January 30, 2020

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

Dear Ms. Walli:

Re: E.L.K. Energy Inc.
Distribution License ED- ED-2003-0015
2020 Incentive Regulation Mechanism ("IRM") Distribution Rate Application EB-2019-0029

In accordance with Procedural Order #1 issued December 19, 2019, please find attached responses to all interrogatories.

Please do not hesitate to contact myself if I can be of further assistance.

Regards

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OEB Staff Interrogatories

Staff-1

Ref: Regulated Return on Equity (ROE) – 2018 Scorecard
Ref: https://www.oeb.ca/documents/scorecard/2018/Scorecard%20-%20E.L.K.%20Energy%20Inc..pdf
Ref: RRR Filing, Form 2.1.5.6, Submitted on July 5, 2019

On September 29, 2019, the OEB published E.L.K. Energy's Scorecard on its website. The scorecard indicates a deemed ROE of 8.78% and an achieved ROE of 16.17%. The achieved ROE represents 739 basis points above the target ROE that was the basis upon which rates were established.

Furthermore, in E.L.K. Energy's RRR Filing (Form 2.1.5.6), E.L.K. Energy submitted that it had achieved an ROE of $743,531 for the 2018 year. This is $321,967 greater than E.L.K. Energy's deemed ROE as approved in its last cost of service application. E.L.K. Energy notes that approximately $188K of the achieved ROE is in relation to less spending in legal and regulatory costs (vs 2017), $160K related to an operational review and an asset management assessment that did not materialize in 2018.

a) Please elaborate on the nature of the operational review and asset management assessment.

E.L.K. Response:

As part of E.L.K.'s negotiated settlement, E.L.K. will complete an operational review and asset condition assessment. The operation review includes a review on business planning, management oversight, data security, human and financial resources, and a comparison with industry's best practices. The asset condition assessment will provide input into an asset registry and provide input into E.L.K.'s Distribution System Plan.

b) Are the operational review and asset management assessment completed on an annual basis?

E.L.K. Response:

The operational review and asset condition assessment are not completed on an annual basis.

c) Excluding those listed above, are there any other cost drivers associated with the increase in ROE. If so, please specify and quantify the nature of the cost drivers.

E.L.K. Response:

There is no additional cost drivers associated with the increase in ROE.

d) For complete the following table for all drivers associated with the over-earnings in 2018.

Driver	Ongoing/One-Time Costs?	2017 OEB Approved	2017 Actual	2018 Actual	2019 Actual	2020 Actual
Legal Costs	Ongoing	$100,000	$111,948.78	$7,188.89	E.L.K. does not have the 2019 or 2020 data available as E.L.K.'s audit has not yet occurred	E.L.K. does not have the 2019 or 2020 data available as E.L.K.'s audit has not yet occurred
Regulatory Costs	Ongoing	$154,000	$175,654.79	$92,110.76	As per above	As per above
Operational Review	One Time	$60,000	$0	$0	As per above	As per above
Asset Management Assessment	One Time	$100,000	$0	$0	As per above	As per above

e) Please indicate if any of the drivers are expected to persist into 2021.

E.L.K. Response:

E.L.K. believes the over earnings to be a one-time scenario and will not persist into the future.

f) Please explain why E.L.K. Energy feels it is reasonable to apply for an increase to its base rates given the over-earnings in 2018.

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 for 2022 which will adjust any variances from the minimal inflationary increase being requested of 1.4%.

Staff-2

Ref: IRM Rate Generator, Sheet 3 – Continuity Schedule

a) Confirm that the residual balance in Account 1595 for the 2016 year will be written-off by E.L.K. Energy given that the account was disposed of on a final basis in last year's application.

E.L.K. Response:

E.L.K. confirms that the immaterial residual balance in Account 1595 will be written-off by E.L.K. Energy given that the account was disposed of on a final basis in last year's application.

b) For 2018, please remove the CBR Class B amounts from row 23 and enter them into sub-account CBR Class B (row 25).

E.L.K. Response:

E.L.K. has removed the CBR Class B amounts from row 23 and entered them in row 25.

Staff-3

Ref: IRM Rate Generator, Sheet 6 – Class A consumption, Rows 30 - 32

For completeness, please enter the Class A and/or Class B consumptions for the 2015, 2016 and 2018 year.

E.L.K. Response:

E.L.K. had no transition customers during these years and has now populated the rows accordingly.

Staff-4

Re: IRM Rate Generator Model

Staff has made the following changes to your model.

- Sheet 3 – In cells BM23 and BN23, Staff has segregated the amounts related to CBR Class B and placed them into cells BM25 and BN25. This is consistent with E.L.K. Energy's 2019 Decision and Rate Order.
- Sheet 11 column L was updated for the OEB approved 2020 Hydro One Sub-Transmission Rates.
- Sheet 16, Price escalator was updated to 2%
- Sheet 17, TOU pricing was updated for November 1, 2019 rates
- Sheet 20, bill impacts, updated to include the 31.8% Ontario Electricity Rebate.

Please confirm the changes and that E.L.K. Energy is in agreement with the changes.

E.L.K. Response:

E.L.K. confirms these changes and is in agreement with the changes.

Staff-5

Ref: Manager's summary, part 6

On February 21, 2019, the OEB issued its letter entitled *Accounting Guidance related to Accounts 1588 Power, and 1589 RSVA Global Adjustment* (GA) as well as the related accounting guidance. The new accounting guidance is effective January 1, 2019 and is to be implemented by August 31, 2019. Please confirm that E.L.K. has implemented the new accounting guidance by August 31, 2019.

a) If not confirmed, please explain when E.L.K. will implement the new accounting guidance and why has there been a delay.
b) Please confirm that the new accounting guidance was implemented retroactive to January 1, 2019.

E.L.K. Response:

E.L.K. confirms the new accounting guidance was implemented and implemented retroactive January 1, 2019.

Staff-6

Ref: Manager's summary, part 6

From the Addendum to Filing Requirements for Electricity Distribution Rate Applications for 2020 Rate Applications, page 13 states that utilities that did not receive approval for disposition of historical account 1588 and 1589 balances due to concerns noted should apply the new accounting guidance to the historical balances and adjust the balances as necessary, prior to requesting final disposition. Utilities should provide a detailed discussion on any adjustments made, including the reason for an adjustment, how the adjustment was quantified and the journal entries to adjust the balances.

a) Please indicate whether E.L.K. Energy applied the new accounting guidance to the 2015 to 2018 historical balances not yet disposed on a final basis.
b) If yes, please discuss the results of the application of the new accounting guidance including any adjustments made, reasons for the adjustments, how the adjustments were quantified and the journal entries required to adjust the balances.
c) If no, please discuss when the new accounting guidance will be applied to the historical balances not yet disposed on a final basis.

E.L.K. Response:

E.L.K. confirms the new accounting guidance was implemented with no adjustments.

VECC Interrogatories

VECC Interrogatory #1

Ref: Board Staff Interrogatory #1 Please provide the information provided in E.L.K. Energy's RRR Filing (Form 2.1.5.6) related to Return on Equity submitted on July 5, 2019.

E.L.K. Response:

The information provided in E.L.K.'s RRR Filing (Form 2.1.5.6) related to Return on Equity is as below:

	Deemed COS	Achieved
ROE Amount ($)	$421,564.25	$743,531.61
Regulated Deemed Equity ($)	$4,801,415.14	$4,598,816.08
ROE %	8.78%	16.17

Variances

Change in OM & A expenses -188,303.98 - This cost driver is less spending compared to 2017. It relates to legal and regulatory.

Other Variances

Operational Review -60,000 - This OM & A driver was budgeted as an expense in 2018 and did not materialize.

Asset Management Assessment -100,000 - This OM & A driver was budgeted as an expense in 2018 and did not materialize.

Total variance explained	-348,303.98
Total Variance	321,967.36
Total variance explained %	-108.18

VECC Interrogatory #2

Please provide E.L.K. Energy's estimated Return on Equity for 2019 and 2020.

E.L.K. Response:

Based on E.L.K.'s 2018 Audited Financial Statements, E.L.K.'s estimated Return on Equity for 2019 and 2020 is approximately 9%.