

E.L.K. Energy Inc.
2027 Cost of Service Rate Application
Exhibit 7
Cost Allocation





Table of Contents

7.1	Cost Allocation Study Requirements.....	2
7.1.1	Overview.....	2
7.2	Weighting Factors	2
7.2.1	Weighting Factors for Services	3
7.2.2	Weighting Factors for Billing and Collecting.....	3
7.2.3	Weighting Factors for Meter Capital	4
7.2.4	Weighting Factor for Meter Reading	5
7.3	Load Profiles and Demand Allocators	5
7.4	Summary of Results and Proposed Changes	7
7.5	Class Specific Details	7
7.5.1	Embedded Distributor Class	7
7.5.2	Unmetered Loads (Including Street Lighting).....	8
7.5.3	MicroFIT Class.....	8
7.5.4	Standby Rates	9
7.5.5	New Customer Class	9
7.5.6	Elimination of Customer Class.....	9
7.6	Class Revenue Requirements	9
7.7	Revenue-to-Cost Ratios.....	10

List of Tables

Table 1 - Services Weighting Factors.....	3
Table 2 - Billing and Collecting Weighting Factors	4
Table 3 - Meter Installation Costs.....	4
Table 4 - Meter Reading Costs	5
Table 5 – Demand Allocators	7
Table 6 – Embedded Distributor Cost Allocation	8
Table 7 – Allocated Revenue Requirement to Rate Classes.....	10
Table 8 – Revenue-to-Cost Ratios	11
Table 9 – Calculated Class Revenue	12



7.1 Cost Allocation Study Requirements

7.1.1 Overview

E.L.K. has prepared its cost allocation study using the 2027 version of the OEB's Cost Allocation Model, included with this Application as Excel file: ELK_2027_Cost_Allocation_Model_20260828. The study reflects the 2027 Test Year costs, customer numbers, load forecast, and demand values. The 2027 demand values were derived from hourly demand data for the period 2021–2024, segmented by rate class, and adjusted to align with the weather-normalized load forecast used to design rates.

E.L.K. has developed weighting factors based on analysis of the costs underpinning each required factor, having regard to the weighting factors applied in E.L.K.'s 2022 Cost of Service application and E.L.K.'s commitment to review and potentially update these weighting factors in the present Application.

E.L.K. confirms that the cost allocation model is consistent with the Test Year load forecast and all other applicable aspects of this Application.

E.L.K. has completed its cost allocation study in accordance with the OEB's cost allocation policies as set out in the *Report of the Board on Application of Cost Allocation for Electricity Distributors* (November 28, 2007) and the *Review of Electricity Distribution Cost Allocation Policy* (March 31, 2011) (collectively, the "Cost Allocation Guidelines").

E.L.K. has completed Tabs 11 and 13 of the OEB's Revenue Requirement Workform, filed with Exhibit 6. E.L.K. notes that it has completed its transition to fully fixed rates for the residential rate class. Accordingly, Tab 12 - New Rate Design Policy for Residential Customers is not applicable to this Application and has not been completed.

7.2 Weighting Factors

The weighting factors were developed in consultation with E.L.K. staff with direct knowledge and experience in the relevant subject areas. E.L.K. notes that the Embedded Distributor rate class is directly allocated its share of the costs reflected in these weighting factors and does not receive a further indirect allocation. Accordingly, no weighting factors are applicable to that rate class.



7.2.1 Weighting Factors for Services

The services weighting factors are used to allocate the net asset value and depreciation of services (USoA Account 1855) and the cost of maintaining services (USoA Accounts 5130 and 5155) across rate classes.

Weighting factors were determined by assigning the residential rate class a factor of one (1), as required by the Cost Allocation Guidelines. The weighting factors for all other rate classes were established relative to the residential rate class, based on E.L.K.'s assessment of the relative work involved in installing and maintaining services for each rate class as compared to the residential rate class.

The table below summarizes the weighting factors for services as applied on Tab 5.2 of the 2027 Cost Allocation Model.

Table 1 - Services Weighting Factors

Rate Class	Factor
Residential	1.0
General Service < 50 kW	2.0
General Service 50 – 4,999 kW	2.3
Street Light	0.75
Sentinel	0.75
Unmetered Scattered Load	0.75

7.2.2 Weighting Factors for Billing and Collecting

The billing and collecting weighting factors are used to allocate Supervision (USoA Account 5305), Customer Billing (USoA Account 5315), Collecting (USoA Account 5320), and Collection Charges (USoA Account 5330) across rate classes.

Weighting factors were determined by assigning the residential rate class a factor of one (1), as required by the Cost Allocation Guidelines. The weighting factors for all other rate classes were established relative to the residential rate class, based on E.L.K.'s assessment of the level of cost and effort required to bill and collect for each rate class.



The General Service 50 – 4,999 kW rate class has been assigned a higher weighting factor reflecting the complexity of the billing data required for that class, including interval meter data and hourly pricing, which requires materially greater effort to process and administer relative to other rate classes. Street Lighting also has a proportionally higher weighting factor based on the level of manual effort involved in billing this distinct rate class.

The table below summarizes the weighting factors for billing and collecting as applied on Tab 5.2 of the 2027 Cost Allocation Model.

Table 2 - Billing and Collecting Weighting Factors

Rate Class	Factor
Residential	1.0
General Service < 50 kW	1.0
General Service 50 – 4,999 kW	17.0
Street Light	11.0
Sentinel	1.0
Unmetered Scattered Load	1.0

7.2.3 Weighting Factors for Meter Capital

E.L.K.'s installation costs per meter were calculated based on estimated costs, labour rates and truck rates for the meter types utilized by E.L.K., drawing on USoA Accounts 1860 (Meters), 5065 (Meter Expense), and 5175 (Maintenance of Meters).

As set out in the table below, the installed cost of demand meters is generally higher than that of smart meters. While absolute installation costs have increased since E.L.K.'s 2022 Cost of Service application, the relative proportion of costs between meter types remains fairly consistent with those established in the 2022 proceeding.

These costs have been entered on Tab 7.1 - Meter Capital of the 2027 OEB Cost Allocation Model.

Table 3 - Meter Installation Costs

Meter Type	Installation Cost Per Meter
Smart Meter - Residential	\$314
Smart Meter - General Service < 50 kW	\$705
Demand with IT and Interval Capability - Secondary	\$2,453
Demand with IT and Interval Capability - Primary	\$10,000

7.2.4 Weighting Factor for Meter Reading

The meter reading weighting factors are used to allocate Meter Reading Expense (USoA Account 5310) across rate classes.

E.L.K. currently reads its meters using two primary methods. The majority of meters are smart meters, for which readings are largely automated and require minimal incremental cost and effort. Interval meters (demand meters) require the most involved reading process, including the use of third-party service providers and MV90 data collection, and accordingly carry the highest relative cost. A subset of General Service meters still require manual reads which involves somewhat greater cost and effort relative to automated smart meter reads.

E.L.K. assessed the costs included in meter reading expense, allocating each cost element to the appropriate rate class based on the nature of the activity. E.L.K. calculated an overall cost per meter type and assigned a weighting factor of one (1) to smart meter reading costs, with the weighting factor for General Service 50 – 4,999 kW determined relative to that base.

These weighting factors have been entered on Tab 7.2 - Meter Reading of the 2027 OEB Cost Allocation Model.

Table 4 - Meter Reading Costs

Meter Type	Factor
Smart Meter – Residential	1
Smart Meter – General Service < 50	1
Interval Meter	37

7.3 Load Profiles and Demand Allocators

In a letter dated June 12, 2015, the OEB advised that distributors are expected to be mindful of material changes to load profiles and to propose updates in their respective Cost of Service applications where warranted. In its 2022 Cost of Service application, E.L.K. relied on the load profiles originally provided by Hydro One. In the OEB-approved



Settlement Proposal within that proceeding, E.L.K. agreed to update its load profiles at its next rebasing application.¹

In preparing this Application, E.L.K. assessed available methodologies to prepare updated load profiles for its rate classes based on recent data and is of the view that the most appropriate methodology is the Historical Average approach using weather-actual data outlined in section 2.7.1.1 of the Filing Requirements. To prepare updated Load Profiles utilizing this method using non-normalized data, a minimum of three years of hourly data is required. E.L.K. Energy has retrieved 4 full years of hourly interval data and meets this requirement.

As described in section 2.7.1.1, the Historical Average method requires the utility to prepare load profiles for each rate class, for each historical year, in order to derive coincident and non-coincident peak ("CP" and "NCP") demand allocators for each rate class, for each historical year. Subsequently, the resulting historical demand allocators for each rate class are averaged across the historical years, with the resulting average values used as inputs in Tab I8 of the Cost Allocation Model.

Relying on this method, E.L.K. retrieved actual hourly load by rate class for the years 2021, 2022, 2023 and 2024. In order to adjust for any data variances amongst the rate classes (e.g. missing data due to meter errors or other factors), the load profiles for each rate class, for each year were adjusted such that the sum of all hours for each rate class is equal to the total actual annual consumption by rate class relied on for historical years in E.L.K.'s load forecasting. Relying on the resulting 'scaled up' load profiles, E.L.K. developed CP and NCP demand allocators for each rate class, for each of the four years identified above. The average of these four years' CP and NCP values produced average demand allocators.

Finally, the averaged CP and NCP demand allocators were scaled to align with E.L.K.'s 2027 load forecast, by pro-rating demand allocators by rate class based on the difference between average annual kWh by rate class for the historical period, and forecast kWh by rate class in the 2027 Test Year. The resulting CP and NCP demand allocators were relied upon in Tab I8 of the 2027 Cost Allocation Model.

E.L.K. has provided an excel spreadsheet titled: ELK_2027_Load_Profile_Model_20260828 to demonstrate how the 2027 demand allocators were derived.

¹ EB-2021-0016, Settlement Proposal, page 32.

Table 5 – Demand Allocators

	Residential	GS<50	GS>50	Street Lighting	Sentinel Lighting	USL
1 NCP	32,016	7,882	14,858	289	28	26
4 NCP	118,499	30,134	55,129	1,134	109	103
12 NCP	264,452	73,716	134,221	3,369	325	309
1 CP	30,948	6,774	13,761	-	-	26
4 CP	115,810	26,121	53,464	-	-	103
12 CP	258,950	60,107	129,086	1,521	146	309

7.4 Summary of Results and Proposed Changes

The data used in the 2027 Cost Allocation study is consistent with E.L.K.'s cost data supporting the proposed 2027 Test Year revenue requirement as set out in this Application. Consistent with the Cost Allocation Guidelines, assets have been allocated between primary and secondary distribution functions using current information drawn from E.L.K.'s distribution system. The allocation of assets, capital contributions, depreciation, accumulated depreciation, customer data, and load data across primary, line transformer, and secondary categories was developed from the best available data, including E.L.K.'s engineering records and its customer and financial information systems.

An Excel version of the 2027 Cost Allocation Model has been filed as part of this Application. Capital contributions, depreciation, and accumulated depreciation by USoA account are consistent with the information set out in the 2027 continuity schedule filed in Exhibit 2. The rate class customer data used in the Cost Allocation Model is consistent with the 2027 customer forecast filed in Exhibit 3. The load profiles and demand allocators used in the model are as described in the preceding section of this Exhibit.

7.5 Class Specific Details

7.5.1 Embedded Distributor Class

E.L.K.'s sole Embedded Distributor customer is Hydro One Networks Inc. ("HONI").



In July 2026, E.L.K. provided HONI with an overview of the proposed cost allocation approach intended to be used in the 2027 Cost Allocation Model. HONI responded confirming its general agreement with the proposed approach and noted its intent to participate as an intervenor in the proceeding.

In this Application, E.L.K. has proposed to continue directly assigning costs that are directly attributable to HONI, together with an allocated share of other expenses. This approach is consistent with the methodology applied in E.L.K.'s 2022 Cost of Service application.

The Table below sets out the costs directly allocated to the Embedded Distributor rate class in the 2027 Cost Allocation Model.

Table 6 – Embedded Distributor Cost Allocation

Account Description	Amount Directly Allocated to Embedded Distributor Class
Supervision	\$1,220
Meter Reading Expense	\$25,148
Customer Billing	\$36,858
Total	\$63,226

The Cost Allocation Model assigns a portion of administration costs and general plant assets to the Embedded Distributor based on information provided in the above table. In total the cost allocation model allocates \$103,702 to the Embedded Distributor class. This is offset by \$4,073 in Miscellaneous Revenues allocated to the Embedded Distributor.

7.5.2 Unmetered Loads (Including Street Lighting)

E.L.K. maintains ongoing communication with its unmetered load customers, including those in the Street Lighting and Sentinel rate classes, to assist them in understanding the regulatory framework within which electricity distributors operate and the manner in which that framework affects unmetered load customers. This engagement is conducted on a continuous basis and is not specific to, or driven by, the rate application process. No material changes are proposed to the cost allocation for Unmetered Load rate classes in this Application.

7.5.3 MicroFIT Class



E.L.K. is not proposing to include MicroFIT as a separate class in the cost allocation model for the 2027 Test Year. E.L.K. will continue to utilize the default MicroFIT service charge issued by the OEB on an annual basis.

7.5.4 Standby Rates

E.L.K. is not requesting a separate Standby Rate as part of this Application.

7.5.5 New Customer Class

E.L.K. is not requesting any new rate classes as part of this Application.

7.5.6 Elimination of Customer Class

E.L.K. is not requesting the elimination of any rate classes as part of this Application.

7.6 Class Revenue Requirements

The allocated costs by rate class for the prior 2022 Test Year compared to the proposed 2027 Test Year are provided in the Table below.



Table 7 – Allocated Revenue Requirement to Rate Classes

Rate Class	2022 Board Approved Allocated Costs	%	2027 Allocated Costs	%
Residential	\$2,854,302	67.10%	\$5,155,471	69.79%
General Service < 50 kW	\$599,226	14.09%	\$889,933	12.05%
General Service 50 - 4,999 kW	\$590,186	13.87%	\$1,039,824	14.08%
Street Lighting	\$107,403	2.52%	\$179,280	2.43%
Unmetered Scattered Load	\$4,569	0.11%	\$7,587	0.10%
Sentinel Lighting	\$4,161	0.10%	\$11,825	0.16%
Embedded Distributor	\$93,785	2.20%	\$103,702	1.40%
Total	\$4,253,632	100.00%	\$7,387,622	100.00%

7.7 Revenue-to-Cost Ratios

The results of a cost allocation study are typically expressed as revenue-to-cost ratios, presented by rate class. The ratio represents the percentage of distribution revenue collected from a rate class relative to the costs allocated to that class. A ratio below 100% indicates that the rate class is under-contributing and is being cross-subsidized by other rate classes. A ratio above 100% indicates that the rate class is over-contributing and is subsidizing other rate classes.

In its *Review of Electricity Distribution Cost Allocation Policy* (March 31, 2011), the OEB established the ranges it considers appropriate for revenue-to-cost ratios by rate class. These ranges are summarized in the Table below, together with a comparison of E.L.K.'s revenue-to-cost ratios from the 2022 Cost of Service application and the proposed revenue-to-cost ratios for the 2027 Test Year.

Table 8 – Revenue-to-Cost Ratios

Rate Class	2022 Board Approved Cost Allocation Study	2027 Cost Allocation Study	2027 Proposed Ratios	Board Targets	
				Min	Max
Residential	100.80%	98.41%	99.23%	85.00%	115.00%
General Service <50 kW	74.74%	102.76%	102.52%	80.00%	120.00%
General Service 50 - 4,999 kW	110.02%	98.37%	99.23%	80.00%	120.00%
Street Lighting	90.12%	93.60%	102.58%	80.00%	120.00%
Unmetered Scattered Load	76.97%	78.07%	99.23%	80.00%	120.00%
Sentinel Lighting	79.25%	90.93%	99.23%	80.00%	120.00%
Embedded Distributor	187.46%	185.22%	120.00%	80.00%	120.00%

E.L.K.'s 2027 Cost Allocation study indicates that the revenue-to-cost ratio for the Unmetered Scattered Load rate class falls below the OEB's minimum threshold of 80%. The Embedded Distributor rate classes exceeds the OEB's maximum threshold of 120%.

As a first step, E.L.K. reduced the Embedded Distributor rate class to 120%. This initial rebalancing produced a revenue deficiency relative to E.L.K.'s base revenue requirement. To eliminate this deficiency, E.L.K. applied further upward adjustments to the rate classes at the 80% lower bound, raising those ratios in equal proportion until the revenue deficiency was fully resolved. The revenue deficiency is eliminated at a lower bound of 99.23%.

The Table below sets out the calculated class revenues resulting from this analysis. The resulting 2027 proposed base revenue by rate class will form the basis for the design of E.L.K.'s proposed distribution charges in Exhibit 8 of this Application.



Table 9 – Calculated Class Revenue

Rate Class	2027 Base Revenues at Existing Rates	2027 Proposed Base Revenue at Status Quo Rates	2027 Proposed Base Revenue	Miscellaneous Revenue
Residential	\$2,923,395	\$4,597,302	\$4,639,435	\$476,404
General Service <50 kW	\$531,200	\$835,359	\$833,208	\$79,135
General Service 50 - 4,999 kW	\$591,876	\$930,779	\$939,757	\$92,073
Street Lighting	\$98,037	\$154,172	\$170,263	\$13,642
Unmetered Scattered Load	\$3,363	\$5,288	\$6,894	\$635
Sentinel Lighting	\$6,267	\$9,855	\$10,836	\$898
Embedded Distributor	\$119,552	\$188,007	\$120,370	\$4,073
Total	\$4,273,690	\$6,720,762	\$6,720,762	\$666,860