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BY EMAIL

November 7, 2013

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Hydro Ottawa Limited
2014 IRM4 Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0143**

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to Hydro Ottawa Limited and to all other registered parties to this proceeding.

Hydro Ottawa is reminded that its Reply Submission, if it intends to file one, is due by November 21, 2013.

Yours truly,

Original Signed By

Martha McOuat
Project Advisor

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

Hydro Ottawa Limited

EB-2013-0143

November 7, 2013

**Board Staff Submission
Hydro Ottawa Limited
2014 IRM4 Rate Application
EB-2013-0143**

Introduction

Hydro Ottawa Limited (“Hydro Ottawa”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 16, 2013, seeking approval for changes to the distribution rates that Hydro Ottawa charges for electricity distribution, to be effective January 1, 2014. The Application is based on the 2014 4th Generation Incentive Regulation Mechanism (“IRM”).

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Hydro Ottawa.

In the interrogatory phase, Board staff identified a discrepancy in the Residential and Sentinel Lighting billing determinants entered into the IRM Rate Generator Model. In response to Board staff interrogatories, Hydro Ottawa confirmed there were errors in the billing determinants filed and provided the corrected data. Board staff will make the necessary corrections to Hydro Ottawa’s models at the time of the Board’s Decision on the Application.

Board staff notes that the Tax-Savings Workform reflects the Revenue Requirement Work Form from the Board’s cost of service decision in EB-2011-0154, and that the resulting rate riders for the residential and General Service <50 kW are \$0 when rounded to the fourth decimal place. Board staff has no concerns with the Tax-Savings Workform as filed, or with Hydro Ottawa’s request to record the \$71,225 in Account 1595 for disposition in a future proceeding.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Hydro Ottawa. Pursuant to the Board’s Guideline G-2008-0001, Board staff notes that the Board will update the applicable data at the time of the Board’s Decision on the Application based on the Uniform Transmission Rates in place at that time.

Board staff makes detailed submissions on the following:

- Derecognition of Rex 1 Meters; and
- Request for Variance Account for Losses on Derecognition of Assets Previously Pooled under CGAAP

Derecognition of Rex 1 Meters

Background

Hydro Ottawa was one of the initial twelve licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities, installing 96,000 meters in 2006. The Rex 1 meter was the first generation offering by Elster and was an approved product for the Smart Metering Initiative. Hydro Ottawa is in the process of replacing these first generation smart meters with Rex 2 meters, to take advantage of the improved functionality offered by Rex 2's updated technology. Hydro Ottawa states that the early derecognition of the Rex 1 meters is primarily due to their limited memory retention of 23 days compared to 230 days for Rex 2 meters, as well as the absence of the "last gasp" functionality for outage restoration.

Submission

While recognizing that there have been improvements in smart meter technology since the introduction of the first generation Rex 1 meters in 2006, Board staff has some concerns with the pace of meter replacement adopted by Hydro Ottawa and the resulting cost impacts that would ultimately be borne by Hydro Ottawa's ratepayers. In response to VECC interrogatory #2, Hydro Ottawa provided a schedule of Rex 1 meters to be replaced from 2011 to 2020, as follows:

Rex 1 Meter De-recognition										
Disposal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of meters each year	1,158	212	8,808	3,867	3,867	5,867	5,841	3,179	2,217	2,217

Hydro Ottawa stated in response to Board staff interrogatory #5d) that Rex 1 meters are replaced by Rex 2 meters as they come into the Meter Shop or are taken out of service. This occurs only as "part of a regular meter removal (e.g. temporary service), meter

change (e.g. service consolidations) or meter check (meter pull for socket inspection)”. Hydro Ottawa further stated that it is not proactively upgrading the Rex 1 meters as part of a targeted program.

Board staff submits that Hydro Ottawa’s description of its meter replacement strategy would appear to indicate that the Rex 1 meters are being replaced through the normal course of Hydro Ottawa’s business practices related to meter maintenance activities. However, Board staff notes that the number of replacements fluctuate significantly each year. Board staff invites Hydro Ottawa to comment on why the replacements do not remain more constant over the period.

Hydro Ottawa has stated that replacement of the Rex 1 meters is necessary to ensure that significant data is not lost due to the limited memory of Rex 1 meters. In response to Board staff interrogatory #7, Hydro Ottawa states that meters are read on a daily basis, although there are numerous premises where data is not collected from every meter every day. Hydro Ottawa considers that the 23 day retention period is limited because there is a risk that staff will not be able to follow up on communication problems from the field within that time period and the data will be lost. Hydro Ottawa has not provided any evidence regarding the actual frequency of data loss.

Hydro Ottawa states that another factor influencing the decision to replace the Rex 1 meters is the absence of “last gasp” functionality for outage restoration which is available in the Rex 2 meter. In response to Board staff interrogatory #8, Hydro Ottawa indicates that it has a SCADA system and uses its geographic information system to support outage restoration. The “last gasp” functionality is required to pinpoint customers that have not been restored as part of broader problems that have been remediated, specifically those that are sleeping, at work or on holidays. Board staff submits that the last gasp functionality appears to be an enhancement, rather than a necessity for its distribution system operations. While Board staff acknowledges that “last gasp” technology is likely to improve service to customers, it is difficult to quantify the value of this in comparison to the additional costs of an accelerated replacement schedule.

Hydro Ottawa also proposes a variance account, within which it proposes to record approximately \$1.5 million between 2013 and 2015 for losses on derecognition of Rex 1 meters, based on the disposal of a total of 16,542 meters in that period. In response to

Board staff interrogatory #6, Hydro Ottawa has calculated a failure rate for all smart meters of 0.13%, or only 281 meters per year (or 843 between 2013 and 2015). This shows how many additional meters are proposed for replacement with the proposed accelerated schedule.

In response to Board staff interrogatory #9, Hydro Ottawa stated that the Rex 1 meters being replaced are approved for legal trade in Canada and provide a register read that is accurate. Further, Hydro Ottawa's response to VECC interrogatory 2e) indicates that both Toronto Hydro-Electric System and Horizon Utilities are continuing to recirculate Rex 1 meters into the field after service. Board staff submits that the Rex 1 meter's memory of 23 days and lack of last gasp functionality may not pose insurmountable problems and that the Rex 1 meters continue to be useful for their primary purpose of time-of-use billing for these other utilities. It is not clear why Hydro Ottawa's circumstances are different from those of Toronto Hydro and Horizon. Board staff submits that Hydro Ottawa's planned pace of replacements could be slowed to minimize the impact of the accelerated replacement schedule.

On July 3, 2013, Hydro Ottawa sent a letter to the Board indicating that it would be asking for a Z-factor deferral account for the derecognition of the Rex 1 meters. At Exhibit B1-T1- S1, page 3, Hydro Ottawa states that it has determined that the derecognition of Rex 1 meters is more appropriately related to the transition to International Financial Reporting Standards.

Board staff interrogatory #10c) refers to the *Addendum to the Report of the Board* (EB-2008-0408), ("the *Addendum*") which states that utilities can apply to the Board for a utility-specific variance account for gains and losses arising from the application of IFRS rules to the early retirement of in-service assets if the utility can demonstrate the probability of significant ongoing volatility. Board staff submits that, for the reasons noted above, the losses upon derecognition of Rex 1 meters is related to management decisions regarding the pace of replacement of these assets, rather than to a transition to IFRS. Board staff submits that these losses should not be included in any regulatory account that may be established as a result of any IFRS related transition impacts. Board staff also suggests that it would be more appropriate for Hydro Ottawa to apply through a separate application for a Z-factor treatment of these losses, if Hydro Ottawa believes that it will be materially affected. In so doing, Board staff submits that Hydro

Ottawa should demonstrate how its request meets the three Z-factor criteria of causation, materiality and prudence as described in the Filing Requirements.

Board staff submits that, should the Board approve Hydro Ottawa's request to include these costs in a variance account, the amounts related to Rex 1 meters should be recorded separately from other asset types and Hydro Ottawa should be required to submit an annual report stating the number of meters replaced, the reasons for replacement and the costs booked to the account.

Request for Variance Account for Losses on Derecognition of Assets Previously Pooled under CGAAP

Background

Hydro Ottawa has requested approval of a variance account to record losses on derecognition of assets previously pooled under CGAAP. Hydro Ottawa's approved revenue requirement for 2012 did not include a forecast of gains or losses arising from the early retirement of previously pooled assets. In this application, Hydro Ottawa has forecast a total variance from this \$0.00 forecast of \$655k, \$460k, \$312k, \$500k and \$500k for the years 2011 to 2015 respectively, excluding the Rex 1 meters discussed above.

Submission

In its 2012 cost of service application (EB-2011-0054), Hydro Ottawa requested a deferral account to capture gains and losses on the disposal of previously pooled assets. The Board denied Hydro Ottawa's request, stating that the *Addendum* considered the possibility of a variance account on a case-by-case basis, provided that a utility could demonstrate the probability of significant ongoing volatility, which Hydro Ottawa had been unable to provide in that proceeding. It is unclear to Board staff how the current request for a variance account differs from the previous deferral account request. Hydro Ottawa is requesting to record its variances from \$0.00. Board staff submits that, for all intents and purposes, Hydro Ottawa is requesting a deferral account.

Unlike its EB-2011-0054 request, Hydro Ottawa has provided a forecast of losses on previously pooled assets in this proceeding, based on its actual experience in 2011, 2012 and the first six months of 2013. In response to Board staff interrogatory 10c), Hydro Ottawa states that “the ability to demonstrate the probability of significant ongoing volatility... is difficult for the same reasons that it was difficult to forecast the amount to include in the revenue requirement in 2012”. Hydro Ottawa further states that it “does not have a good historical record” on which to forecast gains and losses.

In response to Board staff interrogatory 10c), Hydro Ottawa states that the variance from \$0.00 is “significant” and “material”. Board staff notes that Hydro Ottawa’s materiality threshold as calculated in EB-2011-0054 is \$790k, an amount which has not been reached in 2011 or 2012, nor is it forecast to be reached from 2013 to 2015. Board staff notes that Hydro Ottawa has not provided any evidence in this proceeding to indicate that its annual losses on derecognition of assets previously pooled under CGAAP has impacted Hydro Ottawa in a material way. Board staff submits that Hydro Ottawa has not met the criteria of materiality to establish a variance account.

For the reasons discussed above Board staff submits that Hydro Ottawa has not adequately demonstrated the need for a variance account to capture gains and losses on derecognition of previously approved assets, and that its request should be denied.

All of which is respectfully submitted