

## **Reporting and Record Keeping Requirements # 2.1.8**

### **RRR “SIMPIL” MODEL Guide for the December 31, 2004 Tax Year**

**Due Date for this year’s filing has been extended to August 12, 2005**

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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 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 under the powers in section 79 of the *OEB Act*. 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 the 25% Regulatory Asset amount for each applicant effective March 1, 2004, but for implementation on April 1, 2004. The 2004 approved distribution rates remained in effect until February 28, 2005.

On June 16, 2005 the Board issued the filing instructions for final recovery of Regulatory Assets for the May 1, 2006 electricity distribution rate adjustments. On page 8 of the June 16<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 section 93 income and capital taxes, please follow this same general approach. If an 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 8 pages of this guideline provide a general overview of the sequence of PILs filings for 2004. 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 logical sequence as the “SIMPIL” spreadsheets would be completed.

### **The RRR PILs Filing Process**

- Complete the Spreadsheets according to the instructions.
- Send the paper and electronic copies of the Spreadsheets to Board Secretary by August 12, 2005.

### **Board-approved Information and Data from Previous Applications**

LDCs are required to complete the Initial Estimate (column C), of TAXCALC and REGINFO using the same data that was submitted to the Board as part of the RAM application for the 2002 rate year. ***If the Board approved any changes to this proxy in subsequent applications, the utility must submit with this RRR***

***PILs filing the Board order approving the changes and any supporting schedules.***

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

Once the SIMPIL Spreadsheets have been completed, **three** hard copies and one electronic Excel version (on disk or CD) of the Spreadsheets should be submitted to the Board Secretary. Any tax return schedules needed to support the filing should be enclosed.

If the financial statements submitted with the tax returns are different from those audited statements sent to the Board in April, please 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. Specifically, please provide **1 copy** of each of the assessment notices, and re-assessment notices, for 2001, 2002 and 2003. When you have received the 2004 assessment notices, please send 1 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 and cells containing formulas 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 have 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 2004 taxes**

Large Corporations Tax:

- The exemption increased to \$50,000,000 from \$10,000,000
- The rate decreased from 0.225% to 0.2%

Income tax rates:

- Ontario income tax rate increased to 14%
- Ontario small business limit increased to \$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 \$250,000
- 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 2004 reporting period, the Spreadsheets have been organized as last year and the sequence is shown below.

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

- REGINFO
- TAXCALC
- TAXREC
- Tax Reserves
- TAXREC 2
- Tax Rates
- Checklist
- Background Questionnaire
- PILs Variance Analysis

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

Most utilities filed the 2002 RAM PILs portion of the rate adjustment application. The 2002 PILs filing provides the numbers for this RRR REGINFO filing. The concepts from the 2002 PILs filing 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 2002 RAM PILs application and to Appendix A. Most utilities filed the 2002 RAM PILs portion of the rate adjustment application. The 2002 PILs filing provides the numbers for this RRR initial estimate filing.

#### **Ministry of Finance 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 current reporting period's Spreadsheets with the Initial Estimate Column completed. The PILs Initial Estimate amounts should agree with the Board's decision from the 2002 RAM application.
- A copy of the Federal and Ontario tax returns and the related financial statements used to prepare the tax returns. The tax returns should cover the same period as the spreadsheets.
- Any Federal and Ontario tax assessments pertaining to the reporting periods.

### **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 recovered in a future Board proceeding.

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

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

- Tax and accounting reserves
- Employee benefit plans including other post employment benefits and pension plans
- Actual interest expense, including the amount capitalized for accounting but deducted for tax, that exceeds the full amount of 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 exceeding 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 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 2004 tax returns. These rates will be entered into the Tax Rates spreadsheet Table 3.

#### 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 3.

### **Completing the TAXREC Spreadsheet**

#### **Section A – Identification**

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

#### **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. 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.

#### **Miscellaneous Tax Credits**

The amount includes 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.)

#### 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 – Summary of taxes paid

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 2002 RAM application that were approved by the Board.

Table 2 shows the expected 2004 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 2004. 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 2002 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.

### **Checklist**

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

### **Background Questionnaire**

Please answer the applicable questions in the questionnaire.

### **PILs Variance Analysis of Account # 1562**

This continuity schedule summarizes the activity in account 1562 since the 2001 proxy was created in the 2002 RAM application. Interim recovery of amounts in the PILs 1562 account has been approved in the Reg Assets decisions. Amounts collected are posted to account 1590. Eventually, in order to complete the evidence, it will be necessary to combine collections reported in accounts 1562 and 1590. For this RRR filing, account 1590 PILs amounts will not be included in the analysis.