



LETTER NO. L-46-94

ROBERT J. PELLATT  
COMMISSION SECRETARY

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December 22, 1994

Mr. D.M. Masuhara  
Vice President  
Legal and Regulatory Affairs  
Squamish Gas Co. Ltd.  
1111 West Georgia Street  
Vancouver, B.C.  
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Dear Mr. Masuhara:

Re: Squamish Gas Co. Ltd.  
Mains Extensions

By letter dated February 28, 1994, the Commission requested that Squamish Gas Co. Ltd. provide a yearly accounting of the present status of the approved mains extensions. The filed report covered the four extensions that were completed in 1993: Diamond Head, Northridge Drive, Maple Grove, and Tantalus Way. While the amount of the Rate Stabilization Facility ("RSF") draw in 1993 is relatively small (at \$4,000), major extensions such as Garibaldi/Brackendale impose a much higher risk on the RSF and therefore the form of the year end review must be more clearly defined. The Commission requires that:

1. At year end Squamish Gas must file an RSF impact analysis with the Commission for extensions completed in the year. The analysis will compare the projected and actual results for construction costs, customer additions, and volume additions that impact an RSF draw/repayment schedule or only those components which Squamish Gas is responsible for. All other components are to be taken from the approved extension application. By using the natural gas prices from the approved extension application in the RSF analysis, the MEMPR responsibility for forecasting oil and gas prices is maintained.
2. For administrative ease, only under-performing extensions will be reviewed in detail by the Commission where the actual RSF year end draw exceeds the application forecast by 15 percent.
3. For under-performing extensions, if the RSF draw variance exceeds 15 percent, the utility will only be paid the RSF draw shown in the approved application. If an extension was expected to repay the RSF in a year but the RSF variance indicates that a draw was made, no draw will be allowed for the extension. If the variance on an RSF repayment for an extension exceeds 15 percent, the difference between the actual and forecast RSF repayment will be deducted from the RSF draw for the utility.
4. Small main extensions must be included in the yearly main extension review report for a period of five years. Large extensions must be included in the yearly review report until the accumulated RSF draws have been repaid. Settlement of the RSF draw variance is expected to be made at the end of five years

for small extensions or when the variance exceeds \$10,000 for large extensions. Settlements of the RSF draw variance for an extension should consider years when the extension under-performed and when it exceeded forecast.

5. All extensions will be included in the utility quarterly draw calculation unless excluded for separate assessment such as the RSF draw variance for the extension exceeding 15 percent.
6. The utility is expected to have greater accuracy in forecasting construction costs than the timing of customer attachments or volumes. In this regard, the utility is required to report the actual cost of each extension including service lines and not the average cost of a number of extensions. For large extensions, the utility is expected to be conservative in all estimates.
7. Large extensions such as Brackendale/Garibaldi must also be justified on a discounted cash flow basis.
8. System improvements which occur as a result of a large extension (such as Brackendale/Garibaldi) must be incorporated into the project justification.

The analysis of the four extensions (Diamond Head, Northridge Drive, Maple Grove and Tantalus Way) that have been reviewed and the results are acceptable. It is the Commission's intention that to the extent possible, the review of Squamish Gas main extensions will be based on the principles applied to other utilities, subject to the restrictions of the RSF agreements. I trust that this information explains the manner in which the RSF variance report will be examined.

Yours truly,



Robert J. Pellatt

PWN/mmc

cc: Ms. Karen Koncohrada, Director  
Oil and Gas Policy  
Ministry of Energy, Mines and  
Petroleum Resources  
Mr. Kevin Teitge, Sr. Policy Advisor  
Ministry of Energy, Mines and  
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