Section #: Procurement Strategy

Last Revised: October 2, 2004

Issue Statement: How should required equipment and installation services be procured for the province-wide deployment of smart metering?

Options:

The following table outlines 3 options that were developed and analyzed to come to a recommendation.

Components of Procurement Strategy	**OPTION 1: LDC Procurement**	**OPTION 2: Centralized Provincial RFP to Multiple Vendors**	**OPTION 3: Centralized Provincial RFP to a prime contractor**
Group size	LDCs buying groups (likely minded with similar needs)	All LDCs	All LDCs
LDC responsibilities	• Submit procurement plans for process driver approval to demonstrate prudency prior to contracting • Submit business cases for additional requirements if rate recovery is requested • Purchasing, logistics and deployment • Report implementation progress to process driver	• LDC taskforce is formed and puts together province wide requirements list to include in RFP process • Submit business cases for additional requirements • Assist in evaluating RFP responses and awarding vendors • Deployment planning, installation and contracting	• LDC taskforce is formed and puts together province wide requirements list to include in RFP process • Submit business cases for additional requirements • Assist in evaluating RFP responses and awarding vendors • Deployment planning, installation and contracting
Process Driver / OEB responsibilities	• Provide minimum requirements • Facilitate the creation of buying groups where groups do not exist • Approve buying group procurement plans and business cases (if cost recovery is needed)	• Facilitate process using LDC taskforce • Coordinate requirements gathering, contracting, high level logistics and warranty • Repeats process over time and specifies new technology add-ons • Manages contracts	• Oversee deployment and logistics • Specifies new technology add-ons over time and manages contract scope changes
What functions will be contracted for?	• Meter • Communications • Logistics / Warehousing • Installation • Meter Data Services	• Meter • Communication • Logistics / Warehousing	• Meter • Communication • Logistics / Warehousing
Contracting Agent	Individual LDCs or Buying Group if legal entity	Individual LDCs	Individual LDCs
Number of contracts awarded	Multiple vendors	Multiple vendors	Single – Prime contractor provides list of vendors
Timeframes	Multiple processes	Multiple processes	Single year process with options changing over time

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LDC Risk of Non-Compliance	Fully on LDC for all aspects of project	Falls on central agency, LDC risk on execution only	Falls on central agency, LDC liability on execution only

The option of a central buying agent that is the contracting agent and would be responsible for logistics was discussed and quickly dismissed because it would be outside of the OEB's or OPAs existing competencies and would not meet many of the established criteria for options (as outlined in the background section).

Background:

Currently, many LDCs are associated with buying groups for the purchase of many of their equipment purchases. Besides purchases, some groups have also developed common policies, common DSM initiatives and training. Three examples of buying groups are listed below that together already account for more than 1/3 of the utilities in the province.

NEPPA Group (Niagara Erie Public Power Alliance)
Consists of Haldimand County, Niagara Falls, Niagara on the Lake, Norfolk, Brant County, Grimsby, Peninsula West, St. Catherines, Welland, Canadian Niagara Power and Branford.

CHEC Group (Cornerstone Hydro Electric Concepts Association)
Consists of Center Wellington, Collus, Grand Valley, Gravenhurst, Innisfil, Lakefront Utilities, Lakeland Power, Midland Power, Orangeville, Orillia, Parry Sound Power, Rideau St. Lawrence, Wasaga, Wellington North, Westario, West Coast Huron, Woodstock, North Bay and Erie Thames

Upper Canada Energy Alliance
Consists of Power Stream, Newmarket, Innisfil, North Bay, Orillia, Parry Sound and Tay.

It is estimated that at least 70% of LDCs are part of a buying group, some larger than others. Some utilities are members of multiple groups. The majority of LDCs in buying groups are small to medium sized utilities.

With the huge numbers of advanced metering technology planned to be deployed in Ontario, the Ministry of Energy, OEB and LDCs will want to select a procurement option that achieves the following: low overall cost to the consumer; manageable implementation risk; respects LDC historical responsibilities; ability to implement within government timelines; minimizes cost of customer transfers (load transfer resolution, boundary adjustments, mergers and joint ventures); encourages innovation and economic development and enhanced functionality options are not precluded by process.

Other Jurisdictions:

Most of the mass deployments in other jurisdictions were completed in territories that were covered by either a single LDC or a few LDCs. Many of these deployments were championed by the LDC itself. In terms of achieving economies of scale, the other large implementations demonstrate the cost savings that can be achieved by high volume purchases. The challenge that Ontario faces that has not been present in most other implementations is the deployment across 90+ LDCs.

Implementation Issues:

LDC Issues:
- LDCs would like the flexibility to be able to leverage technologies (e.g. fibre) or specific opportunities (e.g. multi-utility installations) in their territories
- LDCs need to have assurance that the substantial costs associated with smart meter deployment will be recoverable through rates.
- If LDCs are provided the flexibility to organize their own deployments, they will be able to combine small metering installation work with other utility work activities or other DSM initiatives to reduce installation costs

Customer Issues:
- Large customers who are anxious to receive smart meters will want a process that will place clear accountability on LDCs to deliver on their responsibilities

Retailer / Aggregator Issues:
- Retailers will want to see that the procurement process will not preclude enhanced functionality through submitted business cases so that load control and other features will be able to be added on.

Vendor Issues:
- Some vendors would be worried about being entirely shut out of the Ontario market with a central provincial RFP process (decentralized procurement would reduce this risk)
- The sales effort savings of options 2 and 3 would be reduced as vendors still need to negotiate technologies and delivery timetables with individual LDCs
- In order for vendors to be able to pass cost savings to LDCs from economies of scale, orders must minimize: shipments to different locations; LDC specific labeling of meters; meter programs; and the number of vendor invoices.

IMO Issues:
- None

OEB Issues:
- OEB would like some assurance that procurement throughout the province will be carried out in a manner that minimizes costs

- OEB would need to develop its internal competencies in mass procurement if central procurement is recommended and the OEB is appointed the responsibility of process driver
- A cost allocation method for allocating central contract costs among LDCs would need to be determined

Summary of Discussion / Analysis:

The following table summaries the pros and cons of each option that was discussed in the working group.

Components of Procurement Strategy	OPTION 1: LDC Procurement	OPTION 2: Centralized Provincial RFP to Multiple Vendors	OPTION 3: Centralized Provincial RFP to Prime Contractor
Pros	• More flexibility over ultimate number of technologies chosen (assuming minimum requirements are met) • Allows for the development of joint business cases • Allows for future innovation (through procurement over multiple years) • Allows LDCs to participate with like minded LDCs (with similar requirements) • Will reduce technologies chosen vs. 90+ selections • Staged procurement allows for business case development for future lots • Places full responsibility on LDC • LDCs may be able to leverage existing LDC buying groups and cross-LDC service arrangements	• Greatest chance to obtain volume discounts (economies of scale) • Full knowledge of number technologies of technologies to be chosen for the entire province • Maximizing uniformity in technology installed across the province will help in technology rationalization in the future • Reduced risks to LDCs • Possibility of central logistics planning for province to reduce inventory and establish optimal staging locations • Delivery compliance, product quality, vendor contract disputes all dealt with by one entity increasing leverage of vendors • Equal importance attached to small and large LDC needs • Reduced reporting requirements on procurement process from 90+ LDCs • Allows for better control of distribution of supply to meet provincial implementation plan (distributor allocation) • Could centralize sealing of meters	• One stop shop (point person to go to for all issues) • Off-load some of the risks to the prime contractor (depending on how contract is structured) • Prime contractor could provide centralized logistics, warehousing and delivery • Increases financing available to smaller, innovative firms that are part of the vendor's offerings • Increased chance to obtain volume discounts (economies of scale) • Full knowledge of number of technologies to be chosen for the entire province • Maximizing uniformity in technology installed across the province will help in technology rationalization in the future • Reduced risks to LDCs • Provides central logistics planning for province to reduce inventory and establish optimal staging locations • Delivery compliance, product quality, contract disputes all dealt with by one entity increasing leverage of

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Cons	• Reduced lot sizes may increase costs • Slower process to form groups • Province does not have as much direct control over outcome (number of technologies chosen, price paid, etc.)	• Larger lot sizes could result in large scale failure in statistical samples (must be managed over multiple LDCs – or sealed by LDCs) • LDCs may loss local pride of ownership of the procurement task which may lead to lower willingness to accept risk on innovative add-ons • Less chance of smaller innovative products from entering the market • Disburses responsibility between LDC and process driver	• Additional layer of costs • Complex contracting arrangement with many scope changes • Larger lot sizes could result in large scale failure in statistical samples (must be managed over multiple LDCs – or sealed by LDCs) • LDCs may loss local pride of ownership of the procurement task which may lead to lower willingness to accept risk on innovative add-ons • Less chance of smaller innovative products from entering the market • Disburses responsibility between LDC, prime contractor and process driver

Option 1 will be able to achieve low overall costs through the use of buying groups and other methods. It is unclear whether this amount of buyer consolidation will result in maximum economies of scale vs. a province wide procurement process. With multiple LDC groups purchasing, implementation risk is minimized as a major issue encountered in one group will not necessarily affect all LDCs. Since it leverages LDC existing buying processes and leaves full accountability on LDCs, it will promote local LDC pride in the smart meter initiative. It is unclear whether a central process that provides one option for LDCs to follow or a decentralize process that will likely use existing like minded LDC buying groups to purchase will result in the fastest, most efficient process in order to meet provincial timelines. One area of concern is the anticipated future technology rationalization in the province. If LDCs with different smart meter technologies merge, it will result in higher systems consolidation costs. This issue can be address by the OEB

monitoring the number of technologies being purchased through their procurement plan approval process. Option 1 will likely encourage the most innovation and economic development. Choosing enhanced functionality will be possible through business case submissions to the OEB.

Option 2 is similar to Option 1 since it would still involve a task force of LDCs making technology decisions while being facilitated by the provincial process driver. The major difference between Option 1 and 2 is that Option 2 would not provide LDCs full accountability for the process, would likely take less time to get the process going but because of the varying needs of LDCs would be a complex and slower process to complete. With multiple vendors being contracted, implementation risk would be similar to Option 1. With respect to meeting government timelines, Option 2 would slow down early adopters among LDCs who are anxious to get started on their deployment since they would have to wait for the provincial process. This option would provide the OEB with more control since the OEB would be facilitating the process that determines the final costs to be paid and the technologies chosen.

Option 3 would pass the coordination responsibilities of provincial deployment over to a prime contractor. The prime contractor would contract with individual vendors to provide LDCs with technology alternatives. This option would be adding an additional layer of costs. With only one contracting entity, an issue with the prime contractor would put the entire provincial project at risk. Contracting with a prime contractor would likely be very complex and would take a long time to setup. It would ensure a discrete number of technologies implemented in the province that would minimize costs related to future customer transfers.

Both Option 2 and 3 would be adding an additional layer of costs and may or may not realize greater benefits from economies of scale.

Recommendations:

Option 1 is recommended. This option leverages existing LDC buying groups and allows for LDCs to have flexibility in their buying choices to maximize the return on investment and through the OEB procurement plan approval process gives LDCs some assurance of cost recovery and provides the OEB with some control over the ultimate decision (costs and technologies). It allows larger LDCs that need to start deployment early to be able to go ahead with their contracting without having to wait for a slower provincial process.

Concerns about gaining economies of scale through buying groups and future costs related to customer transfers because of excessive technologies being chosen can be monitored through procurement process approvals.