

**Request for Comment Issued October 20, 2006**  
**Multi-year Incentive Rate Regulation for Natural Gas Utilities**  
**Board File No. EB-2006-0209**

OPG is providing comments as requested in the Update issued by Board Staff on October 20, 2006. Ontario Power Generation has not developed its position with respect to the parameters of incentive regulation plans.

***1) The OEB asked: What should be the goals and parameters of the IR plan?***

OPG submits that the primary goal of any incentive regulation plan must be to achieve rates for defined services that are just and reasonable. Achieving this goal involves the definition of the service provided by the utility, and the determination of whether the rate is reasonable from the perspective of both the ratepayer and the utility. Secondary objectives such as the efficiency of the process necessary to achieve the goals of an incentive regulation plan should be provided some (but not equal) weight in determining an applicable incentive regulation plan.

As discussed below, the OEB's guiding legislative objectives should be considered when developing these parameters.

- A) Definition of Service: The OEB is required to consider the reliability and quality of services. OPG is of the view that safety and security considerations are an integral part of providing adequate, reliable quality service.
- B) Just and Reasonable Rates: The OEB is required to ensure the maintenance of a financially viable industry. To achieve this goal a utility must be able to attract capital on reasonable terms and receive the proper incentives to provide the infrastructure necessary to provide "adequate, reliable quality services".

***2) The OEB asked: What information should the Board consider during the plan term? Updating the plan?***

The Board should only request information to the extent it is necessary to administer the parameters of the plan.

- 1) Service Quality Indices (SQIs): The incentive regulation plan may include SQIs to ensure that the utility is providing adequate, reliable, quality service. The OEB should be provided with information regarding the utility's performance against the metrics established in the plan.
- 2) Financial Performance: The plan may include off-ramps and/or sharing mechanisms (e.g. earnings). Information necessary to determine whether an off-ramp is triggered, or the level of sharing dictated by the sharing mechanism should be provided. The frequency of filing of this information should be consistent with the requirements of the plan; therefore if an off-ramp or sharing mechanism is assessed annually then the reporting should be annual. If such

parameters are not included in the plan, then provision of financial performance information creates unnecessary regulatory costs and inefficiencies.

- 3) Annual Adjustments: The incentive regulation plan parameters may include provision for annual cost of capital or deferral/variance account adjustments. Information necessary to calculate the adjustment (e.g. rate base, long-term interest rates, financial spreads, etc.) should be provided on an annual basis.
- 4) Research: Information to establish future incentive regulation parameters should be part of the record keeping requirements of utilities but should only be filed in the future if necessary. The OEB could direct utilities if necessary to perform studies based on its own data. The utilities should also be allowed to develop their own proposals on technical issues (e.g. total factor productivity) based on the detailed supporting documentation they maintain.