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CANADA

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IN THE MATTER OF the Utilities Commission  
Act, S.B.C. 1980, c. 60, as amended

and

An Application by BC Gas Utility Ltd.  
for Approval of its 1996, 1997 and 1998 Revenue Requirements

**BEFORE:** M.K. Jaccard, Chairperson, )  
L.R. Barr, Deputy Chairperson; and ) November 27, 1995  
F.C. Leighton, Commissioner )

**O R D E R**

**WHEREAS:**

- A. On July 4, 1995 BC Gas Utility Ltd. ("BC Gas") filed with the Commission an application based on a three-year test period to increase the rates of all customers in the Lower Mainland, Inland and Columbia Divisions, except those with negotiated rates, commencing January 1, 1996 and further increases effective January 1, 1997 and 1998 ("the Application") pursuant to Sections 64 and 101 of the Utilities Commission Act; and
- B. On July 20, 1995 the Commission held a Pre-hearing Conference, pursuant to Order No. G-54-95, to establish a timetable for the public review of the Application; and
- C. On July 25, 1995 the Commission issued Order No. G-60-95 which included a timetable for the public review of the Application and a Notice of Public Hearing to commence November 14, 1995; and
- D. Further information requests, educational workshops and pre-hearing conferences were conducted prior to negotiation dates which were held between October 11 and 19, 1995; and
- E. On October 27, 1995, a tentative negotiated settlement was reached among the participants and circulated to all Registered Intervenor and the Commission Panel; and
- F. At the public hearing held on November 14, 1995, the Commission explored the impacts of the proposed settlement with the participants and consequently approved the settlement proposal in its entirety.

**NOW THEREFORE** the Commission orders as follows:

1. BC Gas will file revised revenue requirement schedules to reflect approved hearing costs.
2. BC Gas will comply with all the terms and conditions as contained in the approved settlement (Exhibits 8 and 8A) as required by the Decision accompanying this Order.
3. The Commission as a whole will address, as soon as practicable, the procedures and the timing to resolve the issues identified as outstanding.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 28th day of November, 1995.

BY ORDER

*Original signed  
by Author*

Dr. Mark K. Jaccard  
Chairperson

Attachment



**BC GAS UTILITY LTD.  
1996-98 REVENUE REQUIREMENTS APPLICATION  
PUBLIC HEARING: NOVEMBER 14, 1995**

**DECISION**

**I. APPLICATION**

BC Gas Utility Ltd. ("BC Gas", "the utility", "the Company") is a regulated utility under the provisions of the Utilities Commission Act. On July 4, 1995, the utility filed an application ("the Application") for a three year test period which sought an increase in 1996 of 17.06% on the utility margin for all customers except those with negotiated rates. For 1997 and 1998, the Company sought further increases of 7.3% and 6.4% respectively on margin. The Company proposed to partially offset the increase to firm sales customers with gas cost revenues accumulated in the Gas Cost Reconciliation Account ("GCRA"). The Application also sought to have the Commission approve certain accounting changes, establish deferral accounts and resolve the Application by the use of a negotiated settlement process.

Pursuant to the terms of Order No. G-54-95, Commission staff held a pre-hearing conference for all potential participants to discuss preliminary issues, timing and the use of negotiations to deal with the Application. Based on participant input at the pre-hearing conference, the Commission issued Order No. G-60-95 with a timetable to establish key dates such as workshops, negotiation days and the public hearing.

On September 12, 1995, the first day of the workshops, BC Gas filed revisions to the Application (Exhibit 1A) which reduced the requested rate increase in 1996 for all customers to 10.73% on margin from the previous 17.06%, but for 1997 and 1998 revised the requested increase on margin upwards to 9.94% and 8.53% respectively. All of the above rate increases were exclusive of GCRA credits and were calculated on a rate of return on common equity of 12% and an equity component of 33%. The rate of return on equity is set annually in accordance with a methodology established by the Commission in 1994 for the major utilities under its jurisdiction.

## II. NEGOTIATED SETTLEMENT PROCESS

In recent years the Commission has been supportive of utility requests to attempt negotiated settlement processes as a substitute for the bulk of the oral public hearing, recognizing that all settlements between utilities and intervenors require final approval of the Commission following an opportunity for public review. In this case, the negotiated settlement process was successful, and the settlement agreement was reviewed by the Commission at an oral hearing on November 14, 1995.

Prior to the hearing, as a result of the information requests, workshops and negotiations among participants, a document entitled "Terms Of A Settlement" (Exhibit 8) was circulated to all registered intervenors and the Commission panel on October 27, 1995. Further comments (Exhibit 9) were received from intervenors with respect to the above settlement proposal. In contrast to the 1994 negotiated settlement, in which the participants were able to settle only on the plant additions and O&M levels, this settlement proposal was a complete two-year package with certain provisions and conditions to deal with some unresolved issues such as IRP supply side management, a gas supply incentive and a 1996 BC Gas rate design filing.

The effect of the proposed settlement is that the firm sales customers will have no rate increases in 1996 after including off-setting gas cost revenues accumulated in the GCRA, but the other customers will have an increase in margin of 2.7% with an equivalent amount deferred for future determination. For 1997, the firm sales customer rates are projected to have a negligible increase depending on the actual GCRA off-sets; whereas the other customer rates will increase 9.58% on margin. All of the above rate impacts are based on a forecast rate of return on common equity of 11% and are subject to change due to the ROE determination mechanism and as a result of the forthcoming Mains Extensions hearing Decision.

The Commission acknowledged during the hearing that the "Terms Of A Settlement" (Exhibit 8), contains the following statement at page 3:

"The settlement is the culmination of negotiations among parties who have many diverse interests. The settlement represents numerous compromises among the parties and consists of a settlement package from which no part can be severed. The issues resolved in the settlement negotiations are numerous and complex. Taken as an integrated whole, the settlement represents a balance of interests and an overall consensus among the participating parties."

However, the Commission also stated that it has a statutory responsibility to ensure that the proposed rates to be charged are just and reasonable, that there is not undue discrimination, prejudice or disadvantage in respect of the rates or service and that the service is offered or furnished under substantially similar circumstances and conditions. The hearing provided the Commission the opportunity to review the settlement with all interested parties.

### III. THE DECISION

The Commission accepts the settlement in its entirety. The Commission agrees with the consensus of parties, which it notes represent a broad range of interests, that the settlement package is in the public interest.

The Commission notes, in particular, that the settlement leads to stable rates for residential and commercial customers during a period in which a positive rate of inflation is forecast. The settlement also includes an ROE sharing incentive to motivate utility management to pursue even further efficiency gains in operating and maintenance costs that will ultimately benefit all customers. In the Commission's view this type of incentive is desirable since it aligns rate payer and Company shareholder interests in keeping rates low. At the same time it is important that customer service, reliability and safety not be compromised. The Commission accepts the Company's assurances in this regard and, on an ongoing basis, will review organizational changes at BC Gas directed at improving efficiency.

The Commission also notes that certain issues were excluded from the negotiated settlement. These include the use of an incentive for off-system activities related to the gas supply for firm sales customers, a demand-side management shareholder incentive, and a review of supply-side components of the integrated resource plan. The gas supply incentive is under review and the other matters will be scheduled for review as soon as practicable. All of these matters will be decided upon by the Commission as a whole, rather than by the Division formed to review this BC Gas application.

In the Commission's view, the negotiated settlement process is still in the early phase of development and has raised some interesting issues which will need further consideration. In particular, the Commission has concerns about its ability to determine the outcome for individual public interest issues which are part of a negotiated package. This concern might be addressed by introducing a preliminary review stage for the Commission panel to identify any issues which it

would prefer to review in a hearing and to agree to those other issues which are eligible for consideration in a negotiated settlement. This and other concerns will be explored further as the Commission develops and seek comments upon its guidelines for negotiated settlements.

DATED at the City of Vancouver, in the Province of British Columbia this 28th day of November, 1995.

Original Signed by Author  
Dr. M.K. Jaccard  
Chairperson

Original Signed by Author  
L.R. Barr  
Deputy Chairperson

Original Signed by Author  
F.C. Leighton, P. Eng.  
Commissioner

WILLIAM J. GRANT  
EXECUTIVE DIRECTOR,  
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**Exhibit 8**

**WITHOUT PREJUDICE**

October 27, 1995

To: Registered Intervenor

Re: BC Gas Utility Ltd.  
1996 - 98 Revenue Requirements Application  
Terms of A Negotiated Settlement

Pursuant to a timetable, contained in Commission Order N. G-60-95, for a process of alternate dispute resolution to deal with the BC Gas 1996-98 revenue requirements Application, participants including BC Gas, principal intervenors and Commission staff have reached a tentative settlement. We are pleased to enclose a copy of the Terms of the proposed settlement for your review and comment by November 6, 1995.

This document is also provided to the Commission Panel members of this rate case. The Commission will consider whether to accept the settlement package at the opening of the public hearing on November 14, 1995.

Yours truly,

W.J. Grant

SSW/ssc

Encl.

cc: Mr. D.M. Masuhara  
BC Gas Utility Ltd.



TERMS OF A SETTLEMENT  
RESPECTING THE JUNE 30, 1995 REVENUE REQUIREMENT APPLICATION  
OF BC GAS UTILITY LTD.

**BACKGROUND**

BC Gas Utility Ltd. ("BC Gas") filed a Revenue Requirement Application dated June 30, 1995 (the "Application") with the British Columbia Utilities Commission ("Commission"). The Application sought to have the Commission establish rates for BC Gas for the years 1996, 1997 and 1998 and sought to have the Commission approve accounting changes, establish deferral accounts, and authorize expenditures, all as described in the Application. BC Gas filed revised financial schedules dated September 12, 1995 which amended the Application (the "Revised Application"). The Revised Application incorporated a refund of forecast deferred gas cost credits of \$35 million at the end of 1995 from the Gas Cost Reconciliation Account ("GCRA") to core market customers of \$20 million in 1996, \$10 million in 1997 and \$5 million in 1998. The Revised Application sought Commission approval of rate increases, after taking into account the refund of deferred gas cost credits, of:

	1996		1997		1998	
	Core	Non-Core	Core	Non-Core	Core	Non-Core
Rate Increase as a % of Gross Margin after GCRA Refund	3.83%	10.73%	6.90%	9.94%	7.18%	8.53%
Rate Increase as a % of Total Revenue after GCRA Refund	1.81%	8.26%	3.07%	7.78%	3.38%	6.75%





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Pursuant to Commission Order No. G-54-95, a Pre-Hearing Conference was held on July 20, 1995 to establish a process for the review of the Application. It was determined by the parties at the Pre-Hearing Conference that the process should include an alternate dispute resolution process involving Intervenors and BC Gas, as well as Commission Staff.

On July 25, 1995, the Commission issued Order No. G-60-95 which included a Notice of Public Hearing regarding the review of the Application (attached as Appendix A). That Order set out a proposed timetable which provided a process for parties to obtain further details of the Application through written information requests, technical and educational workshops sponsored by BC Gas, Pre-Hearing Conferences, and formal negotiation sessions prior to a public hearing set down to commence November 14, 1995.

BC Gas received and responded to information requests from the Commission Staff and Intervenors, conducted three days of educational and technical workshops, and held several informal meetings with parties to provide further details and clarifications regarding the Application; all of which provided Commission Staff and Intervenors with additional information to proceed to settlement negotiations.

Settlement negotiations occurred in the Commission Hearing Room on October 11, 12, 13, 17 and 19. Parties represented during the settlement negotiations were BC Gas, Celgar Pulp Company, Cominco Ltd., Weyerhaeuser Canada Ltd., Pope & Talbot Ltd., Consumers Packaging Inc., Federated Co-Operatives Limited, Fording Coal Limited, D.W. Rawlyk: (Energy Resources Management), Manalta Coal Ltd., B.C. Energy Coalition, Maple View Gas Marketing Inc., Westcoast Energy Inc., Lower Mainland Large Volume Gas Users Association, Consumers Association of Canada (B.C.), B.C. Old Age Pensioners' Organization, Council of Senior Citizen's



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Organizations of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizens' Association of B.C., West End Senior's Network Society, and British Columbia Utilities Commission Staff.

This document sets out the terms of the settlement reached during those settlement negotiations. The rate increases of BC Gas arising from the settlement are summarized on the schedules in Appendix B, based on an estimate of the return on common equity of BC Gas being 11 % (the approved return on equity allowed BC Gas will be determined pursuant to a formula established by the Commission in its Decision of June 10, 1994, as modified in item 8 below). The rate increases of BC Gas are also subject to the adjustments set out below.

The rate increases resulting from the settlement, as set out in Appendix B, are:

	1996		1997	
	Core	Non-Core	Core	Non-Core
Rate Increase as a % of Gross Margin after GCRA Refund	0.00%	2.70%	0.25%	9.58%
Rate Increase as a % of Total Revenue after GCRA Refund	0.00%	2.08%	0.11%	7.43%

The settlement is the culmination of negotiations among parties who have many diverse interests. The settlement represents numerous compromises among the parties and consists of a settlement package from which no part can be severed. The issues resolved in the settlement negotiations are numerous and complex. Taken as an integrated whole, the settlement represents a balance of interests and an overall consensus among the participating parties.



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## **TERMS**

### **1. Test Period**

- The settlement shall apply to a two year test period, namely calendar years 1996 and 1997.

### **2. Plant Additions**

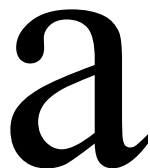
- The net plant additions to rate base to be reflected in the revenue requirement are \$96.672 million in 1996 (a reduction of \$5.088 million from the 1996 plant additions in the Revised Application) and \$77.897 million in 1997 (a reduction of \$8.655 million from the 1997 plant additions in the Revised Application) including Fort Nelson plant additions (as set out in Appendix B pages 1.2 and 1.6) plus the plant additions arising from CPCN Projects as described below.
- Certain additional capital projects in a test year relating to Mains-Transmission, Engineering Projects, Computers, Buildings and Land, Compressors and Telemetry (estimated to be \$7.23 million in 1996 and \$64.926 million in 1997, see Appendix B pages 1.2 and 1.6) are not reflected in the revenue requirement for the year in which the capital projects are forecast to be in service, and will be subject to approval by the Commission through Certificate of Public Convenience and Necessity applications under section 51 of the Utilities Commission Act (the "CPCN Projects"). To the extent such applications are approved and the capital projects undertaken, a



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capital project will form part of the rate base of BC Gas in the year following the year in which the capital project is completed, and BC Gas will be entitled to accrue AFUDC on the expenditures associated with the capital project until the capital project is part of rate base. BC Gas will be entitled to include the total capital expenditures and AFUDC in rate base at the commencement of the year following completion of the capital project. The CPCN Projects forecast to be in service in 1996 are included in rate base in 1997 in the revenue requirement calculations in Appendix B.

- The benefits of the tax shield arising from capital cost allowance (“CCA”) relating to the CPCN Projects are reflected in the revenue requirement calculations for 1996 and 1997 in Appendix B. The forecast CCA tax shield credits for 1996 and 1997 reflected in Appendix B are set out in Appendix C. BC Gas is to be held harmless from any variances between the CCA tax shield forecast for each test year (relating to CPCN Projects forecast to be completed in that test year) and the actual CCA tax shield available in that test year (relating to CPCN Projects actually completed in that test year). Such variances will be recorded in a deferral account and amortized in rates commencing in 1998.
- Subject to confirmation by Revenue Canada of its position regarding the deduction of overheads and plant removal costs capitalized for income tax calculations, the amounts previously capitalized in the accounts but claimed as a deduction for income tax purposes have been removed from the revenue requirement utility tax calculations for 1996 and 1997 with rate impacts of \$16.1 million (increase) and



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\$1.6 million (decrease), respectively. With regard to any similar tax liability arising for 1995, BC Gas will be entitled to record the amount relative to the forecast 1995 test year income tax expense in a deferral account and amortize the same over five years commencing in 1998.

- BC Gas will reflect the effect of revisions to its main extension policy in the amounts included in the settlement for mains, services and meters in its 1997 plant additions and contributions in aid of construction if the revisions cause the forecast of 1997 customer additions to be altered.
- BC Gas will pursue all options to minimize the cost of new projects and services. Lease options and outsourcing will be assessed against Company owned projects and services.
- The revenue requirement effect of the policy change proposed by BC Gas in accounting for overheads capitalized will be phased in at 10% in 1996 and a further 10% in 1997 based on the negotiated gross operating and maintenance levels for each year. That change is reflected in the revenue requirement calculations (see lines 50 and 51 of Appendix B, pages 1.1 and 1.5). The rate impacts are \$2.2 million in 1996 and \$1.9 million in 1997. BC Gas will file a study of the appropriateness of the proposed BC Gas overhead capitalization policy as part of its next revenue requirement application.
- The full effect of tax savings of \$15.6 million relating to the removal of "net of tax" accounting for pre-1996 computer software capital



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expenditures is reflected in the revenue requirement calculations for 1996. The net-of-tax policy will continue for software capital projects completed in 1996 and future years.

### **3. Integrated Resource Planning/Demand Side Management**

- The evaluation and implementation of a Demand Side Management Shareholder Incentive will be dealt with through a separate review process, the form of which is to be determined by the Commission.
- Demand Side Management off-electricity fuel substitution program incentive costs of \$401,400 for 1996 and \$ 398,200 for 1997 for the commercial water heating and multi-family programs are removed from the revenue requirement calculations in Appendix B.
- The Demand Side Management accounting policy as adopted by BC Gas in the Application is accepted.
- BC Gas will reduce the forecast costs of the Demand Side Management Efficient Boiler Program by \$202,000 in 1996 and \$250,000 in 1997 by replacing incentives with loan provisions.
- NGV OEM direct incentive costs are reduced to \$100,000 in 1996 (100 vehicles) and \$200,000 in 1997 (200 vehicles) and are only to be incurred to the extent that the federal government provides a grant of \$1,000 per vehicle.



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- IRP Supply Side Review will be dealt with through a separate review process allowing for public input. The form and timing of which is to be determined by the Commission as soon as possible.

#### **4. Sales and Revenue**

- The current Revenue Stabilization Adjustment Mechanism (“RSAM”) will be extended to 12 months commencing in 1996 and will continue to apply to the same customer classes.
- The Lower Mainland residential use per account is increased to 123 GJ for both 1996 and 1997 in determining revenues (normalized consumption in 1994 was 124.2 GJ). The Inland and Columbia residential use per account set out in the Application is accepted.
- The Lower Mainland total industrial forecast set out in the Revised Application is increased by 350 TJ for both 1996 and 1997. The Inland and Columbia industrial forecasts as set out in the Revised Application are accepted.
- The BC Gas 1996 and 1997 customer addition forecast of approximately 18,000 new customers per year is accepted. The 1997 revenue requirement will be adjusted to reflect the effect of revisions to the BC Gas main extension policy by adjusting customer additions and related revenues if the revisions cause the forecast of 1997 customer additions to be altered.



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## **5. Operating and Maintenance**

- Gross and net operating and maintenance costs are determined by a formula to reflect forecast customer growth, inflation and productivity increases. BC Gas forecasts of customer growth and inflation are accepted and productivity is set at 2% in 1996 and 3% in 1997.
- The revenue requirements calculations reflect total operating and maintenance expenses of \$109.761 million for 1996 and \$113.948 million for 1997 (as set out in Appendix B, page 5, and as calculated on page 5.1) after taking into account the phase in of the change in accounting for overheads capitalized (see item 2 above). The 1997 operating and maintenance level will be adjusted (in accordance with the calculation on page 5.1 of Appendix B) to reflect the effect of revisions to the BC Gas main extension policy if the revisions cause the forecast of 1997 customer additions to be altered.
- The issue of competitive market forces and potential sharing of services with other providers was raised. Additional savings to BC Gas have not yet been identified.

## **6. Defined Required Incremental Activities**

- Increases as a result of the B.C. Hydro Services Agreements in the amount of \$2.442 million in 1996 and \$2.544 million in 1997 are accepted and incorporated in the BC Gas gross operating and maintenance costs (see Appendix B, page 5.2)





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- The IRP and DSM costs in the Application are reduced by \$599,000 in 1996 and \$571,000 in 1997 (see Appendix B, page 5.2) as follows:

	<u>\$000</u>	
	<u>1996</u>	<u>1997</u>
Off-electric fuel substitution	\$238	\$224
Non-specific research and development	\$62	\$62
Research and administrative and program evaluation costs	\$97	\$83
Construction drying and process retrofit already in O&M	<u>\$202</u>	<u>\$202</u>
	\$599	\$571

- NGV program costs are reduced by \$637,000 in 1996 and \$659,000 in 1997 for the OEM and contract refuelling programs (see Appendix B, page 5.2).
- Technology Development and Transfer program costs of \$343,000 in 1996 and \$752,000 in 1997 are not reflected in the revenue requirement calculations (see Appendix B, page 5.2).

## **7. Executive Compensation**

- Executive compensation is provided within the formula used for calculating operating and maintenance expenses and forecast executive expenses contained in the Application have not been separately reviewed.
- A separate review process will be initiated to deal with issues related

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to the funding of pension costs including the allocation to NRB's.

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## **8. Return on Common Equity**

**See replacement page**



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- *Divide* the Incentive 50/50 between customers and BC Gas.
- *Convert* the BC Gas portion of the Incentive into the ROE Premium as follows:

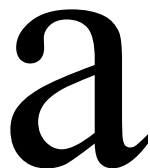
$$\frac{\text{BC Gas Portion (after income tax)}}{\text{1998 BC Gas Mid Year Common Equity}} = \frac{\text{ROE Premium (after income tax)}}{\text{income tax}}$$

- *Add* the ROE Premium to the 1998 authorized ROE determined pursuant to the Commission's approved adjustment mechanism.

The ROE Premium is not to exceed 100 basis points and must be positive.

## **9. Gas Supply**

- Core market administrative costs in the amount of \$1.115 million for 1996 and \$1.142 million for 1997 are allocated to the cost of gas supply.
- The deferral account recording Buy/Sell Administrative costs will continue.
- A Gas Supply Incentive should be developed and considered. The form of the Gas Supply Incentive is to be determined in consultation with interested parties and Commission Staff.
- The issue of a further safeguard regarding gas contracting was raised. It was agreed that no further safeguard would be included in this



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settlement and that for now the current mode of Commission oversight regarding gas contracting is sufficient in monitoring potential price risks related to contracting and reselling core market gas.

#### **10. Other Terms**

- The basic charge component contained in the rates of BC Gas will be increased in the same ratio as the increase in delivery charges.
- It is agreed that the BC Gas charge for new service applications be increased from \$75.00 to \*85.00.
- It is agreed that BC Gas should incorporate a refund of a revised amount of approximately \$45 million from its Gas Cost Reconciliation Account and amortize the same over the years 1996 and 1997 to minimize core market rate impacts (see Appendix B, page 1-01-01, line 31).
- It is agreed that the GCRA, RSAM, and interest cost deferral accounts will continue. A preference share dividend deferral account will not be created. Hearing costs are to be adjusted to approved amounts and amortized over 1996 and 1997. An adjustment to the revenue requirement calculations in Appendix B will be required for the adjustment to the hearing costs.
- Additional costs which are uncontrollable are to be dealt with by



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separate applications under section 67(4) of the Utilities Commission Act.

- The unfunded debt interest rate reflected in the revenue requirement calculations is reduced from 8% to 6.5% (see Appendix B, page 1-02-04).
- The amortization of deferral account balances as requested in the Application at Volume 1, Tab A pages 10 to 11 is reflected in the revenue requirement calculations.
- The gas lost and unaccounted for ("UAF") estimates in the Application are accepted.

## **11. Miscellaneous**

- 50% of the non-core revenue requirement gross margin increase for 1996 will be deferred (see Appendix B, page 1-01-01, line 32). BC Gas will establish an account to record this deferral and the disposition of the deferred amount will be determined in the rate design hearing of BC Gas which is to occur in 1996. The deferral of 50% of the non-core revenue requirement gross margin increase and the establishment of the deferral account shall not be considered as a pre-judgment of the results of the rate design hearing and is without prejudice to positions that may be advanced at the rate design hearing by any of the parties to the negotiations.



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- BC Gas is to file a rate design application by June 1, 1996.
- Revenue requirement increases to non-core customers will not be offset by credits from GCRA balances.
- BC Gas will establish a deferral account to record the capital component of organizational restructuring costs within the utility. Organizational restructuring costs are the costs of severance packages associated with the restructuring of BC Gas (including legal fees directly associated with a severance). These costs will be prorated between expense and capital in proportion to salaries and wages allocated to the two functions and will take into account the phase-in of the revenue requirement effect of the proposed overhead capitalization policy (see item 2 above). BC Gas will be entitled to recover 75% of the capital component of organizational restructuring costs in rates (up to a maximum of \$3 million) by amortization over five years commencing January, 1998.

WILLIAM J. GRANT  
EXECUTIVE DIRECTOR,  
REGULATORY AFFAIRS & PLANNING



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BRITISH COLUMBIA UTILITIES COMMISSION

WILLIAM J. GRANT

EXECUTIVE DIRECTOR.

REGULATORY AFFAIRS & PLANNING

SIXTH FLOOR, 900 HOWE STREET, BOX 250

VANCOUVER, B.C. CANADA v6z 2N3

Without Prejudice

November 7, 1995

To: All Registered Intervenors

Re: BC Gas Utility Ltd.  
1996-98 Revenue Requirements Application  
Terms of A Negotiated Settlement

Please find attached a replacement page to correct an error contained on page 11 of the above captioned package which was sent out on October 27, 1995 to all registered intervenors. The wordings for "Step 1." on the replaced page 11 represent the intended operation of the ROE Sharing Incentive which was accepted by all participants during the ADR process. The previous wordings inadvertently reversed the projected 1997 O&M/customer and the forecast 1997 O&M/customer using actual inflation in 1997. This error was identified by Mr. David Bursey, counsel for the Industrial Group.

If you have any concerns or require further clarification, please contact us by Thursday, November 9, 1995.

Yours truly,

W.J. Grant

SSW/ssc

Attch.

cc: Mr. D.M. Masuhara  
Vice President  
Legal and Regulatory Affairs



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EXECUTIVE DIRECTOR,  
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BC Gas Utility Ltd.



## Exhibit 8A

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### 8. Return on Common Equity

- Commencing in 1996 BC Gas will be entitled to increase its equity risk premium from 290 basis points to 300 basis points in the determination of the BC Gas rate of return on common equity pursuant to the formula established by the Commission in its Decision of June 10, 1994.
- The BC Gas Return on Equity ("ROE") Sharing Mechanism proposed in the Application is not accepted. It is agreed that a ROE Sharing Incentive ("RSI") be implemented. The RSI is to provide an incentive to BC Gas to improve operating and maintenance cost performance. The RSI provides an ROE premium for BC Gas, to be reflected in 1998, if BC Gas files a revenue requirement application, by recognizing actual 1997 performance greater than forecast as follows:

Step 1. *CALCULATE*: prior to January 1, 1998, forecast 1997  
O&M/customer (using actual inflation in 1997) minus projected  
1997 O&M/customer = \$incentive/customer.

Step 2. *DETERMINE* Is \$incentive/customer positive?

Step 3. *IF NO*: There is no ROE Premium.

Step 4. *IF YES*: Then

- *Multiply* \$incentive/customer by forecast average number of

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1998 customers = Incentive