



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Natural Resource Gas Limited

2012 IRM

EB-2012-0342

November 28, 2012

Introduction

Natural Resource Gas (“NRG”) filed an Application on August 7, 2012 with the Ontario Energy Board (the “Board”) under section 36 of the *Ontario Energy Board Act, 1998*, S.O. c.15, Sched. B, as amended, for an order of the Board approving or fixing rates for the distribution, transmission and storage of natural gas, effective October 1, 2012. The Board assigned file number EB-2012-0342 to the Application and issued a Notice of Application on September 12, 2012.

The Board issued Procedural Order No. 1 on October 12, 2012 in which it granted intervenor status to Union Gas Limited (“Union”) and the Vulnerable Energy Consumers Coalition (“VECC”), and observer status to Enbridge Gas Distribution Inc. (“Enbridge”).

Board staff and VECC filed interrogatories on October 22, 2012 and NRG responded to the interrogatories on November 5, 2012.

In Procedural Order No. 2 dated November 15, 2012, the Board established a date for the filing of submissions and reply submissions.

Board Staff Submission:

On May 6, 2011, NRG filed a revised Incentive Rate Mechanism (“IRM”) plan that was modeled along the Board’s 3rd Generation Incentive Rate Mechanism for electricity distributors in Ontario (Board file No. EB-2010-0018 Phase 2). In the Settlement Agreement filed on November 11, 2011 the parties agreed that NRG’s distribution rates in each NRG fiscal year of the period October 1, 2011 through September 30, 2014 would be adjusted by the formula set out below:

$$PCA = I - X + S$$

Through the current application, NRG is also seeking a \$1 increase to its fixed customer charge in this application. NRG does not have prior approval of the Board for this fixed charge increase as stated in response #1 to Board staff's interrogatory.

NRG stated that as per Settlement Agreement item 8.2 of the Cost of Service proceeding (EB-2010-0018), NRG had complete settlement on section H1/1/1 of the pre-filed evidence which stated:

NRG is proposing to increase the monthly fixed charge from \$11.50 per month for Rate 1 customers to \$13.50. The monthly fixed charge for Rate 2 and Rate 4 customers are proposed to increase from \$12.75 to \$15.00. The monthly customer charge for Rate 3 and Rate 5 customers remain at \$150.00. The proposed monthly charge for Rate 6 customers will be set at the same level as is the fixed monthly charge for Rate 3. These changes reflect a movement to recover a higher proportion of fixed costs through fixed charges.

NRG interprets this as approval to continue to adjust its current fixed charges as part of its IRM application.

The Board approved NRG's proposal to increase the fixed charge in EB-2010-0018 for rates effective October 1, 2010. However, further increases to the fixed charge under an IRM regime were not approved by the Board.

In the Settlement Agreement of Phase 2 of EB-2010-0018, NRG made no indication of a fixed charge increase, nor was it agreed upon by the parties, and without a definitive approval, Board staff submits that NRG's proposal to increase the fixed charge should be rejected. An increase in the fixed charge will result in larger percentage increases for residential customers than for commercial/industrial customers that have higher consumption. Furthermore, an average residential customer of NRG that is estimated to use 2002 cubic meters annually would experience an increase of 1.1% which is higher than the IRM price cap adjustment of 0.78%. Since NRG's Rate 1 includes

commercial and industrial customers in addition to residential customers, the impact of NRG's proposal would be a higher percentage increase for residential customers and a lower percentage increase for commercial and industrial customers. Board staff submits that the current proposal of NRG results in a disproportionate impact between residential and commercial/industrial customers.

NRG has proposed an increase of \$1.00 to the fixed charge for the Rate 1 class, from \$13.50 to \$14.50. This represents a 7.4% increase. This will result in a significant change in cost allocation between residential and commercial/industry customers. Board staff submits that NRG has provided insufficient evidence to support the need for this adjustment; and furthermore, an adjustment of this nature should normally be undertaken as part of a cost of service application, not within an IRM application. Board staff submits that NRG should be permitted to increase both the fixed and volumetric charges by 0.78%.

- All of which is respectfully submitted -