



# **Terasen Gas Inc.**

## **Gas Supply Mitigation Incentive Program**

**November 1, 2010 to October 31, 2013**

**July 13, 2010**



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**CONFIDENTIAL**

July 13, 2010

British Columbia Utilities Commission  
6<sup>th</sup> Floor, 900 Howe Street  
Vancouver, BC  
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: Terasen Gas Inc. (“Terasen Gas” or “TGI” or the “Company”)  
Gas Supply Mitigation Incentive Program (“GSMIP”) Plan  
November 1, 2010 to October 1, 2013 (the “Application”)**

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Terasen Gas respectfully submits the attached GSMIP Application for approval by the British Columbia Utilities Commission (the “Commission”).

Terasen Gas has had a gas supply mitigation incentive program in place since 1996 when the Commission first approved a two year Off-System Incentive Program (“OSIP”) pursuant to Order No. G-98-95. The current program has been in place since 2002 when the Company, the British Columbia Public Interest Advocacy Centre, and Commission staff held a series of negotiating meetings and reached agreement on the methodology, terms and conditions for a gas supply mitigation incentive plan for the 2002/03 contract year. The negotiated settlement agreement was approved by Commission Order No. G-79-02, dated October 31, 2002. Since then, the GSMIP plan that was agreed to in 2002 has been renewed for subsequent years and has consistently had stakeholder support.

The 2002/03 GSMIP was established following a negotiated settlement process and subsequently was continued from year to year following review by the Commission.<sup>1</sup> The program currently in place, the 2009/10 GSMIP is substantially based on the 2002/03 program.

In Commission Order No. G-101-09, the Commission determined that the GSMIP “should continue unchanged for the 2009/10 gas year, considering that TGI proposes that GSMIP be reviewed in its entirety in 2010.” In this Application, the Company summarizes the findings of this review along with a proposal for an updated GSMIP to be put in place when the 2009/10 GSMIP expires on October 31, 2010 (the “Proposed GSMIP”).

<sup>1</sup> Order No. G-79-02, October 31, 2002

To date, the Company has had significant discussions with stakeholder representatives regarding the Application, and does not believe an initial, introductory workshop is required. Further, based on the level of discussions and understanding of this matter among the participants, the Company believes that under normal circumstances a single round of Information Requests (“IRs”) would be sufficient, however, the British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization *et al* (“BCOAPO”) is unable to participate in the initial round of IRs. Thus, in order to appropriately accommodate all stakeholders, Terasen Gas, in discussion with BCOAPO, has provided for a second round of IRs in the proposed timetable. The second round of IRs are primarily meant to allow BCOAPO the opportunity to submit IRs on the Application should they determine a need to do so, and also provides an opportunity for the Commission and other intervenors to submit further IRs should any matters require clarification.

The Company believes the proposed regulatory process and timetable noted below provides an efficient review and approval process for all parties concerned.

Action	Date
<b>File Application</b>	Tuesday, July 13, 2010
<b>Procedural Order</b>	Wednesday, July 21, 2010
<b>Intervenor Registration</b>	Monday, July 26, 2010
<b>BCUC IR No. 1</b>	Tuesday, August 10, 2010
<b>Intervenor IR No. 1</b>	Tuesday, August 17, 2010
<b>TGI Response to IR No. 1</b>	Friday, August 27, 2010
<b>BCUC and Intervenor IR No. 2</b>	Tuesday, September 7, 2010
<b>TGI Response to IR No. 2</b>	Monday, September 13, 2010
<b>Combined Workshop / Negotiated Settlement Process</b>	Friday, September 17, 2010
<b>Anticipated BCUC Decision</b>	Thursday, September 30, 2010

The Company believes the Application lends itself to a Negotiated Settlement Process (“NSP”) and the proposed timetable allows for a one day, combined session that commences with a short workshop and leads into the NSP discussions.

Terasen Gas believes the proposed timetable acknowledges the corresponding schedules of the Commission and Intervenor, and that the proposed regulatory timetable will promote an efficient regulatory process in order to have a Commission decision in place prior to the beginning of the upcoming gas year on November 1, 2010.

In the event that an agreement cannot be reached following the NSP on September 17, 2010, then Terasen Gas proposes that a written argument process would follow.

Terasen Gas looks forward to working with the Commission and Intervenor towards an efficient review of this Application.

## **CONFIDENTIALITY**

Consistent with past practice and previous discussions and positions on the confidentiality of selected filings (and further emphasized in Terasen Gas' January 31, 1994 submission to the Commission), Terasen Gas is requesting that this information be filed on a confidential basis pursuant to Section 71(5) of the *Utilities Commission Act* and requests that the Commission exercise its discretion under Section 6.0 of the Rules for Natural Gas Energy Supply Contacts and allow these documents to remain confidential. Terasen Gas believes this will ensure that market sensitive information is protected, and Terasen Gas' ability to obtain favourable commercial terms for future natural gas contracting is not impaired.

Terasen Gas further believes that the Core Market could be disadvantaged and may well shoulder incremental costs if utility gas supply procurement strategies as well as contracts are treated in a different manner than those of other gas purchasers, and believes that since it continues to operate within a competitive environment, there is no necessity for public disclosure and risk prejudice or influence in the negotiations or renegotiation of subsequent contracts.

If you have any questions regarding the Application please contact Brent Graham at (604) 592-7857.

Yours very truly,

**TERASEN GAS INC.**

***Original signed:***

Tom A. Loski

Attachments

cc (email only): Jim Quail, BCOAPO  
David Craig, Commercial Energy Consumers Association of British Columbia

## 1 EXECUTIVE SUMMARY

Customers rely on Terasen Gas Inc. (“Terasen Gas” or “TGI” or the “Company”) to provide them with safe, reliable and cost effective gas service. As a part of delivering on this service mandate, customers and the Company have agreed to operate under various Gas Supply mitigation incentive programs since 1996 with the common objective of aligning the interests of customers, shareholders, and employees.

The program currently in place, the 2009/10 Gas Supply Mitigation Incentive Program (the “2009/10 GSMIP”), expires on October 31, 2010 and is substantially based on the 2002/03 program that was established following a negotiated settlement process (“NSP”) and subsequently continued from year to year following review by the British Columbia Utilities Commission (the “Commission”).<sup>2</sup> Within this Gas Supply Mitigation Incentive Program (“GSMIP”) Application, the Company is requesting Commission approval for the updated GSMIP to be put in place when the 2009/10 GSMIP expires on October 31, 2010 (the “Proposed GSMIP”). The Proposed GSMIP is included in Appendix A of this Application.

The Proposed GSMIP is based on the current GSMIP with the following key enhancements designed to ensure that mitigation activities continue to play an integral role in reducing overall gas costs for customers:

1. Ensure proper alignment by including all gas supply mitigation activities in the GSMIP including those related to Southern Crossing Pipeline (“SCP”) capacity held in the midstream portfolio.
2. Updating the sharing mechanism to provide better alignment between optimization of gas costs to the benefit of customers and the incentive earned by the Company.
3. Extending the term of the plan from one to three years to allow for a longer term focus on performance to achieve meaningful benefits for customers as well as more closely aligning with the planning period of the Annual Contracting Plan (“ACP”).

The recommendation to approve the Application is supported in the following ways.

The GSMIP has been successful in aligning the interests of customers and shareholders since its inception. An average Lower Mainland residential customer has saved approximately \$27 per year since 2002/03 as a result of the commodity re-sale, transportation and storage mitigation performed by the Company. The \$27 savings created from mitigation activities lowers the midstream cost paid by an average Lower Mainland residential customer by 18% to \$126 per year.

In order to ensure customers have benefitted from the optimization of mitigation activities each year, the Company has committed the requisite resources to successfully manage in the dynamic natural gas market. The business requires the Company to provide the legal, financial and commercial capacity to support and continuously improve policies, procedures and controls necessary for the mitigation activities to be successful. It also requires constant vigilance in

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<sup>2</sup> Order No.G-79-02, October 31, 2002

monitoring the ever changing market and developing strategies to create value for the benefit of customers.

The GSMIP also provides the Commission a means to oversee the Company's gas supply purchasing and mitigation activities by enabling the Commission to review pertinent information and to measure performance through the annual reporting process.

Terasen Gas has performed well beyond its primary requirement of balancing the customers' requirements with available resources. The Company has added value by developing and implementing strategies to maximize the resale price of off-system sales and mitigate fixed costs of holding transportation and storage resources. To support these activities, the Company provides the financial, legal and commercial resources to support 6,800 mitigation transactions annually. These activities have generated \$190 million in revenue that is credited against the amount that must be collected from customers for the delivery of gas supply resources.

Since 2002/03, the Commission has issued an annual Staff Overview Report that has supported the conclusions and recommendations in the GSMIP and Service Quality Indicator ("SQI") Year End Reports demonstrating how the Company has generated value for customers from mitigation activities while at the same time meeting performance targets on all SQIs related to critical Gas Supply functions.

The Proposed GSMIP proposes to capture all gas supply mitigation activities performed by the Company including those related to SCP capacity and related third party pipe capacity. This enhancement aligns the interests of all the Terasen Gas customers that benefit from mitigation activities related to these resources.

The Company is also proposing changes to the current sharing mechanism that is used to determine the incentive earned by the Company under the current GSMIP. The proposed changes will better incent the Company and its employees to continue to support the GSMIP plan and to also seek new opportunities by increasing the reward for incremental activities by more appropriately aligning the incentive structure with the level of performance.

The Company is proposing to extend the term of the program to three years with a rolling renewal to provide greater certainty that the incentive program will continue to be in place long term. This enhancement facilitates the Company to engage in mitigation activities further into the future and potentially create incremental value for customers. This change will also reduce administrative burden for the Commission, the Company and its stakeholders. Finally, this change provides better alignment of the GSMIP time horizon with that of the ACP.

Ultimately, the Proposed GSMIP further encourages the Company to continue to seek strategies and opportunities to maximize incremental mitigation revenue over the long-term. This is one of the principal objectives of the GSMIP since 2002/03 and a primary issue identified by stakeholders.

In summary, the Proposed GSMIP ensures mitigation remains a key component of delivering the safe, reliable and cost effective gas service customers have come to expect. As we believe the program is in the best interests of customers, the Company is seeking Commission approval of the Proposed GSMIP for the period of November 1, 2010 to October 31, 2013.