

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Sched. B;

AND IN THE MATTER OF an application by Hydro Ottawa
Limited for an Order approving just and reasonable rates and
other charges for electricity distribution to be effective January
1, 2014.

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

SUBMISSIONS

November 7, 2013

HYDRO OTTAWA LIMITED
EB-2013-0143

SUBMISSIONS OF ENERGY PROBE RESEARCH FOUNDATION

A - INTRODUCTION

This is the Submission of the Energy Probe Research Foundation ("Energy Probe") related to the request by Hydro Ottawa for approval of a variance account, with a variance from \$0, for 2013 to 2015 for the derecognition of assets that would have been pooled under Canadian Generally Accepted Accounting Principles ("CGAAP"). This issue is dealt with in Section 7.6 of Exhibit B1, Tab 1, Schedule 1.

Energy Probe has limited its review of the application to the above noted issue and, as a result, makes no submissions on the other aspects of the application.

B - LOSSES ON DERECOGNITION OF ASSETS

Ottawa Hydro has divided the assets for which it seeks to recover the remaining net book value when they are removed from service into two categories - Rex 1 meters and Other previously pooled assets. The updated forecast for each of these two categories for each of 2013, 2014 and 2015 are shown in the response to Energy Probe Interrogatory #2. The Rex 1 meters total \$872,000 in 2013, \$335,000 in 2014 and \$295,000 in 2015. The value for the other previously pooled assets is \$325,000 in 2013, and \$500,000 in each of 2014 and 2015. In total, the updated forecast for the variance account is \$1,184,000 in 2013, \$835,000 in 2014 and \$795,000 in 2015.

Energy Probe submits that there are three main issues that need to be reviewed as part of this request:

- Do the Rex 1 meters need to be replaced?
- Should the replacement of the Rex 1 meters, if determined to be appropriate, be treated as a Z factor?
- If the Rex 1 meters are more appropriately treated through a derecognition variance account rather than a Z factor, should it be treated as a separate account from the other previously pooled assets?

a) Do the Rex 1 Meters Need to be Replaced?

Hydro Ottawa was one of six early adopters of the Smart Meter Program. The Rex 1 meter was the first generation offering by Elster and was an approved product for the Province of Ontario's Smart Metering initiative.

Ottawa Hydro has indicated that they have identified a number of shortcomings of the Rex 1 meters. In particular, the primary reason for the early derecognition as stated by Hydro Ottawa (Exhibit B1, Tab 1, Schedule 1, page 7, lines 17-19) is the limited memory retention of 23 days compared to 230 days memory for a Rex 2 meter. The other reason for the early replacement of the Rex 1 meters is the absence of a "last gasp" functionality for outage restoration.

Energy Probe submits that Hydro Ottawa does not need to replace the Rex 1 meters at this time.

As indicated in the response to Staff Interrogatory #9, the Rex 1 meters are approved for legal trade in Canada and provide a registered read that is accurate. Hydro Ottawa indicates that these meters are now 8 years old and replacing them over time allows it to upgrade technology and continuously improve operations and customer service. Energy Probe submits that this is not a good reason to replace approved and accurate meters. Replacing meters while they are still functional simply because there is new technology available is a never ending cycle. There will always be something new tomorrow. Ratepayers should not be expected to pay for two meters - one that works fine, and the one with the new gadget.

Similarly, Hydro Ottawa indicates that it is necessary to replace these functional and accurate meters prior to failure or end of useful life because of the lack of functionality of the Rex 1 meters. In particular the lack of memory beyond 23 days is cited as a concern given that Ottawa Hydro is not able to recover actual data on a daily basis. However, there is no evidence provided by Hydro Ottawa on how many of the Rex 1 meters do not provide the actual data needed over the 23 day memory period.

Furthermore, as indicated in the response to VECC Interrogatory #2, other distributors continue to use the Rex 1 meters. In particular, Toronto Hydro-Electric System has indicated to Hydro Ottawa that if the meters can be reused, they are put back in service, while only scrapping those meters that are found to be defective. Horizon Utilities Corporation reports that they are currently circulating their Rex 1 meters back to the field.

In summary, Energy Probe submits that the Rex 1 meters do not need to be replaced simply because a crew comes in contact with one of them. These meters are still approved and accurate and have many more years of useful life. Replacing them is a burden to ratepayers that is unnecessary.

b) Should the Replacement of the Rex 1 Meters be Treated as a Z-Factor?

If the Board determines that it is prudent of Hydro Ottawa to replace the Rex 1 meters even though they are approved for legal trade in Canada and continue to provide accurate readings, then Energy Probe submits that the stranded net book value of these meters should be treated as a Z-factor rather than recorded in a variance account related to the transition to IFRS.

The key difference between a Z-factor and inclusion in the transition to IFRS account is that the latter should be reserved for retirements based on normal operations of a distributor and should not include unique or special circumstances. These unique and/or special circumstances are what properly constitute a Z-factor event.

In particular, if the Board determines that the early replacement of the Rex 1 meters is appropriate, then the rationale for that is that the meters were found to be lacking in respect to the functionality required. This is clearly a change in circumstances and knowledge from when they were originally approved and installed.

Energy Probe does not believe that the replacement of the Rex 1 meters is appropriately dealt with through the transition to IFRS variance account. These meters are not being retired based on normal operations. Hydro Ottawa is applying its discretion to replace these meters before the end of their useful life. As such it is a special case of asset retirement and should not be considered a normal retirement.

c) Separate Treatment of Rex 1 Meters from Other Previously Pooled Assets?

If the Board determines that the replacement of the Rex 1 meters is appropriate and that this unique and special circumstance should not be treated as a Z-factor, then Energy Probe submits that the Board should consider the losses on derecognition of the Rex 1 meters separately from the losses on derecognition of the other previously pooled assets.

Hydro Ottawa acknowledges in their evidence (Exhibit B1, Tab 1, Schedule 1, page 7, lines 11-12) that the derecognition of the Rex 1 meters is slightly different from that of the other previously pooled assets.

Furthermore, Hydro Ottawa notes in the response to part (c) of Energy Probe Interrogatory #2 that all of the previously pooled asset retirements are based on normal operations, while the retirement of the Rex 1 meters is reflective of unique and special circumstances.

Because of the underlying differences in the causation of the losses on derecognition, Energy Probe submits that two separate accounts should be established. Hydro Ottawa acknowledged in the response to Staff Interrogatory #11, part (b) that it would be appropriate for the *"Rex 1 meters that are removed from the field due to the identified deficiencies (not failure)"* to be recorded in a subaccount.

Hydro Ottawa indicates in their evidence that the request for approval of the variance account (or accounts as submitted by Energy Probe) does not presume approval of the request for disposition. Hydro Ottawa indicates that this would take place after audited financial statements are available for 2015. Energy Probe submits that because of the very different nature of the Rex 1 meter retirements from the normal operational retirement of the other previously pooled assets, parties may have different views on the request for disposition of these two types of assets. It therefore makes sense to treat them as separate accounts.

C - MATERIALITY

The Board's *Filing Requirements for Electricity Distribution Rate Applications* revised on July 17, 2013 deals with the request for accounting orders to establish new deferral/variance accounts. In particular, Section 2.12.7 lists a number of criteria that must be met. One of those criteria is that the forecasted amounts must exceed the Board-defined materiality threshold. The same criteria applies for a request for a Z-factor event.

Hydro Ottawa's materiality threshold was identified to be \$790,000 in the last cost of service proceeding for the distributor (EB-2011-0054, Exhibit A4, Tab 1, Schedule 1).

A review of the table provided in the response to Energy Probe Interrogatory #2, part (a) shows that the total amounts forecast by Hydro Ottawa exceed the materiality threshold of \$790,000.

However, Energy Probe submits that if the Board determines that the replacement of the Rex 1 meters at this time is not required or appropriate, or if it determines that the Rex 1 meter replacements are a Z-factor event, or determines that the loss on derecognition account request should be treated as two stand alone components, then the only figure that qualifies for inclusion as a Z-factor or in the variance account requested, is the \$872,000 for the Rex 1 meters in 2013. The remainder of the Rex 1 meters forecast for 2014 and 2015 do not meet the materiality threshold, nor do any of the figures for 2013 through 2015 for the other previously pooled assets.

D - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs for participating in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 7, 2013

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