

NATURAL RESOURCE GAS LIMITED

DEFERRAL AND VARIANCE ACCOUNTS

This evidence deals with the balance, disposition and continuance of NRG's deferral and variance accounts. NRG currently has four deferral/variance accounts. These accounts are the Purchased Gas Commodity Variance Account (PGCVA), the Purchased Gas Transportation Variance Account (PGTVA), the Gas Purchase Rebalancing Account (GPRA) and the Regulatory Expenses Deferral Account (REDA). NRG seeks Board authorization to establish a new deferral account to track the costs incurred to convert to the International Financial Reporting Standard ("IFRS").

Purchased Gas Commodity Variance Account (PGCVA)

The balance in the PGCVA as of September 30, 2009 was a credit of \$249,046 including a debit of \$46,567 in accumulated interest. NRG disposes of the PGCVA balance on a prospective 12 month basis through the Quarterly Rate Adjustment Mechanism (QRAM) and does not propose any clearance of this account as part of this proceeding.

NRG proposes that the PGCVA be continued in the 2011 test year. The reference price will continue to be adjusted on a quarterly basis through the QRAM process. Simple interest would be calculated on the monthly opening balances at the Board-approved short-term interest rate (see below).

Purchased Gas Transportation Variance Account (PGTVA)

The balance in the PGTVA as of September 30, 2009 was a credit of \$202,201, including a credit of \$3,390 in accumulated interest. NRG proposes to dispose of this balance plus projected incremental carrying charges up to and including September 30, 2010 that amounts to a further credit of \$623.

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PGTVA Reference Price

The PGTVA reference price of \$0.019029/m³, approved as part of the RP-2005-0544 Decision with Reasons dated September 28, 2005 for fiscal 2007 rates, remains in effect for fiscal 2010. Typically, the balance recorded in the PGTVA is disposed of annually pursuant to the Board's routine review of the balances recorded in NRG's non-commodity variance/deferral accounts. The Board's most recent review, however, did not authorize disposition through rates (EB-2009-0020).

NRG proposes to reset the reference price for the PGTVA fiscal 2011 and to replace the single reference price with two reference prices:

A reference price of \$0.023390/m³ applicable to all customers in classes 1 through 5;

A reference price of \$0.0105000/m³ applicable to IGPC exclusively.

The proposed references prices are set out in Exhibit D8, Tab 2, Schedule 3, and demonstrates that these proposed reference prices can be expected to result in a PGTVA balance at the end of the 2011 Test Year that is reasonably close to 0 and the disposition of any balance can be expected to avoid undue cross-subsidization between IGPC and all other customers. As documented in NRG's application for final disposition of 2008 variance and deferral account balances (EB-2009-0020), IGPC is a high load factor customer whose average cost of delivery service on a per m3 basis is lower than that of NRG's other customers. NRG notes that average PGTVA reference price for all customers is \$0.015062/m3 and, if relied on, would result in an inappropriate recovery from all customers.

NRG has two delivery contracts with Union Gas – one provides for 168,100 m3/day of demand and is relied on to supply NRG's customers in Rates 1 through 5 while the other provides for 108,188 m3/day of demand to serve IGPC exclusively.

NRG proposes continuing the PGTVA in fiscal 2011 TY, and NRG proposes to apply a PGTVA Simple interest would be calculated on the monthly opening PGTVA balances at the Board-approved short-term interest rate (see below).

Regulatory Expenses Deferral Account (REDA)

The projected balance in this account at the end of fiscal 2009 is a debit of \$254,683, including a debit of \$156 in accumulated interest. NRG proposes to dispose of \$113,318 of this balance plus projected incremental carrying charges up to and including September 30, 2010 amounting to a further debit of \$623 in the 2011 Test Year. The amounts to be disposed of are the costs NRG incurred in connection with NRG's participation in the OEB's Commodity Pricing proceeding and the OEB's adjudication of Union's Cessation of Service application.

NRG also proposes that the REDA be continued in the 2011 Test Year and that it continue to record costs associated with participating in generic hearings and in Union Gas proceedings including, if applicable, a main rates case for Union Gas. Simple interest would be calculated on the monthly opening balances at the Board-approved short-term interest rate (see below).

IFRS Deferral Account ("IFRSDA")

NRG seeks an order of the Board authorizing it to establish a deferral account to record the costs incurred to convert to the IFRS standard. NRG submits that these costs are eligible for inclusion in a deferral account because:

- they are not included in the costs proposed to be recovered through distribution rates;
- the need to incur the costs is beyond management's control;
- the costs are expected to be material; and
- NRG will take appropriate steps to prudently incur costs associated with this activity.

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1 **Deferral/Variance Account Interest Rate**

2 Currently the interest rate approved for use in deferral and variance accounts is the most recent
3 Board-approved short-term interest rate. NRG proposes to continue its current practice of
4 adjusting the carrying cost rate consistent with the Board's quarterly determination.

5 **Proposed Disposition of the September, 2009 PGTVA and REDA Through Rates**

6 NRG proposes to dispose of a credit of \$89,197, being the net balance recorded in the REDA and
7 in the PGTVA as of September 30, 2009 plus accumulated carrying charges, through a rate rider
8 that will operate for the 2011 Test Year. These costs were prudently incurred, are beyond
9 NRG's control and were not previously recovered through rates. NRG has correctly computed
10 the balances recorded in these accounts.

11 NRG previously sought a Board Order authorizing the disposition of these amounts through rates
12 (Board docket EB-2009-0020). The Board did not grant that application. This is the first
13 opportunity since that Decision was issued to seek disposition. NRG notes that no party took
14 issue with either the amounts to be disposed of or the proposed disposition through rates.

15 NRG assumes that the Board will continue its long standing practice of clearing the non-
16 commodity variance/deferral account balances annually. NRG acknowledges that its proposed
17 disposition of the balances recorded in these accounts as of September 30, 2009 during the 2011
18 rate year can be expected to overlap with the disposition through rates of the balances recorded
19 as of September 30, 2010. NRG notes that the net balance to be disposed of is likely not material
20 in context of NRG's customer base – approximately 7,000.

21 NRG notes that further delay in disposing of these balances through rates will result in further
22 carrying costs and risks recovering the balances from customers who did not cause the costs to
23 be incurred. To minimize the carrying costs disposed of through rates and to preserve the ability
24 to recover the costs from the customer who caused them NRG proposes to dispose of the
25 balances during the 2011 Test Year. NRG proposes to assign responsibility for the PGTVA

1 balance by assigning IGPC its appropriate share of the balance. NRG proposes to assign
2 responsibility to all other customers as follows:

3 Responsibility for the remaining PGTVA balance will be assigned based on volumetric
4 deliveries in the 2011 Test Year;

5 Responsibility for the REDA account balance will be assigned equally to each customer;

6 The net amount will be recovered from each customer equally over the 12 months of the
7 2011 Test Year through a fixed charge rate rider.

8 This approach is not expected to result in rate shock to NRG's customers.

9 The derivation of the proposed rate riders is provided at Exhibit D1, Tab 7, Schedule 2.

10 NRG proposed to dispose of the balance allocated to customer classes 1 through 5 by way of a
11 rate rider that will operate over the 2011 Test Year. NRG is in discussions with IGPC over the
12 disposition of the balance allocated to them.