

## TAXES

### 1.0 PURPOSE

This evidence presents the taxes for the regulated facilities, including income tax, commodity tax, and property tax expense, for the historic, bridge and test years.

### 2.0 OVERVIEW

OPG seeks approval of the 2014 and 2015 income tax expense of \$48.5M and \$61.5M for the regulated hydroelectric facilities, \$31.4M and \$43.2M for the newly regulated hydroelectric facilities, and \$140.8M and \$47.5M for the nuclear facilities, respectively, as presented in Ex. F4-2-1 Tables 1 to 3. OPG also seeks approval of the 2014 and 2015 property tax expense of \$0.3M and \$0.3M for the regulated hydroelectric facilities, \$0.2M and \$0.2M for the newly regulated hydroelectric facilities, and \$15.9M and \$16.4M for the nuclear facilities, respectively, as presented in Ex. F4-2-1 Tables 1 to 3.

For all tax matters addressed in this exhibit OPG has applied the same principles and methodology for the historic, bridge and test years as in EB-2010-0008.<sup>1</sup> Income tax impacts associated with applicable variance and deferral accounts are reflected in the December 31, 2012 account balances approved by the OEB in EB-2012-0002 and accordingly, as noted in section 3.4, have not been included in the calculation of the regulatory income tax expense.

The methodology for determining the regulatory income tax expense starts with the determination of taxable income in accordance with the requirements of the tax legislation. This involves adjusting (through additions and deductions) regulatory earnings before tax to address differences between accounting and tax treatments. In most cases, these additions and deductions are commonly used by regulated utilities in their tax calculations; however, in some cases they result from items unique to OPG. To evaluate the appropriate amounts

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<sup>1</sup> Refer to section 3.5 for a discussion of the impact of adoption of USGAAP on the treatment of the SR&ED Investment Tax Credits

1 attributable to ratepayers for regulatory income tax purposes, OPG has continued to apply  
2 the principles as established by the OEB in EB-2007-0905 and applied in EB-2010-0008,  
3 namely:

- 4 • The party that bears a cost should be entitled to any related tax savings or benefits;  
5 and
- 6 • Only the prescribed assets are to be considered in the evaluation. (Taxes included in  
7 the determination of Bruce Lease net revenues are discussed in Ex. G2-2-1.)  
8

9 The newly regulated hydroelectric assets are considered in the calculation of the income tax  
10 expense starting in the test period, as the facilities are expected to become regulated in  
11 2014.  
12

### 13 **3.0 INCOME TAX EXPENSE**

#### 14 **3.1 General Requirements**

15 Under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate  
16 income and, up to June 30, 2010, capital taxes, to the Ontario Electricity Financial  
17 Corporation (“OEFEC”) and to file federal and provincial income tax returns with the Ontario  
18 Ministry of Finance. The tax payments are calculated in accordance with the *Income Tax Act*  
19 (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and  
20 related regulations. This effectively results in OPG paying taxes similar to what would be  
21 imposed under federal and Ontario tax legislation.  
22

#### 23 **3.2 Regulatory Income Tax Expense for Prescribed Facilities**

24 OPG continues to use the taxes payable method for determining regulatory income taxes for  
25 its prescribed assets, as it did in EB-2010-0008 and EB-2007-0905. Under the taxes payable  
26 method, only the current income tax expense is reflected in the revenue requirement.  
27

28 Regulatory income taxes for the prescribed facilities are determined by applying the statutory  
29 tax rates to the regulatory taxable income of the combined prescribed nuclear and  
30 hydroelectric facilities and reducing the resulting amount by recognized investment tax

1 credits (“ITCs”) for qualifying Scientific Research and Experimental Development (“SR&ED”)  
2 expenditures. Changes to existing statutory tax rates are applied when the changes are  
3 considered to be enacted. Corporate federal income tax rate reductions that were enacted in  
4 2009 have been incorporated into the tax calculations for the historic, bridge and test  
5 periods. There have been no other applicable changes in the statutory income tax rates in  
6 the historic period and none are forecast in the bridge or test periods. SR&ED ITCs are  
7 discussed in section 3.5.

8  
9 For the purpose of determining payment amounts for each regulated business, total income  
10 taxes, before SR&ED ITCs, determined for OPG’s prescribed facilities are allocated based  
11 on each business’s regulatory taxable income. In a situation where there is a tax loss in one  
12 of the regulated businesses, this approach reduces the total revenue requirement, as the  
13 loss in one regulated business would reduce the tax expense for the regulated business(es)  
14 in a taxable income position. SR&ED ITCs are primarily directly attributed to each business  
15 unit based on underlying SR&ED expenditures that give rise to the ITCs. This approach is  
16 the same as that applied in EB-2010-0008 and EB-2007-0905.

17  
18 For the test period, newly regulated hydroelectric facilities are included in the calculation of  
19 regulatory income taxes and in the allocation of income taxes based on each business’s  
20 regulatory taxable income. Income tax expense for the regulated hydroelectric facilities and  
21 the newly regulated hydroelectric facilities is presented in Ex. F4-2-1 Tables 1 and 2, and for  
22 the nuclear facilities in Ex. F4-2-1 Table 3.

23  
24 Regulatory taxable income is computed by making additions and deductions to the regulatory  
25 earnings before tax for items affected by different regulatory accounting and tax treatment.  
26 These additions and deductions are detailed in the calculation of taxable income (loss) for  
27 the 2010 - 2012 and 2013 - 2015 periods in Ex. F4-2-1 Tables 4 and 5, respectively. The  
28 additions and deductions to regulatory earnings before tax are outlined in the next section.  
29 The nature of the additions and deductions is unchanged with the inclusion of the newly  
30 regulated hydroelectric facilities.

As noted in the next section, where applicable, the additions and deductions to earnings before tax in a given year are presented net of amounts recorded as additions in the variance and deferral account in that year. The additions and deductions are presented on this basis when they reverse amounts that are reflected on the same net basis in the regulatory earnings before tax.

In Attachment 1, OPG is providing, as confidential material, the most recent corporate income tax returns. The returns are for the 2012 taxation year, for the same companies included in EB-2010-0008. Ex. F4-2-1 Table 6 presents the reconciliation of OPG's consolidated taxable income based on its tax returns to the calculation of the regulatory taxable income for the prescribed facilities for 2012. The reconciliation is presented in the same format and performed in the same manner as that provided and described in EB-2010-0008. The notices of assessment for 2012 have not been received from the tax authorities at this time. OPG will file in confidence any such notices received prior to the completion of the oral portion of the hearing.

### **3.3 Description of Additions and Deductions to Regulatory Earnings Before Tax**

#### **3.3.1 Depreciation and Amortization/Capital Cost Allowance**

Accounting depreciation and amortization of fixed/intangible assets is not deductible for income tax purposes; however, capital cost allowance ("CCA") is deductible. Therefore, depreciation and amortization expense is an addition to earnings before tax, while CCA is deducted from earnings before tax. Accounting depreciation and amortization of fixed/intangible assets for the prescribed facilities is determined in accordance with OPG's depreciation and amortization policy, as described in Ex. F4-1-1 section 3.1.

The amount of depreciation/amortization expense added back in Ex. F4-2-1 Tables 4 and 5 is net of depreciation amounts for the prescribed assets recorded as additions to variance and deferral accounts (i.e., Nuclear Liability Deferral Account and Capacity Refurbishment Variance Account) in the year.

1  
2 OPG's 2012 income tax returns provided in Attachment 1 include the calculations of CCA  
3 deductions by applying a prescribed rate for each asset class to the Undepreciated Capital  
4 Cost of that class (Schedules 8 of Ex F4-2-1 Attachment 1). These schedules contain  
5 consolidated information for both OPG's regulated and unregulated assets. UCC and CCA  
6 schedules for OPG's prescribed assets only are provided in Ex. F4-2-1 Tables 8-10 to  
7 support the forecast CCA deduction for the bridge and test period years. The equivalent  
8 schedule for 2012 is provided in Ex. F4-2-1 Table 7.

9  
10 3.3.2 Nuclear Waste Management Expenses

11 Consistent with the provisions of the *Income Tax Act* (Canada), accounting expenses  
12 accrued by OPG relating to its obligations for decommissioning its nuclear stations and  
13 managing nuclear used fuel and low and intermediate level waste produced by these  
14 facilities (collectively, the "nuclear liabilities") are not deductible for tax purposes. Therefore,  
15 the portion of the used fuel storage and disposal and variable waste management expenses  
16 relating to the prescribed assets has been added back to earnings before tax to determine  
17 the taxable income for OPG's prescribed assets. The portions of these expenses pertaining  
18 to the prescribed facilities are presented in Ex. C2-1-1 Table 2 Lines 4 and 5. The amount  
19 added back to earnings before tax for these expenses in Ex. F4-2-1 Tables 4 and 5 is net of  
20 amounts for the prescribed assets recorded as additions to the Nuclear Liability Deferral  
21 Account in the year.

22  
23 3.3.3 Cash Expenditures for Nuclear Waste Management and Decommissioning

24 Cash expenditures incurred and charged against the nuclear liabilities for waste  
25 management and decommissioning activities are generally deductible for tax purposes in  
26 accordance with the *Income Tax Act* (Canada). The expenditures for the prescribed facilities  
27 are presented in Ex. C2-1-1 Table 2 Line 7.

28  
29 The full amount of cash expenditures relating to the prescribed assets is presented at line 15  
30 in Ex. F4-2-1 Table 4 and line 13 in Table 5 as a deduction from earnings before tax in

1 determining regulatory taxable income for OPG's prescribed assets. As part of other  
2 additions presented at line 12 in Ex. F4-2-1 Table 4 and line 10 in Table 5 and noted in  
3 section 3.3.8 below, a portion of expenditures deemed to be capital for tax purposes is added  
4 back to earnings before tax in order to adjust the amount of cash expenditures deducted in  
5 arriving at taxable income. The CCA deduction discussed in section 3.3.1 includes the  
6 additional CCA related to these expenditures.

7  
8 Payment amounts established in EB-2010-0008 reflect a tax deduction for the full amount of  
9 the cash expenditures (i.e., no portion of the expenditures was treated as capital for tax  
10 purposes). The change in treatment for capital items resulted from the resolution of a tax  
11 audit of prior years. The net impact on income tax expense of the change is recorded in the  
12 Income & Other Taxes ("I&OT") Variance Account for each of 2011, 2012 and 2013.

#### 13 14 3.3.4 Segregated Fund Contributions and Receipts

15 The regulations under the *Electricity Act, 1998* allow OPG a tax deduction for contributions  
16 made to segregated funds pursuant to the Ontario Nuclear Funds Agreement ("ONFA"). The  
17 ONFA contribution schedule based on the current approved ONFA Reference Plan is used to  
18 determine OPG's forecast contributions to the segregated funds. The contributions related to  
19 OPG's prescribed facilities are presented in Ex. C2-1-1 Table 2 line 16 and are deducted  
20 from earnings before tax.

21  
22 When OPG receives disbursements from the funds for reimbursement of eligible  
23 expenditures, the amounts received are taxable as per the regulations under the *Electricity*  
24 *Act, 1998*. The amounts related to OPG's prescribed facilities are presented in Ex. C2-1-1  
25 Table 2 line 17, and are added to earnings before tax.

#### 26 27 3.3.5 Pension and Other Post-Employment Benefits

28 Pension and other post-employment benefits ("OPEB") costs recorded by OPG for  
29 accounting purposes (discussed in Ex. F4-3-1, section 6) are not deductible for tax purposes  
30 per the provisions of the *Income Tax Act* (Canada). Therefore, these costs are added back to

1 earnings before tax. OPG's cash contributions to its registered pension plan, as well as the  
2 payments for its OPEB and supplementary pension plans, are deductible for tax purposes,  
3 and are reflected as deductions from earnings before tax. The amount added back to  
4 earnings before tax for pension and OPEB costs in Ex. F4-2-1 Tables 4 and 5 is net of  
5 amounts for the prescribed assets recorded as additions to variance and deferral accounts  
6 (i.e., Pension and OPEB Cost Variance Account and Impact for USGAAP Deferral Account)  
7 in the year.

### 8 9 3.3.6 Adjustment Related to Financing Cost for Nuclear Liabilities

10 OPG adds back to regulatory earnings before tax an adjustment in respect of the financing  
11 cost (i.e., return on rate base) of the nuclear liabilities related to its prescribed facilities. This  
12 adjustment is required as a result of the methodology for the recovery of the revenue  
13 requirement impact of the nuclear liabilities (approved in EB-2007-0905 and applied in EB-  
14 2010-0008), and the tax deductions taken for contributions to the nuclear segregated funds  
15 and cash expenditures for nuclear waste management and decommissioning.

16  
17 As part of the approved methodology, the revenue requirement includes an amount derived  
18 by applying the weighted average accretion rate to the lesser of the average unfunded  
19 nuclear liabilities and the average unamortized asset retirement costs for the prescribed  
20 facilities. This amount is deducted as a cost in determining regulatory earnings before tax.  
21 For years 2010-2015, the derivation of this amount is presented in Ex. C1-1-1 Tables 1-6,  
22 line 7. The segregated fund contributions also include financing costs related to the nuclear  
23 liabilities, and are also deducted in determining taxable income for the prescribed facilities,  
24 as discussed in section 3.3.4 above. Therefore, an adjustment related to the financing cost  
25 for the nuclear liabilities is included as an addition to regulatory earnings before tax to  
26 remove the duplicate deduction. The amount added to earnings before tax in Ex. F4-2-1  
27 Tables 4 and 5 is net of the amount for the prescribed assets recorded as an addition to the  
28 Nuclear Liability Deferral Account in the year.

### 29 30 3.3.7 Environmental Provision

The amount recorded in 2011 for accounting purposes as a result of a reversal of an accounting environmental provision in the regulated hydroelectric segment is not taxable consistent with the provisions of the *Income Tax Act* (Canada). Therefore, this amount has been deducted from earnings before tax in 2011. The reversal of the provision is discussed in Ex. F1-2-1.

#### 3.3.8 Other

This category includes other required additions or deduction to earnings before tax such as:

- Nuclear materials and supplies obsolescence expenses recorded for accounting purposes as part of nuclear base OM&A (as noted in Ex. F2-2-1, section 3.2) that are not deductible for tax purposes as per the *Income Tax Act* (Canada).
- Computer equipment expenditures that are expensed for accounting purposes but must be capitalized and are eligible for CCA deductions for tax purposes.
- Fifty per cent of OPG's nuclear fuel expense incurred in a given year is not deductible for tax purposes until the following year. Therefore, OPG adds back 50 per cent of a given year's nuclear fuel expense and deducts 50 per cent of the prior year's nuclear fuel expense. The resulting net addition or net deduction adjusts earnings before tax.
- Meals and entertainment expenses that are subject to the 50 per cent tax deduction limitation.
- Adjustment to reduce the deduction for cash expenditures on nuclear waste management and decommissioning for the portion of the expenditures deemed to be capital for tax purposes, as discussed in section 3.3.3.

### **3.4 Regulatory Tax Treatment of Variance and Deferral Account Recovery**

Amounts recorded by OPG in variance and deferral accounts, which are reported as regulatory assets or liabilities for accounting purposes in a given period, typically impact OPG's actual taxable income in a different period. As a result, amounts recognized for accounting purposes as regulatory assets or liabilities in the period are reversed from regulatory earnings before tax in determining OPG's actual taxable income.



1 For regulatory purposes, as in EB-2010-0008, the tax impact (i.e., tax benefits or costs) to be  
2 recovered from, or provided to, ratepayers of the amounts recorded in variance and deferral  
3 accounts is reflected in the calculation of regulatory taxable income over the same period as  
4 these amounts are recovered from, or refunded to, ratepayers. This approach is intended to  
5 result in the same total tax impact as the actual tax payable by OPG in respect of recovery or  
6 refund of the amounts, considering the entire period from when the variance or deferral  
7 account balance is initially recorded to when the balance is fully recovered or refunded. This  
8 regulatory treatment provides for a matching of costs and benefits in accordance with the  
9 principle established by the OEB in EB-2007-0905 and applied in EB-2010-0008 that the  
10 party who bears a cost should be entitled to any related tax savings or benefits.

11  
12 In calculating earnings, the balance of the variance and deferral accounts recovered or  
13 refunded through payment amounts in a period is reflected in both the regulated revenues  
14 and the amortization expense (or amortization credit) for that period. Amortization is not  
15 deductible for income tax purposes. Since these would be equal and offsetting amounts,  
16 there is no net impact on earnings before tax for the period. In calculating regulatory income  
17 taxes, no adjustment to regulatory earnings before tax is made, subject to the discussion  
18 below, because the amount that would otherwise be added back to, or deducted from,  
19 earnings before tax as amortization expense/credit is the same as the amount that would be  
20 deducted from, or added back to, earnings before tax in order to attribute the associated  
21 benefit or cost to ratepayers.

22  
23 To the extent that there is no tax benefit/cost to be matched to the variance or deferral  
24 account recovery or refund, there is a net income tax impact associated with the amounts  
25 recorded in the accounts. In instances where this impact is not otherwise reflected in the  
26 account balance, an adjustment to earnings before tax is required.

27  
28 The balances approved in EB-2012-0002 for the Pension and OPEB Cost Variance Account,  
29 the Nuclear Liability Deferral Account and the Impact for USGAAP Deferral Account as at  
30 December 31, 2012 contain amounts that do not have a matching tax benefit. As these

1 balances reflect the associated income tax impacts, no adjustment to earnings before tax is  
2 made in respect of the recovery of these balances.

3  
4 An adjustment to regulatory earnings before tax continues to be required to address the  
5 impact of the regulatory treatment of the Bruce Lease net revenues on the disposition of the  
6 Bruce Lease Net Revenues Variance Account. The forecast net revenues from the Bruce  
7 Lease reduce OPG's revenue requirement, and therefore the earnings before tax for the  
8 prescribed facilities as shown in Ex. F4-2-1 Table 5, note 2. To the extent that there is a  
9 difference between the forecast and actual net revenues from the Bruce Lease (i.e., an entry  
10 into the Bruce Lease Net Revenues Variance Account), there is a difference in the regulatory  
11 earnings before tax and therefore the taxes for the prescribed facilities. Hence, an  
12 adjustment to regulatory earnings before tax is required in the year of recovery/refund of the  
13 variance recorded in the Bruce Lease Net Revenues Variance Account to ensure that any  
14 shortfall in, or over-collection of, regulatory taxes is also recovered/refunded from/to the  
15 ratepayers. Accordingly, the amortization of the Bruce Lease Net Revenues Variance  
16 Account is added back to regulatory earnings before tax, as shown for 2010 - 2012 in Table  
17 4, line 7 and for 2013 - 2015 in Ex. F4-2-1 Table 5, line 6.

### 18 19 **3.5 SR&ED Investment Tax Credits**

20 OPG can claim a non-refundable federal ITC equal to 15 per cent (20 per cent prior to 2014)  
21 and an Ontario ITC of 4.5 per cent of the qualifying SR&ED expenditures incurred in the  
22 year. OPG files annual ITC claims based on its qualifying expenditures. The federal ITCs  
23 reduce the federal portion of corporate income taxes otherwise payable and are taxable in  
24 the subsequent year. The Ontario ITCs reduce the Ontario portion of corporate income taxes  
25 otherwise payable and are taxable in the year earned.<sup>2</sup> The reduction in the federal ITC rate

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<sup>2</sup> Prior to 2009, SR&ED ITCs could not be used to reduce provincial taxes payable and no provincial taxes were payable on the amount of federal SR&ED ITCs claimed. Effective in 2009, federal and provincial SR&ED ITC rules were harmonized, whereby SR&ED ITCs became both available to reduce provincial taxes payable and taxable provincially in the year earned. Income tax information, including forecast income tax expenses for 2010-2012, was presented in EB-2010-0008 on a pre-harmonization basis consistent with OPG's business plan. Income tax information, including actual expense for 2010-2012 and forecast expense for 2013-2015, is presented on a harmonized basis in this application. As harmonization was designed such that the net tax benefit

1 from 20 per cent to 15 per cent was introduced in the 2012 federal budget and subsequently  
2 enacted effective 2014. Additionally, prior to 2014, the capital portion of the qualifying  
3 SR&ED expenditures is deductible from earnings before tax in the year incurred. Effective  
4 2014, otherwise qualifying SR&ED capital expenditures will no longer be deductible for tax  
5 purposes in the year incurred nor be eligible for SR&ED ITCs. Like other capital  
6 expenditures, these expenditures will qualify for CCA deductions over time.

7  
8 As in EB-2010-0008, the amount of ITCs recognized for accounting purposes is determined  
9 based on an assessment of the likelihood of their allowance, in accordance with generally  
10 accepted accounting principles. As discussed in EB-2012-0002, under USGAAP, the amount  
11 is recorded as a reduction to income tax expense in the year the ITCs are recognized and  
12 does not impact earnings before tax.<sup>3</sup> The reduction to income tax expense is presented for  
13 2011 and 2012 at line 28 in Ex. F4-2-1 Table 4 and for 2013 - 2015 at line 24 in Ex. F4-2-1  
14 Table 5. In 2010, the recognized ITCs were recorded as a reduction to OM&A expenses  
15 (crediting centrally held costs presented in Ex. F4-4-1) in accordance with Canadian GAAP.  
16 The amount of SR&ED ITCs is the same under USGAAP and Canadian GAAP.

17  
18 In 2011, as a consequence of the completion of the 2002 to 2005 income tax audit, OPG  
19 determined that it was acceptable to increase to 75 percent from 50 percent the amount  
20 recognized for accounting purposes for taxation years the audit of which has not yet been  
21 resolved. For years the audit of which has been resolved, OPG adjusts the previously  
22 recognized amount to reflect the audit resolution.

23  
24 OPG's forecast of income tax expense for 2013 - 2015 is based on the recognition of 75 per  
25 cent of the estimated SR&ED ITCs for those years. The benefit of the additional 25 per cent  
26 of SR&ED ITCs recognized for 2013 is being recorded in the I&OT Variance Account (Ex.  
27 H1-1-1 Table 6). To the extent the ultimate percentage of recognition for SR&ED ITCs for the

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of a SR&ED ITC after harmonization would be equivalent to the benefit before harmonization, no amounts related to the harmonization are recorded in the Income and Other Taxes Variance Account.

<sup>3</sup> Refer to Ex. A2-1-1 and EB-2012-0002 Ex. A3-1-2, Section 4.2.1

1 period from April 1, 2008 to December 31, 2015 differs from that previously applied in  
2 crediting ratepayers, OPG will continue to record the difference in the I&OT Variance  
3 Account.

4  
5 As shown in Ex. H1-1-1 Table 6, the projected 2013 additions to the I&OT Variance Account  
6 also include a debit entry related to another SR&ED ITC change enacted as a result of the  
7 2012 federal budget, being the reduction from 100 per cent to 80 per cent of the amount of  
8 payments to contractors qualifying for SR&ED ITCs. This change to the SR&ED ITC rules is  
9 effective in 2013; therefore, the forecast of SR&ED ITCs for the test period reflects this  
10 change.

#### 11 12 **4.0 INCOME TAX EXPENSE FOR 2010 – 2015**

13 The actual annual regulatory income tax expense for the prescribed facilities (nuclear and  
14 previously regulated hydroelectric facilities only) for years 2010 to 2012 has been computed  
15 using the approach described in section 3. The computation of taxable income results in  
16 \$103.2M for 2010, \$217.5M for 2011, and \$252.3M for 2012, as presented in Ex F4-2-1  
17 Table 4. The 2010, 2011 and 2012 taxable income and SR&ED ITCs resulted in actual  
18 income tax expense of \$29.9M, \$8.1M, and \$41.7M, respectively.

19  
20 The actual tax expense in 2011 is lower as compared to 2012. This is primarily due to a one-  
21 time adjustment to increase the recognition of SR&ED ITCs for accounting purposes from 50  
22 per cent to 75 per cent for prior years as a result of the completion of the 2002 to 2005  
23 income tax audit, as discussed in section 3.5.

24  
25 The actual tax expense in 2011 is also lower as compared to 2010. This is primarily due to  
26 the presentation of the 2011 expense under USGAAP which treats SR&ED ITCs as a  
27 reduction to the tax expense rather than a reduction to OM&A expenses, as shown in 2010  
28 under Canadian GAAP.

29

1 The regulatory income tax expense calculations for the prescribed facilities for the bridge  
2 year and test period are shown in Ex F4-2-1 Table 5. The forecast income tax expense for  
3 years 2013 - 2015 was computed using the approach described in section 3.

4  
5 The forecast tax expense in the test period years of 2014 and 2015 is \$220.6M and \$152.3M  
6 based on taxable incomes of \$924.1M and \$650.6M, respectively, and SR&ED ITCs of  
7 \$10.4M per year. The forecast tax recovery for 2013 is \$24.6M based on a tax loss of  
8 \$39.2M and SR&ED ITCs of \$14.8M. The annual tax expense for the test period is forecast  
9 to be higher than in 2013 primarily due to higher revenue and earnings from operations, and  
10 the inclusion of the newly regulated hydroelectric facilities. The forecast nuclear operational  
11 loss in 2013 is also the primary reason for the tax recovery in 2013 as compared to a tax  
12 expense in 2012.

13  
14 The forecast income tax expense in 2015 is lower than in 2014 mainly due to higher forecast  
15 pension plan contributions and OPEB and supplementary pension plan payments and a  
16 higher forecast CCA deduction in 2015.

## 17 18 **5.0 COMMODITY TAX**

19 Pursuant to the *Excise Tax Act* (Canada), effective July 1, 2010, OPG is subject to the 13 per  
20 cent Harmonized Sales Tax ("HST") on almost all of its purchases of goods and services.<sup>4</sup>  
21 The recoverable portion of HST paid by OPG is claimed as input tax credits on returns filed  
22 monthly. The recoverable portion of HST forecast to be paid is therefore not included in the  
23 revenue requirement. The non-recoverable portion, which results from the restrictions  
24 pursuant to the *Excise Tax Act* (Canada) (i.e., restricted input tax credits), forms part of the  
25 cost of the underlying item (e.g., OM&A, capital, inventory, etc.) and is included either in the  
26 test period forecasts for these items or other centrally held costs presented in Ex. F4-4-1.  
27 OPG's purchases of energy (electricity, gas, steam, fuel) for non-production purposes are

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<sup>4</sup> Prior to July 1, 2010, OPG was subject to the 8 per cent retail sales (provincial sales tax or "PST") under the *Retail Sales Tax Act* (Ontario) and the 5 per cent goods and services tax ("GST") levied under Part IX of the *Excise Tax Act* (Canada). For expenditures subject to PST, the tax amount formed part of OPG's cost of the underlying item or was recorded as a centrally held cost. The GST paid was recoverable through input tax credits.

1 examples of items subject to restricted input tax credits. As in EB-2010-0008, the impact of  
2 HST is also incorporated into the computation of the cash working capital component of rate  
3 base presented in Ex. B1-1-2.

4  
5 Where applicable, OPG pays duty under the *Customs Act* (Canada) on goods imported into  
6 Canada; however, currently most of these imports continue to be either exempt or have duty  
7 free status through the North American Free Trade Agreement. For supply and installation  
8 contracts, the contractor's price includes duty, if applicable, on the goods imported to perform  
9 the work. Any duty paid forms part of the cost of the underlying item.

## 11 **6.0 PROPERTY TAX EXPENSE**

12 The nature, basis and components of OPG's property tax expense are unchanged from the  
13 evidence presented in EB-2010-0008. OPG remains responsible for both the payment of  
14 municipal property taxes and a payment in lieu of property tax to the Province of Ontario. The  
15 total of these two payments is intended to represent what a commercial generating company  
16 would pay as property tax on OPG's assets based on full Current Value Assessment ("CVA")  
17 and represents OPG's property tax expense. OPG's property tax expense for the previously  
18 regulated hydroelectric facilities, the newly regulated hydroelectric facilities and the nuclear  
19 facilities is presented in Ex. F4-2-1 Tables 1, 2 and 3, respectively, for the historical, bridge  
20 and test periods. Municipal property taxes paid by OPG for properties that are not directly  
21 associated with specific generation business units and are held centrally form part of the  
22 asset service fees as discussed in Ex. F3-2-1. Property taxes associated with the Bruce  
23 assets are presented separately in Ex. G2-2-1.

### 25 **6.1 Municipal Property Taxes**

26 Municipal property taxes are regulated under the *Assessment Act, R.S.O. 1990* (the "Act").  
27 Municipal property tax payments are made to about 100 municipalities each year by OPG.  
28 For prescribed nuclear and Bruce assets, property tax payments to municipalities continue to  
29 be paid based on a statutory assessment rate of \$86.11 per square meter for "generating"  
30 buildings (e.g., buildings that are used in, or auxiliary to, the generating process, such as a

1 power house, water treatment plant, pump houses, etc.) pursuant to the Act, and at CVA for  
2 “non-generating” buildings (e.g., administration/office buildings). For both “generating” and  
3 “non-generating” buildings, the Municipal Property Assessment Corporation issues notices of  
4 assessments annually. Additionally, for “generating” buildings, OPG continues to be subject  
5 to payment in lieu of property tax discussed below.

6  
7 For both previously and newly hydroelectric assets, OPG continues to pay municipal property  
8 tax under the Act only for properties that are not associated with a generating station or dam  
9 site. These property taxes are paid at CVA. For the previously and newly regulated  
10 hydroelectric facilities, the forecast taxes are approximately \$0.3M and \$0.2M per year,  
11 respectively.

## 12 13 **6.2 Payment in Lieu of Property Tax**

14 Payment in lieu of property tax is regulated through O. Reg. 224/00 under the *Electricity Act*,  
15 1998 and is paid to the Province of Ontario through the OEFC. The payment in lieu of  
16 property tax represents taxes based on the difference between CVA and the prescribed  
17 municipal assessment rate of \$86.11 per square meter for certain generating assets.

18  
19 The assessment basis under O. Reg. 224/00 has not been updated since 1999.  
20 Consequently, the CVA used for payment in lieu of property tax calculations and the  
21 payments in lieu of tax amounts themselves remain subject to a possible update. As  
22 indicated in EB-2010-0008 and EB-2007-0905, the Province has previously indicated that it  
23 intends at some point to update the assessment values in O. Reg. 224/00 retroactive to April  
24 1, 1999. This would result in retroactive increases in OPG’s property tax payments, with  
25 increases for periods starting on or after April 1, 2008 being recorded in the I&OT Variance  
26 Account (the account includes the financial impact of changes in regulations on property  
27 taxes). Property tax expense forecasts for all years presented in this Application for the  
28 prescribed and Bruce assets, including OEB-approved amounts, assume that O. Reg.  
29 224/00 will not be updated during those years.

**LIST OF ATTACHMENTS**

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Attachment 1: Income Tax Returns for 2012 (filed separately requesting treatment as  
confidential material)