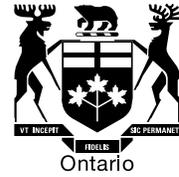


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VIA E-MAIL AND WEB POSTING

February 17, 2015

**To: All Participants in EB-2012-0340
All Participants in EB-2013-0321
All Other Interested Parties**

**Re: Incentive Rate-setting for Ontario Power Generation's Prescribed
Generation Assets**

This letter addresses the Board's expectations regarding the next steps in the development of an incentive rate-setting (IR) mechanism.

The Board continues to believe that it is appropriate to incorporate IR into the rate-setting mechanism for OPG, as reflected in the Board's March 28, 2013 *Report of the Board: Incentive Rate-making for Ontario Power Generation's Prescribed Generation Assets*¹ (the Board Report) and the Board's recent decision on OPG's 2014/15 cost of service application². A long-term, properly designed IR mechanism has the potential to lead to operational efficiencies and innovation, and thus lower electricity costs. The Board also continues to be of the view that the differences between hydroelectric and nuclear technologies justify the separate approaches discussed in the Board Report including:

- 1) An IR mechanism for OPG's hydroelectric assets.
- 2) A longer term approach to payment amount-setting for the nuclear assets that focuses on the parameters for a multi-year cost of service application while incorporating elements of IR.

However, the Board will not be establishing working groups as initially intended to lead consultations on the development of the IR frameworks.

In the two years since the issuance of the Board Report, the Board has implemented the *Renewed Regulatory Framework for Electricity* (RRFE), including the adjudication of the first custom IR applications under this new framework.

¹ EB-2012-0340, Board Report, pages 8, 9

² EB-2013-0321, Decision with Reasons, dated November 20, 2014, page 129

In addition, the Board understands that OPG is in the process of consulting with stakeholders (including intervenors and Board staff) on OPG's proposals for its upcoming application. At OPG's recent information sessions³, OPG informed stakeholders that it has targeted mid 2015 for the filing of a comprehensive payment amount application to take effect on January 1, 2016. The filing would include OPG's proposed mechanism for hydroelectric IR, a five year application that implements the proposed IR mechanism, and a five year application for the nuclear assets.

Given the progress already made by OPG, the Board sees no need to establish its own working groups and looks forward to receiving OPG's application.

The Board expects OPG to develop an IR framework for its hydroelectric assets, and a custom IR framework for its nuclear assets based on the principles outlined in the RRFE. The Board expects that the framework for hydroelectric will take into consideration the productivity study, *Empirical Analysis of Total Factor Productivity Trends in North American Hydroelectric Generation Industry*, recently filed by OPG in accordance with the Board's direction in its recent 2014/15 cost of service payment amounts decision.

In the absence of an IR framework for both hydroelectric and nuclear, the Board expects to consider a threshold question at the commencement of the proceeding to determine whether the application should proceed.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

³ To date, information sessions were held on December 17, 2014 and January 22, 2015