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COMMISSION SECRETARY

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VIA FACSIMILE

November 21, 1996

Mr. Marcel Reghelini
Manager Regulatory Affairs and Rates
Centra Gas British Columbia Inc.
1675 Douglas Street
P.O. Box 3777
Victoria, B.C.
V8W 3V3

Dear Mr. Reghelini

Re: Centra Gas British Columbia Inc.
Commission Review of System Extension Test Proposal

The Commission has reviewed Centra's System Extension Test submission and endorses Centra's proposed test in most respects. The Commission has concluded that generally the test is appropriate and in accord with the Commission's September 5, 1996 Guidelines. However, the Commission finds that it is not in agreement with two specific aspects of Centra's proposal and is recommending changes which are detailed below:

- (1) the exclusion of any system improvement factor from the costs used in system extension evaluations; this includes incremental upstream BC Gas or Westcoast facilities; and
- (2) the aggregation of evaluations of system extensions under 200 metres;

Regarding the inclusion of system improvement (SI) costs, the Centra Gas system extension test is based on the approved rates and the approved cost of gas. Both the revenues and the costs used in the analysis include BC Gas and Westcoast tolls for delivering the gas. However, costs for incremental facilities on the BC Gas or Westcoast systems are excluded, as are costs related to system improvements on the Centra system.

The Commission has not been convinced by arguments in support of excluding system improvement costs, and believes that the evaluation of system extensions should include some recognition of SI costs. The Commission recognizes that for any given extension it may be difficult to calculate a precise value for the system improvements required by that extension versus those required by load growth from existing customers, but believes that a workable estimate for use in system extension tests (e.g. an average \$/GJ estimate) can be developed. Therefore, the Commission recommends that Centra modify its system extension test to include an estimate of costs for system improvements, at a minimum on its own system.

With respect to an estimate of potential costs of system improvements on the BC Gas and Westcoast systems, the Commission recommends that these be included to the extent that new customers on new extensions are likely to cause the need for incremental facilities and hence increased tolls. In the Commission's view, recent events have indicated that competitive pressures on the Westcoast system are likely to limit increased tolls resulting from facilities improvements, and that therefore the use of Westcoast tolls is appropriate at this time. However, the BC Gas system may be more constrained, and the Commission recommends that Centra review the implications of load growth on the BC Gas tolls charged Centra customers and consider including SI cost estimates related to the BC Gas system.

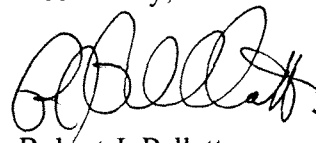
With respect to the aggregation of evaluations of system extensions under 200 m., there is an argument for the Commission to approve this aspect of Centra's proposal based on administrative simplicity, the historically high average rates of return showed by these short extensions, and the low percentage of total extension expenditures that are involved in these short extensions. However, Centra stated during the hearing that it does not aggregate short extensions in areas other than Vancouver Island and that the administrative benefits of pooling short extensions were not obvious in service areas other than Vancouver Island. In addition, any administrative efficiency currently gained by these aggregations may well be redundant if Centra develops a cost per gigajoule test, as it suggests that it will do. The Commission also recognizes that a fundamental purpose of a system extension test is to minimize uneconomic extensions. Therefore, the Commission recommends that Centra evaluate all extensions separately, perhaps using the proposed cost per gigajoule test for short extensions in order to retain administrative efficiencies.

On a final issue, the Commission recognizes that Centra's 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.

In summary, the Commission recommends that Centra modify the test to correspond to the Commission's recommendations regarding SI costs and the evaluation of short extensions, and that it submit tariff pages summarizing the revised test to the Commission for approval. The Commission directs Centra to inform the Commission by December 31, 1996 whether or not it intends to file revised tariffs, and the extent to which the tariffs will respond to each of the Commission's concerns. The Commission also wishes Centra to include a proposed schedule for filing of tariff pages along with the desired effective dates of any revised tariffs. The Commission acknowledges that filing dates for the tariffs for different service areas and the desired effective dates may vary.

Additionally, in order to assist the Commission in determining which proposed extensions, if any, will require CPCN applications, the Commission directs Centra to file, also by December 31, 1996, a list identifying significant extensions proposed for 1997. This list should be disaggregated by region or service area and include the costs and profitability index ratio for each identified extension. For planned extension activity which is not associated at this time with specific extensions, Centra should provide aggregated information which would include the general profitability criteria such extensions must meet rather than a specific forecast profitability ratio.

Yours truly,



Robert J. Pellatt

JWF/cms