Tillsonburg Hydro Inc. Filed:28 September, 2012 EB-2012-0168 Exhibit 4 Tab 8

Exhibit 4: Operating Costs

# Tab 8 (of 10): Income & Capital Taxes

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## 1 OVERVIEW OF PROVISION IN LIEU OF TAXES (PILS)

THI is subject to the PILs regime, and therefore remits payments in lieu of corporate
taxes to the Ontario Energy Financial Corporation, to be applied again the stranded debt
of the former Ontario Hydro.

5

6 THI files Federal and Provincial tax returns annually. There have been no special 7 circumstances that would require specific tax planning measures to minimize taxes 8 payable.

9

There are no non-utility activities included in THI's 2013TY, therefore the entire amount
of PILs payable is considered in the proposed allowance to be included in the revenue
requirement.

13

There are no outstanding audits, reassessments or disputes relating the tax returns filedby THI.

16

E4/T8/S2/Att1 presents the PILs allowance previously approved by the Board.
E4/T8/S3/Att1 presents the allowance for PILs of \$Nil to be included in the proposed
revenue requirement for the 2013TY. The amount is \$Nil since the deduction for CCA
exceeds the amortization addback, creating a regulatory loss.

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### **HISTORICAL PILS**

The model used to derive the allowance for the Payment in Lieu of Taxes ("PILS") included in THI's 2009 Board approved revenue requirement is presented at E4/T8/S2/Att1. THI's 2011 federal and provincial corporate income tax returns are provided at E4/T8/S2/Att2 and E4/T8/S2/Att3 respectively.

Actual PILs expense in 2011 exceeded the Board-approved amount due to higher
 miscellaneous revenues, higher distribution expenses, and lower interest expense.

8 Income tax rates also decreased during this time.

1

EB-2012-0168 Exhibit 4 Tab 8 Schedule 2 Attachment 1

**Previously Approved PILs Model** 

# Tillsonburg Hydro Inc. (ED-2003-0026)

PILs Calculations for 2009 EDR Application (EB-2008-0246) August 15, 2008

## **P0** Administration

Enter administrative information about the Application

Application Version		
Name of Applicant		Tillsonburg Hydro Inc.
License Number		ED-2003-0026
Test Year		2009
File Number(s)		EB-2008-0246
Date of Application		15-Aug-2008
Contact:		
	Name	J.Gott
	email	igott@tillsonburg.ca
	phone	519.842.6428x3229
Date of previous Test Year approval		12-Apr-2006

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment A Page 2 of 16 Updated: December 15, 2008

#### RateMaker PILs r1.1 © Elenchus Research Associates

P1	Unde	preciated	Capi	ital (	Costs	(UCC)	)

Class	Description	UCC Balance5 31 Dec/07 <sup>1</sup>	Less: Non- Distribution Portion	Less: Disallowed FMV Increment	UCC 2008 Opening Balance
1	Distribution System - post 1987	6,258,804			6,258,804
2	Distribution System - pre 1988				
8	General Office/Stores Equip				
10	Computer Hardware/ Vehicles				
10.1	Certain Automobiles				
12	Computer Software				
13.1	Leasehold Improvement # 1				
13.2	Leasehold Improvement # 2				
13.3	Leasehold Improvement # 3				
13.4	Leasehold Improvement # 4				
14	Franchise				
17	New Electrical Generating Equipment Acq'd after Feb 27/00 Other Than Bldgs				
43.1	Certain Energy Efficient Electrical Congrating Equipment				
45	Computers & Systems Software acq'd post Mar 22/04				
46	Data Network Infrastructure Equipment (acq'd post Mar 22/04)				
47	Distribution System post Feb 22/05	2,140,299			2,140,299
	TOTAL	8,399,103			8,399,103

<sup>1</sup> per Schedule 8 of 2007 corporate tax return

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment A Page 3 of 16 Updated: December 15, 2008

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Class	Description	2008 Projected Additions	2008 Projected Retirements	UCC Before 1/2 Yr Adjustment	1/2 Year Reduction
	Distribution System - post 1987			6,258,804	
2	Distribution System - pre 1988				
	General Office/Stores Equip				
0	Computer Hardware/ Vehicles				
0.1	Certain Automobiles				
2	Computer Software				
3.1	Leasehold Improvement # 1				
3.2	Leasehold Improvement # 2				
3.3	Leasehold Improvement # 3				
3.4	Leasehold Improvement # 4				
4	Franchise				
7	New Electrical Generating Equipment Acq'd after Feb 27/00				
	Other Than Bldgs				
3.1	Certain Energy-Efficient Electrical Generating Equipment				
5	Computers & Systems Software acq'd post Mar 22/04				
6	Data Network Infrastructure Equipment (acq'd post Mar 22/04)				
.7	Distribution System post Feb 22/05	<u>694,168</u>		2,834,467	347,084
	TOTAL	694,168		9,093,271	347,08

**B**4 II . . . 

<sup>1</sup> per Schedule 8 of 2007 corporate tax return

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment A Page 4 of 16 Updated: December 15, 2008

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<b>P1</b>	Unde	preciated	Capital	Costs	(UCC)	
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Class	Description	Reduced UCC	Rate %	20085 CCA	UCC 5 31 Dec/08
1	Distribution System - post 1987	6,258,804	4.0%	250,352	6,008,452
2	Distribution System - pre 1988		6.0%		
8	General Office/Stores Equip		20.0%		
10	Computer Hardware/ Vehicles		30.0%		
10.1	Certain Automobiles		30.0%		
12	Computer Software		100.0%		
13.1	Leasehold Improvement # 1		25 years		
13.2	Leasehold Improvement # 2		4 years		
13.3	Leasehold Improvement # 3				
13.4	Leasehold Improvement # 4				
14	Franchise		6 years		
17	New Electrical Generating Equipment Acq'd after Feb 27/00 Other Than Bldgs		8.0%		
43.1	Certain Energy-Efficient Electrical Generating Equipment		30.0%		
45	Computers & Systems Software acq'd post Mar 22/04		45.0%		
46	Data Network Infrastructure Equipment (acq'd post Mar 22/04)		30.0%		
47	Distribution System post Feb 22/05	2,487,383	8.0%	198,991	2,635,476
		+			
	TOTAL	8,746,187		449,343	8,643,928

<sup>1</sup> per Schedule 8 of 2007 corporate tax return

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment A Page 5 of 16 Updated: December 15, 2008

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P1 Undepreciated Capital Costs (UCC)					
Class	Description	2009 Projected Additions	2009 Projected Retirements	UCC Before 1/2 Yr Adjustment	1/2 Year Reduction
1	Distribution System - post 1987			6,008,452	
2	Distribution System - pre 1988				
3	General Office/Stores Equip				
10	Computer Hardware/ Vehicles				
10.1	Certain Automobiles				
12	Computer Software				
13.1	Leasehold Improvement # 1				
13.2	Leasehold Improvement # 2				
13.3	Leasehold Improvement # 3				
13.4	Leasehold Improvement # 4				
14	Franchise				
17	New Electrical Generating Equipment Acq'd after Feb 27/00				
17	Other Than Bldgs				
43.1	Certain Energy-Efficient Electrical Generating Equipment				
45	Computers & Systems Software acq'd post Mar 22/04				
46	Data Network Infrastructure Equipment (acq'd post Mar 22/04)				
47	Distribution System post Feb 22/05	<u>677,602</u>		3,313,078	338,801
	TOTAL	677,602		9,321,530	338,80

<sup>1</sup> per Schedule 8 of 2007 corporate tax return

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment A Page 6 of 16 Updated: December 15, 2008

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Class	Description	Reduced UCC	Rate %	20095 CCA	UCC 5 31 Dec/09
1	Distribution System - post 1987	6,008,452	4.0%	240,338	5,768,114
2	Distribution System - pre 1988		6.0%		
3	General Office/Stores Equip		20.0%		
10	Computer Hardware/ Vehicles		30.0%		
10.1	Certain Automobiles	· [	30.0%		
2	Computer Software		100.0%		
3.1	Leasehold Improvement # 1				
3.2	Leasehold Improvement # 2				
3.3	Leasehold Improvement # 3				
3.4	Leasehold Improvement # 4				
4	Franchise				
7	New Electrical Generating Equipment Acq'd after Feb 27/00 Other Than Bldgs		8.0%		
3.1	Certain Energy-Efficient Electrical Generating Equipment		30.0%		
.5	Computers & Systems Software acq'd post Mar 22/04		45.0%		
6	Data Network Infrastructure Equipment (acq'd post Mar 22/04)		30.0%		
47	Distribution System post Feb 22/05	2,974,277	8.0%	237,942	3,075,136
	TOTAL	8,982,729		478,280	8,843,25

<sup>1</sup> per Schedule 8 of 2007 corporate tax return

#### Tillsonburg Hydro Inc. (ED-2003-0026) PILs Calculations for 2009 EDR Application (EB-2008-0246) August 15, 2008

# P2 Cumulative Eligible Capital (CEC)

Enter actual balance, projected changes and deduction rates

	2008	2009
CEC Opening Balance <sup>1</sup>		
Eligible Capital Property (ECP) Acquisitions		
Other Adjustments		
Subtotal	x 3/4 =	x 3/4 =
Non-taxable portion of a non-arm's length		
transferor's gain realized on the transfer of an ECP to the Corporation after December 20, 2002	x 1/2 =	x 1/2 =
Amount transferred on amalgamation or wind-up of subsidiary		
Subtotal before deductions		
ECP Dispositions (net)		
Other Adjustments		
Subtotal	x 3/4 =	x 3/4 =
Balance before tax deduction		
Tax Deduction	Rate:	Rate:
CEC Ending Balance		

<sup>1</sup> 2008 amount per ending balance on Schedule 10 of 2007 corporate rax return

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment B Page 8 of 16 Updated: December 15, 2008

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# P3 Interest Expense

	2008	2009	
Deemed Interest Expense (A)	<u>317,804</u>	353,251	
3900-Interest Expense			
Add: Capitalized Interest (USA #6040)			Enter credit to P&L as positive number
Add: Capitalized Interest (USA #6042)			Enter credit to P&L as positive number
Less: non-debt interest expense (USA #6035)			
			Enter other adjustments for tax purposes
Total Interest Projected (B)			
Excess Interest Expense			(B) less (A); if negative: zero

# Tillsonburg Hydro Inc. (ED-2003-0026)

PILs Calculations for 2009 EDR Application (EB-2008-0246) August 15, 2008

# P4 Loss Carry-Forward (LCF)

Enter details of historical losses available to offset projected taxable income

	Balance5 31 Dec/07 <sup>1</sup>	Less: Non- Distribution Portion	Utility Balance5 31 Dec/07	2008	2009
Non-Capital LCF:					
Opening Balance					
Application of LCF to reduce taxable income					
Ending Balance					
Net Capital LCF:					
Opening Balance					
Application of LCF to reduce taxable capital gains		+			
Ending Balance					

<sup>1</sup> per Schedule 7-1 of 2007 corporate tax return

#### Tillsonburg Hydro Inc. (ED-2003-0026)

PILs Calculations for 2009 EDR Application (EB-2008-0246) August 15, 2008

#### P5 Reserve Balances

Enter balance amounts and projected changes in tax and accounting reserves

	Balance5 31 Dec/07 <sup>1</sup>	Less: Non- Distribution Portion	Utility Balance5 31 Dec/07	Changes 5 ( + / - )5 in 2008	Balance 5 31 Dec/08	Changes 5 ( + / - )5 in 2009	Balance 5 31 Dec/09
Capital Gains Reserves ss.40(1)							
Tax Reserves not deducted for book purposes:         Reserve for doubtful accounts ss. 20(1)(I)         Reserve for goods and services not delivered ss. 20(1)(m)         Reserve for unpaid amounts ss. 20(1)(n)         Debt & Share Issue Expenses ss. 20(1)(e)							
TOTAL							
Accounting Reserves not deducted for tax purposes:							
General Reserve for Inventory Obsolescence (non-specific)							
General reserve for bad debts							
Accrued Employee Future Benefits:							
- Medical and Life Insurance							
- Short & Long-term Disability							
- Accumulated Sick Leave							
- Termination Cost							
- Other Post-Employment Benefits							
Provision for Environmental Costs							
Restructuring Costs							
Accrued Contingent Litigation Costs							
Accrued Self-Insurance Costs							
Other Contingent Liabilities				I			
Bonuses Accrued and Not Paid Within 180 Days of Year-End				I			
ss. 78(4)							
Unpaid Amounts to Related Person and Not Paid Within 3							
Taxation Years ss. 78(1)							
/							
TOTAL							

<sup>1</sup> per Schedule 13 of 2007 corporate tax return

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment C Page 11 of 16 Updated: December 15, 2008

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### P6 Taxable Income

Po Taxable income					T		
		20	06 EDR Approv	ed	1		2009 @ new dist. rates
	T2 S1 line #	Tax Return	Less: Non- Distribution Portion	Utility Only	2008 Projection	2009 @ existing rates	
Income/(Loss) before PILs/Taxes (Accounting) <sup>1</sup>					420,867	<u>126,211</u>	<u>301,486</u>
Additions:							
Interest and penalties on taxes	103						
Amortization of tangible assets	104				<u>462,589</u>	<u>491,357</u>	<u>491,357</u>
Amortization of intangible assets	106						
Recapture of capital cost allowance from Schedule 8	107						
Gain on sale of eligible capital property from Schedule 10	108						
Income or loss for tax purposes- joint ventures or partnerships	109						
Loss in equity of subsidiaries and affiliates	110						
Loss on disposal of assets	111						
Charitable donations	112						
Taxable Capital Gains	113						
Political Donations	114						
Deferred and prepaid expenses	116						
Scientific research expenditures deducted on financial statements	118						
Capitalized interest	119						
Non-deductible club dues and fees	120						
Non-deductible meals and entertainment expense	121						
Non-deductible automobile expenses	122						
Non-deductible life insurance premiums	123						
Non-deductible company pension plans	124						
Tax reserves beginning of year	125						
Reserves from financial statements- balance at end of year	126						

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### P6 Taxable Income

		2	006 EDR Approv	ed		2009 @ existing rates	2009 @ new dist. rates
	T2 S1 line #	Tax Return	Less: Non- Distribution Portion	Utility Only	2008 Projection		
Income/(Loss) before PILs/Taxes (Accounting) <sup>1</sup>					420,867	<u>126,211</u>	<u>301,486</u>
Soft costs on construction and renovation of buildings	127						
Book loss on joint ventures or partnerships	205						
Capital items expensed	206						
Debt issue expense	208						
Development expenses claimed in current year	212						
Financing fees deducted in books	216						
Gain on settlement of debt	220						
Non-deductible advertising	226						
Non-deductible interest	227						
Non-deductible legal and accounting fees	228						
Recapture of SR&ED expenditures	231						
Share issue expense	235						
Write down of capital property	236						
Amounts received in respect of qualifying environment trust per paragraphs 12(1)(z.1) and 12(1)(z.2)	237						
Excess Interest Expense							
Total Additions					462,589	491,357	491,357

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment C Page 13 of 16 Updated: December 15, 2008

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### P6 Taxable Income

Po l'axable income				1	-		
		20	006 EDR Approv	ed	2008		2009 @ new dist. rates
	T2 S1 line #	Tax Return	Less: Non- Distribution Portion	Utility Only	2008 Projection	2009 @ existing rates	
Income/(Loss) before PILs/Taxes (Accounting) <sup>1</sup>					<u>420,867</u>	<u>126,211</u>	<u>301,486</u>
Deductions:							
Gain on disposal of assets per financial statements	401						
Dividends not taxable under section 83	402						
Capital cost allowance from Schedule 8	403				449,343	478,280	478,280
Terminal loss from Schedule 8	404						· <del></del> ·
Cumulative eligible capital deduction from Schedule 10 CEC	405						
Allowable business investment loss	406						
Deferred and prepaid expenses	409						
Scientific research expenses claimed in year	411						
Tax reserves end of year	413						
Reserves from financial statements - balance at beginning of year	414						
Contributions to deferred income plans	416						
Book income of joint venture or partnership	305						
Equity in income from subsidiary or affiliates	306						
Total Deductions					449.343	478,280	478,280

Tillsonburg Hydro Inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment C Page 14 of 16 Updated: December 15, 2008

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#### P6 Taxable Income

	,			-			
		2006 EDR Approved					
	T2 S1 line #	Tax Return	Less: Non- Distribution Portion	Utility Only	2008 Projection	2009 @ existing rates	2009 @ new dist. rates
Income/(Loss) before PILs/Taxes (Accounting) <sup>1</sup>					<u>420,867</u>	<u>126,211</u>	<u>301,486</u>
NET INCOME (LOSS) FOR TAX PURPOSES					<u>434,113</u>	<u>139,288</u>	<u>314,563</u>
Charitable donations from Schedule 2							
Taxable dividends deductible under section 112 or 113, from Schedule 3 (item 82)							
Non-capital losses of preceding taxation years from Schedule 4							
Net-capital losses of preceding taxation years from Schedule 4							
Limited partnership losses of preceding taxation years from Schedule 4							
TAXABLE INCOME (LOSS)					<u>434,113</u>	<u>139,288</u>	<u>314,563</u>

<sup>1</sup> 2008 Projection = "Earnings before Tax' (sheet E1); 2009 @ existing rates = "Earnings before Tax' (sheet E2); 2009 @ new dist. rates = "Deemed Return On Equity' (sheet E3)

#### **Tillsonburg Hydro Inc. (ED-2003-0026)** PILs Calculations for 2009 EDR Application (EB-2008-0246) August 15, 2008

# P7 Capital Taxes

Rates and exemptions from sheet Y1

Enter rate base amounts

	2008	2009	
OCT (Ontario Capital Tax):			
Rate Base	8,397,948	9,053,092	'Calculated Value' from sheet E3
Less: Exemption	12,500,000	15,000,000	
Deemed Taxable Capital			
Tax Rate	0.285%	0.285%	
OCT payable			
Federal LCT (Large Corporations Tax): Rate Base Less: Exemption Deemed Taxable Capital Tax Rate	8,397,948 <u>50,000,000</u>	9,053,092 <u>50,000,000</u>	
LCT payable			

Tillsonburg Hydro inc. EB-2008-0246 Filed: August 22, 2008 Exhibit 4 Tab 1 Schedule 2 Attachment D Page 16 of 16 Updated: December 15, 2008

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# P8 Total PILs Expense

	2008	2009 at	2009 at new	
	Projection	Existing Rates	Revenue Req.	
Regulatory Taxable Income/(Loss)	434,113	139,288	314,563	from sheet P6
Combined Income Tax Rate	17.61%	16.50%	16.50%	"t" (from sheet Y1)
Total Income Taxes	76,461	22,982	51,903	
Investment & Miscellaneous Tax Credits				Input amounts
Income Tax Payable	76,461	22,982	51,903	"j"
Large Corporations Tax (LCT)				from sheet P7
Ontario Capital Tax (OCT)				from sheet P7
Grossed-up Income Tax	92,808		62,159	= i / (1 - t)
Grossed-up LCT				= LCT / (1 - t)
Total PILs Expense	92,808	22,982	62,159	Enter these results on sheet E4