

## **SECTION 93 PILs TAX GROSS-UP - “SIMPIL” MODEL Guide**

**The following guide replaces any previous instructions on PILs filings.** It applies to the PILs 2002 and subsequent taxation years for LDCs filing information under 2.1.8 of the RRR (Reporting and Record Keeping Requirement). Please note references made herein with respect to a particular taxation, 2001 initial estimate excepted, can be substituted for the current year subject to the filing. The first two pages provide a general overview of the sequence of PILs filings subsequent to passage of Bill 210. Pages 3 -19 are more detailed step-by-step instructions on how to fill in the revised SIMPIL model. The guide is structured in the same logical sequence as the “SIMPIL” spreadsheets would be completed.

The guide and PILs model modifications reflect non-policy adjustments, providing enhanced clarity, efficiency, and greater functionality. The SIMPIL model has also been tailored to eliminate duplicate entries by the user through the use of linkages. These changes were performed to reflect the experience of both the Board and LDCs in working with PILs and the SIMPIL model.

### **Before You Start**

#### **1<sup>st</sup> Generation PBR**

This guide provides information to aid in the completion of the SIMPIL spreadsheets (the Spreadsheets).

Acronyms are described in Appendix A: Glossary of Terms.

No Ontario corporate minimum tax is included since the Ontario corporate minimum tax can be used to offset future Ontario income tax. Also 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.

For LDCs paying non-section 93 income and capital taxes, please follow the same general approach. If an LDC elects to become a Not-for-Profit business entity, contact the Board staff at the Ontario Energy Board (OEB) before proceeding to enter information into the spreadsheets.

### **The PILs Filings Process**

For each reporting period, the Spreadsheets will have to be completed in stages. The Spreadsheets are to be completed in the following stages:

#### **Stage 1: Initial Estimate Column**

LDCs are required to complete the Initial Estimate (column C), of the TAXCALC spreadsheet and the REGINFO spreadsheet and submit the information to the Board as

part of the initial rates application for the period for which rates are being set, i.e., in January 2002 as part of the RAM application for the 2002 rate year.

For the July 31, 2003 filing of information filed pursuant to the Reporting and Recordkeeping Requirements (RRR's) for electricity licences, this column must be filled out using the 2002 initial estimate column data as approved by the board in establishing rates for the 2002 rate year. For example, if no adjustments were required as a result of the Board's decision on the utility's submission, the PILs rate submission filing data would be used.

## **Stage 2: Deferral Account Allowance**

The Deferral Account Allowance (column G) filing was provided to enable electricity distributors to reflect certain more straightforward impacts on the PILs amounts approved in the initial rate setting process (eg: a tax rate change) in the next rate setting process. The incorporation of these changes into rates therefore could be accomplished more quickly than other variances determined using the Ministry of Finance filing (see stages below).

Because of the rate setting limitations contained in Bill 210 the deferral account allowance column was not necessary this year. The columns remain (in place to maintain the previous column references) but the deferral account headings have been removed since only the initial estimate (column C) needs to be completed. Any amounts that were previously determined in the deferral account allowance filing are now captured in section IV b) under line 134 entitled Calculation of the Deferral Account Variance. Unless otherwise instructed, LDCs will file this information together with the Ministry of Finance filing discussed below.

## **Stage 3: Ministry of Finance (MoF) Filing Column:**

The information is required to be filed as provided in the Board approved RRR's for electricity licencees. LDCs are required to update the TAX RATES spreadsheet and to complete the MoF Filing Column and the related supporting spreadsheets in July of the period after initial rates were established (i.e: By July 31, 2003 for the 2002 fiscal year). As noted above, the Initial Estimate Column (column C) must also be filled out to permit the spreadsheet to calculate the variances between the amounts reflected in rates and the amounts allowed to be recovered pursuant to the Board's flow through methodology for the treatment of PILs. The Board is examining the use of electronic forms and analysis systems to eliminate the need to file base information (i.e: Initial Estimate Column).

## Security of the SIMPIL spreadsheets

Please note all cells containing formulas are currently locked. If you determine control over a locked cell needs to be released please contact the Board staff in charge of your rates application.

## How to Complete the “SIMPIL” Spreadsheet ?

### Initial Estimate Column

#### What types of Information do you require to complete the Initial Estimate Column?

1) In order to complete the Initial Estimate Column, you will need to have the following information on hand:

i) A copy of the final RUD model (1999) sheet #7, entitled “MARR (NO TAX) CALCULATIONS.” The sheet is used to complete the REGINFO spreadsheet.

**Note:**

For LDCs that have calculated the 2001 and 2002 PILs as part of the 2002 RAM application, you would have completed the REGINFO spreadsheet in the 2002 PILs spreadsheets using the sheet # 7 of the RUD Model. You can then simply copy the data from the 2002 REGINFO spreadsheet into the current year’s REGINFO spreadsheet. Please ensure the final version approved by the Board is used.

For LDCs that were already subject to PILs or actual tax payments prior to the application of section 93 of the Electricity Act, you should contact the Board staff for further guidance.

ii) The depreciation expense (only the portion related to the Wires-only operation) for the calendar year 1999.

iii) The Capital Cost Allowance (CCA) schedule is similar to the one used to calculate CCA for income tax purposes except this schedule would be using the **1999's NBV** instead. No additions or deductions are allowed to be included in the schedule and the CCA is calculated on a declining balance basis.

**Note:**

For LDCs that have a previously submitted PILs calculation, they would have already prepared a CCA schedule. The same schedule should be used except the prior year’s ending balance of the UCC will be brought forward as the opening balance for the current year.

iv) A copy of the prior year’s “SIMPIL” spreadsheets as a reference, if applicable.

v) Review the TAX RATES spreadsheet in the SIMPIL model to ensure the tax rates in the spreadsheet are correct.

### **How to complete the Initial Estimate Column:**

In order to complete the initial estimate column, you should input data into the REGINFO spreadsheet. For those that have already filed the 2002 "SIMPIL" spreadsheets, you will have already completed the REGINFO. You simply copy the same information on to your current REGINFO spreadsheet.

### **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 Initial Estimate Column. The REGINFO spreadsheet is to be completed using the information from sheet # 7, entitled "MARR (NO TAX) CALCULATIONS" of the final RUD model spreadsheets.

Utility Name:

Enter the full name of the corporation.

Reporting period:

Enter the start and end date of the reporting period. Indicate if the reporting period is not a full year.

Example 1: the reporting period covers the full year of 2003, enter January 1, 2003 - December 31, 2003.

Example 2: the reporting period covers the period from October 1 to December 31, 2004, enter October 1, 2004 - December 31, 2004.

Days in reporting period:

Enter the number of days in this reporting period.

Background:

Has the utility reviewed section 149(1) ITA (Income Tax Act) to confirm that it is not subject to regular corporate tax (and therefore subject to PILs)?

Enter "Yes" or "No".

Was the utility recently acquired by Hydro One and now subject to s.89 & 90 PILs?

Enter “Yes” or “No”.

Is the utility a non-profit corporation?

Enter “Yes” or “No”. If your answer is yes, please refer to comments made related to Not- For-Profit Corporation please contact Board staff.

**Rate base (wires-only):**

Enter the amount as per Cell B31 of Sheet # 7- MARR (No tax) calculations of the 1999 RUD model spreadsheets.

**Common Equity Ratio (CER)**

Enter the percentage per Cell B33 from Sheet # 7- MARR (No tax) calculations of the 1999 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 detail.

**Target Return on Equity**

Enter the percentage per Cell B34 from sheet # 7- MARR (No tax) calculations of the 1999 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. However, once a rate of return is selected, a utility is not allowed to change it. Refer to Table 3-1 of the Electricity Distribution Rate Handbook for further detail.

**Debt rate:**

Enter the percentage per Cell B37 from sheet # 7- MARR (No tax) calculations of the 1999 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. However, once the debt rate has been selected, a utility is not allowed to change it. Refer to Table 3-1 of the Electricity Distribution Rate Handbook for further detail.

**Market Adjusted Revenue Requirement (MARR):**

Enter the amount per Cell B44 from sheet # 7 - MARR (No tax) calculations of the 1999 RUD Model Spreadsheets.

$$\text{MARR} = (1999 \text{ Rate Base}) \times (\text{CER} \times \text{Target ROE}) + (1 - \text{CER}) \times \text{DR}$$

**1999 return from RUD Sheet # 7**

Enter the amount per Cell B46 from sheet # 7 - MARR (No tax) calculations of the 1999 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, Ontario Capital Taxes that and pertains to the wires-only operation.

### **Total Incremental revenue**

The amount is calculated automatically by the program (no entry is required). (MARR - 1999 return)

### **Amount allowed in 2001, 2002 and 2003**

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. However, if a LDC elects to increase rates at market opening, May 1, 2002, the incremental revenue will be phased-in over 2002 and 2003 and the rate will be increased by 50% of the incremental revenue each year.

### **Equity**

The amount is calculated by the program (no entry is required). (Rate base x CER)

### **Return at target ROE**

The amount is calculated by the program (no entry is required). (Equity x Target return on equity).

### **Debt**

The amount is calculated by the program (no entry is required). (Rate base x (1- CER))

### **Deemed interest amount in EBIT**

The amount is calculated by the program (no entry is required). (Debt x Debt rate)

### **Phase-in of interest**

The amount is calculated by the program (no entry is required). The deemed interest is phased in consistent with the phasing in of MARR/incremental revenue. Implicit within the rates are an equity component (Rate Base x CER x ROE) and an 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.

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. Rates will be increased by 50% of incremental revenue. The interest deduction would be 50% of the total deemed interest amount.

### **How to complete the Initial Estimate Column in the “TAXCALC” spreadsheet:**

The “SIMPIL” spreadsheet with only the completion of the Initial Estimate Column should be submitted to the Board as part of the RAM application for a change in rates *(only enter data on the REGINFO spreadsheet and Initial Estimate Column, column “C”, on the “TAXCALC” spreadsheet)*

The information in this section follows the order of the lines on the form.

#### **Item 1 Regulatory Net Income**

Enter the 1999 Return (REGINFO spreadsheet) plus the prior years' cumulative incremental revenue phased-in plus the current year incremental revenue to be phased in. In normal circumstances, by 2003, the regulatory net income will equal to MARR.

With the pronouncement of Bill 210, all rates will remain in place. Without the approval from the Minister of Energy, the regulatory net income will remain the same as reported for the 2002 fiscal period.

Additions to Regulatory Net Income:

#### **Item 2 Depreciation and amortization**

Enter the book depreciation amount pertaining to the wires-only operation included in the 1999 Return. If the reporting period is less than 365 days, you should prorate the depreciation. (1999 book depreciation x (number of days in reporting period /365 days))

#### **Item 3 Employee Benefit Plans - Accrued, Not Paid (Includes Other Post Employment Benefits)**

True up will apply as of the tax filing date. This item includes pension plan and other post employment benefit plan expenses. The amount is determined using the prior year's 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 Ministry of Finance (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 or, if this information is not available, it would be the annualized (multiply by 4 if 2001 is a 3-month tax year ending December) 2001 MoF filing.

Item 4 Reserves - Both reserves of the previous year reserves and the current year reserves are required , rather than just the net figure that was required, in 2002.

True up will apply as of tax filing date.

#### Item 5 Regulatory Adjustments

The item will include the current year's transition cost and z-factors the Board allowed the LDC to recover in rates.

#### Item 6 Other Additions:

No true up will apply to this category, unless the net amount exceeds the materiality level. The 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 (items 2 to 6 above). The additions listed in items 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. 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.

*A more comprehensive reconciliation (specific additions and deductions) from accounting income to taxable income can be found in the TAXREC2 sheet.*

#### Deductions from Regulatory Net Income

#### Item 7 Capital Cost Allowance (CCA)

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 the capital cost allowance rates. Schedule 8 should be submitted using 1999 regulatory net book values (not fair market value as used in the MoF filing). Ensure to

prorate for a short fiscal year. Please note that the company is required to claim the maximum CCA for regulatory purposes even if this is not done for tax purposes.

Item 8 Employee Benefit Plans - Paid Amounts (Includes Other Post Employment Benefits, Pension Plans and Deferred Income Plans)

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 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.

Item 9 Items Capitalized for Regulatory Purposes

This category represents amounts required by the Board to defer and be realized over time for regulatory purposes instead of as an up-front deduction for accounting purposes. This category appears in gas regulation and may apply to electricity LDCs at a future date.

Item 10: Regulatory Adjustments

Items added to Item 5 may have a tax deduction applicable. Enter the tax deduction amount here. For example, a transition cost for the amount of \$100,000 is fully allowed to be recovered from rates. The amount is made up of \$40,000 in administrative expenditures incurred after October 1, 2001 and \$60,000 computer hardware which is deductible at 30% per year. An amount of \$49,000 ( $\$40,000 + (\$60,000 \times 30\% \times \frac{1}{2})$ ) should be included in Item 10 in the current year. In the following year, assuming no other transition cost incurred, an amount of \$15,300 ( $(\$60,000 - 9,000) \times 30\%$ ) should be included in Item 10.

Item 11: Interest Expense Allowed

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 EBIT + incremental revenue associated with MARR divided by MARR).

Item 12: Other Deductions

*A more comprehensive reconciliation (specific additions and deductions) from accounting income to taxable income can be found in the TAXREC2 sheet.*

The 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 (items 8 to 13 above). The deductions listed in items 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 the "TAXREC" Tab in PILs Spreadsheet 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.

#### Regulatory Taxable Income/(Non-capital loss)

Spreadsheet calculation by taking the Regulatory Net Income plus the Additions minus the Deductions. If the amount is negative, the amount is included in the loss continuity schedule.

#### Item 13: Corporate Income Tax Rate

The rate is automatically calculated by the spreadsheet based on the corporate taxable income range and the tax rates in effect as of the latest update. The detail tax rates schedule is included in the "TAX RATE" spreadsheet. For future changes to tax rates please obtain the information from the OEB's website and incorporate the "new" rates into the tax rates schedule.

#### Item 14: Miscellaneous Tax Credits

Not applicable. In effect, miscellaneous tax credits, such as Investment Tax Credits, are not considered at this stage.

#### ONTARIO CAPITAL TAX

#### Item 15: Capital Tax Base

Use approved wires-only rate base in the final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.

#### Item 16: Exemption

Deemed as the full amount of exemption (\$5,000,000 Ontario deduction as of Oct. 1, 2001) to the regulated utility. Please note the capital tax exemption and the large corporations tax exemption are shared among the LDCs within the same corporate group. If the exemption is allocated among LDCs within the same corporate group please provide written explanation with regards to the methodology used to allocate the exemption and identify the exemption percentage in cell C63.

#### Item 17: Rate

The rate is automatically calculated by the program based on the tax rate in effect as of the latest update. The detail tax rate schedule is included in the spreadsheet called tax rate.

#### FEDERAL LARGE CORPORATION TAX (LCT)

#### Item 18: Capital Tax Base

Use approved wires-only rate base in final RUD filing as a proxy for taxable capital. MARR, Sheet 7, cell B 31.

#### Item 19: Exemption

Deemed as the full amount of exemption (\$10,000,000) to the regulated utility. Please note the capital tax exemption and the large corporations tax exemption are shared among the LDCs within the same corporate group. Therefore please ensure the correct corporation tax exemption is allocated. If the exemption is allocated among LDCs within the same corporate group please provide written explanation with regard to the methodology used to allocate the exemption and please provide the percentage of the exemption in cell C63.

#### Item 20: Rate

The rate is automatically calculated by the program based on the tax rates in effect as of the latest update. The detail tax rates schedule is included in the spreadsheet called "tax rates".

#### Item 21: Federal Surtax

Federal surtax (taxable income x current surtax rate (0.0112)) is subtracted from the amount of LCT due. The program automatically calculates the amount.

#### Item 22: Income Tax (Grossed-Up)

Calculation = regulatory income tax / (1- utility's deemed tax rate of the taxation year the recovery is to be received). The program calculates the amount automatically. Please note the gross-up calculation is based on the tax rate legislated for the year when the PILs will be recovered from consumers.

#### Item 23: Large Corporation Tax (Grossed-Up)

Calculation = net LCT/(1- utility's deemed tax rate of the taxation year the recovery is to be received). The program calculates the amount automatically. Please note the gross-up calculation is based on the tax rate legislated for the year when the PILs will be recovered from consumers.

#### Item 24: Ontario Capital Tax

Gross-up is not required since the item is deductible for tax purposes. The amount is automatically carried forward from above.

## Item 25 Total S.93 PILs Rate Adjustment

The total of income taxes (grossed-up), large corporations tax (grossed-up) and Ontario capital tax (no grossed-up) will be included in the Annual Rate Adjustment Model (“RAM”). Please note that we do not gross up the Ontario capital tax since the amount is deductible for tax purposes. Furthermore, we do not include the surtax in our income tax rates for gross up, as the surtax on incremental income is generally displaced by the Large Corporation Tax for capital-intensive industries.

### **Ministry of Finance Column :**

#### **What types of Information do you require to complete the Ministry of Finance Column?**

In order to complete the MoF column, you should have:

- i) a copy of the current reporting period’s Spreadsheets with the Initial Estimate Column completed. The final balance should agree to the current year’s decision and order as approved by the Board.
- ii) a copy of the Federal and Ontario tax returns and the related financial statements used to prepare the tax return. The tax returns should cover the same period as the spreadsheets.
- iii) a copy of the Federal and Ontario latest taxes update pertaining to the reporting period.

#### **Change in tax rates:**

Please enter the revised income and capital tax rates as a result of legislative changes announced by the governments into the Tax Rates spreadsheet. Please make sure to identify the changes made to the schedule.

#### **How to complete the MoF Column in the “TAXCALC” spreadsheet?:**

You should complete the MoF Column only after the completion of the tax returns which are normally done in June of the following year with a December year end. The purpose of this section is to show you how to complete MoF information in the “SIMPIL” spreadsheets.

Before entering the MoF information, you should ensure the Initial Estimates Column on the “TAXCALC” spreadsheet contain amounts that were approved by the Board in the beginning of last year. You should also ensure the tax returns covered the same fiscal year as reported in the initial estimate column.

If the fiscal year is covered by more than one taxation year, you should contact the Board staff to discuss your situation before completing the spreadsheets. The information in this section is organized in the same sequence as the spreadsheets would be filled out. The information should be entered into the TAXREC spreadsheet which will then be carried forward to the TAXCALC spreadsheet. The TAXREC spreadsheet is divided into the following five sections:

Section A - Identification

Section B - Unconsolidated financial statement data

Section C - Reconciliation of accounting income to taxable income

Section D - Detail calculation of the Ontario Capital Tax

Section E - Detail calculation of the Federal Large Corporation Tax

Section F - Background questionnaire

### **Section A - Identification**

Utility Name;

Please print the full name

Reporting Period:

Enter the dates on which the fiscal period covered by this form began and ended, e.g., January 1, 2002 - December 31, 2002. It should cover the same period as on the REGINFO spreadsheet. If the taxation year is different from the reporting period please contact the Board staff.

Number of days in the taxation year:

Enter the number of days in the taxation year. It should cover the same number of days as on the REGINFO spreadsheet. If there is a difference, please contact the Board staff.

Materiality Level:

Please input the materiality amount. The amount is calculated by either one of the following formulas:

- $0.25\% \times \text{Rate Base} \times \text{Common Equity Ratio}$
- $0.25\% \times \text{Net Assets of the company}$

Please identify the formula used by putting "Y" next to the formula used. Items exceeding the materiality amount will be included as part of the true-up adjustments.

Does the utility carry on non-wires related operations?

Please type in “Y” for yes and “N” for no. For determination of non-wires operations please refer to Appendix D of the Electricity Distribution Rate Handbook. Please complete the questionnaire on the spreadsheet titled “Background questionnaire”.

## **Section B - Unconsolidated financial statement data**

The “TAXREC” form requires some of the financial data from the unconsolidated financial statements filed with the tax return. The categories from the LDC’s actual unconsolidated income statement should be used, not those appearing on “TAXREC”. Input the unconsolidated financial statement data submitted with tax returns in the first column. Non-wires eliminations will be input in the second column. Eliminations, should be entered as positive numbers. The program will automatically deduct the amount of the elimination column from the first column. The Net income on the first column should equal to the net income (loss) per financial statements on Schedule 1 of the tax return.

### **Non-wires Eliminations:**

If you have answered yes to the question on “does the utility carry on non-wires related operations?”, please **separate out** the portion of the financial statements that are related to the non-wires operations based on the percentage of the operation pertaining to non-wires operations. You should also complete the Background questionnaire spreadsheet.

## **Section C - Reconciliation of accounting income to taxable income**

Input the information per Schedule 1 of your tax return on to the “MoF Corporate Tax Return” of the TAXREC spreadsheet. Additions and deductions identified on TAXREC are the most common additions and subtractions. For other additions and deductions, go to TAXREC 2 spreadsheet.

Keep in mind that if some of the additions are not identified on TAXREC or TAXREC 2, please uses the blank lines provided underneath the “Other additions” in the spreadsheet. Similarly, some of the deductions are not identified on TAXREC or TAXREC 2, please use the blank lines provided under “Other deductions” in the spreadsheet.

### **Tax Reserves:**

You should use the “Tax reserves” spreadsheet to enter the information related to tax reserves. Please identify the nature of the reserves. You should copy information from Schedule 13 of your tax return into this spreadsheet which will automatically carry the balance to the tax reserves lines on the TAXREC 1 spreadsheet.

Please provide a brief description for each material item disclosed in the TAXREC spreadsheets.

If any amounts pertain to non-wires activities, enter the amounts under the “Non-wires Eliminations” column.

The taxable income and the Federal and Ontario income taxes under the MoF Corporate Tax Return Column should equal to the amounts reported on your tax returns.

To ensure the correct item is being treated as material item, make certain related items are entered into the TAXREC spreadsheet on a net basis. This is to prevent the program from calculating material items incorrectly.

For example, the company has a prepaid expense of \$10,000 at the end of year and the opening balance was \$6,000 at the beginning of the year. The difference of \$4,000 was deductible for income tax purposes. The company should enter \$4,000 as a deduction instead of adding the \$6,000 to the net income and deducting \$10,000 to derive the taxable income.

#### Miscellaneous Tax Credits:

The amount included any miscellaneous tax credits (such as ITCs) claimed in filing for tax purposes. (Note any reduction in the basic corporate tax rates that technically takes the form of a credit should be accounted for in the statutory tax rate calculation.) Please do not include any loss carry-forwards or any crediting of corporate minimum tax.

### **Section D - Detail calculation of the Ontario Capital Tax**

Input the information from the CT23 of your Ontario tax return into the “MoF corporate Tax Return” column of the TAXREC spreadsheet. Amounts related to the non-wires operations should be entered into the “Non-wires elimination” column. The Ontario capital tax should equal to the Ontario capital tax of your tax return.

### **Section E - Detail calculation of the Federal Large Corporation Tax**

Input the information from Schedule 33 of your Federal tax return. Amounts related to the non-wires operations should be entered into the “Non-wires elimination” column.

### **Section F - Background Questionnaire**

The purpose of the Questionnaire is to assist the Board to determine if the LDC has properly filled out the TAXREC spreadsheet. Please answer all the questions in the “Questionnaire” spreadsheet. The “Questionnaire” spreadsheet should be completed when the “MoF” Column is being completed.

### **Section G - Deferred Payments in Lieu of Taxes Variance**

The purpose of the Variance spreadsheet is to show the movement in Account # 1562. Please enter the PILs recovery approved by the Board and the actual amount collected

from customers into the schedule. Also, please identify the accounting method used to account for the PILs recovery in the spreadsheet.

### **What is the Deferral Account Entry?**

The Deferral Account Entry is made up of two types of variances: i) the True-up Variance and ii) the Deferral Account Variance. The Deferral Account Entry is the amount that you can collect (if the amount is positive) or refund (if the amount is negative) to customers.

How does the Board determine the True-up Variance?

Once all the tax returns information has been entered into the "TAX REC" spreadsheet, the difference between the initial estimates and the actual tax return information will then be included into Part IV Future True-ups in the "TAXCALC" spreadsheet. The purpose of the future true-ups is to determine the variance between the initially estimated tax effect and the actual filing position. The difference is then included in the Deferral Account Entry to be included as part of a future rate application.

Once the TAXREC spreadsheet is completed, the numbers on the "Wires-only tax return" column will be brought forward to the "MoF Filing" column. The MoF Filing Variance will calculate the difference between the MoF Filing column and the Initial Estimate column. Certain variances will then be included in the true-up adjustments under Part IV Future True-ups of the TAXCALC spreadsheet.

Items to be included in True-up Adjustments:

The Board has previously established rules on what items will be included as part of true-up adjustments. The items to be included in true-up adjustments are as follows:

- both **tax** and **accounting** reserves except reserve for doubtful accounts and inventory reserves will be allowed
- any employee benefit plans including other post employment benefits and pension plan
- actual interest expenses, including amount capitalized for accounting but deducted for tax, exceeding the deemed interest (taking into consideration a proration of a short taxation year). Please note the interest true up is calculated in Part V, Interest Portion of True-up.
- regulatory additions and deductions
- other additions and deductions exceeding the materiality level

Once the total true-up adjustment is determined, the grossed-up income tax effect of the true-up adjustments together with the Deferral Account Variance will be included as the deferral account allowance year's rates application.

Which year's income tax rates should be used in the gross-up calculation for the true-up amount?

It should be the same year the true-up variance is collected from customers. For example, a utility would normally use the income tax rates of the calendar year 2004 to calculate the gross-up of the true-up variance related to the fiscal 2002 year as the true-up variance would normally be collected from customers in the 2004 rate year. Given the rate setting limitations of Bill 210, LDCs may need to adjust the gross-up amounts in future periods to reflect the rates in effect at that time. In the interim, 2004 tax rates should be used.

ii) How does the Board determine the Deferral Account Variance?

The Deferral Account Variance is the change in the Proxy PILs (in the Initial Estimate Column) as a result of any legislative changes in Federal and Ontario Budget. All data in the Initial Estimate Column are automatically carried forward to Part IV b) Calculation of the Deferral Account Variance. You only need to enter the changes resulting from any tax legislation changes announced by the governments into the Tax Rates spreadsheet. The model will then calculate the Deferral Account Variance based on the updated Tax Rates spreadsheet.

Please enter the revised income and capital tax rates into the Tax Rates spreadsheet as a result of legislative changes announced by the governments. Please make sure to identify the changes made to the schedule.

**What happens if the taxable income filed for Ontario purposes is different from the taxable income filed for Federal purposes?**

The Board understands that when LDCs file their tax returns, they will submit an Ontario corporations tax return using the Ontario tax rules, and a federal 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 under Column J, the "MoF Filing Variance Explanation" on the TAXCALC spreadsheet.

**What documents do you need to submit to the Board?**

Once the SIMPIL spreadsheets have been completed, six hard copies and an electronic format of the SIMPIL spreadsheets should be submitted to the Ontario Energy Board. When you submit the MoF Filing data, you should also send in a copy of the financial statements used to prepare the tax returns together with your submission if the financial statements used is different from the audited financial statements sent to the Board in April.

## Appendix A: Glossary of Terms

Acronym	Term
CCA	Capital Cost Allowance
CER	Common Equity Ratio
DR	Debt Ratio
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
RUD	Rates Unbundling Model
UCC	Undepreciated Capital Cost