June 29, 2017

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: E.L.K. Energy Inc. (E.L.K. Energy)
2017 Electricity Distribution Rates
E.L.K. Energy Inc. Additional Evidence Re: 1595
Ontario Energy Board File Number: EB-2016-0066

Please find enclosed E.L.K. Energy's additional evidence filed by E.L.K. Energy concurrently with its settlement proposal.

Included within are the following Appendices:

Appendix A- Responses to Pre-Settlement Questions

Appendix B- Evidence of Material Adverse Effects with 1595

Appendix C- Evidence of Error with Embedded Distributor

Appendix D- Reconciliation and Explanation of Amount in 1595, including the following attachments:

File 1_1595 Support 2013 Def & Var Acc Non RPP-GA
File 2_Acct 1595-01 Support 2013 Def & Var Acc Non-RPP-GA
File 3_1595 Reconciliation 2014 RR Def & Var Accts
File 4_1595-01 Reconciliation 2014- RR Disposition GA
File 5_1595 Disposition_recovery of regulatory balances December 31, 2015
File 6_1595-01 OEB Rate Rider Disposition of GA-Only Non RPP-Principal December 31, 2015
File 7_dec_rate order_ELK_IRM_20160317
File 8_dec_rateorder_ELK20130502

Yours truly,

Mark D. Danelon, CPA, CA
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Appendix A
Responses to pre-settlement Questions

Prior to the commencement of settlement negotiations, VECC, SEC and OEB staff each sent to the applicant supplemental interrogatory questions (the "Pre-Settlement Questions").

E.L.K. Energy is filing its responses to these Pre-Settlement Questions below.

OEB STAFF PRE-ADR QUESTIONS & RESPONSES

2-Staff-50
Rate Base
Ref:2-Staff-9

Neither parts of the question were answered. Part a) was about reconciling the 2013 beginning PP&E in this proceeding to the approved ending PP&E in 2014 proceeding when MIFRS adjustment was disposed. The Table provided under Part a) does not have the same values as the approved PP&E.

Part b) required E.L.K. to provide updated appendices 2-Bas. If the Opening PP&E is not consistent with the approved PP&E, then all the fixed asset Tables for subsequent years need to be revised to reflect the opening in 2013 (the opening PP&E in year 2014 should be the closing PP&E in 2013). E.L.K. did not update Appendix 2-BA as requested. The test year PP&E must flow out of the years prior to the test year.

Response:

E.L.K. has prepared the spreadsheet below which is intended to explain the difference in the continuity statements. With respect to the adjustments column, the ($101,202) represents the difference between actual and forecast. The ($1,454,472) adjustment represents the actual adjustment for smart meters that occurred in 2013. The ($199,766) adjustment represents the difference in actual and forecasted capital additions. The ($334,029) adjustment represents the difference in depreciation between MIFRS and CGAAP which arises because 2012 actuals work completed under CGAAP (actual transition to MIFRS occurred in 2013).

	EB-2013-0123 - 2012 Approved	Adjustments	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual
Opening Net Fixed Assets Opening	$7,756,705	($101,202)	$7,655,503	$7,136,501	$8,059,927	$8,089,087	$8,657,686
Adjustment to Opening for Smart Meters	$1,454,472	($1,454,472)		$1,675,848			
Adjusted Opening	$9,211,177	($1,555,674)	$7,655,503	$8,812,349	$8,059,927	$8,089,087	$8,657,686
Additions	$538,853	($199,766)	$339,087	$303,443	$383,056	$1,080,987	$1,232,467
Depreciation	($524,060)	($334,029)	($858,089)	($376,750)	($352,696)	($335,895)	($353,383)
Net Dispositions				($679,115)	($1,200)		($97,181)
Other Adjustment						($176,493)	
Closing Net Fixed Assets	$9,225,970	($2,089,469)	$7,136,501	$8,059,927	$8,089,087	$8,657,686	$9,439,589
Average Net Fixed Assets	$9,218,573		$7,396,002	$8,436,138	$8,074,507	$8,373,386	$9,048,637

3-Staff-51
Load Forecast
Ref:3.0-VECC-21

Please provide more clarity on the reasons why the load for Embedded Distributor rate class has dropped historically and the future expectation of this trend.

Response:

E.L.K. Energy does not know why this third party’s load has gone down historically. We suggest you ask Hydro One.

4-Staff-52
Employee Costs
Ref:4-Staff-28
Ref:4.0-VECC-25
Ref: Appendix 2-K

E.L.K. Energy had stated the reasons for hiring the additional lineman is in anticipation of retirements and a proper succession plan. In the table provided in VECC-25 it shows that there are no anticipated retirements in the next 5 years. E.L.K. Energy also stated in Staff-28 that both linemen are fully qualified.

a) Please explain the need for fully qualified linemen when there are no anticipated retirements in the next 5 years?

Response:

Table 4-1 Operational Staff and Potential Retiree Date in Exhibit 4 details anticipated retirements. Table 4-1 supports the need for fully qualified lineman as it shows that there are six potential linemen that are eligible for retirement in the next five years. Below is Table 4-1 for ease of reference.

Employee	Retirement Date	Eligible for Retirement (55 yrs old)
1 - Lineman		15/10/2016
2		31/05/2021
3		25/08/2021
4- Lineman		14/02/1999
5- Lineman		31/12/2011
6- Lineman		04/07/2020
7		29/04/2021
8		20/01/2025
9- Lineman		23/05/2017
10		16/02/2022
11		22/02/2021
12- Lineman		24/12/2020
13		05/01/2019
14		11/09/2022
15		25/04/2021
16		10/12/2015
17		24/09/2035
18		07/07/2031
19- Lineman	31/12/2015	JUST RETIRED
20	31/12/2015	JUST RETIRED

b) Please explain why the total number of employees in the table VECC-25 do not match Appendix 2-K.

Response:

The reasons why the total number of employees in the table VECC-25 did not match Appendix 2-K are because Appendix 2-K originally included directors and retirees. Please see the updated Appendix 2-K below provided during settlement which excludes directors and retirees and which agrees to VECC-25.

Appendix 2-K
Employee Costs

	Last Rebasing Year - 2012-Board Approved	Last Rebasing Year - 2012-Actual	2013 Actuals	2014 Actuals	2015 Actuals	2016 Actuals	2017 Test Year
Number of Employees (FTEs including Part-Time)[1]							
Management (including executive)	4	4	4	4	4	4	6
Non-Management (union and non-union, directors and retirees)	30	14	15	15	15	15	17
Total	34	18	19	19	19	19	23
Total Salary and Wages including ovetime and incentive pay							
Management (including executive)	$ 392,411	$ 398,259	$ 424,501	$ 449,366	$ 497,936	$ 523,248	$ 761,329
Non-Management (union and non-union, directors and retirees)	$ 1,134,366	$ 1,156,402	$ 1,205,121	$ 1,221,839	$ 1,225,376	$ 1,130,832	$ 1,399,103
Total	$ 1,526,777	$ 1,554,661	$ 1,629,622	$ 1,671,205	$ 1,723,312	$ 1,654,080	$ 2,160,432
Total Benefits (Current + Accrued) [2]							
Management (including executive)	$ 29,989	$ 25,407	$ 26,089	$ 24,224	$ 24,697	$ 26,705	$ 27,373
Non-Management (union and non-union, directors and retirees)	$ 117,780	$ 121,985	$ 93,613	$ 73,227	$ 72,354	$ 88,003	$ 90,203
Total	$ 147,769	$ 147,392	$ 119,702	$ 97,451	$ 97,052	$ 114,708	$ 117,576
Total Compensation (Salary, Wages, & Benefits)							
Management (including executive)	$ 422,400	$ 423,666	$ 450,590	$ 473,590	$ 522,633	$ 549,953	$ 788,702
Non-Management (union and non-union, directors and retirees)	$ 1,252,146	$ 1,278,386	$ 1,298,734	$ 1,295,067	$ 1,297,731	$ 1,218,835	$ 1,489,306
Total	$ 1,674,546	$ 1,702,052	$ 1,749,324	$ 1,768,656	$ 1,820,364	$ 1,768,788	$ 2,278,008

4-Staff-53
Meter Maintenance and Readings

Please provide a cost breakdown of the Meter Maintenance & Readings OM & A

Response:

Meter Maintenance and Reading was budgeted at $407,614 and actual was $234,317, a difference of approximately $173K. The decrease was driven primarily in 2 accounts. Account 5065 (Meter Expense) was budgeted at $130,000, on the assumption that Metersense and Sensus costs would be booked here. Actuals came in at $15,235, a difference of $114,765. The difference arose primarily because Metersense and Sensus do not get booked to this account (rather it gets booked to 5175). Account 5175 (Maintenance of Meters) was budgeted at $237,614 which was based on 2015 actuals. 2016 Actuals came in at $159,468 which includes the Metersense and Sensus costs, a difference of $78,146.

9-Staff-54
Deferral and Variance Accounts
Ref: 9-Staff-40, 9-Staff-41, 9-Staff-42, 9-Staff-43, 9-Staff-44

a) It is not clear why E.L.K. Energy does not consider it a billing error. E.L.K. Energy has control over its CIS system where the error was made. The error is over 3 years old in case of the first rate rider (GA rate rider under EB-2011-0099), and the second one is over 2 years old (GA rate rider under EB-2013-0123). Both rate riders are over the time period allowed for corrections under the RSC. Even if E.L.K. considers it to be "residual amounts" in account 1595, carrying charges are not appropriate in this case, as the rate payer would be paying for the mistakes made by the distributor. Please provide further justification on E.L.K. Energy's position on the matter.

Response:

The amount requested for disposition below relates to residual balances from rate riders that concluded in 2015. The amount in account 1595 relates to amounts that should be collected from non-RPP customers since E.L.K. has incurred these costs but has not fully been reimbursed through the variance account process.

As part of preparing this application, E.L.K. discovered that with respect to the General Service 50 to 4,999 Service Classification, the two rate riders called Disposition of Global Adjustment) – effective until April 30, 2014 and April 30, 2015 were incorrectly used in E.L.K.'s CIS system through a misinterpretation of the description of the rate rider. This rate rider is applicable for only non-RPP customers. E.L.K. originally applied this to retailer accounts only, but should have been all non-RPP customers, which is retailers and weighted average price customers.

In addition, for the Embedded Distributor class, the two rate riders called Disposition of Global Adjustment – effective until April 30, 2014 and April 30, 2015 were not applied since this class is in reality handled similar to a class A customer and a true-up between preliminary and actual GA costs are done on a monthly basis. This means there is no GA variance for this class.

The rate riders for Disposition of Global Adjustment reflect the variance between GA amounts collected from the customers and the amount paid to the IESO. The main driver of the variance is preliminary GA cost collected from customers and the actual amount paid to the IESO. There is no such variance for the Embedded Distributor class since it is trued-up monthly.

E.L.K. requests disposition of Account 1595 for the amount of $2,785,175 which is the 2015 balance. This is broken down as $1,504,280 for GS > 50 kW, $1,202,103 for Embedded Distributors and includes $78,792 for Interest.

b) E.L.K. Energy has stated that it knows what portion of the rate rider is attributable to GS>50. However, there are intergenerational issues to consider. The amount allocated to this rate class is approximately $2.1 million, a very material number. Can E.L.K. Energy identify the customers who contributed towards this variance when it first originated. Would E.L.K. Energy be able to apply the rate rider to only the customers who were to pay the affected rate riders from 2013 to 2015?

Response:

Yes, E.L.K. can identify the customers who contributed toward this variance when it first originated. Yes, E.L.K. would be able to apply the rate rider to only the customers who were to pay the affected rate riders from 2013 to 2015. It is expected this method would collect about $1.5 million from the GS>50 kW customers. However, the portion of account 1589 RSVA Global Adjustment allocated to the embedded distributor class of around $1.2 million should have been assigned to all other non-RPP customers including GS>50 kW customers. This means over $2.0 million would be collected from the GS>50 kW class.

c) E.L.K. Energy’s balance in 1595 do not match its 2.1.7 filings, there is a difference of approximately $520K. Please reconcile the balances.

Response:

Please see attached excel document labelled (E.L.K. 2015 1595 Analysis- 9-Staff-54) that reconciles the $519,746.13. During settlement, the principle of disposition of account 1595 was supported but was not clear on the value of that number that was in excess of the RRR reporting amount of $2,265,428. The attached excel document provides greater clarity. Please also refer to Appendix E.

d) E.L.K. Energy did not use the locked version of the EDDVAR model and did not provide a locked version when requested in an IR. There are numerous “adjustments” in the adjustments columns which have not been satisfactorily explained when requested. Please prepare explanations on the changes to the model.

Response:

In the 2017 cost of service application, E.L.K. Energy used an unlocked version of the EDDVAR model to properly address some specific circumstances E.L.K. Energy had with respect to Account 1595. The only sheet that was unlocked in the model was tab 5. Allocation of Balances. In tab 5 the only change that was made was to take account 1595 included in row 46 and move it to row 48 along with account 1589 and allow the total of account 1589 and 1595 to be disposed of over a two year period.

As part of preparing E.L.K. Energy's 2017 Annual IR Index Model for the settlement proposal, the deferral and variance account information has been included in tab 3 of the IRM model consistent with the information provided in the EDDVAR model supporting E.L.K. Energy’s 2017 cost of service application. However, this information does not include accounts 1588, 1589 and 1595 since these accounts will not be disposed until completion of a regulatory audit. The 2017 Annual IR Index Model is a locked model which means an equivalent locked version of the EDDVAR model has been provided.

e) Were the other rate riders on GS>50 class properly entered in E.L.K. Energy’s CIS System.

Response:

Yes, the other rate riders on GS>50 class were properly entered in E.L.K.’s CIS system.

9-Staff-55
True-up Process

E.L.K.'s description of "true-up" does not say how GA for RPP is trued up to actual billings.

<u>Response:</u>

E.L.K. only true's up the GA for one customer based on the actual GA.

Quarterly, E.L.K. together with KPMG have created a monthly mechanism that compares revenues related to global adjustment and the expenses of global adjustment (which comes from the IESO invoice and split between power and global adjustment each month, based on actual consumption). The result is the higher of the revenue or expense account is reduced and the offset to the regulatory account as described in Article 490. E.L.K. reports to the IESO monthly its volumes through form 1598 and performs a monthly reasonability calculation that takes the sum of the AQEW (kwh) and embedded generation multiplied by the actual GA to come to a calculated global adjustment. This is then compared to the GA charge by the IESO for reasonability. This will be further investigated during the regulatory audit where a global adjustment reasonability test will be reviewed as described in this agreement to ensure proper procedures are being followed.

VECC'S PRE-ADR QUESTIONS & RESPONSES

3-VECC 48

Reference: VECC 23 a)
Exhibit 3, page 15 (Table 3-15)

a) The Application states (Exhibit 3, page 15) that the 2015-2017 CDM savings are based on ELK's2015-2020 CDM Plan. However the savings values for 2016 and 2017 as used in the Application differ from those in the CDM Plan filed in response to VECC 23 a) as follows:
   - 2016 – 1,785,578 kWh per Application vs. 1,846,000 kWh per Plan.
   - 2017 – 1,855,381 kWh per Application vs. 1,947,000 kWh per Plan.

   Please explain why the values for 2016 and 2017 do not match those in the CDM plan and whether the load forecast for 2017 needs to be revised to reflect the values in the 2015-2020 CDM Plan.

b) Does the LRAMVA Threshold for 2017 need to be revised and, if so, what is the revised value?

Response:

a) The savings values for 2016 and 2017 used in the Application were based on E.L.K.'s 2015-2020 CDM Plan at the time the load forecast was prepared for the Application. E.L.K.'s 2015-2020 CDM Plan provided in response to VECC 23 a) is the final version. The 2015-2020 CDM Plan was finalized around the same time as the Application was filed but the final numbers were not included in the Application. After the interrogatories were completed, E.L.K. decided to not revise the load forecast for the final numbers as the impact did not appear to be material and it was beneficial to the customer to not make the change since the change would lower the 2017 load forecast which in turn would increase rates.

b) Assuming the savings values for 2016 and 2017 used in the Application were based on E.L.K.'s 2015-2020 CDM Plan at the time the load forecast was prepared, the LRAMVA threshold for 2017 does not need to be revised.

3-VECC 49

Reference: VECC 22 c)

a) It is noted that in the response the revised Table 3-12 has a total billed energy prior to any CDM adjustment of 229.4 GWh (i.e., 225.1 + 4.3). Please explain how this value was determined and why it differs from the 233.1 GWh value in the Application.

Response:

This response has been updated to reflect a clarification to the question discussed in the settlement conference. The difference in the total billed energy prior to any CDM adjustment of 229.4 GWh in VECC 22c and 233.1 GWh in the Application results from a change in the forecasted 2017 power purchased between the two cases. The total bill energy prior to any CDM adjustment is the forecasted 2017 power purchased amount divided by the average loss factor. The actual 2016 values used in VECC 22c changed the 2017 forecasted amount for the Embedded Distributor. As the Embedded Distributor Usage is a variable in the power purchased prediction model, the forecasted 2017 power purchased amount changed from the Application to VECC 22c.

3-VECC 50

Reference: VECC 24 a) & b)

a) The response to VECC 24 a) states that there are no material variances between the 2016 Other Revenues as forecast in the Application and the actual (unaudited results). However, there appear to be material changes (I.e., > $50,000) in the following accounts:
   - Account #4375 – Where the 2016 actual is $917,119 vs. a forecast value of $571,514.
   - Account #4380 – Where the 2016 actual is -$470,223 vs. a forecast value of -$319,593.

   Please explain the reason for the material change in the forecast vs. actual 2016 values for each account and whether, based on these actual values, the 2017 forecast for either account needs to be revised.

Response:

The material change in forecast for both accounts are the result of the unexpected level of activity with respect to the 2015-2016 CDM program, uptake and process developments, as 2016 was the first true year of the new program with our new CDM provider. Forecast was based on the previous year's actual amounts primarily with a different CDM provider. E.L.K. does not feel an adjustment is required for the 2017 forecast as large primary projects have now been dealt with and no additional prefunding will occur.

b) The total 2017 Other Revenues in the revised Table 3-46 still do not reconcile with the forecast 2017 Other Revenues in Appendix 2-H. Which set of values is correct?

Response:

Table 3-46 was still the original, and not updated with 2016 actual unaudited numbers. The chart above in VECC 24 (a) has the correct set of values.

4-VECC 51

Reference: VECC 43 a)

a) The response indicates that the requested file will be provided in “live Excel format”. However, all that was provided in a PDF version. Please provide the live Excel format version of the 2011-2014 Persistence Report.

Response:

Due to the size of the file, E.L.K. has submitted the excel version through RESS.

7-VECC 52

Reference: Exhibit 8, page 9

a) Why is it necessary for two staff persons to attend a service call?
b) For after regular hours work, are staff compensated at time and half or at double their regular rates?

Response:

It is necessary for two staff persons to attend a service call as most jobs require staff to troubleshoot, isolate or restore the LDC supplied customers service. Two qualified staff are required to perform these tasks. After regular hours staff are compensated at double their regular rates.

SEC'S PRE-ADR QUESTIONS & RESPONSES

2-SEC-28

[2-VECC-9, 2-VECC-10, 2-SEC-10(b), 4-SEC-18]
Please provide the excel version of the updated appendices provided in these interrogatory responses.

Response:

Please see excel document entitled Updated Appendices- 2-SEC-28 filed in RESS.

2-SEC-29

[2-SEC-10. 4-SEC-18] In both IRs you were asked to provide updated appendices to include 2016 actuals. You were also asked to explain any material variances between 2016 forecast and actuals. No such explanations were provided.

Response:

Executive, Financial, Professional & Insurance was budgeted at $722,528 and came in at $620,220, or $102,307 lower than budget. The principal driver for this difference was a reduction in account 5630 (Outside Services Employed) which was budgeted at $250,000 and came in at $125,354, a difference of $124,646 which was driven by a reduction in customer engagement costs, lower than expected KPMG costs associated with ongoing IFRS support, and lower than expected legal fees for the essex transmission reinforcement process (SECTR) (the hearing was delayed). This was partially offset by an increase of $32,192 increase in management salaries and expenses from the 2016 budget. This increase was driven in-part by the promotion of one management team member, as well as the compensation methodology described more fully in Exhibit 4 starting at pg. 34.

Regulatory Reporting and Assessments costs were budgeted at $200,000 and came in at $170,076, a difference of $29,924. This was driven by a delay in cost-of-service related costs, which are expected to be incurred instead in 2017.

Meter Maintenance and Reading was budgeted at $407,614 and actual was $234,317, a difference of approximately $173K. The decrease was driven primarily in 2 accounts. Account 5065 (Meter Expense) was budgeted at $130,000, on the assumption that Metersense and Sensus costs would be booked here. Actuals came in at $15,235, a difference of $114,765. The difference arose primarily because Metersense and Sensus do not get booked to this account (rather it gets booked to 5175). Account 5175 (Maintenance of Meters) was budgeted at $237,614 which was based on 2015 actuals. 2016 Actuals came in at $159,468, a difference of $78,146. 2015 actuals were, in hindsight, not the best predictor of 2016 costs because 2015 actuals included a one-time KPMG adjustment (meter reading costs got re-booked to 5175).

Overhead Operations/Maintenance decreased by $215,828. The decrease is a result of a decrease in tree-trimming in Account 5135 of $295,859. This was partly offset by a series of non-material increases including a $15,260 increase in account 5120 maintenance of poles, towers and fixtures, a $32,512 increase in maintenance of OH conductors and devices, a $20,445 increase in maintenance of OH services, and a $11,813 increase in OH distribution lines & feeders-rental paid.

4-SEC-29
[4-SEC-21(a)] As requested in the original interrogatory, please provide the most update to-date anticipated start-date for each of the 4 new hires the Applicant is proposing.

Response:

E.L.K.'s updated anticipated start date would be July 1, 2017.

4-SEC-29

[4-SEC-24] It appears there is a misunderstanding on what the original IR requested. Please add two rows to the Appendix 2-K table provided in 4-SEC-18, showing for each year, the total amount of compensation costs allocated to OM&A and capital.

Response:

Please see below which was discussed as part of Appendix 2-K during settlement, costs allocated between OM &A and capital.

Total Compensation (Salary, Wages, & Benefits)							
Management (including executive)	$ 422,400	$ 423,666	$ 450,590	$ 473,590	$ 522,633	$ 549,953	$ 788,702
Non-Management (union and non-union, directors and retirees)	$ 1,252,146	$ 1,306,031	$ 1,324,829	$ 1,318,199	$ 1,326,040	$ 1,248,592	$ 1,519,807
Total	$ 1,674,546	$ 1,729,697	$ 1,775,419	$ 1,791,788	$ 1,848,673	$ 1,798,545	$ 2,308,509
Capital		$ 320,653	$ 479,606	$ 388,063	$ 269,174	$ 323,212	
OM &A		$ 1,409,044	$ 1,295,813	$ 1,403,725	$ 1,579,499	$ 1,475,333	

Appendix B
Evidence of Material Adverse Effects Associated with 1595

Background

E.L.K. Energy has requested disposition of residual balances for Account 1595 following the expiry of rate riders that concluded in 2015. The amount in account 1595 relates to amounts that should be collected from non-RPP customers since E.L.K. has incurred these costs but has not fully been reimbursed through the variance account process.

Specifically, as part of preparing its cost of service application, E.L.K. identified a material balance had accumulated in Account 1595. Upon further investigation E.L.K. discovered that with respect to the General Service 50 to 4,999 Service Classification, the two rate riders called Disposition of Global Adjustment – effective until April 30, 2014 and April 30, 2015 were incorrectly used in E.L.K.'s CIS system through a misinterpretation of the description of the rate rider. This rate rider is applicable to non-RPP customers. E.L.K. originally applied this to retailer accounts only, but should have been all non-RPP customers, which is retailers and weighted average price customers.

In addition, for the Embedded Distributor class, the two rate riders called Disposition of Global Adjustment – effective until April 30, 2014 and April 30, 2015 were not applied since this class is in reality handled similar to a class A customer and a true-up between preliminary and actual GA costs are done on a monthly basis. This means, in reality, there is no GA variance for this class.

The rate riders for Disposition of GA Adjustment reflect the variance between GA amounts collected from the customers and the amount paid to the IESO. The main driver of the variance is preliminary GA cost collected from customers and the actual amount paid to the IESO. There is no such variance for the Embedded Distributor class since it is trued-up monthly.

If the OEB refuses to approve the collection of an amount of $2,785,175 which relates to amounts E.L.K. actually spent to purchase power on behalf of its customers, the OEB's refusal will need to be recorded on E.L.K. Energy's financial statements. As more fully detailed below, a refusal to approve collection of this amount will have a material adverse effect on E.L.K. Energy's ongoing financial viability, particularly as it relates to the

Cash Flow Analysis

The impact of not collecting an amount of $2,785,175, which is reflective of funds E.L.K. actually spent to purchase power on behalf of these customers, will have a material adverse effect on E.L.K.'s cash flow position.

Specifically, E.L.K.'s cash flow position will not allow E.L.K. to replenish its cash and cause serious concern for being able to make payments, specifically the IESO invoice and proceed with a sense of strong monetary confidence. In 2013, E.L.K.'s year-end cash balance was $5,090,384. Due primarily to this account 1595 issue, by the end of 2016, E.L.K.'s cash balance was $2,125,113, a decrease of $2,965,271 as per the audited financial statements.

The average monthly IESO invoice amount for the past three years is $2,006,415. However, there have been months that have reached as high as $2,834,511.24.

E.L.K. is concerned that it may not be able to pay its IESO invoices at its current cash flow levels. E.L.K. is requesting recovery of the balance of $2,785,175 to replenish its free cash flow to a healthy level closer to where it was previously sitting, to allow the flexibility of running the utility if unforeseen circumstances were to arise.

Impact Regarding Net Income, Return on Equity, and Retained Earnings

Another impact of not collecting an amount of $2,785,175 is that E.L.K. would have to record this write-off on its income statement.

The impact of not collecting an amount of $2,785,175 on E.L.K.'s calculated Return on Equity (as described by Net Income / Average Shareholder's equity) would result in a significant negative ROE in the year the write-off occurs (e.g. 2017).

If E.L.K. were to use its audited 2016 financial results as a baseline, a $2,785,175 write-off would cause E.L.K.'s Net Income would drop to a net loss of ($2,023,023) and would create a negative ROE of (23.85%), well outside the board approved deadband amount and not healthy for any organization. This calculation is shown in Table 1 below.

Table 1: Effect of a $2,785,175 write-off on E.L.K. Income Statement (2016)

2016	WITH WRITEOFF
ROE	ROE
Net Income	Net Income
Avg Shareholders Equity	Avg Shareholders Equity
$ 762,152.00	-$ 2,023,023.00
$ 8,482,602.00	$ 8,482,602.00
8.98%	-23.85%

In addition, the audited 2016 financial statements show that E.L.K.'s shareholder has accumulated at total of $2,326,462 million of retained earnings as of December 31, 2016. A write-off of $2,785,175 would drop the retained earnings to $-458,713.

Third Party Debt Instruments and Financial Covenants

Further, E.L.K. would be in breach of two financial covenants with its third party lender (TD) if E.L.K. is unable to recover the amount of $2,785,175.

The two relevant covenants are:

(a) a Minimum Interest Coverage Ratio of 1.5 x - which is calculated as (EBITDA-40%CAPEX-Cash Taxes)/ Total Cash Interest Expense.
(b) a Minimum Debt Service Coverage of 1.2 x - which is calculated as (EBITDA -40%CAPEX-Cash Taxes)/(Mandatory Principal Repayment + Total Cash Interest Expenses).

EBITDA is calculated as Net Income less Interest, Taxes and Depreciation.

The actual financial covenants have been extracted from the debt instrument and included for ease of reference below.

Figure 1: Relevant Financial Covenants owe to E.L.K.'s Third Party Lender

FINANCIAL COVENANTS

The Borrower agrees at all times to:

a) Borrower is to maintain a Minimum Interest Coverage Ratio (ICR) of 1.50x. **(Tested Annually)**

ICR is defined as: (EBITDA -40% of CAPEX (net of contributed capital) – cash taxes/Total Cash Interest Expenses (i.e. net of accrual of any shareholder debt interest.

Note: If borrower elects to begin repayment of facility #1, the above covenant would be amended as follows:

Borrower is to maintain a Minimum Debt Service Coverage of 1.20x, defined as: (EBITDA-40% of CAPEX (net of contributed capital)- cash taxes/Mandatory Principal Repayment + Total Cash Interest Expenses (i.e. net of accrual of any shareholder debt interest). (Tested on a Rolling 4 Quarter Basis)

Table 2 below shows E.L.K.'s calculation of these two key financial covenants, starting with 2016 audited financial statement results as a baseline (in the column marked "2016"), then applying the $2,785,175 write-off to re-calculate the Minimum Interest Coverage Ratio and Minimum Debt Service Coverage after such a write-off.

Table 2: Analysis of Impact of a $2,785,175 write-off on Relevant Financial Covenants

Covenants						
Minimum Interest Coverage Ratio (1.5X)						
		2016				
	EBITDA			**Applying the 2.7 M loss**		
	Net Income	$ 762,151		-$ 2,023,024		
	Plus:					
	Interest	$ 100,166		$ 100,166		
	Taxes	$ 326,000		$ 326,000		
	Depreciation	$ 343,271		$ 343,271		
	EBITDA	$ 1,531,588		-$ 1,253,587		
	40% Cap Expenditures	-$ 380,910		-$ 380,910		
	Cash Taxes	-$ 141,766		-$ 141,766		
	Numerator	$ 1,008,913		-$ 1,776,262		
	Denominator	$ 100,166		$ 100,166		
		10.07237573	Compliant	-17.73313093	Not Compliant	
Minimum Debt Service Coverage (1.2X)						
		2016				
				Applying the 2.7M loss		
		$ 1,008,912.31		-$ 1,776,362.69		
		$ 100,166.31		$ 100,166.31		
Note: There is no manditory Principal Repayment		10.07237174	Compliant	-17.73413326	Not Compliant	

As shown in Table 2, above, a $2,785,175 write-off would put E.L.K. in breach of both its Minimum Interest Coverage Ratio and its Minimum Debt Service Coverage. Specifically:

- E.L.K. has a covenant to maintain a Minimum Interest Coverage Ratio of 1.5. Following a $2,785,175 write-off on 2016 actual results, E.L.K.'s Minimum Interest Coverage Ratio falls to negative (17.733).
- E.L.K. has a covenant to maintain a Minimum Debt Service Coverage ratio of 1.2. Following a $2,785,175 write-off on 2016 actual results, E.L.K.'s Minimum Debt Service Coverage falls to negative (17.734).

With such a default, TD Bank would then have the right to put E.L.K. in default under its credit facility. As described above, E.L.K.'s cash on hand is currently $2,125,113 as of the end of 2016. E.L.K. could not repay the TD term loan of $4.3 million if demanded. This could lead to insolvency proceedings.

Even if TD Bank chose not to exercise this remedy, it could block E.L.K. from any future borrowing on the revolving credit portion of this facility while E.L.K. is in default. This would mean that E.L.K. could lose access to its only short term credit facility – which would make E.L.K.'s poor cash flow situation (described above) even worse.

Finally, an extraordinary write-off in 2017 would make it unlikely that another third party lender, after doing their due diligence, would offer E.L.K. credit in the future at reasonable lending rates.

Appendix C
Evidence of error with Embedded Distributor

E.L.K. charges Global Adjustment to its embedded distributor class. However, there is no Global Adjustment variance associated with the embedded distributor since E.L.K. has a system in place to true-up the actual Global Adjustment amount for the embedded distributor on a monthly basis using the following process. The IESO Global Adjustment class B preliminary 1st estimate rate is entered into E.L.K's billing system once a month when it is available. This amount is applied to all customer classes as applicable. For the embedded distribution customer an adjustment is made each month on the embedded distributor account to true up the Global Adjustment difference between the preliminary 1st estimate Global Adjustment rate and the actual rate when the actual rate is available. Even though the embedded distributor is classified as a class B customer, the true-up process means it is handled similar to a class A customer.

When the above process is applied to the embedded distributor class there is no variance with Global Adjustment associated with this class. This means no amount of account 1589 RSVA Global Adjustment should be assigned to the embedded distributor.

However, when the 2012 cost of service application was prepared and the Rate Rider for Disposition of Global Adjustment was designed, it was assumed the OEB approved methodology of disposition of account 1589 RSVA Global Adjustment to Non-RPP customers applied to the embedded distributor class since it was a Non-RPP customer and was classified as a class B customer. This resulted in a portion of account 1589 RSVA Global Adjustment being assigned to the embedded distributor class and a Rate Rider for Disposition of Global Adjustment was approved by the OEB for the embedded distributor class.

However, the billing system did not charge this rate to the embedded distributor as the system was flagged not to charge such a rate to reflect the Global Adjustment true-up process for this class (explained above) and the assigned 1589 RSVA Global Adjustment amount was not collected from this class.

The portion of account 1589 RSVA Global Adjustment allocated to the embedded distributor class should not have been allocated to this class at all. Rather, this amount should have been assigned to all other Non-RPP customer. As a result, it is proposed this amount should be collected from all other Non-RPP customers.

Appendix D
Reconciliation and Explanation of Amount in 1595

Please find attached the material that supports the 1595 balance of $2,785,175 which has riders that have completed by the end of 2015. This amount is the 1595 claim.

Every input number in the file ELK 2015 1595 Analysis_Response to OEB Staff Pre Settlement IR has been referenced back to one of the attached files.

Overall, the objective of this material is to show that even though E.L.K. does not track by subaccount the amounts associated with rate riders that have different sunset dates, it has been possible to breakdown the 2015 1595 balance of 2,265,429 into three sub components. Each of these components would typically be recorded in different subaccounts for the riders that have three sunset dates. $2,785,175 is the amount in the 2015 1595 balance that is associated with the rate riders effective until April 30, 2015. ($213,603) is the amount in the 2015 1595 balance that is associated with rate riders effective until April 30, 2016. ($306,142) is the amount in the 2015 1595 balance that is associated with rate riders effective until April 30, 2017. However, as outlined in the spreadsheet there is a double count of ($101,093) in the ($306,142) balance which was recognized in the approval of account 1595 disposition of ($205,050) (i.e. ($306,142) - ($101,093)) in E.L.K.'s 2016 rate application (EB-2016-0064). Also provided in attached File 7_dec_rate order_ELK_IRM_20160317.

As background, File 8_dec_rate order_ELK_20130502 has been provided which is the Board Decision for EB-2011-0099. This Decision includes the previously approved settlement agreement which was the basis for E.L.K's 2013 and 2014 rates. With regards to the 2011 DVA balances, the material under issue 10 - Deferral and Variances Accounts (i.e. pages 41 to 45) outlines how the settlement agreement addressed the disposition of the 2011 DVA balances in the 2013 and 2014 rates which also carried over into the 2015 rates since the sunset on disposition of account 1562 was April 30, 2016.