

Summary Comments

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

May 26, 2006

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Summary Comments on Setting Payment Amounts for Ontario Power Generation Assets

OEB has correctly identified its statutory obligations and role to set rates for OPG's prescribed assets.

The ideal solution to address market power and maximize the efficient stewardship and operations of these assets is to divest ownership and sell the assets to independent owners who can participate in the wholesale market on a highly competitive basis. Market forces will discipline returns and promote innovation and improved operations.

The Board is correct in identifying the shortcomings of cost of service regulation. It is cumbersome to administer and fails to create the right incentives for the owner operator of the generation

Similarly, incentive regulation is a crude proxy for actual market participation. Failure to set baselines correctly will undermine the effectiveness of the incentives, Incentive Regulation seeks to promote.

By far the best approach put forward is the regulatory contract because it comes closest to actual market competition. By setting a floor and a ceiling this approach allows market competition to occur within a defined range, limiting potential under-recovery of capital and curbing the potential abuse of market power.

For regulatory contracts the floor protections and return ceilings can apply regardless of whether the output is sold in a spot market or on a financial bilateral basis. This approach therefore can facilitate forward contracting by allowing OPG prescribed asset output to be sold in the forward market, adding liquidity and supporting retail competition.

In reaching a determination in this proceeding the Board should be fundamentally guided by the goal of replicating efficiencies and incentives the market would produce.

