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



Barristers & Solicitors / Patent & Trade-mark Agents

Norton Rose Canada LLP
Royal Bank Plaza, South Tower, Suite 3800
200 Bay Street, P.O. Box 84
Toronto, Ontario M5J 2Z4 CANADA

F: +1 416.216.3930
nortonrose.com

On January 1, 2012, Macleod Dixon joined
Norton Rose OR to create Norton Rose Canada.

Your reference
EB-2010-0018

Direct line
+1 (416) 216-2311

Our reference
01012724-0011

Email
richard.king@nortonrose.com

Dear Ms. Walli:

**Natural Resource Gas Limited – 2012 Rate Application (EB-2010-0018)
Phase 2 Decision – System Integrity Gas Study**

We are counsel to Natural Resource Gas Limited (“NRG”) in the above-noted proceeding. This letter is written in response to the Board’s direction in the above-noted Decision to form a steering committee comprised of Board staff, intervenors and NRG (the “Steering Committee”) to coordinate an independent study related to system integrity gas.

NRG is concerned about the ongoing costs associated with studying the system integrity issue. As the Board knows, NRG’s view is that the incurring of such costs is not in the best interests of ratepayers. NRG is not a large natural gas utility and the time and resources spent on this issue have already been significant. To this end, NRG is endeavouring to keep costs to a minimum, and makes the following comments and/or suggestions for that purpose.

Based on NRG’s reading of the Decision, the Board is seeking an independent study to provide the following:

- (1) a firm conclusion as to the amount of system integrity gas that NRG may require under different scenarios (including, but not limited to, a single design day);
- (2) an analysis as to whether a competitive market for natural gas can exist within NRG’s franchise area and if so, the mechanics of establishing such a market; and,
- (3) a conclusion as to whether Union Gas’ system could provide a cost-effective solution.

The Board indicates that this study should be procured by way of a request for proposals (“RFP”) and terms of reference that are drafted by the Steering Committee. NRG notes that items (1) and (3) above are essentially an extension of the work completed by Mr. Anthony Chan of Aecon Utility Engineering, who was selected via an RFP process that included the Board approving terms of reference for a system integrity study. NRG proposes that Mr. Chan be provided terms of reference to carry out items (1) and (3) above, for the following reasons:

- a substantial amount of time and cost has already gone into studying the system integrity issue;
- the cost of this new independent study is to be borne by ratepayers; and,

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- the system integrity issue is not a material financial cost (the delta between purchasing 1 million versus 2.4 million cubic metres at \$8.48 instead of the current Ontario landed reference price is approximately \$166,000 annually).

In essence, NRG is of the view that undertaking the work in items (1) and (3) in this manner is the most cost-efficient for ratepayers, can be carried out in the most expedient manner, and makes use of independent expertise that is already educated on the issue. NRG is also of the view that there is little further work to be done in respect of item (3), given Mr. Chan's view at the Phase 2 oral hearing that the system integrity issue could not be "solved" by pushing more gas through the existing Union Gas stations because the issue was moving gas internally within NRG's system.

With respect to item (2), NRG is of the view that the determination of whether a "competitive market" can exist within NRG's franchise area is not driven by engineering so much as it is economics. As noted at the oral hearing for Phase 2, there are many wells and potential wells in NRG's franchise area, but the question is whether there are reliable suppliers who can meet NRG's needs. In NRG's view, establishing an entity as a reliable supplier is crucial to ensuring that a supplier does not discontinue the supply of gas for any reason, thereby leaving NRG customers without gas and NRG without alternative supply. In order to do this it would mean any potential supplier, at a minimum would have to:

- pay for pipeline costs to connect to NRG's system (in the same way that NRG Corp. does, and along the same connection rules as for electricity generator connections to the distribution system);
- be determined to be reliable and commit to supplying gas on a continual (i.e., firm) or demand basis;
- supply gas to certain specific areas in the region to service the required areas;;
- agree to a mechanism (beyond a contractual promise enforceable via civil suit for non-performance) to ensure supply (e.g., financial security such as a letter of credit would have to be substantial in order to ensure continual supply of gas over term of contract);
- commit to a contract term of a minimum 5 years, which may involve an active exploration and development program in order to ensure reliability of gas supply over this period; and
- commit to a certain annual volume.

Although the list is extensive, NRG believes these criteria are necessary in order to meet the standards of reliability and consistency of supply.

How to determine if a competitive market exists is very unclear. The most cost effective approach NRG would recommend is an RFQ based on the above criteria.

It continues to be NRG's position that there are no supply candidates for which there would be no risk to NRG, because no amount of money could compensate NRG for any material disruption to gas supply to its customers. The reason why NRG Corp. is the optimal choice is because it has an indirect stake in NRG which no other candidate will have, and further, NRG Corp. has proven to be a reliable supplier for the past 20 years and have supplied NRG's system gas customers during most of that time with lower-cost gas than gas from NRG's other suppliers.

NRG is proposing these approaches in order to ensure that the work and costs associated with the independent study is cost-effective for ratepayers, and to ensure that money already spent on the issue is well-utilized. The

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system integrity issue is a dynamic issue (with customers being added to NRG's system, weather and usage patterns changing, etc.), which could lead to constant studying of the issue. NRG is seeking to ensure that the time and costs to study the issue do not outweigh any potential benefits to NRG's ratepayers.

Yours very truly,

A handwritten signature in black ink, appearing to be 'RK' followed by a stylized flourish.

Richard King

RK/mnm

Copy to: B. Cowan (NRG)
L. O'Meara (NRG)
All Intervenors in EB-2010-0018
K. Viraney (OEB)
M. Millar (OEB)