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November 21, 2013

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th 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 2014 IRM Rate Application (EB-2013-0143) reply submission.

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

Yours truly,

Original signed by

Jane Scott
Manager, Rates and Revenue

Ontario Energy Board

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

AND 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.

Hydro Ottawa Limited

Reply Submission

On August 16th, 2013, Hydro Ottawa Limited ("Hydro Ottawa") filed its 2014 Electricity Distribution Rates ("EDR") Incentive Regulation Mechanism ("IRM") Application with the Ontario Energy Board (the "OEB" or "Board") for rates effective January 1, 2014. The OEB issued the Notice of Application on September 5, 2013. Hydro Ottawa received interrogatories from Board staff, Energy Probe Research Foundation ("Energy Probe") and the Vulnerable Energy Consumers Coalition ("VECC") on October 10, 2013. Hydro Ottawa filed its responses to all interrogatories on October 24, 2013. On November 7, 2013, Board staff, Energy Probe and VECC filed their submissions with respect to the application.

Hydro Ottawa has no further comments on Board staff's submissions that (1) it will make the necessary corrections to the Hydro Ottawa models with respect to Sentinel Lighting billing determinants, (2) Hydro Ottawa will record the $71,225 related to tax-savings in Account 1595 for disposition in a future proceeding and (3) Board staff will update the Retail Transmission Service Rate model based on the Uniform Transmission Rates in place at the time of the Board's Decision on the Application.

All three parties; Board staff, Energy Probe and VECC, have made detailed submissions on the following two topics:

- Derecognition of Rex 1 Meters, and
- Request for Variance Accounts for Losses on Derecognition of Assets Previously Pooled under Canadian Generally Accepted Accounting Principles ("CGAAP").

Derecognition of Rex 1 Meters

- **Replacing the meters at this time is not prudent**

Board staff, Energy Probe and VECC all submitted that in their opinion Hydro Ottawa does not need to replace the Rex 1 meters at this time. The following reasons were given and Hydro Ottawa will address each of them:

- *Both Toronto Hydro and Horizon have indicated that they are still putting their Rex 1 meters back in service.* Hydro Ottawa submits that Board staff, Energy Probe and VECC are selective in referring to this evidence about the actions of other utilities regarding Rex 1 meters. It should be noted that another example was given in Hydro Ottawa's evidence, that of Veridian[1], who has chosen to follow the same path as Ottawa. In addition, the operating circumstances of Toronto and Horizon's situation may be different. They may not be having the same significant issues with communications as Ottawa and/or they may not have an Outage Management System that can make use of the last gasp functionality. Hydro Ottawa has been addressing communications challenges that result in Independent Electricity System Operator performance issues specific to Billing Quantity, i.e. BQ exceptions. Hydro Ottawa uses a multi pronged approach to address data irregularities through application of Validation, Estimation and Edit data rules, exception reporting and management. The approach also includes mechanisms to address the root cause, the revenue meter, when irregularities and opportunities avail themselves to upgrade data retention.

[1] Hydro Ottawa response to VECC Interrogatory #2e)

- *Hydro Ottawa has not provided any evidence to support the statement that all customers want to be provided with the level of service that the Rex 2 provides*. While Hydro Ottawa has not asked our customers directly if they want to have their Rex 1 meters replaced by a Rex 2 meter, we do ask questions related to power reliability, outages and billing. In Hydro Ottawa's most recent customer satisfaction survey, customers sent a clear signal as to what are the most important things Hydro Ottawa could do or fix to improve service to their customers, 11% said 'improve power reliability' and 9% said 'improve billing' second and third only to 'better prices/lower rates'. The use of Rex 2 meters in place of Rex 1 will work toward both improving power reliability (by allowing Hydro Ottawa to know faster when a meter is not communicating) and improving billing (by ensuring that actual data is used, not estimates). Hydro Ottawa is leveraging industry experience and best practices to modernize the network and provide higher levels of service. This leverages our already significant multimillion dollar investment in Smart Meters.
- *While acknowledging that the longer date retention period is a benefit, parties were unclear on how often the situation occurs where staff are unable to follow up within the 23 day period.* Hydro Ottawa has not historically tracked a metric to determine how many times we have encountered the situation where data is lost after 23 days. Currently a report is generated by Meter Data Services ("MDS") that reassesses all meters in the Hydro Ottawa system that have not communicated within 15 days. The report generated after 15 days in order to manage the total number of exceptions to a manageable level must be assessed by MDS for known exceptions and processed and filtered for known irregular system conditions, new construction areas and customers with inside meters that are known to have turned their main switch off and effectively

turned off the smart meter. This report is then given to Hydro Ottawa's Metering group to generate a Field Activity work order to assign a Metering Crew to go out into the field to check. As VECC states "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"[2]. The list of data exceptions is very long and most non reporting meters may remedy themselves within a short period and will not require expensive field intervention. Metering is required to work the exception reports over a two week period until the next revision is sent out, therefore it is unlikely that many instances of exceptions would be addressed within the 23 days retention period of a Rex 1, especially when one considers that the 23 days is calendar days, the report is not generated until after 15 days and there is data processing time, field processing time and crews do not work on weekends.

- *Energy Probe states that "Replacing meters while they are still functional simply because there is a 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 one with the new gadget."*[3] Hydro Ottawa finds this statement has an inference that the consideration to manage the meter population is related to a need for technology for technology's sake rather than addressing the operational and technological needs of the customer and a complex metering and billing strategy. Hydro Ottawa is building on the extensive Provincial Smart Meter initiative which required LDCs to remove existing functional analogue meters from the field and replaced them with a new technology. First, Elster discontinued sales of the Rex 1 meters in 2008 so all new meters from Elster are Rex 2 meters. Hydro Ottawa believes it is a prudent thing to replace an obsolete technology with one that provides updated functionality for the

[2] VECC Submission re Hydro Ottawa 2014 IRM Rates, November 7, 2013, p. 6
[3] Energy Probe Submission re Hydro Ottawa 2014 IRM Rates, November 7, 2013, p. 3

customer provided it furthers the present operational and business needs and provides an added benefit for the future. The OEB has approved the recovery of the costs of the Smart Meters and the resultant stranded meters and Hydro Ottawa has not been provided with any evidence outlining why this upgrade to Rex 2 meters should not also be borne by ratepayers. Secondly, the statement implies that any asset should not be replaced until it fails. Hydro Ottawa has a regulated requirement for meters from its Federal Regulator, Measurement Canada, not to manage its meter population to failure and for Hydro Ottawa to exercise significant control, due diligence and expertise in the management of its meter population for equitable electricity measurement to the benefit of the customer. Hydro Ottawa believes that the implication from Board staff, Energy Probe and VECC characterizes a naive view on Hydro Ottawa's asset replacement plan and not the complex well considered approach which is the reality. As the evidence indicated, Hydro Ottawa's current plan is to replace 35,863 Rex 1 meters in the 2013 to 2020 period of the original 96,000 first generation Rex 1 meters installed in 2006. Clearly Hydro Ottawa is not rushing to replace these meters but has developed a prudent operational plan which balances pace of replacement, priority of replacement and impact on customers. Hydro Ottawa submits that the implied suggestion of Board Staff, Energy Probe and VECC that these assets be replaced on a 'run to failure' strategy is completely unworkable and would be imprudent from a long term asset management perspective.

- *It was not clear, if Hydro Ottawa was taking the Rex 1 meters out to the field as they came out of service, why the number of meters coming out each year does not remain constant over the period.* The meters removed from the field in 2011 and 2012 were as a result of targeted project addressing exception lists of meters with communication defects. Hydro Ottawa was required to remedy the issues of the non-responding meters installed in the network at the very end of the smart meter deployment once the over arching communications network was fully in place. The high volume of meters in difficult communications areas of the service territory such as inside meters, rural properties and in deep basements of commercial properties where radio frequency waves would not propagate were mixed with those meters that had performance problems and masked the inability of the meter to transmit at all or exhibited other performance issues. This investigative field work was only possible after the Wide Area Network (“WAN”) deployment was refined reducing tens of thousands of communications exceptions to a few thousand exceptions. When premise by premise investigation was possible with manageable labour effort, high volumes of exchanges for working meters were realized. These meters would have been the installations where there was certainty that data loss would have existed. Going forward, the number of meters that are removed from the field and therefore come out of service is driven by Compliance Testing under a Measurement Canada approved sampling plan. The volume of meters tested each year is based on the volume of meters purchased in each of the installing years. Hydro Ottawa installed 96,000 meters in 2006 and based on a ten year Measurement Canada seal life, Hydro Ottawa would have had to test them all in 2016. This would not have been physically possible, so in order to meet our operational needs and obligations, groups of meters were brought forward into 2013-2015 to smooth out the work volume. As they were being tested, the Rex 1 meters were removed from service. Subsequent years remain fairly constant.

- *Board staff submitted that "while 'last gasp' technology is likely to improve service to customers"*[4] *it was more of an enhancement and "it was difficult to quantify the value of this in comparison to the additional cost."*[5] Hydro Ottawa submits that as the electricity sector moves further towards a Smart Grid, functions such as 'last gasp' will no longer be considered enhancements but part of core functionality and it would be unfair for some customers to have this ability but not others. As an interim measure and mechanism to meet the goal of increased power restoration performance for our customers the installation of Rex 2 meters in areas of high density Rex 1 meter deployment provides some visibility to the system operators during storms and natural disasters. As indicated above, our customers consider increased power reliability an important attribute of our service.

In summary, Hydro Ottawa submits that it is prudent to replace the Rex 1 meters as they come out of the field and it is acceptable for the ratepayer to bear the cost in order for all customers to be ensured of benefitting from all of the features the Smart Meters have to offer.

- **Rex 1 meters are not related to the requirements of International Financial Reporting Standards ("IFRS") and therefore should be Z factor**

Board staff, Energy Probe and VECC all submitted that if the Board does determine that it is prudent for Hydro Ottawa to recover the costs of replacing the Rex 1 meters, then it should be treated as a Z-factor. As VECC states, they do "not agree the amounts for the Rex 1 meters are related to the requirements of IFRS"[6]. Hydro Ottawa still acknowledges that the circumstances associated with the Rex 1 meters are somewhat unique and special. However, Hydro Ottawa submits that Board staff, Energy Probe and VECC are incorrect in suggesting that the Rex 1

[4] Board Staff Submission re Hydro Ottawa 2014 IRM Rates, November 7, 2013, p.3
[5] *ibid*
[6] VECC Submission re Hydro Ottawa 2014 IRM Rates, November 7, 2013, p.4

meters are not related to the requirements of IFRS. The financial impact to Hydro Ottawa and therefore the request for a variance/deferral account is only related to the requirement of IFRS. If the Rex 1 meter situation had occurred under CGAAP, Hydro Ottawa would have made the same management decision and proceeded in a similar manner of removing the meters from service as they came in from the field, however as a result of the use of pooled assets, there would have been no loss or gain to be recorded. Hydro Ottawa would not have asked for a variance account or any reimbursement. It is only because Hydro Ottawa has transitioned to IFRS that the loss is visible and this is why Hydro Ottawa believes that it is appropriately handled by means of a deferral/variance account related to IFRS, regardless if it is under the discretion of management or not.

However, should the Board not approve the variance subaccount for the removal of the Rex 1 meters, then Hydro Ottawa would reserve the right to apply at a later date for a related Z factor.

Request for Variance Account for Gains and Losses on Derecognition of Assets Previously Pooled under CGAPP

- **Materiality**

Board staff submits, and Energy Probe and VECC agreed, that Hydro Ottawa's requested approval of a variance account to record gains and losses on derecognition of assets previously pooled under CGAAP has not met the criteria of materiality to establish a variance account. This is based on Hydro Ottawa's materiality level of $790k from its 2012 Distribution Rate Application (EB-2011-0054). Board staff and the intervenors also based their submission on the supposition that the Board had either disallowed the recovery of the Rex 1 meters or if they had allowed the losses to be recorded, it would be in a separate account. As stated in Hydro Ottawa's reply to Energy Probe Interrogatory #3a, Hydro Ottawa agreed that the Rex 1 meters could be recorded in a subaccount so that additional detail could be provided, but not a separate account. Hydro

Ottawa has sought approval for one variance account. This is because all of the assets, including Rex 1 meters, being derecognized were previously pooled assets under CGAAP. Under IFRS, these assets are treated differently for accounting purposes than under CGAAP, when they are removed from service. In the variance account, the amounts recorded annually in the account are forecasted to be $1,197k in 2013, $835k in 2014 and $795k in 2015, which are all above Hydro Ottawa's materiality level.

Hydro Ottawa submits it would be unjust and unreasonable to create separate accounts for each different asset (i.e. Rex 1 meters, poles, transformers, etc) all dealing with the same accounting issue of moving from CGAAP to IFRS only to create dollar impact amounts that would not meet materiality thresholds.

In the Board's *Filing Requirements for Electricity Distribution Rate Applications*, ("*Filing Guidelines*") revised on July 17, 2013, Section 2.2.4 states that the materiality limit for a utility the size of Hydro Ottawa is calculated based on 0.5% of distribution revenue requirement and that the "applicant must provide justification for changes from year to year to its rate base, capital expenditures, OM&A"[7]. This application of the material threshold on an <u>annual</u> basis makes sense in the context of a cost of service application and the required explanations between actual to budget spending and actual to actual spending. However, further in the *Filing Guidelines* in Section 2.12.7, if the applicant is seeking an accounting order to establish a new deferral/variance account, then "[t]he forecasted amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor"[8]. Similarly in Section 3.2.2.1, the materiality criteria for a Z-factor event is stated as "The amounts

[7] Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications, July 17, 2013, Chapter 2, p.9
[8] *ibid*, Chapter 2, p.55

must exceed the Board-defined materiality and have a significant influence on the operation of the distributor”.[9]

Hydro Ottawa submits that in the above referenced cases for deferral/variance accounts and Z-factor accounts, there is no indication that the material threshold refers to an ‘annual’ amount. In both cases, the requirement to request a deferral/variance account or a Z-factor event could occur over a number of years and while one year’s amount may be below the materiality threshold, the cumulative effect of the event could have a significant influence on the operation of the distributor.

In the case of Hydro Ottawa’s request for a variance account for gains and losses due to the derecognition of assets previously pooled under CGAAP, as shown in the table provided in the response to Energy Probe Interrogatory #2a, the forecasted amounts for the years 2013 to 2015 for the assets excluding Rex 1 meters are $325k, $500k and $500k, for a total of $1,325k. It should also be noted that Hydro Ottawa has already incurred $655k and $460 in 2011 and 2012 respectively and has not asked for recovery of these amounts. Based on Hydro Ottawa’s net income in 2012 of $26M, $500k represents 2%, which Hydro Ottawa does consider material to its bottom line. It is interesting to note that when deferral/variance accounts are disposed of, there is no materiality level considered and Hydro Ottawa submits that in the case of applying for this deferral/variance account, because the volatility is not known, the materiality should be looked at in total.

- **Repeat of request**

Board staff states that “It is unclear to Board staff how the current request for a variance account differs from the previous deferral account request”.[10] Board staff is referring to Hydro Ottawa’s request for a deferral account as part of its 2012 cost of service application (EB-2011-

[9] Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications, July 17, 2013, Chapter 3, p. 7
[10] Board Staff Submission re Hydro Ottawa 2014 IRM Rates, November 7, 2013, p.5

0054) in which Hydro Ottawa was unable to forecast the amount of gains and losses in our revenue requirement from the derecognition of previously pooled assets.

Hydro Ottawa was one of, if not the first, utilities to bring forward an application in IFRS and at that time the true impact of previously pooling assets was not known. Other utilities that have brought forward subsequent applications have learned from Hydro Ottawa's failure to provide a forecast and by including a forecast, have had variance accounts approved. Hydro Ottawa does not feel it should be punished for once again being a trail blazer in terms of implementation of new policies within the OEB regulatory scheme; that is transitioning to IFRS without having a clear idea of the impact of no longer pooling assets. Hydro Ottawa believes that with the passage of time and some experience, it is now in a better position to request the variance/deferral account.

In conclusion, Hydro Ottawa submits that it has shown that the replacement of Rex 1 meters as they are brought in from the field is a prudent management practice and Hydro Ottawa should be able to recover the cost of doing so from its ratepayers. In addition, Hydro Ottawa has shown that gains and losses due to the derecognition of assets previously pooled under CGAAP are both annually and cumulatively material to the operations of Hydro Ottawa over the IRM period and therefore Hydro Ottawa should be allowed to record both of these amounts in a variance/deferral account.

All of which is respectfully submitted.