



IN THE MATTER OF

BC GAS UTILITY LTD.

**APPROVAL OF ITS
SERVICE LINE COST ALLOWANCE
PROPOSAL**

DECISION

October 18, 1996

BEFORE:

Dr. Mark K. Jaccard, Chairperson
Lorna R. Barr, Deputy Chairperson
Frank C. Leighton, Commissioner

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COMMISSION ORDER G-104-96

APPENDIX A Commission Order No. G-98-96 (without attachment)

APPENDIX B Appearances

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1.0 BACKGROUND

BC Gas Utility Ltd. ("BC Gas", "the Company") filed its 1996 Rate Design Application on June 7, 1996 ("the Application"). On September 30, 1996 and October 7, 1996 the Commission approved two negotiated settlement packages which dealt with most of the matters in the Application. The reasons for those approvals are contained in Appendix A of Order No. G-98-96 dated October 7, 1996. The matter of a Service Line Cost Allowance ("SLCA"), which had been included in the Application, was not addressed by either settlement package because of linkages to other matters under consideration by the Commission. Consistent with the wishes of the parties present at the October 7, 1996 hearing session, it was decided that this matter would be heard in a separate hearing commencing at 1:30 p.m. later that same day. At that separate hearing BC Gas filed a revised SLCA application dated October 3, 1996 (Exhibit 1).

2.0 THE SLCA PROPOSAL

The SLCA proposal is intended to replace the Company's current customer connection policy. The current policy charges the customer an \$85 connection fee to cover administrative costs and then charges \$11/metre for any required service line length exceeding a standard allowance of 20 metres. The current policy also provides for a further charge in the event the service is installed at a time of ground frost. None of the current charges reflect actual costs.

BC Gas proposes to retain the \$85 administrative fee but to replace all other charges with a SLCA for residential and small commercial customers. The SLCA would require all residential and small commercial customers whose service line costs (excluding meter and regulator) exceed an allowance of \$1,100 to pay the excess amount. It would also require any of these customers who choose a service route other than the least expensive route to pay the difference in cost. Thirteen percent of the residential and small commercial customers would pay a contribution based on the \$1,100 criteria and 1996 cost data. The average service line cost excluding the effect of any SLCA contributions was \$659. Hence, the SLCA would collect partial customer contributions for only the highest cost services and most customer connections would still be subsidized by existing customers, except for the \$85 administrative fee.

BC Gas further proposed that for customers other than residential and small commercial, service line charges would be determined on an individual basis and that contributions required under the SLCA would be financed by the Company. No details of the proposed financing plan were presented in the evidence.

Considering the amount of the SLCA, the Company noted the determination of which high cost customers require a contribution necessitates a certain number of site visits. It argued that its proposal (which

involves 13% of customers but 38% of service line costs being addressed with the SLCA) struck a balance between customer contributions to high service line costs and the operating costs associated with site visits.

The Commission agrees with the BC Gas analysis with respect to the amount of the SLCA and approves the SLCA as proposed. However, as discussed in the following section, the Commission views the SLCA as only a first step towards addressing the mismatch between costs and customer connection charges.

3.0 SERVICE CONNECTION FEES

Intervenors at the hearing (the Consumers' Association of Canada (B.C. Branch) et al. and the Association for the Advancement of Sustainable Energy Policy) both argued that the SLCA did not move far enough in the direction of full cost recovery and that some form of connection charge for all new services would be preferable. While both intervenors argued that the SLCA proposal should be abandoned, they did not specifically address the potential for it to be combined with an appropriate service line connection charge.

BC Gas opposed any additional form of customer connection fees on the basis that such fees might be a barrier to the expansion of its natural gas business. However, BC Gas noted that it already captures little of the new multiple unit residential market and had no evidence to show that a fee to cover some or all connection costs would have significant effects on capturing this market. Also, BC Gas witnesses acknowledged that there is a strong preference for natural gas in new single family residences.

Therefore, the Commission is not persuaded that there is a problem with implementing a reasonable service line connection charge along with the SLCA proposal. The Commission does agree with BC Gas that any fee structure should generally be kept as simple as possible and notes the following considerations. First, it is desirable to avoid any customer comprehension barriers which might bias the customer's fuel choice. Second, it is desirable to minimize administrative costs such as those required for individual cost estimates. Third, in moving towards fuller cost recovery it is desirable to avoid over-recovery of costs from some customers. Finally, phased-in or escalating charges may be seen as unfair to subsequent generations of customers.

Based on these considerations, the Commission has concluded that it would be possible to combine a modest connection fee with the Company's SLCA proposal so that new customers more fully contribute to the cost of service lines. If the fee is set at a level below the costs of most services, individual estimates will not be required, thus minimizing administrative costs. The Commission notes from Exhibit 1 that

only 6% of total service line costs are incurred for service lines costing less than \$300 and presumably few, if any, service lines would cost less than \$200. Therefore, a service connection fee of approximately \$200 would address both the over-collection and administrative cost considerations. If this fee is both flat over time and rounded to an even number which includes all other fees, it would address the other two considerations. Thus, if a service line connection fee of \$215 were added to the current administrative fee of \$85, a single service connection fee of \$300 would be the result.

The Commission is somewhat confused by the apparent contradiction in the Company's evidence on financing. Although it gives no details of the exact mechanism, the SLCA proposal clearly provides for financing. In contrast, the Company's evidence at the hearing on its ability to recover connection fees over time seemed to imply this would require an easement (T: 64-66). The Commission can see no reason why financing is not feasible in either case and believes it would be an attractive option for some customers.

The Commission directs BC Gas to implement a flat charge of \$300 inclusive of the current \$85 administrative charge effective January 1, 1997 for all new services to residential and small commercial customers. Any difference between actual and forecast revenue due to the implementation of this charge is to be collected in a deferral account pending a future revenue requirements review by the Commission.

BC Gas is to file a proposal by November 30, 1996 for financing of both the \$300 service charge and any customer contributions required by the SLCA.

Prior to January 1, 1999, the Company is to file a report concerning the impacts of these combined charges on its business and to include recommendations for appropriate service line charges and the level of the SLCA for subsequent periods.

4.0 OTHER MATTERS

4.1 Further Processes

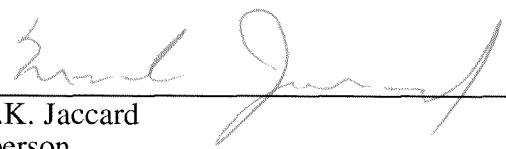
Both intervenors suggested that some further process was required to address the matters related to appropriate service connection fees. These suggestions were based on concerns about deficiencies in the BC Gas evidence and the difficulties faced by the Commission in addressing the service line connection charges of gas and electric utilities one at a time. The Commission has considered these views but is not persuaded that any further delays are warranted. Since the Commission held a generic hearing on utility

main extension tests last year which included the matter of appropriate service connection fees, the Commission sees this current review of the BC Gas service line connection charges as a follow-up from that process, rather than the first step in some new process. With regard to concerns about inadequate information, the Commission notes that the SLCA proposal was contained in the Company's June 7, 1996 rate design application and that there has been ample time to issue information requests to the Company and file them at this current proceeding if necessary.


4.2 Jurisdiction

While not specifically raised by any parties during this proceeding, the Commission is aware that there has been some discussion about the Commission's jurisdiction to require certain service line connection fees given that it is one of the subjects of the System Extension Guidelines issued by the Commission September 5, 1996. The apparent concern is that if these are just guidelines, what jurisdiction does the Commission have to enforce them. In the Commission's view, the establishment of appropriate standard charges or "rates" for service connections is clearly a tariff matter and the Commission has satisfied itself that its powers under Sections 33 and 64-67 of the Utilities Commission Act are sufficient for it to determine all such tariff matters.

DATED at the City of Vancouver, in the Province of British Columbia this 18th day of October, 1996.



Dr. M.K. Jaccard
Chairperson



L.R. Barr
Deputy Chairperson



F.C. Leighton, P. Eng.
Commissioner

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CANADA



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-104-96

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
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IN THE MATTER OF
the Utilities Commission Act, S.B.C. 1980, c. 60, as amended

and

An Application by BC Gas Utility Ltd.
for Approval of its Service Line Cost Allowance Proposal

BEFORE: M.K. Jaccard, Chairperson;)
L.R. Barr, Deputy Chairperson; and) October 7, 1996
F.C. Leighton, Commissioner)

O R D E R

WHEREAS:

- A. On October 3, 1996 BC Gas Utility Ltd. ("BC Gas") filed with the Commission its revised Service Line Cost Allowance proposal; and
- B. By Commission Order No. G-98-96 a public hearing was scheduled to commence on October 7 1996; and
- C. The hearing concluded with written argument from the applicant and intervenors as well as reply argument from the applicant; and
- D. The Commission has reviewed all of the evidence and issues its Decision.

NOW THEREFORE the Commission orders as follows:

- 1. BC Gas is to comply with all of the directions in the Commission's Decision issued concurrently with this Order.
- 2. BC Gas is directed to file in a timely fashion amendments to its Gas Tariff in accordance with the Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 15th day of October, 1996.

BY ORDER

Dr. Mark K. Jaccard
Chairperson

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3
CANADA



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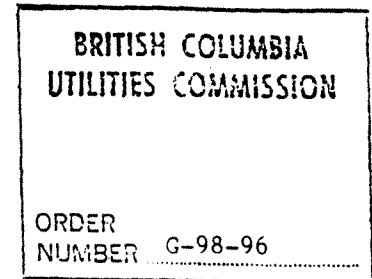
An Application by BC Gas Utility Ltd.
for Approval of its 1996 Rate Design Proposals

BEFORE: M.K. Jaccard, Chairperson;)
L.R. Barr, Deputy Chairperson; and) October 7, 1996
F.C. Leighton, Commissioner)

O R D E R

WHEREAS:

- A. On June 7, 1996 BC Gas Utility Ltd. ("BC Gas") filed with the Commission a rate design application to amend the rates of customers in the Lower Mainland, Inland and Columbia Divisions, except those with negotiated rates, commencing January 1, 1997 ("the Application"); and
- B. After a pre-hearing conference on June 27, 1996, the Commission issued Order No. G-71-96 which included a timetable for the public review of the Application and a Notice of Public Hearing. The hearing was subsequently rescheduled to commence on September 30, 1996; and
- C. Information requests, educational workshops and settlement negotiations on the terms of gas service were completed prior to a second pre-hearing conference held September 4, 1996. The parties then proceeded with negotiations towards a second settlement package; and
- D. A proposed settlement package regarding the terms of gas service was circulated to all Registered Intervenor prior to being considered by the Commission at the public hearing held on September 30, 1996, after which the hearing was adjourned to allow for further negotiation; and
- E. A second proposed settlement package, which essentially addressed the balance of the Application, was circulated to all Registered Intervenor prior to being considered by the Commission at the public hearing which reconvened on October 7, 1996.




NOW THEREFORE the Commission orders as follows:

1. The two settlement packages are approved as discussed in the Reasons for Decision attached as Appendix A to this Order.
2. BC Gas is directed to file in a timely fashion amendments to its Gas Tariff in accordance with the approved settlement packages.
3. BC Gas is to provide customers with a brief summary of the settlement packages approved by this Order.
4. The matter of the Company's proposal for a Service Line Cost Allowance is set down for a separate public hearing to commence October 7, 1996 at 1:30 p.m. in the Commission's Hearing Room.

DATED at the City of Vancouver, in the Province of British Columbia, this 17th day of October, 1996.

BY ORDER


Dr. Mark K. Jaccard
Chairperson

Attachment

APPEARANCES

G.A. FULTON	Commission Counsel
C.B. JOHNSON	BC Gas Utility Ltd.
J. QUAIL	The Consumers' Association of Canada (B.C. Branch), British Columbia Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizens' Association of B.C., West End Seniors' Network, B.C. Coalition for Information Access, End Legislated Poverty and the Tenants' Rights Coalition
C. REARDON	Association for the Advancement of Sustainable Energy Policy

P.H. GRONERT
J.W. FRASER

Commission Staff

ALLWEST COURT REPORTERS LTD.

Court Reporters & Hearing Officer

LIST OF EXHIBITS

	<u>Exhibit No.</u>
BC Gas Utility Ltd. Application of its Service Line Cost Allowance Proposal	1
B.C. Utilities Commission Order No. G-98-96	2
Affidavit of David M. Masuhara, Vice President, Legal & Regulatory Affairs and Secretary, of BC Gas Utility Ltd., dated October 4, 1996	3
BC Gas Inc. 1995 Annual Report, Excerpt page 59	4
Competitive Energy Price Assessment, Excerpt BC Gas Utility Ltd. Rate Design Application, Volume 2, Tab 3, page 6	5
BC Gas Utility Ltd. response to B.C. Utilities Commission Staff Information Request No. 1	6
BC Gas Utility Ltd., System Extension Test, Submission	7
BC Gas Utility Ltd., Three Scenarios	8
BC Gas Long Run Incremental Costs	9

ADDENDUM TO THE LIST OF EXHIBITS

- A. Written Argument of BC Gas Utility Ltd., dated October 10, 1996
- B. Written Argument of Association for the Advancement of Sustainable Energy Policy,
dated October 11, 1996
- C. Written Argument of Consumers' Association of Canada (B.C. Branch) et al.,
dated October 10, 1996
- D. Reply Submission of BC Gas Utility Ltd., dated October 15, 1996