MIDLAND POWER UTILITY CORPORATION
16984 Highway#12 P.O. Box 820
Midland Ontario L4R 4P4

January 27, 2012

Ontario Energy Board
2300 Yonge Street
26th Floor
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Sirs:

Re: Midland Power Utility Corporation – 2012 IRM3 Rate Application
Licence #ED 2002-0541; Board File No. EB-2011-0182

Enclosed please find Midland's response to Board Staff Interrogatories due January 27, 2012 filed under the RESS filing system today. Should you have any questions please do not hesitate to contact the writer.

Yours very truly,

MIDLAND POWER UTILITY CORPORATION

PHIL MARLEY, CMA
President & CEO
Tel: (705)526-9362 ext 204
Fax: (705) 526-7890
E-mail: pmarley@midlandpuc.on.ca

Midland Power Utility Corporation
2012 Electricity Distribution Rates
EB-2011-0182
Midland PUC Response to Board Staff Interrogatories

1. Disposition during 2010

Ref: Rate Generator Model
Ref: Midland Power's 2010 IRM Decision and Order (EB-2009-0236), p. 12

A portion of Sheet "9. Cont. Sched. Def_Var" from the Rate Generator Model is reproduced below.

Account Descriptions	Account Number	Opening Principal Amounts as of Jan-1-10	Transactions Debit / (Credit) during 2010 excluding interest and adjustments [5]	2010 Board-Approved Disposition during 2010	Other [3] Adjustments during Q1 2010	Other [3] Adjustments during Q2 2010	Other [3] Adjustments during Q3 2010	Other [3] Adjustments during Q4 2010
LV Variance Account	1550	-$ 63,027	-$ 74,510					
RSVA - Wholesale Market Service Charge	1580	-$ 35,207	-$ 237,679					
RSVA - Retail Transmission Network Charge	1584	$ 58,499	$ 37,541					
RSVA - Retail Transmission Connection Charge	1586	-$ 370,307	-$ 14,157					
RSVA - Power (excluding Global Adjustment)	1588	$ 377,777	-$ 172,033					
RSVA - Power - Sub-Account - Global Adjustment	1588	$ 340,493	-$ 156,941					
Recovery of Regulatory Asset Balances	1590	$ -						
Disposition and Recovery of Regulatory Balances (2008)[7]	1595	$ -						
Disposition and Recovery of Regulatory Balances (2009)[7]	1595	$ -						
Group 1 Sub-Total (including Account 1588 - Global Adjustment)		$ 308,230	-$ 617,779	$ -	$ -	$ -	$ -	$ -
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		-$ 32,264	-$ 460,838	$ -	$ -	$ -	$ -	$ -
RSVA - Power - Sub-Account - Global Adjustment	**1588**	$ 340,493	-$ 156,941	$ -	$ -	$ -	$ -	$ -
Special Purpose Charge Assessment Variance Account	**1521**	$ -						
Deferred Payments in Lieu of Taxes	**1562**	$ 125,178						
Group 1 Total + 1521 + 1562		$ 433,408	-$ 617,779	$ -	$ -	$ -	$ -	$ -
The following is not included in the total claim but are included on a memo basis:								
Board-Approved CDM Variance Account	1567							
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592							
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592							
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Contra Account	1592	$ -						
Disposition and Recovery of Regulatory Balances[7]	1595	-$ 189,357	-$ 606,541					

Account Descriptions	Account Number	Closing Principal Balance as of Dec-31-10	Opening Interest Amounts as of Jan-1-10	Interest Jan-1 to Dec-31-10	Board-Approved Disposition during 2010	Adjustments during 2010 - other [3]	Closing Interest Amounts as of Dec-31-10
LV Variance Account	1550	-$ 137,536	-$ 94	-$ 899			-$ 993
RSVA - Wholesale Market Service Charge	1580	-$ 272,886	-$ 99	-$ 1,305			-$ 1,405
RSVA - Retail Transmission Network Charge	1584	$ 96,040	$ 231	$ 488			$ 719
RSVA - Retail Transmission Connection Charge	1586	-$ 384,464	-$ 1,875	-$ 3,096			-$ 4,971
RSVA - Power (excluding Global Adjustment)	1588	$ 205,744	$ 1,585	$ 1,253			$ 2,838
RSVA - Power - Sub-Account - Global Adjustment	1588	$ 183,553	$ 723	$ 1,658			$ 2,382
Recovery of Regulatory Asset Balances	1590	$ -	$ -				$ -
Disposition and Recovery of Regulatory Balances (2008)[7]	1595	$ -	$ -				$ -
Disposition and Recovery of Regulatory Balances (2009)[7]	1595	$ -	$ -				$ -
Group 1 Sub-Total (including Account 1588 - Global Adjustment)		-$ 309,549	$ 471	-$ 1,901	$ -	$ -	-$ 1,430
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		-$ 493,102	-$ 253	-$ 3,559	$ -	$ -	-$ 3,812
RSVA - Power - Sub-Account - Global Adjustment	**1588**	$ 183,553	$ 723	$ 1,658	$ -	$ -	$ 2,382
Special Purpose Charge Assessment Variance Account	**1521**	$ -					$ -
Deferred Payments in Lieu of Taxes	**1562**	$ 125,178	$ 44,787	$ 998			$ 45,786
Group 1 Total + 1521 + 1562		-$ 184,371	$ 45,258	-$ 903	$ -	$ -	$ 44,355
The following is not included in the total claim but are included on a memo basis:							
Board-Approved CDM Variance Account	1567	$ -	$ -				$ -
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592	$ -	$ -				$ -
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592	$ -	$ -				$ -
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Contra Account	1592	$ -	$ -				$ -
Disposition and Recovery of Regulatory Balances[7]	1595	-$ 795,898	$ 2,659	$ 509,194			$ 511,853

a) Please indicate where the Board approved disposition amounts during 2010 were accounted for on the 2010 portion of the continuity schedule.

Response:

In the Application filed herein, the 2010 disposition amounts were accounted for in the "Transactions Debit/Credit for 2010" column. Midland PUC has updated the continuity schedule separating the approved dispositions in 2010. In addition Midland PUC has recorded entries in the "Adjustments during 2010 – other" column. The adjustments represent the interest differential balances remaining with respect to the 2009 accounts. In 2010 these amounts were booked to Account #6035 – Other Interest expenses sub account for variance accounts. This amended schedule has been filed with this IR Response under Midland 2012_IRM_Rate_Generator V1_4_20120119.

2. Taxable Capital

Ref: Tax Savings Model

A portion of Sheet "5. Z-Factor Tax Changes" from the Tax Savings is reproduced below.

For the 2009 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)	$ -	
1. Tax Related Amounts Forecast from Capital Tax Rate Changes	**2009**	**2012**
Taxable Capital	$ 11,361,794	$ 11,361,794
Deduction from taxable capital up to $15,000,000	$ 11,361,794	$ 11,361,794
Net Taxable Capital	$ -	$ -
Rate	0.225%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	**$ -**	**$ -**

a) Board Staff is unable to verify the 2009 Taxable Capital amount of $11,361,794.

Please provide the source of this number.

Response:

Attached as Schedule "A" to this response are two schedules from the 2009 tax filings:

- CT 23: Taxable Capital 2009 ON Sch 515; and
- T1: Taxable Capital 2009 Sch 33

3. Account 1521 – Special Purpose Charge (“SPC”)

Ref: Manager’s Summary, Page 9 to 10.

a) Please confirm Midland Power’s SPC assessment amount and provide a copy of the original SPC invoice.

b) Please complete the following table related to the SPC.

SPC Assessment (Principal balance)	Amount recovered from customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charges Balance	Amount recovered from customers in 2011	Carrying Charges for 2011	Forecasted December 31, 2011 Year End Principal Balance	Forecasted December 31, 2011 Year End Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan.1 to Apr.30)	Total for Disposition (Principal & Interest)

Response:

a) Midland PUC’s SPC assessment amount is $82,891. A copy of the invoice is reproduced in Table 1 below.

Table 1: SPC Assessment

Revised Invoice
Ministry of Energy and Infrastructure
Conservation and Renewable Energy Program Costs

To: Midland Power Utility Corporation, ED-2002-0541
16984 Highway #12 P.O. Box 820
Midland, ON L4R 4P4
Attn: Phil Marley, CFO

Customer No./No du client	3498
Customer Site No./ N° d'emplacement du client	1061052
Invoice Date/Date de la facture	April 16, 2010
Invoice No./ N° de la facture	50046
Due Date/ Date d'échéance	July 30, 2010
Payment Amount/ Montant remis	CAD $ 82,891

Item Description:

Assessment for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs.
Quote-part pour les coûts des programme de conservation et d'énergie renouvelable du ministère de l'Énergie et de l'Infrastructure.

Questions related to the remittance should be directed to the Non-Tax Revenue Management Branch Contact Centre at 1-877-535-0554 or Fax (416) 326-5177. Les questions concernant la remise doivent être posées à l'InfoCentre de la Direction de la gestion des revenus non fiscaux au 1 877 535-0554 ou par télécopieur au 416 326-5177.

This assessment was calculated by the Ontario Energy Board, 2300 Yonge St. 27th Floor, P.O. Box 2319, Toronto, ON M4P 1E4.Questions related to the invoice should be directed to the Market Operations Hotline 416-440 -7604. La présente quote-part a été fixée par la Commission de l'énergie de l'Ontario, 2300, rue Yonge, 27e étage, case postale 2319, Toronto (Ontario) M4P 1E4. Les questions relatives à la facture doivent être posées au service de téléassistance du service Activités du marché : 416 440-7604.

Payments are to be made to the Minister of Finance not the Ontario Energy Board.
Les paiements doivent être faits au ministre des Finances et non à la Commission de l'énergie de l'Ontario.

Detach here/ Détacher ici

Ontario

Ministry of Finance/Ministère des Finances
Payment Processing Centre/Centre de traitement des paiements
33 King St. West/33 rue King Ouest
PO Box 647/CP 647
Oshawa, ON L1H 8X3

Customer No. / N° du client	3498
Customer Site No./ N° d'emplacement du client	1061052
Invoice No./ N° de la facture	50046
Payment Amount / Montant remis	CAD $ -

Please detach and return this portion with your payment in the enclosed envelope. Make your cheque or money order payable to the Minister of Finance. Veuillez détacher et retourner cette partie avec votre remise dans l'enveloppe ci-jointe. Libellez votre chèque ou votre mandat à l'ordre du ministre des Finances.

Midland Power Utility Corporation, ED-2002-0541
16984 Highway #12 P.O. Box 820
Midland, ON L4R 4P4
Attn: Phil Marley, CFO

45 AR 50046

b) Table 2 provides a summary of Account #1521 – Special Purpose Charge (SPC)

Table 2: SPC Summary Account #1521

Midland Power Utility Corporation
Summary of Account #1521 - Special Purpose Charge (SPC)

SPC Assessment (Principal Balance)	Amount recovered from customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charges Balance	Amount recovered from customers in 2011	Carrying Charges for 2011	December 31, 2011 Year End Principal Balance	December 31, 2011 Year End Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan 1 to Apr 30)	Total for Disposition (Principal & Interest)
$ 82,891.00	$ 47,644.53	$ 238.93	$ 35,246.47	$ 238.93	$ 35,635.07	$ 124.80	$ (388.60)	$ 363.73	$ (1.96)	$ (26.83)

4. LRAM Claims

Ref: Burman Energy Consulting Group Inc. LRAM Support, Oct. 19, 2011

Midland PUC has requested an LRAM recovery associated with 2006 to 2010 CDM programs for a total amount of $76,737.50.

a) Please confirm that Midland PUC used final 2010 program evaluation results from the OPA to calculate its LRAM amount.

b) If Midland PUC did not use final 2010 program evaluation results from the OPA, please explain why and update the LRAM amount accordingly.

c) Please discuss Midland PUC's prior LRAM applications and the amounts it has recovered.

d) Please confirm that Midland PUC has not received any of the lost revenues requested in this application in the past. If Midland PUC has collected lost revenues related to programs applied for in this application, please discuss the appropriateness of this request.

e) Please identify the CDM savings that were included in Midland PUC's last Board approved load forecast.

f) Please provide a table that shows the LRAM amounts requested in this application by the year they are associated with and the year the lost revenues took place, divided by rate class within each year. Use the table below as an example and continue for all the years LRAM is requested:

Program Years (Divided by rate class)	Years that lost revenues took place			
	2006	2007	2008	2009
2006	$xxx	$xxx	$xxx	$xxx
2007	$xxx	$xxx	$xxx	$xxx
2008	$xxx	$xxx	$xxx	$xxx
2009		$xxx	$xxx	$xxx
2010			$xxx	$xxx

g) Please discuss if Midland PUC is applying for carrying charges on the LRAM amounts requested in this application.

h) If Midland PUC is requesting carrying charges, please provide a table that shows the monthly LRAM balances, the Board-approved carrying charge rate and the total carrying charges by month for the duration of this LRAM request to support your request for carrying charges. Use the table below as an example:

Year	Month	Monthly Lost Revenue	Closing Balance	Interest Rate	Interest $

Response:

a) At the time of filing Midland PUC's 2012 IRM the final 2010 program evaluation results were not available from the OPA. Consequently Midland PUC 's LRAM claim used the following results as provided by the OPA:

- 2006-2009 Final OPA CDM Results – Update Midland Power Utility Corporation
- 2010 Final CDM Results Summary Midland Power Utility Corporation

b) The 2006-2010 finalized OPA Detailed report was not available at the time of filing. The LRAM Claim has subsequently been updated to use the finalized 2006-2010 OPA CDM Detailed Results. Table 3 below provides a comparison of the Original Submission with the updated LRAM taking into consideration the 2006-2010 finalized OPA results.

Table 3: 2006-2010 OPA Results vs. Original Submission

Rate Class	Original Submission LRAM $	Updated LRAM $	Variance
OPA Programs			
RESIDENTIAL	$35,022.55	$35,081.39	-$58.84
GENERAL SERVICE <50KW	$19,707.65	$19,728.80	-$21.15
GENERAL SERVICE >50KW	$22,007.29	$14,824.81	$7,182.48
	$76,737.50	$69,635.00	$7,102.49

c) In the 2011 IRM Application Midland PUC was granted recovery under the Decision and Order dated March 17, 2011 of $210,204 in LRAM and $5,353 in SSM for programs that impacted revenues from 2005 to 2009 for both Third Tranche and OPA CDM programs.

d) Midland PUC has not received any of the lost revenues requested in this application in the past. This application includes the following:

OPA Programs included in this LRAM Claim:

- 2010 Program Results
- 2010 Program Results persistent into 2011
- 2006-2009 program results persistent into 2010 & 2011

e) Midland PUC's last load forecast was approved for the year 2009 and was based on monthly class specific data from May 2002 to December 2007. In the supporting regression analysis, no variables were identified specific to CDM. It is Midland PUC's submission that there was insufficient historical actual data (2006-2007) to comply with the General Requirements under section 2.6.1.4 of the OEB's June 22, 2011 filing requirements. LRAM claims for 2006-2009 were calculated and approved by the Board through inclusion of specific LRAM claim in its 2011 IRM Application.

For its 2012 IRM submission, there have been no changes to Midland PUC's load forecast. Based on the above paragraph, Midland PUC submits there was no reliable predictive variable for CDM in the 2009 load forecast. On this basis, Midland PUC submits that persistence of 2006-2009 CDM Program results into 2010 should be included in final LRAM amounts.

2010 CDM program results were not included in the 2009 load forecast and therefore should be included in total LRAM calculations.

Claims for persistence of 2006 – 2010 program results into 2011 should also be included in the total calculated LRAM. Since the only results included for consideration for 2011 are persistent results from prior years, sufficient time has passed to enable an accurate LRAM calculation, consistent with OEB CDM guidelines.

f) Table 4 details the LRAM amounts requested in this application per year:

Table 4: 2006-2010 LRAM Calculations

	Years Lost Revenue took place		TOTAL
	2010	**2011**	
2006	$1,521.25	$1,475.61	**$2,996.87**
2007	$4,916.04	$ 4,763.08	**$9,679.12**
2008	$6,931.62	$ 6,697.78	**$13,629.40**
2009	$12,036.79	$1,583.40	**$23,620.19**
2010	$11,223.00	$ 8,486.43	**$19,709.42**
	$36,628.70	**$33,006.30**	**$69,635.00**

g) Midland PUC did not apply for carrying charges on the LRAM amounts requested in the IRM Application.

h) Not Applicable

5. PILS Account 1562 Disposition

Ref: Tab 5, Appendices L, M, N, O, P
Income Tax Rates used in 2001-2005 SIMPIL Models for True-up Calculations

Preamble:

Midland reported losses for tax purposes, or utilized loss carry-forwards to reduce taxable income to zero, in the 2001 to 2005 fiscal years. In the SIMPIL models for 2001 to 2005, Midland has used the maximum blended federal and Ontario income tax rates to calculate the true-up variances. This has created incorrect variances that true up to the ratepayers.

Midland stated on tab 1, page 13 that “Midland has incorporated the maximum tax rates of 40.62%, 38.62% and 36.12% into the SIMPIL models as prescribed by the Decision and Order dated June 24. 2011 referred to above.”

In its rate applications for 2002 and 2005 Midland chose the tax rates that lay between the maximum and minimum blended tax rates as indicated in the application filing instructions. Using the maximum tax rates in the SIMPIL models creates recoveries from ratepayers that are not supported by Midland’s PILs account 1562 disposition evidence.

Midland’s approved rate base in 2001 through 2005 was $8,211,325. From Midland’s federal T2 tax returns for 2001 to 2005, the taxable capital for calculating the Large Corporation Tax (Sch. 33) and the eligibility for the small business limit and deduction was approximately $10 million.

This means that Midland was eligible for both the federal and Ontario small business deductions from 2001 to 2005 and, therefore, should not use the maximum blended income tax rates to calculate the true-up variances.

a) Please explain why Midland chose the maximum blended income tax rates when its tax facts were not similar to the three distributors that submitted evidence in the Combined Proceeding EB-2008-0381.

b) Please explain where in the Board’s decision in the Combined Proceeding that the Board addressed income tax rates that would apply to distributors that were eligible for the small business deduction.

Excluding the Impact of Regulatory Assets in the PILs 1562 Calculations

In the Combined Decision, the Board approved the position of the parties that the impact of regulatory assets and liabilities should be excluded in the determination of the balances in PILs account 1562. Tax losses and corporate minimum tax are not included in the determination of regulatory PILs tax variances. Under the standalone principle discussed in the decision in the Combined Proceeding, the business limits and capital tax thresholds (or exemptions) must be allocated 100% to the regulated distributor unless otherwise approved by the Board in the 2002 decision. Midland's evidence shows that it applied the standalone principle in the determination of the PILs proxies for 2001 4th quarter, 2002 and 2005 applications which were then incorporated into base distribution rates.

Board Staff has shown in the table below the data from Midland's federal T2 returns on Sch. 1. Board Staff has removed the impact of regulatory assets and liabilities in the calculation of net income for tax purposes by reversing the entries on Sch. 1.

c) Board Staff requests Midland to determine the appropriate blended federal and Ontario income tax rates for each year based on the adjusted regulatory net income for tax purposes shown in the table and to provide all of the calculations. Board Staff has estimated the income tax rates to be approximately 18% for 2002, 26% for 2003, 30% for 2004 and 27% for 2005.

From Schedule T2S1	**2002**	**2003**	**2004**	**2005**
Tab 5 page reference	450	528	611	693
Net income for tax purposes	-618,248	122,005	637,813	436,837
Add back:				
Regulatory assets deducted	431,653	413,430	550,432	812,359
Conversion costs	452,303			
Deduct:				
Regulatory asset recovery additions			-372,959	-530,932
Adjusted Regulatory net income	**265,708**	**535,435**	**815,286**	**718,264**

Board Staff relied on the following data in determining the estimated income tax rates stated above.

	2002	**2003**	**2004**	**2005**
Business Limit for Small Business Deduction				
Federal	200,000	225,000	250,000	300,000
Ontario	280,000	320,000	400,000	400,000
Midland's Taxable Capital for Federal Small Business Deduction (T2S33)	8,190,536	10,026,983	10,027,111	10,027,111
Threshold for Federal SBD (T2S33)	10,000,000	10,000,000	10,000,000	10,000,000
Federal Income Tax Components				

Federal tax rate	38.00%	38.00%	38.00%	38.00%
Federal tax abatement	-10.00%	-10.00%	-10.00%	-10.00%
Federal surtax	4.00%	4.00%	4.00%	4.00%
Small business deduction	-16.00%	-16.00%	-16.00%	-16.00%
Accelerated tax reduction where SBD used	-7.00%	-7.00%	-7.00%	-7.00%
Ontario Income Tax Components				
Ontario income tax rate	12.50%	12.50%	14.00%	14.00%
Ontario IDSBC rate	-6.50%	-7.00%	-8.50%	-8.50%
Ontario surtax rate	4.333%	4.667%	4.667%	4.667%

Response:

a) The Board's Decision and Order in the Combined Proceeding EB-2008-0381discussed the issue of the use of a tax rate under Issue #9: What are the correct tax rates to use in the true-up variance calculations? In the discussion section of the Decision on this issue Board staff submitted the following

"Board staff submitted that a relatively simple method applicable to most distributors should be implemented. Board staff submitted, as an example, that distributors could derive the income tax rate for the true-up calculations by dividing the income tax actually payable from the final tax returns by the taxable income for each tax year, although for some distributors, this will be slightly below the maximum statutory tax rates. Parties later referred to a tax rate that would be produced in this manner as the "effective tax rate".

Various parties did and did not support Board staff with their position. In particular SEC had the following position.

"SEC submitted that it has some difficulty with staff's proposed "effective tax rate" approach as it does not appear that this was part of the methodology at the time and adding this now would be inconsistent with the Board's December 18, 2009 decision. SEC argued that it is not obvious that the "effective tax rate" would be the correct rate, and it may be that the marginal tax rate (usually the legislated rate) is more appropriate. SEC's interpretation of the April 2003 FAQ is that it refers to the "legislated" tax rates, not effective tax rates and that is what the distributors should have used."

In it's reply submission Board changed their position on the tax rate to be used and stated:

"Board staff submitted that the Applicants should use the combined and gross-up income tax rates shown in the table "Maximum Income Tax Rates in Percentages"…"

The Board's finding in regards to this issue is as follows:

"*The Board notes that the Board staff reply submission differs from its December 24, 2010 submission and appears to be generally responsive to the concerns raised by the parties in their submissions.*

The Board notes that the application of the staff proposal to use the tax rates contained in the tables shown above is compatible with the manner in which the parties settled Issue # 4 with regard to tax loss carry-forwards.

The Board notes that no party raised any specific concerns with proposals on this particular issue contained in Board staff's reply submission.

The Board finds that the Applicants are to use the applicable tax rate percentages from the applicable table above for the purposes proposed by Board staff in its reply submission."

Based on the above information in the Board's Decision, it is Midland PUC's view that the Board decided to use the blended maximum tax rate for the three distributors that submitted evidence in the Combined Proceeding EB-2008-0381 even though the taxable income for the three distributors suggest a lower tax rate could be used in some cases. As a result, in order to be consistent with the Board Decision Midland PUC chose to use the blended maximum tax rate.

b) Midland is unaware of a reference to the small business deduction in the Board's Decision. However, regardless of whether or not there is such a reference, the models used by Halton Hills, Barrie and Enwin indicate they used the maximum tax rates even when their taxable income was zero.

c) This question appears to use a tax rate half way between the minimum and maximum tax rates. As indicated in part a) above, the Board Decision directed a maximum blended tax rate.

   Notwithstanding the above, Midland PUC would provide the following information pertaining to the schedule prepared by Board Staff. In particular, Midland PUC would point out in the year 2002, Midland PUC provided two sets of financial statements and two sets of corporate tax returns in the Application filing. Midland PUC was subject to two year end requirements in 2002, one at April 30, 2002 and one at December 31, 2002. Table 5 below provides the Adjusted Regulatory Net Income details of the April 30, 2002 and December 31, 2002 year end data along with data from 2003, 2004 and 2005.

Table 5: 2002 to 2005 Adjusted Regulatory Net Income

		Apr-02	Dec-02	Total 2002	2003	2004	2005
Fron Schedule T2S1							
	Tab 5 Page Reference	400	450		528	611	693
	Net Income for Tax Purposes	(296,168)	(618,248)	(914,416)	122,005	637,813	436,837
	Add Back:						
	Regulatory assets deducted		431,653	431,653	413,430	550,432	812,359
	Conversion costs		452,303	452,303			
	Deduct:						
	Regulatory asset recovery additions					(372,959)	(530,932)
Adjusted Regulatory Net Income		(296,168)	265,708	(30,460)	535,435	815,286	718,264

Based on the above Adjusted Regulatory Net Income, Midland PUC would calculate the taxes in Table 6 on the following pages

Table 6: Calculation of Income Taxes – 2002 to 2005

1 **Taxation Year Ended December 31, 2002**
Estimated Taxable Income (Loss) & Effective Tax Rate on ($30,460) of Taxable Income

Notes and Assumptions:
1) Estimated taxable income (loss) for the December 31, 2002 taxation year was calculated as follows:

May 1, 2002 - December 31, 2002 Adjusted Regulatory Net Income	$265,708
January 1, 2002 - April 30, 2002 Taxable Income	($296,168)
	($30,460)

Federal	**Totals**	**$0 to $200,000**	**$200,001 to $300,000**	**$300,001 UP**
Federal Corporate Tax Rate		13.12%	22.12%	26.12%
Taxable Income (if negative enter 0)	-	-	-	-
Federal Corporate Taxes	-	-	-	-
Ontario		**$0 to $280,000**		
Ontario Corporate Tax Rate		6.00%		
Taxable Income (if negative enter 0)	-	-		
Ontario Corporate Taxes	-	-		
Total Federal and Ontario Corporate Taxes	**-**			
Effective Corporate Tax Rate	**0.00%**			

Tax Rates @ December 31, 2002 **Federal**	**$0 to $200,000**	**$200,001 to $300,000**	**$300,001 UP**
Base Rate	38.00%	38.00%	38.00%
Abatement	-10.00%	-10.00%	-10.00%
Small Business Deduction	-16.00%	0.00%	0.00%
Accelerated Rate Reduction	0.00%	-7.00%	0.00%
General Rate Reduction	0.00%	0.00%	-3.00%
Surtax	1.12%	1.12%	1.12%
	13.12%	22.12%	26.12%
Ontario	**$0 to $280,000**		
Base Rate	12.50%		
Small Business Deduction	-6.50%		
Surtax	0.00%		
	6.00%		

2 Taxation Year Ended December 31, 2003
Estimated Taxable Income & Effective Tax Rate on $535,435 of Taxable Income

Federal	**Totals**	**0 to $225,000**	**$225,001 to $300,000**	**$300,001 to $535,435**
Federal Corporate Tax Rate		13.12%	22.12%	24.12%
Taxable Income	535,435	225,000	75,000	235,435
Federal Corporate Taxes	102,897	29,520	16,590	56,787
Ontario		**0 to $320,000**	**$320,001 to $535,435**	
Ontario Corporate Tax Rate		5.50%	17.17%	
Taxable Income	535,435	320,000	215,435	
Ontario Corporate Taxes	54,590	17,600	36,990	
Total Federal and Ontario Corporate Taxes	**157,487**			
Effective Corporate Tax Rate	**29.41%**			

Tax Rates @ December 31, 2003			
Federal	**0 to $225,000**	**$225,001 to $300,000**	**$300,001 to $535,435**
Base Rate	38.00%	38.00%	38.00%
Abatement	-10.00%	-10.00%	-10.00%
Small Business Deduction	-16.00%	0.00%	0.00%
Accelerated Rate Reduction	0.00%	-7.00%	0.00%
General Rate Reduction	0.00%	0.00%	-5.00%
Surtax	1.12%	1.12%	1.12%
	13.12%	22.12%	24.12%
Ontario	**0 to $320,000**	**$320,001 to $535,435**	
Base Rate	12.50%	12.50%	
Small Business Deduction	-7.00%	0.00%	
Surtax	0.00%	4.67%	
	5.50%	17.17%	

3 Taxation Year Ended December 31, 2004
Estimated Taxable Income & Effective Tax Rate on $815,286 of Taxable Income

Federal	**Totals**	**0 to 248,644**	**$248,645 to $815,286**	
Federal Corporate Tax Rate		13.12%	22.12%	
Taxable Income	815,286	248,644	566,642	
Federal Corporate Taxes	157,963	32,622	125,341	
Ontario		0 to $400,000	$400,001 to 815,286	
Ontario Corporate Tax Rate		5.50%	18.67%	
Taxable Income	815,286	400,000	415,286	
Ontario Corporate Taxes	99,534	22,000	77,534	
Total Federal and Ontario Corporate Taxes	**257,497**			
Effective Corporate Tax Rate	**31.58%**			

Tax Rates @ December 31, 2004		
Federal	**0 to $248,644**	**$248,645 to $815,286**
Base Rate	38.00%	38.00%
Abatement	-10.00%	-10.00%
Small Business Deduction	-16.00%	0.00%
General/Accelerated Rate Reduction	0.00%	-7.00%
Surtax	1.12%	1.12%
	13.12%	22.12%
Ontario	0 to $400,000	$400,001 to $815,286
Base Rate	14.00%	14.00%
Small Business Deduction	-8.50%	0.00%
Surtax	0.00%	4.67%
	5.50%	18.67%

4 Taxation Year Ended December 31, 2005
Estimated Taxable Income & Effective Tax Rate on $718,264 of Taxable Income

Federal	**Totals**	**0 to $300,000**	**$300,001 to $718,264**	
Federal Corporate Tax Rate		13.12%	22.12%	
Taxable Income	718,264	300,000	418,264	
Federal Corporate Taxes	131,880	39,360	92,520	
Ontario		0 to $400,000	$400,001 to $718,264	
Ontario Corporate Tax Rate		5.50%	18.67%	
Taxable Income	718,264	400,000	318,264	
Ontario Corporate Taxes	81,420	22,000	59,420	
Total Federal and Ontario Corporate Taxes	**213,300**			
Effective Corporate Tax Rate	**29.70%**			

Tax Rates @ December 31, 2005		
Federal	**0 to $300,000**	**$300,001 to $718,264**
Base Rate	38.00%	38.00%
Abatement	-10.00%	-10.00%
Small Business Deduction	-16.00%	0.00%
General Rate Reduction	0.00%	-7.00%
Surtax	1.12%	1.12%
	13.12%	22.12%
Ontario	0 to $400,000	$400,001 to $718,264
Base Rate	14.00%	14.00%
Small Business Deduction	-8.50%	0.00%
Surtax	0.00%	4.67%
	5.50%	18.67%

Midland PUC would also provide the information in Table 7 pertaining to the business limits for the Small Business Deduction:

Table 7: Small Business Limits

SMALL BUSINESS LIMITS
The business limit for the Small Business Deduction at December 31:

Year	Federal	Provincial
2002	200,000	280,000
2003	225,000	320,000
2004	248,644	400,000
2005	300,000	400,000

6. PILS Account 1562 Disposition

Ref: Tab 5, Appendix L – 2001 4th Quarter SIMPIL

In the 2002 rate application to calculate the 2001 4th quarter PILs proxy, Midland used a tax rate of 34.12%. Midland incurred an operating loss for tax purposes unrelated to regulatory assets in its actual 2001 4th quarter results. However, in the 2001 SIMPIL model, Midland used the maximum rate of 40.62% which creates a variance that trues up to ratepayers.

a) Should Midland use the PILs proxy tax rate of 34.12% to calculate the true-up variances in its 2001 SIMPIL model? If not, please explain what tax rate would be more appropriate and why.

Response:

a) Midland believes it has correctly used the maximum rate of 40.62% in accordance with the Board's Decision in EB-2008-0381. As indicated in Question 5 herein, the maximum tax rate was used by Halton Hills, Barrie and EnWin even when their taxable income was zero. Consequently, Midland has followed the Board's direction in this regard.

7. PILS Account 1562 Disposition

Ref: Tab 5, Appendix P – 2005 SIMPIL

In sheet TAXCALC Midland entered CDM amounts of $40,000 for the proxy and an actual of $4,000. This results in a true-up to ratepayers of $36,000 before the tax calculations.

a) Please explain why Midland forecast $40,000 in the 2005 rate application but spent only $4,000. Please provide evidence that supports the actual amount of only $4,000.

Response:
The $4,000 referred to above is not attributed to CDM, but is a gain shown on financial statements as a result of the sale of assets (Line 401, Schedule 1 of the 2005 Corporate Tax Return T-1 - Page 693 of Manager's Summary).

CDM Third Tranche monies spent in 2005 total $72,370.50 which are reflected as a debit to the "Energy revenue $20,908,383" on the 2005 audited Financial Statements.

A copy of Appendix A – Evaluation of the CDM Plan included in the CDM Third Tranche Annual Report for 2005 is reproduced below in Table 8. This report outlines the expenditures per class totalling $72,370.50.

Table 8: Appendix A- Evaluation CDM Plan – 3rd Tranche Annual Report

	Total	Residential	Commercial	Institutional	Industrial	LDC System
Net TRC value ($):	*$114,164.64*	$126,328	-$2,169	$12,959	-$2,169	-$20,785
Benefit to cost ratio:	*$ 2.77*					
Number of participants or units delivered:	*7,055*	6,300	700	55		
Total KWh to be saved over the lifecycle of the plan (kWh):	*3,184,420.00*	2,500,470	277,830	406,120		
Total in year kWh saved (kWh):	*725,654.00*	634,813	70,535	20,306		
Total peak demand saved (kW):	*179.48*	161.53	17.95	4.64		
Total kWh saved as a percentage of total kWh delivered (%):	*0.2947%*	0.2578%	0.0286%	0.0082%		
Peak kW saved as a percentage of LDC peak kW load (%):	*0.4310%*	0.3879%	0.0431%	0.0111%		
Gross in year C&DM expenditures ($):	*$ 72,370.58*	$32,848.01	$7,312.17	$11,039.39	$4,120.19	$17,050.83
Expenditures per KWh saved ($/kWh):*	*$0.02*	$0.01	$0.00	$0.03		
*Expenditures per KW saved ($/kW)**:*	*$403.23*	$1,247.55	$138.62	$2,381.75		

Utility discount rate (%):	8.56

*Expenditures include all utility program costs (direct and indirect) for all programs which primarily generate energy savings.

**Expenditures include all utility program costs (direct and indirect) for all programs which primarily generate capacity savings.

8. PILS Account 1562 Disposition

Ref: Tab 5, Appendices W, X, Y, Z, AA
Amounts Billed to Customers

Unmetered Scattered Load (USL)

Unmetered scattered load is listed as a customer class in the rate schedules attached to the Board's decisions. In the Board's decisions for 2002, 2004 and 2005 the approved rates for USL were identified as being the same as GS<50kW rates which have associated PILs rate slivers.

a) Please explain why Midland did not calculate PILs dollars recovered from the USL class in the calculations of recoveries from customers. Please correct the PILs recovery worksheets.

Fixed and Variable Charge Rate Components

From March 1, 2002 to March 31, 2004 PILs were recovered from the fixed and variable charge components for all customer classes. Starting April 1, 2004, PILs were recovered using the variable charge rate. This can be found on the 2004 application RAM sheet #7 where 100% is assigned to the variable charge rate. Midland has used the fixed and variable rates to calculate recoveries for the period April 1, 2004 to March 31, 2005.

b) Please correct the calculations of the amounts recovered from ratepayers for the period April 1, 2004 to March 31, 2005.

Interest Expense

Interest Portion of True-up – 2001 to 2005 SIMPIL - TAXCALC
When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in sheet TAXCALC as an extra deduction in the true-up calculations.

For the tax years 2001 to 2005:

c) Did Midland have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?

d) Did Midland net interest income against interest expense in deriving the amount it shows as interest expense in its financial statements and tax returns? If yes, please provide details to what the interest income relates.

e) Did Midland include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?

f) Did Midland include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?

g) Did Midland include interest expense on IESO prudentials in interest expense?

h) Did Midland include interest carrying charges on regulatory assets or liabilities in interest expense?

i) Did Midland include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did Midland also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.

j) Did Midland deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did Midland add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.

k) Please provide Midland views on which types of interest income and interest expense should be included in the excess interest true-up calculations.

l) Please provide a table for the years 2001 to 2005 that shows all of the components of Midland's interest expense and the amount associated with each type of interest.

<u>Tax Years – Statute-barred</u>

m) Please confirm that all tax years from 2001 to 2005 are now statute-barred.

Response:

a) Midland PUC's USL customers where included in GS<50kW customer class and were not separately identified. PILs dollars recovered from the USL class were calculated in the GS<50kW customer class.

b) Midland PUC has redone the calculations based on a variable charge only and is attaching a revised schedule "PILS, 2001, 2002, 2003 & 2004, 2005, 2006 Variance Acct OEB Application IRs Jan 13, 2012".

c) Table 9 provides Midland PUC's interest expense as related to the financial statements. Included in interest expense are bank charges related to Midland PUC's overdraft line of credit and monthly bank charges as applicable in the years 2003 and 2004 and 2005. Midland PUC has separated the long term debt interest expense per year as shown under Account #6005.

Table 9: Interest Expense Per Financial Statements

Account #	Account Description	2001 Year	2002 Year 30-Apr	2002 Year 31-Dec	2003 Year	2004 Year	2005 Year
6005	Interest on Long term debt	$ 65,722.00	$56,668.82	$ 109,783.49	$ 101,668.67	$ 96,879.00	$ 62,046.51
6035-8105	Other Interest - TD Credit Line				$ 9,240.98	$ 8,184.42	$ 8,990.05
6035-8200	Other Interest Exp- Bank charges				$ 12,715.05	$ 8,350.64	
	Interest per financial statements	$ 65,722.00	$56,669.00	$ 109,783.00	$ 123,624.70	$ 113,414.00	$ 71,037.00
6035-8300	Other Int Exp - Variance Accounts			$ (14,976.47)	$ (33,540.06)	$(165,061.10)	$ (81,593.99)
6035-8400	Other Int Exp - RSVA Asset Rec'd					$ 7,776.33	$ 44,656.60

d) Interest expense was netted with bank charges on the financial statements. Variance account interest revenues are netted with variance account interest expenses. See Table 9 above.

e) No, Midland PUC did not include interest expense on customer deposits for the purposes of the interest true-up calculations.

f) Midland PUC did not include interest income in interest expense calculations.

g) Midland PUC did include interest expense on IESO prudentials in the interest calculations as noted in Table 9 above.

h) Midland PUC did not include interest carrying charges on regulatory assets or liabilities in interest expense.

i) Midland PUC did not incur amortization of debt issue costs, debt discounts or debt premiums in interest expense. Consequently, this does not apply to Midland PUC.

j) Midland PUC did not incur capitalized interest in deriving the interest expense disclosed in the financial statements. Consequently, this does not apply to Midland PUC.

k) Midland PUC believes actual interest expense on long term debt should be taken into account in the excess true-up calculations. Midland PUC does not believe variance account interest related to regulatory assets or line of credit costs should be included in the excess true-up calculations.

l) See response to c) above.

m) Midland PUC confirms all tax years from 2001 to 2005 are now statute-barred.

SCHEDULE “A”

2009 TAXABLE CAPITAL

Sch 33 T-1
Sch 515 CT23

Canada Revenue Agency / Agence du revenu du Canada

SCHEDULE 33

TAXABLE CAPITAL EMPLOYED IN CANADA – LARGE CORPORATIONS

Name of corporation	Business Number	Tax year-end Year Month Day
Midland Power Utility Corporation	86574 9386 RC0001	2009-12-31

- Use this schedule in determining if the total taxable capital employed in Canada of the corporation (other than a financial institution or an insurance corporation) and its related corporations is greater than $10,000,000.
- Parts, sections, subsections, and paragraphs referred to on this schedule are from the federal *Income Tax Act* and the *Income Tax Regulations*.
- Subsection 181(1) defines the terms "financial institution," "long-term debt," and "reserves."
- Subsection 181(3) provides the basis to determine the carrying value of a corporation's assets or any other amount under Part I.3 for its capital, investment allowance, taxable capital, or taxable capital employed in Canada, or for a partnership in which it has an interest.
- If you are filing a provincial capital tax return with your *T2 Corporation Income Tax Return*, also file a completed Schedule 33 with the return no later than six months from the end of the tax year.
- This schedule may contain changes that had not yet become law at the time of publishing.

If the corporation was a non-resident of Canada throughout the year and carried on a business through a permanent establishment in Canada, go to Part 4, "Taxable capital employed in Canada."

Part 1 – Capital

Add the following amounts at the end of the year:

	Line	Amount	Total	
Reserves that have not been deducted in computing income for the year under Part I	101	78,065		
Capital stock (or members' contributions if incorporated without share capital)	103	6,880,984		
Retained earnings	104	1,890,205		
Contributed surplus	105			
Any other surpluses	106			
Deferred unrealized foreign exchange gains	107			
All loans and advances to the corporation	108	1,994,381		
All indebtedness of the corporation represented by bonds, debentures, notes, mortgages, hypothecary claims, bankers' acceptances, or similar obligations	109	960,000		
Any dividends declared but not paid by the corporation before the end of the year	110			
All other indebtedness of the corporation (other than any indebtedness for a lease) that has been outstanding for more than 365 days before the end of the year	111			
Proportion of the amount, if any, by which the total of all amounts (see note below) for the partnership of which the corporation is a member at the end of the year exceeds the amount of the partnership's deferred unrealized foreign exchange losses	112			
Subtotal		11,803,635 ►	11,803,635	A

Deduct the following amounts:

	Line	Amount	Total	
Deferred tax debit balance at the end of the year	121	441,741		
Any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) at the end of the year	122			
Any amount deducted under subsection 135(1) in computing income under Part I for the year, as long as the amount may reasonably be regarded as being included in any of lines 101 to 112 above	123			
The amount of deferred unrealized foreign exchange losses at the end of the year	124			
Subtotal		441,741 ►	441,741	B
Capital for the year (amount A **minus** amount B) (if negative, enter "0")	190		11,361,894	

Note: Lines 101, 107, 108, 109, 111, and 112 are determined as follows:
- If the partnership is a member of another partnership (tiered partnerships), include the amounts of the partnership and tiered partnerships.
- Amounts for the partnership and tiered partnerships are those that would be determined for lines 101, 107, 108, 109, 111, and 112 as if they apply in the same way that they apply to corporations.
- Do not include amounts owing to the member or to other corporations that are members of the partnership.
- Amounts are determined at the end of the last fiscal period of the partnership ending in the year of the corporation.
- The proportion of the total amounts is determined by the corporation's share of the partnership's income or loss for the fiscal period of the partnership.

Part 2 – Investment allowance

Add the carrying value at the end of the year of the following assets of the corporation:

A share of another corporation	401	100
A loan or advance to another corporation (other than a financial institution)	402	
A bond, debenture, note, mortgage, hypothecary claim, or similar obligation of another corporation (other than a financial institution)	403	
Long-term debt of a financial institution	404	
A dividend receivable on a share of the capital stock of another corporation	405	
A loan or advance to, or a bond, debenture, note, mortgage, hypothecary claim, or similar obligation of, a partnership all of the members of which, throughout the year, were other corporations (other than financial institutions) that were not exempt from tax under Part I.3 [other than by reason of paragraph 181.1(3)(d)]	406	
An interest in a partnership (see note 1 below)	407	
Investment allowance for the year (add lines 401 to 407)	490	100

Notes:

1. Where the corporation has an interest in a partnership or in tiered partnerships, consider the following:
   - the investment allowance of a partnership is deemed to be the amount calculated at line 490 above, at the end of its fiscal period, as if it was a corporation;
   - the total of the carrying value of each asset of the partnership described in the above lines is for its last fiscal period ending at or before the end of the corporation's tax year; and
   - the carrying value of a partnership member's interest at the end of the year is its specified proportion [as defined in subsection 248(1)] of the partnership's investment allowance.
2. Lines 401 to 405 should not include the carrying value of a share of the capital stock of, a dividend payable by, or indebtedness of a corporation that is exempt from tax under Part I.3 [other than by reason of paragraph 181.1(3)(d)].
3. Where a trust is used as a conduit for loaning money from a corporation to another related corporation (other than a financial institution), the loan will be considered to have been made directly from the lending corporation to the borrowing corporation, according to subsection 181.2(6).

Part 3 – Taxable capital

Capital for the year (line 190)		11,361,894	C
Deduct: Investment allowance for the year (line 490)		100	D
Taxable capital for the year (amount C **minus** amount D) (if negative, enter "0")	500	11,361,794	

Part 4 – Taxable capital employed in Canada

To be completed by a corporation that was resident in Canada at any time in the year

Taxable capital for the year (line 500) 11,361,794 x Taxable income earned in Canada (610) 436,986 / Taxable income 436,986 = **Taxable capital employed in Canada** (690) 11,361,794

Notes:

1. Regulation 8601 gives details on calculating the amount of taxable income earned in Canada.
2. Where a corporation's taxable income for a tax year is "0," it shall, for the purposes of the above calculation, be deemed to have a taxable income for that year of $1,000.
3. In the case of an airline corporation, Regulation 8601 should be considered when completing the above calculation.

To be completed by a corporation that was a non-resident of Canada throughout the year and carried on a business through a permanent establishment in Canada

Total of all amounts each of which is the carrying value at the end of the year of an asset of the corporation used in the year or held in the year, in the course of carrying on any business during the year through a permanent establishment in Canada			701	
Deduct the following amounts:				
Corporation's indebtedness at the end of the year [other than indebtedness described in any of paragraphs 181.2(3)(c) to (f)] that may reasonably be regarded as relating to a business it carried on during the year through a permanent establishment in Canada	711			
Total of all amounts each of which is the carrying value at the end of year of an asset described in subsection 181.2(4) of the corporation that it used in the year, or held in the year, in the course of carrying on any business during the year through a permanent establishment in Canada	712			
Total of all amounts each of which is the carrying value at the end of year of an asset of the corporation that is a ship or aircraft the corporation operated in international traffic, or personal or movable property used or held by the corporation in carrying on any business during the year through a permanent establishment in Canada (see note below)	713			
Total deductions (add lines 711, 712, and 713)				E
Taxable capital employed in Canada (line 701 **minus** amount E) (if negative, enter "0")			790	

Note: Complete line 713 only if the country in which the corporation is resident did not impose a capital tax for the year on similar assets, or a tax for the year on the income from the operation of a ship or aircraft in international traffic, of any corporation resident in Canada during the year.

Part 5 – Calculation for purposes of the small business deduction

This part is applicable to corporations that are not associated in the current year, but were associated in the prior year.

Taxable capital employed in Canada (line 690 or 790, whichever applies)		F
Deduct:		G
Excess (amount F **minus** amount G) (if negative, enter "0")		H
Calculation for purposes of the small business deduction (amount H x 0.00225)		I

Enter this amount at line 415 of the T2 return

Canada Revenue Agency / Agence du revenu du Canada

SCHEDULE 515

ONTARIO CAPITAL TAX ON OTHER THAN FINANCIAL INSTITUTIONS

Name of corporation	Business Number	Tax year-end Year Month Day
Midland Power Utility Corporation	86574 9386 RC0001	2009-12-31

- Complete this schedule for a corporation with a permanent establishment in Ontario at any time in the tax year and that is a corporation other than a financial institution. The Ontario capital tax on other than financial institutions is levied under section 64 of the *Taxation Act, 2007* (Ontario).
- The Ontario capital tax is eliminated effective July 1, 2010. You do not have to complete this schedule if the corporation's tax year begins after June 30, 2010. For businesses mainly engaged in qualifying manufacturing and resource activities in Ontario, the capital tax is eliminated effective January 1, 2007.
- To complete this schedule, you have to complete Schedule 33, *Part I.3 Tax on Large Corporations* (renamed *Taxable Capital Employed in Canada – Large Corporations* for 2010 and later tax years). File completed copies of both schedules with the *T2 Corporation Income Tax Return* within six months of the end of the tax year.
- A corporation is exempt from Ontario capital tax if it was one of the following:
  1) a corporation that is liable to the special additional tax according to section 74 of the *Corporations Tax Act* (Ontario);
  2) a credit union;
  3) a deposit insurance corporation according to section 137.1 of the federal *Income Tax Act*;
  4) a family farm corporation for the year as defined by subsection 64(3) of the *Taxation Act*, 2007 (Ontario), other than a corporation for which a determination has been made under subsection 31(2) of the federal Act;
  5) a family fishing corporation, as defined by subsection 64(3) of the *Taxation Act, 2007* (Ontario); or
  6) a corporation exempt from income tax according to section 149 of the federal Act.

Part 1 – Taxable capital of a corporation resident in Canada other than a financial institution

	Line	Amount		Total	
Amount A from Part 1 of Schedule 33	100	11,803,635			
Add:					
Accumulated other comprehensive income at the end of the year	105				
Subtotal		11,803,635	▶	11,803,635	A
Deduct:					
Amount B from Part 1 of Schedule 33	110	441,741			
Amount on line 490 from Part 2 of Schedule 33	115	100			
Subtotal		441,841	▶	441,841	B
Taxable capital (amount A **minus** amount B) (if negative, enter "0")	120			11,361,794	

Part 2 – Capital deduction

Complete this part only if the corporation is associated.

Are you electing under subsection 83(2) of the *Taxation Act, 2007* (Ontario)? 190 1 Yes ☐ 2 No ☐

If you answered **no** to the question at line 190, complete line 220. If you answered **yes** to the question at line 190, complete line 305 by using Schedule 516, *Capital Deduction Election of Associated Group for the Allocation of Net Deduction*, to calculate the amount to be entered on line 300.

$$\frac{\text{Taxable capital (from line 120) or taxable capital employed in Canada of a corporation that was a non-resident of Canada (from line 790 in Part 4 of Schedule 33)}\ \mathbf{200}\ \_\_\_}{\text{Taxable capital or taxable capital employed in Canada of every corporation with a permanent establishment in Canada and associated for the last tax year *}\ \mathbf{210}\ \_\_\_} \times 15{,}000{,}000\ \$ = \textbf{Capital deduction}\ \mathbf{220}\ \_\_\_$$

* This amount includes the filing corporation's taxable capital or taxable capital employed in Canada. Do not include an amount from a financial institution or corporation that is exempt from capital tax under Division E of the *Taxation Act, 2007* (Ontario) or Part III of the *Corporations Tax Act* (Ontario).

$$\frac{\text{Allocation of net deduction (from line 600 for the filing corporation from Schedule 516)}}{\text{Ontario allocation factor (OAF) (amount I in Part 3)}}\ \mathbf{300}\ \_\_\_ = \textbf{Capital deduction}\ \mathbf{305}\ \_\_\_$$

Part 3 – Ontario capital tax payable

Taxable capital (enter amount from line 120 in Part 1) or taxable capital employed in Canada of a corporation that was a non-resident of Canada (enter amount from line 790 in Part 4 of Schedule 33), whichever applies **320** 11,361,794

Deduct:

Capital deduction (Enter $15,000,000 if the corporation is not associated. Otherwise, enter the amount from line 220 or line 305, whichever applies, from Part 2) . . . . 15,000,000 B

Net amount (line 320 **minus** amount B) (if negative, enter "0") . . . . ______ C

Note: For days in the tax year after June 30, 2010, the Ontario capital tax rate is 0%.

Amount C ______ x (Number of days in the tax year before January 1, 2010 / Number of days in the tax year) 365 / 365 x 0.00225 = ______ D

Amount C ______ x (Number of days in the tax year after December 31, 2009 and before July 1, 2010 / Number of days in the tax year) ______ / 365 x 0.00150 = ______ E

Subtotal (amount D **plus** amount E) ______ F

Amount F ______ x OAF (amount on line I) 1.00000 = ... ______ G

Amount G ______ x (Number of days in the tax year * / 365) 365 / 365 = ... ______ H

Deduct:

Capital tax credit for manufacturers (enter amount J from Part 4) . . . . **350** ______

Ontario capital tax payable (amount H **minus** line 350) (if negative, enter "0") . . . . **400** ______

Enter amount from line 400 on line 282 of Schedule 5, *Tax Calculation Supplementary - Corporations*.

* Enter either 365 if there are at least 51 weeks in the tax year, or the number of days in the year, whichever applies.

Calculation of the Ontario allocation factor (OAF)

If the provincial or territorial jurisdiction entered on line 750 of the T2 return is "Ontario," enter "1" on line I.

If the provincial or territorial jurisdiction entered on line 750 of the T2 return is "multiple," complete the following calculation and enter the result on line I:

(Ontario taxable income ** / Taxable income ***) ______ = ______

Ontario allocation factor . . . . 1.00000 I

** Enter the amount allocated to Ontario from column F in Part 1 of Schedule 5. If the taxable income is nil, calculate the amount in column F as if the taxable income were $1,000.

*** Enter the taxable income amount from line 360 or line Z of the T2 return, whichever applies. If the taxable income is nil, enter "1,000."

Part 4 – Capital tax credit for manufacturers

(Ontario manufacturing labour cost* **405** / Total Ontario labour cost** **410**) ______ x 100 = ... **420** ______ %

If the percentage on line 420 is 20% or less, enter "0" on line J.

If the percentage on line 420 is at least 50%, enter amount H from Part 3 on line J.

If the percentage on line 420 is more than 20% but less than 50%, complete the following calculation and enter the result on line J:

((percentage from line 420) – 20% / 30%) ______ % / 30 % x Amount H from Part 3 = ______

Capital tax credit for manufacturers . . . . ______ J

Enter amount J on line 350 in Part 3.

* As defined in subsection 83.1(4) of the *Taxation Act, 2007* (Ontario)

** As defined in subsection 83.1(5) of the *Taxation Act, 2007* (Ontario)