

Ontario Energy Board

Setting Payment Amounts for Ontario Power Generation Inc.'s Prescribed Generation Assets

Energy Probe Research Foundation

◆Comments on Discussion Paper Draft 1◆

Submitted June 8, 2006

Board Staff Discussion Paper – Draft 1

Comments of Energy Probe Research Foundation

Following the Consultation of June 5, 2006

The following comments are provided on behalf of Energy Probe Research Foundation (Energy Probe) in response to the Board Staff discussion paper “Regulatory Options for Setting Payments for the Output from OPG’s Prescribed Generation Assets” May 12, 2006.

Energy Probe appreciates the opportunity to review and comment on draft papers, and suggests that the meeting organized by Board Staff to receive views from the interested parties should allow all interested parties to participate, including Ontario Power Generation (OPG).

Energy Probe believes that any method for setting payments adopted by the Board should allow OPG to continue to operate in a business-like manner and to maximize the value of OPG’s generation resources to consumers, consistent with the constraints OPG faces.

Read together, Section 78.1 of the Ontario Energy Board Act and Ontario Regulation 53/05 ask the Board to determine appropriate payments to OPG for its output. Energy Probe suggests that the public, the government, and OPG will be looking to the Board to develop a fair and transparent regulatory methodology that validates the process.

OPG’s operations of its prescribed assets are much more exposed to planning uncertainty and external pressures than any other regulated utility operations that the Board regulates. For example, no other utility subject to OEB regulation is also

responsible to the Canadian Nuclear Safety Commission. OPG's prescribed hydro-electric assets are exposed to the vagaries of nature and are also influenced significantly by the International Joint Commission.

Given the planning uncertainties and external pressures that OPG is subject to, Energy Probe does not believe that a long term regulatory contract or incentive regulation scheme can provide durable value in balancing the various public interests that the Board must consider – rate protection for consumers and fair recovery of costs by OPG. A Performance Based Regulation (PBR) mechanism like RPI-X would not be suitable for application to payments to OPG. Instead, Energy Probe recommends that payments received by OPG be regularly subject to a review of OPG's actual and near-term forecast costs. Annual or biannual reviews of cost provide the most appropriate basis for a determination of payment amounts and payment methods.

Given the large size of the prescribed generation's expected output, promoting efficient dispatch of these resources should also be a priority for the Board. Even with its nuclear assets, OPG has some control over the timing of outages. OPG's prescribed hydro-electric assets are much more flexible, particularly during some parts of the year. Ensuring that the control OPG does have over output scheduling is exercised in an effective manner should therefore be a priority. One method that the Board might consider is ex post review of generator output relative to market needs at the time.

Energy Probe recommends that a two-part payment system be considered. Under this system, OPG would continue to bid its generation at marginal cost, including taking into account the opportunity value of flexibility of its hydro-electricity resources. In addition, a settlement process would be utilized to ensure that OPG's net revenue for a specific period, recovered OPG's reasonable costs. The regulatory method applied should encourage OPG to optimize the use of its assets.

Another consideration that the Board should include is the recovery of revenue to reflect the value of operating reserve, automatic generation control, black start, voltage control and any other ancillary services provided by the prescribed generation.

Board Staff's discussion paper focused significant attention on providing commercial incentives for OPG to operate efficiently. During the consultations Energy Probe participated in, several parties also focused on this issue.

Energy Probe submits that commercial incentives are neither relevant to the determination of appropriate payments for OPG, nor will they supply the impetus to promote economic efficiency and cost effectiveness. OPG is not a commercial firm but a Crown corporation. Profit is not a driver for OPG. Allowing OPG to "keep" net income is meaningless, since all of OPG's net income is pledged by the government to the relief of debts held by Ontario Electricity Financial Corporation, another Crown corporation.

Transparency and a reasonable opportunity for continued stakeholder involvement will assist the Board in validating this regulatory process. Given the large financial impacts for consumers, the Board will need to have a solid process to rely on in developing its decisions.

Respectfully submitted at Toronto, Ontario this 8th day of June, 2006.

Thomas Adams