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VIA RESS, COURIER AND E:MAIL

August 15, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Ontario Power Authority – 2014 Revenue Requirement Submission
Ontario Energy Board File No. EB-2013-0326**

The Ontario Power Authority ("OPA") is writing to follow up on its letter sent to the Board on August 8, 2014, regarding the 2014 Revenue Requirement Submission and Procedural Order No.4 issued by the Board today.

The OPA and Independent Electricity System Operator ("IESO") received direction from the Ministry of Energy on July 25, 2014, that the merger of the OPA and the IESO is to take effect as of January 1, 2015. The OPA and the IESO have begun planning for the merger-related activities that will occur as a result of the government's direction and, as with all mergers, there will be one-time transition costs associated with the restructuring. We have come to the conclusion that sufficient allowance for the costs of such activities have not been made in either Revenue Requirement Submission.

The evidence filed in support of the OPA's 2014 Revenue Requirement Submission indicates that, as at December 31, 2013, the credit balance in the OPA's Forecast Variance Deferral Account ("FVDA") was \$33.8 million (Exhibit D-3-2, page 1). In its Submission for Review (paragraph 6), the OPA proposed to refund to ratepayers the balance of the FVDA in excess of \$5 million.

The OPA proposes to still return the majority of the balance in its FVDA account to ratepayers; however, it believes the pragmatic approach would be to increase the amount to be retained in the FVDA at this time in order to make allowance for the costs that will be incurred to carry out the merger. It would also avoid a subsequent rate increase to cover merger-related costs.

This approach may be compared to that of LDC consolidation in which the new merged entity is able to retain any achieved savings for a sufficient amount of time to provide a reasonable opportunity to at least offset the costs of the transaction.

Given that the costs of carrying out the merger cannot be known with certainty or estimated in detail at this time, the OPA and IESO would expect to fulfill the requirement for transparency regarding detailed merger-related costs in a future RRS of the new organization, once the merger is complete.

The OPA understands that the date of August 20th is set aside for the Board to hear proposed next steps in the OPA's 2014 Revenue Requirement proceeding. The OPA will be available to discuss the proposed approach with the Board and other parties at this time.

The OPA does not expect that the settlement reached to date on other issues would be disturbed. In fact, the OPA would be prepared to adjourn settlement discussions pending resolution of this issue.

Yours truly,

A handwritten signature in dark ink, appearing to read 'Michael Lyle', with a stylized flourish at the end.

Michael Lyle
General Counsel and Vice President
Legal, Aboriginal & Regulatory Affairs

Att. (two paper copies by courier)

cc: Mr. Fred Cass, Aird & Berlis (by e:mail and courier)
EB-2013-0326 Interested Parties (by e:mail)