Board Staff Interrogatories
NRG 2011 Rate Case (EB-2010-0018)

ISSUE 1 – ADMINISTRATION

Ref: Exhibit A – NRG Audited Financial Statement

1.3 Are NRG's audited financial statements from 2006 to 2009 appropriate?

1. In Note 8 to NRG's audited financial statement dated September 30, 2008, it has been noted that NRG has pledged all its present and future assets as security against the term note payable. Please answer the following questions with respect to the term note:

   a) Considering that all of NRG's assets are pledged as security to the bank, does the Company have the ability to finance future expansions? Please provide a detailed response.
   b) Can NRG obtain financing from another institution or is it restricted to obtaining finance only from the Bank of Nova Scotia?

2. In Note 9 to NRG's audited financial statement dated September 30, 2008, it is noted that the Company is subject to externally imposed capital requirements. Please calculate and provide the following ratios for the years 2007 through to 2009.

   a) EBITDA to interest expense plus current portion of long-term debt
   b) Current ratio (current assets to current liabilities)
   c) Total debt to tangible net worth
   d) Funds from Operations/Net Debt
   e) Funds from Operations Interest Coverage

For questions (d) and (e), please use the same methodology as noted in Table 7, page 35 of Kathleen McShane's report on Capital Structure and Equity Risk Premium.

Ref. ExhibitA1/ Tab5/Sch.1/Pages1-2

1.2 Has NRG amended its security deposit policy as directed in the Board's EB-2008-0413 Decision?

3. With respect to the determination of the security deposit please confirm that NRG's calculation is in accordance with the Board's direction set out in EB-2008-0413, Appendix B, item 5. More specifically, please confirm that NRG will be using the customer's average monthly consumption of gas (and not the average annual consumption as indicated by NRG in its evidence) X the billing cycle factor to determine the maximum amount of a security deposit that NRG may require of a consumer.

4. Please answer the following questions with respect to NRG's security deposit policy:

   a) Please indicate why the onus is on the consumer to file a written request for a refund of the security deposit when NRG is conducting annual reviews to determine if a consumer is entitled to a refund or adjustment.
   b) Are consumers notified of results once a review has been completed (i.e. that they are indeed eligible for refund)? If not, then how would consumers know that they are eligible for a refund?
   c) Please advise whether NRG is able to return security deposits within six weeks of closure of a consumers account as per EB-2008-0413, Appendix B (18). If not, please explain why.

Ref. ExhibitA1/ Tab5/Sch.1/Appendix B#10

1.2 Has NRG amended its security deposit policy as directed in the Board's EB-2008-0413 Decision?

5. Has any provision been made for consumers to pay security deposits in installments over 4 months?

ISSUE 2 – RATE BASE

Ref. Exhibit B6-B8/Tab3/Sch.1

2.3 Is the forecast level of capital spending in 2010 appropriate?
2.4 Is the forecast level of capital spending in 2011 appropriate?

6. Please answer the following questions with respect to the capital spending program in 2010 and 2011:

a) The Automotive component of Property Plant and Equipment is expected to rise by over $88,000 and $46,000 in 2010 and 2011 respectively. In addition, the corresponding level of depreciation is also expected to rise by over $92,000 and $100,000 for the same years. Please provide a detailed breakdown and explanation of the automotive costs. Also what depreciation policy was used to determine the 2010 and 2011 estimate?
b) With respect to the Computer Equipment component of Property Plant and Equipment, please provide a detailed breakdown of these costs for 2010 and 2011 as well as an explanation of why costs have been increasing.
c) Please provide a breakdown of Meter component of Property Plant and Equipment for 2010 and 2011. Please also provide an explanation of why meter related costs are expected to increase.
d) Please provide a detailed breakdown and explanation for the rise in Computer Software component of Property Plant and Equipment for 2010 and 2011.
e) From 2009 there is a significant increase in Communication Equipment costs. Please provide a breakdown of these costs for the years 2009, 2010 and 2011. Please also provide an explanation for the increasing trend in Communication Equipment costs.
f) Please provide a breakdown of the Rental Equipment (residential) costs for the years 2009, 2010 and 2011. Please also provide an explanation for the recent rise in these costs.
g) With respect to Franchises and Consents, please provide a detailed breakdown of these costs for 2010 and 2011. What depreciation policy was used to arrive at the depreciation amounts for 2010 and 2011?
h) Within “Franchises and Consents”, please explain the meaning of Consents and identify the items included in it.

Ref. Exhibit B5-B6/Tab3/Sch.1, Exhibit B6/Tab2/Sch.1

2.2 Were amounts closed (or proposed to be closed) to Rate Base in 2008 and 2009 prudently incurred in view of the fact that not all amounts received OEB scrutiny?

7. Please answer the following questions related capital expenditures in 2008 and 2009:

a) There was a significant increase in Computer Equipment costs for 2008 and 2009. Please provide a breakdown of the Computer Equipment costs of $150,192 and $164,663 for 2008 and 2009 respectively.
b) Please provide a breakdown of 2008 Plastic Mains costs of $7,027,030.
c) Please provide a breakdown of the 2009 Franchise cost of $261,963 as well as an explanation of these costs.

Ref. Exhibit B1/Tab2/Sch.1, Ref. Exhibit B8/Tab2-3/Sch.2-3

2.3 Is the forecast level of capital spending in 2010 appropriate?
2.4 Is the forecast level of capital spending in 2011 appropriate?

8. Please answer the following questions with respect to proposed capital expenditures for 2010 and 2011:

a) Please provide a detailed breakdown of meter costs of $140,000 for 2010 and 2011. Please also explain the increase in meter costs as compared to 2009.
b) Please provide further details regarding the year to date status of the mains additions projects for 2010.

Ref. Exhibit B8/Tab2/Sch.3

9. The Prouse Road to Avon Drive tie-in project has a benefit cost ratio of 0.83. Please provide the following information regarding this project:

   a) Which customers will be contributing an aid to construction, of what amount and for how long?
   b) Please explain why the estimated cost of this project has been revised higher in the update.
   c) Has the project work sheet been updated to reflect the higher project costs?

Ref. Exhibit B8/Tab4/Sch.1

2.5 Is the working capital allowance for 2010 and 2011 appropriate?

10. Please provide a detailed explanation of how NRG arrived at the monthly level for security deposits provided in Exhibit B8/T4/S1 (updated), and B7/T4/S1.

Ref: Exhibit B7/Tab2/Sch.1

2.6 Are amounts related to the IGPC pipeline added to 2009 rate base appropriate?

11. Please provide a detailed breakdown of the $5,073,000 new steel mains costs for 2009 (actual) related to the IGPC pipeline.

ISSUE 3 – OPERATING REVENUE

Ref. Exhibit C7/Tab2/Sch.2

3.1 Is the customer addition forecast for 2010 appropriate?

12. Please provide the year to date customer additions by rate class for fiscal 2010.

Ref: Exhibit C2/Tab1/Sch.1/Pg.8

3.3. Is the volume throughput and revenue forecast appropriate for 2010 and 2011?

13. In the Use Per Customer data presented in ExC2/T1/S1/Pg.8, average use for Residential and Industrial R1 customers is fairly stable from 2008. However, Commercial average use shows a declining trend from 2008 onwards. Please provide reasons for the declining average use in R1 commercial load when other R1 classes do not display a declining trend.

ISSUE 4 – COST OF SERVICE

Ref: Exhibit D8/Tab3/Sch.1

4.2 Is the O&M cost forecast for 2010 and 2011 appropriate?

14. Repair and Maintenance expenditures show a substantial increase in 2011, increasing from $162,662 to $289,066. Please provide reasons for the substantial increase in maintenance related expenditures. Also, please provide a breakdown of the repairs and maintenance costs for 2010 and 2011.

Ref: Exhibit D7/Tab3/Sch.1 and Exhibit D8/Tab3/Sch.1

4.2 Is the O&M cost forecast for 2010 and 2011 appropriate?

15. Expenses related to bad debts are forecasted to increase substantially, from the $50,000 level in 2009 and 2010 to $75,000 in 2011. At the same time, collection expenses have also increased from $14,308 in 2009 to $20,000 in 2011.

    a) Please provide detailed reasons for the substantial increase in forecasted bad debt expenses for 2011.
    b) Why is there no decrease in forecasted bad debt expenses despite increased efforts in collection related activities as noted from the increase in collection expenses?
    c) Have the Company's collection related efforts successful? If not, has NRG considered other alternatives to reduce bad debt?

Ref: Exhibit D7/Tab3/Sch.1 and Exhibit D8/Tab3/Sch.1

4.2 Is the O&M cost forecast for 2010 and 2011 appropriate?

16. Expenses related to dues and fees show a substantial increase in 2010 and 2011 as compared to 2009 ($41,705 versus $19,424). Please provide reasons for the substantial increase. Also, provide a breakdown of the cost item.

Ref: Exhibit D1/Tab3/Sch.3

4.3 Is the proposed advertising expense for 2011 appropriate?

17. NRG has proposed advertising expenditures of $98,000 for 2011. This includes a new initiative that will offer $1,000 rebate to customers to convert their vehicles to natural gas. Please answer the following questions with respect to this initiative:

a) Why benefit will NRG derive from pursuing this initiative?
b) What is the cost of this program in 2011?
c) What is the expected uptake of this program? How many customers are forecasted to convert their vehicles to natural gas from 2011 to 2015? Please provide a breakdown for each of the years.
d) Does NRG's franchise area have the infrastructure to support this initiative (natural gas filling stations, conversion kits, repair facilities etc.)? Please provide a detailed response.
e) Will NRG be developing the infrastructure or will it be developed by other partners/companies?
f) Has NRG included any infrastructure costs in this Application? Please provide details.
g) Is there supporting infrastructure outside NRG's franchise area considering that vehicles that would be converted would travel outside NRG's franchise area?
h) How does NRG intend to make this initiative successful when Union Gas Limited, a larger distribution utility tried this program and abandoned it in 2004?
i) Has NRG conducted any market research to understand the potential demand, consumer interest, risks and infrastructure requirements of this initiative? Please provide details.

Ref: Exhibit D1/Tab3/Sch.6

4.4 Are the proposed regulatory costs for 2011 appropriate?

18. The evidence indicates that the external regulatory costs for preparing the 2011 rates application includes $350,000 of consulting costs. Please provide a breakdown of the costs. Also, please provide reasons for the sizeable amount of this cost.

Ref: Exhibit D1/Tab3/Sch.4

4.5 Are the management fees proposed for 2011 appropriate?

19. NRG has proposed management fees of $235,157 for 2011. Please answer the following questions with respect to this charge:

a) Please provide a breakdown of the proposed management fees for 2011
b) The evidence indicates that the significant increase in 2009 resulted mainly from moving the Controller and Assistant Controller functions from NRG to Ayerswood Development Corporation. Please identify the corresponding decrease in other cost categories as a result of moving the controller functions to Ayerswood.

Ref: Exhibit D1/Tab3/Sch.7/Pg.2

4.6 Are the IGPC period costs for 2010 and 2011 appropriate?

20. NRG's 2011 insurance costs are estimated to be $284,925 of which $197,962 is attributable to IGPC. The evidence indicates that NRG proposes to allocate 59% of the premium related to the $15 million general liability insurance coverage to IGPC (based on throughput). Please answer the following questions with respect to this allocation:

a) What coverage does the general liability insurance provide?
b) What is the relationship between throughput and the coverage provide under general liability insurance?

c) Why is IGPC's throughput an appropriate allocator as compared to the net book value of the IGPC pipeline in determining the allocation of the general liability insurance premium?
d) Please recalculate the allocation based on the net book value of the IGPC pipeline as a proportion to the total assets of NRG in rate base and provide IGPC's portion of the general liability insurance premium.

Ref: Exhibit D1/Tab3/Sch.7/Pg.4

4.7 Is NRG's proposed depreciation life for the IGPC pipeline appropriate?

21. The evidence indicates that no other customers are expected to connect to the new IGPC pipeline. Have any customers expressed an interest in connecting to the new line? If "Yes", please provide details.

Ref: Exhibit D8/Tab6/Sch.1

4.10 Is the income tax forecast for 2010 and 2011 appropriate?

22. Please answer the following questions with respect to the calculation of income taxes payable for the 2011 Test Year.

a) The federal income tax rate on page 1 use to calculate 2011 taxes payable shows a rate of 16.88% in place of 16.5%. Please provide the appropriate reference to this rate.
b) NRG is eligible for the small business deduction. This has not been included in the income tax calculations. Please recalculate using the appropriate credits and deductions.
c) NRG is claiming a total federal income tax of $38,649. Board staff's calculation indicates an amount of $30,195 or an effective rate of 13.2% that includes small business credits. Please reconcile or explain the difference.

Ref: Exhibit D1/Tab2/Sch.1

4.13 Is the cost of gas from 2007 to 2011 appropriate?

23. NRG purchases gas from an affiliate which is classified as "Local Production – A" in the Cost of Gas schedules (D4-D8/T2/Sc1). Please answer the following questions with respect to gas purchased from the affiliate.

a) In the 2005-0544 Decision, the Board on page 19 accepted NRG's methodology to calculate natural gas prices associated with purchasing gas from the affiliate. Please confirm that NRG has complied with the directives of the 2005-0544 Decision. Please explain fully if NRG has not complied.
b) The evidence (D4-D8/T1/Sc1) shows the cost of gas purchased from the affiliate. The cost is \$0.3012 m^3 for 2007, 2008, 2009 and 2010. It is the same for all the four years. Please explain how prices which are calculated on the basis of a market price for the last 10 days of September can be identical for 4 years. Please provide a detailed response.
c) Please provide a copy of the "Source Report" identified on page 17 of Decision with Reasons in EB-2005-0544 for the month of September showing daily prices for 2007, 2008 and 2009. Please also calculate the average price for the last 10 days of September from this report for 2007, 2008 and 2009.
d) If NRG cannot provide the "Source Report", would NRG agree if the Board recalculated the price using the same methodology from a different publicly available source for gas purchased from the affiliate in 2007, 2008 and 2009?

Ref: Exhibit D4/Tab2/Sch.1

4.13 Is the cost of gas from 2007 to 2011 appropriate?

24. For the cost of gas in 2007 please explain how the total gas commodity cost is \$13.9 million and the average cost is \$0.76 m^3.

Ref: Exhibit D4/Tab2/Sch.1

4.13 Is the cost of gas from 2007 to 2011 appropriate?

25. NRG purchases gas from different sources. Please answer the following questions with respect to gas supply?

a) Does NRG have a gas supply plan?
b) How does NRG determine the quantities of gas to be purchased from the different sources?
c) How does NRG ensure that it is paying a reasonable or market determined price for the cost of gas purchased from the different suppliers? Please provide a detailed response.

ISSUE 5 – COST OF CAPITAL

Ref: Exhibit E1/Tab1/Sch.3

5.1 Is NRG's proposed capital structure of 58% debt and 42% equity with a return on equity ("ROE") of 50 basis points above the Board-approved ROE appropriate?

26. NRG has requested a 50 basis point premium over the Board-approved ROE. The document prepared by Kathleen McShane titled, "Opinion on Capital Structure and Equity Risk Premium" on page 31 (lines 841-842) states, "Based on my analysis, an incremental equity risk premium relative to the benchmark ROE of 0.50% is warranted for NRG". Please answer the following questions with respect to NRG's request for an equity risk premium.

    a) Please provide a list of Board regulated utilities other than NRG that receive an equity risk premium above the Board determined ROE.
    b) Canadian Niagara Power Inc. ("CNPI") – Port Colborne and CNPI – Eastern Ontario Power share a similar profile to NRG. In both of these rate cases (EB-2008-0224 and EB-2008-0222) the above noted utilities received the Board determined ROE. Please compare the profile of these two utilities (rate base, number of customers, franchise area etc.) with NRG and provide reasons as to why NRG should receive an equity risk premium when the above mentioned utilities did not receive any.

Ref: Exhibit E1/Tab1/Sch.3

5.1 Is NRG's proposed capital structure of 58% debt and 42% equity with a return on equity ("ROE") of 50 basis points above the Board-approved ROE appropriate?

27. NRG has requested a capital structure of 58% debt and 42% equity. Kathleen McShane's opinion on Capital Structure and Equity Risk Premium on page 12 (line 320) indicates that NRG's actual capital structure in 2009 was 61% and 39% equity. In the same report on pages 20 and 21, a table showing capital structures of smaller Canadian gas and electricity distributors indicates that a majority of the

utilities are at 40% equity. Please explain why NRG is not proposing an equity structure of 60% debt and 40% equity that is more aligned to their actual capital structure and is in line with the structure proposed by the Board for Ontario electricity distributors.

Ref: Exhibit E1/Tab1/Sch.2

5.3 Is NRG's proposed cost of long-term debt for 2011 appropriate?

28. The evidence indicates that the short-term debt of NRG continues to reflect the sum of compensation cash balance held by NRG as a GIC totalling $2,009,332 for the 2011 Test Year. Please answer the following questions:

a) Why does NRG have to hold a GIC with the Bank of Nova Scotia?
b) What would be the impact on NRG if it were to withdraw the amount of the GIC from the Bank of Nova Scotia?
c) Has NRG explored other alternatives so that it does not have to provide security of such a large amount?
d) Does the equity of NRG in the form of retractable shares have an impact on the Bank of Nova Scotia requiring NRG to hold a GIC?
e) NRG's cost of debt included in the cost of capital is much higher than its actual cost of 6.69%. This is due to the requirement of posting a GIC with the Bank of Nova Scotia. Please explain why ratepayers should pay higher than the actual cost of debt.

ISSUE 6 – RATE OF RETURN

Ref: Exhibit F8/Tab1/Sch.1

6.1 Does the evidence support a rate increase to recover NRG's delivery related revenue deficiency for the 2011 Test Year?

29. Please recalculate the revenue requirement for the 2011 Test Year using a capital structure of 60% debt and 40% equity with the Board approved Return on Equity and a total debt rate of 6.69%.

ISSUE 7 – COST ALLOCATION

Ref: Exhibit G1/Tab 2/Schedule 1/Sheet 3.1

7.1 Are the proposed updates and changes to the cost allocation methodology appropriate?

30. Board staff notes that in the cost allocation schedule, common costs have not been allocated to Ancillary Services. Please explain how these costs have been allocated to or accounted for in ancillary services.

Ref: Exhibit G1/Tab 4/Schedule 1

7.1 Are the proposed updates and changes to the cost allocation methodology appropriate?

31. In accordance with the Board's decision in EB-2005-0544, NRG has developed a contingency plan to address possible reductions in Rate 2 volumes. NRG has suggested that it is appropriate to anticipate the elimination of its Rate 2 customer class.

NRG's proposal could result in the closing of the Rate 2 customer class during the term of the Incentive Regulation Plan (if approved by the Board). Board staff notes that this issue has not been addressed in NRG's cost allocation study.

a) If Rate 2 is closed within the term of the IR Plan, how does NRG propose to reallocate Rate 2 related costs to other rate classes?
b) What would be the rate impact on the other rate classes as a result of this reallocation?
c) If Rate 2 class customers are migrated today to Rate 4, what would be the impact on the Rate 2 customers?

Ref: Exhibit G2/Tab 1/Schedule 1

7.3 Is NRG's derivation of an incremental System Gas rate appropriate?

32. NRG stated that the System Gas Supply costs in the Fully Allocated Cost ("FAC") Study have been amended to reflect the application of an incremental costing methodology. Please provide a schedule which highlights the amendments made to the System Gas Supply costs in the FAC.

Ref: Exhibit G1/Tab 2/Schedule 1

7.4 Is NRG's methodology to allocate costs to IGPC appropriate?

33. NRG stated that it has used its legacy allocation factors to allocate common costs to IGPC (Rate 6). Please provide a schedule which sets out the legacy factors used to allocate costs to IGPC (Rate 6).

Ref: Exhibit G1/Tab 2/Schedule 1

7.4 Is NRG's methodology to allocate costs to IGPC appropriate?

34. NRG noted that it has applied the Rate 3 legacy factors to allocate costs to IGPC (Rate 6). NRG believes that this is reasonable because the Rate 3 legacy factors were used to allocate costs to Rate 3 when NRG served Imperial Tobacco (a large Rate 3 customer).

    Please explain why NRG believes that the legacy allocation factors that were used to allocate costs to Rate 3 (at the time that NRG served Imperial Tobacco) are appropriate for allocating costs to IGPC (Rate 6)? The response should include the following:

    a) Total number of customers and total delivered volume (at the time referenced by NRG when it was serving Imperial Tobacco).

b) Number of Rate 3 customers and Rate 3 delivered volumes (at the time referenced by NRG when it was serving Imperial Tobacco).

c) A table, similar to the one included in Exhibit G1, Tab 2, Schedule 1, Page 2, which provides a breakdown of the costs allocated to Rate 3 (at the time referenced by NRG when it was serving Imperial Tobacco). This table should present the aggregate costs and the costs as a percentage of the total costs incurred by NRG.

ISSUE 8 – RATE DESIGN

Ref: Exhibit H1/Tab 1/Schedule 1

8.2 Is the proposal to increase the monthly fixed charges and the monthly customer charges across all rate classes appropriate?

35. NRG has proposed to increase the monthly customer charge for Rate 1, Rate 2 and Rate 4 customers. Is the proposal revenue neutral? If not, please provide details of the impact of the increased monthly customer charges.

ISSUE 9 – INCENTIVE REGULATION MECHANISM

Ref: A Proposed Incentive Regulation Mechanism for Natural Resource Gas Limited – A Report by Elenchus Research Associates Inc.

9.2 Is NRG's proposal of including an all-in-one fixed price cap escalator of 1.5% during the IR term appropriate?

36. On page 4 of the Report, Elenchus Research Associates Inc. recommends a price cap escalator of 1.5% stating that the escalator accommodates inflation, productivity and the impact of declining volumes. Please answer the following questions with respect to the price cap escalator.

    a) How did Elenchus arrive at the 1.5%? Please provide evidence that the 1.5% accommodates inflation, productivity and impact of declining volumes.
    b) Did Elenchus conduct scenarios or research to conclude that the 1.5% takes into account inflation, productivity and impact of declining volumes? If "Yes", please provide details including the scenarios conducted.
    c) What was the inflation and productivity factor used in the calculation of 1.5%?

Ref: A Proposed Incentive Regulation Mechanism for Natural Resource Gas Limited – A Report by Elenchus Research Associates Inc.

9.4 Is NRG's proposal for Earnings Sharing Mechanism, Off-Ramps, Z-Factors and Y-Factors under the IR Plan appropriate?

37. NRG's IR Plan proposes to adopt the Earnings Sharing Mechanism as noted in Union's IRM Settlement Agreement (EB-2007-0606) dated January 3, 2008. Union's Settlement Agreement on page 22 states, "If in any calendar year Union's actual utility return on equity is more than 200 basis points over the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan, then such excess earnings will be shared 50/50 between Union and its customers."

a) Union’s Settlement Agreement refers to actual utility return in a calendar year. Please confirm that NRG is proposing the same timeframe.
b) Does NRG propose to use the Board’s ROE included in rates or the most recent Board approved ROE for a given year?