

ROBERT J. PELLATT
COMMISSION SECRETARY



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VIA FACSIMILE

November 5, 1996

Mr. David M. Masuhara
Vice President
Legal and Regulatory Affairs
BC Gas Utility Ltd.
1111 West Georgia Street
Vancouver, B.C.
V6E 4M4

Dear Mr. Masuhara:

Re: BC Gas Utility Ltd. ("BC Gas")
August 30, 1996 System Extension Test Submission

The Commission has reviewed the BC Gas System Extension Test submission dated August 30, 1996 and endorses BC Gas' proposed test in most respects. The Commission's review of the BC Gas proposal has concluded that, generally, the test is in accord with the Commission's September 5, 1996 Guidelines and is appropriate for the circumstances of BC Gas. A few points deserve additional commentary, however.

The BC Gas system extension test excludes Westcoast tolls from both the revenues and the costs used in the analysis and, as indicated during the recent Service Line Cost Allowance ("SLCA") hearing, excludes incremental Westcoast upstream facilities from the estimation of system improvement costs. Thus the test uses the current Westcoast tolls as an offset to a portion of forecast revenues and implicitly assumes no incremental costs on the Westcoast system. The Commission's Guidelines are flexible on this point. On page 12, the Guidelines recommend that "... insofar as is practical, the analysis of system extensions be based on full incremental costs and benefits." However, the Guidelines also state (page 19) that where a utility can demonstrate that the administration costs exceed the benefits of determining and including some elements of system improvement costs, it is reasonable to exclude them. At this time, the Commission finds the use of current Westcoast tolls to be a reasonable approach, especially since recent information suggests that competitive pressures on Westcoast may limit incremental increases in such costs in the foreseeable future.

On another issue, the Commission recognizes that the BC Gas proposed test does not include the use of a social perspective (i.e., the use of a social discount rate, and the inclusion of externality considerations) in the test. The Commission has some concerns in this regard and is continuing to review the question of what constitutes an appropriate consideration of the social perspective in the evaluation of system extensions. The Commission intends to take initiatives in the future to assist utilities in resolving this issue.

A third issue relates to the "Gas by Taxation" section in the proposal. The Commission recognizes that the purpose of this section may be simply to describe the mechanism for those situations in which a local government may choose to finance an extension rather than prospective customers. However, the Commission is concerned that, although the guidelines note that problems were seen to be associated with the use of the gas by taxation mechanism, this section could appear to be an endorsement of the mechanism by BC Gas. In the Commission's view, all that is necessary in a tariff is an indication that parties other than prospective customers may make a contribution toward the cost of a new system extension. Therefore, the Commission recommends that the Gas by Taxation section not be included in a revised tariff.

Finally, the inputs to the BC Gas proposed test will require minor modification prior to implementation in order to include the service connection charge which BC Gas was directed to put in place in the Commission's October 18, 1996 SLCA Decision and Order No. G-104-96.

The Commission wishes to emphasize that its comments on the above specific issues do not take away from its recognition that BC Gas has put significant effort into developing a valid and useful system extension test. Implementation of this test requires that modified tariff pages which correspond to the test proposal be approved by the Commission. BC Gas is encouraged, therefore, to file such modified tariff pages by November 30, 1996 for an anticipated effective date of January 1, 1997.

Yours truly,

A handwritten signature in black ink, appearing to read 'R. Pellatt', with a stylized flourish at the end.

Robert J. Pellatt

JF/mmc