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| **Ontario Energy** **Board** P.O. Box 231927th. Floor2300 Yonge StreetToronto ON M4P 1E4Telephone: 416-481-1967Facsimile: 416-440-7656Toll free: 1-888-632-6273 | **Commission de l’énergie****de l’Ontario**C.P. 231927e étage 2300, rue YongeToronto ON M4P 1E4Téléphone; 416-481-1967Télécopieur: 416-440-7656Numéro sans frais: 1-888-632-6273 |  |

**BY EMAIL**

February 11, 2013

Kirsten Walli

Board Secretary

Ontario Energy Board

2300 Yonge Street, 27th Floor

Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: E.L.K. Energy Inc.**

 **Board File No. EB-2011-0099**

In accordance with Procedural Order No.3, enclosed are Board staff’s Technical Conference questions as well as a listing of those interrogatory responses for which it may seek clarification.

Yours truly,

*Original Signed By*

Richard Battista

Project Advisor

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CC: E.L.K. Energy Inc.

 Intervenors

**Board Staff Questions for Technical Conference**

**EB-2011-0099**

February 13, 2013

Board staff intends to ask questions (that are not otherwise articulated below) regarding the following interrogatory responses: Board staff 11,12, 24 Energy Probe 6, 13, 17, 18 SEC 6b, VECC13, 14.

Specific questions from Board staff include the following:

1. Board staff # 2: E1-T2-S1

E.L.K. indicates that it has budgeted but will not spend $7.5k in 2012 for IFRS transition costs. There are other interrogatory responses, e.g. Exhibit 2-AMPCO #8 and Energy Probe #9, where E.L.K. indicates that the current forecast in 2012 for the item in question will differ from the budgeted amount.

* 1. Is E.L.K. tracking all of these changes? Will E.L.K. be updating its Revenue Requirement/Revenue Deficiency calculations accordingly? If so, when?
1. SEC IR #6: E1-T2-S4

In this response, E.L.K. states:

Using the corrected net earnings value reduced E.L.K.’s 2010 return on equity significantly. Instead of approximately 16% based on the incorrect 2010 financial statements, the correct return was approximately 7.95%. The 2011 return on equity, based on net earnings of $316,841, was approximately 4.66%. This eliminated the overearnings, and was likely an ongoing issue which occurred in 2008 and 2009 as well. As such, in light of the corrections discussed above, E.L.K. respectfully submits that it is not over earning. On the contrary, when amounts are properly allocated to variance accounts, E.L.K. is earning significantly less than the Board-approved ROE. As there have been no overearnings, there is no need to restate the drivers.

1. Are the ROE calculations above stated with respect to E.L.K.’s actual equity thickness or with the deemed equity thickness of 40%?
2. If the ROE calculations are based on E.L.K.’s actual equity thickness, what would be the earnings for 2008 and 2009 based on the deemed equity thickness?
3. If the ROE calculations are based on E.L.K.’s actual equity thickness, then is not under-earning due in part to matter’s under the control of E.L.K. and its shareholder?
4. Board staff#6: E2-T1-S3
5. What was the net book value of the closed satellite service centre?
6. Has it been removed from rate base? If not, why hasn’t it removed it? If so, please identify the entry in the plant continuity schedules where this is reflected?
7. Board staff#10: E2-T1-A2
8. Please clarify whether E.L.K. in or prior to 2012 incurred GEA related costs? If so, where were they recorded?
9. Is E.L.K. intending to recover the non-direct benefit portion from the IES0? If not why not. If so, what portion of the total GEA incurred costs will be viewed as non-direct benefit?
10. AMPCO IR #5: E2-T1-S1

In the response, E.L.K. states that it has one transformer station that was decommissioned in 2012 Q3 and is being disposed of in 2013.

1. How has the transformer station been reflected in the 2012 rate base since it was no longer in service and hence no longer *used and useful* as of December 31, 2012.
2. AMPCO IR #5: E2-T1-S2
3. Does E.L.K. use, or plan to use, capabilities of smart meters and the associated A.K.I. and other infrastructure to enhance its detection of the occurrence of, and the number of customers affected by, service outages.
4. If not, why not
5. Board staff#14a: E3-T2-S3
6. Please confirm that the $77,000 budgeted for Interest and Dividend Income Revenue is solely based, ie. the same as 2011 actuals and is not a derived number.
7. Board staff#14b: E3-T2-S3
8. What accounts for the remaining decrease of ~ $72,000 ($99,274 - $27,000 = $72,274)
9. Energy Probe #19c: E2-T3-S3 Appendix 2-C and Board staff #19: E4-T2-S4

In the updated Appendix 2-C account 4380, expenses of non-utility operations, now shows zero dollars, for 2011 and 2012. The response to Board staff interrogatory #19: E4-T2-S4 states that the costs incurred by E.L.K. to provide services to its affiliates is recorded in OM&A accounts 5315 (Customer billing) and 5615 (Administrative Services).

1. Does the update to Appendix 2-C mean that accounts 5315 and 5615 should be updated as well?
2. Please confirm the accounts E.L.K. uses to record the revenues it receives from its affiliates and other utilities for services provided.
3. Energy Probe IR #14: E3-T2-S2
4. Please provide further explanation on what is driving the persistent decline in demand for GS GT 50 kW class since 2006.
5. Please explain the variability in demand in the streetlighting class from 2009 to 2012.
6. Energy Probe IR #16: E3-T2-S1 p.6

In part b) of the response, E.L.K. states:

The coefficient on the Hydro One Uplift variable of 0.72 has been assigned by the regression analysis with an associated t-stat of 10.18 which suggest it is a variable with high statistical significance to the prediction formula. The regression analysis is suggesting that for every 100 kWh purchased by ELK for Hydro One, ELK's total purchases increase by 72 kWh?

This does not appear to answer the question, and itself ends with a question.

Please clarify the response to part b).

1. VECC IR #14: E3-T2-S1 p.19

Why would the Adjustment for 2011 and 2012 CDM not also affect the purchased kWh and kW, and hence affect the WCA calculation, beyond the downward impact of CDM on billed (retail) consumption and demand.

1. SEC#14b: E4-T2-S6

Does the 2012 OM&A include a full year provision for the Director and Manager positions?

1. Board Staff IR #32: E9-T1-S1

ELK stated that it is not following Article 490 with respect to the RCVA accounts and does not have any amounts recorded in RCVA accounts 1518 and 1548.

ELK indicated that the total revenues from 4082 and 4084 were only $20,000, likely resulting in a minimal variance when comparing against costs. ELK also indicated that the cost of tracking staff time related to retailer billings and activity is inefficient and also difficult due to system limitations. As such, no entries are made by ELK to record the variances in these two accounts.

1. Has ELK obtained Board approval to exempt it from tracking variances in its RCVA accounts? If so, please provide the information for such an exemption.
2. Given that the use of APH for regulatory accounting is mandatory, and there is no provision for the utilities to not follow APH on the basis of materiality or cost/benefit, please calculate the amounts that would have been recorded in these two accounts as of December 31, 2011.
3. Given the fact that ELK has not tracked variances in its RCVA accounts and has not quantified the amounts that would have been recorded, what is the basis for ELK’s assertion that the amounts are not material.
4. Please recalculate rate riders including the balances calculated in 1.b) above.
5. Board Staff IR #34 a) and b): E9-T1-S1
6. ELK has stated that it does not make a profit or loss on the commodity. However, the PDF version of the spreadsheet provided shows that there was a loss of $125,305 on commodity and other flow-through commodity and market-related charges. Please explain the reason for this difference.
7. ELK has not shown any amounts for account 4075 Billed-LV, but has shown $376,099 in account 4750 Charges-LV. Please provide the amount billed for LV. Accordingly, please update the table that ELK provided in its response to the Board staff IR #34a and file with the Board the revised table to show the amount for Account 4075, Billed – LV. Please explain the reason if the revised “Sum of Energy Sales and CoP” is not zero and is of material amount and explain how ELK proposes to address the issue of making a profit or a loss on the commodity per IR #34b.
8. In its response under 34 b), ELK has provided a correcting entry that was made in 2011 by its auditors. ELK stated: “This amount was booked to account 4066, but should have been booked to **4050**. Therefore the spreadsheet in part (a) contains the removal of this amount from account 4066 and its addition to account **4055**.”
	1. Please confirm under which account ELK booked this amount, i.e., account 4050 or account 4055.
	2. Account 4050 is for unbilled revenue adjustment/prior year billing adjustment. Please provide more details with respect to the entry on page 237 of the IR responses, and explain what this entry was regarding.
	3. Board staff notes that the balances provided on page 236 of the IR responses for accounts 4050 and 4066 do not match the balances reported to the Board under RRR 2.1.7. In addition, if the correcting entry provided on page 237 of the IR responses was booked to account 4055, the RRR 2.1.7 reporting did not reflect it. Board staff also notes that no balance was reported under RRR 2.1.7 for account 4055 as of December 31, 2011. Please explain and propose a solution to address the discrepancy, if any.
9. Board Staff IR #35: E9-T1-S1

In response to part a) of this IR, ELK stated that it does not pro-rate the IESO/Host Distributor Global Adjustment charge into the RPP and non-RPP portions. The part b) of ELK’s response appears to be saying that the billing system is not capable of implementing pro-ration of Global Adjustment.

* 1. Please clarify if the costs related to Global Adjustment are pro-rated between RPP and non-RPP portions.
	2. Please clarify and confirm that the balance requested for disposition for Account 1588-sub-account Global Adjustment reflects the amounts related to non-RPP customers only.
	3. Please describe in detail the steps related to booking Global Adjustment entries into the GL for costs, as well as for revenues.
	4. Using an Excel spreadsheet, please make an estimate based on consumption for RPP and non-RPP and calculate the RPP and non-RPP portions of the Global Adjustment ensuring  that the balance in account 1588, sub-account Global Adjustment requested for disposition relates to only the non-RPP customers.
	5. Please re-calculate the balances in the Account 1588 control account and Account 1588 sub-account Global Adjustment and calculate and file with the Board the rate riders, including the separate rate rider that would prospectively apply to non-RPP customers. Please file with the Board all necessary calculations including the Excel spreadsheet and all assumptions made by ELK.
	6. Please explain when ELK expects to fully include a solution in its customer information system to implement a separate rate rider for non-RPP customers.
1. Board Staff IR #39: E9-T2-S2

In response to part b) of this IR, ELK provided the account balances for account 1592, sub-account HST/OVAT ITC from July 1, 2010 until September 30, 2012. Board staff notes that instead of credits continuing to build each month, the balances appear to be going down for some months as well (e.g. balance dropped from ($14,182.80) in October 2010 to ($8,416.35) in November).

1. Please explain the reason for the credits to go down in the absence of any Board ordered disposition of this account.
2. Please recalculate the rate rider in accordance with December 2010 APH – FAQs.
3. Board Staff IR#40 (b) (d): appendix 9-A 1562 Summary Continuity and Supporting Calculations
4. What is the amount of the refund proposed in the revised evidence?
5. Interest carrying charges have been calculated only to April 30, 2012. Do you agree that interest will have to be calculated up the effective date of the rate change?

The Board-approved rate schedules show monthly fixed charges and volumetric rates. The approved rates remain in force until changed by the Board. The rates are determined using revenue requirement for a twelve-month period and then deriving a monthly charge or volumetric rate. The Board intended to adjust rates on March 1, 2003, but the Board’s schedule of rate changes was suspended by Bill 210. E.L.K. agrees that the rates were in effect for 23 months, but states that it is entitled to 24 months of proxy in the PILs 1562 continuity schedule.

1. Please explain why the calculation should be based on 24 months when E.L.K. agrees that it was legally entitled to bill customers for only 23 months.
2. Board Staff IR#41(a): Appendix 9-B Calculations of Collected PILs

Unmetered scattered load was an approved rate in E.L.K.’s rate schedules.

1. Please explain why ELK applied for the rate but did not bill customers in 2002, 2004 and 2005.
2. Does E.L.K. understand that it must bill its customers according to the Board’s approved rate schedules?
3. Board Staff IR#43(b), (d), (e), (f), (g): Income Tax Rates used in SIMPL Models Sheet TAXCALC

Board staff asked interrogatories concerning a regulatory approach to calculating income tax rates and the PILs true-up entries. This type of evidence has been provided in many other proceedings especially during the discovery phase . The purpose of the interrogatories is to provide the Board with evidence that is similar to other distributors.

1. Board staff requests that E.L.K. respond to the interrogatories as posed and file the supporting SIMPIL models and continuity schedule.

Actual taxable income in 2005 as shown in the tax returns was $793,400. E.L.K. was eligible to claim the Ontario small business deduction in 2005.

1. Please explain why ELK did not take the deduction which would have resulted in lower PILs to be paid.
2. Board Staff IR#44(b): Restatement of employee future Benefit Liability 2003 Adjustment

When did ELK first adopt the CICA accounting standard for post-employment benefits?

1. Board staff IR #48: E9-T4-S2 p.5

In part b) of its response, E.L.K. states that its 2010 OM&A was decreased as its own staff were used for smart meter deployment.

1. Please confirm that the smart meter costs for deployment are incremental to, and do not replace the normal level of OM&A costs that were factored into E.L.K.`s approved distribution rates.
2. Board staff IR #49: E9-T4-S2 p.15-16

In its response, E.L.K. states that it has not completed deployment, or even selected a vendor for web presentment. However, it is seeking recovery for capital costs in 2012 of $18,000.

1. Please explain E.L.K.`s rationale for seeking recovery of this capital cost before it has been expended or is in service.
2. Board staff IR #51: Smart Meter Model

In its response, E.L.K. states that the 33.13% tax rate includes the portion of the Ontario Capital tax.

1. Since the Ontario Capital Tax is shown separately, and calculated separately for the deferred revenue requirement, please explain why it is factored into the 2009 aggregate Federal and Ontario corporate tax rate.