ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

E.L.K. Energy Inc.

EB-2007-0840

January 14, 2008

INTRODUCTION

E.L.K. Energy Inc. ("E.L.K.") submitted an application on October 29, 2007, seeking approval for changes to the rates that E.L.K. charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On January 3, 2008, E.L.K. filed an addendum proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of the evidence submitted by E.L.K.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

E.L.K. proposes to reduce its RTR — Network Service Rate by approximately 25% and its RTR — Line and Transformation Connection Service Rate by about 44% for all customer rate classes.

Discussion and Submission

To derive their proposed RTR adjustments, E.L.K. determined their annual wholesale transmission network and connection costs based on the Board rate order dated October 17, 2007 (EB-2007-0759) and 2006 readings. The network and connection costs were further reduced by the credit balances as of December 31, 2006 in variance accounts 1584 and 1586 respectively. The net amounts were subsequently compared to revenue generated through retail transmission rates for 2006 to determine cost/revenue ratios for network and connection. The calculated cost/revenue ratios for network and connection were then applied to the current approved retail network and connection transmission rates to derive the proposed adjustments to retail network and connection transmission rates

Usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances is also generally dealt with in aggregate rather than clearing discrete accounts.

As noted above, in its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances. However, the Board may wish to consider whether the disposition of deferral and variance account balances should be dealt with collectively since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Were the Board to consider the proposed disposition of accounts 1584 and 1586 in this application, the interest calculation should include carrying charges coincident with the timing of the account clearance. Staff is unclear if interest amounts are included in the balance provided for accounts 1584 and 1586, and if so, up to what period. In addition, there is a discrepancy between the account balance provided by E.L.K. and the information included as part of the Reporting and Record-Keeping Requirements (RRR). More specifically, the RRR as of December 31, 2006 indicate a debit balance of $439,627 for account 1586 where E.L.K. reports a credit balance of $351,672. Moreover, the Board typically deals with the clearance of deferral and variance accounts through rate riders and not incorporated into the rate itself.

Staff notes that the calculations provided that exclude the disposition of accounts 1584 and 1586 from the newly proposed RTR – Network Service Rate and the RTR — Line and Transformation Connection Service Rate appear to be in error. For example, the revenues generated under the existing RTR – Network Service Rate are lower than the annual wholesale transmission network service costs based on the Board rate order dated October 17, 2007 (EB-2007-0759) and 2006 readings, which would indicate that a rate increase is warranted. Staff would invite E.L.K. to provide clarification of this result.

All of which is respectfully submitted.