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VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition
EB-2010-0018 Natural Resource Gas Limited – 2011 Gas Rates Application

These are the comments of VECC on the proposed draft rate order.

Rate Base

In its revised application, NRG applied for a 2011 rate base of $13,618,731 (A2/T1/S2U and B8/T1/S1U).

In the Settlement Agreement, as accepted by the Board, subject to adjudicating issues associated with the IGPC pipeline, parties accepted:

- amounts proposed for the 2010 and 2011 rate base (Settlement Agreement, para.2.1, page 6 and B8/T1/S1U),

- the forecast levels of capital spending for 2010 and 2011 as proposed (Settlement Agreement, paras2.3 and 2.4, pages 7 and 8 and B8/T2/S1U), and

- the working capital allowances for 2010 and 2011 – included in the proposed test year rate base referred to above – as proposed. (Settlement Agreement, para.2.5, page 8 and B8/T1/S1U).

In the Board's EB-2010-0018 Decision, issued December 6, 2010, the Board found that the IGPC pipeline should be closed to rate base on August 1, 2008 and not October 1, 2008 as proposed NRG (Decision, pages 4-5).

In VECC's view, the effect of the Board's Decision would lower the rate base as proposed, due to the effect of depreciating the pipeline assets by two months more than proposed in the application. This would, on its own, seem to imply that the overall rate base, of $13,618,731 as accepted in the Settlement Agreement, would be lowered by the Decision's effect, even in the absence of any downward adjustments to the pipeline's approved capital costs.

In the Draft Rate Order materials (DRO) filed December 29, 2010, NRG states that the impact of closing the IGPC pipeline to rate base on August 1, 2008, was to reduce the 2011 rate base by $40,167 (DRO, page 2). Further, the DRO states that the Board's decision lowering the recoverable OM&A costs by $81,632 "leads to a decrease of $2,758 in working cash allowance included in the 2011 rate base." (DRO, page 2)
Again, this would seem to VECC that it would further lower the 2011 rate base.

However, on the second page of Attachment B to the DRO, the rate base appears to have <u>increased</u> to $13,674,994 (DRO, Attachment B).

VECC respectfully requests a full explanation as to how the $13,674,994 figure was derived.

Revenue Sufficiency/Deficiency

On page 3 of the DRO, NRG states that "[c]hanges to the Rate Base and to the Cost of Service result in a revised Gross Revenue <u>Sufficiency</u> of $13,771. Further information is provided at Attachment B." (Emphasis added)

On page 2 of Attachment B, using the aforementioned rate base figure of $13,674,994 (for which VECC seeks explanation above) and the weighted average cost of capital of 8.32% as approved by the Board (Decision, page 31) NRG indicates a required return of $1,137,486. On this same page (and on the preceding page), utility income is stated to be $1,146,310. To VECC, this indicates a net <u>sufficiency</u> of $8,824.

However near the bottom of the second page, NRG claims a Net <u>Deficiency</u> of $8,824 and a Gross <u>Deficiency</u> of $13,771.

VECC would like the information in the preceding three paragraphs clarified and reconciled.

Further on the first page of Attachment D of the DRO, at the bottom of the Table entitled “Revenue Deficiency Recovery by Rate Class 2011 Test Year,” it appears that NRG is claiming a Revenue <u>Deficiency</u> of $108,943. VECC would like this reconciled with the reconciliation requested immediately above.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC