2013 FORECAST VARIANCE DEFERRAL ACCOUNT

The 2013 Forecast Variance Deferral Account ("FVDA") was established to record 2013 revenue variances and cost variances not otherwise incorporated into the revenue requirement submission of the prior year. At the end of December 2013, the OPA has a FVDA balance of $33.8 million, as illustrated in Table 1, below.

Table 1
OPA 2013 FVDA
($'000s)

2013 revenue variance	$ 17,366
2013 expense variance	898
FVDA from prior years	15,524
Total 2013 FVDA	$ 33,788

<u>2013 Revenue Variance</u>

In its EB-2010-0279 decision, the Board approved a usage fee of $0.551/MWh for the OPA for fiscal year 2011. This fee has remained in place on an interim basis for the fiscal years 2012 and 2013. As a result of the interim fee being higher than the 2013 budget usage fee, and a higher usage volume than forecast, for 2013 there is a $17.4 million revenue surplus.

<u>2013 Expense Variance</u>

The 2013 expenses of $60.2 million are lower than the 2013 budgeted expenses of $61.1 million, resulting in an expense variance of $0.9 million.

<u>FVDA from Prior Years</u>

The OPA cumulative surplus/(deficit) from 2005 to 2012 is a surplus of $15.5 million.

<u>FVDA Balance as of 2013 and Proposed Return of 2013 Cumulative Surplus to Ratepayers</u>

In total, as of the end of 2013, the FVDA had a balance of $33.8 million. The OPA proposes to return the majority of the surplus in the FVDA to ratepayers and, in doing so, proposes to mirror the Independent Electricity System Operator's process in returning a surplus to ratepayers as stated in the Board's decision EB-2004-0477 (IESO 2005 fiscal fees submission). The OPA notes that in its 2014 Fees Submission for Review (EB-2013-0381), the IESO is again requesting approval to refund accumulated surplus in this manner, specifically the IESO states that it will *"rebate the balance of the accumulated surplus, based on the IESO's audited 2013 financial statements as approved by the IESO Board, to market participants based on each market participant's proportionate quantity of energy withdrawn from the IESO controlled grid (including scheduled exports) for 2013."*

The OPA will rely on the IESO to rebate ratepayers and therefore the method of payment to ratepayers would be in a manner that the IESO has identified above, and at the time of IESO's next billing cycle after the Board's determination on this matter for the OPA.

The OPA's position is that the ultimate beneficiaries of the cumulative surplus should be ratepayers, as it is ratepayers that contributed these funds initially.

As the scope and complexity of the OPA's mandate continues to expand, the OPA recognizes the potential for additional unplanned work activities that may be material in scope and are beyond the control of management. Specifically, the OPA and Independent Electricity System Operator ("IESO") received direction from the Ministry of Energy on July 25, 2014, that a 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. The OPA and IESO have come to the conclusion that sufficient allowance for the costs of such activities is required in this Revenue Requirement Submission. The OPA proposes to return the majority of the balance in its FVDA account to ratepayers; however, it believes that the pragmatic approach is to retain $15 million in the FVDA to cover costs incurred in carrying out the merger, as well as potential volatility in spending driven by changes in the volume of activities and the external environment. The OPA seeks approval to retain this portion of the accumulated operating surplus in an approved regulatory deferral account ("2014 FVDA").

The retained funds will be used to address unexpected operating costs such as material additional work associated with new directives or letters of request from the Minister of Energy beyond what has been planned for in the development of the OPA's 2014 budget, as well as the following types of costs as part of the upcoming merger between the IESO and the OPA:

- **Integration Office expenses**: These may include staffing costs for the integration team leads and dedicated integration office staff, as well as third party costs for a transition advisor, merger communications or any other business analysis that is required.
- **Human Resource expenses**: These may include the rollout of new policies and procedures to staff, severance costs, outplacement services, special training for redeployed staff, and any third party costs for job evaluation, labour relations or other support required.
- **Communications expenses**: These may include layout, publishing and technical costs of integrating public facing materials such as the website and social media.
- **Core Efficiency expenses**: These may include real estate costs, staff relocation costs, and other third party costs for security checks, signage changes or other support required.
- **IT expenses**: These may include vendor costs associated with phone consolidation, developing a new website, and hardware costs of consolidating networks.
- **Finance expenses**: These may include third party/vendor costs associated with new finance systems, legal or advisory costs associated with taxation, and moving to a common payroll system.
- **Legal expenses**: These may include third party costs such as advice for contract changes or terminations.

Retaining $15 million surplus in an approved regulatory deferral account will avoid a rate increase in the next revenue requirement proceeding to cover the costs described above, and would limit the potential for year-over-year volatility in the OPA's fee.

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. Any amount that is not required will be returned to ratepayers in a subsequent proceeding. The OPA will revisit the need, and quantity of a retention in future revenue requirement submissions.