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COURIERED & E-FILED VIA RESS

Toronto, August 18, 2010

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

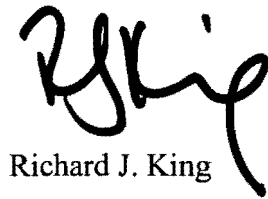
Dear Ms. Walli:

**RE: Natural Resource Gas Limited ("NRG") – Fiscal 2011 Rates Application
Proposed Settlement Agreement (Partial)
Board File No. EB-2010-0018**

We are counsel for the Applicant in respect of the above noted matter. Please find attached a proposed Settlement Agreement concluded between the parties noted therein. Each of the parties to the proposed Settlement Agreement has reviewed and approved the proposed agreement as described therein.

Should you have any questions or concerns, please contact the undersigned.

Yours very truly,



Richard J. King

RK/mnm
Encl.

copy: All Intervenors
K. Viraney (Board Staff)
M. Millar (Board Counsel)
B. Cowan (NRG)
L. O'Meara (NRG)
K. Litt (Elenchus)

SETTLEMENT AGREEMENT

NATURAL RESOURCE GAS LIMITED

**2011 RATES APPLICATION
(EB-2009-0018)**

AUGUST 18, 2010

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PREAMBLE

This Settlement Agreement is filed with the Ontario Energy Board (the "Board") in connection with an application by Natural Resource Gas Limited ("NRG") pursuant to section 36 of the *Ontario Energy Board Act, 1998* for an order or orders approving or fixing just and reasonable rates for the distribution of natural gas (EB-2010-0018).

Pursuant to Procedural Order No. 3 in this proceeding, a Settlement Conference was held on June 14, 15 and 28, 2010 in accordance with the *Ontario Energy Board Rules of Practice and Procedure* (the "Rules") and the Board's *Settlement Conference Guidelines* (the "Settlement Guidelines"). This Settlement Agreement arises from the Settlement Conference and is for the consideration of the Board in its determination of NRG's 2011 natural gas distribution rates.

The Parties

NRG and the following intervenors (collectively the "Participating Intervenors"), as well as Ontario Energy Board staff ("Board Staff"), participated in the Settlement Conference in respect of all issues contained in this proposal:

- Town of Aylmer ("Aylmer")
- Vulnerable Energy Consumers Coalition ("VECC")
- Integrated Grain Processors Cooperative Inc. and IGPC Ethanol Inc. ("IGPC")

NRG and the Participating Intervenors are collectively referred to herein as the "Parties". In accordance with page 5 of the Settlement Guidelines, Board Staff is neither a Party nor a signatory to this Settlement Agreement. Although Board Staff is not a party to this Settlement Agreement, the Board Staff who did participate in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

Further, Union Gas Limited is a registered intervenor in this proceeding, but did not participate in the Settlement Conference and takes no position on any of the issues herein.

These settlement proceedings are subject to the rules relating to confidentiality and privilege contained in the Guidelines. The parties agree that all positions, negotiations and discussions of any kind whatsoever which took place during the Settlement Conference and all documents exchanged during the conference which were prepared to facilitate settlement discussions are strictly confidential and without prejudice, and inadmissible unless relevant to the resolution of any ambiguity that subsequently arises with respect to the interpretation of any provision of this Settlement Agreement.

Summary of the Proposed Settlement

For the purposes of organizing this Settlement Agreement the Parties have followed the Issues List consented to by parties and attached as Appendix B to Procedural Order No. 2 in this proceeding. During the Settlement Conference, the Parties agreed to make one minor change to

the Issues List to remove the year “2009” from item 6 under Issue 2 (Rate Base) such that this item reads as follows:

“6. Are amounts related to the IGPC pipeline added to rate base appropriate?”

The Parties wish to inform the Board that a number of the items in Issue 1 (Administration), Issue 2 (Rate Base), Issue 3 (Operating Revenue), Issue 4 (Cost of Service) and Issue 8 (Rate Design) have been settled in the following manner, and with the specified exceptions:

- Issue 2 (Rate Base): There has been no settlement on Issue 2.6 (appropriateness of amounts related to the IGPC pipeline added to rate base).
- Issue 3 (Operating Revenue): The Parties have reached agreement on all items, subject to NRG making certain changes to its customer addition forecasts (as outlined below).
- Issue 4 (Cost of Service): Issues 4.6, 4.11, 4.12 and 4.13 are unsettled. With respect to Issues 4.2 through 4.5 (inclusive), the Parties have reached agreement on these items subject to NRG making certain changes to its applied-for costs.
- Issue 8 (Rate Design): Generally speaking, the Parties have no disagreement as to rate design issues, but certain issues (notably, Issues 8.1 and 8.5) are contingent on settlement or disposition of the application as a whole.

Prior to the negotiated Settlement Agreement, the claimed net revenue deficiency, after adjustments and corrections made by NRG was \$350,282 (taking into account adjustments made during information request and Technical Conference). As a result of the Settlement Agreement, the new claimed net revenue deficiency is \$163,418. The change in revenue deficiency is shown in the Continuity Schedule attached as Appendix A to this Settlement Agreement. The bill impacts (expressed as a percentage change from NRG’s current rates) associated with the revised revenue deficiency are shown on Appendix B to this Settlement Agreement. The new claimed revenue deficiency (and bill impacts) may be affected by the Board’s determination of the outstanding issues. Additionally, the resolution of unsettled issues by the Board may have an effect on settled issue; by way of example, issue 4.10 indicates that the forecast of income taxes is a fully settled issue, however the Board’s decision on Cost of Capital and other unsettled issues may have an effect on the forecast of income taxes that the parties acknowledge will be accounted for in the final revenue requirement.

Details as to each Issue are set out in this Settlement Agreement. Issue 5 (Cost of Capital), Issue 6 (Rate of Return), Issue 7 (Cost Allocation) and Issue 9 (Incentive Regulation Mechanism) remain unsettled.

Through this Settlement Agreement, NRG agrees to certain changes from its original application for 2011 gas distribution rates filed with the Board and dated February 10, 2010. The most significant matters arising from this Settlement Agreement are as follows:

- Customer Additions: NRG initially forecasted only 1 new R1 industrial customer in the 2010 Bridge Year. To date in the Bridge Year, 13 new R1 industrial customers have been added and an additional four are forecast before October 1, 2010. The Parties have agreed that NRG's 2011 Test Year customer count for the R1 industrial rate class will be adjusted to add an additional 16 new customers (for the entire Test Year). The parties have also agreed on forecasted revenues from these 16 customers based on the average monthly consumption of the 13 customers added thus far during the 2010 Bridge Year, which will reduce the test year revenue deficiency by \$4,195.
- Operations and Maintenance Expenses: NRG initially forecasted its 2011 Operations and Maintenance Expenses at \$2,859,299 (per April 2010 evidence update). The Parties have agreed that NRG's 2011 Operations and Maintenance Expense will be \$2,710,839. This revised figure includes reductions to NRG's Regulatory Costs, Advertising Expenses, Bad Debts and Management Fees that are set out in more detail below. While the reduction was arrived at via discussions regarding individual line items, nothing in this Settlement Agreement prevents NRG from managing its Operations and Maintenance Expenses as it deems appropriate on the basis of the global Operations and Maintenance Expenses amount. This settlement on Operations and Maintenance Expense includes all amounts included by NRG within its 2011 Operations and Maintenance Expenses (at Exhibit D8, Tab 3, Schedule 1) with the exception of expenses related to maintenance of the pipeline to serve IGPC.

The Settlement Agreement describes the agreements reached on the settled issues and identifies the parties who agree, or alternatively who take no position on each issue. The Settlement Agreement provides a direct link between each issue and the supporting evidence in the record to date. In this regard, the parties who agree with the individual settlements are of the view that the evidence provided is sufficient to support the Settlement Agreement in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale, will allow the Board to make findings on the settled issues.

Best efforts have been made to identify all of the evidence that relates to each settled issue. NRG's responses to information requests ("IR") is described by citing the name of the Party and the number of the interrogatory (e.g., Board Staff IR8). The identification and listing of the evidence that relates to each issue is provided to assist the Board, and is not intended to limit any party who wishes to assert that other evidence is relevant to a particular settled issue.

All of the issues contained in this proposal have been settled by the Parties as a package and none of the provisions of these issues are severable. Numerous compromises were made by the Parties with respect to various matters to arrive at this Settlement Agreement. The distinct issues addressed in this proposal are interrelated, and reductions or increases to the agreed-upon amounts may have financial consequences in other areas of this proposal which may be unacceptable to one or more of the Parties. If the Board does not, prior to the commencement of the hearing of the evidence, accept the package in its entirety, then there is no settlement (unless the Parties agree that any portion of the package that the Board does accept may continue as part of a valid Settlement Agreement). None of the Parties can withdraw from this proposal except in

accordance with Rule 32.05 of the Rules. Moreover, the settlement of any particular issue in this proceeding and the positions of the Parties in this Settlement Agreement are without prejudice to the rights of the Parties to raise the same issue and/or to take any position thereon in any other proceeding.

The Parties agree that this Settlement Agreement forms part of the record in EB-2010-0018.

ISSUES

1. Administration

1.1 Has NRG complied with the OEB Directives as noted in NRG's 2007 Decision with Reasons?

Complete Settlement: There is an agreement to settle this issue as follows:

In NRG's last rate proceeding (EB-2005-0544), NRG was directed to: (a) prepare a vehicle fleet policy; and (b) consider developing a contingency plan "to address possible reduction in volumes as well as a potential loss of the entire rate class." NRG established a fleet policy on July 31, 2009, after reviewing the fleet policies of other gas and electric utilities. The fleet policy can be found at Appendix A to Exhibit A1, Tab 4, Schedule 1 of the pre-filed evidence. With respect to a contingency plan to address declining volumes in NRG's Rate 2, NRG has developed a plan to close Rate 2 to new entrants and transfer NRG's Rate 2 customers to Rate 4. Eventually, Rate 2 would be eliminated.

In EB-2008-0106, the Board directed NRG to file a proposal to move to an incremental cost based system gas fee. NRG's evidence at Exhibit A1, Tab 4, Schedule 1 sets out the adjustments made to NRG's fully allocated cost model in order to move to an incremental system gas fee.

For the purpose of obtaining settlement, the Parties agree that NRG has complied with the OEB Directives as noted in EB-2005-0544 and EB-2008-0106.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

A1/4/1 Status Report on OEB Directives (Fleet Policy, p.1 & Appendix A)
A1/4/1 Status Report on OEB Directives (Contingency Plan, p.1 through 5)
A1/4/1 Status Report on OEB Directives (System Gas Fee, p. 5 through 6)
Undertaking No. JT1.17 (Contingency Plan)

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

Complete Settlement: There is an agreement to settle this issue as follows:

In the Board's Decision in EB-2008-0413 (May 5, 2009), NRG was ordered to amend its security deposit policy by July 6, 2009 in accordance with Appendix B to the Board's Decision. NRG made these amendments in June 2009, and incorporated them into section 1.2 of NRG's Natural Gas Service Rules & Regulations, which was filed at Exhibit A1, Tab 5, Schedule 1 of the pre-filed evidence in this proceeding. In response to an information request from Board Staff (Board Staff IR3), a typographical error was discovered. In its response to Board Staff IR3, NRG corrected the typographical error and included the amended page in its response. For the purpose of obtaining settlement, the Parties agree that NRG has amended its security deposit policy in accordance with the Board's direction in EB-2008-0413.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

A1/5/1 Natural Gas Service Rules & Regulations (revised October 1, 2009)
Board Staff IR3

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

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining settlement, the Parties agree to accept NRG's audited financial statements from 2006 to 2009 where applicable. IGPC's acceptance of the audited financial statements is without prejudice to its issue regarding the IGPC pipeline.

Approval:

Parties in Support: NRG, VECC

Parties Taking No Position: IGPC, Aylmer

Evidence: The evidence in relation to this issue includes the following:

A3/1/1 NRG Financial Statements (September 30, 2009)
A3/1/2 NRG Financial Statements (September 30, 2008)
A3/1/3 NRG Financial Statements (September 30, 2007)

A3/1/4 NRG Financial Statements (September 30, 2006)
Board Staff IR7
Aylmer IR1, IR2 and IR5 through 11
VECC IR1 through IR6
IGPC IR1 and IR6 through IR8

2. Rate Base

2.1 Are the amounts proposed for Rate Base in 2010 and 2011 appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

Subject to issue 2.6 below (amounts related to IGPC pipeline added to rate base), for the purpose of obtaining settlement, the Parties agree that the amounts proposed for Rate Base in 2010 and 2011 are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

B1/1/1 Rate Base
VECC IR20 and IR21

2.2 Were the 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?

Complete Settlement: There is an agreement to settle this issue as follows:

Subject to issue 2.6 below (amounts related to IGPC pipeline added to rate base), for the purpose of obtaining settlement, the Parties agree that amounts closed (or proposed to be closed) to Rate Base in 2008 and 2009 were prudently incurred.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

B5/1/1 Summary of Utility Rate Base – 2008 Actual
B5/2/1 Utility Capital Expenditures – 2008 Actual
B5/2/2 Capital Projects – 2008 Actual
B5/2/3 Aggregate Cost/Benefit Ratio – 2008 Actual
B5/2/4 Financial Tests – 2008 Actual
B6/1/1 Summary of Utility Rate Base – 2009 Actual
B6/2/1 Utility Capital Expenditures – 2009 Actual
B6/2/2 Capital Projects – 2009 Actual
B6/2/3 Aggregate Cost/Benefit Ratio – 2009 Actual
B6/2/4 Financial Tests – 2009 Actual
Board Staff IR7
VECC IR7 through IR17

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

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining settlement, the Parties agree that the forecast level of capital spending in 2010 (\$730,840) is appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

B7/1/1 Summary of Utility Rate Base – 2010 Bridge
B7/2/1 Utility Capital Expenditures – 2010 Bridge
B7/2/2 Capital Projects – 2010 Bridge
B7/2/3 Aggregate Cost/Benefit Ratio for Main Additions – 2010 Bridge
B7/2/4 Financial Tests – 2010 Bridge
Board Staff IR6, IR8 and IR9
VECC IR16 through IR18

2.4 Is the forecast level of spending for 2011 appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining settlement, the Parties agree that the forecast level of capital spending in 2011 (\$810,004) is appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

B8/1/1 Summary of Utility Rate Base – 2011 Test
B8/2/1 Utility Capital Expenditures – 2011 Test
B8/2/2 Capital Projects – 2011 Test
B8/2/3 Aggregate Cost/Benefit Ration for Main Additions – 2011 Test
B8/2/4 Financial Tests – 2011 Test
Board Staff IR6 and IR8
VECC IR 19 and 20

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

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining settlement, the Parties agree that the working capital allowance for 2010 (\$294,641) and 2011 (\$224,340) is appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

B7/4/1 Allowance for Working Capital – 2010 Bridge
B7/4/2 Cash Requirements for Working Capital – 2010 Bridge
B8/4/1 Allowance for Working Capital – 2011 Test
B8/4/2 Cash Requirements for Working Capital – 2011 Test
Board Staff IR10

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

Partial Settlement: There is an agreement to settle these two issues as follows:

This issue remains largely unsettled. However, during the Settlement Conference, the Parties agreed to two modifications:

- To amend the wording of this issue (as stated) by removing “2009” such that this issue now reads: “Are amounts related to the IGPC pipeline added to rate base appropriate?”
- The Parties agreed to reduce the pipeline capital costs by \$26,000 to take into account an error in method of calculating interest on management time spent on the pipeline.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

B6/2/1 Utility Capital Expenditures – 2009 Actual
Technical Conference Transcript, p.23, line 9, to p.24, line 19
Board Staff IR11
IGPC IR18 and IR22

3. Operating Revenue

3.1 Is the customer addition forecast for 2010 appropriate?

3.2 Is the customer addition forecast for 2011 appropriate?

Complete Settlement: There is an agreement to settle these two issues as follows:

For the purpose of settlement, the Parties agree that an additional 16 R1 industrial customers will be added to NRG’s R1 industrial rate class forecast for the entire 2011 Test Year. In its application, NRG forecasted only 1 new R1 industrial customer in the Bridge Year. To date in the 2010 Bridge Year, 13 new R1 industrial customers have been added and an additional four are forecast to be added before October 1, 2010. The Parties agree that all other customer additions forecast for 2010 and 2011 are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

C7/2/1 Summary of Gas Sales and Transportation – 2010 Bridge
C7/2/2 Customers by Rate Class – 2010 Bridge
C7/2/4 Monthly Throughput Data – 2010 Bridge Customers, Volumes, Revenues

C7/2/5 Average Gas Consumption per Customer – 2010 Bridge
C8/2/1 Summary of Gas Sales and Transportation – 2011 Test
C8/2/2 Customers by Rate Class – 2011 Test
C8/2/4 Monthly Throughput Data – 2011 Test Customers, Volumes, Revenues
C8/2/5 Average Gas Consumption per Customer – 2011 Test
Board Staff IR12
Undertaking No. JT1.11

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

Complete Settlement: There is an agreement to settle this issue as follows:

Based on the amendments made to the customer additions forecast noted in issues 3.1 and 3.2 above, the Parties have also agreed to amend the forecasted volume throughput for (and forecasted revenues from) these 16 customers based on the average monthly consumption of the 13 customers added thus far during the 2010 Bridge Year. Consequently, the forecasted volumes from the R1 (industrial) rate class is increased by 1,419 m³ each month in the 2011 Test Year. The revenue effect of these customer additions is to reduce the 2011 Test Year revenue deficiency by \$4,195 (before tax).

The volume throughput for IGPC (proposed Rate 6) is based on IGPC's contracted volume.

For the purpose of obtaining settlement, the Parties have agreed that the volume throughput and revenue forecasts for all other rate classes for 2010 and 2011 are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

C1/1/1 Operating Revenue
C1/1/3 Throughput Volume
C7/1/1 Operating Revenue – 2010 Bridge
C7/1/2 Summary of Operating Revenue – 2010 Bridge
C7/1/3 Gross Margin Analysis by Sales Class – 2010 Bridge
C7/2/1 Summary of Gas Sales and Transportation – 2010 Bridge
C7/2/3 Gas Sales and Transportation Volume – 2010 Bridge vs. 2009 Actual
C7/2/4 Monthly Throughput Data – 2010 Bridge Customers, Volumes, Revenues
C7/2/5 Average Gas Consumption per Customer – 2010 Bridge
C8/1/1 Operating Revenue – 2011 Test
C8/1/2 Summary of Operating Revenue – 2011 Test

C8/1/3 Gross Margin Analysis by Sales Class – 2011 Test
C8/2/1 Summary of Gas Sales and Transportation – 2011 Test
C8/2/3 Gas Sales and Transportation Volume – 2011 Test vs. 2010 Bridge
C8/2/4 Monthly Throughput Data – 2011 Test Customers, Volumes, Revenues
C8/2/5 Average Gas Consumption per Customer – 2011 Test
Board Staff IR13
VECC IR22, IR23, and IR30
Undertaking No. JT1.11

3.4 Is the ancillary services revenue and return forecast appropriate for 2010 and 2011?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties agree that the ancillary services revenue and return forecast for 2010 and 2011 is appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

C1/1/5 Rate of Return on Ancillary Services
C7/1/1 Operating Revenue – 2010 Bridge
C7/1/2 Summary of Operating Revenue – 2010 Bridge
C7/3/1 Rate of Return on Ancillary Services – 2010 Bridge
C8/1/1 Operating Revenue – 2011 Test
C8/1/2 Summary of Operating Revenue – 2011 Test
C8/3/1 Rate of Return on Ancillary Services – 2011 Test
VECC IR31 through IR34

3.5 Is the general service and contract forecast appropriate for 2010 and 2011?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties agree that the general service and contract forecast for 2010 and 2011 are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC

Parties Taking No Position: Aylmer

Evidence: The evidence in relation to this issue includes the following:

C1/1/5	Rate of Return on Ancillary Services
C7/1/1	Operating Revenue – 2010 Bridge
C7/1/2	Summary of Operating Revenue – 2010 Bridge
C7/3/1	Rate of Return on Ancillary Services – 2010 Bridge
C8/1/1	Operating Revenue – 2011 Test

4. Cost of Service

As noted above, the Parties have agreed to certain reductions to components of NRG's applied-for 2011 Test Year Operations and Maintenance Expenses (specifically, the NRG's Regulatory Costs, Advertising Expenses, Bad Debts and Management Fees). These specific reductions are discussed in detail below. Notwithstanding these specific reductions, the Parties acknowledge that nothing in this Settlement Agreement prohibits NRG from spending on operations and maintenance as it sees fit during either the 2011 Test Year or over the course of any approved IRM period.

4.1 Is the gas transportation cost forecast for 2010 and 2011 appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties agree that the gas transportation costs forecast for 2010 and 2011 are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC

Parties Taking No Position: Aylmer

Evidence: The evidence in relation to this issue includes the following:

D7/1/1	Cost of Service – 2010 Bridge
D7/1/2	Summary of Cost of Service – 2010 Bridge
D7/2/1	Cost of Gas – 2011 Test
D8/1/1	Cost of Service – 2011 Test
D8/1/2	Summary of Cost of Service – 2011 Test
D8/2/1	Cost of Gas – 2011 Test

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

Partial Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties agree to reduce NRG's Test Year Operations and Maintenance Expense by \$173,460. This reduction results from individual reductions to NRG's forecasted regulatory costs (described in Issue 4.4 below), advertising expenses (described in Issue 4.3 below), management fees (described in Issue 4.5 below), and bad debt expense. With respect to the bad debt expense, the Parties have agreed to reduce the bad debt expense for the 2011 Test Year by \$15,000 (from \$75,000 to \$60,000). There was also a reduction to PST of \$6,960 based on introduction of the harmonized sales tax.

This issue is only partially settled because the Parties have not reached agreement on the IGPC period costs (described in Issue 4.6 below).

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/3/1 Operating and Maintenance Costs
D1/3/3 Advertising Costs
D1/3/4 Management Fee
D1/3/6 Regulatory Costs
D1/3/7 IGPC Period Costs
D8/3/1 Operating and Maintenance Expense – 2011 Test
D8/3/2 Regulatory Expense – 2011 Test
Board Staff IR14, IR15 and IR16
VECC IR35 through IR37

4.3 Is the proposed advertising expense for 2011 appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed to reduce the advertising expense for the 2011 Test Year from \$98,000 to \$56,500. This represents a reduction of \$41,500 which is made up of a \$20,000 general reduction in the advertising expense and an additional \$21,500 of forecasted expenses associated with NRG's proposed natural gas vehicle program.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/3/1 Operating and Maintenance Costs
D1/3/3 Advertising Costs
D8/3/1 Operating and Maintenance Expense – 2011 Test
Board Staff IR17
VECC IR38 and IR39
Undertaking No. JT1.13

4.4 Are the proposed regulatory costs for 2011 appropriate?

Complete (Partial) Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed to reduce the (adjusted) applied-for regulatory costs from \$625,000 to \$450,000. The consequent reduction on an annual basis is \$35,000 (assuming the Board approves a five-year IR Plan).

A component of the regulatory costs included in rates and amortized over five years relate to ongoing administration of the proposed IR Plan. In the event that the Board approves an IR Plan for NRG that has a term shorter than five years, the Parties have agreed that regulatory costs included in rates should be reduced by \$10,800 for each year the IR term is reduced (i.e., complete rejection of an IR Plan would reduce regulatory costs by \$54,000; approval of a three year IR Plan for NRG would reduce regulatory costs by \$21,600).

In the event that the Board does not approve a five-year IR Plan, the parties do not agree on the appropriate amortization period for the regulatory costs. Thus, if the Board approves a five-year IR Plan, then this Issue 4.4 is completely settled. If the Board approves an IR Plan for NRG that is shorter than five years, then the parties agree to have the Board determine the issue as to the appropriate amortization period for the regulatory costs.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/3/1 Operating and Maintenance Costs

D1/3/6 Regulatory Costs
D8/3/1 Operating and Maintenance Expense – 2011 Test
D8/3/2 Regulatory Expense – 2011 Test
Board Staff IR18
IGPC IR24

4.5 Are the management fees proposed for 2011 appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed to reduce the management fees for the 2011 Test Year from \$235,157 to \$220,157.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/3/1 Operating and Maintenance Costs
D1/3/4 Management Fee
D8/3/1 Operating and Maintenance Expense – 2011 Test
Board Staff IR19
VECC IR40 through IR43
Undertaking No. JT1.2

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

This issue remains unsettled.

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

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed that the 20 year depreciation life for the IGPC pipeline is appropriate. The amount of depreciation will be dependant upon the capital cost approved by the Board to be taken into rate base; see Issue 2.6.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/3/7 IGPC Period Costs (see pages 3 through 5)
Board Staff IR21

4.8 Is the depreciation cost for 2010 and 2011 appropriate?

Partial Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed that the depreciation costs (as adjusted at the Technical Conference, as described below) for 2010 and 2011 are appropriate, with the exception of depreciation costs associated with the pipeline serving IGPC (and wholly allocated to IGPC). At the Technical Conference (in response to a question from VECC), NRG discovered a double-counting of the depreciation expense on water heater rentals. As outlined in Undertaking JT1.1, the correction of the double-counting reduced the deficiency in the 2011 Test Year by \$180,012. This correction was filed with the Board on June 17, 2011.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/3/7 IGPC Period Costs (see pages 3 through 5)
D1/4/1 Depreciation
D7/1/1 Cost of Service – 2010 Bridge
D7/4/1 Depreciation Expense – 2010 Bridge
D7/4/2 Summary of Depreciation Expense – 2010 Bridge
D8/1/1 Cost of Service – 2011 Test
D8/4/1 Depreciation Expense – 2011 Test
D8/4/2 Summary of Depreciation Expense – 2011 Test
Technical Conference Transcript (Page 3, line 8 to Page 4, line 14)
Undertaking No. JT1.1

4.9 Are the property and capital tax forecasts for 2010 and 2011 appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed that the property and capital tax forecasts for 2010 and 2011 are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC

Parties Taking No Position: Aylmer

Evidence: The evidence in relation to this issue includes the following:

D1/5/1	Property and Capital Taxes
D7/1/1	Cost of Service – 2010 Bridge
D7/5/1	Property and Capital Taxes – 2010 Bridge
D8/1/1	Cost of Service – 2011 Test
D8/5/1	Property and Capital Taxes – 2011 Test

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

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed that the income tax forecast for 2010 and 2011 are appropriate. A correction to the Capital Cost Allowance was made during the Settlement Conference. The correction (and income tax effect) is shown on the Continuity Schedule attached as Appendix A to this Settlement Agreement.

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

D1/6/1	Income Taxes
D7/1/1	Cost of Service – 2010 Bridge
D7/6/1	Income Taxes Payable – 2010 Bridge
D8/1/1	Cost of Service – 2011 Test
D8/6/1	Income Taxes Payable – 2011 Test

Board Staff IR22
IGPC IR53 and IR54

4.11 Are the proposals for deferral and variance accounts appropriate?

This issue remains unsettled.

4.12 Has NRG complied with the Board's Decision in EB-2005-0544 regarding its purchase of gas from the Affiliate company?

This issue remains unsettled.

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

This issue remains unsettled.

5. Cost of Capital

All cost of capital issues remain unsettled.

6. Rate of Return

The single rate of return issue remains unsettled.

7. Cost Allocation

All cost allocation issues remain unsettled.

8. Rate Design

8.1 Are the rates proposed in Exhibit H3, Tab 1, Schedule 1 appropriate?

Because this Settlement Agreement is not a complete settlement of all issues, this issue remains unsettled.

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

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed that the monthly fixed charges and the monthly customer charges across all rate classes are appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC

Parties Taking No Position: Aylmer

Evidence: The evidence in relation to this issue includes the following:

H1/1/1 Summary of Recommendations & Changes

8.3 Is the proposal to change the system gas fee component of the gas supply charge appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties have agreed that the proposal to change the system gas fee component of the gas supply charge is appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC

Parties Taking No Position: Aylmer

Evidence: The evidence in relation to this issue includes the following:

A1/4/1 Status Report on Ontario Energy Board Directives (pages 5 and 6)

8.4 Is NRG's proposal for Rate 2 Class customers appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

For the purpose of obtaining a settlement, the Parties agree that NRG's proposal for Rate 2 Class customers is appropriate.

Approval:

Parties in Support: NRG, VECC, IGPC

Parties Taking No Position: Aylmer

Evidence: The evidence in relation to this issue includes the following:

A1/4/1 Status Report on Ontario Energy Board Directives (pages 5 and 6)

8.5 Is NRG's proposal to implement a new rate class for IGPC appropriate?

Complete Settlement: There is an agreement to settle this issue as follows:

Subject to Issue 8.1, for the purpose of obtaining a settlement, the Parties have agreed that the proposal to create a new rate class specific to IGPC is appropriate. The obligation to consider an application that would request Board approval for a rate specific to the customer characteristics of IGPC arose contractually in the Gas Delivery Contract between NRG and IGPC (see Part 3, page 3 of Gas Delivery Contract found at IGPC IR#12).

Approval:

Parties in Support: NRG, VECC, IGPC, Aylmer

Parties Taking No Position: —

Evidence: The evidence in relation to this issue includes the following:

IGPC IR#12

9. Incentive Regulation Mechanism

9.1 Is NRG's proposed five year Incentive Regulation ("IR") Plan appropriate?

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

9.3 Is the term of the IR Plan appropriate?

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

9.5 Is NRG's annual rate adjustment mechanism under the IR Plan appropriate?

These issues remains unsettled.

Appendix “A” to Settlement Agreement (EB-2010-0018)
Continuity Schedule

Natural Resource Gas Limited - 2011 Rates
Continuity Schedule

	(1)	(2)	(2) - (1)	(3)	(3) - (2)	(4)	(4) - (3)	
	Per April Update	Per Interrogatories	Change Note 1	Per Settlement & Technical Conference Corrections	Change	Per CCA correction	Change	Comment
Utility Income								
Revenue								
Distribution Revenue	5,480,613	5,480,613	-	5,484,808	4,194	5,484,808	-	Increase to R1 Industrial Customers
Other Operating Revenue (Net)	664,160	671,856	7,696	851,867	180,012	851,867	-	Eliminate error on double counting depreciation
Total Revenue	6,144,773	6,152,469	7,696	6,336,675	184,206	6,336,675	-	
Costs and Expenses								
Gas Transportation Costs	732,331	732,331	-	732,360	30	732,360	-	Effect of additional R1 Industrial Customers
Operation & Maintenance	2,859,299	2,884,299	25,000	2,770,839	(113,460)	2,710,839	(60,000)	\$6,960 HST Impact on OM&A; \$106,500 agreed reduction to OM&A
Depreciation & Amortization	1,206,523	1,184,232	(22,291)	1,182,932	(1,300)	1,182,932	(0)	Effect of reduction to Pipeline of \$26,468 interest
Property & Capital Taxes	400,776	400,776	-	400,776	-	400,776	-	
Total Costs and Expenses	5,198,928	5,201,637	2,709	5,086,907	(114,730)	5,026,907	(60,001)	
Utility Income Before Income Taxes	945,845	950,832	4,987	1,249,767	298,936	1,309,768	60,001	
Income Taxes	50,252	46,428	(3,824)	111,083	64,655	213,787	102,704	CCA Correction - CCA taken twice on Ethanol Pipeline in error
Utility Income	895,593	904,404	8,811	1,138,684	234,281	1,095,981	(42,703)	
Deficiency								
Utility Rate Base	13,618,731	13,821,312	202,581	13,916,015	94,703	13,916,015	-	Change 1 to Working Capital re: Security Deposits
Indicated Rate of Return	6.58%	6.54%		8.20%		7.88%		
Requested/Approved Rate of Return	9.14%	9.08%		9.06%		9.05%		
(Deficiency)/Sufficiency in Return	-2.57%	-2.53%		-0.86%		-1.17%		
Net Revenue (Deficiency)/Sufficiency	(349,612)	(350,282)		(119,319)		(163,418)	(44,099)	
Provision for Income Taxes	(112,805)	(111,100)		(47,163)		(65,620)	(18,457)	
Gross Revenue (Deficiency)/Sufficiency	(462,417)	(461,382)		(166,482)		(229,038)	(62,556)	

Note 1 - changes incorporate the changes noted in the IR Responses ie error in automobiles

Appendix “B” to Settlement Agreement (EB-2010-0018)

Bill Impacts (Distribution)* (% change from EB-2005-0544 rate)	EB-2010-0018 (per original filing)	EB-2010-0018 (per Settlement Agreement)
Rate 1 (Residential)	5.93%	2.66%
Rate 1 (Commercial)	3.15%	-1.60%
Rate 1 (Industrial)	3.96%	-1.78%
Rate 2	0.73%	0.70%
Rate 3	0.35%	0.30%
Rate 4	-0.09%	-0.12%
Rate 5	1.91%	1.86%
Rate 6**	8.70%	10.53%

* Based on average consumptions shown at Exhibit C8, Tab 2, Schedule 5; and leaving the applicable Monthly Fixed Charges and Monthly Customer Charges as proposed by NRG at Exhibit H3, Tab 1, Schedule 1.

** There was no Rate 6 class in EB-2005-0544, so for purposes of this Appendix, the bill impacts are evaluated against Rate 3 (which is the rate that IGPC has been paid since coming into service).