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September 22, 2011

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 (VECC)
EB-2010-0018: Technical Conference

Please find enclosed the technical conference questions of VECC in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

Natural Resource Gas Limited ("NRG") – 2011 Rates Proceeding, Phase II
Board File Number EB-2010-0018

Technical Conference – 26 September 2011

Questions from the Vulnerable Energy Consumers Coalition ("VECC")

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1. **Reference:** VECC IR #2 and Revised Exhibit H1/T1/S2 page 4

   NRG is proposing a "price-cap adjustment using GDP-IPI less 0.72% productivity less stretch factor."

   a) Please provide a table showing actual delivery rates (i.e., not including rate riders or commodity costs) historically for a residential customer for the last 10 years compared to what the rates would have been under NRG's current revised IR plan proposal.
   b) Please confirm that NRG is proposing an overall price cap adjustment of GDP-IPI less 1.12% (i.e., productivity factor of 0.72% and stretch factor of 0.4%).

2. **Reference:** VECC IR #2 and #3

   NRG is proposing an off-ramp should weather normalized ROE lie outside a deadband of 300 bp.

   a) Please confirm that this deadband will be around the Board approved ROE which will be constant throughout the term of the IR plan.
   b) Please confirm that the ROE used to center the deadband for the duration of the plan will be the Board approved rate of 9.85%.
   c) Please provide a table showing, for each year of the last ten years (2001-2010), NRG's Board approved ROE, NRG's actual ROE, and NRG's weather normalized ROE.
   d) Has NRG's weather normalized earnings ever been used before for rate purposes? If so, please elaborate fully.
   e) Has NRG's weather normalization methodology, proposed for off-ramp purposes in this proceeding, ever received regulatory approval? If so, please elaborate.
   f) Please briefly describe the methodology that NRG proposes to weather normalize its earnings.

3. Reference: VECC IR #8

NRG is proposing Z-factors in this phase of the proceeding.

a) Please identify any Z-factors that NRG currently contemplates as being required for the IR plan <u>other than the three examples mentioned</u> in response to the referenced IR.
b) Please elaborate the circumstances under which storm cost recoveries might be a Z-factor.
c) Please explain which facilities are referred to with respect to a "Decommissioning Cost" Z-factor.
d) With respect to a Z-factor associated with "Loss of significant customer load or revenue," (i) please indicate whether the customer load is associated with one large customer and, if so, please identify the customer, and (ii) please identify the plausible causes of a loss of significant revenue.

4. Reference: VECC IR #9 and EB-2010-0018 Decision and Order, December 6, 2010, page 21

NRG is requesting "approval of NRG's proposal to purchase integrity gas from NRG Corp. at the current rate." (IR #9) In its Phase I Decision referenced above, the Board stated the following with respect to system integrity gas:

Gas Contract Price Determination

NRG requires 2.4 million cubic meters of gas annually from NRG Corp. in order to maintain system integrity in the southern part of the distribution system. NRG has proposed to price this gas differently as compared to other gas that it requires. Essentially, NRG has proposed to purchase the integrity gas at a minimum price $8.486 per mcf. Board staff objected to this suggestion and argued for applying market prices to all gas.

The Board considers this to be a unique situation and it is difficult to determine at this point in time whether a cost effective alternative exists. The Board also notes that NRG's proposal of $8.486 per mcf is fairly high considering that current gas prices are under $5.00 per mcf and not expected to fluctuate significantly in the short term. However, considering the unique circumstances of this issue the Board will allow NRG <u>on a temporary basis</u> to pay NRG Corp. a price of $6.80 per mcf or market price, whichever is higher, for gas required to maintain system integrity. (Emphasis added.)

a) Please confirm that "approval of NRG's proposal to purchase integrity gas from NRG Corp. at the current rate" refers to the 'market price with $6.80 per mcf floor' per the Board findings quoted above.

b) Does NRG agree that since the Board's approval for the current pricing scheme was approved "on a temporary basis," that the pricing of system integrity gas is an issue in this proceeding?
c) Please confirm that under the current approval, should the market price of gas fall below $6.80 per mcf, NRG Corp. will receive a premium for its gas as compared to the market price.
d) Please explain why any such premium should accrue to the benefit of NRG Corp. for any gas purchased outside of the November-March heating season.
e) Please provide the number of employees at NRG Corp.

5. Reference: VECC IR #12 (reproduced below in its entirety)

INTERROGATORY #12
Ref.: Section 2.4

a) The study states that NRG Corp has 40 wells in the area that can feed sales quality gas into NRG's distribution system. Are there any non-related gas producers in the area that can feed
sales quality gas into NRG's system? If so, please identify all such producers and explain why
NRG has not explored the alternative of buying system integrity gas from these producers.

b) Has NRG ever purchased gas from an unrelated gas producer either in its service area or able
to supply gas to NRG's distribution system? If so, please provide full details along with the reasons that NRG no longer receives gas from such producers.

RESPONSE
a) and b) It has been several years since NRG purchased gas from an unrelated gas producer. The nonrelated gas producers in NRG's area are unable to guarantee production on a consistent basis. NRG must maintain a consistent flow of gas into its system to meet customer demand and, therefore, it was not considered in NRG's customers' best interest to rely on these companies.

a) Please provide an exhaustive list of all non-related gas producers (i) in NRG's service area and (ii) outside its service area but capable of feeding gas into NRG's distribution system.
b) Please provide a map that <u>identifies</u> all non-related gas producers in NRG's service area and shows their proximities to NRG's distribution system.
c) For each non-related gas producer identified in [art b) above, please explain why it would not be feasible for said producer to supply system integrity gas to NRG.

d) Please provide full details of all attempts that NRG has made in the last five years to seek interest from unrelated gas producers in providing system integrity gas to NRG. If no such efforts were made, please explain why not.
e) Has NRG issued an RFP to potential suppliers for system integrity gas in the last five years? If so, please provide details; if not, why not.
f) Please explain how NRG has determined that "*[t]he nonrelated gas producers in NRG's area are unable to guarantee production on a consistent basis."* Please explain fully all attempts made by NRG to determine this conclusively.
g) Re "*It has been several years since NRG purchased gas from an unrelated gas producer,"* please provide full details as to the last supplier that NRG purchased gas from including the reasons for such purchases and reasons why such purchases were discontinued.

6. Reference: VECC IR #9,
VECC IR #13c),
VECC IR #18,
EB-2010-0018 Decision and Order, December 6, 2010, page 21, and
NRG QRAM Application, Sept. 2011, EB-2011-0301, Schedule 3

a) Please confirm that the gas purchased from "local production A" over the historical period October 2010 to September 2011 on the referenced Schedule 3 refers to gas bought from NRG Corp.
b) Please confirm that the gas referred to in a) refers to system integrity gas.
c) Please confirm that the total volume of gas purchased from "local production A" over the historical period October 2010 to September 2011 on the referenced Schedule 3 was 1,336,888 m^3.
d) Does the fact that 1,336,888 m^3 is just over one half of the 2.4 million cubic meters of gas required by NRG " annually from NRG Corp. in order to maintain system integrity in the southern part of the distribution system" indicate that the October 2010-September 2011 gas year was colder than normal?
e) Please provide the January 2011 heating degree days (HDDs), the January 2010 HDDs, and the January normal HDDs.
f) With respect to Schedule 3, please confirm that the August 2011 and the September 2011 volumes, each 115,000 m^3, were forecasts.
g) With respect to Schedule 3, please explain why significantly more gas was purchased from NRG Corp. in May and July of 2011 than were purchased in the preceding November-March heating season.

7. Reference: VECC IR #21 (reproduced below in its entirety)

INTERROGATORY #21
Are the energy contracts that NRG holds with NRG Corp firm contracts, i.e., does NRG Corp
have to produce at a certain level?

RESPONSE
The contracts provide a firm price (fixed on an annual basis), but the quantity of gas required is
determined by Natural Resource Gas Limited.

a) Since there are no volumes specified in its arrangements with NRG Corp., how does NRG reconcile this with the response to VECC IR #12 (i.e., "*The nonrelated gas producers in NRG's area are unable to guarantee production on a consistent basis.)*?

8. How does NRG determine the quantity it needs each month? How does it inform NRG Corp. of the quantity that the utility needs?