

**CALCULATION OF UTILITY INCOME TAXES**

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- Attachment A: Calculation of Utility Income Taxes Test Year (2008)
- Attachment B: Calculation of Capital Cost Allowance Test Year (2008)
- Attachment C: Calculation of Utility Income Taxes Historic Years (2004, 2005, 2006)
- Attachment D: Calculation of Capital Cost Allowance Historic (2004, 2005, 2006) & Bridge Year (2007)

**HYDRO ONE NETWORKS INC.  
 DISTRIBUTION**

Calculation of Utility Income Taxes  
 Test Year (2008)  
 Year Ending December 31  
 (\$ Millions)

Line No.	Particulars	2008
	Determination of Taxable Income	
1	Regulatory Net Income (before tax)	\$ 190.3
2	Book to Tax Adjustments:	
3	Other Post Employment Benefits expense	34.6
4	Other Post Employment Benefits payments	(25.1)
5	Inergi pension payments	0.0
6	Depreciation and amortization	238.9
7	Capital Cost Allowance	(283.0)
8	Removal costs	(3.5)
9	Environmental costs	(7.9)
10	Hedge loss - amortization	0.5
11	Non-deductible meals & entertainment	2.1
12	Research & Development ITC	0.3
13	Ontario education credits	0.8
14	Capitalized overhead costs	(8.8)
15	Capitalized pension costs	(23.4)
16		\$ <u>(74.5)</u>
17	Regulatory Taxable Income	\$ <u>115.8</u>
	Calculation of Utility Income Taxes	
18	Corporate Income Tax Rate	34.50 %
19	Subtotal	\$ 39.9
20	Less: R&D ITC	(0.3)
21	Less: Ontario education credits	(0.8)
22	Regulatory Income Tax	\$ <u><u>38.8</u></u>
	Tax Rates	
23	Federal Tax	20.50 %
24	Federal Surtax	0.00 %
25	Provincial Tax	14.00 %
26	Total Tax Rate	<u>34.50 %</u>

**HYDRO ONE NETWORKS INC.  
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Calculation of Capital Cost allowance (CCA)  
 Test Year  
 2008 Networks Allocation to DX  
 Year Ending December 31  
 (\$ Millions)

2008	CCA Class	Opening UCC	Net Additions	UCC pre-1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC
	1.0	2032.5	(0.0)	2032.5	0.0	2032.5	4%	81.3	1951.2
	2.0	396.4	0.0	396.4	0.0	396.4	6%	23.8	372.6
	3.0	17.4	2.6	19.9	0.1	18.6	5%	0.9	19.0
	6.0	8.6	1.3	9.9	0.6	9.3	10%	0.9	9.0
	8.0	38.4	7.6	46.0	3.8	42.2	20%	8.4	37.6
	10.0	67.6	35.9	103.5	17.9	85.6	30%	25.7	77.8
	12.0	15.9	86.7	102.6	43.3	59.3	100%	59.3	43.3
	13.0	1.8	0.2	2.0	0.1	1.9	10 yrs	0.4	1.6
	17.0	2.3	0.4	2.7	0.2	2.5	8%	0.2	2.5
	42.0	0.4	0.0	0.4	0.1	0.3	12%	0.0	0.4
	45.0	6.7	(0.0)	6.7	0.0	6.7	45%	3.0	3.7
	45.1	3.4	7.4	10.8	3.7	7.1	55%	3.9	7.0
	47.0	725.3	407.8	1133.1	204.0	929.1	8%	74.3	1058.8
Dx CCA		<u>3,316.61</u>	<u>549.90</u>	<u>3,866.50</u>	<u>273.80</u>	<u>3,591.50</u>		<u>282.25</u>	<u>3,584.35</u>
Dx CEC Continuity		<u>39.6</u>	<u>0.0</u>	<u>39.6</u>	<u>0.0</u>	<u>39.6</u>	7%	<u>2.8</u>	<u>36.8</u>
						Less goodwill portion		<u>(2.0)</u>	
						Total CCA relating to regulatory		<u>283.0</u>	

**HYDRO ONE NETWORKS INC.**  
**DISTRIBUTION**

Calculation of Utility Income Taxes  
Historic Years  
2004 - 2006 Networks Tax Return Allocation to Distribution  
Year Ending December 31  
(\$ Millions)

Line No.	Particulars	2004	2005	2006
	Calculation of Federal and ON Income Tax			
1	Net Income Before Tax (NIBT)	\$ 203.3	\$ 152.9	\$ 172.8
2				
3	Required Adjustments to Accounting NIBT			
4	Recurring items included in Revenue Requirement (RR):			
5	Other Post Employment Benefit expense	29.4	33.9	39.0
6	Other Post Employment Benefit payments	(19.1)	(18.8)	(18.0)
7	Depreciation and amortization	220.4	219.3	249.4
8	Capital Cost Allowance	(178.9)	(160.9)	(188.9)
9	Removal costs	(4.0)	(3.0)	(3.4)
10	Environmental costs paid	(9.5)	(7.1)	(11.6)
11	Hedge loss net of amortization	0.9	(1.9)	1.0
12	Non-deductible Meals & entertainment	2.6	1.9	2.1
13	Smart meter costs deferred	0.0	0.0	(1.5)
14	Research & Development	(0.3)	0.6	0.1
15	Capitalized overhead costs deducted	(12.7)	(12.4)	(14.4)
16	Pension cost deductions	(52.7)	(57.9)	(33.4)
17		\$ (23.9)	\$ (6.4)	\$ 20.4
18	Deferral accounts not part of RR:			
19	RSVA	29.6	15.7	17.5
20	RARA and other Revenues deferred	0.0	0.0	19.1
21	LV revenue received, deferred in regulatory a/c's	14.6	(4.7)	(8.1)
22	Regulatory Asset -OEB costs deferred	(4.4)	0.0	(0.7)
23		\$ 39.8	\$ 11.0	\$ 27.8
24	Reversal of accounting adjustments not part of RR:			
25	Building reserve	1.5	0.0	0.0
26	Contingent liability movement	(20.6)	2.3	(20.4)
27	Items in gain reversal part of contingency movement	8.5	0.0	0.0
28	Reversal of accounting gain re regulatory assets	(102.0)	0.0	0.0
29	Mkt ready costs previously deducted for tax	8.2	0.0	0.0
30	Capitalized interest deductible for tax	(5.3)	(15.8)	(16.8)
31		\$ (109.7)	\$ (13.5)	\$ (37.2)
32	Recurring items not part of RR:			
33	Cumulative Eligible Capital	(3.0)	(3.4)	(3.2)
34		(3.0)	(3.4)	(3.2)
35	Immaterial items not in business plan detail:			
36	Computer application/systems software deducted for accounting	4.6	1.3	0.3
37	Taxable capital gain	0.3	0.1	0.4
38	Amortization of prospectus & underwriting costs	0.8	0.9	0.8
39	WSIB	(1.0)	(1.0)	(1.0)
40	Tenant Inducement	(0.3)	0.2	(0.2)
41	Bond Discount Amortization	(0.2)	(0.3)	(0.3)
42	Deferred prospectus & underwriting costs deducted for tax	(2.0)	(1.0)	(1.1)
43	Capital tax provision overaccrual vs. return	(0.4)	0.7	0.0
44	Ontario hiring credits	0.0	0.2	0.8
45	Other	(0.3)	(0.1)	0.1
46		1.5	1.1	(0.2)
47				
48	NET Adjustments to Accounting NIBT	\$ (95.3)	\$ (11.2)	\$ 7.6
49				
50	Taxable Income federal	\$ 108.0	\$ 141.7	\$ 180.4

Line No.	Particulars	2004	2005	2006
51	Taxable Income federal	\$ 108.0	\$ 141.7	\$ 180.4
52	Deduct SRED claim added for Federal not taxable for Ontario	(0.9)	1.9	(0.1)
53	Taxable Income Ontario	<u>\$ 107.1</u>	<u>143.6</u>	<u>\$ 180.3</u>
54				
55				
56	Corporate Income Tax Rate	36.1 %	36.1 %	36.1 %
57				
58	Subtotal	\$ 38.8	\$ 51.1	\$ 65.2
59	Less: Tax credits	(1.2)	(0.1)	(0.9)
60	Income Tax	<u>\$ 37.6</u>	<u>\$ 51.0</u>	<u>\$ 64.3</u>
61				
62				
63	Summary of Utility Income Taxes			
64				
65	Income Taxes (Line 55)	\$ 37.6	\$ 51.0	\$ 64.3
66	Large Corporation Tax	6.2	5.5	0.0
67	Total Taxes	<u>\$ 43.8</u>	<u>\$ 56.5</u>	<u>\$ 64.3</u>
68				
69	Tax Rates			
70				
71	Federal Tax	21.0 %	21.0 %	21.0 %
72	Federal Surtax	1.1 %	1.1 %	1.1 %
73	Provincial Tax	<u>14.0 %</u>	<u>14.0 %</u>	<u>14.0 %</u>
74	Total Tax Rate	<u>36.1 %</u>	<u>36.1 %</u>	<u>36.1 %</u>

See Exhibit C1, Tab 7, Schedule 1 for additional information

**HYDRO ONE NETWORKS INC.**

**DISTRIBUTION**

Calculation of Capital Cost allowance (CCA)

Historic Years

2004 - 2005 Networks Tax Return Allocation to Distribution

Year Ending December 31

(\$ Millions)

**2004**

<u>CCA Class</u>	<u>Opening UCC</u>	<u>Net Additions</u>	<u>UCC pre-1/2 yr</u>	<u>50% net additions</u>	<u>UCC for CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>Closing UCC</u>
1	2,182.9	211.9	2,394.9	106.0	2,288.9	0.0	98.1	2,296.7
2	507.8		507.8	-	507.8	0.1	30.5	477.3
3	15.6	0.8	16.3	0.4	16.0	0.1	0.8	15.5
6	8.8	1.3	10.1	0.6	9.4	0.1	0.9	9.1
8	20.4	2.9	23.3	1.5	21.9	0.2	4.4	18.9
10	58.2	20.9	79.2	10.5	68.7	0.3	20.6	58.6
12	15.9	8.8	24.7	1.7	23.0	1.0	23.0	1.7
13	2.0	-	2.0	-	2.0	5.0	0.3	1.6
17	2.4	0.1	2.5	0.1	2.5	0.1	0.2	2.3
42	0.4	0.0	0.4	0.0	0.4	0.1	0.1	0.4
<b>Dx CCA</b>	<b>2,814.5</b>	<b>246.7</b>	<b>3,061.2</b>	<b>120.7</b>	<b>2,940.5</b>		<b>178.9</b>	<b>2,862.4</b>
<b>Dx CEC Continuity</b>	<b>42.3</b>	<b>0.0</b>	<b>42.4</b>	<b>-</b>	<b>42.4</b>	<b>0.1</b>	<b>3.0</b>	<b>39.4</b>

**2005**

<u>CCA Class</u>	<u>Opening UCC</u>	<u>Net Additions</u>	<u>UCC pre-1/2 yr</u>	<u>50% net additions</u>	<u>UCC for CCA</u>	<u>CCA Rate</u>	<u>CCA</u>	<u>Closing UCC</u>
1	2296.7	0.2	2296.9	17.4	2279.5	4%	91.2	2205.8
2	477.3	0.0	477.3	0.0	477.3	6%	28.6	448.7
3	15.5	1.6	17.1	0.1	17.0	5%	0.9	16.3
6	9.1	0.9	10.0	0.4	9.6	10%	1.0	9.1
8	18.9	15.1	34.0	7.7	26.3	20%	5.3	28.8
10	58.6	18.2	76.8	9.1	67.7	30%	20.3	56.5
12	1.7	5.1	6.8	2.5	4.3	100%	4.3	2.5
13	1.6	1.3	2.9	0.0	2.9	6 yrs	0.5	2.4
17	2.3	0.1	2.4	0.1	2.3	8%	0.2	2.3
42	0.4	0.0	0.4	0.0	0.4	12%	0.0	0.3
45	0.0	10.2	10.2	5.1	5.1	45%	2.3	7.9
47	0.0	159.7	159.7	79.8	79.9	8%	6.4	153.3
<b>Dx CCA</b>	<b>2882.4</b>	<b>212.4</b>	<b>3094.8</b>	<b>122.2</b>	<b>2972.6</b>		<b>160.9</b>	<b>2933.8</b>
<b>Dx CEC Continuity</b>	<b>39.4</b>	<b>9.8</b>	<b>49.2</b>	<b>0.0</b>	<b>49.2</b>	<b>0.1</b>	<b>3.4</b>	<b>45.7</b>

**HYDRO ONE NETWORKS INC.**  
**DISTRIBUTION**

Calculation of Capital Cost allowance (CCA)  
Historic and Bridge Years  
2006 - 2007 Networks Allocation to Distribution  
Year Ending December 31  
(\$ Millions)

2006		Net							
CCA Class	Opening UCC	Additions	UCC pre-1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC	
1	2,205.76	(0.36)	2,205.40	-	2,205.40	4%	88.22	2,117.18	
2	448.71	-	448.71	-	448.71	6%	26.92	421.79	
3	16.30	0.20	16.50	0.10	16.50	5%	0.83	15.68	
6	9.08	0.12	9.20	0.10	9.10	10%	0.91	8.29	
8	28.77	19.03	47.80	9.50	38.30	20%	7.66	40.14	
10	56.46	25.74	82.20	12.90	69.30	30%	20.79	61.41	
12	2.50	25.70	28.20	12.80	15.40	100%	15.40	12.80	
13	2.45	(0.25)	2.20	-	2.20	10 yrs	0.40	1.80	
17	2.26	0.14	2.40	0.10	2.30	8%	0.18	2.22	
42	0.34	(0.04)	0.30	(0.11)	0.41	12%	0.05	0.25	
45	7.91	7.90	15.80	3.90	11.90	45%	5.26	10.55	
47	153.31	250.49	403.80	125.30	278.50	8%	22.28	381.52	
<b>Dx CCA</b>	<b>2,933.84</b>	<b>328.67</b>	<b>3,262.51</b>	<b>164.59</b>	<b>3,098.02</b>		<b>188.89</b>	<b>3,073.62</b>	
<b>Dx CEC Continuity</b>	<b>45.70</b>	<b>0.10</b>	<b>45.80</b>	<b>-</b>	<b>45.80</b>	<b>7%</b>	<b>3.21</b>	<b>42.59</b>	
							Less goodwill portion	(2.40)	
							Total CCA relating to regulatory	<b>189.70</b>	
2007		Net							
CCA Class	Opening UCC	Additions	UCC pre-1/2 yr	50% net additions	UCC for CCA	CCA Rate	CCA	Closing UCC	
1	2,117.16	-	2,117.20	-	2,117.20	4%	84.69	2,032.51	
2	421.79	-	421.70	-	421.70	6%	25.30	396.40	
3	15.74	2.46	18.20	1.20	17.00	5%	0.85	17.35	
6	8.29	1.21	9.50	0.60	8.90	10%	0.89	8.61	
8	40.10	7.00	47.10	3.40	43.70	20%	8.74	38.36	
10	61.41	28.99	90.40	14.50	75.90	30%	22.77	67.63	
12	12.80	31.90	44.70	15.90	28.80	100%	28.80	15.90	
13	1.80	0.40	2.20	0.20	2.00	10 yrs	0.40	1.80	
17	2.22	0.28	2.50	0.10	2.40	8%	0.19	2.31	
42	0.30	0.10	0.40	0.10	0.30	12%	0.04	0.36	
45	10.50	1.20	11.70	0.60	11.10	45%	5.00	6.71	
45.1	-	4.70	4.70	2.30	2.40	55%	1.32	3.38	
47	381.50	389.80	771.30	194.90	576.40	8%	46.01	725.29	
<b>Dx CCA</b>	<b>3,073.61</b>	<b>468.04</b>	<b>3,541.60</b>	<b>233.80</b>	<b>3,307.80</b>		<b>225.00</b>	<b>3,316.61</b>	
<b>Dx CEC Continuity</b>	<b>42.59</b>	<b>0.01</b>	<b>42.60</b>	<b>-</b>	<b>42.60</b>	<b>7%</b>	<b>2.98</b>	<b>39.62</b>	
							Less goodwill portion	(2.2)	
							Total CCA relating to regulatory	<b>225.8</b>	