E.L.K. Energy Inc.

January 14, 2016

John Pickernell
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Mr. Pickernell:

Re: E.L.K. Energy Inc.
Distribution License ED- ED-2003-0015
2016 Incentive Regulation Mechanism ("IRM") Distribution Rate Application EB-2015-0064
Responses to Interrogatories

In accordance Procedural Order #1, provided below are responses to all submitted interrogatories.

Regards

Mark Danelon, CPA, CA
Director, Finance & Regulatory Affairs
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OEB Staff Interrogatories

Interrogatory #1
Ref: Rate Generator Model Tab 8 – Shared Tax Rate Rider
Ref: Chapter 3 Filing Requirements for Electricity Distribution Rate Applications
3.2.7 Tax Changes

Rate Class		Total kWh (most recent RRR filing)	Total kW (most recent RRR filing)	Allocation of Tax Savings by Rate Class	Distribution Rate Rider	
RESIDENTIAL SERVICE CLASSIFICATION	kWh	89,130,958		-7,579	-0.06	$/customer
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION	kWh	29,746,584		-1,475	-0.0000	kWh
GENERAL SERVICE 50 TO 4,999 KW SERVICE CLASSIFICATION	kW	57,346,380	186,064	-1,946	-0.0105	kW
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION	kWh	259,677		-10	-0.0000	kWh
SENTINEL LIGHTING SERVICE CLASSIFICATION	kW	180,687	471	-1	-0.0029	kW
STREET LIGHTING SERVICE CLASSIFICATION	kW	2,302,093	6,451	-442	-0.0685	kW
EMBEDDED DISTRIBUTOR SERVICE CLASSIFICATION	kW	52,151,234	115,371	-488	-0.0042	kW
Total		231,117,613	308,357	-$11,942		

OEB staff notes there are insignificant rate riders in several rate classes. Please confirm if E.L.K. Energy wishes to transfer the tax sharing amount to Account 1595 for disposition at a future date.

E.L.K. Response: E.L.K. would be ok if this immaterial rate rider was transferred to account 1595 for disposition at a future date.

Interrogatory #2
Ref: Regulated Return on Equity (ROE) Letter dated October 16, 2015

On October 16, 2015 a letter was sent to E.L.K. Energy regarding E.L.K. Energy's ROE measuring 19.22% in 2014 – 1,010 basis points above the target ROE that was the basis upon which Rates were established. Attached to the letter was Appendix A which explained most of the main drivers for E.L.K Energy's over-earning in 2014.

A) Given E.L.K Energy's over-earning in 2014 has E.L.K. Energy considered filing to not increase its base rates for the 2016 rate year?

E.L.K. Response: As the circumstances presented are unique in nature and not persistent, E.L.K. gave consideration to the question but felt it was not warranted. In addition, E.L.K. is scheduled to file a COS next year.

B) Please explain if any of the drivers are expected to continue in 2015 and 2016**.**

E.L.K. Response: E.L.K. believes the drivers are not expected to continue and persist.

Interrogatory #3
Ref: Decision and Rate Order EB-2014-0067 Paged 5 – 6
Ref: Rate Generator Tab 6

E.L.K. Energy's Decision and Rate Order regarding E.L.K. Energy's 2015 IRM application[1] stated "I note that while the net balance is a credit of $1,232,542, this includes a credit balance of $6.2M in the RSVA – Power account offset by a debit balance of $5.8M in the RSVA – Global Adjustment account. The RSVA – Global Adjustment account is only applicable to non-regulated price plan (RPP) customers. These are extremely high balances for a service area the size of E.L.K. The RSVA – Power account alone is 26 times the disposition threshold. While I recognize that the 2013 deferral and variance account balances are audited, balances of this magnitude put into question whether amounts have been properly allocated between the accounts. Issues of rate retroactivity may arise if any problems with the balances are discovered after account balances have been disposed on a final basis.

For this reason, I will not approve disposition of any balances at this time until E.L.K. completes a comprehensive review of its deferral and variance account balances. This would best be completed as part of its year-end audit. E.L.K. is to provide the results of its review in its next rate application, describing the rationale as to why the balances in accounts 1588 and 1589 are of such magnitude or what adjustments have been made to the balances."

A) Please state whether E.L.K. conducted the review noted above.

E.L.K. Response: Yes E.L.K. conducted the review noted above.

B) If yes, please provide the results.

E.L.K. Response: The results have been fully reviewed by E.L.K.'s auditors. As well, all details have gone through a complete OEB audit review which was required in order to change the account balances. Below is the approved form from OEB audit, before any of the balances could be changed.

[1] Decision and Rate Order EB-2014-0067

Ontario Energy Board
Commission de l'énergie de l'Ontario

RRR DATA REVISION REQUEST

Reporting Entity Name: E.L.K. Energy Inc

Contact Person: Mark Danelon

Date of Request: Aug 18, 2015

RRR Section Reference: 2.1.7

Filing Name: Trial Balance

Period(s) to which the revision relates: December 31, 2014

Data to be changed

1588 (9,214,405.22)
1589 9,682,613.19
4050 (6,507,876.86)

As Filed: December 31, 2014

4705-08 6,507,876.86

As Revised: August 18, 2015

1588 (484 300.95)
1589 952 508.92
4050 (15,237,981.13)
4705-08 15,237,981.13

Materiality (describe why/how the revision is material):

This correction is simply a reclass of two regulatory accounts which was reviewed by our auditors KPMG dor our 2014 year end audit. However, the data was not available yet upon submission date. As I am working through the 2016 IRM it reminded me that I should probably make the adjustment or I as it pre-populates.

Reason for the revision, including an explanation of why/how the data as filed was or has become inaccurate. Where the request relates to a revision to RRR data that was accepted and relied upon in a Board proceeding, include the EB number for the proceeding and the date of the relevant decision or order.

This correction is simply a reclass of two regulatory accounts which was reviewed by our auditors KPMG for our 2014 year end audit. However, the data was not available yet upon submission date of 2.1.7. As I am working through the 2016 IRM it reminded me that I should probably make the adjustment as it pre-populates the IRM. RSVA Power 1588 was ($9,214,405) but will be changed to ($484,300.95) and 1589 RSVA GA was $9,682,613 will be changed to $952,508.92. Offsets will be 4050 and 4705-08 proportionately. There is no effect on NI or the bottom line or gross margin.

When finished, save the form to your computer and email it to Stephanie.Chan@ontarioenergyboard.ca (416-544-5160) or Anshula.Ohri@ontarioenergyboard.ca (416-440-7659).

C) If not, please explain why not.

E.L.K. Response: E.L.K. provided the results.

D) Board staff notes the average Non-RPP residential customer will be charged $6.56 (800kWh x .0082) and the average Non-RPP General Service Less than 50 KW will be charged $16.54 (2000kWH x .0082) as calculated in the 2016 Rate Generator**.** Please explain why the rate riders for the Global Adjustment 1589 Account are so high.

E.L.K. response: LDC's have experienced significant fluctuations from month to month and variations between estimated GA rates as compared to final GA rates charged to LDC's. These differences sometimes correct themselves over time. 2014 and 2015 have seen concerning trends which do not appear to be followed by GA rates which incorporate a catch-up type of adjustment. The issue has been raised to the OEB and the IESO through the EDA. In 2014, the differential between estimated GA rates used for billing customers and actual rates was particularly significant and has caused the high balance in 1589.

VECC Interrogatories

Earnings Performance in 2014

VECC #1

Ref: OEB Regulated Return on Equity (ROE) Letter regarding overearnings dated October 16, 2015

Preamble: The OEB Letter compares to the Board's approved return on equity for the years 2011, 2012, 2013, 2014.

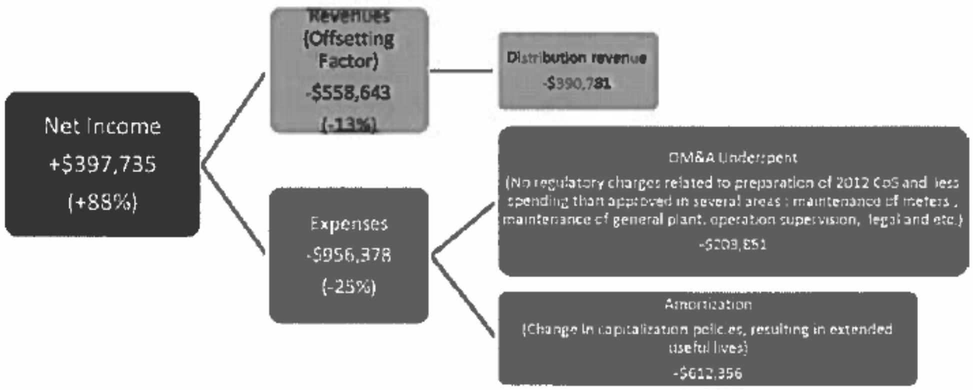
a) Please explain any additional drivers for the over-earnings in 2014.

E.L.K. Response: Please see the chart below which provides the explanations which will not re-occur into the next year. Nothing structural has changed with E.L.K's business processes.

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

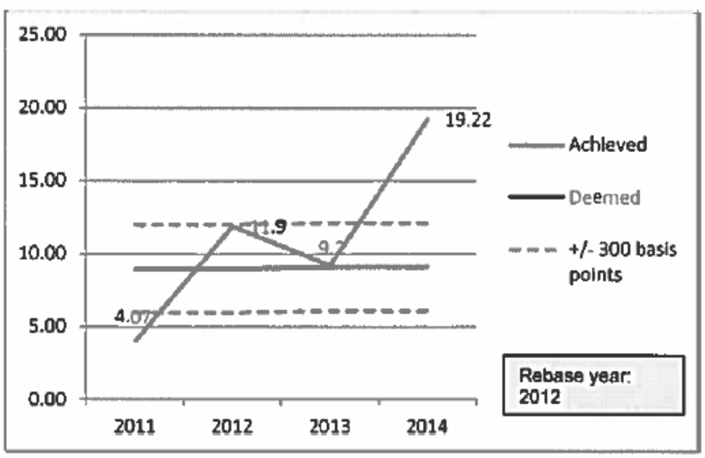
Components of the ROE calculation	Deemed 2012 CoS	Achieved 2014	Variance	Variance %
ROE $ approved in CoS /Adjusted Regulated Net Income	$449,601	$847,336	$397,735	88%
Regulated Deemed Equity	$4,929,837	$4,408,207	($521,630)	(11%)
ROE	9.12%	19.22%	10.10%	

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.

b) Please explain why E.L.K. feels it is reasonable to apply for an increase to its base rates given the over-earnings in 2014.

E.L.K. Response: E.L.K. believes this to be a one-time scenario and will not persist. Also E.L.K. is scheduled to rebase next year which will adjust any variances from the minimal inflationary increase being requested.

c) Does E.L.K. expect that the over-earnings was a one-time occurrence or will it continue?

E.L.K. Response: E.L.K. expects this to be a one-time occurrence.

d) Please discuss the drivers for any forecast over-earnings in 2015 and 2016, if applicable.

E.L.K. Response: E.L.K. expects this to be a one-time occurrence and does not forecast over-earnings in 2015 and 2016.

e) Please provide E.L.K's pro forma for the 2013, 2014 and 2015 year illustrating the ROE for 2013, 2014 and expected ROE for 2015.

Below is the Income statement as well as shareholders equity for 2013 and 2014. E.L.K. does not have 2015 data available as E.L.K.'s audit has not yet occurred.
Return on Equity = Net Income/Shareholder's Equity

2013 ROE= $437,911/$6,476,260 = 6.8%
2014 ROE= $831,791/$7,308,051=11.4%

E.L.K. ENERGY INC.
Non-consolidated Statement of Earnings

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Service revenue	$ 26,298,875	$ 24,123,558
Service revenue adjustment	(37,670)	684,968
	26,261,205	24,808,526
Cost of electricity	22,963,742	21,152,044
Gross margin on service revenue	3,297,463	3,656,482
Other operating revenue:		
Interest and other	464,113	585,450
Late payment charges	107,336	111,041
Unrealized gain on investments	6,494	16,457
	577,943	712,948
	3,875,406	4,369,430
Expenses:		
Administration	866,088	1,012,393
Billing and collecting	592,754	593,037
Amortization	352,695	376,750
MIFRS regulatory adjustment (note 4(g))	-	625,581
Interest	310,612	369,198
Operations and maintenance	806,466	725,313
	2,928,615	3,702,272
Earnings before payments in lieu of income taxes	946,791	667,158
Payments in lieu of income taxes	115,000	229,247
Net earnings	$ 831,791	$ 437,911

See accompanying notes to non-consolidated financial statements.

	2014	2013
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 3,727,382	$ 4,020,158
Current portion of customer deposits	193,019	193,019
Bank debt (note 7)	5,900,000	4,800,000
Shareholder promissory note (note 6)	-	1,900,000
	9,820,401	10,913,177
Long-term liabilities:		
Customer deposits	903,367	876,961
Regulatory liabilities (note 4)	132,298	3,225,359
Employee future benefits (note 8)	688,452	693,056
	1,724,117	4,795,376
Shareholder's equity:		
Share capital (note 9)	2,000,100	2,000,100
Retained earnings	905,576	73,785
Contributed surplus	4,402,375	4,402,375
	7,308,051	6,476,260
Contingencies (note 17)		
	$ 18,852,569	$ 22,184,813

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Director

Director

f) Please explain why E.L.K. is not applying for an off-ramp as part of this application.

E.L.K. Response: E.L.K. expects this to be a one-time occurrence and does not forecast over-earnings in 2015 and 2016. E.L.K. also expects to file its COS next year.

g) Please discuss if E.L.K. considered filing only for disposition of Group 1 deferral and variance account balances in accordance with Board policies, without applying for adjustments to its base rates. If not, why not?

E.L.K. Response: As the circumstances presented are unique in nature and not persistent, E.L.K. gave consideration to the question but felt it was not warranted. In addition, E.L.K. is scheduled to file a COS next year. It should be noted that the decrease in amortization expense once normalized, no longer produces the overearnings.

h) Please explain the drivers for the -13% in Revenues.

E.L.K. Response: What was provided to the OEB audit as support was the result of less consumption and less distribution revenue achieved for most rate classes in 2014 as compared to the forecasts in the 2012 COS.

i) Please provide further details to explain the drivers of the OM&A underspend.

E.L.K. Response: The decrease in amortization expense was due to E.L.K.'s change in capitalization policies due to IFRS, resulting in extended useful lives which impact the ROE. E.L.K. did not incur any costs related to a planned 2016 Cost of Service application as E.L.K. received approval for deferral as forecasted. One quarter of $240,000 is $60,000. Maintenance of Meters and Overhead services was down approximately $30,000 as E.L.K. incurred less cost as compared to forecast. The operations supervisor was also $30,000 less as more time was deployed for capital projects. E.L.K. also incurred $20,000 less in legal compared to forecast. There were no structural or material changes in how E.L.K. operated in 2014.