Board Staff Interrogatory #326

Interrogatory

Reference:
Exhibit H1 / Tab 1 / Schedule 1 / pp. 14-16
Exhibit H1 / Tab 1 / Schedule 1 / Table 6

Preamble:

OPG provided the 2018 and 2019 entries in the Income and Other Taxes Variance Account in Table 6 at Exhibit H1 / Tab 1 / Schedule 1.

OPG explained the four entries recorded in the Income and Other Taxes Variance Account for 2018 and 2019 as follows:

- A credit entry in 2019 related to a CCA rule change, which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018. As per the OEB's letter dated July 25, 2019 discussed below, this entry was recorded in a separate sub-account.

- A credit entry related to an increase in the recognition of SR&ED ITCs for the 2014 taxation year from 75% to 100%, based on the resolution of the 2014 income tax audit in 2018.
- A credit entry related to an increase in the recognition of SR&ED ITCs for the 2015 taxation year from 75% to 100%, based on the resolution of the 2015 income tax audit in 2019.

- A debit entry related to a reduction to the rate for the Ontario Research and Development Tax Credit (reported as part of SR&ED ITCs) from 4.5% to 3.5% of qualifying expenditures, effective June 1, 2016. The entry applies to the regulated hydroelectric facilities only, as the impact of this change for the nuclear facilities was already reflected in the 2017-2021 nuclear revenue requirements.

OPG further stated that for the nuclear facilities, the CCA-related entry was calculated by applying the new CCA rules to the forecast capital additions for the eligible period and resulting undepreciated capital cost balances (other than those for DRP and any other CRVA-eligible projects) reflected in the approved 2017-2021 nuclear revenue requirements, holding other variables constant. For the regulated hydroelectric facilities, OPG applied the new accelerated CCA rules to the forecast capital additions reflected in the approved 2014-2015 regulated hydroelectric revenue requirements,

using percentage eligible of actual regulated hydroelectric projects (for the corresponding year) as a proxy.

Question(s):

a) Please explain why the SR&ED ITCs recognition percentages have increased from 75% to 100% for the 2014 and 2015 taxation years, following their respective audits.

b) Please provide the summary pages of the 2014 and 2015 income tax audit reports.

c) Please explain why the addition to the variance account of $0.1 million in 2018 due to the increase of SR&ED ITCs recognition percentage from 75% to 100% for regulated hydroelectric is a debit.

d) Please provide the supporting 2019 CCA difference calculations for:

   i. Hydroelectric ($7.0 million)

   ii. Nuclear ($28.8 million)

e) Please explain the method used by OPG to prorate the CCAs after November 20, 2018 for the calculation of the 2018 CCA differences.

f) Please provide the calculation of the full revenue requirement impact of the CCA changes using the approved capital additions in OPG's 2017-2021 Payment Amounts Proceeding. Please update the full revenue requirement impact of the CCA changes in the account by including the 2020 balance.

g) From a cash flow perspective, what are the benefits that OPG has realized from CCA deductions under the AIIP in 2018, 2019 and 2020? Please provide the associated calculation of the benefits using the actual eligible capital additions in 2018, 2019 and 2020.

Response

a) As discussed at Ex. F4-2-1, p.11, lines 19 to 29, the amount of ITCs recognized for accounting purposes is determined based on an assessment of the likelihood of their allowance, in accordance with generally accepted account principles. Specifically, and as it did in 2014 and 2015, OPG recognizes 75% of the estimated ITCs for taxation years that are subject to audit. This is also the basis upon which

forecast SR&ED ITCs are included in the revenue requirement. Once the tax audit is completed, the likelihood of allowance becomes 100% and OPG recognizes the previously unrecognized 25% of the SR&ED ITC amount, recording a corresponding credit entry into the Income and Other Taxes Variance Account.

b) Please refer to Attachment 1, (confidential), for the Summary of Adjustments issued by the Ministry of Finance for the 2014 and 2015 taxation years.

c) The debit of $0.1M for 2018 at Ex. H1-1-1, Table 6, col. (a), line 6 was reported in error. The amount should be presented as a credit of $0.1M to the Income and Other Taxes Variance Account. OPG has corrected this transcription error by presenting an offsetting credit amount of $0.3M as a 2020 entry into the account at Ex. L-H1-01-Staff-320, Table 6, line 8, col. (g).[1]

d) The calculations supporting the 2019 CCA difference arsing from AIIP rules are provided in Attachment 2 for Hydroelectric and Attachment 3 for Nuclear. Refer to Ex. L-H1-01-Staff-330 for a description of the calculation mechanics in the enclosed UCC and CCA schedules.

In preparing this response, OPG determined that there is an error in the calculations of the Hydroelectric portion of the variance. The correct Hydroelectric CCA variance is $0.7M in 2018 and $9.2M in 2019, which results in a further credit to ratepayers of $0.1M for 2018 and $0.7M for 2019. The corrected calculations are shown in Attachment 2. For the same reasons as set out in Ex. L-H1-01-Staff-332 parts d) and e), OPG proposes to record this credit (with interest to the original entry dates) as a 2021 addition to the Income and Other Taxes Variance Account.

e) The AIIP rules apply to property acquired and placed in service after November 21, 2018. As such, given the typical project duration, OPG assumed that none of the forecasted nuclear in-service additions (excluding DRP) during the period from November 21, 2018 to December 31, 2018 would have been acquired during that period and thus none gave rise to the CCA variance recorded in 2018.[2] For the forecasted corporate in-service additions entering nuclear rate base, which have a shorter typical project duration, OPG pro-rated the full year forecasted in-service additions for 2018 based on the number of days between November 21, 2018 and December 31, 2018 to determine the CCA variance recorded for that period.

For the regulated hydroelectric facilities, under the approach described in Ex. H1-1-1, p. 16, lines 5 to 8, and as shown in Attachment 2, OPG applied the ratio of the actual AIIP to the actual total in-service additions in 2018 for non-CRVA projects to

[1] $0.1M debit is $0.139M to three significant digits and $0.3M credit is $0.278M to three significant digits.
[2] Property acquired during the period from November 21, 2018 to December 31, 2018 enters CCA variances in subsequent years on the estimated basis of being placed in service.

the average of the EB-2013-0321 forecasted regulated hydroelectric CCA for 2014 and 2015 to estimate the 2018 CCA variance.

f) The calculations in part (d) for Nuclear are based on the approved capital in-service additions in OPG's 2017-2021 payment amounts proceeding. Therefore, the amounts credited to the Income and Other Taxes Variance Account for 2018 and 2019 at Ex. H1-1-1, Table 6, line 7, col. (e) is the full revenue requirement impact of the CCA changes for Nuclear. The equivalent revenue requirement impact of the CCA changes for 2020 is credit of $3.4M based on a CCA variance of $10.1M, as shown in Ex. L-H1-01-Staff-320, Attachment 1, Table 6, col. (h). The calculation of the $10.1M CCA variance is provided in Attachment 4.

g) From a cash flow perspective, OPG's cash tax savings from CCA deductions under the AIIP using actual eligible capital additions for regulated operations in 2018, 2019 and 2020 are $0.3M, $10.9M, and $8.0M, respectively. The 2018 and 2019 figures are based on the corresponding tax returns; the 2020 figures are subject to the completion of the 2020 tax return. Please refer to Attachment 5 for the associated calculations.

For greater comparability, the above amounts are presented excluding the Darlington Refurbishment Program ("DRP"), for which the actual cash tax savings are reflected in the CRVA (Ex. L-H1-01-Staff-330). Given the time available to prepare the response, actual savings associated with other nuclear and hydroelectric projects that are subject to the CRVA have not been isolated from these amounts but are credited to the CRVA as part overall CCA variances for these projects.

The AIIP tax savings associated with non-CRVA expenditures have been credited to the Income and Other Taxes Variance Account by applying changes in the rules to the forecasted in-service additions used in the tax calculations in the EB-2013-0321 Payment Amounts Order for the regulated hydroelectric facilities and the EB-2016-0152 Payment Amounts Order for the nuclear facilities, holding all other variables constant. This method of computing impacts from tax rule changes by holding other variables at the forecasted level is consistent with the OEB's EB-2007-0905 decision, which established the Income and Other Taxes Variance Account and associated requirement for a reference forecast tax expense to be used for measuring such variances.[3,4] The method ensures that only the variance arising from eligible factors is captured in the variance account, rather than being comingled with other drivers of difference in tax expense.

[3] EB-2007-0905, Decision with Reasons, pp. 127-128.
[4] For example, this method was applied in determining the impact of tax rate changes effective July 1, 2010, which were recorded in the account by substituting only the tax rate relative to the approved income tax expense forecast (EB-2010-0008, Ex. H1-1-1, Section 4.2 and Table 13, lines 7-9; EB-2010-0008, Ex. F4-2-1, p. 2).