

ROBERT J. PELLATT
COMMISSION SECRETARY



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VIA FACSIMILE

April 30, 1997

Mr. Geoffrey Higgins
Supervisor, Regulatory Affairs
Centra Gas British Columbia Inc.
1675 Douglas Street
P.O. Box 3777
Victoria, B.C.
V8W 3V3

Dear Mr. Higgins:

Re: Centra Gas British Columbia Inc.
System Extension Test Tariff Filing

The Commission has reviewed Centra's proposed System Extension Test tariffs filed under cover of your letters dated February 28, 1997 and March 18, 1997. The Commission has concluded that concerns remain with respect to two aspects of the tariffs. In other respects, the test as set out in the tariffs is appropriate and the Commission would be prepared to approve the proposed tariffs once Centra has amended them in a manner acceptable to the Commission and resubmitted them. The areas of concern are set out below.

First, the Commission is not convinced that the mechanism set out in the tariffs for the collection of customer contributions and refunds, in situations other than those where the contribution will be made by a developer, is appropriate. Specifically, the Commission does not agree with Centra's reasoning that collecting contributions from initial customers only will prevent or reduce free ridership by subsequent customers. The Commission believes that such a mechanism will entrench the likelihood that free riders will be a problem for system extensions. Therefore, Centra should revise its tariffs to include a mechanism for collecting contributions from latecomers who attach to already installed system extensions.

Second, the Commission finds that the description in the tariffs of Centra's revenue requirements test and the calculation of the PI, is still too brief to be helpful to customers or potential customers who wish to understand how the contribution being asked of them is calculated. Moreover, in the view of the

Commission a more complete description of the test and the calculation method helps to maintain consistency in the application of the test over time. Therefore, Centra should expand on its description of the revenue requirements test and the method of calculating the PI. As an example of the level of detail included in the approved tariffs of one utility, the Commission has attached the tariff pages of BC Gas, which Centra may find helpful. Centra may also find it helpful to examine the mechanism approved for BC Gas with respect to collection of customer contributions.

Therefore, as indicated above, the Commission is prepared to approve the proposed tariffs once they have been amended with regards to the issues set out above in a manner acceptable to the Commission. Finally, the Commission directs Centra to refile its tariffs regarding system extensions by May 31, 1997.

Yours truly,

A handwritten signature in black ink, appearing to read 'R. J. Pellatt', written in a cursive style.

Robert J. Pellatt

JWF/ssc
Attach.

12. Main Extensions

- 12.1 **System Expansion** - BC Gas will make extensions of its Gas distribution system in accordance with system development requirements.
- 12.2 **Ownership** - All extensions of the Gas distribution system will remain the property of BC Gas.
- 12.3 **Economic Test** - All applications to extend the Gas distribution system to one or more new Customers will be subject to an economic test approved by the British Columbia Utilities Commission. The economic test will be a discounted cash flow analysis of the projected revenue and costs associated with the Main Extension. The Main Extension will be deemed to be economic and will be constructed if the results of the economic test indicate a zero or positive net present value.
- 12.4 **Revenue** - The projected revenue to be used in the economic test will be determined by BC Gas by
- (a) estimating the number of Customers to be served by the Main Extension;
 - (b) establishing consumption estimates for each Customer;
 - (c) projecting when the Customers will be connected to the Main Extension; and
 - (d) applying the appropriate revenue margins for each Customer's consumption.

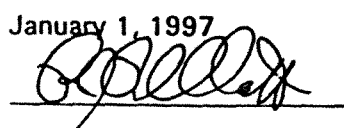
The revenue projection will take into consideration the estimated number and type of Gas appliances used and the effect variations in weather conditions throughout the applicable Service Area have on consumption. In addition, the projected revenue from Application Fees and Service Line Installation Fees will be included. Only those Customers expected to connect to the Main Extension within 5 years of its completion will be considered.

- 12.5 **Costs** - The total costs to be used in the economic test include, without limitation
- (a) the full labour, material, and other costs necessary to serve the new Customers including Mains, Service Lines (net of contributions in excess of the Service Line Cost Allowance), Meter Sets and any related facilities such as pressure reducing stations and pipelines;

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- (b) the appropriate allocation of BC Gas' overheads associated with the construction of the Main Extension; | C
- (c) the incremental operating and maintenance expenses necessary to serve the Customers; and | C
- (d) an allocation of system improvement costs. | N

In addition to the costs identified, the economic test will include applicable taxes and the appropriate return on investment as approved by the British Columbia Utilities Commission.

In cases where a larger Gas distribution Main is installed to satisfy future requirements, the difference in cost between the larger Main and the smaller Main necessary to serve the Customers supporting the application may be eliminated from the economic test.

- 12.6 **Contributions in Aid of Construction** - If the economic test results indicate a negative net present value, the Main Extension may proceed provided that the shortfall in revenue is eliminated by contributions in aid of construction by the Customers to be served by the Main Extension, their agents or other parties, or if there are non-financial factors offsetting the revenue shortfall that are deemed to be acceptable by the British Columbia Utilities Commission. | C

BC Gas may finance the contributions in aid of construction for Customers. Contributions of less than \$100 per Customer may be waived by BC Gas.

- 12.7 **Contributions Paid by Connecting Customers** - The total required contribution will be paid by the Customers connecting at the time the Main Extension is built. BC Gas will collect contributions from all Customers connecting during the first five years after the Main Extension is built. As additional contributions are received from Customers connecting to the main extension, partial refunds will be made to those Customers who had previously made contributions. At the end of the fifth year, all Customers will have paid an equal contribution, after reconciliation and refunds. | C
- 12.8 **Refund of Contributions** - A review will be performed annually, or more often at the Company's discretion, to determine if a refund is payable to all Customers who have contributed to the extension. | C

If the review of contributions indicates that refunds are due,

- (a) individual refunds greater than \$100 will be paid at the time of the review;
- (b) individual refunds less than \$100 will be held until a subsequent review increases the refund payable over \$100, or until the end of the five-year contributory period;
- (c) no interest will be paid on contributions that are subsequently refunded;
- (d) the total amount of refunds issued will not be greater than the original amount of the contribution; and
- (e) if, after making all reasonable efforts, BC Gas is unable to locate a Customer who is eligible for a refund, the Customer will be deemed to have forfeited the contribution refund and the refund will be credited to the other Customers who contributed towards the Main Extension.

12.9 Extensions to Contributory Extensions - When a Main Extension is attached to an existing contributory Main Extension within the five-year contributory period for the existing extension, the new extension will be evaluated using the Main Extension Test to determine whether a contribution is required. A prorated portion of the total contribution for the existing contributory extension will be assigned to the new extension on the basis of expected use, point of connection, and other factors. Any contributions toward the cost of the existing extension from Customers on the new extension will be used to provide partial refunds to the contributing Customers on the existing extension. The total refunds issued will not exceed the total amount of contributions paid by Customers on the existing extension.

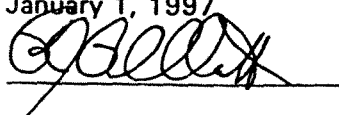
12.10 Security - In those situations where the financial viability of a Main Extension is uncertain, BC Gas may require a security deposit in the form of cash or an equivalent form of security acceptable to BC Gas.

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