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Toronto, April 30, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: EB-2008-0106 – Proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors

Argument-in-Chief

Please find enclosed the Argument-in-Chief of Natural Resource Gas Limited in the above referenced matter. It is being filed on the Board's RESS system today.

Please do not hesitate to contact me should you have any questions or concerns.

Yours very truly,



John Beauchamp

JB/mnm

cc: J. Howley (NRG)
All parties to the proceeding

ONTARIO ENERGY BOARD

IN THE MATTER of sections 19 and 36 of the *Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors.

**NATURAL RESOURCE GAS LIMITED
ARGUMENT-IN-CHIEF
April 30, 2009**

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A. REVIEW OF QUARTERLY RATE ADJUSTMENT MECHANISM (“GRAM”) FOR NATURAL GAS DISTRIBUTORS

1) *Trigger Mechanism For Changing The Reference Price Or Clearing The Purchased Gas Variance Account (“PGVA”)*

1. As explained in NRG’s evidence, NRG had a “two-step” trigger mechanism in place for a number of years before it adopted the current quarterly filing process on January 1, 2004.
2. Initially, the two-step trigger mechanism only required NRG to forecast the cost of gas purchases to the end of the current fiscal year, as it was the projected year-end balance of the PGVA that was used to determine if one or both of the triggers had been exceeded.
3. However, the process soon evolved to include not only a forecast to the end of the current fiscal year, but also a forecast of the gas costs on a twelve month forecast basis from the point of the proposed reference price change. This was because NRG was required to provide an updated view of gas cost volatility and a recommendation from NRG regarding the disposal (or not) of the balance in the PGVA through a reference price change.
4. NRG only filed an application related to the PGVA reference price when the projected fiscal year-end balance exceeded \$20. However, NRG monitored the impact on the projected fiscal year-end on a monthly basis in order to determine whether or not the threshold was triggered.
5. Based on NRG’s experience, utilizing a trigger mechanism to change the reference price does not result in any less work or cost savings for the utility (and consequently, no cost savings for customers). NRG is still obliged to do all the calculations to determine if the trigger has been exceeded or not.
6. Further, NRG submits that a trigger mechanism can result in higher variance account balances and increase the lag between when costs are incurred and when they are recovered.

7. Finally, a trigger mechanism can result in customer confusion as to why there are not regular adjustments to the gas commodity charge.
8. For these reasons, it is NRG's submission that a trigger mechanism should not be used to prompt a change in the reference price or to clear the PGVA.

2) *Price Adjustment Frequency and Forecast Periods*

9. NRG adjusts its PGCVA reference price, its GPRA rate and the gas commodity charge on a quarterly basis as part of the QRAM process. These rate changes are effective January 1, April 1, July 1 and October 1 of each year. The price adjustment is based on a combination of the most recent year-to-date PGCVA balances available when the QRAM application and evidence is prepared, estimated costs for the remainder of the historical period and a twelve month forecast of gas purchases and prices.
10. NRG has historically used a twelve month forecast period. NRG submits that a forecast period of less than twelve months would not be appropriate for its situation.
11. Firstly, NRG has a significant number of customers and volumes that are seasonal in nature (e.g., farmers, grain dryers, etc.). Using a shorter term forecast horizon in this situation would lead to more volatility in the reference price and rates charged on a quarter to quarter basis. Volatility in the year-to-date prices could also be magnified if they are included in the recovery through future prices over a shorter period. This could result in its seasonal customers paying a price significantly higher or lower than the cost over a full year.
12. Secondly, use of a shorter period can transfer the cost of gas from one class of customers to another. As noted above, NRG has significant volumes that are agricultural in nature. These customers consume virtually of their gas in the late summer and early fall. If the forecast period is less than twelve months, any gas cost variance in this period would be recovered or returned to a different set of consumers.
13. Thirdly, NRG has a relatively small volume of consumption in the late spring and summer months due to a lack of large industrial process loads. This means that NRG

emerges from a cold winter with a large debit in the PGCVA, the small volumes in the spring and summer could result in a significant increase in the rates needed to clear the balance over a period that is shorter than a full year. Similarly, a large PGCVA credit could significantly reduce the gas charge in the spring and summer months. Again, this could add significant volatility to gas prices.

14. In contrast, the twelve month price forecast reduces price volatility for customers and reflects the fact that NRG buys gas on an annual basis to balance its annual consumption with its annual supply.
15. In regards to the quarterly price adjustment, NRG believes this methodology provides a good balance between less frequent and more frequent adjustments for both NRG and their customers. NRG has found that quarterly adjustments are appropriate for the regulated gas supply option because they help balance price stability with market fluctuations. More frequent adjustments could become administratively inefficient.
16. Consequently, NRG submits that: (a) a price adjustment based on a based on a 12-month price forecast is appropriate for the regulated gas supply option; and (b) a quarterly price adjustment is appropriate for the regulated gas supply option.

3) *Methodology for the Calculation of the Reference Price*

17. With respect to this issue, NRG's gas supply arrangements are unique in two respects: (a) NRG is a direct purchase customer on the Union Gas system; and (b) a significant portion of NRG's gas supply comes from local wells that tie into NRG's distribution system.
18. As a bundled transportation customer of Union, NRG is obligated to deliver to Union a fixed amount of gas each day (equal to NRG's expected annual volume of consumption divided by 365). A portion of these deliveries to Union are deliveries at the Alberta border which are transported to Ontario on TCPL capacity assigned to NRG by Union. NRG also purchases gas on a firm daily basis at Parkway as part of its obligation to deliver to Union.

19. As a Union Gas customer, NRG is required to balance its total supply with its total demand on the Union Gas system on an annual basis to within +/- 4%, at the time that the direct purchase contract with Union Gas is renewed. This may entail NRG purchasing Ontario delivered gas or shedding excess gas in order to avoid penalties for failing to remain within the contract parameters.
20. Finally (as mentioned above), NRG also purchases a significant portion of its system gas needs (approximately 30%) from local production in its franchise area.
21. NRG reflects the contracted prices, where applicable, in the reference price calculations. NRG often has a combination of fixed price contracts and indexed price contracts in the twelve month forecast period.
22. NRG uses an average calculated over a 10 day period for all volumes not contracted for at fixed prices. NRG uses a 10 day strip rather than a 21 day strip (used by Union and Enbridge) because NRG relies on this information being provided to it by the marketers from whom NRG purchases gas. NRG does not purchase gas pricing information services.
23. NRG believes that it is appropriate for its current reference price methodology because it:
(a) reflects the gas supply mix and fixed prices where applicable for supplies; and (b) minimizes the balances in the PGCVA.
24. The use of a single Ontario-wide reference price would most likely result in large PGCVA credits or debits that would influence the prices going forward for prospective clearance. NRG does not believe this would be in the best interests of the ratepayer or utility.

4) *Deferral and Variance Accounts and Disposition*

25. NRG has a PGCVA and GPRA. These accounts capture the variances in commodity costs (including transportation costs to Ontario) and inventory revaluations, respectively. NRG does not have any load balancing capability. This service is part of the bundled service provided by Union under the M9 rate schedule. Variances in this cost is captured

through NRG's PGTVA account and is recovered from both system sales and direct purchase customers on an annual basis.

26. NRG calculates its reference price as the price needed to set the PGCVA balance to \$0 at the end of the twelve month forecast period. This forecasted price reflects the different delivery points in the NRG supply portfolio (local production, Alberta border, Parkway and Ontario delivered, if necessary). The forecast price also reflects TCPL tolls, fuel ratios for the TCPL transportation, and the Board approved short term interest rate that is applied to the PGCVA balance. This reference prices also takes into account the actual (or estimated) PGCVA balance at the beginning of the twelve month forecast period.
27. NRG also sets the GPRA price so that at the end of the twelve month forecast period, the balance in this account is also \$0. It also takes into account the estimated GPRA balance at the beginning of the forecast period.
28. NRG disposes of the PGCVA and GPRA balances on a prospective basis by including the estimated balances in these accounts at the beginning of the twelve month forecast period and factoring these debits or credits into the reference price needed to bring the account balance to \$0 at the end of the forecast period. This eliminates the need for any retroactive charges.
29. This methodology means that the accounts are never cleared, but rather there is a continuous quarterly adjustment to the reference price to target a prospective \$0 balance in the account.
30. As noted above, seasonal consumption patterns for NRG customers are more pronounced than the simple seasonality associated with heating. NRG has several rate classes that consist of customers that use gas in certain periods of the year. By maintaining a year long forecast period, rate volatility is reduced and costs incurred during any one quarter and recovered over a full year rather than in the subsequent quarter.
31. It is NRG's submission that the disposition of projected balances in the PGCVA and GPRA accounts should continue to occur on a quarterly basis with the balances being recovered or refunded prospectively over a rolling twelve month period. The current

approach eliminates the need for retroactive adjustments (something that NRG's customers have made it clear are not desirable).

5) *Effect of a Change in the Reference Price on the Revenue Requirement*

- 32. As explained in NRG's evidence, a change in the reference price currently has no impact on NRG's revenue requirement. This is because NRG does not have any gas in inventory. Consequently, NRG incurs no inventory carrying costs or compressor fuel costs.
- 33. The carrying costs associated with NRG's working cash allowance for system gas is small, as demonstrated by NRG's Response to Interrogatory #1 from Board Staff.
- 34. NRG does not consider this latter impact on revenue requirement to be of sufficient magnitude to be of concern.

6) *Implications/Costs of Standardizing Pricing Mechanisms Across All Natural Gas Distributors*

- 35. NRG believes that its processes are relatively aligned with Union and Enbridge (with the exception of the 10 versus 20 day strip). The costs of obtaining the pricing information necessary for perfect alignment could be substantial for NRG, and would not likely provide significant benefits to its customers.

7) *Filing Requirements*

- 36. NRG's current QRAM evidence filings are described in its evidence. Apart from removing three schedules that are no longer of any use, NRG sees no reason to alter its QRAM evidence filings and move to standardized filing requirements.
- 37. NRG's current filings provide the information needed in an understandable form.

B. REVIEW OF LOAD BALANCING OBLIGATIONS FOR NATURAL GAS DISTRIBUTORS

38. As noted in the record of this proceeding, NRG does not have any load balancing capability of its own, outside of the M9 service contracted from and provided by Union.
39. NRG requires its direct purchase customers to balance their supply at contract year end to within +/- 4% of the customer's contractual parameters with NRG. At its next rates case, NRG intends to adjust its checkpoint balancing requirements of NRG's direct purchase customers to mirror the requirements that it must meet with Union Gas. This is the most consistent approach to the issue, for the following reason: NRG balances with Union on behalf of NRG's entire system (i.e., both its direct purchase and system customers). For those checkpoints where NRG must balance with Union but direct purchase customers are not required to balance with NRG, the burden of balancing effectively falls on NRG's system gas customers.
40. By mirroring the Union Gas requirements, NRG can assure that there will not be any impact on its system gas customers that are caused by its direct purchase customers.

C. COST ALLOCATION

41. In terms of what activities and underlying costs should be incorporated into the regulated gas supply and direct purchase options, NRG believes that its existing approach is sound.
42. For its regulated gas supply, NRG currently functionalizes a portion of its wages and benefits, regulatory costs and consulting costs to the gas supply function. In addition, a number of other costs are also functionalized to gas supply, including general repairs and maintenance costs, utilities, property taxes, insurance and depreciation expenses. These expenses are related to the assets assigned to the gas supply function. These assets include a portion of the buildings, land and office furniture. In terms of rate base assigned to gas supply, a portion of the working capital allowance related to the O&M costs functionalized to gas supply and to the working capital component directly related to the purchase of the gas commodity is included. The return on rate base and the

associated income taxes are also assigned to the gas supply function based on the level of rate base functionalized to gas supply.

43. In terms of what asset-related costs should be allocated to load balancing and delivery, NRG does not provide any load balancing services to its customers other than what it receives from Union Gas. The charges paid to Union for the M9 bundled delivery service are all allocated to this load balancing/storage/Union delivery function. Because the M9 service is a bundled service, NRG cannot disaggregate this cost into three separate components noted above. In addition to this cost, there is a minor working capital allowance component of rate base that is functionalized to these functions and is again based on the cost of the M9 service to NRG.

D. BILLING TERMINOLOGY

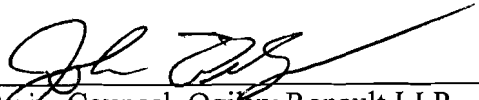
44. NRG sees no need to change the billing terminology that its customers have been familiar with for many years. The terminology is sufficiently similar to that of Union Gas that there are no issues for customers that receive or compare bills for the two utilities.

E. IMPLEMENTATION ISSUES

45. Changes to any of NRG's current methodologies would obviously have cost consequences. Because of the relatively small size of NRG, these cost consequences could be significant for customers.
46. Any changes to the methodologies currently used by Union Gas for load balancing could also impact on the costs of NRG, not only for its system gas customers, but also for its direct purchase customers.
47. In the event that there are implementation costs, NRG would seek the establishment of a deferral account in which to record these costs. At the next cost of service rates application, NRG would propose to recover and allocate these costs to ratepayers in a manner consistent with the Board approved cost allocation method.

All of which is respectfully submitted this 30th day of April, 2009,

NATURAL RESOURCE GAS LIMITED



By its Counsel, Ogilvy Renault LLP
Per: John Beauchamp