August 17, 2006

Setting Payment Amounts for Output from OPG's Prescribed Generation Assets

Questions for Presenters

Introduction

As noted in the letter issued by the Board on August 10, 2006, the Board will provide an opportunity for stakeholders to make presentations on the methodology to be adopted for purposes of setting payment amounts for output from OPG's prescribed generation assets. The objectives of the oral presentation opportunity as described in that letter are: (a) to allow Board staff to clarify and elaborate on the alternatives and recommendations contained in staff's July 6, 2006 Discussion Paper; (b) to allow participants to clarify and elaborate on their written submissions; and (c) for the Board to gain a clearer understanding through these presentations and an interactive exchange with staff and participants.

The Board would be assisted by hearing further detail as to the key elements of each of the three methodologies under consideration and as to how each model would be implemented in practice. To assist those presenting, a list of questions related to each of the three proposed methodologies has been prepared and is presented below. While participants may include other matters in their presentations, the Board would appreciate if these points were addressed during their presentations.

Questions to be addressed for those proposing Cost of Service (CoS)

1. Cost of service requires the assessment of a revenue requirement for a business. OPG's prescribed assets could be organized under a number of business units that might have a revenue requirement including: all prescribed assets as one business unit; nuclear assets and hydroelectric assets as separate business units; or some combination of individual generating units. For which businesses would the Board establish a revenue requirement?

2. Cost of service requires the Board to establish both the capital structure and the rates of return under that capital structure for the business or businesses that are rate regulated. Would the cost of capital methodology determined by the Board as appropriate for other regulated utilities apply to OPG's prescribed assets? If not, how should an appropriate return on equity be determined? What group of industries would be appropriate

comparisons? What are the relevant considerations and benchmarks for determining an appropriate return on equity for the prescribed assets?

3. How should the reduction in OPG's risk associated with (a) the assumed continuation of the variance accounts provided for in section 5(1) of Regulation 53/05; and (b) the assurance of recovery of capital costs provided by section 6 (2) 3 of Regulation 53/05 be factored into the determination of an appropriate return on equity***?***

4. There is no prior Board-approved O&M or capital budgets for the business or businesses at issue. Would historical spending of the businesses be considered as a suitable point of departure for forecast spending? If not, what would be the basis on which O&M and capital spending would be reviewed?

5. Nuclear Operations, Maintenance and Administration costs are the largest cost component of OPG's budget. What would be the basis on which the Board would review those costs given the absence of recent experience with such reviews?

6. What would the term of the Board's first order be? Would an annual COS review be used or could payments be set for multiple years based on a forecast? Should there be an initial series of annual reviews to establish a baseline of data to assist the Board in setting future payment amounts for the prescribed assets?

7. Does the allocation of costs between prescribed assets and other generation assets create additional complexity? How would the cost allocation methodology, particularly with respect to corporate overhead costs, be determined?

8. Is CoS consistent with the existing incentive mechanism for the hydroelectric facilities, where a portion of the output receives the market price? Under CoS, what incentive mechanisms could be developed to reduce unit costs? How viable is the 'sculpted payments' methodology as suggested in the Board staff Discussion Paper in the context of CoS?

9. Would automatic adjustment mechanisms be required to account for uncertainties in nuclear operations? Would deferral and/or variance account mechanisms need to be maintained or established?

Questions to be addressed by those proposing Incentive Regulation (IR) as described in the staff Discussion Paper.

1. IR usually relies on a CoS process to set a baseline. What are the issues associated with accepting the current levels of payments as a starting point for incentive regulation without such a baseline?

2. Those favouring IR over CoS have suggested that CoS is impractical in the case of OPG's prescribed assets. What is the basis for this conclusion?

3. What are the implications of not reviewing OPG's O&M and capital budgets?

4. What are the implications of not reviewing OPG's capital structure or return on equity?

5. What specific incentive mechanisms might be used to provide incentives to reduce unit operating costs, particularly with regard to nuclear OM&A? In the case of the hydroelectric facilities, would such incentives replace or complement the existing incentive mechanism referred to above?

6. On what basis would the elements of the IR formula be determined if there are no appropriate benchmarking studies available on productivity in the hydraulic generation and nuclear generation industries in North America to be used as comparators for OPG

7. To what extent are benchmarking studies likely to be inadequate for purposes of the IR methodology and to what extent could these inadequacies be overcome if OPG were to file a productivity study?

8. The methodology described in the staff Discussion Paper is coupled with CoS-type information filings to establish a baseline of information. Is support for this methodology contingent on implementation of this information filing mechanism?

Questions to be addressed by those proposing Regulatory Contracts (RC)

1. How would payment amounts under the regulatory contracts be determined? Would all of the output of OPG's prescribed assets be covered by the regulatory contracts? If not, how would payment amounts for the remainder of the output be determined?

2. Is it contemplated that the financial benefits of the contract would all flow to OPG, or is it contemplated that (or should) only some pre-defined, capped portion of the contract amount would be paid to OPG as an “incentive” to make this energy available?

3. What would be the basis for determining the quantity and level of incentive available to OPG to sell some of the output from the prescribed assets in the forward market?

4. How would risk to ratepayers and OPG differ under an RC methodology compared to CoS or IR?

5. What would the Board be required to approve? If both prices and terms and conditions of the contracts are to be approved, what other information would need to be filed?

6. What are the efficiency advantages of the RC methodology for OPG? How would consumers gain from increases in efficiency?

7. What duration(s) for the contracts should be considered?

General questions to be addressed by all presenters:

1. How will recovery of the amounts in the variance and deferral accounts as contemplated in Regulation 53/05 be addressed when using the methodology that you are proposing?

2. Comment on the type/detail of information that would need to be filed to support the methodology that you are proposing.

3. Suggest a preliminary list of issues that would need to be addressed in the first proceeding.

Additional questions for OPG

1. What confidentiality issues are anticipated to arise in relation to OPG’s filing and what is the anticipated impact?

2. Could financial information for 2006 Actuals, 2007 Estimates and 2008 Budget be filed for any of the proposed business segments under which CoS could be derived? What are the timelines by which OPG would need to know the businesses according to which CoS would be structured?

3. Can OPG file a depreciation study (or studies) for all of the prescribed assets?

Additional questions for the IESO

1. Summarize the key elements of your proposal.

2. How would the quantities of output available at regulated prices be determined? How would prices be set?

3. How would the Board review additional investments by OPG, and how would such reviews account for additional revenues earned by OPG under this model?