BOARD STAFF INTERROGATORY #4

INTERROGATORY

Ref: A1/T3/S1/page 1 of 2/ Appendix B – Allowed Revenue Sufficiency / (Deficiency) 2017 Test Year Schedule

Please explain the details underpinning what appears to be a $23.5 million income tax deficiency (credit) adjustment shown in column 2; “2017 Required Updates” at line 19. Please relate the $23.5 million amount to the detailed tax calculation schedule at D1/T6/S2 which shows an increase in taxes of $3.8 million (line 32 column 2).

RESPONSE

The $23.5 million credit shown at Line 19, Column 2, of Exhibit A1, Tab 3, Schedule 1, Appendix B reflects a reduction in income taxes required in relation to the lower net deficiency amount (Excluding CIS and Customer Care impacts) requested within this proceeding as part of the 2017 Updated Forecast Allowed Revenue, as compared to the income taxes required on the net deficiency that was reflected in the Custom IR (EB-2012-0459) 2017 Placeholder Allowed Revenue. The primary driver for the reduction in the net deficiency included within the 2017 Updated Forecast Allowed Revenue, versus the 2017 Placeholder Allowed Revenue, is the rates which underpin revenues at existing rates within each proceeding. The 2017 Updated Forecast revenue at existing rates was determined utilizing 2016 approved rates (EB-2015-0114), while the 2017 Placeholder revenue at existing rates was determined utilizing 2013 approved rates. As a result, the 2017 Updated Forecast deficiency reflects the variance between updated forecast 2017 allowed revenues and updated forecast 2017 revenues based on 2016 approved rates, while the 2017 Placeholder deficiency reflected the cumulative variance between forecast 2017 allowed revenues and forecast 2017 revenues based on 2013 approved rates (i.e., it did not reflect the rate changes that occurred as a result of approved 2014, 2015, and 2016 approved rates).

The $3.8 million increase in income taxes shown at Line 32, Column 2, of Exhibit D1, Tab 6, Schedule 2, reflects higher income taxes on earnings (taxable income) (Excluding CIS and Customer Care impacts) resulting from the 2017 Updated Forecast revenues and costs included within this proceeding, as compared to the 2017 Placeholder amounts included within the Custom IR proceeding. The calculation of income tax on earnings, shown in Exhibit D1, Tab 6, Schedule 2, does not include the income taxes required in relation to net deficiency amounts (i.e., the gross-up of net deficiency amounts). Corresponding with what was mentioned above, a primary driver for the higher income tax on earnings, reflected in the 2017 Updated Forecast, is the fact that the updated forecast revenues and income before taxes reflect the impact of 2016 approved rates, while the 2017 placeholder revenues and income before taxes reflected 2013 approved rates. The increase in 2017 Updated Forecast income taxes on earnings also reflects the net impact of all other updates (i.e., volumes, DSM costs, pension and OPEB costs, cost of capital, etc.), including tax add and deduct impacts, required as part of Enbridge's approved Custom IR plan. The increase in income taxes on earnings, shown at Line 32, Column 2, of Exhibit D1, Tab 6, Schedule 2, is reflected in Exhibit A1, Tab 3, Schedule 1, Appendix B, at Row 19, Column 2.

Exhibit A1, Tab 3, Schedule 1, Appendix B is a summary schedule which shows total allowed revenue and deficiency amounts (Excluding CIS and Customer Care amounts plus CIS and Customer Care amounts). For a clearer breakdown of 2017 Placeholder and Updated Forecast allowed revenue and deficiency amounts (including income taxes on earnings and incomes taxes on deficiency), which segregates Excluding CIS and Customer Care amounts from CIS and Customer Care amounts, please refer to Exhibit F1, Tab 2, Schedule 1.

Witness: R. Small