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BY EMAIL

January 20, 2010

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

Dear Ms. Walli:

**Re: E.L.K. Energy Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0126**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to E.L.K. Energy Inc. and to all other registered parties to this proceeding.

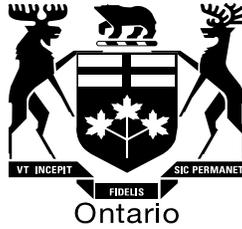
In addition please remind E.L.K. Energy Inc. that its Reply Submission is due by February 16, 2011.

Yours truly,

Original signed by

Suresh Advani

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

E.L.K. Energy Inc.

EB-2010-0126

January 20, 2011

**Board Staff Submission
E.L.K. Energy Inc.
2011 IRM2 Rate Application
EB-2010-0126**

Introduction

E.L.K. Energy Inc. (“E.L.K.”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on October 1, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that E.L.K. charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 2nd Generation Incentive Regulation Mechanism.

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 E.L.K.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by E.L.K. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the application, E.L.K. confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to E.L.K.’s model at the time of the Board’s Decision and Order on the application.

Board staff makes submissions on the following matters:

- Review and Disposition of Deferral and Variance Account Balances;
- Global Adjustment Sub-Account Disposition: Separate Rate Rider;
- Smart Meter Funding Adder; and
- PILs Adjustment Calculation.

Review and Disposition of Deferral and Variance Account Balances

Background

For purposes of 2011 IRM applications, the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") requires a distributor to determine the value of its December 31, 2009 Group 1 Deferral and Variance account balance and determine whether the balance exceeds the preset disposition threshold of \$0.001 per kWh using the 2009 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2011 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

E.L.K. requested that the Board review and approve the disposition of its December 31, 2009 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2011. The total balance of the Group 1 accounts is a debit of \$1,548,504. Debit balances are amounts recoverable from customers. This amount results in a total claim per kWh of \$0.006696.

E.L.K. proposed a disposition period of one year for its Group 1 account balances.

Submission

Board staff notes that as confirmed by E.L.K. in response to Board staff interrogatory # 5, the principal amounts to be disposed as of December 31, 2009 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements ("RRR"). Board staff therefore submits that the amounts should be disposed on a final basis. Board staff also submits that E.L.K.'s proposal for a one year disposition period for its Group 1 account balances is in accordance with the EDDVAR Report. Consequently, Board staff has no issues with E.L.K.'s request.

Global Adjustment Sub-Account Disposition: Separate Rate Rider

Background

Consistent with the Board's Decision and Order in its 2010 IRM application (EB-2009-0197), E.L.K. is proposing to continue the disposition of the allocated global adjustment sub-account balance from all customers in the affected rate class. E.L.K. indicated that it will further investigate and report to the Board, in a proceeding no later than its next rebasing application, E.L.K.'s projection of the costs that it would incur to accommodate a separate rate rider that would prospectively apply to non-RPP customers only.

Submission

In its Decision and Order in the EB-2009-0197 proceeding, the Board agreed in principle with Board staff that a separate rate rider should apply to non-RPP customers to dispose of the global adjustment sub-account balance. However, the Board noted that E.L.K.'s billing system was not capable of implementing such a change, and as a result, the Board approved the disposition of the allocated global adjustment sub-account balance from all customers in the affected rate class. The Board further directed E.L.K. to investigate and report to the Board, in a proceeding no later than E.L.K.'s next rebasing application, E.L.K.'s projection of the costs that it would incur to accommodate a separate rate rider that would prospectively apply to non-RPP customers only.

Board staff submits that E.L.K.'s proposal is in compliance with the Board's EB-2009-0197 Decision and Order.

Smart Meter Funding Adder

Background

E.L.K. requested an increase to its smart meter funding adder from the existing \$1.00 to \$1.45 per metered customer per month.

E.L.K. is not seeking approval for capital and operating costs incurred to date or in 2011 in this application, but will track revenues received from the funding adder, and actual costs incurred, in the established smart meter related variance accounts for review and disposition in a subsequent application.

Submission

Board staff notes that actual smart meter expenditures will be subject to a prudence review when E.L.K. makes an application for the disposition of smart meter related variance account balances in a subsequent proceeding. Board staff takes no issue with E.L.K.'s proposal to increase its smart meter funding adder to \$1.45 per metered customer per month.

PILs Adjustment Calculation

Background

In response to Board staff interrogatory #1, E.L.K. indicated that in its calculation of the PILs Adjustment in Sheet D1.1 of the Rate Generator Model, the "2006 EDR Base Revenue Requirement From Distribution Rates" included the Transformer Allowance Credit of \$22,033.

Submission

Board staff notes that E.L.K.'s rationale for including the Transformer Allowance Credit in the Base Revenue Requirement From Distribution Rates is unclear, and invites E.L.K. to provide the rationale for doing so in its reply submission.

All of which is respectfully submitted.