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December 24, 2014

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Montréal

Ottawa

**Sent By Courier and Electronic Mail**

Calgary

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

New York

Dear Ms. Walli:

**Natural Resource Gas Limited (“NRG”) Responses to Interrogatories of Integrated Grain Processors Co-operative Inc. (“IGPC”) (EB-2014-0274)**

Please find enclosed a copy of NRG’s responses to the December 10, 2014 Interrogatories of IGPC, filed and delivered to the intervenors in accordance with Procedural Order No. 3. Two paper copies have been sent to the Board via courier.

Please do not hesitate to contact me if you have any questions.

Yours very truly,



Patrick G. Welsh  
Associate  
PW:

Enclosure

- c: Richard King, *Osler, Hoskin & Harcourt LLP*  
Laurie O’Meara, *Natural Resource Gas Limited*  
Brian Lippold, *Natural Resource Gas Limited*  
Patrick McMahon, *Union Gas Limited*  
Scott Stoll, *Aird & Berlis LLP*  
Michael Millar, *Ontario Energy Board*  
Khalil Viraney, *Ontario Energy Board*

**Natural Resource Gas Limited  
Responses to Interrogatories of IGPC**

**INTERROGATORY RESPONSE NO. 1**

**Reference:** Manager's Summary, Page 13 of 18, Foregone Distribution Revenue

**Preamble:** IGPC understands that NRG is seeking recovery for the delay in implementation of the new rates and wishes to understand the basis of this request.

**Questions:**

- (a) Please confirm rates were originally to be implemented on October 1, 2014?
- (b) Please confirm that NRG had been scheduled to file for a cost of service application prior to seeking and receiving permission from the Board to proceed with this IRM application.
- (c) Please confirm that NRG first notified the Board of its request to change filings on August 25, 2014, less than 6 weeks before implementation of rates was scheduled.
- (d) When did NRG decide it would not file a cost of service rate application?
- (e) How long does NRG expect a cost of service rate application require to prepare for filing?
- (f) Given the timing of events in Procedural Order No. 3, is NRG seeking any amendments to the Foregone Distribution Revenue and its recovery (3 months of revenue)? If so, please detail the changes, including amounts, and the assumptions supporting those changes.
- (g) If the Board does not approve recovery of any amount of the Foregone Revenue Requirement, what impact would that have on the services provided to ratepayers?
- (h) What is the basis for the allocation of the Foregone Revenue Requirement?

**Response:**

- (a) Confirmed.
- (b) Not Confirmed. NRG is not required to file a rate application based on any particular rate-setting methodology. It is up to NRG to bring forward a rate application, supported by evidence, that will enable the Board to discharge its statutory duty to set just and reasonable rates. NRG was neither legally obligated nor "scheduled" to file a cost-of-service rate application (for rates commencing October 1, 2014). NRG would have preferred to file a cost-of-service application with a multi-year IR Plan, but as noted in NRG's August 25, 2014 evidence, several factors made that impossible (most notably, the uncertainty around IGPC's operations post-2016).

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(c) As noted in NRG's response to (b) immediately above, NRG did not "change filings" because there was no requirement that NRG file a cost-of-service application. NRG confirms that it filed its two-year extension application on August 25, 2014.

(d) Based on a review of internal correspondence, NRG was considering filing a two-year extension application by November 2013. At that point, NRG had no greater certainty around IGPC's future. It is difficult to establish a precise date as to when a final decision was made to file a two-year extension, but based on our review of internal correspondence, preparation for the current application began in early 2014.

(e) The Board panel, in delivering its decision at the November 11, 2014 oral hearing, estimated that it typically takes 15 to 18 months to prepare and have a cost-of-service application implemented by the OEB. NRG's view is that a reasonable estimate for a small utility is 12 to 16 months.

(f) NRG proposes the recovery of the Foregone Distribution Revenue would be based on the approved implementation date and the method outlined in the application. NRG proposes recovery of the incremental revenue for the period October 1, 2014 to the approved implementation date to be recovered with a Foregone Distribution Revenue rate rider over a similar period starting with the implementation date. Response to Board Staff Interrogatory No. 4 provides further details under the assumption the implementation date is April 1, 2015. This information along with the evidence outlined in the application provides the requested material.

(g) Unknown. NRG must provide gas to its customers, and operate its distribution system in a safe and reliable manner.

(h) See response to Board Staff Interrogatory No. 4.

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Responses to Interrogatories of IGPC**

**INTERROGATORY RESPONSE NO. 2**

**Reference:** Manager's Summary, Page 9 and 10, Stretch Factor

**Preamble:** IGPC wants to understand the basis for reduction in the stretch factor from 0.5% to 0.4%.

**Questions:**

- (a) Please provide the stretch factors for each range of electricity distributors.
- (b) Please provide NRG's view of the purpose of a stretch factor.
- (c) Please detail NRG's OM&A costs for each year since its last cost of service application.
- (d) What efficiencies has NRG realized in its operations that warrant it decreasing its stretch factor?
- (e) Does the Settlement Agreement specify what occurs to the stretch factor when the mid-range electricity distributor stretch factor is amended?
- (f) Please provide the amount of regulatory cost associated with EB-2010-0018 recovered annually by NRG through the current rates.

**Response:**

- (a) The stretch factors for each range of electricity distributors is provided below:

Stretch Factor Group	Description	Stretch Factor
I	Actual cost 25% lower or more than expected cost	0.00
II	Actual cost 10% to 25% lower than expected cost	0.15
III	Actual cost 10% lower to 10% higher than expected cost	0.30
IV	Actual cost 10% to 25% higher than expected cost	0.45
V	Actual cost 25% higher or more than expected cost	0.60

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The expected cost referenced in the table above is determined by a model developed for the Board by Pacific Economics Group Research, LLC. The model determines expected cost based on business conditions of an electric distribution company such as inflation, number of customers, deliveries and system capacity.

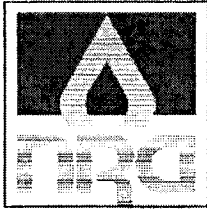
(b) NRG's corporate view as to the purpose of the stretch factor is irrelevant to this proceeding.

(c) and (d) NRG's audited financial statements for Fiscal Years 2010 through 2013 inclusive were included at Exhibit A, Tab 3, Schedules 1 to 4. A Schedule of Operating Expenses is included as the last page of each of these financial statements. IGPC is aware of the content of these Schedules because IGPC referred to them at the November 11<sup>th</sup> oral hearing at transcript page 15 (lines 16 to 22). The information being sought is already on the record and known to IGPC.

(e) See response to Board Staff Interrogatory No. 3.

(f) Please see attached interrogatory response to a Board Staff interrogatory in a previous IRM application (EB-2012-0342), found at Appendix A.

# **Appendix A**



Response to Board Staff IR's  
File Number: EB-2012-0342

Tab: 1  
Schedule: 1  
Page: 4 of 6

Date Filed: November 2, 2012

1 Ref: Settlement Agreement, Phase 2, EB-2010-0018, Page 3

2

3 As per the Settlement Agreement, NRG has proposed to collect \$338,400 in regulatory  
4 costs in years 1 through 3 of the proposed IR Plan. Given that year 1 of the IR Plan has  
5 already commenced, the Parties agreed that the remaining regulatory costs shall be  
6 recovered as follows:

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- \$90,000 in regulatory costs will be included in rates for Years 1 through 3 of the IR Plan (for a total of \$270,000);
- the remaining \$68,400 (i.e., \$338,400 minus \$270,000) shall be recovered over the remaining 34 remaining months in the IR Plan term.

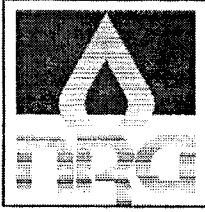
4. Please provide the detailed calculations showing the regulatory costs that have been included in rates for 2012 IRM.

**NRG Response:**

In the 2010 Cost of Service (EB-2010-0018 Phase I) proceeding regulatory costs of \$90,000 were included in the annual costs for recovery.

In the 2011 IRM (EB-2010-0018 Phase II) proceeding a one-time adjustment to fixed rates was made to collect the \$68,400 over the remainder of the IRM period. To maintain the fixed charge the adjustment was moved to the volumetric charge. See sample extractions below.

As this adjustment was made in 2011 no further action is required.



## Regulatory Cost Adjustment

Annual  
Regulatory  
Adjustment

\$ 22,800.00

for 3 years

\$ 68,400.00 Total to be collected

A

B = A \* 3

\$ 68,400.00

recovered over 33 months

\$ 2,072.73 per month

B

C = B / 33

\$ 2,072.73 Monthly charge annualized 12 months

\$ 24,872.73

Adjusted Regulatory  
Adjustment Value

C

D = C \* 12

### Proposed recovery

\$ 24,872.73

Recovered over 9 months

\$ 18,654.55 Recovered in 2011/2012

\$ 24,872.73

Recovered over 12 months

\$ 24,872.73 Recovered in 2012/2013

\$ 24,872.73

Recovered over 12 months

\$ 24,872.73 Recovered in 2013/2014

\$ 68,400.00

rent Rate Riders | C2.1 Regulatory Cost Adjustment | C2.2 Alloc Reg Cost Adj | C2.3 Adj Monthly Service C

1

### Allocation of Regulatory Cost Adjustment

Rate Group	Revenue By Rate Class	Proportionate Revenue	Regulatory Cost Adjustment	Number of Customers	Number of Months	Fixed Rate Adjustment
RATE 1 - General Service Rate	3,896,116	66.6%	16,561	7,016	12	0.20
RATE 2 - Seasonal Service	69,292	1.2%	310	73	12	0.35
RATE 3 - Special Large Volume Contract Rate	164,530	3.0%	737	4	12	15.36
RATE 4 - General Service Peaking	62,189	1.1%	279	23	12	1.01
RATE 5 - Interruptible Peaking Contract Rate	74,446	1.3%	334	5	12	5.56
RATE 6 - Integrated Grain Processors Co-Operative Aylmer Ethanol Production Facility	1,484,464	26.7%	6,651	1	12	554.29
	<u>5,551,038</u>	<u>100.0%</u>	<u>24,873</u>	<u>7,122</u>		

2

Regulatory Cost Adjustment | C2.2 Alloc Reg Cost Adj | C2.3 Adj Monthly Service Chg | D1.1 Rate 1 Adjustments | 4