

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
DR. LOWRY

Reference: “Z Factoring Pervasive Corporate Tax Reductions” dated 8 February 2008

Tax Interrogatory 1

Do the conclusions reached in this report also apply to pervasive corporate tax increases?

Tax Interrogatory 2

Please confirm that increased capital cost allowances being considered at the federal level:

- i) relate to distribution assets (Class 1) and computer equipment (Class 45);
- ii) are retroactive to assets added in 2007 (please provide the effective date);
- iii) may or have been adopted for Ontario corporate tax calculations also effective in 2007.

Tax Interrogatory 3

What companion reductions in corporate tax burdens are under consideration in Ontario?

Tax Interrogatory 4

Does PEG believe that any tax changes that are in effect for the base year, but not reflected in base year rates, should be reflected as adjustments to base year rates? If not, please explain.

Tax Interrogatory 5

With respect to the phrase “pervasive reductions in corporate taxes” 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;
- iv) the thresholds for which corporations do not pay any provincial capital tax by province;
- v) any provinces that do not collect a provincial capital tax.

Tax Interrogatory 6

What would have been the impact on the 1.73% X factor recommended by PEG for Union under a price cap mechanism had the reduction and elimination of the provincial capital tax, the reduction in the federal corporate tax rates and the increase in the CCA rates, all as shown in Exhibit N1, Tab 1, Schedule 1, Appendix D, Page 52 of the Enbridge Gas Distribution Settlement Agreement dated February 4, 2008 (see attached) been in effect for the last five years of the period used by PEG? Please explain. If a precise estimate cannot be provided in the timeframe, please provide a “best guess” range of the impact.

Tax Interrogatory 7

The evidence indicates that “In the long run, competition between firms is apt to pass cost savings of both kinds through to customers in the form of slower growth in the prices of the products that they sell”.

- i) Please define “long run”.
- ii) Would the same result be expected of an appreciation in the country’s currency?

Tax Interrogatory 8

The evidence states that “any Z factor intended to rectify this problem must consider the extent to which the effect of tax reductions is captured by the slowdown that does occur in the GDPIPI”. Should any such Z factor also consider the lead or the lag associated with the effect of a tax change? If not, please explain why not.

Tax Interrogatory 9

The evidence states that “the tax reductions under discussion are pervasive and should slow the growth of the GDPIPI materially”. Please define materially in this context.

Tax Interrogatory 10

Does the provincial capital tax have a larger or smaller impact on a capital intensive utility relative to the average corporation? Please explain.

Tax Interrogatory 11

Is a change in the CCA rate for Class 1 (distribution assets) pervasive? Please explain.

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					