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October 1, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2012-0340 – Written Submissions of the London Property Management Association

Introduction

On July 31, 2012, the Ontario Energy Board ("Board") initiated a consultation regarding Incentive Rate making Options for Ontario Power Generation's Prescribed Generation Assets. The Board had commissioned a report prepared by Power Advisory LLC titled *"Incentive Rate Making Options for Ontario Power Generation's Prescribed Generation Assets"* ("PA Report"). This report was in response to the Board's Decision with Reasons in proceeding EB-2010-0008.

On August 28, 2012 Board staff hosted a meeting for stakeholders and interested parties at which presentations from a number of parties, including Power Advisory, London Economics International LLC ("London Economics") and Ontario Power Generation ("OPG"). On behalf of the London Property Management Association ("LPMA"), I attended this meeting via telephone and LiveMeeting.

These are the written submission of LPMA related to the options and next steps in the process of determining an Incentive Rate Mechanism ("IRM") regime for setting payments for OPG's prescribed assets .

General Comments

LPMA is not making any submissions at this time as to the form or forms of IRM that should be used if it is determined that either the hydro or nuclear assets should be under some form of incentive regulation. LPMA believes that once, and if, a determination is made that IRM can and should be applied to one or both forms of generation, then there should be a process or consultative established to determine the best form of IRM that should be applied.

LPMA does agree with OPG, Power Advisory and London Economics for separate IRM plans for nuclear and hydro. AS OPG noted in their presentation, this is workable for them since they have separate operational business and the hydro and nuclear operating environments are different. If the Board determines that both types of generation should be subject to IRM, LPMA submits that there is no reason that the IRM model used should necessarily the same for hydro as for nuclear.

LPMA also notes that IRM works best in a relatively stable environment. LPMA also believes that IRM works better in an environment where there is diversity. This diversity can relate to the cost drivers, such as OM&A expenses and costs related to capital (debt, equity, depreciation, taxes). Diversity can also relate to the type and age of assets, as well as the number of assets that are included in rate base. This diversity allows a regulated entity to deal with the ups and downs associated with upgrading or replacing individual assets or types of assets on a long-term balanced basis. It also allows for balanced repair and maintenance costs on a long-term basis.

In general, LPMA agrees with OPG's Path Forward recommendations as presented at the August 28, 2012 stakeholder meeting.

Hydro Assets

With respect to the hydro assets, OPG has indicated that it expects to file a rebasing application in 2013 for a typical two year test period, being 2014 and 2015. OPG would conduct additional analyses during 2013 and 2014 with the aim of filing an IRM application in 2015 that would establish a hydro IRM that would apply to rates beginning in 2016.

Given where we are in this process, the filing of a rebasing application in 2013 appears to be appropriate to LPMA. The question, in the view of LPMA, is whether the rebasing application should be for a period of two years, as suggested by OPG. Alternatives would include a rebasing application for 2014 only, with an IRM application filed in late 2013 or early 2014 for rates beginning in 2015, or filing a rebasing application for more than two years, following by an IRM application that would be used to set rates in subsequent years.

LPMA submits that if the Board determines that IRM should be used for the hydro assets, then a rebasing application with more than two test years is probably not needed. The two year rebasing application for 2014 and 2015 would give the Board, OPG and other interested stakeholders enough time to explore IRM alternatives for these assets and for the model to be put into place in time for 2016 rates.

With regards to the first alternative of a rebasing application to set rates for 2014 only, LPMA is concerned that this may not provide enough time for the Board, OPG and other interested parties to adequately investigate and select an appropriate IRM model to set rates beginning with 2015.

As a result, LPMA believes that the schedule proposed by OPG for the hydro assets is appropriate in the circumstances.

LPMA is concerned, however, with the application of IRM to OPG's prescribed hydro assets, primarily due to the limited number of generation assets to which it would be applied. There may be a lack of diversity in these assets in terms of repair and maintenance costs and capital costs associated with the ongoing use of these assets. LPMA believes that in the case of the prescribed hydro assets, these concerns can be adequately addressed in an IRM model. It is submitted that OPG should explicitly address any issues that it sees that may arise under the various forms of IRM that may be investigated to reflect this potential lack of diversity.

Nuclear Assets

With respect to the nuclear assets, OPG has indicated that it proposes to continue on Cost of Service until the Darlington refurbishment is completed and Pickering is out of service.

LPMA agrees with OPG and believe that implementation, if appropriate for the nuclear assets, should be delayed until Darlington is refurbished and Pickering is out of service. Development of an IRM model that could deal with both of these issues would be problematic at best.

LPMA believes that more study is required to determine if regulating the price paid for the generation from the nuclear assets is appropriate and how it may impact safety.

Given the delay proposed by OPG and supported by LPMA related to the Darlington refurbishment and Pickering closure, it is submitted that the Board should utilize this time to consider alternative forms of IRM and how they could be adequately tailored to apply to nuclear assets without adversely impacting safety.

At this point, LPMA is not convinced that an IRM approach to regulating the nuclear assets is appropriate or preferable from the cost of service methodology. A multi-year cost of service approach may be more practical than any form of IRM.

Sincerely,

Randy Aiken

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