BOMA INTERROGATORY #6

INTERROGATORY

Ref: Ibid

Please explain item (5.3) Elimination of revenue indemnification from Enbridge Inc. related to part V1.1 tax transfer.

RESPONSE

During 2016, Enbridge Gas Distribution Inc. ("EGD") entered into a corporate tax transaction with Enbridge Inc. ("EI"), whereby EGD agreed to have approximately $74M of EI's Part VI.1 tax and corresponding Part I income tax deductions transferred to EGD. The purpose of this transaction was to reduce the overall 2016 cash tax expense of the Enbridge group of companies.

The effect of the transaction was such that while EGD paid approximately $74M of Part VI.1 tax it also reduced its Part I federal and provincial income tax for the year by approximately $68M. The net differential of approximately $5M was reimbursed to EGD by EI to ensure EGD did not bear any negative economic or financial statement consequences as a result of the transaction.

The Canadian Income Tax Act imposes a special refundable tax (Part VI.1 tax) on the payer of preferred share dividends. The tax is refundable by way of a reduction to Part I federal and provincial income taxes. The reduction to Part I tax does not, however, result in an equal and offsetting recovery of the Part VI.1 tax and therefore there is a net cost of issuing these preferred shares. Wherein EI is the issuer of the preferred shares it incurs the net cost of the difference between the Part VI.I tax paid and the reduction of the Part I federal and provincial income taxes. Further, where EI does not have a Part I income tax burden in a particular year it can, in accordance with income tax law, transfer the liability and corresponding deduction to a related party such as EGD. This has the effect of reducing the overall cash tax burden in a particular year for EI and its subsidiary companies. This concept is best explained through the following example:

Parent company issues preferred shares and has a $100M liability for Part VI.1 Tax. The Parent company has no liability for Part I provincial and federal income taxes. A subsidiary of the parent has a Part I liability of $100M. In the absence of transferring the Part VI.1 tax liability to the subsidiary the combined group of companies would pay $200M of cash tax in the year. If, however, the parent company transfers the Part VI.1 tax liability to the subsidiary the overall cash tax expense for the year will be reduced to $105M versus $200M.

The following page details the calculation of the Part VI.1 tax expense/liability transferred to EGD, the corresponding corporate income tax deduction and income tax expense reduction, and the resultant net tax variance, which led to the $5M million revenue transfer (which is not subject to tax). The calculation also illustrates how EGD is left in a neutral earnings position.

The $5M revenue transfer has been eliminated from the calculation of utility results, as the calculation of utility stand-alone income taxes excludes the impact of the transferred Part VI.1 tax liability/expense, and corresponding income tax deduction.

Enbridge Gas Distribution Inc.
2016 Transferred Part VI.1 Tax Calculations

Actual EI Pref Dividends Paid		184,285,714
Part VI.1 tax liability/expense transfer to EGD @ 40%	**A**	73,714,286
Sec 110(1)(k) corporate income tax deduction (Gross-up of Part VI.1 Tax--x 3.5)		258,000,000
Part I Federal & Provincial income tax expense reduction @26.5%	**B**	68,370,000
Net tax differential resulting from Part VI.1 tax transfer	**A - B**	5,344,286

EGD Earnings Impact:

Earnings before Income Taxes - Non Taxable Reimbursement	5,344,286
Part VI.1 Tax	73,714,286
Part I Tax Reduction	(68,370,000)
Total Tax Expense	5,344,286
After-Tax Earnings	-

Witness: R. Small