

Exhibit 4: Operating Costs

Tab 8 (of 10): Income & Capital Taxes

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

2 THI is subject to the PILs regime, and therefore remits payments in lieu of corporate
3 taxes to the Ontario Energy Financial Corporation, to be applied against the stranded debt
4 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

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

13

14 There are no outstanding audits, reassessments or disputes relating to the tax returns filed
15 by THI.

16

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

1

HISTORICAL PILS

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

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

8 Income tax rates also decreased during this time.

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

License Number

Test Year

File Number(s)

Date of Application

Contact:

Name

email

phone

Date of previous Test Year approval

Tillsonburg Hydro Inc.	
ED-2003-0026	
2009	
EB-2008-0246	
15-Aug-2008	
J. Gott	
fgott@tillsonburg.ca	
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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 ¹				
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				

¹ 2008 amount per ending balance on Schedule 10 of 2007 corporate tax return

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P3 Interest Expense

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

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

	Balance <input type="checkbox"/> 31 Dec/07 ¹	Less: Non- Distribution Portion	Utility Balance <input type="checkbox"/> 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					

¹ 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

	Balance <input type="checkbox"/> 31 Dec/07 ¹	Less: Non- Distribution Portion	Utility Balance <input type="checkbox"/> 31 Dec/07	Changes <input type="checkbox"/> (+ / -) <input type="checkbox"/> in 2008	Balance <input type="checkbox"/> 31 Dec/08	Changes <input type="checkbox"/> (+ / -) <input type="checkbox"/> in 2009	Balance <input type="checkbox"/> 31 Dec/09
Capital Gains Reserves ss.40(1)							
Tax Reserves not deducted for book purposes:							
Reserve for doubtful accounts ss. 20(1)(l)							
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							
Bonuses Accrued and Not Paid Within 180 Days of Year-End ss. 78(4)							
Unpaid Amounts to Related Person and Not Paid Within 3 Taxation Years ss. 78(1)							
TOTAL							

¹ per Schedule 13 of 2007 corporate tax return

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P6 Taxable Income

	T2 S1 line #	2006 EDR Approved			2008 Projection	2009 @ existing rates	2009 @ new dist. rates
		Tax Return	Less: Non- Distribution Portion	Utility Only			
Income/(Loss) before PILs/Taxes (Accounting) ¹					420,867	126,211	301,486
Additions:							
Interest and penalties on taxes	103						
Amortization of tangible assets	104				462,589	491,357	491,357
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

	T2 S1 line #	2006 EDR Approved			2008 Projection	2009 @ existing rates	2009 @ new dist. rates
		Tax Return	Less: Non- Distribution Portion	Utility Only			
Income/(Loss) before PILs/Taxes (Accounting) ¹					420,867	126,211	301,486
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

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P6 Taxable Income

	T2 S1 line #	2006 EDR Approved			2008 Projection	2009 @ existing rates	2009 @ new dist. rates
		Tax Return	Less: Non- Distribution Portion	Utility Only			
Income/(Loss) before PILs/Taxes (Accounting) ¹					420,867	126,211	301,486
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						
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

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P6 Taxable Income

	T2 S1 line #	2006 EDR Approved			2008 Projection	2009 @ existing rates	2009 @ new dist. rates
		Tax Return	Less: Non- Distribution Portion	Utility Only			
Income/(Loss) before PILs/Taxes (Accounting) ¹					420,867	126,211	301,486
NET INCOME (LOSS) FOR TAX PURPOSES					434,113	139,288	314,563
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)					434,113	139,288	314,563

¹ 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)
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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
Less: Exemption	<u>12,500,000</u>	<u>15,000,000</u>
Deemed Taxable Capital		
Tax Rate	0.285%	0.285%
OCT payable		
Federal LCT (Large Corporations Tax):		
Rate Base	8,397,948	9,053,092
Less: Exemption	<u>50,000,000</u>	<u>50,000,000</u>
Deemed Taxable Capital		
Tax Rate		
LCT payable		

'Calculated Value' from sheet E3

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P8 Total PILs Expense

	2008 Projection	2009 at Existing Rates	2009 at new 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	"i"
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