K1.1

EB-2013-0326

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 25.20 and 25.21 of the *Electricity Act, 1998*;

AND IN THE MATTER OF a Submission by the Ontario Power Authority to the Ontario Energy Board for the review of its proposed expenditure and revenue requirement for the year 2014.

SCHOOL ENERGY COALITION CROSS-EXAMINATION COMPENDIUM

Ontario Energy Board
FILE No. EB-2013-0326
EXHIBIT No. K1.1
DATE Sept 18, 2014
08/99

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EB-2013-0326

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 25.20 and 25.21 of the *Electricity Act, 1998*;

AND IN THE MATTER OF a Submission by the Ontario Power Authority to the Ontario Energy Board for the review of its proposed expenditure and revenue requirement for the year 2014.

REVISED SUBMISSION FOR REVIEW

1. Pursuant to section 25.22 of the *Electricity Act, 1998* (the "Act"), the Ontario Power Authority ("OPA") has submitted its Business Plan to the Minister of Energy (the "Minister"). In the 2014-2016 Business Plan the OPA set its operating expense budget for 2014 at $60.3 million. The OPA's requested revenue requirement of $60.3 million is based on its operating budget. The 2014-2016 Business Plan for the fiscal year 2014 has been approved by the Minister pursuant to section 25.22 (3) of the Act.

2. The OPA hereby submits to the Ontario Energy Board ("Board") its proposed 2014 expenditure and revenue requirement for review and approval pursuant to subsection 25.21(1) of the Act.

3. The OPA proposes to charge a usage fee of $0.439/MWh, an increase of $0.001 from the 2014 interim approved fee of $0.438/MWh, and a reduction of $0.112/MWh from its 2013 approved usage fee of $0.551/MWh.

4. The OPA proposes to continue to charge registration fees of up to $10,000 per proposal for electricity supply and capacity procurements, including conservation and load management procurements. The OPA also proposes to continue to charge non-refundable application fees for the Feed-in-Tariff ("FIT") program of $0.50/kW of proposed Contract Capacity, having a minimum of $500 and to a maximum of $5,000.

5. The OPA also proposes to charge a Large Renewable Procurement ("LRP") qualification submission fee from request for qualification ("RFQ") applicants which is the sum of:

    i. The greater of: (a) $2,000 for the first (or only, if only one renewable fuel is proposed) proposed renewable fuel submitted; or (b) $1.00 per kW of estimated contract capacity for all large renewable project(s) to a maximum amount of $30,000; plus

    ii. $2,000 for each additional renewable fuel proposed; plus

    iii. GST on the total of (a) and (b) above.

6. Pursuant to subsection 25.21(2) of the Act, the OPA is seeking the following approvals from the Board:

    - approval of the usage fee and the registration fees described above, including the LRP RFQ submission fee, or such further or other fees as the Board may deem appropriate;
    - interim approval of the LRP RFQ submission fee described above;
    - if necessary interim orders as the Board may deem appropriate;
    - approval of a revenue requirement comprised of the proposed 2014 operating expense budget of $60.3 million;
    - approval of its proposal to refund amounts in the Forecast Variance Deferral Account in excess of a balance of $15.0 million;
    - approval of the establishment of the 2014 Forecast Variance Deferral Account ("FVDA"), of the 2014 Government Procurement Costs Deferral Account ("GPCDA"), and of the 2014 Registration Fees Deferral Account ("RFDA"), and approval or continuation of such further or other deferral accounts as the Board may deem appropriate; and
    - all necessary orders and directions, pursuant to the *Ontario Energy Board Act, 1998* and the Board's Rules of Practice and Procedure, as may be necessary in relation to this submission, and execution of the approvals requested in the Business Plan.

7. The OPA proposes the following title for this proceeding: Ontario Power Authority Fiscal 2014 Expenditure and Revenue Requirement Submission for Review ("2014 Revenue Requirement Submission" or "Submission").

8. The OPA proposes that the Board review of the Submission proceed by way of a written hearing.

9. The OPA may amend its pre-filed evidence from time to time, prior to and during the course of the Board proceeding. Furthermore, the OPA may seek to have additional meetings with Board Staff and intervenors in order to identify and address any further issues arising from this submission, with a view to an early settlement and disposition of this proceeding.

10. The OPA requests that a copy of all documents filed with the Board by each party to this proceeding, be served on the OPA and the OPA's counsel in this proceeding as follows:

a) The Ontario Power Authority — Ms. Miriam Heinz
Regulatory Coordinator

Courier Address: 120 Adelaide Street West, Suite 1600
Toronto, ON, M5H 1T1

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b) Aird & Berlis LLP — Mr. Fred D. Cass
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181 Bay Street
Toronto, ON, M5J 2T9

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DATED at Toronto, Ontario, this 29th day of August, 2014.

ONTARIO POWER AUTHORITY

Fred D. Cass

by its counsel in this proceeding
Fred D. Cass

2014 REVENUE REQUIREMENT AND USAGE FEE

1.0 REVENUE REQUIREMENT

The OPA is seeking approval of its fiscal year 2014 revenue requirement as required by sections 25.20 and 25.21 of the *Electricity Act, 1998*. Specifically, the OPA is requesting approval of its 2014 operating costs, and to return to ratepayers approximately $18.8 million of the balance of its Forecast Variance Deferral Account ("FVDA") through a one-time rebate. The details of this request are described below.

The 2014 OPA operations revenue requirement is $60.3 million, the same as its 2014 operating expense budget. The 2014 revenue requirement is forecast to be $19.5 million lower than the total 2011 revenue requirement of $79.9 million. In 2014, the OPA proposes to not include the registration fees and other income in the usage fee calculation due to the uncertainty associated with registration income experienced in the past few years, as evidenced by the reimbursement of Feed-in Tariff ("FIT") registration fees in 2012 and 2013.

The proposed revenue requirement of $60.3 million is shown in Table 1 below.

Table 1
OPA Revenue Requirement
($ 000)

	2011	2014
Operating Expense Budget	$64.1	$60.3
Registration Fee Income	($1.4)	N/A
Interest Income	($0.6)	N/A
Revenue Requirement	**$62.1**	**$60.3**
FVDA	$2.1	N/A
RCSDA (Retailer Contract Settlement)	$15.6	N/A
Net Revenue Requirement	**$79.9**	**$60.3**

As of the end of 2013, the FVDA had a balance of $33.8 million. This is largely the result of a higher than budget interim usage fee accumulated during the 2011 to 2013 fiscal years. In 2014, the OPA seeks to return $18.8 million of its cumulative FVDA surplus to ratepayers rather than using it to off-set its operating expenses. This approach is consistent with the methodology used by the Independent Electricity System Operator ("IESO") and approved by the Ontario Energy Board ("Board"). The most recent Board approval for this was given in the IESO's 2011 Fees Submission for Review (EB-2010-0046).

The OPA recommends, and seeks Board approval for the retention of a portion of this accumulated surplus, not to exceed $15 million, in an approved regulatory deferral account (2014 FVDA). The evidence at Exhibit D-3-2 provides further detail on the cumulative surplus and how the disposition of amounts in excess of $15 million would be returned to ratepayers.

On December 16, 2013 the OPA wrote to the Board requesting approval for the continuation of an interim fee for 2014, given the delay to the revenue requirement submission. Specifically, an interim fee of $0.438/MWh was requested based on the OPA's expected revenue requirement for 2014 and the IESO's 2014 net energy forecast of 138 TWh. The 2014 interim fee represents a 20.5 percent decrease from the 2010-2013 usage fee of $0.551/MWh, and would result in annual savings of $1.09 for the average residential ratepayer in 2014. In its Decision and Order of December 19, 2013, the Board approved the requested fee of $0.438/MWh on an interim basis, effective January 1, 2014.

In February 2014, the OPA obtained an updated demand forecast from the IESO of 137.4 TWh from 138 TWh, resulting in a slight increase in the OPA's requested usage fee to $0.439/MWh for 2014, a difference of $0.001/MWh. This proposed usage fee represents a savings of $0.112/MWh or a 20.3 percent decrease from the OPA's 2010-2013 Board-approved fee. The usage fee is derived by dividing the net revenue requirement of $60.3 million by the IESO's net Ontario electricity forecast of 137.4 TWh (the IESO's

Ontario forecast of 140.5 TWh less line losses of 3.1 TWh). Assuming average consumption of approximately 800 kWh per month, the total monthly bill impact of the OPA's fee on a residential consumer is approximately $0.35.

Exhibit D-2-1 provides a detailed explanation of the registration fees, the OPA's operating expenses and variance analysis on an organizational basis.

Exhibit D-2-2 provides year-over-year variance analyses of operating costs by goal.

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

2013 Revenue Variance

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.

2013 Expense Variance

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.

FVDA from Prior Years

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

FVDA Balance as of 2013 and Proposed Return of 2013 Cumulative Surplus to Ratepayers

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.

Ministry of Energy

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Ontario

MC-2014-229

January 29, 2014

Mr. Colin Andersen
Chief Executive Officer
Ontario Power Authority
1600–120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Andersen:

Re: Revised 2014-2016 OPA Business Plan

Thank you for submitting, for my approval, the Ontario Power Authority's (OPA) revised 2014-2016 Business Plan, which we received on January 24, 2014. It is my pleasure to inform you that I am satisfied with the overall direction, strategic priorities and the revised budget proposed by the OPA for its 2014-2016 fiscal years.

As requested in my letter of October 22, 2013, I am pleased that the OPA is making efforts to find efficiencies and savings through a $2.5 million reduction in the operating budget and an overall reduction of the OPA's total number of FTEs to 260. It is my expectation that the OPA will continue to deliver a high level of service to its customers while implementing these savings.

In addition, I am encouraged that the OPA intends to rebate approximately $25 million of its cumulative surplus to ratepayers and that a lower interim usage fee in the amount of $0.438/KWh has already been approved by the Ontario Energy Board.

I appreciate that the OPA is working to establish and monitor performance metrics that link to strategic objectives, goals and initiatives as outlined in your letter of January 23, 2014, and I look forward to receiving additional information in early 2014.

I am now able to approve the OPA's 2014-16 Business Plan for the purposes of the *Electricity Act, 1998.*

Sincerely,

Bob Chiarelli
Minister

c: James D. Hinds, Chair, Ontario Power Authority
OPA Board of Directors
Andrew Teliszewsky, Chief of Staff, Ministry of Energy
Serge Imbrogno, Deputy Minister, Ministry of Energy

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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,

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)

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VIA RESS, COURIER AND E:MAIL

August 19, 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 provide some additional information to parties in advance of the hearing on Wednesday, August 20, 2014 when the Board will hear submissions on the proposed next steps in this proceeding. The OPA believes it will be helpful for it to outline the type of costs that it may incur when carrying out the merger between the IESO and the OPA.

The OPA still proposes to refund the majority of the balance in its FVDA account to ratepayers, however as described in its August 15, 2014 letter, the OPA believes that the pragmatic approach would be to increase the amount to be retained in its FVDA. This will be used to cover costs incurred in carrying out the merger and will avoid a rate increase in the next revenue requirement proceeding to cover merger-related costs. Any amount that is not required will be returned to ratepayers in a subsequent proceeding.

The OPA expects that this amount would cover the following types of costs, which it may incur as part of the upcoming merger:

- **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.

The OPA hopes that this information is helpful to parties in making their submissions on next steps in this proceeding.

Yours truly,

Nancy Marconi

Nancy Marconi
Manager, Regulatory Proceedings

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)