

Hydro Ottawa Limited  
3025 Albion Road North, PO Box 8700  
Ottawa, Ontario K1G 3S4  
Tel.: (613) 738-6400  
Fax: (613) 738-6403  
www.hydroottawa.com

Hydro Ottawa limitée  
3025, chemin Albion Nord, C.P. 8700  
Ottawa (Ontario) K1G 3S4  
Tél. : (613) 738-6400  
Télééc. : (613) 738-6403  
www.hydroottawa.com



October 24, 2013

Kirsten Walli, Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto ON M4P 1E4

Dear Ms. Walli,

Re: EB-2013 – 0143 Hydro Ottawa Limited 2014 IRM Rate Application

Please find enclosed two (2) copies of Hydro Ottawa Limited's Responses to Energy Probe's Interrogatories related to the 2014 IRM Rate Application (EB-2013-0143).

Should you have any questions, please contact the undersigned at (613) 738-5499 ext 7499 or via email at [janescott@hydroottawa.com](mailto:janescott@hydroottawa.com).

Yours truly,

*Original signed by*

Jane Scott  
Manager, Rates and Revenue



## **Interrogatory #1**

Ref: Exhibit B1, Tab 1, Schedule 1, page 3

The evidence indicates that Hydro Ottawa informed the Board that it believed that a Z factor event had occurred with respect to the de-recognition of the Rex 1 meters. After further review of the issue Hydro Ottawa has determined that the de-recognition of the Rex 1 meters is more appropriately related to the transition to IFRS.

- a) Please explain what changed the view of Hydro Ottawa.
- b) Does Hydro Ottawa believe that the de-recognition of the Rex 1 meters qualify as a Z factor event? Please explain.

## **Response**

- a) As explained in the response to Energy Probe's Interrogatory #4, Hydro Ottawa did not become aware of the full financial impact of the de-recognition of the Elster Rex 1 meters until 2013. Initially, we considered that this could potentially qualify for a Z factor event, and being very cognizant of the requirement in section 2.3.3 of the Ontario Energy Board's (the "Board") Filing Requirements for Electricity Transmission and Distribution Applications, that in order for a Z factor event to be considered, it is necessary to inform the Board within six months of the event occurring, we notified the Board in our letter of July 3, 2013. Since then, Hydro Ottawa's view of how to treat the de-recognition of the Rex 1 meters has evolved as further information became available. Initially, the situation with the Rex 1 meters was described as something different than the de-recognition of any other asset type but on further examination it was determined that the replacement of the meters is required to provide access to additional data memory capacity and additional features and services required by Hydro Ottawa to maintain and improve the service to its customers.
- b) No, Hydro Ottawa no longer believes that the de-recognition of the Rex 1 meters qualifies as a Z factor event because of the reasons outlined above in part a). The de-recognition of the Rex 1 meters is best handled through the use of a variance account related to gains and losses under IFRS.



## **Interrogatory #2**

Ref: Exhibit B1, Tab 1, Schedule 1, page 7

- a) Please update Table 2 to reflect the most recent year-to-date figure for 2013 along with the most recent estimate for the remainder of 2013. Please also update the forecasts for 2014 and 2015, if necessary, as a result of any changes in 2013.
- b) Will all of the Rex 1 meters be replaced by the end of 2015? If not, when are all of the meters expected to be replaced?
- c) Please indicate what other types of previously pooled assets are included in the third column of Table 2 and please confirm that these asset retirements are based on normal operations and do not reflect unique and special circumstances such as that associated with the Rex 1 meters. If this cannot be confirmed, please explain.

## **Response**

- a) The following updated Table 2 (changes shown in red) reflects the most recent year-to-date figures for 2013 along with the most recent estimate for the remainder of 2013. There are no changes to the forecasts for 2014 and 2015.

<b>Gain shown as ()</b>	<b>Rex 1 meters \$000</b>	<b>Other previously pooled assets \$000</b>	<b>Total \$000</b>
2011 Actual	0	697+(42)	655
2012 Actual	(3)	467+(7)	457
2013 Actual to <b>September</b> + Forecast to Year End	<b>862 +10=872</b>	<b>156+169=325</b>	1,197
2014 Budget	335	500	835
2015 Budget	295	500	795

- b) No, all of the Rex 1 meters will not be replaced by the end of 2015. As the meters are only replaced when they are removed from the field, the current estimate for full replacement is not known at this time.
- c) The following table shows the other types of previously pooled assets included in the third column of the table above. Note that this list does not include all pooled assets, only those that have units de-recognized. The list also includes the de-recognized vehicles, which were not previously pooled.



<b>Previously Pooled Asset</b>	<b>2011 \$</b>	<b>2012 \$</b>	<b>2013 to September \$</b>
Vehicles	(41,782)	(3,403)	(6,421)
Interval Meters	76,294	373	0
Smart Meters (not Rex 1)	170,833	0	0
U/G PILC Cable	491	0	235
U/G Polymar Insulated Cable	17,348	2,231	19,539
U/G Switchgear and Reclosurers	106,572	71,026	0
Line Transformers O/H & U/G	216,764	150,809	48,012
Line Transformers Vault	0	42,122	13,313
O/H Conductors and Devices	44,957	0	8,181
O/H Automated Devices	37,988	0	0
Poles, Towers & Fixtures	26,093	200,236	73,480
Subtotal	655,560	463,394	156,339
Rex 1 Meters	0	(6,012)	862,427
Total	655,560	457,382	1,018,766

All of the previously pooled asset retirements are based on normal operations and do not reflect unique and special circumstances such as that associated with the Rex 1 meters.



### **Interrogatory #3**

Ref: Exhibit B1, Tab 1, Schedule 1, page 7

- a) Is Hydro Ottawa requesting one variance account or two? If one, does Hydro Ottawa believe that the different circumstances that appear to underlie the Rex 1 meters relative to the other pooled assets should be segregated in separate accounts? If not, why not?
- b) Please confirm that the amounts shown in the "Other previously pooled assets" category are strictly related to the requirements of IFRS, while the amounts shown in the "Rex 1 meters" column are related to the shortcomings of these meters that have discovered.

### **Response**

- a) Hydro Ottawa is requesting one variance account. However, Hydro Ottawa would accept that as a result of additional different circumstances that underlie Rex 1 meters relative to the other pooled assets, they could be segregated in a subaccount.
- b) The amounts shown in the "Other previously pooled assets" category are strictly related to the requirements of IFRS, while the amounts shown in the "Rex 1 meters" column are related to the shortcomings of these meters and to the requirements of IFRS related to previously pooled assets, as further described in the response to Board Staff Interrogatory #11.



#### **Interrogatory #4**

Ref: Exhibit B1, Tab 1, Schedule 1, page 7

- a) When did Hydro Ottawa first recognize the shortcomings of the Rex 1 meters?
- b) What is the average installed cost of the Rex 1 meters?
- c) Please provide a continuity schedule that shows the additions, depreciation, accumulated depreciation and net book value for the Rex 1 meters from the time they began to be installed to the date when they have been fully replaced.
- d) What is the actual/forecasted installed cost of the meters being used to replace the Rex 1 meters?
- e) Has Hydro Ottawa negotiated any reduction in costs of the replacement meters from the supplier of the original Rex 1 meters now that their shortcomings have been identified? Please provide details.
- f) How will Hydro Ottawa be treating the removal of the Rex 1 meters and addition of the replacement meter costs for regulatory purposes while under IRM? For example, will the Rex 1 meters NBV be removed from rate base and put in the requested account as they are removed from service and at the same time, will the new replacement meters be put into rate base as they are put into service?

#### **Response**

- a) Hydro Ottawa first recognized the shortcomings of the Rex 1 meters in early 2011, however at that time the financial impact under IFRS was not apparent. This was primarily due to the credits that Hydro Ottawa was able to negotiate with Elster in 2011 and 2012 as described in part e) below. The full financial impact of having to record a gain or loss on the removal of these meters from service was only realized in 2013.
- b) Hydro Ottawa does not distinguish between Smart Meter types in its Fixed Asset Ledger. All of the costs are capitalized to one component; 5600 - Smart Meters, on an annual basis. The following table is extracted from the Fixed Asset Ledger. Rex 1 meters were installed between 2006 and 2008, so based on the numbers below; the average cost to install a Rex 1 meter was \$124, which is the average of the average costs for 2006 to 2008.



<b>Year of Installation</b>	<b>\$000 Capitalized</b>	<b>Number of Meters</b>	<b>Average Cost \$</b>
2006	10,739	92,847	116
2007	8,980	73,699	122
2008	10,734	80,722	133
2009	7,380	31,343	236
2010	2,655	5,882	451
2011	2,202	7,554	292
2012	1,873	9,163	204

Please note that the average cost over the years varies due to the nature of the installations. In 2006-2008, installations were done by contractors that would work in a concentrated area, thus bringing down the cost of installation. From 2009 the cost of installation increases due to the nature of the installations, e.g. the hard to get to ones, in the rural areas, etc.

- c) Please see the following continuity schedule that shows the additions, depreciation, accumulated depreciation and net book value for the Rex 1 meters. Note that as a result of Hydro Ottawa's transition to IFRS, the opening balance is shown for 2011 at which time the gross costs were netted against the accumulated depreciation. Also note that receipts/credits are not included.



Rex 1		\$0000									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Cost</b>	Brought Forward	29,974	29,832	29,805	28,724	28,246	27,769	27,044	26,323	25,931	25,657
	Disposals	-142	-27	-1,081	-477	-477	-724	-721	-393	-274	-261
	End Of year Balance	29,832	29,805	28,724	28,246	27,769	27,044	26,323	25,931	25,657	25,395
<b>Depreciation</b>	Brought Forward	0	3,538	7,208	9,324	11,423	13,445	15,277	16,993	18,801	20,631
	Annual Depreciation	3,544	3,673	2,325	2,242	2,205	2,168	2,111	2,055	2,024	2,003
	Disposals	-6	-3	-209	-143	-182	-337	-395	-247	-195	-208
	End Of year Balance	3,538	7,208	9,324	11,423	13,445	15,277	16,993	18,801	20,631	22,426
<b>Net Book value</b>		26,294	22,596	19,400	16,823	14,323	11,768	9,330	7,129	5,026	2,970





- d) The average cost to install a Rex 2 meter is \$296, which is the average of the average costs for 2009 to 2012 from the table shown in part c) above.
- e) Hydro Ottawa did negotiate an agreement with Elster Canada to address “Chip Range” meter problems, meters that have a manufacturing crystal problem on the Rex 1 circuit board. An incorrect tolerance in the circuitry that was specified during manufacturing can trigger a fault that can result in meter registration irregularities.

Elster agreed to replace those meters that showed the characteristics of a chip “error”, an alert that is collected by the Elster MAS head end software and reported by Meter Data Services to Metering. Meters showing this characteristic must be immediately removed from service. Metering has extended this arrangement with Elster from just Chip “Error” meters to returning Chip “Serial Number Range” susceptible meters for credit.

- f) While under IRM, Hydro Ottawa will be removing the NBV of the Rex 1 meters from net fixed assets and including the replacement meter costs of the new assets in net fixed assets. When Hydro Ottawa rebases in 2016 these changes would then be carried forward into the rate base.



### **Interrogatory #5**

Ref: Exhibit B1, Tab 1, Schedule 1, page 7

- a) What is the tax impact of disposing of the pooled assets (including the Rex 1 meters) that are not fully depreciated for CCA purposes?
- b) Please confirm that Hydro Ottawa proposes to remove the amounts shown in Table 2 from rate base in each of the years shown.
- c) Please confirm that the replacement meters installed in each of 2013 and subsequent years will be added to rate base in the year the meters are installed.

### **Response**

- a) The tax impact of disposing of the pooled assets (including the Rex 1 meters) that are not fully depreciated for CCA purposes is as follows: the accounting loss on disposal is added back, resulting in an increase in taxable income. For tax purposes, these assets remain in their CCA class such that tax depreciation is still being taken each year on them, i.e. disposals for tax purposes are deducted at the lower of cost and proceeds; so if the proceeds are zero, nothing is subtracted from the CCA class.
- b) Hydro Ottawa proposes to remove the amounts shown in Table 2 from net fixed assets in each of the years shown, which will subsequently remove them from rate base when Hydro Ottawa rebases.
- c) Yes, the replacement meters installed in each of 2013 and subsequent years will be added to fixed assets in the year the meters are installed, and then will be included in rate base in the form of  $(\text{opening balance of net fixed assets} + \text{closing balance of net fixed assets})/2$  when Hydro Ottawa rebases.