



PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC

ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. <http://www.piac.ca>

Michael Janigan
Counsel for VECC
(613) 562-4002 ext. 26

November 7, 2013

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Hydro Ottawa Limited EB-2013-0143
Final Submissions of VECC

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC
Encl.

cc: Hydro Ottawa Limited

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15 (Schedule B), as amended;

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

FINAL SUBMISSIONS

On Behalf of The

Vulnerable Energy Consumers Coalition (VECC)

November 7, 2013

Public Interest Advocacy Centre

ONE Nicholas Street
Suite 1204
Ottawa, Ontario
K1N 7B7

Michael Janigan
Counsel for VECC
(613) 562-4002 ext. 26

FINAL SUBMISSIONS

Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 The Application

- 1.1 Hydro Ottawa Limited (“Hydro Ottawa”, “the Applicant”, or “the Utility”) filed an application (“the Application”) with the Ontario Energy Board (“the Board” or “the OEB”), under section 78 of the *Ontario Energy Board Act, 1998* for permission to change its delivery charges beginning January 1, 2014 under 4th Generation Incentive Regulation Mechanism. As part of the application, Hydro Ottawa is requesting approval of a variance account for 2013 to 2015 in order to record amounts related to the derecognition of assets that would have been pooled under CGAAP but are not pooled under IFRA.
- 1.2 The following section sets out VECC’s final submissions regarding Hydro Ottawa’s proposed variance account request.

2 Variance Account Proposal

- 2.1 Hydro Ottawa is requesting approval of a variance account to capture losses or gains arising from early retirement of in-service assets, with a variance from \$0 for 2013 to 2015 for the derecognition of assets that would have been pooled under CGAAP but are moved to discrete assets under IFRS. Hydro Ottawa indicates that the request for approval of the variance account does not presume approval of disposition which will occur after audited financials are available for 2015.¹
- 2.2 Hydro Ottawa has provided losses on derecognition of assets in two categories: other previously pooled assets under GGAAP that are moved to discrete assets under IFRS and Rex 1 meters.
- 2.3 Hydro Ottawa provides a breakdown of asset types under other previously pooled assets in Energy Probe interrogatory #2 (c). Hydro Ottawa indicates the derecognition of Rex 1 meters is slightly different.²
- 2.4 On July 3, 2013 Hydro Ottawa sent a letter to the Board that they believed a Z factor event had occurred with respect to its Rex 1 meters and Hydro Ottawa would be asking for a Z factor deferral account. However, after further review Hydro Ottawa determined that derecognition of the Rex 1 meters is more

¹

² Exhibit B1, Tab 1, Schedule 1, Page 7

appropriately related to the transition to IFRS.³

- 2.5 Hydro Ottawa's 2012 cost of service application was approved on an IRFS basis and its approved 2012 revenue requirement included a forecast of \$0 for the gains or losses arising from early retirement of previous pooled assets under CGAAP. At that time, Hydro Ottawa did not have any historical information upon which to establish a forecast.⁴
- 2.6 In the pre-filed evidence, Hydro Ottawa provided an update on the losses on derecognition of the two categories of assets based on 2011 and 2012 actuals, 2013 year to date actuals and forecasts for the remainder of 2013, 2014 and 2015.
- 2.7 In response to Energy Probe IR#2(a) Hydro Ottawa updated the 2013 actuals to September and the 2013 forecast to year end that resulted in a slight increase in losses for other previously pooled assets and no change for Rex 1 meters. The updated forecast is \$1,197,000 for 2013, \$835,000 for 2014 and \$795,000 for 2015.⁵
- 2.8 Hydro Ottawa indicates the amounts shown for Rex 1 meters are related to the shortcomings of the meters and the requirements of IFRS related to previously pooled assets.⁶ VECC does not agree the amounts for the Rex 1 meters are related to the requirements of IFRS and provides further comments at paragraph 2.20.
- 2.9 Hydro Ottawa was one of the six early adopters of the smart meter program and it installed over 96,000 Elster Rex 1 smart meters in 2006 that were approved for deployment under the smart meter initiative.⁷ Hydro Ottawa indicates it is in the process of replacing Rex 1 meters with Rex 2 meters due to their limited memory retention of 23 days compared to 230 days for a Rex 2 meter as well as the absence of the "last gasp" functionality for outage restoration. Hydro Ottawa is proposing to derecognize these assets and is proposing to capture the losses in the requested variance account.
- 2.10 Rex 1 meters were installed between 2006 and 2008 at an average cost of \$124.⁸ In 2011 and 2012, a total of 1,370 Rex 1 meters were replaced and Hydro Ottawa estimates that 35,863 Rex 1 meters will be replaced between 2013 and 2020 at a capital cost of \$10,616,000 based on a \$296 average cost to install a Rex 2 meter. By the end of 2020, Hydro Ottawa indicates it will have

³ Exhibit B1, Tab 1, Schedule 1, Page 3

⁴ VECC IR#3(a)

⁵ Exhibit B1, Tab 1, Schedule 1, Page 7

⁶ Energy Probe IR#3(b)

⁷ Exhibit B1, Tab 1, Schedule 1, Page 7

⁸ Energy Probe IR#4(b)

replaced less than 20% of the Rex 1 meters.⁹ In VECC's view, these costs are significant and it is not clear to VECC based on the evidence that they are warranted at this time.

- 2.11 Hydro Ottawa estimates the total value of meters to be recovered at \$2.5 million which represents the losses on disposal over the period 2013-2020. In this application, Hydro Ottawa proposes to record in the variance account the amounts for the years 2013-2015, approximately \$1.5 million related to the replacement of 16,542 Rex 1 meters.¹⁰ As part of its 2016 cost of service application, Hydro Ottawa intends to include the remaining meters to be derecognized in its revenue requirement.
- 2.12 Hydro Ottawa indicates the Rex 1 meters are only replaced as they are removed from the field (come into the Meter Shop or are taken out of service) which occurs as part of a regular meter removal, meter change or meter check. Employees are not proactively upgrading the Rex 1 meters through a targeted program.¹¹
- 2.13 VECC is not convinced Hydro Ottawa needs to replace the Rex 1 meters that are removed from the field.
- 2.14 In response to VECC IR#2(d) Hydro Ottawa provided information on other distributors that it is aware of that have had issues with Rex 1 meters. Toronto Hydro indicates they scrap Rex 1 meters that are defective but if meters can be reused they are put back in service. Horizon reports that they circulate their Rex 1 meters back to the field.¹²
- 2.15 Hydro Ottawa points out that the request for the account for replacing REX 1 meters is not based on observed failures (0.13%) but due to the extended features of the Rex 2 meters that enhance the data capability when data collection is not possible. If one assumes replacements only occur when the meter fails, Hydro Ottawa estimates that 281 failures would occur each year (2013-2015) at a cost of \$86,176 per year. VECC observes this is an order of magnitude less than the proposed 2013 to 2015 average annual cost of approximately \$1.6 million and a far less burden on ratepayers.
- 2.16 In response to Board Staff interrogatory #9 as to whether Rex 1 smart meters are fully functional and accurate Hydro Ottawa indicated Rex 1 meters are approved for legal trade in Canada and provide a register read that is accurate. Hydro Ottawa believes that all customers want to be provided with the level of service that the Rex 2 provides and therefore it is appropriate to recover this cost from

⁹ VECC IR#2(c) & (d)

¹⁰ Energy Probe IR#2(a)

¹¹ Board Staff IR#5(d)

¹² VECC IR#2(d)

ratepayers. VECC notes Hydro Ottawa has not provided any evidence to support this.

- 2.17 VECC acknowledges the additional features of the Rex 2 meters enhance data capability and the longer data retention periods reduce the chances of lost data. In response to Board Staff interrogatory#7, Hydro Ottawa discusses the risk of staff not being able to properly identify and followup on communication problems from the field within the Rex 1 23 day retention period and as a result customer's consumption would have to be updated. Hydro Ottawa indicates that there are tens of thousands of meters not read every day and there are meters that do not get read for multiple days. However, VECC is unclear based on the evidence how often the situation occurs where staff are unable to followup within the 23 day period.
- 2.18 VECC has reviewed the submissions of Energy Probe and agrees with Energy Probe that replacing meters while they are still functional simply because new and better technology is available is a never ending cycle and ratepayers should not be expected to pay for two meters when one still works fine.¹³
- 2.19 In considering the above, VECC does not support the replacement of Rex 1 meters that are not at their end of life that are still functional and providing accurate readings on the basis the significant additional costs to ratepayers is not warranted.
- 2.20 If the Board approves Hydro Ottawa's Rex 1 meter replacement strategy, VECC agrees with Energy Probe that that the stranded net book value of these meters should be treated as a Z factor rather than in a variance account related to the transition to IFRS.¹⁴ The retirement of the meters is not as a result of normal operations but rather it is due to Hydro Ottawa's strategy regarding the pace of replacements prior to failure or end of useful life. Hydro Ottawa describes circumstances associated with its Rex 1 meters as unique and special.¹⁵ On this basis VECC submits a Z factor application better reflects Hydro Ottawa's unique circumstances.
- 2.21 With respect to the variance account, the Board's Decision in EB-2011-0054 regarding Hydro Ottawa's deferral account request at that time, stated that utilities need to provide a forecast and demonstrate probability of volatility in order for the Board to consider the matter of a variance account. In response to Board Staff interrogatory #10(c), Hydro Ottawa indicates the ability to demonstrate volatility is difficult for the same reasons it was before. It is because of the significant and material variance from the 2012 estimate of \$0 that Hydro

¹³ Energy Probe Submission, Page 3

¹⁴ Energy Probe Submission, Page 4

¹⁵ Energy Probe IR# 2(c)

Ottawa is asking for the variance account.

- 2.22 VECC supports Energy Probes' submissions that based on Hydro Ottawa's materiality threshold of \$790,000 established in EB-2011-0054, only the \$872,000 in 2013 for Rex 1 meters would qualify for inclusion in the variance account should the Board approve Hydro Ottawa's request, assuming the loss on derecognition of Rex 1 meters is treated as a separate account as agreed to by Hydro Ottawa in response to Board Staff interrogatory#11(b). VECC submits a separate account is desirable given the derecognition of Rex 1 meters is slightly different.¹⁶

3 Recovery of Reasonably Incurred Costs

- 3.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 7th day of November 2013.

¹⁶ Exhibit B1, Tab 1, Schedule 1, Page 7