



Natural Gas Resource Limited
39 Beech Street East
Aylmer, ON
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November 30, 2012

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: 2012 IRM Application EB-2012-0342

Dear Ms. Walli:

Natural Gas Resource Limited ("NRG") hereby files its response to Board staff and VECC's submission with respect to its 2012 IRM application for rates effective October 1, 2012.

This document is being filed pursuant to the Board's e-Filing Services.

Yours Truly,

Laurie O'Meara

Laurie O'Meara
Controller



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Reply Submission

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.

On November 28, 2012 Board staff and VECC filed their submission with respect to NRG's application.

Both Board staff and VECC raised concern about NRG's proposal seeking a \$1 increase to its fixed customer charge in this application to the Rate 1 class. Board staff and VECC submitted that NRG does not have prior approval of the Board for this fixed charge increase as stated in response #1 to Board staff's interrogatory. Board staff and VECC submitted that an increase in the fixed charge will result in larger percentage increases for residential customers than for commercial/industrial customers that have higher consumption. Board staff further submitted



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1 that this will result in a significant change in cost allocation between residential and
2 commercial/industry customers. VECC further submitted that low volume residential customers
3 will encounter increasingly detrimental delivery bill impacts and that the proposed adjustment
4 acts as a disincentive to conservation.

5
6 Board staff concludes by submitting that NRG has provided insufficient evidence to support the
7 need for this adjustment; and furthermore, an adjustment of this nature should normally be
8 undertaken as part of a cost of service application, not within an IRM application.”

9
10 NRG respectfully disagrees with Board staff's and VECC's submissions on this issue, for the
11 reasons set out below.

12 ***Prior approval to make change***

13 Board staff submits that NRG stated it did not have prior approval to make the fixed charge
14 increase as stated in response #1 to Board staff's interrogatory. NRG stated that there was
15 no definitive proposal in the settlement agreement; however the settlement agreement did not
16 definitely deny movement in the fixed charge. As discussed in the response # 2a) to VECC's
17 interrogatory NRG discussed this issue in further detail. NRG response related the proposed
18 changes to be consistent with those reflected in Union and Enbridge fixed charges which are
19 currently at \$21.00 and \$20.00 per month respectively compared to the \$13.50 per month for
20 NRG.

21
22 NRG notes that it originally proposed increases in fixed monthly charges as outlined on page
23 800 of its original application and evidence NRG_Gas Rates_APPL_20100401 EB-2010-0018
24 filed Thursday, April 01, 2010, consistent with Union and Enbridge proposals:

25
26 Furthermore, consistent with the Union and Enbridge agreements, it would be
27 appropriate for NRG to obtain OEB approval for any charges that are introduced for new
28 services. In addition, it would be consistent for modest rate design changes to be



1 permitted, such as the proposed increases to the fixed monthly charge that are similar to
2 the increases implemented by Union and Enbridge, provided that there is no impact on
3 the forecast revenue as a result of the rate design adjustments.

4
5 Per settlement agreement item 8.2, NRG had complete settlement on section H1/1/1 of the
6 application. That section included the statement which indicates that NRG had initiated a
7 movement to recover a higher proportion of fixed costs through fixed charges. NRG interprets
8 that as an acceptance of NRG's proposed modest "movement" to adjust fixed charges
9 consistent with its original proposal.

11 ***Rate 1 Customer Impact***

12 Board staff submitted that an increase in the fixed charge will result in larger percentage
13 increases for residential customers than for commercial/industrial customers that have higher
14 consumption. Board staff noted that since NRG's Rate 1 includes commercial and industrial
15 customers in addition to residential customers, the impact of NRG's proposal would be a higher
16 percentage increase for residential customers and a lower percentage increase for commercial
17 and industrial customers. Board staff submitted that the current proposal of NRG results in a
18 disproportionate impact between residential and commercial/industrial customers.

19
20 NRG appreciates Board staff's concern here. As noted in the reply response # 2b) to VECC's
21 interrogatory NRG is aware that optically the proposed fixed price adjustments will cause some
22 asymmetry in the typical customer's bill impact. NRG notes that any change in the fixed/variable
23 split will have different impacts on customers within a class. Since the rate 1 class includes
24 residential, commercial and industrial customers and they have different average consumption,
25 it is unavoidable that the proposed rate changes will impact the different types of Rate 1
26 customers slightly differently.



NRG does not accept the suggestion that the proposed adjustments will create a disproportionate impact between residential and commercial/industrial customers. First, the adjustment is revenue neutral in its entirety when applied to this rate class as whole. Second, it is clear that adjusting the fixed charge so that it more closely matches the customer-related costs that are allocated to the Rate1 class by NRG's cost allocation model, the "within class" cross-subsidization from large volume customers to small volume customers is reduced. Hence the proposed change in the fixed charge will reduce, not increase, the cross subsidies within the Rate 1 class.

NRG also notes that the proposed impact on the typical residential customer is less than \$2.00 per year.

Conclusion

NRG would submit that it believes the proposal to change the fixed monthly charges is within the scope of the settlement agreement item 8.2. In its original application NRG stated that it intended to increase the fixed monthly charge to be consistent with similar movements by Enbridge and Union Gas. NRG notes that the changes made are revenue neutral to all affected rate classes within the confines of the 0.78% increase proposed.

Shared Tax Savings and Regulatory Costs

VECC also made submission with respect to the impact of IRM escalation with respect to shared tax savings and regulatory costs embedded in rates. VECC concurred with NRG with respect to the materiality of the IRM adjustment on the shared tax savings.

However VECC was notably concerned with respect to the application of the IRM escalation on the \$68,400 additional regulatory cost recovery. NRG can agree with VECC that the IRM escalation does inflate the collection amount over the three year time period in kind with the



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1 case of shared tax savings. However NRG would suggest that the potential inflation
2 compounded over the three potential years in total would be less than \$1,000, being an
3 immaterial amount when spread over all the rate classes. NRG would further note that it is not
4 aware that VECC or any other party in the Phase 2 proceeding questioned the proposal when
5 offered and subsequently approved by the Board. Therefore NRG proposes that no further
6 action be considered with respect to VECC's concern.

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8
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10 - All of which is respectfully submitted -