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Toronto, February 9, 2011

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

Dear Ms. Walli:

**RE: Natural Resource Gas Limited ("NRG")  
2011 Rates Application (EB-2010-0018)  
Draft Rate Order**

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This letter responds to the Board's letter of February 4 regarding the "tiering correction" made in the Draft Rate Order. Our interpretation of the Board's letter is that the Board wants clarification that the \$56,000 figure is not an increase to the Board-approved revenue requirement. The \$56,000 figure is the rounded amount noted on Attachment J to my letter of January 18, 2011 providing NRG's responses to comments on the draft Rate Order (rounded from \$55,849).

**Revenue Requirement**

The starting point for understanding the issue is Attachment A to this letter, which calculates the Board-approved revenue requirement for NRG (as a result of the Board Decision in EB-2010-0018). NRG's revenue requirement (leaving aside gas supply and ancillary services) is \$5,543,700. This figure is independent of the "tiering issue". It is based simply on the cost of service and cost of capital that resulted from the Board proceeding.

**Tiering Error**

When NRG's consultants went to prepare the draft Rate Order in December, the rate model generated rates that recovered only \$5,488,000. This is the figure shown in Attachment J of my letter of January 18, 2011 (in the column headed "Revenues @ Proposed Rates Based on Incorrect Tiering"). When NRG investigated, it discovered that the reason for the under-

recovery was that the proposed rates were generated based on incorrect volumes in the different tiers (although the overall volume throughput remained the same). When the volumes in the different tiers were corrected, the model generated rates that provided for recovery of the Board-approved revenue requirement (\$5,543,856; see column headed "Revenues @ Proposed Rates Based on Correct Tiering" on Attachment J of my letter of January 18, 2011). Attachment J is attached to this letter for your convenience.

Thus, in NRG's view, the proposed rates in its draft Rate Order are the rates that permit NRG to recover its cost of service and provide a fair return to the utility. The proposed rates do not increase the amount of the Board-approved revenue requirement.

Yours very truly,



for: Richard King

RK/mnm

c.c. Jack Howley (NRG)  
Laurie O'Meara (Ayerswood)  
Kathi Litt (ERA)  
Heather Adams (Town of Aylmer)  
Phil Tunley (Counsel to Town of Aylmer)  
Paula Zarnett (IGPC)  
Scott Stoll (Counsel to IGPC)  
Patrick McMahon (Union Gas Limited)  
James Wightman (VECC)  
Michael Buonaguro (Counsel to VECC)  
Khalil Viraney (Ontario Energy Board)

## Attachment A

<b>Revenue Requirement from Rates</b>				
Costs	Total	Gas Supply	Ancillary	NRG
Union Transmission	732.40			732.40
OM&A	2,671.00	15.00	309.50	2,346.50
Capitalized Expense	- 41.80			- 41.80
Depreciation	1,174.20		206.10	968.10
Property Tax	400.80		7.60	393.20
Income Tax	253.40	- 1.60	32.40	222.60
ROE	1,141.50	- 7.20	145.80	1,002.90
Total	6,331.50	6.20	701.40	5,623.90
Classification of A&G		1.3		- 1.30
Late Payment Fees	- 52.70		- 4.50	- 48.20
Transfer/Connection Charges	- 30.70			- 30.70
<b>Revenue Requirement from Rates</b>	6,248.10	7.50	696.90	<b>5,543.70</b>

**ATTACHMENT J**  
Adjustment to Volumes

Customer Class	Volume			Revenues \$			Estimated Average Bill Impact \$		
	Incorrect Tiering	Correct Tiering	Change	@ Proposed Rates Based on Correct Tiering	@ Proposed Rates Based on Incorrect Tiering	Change	Average Annual Impact	Average Monthly Impact	Average Monthly Bill
R1-Residential									
Block 1	12,867,716	12,369,780	(497,936)	1,911,490	1,892,564	(18,926)	2.89	0.24	0.61%
Block 2	235,864	733,801	497,936	74,154	69,878	(4,277)	0.65	0.05	0.14%
R1-Commercial									
Block 1	1,888,210	1,760,126	(128,084)	271,990	269,297	(2,693)	0.41	0.03	0.03%
Block 2	2,243,540	2,371,625	128,084	239,665	225,843	(13,822)	2.11	0.18	0.13%
R1-Industrial									
Block 1	153,095	130,968	(22,127)	20,238	20,038	(200)	0.03	-	0.00%
Block 2	444,933	467,060	22,127	47,199	44,477	(2,722)	0.41	0.03	0.02%
R2									
Block 1	104,752	65,779	(38,973)	10,289	7,580	(2,709)	0.41	0.03	0.12%
Block 2	398,107	437,079	38,973	47,651	40,285	(7,366)	1.12	0.09	0.32%
R3									
Total	2,195,299	2,195,299	-	81,907	81,907	-	-	-	0.00%
Firm CD	22,650	21,411	(1,239)	70,352	70,352	-	-	-	0.00%
R4									
Block 1	242,159	228,680	(13,479)	33,575	31,167	(2,408)	0.37	0.03	0.01%
Block 2	212,104	225,582	13,479	23,614	22,888	(726)	0.11	0.01	0.00%
R5									
Delivery	947,162	947,162	-	54,971	54,971	-	-	-	0.00%
R6									
Delivery	33,416,816	33,416,816	-	1,246,781	1,246,781	-	-	-	0.00%
Demand	108,118	108,118	-	238,120	238,120	-	-	-	0.00%
Total	55,480,525	55,479,286	1,239	4,371,997	4,316,148	(55,849)			
Commodity	55,349,757	55,349,757							
Demand	130,768	129,529							
	55,480,525	55,479,286							
Monthly Charge				1,171,859	1,171,859	-			
				5,543,856	5,488,007	(55,849)			