

BOMA INTERROGATORY #2

INTERROGATORY

Ref: Ibid, (f)

What "retirements" are being referred to? Please explain.

RESPONSE

Paragraph f) of Exhibit B, Tab 1, Schedule 3 refers to the cost of retirements incurred during 2016, or more specifically, the costs incurred in order to retire assets (predominantly mains and services) during 2016. In accordance with the Uniform System of Accounts for Class "A" Gas Utilities, costs incurred in the ordinary retirement of depreciable assets are debited to accumulated depreciation, and not charged to the income statement. A charge to the income statement occurs over the life of the asset, through depreciation expense, as a result of the net salvage component included in approved depreciation rates (the net salvage value is often a negative value, or a charge). For income tax purposes however, the costs incurred to retire assets are taken as a current period tax deductible amount, which reduces taxable income. This is due to the fact that for income tax purposes, depreciation expense is added back and replaced by a deduction for capital cost allowance, which does not reflect the net salvage provision included in depreciation rates. During 2016, the costs incurred to retire assets were greater than forecast, resulting in a greater than forecast tax deduction, which in turn contributed to lower than forecast income tax expense.

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