January 27, 2025

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

Dear Ms. Marconi:

Re: E.L.K. Energy Inc. 2025 Incentive Regulation Mechanism ("IRM") Distribution Rate Application Interrogatory Responses (EB-2024-0015)

Please find enclosed E.L.K. Energy Inc.'s ("E.L.K. Energy") responses to interrogatories received from Ontario Energy Board ("OEB") Staff and School Energy Coalition ("SEC"), relating to its application for approval of 2025 distribution rates and other requested relief, submitted October 28, 2024.

In preparing interrogatory responses, E.L.K. Energy identified a series of corrections required to the balances and requested disposition of Group 1 Deferral and Variance Accounts ("DVA"). Revisions to E.L.K. Energy's evidence within this submission include corrections to the balances in Accounts 1588 and 1589, which are the subject of a third-party audit provided as Attachment C to E.L.K. Energy's application ("1588/1589 Audit"). However, the corrections to these accounts are below the materiality threshold applicable to the 1588/1589 Audit.

In addition, E.L.K. Energy experienced a subsequent event after completion of the 1588/1589 Audit and the submission of its October 28, 2024 application, relating to the necessary revision of a customer invoice. This subsequent event also has minor impacts on Accounts 1588 and 1589, as well as a series of other Group 1 DVAs sought for disposition in this proceeding.

Finally, E.L.K. Energy experienced an additional subsequent event impacting a series of Non-1588/1589 Accounts, as the utility was issued a revised invoice from its host distributor, adjusting amounts back to October of 2023. This revised invoicing impacts the balances and requested disposition of Accounts 1550, 1584 and 1586.

In order to assist the OEB, OEB Staff, and intervenors in assessing these revisions, E.L.K. Energy has described each correction and subsequent event in the sections that follow, and has summarized the resulting impacts to its application and requested relief.

Immaterial Corrections to 1588/1589 Audited Balances

As described in E.L.K. Energy's evidence, the utility is seeking disposition of 1588 and 1589 balances for the years 2016 through 2023. In order to ascertain the appropriate amounts for disposition, E.L.K. Energy completed a detailed reconstruction of these accounts for the years in question utilizing direct source data, such as customer billing information and historical invoices.

In the process of answering interrogatories received, E.L.K. identified within its reconstruction 7 immaterial formula errors, as shown and described in the table below:

Table 1: Immaterial Corrections to 1588/1589 Audited Balances

Year	Account 1588	Account 1589	Description
2020	39,150.13	(39,150.13)	A formula error inadvertently utilized the Non-RPP proportion of sales to allocate Global Adjustment costs to RPP customers, as opposed to the RPP proportion of sales. Reversal of this error shifts the amount shown from Account 1589 to 1588.
2021	(282.03)		A formula error was discovered which produced incorrect sums in December of 2021 for true-up adjustments required to RPP amounts recorded in Account 1588. Correction of the error results in a slight credit to 1588.
2022	(8,804.28)		Commodity costs for E.L.K. Energy's embedded distributor customer for the month of October 2022 were discovered to have been incorrectly calculated, utilizing incorrect costs and billing determinants to calculate commodity cost for the month in question. Correction of this error results in a small credit to Account 1588.
2022	4,539.65		Changes noted above to the embedded distributor's commodity cost had the impact of altering the average commodity cost for E.L.K. Energy more broadly. Flowing this change through E.L.K. Energy's reconstruction of 1588 results in a small debit to 1588.
2022	551.91		The same formula error identified above affecting December of 2021, impacted November and December of 2022. Correction of the error results in a slight debit to 1588.
2023	52,715.58		A similar error to the October 2022 embedded distributor error was discovered affecting July 2023. In this instance, billing determinants and commodity cost were correct, however billing determinants were inadvertently entered as a negative rather than positive value. Transition of billing determinants to the correct positive value, results in a debit to 1588.
2023	(28,239.23)		Changes noted above to the embedded distributor's commodity cost had the impact of altering the average commodity cost for E.L.K. Energy more broadly. Flowing this change through E.L.K. Energy's reconstruction of 1588 results in a credit to 1588.
NET IMPACT	**59,125.50**	**(39,150.13)**	

E.L.K. Energy has conferred with its third-party auditor KPMG regarding the above noted corrections to the audited balances in Accounts 1588 and 1589. KPMG has confirmed to E.L.K. Energy that the amounts shown are below the audit materiality threshold, and has provided a letter to E.L.K. Energy describing its audit materiality thresholds, provided as an attachment to these interrogatory responses as ELK_2025_IRM_IRR_Att1_KPMG-RE_Materiality_20250127. Though the 1588/1589 Audit submitted in evidence still stands on this basis, E.L.K. Energy has revised its request to incorporate the above-noted corrections into its DVA disposition request.

Subsequent Event: Embedded Distributor Billing

In the process of preparing its reconstruction of DVA balances prior to submission of its 2025 IRM application, E.L.K. Energy discovered it had inadvertently failed to invoice its embedded distributor customer for a particular set of costs over the 2021 to 2023 period. On this discovery, E.L.K. Energy prepared an invoice for the embedded distributor customer for the 2021 to 2023 period, and issued such invoice October 8, 2024 ("ED Invoice 1"). The invoice issued had the result of generating new entries into most of the DVAs sought for disposition in this application, and E.L.K. Energy's October 28, 2024 application to the OEB included these entries within its DVA balances and disposition requests.

Subsequent to the submission of E.L.K. Energy's 2025 IRM application, the utility was contacted by the embedded distributor customer to discuss ED Invoice 1. Working with the embedded distributor customer, E.L.K. Energy has determined it is appropriate to revise ED Invoice 1, and issue a new invoice ("ED Invoice 2") which is reflective of both historical practice for the costs in question, and responsive to the specific asset-based circumstances on the ground.

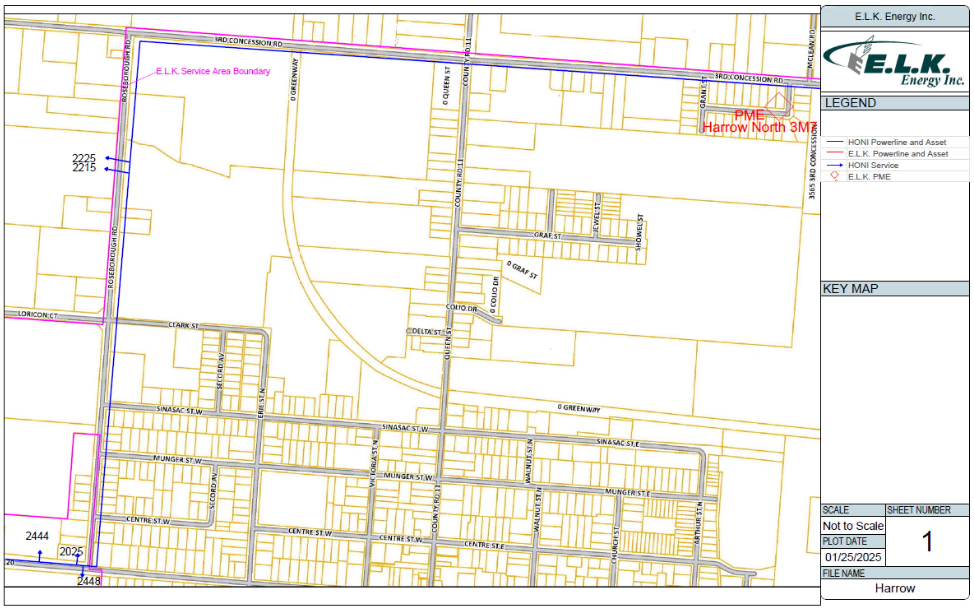
Specifically, the asset configuration in question does not resemble the traditional provision of service to an embedded distributor, and in recognition of this reality E.L.K. Energy has issued invoices in the past (i.e. pre-2021) on the basis of a Cost Netting arrangement. With some variation amongst the 4 locations in question (each of which are further described below), the common circumstance is embedded distributor assets connecting embedded distributor customers, in a location that is downstream of an E.L.K. Energy metering point. Under this arrangement, the embedded distributor assets and its customers are not physically served by the E.L.K. Energy system, however E.L.K. Energy does take on the role of providing electricity commodity and other upstream charges; administering these transactions as part of its distribution business.

In consultation with the embedded distributor customer, E.L.K. Energy has made adjustment to its DVA balances to reflect ED Invoice 2 as prepared on a Cost Netting basis. Under the historical Cost Netting arrangement, the embedded distributor provides customer count, consumption and demand values for the embedded distributor's customers downstream of the E.L.K. Energy meter, and E.L.K. Energy invoices the embedded distributor as though the embedded distributor customers were E.L.K. Energy customers, and subject to E.L.K. Energy rates. For clarity, the embedded distributor invoices its customers on the basis of its own tariff.

Below, E.L.K. Energy describes each of the 4 geographic locations in which this arrangement exists between itself and the embedded distributor.

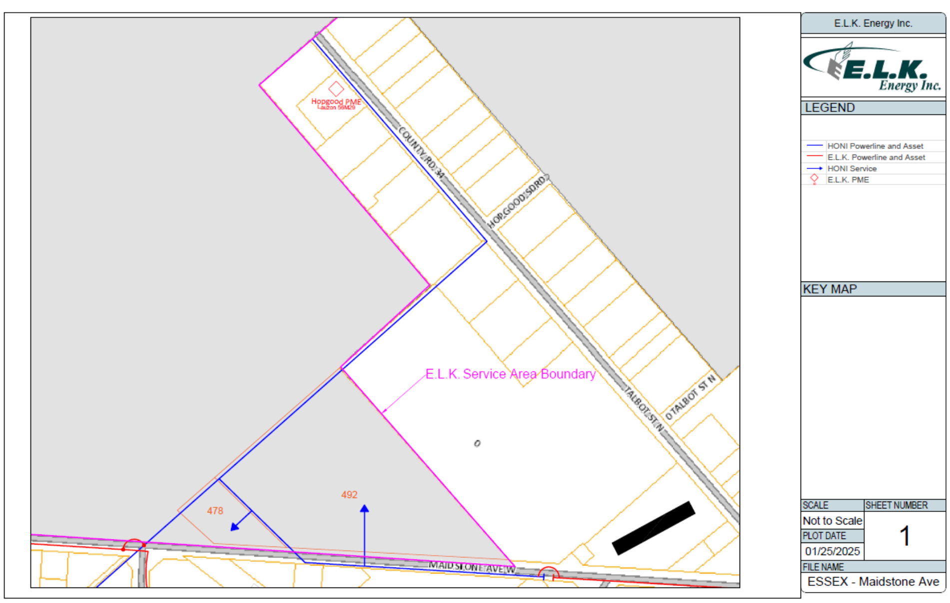
Harrow Cost Netting

The embedded distributor assets run along the boundary of E.L.K. Energy's service territory, serving 5 customer premises. Metering is provided by E.L.K. Energy's Primary Metering Entrance ("PME") Harrow North 3M7.



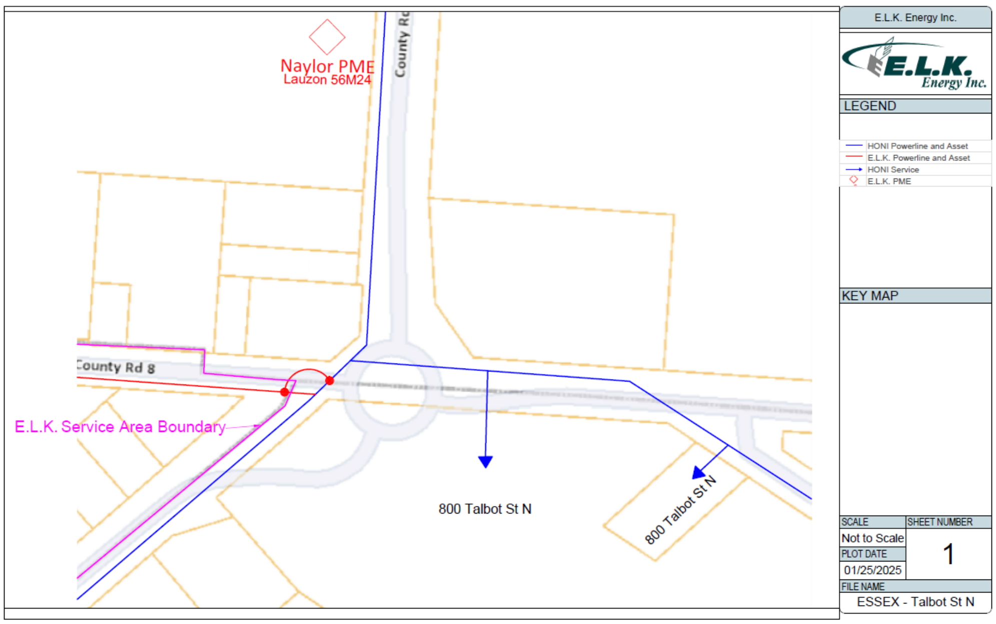
Maidstone Cost Netting

The embedded distributor assets run through E.L.K. Energy's service territory, before returning to the embedded distributor's service territory and serving 2 customer premises. Metering is provided by E.L.K. Energy's Hopgood PME.



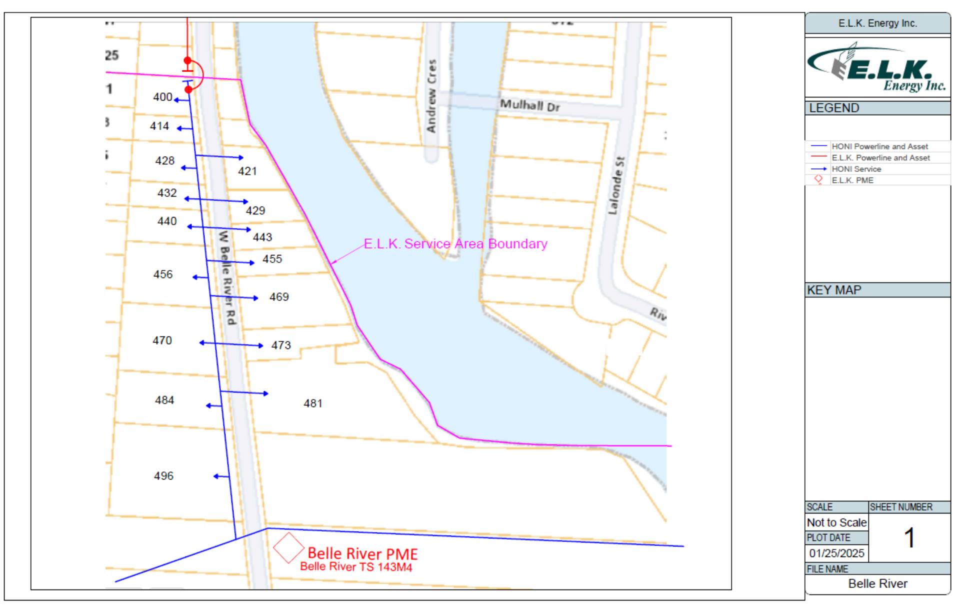
Talbot St N Cost Netting

The embedded distributor assets run outside of E.L.K. Energy's service territory, but provide a connection point for E.L.K. Energy assets, and serve 2 customer accounts. Metering is provided by E.L.K. Energy's Naylor PME.



Belle River Cost Netting

The embedded distributor assets are located just outside the borders of E.L.K. Energy's service territory, and serve 16 customer premises. Metering is provided by E.L.K. Energy's Belle River PME.



As noted above, implementation of the historical Cost Netting approach results in minor revisions to the majority of E.L.K. Energy's DVA balances sought for disposition in this proceeding. While the direct commodity and global adjustment changes between ED Invoice 1 and ED Invoice 2 are minimal, the incorporation of these changes required rebalancing as between 1588 and 1589. In aggregate, the transition to ED Invoice 2 in this revised evidence has the following impacts on Accounts 1588 and 1589:

Table 2: Embedded Distributor Invoice Impact on 1588/1589

Year	Account 1588	Account 1589
2021	(6,598.90)	7,577.64
2022	(1,107.77)	7,401.48
2023	(27,216.24)	(198.02)
NET IMPACT	**(34,922.91)**	**14,781.10**

Given ED Invoice 1 was prepared as though the arrangement were a standard embedded distributor relationship, the transition to ED Invoice 2 had impacts on various other DVA balances sought for disposition in this proceeding. Table 3 below depicts the impact of this transition on Accounts 1550, 1551, 1580, 1584 and 1586:

Table 3: Embedded Distributor Invoice Impact on 1550,1551,1580,1584 & 1586

		2021	2022	2023	Total
1550	LOW VOLTAGE	-451.56	-1,511.64	-2,410.16	**-4,373.35**
1551	SME	-164.16	-138.00	-116.84	**-419.00**
1580	WMS	-74.96	-72.00	297.06	**150.10**
1584	NETWORK	-2,995.06	-5,386.29	-7,835.36	**-16,216.71**
1586	CONNECTION	-2,307.57	-3,654.48	-5,439.70	**-11,401.75**

For clarity, as a subsequent event to the completion of KPMG's work on October 8, 2024, the impacts of implementing ED Invoice 2 has not been incorporated into the 1588/1589 Audit.

Subsequent Event: Host Distributor Billing Revision

As noted, subsequent to the submission of its 2025 IRM application on October 28, 2024, E.L.K. Energy received revised invoices from its host distributor dating back to October of 2023. Table 4 below shows the impact of these revised invoices on Accounts 1550, 1584 and 1586 in 2023:

Table 4: Host Distributor Invoice Impact on 1550, 1584 & 1586

		2023
1550	LOW VOLTAGE	-9,671.13
1584	NETWORK	-14,048.50
1586	CONNECTION	-4,571.36

Summary

Table 5 depicts Principal and Interest for each DVA for which disposition is sought in this proceeding, both as-filed on October 28, 2024, and as revised in this submission of interrogatory responses. Included within the revisions shown below are the impacts of updating interest rates for the OEB's most recently issued prescribed interest rates for DVAs.

Kayla Lucier
Supervisor, Finance & Regulatory
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klucier@elkenergy.com

Table 5: Summary of DVA Disposition Request Changes

		As Filed October 28, 2024			Revised January 27, 2025			Variance		
Account		Principal Balance Dec 31 2023	Total Interest to Apr 30 2025	Total Claim	Principal Balance Dec 31 2023	Total Interest to Apr 30 2025	Total Claim	Principal Balance Dec 31 2023	Total Interest to Apr 30 2025	Total Claim
Group 1 Accounts										
LV Variance Account[1]	1550	1,130,428	153,503	1,283,931	1,123,529	152,188	1,275,717	-6,899	-1,315	-8,214
Smart Metering Entity Charge Variance Account	1551	-68,747	-7,766	-76,513	-69,222	-7,506	-76,728	-475	260	-215
RSVA - Wholesale Market Service Charge	1580	416,045	4,262	420,307	453,467	63,898	517,365	37,422	59,636	97,058
Variance WMS – Sub-account CBR Class B[2]	1580	41,719	59,878	101,597	4,783	-2,189	2,594	-36,936	-62,067	-99,003
RSVA - Retail Transmission Network Charge	1584	-381,874	-51,555	-433,429	-388,311	-44,762	-433,074	-6,437	6,793	355
RSVA - Retail Transmission Connection Charge	1586	-518,735	-61,067	-579,802	-499,602	-53,939	-553,540	19,133	7,128	26,262
RSVA - Power (excluding Global Adjustment)	1588	-3,163,925	-525,340	-3,689,265	-3,109,378	-501,801	-3,611,179	54,547	23,539	78,086
Disposition and Recovery/Refund of Regulatory Balances (2020)	1595	-611	1,377	766	-611	1,379	768	0	2	2
Disposition and Recovery/Refund of Regulatory Balances (2021)	1595	-57,171	-6,994	-64,165	-57,171	-6,851	-64,022	0	143	143
Total Group 1 (excl. 1589)		**-2,602,871**	**-433,702**	**-3,036,573**	**-2,542,515**	**-399,583**	**-2,942,099**	**60,355**	**34,119**	**94,474**
RSVA - Global Adjustment	**1589**	-2,807,992	-619,008	-3,427,000	-2,873,662	-611,344	-3,485,006	-65,670	7,664	-58,006
Disposition and Recovery/Refund of Regulatory Balances (2022)[3]	1595	-306,071	-51,710	-357,781	-306,071	-38,536	-344,607	0	13,174	13,174
Total Group 1 Accounts		**-5,716,933**	**-1,104,420**	**-6,821,353**	**-5,722,248**	**-1,049,463**	**-6,771,711**	**-5,314**	**54,957**	**49,642**
Revenue Differential Account[4]	1508	432,084	56,248	488,332	432,084	41,630	473,714	0	-14,618	-14,618
Total Group 2		**432,084**	**56,248**	**488,332**	**432,084**		**473,714**	**0**	**-14,618**	**-14,618**
Total Disposition		**-5,284,850**	**-1,048,172**	**-6,333,022**	**-5,290,164**	**-1,007,833**	**-6,297,997**	**-5,314**	**40,339**	**35,024**

KPMG LLP
618 Greenwood Centre
3200 Deziel Drive
Windsor, ON N8W 5K8
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Telephone 519 251 3500
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E.L.K. Energy Inc.
Board of Directors of E.L.K. Energy Inc.
172 Forest Avenue
Essex, ON N8M 3E4

January 27, 2025

To the Board of Directors of E.L.K. Energy Inc.,

We have audited the schedule of account balances - 1588, 1589 of E.L.K. Energy Inc. as at December 31, 2016 to 2023 and reported our opinion on October 8, 2024. Our audit of these balances was performed using materiality based upon 0.5% of power purchased for the relevant year and for account 1588 and 0.5% of GA purchased for the relevant year for account 1589.

We initially determine materiality to provide a basis for

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing and extent of further audit procedures.

Materiality is also used to evaluate the effect of identified misstatements on our audit and uncorrected misstatements, if any, in forming our opinion.

We design our procedures to detect misstatements at a level less than materiality to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Materiality used for the audits of the years 2020 to 2023 is as follows:

Year	**Materiality – 1588**	**Materiality - 1589**
2020	$ 87,000	$60,100
2021	$70,900	$39,800
2022	$83,200	$23,600
2023	$31,800	$81,400

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KPMG Canada provides services to KPMG LLP.

The accompanying schedule of account balances – 1588, 1589 of E.L.K. Energy Inc. as at December 31, 2020, 2021, 2022 and 2023 differs from those audited by us by $39,150 cumulatively, which is below our materiality threshold for our audit in 2020.

Sincerely,

Cynthia Swift

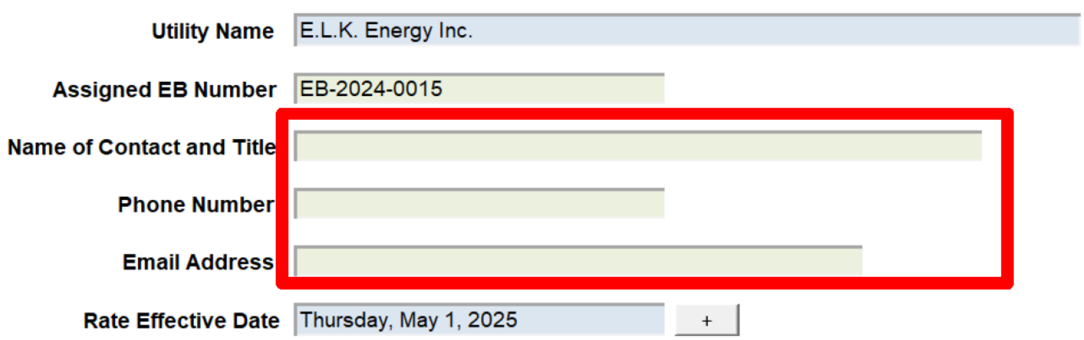
Cynthia A. Swift, CPA, CA B.Math
Partner
519-251-3520
caswift@kpmg.ca

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-1

Ref. 1: ELK_2025-IRM-Rate-Generator-Model_20241028, Tab 1 Information Sheet

Preamble: The green shaded cells are input fields and have not been filled out by E.L.K. Energy.


Utility Name: E.L.K. Energy Inc.
Assigned EB Number: EB-2024-0015
Name of Contact and Title:
Phone Number:
Email Address:
Rate Effective Date: Thursday, May 1, 2025 +

Question(s): a) Please fill out the details for the above fields.

RESPONSE:

a) Please see attached ELK-IRM-Rate-Generator-Model_20250127.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-2

Ref. 1: ELK_2025-IRM-Rate-Generator-Model_20241028, Tab 6 Class A Consumption Data

Ref. 2: ELK_APPL_2025 IRM_20241028, Section 3.7 Capacity Based Recovery

Preamble:

Based on Ref. 2, E.L.K. Energy states that "E.L.K. has only one Class A customer that began on July 1, 2017, and this lone customer has never transitioned between Class A and Class B." In Ref. 1, Cells C19 and C25, E.L.K. Energy mentions that it has had a customer transition between Class A and Class B.

Question(s):

a) Please clarify the variance in what is stated in the Manager's Summary and what has been marked in the Rate Generator Model. Please make any corrections to the Rate Generator Model as necessary.

RESPONSE:

a) Please see attached a revised ELK-IRM-Rate-Generator-Model_20250127, in which Tab 6 A Consumption has been updated. For clarity, E.L.K. Energy has only one Class A customer which began July 1, 2017. The customer has not subsequently transitioned in any year between Class A and B.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-3

Ref. 1: ELK_2025-IRM-Rate-Generator-Model_20241028, Tab 8 STS Tax Change

Preamble: E.L.K. Energy has not filled information for OEB-Approved Regulatory Taxable Income and Combined Effective Tax Rate.

Summary - Sharing of Tax Change Forecast Amounts

	2022	2025
OEB-Approved Rate Base	$ 13,633,387	$ 13,633,387
OEB-Approved Regulatory Taxable Income	$ -	$ -
Federal General Rate		15.0%
Federal Small Business Rate		9.0%
Federal Small Business Rate (calculated effective rate)[1,2]		9.5%
Ontario General Rate		11.5%
Ontario Small Business Rate		3.2%
Ontario Small Business Rate (calculated effective rate)[1,2]		4.0%
Federal Small Business Limit		$ 500,000
Ontario Small Business Limit		$ 500,000
Federal Taxes Payable		$ -
Provincial Taxes Payable		$ -
Federal Effective Tax Rate		0.0%
Provincial Effective Tax Rate		0.0%
Combined Effective Tax Rate	0.0%	0.0%

Question(s): a) Please update the Rate Generator Model with these values.

RESPONSE:

a) Please see attached ELK-2025-IRM-Rate-Generator-Model_20250127.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-4

Ref. 1: ELK_2025-IRM-Rate-Generator-Model_20241028, Tabs 11, 15, 17, and 20

Preamble:

On November 1, 2024, the OEB issued a letter regarding 2025 Preliminary Uniform Transmission Rates (UTRs) and Hydro One Sub-Transmission Rates. The OEB determined to use preliminary UTRs to calculate 2025 Retail Service Transmission rates (RTSR) to improve regulatory efficiency, allowing for this data to feed into the rate applications including annual updates for electricity distributors on a timelier basis. The OEB also directed distributors to update their 2025 application with Hydro One Networks Inc.'s (Hydro One) proposed host RTSRs. Any further updates to Hydro One's proposed host RTSR will be reflected in the final Rate Generator Model.

On November 19, 2024, the OEB issued a letter outlining that the fixed microFIT Generator Service Classification charge (microFIT charge) would be increased from $4.55 to $5.00 for the 2025 rate year. OEB staff has updated E.L.K. Energy's Rate Generator Model with the preliminary UTRs, proposed host RTSR by Hydro One, and microFIT charge as follows:

UTRs

Uniform Transmission Rates	Unit	2023 Jan to Jun	2023 Jul to Dec	2024 Jan to Jun	2024 Jul to Dec	2025
Rate Description		Rate		Rate		Rate
Network Service Rate	kW	$ 5.60	$ 5.37	$ 5.78	$ 6.12	$ 6.25
Line Connection Service Rate	kW	$ 0.92	$ 0.88	$ 0.95	$ 0.95	$ 1.00
Transformation Connection Service Rate	kW	$ 3.10	$ 2.98	$ 3.21	$ 3.21	$ 3.39

Hydro One Sub-Transmission Rates

Hydro One Sub-Transmission Rates	Unit	2023	2024	2025
Rate Description		Rate	Rate	Rate
Network Service Rate	kW	$ 4.6545	$ 4.9103	$ 5.2172
Line Connection Service Rate	kW	$ 0.6056	$ 0.6537	$ 0.6537
Transformation Connection Service Rate	kW	$ 2.8924	$ 3.3041	$ 3.3041
Both Line and Transformation Connection Service Rate	kW	$ 3.4980	$ 3.9578	$ 3.9578

microFIT Charge

:

Rate Class	Current MFC	MFC Adjustment from R/C Model	Current Volumetric Charge	DVR Adjustment from R/C Model	Price Cap Index to be Applied to MFC and DVR	Proposed MFC	Proposed Volumetric Charge
RESIDENTIAL SERVICE CLASSIFICATION	19.73				3.60%	20.44	0.0000
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION	19.31		0.0066		3.60%	20.01	0.0068
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION	195.42		1.7492		3.60%	202.46	1.8122
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION	7.85		0.0022		3.60%	8.13	0.0023
SENTINEL LIGHTING SERVICE CLASSIFICATION	3.69		6.9316		3.60%	3.82	7.1811
STREET LIGHTING SERVICE CLASSIFICATION	1.27		12.3462		3.60%	1.32	12.7907
EMBEDDED DISTRIBUTOR SERVICE CLASSIFICATION	1545.57				3.60%	1,601.21	0.0000
microFIT SERVICE CLASSIFICATION	4.55					5.00	

Question(s):

a) Please confirm the accuracy of the Rate Generator Model updates, as well as the accuracy of the resulting RTSRs following these updates.

RESPONSE:

a) E.L.K. Energy confirms the accuracy of the Rate Generator Model updates completed by OEB Staff.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-5

Ref. 1: ELK_2025-IRM-Rate-Generator-Model_20241028, Tabs 18 and 21

Preamble:

On December 10, 2024, the OEB set the updated Rural or Remote Electricity Rate Protection (RRRP) rate as $0.0015 kWh. There was no change to the Wholesale Market Service rate. OEB staff has updated E.L.K. Energy's Rate Generator Model with the updated RRRP value as follows:

Regulatory Charges

Effective Date of Regulatory Charges		**January 1, 2024**	**January 1, 2025**
Wholesale Market Service Rate (WMS) - not including CSR	$/kWh	0.0041	0.0041
Capacity Based Recovery (CSR) - Applicable for Class B Customers	$/kWh	0.0004	0.0004
Rural or Remote Electricity Rate Protection Charge (RRRP)	$/kWh	0.0014	0.0015
Standard Supply Service - Administrative Charge (if applicable)	$/kWh	0.25	0.25

Question(s):

a) Please confirm the accuracy of the Rate Generator Model updates for the RRRP values.

RESPONSE:

a) E.L.K. Energy confirms the accuracy of the Rate Generator Model updates completed by OEB Staff.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-6

a) Upon completing all interrogatory responses from OEB staff and intervenors, please file an updated DVA continuity schedule and GA Analysis Workforms covering all years of 2016 to 2023, reflecting the interrogatory responses. In addition, please ensure that the requested DVA balances for Accounts 1588 and 1589 reflect the correct cost of power and global adjustment costs (i.e. the IESO overcharge or undercharge because of errors in the RPP settlements, FIT contract settlement and Class A submissions).

RESPONSE:

a) Please find attached ELK-2025-IRM-Rate-Generator-Model_20250127, and ELK_GA_Workform_20250127.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-7

Ref. 1: ELK_GA_Workform Update_2016-2018_20242218, Tab GA 2016

Ref. 2: ELK_GA Workform_20241028

Preamble:

OEB staff made the following observations while reviewing the documents in Ref. 1 and Ref. 2 regarding the reconciling items in the GA Analysis Workforms:

- There are no reconciling items of 1a) and 1b) for CT148 true-ups in the GA Analysis Workforms of all years
- There are no reconciling items of 2a) and 2b) for the unbilled accrual and reversal of the unbilled accrual in the GA Analysis Workforms of all years
- 2016 GA Analysis Workform: one reconciling item of $54,676 with the description of JANUARY 2016 BILLED AT DEC ACT INSTEAD OF JAN EST
- 2016 to 2022 GA Analysis Workforms: reconciling items of various amounts (from $(580) to $(36,821)) with the description of “GA Purchase Price Variance”
- GA Analysis Workform 2019, Reconciliating Items $(5,010) for “Class B Sales Price Variance”
- GA Analysis Workform 2021 Reconciliating Items of $2,259 for “Sales Pricing Error”
- 2020 GA Analysis Workform: Impact of GA deferral of $(88,836)
- 2021 GA Analysis Workform: Impact of GA deferral recovery of $215,104

Question(s):

a) Please confirm if the reconstructed schedules for Accounts 1588 and 1589 use the accrual method. If so, please fill out the reconciling items 1a), 1b), 2a) and 2b) for the GA Analysis Workforms of all years. If these reconciling items are not needed in E.L.K. Energy’s opinion, please

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provide reasons.

b) Please provide an explanation for each type of the reconciling items listed above (not including the GA deferral and its recovery).

c) Please provide calculations for the impact of GA deferral of $(88,836) and the GA deferral recovery of $215,104.

RESPONSE:

a) The reconstructed schedules for Accounts 1588 and 1589 were completed in hindsight based on all of the relevant data required to assemble transactions and balances. As such, the reconciling items suggested in the question are not necessary, as the reconstructed schedules incorporate any accruals that would have been necessary during the reconstructed years.

b) The following explains each of the reconciling items included in the GA Analysis Workform and included in the interrogatory above:

  i. The 2016 GA Analysis Workform adjustment of $54,676 relates to a true-up of E.L.K. Energy's final calculated Class B GA $/kWh rate against the GA 1st Estimate rate. The adjustment was calculated as the difference between the final calculated rate and the 1st estimate rate, on a $/kWh basis, multiplied by applicable Class B kWh. The name of the adjustment draws attention to the reality that of the total annual 2016 adjustment of $54,676 (made up of both credits and debits), the January adjustment is $59,788, as January 2016 GA was initially billed utilizing the December 2015 calculated GA rate, as opposed to a January 2016 1st estimate GA rate.

  ii. The reconciling items from 2016 to 2022 of various amounts (from $(580) to $(36,821)) with the description of "GA Purchase Price Variance" relate to the difference between E.L.K. Energy's calculated Global Adjustment Rate for Non-RPP customers (i.e. GA costs paid divided by relevant kWh billing determinants), and the Actual GA Rate posted for each month. Any resulting variance between the two

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figures is multiplied by applicable kWh billing determinants to derive the reconciling amounts noted.

iii. The 2019 Reconciliating Item of $(5,010) for "Class B Sales Price Variance" is the same as i), in that it reconciles E.L.K. Energy's final calculated Class B GA $/kWh rate against the GA 1st Estimate rate in the manner described above.

iv. The 2021 reconciling Item of $2,259 for "Sales Pricing Error" is similar to items i) and iii) above, however this adjustment reconciles between E.L.K. Energy's calculated Class B GA $/kWh, and the GA 1st Estimate rate plus the 1st Estimate Class B recovery rate. Any difference between these two rates was multiplied by applicable kWh to derive the adjustment noted.

c) The 2020 Impact of GA Deferral adjustment relates to the impacts of rate policies implemented in the early stages of the COVID-19 pandemic. Specifically, for the months of April, May and June of 2020 rates were established on an atypical basis for both RPP and Non-RPP customers. In addition, originally estimated Class B Non-RPP kWh varied substantially from actual consumption during these months. The adjustment noted results from multiplication of consumption variances by price variances for these three months, as shown below.

CLASS B PURCHASE				**1-Apr-20**	**1-May-20**	**1-Jun-20**
KWH PURCHASED @ ACT	20,357,516	18,898,985	18,320,727	5,320,272	7,044,354	12,336,083
ACTUAL RATE	$0.10232	$0.11331	$0.11942	$0.11500	$0.11500	$0.11500
KWH PURCHASED @ RPP RATE				11,016,118	9,988,188	9,106,099
RPP ACTUAL RATE				$0.15057	$0.14718	$0.12840
CALCULATED AMT PD	$2,082,981	$2,141,444	$2,187,861	$2,270,528	$2,280,162	$2,587,873
AMT PAID	$2,085,014	$2,143,394	$2,201,527	$2,265,350	$2,263,617	$2,560,554
IMPACT	-$2,033	-$1,950	-$13,666	$5,178	$16,546	$27,319
NON-RPP PRICE VARIANCE - SALES VS PURCHASES (COVID PRICE ADJ)						
Actual Class B Non-RPP (kWh)				7,860,414	8,231,497	9,670,797
Original Estimated Class B Non-RPP (kWh)				11,016,118	9,988,188	9,106,099
kWh Difference not Adjusted in IESO invoice				(3,155,704)	(1,756,691)	564,698
Class B RPP GA Price				$0.15057	$0.14718	$0.12840
Class B Non-RPP GA Price				$0.11500	$0.11500	$0.11500
Price Difference				$0.03557	$0.03218	$0.01340
Unadjusted Variance				**(112,248.40)**	**(56,530.30)**	**7,566.95**

As described in E.L.K. Energy's interrogatory response cover letter, an error was discovered in which the RPP and Non-RPP proportion of sales had been inadvertently reversed for the

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purpose of GA allocation in 2020. The 2020 Impact of GA Deferral adjustment is impacted by the identified error. The ($88,836) was derived by multiplying the April to June 2020 totals above, which sum to ($161,212), by an RPP allocation factor. In this instance, the Non-RPP allocation factor should have been utilized. When the appropriate Non-RPP allocation factor is applied to the ($161,212), the resulting adjustment is ($72,376). E.L.K. Energy has revised the GA Analysis Workform submitted with interrogatory responses to reflect this corrected adjustment.

The GA deferral recovery adjustment in 2021 of $215,104 relates to the Government of Ontario's decision in 2020 to defer a portion of GA cost recovery in order to provide relief for ratepayers during the COVID-19 pandemic. A GA recovery rate was subsequently established to recover the deferred GA amounts. The adjustment noted is derived by multiplying applicable kWh billing determinants, by the difference between 1st Estimate Class B Recovery Rate and the Actual Recovery Rate. The resulting figure is pro-rated down to apply to Non-RPP, as shown below:

41	GA RECOVERY RATE VARIANCE CALCULATION													
42	CLASS B SALES - BILLED AT EST	(3,481,558)	(3,775,332)	(4,189,237)	(3,181,311)	(3,550,231)	(3,499,480)	(3,955,887)	(4,162,015)	(4,061,617)	(3,429,208)	(3,676,439)	(4,045,717)	
43	EST RATE	$0.00471	$0.00634	$0.00481	$0.00830	$0.00680	$0.00562	$0.00450	$0.00597	$0.00477	$0.00759	$0.00612	$0.00541	
44	ACTUAL RATE	$0.00501	$0.00709	$0.00588	$0.00655	$0.00621	$0.00584	$0.00558	$0.00508	$0.00669	$0.00596	$0.00595	$0.00547	
45	TOTAL PURCHASE	$44,292.90	$42,894.22	$38,956.76	$31,790.33	$48,207.66	$71,390.49	$51,653.70	$51,597.40	$19,494.58	$32,598.96	$51,442.16	$49,800.85	$534,120.01
46	ACT VS EST RATE	$0.00030	$0.00075	$0.00107	-$0.00175	-$0.00059	$0.00022	$0.00108	-$0.00089	$0.00192	-$0.00163	-$0.00017	$0.00006	
47	GAR EXPECTED VARIANCE	$1,044.47	$2,831.50	$4,482.48	-$5,567.29	-$2,094.64	$769.89	$4,272.36	-$3,704.19	$7,798.30	-$5,589.61	-$624.99	$242.74	$3,861.01
48	GAR REPORTING VARIANCE	$43,248	$40,063	$34,474	$37,358	$50,302	$70,621	$47,381	$55,302	$11,696	$38,189	$52,067	$49,558	$530,259.00
49	NON-RPP AMOUNT													$215,103.58

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-8

Ref. 1: ELK_GA_Workform Update_2016-2018_20242218

Ref. 2: ELK_GA Workform_20241028

Ref. 3: 2025 GA Analysis Workform Instructions

Preamble:

OEB staff compiled the following table using the amounts from Ref. 1 and Ref. 2 and notes that the total non-RPP consumption used for the expected GA volume variance is more than double the total consumption used in the expected GA price variance for all years:

A	B	C	D
	Analysis of Expected GA Price Variance	Analysis Expected GA Volume Variance	
Year	Non-RPP Class B Including Loss Adjusted Consumption, Adjusted for Unbilled (kWh) (Column I)	Annual Non-RPP Class B Retail billed kWh (Column P)	Difference (Staff Calculation)
2016	72,525,037	134,641,015	(62,115,978)
2017	60,498,215	120,756,958	(60,258,743)
2018	52,058,865	118,259,031	(66,200,166)
2019	51,591,321	116,933,405	(65,342,084)
2020	47,029,266	107,334,870	(60,305,604)
2021	45,008,032	94,093,391	(49,085,359)
2022	43,666,021	91,957,849	(48,291,828)
2023	43,852,816	92,781,790	(48,928,974)

Page 5 of the GA Analysis Workform instruction states the following:

The annual non-RPP Class B retail consumption is generally equal to the total non-RPP Class B consumption, including loss adjusted consumption and adjusted for unbilled consumption.

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Question(s):

a) Please confirm the table and explain the significant differences in the table.

b) Please provide updated GA Analysis Workforms with correct non-RPP Class B billed consumption kWh for all years.

RESPONSE:

a) E.L.K. Energy's Embedded Distributor customer is a Class B Non-RPP customer, however this customer is also billed GA on an actual basis in a manner that is inconsistent with all other Class B Non-RPP customers. As such, the consumption associated with the Embedded Distributor customer cannot be included within the Non-RPP Class B Including Loss Factor Billed Consumption column within the GA tabs of the GA Workform. For this reason, E.L.K. manually added the annual consumption of the Embedded Distributor to the Annual Non-RPP Class B Wholesale kWh input to ensure appropriate outputs. E.L.K. Energy confirms that the annual variance values presented in this interrogatory are precisely equal to its Embedded Distributor consumption for each applicable year.

b) Please see a) above. E.L.K. Energy has completed the GA Analysis Workform in the manner presented to account for the unique GA billing characteristics of its Embedded Distributor customer, and cannot appropriately incorporate the Embedded Distributor consumption values into the existing GA Analysis Workform structure in another manner.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY Staff-9

Ref. 1: Instructions for Completing GA Analysis Workform - 2025 Rates, Page 5

Ref. 2: ELK_GA_Workform Update_2016-2018_20242218, Tab GA 2016

Ref. 3: ELK_GA Workform_20241028

Ref. 4: ELK_Continuity Schedule_Sheets 6 series_20241118

Ref. 5: Attachment C, KPMG 2016-2023 DVA Accounts 1588 and 1589 Audit Report

Preamble:

In Ref. 1, Under item 5a, the instructions state the following:

Input the Net Change in Principal Balance in the General Ledger. This should equal the GA transactions recorded in Account 1589 for the year.

- Do not include dispositions in this amount.
- Do not include principal adjustments in this amount as that will be shown in the "Principal Adjustments" column in the DVA Continuity Schedule.
- This amount should agree to the "Transactions Debit/(Credit)" column shown in the DVA Continuity Schedule.

This instruction also applies to Account 1588.

OEB staff notes "Net Change in Principal Balance in the GL (i.e., Transactions in the Year)" in GA Analysis Workforms of all years (Ref. 2 and Ref. 3) does not agree to the "Transactions Debit/Credit" column in the DVA continuity schedule for Accounts 1588 and 1589 (Ref. 4). Instead these amounts are reflected in Principal Adjustments columns in respective year from 2016 to 2023 in the DVA continuity schedule.

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KPMG's audit report states that it had audited the schedule of Accounts 1588 and 1589 for the balances from 2015 to 2023. The schedule was attached to the audit report showing the net changes and ending balances for principal and interest respectively for Accounts 1588 and 1589. The net changes for principal for Accounts 1588 and 1589 match with the "Net change in Principal balance in the GL" for Account 1589 on the GA Analysis Workform and "Principal adjustments" column on Tab "Account 1588" of the GA Analysis Workform.

In addition, OEB staff notes the following observations on the GA Analysis Workforms and DVA continuity schedule: E.L.K. Energy Inc.

- E.L.K. Energy has incorrectly reflected "Previously approved disposition" of $952,509 in GA 2016 tab in reconciliating items. In the 2019 GA Analysis Workform, E.L.K. Energy has included a reconciling item of "2022 disposition"

On the DVA continuity schedule, there are no numbers for Accounts 1588 and 1589 for the OEB approved disposition during 2016 (Column AA) and the OEB approved disposition during 2022 (Colmn CN) while these two accounts were disposed on a final basis along with other Group 1 DVAs in the 2016 IRM application and 2022 Cost of service application.

Question(s):

a) Please confirm that the net changes in KMPG's audited schedules represent the reconstructed variances annually in Accounts 1588 and 1589 and there are no principal adjustments for all years from 2016 to 2023 for these two accounts. If not confirmed, please explain the audited schedule.

b) If a) is confirmed (i.e., the net changes represent the annual variance for Accounts 1588 and 1589 respectively), please provide an updated DVA continuity schedule with "Transactions

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Debit/Credit" columns being filled with the net changes in the audited schedule. Please also include the 2016 and 2022 dispositions of Accounts 1588 and 1589 in the respective columns of the DVA continuity schedule and remove them from the GA Analysis Workform.

c) Please provide an explanation if the variances in the years are greater than the 1% threshold.

RESPONSE:

a) Confirmed; the Net Change and Balances listed in KPMG's audit report indicate the reconstructed transactions and balances for 1588 and 1589 for the years listed. Stated differently, these figures represent what transactions and balances should have been for the years in question.

b) Please see ELK-IRM-Rate-Generator-Model_20250127. E.L.K. Energy has prepared the DVA Continuity schedule to represent actual transactions in each year, and entered adjustments to represent the values required to reach the appropriate closing balance for each account in each year.

c) Account 1589 balances are within the 1% threshold. Please see Staff-12 with respect to Account 1588 variances.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-10

Ref. 1: 2025 E.L.K. Energy IRM Application Manager's Summary Section 3.3.2

Ref. 2: 2025 GA Analysis Workform Instructions

Preamble:

In Ref. 1, E.L.K. Energy explains that the large credits in Accounts 1588 and 1589 were partially due to the unusually low line loss rates observed over the 2017 to 2019 period as outlined in the table below.

Reconstructed Actual Line Loss Rate

	2016	2017	2018	2019
Loss Rate	4.6%	1.7%	(1.2%)	3.4%

E.L.K. Energy's approved primary line loss rates embedded in the approved 2017 rates were 8.1% for the Secondary Metered Customers, 5,000 kW and 7.03% for the Primary Metered Customers.

E.L.K. Energy states that its supply mix includes purchases from both the IESO and the host distributor. A physical reconfiguration to the system occurred in 2017 to re-assign E.L.K. Energy electricity purchases (in a specific area) from the IESO to the host distributor. This shift was not reflected in billing changes rendered by the host distributor to E.L.K. Energy from 2017 to 2019.

E.L.K. Energy believes it may not have been charged for approximately 28 MWh of electricity over this time period, equaling an approximate cost of $3 million. This resulted in E.L.K. Energy's customers paying a line loss rate of approximately 8% in rates.

However, when properly accounting for the above-noted 28 MWh of electricity, this results in actual line loss rates well below the 8% level during the same period. E.L.K. Energy has recorded

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this difference in Accounts 1588 and 1589 as a credit to ratepayers, as reflected in the DVA Audit results, to be disposed of in this proceeding.

Question(s):

a) Please explain if E.L.K. Energy has sought a billing adjustment from the host distributor given that the shift of the system reconfiguration was not reflected in billing changes rendered by the host distributor. If not, please explain why E.L.K. Energy has not communicated with its host distributor for a material undercharge of approximately $3 million.

b) Please provide the calculations supporting the actual line loss rates from 2016 to 2019.

c) Please confirm that: 1) E.L.K. Energy did not receive invoices from the host distributor for the cost of power from 2016 to 2019; and 2) E.L.K. Energy's approach of reconstructing the actual line losses based on the undercharged 28 MWh cost of power represents passing through the loss of the host distributor to E.L.K. Energy's customers. If confirmed, please explain how this approach is appropriate from a rates point of view.

d) Please confirm if this material undercharged cost of power by the host distributor has also impacted other Group 1 DVAs (for example, Accounts 1550, 1584, 1586). If so, please elaborate on the details. If not, please explain why not.

e) Please quantify and itemize the impact from the line loss for each year from 2016 to 2019 on Accounts 1588 and 1589.

f) Please provide the actual line loss rates from 2020 to 2023 and explain if this issue has any impact on the line losses for these years

g) Please quantify the adjustments made to the accounts each year related to the identified errors and report these as principal adjustments in accordance with the GA Analysis Workform instructions.

RESPONSE:

a) E.L.K. Energy communicated its findings of apparent cost of power underbilling to its host distributor in the summer of 2024, and subsequently attempted follow up communication to receive a billing adjustment, revised invoice, or some other appropriate remedy. It is

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E.L.K. Energy's understanding the host distributor does not intend to issue a billing adjustment or revised invoice.

b) The table below shows E.L.K. Energy's actual energy purchases and customer-billed consumption, from 2016 to 2023. The variance between the two indicates actual line losses.

	2016	2017	2018	2019	2020	2021	2022	2023
IESO (MWh)	245.0	227.7	238.5	246.2	226.7	201.0	190.3	192.8
Host Distributor (MWh)	1.0	0.9	0.9	0.9	21.1	42.7	49.1	41.6
Embedded Generation (MWh)	5.3	5.8	5.8	5.8	6.3	6.2	6.0	6.3
Total Purchases (MWh)	251.3	234.5	245.2	252.9	254.0	249.9	245.4	240.7
Billed Consumption (MWh)	239.0	230.4	248.2	244.2	240.5	234.9	235.6	231.9
Variance (MWh)	12.3	4.1	-3.0	8.7	13.5	15.0	9.7	8.8
Implied Line Loss	4.895%	1.732%	-1.239%	3.427%	5.326%	6.012%	3.967%	3.662%

c)

i. Not confirmed; E.L.K. Energy received invoices from the host distributor for the years in question. E.L.K. Energy's review of actual customer consumption and actual cost of power billed indicates the invoices underbilled E.L.K. Energy for cost of power.

ii. E.L.K. Energy cannot speak to how the unbilled cost of power amounts are reflected in the host distributor's financial circumstances, and thus cannot comment on whether the underbilled energy amounts represent a "loss" to the host distributor as described. E.L.K. Energy sought an adjustment from the host distributor relating to the underbilled amounts, and was not able to secure any such adjustment. As a result, E.L.K. Energy is effectively in possession of approximately $3 million in ratepayer passthrough funds which have no corresponding expense. From a rates perspective, it is not appropriate for E.L.K. Energy to retain this amount, and as such E.L.K. Energy is seeking disposition of such funds back to ratepayers.

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d) The undercharge does not have an impact on any other accounts sought for disposition outside of Accounts 1588 and 1589. The cost of power underbilling issue relates to 2017, 2018 and 2019. None of the other dispositions sought relate to these years, with the exception of the Account 1550 Low Voltage Charges over the 2016 to 2020 period. The corrections sought to Account 1550 specifically relate to Low Voltage expenditures which were erroneously entered into Account 1588. Low Voltage charges from the host distributor are billed on a demand (kW) basis, as opposed to the consumption (kWh) basis relied upon for cost of power. E.L.K. Energy has no reason to believe the underbilling issue extended to demand billing determinants.

e) Please see below a table quantifying the cost of power expenses E.L.K. Energy estimates were unbilled. For clarity, as articulated on page 16 of E.L.K. Energy's IRM application the line loss / underbilling issue pertains to the years 2017, 2018 and 2019.

Particular	2017	2018	2019	Total
Account 1588	$131,912	$396,452	$60,388	$588,752
Account1589	$740,626	$1,226,795	$333,711	$2,301,132
Total	**$872,538**	**$1,623,247**	**$394,099**	**$2,889,884**

f) Please see b) above for E.L.K. Energy's actual line losses for 2020 to 2023. Based on E.L.K. Energy's investigation, the underbilling issue did not persist into 2020. Cost of power purchases from the host distributor increased 25-fold from 2019 to 2020, and 50-fold from 2018 to 2021, at which point purchases stabilized at an average of 44.4MWh per year from 2021 to 2023. Actual line losses for 2020 and 2021 increased to typical levels. While 2022 and 2023 line losses were lower than 2020 and 2021, E.L.K. Energy revised its line loss factor from 8.10% to 4.17% in its 2022 Cost of Service.

g) As noted on page 15 of E.L.K. Energy's IRM application, "The Review team completed extensive reperformance of the DVA accounts for the 2016-2023 period, using original source data and billing data." In the early phases of E.L.K. Energy's review, it was

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determined the extent of errors in historical entries was too extensive to allow for discrete identification of individual errors and adjustment of existing account balances. Further, the errors discovered effectively compound one another (e.g. the interplay between an incorrect cost of power and incorrect billing determinants being used for settlement). The disaggregation of these issues was deemed not practical or feasible by the Review Team, leading to E.L.K. Energy completing a full reconstruction of the DVA Accounts sought for disposition.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-11

Ref. 1: 2024 E.L.K. Energy IRM Application Manager's Summary Section 3.3.2.1
Ref. 2: 2025 GA Analysis Workform Instructions
Ref. 3: O. Reg. 153/23
Ref. 4: OEB letter "Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition" October 31, 2019 (OEB's retroactivity letter)

Preamble:

In Ref. 1, Page 8 of the Manager's Summary states that:

> With respect to the disposition of Group 1 DVAs, in October 2024, an external auditor completed the audit of DVA Accounts 1588 and 1589 for 2016-2023 (the "DVA Audit), the process of which resulted in series of adjustments to correct accounting errors.
>
> E.L.K. notes that these adjustments **are not inclusive of the requested approval to recover approximately $2.8M from the IESO**. E.L.K. is proposing these adjustments and final disposition of Group 1 accounts (along with addressing one Group 2 issue) to comply with prior directions of the OEB. **[Emphasis added]**

In Ref. 1, E.L.K. Energy states that its Internal Review Team identified under-recovery of $2.8 million from the IESO over the 2016 to 2023 period. Three corrections were identified and implemented:

- A credit from the IESO in the amount of $3.8 million related to the RPP true-up
- A debit to the IESO in the amount of $1.2 million related to an error for FIT contracts

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- A credit from the IESO of $0.2 million related to an error for Class A volumes

E.L.K. Energy requests an Order of the OEB enabling the collection of the $2.8 million in under-recovery by E.L.K. Energy from the IESO, in accordance with section 36.1.1(7)(b) of the Electricity Act, since the associated invoices for payment, adjustment or amount were issued by the IESO more than 24 months ago.

According to Ref. 3, the provision of the two-year limitation is not applicable to RPP settlements, section 79.16 of the Ontario Energy Board Act, 1998.

In Ref. 4, the OEB's retroactivity letter states that "Where an accounting or other error is discovered after the balance in one of the above-listed variance accounts has been cleared by a final order of the OEB, the OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case, including factors such as:

- whether the error was within the control of the distributor
- the frequency with which the distributor has made the same error
- failure to follow guidance provided by the OEB
- the degree to which other distributors are making similar errors

Question(s):

a) Please clarify whether or not the $2.8 million adjustments corresponding to the under/over-recovery from the IESO are reflected in the requested disposition balances for Accounts 1588 and 1589. If not, please explain why not. If not, why is E.L.K. Energy requesting the final disposition of Accounts 1588 and 1589 in this application.

b) If E.L.K. Energy has accrued the adjustments for the $2.8 million IESO in the respective periods of Accounts 1588 and 1589, please provide a breakdown of the principal adjustments related to the corrections for each year recorded in each account and report these principal adjustments

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separately, in accordance with the GA Analysis Workform instructions.

c) Please provide a detailed monthly and yearly breakdown, along with the calculation backup, supporting the principal adjustments booked into the accounts and the $2.8 million overpayment to the IESO.

d) Please confirm that E.L.K. Energy understands that the RPP true-up adjustments are excepted from the two-year limitation window set in the regulation. In other words, only $1.2 million debit for FIT contracts and $0.2 million credit for Class A customers. If so, please provide a plan to submit the RPP true-up adjustments with the IESO.

e) Please clarify whether E.L.K. Energy has contacted the IESO, requesting any submissions of the corrections.

i. If so, please provide details of the correspondence with timelines.

ii. If not, please explain why, specifically given that the RPP true-up are not subject to the two-year limitation period.

f) For the IESO adjustments that E.L.K. Energy is requesting for the OEB'sorder to settle with the IESO, please comment on the four factors outlined in the 2019 OEB retroactivity letter for the out-of-period adjustments in pass-through accounts.

g) Please explain the impacts on the utility (over/under-recovery $) under both scenarios: 1) the requested out-of-period settlement adjustments are approved by the OEB; and 2) the requested out-of-period settlement adjustments are not approved by the OEB.

h) Please confirm that under both scenarios mentioned above, independent of the OEB's order on the IESO settlement errors, customers should not be impacted by the OEB's order because the relevant adjustments have been made in Accounts 1588 and 1589 to reflect the correct global adjustment and cost of power costs.

i) Please explain E.L.K. Energy's proposal, in the instance that the OEB denies E.L.K. Energy's request of the order.

RESPONSE:

a) The effect of the OEB issuing an Order which allows for recovery of the identified $2.8 million by E.L.K. Energy from the IESO will be to net the $2.8 million amount against the

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total credit disposition to ratepayers sought , however this netting will not impact the amount proposed for disposition to ratepayers. The $2.8 million sought from the IESO is included within the total credit disposition sought to ratepayers, in that if all approvals are granted E.L.K. Energy will receive $2.8 million from the IESO, which will be included within the total amount credited to ratepayers. The statement in reference 1 is intended to communicate that no adjustments to Accounts 1588 or 1589 have been booked for the yet-to-be-approved $2.8 million credit from the IESO to E.L.K. Energy. Rather, the adjustments made to Accounts 1588 and 1589 reflect the adjustments necessary to rectify balances as between E.L.K. Energy and its customers, to the benefit of customers. As a separate matter, E.L.K. Energy is seeking to rectify balances as between itself and the IESO, to the benefit of E.L.K. Energy.

b) Please see Staff-11 Att 1 – Accrued Adjustments 1588 & 1589, which provides a breakdown of the principal adjustments related to the corrections for each year recorded in each account.

c) Please find attached the following,:

   i. **Attachment 1 – 1588-1589 Adjustments**: This document summarizes adjustments required to E.L.K. Energy's general ledger as part of the reconstruction of Accounts 1588 and 1589 from 2016 to 2023. Rows 6-8 show commodity true-ups required with the IESO, rows 18-20 show GA true-ups required with the IESO, and rows 30-32 show the net of the two. Cell L32 sums all three adjustments required, for a total of approximately $2.8 million. The entires for each year, for each of the three adjustments, tie to values derived in Attachments 2 through 4, before the application of KPMG audit results and the updates described in E.L.K. Energy's cover letter.

   ii. **Attachment 2 – RPP True-Up:** This document provides supporting calculations for the RPP True-Up adjustment noted.

   iii. **Attachment 3 – Generation Error:** This document provides supporting calculations reconciling the FIT generation error noted.

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iv. **Attachment 4 – Class A Volumes:** This document provides supporting calculations reconciling the Class A Volumes adjustment identified.

d) E.L.K. Energy does not dispute the interpretation of O.Reg. 153/23 provided by OEB Staff. However, E.L.K. Energy's view is that the three adjustments should be made with the IESO at the same time. E.L.K. Energy notes that the IESO is a party to this proceeding and E.L.K. Energy looks forward to hearing the IESO's views regarding the required adjustments, if provided, through the course of this proceeding.

e) E.L.K. Energy has not contacted the IESO requesting the submission of corrections at this time. E.L.K. Energy understood the two-year limitation window would require an Order of the OEB to allow for true-up of the historical settlement errors, and decided to request such an Order prior to engaging the IESO.

f) E.L.K. Energy provides the following comments on the four factors identified in the OEB's 2019 letter as they relate to the adjustments underpinning the requested Order to allow for settlement with the IESO:

i. **Whether the Error was in Control of the Distributor:** The adjustments requested relate to errors made by E.L.K. Energy in the settlement process with the IESO, which have now been identified, audited, and corrected in go-forward settlement policies and practices. Of note, OEB direction with respect to Accounts 1588 and 1589 was clarified in its February 2019 Account Guidance for these accounts. This clarity was not available to E.L.K. Energy for the early years of the errors in question, which date back to 2016.

ii. **The Frequency with which the Distributor has made the Same Error:** E.L.K. Energy made the same series of errors respecting settlement with the IESO over multiple years without awareness of such errors, however all incorrect entries stemmed from the same higher-order issues of staff training and leadership oversight. These issues have and are being addressed by E.L.K. Energy, as described in this application and EB-2023-0013.

iii. **Failure to Follow Guidance Provided by the OEB:** E.L.K. Energy's settlement with the IESO was not consistent with the OEB's Accounting Guidance Related to

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Accounts 1588 RSVA Power and 1589 RSVA Global Adjustment issued in February 2019. Clarity in this area was not available to E.L.K. Energy prior to February 2019, and due to higher-order issues of staff training and leadership oversight this guidance was not noted and implemented in 2019. These management issues have and are being addressed by E.L.K. Energy, as described in this application and EB-2023-0013.

iv. **The Degree to which Other Distributors are Making Similar Errors:** It is E.L.K. Energy's understanding that numerous distributors experienced issues with respect to IESO settlement and Accounts 1588 and 1589 prior to the issuance of the OEB's 2019 guidance, and based on the number of incremental reviews of 1588 and 1589 taking place in distributor IRM proceedings, E.L.K. Energy observes that errors in this area remain common amongst Ontario distributors.

g) As described in evidence, E.L.K. Energy is requesting to credit ratepayers ($7.1) million from Accounts 1588 and 1589. To the degree the OEB grants an Order allowing the IESO to waive the two-year limitation window for adjustment of settlements, E.L.K. Energy can recover $2.8 million from the IESO, leaving the utility in a net-cashflow position with respect to Accounts 1588 and 1589 of approximately ($4.3) million. Lacking this OEB Order, E.L.K. Energy will be in a cashflow position with respect to these accounts of ($7.1) million. Of note, E.L.K. Energy's approved base revenue requirement in EB-2021-0016 was only $3.6 million. As such, failing to receive an OEB Order which allows for settlement adjustment with the IESO poses a risk to E.L.K. Energy's financial viability as a small utility with distribution revenues well below the total credits owed to ratepayers from Accounts 1588 and 1589.

h) Confirmed, in that customers will be credited the appropriate amounts from Accounts 1588 and 1589 regardless of the OEB's Decision with respect to an Order allowing for IESO settlement adjustment. This said, customers may be impacted by the OEB's Decision in this respect, as the material detrimental impact on E.L.K. Energy's cash position may impact the utility's ability to fund the work required in support of E.L.K. Energy's system and customers.

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i) E.L.K. Energy does not have a firm position on its course of action in this event, as this will depend on the specifics of the Decision.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-12

Ref. 1: ELK_GA_Workform Update_2016-2018_20242218, Tab GA 2016

Ref. 2: ELK_GA Workform_20241028

Ref. 3: 2025 GA Analysis Workform Instructions

Ref. 4: 2024 E.L.K. Energy IRM Application Manager's Summary Section paragraph 33 and 34.

Preamble:

In Ref. 1 and Ref. 2, the following amounts have been provided in Tab 1588.

Account 1588 Reasonability Test

Year	Account 1588 - RSVA Power			Account 4705 - Power Purchased	Account 1588 as % of Account 4705
	Transactions[1]	Principal Adjustments[1]	Total Activity in Calendar Year		
2016		97,208	97,208	15,006,345	0.6%
2017		- 678,727	- 678,727	13,936,405	-4.9%
2018		- 1,134,515	- 1,134,515	12,890,540	-8.8%
2019		- 553,808	- 553,808	12,777,701	-4.3%
2020		257,622	257,622	17,463,623	1.5%
2021		- 211,684	- 211,684	14,884,669	-1.4%
2022		- 173,550	- 173,550	22,814,971	-0.8%
2023		40,122	40,122	21,144,272	0.2%
Cumulative	**-**	**- 2,357,332**	**- 2,357,332**	**89,085,237**	**-2.6%**

In Ref. 1, E.L.K. Energy states:

> E.L.K. reached the conclusion that this physical reconfiguration to the system occurred in 2017, but that this shift was not reflected in billing changes rendered by the Host Distributor to E.L.K. during the 2017 through 2019 period. E.L.K. believes it may not have been charged for approximately 28 MWh of electricity over this time period equaling an approximate cost of $3 million.

In Ref. 3, under item 5a, the instructions state the following:

> Input the Net Change in Principal Balance in the General Ledger. This should equal the GA transactions recorded in Account 1589 for the year.

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- Do not include dispositions in this amount.
- Do not include principal adjustments in this amount as that will be shown in the "Principal Adjustments" column in the DVA Continuity Schedule.
- This amount should agree to the "Transactions Debit/(Credit)" column shown in the DVA Continuity Schedule.

Question(s):

a) Please explain if the 4705- Power Purchased is significantly lower in 2016 through 2021 as compared to 2022 and 2023 due to being undercharged for approximately 28MWh.

b) If not, please explain the variance.

c) The annual Account 1588 balance relative to the cost of power is expected to be small. If it is greater than +/-1%, an explanation should be provided. Please explain the higher percentages for 2017 through 2021.

RESPONSE:

a) Though E.L.K. Energy has not been able to secure revised or data from the host distributor to verify with precision, it is E.L.K. Energy's view that higher levels of variance observed relate to historical underbilling for cost of power from the host distributor.

b) Please see a) above.

c) Please see a) above. The adjusted 1588 transactions and balances were subject to the completed third party audit provided in evidence. E.L.K. Energy submits the variances are reasonable in light of the historical issues noted above, and further notes the impact of improved internal processes in 2022 and beyond yielding variances of +/-1%.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-13

Ref. 1: 2024 E.L.K. Energy IRM Application Manager's Summary Sections 3.3.1 and 3.3.2

Ref. 2: Attachment C: KPMG 2016-2023 DVA Accounts 1588 and 1589 Audit Report

Preamble:

In Ref. 1, under section 3.3.1. E.L.K. Energy states:

> In October 2024, E.L.K.'s external auditor completed its audit of Accounts 1588 and 1589 from 2016-2023 ("DVA Audit") and issued an unqualified audit opinion. Though the approved settlement in EB-2021-0016 required an audit of 1588 and 1589 through only 2021, Management determined that an extension of the DVA Audit to 2023 was a prudent choice to true-up a greater proportion of balances between ratepayers and the utility. The DVA Audit is provided as Attachment C.

E.L.K. Energy also states in section 3.3.2 that:

> When the Review Team commenced reperformance of the 2016-2023 DVA reconciliations, it became apparent errors were made in the treatment of pass-thru accounts which required significant adjustment and additional reconciliation. The 1588/1589 reconciliations were completed in early 2024 by the Review Team, ultimately informing the DVA Audit.

Also, in Ref. 1, paragraph 26, E.L.K. Energy states:

> Contract and internal resources were engaged to prioritize the completion of the DVA Audit regarding Accounts 1588 and 1589, including a dedicated Temporary Regulatory Analyst and a Temporary Controller, as well as multiple experienced MSA staff (collectively

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the "Review Team"). The Review team completed extensive reperformance of the DVA accounts for the 2016-2023 period, using original source data and billing data.

Question(s):

a) Please provide the scope of the DVA audit with KPMG.

b) Please confirm the DVA audit completed by KPMG included the settlement process with the IESO. If not, please provide reasoning for why not.

c) Please clarify the informing of the internal review results by E.L.K. Energy in early 2024 to KPMG. Has KPMG reviewed and agreed with these adjustments and reconciliations from E.L.K. Energy's internal review?

d) Please provide a timeline including but not limited to the start date and end date of error occurrence, for E.L.K. Energy's internal review and KPMG's audit as well as the interaction between the internal review and KPMG's audit.

e) Please confirm that all adjustments for the errors identified by the internal review team have been reflected in the balances of Accounts 1588 and 1589 that are being requested for disposition in this application.

f) Please provide a complete and detailed audit report prepared by KPMG for the DVA audit as the report only provides the final balances for each account.

RESPONSE:

a) As stated in the independent auditor's report, the scope of the audit was to audit the schedule of account balances – 1588, 1589 of E.L.K. Energy Inc. as at December 31, 2016, 2017, 2018, 2019, 2020, 2021, 2022 and 2023.

b) Confirmed.

c) Confirmed. KPMG's independent audit was completed based on the results of E.L.K. Energy's internal review and reconciliation of Accounts 1588 and 1589, and the results of

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the audit are entirely consistent with the results of E.L.K. Energy's internal review of these accounts.

d) E.L.K. Energy's internal review started in October of 2023. KPMG was engaged for review and sign off in June of 2024. Between June 2024 to September 2024, E.L.K. Energy's Review Team worked collaboratively with KPMG as they conducted their independent review. Questions were answered through email and/or virtual meetings. KPMG conducted their own independent checks and balances using ELK Energy's schedules and subsequently provided their Audit Report October 8, 2024.

e) Confirmed, subject to the updates noted in the cover letter of E.L.K. Energy's interrogatories. KPMG has been made aware of the corrections made, and confirmed for E.L.K. Energy that they remain below the audit materiality threshold.

f) The Independent Auditors Report from KPMG attached to E.L.K. Energy's application is the outcome received by E.L.K. Energy from KPMG on conclusion of KPMG's work as auditor. There is no other report to provide. The information relied upon by KPMG to complete its audit is the same information underpinning this application and outlined in the breadth of E.L.K. Energy's pre-filed evidence and interrogatory responses.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-14

Ref. 1: 2024 E.L.K. Energy IRM Application Manager's Summary Section 3.3.3

Ref. 2: 2025 Rate Generator Model, Continuity Schedule, November 18, 2024

Ref. 3: OEB letter "Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition" October 31, 2019

Preamble:

In Ref. 1, paragraph 40 through 48, E.L.K. Energy states the following:

> E.L.K. previously disposed of Accounts 1550, 1551, 1580, 1584, and 1586 ("Accounts 1550-1586") to December 31, 2020, as part of its 2022 Cost of Service (EB-2021-0016). In the course of the DVA Audit work, it was discovered by the Review Team that during the period of 2016 through 2020 considerable amounts were recorded in Account 1588, which should have in fact been recorded in Account 1550. These amounts were the Host Distributor low voltage purchases, which were being erroneously recorded as wholesale power purchases.
>
> In total, E.L.K. determined that $321,388 in low voltage purchases were erroneously entered into Account 1588 during the 2016 to 2020 period.
>
> E.L.K. recognizes that the OEB-approved disposition of Account 1550 was on a final basis in its 2022 Cost of Service application, clearing the stated balance as of December 31, 2020. E.L.K. is seeking an exception from the OEB's standing practice of not allowing the reconsideration of past balances which are the subject of final disposition per a Board Order.

Also in Ref. 1, E.L.K. Energy states:

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Including the above-described error, E.L.K. has recalculated the appropriate Account 1550 principal balance as at December 31, 2023 to be $1,130,428, requiring an adjustment of $882,134 to the principal balance, inclusive of the previously noted $321,388 adjustment described above. E.L.K. has included this amount in the 2023 Adjustments column BF of the Continuity Schedule within its attached IRM Model, with a corresponding adjustment to interest.

Question(s):

a) Please provide the details and composition of the proposed adjustments to Account 1550, broken down by month and year, along with supporting calculations.

b) Principal adjustments should be reported in the respective year of the related adjustments rather than as a lump sum adjustment to the 2023 ending balances. Please update the models accordingly, if necessary.

c) Please provide E.L.K. Energy's consideration regarding the rates retroactivity issues raised in the OEB's October 31, 2019 letter in Ref. 3, given that the 2020 balances were disposed of on a final basis in the 2022 Cost of Service Decision and Order, including the comments on the four factors in the letter.

d) Please explain the rate impact on customers under both scenarios: 1) the adjustment in Account 1550 is approved; and 2) the adjustment in Account 1550 is not approved.

e) Please describe E.L.K. Energy's procedures that have been implemented to prevent mistakes like this.

RESPONSE:

a) Please find attached an excel file entitled "1550,1551,1580,1584,1586 Supporting Calculations".

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b) Please find attached an updated IRM model, ELK_2025-IRM-Rate-Generator-Model_20250127. For clarity, as shown in attachment 1550,1551,1580,1584,1586 Supporting Calculations, the reconstructed principal entries for each of these accounts were made at the beginning of each month in order to calculate appropriate interest charges.

c) E.L.K. Energy provides the following comments on the four factors identified in the OEB's 2019 letter as they relate to the requested adjustments and disposition to Account 1550 for years previously subject to a Final Decision and Order:

i. **Whether the Error was in Control of the Distributor:** E.L.K. Energy is seeking the reconsideration of previously final dispositions due to the fact that Account 1550 (among others) was disposed of on a final basis while Accounts 1588 and 1589 were not. Not having completed the audit of Accounts 1588 and 1589 presented in this application at the time of Account 1550 disposition, E.L.K. Energy was unaware and thus unable to rectify the Account 1550 errors identified pre-2021.

ii. **The Frequency with which the Distributor has made the Same Error:** E.L.K. Energy made the same error respecting entry of LV Charges into the incorrect account on more than one occasion, however all incorrect entries stemmed from the same higher-order issues of staff training and leadership oversight. These issues have and are being addressed by E.L.K. Energy, as described in this application and EB-2023-0013.

iii. **Failure to Follow Guidance Provided by the OEB:** E.L.K. Energy's errors with respect to the entry of LV Charges into accounts other than 1550 are inconsistent with accounting guidance provided by the OEB. These incorrect entries stemmed from the higher-order issues of staff training and leadership oversight. These issues have and are being addressed by E.L.K. Energy, as described in this application and EB-2023-0013.

iv. **The Degree to which Other Distributors are Making Similar Errors:** E.L.K. Energy is not aware whether other distributors have encountered the same specific error of entering LV Charges into Accounts 1588 and 1589, however E.L.K. Energy notes

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distributors frequently encounter challenges finalizing and disposing of balances in Accounts 1588 and 1589. These circumstances often lead to review of 1588/1589 balances by an OEB Panel of Commissioners, as opposed to by delegated authority, and often lead to the same circumstance as E.L.K. Energy, wherein other Group 1 DVA balances are disposed of on a final basis while Accounts 1588 and 1589 are not.

d) Please see below a table showing current proposed bill impacts, inclusive of the 1550 adjustment for errors prior to 2021, and revised bill impacts removing this debit amount to customers.

	Current Total Bill ($)	Proposed Total Bill ($)	Proposed Total Bill Impact (%)	Impact of Removing Pre-2021 1550 Adjustment	Revised Total Bill ($)	Revised Total Bill Impact (%)
Residential	$123.59	$119.64	-3.2%	-$0.22	$119.42	-3.4%
GS<50kW	$300.09	$289.80	-3.4%	-$0.60	$289.20	-3.6%
GS>50kW	$12,737.16	$11,125.69	-12.7%	-$22.94	$11,102.75	-12.8%
USL	$96.21	$92.99	-3.3%	-$0.26	$92.73	-3.6%
Sentinel	$131.18	$85.42	-34.9%	-$0.32	$85.10	-35.1%
Street Lights	$3,719.86	$3,330.21	-10.5%	-$6.34	$3,323.87	-10.6%
Embedded Distributor	$108,878.37	$104,046.76	-4.4%	-$574.94	$103,471.81	-5.0%

e) The mapping of charges to individual accounts has been updated in E.L.K. Energy's internal processes to ensure LV Charges are posted to Account 1550, and no other account.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-15

Ref. 1: 2024 E.L.K. Energy IRM Application Manager's Summary Section 3.3.3

Preamble:

OEB staff created the following table:

Account		Last approved Balance EB-2021-0016	RRR Balance 12/31/2023	Proposed Balance 12/31/2023	Prinicpal Adjustments 12/31/2023
1550	LV Variance Account	528,099	$303,652	$1,130,428	$882,134
1551	Smart Metering Entity Charge Variance Accoun	(2,534)	($76,466)	($68,747)	$4,303
1580	RSVA - Wholesale Market Service Charge	(129,788)	$583,040	$416,045	($163,041)
1580	Variance WMS – Sub-account CBR Class A				
1580	Variance WMS – Sub-account CBR Class B	(29,711)	($33,114)	41,719	$74,169
1584	RSVA - Retail Transmission Network Charge	(170,422)	($314,632)	($381,874)	($77,468)
1586	RSVA - Retail Transmission Connection Charge	366,584	($121,982)	($518,735)	($399,601)

In Ref. 1, E.L.K. Energy states:

> E.L.K. previously disposed of Accounts 1550, 1551, 1580, 1584 and 1586 ("Accounts 1550-1586") to December 31, 2020 as part of its 2022 Cost of Service (EB-2021-0016). The Review Team reconciled transactions from 2021 to 2023 and except as described further below for Account 1550, the adjustments netted to a relatively minimal impact. The Review Team recreated the balances in these accounts from scratch using source documents and data.

Question(s):

a) Please provide the details and composition of the proposed adjustments to all the accounts shown in the table above, broken down by month and year, and explain the nature of the adjustments.

b) E.L.K. Energy states the review team reconciled transactions from 2021 to 2023. OEB staff notes that the principal adjustments should be reported in the respective year of the related adjustments rather than as a lump sum adjustment to the 2023 ending balances because the carrying charges can then be recorded based on the

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proper opening balances of each year. Please update the DVA continuity schedule accordingly.

RESPONSE:

a) Please See attachment entitled “1550,1551,1580,1584,1586 Supporting Calculations”. Account 1550 was recreated using billing and invoicing source documents and added to the opening balance monthly in order to appropriately calculate interest charges. The adjustments are to correct the account balances for the asset accounts that have been affected.

b) Please see attached ELK-IRM-Rate-Generator-Model_20250127.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-16

Ref. 1: 2024 E.L.K. Energy IRM Application Manager's Summary Section 3.3.5

Ref. 2: OEB letter "Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition" October 31, 2019

Preamble:

In Ref. 1, under section 3.3.5 E.L.K. Energy states the following:

> The Review Team identified an error related to the 2022 non-RPP disposition. The Embedded Distributor rate class was included within the credit disposition of Account 1589; however, this rate class is billed on Class B Actual GA rates and did not contribute to the creation of the original balance.
>
> E.L.K. acknowledges that typically, Account 1595 would not be disposed of until two years after the completion of the rate rider. However, E.L.K. is proposing the disposition of the residual balance of this portion of the 2022 disposition since it represents significant credit to non-RPP customers.

The OEB's October 31, 2019 retroactivity letter provides the four factors (see Staff-11 for details).

Question(s):

a) Please provide the supporting calculation of the credit of $358K to non-RPP ratepayers broken down by month and year.

b) Please provide the journal entry of $358K with the associated date of this entry booked in the general ledger.

c) OEB staff notes no adjustment related to $358K is reflected in GA Analysis Workform or the DVA continuity schedule. Principal adjustments should be reported in the respective year of the related adjustments rather than as a lump sum adjustment to the last year ending balances. Please update

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the models accordingly.

d) Please provide E.L.K. Energy's thought of whether this error is a rates retroactivity issue. If so, please provide comments on the four factors.

e) Please describe E.L.K. Energy's procedures that have been implemented to prevent mistakes like this.

f) Please explain in which account the $358K disposition is being tracked. Is E.L.K. Energy proposing to track it in 1595 (2022), or would there be a new sub-account, such as 1595 (2022 GA), that would track this disposition?

RESPONSE:

a) Table 8 in E.L.K. Energy's IRM application provides the supporting calculation of the proposed credit of $358k, as reproduced below. The credit can be subdivided into three components. First, ($268,995) was erroneously allocated to the Embedded Distributor class, which does not contribute to Account 1589. In column "Reallocated Emb Dist Amount" this amount is re-allocated to all other rate classes, in proportion to their respective Class B Non-RPP billing determinants. Second, as is the case in any disposition, actual billing determinants varied relative to forecast, resulting in the "Residual Amount" column, which is ($37,076) when the Embedded Distributor error is removed. These two columns combine to yield the "Adjusted Residual Amount" column. Third, E.L.K. Energy has calculated interest to April 30, 2025, and proposes to included this in disposition.

Rate Class	Original Amount per Decision	Amount Refunded to Customers	Residual Amount	Reallocated Emd Dist Amount	Adjusted Residual Amount	Interest to April 30, 2025	Total Claim
Residential	-$11,085	-$7,588	-$3,497	-$8,696	**-$12,193**	-$2,060	**-$14,254**
General Service < 50	-$18,977	-$26,904	$7,927	-$14,887	**-$6,960**	-$1,176	**-$8,136**
General Service > 50	-$304,025	-$264,308	-$39,717	-$238,503	**-$278,220**	-$47,005	**-$325,224**
Unmetered	-$1,313	-$543	-$770	-$1,030	**-$1,800**	-$304	**-$2,104**
Sentinel	-$728	-$164	-$564	-$571	**-$1,135**	-$192	**-$1,326**
Streetlight	-$6,766	-$6,311	-$455	-$5,308	**-$5,763**	-$974	**-$6,736**
Embedded Distributor	-$268,995	$0	-$268,995	$268,995	**$0**	$0	**$0**
TOTAL	**-$611,889**	**-$305,818**	**-$306,071**	**$0**	**-$306,071**	**-$51,710**	**-$357,780**

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The rate rider which was the source of the error was in place from July 1, 2022 to April 30, 2023, and as such this is the period to which the Residual Amount value pertains. Though the Embedded Distributor error was represented in E.L.K. Energy's tariff, the amount was not ultimately credited to this rate class, and as such there is no period of time to which this error applies (i.e. it is a credit owed to ratepayers as at July 1, 2022 up to present day). Interest on the balances was calculated from May 1, 2023 to April 30, 2025. Due to the time constraints to answer interrogatories in this proceeding, E.L.K. Energy is unable to source, organize and rely upon the customer billing data required to present the Residual Amount value by month, while the remaining two components do not require monthly calculations.

b) E.L.K. Energy has not made a journal entry relating to this adjustment, as a revision to the Settlement Agreement in EB-2021-0016 is required as the erroneous 1589 rate rider was established in the approved settlement in that proceeding. The OEB has afforded E.L.K. Energy and intervenors an opportunity to amend the EB-2021-0016 settlement in this proceeding. To the degree the settlement is amended and approved to reflect the proposed disposition, E.L.K. Energy will make entries at that time.

c) The $358k amount is not a principal adjustment to 1589; the original value of ($611,889) reported in the EB-2021-0016 remains correct. The error pertains to the allocation of this amount across rate classes, and the incorrect assignment of ($268,995) to the Embedded Distributor class. The requested disposition does not affect E.L.K. Energy's financial position; only the relative receipt of credits as amongst its customer rate classes.

d) E.L.K. Energy submits this is not a retroactive rates issue. The clear intent of Account 1589 is to dispose of credits or debits to ratepayers which contribute to the account balance. The Embedded Distributor did not and does not contribute to Account 1589, and as such allocation of 1589 credits to this customer was erroneous. Further, as noted on pages 25 and 26 of E.L.K. Energy's IRM application, the utility did not in actual fact credit ($268,995)

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to the Embedded Distributor, and this amount remains as a residual credit on E.L.K. Energy's books owed to ratepayers. Given this circumstances is the result of a clear error, and the reality that all customers impacted will receive only credits (no debits), E.L.K. submits the proposed approach to dispose of the balance is appropriate.

e) E.L.K. Energy has implemented error-checking procedures with respect to the finalization and implementation of its tariff sheets to ensure any future error of this nature is noted and rectified in advance of OEB approval.

f) The amount in question is currently being tracked in Account 1595 (2022). E.L.K. Energy intends to utilize this account to carry out any remedy agreement to in the settlement conference in this proceeding, or will another remedy if directed by the OEB to do so.

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RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-17

Ref. 1: 2024 E.L.K. Energy IRM Application Manager's Summary
Ref. 2: OEB letter "Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition" October 31, 2019
Ref. 3: 2025 Rate Generator Model, Continuity Schedule, November 18, 2024

Preamble:
In Ref. 1, E.L.K. Energy states:

> An error was present on the OEB-approved Tariff in EB-2021-0016, in which a $/kW credit rate rider for Account 1508, Revenue Differential Account was written as a $/kWh value. The rate rider is correctly expressed as a $/kW value in the Settlement and DVA Continuity Schedule. The rider was subsequently disposed of on the basis of kWh billing determinants, resulting in an over-crediting of the amount shown. E.L.K. is seeking recovery of this inadvertent over-credit in its 2025 IRM application.

Question(s):
a) Please provide E.L.K. Energy's thought of whether this issue is an issue of rates retroactivity.
b) Please provide comments on the four factors outlined in the OEB's October 31, 2019 letter as applicable.
c) Please describe E.L.K. Energy's procedures that have been implemented to prevent tariff rate rider mistakes like that mentioned above.

RESPONSE:

a) E.L.K. Energy submits this is not a retroactive rates issue. Given the calculation and presentation in the EB-2021-0016 settlement of the credit rate rider in question as a

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demand ($/kW) rider, the implementation of the credit on a consumption ($/kWh) basis is clearly an error. The settlement in EB-2021-0016 contained balances which were approved for disposition, and the implementation of the rider in question via consumption billing determinants resulted in disposition of an amount materially different from those approved balances. Correction of this error as proposed by E.L.K. Energy will appropriately implement the intent, and in many instances the letter, of the OEB's Decision and Order in EB-2021-0016.

b) E.L.K. Energy provides the following comments on the four factors identified in the OEB's 2019 letter as they relate to the error in implementing disposition of Account 1508, Revenue Differential Account:

i. **Whether the Error was in Control of the Distributor:** E.L.K. Energy was responsible for generating and implementing the tariff sheets approved in EB-2021-0016. However, E.L.K. Energy is also responsible for implementing tariffs of rates and charges as approved by the OEB. No party, E.L.K. Energy or otherwise, noted the tariff error which resulted in the incorrect disposition of the Revenue Differential Account.

ii. **The Frequency with which the Distributor has made the Same Error:** To the best of E.L.K. Energy's knowledge, the utility has not before erroneously populated a tariff sheet for OEB review and approval with the incorrect billing determinant.

iii. **Failure to Follow Guidance Provided by the OEB:** E.L.K. Energy is not aware of specific guidance relating to this error which it has failed to follow. E.L.K. Energy expects broader OEB guidance would state an expectation of robust quality assurance in the completion of draft tariffs of rates and charges. This particular error represents a one-time error in carrying out the diligent verification of regulatory forms and submission, as opposed to a failure to follow guidance.

iv. **The Degree to which Other Distributors are Making Similar Errors:** E.L.K. Energy is not aware of this specific error having been made by other distributors. However, the draft tariff of rates and charges is populated via the OEB's IRM Model in IRM proceedings, and the OEB's Bill Impacts and Tariff of Rates and Charges model in

:

Cost of Service proceedings. These models are complex, and in many instances rely on code-enabled functions which are locked from alteration by the applicant distributor. Distributors regularly have difficulty completing OEB prepared models, which manifests in the regular revision of such models at some or all phases of a rate case (i.e. interrogatory responses, settlement, draft rate order). It is not uncommon for errors to be discovered in such models, which require correction to code-enabled functions to be completed by OEB Staff. All told, E.L.K. Energy has observed infrequent but regular issuance of Errata corrections to Decisions and Orders to rectify basic errors such as the one resulting in the inappropriate Revenue Differential Disposition in this proceeding.

c) In order to prevent this in the future, E.L.K. Energy has included in its processes more rigorous review of the values populated on the tariff of rates and charges, to ensure alignment with other informative portions of the public record for the proceeding in question.

:

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-18

Ref. 1: EB-2021-0016 Exhibit 1, page 76

Preamble:

In Ref. 1, E.L.K. Energy states:

On August 5, 2020, E.L.K. Energy submitted an Operational Review Report prepared by KPMG dated November 29, 2019 ("Operational Review Report") for the OEB's review and comment (provided at Exhibit 1, Tab 3, Attachment 2). OEB responded on December 14, 2020 with a request for follow-up information, and E.L.K. Energy responded in January 2021.

Question(s):

a) Please provide the request for follow-up information, and the response provided by E.L.K. Energy on January 2021.

RESPONSE:

a) Please find attached Staff 18 Att1 – OEB_Additional_Info_Request_12142020, as well as Attachments 2 through 18 which were provided in response to the OEB's request.

:

ONTARIO ENERGY BOARD | COMMISSION DE L'ÉNERGIE DE L'ONTARIO

BY EMAIL: mdanelon@elkenergy.com

December 14, 2020

Mark Danelon, CPA, CA
Director, Finance & Regulatory Affairs
E.L.K. Energy Inc.
172 Forest Avenue
Essex ON N8M 3E4

Dear Mr. Danelon:

Re: **Additional information request on E.L.K.'s operational review**

This letter is in regard to E.L.K. Energy's operational review report submitted to the Ontario Energy Board (OEB) on August 5, 2020. After reviewing the report, OEB staff need additional information in order to understand E.L.K.'s current operations, as well as some of the conclusions and recommendations listed in the report. Please provide the following documentation that was referenced in E.L.K.'s operational review.

- Audit Findings report for the year ending December 31, 2018;
- Audited Financial statements for the year ending December 31, 2018;
- Any management letter that may have been issued by the auditor;
- Capitalization policy;
- Depreciation and Amortization memo;
- Minutes of Board meetings for the period of January 2019 to July 2020;
- E.L.K. presentation to the Board of Directors for 2018 annual resolutions
- E.L.K. presentation to the Board of Directors for 2018 and 2019 budget
- Customer Billing process;
- PPE capitalization of overhead for IAS;
- Procurement policy;
- Budget process narrative;
- Distribution System Planning Memo
- Annual Audit Report 2018
- Board review of disbursements;
- Revenue reconciliation;

- Time sheets and Payroll instruction;
- Year End Financial Close Checklist and Guide.

In order that OEB staff may proceed with the review of E.L.K. Energy's operational review in a timely way we would appreciate receiving the requested information/documentation by **January 7, 2021**. Any questions relating to this letter should be directed to Helen Guo at Helen.Guo@oeb.ca or at 416-544-5152. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Ryan Holder
Manager, Industry Policy & Compliance
Consumer Protection & Industry Performance

E.L.K. Energy Inc.

Audit Findings Report
for the year ended
December 31, 2018

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

Prepared on April 5, 2019 for
presentation on April 18, 2019

kpmg.ca/audit

KPMG

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The contacts at KPMG in connection with this report are:

Cynthia Swift, CPA, CA
Lead Audit Engagement Partner
Tel: 519-251-3520
caswift@kpmg.ca

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance Committee, in your review of the results of our audit of the financial statements as at and for the year ended December 31, 2018.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the plan discussed with management.

Finalizing the audit

As of April 5, 2019, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Obtaining legal responses/inquiries;
- Completing our discussions with the Finance Committee; and
- Obtaining evidence of the Board's approval of the financial statements.

We will update the Finance Committee, and not solely the Board (as required by professional standards), on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary

Audit risks and results

We have no significant matters to report to the Finance Committee in respect of them.

See pages 3-11.

Significant accounting policies and practices

There have been the following changes to, significant accounting policies and practices to bring to your attention:

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

Adjustments and differences

We did not identify differences during our audit.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services.

Audit risks and results

Professional requirements

We have not identified a fraud risk for revenue recognition.

The majority of revenues are driven directly from the purchase of electricity by customers with little judgment over timing of revenue recognition.

Why is it significant?

This is a presumed risk.

The risk of fraud from revenue recognition has been rebutted.

Our response and significant findings

Our audit approach remained consistent with the audit plan and no new risks were identified.

– No audit differences were found.

Audit risks and results

Professional requirements	Why is it significant?
Fraud risk from management override of controls	This is a presumed risk. We have identified the following risks of management override that are specific to this audit: • Manual journal entries and other adjustments; • The use of estimates and assumptions in the financial statements; and • Significant unusual transactions.

Our response and significant findings

- As the risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address the risk.
- Our audit approach remained consistent with the audit plan and no new risks were identified.
- No audit differences were found

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Energy, distribution revenue and cost of power	This is the largest source of revenue and costs. There are estimates in the year end revenue accruals for electricity delivered but not yet billed. Estimates are based upon actual billing information with limited judgement.

Our response and significant findings

- Substantive approach to revenue using meter data, OEB approved rates and line loss was considered
- Line loss is used to substantiate distribution revenue
- Historical line loss trend
  - Line loss was compared to prior periods and discussed with management where appropriate
- Substantive approach to cost of power verifying to IESO invoices
  - No audit differences were found

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Operating expenditures and accounts payable	Risk surrounding the completeness, existence and accuracy of reported expenses and accruals.

Our response and significant findings

- Substantive approach to testing accounts payables, accruals and expenditures
- Review of subsequent payment activity, minutes and relevant contracts to assess completeness of recorded accruals
- Substantive procedures over expenditures

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Payroll costs and related accruals	Risk relating to completeness, existence and accuracy of reported expenses and accruals and amount of capitalized costs.

Our response and significant findings

- Substantive approach to testing capitalized and expensed payroll costs
  - No audit differences were found
- Reliance on the work of management’s actuary to ensure appropriate valuation, presentation and disclosures in accordance with the relevant financial reporting framework
- Assess the significant actuarial assumptions used in the valuation, including discount rate, mortality table, etc.
  - No audit differences were found

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Property, plant and equipment (PP&E).	PP&E is a focus of the regulator. Judgment is involved in determining nature as capital versus expense. Risk relating to the classification of expenditures between capital assets and operating expenses. Risk related to inappropriate capitalization

Our response and significant findings

- Review of capitalization policy
- Substantive tests over capitalized costs, timing of transfer of assets from WIP and commencement of depreciation
- Review of labour burden process and clearing
- Substantive test of depreciation expense and review of useful lives
  - No audit differences were found

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Payment in lieu of taxes (PILs)	Understanding of income tax legislation and the Electricity Act in determination of the payments in lieu of taxes balances.

Our response and significant findings

- Substantive test over timing differences and tax rates used for current and future taxes
- Use of KPMG tax specialist to prepare the PILs provision, financial reporting and a review of the financial statement disclosures
  - No audit differences were found

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Regulatory deferral and variance accounts	Regulatory deferral and variance accounts must be maintained in accordance with the decisions and guidance given by the OEB. IFRS standards have to be applied to transactions in the year and presented in accordance with those standards before applying regulatory accounting.

Our response and significant findings

Under IFRS, regulatory assets and liabilities are recorded on the balance sheet under the modified IFRS method.

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
IFRS 15 Revenue from Contracts with Customers	The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. Adoption may affect the amount and/or timing of revenue recognized.

Our response and significant findings

- IFRS 15 applies to contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018. The Entity can choose to transition to the new standard using the retrospective method or the cumulative effect method. Optional practical expedients are available under both transition options.
- Discuss with management to assess the following
  - Timing of revenue recognition;
  - Risk assessment and internal controls;
  - Financial and operational process changes.
- No audit differences were found

Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
Data & Analytics Routines	We utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of 100% of the accounts from January 1, 2018 to December 31, 2018. We further utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. This allowed us to conclude over potential discrepancies in the completeness of the journal entry populations provided to us, and also enabled us to filter journal entries for certain higher risk criteria, thereby making our procedures to cover the risk of management overrides more targeted and effective. As a result of our testing, no material misstatement or issues were identified.

Significant accounting policies and practices

Changes

Changes to significant accounting policies and practices and the impact on the financial statements are disclosed in Note 3 to the financial statements.

- **IFRS 15 – Revenue from Contracts with Customers**
- **IFRS 9 – Financial Instruments**

The Corporation has initially applied both standards from January 1, 2018 on a retrospective basis. There have been no material changes to the Entity's comparative figures.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Companies' relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements	The financial statements are, in all material respects, in accordance with the applicable financial accounting framework. The disclosures in the notes to the financial statements are appropriate.
Application of accounting pronouncements issued but not yet effective	There are no concerns at this time regarding future implementation of new and revised standards. New standards with effective dates in the near future are described on page 16.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Finance Committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify differences that were corrected.

Uncorrected differences

We did not identify differences that remain uncorrected.

Current developments and audit trends

Standard	Summary and implications	Reference
IFRS 16 Leases	IFRS 16 Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets are of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. This standard substantively carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosers to be provided by lessors. There are several transition approaches and many individual options and practice expedients that can be elected independently of each other. The new standard is effective for annual periods beginning on or after January 1, 2019.	Link to article

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
2018 KPMG CEO Outlook: Power & Utilities	In an era where cyber incursions are a virtual inevitability, cyber security for power and utility (P&U) organizations now extends beyond IT and security professionals and well into the realm of C-level executives and boardrooms.	Link to report
Getting out in front of EVs	EV adoption in Canada is creating challenges and opportunities for power and utility companies and investors.	Link to report
Empowering utilities	Creating value from physical assets: Aging energy assets are a problem in many regions in North America. For example, in the Province of Ontario, the Mowat Centre's Report on the Ontario Energy Sector notes an average of $15 Billion a year will need to be invested over the next two decades just to maintain current service levels.	Link to report

Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit.

These include:

Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Finance Committee. The management representation letter is attached.

CPAB Audit Quality Insights Report (October 2018) (formerly the "Big Four Firm Public Report")

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the six key elements of our quality control system.

Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality Report.

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

We do not offer services that would impair our independence.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

kpmg.ca/audit

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Non-Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2018

KPMG LLP
618 Greenwood Centre
3200 Deziel Drive
Windsor ON N8W 5K8
Canada
Telephone (519) 251-3500
Fax (519) 251-3530

INDEPENDENT AUDITORS' REPORT

To the Shareholder of E.L.K. Energy Inc.

Opinion

We have audited the financial statements of E.L.K. Energy Inc. (the Entity), which comprise:

- the non-consolidated statement of financial position as at December 31, 2018
- the non-consolidated statement of comprehensive income for the year then ended
- the non-consolidated statement of changes in equity for the year then ended
- the non-consolidated statement of cash flows for the year then ended
- and non-consolidated notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Financial Reporting Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with International Financial Reporting Standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Windsor, Canada
April 25, 2019

E.L.K. Energy Inc.

Non-Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents	5	$ 4,537,801	$ 2,400,859
Accounts receivable	6	1,372,461	1,448,960
Due from related parties	22	119,123	185,484
Income taxes receivable		7,085	-
Unbilled revenue		4,339,503	4,090,349
Inventory	7	309,057	340,098
Prepaid expenses		90,219	83,641
Total current assets		10,775,249	8,549,391
Non-current assets			
Investments	8	66,949	76,676
Property, plant and equipment	9	9,782,810	9,330,059
Deferred tax assets	10	424,000	571,000
Total non-current assets		10,273,759	9,977,735
Total assets		21,049,008	18,527,126
Regulatory balances	11	4,537,051	6,381,629
Total assets and regulatory balances		$ 25,586,059	$ 24,908,755
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 3,764,988	$ 4,056,931
Income taxes payable		-	47,449
Due to related parties	22	531,833	526,873
Customer deposits		1,418,287	1,510,180
Deferred revenue		396,055	509,254
Bank debt	13	3,600,000	4,100,000
Total current liabilities		9,711,163	10,750,687
Non-current liabilities			
Post-employment benefits	14	457,382	517,902
Total non-current liabilities		457,382	517,902
Total liabilities		10,168,545	11,268,589
Equity			
Share capital	15	2,000,100	2,000,100
Contributed surplus		4,402,375	4,402,375
Retained earnings		3,835,444	2,968,883
Accumulated other comprehensive income		179,299	138,749
Total equity		10,417,218	9,510,107
Total liabilities and equity		20,585,763	20,778,696
Regulatory balances	11	5,000,296	4,130,059
Total liabilities, equity and regulatory balances		$ 25,586,059	$ 24,908,755

See accompanying notes to the non-consolidated financial statements.

On behalf of the Board:

Director

Director

E.L.K. Energy Inc.

Non-Consolidated Statement of Comprehensive Income

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Revenue			
Sale of energy		$ 29,935,916	$ 30,845,083
Distribution revenue	16	3,569,682	3,322,697
Other	17	845,942	891,573
		34,351,540	35,059,353
Other expenses			
Cost of power purchased		29,944,308	32,469,260
Administration expenses	17	1,502,784	1,705,703
Distribution expenses	20	1,025,911	965,142
Depreciation and amortization		652,286	625,016
		33,125,289	35,765,121
Income (loss) from operating activities		1,226,251	(705,768)
Net finance income	20	89,430	4,873
Income (loss) before income taxes		1,315,681	(700,895)
Income tax expense	10	317,000	317,947
Net income (loss) for the year		**998,681**	**(1,018,869)**
Net movement in regulatory balances, net of tax	11	(132,120)	1,661,290
Net income for the year and net movement in regulatory balances		**866,561**	**642,421**
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefits	14	54,550	5,408
Tax on remeasurement	10	(14,000)	(1,400)
Other comprehensive income for the year		40,550	4,008
Total comprehensive income for the year		$ 907,111	$ 646,429

See accompanying notes to the non-consolidated financial statements.

E.L.K. Energy Inc.

Non-Consolidated Statement of Changes in Equity

Year ended December 31, 2018, with comparative information for 2017

	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2017	$ 2,000,100	$ 4,402,375	$ 2,326,462	$ 134,741	$ 8,863,678
Net income and net movement in regulatory balances	-	-	642,421	-	642,421
Other comprehensive income	-	-	-	4,008	4,008
Balance at December 31, 2017	$ 2,000,100	$ 4,402,375	$ 2,968,883	$ 138,749	$ 9,510,107
Balance at January 1, 2018	$ 2,000,100	$ 4,402,375	$ 2,968,883	$ 138,749	$ 9,510,107
Net income and net movement in regulatory balances			866,561		866,561
Other comprehensive income				40,550	40,550
Balance at December 31, 2018	$ 2,000,100	$ 4,402,375	$ 3,835,444	$ 179,299	$ 10,417,218

See accompanying notes to the non-consolidated financial statements.

E.L.K. Energy Inc.

Non-Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

		2018		2017
Operating activities				
Net income	$	866,561	$	642,421
Adjustments for:				
Depreciation and amortization		652,286		625,016
Gain on disposal of property, plant and equipment		-		-
Amortization of deferred revenue		(285,953)		(277,644)
Post-employment benefits		5,970		(9,243)
Remeasurement of post-employment benefits		54,550		5,408
Unrealized loss (gain) on investments		9,727		(487)
Deferred tax assets		147,000		123,000
Income tax expense		170,000		194,974
		1,620,141		1,303,445
Changes in non-cash operating working capital:				
Accounts receivable		76,499		38,986
Due to/from related parties		71,321		33,016
Unbilled revenue		(249,154)		2,005,648
Inventory		31,041		(64,639)
Prepaid expenses		(6,578)		1,947
Accounts payable and accrued liabilities		(291,943)		(425,067)
Customer deposits		(91,893)		10,618
		(460,707)		1,600,509
Regulatory balances		2,714,815		(1,357,828)
Income tax paid		(305,024)		(197,301)
Net cash from operating activities		3,569,225		1,348,825
Investing activities				
Purchase of property, plant and equipment, net		(1,105,037)		(815,788)
Contributions received from customers		172,754		242,709
Net cash used by investing activities		(932,283)		(573,079)
Financing activities				
Repayment of bank debt		(500,000)		(500,000)
Net cash used by financing activities		(500,000)		(500,000)
Change in cash and cash equivalents		2,136,942		275,746
Cash and cash equivalents, beginning of year		2,400,859		2,125,113
Cash and cash equivalents, end of year	$	4,537,801	$	2,400,859

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See accompanying notes to the non-consolidated financial statements.

1. Reporting entity:

E.L.K. Energy Inc. (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Essex. The address of the Corporation's registered office is 172 Forest Avenue, Essex, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in Essex, Harrow, Belle River, Comber, Kingsville and Cottam. The Corporation is wholly owned by the Municipality of the Town of Essex ("Town"). The Corporation also performs the billing function for the Town's Water Department.

The financial statements are for the Corporation as at and for the year ended December 31, 2018.

2. Basis of preparation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 25, 2019.

(c) Basis of measurement:

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

2. Basis of preparation (continued):

(e) Use of estimates and judgements:

(i) Assumptions and estimation uncertainty:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 3 (b) – measurement of unbilled revenue
(ii) Note 9 – estimation of useful lives of its property, plant and equipment
(iii) Note 11 – recognition and measurement of regulatory balances
(iv) Note 14 – measurement of defined benefit obligations: key actuarial assumptions
(v) Note 21 – recognition and measurement of provisions and contingencies

(f) Rate regulation:

The Corporation is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (“LDCs”), such as the Corporation, which may include, and among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

2. Basis of preparation (continued):

(f) Rate regulation (continued):

The Corporation is required to bill applicable customers for the debt retirement charge set by the province, and approved by the OEB.

(i) Rate Setting:

The electricity distribution rates and other regulated charges of the Corporation are determined by the OEB. This regulated rate-setting provides LDCs with the opportunity to recover the revenue requirement associated with owning and operating the LDC. The revenue requirement represents the forecasted prudent costs, including the cost of capital that will be reasonably necessary for the LDC to invest in the electricity grid, and serve customers in its licenced service area.

(ii) Rate Applications:

As set out in the OEB's Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, dated October 18, 2012, the OEB performs its rate-setting function using a combination of incentive rate-setting and cost of service rate-setting. Both rate-setting techniques are based on applications made by LDC's to the OEB. Provided an LDC meets OEB-specified performance parameters, the LDC can select from one of three rate-setting streams: 4th Generation Incentive Rate-setting, Custom Incentive Rate-setting, or Annual Incentive Rate-setting Index. Each of these streams entails different rate-setting schedules and substantive filing requirements. For all streams, the revenue requirement is established through a cost of service rate-setting application. The selection of stream determines the number of years that cost of service rate-setting application pertains to, and the number of years thereafter that the LDC is expected to file incentive rate-setting applications.

Cost of service rate-setting applications recalculate the revenue requirement through a comprehensive review of an LDC's forecasted prudently incurred costs. Incentive rate-setting applications mechanistically adjust the revenue requirement using an OEB-prescribed formula. That formula was established on November 21, 2013, in the OEB's Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors.

2. Basis of preparation (continued):

(f) Rate regulation (continued):

(ii) Rate Applications (continued):

For the distribution revenue included in sale of energy, the Corporation files a "Cost of Service" ("COS") rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

The Corporation last filed a COS application in 2016 for rates effective November 1, 2017 to April 30, 2018. The GDP IPI-FDD for 2018 is 1.2%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.60%, resulting in a net adjustment of 0.60% to the previous year's rates.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

The Corporation adopted IFRS 9 Financial Instruments on January 1, 2018. There were no material adjustments required to the Corporation's financial results; however the Corporation has reclassified its financial instruments.

All financial assets and liabilities of the Corporation are classified into one of the following categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
Investment	Fair value through profit or loss
Accounts payable and accruals	Amortized cost
Due to related parties	Amortized cost
Long-term borrowings	Amortized cost

The Corporation does not enter into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition:

IFRS 15 Revenue from contracts with customers became effective January 1, 2018. This standard established a comprehensive framework for determining whether, how much and when revenue is recognized. Based on the new revenue recognition criteria there was no material adjustment to the Corporation's revenue.

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Revenue for the Corporation is recognized when the Corporation satisfies the performance obligations within the contract(s) for conditions of service, which is when the distribution and delivery of electricity is achieved or specific services are performed.

Revenue includes an estimate of unbilled revenue. Unbilled revenue represents an estimate of electricity consumed by customers since the date of each customer’s last meter reading. Actual electricity usage could differ from those estimates.

Revenue is measured at the fair value of the consideration received or receivable, net of any taxes which may be applicable.

Other income for work orders is recorded on a net basis as the Corporation is acting as an agent for this revenue stream. All other amounts in other income are recorded on a gross basis and are recognized when services are rendered.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

3. Significant accounting policies (continued):

(c) Materials and supplies:

Materials and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(d) Property, plant and equipment:

Items of property, plant and equipment (“PP&E”) used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation’s borrowings. Qualifying assets are considered to be those that take in excess of nine months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

(d) Property, plant and equipment (continued):

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Buildings	50
Distribution and metering equipment	10 - 60
Other assets	5 - 15

3. Significant accounting policies (continued)

(e) Impairment:

(i) Financial assets measured at amortized cost:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or “CGU”). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(f) Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits.

Deposits are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Regulatory balances:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

3. Significant accounting policies (continued)

(h) Regulatory balances (continued):

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

(i) Post-employment benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Corporation is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

(ii) Post-employment benefits, other than pension:

The Corporation provides its retired employees with life insurance and medical benefits.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management’s best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income.

3. Significant accounting policies (continued):

(i) Post-employment benefits (continued):

(ii) Post-employment benefits, other than pension (continued):

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

(j) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and dividend income.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, net interest expense on post-employment benefits and impairment losses on financial assets. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(k) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the “Tax Acts”). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (“OEFC”). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies (continued):

(k) Income taxes (continued):

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

(l) Investments:

The Corporation has designated its investment in the common shares of Sun Life Financial as fair value through the profit and loss investments and these instruments are recorded at market value as determined by quoted market prices. Realized and unrealized gains and losses as a result of disposition of shares and changes in fair value are recorded in the non-consolidated statement of earnings as an unrealized gain or loss on investments.

The investments in ELK Solutions Inc. and Gosfield North Communications are measured at cost.

4. Standards issued but not yet adopted:

The following standards, which are not yet effective for the year ended December 31, 2018, have not been applied in preparing these financial statements.

IFRS 16 Leases:

IFRS 16, issued on January 13, 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17. The Corporation is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

5. Cash and cash equivalents:

	2018	2017
Bank balances - unrestricted	$ 3,827,420	$ 1,502,754
Bank balance - restricted	710,381	898,105
Cash and cash equivalents in the statements of cash flows	$ 4,537,801	$ 2,400,859

Restricted cash relates to contractor security deposits.

6. Accounts receivable:

	2018	2017
Trade receivables	$ 1,634,816	$ 1,635,728
Other trade receivables	407,629	466,739
Allowance for doubtful accounts	(669,984)	(653,507)
	$ 1,372,461	$ 1,448,960

7. Inventory:

Inventory consists of parts and supplies acquired for capital, internal construction, maintenance or recoverable work.

The amount of inventory consumed by the Corporation during 2018 was $213,985 (2017 - $131,652).

Amount written down due to obsolescence in 2018 was $nil (2017 - $nil).

8. Investments:

	2018	2017
Investment in the Class A common Shares of E.L.K. Solutions Inc., at cost	$ 100	$ 100
Investment in Gosfield North Communications, at cost	1	1
Investment in the common shares of Sun Life Financial, at market	66,848	76,575
	$ 66,949	$ 76,676

9. Property, plant and equipment:

	Land and buildings	Distribution equipment	Other fixed assets	Total
Cost or deemed cost				
Balance at January 1, 2018	$ 142,661	$ 10,899,610	$ 598,175	$ 11,640,446
Additions	10,121	1,071,188	23,729	1,105,038
Disposals/retirement	-	-	-	-
Balance at December 31, 2018	$ 152,782	$ 11,970,798	$ 621,904	$ 12,745,484
Balance at January 1, 2017	$ 142,661	$ 10,111,862	$ 570,135	$ 10,824,658
Additions	-	787,748	28,040	815,788
Disposals/retirement	-	-	-	-
Balance at December 31, 2017	$ 142,661	$ 10,899,610	$ 598,175	$ 11,640,446
Accumulated depreciation				
Balance at January 1, 2018	$ 11,462	$ 1,987,637	$ 311,288	$ 2,310,387
Depreciation	11,563	571,363	69,361	652,287
Disposals/retirements				
Balance at December 31, 2018	$ 23,025	$ 2,559,000	$ 380,649	$ 2,962,674
Balance at January 1, 2017	$ -	$ 1,444,708	$ 240,663	$ 1,685,371
Depreciation	11,462	542,929	70,625	625,016
Disposals/retirements	-	-	-	-
Balance at December 31, 2017	$ 11,462	$ 1,987,637	$ 311,288	$ 2,310,387
Carrying amounts				
At December 31, 2018	$ 129,757	$ 9,411,798	$ 241,255	$ 9,782,810
At December 31, 2017	131,199	8,911,973	286,887	9,330,059

10. Income tax expense:

Current tax expense:

	2018	2017
Current year	$ 317,000	$ 310,600
Adjustment for prior years	-	7,374
	$ 317,000	$ 317,974

Significant components of the Corporation's deferred tax balances

	2018	2017
Deferred tax assets:		
Property, plant and equipment	$ 73,000	$ 146,000
Cumulative eligible capital	78,000	84,000
Post-employment benefits	152,000	173,000
Deferred revenue	131,000	181,000
Other	(10,000)	(13,000)
	$ 424,000	$ 571,000

11. Regulatory balances:

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory deferral account debit balances	January 1, 2018	Additions	Recovery/ reversal	December 31, 2018
Group 1 deferred accounts	$ 2,063,757	$ 3,903,249	$ (4,763,838)	$ 1,203,168
Regulatory settlement account	221,829	44	(75)	221,798
Regulatory transition to IFRS	21,601	-	-	21,601
Regulatory settlement account	4,074,442	292,666	(1,276,624)	3,090,484
	$ 6,381,629	$ 4,195,959	$ (6,040,537)	$ 4,537,051

Regulatory deferral account debit balances	January 1, 2017	Additions	Recovery/ reversal	December 31, 2017
Group 1 deferred accounts	$ 5,211,231	$ 3,730,945	$ (6,878,422)	$ 2,063,757
Regulatory settlement account	221,790	47	(8)	221,829
Regulatory transition to IFRS	21,601	-	-	21,601
Regulatory settlement account	-	4,074,442	-	4,074,442
	$ 5,454,622	$ 7,805,436	$ (6,878,429)	$ 6,381,629

Regulatory deferral account credit balances	January 1, 2018	Additions	Recovery/ reversal	December 31, 2018
Group 1 deferred accounts	$ 3,635,759	$27,107,212	$(26,087,957)	$ 4,655,014
Regulatory transition to IFRS	(17,986)	-	-	(17,986)
Other regulatory account	156,472	10,969	(10,466)	156,975
Income tax	355,814	-	(149,521)	206,293
	$ 4,130,059	$27,118,181	$(26,247,944)	$ 5,000,296

Regulatory deferral account credit balances	January 1, 2017	Additions	Recovery/ reversal	December 31, 2017
Group 1 deferred accounts	$ 4,176,274	$27,540,870	$ (28,081,385)	$ 3,635,759
Regulatory transition to IFRS	(17,912)	-	(74)	(17,986)
Regulatory settlement account	(233,801)	4,074,441	(3,840,640)	-
Other regulatory accounts	156,715	10,057	(10,300)	156,472
Income tax	479,604	-	(123,790)	355,814
	$ 4,560,880	$31,625,368	$ (32,056,189)	$ 4,130,059

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

11. Regulatory balances (continued):

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application was made to the OEB to dispose $935,709 of the Group 1 deferral accounts and approval was obtained. The account balance was moved to the regulatory settlement account. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2018 the rate was 1.5% in the first quarter, 1.89% in the second and third quarters, and increased to 2.17% in the fourth quarter.

12. Accounts payable and accrued liabilities:

	2018	2017
Trade payables	$ 3,033,073	$ 3,182,058
Accrued expenses	731,915	874,873
	$ 3,764,988	$ 4,056,931

13. Bank debt:

(a) Bank debt consists of:

	2018	2017
One year term loan with interest rate of 2.66% (2017 – 2.00%) repayable in full on or before maturity of June 2018, secured by a general security agreement	$ 3,600,000	$ 4,100,000

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	2018	2017
Bank debt, balance at January 1	$ 4,100,000	$ 4,600,000
Repayment of borrowings	500,000	500,000
Balance, December 31	$ 3,600,000	$ 4,100,000

14. Post-employment benefits:

(a) OMERS pension plan:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2018, the Corporation made employer contributions of $169,015 to OMERS (2017 - $165,427). The Corporation estimates that a contribution of $170,000 to OMERS will be made during the next fiscal year.

As at December 31, 2018, OMERS had approximately 482,000 members, of whom 18 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2018, which reported that the plan was 96% funded.

(b) Post-employment benefits other than pension:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-employment benefits in the year in which employees' services were rendered. The Corporation is recovering its post-employment benefits in rates based on the expense and measurements recognized for post-employment benefit plans.

Reconciliation of the obligation	2018	2017
Defined benefit obligation, beginning of year	$ 517,902	$ 525,745
Included in profit or loss		
Current service cost	10,211	10,522
Interest cost	15,219	18,043
	25,430	28,565
Included in OCI		
Actuarial gains arising from:		
changes in demographic and financial assumptions	(54,550)	(5,408)
	(54,550)	(5,408)
Benefits paid	(31,400)	(31,000)
Defined benefit obligation, end of year	$ 457,382	$ 517,902

14. Post-employment benefits (continued):

(b) Post-employment benefits other than pension (continued):

Actuarial assumptions	2018	2017
General inflation	2.25%	2.25%
Discount (interest) rate	3.50%	3.00%
Medical Costs	6.50%	8%
Dental Costs	4.00%	4%

A 1% increase in the assumed medical trend rate would result in the defined benefit obligation increasing by $ 29,000. A 1% decrease in the assumed medical trend rate would result in the defined benefits obligation decreasing by $34,000.

15. Share capital:

	2018	2017
Authorized:		
Unlimited number of common shares		
Issued:		
30,000 common shares	$ 2,000,100	$ 2,000,100

16. Distribution revenue:

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Other revenue consists of services provided to related parties and other income. Addistion information is provided in note 17 with components of other income.

In the following table, distribution revenue is disaggregated by type of customer:

	2018	2017
Residential	$ 2,310,877	$ 2,187,288
Commercial	413,004	401,138
Large users	719,212	629,958
Other	126,589	104,313
Total distribution revenue	$ 3,569,682	$ 3,322,697

17. Other revenue:

	2018	2017
Rendering of services	$ 609,201	$ 509,291
Contributions received from customers	172,754	242,709
Government grants & incentives under CDM programs	14,242	93,244
Rental income	49,745	46,329
	$ 845,942	$ 891,573

18. Employee salaries and benefits:

	2018	2017
Salaries, wages and benefits	$ 1,667,426	$ 1,638,764
CPP and EI remittances	63,680	68,111
Contributions to OMERS	169,015	165,427
Post-employment benefit plans	25,430	28,565
	$ 1,925,551	$ 1,900,867

19. Distribution expenses:

	2018	2017
Labour	$ 202,646	$ 248,879
Materials, supplies, maintenance	766,876	660,726
Other	56,389	55,537
	$ 1,025,911	$ 965,142

20. Finance income and costs:

	2018	2017
Finance income		
Late payment charges	$ 97,310	$ 42,630
Unrealized gain on investments	-	487
Interest income on bank deposits	128,220	77,374
	225,530	120,491
Finance cost		
Interest expense on bank debt	81,803	81,486
Unrealized loss on investments	9,727	-
Other	44,570	34,132
	136,100	115,618
Net finance income recognized in profit or loss	$ 89,430	$ 4,873

21. Commitments and contingencies:

General:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2018, no assessments have been made.

22. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is the Municipality of the Town of Essex. The Town produces consolidated financial statements that are available for public use.

(b) Outstanding balances due from (due to) with related parties:

	2018	2017
Parent company, included in accounts receivable	$ 31,584	$ 30,261
Subsidiary, included in accounts receivable	87,539	155,223
	$ 119,123	$ 185,484
Parent company payables	$ (531,833)	$ (526,873)

22. Related party transactions (continued):

(c) Transactions with parent:

During the year the Corporation paid provision of services fees to its parent in the amount of $531,833 (2017 - $526,873).

The Corporation delivers electricity to the Town throughout the year for the electricity needs of the Town and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides additional services to the Town, including streetlight maintenance services, sentinel lights and water and waste water billing and customer care services.

(d) Transactions with entity with significant influence:

In the ordinary course of business, the Corporation delivers electricity to the Town of Essex. Electricity is billed to the Town at prices and under terms approved by the OEB, if applicable.

(e) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members. The compensation paid or payable is as follows:

	2018	2017
Directors' fees	$ 26,139	$ 21,737
Salaries and other short-term benefits	388,860	370,990
Post-employment benefits	4,623	4,021
	$ 419,622	$ 396,748

23. Financial instruments and risk management:

Fair value disclosure:

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, due from/to related parties and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits and bank loan approximates fair value because the amounts are payable on demand.

23. Financial instruments and risk management (continued):

Financial risks:

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Town of Essex, Lakeshore and Kingsville. No single customer accounts for a balance in excess of 1% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2018 is $669,984 (2017 - $653,507). An impairment loss of $16,477 (2017 - $13,911) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2018, approximately $1,059,449 (2017 - $1,024,863) is considered 60 days past due. The Corporation has over 12,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2018, the Corporation holds security deposits in the amount of $1,418,287 (2017 - $1,510,180).

23. Financial instruments and risk management (continued):

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2018 would have increased interest expense on the long-term debt by $36,000 (2017 - $41,000), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $3.6 million credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due.

The majority of accounts payable, as reported on the statement of financial position, are due within 30 – 60 days.

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2018, shareholder's equity amounts to $10,417,218 (2017 - $9,510,107).

E.L.K. Energy Inc.

CAPITALIZATION POLICY

CAPITALIZATION POLICY OVERVIEW

Items of property, plant and equipment ("**PP&E**") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

IFRS requires that borrowing costs related to the construction of the qualifying assets be capitalized. The corporation has applied IAS 23 to all qualifying assets that were in progress or commenced since January 1, 2014.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The estimated useful lives are as follows:

	Years
Buildings	50
Distribution and metering equipment	10 - 60
Other assets	5 - 15

Financial assets measured at amortized cost

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "**cash-generating unit**" or "**CGU**"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Capitalization by Component

When parts or components of an item of property, plant and equipment have different useful lives, they are accounted for as individual items (major components) of property, plant and equipment. Component costs must be significant in relation to the total cost of the item and depreciated separately over the component's useful life. Components are those which: a) are significant in relation to the total cost of the item and b) have different depreciation methods or useful life.

Components with similar useful lives and depreciation methods are grouped in determining the depreciation charge. Parts of the item that are not individually significant (remainder of the items) are combined and categorized as a single component best suited for the sum of the parts.

Depreciation

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated.

E.L.K. has used the Typical Useful Life provided in the Kinetrics Report as its basis for assigning the estimated service life to assets. Depreciation of an asset begins in the year when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended. For rate setting purposes, in the first year of service, depreciation is calculated using the ½ year rule. Depreciation of an asset ceases when the asset is retired from active use, sold or is fully depreciated.

Overhead Policy

E.L.K.'s overhead policy has been reviewed by its external auditors and has been deemed IFRS compliant.

E.L.K. does not capitalize general administrative costs related to Administration, HR or Finance.

Payroll burden consists of the following benefits paid to employees: health benefits, prescription drugs, dental vision, long-term disability, bereavement time, OMERS, Workplace Safety and Insurance Board, Employment insurance, CPP, EHT and E.L.K. employees' protection equipment (safety shoes/ clothing/expendable tools). IAS 16 specifically allows for benefits as defined in IAS 19 to be included as a directly attributable cost. The payroll allocation is allocated to capital based upon labour dollars charged to capital. Benefits are accumulated in the general ledger for all employees and allocated based upon where the employees charge their time (capital jobs/maintenance).

CAPITALIZATION OF OVERHEAD

OVERVIEW

E.L.K., along with its consultant KPMG, performed an analysis of all costs that were being capitalized under CGAAP in order to determine whether these costs were eligible for capitalization under IFRS. As discussed above in the "Capitalization Policy Overview" section, it was determined that no changes were required to the capitalization of overhead as a result of the transition to IFRS and that the policy as explained above is compliant with IFRS requirements.

General and administrative overhead

IFRS does not provide a definition of general and administrative overhead (G&A). The specific facts and circumstances surrounding the nature of the costs and the activity associated with it must be considered to determine if it is directly attributable to an item of PP&E.

G&A costs typically benefit the organization as a whole or areas of the organization more broadly rather than contributing directly to bringing a physical asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The more the nature of a particular cost strays from being directly attributable to an item of PP&E, then the more likely it is that the cost will be determined to be in the nature of G&A.

Day-to-day servicing costs

Day-to-day servicing costs are defined as costs of labour and consumables and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of PP&E.

Whether to capitalize repairs and maintenance (R&M) is dependent on the interpretation of paragraph IAS 16.12.

Interpretations:

Interpret wording in paragraph 12 to mean “that under no circumstances do R&M get capitalized”. Example – Capitalizing the cost of a repair to the value of the vehicle, this is *not* permitted under IFRS
Interpret wording in paragraph 12 to mean that R&M costs do not get capitalized to the cost of the item of PP&E that has been repaired but the repair cost becomes part of the operating cost of an item of PP&E that is used to construct another item of PP&E. The operating costs are then capitalized to the constructed item of PP&E. This is permitted under IFRS since the cost is directly attributable to bringing a physical asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Feasibility studies and pre-construction activities

Normally, feasibility studies are not capitalized under IFRS as these costs do not always result in asset construction, and therefore may not meet the criteria of providing a future economic benefit. Additionally, the associated costs must be directly attributable to an item of PP&E. Pre-construction activities (such as design work) prior to a decision to go ahead with a capital project do not qualify for capitalization.

Considerations:

Canadian GAAP allowed for capitalization of general and administrative overhead, training costs, etc. while IFRS does not.

The Ontario Energy Board (OEB) requires electricity distributors to be in full compliance with IFRS requirements as applicable to non-regulated enterprises and only where the Board authorizes specific alternative treatment for regulatory purposes is alternative treatment acceptable.

E.L.K. performed a complete review of its costs included in overheads.

The analysis that follows is based upon the overheads that have historically been included for capitalization.

Payroll burden

Payroll burden consists of the following benefits paid to employees: health benefits, prescription drugs, dental vision, long-term disability, bereavement time, OMERS, Workplace Safety and Insurance Board, Employment insurance, CPP, EHT and E.L.K. employees' protection equipment (safety shoes/ clothing/expendable tools). IAS 16 specifically allows for benefits as defined in IAS 19 to be included as a directly attributable cost. The payroll allocation is allocated to capital based upon labour dollars charged to capital. Benefits are accumulated in the general ledger for all employees and allocated based upon where the employees charge their time (capital jobs/maintenance).

Truck burden

Truck burden consists of fuel, vehicle maintenance, repairs and license renewals. Trucks and company vehicles are used on the job site and are directly related to the construction of an asset as they are required to construct the asset. Truck expenses are allocated to capital based upon the timesheets recorded for the truck.

DEPRECIATION, AMORTIZATION AND DEPLETION

On July 17, 2012 the Board issued a statement that changes to depreciation rates and capitalization policies that would have been implemented under IFRS could be made in 2012 under CGAAP (i.e. effective January 1, 2012), and must be made no later than 2013 (i.e. effective January 1, 2013), regardless of whether the Canadian Accounting Standards Board (AcSB) permitted further deferrals beyond 2013 for the changeover to IFRS. In 2013, E.L.K. implemented the change to depreciation rates and the componentization of PP&E. All documents were approved by KPMG. Useful lives were aligned with the Kinetrics report and an assessment was made of remaining service lives for the purposes of determining the computation of depreciation expense on a go-forward basis. E.L.K. confirms that significant parts or components of each item of PP&E are being depreciated separately.

Items of property, plant and equipment (PP&E") used in rate regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

E.L.K.'s capital assets related to the distribution system and capital contributions are amortized on a straight line basis, applying the "half-year" rule in the year of addition, over the deemed life of the assets. Construction in progress assets are not amortized until the project is complete and the asset is available for use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of nine months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

In preparation for the conversion to IFRS, E.L.K. retained the services of KPMG to assist with determining the level of property, plant and equipment (PP&E) componentization required under IFRS and establishing updated useful lives based on the Kinetrics report. KPMG facilitated discussions with E.L.K.'s Operations and Finance departments in order to determine a reasonable estimate of the useful lives of the assets of E.L.K. KPMG and E.L.K. worked together to determine an appropriate level of componentization on historical assets to reflect an updated January 1st, 2013 opening balance that incorporated all material components of historical costs, adjusted the service lives to reflect the typical useful life identified in the Kinetrics report and provided an assessment of remaining service lives for which to calculate depreciation expense for 2013 forward. E.L.K confirms that the useful lives for its asset group's fall within the range allowed in the Board sponsored Kinetrics study and those significant parts or components of each item of PP&E are being depreciated separately.

E.L.K. confirms that no further depreciation expense policy changes or changes in asset service lives have been made subsequent to those made January 1, 2013.

Adoption of Half Year Rule

E.L.K. confirms that it has applied the half-year rule for the purposes of computing the net book value of Property, Plant and Equipment and General Plant to include in rate base. Under the half-year rule acquisitions and investments made during the year are amortized assuming they entered service at the mid-point of the year. E.L.K. confirms that no further depreciation expense policy changes or changes in asset service lives have been made subsequent to those made January 1, 2013.

TAXES OR PAYMENTS IN LIEU OF TAXES

PILS and Capital Taxes

E.L.K. makes payments in lieu (PILs) of corporate taxes calculated in accordance with the rules for computing taxable income, taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), as modified by the Electricity Act, 1998, and related regulations. E.L.K. does not pay Section 89 proxy taxes, and is exempt from the payment of incomes taxes under the *Income Tax Act* (Canada) and the Ontario Corporations Tax Act.

E.L.K. Energy Inc.

Minutes – Board of Directors Meeting
Thursday April 25, 2019
(2019-02)
4:00 P.M.

CALL TO ORDER:

The meeting was called to order at the hour of 4:02 P.M. with the following Directors in attendance:

Chair	Ron McDermott
Vice-Chair	Tracey Bailey
Director	Sherry Bondy
Director	Morley Bowman
Director	Joe Garon
Director	Richard Meloche
Director	Lydia Miljan
Director	Larry Snively
Director	Peter Timmins

Also in attendance were the following officers and staff:

Chief Executive Officer	Michael Audet
Director, Finance & Regulatory Affairs	Mark Danelon

CONFLICT OF INTEREST DECLARATION:

There were no conflicts of interest declared.

MINUTES:

MOTION: 2019-07

Moved by Director Timmins
Seconded by Director Bowman

BE IT RESOLVED THAT the minutes of the regular meeting February 2019 held on February 28, 2019 be adopted and BE IT FURTHER RESOLVED THAT the minutes of the finance committee meeting 2019-01-FC held on April 18, 2019 be adopted

CARRIED

ACCOUNTS:

MOTION: 2019-08

Moved by Director Bondy
Seconded by Vice-Chair Bailey

BE IT RESOLVED THAT cheques #1592 to 1723, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $3,627,537.50 for the month of February 2019 are approved as presented and BE IT FURTHER RESOLVED THAT cheques #1724 to 1872, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $3,584,233.51 for the month of March 2019 are approved as presented

CARRIED

STAFF REPORTS:

Director, Finance and Regulatory Affairs presented the 2019 E.L.K. Energy Inc. Consolidated Financial Statements.

MOTION: 2019-09

Moved by Director Snively
Seconded by Vice-Chair Bailey

BE IT RESOLVED THAT the Board accepts the Finance Committee's recommendation to approve the 2019 E.L.K. Energy Inc Consolidated Financial Statements.

CARRIED

MOTION: 2019-10

Moved by Director Miljan
Seconded by Director Meloche

BE IT RESOLVED THAT the Draft Consolidated Financial Statements be included in the Agenda in future years.

CARRIED

Report (FRA-19-02) regarding the 2019 Proposed Budget.

MOTION: 2019-011

Moved by Vice-Chair Bailey
Seconded by Director Miljan

BE IT RESOLVED THAT the Board accepts the Finance Committee's recommendation to approve the proposed budget for 2019.

CARRIED

Report (CEO-19-02) regarding the 2019 Remuneration for non-union staff.

MOTION: 2019-012

Moved by Vice-Chair Bailey
Seconded by Director Bowman

BE IT RESOLVED THAT the Board read and passes By-Law No.23.

CARRIED

Report (FRA-19-03) regarding the Offer to Connect between 1849749 Ontario Limited (Townsview Ph. 5) and E.L.K. Energy Inc.

MOTION: 2019-013

Moved by Director Timmins
Seconded by Director Snively

BE IT RESOLVED THAT the Board authorizes C.E.O. Audet and Chair McDermott to approve and sign the Offer to Connect Agreement between 1849749 Ontario Limited and E.L.K. Energy Inc.

CARRIED

Report (FRA-19-04) dealing with Annual Resolutions.

MOTION: 2019-014

Moved by Director Meloche
Seconded by Director Garon

BE IT RESOLVED THAT the consolidated financial statements of the Corporation for the financial year ended December 31, 2018 are approved, and any two directors are authorized to sign at the foot of the balance sheet contained therein to evidence such approval.

CARRIED

MOTION: 2019-015

Moved by Director Timmins
Seconded by Director Bowman

BE IT RESOLVED THAT the following individuals are appointed as officer of the Corporation to hold the offices specified for the ensuring year or until their successor:

Chairman	Ron McDermott
Vice-Chair	Tracey Bailey
Chief Executive Officer	Michael Audet
Director, Finance & Regulatory Affairs	Mark Danelon

CARRIED

MOTION: 2019-016

Moved by Director Bondy
Seconded by Director Garon

BE IT RESOLVED THAT the shareholders of the Corporation (E.L.K. Solutions Inc.) acknowledge receipt of a copy of the financial statements of the Corporation for the financial year ended December 31, 2018 including the reports of the auditor thereon, if any, for such periods and any further information respecting the financial position of the Corporation and the results of its operations required by the articles, the by-laws or any unanimous shareholder agreement for such periods. The undersigned waive the applicable time period within which the Corporation is required by the *Business Corporations Act* (Ontario) to send such financial statements and related material.

CARRIED

MOTION: 2019-017

Moved by Director Snively
Seconded by Vice-Chair Bailey

BE IT RESOLVED THAT the Board approves the following individual as Director of E.L.K. Solutions Inc. for a term expiring upon the next annual election of directors or when a successor has been elected or appointed.

Chair Morley Bowman

CARRIED

MOTION: 2019-018

Moved by Director Meloche
Seconded by Director Timmins

BE IT RESOLVED THAT KPMG LLP has been appointed auditor of E.L.K. Energy Inc. by resolution of the sole shareholder of E.L.K. Energy Inc.

CARRIED

OTHER BUSINESS:

E.L.K. Energy Inc. to provide the Board of Directors a copy of the Articles of Incorporation at the next meeting as requested.

ADJOURN:

MOTION: 2019-019

Moved by Director Miljan
Seconded by Director Bondy

BE IT RESOLVED THAT the regular meeting be adjourned at the hour of 5:10 P.M.

CARRIED

____

CHAIR, McDermott

____

SECRETARY, Danelon

Minutes – Board of Directors Meeting
Thursday February 28, 2019
(2019-01)
4:00 P.M.

CALL TO ORDER:

The meeting was called to order at the hour of 4:02 P.M. with the following Directors in attendance:

Chair	Ron McDermott
Director	Sherry Bondy
Director	Morley Bowman
Director	Joe Garon
Director	Richard Meloche
Director	Larry Snively
Director	Peter Timmins

The following Directors were absent from the meeting:

Vice-Chair	Tracey Bailey

Also in attendance were the following officers and staff:

Chief Executive Officer	Michael Audet
Manager, Finance & Regulatory Affairs	Mark Danelon

CONFLICT OF INTEREST DECLARATION:

There were no conflicts of interest declared.

Director Dr. Miljan arrived at 4:04 P.M.

The following director was elected to the Finance Committee:

Morley Bowman

MINUTES:

MOTION: 2019-01

Moved by Director Timmins
Seconded by Director Bondy

BE IT RESOLVED THAT the minutes of the regular meeting November 2018 held on November 22, 2018 be adopted.

CARRIED

ACCOUNTS:

MOTION: 2019-02

Moved by Director Meloche
Seconded by Director Bowman

BE IT RESOLVED THAT cheques #1063 to 1214, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $4,324,296.19 for the month of November 2018 are approved as presented and BE IT FURTHER RESOLVED THAT cheques #1215 to 1382, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $2,786,307.01 for the month of December 2018 are approved as presented and BE IT FURTHER RESOLVED THAT cheques #1383 to 1591, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $4,019,613.47 for the month of January 2019 are approved as presented

CARRIED

STAFF REPORTS:

Report (CEO-19-01) regarding the Environmental Stewardship Report 2018.

MOTION: 2019-03

Moved by Director Bowman
Seconded by Director Dr. Miljan

BE IT RESOLVED THAT the Board receives the Environmental Stewardship Report 2018.

CARRIED

Report (FRA-19-01) regarding the renewal of the Employee Benefit Program for 2019

MOTION: 2019-04

Moved by Director Bondy
Seconded by Director Dr. Miljan

BE IT RESOLVED THAT the Board approves the renewal of the employee benefit program with MEARIE Management Inc. for 2019.

CARRIED

Report (OM-19-01) regarding the 2019 Utilities Standards Forum Annual Membership Fees.

MOTION: 2019-05

Moved by Director Timmins
Seconded by Director Snively

BE IT RESOLVED THAT E.L.K. Energy renews its membership with the Utilities Standards Forum for 2019 in the amount of $8,750 plus HST.

CARRIED

ADJOURN:

MOTION: 2019-06

Moved by Director Bondy
Seconded by Director Meloche

BE IT RESOLVED THAT the regular meeting be adjourned at the hour of 4:31 P.M.

CARRIED

CHAIR, McDermott

SECRETARY, Danelon

Minutes – Board of Directors Meeting
Thursday June 27, 2019
(2019-04)
4:00 P.M.

CALL TO ORDER:

The meeting was called to order at the hour of 4:05 P.M. with the following Directors in attendance:

Chair	Ron McDermott
Vice-Chair	Tracey Bailey
Director	Sherry Bondy
Director	Morley Bowman
Director	Joe Garon
Director	Richard Meloche
Director	Peter Timmins

The following Directors were absent from the meeting:

Director	Larry Snively

Also in attendance were the following officers and staff:

Chief Executive Officer	Michael Audet
Director, Finance & Regulatory Affairs	Mark Danelon

CONFLICT OF INTEREST DECLARATION:

There were no conflicts of interest declared.

MINUTES:

MOTION: 2019-028

Moved by Director Bondy
Seconded by Director Bowman

BE IT RESOLVED THAT the minutes of the regular meeting May 2019 held on May 23, 2019 be adopted.

CARRIED

ACCOUNTS:

MOTION: 2019-029

Moved by Director Timmins
Seconded by Director Meloche

BE IT RESOLVED THAT cheques #2007 to 2159, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $3,748,203.68 for the month of May 2019 are approved as presented.

CARRIED

STAFF REPORTS:

Report (FRA-19-08) regarding the Offer to Connect between Coopers Estate Limited – Forest Hills Phase 4A and E.L.K. Energy Inc.

MOTION: 2019-030

Moved by Vice-Chair Bailey
Seconded by Director Bowman

BE IT RESOLVED THAT the Board authorizes C.E.O. Audet and Chair McDermott to approve and sign the Offer to Connect Agreement between Coopers Estate Limited – Forest Hills Phase 4A and E.L.K. Energy Inc.

CARRIED

Report (FRA-19-09) regarding the CIBC Loan Facility

MOTION: 2019-031

Moved by Director Timmins
Seconded by Vice-Chair Bailey

BE IT RESOLVED THAT the Board accepts the Finance Committee's recommendation of a re-payment of $500,000 made against the Loan Amount.

CARRIED

Director Miljan arrived at 4:08 P.M.

MOTION: 2019-032

Moved by Director Garon
Seconded by Director Miljan

BE IT RESOLVED THAT the Board accepts the Finance Committee's recommendation of the renewal of the CIBC Loan for a 1 year fixed rate term.

CARRIED

ADJOURN:

MOTION: 2019-033

Moved by Director Bondy
Seconded by Director Bowman

BE IT RESOLVED THAT the regular meeting be adjourned at the hour of 4:12 P.M.

CARRIED

____
CHAIR, McDermott

____
SECRETARY, Danelon

Minutes – Board of Directors Meeting
Thursday May 23, 2019
(2019-03)
4:00 P.M.

<u>CALL TO ORDER:</u>

The meeting was called to order at the hour of 4:04 P.M. with the following Directors in attendance:

Chair	Ron McDermott
Vice-Chair	Tracey Bailey
Director	Sherry Bondy
Director	Morley Bowman
Director	Richard Meloche
Director	Peter Timmins

The following Directors were absent from the meeting:

Director	Joe Garon
Director	Lydia Miljan
Director	Larry Snively

Also in attendance were the following officers and staff:

Chief Executive Officer	Michael Audet
Director, Finance & Regulatory Affairs	Mark Danelon

<u>CONFLICT OF INTEREST DECLARATION:</u>

There were no conflicts of interest declared.

<u>MINUTES:</u>

MOTION: 2019-020

Moved by Director Meloche
Seconded by Vice-Chair Bailey

BE IT RESOLVED THAT the minutes of the regular meeting April 2019 held on April 25, 2019 be adopted.

CARRIED

ACCOUNTS:

MOTION: 2019-021

Moved by Director Timmins
Seconded by Director Meloche

BE IT RESOLVED THAT cheques #1873 to 2006, pre-authorized payments, payroll direct deposit, telephone banking, transfers and settlements for a total of $3,437,813.82 for the month of April 2019 are approved as presented.

CARRIED

STAFF REPORTS:

Report (CEO-19-03) regarding Holiday Hours 2019.

MOTION: 2019-022

Moved by Vice-Chair Bailey
Seconded by Director Bondy

BE IT RESOLVED THAT the Board authorizes all staff to use vacation days on December 27th and December 30th causing the company to cease services except for emergencies from December 24th, 2019 to January 1st, 2020 inclusive and BE IT FURTHER RESOLVED THAT Management not be required to bring back similar motions in future years to the Board for approval.

CARRIED

Report (CEO-19-04) regarding Service Areas

MOTION: 2019-023

Moved by Director Bondy
Seconded by Director Timmins

BE IT RESOLVED THAT the Board receives the Service Areas report.

CARRIED

Report (FRA-19-05) regarding the Offer to Connect between C.L. Benninger Equipment (Southpoint Equipment) and E.L.K. Energy Inc.

MOTION: 2019-024

Moved by Director Timmins
Seconded by Director Bowman

BE IT RESOLVED THAT the Board authorizes C.E.O. Audet and Chair McDermott to approve and sign the Offer to Connect Agreement between C.L. Benninger Equipment (Southpoint Equipment) and E.L.K. Energy Inc.

CARRIED

Report (FRA-19-06) regarding the Offer to Connect between Canadian Tire Properties (A&W) and E.L.K. Energy Inc.

MOTION: 2019-025

Moved by Vice-Chair Bailey
Seconded by Director Bondy

BE IT RESOLVED THAT the Board authorizes C.E.O. Audet and Chair McDermott to approve and sign the Offer to Connect Agreement between Canadian Tire Properties (A&W) and E.L.K. Energy Inc.

CARRIED

Report (FRA-19-07) regarding Articles of Incorporation.

MOTION: 2019-026

Moved by Vice-Chair Bailey
Seconded by Director Bondy

BE IT RESOLVED THAT the Board received the Articles of Incorporation as provided.

CARRIED

ADJOURN:

MOTION: 2019-027

Moved by Director Bondy
Seconded by Director Meloche

BE IT RESOLVED THAT the regular meeting be adjourned at the hour of 4:11 P.M.

CARRIED

____
CHAIR, McDermott

____
SECRETARY, Danelon

DEPARTMENT: Finance & Regulatory Affairs

DATE: April 22, 2019

PREPARED BY: Mark Danelon

REPORT NUMBER: FRA-19-04

SUBJECT: Annual Resolutions

PURPOSE:

To satisfy the requirements of the *Business Corporations Act* (Ontario).

BACKGROUND:

The *Business Corporations Act* (Ontario) (the 'Act') requires that an annual meeting of shareholders must be held or annual resolutions of the shareholders must be passed within 18 months after the Corporation comes into existence, and subsequent annual meetings must be held or annual resolutions must be passed within 15 months of the preceding annual meeting or annual resolutions. The preceding annual resolutions were passed on April 26, 2018.

To satisfy the requirements of the Act and bring the Corporation's records into good standing, attached are resolutions for the financial year ended December 31, 2018. The following resolutions to be passed by the Board of Directors:

1. Financial Statements;
2. Appointment of Officers;
3. Acknowledgement and Waiver – E.L.K. Solutions Inc.
4. Election of Director – E.L.K. Solutions
5. Notice of Appointment

Resolutions of the Sole Shareholder are included for your information as follows:

1. Election of Directors
2. Acknowledgement and Waiver

Once the Sole Shareholder returns the signed resolutions, staff will complete the "Notice of Appointment".

The documentation was prepared with the assistance of Daniel Gormley, Goodman's LLP, E.L.K.'s corporate solicitor.

RECOMMENDATION(S)/CONCLUSION(S):

That the Board of Directors give consideration and pass the resolutions attached.

RESOLUTION OF THE DIRECTORS
OF
E.L.K. ENERGY INC.
(the "**Corporation**")

RECITAL:

A. The Corporation wishes to attend to the annual matters of the Corporation.

NOW THEREFORE BE IT RESOLVED THAT:

Financial Statements

1. The financial statements of the Corporation for the financial year ended December 31, 2018 are approved, and any director is authorized to sign at the foot of the balance sheet contained therein to evidence such approval.

The undersigned, being all of the directors of the Corporation sign the foregoing resolution in accordance with the provisions of the *Business Corporations Act* (Ontario).

DATED as of the _______ day of April, 2019.

Ron McDermott	Tracey Bailey
Larry Snively	Peter Timmins
Richard Meloche	Dr. Lydia Miljan
Sherry Bondy	Joe Garon
	Morley Bowman

RESOLUTION OF THE DIRECTORS
OF
E.L.K. ENERGY INC.
(the "**Corporation**")

NOW THEREFORE BE IT RESOLVED THAT:

Appointment of Officers

1. The following individuals are appointed officers of the Corporation to hold the offices specified for the ensuing year or until their successors are appointed:

Ron McDermott	Chairman
Michael Audet	Chief Executive Officer
Tracey Bailey	Vice-Chair
Mark Danelon	Director, Finance & Regulatory Affairs

The undersigned, being all of the directors of the Corporation sign the foregoing resolution in accordance with the provisions of the *Business Corporations Act* (Ontario).

DATED as of the ______ day of April, 2019.

Ron McDermott	Tracey Bailey
Morley Bowman	Peter Timmins
Richard Meloche	Joe Gaon
Sherry Bondy	Dr. Lydia Miljan
	Larry Snively

ACKNOWLEDGEMENT AND WAIVER

TO: **E.L.K. SOLUTIONS INC.**
(the "**Corporation**")

The undersigned shareholders of the Corporation acknowledge receipt of a copy of the financial statements of the Corporation for the financial year ended December 31, 2018 including the report of the auditor thereon, if any, for such period and any further information respecting the financial position of the Corporation and the results of its operations required by the articles, the by-laws or any unanimous shareholder agreement for such period. The undersigned waive the applicable time period within which the Corporation is required by the *Business Corporations Act* (Ontario) to send such financial statements and related material.

DATED as of the ______ day of April, 2019.

THE CORPORATION OF THE TOWN OF ESSEX

Per: ______________________________
Larry Snively, Mayor

E.L.K. ENERGY INC.

Per: ______________________________
Ron McDermott, Chair of the Board

RESOLUTIONS OF THE SOLE VOTING SHAREHOLDER
OF
E.L.K. SOLUTIONS INC.
(the "**Corporation**")

RECITAL:

A. The Corporation wishes to attend to the annual matters of the Corporation.

NOW THEREFORE BE IT RESOLVED THAT:

Appointment of Auditor

1. KPMG LLP is appointed the auditor of the Corporation until the next annual meeting of shareholders or until a successor is appointed, at a remuneration to be fixed at the sole discretion of the sole director.

Election of Director

2. The following individual, who has consented to act as a director of the Corporation, is elected as a director of the Corporation for a term expiring upon the next annual election of directors or when a successor has been elected or appointed:

Morley Bowman

The undersigned, being the sole voting shareholder of the Corporation signs the foregoing resolutions in accordance with the provisions of the *Business Corporations Act* (Ontario).

DATED as of the ______ day of April, 2019.

E.L.K. ENERGY INC.

Per: ______________________________
Ron McDermott, Chair of the Board

NOTICE OF APPOINTMENT

TO: **KPMG LLP**

PURSUANT to the provisions of the *Business Corporations Act* (Ontario), you have been appointed auditor of E.L.K. Energy Inc. by resolution of the sole shareholder of E.L.K. Energy Inc. dated the ______ day of April, 2019.

DATED as of the ______ day of April, 2019.

E.L.K. ENERGY INC.

Per: ______________________________

Ron McDermott, Chair of the Board

RESOLUTIONS OF THE SOLE SHAREHOLDER
OF
E.L.K. ENERGY INC.
(the "**Corporation**")

RECITAL:

A. The Corporation wishes to attend to the annual matters of the Corporation.

NOW THEREFORE BE IT RESOLVED THAT:

Appointment of Auditor

1. KPMG LLP is appointed the auditor of the Corporation until the next annual meeting of shareholders or until a successor is appointed, at a remuneration to be fixed at the sole discretion of the directors.

Election of Directors

2. The following individuals, who have consented to act as directors of the Corporation, are elected as directors of the Corporation for a term expiring upon the next annual election of directors or when successors have been elected or appointed:

Ron McDermott
Tracey Bailey
Sherry Bondy
Morley Bowman
Joe Garon
Richard Meloche
Dr. Lydia Mildan
Larry Snively
Peter Timmins

The undersigned, being the sole shareholder of the Corporation signs the foregoing resolutions in accordance with the provisions of the *Business Corporations Act* (Ontario).

DATED as of the ______ day of April, 2019.

THE CORPORATION OF THE TOWN OF ESSEX

Per: ________________________________
Larry Snively, Mayor

ACKNOWLEDGEMENT AND WAIVER

TO: **E.L.K. ENERGY INC.**
(the "**Corporation**")

The undersigned sole shareholder of the Corporation acknowledges receipt of a copy of the financial statements of the Corporation for the financial year ended December 31, 2018 including the report of the auditor thereon, if any, for such period and any further information respecting the financial position of the Corporation and the results of its operations required by the articles, the by-laws or any unanimous shareholder agreement for such period. The undersigned waives the applicable time period within which the Corporation is required by the *Business Corporations Act* (Ontario) to send such financial statements and related material.

DATED as of the ______ day of April, 2019.

THE CORPORATION OF THE TOWN OF ESSEX

Per: ________________________________

Larry Snively, Mayor

E.L.K.
Energy Inc.

Proposed 2018 Budget

Introduction

Incorporated in 2000, E.L.K. Energy Inc. (E.L.K.) is the successor Local Distribution Company (LDC) to the Hydro-Electric Commission for the Town of Essex, Lakeshore Hydro Electric Commission and Kingsville Hydro-Electric Commission. The Corporation of the Town of Essex (Town of Essex) is the company's sole shareholder. E.L.K. is responsible for supplying and distributing electric power and maintaining electrical distribution systems in the urban communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville. E.L.K. also performs the billing function for the municipality of the Town of Essex Water Department.

E.L.K. is required to charge distribution rates and Standard Supply Service as regulated by the Ontario Energy Board (OEB). The OEB provides rate guidelines and models which must be adhered to.

The OEB also monitors markets in the electricity sector and reports to the Minister of Energy on the efficiency, fairness and transparency and competitiveness of the markets as well as reporting on any abuse or potential abuse of market power.

As a result of operating in a regulated market, there is minimum control over revenues and expenditure levels. While a decrease in expenditures results in additional profitability, an increase in expenditures leads to a decrease in profitability with recovery from future rates unlikely.

The company does not engage in competitive services which are not regulated by the OEB. Non-regulated activities, i.e street lighting maintenance are carried out by E.L.K. Solutions Inc., a subsidiary of E.L.K. Energy Inc.

Fund Accounting

Municipalities generally operate with fund accounting. These are self balancing entities that match revenues with expenditures. The difference is either a surplus (revenues exceed expenditures) or a deficit (expenditures exceed revenue). For example:

Revenues
Less: operating expenditures
Less: capital expenditures
Equals net surplus/deficit

Fund accounting is not utilized by private/public businesses including E.L.K. As a result, financial statements generally consist of a balance sheet and income statement.

Fundamental differences from fund accounting

The balance sheet shows the financial position of a business at a specific date by reporting a business' assets, liabilities and equity position. In simple terms:

Assets = Liabilities plus equity

The income statement shows whether a business has earned a profit (revenue exceeds expenses) or a loss (expenses exceed revenues).

The cost of property, plant & equipment is capitalized and amortized over the asset's useful life. Cost is the amount of consideration given up to acquire, construct, develop, or better an item of property, plant and equipment and includes all costs directly attributable to the acquisition, construction, development or betterment of the asset including installing it at the location and in the condition necessary for its intended use.

The acquisition of a fixed asset will have the following impact:

Each year as the asset is amortized, the following will be impacted:

Balance sheet – Increase in accumulated amortization (offset to the plant, property & equipment).
Income statement – Increase in amortization expense

Fact Sheet

Business

Owner: Town of Essex - 100%

Mission: Proudly delivering safe, reliable & efficient electricity to the urban communities of Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

Employees: 17 dedicated full time employees and 1 part time employees.

Customers Provides electricity to approximately 11,933 residential and general service customers in our service area.

Distribution Syst
Operates out of one service center located in Essex.
Size of service area: 22.5 square kilometers
Total circuit kilometers of line: 151 km
Overhead kilometers of line: 89 km
Underground kilometers of line: 61 km
Distribution transformers: 1563

Service Quality Indicators:

Percentage of new low voltage services connected within 5 days : 94%

Percentage of general inquiry telephone calls answered within 30 seconds: 97%

Percentage of appointments involving a customer premise visit where the appointment date and time is met: 98%

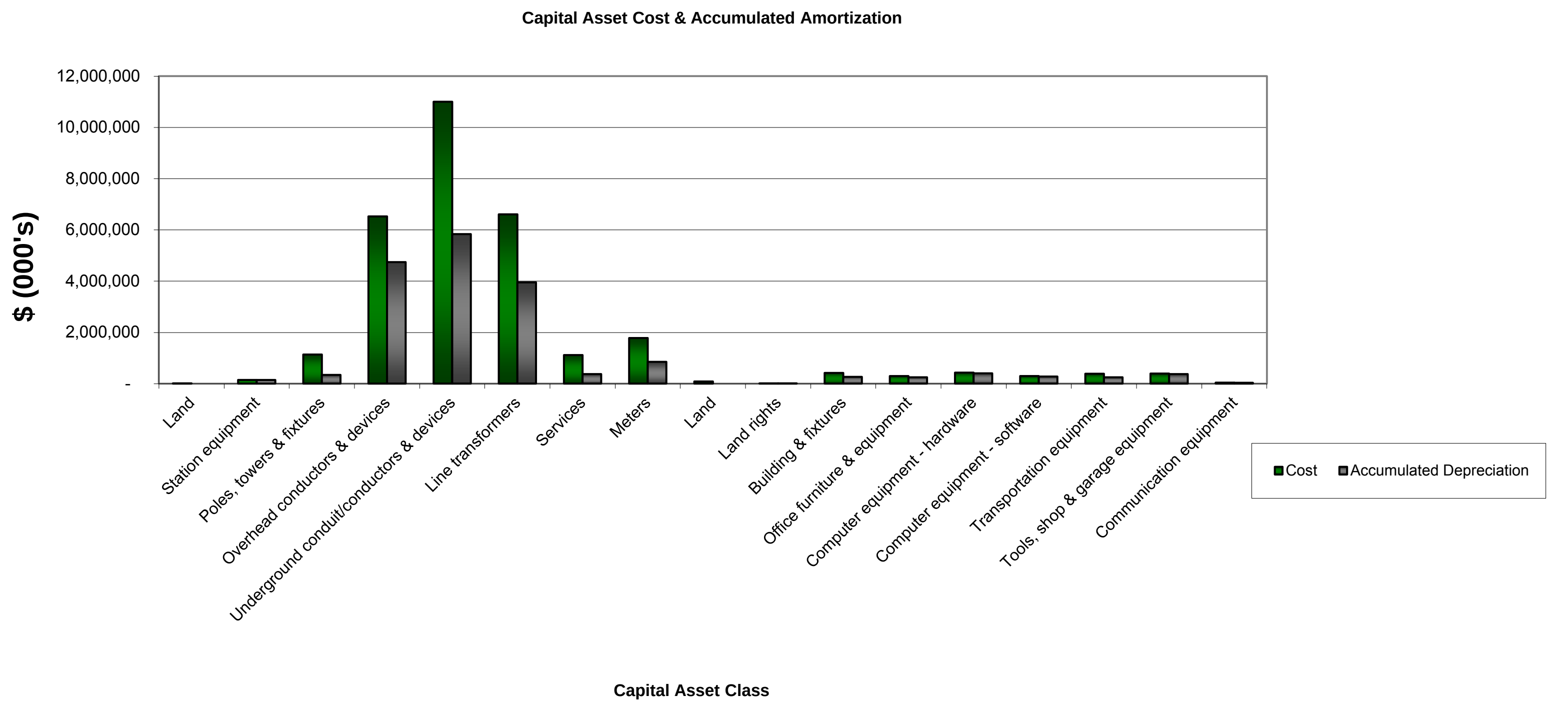
Percentage of written responses to inquiries provided within 10 working days: 98%

Percentage of emergenecy responses (urban) made within 60 minutes: 90%

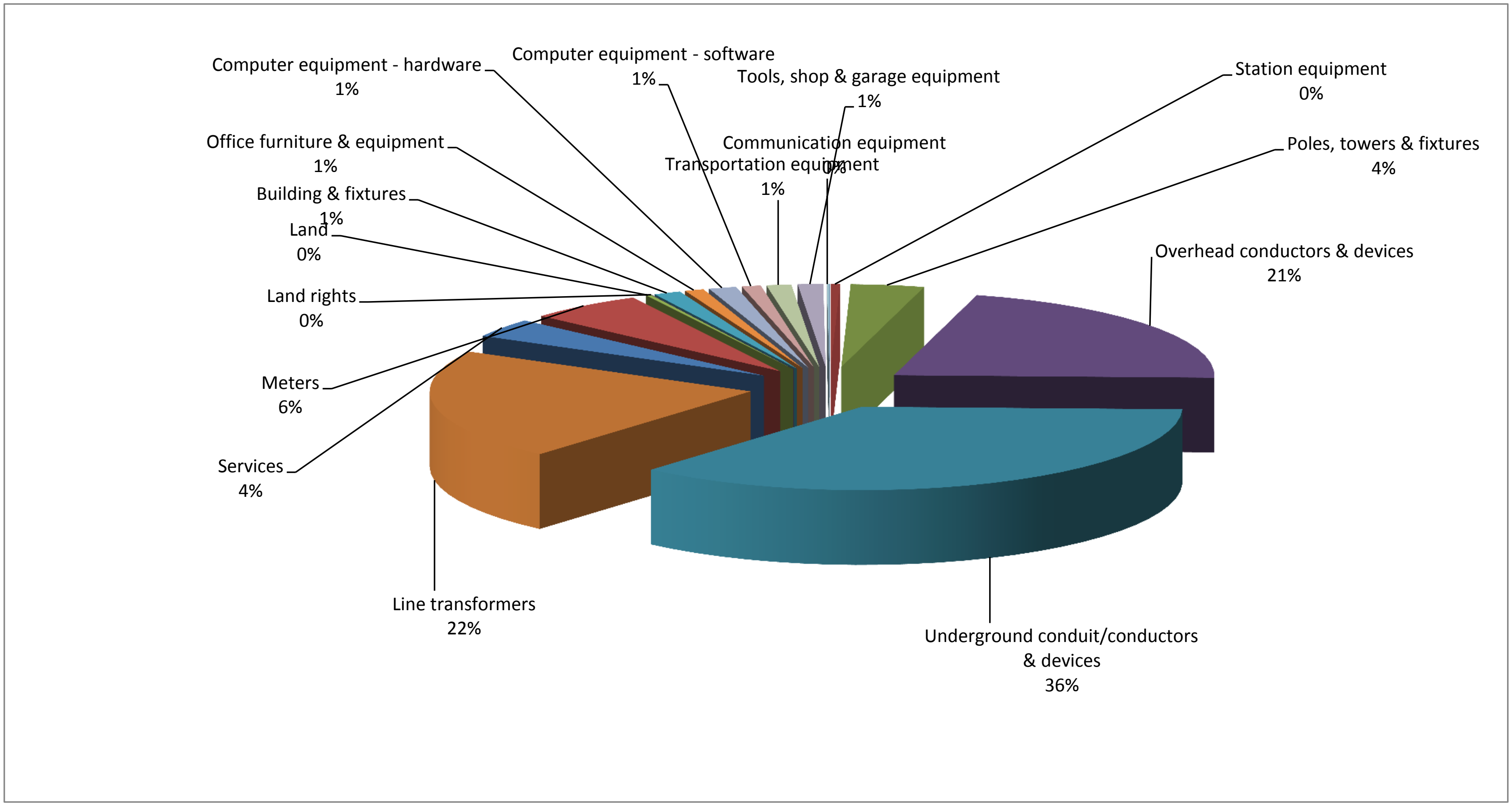
For more information about E.L.K. Energy Inc., visit: www.elkenergy.com

Contact: Michael Audet, C.E.O. - Telephone: 519-776-5291

Past Investments in Capital - Cost vs Accumulated Amortization (as of December 31, 2017)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.



Past Investments in Capital - Cost Percentage by asset type (as of December 31, 2017)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.



Capital - Account Definitions & Amortization Periods
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Account Name	Account #	Amortization Period	Account Description
Poles, towers & fixtures	1830	45	This account shall include the cost installed of poles, towers and appurtenant fixtures used for supporting overhead distribution conductors and service wires.
Overhead conductors & devices	1835	60	This account shall include the cost installed of overhead conductors and devices used for distribution purposes.
Underground ducts and concrete encased ducts & primary and secondary cables & devices	1840/1845	50/40	These accounts shall include the cost installed of underground conduit and tunnels used for housing distribution cables or wires and the cost installed of underground conductors and devices used for distribution purposes.
Line transformers-OH & Underground, pad mounted & underground foundations & vaults	1850	40/20/60	This account shall include the cost installed of overhead and underground distribution line transformers and poletype and underground voltage regulators owned by the utility, for use in transforming electricity to the voltage at which it is to be used by the customer, whether actually in service or held in reserve, pad mounted transformers & foundations & vaults.
Services	1855	25	This account shall include the cost installed of overhead and underground conductors leading from a point where wires leave the last pole of the overhead or the transformers or manhole or the top of the pole of the distribution line, to the point of connection with the customer's electrical panel. Conduit used for underground service conductors shall be included herein.
Meters- Residential, Commercial, Wholesale, CT/PT	1860	10/15/40	This account shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users.
Land & land rights	1905/1906	N/A	This account shall include the cost of land used for utility purposes.
Building & fixtures	1908	50	This account shall include the cost in place of buildings and fixtures used for utility purposes.
Office equipment	1915	10	This account shall include the cost of the general office furniture and equipment.
Computer equipment	1920	5	This account shall include the costs of acquiring computer hardware. Hardware includes all physical equipment associated with input, processing, storage and output functions.
Computer software	1925	5	This account shall include the cost of developed or purchased computer operating and application software.
Transportation equipment- Heavy/Light/Underground & Dump trucks	1930	15/8/10	This account shall include the cost of automobiles, small trucks, truck chassis, special truck bodies, aerial ladders, trailers and other mobile equipment.
Tools, shop & garage	1940	10	This account shall include the cost of tools, equipment, implements, and equipment used in construction, repair work, general shops, and garages.

Capital - Summary
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

			2017 Budget		2017 Actual		2018 Budget		2019 Budget		2020 Budget
Poles, Towers & Fixtures	1830	$	72,000	$	46,000	$	77,000	$	101,000	$	259,000
Overhead Conductors & Devices	1835	$	33,000	$	20,000	$	62,000	$	52,000	$	19,000
Underground Conductors & Devices	1840/1845	$	431,000	$	339,000	$	387,000	$	163,000	$	167,000
Line Transformers- OH & UG	1850	$	355,000	$	158,000	$	252,000	$	137,000	$	179,000
Line Transformers- Pad Mounted Switchgear	1851	$	-	$	12,000	$	12,000	$	-	$	-
Line Transformers- UG Foundations & UG Vaults	1852	$	18,000	$	34,000	$	35,000	$	19,000	$	19,000
Services	1855	$	100,000	$	142,000	$	168,000	$	135,000	$	137,000
Meters- Residential SM	1861	$	2,000	$	20,000	$	12,000	$	49,000	$	50,000
Meters- Industrial/Commercial	1862	$	30,000	$	4,500	$	20,000	$	40,000	$	42,000
Meters- Wholesale	1863	$	5,000	$	10,000	$	5,000	$	-	$	1,000
Meters- CT's & PT's	1864	$	5,000	$	4,000	$	5,000	$	-	$	-
Land & Land Rights	1905/1906	$	-	$	-	$	-	$	-	$	-
Building & Fixtures	1908	$	18,500	$	-	$	8,500	$	1,000	$	121,000
Office Equipment	1915	$	4,000	$	1,000	$	4,000	$	1,000	$	16,000
Computer Equipment	1920	$	2,500	$	1,500	$	3,500	$	16,000	$	1,000
Computer Software	1925	$	5,300	$	2,500	$	2,300	$	8,000	$	20,000
Transportation Equipment- Heavy	1931	$	120,000	$	-	$	120,000	$	450,000	$	325,000
Transportation Equipment- Light	1932	$	37,500	$	20,000	$	40,000	$	29,000	$	34,000
Tools, Shop & Garage	1940	$	8,500	$	4,000	$	18,000	$	8,000	$	8,000
Total Capital Expenditures		$	1,247,300	$	818,500	$	1,231,300	$	1,209,000	$	1,398,000

Investments by Project – 2018

Underground Asset Renewal (Service Area: Essex)

Underground Asset Renewal (Service Area: Kingsville)
To commence the renewal of the high voltage underground distribution system in the Augustine Development. This will include installing new duct, high voltage cable as well as replacing the existing transformers with new mini pad transformers. The existing infrastructure is 46 years old.

Pole Replacement Program

The pole replacement program will see approximately 15 poles replaced that are at or beyond end of useful life as well as collecting additional data on existing poles to update the asset data base.

Light Duty Vehicle Replacement

Currently there are 2 - 2009 hybrid SUVs in the fleet that are at end of useful life. One of the SUV's is used primarily for locating and meter reads. The second SUV is used by management staff for company business and traveling for out of town for meetings, rate hearings, etc. This SUV has 104,000 KM on it and overall repair costs on both vehicles have been reasonable. The plan is to move the low mileage SUV over to replace the frequently used locate vehicle and purchase a new SUV to replace the management vehicle.

Heavy Duty Vehicle Replacement

Replacement of Radial Boom Derrick. The new unit is to be capable of lifting and transporting on it's deck 12,000 lb 3 phase pad mount transformer which requires single sided bin packs and the capability to store them boom on the passenger side.

Investments by Project – 2017

Underground Asset Renewal (Service Area: Essex)

To complete the renewal of the high voltage underground distribution system in Viscount Estates. This will include installing new high voltage cable as well as replacing the existing live front transformers with new mini pad dead front transformers. The existing infrastructure is 39 - 46 years old.

Pole Replacement Program

The pole replacement program will see approximately 15 poles replaced that are at or beyond end of useful life as well as collecting additional data on existing poles to update the asset data base.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line Transformers- OH & UG 1850	Line Transformers- Pas Mounted Switchgear 1851	Line Transformers- UG Foundations & UG Vaults 1852	Services 1855	Meters- Residential SM 1861	Meters- Industrial/Commercial 1862	Meters- Wholesale 1863	Meters- CT's & PT's 1864	Total
Continue Underground Rejuvenation	$ -	$ -	$ 23,000	$ 93,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 116,300
Service Connections		$ -	$ -	$ -	$ -	$ -	$ 73,500	$ -	$ -	$ -	$ -	$ 73,500
Stock transformers to replace unit lost in 2017	$ -	$ -	$ -	$ 15,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,000
Pole replacements	$ 21,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,500
Additional Assistance to meet regulatory/safety concerns	$ -	$ 5,000	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,000
Meter reverification	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,000	$ 5,000	$ 5,000	$ 5,000	$ 25,000
Offer to Connect Project Work	$ 26,752	$ 53,503	$ 167,070	$ 100,318	$ 12,000	$ 17,000	$ 26,751	$ -	$ -	$ -	$ -	$ 403,394
All Labour Hours	$ 28,987	$ 3,623	$ 186,687	$ 43,097	$ -	$ 18,117	$ 68,219	$ 1,812	$ 14,977	$ -	$ -	$ 365,520
	$ 77,239	$ 62,126	$ 386,757	$ 251,715	$ 12,000	$ 35,117	$ 168,470	$ 11,812	$ 19,977	$ 5,000	$ 5,000	$ 1,035,213
	$ 77,000	$ 62,000	$ 387,000	$ 252,000	$ 12,000	$ 35,000	$ 168,000	$ 12,000	$ 20,000	$ 5,000	$ 5,000	$ 1,035,000

Capital - General Plant (2018)

Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Building & Fixtures			
	Miscellaneous	$	1,000
	Paint Main Entrance/Vestibule/Office	$	7,500
		$	8,500
Office Equipment & Furniture			
	Miscellaneous Replacements	$	1,000
	Board Room Chair Replacements	$	3,000
		$	4,000
Computer Hardware			
	Miscellaneous Replacements	$	1,000
	Harddrives for Images of Servers	$	2,500
		$	3,500
Computer Software			
	AutoCad Map 3D Subscription	$	1,200
	SPIDA Calc	$	1,100
		$	2,300
Transportation Equipment- Heavy			
	Radial Boom Derrick - Rolling Chassis	$	120,000
		$	120,000
Transportation Equipment- Light			
	Replacement of 1 Hybrid Escape	$	41,000
	Trade-in allowance on 1 Escape	$	(1,000)
		$	40,000
Tools, Shop & Garage			
	Truck grounds, various hand tools as required, cable grips, linkit gun and ground matts, locator	$	18,000
		$	18,000

E.L.K. Energy Inc.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Line Transformers- UG 1852	Services 1855	Meters- Residential SM 1861	Meters- Industrial/Commercial 1862	Meters- Wholesale 1863	Meters- CT's & PT's 1864	Total
Pole replacements	$ 45,000	$ -	$ -	$ -	$ -	$ -	$ -			$ -	$ 45,000
Pole mounted transformer replacement	$ -	$ -	$ -	$ 34,000	$ -	$ -	$ -			$ -	$ 34,000
Service Connections		$ -	$ -	$ -	$ -	$ 73,500	$ -	$ -	$ -	$ -	$ 73,500
Replace gang operated OH switch	$ -	$ 27,000	$ -	$ -	$ -	$ -	$ -			$ -	$ 27,000
Continue Underground Rejuvenation	$ -	$ -	$ 8,500	$ 32,000	$ -	$ -	$ -			$ -	$ 40,500
Meter Reverification	$ -	$ -	$ -	$ -	$ -	$ -	$ 35,000	$ 25,000	$ -	$ -	$ 60,000
All Labour Hours	$ 55,647	$ 24,732	$ 154,575	$ 71,414	$ 18,549	$ 61,830	$ 14,221	$ 15,334	$ -	$ -	$ 416,301
	$ 101,000	$ 52,000	$ 163,000	$ 137,000	$ 19,000	$ 135,000	$ 49,000	$ 40,000	$ -	$ -	$ 696,000

Capital - General Plant (2019)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Buildings & Fixtures		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Office Equipment & Furniture		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Computer Hardware		
	Miscellaneous Replacements	$ 1,000
	New Physical BST Server	$ 15,000
		$ 16,000
Computer Software		
	e-Doc- Files Management Software Install	$ 8,000
		$ 8,000
Transportation Equipment- Heavy		
	Replacement of Radial Boom Derrick - Balance	$ 325,000
	Replacement of Double Bucket Truck- Chassis	$ 125,000
		$ 450,000
Transportation Equipment- Light		
	Replacement of 1 Hybrid Escape	$ 30,000
	Trade-in allowance on 1 Escape	$ (1,000)
		$ 29,000
Tools, Shop & Garage		$ 8,000
	Truck grounds, various hand tools as required, cable grips, linkit gun and ground matts	$ 8,000

Capital - Distribution Plant (2020)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Line Transformers-UG Foundations & UG Vaults 1852	Services 1855	Meters-Residential SM 1861	Meters-Industrial/Commercial 1862	Meters-Wholesale 1863	Total
Pole replacements	$ 138,000	$ -	$ -	$ -	$ -	$ -				$ 138,000
Pole mounted transformer replacement	$ -	$ -	$ -	$ 38,000	$ -	$ -				$ 38,000
Service Connections		-	-	-	-	73,500	-	-	-	$ 73,500
Continue Underground Rejuvenation	$ -	$ -	$ 9,000	$ 65,000	$ -	$ -				$ 74,000
Meter Reverification	$ -	$ -	$ -	$ -	$ -	$ -	$ 35,000	$ 26,000	$ -	$ 61,000
All Labour Hours	$ 121,075	$ 18,918	$ 157,650	$ 76,303	$ 18,918	$ 63,060	$ 14,504	$ 15,639	$ 1,261	$ 487,328
	$ 259,000	$ 19,000	$ 167,000	$ 179,000	$ 19,000	$ 137,000	$ 50,000	$ 42,000	$ 1,000	$ 873,000

Capital - General Plant (2020)

Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Building & Fixtures		
	Miscellaneous Replacements	$ 1,000
	Fence and Gravel for Rear Yard	$ 120,000
		$ 121,000
Office Equipment & Furniture		
	Miscellaneous Replacements	$ 1,000
	Handicap Accessibility Bathrooms	$ 15,000
		$ 16,000
Computer Hardware		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Computer Software		
	Web Presentment Software TOU	$ 20,000
		$ 20,000
Transportation Equipment- Heavy		
	Replacement of Double Bucket Truck - Balance	$ 255,000
	Mini Dereck	$ 70,000
		$ 325,000
Transportation Equipment- Light		
	Replacement of Pick-up 101	$ 34,000
		$ 34,000
Tools, Shop & Garage		
	Truck Grounds, various hand tools as required, cable grips, linkit gun and ground matts	$ 8,000
		$ 8,000

Capital - Fleet Report (2018)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	DESCRIPTION	Truck #	Year	Plate	V.I.N.	Kilometers driven in 2017	Kilometers @ 12/31/2017	Kilometers @ 12/31/2016	Proposed Replacement Year
Heavy Trucks (over 4,500 kg)	**Heavy Trucks (over 4,500 kg)**								
Ford F450	Underground Truck	40615	2015	830 5HX	1FDOX4GT2FEA00793	38,685	113,851	75,166	
Ford F550		40108	2008	833 5HX	1FDAF56R08ED26106	20,440	254,549	234,109	2020
International 40S	Radial Boom Derrick	303	1995	831 9HX	1HTSCAAR9SH217007	3,547	113,305	109,758	2018
Freightliner Posi Plus FL80	Double Bucket 56'	201	2000	4285HK	1FV6JLCB5YHG06193	907	129,114	128,207	2019
International 4400	Single Bucket 42'	20207	2007	834 9HX	1HTMKAAR67H504002	14,573	321,780	307,207	
International 4400	Single Bucket 46'	20307	2007	428 8HK	1HTMKAAR87H504003	17,273	249,820	232,547	
Light Trucks (under 4,500 kg)									
Ford F150	Extended Pickup	102	2016	831 8HX	1FTEX1C84GK98028	29,521	43,846	14,325	
Ford Escape Hybrid	SUV	103	*2009*	831 7HX	1FMCU49379KD13131	18,193	101,913	83,720	2018
Ford Escape Hybrid	SUV	105	*2009*	832 9HX	1FMCU49319KC18712	47,916	328,786	280,870	2019
Ford Ranger	Pickup	101	*2011*	830 2HX	1FTLR4EE3BPA33504	24,626	199,875	175,249	2020
Trailers									
Brook	Pole Trailer- PTB 141-15KE	T1	2013		1B9BS1417EM274105				
TUI Cable Reel Trailer J & J	Reel Trailer	T5	2016	P6917B	2J9USA1C8GT011636				
Kiefer	Float Trailer	T7	2006	C75-37P	1DVDF30286K050918				
Transportation equipment- Heavy/Light/Underground & Dump trucks		15/8/10							

Rate Setting

LDC’s must receive approval from the OEB for the rates they charge their customers. Distribution rates are included under the “Delivery” line of the electricity bill.

Electricity distribution rates are designed to cover the costs incurred by the utility to distribute electricity to individual homes and businesses within the service territory. These rates include the costs charged to local utilities for high voltage transmission services provided predominately by Hydro One Networks. Distribution rates do not cover the cost of generation of electricity, that is the electricity commodity itself. They also do not include the cost of the Debt Retirement Charge (DRC). The DRC was removed for residential customers effective January 1, 2016 and fully removed April 2018 for all other customer classes.

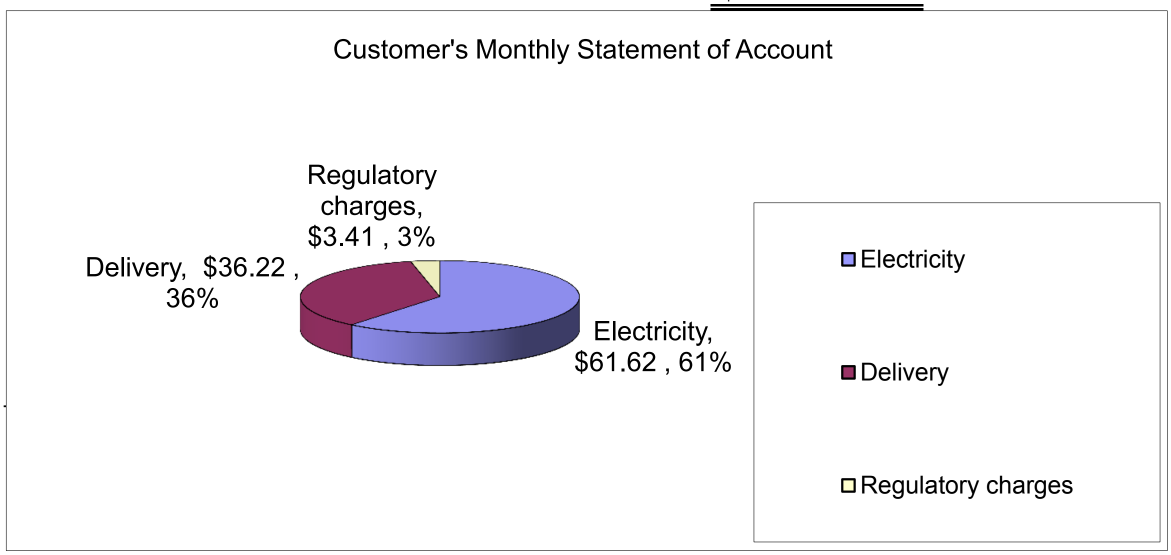
Distribution rates reflect an individual utility’s cost of service and includes the costs of assets used for distribution, debt costs, operations & maintenance costs and a rate of return. Factors that contribute to distribution rates include age and condition of assets, geographic terrain and distance, population density, and the cost of labour. For example, utilities serving new growing communities will have a newer distribution plant which requires less ongoing maintenance. Servicing lines is affected by such things as whether a plant is underground or overhead. The proportion of residential to commercial and industrial consumers can also account for cost differences among utilities.

Comprehensive reviews of rates was last completed in 2017. OEB guidelines establish which of the distribution expenses incurred by a utility are allowed to be recovered and which are excluded.

Customer Monthly Statement of Accounts

A typical E.L.K. residential customer using 750 kWh per month (65% Off-Peak, 17% Mid-Peak and 18% On-Peak) will receive a monthly statement of account of $106.31 (after HST).

Your Electricity Charges:			
	Off-Peak @6.5 cents/kWh	$	31.69
	Mid-Peak @9.5 cents/kWh	$	12.11
	On-Peak @13.2 cents/kWh	$	17.82
Delivery		$	36.22
Regulatory Charges		$	3.41
Total Electricity Charges		$	101.25
HST		$	5.06
Subtotal		$	106.31
Total Amount		$	106.31



Delivery includes:

	Service Charge	$	16.9500	N/A	$	16.95
	Smart Meter Entity Charge	$	0.5700	N/A	$	0.57
	Rate Rider Application Tax Change	$	0.0800	N/A	$	0.08
	Distribution Volumetric Rate	$	0.0021	750	$	1.58
	Low Voltage Service Rate	$	0.0012	750	$	0.90
	Rate Rider Disposition Def/Variance	$	0.0034	750	$	2.55
	Rate Rider Acct 1595	$	0.0045	750	$	3.38
	Retail Transmission Rate - Network Service Rate	$	0.0073	810.75	$	5.92
	Retail Transmission Rate - Line & Transformation Connection Service Rate	$	0.0053	810.75	$	4.30
					$	36.22

Regulatory Charges includes:

	Wholesale Market Service Rate	$	0.0036	810.75	$	2.92
	Rural Rate Protection Charge	$	0.0003	810.75	$	0.24
	Regulated Price Plan - Administration Charge	$	0.2500		$	0.25
					$	3.41

Customer Monthly Statement of Accounts – What are all these charges?

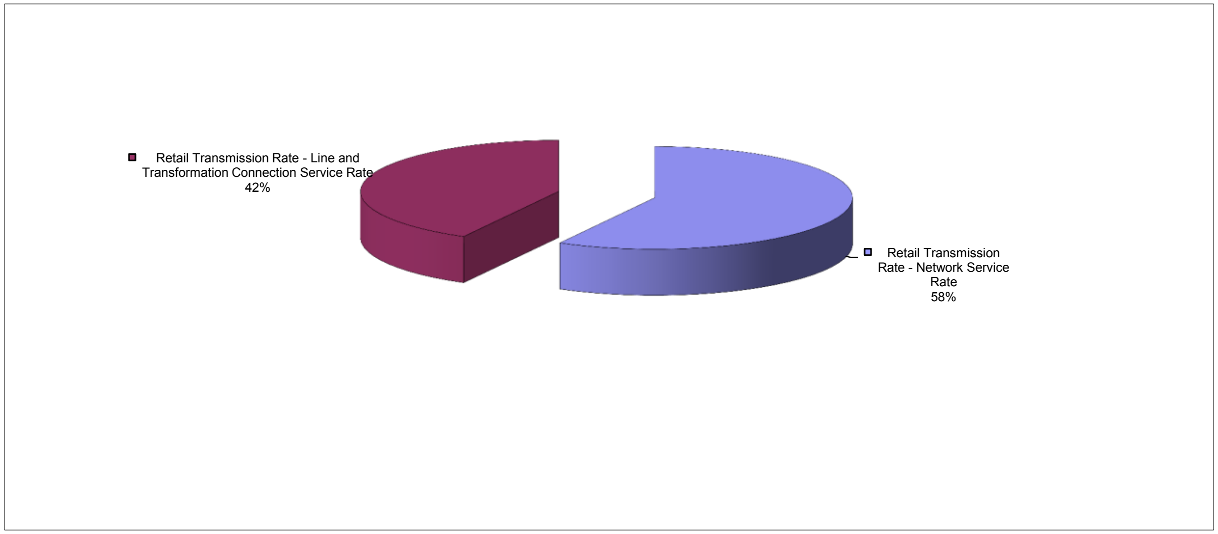
Electricity
The charge for the electricity used, which can be either from your local utility or through an electricity retailer licensed by the Ontario Energy Board. This line of the bill shows the price you are paying for the electricity you used during the billing period. Low-volume consumers (households and small businesses) who buy their electricity from their utility pay TOU prices. These prices, are set by the OEB based on a forecast of how much it will cost to supply electricity to TOU consumers over the next 12 months. TOU prices are designed so that the price TOU consumers pay for electricity recovers the payments made to electricity generators for the electricity they produce. Twice a year, the OEB reviews the forecast and, if necessary, adjusts prices accordingly (May 1st and Nov 1st).

Delivery
This covers the cost of delivering electricity from generating stations to the utility along the high-voltage transmission system and then along the utility's distribution system to homes and businesses.
These rates are set by the Ontario Energy Board.

Regulatory Charges
These rates are also approved by the Ontario Energy Board. They include the Wholesale Market Service Charge that covers the cost of services required to operate the electricity system and run the wholesale market. Also included is the rural rate protection charge which is used to partly offset the higher costs of providing electricity in rural and remote areas as well as the low income program support costs.

Distribution Revenue (E.L.K.'s share of the customer's statement of account)

Of the delivery charges only a portion is retained by E.L.K. Although E.L.K.'s portion of the delivery charges is 54% of the customer's statement of account, it represents about 19% of the customers' total monthly charges.



		2017 Budget	2017 Actual	2018 Budget
Distribution Revenue		$ 3,321,300	$ 3,322,700	$ 3,336,000
Rent from Electric Property	Rental Income on Joint Use of Poles & Pearl St Lot Rental	$ 46,000	$ 46,000	$ 46,000
Other Utility Operating Income/Electric Revenue	Other Utility Operating Income/Electric Revenue	$ 5,000	$ (5,100)	$ 3,000
Late Payment Charges	Regulated by OEB	$ 122,000	$ 43,000	$ 82,000
Misc Service Revenue i.e. Approved Other Charges	Regulated by OEB, examples: account set up charge, NSF cheque etc.	$ 70,000	$ 109,000	$ 109,000
Gain on Disposal of Property	Kingsville Service Centre	$ -	$ -	$ -
Revenue from Non-Utility Operations	Revenue from Non-Utility Operations	$ 32,000	$ 52,000	$ 52,000
Water Billing Revenue	Billing & Collecting Service provided to the Town of Essex Water Department.	$ 311,000	$ 318,000	$ 323,000
OPA LDC Programs (Net)	CDM Programs	$ 22,000	$ 93,000	$ 90,000
Miscellaneous non-operating income	Miscellaneous non-operating income	$ -	$ -	$ -
Interest Income	Interest Income	$ 57,000	$ 77,000	$ 77,000
Total Other Revenue		$ 3,986,300	$ 4,055,600	$ 4,118,000

Distribution Expenses

Distribution expenses – operations & maintenance
The cost of labour & expenses incurred in the operation & maintenance of the distribution system include:

- The supervision of these activities
- Operation of distribution stations
- Operation of overhead lines from the low voltage connection in the distribution station to the customer's premises
- Operation of removing and resetting overhead transformers and devices
- Removing and resetting underground transformers and devices and also the inspection and testing while in service
- Operation of customer meters and associated equipment
- Rents of property of others used, occupied, or operated in connection with the distribution system
- Maintenance of overhead distribution line facilities
- Maintenance of underground conduit, underground distribution line facilities
- Maintenance of distribution line transformers
- Maintenance of meters and meter testing equipment

Billing & collection
The cost of labour & expenses incurred in the customer accounting and collecting activites.

Administration & general
Executive salaries & expenses – Amounts paid to Directors.

Management salaries & expenses – Salaries & benefits paid to the management team of the utility.

General administrative salaries & expenses – Wages & benefits of the staff of the general administration of the office.

Office supplies & expenses – Includes the office supplies and expenses incurred in connection with the general administration of the utility's operations and includes:

- Bank service charges
- Books & subscriptions
- Communication expenditures
- Small office equipment
- Membership dues such as the membership in the EDA
- Office supplies
- Postage not relating to customer billing
- Travel

Outside services employed – This account shall include the fees and expenses of professional consultants.

Property insurance – Cost of insurance to protect the utility against losses and damages to owned property used in the utility.

Injuries & damages – Labour & related supplies/expenses incurred in injuries and damages activities including cost of safety, accident prevention and similar education activities.

Employee pension & benefits – The cost of benefits as determined by Section 3461 of the CICA Handbook.

Regulatory expenses – All expenses associated with regulatory bodies.

General advertising expenses – Expenses incurred in advertising and related activities.

Miscellaneous general expenses – Cost of labour & expenses incurred in connection with the general management of the utility not provided for elsewhere.

Maintenance of general plant – Maintenance of general plant not provided for in other accounts

Electrical Safety Authority Fees – Fees paid for permits, inspection and test and approvals by the Electrical Safety Authority.

Amortization Expense
This account includes the amount of amortization expense for all classes of depreciable Electric Plant in Service

Interest
This account shall include the amount of interest on outstanding debt issued plus interest paid on customer deposits.

Taxation
Includes municipal property taxation plus the payments in lieu of taxation.

Expenditures

	Account	2017 Budget	2017 Actual	2018 Budget
Distribution Expenses - Operations & Maintenance		$ 940,000	$ 909,000	$ 940,000
Operation Supervision & Engineering	5005	$ 18,000	$ 24,000	$ 24,000
Load Dispatching	5010	$ -	$ -	$ -
Station Buildings and Fixture/Dist Station Equipment Labour & Supplies	5012/5016/5017	$ 8,000	$ 1,000	$ 1,000
Overhead Distribution Lines - Labour	5020	$ 29,000	$ 14,000	$ 24,000
Overhead Distribution Lines - Supplies	5025	$ -	$ 1,000	$ -
	5035	$ 2,000	$ 3,000	$ 2,000
Underground Distribution Lines & Feeders	5040	$ 165,000	$ 207,000	$ 210,000
Underground Line/Feeders - Supplies	5045	$ -	$ -	$ -
Underground Distribution Transformers - Operation	5055	$ 12,000	$ 11,000	$ 11,000
Meter Expense	5065	$ 16,000	$ 16,000	$ 16,000
Overhead Distribution Lines & Feeders - Rental Paid	5095	$ 18,000	$ 9,000	$ 9,000
Maintenance of Poles, Towers & Fixtures	5120	$ 26,000	$ 33,000	$ 33,000
Maintenance of Overhead Conductors & Devices	5125	$ 151,000	$ 123,000	$ 123,000
Maintenance of Overhead Services	5130	$ 50,000	$ 55,000	$ 55,000
Overhead Distribution Lines & Feeders	5135	$ 106,000	$ 66,000	$ 72,000
Maintenance of Underground Conductors & Devices	5150	$ 61,000	$ 89,000	$ 89,000
Maintenance of Underground Services	5155	$ 108,000	$ 102,000	$ 102,000
Maintenance of Line Transformers	5160	$ 18,000	$ 23,000	$ 23,000
Maintenance of Meters	5175	$ 152,000	$ 132,000	$ 146,000
Billing & Collecting		$ 619,000	$ 638,000	$ 642,000
Supervision	5305	$ 108,000	$ 120,000	$ 122,000
Meter Reading Expense	5310	$ 64,000	$ 74,000	$ 72,000
Customer Billing & Collecting	5315-5335	$ 443,000	$ 441,000	$ 444,000
Community Relations/Advertising Energy Conservation	5405-5515	$ 4,000	$ 3,000	$ 4,000
Administration & General		$ 996,179	$ 1,118,179	$ 983,000
Executive Salaries & Expenses	5605	$ 21,000	$ 20,000	$ 24,000
Management Salaries & Expenses	5610	$ 419,000	$ 385,000	$ 402,000
General Administrative Salaries & Expenses	5615	$ 79,000	$ 73,000	$ 42,000
Office Supplies & Expenses	5620	$ 79,000	$ 82,000	$ 91,000
Outside Services Employed	5630	$ 2,000	$ -	$ 12,000
Accounting		$ 17,000	$ 15,000	$ 16,000
Information Technology		$ 15,000	$ 19,000	$ 19,000
Customer Information System		$ 77,000	$ 72,000	$ 77,000
Legal		$ -	$ 112,000	$ 37,000
Property Insurance	5635	$ 29,000	$ 35,000	$ 35,000
Injuries & Damages	5640	$ 20,000	$ 46,000	$ 58,000
Regulatory Expense	5655	$ 154,000	$ 176,000	$ 84,000
General Advertising Expenses	5660	$ -	$ -	$ -
Miscellaneous General Expenses	5665	$ 7,000	$ 6,000	$ 7,000
Maintenance of General Plant	5675	$ 52,000	$ 50,000	$ 50,000
Electrical Safety Authority Fees	5680	$ 5,000	$ 5,000	$ 5,000
Taxes other than Income Taxes	6105	$ 15,000	$ 17,000	$ 19,000
Donation	6205	$ 5,179	$ 5,179	$ 5,000
Amortization	5705	$ 336,000	$ 347,000	$ 358,000
Other Interest Expense	6035	$ 21,000	$ 57,000	$ 57,000
Interest on LT Debt	6040	$ 75,000	$ 81,000	$ 72,000
Total expenditures before payments in lieu of income tax		$ 2,987,179	$ 3,150,179	$ 3,052,000
Taxation				
` Payments in lieu of income taxes (tax provision to be determined by KPMG)	6110			

Good Morning- 2018 Budget Commentary

Welcome. As this is now our fourth budget meeting together I will briefly touch upon some additional detail where in the past a greater in-debt explanation was provided primarily relating to the softer supplementary items.

Pages 1, 2 and 3 are simply a brief introduction regarding E.L.K. Energy, its accounting methodology used and some interesting facts and service quality indicators of E.L.K. Energy this past year. E.L.K.'s accounting procedures are currently in accordance with modified IFRS as described by KPMG.

Pages 4, 5, and 6 represent and depict E.L.K. Energy's past capital investments and accumulated amortization in chart format. As well, a detailed account description is also represented here for reference purposes that provide additional narrative on E.L.K.'s capital accounts.

Page 7 is E.L.K.'s Capital summary by account. In 2017, E.L.K. Budgeted approximately $1.2M. Actual figures resulted in approximately $819K. The primary factor for this difference was the large Radial Boom Derrick and replacement of 1 Hybrid Vehicle was deferred to 2018 this year. As well, 1 large Offer to Connect project that was budgeted and never materialized or did not proceed by the developer, that being Division St Condos in Kingsville. For 2018 E.L.K. is budgeting approximately $1.1M in capital expenditures. The specific details of these capital projects are provided on pages 9 and 10 for your reference and informational purposes.

As well, on page 7 is a forecasted look of E.L.K.'s projected 2019 and 2020 capital expenditures which are currently being approximated at $1.2M and $1.4M respectively. The detailed breakdown of these amounts can be found on pages 11 through 14.

Jumping back to page 8. This page was provided for informational purposes by our operations manager. Here, you can find a description of planned capital projects as well as previously completed ones from the prior year.

Now if everyone can turn to page 15. This page concludes the capital portion of the budget and lists the E.L.K. Energy transportation fleet and kilometers driven.

Pages 16, 17, 18 & 19 are provided for informational purposes discussing in detail the rate setting process and a typical E.L.K. Energy statement of account as it would appear on time-of-use pricing.

Page 20 details out E.L.K.'s Revenue Analysis. In 2017 E.L.K. Energy budgeted approximately $4.0M. 2017 actual total revenue resulted in approximately $4.0M. For 2018, the budgeted amount is approximately $4.1M, which is very consistent with 2017. The distribution revenue being projected in 2018 is that of 2017 with a small inflationary increase.

Pages 21 and 22 detail E.L.K.'s main expenditure classifications with descriptions and has been provided for background information.

Page 23 represents E.L.K.'s detailed expenditures which are broken down into three main headings. I will speak to each category, the first being Distribution Expenses- Operations & Maintenance. In 2016, E.L.K. budgeted 940K. The 2017 actual totaled $910K. Account 5040 variance is the result of underground locates primarily driven by consumer demand. E.L.K. is budgeting approximately $934K for 2018.

The next section billing & collecting was budgeted at $619K. Actual results totaled $638K. Everything in this section is very consistent with budget. E.L.K. is budgeting $642K for 2018 which is consistent with 2017 actuals.

The final main category, administrative and general expenses had a budget of $1M. The 2017 actual was approx. $1.1M. The increase is primarily related to one account 5630 Legal which was related to E.L.K.'s COS, and E.L.K.'s successful Service Area Amendment with Sellick in Harrow that required a Oral Hearing at the OEB. Budgeting for a COS can be difficult at times due to issues that arise or additional support that must be prepared. E.L.K. is budgeting approximately $970K for 2018.

This concludes the 2018 Budget.

E.L.K. Energy Inc.

Proposed 2019 Budget

Introduction

Incorporated in 2000, E.L.K. Energy Inc. (E.L.K.) is the successor Local Distribution Company (LDC) to the Hydro-Electric Commission for the Town of Essex, Lakeshore Hydro Electric Commission and Kingsville Hydro-Electric Commission. The Corporation of the Town of Essex (Town of Essex) is the company's sole shareholder. E.L.K. is responsible for supplying and distributing electric power and maintaining electrical distribution systems in the urban communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville. E.L.K. also performs the billing function for the municipality of the Town of Essex Water Department.

E.L.K. is required to charge distribution rates and Standard Supply Service as regulated by the Ontario Energy Board (OEB). The OEB provides rate guidelines and models which must be adhered to.

The OEB also monitors markets in the electricity sector and reports to the Minister of Energy on the efficiency, fairness and transparency and competitiveness of the markets as well as reporting on any abuse or potential abuse of market power.

As a result of operating in a regulated market, there is minimum control over revenues and expenditure levels. While a decrease in expenditures results in additional profitability, an increase in expenditures leads to a decrease in profitability with recovery from future rates unlikely.

The company does not engage in competitive services which are not regulated by the OEB. Non-regulated activities, i.e street lighting maintenance are carried out by E.L.K. Solutions Inc., a subsidiary of E.L.K. Energy Inc.

Fund Accounting

Municipalities generally operate with fund accounting. These are self balancing entities that match revenues with expenditures. The difference is either a surplus (revenues exceed expenditures) or a deficit (expenditures exceed revenue). For example:

Revenues
Less: operating expenditures
Less: capital expenditures
Equals net surplus/deficit

Fund accounting is not utilized by private/public businesses including E.L.K. As a result, financial statements generally consist of a balance sheet and income statement.

Fundamental differences from fund accounting

The balance sheet shows the financial position of a business at a specific date by reporting a business' assets, liabilities and equity position. In simple terms:

Assets = Liabilities plus equity

The income statement shows whether a business has earned a profit (revenue exceeds expenses) or a loss (expenses exceed revenues).

The cost of property, plant & equipment is capitalized and amortized over the asset's useful life. Cost is the amount of consideration given up to acquire, construct, develop, or better an item of property, plant and equipment and includes all costs directly attributable to the acquisition, construction, development or betterment of the asset including installing it at the location and in the condition necessary for its intended use.

The acquisition of a fixed asset will have the following impact:

Each year as the asset is amortized, the following will be impacted:

Balance sheet – Increase in accumulated amortization (offset to the plant, property & equipment).
Income statement – Increase in amortization expense

Fact Sheet

Business Municipally owned electricity distribution company in Ontario.

Owner: Town of Essex - 100%

Mission: Proudly delivering safe, reliable & efficient electricity to the urban communities of Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

Employees: 17 dedicated full time employees and 1 part time employee.

Customers: Provides electricity to approximately 12,000 residential and general service customers in our service area.

Distribution System: Operates out of one service center located in Essex.
Size of service area: 22.5 square kilometers
Total circuit kilometers of line: 151 km
Overhead kilometers of line: 89 km
Underground kilometers of line: 61 km
Distribution transformers: 1563

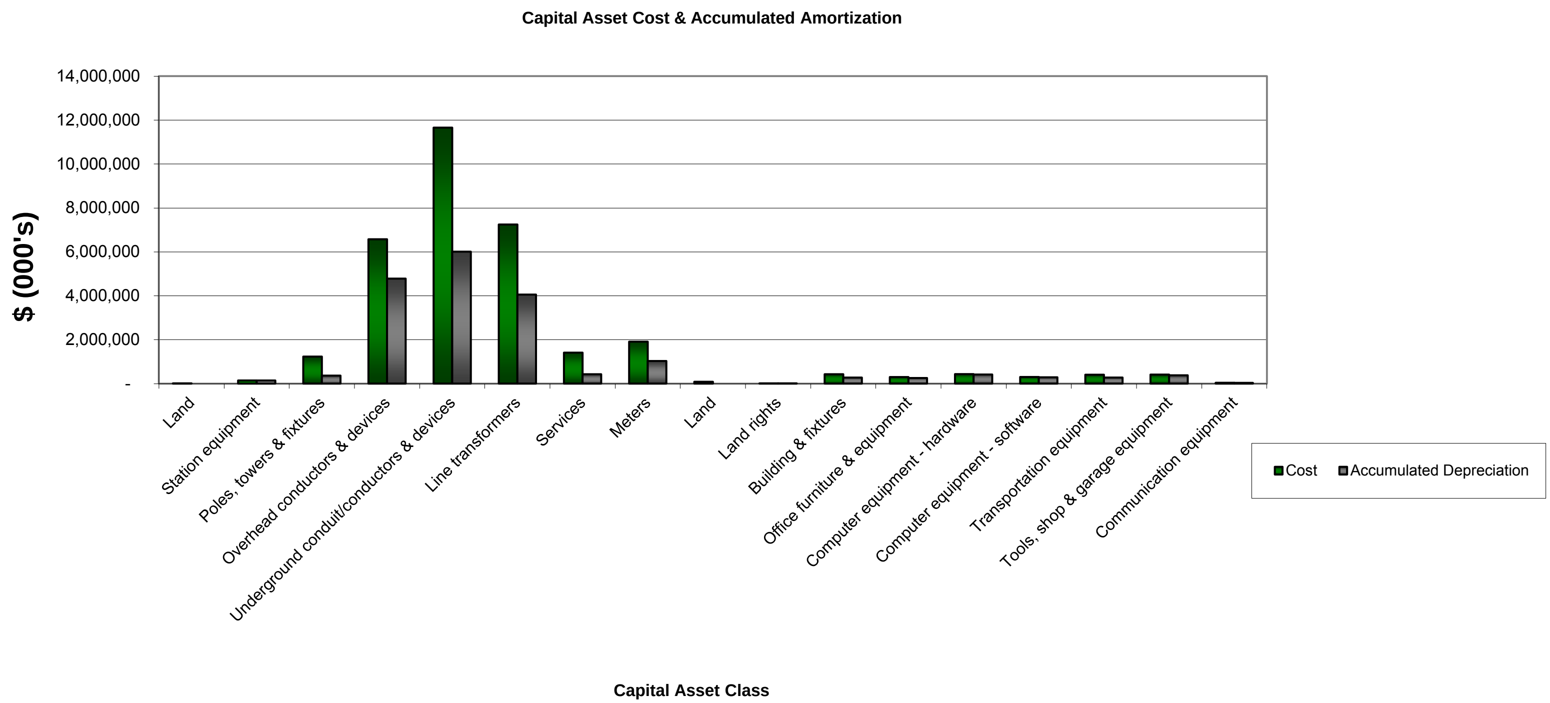
Service Quality Indicators: Percentage of new low voltage services connected within 5 days : 100%

Percentage of general inquiry telephone calls answered within 30 seconds: 96%
Percentage of appointments involving a customer premise visit where the appointment date and time is met: 100%
Percentage of written responses to inquiries provided within 10 working days: 99%
Percentage of emergenecy responses (urban) made within 60 minutes: 100%

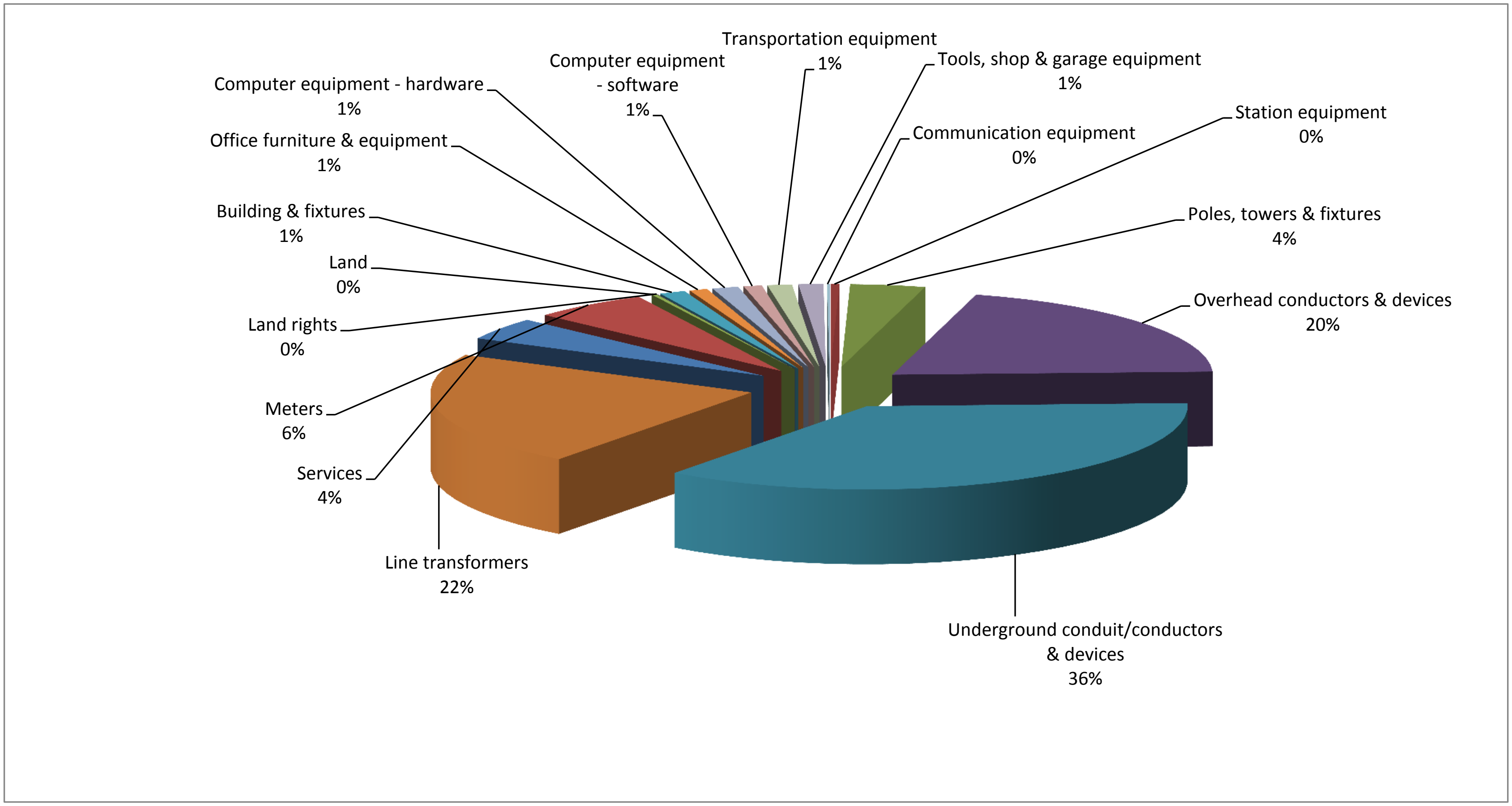
For more information about E.L.K. Energy Inc., visit: www.elkenergy.com

Contact: Michael Audet, C.E.O. - Telephone: 519-776-5291

Past Investments in Capital - Cost vs Accumulated Amortization (as of December 31, 2018)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.



Past Investments in Capital - Cost Percentage by asset type (as of December 31, 2018)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.



Account Name	Account #	Amortization Period	Account Description
Poles, towers & fixtures	1830	45	This account shall include the cost installed of poles, towers and appurtenant fixtures used for supporting overhead distribution conductors and service wires.
Overhead conductors & devices	1835	60	This account shall include the cost installed of overhead conductors and devices used for distribution purposes.
Underground ducts & concrete encased ducts & primary and secondary cables & devices	1840/1845	50/40	These accounts shall include the cost installed of underground conduit and tunnels used for housing distribution cables or wires and the cost installed of underground conductors and devices used for distribution purposes.
Line transformers-OH & Underground, pad mounted & underground foundations & vaults	1850	40/20/60	This account shall include the cost installed of overhead and underground distribution line transformers and poletype and underground voltage regulators owned by the utility, for use in transforming electricity to the voltage at which it is to be used by the customer, whether actually in service or held in reserve, pad mounted transformers & foundations & vaults.
Services	1855	25	This account shall include the cost installed of overhead and underground conductors leading from a point where wires leave the last pole of the overhead or the transformers or manhole or the top of the pole of the distribution line, to the point of connection with the customer's electrical panel. Conduit used for underground service conductors shall be included herein.
Meters- Residential, Commercial, Wholesale, CT/PT	1860	10/15/40	This account shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users.
Land & land rights	1905/1906	N/A	This account shall include the cost of land used for utility purposes.
Building & fixtures	1908	50	This account shall include the cost in place of buildings and fixtures used for utility purposes.
Office equipment	1915	10	This account shall include the cost of the general office furniture and equipment.
Computer equipment	1920	5	This account shall include the costs of acquiring computer hardware. Hardware includes all physical equipment associated with input, processing, storage and output functions.
Computer software	1925	5	This account shall include the cost of developed or purchased computer operating and application software.
Transportation equipment- Heavy/Light/Underground & Dump Trucks	1930	15/8/10	This account shall include the cost of automobiles, small trucks, truck chassis, special truck bodies, aerial ladders, trailers and other mobile equipment.
Tools, shop & garage	1940	10	This account shall include the cost of tools, equipment, and equipment used in construction, repair work, general shops, and garages.

Capital - Summary
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

		2018 Budget	2018 Actual	2019 Budget	2020 Budget	2021 Budget
Poles, Towers & Fixtures	1830	$ 77,000	$ 49,000	$ 73,000	$ 102,000	$ 262,000
Overhead Conductors & Devices	1835	$ 62,000	$ 27,000	$ 85,000	$ 52,000	$ 19,000
Underground Conductors & Devices	1840/1845	$ 387,000	$ 316,000	$ 342,000	$ 166,000	$ 170,000
Line Transformers- OH & UG	1850	$ 252,000	$ 387,000	$ 300,000	$ 139,000	$ 181,000
Line Transformers- Pad Mounted Switchgear	1851	$ 12,000	$ 11,000	$ 11,000	$ -	$ -
Line Transformers- UG Foundations & UG Vaults	1852	$ 35,000	$ 36,000	$ 36,000	$ 19,000	$ 19,000
Services	1855	$ 168,000	$ 153,000	$ 154,000	$ 137,000	$ 138,000
Meters- Residential SM	1861	$ 12,000	$ 60,000	$ 60,000	$ 50,000	$ 50,000
Meters- Industrial/Commercial	1862	$ 20,000	$ 10,000	$ 20,000	$ 41,000	$ 42,000
Meters- Wholesale	1863	$ 5,000	$ 22,000	$ 5,000	$ -	$ -
Meters- CT's & PT's	1864	$ 5,000	$ -	$ 5,000	$ -	$ -
Land & Land Rights	1905/1906	$ -	$ -	$ -	$ -	$ -
Building & Fixtures	1908	$ 8,500	$ 10,000	$ 11,000	$ 1,000	$ 121,000
Office Equipment	1915	$ 4,000	$ 3,000	$ 1,000	$ 1,000	$ 16,000
Computer Equipment	1920	$ 3,500	$ 2,000	$ 2,000	$ 38,000	$ 1,000
Computer Software	1925	$ 2,300	$ 4,000	$ 2,300	$ 8,000	$ 20,000
Transportation Equipment- Heavy	1931	$ 120,000	$ -	$ 445,000	$ 325,000	$ 335,000
Transportation Equipment- Light	1932	$ 40,000	$ -	$ -	$ -	$ -
Tools, Shop & Garage	1940	$ 18,000	$ 15,000	$ 10,000	$ 10,000	$ -
Total Capital Expenditures		$ 1,231,300	$ 1,105,000	$ 1,562,300	$ 1,089,000	$ 1,374,000

Investments by Project – 2019

Underground Asset Renewal (Service Area: Kingsville)

To commence the renewal of the high voltage underground distribution system in the Augustine Development. This will include installing new duct, high voltage cable as well as replacing the existing transformers with new mini pad transformers. The existing infrastructure is 46 years old.

Pole Replacement Program

The pole replacement program will see approximately 15 poles replaced that are at or beyond end of useful life as well as collecting additional data on existing poles to update the asset data base.

Heavy Duty Vehicle Replacement

Replacement of Bucket Truck. The new unit will replace an older 2007 model.

Investments by Project – 2018

Underground Asset Renewal (Service Area: Essex)

Completed the renewal of the high voltage underground distribution system in Viscount Estates. This included installing new high voltage cable as well as replacing the existing live front transformers with new mini pad dead front transformers. The existing infrastructure was 39 - 46 years old.

Pole Replacement Program

The pole replacement program saw approximately 15 poles replaced that were at or beyond end of useful life as well as collecting additional data on existing poles to update the asset data base.

Light Duty Vehicle Replacement

There are 2 - 2009 hybrid SUVs in the fleet that are at end of useful life. One of the SUV's is used primarily for locating and meter reads. The second SUV is used by management staff for company business and travelling out of town for meetings, rate hearings, etc. This SUV has 104,000 KM on it and overall repair costs on both vehicles have been reasonable. The low mileage SUV was moved over to replace the frequently used locate vehicle and a new SUV to replace the management vehicle was purchased.

Heavy Duty Vehicle Replacement

Replacement of Radial Boom Derrick. The new unit is to be capable of lifting and transporting on it's deck 12,000 lb 3 phase pad mount transformer which requires single sided bin packs and the capability to store them on the passenger side.

E.L.K. Energy Inc.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line Transformers- OH & UG 1850	Line Transformers- Pas Mounted Switchgear 1851	Line Transformers- UG Foundations & UG Vaults 1852	Services 1855	Meters- Residential SM 1861	Meters- Industrial/Commercial 1862	Meters- Wholesale 1863	Meters- CT's & PT's 1864	Total
Continue Underground Rejuvenation	$ -	$ -	$ 23,000	$ 118,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 141,300
Service Connections		$ -	$ -	$ -	$ -	$ -	$ 60,000	$ -	$ -	$ -	$ -	$ 60,000
Stock transformers to replace unit used in 2018	$ -	$ -	$ -	$ 15,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,000
Pole replacements	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,000
Additional Assistance to meet regulatory/safety concerns	$ -	$ 5,000	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,000
Meter reverification	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 58,000	$ 5,000	$ 5,000	$ 5,000	$ 73,000
Offer to Connect Project Work	$ 38,000	$ 77,000	$ 182,000	$ 141,000	$ 11,000	$ 17,000	$ 38,000	$ -	$ -	$ -	$ -	$ 504,000
All Labour Hours	$ 24,794	$ 3,215	$ 126,999	$ 25,845	$ -	$ 18,549	$ 55,709	$ 1,855	$ 15,334	$ -	$ -	$ 272,299
	$ 73,000	$ 85,000	$ 342,000	$ 300,000	$ 11,000	$ 36,000	$ 154,000	$ 60,000	$ 20,000	$ 5,000	$ 5,000	$ 1,091,000

Capital - General Plant (2019)

Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Building & Fixtures		
	Miscellaneous	$ 1,000
	New Ait Conditioner Unit	$ 10,000
		$ 11,000
Office Equipment & Furniture		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Computer Hardware		
	Miscellaneous Replacements	$ 1,000
	New Fans for Server Rack	$ 1,000
		$ 2,000
Computer Software		
	AutoCad Map 3D Subscription	$ 1,200
	SPIDA Calc	$ 1,100
		$ 2,300
Transportation Equipment- Heavy		
	Bucket Truck - Rolling Chassis	$ 120,000
	Radial Boom Derrick - Radial Boom	$ 325,000
		$ 445,000
Tools, Shop & Garage		
	Truck grounds, various hand tools as required, cable grips and ground matts	$ 10,000
		$ 10,000

E.L.K. Energy Inc.

Capital - Distribution Plant (2020)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Line Transformers- UG 1852	Services 1855	Meters- Residential SM 1861	Meters- Industrial/Commercial 1862	Total
Pole replacements	$ 45,000	$ -	$ -	$ -	$ -	$ -	$ -		$ 45,000
Pole mounted transformer replacement	$ -	$ -	$ -	$ 34,000	$ -	$ -	$ -		$ 34,000
Service Connections		$ -	$ -	$ -	$ -	$ 73,500	$ -	$ -	$ 73,500
Replace gang operated OH switch	$ -	$ 27,000	$ -	$ -	$ -	$ -	$ -		$ 27,000
Continue Underground Rejuvenation	$ -	$ -	$ 8,500	$ 32,000	$ -	$ -	$ -		$ 40,500
Meter Reverification	$ -	$ -	$ -	$ -	$ -	$ -	$ 35,000	$ 25,000	$ 60,000
All Labour Hours	$ 56,754	$ 25,224	$ 157,650	$ 72,834	$ 18,918	$ 63,060	$ 14,504	$ 15,639	$ 424,583
	$ 102,000	$ 52,000	$ 166,000	$ 139,000	$ 19,000	$ 137,000	$ 50,000	$ 41,000	$ 705,000

Capital - General Plant (2020)

Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Buildings & Fixtures		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Office Equipment & Furniture		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Computer Hardware		
	Miscellaneous Replacements	$ 1,000
	New Physical BST Server	$ 15,000
	New Harddrives for Virtual Servers and Replacement of Workstations	$ 22,000
		$ 38,000
Computer Software		
	e-Doc- Files Management Software Install	$ 8,000
		$ 8,000
Transportation Equipment- Heavy		
	Replacement of Bucket Truck- Balance- Aerial Life	$ 200,000
	Bucket Truck - Rolling Chassis	$ 125,000
		$ 325,000
Tools, Shop & Garage		$ 10,000
	Truck grounds, various hand tools as required, cable grips, and ground matts	$ 10,000

Capital - Distribution Plant (2021)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Line Transformers- UG Foundations & UG Vaults 1852	Services 1855	Meters- Residential SM 1861	Meters- Industrial/Commercial 1862	Total
Pole replacements	$ 138,000	$ -	$ -	$ -	$ -	$ -			$ 138,000
Pole mounted transformer replacement	$ -	$ -	$ -	$ 38,000	$ -	$ -			$ 38,000
Service Connections		-	-	-	-	73,500	-	-	$ 73,500
Continue Underground Rejuvenation	$ -	$ -	$ 9,000	$ 65,000	$ -	$ -			$ 74,000
Fence and Gravel for Rear Yard									
Meter Reverification	$ -	$ -	$ -	$ -	$ -	$ -	$ 35,000	$ 26,000	$ 61,000
All Labour Hours	$ 123,514	$ 19,299	$ 160,825	$ 77,839	$ 19,299	$ 64,330	$ 14,796	$ 15,954	$ 495,856
	$ 262,000	$ 19,000	$ 170,000	$ 181,000	$ 19,000	$ 138,000	$ 50,000	$ 42,000	$ 881,000

Capital - General Plant (2021)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Building & Fixtures		
	Miscellaneous Replacements	$ 1,000
	Fence and Gravel for Rear Yard	$ 120,000
		$ 121,000
Office Equipment & Furniture		
	Miscellaneous Replacements	$ 1,000
	Handicap Accessibility Bathrooms	$ 15,000
		$ 16,000
Computer Hardware		
	Miscellaneous Replacements	$ 1,000
		$ 1,000
Computer Software		
	Web Presentment Software TOU	$ 20,000
		$ 20,000
Transportation Equipment- Heavy		
	Replacement of Bucket Truck - Balance	$ 255,000
	Replacement of Pick-Up Heavy Duty F550	$ 80,000
		$ 335,000

Heavy Trucks (over 4,500 kg)	DESCRIPTION	Truck #	Year	Plate	V.I.N.	Kilometers driven in 2017	Kilometers @ 12/31/2018	Kilometers @ 12/31/2017	Proposed Replacement Year
	Heavy Trucks (over 4,500 kg)								
Ford F450	Underground Truck	40615	2015	830 5HX	1FDOX4GT2FEA00793	33,063	146,914	113,851	
Ford F550		40108	2008	833 5HX	1FDAF56R08ED26106	19,180	273,729	254,549	2021
International 40S	Radial Boom Derrick	303	1995	831 9HX	1HTSCAAR9SH217007	6,249	119,554	113,305	
Freightliner Posi Plus FL80	Double Bucket 56'	201	2000	4285HK	1FV6JLCB5YHG06193	1,116	130,230	129,114	2020
International 4400	Single Bucket 42'	20207	2007	834 9HX	1HTMKAAR67H504002	20,034	341,814	321,780	2019
International 4400	Single Bucket 46'	20307	2007	428 8HK	1HTMKAAR87H504003	18,763	268,583	249,820	
Light Trucks (under 4,500 kg)									
Ford F150	Extended Pickup	102	2016	831 8HX	1FTEX1C84GK98028	33,903	77,749	43,846	
Ford Escape Hybrid	SUV	103	*2009*	831 7HX	1FMCU49379KD13131	110,958	101,913	101,913	2022
Ford Explorer	SUV	105	*2018*	832 9HX	1FM5K8D82KGA98016	-	-	-	
Ford Ranger	Pickup	101	*2011*	830 2HX	1FTLR4EE3BPA33504	110,958	227,767	199,875	2023
Trailers									
Brook	Pole Trailer- PTB 141-15KE	T1	2013		1B9BS1417EM274105				
TUI Cable Reel Trailer J & J	Reel Trailer	T5	2016	P6917B	2J9USA1C8GT011636				
Kiefer	Float Trailer	T7	2006	C75-37P	1DVDF30286K050918				
Transportation equipment- Heavy/Light/Underground & Dump trucks		15/8/10							

Rate Setting

LDC’s must receive approval from the OEB for the rates they charge their customers. Distribution rates are included under the “Delivery” line of the electricity bill.

Electricity distribution rates are designed to cover the costs incurred by the utility to distribute electricity to individual homes and businesses within the service territory. These rates include the costs charged to local utilities for high voltage transmission services provided predominately by Hydro One Networks. Distribution rates do not cover the cost of generation of electricity, that is the electricity commodity itself. They also do not include the cost of the Debt Retirement Charge (DRC). The DRC was removed for residential customers effective January 1, 2016 and fully removed April 2018 for all other customer classes.

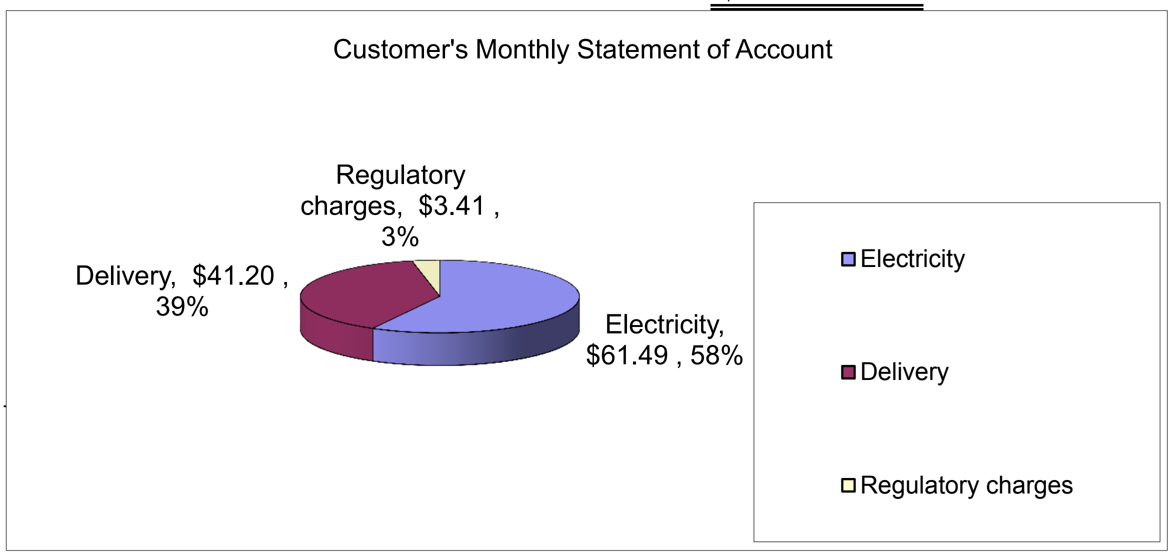
Distribution rates reflect an individual utility’s cost of service and includes the costs of assets used for distribution, debt costs, operations & maintenance costs and a rate of return. Factors that contribute to distribution rates include age and condition of assets, geographic terrain and distance, population density, and the cost of labour. For example, utilities serving new growing communities will have a newer distribution plant which requires less ongoing maintenance. Servicing lines is affected by such things as whether a plant is underground or overhead. The proportion of residential to commercial and industrial consumers can also account for cost differences among utilities.

Comprehensive reviews of rates was last completed in 2018. OEB guidelines establish which of the distribution expenses incurred by a utility are allowed to be recovered and which are excluded.

Customer Monthly Statement of Accounts

A typical E.L.K. residential customer using 750 kWh per month (65% Off-Peak, 17% Mid-Peak and 18% On-Peak) will receive a monthly statement of account of $119.89 (after HST).

Your Electricity Charges:		
Off-Peak @6.5 cents/kWh	$	31.69
Mid-Peak @9.4 cents/kWh	$	11.99
On-Peak @13.2 cents/kWh	$	17.82
Delivery + Line Loss	$	41.20
Regulatory Charges	$	3.41
Total Electricity Charges	$	106.10
HST	$	13.79
Subtotal	$	119.89
8% Provincial Rebate	$	(8.49)
Total Amount	$	111.40



Delivery includes:

Service Charge	$	16.9500	N/A	$	16.95
Smart Meter Entity Charge	$	0.5700	N/A	$	0.57
Rate Rider Application Tax Change	$	0.0800	N/A	$	0.08
Distribution Volumetric Rate	$	0.0021	750	$	1.58
Low Voltage Service Rate	$	0.0012	750	$	0.90
Rate Rider Disposition Def/Variance	$	0.0034	750	$	2.55
Rate Rider Acct 1595	$	0.0045	750	$	3.38
Retail Transmission Rate - Network Service Rate	$	0.0073	810.75	$	5.92
Retail Transmission Rate - Line & Transformation Connection Service Rate	$	0.0053	810.75	$	4.30
				$	36.22

Regulatory Charges includes:

Wholesale Market Service Rate	$	0.0036	810.75	$	2.92
Rural Rate Protection Charge	$	0.0003	810.75	$	0.24
Regulated Price Plan - Administration Charge	$	0.2500		$	0.25
				$	3.41

Customer Monthly Statement of Accounts – What are all these charges?

Electricity

The charge for the electricity used, which can be either from your local utility or through an electricity retailer licensed by the Ontario Energy Board. This line of the bill shows the price you are paying for the electricity you used during the billing period. Low-volume consumers (households and small businesses) who buy their electricity from their utility pay TOU prices. These prices, are set by the OEB based on a forecast of how much it will cost to supply electricity to TOU consumers over the next 12 months. TOU prices are designed so that the price TOU consumers pay for electricity recovers the payments made to electricity generators for the electricity they produce. Twice a year, the OEB reviews the forecast and, if necessary, adjusts prices accordingly (May 1st and Nov 1st).

Delivery

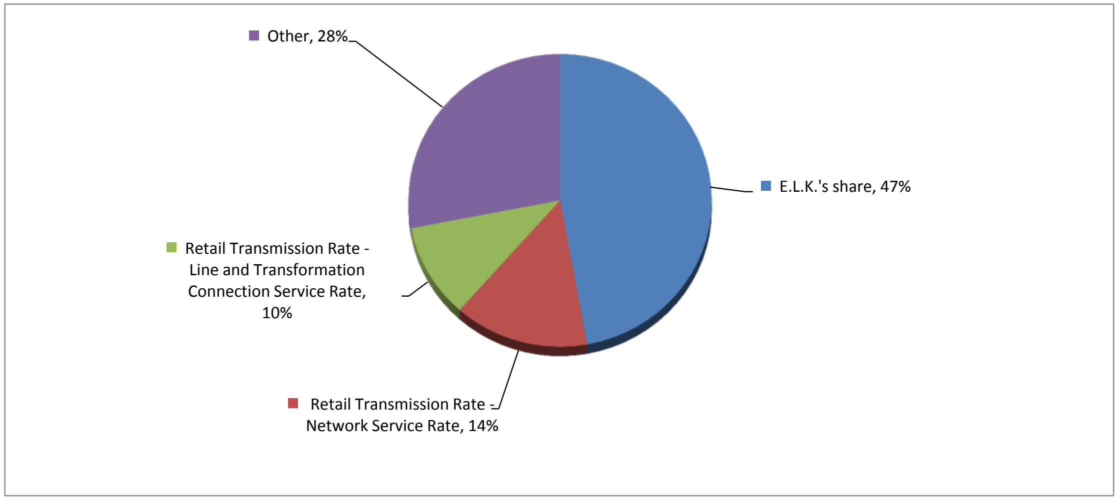
This covers the cost of delivering electricity from generating stations to the utility along the high-voltage transmission system and then along the utility's distribution system to homes and businesses.
These rates are set by the Ontario Energy Board.

Regulatory Charges

These rates are also approved by the Ontario Energy Board. They include the Wholesale Market Service Charge that covers the cost of services required to operate the electricity system and run the wholesale market. Also included is the rural rate protection charge which is used to partly offset the higher costs of providing electricity in rural and remote areas as well as the low income program support costs.

Distribution Revenue (E.L.K.'s share of the customer's statement of account)

Of the delivery charges only a portion is retained by E.L.K. Although E.L.K.'s portion of the delivery charges is 47% of the customer's statement of account, it represents about 18% of the customers' total monthly charges.



		2018 Budget	2018 Actual	2019 Budget
Distribution Revenue	Distribution Revenue	$ 3,336,000	$ 3,570,000	$ 3,584,000
Rent from Electric Property	Rental Income on Joint Use of Poles & Pearl St Lot Rental	$ 46,000	$ 50,000	$ 51,000
Other Utility Operating Income/Electric Revenue	Other Utility Operating Income/Electric Revenue	$ 3,000	$ -	$ 2,000
Late Payment Charges	Regulated by OEB	$ 82,000	$ 97,000	$ 95,000
Misc Service Revenue i.e. Approved Other Charges	Regulated by OEB, examples: account set up charge, NSF cheque etc.	$ 109,000	$ 118,000	$ 118,000
Revenue from Non-Utility Operations	Revenue from Non-Utility Operations	$ 52,000	$ 56,000	$ 56,000
Water Billing Revenue	Billing & Collecting Service provided to the Town of Essex Water Department.	$ 323,000	$ 324,000	$ 330,000
Miscellaneous non-operating income	Miscellaneous non-operating income	$ -	$ -	$ -
Interest Income	Interest Income	$ 77,000	$ 128,000	$ 130,000
Total Other Revenue		$ 4,028,000	$ 4,343,000	$ 4,366,000

Distribution Expenses

Distribution expenses – operations & maintenance

The cost of labour & expenses incurred in the operation & maintenance of the distribution system include:

- The supervision of these activities
- Operation of distribution stations
- Operation of overhead lines from the low voltage connection in the distribution station to the customer's premises
- Operation of removing and resetting overhead transformers and devices
- Removing and resetting underground transformers and devices and also the inspection and testing while in service
- Operation of customer meters and associated equipment
- Rents of property of others used, occupied, or operated in connection with the distribution system
- Maintenance of overhead distribution line facilities
- Maintenance of underground conduit, underground distribution line facilities
- Maintenance of distribution line transformers
- Maintenance of meters and meter testing equipment

Billing & collection

The cost of labour & expenses incurred in the customer accounting and collecting activites.

Administration & general

Executive salaries & expenses – Amounts paid to Directors.

Management salaries & expenses – Salaries & benefits paid to the management team of the utility.

General administrative salaries & expenses – Wages & benefits of the staff of the general administration of the office.

Office supplies & expenses – Includes the office supplies and expenses incurred in connection with the general administration of the utility's operations and includes:

- Bank service charges
- Books & subscriptions
- Communication expenditures
- Small office equipment
- Membership dues such as the membership in the EDA
- Office supplies
- Postage not relating to customer billing
- Travel

Outside services employed – This account shall include the fees and expenses of professional consultants.

Property insurance – Cost of insurance to protect the utility against losses and damages to owned property used in the utility.

Injuries & damages – Labour & related supplies/expenses incurred in injuries and damages activities including cost of safety, accident prevention and similar education activities.

Employee pension & benefits – The cost of benefits as determined by Section 3461 of the CICA Handbook.

Regulatory expenses – All expenses associated with regulatory bodies.

General advertising expenses – Expenses incurred in advertising and related activities.

Miscellaneous general expenses – Cost of labour & expenses incurred in connection with the general management of the utility not provided for elsewhere.

Maintenance of general plant – Maintenance of general plant not provided for in other accounts

Electrical Safety Authority Fees – Fees paid for permits, inspection and test and approvals by the Electrical Safety Authority.

Amortization Expense
This account includes the amount of amortization expense for all classes of depreciable Electric Plant in Service

Interest
This account shall include the amount of interest on outstanding debt issued plus interest paid on customer deposits.

Taxation
Includes municipal property taxation plus the payments in lieu of taxation.

			2018 Budget		2018 Actual		2019 Budget
Distribution Expenses - Operations & Maintenance		$	940,000	$	969,000	$	966,000
Operation Supervision & Engineering	5005	$	24,000	$	15,000	$	25,000
Load Dispatching	5010	$	-	$	-	$	-
Station Buildings and Fixture/Dist Station Equipment Labour & Supplies	5012/5016/5017	$	1,000	$	9,000	$	-
Overhead Distribution Lines - Labour	5020	$	24,000	$	22,000	$	25,000
Overhead Distribution Lines - Supplies	5025	$	-	$	-	$	-
	5035	$	2,000	$	9,000	$	5,000
Underground Distribution Lines & Feeders	5040	$	210,000	$	156,000	$	170,000
Underground Line/Feeders - Supplies	5045	$	-	$	-	$	-
Underground Distribution Transformers - Operation	5055	$	11,000	$	16,000	$	15,000
Meter Expense	5065	$	16,000	$	17,000	$	16,000
Overhead Distribution Lines & Feeders - Rental Paid	5095	$	9,000	$	30,000	$	20,000
Maintenance of Poles, Towers & Fixtures	5120	$	33,000	$	24,000	$	24,000
Maintenance of Overhead Conductors & Devices	5125	$	123,000	$	152,000	$	151,000
Maintenance of Overhead Services	5130	$	55,000	$	70,000	$	60,000
Overhead Distribution Lines & Feeders	5135	$	72,000	$	60,000	$	71,000
Maintenance of Underground Conductors & Devices	5150	$	89,000	$	76,000	$	77,000
Maintenance of Underground Services	5155	$	102,000	$	113,000	$	112,000
Maintenance of Line Transformers	5160	$	23,000	$	35,000	$	29,000
Maintenance of Meters	5175	$	146,000	$	165,000	$	166,000
Billing & Collecting		$	642,000	$	585,000	$	598,000
Supervision	5305	$	122,000	$	100,000	$	103,000
Meter Reading Expense	5310	$	72,000	$	62,000	$	74,000
Customer Billing & Collecting	5315-5335	$	444,000	$	402,000	$	416,000
Community Relations/Advertising Energy Conservation	5405-5515	$	4,000	$	21,000	$	5,000
Administration & General		$	984,000	$	919,000	$	1,098,000
Executive Salaries & Expenses	5605	$	24,000	$	23,000	$	23,000
Management Salaries & Expenses	5610	$	403,000	$	378,000	$	464,000
General Administrative Salaries & Expenses	5615	$	42,000	$	47,000	$	47,000
Office Supplies & Expenses	5620	$	91,000	$	102,000	$	100,000
Outside Services Employed	5630	$	12,000	$	13,000	$	80,000
Accounting		$	16,000	$	17,000	$	17,000
Information Technology		$	19,000	$	16,000	$	14,000
Customer Information System		$	77,000	$	74,000	$	75,000
Legal		$	37,000	$	7,000	$	7,000
Property Insurance	5635	$	35,000	$	31,000	$	31,000
Injuries & Damages	5640	$	58,000	$	35,000	$	50,000
Regulatory Expense	5655	$	84,000	$	92,000	$	109,000
General Advertising Expenses	5660	$	-	$	-	$	-
Miscellaneous General Expenses	5665	$	7,000	$	2,000	$	2,000
Maintenance of General Plant	5675	$	50,000	$	54,000	$	51,000
Electrical Safety Authority Fees	5680	$	5,000	$	5,000	$	5,000
Taxes other than Income Taxes	6105	$	19,000	$	18,000	$	18,000
Donation	6205	$	5,000	$	5,000	$	5,000
Amortization	5705	$	358,000	$	366,000	$	381,000
Other Interest Expense	6035	$	57,000	$	75,000	$	75,000
Interest on LT Debt	6040	$	72,000	$	82,000	$	96,000
Total expenditures before payments in lieu of income tax		$	3,053,000	$	2,996,000	$	3,214,000
Taxation							
` Payments in lieu of income taxes (tax provision to be determined by KPMG)	6110						

E.L.K. ENERGY INC. 2019 Budget Commentary

Good Afternoon

Welcome. I'd like to take this opportunity as the first Budget meeting with the new finance committee by providing a little more additional detail this time around that may help with some background of the company. We have 2 returning members and Morley is our new team member.

Pages 1, 2 and 3 are simply a brief introduction regarding E.L.K. Energy, its accounting methodology used and some interesting facts and service quality indicators of E.L.K. Energy this past year. E.L.K. is the successor company of three smaller utilities. E.L.K. is highly regulated by the Ontario Energy Board through submission of quarterly reports as well as a review and approval of our yearly Tariff of Rates and Charges schedule which can be found on our website. E.L.K.'s accounting procedures are currently in accordance with IFRS that began in 2015 as described in the notes to the FS. On page 3, with respect to E.L.K.'s service quality indicators, it is important to note all targets have exceeded OEB standards.

Pages 4, 5, and 6 represent and depict E.L.K. Energy's past capital investments and accumulated amortization in chart format. As well, a detailed account description is also represented here for reference purposes that provide additional narrative on E.L.K.'s capital accounts.

Page 7 is E.L.K.'s Capital summary by account. In 2018, E.L.K. Budgeted approximately \$1.2M. Actual figures resulted in approximately \$1.1M. The primary factor for this difference was the large Radial Boom Derrick chassis is currently being billed and E.L.K. has not yet taken possession of this heavy duty truck. For 2019 E.L.K. is budgeting approximately \$1.56M in capital expenditures. The specific details of these capital projects are provided on pages 9 and 10 for your reference and informational purposes.

As well, on page 7 is a forecasted look of E.L.K.'s projected 2020 and 2021 capital expenditures which are currently being approximated at \$1.1M and \$1.4M respectively. The detailed breakdown of these amounts can be found on pages 11 through 14.

Jumping back to page 8. This page was provided for informational purposes. Here, you can find a description of planned capital projects as well as previously completed ones from the prior year.

Now if everyone can turn to page 15. This page concludes the capital portion of the budget and lists E.L.K. Energy transportation fleet and kilometers driven.

Pages 16, 17, 18 & 19 are provided for informational purposes discussing in detail the rate setting process and a typical E.L.K. Energy statement of account as it would appear on time-of-use pricing. It is important to remember that all rates are highly scrutinized by the OEB and the LDC must receive approval prior to implementing new rates.

Page 20 details out E.L.K.'s Revenue Analysis. In 2018 E.L.K. Energy budgeted approximately $4.0M. 2018 actual total revenue resulted in approximately $4.3M. The increase is primarily from the increase in distribution revenue projected as well as the interest income E.L.K. was able to achieve working with the Town and our new bank CIBC. For 2019, the budgeted amount is approximately $4.4M, which is very consistent with 2018. The distribution revenue being projected in 2019 is that of 2018 with a small inflationary increase as approved by the OEB.

Pages 21 and 22 detail E.L.K.'s main expenditure classifications with descriptions and has been provided for background information.

Page 23 represents E.L.K.'s detailed expenditures which are broken down into three main headings. I will speak to each category, the first being Distribution Expenses- Operations & Maintenance. In 2018, E.L.K. budgeted 940K. The 2018 actual totaled $969K. A couple of the larger variances included account 5040 variance (approximately 54K less than budgeted) is the result of underground locates primarily driven by consumer demand. Account 5125 is approximately $29K over budget and is a factor driven by repairs required and weather related incidents. The maintenance of meters is approximately $19K higher primarily due to the exchange rate as this is a US paid supplier. E.L.K. is budgeting approximately $966K for 2019.

The next section billing & collecting was budgeted at $642K. Actual results totaled $585K. Everything in this section is very consistent with budget. The slight decrease is the result of decreased postage costs by approximately $35K. E.L.K. has worked internally at trying to reduce this cost now and in the future. E.L.K. has consolidated its monthly Reminder/Disconnect Letter to customers from 2 to 1 each month, as well as the continuous promotion of e-billing to E.L.K. customers, which eliminates paper bills altogether. E.L.K. is budgeting $598K for 2019 which is consistent with 2018 actuals.

The final main category, administrative and general expenses had a budget of $984K. The 2018 actual was approx. $919K. The decrease is primarily related to two accounts. Account 5610 is approximately $25,000 less than budgeted as a result of The Director of Finance time being allocated to conservation programs which was recoverable. Furthermore, account 5630 Legal was budgeted in 2018 based on E.L.K. 2017 actual amount (our COS year) and some oral hearings. The budget was reduced significantly and E.L.K. was able to control those costs. E.L.K. is budgeting approximately $1.1M for 2019. The couple differences relate to Acct 5610 salaries where E.L.K. is budgeting for additional resources in office staff. Further, there is an increase of outside services 5630 of approximately $67K where E.L.K. is budgeting for an asset condition assessment was part of ELK's 2016 COS settlement process.

This concludes the 2019 Budget.

Billing

Cycle/Monthly Billing Procedures

The following procedures are to be utilized for cycle/month billing, and to assist, a cycle/monthly billing checklist is provided:

1) Meter reading entry. Confirm cycles reads are returned from MDMR for TOU reads. RPP accounts reads will be populated from reads obtained from Sensus.

For read cycles, this is to be done after readings are downloaded from the MDMR and NSigtR900 systems.

2) Run Meter Entry verification reports (Rollovers, Finals, Billex) and review and delete for later processing.

3) Readings are transferred to Billing batches with retailers separated. Reading Verification reports are run to determine if any estimates, no reads or variances that need to be investigated. Relevant service orders are created as required to obtain readings at premise and printed to forward to Operations staff for processing. Accounts requiring service orders can be transferred to separate billing batches as not to delay billing.

4) Retailer usages are exported via EBT to obtain invoice bill ready amounts. EBT Verification report is run to determine all retailer information has been received before final bill processing can occur.

5) Once payments, messages, pricing data are updated, CSR's will be given the all clear to calculate billing batches.

6) Calculation of the billing batch. Final reasonableness check is done from the verification tab.

7) Print the bills.

8) Review the bill presentation i.e. messages are displaying correctly. Ensure last bill number printed matches the bill print screen to ensure all bills are printed.

9) Journal print and post bills. Bills are put in vault for safekeeping until they are processed for mailing.

10) Out of town & mailing group bills have been separated.

11) Bills are put into envelopes using automated envelope system.

Service Orders

When reviewing verification reports it may be necessary to prepare service orders. Conditions requiring the generation of a service order may include but is not limited to:

- An account has been estimated a number of times in excess of the maximum allowable.
- Actual reads result in excessive consumption.
- A meter is damaged and needs repair.

Conclusion Document

Standard: IAS 16 – Property, Plant and Equipment

Topic: Capitalization - Overheads

Objective:

To document the accounting policy for the capitalization of overheads.

Background:

Core Principle

The cost of an item of property, plant and equipment (PP&E) is recognized as an asset if and only if:

a) It is probable that future economic benefits will flow to the company; and
b) The cost of the item can be measured reliably.

The cost of an item of PP&E includes any costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Certain costs are explicitly prohibited from inclusion as costs of an item of PP&E:

a) Costs of opening a new facility;
b) Costs of introducing a new product or service (including advertising and promotion);
c) Costs of conducting business in a new location or with a new class of customer (including costs of staff training)
d) Administration and other general overhead costs; and,
e) Day-to-day servicing costs.

IAS 16 does not indicate what constitutes an item of PP&E. Judgment is required when applying the core principle.

Directly attributable

The term "directly attributable" is not defined in IAS 16. The specific facts and circumstances surrounding the cost and the ability to demonstrate that the cost is directly attributable to an item of PP&E is critical to establishing whether the cost should be capitalized. The cost must be attributed to a specific item of PP&E at the time it is incurred. The incurrence of that cost should aid directly in the construction effort making the asset more capable of being used than if the cost had not been incurred.

General and administrative overhead

IFRS does not provide a definition of general and administrative overhead (G&A). The specific facts and circumstances surrounding the nature of the costs and the activity associated with it must be considered to determine if it is directly attributable to an item of PP&E.

G&A costs typically benefit the organization as a whole or areas of the organization more broadly rather than contributing directly to bringing a physical asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The more the nature of a particular cost strays from being directly attributable to an item of PP&E, then the more likely it is that the cost will be determined to be in the nature of G&A.

<u>Day-to-day servicing costs</u>

Day-to-day servicing costs are defined as costs of labour and consumables and may include the cost of small parts. The purpose of these expenditures is often described as for the "repairs and maintenance" of the item of PP&E.
Whether to capitalize repairs and maintenance (R&M) is dependent on the interpretation of paragraph IAS 16.12.
Interpretations:

1. Interpret wording in paragraph 12 to mean "that under no circumstances do R&M get capitalized". Example – Capitalizing the cost of a repair to the value of the vehicle, this is *not* permitted under IFRS

2. Interpret wording in paragraph 12 to mean that R&M costs do not get capitalized to the cost of the item of PP&E that has been repaired but the repair cost becomes part of the operating cost of an item of PP&E that is used to construct another item of PP&E. The operating costs are then capitalized to the constructed item of PP&E. This is permitted under IFRS since the cost is directly attributable to bringing a physical asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

<u>Feasibility studies and pre-construction activities</u>

Normally, feasibility studies are not capitalized under IFRS as these costs do not always result in asset construction, and therefore may not meet the criteria of providing a future economic benefit. Additionally, the associated costs must be directly attributable to an item of PP&E. Pre-construction activities (such as design work) prior to a decision to go ahead with a capital project do not qualify for capitalization.

Considerations:

Canadian GAAP allowed for capitalization of general and administrative overhead, training costs, etc. while IFRS does not.

The Ontario Energy Board (OEB) requires electricity distributors to be in full compliance with IFRS requirements as applicable to non-regulated enterprises and only where the Board authorizes specific alternative treatment for regulatory purposes is alternative treatment acceptable.

E.L.K. performed a complete review of its costs included in overheads.

The analysis that follows is based upon the overheads that have historically been included for capitalization.

<u>Payroll burden</u>

Payroll burden consists of the following benefits paid to employees: health benefits, prescription drugs, dental vision, long-term disability, bereavement time, OMERS, Workplace Safety and Insurance Board, Employment insurance, CPP, EHT and E.L.K. employees' protection equipment (safety shoes/ clothing/expendable tools). IAS 16 specifically allows for benefits as defined in IAS 19 to be included as a directly attributable cost. The payroll allocation is allocated to capital based upon labour dollars charged to capital. Benefits are accumulated in the general ledger for all employees and allocated based upon where the employees charge their time (capital jobs/maintenance).

Truck burden

Truck burden consists of fuel, vehicle maintenance, repairs and license renewals. Trucks and company vehicles are used on the job site and are directly related to the construction of an asset as they are required to construct the asset. Truck expenses are allocated to capital based upon the timesheets recorded for the truck.

Fuel, amortization related to the truck, truck insurance and license renewals can be capitalized because they are costs required to keep the trucks in running order and are directly attributable to constructing the asset and bringing it to its intended use. Amortization is not currently included in the truck allocation under CGAAP.

E.L.K. is taking the position that repairs and maintenance costs are operating costs of the trucks and therefore can be capitalized since they are directly attributable costs meeting IFRS criteria.

Stores costs

Currently, a stores overhead is not applied to inventory used on capital jobs.

Under IFRS, general and administrative expenses are not capitalized. General and administrative expenses tend to benefit the organization as a whole rather than a single job (or item of PPE). Typically, maintaining stores are more efficient than having parts delivered direct to the job site as they are needed. This fact indicates that stores costs are more in the nature of general and administrative overhead and are not capitalized.

Engineering costs

Currently, an engineering burden is not applied to capital jobs, since all E.L.K. employees complete timesheets and charge time spent on capital jobs directly to the job.

Conclusion:

E.L.K. will capitalize all costs, including the above overheads, when the cost is directly attributable to bringing the item of PP&E to the location and condition necessary for it to be capable of operating in the manner intended by management.

Any general and administrative costs that have not been discussed above will not be capitalized.

The following changes were made to the capitalization policy as a result of the transition to IFRS:

Payroll burden:

No changes were identified for this burden.

Truck burden:

Amortization of the vehicles will form part of the truck burden.

Engineering burden:

No changes were identified for this burden.

Stores burden:

No changes were identified for this burden.

Conclusion Document

Standard: IAS 16 – Property, Plant and Equipment

Topic: Componentization and Depreciation

Objective:

To document the accounting policy for componentization and depreciation of property, plant and equipment.

Background:

The following summarizes IFRS guidance with respect to property, plant and equipment (PP&E):

Each part of an item of PP&E with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity should allocate the amount initially recognized in respect of an item of PPE to its significant parts to be depreciated separately.

A significant part of an item of PP&E may have a useful life and a depreciation method that is the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

Depreciation is to be computed on a systematic basis over the estimated useful life of the item of PP&E. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors.*

Depreciation of an asset begins when it is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale in accordance with **IFRS 5** and the date that the asset is derecognized.

Considerations:

Significant components of PP&E will be separately accounted for under IFRS. Each significant component and the estimated useful lives, for purposes of computing depreciation expense under IFRS, will be set out in Table 1 as attached, which summarizes the conclusions reached below.

Overhead system

Poles:

Currently, poles at E.L.K. comprise a fully dressed pole and E.L.K. has determined that it wouldn't be appropriate to componentize these assets further based on the fact that items other than the pole itself would not have a significant cost in relation to the pole. E.L.K. owns both wood poles and steel poles, with the relative proportion estimated to be ninety five percent and five percent, respectively. E.L.K.'s experience has been that the useful life of the steel pole is longer. Steel is expected to have a useful life of fifty years, whereas wood is expected to have a useful life of forty years. Because E.L.K. doesn't plan to install any additional steel poles and the dollar value of the steel poles in the existing asset base is minimal, E.L.K. has determined fully dressed poles to be one component.

In terms of useful lives, E.L.K. has assessed pole lives relative to the Kinectrics Inc. Asset Depreciation Study for the Ontario Energy Board ("Kinectrics Report"). E.L.K. assessed the mechanical stress, electrical loading, operating practices, environmental conditions, maintenance practices, and non-physical factors experienced and determined whether the utilization factors (UFs) experienced by E.L.K. are consistent with the UFs noted for typical useful life in the Kinectrics report.

Overhead line switches, conductor, and reclosers:

Currently, overhead line switches, overhead conductor, and reclosers are one component in the asset records. Overhead line switches and reclosers are insignificant in comparison to the dollar value of overhead conductor. As a result, it is appropriate to group these assets as one component.

E.L.K. has assessed overhead conductor lives relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report.

Summary:

- Poles, towers, and fixtures will be considered one component with a useful life of 45 years
- Overhead line switches, overhead conductors, and reclosers will be considered one component with a useful life of 60 years

Transformers

Currently, overhead and underground transformers are treated as one component. E.L.K. has experienced similar useful lives for underground and overhead transformers. As a result, there is no need to split these into separate components.

E.L.K. has assessed transformers lives relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report.

Summary:

- Transformers (overhead and underground) will be considered one component with a useful life of 40 years

Underground System

<u>Primary cable:</u>

The existing asset base in use includes EPR cable, non-TR cross linked Polyethylene cable, direct buried, Non-TR XLPE cable, in duct, TR XLPE cable, direct buried and in duct.

Primary EPR cable are much older than twenty five years and are still in use but are fully depreciated. Primary EPR cables are no longer installed. Primary Non-TR cross linked polyethylene cables direct buried and primary Non-TR XLPE cables in-duct are for the most part older than twenty five years and are still in use but are fully depreciated with a net book value of nil. Most of the non-TR cable is greater than twenty five years old. The majority of primary cable that still has net book value greater than zero is TR XLPE and is a combination of direct buried and in-duct installations, with an estimated larger percentage being in-duct. Any new installations are in-duct. E.L.K. considered whether there was a need to split in-duct and direct buried into separate components. Experience has shown the useful lives are substantially the same and in duct will become an ever greater percentage of the net book value. As a result, it is appropriate to treat these assets as one component.

E.L.K. has assessed primary cable lives relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report. The equipment that is currently failing has been in service about thirty years; however, it is direct buried and non-TR cable, which is expected to have a lower life than TR XLPE cable in-duct and has a net book value of nil.

<u>Secondary cables:</u>

All secondary cable from property lines to the residential house/commercial building is direct buried. Secondary cable that is in duct is included in the account for primary cable.

E.L.K. has assessed secondary cable lives relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report.

<u>Foundations and vaults:</u>

Currently, E.L.K. treats the foundations and vaults as one component with transformers. Foundations and vaults are a small percentage of the net book value of transformers but the expectation is that the percentage will increase in future years. E.L.K. has concluded that the foundations and vaults will need to be split out from transformers because of differing useful lives. The current practice is not to replace the foundation when the transformer is replaced so the life of the foundation is greater than the life of the transformer. Experience shows foundations are lasting sixty to seventy years.

E.L.K. has assessed underground foundations, underground vaults lives relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report, but experience shows they are lasting a little longer than typical.

Switchgear:

Currently, switchgear is included with transformers; however, the existing net book value is minimal. For future years, however, there should be a new account for new pad mounted switchgear. The new equipment has more electronic components and this could lead to lower useful life.

Non-physical factors are considered to be high because of the technological obsolescence risk associated with these assets. While the core unit should last thirty years, the four processors in the unit will likely not last thirty years due to obsolescence.

E.L.K. has assessed switchgear life relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report with the exception of the non physical factors (“NPF”). E.L.K. has assessed the NPF as high compared to that of Kinectrics which is low. E.L.K. believes a twenty year life is appropriate based on this obsolescence factor, which is below the thirty year typical life per the Kinectrics Report.

Ducts and concrete encased duct banks:

E.L.K. has more ducts than concrete encased duct banks. The duct banks are usually received as a contribution from the developer so the net book value is nil. The existing net book value is largely for ducts. As a result, splitting these assets into separate components would not be necessary.

E.L.K. has assessed ducts lives relative to the Kinectrics Report and determined that UFs experienced are consistent with the typical useful life in the Kinectrics report.

Summary:

- Underground primary cable will be considered one component with a useful life of 40 years Underground secondary cable will be considered one component with a useful life of 35 years
- Underground foundations and underground vaults will be considered one component with a useful life of 60 years
- Pad mounted switchgear will be considered one component with a useful life of 20 years
- Ducts and concrete encased duct banks will be considered one component with a useful life of 50 years

Minor assets

Office equipment:

- Office equipment will be considered one component with a useful life of 10 years because there were no assets with a significant cost or different useful life noted in the asset base

Administrative Buildings:

- Administrative buildings will be considered one component with a useful life of 50 years because there were no components with a significant cost or different useful life noted in the asset base

Vehicles:

E.L.K. has two main types of vehicles with differing useful lives. As a result, it was determined that vehicles should be split into two components based on different useful lives and the significance of dollar values of these components. These components are:

i) bucket trucks and radial boom derricks “RBDs” (noted as heavy vehicles)
ii) underground vehicles, pick-up trucks, sport utility vehicles, and trailers (noted as light vehicles)

Bucket trucks experience greater wear and tear than typical due to the size of E.L.K. territory. E.L.K.’s experience and replacement policy shows that 15 years is a reasonable estimate for heavy vehicles, which fits at the high end of the Kinectrics Report useful life range. A useful life of 8 years was chosen for light vehicles, which is consistent with E.L.K.’s experience and replacement policy and within the Kinectrics Report useful life range.

Computer Equipment:

- Computer equipment consists of hardware and software and will be considered one component since there are no assets with a significant cost or different useful life noted in the asset base. The useful life is determined to be 5 years based upon E.L.K.’s experience and replacement policy.

Tools:

- Tools will be considered one component with a useful life of 10 years because there are no assets with a significant cost or different useful life noted in the asset base.

Communication equipment:

- Communication equipment including cellular devices, radios, telephone system and other communication equipment will be considered one component with a useful life of 10 years because there are no assets with a significant cost or different useful life noted in the asset base.

Meters:

There are four main asset types in the existing meter asset base.

i) Industrial and commercial meters are similar in nature to smart meters. E.L.K.’s experience is that fifteen years is a reasonable estimate of the useful life because given the electronics in these meters, there is a technological obsolescence factor that lowers the life.

ii) Smart meters currently have a seal date of ten years. Accordingly, E.L.K. believes smart meters will be handled on a remove and replace basis after 10 years. For the repeaters and data collectors, it is anticipated that repeaters and data collectors will be replaced in conjunction with smart meter replacement and therefore they have a similar useful life.

iii) Wholesale meters are a more accurate meter than the industrial and commercial meters and therefore cost more than typical industrial and commercial meters. As a result, they will be treated as a separate component, despite the life of these assets being consistent with industrial and commercial meters.

iv) Current and potential transformers ("CT" and "PT"), they have a different useful life than meters and should be a separate component going forward. Within CTs and PTs there are general service and wholesale meter points but the useful lives of these are similar. E.L.K.'s experience suggests a useful life of forty years which is around the mid-range provided in the Kinectrics Report.

Summary of Meters:

- Meters will split into four components being residential smart meters, industrial and commercial energy meters, wholesale meters and CTs/PTs with useful lives of 10 years, 15 years, 15 years and 40 years, respectively.

Conclusion:

The new levels of componentization and the corresponding useful lives will be applied beginning January 1, 2013. The net book value as deemed cost exemption (available to rate regulated entities) will be applied so that the opening values at January 1, 2013 do not need to be restated and therefore, componentization does not need to be applied retroactively.

Table 1: E.L.K. – PP&E Components and Proposed Useful Lives

IFRS Component	CGAAP Component(s)	IFRS Proposed Useful Life	CGAAP Useful Life
Land	Land	N/A	N/A
Buildings & fixtures	Buildings & fixtures	50	50
Overhead poles, towers, & fixtures	Overhead conductors & devices	45	25
Overhead line switches , overhead conductors & reclosers	Overhead conductors & devices	60	25
Ducts & concrete encased duct banks	Underground conduit	50	25
Underground primary cables	Underground conductors & devices	40	25
Underground secondary cables	Underground conductors & devices	35	25
Pad mounted switchgear	Line transformers	20	25
Underground foundations & underground vaults	Line transformers	60	25
Overhead & underground transformers	Line transformers	40	25
Residential Smart Meters (including repeaters and data collectors)	Meters	10	25
Industrial/Commercial energy meters	Meters	15	25
Wholesale energy meters	Meters	15	25
PTs & CTs	Meters	40	25
Office furniture and equipment	Office furniture and equipment	10	10
Computer equipment (hardware & software)	Computer equipment- hardware, Computer equipment - software	5	5
Heavy vehicles	Transportation equipment	15	8
Light vehicles	Transportation equipment	8	8
Tools, shop, garage equipment	Tools, shop, garage equipment	10	10
Communication equipment	Communication equipment	10	10

E.L.K. Energy Inc. **Statement of Policy and Procedure**

Manual:	Finance and Accounting	SPP No.	
Section:	Purchasing Cycle	Issued:	January 17, 2008
Subject:	Purchasing	Effective:	January 17, 2008
Issue to:	All Manual Holders	Page:	1 of 48
Issued by:		Replaces:	October 12, 2006
		Dated:	October 12, 2006

1 POLICY

The policies and procedures prescribed in this policy shall be followed for the purchasing of all *goods* and/or *service*s by *E.L.K.* or any of its officers, servants or employees.

E.L.K. purchasing principles shall comply with the "FAIRNESS IS A TWO WAY STREET ACT (Construction, Labour/Mobility)" which was adopted by the Ontario Legislature (June 7th, 1999) as amended. The Act prohibits the Ontario Government, prescribed agencies, boards commissions, Crown Corporations and broader public sector entities (including municipalities) from *award*ing *construction contract*s to contractors from a designated jurisdiction. Quebec is the jurisdiction designated by regulation under the act.

2 PURPOSE

2.01 The goals and objectives of the Purchasing Policy and each of the methods of purchasing authorized herein are:

(1) To provide the basic minimum requirements to ensure that *quotation*s are obtained, *competitive purchasing* is adhered to and continue to ensure that *E.L.K.* obtains the *best value* of *goods* and/or *service*s at the most economical cost.

(2) To the extent possible, ensure efficiency, openness, *accountability* and transparency in the administration of the purchasing function while protecting the financial interest of *E.L.K.* and respecting the competitive interests of those participating in the purchasing process.

(3) To ensure an uninterrupted flow of *goods* and/or *service*s by obtaining the right product, at the *best value*, with delivery at the right time.

(4) To attempt to reduce the amount of solid waste requiring *disposal* arising from the procurement of environmentally responsible *goods* and/or *service*s.

(5) To ensure proper policies and procedures are in place to support the achievement of *Board*/Corporate goals and objectives.

3 SCOPE

The Purchasing Policy applies to the Company.

4 RESPONSIBILITY

4.01 Managers have the responsibility of overseeing all purchasing activities within their department(s) and are accountable for achieving *best value* while following the purchasing principles of this Policy.

4.02 The Chief Executive Officer and the *Director of Finance* have the responsibility and authority to:
(a) Provide purchasing advice to departments,
(b) Monitor adherence to the provisions of this Policy,
(c) Notify Managers, in advance if possible, of non-compliance,
(d) Inform The *Board* that non-compliance with this Policy has occurred,
(e) Provide ongoing training and educational programs relating to this Policy,
(f) Ensure the issuance of *purchase order*s on a timely and efficient manner,
(g) Continuously monitor and evaluate the efficiency and effectiveness of purchasing procedures and implement opportunities for improvement,
(h) Sell and dispose surplus and/or obsolete material and equipment and
(i) *Purchase* all *goods* and *service* upon authority of a resolution of the *Board* and/or a written and properly authorized *requisition*, within the limits and conditions set out.

4.03 The *C.E.O.* or *Director of Finance* have the authority to instruct Managers not to approve *requisition contract*s and to submit recommendations to the *Board* for *approval* and may provide additional restrictions concerning purchasing where such action is considered necessary and in the best interest of *E.L.K.*

4.04 The *C.E.O.* and the *Director of Finance* from time to time, at his/her discretion, may make recommendations regarding the rescinding, remaking or amending this policy or any provision.

4.05 The Manager given *acquisition* authority under this policy is accountable and responsible to ensure that proper budgets exist and *purchase*s do not violate any *E.L.K.* legal or statutory policy. Those responsible for *requisition*ing and purchasing *goods* and/or *service*s will be held accountable for their decisions.

4.06 The Manager is responsible to ensure that the requirements of this Policy have been met before creating and releasing any *purchase order*.

4.07 *Approval* authorities of this Policy are to be in accordance with Table "B". Sales taxes, excise taxes, *goods* and *service* taxes and duties shall be included in determining the price of a *contract* for the supply of *goods* or *service*s for the purpose of the relationship of the price to the Preauthorized Expenditure Limit.

4.08 A *Board* report recommending *award* of a *tender* or *proposal* is required as set forth in Table "B". *Board approval* may be required in cases where, in the opinion of the *C.E.O.* or *Director of Finance*, it is felt *purchase*s in excess of budgetary allotments should be reviewed by the **Board**, in which case a report to the *Board* will need to be prepared.

4.09 The prescribed sections of this Policy maintain the integrity of the *bid solicitation* processes including protecting the interests of *E.L.K.*, the public and persons participating in a purchasing process.

4.10 The Ontario Public Buyers Association (OPBA) "Code of Ethics for public purchasers is based upon the following tenets and members of the OPBA attempt to consistently practice their profession and deal with their day-to-day responsibilities according to these principles. Members are encouraged to display this statement in their departments as well as other locations in their agencies."

(1) "Open and Honest Dealings with Everyone Who is Involved in the Purchasing Process." This includes all businesses with which *E.L.K. contract*s or from which it *purchase*s *goods* and/or *service*s.

(2) "Fair and Impartial *Award* Recommendations for All Contracts and Tenders." This means that *E.L.K.* does not extend preferential treatment to any vendors, including local companies. Not only is it against the law, it is not good business practice, since it limits fair and open competition for all vendors and is therefore a detriment to obtaining the best possible value for each tax dollar.

(3) "An Irreproachable Standard of Personal Integrity on the Part of All Those Designated as Purchasing Agents for this Agency." Absolutely no gifts or favours are accepted by the staff associated with the purchasing agents of *E.L.K.* in return for business or the consideration of business. *E.L.K.* does not publicly endorse one company in order to give that company an advantage over others.

4.11

E.L.K. is committed to the development and implementation of a vendor performance measurement system which will include, but may not be limited to, the following elements:

(a) Effectiveness,
(b) Objectivity,
(c) Fairness,
(d) Openness and Transparency,
(e) *Accountability* and
(f) Efficiency

5 DEFINITIONS

5.01 To establish the definition of any other purchasing term not herein included, reference shall be made to the latest edition of the National Institute of Governmental Purchasing Guide.

"*Acceptance*" means *E.L.K.* shall be under no obligation to accept the lowest or any *tender*, *proposal* or *expression of interest*. *E.L.K.* shall have the right to accept any submission that it may consider to be in its best interest, or reject any or all submissions. The grounds for rejecting a submission include but are not limited to, past performance with *E.L.K.* or with other clients.

"*Accountability*" means having responsibility to account for ones conduct in an explicable and understandable manner.

"*Acquisition*" means the act of acquiring *goods* and *service*s.

"*Advertising*" means the publication of projects (*tender*s, *proposal*s, expressions of interest) in appropriate newspapers, journals, the *E.L.K.* website, or electronic bulletin boards.

"*Agreement*" means a formal written legal agreement or *contract* for the supply of *goods*, *service*s, equipment or *construction*.

"*Approval*" a requirement to obtain necessary *approval*s according to predefined dollar limits.

"*Approved Budget*" means a budget approved by the *E.L.K. Board* for the current fiscal year.

"*Asset*" means a non-consumable item valued over $1,000 with a useful life of over one year.

"*Award*" means authorization to proceed with the *purchase* of *goods* and/or *service*s.

"*Best Value*" means the optimal balance of performance and cost determined in accordance with a pre-defined evaluation plan. *Best value* may include a time horizon that reflects the overall life cycle of a given *asset*.

"*Bid*" means an offer or submission from a supplier in response to a *bid solicitation*.

"*Bid Bond*" means the form of security provided by a bonding agency licenced in the Province of Ontario required by the terms and conditions of *Bid Solicitation* documentation to guarantee that the successful bidder enters into a *contract* with *E.L.K.*

"*Bid Irregularity*" means a deviation between the requirements (terms, conditions, *specification*s, special instructions) of a *bid* request and the information provided in *bid* response. For the purpose of this policy, *bid* irregularities are further classified as "major irregularities" or "minor irregularities":

(a) Major Irregularity: a deviation from the *bid* request which affects the price, quality, quantity or delivery and is material to the *award*. If the deviation is permitted, the bidder could gain an unfair advantage over competitors. *E.L.K.* must reject any *bid* which contains a major irregularity.
(b) Minor Irregularity: a deviation from the *bid* request which affects form, rather than substance. The effect on the price, quality, quantity or delivery is not material to the *award*. If the deviation is permitted or corrected, the bidder would not gain an unfair advantage over competitors. *E.L.K.* may permit the bidder to correct a minor irregularity.

"*Bid Solicitation*" means a request for *bid*s that may be in the form of a Request for *Quotation*, *Request for Pre-Qualification*s, Request for *Tender* or Request for *Proposal*.

"*Bid Deposit*" means currencies, certified cheques, bank draft, bond surety issued by a surety company or other form of negotiable instrument to ensure the successful bidder will enter into an Agreement.

"*Blanket Purchase Order*" is document used to formalize a purchasing transaction requiring the vendor to hold firm the quoted prices for a designated period of time and is one that has been issued to a supplier for specific item(s) over a specified period of time. It is only applicable in cases where *goods* and *service*s are used by one or more departments repetitively throughout a given year. Comparative pricing for *blanket purchase order*s must be obtained on an annual basis.

"*Board*" means the *E.L.K. Board* of Directors and known as "*Board*" throughout the document.

"*C.E.O.*" means the Chief Executive Officer of *E.L.K.* or in his absence the most senior official designated by the *Board*.

"*Certificate of Clearance*" from the Workplace Safety and Insurance Board means a certificate issued by an authorized official of the Workplace Safety and Insurance Board certifying that the Board waives its rights under subsection 9 (3) of the Workers' Compensation Act, R.S.O. 1990, Chapter W.11.

"*Competitive Purchasing*" means an *acquisition* method whereby vendors/manufacturers are given an equal opportunity to compete for *E.L.K.* business.

"*Conflict of Interest*" means a situation in which private interests or personal considerations may affect a director's or an employee's judgment in acting in the best interest of *E.L.K.* It includes using a director's or an employee's position, confidential information or corporate time, material or facilities for private gain or advancement or the expectation of private gain or advancement. A conflict may occur when an interest benefits any member of the director's or employee's family, friends, or business associates.

"*Construction*" means a *construction*, reconstruction, demolition, repair or renovation of a building, structure or other civil engineering or architectural work and includes site preparation, excavation, drilling, seismic investigation, soil investigation, the supply of products and materials and the supply of equipment and machinery if they are included in and incidental to the *construction* and the installation and repair of fixtures of a building, structure or other civil engineering design or architectural work, but does not include professional *service*s related to the *construction contract* unless they are included in the *specification*s.

"*Consulting and Professional Services*" means those *service*s requiring the skills of a professional for a defined *service* and may include, but not limited to, architects, engineers, designers, surveyors, planners, accountants, auditors, management professionals, marketing professionals, software and information technology experts, financial consultants, insurance consultants, lawyers, law firms, real estate agents and brokers, planners, environmental planners and engineers, hydro geologists, transportation planners and engineers, communications consultants and any other professional *service*s which may be required by *E.L.K.*

"*Contract*" means a legally binding agreement between two or more parties. Such agreements will consist in the form of a:
(a) *Purchase Order*, or
(b) *Purchase Order* incorporating a formal agreement, or
(c) Formal agreement between two or more parties that creates an obligation to provide defined *goods* and/or perform defined *service*s.

"*Contract Order*" means a document used to formalize a purchasing transaction which is a binding agreement for a vendor to supply *goods* and/or *service*s to *E.L.K.*

"*Disposal*" means the transfer of ownership from *E.L.K.* by sale, trade-in, alternative use or destruction which are deemed surplus.

"*Director*" means an individual appointed to the *E.L.K. Board* of Directors.

"*Director of Finance*" means the *Director of Finance* for *E.L.K.*

"*E.L.K.*" means *E.L.K.* Energy Inc.

"*Emergency*" means a situation where the *purchase* of *goods* and *services* requires immediate action in the following situations:
(a) An imminent or actual danger to the life, health or safety of an official, the public, or an employee while acting on the behalf of *E.L.K.*;
(b) An imminent or actual danger of injury to or destruction of real or personal property belonging to *E.L.K.*, for which *E.L.K.* would be liable;
(c) An unexpected interruption or threat of an interruption of an essential public service;

(d) An *emergency* as defined by the Emergency Management Act and the Emergency Response Plan formulated by *E.L.K.*;
(e) A spill of a pollutant as contemplated by the Environmental Protection Act.

"*Evaluation Committee*" shall be composed of a minimum of two persons, namely one of C.E.O, Operations Manager or *Director of Finance*. The committee shall review all *proposals* against established criteria and reach consensus on the final rating results.

"*Evaluation Criteria*" to be applied in *award*ing the *Contract* and the role of an *evaluation committee* are stated clearly in the solicitation document. Criteria used to identify the *proposal* that best meets the needs of *E.L.K.* may include, but are not limited to, cost, quality, service, compatibility, product reliability, operating efficiency and expansion potential, proponent qualification and experience.

"*Execute*" means to legally bind *E.L.K.* to the terms and conditions defined within the agreement.

"*Executed Agreement*" means a form of agreement, either incorporated in the *bid* documents or prepared by *E.L.K.* or its agents, which has been *execute*d by the successful bidder and *E.L.K.*

"*Expression of Interest*" means a situation where vendor(s) approach *E.L.K.* or are solicited by *E.L.K.* to advise *E.L.K.* of their ability or desire to undertake, *E.L.K.* requirements and/or provide certain *goods* or *services*.

"*Fair Market Value*" means that price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and not under any compulsion to transact.

"*Goods*" includes supplies, materials and equipment of every kind required to be used to carry on the operation of *E.L.K.*

"*Holdback*" means an amount withheld under the terms of the *contract* to be used as security and to ensure the complete performance of the *contract* and to avoid overpayment in relation to progress of work.

"*Irregularities Contained in Bids*" is defined in Appendix "C" and includes the appropriate response to those irregularities.

"*Irrevocable Letter of Credit*" means an irrevocable letter from a financial institution containing a request that the party to who it is addressed pay the bearer or a person named therein money as a result of failure to perform or fulfill all the covenants, undertakings, terms, conditions and agreements contained in a *contract*.

"*Labour and Materials Payment Bond*" means a bond issued by a surety company licensed in the Province of Ontario to ensure that the contractor has paid his/her suppliers and thereby protects *E.L.K.* against liens which might be granted to suppliers should the contractor not make proper payments.

"*Letter of Agreement to Bond*" means a letter or other form issued by a bonding agency licensed to operate by Government of Canada or the Province of Ontario advising that if the bidder is successful the bonding agency will issue the required bonds.

"*Lowest Compliant Bid*" means the *bid* that would provide *E.L.K.* with the desired *goods* and/or *services* at the lowest per unit or overall cost, meets all the *specifications* and contains no major irregularity or qualifications.

"*Manager*" means an individual responsible for a department and who reports directly to the *C.E.O.*

"*Negotiation*" means the action or process of conferring with one or more vendors leading to an agreement on the *acquisition* of the required *goods* and *services* under the conditions outlined in this Policy.

"*No Bid Response*" means a supplier was solicited to provide a *quotation*, but did not provide a quote.

"*Performance Bond*" means a bond issued by a surety company *executed* in connection with a *contract* and which secures the performance and fulfillment of the undertakings, covenants, terms, conditions and agreements contained in the *contract*.

"*Progress Payment*" means a payment made under the terms of a *contract* during its terms and before its completion.

"*Proposal*" means a competitive offer, binding on the proponent and submitted in response to a *Request for Proposal* where *proposal* evaluation and *contract award* is based on criteria such as but not limited to proponent qualifications and experience, product features and characteristics, service quality and efficiency and conformance with *specifications* and requirements contained in the *Request for Proposal*. Price may be an *evaluation criteria* for *proposals* but will not necessarily be the predominant basis for *contract award*. *Proposals* will not have public openings.

"*Purchase*" means to acquire by *purchase*, rental or lease of *goods* and *services*.

"*Purchase Order*" means a written offer to *purchase goods* and *services* or a written *acceptance* of an offer where such offer has been made on forms prescribed by *E.L.K.* (See Appendix "E").

"*Quotation*" means a bid received as a result of a written or verbal (via telephone or in person) request by *E.L.K.* for the supply of *goods* and/or *services.*

"*Request for Pre-Qualification*" means a request for the detailed submission of the experience, financial strength, education, background and personnel of persons, firms or corporations who may, from time to time, qualify to supply *goods* and/or *services* to *E.L.K.*

"*Request for Proposal*" (RFP) means a process where a need is identified, but the method by which it will be achieved is unknown or flexible at the outset. This process allows vendors to propose solutions or methods to arrive at the desired result. The solicitation of written, competitive *proposal*s, or offers to be used as a basis for entering into a *contract* when *specification* and price will not necessarily be the predominant *award* criteria.

"*Request for Quotation*" (RFQ) means a *bid solicitation* where written quotes are obtained from suppliers without formal *advertising* or receipt of *sealed bid*s.

"*Requisition*" means a written or electronically produced request in an *approval* format and duly authorized to obtain *goods* and/or *services.*

"*Sealed Bid"* means a formal sealed response received as a part of a *quotation, tender* or *proposal.*

"*Service*" means all professional, consulting, *construction* or maintenance *services* including the delivery, installation, repair, restoration, demolition or removal of personal property and real property.

"*Sole Source*" means the *purchase* of a good and/or *service* where there is only one available supplier of that good and/or *service* that meets the needs or requirements of *E.L.K.* (See Appendix "A").

"*Specification*" means any description of the physical or functional characteristics, or of the nature of a supply, *service*, equipment or *construction* item. It may include a description of any requirement for inspecting, testing, or preparing a supply, *service*, equipment or *construction* item for delivery. It may also include drawings or samples.

"*Tender*" means an offer received from a supplier of *goods* and/or *service*s in response to an advertisement requesting sealed *tender*s.

6 REFERENCES

Table "A" Methods of Purchasing
Table "B" Circumstances For Purchasing Method – *Competitive Purchasing*

7 PURCHASING PROCEDURES

7.01 The circumstances for the use of purchasing methods for *E.L.K.* shall be as set forth in Table "A" attached hereto.

7.02 The *competitive purchasing* process for *E.L.K.* shall be as set forth in the Table "B" attached hereto.

7.03 **Informal low value purchasing** general conditions:

i. The solicitation of *quotation*s shall be fair, such that not to allow any bidder be given an unfair advantage.
ii. The *competitive purchasing* process undertaken shall be based on clear definition of the product or *service* and a clear outline of the review and criteria to be undertaken.
iii. A minimum of three written or verbal *quotation*s shall be required for *purchase*s exceeding $1,000.00. For *purchase*s under $1,000.00 *quotation*s are at the discretion of the Manager. Managers may lower the $1,000.00 limit for their department. *Purchase order*s are required if the *purchase* exceeds $1,000.00. Table "B" sets forth when written or verbal quotes are required.
iv. A *no bid response* is not be considered as a valid bid unless approved by the *C.E.O.* or *Director of Finance*.
v. Written *quotation*s shall be forwarded to the *Director of Finance* with a *purchase order* and shall be retained in the department files in accordance to Section 10.3 of this Policy.
vi. Sufficient funds are available to pay for the *contract*.
vii. The Manager may delegate his/her authority to a designate provided the designate follow the requirements of this Policy.

Upon request, the *C.E.O.* or *Director of Finance* shall assist in reviewing *requisition*s and the *quotation*s obtained by departments. Where appropriate, the *C.E.O.* or *Director of Finance* may solicit additional quotes.

7.03.01 Petty cash funds shall be maintained to expedite small *purchase*s and acquired *goods/service*s where immediate payment is required upon receipt of *goods*. The value of the *goods/service*s shall not exceed $300.

7.04 ***Request for quotation***: general conditions:

(a) Manager shall:

i. Prepare the *specification*s, terms and conditions relevant to the *acquisition* of *goods* and/or *service*s or provide other information as appropriate,
ii. Give notice of the *request for quotation* by requesting submissions from suppliers who appear best qualified to meet the provisions of the *quotation*, and at the discretion of the Manager advertise in a newspaper.
iii. Consider any irregularities and act in accordance with Appendix "C" and Section 8.07 of this Policy.

(b) The *purchase* of *goods* and/or *service*s in this section shall be made through the issuance of a *purchase order* up to the amount approved in the budget.
(c) *E.L.K.* reserves the right to accept or reject any submission.

7.05 **Request for *tenders*** are required for *purchase*s exceeding $50,000.

7.05.01 A Request for *Tender* shall be used for *purchase*s exceeding $50,000.00 where all of the following criteria apply:

(a) Two or more sources are considered capable of supplying the requirement,
(b) The requirement is adequately defined to permit the evaluation of *tender*s against clearly defined criteria,
(c) The market conditions are such that *tender*s can be submitted on a common pricing basis and
(d) *Best value* for *E.L.K.* can be achieved by an *award* selection made on the basis of the lowest bid meets *specification*.

7.05.02 At the discretion of the Manager, all such *tender*s shall either be placed on *E.L.K.* internet website or advertised in a newspaper. The onus is on interested vendors to review *E.L.K.* website and newspapers from time to time for competitions that may be of interest to them.

7.05.03 The Manager or designate shall provide a *tender* call form in writing or electronically containing the relevant *specification*s, budget, authorization signature(s), *approval* authority and terms and conditions for the *purchase* of *goods* and/or *service*s.

7.05.04 The Manager shall prepare a summary of the bids and recommend the *award* of *contract* to the lowest responsive bidder. Work shall be *award*ed based on the lowest bid that meets the required terms, conditions and *specification*s outlined in the bid document, unless otherwise approved by the *Board*.

7.05.05 Sealed *tender*s may be required in accordance with Section 8.15 of this Policy. *Performance bond* and *labour and materials payment bond* are required for all *purchase*s over $150,000. *Purchase*s of lesser value may include bonding requirements as determined by the Manager or designate if it is deemed in the best interest of *E.L.K.* When *performance bond* and *labour and materials payment bond* are required, the amount of each bond shall be 50 percent of the amount of the *tender* bid.

7.05.06 The Manager or designate shall be responsible for arranging for opening of *tender* bids at the time and date specified by the *tender* call. There must be in attendance at that time: *C.E.O.* or designate.

There may be in attendance at that time the Consultant or Engineer or designate.
It shall be the responsibility of the Manager or designate to notify those persons noted above.

All *tender*s will be opened in full view and at a reasonable time following the close of bidding. Total *tender*ed prices shall be read out at the meeting. Unless otherwise stated, the opening of bids shall commence at 11:45 a.m. on the designate date.

7.05.07 With respect to all reports initiated for *tenders*, there shall be a disclosure on the sources of financing, allocation of revenue and other financial commentary as considered appropriate by the *Director of Finance*.

7.05.08 The Manager or designate shall follow the provisions of Section 8.16 of this Policy regarding the *award* of *contract* using a *purchase order* or *contract*.

7.05.09 Except as otherwise provided, no work may commence or commitment to the *purchase* of *goods* and/or *services* shall be entered into, until such time as a *purchase order* has been issued or a *contract* signed and all necessary documents and *approvals* received.

7.05.10 *E.L.K.* reserves the right to accept or reject any submission.

7.05.11 The *award* of any *tender* requires *Board approval*.

7.06 A ***Request for proposal*** may be called when the requirements for *goods* and/or *services* needed cannot be definitely specified and where such *proposals* could result in specific offers by the bidders to fulfill the requirements, *services* or function at a particular price. A *request for proposal* should be used where one or more of the criteria for issuing a request for *tender* cannot be met, such as:
(a) Owing to the nature of the requirement, suppliers are invited to propose a solution to a problem, requirement or objective and the selection of the suppliers is based on the effectiveness of the proposed solution rather than on price alone, or
(b) It is expected that *negotiations* with one or more bidders may be required with respect to any aspect of the requirement.

7.06.01 The *Manager* and *C.E.O.* may jointly select a supplier without competition where;
(a) The estimated total cost does not exceed $50,000 and
(b) The cost of preparing a detailed *proposal* would deter suppliers from submitting *proposals*.

7.06.02 If estimated value is greater than $50,000, the *Manager* shall issue a request for *proposal* in the same manner as a request for *tender*.

7.06.03 Where in the opinion of the *Manager* in consultation with the *C.E.O.* the requirement is not straightforward or an excessive workload would be required to evaluate *proposals*, either due to their complexity, length, number or any combination thereof, a multi-step procedure may be used that would include a pre-qualification stage to ensure the workload is manageable.

7.06.04 The *Manager* shall maintain a list of suggested *evaluation criteria* for assistance in formulating an evaluation process using a *request for proposal*. This may include, but is not limited to, factors such as approach, qualifications, experience, equipment, facilities, strategy, methodology, past performance, scheduling and price.

7.06.05 An *Evaluation Committee* shall review all *proposal*s against the established criteria, reach consensus on the final rating results and ensure that the final rating results, with supporting documents, are kept on file.

7.06.06 With respect to all reports initiated for *request for proposal*, there shall be a disclosure on the sources of financing, allocation of revenue and other financial commentary as considered appropriate by the *Director of Finance*.

7.06.07 The *Manager* shall follow the provisions of Section 8.16 of this Policy regarding the *award* of *contract* using a *purchase order* or *contract*.

7.06.08 *E.L.K.* reserves the right to accept or reject any submission.

7.06.09 The *award* of any *request for proposal* requires *Board approval*.

7.07 A **two-envelope approach** may be used when it is desirable to evaluate the technical and qualitative information of a given *Request for Proposal* without being influenced by pricing information. Appendix "B" outlines the process to be followed in a two-envelope approach.

7.08 The following section is for acquiring *goods* and/or *service*s through the ***negotiation*** **process.**

7.08.01 The *C.E.O.* shall justify the need to use this policy prior to *E.L.K.* staff entering into any discussions with any vendor. This process may be adopted when any of the following conditions apply:

(a) Due to abnormal market conditions, the *goods* and/or *service*s required are in short supply;
(b) Where there is only one source of supply which would be acceptable and cost effective;
(c) When no bids are received in a *tender* or *quotation* call;
(d) When only one bid is received in a *tender* or *quotation* call;
(e) Where the lowest *tender* or *quotation* meeting *specification*s substantially exceeds the amount budgeted for the *purchase* and it is impractical to recall the *tender* or *quotation*;
(f) When all bids received fail to meet the *specification*s or *tender* terms and conditions and it is impractical to recall the *tender* or *quotation*;
(g) The *goods* and/or *service*s are required as a result of *emergency*, which would not reasonably permit the use of method other than direct *negotiation*; or
(h) Where authorized by the *Board* to do so.

7.08.02 All methods of *negotiation* by *E.L.K.* shall employ fair and ethical practices.

7.08.03 When the *C.E.O.* in conjunction with the *Manager* deems *negotiation*s to be necessary, they shall be carried out jointly in co-operation subject to the conditions of this Policy. Any negotiated *purchase* exceeding $50,000 is subject to *Board approval*.

7.09 The following section shall be followed for **leasing and financing *services***.

7.09.01 *Manager*s wishing to acquire or use *goods* or *service*s via an **external third party financing lease** must receive the *approval* of the *Board* prior to requesting to undertake any competitive bidding process.

7.09.02 Before entering into a lease or financing arrangement, the *Director of Finance* shall prepare a report to the *Board* with a recommendation, assessing, in the opinion of the *Director of Finance* the costs and financial and other risks associated with the proposed lease or financing arrangement, include but not limited to:
(a) A comparison between the fixed and estimated costs and the risks associated with the proposed financing lease and those associated with other methods of financing;
(b) A statement summarizing the effective rate or rates of financing for the financing lease, the ability for lease payment amount to vary and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the financing lease;
(c) A statement summarizing any contingent payment obligations under the financing lease that in the opinion of the *Director of Finance* would result in a material impact for *E.L.K.*, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities;
(d) An opinion about whether the costs of the financing for the proposed financing lease are lower than other methods of financing available to *E.L.K.* and whether the risks associated with the financing lease are reasonable;
(e) A summary of assumptions applicable to any possible variations in the financing lease payment and contingent payment obligations and
(f) Any other matters the *Director of Finance* or the *Board* considers advisable.

7.09.03 All purchasing activity including *request for proposal*s for financing are to require that submissions include original equipment cost, length of lease, effective rate of interest, residual value and terms and date of payment.

7.10 A ***blanket purchase** order* may be utilized where *goods* and *service*s ordered will not be used within a 3 month period and where:
(a) One or more departments repetitively order the same *goods* and/or *service*s and the actual demand is not known in advance, or
(b) A need is anticipated for a range of *goods* and/or *service*s for a specific purpose, but the actual demand is not known at the outset and delivery is made when a requirement arises.

7.10.01 In utilizing a *blanket purchase order*, the expected quantity of the specified *goods* or *service*s to be *purchase*d over the time period of the *agreement* shall be as accurate an estimate as practical and be based to the extent possible on previous usage adjusted for any known factors that may change usage.

7.10.02 *Blanket purchase orders* are not to exceed a one-year period to ensure that comparative pricing is obtained on a regular basis, unless it can be demonstrated that a supply/*service agreement* beyond one year will provide financial benefits to *E.L.K.*

7.10.03 The Finance Department shall establish and maintain *blanket purchase order* lists that define source and price with selected suppliers. Where purchasing action is initiated by departments for frequently used *goods* and/or *services*, it is to be made with the supplier or suppliers listed in the *blanket purchase order.*

7.10.04 Vendors are only authorized to fulfill their commitment by receipt of a *purchase order* or *blanket purchase order.*

7.11 The following section will be used for ***emergency purchases***:

7.11.01 "*Emergency*" is defined but not limited to:
(a) An imminent or actual danger to the life, health or safety of an official, the public or an employee while acting on *E.L.K.*'s behalf;
(b) An imminent or actual danger of injury to or destruction of real or personal property belonging to *E.L.K.* for which *E.L.K.* would be liable;
(c) An unexpected interruption or threat of an interruption of an essential public *service*;
(d) An *emergency* as defined by the Emergency Management Act, and the Emergency Response Plan formulated there under by *E.L.K.* and
(e) A spill of a pollutant as contemplated by the Environmental Protection Act.

7.11.02 When purchasing *goods* or *services* as a result of an *emergency* situation, the following policies apply:
(a) *Purchases* over $1,000.00 but under $10,000.00
A *Manager* may initiate or approve *purchases* under $10,000.00 in an *emergency* situation. Immediately following such *purchase*, the *Manager* will notify the *C.E.O./Director of Finance* in writing of the *purchase* with full details concerning the circumstances under which the *purchase* was made. *Purchases* of this nature will require that a *purchase order* be prepared and that as many comparative quotes as practicable under the circumstances are obtained.
(b) *Purchases* over $10,000.00
The initiating *Manager* must obtain the prior *approval* of the *C.E.O.* or, in the absence of the *C.E.O.*, the *Director of Finance* in consultation with the Chair or Vice-Chair for *E.L.K.*. As soon as reasonably possible following the *purchase*, the *Manager* will issue an information report to the *C.E.O.* and when the *purchase* was made. *Purchases* of this nature will require that a *purchase order* be prepared and that as many comparative quotes as practicable under the circumstances are obtained.

7.11.03 All *emergency purchases* made under this section shall be confirmed by the issuance of a *purchase order* or *contract* as *requisitioned* by the initiating *Manager* immediately or as soon as practicable following the commitment.

7.12 This section applies to the *purchase* of ***consulting and professional services*** unless the *purchase* has been exempt from this Policy. The *acquisition* process described in this section is restricted to *acquisition*s that are predominantly or exclusively for *consulting and professional services*. *Acquisition* of *consulting and professional services* is defined in Section 5 and in accordance with this Policy.

7.12.01 *Consulting and Professional Services* shall be acquired in accordance with the general *acquisition* process where informal/formal *quotation*s or *tenders/proposal*s (Section 7.03 to 7.06) are required.

7.12.02 The department shall endeavor to see that individuals and firms providing *consulting and professional services* have fair access to *E.L.K.* assignments.

7.12.03 The department shall attempt to provide sufficient detail to outline the objective, type and scope of work to be conducted.

7.12.04 The *Board* upon the written recommendation of a *Manager* may waive the requirement for *quotation*s or *proposal*s when:
- (a) The works are the continuation of a previous project
- (b) The firm has demonstrated unique qualifications to undertake the project such as:
  - (i) in house expertise
  - (ii) historical data on *E.L.K.*
- (c) Time constraints are such that to seek *quotation*s or *tender*s will result in:
  - (i) increased costs
  - (ii) loss of provincial or federal funding

8.0 BID AND CONTRACT REQUIREMENTS

8.01 ***Construction contracts*** shall comply with the requirements of this Policy with the provision that *contract*s shall be endorsed in either a *purchase order* and/or formal *contract* in a form satisfactory to *E.L.K.*

8.01.01 The successful bidder for a *construction* project shall submit the following documentation in a form satisfactory to *E.L.K.* within seven (7) working days after being notified in writing to do so by *E.L.K.* or its designate:
- (a) *Executed performance bond*s and labour and material payment bond(s),
- (b) *Executed agreement*,
- (c) Insurance documents in compliance with the *tender* documents,
- (d) Declarations respecting the Workplace Safety & Insurance Act,
- (e) *Certificate of Clearance* from the Workplace Safety & Insurance Board and
- (f) *Executed performance bond.*

8.02 The following conditions apply to all **bid submissions:**

8.02.01 Bid documents shall be submitted and received in the manner as specified in the bid document.

8.02.02 Unless otherwise stated, the closing time for receiving bid documents shall be 11:30 a.m. on the date designated by the *Manager*.

8.02.03 Unless otherwise stated, the opening of the bids shall commence at 11:45 a.m. on the closing date.

8.02.04 Fax submissions will not be accepted.

8.02.05 Bid documents received by *E.L.K.* later than the specified closing time shall be returned unopened to the bidder.

8.02.06 A bidder who has already submitted a bid document may submit a further bid document at any time up to the official closing time. The last bid document received shall supersede and invalidate all bids previously submitted by that bidder.

8.02.07 A bidder may withdraw his or her bid document at any time up to official closing time, provided that the withdrawal is made in writing, is on company letterhead and is signed by an authorized signatory of the bidder. All bid documents submitted are irrevocable after the official closing time.

8.02.08 All bidders may be requested to supply a list of all subcontractors to be employed on a project. The *Manager* or designate responsible for the project thereto must approve any deletions or additions made to the list of subcontractors after the opening of the bid in question.

8.02.9 The bid documents shall clearly specify what action shall be taken with respect to informal or unbalanced bids and what penalties shall be imposed if the bidder fails to submit the appropriate documents in the manner specified and the *Manager* under whose jurisdiction the bid will be administered shall report such failures to the *Board* with appropriate recommendations.

8.02.10 *E.L.K.* reserves the right to accept or reject any bid document.

8.03 A *Manager* or designate with the concurrence of the *C.E.O.* may request the **cancellation of a *bid solicitation*** at any time up to *contract award*.

8.03.01 The *Manager* or designate and the *C.E.O.* shall ensure that the confidentiality of any bid submitted is maintained in accordance with the provisions of the Protection of Privacy Act, as amended.

8.04 Where bids are received in response to a *bid solicitation* but, in the opinion of the *Manager* under whose jurisdiction the bid will be administered acting together with the *C.E.O.* or *Director of Finance* exceed budget, are not responsive to the requirement or do not represent *Fair Market Value* a **revised solicitation** shall be issued in an effort to obtain an acceptable bid unless Section 8.04.01 applies.

8.04.01 The *Manager* or designate and the *C.E.O.* or *Director of Finance* jointly may waive the need for a revised *bid solicitation* and enter *negotiation*s with the lowest responsive bidder or the highest responsive bidder for a revenue-driven bid selection emanating from a *bid solicitation* under the following circumstances and shall be done in accordance with Section 7.08 of this Policy:

(a) The total cost of the lowest responsive bid is in excess of the funds appropriated by the *Board* for the project or the highest responsive bid revenue is less than that made in appropriate accounts in the *Board approved budget* and

(b) The *Manager* or designate and the *C.E.O.* or *Director of Finance* agree that the changes required to achieve an acceptable bid will not change the general nature of the requirement described in the *bid solicitation.*

8.04.02 In the case of building *construction contract*s, where the total cost of the lowest responsive bid is in excess of the budget approved by the *Board*, *negotiation*s shall be made in accordance with Section 7.08.

8.04.03 *E.L.K.* has the right to cease *negotiation*s and reject any offer.

8.05 In the event **only one bid is received** in response to a request for *tender*, the *Manager* may return the unopened bid to the bidder when, in the opinion of the department or designate and the *C.E.O.* or *Director of Finance* additional bids could be secured. In returning the unopened bid the *Manager* shall inform the bidder that *E.L.K.* may be recalling the *tender*s at a later date.

8.05.01 In the event that only one bid is received in response to a request for *tender*s, the bid may be opened and evaluated in accordance with *E.L.K.* usual procedures when, in the opinion of the *Manager* or designate and the *C.E.O.* or *Director of Finance* , the bid should be considered by *E.L.K.* If, after evaluation by the *Manager* or designate and the *C.E.O.* or *Director of Finance*, the bid is not found to be acceptable, the procedures set out in Section 8.04 shall be followed.

8.06 If **two equal bids** are received the *Manager* will offer an opportunity for bidders to re-bid.

8.06.01 Should a tie persist, the *Manager* under whose jurisdiction the bid will be administered acting together with the *C.E.O.* shall evaluate the two tied bids giving consideration to several factors, including but not limited to the following:

(a) Whether a prompt payment discount is being made available to *E.L.K.* and in what amount;

(b) When delivery is an important factor, which bidder can offer the best delivery date;

(c) The sales *service* record of both bidders and which bidder is, in the opinion of *E.L.K.*, in a better position to offer the best sales *service*; and

d) The overall performance record of both bidders relative to their past business dealings, if any, with *E.L.K.*;

8.06.02 If, after a consideration of the factors set out above the respective *Manager* acting together with the *C.E.O.* or *Director of Finance* cannot make a determination that will break the tie, then the names of the tied bidders shall be written on paper and placed into a container and one piece of paper shall be drawn randomly from the container by the *Manager* and the *tender* shall be *award*ed to the bidder whose name appears on the piece of paper drawn.

8.06.03 The *Manager* shall set the time and location of the draw and the bidders shall be advised in writing in order that they may be present. Bidders must provide written confirmation that they have received notification of the draw date/time either by fax or email. The following shall be present at the draw: the *C.E.O.* or *Director of Finance* and the *Manager* in charge of the *bid solicitation* or their designate(s), any of the bidders, or their authorized representatives. Should any bidder elect not to be represented at the draw, the draw will proceed regardless.

8.07 The process for administering and responding to **bid irregularities** contained in any and all *contract*s shall be set out in Appendix "C" attached hereto.

8.07.01 *E.L.K.* reserves the right to waive minor irregularities at its sole discretion.

8.08 **Analyzing of bid responses** shall be as follows. Request for *tender*s, *request for proposal*s and bid response shall be tabulated and analyzed by the *Manager* or designate with a recommendation forwarded to the *C.E.O.* for review.

8.09 *E.L.K.* does not encourage **in-house bidding** as part of its procurement process.

8.10 The circumstances for ***sole source* purchasing** for *E.L.K.* shall be as set forth in Appendix "A" attached hereto.

8.11 Departments whose budget provides for the *acquisition* of *goods* and/or *service*s shall be responsible for the preparation of ***specification*s** for a quote, *tender* or *proposal* call.

8.11.01 The *C.E.O.* or *Director of Finance* shall have the authority to review and recommend improvements to the *specification*s and resulting changes to *specification*s shall be made with the co-operation of the *Manager* or designate concerned.

8.11.02 *Specification*s should be detailed but not brand specific to leave room for potential vendors to provide alternatives in the event an equal or better-proven product or method is available and shall not deter a competitive process.

8.11.03 In cases where the *specification* will result in a *sole source purchase*, it shall be at the discretion of the *C.E.O.* or *Director of Finance* to require the department to bring forward a report for *Board approval*.

8.11.04 Vendors or potential vendors shall not be requested to expend time, money or effort on design or in developing *specification*s or to otherwise help define a requirement beyond the normal level of *service* expected from vendors. When such *service*s are required:
(a) The *C.E.O.* or *Director of Finance* shall be advised,
(b) The *contract*ed vendor will be considered as a consultant and unable to make an offer for the supply of the *goods* and/or *service*s,
(c) A fee may be paid to the *contract*ed vendor; and
(d) The detailed *specification*s shall become the property of *E.L.K.* for use in obtaining competitive bids.

8.11.05 Where, in the opinion of the respective *Manager* acting together with the *C.E.O.* or *Director of Finance* it is not possible to prepare precise *specification*s in order to issue a request for *tender* for the provision of *goods* and/or *service*s, a *request for proposal*s shall be issued. The *Manager* shall prepare *evaluation criteria* and weightings for the criteria. The document shall clearly distinguish those requirements that are deemed mandatory or non-mandatory and shall clearly outline how these items will be evaluated.

8.11.06 At the discretion of the *Manager* a refundable or non-refundable fee may be charged for *tender*s, *proposal*s, *expression of interest* and *specification* packages.

8.12 The **total project cost or *contract*** amount shall be sum of all costs to be paid to the vendor/supplier under the *contract*, plus all taxes and less any rebate.

8.13 The initiating department is responsible to ensure that those vendors providing *service*s to *E.L.K.* meet the necessary **Workplace Safety and Insurance Board** requirements as set out in Subsections of 18.13 and 18.14 of this Policy. The insurance policy shall be in a form satisfactory to *E.L.K.* prior to the commencement of any work being performed, for no less than the minimum amounts stated in Section 8.13.01 and in force for the entire *contract* period and subsequent maintenance period.

8.13.01 The minimum insurance requirements required by *E.L.K.* in Canadian dollars, shall be
(a) Subdivision
- $5 million General Liability
- $5 million Environmental Pollution Liability
- $2 million Auto Liability

(b) Consultants
- $2 million General Liability
- $2 million Professional Errors or Omissions Liability

(c) *Contract*s
- $2 million General Liability

(d) Tenants
- $2 million General Liability
- $300,000 Tenant Legal Liability

(e) Other Types of *Contract*s

At the direction of the *Board* acting on the recommendation of the *Manager*, the *Manager* or designate may determine any other risk requiring coverage.

8.13.02 *E.L.K.* shall be:
(a) Named as an additional insured in the policy of insurance and the policy shall contain a cross-liability/separation clause;
(b) Indemnified from any and all claims, demands, losses, costs or damages resulting from the performance of a bidder's obligation under *contract*.

8.13.03 Vendor insurance policies shall not be altered, cancelled or allowed to lapse without thirty (30) days prior written notice to *E.L.K.* If the insurance policy is cancelled or changed in any manner that would affect *E.L.K.* as outlined in coverage specified in the policy for any reason, thirty (30) days prior notice by registered mail shall be given by the insurer to *E.L.K.* The contractor shall deliver the insurance policy or certificate prior to commencing any work pursuant to any *contract*s.

8.13.04 The contractor shall maintain such fire and theft insurance, including dishonesty of any employees or agents hired by the contractor, as well provide coverage for loss by burglary, fire or theft of any stock or equipment of the contactor's upon city premises.

8.13.05 Prior to payment to a supplier or vendor, a *certificate of clearance* from the Workplace Safety and Insurance *Board* shall be provided by the vendor to *E.L.K.* evidencing the payment of all required premiums or levies to the Workplace Safety and Insurance *Board* to the date of payment by *E.L.K.* to the vendor.

8.13.06 All bid documents shall clearly indicate requirements to be provided by the successful bidder.

8.13.07 *Manager* or designate shall be contacted for assistance where insurance requirements are unclear and where insurance requirements are waived. The *C.E.O.* in conjunction with *E.L.K.*'s insurer shall have the authority to waive any and/or all insurance requirements of this section.

8.14 The *Manager* or designate shall be satisfied that the contractor who accepts a *purchase order* and/or *contract* is fully knowledgeable of all terms and conditions of the **Occupational Health and Safety Act**, including the regulations applying to an employer, deemed or otherwise, of a sub-contractor.

8.14.01 The contractor shall strictly comply with all aspects of the Occupational Health and Safety Act and regulations there under.

8.14.02 The contractor shall agree to indemnify and hold harmless *E.L.K.* and its employees for all matters and claims pertaining or relating to the work to be performed by the contractor and/or its sub-contractors.

8.14.03 The contractor shall assume responsibility for any and all breaches of health and safety requirements, including the cost of legal defense on a solicitor and own client basis should *E.L.K.* or any of its employees be charged with violating said Act or Regulations. In the event that *E.L.K.* or any of its employees thereof are convicted and fined for any such offence as having been a deemed employer or otherwise vicariously or definitively liable, the contractor shall forth with pay any such fine on behalf of such defendant.

8.14.04 The contractor shall deliver a *Certificate of Clearance* from the Workplace Safety and Insurance Board prior to commencing any work pursuant to any *contract*s ensuring all premiums or levies have been paid to the Workplace Safety and Insurance Board to the date of payment.

8.15 The *Manager* or designate may require that a bid be accompanied by a ***Bid Bond*** or other similar security to guarantee entry into a *contract*.

8.15.01 In addition to the security referred to in Section 8.15, the successful bidder may be required to provide,
(a) A *performance bond* to guarantee the faithful performance of the *contract*, and
(b) A *Labour and Materials Payment Bond* to guarantee the payment for labour and materials to be supplied in connection with a *contract*.

8.15.02 The *Manager*, *C.E.O.* and *Director of Finance* shall select the appropriate means to guarantee execution and performance of the *contract*. Means may include one or more of but are not limited to:
(a) Financial bonds for *contract* performance;
(b) Certified cheque, bank draft or money order drawn on any bank named in Schedule I or II to the Bank Act (Canada), any trust or loan company registered under the Loan and Trust Company Act (Ontario), the Province of Ontario Savings Office, or a credit union as defined in the Credit Unions and Caisses Populaires Act (Ontario),
(c) An *Irrevocable Letter of Credit* naming *E.L.K.* as the beneficiary,
(d) A *Bid Bond* issued by an approved guarantee company properly licensed in the Province of Ontario, on bond forms acceptable to *E.L.K.*,
(e) Canadian currency and
(f) Other forms of security deposits, provisions for liquidated damages, *progress payment*s and *holdback*s.

8.15.03 A *bid deposit* shall be required to accompany and be included in an envelope containing the bid documents in the following circumstances:
(a) All bids for *construction* projects;
(b) Special maintenance *contract*s, except for those *contract*s whose price in the opinion of the *Manager* is disproportionate to the cost of the contractor of obtaining a *bid bond*;
(c) All demolition *contract*s;

(d) In circumstances not mentioned in Section 8.15.03 (a) through (c) the *Manager* or designate in consultation with the *C.E.O.* or *Director of Finance* shall be authorized to determine whether or not a *bid deposit* is required prior to calling of *sealed bid*s.

8.15.04 When a *bid bond* is required, the *Manager*, in conjunction with the *Director of Finance*, shall determine the amount of the *bid deposit*.

8.15.05 When a *Performance Bond* or Labour and Material Payment Bond is required, the amount of the bond shall be 50% of the amount of the *tender* bid, unless the *Manager* recommends and the *Board* approves a higher level of bonding.

8.15.06 The *Manager* and the *Director of Finance* shall ensure that the guarantee means selected will:

(a) Not be excessive but will be sufficient to cover any financial risk to *E.L.K.*
(b) Provide flexibility in applying leverage on a supplier so that the penalty is proportional to any *contract* deficiencies and
(c) Comply with provincial statutes and regulations

8.15.07 All bidders shall include in the *tender/sealed bid* envelope the following:

(a) The *tender*/bid form issued by *E.L.K.* or its agents and
(b) The satisfactory declaration if applicable

8.15.08 If, in the opinion of the *Manager* or designate the risk to *E.L.K.* is not adequately limited by the *progress payment* provisions of the *contract*, an additional minimum payment *holdback* of 10% may be required.

8.15.09 The *Manager* or designate may release the *holdback* funds on *construction contract*s upon:

(a) The *contractor* submitting a statutory declaration that all accounts have been paid and all documents have been received for all damage claims,
(b) Receipt of clearance from the Workplace Safety and Insurance Board for any arrears of Workplace Safety and Insurance Board assessment,
(c) All the requirements of the Construction Liens Act being satisfied,
(d) Receipt of certification from *E.L.K.*'s Solicitor, where applicable, that liens have not been registered and
(e) Certification from the *Manager*, under whom the work has been performed that the conditions of the *contract* have been satisfied.

8.15.10 The conditions for release of *holdback* funds provided in Section 8.15.11 apply to other *goods* and/or *services contract*s with necessary modifications.

8.15.11 The *tender* documents shall clearly specify what action shall be taken with respect to informal or unbalanced bids and what penalties shall be imposed if the bidder fails to submit the appropriate documents in the manner specified and the *Manager* under whose jurisdiction the bid will be administered shall report such failures in consultation with the *C.E.O.* to the *Board* with appropriate recommendations.

8.15.12 In all circumstances with respect to *tenders* the *Manager* or designate in consultation with the *Director of Finance* is authorized to determine whether or not a *Letter of Agreement to bond* is to be submitted with the bids. When the requirements of a *Letter of Agreement to bond* have been determined, the failure of a bidder to provide said *Letter of Agreement to bond* shall result in the bid being rejected.

8.15.13 A *tender* and/or *proposal* requiring an appropriate *bid deposit* shall be void if such security is not received in the manner specified in Section 8.15.02 or if the value of the *bid deposit* is less than required. The *Director of Finance* is authorized to cash and deposit any *bid bonds* and/or cheques in *E.L.K.*'s possession that are forfeited as a result of non-compliance with terms, conditions and/or *specifications* of a *sealed bid*.

8.15.14 The successful bidder for maintenance *contracts*, demolition *contracts*, *proposals* for the sale and/or removal of *E.L.K.* owned buildings, or structures and *tenders* shall submit the following documentation in a form satisfactory to *E.L.K.* within seven (7) working days after being notified in writing to do so by *E.L.K.*:

(a) *Executed Performance Bond*,
(b) *Executed Agreement* and *Labour and Materials Payment Bond*(s),
(c) Insurance Documents in compliance with *tender* documents
(d) *Certificate of Clearance* from the Workers' Safety Insurance Board and
(e) Declarations respecting the Worker's Compensation

8.16 The ***award* of a *contract*** may be made by way of:

(a) *Purchase Order/Contract Order*
(b) Formal *Agreement*

8.16.01 A *Purchase Order* or *Contract Order* is to be used when the resulting *contract* is in the opinion of the *Manager* or designate, straightforward and will contain *E.L.K.*'s standard terms and conditions and is a binding *agreement* with the *contracted* vendor.

8.16.02 A Formal *Agreement* is to be used when the resulting *contract* is, in the opinion of the *Manager* or designate, complex and will contain terms and conditions other than *E.L.K.*'s standard terms and conditions.

8.16.03 It shall be the responsibility of the *Manager* initiating the *bid solicitation*, with the *Director of Finance* and/or Solicitor, to determine if it is in the best interest of *E.L.K.* to establish a formal *agreement* with the supplier.

8.16.04 Where it is determined that Section 8.16.03 applies, the formal *agreement* shall be reviewed and approved for execution by *E.L.K.*'s Solicitor or designate.

8.16.05 Where a Formal *Agreement* is required, as a result of the *award* of the *contract* by delegated authority, the Chair and *C.E.O.* shall *execute* the *agreement* in the name of *E.L.K.*

8.16.06 Where a Formal *Agreement* is issued, the *Manager* or designate shall issue a *purchase order* or *contract order* incorporating the terms and conditions relevant to the *award* of a *contract*.

8.16.07 Where a Formal *Agreement* is not required, the *Manager* or designate shall issue a *purchase order* or *contract order* incorporating the terms and conditions relevant to the *award* of a *contract.*

8.16.08 *Requisition*s or *purchase order*s shall not be arbitrarily structured to alter the relationship of the price to the preauthorized expenditure limit.

8.16.09 For an approved form of *agreement* for major *purchase*s of *goods* and/or *service*s, a form of *agreement* prepared or approved by *E.L.K.*'s Solicitor shall be used at the discretion of the *Director of Finance*, when deemed advisable in *E.L.K.*'s best interest.

8.17 Where a *contract* contains an **option for renewal**, the *Manager* may authorize such option provided that all of the following apply:

(a) The supplier's performance in supplying the *goods* and/or *service*s is, in the opinion of the respective *Manager* acting together with the *C.E.O.* or *Director of Finance*, considered to have met the requirements of the *contract*,
(b) The *Manager* or designate provides the *Director of Finance* with a written explanation as to why the renewal is in the best interest of *E.L.K.*
(c) The *Manager* and the *Director of Finance* agree that the exercise of the option is in the best interest of *E.L.K.* and
(d) Funds are available in appropriate accounts within the *Board approved budget* including authorized revisions to meet the proposed expenditure

Notwithstanding the foregoing options that exceed $50,000.00 require *Board approval* in the same manner as was required in the original *contract*.

8.18 No **amendment or revision** to a *contract* shall be made unless the amendment, in the opinion of the *Board*, is in the best interest of *E.L.K.*

8.18.01 No amendment that changes the price of a *contract* shall be agreed to without a corresponding change in requirement or scope of work and where applicable, *Board approval* is required.

8.18.02 Managers or designate may recommend amendments to *contract*s.

8.18.03 Where expenditures for the proposed amendment combined with the price of the original *contract* exceeds the *Board approved budget* for the project, a report prepared by the Manager shall be submitted to the *Board* recommending the amendment and proposing the source of financing.

8.19 Where a requirement exists to initiate a project for which *goods* and/or *service*s are required and **funds are not contained within the the *Board approved budget* to** meet the proposed expenditure, the Manager shall, prior to commencement of the purchasing process, submit a report to the *Board* containing:

(a) Information surrounding the requirement to *contract*,

(b) Information on the availability of the funds within existing budgets, which were originally approved by the *Board* for other purposes, or on the requirement of additional funds.

9 MATERIAL AND VENDOR MANAGEMENT

9.01 The Manager or designate shall be responsible for monitoring the prices of the *goods* required in **inventory** and establishing the necessary *purchase orders* and *blanket purchase order* so that staff can *requisition* their requirements in order to replenish the stock as needed.

9.01.01 Upon receipt of an authorized *requisition*, the Manager or designate shall proceed to contact suppliers in order to fulfill the inventory requirement.

9.01.02 The Manager or designate may from time to time alter the source or method of supply when it is, in his/her opinion, beneficial to do so.

9.01.03 Managers or designate shall ensure a physical inventory of stock items be taken on a periodic basis and an adequate allowance of inventory obsolescence be maintained.

9.01.04 Physical inventories can be taken periodically as designated by the Manager, but must be taken on December 31st of every year, or within 2 working days of December 31st and submitted to the Finance Department. All inventories should be kept only to the extent that they meet requirements within a 3-month period.

9.02 The Manager or designate shall,

(a) Arrange for the prompt **inspection of *goods* on receipt** to confirm conformance with the terms of the *purchase* or *blanket purchase order* and

(b) Inform the *C.E.O.* and *Director of Finance* of discrepancies immediately.

(c) Delivery receipts must be signed off by the Manager or designate and promptly forwarded to the Finance Department.

9.02.01 The *C.E.O.* or *Director of Finance* shall co-ordinate an appropriate course of action with the Manager or designate for any non-performance or discrepancies.

9.03 *Disposal* of **surplus and obsolete material and equipment** shall be done in accordance with this section.

9.03.01 Each Manager or designate shall submit an annual report to the *C.E.O.* identifying all furniture, vehicles, equipment and surplus stock, which are no longer used or which have become obsolete, worn out, or incapable of being used.

9.03.02 The *C.E.O.* shall have the authority to sell, exchange, or otherwise dispose of material declared surplus or obsolete to the needs of *E.L.K.* and where it is cost effective and in the best interest of *E.L.K.* to do so.

9.03.03 The Manager shall be responsible for ascertaining if the items can be of use to other departments rather than disposed of.

9.03.04 The *C.E.O.* shall have the authority to sell or dispose of the material by the most effective of following methods:
(a) Offered to other departments at no cost ;
(b) Offered for sale to public agencies;
(c) Sold by external advertisement, including *tender*, *quotation*, public auction, or on-line auction;
(d) Sold or traded to the original supplier or others in that line of business where it is determined that a higher net return will be obtained than following other procedures;
(e) Donated to a charitable organization;
(f) Recycled;
(g) Other methods as deemed appropriate;

9.03.05 In the event that all other efforts to dispose of material by sale are unsuccessful, these items may be scrapped.

9.03.06 Where it is deemed appropriate, the *C.E.O.* and/or the initiating department, may set a reserve price for an article that is to be sold and
(a) In case of *disposal* by *tender*, the reserve price shall be published and disclosed; or
(b) In case of public auction, on-line auction or *quotation*, the reserve price shall be used as an internal estimate and not disclosed.

9.03.07 The revenue generated from the sale of surplus and obsolete material shall be credited to the appropriate general ledger account.

9.03.08 Departments are responsible for the *disposal* of hazardous material. Where *disposal* prices must be obtained, the *C.E.O.* shall be notified of the necessary information regarding the hazardous material.

9.03.09 No employee, elected official, or immediate member of their families, shall be permitted to receive surplus and obsolete material except by *purchase* at a public auction or on-line auction.

9.04 Managers in conjunction with the *C.E.O.* and *Director of Finance* shall institute a **vendor performance management** program for *E.L.K.*

9.04.01 A performance evaluation shall rate the performance of the vendor on criteria determined by the Manager to be appropriate in determining if *E.L.K.* has obtained a satisfactory level of performance by the vendor.

9.04.02 Documented poor performance or non-performance may be used to determine the eligibility of a bidder to participate in future *E.L.K. contract*s in accordance with Section 9.06.

9.05 *E.L.K.* may, in its absolute discretion, **reject a *tender*** or *proposal* submitted by the bidder, if the bidder, or any officer or director of the bidder is or has been engaged, either directly or indirectly through another corporation, in a legal action against *E.L.K.* its elected or appointed officers and employees in relation to:
(a) Any other *contract* or *service*; or
(b) Any matter arising from *E.L.K.*'s exercise of its powers, duties, or functions.

9.05.01 In determining whether or not to reject a *quotation*, *tender* or *proposal* under this clause, *E.L.K.* will consider whether the litigation is likely to affect the bidder's ability to work with *E.L.K.*, its consultants and representatives and whether *E.L.K.*'s experience with the bidder indicates that *E.L.K.* is likely to incur increased staff and legal costs in the administration of the *contract* if it is *award*ed to the bidder.

9.06 The Manager or designate shall document evidence and advise the *C.E.O.* and *Director of Finance* in writing where the **performance of a supplier** has been unsatisfactory is terms of failure to meet *specification*s, terms and conditions or for health and safety violations.

9.06.01 The *Director of Finance* may, in consultation with the Solicitor, prohibit an unsatisfactory supplier from bidding on future *contract*s for a period of up to three years.

9.06.02 Any supplier being excluded from a bidding process due to poor performance will be reported to the *Board* and will be notified in writing of their exclusion.

9.06.03 The supplier shall have the opportunity to respond to the *Board* regarding a notification sent pursuant to Section 9.06.02. The decision of the *Board* regarding the exclusion of a supplier shall be final.

9.07 This section shall be followed in situations where it is deemed by the Manager or designate to be necessary to **pre-qualify bidders** prior to the commencement of the competitive *sealed bid* process. The purpose of the pre-qualification is to ensure that each bidder can demonstrate they have ability to provide the necessary expertise and resources to satisfactorily complete the work required. Pre-qualification shall only be considered in the following circumstances:
(a) The work involves complex, multi-disciplinary activities; specialized expertise, equipment, materials, or financial requirements,
(b) The work is such that *contract* administration costs (work inspection, follow-up, extra fee *negotiation*s) could result in a substantial cost to *E.L.K.* if the work is not satisfactorily performed the first time,

(c) The *goods* or equipment to be *purchase*d must meet national safety standards, or if no standard has been established, has required a demonstrated acceptable level of performance, or
(d) The work is considered "high risk" with respect to regulations governed under Occupational Health and Safety.

9.07.01 This is a two-step process, where either a competitive *sealed bid* or a *proposal* call will follow. Pre-qualification is the first step and would set out criteria requiring bidders to provide information such as, but not limited to:

(a) Experience on similar work
(b) References provided from other customers for similar work
(c) Verification of applicable licenses and certificates
(d) Health and safety policies and staff training, and
(e) Financial capability

9.07.02 Appropriate staff, at the direction of the *C.E.O.* and *Director of Finance* will evaluate and rank the submissions and then recommend a short list of acceptable bidders who will be invited to participate in the subsequent request for *tender* call.

9.07.03 Alternatively, *E.L.K.* may issue a request for information. A request for information can be used to build supplier interest and to see who the interested parties are to justify a full *request for proposal* competition. The request for information may request detailed information such as, but not limited to, company background, who the interested parties are, what they can offer and what they can do for *E.L.K.* Any resulting bid document will be advertised and will be open to vendors who wish to participate.

10 GENERAL ADMINISTRATIVE PROCEDURES

10.01 Where a supplier has **invoiced *E.L.K.* payments** the invoice shall be included in the appropriate monthly cheque register for the *Board* to be prepared by the *Director of Finance*.

10.02 The procedures in this section shall be used to **resolve any question involving the meaning or application of this Policy**. *E.L.K.* encourages the most open, competitive bidding process for the *purchase* of *goods* and/or *service*s and the equitable treatment of all vendors. In the event that disputes arise during the administration of a *contract* that cannot be easily resolved, the vendor shall:

(1) Request a meeting with the *C.E.O.* and *Director of Finance*. This request shall be in writing and shall provide a detailed statement of the legal and factual grounds of the protest, including copies of relevant documents and shall identify the form of relief requested.

(2) If, after the meeting, the vendor is satisfied that their concerns have been addressed and that the process has been fair and equitable, no further action shall be required.

(3) If, after the meeting, the *C.E.O.* and *Director of Finance* are convinced that there was an error or oversight on the part of the purchasing process, a report shall be issued to the *Board* for *approval*. The report shall set out the course of action recommended by the *C.E.O.* and *Director of Finance*.

(4) The *Board* will provide a final resolution to the conflict, subject to any litigation proceedings which may be commenced.

10.03 The public and the business community must have confidence in the integrity of *E.L.K.* officers and employees. Any officer, or employee who intentionally and knowingly **fails to act in accordance with this Policy** shall be subject to appropriate disciplinary action up to and including termination of employment.

10.03.01 Any bidder and existing suppliers who intentionally and knowingly fail to act in accordance with the purchasing Policy may be prohibited from bidding on future *contract*s for a period of three years in accordance with Section 9.06.

10.03.02 No *acquisition* of *goods* and/or *service*s or *disposal* of surplus *goods*, or equipment shall be made where the quantity or delivery is divided or in any manner arranged so that the price or value of the *goods* and/or *service*s to be acquired or disposed of is artificially reduced to circumvent the prescribed purchasing process.

10.03.03 No officer or employee or any relative of that officer, or employee shall be permitted to *purchase* any surplus *goods* to be disposed of except by successfully bidding on the same at a public auction or by *sealed bid* but in no case if the duties of that officer, or employee include making decisions regarding the *disposal* of such *goods* or activities relating to the conduct of the *disposal* process.

10.03.04 Officers and employees shall not knowingly cause or permit anything to be done or communicated to anyone which is likely to cause any potential vendor to have an unfair advantage or disadvantage in obtaining a *contract* for the supply of *goods* and/or *service*s to *E.L.K.*

10.04 In order to contribute to waste reduction and to increase the development and awareness of **environmentally sound purchasing**, *acquisition*s of *goods* and/or *service*s will ensure that wherever possible, *specification*s are amended to provide for expanded use of durable products, reusable products and products (including those used in *services*) that contain the maximum level of post-consumer waste and/or recyclable content, without significant affecting the intended use of the product or *service*.

10.04.01 It is recognized that cost analysis is required in order to ensure that the products are made available at competitive prices.

10.05 All officers and employees of *E.L.K.* shall provide their **best efforts** to comply with the terms and conditions of this Policy.

10.06 All officers and employees of *E.L.K.* shall not have a **pecuniary interest**, either directly or indirectly, in any *contract* with *E.L.K.* or with any person acting for *E.L.K.* in any *contract* for the supply of *goods* and/or *services* for which *E.L.K.* pays or is liable, directly or indirectly to pay.

10.06.01 All staff and others participating in the evaluation of *proposals* shall disclose any *conflict of interest* prior to the evaluation process.

10.06.02 All consultants *awarded* a *contract* by *E.L.K.* shall disclose to *E.L.K.* prior to accepting an assignment, any potential *conflict of interest*. If such a *conflict of interest* exists, *E.L.K.* as directed by the *C.E.O.* may, at its discretion, withhold the assignment from the consultant until the matter is resolved. And furthermore, if during the conduct of an *E.L.K.* assignment, a consultant is retained by another client giving rise to a potential *conflict of interest*, then the consultant shall so inform *E.L.K.*

10.07 The Province of Ontario's Discriminatory Business Practices Act (R.S.O. 1990) was established to prevent **discrimination** in Ontario on the grounds of race, creed, colour, nationality, ancestry, place or origin, sex or geographical location of persons employed or engaged in business. As such, granting **preference to local suppliers** to provide *goods* and/or *services* to *E.L.K.* cannot be undertaken.

10.08 Where a *contract* may extend beyond the **term of the *Board***, the *contract* shall contain provisions to minimize the financial liability of *E.L.K.* should the subsequent *Board* not approve sufficient funds to complete the *contract* and *E.L.K.* may terminate the *contract*.

10.09 The **disclosure of information** received relevant to the issue of *bid solicitations* or the *award* of *contracts* emanating from *bid solicitations* shall be made by the appropriate officers in accordance with the provisions of the Protection of Privacy Act, as amended.

10.09.01 All **records and information** pertaining to *tenders*, *proposals* and other *sealed bids*, which reveal a trade secret or scientific, unit process, technical, commercial, financial or other labour relations information, supplied in confidence implicitly or explicitly shall remain confidential if the disclosure could reasonably be expected to:

(a) Prejudice significantly the competitive position or interfere significantly with the contractual or other *negotiations* of a person, group of persons, organizations;

(b) Result in similar information no longer being supplied to *E.L.K.* where it is in the public interest that similar information continue to be so supplied;

(c) Result in undue loss or gain to any person, group, committee or financial institution or agency; or

(d) Result in information whose disclosure could reasonably be expected to be injurious to the financial and/or security interests of *E.L.K.*

10.10 Managers shall be authorized to co-operate with local municipalities, *board*s and commissions of such other organizations performing *service*s for or on behalf of *E.L.K.* with respect to co-operative or **bulk purchasing** of *goods* and with respect to providing general advice, information or assistance pursuant to such requests.

10.11 Where, in the opinion of the Manager or designate it would be effective, *tender*s and *proposal*s shall be placed on *E.L.K.* internet website and if *E.L.K.* so desires, in the local press.

10.11.01 Advertisements, where applicable, must appear with sufficient time between *advertising* and *tender* closing to permit a contractor to examine the advertisement, obtain the *tender* documents, complete and submit his/her *proposal*.

10.11.02 *Tender* and *proposal*s may be advertised on other government operated and/or purchasing association internet websites, where practicable, to attract competent bidders.

10.12 The purpose of this policy is to determine **how effective the Purchasing Policy has been** in achieving the objectives set out in Section 3 of the Policy.

10.12.01 The Purchasing Policy shall be reviewed within eighteen (18) months of passage.

10.12.02 The Purchasing Policy shall be reviewed subsequently thereafter prior to the end of each *Board* term.

10.13 All background information, information submitted by vendors, analysis, *purchase order* and other relevant information involved in obtaining prices for *goods* and/or *service*s shall be **retained** in compliance with *E.L.K.*'s Retention By-Law.

10.14 In the absence of the Manager or designate the *C.E.O.* or *Director of Finance* shall act as the **department purchasing agent**.

10.14.01 Any commitments being made where it is recommended that a *contract* be *executed* by the Chair or *C.E.O.* must first be approved by the *Board* where the expenditure is over $5,000.00 or *contract*s not terminable on 30 days' notice.

10.14.02 No employee or elected official shall *purchase* or offer to *purchase*, on behalf of *E.L.K.*, any *goods* and/or *service*s, except in accordance with this Policy.

10.14.03 The Tables "A" , "B" & "C", Appendix "A", "B", "C" , "D" and "E" attached hereto may be amended from time to time with report to the *Board*. Such amendments do not invalidate any other portion of this Policy.

10.14.04 The Manager or *Director of Finance* may randomly review departments purchasing related files on an on-going basis to review the effectiveness and integrity of the process and policy adherence.

10.14.05 The Manager in conjunction with the *Director of Finance* shall establish procedures consistent with the purposes, goals and objectives and be used as guidelines and for information on purchasing *goods* and/or *service*s in compliance with this Policy.

10.14.06 The *Director of Finance* shall initiate and submit the recommendation with respect to the *award* for group benefits, auditors, banking and professional *service*s to the *Board* with the assistance and consultation of the departments.

10.14.07 The *C.E.O.* shall initiate and submit the recommendation to the *Board* with respect to the sale of *E.L.K.* owned real property.

10.14.08 The *Director of Finance* shall initiate and submit the recommendation with respect to general insurance to the *Board.*

10.14.09 Managers shall review unsolicited *proposal*s received by *E.L.K.* Any purchasing activity resulting from the receipt of an unsolicited *proposal* shall comply with the provisions of this Policy.

10.14.10 To ensure standardization of corporate equipment and software, prior *approval* shall be required from the Manager and the *Director of Finance* for computer equipment.

10.15 Information to be included in ***purchase orders*** is as follows:

(a) Documentation of comparative pricing obtained (either written or verbal) or a copy of the RFQ, RFP or RFT submitted by the successful bidder and a summary of the criteria used to rate the bid
(b) Information concerning the vendor (name, address, telephone/fax number)
(c) Ship To/Bill To Information
(d) Details concerning the *goods* or *service*s *purchase*d and pricing, including estimated shipping charges, if extra payment terms
(e) Account to be charged
(f) Authorization for the *purchase* according to the requirements set out in Table "B"; where *Board* authorization is obtained, reference to the resolution is to be noted on the *purchase order.*

Table A – Methods of Purchasing

Method	Definition	Goals
Request for Proposal (RFP)	Process for obtaining unique *proposal*s designed to meet broad outcomes to a complex problem or need for which there is no clear or single solution. Solicitation of requests for *proposal* may be by invitation and/or by *advertising* (website/newspapers) and may include a "two envelolpe" approach. (See appendix B)	To implement an objective, fair, open, transparent, accountable and efficient process. *Proposal*s to be selected on the basis of 1) the highest score and 2) that the *proposal* meets the requirements specified in the competition, based on qualitative, technical and pricing considerations.
Request for *Tender* (RFT)	Process of obtaining competitive bids based on precisely defined requirements for which a clear or single solution exits. Bid solution performed on the basis of an advertisement (website, newspaper(s) and/or trade magazines.	To implement an effective, objective, fair, open, transparent, accountable and efficient competitive bids. *Tender*s to be accepted on the basis of the lowest bid that meets all of the requirements specified in the competition.
Request for Quotation (RFQ)	Same as Request for *Tender*, except that *bid solicitation* is done on an invitational basis from a pre-determined list of bidders that may be supplemented with public *advertising* at the discretion of management.	To implement an effective, objective, fair, open, transparent, accountable and efficient process for obtaining competitive bids. Quotes to be accepted on the basis of the lowest bid that meets all of the requirements specified in the competition.
Informal, Low Value Purchasing	Process for obtaining competitive pricing for *goods* and *service*s through phone, fax, email, vendor advertisements or catalogues.	To obtain competitive pricing in an expeditious and cost effective manner.
Sole Source Procurement	Process for obtaining *goods* and *service*s without seeking competitive pricing. Refer to Appendix A for full details of when this process may be used.	To allow for purchasing in an efficient and timely manner.

Table B: Circumstances for Purchasing Methods – *Competitive Purchasing*

Estimated Value of *Goods* or *Service*	**Method of Purchasing Required**	**Purchasing Paperwork Required**	**Authorization Required**
$0 to $1,000	Information Low Value Purchasing *Comparative pricing may be obtained at the discretion of purchaser; the requirement for comparative pricing at purchasing values less than $1,000 may be required on a departmental basis of the discretion of the Manager.*	None	Employee designed by a Manager; Managers have the option to reduce maximum purchasing $ levels requiring *approval* by Manager at their discretion.
$1,001 to $5,000	Informal Low Value Purchasing *Three comparative quotes required: Purchases under $2,500 – verbal quotes Purchases $2,501 to $5,000 – written quotes*	*Purchase Order* with three verbal quotes noted on P.O. or three written quotes attached to P.O.	Manager – up to the amount in *approved Budget*. Managers have the option to reduce maximum purchasing $ levels requiring *approval* by Manager at their discretion.
$5,001 to $50,000 where requirements can be definitively specified or defined	*Request for Quotation*	*Purchase Order*	Manager and *Director of Finance* or *C.E.O.* (up to the amount in *approved Budget*)
$5,001 to $50,000 where requirements cannot be definitively specified or defined	*Request for Proposal*	*Purchase Order*	Manager and *Director of Finance* or *C.E.O.* (up to the amount in *approved Budget*)
Greater than $50,000 where requirements can be definitively specified or	Request for *Tender*	*Purchase Order* or *Contract*	*Board* on recommendations of Manager/*C.E.O.*

defined			
Greater than $50,000 where requirements cannot be definitively specified or defined	*Request for Proposal*	*Purchase Order* or *Contract*	*Board* on recommendations of Manager/*C.E.O.*

Table C : Circumstances for Purchasing Methods – Non-*Competitive Purchasing*

Estimated Value of *Goods* or *Service*	**Method of Purchasing Required**	**Purchasing Paperwork Required**	**Authorization Required**
$0 to $500	Non-*competitive purchasing*	None	Manager
$501 to $50,000	Non-*competitive purchasing*	*Purchase Order*	Manager and *Director of Finance* or *C.E.O.* (up to the amount in *approved Budget*)
Greater than $50,001	Non-*competitive purchasing*	*Purchase Order* or *Contract*	*Board* on recommendations of Manager/*C.E.O.*

Appendix A – Non-Competitive (*Sole Source)* Purchasing

Non-competitive purchasing is deemed acceptable by *E.L.K.* in the following circumstances:

a) Where a statutory or market-based monopoly exists for the item(s) to be *purchase*d;
b) Where no bids were received in a competitive process;
c) Where an item is required by an exclusive right such as patent, copyright or exclusive license;
d) Where it is necessary to ensure compatibility with existing products to avoid violating warranty/guarantee requirements when *service* is required;
e) Where, in the opinion of the responsible Manager acting in conjunction with the *Director of Finance* or *C.E.O.*, the compatibility of a *purchase* with existing equipment, facilities or *service*s is a paramount consideration;
f) Where *goods* are *purchase*d for testing or trial use;
g) Where *goods* or *service*s are in short supply due to market conditions;
h) Where *E.L.K. purchase*s *goods* for resale;
i) Where *E.L.K.* has a rental *contract* with a *purchase* option and such *purchase* option is beneficial to *E.L.K.*;
j) When competitive procurement is impractical for certain items such as meal allowances, incidental travel expenses and training and education expenses;
k) Where compatibility between existing products is necessary to maintain consistency within the organization (ie software);
l) Where the sources of supply are restricted to the extent that there is not effective price competition, or consideration of substitutes is precluded due to any of the following:
    i) Components or replacement parts for which there is no substitute;
    ii) Compatibility with an existing product, facility or *service*s is required;
    iii) Specific standards authorized by the *Board* or other regulatory body with which compliance is required.
m) When only one bid/*proposal* is received through the procurement process and it is impractical to proceed with another call for *quotations*/*proposal*.
n) Where the cost of competitive purchasing exceeds the benefits. For example: in the case where transformers would need to be shipped to three vendors to obtain quotes and the shipping costs are significant to the anticipated cost of repair.

Appendix B: Two-Envelope Approach" to Requests for *Proposal*

A "two-envelope" approach may be used by *E.L.K.* when *E.L.K.* wishes to evaluate the technical and qualitative information of a given *proposal* without being influenced by pricing information. The Chief Executive Officer of *E.L.K.* will determine and approve instances when a "Two-Envelope Approach" should be used in a *Request for Proposal* process.

The following summarizes the key aspects of a "Two-Envelope Approach" for Requests for *Proposal*:

(1) Each proponent must submit qualitative and technical information in a sealed envelope ("Envelope One") and pricing information is a second sealed envelope ("Envelope Two").

(2) The contents of Envelope One for each company submitting a bid shall be opened and evaluated by the Manager in conjunction with the *C.E.O.* in terms of technical and qualitative *services*.

(3) After reviewing the contents of Envelope One for all bidders, the Manager will open and evaluate "Envelope Two" for only those bids that meet the *specifications* for the *Request for Proposal* in terms of technical and qualitative *services*.

(4) In the event that a *proposal* is not eligible to proceed to price evaluation, the proponent shall be disqualified from further consideration and the second envelope will be returned to the proponent unopened, along with the contents of the first envelope.

(5) A higher point rating of a top proponent is not deemed to be sufficient evidence for the decision to open one pricing envelope. The decision to open only one pricing envelope must be made after determination that only one proponent is qualified and capable of performing the project or *service*. This would only be expected to occur in unique situations where artistic merit, proven design capability or other unique, non-quantifiable characteristics exist.

(6) Where only one pricing envelope is opened, the pricing envelopes of other proponents shall remain sealed and retained until such time as the *Board* has reviewed and approved the *award* of the *contract*, after which time any sealed envelopes will be returned the proponents unopened.

(7) In the event that the process identified above results in two or more bidders satisfying *E.L.K.*'s requirements in terms of qualitative and technical information and pricing, *E.L.K.* reserves the right to accept or reject any submission.

Appendix C – Responses to Irregularities Contained in Bids

The following irregularities result in **automatic rejection and returned to the bidder:**

1. Bid or *proposal* received after the closing date/time.
2. Bid envelope received unsealed.
3. A bid is received by an excluded bidder.

The following irregularities result in **automatic rejection:**

1. The bid does not contain sufficient financial security as defined in the bid document prepared by *E.L.K.*
2. The bid has been completed and/or signed in an erasable medium (i.e. pencil).
3. The bid has been completed and is not legible.
4. Failure to *execute Agreement* to Bond or Bonding company's corporate seal or signature missing from *Agreement* to Bond.
5. Corporate seal or signature of the bidder missing; the signatory does not have the authority to bind the corporation and the signature is missing.
6. The bid documents do not acknowledge the necessary addendums which have a financial implication
7. The cheque has not been certified,
8. Failure to attend mandatory site visit.
9. Failure to insert the *Tender*er's business name in the Form of *Tender*.
10. Pricing page missing.
11. The bid documents contain changes to the bid document that have not been initialed and unit prices in the schedule of prices have been changed but not initialed and the *contract* totals are not consistent with the amended unit prices.

The following irregularities result in **automatic rejection unless**, in the opinion of the *C.E.O.* in cooperation with the applicable Manager, the incomplete information is deemed to be trivial or not significant:

1. All required sections of the Bid documents have not been completed
2. The bid is qualified or restricted.
3. Bids received on documents other than those provided by *E.L.K.*

	Description of Irregularity	Response to Irregularity
	Corporate seal or signature of the bidder is missing; the signatory does not have the authority to bind the corporation or the signature is missing.	Bidder permitted 48 hours to obtain missing corporate seal or signature or obtain the signature of a person authorized to bind the corporation
	The bid documents contain changes to the bid document that have not been initialed: a) Changes to information other than unit prices and *contract* totals	a) 48 hours to initial changes, as determined by the *C.E.O.*, in cooperation with the Manager b) 48 hours to initial changes as

	b) Unit prices in the schedule of prices have been changed but not initialed and the *contract* totals are consistent with the amended unit prices	determined by the *C.E.O.* with the Manager
	The bid contains mathematical errors which are not consistent with the unit prices	48 hours to make and initial corrections, unit prices will govern.
	Part bids (all items not bid)	Acceptable unless complete bid has been specified in the request.
	Bids containing minor clerical errors	48 hours to correct initial errors. *E.L.K.* reserves the right to waive initialing and accept bid.
	Other mathematical errors	a) If both the unit price and the total price are left blank, then both shall be considered as zero b) If the unit price is left blank but a total price is shown for the item, the unit price shall be established by dividing the total price by the estimated quantity c) If the total price is left blank for a lump sum item, it shall be considered as zero d) If the *tender* contains an error in addition and/or subtraction and/or transcription in the approved *tender* documentation format requested (i.e. not the additional supporting documentation supplied), the error shall be corrected and the corrected total *contract* price shall govern
	Bid documents which suggest that the bidder has made a major mistake in calculations or bid	Consultation with a Solicitor on a case-by-case basis.
	Any other irregularity	The *C.E.O.* in cooperation with the Manager and acting in consensus, shall have the authority to waive other irregularities or grant 48 hours to initial such other irregularities which jointly the *C.E.O.* and Manager consider to be of a minor nature.

Appendix D: Exemptions from the Purchasing Policy

While *purchase*s identified below are exempt from the policy, such *purchase*s must be within the spending limits provided in the budget approved by the *Board*.

The *acquisition* methods described in this policy do not apply to the following items:

1) *Purchase*s made through petty cash.

2) Training and Education, including:
   a) Conferences, conventions, courses and seminars
   b) Magazines, books, periodicals and subscriptions
   c) Memberships including licensing
   d) Staff training and development/workshops/relations

3) Reimbursable *Board* and Employee Expenses as permitted by the Travel Policy
   a) Advances and meal allowances
   b) Travel
   c) Hotel accommodation and mileage
   d) Miscellaneous, non-travel expenses

4) General Expenses
   a) Payroll deduction remittances, medical and insurance premiums (group benefits), tax remittances and any other payment for employment
   b) Licenses (vehicles, equipment, etc.), certificates, and other *approval*s required
   c) Postage
   d) Replenishment of petty cash funds
   e) Insurance claims, legal settlements and arbitration *award*s or other payment of damages
   f) Charges to and from other government bodies, including Federal, Provincial or Municipal

5) Professional & Other *Service*s
   a) Legal fees for expert or professional legal *service*s
   b) Insurance premiums
   c) Payments to Health agencies that are subject to *service agreement*s
   d) Ongoing maintenance for existing computer hardware and software

6) Real Estate
   a) Including land, building, leasehold interest, easements, encroachments, licenses etc.
   b) Realty *service*s regarding the lease, *acquisition*, demolition, sale of land and appraisal of land

7) Utilities
   a) Water and sewer
   b) Electricity
   c) Natural gas

d) Telephone *services*
e) Internet charges
f) *Advertising service* required by *E.L.K.* on or in but not limited to radio, television, newspaper and magazines
g) Consulting *services*
h) Additional non-recurring accounting and auditing *services*
i) Bank *services* where covered by *agreements*
j) Postage

Appendix E: Sample Purchase Order

Vendor:

Telephone No.:
Fax No.:

Ship to:
E.L.K. Energy Inc.
172 Forest Ave, Essex ON N8M 3E4

Invoice to:
E.L.K. Energy Inc.
172 Forest Ave, Essex ON N8M 3E4

Description of Item(s)/Services Purchased:

Date of P.O.:

Vendor Terms:

Deliver by:

Stock No.	Qty	Description	G/L Account	Unit price	Total
					$ -
					$ -
					$ -
					$ -
					$ -
					$ -
					$ -
					$ -
					$ -

Shipping charges *(indicate one)*:

☐ Included
☐ Extra

If quoted, please provide the cost of shipping ⇒

Sub-total	$ -
GST @ 6%	$ -
PST @ 8%	$ -
Total	$ -

Buyer: ______________________

Approved By: ______________________
Manager (purchases less than $5,000)

Approved By: ______________________
Director of Finance/C.E.O./Board Resolution Number

General Purchasing Policies:
The Purchasing Policy sets out the policies and procedures to be followed when purchasing goods and services for E.L.K. Energy. Purchase Orders for goods and services exceeding $1,000 must include information concerning comparative quotes obtained or a copy of the Request for Proposal, Request for Quotation or Invitation to Tender from the successful bidder, along with any documentation summarizing the evaluation process for such bids. Proper authorization must be obtained prior to purchasing as follows:

$0 to $5,000	Manager *(up to the amount in approved budget)*
$5,001 to $50,000	Manager and Director of Finance or C.E.O. *(up to the amount in approved budget)*
Greater than $50,001	Board, on recommendation of Manager and C.E.O.

Purchase orders should be forwarded to accounts payable upon completion/

Supporting Documentation for Comparative Quotes:

Supplier Name	Item Description/Stock No.	Price/Unit	Total Price

Notes:

Purchase Order Numbers:
The sequential numbering system for Purchase Orders will consist of the purchaser's initials, followed by a 2-digit number signifying the year and a 3-digit sequential number (for example, SS-06-001). Purchasers must maintain a log of Purchase Order Numbers used during any given calendar year. Following the end of the calendar year, the sequential log must be submitted to the Finance Department for audit purposes.

Packing Slips & Invoices;
Al invoices from suppliers must be forwarded to Accounts Payable. Packing slips received by the department upon receipt of the goods or services must be signed off as received and submitted to the Finance Department where they will be matched with the appropriated Purchase Order and invoice for payment.

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Budgeting Process Used by E.L.K.

The operating and capital budget is prepared annually by E.L.K. management and is reviewed and approved by the Finance Committee and ultimately by the E.L.K. Board of Directors. The budget process is initiated before the start of each fiscal year, and completed in Q1 of the following year. It provides a plan, against which actual results may be evaluated. Once approved, the budget is only revised if a material change in plan is required and would require Board approval.

The operating budget is a component of the overall budget process. The Operations Manager and Director, Finance & Regulatory Affairs provide input for the preparation of the operational and capital budget. The following directives are used to assist in the budgets preparation:

- Outside expenses for all operational and capital budgets are built using previous year actual and current year forecast as the base;

- Significant variances from prior years are explained;

- Accounting prepares a total labor budget using projected wage and benefit cost. Overtime and account distribution are based on previous years actual plus any identified or potential changes for the future year.

- Through the use of extensive customer feedback, E.L.K. will analyze and use this data in assisting it to develop future budgets at a more granular level. E.L.K. will analyze the importance of each customer concern, through percentages as well at the number of customers affected and the cost to address these matters.

E.L.K. Energy Inc.

DISTRIBUTION SYSTEM PLANNING

Net capital assets include service assets that are associated with activities that enable the conveyance of electricity for distribution purposes minus accumulated depreciation and contributed capital from third parties. Distribution assets refer to those assets that are most directly related to the distribution system, such as poles, overhead and underground lines, and transformers. General plant refers to assets that support the operation of the distribution system such, as computer hardware and software, vehicles, buildings, equipment. Capital assets include property, plant and equipment ("**PP&E**") and intangible assets; these are referred to as "capital" or "fixed" assets throughout this evidence.

BREAKDOWN BY FUNCTION

E.L.K.'s assets are categorized into three categories; distribution plant, general plant, contributions and grants. In accordance with the Uniform System of Accounts ("USoA").

Distribution plant asset accounts include USoA 1805 to 1860 - this account includes assets such as substation equipment, poles, wires, transformers and meters;

General plant asset accounts include USoA 1905 to 1990 and USoA 1611 - this account includes assets such as buildings, computer software and hardware, transportation equipment, and tools;

Contributions and grants includes USoA account 1995 – this account includes all contributions in aid of capital that E.L.K. has received or forecasted to be received as per the Distribution System Code ("**DSC**")

CAPITAL EXPENDITURES

System Access investments are planned on historical actual levels required to meet regulatory obligations for connections, upgrades and plant relocation driven by customers and third parties. E.L.K.

expects that its system will continue to be able to accommodate the vast majority of requests for new load connections and for service upgrades.

System Renewal investments are based on the requirements of asset replacement programs, mainly driven by pole replacement. Plans for replacements are based on consideration of age and condition of assets. The proactive replacement of system components prior to failure will reduce costs associated with outage response and reactive replacement. Adjustments to the programs will be completed with gathering more detailed asset condition information and records. The annual investments are leveled to ensure consistency throughout the planning process.

System Service spending is focused on system reliability improvement projects, which are based on outage considerations, system impact, smart grid upgrade scenarios and customer preferences. E.L.K. has not experienced any major issues with connection of existing microFIT or small FIT projects to its system.

General Plant category is focused on ensuring that adequate tools, such as OMS, are in place to support the day-to-day operations, and to improve customer communications in contingency scenarios of unplanned outages. E.L.K. has incorporated the customer preferences obtained through targeted customer research and customer engagement process.

DRIVERS BY INVESTMENT CATEGORY

System Access

The primary driver of this activity is customer service requests and mandated obligations under the Distribution System Code (DSC). This allows E.L.K. to satisfy its asset management objective of providing for the needs of customers, as well as meeting regulatory requirements. This program is justified because of customer service requests that are relatively consistent year over year, in terms of both the number of requests, and the investments required to complete the connections.

System Renewal

This capital expenditure includes all “like for like” replacement costs related to renewal of major assets (poles, reclosers, switches, etc.) because of failure, serious damage or end of useful life. Major drivers in this category are risk of failure, substandard performance and functional obsolescence.

System Services

These projects will improve system reliability, automation and/or contingency performance. Examples of projects in this category are smart grid development, installation of electronic reclosers and outage management systems.

General Plant

The vehicle replacements in this category are driven by E.L.K.'s evolving requirements for capital to support day-to- day business and operations activities. The timing of project-related expenditures has been determined based on adjustments related to asset condition and to end of useful life of the asset. Other investments in this category relate to IT enhancements to meet customer preferences.

PROJECTS WITH A LIFE CYCLE GREATER THAN ONE YEAR

E.L.K.'s accounting policy is to include projects in Fixed Assets when they are completed and put into service. Capital projects which are not yet completed are included in WIP.

EFFICIENCIES REALIZED DUE TO DEPLOYMENT OF SMART METERS AND RELATED TECHNOLOGIES

E.L.K. has made use of both E.L.K. Operational Data Storage (Metersense) as well as the Sensus Meter website to allow E.L.K. to investigate meter issues as well as work and analyze the MDM/R reports on a daily basis. These two tools also allow E.L.K.'s customer service representatives to check customer's power on demand. This has resolved some customer inquiries immediately instead of requiring a field visit to verify power conditions.

The following amounts were approved for payment by the Board on April 23, 2020 for disbursements made during the month of March 2020.

Cheque #	Payable to / Description	Amount $
3465	ERTH Business Technologies Inc - EBT Hub Services	169.50
3466	Essex Linen	26.59
3467	Family Responsibility	375.00
3468	Green Tech Building Maintenance Inc.	949.20
3469	I.B.E.W. Local 636 - Union Dues	989.49
3470	PC Outlet - On Site Labour - January 2020	991.58
3471	Receiver General - Payroll Deductions - February 16-29, 2020	19,439.60
3472	Stationery & Stuff - Office Supplies	38.18
3473	Wolf Hooker Professional Corporation	282.50
3474	Murchadha House - Statement of Account	210.30
3475	Dennis Rivest - Statement of Account	308.00
3476	Doug McAuslan - Statement of Account	27.94
3477	Lauren Landschoot John Lanschoot - Statement of Account	114.50
3478	Matt Thomas - Statement of Account	180.64
3479	Calabria Coastal Bistro - Statement of Account	729.66
3480	June Campbell - Statement of Account	35.16
3481	Jacob Enns - Statement of Account	147.67
3482	Colleen Drouin - Statement of Account	137.05
3483	Ken Lapain & Sons Ltd - Vehicle Maintenance	2,398.04
3484	AGO Industries Inc - Linemen Clothing	2,256.29
3485	Bel Volt Sales Ltd - Arrester, 21 KV Elbow	1,052.31
3486	Canada Post Corporation - March 2020 Installment	19,210.00
3487	Commercial Truck Equipment Corp - Annual Inspections	4,310.55
3488	Electrical Safety Authority	5,979.96
3489	Erie Sand & Gravel - Cable Sand - Offer to Connect	3,198.85
3490	Heaton Sanitation - Hydrovac - St. Peter., McCallum	4,539.21
3491	Hurricane SMS Inc. - Hydrovac - Main St. Kingsville	864.45
3492	Work Authority - Boots	1,170.51
3493	Ken Lapain & Sons Ltd - Vehicle Maintenance	10,642.33
3494	Ketchum Manufacturing Inc - Padlock Seals	739.94
3495	Lakepower Ltd - Photocells	3,951.05
3496	Nedco - Division of Westburne - 2 Hold Rig St Strap	397.53
3497	Ontario one Call Ltd - January 2020	316.71
3498	Meter Services Peterborough Inc	2,439.61
3499	Wesco Utility - Breakaway Connector Kits	4,584.98
3500	Wolseley Canada Inc - Transformer Vault	3,150.40
3501-3505	Duck Creek Park Estates Ltd. - Statement of Account - MicroFIT	19,737.48
3506-3508	Cottam Solar Limited - Statement of Account - MicroFIT	10,294.33
3509	Wayne Miller - Statement of Account - MicroFIT	237.68
3510	Community Living Essex County - Statement of Account - MicroFIT	152.14
3511	Brent Klundert Chantelle Klundert - Statement of Account - MicroFIT	196.54
3512	Giuseppe Battaglia - Statement of Account - MicroFIT	277.56
3513	Lloyd Kerr Bettie Kerr - Statement of Account - MicroFIT	373.62
3514	Annette Nolan-Curtis Lenn Curtis Sarah Curtis - Statement of Account - MicroFIT	19.53
3515	Edward Glen Wood - Statement of Account - MicroFIT	280.27
3516	Doreen F Gibson - Statement of Account - MicroFIT	289.34
3517	Danielle Merten - Statement of Account - MicroFIT	143.43
3518	Frank Robitaille - Statement of Account - MicroFIT	59.14
3519	Earl McCormick - Statement of Account - MicroFIT	35.58
3520	James Barnett - Statement of Account - MicroFIT	147.06
3521	Patrick Byrne - Statement of Account - MicroFIT	123.50
3522	Mark Robitaille - Statement of Account - MicroFIT	343.95
3523	W.E.C.H.C. - Statement of Account - MicroFIT	640.31
3524	Christopher Magor Sandra Magor - Statement of Account - MicroFIT	280.27
3525	Timothy O'Neill - Statement of Account - MicroFIT	324.68
3526	G&H&M Perciballi Maria Concetta Perciballi - Statement of Account - MicroFIT	550.34
3527	Gerard Emery - Statement of Account - MicroFIT	244.93
3528	Reginald Watling - Statement of Account - MicroFIT	205.06
3529	Aaron Dunlop - Statement of Account - MicroFIT	264.87

3530	Anthony Clavet Tammy Clavet - Statement of Account - MicroFIT	246.75
3531	Jeremy Truax - Statement of Account - MicroFIT	206.87
3532	Dean Ataman Kristina Ataman - Statement of Account - MicroFIT	189.65
3533	Donald Burling Annette Burling - Statement of Account - MicroFIT	164.51
3534	Mike Piccinin Julie Piccinin - Statement of Account - MicroFIT	207.93
3535	1741110 Ontario Inc - Statement of Account - MicroFIT	790.05
3536	David Walker Marina Walker - Statement of Account - MicroFIT	91.91
3537	Lawrence Gagnon - Statement of Account - MicroFIT	156.12
3538	Scott Treanor Kim Treanor - Statement of Account - MicroFIT	64.00
3539	Ken Laporte - Statement of Account - MicroFIT	129.14
3540	Gary Camlis Donna Camlis - Statement of Account - MicroFIT	132.24
3541	Green Sun Rising - Statement of Account - MicroFIT	222.42
3542	Dino Casagrande - Statement of Account - MicroFIT	74.56
3543	Jonathan Matricardi - Statement of Account - MicroFIT	77.13
3544	Sean Hart Tina Hart - Statement of Account - MicroFIT	171.10
3545	OYPS - Statement of Account - FIT	23,897.78
3546	Mike Ouellette Janet Ouellette - Statement of Account - MicroFIT	202.96
3547	Jessica Bale - Statement of Account - MicroFIT	238.95
3548	John Kluthe - Statement of Account - MicroFIT	258.79
3549	Martin Bilek - Statement of Account - MicroFIT	108.46
3550	James Pernal - Statement of Account - MicroFIT	172.43
3551	1552842 Ont. Ltd. - Statement of Account - FIT	10,395.80
3552	James Cowper Tricia Cowper - Statement of Account - MicroFIT	159.01
3553	Derek Lawrence Christina Lawrence - Statement of Account - MicroFIT	120.09
3554	Southwestern Alternative Energy Producer - Statement of Account - FIT	16,224.57
3555	Solar Pure Energies Inc. - Statement of Account - MicroFIT	82.05
3556	Woodslee Solar Inc. - Statement of Account - FIT	32,983.32
3557	Michael F Janisse - Statement of Account - MicroFIT	40.76
3558	Rick Pouget - Statement of Account - MicroFIT	151.85
3559	Bill Amlin Bonnie Amlin - Statement of Account - MicroFIT	82.85
3560	Jesse Mullins - Statement of Account - MicroFIT	19.28
3561	Patrick Hon-Bun Yu Elisa Grace Yu - Statement of Account - MicroFIT	134.92
3562	Sharon Simon - Statement of Account - MicroFIT	120.60
3563	Lucille Dinyarian - Statement of Account - MicroFIT	158.79
3564	Geoffrey Matthew - Statement of Account - MicroFIT	85.89
3565	Alan Messier Megan Messier - Statement of Account - MicroFIT	209.99
3566	Jennifer Bradt Ryan Bradt - Statement of Account - MicroFIT	170.07
3567	Cornelius & Suzanne Wolfe - Statement of Account - MicroFIT	67.66
3568	Paul Borghi Jeannette Borghi - Statement of Account - MicroFIT	83.60
3569	Keith Gale Madi Gale - Statement of Account - MicroFIT	113.50
3570	SIF #2 Reliant Essex LP - Statement of Account - FIT	8,081.65
3571	Sanger Towle McGuire - Statement of Account - MicroFIT	123.55
3572	Bryan O'Connell Laura O'Connell - Statement of Account - MicroFIT	66.47
3573	Robert Percy - Statement of Account - MicroFIT	64.52
3574	Andre Morin Dorothy Morin - Statement of Account - MicroFIT	105.85
3575	David Robbins - Statement of Account - MicroFIT	100.97
3576	David Farias - Statement of Account - MicroFIT	101.29
3577	Gilbert Lanoue - Statement of Account - MicroFIT	187.84
3578	Jason Stiers Tanya Balzer - Statement of Account - MicroFIT	81.44
3579	Pierre Chauvin - Statement of Account - MicroFIT	67.78
3580	Paul Drake Sandra Drake - Statement of Account - MicroFIT	24.83
3581	Deborah De Dona Edward De Dona - Statement of Account - MicroFIT	151.48
3582	Firas Haidar Nicole Haidar - Statement of Account - MicroFIT	205.06
3583	Richard Ludlow - Statement of Account - MicroFIT	102.64
3584	Andrea Fordham - Statement of Account - MicroFIT	115.83
3585	Jacob Klassen - Statement of Account - MicroFIT	602.00
3586	The Urban Environment Centre - Conservation & Demand Management	4,762.95
3587	First Lutheran Church Kingsville - Conservation & Demand Management Retrofit Rebate	2,022.70
3588	Commercial Truck Equipment Corp - Vehicle Maintenance	897.79
3589	Heaton Sanitation - Vacuum excavate Hanlan St.	2,898.45
3590	Ken Lapain & Sons Ltd - Vehicle Maintenance	2,720.06
3591	Receiver General - Payroll Deductions - March 1-15, 2020	19,612.07
3592	Nedco - Division of Westburne	82,603.00
3593	Receiver General - HST February 2020	19,110.39

PRE-AUTHORIZED CHEQUING

	Hydro One - 500 West River- March 2, 2020	23.94

	Bell Canada - March 3, 2020, 500 West River	32.92
	Bell Canada - March 3, 2020, Conc. #3	51.88
	Esso - Fleet Fuel March, 2020	4,622.65
	Hydro One - N. Middle Rd- March 13, 2020	32.08
	Bell Canada - March 5, 2020 - Internet Service	84.75
	Bell Mobility - March 13 , 2020	131.27
	Waste Connections of Canada - March 18, 2020	158.83
	CIBC Visa - March 16, 2020	4,575.72
	E.L.K. Energy Inc. - March 1, 2020 - 2552 Cty Road 2019	16.10
	E.L.K. Energy Inc. - March 1, 2020- 2089 Cty Rd 23	16.56
	E.L.K. Energy Inc. - March 1 , 2020 - 380 Talbot Road	18.56
	E.L.K. Energy Inc. - March 1, 2020 - Sandybrook & Rockport	24.17
	E.L.K. Energy Inc. - March 1, 2020 - Conc. 3	25.84
	E.L.K. Energy Inc. - March 1, 2020- 81 Belle River Road S	26.67
	Gosfield North Communications - March 20, 2020	54.60
	E.L.K. Energy Inc. - March 1, 2020 - 172 Forest Avenue	738.86
	Bell Canada - March 21, 2020, 172 Forest Avenue	273.83
	ENBRIDGE - Union Gas - March 25, 2020	676.60
	Hydro One - March 31, 2020, 500 West River	23.93
PAYROLL DIRECT DEPOSIT		
	For the week ending, February 29 paid on March 5, 2020	17,241.34
	For the week ending, March 7, paid on March 12 , 2020	17,355.57
	For the week ending, March 14 paid on March 19, 2020	17,241.21
	For the week ending, March 21, paid on March 26, 2020	17,533.47
TELEPHONE BANKING		
	OMERS - Contribution for March 2020	25,507.80
TRANSFERS		
	Town of Essex - Water & Sewage Revenue March 2020	506,543.52
	IESO - Electricity Charges for March 2020	2,322,693.08
SETTLEMENT		
	Direct - March 17, 2020	333.99
	OESC- March 17, 2020	8,222.94
	ECNG - March 17, 2020	476.03
	Summit -BP - March 17, 2020	4,147.38
	Planet Energy - March 17, 2020	1,626.35
	LAS- March 17, 2020	4,039.19
	ONIT - March 17, 2020	4,234.40
	Bruce - March 17, 2020	113.35
	Hudson Energy - March 17, 2020	2,235.27
	Active - March 17, 2020	4,558.68
		3,331,309.18

E.L.K. Energy Inc.

Account Description: TOU ONPK (Report profile 38)
Account # 4070-91, 4070-96, 4071-06, 4071-11, 4071-16
December 31, 2019
Prepared by: Mark Danelon

Reconcile NorthStar revenue to g/l:

Revenue as per stat report (NorthStar) only ONPK	2,737,090.65
4070-91	1,000,211.22
4070-96	515.55
4071-06	208,674.56
4071-11	1,513,033.78
4071-16	14,655.54
	(0.00)

Detailed consumption & effective rates

	Effective date	Consumption	Revenue	Sub-total consumption	Sub-total revenue	Calculated effective rate	Actual effective rate
ONPK	2017-11-01	54	$ 7.19				
ONPK	2017-11-01	673	$ 88.79				
				$ 727.00	$ 95.98	$ 0.132	0.132
ONPK	2018-05-01	293	$ 38.66				
ONPK	2018-05-01	3,613	$ 476.89				
				$ 3,906.00	$ 515.55	$ 0.132	0.132
ONPK	2018-11-01	685,836	$ 90,532.03				
ONPK	2018-11-01	8,471,642	$ 1,118,257.77				
				$ 9,157,478.00	$ 1,208,789.80	$ 0.132	0.132
ONPK	2019-05-01	845,716	$ 113,326.26				
ONPK	2019-05-01	10,445,572	$ 1,399,707.52				
				$ 11,291,288.00	$ 1,513,033.78	$ 0.134	0.134
ONPK	2019-11-01	5,277	$ 1,097.02				
ONPK	2019-11-01	65,189	$ 13,558.52				
				$ 70,466.00	$ 14,655.54	$ 0.208	0.208
Total per above		20,523,865	$ 2,737,090.65				
Total per stat report		20,523,864	$ 2,737,090.65				
Difference		1	$ -				
		Insign	Insign				

E.L.K. Energy Inc.

Account Description: TOU MIDPK (Report profile 38)
Account # 4070-97, 4071-07, 4071-12, 4071-17
December 31, 2019
Prepared by: Mark Danelon

Reconcile NorthStar revenue to g/l:

Revenue as per stat report (NorthStar) only MIDPK	1,785,755
4070-97	295
4071-07	815,838
4071-12	959,872
4071-17	9,751
	(0)

Detailed consumption & effective rates

	Effective date	Consumption	Revenue	Sub-total consumption	Sub-total revenue	Calculated effective rate	Actual effective rate
MIDPK	2017-11-01	65	$ 6.14				
MIDPK	2017-11-01	799	$ 75.86				
				$ 864.00	$ 82.00	$ 0.095	0.095
MIDPK	2018-05-01	2,899	$ 272.52				
MIDPK	2018-05-01	235	$ 22.07				
				$ 3,134.00	$ 294.59	$ 0.094	0.094
MIDPK	2018-11-01	649,935	$ 61,094.98				
MIDPK	2018-11-01	8,028,309	$ 754,660.87				
				$ 8,678,244.00	$ 815,755.85	$ 0.094	0.094
MIDPK	2019-05-01	9,446,531	$ 887,975.67				
MIDPK	2019-05-01	764,843	$ 71,895.83				
				$ 10,211,374.00	$ 959,871.50	$ 0.094	0.094
MIDPK	2019-11-01	5,072	$ 727.88				
MIDPK	2019-11-01	62,664	$ 9,023.35				
				$ 67,736.00	$ 9,751.23	$ 0.144	0.144
Total per above		18,961,352	1,785,755				
Total per stat report		18,961,351	$ 1,785,755.17				
Difference		1	$ -				
		Insign	Insign				

Account Description: TOU OFFPK (Report profile 38)
Account # 4070-68, 4070-93, 4070-98, 4071-08, 4071-13, 4071-18
December 31, 2019
Prepared by: Mark Danelon

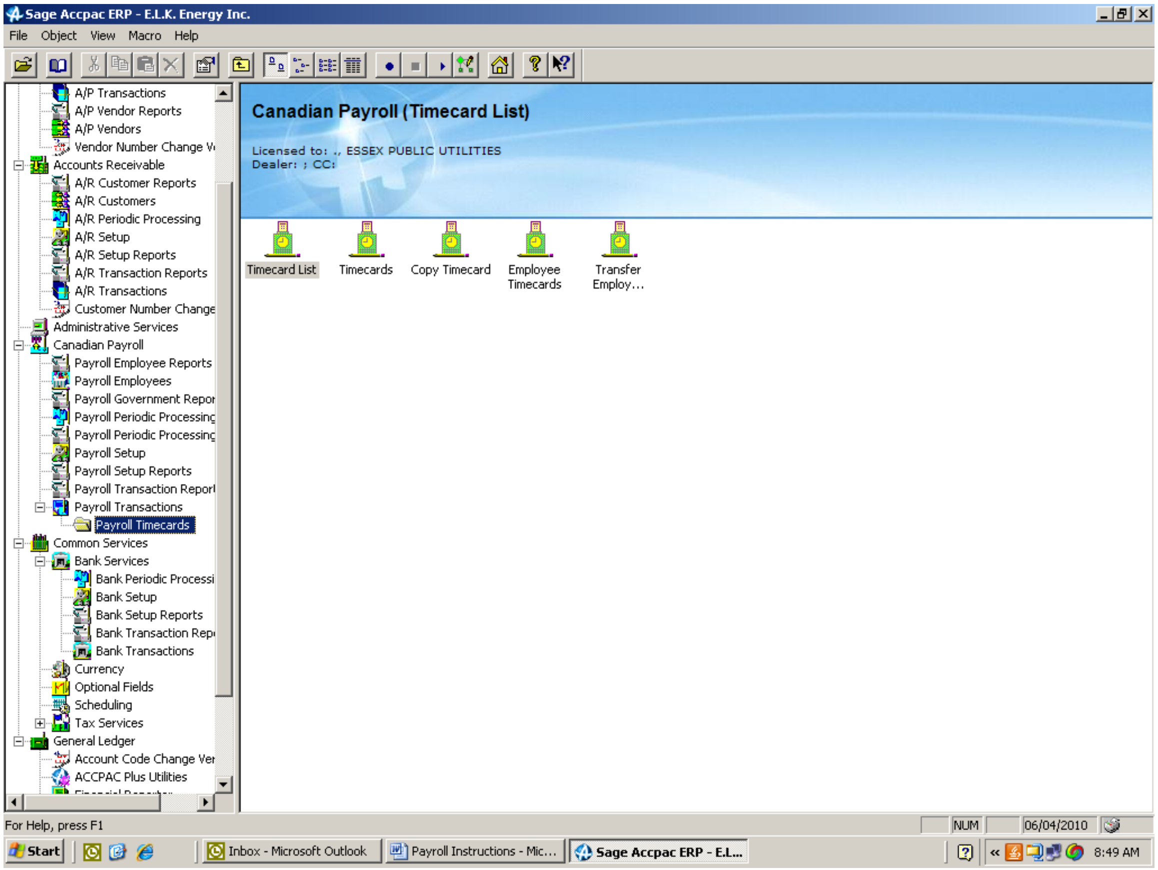
Reconcile NorthStar revenue to g/l:

Revenue as per stat report (NorthStar) only OFFPK	4,487,854
4070-68	25
4070-93	137,960
4070-98	314
4071-08	1,944,615
4071-13	2,338,940
4071-18	65,999
	(0)

Detailed consumption & effective rates

	Effective date	Consumption	Revenue	Sub-total consumption	Sub-total revenue	Calculated effective rate	Actual effective rate
OFFPK	2017-11-01	1,464	$ 95.15				
OFFPK	2017-11-01	119	$ 7.71				
				$ 1,583.00	$ 102.86	$ 0.065	0.065
OFFPK	2018-05-01	4,825	$ 313.59				
OFFPK	2018-05-01	391	$ 25.41				
				$ 5,216.00	$ 339.00	$ 0.065	0.065
OFFPK	2018-11-01	29,638,570	$ 1,926,507.23				
OFFPK	2018-11-01	2,399,438	$ 155,965.26				
				$ 32,038,008.00	$ 2,082,472.49	$ 0.065	0.065
OFFPK	2019-05-01	33,288,510	$ 2,163,755.18				
OFFPK	2019-05-01	2,695,124	$ 175,184.73				
				$ 35,983,634.00	$ 2,338,939.91	$ 0.065	0.065
OFFPK	2019-11-01	604,539	$ 61,058.24				
OFFPK	2019-11-01	48,917	$ 4,941.02				
				$ 653,456.00	$ 65,999.26	$ 0.101	0.101
Total per above		68,681,897	$ 4,487,853.52				
Total per stat report		68,681,896	$ 4,487,853.52				
Difference		1	$ -				
		Insign	Insign				

Go Into AccPac and under Canadian Payroll select Payroll Timecards and Timecards

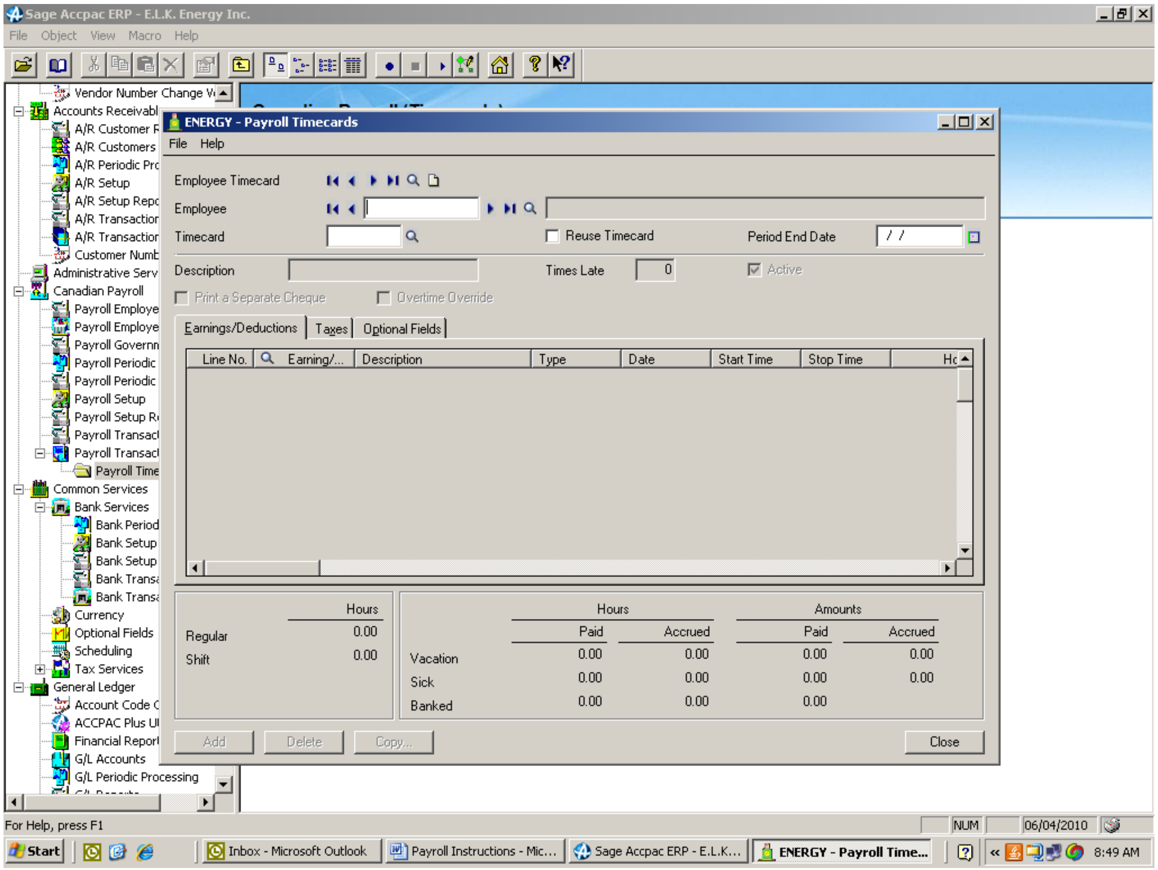


Enter each employee in the Payroll Timecards screen.

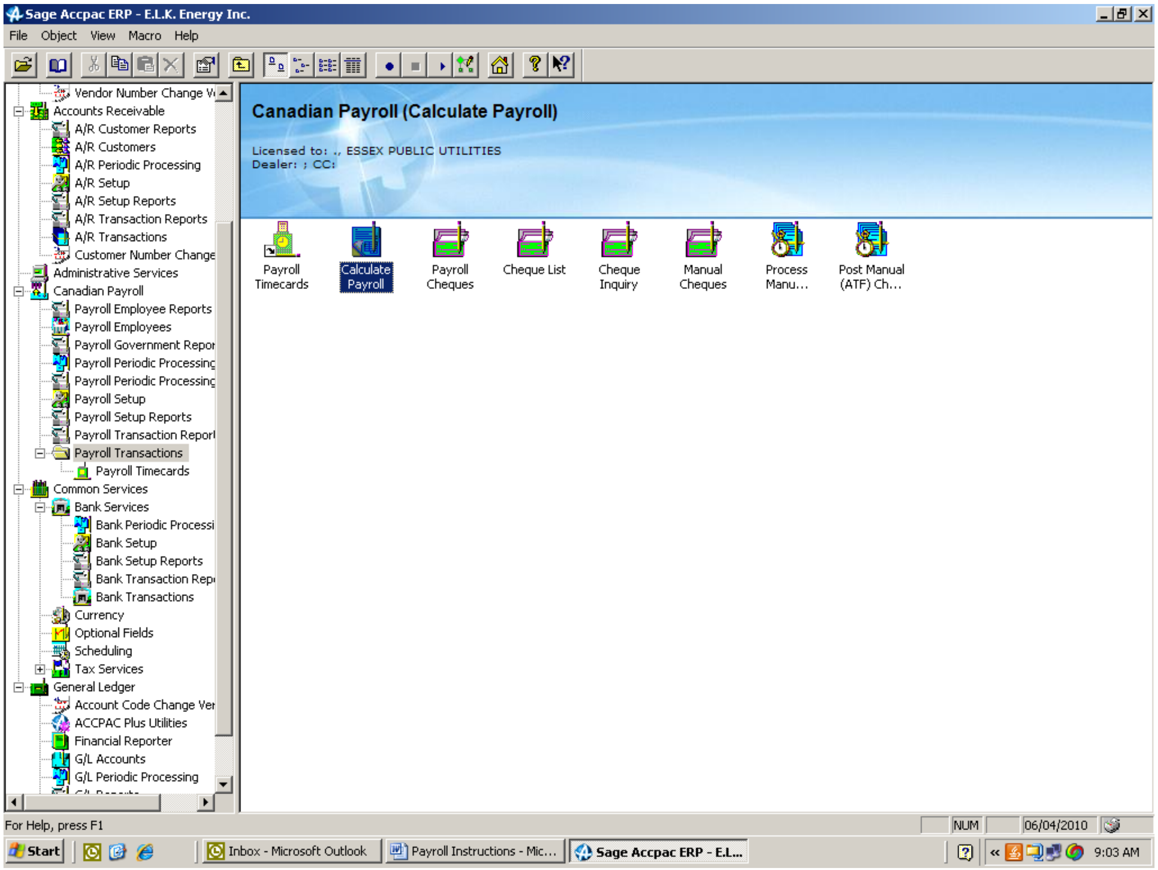
Make sure to hit SAVE after each person

For on call, make sure to add just the amount due as the calculations are done on the manual timesheets. Do not include the hours times the rate.

Select close after all the time cards have been entered



Next go to Calculate Payroll



The Payroll Run Date is the date you are doing the work on. It should be a Tuesday.

The Pay Period End Date is the last date on the Payroll Sheets. It should be a Saturday.

Cheque Date is the date the staff gets paid. It should be a Thursday.

Selection List= ALL

Process= All Cheques

Pay?= Weekly

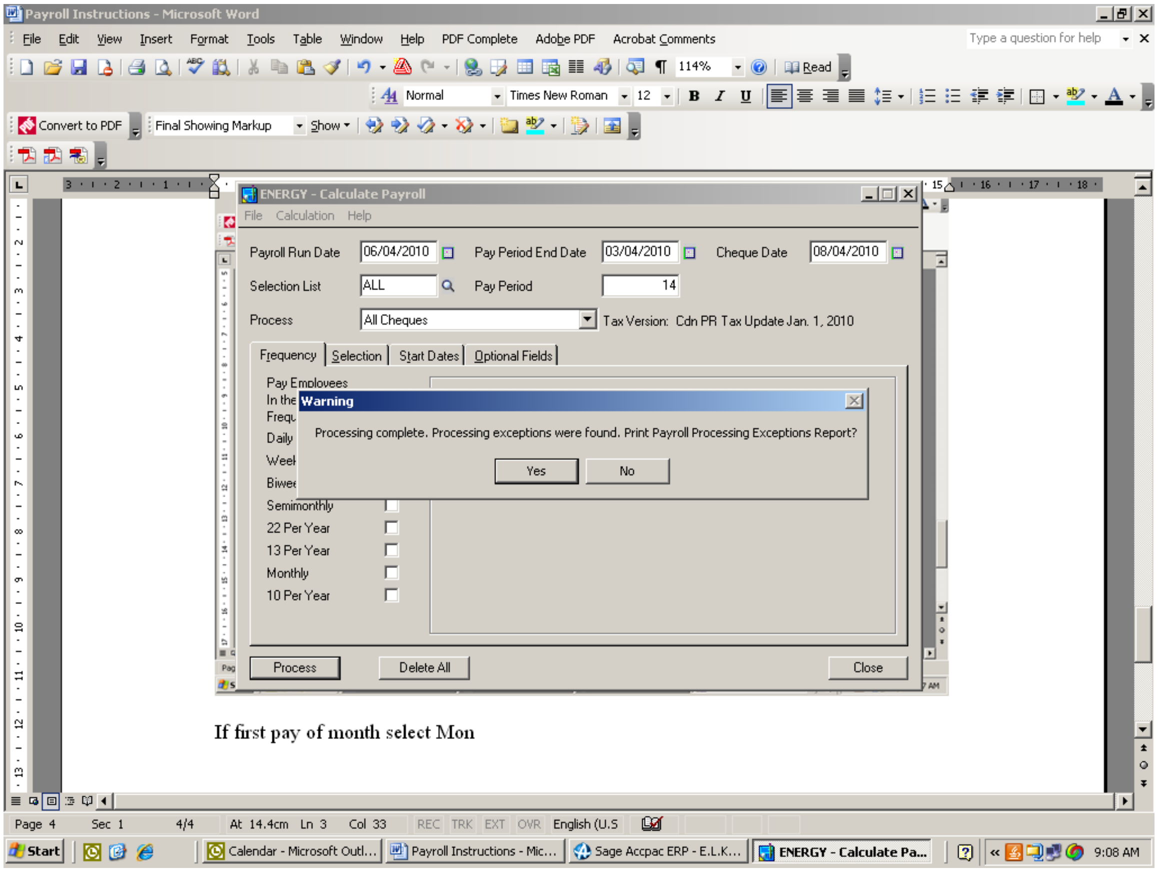
Include Earnings/Deductions with these Frequencies= Weekly. If it's the first pay of the month, select Mon under this category.

Select Process

Warning pop-up will occur- see below.

Select YES to print and pick it up from the printer.

Select Close



Next, under Payroll Transaction Report, select Pre-cheque payroll register

Report Format=Detail

Employee Number- From and To leave the way it is

Cheque Date- Put the date of payday/cheque date. This should be a Thursday.

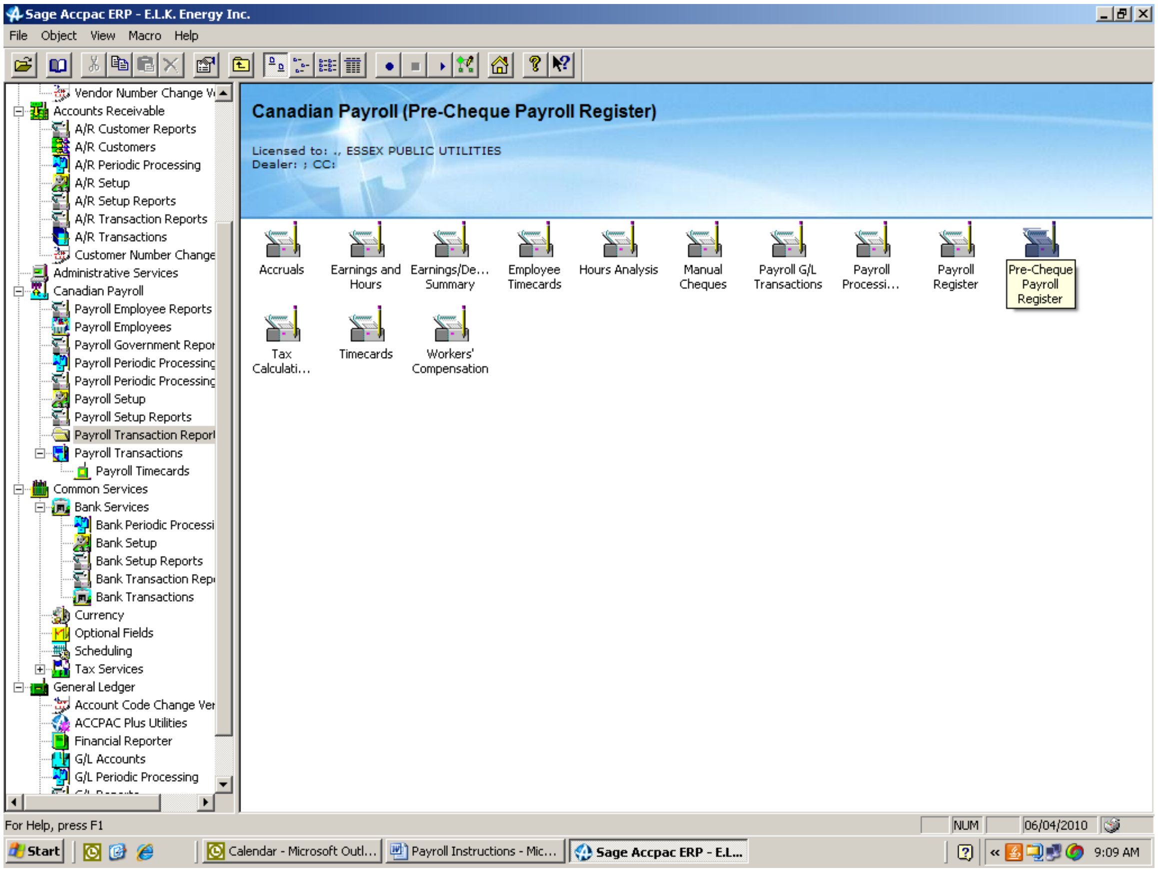
Pay Frequency= ALL

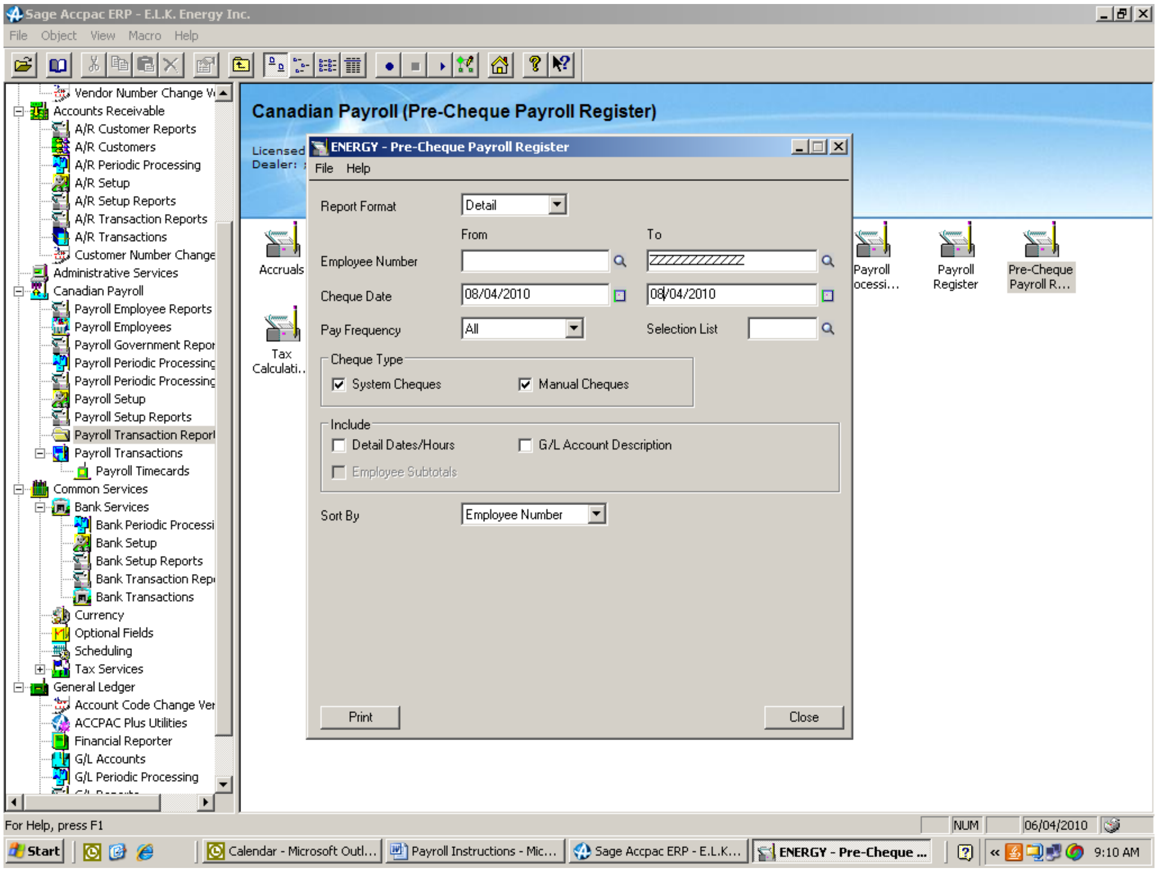
Cheque Type= Check off system cheques and Manual cheques

Include= leave these blank

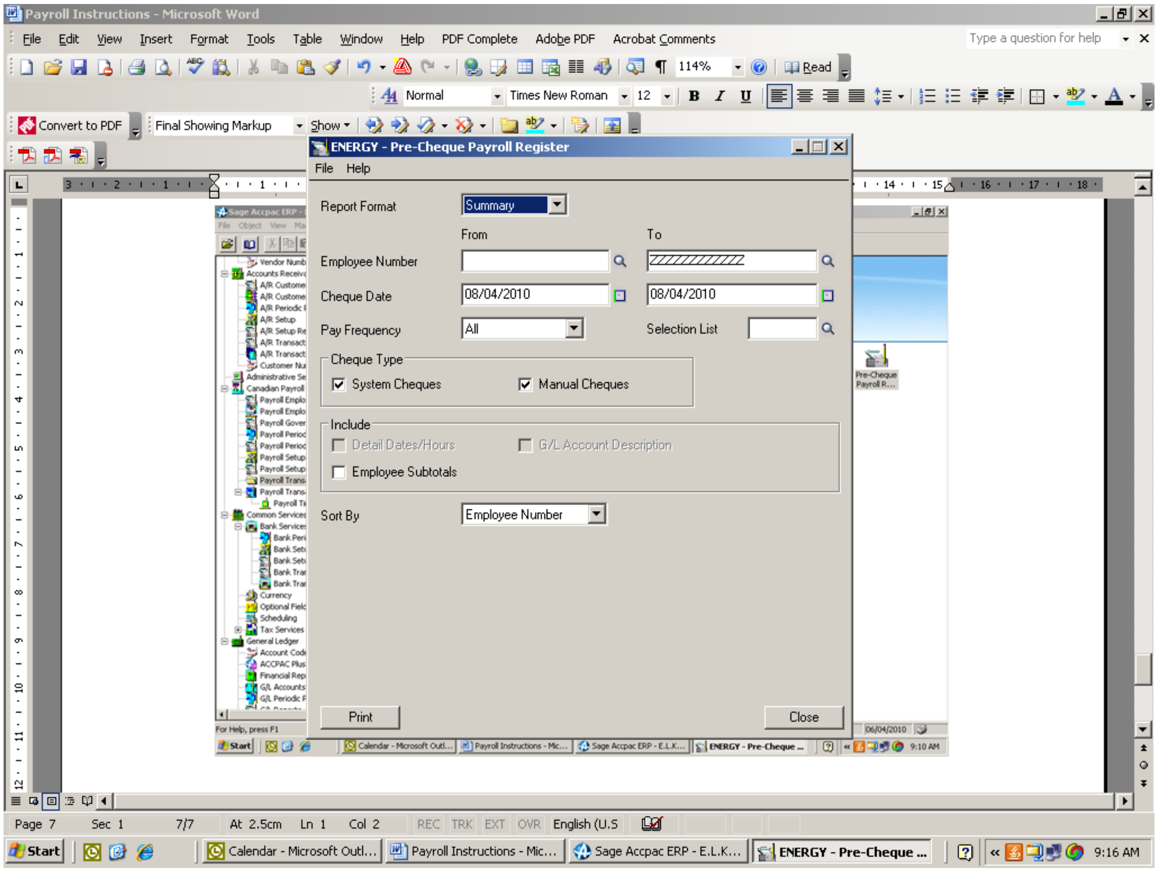
Sort by= employee number

Select Print. Pick up confidential printouts off the printer and compare the detailed print out to the manual timesheets

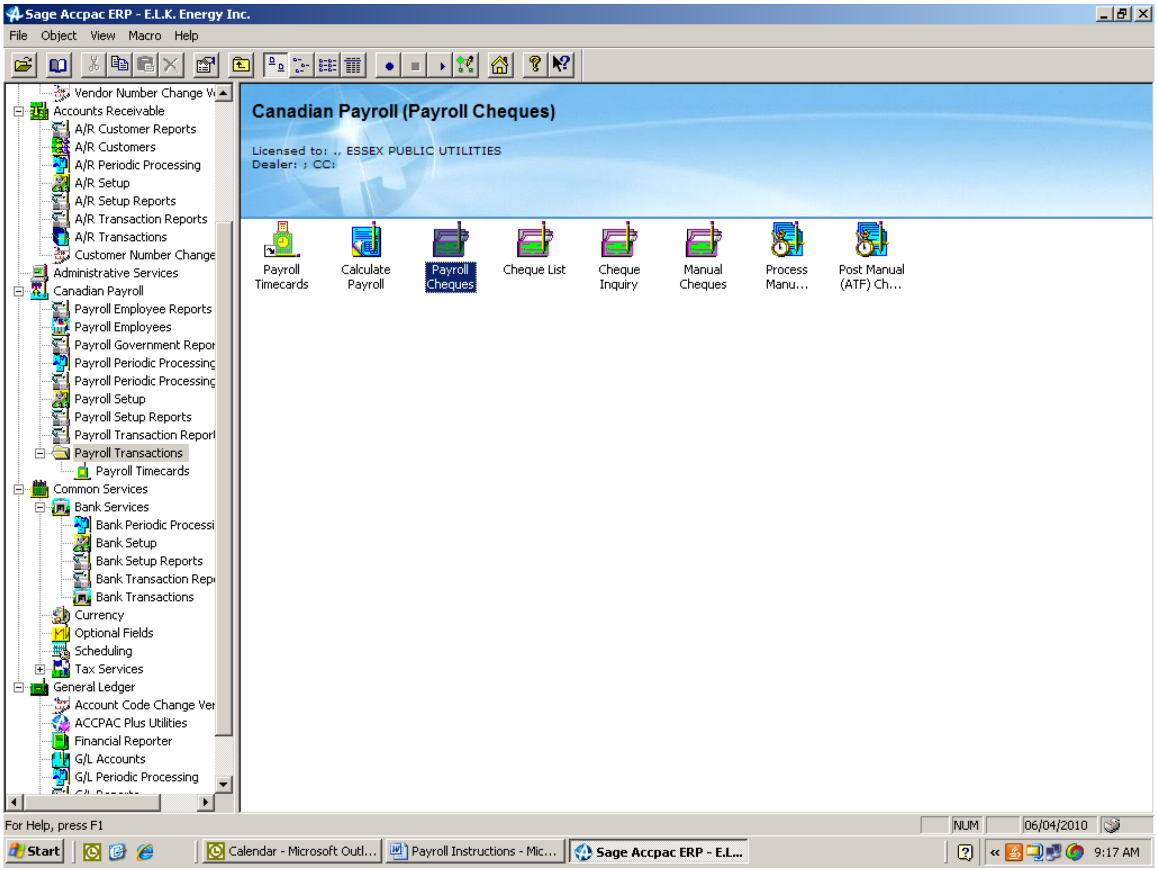

Sage Accpac ERP - E.L.K. Energy Inc.
File Object View Macro Help
Vendor Number Change V
Accounts Receivable
A/R Customer Reports
A/R Customers
A/R Periodic Processing
A/R Setup
A/R Setup Reports
A/R Transaction Reports
A/R Transactions
Customer Number Change
Administrative Services
Canadian Payroll
Payroll Employee Reports
Payroll Employees
Payroll Government Repor
Payroll Periodic Processing
Payroll Periodic Processing
Payroll Setup
Payroll Setup Reports
Payroll Transaction Report
Payroll Transactions
Payroll Timecards
Common Services
Bank Services
Bank Periodic Processi
Bank Setup
Bank Setup Reports
Bank Transaction Rep
Bank Transactions
Currency
Optional Fields
Scheduling
Tax Services
General Ledger
Account Code Change Ver
ACCPAC Plus Utilities
Financial Reporter
G/L Accounts
G/L Periodic Processing
Canadian Payroll (Pre-Cheque Payroll Register)
Licensed to: ., ESSEX PUBLIC UTILITIES
Dealer: ; CC:
Accruals
Earnings and Hours
Earnings/De... Summary
Employee Timecards
Hours Analysis
Manual Cheques
Payroll G/L Transactions
Payroll Processi...
Payroll Register
Pre-Cheque Payroll Register
Tax Calculati...
Timecards
Workers' Compensation
For Help, press F1
NUM
06/04/2010
Start
Calendar - Microsoft Outl...
Payroll Instructions - Mic...
Sage Accpac ERP - E.L...
9:09 AM



Then print the Report Format= SUMMARY version (see next diagram)



Next Step: Under Payroll Transactions- Payroll Cheques



Under Print and Post Cheques through Pay Period End Date: Enter the last date on the manual timecards

Under Bank select 100501 Payroll Clearing

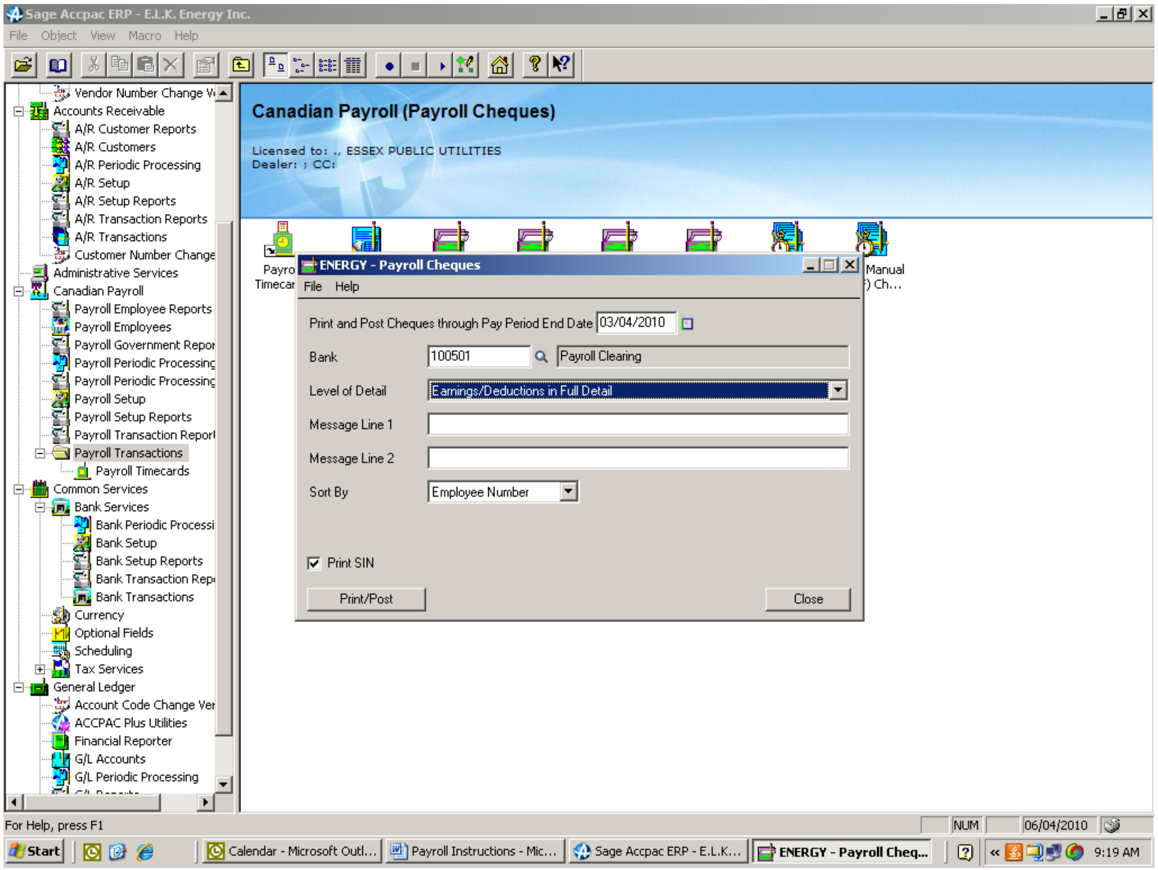
Level of Detail= Earnings/Deductions in Full detail

Leave Message Line 1 and 2 blank

Sort by= Employee Number

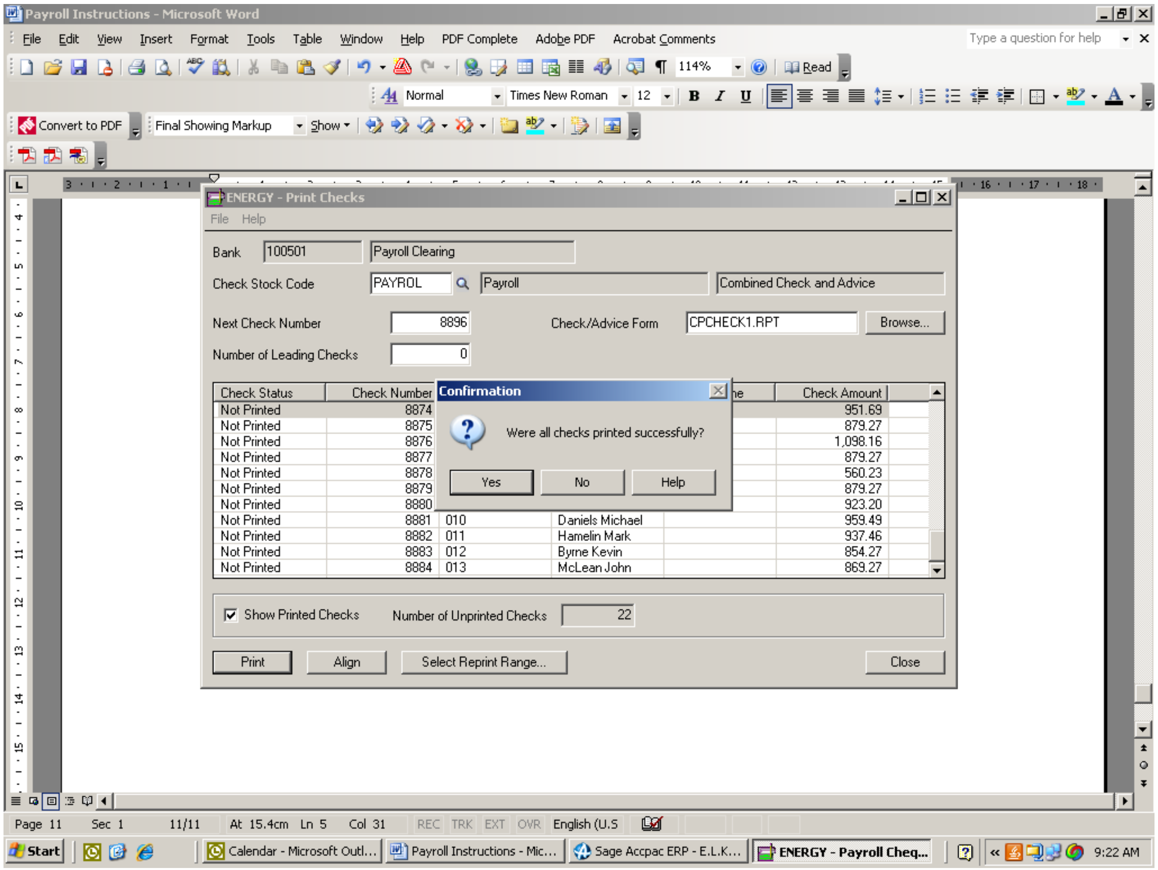
Print SIN= check mark

Select Print/Post button

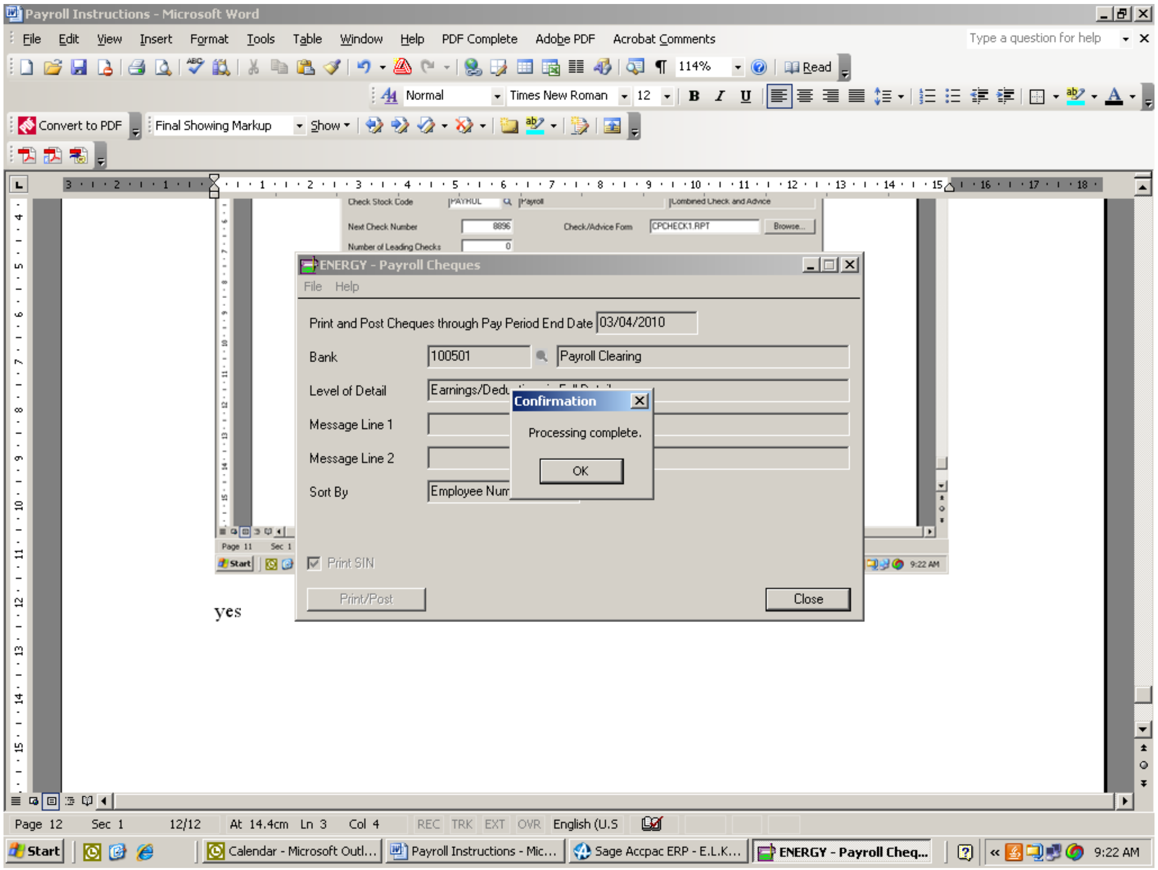

Sage Accpac ERP - E.L.K. Energy Inc.
Canadian Payroll (Payroll Cheques)
Licensed to: ., ESSEX PUBLIC UTILITIES
Dealer: ; CC:
ENERGY - Payroll Cheques
Print and Post Cheques through Pay Period End Date 03/04/2010
Bank 100501 Payroll Clearing
Level of Detail Earnings/Deductions in Full Detail
Message Line 1
Message Line 2
Sort By Employee Number
Print SIN
Print/Post
Close
Accounts Receivable
A/R Customer Reports
A/R Customers
A/R Periodic Processing
A/R Setup
A/R Setup Reports
A/R Transaction Reports
A/R Transactions
Administrative Services
Canadian Payroll
Payroll Employee Reports
Payroll Employees
Payroll Setup
Payroll Setup Reports
Payroll Transactions
Payroll Timecards
Common Services
Bank Services
Bank Setup
Bank Setup Reports
Bank Transactions
Currency
Optional Fields
Scheduling
Tax Services
General Ledger
ACCPAC Plus Utilities
Financial Reporter
G/L Accounts
G/L Periodic Processing
For Help, press F1
NUM
06/04/2010
9:19 AM

Write the First CHQ # on the detailed payroll printouts printed earlier in the top right hand corner

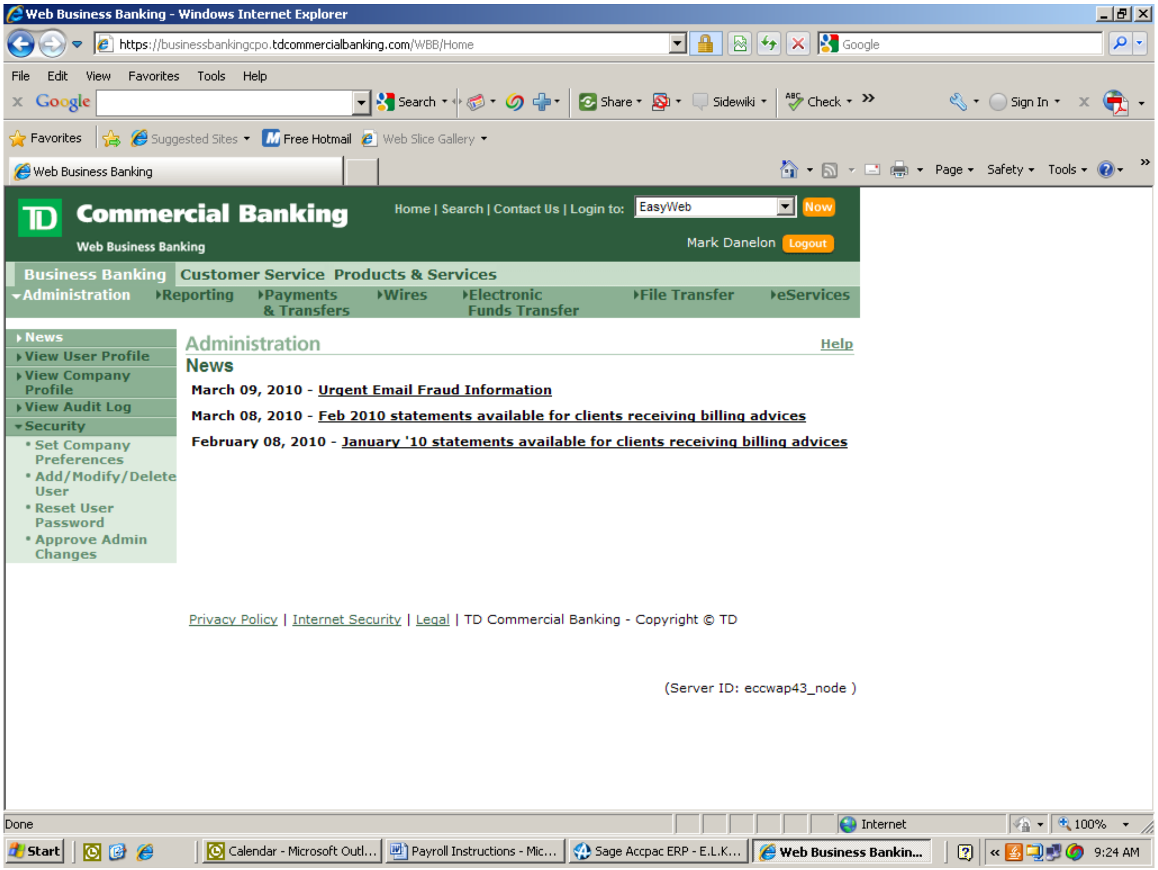
Select print and do NOT print double sided



Select Yes



Go to TD Banking Website and go under Electronic Funds Transfer and select FIND Payments (see below)


Web Business Banking - Windows Internet Explorer
https://businessbankingcpo.tdcommercialbanking.com/WBB/Home
File Edit View Favorites Tools Help
Favorites
Suggested Sites
Free Hotmail
Web Slice Gallery
Web Business Banking
Commercial Banking
Web Business Banking
Home | Search | Contact Us | Login to:
EasyWeb
Now
Mark Danelon
Logout
Business Banking
Customer Service
Products & Services
Administration
Reporting
Payments & Transfers
Wires
Electronic Funds Transfer
File Transfer
eServices
News
View User Profile
View Company Profile
View Audit Log
Security
Set Company Preferences
Add/Modify/Delete User
Reset User Password
Approve Admin Changes
Administration
Help
News
March 09, 2010 - Urgent Email Fraud Information
March 08, 2010 - Feb 2010 statements available for clients receiving billing advices
February 08, 2010 - January '10 statements available for clients receiving billing advices
Privacy Policy | Internet Security | Legal | TD Commercial Banking - Copyright © TD
(Server ID: eccwap43_node)
Done
Internet
100%
Start
Calendar - Microsoft Outl...
Payroll Instructions - Mic...
Sage Accpac ERP - E.L.K...
Web Business Bankin...
9:24 AM

E.L.K. Energy Inc.

Month/Year End Procedures

Before month end is done ensure that the following is done:

- All batches for the month being closed are updated. Check for batches in Bill Processing and Cash/adj.
- Cycle billing for the 1st of the following month are **not** updated .
- Watch for post dated cheques which fall on a weekend with a month end that falls on a weekend. If month end falls over a weekend have the weekend cheques released before month end is run.

Close the current month

- Main menu
- Accounting menu
- Year/Month GL master file – LIST TAB – pick one that is “F”, highlight, Year/Edit/ check mark month closed. Save. LIST TAB – pick next month, highlight, Edit, take check mark off month closed. Save. Exit
- The results are that the current month is closed and the next month is opended.

Reports

Reports are run at month end. All reports can be found under the reports menu.

- Aged Arrears Summary Listing (this report takes a long time to run)
- Aged Arrears Listing
- Customer Single AR Summary Listing **(You must select “A/R Code equal to A/R” under the “report criteria” tab listing to pick up only the A/R balances, also select the other A/R types other than “deposit”.)**
- Customer Single AR Detail Listing **(You must select “A/R Code equal to A/R” under the “report criteria” tab listing to pick up only the A/R balances, also select the other A/R types other than “deposit”.)**
- Customer Deposit Summary Listing
- Customer Deposit Listing
- PAP List With AR Balance

Reports – Accounting

The following month end accounting reports can be run at month end. However they are not time sensitive and **<u>can be run at a later time</u>**.

- Block Summary
- Flat Rate & Rental Summary
- GL Element Monthly Summary
- GL Element Monthly Detail
- GL Element Daily Detail
- Monthly Transaction History
- Monthly Transaction Detail History
- Customer Transaction Information
- Transaction Monthly Summary
- Transaction Monthly Detail
- Transaction Daily Summary

KPMG

E.L.K. Energy Inc.

Operational Review

November 29, 2019

KPMG

Table of Contents

1 Introduction

E.L.K. Energy ("E.L.K. or "Company") is a local distribution company serving approximately 12,411 residential and commercial electricity customers in the Towns of Essex, Lakeshore and Kingsville. In 2016, The Company sought the approval of the Ontario Energy Board (the "OEB") for the rates it charges to distribute electricity to its customers, as is required of licenced and rate-regulated distributors in Ontario. Three intervening parties were recognized by the OEB. On October 5, 2017, E.L.K. Energy entered into a settlement proposal with the intervening parties that was recognized by the OEB. As a result of the interveners' concerns, the Company agreed to complete three undertakings prior to its next cost of service application planned for 2022.

i. Undertake to complete a detailed regulatory audit to ensure that E.L.K. Energy has proper accounting procedures and practices;

ii. Undertake a detailed operational review to help create a plan to address E.L.K. Energy's resourcing requirements; and,

iii. Undertake a formal independent asset condition assessment to address concerns regarding E.L.K. Energy's lack of information about its assets.

KPMG was engaged by E.L.K. to help respond to the second undertaking, to conduct specified procedures to review operations at E.L.K. to help inform management for their creation of a plan to address and support the Company's resourcing requirements.

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2 Engagement Approach

KPMG's approach included a comparison of E.L.K. Energy's data, records, practices and procedures against appropriate and applicable standards of practice, and included recommendations for improvements (where applicable).

The approach included three phases: I) Planning; II) Conduct; and III) Reporting.

Phase I) Planning:

KPMG met with the Director, Finance and Regulatory Affairs on September 9, 2019 to commence the review and structure the scope of the review. KPMG requested and received documents of the Company to review in advance of field work.

KPMG drafted a project charter that included the specified procedures, including common risks and controls, for each line of review. This project charter was provided to E.L.K. in advance of our on-site conduct.

Details of the specified procedures are included in Appendix A - Specified Procedures by Line of Review.

Phase II) Conduct:

The Conduct phase was completed both remotely from KPMG's offices, and on-site at the Company's Essex office on October 30 and 31, 2019.

The review included a combination of documentation review, interviews with management of the Company, process walkthroughs and testing of sample transactions and/or data controls, as applicable. KPMG performed this combination of work for each of the five lines of review, as discussed in Section 4 - Scope of Review.

Supporting documents of the Company reviewed during the engagement have been listed in Section 5 - Results of Specified Procedures.

Phase III) Report:

Following the completion of the Conduct Phase discussed above, KPMG debriefed management of the Company regarding preliminary observations.

This report includes our observations and recommendations based on the detailed specified procedures completed.

3 Restrictions

Our report is prepared for the purpose of assisting E.L.K. with assessing, examining, and understanding the matter per the approved settlement agreement. Our report is confidential and is not intended for general use outside of the Company. We understand that in this case, our report may be provided to the Ontario Energy Board and intervenors in accordance with the 2017 settlement proposal. We consent to such uses of our report, however it is not to be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance, except as noted above.

We will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses suffered by E.L.K. or the Ontario Energy Board as a result of circulation, publication, reproduction, use of or reliance upon our report contrary to the provisions of this section. We will not assume any responsibility or liability for any costs, damages, losses, liabilities, or expenses incurred by anyone else as a result of circulation, publication, reproduction, use of or reliance upon our report. Comments in our report are not intended, nor should they be interpreted to be, legal advice or opinion.

We have relied upon the completeness, accuracy and fair presentation of all the information obtained (the "Information"). Our observations are conditional upon the completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment, we have not audited or otherwise independently verified the accuracy or fair presentation of any of the Information. Should additional information be provided to us after the date of this report, we reserve the right, but will be under no obligation, to review this information and adjust our report.

4 Scope of Review

The scope of work included a review of specified procedures conduced against E.L.K. Energy's current approach for the following lines of review:

i. Accounting procedures and practices;

ii. Budgeting processes, business planning processes, and management oversight;

iii. Distribution system planning information, processes and procedures;

iv. Information technology systems, data control, and privacy and security procedures; and

v. Human fleet and financial resources management.

The review included a comparison of E.L.K. Energy's data and records, practices and procedures against appropriate and applicable specified procedures, detailed in Appendix A – Specified Procedures by Line of Review.

KPMG identified common controls expected to be in place at E.L.K., to address risks that are relevant to each line of review. The controls were identified based on KPMG's prior experience with similar processes. Unless otherwise identified, KPMG did not test the operating effectiveness of the controls.

4.1 Expected Controls

Following is a summary of the expected controls for each line of review:

Accounting procedures and practices:

- Control 1: Segregation of duties;
- Control 2: Management monitoring; and
- Control 3: Timely accounting and reporting.

Budgeting Processes, Business Planning Processes and Management Oversight:

- Control 1: Budget process is documented and communicated;
- Control 2: Budget completion and appropriate approval; and
- Control 3: Budget to actual is regularly monitored with significant variances explained;

Distribution System Planning Information, Processes and Procedure:

- Control 1: Management of distribution system including forecasting, needs identification, planning, implementation and monitoring;
- Control 2: Asset life cycle management including need identification, additions, maintenance, and end of use; and
- Control 3: Proactive approach to manage health and safety.

KPMG

Information Technology Systems, Data Control, and Privacy and Security Procedures

- Control 1: Documented IT security policies and procedures e.g. business continuity, disaster recovery, acceptable use etc.;
- Control 2: Active monitoring of threats to E.L.K. systems and information; and
- Control 3: Security restricting access to IT systems and data.

Human Resources Management

- Control 1: Effective resource management including forecasting, planning, execution, monitoring and reporting.

As noted above, in Engagement Approach, KPMG conducted walkthroughs with management for each line of review, to further understand the processes in place and to understand and evidence the E.L.K. controls.

5 Results of Specified Procedures

The results of the specified procedures completed by KPMG are detailed in this section by line of review.

5.1 Accounting Procedures and Practices

5.1.1 Review Available Documentation Related to Policies, Procedures, and Roles and Responsibilities

KPMG obtained and reviewed the following documentation:

- Accounts Payable batch entry instructions, 2019;
- Audit Findings Report for the year ended December 31, 2018;
- Audit Findings Report for the year ended December 31, 2017;
- Audit Management Representation Letter for the year ended December 31, 2018;
- Audit Management Representation Letter for the year ended December 31, 2017;
- Audited, non-consolidated Financial Statements of E.L.K. Energy Inc. for the Year Ended December 31, 2018;
- Audited, non-consolidated Financial Statements of E.L.K. Energy Inc. for the Year Ended December 31, 2017;
- Capitalization Policy, 2013;
- Collective Agreement between E.L.K. Energy Inc. & International Brotherhood of Electrical Workers, Local 636 dated January 14, 2019;
- Depreciation and Amortization Memo, 2013;
- Electricity Distribution License ED-2003-0015 E.L.K. Energy Inc. valid until March 23, 2023;
- E.L.K. Energy Inc. minutes of the meeting of the Board of Directors, June 27, 2019;
- E.L.K. Energy Inc. minutes of the meeting of the Board of Directors, May 23, 2019;
- E.L.K. Energy Inc. minutes of the meeting of the Board of Directors, April 25, 2019;
- E.L.K. Energy Inc. minutes of the meeting of the Board of Directors, February 28, 2019;
- E.L.K. Energy Inc. Finance Committee presentation to the Board of Directors for 2019 budget, April 22, 2019;
- E.L.K. Energy Inc. presentation to the Board of Directors for 2018 Annual Resolutions, April 22, 2019;
- E.L.K. Energy Inc. OEB Scorecard, 2017;

- E.L.K. Energy Inc. OEB Scorecard, 2016;
- E.L.K. Energy Inc. OEB Scorecard, 2015;
- Month-end customer billing process, 2019;
- Month-end reporting instructions, Sage, 2010;
- Payroll instructions, AccPac, 2010;
- Payroll T4 preparation instructions, 2011;
- Payroll T5 preparation instructions, 2006;
- PPE Componentization and Useful Lives Conclusion Document for IAS 16, 2013;
- PPE Capitalization of Overhead for IAS 16, 2013;
- Procurement Policy, October 12, 2006;
- Workplace Harassment and Violence Policy, 2003;
- Year End Financial Close Checklist and Guide; and
- Yearbook of Electricity Distributors 2018, published by the Ontario Energy Board on August 19, 2019.

5.1.2 Review Audited Financial Statements and Management Representation Letters for Last Two Years Available

KPMG obtained and reviewed the following documentation:

- Audited, non-consolidated Financial Statements of E.L.K. Energy Inc. for the Year Ended December 31, 2018;
- Audit Management Representation Letter addressed to KPMG for the audit of the Non-consolidated Financial Statements of E.L.K. Energy Inc. for the Year Ended December 31, 2018;
- Audited, non-consolidated Financial Statements of E.L.K. Energy Inc. for the Year Ended December 31, 2017; and
- Audit Management Representation Letter addressed to KPMG for the audit of the Non-consolidated Financial Statements of E.L.K. Energy Inc. for the Year Ended December 31, 2017.

Findings:

The audit opinions for both 2017 and 2018 concluded with a 'clean' opinion, i.e. "the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of E.L.K. Energy Inc. as at December 31, 2017, and its non-consolidated financial performance and its non-consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards".

KPMG

5.1.3 Identify, Document and Assess Risks and Design of Key Financial Reporting Controls

KPMG conducted a walkthrough of the Company's accounting and financial reporting cycle and noted the following controls.

Treasury

- **Bank Reconciliations** - On a monthly basis, the Company performs a reconciliation of cash balances per the each of the Company's (4) bank statements to cash balances per the General Ledger.
- **Investments –** All surplus cash is maintained in the Company's bank accounts. In the event the Company were to invest surplus cash, any proposed investments would be presented to the Finance Committee, Board of Directors by the Director, Finance and Regulatory Affairs for approval.
- **Signatories** – Internal (non-Board of Director) bank signatories (the CEO, the Director, Finance and Regulatory Affairs and the Supervisor, Finance and Customer Service) have satellite key tags, which refresh regularly to provide unique access keys required to gain access to company banking information and balances. The keys can only be used through the individual online profile/computer of the assigned signatory. All disbursements exceeding $20,000 require two signatories.
- **Cheques –** Blank cheques are locked in the Company's vault until required for distribution.
- **Cash payments –** The Company accepts cash payments at their office. A daily reconciliation is performed for each Customer Service Representative of opening and closing balances to receipts.

Procurement (Payables)

- **Purchasing Policy –** All purchases are made in accordance with the Purchasing Policy, which stipulates required quotes and approvals based on stepped dollar thresholds. Documentation related to all purchases, including requests for proposal and received quotes are attached to the relevant invoices/contracts.
- **Master Vendor Listing** – The Company maintains a list of all relevant vendor data, with editing rights limited to the Director, Finance and Regulatory Affairs and the Supervisor, Finance and Customer Service.
- **Invoice Approval** – All invoices are reviewed by three members of management prior to payment of the invoice. ELK is managed and operated by 17 full time staff and management have knowledge of the underlying needs to purchase, and for invoiced items. When unsure of the nature of a purchase, the approvers follow up with the appropriate individual for explanation.
- **Board Review of Disbursements** – On a monthly basis, the Board of Directors reviews and approves all disbursements made by the Company in the preceding month.

KPMG

Billing (Revenue)

- **Billing** – All customers are billed by the Company for the complete month. Each Customer Service Representative completes either an electric or multi-service (electric and water) billing cycle (water is billed by the Company on behalf of Town of Essex). Smart metres disaggregate customer data by time of use. The monthly data retrieved through the MDM/R (Meter Data Management Repository) is uploaded to Harris North Star. Billing is sent by hard copy in traditional mail, or via e-billable if the customer has selected this option. Per the 2017 OEB Scorecard, the Company had 99.99% billing accuracy in that fiscal year.
- **Revenue Reconciliation** – At year end, the Director, Finance and Regulatory Affairs performs a reconciliation of the full year's (12) monthly North Star reports to revenue per the General Ledger. Typical reconciling items are the regulatory asset and liability accounts.
- **Disconnection** – In non-winter months the entity disconnects power to customers with greater than $250 outstanding on their account. During winter months the OEB has implemented a disconnection ban which E.L.K. adheres to.

Payroll

- **Review of Time Sheets** – all employee time sheets are reviewed by at least one appropriate member of management. Employee time sheets for finance employees involved in the payroll process are reviewed by an independent member of management.
- **Segregation of Duties** – Complete payroll registers are prepared and reviewed and approved by different members of management. If payroll is prepared by the Supervisor, Finance and Customer Service it is approved by either the Director, Finance and Regulatory Affairs or the CEO. Once payroll is keyed into the CIBC online banking portal for distribution, a second member of management must approve the distribution electronically.
- **Vacation/Sick Day Accrual** – for new employees (< 1 year of employment), eligibility for sick and vacation days are manually tracked and reconciled. Sick and Vacation days for all employees are tracked in a labour distribution report. The reports are reviewed by an appropriate member of management. At the end of each year, each employee is provided with the sick accrual report as at December 31.
- **Standing Data Changes** – All standing payroll data (hires/terminations, changes in rate of pay) are promptly updated in the payroll system. New hire documentation (employment contracts, etc.) are maintained in individual employee personnel folders, in a secure area of the Company's offices.
- **Harassment and Violence Policy** – All new employees sign a copy of the policy, and a record of the acknowledgement is maintained in their personnel folder.

Inventory

- **Inventory Count** – On an annual basis the entity completes a count of 100% of the inventory on hand. To provide oversight of the count, the Director, Finance and Regulatory Affairs performs random test counts, with a mix of sheet to floor (existence) and floor to sheet (completeness) test counts performed. Inventory items are pictured on the count sheets, to allow counters with non-specific knowledge of equipment such as transformers to understand what they are counting. Management noted that due to the relatively low balance of inventory, the external auditor has not completed an inventory count in recent years (the balance of inventory is not material to the audit).

- **Inventory Movements** – All inventory movements received and/or issued for work are recorded in an inventory movement binder. Use of inventory is recorded in a Work Order (small jobs and large jobs) and project worksheets.
- **Economic Evaluation Model (OEB)** – The OEB prescribes a process to true up the cost to developers, when readying new developments for energization. After job completion the estimated costs of hook up are trued up. Since developers would dispute/scrutinize material increases in cost (estimate vs. trued-up actual), this control mitigates the risk that inventory items allocated to jobs is not utilized as intended.

Financial Reporting

- **Management Awareness** – Due to the relatively small size of the Company, the CEO and the Director, Finance and Regulatory Affairs have involvement and/or oversight of all accounting processes.
- **Financial Reporting Checklist** – The Company performs financial reporting procedures on a monthly basis, and on an annual basis (for the year ended December 31). The Company maintains a financial reporting checklist, which includes 30 financial reporting processes. All checklist items are completed as an element of financial reporting.
- **Preparation and External Audit of Year End Financial Statements** – At the end of the fiscal year the Supervisor, Finance and Customer Service performs the month-end financial reporting duties. As an element of financial reporting, the Director, Finance and Regulatory Affairs along with the Supervisor, Finance and Customer Service prepare binders of support, including reconciliations, for the external auditor. An audit of the financial statements is completed by the external auditor in mid-march. The financial statements, including the accompanying notes are drafted by the external auditor, using the Company's audited trial balance.
- **Board Approval of Financial Statements** – On an annual basis the Finance Committee reviews and approves the audited, non-consolidated financial statements of the Company. Following Finance Committee approval, the Finance Committee along with the Director, Finance and Regulatory Affairs present the financial statements to the Board of Directors for approval.

Findings:

KPMG's detailed procedures and analysis identified that E.L.K. has controls in place aligned to the typical risks and aligned to the expected controls noted for the accounting line of review in Section 4.1.

Recommendations:

KPMG makes the following recommendations, for management consideration, to further enhance their control environment:

- While the entity currently engages in limited investment activity (e.g. investment of surplus cash in GICs), creation of a formal investment policy would provide further guidance for potential future investments.
- Currently, two bank accounts have bank reconciliations prepared by the Director, Finance and Regulatory Affairs, without a second, independent review. While the current level of segregation of duties may be adequate for an organization of this size, a key control such as a bank reconciliation, should be reviewed by a second member of the finance/management team. Review should be evidenced (e.g. initials, signature, dates etc.) to provide evidence after the control was completed by whom and when. A compensating control for one of these bank reconciliations is with respect to the Affordability Fund Trust which is monitored by the Trust and supported by funding from the Government of Ontario.
- All policy and procedure documents should include a version date. Policies and narrative documents of the organization should be reviewed on a periodic basis (e.g. annual, bi-annual etc.) to help ensure accuracy and currency of the documentation. These reviews can be performed on a rolling basis to spread the work load over time.
- A formal onboarding / offboarding checklist should be utilized by the entity, and maintained in the employee personnel files. This will help ensure the organization continues to communicate all relevant policies to employees, and adds and removes employees from the payroll system on a timely basis in addition to the compensating control noted whereby employees sign off to acknowledge review of a policy.
- All changes to Master Vendor Data should be reviewed and approved by a second member of management, to help ensure changes are appropriate (ex. existence of vendors, accuracy of banking information) in order to mitigate/prevent the risk of loss, or payment to an incorrect party. This is partially mitigated by a detective control whereby all payments are initiated by one individual and approved by a second individual.
- Formal inventory count instructions (annual inventory count) should be communicated to all participating employees, verbally and in written form.

5.1.4 Identify Appropriate Performance Indicators and Benchmark (Where Possible)

Performance indicators and benchmarks were obtained from the Ontario Energy Board, Yearbook of Electricity Distributors for the years 2017 and 2018.

E.L.K. has a mutual assistance plan with other LDCs in the area (EDA Western District). This plan has been in place for almost twenty years (initial plan dated January 2001, last revision May 2016). Following are the LDCs who are including in the mutual assistance plan with E.L.K.:

- Bluewater Power Distribution Corp.;
- Entegrus (previously St Thomas Energy);
- Enwin Utilities Ltd.;
- ERTH (previously Erie Thames Powerline Corp);
- Essex Powerlines Corporation;
- London Hydro; and
- Tillsonburg Hydro Inc.

General Benchmarks Following are general benchmarks that compare the number of customers serviced and kWh delivered.

E.L.K. serviced 12,411 customers as of 2018 and is the second smallest LDC of the mutual assistance comparators.

Total Number of Customers Local Distribution Company	2017	2018
London Hydro Inc.	157,188	159,039
Enwin Utilities Ltd.	88,422	88,978
Entegrus Powerlines Inc	41,142	59,186
Bluewater Power Distribution Corporation	36,585	36,691
Essex Powerlines Corporation	29,756	30,012
ERTH (Erie Thames Powerlines Corp)	18,948	19,238
E.L.K. Energy Inc.	12,344	12,411
Tillsonburg Hydro Inc.	7,201	7,123

E.L.K. delivered 252,552,933 kWh in 2018 and represents 2.6% of the total kWh delivered by this group of LDCs i.e. 9,621,197,626 kWh.

kWh Delivered Local Distribution Company	2017	2018
London Hydro Inc.	3,195,491,862	3,326,260,132
Enwin Utilities Ltd.	2,423,395,058	2,498,453,617
Entegrus Powerlines Inc	923,425,886	1,256,991,995
Bluewater Power Distribution Corporation	1,000,844,635	1,019,735,531
Essex Powerlines Corporation	539,734,798	558,276,019
ERTH (Erie Thames Powerlines Corp)	492,231,607	518,420,545
E.L.K. Energy Inc.	236,059,300	252,552,933
Tillsonburg Hydro Inc.	189,742,027	190,506,854

Financial Benchmarks Following are financial benchmarks that compare the following: current ratio, debt to asset ratio and return on assets.

E.L.K.'s current ratio (current assets / current liabilities) is 2.51, the highest of the comparator group.

Current Ratio		
Local Distribution Company	**2017**	**2018**
E.L.K. Energy Inc.	1.85	2.51
Enwin Utilities Ltd.	1.83	2.24
Tillsonburg Hydro Inc.	2.04	1.64
Bluewater Power Distribution Corporation	1.32	1.36
Entegrus Powerlines Inc	1.36	1.34
London Hydro Inc.	1.31	1.27
ERTH (Erie Thames Powerlines Corp)	0.90	0.87
Essex Powerlines Corporation	0.65	0.67

E.L.K.'s debt to asset ratio is 0.15, the second lowest of the comparator group.

Debt to Asset Ratio		
Local Distribution Company	**2017**	**2018**
Entegrus Powerlines Inc	0.42	0.42
ERTH (Erie Thames Powerlines Corp)	0.37	0.39
Essex Powerlines Corporation	0.29	0.37
London Hydro Inc.	0.30	0.34
Bluewater Power Distribution Corporation	0.24	0.25
Enwin Utilities Ltd.	0.15	0.24
E.L.K. Energy Inc.	0.17	0.15
Tillsonburg Hydro Inc.	0.03	0.05

E.L.K.'s return on assets is 3.55%, the third highest of the comparator group.

Return on Assets		
Local Distribution Company	**2017**	**2018**
Bluewater Power Distribution Corporation	3.35	4.52
Enwin Utilities Ltd.	2.12	3.94
E.L.K. Energy Inc.	2.74	3.55
Essex Powerlines Corporation	2.21	3.41
Tillsonburg Hydro Inc.	3.69	3.25
London Hydro Inc.	3.66	3.15
Entegrus Powerlines Inc	3.13	2.64
ERTH (Erie Thames Powerlines Corp)	1.59	2.10

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5.2 Budgeting Processes, Business Planning Processes and Management Oversight

5.2.1 Review Available Documentation Related to Policies, Procedures, and Roles and Responsibilities

KPMG obtained and reviewed the following documentation:

- Budget Process narrative, undated
- OEB approved scorecard for E.L.K. Energy, 2017;
- OEB approved scorecard for E.L.K. Energy, 2016;
- OEB approved scorecard for E.L.K. Energy, 2015;
- PEG Benchmarking Report 2019;
- PEG Benchmarking Report 2018;
- PEG Benchmarking Report 2017;
- Proposed 2019 Budget presentation, as prepared for the Board of Directors; and
- Proposed 2018 Budget presentation, as prepared for the Board of Directors.

5.2.2 Review Budget to Actual Comparisons for last 2 Years to Assess Reasonableness of Budgets Comparing Actual Results to Planned Budget

KPMG obtained and reviewed the following documentation:

- 2019 Budget commentary (notes prepared by management for presentation to the Board of Directors), which includes a comparison of budget to actual for the year ended December 31, 2018;
- 2018 Budget commentary (notes prepared by management for presentation to the Board of Directors), which includes a comparison of budget to actual for the year ended December 31, 2017;
- Proposed 2019 Budget presentation, as prepared for the Board of Directors; and
- Proposed 2018 Budget presentation, as prepared for the Board of Directors.

Findings:

Based on our walkthrough of the budget process (detailed in the following section), review of the 2017 and 2018 budget documentation and related variance reporting prepared, the budget to actual comparisons are performed, documented, monitored regularly, and appear complete and fully documented.

5.2.3 Identify, Document and Assess Risks and Design of Key Controls

KPMG conducted a walkthrough of the Company's budgeting and business planning process and noted the following controls.

- **Management Awareness** – Due to the relatively small size of the Company and management team, the level of awareness of all general operations of E.L.K. by members of management is high. This awareness is further strengthened by low historical employee turnover at all levels. In addition, the CEO and Director, Finance and Regulatory Affairs meet informally on a regular basis to discuss budget to actual performance of the Company.
- **Preparation of Budget by Appropriate Members of Management** – Each member of management is involved in the preparation of the budget for their area of responsibility. For example, the preliminary operating budget is prepared by the Director of Operations, and the administrative portion of the operating budget is prepared by the Director, Finance and Regulatory Affairs, reflective of their assigned responsibilities. Preparation of the preliminary budget is guided by prior year actuals, forecasted operational changes (including forecasted customer and development growth) and changes to applicable collective bargaining agreements.
- **Review of the Budget by the Finance Committee** – The annual operating and capital budget are reviewed and approved by the Finance Committee. Upon approval of the Finance Committee, the budget is presented to the Board of Directors for review and approval.
- **Annual Review of Budget to Actual** – The budget to actual is regularly, informally reviewed by the Director, Finance and Regulatory Affairs together with the CEO. On an annual basis, the Director, Finance and Regulatory Affairs prepares an analysis of budget to actual for the prior year's capital and operating budget for presentation to the Finance Committee and Board of Directors. Along with a variance analysis (actual results compared to budgeted plan), management prepares a discussion and analysis of the significant variances.
- **Low turnover on the Finance Committee and Board of Directors** – The organization has historically enjoyed low turnover rates on the Board of Directors that fosters Board awareness and insights of the Company's operations.
- **Regulatory Oversight of Financial Performance** – All Ontario electric distributors are subject to oversight by the OEB regarding financial performance. On an annual basis the Company receives a "scorecard" from the OEB assessing the performance of the Company on multiple metrics, including financial ratios, asset management and cost control. Further, as directed by OEB, Pacific Economics Group ("PEG") prepares and annual report of Ontario electric distributors. As an element of this report, PEG performs statistical cost benchmarking of electric distributors in support of rate setting. In each of 2019, 2018 and 2017 the Company was included in the lowest "stretch factor group", a good indicator of E.L.K.'s financial management.

Finding:

KPMG's procedures identified that E.L.K. has controls in place aligned to the typical risks and aligned to the expected controls noted for the budgeting line of review in Section 4.1.

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Recommendation:

KPMG makes the following recommendation, for management consideration, to further enhance their control environment:

- Oversight into the performance of the Company by the Finance Committee and the Board of Directors could be improved with more frequent periodic reporting of budget to actual variance analysis e.g. semi-annually.

5.2.4 Identify Appropriate Performance Indicators and Benchmark Where Possible e.g. Timing of Budget Approval, Time to Budget, Significant Over/Under Budget

Refer to benchmarking results in section 5.1.4

5.3 Distribution System Planning Information, Processes and Procedure

5.3.1 Review Available Documentation Related to Policies, Procedures, and Roles and Responsibilities

KPMG obtained and reviewed the following documentation:

- Distribution System Planning Memo – E.L.K.'s approach to distribution system planning;
- 2018 Asset Management Plan – Table of contents includes: introduction, general and administrative matters, distribution system plan, asset management process and capital expenditures plan;
- Renewable Energy Generation Investments Plan (2016 – 2020) - E.L.K. Energy's best efforts to enable the connection of renewable generation facilities and to create a Smart Grid development strategy;
- Annual Audit Report 2017 & 2018 – independent audit report from third party professional engineer;
- Vehicle Replacement Program – analysis;
- E.L.K. Energy Safety Measures-2013-2018;
- E.L.K. OEB Approved Scorecard 2015-2018;
- E.L.K. Electrical Safety Authority Report 2016 & 2018 - Public Safety Awareness Survey;
- PEG Benchmarking Report 2017 & 2018;
- Service Quality and Emergency Response 2017 & 2018;
- Emergency Preparedness Plan; and

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- Map of E.L.K.'s Distribution Area.

5.3.2 Identify, Document and Assess Risks and Design of Key Controls

KPMG conducted a walkthrough of the Company's distribution planning process and noted the following controls.

5.3.2.1 Distribution System

Distribution plant assets includes poles, wires, transformers and meters.

The Operations Manager is responsible for the direction, planning, co-ordination and supervision of the activities of the operations department.

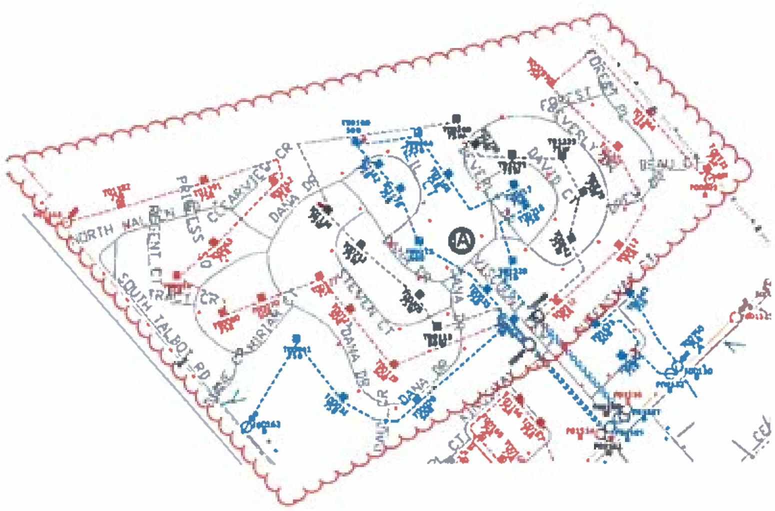
KPMG conducted a walkthrough of the distribution system planning with the Operations Manager and noted the following controls:

- **Management awareness** - The relatively small size of E.L.K., i.e. 12,411 customers, enables the Operations Manager to be aware of operational services required including outages and requests for new services from developers.
- **Outage verification** - All outages are verified by E.L.K. staff and reported to the Operations Manager.
- **Outage tracking** - Copies of all service outage reports are maintained and tracked in a listing by type of incident following a standard list of issues including for example: loss of supply; tree contacts, lightning, adverse weather, and foreign interference.
- **Combined remediation planning** - The Operations Manager uses the results of service outage tracking combined with the data and firsthand knowledge to group issues to efficiently plan remediation to address multiple issues as part of one remediation project.
- **Cost of service application** - As part of the cost of service application, approximately every 5 years, E.L.K. prepares analysis to support changes to the cost of service.

  KPMG reviewed an example project submitted as part of the 2012 Cost of Service application. The example project was to replace a portion of a development (i.e. Viscount Estates) underground primary cable and live front transformers. E.L.K. determined the root cause based on the outage reports that 35% of the primary underground cable failures related were from this development and accounted for 66% of the failures in 2011.
- **Asset inspection** - Currently distribution assets are inspected as part of any service work orders. E.L.K. is planning to complete a comprehensive Asset Condition Assessment with assistance from a third party that will be used as a basis to support the next cost of service rate application.
- **Information management** - E.L.K. maintains databases for each of its six service areas. Following is the list of data bases including a brief description:
  - DIP – Primary underground dip, transition from aerial to underground at pole;

- FU – Primary fuse switch
- OH SERVICE WIRE – Overhead service wire to customers;
- PAD_TX – Pad mounted transformers;
- PME – Primary Meter Enclosure, bulk metering points for either the energy supply into E.L.K.'s service area or the energy supplied through E.L.K.'s service area to an embedded distributor e.g. Hydro One;
- POLE – Distribution poles;
- RECLOSERS – Re-closures;
- RS – Primary underground riser, transition from underground to aerial at a pole;
- SD_TX – Step down transformer, 16kV to 2.4 kV;
- ST_LIGHT – Street lights;
- SW – Primary switch;
- SC_CUB – Pad mounted primary switching cubicle;
- TX – Pole mounted transformers; and
- UG SERVICE WIRE – Underground service wire to customers.

- **AutoCAD Map 3D** – E.L.K. maintains the distribution system on AutoCAD Map3D. KPMG reviewed an example project (Viscount Estates, noted previously) and noted the following details from AutoCAD Map3D related to the transformers and underground cabling that were replaced.



- **Planning group** - E.L.K. is a member of the Windsor-Essex planning group to consider planning requirements for both E.L.K.'s customers and other LDCs. The group meets as needed, typically monthly or more frequently towards the end of the year. At the time of drafting the 2018 Asset Management Plan, demand for electricity was noted to be around 300MW and had been in a slow decline from 2007 to 2017. The Operations Manager noted that demand for electricity is currently experiencing significant growth due to the introduction of greenhouse agriculture operations in the region around E.L.K.'s service territory. Participation on the planning group helps to ensure future distribution system requirements are considered and planned for. E.L.K. confirmed that within it distribution system there are no current or unforeseen capacity constraints.
- **Active member with Utility Standards Forum** - The E.L.K. Operations Manager is a member of the Utility Standards Forum, "a non-profit, volunteer based corporation owned by 53 Ontario electricity distributor Members"[1]. The standards being set by this group will help inform the Asset Condition Assessment to be completed to support distribution planning as well as the next round of cost of services rate application.
- **Emergency Preparedness Plan** – Includes: Emergency planning organization, Emergency response, and Administration.

5.3.2.2 General Plant Assets Life Cycle Management

General plant assets include buildings, tools and equipment, fleet of vehicles, IT systems hardware and software.

The E.L.K. Operations Manager is responsible for the direction, planning, co-ordination and supervision of the activities of the operations department.

KPMG conducted a walkthrough of the general plant assets life cycle management with the E.L.K. Operations Manager and noted the following controls:

- **Management awareness** – E.L.K.'s general plant assets include one site for its head office, garage, yard for storing transformers and vehicles. E.L.K.'s vehicles are comprised of 6 heavy duty (i.e. > 3,500 kg) and 3 light duty (i.e. < 3,500 kg). Annual spend on tools and equipment is approximately $10K. The limited quantity, of general plant assets to support its customer base, permits the Operations Manager and Director, Finance and Regulatory Affairs awareness of general plant assets to be managed.
- **Annual planning** – The Operations Manager and Director, Finance and Regulatory Affairs collaborate annually to prepare the annual budget for E.L.K. including any additions to general plant assets. Management endeavors to balance new vehicle purchase costs against excessive repair bills and operational downtime that occur when vehicles are kept for too long. Annual planning is supported by analysis considering the following factors:
  - Age of vehicle;
  - Kilometers on vehicle;

[1] http://utilitiesstandardsforum.ca/ <<Accessed Oct 25, 2019>>

- Repairs and maintenance costs;
- Condition of the fleet asset including annual structural and electrical testing;
- Changing emissions, weight, and road safety regulations; and
- Operations and office needs.

Results of current planning has resulted in management's decision to replace its radial boom derrick truck in 2018 and a bucket truck in 2019.

- **Review by CEO and Board** – The annual budget is reviewed by the CEO and then by the Finance Committee and subsequently by the Board of Directors.
- **Third party for IT assets** – E.L.K. has contracted its IT support to a third party service provider (i.e. PCOutlet) which provides advice and input to the Operations Manager and Director, Finance and Regulatory Affairs to support E.L.K.'s IT asset life cycle management.
- **Procurement** – The process to procure general assets includes approval by the Operations Manager and Operational staff matching the Purchase Order to shipping documents upon receipt of the asset and Finance issuing payment.

5.3.2.3 *Health and Safety*

The Operations Manager leads E.L.K.s approach to health and safety.

KPMG conducted a walkthrough of the general plant assets life cycle management with the Operations Manager and noted the following controls:

- **Policy statement** – E.L.K. has a documented Health and Safety Policy and all policies are reviewed by E.L.K. employees and signed off to acknowledge their understanding of the policy.
- **Certification** – The Operations Manager and Sub Forman are both certified. E.L.K. provided an example certification from the Infrastructure Health and Safety Association for completion of Utility Work Protection Code training completed by the Sub-Foreman.
- **Ontario Regulation 22/04 Audit** – Annually completed by a third party Engineering firm to assess the extent of compliance of E.L.K. to the regulation, to measure whether it has appropriate processes in place to comply with the safety standards and follows its processes. The opinion included in the audit report stated "the distributor (referring to E.L.K.) is in full compliance with Ontario Regulation 22/04" and "the distributor demonstrates commitment to safety through all levels of the organization".
- **Electrical Safety Authority** – Annually E.L.K. submits reporting (Annual Audit Report, Declaration of Compliance and Due Diligence Inspections to the ESA as required under Ontario Regulation 22/04. ESA reviews these submissions annually and provides a compliance assessment summary to E.L.K. E.L.K. is in full compliance.

Findings:

KPMG's procedures identified that E.L.K. has controls in place aligned to the typical risks and aligned to the expected controls noted for the distribution planning line of review in Section 4.1.

5.3.3 Review Key Benchmarks for Last Two Years

Performance indicators and benchmarks were obtained from the Ontario Energy Board, Yearbook of Electricity Distributors for the years 2017 and 2018.

E.L.K. has a mutual assistance plan with other LDCs in the area (EDA Western District). This plan has been in place for almost twenty years (initial plan dated January 2001, last revision May 2016). Following are the LDCs who are included in the mutual assistance plan with E.L.K.:

- Bluewater Power Distribution Corp.;
- Entegrus (previously St Thomas Energy);
- Enwin Utilities Ltd.;
- ERTH (previously Erie Thames Powerline Corp);
- Essex Powerlines Corporation;
- London Hydro; and
- Tillsonburg Hydro Inc.

Operational Benchmarks Following are operational benchmarks that compare average power outage duration (SAIDI) and average number of interruptions (SAIFI).

SAIDI is the average power outage duration (hours) for each customer served.

E.L.K. experienced an average power outage duration of 1.63 hours which compares favorably to the industry experience of 2.59 hours.

SAIDI (Average Outage Duration) Local Distribution Company	2017	2018
Industry Benchmark	2.85	2.59
Entegrus Powerlines Inc	1.72	1.89
Tillsonburg Hydro Inc.	1.14	1.83
Essex Powerlines Corporation	0.83	1.82
E.L.K. Energy Inc.	0.63	1.63
Bluewater Power Distribution Corporation	1.31	1.60
Enwin Utilities Ltd.	0.72	1.11
ERTH (Erie Thames Powerlines Corp)	0.90	1.11
London Hydro Inc.	0.93	0.82

SAIFI a reliability indicator and is the average number of interruptions that a customer would experience.

E.L.K. had 0.48 as the average number interruptions its customers experienced in 2018, or the second lowest of the comparator group, and compares favourably to the industry benchmark.

SAIFI (Average Number of Interuptions)		
Row Labels	**2017**	**2018**
Tillsonburg Hydro Inc.	1.10	2.28
Enwin Utilities Ltd.	1.70	2.22
Bluewater Power Distribution Corporation	0.96	1.67
Industry Benchmark	1.44	1.48
London Hydro Inc.	1.00	1.40
Essex Powerlines Corporation	0.57	1.29
Entegrus Powerlines Inc	1.07	1.21
E.L.K. Energy Inc.	0.21	0.48
ERTH (Erie Thames Powerlines Corp)	0.35	0.38

5.4 Information Technology Systems, Data Control, and Privacy and Security Procedures

5.4.1 Review Available Documentation Related to Policies, Procedures, and Roles and Responsibilities

E.L.K. has defined IT policies and/or established procedures for the following key IT operations areas:

- An information privacy policy ("E.L.K. Energy Policy Document – Privacy Statement");
- E.L.K.'s Customer Dispute Policy;
- On-site and off-site backup procedures;
- Remote access configuration procedures;
- Network diagrams;
- Change management processes;
- Third party access management procedures; and
- A description of applicable IT procedures prepared in response to queries in this project.

Additionally, KPMG conducted interviews with the Director, Finance, Regulatory Affairs and IT consultant to ascertain the governance and control attributes of certain IT processes that have not yet been documented.

5.4.2 Identify, Document and Assess Risks and Design of Key Controls

KPMG conducted a walkthrough of the Company's information technology systems, data control, and privacy and security process and noted the following controls.

5.4.2.1 Documented IT Security Policies and Procedures

Security Policy and Procedures

KPMG conducted interviews with the Director, Finance and Regulatory Affairs and IT to ascertain the extent of the user account management procedures followed, including user account creation, access provisioning, access de-provisioning, and user account removal upon termination.

E.L.K. does not have a documented IT security policy or acceptable use policy in place. E.L.K. does have IT security procedures documented that could be formalized in an IT security policy and also relies on policy statements regarding ethical conduct. E.L.K. reported the absence of an information security policy to the OEB in their submission of the self-assessment tool in April of 2019. The absence of an information security policy removes an important governance control and enforcement mechanism should an employee or third party provider breach security or confidentiality.

IT security procedures consist of IT operational management procedures to manage remote access granted to vendors. However E.L.K. does not have formal documentation of the process followed for the on-boarding of new users, the assignment and removal of access rights, or the removal of user access accounts in the event of termination. The absence of documented procedures places undue reliance on personnel responsible for these processes to ensure they are applied in a consistent manner, introducing the risk of human error.

Privacy Policy and Procedures

E.L.K. has a documented and approved privacy policy which aligns to the 10 principles set out in the CSA Model Code for the Protection of Personal Information that forms the foundation of Canada's applicable privacy legislation (PIPEDA).

E.L.K.'s documented policy statements and accountabilities align to the OEB framework control category for privacy complaint handling. This is set out in Principle 10 Challenging Compliance on page 14 of the policy. This policy, along with the "Customer Dispute Policy" (dated November 19, 2009), are presented to the public on the E.L.K. website.

Backup and Recovery Procedures

E.L.K. has IT process and technology recovery capabilities in the case of physical system failure or data loss. The basic design consists of 2 physical servers each having a copy of E.L.K.'s mission critical data and systems. One server has the live running copy, while the other has a dormant copy ready to be activated if the live version experiences a failure. In addition, backups of live servers are completed on a nightly basis.

KPMG confirmed the weekday backup schedule for the mission-critical servers, by reviewing the documentation of the backup frequency for the Accounting, NorthStar and APS (i.e. the new settlement servers) as well as virtual machines.

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All backup processes are monitored and any backup failures are actioned. Hardware failures are monitored by E.L.K. staff and reported immediately to IT to facilitate prompt response.

E.L.K. does not follow a consistent practice of conducting periodic backup / restore testing to validate the completeness and accuracy of the content of backup tapes. As a consequence, there is a risk that some critical information may not be retrievable should the backed up data become corrupted. A mitigating control noted; E.L.K. receives daily backup reporting via email i.e. dashboard report and detail report log noting status as "OK" or otherwise. Recipients of this reporting includes the Director, Finance and Regulatory Affairs, the Supervisor, Finance and Customer Service and E.L.K.'s outsource IT service provider.

5.4.2.2 *Active Monitoring of Threats to E.L.K. Systems and Information*

Monitoring of Security Events

E.L.K. has implemented active network monitoring for key elements of its IT infrastructure using a combination of devices and technologies integrated within the IT network architecture. Such monitoring consists of the following mechanisms enabled in the Watchguard firewall technology managed by E.L.K.'s outsourced IT provider including the following:

- Intrusion detection system (IPS) which detects potential attacks based on attack signatures and disables the external connection;
- Botnet detection and blocking;
- Website reputation analysis which detects websites known to distribute malware and blocks them automatically;
- Gateway and end points anti-malware systems; and
- Traffic blocking based on geo-location (i.e. blocking known sources of malware, hacking and phishing).

5.4.2.3 *Security Restricting Access to IT Systems and Data*

User Account Creation and System Access Assignment

E.L.K. has a repeatable access provisioning process for new users. Upon joining the organization a request is put in to IT in order to create the user account in Active Directory (AD) and the Director, Finance and Regulatory Affairs determines the access level that is required for the new employee according to their job function. IT actions the request accordingly by adding the user to one or more of the following AD functional groups (ACCOUNTING, CRS, EXECUTIVE, OPERATIONS) which are aligned to the related business functions. In this manner, access rights are assigned following a principle of "least privilege", as the access privileges for all users are restricted through their membership to these groups. As noted in 6.4.2.1 above, these procedures have not been documented in a formal and approved procedure.

Periodic access reviews are also performed by the Director, Finance and Regulatory Affairs to validate that the access rights as assigned are consistent with the user's job functions.

User Account Removal

When an E.L.K. employee leaves the organization, the Director, Finance and Regulatory Affairs informs IT in order to ensure that access is removed. The user account is immediately disabled in order to ensure that the person is not able to access information subsequent to their termination. Should there be a time lag between an employee's termination and the disabling of their user account, it is important to note that individual would not be able to gain access remotely to the network.

Findings:

KPMG's procedures identified that E.L.K. has controls in place aligned to the typical risks and aligned to the expected controls noted for the information technology line of review in Section 4.1.

Recommendations

KPMG makes the following recommendations, for management consideration, to further enhance their control environment:

- E.L.K. should implement an information security policy, have it approved by senior management, and communicate its contents to employees and third party providers.
- E.L.K. should document procedures for the following user and access privilege processes, including procedures documents to address:
  - User account creation;
  - Access privilege assignment;
  - Access privilege adjustment or removal; and
  - User account removal.
- E.L.K. should perform an exercise, annually at a minimum, or more frequently as decided by management, to restore critical systems and data from backup. This testing could be combined with a full disaster recovery or a business resumption test process.

5.4.3 Review and Assess OEB Submissions

In accordance with the OEB's regulatory submissions requirements, E.L.K. completed their Cybersecurity self-assessment filing on April 10, 2019, in advance of the April 30, 2019 deadline. E.L.K.'s submission package included the Inherent Risk Profile which indicated that E.L.K. self-assessed the organization's inherent risk profile as "Low" in consideration that the scope of E.L.K.'s operations is limited, and the network and IT infrastructure is not complex when compared with other LDCs.

Findings:

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KPMG reviewed the OEB Cyber self-assessment submissions, and noted E.L.K. management self-assessment included the following:

- No self-audits or third party audits have been completed, nor have audits been completed on the IT environment managed by the third party provider;
- E.L.K. is connected physically or logically to the Town of Essex municipal network, increasing the risk of financial or infrastructure impacts should a breach of the cyber security of either entity occur;
- IT and Operational Technology (OT) environments are directly connected at E.L.K., increasing the risk of infrastructure impacts should a breach of the cyber security of either network take place. The inherent risk is mitigated, to some extent, given that there is no SCADA network connectivity as part of this OT environment; and
- E.L.K. permits un-encrypted USBs to be inserted into computing devices. This increases the risk of malware infection and of data exfiltration.

KPMG agrees with management's self-assessment to further enhance their IT control environment by:

- Applying enhanced security monitoring controls on E.L.K. network and Town of Essex connection points to increase the likelihood of detecting malware or attacks emerging from this external network;
- Implementing network segmentation between the OT and IT networks and / or enhanced monitoring at this connection point;
- Implementing anti-malware solutions to enable scan-on-connect capabilities for remote connections to help reduce the risk of malware being introduced to the corporate network; and
- Implementing Windows 10 functionality to enforce password protection on USB sticks.

5.5 Human Resources Management

5.5.1 Review Available Documentation Related to Policies, Procedures, and Roles and Responsibilities

KPMG obtained and reviewed the following documentation:

- Organization Chart – 17 full time and 1 part time positions;
- Job Descriptions – Accountant, Administrative Assistant, CEO, Customer Service Representative (full and part time), Director Finance, Lead Hand, Operations Manager, Supervisor Finance;
- Yearly Overtime Analysis – 2017 and 2018
- Policies and Procedures – Accessibility Training, Banner, Call Script (Electricity Outage), Company Credit Cards, Continuous Service Agreement Landlord, Customer Complaint and

Dispute Resolution, Office Etiquette, Employee Service Recognition, Environmental Stewardship, Hiring Policy, Move-In Move-Out Standard Operating Procedure, Non Smoking Policy, Privacy Policy, Retirement Service Recognition, Travel Policy, Workplace Harassment Policy, and Workplace Violence Policy.

5.5.2 Identify, Document and Assess Risks and Design of Key Controls

KPMG conducted a walkthrough of the Company's human resource management process and noted the following controls.

5.5.2.1 HR Management

The Director, Finance and Regulatory Affairs leads HR management with input from the CEO and Operations manager.

KPMG conducted a walkthrough of HR management with the Director, Finance and Regulatory Affairs and noted the following controls:

- **Management awareness** - The relatively small size of E.L.K., i.e. 17 full time and 1 part time employee, combined with low turnover of staff permits the management team to have a good awareness of E.L.K.'s HR requirements.
- **Hiring** – E.L.K. experienced a recent retirement, following is a summary of the process and controls followed to replace this position that is followed for all hires:
    - Job posting prepared by Operations Manager (retiree from Operations) and reviewed by Director, Finance and Regulatory Affairs;
    - Job posting includes posting internally in staff area
    - An outsource service provider provides support to E.L.K. including job postings;
    - Operations Manager reviews all applications;
    - Director, Finance and Regulatory Affairs reviews the list of candidates;
    - CEO reviews the list of candidates;
    - Operations Manager conducts interviews including test case scenarios to assess applicant's capabilities;
    - CEO approves management decision of successful candidate;
    - Letter of offer extended; and
    - Finance adds new hire to its system to process payroll going forward.
- **Cross function capability** – Capabilities for finance, customer relations, HR and other support functions are spread across management and staff at E.L.K. providing continuity in the event an individual staff member is unable to perform duties. Similar capabilities for operations exist to help ensure continuity of operational services.

Findings:

KPMG's procedures identified that E.L.K. has controls in place aligned to the typical risks and aligned to the expected controls noted for the human resources line of review in Section 4.1.

5.5.3 Review and Assess Key OT Statistics for Last Two Years

Operational needs require that there is always an E.L.K. operational staff member on call to be contacted in the event of a power outage in its distribution system.

Additionally, management noted one large customer that has a requirement for E.L.K. to shut down the portion of the distribution system providing service for periodic maintenance by the customer. Any overtime incurred as a result is paid for by the customer.

The following summary illustrates E.L.K.'s annual overtime as a percentage of total hours.

Annual Overtime Compared to Total Hours			
	2016	2017	2018
Total hours	25,962	23,703	24,575
Overtime hours	1,032	598	1,105
% of OT to total hours	4.0%	2.5%	4.5%

Findings

Overtime is an operational requirement and the amount of overtime incurred over the last three years appears reasonable.

5.5.4 Identify appropriate performance indicators and benchmarks where possible (i.e. salary cost, asset maintenance cost, major "surprises" in cost, etc.

Benchmarks were not available for comparison.

A Appendix A - Specified Procedures by Line of Review

Line of Review	Specified Procedure
1. Accounting procedures and practices	Review available documentation related to policies, procedures, and roles and responsibilities. Review audited financial statements for last 2 years and management letters where available (assess clean audit opinion). Identify, document and assess design of key financial reporting risks / controls. Preliminary key risks include: - Lack of segregation of duties / Segregation of duties; - Lack of monitoring by management / Management monitoring; and - Untimely accounting and reporting / timely accounting and reporting. Identify appropriate performance indicators and benchmark where possible.
2. Budgeting processes, business planning processes, and management oversight	Review available documentation related to policies, procedures, and roles and responsibilities. Review budget to actual comparisons for last 2 years to assess reasonableness of budgets comparing actual results to planned budget. Identify, document and assess key risks / controls. Preliminary key risks / controls include: - Lack of understanding of budget process / Budget process is documented and communicated; - Budget is not completed on a timely basis and/or not approved / Budget completion and appropriate approval; and - Lack of monitoring over time / Budget to actual is regularly monitored with significant variances explained. Identify appropriate performance indicators and benchmark (where possible).

Line of Review	Specified Procedure
3. Distribution system planning information, processes and procedure	Review available documentation related to policies, procedures, and roles and responsibilities. Identify, document and assess key risks / controls. Preliminary key risks / controls include: - Distribution system does not meet the needs of constituents / management of distribution system including forecasting, needs identification, planning, implementation and monitoring; - Lack of asset life cycle management / Asset life cycle management including need identification, additions, maintenance, and end of use; and - Lack of proactive approach to health and safety / Proactive approach to manage health and safety. Review key benchmarks for last 2 years.
4. Information technology systems, data control, and privacy and security procedures	Review available documentation related to policies, procedures, and roles and responsibilities. Identify, document and assess key risks / controls. Preliminary key risks / controls include: - Lack of IT security policies and procedures / Documented IT security policies and procedures e.g. business continuity, disaster recovery, acceptable use etc.; - Lack of active monitoring of threats / Active monitoring of threats to E.L.K. systems and information; and - Access to IT systems and data / Security restricting access to IT systems and data. Review and assess OEB submissions (i.e. IT, Cyber, Privacy) for significant gaps, etc.
5. Human resources management	Review available documentation related to policies, procedures, and roles and responsibilities. Identify, document and assess key risks / controls. Preliminary key risks / controls include: - Lack of effective human resource management / Effective resource management. Review and assess key OT statistics for last 2 years to assess whether appropriate staff mix. Identify appropriate performance indicators and benchmarks where possible (i.e. salary cost, asset maintenance cost, major "surprises" in cost, etc.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY STAFF-19

Ref. 1: ELK_2025-IRM-Rate-Generator-Model_20241028, Tab 3 Continuity Schedule

Preamble:

On September 13, 2024, and December 11, 2024, the OEB published the Q4 2024 and Q1 2025 prescribed accounting interest rate applicable to the carrying charges of deferral, variance and construction work in progress (CWIP) accounts of natural gas utilities, electricity distributors and other rate-regulated entities.

Question(s):

a) Please update Tab 3 (Continuity Schedule) of the Rate Generator Model, as necessary, to reflect the Q4 2024 and Q1 2025 OEB-prescribed interest rates of 4.40% and 3.64%.

RESPONSE:

A) Please see attached an updated IRM Model, ELK_2025-IRM-Rate-Generator-Model_20250127.

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RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY SEC-1

[p.13] The evidence states that the “MSA is currently extended to December 20, 2024”. Please provide details regarding the current status of the MSA.

RESPONSE:

The MSA was not further extended, and is no longer active.

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RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY SEC-2

[p.14] Please provide the following information, for each of the four errors (paragraphs 25 a through d):

i. For each account, the amounts sought for recovery/refund by rate class, broken down by principal, interest, and total amount.
ii. Bill impacts by rate class.

RESPONSE:

i. Please see the tables below.

Error #1: Related to Accounts 1588 & 1589 from 2016 to 2023

Group 1 Accounts - Description	Account Number	Closing Principal Balances as of Dec 31, 2022 Adjusted for Disposition during 2024	Total Interest	Total Claim
RSVA - Power	1588	(3,109,378)	(501,801)	**(3,611,179)**
RSVA - Global Adjustment	1589	(2,873,662)	(611,344)	**(3,485,006)**
Total		**(5,983,040)**	**(1.113.145)**	**(7,096,185)**

Allocation By Class	1588	1589
Residential	(1,501,932)	(81,037)
General Less Than 50 Kw	(448,883)	(321,739)
General 50 To 4,999 Kw	(897,257)	(3,006,529)
Unmetered Scattered Load	(3,875)	(5,912)
Sentinel Lighting	(2,129)	(1,785)
Street Lighting	(18,493)	(68,003)
Embedded Distributor	(738,611)	0
Total	**(3,611,179)**	**(3,485,005)**

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Error #2: Related to Accounts 1550[1], 1551, 1580, 1584, and 1586 from 2021 to 2023

Account Number & Description	Closing Principal Balances at Dec 31, 2023 Adjusted for Disposition during 2024	Total Interest	Total Claim
1550 - LV Variance Account	1,123,529	152,188	1,275,717
1551 - Smart Metering Entity Charge Variance Account	(69,222)	(7,506)	(76,728)
1580 - RSVA - Wholesale Market Service Charge	453,467	63,898	517,365
1580 - Variance WMS – Sub-account CBR Class B	4,783	(2,189)	2,594
1584 - RSVA - Retail Transmission Network Charge	(388,311)	(44,762)	(433,073)
1586 - RSVA - Retail Transmission Connection Charge	(499,602)	(53,939)	(553,541)
Total	**624,644**	**107,691**	**732,335**

Allocation By Class	1550	1551	1580	1584	1586
Residential	525,636	(68,591)	216,257	(178,440)	(228,077)
General Less Than 50 Kw	157,097	(8,136)	64,633	(53,330)	(68,165)
General 50 To 4,999 Kw	325,916	0	129,192	(110,640)	(141,417)
Unmetered Scattered Load	1,356	0	558	(460)	(588)
Sentinel Lighting	745	0	307	(253)	(323)
Street Lighting	6,472	0	2,663	(2,197)	(2,808)
Embedded Distributor	258,494	0	106,350	(87,752)	(112,162)
Total	1,275,717	**(76,728)**	519,960	**-433,429**	**-553,541**

[1] Account 1550 includes adjustments prior to 2021 as described in evidence

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Error #3: Related to Account 1508, Sub-Account Revenue Differential Account:

Allocation By Class	Principal	Total Interest	1508 (2022 Approved Less Total Amount Billed)
Residential	-$472	-$46	-$518
General Less Than 50 Kw	-$1,244	-$120	-$1,364
General 50 To 4,999 Kw	-$430,610	-$41,488	-$472,098
Street Lighting	$286	$28	$313
Sentinel Lighting	-$21	-$2	-$23
Unmetered Scattered Load	-$22	-$2	-$24
Embedded Distributor	$0	$0	$0
Total	**-432,084**	**-41,630**	**-473,714**

Error #4: Related to Account 1595 from 2020 to 2022

Allocation By Class	Principal	Total Interest	1595 (Non-RPP Residual balances)
Residential	-$12,194	-$1,246	-$13,439
General Less Than 50 Kw	-$6,961	-$2,133	-$9,093
General 50 To 4,999 Kw	-$278,220	-$34,168	-$312,388
Unmetered Scattered Load	-$1,800	-$148	-$1,947
Street Lighting	-$1,135	-$82	-$1,217
Sentinel Lighting	-$5,762	-$760	-$6,523
Embedded Distributor	$0	$0	$0
Total	**-$306,071**	**-$38,536**	**-$344,607**

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ii. Please see the tables below for total bill impacts for each error, for each rate class.

	Error #1	Error #2	Error #3	Error #4	Total Bill Impact (All In)
Residential	-3.6%	-0.8%	-1.2%	-1.2%	-3.2%
General Less Than 50 Kw	-3.9%	-0.8%	-1.3%	-1.3%	-3.4%
General 50 To 4,999 Kw	-13.0%	-1.2%	2.3%	-5.5%	-12.7%
Unmetered Scattered Load	-4.0%	-0.7%	-1.3%	-1.3%	-3.4%
Sentinel Lighting	-12.0%	-0.2%	-0.7%	-24.3%	-34.9%
Street Lighting	-8.2%	0.7%	0.1%	-2.3%	-10.5%
Embedded Distributor	-5.6%	1.3%	0.1%	0.1%	-4.4%

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RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY SEC-3

[p.14] With respect to errors a and b, please provide a copy of all memorandums, reports, or similar documents prepared by the Review Team (or other employees of or working for E.L.K. or MSA Staff) that outlined its specific findings and/or conclusions regarding the causes of the errors and recommendations regarding how to ensure similar errors do not occur in the future.

RESPONSE:

Please see SEC-3 Att 1 – Special Report to BoD. Minor redactions have been made to this report on the basis of relevance.

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Report to Board

DEPARTMENT: MSA Regulatory, Finance & Customer Service Teams

DATE: June 19, 2024

PREPARED BY: MSA Staff

REPORT NUMBER: Special Report

SUBJECT: E.L.K. IESO Settlement Process & Regulatory Accounting

PURPOSE

To provide the Board of Directors with an update and recommendations on the E.L.K. Independent Electricity System Operator (IESO) settlement processes and associated regulatory accounting.

(1) Section 1: Background on The Ontario IESO Monthly Settlement Process

Since Ontario electricity industry Market Opening in 2002, the electricity distribution business has become increasingly complex, as has the monthly settlement process between LDCs and the Independent Electricity System Operator (IESO). LDCs must settle monthly with the IESO for the purchase and sale of electricity, as well as other electricity programs and rebates. Required submissions include customer consumption and pricing on Regulated Price Plan (Time-of-Use (TOU), Tiered Price, Ultra Low Overnight (ULO), Embedded Generation and Class A, Feed In Tariff (FIT), Ontario Energy Rebate (OER) and the Ontario Electricity Support Program (OESP). Further, other unique short-term programs sometimes arise, such as the special one-time pricing programs created by the Ontario government during the pandemic.

LDCs are required to submit settlement claims with the necessary backup data including all of the inputs around estimated sales, purchases, IESO-designated pricing, customer generation and any true-ups from prior months. The data is submitted through the IESO's electronic portal by the 4th business day of each month. Assembling and verifying this information involves the LDC running numerous reports and queries from the LDC's billing system, metering system and other sources. All of this information feeds into manual calculations performed in Excel that determine the end settlement claim being submitted.

The LDC settlement submission feeds into the IESO system which then provides detailed settlement statements to LDCs, breaking down electricity consumed, supply received, market charges, and adjustments. LDCs review these statements, make payments or receive credits, and typically address any discrepancies through further verification and adjustments.

For an LDC, IESO electricity transactions are pass-through costs and neither a profit nor a loss is to occur (as LDCs earn profit only on distribution). Accordingly, volume and price differences for purchases and sales related to electricity transactions are captured by the LDC in Deferral and Variance Accounts (DVAs), which can be an asset or a liability. After an external audit, these DVAs are then typically submitted annually to the OEB in rate applications for true-up (disposition). During the rate application process, the OEB then conducts its own reasonability assessment on the DVAs by posing detailed clarifying questions to the applicant, on a year-by-year balance basis. If approved by the OEB for disposition, a rate rider is then established to charge (or refund) ratepayers for the DVA balances (typically over a one-year period).

In 2018, the OEB commenced an initiative to standardize LDC DVA regulatory accounting processes. In Feb 2019, the OEB issued Accounting Guidance Related to Commodity Pass-Through Accounts. In June 2024, the OEB issued amendments to this guidance in preparation for the upcoming launch of the IESO Market Renewal Project (MRP) in 2025. The Electricity Distributors Association (EDA) noted the importance of the OEB's revised Accounting Guidance and stressed the importance of the document and the importance of LDCs working with their billing and settlement vendors to prepare for the upcoming 2025 changes.

MRP market trials begin in Jul/24 and end-to-end testing is slated to commence in Jan/25 with a go-live of May/25. MRP will require all LDCs to make process changes.

The OEB Accounting Guidance Related to Pass-Through Accounts is a critical requirement. Nevertheless, no two of the current 57 LDCs in Ontario have the same methodology for settling with the IESO. Variations occur for some of the following reasons:

- Each LDC may bill on different allowable IESO Global Adjustment billing options (e.g. Actual, First Estimate or Second Estimate).
- Some LDCs employ an Operational Data Store (ODS) and electronic meter settlement system (e.g. Utilismart or Kinetiq), and some do not.
- Each LDC may have a different brand of billing system (e.g. Northstar, Daphron or SAP), or even a different version of the same billing system (e.g. LDCs may run different versions of Northstar, including with different configurations)
- Each LDC may have a different metering system (e.g. smart meters such as Honeywell / Elster, iTron or Tantalus and various models of electromechanical meters) and may also employ a metering service provider such as Peterborough Utilities

A small-to-mid-sized LDC may have a handful of industry-experienced internal resources with regulatory accounting and billing mastery over these systems and processes. When recent industry retirement and turnover trends are added to the equation, the conditions are present for challenges. Accordingly, IESO settlement issues (and associated DVA regulatory accounting issues) continue to occur regularly across different LDCs in the industry. The root of industry DVA accounting issues is often problems within the LDC's IESO settlement process.

An example of such an industry settlement and DVA regulatory accounting issue recently occurred regarding Hydro One's Peterborough rate zone. In an earlier rate application decision, the OEB found that an audit of Peterborough Distribution's 2017 balances in Accounts 1588 and 1589 was necessary. When Hydro One acquired Peterborough Distribution in 2020, it did not acquire the billing system. Hydro One indicated that an audit would not likely result in reconciling the Accounts 1588 and 1589 balances. Accordingly, the OEB ordered a 30% adjustment in the DVAs payable to ratepayers, to insulate them and provide a reasonable buffer against the risk of error. It was noted that this 30% adjustment was consistent with a 2022 OEB decision regarding Group 2 DVA accounts related to the Hydro One acquisitions of Norfolk Power, Haldimand County Hydro and Woodstock Hydro.

Note that since the E.L.K. distribution system is, in part, embedded within the Hydro One distribution system, E.L.K. must also perform DVA regulatory accounting for Hydro One invoices.

(2) Section 2: Background on the E.L.K. IESO Settlement Process and DVA Regulatory Accounting

The E.L.K. IESO settlement and regulatory accounting functions were under-resourced for many years and significant turnover has occurred amongst associated staff. Accordingly, E.L.K. has experienced DVA regulatory accounting issues in OEB regulatory proceedings.

Review and Adjustment of DVA Accounts 1588 (Cost of Power) and 1589 (Global Adjustment)

E.L.K. regulatory accounting issues were first recognized in an OEB proceeding in the aborted 2017 E.L.K. Cost of Service (EB-2016-0066), wherein E.L.K. agreed to undertake a First Special Regulatory Audit to ensure that E.L.K. had the proper accounting procedures and practices. This audit included specific review of DVA Accounts 1588 and 1589 for 2015. E.L.K. filed the First Special KPMG Regulatory Audit Report with the OEB in February 2022 and then successfully disposed of DVA Accounts 1588 and 1589 for only 2015 in the Settlement Proposal ultimately approved by the OEB in the E.L.K. 2022 Cost of Service (EB-2021-0016).

In the approved Settlement Proposal from the E.L.K. 2022 Cost of Service (EB-2021-0016), E.L.K. committed to a second special regulatory audit, covering DVA Accounts 1588 and 1589 for the period 2016-2021. The OEB has granted E.L.K. multiple extensions for the completion of this Second Special KPMG Regulatory Audit.

After the Management Services Agreement (MSA) was signed in 2023, MSA staff undertook discussions with E.L.K. staff to determine the status of the Second Special KPMG Regulatory Audit. These discussions revealed significant turnover in the E.L.K. regulatory accounting function, particularly between 2021 and 2023. A high-level review of E.L.K. DVA Accounts 1588 and 1589 determined that any progress on the DVA accounting project was negligible. Discussion with KPMG confirmed that it had not received the requisite account reconciliations required to start the Second Special KPMG Audit.

It was determined that to prioritize and facilitate the Second Special KPMG Audit, E.L.K. DVA Accounts 1588 and 1589 would need to be recreated in their entirety from source documents and billing system data downloads. Accordingly, in the summer of 2023, E.L.K. added multiple additional contract resources, including the E.L.K. Regulatory Temp Analyst. With assistance from E.L.K. staff, the Temp Analyst commenced gathering all source documentation and billing system information and capturing it in spreadsheet models. The project was guided and assisted by MSA staff, as well as a part-time Temp Controller, who also helped with other projects.

Through this exercise, it became apparent that E.L.K. had not followed the OEB Accounting Guidance Related to Pass-Thru Accounts that was released in 2019. Thereafter, in the late fall of 2023, a senior experienced MSA leader with billing experience with the same billing system, as well as significant past regulatory accounting experience, was seconded to the project to work at the detailed level with the Temp Analyst.

In early 2024, as the year-by-year reconciliations of DVA Accounts 1588 and 1589 were developed, a clearer picture of unusual line loss rate trends emerged. It was determined that numerous billing adjustments had been booked out of period in the billing system during the 2016-2023 period. This required significant data analysis to match the billing adjustments back to the proper period. The investigation determined reasons for certain line loss patterns. See Appendix B for a summary of line loss investigation work undertaken.

During the process of reconciling DVA Accounts 1588 and 1589, the following issues were noted and corrected within the 2016-2023 period:

- The various monthly settlement processes completed by E.L.K. during the 2016-2023 period appeared to contain practices leading to errors in DVA Accounts 1588/1589. A detailed review of these practices occurred in Jun/24, please refer to Attachment C for further details.
- Purchases from Hydro One Distribution, as well as Long Term Load Transfer (LTLT) arrangements with Hydro One Distribution, were not fully recorded to appropriate DVA Accounts, nor was consistency applied in year-over-year accounting distributions. As part of the review, amounts needed to be reclassified to proper accounts for the period of 2016 to 2020.

- For Class A customers and customers billed at the actual Global Adjustment rate, sales were not recorded according to approved methodologies between 2016 and 2023. Due to the length of time between billing and the reconciliation process, the increases to these receivable balances were written off as unbillable.
- General accounting errors were identified and corrected, including manual posting errors between the billing system and the general ledger
- The monthly allocation between Accounts 1588 and 1589, as required under OEB guidance, was not being completed consistently or accurately. Adjustments were made to Account 1588 and 1589 balances between 2016 and 2023.
- Once appropriate principal balances were reconciled and determined for Accounts 1588 and 1589, interest was recalculated per OEB guidance for the entire period resulting in a significant adjustment to appropriately recognize interest

The above adjustments were completed to ensure that all required OEB methodologies and IRM model workform threshold tests were successful. The priority of late 2023 and early 2024 was to ensure that Accounts 1588 and 1589 accounting was accurate and complete. With the DVA regulatory accounting appropriately adjusted for Accounts 1588 and 1589 from 2016 to 2023, enhancements to the IESO settlement process and DVA regulatory accounting practices will need to occur in the future.

Notable, the reconciliations also determined that E.L.K. under-recovered $2.8M from the IESO between 2016-2023. In Jul/23, the Government of Ontario passed a series of regulations, establishing a two-year limitation period applicable to certain settlement amounts. Under this regulation, market participants can no longer submit adjustment claims for settlement amounts related to the impacted programs, more than 24 months after such amounts were invoiced or should have been invoiced. One of the impacted programs is Global Adjustment, although the application of this new legislation will not be fully clear until a first case occurs. Guidance from BLG is recommended on this matter.

This project was a very large undertaking, requiring nearly 2,000 labour hours. It resulted in significant accounting adjustments. DVA Accounts 1588 and 1589 reconciliations for 2016-2023 were provided to KPMG in early Apr/24. Thereafter, E.L.K. expanded the scope of the Second Special KPMG Regulatory Audit to include the years 2022 and 2023. The Second Special KPMG Regulatory Audit work by KPMG, covering DVA Accounts 1588 and 1589 for the period 2016-2023, is nearing completion as of the date of this memo.

Review of Other Group 1 and Group 2 DVA Accounts

In preparation for the E.L.K. 2025 IRM application (due Oct 2024), a preliminary analysis of DVAs potentially requiring disposition in the 2025 IRM application was conducted by MSA staff. This involved emails with BLG Law Firm (E.L.K.'s longstanding regulatory legal counsel) to obtain additional background, followed by a detailed review of past rate applications and filing models.

The analysis determined that E.L.K. has the following DVAs remaining for disposition with the OEB to the end of 2023:

- Accounts 1588 and 1589 for the Years 2016-2023
- Accounts 1550, 1551, 1580, 1584, 1586 for the Years 2021-2023
- Account 1595 for the Years 2018-2023

A 6-member team of Entegrus MSA staff from Regulatory, Finance and Customer Service conducted an onsite review of the E.L.K. DVA regulatory accounting processes in Jun/24, with assistance from E.L.K. staff. The review focused on the above-noted DVA accounts. See Attachment B for the list of observed issues, descriptions and resolutions related to the E.L.K. regulatory accounting for these accounts. In summary, significant issues were observed and significant remedial reconciliation efforts and account adjustments are required.

For E.L.K. to prepare its 2025 Incentive Rate Mechanism (IRM) application – and dispose of all DVA balances to the end of 2023 – the accounts described in Attachment B would need to be reconciled and adjusted by the end of Aug/24. This would allow just enough time for the 2025 IRM application to be completed and submitted by the OEB's anticipated mid-Oct 2024 deadline. However, this strategy, including the timing of DVA disposition, should be confirmed with BLG.

The resolution of these DVA accounting issues by the end of Aug/24 will require fully dedicating the E.L.K. Regulatory Temp Analyst to this work until that time, with significant review and supervision by MSA staff. In the event that additional accounting challenges are detected in the process, additional resource deployment may be required.

(3) Section 3: Review of the E.L.K. IESO Settlement Process

The same 6-member team of Entegrus MSA staff conducted an onsite review of the E.L.K. IESO Settlement Process, with assistance from E.L.K. staff, in Jun/24.

See Attachment C for a list of observed issues, descriptions and resolutions related to the E.L.K. monthly IESO settlement process. The E.L.K. process is largely manual (Excel-based), with some supporting billing system reports. E.L.K. does not have an ODS. E.L.K. does have an electronic meter settlement system (Kinetiq), but it is not configured to properly support the settlement process.

In summary, there are significant, pervasive issues with the current E.L.K. IESO settlement process. There are three potential strategies to address this:

a) **Status Quo:** Maintain the current E.L.K. IESO settlement systems and process. Defer system or process changes until the future strategic direction of E.L.K. is determined (potentially in late 2024). Under this option, the various components of the settlement process will continue to be challenging and risk of settlement error will remain high. E.L.K. can continue to recalculate settlement in spreadsheets under the approved OEB methodology after-the-fact and make regulatory accounting adjustments to correct for these issues. In 2025, changes to all Ontario LDC settlement processes will be required regardless due to the IESO's 2025 MRP launch (as noted above).

b) **Enhanced Status Quo:** Maintain the current E.L.K. IESO settlement systems and processes but make certain enhancements, including multiple new settlement spreadsheets. Under this option, the estimation and true-ups process will continue to be challenging (due to the lack of certain systems) and there will continue to be the risk of settlement error due to the challenges that larger estimation errors create. Correction of regulatory accounting after the fact will continue to be needed, but not to the degree as option (a) above. Implementation of this option would require the redesign of workflows and processes, and 6-12 months of focused implementation, including significant consultant / contract resources and E.L.K. staff time. The project would also include a vital training phase and would later include updates for the upcoming IESO 2025 MRP launch.

c) **New System:** Commence implementation of new systems and processes for settlement, including adding an Operational Data Store and Meter Settlement System. This would also require new settlement spreadsheets and generate better estimates and true-ups. This is the most comprehensive option and would also include IESO 2025 MRP updates. The initiative would be a multi-year project to redesign and implement systems and processes across multiple departments and train staff.

MSA Staff has initiated consultation with BLG on the appropriate next steps to take with the OEB and the IESO. The alternatives available in navigating such discussions may be dependent on the length of future time frame available to E.L.K. to complete the required steps. E.L.K. intends to seek recovery of the $2.8M from the IESO (related to the 2016-2023 IESO settlement process errors). Guidance from BLG is needed to navigate the regulatory risk of what may be an industry-first situation.

The continuance of IESO settlement errors without process improvements will create risk to the E.L.K. relationship with the OEB and the IESO.

(4) Section 4: Recommendations

Based on the above review work, the following is recommended:

a) Direct consultation should occur between BLG Law Firm and the E.L.K. board of directors, so that BLG can guide and assist in navigating the regulatory risk of what may be an industry-first situation. E.L.K. needs to maintain strong and open relationships with the OEB and IESO. E.L.K. should seek the best strategy to recover the $2.8M under-recovered from the IESO, given the presence of the new and potentially restrictive limitation period legislation. This strategy may include filing for disposition of the DVA accounts to the end of Dec 31, 2023, in the 2025 IRM.

b) Should E.L.K. elect to proceed with disposition of the DVA accounts to the end of Dec 31, 2023 in the 2025 IRM (see recommendation (a) above), E.L.K. resources with MSA oversight should be immediately prioritized on the other (non-Account 1588 and 1589) Group 1 and Group 2 DVA regulatory accounting investigation and adjustments project described in Attachment B. If the end of Aug/24 reconciliation timeline is met – and no other issues arise – this would facilitate the preparation and filing of the 2025 IRM evidence by its OEB deadline of Oct/24.

c) Subject to BLG advisement (see recommendation (a) above), the alternatives to enhance the E.L.K. IESO settlement system and process described in Attachment C should be revisited (including new learnings that may arise from recommendation (b) above).

d) [redacted]

e) Instructions should be provided by Utilis Consulting in the summer of 2024 as to the next steps in the 2025 IRM application. Utilis is on standby to assist in the preparation of the 2025 IRM application, and the completion of recommendation (b) above by the end of Aug/24 would leave Utilis just enough time to complete the IRM application by Oct/24 with expedited efforts.

Attachment A
2016-2023 Line Loss Investigation

The E.L.K. Deferral and Variance Account ("DVA") reconciliations for 2016-2023 show unusually low line loss rates related to electricity purchases for 2017-2019. Electricity line loss rates relate to the measured difference between the energy entering the distribution system at one end and the electricity received by customers. Line losses are caused by heat dissipation and a variety of other factors.

After the detailed review, reconciliation, and adjustment of DVA Accounts 1588 and 1589 for the period 2016-2023, as conducted by E.L.K. and MSA staff, the E.L.K. line losses for 2017-2023 are as follows:

	2016	2017	2018	2019	2020	2021	2022	2023
Loss Rate	4.6%	1.7%	(1.2%)	3.4%	5.3%	6.4%	4.4%	4.0%

While E.L.K. is primarily transmission-connected (IESO), certain system supply points in the E.L.K. distribution system are embedded along Hydro One feeders, which in turn, are connected to the Kingsville TS. Accordingly, the E.L.K. electricity supply mix includes purchases from both the IESO and Hydro One. For the period from 2016-2023, analysis of supply purchases shows that IESO purchases decreased starting in 2017, while Hydro One purchases increased markedly in 2020, i.e. 3 years after the apparent reduction in the IESO purchases. These dynamics can be seen in the chart below.

Description	2016	2017	2018	2019	2020	2021	2022	2023
METERED PURCHASES								
IESO	244,970,124	227,724,326	238,506,743	246,194,698	226,663,878	200,984,493	190,346,567	192,828,357
HONI	989,037	929,151	884,653	852,719	21,075,332	42,674,850	49,064,004	41,577,456
GENERATION	5,318,613	5,847,457	5,772,469	5,821,099	6,257,258	6,218,155	5,967,904	6,330,436
TOTAL	**251,277,774**	**234,500,934**	**245,163,865**	**252,868,516**	**253,996,468**	**249,877,498**	**245,378,475**	**240,736,249**

In 2024, management interviewed an E.L.K. staff member with knowledge of the distribution system who worked for E.L.K. during the above period, to seek information as to why these dynamics occurred. It was noted in the interview that physical system configuration changes were made at Kingsville TS in 2017, related to the connection of new large renewable generation facilities in the area.

Management noted that this time frame corresponded to the construction phase of the Supply to Essex County Transmission Reinforcement ("SECTR") project (involving a large expansion of transmission capacity in the Kingsville/Leamington area). From 2014-2019, E.L.K. worked jointly with Entegrus Powerlines and Essex Power (as the "E3 Coalition") to advocate for shared interests related to the SECTR Project. Ultimately, the outcome of SECTR included Entegrus Powerlines and Essex Power load being moved off the previously overloaded Kingsville TS to the newly constructed Leamington TS. At approximately the same time, the Kingsville TS was refurbished, and additional capacity was added. After SECTR Project completion, E.L.K. load continued to be supplied by the Kingsville TS, which thereafter had more available capacity.

After the 2024 interviews with the E.L.K. operational staff, notes were located in E.L.K. files explaining that physical system configuration changes were to occur in 2016 or 2017 to transfer two large Hydro One wind farms from Malden TS to Kingsville TS. Based on the configuration of the E.L.K. connection to the Kingsville TS, the generated kWh from these wind farms would thereafter flow through the E.L.K. distribution system, resulting in E.L.K. purchasing this electricity generation from Hydro One (and E.L.K. thereby requiring less purchases from the IESO).

Further, management located a KPMG audit memorandum related to the December 31, 2019, year-end audit (dated April 2020), citing loss rates in the 2.2%-2.6% range for in 2018 and 2019. Management notes that such loss rates are unusually low, both in the industry and for E.L.K., which, at the time, had an 8% standard line loss rate built into its rates. These low 2018 and 2019 loss rates approximately correspond to the aggregate of the 2018/2019 loss rates shown in the first chart above.

Based on industry experience, management is aware of previous cases in the industry whereby physical system configuration changes were made but there was a lag in the corresponding billing change. Based on this, management formed a hypothesis that the above-described physical system configuration change at Kingsville TS was made in 2017, but the associated billing change to E.L.K. did not occur until 2020. The result would be E.L.K. not being billed approximately 27,590,527 kWh between 2017-2020 (assuming normalization to an approximate 5% loss rate for the period to align with surrounding years).

[redacted]

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	AVG
E.L.K. ENERGY PURCHASES IN KWH - Hydro One (Kingsville TS)														
2016	45,510	61,858	63,241	85,400	108,508	126,291	120,465	105,760	94,060	81,701	65,509	30,735	**989,037**	**82,420**
2017	26,318	54,741	71,710	88,104	105,935	118,552	120,038	87,346	99,964	63,010	51,691	41,743	**929,151**	**77,429**
2018	48,943	47,511	84,548	79,673	106,759	106,181	119,484	102,910	72,869	54,628	25,512	35,636	**884,653**	**73,721**
2019	45,424	42,426	71,394	80,774	80,490	77,307	122,524	113,736	79,773	65,626	36,263	36,981	**852,719**	**71,060**
2020	34,097	59,252	61,190	87,837	99,989	134,627	120,069	1,519,974	2,880,354	4,462,885	6,410,715	5,204,343	**21,075,332**	**1,756,278**
2021	3,824,681	4,355,332	5,767,754	3,463,684	3,026,443	2,749,442	1,666,438	1,362,292	3,500,192	3,308,657	4,996,031	4,653,903	**42,674,850**	**3,556,237**

[redacted]

[redacted]

In summary, it appears that while the physical system configuration change occurred in 2017, the associated billing change (and thereby the commencement of HONI charges to E.L.K. for the wind farm generation) did not occur until August 2020. The result of the difference between the 2017 physical configuration change and the August 2020 metering change would be that E.L.K. was not charged for the full cost of its electricity purchases from 2017 until August 2020, which amounts to approximately 27,590,527 kWh or $3M.

Accordingly, it is concluded that while the customers of E.L.K. paid for an approximate 8% standard loss rate on electricity purchases between 2017-2020, they were, in fact, not charged for approximately $3M of electricity purchases from 2017-2020. This dynamic resulted in loss rates far below the 8% standard loss rate built into rates. This difference is captured by the DVA accounts as a payable from E.L.K. to customers and is included on the balance sheet of E.L.K. in the regulatory assets/liabilities line items. These amounts will be refunded to customers upon DVA disposition.

Attachment B

Observed Issues, Descriptions & Resolutions Related to:
Group 1 DVA Accounts 1550 (Low Voltage), 1551 (Smart Metering Entity), 1580 (Wholesale Market Services), 1584 (Network Charges) & 1586 (Connection Charges)
For the Years 2021-2023

- **Objective of Accounts**: These DVA accounts track pass-through variances on each of the specified charge types
- **2025 IRM Application Implication**: The regulatory accounting for these DVA accounts for 2021-2023 is required to be completed by mid-Aug 2024, for these DVAs to be incorporated into the 2025 IRM application for submission to the OEB by mid-Oct 2024 (to seek approval for disposition)

  Observations
  - The MSA team and E.L.K. staff performed a high-level recreation of all IESO and Hydro One purchase invoices from 2021-2023, as well as sales data from the billing system
  - Various errors were observed in the current regulatory accounting process, including incorrect mapping of charge types from the income statement accounts to the DVA Accounts
  - It appears that customers owe E.L.K. an additional true-up versus the $0.8M (receivable from customers) recorded in the E.L.K. general ledger at Dec 31, 2023. The difference of may go against the income statement (or retained earnings).

- **Next Steps:** The E.L.K. Regulatory Temp Analyst will complete detailed DVA reconciliations (including interest calculations) and create and book journal entries, under the supervision of MSA Staff. The process is anticipated to take 5-6 weeks of dedicated time from the Regulatory Temp Analyst, plus 1-2 weeks of MSA Staff time.

Account 1595 for the Years 2018-2023

- **Objective of Account**: This DVA account tracks approved OEB DVA dispositions by year. When the OEB approves DVA dispositions (via rate riders), all of that particular year's DVA activity is rolled up and moved to Account 1595 from the individual DVA accounts. Sub-accounts within Account 1595 track each year's activity, with the objective that the rate rider ultimately results in drawdown of each year's activity to $Nil.
- **2025 IRM Application Implication:** The regulatory accounting for Account 1595 for 2018-2023 is required to be completed by mid-Aug 2024, in order for these DVAs to be incorporated into the 2025 IRM application for submission to the OEB by mid-Oct 2024 (to seek approval for disposition)

  Observations

- Since most rate riders occur over 1-year and E.L.K. did not apply for DVA disposition in its 2023 or 2024 rate applications, it was anticipated that Account 1595 would be close to drawn down to $Nil. However, that is not the case. The residual balance at Dec 31, 2023 is approx. $476k (liability owing to customers).
- The MSA team and E.L.K. staff reviewed and determined that the $476k primarily relates to the 2022 Cost of Service approved DVA Account 1589 (Global Adjustment) rate rider run-off. This is due to the 2022 Cost of Service load forecast billing determinants being dramatically higher than the actual billing volumes that occurred in 2022/2023. Various other issues were observed:
    - The Group 2 DVA accounts disposed in the 2022 Cost of Service appear to not have been properly recorded and so the liability to customers in the general ledger may be overstated by $48k. Further investigation will be required.
    - The 2016 and 2017 Group 1 residual balances may have been similarly excluded from the regulatory accounting set up and have small remaining balances despite their approved balances in the 2022 Cost of Service
    - Drawdowns from the billing system are not consistently mapped to the sub-account where each year's disposition amount was originally recorded. This is not an accounting error per se, but makes analyzing the drawdowns challenging.

- **Next Steps:** The E.L.K. Regulatory Temp Analyst should investigate and reconcile each Account 1595 sub-account, including comparing the OEB rate decision to the E.L.K. regulatory account and verifying the rate rider drawdown of each balance to validate the true residual balance. If the residual balances are above 10% of the original disposition amount, the OEB requires a workform to be completed and explained to consider disposition of the residual, and such explanations will also be gathered. The process is anticipated to take 4 weeks of dedicated time from the Regulatory Temp Analyst, plus 1 week of MSA staff time.

Group 2 DVA Account 1508 at December 31, 2023

- **Objective of Account:** Group 2 DVA accounts typically capture less frequent, more unique, or larger variances. The OEB occasionally orders the creation of Account 1508 sub-accounts for specific projects or one-time events and costs that do not occur as regularly as those in Group 1.
- **IRM Application Implication:** Group 2 DVAs are typically disposed of every 5 years in a Cost of Service Application, and not in an annual IRM application, like Group 1 DVAs. However, the MSA team extended its onsite review to Group 2 DVA accounts due to the risk of misclassification of Group 1 DVA accounts into the Group 2 DVA accounts.

Observations

- Various anomalies were observed in the E.L.K. Account 1508 sub-accounts; all sub-accounts need to be examined further. Initial observations include:

    - 2022 Foregone Revenue Sub-Account: This sub-account arose because the E.L.K. 2022 Cost of Service was submitted late and the new rates went into effect in July 2022, rather than the intended May 2022. A $463k asset (receivable from customers) is booked in an Account 1508 sub-account. This matter has previously been discussed with the Board of Directors and the OEB. A tariff sheet error resulted in E.L.K. inadvertently over-refunding GS>50 kW customers, resulting in the asset balance receivable from customers. In 2023, E.L.K. notified the OEB that this over-refund would be captured in the DVAs. Further investigation is required, however, it appears that this amount should be captured in Account 1595 for more immediate proposed disposition, rather than its current placement in Account 1508. The current placement may be a result of confusion with previous OEB industry guidance on the handling of COVID-19 pandemic deferred revenue (which was a separate and distinct item from this)
    - Pole Attachment Revenue Sub-Account: This sub-account captures the revenue variances due to the Ontario government's decision to reduce pole attachment revenue per year for third-party attachments (versus what LDCs had in rates). The price differential goes to this sub-account. The balance was a $142k asset (receivable from customers) in Account 1508 at the end of 2022, but $Nil at the end of 2023. Since the new pole attachment rate was built into distribution rates in the 2022 Cost of Service, it is reasonable that there would be no 2023 activity in this account. However, the movement of the $142k pole attachment balance from Account 1508 needs to be further investigated to confirm whether it went to Account 1595.
- Account 1508 will also require a detailed review to ensure that all OEB Group 2 accounting orders (for each transaction type) are being properly included and accounted for

- **Next Steps:** The E.L.K. Regulatory Temp Analyst should investigate and reconcile each Account 1508 sub-account and record any required adjustments under the supervision of MSA staff. The process is anticipated to take 2 weeks of dedicated time from the Regulatory Temp Analyst, plus up to 1 week of MSA Staff supervision and review time.

Attachment C

Observed Issues, Descriptions & Resolutions Related to Monthly IESO Settlement Process

Issue	Description	Resolution
Tier Price / TOU / ULO	• Settlement is based on actual billed sales rather than allocations amongst the various electricity charge types based on purchase volumes as required by OEB guidance • True-ups for the previous month volumes are being aggregated in the current month at the current month's price • A weighted aggregate cost of power going back to 2008 is being utilized, commodity cost should determined based on an average of the specific month of consumption not including historical costs and Global Adjustment should utilize the appropriate IESO posted rates per month. • These are significant issues that make the monthly settlement process inaccurate and challenging to successfully complete and validate	• There are three potential options to address these issues: • (a) Maintain status quo, make no system or process changes. Continue to make accounting adjustments to correct any resulting regulatory accounting issues. • (b) Maintain current systems and processes with modifications including a new settlement spreadsheet (estimates and true-ups will continue to be challenging). Implementation would require 6-12 months of focused implementation and training. • (c) Implement new systems and processes, including an Operational Data Store and Meter Settlement System. This would require a new settlement spreadsheet and generate better estimates and true-ups. Implementation would be a multi-year systems process.
Net System Load Shape (NSLS)	NSLS is a standard used to allocate electricity load across time intervals when the customer does not have a MIST (interval capable) meter or for settlement with customers signed with Retailers. The E.L.K. NSLS for certain intervals is negative, which is not consistent with the expectations of the E.L.K. distribution system operation	• Make modifications to current system to recalculate NSLS • Based on earlier discussion with the OEB, the NSLS should be recalculated only after A and set up in the E.L.K. billing system • MIST meter hardware installation remains in progress
Embedded Generation Consumption Timing	Timing of consumption data is on a one-month delay (based on billing month but should be based on consumption month)	• Make modifications to current system to either: (i) upgrade existing system reporting feeding the process or, (ii) build in an estimate and true-up process to remove the one-month delay

Class A Consumption Timing	Timing of consumption data is on a one-month delay (based on billing month but should be based on consumption month)	• Make modifications to current system to either: (i) upgrade existing system reporting feeding the process or, (ii) build in an estimate and true-up process to remove the one-month delay
Feed-in-Tariff (FIT)	E.L.K. is recovering the full cost of generation [Hourly Ontario Energy Price (HOEP) + contract price] rather than just the difference between HOEP and contract price.	• Adjust the current monthly settlement process to capture or estimate the monthly volume of generation consumed within its service territory
Ontario Electricity Rebate (OER)	OER being credited to customers signed with electricity retailers is being double counted on a monthly basis in the submission and E.L.K. is thus being over-reimbursed. In addition, E.L.K. is not estimating current month sales for true-up the next month. This results in the E.L.K. OER submission being delayed by one month.	• Adjust the current monthly settlement process to remove double counting of retailer OER, as well as an adjustment to include a current month estimate and true-up process (the next month)
Ontario Electricity Support Program (OESP)	OESP charges are being posted to an Income Statement/DVA account rather than a receivable account	• Amend the current monthly process to change to the appropriate accounting distribution
Other Miscellaneous	Various other, more minor, issues were noted	• Amend the currently monthly process

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY SEC-4

[p.18] Please confirm that the Applicant intends to pass on to customers the $2.8M historic under-recovery from the IESO that it is now seeking an order from the OEB to collect from the IESO.

RESPONSE:

Confirmed. The $2.8 million in under-recovery sought from the IESO is included within the total credit to ratepayers for Accounts 1588 and 1589.

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