

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G- 101-09

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**IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

and

**An Application by Terasen Gas Inc.
for Approval of a Gas Supply Mitigation Incentive Program
for the 2009/10 Gas Contract Year**

BEFORE: L.F. Kelsey, Commissioner
P.E. Vivian, Commissioner

September 3, 2009

O R D E R

WHEREAS:

- A. By Order G-98-95 the British Columbia Utilities Commission (the "Commission") approved an Off-System Incentive Program ("OSIP") for Terasen Gas Inc. ("Terasen Gas") (formerly known as BC Gas Utility Ltd.) 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, Terasen 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. The yearly meetings resulted in agreed to plans sent to the Commission for approval. The following Commission Orders approved a Gas Supply Mitigation Incentive Program ("GSMIP") for each subsequent gas contract year: Order G-125-97 for 1997/98, Order G-92-98 for 1998/99, Order G-82-99 for 1999/2000, Order G-106-00 for 2000/01, Order G-124-01 for 2001/02 and Order G-79-02 for 2002/03 which included the GSMIP Settlement document attached as Appendix A; and
- C. Commission Order G-67-03 approved the continuance of the 2002/03 GSMIP for the 2003/04 gas contract year; and
- D. The following Commission Orders approved the continuance of GSMIP for each subsequent gas contract year without any revisions to the formula or the Service Quality Indicators: Order G-98-04 for 2004/05, Order G-83-05 for 2005/06, Order G-137-06 for 2006/07, Order G-85-07 for 2007/08 and Order G-156-08 for 2008/09 which included the GSMIP Settlement document attached as Appendix A; and

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- E. On August 19, 2009 Terasen Gas applied to the Commission for approval of the 2009/10 GSMIP (the "Application"). The proposed 2009/10 GSMIP plan remains fundamentally unchanged from the 2008/09 GSMIP plan that was approved by the Commission pursuant to Order G-156-08; and
- F. As stated in its Application on page 18, Terasen Gas is proposing a review of the GSMIP with stakeholders in the early part of 2010 to determine the nature of the program following October 31, 2010; and
- G. The Commission has reviewed the Application and is satisfied that the GSMIP, attached as Appendix A, should continue unchanged for the 2009/10 gas contract year, considering that TGI proposes that GSMIP be reviewed in its entirety in 2010.

NOW THEREFORE the Commission approves for Terasen Gas the 2009/10 Gas Supply Mitigation Incentive Program that is attached as Appendix A to this Order for the gas contract year from November 1, 2009 through October 31, 2010 with the understanding that GSMIP will be reviewed in 2010.

DATED at the City of Vancouver, In the Province of British Columbia, this 3rd day of September 2009.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

TERASEN GAS INC.

2009/10 Gas Supply Mitigation Incentive Program ("GSMIP") Plan
for the 2009/2010 Contract Year

The Terasen Gas Inc. ("Terasen Gas" or the "Company") GSMIP plan will continue to generate revenue based on mitigation activities to offset customer costs. In order to provide the British Columbia Utilities Commission (the "Commission") information to assess performance, various Service Quality Indicators ("SQIs") will be reported along with certain market information. The Commission has the right to disallow mitigation revenue sharing if it deems Terasen Gas' performance under the SQIs is not acceptable.

All GSMIP mitigation activity falls within the Midstream Cost Reconciliation Account and GSMIP revenues contribute to reducing midstream costs which benefit all Core customers.

The following objectives and guiding principles continue to influence the structure of GSMIP.

1 GSMIP OBJECTIVES AND GUIDING PRINCIPLES

The objectives listed below serve as the guiding principles of the GSMIP plan.

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 encourage Terasen Gas to maximize net revenues from its off-system business activities while maintaining supply security.
3. **Fair and Reasonable Incentives:** The plan should be structured to encourage continued success in mitigation activities and to 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 are just and reasonable, and that the level of incentive sharing corresponds to the level of excellence demonstrated by Terasen Gas' gas procurement and mitigation activities.

2 TERM

The term of the 2009/10 GSMIP plan will commence on November 1, 2009 and will expire on October 31, 2010. Continuation of the GSMIP plan for future terms will be subject to Commission approval.

3 EXPIRATION & INCENTIVE REVIEW

The 2009/10 GSMIP plan is recognized as short-term in nature, applying to the November 1, 2009 - October 31, 2010 contract period. At the end of the period the results will be reviewed and, following approval by the Commission, Terasen Gas will withdraw from the Midstream Cost Reconciliation Account any incentive amounts earned.

4 GSMIP SHARING MECHANISM

See Section 6 for all relevant definitions.

The GSMIP sharing mechanism is as follows:

<u>Total Eligible Margin</u>	<u>Incentive Payment</u>
\$0 to \$20 million	5%
Greater than \$20 million	1.25%

The Total Eligible Margin is the sum of the Eligible Commodity Re-sale Margin plus the Eligible Transportation, Storage and Other Margin.

4.1 Eligible Commodity Re-sale Margin

The Eligible Commodity Re-sale Margin formula is as follows:

Eligible Commodity Re-sale Margin = (Weighted Average Re-sale Price minus
(Weighted Average Sumas Monthly Index minus
Hurdle Discount)
Multiplied by the Annual Re-Sale Volume

4.2 Eligible Transportation, Storage and Other Margin

The existing transportation, storage and other mechanism shall be continued whereby 100% of the margin resulting from these resources is eligible for the sharing incentive.

5 REGULATORY AND MANAGEMENT REPORTING

Terasen Gas will confer with Commission staff to ensure that the specified reporting provides an appropriate level of disclosure and audit capability with minimum administrative burden. The Commission staff will examine the calculation of any recommended incentive payments received under the GSMIP along with SQI performance and make their determination regarding the approval of the incentive payment.

The Regulatory and management reporting requirements are outlined below:

5.1 Service Quality Indicators

The key functions of Gas Supply are as follows:

1. Develop and implement an Annual Contracting Plan (“ACP”), approved by the Commission, to acquire and optimum mix of transportation, storage and commodity;
2. Development and implementation the annual Price Risk Management Plan (“PRMP”), approved by the Commission;
3. Manage counterparty risk and credit exposure;
4. Ensure 100% firm customer commodity supply reliability.

The four SQIs performance targets related to the key Gas Supply functions are provided below:

Annual Contracting Plan

Terasen Gas will provide the ACP in a timely fashion meeting the expectations of the Commission for approval. The approved ACP, including any revisions throughout the year must be successfully implemented over the contracting period recognizing those market conditions that may arise.

Price Risk Management Plan

Terasen Gas is to provide the PRMP in a timely fashion meeting the expectations of the Commission for approval. Terasen Gas is to implement the PRMP including any approved revisions within the guidelines presented in the plan including any provisions or understanding about transaction volumes within stated timelines.

Counterparty Risk and Credit Exposure Management

Terasen Gas is to show that it has effectively managed credit exposure for Firm customers prudently avoiding potential non-recoveries if deemed reasonably preventable.

Commodity Supply Reliability

100% delivery of Firm customer demand.

The two performance target outcomes are either “met expectations” or “did not meet expectations.”

5.2 Regional Local Distribution Company (“LDC”) Rate Indicators

Terasen Gas is to provide monthly gas costs as available for other regional LDCs such as Cascade Natural Gas Corporation, Puget Sound Energy, Avista Utilities, and Northwest Natural over the contract year. Terasen Gas will also provide a summary of the portfolios utilized by each of these other LDCs and illustrate differences from the Terasen Gas portfolio. Determination of the regional LDC portfolios will be through review of public information and discussion with each of their respective Gas Supply departments and will therefore be an estimate only. Regulator approved and implemented financial price fixing activity and deferral treatment vary significantly between the LDCs and drive rates to a large extent so individual LDC rates could vary significantly at a given time.

5.3 Terasen Gas Actual Gas Costs and Market Index Prices

Terasen Gas shall provide actual incurred monthly gas costs excluding fixed costs and hedging. Terasen Gas shall also provide data on actual Daily and Monthly Index prices at Sumas, NYMEX, AECO and Station 2. This data will be used to calculate gas cost proxies for purchasing 100% of daily Firm demand at both the Sumas and AECO daily midpoint Index for reference. Because the Sumas daily price does not meet intra-day balancing needs and there is insufficient market liquidity to consider this kind of purchase strategy, the comparison is a proxy intended to illustrate how the portfolio approach protects customers from market volatility even before hedging activity.

5.4 Commodity Costs Compared to Market

Terasen Gas develops a portfolio of pipeline, storage and commodity contracts that provide supply reliability and price diversity for Firm customers. The majority of Firm demand is in the Lower Mainland and is tied to the Sumas hub. The Sumas market is subject to considerable volatility.

Terasen Gas must be a significant contributor to managing demand variability at this location. The portfolio of assets is accepted as necessary to manage Firm customer load variability and access less volatile supply sources upstream. Value recovery realized on transport and storage assets is subject to the volatile nature of market conditions and will vary considerably from year to year. Therefore, performance on contracted assets should be based on portfolio development and recovery of available mitigation value as proposed in this plan.

The portfolio assets provide commodity purchasing options to Terasen Gas. Terasen Gas commodity buying should be reasonably competitive with market price availability. Terasen Gas will provide monthly data on actual Gas commodity purchase costs before hedging compared to Sumas, Station 2 and AECO monthly and daily index priced gas.

5.5 GSMIP & SQI Winter & Year End Reports

The Company will provide Winter and Year End Reports that combine the GSMIP and SQI results to provide the Commission a means to monitor and evaluate the Company's performance.

The GSMIP portion of the Winter Report will provide the following:

1. A forecast of the Total Eligible Margin;
2. The Total Eligible Margin broken out into the customer's and Company's share and,
3. The Total Eligible Margin broken out into the commodity, transportation and other, SCP and TGV mitigation

The SQI portion of the Winter Report will provide a status report on the Company's performance relative to the targets for the ACP, PRMP, Counterparty Risk and Credit Exposure and Supply Reliability.

Any potential anomalies to normal operations will be highlighted and discussed in the Winter Report. The combined report will be due 2 months following the end of the winter season.

The GSMIP portion of the Year-End Report will provide the following:

1. All the information of the winter report using actual data;
2. Supporting documentation;
3. In-depth review of relevant market conditions and mitigation activities over the past year;
4. Letter from the Company's Internal Audit outlining the findings of their review of the total eligible margin.

The SQI portion of the Year-End Report will provide the following:

1. Final evaluation of the Company's performance in meeting SQI targets;
2. Actual incurred monthly gas costs excluding fixed costs and hedging along with data on actual daily and monthly index prices at Sumas, AECO and Station 2 for comparison purposes.

The Year-End Report will be submitted in a timely fashion following the completion of the Internal Audit review, typically in the month of March following the end of the gas year.

Definitions

Annual Re-Sale Volume	All commodity purchases in the ACP in excess of actual firm customer demand that are re-sold by the Company
Weighted Average Re-sale Price	The weighted average of actual monthly re-sale volume multiplied by the average re-sale price at all market centres for each month, divided by the annual commodity re-sale volume
Weighted Average Sumas Monthly Index	The weighted average of actual monthly re-sale volume multiplied by the Sumas monthly index for each month, divided by the annual commodity re-sale volume
Hurdle Discount	$\$1/\text{GJ} \times (17 \text{ PJ}/\text{Annual Commodity Re-Sale Volume})$
Commodity Re-Sale Revenue	Commodity Re-sale Volume x Re-sale Price.
Eligible Commodity Re-Sale Margin	$(\text{Re-sale Price} - (\text{Sumas Monthly Index} - \text{Hurdle Discount})) \times \text{Annual Re-Sale Volume}$
Eligible Transportation, Storage and Other Margin	All net revenue generated by Terasen Gas from buy/sell, assignments, park and loans, virtual storage, natural gas liquid extraction agreements and miscellaneous mitigation of ACP resource activities.
Total Eligible Margin	Eligible Commodity Re-Sale Margin + Eligible Transportation, Storage and Other Margin
Total Mitigation Revenue	Commodity Re-Sale Revenue + Eligible Transportation, Storage and Other Eligible Margin