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## **Canadian Manufacturers & Exporters Comments on Board Staff Discussion Paper Draft 2**

### **Regulatory Options for Setting Payments for the Output from Ontario Power Generation's (OPG) Prescribed Generation Assets**

The following are Canadian Manufacturers & Exporters (CME) comments on Board Staff's Discussion Paper Draft 2 on Regulatory Options for Setting Payments for the Output from OPG's Prescribed Generation Assets ("PGA").

Board Staff recommends that payments to OPG be determined by an incentive regulation scheme, where the base payment is the payment prescribed by Regulation 35/05.

According to Board Staff, this base payment would be adjusted over time by the application of an inflation and productivity factors. No review of the allowed return on equity ("ROE") would take place in the Board's first proceeding on the PGA.

In addition, OPG would face extensive periodic cost data filing requirements. This data would be used, over time, for a variety of purposes, including the adjusting the inflation and productivity factors, as well as reviewing the base price.

CME disagrees with the Board Staff recommendation and believes cost of service (CoS) ratemaking is the appropriate regulatory mechanism for payments to OPG for output from the prescribed assets.

Of all of the regulatory models examined, CoS is the one best able to promote transparency and to ensure that the rates set are just and reasonable.

However, given the March 31, 2008 deadline established by Regulation 53/05, and the fact that it is highly unlikely that a cost of service proceeding could be completed in time, CME favours a modified cost of service regime. This modified CoS approach would involve a phased examination of OPG costs, combined with incentive regulation.

The modified CoS process would examine business units starting with those that are considered to be the most problematic, for example OPG's nuclear business. A timeline should be established for the eventual examination of all of OPG's business units, so there is certainty at the end of a specific period that all of OPG's business units will have been examined.

In CME's view it would be inappropriate to subject OPG to an incentive regulatory regime, prior to a cost of service review.

An incentive regulatory approach is untried and predicated on such unproven assumptions that it would reduce costs; improve operational efficiency by introducing the discipline of the market; and reduce regulatory burden.

Further, the Board has no experience in determining appropriate inflation or productivity adjustment factors required in an incentive regulation scheme.

The Board is required to ensure that payments in respect of prescribed assets are just and reasonable. This criterion can only be met if there is a cost of service review. Given the 2008 deadline, the modified CoS approach proposed by CME would achieve this objective.