

Board Staff Interrogatory #189

Issue Number: 6.10

Issue: Are the amounts proposed to be included in the test period nuclear revenue requirement for income and property taxes appropriate?

Interrogatory

Reference:

Ref: Exh F4-2-1, page 10, Table 3a and Exh H1-1-1, pages 11-12

Page 10 indicates that OPG recognizes 75% of the estimated ITCs for taxation years that are subject to audit. To the extent the ultimate percentage of recognition for SR&ED ITCs differs from that applied in reducing regulatory income tax expense reflected in approved payment amounts, OPG records the difference in the Income and Other Taxes Variance Account.

- a) Please confirm that the variance account is only to true up the 75% to the percentage of recognition resulting from a tax audit and is not a true up to the actual SR&ED credit claimed.
- b) Please indicate how often SR&ED audits occur.
- c) OPG has forecasted SR&ED ITCs to be \$18.4M for each year from 2017 to 2021.
 - i. Is this amount 75% of the total estimated SR&ED ITC?
 - ii. Please explain how the \$18.4M SR&ED ITC was derived and why OPG proposes that it be the same amount each year from 2017 to 2021.
- d) Please provide a comparison of forecasted and actual SR&ED from 2013 to 2015.
- e) OPG has forecasted additions for Taxable SR&ED ITCs to be \$18.4M each year from 2017 to 2021 and deductions for SR&ED Qualifying Expenditures to be \$27.7M each year from 2017 to 2021.
 - i. Please explain how these amounts were derived and why OPG proposes it to be the same amount each year from 2017 to 2021.
 - ii. Please explain the correlation between the forecasted additions, deductions and ITC amounts relating to SR&ED in Table 3a.

Response

- a) Confirmed
- b) OPG's income tax returns, which include SR&ED ITC claims, are audited by the Ontario Ministry of Finance for each taxation year.

- 1
2 c)
3 i. Yes, \$18.4M represents 75 percent of total estimated SR&ED ITC amounts attributed
4 to the nuclear operations.
5
6 ii. For business planning purposes, OPG estimates future SR&ED ITCs based on actual
7 SR&ED ITCs of a recurring nature earned in the last taxation year for which tax
8 returns have been filed at the time the estimate is prepared, plus forecast amounts of
9 a non-recurring nature (if any) provided by technical personnel for certain identified
10 work. OPG does not rely on historical actuals as the basis for the non-recurring
11 amounts given that the nature and volume of this type of work can change
12 significantly year over year.
13

14 The last year for which tax returns were filed at the time OPG developed the estimate
15 reflected in this application was 2014. Actual ITCs of a recurring nature for 2014 (as
16 attributed to the nuclear operations and subject to the 75 percent recognition) were
17 \$19.2M. No amounts of a non-recurring nature were identified by technical personnel
18 in the nuclear business unit. Therefore, the amount of \$19.2M, as adjusted to \$18.4M
19 for the reduction in the Ontario ITC rate from 4.5% to 3.5% effective June 1, 2016
20 (see Ex. F4-2-1, section 3.4, lines 4-6), was used as the estimate for all years of the
21 IR term.
22

23 Since the filing of its application on May 27, 2016, OPG developed an updated
24 estimate of the 2017-2021 SR&ED ITCs as part of the 2017-2019 Business Plan. The
25 updated estimate was developed based on the 2015 tax return, in the same manner
26 as described above. As requested by OEB Staff at the Technical Conference, Day 3
27 (Tr. p. 72, lines 23-27), OPG is providing this updated estimate.
28

29 The SR&ED ITCs for the nuclear facilities reflected in the 2017-2019 Business Plan
30 are \$26.3M for 2017, \$26.5M for 2018, \$26.9M for 2019, \$27.5M for 2020, and
31 \$25.3M for 2021.
32
33

1 d) A comparison of the forecasted SR&ED ITCs and actual SR&ED ITCs earned for 2013 to
2 2015 for the nuclear operations is as follows (pre-tax):¹
3

4 <u>Year</u>	<u>Forecasted ITCs (\$M)</u>	<u>Actual ITCs Earned (\$M)²</u>
5 2013	6 14.1 ³	35.5
7 2014	9.4 ⁴	33.0
8 2015	9.4 ⁵	31.9

9
10 e) (i) & (ii)

11 As discussed at Ex. F4-2-1, section 3.4, OPG is subject to federal and provincial tax on
12 SR&ED ITCs. As such, the Taxable SR&ED ITCs addition to earnings before tax is
13 included in the calculation of regulatory taxable income. The forecasted amount of
14 Taxable SR&ED ITCs reflects the forecasted amount of SR&ED ITCs for the
15 corresponding years. Specifically, the Taxable SR&ED ITCs at Ex. F4-2-1, Table 3a, line
16 9 were determined by including the Ontario ITCs earned in the current year and the
17 federal ITC utilized in the previous year, and therefore are correlated to the SR&ED ITC
18 amounts at Ex. F4-2-1, Table 3a, line 25. The derivation of the \$18.4M in forecast
19 SR&ED ITCs is explained in part (c).
20

21 The deduction for SR&ED Qualifying Expenditures is on account of SR&ED qualifying
22 expenditures of a current nature that are capitalized for accounting purposes but are
23 deductible for income tax purposes. These amounts are estimated for business planning
24 purposes based on actual historical expenditures of a recurring nature, plus forecast
25 amounts of a non-recurring nature (if any) identified by technical personnel in the nuclear
26 business unit. No amounts of a non-recurring nature were identified as part of the 2016-
27 2018 business planning cycle. The above approach yielded a forecast of \$27.7M per year
28 for the IR term. These expenditures, along with qualifying expenditures of a current
29 nature expensed for accounting purposes, are the underlying expenditures giving rise to
30 the SR&ED ITCs.

¹ As discussed at Ex. F4-2-1 section 3.4 and in part (e) of this interrogatory, SR&ED ITCs are taxable. Therefore, the full effect of SR&ED ITC variances on income tax expense would be net of tax on amounts shown in part (d).

² For 2013 and 2014, Attachment 1, Table 1, line 1 of Ex. L-6.10-1 Staff-188. The 2015 value is based on the 2015 income tax return which was completed subsequent to the filing of this application.

³ Nuclear portion of EB-2013-0321 Ex. F4-2-1, Table 5, line 24, col. (a).

⁴ EB-2013-0321 Ex. L-6.13-1 Staff-165, Att. 1, Table 1, line 24, col. (c).

⁵ EB-2013-0321 Ex. L-6.13-1 Staff-165, Att. 1, Table 2, line 24, col. (c).