

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing a multi-year incentive rate mechanism to determine rates for the regulated distribution, transmission and storage of natural gas, effective January 1, 2008;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2008;

AND IN THE MATTER OF a combined proceeding Board pursuant to section 21(1) of the *Ontario Energy Board Act, 1998*.

**INTERROGATORIES OF THE LONDON PROPERTY MANAGEMENT
ASSOCIATION (“LPMA”), THE WHOLESALE GAS SERVICE PURCHASERS
GROUP (“WGSPG”), AND THE BUILDING OWNERS AND MANAGERS
ASSOCIATION OF THE GREATER TORONTO AREA (“BOMA”)
TO
UNION GAS**

Tax Interrogatory 1

Please provide a schedule, similar to that in the Enbridge Gas Distribution Settlement Agreement dated February 4, 2008 (Exhibit N1, Tab 1, Schedule 1, Appendix D, Page 52 of 6 – see attached), excluding lines 22, 33, 42, 44, 45 and 46 that are related to the 50% sharing. Please reflect the appropriate EB-2005-0520 Board Decision figures in this table.

Tax Interrogatory 2

- a) What was the provincial capital tax rate that was used in EB-2005-0520 proceeding for the 2007 test year?
- b) What is the actual provincial capital tax rate applicable to 2007?

Tax Interrogatory 3

- a) What was the CCA rates that were used in EB-2005-0520 proceeding for the 2007 test year related to i) computer equipment, ii) non-residential buildings, and iii) distribution assets?
- b) What are the actual CCA rates applicable to 2007 for the assets in each of the three categories listed in (a) above for assets acquired after March 18, 2007?

Tax Interrogatory 4

Is Union proposing to adjust base rates to reflect the changes in the provincial capital tax and in the CCA rates for computer equipment, non-residential buildings and distribution assets that were effective in 2007? If not, please explain why not.

Tax Interrogatory 5

Has legislation that fully eliminates the provincial capital tax on July 1, 2010 been passed? If yes, please provide the date that the legislation was passed.

Tax Interrogatory 6

Is Union proposing to adjust base rates to reflect the changes in the federal corporate tax rate for 2008 that were known in 2007? If not, please explain why not?

Tax Interrogatory 7

As part of the response to Tax Interrogatory 1, it has been requested that the tax impact of the CCA rate changes that took place in 2007 be calculated for 2008 through 2012 using the combined federal and provincial income tax rates expected to be in place for those years (i.e. 33.5%, 33.0%, 32.0%, 30.5%, 29.0%) to calculate the grossed up amount. Please provide the tax impact of the CCA rate changes that took place in 2007 for each year in 2008 through 2012 assuming the combined federal and provincial income tax rate for 2007 of 36.12% was to remain in place for the period 2008 through 2012 to calculate the grossed up amount.

The following tax interrogatories relate to the January 4, 2008 report “Federal and Provincial Corporate Tax Changes: Implications for Incentive Regulation”

Tax Interrogatory 8

With respect to the phrase “broad corporate tax reductions would be reflected in a lower aggregate price index” please provide the following:

- i) the proportion of corporations in Canada that pay federal corporate income tax;
- ii) the proportion of corporations in Canada that pay provincial income tax;
- iii) the proportion of corporations in Canada that pay a provincial capital tax.

Tax Interrogatory 9

a) Would the full amount of the cost reductions referred to on page 2 of the report related to the decrease in the taxes be offset by the reduction in revenues due to the reduced prices charged on products and services? Please explain.

b) Could any of the reduction in costs associated with the decrease in taxes go to employees through higher compensation, suppliers through higher costs and/or shareholders through higher profits? Please explain.

Tax Interrogatory 10

Do you agree with the statement that corporations would simply pass on tax reductions to customers through lower prices, to supplier and labour through lower costs and wages and to shareholders through higher returns? Please explain.

Tax Interrogatory 11

In light of the statement that significant tax changes particular to an industry should be incorporated in the Z factor please explain why the change in the CCA rate for distribution assets should not be considered a Z factor event.

Tax Interrogatory 12

The evidence indicates that tax reductions would be reflected in a lower aggregate price index used to adjust rates under the price-cap index.

a) Please provide any studies that indicate that all of the tax reductions would be reflected in a lower aggregate price index.

b) Please provide any studies that indicate the length of the lag between the effective date of a tax reduction and when this impact is first seen in the aggregate price index.

c) Is it possible, in your opinion, to empirically measure the lag effect related to corporate income tax changes with any degree of certainty?

d) If it were able to determine, for example, that there is a lag of one year between when a tax change is effective to when it is reflected in a change in the aggregate price index, would it be possible to use a mechanism like a non-routine adjustment (z factor) to capture the tax impact in the first year, and then reverse this adjustment for subsequent years under the assumption that the aggregate price index for those years would capture the impact of the tax changes? Please explain fully.

Tax Interrogatory 13

In his oral testimony in RP-2001-0029/RP-1999-0017 (Tr. Vol. 4 (April 9, 2002), paragraph 1118) Dr. Wilson referenced a macroeconomic model that he had. Based on this model, please provide the impact on the GDPIPIFDD aggregate price index over a five year period of a 1 percentage drop in the federal tax rate at the beginning of the first year. If the model does not have the GDPIPIFDD as an explicit variable, please provide the impact on a similar variable included in the model.

Tax Interrogatory 14

In his oral testimony in RP-2001-0029/RP-1999-0017 (Tr. Vol. 4 (April 9, 2002), paragraph 1121) Dr. Mintz indicated that when you have announced corporate tax rate

cuts you stimulate investment spending by businesses. Does Dr. Mintz still believe this is true? If not, why not? Is there any impact of a minority government being in power on a long term plan for tax reductions and the anticipation by corporations of the lower tax rates actually becoming reality?

Summary - Sharing of Tax Change Forecast Amounts		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Line No.	Tax Related Amounts Forecast from CCA Rate Changes (\$ Millions)	2008	2009	2010	2011	2012	
1.	Computer Equipment (Class 45) - Opening UCC Balance	1.65	2.56	3.06	3.33	3.48	
2.	New purchases (2007 Board Approved additions)	2.13	2.13	2.13	2.13	2.13	
3.	Capital Cost Allowance (CCA) at 45% -former tax rule CCA rate	1.22	1.63	1.86	1.98	2.05	
4.	Closing Undepreciated Capital Cost (UCC)	2.56	3.06	3.33	3.48	3.57	
5.	Computer Equipment (Class 45) - Opening UCC Balance	1.54	2.24	2.55	2.69	2.76	
6.	New purchases (2007 Board Approved additions)	2.13	2.13	2.13	2.13	2.13	
7.	Capital Cost Allowance (CCA) at 55% - 2007 Federal Budget tax rule CCA rate	1.43	1.82	1.99	2.07	2.10	
8.	Closing Undepreciated Capital Cost (UCC)	2.24	2.55	2.69	2.76	2.78	
9.	Distribution Assets (Class 1) - Opening UCC Balance	238.66	467.77	687.72	898.87	1101.58	
10.	New purchases (2007 Board Approved additions)	243.53	243.53	243.53	243.53	243.53	
11.	Capital Cost Allowance (CCA) at 4% -former tax rule CCA rate	14.42	23.58	32.38	40.83	48.93	
12.	Closing Undepreciated Capital Cost (UCC)	467.77	687.72	898.87	1101.58	1296.17	
13.	Distribution Assets (Class 1) - Opening UCC Balance	236.23	458.28	667.01	863.21	1047.64	
14.	New purchases (2007 Board Approved additions)	243.53	243.53	243.53	243.53	243.53	
15.	Capital Cost Allowance (CCA) at 6% - 2007 Federal Budget tax rule CCA rate	21.48	34.80	47.33	59.10	70.16	
16.	Closing Undepreciated Capital Cost (UCC)	458.28	667.01	863.21	1047.64	1221.01	
17.	CCA Difference	7.27	11.41	15.08	18.36	21.29	
18.	Tax Rate (Anticipated Corporate Income Tax Rates during IR term)	33.50%	33.00%	32.00%	30.50%	29.00%	
19.	Tax Impact	2.44	3.76	4.83	5.60	6.17	
20.	Grossed-up Tax Amount (Cumulative Total Forecast)	3.66	5.62	7.10	8.06	8.69	33.13
21.	Incremental Amount	3.66	1.95	1.48	0.96	0.64	
22.	50% of the Amount to Reduce Rates	\$1.83	\$0.98	\$0.74	\$0.48	\$0.32	
Tax Related Amounts Forecast from Income Tax Rate Changes							
23.	Taxable Income (2007 Board Approved, Final Rate Order, App.A, S3,P3,L15)	355.6	355.6	355.6	355.6	355.6	
24.	Gross Deficiency (2007 Board Approved, Final Rate Order, App.A, S1,P1,L7)	42.7	42.7	42.7	42.7	42.7	
25.	Interest Expense (2007 Board Approved, Final Rate Order, App.A, S3,P3,L25)	(165.90)	(165.90)	(165.90)	(165.90)	(165.90)	
26.	Board Approved Taxable Income for Income Tax Expense Calculation	232.40	232.40	232.40	232.40	232.40	
27.	2007 Approved Tax Rate (2007 Board Approved, Final Rate Order, App.A, S3,P3,L27)	36.12%	36.12%	36.12%	36.12%	36.12%	
28.	Anticipated Tax Rates During the IR Term	33.50%	33.00%	32.00%	30.50%	29.00%	
29.	Tax Rate Variance	2.62%	3.12%	4.12%	5.62%	7.12%	
30.	Annual Income Tax Savings vs. 2007 Approved Taxes (Cumulative Total Forecast)	6.09	7.25	9.57	13.06	16.55	
31.	Grossed-up Tax Savings	9.16	10.82	14.07	18.79	23.31	76.15
32.	Incremental Amount	9.16	1.66	3.25	4.72	4.52	
33.	50% of the Amount to Reduce Rates	\$4.58	\$0.83	\$1.63	\$2.36	\$2.25	
Tax Related Amounts Forecast from Capital Tax Rate Changes							
34.	2007 Taxable Capital as Filed (EB-2006-0034, D3,T1,S1,P6,L7)	3,571.0	3,571.0	3,571.0	3,571.0	3,571.0	
35.	2007 Decision and Settlement Agreement Adjustments to Taxable Capital	(118.8)	(118.8)	(118.8)	(118.8)	(118.8)	
36.	2007 Board Approved Taxable Capital	3,452.2	3,452.2	3,452.2	3,452.2	3,452.2	
37.	2007 Board Approved Capital Tax Rate (EB-2006-0034, D3,T1,S1,P6,L8)	0.285%	0.285%	0.285%	0.285%	0.285%	
38.	Anticipated Capital Tax Rates During the IR Term	0.225%	0.225%	0.150%	0.000%	0.000%	
39.	Capital Tax Rate Variance	0.060%	0.060%	0.135%	0.285%	0.285%	
40.	Annual Capital Tax Savings vs. 2007 Approved Taxes (Cumulative Total Forecast)	2.07	2.07	4.66	9.84	9.84	28.48
41.	Incremental Amount	2.07	0.00	2.59	5.18	0.00	
42.	50% of the Amount to Reduce Rates	\$1.03	\$0.00	\$1.29	\$2.59	\$0.00	
43.	Cumulative Total Forecast Tax Related Amount (lines 20+31+40)	14.89	18.51	25.83	36.69	41.84	137.76
44.	Total Incremental Ratepayer Amounts into rates (lines 21+32+41)	\$7.44	\$1.81	\$3.66	\$5.43	\$2.57	
45.	Total Annual Ratepayer Tax Savings (50% of row 43)	\$7.44	\$9.25	\$12.91	\$18.34	\$20.91	\$68.85
46.	50% Ratepayer and Company Shareholder ESM Amount During the IR Term	\$68.85					