippers who committed to FSAs opted for the twenty-year term, and they receive a 10% discount from the base fifteen-year toll, the difference between the overall tolls being paid by the majority of committed shippers and uncommitted shippers will be about 20%[4]. The

[4] The difference between the fixed component of the committed fifteen-year toll and the fixed component of the uncommitted toll is about 22%.

shippers who committed to a minimum volume of 75,000 bpd will receive a further 7.5% discount.

vi) Sharing of Revenues from Uncommitted Capacity

~~58.~~59. Trans Mountain will share with all committed and uncommitted shippers 50% of all fixed toll revenue collected from uncommitted shippers on volumes shipped in excess of 85% of the available capacity. At the end of each calendar year, Trans Mountain will calculate the amount to be shared and this amount will be included in the annual reconciliation of the variable toll.

vii) Future Escalation of the Fixed Toll

~~59.~~60. Pursuant to the terms of the TSA, the Fixed Toll Component will be increased annually after the first year by 2.5% on a compound basis. This clause provides certainty to shippers in terms of the rates that they can expect to pay over the term of their contracts.

viii) Flexibility Provided to Shippers

~~60.~~61. The TSA will provide significant flexibility to shippers, and enable them to better manage the costs and risks associated with their firm contracts. These provisions are summarized in this section; for further details, please refer to Appendix 8, which contains the full TSA.

Assignment Rights

~~61.~~62. Shippers have the right to assign their rights and obligations, or any part thereof, subject to the agreement of Trans Mountain, which shall not be unreasonably withheld.

Receipt and Delivery Point Flexibility

~~62.~~63. Shippers may request changes to their service options, including changes to the designated receipt point, designated delivery point or petroleum type. Trans Mountain will accommodate these requests, provided there are no implications for either Trans Mountain or other shippers. If there are implications to the system, Trans Mountain will undertake commercial discussions with other shippers to help determine if and how the request should be accommodated. Providing that the request can be accommodated, there will be no fee for changing delivery locations.

Make-Up Volumes

~~63.~~64. If a shipper cannot ship all of its contracted volumes in any one month, it can ship up to 5% additional volumes in the following month and any amount more than 5% in make-up volumes, providing that capacity is available. Further, shippers have up to 18 months to make up volumes that they do not ship in any given month. If the shipper nominates and the pipeline is always full, the make-up right is extended indefinitely to the end of the contract term.

~~64.~~65. If at any time Trans Mountain cannot provide firm service due to a situation of force majeure on the pipeline, the contract term to make up the missed volumes will be extended until the service is provided.

Relative Tolls

~~65.~~66. If at any time during the term of the TSAs, Trans Mountain implements a toll for uncommitted shippers that is lower than the Firm Service toll for the same service option initiated by Trans Mountain, the Firm Service toll will be discounted the same percentage as the uncommitted toll. Further, in the event of an additional expansion of the Pipeline during the contract term, the toll applicable to new service options for expanded capacity will not be lower than the Firm Service Toll. This is a "most favoured nation" clause which ensures that the shippers who are committing to long-term service at this time, and who are thereby providing the necessary financial underpinning to the Expansion, will be guaranteed the lowest rates available on the system.

ix) Implications for the Rules and Regulations

~~66.~~67. As part of the Open Season process, Trans Mountain circulated proposed Rules and Regulations associated with the Expanded System firm service offering. Copies of the initial and the final forms of the Rules and Regulations can be found in Appendices 6 and 9, respectively. This section contains an explanation of the provisions in the proposed final form of the Rules and Regulations related to this Application relative to the current Rules and Regulations in effect for the Pipeline and, specifically, Rules 6.8, 6.10, 7.5, 7.6, 7.9, 12.3, 13.8, 14 and 19.1.

~~67.~~68. Section 1.13 of both the FSA and TSA provide that Trans Mountain will not take steps to amend the Rules and Regulations related to make-up rights, alternative delivery point, force majeure, mainline system allocation and apportionment, or financial assurances such that there is a material adverse impact on the firm service provided to all firm service shippers.

Rule 6.8 Commodity Limitations

~~68.~~69. Subject to the Carrier's discretion, acting reasonably and in accordance with Rule 14 (apportionment), firm service shippers may be permitted pursuant to their contract, to nominate a petroleum type other than their designated petroleum type.

Rule 6.10 Firm Service Shipper Make-up Rights

Shortfall Make-up

~~69.~~70. This rule allows firm shippers the right to make-up volume that is the result of a shortfall between nominated and tendered volume compared to the monthly volume. Shippers are allowed to nominate up to 5% of their contract volume for up to 18 months following a shortfall. If there is unused available capacity a shipper may nominate more than the 5%.

Turnaround Make-up

~~70.~~71. If a firm shipper has a planned turnaround at a connected facility, with 180 days notice, they can make-up volume 2 months prior to the turnaround and 10 months after.

Rules 7.5 Demurrage Charge; 7.6 Non-Performance Penalty ("NPP") for Uncommitted Shippers

~~71.~~72. In rule 7, the Demurrage Charge and NPP have been increased to reflect costs imposed on the Pipeline and its shippers when i) one shipper fails to remove its petroleum as scheduled (Demurrage), or ii) an uncommitted shipper tenders 95% (or less) of its allocated volume during months of apportionment (NPP). The Demurrage Charge has been increased from 25¢/m^3 to 75¢/m^3 and the NPP has been increased from \$17.00/m^3 to \$37.00/m^3.

Rule 7.9 Alternate Delivery Point Fee

~~72.~~73. Firm service shippers nominating to an alternate delivery point shall pay the Variable Toll applicable to the alternate delivery point plus the greater of: (i) the Fixed Toll applicable to the alternate delivery point; and, (ii) the Fixed Toll for the designated delivery point.

Rule 12.3 Oil loss allowances

~~73.~~74. In rule 12.3 the recovery method for oil losses has been simplified such that the Pipeline will charge a percentage of the receipt volumes. Such percentage is based on historical actual costs and will be reviewed and adjusted from time to time.

Rule 13.8 Force Majeure

~~74.~~75. No event of Force Majeure shall relieve any Shipper from its obligations pursuant to the Tariff or a contract to make payments to the Carrier provided, however, the term of a contract shall extend for a period sufficient to permit shipment of volumes not able to be shipped as a result of Carrier Force Majeure, as contemplated in a contract.

Rules 14.3 - 14.6 Allocation

~~75.~~76. Pipeline capacity will be allocated in the following order:

1. firm shippers nominating to their designated delivery point

2. firm shippers nominating to an alternate delivery point

3. uncommitted shippers nominating to a priority destination

4. uncommitted[5] shippers nominating to other locations as such capacity will be allocated 20% to the Westridge Marine Terminal and 80% to Land Destinations

[5] "uncommitted shipper means (i) a shipper that is not a Firm Service Shipper; and (ii) a Firm Service Shipper in respect of any volumes of Petroleum Nominated by such Firm Service Shipper in excess of its Monthly Volume.

19.1 Financial Assurances

~~76.~~77. Firm shippers are also obligated to provide financial assurances that are more stringent than uncommitted shippers:

"with respect to Firm Service Shippers (i) a Letter of Credit in an amount equal to the lesser of the Firm Service Toll applicable to the remaining Contract term and twelve (12) Months of the Firm Service Toll, as set forth in the Contract based on the Monthly Volume; or (ii) a guarantee not to exceed the outstanding Firm Service Toll set forth in the Contract based on the Monthly Volume; or such other security acceptable to the Carrier, acting reasonably."