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VANCOUVER, B.C. V6Z 2N3 CANADA
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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-106-00

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by BC Gas Utility Ltd.
for Approval of the Gas Supply Mitigation Incentive Program for 2000/01

BEFORE:	P. Ostergaard, Chair	)	
	L.R. Barr, Deputy Chair	)	
	P.G. Bradley, Commissioner	)	November 16, 2000
	B.L. Clemenhagen, Commissioner	)	
	K.L. Hall, Commissioner	)	
	N.F. Nicholls, Commissioner	)	

O R D E R

WHEREAS:

A. The Commission, by Order No. G-92-95, approved for BC Gas Utility Ltd. ("BC Gas") the Off-System Incentive Program ("OSIP") for a two-year period commencing January 1, 1996; and

B. As part of its May 5, 1997 Revenue Requirements application for 1998 to 2002, BC Gas filed a revised incentive plan. During the Alternative Dispute Resolution process, it was agreed by all parties to deal with the form of gas cost incentive plan(s) that would succeed OSIP in a series of separate meetings. Order No. G-125-97 approved a Gas Supply Mitigation Incentive Program ("GSMIP") for the 1997/98 gas contract year, Order No. G-92-98 approved a GSMIP for 1998/99 and Order No. G-82-99 approved a GSMIP for 1999/2000; and

C. In 2000 Commission staff, BC Gas and Intervenors held a series of negotiating meetings concerning a gas supply mitigation incentive plan for the 2000/01 gas contract year, and reached agreement on the methodology, terms and conditions set out in the Settlement document that is Appendix A to this Order ("GSMIP 2000/01"); and

D. By letter dated October 25, 2000, the British Columbia Public Interest Advocacy Centre advised that it agreed with and supported the GSMIP 2000/01 Settlement; and

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E. On October 27, 2000, the Commission distributed a copy of the GSMIP 2000/01 Settlement to all participants in the revenue requirements proceeding and requested that their comments, if any, be filed by November 6, 2000. No additional comments were received; and

F. The Commission has reviewed the filing and is satisfied that the GSMIP 2000/01 should be approved.

NOW THEREFORE the Commission approves for BC Gas the Gas Supply Mitigation Incentive Program 2000/01 for the gas contract year from November 1, 2000 through October 31, 2001.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of November 2000.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

WILLIAM J. GRANT
EXECUTIVE DIRECTOR,
REGULATORY AFFAIRS & PLANNING
bill.grant@bcuc.com
web site: http://www.bcuc.com

BRITISH COLUMBIA UTILITIES COMMISSION

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Log No. 4258

WITHOUT PREJUDICE

VIA FACSIMILE October 27, 2000

To: BC Gas 1998-2002 Performance Based Rates, Interested Parties

Re: BC Gas Utility Ltd.
1998 - 2002 Revenue Requirements Application
Negotiated Settlement and Extension
"Gas Supply Incentive"

The Consolidated Settlement Document regarding a settlement for 1998-2000 of the BC Gas 1998-2002 Revenue Requirements Application, at page 3 under Gas Costs, stated:

> "The current Off System Incentive Plan will expire November 1, 1997. The parties agree to enter into discussions to determine the form of a successor gas cost incentive plan both for the short term and the long term. Any subsequent plan will be reviewed by interested parties before being submitted to the Commission for approval."

Following a separate series of negotiating meetings, a settlement was reached with respect to a gas cost incentive plan for the November 1, 1997 through October 31, 1998 gas contract year. The terms of the Gas Supply Mitigation Incentive Program ("GSMIP") were provided to Intervenors for review and comment, and were approved by Commission Order No. G-125-97. A similar process was used to negotiate and approve Gas Supply Mitigation Incentive Plans for 1998/99 and 1999/2000.

Order No. G-48-00 approved a one-year extension for 2001 of the 1998-2000 Settlement. A series of negotiating meetings in 2000 has reached a settlement regarding a Gas Supply Mitigation Incentive Plan for the November 1, 2000 through October 31, 2001 gas contract year ("GSMIP 2000/01"). GSMIP 2000/01 incorporates several refinements, including separating the surplus gas sales and capacity release components of the plan. In the Settlement, the parties also commit to work toward a new, more comprehensive incentive mechanism for the period commencing November 1, 2001.

We are pleased to enclose a copy of the terms of the proposed GSMIP 2000/01 for your review and comment by November 6, 2000. A copy of the B.C. Public Interest Advocacy Centre's October 25, 2000 letter supporting the Settlement is also enclosed.

This document is also provided to the Commission, who will consider whether to approve GSMIP 2000/01 after reviewing it and any submissions from the Registered Intervenors received in response to this request.

Yours truly,

W.J. Grant

JBW/mmc
Enclosures
cc: Mr. David M. Masuhara, Vice President
Legal, Regulatory & Logistics
BC Gas Utility Ltd.

BCG/Cor/2000/01 GSI

BC GAS UTILITY LTD.
GAS SUPPLY MITIGATION INCENTIVE PROGRAM
NEGOTIATED SETTLEMENT FOR 2000/2001 CONTRACT YEAR

At various times throughout 2000, the parties consisting of Counsel representing the British Columbia Public Interest Advocacy Centre, and representatives of BC Gas Utility Ltd. and the British Columbia Utilities Commission, met to consider alternative incentive to replace the existing Gas Supply Mitigation Incentive Program (GSMIP). On October 20. 2000 final agreement on methodology, terms and conditions was reached, allowing the parties to extend the GSMIP program for one year. It was also agreed to by all parties that BC Gas Utility Ltd. would file, by January 31, 2001, an initial proposal for a new, more comprehensive incentive mechanism that would lay the groundwork for all parties to enter into negotiations with an objective to reach agreement on a new mechanism by April 1, 2001.

It was agreed that the following objectives should not change and should serve as the guiding principles in determining the structure of GSMIP.

1. **Supply Security**

   The plan should discourage any activity that might adversely affect the security of supply or total net gas costs.

2. **Alignment of Interests**

   The plan should ensure that BC Gas maximizes net revenues from its off-system business activities.

3. **Fair and Reasonable Incentives**

   The plan should be structured to avoid paying incentives for activities and results already achieved, but reward new, substantial exertions by the Company.

4. **Simplicity**

   The plan should be structured in such a way that it minimizes administrative effort.

5. **Fair and Reasonable Performance Targets**

   The plan should ensure that performance targets and expected productivity improvements are just and reasonable.

This document sets out the terms of the GSMIP which those participating in the meeting consider to be appropriate for implementation by BC Gas. Agreement on the terms and conditions of this GSMIP involved compromise and represents a balance of interests and consensus among the parties, who consider it to be appropriate.

1. **Test Period**

The term of this GSMIP will commence on November 1, 2000 and will expire on October 31, 2001. In order to determine the incentive to be received by BC Gas in 2001, the Company's performance during the gas contract year ending October 31, 2001 will be examined. If appropriate, and upon review by the B.C. Utilities Commission, BC Gas will then withdraw from the GCRA any incentive amounts earned.

2. **Expiration & Incentive Review**

This GSMIP is recognized as temporary or interim in nature, applying to the November 1, 2000 - October 31, 2001 contract period only. At the end of the period it will be reviewed and its disposition — i.e. abandonment, replacement or continuation — will be subject to Commission approval.

3. **Sharing Mechanism**

Objectives

- Split the current combined GSMIP into two separate incentives for commodity resale and mitigation of transport and storage.
- Create a more challenging BC Gas incentive sharing.
- Reduce sharing revenue uncertainty due to available resale volume and commodity rates.

Incentive Structure Summary

The parties believe accounting separately for transport and storage activity (versus commodity resale) is a useful way to track and represent mitigation performance. This separation typifies the activities associated with managing the utilization of firm customer assets for the firm sales market with more real-time choices in portfolio optimization and with increased access to multiple supply options. BC Gas' focus and time allocation will move from off-system sales mitigation towards daily and monthly optimization of firm assets for firm customers. Tracking mitigation activities and related performance is designed to mirror the effort being expended in these areas of gas procurement.

a) Commodity Resale

The 2000/01 incentive mechanism for commodity resale will be benchmarked against an initial hurdle that is calculated based on market commodity prices and volume available for resale. The result will be that the BC Gas sharing reward is dependent primarily on how close it can come to achieving full recovery of fixed costs for core customers regardless of commodity pricing and volume available. The initial hurdle prior to BC Gas sharing is set at $1/GJ under the total monthly margin available based on the Sumas index.

- BC Gas to share 5% on revenue recovered over the initial hurdle.

- When BC Gas achieves $1 Million sharing, the BC Gas share will reduce to 2.5% and again to 1.25% sharing after BC Gas revenue of $1.5 Million.

  See the attached summary spreadsheet and definition sheet for more details.

  Justification for Proposed Sharing Mechanism

  - Creates more challenging BC Gas sharing mechanism than previous two years.

  - Better aligns BC Gas and customers to margin recovery per unit resold.

  - Eliminates sharing revenue uncertainty associated with resale volume available and commodity price.

b) Transport and Storage

Transport and storage mitigation is to include all capacity release revenue as well as BC Gas revenue generation from core transport and storage assets when not required for the Core. Activities include:

- transport release
- storage release
- net revenue gain (or loss) from back-to-back commodity purchase and sale outside of firm customer commodity on BC Gas transport or storage
- net revenue gain (or loss) from back-to-back commodity purchase and sale on commodity independent from firm customer requirements

Incentive Mechanism:

- Initial hurdle of $1.5 Million of transport and storage net revenue going 100% to firm customers. BC Gas to share 10% after initial $1.5 Million hurdle is achieved.

- BC Gas sharing to 5% after first $2.5 Million of total net revenue is achieved and to 2.5% after first $4 Million total net revenue is achieved.

Justification for Proposed Sharing Mechanism

- BC Gas better incented with 10% sharing percentage after initial hurdle vs. 5% sharing due to lower margins on each transaction.

- The initial hurdle is set consistent with existing total recovery and incents BC Gas to improve over past performance.

4. Employee Incentives

Within the context of other incentive plans and market competitive compensation levels for employees, BC Gas will continue to recognize those Gas Supply and Industrial Services employees deemed to have directly or indirectly contributed toward the generation of net revenues achieved under this GSMIP. Such incentive compensation will be based upon and related to the incentive earnings of BC Gas.

5. Regulatory & Management Reporting

In order for the Commission to adequately monitor and evaluate the company's performance, the already well-developed record-keeping and reporting procedures will be continued. BC Gas will also continue with its current practice of regular quarterly filings with the Commission consisting of a summary report that details all off-system and non-core on-system activity and associated financial impacts. This report will be submitted to the BCUC within two months of the quarter-end.

BC Gas will also continue to keep distinct and separate records, for audit purposes, of its daily "Priority Schedule", which determines the available supply and its marginal costs, a daily "Load Forecast Sheet", which details all on-system supply requirements, and a "Deal Sheet" for each and every transaction that will feature all information as it relates to the economics of each transaction.

BC Gas will confer with Commission staff to ensure that these reports provide an appropriate level of disclosure and audit capability with a minimum of administrative burden. Commission staff will examine the calculation of any incentive payments received under the GSMIP and the Commission will make any appropriate adjustments. For the benefit of interested parties, an overview report will be issued by Commission staff at the end of the term. Such report shall provide an analysis of the effectiveness of the GSMIP.

Definitions:

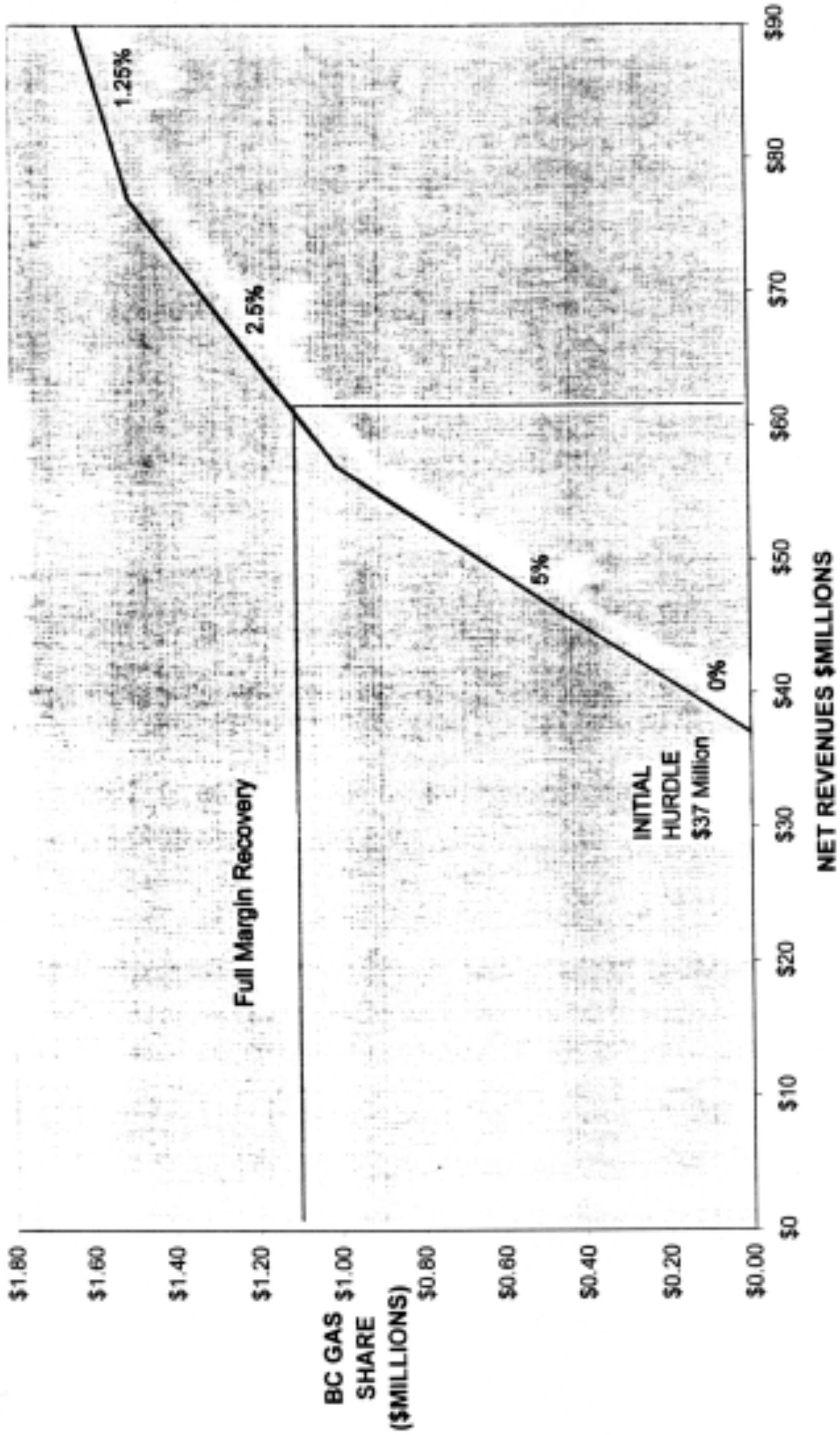
Commodity-sharing Mechanism

Commodity	All gas volumes approved for purchase by the BCUC for firm customers. BC Gas must include and take 100% of contracted term volumes.
Surplus Volume Available	Commodity in excess of firm customer needs.
Initial Hurdle	The monthly commodity resale margin hurdle before any BC Gas sharing. = monthly commodity volume available x (total monthly margin available less $1.0/GJ). The Initial Hurdle for a month will not be less than zero.
Total Margin Available	= fixed costs created by the monthly Sumas Index per the CanWest contract cost allocation.
BC Gas Sharing	BC Gas to share 5% of revenue that is in excess of the initial hurdle up to a total BC Gas sharing of $1 Million, adjusted to 2.5% for BC Gas sharing between $1.0 – 1.5 Million and 1.25% thereafter.
Storage Effect	BC Gas will be allocating a percentage of storage gas for resale that has a fixed cost of gas of $2.80/GJ. This cost will be different than the variable index price cost of gas and will affect revenue generation. BC Gas shall report monthly the volume of storage gas utilized and the storage costs of gas, as well as the total monthly surplus volume available and the average cost of surplus gas.

Transport and Storage Mechanism

Transport and Storage Release	BC Gas assigns firm customer transport or storage to a third party. BC Gas is paid a negotiated fee by the third party for temporary assignment of this asset.
Back-to-Back Transport Activity	BC Gas creates revenue from unutilized Core pipeline assets when there is net value available to flow gas from the receipt to delivery point. This will include all BC Gas purchase volume outside of firm purchase contracted and all resales that are not firm Core surplus gas resale. Each back-to-back transaction shall be recorded separately for auditing purposes. BC Gas shall provide a summary report for review by the BCUC for the month of November prior to January 15, 2001.
Back-to-Back Storage Activity	To include usage of firm customer storage assets and other assets available to BC Gas to create net revenue outside of firm customer needs. This will involve net gain from purchase and resale of commodity.

GAS SUPPLY INCENTIVE PLAN (GSMIP)
COMMODITY RESALE SHARING MECHANISM



Base On: Surplus Volume - 25PJ and Sumas Index Average US$4.50/mmbtu

The
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Sunita Ekberg (articled student)	687-3063

Barristers & Solicitors

BCUC Log # 4280
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OCT 31 2000
Routing Rec'vd via Fax Oct. 27/00.

October 25, 2000

BC UTILITIES COMMISSION
6th Floor - 900 Howe Street
Vancouver, BC
V6Z 2V3

Attention: Mr. J.B. Williston

Dear Mr. Williston:

Re: BC Gas Utility Ltd. Gas Supply Mitigation Incentive Program Negotiated Settlement for 2000/2001 Contract Year

I have now had an opportunity to review the materials forwarded by Mr. Morrow with his letter of October 20, 2000. I believe this reflects the negotiated settlement agreement and I support it on behalf of my clients.

Yours sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Richard J. Gathercole
Executive Director

RJG:ll
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