ONTARIO
ENERGY
BOARD

FILE NO.: **EB-2010-0018**

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DATE: **June 14, 2010**

EB-2010-0018

THE ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by Natural Resource Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing October 1, 2010.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Monday, June 14th, 2010,
commencing at 10:03 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

MICHAEL MILLAR	Board Counsel
HIMA DESAI KHALIL VIRANEY LAWRIE GLUCK	Board Staff
RICHARD KING LAURIE O'MEARA BOB COWAN	Natural Resource Gas Limited (NRG)
JOHN TODD CATHY LITT	Elenchus
PHILIP TUNLEY	Town of Aylmer
MICHAEL BUONAGURO	Vulnerable Energy Consumers' Association (VECC)
SCOTT STOLL PAULA ZARNETT TRENT WINSTONE	Integrated Grain Processors Co-operative Inc (IGPC)

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NO EXIBITS WERE FILED DURING THIS PROCEEDING

U N D E R T A K I N G S

U N D E R T A K I N G S

Monday, June 14, 2010

--- On commencing at 10:03 a.m.

MR. MILLAR: Good morning, everyone. I think we will get started. This is the technical conference for Natural Resource Gas Limited's 2011 cost of service rates application, File No. EB 2010-0018. My name is Michael Millar. I am counsel for Board Staff. I am joined today by Hima Desai, Khalil Viraney and Lawrie Gluck.

I think -- I understand NRG does not have any opening address to make, but maybe we will do appearances, and then get right into the questions.

APPEARANCES:

MR. KING: Richard King, counsel to Natural Resource Gas.

MS. O'MEARA: Laurie O'Meara, controller, Natural Resource Gas.

MR. TODD: John Todd, Elenchus.

MR. COWAN: Bob Cowan. I'm a co-chair of the company.

MS. LITT: Cathy Litt, Elenchus.

MR. TUNLEY: I am Phil Tunley, counsel for the Town of Aylmer.

MR. BUONAGURO: Michael Buonaguro, counsel for VECC.

MR. STOLL: Scott Stoll, counsel for IGPC, and with me are Paula Zarnett and Trent Winstone.

MR. MILLAR: Okay, thank you, everyone. As I understand, there is no opening from NRG. Mr. Buonaguro, you have agreed to go first?

MR. BUONAGURO: Yes, I have. I am just trying to get a printout of my questions, since they were forwarded to the company and they may have already had a chance to read them and partially answer them.

Since I will be reading them into the record, I thought it would be useful for the court reporter to have the actual copies. I think they are being printed right now, if I can just hop down to the reporter and just take a two-minute break.

MR. MILLAR: Take two. Mr. King, while we are waiting for Mr. Buonaguro, you received -- certain questions have been given to you beforehand, some of which, at least by our reading, would require production of written responses. Can you let us know how we will be dealing with those today?

MR. KING: We did get most of the questions certainly by the end of the day Friday. We got three additional ones from VECC later on Friday. We have had a chance to go through them as a group to try to answer them.

We don't have any written materials here today to respond. We have probably, I think, about two that may require a written response that we will have to do tonight

MR. MILLAR: That will be by way of undertaking, I take it?

MR. KING: Yes.

MR. MILLAR: Okay. Okay, over to you, Mr. Buonaguro.

NATURAL RESOURCE GAS LIMITED – PANEL 1

Cathy Litt

Laurie O'Meara

John Todd
Bob Cowan
QUESTIONS BY MR. BUONAGURO:
MR. BUONAGURO: I am going to read the questions we advanced last week to put them on the record. I have given a copy to the reporter to help her follow along, and then you can answer.
The first question is this:
"The 2011 Depreciation and Amortization costs of $1,206,523 listed under 'Cost of Service' on page 2 of Exhibit A2, Tab 1, Schedule 2 Updated (and at F8 T1 S2) appear to include $187,708 in costs related to water heater rentals per Exhibit A3, Tab 1, Schedule 6 Updated pages 4 and 5. However, the same Other Revenue (net), $664,160, is shown on page 2 of Exhibit A2, Tab 1, Schedule 2 Updated and on page 4 of Exhibit A3, Tab 1, Schedule 6 Updated. Has the depreciation on water heater rentals been double-counted in calculating the deficiency on page 2 of Exhibit A2, Tab 1, Schedule 2 Updated?"
MS. LITT: Mr. Buonaguro, we reviewed the evidence and you are correct.
MR. BUONAGURO: Okay. So then the water heater rental, the depreciation has been double-counted?
MS. LITT: Yes.
MR. BUONAGURO: So how do we make that adjustment? How do we fix it?

MS. LITT: There are two ways. I think the clearer way would be to revise the estimated revenues from ancillary services so that it is no longer included in that line item, and then recompute the deficiency.

MR. BUONAGURO: Okay.

MS. LITT: The alternative is to adjust the depreciation expense that is removed from the utility income.

MR. BUONAGURO: All right. Do you want to undertake to make that update to the application?

MS. LITT: Yes, yes.

MR. BUONAGURO: Thank you.

MR. MILLAR: That will be undertaking JT, "T" for technical conference, 1.1.

UNDERTAKING NO. JT1.1: TO PROVIDE UPDATED APPLICATION.

MR. BUONAGURO: Now, you mentioned two different ways. Maybe do them both and explain which one is the -- you think is the better one to do, more appropriate.

MS. LITT: Yes.

MR. BUONAGURO: Question No. 2 -- Thank you very much, by the way. Question No. 2:

> "Please reconcile the Total Revenue Requirement of $6.5237M shown at line 40 of Exhibit G3, Tab 1, Schedule 1, Sheet 3.1 with the figures provided on page 2 of Exhibit A2, Tab 1, Schedule 2 Updated."

MS. LITT: I am just going to open the binders.

Mr. Buonaguro, I think the high-level response is to take the revenue requirement, remove the ancillary services, remove the deficiency, and that yields the distribution revenues at current rates.

MR. BUONAGURO: Okay. So with those two adjustments, you will get the same figures for both?

MS. LITT: Yes.

MR. BUONAGURO: Okay, thank you. Now VECC -- this is Question No. 3. VECC IR 51 asked for details much the special dividend paid in 2008 incorrectly referencing Exhibit 1, tab 1, schedule 1, page 2. The response received from NRG was:

> "We do not see a reference to a special dividend in the reference noted. There has been no dividend paid for several years."

The corrected reference - and we apologize for the mistake - for VECC IR 51, is Exhibit E1, tab 1, schedule 1, page 2.

So could you please provide details of the special dividend referenced at Exhibit E1, tab 1, schedule 1, page 2?

MR. KING: I am actually going to speak to this one, because the issue of the special dividend came up at our last rate case, which was EB-2005-0544, and it came up simply because of the size of it in relation to the size of the utility.

The special dividend or the return of capital to the shareholder was just over $2 million. It was

$2.038 million.

We dealt with it extensively at that hearing, and in terms of where you will find it, it is on page 25 of the Board's decision with reasons in that proceeding.

The shareholder hadn't taken any money out of the company in the 12 years prior to the payment of that special dividend. So the actual capital structure, the actual equity component of capital structure, had creeped up to about 72 or 73 percent.

The return of the capital in 2000 -- actually, I think it was 2006, reduced that to something more reasonable, which was 35 percent equity.

So the issue was dealt with in the previous rate hearing.

MR. BUONAGURO: Well, you referred to the previous decision, and I believe the timing for that payout of the special dividend was in 2006.

My understanding -- and, I apologize, I don't have the exhibit in front of me, but my understanding is Exhibit E1, tab 1, schedule 1, page 2 speaks of a special dividend paid in 2008, which would have been a couple of years after that decision.

Am I wrong?

MR. KING: If the reference in the evidence is to 2008, it should be 2006.

MR. BUONAGURO: Okay.

MR. KING: If you look at page 17 of the NRG's financial statements from 2006, the bottom of page 17, which is the note to the financial statements dealing with share capital, sets out the 2.038 million dividend.

MR. BUONAGURO: Okay.

MR. KING: There was no second special dividend.

MR. BUONAGURO: Sorry. So that means the only special dividend in recent history that we can talk about is the 2006 one, which is discussed in the decision you referred to, and any reference to a special dividend after that, if there is one - and I think there may be one - it would be a mistake in the date?

MR. KING: Correct. And I think the reason why there was no money taken out of the company, no dividends paid in that 12-year period prior to 2006 was because in NRG's previous financing, there were restrictions on dividend payments.

MR. BUONAGURO: Okay. Thank you.

Question 5:

> "IGPC#19 (b) indicated that the $140K penalty imposed by the OEB is included as part of regulatory costs."

Could you:

> "...indicate from which class or classes NRG is seeking to recover the $140K assessed penalty, the rationale for such recovery, and the allocation of those costs among rate classes."

MR. COWAN: I am going to respond to that, if I may. It is –- sorry? Ah, sorry. I am going to respond to that.

My understanding is that it's sought to be recovered from IGPC only. And the rationale is that it arose as a result of the construction of the pipeline, and we assume that it will be resolved, one way or another, either by the reconciliation process or by the Board. It has no impact on other categories.

MR. BUONAGURO: I see. So to the extent it exists in the revenue requirement, it's been directly allocated to --

MR. COWAN: Yes.

MR. BUONAGURO: -- IGPC or to the rate class, or I guess it doesn't matter.

MR. COWAN: I believe that there is only one customer in that rate class.

MR. BUONAGURO: Right. Okay. So functionally, directly allocated to IGPC?

MR. COWAN: Correct.

MR. BUONAGURO: Thank you. Question No. 6:

"On page 1 of D1/T3/S6 updated, NRG states that it is proposing to recover a total of $146K in 2011 in respect of regulatory costs. The response to IGPC#25 indicates that NRG is proposing to recover $170.8K in regulatory expenses."

I think I may have figured this out while I was reading it again, but perhaps you could reconcile those two figures.

MS. O'MEARA: I will do that one.

The difference is around $25,000 over five years, is $125,000.

In OEB No. 3, you will see that they referred to an increase in the regulatory rate application cost, the consulting costs, of 350 to 500. That actually should be 475, but we will address that when we get to it. So it was a revision to the consulting costs for the rates application.

MR. BUONAGURO: So it is an increase of $125,000 over five years specifically related to an updated, I guess, projection of consulting fees that you expect to be charged in that five years?

MS. O'MEARA: That's correct.

MR. BUONAGURO: I'm sorry, I think you may have said, but what was the -- what prompted that update, that specific update?

MS. O'MEARA: The review of the current costs and the anticipated projected future costs for the rates application hearing.

MR. BUONAGURO: Okay. Is it specific to this hearing?

MS. O'MEARA: Yes, it is.

MR. BUONAGURO: Okay. Does that include an updated projection of, say, for example, intervenor costs? Or is it strictly consulting costs?

MS. O'MEARA: In OEB No. 3, I actually go through the breakdown of what it relates to.

MR. BUONAGURO: Okay. So I can look to OEB 3 for all of the details? Thank you.

Question No. 7: With respect to VECC No. 1, the answer there, could you:

"...please indicate why and when the retractable shares were issued, how the holders paid for these shares, how much the holders paid for them, and explain why these shares are not converted to non-retractable shares or common equity."

MR. COWAN: I am going to respond in part to that, but I think Mr. King would like to talk about the timing. I think he has that information. I do not.

MR. KING: The topic of the retractable shares first came up in a proceeding initiated by Union Gas to discontinue service to NRG, I think in the fall of 2008.

There is information on the record there about the retractable shares. The only knowledge I have of the shares is that they were issued in 2003 and first appeared on NRG's financial statements in the 2004 financial statements.

MR. COWAN: Now, with respect to the second part of the question –- does it go off automatically?

MR. BUONAGURO: It is connected to the mic next to you, so if Mr. Todd -– I don't know if he did, but if he presses his button, yours turns off.

MR. COWAN: Keep your hands to yourself.

With respect to the retractable feature of the shares, I would simply observe that of course it is not within the capacity or decision-making capacity of NRG to modify that feature. It is entirely within the determination of the holder of the shares.

I would further observe that it has been dealt with, I think, quite efficiently in the provision of postponement agreements in favour of both the bank and Union Gas.

MR. BUONAGURO: Is there any advantage to NRG of having retractable shares as opposed to non-retractable shares?

MR. COWAN: It was required of us, so I would say the answer to that is "no".

MR. BUONAGURO: When you say "required" of you, required of you by the shareholders? I am guessing here. I don't know.

MR. COWAN: By the holder of the shares.

MR. BUONAGURO: Okay.

MR. COWAN: Thames Securities.

MR. BUONAGURO: Okay. Are you able to briefly explain why they would make that requirement, or refer to documents on the record to explain that?

MR. COWAN: I don't think that -- it was a requirement, and I have no information about why.

MR. BUONAGURO: Okay. Thank you.

No. 8:

> "IGPC#1 states that there has been no new injection of equity over the period 2006-09. E1/T1/S2 indicates that in 2011, the average principal on its fixed rate loan will be about $6M, the principal on its variable rate loan will be about $5.2M, and the 'compensating balance' GIC is about $2.7M. The total of this debt is $13.9M which exceeds the 2011 rate base of

$13.6M. Is it fair to say there is not any
equity financing the rate base?"

MS. O'MEARA: When we reviewed the question, it came to light that the calculation should be six million, plus the 5.2, less the 2.7, which results in total debt of $8.5 million.

MR. BUONAGURO: I see. So you are saying that the correct answer is something like the equity that is financed at the rate base is 13.6 million minus 8.5?

MS. O'MEARA: Correct.

MR. BUONAGURO: Okay, thank you. Thank you for that correction.

And these are the three additional questions that I submitted Friday afternoon.

First one is labelled A1:

"Re D1/T3/S4, please provide breakdowns in the
management fees for the years 2006-2010 inclusive
similar to the breakdown provided in the response
to Board Staff IR# 19 (a)."

MS. O'MEARA: This will have to be an undertaking on our part. We will probably be able to do 2009 and 2010, but anything prior to that, I can't promise that we will be able to find the records to support what the breakdown was.

MR. BUONAGURO: So for the previous years you will have the totals, but you can't -- you may not be able to designate who and --

MS. O'MEARA: That's right. There's been a change of staff, so I am not sure if I will be able to dig up that information or not.

MR. BUONAGURO: Right.

MS. O'MEARA: But certainly for 2009 and 2010.

MR. BUONAGURO: Okay. So I will take the undertaking to provide the '09 and '10 at least, and then see what you have for the previous years. Thank you.

MR. MILLAR: That's Undertaking JT1.2. I guess it is to provide an answer to VECC question A 1.

UNDERTAKING NO. JT1.2: TO PROVIDE AN ANSWER TO VECC QUESTION A1.

MR. BUONAGURO: Question A2, this is with respect to NRG's response to VECC IR No. 42:

"This IR asked for 'details of any other entity that receives management services from Ayerswood.'"

The response was that:

"A number of non-arm's-length companies receive management and general contracting services from Ayerswood. The types of services provided by Ayerswood to these other companies are similar to those provided to NRG. NRG believes that the ability to utilize Ayerswood is of tremendous benefit to NRG and its ratepayers. As a practical matter, it would not be beneficial to full-time employees with the expertise provided by Ayerswood."

Could you actually provide the total costs of Ayerswood recovered from all other non-arm's-length entities to which Ayerswood provides management and general contracting services, along with the rationale for the allocation of costs to NRG?

MR. COWAN: I will respond to that.

I think that that's not something that we are prepared to provide.

MR. BUONAGURO: On what basis?

MR. COWAN: We felt that the justification of the retention of Ayerswood was simply on the basis of comparing that to the costs of getting the same kinds of assistance, professional assistance, on the open market, and we feel that it is significantly more expensive to hire the personnel.

For instance, Ms. O'Meara is a CA. I don't think that we would be able to retain the services of a CA if we had to hire such a person, and we can obtain those services by obtaining the assistance of Ayerswood.

MR. BUONAGURO: Okay. So basically I guess it is a refusal to disclose any information with respect to Ayerswood and services provided in aggregate, or any discussion of allocation of costs as between the non-arm's-length entities?

MR. COWAN: I guess it is a refusal. I don't have -- we don't have access to Ayerswood's records. It is not something that we have. Now, Laurie may wish to speak to that.

MS. O'MEARA: I just want to say it is not considered an affiliated relationship as defined by the Board, and we felt it was outside the requirements of this case.

MR. BUONAGURO: Okay. So the position is Ayerswood is a non-affiliate?

MS. O'MEARA: Yes.

MR. BUONAGURO: Okay. Thank you.

With respect to NRG's response to VECC No. 43:

"NRG attributes the almost 50% increase in management fees in 2008 to 'the increased time spent by Ayerswood to oversee, review, and resolve issues that arose regarding the ethanol pipeline.'"

Could you please indicate from which rate class or classes NRG is seeking to recover these costs, and also indicate whether accounting records segregate management costs associated with the ethanol pipeline from other management fees, costs of NRG?

MS. O'MEARA: We do not separate the management fees. It is all encompassing. We do not separate out by rate class, so it is recovered from all rate classes.

MR. BUONAGURO: It is probably in the evidence, but maybe you could summarize on what basis -- well, I guess what you're telling me is you have aggregate management fees and it is allocated through your cost allocation model, however it is done?

MS. O'MEARA: That's correct, yes.

MR. BUONAGURO: There is no direct allocation or segregation of the management fees that arise specifically as a result of the pipeline?

MS. O'MEARA: Correct.

MR. BUONAGURO: Okay, thank you.

Now, in addition, I just have a couple of additional questions which I didn't forward, which I can almost guarantee you will either refuse or ask for some time to provide in writing.

NRG's 2010 forecast additions shows an increase of 136 customers, of which 131 are residential. That is at C2, tab 2, schedule 2.

Can you tell us, presumably by way of undertaking, or if you happen to have it on hand, that's great, the number of 22 additions by class to date?

MS. O'MEARA: Actually, that is covered under one of the OEB questions.

MR. BUONAGURO: Oh, okay.

MS. O'MEARA: No. 1. So we will address that when we get to that.

MR. BUONAGURO: Okay, thank you.

Now, with respect to other operating revenue, your 2009 figure was $569,192, and it was forecast for 2010 to be $629,669, and 2011 the forecast is 664,160. I believe those are found in C6, 7 and 8, tab 1, schedule 1 in each of those exhibits.

Can we get a year to date I guess for the 2010? I would like an updated forecast for the 2010 operating revenue using the existing to date figures, as well as an updated forecast, to the extent it has changed.

MS. O'MEARA: Yes. We can undertake to do that.

MR. BUONAGURO: Thank you.

MR. MILLAR: JT1.3.

UNDERTAKING NO. JT1.3: TO PROVIDE UPDATED FORECAST FOR 2010 OPERATING REVENUE USING THE EXISTING TO DATE FIGURES, AS WELL AS AN UPDATED FORECAST.

MR. BUONAGURO: Lastly, with respect to the capital spending for 2010, Can you provide an updated capital spending picture for 2010, based on year to date actuals, and updated estimate for the rest of the year, If possible, broken down the same way that it is broken down in Exhibit B8, tab 2, schedule 1 in the updated version?

MS. O'MEARA: Yes.

MR. BUONAGURO: Thank you.

MR. MILLAR: JT1.4.

UNDERTAKING NO. JT1.4: TO PROVIDE AN UPDATED CAPITAL SPENDING PICTURE FOR 2010 BASED ON YEAR TO DATE ACTUALS, AND UPDATED ESTIMATE FOR REMAINDER OF THE YEAR.

MR. BUONAGURO: Those are my questions. Thank you.

MR. MILLAR: Thank you, Mr. Buonaguro. Mr. Tunley, I understand you do not have any questions; is that right?

MR. TUNLEY: That's correct. I have no questions.

MR. MILLAR: Mr. Stoll, are you prepared to go?

QUESTIONS BY MR. STOLL:

MR. STOLL: I can go, and basically I will be reading in the questions that I had distributed on Friday.

The first question is basically a bit of a follow-up to the map, and it basically shows:

"The NRG System Map indicates that only 3 capital expansion projects are planned for 2011 and 2012 and that such projects are designated as optional. What is the evidence to support the capital spending level from the future years?"

Since we are into a five-year rate application IRM.

MR. COWAN: I think that is you.

MR. KING: I can take this. I spoke with Mr. Howley, who is the general manager of NRG, and what Mr. Stoll is referring to is that on the map, the map we provided and included in one of the IR responses, IR 5 to IGPC, indicates through a colour-coded scheme which facilities are planned to be built out into the future; namely, for years 2011 and 2012.

On that map, they are designated as -- they have the label above them as "optional". What that means is that they are not capital projects that reinforce the existing system or are needed for system integrity, or anything like that. They are true capital expansions. They are to connect new customers.

They are still on the books of the company as planned to be carried out in the years in which they're indicated.

MR. STOLL: Okay.

Just as a follow-up - this wasn't in there - the 2010 projects that are listed, are those all proceeding, or...

MS. O'MEARA: Yes. It is my understanding that they are.

MR. STOLL: Okay.

MR. KING: We had talked about this. I just don't have it in front of me. I think my impression was that they were all either done or well under way, with the exception of one that was scheduled for some time in June. I don't know if you have that. Otherwise, we can --

MR. COWAN: Jack indicated that Culloden Road and Avon have I am sorry, I can't tell you the --

MR. STOLL: I had those as 2011, not 2010.

MR. COWAN: I thought they were 2010.

MR. STOLL: I have the Wilson Line, Springerhill, Glencolin and Heritage Line as the 2010 projects.

MR. COWAN: If we may, we will undertake.

MR. STOLL: Okay.

MR. COWAN: I think they are done, but I don't know that.

MR. KING: Let's give it an undertaking, because we have discussed this a couple of days ago. I just don't have it front of me.

MR. MILLAR: It will be JT1.5, and is that to describe the status of the 2010 capital projects?

MR. KING: Exactly.

MR. STOLL: Correct.

UNDERTAKING NO. JT1.5: TO DESCRIBE STATUS OF 2010 CAPITAL PROJECTS.

MR. STOLL: The next question:

"NRG charged IGPC the full cost of Rate 3 as if it was consuming the contracted volumes between July 15, 2008 and October 1, 2008. The Gas

Delivery Contract states at page 4 that: 'The Utility's Rate 1 shall apply to any gas volumes delivered prior to the Commencement Date.' However, NRG charged IGPC..."

Oh, okay. That's a repeat of the last sentence, sorry. The actual question:

"Please clarify the position as to what the commencement date is and the support of the position with respect to the terms of the cost delivery contract."

I guess I am trying to reconcile the fact that the pipeline is not taken into rate base until 2009, yet there is full revenue appearing in 2008 for part of the year.

Also, the terms of payment for basically, I guess, what would be referred to as a commissioning-type delivery of gas.

So I will read in the full two, and then you can respond:

"Please clarify NRG's position as to what is the commencement date and support that position with reference to the terms of the gas delivery contract. If the commencement date is later than July 15th, 2008, please explain why NRG did not apply rate 1 to volumes delivered prior to the commencement date as required by the contract."

MS. O'MEARA: We have taken that the commencement date was July 15th for the contract, with respect to the contract.

I will have to get back to you on the reference for that.

With regards to -- on the books, when we started depreciating, we used the -- looking at the notes, they use the available-for-use, and it was considered to be available for use October 1, 2008. That's when they took the full month of production.

MR. STOLL: So how do you define available-for-use, then?

MS. O'MEARA: The way it was defined was when you started taking the full load of production, which was October, 2008.

MR. STOLL: That's an interesting twist.

Well, I think we will agree to disagree on the interpretation of the contract and available-for-use.

If NRG believes the commencement date to be -- which I am taking it you don't -- or I take from your answer as a lead-in to 3, that you're saying the commencement date for the purposes of the contract is July 15th?

MS. O'MEARA: Right.

MR. STOLL: Okay. And on what basis? You're saying the allowable-for-use basis is the reason you did not take that into rate base until 2009?

MS. O'MEARA: Yes. Looking at the notes on the file, they used that method and they had mentioned that it was during the test phase prior to that. And the full month of production started October 2008.

MR. STOLL: So even though NRG nominated a full month of gas at the end of June, which was subsequently changed, you are considering the pipe not available for use?

Like, I am having problems understanding this available-for-use when the pipeline is ready; it's flowing gas, albeit not at full rate.

MS. O'MEARA: Well, there was no flow-through of gas in July '08 or August '08.

MR. STOLL: I don't believe that is correct.

MS. O'MEARA: That's what my records show. And 212,000 in September 2008, and then the full 2.5 million started flowing in September '08 -- October '08. That's what my records show.

MR. STOLL: Okay. Well, then we will go back to the first. Then how did you bill -- then you're saying that solely based on commencement date, that you are billing rate 3 as of July 15th? So there is no matching of revenues with expenses for those intervening period of months? You are taking in revenue with no expenses related to that for 2008?

MS. O'MEARA: The method that was used was the available-for-use, that is what the account --

MR. STOLL: All right. We will agree to disagree.

Moving on:

"There is a payment of 736,000 made by IGPC to Union Gas as a contribution in aid of construction in relation to the Union Gas pipeline extension, to connect the NRG pipeline to serve IGPC. Can you confirm that that cost should be included in the capital costs of the pipeline?"

MS. O'MEARA: Yes.

MR. STOLL: Okay. And confirm that such payment is appropriately part of the project and therefore should be included as part of the aid-to-construct by IGPC in respect of the pipeline?

MS. O'MEARA: That's correct.

MR. STOLL: Okay. The next question:

"Can NRG point to the authority for commencing the accrual of interest prior to the issuance of an invoice and can NRG point to the authority in the Pipeline Costs Recovery Agreement for the interest rate charged in respect of the project management and other charges?"

MS. O'MEARA: The first part of the question, looking at how the interest was calculated, it looks like they calculated it based on the date of the invoice that was received from the third party.

With regards to the second part, the interest is referred to in 3.14 (d) of the contract, in which it states:

"Utility costs shall include the reasonable cost of interest during construction calculated in accordance with the OEB-approved methodology."

MR. STOLL: So you begin charging interest when the employee commences work and you have not issued an invoice?

I am looking at --

MS. O'MEARA: There are two types of interest being charged. The one was project management for Mark Bristoll's time and that was done as the time was incurred.

The second portion of interest was on the interest that was paid -- calculated on third-party invoices, which was done at the date of invoice.

MR. STOLL: My understanding, though, was you were supposed to issue monthly invoices for NRG costs, which did not occur.

So is what you are saying that you can continue to incur costs and charge interest without ever issuing an invoice, and the customer is just liable to come along and pay at the end?

MR. KING: I think when we went back and looked at the invoices, the interest charges for Mark's time was done incorrectly. They shouldn't have been accruing interest as of when they were incurred. They should have been when they were billed.

MR. STOLL: Okay. All right.

Can you undertake to modify the capital cost of the pipeline between the first two answers to the IGPC question in relation to the capital cost? There were some differences, i.e., the inclusion of the Union Gas payment, the position with respect to interest.

And then I assume -- I have a couple of other questions here. If we can have one response, to provide a complete and accurate update of the capital cost to that pipeline?

MR. KING: Just on the -- sorry.

On your question 4, the 736 --

MR. STOLL: Yes.

MR. KING: -- that got dropped somehow from the detailed capital cost summary.

MR. STOLL: Right.

MR. KING: I don't know whether that was the schedule 18 or 22. It should have been on there.

It was in the -- we provided a summary in response to OEB 11, and the 736 does appear in the summary. Just somehow it got dropped when it got to the detailed schedule that we attached to your IR.

MR. STOLL: Okay. Right. I am just trying to reconcile to get --

MR. KING: And that is OEB 11.

MR. STOLL: Okay.

And:

> "Has NRG reviewed all of the supporting invoices to ensure that all costs included in the invoices are related to the pipeline and that all such costs are, in NRG's opinion, reasonable costs of the pipeline?"

MS. O'MEARA: The pack which was put together by Mark Bristoll, we assume he did review all of the invoices. But with regards to all of the legal, we did review those recently and there were some adjustments that were made.

MR. STOLL: Okay. Is there a summary of those adjustments? Or, I guess, what is the final number? Is it the number that appears in the response to IGPC 18? Or --

I am just trying to ascertain what the claimed amount of the legals is currently.

MS. O'MEARA: It is what was filed on the summary page and on the detailed page for the pipeline. Those are the updated figures.

MR. STOLL: Okay.

Can NRG identify -- we'll move on.

"Can NRG identify any authority for inclusion of the administrative penalty imposed by the Board in the costs of the pipeline?"

MR. COWAN: I will respond to that. We did not examine authorities. It was allocated because it arose as part of that contract.

MR. STOLL: Well --

MR. COWAN: As I observed earlier, it will be resolved one way or another, we believe.

MR. STOLL: I am sure it will get resolved one way or another.

We will move on. Is NRG aware of any other pipelines that have been built where the legal and regulatory costs have exceeded 10 percent of the costs of the pipeline?

MR. COWAN: The short answer is, no, we have no experience with those sorts of pipelines. This is an unusual circumstance, particularly from the standpoint of a small utility, and we do not know that.

MR. STOLL: Okay. Can NRG explain the basis for the inclusion of contingency allowances in the reconciliation of actual costs?

MR. COWAN: Well, in our experience, it is appropriate to include contingency allowances, and, when the reconciliation occurs, they will be dealt with as part of that reconciliation.

MR. STOLL: Okay, but we are two years post putting that pipeline into service. I would have thought all contingencies with the construction of the pipeline would have been realized by now.

Are there specific items that are contingent, in the eyes of NRG, that have yet to occur related to the construction?

MR. COWAN: I can't point to any. We will certainly make all of our information available with respect to that.

MR. STOLL: All right. We will move on. This is a follow-up to IGPC 21.

What was the salary remuneration on an hourly basis of Mr. Mark Bristoll as an employee of NRG over the period in which the IGPC pipeline was planned and constructed?

MS. O'MEARA: In OEB No. 9, which we will get to, they have asked for a similar question, including overtime -- I mean overhead. We might be able to answer that question when we get to there or take an undertaking to do so.

MR. STOLL: Do we want to give it an undertaking now or is there going to be a specific answer?

MR. KING: I would prefer to wait to Board Staff 9. You couch it slightly differently and you ask for the salary figure plus an overhead, which may -- we have troubles disclosing an individual's salary.

We would have to do some in confidence, obviously. Under your question in 8, the overhead. We were going to elicit from you what you meant by overhead, and that may mask sufficiently the individual's specific salary that we don't have to do it by way of confidential filing. You will get it one way or another, in one form or another.

MR. MILLAR: Mr. Stoll, if they prefer to wait for us, maybe you could wait on that.

MR. STOLL: That's fine.

MR. MILLAR: If you have follow-up questions, we can address them as necessary.

MR. STOLL: All right. That's fine, thanks.

Please confirm Mr. Bristoll was a full-time employee of NRG over that period.

MS. O'MEARA: Yes.

MR. STOLL: Okay.

Did NRG have -- we are moving on to -- as a follow-up to IGPC IR 35.

Did NRG have a service agreement with a third party for maintenance of the Imperial Tobacco customer station?

MS. O'MEARA: No.

MR. STOLL: Okay. So 13 goes to the wayside.

And this is a follow-up to IGPC 42. In fiscal 2009 and fiscal 2010 to date, what have been the operating and maintenance costs incurred by NRG for the pipeline to serve IGPC? Please provide the costs as broken down in the response to IR 42.

MS. O'MEARA: This question was partially answered in OEB 14 in their interrogatories.

The last point made refers to the maintenance contract with MIG Engineering for the ethanol pipeline; commences in the fall of 2010. And then it goes on to state:

"Up until this time the pipeline has been under warranty, and with the cooperation of the manufacturer and suppliers, as well as use of our service department, we have been able to satisfy maintenance activity requirements to this point in time. This short-term solution needs to be modified, because NRG's staff size does not permit ongoing maintenance of this specialized pipeline without luring additional staff. The maintenance contract is the most practical and cost-effective solution."

MR. STOLL: Okay.

MS. O'MEARA: So the bottom line is, no, we do not have a contract at this point in time.

MR. STOLL: And any of the costs for the operation and maintenance have been part of the warranty for the installation and included in the capital of the pipeline?

MS. O'MEARA: They have been part of our overhead.

MR. STOLL: Okay. So there has been --

MS. O'MEARA: There has been internal expenses incurred, internal labour.

MR. STOLL: Okay. But you have no breakdown of those costs?

MS. O'MEARA: No.

MR. STOLL: Okay. With respect to the cost breakdown provided for the operation and maintenance cost, can you provide a rationale for the inclusion of the following items: Emergency response?

MS. O'MEARA: All of these items came from the proposal put forward by MIG for the maintenance of this contract. Therefore, it was -- we see them as our expert on what is required in order to maintain the pipeline.

MR. STOLL: Like, emergency response would seem to be beyond operating and maintenance. I guess I can maybe -- the point I am struggling with is: What is properly operating and maintenance costs that are going to be directly allocated to my client?

I went through your list of items and I am looking for a justification, because I am having trouble understanding how some of these are operating and maintenance costs.

So if you want, I can read through the rest of the items, or do you have specific ones, and you can stop me and respond to the ones that you have answers for?

Manuals, I would assume that would have been part of a one-time expense with a minor update, potentially, for operating and maintenance, rather than an annual expense in excess of $4,000 for a manual review. Also, training of the third party provider of service.

The next one is community awareness, the 15 percent overhead charge, weekly observations, engineering design and third party observation.

And for all of those, I am struggling with how they fit in with the definition of operating and maintaining the pipeline.

MS. O'MEARA: It basically was all part of the MIG proposal for the maintenance of the contract, and, therefore, again, we relied on them to advise us on what was required.

These were annual -- considered annual by them. There were other items that had a less -- a different frequency than annual and we took that into account.

MR. STOLL: Yes, I see that.

Did MIG, in their proposal, provide the code reference or other legal obligation or standard practice justification for the frequency of these activities?

MR. COWAN: I think that this pipeline is significantly different than any of the business that NRG ever attended to in the past.

And since MIG was involved in the -- from the very beginning, we felt very dependent upon their expertise and felt that it was logical to retain them to oversee the maintenance and all of the items that are listed in your question 15, because we simply did not have the personnel or the staff available, or we did not know how to get trained -- well, we knew how to get them, but it would be very difficult to get trained personnel to attend to those things. So it made sense to us to retain MIG.

MR. STOLL: I am not arguing the principle of obtaining a third party to provide the service. It is the items that are included in the service, the allocation to my client, that I have a concern with.

For instance, what activities would be included in community awareness, given that the annual cost is $8,500 per year? I would have thought everybody in that area is well aware of that pipeline, and yet you are asking my client to spend over $40,000 for the next five years on community awareness.

MR. COWAN: Well, again, I think that we've got to examine that in light of the reconciliation process.

MR. STOLL: So I am just wondering how to treat this question. Is there an undertaking to try and explain some of these items? Or is it a refusal to provide details of the scope of services under each --

MR. COWAN: I would like to defer to the reconciliation process.

MR. KING: Does your client have a copy of the MIG proposal?

MR. STOLL: We do not.

MR. KING: Why don't we –- I mean if it is a question of the robustness of the services and whether it is some sort of gold-plated -- it is maintenance of their line, right? It is a fully allocated cost to them. We are happy to provide them with the copy of the MIG proposal and sort of take it from there, maybe in the Settlement Agreement.

MR. STOLL: A copy of the proposal would help, and then we can take it up in settlement.

MR. KING: I mean as Mr. Cowan said and Ms. O'Meara said, the line items are MIG's line items, based on us going to them saying: How do you maintain this pipeline?

This pipeline is a steel pipeline, completely separate and apart from the main system. It is not like the pipeline that served Imperial Tobacco, which was a plastic pipeline that fed off, you know, the network system, if you will.

These are what MIG thinks is required to operate and maintain this pipeline. We are happy to share the proposal with IGPC.

MR. MILLAR: Let's give that Undertaking JT1.6, and that is to provide the MIG proposal.

UNDERTAKING NO. JT1.6: TO PROVIDE THE MIG PROPOSAL.

MR. STOLL: All right. We will move on.

This is a follow-up to IGPC IR 48:

"What is the size of the pipeline that was used to serve Imperial Tobacco and what was the maximum contracted demand for Imperial Tobacco?"

MR. COWAN: My understanding is that it was a standard plastic pipeline which was part of the service, and it is to be distinguished -- part of the service given to other rate categories. And it is to be significantly distinguished from this high-pressure pipeline, which is steel and which is a very different animal.

MR. STOLL: Okay. Do you have the knowledge on what size of plastic it was?

MR. COWAN: We do. I don't.

MR. STOLL: I am -- if you could provide an undertaking?

MR. MILLAR: JT1.7, that is to provide the size of the pipeline serving the Imperial facility?

MR. STOLL: Yes. If we could add the maximum contracted demand, exactly as question 16 is worded.

MR. MILLAR: Okay. That is JT1.7, I believe.

MR. STOLL: Yes. I believe that is correct.

UNDERTAKING NO. JT1.7: TO PROVIDE SIZE OF PIPELINE SERVING THE IMPERIAL TOBACCO FACILITY AND MAXIMUM CONTRACTED DEMAND.

MR. MILLAR: Thank you.

MR. STOLL: As a follow-up to No. 72, what was the cost of NRG's last rate case?

MS. O'MEARA: 135,000.

MR. STOLL: Okay. Thank you.

"And what is the basis on which 96 percent of the telephone expenses are designated as administration and general? Please provide support for the use of rate base as the allocation base for this cost, making specific reference to each of the administrative and general functions supported by the telephone services, for instance executive, finance, et cetera."

MS. LITT: The allocation, cost allocation assigns about four percent responsibility for telephones to ancillary services. The difference is functionalized to administration and general. The total administration and general costs are reapportioned across all of the customer classes as rate base.

MR. STOLL: Okay. I understand that is allocated on rate base.

What is the underlying principle for using rate base as the determinant, rather than another allocating factor?

MS. LITT: I can't speak to the legacy cost allocation construct.

On the surface, it appears to be a high-level recognition of what drives the business, being the investments and the assets.

MR. STOLL: I guess I will ask one more and then I will add a supplement question to this. No. 19:

> "Identify what is included in R&M general, which is identified as line 23 in the response to question 72."

MS. LITT: The R&M, meaning repairs and maintenance, and the specific line items should be in, I think, Exhibit G.

Yes. So if you go to Exhibit G3, tab 2, schedule 1, you will see the breakout of the assumed line items.

MR. STOLL: Okay. I guess -- and this is supplemental -- given that you used rate base and you are directly allocating all O&M from the third party to my client, and the station is directly allocated to my client, I guess the question is: Is rate base the appropriate allocator for am R&M line item, for example?

MS. LITT: I think it is a practical allocator.

MR. STOLL: What --

MS. LITT: I have to assume there is a number of ways to functionalize, classify and allocate the costs.

MR. STOLL: Right. There is a bit of a hybrid allocation to the Rate 6, in that there is a significant portion of directly-allocated costs, and then there seems to be a burden of the allocation of, let's say, the general expenses and costs.

So it seems like my client is paying twice for the same level of service in certain instances. That's more of a statement than a question, but I am just trying to make my position clear, why the questions are being asked.

Okay. Moving on, follow-up to IGPC 40, can you provide a copy of the insurance report referred to in the response?

MR. COWAN: We can and we will when we get it. We don't have it yet.

MR. STOLL: Okay.

MR. COWAN: We are disappointed. We thought we were to have it today, but we don't. Holidays seem to interfere with the production of it.

MR. STOLL: Okay.

MR. MILLAR: You would like an undertaking, Mr. Stoll?

MR. STOLL: Yes, I would, please.

MR. MILLAR: JT1.8, and that is to provide a copy of the insurance report?

UNDERTAKING NO. JT1.8: TO PROVIDE COPY OF INSURANCE REPORT.

MR. STOLL: Correct.

The next question:

"Is the business interruption insurance policy written only for IGPC? Or could claims potentially be made on this policy in respect of other consumers of NRG?"

MR. COWAN: We don't have the policy, so I am supposing that it is only IGPC.

MR. STOLL: I would have thought that would have been clear in the request for the insurance coverage.

MR. COWAN: That is what we requested.

MR. STOLL: Okay. Are the umbrella coverages identified solely for the purpose of the IGPC pipeline or can those policies be applied to a situation involving assets serving other consumers?

MR. COWAN: The same answer would apply as to 21. That was our request. We haven't seen the coverage. Haven't seen the policies.

MR. STOLL: Okay.

Moving on, a follow-up to the VECC IR 35 attachment.

NRG has indicated that certain tasks and functions have been assigned to the related company Ayerswood, and can NRG explain the rationale and benefits to its ratepayers from the staffing and allocation of the work proposed?

MS. O'MEARA: The answers to this, to VECC No. 42 in the IRs, might shed some light on this answer. It refers to a number of non-arm's-length companies receive management and general contracting services from Ayerswood. The types of services provided by Ayerswood to these other companies are similar to those provided by NRG. NRG believes the ability to utilize Ayerswood is of tremendous benefit to NRG and its ratepayers. As a practical matter, it would not be beneficial to hire full-time employees with the expertise provided by Ayerswood.

I think Bob referred to it earlier.

MR. STOLL: Okay. So can you point me to the reference of the specific services that Ayerswood provides?

MS. O'MEARA: OEB No. 19 --

MR. STOLL: OEB No. 19, okay.

MS. O'MEARA: -- gives a breakdown of the management fees.

MR. STOLL: Okay. And the services that are provided with those?

MS. O'MEARA: Yes.

MR. STOLL: Okay. The next one, I included a reference to a chart, and can NRG complete the following chart with actual numbers for 2008, 2009, and projected or forecasted numbers for 2011 or 2010, 2011 and 2012?

Would this response be by way of undertaking or...

MS. O'MEARA: The first two, the full-time equivalent employees and salaries and wages, was provided on one of the IR responses for 2008 through to 2011. I will get you that reference.

MS. LITT: Then with respect to the salary and wages allocated to IGPC, only -- that information has been provided with respect to 2011 only.

And I think it is in the response to VECC IR 72 -- pardon me, IGPC IR 72 on the second page.

And then with the consulting and management fees, that is also provided at that response.

And then the third party O&M contractors, those costs were provided in Exhibit G, again, only for 2011.

MS. O'MEARA: The wage and salary was VECC No. 36 and 35. You will find those in those answers.

MR. STOLL: This is one supplemental to this. Are the co-chairs considered employees of NRG?

MR. COWAN: One is an employee, and I am not.

MS. O'MEARA: But for the purposes of the schedule, I did include them.

MR. STOLL: They're both included in the employee count?

MS. O'MEARA: Yes.

MR. STOLL: Okay, that clarifies that.

The final question: Please describe the services for which NRG has budgeted $17,000 in bank charges and how has the assignment of $16,300 of these charges to administrative and general been made.

MS. O'MEARA: With regard to the breakdown, it includes credit card charges, Scotia Direct bank charges, bank charges, payroll charges, MMS service charges.

MR. STOLL: Those are my questions.

MR. MILLAR: Thank you, Mr. Stoll. Mr. Buonaguro?

MR. BUONAGURO: Sorry, I have, like, two or three very minor IRM questions that I forgot to ask. I found them buried in my notes, if I could interject before we move on?

MR. MILLAR: Go ahead.

QUESTIONS BY MR. BUONAGURO (CONTINUED):

MR. BUONAGURO: Thank you. Again, these are all incentive regulation proposal questions.

IGPC No. 74 says that all customer classes will be subject to the 1.5 percent escalation.

Could you confirm whether this means that, for example, rate classes 3, 5 and 6 will have their monthly charges increased each year by 1.5 percent under the proposal? Is that how it works?

MR. TODD: There would be a total increase of that amount, a total bill --

MR. BUONAGURO: Okay.

MR. TODD: -- which presumably would be, but not necessarily -- I mean, the presumption is, although it is not specified in the evidence, that it would be in the -- both the variable and fixed charge.

MR. BUONAGURO: So you can expect, with maybe some variations based on -- well, I don't know. You can tell me what they would be based on, but, generally speaking, the expectation would be 1.5 percent increase in fixed charge, 1.5 percent increase in variable charge, and then there are some things that may change that?

MR. TODD: No. The presumption in the evidence is that it is going to be across the board. Nothing else was considered. That would maintain the fixed variable split through time.

That would mean the average customer is getting 1.5 percent increase. Customers with different volumes would vary slightly from that, but the customer with the average volume through-put would be exactly 1.5 percent.

MR. BUONAGURO: Okay, thank you.

MR. TODD: That would be on a class-by-class basis, when I refer to averages.

MR. BUONAGURO: Okay, thank you. With respect to the earnings sharing, can you verify that actual earnings are used for sharing, for determining whether the earnings sharing mechanism kicks in to provide earnings sharing?

MR. TODD: Well, we would be using regulatory accounting -- regulatory net income.

MR. BUONAGURO: Okay. So, yes, but using regulatory accounting, is that... Like, for example, is it closer to what Union is doing or is it closer to what Enbridge is doing? I think the answer is it is closer to what Union is doing?

MR. TODD: Yes. The basic concept is all based on the Union model. That is considered to be more appropriate.

MR. BUONAGURO: Okay. Then any amounts that are determined to be available for earnings sharing would be applied in the following year's rates?

MR. TODD: Yes. The next -- the timing is set out. As soon as it is available to be reconciled.

MR. BUONAGURO: Would that be applied to both the fixed and volumetric charges? Is there a plan on how the earnings sharing would be distributed between the fixed and variable charges?

MR. TODD: Probably there would be an adjustment to that 1.5 percent overall.

MR. BUONAGURO: Okay. Lastly, with respect to the proposal to provide standard annual reporting, could you provide some specifics to that?

What I have in mind is that we have the two gas standards, Union and Enbridge, in their annual reporting. Are you contemplating a scheme like that in terms of annual reporting, or are there any major differences from what they are providing?

MR. TODD: Part of the objective is to keep things as simple as possible. So it would be basic financial reporting to justify and demonstrate what the earnings are that are to be shared.

MR. BUONAGURO: So perhaps we can do this by way of undertaking. Can you look at what Union, for example, is providing on an annual basis for their IRM, since this IRM is based on their proposal, and tell me in what ways the reporting that you are contemplating for this proposal would be different?

MR. TODD: Yes, that can be done.

MR. BUONAGURO: Thank you.

MR. BUONAGURO: Undertaking?

MR. MILLAR: Yes. I'm sorry. Undertaking JT1.9.

UNDERTAKING NO. JT1.9: TO PROVIDE COMPARISON OF ANNUAL IRM REPORTING TO UNION.

MR. BUONAGURO: Thank you. Those are my questions.

MR. MILLAR: Thank you, Mr. Buonaguro. I think it is just Staff left. We have been going an hour and 15, an hour and 20. Would people like to take a break or should we keep on trucking?

MR. KING: Just to a point we spoke of earlier, Mr. Todd has to leave shortly. So if you have questions that you think are appropriate for him to answer, specifically on the IRM, certainly now is your chance.

MR. MILLAR: I think we are prepared to continue, and we don't have more than, I think, half an hour at the most. So maybe --

Why don't we just proceed? And Mr. Viraney will be asking the questions.

QUESTIONS BY MR. VIRANEY:

MR. VIRANEY: I believe I have forwarded some of the questions. Some of them are new. So I will probably go to the IRM questions first, since Mr. Todd has to leave.

> "In response to Board Staff IR No. 36, NRG has indicated that the 1.5 percent price cap escalator was arrived at through judgment rather than analysis. Why was 1.5 percent considered appropriate as compared to some other number?"

MR. TODD: My apologies. I was taking a note on the undertaking. Can you repeat the question?

MR. VIRANEY: Okay.

> "In response to Board Staff IR No. 36, NRG has indicated that the 1.5 percent price cap

escalator was arrived at through judgment rather
than analysis. Why was 1.5 percent considered
appropriate as compared to some other number?"

MR. TODD: The 1.5 percent was identified as -- in the Board decisions as to what the Board expected as the average rate impact on residential customers of those plans.

It is not based on an analytic item. There is risk to NRG. There is uncertainty around what they would recover. That was an amount which seemed to be consistent with the consumer protection provided in the Enbridge and Union IRM models, and was something which provided, shall I say, a workable cap for NRG.

MR. VIRANEY: So what kind of risks are you talking about for NRG?

MR. TODD: Well, there's uncertainty in terms of their future costs. There is uncertainty in terms of inflation, because it is not -- inflation factor is not included, a formula in that vein. It is a straight cap.

So they are bearing the risks related to actual inflation in the coming years over the term of the IRM. They are bearing the risk around the costs, and for a smaller utility, variances and costs, there is less room, shall we say, to manage costs, in terms of they're sort of lumpy costs. If you reduce an employee, it can be harder to get by with one less employee, shall we say, in a small entity.

So those are the kind of risks that the company is bearing, which are in some way greater than the IRM models of Union and Enbridge.

Yet the 1.5 percent was, as I say, consistent with, I think, the wording in the decisions. It is stated in the evidence but I think the wording was that Board Staff –– or, sorry, the Board expected that the impact on residential customers wouldn't be more than 1.5 percent.

So that was kind of a level of protection that they were providing with those IRM models to the customer.

MR. VIRANEY: So --

MR. TODD: It is an attempt to be consistent.

MR. VIRANEY: Just looking at the IR term, you are proposing a total of around 6 percent-plus increase. So I think the IR term is four years. You have one as the cost of service, and followed by four years IRM?

MR. TODD: Over the term, yes, with -- we had compound effects. There is a small increment there due to compounding.

MR. VIRANEY: Thanks. Those are all of the questions on IRM.

MR. TODD: Okay. I am just looking at Board Staff IR No. 6e. That is page 9:

> "NRG has indicated that communications expenditures in 2010 consist of a new radio hub for Norfolk to reach more well locations. What wells are being referred to here?"

MR. KING: We would have to give an undertaking. That is a question for Mr. Howley, the general manager.

MR. VIRANEY: I will just ask a follow-up question and maybe that can be included as an undertaking. If the reference is to natural gas wells, then it would be like: Why is it included in the regulated business?

MR. MILLAR: We will call that JT1.10, and that is to identify the wells served by the radio hub, and then the follow-up question asked by Mr. Viraney.

MR. KING: Sorry, that is 1.10?

MR. MILLAR: Yes.

UNDERTAKING NO. JT1.10: TO IDENTIFY WELLS SERVED BY RADIO HUB AND EXPLAIN WHY THIS IS INCLUDED IN THE REGULATED BUSINESS.

MR. VIRANEY: Response to Board Staff IR No. 12 provides year-to-date customer additions.

> Comparing the numbers provided in response to IR No. 12 and those provided in C7, tab 2, schedule 2, it seems NRG may exceed customer additions for Rate 1 residential customers in 2010. It also seems that industrial customers have already exceeded the forecasts. Will the 2011 test year customer additions also be adjusted upward to reflect the higher than expected customer additions in 2010, and can NRG please provide us with their best estimate regarding the number of customer additions by rate class for the 2010 bridge year and for the 2011 test year?"

MS. LITT: NRG examined the customer additions.

With respect to the evidence at Exhibit C 7, tab 2, schedule 4, you will see a month-by-month estimate of how many customers are being served.

I would point out that while the number of customers that were expected to be added by the end of September have actually been added by the end of April, that only means that NRG is about -- I think it is 17 ahead of target.

So because it was only about 17, NRG wasn't proposing to amend the forecast at this time.

However, in going through the rest of the customer addition data, one of the things that the company did find was a significant change to the R1 industrial customer account, and that is one that we will have to enter into an undertaking to provide the appropriate impact.

MR. VIRANEY: Thank you.

MR. MILLAR: That will be JT1.11. Sorry, Ms. Litt, that is to provide an update on the customer additions in the industrial class?

MS. LITT: R1 industrial.

MR. MILLAR: Thank you.

UNDERTAKING NO. JT1.11: TO PROVIDE UPDATE ON RATE 1 INDUSTRIAL CLASS CUSTOMER ADDITIONS.

MR. VIRANEY: Board Staff IR No. 14, repair and maintenance expenditures, what does "computer maintenance" refer to?

MS. O'MEARA: I would have to confirm, but I believe that has to do with -- we have an IT consultant that basically maintains the computer system, and they do weekly and monthly checks on our computer server.

MR. VIRANEY: Okay.

So are you going to take an undertaking, or is that your response?

MS. O'MEARA: Yes, I will take an undertaking on that.

MR. MILLAR: JT1.12.

UNDERTAKING NO. JT1.12: TO PROVIDE DETAILS OF "COMPUTER MAINTENANCE" LINE ITEM.

MR. VIRANEY: Board Staff IR No. 15:

"Do you expect that bad debt will increase by 50 percent in 2011 versus 2009 and 2010?"

MS. O'MEARA: Yes, we do.

MR. VIRANEY: Are you attributing this change to the security deposit policy?

MS. O'MEARA: Security deposit, as well as just the economic climate.

MR. VIRANEY: Board Staff IR No. 17, that's proposed advertising expenses for 2011. Can you please respond to the last question of Board Staff IR No. 17, which requests:

"...results from any market research conducted to understand the potential demand, and do you have any information on the level of interest within your franchise area for natural gas vehicles?"

MS. O'MEARA: We have had no formal market research on this project, but we do know of interest within our franchise area. There currently is one very large customer of ours that is looking into seriously putting in a pumping station with regards to natural gas for their trucks.

MR. VIRANEY: So you are mainly looking at commercial customers for the conversion?

MR. COWAN: Yes.

MR. VIRANEY: Is it correct that the natural gas conversion program will cost $15,000 for the year 2011?

MS. O'MEARA: That's what we are budgeting, yes.

MR. VIRANEY: Does this include the conversion advertising referred to on page 24?

MS. O'MEARA: No.

MR. VIRANEY: So --

MS. O'MEARA: We are basically projecting $15,000 in some promotional rebates with regard to this program.

MR. VIRANEY: It would be $15,000 plus the conversion advertising?

MS. O'MEARA: Yes.

MR. VIRANEY: What is the amount of the conversion advertising?

MS. O'MEARA: The "powered by natural gas" on all of our trucks has already been done. The promotional flyers are estimated to be around $7 to $8,000. And ads in newspapers - that is in conjunction with the other ads - will probably run around $15 to $20,000.

MR. VIRANEY: So what is the total amount?

MS. O'MEARA: In total, we have advertising in for $98,000.

MR. VIRANEY: That is all related to conversion?

MS. O'MEARA: No. The ads in newspapers is a total of the ads in newspapers, including other.

So to segregate how much would be done on the conversion, I am not exactly sure how much has been allocated --

MR. VIRANEY: Can you take an undertaking to provide conversion costs -- advertising costs?

MS. O'MEARA: Yes.

MR. MILLAR: JT1.13.

UNDERTAKING NO. JT1.13: TO PROVIDE ADVERTING COSTS

MR. VIRANEY: In response to Board Staff IR 18, NRG has revised the consulting costs from $350,000 to 500,000. Can you please provide a breakdown of the $500,000?

MS. O'MEARA: Yes. I would first like to point out that we were -- when we referred to consulting costs and we came up with the increase, which should have been from $350 to $475,000, that was actually the rate application costs in its totality that we were referring to.

And the incremental increase we anticipate are; Elenchus, an additional 25,000; and Ogilvy Renault, an additional $75,000; and an additional $25,000 for the maintenance of the IRM model, which was a total of the $125,000, which goes back to the increase of $25,000 per year referred to earlier.

MR. VIRANEY: NRG's 2011 insurance costs include the purchase of additional insurance protection. Did you obtain multiple quotes for the premium? If "yes", please provide details; If "no", why not?

MS. O'MEARA: We go through a broker for our insurance. They are the ones that go out and get the quotes.

It is my understanding that our broker had quite a bit of difficulty getting the quotes for the umbrella liability insurance. They ended up going with Totten Group, which is part of Lloyds. I don't think anyone else quoted. Unfortunately, she was away when these questions came in. I expect an e-mail from her today. But in talking to her when she was going through this process, that was my understanding, was she had a difficult time.

Our current existing provider, Aviva, they changed their policy to only do an $8 million umbrella liability as opposed to the $13 million. So we had to get an additional 5 million outside at that time, as well.

So, again, we ended up with the Totten Group, which is part of Lloyds. And I think she did get one more quote but, again, I will clarify. I think it was quite high.

MR. VIRANEY: So is that an undertaking?

MS. O'MEARA: Yes, I can give an undertaking.

MR. MILLAR: JT1.13 -- I'm sorry, 1.14. Just to be clear, what is the undertaking for? Is it just to provide --

MS. O'MEARA: Just to provide insurance quotes, if any.

UNDERTAKING NO. JT1.14: TO PROVIDE SECOND INSURANCE QUOTE, IF RECEIVED.

MR. KING: I think it is to inform the Board whether a second quote was received. We got one quote.

MS. O'MEARA: Oh, yes.

MR. KING: There were no more than two. We are checking to see whether a second quote was received on the insurance.

MR. VIRANEY: Okay. Please recalculate the cost of gas purchased from the affiliate for 2007, 2008 and 2009 using a different publicly available source, such as the Gas Daily.

MR. KING: We don't order -- the Gas Daily is a subscription one. I know the Board subscribes to it. We are happy, if provided with it, to do the calculation, but we couldn't find another publicly available source. I don't know if the Gas Daily is in the library here or how we might access it. But we are happy to do the calculation.

MR. VIRANEY: I believe it is, though I can confirm that with you. Probably I can let you know later.

MR. MILLAR: Why don't we take the undertaking, subject to the availability of the data?

MR. KING: Okay.

MR. MILLAR: That is 1.15.

UNDERTAKING NO. JT1.15: TO PROVIDE RECALCULATION OF COST OF GAS PURCHASED FROM THE AFFILIATE FOR 2007, 2008 AND 2009 USING A DIFFERENT PUBLICLY AVAILABLE SOURCE, SUCH AS THE GAS DAILY.

MR. VIRANEY: In Board Staff IR No. 26, you have not responded fully to 26(b), the last -- NRG to compare the profile of the two utilities that Port Colborne and Eastern Ontario Power with NRG. Can you please respond fully to the question?

MS. LITT: I have to point out that a comparison of some statistics or characterizing parameters can't be understood to be any kind of a substitute for a sound analysis.

What I did was I went to the Board's Statistical Handbook and picked up some information on Eastern Ontario Power and Port Colborne, and I compared it to the similar situation for NRG on a 12-month basis, not for normalizing the reporting period, so that they were the same.

With respect to number of customers, for example, Eastern Ontario Power is about half the size of NRG and Port Colborne is about 25 percent larger.

With respect to the property, plant and equipment portion of the rate base, the two of them are not that dissimilar from NRG. Eastern Ontario Power showed about 10.8 million versus NRG's 9.6. Port Colborne was closer, because it was 9.8 million.

I also compared the distribution revenues. In this metric, the companies were rather different. Eastern Ontario Power is about 40 percent of the distribution revenue of NRG. It is 1.6 million versus NRG's roughly 4 million. And Port Colborne was about 20 percent higher, about 4.8, 4.9 million.

The last metric I looked to was the long-term debt disclosed through the Board's Statistical Handbook. Eastern Ontario Power reported $2.1 million of long-term debt, Port Colborne reported zero, and NRG's was reported at $6.3 million.

So just that high-level comparison of the statistics, as I say, it doesn't substitute for any kind of a sound, objective robust analysis.

MR. VIRANEY: Thank you.

With respect to Board Staff IR No. 27, can you please provide your current actual capital structure?

MS. LITT: So Ms. O'Meara provided me with the Q2 filings that were recently filed with the OEB, and then I wasn't entirely sure which characterization of capital structure that you wanted computed. So I have prepared three different scenarios, the first using the actual results reported, including current liabilities, for example, which is different from rate making convention.

And in that capital structure, the current liabilities came to 17 percent, long-term debt was about 52 percent, equity was about 31 percent.

I then tried to recast the capital structure along the lines of the hypothetical capital structure using the debt equity. And it came up to a 63 percent long-term debt or total debt, and a 37 percent equity.

And then the last way I computed it was to take into account the compensating balance that is held, and when I worked that in, the debt portion of the capital structure was about 54 percent and the equity portion was about 46 percent.

Are any of those scenarios reasonably close to the scenario you had in mind, or is there another scenario?

MR. VIRANEY: Yes. That's fine, because the question asked for gross and net. So net included the compensating balance.

"In Board Staff IR No. 28, questions were asked with respect to the GIC held with the Bank of Nova Scotia. How did NRG come up with the funds for the GIC? Please provide a breakdown."

MS. LITT: I'm sorry, could you repeat the question, please?

MR. VIRANEY: "In Board Staff IR No. 28, questions were asked with respect to the GIC held with the Bank of Nova Scotia. How did NRG come up with the funds for the GIC? Please provide a breakdown."

MS. LITT: I am going on memory that the 2011 assumption was that the GIC would be in the amount that it was held for 2009, when the actual amount was known, as about 2,751,000, I believe. And that was the assumption, that that amount would be held reasonably steady.

MR. VIRANEY: So how did NRG fund that GIC?

MR. COWAN: It was deducted from the advance of funds.

MR. VIRANEY: So in other words, basically you took a loan from the Bank of Nova Scotia for funding the GIC?

MR. COWAN: No. We took -- there was a loan arranged with the Bank of Nova Scotia for the financing of the utility.

They determined that when they advanced that money, one of the items they would do is retain sufficient moneys to invest in a GIC, which they have continued to hold to this day.

MR. VIRANEY: This is just a clarification. I forwarded this question:

"In the agreement between NRG and the Bank of Nova Scotia, please clarify on page 49, 9.2.1d that the CAPEX will not exceed 1.3 million."

It currently reads "1,300."

MS. O'MEARA: It should be "1.3 million."

MR. COWAN: That is a typo.

MR. VIRANEY: The next one:

“Please provide the total wages of Mark Bristoll, including overheads for 2007, 2008 and 2009."

MS. O'MEARA: We referred to this earlier. We just wanted you to clarify what you mend by "overheads". What would be your definition?

MR. VIRANEY: It's fully allocated, so provide the wages on a fully-allocated basis.

MS. O'MEARA: We will take an undertaking to do that.

MR. VIRANEY: Okay.

MR. MILLAR: That's JT1.16. Mr. King, you had mentioned there might be some confidentiality concerns?

UNDERTAKING NO. JT1.16: TO PROVIDE TOTAL WAGES ON A FULLY-ALLOCATED BASIS FOR MARL BRISTOLL.

MR. MILLAR: Do you have anything to add to that? Will you seek to file it in confidence?

MR. KING: Why don't we do this? We will see what we come up with, and we will make a judgment call there as to whether we need to file in confidence, and we will give you a heads-up.

MR. MILLAR: Okay. Thank you. So that was 1.16.

MR. VIRANEY:

"In response to IGPC IR Nos. 42, 43 and 44, NRG has indicated that it has sub-contracted the maintenance of IGPC pipeline to MIG. Did you benchmark the maintenance costs against other similar pipelines in the Enbridge or Union franchise area? On what basis are you comfortable that the pipeline maintenance costs are similar to market prices?"

MS. O'MEARA: No, we didn't do any benchmark. And we are comfortable with the prices simply because MIG was the one that was involved in the pipeline, and we felt they have been a good supplier.

MR. VIRANEY:

"In response to IGPC IR No. 60, NRG has indicated that at the time of the next annual review with the Bank of Nova Scotia, it intends the bank to request the termination of the requirement for a compensating balance in the form of a GIC. Has NRG approached the bank to understand the bank's position on this request? And what is the probability that the bank will not require a compensating balance at the time of the next review?"

MR. COWAN: I will respond to that. There have been discussions with the bank. They have not departed from their position.

MR. VIRANEY:

"The Provincial Government has announced plans to harmonize the provincial retail sales tax with the Goods & Services Tax, effective July 1st, 2010 to create the HST. The effect of this change for businesses will be reduction in OM&A and capital expenditure costs related to the PST. Please confirm whether NRG has made any adjustments to the OM&A and capital expenditures to reflect the elimination of the 8 percent provincial sales tax."

MS. O'MEARA: No, we did not. And the amount that we calculated to be around $7,000 reduction to the expenses, it related to office supplies, office equipment, and repair and maintenance, automotive.

MR. VIRANEY: So are you going to make those adjustments, or...

MS. O'MEARA: Yes.

MR. VIRANEY: Okay. Okay, that is it. I think Lawrie has a couple of questions.

MR. GLUCK: I have a couple of cost allocation questions.

This is a follow-up to Board Staff IR 31.

I am just curious, considering that NRG has proposed a closing of the Rate 2 class, and the proposal could fall in the term of the IR plan, what is NRG's plan for that? Will they need to do a cost-of-service filing?

MS. LITT: To be clear, that treatment of the R2 customer class was provided in response to a Board directive.

If it were the case that it was appropriate to -- if the Board approved that plan and if it were invoked during the period of the IRM, I would have to take an undertaking to tell you clearly the pros and cons of coming back for a rebasing or some alternative treatment.

MR. GLUCK: Okay. We will take an undertaking.

MR. MILLAR: 1.17.

UNDERTAKING NO. JT1.17: TO PROVIDE DETAILS ON REBASING OR ALTERNATIVE TREATMENT OF RATE 2 CUSTOMERS IF PLAN IS APPROVED BY THE BOARD.

MR. GLUCK: The next question is:

"Please confirm which schedule provides the legacy allocation factors used to allocate common cost to Rate 6."

This is a follow-up to Board Staff IR 33.

MS. LITT: It should be at Exhibit G2, tab 1, schedule 1, sheet 3.2.

MR. GLUCK: Okay. And the final question -- I think we have touched on this earlier today, but:

"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 the IGPC, when there are clear differences between the rate classes in terms of number of customers and delivered volumes."

MS. LITT: Which Staff IR was that, please?

MR. GLUCK: This was IR 34.

MS. LITT: Thank you.

In continuing to use that legacy cost allocation, one of the outcomes was no inappropriate shifting in costs to other customer classes.

It was also to recognize that the common costs that were being allocated through the cost allocation weren't that large, and did not appear to merit different treatment.

MR. GLUCK: Okay. Thank you.

MR. VIRANEY: I just have one follow-up question.

I guess you estimated reduction in PST to be $7,000. Does that include OM&A and capital expenditures?

MS. O'MEARA: No. I just did OM&A.

MR. VIRANEY: Can you undertake to do capital expenses as well?

MS. O'MEARA: Yes.

MR. MILLAR: That is JT1.18.

UNDERTAKING NO. JT1.18: TO PROVIDE CAPITAL EXPENSE PST REDUCTION.

MR. MILLAR: Mr. Stoll, did you have any follow-up questions with regard to Mr. Bristoll's salary, or was Mr. Viraney's exchange sufficient for you?

MR. STOLL: The exchange is sufficient. We will see what we get back in the undertaking.

MR. MILLAR: Okay, thank you. Does anyone else have any more questions?

Okay, thank you, everyone. I think that concludes the technical conference.

We have a settlement conference scheduled. I guess we will pick it up in the afternoon. Maybe we will take things offline and discuss how we wish to schedule that.

So thank you very much for your attendance. This has gone very well. Thank you to the court reporter, and this technical conference is adjourned.

--- Whereupon the conference concluded at 11:46 a.m.