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Dec 20, 2011

CONFIDENTIAL to:
SECRETARY and OEB MEMBERS

Ms Kirstin Walli, Secretary
Ontario Energy Board
2300 Yonge St, Box 2319
Toronto, ON M4P 1E4

Dear Ms Walli:

Re: Transcript of Nov 30/2011 Hearing EB-2010-0018 of NRG "Ltd" and "Corp"

We have operated a modest size natural gas development in Norfolk County, Ontario, for the past forty-seven years. We service some 85 gas wells and provide gas (via a unique contract with Union Gas) to over 90 rural Field Line Customers within our gathering system. These ratepayers vary from commercial greenhouses and multiple kiln tobacco farmers to residential homes. (We supplied over 30 million cubic feet of gas this season to tobacco farmers alone in our system.) Except for volume, there are close physical similarities between our operations in Norfolk and NRG's operations in Elgin County.

NRG Ltd alleges that in a simulated "worst case scenario" circumstance, they might experience lower than acceptable gas pressures in their smaller diameter pipelines within their franchise area south of Aylmer and this may jeopardize consistent service to some of these customers. They also claim that the various Union Gas stations that deliver into NRG's system can not address the perceived shortfall because they would not be capable of delivering high enough volumes at the lower pressures of NRG's pipelines in the area of concern (pgs 89 & 90). Although the simulated "system integrity" hypothesis may be somewhat suspect as presented (at minus 28 degrees C), let us examine the alternative remedial proposals submitted by the applicants:

NRG/Ltd/Corp have suggested constructing a new high pressure pipeline from Union Gas that would deliver adequate volumes into a central station, just east of Aylmer (Summers Corner). The construction costs of the alternate routes vary from a low of \$7.6 million to a high of \$22.9 million. This proposal is just an absurd smoke-screen designed to obtain leverage in support of the second proposal.

The second, most advocated alternative proposal by the applicants is for "Corp" to drill more strategically located gas wells, primarily to supplement volumes in the area of concern. Mr. Tony Graat, executive of both NRG firms, declares, "We can put a big program into play. We got 12 wells on the books right now - locations that we could drill" (pg 67). (Interestingly, no specific locations for the proposed new well sites were shown on any maps submitted to these proceedings.)

Although abundant new sources of shale gas threaten to glut the North American market for some time and the Ontario price for indigenous gas is currently fetching less than \$3.50 per Mmbtu, Mr. Graat and "Corp" are still demanding a <u>minimum</u>, long term price of \$8.48 for <u>all</u> of their gas, ("old" and "new" pg 130 & 131). Approving such a "windfall price" for "Corp" and further authorizing "Ltd" to double dip an additional price imposed for "cost of services" distribution would be like - shipping the "Trojan Horse" into the NRG franchise area at the peril of the sleeping rate payers – and everyone else.

Now let us consider a couple of plausible, cost efficient approaches to permanently address the suspected vulnerability of NRG's "system integrity" that was not proposed by the applicants:

Loop the existing two inch pipeline with a new three inch* line, tied into NRG's existing three inch line on John Wise Line (Road), for a distance of approximately two miles** between Imperial Road and Springfield Road through the hamlet of Luten. In any event, if NRG does not upgrade their smaller diameter pipelines south of Aylmer, their proposed, grandiose new multi million dollar pipeline scheme (to Summers Corner) will not necessarily address the suspected vulnerability of their "system integrity" (pgs 89 & 90). This relatively minor amount of pipelining would price out at a whole lot less than the cost of drilling and equipping even one new gas well. (We recently replaced a three inch line (DR-11) along a whole concession length in Norfolk and also completed drilling and tying in three new wells, so we can provide you with current costs of both items if requested.)

The verifiable fact is that there are at least four independent producers within NRG's franchise area that are capable of delivering significant, reliable, sustainable volumes of gas into NRG's pipelines. The contracted volumes could be varied monthly on demand by the purchaser (NRG). The commodity pricing could be at the prevailing Union Gas price for indigenous production – or via an M-13 "trade-out" at Dawn, in which case NRG would further save the transportation costs from Trans-Canada Pipelines.

Mr. Graat states that he does not even want to talk nor negotiate or cooperate with independent producers (pg 56). He has made several statements about Metalore's operations with NRG that are simply not true. We delivered dependable volumes of gas that were nominated monthly by NRG. There was no mechanical, quality or volume discrepancies of any king for over 5 years. Then NRG commenced a well drilling campaign of their own and simply shut down our delivery station – with **no** notice. After many fruitless efforts by us to resume production this operation is still shut down.

Mr. Graat continues an aggressive campaign to acquire drilling rights throughout the franchise area and he states, "We've got thousands of acres in the past year... because there's a few people have gone out of business" (pg 58). By refusing to accept gas from local producers, NRG can gradually choke off their development (and revenue stream) until they ultimately "freeze" them out of business. (Incidentally, the operations of both independents referred to in the transcript, that went into receivership last year [Echo and Greentree] are still producing under new sponsorship within NRG's franchise area.)

Mr. Graat has repeatedly threatened to "lock in the wells" (pgs 19, 24, 35, 37, 113 etc) unless he gets his ultra-high prices. If anybody will stand up and call his bluff, he'll quickly run with the $3.00 or even less (pg 133) – and it won't take two weeks or more per well to turn them on (pg 20) either!

NRG's Application is a classic Tony Graat enigma for the OEB to grapple with. We would welcome the opportunity to further assist the Board with this matter.

Respectfully submitted,

GWChilian

George W Chilian, Manager,
Metalore Resources Limited

* A three inch line will transport nearly three times the volume of a two inch line at the same pressure.

** None of Mr. Chan's schematic maps included a mileage or kilometer scale.