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Ontario

BY EMAIL

January 28, 2016

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.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0064

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

E.L.K. Energy Inc. is reminded that its Reply Submission is due by February 11, 2016, should it choose to file one.

Yours truly,

Original Signed By

Kelli Benincasa
Analyst, Electricity Rates & Accounting
Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2016 ELECTRICITY DISTRIBUTION RATES

E.L.K. Energy Inc.

EB-2015-0064

January 28, 2016

OEB Staff Submission
E.L.K. Energy Inc
2016 IRM Application
EB-2015-0064

Introduction

E.L.K. Energy Inc. (E.L.K. Energy) filed an application with the Ontario Energy Board (OEB) on September 28, 2015 under section 78 of the *Ontario Energy Board Act*, *1998* seeking approval for changes to the rates that E.L.K. Energy charges for electricity distribution, effective May 1, 2016. The Application is based on the 2016 Price Cap IR option.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by E.L.K. Energy.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by E.L.K. Energy. Pursuant to the OEB's Guideline G-2008-0001, OEB staff will further update the applicable data at the time of the OEB's Decision on the Application based on the Uniform Transmission Rates in place at that time.

Tax-Savings

In response to OEB staff interrogatory #1 E.L.K. Energy confirmed that it wishes to transfer the tax sharing amount to Account 1595, due to insignificant rate riders. OEB staff notes that the Shared Tax-Savings portions of the Rate Generator Model reflect the Revenue Requirement Work Forms from the OEB's cost of service decision (EB-2011-0099). OEB staff has no concerns with the information as filed.

Deferral and Variance Account Disposition

E.L.K. Energy completed the Deferral and Variance Account continuity schedule included in the 2016 IRM Rate Generator Model at Tab 3 for its Group 1 Deferral and Variance Accounts. E.L.K. Energy's total Group 1 Deferral and Variance Account balances amount to a credit of $324,154. The balance of Account 1589 – Global Adjustment is a debit of $966,479 and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2016. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a credit of $0.0014 per kWh which exceeds the pre-set disposition threshold and, as such, E.L.K. Energy requested disposition of these accounts over a one-year period.

In last year's IRM application[1] for E.L.K. Energy, the OEB did not approve the disposition of any of the balances in E.L.K. Energy's deferral and variances accounts. The balances in Account 1588 RSVA – Power Account was a credit of $6,218,100 offset by a debit of $5,824,594 in the 1589 RSVA– Global Adjustment account. The 1589 RSVA – Global Adjustment account is only applicable to non-regulated price plan (RPP) customers. The OEB ordered E.L.K. Energy to complete a comprehensive review of its deferral and variance account balances. E.L.K. Energy was 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.

The audited balances as of December 31, 2014 including interest up to April 30, 2016 are 1588 RSVA – Power account is a credit of $491,404 offset by a debit of $966,479 in the RSVA– Global Adjustment account. This is an increase of $5,726,696 to the 1588 RSVA – Power account and a decrease of $4,858,115 to the RSVA – Global Adjustment Account.

OEB staff asked E.L.K. Energy in Interrogatory #3 if the comprehensive review ordered in its 2015 IRM decision[2] had been completed. In response, E.L.K. Energy replied that the results were fully reviewed by its auditors and all details have gone through a complete OEB review, which was required in order to change the account balances.

OEB staff note that the OEB did not do an audit of E.L.K. Energy's 2013 and 2014 balances and that any review for the purposes of revising the filings with the OEB should not be considered confirmation that the OEB is satisfied with the accuracy of the balances. The last audit completed by the OEB was for 2012 balances and these balances were disposed in E.L.K. Energy's 2014 cost of service application[3]. However, E.L.K. has confirmed that KPMG has assessed the current balances. Furthermore, the adjustments made have resulted in balances in Accounts 1588 and 1589 that are now

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[1] E.L.K. Energy Inc. EB-2014-0067
[2] *Ibid*
[3] EB-2013-0125

reasonable in magnitude given the size of the distributor. E.L.K. Energy's Group 1 Deferral and Variance Account balances as of December 31, 2014 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements* once updates were taken into account. Also, the pre-set disposition threshold has been exceeded. Accordingly, OEB staff agrees that it is appropriate to dispose of E.L.K. Energy's 2013 and 2014 Deferral and Variance Account balances at this time over the requested one-year period.

Return on Equity

On October 16, 2015 the OEB issued a letter to E.L.K. Energy regarding regulatory return on equity. The letter stated, "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". According to the OEB's policy[4], a regulatory review may be initiated for an ROE 300 basis points over the deemed ROE. Such a review would be prospective only, and could result in modifications, termination or the continuation of the distributor's rate plan.

The letter also indicated the OEB will assess the appropriateness of granting E.L.K. Energy's request for an incremental adjustment to its base rates for the 2016 rate year given the earnings performance measured in 2014. The letter estimated that this level of overearnings represents a cost to residential customers of roughly $1.64 per month.

OEB staff and VECC asked E.L.K. Energy if it expects that the over-earning was a one-time occurrence or if it will continue and to explain why it is reasonable to apply for an increase to its base rates.

In E.L.K. Energy's responses it stated this was a one-time occurrence and it does not expect the over-earning to persist in 2015 or 2016. OEB staff notes that E.L.K. Energy did not indicate which over-earning drivers were one-time occurrences and would not persist in 2015 or 2016.

[4] Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (EB-2007-0673) and Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach

A significant portion of the over-earning relates to the change in E.L.K. Energy's capitalization policy and extensions to the useful lives of assets. OEB staff notes that there is a variance account (Account 1576) that was approved in E.L.K. Energy's 2014[5] application to dispose over two years a credit to customers associated with these changes. Given the transitory impact of this driver, OEB staff is of the view that E.L.K. Energy's achieved earnings should be assessed on a normalized basis, having excluded impacts arising from what was a mandatory review of asset lives, and given that amounts are returned to customers through Account 1576. However, E.L.K. Energy has not provided any evidence to substantiate its claim that a normalized calculation of its 2014 earnings would result in an amount below the established ceiling dead band.

VECC requested E.L.K Energy to provide its ROE for 2015. In response E.L.K Energy stated it does not have the 2015 data available.

In the absence of analysis by E.L.K. Energy, such as a calculation of ROE normalized for one-time drivers, or a pro forma for 2015 which can assist in assessing whether over-earnings are likely to persist, OEB staff is of the view that the annual Price Cap IR adjustment to rates should not be approved.

All of which is respectfully submitted

[5] EB-2013-0123