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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-92-98

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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 1998/99

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair)
K.L. Hall, Commissioner) October 14, 1998
P.G. Bradley, Commissioner)
C.J. Kinsley, Commissioner)
F.C. Leighton, 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 May 5, 1997 application for 1998 to 2002 Revenue Requirements, 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; and
- C. In 1998, the Commission, BC Gas and Intervenors held a series of negotiating meetings concerning a gas cost incentive plan for the 1998/99 gas contract year ("GSMIP 98/99"); and
- D. On September 15, 1998, the Commission distributed a copy of the GSMIP 98/99 settlement to all participants in the revenue requirements proceeding and requested all parties to provide their comments on the filing by September 24, 1998; and
- E. On September 18, 1998, the British Columbia Public Interest Advocacy Centre advised the Commission that it agreed with the GSMIP 98/99 for 1998/99; and
- F. The Commission has reviewed the filing and is satisfied that BC Gas' GSMIP 98/99 should be approved.

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NOW THEREFORE the Commission approves for BC Gas the Gas Supply Mitigation Incentive Program for the 1998/99 gas contract year commencing November 1, 1998 through October 31, 1999, which is attached as Appendix A to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of October, 1998.

BY ORDER

Original signed by:

Lorna R. Barr
Deputy Chair

Attachment

BC GAS UTILITY LTD.
GAS SUPPLY MITIGATION INCENTIVE PROGRAM (GSMIP 98/99)
NEGOTIATED SETTLEMENT FOR 1998/99 CONTRACT YEAR

At various times throughout 1998, 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 proposals, including the extension of the existing Gas Supply Mitigation Incentive Program (GSMIP). On August 20, 1998 final agreement on methodology, terms and conditions was reached, allowing the parties to extend the existing program for one year, with certain modifications.

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, 1998 and will expire on October 31, 1999. In order to determine the incentive to be received by BC Gas in 1999, the Company's performance during the gas contract year ending October 31, 1999 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, 1998 - October 31, 1999 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 — eg. surplus commodity off-system and non-core on-system sales, 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. For greater certainty, non-core on-system sales refers to sales gas commodity charges under Rate Schedules 7, 10 and 14. 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 per cent sharing rate to BC Gas changes at different levels of earnings performance (see attached graph for illustrative purposes).

	BC Gas Share
1. From \$0 - 27.0 million =	0%
2. From \$27.0 - 52.0 million =	5%
3. Over \$52.0 million =	2.5%

Examples:

- (a) Net Revenues @ 37.0 million
 $\therefore \text{BCG Share} = (0 \times 27) + (.05 \times 10) = \$.5 \text{ million}$
- (b) Net Revenues @ 47.0 million
 $\therefore \text{BCG Share} = (0 \times 27) + (.05 \times 20) = \$ 1.0 \text{ million}$
- (c) Net Revenues @ \$62 million
 $\therefore \text{BCG Share} = (0 \times 27) + (.05 \times 25) + (.025 \times 10) = \$ 1.5 \text{ million}$

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 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.

BC Gas will also continue to keep distinct and separate records, for audit purposes, of its daily "Priority Schedule", which determines the available supply of 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 for 1998/99 Contract Year

