

**Board Staff Interrogatory #150**

**Ref:** Report of the Board (EB-2006-0064)

**Issue Number: 12.2**

**Issue:** What processes should be adopted to establish the framework for incentive regulation, or other form of alternative rate regulation, that would be applied in a future test period?

**Interrogatory**

The Board Report, *A Regulatory Methodology for Setting Payment Amounts for the Prescribed Generation Assets of Ontario Power Generation Inc.*, EB-2006-0064, November 30, 2006, stated that, "The Board will implement an incentive regulation formula when it is satisfied that the base payment provides a robust starting point for that formula."

- a) Please provide OPG's views, with explanation, as to whether the payment amounts arising out of the Board's decision of this application would serve as an appropriate and robust starting point for setting or adjusting payment amounts based on an incentive regulation formula.
- b) If OPG does not consider that the payment amounts arising out of the Board's decision of this application would serve as an appropriate and robust starting point for setting subsequent payment amounts based on an incentive regulation formula, please explain what conditions or factors need to be considered to establish appropriate rebased rates going into an incentive regulation formula-based approach.
- c) If OPG does not believe that the payment amounts arising out of the Board's decision of this application would serve as an appropriate and robust starting point for setting subsequent payment amounts based on an incentive regulation formula, please provide OPG's views that its next payment amount application, scheduled for payment amounts for 2013, should be based on 2013 payment amounts calculated based on a Cost of Service approach, along with a proposal for an incentive mechanism for adjusting payment amounts in 2014 and subsequent years.
- d) Please identify the process that OPG believes the Board should follow to examine alternative methodologies for setting OPG's payment amounts following the completion of the subject proceeding. Please provide details of each major step, including timing, in the process identified.

**Response**

a) and b)

The payment amounts arising out of the Board's decision on this Application will not serve as an appropriate starting point for an incentive regulation mechanism. The appropriate starting point for incentive regulation cannot be determined until the form of incentive regulation is known. For example, for certain forms of incentive regulation, a change in the design of the payment amounts may be appropriate. In addition, this Application only covers the 2011 - 2012 period and future changes in OPG's business environment will need to be considered when establishing the starting point for incentive regulation.

In OPG's view, the most logical and efficient sequencing is to complete the current cost of service application to set the payment amounts for 2011 - 2012 before moving to consider what future incentive mechanism should be used. Once the form of the incentive mechanism is known, then OPG will be in a position to file the necessary information to support a review by the OEB to establish a robust set of payment amounts as the starting point for the incentive mechanism.

c) Assuming that a determination on the form of incentive regulation is made during 2011, then OPG's next payment amounts application should be used to set the base rates for incentive regulation. OPG believes that a cost of service approach should be used to set those base rates. Without knowing the specifics of the form of incentive regulation that will be approved by the OEB, OPG is not in a position to advise whether or not it would make more sense to use a one-year test period (i.e., 2013) as the base and then use the incentive regulation mechanism to set the payments amounts in 2014 and beyond or whether the base rates should be set using a two-year test period (i.e., 2013 - 2014) with the mechanism being used to set the payment amounts in 2015 and beyond. The term of the base rate period should be an issue in the future incentive regulation proceeding.

d) OPG believes that following its decision on OPG's payment amounts application, the OEB should convene a new proceeding to determine the future method of regulating OPG. This proceeding should cover the appropriate structure for this future method and how best to achieve that structure.

OPG proposes the following specific steps and timing in relation to that proceeding:

- Following the completion of the current proceeding and the issuance of the OEB's final order in this application, OPG would file an application in 2011 setting out its proposal for incentive regulation, including as needed the provision of expert evidence.

- 1 • Intervenor, and potentially Board staff, would be provided an opportunity to file  
2 evidence seeking changes to OPG's proposed methodology or proposing their own  
3 methodologies.  
4
- 5 • An interrogatory process would be used by both OPG and intervenors/Board staff to  
6 gather information about the various methodologies being proposed. The  
7 interrogatory process would also be used by intervenors/Board staff to get information  
8 that might be required for their proposals.  
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- 10 • A technical conference would be held to ensure that the parties understood the  
11 specifics of the proposals that were being put forward by the various parties.  
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- 13 • A short, focused hearing would be held to test the incentive regulation proposals that  
14 had been put forward.  
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- 16 • This would be followed by an argument phase leading to a decision by the OEB by  
17 the end of 2011. OPG would incorporate the results of this decision into an  
18 application that it would make for the post-2012 period (assuming that OPG was  
19 seeking new payment amounts beginning in 2013).

**CCC Interrogatory #039**

**Ref:**

**Issue Number: 12.2**

**Issue:** What processes should be adopted to establish the framework for incentive regulation, or other form of alternative rate regulation, that would be applied in a future test period?

**Interrogatory**

The Board is seeking input as to what processes should be adopted to establish the framework for incentive regulation, or other form of alternative regulation, that would be applied in a future test period. What are OPG's views on this issue?

**Response**

See response to the interrogatory in Ex. L-1-150.

**SEC Interrogatory #043**

**Ref:** Report of the Board (EB-2006-0064)

**Issue Number: 12.2**

**Issue:** What processes should be adopted to establish the framework for incentive regulation, or other form of alternative rate regulation, that would be applied in a future test period?

**Interrogatory**

- a) Please provide any studies that OPG has undertaken in respect to incentive regulation referenced above.
- b) Please provide any reports provided to OPG executives in respect to possible incentive regulation.
- c) In OPG's view are there any legislative (including regulations) impediments to an incentive regulation scheme for setting payments.

**Response**

a) and b)

OPG is in a very preliminary stage of its analysis and there are no results available for review. Were there results to review at this time, OPG would decline to provide the requested material. Such studies and reports would be protected by litigation privilege. In addition, the requested information goes beyond the scope of the issues list approved by the OEB.

c) No.