October 25, 2013

Kirsten Walli

Board Secretary

Ontario Energy Board

PO Box 2319

2300 Yonge Street, Suite 2700

Toronto ON M4P 1E4

Dear Ms. Walli:

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

 **Distribution License ED- ED-2003-0015**

**2014 Incentive Regulation Mechanism (“IRM”) Distribution Rate Application EB-2013-0123**

In accordance with the instructions released by the Ontario Energy Board (“Board”) dated July 17, 2013, E.L.K. Energy Inc. (“E.L.K.”) submits its application for approval for 2014 incentive regulation mechanism based on rates effective May 1, 2014.

An electronic copy of this Application has been filed with the Board RESS Filing System and two (2) hard copies have been sent to the Board Secretary.

Please do not hesitate to contact myself if I can be of further assistance.

Regards

Mark Danelon, CPA, CA

Manager of Finance & Regulatory Affairs

**IN THE MATER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, C15 (Schedule B);

**AND IN THE MATTER OF** an application by E.L.K. Energy for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2014.

**Manager’s Summary**

**Filed October 25, 2013**

E.L.K. Energy Inc. (“E.L.K.”) carries on the business of distributing electricity within the Towns of Essex, Lakeshore and Kingsville as described in its distribution license. Within these towns, which cover a large geographic area in Southwestern Ontario, E.L.K. has six non-contiguous service areas, serving the communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville. These are the customers that will be affected by the application. E.L.K. will publish a paid publication in the Windsor Star which has a significant coverage of approximately 7000 of E.L.K.’s 11,500 customer base.

E.L.K. Energy Inc. submits its application for approval for the 4th generation 2014 incentive regulation mechanism based on rates effective May 1, 2014. This application has been prepared in accordance with the process for 4th generation 2014 incentive regulation distribution rate applications.

E.L.K. has used the 4th generation IRM models provided by the Board including:

* 2014 IRM Rate Generator
* 2014 IRM Tax Sharing Model
* 2014 RTSR Model

In addition, E.L.K. has provided the live Excel file named “ELK Deferral and Variance Account Riders\_2014.” This model provides the calculation of the various rate riders consistent with the Settlement Agreement approved by the Board.

E.L.K. last filed an application with the Ontario Energy Board (the “Board”) on October 24, 2012 as a Cost of Service Application EB-2011-0099. The Board ordered that the review process of that application included a round of interrogatories and a technical conference. The Board also ordered that a settlement conference be conducted. In the settlement conference, the Parties achieved a complete settlement on all issues in the proceeding, and on March 28, 2013, E.L.K. filed the Settlement Agreement on behalf of the Parties with the Board. The Board approved the Settlement Agreement on May 2, 2013 for rates effective May 1, 2013.

According to the Settlement Agreement, certain matters would be addressed in E.L.K.’s 2014 IRM Rate Application. These items included updating the capitalization and depreciation policies and the disposition of the remaining 2011 balances of Group 1 and Group 2 deferral and variance accounts once they had been audited by Board staff.

1. **Capitalization and Depreciation Policies**

In the Settlement Agreement, the Parties had provisionally accepted E.L.K.’s capitalization policy as it was set out in Exhibit 2, Tab 1, Schedule 1 of the original Cost of Service Application, subject to the following adjustments. The Parties acknowledged that E.L.K. is not converting to International Financial Reporting Standards (“IFRS”) in the 2012 Test Year and will remain on CGAAP until required by the Accounting Standards Board (the “AcSB”) to move to IFRS. E.L.K. has sought to comply with the Board’s letter titled “Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies 2013” dated July 17, 2012.

However, for the purposes of settlement, the Parties accepted that E.L.K. would require time to consider the appropriate useful lives for its distribution assets and to determine the regulatory accounting changes for its depreciation expense and capitalization policies. During the summer of 2013, E.L.K., together with its accounting advisors, determined appropriate depreciation rates, taking into consideration the recent Kinetrics Report on useful lives, and in addition reviewed its capitalization policy as required to determine if changes needed to be made. The Parties agreed that E.L.K. use deferral account 1576 – Accounting Changes Under GAAP – to record 2012 adjustments to E.L.K.’s PP&E once the review of useful lives and capitalization had been completed. Subject to the Board’s approval of E.L.K.’s new depreciation rates and review of its capitalization policy, this amount is being proposed to be disposed of as part of E.L.K.’s 2014 IRM rate application. The models used to support the rates set out in the Settlement Agreement were rerun to reflect the new depreciation rates and capitalization policy. The rates resulting from the rerun of the models were used as the starting rates for the 2014 IRM rate application filed October 25, 2013.

E.L.K. worked with its accounting advisors and determined that E.L.K.’s current capitalization policy was consistent with IFRS standards resulting in no changes to the capitalization policies. E.L.K. also moved its depreciation rates to be consistent with the recent Kinetrics report – the Depreciation Study for Use by Electricity Distributors (EB-2010-0178). The outcome of this exercise resulted in a decrease of depreciation expense of $440,991. Below is Table 1 which shows the IFRS Depreciation Rate Impact on 2012 Depreciation.

The models were re-run and new rates were used as the starting rates for the 2014 IRM rate application. Table 2 below provides a table showing the old rates, the adjustment and the new rates.



The following table outlines the 2012 revenue requirement outlined in the Settlement Agreement and the revised revenue requirement that supports the new starting point rates.



The process of rerunning the models involved rerunning the cost allocation model and adjusting the resulting revenue to cost ratios in accordance with the Settlement Agreement. The following table, Table 4 outlines the proposed revenue to cost ratios reflecting the revised revenue requirement provided above in Table 3.



The monthly fixed charge shown in Table 2 above has been determined based on the data outlined below in Table 4B and using the method of setting the monthly fixed charge in accordance with the Settlement Agreement. In the Settlement Agreement the parties agree the monthly service charge for all classes, except for the GS>50 to 4,999 kW class and the Hydro One class, would be the lesser of the monthly service charge using the current fixed/variable split or the ceiling fixed charge from the cost allocation model. However, the monthly service charge for the GS>50 to 4,999 kW class would be the average of the monthly service charge using the current fixed/variable split and the ceiling fixed charge from the cost allocation model. Based on the data in Table 4B below this value is $177.32. The monthly service charge Hydro One class will be set at $1,753.29, which maintains the current fixed/variable split for that class.

Table 4B : Fixed Charge Analysis



In addition, the mechanism used to adjust rates for revised revenue to cost ratios was used in the 2014 IRM Rate Generator\_V2.3 model to provide updated starting rates.

1. **Group 1 and Group 2 Deferral and Variance Accounts**

In the Settlement Agreement, the Parties agreed to the disposition of 50% of all Group 1 and Group 2 account balances as set out in Board Staff IR #39 (d) over the 12 month period commencing on May 1, 2013. The Parties agreed that the disposition of the remaining 2011 balance would be determined after a suitable audit of the 2011 balance was conducted. The Parties respectfully requested that the Board direct the Regulatory Accounting and Audit branch of the Board to conduct an audit of E.L.K.’s Group 1 and Group 2 2011 account balances at a time that is mutually acceptable to E.L.K. and the Board. The Parties agreed that the results of the audit would be addressed by E.L.K. in its 2014 IRM rate adjustment application, the intention being that the Board would determine the final outstanding amounts to be authorized for disposition commencing May 1, 2014. Within E.L.K.’s 2014 IRM application, E.L.K. is requesting final disposition of its 2011 RSVA account balances which are outlined below. These balances provided below in Table 4 reflect the outcome of the audit conducted by the Regulatory Accounting and Audit branch of the Board.

Table 5: Final RSVA Account Balance December 31, 2011



E.L.K. will be seeking disposition of the amount shown in the column titled Revised Account Balance at Dec 31, 2011 minus the disposition of 50% of 2011 Group 1 and Group 2 account balances outlined in the Settlement Agreement plus appropriate interest.

To ensure the disposition of 2011 Group 1 and Group 2 account balances are properly addressed in this application and reflect the conditions of the Settlement Agreement, E.L.K. will not be seeking disposition of the 2012 balances of Group 1 accounts. In E.L.K’s view, to seek disposition of the 2012 Group 1 balances in this application could complicate the review the 2011 balances. E.L.K. believes it is better for the purposes of clarity and simplicity to handle one issue at a time. Through the settlement agreement it was requested that a regulatory audit be conducted by OEB staff on 2011 balances. As these balances have now been fully thoroughly audited and completed, only 2011 balances are being disposed. In addition, as part of the audit process the 2012 balances are still to be reviewed by Board Staff and the audit will not be complete in time for the 2014 IRM application. E.L.K. plans to seek disposition of the 2012 balances in the 2015 IRM application. Based on the results of the audit, E.L.K. will be improving, together with its auditor, the process for recording transactions to its deferral and variance accounts.

**ACCOUNT 1562 DEFERRED PILS DISPOSITION:**

With respect to the disposition of balance in Account 1562 (Deferred Payment in Lieu of Taxes), E.L.K. had originally calculated this balance as $40,047 recoverable from customers. In discussions with Board Staff at the time of settlement, it appeared that the balance may actually be an amount of $751,938 payable to customers. The Parties agreed for the purpose of settlement to the payment to customers of 50% of the $751,938 or $375,969 over a 36 month period commencing on the effective date of the rate order. The Parties requested that E.L.K. be allowed the proper time to review and analyze all activity in this account and subsequently to undergo a regulatory audit or other detailed review of this account by the Board if the Board determined such an audit or detailed review is required. The Parties agreed that the result of this review by E.L.K. or the Board, or a regulatory audit by the Board, would be addressed by E.L.K. in its 2014 IRM rate adjustment application, the intention being that the Board would then determine the final outstanding amounts to be authorized for disposition, commencing May 1, 2014 and the appropriate disposition period would then be addressed.

The Settlement Agreement provided for the disposition of 50% of the Account 1562 balance based on the Board Staff calculation, so that customers have already received funds, subject to the review of the calculations and the making of any necessary adjustments to the amount for disposition. The OEB audit is now completed and the number of $751,938 was confirmed accurate. The remaining amount is being disposed over a 2 year period in order to have this account fully addressed prior to the next cost of service application. Please see Table 6 below which details out the 1562 Rate Rider.

Table 6: 1562 Deferred PILS Rate Rider



Account 1576– Accounting Changes Under GAAP has been used to record the difference in E.L.K.’s 2012 Property Plant and Equipment (PP&E) values as a result of the accounting changes to depreciation rates. Subject to the Board’s approval of E.L.K.’s new depreciation rates this amount is being proposed to be disposed of as part of E.L.K.’s 2014 IRM rate application over a two year period. Table 7 details the calculation of the 1576 PP & E Deferral Account Rate Rider.

Table 7: 1576 PP & E Deferral Account Rate Rider



For the purposes of the 2014 IRM, E.L.K. is proposing the following rate riders be approved to dispose of the remaining 2011 Deferral and Variance Account Balances over a one year period. In Table 8 below, the remaining 2011 balances are provided along with calculation of the proposed rate riders. The detail calculations on the remaining 2011 balances by account are provided in the file named ELK Deferral and Variance Account Riders\_2014.

Table 8: Deferral and Variance Account Rate Riders





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| **2014 RTSR Model**E.L.K. has used the 2014 RTSR Model to determine RTSR adjustments. Table 9 below details the new RTSR rates.  |  |  |  |  |



**Conclusion**

In summary, the total bill impact for a Residential customer, with a monthly electricity consumption of 800 kWh, will be -7.41% or $-8.17 per month. The bill impact for a General Service Less Than 50 kW customer with a monthly electricity consumption of 2,000 kWh, will be -9.65% or $-11.22 per month. E.L.K. submits the proposed Distribution rates and other charges as set out in this application are just and reasonable rates and seek approval for these rates effective May 1, 2014.