

Ontario Energy Board

**CONSULTATION
REGARDING INCENTIVE RATE MAKING OPTIONS
FOR
ONTARIO POWER GENERATION'S
PRESCRIBED GENERATION ASSETS**

**COMMENTS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

SECOND ROUND

October 31, 2012

**BOARD CONSULTATION
IRM OPTIONS FOR
OPG' S PRESCRIBED GENERATION ASSETS**

**Comments of Energy Probe Research Foundation
Second Round**

Background

In its letter of September 19, 2012, the Board indicated that the “one-stage process” did not give interested parties the opportunity to consider and comment on alternative options for IRM that might emerge from the first stage of written submissions. It therefore invited all interested parties to submit a second round of written comments in response to the first round of submissions.

Energy Probe Research Foundation (“Energy Probe”) participated in the Stakeholders Meeting on August 28, 2012 and submitted its first-round written comments on October 1, 2012. It has since reviewed the submissions of the other parties and is pleased to provide its further comments arising from those submissions.

As is its custom, Energy Probe has not commented on each and every topic but reserved its comments for topics where it felt it might assist the Board.

General Observations on the Submissions

The first-round submissions are by no means uniform. However, as a general matter, the interested parties have indicated the concern about the possible impact of incentive rate making (“IRM”) on the safety of OPG’s nuclear operations. There is some agreement that different rate making regimes could be applied to its regulated hydroelectric and nuclear generating operations and that IRM might be appropriate for the former.

Finally, there is some agreement that if IRM were to be introduced for OPG’s nuclear assets then such introduction should be delayed until after the refurbishment of the Darlington plant and the Pickering facilities are taken out of service.

In its submission dated October 1, 2012, Energy Probe agreed with these concerns and pointed out that the introduction of IRM for nuclear should be a matter of concern for the Canadian Nuclear Safety Commission, Canada’s nuclear-safety regulator. Energy Probe also suggested that safety standards be included in any IRM for nuclear.

Comments on the Submissions

Certain submissions are clearly hostile to IRM. They call attention to the Board’s lack of experience in regulating OPG, particularly its nuclear operations, the lack of IRM experience in the United States, data requirements etc. all of which negate the Board’s initiative in its entirety.

Indeed, the suggestion in these hostile submissions is that

- a. IRM can only be implemented with a huge amount of currently-unavailable data regarding productivity and performance measurement
- b. Safety, particularly in nuclear, would be compromised by IRM as incentives to cost-savings may lead OPG to downplay the safety concerns when making investments, and
- c. The Board would need to develop and monitor safety and performance in areas in which it has no current expertise.

Indeed, the Power Workers Union submits that even a “simplistic transitional IRM approach” would not be acceptable even as a first step.¹

Energy Probe accepts that the information requirements for assessing productivity and the related X-, Y-, and Z-factors in IRM will be significant. The issue here is whether, in the long run, the productivity benefits will justify the initial data-gathering costs. Energy Probe submits that these concerns attend all discussion of regulatory reform and that the Board is well-positioned to make an informed decision.

Energy Probe recognizes that under traditional COS rate making, OPG would receive its allowed rate of return on investments in safety. However, the Board would only review OPG’s equity at the next scheduled review which could be three years away. Whether this delay under COS discourages timely investments in safety more or less than is alleged for an IRM regime is a matter that the Board may wish to consider.

Energy Probe also recognizes that a pure IRM regime would not incent investments in safety because such investments do not improve its earnings.

¹ PWU submission, p.73

So, as Energy Probe advocated in its first-round comments, some safety-indicators should be built into a Nuclear IRM.

In Energy Probe's view, the Board needs to be satisfied that the CNSC has turned its attention to the potential perverse incentives of IRM on safety and has developed a strategy to deal with them. Until then, however, the Board must address this potential for harm.

Energy Probe is of the view that the incentives under IRM for innovation have not been adequately recognized. While maintaining safety standards, there will be a range of cost-saving investments that OPG may be able to make that should not be discouraged by the rate making regime. These investments may be in plant and equipment, human resources, managerial practice or any other process, some of which would not be taken into account in rate setting under the traditional COS. Whether the resulting efficiencies are large or small, OPG should be allowed to share in benefits of continuous improvement.