

INCENTIVE REGULATION

1.0 PURPOSE

This evidence presents OPG's work plan for an independent productivity study along with a status report.

2.0 OVERVIEW

On March 28, 2013, the OEB issued its EB-2012-0340 Report of the Board on Incentive Rate-making for Ontario Power Generation's Prescribed Assets (the "Report"). This Report sets out the Board's expectations regarding incentive regulation ("IR") for OPG's prescribed generation assets, and identifies some next steps for developing an IR regime¹.

The Report indicates that after this proceeding is concluded, the Board intends to strike a working group to develop recommendations on the details of the IR mechanism for OPG's hydroelectric assets². OPG expects the working group will provide recommendations on both the IR mechanism and on its implementation, including selection of the base rates to be used in the mechanism. A second working group is to develop a proposed methodology for setting OPG's nuclear payment amounts based on a multi-year cost of service approach³.

The Report also requires OPG to file a proposed work plan and status report for the independent productivity study with its next application to set payment amounts⁴, which OPG has provided below.

3.0 PRODUCTIVITY STUDY

3.1 Work Plan

OPG has engaged a consultant, London Economics International ("LEI"), to provide advice and assistance on potential incentive regulation mechanisms which may be suitable for setting payment amounts for OPG's prescribed facilities. LEI participated in the Board's

¹ EB-2012-0340, Page 2

² EB-2012-0340, Page 8

³ EB-2012-0340, Page 9

⁴ EB-2012-0340, Page 7

1 consultation on Incentive Rate Making Options for OPG's Prescribed Generation on August
2 29, 2012, presenting its views on potential IR options for OPG's prescribed assets. Given this
3 history, OPG has asked LEI to conduct the independent productivity study requested by the
4 Board.

5
6 In April, 2013 OPG asked LEI to provide it with a work plan for an independent productivity
7 study to be completed in time to support the working group.

8
9 LEI submitted a work plan in May, 2013. OPG approved LEI's proposed work plan, provided
10 in Attachment 1.

11 12 **3.2 Status Report**

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

LIST OF ATTACHMENTS

1

2

3

4

Attachment 1: London Economics International - Work plan for an Independent
Productivity Study of OPG's Prescribed Hydroelectric Assets