

Board Staff Interrogatory #198

Ref: Exh A3-1-1 page 2, Exh A3-1-1 Attachment 1 page 6

Issue Number: 11.1

Issue: Has OPG responded appropriately to Board direction on establishing incentive regulation?

Interrogatory

Regarding the current status of the productivity study, OPG documents the following:

As contemplated in the attached work plan, LEI [London Economic Inc.] has commenced its literature review and begun to identify the challenges associated with conducting a productivity study for OPG's prescribed hydroelectric facilities.

This evidence is of the date of filing of OPG's application on September 27, 2013.

- a) As noted on pages 1 and 2 of this exhibit, LEI was engaged by OPG and participated in the consultative process that culminated in the *Report of the Board on Incentive Rate-making for Ontario Power Generation's Prescribed Assets (EB-2012-0340)*. LEI is an international energy consulting firm, and also has had involvement in the Ontario electricity sector for over 10 years. Given LEI's experience both internationally and in Ontario, what is the nature of the literature review, and why does it indicate that it will require work from 2013 Q3 to 2014 Q1 as documented in Figure 1 on page 6 of LEI's Work Plan (Exh A3-1-1 Attachment 1)?
- b) What is the current status of LEI's work, and how is OPG monitoring this work?

Response

(a) LEI's literature review is focused on finding and understanding examples of productivity studies that have been done on generation assets, and in particular, on hydroelectric generation assets. OPG understands that instances of generation assets being subject to incentive regulation/productivity studies are relatively rare. This part of LEI's assignment also involves examining the inputs and outputs used in identified generation productivity studies and comparing these inputs and outputs against the data that OPG has available. The timeline in the Work Plan reflects an estimate of the time required to complete this work.

(b) LEI's work is progressing as outlined in the Work Plan. OPG expects the work to be completed by the end of Q2 2014. OPG monitors LEI's work on a regular basis, and meets with them periodically to discuss the engagement.

Board Staff Interrogatory #199

Ref: Exh A3-1-1 Attachment 1 page 4

Issue Number: 11.1

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Interrogatory

On page 4 of LEI's Work Plan, LEI states:

LEI proposes to assist OPG in performing a productivity study. However, in recognition of the data issues that have been discussed previously, **LEI anticipates that the work plan would not presume from the start that the productivity study would be sufficiently robust to be successfully deployed for ratemaking in an IR mechanism.** It will be important for the productivity study to include documentation of the study process, including the obstacles, workarounds, and simplifications, as such documentation will provide valuable context for OPG and stakeholders, regarding the limitations and applications of the productivity study results. **[Emphasis added]**

The Board's interest in exploring IRM mechanisms for setting payments for OPG's prescribed generation assets has been expressly known since the Board first started its review of regulatory options for OPG (EB-2006-0064). Please explain why LEI presumes that a productivity study of prescribed hydroelectric generation would not be robust enough to be successfully deployed for rate-making as part of an IRM plan at this point in time.

Response

The question suggests that Board staff is misinterpreting the wording on page 4 of LEI's Work Plan. LEI does not presume that the productivity study will not be robust enough to be successfully used in an IR mechanism. OPG understands LEI to be saying that they simply do not want to pre-judge the results of work yet to be completed.

Board Staff Interrogatory #200

Ref: Exh A3-1-1 Attachment 1 page 2

Issue Number: 11.1

Issue: Has OPG responded appropriately to Board direction on establishing incentive regulation?

Interrogatory

The issue of moving to some form of incentive rate-making mechanism has been raised conceptually in previous OPG payments applications. The form of IRM would pertain to the prescribed nuclear and hydro-electric assets.

In the *Report of the Board on Incentive Rate-making for Ontario Power Generation's Prescribed Assets (EB-2012-0340)*, the Board found that IRM may, at this point in time, be better directed with respect to the then prescribed hydro-electric assets of the Robert H. Saunders St. Lawrence hydroelectric GS and the Niagara plant hydroelectric group.

On page 2 of LEI's Work Plan, LEI notes the expected (at that time) amendment of O.Reg. 535/05 for the newly regulated hydro-electric assets of the 48 named smaller hydro-electric generating stations. O.Reg. 312/13 amending O.Reg. 535/05 was filed on November 29, 2013 and comes into effect on July 1, 2014.

LEI's Work Plan filed as Exh A3-1-1 Attachment 1 notes the newly prescribed hydroelectric assets, but does not otherwise discuss how this is to be dealt with in the productivity work.

- a) What are OPG's plans or proposals with respect to inclusion or exclusion of the newly regulated hydroelectric assets for any productivity study or for any form of IRM rate-setting mechanism? Please explain the rationale for your proposal.
- b) What instructions has OPG provided to LEI, or what is LEI's proposal, with respect to inclusion or exclusion of the newly regulated hydroelectric assets in the work planned for in Exh A3-1-1 Attachment 1?

Response

a) OPG is open to including the newly regulated hydroelectric assets in an IRM mechanism that covers all of OPG's hydroelectric assets for reasons of consistency and regulatory efficiency. As a result, OPG has asked LEI to include the newly regulated assets in the scope of their productivity study work.

In this Application, OPG has proposed that all of the regulatory treatments that apply to the previously regulated hydroelectric assets also be applied to the newly regulated assets. OPG would have to assess the Board's decision in this Application before finalizing its proposals for a comprehensive hydroelectric IRM.

b) See (a) above.

CCC Interrogatory #027

Ref: Ex. A3/T1/S1

Issue Number: 11.1

Issue: Has OPG responded appropriately to Board direction on establishing incentive regulation?

Interrogatory

Please provide OPG's current perspective on the applicability of Incentive Regulation to OPG. Has that view changed since the last consultation the Board held on Incentive Regulation for OPG? If it has changed please why.

Response

OPG continues to hold the view that incentive regulation is not appropriate for nuclear until the Darlington Refurbishment Project is completed. OPG also continues to hold the view that incentive regulation can be applied to set rates for its hydroelectric assets. As discussed in Ex. L-11.1-1 Staff-200, OPG is open to including the newly regulated hydroelectric assets in an Incentive Regulation Mechanism that covers all of OPG's hydroelectric assets for reasons of consistency and regulatory efficiency.