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BY EMAIL

October 11, 2013

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
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Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Collus PowerStream Corp. ("Collus PowerStream")
2013 Cost-of-Service Distribution Rate Application
Board File No. EB-2012-0116**

In accordance with the Board's Decision and Procedural Order No.3 in the above noted proceeding, Board staff has reviewed Collus PowerStream draft Rate Order dated September 30, 2013 and the subsequent draft Accounting Order dated, October 1, 2013. Please find attached Board staff's submission.

Please forward the following to Collus PowerStream and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Birgit Armstrong
Advisor
Electricity Rates Applications

2013 ELECTRICITY DISTRIBUTION RATES
Collus PowerStream Corp.

EB-2012-0116

STAFF SUBMISSION

October 11, 2013

On September 30, 2013 Collus PowerStream Corp. (“Collus PowerStream”) filed a Settlement Proposal wherein Collus Powerstream, Energy Probe (“EP”), the School Energy Coalition (“SEC”) and the Vulnerable Energy Consumers Coalition (“VECC”) (collectively “the Parties”) agreed to establish a deferral account to record the cost of smart meters at Net Book Value (“NBV”) that must be removed from service prematurely before the end of their expected service life and replaced with new meters.

Subsequently, on October 1, 2013 Collus PowerStream filed a draft Accounting Order, requesting the establishment of deferral account 1508, Other Regulatory Assets, Sub-account Stranded Assets Net Book Value (“NBV”). The draft Accounting Order provides details on the proposed operation of the deferral account.

Board staff does not have any concerns with the Settlement Agreement. Board staff’s submission addresses the following question regarding the draft Accounting Order:

- “Should the Board permit Collus PowerStream to collect carrying charges on the NBV of the stranded assets recorded in Account 1508, Other Regulatory Assets, Sub-account Stranded Assets Net Book Value”

THE APPLICATION

Background

Collus PowerStream completed the installation of smart meters throughout its service territory in December 2010. Included in the smart meter population Collus PowerStream installed earlier models of the Sensus ICON smart meter. The Board, in the Combined Proceeding on authorized discretionary metering activities (EB-2007-0063) confirmed that the procurement process leading to the purchase of these meters was appropriate and the meters themselves conformed to the minimum requirements.

Collus PowerStream stated that throughout the installation and up to registration with the Meter Data management and Repository (“MDM/R”) Collus

PowerStream experienced issues with the quality of the meters¹including communication issues with 4,631 Sensus ICON F and ICON G model smart meters, which are otherwise metrologically sound. Collus PowerStream further submitted that the Sensus ICON meters have issues with encryption, which is a requirement as a result of the security audit completed in 2012². In its draft Accounting Order, Collus PowerStream stated that these communication and encryption issues are causing severe operational issues.

The following table summarizes the number of units Collus PowerStream claims need to be replaced along with the forecast cost of the installed replacement units and the NBV of the meters when taken out of service.

Table 1 Stranded asset replacement costs and NBV

Year	Units replaced	Cost of new replacement meters	NBV of Meters taken out of service
2013 rebasing	1,500	\$ 166,250	\$ 184,500
2014	1,500	\$ 166,250	\$ 166,500
2015	1,631	\$ 181,041	\$ 161,469
Subtotal post rebasing replacements	3,131	\$ 347,291	\$ 327,969
Total	4,631	\$ 513,541	\$ 512,469

As noted in the draft Accounting Order, the replacement meters for 2013 have been included in the calculation of rates for the test year. The NBV of the F and G meters to be replaced in 2013 has been removed from rates, i.e. deducted from rate base and related depreciation expense removed from the revenue requirement.

For meters to be replaced in 2014 and 2015 the draft Accounting Order proposes that the cost of the Sensus ICON F and G meters taken out of service be recorded in deferral account 1508, Other Regulatory Assets, Sub-account

¹ Asset Management Plan, Exhibit 2/Tab 3/Schedule 2, Appendix A, p.29

² Ibid.

Stranded Assets NBV. At the same time replacement meters will be added into service at a comparable cost. Collus PowerStream stated the net effect of the swap between the stranded asset and the replacement meters will be very slight. As such, from 2014 onwards, there will be no material difference between the meters that will be removed from service but remain in rate base and the new meter additions in service. Accordingly, Collus PowerStream submitted that the amount in rates for the removed meters is appropriate for the recovery of the cost of the new meters in service but not yet included in rate base.

Collus PowerStream proposed to adjust rate base in the next cost of service application by excluding the removed meters and including the new in-service meter addition at their net book value. No depreciation expenses will be recorded after these meters have been removed from service.

Collus PowerStream has requested that carrying charges be recorded monthly on the opening principal balance in account 1508 at the Board's prescribed rates but provided no reasons for this request.

Discussion and Submission

Board staff takes no issue with the establishment of deferral account 1508, Other Regulatory Assets, Sub-account Stranded Assets NBV to track the NBV of the stranded assets. As submitted by Collus PowerStream, the stranded assets are being replaced by new meters one to one. Board staff notes that meters replaced in 2014 onwards will remain in rate base as a proxy amount for the replacement meters. Given the estimated slight net effect of the swap, Board staff also takes no issue with the treatment of the depreciation expenses.

However, Board staff submits that no carrying charges should be recorded in the deferral account and that the account should only track the NBV of the stranded assets. Board staff notes that the stranded assets are being replaced on a one to one exchange. There is no material difference between the meters that are removed from service but remain in rate base and the new meter additions in service from 2014 onwards. Therefore, Board staff submits that it is unnecessary to collect carrying charges, since the replaced meters that remain in rate base will earn a sufficient return and recovery of depreciation expenses in current rates similar to as if the new meter additions were included in rates.

Furthermore, Board staff notes that in a letter by the Board to all electricity distributors, issued January 16, 2007, regarding stranded meter costs related to the installation of smart meters, the Board found that a return on stranded assets, or stranded costs, is already embedded in current rates and will continue until the distributor's rates are rebased. Therefore, the Board found that it would be inappropriate that an interest carrying charge would apply for 2006 or 2007 on sub-account 1555 (Stranded Meter Costs). Board staff submits that the same principle should apply to the 4,631 units of meters that will be replaced by Collus PowerStream in the 2013, 2014 and 2015 rate years.

Therefore, Board staff submits that no carrying charges should be applied to Account 1508, Other Regulatory Assets, Sub-account Stranded Assets Net Book Value.

- All of which is respectfully submitted -