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**Commission de l'énergie de l'Ontario**  
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**BY E-MAIL**

October 16, 2015

Mark Danelon  
E.L.K. Energy Inc.  
172 Forest Avenue  
Essex ON N8M 3E4

Dear Mr. Danelon:

**Re: E.L.K. Energy Inc.  
2014 Return on Equity Performance  
EB-2015-0064**

On September 30, 2015, the Ontario Energy Board publicly released scorecard results for all of Ontario's electricity distributors. These scorecards measure how well Ontario's electricity distributors are performing each year, and are designed to encourage electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that their customers value.

The scorecard includes a measure of each utility's regulatory return on equity (ROE). In the course of a sector-wide review of all distributors' ROE performance conducted in the summer of 2015, OEB Audit and Performance Assessment staff concluded that E.L.K. Energy Inc.'s regulatory ROE measured 19.22% in 2014 – 1,010 basis points above the target ROE that was the basis upon which its rates were established. A summary of staff's assessment is attached. Staff also estimated that this level of overearnings represents a cost to residential customers of roughly \$1.64 per month.

Under OEB policy, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

Given the level of returns earned by E.L.K. Energy Inc. in 2014, it is appropriate that the OEB consider whether an amendment to E.L.K. Energy Inc.'s rate plan is warranted, in order to ensure that customers pay distribution rates that better reflect the value of the service provided to them.

E.L.K. Energy Inc. applied on September 28, 2015 for an annual adjustment to its rates as part of its Price Cap Incentive rate-setting plan. The OEB will assess the appropriateness of granting E.L.K. Energy Inc.'s request for an incremental adjustment to its base rates for the 2016 rate year given the earnings performance measured in 2014. It may also consider whether its 2016 rates should be set on an interim basis, so that earnings for 2016 can be considered in E.L.K. Energy Inc.'s next rebasing application. These evaluations will form part of the application process in the current proceeding, and include the opportunity for E.L.K. Energy Inc. to present its position and bring forward relevant information to the OEB.

The OEB also notes that E.L.K Energy Inc. is scheduled to file a cost of service application in 2017 and expects that it will adhere to this schedule.

Yours truly,

*Original signed by*

Kirsten Walli  
Board Secretary

**Appendix A**

**2014 Return on Equity Sector Review**

**E.L.K. Energy Inc.**

**ROE Performance Summary**

**EB-2015-0064**

**October 16, 2015**

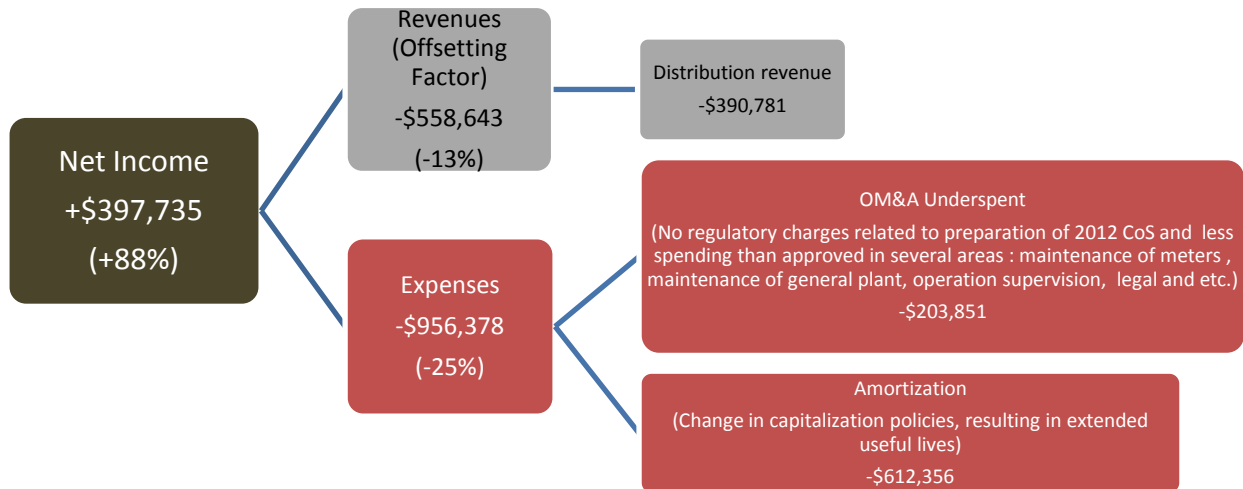
**2014 ROE Over-Earner: [E.L.K. Energy Inc. \(ELK Energy\)](#)**

ELK Energy is scheduled to file an IRM rate application for 2016 rates.

**2014 ROE performance – 19.22% (710 basis points over the Deadband)**

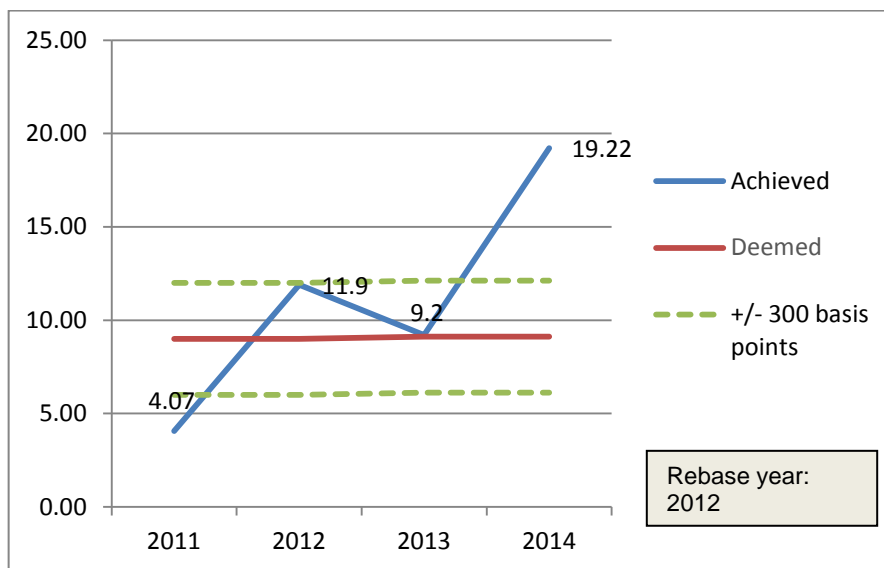
Components of the ROE calculation	Deemed 2012 CoS	Achieved 2014	Variance	Variance %
ROE \$ approved in CoS /Adjusted Regulated Net Income	\$449,601	\$847,336	\$397,735	<b>88%</b>
Regulated Deemed Equity	\$4,929,837	\$4,408,207	(\$521,630)	<b>(11%)</b>
<b>ROE</b>	<b>9.12%</b>	<b>19.22%</b>	<b>10.10%</b>	

**Main Drivers for Over-Earning in 2014**



The 11% decrease in regulated deemed equity was a result of decrease in fixed assets net book value as at 2014 year end as compared to the approved rate base in its 2012 CoS Decision and Order. The OEB approved \$9M rate base in the 2012 CoS while as at 2014 year end Essex Energy’s fixed assets NBV had only reached \$8M.

**Historical ROE performance (2011 to 2014) – One Year Over- Earner**



Based on the OEB Audit staff’s review, ELK recognized a regulatory credit and corresponding expense of \$625,581 for the accounting changes under CGAAP in 2013. In the 2014 IRM Decision and Order EB-2013-0123, the OEB approved a disposition of the \$487,295 credit balance over a 2 year period commencing May 1, 2014.