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SENT BY E-FILING AND COURIER

Toronto, May 27, 2009

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

Dear Ms. Walli:

RE: Commodity Pricing, Load Balancing and Cost Allocation Proceeding
Reply Argument for Natural Resource Gas Limited (EB-2008-0106)

Please find enclosed the Reply Argument 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

EB-2008-0106

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
REPLY ARGUMENT
May 27, 2009

Ogilvy Renault LLP
200 Bay Street, Suite 3800
Royal Bank Plaza, South Tower
Toronto, Ontario M5J 2Z4
Attention: John Beauchamp
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A. REVIEW OF QUARTERLY RATE ADJUSTMENT MECHANISM ("QRAM") FOR NATURAL GAS DISTRIBUTORS

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

1. No party in this proceeding has argued in favour of a trigger mechanism for changing the reference price or clearing the PGVA.

2. For reasons submitted in its Argument-in-Chief, 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

3. Only the Gas Marketers Group ("GMG") is proposing moving from the status quo of quarterly price adjustments to monthly adjustments based on monthly forecasting (although a compromise position appears to be advanced in GMG's final argument, which would propose a twelve month forecasting period). GMG argues that the status quo distorts price signals (does not allow customers to make informed consumption and provider choices, nor reflect proper cost causality), and thus fails to facilitate a competitive gas market in Ontario.

4. In its disposition of this issue, the Board must consider not only whether such a change from the status quo would facilitate competition in the sale of gas to users (section 2, paragraph 1 of the *Ontario Energy Board Act, 1998* (as amended)("OEB Act")) but also whether such a change would protect the interests of consumers with respect to gas service pricing (section 2, item 2 of the OEB Act).

5. NRG's evidence and Argument-in-Chief make it clear that: (a) moving to a monthly price adjustment and forecast period mechanism would not promote a more competitive gas market in areas served by NRG; and (b) such a move would only increase price volatility for gas customers in NRG's service area.

6. For instance, because of NRG's customer make-up (which includes a significant seasonal customer base that consumes most of their gas in late summer/early fall and a relatively small industrial base), the volatility would be exacerbated for NRG's customers. NRG has a relatively small volume of consumption in the late spring and summer months, which means that NRG emerges from a cold winter with a large debit in the PGCVA. Under GMG's proposal, the small volumes in the spring and summer would see their rates significantly increase in order to clear the balance. In contrast, NRG's curent 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.

7. With respect to moving to a monthly price adjustment, NRG submits that no real evidence has been presented to demonstrate how such a proposal would facilitate competition in the sale of gas. There are clearly adverse price consequences for consumers (price volatility, increased regulatory and administrative costs, etc.) if we were to move to a monthly rate adjustment mechanism. In the absence of any demonstrable attendant benefits, NRG submits that no change should be made to the status quo.

3) Methodology for the Calculation of the Reference Price

8. Only GMG proposes a move to a single Ontario-wide reference price. Given NRG's unique situation when it comes to gas supply arrangements (NRG is a direct purchase customer of Union Gas, and about 30% of NRG's supply comes from local wells that tie into NRG's system), a single province-wide reference price could not capture NRG's unique situation.

9. NRG believes that it its current reference price methodology is appropriate because it reflects the gas supply mix and fixed prices where applicable for supplies and minimizes the balances in the PGCVA. 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

10. No party has taken issue with NRG's methodology for disposition of its PGCVA and GPRA (which capture the variances in commodity costs (including transportation costs to Ontario) and inventory revaluations, respectively).

11. NRG disposes of its 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. 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.

12. Because seasonal consumption patterns for NRG customers are more pronounced than the simple seasonality associated with heating, 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.

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

13. 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.

14. 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.

15. 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

16. NRG believes that its processes are relatively aligned with Union and Enbridge (with the exception of the 10 versus 20 day strip). As mentioned in NRG's Argument-in-Chief, 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

17. No party has taken issue with NRG's QRAM evidence filings. Apart from removing the three schedules that are no longer of any use, NRG sees no reason to alter its QRAM evidence filings.

B. REVIEW OF LOAD BALANCING OBLIGATIONS FOR NATURAL GAS DISTRIBUTORS

18. NRG does not have any load balancing capability of its own, outside of the M9 service contracted from and provided by Union.

19. 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. 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

20. No party has taken issue with NRG's approach to cost allocation, which was described in NRG's evidence and Argument-in-Chief. NRG submits that its current approach to cost allocation is appropriate.

D. BILLING TERMINOLOGY

21. NRG maintains that the billing terminology among all rate-regulated gas utilities in Ontario is very consistent, and that any benefit of harmonized terminology would be outweighed by the costs that would need to be incurred (and passed on to ratepayers) to achieve harmonization).

All of which is respectfully submitted this 27th day of May, 2009,

NATURAL RESOURCE GAS LIMITED

By its Counsel, Ogilvy Renault LLP
Per: John Beauchamp