

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27^e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone : 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

June 17, 2011

Mr. Mark Danelon
Manager, Finance and Regulatory Affairs
E.L.K. Energy Inc.
172 Forest Ave.
Essex, ON
N8M 3E4

Dear Mr. Danelon:

**Re: 2012 Electricity Distribution Rates
Board File No. EB-2011-0099**

By letter dated March 1, 2011, the Board identified E.L.K. Energy Inc. ("E.L.K.") as one of the distributors expected to file its 2012 rate application on a cost of service basis. The Board is in receipt of your letter dated March 30, 2011 requesting that E.L.K. be permitted to defer the rebasing of its rates beyond the 2012 rate year.

The Board has considered the rationale for deferral set out in your letter, as well as the following:

- E.L.K.'s financial position, as shown in its audited financial statements and financial reporting to the Board;
- E.L.K.'s 3-year performance with respect to system reliability indicators and electricity service quality requirements/indicators, as reported to the Board; and
- Credit rating information obtained about E.L.K.

The Board has reviewed E.L.K.'s financial results since the last time it rebased in 2006 and is concerned about the amount by which E.L.K.'s return has exceeded the level of return that underpins its rates.

In order for the Board to further consider your request for deferral, the Board requires, by June 30, 2011, that you file a calculation of E.L.K.'s return on equity and return on rate base for both 2009 and 2010, together with an explanation of the drivers for the levels of return. These calculations should be provided based on both E.L.K.'s actual

and deemed capital structures. If the return levels for these two years are confirmed to be materially above the level that underpins E.L.K.'s rates, you should also explain why you believe it is nonetheless appropriate for the Board to defer rebasing of E.L.K.'s rates.

The Board has reserved file number EB-2011-0099 for E.L.K.'s 2012 rate application. Please refer to this file number in all correspondence related to your 2012 rate application.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary