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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-88-08

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**IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

and

**An Application by Terasen Gas Inc.
for Carbon Tax and Provincial Tax Rate Treatment**

BEFORE: L.F. Kelsey, Commissioner June 4, 2008
P.E. Vivian, Commissioner
A.A. Rhodes, Commissioner

O R D E R

WHEREAS:

- A. On May 15, 2008, Terasen Gas Inc. ("Terasen", the "Utility") filed an application (the "Application") to provide information to the Commission as to the cost of service impacts resulting from the implementation of Bill 2, the 2008 Provincial Budget ("2008 Budget") and Bill 37, the Carbon Tax Act ("Carbon Tax"); and
- B. The 2008 Budget, which received Royal Assent on May 1, 2008, contained a reduction in the corporate income tax rate from 12 percent to 11 percent effective July 1, 2008 to offset the impact of the Carbon Tax that is to take effect on July 1, 2008; and
- C. The 2008 Budget and the Carbon Tax Act support the energy conservation and efficiency goals of the 2007 BC Energy Plan to reduce greenhouse gas emissions by providing a fiscal framework to implement the Provincial government's climate action initiatives; and
- D. The new Carbon Tax, which received Royal Assent on May 29, 2008, is a consumption tax that applies to all fossil fuels consumed in the Province of B.C. at a rate of \$10 per tonne of carbon dioxide-equivalent or greenhouse gas emissions effective July 1, 2008. This rate increases by \$5 per tonne each year thereafter through to July 1, 2012. This rate will start at \$0.4966/GJ and will increase by \$0.2483/GJ every July 1; and
- E. Terasen reported that the Carbon Tax will be shown as a separate line item on its customers' bills, will result in increased Utility expenses as a result of the Carbon Tax being applied to the natural gas that is burned in the transmission and distribution of natural gas primarily in compressors and line heaters as well as in the operations of buildings, the Tilbury Liquefied Natural Gas plant and motor vehicles; and
- F. Terasen calculated that for 2008, the Carbon Tax will increase the Utility expenses by approximately \$130,000 and may increase the transport cost of gas that is recorded in the Midstream Cost Reconciliation Account ("MCRA") by \$594,000 to \$670,000; and

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- G. Terasen also calculated in Attachment 3 that the reduction in the corporate income tax rate contained in the 2008 Budget would decrease the 2008 total income tax expense filed in the Utility's January 3, 2008 Annual Review submission by \$616,000 and result in its 2008 blended federal/provincial income tax rate decreasing from 31.5 percent to 31.0 percent; and
- H. Terasen forecasts that it will incur additional one-time costs of \$303,000 associated with billing system changes necessary to reflect the Carbon Tax on customers' bills and \$15,000 for tax consulting and legal fees. Terasen shares the billing system with Terasen Gas (Vancouver Island) Inc., Terasen Gas (Whistler) Inc. and Terasen Fort Nelson Service Area and will share the cost of the billing system changes which should result in a net cost to Terasen of \$272,000; and
- I. Terasen currently operates under the terms of the 2008-2009 Extension of the 2004-2007 Multi-Year Performance-Based Rate Plan Settlement Agreement as approved by Commission Order No. G-51-03 and extended by Order No. G-33-07 (the "PBR Settlement"); and
- J. The PBR Settlement provides for deferral account treatment with three year amortization to record variances in property taxes, income tax rates, LCT rates, and any new government tax expenses, charges and levies. The PBR Settlement also provides that exogenous factors that include legislative changes are beyond the Utility's control and will be flowed through to customer rates. It is Terasen's position that all Carbon Tax expense incurred by the Utility as well as changes to the income tax expense for 2008 must be afforded deferral account treatment in the manner prescribed in the PBR Settlement. It is also Terasen's position that the costs incurred to change its billing system and for tax consulting and legal fees constitute an exogenous factor under the PBR Settlement; and
- K. Terasen requests approval pursuant to Sections 60 and 23 of the Utilities Commission Act (the "Act") to establish a deferral account for the costs Terasen will incur related to the revisions to the billing system and costs for tax consulting and legal fees required for the implementation of the Carbon Tax (the "Carbon Tax Implementation Deferral Account") with amortization over one year in 2009; and
- L. Terasen states that the 2008 income tax reduction of \$616,000 and the \$130,000 (\$89,700 after-tax) increase in Utility expenses should be recorded in a deferral account with three year amortization in accordance with the PBR Settlement; and
- M. Terasen states that it will continue to monitor and report the MCRA deferral account balances on a quarterly basis and, under normal circumstances, Midstream Cost Recovery Charges, which are applicable to all Sales Rate customers, will be adjusted on an annual basis with a January 1 effective date; and
- N. The Commission has reviewed the Application and finds that approval is warranted.

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NOW THEREFORE the Commission orders, pursuant to Sections 60 and 23 of the Act as follows:

1. Terasen's requested Carbon Tax Implementation Deferral Account to record the estimated net costs of \$272,000 that the Utility will incur to revise its billing system and the \$15,000 that Terasen will incur for tax accounting and legal fees in order to comply with the Carbon Tax Act with a one-year amortization in 2009 are approved as requested subject to a prudence review of the actual expenditures.
2. The Commission accepts Terasen's recalculation of its 2008 income tax expense in Attachment 3 for a blended federal/provincial income tax rate decreasing from 31.5 percent to 31.0 percent resulting from the corporate income tax reduction announced in the 2008 Budget.
3. Terasen's proposal that the 2008 income tax reduction of \$616,000 and the \$89,700 after-tax increase in Utility expenses should be recorded in a deferral account with three year amortization is accepted as being in accordance with the PBR Settlement and Commission Orders No. G-51-03 and extended by Order No. G-33-07.

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of June 2008.

BY ORDER

Original signed by:

L.F. Kelsey,
Commissioner