

**ONTARIO ENERGY BOARD  
SECTION 93 TAX PILs GROSS-UP  
Notes To Proxy Model (“SIMPIL”)  
Excel Worksheets  
December 21, 2001 (as revised January 18, 2002)**

**General Comments**

- 1) No Ontario corporate minimum tax is included (because, on a regulatory basis, utilities will generally be profitable and hence not subject to that tax).
- 2) For LDCs paying non-section 93 income and capital taxes, follow same general approach (with any adjustments necessary - for example, if different CCA rules apply, etc.).
- 3) For 2001, utilities will insert amounts in rates resulting from the process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001. If no application was made to the Board to establish a provision for taxes in rates, nothing (i.e. zero) is required as the default for 2001 in completing the column entitled “Initial Estimate” (Column C). In effect, 2001 regulatory tax (for inclusion in the annual rate adjustment for March 2002) will be calculated under column G.
- 4) The Board has determined which of the variances listed in the Ministry of Finance filing variance column (Column I) should be included in a “true up” to the deferral account. These variances are identified in the notes and on the worksheet entitled “TAXCALC”. The effective date of any true up of deferral account balances (and associated interest thereon) will be the proxy tax filing date with MoF (or CCRA, for a utility paying regular corporate income tax).
- 5A) As indicated in the Board’s letter of December 21,2001, the 2001 and 2002 PILs spreadsheets must be filed, along with the RAM material, by January 25, 2002.

## General Comments (continued)

- 5B) The Board will provide further details later regarding when to complete the Deferral Account Allowance and variance explanations (Columns G and F) for the 2002 tax year and following tax years. It is expected that such information will usually be filed no later than January for a December 31st year end - that is, the month immediately following year end.
- 6) The spreadsheet and footnotes contemplated a December 31st fiscal / taxation year-end. While staff have attempted to keep the wording of footnotes general as to dates, modifications may have to be made for other year-ends. Utilities should contact Board staff to discuss particulars.
- 7) To properly complete tax calculations commencing in 2002 for the Deferral Account Allowance (Column G), utilities will need to monitor, on a timely basis, changes in tax legislation (such as tax rates, CCA rates, capital tax exemptions, etc.) The affect of any change should be prorated, as provided for in the government's legal instrument (i.e. Order in Council, regulation, etc.) enforcing the change. The utility may thus end up with blended actual rates.
- 8) The Board understands that when filing their s. 93 proxy tax returns with the province, LDCs will submit an Ontario corporate tax return using the Ontario tax rules, and a federal income tax return using the federal rules. In some cases, there may be differences between the two sets of rules. These should be noted and explained in the variance analysis to be provided.
- 9) The Board will apply the materiality guideline established in the Board's Electricity Distribution Rate Handbook,  $0.0025 \times \text{net assets}$ . Alternatively, the utility may use a rate base criteria by multiplying  $0.0025 \times (\text{utility's common equity ratio} \times \text{rate base})$  - as per the Rate Handbook definitions. These materiality guidelines will apply to the "Other Additions" and "Other Deductions" adjustments to taxable income, in order to identify items that should be provided for separately.
- 10) Future taxes, or deferred taxes, will not be considered in the regulatory approach to PILs proxy tax calculations. This position is consistent with that used in natural gas regulation in Ontario.

## General Comments (continued)

- 11) In general, Board-approved amounts, phase-in periods, etc. from the utility's 2001 rate unbundling application should be used. For example, if the Board approved any special adjustment to income, then that Board-approved amount should be used.
  
- 12) Please note that the interest true-up calculation is set out in Section V ("Interest Portion of True-up") of Form TAXCALC. If a utility re-capitalizes early, the model will now not impose any clawback. However, a utility should carefully consider its position if it capitalizes beyond the Board-approved deemed debt.

## Instructions For Completing PILs Worksheets

- 1 Print a copy of the final RUD model (submitted for rate unbundling) sheet #7, entitled “**MARR (NO TAX) CALCULATIONS**”. This worksheet contains data for Rate Base, MARR, 1999 Return, etc. that were used to generate the final unbundled rate schedule.
- 2 There are three worksheets contained in an Excel file entitled “PILs Proxy Model”. The sheets are entitled: “REGINFO, TAXCALC and TAXREC”. This Excel file is available on the Board’s website ([www.oeb.gov.on.ca](http://www.oeb.gov.on.ca)) under “What’s New?”.
- 3 Complete worksheet “**REGINFO**” using the information from the MARR calculations noted above, and the Board-approved phase-in period for your utility. A LDC which 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. MARR is phased in according to the Board decision for the utility. A LDC with a positive 1999 Return will have incremental revenue less than MARR.

Deemed interest calculated as – Rate Base x (1-CER) x Debt Rate – will be phased in consistent with the phasing in of MARR/ incremental revenue. Implicit in the rates are an equity component (Rate Base x CER x ROE) and the interest component. This interest component becomes one of several deductions used in determining taxable income to calculate the PILs proxy amount. **That is, it is included in the MARR income amount, and is a deduction in computing taxable income.**

By way of illustration:

Example 1: No 1999 Return, MARR phased in over three years. The interest component in MARR is phased in equally over three years and this amount will be deducted in the tax calculation.

Example 2: A 1999 Return exists, and is deducted from MARR to produce the incremental revenue amount phased in over three years. For 2002 the interest amount would be calculated as: (1999 Return + first third of incremental revenue phased-in + second third of incremental revenue) divided by MARR multiplied by the total deemed interest amount.

## Instructions For Completing PILs Worksheets

Example 3: The LDC will only increase rates at market opening, May 1, 2002. There is a 1999 Return and incremental revenue. Two years remain in 1<sup>st</sup> generation PBR Generation. Rates will be increased by 50% of MARR. The interest deduction would be 50% of the total deemed interest amount.

- 4 The person in your utility responsible for the actual PILs instalment calculations should be consulted. The data required for the calculation of PILs instalment payments are similar to those necessary for completion of the PILs Proxy worksheets. For example, CCRA (Canada Customs and Revenue Agency) Schedule 8 will have to be completed to derive the CCA (Capital Cost Allowance) numbers for the PILs Proxies for 2001 fourth quarter and 2002 whole year. The fixed asset net book values, which were included in the calculation of Rate Base, are the deemed tax values for purposes of computing CCA for present purposes.
- 5 There will be a PILs estimate for the fourth quarter, 2001 **and** for the whole year 2002. **Two worksheets (entitled TAXCALC) will be necessary.** The blank worksheets are contained in the Excel file "PILs Proxy Model", which you will download from the Board's website.
- 6 Suggested names for the worksheets are:

Fourth quarter 2001 Estimate (TAXCALC)	TCALQ401EST
Whole year 2002 Proxy (TAXCALC)	TCAL2002INI

You may label the worksheets whatever appropriate names are meaningful to your business.

- 7 Most utilities, for the fourth quarter 2001 Proxy estimate (TCALQ401EST), will complete **ONLY COLUMN "G"** entitled "**DEFERRAL ACCOUNT ALLOWANCE**". This applies to those utilities that **did not** file a PILs application with the Board according to the Board letter dated September 17, 2001.

For the whole year 2002 Proxy (TCAL2002INI) complete **ONLY COLUMN "C"** entitled "**INITIAL ESTIMATE**".

## Instructions For Completing PILs Worksheets

- 8 The 1999 Return is net income before interest expense, extraordinary items and income taxes. Section 93 PILs became effective October 1, 2001. Therefore, no federal Large Corporation Tax ("LCT") or Ontario capital tax is applied before this date. In the worksheets, "TAXCALC" and "TAXREC", book income is referred to as Earnings Before Interest and Income Taxes, or "EBIT". Interest expense, as calculated above, is deducted **after** EBIT to determine taxable income.
- 9 LDCs began making PILs instalments in October 2001. These include LCT, Ontario capital tax and income taxes. In the worksheets, LCT and Ontario capital tax will be an expense only in the Ministry of Finance (MoF) filing column in "TAXCALC", since these taxes were not incurred in the 1999 financial statements (the basis for the regulatory calculations). The LCT add-back will generally occur only in the MoF filing column. When the LDC completes the MoF column input, they will be using the **actual numbers from the MoF tax returns filed** by June 30, 2002 for the fourth quarter 2001 and by June 30, 2003 for the whole year 2002. Form "TAXREC" will be used to input the details from the tax returns filed and to eliminate any non-wires amounts. This form is linked to the form "TAXCALC" and the wires-only tax data will be carried forward to MoF column "K" on "TAXCALC".

Form "TAXREC" requires some of the financial data from the unconsolidated financial statements filed with the tax returns. The input is simple and will take very little time. The categories from the LDC's actual unconsolidated income statement should be used, not those appearing on "TAXREC". Former MEU income statements provided the details for "TAXREC" and the "new" LDC income statement formats were not available. The details from the tax return schedules should be entered in "TAXREC" in the first column. Non-wires eliminations will be input in the second column. Eliminations, for example, should be entered as negative numbers to reduce a positive number in the first column. The amounts in the third column carry forward to the MoF column "K" in "TAXCALC".

- 10 The utility's revenue requirement will be increased to allow for the pass-through of PILs, as outlined in the Electricity Distribution Rate Handbook and in Board correspondence. The tax amounts (at the bottom of the worksheet in the section entitled "INCLUSION IN RATES MARCH 2002") that are derived from the two worksheets (TCALQ401EST and TCAL2002INI) will be inserted into the Annual Rate Adjustment Model ("RAM") which is available from the Board's Rates Web site. Income taxes (see footnote #24) and Large Corporation Tax (see footnote #25) will be grossed up for the income taxes which will be applied to these amounts by the Ministry of Finance. Ontario capital tax will not be grossed up since this tax is deductible for tax purposes in computing income tax.

**FOOTNOTES (Instructions)**

The instructions will cross-reference some terms from the RUD model filed by utilities in support of their unbundling applications (also see Tab REGINFO). For example:

*MARR minus 1999 Return = change in revenue required ["incremental revenue to be phased in"].* In the Rate Handbook, s 3.1, it states that, "...any incremental revenue necessary to move the utility to its desired level of return within the Board's specified market return level, exclusive of payments-in-lieu of taxes 'PILs', will have to be phased-in evenly over three rate adjustment periods". Sections 4.13 (2), (3) also refer to the calculation of the incremental revenue and the allocation of one-third of this difference to rates. The 1999 Return (Cell B46 of Sheet 7) consisted of 1999 net income before financial expenses and extraordinary items, less non-wires revenues and expenses and any other Board-approved adjustments. The net income came from the 1999 audited financial statements.

<b>CORPORATE INCOME TAXES</b>		
ACCOUNTING INCOME		
Footnote 1: Regulatory Net Income: Earnings Before Interest and Income Taxes (EBIT) <b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>		
1A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	1999 Return + prior year incremental revenue to be phased in + current year incremental revenue to be phased in.
1B	2001	1/4 of (1999 Return + first year incremental revenue to be phased in).
	2002+	1999 Return + prior year incremental revenue to be phased in + current year incremental revenue to be phased in.
1C	2001	Earnings Before Interest and Income Taxes (EBIT) based on the MoF filing. Any non-wires revenue and expenses included in earnings before interest and taxes should be removed from net income reported in year end tax submission to MoF. (See Tab in PILs Spreadsheet entitled "TAXREC".)

	2002+	Earnings Before Interest and Income Taxes (EBIT) based on the MoF filing. Any non-wires revenue and expenses included in earnings before interest and taxes (EBIT) should be removed from net income reported in MoF year end tax submission. (See Tab in PILs Spreadsheet entitled "TAXREC".)
<b>BOOK TO TAX ADJUSTMENTS</b>		
ADDITIONS To Accounting Income		
Footnote 2: Depreciation and Amortization		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
2A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Book depreciation included in the 1999 Return (RUD Model, Sheet 7, B46).
2B	2001	1/4 of book depreciation included in the 1999 Return (RUD Model, Sheet 7, B46).
	2002+	Book depreciation included in the 1999 Return (RUD Model, Sheet 7, B46).
2C	2001	Actual (reflecting fair market value) depreciation and amortization recorded in the financial statements and reported to the MoF. Any non-wires expenses should be removed from depreciation and amortization reported in the MoF year end tax submission. (See Tab in PILs Spreadsheet entitled "TAXREC".)
	2002+	Actual (reflecting fair market value) depreciation and amortization recorded in the financial statements and reported to the MoF. Any non-wires expenses should be removed from depreciation and amortization reported in the MoF year end tax submission. (See Tab in PILs Spreadsheet entitled "TAXREC".)
Footnote 3: Federal Large Corporation Tax (LCT)		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
3A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	No amount will be entered unless a provision for Large Corporation Tax has been included in the Regulatory Net Income amount (footnote 1A above).
3B	2001	No amount will be entered unless a provision for Large Corporation Tax has been included in the Regulatory Net Income amount (footnote 1A above).

	2002+	No amount will be entered unless a provision for Large Corporation Tax has been included in the Regulatory Net Income amount (footnote 1B above).
3C	2001	Actual (reflecting fair market values) Large Corporation Tax recorded in the financial statements and reported to the MoF (generally filed in the June 2002 return for a December 31 year end). Any non-wires amounts included in the determination of paid-up capital should be removed from the paid up capital amount reported in MoF year end tax submission. (See Tab in PILs Spreadsheet entitled "TAXREC".)
	2002+	Actual (reflecting fair market values) Large Corporation Tax recorded in the financial statements and reported to the MoF (generally filed the following June for a December 31 year end). Any non-wires amounts included in the determination of paid-up capital should be removed from the paid up capital amount reported in MoF year end tax submission. (See Tab in PILs Spreadsheet entitled "TAXREC".)
Footnote 4: Employee Benefit Plans - Accrued, Not Paid (Includes Other Post Employment Benefits) <b>TRUE UP WILL APPLY AS OF TAX FILING DATE</b>		
4A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Deferral Account Allowance provision annualized (i.e. multiply by 4 if 2001 is a 3 month tax year ending December) for the previous year (if available), otherwise use the most recent annualized MoF filing for the year ended two years prior to the current year. For example, the 2003 rate provision would be the 2002 Deferral Account Allowance (footnote 3B, 2002+ below) or, if this information was not available, it would be the annualized (multiply by 4 if 2001 is a 3 month tax year ending December) 2001 MoF filing (footnote 4C, 2001 below).
4B	2001	1/4 of any amounts included in the 1999 Return amount.
	2002+	Most recent MoF filing for the year ended prior to the current year. For example, the 2002 Deferral Account Allowance would be the annualized (generally multiply by 4 as 2001 is 3 month tax year) amount filed with the MoF (footnote 4C, 2001 below). Note: the MoF filing will generally be made by June 30, for a December 31 year end.

4C	2001	Actual Employee Benefit Plans and Other Post Employment benefits accrued and reported to MoF within 6 months of the end of the utilities' taxation year end. Note: the MoF filing will generally be made by June 30, 2002 for a December 31 year end.
	2002+	Actual Employee Benefit Plans and Other Post Employment benefits accrued and reported to MoF within 6 months of the end of the utilities' taxation year end. Note: the MoF filing will generally be made by June 30 of the following year for a December 31 year end.
Footnote 5: CHANGE IN TAX RESERVES		<b>TRUE UP WILL APPLY AS OF TAX FILING DATE</b>
5A	2001	No rate provision is made for this item.
	2002+	No rate provision is made for this item.
5B	2001	Any tax reserves recorded for 2001 will result in a negative entry (expense) as tax reserves did not exist prior to 2001 for most utilities. Reserve for doubtful accounts and inventory reserves will be allowed.
	2002+	A negative entry shall reflect an increase in the net tax reserve liability (current year reserve less prior year reserve). A positive entry will reflect a decrease. Use the most recent MoF filing for the year ended prior to the current year. Reserve for doubtful accounts and inventory reserves will be allowed.
5C	2001	Increases in net tax reserves liability (current year less prior year) reported to MoF within six months of end of the utility's taxation year end are negative entries (expense). Net tax reserves decreases will be positive entries. Reserve for doubtful accounts and inventory reserves will be allowed.
	2002+	Increases in net tax reserves liability (current year less prior year) reported to MoF within six months of end of the utility's taxation year end are negative entries (expense). Net tax reserves decreases will be positive entries. Reserve for doubtful accounts and inventory reserves will be allowed.
Footnote 6: Regulatory Adjustments		<b>TRUE UP WILL APPLY AS OF TAX FILING DATE</b>

6A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Transitional items and Z-factor costs included in the RA Model will be added here.
6B	2001	(Transitional items and Z-factor costs will likely not be included here).
	2002+	Transitional items and Z-factor costs will be included.
6C	2001	Transitional items and Z-factor costs will be included.
	2002+	Transitional items and Z-factor costs will be included.
Footnote 7: Other Additions (See Tab in PILs Spreadsheet entitled "TAXREC") <b>NO TRUE UP WILL APPLY TO THIS CATEGORY, UNLESS MATERIAL</b>		
7A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Amount will generally be zero as the most significant variances (or variances necessary to establish a regulatory tax provision) were captured in previous additions to Regulatory Net Income (footnotes 2 to 6 above). The additions listed in footnotes 2 to 6 are consistent with the categories of additions reported in supporting the tax provision in rates for Ontario's natural gas utilities under a cost of service based regulatory regime. This line item enables a utility to include other additions into rates which are material. Any interest amount that was not removed in determining the 1999 Return should be included here. Refer to Tab in PILs Spreadsheet entitled "TAXREC" to determine if there are material amounts that should be entered. A separate line item should be added to describe a material variance, as the "Other" line item will be required to reconcile to the utility's MoF filing.

7B	2001	<p>Amount will generally be zero as the most significant variances (or variances necessary to establish a regulatory tax provision) were captured in previous additions to Regulatory Net Income (footnotes 2 to 6 above). The additions listed in footnotes 2 to 6 are consistent with the categories of additions reported in supporting the tax provision in rates for Ontario's natural gas utilities under a cost of service based regulatory regime. This line item enables a utility to include other additions in its deferral account entry which are material. Any interest amount that was not removed in determining the 1999 Return should be included here. Refer to Tab in PILs Spreadsheet entitled "TAXREC" to determine if there are material amounts that should be entered when preparing deferral account entries. If a category was added in developing the provision, it must be included when performing the deferral account entry. A separate line item should be added to describe a material variance, as the "Other" line item will be required to reconcile to the utility's MoF filing.</p>
	2002+	<p>Amount will generally be zero as the most significant variances (or variances necessary to establish a regulatory tax provision) were captured in previous additions to Regulatory Net Income (footnotes 2 to 6 above). The additions listed in footnotes 2 to 6 are consistent with the categories of additions reported in supporting the tax provision in rates for Ontario's natural gas utilities under a cost of service based regulatory regime. This line item enables a utility to include other additions in its deferral account entry which are material. Any interest amount that was not removed in determining the 1999 Return should be included here. Refer to Tab in PILs Spreadsheet entitled "TAXREC" to determine if there are material amounts that should be entered when preparing deferral account entries. If a category was added in developing the provision, it must be included when performing the deferral account entry. A separate line item should be added to describe a material variance, as the "Other" line item will be required to reconcile to the utility's MoF filing.</p>
7C	2001	<p>Amount will be the total of the detailed additions entered under Tab in PILs Spreadsheet entitled "TAXREC", less any specific categories of material additions included in the Deferral Account Allowance. Specific material additions established in submitting the Deferral Account Allowance should be listed separately. Refer to general comment (9) on materiality (above).</p>

	2002+	Amount will be the total of the detailed additions entered under Tab in PILs Spreadsheet entitled "TAXREC", less any specific categories of material additions included in the Initial Estimate and Deferral Account Allowance columns. Specific material additions established in submitting the Deferral Account Allowance should be listed separately. Refer to general comment (9) on materiality (above).
DEDUCTIONS From Accounting Income		
Footnote 8: Capital Cost Allowance		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
8A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	CCA determined using 1999 regulatory net book value of assets, statutory capital cost allowance rates and current tax asset class categories. Deemed CCA should be calculated as regulatory net book value of assets less CCA claimed in prior periods times capital cost allowance rate. A Federal and Ontario Schedule 8 should be submitted using 1999 regulatory net book values (not FMV as used in the MoF filing).
8B	2001	CCA determined using 1999 regulatory net book value of assets, statutory capital cost allowance rates and current tax asset class categories for 2001. The 1/2 year rule should apply, since it is the current MoF position. Prorate by 1/4 for the quarter. A Federal and Ontario Schedule 8 should be submitted using 1999 regulatory net book values (not FMV as used in the MoF filing).
	2002+	CCA determined using 1999 regulatory net book value of assets, statutory capital cost allowance rates and current tax asset class categories for the current year. A Federal and Ontario Schedule 8 should be submitted using 1999 regulatory net book values (not FMV as used in the MoF filing).
8C	2001	CCA as reported on the Federal and Ontario Schedule 8 filed with the MoF. These Schedule 8 forms should also be submitted to the Board.
	2002+	CCA as reported on the Federal and Ontario Schedule 8 filed with the MoF. These Schedule 8 forms should also be submitted to the Board.
Footnote 9: Employee Benefit Plans - Paid Amounts (Includes Other Post Employment Benefits)		<b>TRUE UP WILL APPLY AS OF TAX FILING DATE</b>

9A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Deferral Account Allowance provision annualized (i.e. multiply by 4 if 2001 is a 3 month tax year ending December) for the previous year (if available), otherwise use the most recent annualized MoF filing for the year ended two years prior to the current year. For example, the 2003 rate provision would be the 2002 Deferral Account Allowance (footnote 9B, 2002+ below) or, if this information was not available, it would be the annualized (multiply by 4 if 2001 is a 3 month tax year ending December) 2001 MoF filing (footnote 9C, 2001 below).
9B	2001	1/4 of any amounts included in the 1999 Return.
	2002+	Most recent MoF filing for the year ended prior to the current year. For example, the 2002 Deferral Account Allowance would be the annualized (generally multiply by 4 as 2001 is 3 month tax year) amount filed with the MoF (footnote 9C, 2001 below). Note: the MoF filing will generally be made by June 30, for a December 31 year end.
9C	2001	Actual Employee Benefit Plans and Other Post Employment benefits amounts paid and reported to MoF within 6 months of the end of the utility's taxation year end. Note: the MoF filing will generally be made by June 30, 2002 for a December 31 year end.
	2002+	Actual Employee Benefit Plans and Other Post Employment benefits amounts paid and reported to MoF within 6 months of the end of the utility's taxation year end. Note: the MoF filing will generally be made by June 30 of the following year for a December 31 year end.
Footnote 10: Items Capitalized for Regulatory Purposes		<b>TRUE UP WILL APPLY AS OF TAX FILING DATE</b>
10A	2001	This category appears in gas regulation and may apply to LDCs at a future date.
	2002+	This category appears in gas regulation and may apply to LDCs at a future date.
10B	2001	This category appears in gas regulation and may apply to LDCs at a future date.
	2002+	This category appears in gas regulation and may apply to LDCs at a future date.
10C	2001	This category appears in gas regulation and may apply to LDCs at a future date.

	2002+	This category appears in gas regulation and may apply to LDCs at a future date.
Footnote 11: Regulatory Adjustments		<b>TRUE UP WILL APPLY AS OF TAX FILING DATE</b>
11A	2001	This category appears in gas regulation and may apply to LDCs at a future date in various ways. For example, transitional items and Z-factor costs will be allowed in this category.
	2002+	Items added to Line 6 may have a tax deduction applicable. Enter the tax deduction amount here.
11B	2001	This category appears in gas regulation and may apply to LDCs at a future date.
	2002+	This category appears in gas regulation and may apply to LDCs at a future date.
11C	2001	This category appears in gas regulation and may apply to LDCs at a future date.
	2002+	This category appears in gas regulation and may apply to LDCs at a future date.
Footnote 12: Interest Expense Allowed		<b>TRUE UP FOR EXCESS INTEREST WILL APPLY AS OF TAX FILING DATE</b>
12A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Reflects the deemed interest portion of the MARR included in Regulatory Net Income for the year. $1999 \text{ Rate Base} \times (1 - \text{Common Equity Ratio}) \times \text{deemed debt rate} \times \text{accumulated phase-in percentage} (1999 \text{ EBIT} + \text{incremental revenue associated with MARR divided by MARR})$ .
12B	2001	Reflects the deemed interest portion of the MARR included in Regulatory Net Income for the year. $1999 \text{ Rate Base} \times (1 - \text{Common Equity Ratio}) \times \text{deemed debt rate} \times \text{accumulated phase-in percentage} (1999 \text{ EBIT} + \text{incremental revenue associated with MARR divided by MARR})$ . Prorate by 1/4 for Q4, 2001.
	2002+	Reflects the deemed interest portion of the MARR included in Regulatory Net Income for the year. $1999 \text{ Rate Base} \times (1 - \text{Common Equity Ratio}) \times \text{deemed debt rate} \times \text{accumulated phase-in percentage} (1999 \text{ EBIT} + \text{incremental revenue associated with MARR divided by MARR})$ .
12C	2001	Enter actual amount of interest expensed in MoF filing.

	2002+	Enter actual interest amount expensed in the MoF filing.
Footnote 13: Other Deductions (See Tab in PILs Spreadsheet entitled "TAXREC") <b>NO TRUE UP WILL APPLY TO THIS CATEGORY, UNLESS MATERIAL</b>		
13A	2001	1/4 of any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Amount will generally be zero as the most significant variances (or variances necessary to establish a regulatory tax provision) were captured in previous deductions from Regulatory Net Income (footnotes 8 to 13 above). The deductions listed in footnotes 8 to 13 are consistent with the categories of deductions reported in supporting the tax provision in rates for Ontario's natural gas utilities under a cost of service based regulatory regime. This line item enables a utility to include other deductions into rates which are material. Refer to Tab in PILs Spreadsheet entitled "TAXREC" to determine if there are material amounts that should be entered. A separate line item should be added to describe a material variance, as the "Other" line item will be required to reconcile to the utility's MoF filing.
13B	2001	Amount will generally be zero as the most significant variances (or variances necessary to establish a regulatory tax provision) were captured in previous deductions from Regulatory Net Income (footnotes 8 to 13 above). The deductions listed in footnotes 8 to 13 are consistent with the categories of deductions reported in supporting the tax provision in rates for Ontario's natural gas utilities under a cost of service based regulatory regime. This line item enables a utility to include other deductions in its deferral account entry which are material. Refer to Tab in PILs Spreadsheet entitled "TAXREC" to determine if there are material amounts that should be entered when preparing deferral account entries. If a category was added in developing the provision, it must be included when performing the deferral account entry. A separate line item should be added to describe a material variance, as the "Other" line item will be required to reconcile to the utility's MoF filing.

	2002+	Amount will generally be zero as the most significant variances (or variances necessary to establish a regulatory tax provision) were captured in previous deductions from Regulatory Net Income (footnotes 8 to 13 above). The additions listed in footnotes 8 to 13 are consistent with the categories of deductions reported in supporting the tax provision in rates for Ontario's natural gas utilities under a cost of service based regulatory regime. This line item enables a utility to include other deductions in its deferral account entry which are material. Refer to Tab in PILs Spreadsheet entitled "TAXREC" to determine if there are material amounts that should be entered when preparing deferral account entries. If a category was added in developing the provision, it must be included when performing the deferral account entry. A separate line item should be added to describe a material variance, as the "Other" line item will be required to reconcile to the utility's MoF filing.
13C	2001	Amount will be the total of the detailed deductions entered under Tab in PILs Spreadsheet entitled "TAXREC", less any specific categories of material deductions included in the Deferral Account Allowance. Specific material deductions established in submitting the Deferral Account Allowance should be listed separately. Refer to general comment (9) on materiality (above).
	2002+	Amount will be the total of the detailed additions entered under Tab in PILs Spreadsheet entitled "TAXREC", less any specific categories of material deductions included in the Deferral Account Allowance. Specific material deductions established in submitting the Deferral Account Allowance should be listed separately. Refer to general comment (9) on materiality (above).
REGULATORY TAXABLE INCOME = Spreadsheet calculation summing amounts listed in the above footnotes		
Footnote 14: Corporate Income Tax Rate		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
14A	2001	Any amounts included in the 1999 Return amount included in the tax provision resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	For 2002, for taxable income over \$700,000 use 38.62%; 19.12% for taxable income under \$200,000; and 34.12% for taxable income in between. Note: Above reflects decreases in corporate tax rates that are presently scheduled to occur in 2002, and also approximates the small business rate clawback.

14B	2001	For Q4 2001: If regulatory taxable income (line 40) exceeds 1/4 of \$700,000, use 40.62%; if it is less than or equal to 1/4 of \$200,000, use 19.12%; if it is in between these, use 34.12%. (Note: above incorporates new lower Ontario rates effective Oct 1, 2001; also above provides approximation of the small business rate clawback.)
	2002+	If rates change during 2002, the utility should average old and new rates to arrive at the proper blended rate for the year. The rate shall reflect the average weighted for the number of days in the respective periods of the tax year - e.g. $(270/365 \times 38.62\%) + (95/365 \times \text{new rate})$ .
14C	2001	LDC will calculate the actual average statutory tax rate applicable to its size business for the tax year (based on Ontario rate, Federal rate, Federal surtax, Ontario and Federal small business deduction, small business reduction clawback, etc.). Note: if rates change in the tax year, the LDC must calculate its blended rate. Please attach supporting calculations.
	2002+	LDC will calculate the actual average statutory tax rate applicable to its size business for the 2002+ tax year (based on Ontario rate, Federal rate, Federal surtax, Ontario and Federal small business deduction, small business reduction clawback, etc.). Note: if rates change in the tax year, the LDC must calculate its blended rate. Please attach supporting calculations.
REGULATORY INCOME TAX – Spreadsheet calculation = REGULATORY TAXABLE INCOME x Corporate Income Tax Rate		
Footnote 15: Miscellaneous Tax Credits		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
15A	2001	n/a
	2002+	Not applicable. In effect, miscellaneous tax credits, such as Investment Tax Credits, will be ignored at this stage.
15B	2001	Not applicable. In effect, miscellaneous tax credits, such as Investment Tax Credits, will be ignored at this stage.
	2002+	Not applicable. In effect, miscellaneous tax credits, such as Investment Tax Credits, will be ignored at this stage.

15C	2001	Reduce for amount of miscellaneous tax credits (such as ITCs) claimed in 2001 filing with MoF. (Note any reduction in the basic corporate tax rates that technically takes the form of a credit should be accounted for in the 14C 2001 statutory tax rate calculation.) Note: no loss carry-forwards will be recognized, nor any crediting of corporate minimum tax against regular income tax. Therefore do not include these in the 15C calculation.
	2002+	Reduce for amount of any miscellaneous tax credits (such as ITCs) claimed in filing with MoF. (Note any reduction in the basic corporate tax rates that technically takes the form of a credit should be accounted for in the 14C 2002+ statutory tax rate calculation.) Note: no loss carry-forwards will be recognized, nor any crediting of corporate minimum tax against regular income tax. Therefore do not include these in the 15C calculation.
TOTAL REGULATORY INCOME TAX – Spreadsheet calculation = REGULATORY INCOME TAX +/- Miscellaneous Tax Credits		
<b>ONTARIO CAPITAL TAX</b>		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
Footnote 16: Capital Tax Base		
16A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.
16B	2001	Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.
	2002+	Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.
16C	2001	Use actual Ontario taxable capital from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
	2002+	Use actual Ontario taxable capital from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)

Footnote 17: Exemption		
17A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Deemed as the full amount of exemption (\$5,000,000 Ontario deduction as of Oct 1, 2001) to the regulated utility. If the taxable capital of the wires-only portion of the regulated utility is less than 90% of the taxable capital of the regulated corporate entity, then allocate to the wires-only activities of the regulated utility the portion of the exemption equal to its proportion of the total taxable capital of the regulated corporate entity. Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.
17B	2001	Deemed as the full amount of exemption (\$5,000,000 Ontario deduction as of Oct 1, 2001) to the regulated utility. If the taxable capital of the wires-only portion of the regulated utility is less than 90% of the taxable capital of the regulated corporate entity, then allocate to wires-only activities of the regulated utility the portion of the exemption equal to its proportion of the total taxable capital of the regulated corporate entity. Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.
	2002+	Deemed as the full amount of exemption (\$5,000,000 Ontario deduction as of Oct 1, 2001) to the regulated utility. If the taxable capital of the wires-only portion of the regulated utility is less than 90% of the taxable capital of the regulated corporate entity, then allocate to the wires-only activities of the regulated utility the portion of the exemption equal to its proportion of the total taxable capital of the regulated corporate entity. Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.
17C	2001	Use actual Ontario capital tax exemption (deduction) from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC"). Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.
	2002+	Use actual Ontario capital tax exemption (deduction) from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC"). Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.

DEEMED TAXABLE CAPITAL Spreadsheet calculation= Capital Tax Base - Exemption		
Footnote 18: Tax Rate		
18A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	For 2002, use 0.003 (current actual rate). Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current Ontario rate is always used at time of calculation.
18B	2001	For Q4 2001, use 0.003 (current actual rate).
	2002+	For 2002, use 0.003 (current actual rate). Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current Ontario rate is always used at time of calculation.
18C	2001	Use actual Ontario rate from actual tax return and provide supporting details as requested. (See Tab entitled "TAXREC".) Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current Ontario rate is always used at time of calculation.
	2002+	Use actual Ontario rate from actual tax return and provide supporting details as requested. (See Tab entitled "TAXREC".) Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current Ontario rate is always used at time of calculation.
ONTARIO CAPITAL TAX Spreadsheet calculation = DEEMED TAXABLE CAPITAL x Tax Rate (Prorate 1/4 for 2001 Q4)		
<b>FEDERAL LARGE CORPORATION TAX (LCT)</b>		<b>NO TRUE UP WILL APPLY TO THIS CATEGORY</b>
Footnote 19: Capital Tax Base		
19A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.

19B	2001	Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.
	2002+	Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.
19C	2001	Use actual federal LCT taxable capital from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
	2002+	Use actual federal LCT taxable capital from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
Footnote 20: Exemption		
20A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Deemed as the full amount of federal exemption (\$10,000,000) to the regulated utility (wires-only operations). If the taxable capital of the wires-only portion of the regulated utility is less than 90% of the taxable capital of the regulated corporate entity, then allocate to the wires-only activities of the regulated utility the portion of the exemption equal to its proportion of the total taxable capital of the regulated corporate entity. Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.
20B	2001	Deemed as the full amount of federal exemption (\$10,000,000) to the regulated utility (wires-only operations). If taxable capital of the wires-only portion of the regulated utility is less than 90% of the taxable capital of the regulated corporate entity, then allocate to the wires-only activities of the regulated utility the portion of the exemption equal to its proportion of the total taxable capital of the regulated corporate entity. Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.

	2002+	Deemed as the full amount of federal exemption (\$10,000,000) to the regulated utility (wires-only operations). If taxable capital of the wires-only portion of the regulated utility is less than 90% of the taxable capital of the regulated corporate entity, then allocate to wires-only activities of the regulated utility the portion of the exemption equal to its proportion of the total taxable capital of the regulated corporate entity. Update amount of exemption if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required.
20C	2001	Use actual federal LCT exemption (deduction) from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
	2002+	Use actual federal LCT exemption (deduction) from actual tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
DEEMED TAXABLE CAPITAL Spreadsheet calculation = Capital Tax Base - Exemption		
Footnote 21: Tax Rate		
21A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	For 2002, use 0.00225 (current actual rate). Update tax rate if there are changes caused by a future Budget and prorate as indicated in the Budget.
21B	2001	For Q4 2001 use 0.00225 (current actual rate)
	2002+	For 2002, use 0.00225 (current actual rate). Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current LCT rate is always used at time of calculation.
21C	2001	Use actual federal LCT rate from actual tax return and provide supporting details as requested. (See Tab entitled "TAXREC".) Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current LCT rate is always used at time of calculation.

	2002+	Use actual federal LCT rate from actual tax return and provide supporting details as requested. (See Tab entitled "TAXREC".) Update tax rate if there are changes in legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current LCT rate is always used at time of calculation.
GROSS AMOUNT OF LCT Spreadsheet Calculation = DEEMED TAXABLE CAPITAL x Tax Rate (Prorate 1/4 for 2001 Q4)		
Footnote 22: Federal Surtax		
22A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Because federal surtax is subtracted from the amount of LCT due, subtract [taxable income x current surtax rate (0.0112)]. It is normally expressed as 4% of adjusted Part I tax. If surtax is greater than LCT, show zero. Update tax rate if there are changes in future Budgets or legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current surtax rate is always used at time of calculation.
22B	2001	Because federal surtax is subtracted from the amount of LCT due, subtract [taxable income x current surtax rate (0.0112)]. It is normally expressed as 4% of adjusted Part I tax. If surtax is greater than LCT, show zero. Update tax rate if there are changes in future Budgets or legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current surtax rate is always used at time of calculation.
	2002+	Because federal surtax is subtracted from the amount of LCT due, subtract [taxable income x current surtax rate (0.0112)]. It is normally expressed as 4% of adjusted Part I tax. If surtax is greater than LCT show zero. Update tax rate if there are changes in future Budgets or legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that current surtax rate is always used at time of calculation.
22C	2001	List actual surtax deducted as shown on the tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
	2002+	List actual surtax deducted as shown on the tax return and provide supporting details as requested, including any adjustments to remove the impact of non-wires amounts. (See Tab entitled "TAXREC".)
FEDERAL LARGE CORPORATION TAX Spreadsheet calculation = Gross Amount LCT - Federal Surtax		

Footnote 23: Income Tax (Grossed-Up)		
23A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Calculation = regulatory income tax / (1 - utility's deemed tax rate). If a utility is to pay an amount other than \$nil for federal Large Corporation Tax, the utility's deemed tax rate from footnote 15A should not include the 4% federal surtax (rate would therefore be from footnote 14A less 1.12%).
23B	2001	Calculation = regulatory income tax / (1 - utility's deemed tax rate). If a utility is to pay an amount other than \$nil for federal Large Corporation Tax, the utility's deemed tax rate from footnote 15A should not include the 4% federal surtax (rate would therefore be from footnote 14A less 1.12%).
	2002+	Calculation = regulatory income tax / (1 - utility's deemed tax rate). If a utility is to pay an amount other than \$nil for federal Large Corporation Tax, the utility's deemed tax rate from footnote 15A should not include the 4% federal surtax (rate would therefore be from footnote 14A less 1.12%). Update tax rate if there are changes in future Budgets or legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that the current income tax rate is always used at time of calculation.
Footnote 24: Large Corporation Tax (Grossed-Up)		
24A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	Calculation = net LCT / (1 - utility's deemed tax rate). If a utility is to pay an amount greater than \$nil for federal Large Corporation Tax, the utility's deemed tax rate from footnote 15A should not include the 4% federal surtax (rate would therefore be from footnote 14A less 1.12%).
24B	2001	Calculation = net LCT / (1 - utility's deemed tax rate). If a utility is to pay an amount greater than \$nil for federal Large Corporation Tax, the utility's deemed tax rate from footnote 15A should not include the 4% federal surtax (rate would therefore be from footnote 14A less 1.12%).

	2002+	Calculation = regulatory income tax / (1 - utility's deemed tax rate). If a utility is to pay an amount greater than \$nil for federal Large Corporation Tax, the utility's deemed tax rate from footnote 15A should not include the 4% federal surtax (rate would therefore be from footnote 14A less 1.12%). Update tax rate if there are changes in future Budgets or legislative instruments (e.g. Order in Council, regulation, etc.) and prorate as required so that the current income tax rate is always used at time of calculation.
Footnote 25: Ontario Capital Tax		
25A	2001	Insert any amounts included in rates resulting from process outlined in the Board's September 17, 2001 letter to utilities indicating guidelines for establishing an income tax provision in rates for 2001.
	2002+	No gross-up required, since deductible
25B	2001	No gross-up required, since deductible
	2002+	No gross-up required, since deductible
TOTAL S.93 PILs RATE ADJUSTMENT – Spreadsheet Calculation = Income Tax (Grossed-Up) + Federal Capital Tax (Grossed-Up) + Ontario Capital Tax		