BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-16-95

ROBERT J. PELLATT
COMMISSION SECRETARY

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

April 18, 1995

To: Commission Regulated Utilities

Re: Property and Municipal Taxes
<u>Section 67(4) - Utilities Commission Act ("the Act")</u>

Section 67(4) of the Act has been applied to the pass-through of uncontrollable cost changes from the utility's existing costs for rate making purposes. These uncontrollable costs generally have included gas supply costs, income tax and property tax rates. Recent filings indicate that BC Gas Utility Ltd. applied to credit surpluses of both 1993 and 1994 property taxes to customers by way of an offset to other similar cost increases; in contrast Pacific Northern Gas Ltd. and Centra Gas (Whistler) both recorded a significant under-payment of property/municipal taxes in 1994 but stated that these were forecast variances and should be kept by the utilities.

The Commission is concerned that inconsistencies in how different utilities treat property taxes may result in regulatory problems in the future. At a minimum it should be clear whether property taxes are a cost flow-through or forecast item before a revenue requirement application is considered. Therefore, the Commission requests comments and submissions from all regulated utilities with respect to the treatment of property/municipal taxes for pass-through purposes under Section 67(4). In particular, please answer the following questions:

1. What is your current method of calculating property taxes, for rate application purposes, on existing plant and on forecast plant additions?

2. Should an election be allowed such that a utility may choose to accept all the forecast risks of property tax changes?

3. If property taxes are to be considered as uncontrollable costs under Section 67(4), should the pass-through include the changes in the mill rates, assessed property values, or both?

4. Consistent with the treatment for income taxes if one, or both, of the above is considered uncontrollable, should the forecast for revenue requirement purposes be maintained at the current levels until the new mill rates or assessed values are known and then the difference be passed through?

By copy of this letter to intervenors and groups associated with previous BCUC public hearings, the Commission is also requesting their comments and response.

Your comments/submissions and answers to the above questions are required by May 8, 1995.

Yours truly,

Robert J. Pellatt

SSW/yk
cc: Intervenors - Gas and Electric