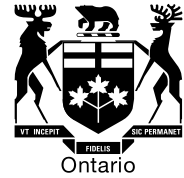


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BY E-MAIL

October 12, 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 Distribution Rate Application
OEB Staff Submission #2
OEB File No. EB-2016-0066**

In accordance with Procedural Order No. 4, please find attached OEB staff's submission on the revised settlement proposal for E.L.K. Energy's 2017 cost of service application filed on October 5, 2017. This document is also being sent to E.L.K. Energy, the Association of Major Power Consumers in Ontario, the School Energy Coalition, and the Vulnerable Energy Consumers Coalition.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Rates Major Applications

Encl.

2017 ELECTRICITY DISTRIBUTION RATES

E.L.K. Energy Inc.

EB-2016-0066

**OEB STAFF SUBMISSION ON REVISED
SETTLEMENT PROPOSAL**

October 12, 2017

INTRODUCTION

E.L.K. Energy Inc. (E.L.K. Energy) filed a complete application with the Ontario Energy Board (OEB) on November 1, 2016 seeking approval for changes to the rates that E.L.K. Energy charges for electricity distribution, to be effective May 1, 2017. The Parties to the settlement proposal are E.L.K. Energy and the following approved intervenors: Association of Major Power Consumers in Ontario (AMPCO), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC).

The Parties reached a partial settlement and filed a settlement proposal on June 22, 2017. In the settlement proposal, E.L.K. Energy agreed to withdraw its application and instead use an Annual Incentive Rate-setting Index (Annual IR Index) methodology to set base rates. In addition, E.L.K. Energy agreed to undertake a regulatory audit, an operational review, and an asset condition assessment prior to its next cost of service application. The Parties were unable to reach settlement on the disposition of Account 1595, which the Parties agreed should proceed to a hearing.

The OEB issued Decision and Procedural Order No. 4 (the Decision) on August 24, 2017. The OEB rejected the settlement proposal for the following reasons:

- The settlement proposal does not shed much light on the details of some concerns brought forward during the settlement conference about E.L.K. Energy's operation.
- The new evidence regarding Account 1595 has not been tested.
- The rate model and supporting information provided to underpin the Annual IR Index application have not yet been validated by OEB staff as is normally the case in such applications.

The OEB directed the Parties to make best efforts to revise the settlement proposal to address the issues listed above and to file a revised settlement proposal.

Revised Settlement Proposal

The Parties filed a revised settlement proposal on October 5, 2017, in which they were able to reach full settlement. The revised settlement proposal addressed

each concern the OEB had and the Parties were able to reach settlement on the disposition of Account 1595.

The Undertakings

In the settlement proposal, E.L.K. Energy agreed to complete a regulatory audit, an operational review, and an asset condition assessment (the undertakings) due to the concerns raised by the Parties about E.L.K. Energy's evidence. OEB staff, in its submission, shared the Parties concerns but did not support the three undertakings as a requirement of the settlement proposal. OEB staff instead proposed the undertakings should be treated as a recommendation and should refer the matter of E.L.K. Energy's challenges to the OEB's Consumer Protection and Industry Performance Division to consider how and/or when these reviews will be conducted.

The OEB found that although the settlement proposal identified a number of concerns regarding E.L.K. Energy's internal processes and procedures, it did not provide sufficient information on the reasons these concerns were raised. The OEB directed the Parties to revise the settlement proposal to provide more information on the nature of these operational concerns, supported by examples where applicable, and an overview of the plans to address them.

In the revised settlement proposal, the Parties have provided specific concerns regarding the application and E.L.K. Energy, supported by evidentiary references. Furthermore, the Parties proposed a plan to rectify these concerns which supports the use of an Annual IR Index rate-setting methodology and the three proposed undertakings.

OEB staff submits that the revised settlement proposal thoroughly details the concerns about the application and E.L.K. Energy, which underpin the development of the undertakings. However, OEB staff's position on the undertakings has remained unchanged and submits that the process for determining how such reviews should be conducted must remain at the discretion of the OEB as part of its monitoring and audit function.

Account 1595

E.L.K. Energy requested the disposition of Account 1595, which had a residual balance of \$2.8M. The residual balance was due to two errors on E.L.K. Energy's

part. First, the Global Adjustment (GA) rate rider was incorrectly charged to only a subset of non-regulated price plan (non-RPP) customers in the GS>50kW rate class, leading to a shortfall in the total recovery amount. Second, an incorrect amount was allocated to the embedded distributor rate class which does not contribute to the GA variance. In the settlement proposal, additional evidence was filed to support the correct balance of Account 1595. In the Decision, the OEB was concerned that the additional evidence was not tested and deferred its findings to the final decision regarding E.L.K. Energy's application. Furthermore, the OEB directed the Parties to make best efforts to resolve all issues with Account 1595 based on E.L.K. Energy's new evidence.

OEB staff reviewed the additional evidence in support of the balance of Account 1595 and found the correct balance should be \$2,684,083. The Parties and OEB staff agree that this is the correct balance that should be used as the starting point for the settlement. The revised settlement proposal proposes a 10% reduction to the revised balance of Account 1595 as a penalty for the errors E.L.K. Energy has made. To recover the balance and rectify the errors the Parties proposed the balance be allocated based on each error.

The first error was due to incorrectly charging the GA rate rider to only non-RPP retail customers for the GS>50kW rate class, when it should have been charged to all non-RPP customers in the GS>50 rate class. The Parties proposed to allocate the Account 1595 balance based on the amount the rider should have recovered and charged to all non-RPP non-retail customers. To avoid double charging customers that have changed from a retail to non-retail customer the Parties proposed a one year threshold, in which customers who paid more than one year of the original GA rider are exempt from the new rider. OEB staff supports this method of reconciling the error and notes that although the allocation is not perfect, it represents a balance between complication and fairness.

The second error was due to including the embedded distributor rate class in the GA calculation, which does not contribute to GA variance. The Parties propose to allocate the remaining Account 1595 balance to all non-RPP customers except the embedded distributor rate class. OEB staff supports this method as this is consistent with the GA allocation method.

Annual IR Model

In the settlement proposal the Parties proposed to withdraw the initial cost of service application and submit an Annual IR Index application. OEB staff support the withdrawal of the cost of service application and the proposal to set rates with the Annual IR Index methodology. The OEB noted that normally an Annual IR Index is validated by OEB staff and directed OEB staff to review the Annual IR Index application and report on its findings. OEB staff has reviewed the Annual IR Index application, submitted as part of the revised settlement proposal and after conversations with the applicant and updates to the model, submits that the revised Annual IR Index model is complete and satisfactory.

All of which is respectfully submitted