



March 27, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Activity and Program Based Benchmarking (APB) Initiative (EB-2018-0278)

Algoma Power Inc. (API) appreciates the opportunity to provide comments in response to the OEB's Staff Discussion Paper on APB. The enclosed comments are focused on a subset of the ten issues identified in the OEB Staff Discussion Paper.

API would be pleased to answer any follow up questions that the OEB may have in relation to the enclosed comments and recommendations, and welcomes any future opportunities to provide further comments or meaningful participation in this consultation.

Sincerely,

Original signed by:

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API Comments on Activity and Performance Based Benchmarking (APB)

Introduction

As a rural, remote and low-density LDC, API has long struggled with interpreting the results of the OEB's OM&A and total cost approaches to benchmarking in a meaningful way. As early as the April 2007 PEG report, there was a recognition of the challenges associated with benchmarking API (Great Lakes Power at the time), and acknowledgement that models other than those ultimately adopted by the OEB may be more appropriate for benchmarking API on a total cost basis:

For example, the translog model may do a better job of recognizing the special cost challenges faced by a company that, like Great Lakes Power, has extremely low customer density.¹

In the same report, in determining appropriate peer groups for comparison of results, OEB Staff moved Great Lakes Power into a group of its own, due to low customer density.² Subsequently, API put forward an analysis of cost drivers in the PEG total cost econometric benchmarking model in its 2014 IRM application (EB-2013-0110), submitting that these cost drivers and resulting coefficients are based on an industry average, and not representative of API as a statistical outlier. In its decision and order in the EB-2013-0110 application, the OEB found that:

Algoma's evidence illustrates that the PEG model, although applicable to the vast majority of distributors, may not apply to distributors that are particularly unique.³

In the context of challenges that API has faced in respect of prior OEB benchmarking efforts, API offers the following comments on a subset of ten issues identified in the OEB Staff Discussion Paper in hopes that the results of the APB will be more credible for API and other "outlier" LDC's than prior benchmarking efforts.

Q4 – Should the OEB pursue a phased approach for benchmarking activities and programs? Why?

API fully supports a phased approach for APB, and submits that such an approach should be further considered such that APB is only implemented insofar as it delivers real cost savings to customers.

API believes that the initial unit-cost benchmarking of the shortlisted activities and programs identified in the Staff Discussion Paper will produce a wide range of results. Legitimate differences in productivity and efficiency amongst LDC's will be evident in the initial benchmarking results, however API submits that it is impossible for a simple unit cost based approach, applied to a non-homogenous population of

¹ Benchmarking the Costs of Ontario Power Distributors, Pacific Economics Group, April 25, 2007, p.57

² PEG 2007, p.74

³ EB-2013-0110, Decision and Order, February 20, 2014, pp.7-8

LDC's, to produce results that reflect productivity and efficiency alone. The results will undoubtedly be skewed by differences in cost inputs (e.g. inconsistent interpretation of the USoA descriptions) as well as business conditions that are not adequately captured in the normalizing factor (e.g. density-based considerations or degree of forestation not captured when km of life is used as a simple denominator).

A phased approach is outlined at p.35 of the Discussion Paper. This approach starts with a shortlisted group of activities, progressing to a full portfolio of activities (based on increased data collection and reporting), and finally enhancing the results with adjustments to models as well as improvements on the reporting of costs and other data. API respectively suggests that if the OEB's intent is to incent productivity improvement and regulatory efficiency, then additional steps should be considered in this phased approach, as summarized below.

First, API recommends that the OEB undertake additional scrutiny on the results of applying unit cost benchmarking to the shortlisted group of activities identified in the Discussion Paper (i.e. the activities and programs identified at pages 34-35). OEB staff identifies that these activities account for 40% of total OM&A expenses and 47% of gross capital account balances. It should therefore be possible to assess whether simple yet reasonable benchmarking models can be produced for this set of activities, and to assess what additional data would be required to enhance and refine these models. API suggests that the OEB reconvene the APB Stakeholder Working Group to analyze and assess the initial benchmarking results. Further, consideration should be given to either expanding participation in the working group to include LDC's with anomalous results in order to provide additional insight into factors that may be contributing to these anomalies.

API further recommends that the OEB refrain from requiring the collection and reporting of any additional RRR data until after a reconvened working group completes an initial review of APB results on the shortlisted activities. The working group should then be tasked with identifying any "low-hanging fruit" for collection of estimation of additional data. This would include data that could be collected (or even estimated as a preliminary step) at a low cost, so that the effect of refinements to the unit cost analysis or other APB models could be tested prior to undertaking extensive collection and multi-year reporting of additional data. This would aid in the assessment of whether additional RRR reporting is truly justified on a cost/benefit basis. Once additional RRR requirements are codified, LDC's will incur costs in collecting, verifying and auditing the required data and API submits that this should only be required if the benefits will outweigh the costs.

Finally, the OEB may wish to consider further piloting of proportionate reviews of rate applications as well as assessing actual productivity achieved by LDC's as a result of the shortlisted APB activities. Ideally, an assessment of cost savings over multiple years of a pilot program would determine whether a full-scale roll-out involving a large number of activities and programs, and additional RRR reporting, is justified. Simply put, if the OEB cannot conclude that an APB pilot phase of limited scope (i.e. shortlisted activities, possibly enhanced with additional low-cost data collection), results in actual cost savings to customers, then API submits that a larger-scale implementation will almost certainly result in increased regulatory and compliance costs.

Q5 – What benchmarking method(s) should the OEB use to benchmark activities / programs? Why?

Q6 – What is the preferred method that will be well understood by customers and other stakeholders?

Q7 – What benchmarking method(s) provides the best indication of performance efficiency to allow distributors to understand the results, and provides the opportunity to undertake the appropriate action to improve their performance? Why?

Drawing on its experience to date with total cost benchmarking, API agrees with OEB Staff's assessment that the complexity of econometric benchmarking can reduce acceptance and credibility of the results, especially when explaining the methodology and results to non-utility stakeholders. For that reason, API supports the use of unit cost benchmarking, but believes that adjustments or considerations to account for differences in business conditions and other factors will be required to achieve credible results. In certain cases, API suggests that differences in business conditions may be difficult to account for by adjustments to normalization factors alone. These cases may require collection of additional data to inform cost/volume analysis, or exclusion of certain costs from the APB analysis. API draws on two specific examples of situations where challenges facing northern, rural, and/or low-density LDC's may warrant further consideration.

The first example concerns the benchmarking of vegetation management (VM) costs. For a homogenous group of LDC's, with similar degrees of forestation, normalizing VM costs based on line km may produce a reasonable range of costs, with relatively few outlier LDC's. API submits however that the outliers in these results will more likely be driven by significant variations in business conditions than by differences in productivity. At a minimum, adjustments for the relative degree of forestation (i.e. average number of trees per km of line, average volume of vegetation removed) would be required to make comparisons more meaningful than an analysis based on km of line. For many LDC's, it would be difficult to accurately collect this data on a cost-effective basis, and even more difficult to verify or audit the accuracy of this data. Even with increased granularity a normalizing factor, API believes that for a subset of rural and low-density LDC's, it will be difficult to consider significant vegetation management cost drivers in a simplified APB analysis. In addition to the absolute number of trees removed, API's experience is that costs will be driven by variations in forest zones, tree species, climate and right of way accessibility, among other factors. Further, vegetation management costs will also be influenced by restrictions on timing of work and/or work methods arising from species at risk legislation, municipal bylaws, and engagement with First Nations. Examples include timing restrictions on the use of heavy equipment or outright bans on the use of herbicides which are generally effective at reducing long-term VM costs.

The second example concerns the benchmarking of metering costs, with specific consideration of the impact of costs related to AMI infrastructure. API deployed Sensus FlexNet AMI infrastructure throughout its service area, as did many other LDC's who selected this technology through a competitive procurement process. While the procurement process determined that this was the most cost-effective technology for API and others, the degree of cost-effectiveness varied widely between LDC's, due to the

relatively high cost of Tower Gateway Base-stations (TGB's) and other repeaters required to support the deployment. In simple terms, a TGB acts as a collector to communicate wirelessly with a large number of smart meters, and to relay data back to a central repository. The wide range in cost-effectiveness of AMI infrastructure between LDC's lies in the fact that TGB's have two technical limits, the first being the number of meters that a single TGB can support in terms of bandwidth, and the second being the wireless coverage footprint over which the TGB can effectively communicate with meters. Urban and suburban LDC's are generally limited by the first factor, resulting in efficient use of TGB's since the cost is normalized over a large number of meters (effectively as many meters as each TGB can support, with some level of redundancy).

Conclusion

In summary, the comments above focus on taking the necessary time and steps to ensure that the results of the APB framework reflect a true measure of LDC efficiency in areas which can reasonably be benchmarked, while also ensuring that the resulting framework provides real benefits to customers on a cost/benefit basis. API's primary recommendations are to be aware of potential gaps in models produced during early stages of the APB framework, to gather expert input on ways to address these gaps, and to consider the balance of model accuracy versus the costs and efforts associated with increased data collection to improve accuracy. This can be achieved by incorporating additional analysis, evaluation and refinement of the benchmarking models during a pilot phase, as well as reflecting on cost/benefit considerations of an increased scope following the pilot phase. API submits that the recommendation for a limited pilot phase and thoughtful considerations of the results prior to proceeding with full implementation, represent a similar standard to which the OEB would expect LDC's to adhere to during the implementation of any new program.