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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-124-01

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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 a Gas Supply Mitigation Incentive Program for the 2001/02 Gas Contract Year

BEFORE: P. Ostergaard, Chair)
B.L. Clemenhagen, Commissioner)
R.D. Deane, Commissioner) November 15, 2001
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. The following Commission Orders approved a Gas Supply Mitigation Incentive Programs (“GSMIP”) for each subsequent gas contract year: Order No. G-125-97 for 1997/98, Order No. G-92-98 for 1998/99, Order No. G-82-99 for 1999/2000 and Order No. G-106-00 for 2000/01; and
- C. In 2001 Commission staff, BC Gas and Intervenors held a series of negotiating meetings concerning a gas supply mitigation incentive plan for the 2001/02 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 2001/02”); and
- D. By letter dated October 31, 2001, the British Columbia Public Interest Advocacy Centre advised that it agreed with and supported the GSMIP 2001/02 Settlement; and

E. On November 1, 2001, the Commission distributed a copy of the GSMIP 2001/02 Settlement to all participants in the revenue requirements proceeding and requested that their comments, if any, be filed by November 9, 2001. No additional comments were received; and

F. The Commission has reviewed the filing and is satisfied that the GSMIP 2001/02 should be approved.

NOW THEREFORE the Commission approves for BC Gas the Gas Supply Mitigation Incentive Program 2001/02 that is Appendix A to this Order, for the gas contract year from November 1, 2001 through October 31, 2002.

DATED at the City of Vancouver, in the Province of British Columbia, this 20th day of November 2001.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

**BC GAS UTILITY LTD.
GAS SUPPLY MITIGATION INCENTIVE PROGRAM
NEGOTIATED SETTLEMENT FOR 2001/2002 CONTRACT YEAR**

The parties, consisting of representatives of the British Columbia Public Interest Advocacy Centre, BC Gas Utility Ltd. and the British Columbia Utilities Commission, have met to consider revisions to the existing incentive arrangement. The parties reviewed options for the year November 2001 through October 2002 ("GSMIP 2001/02"). Recognizing the extremely high price volatility exhibited by gas markets, the parties have agreed on a simplified incentive mechanism that significantly reduces BC Gas' percentage sharing after the incentive share reaches \$1 million. The following objectives should continue to 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 and that the level of incentive sharing corresponds to the level of excellence demonstrated by BC Gas' gas procurement and mitigation activities.

This document sets out the terms of GSMIP 2001/02, which those participating in the meetings consider to be appropriate for implementation by BC Gas. Agreement on the terms and conditions of this arrangement involved compromise, and this settlement represents a balance of interests and consensus among the parties.

1. Term

The term of GSMIP 2001/02 will commence on November 1, 2001 and will expire on October 31, 2002. In order to determine the incentive to be received by BC Gas in 2002, the Company's performance during the gas contract year ending October 31, 2002 will be examined. If appropriate, and upon review by the B.C. Utilities Commission, BC Gas will then withdraw from the Gas Cost Reconciliation Account any incentive amounts earned.

2. Expiration & Incentive Review

GSMIP 2001/02 is recognized as temporary or interim in nature, applying to the November 1, 2001 - October 31, 2002 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

- ♦ Continue with separate commodity and transport revenue tracking but combine the two revenues into one sharing allocation.
- ♦ Continue with the existing commodity mechanism revenue hurdle rate.
- ♦ Revise the sharing allocation to reduce BC Gas sharing after the first \$1 million earned.

Incentive Structure Summary

The parties believe accounting separately for transport and storage activity (versus commodity resale) has been 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 is truly split between off-system surplus core gas sales mitigation and 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.

Eligible commodity, transport and storage margin will be combined to calculate the basis for BC Gas incentive sharing.

a) Commodity Resale

Consistent with the existing GSMIP 2000/01 arrangement, the agreed incentive mechanism in GSMIP 2001/02 for commodity resale will be benchmarked against an initial hurdle that is calculated based on market commodity prices and volume available for resale. 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. The methodology is further amplified in the attached Definition section.

The parties agree that the GSMIP 2000/01 mechanism will be used to determine the Eligible Commodity Resale Margin under GSMIP 2001/02 for the following reasons:

- ◆ It will better align BC Gas and customers to margin recovery per unit resold.
- ◆ It will reduce sharing revenue uncertainty associated with resale volume availability and commodity prices.

b) Transport and Storage

The parties agree to modify the GSMIP 2000/01 transportation and storage sharing mechanism to recognize the potential for very large basis spreads between upstream (AECO/Station #2) and downstream (Sumas, Kingsgate) market prices that create inherent pipe value. Eligible transportation and storage margin will be determined and tracked monthly. All net transport and storage revenue mitigation will be considered as eligible margin, to be included with the eligible commodity margin to create the basis for BC Gas sharing.

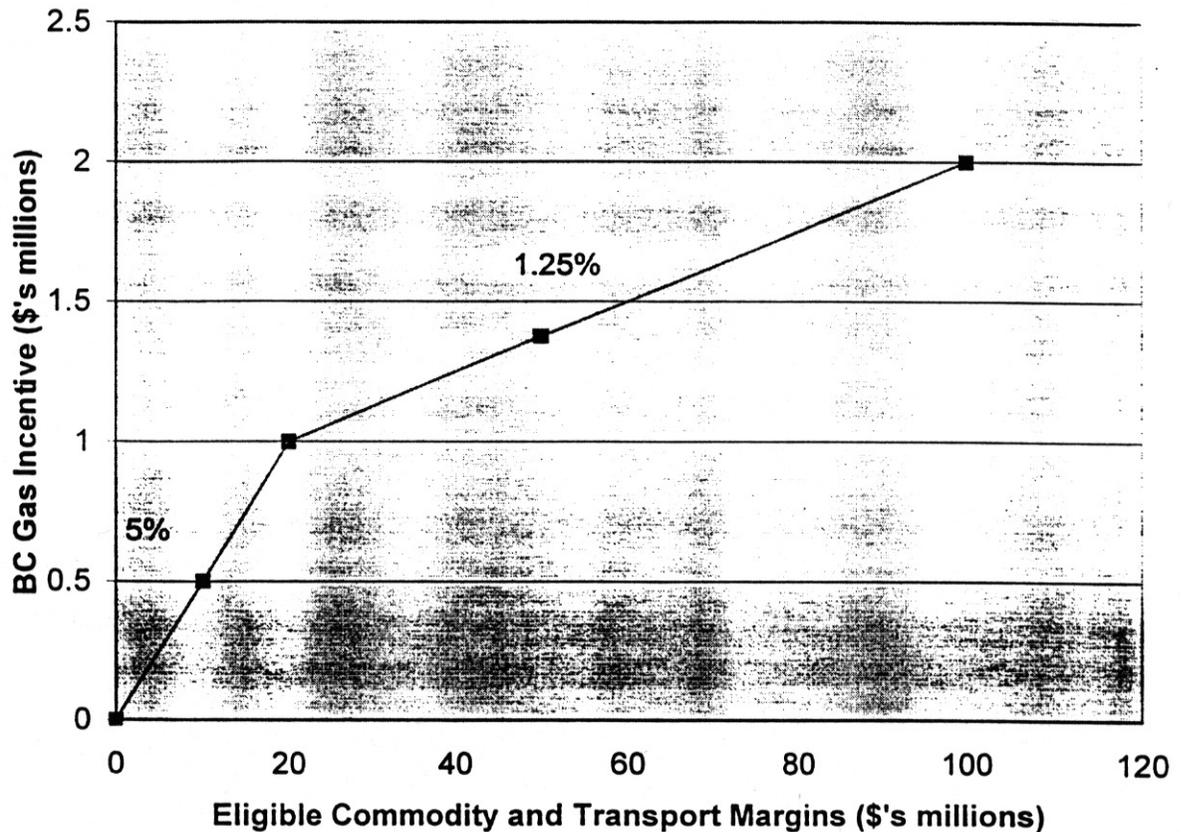
BC Gas Sharing Incentive

The parties agree to combine the transport and storage revenue with the eligible commodity revenue to create one sharing mechanism. BC Gas incentive share will be 5% of the Total Eligible Margin up to the first \$1 million sharing earned.

- ◆ When BC Gas achieves \$1 million sharing, the BC Gas share will reduce to 1.25% on all remaining Total Eligible Margin.

The sharing mechanism is illustrated below:

GSMIP 2001/02 Sharing Mechanism



The proposed new mechanism meets the objective of limiting BC Gas sharing in the case of extreme revenue opportunity available this past year but still provides reasonable sharing when minimal or more historic opportunity, such as is forecast next year, is available to be recovered by BC Gas.

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 2001/02. 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. In 2001/02, BC Gas will make a concerted effort to comply with the schedule.

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 2001/02 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 2001/02.

Definitions:

Commodity-sharing Mechanism

<i>Core Commodity Volume</i>	All gas volumes approved for purchase by the BCUC for firm customers. BC Gas must include and take 100% of contracted term volumes.
<i>Surplus Volume Available</i>	Core Commodity Volume in excess of firm customer needs.
<i>Initial Hurdle</i>	The monthly commodity resale margin hurdle before any BC Gas sharing. = Total monthly commodity volume available x (total monthly \$/GJ margin available less \$1.0/GJ). The Initial Hurdle for a month will not be less than zero.
<i>Total monthly \$/GJ margin available</i>	= \$/GJ fixed costs created by the monthly Sumas Index per the CanWest contract cost allocation.
<i>Eligible Commodity Resale Margin</i>	The commodity resale margin generated less the Initial Hurdle.
<i>Eligible Transportation and Storage Margin</i>	The revenue (net of all variable charges incurred) received by BC Gas from third parties via assignment of Core transportation and storage including the net revenue received by BC Gas via back-to-back transport and storage buy/sell mitigation activity.
<i>Total Eligible Margin</i>	Eligible Commodity Resale Margin plus Eligible Transportation and Storage Margin.
<i>Storage Effect</i>	BC Gas will be allocating a percentage of storage gas for resale. The average cost of storage gas injected for the coming winter is estimated to be \$4.20/GJ. This cost will be different from 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.