E.L.K. Energy Inc. EB-2021-0016 Exhibit 7 Filed: February 4, 2022

Exhibit 7 Cost Allocation

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1 **1.0 COST ALLOCATION OVERVIEW**

2 **1.1** Introduction and Background

In E.L.K.'s 2012 COS Application (EB-2011-0099), the 2012 cost allocation model was used and
updated to reflect 2012 test year costs, customer numbers and demand values. The 2012 demand
values were based on the weather normalized load forecast used to design rates. E.L.K.
developed weighting factors based on discussions with staff experienced in the subject area.

In this application, E.L.K. has used the 2022 cost allocation model released by the OEB on June 24, 2021. The model reflects 2022 test year trial balance data, customer numbers, load forecast, and demand values. The 2022 demand values were based on the weather normalized load forecast used to design rates. The weighting factors were developed based on discussions with staff experienced in the subject area. The Embedded Distributor is directly allocated the costs associated with these weighting factors and does not receive an additional allocation so there are no weighting factors applicable to that class.

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1 2.0 WEIGHTING FACTORS

2 2.1 Services

The services weighting factors are used to allocate the net asset value and depreciation of services (USoA #1855) and maintenance of services (USoA# 5130 & 5155) to rate classes. E.L.K. reviewed the services weighting factor used in the 2012 and cost allocation study and believes the factors are still valid.

7

Rate Class	Factor
Residential	1.0
General Service < 50 kW	1.9
General Service 50 to 4,999 kW	1.9
Street Lighting	0.7
Sentinel Lighting	0.8
Unmetered Scattered Load	0.7

Table 7-1: Service Weighting Factors

8 2.2 Billing and Collecting

9 The billing and collecting weighting factors are used to allocate Supervision (USoA# 5305), 10 Customer Billing (USoA #5315), Collecting (USoA# 5320), and Collection Charges (USoA# 5330) 11 to rate classes. These weighting factors are multiplied by the number of bills attributed to each 12 rate class. E.L.K. reviewed the billing and collecting weighting factor used in the 2012 and cost 13 allocation study and believes the factors are still valid.

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Rate Class	Factor
Residential	1.0
General Service < 50 kW	1.0
General Service 50 to 4,999 kW	18.0
Street Lighting	15.3
Sentinel Lighting	1.0
Unmetered Scattered Load	1.0

Table 7-2: Billing Weighting Factors

2 2.3 Meter Capital

3 Meter Capital Installation Costs are used to allocate meter-related capital (USoA #1860), the

4 associated depreciation, and meter expense (USoA #5065). Meter installation costs are based

- 5 on E.L.K.'s meter costs in 2020.
- 6

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Table 7-3: Meter Capital Installation Costs

Meter Type	Installation Cost per Meter
Smart Meter - Residential	\$165.29
Smart Meter - General Service < 50 kW	\$335.88
Demand with IT and Interval Capability - Secondary	\$2,100
Demand with IT and Interval Capability - Primary	\$10,000

7

8 2.4 Meter Reading

- 9 The meter reading weighting factors are used to allocate Meter Reading Expense (USoA# 5310).
- 10 E.L.K. reviewed the billing and collecting weighting factor used in the 2012 and cost allocation
- 11 study and believes the factors are still valid.

12

Table 7-4: M	eter Reading	Weighting	Factor

Meter Type	Factor
Smart Meter	1
GS - Vehicle with other services	3
Interval Meter	49

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1 3.0 RESULTS AND PROPOSED CHANGES

2 3.1 Summary

3 The data used in the updated cost allocation study is consistent with E.L.K.'s cost data that 4 supports the proposed 2022 revenue requirement outlined in this application. Consistent with the Guidelines, E.L.K.'s assets were broken out into primary and secondary distribution functions 5 6 using breakout percentages consistent with the original cost allocation informational filing. The 7 breakout of assets, capital contributions, depreciation, accumulated depreciation, customer data 8 and load data by primary, line transformer and secondary categories were developed from the 9 best data available to E.L.K., its engineering records, and its customer and financial information systems. An Excel version of the updated cost allocation study has been included with the filed 10 application material. Input Sheets I-6 & I-8 and Output Sheets O-1 & O-2 are provided as Exhibit 11 7, Tab 3, Attachment 1. Additionally, the cost allocation section of the RRWF (sheet 11) is 12 provided as Exhibit 7, Tab 3, Attachment 2. 13

Capital contributions, depreciation and accumulated depreciation by USoA are consistent with the information provided in the 2022 continuity statement provided in Exhibit 2. The rate class consumption, billed demand, and customer data used in the cost allocation study is consistent with the 2022 forecast outlined in Exhibit 3.

The load profiles for each rate class are the same as those used in the original information filing and have been scaled to match the 2022 load forecast. E.L.K. is not aware of any reason for the load profiles to have material changed between the classes. As a result, E.L.K. has not updated its load profiles at this time.

The following Table 7-5 outlines the scaling factors used by rate class:

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Rate Class	2004 Weather Normal Values used Information Filing (kWh)	2022 Weather Normal Values (kWh)	Scaling Factor
Residential	75,584,844	93,507,179	123.71%
General Service < 50 kW	45,080,345	27,656,663	61.35%
General Service > 50 kW	69,650,366	59,482,525	85.40%
Street Lights	2,268,132	1,308,977	57.71%
Sentinel Lights	160,889	248,217	154.28%
Unmetered Scattered Load	283,513	141,998	50.09%
Total	193,028,087	182,345,559	

- 2 The allocated cost by rate class for the 2012 Cost of Service filing updated for New CGAAP
- 3 deprecation in 2014 and the 2022 updated study are provided in the following Table 7-6.
- 4

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Table 1-0. Anocaleu Cosis	Т	able	7-6:	Allocated	Costs
---------------------------	---	------	------	-----------	-------

Rate Class	2012 Board Approved Allocated Costs	%	2022 Allocated Costs	%
Residential	\$2,946,079	65.1%	\$2,986,641	66.20%
General Service <50 kW	\$675,740	14.9%	\$660,308	14.64%
General Service 50 to 4,999 kW	\$524,898	11.6%	\$591,842	13.12%
Street Lighting	\$194,447	4.3%	\$170,131	3.77%
Unmetered Scattered Load	\$4,791	0.1%	\$4,891	0.11%
Sentinel Lighting	\$605	0.0%	\$4,461	0.10%
Embedded Distributor	\$180,138	4.0%	\$93,121	2.06%
Total	\$4,526,698	100.0%	\$4,511,397	100.0%

The results of a cost allocation study are typically presented in the form of revenue-to-cost (or 5 revenue-to-expense) ratios. The ratio is shown by rate classification and is the percentage of 6 distribution revenue collected by rate classification compared to the costs allocated to the 7 classification. The percentage identifies the rate classifications that are being subsidized and 8 those that are over-contributing. A percentage of less than 100% means the rate classification is 9 under-contributing and is being subsidized by other classes of customers. A percentage of 10 greater than 100% indicates the rate classification is over-contributing and is subsidizing other 11 12 classes of customers.

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	2012 Board Approved	2022 Cost	2022	Bo Tar	ard gets
Rate Class	Cost Allocation Study	Allocation Study	Proposed Ratios	Min	Max
Residential	98.0%	102.26%	102.26%	85%	115%
General Service <50 kW	95.0%	74.01%	83.30%	80%	120%
General Service 50 to 4,999 kW	120.0%	109.14%	109.14%	80%	120%
Street Lighting	95.0%	65.46%	83.30%	80%	120%
Unmetered Scattered Load	95.0%	77.67%	83.30%	80%	120%
Sentinel Lighting	95.0%	80.71%	83.30%	80%	120%
Embedded Distributor	100.0%	218.90%	120.00%	80%	120%

Table 7-7 Revenue to Cost Ratios

2 The 2022 cost allocation study indicates the revenue-to-cost ratios for General Service < 50 kW,

3 Street Lighting, and Unmetered Scattered Load are below the 80% minimum revenue-to-cost

4 ratio. The Embedded Distributors is above the maximum 120% revenue-to-cost ratio. As a first

5 approximation, the classes below the minimum were increased to 80% and the Embedded

6 Distributor was decreased to 120%. This revenue reallocation results in a revenue deficiency.

7 The revenue deficiency is addressed by further increasing revenues from classes at the lower 8 bound (80%). The revenue deficiency is eliminated as the lower bound increases to 83.3%. The 9 results of the cost allocation model indicate the Sentinel Lighting rate class has a revenue-to-cost 10 ratio of 80.7%. Though the class is within the acceptable range, its revenue-to-cost ratio is also 11 increased to 83.3% to align forecast revenues with the revenue requirement.

12 The following Table 7-8 provides information on calculated class revenue. The resulting 2020 13 proposed base revenue will be the amount used in Exhibit 8 to design the proposed distribution

14 charges in this application.

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Table 7-8 Calculated Class Revenue

Rate Class	2022 Base Revenues at Existing Rates	2022 Proposed Base Revenue at Status Quo Rates	2022 Proposed Base Revenue	Miscellaneous Revenue
Residential	\$2,516,821	\$2,720,023	\$2,720,023	\$334,146
General Service <50 kW	\$392,461	\$424,147	\$485,501	\$64,522
General Service 50-4,999	\$538,554	\$582,035	\$582,035	\$63,918
Street Lighting	\$91,099	\$98,454	\$128,810	\$12,906
USL	\$3,044	\$3,290	\$3,565	\$509
Sentinel Lighting	\$2,964	\$3,204	\$3,319	\$397
Embedded Distributor	\$179,041	\$193,496	\$101,397	\$10,349
Total	\$3,723,985	\$4,024,650	\$4,024,650	\$486,747

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EB-2021-0016 Sheet I6.1 Revenue Worksheet -

Total kWhs from Load Forecast	240,081,043
Total kWs from Load Forecast	342,032
Deficiency/sufficiency (RRWF 8. cell F51)	- 300,665

Miscellaneous Revenue (RRWF 5. cell F48) 486,747

			1	2	3	7	8	9	10
	ID	Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load	Embedded Distributor
Billing Data									
Forecast kWh	CEN	240,081,043	93,507,179	27,656,663	59,482,525	1,308,977	141,998	248,217	57,735,484
Forecast kW	CDEM	342,032			199,000	3,787	373		138,872
Forecast kW, included in CDEM, of customers receiving line transformer allowance		32,475			32,475				
Optional - Forecast kWh, included in CEN, from customers that receive a line transformation allowance on a kWh basis. In most cases this will not be applicable and will be left blank.		_							
KWh excluding KWh from Wholesale Market Participants	CEN EWMP	240,081,043	93,507,179	27,656,663	59,482,525	1,308,977	141,998	248,217	57,735,484
Existing Monthly Charge			\$19.10	\$16.48	\$195.44	\$1.23	\$3.27	\$6.70	\$1,932.35
Existing Distribution kWh Rate Existing Distribution kW Rate Existing TOA Rate				\$0.0052	\$1.6534 \$0.60	\$11.9494	\$6.1531	\$0.0019	\$0.2874
Additional Charges									
Distribution Revenue from Rates Transformer Ownership Allowance Net Class Revenue	CREV	\$3,743,470 \$19,485 \$3,723,985	\$2,516,821 \$0 \$2,516,821	\$392,461 \$0 \$392,461	\$558,039 \$19,485 \$538,554	\$91,099 \$0 \$91,099	\$2,964 \$0 \$2,964	\$3,044 \$0 \$3,044	\$179,041 \$0 \$179,041

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2021 Cost Allocation Model

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EB-2021-0016 Sheet I6.2 Customer Data Worksheet -

			1	2	3	7	8	9	10
	ID	Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load	Embedded Distributor
Billing Data									
Bad Debt 3 Year Historical Average	BDHA	\$65,918	\$65,494	\$425	\$0	\$0	\$0	\$0	\$0
Late Payment 3 Year Historical Average	LPHA	\$92,285	\$63,781	\$12,459	\$15,956	\$88			
Number of Bills	CNB	148,702	131,771	15,088	1,172	84	204	384	
Number of Devices	CDEV					3,106			
Number of Connections (Unmetered)	CCON	3,155				3,106	17	32	
Total Number of Customers	CCA	12,342	10,981	1,257	98				6
Bulk Customer Base	CCB	12,336	10,981	1,257	98				
Primary Customer Base	CCP	12,479	10,981	1,257	98	143			
Line Transformer Customer Base	CCLT	12,478	10,981	1,257	97	143			
Secondary Customer Base	CCS	12,335	10,981	1,257	97				
Weighted - Services	CWCS	15,653	10,981	2,401	185	2,053	13	21	-
Weighted Meter -Capital	CWMC	2,450,299	1,815,032	422,306	212,960	-	-	-	-
Weighted Meter Reading	CWMR	12,577	10,981	1,257	339	-	-	-	-
Weighted Bills	CWNB	169,862	131,771	15,088	21,130	1,285	204	384	-

Bad Debt Data

Historic Year:	2017	63,764	\$63,353	\$411					
Historic Year:	2018	97,938	\$97,307	\$631					
Historic Year:	2019	36,054	\$35,822	\$232					
Three-year average		65,918	65,494	425	-	-	-	-	-

2021 Cost Allocation Model

EB-2021-0016 Sheet I8 Demand Data Worksheet -

This is an input she	et for demand	d allocators.							
CP TEST RES		4 CP							
NOT TEOT RE	ODEITO	41101							
Co-incident	Peak	Indicator							
1 CP 4 CP		CP 1 CP 4							
12 CP		CP 12							
Non-co-incide	nt Peak	Indicator							
1 NCP	int Feak	NCP 1							
4 NCP		NCP 4							
12 NCP		NCP 12							
		-						r	
			1	2	3	7	8	9	10
Customer Classes		Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load	Embedded Distributor
								•	
		CP Sanity Check	Pass	Pass	Pass	Check 12CP	Check 12CP	Check 12CP	Pass
CO-INCIDENT	PEAK								
1 CP									
Transformation CP	TCP1	42,181	27,517	6,726	7,925	-	-	14	
Bulk Delivery CP	BCP1	42,181	27,517	6,726	7,925	-	-	14	
Total Sytem CP	DCP1	42,181	27,517	6,726	7,925	-	-	14	
4 CP									
Transformation CP	TCP4	151,115	93,728	26,117	31,217	-	-	54	
Bulk Delivery CP	BCP4	151,115	93,728	26,117	31,217	-	-	54	
Total Sytem CP	DCP4	151,115	93,728	26,117	31,217	-	-	54	
12 CP Transformation CD	TCD12	267 125	205 267	64 526	05.001	1 616	206	209	
Rulk Delivery CP	BCP12	367 125	205,307	64,536	95,091	1,010	300	208	
Total Sytem CP	DCP12	367,125	205,367	64,536	95.091	1,616	306	208	
NON CO_INCIDE	NT PEAK	NCP							
		Sanity Check	Pass	Pass	Pass	Pass	Pass	Pass	Pass
1 NCP									
Classification NCP from									
Load Data Provider	DNCP1	50,135	27,517	9,534	12,693	305	58	28	
Primary NCP	PNCP1	50,135	27,517	9,534	12,693	305	58	28	
Line Transformer NCP	LTNCP1	48,063	27,517	9,534	10,622	305	58	28	
Secondary NCP	SNCP1	48,063	27,517	9,534	10,622	305	58	28	
4 NCP									
Classification NCP from									
Load Data Provider	DNCP4	179,871	93,728	36,372	48.216	1,218	232	105	
Primary NCP	PNCP4	179,871	93,728	36,372	48,216	1,218	232	105	
Line Transformer NCP	LTNCP4	172,002	93,728	36,372	40,348	1,218	232	105	
Secondary NCP	SNCP4	172.002	93,728	36.372	40.348	1.218	232	105	

12 NCP Classification NCP from 216,566 84,105 133,832 3,643 691 DNCP12 439,124 288 Load Data Provider PNCP12 LTNCP12 SNCP12 133,832 111,992 111,992 3,643 3,643 3,643 691 691 691 439,124 216,566 216,566 216,566 84,105 84,105 84,105 288 288 288 Primary NCP Line Transformer NCP Secondary NCP 417,28

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Sheet O1 Revenue to Cost Summary Worksheet -

Instructions: Please see the first tab in this workbook for detailed instructions

Class Revenue, Cost Analysis, and Return on Rate Base

			1	2	3	7	8	9	10
Rate Base Assets		Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load	Embedded Distributor
crev	Distribution Revenue at Existing Rates	\$3,723,985	\$2.516.821	\$392.461	\$538,554	\$91.099	\$2,964	\$3.044	\$179.041
mi	Miscellaneous Revenue (mi)	\$486,747	\$334,146	\$64,522	\$63,918	\$12,906	\$397	\$509	\$10,349
		Mis	cellaneous Reveni	le Input equals Out	tput				
	Total Revenue at Existing Rates	\$4,210,732	\$2,850,968	\$456,982	\$602,472	\$104,005	\$3,361	\$3,553	\$189,389
	Factor required to recover deficiency (1 + D)	1.0807							
	Distribution Revenue at Status Quo Rates	\$4.024.650	\$2,720,023	\$424.147	\$582.035	\$98,454	\$3,204	\$3,290	\$193,496
	Miscellaneous Revenue (mi)	\$486,747	\$334,146	\$64,522	\$63,918	\$12,906	\$397	\$509	\$10,349
	Total Revenue at Status Quo Rates	\$4.511.397	\$3.054.169	\$488.669	\$645,953	\$111.360	\$3.601	\$3,799	\$203.845
	Expenses								
di	Distribution Costs (di)	\$1,189,533	\$727.522	\$205.327	\$183.414	\$70.561	\$1.433	\$1.276	\$0
cu	Customer Related Costs (cu)	\$926,171	\$740,098	\$94,363	\$86,164	\$3,805	\$604	\$1,137	\$0
ad	General and Administration (ad)	\$1,383,161	\$932,233	\$193,229	\$174,105	\$48,079	\$1,313	\$1,532	\$32,669
dep	Depreciation and Amortization (dep)	\$248,704	\$157,385	\$42,833	\$32,516	\$14,618	\$261	\$244	\$847
INPUT	PILs (INPUT)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INT	Interest	\$225,465	\$137,479	\$39,878	\$37,024	\$10,587	\$272	\$225	\$0
	Total Expenses	\$3,973,034	\$2,694,716	\$575,630	\$513,224	\$147,651	\$3,884	\$4,414	\$33,516
	Direct Allocation	\$59,605	\$0	\$0	\$0	\$0	\$0	\$0	\$59,605
								1	
NI	Allocated Net Income (NI)	\$478,758	\$291,925	\$84,678	\$78,618	\$22,481	\$578	\$477	\$0
	Revenue Requirement (includes NI)	\$4,511,397	\$2,986,641	\$660,308	\$591,842	\$170,131	\$4,461	\$4,891	\$93,121
		Revenue Re	quirement Input ec	uals Output					
	Rate Base Calculation								
	Net Assets								
ap	Distribution Plant - Gross	\$34,202,898	\$20,837,991	\$6,077,718	\$5,789,891	\$1,423,122	\$41,051	\$33,125	\$0
gp	General Plant - Gross	\$3,434,198	\$2,000,420	\$000,382	\$000,800	\$155,770	\$4,070	\$3,330	\$45,610
accuin dep	Conital Contribution	(\$10,531,570)	(\$10,200,304)	(\$3,009,027)	(\$2,932,747) (\$1,510,505)	(\$035,407)	(\$20,317) (\$10,860)	(\$10,107)	(\$30,526)
0	Tatal Nat Blant	(\$9,129,435)	(\$3,300,432)	(\$1,023,120)	(\$1,510,505)	(\$401,070)	(\$10,000)	(\$0,700)	- ¢45.092
	Total Net Fidit	\$11,576,005	\$7,049,401	\$2,045,145	\$1,033,103	\$ 541,755	\$13,944	\$11,514	\$15,062
	Directly Allocated Not Fixed Assets	e0	¢0	¢0	\$0	\$0	\$0	en.	\$0
	Directly Allocated Net Lixed Assets	φU	φU	φU	φU	φU	φU	φU	φυ
COP	Cost of Power (COP)	\$26,380,096	\$10.312.943	\$3.037.971	\$6.517.212	\$143,418	\$15.558	\$27,196	\$6,325,797
	OM&A Expenses	\$3,498,865	\$2,399,853	\$492,919	\$443,683	\$122,446	\$3,350	\$3,945	\$32,669
	Directly Allocated Expenses	\$52.575	\$0	\$0	\$0	\$0	\$0	\$0	\$52,575
	Subtotal	\$20.024.527	\$10 710 706	\$2 520 901	\$6 060 90E	COCE OCA	\$10.000	624 444	\$6 414 042
		<i>\$23,331,331</i>	<i>\$12,112,13</i> 0	<i>\$3,330,031</i>	\$0,500,055	<i>\$</i> 203,004	\$10,500	<i>\$</i> 31,141	\$0,411,042
	Working Capital	\$2 244 865	\$953.460	\$264 817	\$522.067	\$19 940	\$1 418	\$2 336	\$480 828
	Torking ouplia	•=,=+1,000	\$000,100	v_ 0-1,011	¥011,001	\$10,010	\$1,410	+2,000	\$100,020
	Total Rate Base	\$13,820,951	\$8,002,920	\$2,309,961	\$2,421,252	\$561,695	\$15,362	\$13,850	\$495,910
		Poto I	Page Innut equale (Jutaut					
		Rate	base input equais t	Julpul					
	Equity Component of Rate Base	\$5,528,380	\$3,201,168	\$923,985	\$968,501	\$224,678	\$6,145	\$5,540	\$198,364
	Net Income on Allocated Assets	\$478,758	\$359,453	(\$86,961)	\$132,729	(\$36,290)	(\$283)	(\$615)	\$110,724
	Net Income on Direct Allocation Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Not incomo	\$479.759	\$250 452	(\$96.064)	\$132 720	(\$26 200)	(\$202)	(\$645)	\$110 724
	Net income	\$410,158	\$359,453	(\$00,901)	\$132,729	(\$30,290)	(\$283)	(\$015)	\$110,724
	RATIOS ANALYSIS							1	
								1	
	REVENUE TO EXPENSES STATUS QUO%	100,00%	102,26%	74.01%	109,14%	65.46%	80,71%	77,67%	218,90%
							//		
	EXISTING REVENUE MINUS ALLOCATED COSTS	(\$300,665)	(\$135,674)	(\$203,326)	\$10,629	(\$66,126)	(\$1,100)	(\$1,338)	\$96,268

Ontario Energy Board

2021 Cost Allocation Model

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Sheet O1 Revenue to Cost Summary Worksheet -

Instructions: Please see the first tab in this workbook for detailed instructions

Class Revenue, Cost Analysis, and Return on Rate Base

		1	2	3	7	8	9	10
Rate Base Assets	Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load	Embedded Distributor
	Defici	ency Input equals (Dutput					
STATUS QUO REVENUE MINUS ALLOCATED COSTS	\$0	\$67,528	(\$171,639)	\$54,111	(\$58,771)	(\$861)	(\$1,092)	\$110,724
RETURN ON EQUITY COMPONENT OF RATE BASE	8.66%	11.23%	-9.41%	13.70%	-16.15%	-4.60%	-11.10%	55.82%

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2021 Cost Allocation Model

EB-2021-0016

Sheet 02 Monthly Fixed Charge Min. & Max. Worksheet -

Output sheet showing minimum and maximum level for Monthly Fixed Charge

	1	2	3	7	8	9	10
<u>Summary</u>	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load	Embedded Distributor
Customer Unit Cost per month - Avoided Cost	\$3.87	\$5.35	\$53.19	\$0.08	\$2.26	\$2.26	\$0.00
Customer Unit Cost per month - Directly Related	\$6.45	\$8.95	\$92.89	\$0.13	\$3.72	\$3.70	\$0.00
Customer Unit Cost per month - Minimum System with PLCC Adjustment	\$15.01	\$18.43	\$121.82	\$4.42	\$10.23	\$9.87	\$0.00
Existing Approved Fixed Charge	\$19.10	\$16.48	\$195.44	\$1.23	\$3.27	\$6.70	\$1,932.35

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Contario Energy Board

Revenue Requirement Workform (RRWF) for 2021 Filers

Cost Allocation and Rate Design

This spreadsheet replaces Appendix 2-P and provides a summary of the results from the Cost Allocation spreadsheet, and is used in the determination of the class revenue requirement and, hence, ultimately, the determination of rates from customers in all classes to recover the revenue requirement.

Stage in Application Process: Initial Application

A) Allocated Costs

Name of Customer Class ⁽³⁾	Costs Prev	Allocated from ious Study ⁽¹⁾	%	Al Reve	located Class nue Requirement	%
From Sheet 10. Load Forecast					(1) (7A)	
Residential General Service < 50 kW General Service > 50 kW Street Lights Unmetered Loads Sentinel Lights Embedded Distributor	\$ \$ \$ \$ \$ \$ \$	2,946,079 675,740 524,898 194,447 4,791 605 180,138	65.08% 14.93% 11.60% 4.30% 0.11% 0.01% 3.98%	\$\$ \$\$ \$\$ \$\$ \$\$ \$\$	(7A) 2,986,641 660,308 591,842 170,131 4,891 4,461 93,121	66.20% 14.64% 13.12% 3.77% 0.11% 0.10% 2.06%
Total	\$	4,526,698	100.00% Service Revenue Requirement (from	\$ \$	4,511,397 4,511,396.74	100.00%

(1) Class Allocated Revenue Requirement, from Sheet O-1, Revenue to Cost || RR, row 40, from the Cost Allocation Study in this application. This excludes costs in deferral and variance accounts. For Embedded Distributors, Account 4750 - Low Voltage (LV) Costs are also excluded.

(2) Host Distributors - Provide information on any embedded distributor(s) as a separate class, if applicable. If embedded distributors are billed in a General Service class, include the allocated costs and revenues of the embedded distributor(s) in the applicable class, and also complete Appendix 2-Q.

(3) Customer Classes - If these differ from those in place in the previous cost allocation study, modify the customer classes to match the proposal in the current application as closely as possible.

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B) Calculated Class Revenues

Name of Customer Class	Load I curr	Forecast (LF) X ent approved rates	l apj	LF X current proved rates X (1+d)	LF)	(Proposed Rates		Miscellaneous Revenues
		(7B)		(7C)		(7D)		(7E)
1 Residential 2 General Service < 50 kW 3 General Service > 50 kW 4 Street Lights 5 Unmetered Loads 6 Sentinel Lights 7 Embedded Distributor 8 9 10 11 12 13 14 15 16 17 18 19	\$ \$ \$ \$ \$ \$ \$ \$	2,516,821 392,461 538,554 91,099 3,044 2,964 179,041	\$\$ \$\$ \$\$ \$\$ \$\$ \$\$	2,720,023 424,147 582,035 98,454 3,290 3,204 193,496	\$\$ \$\$ \$\$ \$\$ \$\$ \$\$	2,720,023 485,501 582,035 128,810 3,565 3,319 101,397	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	334,146 64,522 63,918 12,906 509 397 10,349
Total	\$	3,723,985	\$	4,024,650	\$	4,024,650	\$	486,747

(4) In columns 7B to 7D, LF means Load Forecast of Annual Billing Quantities (i.e., customers or connections, as applicable X 12 months, and kWh, kW or kVA as applicable. Revenue quantities should be net of the Transformer Ownership Allowance for applicable customer classes. Exclude revenues from rate adders and rate riders.

(5) Columns 7C and 7D - Column Total should equal the Base Revenue Requirement for each.

(6) Column 7C - The OEB-issued cost allocation model calculates "1+d" on worksheet O-1, cell C22. "d" is defined as Revenue Deficiency/Revenue at Current Rates.

(7) Column 7E - If using the OEB-issued cost allocation model, enter Miscellaneous Revenues as it appears on worksheet O-1, row 19,

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C) Rebalancing Revenue-to-Cost Ratios

Name of Customer Class	Previously Approved	Status Quo Ratios	Proposed Ratios	Policy Range
	Most Recent Year:	(7C + 7E) / (7A)	(7D + 7E) / (7A)	
	2012	,,,,,	,,,,	
	%	%	%	%
1 Residential	100 90%	102 26%	102.26%	85 - 115
2 General Service < 50 kW	85.00%	74 01%	83.30%	80 - 120
3 General Service > 50 kW	120.00%	109 14%	109 14%	80 - 120
4 Street Lights	85.00%	65.46%	83.30%	80 - 120
5 Unmetered Loads	85.00%	77.67%	83.30%	80 - 120
6 Sentinel Lights	85.00%	80.71%	83.30%	80 - 120
7 Embedded Distributor	100.00%	218.90%	120.00%	80 - 120
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
20				
20				

(8) Previously Approved Revenue-to-Cost (R/C) Ratios - For most applicants, the most recent year would be the third year (at the latest) of the Price Cap IR period. For example, if the applicant, rebased in 2012 with further adjustments to move within the range over two years, the Most Recent Year would be 2015. However, the ratios in 2015 would be equal to those after the adjustment in 2014.

(9) Status Quo Ratios - The OEB-issued cost allocation model provides the Status Quo Ratios on Worksheet O-1. The Status Quo means "Before Rebalancing".

(10) Ratios shown in red are outside of the allowed range. Applies to both Tables C and D.

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(D) Proposed Revenue-to-Cost Ratios (11)

Name of Customer Class	Propo	sed Revenue-to-Cost Ratio		Policy Range
	Test Year	Price Cap IR F	Period	
	2022	2023	2024	
1 Residential	102.26%	102.26%	102.26%	85 - 115
2 General Service < 50 kW 3 General Service > 50 kW	83.30% 109.14%	83.30% 109.14%	83.30% 109.14%	80 - 120 80 - 120
4 Street Lights 5 Unmetered Loads 6 Sentinel Lights	83.30% 83.30% 83.30%	83.30% 83.30% 83.30%	83.30% 83.30% 83.30%	80 - 120 80 - 120 80 - 120
7 Embedded Distributor 8 9 10 11 12 13 14 15 16 17 18 19 20	120.00%	120.00%	120.00%	80 - 120

(11) The applicant should complete Table D if it is applying for approval of a revenue-to-cost ratio in 2021 that is outside of the OEB's policy range for any customer class. Table D will show that the distributor is likely to enter into the 2022 and 2023 Price Cap IR models, as necessary. For 2022 and 2023, enter the planned revenue-to-cost ratios that will be "Change" or "No Change" in 2019 (in the current Revenue/Cost Ratio Adjustment Workform, Worksheet C1.1 'Decision - Cost Revenue Adjustment, column d), and enter TBD for class(es) that will be entered as 'Rebalance'.

E.L.K. Energy Inc. EB-2021-0016 Exhibit 7 Tab 4 Page 8 of 10 Filed: February 4, 2022

1 4.0 Embedded Distributor Class

2 E.L.K. has an Embedded Distributor customer which is Hydro One Networks Inc. ("HONI").

In connection with preparing its rate application, E.L.K. has consulted with HONI and advised
HONI on E.L.K.'s proposal to directly charge the costs that are directly assignable to HONI and a
share of General and Administrative expenses.

Following a general discussion on methodology in July 2021, E.L.K. sent a memo to HONI to
outline the proposal on October 14, 2021 (Exhibit 7, Tab 4, Attachment 1). E.L.K. provided a
follow-up memo on January 26, 2022 which included bill impacts (Exhibit 7, Tab 4, Attachment
9 2).

HONI provided a response on February 4, 2022 (Exhibit 7, Tab 4, Attachment 3) which was in general agreement with the direct allocation approach, however, HONI was unable to complete a comprehensive review of the resulting rates and bill impacts prior to the filing date. The following outlines the costs that are directly allocated to the Embedded Distributor class in the cost allocation model.

E.L.K. Energy Inc. EB-2021-0016 Exhibit 7 Tab 4 Page 9 of 10 Filed: February 4, 2022

USoA	Account Description	\$					
Direct Allo		¢4 04 5					
5305	Supervision	\$1,015					
5310	Neter Reading	\$20,911					
5315	Billing Depresention (Motore)	\$30,649 ¢7,020					
5705	Depreciation (Meters)	\$7,030 \$50,605					
Total Dire	ct Allocation	\$ 59,605					
Indirect A	llocation						
5410	Community Relations - Sundry	\$231					
5415	Energy Conservation	\$24					
5515	Advertising Expense	\$24					
5605	Executive Salaries and Expenses	\$599					
5610	Management Salaries and Expenses	\$15,442					
5615	General Administrative Salaries and Expenses	\$1,446					
5620	Office Supplies and Expenses	\$2,248					
5630	Outside Services Employed	\$4,271					
5635	Property Insurance	\$465					
5640	Injuries and Damages	\$1,798					
5655	Regulatory Expenses	\$3,891					
5665	Miscellaneous General Expenses	\$133					
5675	Maintenance of General Plant	\$1,819					
5680	Electrical Safety Authority Fees	\$150					
6205-1	Sub-account LEAP Funding	\$128					
5705	Amortization Expense - PPE	\$847					
Total Indirect Allocation \$33,516							
Total Dire	ct + Indirect Allocation	\$93,121					

Table 7-9 Embedded Distributor Direct Allocation

1

2 The cost allocation model assigns a portion of administration costs and general plant assets to

3 the Embedded Distributor based on information provided in the above table. In total the cost

4 allocation model allocates \$93,121 to the Embedded Distributor class. This is offset by \$10,349

5 in Miscellaneous Revenues allocated to the Embedded Distributor.



Memorandum

To: Clement Li From: Andrew Blair Date: October 14, 2021

Re: E.L.K. Embedded Distributor Allocation and Rate Design

In advance of its 2022 Cost of Service Application (EB-2021-0016), E.L.K Energy Inc. has prepared a cost allocation model which includes costs allocated to Hydro One Inc. as the sole customer in the Embedded Distributor class. E.L.K. Energy intends to file a cost allocation model that follows the same methodology proposed in its 2017 Cost of Service application (EB-2016- 0066) to allocate costs to Hydro One. E.L.K. Energy's 2017 COS application was withdrawn so this methodology is not reflected in current Embedded Distributor class rates.

E.L.K. Energy's proposal is to directly allocate directly assignable costs to Hydro One, plus an indirect allocation of General and Administrative Expenses. A summary of the costs allocated to the Embedded Distributor class is summarized in Table 1. This allocation methodology results in a total allocation of \$93,534 in costs, and an allocation of \$10,348 in Miscellaneous Revenue.

Embedded Distributor revenues with the status quo rate increase would result in a revenue-to-expense ratio of 212.8%. The main reasons it is high is because rates were not rebalanced following the anticipated allocation methodology change in 2017 COS proceeding and the meters used by Hydro One become fully depreciated in 2022, so there is a decline in directly allocated costs.

E.L.K. Energy intends to propose a reduction in revenue recovered from Embedded Distributor rates such that the revenue-to-expense ratio decreases from 212.8% to 120%. This is a decline from the status quo revenues of \$188,655 to rebalanced revenues of \$112,241 (or 120% of \$93,534).

Table 1 –	Allocation	to E	mbedded	Distributor
	/ 1100041011	<u></u>		D1011100101

USoA	Account Description	\$			
Direct All	ocation				
5305	5305 Supervision				
5310	Meter Reading	\$20,911			
5315	Billing	\$30,649			
5705	Depreciation (Meters)	\$7,030			
	Return on Debt	\$46			
T (1 D)	Return on Equity	\$157			
Total Dire	ect Allocation	\$59,808			
Indirect A	llocation				
5410	Community Relations - Sundry	\$231			
5415	Energy Conservation	\$24			
5515	Advertising Expense	\$24			
5605	Executive Salaries and Expenses	\$599			
5610	Management Salaries and Expenses	\$16,706			
5615 General Administrative Salaries and Expenses		\$1,446			
5620	Office Supplies and Expenses	\$2,248			
5630	Outside Services Employed	\$4,271			
5635	Property Insurance	\$465			
5640	Injuries and Damages	\$1,798			
5655	Regulatory Expenses	\$2,618			
5665	Miscellaneous General Expenses	\$133			
5675	Maintenance of General Plant	\$1,819			
5680	Electrical Safety Authority Fees	\$150			
6205-1	Sub-account LEAP Funding	\$136			
6105	Taxes Other Than Income Taxes	\$7			
5705	Amortization Expense - PPE	\$847			
	Return on Debt	\$46			
	Return on Equity	\$157			
Total Indi	rect Allocation	\$33,726			
Total Dire	ect + Indirect Allocation	\$93,534			

Consistent with the 2017 COS proposal, E.L.K. is proposing to recover costs of the Embedded Distributor class through a fully fixed charge because the costs caused by Hydro One do not vary with demand/consumption.

E.L.K. Energy is therefore proposing to recover \$101,893 (\$112,241 less \$10,348 Misc. Revenues) with \$1,415.18 per month fixed charges. The current and proposed charges are summarized below.

	Current	Charges	Proposed	Charges	Dx Bill Impact			
	Fixed	Variable	Fixed	Variable	Fixed	Variable		
	Charge	Charge	Charge	Charge	Charge	Charge		
Embedded Distributor	\$1,932.35	\$0.2874	\$1,415.18	-	-26.764%	-100%		

Memorandum



To: Clement Li
From: Andrew Blair
Date: January 26, 2022
Re: E.L.K. Embedded Distributor Allocation, Rate Design, and Bill Impacts

This memo is follow-up to a memo provided to Hydro One on October 14, 2021. This memo provides updated cost allocation and rate design information relevant to Hydro One as E.L.K.'s sole Embedded Distributor customer. In addition, this memo provides bill impact information, which was not provided in the previous email.

Cost allocation (Table 1) and rate design (Table 2) have not materially changed since the October 14, 2021 memo.

Table 3 provides bill impacts from the OEB's Tariff Sheet and Bill Impact Model. A live excel version of this table is attached.



Table 1 – Allocation to Embedded Distributor

USoA	Account Description	\$			
Direct All	location				
5305	Supervision	\$1,015			
5310	Meter Reading	\$20,911			
5315	Billing	\$30,649			
5705	Depreciation (Meters)	\$7,030			
Total Dire	ect Allocation	\$59,605			
Indirect A	Allocation				
5410	Community Relations - Sundry	\$231			
5415	Energy Conservation	\$24			
5515	Advertising Expense	\$24			
5605	Executive Salaries and Expenses	\$599			
5610	Management Salaries and Expenses	\$15,442			
5615	General Administrative Salaries and Expenses	\$1,446			
5620	Office Supplies and Expenses	\$2,248			
5630	Outside Services Employed	\$4,271			
5635	Property Insurance	\$465			
5640	Injuries and Damages	\$1,798			
5655	Regulatory Expenses	\$3,891			
5665	Miscellaneous General Expenses	\$133			
5675	Maintenance of General Plant	\$1,819			
5680	Electrical Safety Authority Fees	\$150			
6205-1	Sub-account LEAP Funding	\$128			
5705	Amortization Expense - PPE	\$847			
Total Ind	irect Allocation	\$33,516			
Total Dire	ect + Indirect Allocation	\$93,121			

- 2-



Table 2 – Proposed Embedded Distributor Rates

	Current	Charges	Proposed	Charges	Dx Bill Impact			
	Fixed Charge	Variable Charge	Fixed Charge	Variable Charge	Fixed Charge	Variable Charge		
Embedded Distributor	\$1,932.35	\$0.2874	\$1,408.29	-	-27.12%	-100%		

Table 3 – Bill Impacts

Customer Class: EMBED	ED	DISTRIB	UTOR SER	VIC	CE CLASSI	FIC	ATION						
RPP / Non-RPP: Non-RPF	, (O	ther)											
Consumption 800,000	k٧	Vh											
Demand 2,000	k٧	v											
Current Loss Factor 1.070	3												
Proposed/Approved Loss Factor 1.043	5												
		Curre	nt OEB-Ap	opro	oved			Propose	d			Imp	act
		Rate	Volume		Charge		Rate	Volume		Charge			
		(\$)			(\$)		(\$)			(\$)	\$ (Change	% Change
Monthly Service Charge	\$	1,932.35	1	\$	1,932.35	\$	1,408.29	1	\$	1,408.29	\$	(524.06)	-27.12%
Distribution Volumetric Rate	\$	0.2874	2000	\$	574.80	\$	-	2000	\$		\$	(574.80)	-100.00%
RRRP Credit			2000	\$	-			2000	\$				
DRP Adjustment			2000	\$	-			2000	\$	-	\$	-	
Fixed Rate Riders	\$	-	1	\$	-	\$	-	1	\$	-	\$	-	
Volumetric Rate Riders	\$	-	2000	\$	-	\$	0.0156	2000	\$	31.20	\$	31.20	
Sub-Total A (excluding pass through)				\$	2,507.15				\$	1,439.49	\$(,067.66)	-42.58%
Line Losses on Cost of Power	\$	-	-	\$	-	\$	1	-	\$		\$	-	
Total Deferral/Variance Account Rate Riders	\$	0.0014	2,000	\$	2.80	\$	(0.6274)	2,000	\$	(1,254.80)	\$(,257.60)	-44914.29%
GA Rate Riders	\$	-	800,000	\$	-	\$	0.0017	800,000	\$	1,360.00	\$ ·	,360.00	Ĩ
Low Voltage Service Charge	\$	0.4332	2,000	\$	866.40	\$	1.2107	2,000	\$	2,421.40	\$ '	,555.00	179.48%
Additional Fixed Rate Riders	\$	-	1	\$	-	\$		1	\$		\$	-	ĺ
Additional Volumetric Rate Riders			2,000	\$	-	\$	(0.0258)	2,000	\$	(51.60)	\$	(51.60)	ĺ
Sub-Total B - Distribution (includes Sub-Total A)				\$	3,376.35				\$	3,914.49	\$	538.14	15.94%
RTSR - Network	\$	2.7310	2,000	\$	5,462.00	\$	2.9719	2,000	\$	5,943.80	\$	481.80	8.82%
RTSR - Connection and/or Line and Transformation Connection	\$	2.0347	2,000	\$	4,069.40	\$	2.1946	2,000	\$	4,389.20	\$	319.80	7.86%
Sub-Total C - Delivery (including Sub-Total B)				\$	12,907.75				\$	14,247.49	\$ [•]	,339.74	10.38%
Wholesale Market Service Charge (WMSC)	\$	0.0034	856,240	\$	2,911.22	\$	0.0034	834,880	\$	2,838.59	\$	(72.62)	-2.49%
Rural and Remote Rate Protection (RRRP)	\$	0.0005	856,240	\$	428.12	\$	0.0005	834,880	\$	417.44	\$	(10.68)	-2.49%
Standard Supply Service Charge	\$	0.25	1	\$	0.25	\$	0.25	1	\$	0.25	\$	-	0.00%
Average IESO Wholesale Market Price	\$	0.1036	856,240	\$	88,706.46	\$	0.1036	834,880	\$	86,493.57	\$ (2	2,212.90)	-2.49%
Total Bill on TOU (before Taxes)				\$1	04,953.80				\$1	103,997.34	\$	(956.46)	-0.91%
HST	1	13%		\$	13,643.99		13%		\$	13,519.65	\$	(124.34)	-0.91%
Ontario Electricity Rebate	1	18.9%		\$	-		18.9%		\$	-	\$	-	
Total Bill on TOU				\$1	18,597.79				\$1	117,516.99	\$(,080.80)	-0.91%

- 3-

From:	LI Clement
То:	Andrew Blair
Cc:	ctratechaud@elkenergy.com
Subject:	RE: E.L.K. Cost Allocation (HONI Embedded)
Date:	Friday, February 4, 2022 12:44:16 AM
Attachments:	image001.png

*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. *** Hi Andrew,

Hydro One generally agrees with the cost allocation and rate design methodology proposed by E.L.K Energy in this upcoming rate application, as previously discussed in July 2021. However, Hydro One is unable to complete a detailed review of the allocation and bill impacts prior to E.L.K. Energy's planned filing date. Hydro One plans to participate as an intervenor in this upcoming E.L.K. rate application and it may post further questions on the proposed cost allocation and rate design as this proceeding progresses.

Thanks.

Clement Li Manager, Transmission & Distribution Pricing - Regulatory Affairs Hydro One Networks Inc.

From: Andrew Blair <ablair@Elenchus.ca>
Sent: Wednesday, January 26, 2022 12:15 PM
To: LI Clement <clement.li@HydroOne.com>
Subject: RE: E.L.K. Cost Allocation (HONI Embedded)

*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. ***

Hi Clement,

After a delay obtaining DVA balances we can finally provide bill impacts. Please see attached a memo which provides updated figures and bill impacts, and an excel version of the Bill Impacts table. Allocated costs and proposed rates have not materially changed since the original October 14th memo, which is also attached for reference.

Please let me know if you have any questions or concerns.

Thanks,

Andrew Blair | Research Analyst

T: 416-823-5443
2 Toronto Street, Suite 222
Toronto, ON M5C 2B5
https://ddei5-0-ctp.trendmicro.com:443/wis/clicktime/v1/query?url=www.elenchus.ca&umid=63AEDB5D-D67F-5605-BFE4B697E80F4110&auth=2d642bc0e91c4252d9fd41a45fae119e296f143e-1c67a94d597283f0e098dc6dd0a5f815d60d5278

From: LI Clement <<u>clement.li@HydroOne.com</u>>
Sent: Tuesday, October 19, 2021 12:16 AM
To: Andrew Blair <<u>ablair@Elenchus.ca</u>>
Cc: SHETH Nikita <<u>nikita.sheth@HydroOne.com</u>>
Subject: RE: E.L.K. Cost Allocation (HONI Embedded)

*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. *** Hi Andrew,

Thank you for the information. Would you please also provide the bill impact calculations? We plan to send you our feedback by Monday (Oct 25).

Thanks.

Clement

From: Andrew Blair <<u>ablair@Elenchus.ca</u>>
Sent: Thursday, October 14, 2021 6:48 PM
To: LI Clement <<u>clement.li@HydroOne.com</u>>
Subject: RE: E.L.K. Cost Allocation (HONI Embedded)

*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. ***

Hi Clement,

My apologies for the long delay. As you may have heard, E.L.K. has delayed its application filing date to December 31, 2021.

Our current target is to file by October 31. I don't want to rush you, but it would be helpful to have a response before the end of October (or ideally next week if you have issues with the methodology). Please also see the consumption and demand figures for HONI in the revenue tab.

Please let me know if you would like to discuss.

Thanks, Andrew

E.L.K. Energy Inc. EB-2021-0016 Exhibit 7 Tab 4 Attachment 3 Page 3 of 3 Filed: February 4, 2022

From: Andrew Blair
Sent: Thursday, October 14, 2021 6:45 PM
To: clement.li@HydroOne.com
Subject: E.L.K. Cost Allocation (HONI Embedded)

Hello Clement,

Please see the attached memo describing E.L.K.'s proposed cost allocation methodology for its upcoming 2022 COS application and draft cost allocation model. The methodology is consistent with what was proposed E.L.K.'s 2017 COS, as we previously discussed informally. Please let us know if you have any questions or concerns with the proposed methodology.

Thanks,



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1 **5.0** Other Cost Allocation Information

2 5.1 Unmetered Loads

E.L.K. communicates with unmetered load customers, including Street Lighting customers, to
assist them in understanding the regulatory context in which distributors operate and how it affects
unmetered load customers. This communication takes place on an on-going basis and is not
driven by the rate application process.

7 E.L.K. is not proposing to include microFIT as a separate class in the cost allocation model in8 2022.

9 5.2 New Customer Class

- 10 E.L.K. is not proposing to include a new customer class.
- 11 5.3 Eliminated Customer Class
- 12 E.L.K. is not proposing to eliminate a rate class.