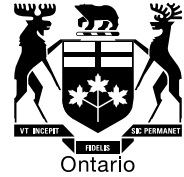


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BY EMAIL

February 14, 2014

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
kirsten.walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: E.L.K. Energy Inc. ("E.L.K.")
2014 IRM4 Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0123**

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to E.L.K. and to all other registered parties to this proceeding.

E.L.K.'s Reply Submission, if it intends to file one, is due by February 28, 2014.

Yours truly,

Original Signed By

Marc Abramovitz
Advisor, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

E.L.K. Energy Inc.

EB-2013-0123

February 14, 2014

**Board Staff Submission
E.L.K. Energy Inc.
2014 IRM4 Rate Application
EB-2013-0123**

Introduction

E.L.K. Energy Inc. (“E.L.K.”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 25, 2013, seeking approval for changes to the distribution rates that E.L.K. charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 Incentive Regulation Mechanism (“IRM”).

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.

As part of a Settlement Agreement (the “Settlement Agreement”) filed on May 2, 2013 as part of E.L.K.’s 2012 cost of service application (EB-2011-0099), it was noted that 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 the Board’s Regulatory Audit and Accounting group (“Regulatory Audit”). The Board authorized an audit of E.L.K.’s Group 1 and Group 2 deferral and variance accounts by Regulatory Audit. A final audit report was issued on December 5, 2013 and on December 18, 2013 Regulatory Audit filed the audit report in this proceeding.

Board staff has no concerns with the Retail Transmission Service Rates proposed by E.L.K. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the applicable data at the time of this Decision the updated Uniform Transmission Rates.

Board staff has reviewed E.L.K.’s 2014 IRM application and its responses to interrogatories and other than the submissions set out below has no concerns with the application and the changes agreed to by the applicant.

Board staff makes detailed submissions on the following:

- Updated Depreciation Rates and Capitalization Policy;
- Disposition of Account 1576;
- Review and Disposition of Group 1 Deferral and Variance Account Balances; and
- Disposition of Account 1562.

Updated Depreciation Rates and Capitalization Policy

In the Settlement Agreement, the parties had provisionally accepted E.L.K.'s depreciation rates and capitalization policy as set out in Exhibit 2, Tab 1, Schedule 1 of Cost of Service Application, subject to the following adjustments. The parties acknowledged that E.L.K. was not converting to International Financial Reporting Standards in the 2012 Test Year and would remain on CGAAP until required by the Accounting Standards Board to move to IFRS. E.L.K. had 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.

The parties agreed that E.L.K. would use deferral account 1576 (Accounting Changes Under GAAP) to record 2012 adjustments to E.L.K.'s Property Plant and Equipment (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 as part of E.L.K.'s 2014 IRM rate application.

E.L.K. reran the models used to support the rates set out in the Settlement Agreement to reflect the new depreciation rates and capitalization policies. The rates resulting from rerunning the models were used as the starting rates for the 2014 IRM rate application. E.L.K. has determined that based on the proposed depreciation rates, the impact on depreciation expense will be a decrease of \$440,991.

In response to Board staff interrogatory #1 and #2, E.L.K. filed a completed version of appendix 2-BB (Service Life Comparison) of the Filing Requirements for Electricity Distribution Rate Applications and the updated models used to support the proposed starting rates. Board staff has reviewed E.L.K.'s responses and has no concern with the depreciation rates proposed as they are in line with the Asset Depreciation Study issued by Kinetrics Inc. on July 8, 2010. Furthermore, Board staff has reviewed the models related to the adjusted starting base rates for 2014 and has no concerns.

Disposition of Account 1576 – Accounting Changes Under GAAP

E.L.K. has used account 1576 to record the difference in E.L.K.'s 2012 PP&E values as a result of the accounting changes to depreciation rates. The amount, taking into consideration the weighted average cost of capital, is a credit of \$487,295. E.L.K. is proposing to dispose of this amount over a two year period.

Board staff notes that the Board, in its Decision and Order in (EB-2011-0099 allowed E.L.K. to dispose of 1576 in its 2014 IRM application. Board staff notes that it appears that E.L.K. has requested a 2 year disposition period in order that account 1576 be

disposed of in parallel to account 1562 discussed below. Both accounts are related to changes to E.L.K.'s capitalization and depreciation policies. Board staff has reviewed E.L.K.'s calculations and supports the disposition of account 1576 over the proposed term.

Review and Disposition of Group 1 and Group 2 Deferral and Variance Account Balances

In the Settlement Agreement, the parties agreed to the disposition of 50% of all Group 1 and Group 2 account balances over a 12 month period commencing on May 1, 2013. The parties agreed that the disposition of the remaining 2011 balance would be determined after an audit review was conducted by the Board and that the results of the audit would be addressed by E.L.K. in its 2014 IRM rate adjustment application. E.L.K. is requesting final disposition of its 2011 RSVA account balances as outlined below. The balances below in Table 1 reflect the outcome of the audit conducted by Regulatory Audit

Table 1

Deferral and Variance Accounts	Amount
1550	(\$19,606)
1580	(\$280,557)
1584	(\$51,497)
1586	(\$76,377)
1588 - Power	(\$1,782,229)
1588 - GA	\$1,799,386
1595	(\$52,280)
Total Group 1	(\$463,160)
1508	\$66,471
1518	(\$35,467)
1525	\$1,676
1592	(\$290)
1521	(\$10,851)
Total Group 2	\$21,539
Total to be Recovered	(\$441,621)

E.L.K. requested to dispose of these Account balances over a one-year period.

Board staff has reviewed E.L.K.'s Group 1 and Group 2 account balances and notes that the principal balances as of December 31, 2011 reconcile with the balances as

reported as part of the *Reporting and Record-keeping Requirements* and the Audit Report. Board staff has no issue with E.L.K.'s request to dispose of its 2011 Group 1 and Group 2 Account balances and submits that the balances should be disposed of on a final basis.

Disposition of Account 1562

In the Settlement Agreement, parties agreed that E.L.K. will pay customers 50% of the stated balance in account 1562 over a 36 month period commencing on the effective date of the rate order. At the time of the Settlement Agreement, the balance was \$751,938. 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 review of this account by the Board. The parties agreed that the result of any would be addressed by E.L.K. in its 2014 IRM rate adjustment application.

The Audit Report confirmed the amount \$751,938. E.L.K. is proposing that the remaining amount (50% of the balance plus interest) be disposed of over a 2 year period in order to have this account fully addressed prior to the next cost of service application.

Board staff has reviewed the balance in account 1562 and has no issue with E.L.K.'s request to dispose of the balance over a 2 year period as the request is in line with the Settlement Agreement approved by the Board. Board staff submits that the balances should be disposed on a final basis.

All of which is respectfully submitted