

## **Reporting and Record Keeping Requirements (RRR) # 2.1.8**

### **RRR SIMPIL Model Guide for the December 31, 2005 Tax Year**

**Due Date for the December 31, 2005 Tax Year filing is August 11, 2006**

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#### **Background**

On November 25, 2003, the government announced, in conjunction with introduction of Bill 4, the *Ontario Energy Board Amendment Act, (Electricity Pricing), 2003*, that Local Electricity Distribution Companies (“LDCs”) could start recovering Regulatory Assets in rates, beginning March 1, 2004, over a four-year period.

On December 19, 2003 the Ontario Energy Board (the “Board”) received a letter from the Minister of Energy informing the Board that he would be writing to electricity distributors to grant them approval to make rate applications to the Board with regard to the rate recovery of Regulatory Assets.

On January 15, 2004 the Board issued instructions for submissions of applications to allow for the partial recovery of Regulatory Assets. No changes were made to the PILs (payments in lieu of taxes) proxy tax filing methodology.

Rates were frozen from November 11, 2002 until April 1, 2004 except in special circumstances approved by the Minister of Energy. PILs proxy taxes for the 2001 fourth quarter and 2002 remained in the rates until new rates could be approved.

For the 2004 Board-approved rate adjustment, PILs proxy taxes for the 2001 fourth quarter were removed from rates. Since the applications had very limited scope, the Board-approved 2002 PILs proxy taxes from the March 1, 2002 rate adjustment were used as the PILs proxy taxes for the 2004 rate adjustment. The Board approved interim recovery of 25% of the Regulatory Asset balances, for each applicant that applied, effective March 1, 2004, but for implementation on April 1, 2004. The 2004 approved distribution rates remained in effect until February 28, 2005.

On July 12, 2005 the Board issued the filing guidelines for final recovery of Regulatory Assets for the May 1, 2006 electricity distribution rate adjustments. On page 8 of the July 12<sup>th</sup> document, the Board outlined its intent with respect to the existing Accounts 1562 and 1563 (Payments in Lieu of Taxes):

“Due to utility specific variability in the calculation of PILs and the fact that stakeholders did not have an opportunity to comment on the quantum and appropriate allocation methodology of the PILs amounts in the Phase 2 oral proceeding, the Board will not be considering amounts in the PILs variance accounts for final disposition at this time. In the meantime, the Board has continued to allow recovery of PILs during the first two interim recovery periods. The Board intends to address this issue at a later time through consultations with industry stakeholders.

Therefore, LDCs should not include amounts from accounts 1562 and 1563 in their applications for Phase 2 Review and Recovery of Regulatory Assets.”

### **Before You Start Completing the SIMPIL Forms**

This guide provides information to aid in the completion of the SIMPIL spreadsheets. Acronyms are described in [Appendix B: Glossary of Terms](#).

No Ontario corporate minimum tax is recognized, nor included, since the Ontario corporate minimum tax can be used to offset future Ontario income tax. Future taxes, or deferred taxes, are not considered in the regulatory approach to PILs proxy tax calculations.

For LDCs not subject to PILs income and capital taxes, please follow this same general approach. If a LDC elects to become a not-for-profit business entity, contact Board staff at the Ontario Energy Board (OEB) before proceeding to enter information into the spreadsheets.

The first 10 pages of this guideline provide a general overview of the sequence of PILs filings for the 2005 tax year. In Appendix A, there are more detailed step-by-step instructions on how to fill in the SIMPIL model spreadsheets. The guide is structured in the same sequence as the SIMPIL spreadsheets would be completed.

If the LDC did not file an application for a 2005 rate adjustment, use the Board-approved proxy information from the applicable Board proceeding. Please provide the rate application reference number that supports the PILs recovery from your customers.

### **The RRR SIMPIL Filing Process**

- Complete the SIMPIL spreadsheets according to the instructions.
- Send the paper and electronic copies (on disk or CD) of the SIMPIL spreadsheets to the Board Secretary by August 11, 2006.
- Email the electronic SIMPIL Excel workbook to Regulatory Audit care of [Wade.Frost@oeb.gov.on.ca](mailto:Wade.Frost@oeb.gov.on.ca) by August 11, 2006.

## Board-approved Information and Data from Previous Applications

LDCs are required to complete REGINFO and the Initial Estimate (column C) of TAXCALC using the same data that was submitted to the Board as part of the RAM application for the 2005 rate year. If the Board approved any changes to this proxy in subsequent applications, the utility must submit with this RRR SIMPIL filing the Board order approving the changes and any supporting schedules.

### What documents do you need to submit to the OEB?

Please refer to the Checklist worksheet in the SIMPIL model for a complete list of the items to be filed.

- Once the SIMPIL spreadsheets have been completed, **two hard copies** and **one electronic** Excel version (on disk or CD) of the spreadsheets should be mailed to the Board Secretary. Ensure that the files contained in the electronic media are not corrupted before sending. **Please provide the name, telephone number and email address of a contact person who will assist Board staff in the review of the LDC's 2005 SIMPIL filing.**
- Include **one copy** of the 2005 federal T2 tax return and related schedules. Please note that these are the T2 tax returns sent to the Ontario Ministry of Finance, not the NIL T2 returns sent to the Canada Revenue Agency. Provide **one copy** of the 2005 Ontario CT23 tax return and related schedules.
- If the 2005 **financial statements** submitted with the tax returns are different from those audited statements sent to the Board in April 2006, please enclose copies and explain what the differences are, and why the financial statements differ.
- Copies of the federal and Ontario tax assessments pertaining to the reporting periods should be submitted. Please note that these are the notices from the Ontario Ministry of Finance, Corporations Tax Branch, and not the NIL assessments from the CRA. Specifically, please provide **one copy** of each of the assessment notices, re-assessment notices, and **related statements of adjustments** for 2001, 2002, 2003 and 2004. When you have received the 2005 assessment notices, please send one copy of each document to the Board Secretary.

## **Security of the SIMPIL Spreadsheets**

Please note that the worksheets have not been protected and that all cells containing formulas are currently unlocked.

Input cells are shaded in light green; cells containing formulas, or that do not require data inputs, are shaded in pale yellow. The colours chosen allow the data to be visible and easy to print and to copy. If you find it necessary to change any fields, please remember that Board staff has to be able to read the printed versions.

Indicate in your cover letter if you have made **changes to the model**, why the changes were required, and which cells were affected.

## **Tax legislation changes that affect 2005 taxes**

Large Corporations Tax (LCT):

- The rate decreased from 0.200% to 0.175%

Ontario Capital Tax (OCT):

- The exemption was increased to \$7,500,000 and the rate remains unchanged at 0.300%

Income Tax:

- Ontario small business limit remains at \$400,000
- Ontario claw-back: the phase-out range of small business limit is \$400,000 to \$1,128,000 and uses a surtax of 4.667% to reduce the deduction
- Federal income tax rate is 21% plus the surtax of 1.12%
- Federal small business limit is \$300,000
- The Federal business limit is reduced on a straight-line basis where taxable capital for LCT is between \$10,000,000 and \$15,000,000

## **Completion of the SIMPIL Model spreadsheets**

For the 2005 reporting period, the spreadsheets have been organized as last year and the sequence is shown below. Input areas in the spreadsheets are shaded in green and those cells that have formulas are shaded in yellow.

### **Sequence of Forms in the Model**

- REGINFO
- TAXCALC
- TAXREC
- Tax Reserves
- TAXREC 2
- Tax Rates

- PILs 1562 Calculation
- Checklist

## **How to complete the REGINFO Spreadsheet**

Most utilities filed the 2002 and the 2005 RAM PILs portion of the rate adjustment application in order to receive approval of the PILs proxy in the revenue requirement. The PILs section of the 2005 rate adjustment application provides the numbers for this RRR REGINFO filing. The concepts from the 2002 PILs application are covered in Appendix A.

For those that have not filed SIMPIL spreadsheets, the instructions in Appendix A 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 in TAXCALC.

## **How to complete the TAXCALC Spreadsheet**

### **Initial Estimate Column**

In order to complete the Initial Estimate Column, you will need to refer to the utility's 2005 RAM application and to Appendix A. The PILs section of the 2005 rate adjustment application provides the numbers for this RRR SIMPIL initial estimate filing.

### **Ministry of Finance (MoF) Column**

In order to complete the MoF column, you will first complete the TAXREC spreadsheet. The details from this sheet are linked to the TAXCALC sheet. Information needed to complete the forms is detailed below:

- A copy of the 2005 SIMPIL spreadsheets with the Initial Estimate column completed. The PILs Initial Estimate amounts should agree with the Board's decision from the 2005 RAM applications.
- A copy of the 2005 federal and Ontario tax returns, and the related financial statements, used to prepare the 2005 tax returns. The tax returns should cover the same period as the spreadsheets.
- Any federal and Ontario tax assessments pertaining to the reporting period.

### **The True-up Variances**

The difference between the initial estimates and the actual tax return information for the specified items will be included in Part IV Future True-ups in the

TAXCALC spreadsheet. The total tax amount related to the variances will be posted to account #1562 and will be reviewed in a future Board proceeding.

Items to be included in True-up Adjustments – IV (a)

The Board has previously provided guidance on the specific items to be included as part of true-up adjustments. These items are:

- Tax and accounting reserves.
- Employee benefit plans including other post employment benefits and pension plans.
- Actual interest expense reported in the financial statements, including the amount capitalized for accounting but deducted for tax, that exceeds the full amount of the regulatory deemed interest. Please note the interest true-up is calculated in Part V, Interest Portion of True-up.
- Regulatory additions and deductions.
- Other additions and deductions that individually exceed the materiality level.

After the total true-up adjustment is determined, the tax amount is calculated. The grossed-up income tax effect of the true-up adjustments together with the Deferral Account Variance (see below) will be posted as entries to account 1562.

The income tax rates used for gross-up are the actual rates incurred in the utility's 2005 tax returns. These rates will be entered into the Tax Rates spreadsheet Table 3. If the LDC has non-capital loss carry-forwards, and there is no income tax payable, the tax rates to be entered are those that would have applied for 2005 if the taxable income shown on TAXCALC for the proxy had been earned.

Deferral Account Variance - IV (b)

The Deferral Account Variance captures any changes in the PILs proxy tax calculations (in the Initial Estimate column) as a result of any legislative changes to federal and Ontario tax laws. Data in the Initial Estimate column are automatically carried forward to Part IV (b) Calculation of the Deferral Account Variance.

Changes resulting from any new tax legislation announced by the governments will be entered into the Tax Rates spreadsheet. The TAXCALC spreadsheet will calculate the Deferral Account Variance based on the updated Tax Rates spreadsheet. See the information about tax legislation changes on page 4.

## **Completing the TAXREC Spreadsheet**

### Section A – Identification

Basic utility information is required. The materiality threshold is calculated in this section.

### Section B - 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. The amortization line is linked to other cells.

Enter the unconsolidated financial statement data submitted with the tax returns in the first column. Non-wires eliminations will be entered into the second column. Eliminations should be entered as positive numbers. The spreadsheet will automatically deduct the amount in the elimination column from the first column.

### Section C – Reconciliation of accounting income to taxable income

Most of the data will be entered from the actual tax returns. Some of the cells link from the TAXREC 2 spreadsheet where greater detail of the actual additions and deductions from the T2 Schedule 1 can be entered.

The Tax Reserves spreadsheet is used to list the accounting and tax reserves from the accounting and tax records of the utility. Links exist to reference the totals from this sheet to the TAXREC sheet.

The taxable income and the federal and Ontario income taxes under the MoF Corporate Tax Return column should be equal to the amounts reported on your tax returns. Please input the actual tax rates from the tax returns. If the LDC has non-capital loss carry-forwards, and there is no income tax payable, the tax rates to be entered are those that would have applied for 2005 if the regulatory taxable income shown on TAXCALC (in the Initial Estimate column C51) for the 2005 PILs proxy had been earned.

### Miscellaneous Tax Credits

The amount includes any miscellaneous tax credits (such as Investment Tax Credits) 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.)

## Section D – Ontario capital tax (OCT) and Section E – Federal Large Corporation Tax (LCT)

Fill in the cells from the actual tax returns. Please input the actual OCT and LCT exemptions that were used in the returns. Eliminate any non-wires amounts. The LCT surtax credit is **not** calculated by the spreadsheet; **you will enter** the actual amount from the utility's tax return.

## Section F – Income and Capital Taxes

The cells in this section are linked to other cells to generate the summary of actual current income tax expense, OCT and LCT.

### **Tax Reserves Spreadsheet**

You should use the Tax Reserves spreadsheet to enter the information related to tax and accounting reserves. Please identify the nature of the reserves. Copy the information from Schedule 13 of your tax return into this spreadsheet which links to the applicable lines on the TAXREC 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.

### **TAXREC 2 Spreadsheet**

TAXREC 2 allows the utility to list more items and details related to Section C in the TAXREC spreadsheet. The spreadsheets are linked.

### **Tax Rates Spreadsheet**

This spreadsheet identifies the rates and exemptions applicable (Table 1) in preparing the initial estimates in the 2005 RAM application that were approved by the Board.

Table 2 shows the 2005 rates for Ontario and federal income taxes, surtax and the OCT and LCT exemptions.

Table 3 allows the utility to enter the actual rates and exemptions it used in its tax returns to calculate the actual tax expense in the Ontario and federal tax returns for 2005. The tax rates entered by the LDC into Table 3 are used in the true-up and deferral account variance calculations. There are formulas in other sheets that link to the Tax Rates Table 3. Please be careful.

The tax rates and exemptions shown in Table 2 should be the rates used in the actual tax returns. The same data has been input into Table 3. It is expected

that the Table 3 data will not have to be changed except for the OCT and LCT exemptions if there are allocations among associated companies.

The OCT and LCT exemptions may be allocated for tax return purposes among associated corporations in a different manner than the regulatory allocation requires. In Table 1, the **exact** amounts that appeared in the 2005 RAM PILs filing should be **input**. In Table 2, the regulatory allocation among only regulated entities should be entered. In Table 3, the utility should enter the actual allocations from the tax returns.

### **PILs 1562 Calculation**

This continuity schedule summarizes the activity in account 1562 since the 2001 and 2002 proxies were created in the 2002 RAM application. Interim recovery of amounts in the PILs 1562 account may have been approved in the 2004 Regulatory Assets decisions. Amounts collected were posted to account 1590. Any interim recoveries related to 1562 will have been allocated to the other Regulatory Asset accounts in the 2006 EDR applications. The footnotes on the worksheet explain the requirements of the different columns and rows. Disposition of the full amount of the 1562 balance will be necessary in a future proceeding since April 30, 2006 is the end date of this regulatory account.

### Collection of PILs Proxy Taxes from Customers

PILs collected from customers from March 1, 2002 to March 31, 2004 were based on a fixed charge and a volumetric charge recovery. The PILs rate components for the initial tax period of fourth quarter 2001 and 2002 were calculated by rate class in the 2002 approved RAM on sheets 6 and 8 respectively.

In April 2004, the PILs recovery was based on the 2002 PILs tax proxy recovered only by the volumetric rate by class as calculated in the 2004 RAM (sheet 7).

The 2005 PILs tax proxy was recovered on a volumetric basis by rate class as calculated by the 2005 RAM (sheet 4).

For 2002, 2003 and January 1 to March 31, 2004, collection should equal: (a) the actual volumes or load (kWhs, kW, Kva) for the period (including net unbilled at period end), multiplied by the volumetric rates by class (from the Q4 2001 and 2002 PILs worksheets); plus, (b) customer counts for the same period multiplied by the PILs fixed charge rate component.

In 2004, use the Board-approved 2002 PILs proxy, recovered on a volumetric basis by class as calculated by the 2004 RAM (sheet 7) for the period April 1 to December 31, 2004 added to the results from the sentence above for January 1 to March 31, 2004.

In 2005, use the Board-approved PILs proxy rates by class for 2004 for the 3 months January 1 to March 31 and the 2005 PILs proxy rates by class as calculated by the 2005 RAM for the period from April 1st to December 31, 2005.

In 2006, use the Board-approved PILs proxy rates by class for 2005 for the 4 months from January 1 to April 30, 2006.

### **Checklist**

This schedule identifies the various pieces of information that the utility is filing.

**Please provide the name, telephone number and email address of a contact person who will assist Board staff in the review of the LDC's 2005 SIMPIL filing.**