

**Section 93 PILs Tax Gross Up – “SIMPIL” Model Guide
Proxy Calculation for 2005 RAM Application (Exclusively)**

The following guide applies to the PILs proxy calculation for 2005. It provides detailed step-by-step instructions on how to fill in the revised SIMPIL model for this 2005 application and rate adjustment. The guide is structured in the same logical sequence as previous “SIMPIL” spreadsheets would have been completed.

The SIMPIL model has been tailored to produce the LDC-specific PILs rate adjustment with the use of only Regulatory Net Income, Depreciation and Amortization, Capital Cost Allowance, and Interest Expense Deemed/Incurred.

This SIMPIL model contains four worksheets: REGINFO, TAXCALC, TAXRATES, and C&DM TAX FORECAST (Conservation and Demand Management Tax Forecast).

Please refer to appendix A for a glossary of terms.

How to complete the REGINFO spreadsheet

For those that have not filed “SIMPIL” spreadsheets, the following instructions provide details on how to fill out the REGINFO spreadsheet. Be sure to accurately complete the REGINFO spreadsheet so that the proper information is used to complete the proxy calculation column in the TAXCALC worksheet. The REGINFO spreadsheet is to be completed using the information from sheet #7, entitled “MARR (NO TAX) CALCULATIONS” of the final 2001 RUD model spreadsheets. In 2002, the proxy was similarly developed.

Note: Input cells are indicated with a green shade.

Utility Name: *(Enter the full name of the corporation)*

File Number: *(Enter the assigned RP and EB file numbers)*

Reporting Period: *(Enter the start and end date of the reporting period. Indicate if the reporting period is not a full year. e.g. January 1, 2005 – December 31, 2005)*

Days in Reporting Period: *(Enter the number of days in the reporting period)*

Background

1. Are the Capital Tax & Large Corporations Tax Exemptions shared among the corporate group?

Enter Yes or No into cell C12

2. Please identify the percentage used to allocate the exemption.

*Enter the percentage into cell C14 (e.g. 90, **not** 0.90)*

3. Please explain the basis of the allocation if the percentage is other than 100%.

Enter your response into cell C16

4. Accounting year end

Enter date into cell C18.

Rate base (wires-only)

Enter the amount as in cell B31 of Sheet #7 – MARR (No Tax) calculations of the 2001 RUD model spreadsheets. If the Board approved changes, please provide a copy of the Board’s Decision and Order.

Common Equity Ratio (CER)

Enter the percentage per cell B33 from sheet #7 – MARR (No Tax) calculation of the 2001 RUD model spreadsheets. The CER is determined based on the size of the utility’s rate base. You can refer to Table 3-1 of the Electricity Distribution Rate Handbook for further details.

Target Return on Equity

Enter the percentage per Cell B34 from sheet # 7- MARR (No tax) calculations of the 2001 RUD model spreadsheets. Please note the Board specifies the rate of return. A utility is only allowed to select a rate of return up to the Board specified rate of return. Refer to Table 3-1 of the Electricity Distribution Rate Handbook for further details. If the Board approved changes, please provide a copy of the Board’s Decision and Order. Changes requested to fund C&DM projects will require Board approval. Publication of notice will likely be required.

Debt rate

Enter the percentage per Cell B37 from sheet # 7- MARR (No tax) calculations of the 2001 RUD model spreadsheets. The debt rate is determined based on the size of the utility’s rate base. Utilities are only allowed to select a debt rate below or equal to the deemed debt rate determined by the Board. Refer to Table 3-1 of the Electricity Distribution Rate Handbook for further details. If the Board approved changes, please provide a copy of the Board’s Decision and Order.

Market Adjusted Revenue Requirement (MARR) excluding PILs

The SIMPIL model automatically calculates the MARR based on the following formula:

$$\text{MARR} = \text{Rate Base} \times [(\text{CER} \times \text{Target ROE}) + \{(1 - \text{CER}) \times \text{DR}\}]$$

If the calculated MARR value is different from that used in the 2001 RUD Model, submit evidence for the variance. If the Board approved changes, please provide a copy of the Board's Decision and Order.

1999 return from RUD Sheet # 7

Enter the amount per Cell B46 from sheet # 7 - MARR (No tax) calculations of the 2001 RUD Model spreadsheets. A LDC that incurred a loss in the 1999 Return calculation (based on the 1999 financial statements) has a floor value of zero for purposes of the incremental revenue phased-in. The 1999 return amount is net income before interest expense, extraordinary items and income, federal Large Corporation Tax, and Ontario Capital Taxes that pertain to the wires-only operation. If the Board approved changes, please provide a copy of the Board's Decision and Order.

Total Incremental revenue

No entry is required as the program calculates the amount automatically.
(MARR less the 1999 return)

Amount allowed in 2001, 2002 and 2003 (Cell C41, C42, C43)

The amount represents the additional revenue a utility can recover for each fiscal year to move to the target return. The incremental revenue is phased in according to the Board decision for the utility. As a result of the Board's Decision on RP-2000-0069, the incremental revenue can be phased-in evenly over three rate adjustment periods.

Board-Approved Amounts (Cell E41, E42, E43)

If applicable, enter the adjusted, Board-approved, incremental revenue amounts allowed for 2001, 2002, and 2005. If the Board approved changes, please provide a copy of the Board's Decision and Order.

Permanent Changes to Base Rates (e.g. Late Payment Penalty 5% to 1.5%)

Enter any permanent changes to base rates that were previously approved by the Board. For instance, in establishing 2002 rates, many LDCs changed their late payment penalty from 5% to 1.5% and had their distribution revenues adjusted at that time. If the Board approved changes, please provide a copy of the Board's Decision and Order.

C&DM Capital Portion from "C&DM TAX FORECAST" worksheet

This cell will be entered automatically from "C&DM Tax Forecast" worksheet, cell C16. This represents the C&DM capital portion percentage of the 3rd tranche to be spent in 2005. Please refer to the worksheet and instructions.

Total Regulatory Income

No entry is required as the program calculates the amount automatically.

Equity

No entry is required as the program calculates the amount automatically.

(Rate base x CER)

Return at target ROE

No entry is required as the program calculates the amount automatically.

(Equity x Target return on equity).

Debt

No entry is required as the program calculates the amount automatically.

(Rate base x (1- CER))

Deemed interest amount

No entry is required as the program calculates the amount automatically.

(Debt x Debt rate)

How to complete the Proxy Calculation Column in the "TAXCALC" spreadsheet**Regulatory Income Tax**

On the TAXCALC spreadsheet only entries in the Proxy Calculation Column are required. Specifically, only shaded cells C20 (Depreciation & Amortization) and C32 (Capital Cost Allowance) on the TAXCALC spreadsheet are to be manually inserted. Cell C36 is automatically generated from the REGINFO worksheet. If you enter amounts into other line items, please provide adequate tax evidence to support your entries.

The information on this section follows the ITEM number located in column B.

Note: Deductions should be entered as positive numbers. The program will automatically deduct the amounts when generating totals.

Item 1 Regulatory Net Income

No entry is required as the cell is linked to cell E47 in the REGINFO spreadsheet.

Item 2 Depreciation & Amortization

Enter the book depreciation amount pertaining to the wires-only operation included in the 1999 Return. This amount should agree with the 2002 PILs application. If the amount is different, please provide a reconciliation and evidence to support the variance.

Item 7 Capital Cost Allowance

For 2002, CCA was determined using 1999 regulatory net book value of assets, statutory capital cost allowance rates and current tax asset class categories. The amount deducted should agree with the 2002 PILs application. If the amount is different, please provide a reconciliation and evidence to support the variance.

Item 11 Interest Expense

The deemed amount calculated on REGINFO will be inserted in this field.

Item 12 C&DM 2005 Incremental OM&A expenses per C&DM Plan

Insert the incremental OM&A expenses from the "Conservation and Demand Management Tax Forecast" worksheet.

Tax Rate Table (TAXRATES worksheet)

The deemed corporate income tax rate is based on the regulatory taxable income amount (cell C48), and automatically generated by the tax rate table located on the TAXRATES worksheet.

Capital Taxes**Ontario**

Rate base is the proxy for paid-up capital. The exemption for 2005 is \$7,500,000 unless shared.

Federal Large Corporation Tax

Rate base is the proxy for paid-up capital. The exemption for 2005 is \$50,000,000 unless shared. The LCT rate is 0.175%.

Inclusion in Rates

Cell C90: Total regulatory income tax from cell C58 is grossed up by dividing this amount by 1 less the tax rate in cell C88.

Cell C91: LCT is not deductible and is grossed up by dividing the amount in cell C84 by 1 less the tax rate in cell C88.

Cell C92: Ontario capital tax is deductible and no gross-up is needed.

The total amount for Item 25 in cell C95 should be entered in the 2005 RAM, Sheet #4, cell G14.

How to complete the “Conservation and Demand Management Tax Forecast” worksheet

In order to determine the proportion of the third tranche of MARR that should be eligible for a PILs proxy, the utility shall provide an estimate or forecast of expenditures, both capital and OM&A.

Please complete this worksheet and ensure that the “Total” Column agrees with the utility’s C&DM plan as filed/approved by the Board.

The information provided for 2005 will be used to determine the proportion of the third tranche of MARR eligible for PILs.

Please note that the capital forecast is the tax treatment (i.e. UCC addition), not the accounting fixed asset number, nor the capital commitment for capital budgeting.

Incremental OM&A expenses are deductible for tax purposes and should be shown in the table.

For More Information

Should a distributor have any questions or concerns regarding the 2005 PILs proxy calculation process, please contact Duncan Skinner, 416-440-8127, e-mail: Duncan.skinner@oeb.gov.on.ca

Appendix A: Glossary of Terms

Acronym	Term
CCA	Capital Cost Allowance
CER	Common Equity Ratio
CEC	Cumulative Eligible Capital
DR	Debt Rate
EBIT	Earnings Before Interest & Taxes
LDC	Local Distribution Company
MARR	Market Adjusted Revenue Requirement
PBR	Performance Based Regulation
PILs	Payments in Lieu of Taxes
RAM	Rates Adjustment Model
ROE	Return on Equity (MBRR) as a %
RUD	Rate Unbundling Model
UCC	Undepreciated Capital Cost