

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 73:

Reference(s): **Exhibit 4B, Tab 2, Schedule 2, p. 20 – Schedule 8 Test Year**

THESL has disclosed proceeds of disposal in Schedule 8 of \$14,347,679 for Class 1, and \$899,095 for Class 17:

- a) Please provide a description of each of the transactions, including how much profit is forecast on the disposals and the references in the application where the other parts of the transactions can be located;
- b) Please provide similar Schedule 8 formats for each year 2016, 2017, 2018 and 2019 showing the capital additions based on the proposed capital plan and any forecast disposals of assets.

RESPONSE:

- a) In its originally filed application, THESL disclosed proceeds of disposal in Schedule 8 of \$14,347,679 and \$899,095 for Class 1 and Class 17 respectively. THESL revised both amounts in its September update to \$16,318,959 and \$1,034,729 respectively. The proceeds disclosed for tax purposes do not reflect the net profit on the dispositions. Exhibit 2B, Section E8.3, provides details related to disposal of properties.
- b) Copies of Schedule 8 for the years 2016-2019 are provided as Appendix A to this Schedule. There are no forecasted disposals for the years 2016-2019.

Toronto Hydro-Electric System Limited
Schedule 8 CCA - 2016 Test Year

Schedule 8 CCA 2016 Test Year

Toronto Hydro-Electric System Limited
Schedule 8 CCA - 2017 Test Year

Schedule 8 CCA 2017 Test Year

| Class | Class Description | UCC Test Year Opening Balance (note 1) | Additions | Disposals (Negative) | UCC Before 1/2 Yr Adjustment | 1/2 Year Rule {1/2 Additions Less Disposals} | Reduced UCC | Rate % | Test Year CCA | UCC End of Test Year |
|--------------|--|---|------------------|---------------------------------|-------------------------------------|---|--------------------|---------------|----------------------|-----------------------------|
| 1 | Distribution System - post 1987 | \$ 1,007,878,880 | 3,478,737 | | \$ 1,011,357,617 | \$ 1,739,369 | \$ 1,009,618,248 | 4% | \$ 40,384,730 | \$ 970,972,887 |
| 1 Enhanced | Non-residential Buildings Reg. 1100(1)(a.1) election | \$ - | | | \$ - | \$ - | \$ - | 6% | \$ - | \$ - |
| 2 | Distribution System - pre 1988 | \$ 227,301,557 | | | \$ 227,301,557 | \$ - | \$ 227,301,557 | 6% | \$ 13,638,093 | \$ 213,663,464 |
| 8 | General Office/Stores Equip | \$ 24,125,271 | 2,468,923 | | \$ 26,594,194 | \$ 1,234,462 | \$ 25,359,733 | 20% | \$ 5,071,947 | \$ 21,522,248 |
| 10 | Computer Hardware/ Vehicles | \$ 11,176,057 | 3,898,175 | | \$ 15,074,232 | \$ 1,949,088 | \$ 13,125,145 | 30% | \$ 3,937,543 | \$ 11,136,689 |
| 10.1 | Certain Automobiles | \$ - | | | \$ - | \$ - | \$ - | 30% | \$ - | \$ - |
| 12 | Computer Software | \$ 8,948,975 | 18,832,100 | | \$ 27,781,075 | \$ 9,416,050 | \$ 18,365,025 | 100% | \$ 18,365,025 | \$ 9,416,050 |
| 13 1 | Lease # 1 | \$ - | | | \$ - | \$ - | \$ - | SL | \$ - | \$ - |
| 13 2 | Lease #2 | \$ - | | | \$ - | \$ - | \$ - | SL | \$ - | \$ - |
| 13 3 | Lease # 3 | \$ - | | | \$ - | \$ - | \$ - | SL | \$ - | \$ - |
| 13 4 | Lease # 4 | \$ - | | | \$ - | \$ - | \$ - | SL | \$ - | \$ - |
| 13 5 | Lease # 5 | \$ 38,760 | | | \$ 38,760 | \$ - | \$ 38,760 | SL | \$ 38,760 | \$ - |
| 13 6 | Lease # 6 | \$ 12,920 | | | \$ 12,920 | \$ - | \$ 12,920 | SL | \$ 8,613 | \$ 4,307 |
| 13 7 | Lease # 7 | \$ 13,913 | | | \$ 13,913 | \$ - | \$ 13,913 | SL | \$ 5,565 | \$ 8,348 |
| 13 8 | Lease # 8 | \$ 4,300 | | | \$ 4,300 | \$ - | \$ 4,300 | SL | \$ 1,229 | \$ 3,071 |
| 13 9 | Lease # 9 | \$ 5,672 | | | \$ 5,672 | \$ - | \$ 5,672 | SL | \$ 1,260 | \$ 4,412 |
| 13 10 | Lease # 10 | \$ - | 6,003 | | \$ 6,003 | \$ - | \$ 6,003 | SL | \$ 600 | \$ 5,403 |
| 14 | Franchise | \$ - | | | \$ - | \$ - | \$ - | | \$ - | \$ - |
| 17 | New Electrical Generating Equipment Acq'd after Feb 27/00 Other Than Bldgs | \$ 11,801,470 | | | \$ 11,801,470 | \$ - | \$ 11,801,470 | 8% | \$ 944,118 | \$ 10,857,352 |
| 42 | Fibre Optic Cable | \$ 19,743 | | | \$ 19,743 | \$ - | \$ 19,743 | 12% | \$ 2,369 | \$ 17,373 |
| 43.1 | Certain Energy-Efficient Electrical Generating Equipment | \$ - | | | \$ - | \$ - | \$ - | 30% | \$ - | \$ - |
| 43.2 | Certain Clean Energy Generation Equipment | \$ - | | | \$ - | \$ - | \$ - | 50% | \$ - | \$ - |
| 45 | Computers & Systems Software acq'd post Mar 22/04 | \$ 4,110 | | | \$ 4,110 | \$ - | \$ 4,110 | 45% | \$ 1,849 | \$ 2,260 |
| 46 | Data Network Infrastructure Equipment (acq'd post Mar 22/04) | \$ 437,879 | 186,185 | | \$ 624,064 | \$ 93,093 | \$ 530,972 | 30% | \$ 159,292 | \$ 464,773 |
| 47 | Distribution System - post February 2005 | \$ 2,469,039,800 | 470,967,445 | | \$ 2,940,007,245 | \$ 235,483,723 | \$ 2,704,523,522 | 8% | \$ 216,361,882 | \$ 2,723,645,363 |
| 50 | Data Network Infrastructure Equipment - post Mar 2007 | \$ 17,386,477 | 8,848,812 | | \$ 26,235,289 | \$ 4,424,406 | \$ 21,810,883 | 55% | \$ 11,995,986 | \$ 14,239,303 |
| 52 | Computer Hardware and system software | \$ - | | | \$ - | \$ - | \$ - | 100% | \$ - | \$ - |
| 95 | CWIP | \$ 405,809,399 | | | \$ 405,809,399 | \$ - | \$ 405,809,399 | 0% | \$ - | \$ 405,809,399 |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | | | | | \$ - | \$ - | \$ - | 0% | \$ - | \$ - |
| | TOTAL | \$ 4,184,005,183 | \$ 508,686,380 | \$ - | \$ 4,692,691,563 | \$ 254,340,189 | \$ 4,438,351,374 | | \$ 310,918,861 | \$ 4,381,772,702 |

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 74:

**Reference(s): Exhibit 4B, Tab 2, Schedule 2, pp. 6, 13 and 21 – Cumulative
Eligible Capital**

The above references show additions of \$2,489,752 in 2013, \$3,370,623 in 2014 and \$84,096,612 in 2015 respectively:

- a) Please provide explanations for these additions;
- b) Please state whether or not THESL expects material additions in the years 2016-2019. If yes, please describe the expenditures and calculate the tax impacts for each of the years 2016-2019 using the PILs model formats.

RESPONSE:

- a) The eligible capital expenditures additions of \$2,489,752, \$3,370,623 and \$84,096,612 relate primarily to contributions payments made to Hydro One Networks Inc. for connections to increase electricity distribution system capacity.
- b) Consistent with its proposed rate framework, Toronto Hydro has not included forecasted additions of eligible capital expenditures and the resulting tax impacts beyond the 2015 Test Year. For a discussion of its proposed rate framework, please refer to Exhibit 1B, Tab 2, Schedule 3.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1 **INTERROGATORY 75:**

2 **Reference(s):** **Exhibit 4B, Tab 2, Schedule 2, p.16 - 2014 Taxable Income and**
3 **Exhibit 9, Tab 3, Schedule 1, p. 1**

4
5
6 In the second reference, THESL has shown an IFRS derecognition amount for 2014 of
7 \$25,782,326.

8
9 In the first reference, this amount does not appear as an addition in the 2014 taxable
10 income calculations.

11
12 Please provide an explanation for this treatment.

13
14

15 **RESPONSE:**

16 IFRS derecognition of \$25,782,326 for 2014 does not appear as an addition in the 2014
17 taxable income calculations because this amount is not included in net income for
18 calculating PILs. The balance has been recorded in account 1575 which is used to record
19 differences as a result of the transition from US GAAP to IFRS.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1 **INTERROGATORY 76:**

2 **Reference(s):** Exhibit 4B, Tab 2, Schedule 2, p. 22 – Continuity of Reserves

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5 In the above reference, an addition of \$8,521,000 is shown for Other Post-Employment
6 Benefits:

7 a) Please state whether or not THESL expects a similar amount to be incurred in each of
8 the years 2016-2019;

9 b) Please explain the causes of these increases.

10

11

12 **RESPONSE:**

13 a) Consistent with its proposed rate framework, THESL has not forecasted Other Post-
14 Employment Benefits beyond the 2015 Test Year. For a discussion of its proposed
15 rate framework, please refer to Exhibit 1B, Tab 2, Schedule 3.

16

17 b) The addition of \$8,521,000 was determined by an actuarial report prepared by
18 Towers Watson under IFRS for 2015. For the specific actuarial schedule please refer
19 to the response to Interrogatory 4A-OEBStaff-72.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 77:

**Reference(s): Exhibit 4B, Tab 2, Schedule 2, pp. 24-25 - 2015 Taxable
Income and
Exhibit 4B, Tab 1, Schedule 2, p.3 and
Exhibit 4B Tab 2, Schedule 2, p. 22**

On page 24 of the first reference, a placeholder amount for derecognition of tangible assets of \$33,932,393 is recorded as an addition to income. On page 25, OPEBs deductions of \$446,000 and \$6,519,410 are recorded.

In the second reference, a variance account is requested to record the difference between the placeholder amount and the actual de-recognition amounts during the period 2016-2019.

In the third reference, an amount of \$8,521,000 is shown as the change in the OPEB reserve (liability):

- a) Please state whether or not the tax impact on the variances will be calculated as part of the proposed variance account true-up. If yes, please state whether the tax impact would be included in the same variance account, or whether a separate variance account would be needed;
- b) Please explain what the OPEBs deductions of \$446,000 and \$6,519,410 are for;
- c) Please state where the difference between the deductions referenced in part b above and the \$8,521,000 shown as the change in the OPEB reserve (liability) are recorded and provide an explanation.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1 **RESPONSE:**

2 a) Once the proposed variance account is approved for clearance, a PILs gross up will
3 be added to the balance. A separate variance account for PILs will not be required.

4
5 b) The OPEB deduction of \$446,000 represents the amounts transferred from related
6 parties. The OPEB deduction of \$6,519,410 represents the capitalized portion of
7 OPEB in the year. These amounts form part of the \$8,521,000 shown as the change in
8 the OPEB reserve (liability) referenced in part c).

9
10 c) The balance of \$8,521,000 is represented by the difference between the opening and
11 closing OPEB reserve for the 2015 test year. Please note that the OPEB reserve as
12 presented, includes liabilities associated with Energy Services Incorporated and
13 Toronto Hydro Corporation. The liability balance excludes LDC Unregulated. The
14 OPEB costs associated with Toronto Hydro Corporation, Energy Services
15 Incorporated and LDC Unregulated are accounted for in the income statements of the
16 subsidiaries and are therefore not taken into account when calculating Toronto Hydro
17 rates. The table below illustrates the movement of the balance:

18

| | |
|--|----------------------|
| 19 Opening balance | \$243,040,000 |
| 20 OM&A | 9,939,590 |
| 21 Capital expenditures | 6,519,410 |
| 22 Transfer from related parties | 446,000 |
| 23 Benefits paid | <u>(8,384,000)</u> |
| 24 Closing balance | <u>\$251,561,000</u> |

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1 **INTERROGATORY 78:**

2 **Reference(s):** **Exhibit 4B, Tab 2, Schedule 2, p. 22**

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5 The recent Ontario government budget, which has received Royal Assent, changed the
6 Ontario small business credit.

7

8 Please state whether or not THESL believes any changes to the calculation of PILs for
9 2015 are required as a result of the passage of the Ontario budget.

10

11

12 **RESPONSE:**

13 The 2014 Ontario budget eliminated the provincial small business deduction for a
14 corporation with taxable capital greater than \$15 million. This change applied to taxation
15 years ending after May 1, 2014. The impact will be an increase of \$62,680 in the PILs
16 revenue requirement for 2015. THESL will exclude the Ontario small business deduction
17 on finalization of its Rates for 2015.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1 **INTERROGATORY 79:**

2 **Reference(s):** **Exhibit 4B, Tab 2, Schedule 2, p. 22**

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5 THESL has recovered OPEBs in rates since 2000 both on a cash basis and on an accrual
6 accounting basis. It is Board staff's understanding that THESL has recovered OPEBs on
7 a cash basis up to May 1, 2006 and on an accrual basis thereafter:

- 8 a) Please confirm that Board staff's understanding is correct, or if not, please correct and
9 explain;
- 10 b) Please complete the table below in a live Excel worksheet to show how much has
11 been recovered for the period 2000 to 2013 relative to the actual cash benefit
12 payments and how much is anticipated to be recovered in the forecast periods of 2014
13 to 2019;

| OPEBs | Actual | | | Forecast | | | Grand Total |
|--|---------|------|-------|----------|------|-------|----------------|
| | 2000 to | 2013 | Total | 2014 to | 2019 | Total | |
| Amounts included in rates | | | | | | | |
| OM&A | | | | | | | |
| Capital expenditures | | | | | | | |
| Sub-total | | | | | | | |
| Paid benefit amounts | | | | | | | |
| Net excess amount included in rates greater than amounts actually paid | | | | | | | |

- 14 c) Please describe what has been done with the recoveries in excess of the cash benefit
15 payments.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1 **RESPONSE:**

- 2 a) Since 2000, Toronto Hydro has recovered OPEB in rates under the accrual
3 accounting basis. There was never a change from the cash basis to the accrual basis
4 of accounting.
5
- 6 b) Please refer to the live Excel worksheet (IR_4B_OEBStaff_79B_20141105.xlsx)
7 attached to this response. Consistent with its proposed rate framework, Toronto
8 Hydro has not forecasted its operating expenses beyond the 2015 Test Year. For a
9 discussion of the proposed rate framework please refer to Exhibit 1B, Tab 2,
10 Schedule 3.
11
- 12 c) Recoveries in excess of the cash benefits have been used to fulfil the cost of ongoing
13 utility operations.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 80:

**Reference(s): Exhibit 4B, Tab 3, Schedule 1, App. A – 2013 Tax Return
Schedule 13 Reserves**

In the above reference, a reduction of the POEB reserve (OPEBs) of \$15,098,000 is recorded:

- a) Please explain the causes of this reduction;
- b) Please state whether or not this reduction was determined by an actuary and, if so, please provide the actuary's valuation;
- c) Please provide a full explanation of the reduction identified as "termination accrual" on the same schedule including whether or not it is related to staff reductions.

RESPONSE:

- a) The reduction of the consolidated Toronto Hydro POEB reserve of \$15,098,000 is comprised of the following:

| | |
|-----------------------|-----------------------|
| Service Cost | \$5,226,000 |
| Interest Cost | \$10,792,000 |
| Actuarial (gain) loss | (\$20,684,000) |
| Benefits Paid | (\$10,432,000) |
| Total | (\$15,098,000) |

- b) This reduction was determined by our actuary, Towers Watson under US GAAP for 2014. For the specific actuarial schedule please refer to Exhibit 4A, Tab 4, Schedule 7.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

1

- 2 c) The termination accrual balance on Schedule 13 represents the non deductible portion
3 of the balance for tax purposes. The non deductible portion is the balance that was
4 unpaid after 180 days from THESL's year-end. The balance accrued is primarily
5 related to an approved workforce restructuring program implemented in 2012.

RESPONSES TO SUSTAINABLE INFRASTRUCTURE ALLIANCE OF ONTARIO INTERROGATORIES

1 **INTERROGATORY 43:**

2 **Reference(s):** **Exhibit 4B, Tab 2, Schedule 1, page 1**

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5 THESL claims that “Where it can, Toronto Hydro takes advantage of available tax
6 deductions and tax credits, such as research and development tax credits, to minimize its
7 tax burden.”

8

9 Please identify the amount of R&D credits claimed in each year from 2011-2014.

10

11

12 **RESPONSE:**

13 Please see table below:

| | 2011 | 2012 | 2013 | 2014 |
|--------------------|-------------|-------------|-------------|------------------------|
| Federal R&D Credit | \$2,101,495 | \$1,664,433 | \$1,255,767 | N/A - not yet filed |
| Ontario R&D Credit | \$495,117 | \$392,144 | \$295,861 | N/A - not yet filed |
| Total R&D Credits | \$2,596,612 | \$2,056,577 | \$1,551,628 | N/A - not yet filed |