EB-2010-0132

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One Brampton Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2011.

BOARD STAFF

CROSS-EXAMINATION COMPENDIUM DEFERRED PILS ACCOUNT 1562

DECEMBER 6, 7 & 9, 2010

EB-2008-0381
Account 1562 - Deferred Payments in Lieu of Taxes (PILs)
Combined Proceeding
Proposed Settlement Agreement
September 30, 2010

Introduction

This Settlement Agreement is filed with the Ontario Energy Board in accordance with Procedural Order No. 8 in the combined proceeding, in which the Board will determine the methodology to be used for the calculation and disposition of balances in account 1562 – deferred PILs.

The Parties to this Agreement are:

- § PowerStream Inc. (successor to Barrie Hydro), *ENWIN* Utilities Ltd., Halton Hills Hydro Ltd. (collectively the "Applicants"),
- § Consumers Council of Canada, School Energy Coalition (collectively the "Ratepayer Intervenors"), and
- § Coalition of Large Distributors (on issue 10 only), Electricity Distributors Association.

The role adopted by the Board Staff in the Settlement Conference is set out on page 5 of the Board's Settlement Conference Guidelines (the "Guidelines"). Although Board Staff is not a party to this Agreement, as noted in the Guidelines, the Board Staff who did participate in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

These settlement proceedings are subject to the rules relating to confidentiality and privilege contained in the Guidelines. The parties understand this to mean that the documents and other information provided, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the Settlement Conference are strictly confidential and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception: the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Agreement.

In this Settlement Conference, certain persons participated who have not in the end become parties to this Settlement Agreement. The Parties understand the rule to be that those persons remain subject to the confidentiality rules in the Guidelines in all respects.

This Agreement represents a complete settlement of certain issues and an incomplete settlement of certain other issues. It is acknowledged and agreed that none of the Parties will withdraw from this Agreement under any circumstances, except as provided under Rule 32.05 of the Board's Rules of Practice and Procedure.

Unlike many other settlement proceedings, the Parties have settled each issue independently of the other issues. The financial and other tradeoffs across and between issues that is common in other settlement negotiations was not part of this settlement negotiation. Thus, except where the context otherwise requires, such as where the settlement of one issue relates to or is dependent on the settlement of another issue, the settlement of each issue is independent of the settlement of all other issues.

The results of this settlement proceeding are as follow:

Terms Used in this Agreement	Issue Numbers
Complete Settlement: In this proceeding, "complete settlement" means the entire issue is settled and all parties agree with the settlement.	1, 2, 4, 5, 6, 7, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22
Incomplete Settlement: In this proceeding, "incomplete settlement" means some aspects of the issue are settled and some remain unsettled. All parties agree with the settled aspects of the issue.	3, 8
No Settlement: In this proceeding, "no settlement" means the parties failed to reach agreement.	9, 10, 11

The Parties agree that this is a binding and enforceable settlement agreement as it relates to the Applicants' accounts 1562 if and when it is approved by the Board, provided that that this Agreement is binding and enforceable with respect to PowerStream Inc. only with respect to the Barrie Hydro account 1562.

The Parties further agree that this Agreement does not purport to be binding or enforceable with respect to any person, whether regulated entity or otherwise, that is not a party hereto, including without limitation any member of the Coalition of Large Distributors or the Electrical Distributors Association.

It is agreed that this Settlement Agreement is without prejudice to any of the Parties re-examining these issues in any subsequent proceeding and taking positions inconsistent with the resolution of these issues in this Settlement Agreement, and distributors other than the Applicants are not bound by the positions stated herein. However, none of the Parties will in any subsequent proceeding take the position that the resolution therein of any issue settled in this Settlement Agreement, if contrary to the terms of this Settlement Agreement, should be applicable to any of the Applicants with respect to their accounts 1562.

References to the evidence supporting this Agreement on each issue are set out in Appendix A to this Agreement. The remaining Appendices to the Settlement Agreement provide further evidentiary support by setting out the results of the settlement of the issues herein when applied to the factual situations of the three Applicants. The Parties agree that EnWin and PowerStream will each file an Appendix no later than October 7, 2010. Those Appendices will include SIMPIL model runs and continuity schedules that incorporate the terms agreed to in this Agreement. The Parties agree that the Halton Hills filing of March 19, 2010 is the most recent reflection of that Party's information and no further filing of SIMPIL models is required as part of this Agreement. The Parties agree that this Settlement Agreement and the Appendices form part of the record in EB-2008-0381.

The Appendices, except Appendix A, were prepared by individual Applicants as updates of their respective evidence in this proceeding. The other parties are relying on the accuracy and completeness of the Appendices in entering into this Agreement.

There is an approved issues list for this proceeding. The Parties have followed the issues list approved by the Board and attached to PO #8 to organize the components of this Settlement Agreement.

Agreements with Respect to the Issues

1) How should the stand-alone principle be applied in this proceeding?
   e.g. Should the Large Corporation Tax and Ontario Capital Tax thresholds/ exemptions be pro-rated among regulated and non-regulated companies in the corporate group or allocated for regulatory purposes 100%? Should the PILs tax proxy (expense) be based on the revenues, costs and expenses associated only with the distribution activities?

   Complete Settlement:

   The Parties agree that the regulatory principle referred to as the stand-alone principle was part of the Board's methodology for account 1562. The stand-alone principle should be applied in considering the calculation and clearance of Account 1562 unless there is a prior Board decision that states otherwise. The stand-alone principle applies to each of the Applicants, such that any tax thresholds or exemptions as well as any PILs tax proxies must be calculated based only on the regulated entity, without regard for any affiliates.

   Halton Hills and Barrie used the maximum exemptions for Ontario Capital Tax and Large Corporation Tax in each year 2001-2005 in the SIMPIL models filed in evidence. In 2002, EnWin received a Board decision which allows the sharing of the OCT and LCT exemptions for 2002 and 2003. EnWin shared the OCT and LCT exemptions in 2002 and 2003. EnWin used the maximum exemptions in 2004 and 2005.

   The Parties agree that each of these approaches to applying the stand alone principle is, in the circumstances of the Applicants, an appropriate way of complying with the Board's methodology.

   Reasons for Agreement:

   The stand-alone principle was reflected in the Board's application instructions "Application Filing Guidelines" dated December 2001.

2) Does the balance in account 1562 establish the obligation to, or the receivable from, the distributor's ratepayers? How should the 1563 contra account be cleared in conjunction with the disposition of the 1562 control account?

Complete Settlement:

Account 1562 is the control account and the balance in that account establishes the obligation to or receivable from the distributor's ratepayers. Account 1563 will be cleared at the same time as account 1562. Clearing account 1563 cannot result in an obligation to or receivable from the distributor's ratepayers.

The Parties agree that these respective functions for accounts 1562 and 1563 were part of the Board's methodology for account 1562. The three Applicants follow method #3 as described in the Board's April 2003 FAQ and use the contra account 1563.

The Parties agree that the following approach will be used to record the reductions in the account balances of 1562 and 1563. The Parties request that the Board approve rate riders to clear the amount in account 1562 over the disposition period(s) agreed to pursuant to the agreement on Issue 20 with no true-up except for input errors and reassessments. This rate rider will be multiplied by the kilowatt-hours or kilowatts for each class delivered each month to derive the dollars to enter into accounts 1562 and 1563. At the end of each month the distributor will record a journal entry with the appropriate sign to reduce the balance in account 1562. Also, at the end of the twelfth month an estimate of the unbilled PILs amount must be made and entered in account 1562. If account 1562 has a debit balance or a recovery from customers, the entry will be to debit 1563 and credit 1562. If the balance in account 1562 is a credit or payable to customers, then the entry will be to debit 1562 and credit 1563. See Issues 14, 15, 17, 19, 21 and 22.

Reasons for Agreement:

The Board established in the Frequently Asked Questions document dated April 17, 2003 that LDCs could select one of three approaches for recording balances in 1562. The Applicants all selected the approach that included the use of account 1563.

For disposition accounting relating to Account 1563, it is reasonable to use the guidance provided for the creation of the accounts.

3) Has the distributor correctly applied the true up variance concepts established by the Board's guidance?

Incomplete Settlement:

One part of this issue is completely settled, and the remainder is unsettled.

Settled. The Parties agree that the Board's methodology, in place at the relevant times, includes correcting all input errors. The Parties agree that the Applicants have corrected all identified input errors.

Unsettled. Except for the correction of input errors, the Parties do not agree on the scope of this issue.

Specifically, the Parties disagree about whether:

1) The issue includes both a determination of what true-up variance concepts were established by the Board's methodology, and then a review of the Applicants' implementation of the Board's methodology, or

2) The issue exclusively requires a determination of whether the Applicants properly implemented the Board's methodology.

For example:

The Parties disagree about making any adjustments to the SIMPIL models. Some parties believe that certain functions of the models should be corrected as erroneous, on the basis that they are inconsistent with the Board's methodology. Others believe that the models themselves are articulations of the Board's methodology, and to adjust the models is to change the Board's methodology that was in place at the relevant time.

Reasons for Agreement:

The Parties accept that where errors in data entry by an Applicant are identified prior to a Board decision ordering clearance of Account 1562, those errors should be corrected pursuant to the settlement provisions of Issue 15.

4) How should tax impacts of regulatory asset movements from 2001 to 2005 tax years be dealt with in the PILs true up model reconciliation?

Complete Settlement:

The Parties agree that regulatory assets should be excluded from PILs calculations both when they are created, and when they are collected, regardless of the actual tax treatment accorded those amounts.

In the case of Applicants Halton Hills and Barrie, their regulatory asset treatment was consistent with this principle, as set out in Appendices X (page x) and Y (page y) respectively.

In the case of Applicant EnWin, regulatory assets were included in the calculation, but as an indirect result when cost of service was once again introduced in 2006 a tax loss carryforward created by regulatory asset movements was credited in part to ratepayers in the calculation of rates. The Parties agree that the appropriate solution to this special case is as set out in Appendix Z (page z), which reflects the spirit of the general principle as applied to the facts of the unique EnWin situation.

Reasons for Agreement:

While the Parties do not agree that the *Report of the Board 2006 Electricity Distribution Handbook* is an authority that applies to the 2001-2005 period, the Parties do agree that the *Handbook*'s articulation of the Board's methodology in respect of regulatory asset treatment is representative of the Board's methodology that was in place from 2001-2005.

Page 61 of the *Report of the Board 2006 Electricity Distribution Rate Handbook* states:

> "A PILs or tax provision is not needed for the recovery of deferred regulatory asset costs, because the distributors have deducted, or will deduct, these costs in calculating taxable income in their tax returns."

5) Have the applicants appropriately calculated or determined the PILs tax amounts billed to customers?

Complete Settlement:

The Parties agree that the Applicants' actual monthly billing determinants multiplied by the PILs rate slivers from the 2002, 2004, 2005 (or other applicable) applications should be used to calculate the billed amounts for all years under examination.

The Applicants have provided evidence that shows how each calculated the recoveries using customer counts, kilowatt-hours and kilowatts multiplied by the PILs rate slivers from sheets 6 and 8 of the 2002 RAM worksheets, or other applicable application models. For Halton Hills see IRR #42, Appendix G on June 9, 2009; for Barrie IRR #39, Schedule 10 filed on May 27, 2009; and for EnWin, revised evidence filed on January 15, 2010.

Reasons for Agreement:

The Board's methodology is set out in the Board's April 2003 FAQ #2. In that FAQ it is noted that at the end of each month, the utility should make an entry crediting the portion of monthly billing that represents the recovery of PILs. In order to determine the dollar amounts for inclusion in account 1562, billing determinants should be used that are consistent with the distributor's rate calculation.

6) How should unbilled revenue be treated in the amounts recorded in 1562 relating to billings to customers? If information is not available to calculate unbilled revenue as at April 30, 2006 how should this be treated in the proceeding?

Complete Settlement:

The Parties agree that the Board's methodology was that the unbilled revenue should be factored into the amounts to be recorded for the period ended April 30, 2006. The resulting PILs entries may be made after April 30, 2006 to allow for the proper accounting to be completed. For the Applicants, the information is available to calculate unbilled revenue as at April 30, 2006.

Barrie recorded PILs recovered from customers in May and June 2006 using unbilled consumption prior to May 1, 2006 [IRR #40, May 27, 2009]. EnWin compiled the customer counts and the kWhs and kWs for the period January 1 to April 30, 2006 after April 30 and multiplied these billing determinants by the rate slivers [Worksheet 4, January 15, 2010]. Halton Hills calculated its total unbilled revenue by class as at April 30, 2006 and multiplied those dollars by the percentage of the PILs sliver divided by the total rate [IRR #43, Appendix G, June 2, 2009].

The Parties agree that each of these approaches to calculating unbilled revenues is, in the circumstances of the Applicants, an appropriate way of complying with the Board's methodology.

Reasons for Agreement:

Generally, distributors should have the information necessary to complete this calculation because they had to bill the customers for consumption for the period before May 1, 2006. The energy consumed prior to May 1, 2006 was to be billed at the rates in effect for that period. The PILs amount associated with that consumption would have been billed by the distributor (as part of the pro-ration of the consumption) using the rates in effect prior to May 1, 2006.

If the distributor cannot calculate the unbilled revenue amount at April 30, 2006, it can use the PILs amount billed to customers after April 30, 2006 for consumption prior to May 1, 2006.

7) If a regulated distributor has a service company or parent company that provides services to the distributor, and the service company or parent charges the distributor for labour including all overhead burdens, should the change in the post-employment benefit liability be reflected in the distributor's PILs reconciliations?

Complete Settlement:

The Parties agree that the Board's methodology in place at the relevant times was that the liability for the post employment benefit obligations should be shown in the records of the company that directly employs the people and issues the federal government Statement of Remuneration Paid (T4s). The movement in this liability can be used in the SIMPIL true-up methodology only if the people are directly employed by the regulated distributor and the distributor issues the T4s for these people. Any post-employment benefit liabilities for staff employed by service companies, or other affiliated or associated non-regulated companies, would not be used in the distributor's SIMPIL reconciliations.

Barrie and Halton Hills did not pay for personnel services provided by an affiliated service company during the period 2001 to 2005. The OPEB liability on the balance sheets of Barrie and Halton Hills relate to the people who were directly employed by these distributors. EnWin directly employed the staff to which the OPEB liability relates. In addition, EnWin paid for certain staff services provided by an affiliated company. These charges paid to the affiliated company did not result in an increase in the OPEB liability shown on EnWin's balance sheet which was used in the SIMPIL worksheet reconciliations of PILs true-up items.

The Parties agree that the OPEB liabilities used in the PILs calculations for each Applicant are reasonable based on the evidence that the projected benefits included in the OPEB liabilities relate to employees who are directly employed by the Applicants.

Reasons for Agreement:

The general principle that was part of the Board's methodology at the relevant times was that tax liabilities included in the distributor's return should be included in the PILs calculation. Post-employment benefit liabilities are accrued by the entity that directly employs the future recipients of post-employment benefits, and are thus among the liabilities included in the distributor's tax return only if the distributor is the direct employer of the employees.

8) How should the materiality threshold be applied to determine which amounts should be trued up?

Incomplete Settlement:

Parts of this issue have been completely settled, and the remainder is unsettled.

Settled. The Parties agree that the Board's methodology required that input errors be corrected by the Applicant. The materiality threshold is zero; that is, all input errors must be corrected.

The Parties further agree that where the Board has made a final order disposing of account 1562, the materiality threshold as described in Issue #15 applies to corrections arising out of reassessments.

The Parties further agree that where the Board has not made a final order disposing of account 1562, the protocol as described in Issue #17 applies to corrections arising out of reassessments, including the use of a zero materiality threshold.

Reasons for Agreement:

Unsettled. The Parties do not agree on what materiality threshold, if any, should be used within the SIMPIL models. In the models originally issued to each Applicant, it was left to the Applicant to select the materiality level applicable in its discrete circumstances. The blank worksheet models issued by the Board had the materiality limit set to zero. Based on filing instructions, the distributors were asked to choose the materiality limit to be used in segregating material reconciling items from non-material reconciling items and to input that number in the applicable TAXREC worksheet cell.

Barrie and EnWin submitted SIMPIL worksheet models with a number inserted in the materiality threshold cell. In March 2010, Halton Hills submitted SIMPIL models where it selected zero as the materiality threshold.

Settled. The Parties agree that where the use of a materiality threshold within a model creates a mis-match between additions and deductions, this should be corrected by deeming both sides of the equation to surpass the materiality threshold if any one side surpasses the materiality threshold.

Halton Hills' revised models submitted in March 2010 eliminated the mis-match that existed in its original evidence. Rather than net the two related amounts for bad debts and inserting the net number in the SIMPIL worksheets, the model by virtue of having the materiality threshold set to zero correctly trued up both amounts. This eliminated the added complexity of having to identify related offsetting items in the tax return, then calculating the net amount, and inserting the correct net amount into the correct cell in the SIMPIL worksheets.

EnWin and Barrie did not have this mis-match problem in the SIMPIL worksheet evidence they each submitted.
While based on the most current evidence the mis-match does not apply to any of the Applicants, it is possible that through the resolution of various issues, by settlement or

hearing, the numbers and calculations will change such that one or more Applicants may face a mis-match. If a mis-match does arise as a result of the resolution of other issues, the terms of this settlement will govern the treatment of that mis-match.

9) What are the correct tax rates to use in the true-up variance calculations?

No Settlement

10) How should the continued collection of the 2001 PILs amount in rates be considered in the operation of the PILs deferral account?

No Settlement

11) Should the SIMPIL true up to specified items from tax filings be recorded in the period after the 2002 rate year until the 2001 deferral account allowance was removed from rates?

No Settlement

12) For the period January 1 to April 30, 2006 what variances should be considered for true-up?

Complete Settlement:

The Parties agree that the Board's methodology requires that the variances for true-up are the pro-rated PILs proxy amounts included in rates for those 4 months and the billed amounts and unbilled PILs amounts for those 4 months.

The Applicants have calculated the applicable monthly PILs proxy for the stub period and entered the amounts in their PILs summary worksheets. The Applicants have calculated the amounts billed to customers [Issue 5], as well as appropriate estimates of unbilled revenue [Issue 6], and entered that data in the PILs summary worksheets. Carrying charge interest for the four months was calculated and entered on the PILs summary worksheets.

Reasons for Agreement:

These items for true-up were subject to true-up throughout the operation of account 1562. However, since no tax returns were filed for those 4 months in 2006, there is nothing to assist in the determination of any additional true-up items other than the three items specifically indentified in the previous paragraph.

13) Should the maximum interest expense allowable in rates be used as the threshold to determine the excess interest clawback? What is the consequence, if any, where actual debt levels exceeded deemed levels used for ratemaking purposes, resulting in the accumulation of a liability?

Complete Settlement

The Parties agree that the Board's methodology deemed the level of debt for ratemaking purposes, and the deemed interest rate, which resulted in the deemed interest expense that was included in the calculation of the PILs interest claw-back true-up amounts.

In the case of Applicants EnWin and Barrie, their treatment of deemed debt levels was consistent with this principle, as set out in Appendices X (page x) and Y (page y) respectively.

In the case of the Applicant Halton Hills, it filed PILs models on March 19, 2010 that reflected full interest claw-back, resulting in an April 30, 2006 Account 1562 balance of $688,028 (ie. owed to customers).

However, Halton Hills' 1999 rates were adjusted upwards by the Board in order to eliminate a loss in the 1999 financial statements (see the Board's order dated August 13, 2001 in RP-2000-0193/ EB-2000-0428/ EB-2001-0141). As this utility-specific adjustment pre-dated the PILs methodology, the parties negotiated a corresponding reduction in the April 30, 2006 Account 1562 balance of $688,208 to $418,028, a reduction of $270,000.

PowerStream does not agree with the settlement of this proposal. PowerStream's position is that the level of debt for each utility should be determined by reference to the prudence of the debt that a utility incurred and that a utility should be entitled to defend its debt level - and the consequence of its debt level on PILs -by reference to prudence. Having said this, Barrie Hydro, which merged into PowerStream, and which is a named applicant in this proceeding, is prepared to accept the cost implications of the settlement on this issue and does not believe that it is necessary for this issue to go to a hearing in this case. The remaining utilities that have merged into PowerStream (the "PowerStream South Utilities") reserve the right to address the prudence of their actual debt levels - and the consequence of their debt levels on PILs - in their utility specific proceedings.

Reasons for Agreement:

In "General Comments" note #12 of the January 18, 2002 PILs filing instructions the following information appeared: "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." Footnote 12 in the same filing instructions stated that "True up for excess interest will apply as of the tax filing date."

In the SIMPIL filing instructions for 2002 RRR and subsequent years issued in 2003 (2004), true-up adjustments were identified on page 16. Under the third bullet it states: "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."
[Part V refers to a section of the SIMPIL TAXCALC worksheet.]

14) Should the final balances in account 1562 that will be approved for disposition be transferred to account 1590 Recovery of Regulatory Asset Balances or account 1595?

Complete Settlement:

The Parties agree that the Applicants should retain account 1562 and account 1563. The Applicants in this proceeding should progressively "zero" the balances as monthly disposition occurs, and not transfer balances to either account 1590 or 1595.

Under Issue 2 above, the Parties have agreed how the Applicants will reduce the balances in accounts 1562 and 1563 as future billings occur. Distributors who did not use method 3 as described in the Board's FAQ of April 2003 may need to transfer the balances to account 1595.

Reasons for Agreement:

The Board has not issued a FAQ on disposition of account 1562 and account 1563. The Parties agree that it is reasonable that accounting for disposition would follow similar guidance to that used in the creation of the balances which was explained in the April 2003 FAQ.

Accounts 1562 and 1563 were last actively used (e.g. for purposes other than adding interest and making corrections as part of this proceeding) in early 2006. Through this Agreement, the Parties are seeking to close out the deferred PILs issue as it relates to the Applicants. Transferring balances to accounts 1590 or 1595 would be contrary to that objective. Keeping the balances isolated in accounts 1562 and 1563 and administering disposition and other resolution on that isolated basis is preferred.

15) Should the disposition of account 1562 be final in this proceeding? How and if at all should subsequent reassessments be handled in the future?

Complete Settlement:

The Parties agree that where the Board has made a final order disposing of account 1562, and an Applicant later receives a tax reassessment, the Applicant must rerun the applicable SIMPIL model for the regulatory PILs year that corresponds with the original tax return, using the reassessed figures, but otherwise in all cases in a manner consistent with the terms of this Settlement Agreement and the information set forth in Appendices X through Z.

Where the difference between the revised balance in account 1562, and the dollar amount ordered to be collected from or returned to ratepayers, exceeds 0.1% of the Applicant's revenue requirement as reflected in its most recent Cost of Service decision, the Applicant must file evidence in its next Cost of Service or IRM application explaining the reasons for this difference and proposing disposition of the difference in a manner consistent with the principles set forth in this Agreement.

The Parties agree that appropriate implementation will be the subject of those future Cost of Service and IRM applications, as applicable.

Reasons for Agreement:

The Board established the general use of materiality thresholds in the PBR 1 Handbook, 2006 EDR Handbook, IRM2 and IRM3 Reports of the Board, but did not establish a specific materiality threshold for reassessments relating to the Account 1562 balance.

In Section 3.2 on page 12 of the *2006 Electricity Distribution Handbook* it states:

> "Non-routine/unusual for 2004 only and exceeding materiality threshold of 0.2% of total distribution expenses before PILs."

A materiality threshold expressed as 0.1% of revenue requirement is an analogous threshold for most distributors as 0.2% of distribution expenses before PILs. Therefore, the Parties agree it is a reasonable choice for this situation, consistent in principle with materiality thresholds ordered by the Board in other situations.

16) If the PILs principal variances were re-calculated, how should the interest carrying charges be re-calculated?

Complete Settlement:

The Parties agree that interest is to be recalculated if necessary to follow any Board decision to recalculate principal balances. Interest may be calculated on a monthly basis using Excel spreadsheets designed for this purpose if the distributor chooses. Annual average interest calculations would also be acceptable. In the case of annual average interest calculations, the effective date of any recalculated principal amount will be assumed to occur at mid-year. The applicable interest rate approved by the Board for the period 2001 through April 30, 2006 would be used.

Reasons for Agreement:

Article 220 [pages 26 and 27] of the Accounting Procedures Handbook describes the calculation of carrying charges to be done on a monthly basis. The Applicants have all recalculated carrying charges on a monthly basis.

17) Should the final tax items in the original, amended, assessed or reassessed tax returns be used for the purposes of calculating true-up calculations?

Complete Settlement:

The Parties agree that where the Board has made a final order disposing of account 1562, the protocol described under Issue #15 applies.

The Parties further agree that where the Board has not made a final order disposing of account 1562, and the Applicant receives a tax reassessment, for any of the tax years 2001 to 2005 inclusive, the Applicant must rerun the applicable SIMPIL model using the reassessed figures. The model would be rerun for the regulatory PILs year that corresponds with the year of the original tax return that has been reassessed. Any incremental change to the balance in account 1562 must be disclosed, with supporting evidence, in the Applicant's application in which it seeks or is mandated to apply for disposition of account 1562. In this situation, there is no materiality threshold.

The Parties agree that ongoing appropriate implementation will be dealt with in that application for disposition, as determined by the Board based on the circumstances of the individual Applicant.

Reasons for Agreement:

The general principle is that the most recent information is to be provided to the Board for its use in deciding upon the disposition of deferral and variance accounts.

18) Should the dollar impact of the repeal of the federal Large Corporation Tax (LCT) applicable for the period January 1 to April 30, 2006 be recorded in account 1562?

Complete Settlement:

Halton Hills takes no position on this issue as Halton Hills was not subject to LCT.

The remaining Parties agree that the Board's methodology that was in place at the relevant times was for the dollar impact of the repeal of the federal Large Corporation Tax applicable for the period January 1 to April 30, 2006 to be recorded in account 1562 or account 1592. FAQ July 2007 describes the methodology for calculating the amounts to be recorded in accounts 1562 and 1592. Parties do not agree that a reference issued after April 30, 2006 should be used as an authority for the period up to April 30, 2006. However, the Parties agree that the proportion of grossed-up LCT from the 2005 EDR application model which applied to the four-month period from January 1 to April 30 2006 should be recorded in account 1562 as a reduction of the PILs obligation for that period.

Reasons for Agreement:

The Board has required in many proceedings that distributors must account for changes in tax legislation. The federal government repealed LCT retroactive to January 1, 2006. The distributor should account for the impact of this change in tax legislation.

19) How should the final balance in account 1562 be allocated to the customer classes for rate recovery?

Complete Settlement:

The Parties agree that allocation to customer classes should be performed on the basis of the test year distribution revenue allocation to customer classes found in the Applicant's Cost of Service application that was most recently approved at the time of disposition of the 1562 account balance.

Reasons for Agreement:

The Board has provided guidance on page 20 of the May 27, 2009 *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications*, Section 2.8.3, Revenue to Cost Ratios and Appendix 2-P, Cost Allocation, page 45.

20) Over what time period should the final balance in account 1562 be disposed by rate rider?

Complete Settlement:

The Parties agree that the Board's methodology does not establish a specific time period for disposition. Rather, the Board should consider the time period for disposition on a case by case basis, considering the particular circumstances of the Applicant, customer bill impacts, and such other factors as the Board may at the time determine to be relevant.

Based on currently proposed balances for disposition:

- PowerStream proposes that the Barrie disposition take place over one year;
- EnWin proposes that its disposition take place over one year; and,
- Halton Hills proposes that its disposition be deferred at this time and addressed in its Cost of Service Rate Application for rates effective May 1, 2012.

The Parties agree that based on the current balances, there disposition periods are appropriate. In the event that the balances change as a result of the Board's determinations in this matter, the Parties agree that revised positions may be expressed at a time and in a manner deemed appropriate by the Board (e.g. final submissions).

Reasons for Agreement:

The Board generally considers bill impacts in setting just and reasonable rates. The situation of each distributor will need to be reviewed in determining what time period serves the distributor and its customers best.

21) Should interest carrying charges be forecast to a future date of disposition? If so, what date? What interest rate(s) should be used?

Complete Settlement:

The Parties agree that the calculation of carrying charges for the amounts proposed to be disposed of be based on a forecast up to the effective date of the rate change.

The interest rate should be the Board-approved prescribed interest rate for regulatory accounts as published on the Board's website for the quarter in which the calculation is made subsequent to April 30, 2006. For the period 2001 to April 30, 2006 the Board-approved deemed long-term debt rate for the distributor will be used.

The Applicants have proposed that interest carrying charges should be forecast to the date that the disposition order becomes effective using the Board's prescribed interest rate for regulatory accounts. See Issue 16.

Reasons for Agreement:

The Board's rate application models provide for the calculation of carrying charges using the Board's prescribed interest rates.

22) What billing determinant(s) should be used to recover the final amount in account 1562? That is, by the fixed and variable charges, fixed charge only, or variable charge only?

Complete Settlement:

The Parties agree that the appropriate billing determinants are kWh or kW for classes billed on a volumetric basis and number of connections for classes billed on a per connection basis. Each Applicant should use the test year data from its most recently approved Cost of Service application that is available at the time the balances are cleared to derive a variable charge rate rider by class.

Reasons for Agreement:

The Board allowed the variable rate charge to be used to recover PILs in 2004 and 2005 EDR.

On page 24 of the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) it is stated:*

> "The Board agrees that a volumetric rate rider to dispose of the deferral and variance account balances is appropriate."

EB-2008-0381
Account 1562 - Deferred Payments in Lieu of Taxes (PILs) Combined Proceeding
Appendix A to Proposed Settlement Agreement
September 30, 2010

This Appendix lists some of the documents and evidence on the record of this proceeding that the parties suggest would be relevant to the Board in its consideration of the settled issues. In addition, where there has been no settlement on an issue, selected documents and evidence on the record to date have been listed for ease of reference. Parties anticipate that additional evidence will be adduced on the unsettled issues during the oral hearing.

The Board documents referred to below (Board documents have a year at the beginning of the title) have been posted to the PILs web page on the Board website for ease of reference. All documents and evidence referred to below can be found in the webdrawer file at: http://www.rds.oeb.gov.on.ca/webdrawer/webdrawer.dll/webdrawer/search/rec?sm_udf10=*EB-2008-0381*&sortd1=rs_dateregistered&rows=200

Issue 1: How should the stand-alone principle be applied in this proceeding?
e.g. Should the Large Corporation Tax and Ontario Capital Tax thresholds/ exemptions be pro-rated among regulated and non-regulated companies in the corporate group or allocated for regulatory purposes 100%? Should the PILs tax proxy (expense) be based on the revenues, costs and expenses associated only with the distribution activities?

- 2002_Application_PILs_proxy_notes_180102.pdf **Ref:** Appendix B, page 1, bullets 3 and 5; Footnotes 17B, 20A&B
- 2006_SIMPIL_2005 tax year_appendix A, B_040706.pdf **Ref:** Appendix A, Item 16, page 7; Item 19, page 8.
- 2006_EDR Handbook_Board Report_110505.pdf **Ref:** Interest deduction, page 58; Sharing of tax exemptions, page 59.
- 2006_EDR_Rate Handbook_110505.pdf **Ref:** Chapter 7, paragraph 7.2.2
- Barrie, 03/12/2010, IRRs # 5
- Halton Hills, 03/15/2010, IRRs # 4
- EnWin, 03/19/2010, IRRs # 5

Issue 2: Does the balance in account 1562 establish the obligation to, or the receivable from, the distributor's ratepayers? How should the 1563 contra account be cleared in conjunction with the disposition of the 1562 control account?

- 2003_APH_FAQs_April2003.pdf **Ref:** pages 8 – 9
- Barrie, 05/27/2009, IRRs # 51
- Halton Hills, 06/02/2009, IRRs # 53
- EnWin, 04/30/2009, IRRs # 55

Issue 3: Has the utility correctly applied the true up variance concepts established by the Board's guidance?

- 2001_PILs letter_Announce Consultation 2001_240801.pdf
- 2002_Applications_RAM Instructions_Jan18,2002.pdf **Ref:** page 1, II PILs Provision, paragraph 2; b) vi) Capital Taxes.
- 2003_APH_FAQs_April2003.pdf **Ref:** page 5, entry 2
- 2004_SIMPIL-Model Guide_210704_December 31, 2003 Tax Year.pdf **Ref:** Page 3, Security of the SIMPIL spreadsheets
- 2005_SIMPIL_AppendicesAB_RRR_2.1.8_Dec.31,2004_Tax Year.pdf **Ref:** Item 20

- 2006_SIMPIL_2005 tax year_instructions_040706.pdf **Ref:** pages 6, Tax Rates Spreadsheet, pages 8-9.
- 2006_SIMPIL_2005 tax year_appendix A, B_040706.pdf **Ref:** Appendix A, page 13.
- Barrie, 05/27/2009, IRRs # 1,4,10,12,13, 14, 15, 18,19,21,22, 24, 27, 28, 33, 49, 50
- Barrie, 03/12/2010, IRRs # 4, 6, 13, 14
- Halton Hills, 06/02/2009, IRRs # 13, 16, 17, 21, 24, 26, 28, 29, 30, 51, 52
- Halton Hills, 03/15/2010, IRRs # 5, 6, 7, 8, 34
- EnWin, 04/30/2009, IRRs # 4, 5, 6, 7, 8, 18, 21, 24, 27, 30, 32, 33, 53, 54
- EnWin, 03/19/2010, IRRs # 6, 7,

Issue 4: How should tax impacts of regulatory asset movements from 2001 to 2005 tax years be dealt with in the PILs true up model reconciliation?

- 2001_Financial Distress_PILs_Letter_Sep.17,2001.pdf **Ref:** Method#1, page 3, step 6, bullet 2.
- 2002_Applications_RAM Instructions_Jan18,2002.pdf **Ref:** II PILs Provision, page 3, b) iii) Transition Costs, bullet 2.
- 2004_SIMPIL-Model Guide_210704_December 31, 2003 Tax Year.pdf **Ref:** Page 8, Item 5; page 9, Item 10.
- 2006_EDR Handbook_Board Report_110505.pdf **Ref:** Chapter 7, Regulatory assets and liabilities, page 61.
- 2005_SIMPIL_AppendicesAB_RRR_2.1.8_Dec.31,2004_Tax Year.pdf **Ref:** Appendix A Items 5 & 10.
- 2006_SIMPIL_2005 tax year_appendix A, B_040706.pdf **Ref:** Appendix A, Item 5, page 5; item 10, page 6.
- 2008_EnWin_EB-2007-0522_Decision_Order_20080104.pdf
- Barrie, 05/27/2009, IRRs # 6, 8, 9, 17, 20, 23.
- Barrie, 03/12/2010, IRRs # 7
- Halton Hills, 06/02/2009, IRRs # 4, 12, 18, 19, 22, 23
- EnWin, 04/30/2009, IRRs # 15, 16, 17, 22, 23, 25, 26, 28, 29,
- EnWin, 03/19/2010, IRRs # 8, 9

Issue 5: Have the applicants appropriately calculated or determined the PILs tax amounts billed to customers?

- 2002_Applications_RAM Instructions_Jan18,2002.pdf **Ref:** Appendix A, pages 3-4, Sheet 6, 7, 8, 9.
- 2003_APH_FAQs_April2003.pdf **Ref:** pages 8 - 9
- 2004_Applications_Reg Assets_Phase 1_Regulatory Asset Filing Guidelines_150104.pdf **Ref:** Appendix A, page 2, Sheets 7-8
- 2006_SIMPIL_2005 tax year_instructions_040706.pdf **Ref:** PILs 1562 Calculation, pages 9-10.
- Barrie, 05/27/2009, IRRs # 37, 38, 39
- Barrie, 03/12/2010, IRRs # 8
- Halton Hills, 06/02/2009, IRRs # 40, 41, 42
- Halton Hills, 03/15/2010, IRRs # 10
- EnWin, 04/30/2009, IRRs # 43, 44, 45,

- EnWin, 03/19/2010, IRRs # 10

Issue 6: How should unbilled revenue be treated in the amounts recorded in 1562 relating to billings to customers? If information is not available to calculate unbilled revenue as at April 30, 2006 how should this be treated in the proceeding?

- No specific instructions
- 2002_Applications_RAM Instructions_Jan18,2002.pdf **Ref:** Appendix A, pages 3-4, Sheet 6, 7, 8, 9.
- 2004_Applications_Reg Assets_Phase 1_Regulatory Asset Filing Guidelines_150104.pdf **Ref:** Appendix A, page 2, Sheets 7-8
- Barrie, 05/27/2009, IRRs # 40, 41.
- Barrie, 03/12/2010, IRRs # 9
- Halton Hills, 06/02/2009, IRRs # 33, 43, 44
- Halton Hills, 03/15/2010, IRRs # 11
- EnWin, 04/30/2009, IRRs # 46, 47
- EnWin, 03/19/2010, IRRs # 11

Issue 7: If a regulated distributor has a service company or parent company that provides services to the LDC, and the service company or parent charges the distribution utility for labour including all overhead burdens, should the change in the post-employment benefit liability be reflected in the distributor's PILs reconciliations?

- 2002_Applications_RAM Instructions_Jan18,2002.pdf **Ref:** II PILs Provision, page 4, b) v) Employee Benefits.
- 2002_Application_PILs_proxy_notes_180102.pdf **Ref:** Footnotes 4 & 9
- Barrie, 03/12/2010, IRRs # 10
- Halton Hills, 03/15/2010, IRRs # 12
- EnWin, 04/30/2009, IRRs # 9, 10, 11, 12, 13, 14
- EnWin, 03/19/2010, IRRs # 12

Issue 8: How should the materiality threshold be applied to determine which amounts should be trued up?

- 2002_Application_PILs_proxy_notes_180102.pdf **Ref:** Notes to Proxy Model, General Comments, #9; Footnotes 7 and 13.
- 2004_SIMPIL-Model Guide_210704_December 31, 2003 Tax Year.pdf **Ref:** Page 15, paragraph 3.
- 2006_SIMPIL_2005 tax year_appendix A, B_040706.pdf **Ref:** Appendix A, Item 6, page 6; item 12, page 7.
- Barrie, 03/12/2010, IRRs # 11, 13, 14
- Halton Hills, 03/15/2010, IRRs # 13
- EnWin, 03/19/2010, IRRs # 13

Issue 9: What are the correct tax rates to use in the true-up variance calculations?

- 2002_Application_PILs_proxy_notes_180102.pdf **Ref:** Notes to Proxy Model, General Comments, #7; Footnotes 14 and 15C.

- 2003_APH_FAQs_April2003.pdf **Ref**: page 4, footnote 1.
- 2004_SIMPIL-Model Guide_210704_December 31, 2003 Tax Year.pdf **Ref:** Page 15, Miscellaneous Tax Credits; page 17, tax rates, first 5 paragraphs.
- 2006_SIMPIL_2005 tax year_instructions_040706.pdf **Ref:** page 6
- 2009_T2 Corporation Income Tax Return.pdf
- Barrie, 05/27/2009, IRRs # 2, 3, 4, 10, 12, 14, 15, 16, 22, 25,
- Barrie, 03/12/2010, IRRs # 4, 12, 13, 14
- Halton Hills, 06/02/2009, IRRs # 3, 5, 6, 7, 8, 9, 10, 14, 15,
- Halton Hills, 03/15/2010, IRRs # 14
- EnWin, 04/30/2009, IRRs # 3, 19, 20,
- EnWin, 03/19/2010, IRRs # 14

Issue 10: How should the continued collection of the 2001 PILs amount in rates be considered in the operation of the PILs deferral account?

- “Decisions for Rates Effective March 1, 2002”, filed as Exhibit 3 on Issues Day
- Barrie, 05/27/2009, IRRs # 26, 29, 30.
- Barrie, 03/12/2010, IRRs # 15
- Halton Hills, 06/02/2009, IRRs # 31, 32,
- Halton Hills, 03/15/2010, IRRs # 15
- EnWin, 04/30/2009, IRRs # 35, 36,
- EnWin, 03/19/2010, IRRs # 15
- CLD Appendix #3, 02/09/2010

Issue 11: Should the SIMPIL true up to specified items from tax filings be recorded in the period after the 2002 rate year until the 2001 deferral account allowance was removed from rates?

- Barrie, 05/27/2009, IRRs # 26, 29, 30, 31.
- Barrie, 03/12/2010, IRRs # 15
- Halton Hills, 03/15/2010, IRRs # 15
- EnWin, 04/30/2009, IRRs # 35, 36
- EnWin, 03/19/2010, IRRs # 15
- CLD Appendix #3, 02/09/2010

Issue 12: For the period January 1 to April 30, 2006 what variances should be considered for true-up?

- 2003_APH_FAQs_April2003.pdf **Ref:** page 2 Q.2 bullet 1
- Barrie, 05/27/2009, IRRs # 26, 31
- Barrie, 03/12/2010, IRRs # 16
- Halton Hills, 06/02/2009, IRRs # 34
- Halton Hills, 03/15/2010, IRRs # 16
- EnWin, 04/30/2009, IRRs # 37
- EnWin, 03/19/2010, IRRs # 16

Issue 13: Should the maximum interest expense allowable in rates be used as the threshold to determine the excess interest clawback? What is the consequence, if any, where actual debt levels exceeded deemed levels used for ratemaking purposes, resulting in the accumulation of a liability?

- 2002_Application_PILs_proxy_notes_180102.pdf **Ref:** #12 and Footnote 12
- 2004_SIMPIL-Model Guide_210704_December 31, 2003 Tax Year.pdf **Ref:** Page 16, Items to be included in True-up Adjustments, bullet 3.
- 2006_EDR Handbook_Board Report_110505.pdf **Ref:** Interest deduction, page 58.
- 2006_EDR_Rate Handbook_110505.pdf **Ref:** Chapter 7, s.7.2.6 Interest deduction, page 63; Schedule 7-3 Interest Expense, page 69.
- Barrie, 03/12/2010, IRRs # 17, 18
- Halton Hills, 06/02/2009, IRRs # 11, 20, 25
- Halton Hills, 03/15/2010, IRRs # 19, 20, 21, 22, 23, 24, 25, 26, 28, 30, 31, 33, 34,
- Halton Hills, 03/24/2010, IRRs # 21
- EnWin, 03/19/2010, IRRs # 17

Issue 14: Should the final balances in account 1562 that will be approved for disposition be transferred to account 1590 Recovery of Regulatory Asset Balances or account 1595?

- No specific instruction
- Barrie, 03/12/2010, IRRs # 21
- Halton Hills, 06/02/2009, IRRs # 53
- EnWin, 04/30/2009, IRRs # 55
- EnWin, 03/19/2010, IRRs # 18

Issue 15: Should the disposition of account 1562 be final in this proceeding? How and if at all should subsequent reassessments be handled in the future?

- No specific instruction
- Barrie, 05/27/2009, IRRs # 48
- Barrie, 03/12/2010, IRRs # 21
- Halton Hills, 06/02/2009, IRRs # 50
- EnWin, 04/30/2009, IRRs # 52
- EnWin, 03/19/2010, IRRs # 18

Issue 16: If the PILs principal variances were re-calculated, how should the interest carrying charges be re-calculated?

- No specific instruction
- 2001_APH_USoA_Art 210 to 240_201201.pdf **Ref:** page 8
- 2007_APH_FAQs_July2007.pdf **Ref:** Q.5
- Barrie, 05/27/2009, IRRs # 34, 35, 36, 43, 44.
- Barrie, 03/12/2010, IRRs # 19
- Halton Hills, 06/02/2009, IRRs # 37, 38, 39
- EnWin, 04/30/2009, IRRs # 41, 42
- EnWin, 03/19/2010, IRRs # 18

Issue 17: Should the final tax items in the original, amended, assessed or reassessed tax returns be used for the purposes of calculating true-up calculations?

- No specific instruction
- Barrie, 05/27/2009, IRRs # 32, 33
- Barrie, 03/12/2010, IRRs # 21
- Halton Hills, 06/02/2009, IRRs # 35, 36
- EnWin, 04/30/2009, IRRs # 38, 39
- EnWin, 03/19/2010, IRRs # 18

Issue 18: Should the dollar impact of the repeal of the federal Large Corporation Tax applicable for the period January 1 to April 30, 2006 be recorded in account 1562?

- 2007_APH_FAQs_July2007.pdf **Ref:** Q. 1 - 5
- Barrie, 05/27/2009, IRRs # 42
- Barrie, 03/12/2010, IRRs # 20
- EnWin, 04/30/2009, IRRs # 40
- EnWin, 03/19/2010, IRRs # 18

Issue 19: How should the final balance in account 1562 be allocated to the customer classes for rate recovery?

- 2004_Applications_Reg Assets_Phase 1_Regulatory Asset Filing Guidelines_150104.pdf **Ref:** Appendix A, page 2, Sheet 7
- 2006_EDR_Rate Handbook_110505.pdf **Ref:** s.9.2, page 76-77.
- Ref: Barrie, 03/12/2010, IRRs # 21
- Ref: EnWin, 03/19/2010, IRRs # 18

Issue 20: Over what time period should the final balance in account 1562 be disposed by rate rider?

- No specific instruction, but consistent with general regulatory policy e.g. EDDVAR
- Barrie, 05/27/2009, IRRs # 46
- Barrie, 03/12/2010, IRRs # 21
- Halton Hills, 06/02/2009, IRRs # 48,
- EnWin, 04/30/2009, IRRs # 50
- EnWin, 03/19/2010, IRRs # 18

Issue 21: Should interest carrying charges be forecast to a future date of disposition? If so, what date? What interest rate(s) should be used?

- No specific instruction, but Board has allowed this method for calculation of carrying charges for recovery.
- 2004_Regulatory Asset Decision_091204.pdf **Ref:** paragraphs: 9.0.9; 9.0.12; 10.0.12; 10.0.19.
- Barrie, 05/27/2009, IRRs # 45
- Barrie, 03/12/2010, IRRs # 21

- Halton Hills, 06/02/2009, IRRs # 47
- EnWin, 04/30/2009, IRRs # 49
- EnWin, 03/19/2010, IRRs # 18

Issue 22: What billing determinant(s) should be used to recover the final amount in account 1562? That is, by the fixed and variable charges, fixed charge only, or variable charge only?

- 2002_Applications_RAM Instructions_Jan18,2002.pdf **Ref:** Appendix A, pages 3-4, Sheet 6, 7, 8, 9.
- 2004_Applications_Reg Assets_Phase 1_Regulatory Asset Filing Guidelines_150104.pdf **Ref:** Appendix A, page 2, Sheet 7
- Barrie, 05/27/2009, IRRs # 47
- Barrie, 03/12/2010, IRRs # 21
- Halton Hills, 06/02/2009, IRRs # 49
- EnWin, 04/30/2009, IRRs # 51
- EnWin, 03/19/2010, IRRs # 18

Ontario Energy Board Interrogatory # 63

Ref: Exhibit 9 / Tab 1/ Schedule 5.0 – Tax Impacts of Movements in Regulatory Asset and Liability Balances

a) How did Hydro One Brampton deal with tax impacts of regulatory asset and liability movements, and collections of same, from the 2001 to 2005 tax years in the SIMPIL/ PILs true-up model reconciliations? Regulatory assets and liabilities refer to the established range of accounts plus the new 1590 and 1595 accounts.

Response:

Hydro One Brampton excluded regulatory assets/liability movements from PILs calculations both when they were created, and when they were collected, regardless of the actual tax treatment used for those amounts. Hydro One Brampton accounted for these as items that are not trued up in the TaxRec3 tab of the SIMPIL models for each year from 2001 to 2005.

b) Did Hydro One Brampton follow the guidance in the 2004 and 2005 RRR SIMPIL filing guidelines concerning regulatory asset movements being excluded in the determination of true-up amounts?

Response:

Yes, the Company believes it has followed the guidelines.

c) Did Hydro One Brampton follow the guidance provided in Chapter 7, page 61, of the Report of the Board on 2006 EDR Handbook regarding movements in regulatory assets?

Response:

Yes, the Company believes it has followed the guidelines.

d) Since Hydro One Brampton has collected the regulatory asset amounts (other than 1562 and 1592), and has received the benefit of declining income tax rates during the period 2001 to 2009, should the movement in these deferral and variance accounts be used to determine additional true-up amounts from ratepayers in the SIMPIL/ PILs calculations? Please explain.

Response:

No. The true up amount up to 2006 captured these benefits of declining tax rates and then subsequent to that changes that resulted from tax rates were tracked in a variance account submitted in your models?

MR. GAPIC: It is Hydro One Brampton's understanding that the 2001 stub period items are only trued-up during -- in the 2001 SIMPIL model.

In addition Hydro One Brampton understands that there was no requirement to true-up 2001 stub period items from 2002 through 2004 based on the true-up methodology as established within the calculations that the SIMPIL models performs, within the 2002 through the 2004 SIMPIL models.

MR. SKINNER: Thank you. Board Staff Interrogatory No. 11, and this relates back to the original interrogatories, No. 63 as well as Nos. 67, 69 and 70.

In its response to Board staff Interrogatory 63(a), Hydro One Brampton states:

> “Hydro One Brampton excluded regulatory assets liability movements from PILs calculations, both when they were created and when they were collected, regardless of the actual tax treatment used for those amounts. Hydro One Brampton accounted for these as items that are not trued-up in the tax rec 3 tab of the SIMPIL models for each year from 2001 to 2005."

But in the tax reserve schedule that is part of the model, you showed an item that you called "Bill 4 deferred revenue" which amounts to $2.9 million in 2005, has a balance of 6.6 million at the end of -- sorry, 2004 was 2.9 million. At the end of 2005, the balance was 6.6 million and the movement was 3.7 million, and there is also notes in your audited financial statements that go on to discuss recoveries of regulatory answers -- of regulatory assets.

The supplementary question is:

"Please explain why these collections have not been excluded from the determination of the SIMPIL true-up items for ratepayers in accordance with your response above."

MR. GAPIC: Hydro One Brampton does not consider these amounts are movements of regulatory assets. The amounts noted were provisions made by the company for tax purposes, since it wasn't known at time of filing our tax returns for 2004 and 2005 that the company would receive final approval for the amounts recovered to date.

The amounts are posted to account 1590 in provision for tax purposes until the 2006 tax year when the Board granted final approval of the related regulatory asset balances. I have an excerpt from our notes to the financial statements that you are referring to, 2005 audited financial statements, note 9.

On March 21st, 2005 the OEB approved the company's request to continue to recover its regulatory asset balances, including interest recognized prior to 2004. These recoveries will be offset against the related assets once final OEB approval is received. Such approval is expected in the second quarter of 2006.

So we only had interim approval. Final approval didn't come until later on. Once there was a final approval, then basically these provisions were eliminated, but for 2004 and 2005, at the time the models -- the timing of -- time frame of the models when they were run, the -- these provisions were basically dealt with in that fashion.

And we've got a table, a hand-out, for you. We have also been asked to submit a revised schedule for account 1562. Would you like that right now or...

MR. SKINNER: If you haven't adjusted the 6.6 million, does it change any of the numbers in your table?

MR. GAPIC: By making -- by making these adjustments as you are suggesting, it did change the numbers in the table.

MR. SKINNER: So you moved the 6.6 million and 2.8 million to TAXREC 3 for purposes of --

MR. GAPIC: Yes, for the purposes of answering this question.

MR. SKINNER: Yes. Then it would be useful to have.

MS. HELT: We will mark this as Exhibit KT1.9.

EXHIBIT NO. KT1.9: UPDATED TABLE RELATING TO BOARD STAFF QUESTION 11.

MR. SKINNER: Just so I understand, you do agree that you posted the recoveries to account 1590?

MR. GAPIC: Correct.

MR. SKINNER: 1590 is considered a group 1 regulatory asset account?

MR. GAPIC: Correct.

MR. SKINNER: And the Board's instructions were that regulatory assets should not be included in the calculation of PILs?

MR. GAPIC: Yes. We weren't looking at it from the perspective of the inclusion in PILs. We were looking at it from the perspective of a provision; purely as a provision, not because the account balance was moving, but because there was uncertainty. We didn't know we were going to get those amounts.

Once there was a freeze on rates and once there was a lot of uncertainty regarding recovery of many different things, Hydro One Brampton took a conservative approach.

MR. SKINNER: Do you recall reading the letter from the Minister of Energy in 2004 or late 2003 permitting the Board to allow recovery of 25 percent of regulatory assets?

MR. GAPIC: If I recollect that, it was on an interim basis.

MR. SKINNER: But there was no restriction?

MR. GAPIC: Well, I can't remember that far back, but it does ring a bell of some degree.

MR. SKINNER: Okay. Sorry, was the schedule handed out? Oh, sorry.

So the 1.4 million does not include the interest claw-back, but does reflect the adjustment for the tax impact of the provisions?

MR. GAPIC: The original amount we filed for disposition was approximately $5.5 million.

MR. SKINNER: Okay.

MR. GAPIC: And that was removal of the claw-back. And in this figure here, basically all we've done from that

5.5 million is removed the aspect that you asked us to in the question.

MR. SKINNER: And that is approximately $3.7 million?

MR. GAPIC: It looks to be about that, yes.

MR. SKINNER: So if I refer to the original tables that you provided, you had one with interest claw-back and one without interest claw-back?

MR. GAPIC: Correct.

MR. SKINNER: With interest claw-back, it was 1,182,457?

MR. GAPIC: Hmm-hmm.

MR. SKINNER: And without interest claw-back, it was 5,162,000?

MR. GAPIC: Correct.

MR. SKINNER: So if you remove $3.7 million from the $1.2 million, then you would have a credit balance of something like $2.5 million, I think?

MR. GAPIC: If the -- you are basically making an adjustment for the interest claw-back?

MR. SKINNER: Yes. So your range of numbers, I think, is negative 2.5 million to a positive 1.5 million, depending whether the interest claw-back is considered or not considered.

MR. GAPIC: That would appear to be correct, yes.

MR. SKINNER: Okay. So it will rely on the Board's interpretation of whether account 1590 collections is a regulatory asset and should be excluded or whether, as you have characterized it, it is a provision pending the Board final approval of any amount collected?

MR. GAPIC: Correct.

MR. SKINNER: Okay. Number 12:

"In its response, Hydro One Brampton states: 'Income tax rates for 2001 through 2005 were calculated based on information in the tax returns for these years, that is, net income tax payable divided by net taxable income. The maximum income tax rate used to calculate true-up amounts is the difference between the legislated income tax rate and the federal surtax rate.'"

And the question we asked was:

"Please explain why you did not deduct the surtax rate from the calculated income tax rate described in the first sentence of the response."

MR. GAPIC: Hydro One Brampton agrees that the wording of that response is not totally representative. We've adjusted that wording, as follows:

The marginal income tax rates for 2001 through 2005 (calculated based on information in the tax returns for those years, that is, net income tax payable divided by taxable income) less the federal surtax rate was used for true-up purposes. The maximum income tax rate used to calculate true-up amounts is the difference between the legislated income tax rate and the federal surtax rate.

Also, the methodologies used in the updated SIMPIL models basically made those formulations and did those things automatically. We didn't have to adjust or change

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Ontario

January 15, 2004

To: All Electricity Distribution Utilities

Re: Filing Guidelines: Applications for the Recovery of Regulatory Assets for April 1, 2004 Distribution Rate Adjustments

On December 23, 2003, the Ontario Energy Board (the "Board") issued its preliminary filing guidelines regarding the rate recovery of Regulatory Assets effective March 1, 2004. These final guidelines are issued to provide further instruction and clarification on the rate application process and replace the preliminary guidelines.

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 their 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. The Regulatory Asset accounts are:

1508 Other Regulatory Assets
1518 Retail Cost Variance Account - Retail
1548 Retail Cost Variance Account - STR
1525 Miscellaneous Deferred Debits - includes costs of rebate cheques
1562 Deferred Payments in Lieu of Taxes
1563 PILs contra account
1570 Qualifying Transition Costs
1571 Pre-Market Opening Energy Variances
1572 Extraordinary Event Losses
1574 Deferred Rate Impact Amounts
1580 Retail Settlement Variance Account - Wholesale Market Service Charges
1582 Retail Settlement Variance Account - One-time Wholesale Market Service
1584 Retail Settlement Variance Account - Retail Transmission Network Charges
1586 Retail Settlement Variance Account - Retail Transmission Connection Charges
1588 Retail Settlement Variance Account - Power
2425 Other Deferred Credits

LDCs will be required to file applications for the recovery of the audited December 31, 2002 year-end balances in the Regulatory Asset accounts no later than January 23, 2004. LDCs should file 6 hard copies and 1 electronic copy of their application with the Board.

- **Scope of Recovery (final and/or interim rates)**

The Board will be reviewing a large number of applications within a very short time frame. In keeping with the Government's intention that Regulatory Assets be recovered over a four year period, the Board will provide for recovery of 25% of the total Regulatory Asset balances as at December 31, 2002 so that rate schedules can be amended for the March 1, 2004 effective date.

To this end, the Board's plan is to allow final recovery of the four primary Retail Settlement Variance Accounts (RSVA), effective March 1, 2004, up to a limit of 25% of the total regulatory assets applied for by each LDC. These accounts are:

1580	RSVA - Wholesale Market Service Charges
1584	RSVA - Retail Transmission Network Charges
1586	RSVA - Retail Transmission Connection Charges
1588	RSVA - Power

The four RSVA accounts will be approved on a final basis, subject to audit by the Board to validate account balance reporting.

If the total of these four accounts does not represent 25% of the total Regulatory Asset accounts, the remaining amount to reach the 25% threshold will be approved and the new rates set on an interim basis.

The Board's plan is that all other Regulatory Asset accounts will be reviewed for prudence by the Board after the initial April 1, 2004 rate schedules are issued. When these other Regulatory Assets or portions thereof are approved as final, amounts already recovered will be subtracted from the final total approved. The remaining balances will be recovered in three equal increments in each rate year from 2005 to 2007. The equal increments will be adjusted to reflect the actual recovery experience of LDCs.

The examples below illustrate this plan:

Example (1):

(a) Total Regulatory Assets applied-for (all accounts):	$ 1,000,000
(b) Total in the 4 designated RSVA accounts (approved for **final** recovery)	$ 500,000
(c) Amount recoverable [25% of (a)] for Mar.1, 2004 rates:	$ 250,000

(d) Subsequent final approval of non-RSVA accounts (reduced by $150,000 as a result of prudency review):	$	350,000
(e) Total for recovery (b+d):	$	850,000
(f) Total for recovery over 2005, 2006, 2007: (e-c)	$	600,000

In Example 1, the LDC applied for $1 million. Of that, $500,000 is in the 4 designated RSVA accounts and receives final approval. However, only $250,000 (25% of $1 million) is allowed for recovery in rates as of March 1, 2004. After a full prudency review of all accounts later in 2004, the Board gives final approval of $850,000 ($150,000 is disallowed) of the original $1 million (the $500,000 + $350,000 in other accounts). Therefore, the LDCs rates are adjusted to recover $600,000 over the next 3 years and total recovery is $850,000.

Example (2):

(a) Total Regulatory Assets applied-for (all accounts):	$	1,000,000
(b) Total in the 4 designated RSVA accounts (approved for **final** recovery)	$	200,000
(c) **Interim** amount approved to meet 25% threshold: (c-b)	$	50,000
(d) Amount recoverable [25% of (a)] for Mar.1, 2004 rates:	$	250,000
(e) Subsequent final approval of non-RSVA accounts (reduced by $150,000 as a result of prudency review):	$	650,000
(f) Total for recovery (e+b):	$	850,000
(g) Total for recovery over 2005, 2006, 2007: (f-d)	$	600,000

In Example 2, the LDC applied for $1 million. Of that, $200,000 is in the 4 designated RSVA accounts and receives final approval. However, $250,000 (25% of $1 million) is allowed for recovery in rates as of March 1, 2004; therefore another $50,000 in interim recoveries is granted. After a full prudency review of all accounts later in 2004, the Board gives final approval of $850,000 of the original $1 million (the $200,000 + $650,000 in other accounts). Therefore, the LDCs rates are adjusted to recover $600,000 over the next 3 years and total recovery is $850,000.

- **Evidence and Existing Regulatory Asset Filing Guidelines**

Utilities will not, at this time, be required to provide evidence justifying Regulatory Asset amounts. After the rate orders are issued effective March 1, 2004 and implemented on April 1, 2004, the Board will provide additional instructions for the filing of evidence to facilitate the prudency review of specific Regulatory Asset accounts. Utilities should have evidence prepared by the end of February, 2004.

Filing Guidelines regarding the Regulatory Asset accounts were released by the Board on September 15, 2003. In addition, specific Transition Cost filing guidelines were released on January 15, 2003. Both these documents are available from the Board's website at (www.oeb.gov.on.ca). LDCs are expected to review these guidelines and make any adjustment necessary to the balances reported to the Board in the Reporting and Record Keeping filings.

- **Reporting and Record-Keeping Requirements (RRR)**

The Regulatory Asset evidence submitted by the LDC will be compared to the electronic RRR filings previously made to the Board (Requirement 2.1.1 due March 2003 and 2.1.7 due April 2003). Any discrepancies between the rate recovery filing and the RRR filing will require justification. If the LDC has not yet submitted the electronic RRR filing it should make this filing in January 2004.

- **Previously Denied Amounts**

Any amounts previously denied by the Board in another proceeding should not be included the account balances in this application.

- **Recovery on Variable Rate**

The Board has determined that the Regulatory Assets approved for recovery on March 1, 2004 will be recovered through the variable rate only. The variable rate will be adjusted using the 2002 year end total kWh and kWs by class, as submitted by the LDC.

- **Recovery to be added to 2002 Base Rates**

At the time distribution rates were last adjusted on March 1, 2002, the previous RUD Model-determined rates were adjusted in most cases for IPI-X and the second 1/3 MARR increment. These adjusted rates appeared on Sheet 4 of the 2002 Rate Adjustment Model as Base Rates. The Board intends that these rates shall provide the base on which the approved Regulatory Asset rate recovery will be added.

- **Monthly Service Charges to remain constant**

The Monthly Service Charge for each LDC should remain the same as in current rates. The Rate Adjustment Model is designed to accommodate this adjustment to achieve rate stability in the Monthly Service Charge for each class.

In addition, in the interests of rate stability, if the removal of 2001 Q4 PILs, interim transition costs and/or Z-factors from current rates and the addition of 25% of

Regulatory Assets results in an overall rate decrease, the LDC may apply to recover a higher percentage of Regulatory Assets.

- **PILs Proxy for 2004**

The 2002 PILs proxy approved for the March 1, 2002 rate adjustment will be used as the PILs proxy for 2004.

- **Rate Adjustment Model**

In order to assist the LDCs in their applications to recover Regulatory Assets and to provide for revised rate schedules, the Board has issued the 2004 Rate Adjustment Model (similar to the 2002 RA Model). It can now be downloaded from the Board's website. Page by page documentation of the model is found in the attached Appendix A.

- **Notice**

The Board will publish a generic notice in major Ontario newspapers after the filing deadline to notify ratepayers that LDCs have applied for an increase in rates. The notice will indicate that application details and bill impacts will be available from the LDC office in their particular service area. The notice will invite ratepayer submissions to the proceedings including submissions with respect to the proposed April 1, 2004 rate increase.

- **Bill Impacts**

The last two sheets of the 2004 RA Model calculate estimated bill impacts for customers at various consumption levels. As other regulated rates and loss factors differ for each utility, the bill impacts should be viewed as estimates.

The model provides for the calculation of two bill impact estimates: The bill impact as a result of the change in distribution rates only; and, the bill impact of the distribution rate change as well as the Bill 4 change to the electricity commodity price from 4.3 cents/kWh to a tiered price (4.7 cents/kWh for the first 750 kWh and 5.5 cents/kWh for the balance of monthly consumption).

As the Board's generic notice will refer ratepayers to the individual utilities for further information on the rate applications, utilities should brief customer service staff on the details of the application and bill impacts. The common bill impacts usually quoted are Residential Customers using 1000 kWh per month and General Service <50kW customers using 2000 kWh per month. The Board's call center will use the submitted bill impact sheets to compile a list of bill impacts for all utilities to address concerns of ratepayers that call the Board.

- **Account 1571: Pre-Market Opening Energy Variance**

This account was established to capture the difference in the seasonal wholesale rates paid by the LDCs to Ontario Power Generation and the non-seasonal rates that ratepayers were subject to before the market opened. The Board expects LDCs that apply for recovery of these amounts will file evidence for separate amounts: 1) the January 1 to December 31, 2001 period; and, 2) the January 1 to April 30, 2002 period.

Disclosure requirements will be TOU, non-TOU and total power variances for each period. The balancing total will be the difference between the total amount the LDC incurred for power purchases and the total amount recovered from customers (including the unbilled revenue accruals). Rate recovery of any approved amounts will be from non-TOU customer classes only.

If an LDC's methodology differs from that noted above, a description of the methodology used is required at the time of filing.

- **Rate Changes on April 1, 2004**

The government has announced that LDCs can recover Regulatory Assets starting March 1, 2004. In addition, Bill 4 stipulates that the LDCs will introduce an inclining block structure pricing scheme for the electricity commodity on April 1, 2004. In order to minimize ratepayer concern and confusion regarding two electricity price increases in two months, the Board intends to approve the 25% Regulatory Asset amount for each LDC effective March 1, 2004 but for implementation on April 1, 2004. The approved amounts will be adjusted (grossed up) to allow recovery over 11 months. The approved distribution rates will be effective until February 28, 2005.

- **Implementation of New Rates**

In the Manager's Summary, utilities should provide the method of rate change implementation, ie, consumption will be pro-rated, with pre-April 1 consumption at the old distribution and commodity rates and post-April 1 consumption at the new distribution and tiered commodity rates; or proration is not possible and rates will be adjusted at the beginning of each customer's applicable billing cycle so that no pre-April 1 consumption is charged at the new rates.

- **Accounting for Recovered Amounts**

Any Regulatory Asset amounts recovered in rates after April 1, 2004 should be entered in a special-purpose balancing account to be used for disposition later when final Regulatory Assets are approved. The Board's Audit and Compliance Section will issue accounting instructions before April 1, 2004.

- **Manager's Summary**

Each application should include a manager's summary which should summarize the application, note any exceptions to the account balances and include an authorization by the utility's chief executive officer.

- **RP and EB File Numbers**

The Board will provide on its website, a listing of RP and EB file numbers for each LDC so Applications can be submitted with appropriate file numbers. Utilities are urged to check the Board's website for these file numbers which will be posted by January 19, 2004.

For More Information

Should a utility have any questions or concerns regarding the Regulatory Asset application process, please contact Harold Thiessen, 416-440-7637, e-mail: harold.thiessen@oeb.gov.on.ca

Yours truly,

original signed by

Paul B. Pudge
Assistant Secretary

Appendix A

2004 Rate Adjustment Model Documentation

Sheet 1 – December 31, 2002 Regulatory Assets

This sheet allows utilities to input their Regulatory Asset totals, as of December 31, 2002. It will also compute the 25% threshold and allow the LDC to complete either Section 1 (RSVA totals greater than 25% of the Regulatory Asset total) or Section 2 (RSVA totals less than 25% of the Regulatory Asset total) with additional interim approval to achieve the 25% level.

Each amount is grossed up by 12/11 to allow recovery of the amount over an 11 month period (April 1, 2004 to February 28, 2005).

Regulatory Asset amounts should agree with those filed with the Board under the Reporting and Record Keeping Requirements. If there are exceptions they should be noted and explained in the Manager's Summary.

Results are entered at Sheet 3 and Sheet 5 (if necessary).

Sheet 2 – 2002 Base Rate Schedule

2002 Base Rates from Sheet 4 of the utility's 2002 RAM model should be entered on this sheet. Base Rates are defined as 2001 RUD model determined rates adjusted for IPI-X and second increment of MARR only. (2001 Q4 PILs, 2002 PILS, any interim recovery of transition costs and any approved Z-factors removed.)

Utilities should also enter all approved specific service charges on this sheet.

Sheet 3 – 2002 Data and 4 RSVA Account Regulatory Assets

On this sheet the utility should enter year end totals for kW sales, kWh sales, customer numbers and distribution revenue by class. Entries on this sheet transfer automatically to Sheets 5 and 7. The total of the 4 major RSVA accounts are also entered here (whether 25% of the total Regulatory Assets or not) and distributed to the rate classes according to the proportion of kWh sales.

This sheet will also allocate class revenues to the variable rate only and calculate the increment to be added to the variable rates in each class.

Sheet 4 – Rates Calculated including 4 RSVA account Regulatory Assets

This sheet shows the new rates when the increment from Sheet 3 is added to rates shown on Sheet 2.

Sheet 5 – 2002 Data and remaining Regulatory Assets to meet 25%

The total of the remaining Regulatory Asset amounts are entered here (if necessary to meet the 25% threshold of the total Regulatory Assets) and distributed to the rate classes according to the proportion of distribution revenue per class. If the amount entered on Sheet 3 is already at the 25% level, no entry is made on this sheet.

This sheet will also allocate class revenues to the variable rate only and calculate the increment to be added to the variable rates in each class.

Sheet 6 – Rates Calculated including the remaining Regulatory Assets to meet 25%

This sheet shows the new rates when the increment from Sheet 5 is added to rates shown on Sheet 4.

Sheet 7 – 2002 Data and 2004 PILs proxy

The 2004 PILs proxy is entered on this sheet. This proxy is the same as the proxy used in the 2002 RA Model entered at Sheet 8 of that model. The 2004 PILs proxy is allocated to classes according to the proportion of distribution revenue per class, as it was in 2002.

This sheet will also allocate class revenues to the variable rate only and calculate the increment to be added to the variable rates in each class.

Sheet 8 – Rates Calculated including the 2004 PILs proxy

This sheet shows the new rates when the increment from Sheet 7 is added to rates shown on Sheet 6.

Sheet 9 – Service Charge Adjustment

This sheet provides the mechanism to adjust the rates in Sheet 8 to keep the Monthly Service at the same level as in current rates, while maintaining class revenue neutrality.

LDCs must enter their current fixed charges for each class class.

Sheet 10 – April 1, 2004 Rate Schedule

This is the rate schedule which will be printed and attached to your rate order. Please ensure that the name of utility is entered accurately and that the RP and EB file numbers are correct.

Also ensure that all specific service charges are transposed from Sheet 2.

Sheet 11 – Estimated Bill Impacts (no commodity increase)

This sheet will allow utilities to calculate the bill impact of this change in distribution rates. (without the impact of the commodity price change on April 1, 2004.) Please note that these impacts are estimates as the table does not adjust consumption for line losses and uses other regulated charges that may not apply to all utilities. In addition, for the General Service >50kW classes and the Large User class, a general estimate has been used for the commodity price. Individual customers in these classes will face varying commodity prices depending on their individual circumstances.

Utilities should enter their existing rates (not those from Sheet 2) to determine the appropriate bill impact. The Monthly Service Charge from Sheet 9 will automatically appear, however the current kWh rate will still have to be entered.

The Residential 1000 kWh per month customer and the General Service <50kW 2000 kWh per month customer should be used as common benchmarks by utilities to indicate estimated bill impact to ratepayers.

Sheet 12 – Estimated Bill Impacts (commodity increase included)

This sheet will allow utilities to calculate the bill impact of this change in distribution rates with the impact of the commodity price change on April 1, 2004. Again, please note that these impacts are estimates as the table does not adjust consumption for line losses and uses other regulated charges that may not apply to all utilities. Again, for the General Service >50kW classes and the Large User class, a general estimate has been used for the commodity price. Individual customers in these classes will face varying commodity prices depending on their individual circumstances.

The Residential 1000 kWh per month customer and the General Service <50kW 2000 kWh per month customer should be used as common benchmarks by utilities to indicate estimated bill impact to ratepayers.

SHEET 1 - December 31, 2002 Regulatory Assets

V1

NAME OF UTILITY	Hydro One Brampton Networks Inc.	**LICENCE NUMBER**	ED-1999-0038
NAME OF CONTACT	Scott Miller	**PHONE NUMBER**	905-840-6300 x324
E- Mail Address	smiller@hydroonebrampton.com		
VERSION NUMBER	1		
Date	23-Jan-04		

Enter the total applied-for regulatory asset amounts for each account in the appropriate cells below:
(These amounts should correspond to your December 31, 2002 regulatory filings with the OEB.)

Description	**Account Number**		**Applied-for Amount Balance as at Dec. 31, 2002**	
RSVA - Wholesale Market Service Charge	1580		$5,021,280	
RSVA - Retail Transmission Network Charge	1584		$1,032,929	
RSVA - Retail Transmission Connection Charge	1586		$1,061,343	
RSVA - Power	1588		$1,786,501	
Sub-Total			$8,902,053	
RSVA - One-time Wholesale Market Service	1582		$20,469	$201,158.4900
Other Regulatory Assets	1508		$94,577	
Retail Cost Variance Account - Retail	1518		$130,288	
Retail Cost Variance Account - STR	1548		$16,384	
Misc. Deferred Debits - incl. Rebate Cheques	1525		$0	
Deferred Payments in Lieu of Taxes	1562		$0	
PILs Contra Account	1563		$0	
Qualifing Transition Costs	1570		$1,253,411	
Pre-Market Opening Energy Variances Total	1571		$358,156	
Pre-Market Opening Energy Variances - 2001		$0		
Pre-Market Opening Energy Variances - 2002		$358,156		
Extra-Ordinary Event Losses	1572		$0	
Deferred Rate Impact Amounts	1574		$0	
Other Deferred Credits	2425		$0	
Total Applied-for Regulatory Assets		**(a)**	$10,775,338	
(1) Total of 4 RSVA Accounts		**(b)**	$8,902,053	Approved for 2004 Final Recovery
4 RSVA accounts as a percent of total: (b) / (a)			82.6%	
(2) 25 % of (a)		**(c)**	$2,693,835	

If (b) is greater than (c) go to Section 1

If (b) is less than (c) go to Section 2

Section 1: For LDCs with 4 RSVA accounts greater than 25 % of Total:

25% of total applied-for Regulatory Asset Accounts: Amount (c)	$2,693,835	Approved for Final 2004 Rate Recovery
Gross Up for Recovery over 11 months: Amount (c) x 12/11	$2,938,729	Enter this amount on Sheet 3 (Therefore, entry on Sheet 5 is zero.)
Remaining Final Amount to be recovered in future periods (b) - (c)	$6,208,218	Ignore minus sign

Section 2: For LDCs with 4 RSVA accounts less than 25 % of Total:

25% of total applied-for Regulatory Asset Accounts: Amount (c)		$2,693,835	Approved for 2004 Rate Recovery
Final 4 RSVA Amount as shown at (b)		$8,902,053	
Gross Up for Recovery over 11 months: Amount (b) x 12/11		$9,711,330	Enter this amount on Sheet 3
Interim Amount to be recovered (c) - (b)	**(d)**	-$6,208,218	
Gross Up for Recovery over 11 months: Amount (d) x 12/11		-$6,772,602	Enter this amount on Sheet 5
Total Final + Interim Amount for Recovery (b) + (d) (no gross up)		$2,693,835	

Rate Implementation

	Check Box Yes or No
Our utility is able to pro-rate the bill so that consumption before April 1 is at the old rates and post April 1 consumption is billed at the new rates.	Yes
Our utility is not able to pro-rate consumption and therefore our customers will not be charged the new rates until the completion of an entire billing cycle.	

Ontario Energy Board
P.O. Box 2319
26th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie de l'Ontario
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2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

December 20, 2004

To: All Electricity Distribution Utilities

Re: Filing Guidelines: 2005 Distribution Rate Adjustments including:
Last Third of MARR (with approved C&DM Plan)
Recovery of Regulatory Assets (second tranche or final rate rider)
PILs 2005

In November 2003 the Ontario government announced that it would, "...permit local distribution companies to proceed to the Board to apply for the next installment of their allowable return on equity beginning March 1, 2005." The government also indicated that the Board's approval would be conditional on a financial commitment to reinvest in conservation and demand management initiatives, an amount equal to one year 's incremental returns.

Also in November 2003, the Government announced, in conjunction with the 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 their rates, beginning March 1, 2004, over a four year period.

In February and March, 2004, the Board approved the applications of distributors to recover 25% of their December 31, 2002 Regulatory Asset balances (or additional amounts for rate stability) in their distribution rates effective March 1, 2004 and implemented on April 1, 2004.

No later than January 17, 2005, electricity distributors will be permitted to file applications for the last installment of their Market Adjusted Revenue Requirement (MARR), the second installment of their four year recovery of Regulatory Assets and the 2005 Payments in Lieu of Taxes (PILs). Distributors should file 6 hard copies and 1 electronic copy of their application with the Board.

The Board intends to implement 2005 distribution rate changes in conjunction with the implementation of the Regulated Price Plan, currently planned for April 1, 2005. Should this date change, the Board will issue a revised implementation schedule.

Recoveries to be added to 2002 Base Rates

As was the case in 2004, the Board intends to use the 2002 Base Rates, as the base on which the final increment of MARR, the Regulatory Asset rate recovery and 2005 PILs will be added. These base rates appeared on Sheet 4 of the 2002 Rate Adjustment Model (as well as on Sheet 2 of the 2004 RAM).

Final Increment of MARR

Most distributors have a clearly defined amount of the third and final increment of revenue that will bring them to their Market Adjusted Revenue Requirement. As directed by the government, this last increment will only be approved in conjunction with a financial commitment to Conservation and Demand Management (C&DM) initiatives.

In its RP-2004-0203 Procedural Order No. 1, issued on October 5, 2004, the Board provided for a review process for conservation and demand management programs. Many distributors have already applied for program approval, however, those that have not made an application for approval of their C&DM program and wish to receive approval should apply no later than January 17, 2005 as part of their 2005 rates application.

If a C&DM application has not been received by the Board by that time, the third installment of MARR revenue will not be approved in the April 1, 2005 rate adjustment. In addition, if the C&DM program approval is for funds that are less than the remaining MARR for a distributor, only the approved C&DM amount will be allowed into rates.

The final installment of MARR will be applied to rates using 1999 data from the 2001 Rate Unbundling and Design (RUD) model. Allocations to classes will be based on distribution revenue calculated in the distributor's RUD model as will the fixed revenue/variable revenue split.

The approved rates will be implemented in conjunction with the Regulated Price Plan on April 1, 2005, and the distributors will be permitted to gross-up the approved MARR amount in rates by a factor of 14/13 to ensure an effective date of March 1, 2005. The approved rates will be valid until April 30, 2006 as distributors will implement their re-based 2006 rates on May 1, 2006.

Second Installment of Regulatory Asset Recoveries

Distributors that would have received final approval of their Regulatory Asset rate riders will be permitted to implement these riders in this process.

Distributors that would not have received their Regulatory Asset rate riders will be permitted to recover the second installment of the four year recovery of Regulatory Assets on an interim basis. These distributors will be required to update Regulatory Asset account balances to December 31, 2003. A new increment of Regulatory Asset recovery will be calculated for 2005 rates.

- The amount for interim rate recovery will be determined by reducing 2003 balances by the amount approved for rate recovery for 2004 and taking one third of the remaining net balance for inclusion in 2005 rates. This recovery will again be applied only on the variable rate.

As was the case in 2004, these distributors will not be required to provide evidence justifying Regulatory Asset amounts. However, the amounts that will be submitted will be compared to the electronic RRR filings previously made to the Board. Any discrepancies must be identified and explained. If the distributor has not yet submitted the electronic RRR filing for 2003 it must make this filing by end of January 2005.

The Regulatory Assets rate riders shall be applied to the variable component of the rate only. The variable rate will be adjusted using the 2003 year end total kWh and kWs by class, as submitted by the distributor.

Previously Denied Amounts

Any amounts previously denied by the Board in another proceeding shall not be included in any account balances for this application.

2005 Rate Adjustment Model

In order to assist distributors in their applications to recover Regulatory Assets and to provide for revised rate schedules, the Board will issue a 2005 Rate Adjustment Model (similar to the 2004 RA Model). The 2005 RAM will be available from the Board's website shortly. Detailed instructions for the model will also be provided.

PILs Proxy for 2005

As regulatory income will change due to the last installment of MARR, a new 2005 PILs model will also be made available shortly. It will be largely based on the previous PILs model and documentation will also be provided.

Notice

The Board will publish a generic notice in major Ontario newspapers after the filing deadline to notify ratepayers that distributors have applied for an increase in rates. The notice will include details as appropriate and will indicate that further information is available from the distributor's office in their particular service area. The notice will invite ratepayer submissions with respect to the distributors' proposals.

Bill Impacts

The 2005 RA Model will calculate estimated bill impacts for customers at various consumption levels. As other regulated rates and loss factors differ for each distributor, the bill impacts should be viewed as estimates.

As the Board's generic notice will refer ratepayers to the individual distributors for further information on the rate applications, utilities should brief customer service staff on the details of the application and bill impacts. The common bill impacts usually quoted are Residential Customers using 1000 kWh per month and General Service <50kW customers using 2000 kWh per month. The Board's call center will use the submitted bill impact sheets to compile a list of bill impacts for all utilities to address concerns of ratepayers that call the Board.

Manager's Summary

Each application should include a manager's summary which should summarize the application, note any significant issues or departures from these filing guidelines and include an authorization by the distributor's chief executive officer.

Distributors should also provide the method of rate change implementation, ie, consumption will be pro-rated, with pre-April 1 consumption at the old rates and post-April 1 consumption at the new rates; or proration is not possible and rates will be adjusted at the beginning of each customer's applicable billing cycle so that no pre-April 1 consumption is charged at the new rates.

Board File Numbers

The Board will provide on its website, a listing of file numbers for each distributor so Applications can be submitted with appropriate file numbers. Distributors are urged to check the Board's website for these file numbers which will be posted by January 10, 2005.

For More Information

Should a distributor have any questions or concerns regarding the 2005 distribution rate adjustment application process, please contact Harold Thiessen, 416-440-7637, e-mail: harold.thiessen@oeb.gov.on.ca

Yours truly,

original signed by

John Zych
Board Secretary

SHEET 6 - December 31, 2003 Regulatory Assets

Name of Utility:	Hydro One Brampton Networks Inc	2005.V1.1
License Number:	ED-2003-0038	RP-2005-0013
Name of Contact:	Scott Miller	EB-2005-0008
E- Mail Address:	smiller@hydroonebrampton.com	
Phone Number:	905-840-6300 Extension: 324	
Date:	January 17, 2005	

LDCs should enter their December 3, 2003 balances for each regulatory asset account.
In the case of distributors that have approved Regulatory Asset recovery rate riders, the distributor should not enter any balances on Sheet 6 and should go directly to Sheet 10.
In this instance, the rate schedule on Sheet 5 is identical to Sheet 9.

Description	Account Number	Amount Applied-for Balance as at Dec. 31, 2003
RSVA - Wholesale Market Service Charge	1580	$4,995,745
RSVA - One-time Wholesale Market Service	1582	$609,856
RSVA - Retail Transmission Network Charge	1584	$1,355,721
RSVA - Retail Transmission Connection Charge	1586	$1,351,188
RSVA - Power	1588	$1,576,889
Sub-Total for RSVA Accounts		$9,889,399
Current Recovery: Amount Entered on Sheet 3, cell G13, of 2004 RAM		$3,735,614
Adjusted 2005 Recovery Amount (RSVA Accounts)		**$6,153,785**
Other Regulatory Assets	1508	$185,795
Retail Cost Variance Account - Retail	1518	$166,175
Retail Cost Variance Account - STR	1548	$41,488
Misc. Deferred Debits - incl. Rebate Cheques	1525	
Deferred Payments in Lieu of Taxes	1562	-$4,901,319
PILs Contra Account	1563	$4,901,319
Qualifing Transition Costs	1570	$1,371,952
Pre-Market Opening Energy Variances Total	1571	$408,298
Extra-Ordinary Event Losses	1572	
Deferred Rate Impact Amounts	1574	
Other Deferred Credits	2425	
Sub-Total for Non-RSVA Regulatory Asset Accounts		$2,173,708
Current Recovery: Amount Entered on Sheet 5, cell G14, of 2004 RAM		$0
Adjusted 2005 Recovery Amount (Non-RSVA Accounts)		**$2,173,708**
Total Adjusted Regulatory Assets		$8,327,493
33% of Total Adjusted Regulatory Assets		**$2,775,831.00**

SHEET 6 - December 31, 2003 Regulatory Assets

-- Please go to Section 1 --

Section 1: For LDCs with Total RSVA adjusted balances greater than 33 % of Total:

Total Adjusted Balance for RSVA Accounts	**(a)**	$6,153,785
33% of Total Adjusted Regulatory Assets	**(b)**	$2,775,831
Remaining Final Amount to be recovered in future periods (a) - (b)		**$3,377,954**

Section 2: For LDCs with Total RSVA adjusted balances less than 33 % of Total:

33% OF Total Adjusted Regulatory Assets	N/A
Total Adjusted Balance for RSVA Accounts	N/A
Amount to be colleced from RSVA Accounts	N/A
Amount to be collected from Non-RSVA accounts	N/A

Rate Implementation

	Check Box YES or NO	
Our utility is able to pro-rate the bill so that consumption before April 1 is at the old rates and post April 1 consumption is billed at the new rates.	☑ YES	☐ NO
Our utility is not able to pro-rate consumption and therefore our customers will not be charged the new rates until the completion of an entire billing cycle.	☐ YES	☑ NO

Ontario Energy Board
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Telephone: 416- 481-1967
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Commission de l'Énergie de l'Ontario
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2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

July 12, 2005

To: All Electricity Distribution Utilities

Re: Filing Guidelines: Applications for Final Recovery of Regulatory Assets for May 1, 2006 Distribution Rate Adjustments

On December 9, 2005 the Ontario Energy Board (the "Board") issued its Decision with Reasons on the Review and Recovery of Regulatory Assets - Phase 2 (the "Decision") for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One. In Chapter 10 of the Decision, the Board outlined a Phase 2 process for the remaining distributors. These guidelines provide additional guidance for the remaining distributors.

The Decision can be found on the Board's website under "Industry Relations/Rules, Codes, Guidelines and Forms/Electricity/Electricity Distributor Recovery of Regulatory Assets Phase 2, Documents - Dec. 9 – 04".

Background

On November 25, 2003, the Government announced, in conjunction with the 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 their rates, beginning March 1, 2004, over a four year period.

On December 19, 2003 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. The regulatory asset accounts are:

1508 Other Regulatory Assets
1518 Retail Cost Variance Account - Retail
1548 Retail Cost Variance Account - STR
1525 Miscellaneous Deferred Debits - includes costs of rebate cheques
1562 Deferred Payments in Lieu of Taxes
1563 PILs contra account
1570 Qualifying Transition Costs
1571 Pre-Market Opening Energy Variances
1572 Extraordinary Event Losses

1574 Deferred Rate Impact Amounts
1580 Retail Settlement Variance Account - Wholesale Market Service Charges
1582 Retail Settlement Variance Account - One-time Wholesale Market Service
1584 Retail Settlement Variance Account - Retail Transmission Network Charges
1586 Retail Settlement Variance Account - Retail Transmission Connection Charges
1588 Retail Settlement Variance Account - Power
2425 Other Deferred Credits

On January 15, 2004, the Board issued its final filing guidelines with respect to the recovery of regulatory assets for Phase 1 (April 1, 2004 implementation). On December 20, 2004 the Board issued its 2005 distribution rate adjustment filing guidelines which included the continuation of Phase 1 with the recovery of the second interim tranche.

The Notice informing the public of both the Phase 1 and Phase 2 regulatory assets recovery processes was published on February 3, 2004. The list of intervenors for Phase 2 is attached to these guidelines.

On April 1, 2004 LDCs began recovering 25% (or more if required for rate stability) of the audited December 31, 2002 year-end balances in the regulatory asset accounts as per the January 15, 2004 filing guidelines. On April 1, 2005 LDCs began recovering 33% of the audited December 31, 2003 year-end balances (adjusted for 2004 interim recoveries) in the regulatory asset accounts as part of the 2005 electricity distribution rate adjustment process and as per the December 20, 2004 filing guidelines.

Phase 2

On May 5, 2004, the Board initiated the Phase 2 oral hearing process for the five selected distributors. The Board indicated that in addition to the specific decisions for each of the five distributors, the oral hearing would also allow it to assess what would constitute the best evidence, forum and process to determine the reasonableness of the regulatory asset amounts claimed or to be claimed for the remaining distributors.

On December 9, 2004 the Board issued its decision in the above matter. Along with approving final recovery amounts for the four applicants (EnWin was adjourned on June 30, 2004) and approving allocations of said amounts, the Board recognized that subjecting the other distributors to the same process as the four applicants will be too onerous for distributors, intervenors and the Board.

As a result, the Board determined that an effective, expedient and efficient process shall be to subject all distributors to one of two possible reviews; minimum or comprehensive. Regardless of the review, all distributors would also provide a supplemental disclosure (described below) which would be certified either by an external auditor or self-certified by the Chief Executive Officer and/or the Chair of the Board of Directors (depending on the amount per customer of the transition costs claimed).

Minimum Review

While the Decision indicated that a minimum review will involve an administrative process whereby the Board will generally conduct a written hearing and seek written submissions from intervenors, the Board will now accept minimum review applications in conjunction with the distributor's 2006 EDR application. The Board panel reviewing the distributor's EDR application will also assess the Regulatory Asset application under the minimum review.

The type of certification required for the supplemental disclosure is dependant on the level of transition costs that an LDC is claiming under a minimum review (see below).

The key aspect of the minimum review is that this review is for distributors that have transition costs per customer of $60 or less and are willing to accept 90% of reported transition costs, or for distributors that have more than $60 per customer of transition costs but are willing to accept the lesser of 90% of reported transition costs or $60 per customer.

Applicants should file their applications on the due date for their 2006 EDR application.

Comprehensive Review

A comprehensive review will involve a similar process to that undertaken by the four applicants in the first part of Phase 2, which may require an oral hearing involving at a minimum, the intervenors of record in the Phase 2 proceeding.

Distributors that choose a comprehensive review should also submit an application in conjunction with their 2006 EDR application. Distributors will be required to serve the intervenors of record in the Phase 2 oral hearing, with this application, including the comprehensive regulatory asset review application.

Applicants should file their applications on the due date for their 2006 EDR application and the Notice of Application will include a specific reference to the comprehensive Regulatory Asset review request.

As noted in the Decision, the distributor shall pay any Board-assessed intervenor costs awarded under a comprehensive review and the supplemental disclosure shall be certified by the distributor's external auditor.

Under a comprehensive review, applicants should include detailed submissions and supporting evidence for their claimed transition costs. Submissions on the transition cost categories should include details on a per initiative basis consistent with the January 15, 2003 transition cost reporting guidelines. The Board will expect rigorous evidence in support of costs claimed in excess of $60 per customer including any external audits on transition cost spending.

Supplemental Disclosure

As noted above, a supplemental disclosure will be required from each distributor (regardless which category of review that applies), and shall include the following:

a) a statement by the distributor's Chief Executive Officer or external auditor (as applicable) certifying that the information filed in the regulatory assets claim is consistent with the Board's accounting requirements and procedures in the Accounting Procedures Handbook, as modified by the Board's findings in the Decision and that the filing provided is consistent with the requirements of the Board's transition cost filing guidelines issued January 15, 2003, and the regulatory asset filing guidelines issued September 15, 2003
b) a statement as to which approach (billed or accrual) has been used for the RSVA accounts and Account 1571 and whether this approach has been used consistently over time and among accounts for the applicable period (see s.2.0.23 of the Decision)
c) a statement as to the interest rate used to record interest and whether this interest rate is consistent with or deviates from that stipulated in the Distribution Rate Handbook (DRH) for the distributor (see s.2.0.29 of the Decision)
d) a statement confirming whether the variance between Board-approved and actual line losses are reflected in the RSVA power (Account 1588) for the applicable period (see s.2.0.27 of the Decision)
e) a statement confirming whether the method used to calculate the balances for Account 1571 conforms to the methodology recommended in the Board's Decision (see s.3.0.24 of the Decision)
f) a statement confirming whether costs in Account 1525 relate solely to the costs associated with the issuance of rebate cheques and not other costs (with the

exception of Hydro One's environmental costs allocated to each embedded distributor), and that such cheques were issued on or before December 31, 2002 (see s. 5.0.15)

g) a reconciliation of the amounts claimed to the amounts previously filed with the Board (January 2004 and January 2005 filings for Phase 1 of this proceeding) setting out the differences and causes

h) a statement confirming whether customer education costs in Account 1570 do not exceed $10 per customer (see s.7.0.58 of the Decision), based on 2004 data

i) a statement confirming whether transition costs claimed do not include Electronic Business Transaction (EBT) costs or costs for settlement services as found in the Board's Decision (see s.7.0.56 and 7.0.57 of the Decision)

j) a statement confirming whether all cost categories in the transition cost account 1570 meet the materiality criterion as outlined in the filing guidelines issued January 15, 2003 (see section 7.0.18 of the Decision)

k) a statement confirming whether all regulatory assets claimed are allocated to the rate classes based on the findings in the Board's Decision (see s.2.0.35, 3.0.27, 4.0.16, 5.0.19, 5.0.25, 7.0.67 and 9.0.8 of the Decision)

l) any supplementary information, if applicable, on the use of an internal or external audit of transition cost amounts or on the distributor's adherence to tendering guidelines.

Qualification for a Minimum Review

To qualify for a minimum review, a supplemental disclosure must be provided and the distributor must be willing to accept or undertake the following:

a) a calculation showing the total December 31, 2004 reported transition costs (including interest) divided by the 2004 customer numbers

b) a calculation showing 90% of the total December 31, 2004 reported transition costs (including interest) divided by the 2004 customer numbers

c) 90% of its December 31, 2004 reported transition costs (including interest) or $60 per customer (based on 2004 data), whichever is less

d) the total reported (i.e. claimed) amount must be consistent with the calculations and statements included in the supplemental disclosure such as customer education costs not exceeding $10 per customer, no Electronic Business Transaction (EBT) costs, and meeting materiality thresholds.

e) the supplemental disclosure must be verified by the distributor's external auditor if the claimed amount is equal to or less than $60 but more than $30 per customer

f) the supplemental disclosure may be certified by the Chief Executive Officer if the claimed amount is less than $30 per customer

If the distributor reports an amount higher than $30 per customer but wishes to claim only $30 per customer OR is at or under the $30 per customer threshold once it has adjusted its qualifying transitions costs to 90% of the total (including interest), there is no requirement that the supplemental disclosure be certified by the distributor's external auditor.

To assist distributors, four examples of minimum review qualification are outlined below:

	Account 1570 $	**Customers**	**$/customer**	**90% of $/customer**	**Award $**
Utility "A"	1,000,000	23,000	43.48	39.13	900,000
Utility "B"	1,000,000	16,000	62.50	56.25	900,000
Utility "C"	500,000	16,000	31.25	28.13	450,000
Utility "D"	1,000,000	14,000	71.43	64.29	840,000

Utility "A" reports transition costs which are less than the $60 per customer threshold, and will qualify for minimum review if it is willing to accept 90% of its reported transition costs. Therefore, the utility would potentially be awarded 90% of the reported costs ($900,000 in the example).

Utility "B" reports transition costs per customer of $62.50. Although this places it above the threshold, the utility would qualify for minimum review if it accepts 90% of its reported transition costs. This would place the transition cost claim at $56.25 per customer. The potential award in this case would be $900,000.

Utility "C" is clearly under the $60 per customer threshold and would therefore qualify for a minimum review, if willing to accept 90% of its reported transition costs. There would be no requirement for the supplemental disclosure to be certified by an external auditor. A certification by the CEO would be acceptable since the transition cost amount would fall from $31.25 to $28.13 per customer once it accepted 90% of its reported costs.

Utility "D" is well above the $60 per customer threshold. However, it would qualify for minimum review if it accepts the lesser of 90% of its reported transition costs or $60 per customer. In this case, the utility would be required to accept $60 per customer or $840,000 since 90% of its reported transition cost total is still above the threshold at $64.29 per customer.

Minimum or Comprehensive Review: May 1, 2006 Implementation

All applicants shall implement their final rate riders on May 1, 2006 for a period of two years.

Since several of Hydro One's regulatory asset accounts include allocations of costs to distributors embedded within Hydro One's distribution system, their associated impacts should be reflected in the revised filings by the affected distributors. The Board approved these amounts for Hydro One in its January 10, 2005 Order in accordance with s.9.0.11 of the Decision. These amounts shall be added to the corresponding regulatory asset accounts of each of the embedded distributors for disposition. In the specific case of the low voltage related amounts, the Board has determined that the appropriate account for the distributors to capture these costs is the retail transmission connection account - 1586, RSVA cn (see s.9.0.8 of the Decision).

In regard to Hydro One's environmental costs recorded in account 1525, applicants should allocate their respective amounts to their customer classes on the basis of 2004 distribution revenue shares as per the Board's direction for Hydro One in s.5.0.25 of the Decision.

In its application for final recovery, a distributor shall reflect the Board's guidance in the Decision and shall include the following:

a) balances for each regulatory asset account (interest shown separately) as of December 31, 2004
b) a utility's gross transition costs (including carrying charges) should reflect the Jan. 15, 2003 transition cost guidelines, APH220, APH410 and APH480 AND the Board's latest definition for what qualifies transition costs for recovery - as per the Dec. 9 Decision regarding items disallowed (i.e. EBT and settlement costs and customer education costs exceeding $10 per customer should already have been removed before reducing the gross transition costs by 10% in the case of a minimum review)
c) write off of amounts not approved
d) projected interest for each account to April 30, 2006 to arrive at a gross balance for disposition
e) impacts arising from the Board's order for Hydro One
f) allocation of each account balance to rate classes as per the Board's decision
g) subtraction of the actual and estimated amounts recovered from any interim rate adjustments for the period April 1, 2004 to April 30, 2006, by rate class
h) subtraction, if applicable, of the actual interim transition cost amounts recovered for the period from March 1, 2002 to March 31, 2004, by rate class
i) net total amounts to be recovered over the next 2 years, by rate class
j) net total amount per rate class, divided by 2 and divided by 2004 energy use

(kWh) or demand (kW) as appropriate for each class to determine the potential rate rider for each class.

Reporting and Record-Keeping Requirements (RRR)

The regulatory asset evidence submitted by the LDC will be compared to the electronic RRR filings previously made to the Board (Requirement 2.1.1 due January 2005 and 2.1.7 due April 2005) and previous interim recovery applications in 2004 and 2005. Any discrepancies between the rate recovery filing and the RRR filing will require justification.

Previously Denied Amounts

Any amounts previously denied by the Board in another proceeding should not be included in the account balances in this application.

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.

Miscellaneous Amounts recorded in Accounts 1508, 1525, 1572, 1574 and 2425

If an applicant has included amounts in one of the above accounts whose allocation to the classes has not been reviewed by the Board in the Phase 2 oral hearing, the applicant is expected to file evidence in support of both the quantum and the proposed allocation methodology to the customer classes. Each item must include separate evidence on a case by case basis, even if the applicant qualifies for the minimum review. This also applies to account 1525 for costs that do not relate to rebate cheques and Hydro One’s environmental charges as per the guideline under the Supplemental Disclosure section of this document.

Hydro One charges to embedded distributors - January 1, 2004 to April 30, 2006

The December 9, 2004 Decision on the Review and Recovery of Regulatory Assets – Phase 2 (s.2.0.36 and s.9.0.8) and the Board's January 10, 2005 Order, approved Hydro One's charges to its embedded distributors based on Hydro One's approved December 31, 2003 RSVA balances. Embedded distributors have been directed to include these amounts (plus interest) in their phase 2 filings.

The 2006 Distribution Rate Handbook ("DRH") allows Hydro One to apply to recover LV costs from its embedded distributors beginning May 1, 2006. The DRH also provides embedded distributors with a mechanism to pass through the new LV charges to their customers beginning May 1, 2006.

However, LV charges and retail service variance account balances allocated to embedded distributors for the period January 1, 2004 to April 30, 2006 have not been considered to date. Therefore, the Board has included a placeholder in the regulatory assets worksheet for these amounts. Embedded distributors should only enter the appropriate data once they have received a communication from the Board regarding their respective amounts. If a distributor has not received its allocated Hydro One amounts from the Board by the time it is required to file its 2006 EDR application, the distributor should submit the worksheet without the relevant data. The Board Staff analyst assigned to each application will then enter the appropriate Hydro One charges (once they become available) and will communicate the results, along with the revised worksheet, to the distributor.

There is no provision for carrying charges associated with these amounts as Hydro One, pending approval from the Board, will not begin to charge distributors their allocated amounts before May 1, 2006.

Recovery on Variable Rate

The Board has determined that the regulatory assets approved for recovery beginning on May 1, 2006 for the remaining utilities will be recovered through the variable rate only. The variable rate will be adjusted using the 2004 year end total kWhs and kWs by class, as submitted by the LDC.

Definition of Customer Numbers

The Decision uses customer numbers to determine the threshold for minimum and comprehensive review, the threshold for CEO sign off versus external auditor sign off, customer education costs (allowed at no more than $10/customer) and for the allocation of transition costs and RCVA costs to classes. Therefore, customer counts used by all applicants should be consistent.

Customer numbers, for the purposes of thresholds for review/sign-off and for the customer education component, are defined as year-end 2004 total customers in the conventional classes only (Residential, General Service, Intermediate and Large User).

For transition cost and RCVA cost allocation purposes, numbers for street lights, sentinel lights and un-metered scattered loads are defined by customer numbers (not connections).

Application of Rate Riders on 2006 Base Rates

The first year of final Phase 2 recovery (for the four applicants) or the second year of interim recovery (for the remaining LDCs) was added to 2005 Base Rates.

In 2006, it is the Board's intention to allow the approved amounts for the remaining LDCs to be recovered beginning on May 1, 2006 via the application of the approved class specific rate riders applied to new re-based 2006 electricity distribution rates. The 2006 distribution rate adjustment filing guidelines were issued on May 11, 2005 in the form of the 2006 EDR Handbook. The Handbook is available on the Board's website at Industry Relations/OEB key initiatives/2006 electricity distribution rates/2006 final DRH.

Regulatory Assets Recovery Worksheet

In order to assist the remaining LDCs in their applications for final recovery of regulatory assets, the Board will issue the Regulatory Assets Recovery Worksheet, Version 2.0. The worksheet includes several pages to assist LDCs in determining their interim recoveries. The final outputs of the worksheet (Sheet 2) are the rate riders which are to be entered into the 2006 EDR rate determination model.

The worksheet will be made available for download from the Board's website along with the appropriate instructions.

Application Deadline

The deadline for applications regarding final recovery will be the same deadline as the distributor's 2006 rate filing. Distributors must indicate in their 2006 EDR Manager's Summary whether a minimum or comprehensive review is requested.

SHEET 1 - December 31, 2004 Regulatory Assets

NAME OF UTILITY	Hydro One Brampton Networks Inc.	**LICENCE NUMBER**	ED-2003-0038
NAME OF CONTACT	Scott Miller	**DOCID NUMBER**	RP-2005-0020
E-mail Address	smiller@HydroOneBrampton.com		EB-2005-0377
VERSION NUMBER	v2.0	**PHONE NUMBER**	905-840-6300
Date	02-Aug-05	**(extension)**	324

Enter appropriate data in cells which are highlighted in yellow only.
Enter the total applied for Regulatory Asset amounts for each account in the appropriate cells below:
(These amounts should correspond to your December 31, 2004 Regulatory Asset filings with the OEB.)

Account Description	Account Number	Principal Amounts as of Dec-31 2004	Interest to Dec31-04	Interest Jan-1 to Dec31-05	Interest Jan1-06 to Apr30-06	Hydro One charges (if applicable) to Dec31-03	Interest on Hydro One charges - Apr1-05 to Apr30-06	Hydro One charges (if applicable) Jan 1-04 to Apr 30-06	Total Claim
RSVA - Wholesale Market Service Charge	1580	$ 3,928,358	$ 797,817	$ 274,985	$ 91,662	$ -	$ -		$ 5,092,822
RSVA - One-time Wholesale Market Service	1582	$ 1,180,610	$ 76,970	$ 82,643	$ 27,548	$ -	$ -	$ (24,213)	$ 1,343,557
RSVA - Retail Transmission Network Charge	1584	$ 1,393,573	$ 200,822	$ 97,550	$ 32,517	$ (27,947)	$ (1,956)	$ (89,616)	$ 1,604,943
RSVA - Retail Transmission Connection Charge	1586	$ 1,566,208	$ 155,065	$ 109,635	$ 36,545	$ 41,304	$ 2,891	$ 120,367	$ 2,032,014
RSVA - Power	1588	$ 816,808	$ 261,915	$ 57,177	$ 19,059				$ 1,154,959
Sub-Totals		$ 8,885,558	$ 1,492,589	$ 621,989	$ 207,330	$ 13,357	$ 935	$ 6,538	$ 11,228,295
Other Regulatory Assets	1508	$ 272,997	$ 3,190	$ 15,697	$ 5,232			$ 5,574	$ 302,690
Retail Cost Variance Account - Retail	1518	$ 165,740	$ 24,119	$ 11,602	$ 3,867				$ 205,329
Retail Cost Variance Account - STR	1548	$ 40,131	$ 5,188	$ 2,809	$ 936				$ 49,064
Misc. Deferred Debits - incl. Rebate Cheques	1525	$ 100,114	$ 13,903	$ 7,008	$ 2,336	$ 2,949	$ 206		$ 126,516
Pre-Market Opening Energy Variances Total	1571	$ 358,156	$ 75,212	$ 25,071	$ 8,357				$ 466,796
Extra-Ordinary Event Losses	1572	$ -							$ -
Deferred Rate Impact Amounts	1574	$ -							$ -
Other Deferred Credits	2425	$ -							$ -
Sub-Totals		$ 937,138	$ 121,612	$ 62,187	$ 20,729	$ 2,949	$ 206		$ 1,150,396
Qualifying Transition Costs	1570	$ 1,145,918	$ 169,829	$ 80,214	$ 26,738	$ 55	$ 4		$ 1,422,758
Totals per column		$ 10,968,613	$ 1,784,030	$ 764,390	$ 254,797	$ 16,361	$ 1,145	$ 6,538	$ 13,801,449

Transition Cost Calculation

Please indicate choice of review:	minimum	Lesser of 10 % off or $60 per customer		**revised total**	$ 1,422,699
2004 customer numbers	110,437	**Original $/customer**	$ 12.88	**Revised $/customer**	$ 12.88

Annual interest rate:	7.00%	**Grand Total Claimed--Minimum Review**	$ 13,801,390
Monthly interest rate:	0.58%	**Grand Total Claimed--Comprehensive Review**	N/A

Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
April 2004

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Q.1: Where should utilities record the recovered amounts related to regulatory assets?

A.1: A new USoA contra account is being provided to record the recovery of regulatory asset balances. The account will accumulate recoveries for each year in accordance with applications for recovery approved by the Board. Utilities should be aware that the amounts recovered will at some point need to be reconciled to the regulatory asset balances.

The method to allocate recovered amounts including interest to specific regulatory asset accounts is expected to be determined at the time of the Board's prudency review. Therefore, for the purposes of simplicity in the interim, credit interest (calculated monthly on the account's opening balance) will be recorded in this account although there may be no equivalent debit interest (carrying charge) applicable to the regulatory asset account to which the recovery applies.

The new contra account description is as follows:

"**Account 1590, Recovery of Regulatory Asset Balances - Credit**

This account shall be used to record regulatory asset balances recovered (as authorized by the Board) by the utility.

Interest charges amount shall be calculated using simple interest applied to the monthly opening balance based on the applicable deemed rate set out in Chapter 3 of the Rate Handbook, Table 3-1. Interest charges shall be recorded in a sub-account.

Records supporting the entries in this account shall be maintained in sufficient detail as to permit review by the Board."

PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

Under the *Electricity Act, 1998*, Hydro One Networks Inc. ("Networks") is required to make payments in lieu of corporate income taxes (PILS) relating to taxable income earned by its transmission business. The Ontario Energy Board ("OEB") has directed that the taxes payable method should also be used for regulatory purposes (2006 EDR Handbook section 7.1 "OEB 2006 regulatory taxes expense methodology").

Under the taxes payable method, no provision is made for future income taxes that result from timing differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Accordingly, the taxes payable method will result in the PILS income tax payable being different than the amount that would have been recorded, had the combined Canadian Federal and Ontario statutory income tax rate been applied to the regulatory net income before tax. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from customers at that time.

PILS installments are remitted by Networks to OEFC at the end of each month. Any balance owing at the end of the year is required to be paid by February 28th of the following year.

In the absence of an Electricity Transmission Handbook, the 2007 and 2008 Hydro One transmission regulatory tax calculations have been prepared consistent with the approach found in the 2006 EDR Handbook and the 2006 EDR Tax Model, as this approach reflects the tax payable relating to taxable income earned by the transmission business.

Income Tax Rate (Federal and Ontario):

A combined rate of 36.12% has been used for 2007 (Federal 22.12% and Ontario 14%) and 34.5% for 2008 (Federal 20.5% and Ontario 14%). Prior to 2008, a 36.12% combined Federal and Ontario income tax rate had been in effect from 2004 (2003 36.62%).

Reconciliation between Regulatory Net Income Before Tax and Taxable Income:

A reconciliation between the regulatory net income before tax (NIBT) and taxable income for the forecast years 2007 and 2008 is provided in Exhibit C2, Tab 6, Schedule 1. This schedule contains the income tax component of the PILS computation. It also shows how the taxable income is computed by making adjustments to the regulatory NIBT for items such as depreciation, capital cost allowance (CCA) etc.

A reconciliation between the accounting NIBT and taxable income for the historical years is provided in Exhibit C2, Tab 6, Schedule 1.

In order to make it easier for parties to follow the above reconciliations, we have placed the adjustments made to regulatory NIBT to arrive at taxable income into the following five categories:

1) Recurring items that must be added (deducted) because they have been included in the OM&A expenses in arriving at the revenue requirement or for which appropriate tax adjustments are made (e.g. depreciation vs. CCA);
2) Deferral accounts not included in the revenue requirement;
3) Reversal of accounting adjustments not included in the revenue requirement;
4) Recurring items not in the revenue requirement; and

5) Items where the impact is immaterial in total, and as such, have not been included in our business plan (applicable to forecast years only).

Overview of Process to Arrive at Taxable Income:

The starting point for the computation of Networks Transmission taxable income is the NIBT as shown on the utility's income statement for the year. Since the NIBT is prepared using Canadian generally accepted accounting principles and taxable income is computed using the relevant tax legislation, interpretations and assessing practices, there are typically many adjustments that are made to the NIBT to arrive at taxable income. Essentially, the NIBT is increased by amounts that are not deductible for tax purposes. This includes items such as depreciation, contingent liabilities, accounting losses, accounting provisions such as OPEB etc. and revenue that has been received but not recognized for accounting purposes (e.g. TX export revenue). On the other hand, the NIBT is reduced by amounts that are deductible for tax purposes but have not been deducted in computing NIBT. This includes items such as CCA, the deductible portion of capitalized overhead, expenses incurred for which a deferral account has been set up on the balance sheet rather than being deducted through the income statement, accounting gains, OPEB payments etc.

Consequently, it is imperative that the NIBT be adjusted for amounts that have been included (or deducted) for accounting purposes that are not income (or deductible) for tax return purposes. This is a key point in comparing the historical years tax return data to that computed for the forecast years, since the tax return NIBT has been increased (or reduced) by amounts that have not been added (or deducted) in computing the regulatory NIBT (e.g. contingent liabilities, accounting gains, capitalized interest). **That is, for forecast years 2007 and 2008, only differences between the tax and accounting rules**

related to costs included in either the regulatory revenue requirement or rate base (e.g. CCA, capitalized overhead) are adjusted for in arriving at taxable income.

Tax Treatment of Deferral Accounts (Regulatory Assets and Liabilities):

Deferral accounts are typically recognized by utilities (i.e. on their balance sheet) for foregone revenue or for expenses that have been incurred for which recovery will be sought from ratepayers through future rates. Disposition of the deferral accounts is determined by the OEB through a rate rider process.

For example, assuming that a $100 expense is incurred, the utility will be allowed to deduct the $100 in computing taxable income for the year in which the expense has been incurred. If the OEB subsequently approves recovery of these expenses over a four year period through a rate rider, the income will be included in computing taxable income for the year in which it is billed to ratepayers. The net result is that the utility has recovered the $100 cost although the income/expense has been taxed or deducted in different years.

	Year 1	Year 2	Year 3	Year 4	Year 5	CUM
Income (deduction)	(100)	25	25	25	25	nil
Tax refund (payable)	35	(8.75)	(8.75)	(8.75)	(8.75)	nil
Cash inflow (outflow)	(65)	16.25	16.25	16.25	16.25	nil

Therefore, deferral accounts have not been included in computing tax payable for purposes of the revenue requirement since the tax benefit has or will be obtained through the tax system. It should be noted that this conclusion is consistent with the "2006 EDR Handbook Report of the Board" issued May 11, 2005 (Page 61) that stated as follows:

> *"A PILS or tax provision is not needed for the recovery of deferred regulatory asset costs, because the distributors have deducted, or will deduct, these costs in calculating taxable income in their returns. The Handbook will reflect this treatment."*

Contingent Liabilities/Accounting Reserves:

Where an accounting provision is recognized for certain contingent costs that the utility may have to incur in the future (e.g. obsolescence provisions, lawsuits, staff reductions, etc.), the provision will reduce the NIBT of the utility. In each subsequent year, the balance for the contingent liability/accounting reserve is reviewed by the utility for reasonableness based upon the information available at that time. The balance may be adjusted upward or downward with NIBT either decreasing or increasing respectively.

However, for tax purposes, a contingent liability or accounting reserve is not deductible. Rather, the amount will only be deductible (or capitalized) in computing taxable income for the taxation year in which the obligation has actually been settled. Therefore, to the extent that the current year NIBT has been increased (or decreased) by the contingent liability or accounting reserve provision, the NIBT must be adjusted to reverse the increase (or decrease) in computing taxable income.

It is not necessary to adjust the 2007 and 2008 NIBT for contingent liabilities in computing taxable income since no changes were forecast in those contingent liability balances reflected in 2007 and 2008 respectively. Therefore, such amounts are not included in the tax computation for purposes of the revenue requirement.

The $7 million deduction in the 2003 tax return ($1 million and $2 million deduction for 2004 and 2005 respectively) for the contingent liabilities movement Exhibit C2, Tab 6, Schedule 1, line 25, is simply reversing the accounting income inclusion resulting from the net reduction in the various contingent liabilities balance and/or deducting the actual payments, since as stated above, contingent liabilities are not relevant in computing taxable income.

Class 47, Transmission Assets 8% CCA rate:

In deriving the 2007 and 2008 utility income taxes, for asset additions after February 22, 2005, Hydro One Transmission has reflected the enacted change in CCA rate of 8% for Class 47 (previously Class 1, 4%), applicable to new assets acquired subsequent to that date.

Federal Large Corporation Tax ("LCT"):

The LCT has been eliminated effective January 1, 2006, accordingly, for 2007 and 2008 no LCT component has been included in our PILS computation on Exhibit C2, Tab 6, Schedule 1.

Ontario Capital Tax:

Networks pays an Ontario capital tax on its taxable capital as defined by the Corporations Tax Act (Ontario). However, for regulatory purposes, it recovers capital tax that is computed by reference to its rate base net of the applicable Ontario exemption, as directed by the OEB. Please refer to Exhibit C2, Tab 4, Schedule 1, “Capital Taxes” for the calculation of the Ontario capital tax. For the forecast years, the Ontario capital tax rate used is the rate proposed in the March 23, 2006 Ontario budget of 0.285%. This compares to a capital tax rate of 0.3% applicable to the historical and bridge years.

The Ontario exemption is allocated amongst the related regulated entities, based on rate base.

APPENDIX A

Reporting and Record Keeping Requirements # 2.1.8

RRR "SIMPIL" MODEL Guide for the December 31, 2004 Tax Year

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 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 reviewed below.

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 2001 RUD model spreadsheets.

- Utility Name: Enter the full name of the corporation.
- Indicate if the reporting period is not a full year.
- Days in the reporting period: Enter the start and end date of the 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.
- Are the Ontario capital tax (OCT) and the federal large corporation tax (LCT) exemptions shared among the corporate group?

Rate Base (wires-only)
Enter the Board-approved rate base amount as per Cell B31 of Sheet # 7- MARR (No tax) calculations of the RUD model spreadsheets.

Common Equity Ratio (CER)
Enter the percentage per Cell B33 from Sheet # 7- MARR (No tax) calculations of the RUD model spreadsheets. The CER was determined based on the size of the utility’s rate base. Refer to Table 3-1 of the Electricity Distribution Rate Handbook for further details.

Target Return on Equity
Enter the percentage per Cell B34 from sheet # 7- MARR (No tax) calculations of the RUD model spreadsheets. Please note the Board specifies the rate of return. A utility was allowed to select a rate of return up to the Board specified rate of return. However, once a rate of return was selected, a utility was 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 RUD model spreadsheets. The debt rate was determined based on the size of the utility’s rate base. Utilities were allowed to select a debt rate below or equal to the deemed debt rate determined by the Board. Refer to Table 3-1 of the Electricity Distribution Rate Handbook.

Market Adjusted Revenue Requirement (MARR):
REGINFO will calculate the MARR. Ensure that this amount agrees with the Board-approved amount per Cell B44 from sheet # 7 - MARR (No tax) calculations of the RUD Model Spreadsheets.
MARR = (Rate Base x (CER x Target ROE)) + (Rate Base x (1- CER) x DR))

1999 Return
Enter the Board-approved amount per Cell B46 from sheet # 7 - MARR (No tax) calculations of the RUD Model spreadsheets. A utility 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 was defined as the net income before interest expense,

extraordinary items and income, federal Large Corporation Tax, Ontario Capital Taxes 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 phased-in amount represents the additional revenue a utility was permitted to recover in rates for each fiscal year to move to the target return. The incremental revenue was being phased in according to the Board decision for the utility. For most LDCs the phase-in was equal over three years.

Please enter the Board-approved phased-in amounts. If the Board approved any changes subsequent to unbundling, please provide a copy the Board decision.

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 and an interest component. This interest component becomes one of several deductions used to calculate taxable income and the PILs proxy amount.

<u>By way of illustration:</u>

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 income tax PILs 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 increased rates at market opening, May 1, 2002. There was a 1999 Return and incremental revenue. Two years remain in first 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 TAXCALC spreadsheet:

Initial Estimate Column

In order to complete the Initial Estimate Column, you will need to have the following information on hand. Most utilities filed the 2002 PILs proxy tax model of the 2002 rate adjustment application. The 2002 PILs filing provides the numbers for this RRR initial estimate filing. The concepts from the 2002 PILs filing are reviewed below.

- A copy of the final RUD model sheet #7, entitled “MARR (NO TAX) CALCULATIONS.”
- For LDCs that calculated 2002 PILs as part of the 2002 RAM application, you completed the REGINFO spreadsheet in the 2002 PILs spreadsheets using data from sheet # 7 of the RUD Model. Copy the data from the 2002 RAM REGINFO spreadsheet into the RRR SIMPIL REGINFO spreadsheet. Please ensure the final version approved by the Board is used.
- If the Board approved any changes to this 2002 proxy in subsequent applications, the utility must submit the Board order approving the changes.
- The depreciation expense relates to the wires-only distribution business for the calendar year 1999 as approved by the Board in the unbundling application.
- The Capital Cost Allowance (CCA) schedule submitted in evidence in the 2002 application is the source of the CCA. This schedule used the 1999 net book value of the fixed assets as disclosed on the 1999 financial statements and as amended and approved by the Board to establish rate base for the utility. No UCC additions or deductions are included in the schedule.
- A copy of the 2003 RRR SIMPIL spreadsheets as a reference.
- Review the **Tax Rates** spreadsheet in the SIMPIL model to ensure the tax rates in the spreadsheet are correct for the utility.

The information in this section follows the order of the lines on the form. Enter the information approved by the Board as included in the 2002 PILs filing.

Item 1: Regulatory Net Income

From REGINFO, enter the 1999 Return plus the prior years' cumulative incremental revenue phased-in plus the current year incremental revenue to be phased in.

Additions to Regulatory Net Income:

Item 2: Depreciation and amortization
Enter the book depreciation amount related to the wires-only operation included in the 1999 Return.

Item 3: Employee Benefit Plans - Accrued, Not Paid
True-up will apply to this category as of the tax filing date. This item includes pension plan and other post employment benefit plan expenses.

Item 4: Reserves
Both reserves of the previous year and of 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 may include transition costs and z-factors the Board has approved. However, since these types of costs are deductible for tax purposes, an offsetting deduction should be entered in Item 10. Generally, no PILs proxy tax provision will be allowed on regulatory items since the utility can use the deduction in a prior year, current year or future year to reduce taxes otherwise payable.

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 5 above).

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 TAXREC 2 spreadsheet.*

Deductions from Regulatory Net Income

Item 7 Capital Cost Allowance (CCA)
CCA was determined using 1999 regulatory net book value of assets, statutory capital cost allowance rates and the selected tax asset class categories. A Schedule 8 was submitted in the 2002 RAM application. Please note that the company was required to claim the maximum CCA for regulatory purposes even if this was not done for tax purposes.

Item 8 Employee Benefit Plans - Paid Amounts
Enter the amount from the 2002 application.

Item 9 Items Capitalized for Regulatory Purposes
This category represents amounts required by the Board to be deferred and to be recovered in a future period for regulatory purposes.

Item 10: Regulatory Adjustments
Amounts entered in Item 5 will have a corresponding tax deduction applicable. Enter the tax deduction amount here. It is assumed that the amount in Item 5 is fully deductible for tax purposes at some time and, therefore, the LDC will claim a tax deduction equal to the same amount and enter it in Item 10.

Item 11: Interest Expense Allowed
Reflects the deemed interest portion of the MARR included in Regulatory Net Income for the year. Rate Base x (1 - Common Equity Ratio) x deemed debt rate x accumulated phase-in percentage.

The accumulated phase-in percentage is calculated as: (1999 Return + incremental revenue phased-in at that date) divided by MARR. There is a true-up penalty if the actual interest reported in the tax return (MoF column) exceeds the full 100% amount of deemed interest provided by the REGINFO calculation.

Item 12: Other Deductions
A more comprehensive reconciliation (specific additions and deductions) from accounting income to taxable income can be found in the TAXREC 2 Spreadsheet.

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 11 above). This line item enables a utility to include other deductions into rates which are material. Refer to 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.

Regulatory Taxable Income/ (Non-capital loss)
The Spreadsheet calculates the total by adding the Regulatory Net Income plus the Additions minus the Deductions. Generally, a regulatory tax loss is not possible since Regulatory Net Income is positive. However, it is possible for the actual tax results to be a loss for tax purposes.

Item 13: Corporate Income Tax Rate
The rate is automatically selected by the spreadsheet based on the corporate taxable income range and the tax rates in effect as of the latest update. The detail tax rate tables are included in the Tax Rates spreadsheet.

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 (OCT)

Item 15: Capital Tax Base
Use the Board-approved wires-only Rate Base from the final RUD filing as the proxy for taxable capital. MARR, Sheet 7, cell B 31.

Item 16: Exemption
The Board decided that the full amount of exemption of $5,000,000 should be allocated to the regulated utility. Please note that the capital tax exemption may be shared among the regulated LDCs or service areas within the same corporate group. If the exemption is allocated among LDCs within the same corporate group, please provide the calculations as well as the tax schedule from the CT23 tax return. Enter the amount claimed in the tab Tax Rates, Table 1.

Item 17: Rate
The rate is selected by the program based on the tax rate in effect. The detail tax rate schedule is included in the Tax Rate spreadsheet Table 1.

Federal Large Corporations Tax (LCT)

Item 18: Capital Tax Base
Use the Board-approved wires-only Rate Base from the final RUD filing as the proxy for taxable capital. MARR, Sheet 7, cell B 31.

Item 19: Exemption
The full amount of exemption should be allocated to the regulated utility. For 2002 this amount was $10,000,000. Please note the LCT exemption may be shared among the regulated LDCs or service areas within the same corporate group. If the exemption is allocated among LDCs within the same corporate

group, please provide the calculations as well as the tax schedule from the T2 tax return. Enter the amount claimed in the tab Tax Rates, Table 1.

Item 20: Rate

The rate is automatically selected by the program based on the tax rates in effect. The detail tax rates schedule is included in the Tax Rates spreadsheet, Table 1.

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)

The calculation is: regulatory income tax / (1- utility's deemed tax rate of the 2002 taxation year). The program calculates the amount automatically.

Please note that the true-up gross-up calculation is based on the 2004 income tax rates legislated for the 2004 year rather than when the PILs will be recovered from consumers. Only interim recovery of amounts in account 1562 has been approved by the Board pending consultations with the industry.

Item 23: Large Corporation Tax (Grossed-Up)

The calculation is: net LCT/ (1- utility's deemed tax rate of the 2002 taxation year). The program calculates the amount automatically.

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 is the sum of income taxes (grossed-up), Large Corporations Tax (grossed-up) and Ontario capital tax (not grossed-up).

Please note that the worksheet does not gross up the Ontario capital tax since the amount is deductible for tax purposes. Surtax is excluded from the gross-up formula as the surtax on incremental income is generally displaced by the Large Corporation Tax for capital-intensive industries.

Ministry of Finance Column of TAXCALC:

In order to complete the MoF column, you will first complete the TAXREC spreadsheet. The details from this sheet will be linked to the TAXCALC sheet. The tax returns filed with the MoF for 2004 will be needed to complete the form.

- A copy of the current reporting period’s Spreadsheets with the Initial Estimate Column completed. The PILs Initial Estimate amounts should agree with the applicable Board decision, normally the 2002 decision.

- 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.

- Copies of the Federal and Ontario notices of tax assessments, and re-assessments, pertaining to the reporting periods of 2001, 2002 and 2003.

<u>Change in tax rates:</u>

Please verify and enter the revised income and capital tax rates as a result of legislative changes announced by the governments into the Tax Rates spreadsheet Table 3.

<u>Completing the MoF Column in the TAXCALC spreadsheet</u>

You should complete the MoF Column only after the completion of the 2004 tax returns and the TAXREC spreadsheet. The purpose of the next section is to show you how to complete MoF information in the SIMPIL spreadsheets. Before entering the MoF information, you should ensure the Initial Estimate Column on the TAXCALC spreadsheet contains the amounts that were approved by the Board in the 2002 RAM decision.

Completing the TAXREC Spreadsheet

If the fiscal year is covered by more than one taxation year, you should contact 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 - Detailed calculation of the Ontario Capital Tax
Section E - Detailed calculation of the Federal Large Corporation Tax
Section F – Recap of Income and Capital Taxes

Section A - Identification

Utility Name: Please input the full name

Reporting Period: Enter the dates on which the fiscal period covered by this form began and ended. e.g. January 1, 2004 - December 31, 2004. It should cover the same period as the REGINFO spreadsheet. If the taxation year is different from the reporting period please contact 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 one of the following formulas:

- 0.25% x Rate Base x Common Equity Ratio (deemed equity)
- 0.25% x Net Assets of the company

Please identify the formula used by putting “Y” next to the formula used. Items that exceed 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 entitled “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 entered into 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, “Does the utility carry on non-wires related operations?” Please eliminate the elements of the financial statements that are related to the 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 onto the MoF Corporate Tax Return column 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 use the blank lines provided below the “Other Additions” section in the spreadsheet. Similarly, if some of the deductions are not identified on TAXREC or TAXREC 2, please use the blank lines provided under “Other Deductions” section in the spreadsheet.

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.

Section D - Detailed 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 CT23 tax return.

Section E - Detailed 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. The LCT should equal to the LCT of your T2 tax return.

Tax and Accounting 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. Please 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 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.

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.

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 proxy taxes approved by the Board and the actual amounts collected from customers into the schedule. Also, please identify the method (1, 2 or 3) that was used to account for the PILs recovery in the spreadsheet.

What are the Deferral Account Entries?

The Deferral Account Entries are made up of two types of variances: (1) the True-up Variance; and (2) the Deferral Account Variance. These entries are calculated in the TAXCALC spreadsheet.

How does the Board determine the True-up Variance?

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

Once the TAXREC spreadsheet is completed, the numbers in the "Wires-only tax return" column will be brought forward to the "MoF Filing" column. The MoF Filing Variance formulas 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 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.

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

Originally, it was intended that the rate used should be that applicable to the year of recovery from or payments to customers. For example, a utility would normally use the income tax rates of tax year 2004 to calculate the gross-up of the true-up variance related to 2002 year since the true-up variance would normally be collected from customers in the 2004 rate year.

Given the rate setting limitations of Bill 210 up to December 31, 2004, the recovery period has been uncertain. For this RRR filing the 2004 tax rates should be used.

How does the Board determine the Deferral Account Variance?

The Deferral Account Variance is the change in the PILs proxy tax provision (in the Initial Estimate Column) as a result of any legislative changes in Federal and Ontario Budget. All applicable 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 model will then calculate the Deferral Account Variance based on the updated Tax Rates spreadsheet. The Tax Rates spreadsheet, Table 2, has rates that should be applicable. If the LDC has tax rates that differ, please enter the revised income and capital tax rates into the Tax Rates spreadsheet, Table 3. 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 corporate 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 or in the manager’s summary.

APPENDIX B

Reporting and Record Keeping Requirements # 2.1.8

RRR "SIMPIL" MODEL Guide for the December 31, 2004 Tax Year

Glossary of Terms

Acronym	Description
CCA	Capital Cost Allowance
CER	Common Equity Ratio
DR	Debt Ratio
LCT	Large Corporations Tax
LDC	Local Distribution Company
MARR	Market Adjusted Revenue Requirement
OCT	Ontario Capital Tax
PBR	Performance Based Regulation
PILs	Payments in Lieu of Taxes
RAM	Rate Adjustment Model
ROE	Return on Equity
RUD	Rate Unbundling Model
UCC	Undepreciated Capital Cost
REGINFO	Regulatory Information
TAXCALC	Tax Calculations
TAXREC	Tax Reconciliations

APPENDIX A

Reporting and Record Keeping Requirements (RRR) # 2.1.8
RRR SIMPIL Model Guide for the December 31, 2005 Tax Year

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 pale green and those cells that have formulas are shaded in pale 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 2005 PILs portion of the rate adjustment application. The 2005 PILs application provides the numbers for this RRR REGINFO filing. The concepts from the original 2002 PILs and the 2005 PILs applications are reviewed below.

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.

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 2000-2001 RUD model spreadsheets.

If the LDC filed an application to amend its Rate Base or other amounts, please use the Board-approved amounts and provide the application reference numbers.

- Utility Name: Enter the full name of the corporation.
- Indicate if the reporting period is not a full year.
- Days in the reporting period: Enter the number of days in the 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 PILs? Enter “Yes” or “No”.
- Is the utility a not-for-profit corporation? Enter “Yes” or “No”. If your answer is yes, please refer to comments made related to not-for-profit corporations and contact Board staff.
- Are the Ontario capital tax (OCT) and the federal Large Corporations Tax (LCT) exemptions shared among the corporate group?

Rate Base (wires-only)
Enter the Board-approved rate base amount as per Cell B31 of Sheet # 7- MARR (no tax) calculations of the 2000-2001 RUD application (RUD) model spreadsheets.

Common Equity Ratio (CER)
Enter the percentage per Cell B33 from Sheet # 7- MARR (no tax) calculations of the RUD model spreadsheets. The CER was determined based on the size of the utility’s rate base. Refer to Table 3-1 of the Electricity Distribution Rate Handbook for further details.

Target Return on Equity
Enter the percentage per Cell B34 from sheet # 7- MARR (no tax) calculations of the RUD model spreadsheets. Please note the Board specified the maximum rate of return. A utility was allowed to select a rate of return up to the Board maximum specified rate of return. However, once a rate of return was selected, a utility was 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 RUD model spreadsheets. The debt rate was determined based on the size of the utility’s rate base. Utilities were allowed to select a debt rate below or equal to the deemed debt rate determined by the Board. Refer to Table 3-1 of the Electricity Distribution Rate Handbook.

Market Adjusted Revenue Requirement (MARR):
REGINFO will calculate the MARR. Ensure that this amount agrees with the Board-approved amount per Cell B44 from sheet # 7 - MARR (no tax) calculations of the RUD Model Spreadsheets.
MARR = [Rate Base x (CER x Target ROE)] + [Rate Base x (1- CER) x DR]

1999 Return
Enter the Board-approved amount per Cell B46 from sheet # 7 - MARR (no tax) calculations of the RUD model spreadsheets. A utility 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 was defined as the net income before interest expense, extraordinary items and income tax, federal Large Corporations Tax, Ontario Capital Tax and pertains to the wires-only operation.

Total Incremental revenue
The amount is calculated automatically by the program (no entry is required). (MARR minus 1999 Return)

Amount allowed in 2001, 2002 and 2003
The phased-in amount represents the additional revenue a utility was permitted to recover in rates for each fiscal year to move to the target return. The incremental revenue was being phased in according to the Board decision for the utility. For most LDCs the phase-in was planned to be equal over three years.

Please enter the Board-approved phased-in amounts. If the Board approved any changes subsequent to unbundling, please provide a copy the Board decision.

Bill 210 discontinued the phase-in of the third tranche of MARR. In 2005, LDCs were allowed to receive the third tranche of MARR in rates by making a commitment with respect to CDM over a three-year period.

The Board may have approved additional amounts to be collected as **permanent** adjustments to rates. Please provide a copy of the Board order that authorized the permanent change. If the change was a rate rider for a specific period, do not include this amount here.

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 and an interest component. This interest component becomes one of several deductions used to calculate taxable income and the PILs proxy amount.

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 income tax PILs 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 increased rates at market opening, May 1, 2002. There was a 1999 Return and incremental revenue. Two years remain in first 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 TAXCALC spreadsheet:

Initial Estimate Column

In order to complete the Initial Estimate column, you will need to have the following information on hand. The PILs section of the 2005 rate adjustment application provides the numbers for this RRR SIMPIL initial estimate filing. The concepts from the 2002 PILs proxy tax application are reviewed below. The amounts approved in the 2005 (or subsequent) application should be entered since the 2005 PILs proxy must agree with the most recent decision of the Board.

- A copy of the final RUD model sheet #7, entitled "MARR (NO TAX) CALCULATIONS."
- For LDCs that calculated 2002 PILs as part of the 2002 RAM application, you completed the REGINFO spreadsheet in the 2002 PILs spreadsheets using data from sheet # 7 of the RUD Model. Copy the data from the 2002 RAM REGINFO spreadsheet into the RRR SIMPIL REGINFO spreadsheet. Please ensure the final version approved by the Board is used.
- **If the Board approved any changes to this 2002 proxy in subsequent applications, the utility must submit the Board order approving the changes.**

- The depreciation expense relates to the wires-only distribution business for the calendar year 1999 as approved by the Board in the unbundling application.
- The Capital Cost Allowance (CCA) schedule submitted in evidence in the 2002 application is the source of the CCA. This schedule used the 1999 net book value of the fixed assets as disclosed on the 1999 financial statements and as amended and approved by the Board to establish rate base for the utility. No UCC additions or deductions are included in the schedule.
- A copy of the 2004 RRR SIMPIL spreadsheets as a reference.
- Review the **Tax Rates** spreadsheet in the SIMPIL model to ensure the tax rates in the spreadsheet are correct for the utility.

The information in this section follows the order of the lines on the form. Enter the applicable information approved by the Board as included in the PILs sections of the 2002, 2004 and 2005 rate adjustment applications.

<u>Item 1: Regulatory Net Income</u>

From REGINFO, enter the 1999 Return, plus the prior years' cumulative incremental revenue phased-in, plus the current year incremental revenue to be phased in. There is a link to REGINFO, and the amount calculated in REGINFO will appear in this cell.

Additions to Regulatory Net Income:

<u>Item 2: Depreciation and amortization</u>
Enter the book depreciation amount related to the wires-only operation included in the 1999 Return.

<u>Item 3: Employee Benefit Plans - Accrued, Not Paid</u>
True-up will apply to this category as of the tax filing date. This item includes pension plan and other post employment benefit plan expenses.

<u>Item 4: Reserves</u>
Both reserves of the previous year and of 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.

<u>Item 5: Regulatory Adjustments</u>
The item may include transition costs and z-factors the Board has approved. However, since these types of costs are deductible for tax purposes, an offsetting deduction should be entered in Item 10. Generally, no PILs proxy tax provision will be allowed on regulatory items since the utility can use the deduction in a prior year, current year or future year to reduce taxes otherwise payable.

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 5 above).

This line item enables a utility to include other additions into rates which are material. Refer to tab in the SIMPIL 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 Ministry of Finance (MoF) filing.

A more comprehensive reconciliation (specific additions and deductions) from accounting income to taxable income can be found in the TAXREC 2 spreadsheet.

Deductions from Regulatory Net Income

Item 7: Capital Cost Allowance (CCA) and Cumulative Eligible Capital (CEC)
CCA was determined using 1999 regulatory net book value of assets, statutory capital cost allowance rates and the selected tax asset class categories. A Schedule 8 was submitted in the 2002 RAM application. Please note that the company was required to claim the maximum CCA for regulatory purposes even if this was not done for tax purposes.

Item 8: Employee Benefit Plans - Paid Amounts
Enter the amount from the 2002 application.

Item 9: Items Capitalized for Regulatory Purposes
This category represents amounts required by the Board to be deferred and to be recovered in a future period for regulatory purposes.

Item 10: Regulatory Adjustments
Amounts entered in Item 5 will have a corresponding tax deduction applicable. Enter the tax deduction amount here. It is assumed that the amount in Item 5 is fully deductible for tax purposes at some time and, therefore, the LDC will claim a tax deduction equal to the same amount and enter it in Item 10.

Item 11: Interest adjustment for tax purposes
Reflects the deemed interest portion of the MARR included in Regulatory Net Income for the year. Rate Base x (1 - Common Equity Ratio) x deemed debt rate x accumulated phase-in percentage.

The accumulated phase-in percentage is calculated as: (1999 Return + incremental revenue phased-in at that date) divided by MARR. There is a true-up penalty if the actual interest reported in the tax return (MoF column) exceeds the full 100% amount of deemed interest provided by the REGINFO calculation.

Item 12: Other Deductions
A more comprehensive reconciliation (specific additions and deductions) from accounting income to taxable income can be found in the TAXREC 2 spreadsheet.

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 11 above). This line item enables a utility to include other deductions into rates which are material. Refer to 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.

Taxable Income/ (Loss)
The spreadsheet calculates the total by adding the Regulatory Net Income plus the Additions minus the Deductions. Generally, a regulatory tax loss is not possible since Regulatory Net Income is positive. However, it is possible for the actual tax results to be a loss for tax purposes.

Item 13: Blended Income Tax Rate
The rate is automatically selected by the spreadsheet based on the corporate taxable income range and the tax rates in effect as of the latest update. The detail tax rate tables are included in the Tax Rates spreadsheet.

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 (OCT)

Item 15: Capital Tax Base
Use the Board-approved wires-only Rate Base from the final RUD filing as the proxy for taxable capital. MARR, Sheet 7, cell B 31.

Item 16: Exemption
The Board decided that the full amount of exemption of $7,500,000 should be allocated to the regulated utility. Please note that the capital tax exemption may be shared among the regulated LDCs or service areas within the same corporate group. If the exemption is allocated among LDCs within the same corporate group, please provide the calculations as well as the tax schedule from the CT23 tax return. **Enter** the amount claimed in the tab **Tax Rates, Table 1**.

Item 17: Rate
The rate is selected by the program based on the tax rate in effect. The detail tax rate schedule is included in the Tax Rate spreadsheet Table 1.

Federal Large Corporations Tax (LCT)

Item 18: Capital Tax Base
Use the Board-approved wires-only Rate Base from the final RUD filing as the proxy for taxable capital. MARR, Sheet 7, cell B 31.

Item 19: Exemption
The full amount of exemption should be allocated to the regulated utility. For 2002 this amount was $10,000,000. It increased to $50,000,000 for 2004. Please note the LCT exemption may be shared among the regulated LDCs or service areas within the same corporate group. If the exemption is allocated among LDCs within the same corporate group, please provide the calculations as well as the tax schedule from the T2 tax return. Enter the amount claimed in the tab **Tax Rates, Table 1**.

Item 20: Rate
The rate is automatically selected by the program based on the tax rates in effect. The detail tax rates schedule is included in the Tax Rates spreadsheet, Table 1.

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)
The calculation is: regulatory income tax / (1- tax rate for the 2005 taxation year). The program calculates the amount automatically and adjusts for the surtax.

Please note that the true-up gross-up calculation is based on the 2005 income tax rates legislated for the 2005 year rather than when the PILs will be recovered from consumers.

Item 23: Large Corporations Tax (Grossed-Up)
The calculation is: net LCT/ (1- tax rate for the 2005 taxation year). The program calculates the amount automatically and adjusts for the surtax.

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 PILs for Rate Adjustment
The total is the sum of income taxes (grossed-up), Large Corporations Tax (grossed-up) and Ontario capital tax (not grossed-up).

Ministry of Finance Column of TAXCALC:

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. The tax returns filed with the MoF for 2005 will be needed to complete the form.

- A copy of the 2005 SIMPIL spreadsheets with the Initial Estimate column completed. The PILs Initial Estimate amounts should agree with the applicable Board decision for either 2002 or 2005, unless another decision was issued.

- A copy of the 2005 federal T2 and Ontario CT23 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.

- Copies of the federal and Ontario tax notices of assessments, re-assessments, and statements of adjustments pertaining to the reporting periods of 2001, 2002, 2003, 2004 and 2005.

Change in tax rates:

Please verify and enter the revised income and capital tax rates as a result of legislative changes announced by the governments into the Tax Rates spreadsheet Table 3.

Completing the MoF Column in the TAXCALC spreadsheet

You should complete the MoF Column only after the completion of the 2005 tax returns and the TAXREC spreadsheet. The purpose of the next section is to show you how to complete MoF information in the SIMPIL spreadsheets. Before entering the MoF information, you should ensure the Initial Estimate column on the TAXCALC spreadsheet contains the amounts that were approved by the Board in the 2002 RAM decision.

Completing the TAXREC Spreadsheet

If the fiscal year is covered by more than one taxation year, you should contact 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 - Financial statement data
- Section C - Reconciliation of accounting income to taxable income
- Section D - Detailed calculation of Ontario Capital Tax
- Section E - Detailed calculation of Large Corporations Tax
- Section F – Income and Capital Taxes

Section A - Identification

Utility Name: Please input the full name.

Reporting Period: Enter the dates on which the fiscal period covered by this form began and ended. e.g. January 1, 2005 - December 31, 2005. It should cover the same period as the REGINFO spreadsheet. If the taxation year is different from the reporting period please contact 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 one of the following formulas:

- 0.25% x Rate Base x Common Equity Ratio (deemed equity)
- 0.25% x Net Assets of the company

Please identify the formula used by putting “Y” next to the formula used. Items that exceed 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.

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. Amortization is linked to the add-back in section C. Please retain this line as shown.

Input the unconsolidated financial statement data submitted with tax returns in the first column. Non-wires eliminations will be entered into 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, "Does the utility carry on non-wires related operations?" Please eliminate the elements of the financial statements that are related to the non-wires operations.

Section C - Reconciliation of accounting income to taxable income

Input the information per Schedule 1 of your tax return onto the MoF Corporate Tax Return column 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 use the blank lines provided below the "Other Additions" section in the spreadsheet. Similarly, if some of the deductions are not identified on TAXREC or TAXREC 2, please use the blank lines provided under "Other Deductions" section in the spreadsheet.

The taxable income and the federal and Ontario income taxes under the MoF Corporate Tax Return column should be the same as the amounts reported on the actual tax returns.

Section D - Detailed calculation of 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 Eliminations" column. The Ontario capital tax should equal the Ontario capital tax on your CT23 tax return.

Section E - Detailed calculation of Large Corporations 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 Eliminations" column. The LCT should equal the LCT on the actual T2 tax return.

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. Please 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 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.

PILs 1562 Calculation

The purpose of the spreadsheet is to show the movement in Account #1562. Enter the PILs proxy taxes approved by the Board and the actual amounts collected from customers into the schedule. Also, please identify the method (1, 2 or 3) that was used to account for the PILs recovery in the spreadsheet. The explanations of these methods can be found in the Accounting Procedures Handbook, Frequently Asked Questions, April 2003. There are footnotes on the worksheet that explain the information required in the different columns and rows.

What are the Deferral Account Entries?

The Deferral Account Entries are made up of two types of variances: (1) the True-up Variance; and (2) the Deferral Account Variance. These entries are calculated in the TAXCALC spreadsheet.

How should the True-up Variance be determined?

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

Once the TAXREC spreadsheet is completed, the numbers in the "Wires-only Tax Return" column will be brought forward to the "MoF Filing" column. The MoF Filing Variance formulas 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 guidance 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.

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

Originally, it was intended that the rate used should be that applicable to the year of recovery from, or payments to customers. For example, a utility would normally use the income tax rates of tax year 2004 to calculate the gross-up of the true-up variance related to 2002 year since the true-up variance would normally have been collected from customers in the 2004 rate year.

Given the rate setting limitations of Bill 210 up to December 31, 2004, the recovery period has been uncertain. For this RRR filing the 2005 tax rates should be used.

How should the Deferral Account Variance be determined?

The Deferral Account Variance is the change in the PILs proxy tax provision (in the Initial Estimate Column) as a result of any legislative changes in federal and Ontario budgets. Applicable 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 model will then calculate the Deferral Account Variance based on the updated Tax Rates spreadsheet. The Tax Rates spreadsheet, Table 2, has rates that should be applicable. If the LDC has tax rates that differ, please enter the revised income and capital tax rates into the Tax Rates spreadsheet, Table 3. 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 corporate 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 or in the manager’s summary.

APPENDIX B

Reporting and Record Keeping Requirements (RRR) # 2.1.8

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

Glossary of Terms

Acronym	Description
APH	Accounting Procedures Handbook
CCA	Capital Cost Allowance
CER	Common Equity Ratio
CRA	Canada Revenue Agency
DR	Debt Ratio
FAQ	Frequently Asked Question (see website APH)
LCT	Large Corporations Tax
LDC	Local Distribution Company
MARR	Market Adjusted Revenue Requirement
MBRR	Market Based Rate of Return
MoF	Ministry of Finance - Ontario
PBR	Performance Based Regulation
PILs	Payments in Lieu of Taxes
OCT	Ontario Capital Tax
RAM	Rate Adjustment Model – 2002, 2004, 2005
REGINFO	Regulatory Information
ROE	Return on Equity
RRR	Reporting and Record-keeping Requirements
RUD	Rate Unbundling Model – 2000, 2001
SIMPIL	Simplified Implementation Model for Payments-in-lieu of taxes
TAXCALC	Tax Calculations
TAXREC	Tax Reconciliations
UCC	Undepreciated Capital Cost

Technical Conference Exhibit KT 1.9

Updated Table Relating to Board Staff Question 11.

11. Ref: Board staff IR #63 (and #67, #69, #70)

In its response to Board staff IR # 63 (a), Hydro One Brampton states: “Hydro One Brampton excluded regulatory assets/liability movements from PILs calculations both when they were created, and when they were collected, regardless of the actual tax treatment used for those amounts. Hydro One Brampton accounted for these as items that are not trued up in the TaxRec3 tab of the SIMPIL models for each year from 2001 to 2005.”

In 2004 and 2005 SIMPIL models on the schedule “Tax Reserves” Hydro One Brampton included the collections of regulatory assets which it termed “Bill 4 deferred revenue”. These amounts should have been posted to account 1590. The 2004 movement or change in balance was $2,881,192, and the 2005 movement was $3,720,374 ($6,601,566 – 2,881,192).

In Hydro One Brampton’s audited financial statements for 2004 in Note 8, and 2005 in Note 9, there is a description related to the collection, or recoveries, of regulatory assets.

Questions:

Please explain why these collections have not been excluded from the determination of the SIMPIL true-up items for ratepayers in accordance with your response above. The dollar amounts should be shown on “TAXREC 3” as Hydro One Brampton disclosed the other deferred or regulatory amounts.

What would the recalculated balance be in the summary continuity schedule if these collections of regulatory assets were not included in the true-up items?

Please provide a revised schedule(s).

Response:

Revised Account 1562 Balance without Interest Claw-back – 2001 to 2006

EB-2010-0132
Summary PILs 1562 Balance - Without Interest Claw-back
Utility Name: Hydro One Brampton
Reporting period: 2001- 2005
Sign Convention: + for increase; - for decrease

Year start:		10/1/2001	1/1/2002	1/1/2003	1/1/2004	1/1/2005	1/1/2006	
Year end:		12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	4/30/2006	Total
Opening balance:	=	0	3,779,196	2,922,687	3,592,329	3,157,459	1,916,956	0
Board-approved PILs tax proxy from Decisions (1)	+/-	3,735,614	7,536,775	11,272,389	8,470,679	1,884,194	2,457,305	35,356,957
PILs proxy from April 1, 2005 - input 9/12 of amount	+					5,528,937		5,528,937
True-up Variance Adjustment Q4, 2001 (2)	+/-		2,951					2,951
True-up Variance Adjustment (3)	+/-			221,357	-22,199	122,604	66,662	388,424
Deferral Account Variance Adjustment Q4, 2001 (4)	+/-		0					0
Deferral Account Variance Adjustment (5)	+/-		0	0	-404,274	-481,842	0	-886,116
Adjustments to reported prior years' variances (6)	+/-							0
LCT repeal	+/-						-126,198	-126,198
Carrying charges (7)	+/-	43,582	284,693	195,887	172,209	126,976	36,961	860,309
PILs billed to (collected from) customers (8)	-	0	-8,680,929	-11,019,991	-8,651,285	-8,421,372	-2,906,720	-39,680,297
Ending balance: # 1562		3,779,196	2,922,687	3,592,329	3,157,459	1,916,956	1,444,967	1,444,967

final approval of any amount collected?

MR. GAPIC: Correct.

MR. SKINNER: Okay. Number 12:

"In its response, Hydro One Brampton states: 'Income tax rates for 2001 through 2005 were calculated based on information in the tax returns for these years, that is, net income tax payable divided by net taxable income. The maximum income tax rate used to calculate true-up amounts is the difference between the legislated income tax rate and the federal surtax rate.'"

And the question we asked was:

"Please explain why you did not deduct the surtax rate from the calculated income tax rate described in the first sentence of the response."

MR. GAPIC: Hydro One Brampton agrees that the wording of that response is not totally representative. We've adjusted that wording, as follows:

The marginal income tax rates for 2001 through 2005 (calculated based on information in the tax returns for those years, that is, net income tax payable divided by taxable income) less the federal surtax rate was used for true-up purposes. The maximum income tax rate used to calculate true-up amounts is the difference between the legislated income tax rate and the federal surtax rate.

Also, the methodologies used in the updated SIMPIL models basically made those formulations and did those things automatically. We didn't have to adjust or change any of the calculations of the models. We just let the models do their thing.

MR. SKINNER: Okay. Question number 13, it refers to the original Interrogatory No. 65.

We have provided a long preamble. It basically gets to that:

> "In 2001 the debt increased by $27,648,000 from $114,579,000 to $142,253,000. The main driver of this change in debt was the goodwill of $60,060,000 that resulted from push-down accounting. Since 2001 the debt levels have been fairly constant. In 2009 the goodwill was written off against contributed surplus."

So it appeared to us that the primary cause of the increased interest expense was the addition of goodwill to the balance sheet of Hydro One Brampton, and then recapitalization.

In answer to SEC Interrogatory No. 40(e), you've replied that:

> "$32,468,553 of PILs were paid to the Ministry of Finance for the period 2001 through April 30, 2006. During the same period Hydro One Brampton collected from (billed to) ratepayers $39,660,297."

The $7.2 million difference was partially caused by the benefit of having more interest expense to deduct.

And the question we have is:

> "Did Hydro One Brampton pay more PILs to the

EB-2010-0132
Hydro One Brampton
Balance Sheet Analysis
1999 to 2009

		Brampton Hydro		Hydro One Brampton Inc		Hydro One Brampton Networks Inc.						
	2001 Rate Base	**December 31 1999**	**December 31 2000**	**December 31 2001**	**December 31 2002**	**December 31 2003**	**December 31 2004**	**December 31 2005**	**December 31 2006**	**December 31 2007**	**December 31 2008**	**December 31 2009**
Cash		20,001	15,924	2,414	-8,041	1,568	-7,404	2,125	-6,310	-2,746	-5,411	-14,776
Accounts receivable		26,482	26,200	32,858	38,253	38,593	48,338	48,768	58,247	61,307	55,024	57,650
Unbilled revenue		7,086	7,315	0	0	0	0	0	0	0	0	0
Trade receivables		33,568	33,515	32,858	38,253	38,593	48,338	48,768	58,247	61,307	55,024	57,650
Inventory		3,541	2,725	2,878	3,125	2,996	3,392	3,747	4,493	1,634	1,226	1,159
Intercompany accounts												
From parent		0	0	10,000	0	0	0	12,100	0	0	0	0
Due from related parties		0	0	0	0	0	0	0	0	0	0	0
Debentures receivable		0	0	0	0	0	0	0	0	0	0	0
Investments		0	0	0	0	0	0	0	0	0	0	0
Notes receivable		0	0	0	0	0	0	0	0	0	0	0
		0	0	10,000	0	0	0	12,100	0	0	0	0
Prepaids		102	103	180	195	0	0	0	0	0	0	0
Regulatory Assets		0	0	2,645	10,069	10,986	9,827	8,780	4,600	-6,325	-8,702	-10,683
Future taxes		0	0	0	0	0	0	0	0	0	0	14,106
Deferred charges		35	0	0	0	0	0	0	0	0	-960	-147
Goodwill		0	0	60,060	60,060	60,060	60,060	60,060	60,060	60,060	60,060	0
Working Capital Allowance	**0**											
Fixed assets (net)	**0**	185,800	188,226	197,287	204,252	208,717	211,126	214,878	221,540	239,645	247,219	262,315
TOTAL ASSETS	**0**	243,047	240,493	308,322	307,913	322,920	325,339	350,458	342,630	353,575	348,456	309,624
Accounts payable		28,331	32,427	36,855	31,759	48,425	47,058	58,874	52,594	60,764	54,283	52,579
Consumer deposits short-term		900	900	0	0	0	0	0	0	0	0	844
Consumer deposits long-term		2,193	2,343	2,399	3,211	0	0	0	0	0	0	0
OPEBs		0	3,186	3,900	4,364	4,427	4,532	4,682	4,999	5,343	5,739	5,986
Deferred revenue		0	0	0	0	0	0	0	0	0	0	804
Future taxes		0	0	0	0	0	0	0	0	0	0	0
Contributions payable		0	0	0	0	0	0	0	0	0	0	0
Payables		31,424	38,856	43,154	39,334	52,852	51,590	63,556	57,593	66,107	60,022	60,213
Debt												
Third Party Debt												
Short-term	**0**	2,106	4,066	0	0	0	0	0	0	0	0	0
Long-term	**0**	6,002	110,513	0	0	0	0	0	0	0	0	0
Hydro One Inc.												
Short-term	**0**	0	0	0	0	0	1,599	1,599	0	0	0	0
Long-term	**0**	0	0	142,227	142,253	142,279	142,305	142,331	142,357	142,366	142,377	142,388
Associated/ Affiliated Company												
Short-term	**0**	0	0	0	0	0	0	0	0	0	0	0
Long-term	**0**	0	0	0	0	0	0	0	0	0	0	0
Total Debt	**0**	**8,108**	**114,579**	**142,227**	**142,253**	**142,279**	**143,904**	**143,930**	**142,357**	**142,366**	**142,377**	**142,388**
Shareholder's equity	**0**	**203,515**	**87,058**	**122,941**	**126,326**	**127,789**	**129,845**	**142,972**	**142,680**	**145,102**	**146,057**	**107,023**
TOTAL	**0**	243,047	240,493	308,322	307,913	322,920	325,339	350,458	342,630	353,575	348,456	309,624

School Energy Coalition Interrogatory # 40

[Ex. 9/1/5.0]

With respect to Regulatory Variance Account 1562:

a. P. 1. Please explain in detail "push-down accounting", and how it impacts the accounting treatment of goodwill and the PILs amount to be recovered.

Response:

Essentially, push-down accounting is allowed for the carrying values of the acquiree to be changed to reflect fair market value and goodwill amounts considered by the acquirer in the transaction. Hydro One Brampton reflected goodwill incurred in the purchase as an asset and contributed surplus on its balance sheet. When initial debt levels were determined, goodwill was included in the calculation which resulted in actual debt amounts to be different than deemed debt amounts used for rate making purposes. The tax benefits associated with this variance was "clawed back" and booked as an amount owing to customers when in fact there was no impact to the customer in the first place.

b. P. 1. Please describe how the impact of the interest clawback rule created an issue "unique to Hydro One Brampton".

Response:

Hydro One Brampton's position on this is fully explained in Ex.9/1/5. The underlying driver of the clawback is the effect of push-down accounting for goodwill, which is a circumstance unique to Hydro One Brampton.

c. P. 2. Please explain "Hydro One Brampton needed the full incremental revenue per additional customer to operate its distribution business".

Rseponse:

Customer rates approved by the OEB provide for increased capital required to serve additional customers. As customer growth occurs, added investments in plant are required and additional OM&A, interest and ROE are provided for in the rates approved. During the true-up period, no provision was made for growth, and as a result distributors that experienced significant growth were unintentionally penalized.

d. P. 2/3. Please provide Tables 20 and 21 referred to. Please provide a full PILs Account 1562 continuity using both calculation methods, with a detailed explanation of any differences between the two.

Response:

References to Tables 20 and 21 were made in error. The references were really meant for Tables 1 and 2 shown on page 3.

Please see tables immediately below showing the revised PILs Account 1562 summary continuity schedules.

PILs 1592 True-up Summary Continuity Schedule (with Interest Claw-back) 2001 to 2006

EB-2010-0132
Summary PILs 1562 Balance - With Interest Claw-back
Utility Name: Hydro One Brampton
Reporting period: 2001- 2005 Sign Convention: + for increase; - for decrease

Year start:		10/1/2001	1/1/2002	1/1/2003	1/1/2004	1/1/2005	1/1/2006	
Year end:		12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	4/30/2006	Total
Opening balance:	=	0	3,779,196	2,922,687	2,541,125	1,186,466	438,874	0
Board-approved PILs tax proxy from Decisions (1)	+/-	3,735,614	7,536,775	11,272,389	8,470,679	1,884,194	2,457,305	35,356,957
PILs proxy from April 1, 2005 - input 9/12 of amount	+					5,528,937		5,528,937
True-up Variance Adjustment Q4, 2001 (2)	+/-		2,951	0				2,951
True-up Variance Adjustment (3)	+/-		0	-800,056	-846,448	727,081	1,321,291	401,868
Deferral Account Variance Adjustment Q4, 2001 (4)	+/-				0			0
Deferral Account Variance Adjustment (5)	+/-		0	0	-404,274	-481,842	0	-886,116
Adjustments to reported prior years' variances (6)	+/-							0
LCT repeal	+/-						-126,198	-126,198
Carrying charges (7)	+/-	43,582	284,693	166,096	76,669	15,410	-2,096	584,355
PILs billed to (collected from) customers (8)	-	0	-8,680,929	-11,019,991	-8,651,285	-8,421,372	-2,906,720	-39,680,297
Ending balance: # 1562		3,779,196	2,922,687	2,541,125	1,186,466	438,874	1,182,457	1,182,457

PILs 1592 True-up Summary Continuity Schedule (without Interest Claw-back) 2001 to 2006

EB-2010-0132
Summary PILs 1562 Balance - Without Interest Claw-back
Utility Name: Hydro One Brampton
Reporting period: 2001- 2005 Sign Convention: + for increase; - for decrease

Year start:		10/1/2001	1/1/2002	1/1/2003	1/1/2004	1/1/2005	1/1/2006	
Year end:		12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	4/30/2006	Total
Opening balance:	=	0	3,779,196	2,922,687	3,592,329	3,157,459	3,513,616	0
Board-approved PILs tax proxy from Decisions (1)	+/-	3,735,614	7,536,775	11,272,389	8,470,679	1,884,194	2,457,305	35,356,957
PILs proxy from April 1, 2005 - input 9/12 of amount	+					5,528,937		5,528,937
True-up Variance Adjustment Q4, 2001 (2)	+/-		2,951					2,951
True-up Variance Adjustment (3)	+/-			221,357	-22,199	1,674,015	2,069,940	3,943,114
Deferral Account Variance Adjustment Q4, 2001 (4)	+/-		0					0
Deferral Account Variance Adjustment (5)	+/-		0	0	-404,274	-481,842	0	-886,116
Adjustments to reported prior years' variances (6)	+/-							0
LCT repeal	+/-						-126,198	-126,198
Carrying charges (7)	+/-	43,582	284,693	195,887	172,209	172,226	154,086	1,022,683
PILs billed to (collected from) customers (8)	-	0	-8,680,929	-11,019,991	-8,651,285	-8,421,372	-2,906,720	-39,680,297
Ending balance: # 1562		3,779,196	2,922,687	3,592,329	3,157,459	3,513,616	5,162,030	5,162,030

e. Please provide a detailed list of all PILs amounts paid relating to the period October 1, 2001 to and including April 30, 2006, taking into account any adjustments, reassessments, or refunds, and producing a net PILs cost for the period.

Response:

The table below provides a detailed list of all PILs amounts paid relating to the period August 1, 2001 to and including April 30, 2006, taking into account adjustments, reassessments and refund. Please note that Hydro One Brampton commenced assessment of PILs on August 1, 2001.

HOBNI Filing							
	2001	2002	2003	2004	2005	2006	Total
	Aug. 1 to Dec 31	Jan 1 to Dec 31	Jan 1 to Dec 31	Jan 1 to Dec 31	Jan 1 to Dec 31	Jan 1 to Apr 30	
Amount Filed							
Federal Income Tax	745,071.00	807,771.00	3,971,593.00	4,378,357.00	5,002,427.00	1,796,087.67	16,701,306.67
Federal Large Corporation Tax	218,082.00	609,643.00	481,025.00	368,212.00	261,225.00	-	1,938,187.00
	963,153.00	**1,417,414.00**	**4,452,618.00**	**4,746,569.00**	**5,263,652.00**	**1,796,087.67**	**18,639,493.67**
Ontario Income Tax	345,937.00	442,695.00	2,002,263.00	2,767,939.00	3,166,094.00	1,128,028.00	9,852,956.00
Ontario Capital Tax	325,887.00	818,734.00	839,999.00	835,649.00	829,705.00	295,222.00	3,945,196.00
	671,824.00	**1,261,429.00**	**2,842,262.00**	**3,603,588.00**	**3,995,799.00**	**1,423,250.00**	**13,798,152.00**
Amount filed	**1,634,977.00**	**2,678,843.00**	**7,294,880.00**	**8,350,157.00**	**9,259,451.00**	**3,219,337.67**	**32,437,645.67**
Assessment/Reassessment Adjustment	**4,695.00**	**-**	**-**	**30,556.00**	**-**	**(4,343.67)**	**30,907.33**
Total PILs	**1,639,672.00**	**2,678,843.00**	**7,294,880.00**	**8,380,713.00**	**9,259,451.00**	**3,214,994.00**	**32,468,553.00**

REGULATORY VARIANCE ACCOUNT 1562

The Company recorded amounts in account 1562, with an offsetting balance in account 1563, in accordance with guidance provided by the OEB. The Company has been participating as an intervenor (not as an applicant) in EB-2008-0381, the OEB's PILs Combined Proceeding regarding Deferred Payments in Lieu of Taxes ("PILs"). As part of that process, three applicant utilities were selected by the OEB to provide evidence with respect to the amounts recorded in 1562. While the parties reached consensus on a number of the issues and a revised model was issued by the OEB, several issues remained unresolved, including the "interest clawback" issue that is unique to Hydro One Brampton.

Prior to the purchase of the former Brampton Hydro by Hydro One Inc., the Company's rates were set by using a debt-equity ratio of 55% debt and 45% equity in order to calculate the revenue requirement. Subsequent to the purchase, the Company's capital structure was set by using the same debt-equity percentages based on balance sheet values, as opposed to rate base. The debt and equity values for rate-making purposes and the values that appear on the balance sheet rarely agree. In the case of the Company, the balance sheet values were derived by including an amount for "push-down" goodwill that appeared on the balance sheet of Hydro One Brampton. The debt value that appeared on the balance sheet exceeded the value used for rate-making purposes. The calculation of amounts booked in account 1562 included a clawback of tax benefits associated with deduction of interest expense in excess of the amounts included for rate-making purposes. The Company believes that the clawback of these amounts is not just and reasonable.

There are several facts that support the position taken by the Company.

- The capital structure was created in a manner consistent with other subsidiaries of the parent and consistent with the public prospectus released by the parent. Unlike many other distributors, Hydro One Brampton is part of a larger family of companies.
- The Company is unique in that push-down accounting was used to record goodwill, and the debt and equity amounts were based on balance sheet values including goodwill. Debt values for rate-making purposes rarely equate to balance sheet values. Section 5.3 of the 2006 Electricity Distribution Rate Handbook issued May 11, 2005, recognizes that there will be differences between deemed capital structures and balance sheet

capital structures and states, "*An applicant will use the deemed debt/equity structure shown in Table 5.1 corresponding to the size of the its rate base, to establish the revenue requirement for 2006 distribution rates….. a distributor is required to document its actual capital structure for 2004 based upon shareholders' equity, preferred shares, and debt. These numbers are typically taken or derived from the distributor's 2004 audited financial statements or similar records. Where the actual debt/equity structure deviates from the deemed debt/equity structure corresponding to the distributor's size, by more than ten percentage points, the applicant must also provide in its summary of the application an explanation as to why the actual debt/equity structure is different*."

- The Company experienced significant growth during the years the clawback was calculated, thereby requiring debt levels to rise to fund a portion of the capital investment required. During the period 1999-2005, customer growth was 44%, and substantial investments in the distribution infrastructure were required to support these additional customers, causing a 27% growth in rate base. The inclusion of this interest clawback adjustment in the SIMPIL model created unintended outcomes and has penalized high-growth LDCs such as Hydro One Brampton. Since Hydro One Brampton needed to finance its distribution plant growth through additional debt, its interest expense became greater than the deemed amount set in 1999. Hydro One Brampton needed the full incremental revenue per additional customer to operate its distribution business. An inconsistency occurs when rates provided for increased debt and equity funding requirements, while the true-up calculation was based on static 1999 rate base values. In the Report of the Board regarding the 2006 Electricity Distribution Rate Handbook issued May 11, 2005, the OEB recognized that high growth was being negatively impacted by the limitation of interest deductibility and stated that *"for purposes of 2006, the Board will continue the current treatment but refine it such that the tax calculation will be based on the greater of the deemed and actual 2004 interest expense"*.
- There was no customer impact as a result of the capital structure adopted by the Company: the distribution rates paid by customers paid were not affected.

Further to the PILs proceeding mentioned above, the Company ran the updated models again and has revised the balance in account 1562. The balance in the account as of December 31, 2009 is a credit balance of $2,690,380 (Table 20 below) and when we rerun the models based on the proceeding the amount should be adjusted to a credit balance of $1,146,941 (table 21). When Hydro One Brampton removes the interest clawback amounts that we dispute - see Table 20 and 21 below - the balance we are seeking disposition for is a Debit balance of $3,446,413 including interest adjustments to December 31, 2010.

Table 1: Account 1562 RRR vs Amount for Disposition Analysis

	Per 2009 RRR Filing	Balance for Disposition	Change in Account
	2009	2009	2009
Principal	(844,386)	2,506,570	3,350,955
Carrying Charges	(1,845,994)	926,058	2,772,052
	(2,690,380)	3,432,627	6,123,007

Table 2: Account 1562 Deferred PILS Analysis

	Per Restated True Up Models		Interest Clawback Adjustment		Balance for Disposition	
	2009	2010	2009	2010	2009	2010
Principal	(1,034,676)	(1,034,676)	(3,541,246)	(3,541,246)	2,506,570	2,506,570
Carrying Charges	(112,265)	(117,956)	(1,038,323)	(1,057,800)	926,058	939,844
	(1,146,941)	(1,152,632)	(4,579,568)	(4,599,045)	3,432,627	3,446,414

Revised PILS True-up

The restated PILS true up summary is provided below in Table 22. This restated amount of $1,034,676 represents the principal portion of the PILS account prior to the removal of the "interest clawback".

Table 1: PILS 1562 True up Summary 2001 to 2006

PILs TAXES - EB-2008-381
Analysis of PILs Tax Account 1562:
Utility Name: Hydro One Brampton Networks Inc. — **Version 2009.1**
Reporting period: 2005 — **Sign Convention: + for increase; - for decrease** — **0**

Year start:		10/1/2001	1/1/2002	1/1/2003	1/1/2004	1/1/2005	1/1/2006	
Year end:		12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	4/30/2006	Total
Opening balance:	=	0	100,947	168,539	103,355	127,013	-113,757	0
Board-approved PILs tax proxy from Decisions (1)	+/-		9,393,658	11,272,389	8,470,678	7,399,392	2,457,305	38,993,422
PILs proxy from April 1, 2005 - input 9/12 of amount								0
True-up Variance Adjustment Q4, 2001 (2)	+/-							0
True-up Variance Adjustment (3)	+/-	-258,524	-877,746	-939,290	885,458	1,245,025		54,922
Deferral Account Variance Adjustment Q4, 2001 (4)								0
Deferral Account Variance Adjustment (5)	+/-	359,471	0	-404,274	-478,149	-460,353		-983,305
Adjustments to reported prior years' variances (6)	+/-							0
Carrying charges (7)	+/-							0
PILs billed to (collected from) customers (8)	-	0	-8,448,319	-9,994,009	-8,854,329	-8,424,834	-3,378,224	-39,099,715
Ending balance: # 1562		100,947	168,539	103,355	127,013	-113,757	-1,034,676	-1,034,676

Ontario Energy Board Interrogatory # 65

Ref: Exhibit 9 / Tab 1/ Schedule 5.0 – Interest Claw-back

a) Did Hydro One Brampton use the maximum amount of deemed interest from its 2002 and subsequent applications as the threshold to determine the excess interest claw-back?

Response:

Yes. Hydro One Brampton used the maximum amount of deemed interest as established in the SIMPILs models. Please see **Appendices V and W.**

b) Does Hydro One Brampton agree that the interest claw-back has been a feature of the Board's PILs/ SIMPIL methodology since 2001-2002?

Response:

The claw-back feature has been a part of the SIMPIL model methodology, but Hydro One Brampton submits that there have been unintended results and has explained the Company's position on this in the original filing.

c) Was the actual debt outstanding for the period 2001 through 2005 borrowed from third parties, Hydro One Inc., or other associated or affiliated companies?

Response:

Hydro One Inc.

d) Please provide an analysis of the amounts borrowed and applicable interest rates for each type of debt instrument with each of third parties, Hydro One Inc. and associated/ affiliated companies for the period 2001-2005.

Response:

HOBNI has had one debt instrument outstanding with Hydro One Inc. throughout the period in question. This instrument is a 30 year promissory note the principal amount of which is $143.0 M and bears interest at 6.95%. HOBNI did not have any other debt instruments during the same period

e) Please complete the attached Excel worksheet for the analysis of Hydro One Brampton's actual balance sheets from 1999 through 2009.

Response:

Please see **Appendix AY**

Technical Conference Exhibit KT 1.10

Exhibit No. KT1.10: Table Prepared in Response to Board Staff TC IR No. 13.

13. Ref: Board staff IR #65

In 2001 the debt increased by $27,648,000 from $114,579,000 to $142,253,000. The main driver of this change in debt was the goodwill of $60,060,000 that resulted from push-down accounting. Since 2001 the debt levels have been fairly constant. In 2009 the goodwill was written off against contributed surplus.

It appears that the primary cause of the increased interest expense was the addition of goodwill.

In response to SEC interrogatory # 40(e) $32,468,553 of PILs were paid to the Ministry of Finance for the period 2001 through April 30, 2006. During the same period Hydro One Brampton collected from (billed to) ratepayers $39,660,297.

The difference of $7,211,744 was caused partially by higher interest expense deductions in the tax returns. The interest claw-back in the Board's methodology would return part of this benefit to the ratepayers.

Did Hydro One Brampton pay more PILs to the government than it collected from ratepayers in the period from 2006 through 2009? Extending the table out to 2009 would assist the analysis and interpretation. Please provide the amended table.

Response:

Actual and Estimated PILs Proxy Collected vs Regulatory PILs Assessment 2001 to 2009

	Total - August 1, 2001 to December 31, 2005	2006	2007	2008	2009	Totals - 2006 to 2009	Total
Actual amount of proxy collected	36,773,577	2,906,720				2,906,720	39,680,297
Estimated amount of proxy collected		6,827,248	10,077,475	9,313,864	8,740,788	34,959,375	34,959,375
PILS Proxy Collected	36,773,577	9,733,968	10,077,475	9,313,864	8,740,788	37,866,095	74,639,672
Ministry of Revenue PILs assessment	29,253,559	9,644,982	12,331,983	9,160,827	5,556,103	36,693,895	65,947,454
Add Goodwill benefits to shareholders	4,505,615	806,898	750,415	647,264	592,971	2,797,548	7,303,163
Regulatory PILs assessment	33,759,174	10,451,880	13,082,398	9,808,091	6,149,074	39,491,443	73,250,617
Difference	3,014,403	(717,912)	(3,004,923)	(494,227)	2,591,714	(1,625,348)	1,389,055

Ontario Energy Board Interrogatory # 73

Ref: Exhibit 9 / Tab 1/ Schedule 5.0 – Disposition Methodology

In Exhibit 9/ Tab 1/ Schedule 1/ Page 1, Hydro One Brampton stated that it allocated balances to rate classes based on the default cost allocation methodology in the EDDVAR report. For account 1595 EDDVAR indicates on page 21, *"Residual Account balance to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented."* For accounts 1562 and 1592, EDDVAR indicates, *"Case-by-case basis".*

a) Since accounts 1562 and 1592 have not been cleared for the majority of distributors, and no rate riders have been set, on which recovery share has Hydro One Brampton relied? PILs were recovered in 2002, 2003, and up to 1 March, 2004 using the fixed and variable charges. PILs amounts were unallocated to rate classes based on the distribution revenue shares from the 2001 unbundling application. The 2006 EDR allocations were also based on these same distribution revenue shares. PILs for 2004, 2005 and up to April 1, 2006 were recovered on the variable charge.

Response:

Hydro One Brampton has relied on Distribution Revenue share to allocate the PILS deferral account disposition across customer classes and the Distribution Revenue share by class was used to establish the variable rate rider. Hydro One Brampton believes Distribution Revenue share is the most appropriate allocator to determine the share by customer class as PILS was included in rates as a component of billed revenues transferred from the Distribution Revenue accounts to the PILS deferral account. Although the amounts billed to customers was based on different billing determinants for recovery from customers, the PILS rate slivers were always part of billed distribution rates which are driven by Distribution Revenue, i.e. PILS billed to customers from March 2002 to March 2004 were recovered based on fixed and variable rates, and PILS billed to customers from April 1, 2004, to March 31, 2006 were recovered based on variable rates only.

b) Has Hydro One Brampton allocated the PILs 1562 and 1592 balances to the rate classes in a consistent manner to that followed when the rates were originally created from 2001 through 2005?

Response:

Yes. PILS has been a component of revenue in rates from March 1, 2002, to April 30, 2006, and revenue was used as the basis to allocate the recovery shares by customer class.

c) Could Hydro One Brampton use the cost allocation shares from its 2008 cost of service application?

Response:

Hydro One Brampton does not believe the cost allocation shares are representative of how PILS were billed to customers. Hydro One Brampton believes the best indicator of the causality of the amount to be disposed of is what was billed to customers, rather than distribution costs allocated in the Cost Allocation Model.

d) Could Hydro One Brampton use the cost allocation shares that it has applied for in its 2011 rates application?

Reponse:

Hydro One Brampton does not believe the cost allocation shares are representative of how PILS were billed to customers. Hydro One Brampton believes the best indicator of the causality of the amount to be disposed of is what was billed to customers, rather than distribution costs allocated in the Cost Allocation Model.

e) What billing determinant(s) should be used to recover the final amount in accounts 1562 and 1592? That is, by the fixed and variable charges, fixed charge only, or variable charge only?

Response:

The variable charge only.

f) Should the final balances in accounts 1562 and 1592 that will be approved for disposition be transferred to account 1590 Recovery of Regulatory Asset Balances or account 1595? If there are separate disposition rate riders for PILs, would it make sense to transfer the balance to 1590 or 1595?

Response:

Hydro One Brampton believes that both accounts 1562 and 1563 accounts should be retained and used for the disposition of the account balances. Hydro One Brampton believes that the account balances should not be transferred to either account 1590 or 1595. Hydro One Brampton believes that account 1592 should be cleared to account 1595 along with other group two regulatory assets/liabilities.

g) Should the disposition of accounts 1562 and 1592 be made final in this proceeding? How, and if at all, should subsequent tax reassessments for the period 2001 through 2005 from the tax authorities be handled in the future?

Response:

The disposition of accounts 1562 and 1592 should be considered final in this proceeding unless subsequent reassessments from the tax authorities are material for the period 2001 through 2005. Where subsequent reassessments are significant, the Distributor would be permitted to seek disposition on a case by case basis subject to a prudency review.

Technical Conference Exhibit JT 1.20

TO COMPARE PROPOSED ALLOCATION METHODS WITH 2011

Reference: Board Staff IR #73
Board Staff TC #15

Original question:

Hydro One Brampton requests relief of $5,162,030. How would Hydro One Brampton allocate this proposed recovery to the rate classes in 2011?

Response:

Table 1 below provides the weighted average distribution revenue shares for 2002 to 2005 based on the Rate Adjustment Models for 2002, 2004 & 2005.

Table 1: Proposed Method to Allocate PILS Account 1562 Based on Distribution Revenue Shares

Customer Class	Distribution Revenue for 2002 RAM	Distribution Revenue for 2002 RAM	Distribution Revenue for 2004 RAM	Distribution Revenue for 2005 RAM	Totals	Weighted Average Distribution Revenue Shares
RESIDENTIAL CLASS	16,164,930	16,164,930	23,673,840	26,713,717	82,717,418	50.89%
GENERAL SERVICE <50 KW CLASS	4,212,272	4,212,272	6,145,958	6,633,943	21,204,447	13.05%
GENERAL SERVICE >50 KW NON TIME OF USE	5,552,508	5,552,508	7,372,605	7,866,674	26,344,295	16.21%
GENERAL SERVICE >50 KW TIME OF USE	6,000,232	6,000,232	7,108,837	7,850,099	26,959,400	16.59%
LARGE USER CLASS	1,170,727	1,170,727	1,274,606	1,260,240	4,876,300	3.00%
STREET LIGHTING AND SENTINEL LIGHTS	85,685	85,685	120,357	133,068	424,796	0.26%
	33,186,355	**33,186,355**	**45,696,205**	**50,457,741**	**162,526,656**	**100.00%**

Table 2 below provides the average distribution revenue shares based on the 2011 proposed distribution revenue.

Table 2: Proposed 2011 Distribution Revenue Shares

Customer Class	Distribution Revenue for 2011 COS	Distribution Revenue Shares 2011
RESIDENTIAL CLASS	32,514,987	53.64%
GENERAL SERVICE <50 KW CLASS	6,565,989	10.83%
GENERAL SERVICE >50 KW NON TIME OF USE	10,086,269	16.64%
GENERAL SERVICE >50 KW TIME OF USE	8,175,966	13.49%
LARGE USER CLASS	1,946,273	3.21%
STREET LIGHTING AND SENTINEL LIGHTS	1,226,752	2.02%
UNMETERED SCATTERED LOAD	106,062	0.17%
	60,622,299	**100.00%**

Technical Conference Exhibit KT 1.11

Exhibit No. KT1.11: Updated Table in Response to VECC Interrogatory No. 56.

14. Ref: Board staff IR #72

a) Please complete the following table based on the answer in a) above and the numerical information provided in answer to OEB IR#72 b).

Tax Item	$
LCT (grossed up) from 2006 EDR application PILs model for the period May 1, 2006 to April 30, 2007	293,550
OCT from IRR#72	232,453
CCA adjustment	
Sub-total	
Interest carrying charges up to December 31, 2009	44,023
Total	

Response:

Completed Table for 1592

Tax Item	$
LCT (grossed up) from 2006 EDR application PILs model for the period May 1, 2006 to April 30, 2007	293,550.00
OCT from IRR#72	232,453.00
CCA adjustment (May 1, 2006 to April 30, 2007)	16,322.64
CCA adjustment (May 1, 2007 to April 30, 2008)	16,320.00
Sub-total	558,645.64
Interest carrying charges up to December 31, 2009	44,022.81
Total	602,668.45