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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-125-97

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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

BEFORE: L.R. Barr, Deputy Chair)
and Acting Chair)
K.L. Hall, Commissioner) December 4, 1997
P.G. Bradley, Commissioner)

O R D E R

WHEREAS:

- A. The Commission, by Order No. G-98-95, 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 1998 to 2002 Revenue Requirements Application, dated May 5, 1997, BC Gas filed a revised incentive plan identified as Gas Supply Mitigation Incentive Plan ("GSMIP"). During the Alternative Dispute Resolution process, it was agreed by all parties to deal with GSMIP in a series of separate meetings in September 1997; and
- C. On November 10, 1997, the Commission distributed a copy of the settlement, that was reached with respect to GSMIP, to all participants in the revenue requirement proceeding and requested all parties to provide their comments on the filing by November 17, 1997; and
- D. On November 12, 1997, the British Columbia Public Interest Advocacy Centre advised the Commission that it agreed with the new incentive plan; and
- E. The Commission has reviewed the filing and is satisfied that BC Gas' GSMIP should be approved.

NOW THEREFORE the Commission approves for BC Gas the Gas Supply Mitigation Incentive Plan for the 1997/98 gas contract year November 1, 1997 through October 31, 1998, which is attached as Appendix A to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of December, 1997.

BY ORDER

Original signed by:

Lorna R. Barr
Deputy Chair
and Acting Chair

Attachment

Orders/BCG-Gas Supply MIP

BC Gas Utility Ltd. Gas Supply Mitigation Incentive Program (GSMIP)

In March 1992, BC Gas Utility Ltd. ("BC Gas" or "Company") first initiated its off-system business activity with month to month term sales of surplus core market gas supplies; i.e. valley gas. Since that time the off-system business has evolved to where it now includes daily spot sales, capacity release, swaps/exchanges and various other transactions. It does not include any credits or rebates received under the terms of the Company's gas supply contracts; i.e. volume incentives or cost of service adjustments.

Today, the Company's off-system business activities have grown to almost \$90.0 million in gross annual revenues and are anticipated to contribute almost \$30.0 million in net revenues into the Gas Cost Reconciliation Account (GCRA). These margins are retained in the GCRA as an offset against the fixed costs associated with pipeline demand and producer reservation charges incurred to secure adequate supply and deliverability on behalf of the core market. Net revenues are determined by deducting, from the sales price, the variable cost of gas and transportation as determined each day for each sale. The basis for costing off-system sales will continue to follow the previously established principle of assigning the most expensive discretionary purchases of gas to off- system transactions.

In 1995, as part of the Company's Revenue Requirement Application, BC Gas sought and subsequently received approval by Commission Order G-98-95 dated November 27, 1995, for the first off-system incentive program. The Commission approved the Off-System Incentive Plan (OSIP) for an initial two year test period commencing January 1, 1996 and ending December 31, 1997. Recognizing that BC Gas had gained only limited experience with respect to off- system sales, all parties acknowledged the OSIP arrangement should be considered transitional in nature, subject to further review as to the form of a future plan.

In anticipation of its expiry at the end of 1997, and based on the Company's experience with OSIP since its inception, together with many constructive comments and suggestions from Commission staff and other affected stakeholders, BC Gas submitted as part of its Revenue Requirement Application (1998 - 2002) dated May 5, 1997 a revised incentive plan entitled Gas Supply Mitigation Incentive Plan (GSMIP). During the ADR (Alternative Dispute Resolution) process, it was agreed amongst the parties to the Revenue Requirement application, to deal with the review and negotiation of the Company's proposed GSMIP in a separate series of meetings. At various times throughout September 1997, the parties, consisting of counsel representing the Consumers

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Association of Canada (B.C.) B.C. Old Age Pensioners' Organization; Council of Senior Citizen's Organization of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizens' Association of B.C., West End Senior's Network Society, and representatives of BC Gas Utility Ltd. and the British Columbia Utilities Commission, met to consider several alternative proposals with final agreement on methodology, terms and conditions reached on September 25, 1997.

It was agreed that the following objectives 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 meetings 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, 1997 and will expire on October 31, 1998. In order to determine the incentive to be received by BC Gas in 1998, the Company's performance during the gas contract year ending October 31, 1998 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.

BC Gas Utility Ltd. Gas Supply Mitigation Incentive Program (GSMIP)

2. Expiration & Incentive Review

This GSMIP is recognized as temporary or interim in nature applying to the November 1, 1997 - October 31, 1998 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

The mechanism agreed to provides for BC Gas to retain a fixed percentage share of all net revenues earned by way of its supply mitigation activities; e.g. surplus commodity and transportation marketing, storage optimization, parking/lending or other services and activities of a similar nature that are designed to mitigate the core market's overall gas supply costs. Excluded are, any credits or rebates received under the terms of the Company's gas purchase contracts, net revenues from transactions designed to shape the Company's supply and transportation portfolio in accordance with its approved gas contracting plan, and any savings that may accrue from negotiated arrangements with suppliers to avoid load factor penalties and/or inventory charges.

The percent sharing rate to BC Gas changes at different levels of earnings performance. (see attached graph for illustrative purposes).

		BC Gas Share
1.	From \$ 0 - 5.0 million	= 0%
2.	From \$ 5.0 - 20.0 million	= 5%
3.	From \$20.0 - 25.0 million	= 10%
4.	Over \$25.0 million	= 5%

Examples:

a) Net Revenues @ \$15.0 million

$$\therefore \text{BCG Share} = (0 \times 5.0) + (.05 \times 10.0) = \$0.5 \text{ million}$$

b) Net Revenues @ \$23.0 million

$$\therefore \text{BCG Share} = (0 \times 5.0) + (.05 \times 15.0) + (.10 \times 3.0) = \$1.0 \text{ million}$$

c) Net Revenues @ \$30 million

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$$\therefore \text{BCG Share} = (0 \times 5.0) + (.05 \times 15.0) + (.10 \times 5.0) + (.05 \times 5.0) = \$1.5 \text{ million}$$

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 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 activity and associated financial impacts.

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.

Gas Supply Mitigation Incentive Plan (GSMIP)
Negotiated Settlement
(\$ Millions Cdn)

