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October 28, 2013

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Our Matter Number: 1144223

SENT BY COURIER, RESS and ELECTRONIC MAIL

Ms. Kirsten Walli BoardSec@ontarioenergyboard.ca
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Natural Resource Gas Limited
Interrogatory Responses (Round 2) per Procedural Order No. 5 (October 11, 2013)
OEB File Nos. EB-2012-0406/EB-2013-0081

Further to the Board's decision in Procedural Order No. 5 (October 11, 2013) providing for a second round of written interrogatories, please find enclosed Natural Resource Gas Limited ("NRG")'s Responses to the Board Staff Interrogatories (October 18, 2013) and the Interrogatories of Integrated Grain Processors Co-operative Inc. ("IGPC") (October 21, 2013).

We have answered Interrogatory No. 3 to the best of our ability in the brief time permitted. We are continuing to check our answers and will advise the Board in the next day or two whether there are any changes to the responses to these questions.

Yours very truly,

Richard J. King
RK:pgw

Enclosures (2)

c: All Parties to EB-2012-0406/EB-2013-0081
T. Graat and L. O'Meara (NRG)
L. Thacker (Co-counsel to NRG)
P. Welsh (Osler)

National Resource Gas Limited ("NRG")
Responses to Interrogatories from Board Staff

INTERROGATORY RESPONSE NO. 1

Reference:

IGPC Interrogatory #5

Question:

In response to IGPC interrogatory #5, NRG has provided a detailed schedule of the costs of the pipeline. The amount that is under dispute between NRG and IGPC totals $877,938 as per this schedule. Please confirm whether the disputed amount has been paid by IGPC to NRG. If not, please provide the portion of the amount that has been paid by IGPC.

RESPONSE

NRG confirms this.

INTERROGATORY RESPONSE NO. 2

Reference:

IGPC Interrogatory #13, Undertaking Response J1.5, EB-2010-0018

Question:

In the above Undertaking response, NRG has noted the methodology to calculate project interest during construction. NRG has described the methodology as, "Interest is calculated from the date the last Aid-to-Construct payment was due to the date the final invoice from the primary contract was received". Please explain how interest was calculated using the above methodology. Please provide an example.

RESPONSE

Please see attached example, which also explains the methodology for the calculation.

NATURAL RESOURCE GAS LIMITED
Interest Calculation Example

	Date	Total Amount	Days	Aid-to-Construct Payment	Net Cumulative Total	Interest Rate	Interest	Cumulative Interest
Invoice 1	30-Jun-13	1,000.00	0	-	1,000.00	8.00%	2.85	2.85
Invoice 2	13-Jul-13	1,000.00	13	1,000.00	1,000.00	8.00%	4.18	7.03
Invoice 3	1-Aug-13	1,000.00	19	-	2,000.00	8.00%	6.16	13.18
	15-Aug-13		14				-	13.18

Calculates from first invoice date to second invoice date

So 13 days from June 30 to July 13; 19 days from July 13 to Aug 1 and so on

Takes the cumulative balance (which already takes into account any aid to construct payment + interest x number of days x interest rate divided by 365 days

So invoice 1 = $1,000 x 13 days x 8%/365 = $2.85
invoice 2 = ($1,000 + $2.85) x 19 days x 8%/365 = $4.18

INTERROGATORY RESPONSE NO. 3

Reference:

IGPC Interrogatory #13, IGPC Project Interest Summary

Question:

Please provide the total amount and the number of invoices that NRG sent to IGPC at or after the payment due date.

RESPONSE

We do not believe that we have this information. These invoices were sent years ago and while we have the invoices we do not have a record of the dates that each was sent.

INTERROGATORY RESPONSE NO. 4

Reference:

NRG Evidence, page 13, June 3, 2013

Question:

Please provide the number of hours spent by Mr. Bristoll on IGPC related activities in 2006.

RESPONSE

Month in 2006	Hours
June	14
July	1.6
August	13.6
September	64.45
October	24.3
November	32.45
December	90.75

National Resource Gas Limited ("NRG")
Responses to Interrogatories from IGPC

INTERROGATORY RESPONSE NO. 1

Reference:

IGPC Interrogatory #1

Question:

Issue # 1:

Is an Order of the Board requiring NRG to provide gas distribution services and gas sales to IGPC to meet its facility expansion and upgrading plans necessary and appropriate?

1. Will NRG be invoicing IGPC for any of the time expended by NRG's senior management in respect of IGPC's request for Additional Services? If NRG intends to charge IGPC for any such time, please respond to the following questions:

    (a) Please identify those persons or positions at NRG who will respond to IGPC's requests for Additional Services.

    (b) For each person or position who may be involved in the provision of such Additional Services, what is the hourly rate(s) (including all overhead NRG proposes to allocate) which NRG proposes to charge?

RESPONSE

Despite fairly urgent requests from IGPC about additional services made a year and a half ago, NRG has heard nothing further from IGPC, so assumes the additional service is no longer required or delayed. If additional services are required by IGPC in the future, the persons who will respond to those requests will depend upon the nature of the request (i.e., the type of work that IGPC needs done). Obviously, the cost of any work is also dependent upon the nature of the work.

NRG has confirmed to IGPC its willingness to substitute IGPC's proposed new letters of credit for the existing Pipeline Letter of Credit and Delivery Letter of Credit.

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October 28, 2013

VIA EMAIL

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Scott Stoll
Aird & Berlis LLP
BCE Place, 181 Bay Street
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Toronto, ON M5J 2T9

RE: Natural Resource Gas Limited ("NRG") and Integrated Grain Processors Co-operative Inc. ("IGPC")

Dear Mr. Stoll:

NRG has now had an opportunity to review your letter of October 3, 2013 and the proposed draft Pipeline Letter of Credit and Delivery Letter of Credit from the Royal Bank of Canada ("RBC").

Please let me know when you will have the signed letters of credit in hand. We will then make arrangements to exchange the new letters of credit for the letters of credit that NRG is holding.

If you require any additional information in order to proceed to finalize the new Pipeline Letter of Credit and Delivery Letter of Credit, please let me know.

Yours truly,

Lawrence E. Thacker
LET/rg

3205746

INTERROGATORY RESPONSE NO. 2

Reference:

IGPC Interrogatory #2

Question:

Issue # 2:

With respect to the cost items listed below, what is the appropriate amount to be included in determining the capital cost of the IGPC pipeline facilities?

2.1.1 Legal costs

2.1.2 Contingency costs

2.1.3 NRG staff costs (Mr. Bristoll)

2.1.4 Interest during construction

2.1.5 Insurance costs and other service costs (e.g. auditing)

2.1.6 Administrative penalty

2.1.7 Cost arising from this proceeding

Questions Related to all of Issue 2

1. Please confirm that the IGPC pipeline was placed into rate base as of August 1, 2008.

2. Please confirm that IGPC commenced paying full distribution rates in respect of the IGPC pipeline as of July 15, 2008.

RESPONSE:

1. These exact questions have been previously asked and answered in this proceeding (June 28, 2013 response to Interrogatories).

2. Same Response as to Question 1.

Issue 2.1.2 – Contingency Costs

Preamble

NRG has included $132,000 for the facilities as a contingency. NRG has provided a number of invoices from its legal firms in support of that amount.

Questions

3. Please review Table 1 attached below and confirm that the summary details of the accounts which NRG relies upon in support of its contingency costs is accurate. Please advise of any inaccuracies in Table 1, and please identify in a reproduced Table 1 any corrections appropriately noted and explained.

4. Please confirm that the earliest work performed by counsel who have issued an invoice which NRG relies upon for purposes of its contingency claim is August 2, 2010.

5. Does NRG admit that it has earned a return on the $132,000 of "contingency costs" that were included in rate base during the period August 2008 through July 2010, when it had not actually incurred such costs? If NRG's answer is "No", please provide a detailed explanation.

[Issue 2.2 – Contingency Costs TABLE 1]

RESPONSE:

3. This is a summary prepared by IGPC of information previously provided. NRG can confirm and relies upon the information previously provided. NRG cannot confirm IGPC's summary of that information. The invoices are evidence of the contingency costs incurred and payable as part of the capital cost of the pipeline under the PCRA.

4/5. The timing of the work is not relevant to the issue of whether these are reasonable and recoverable capital costs of the pipeline under the Pipeline Cost Recovery Agreement ("PCRA"). As has been noted, this is not a rate proceeding. The capital cost of the pipeline for rate-setting purposes has already been determined by the Board in EB-2010-0018.

Issue 2.1.3 – NRG staff costs (Mr. Bristoll)

Preamble

Attached for NRG's convenience is a copy of a Table, being Exhibit D6 Tab 3, Schedule 1 Updated, filed by NRG in its 2007 rates proceeding, EB-2005-0544. This Table is titled "Natural Resource Gas Limited Operating and Maintenance Expenses 2007 Test Year". (Marked as Attachment 1, IGPC IR2, Round 2)

Also attached for NRG's convenience is a copy of salient portions of the Board's Rate Order, and Appendix A, pages 1 and 2, dated September 28, 2006, in EB-2005-0544. (Marked as Attachment 2, IGPC IR2, Round 2)

Also attached for NRG's convenience are copies of the following tables produced by NRG in its EB-2010-0018 Application: (Marked as Attachment 3, IGPC IR2, Round 2)

(i) O&M Expense 2007 Actual (D4/T3/S1)

(ii) O&M Expense 2008 Actual (D5/T3/S1)

(iii) O&M Expense 2009 Actual (D6/T3/S1)

Questions

6. Please confirm that the total net operating and maintenance expenses approved by the Board for inclusion in rates in 2007 (EB-2005-0544) was $2,145,582 (Attachment 2, Appendix A, page 1).

7. Please confirm that NRG's rates approved in EB-2005-0544 remained in effect in fiscal 2008 and fiscal 2009. For clarity, please confirm that NRG rates in fiscal 2008 and 2009 included at least the forecast of net O&M expense of $2,145,582. If not, please explain why this statement is incorrect.

RESPONSE:

6/7. This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

8. Please confirm, having reference to Exhibit D4, Tab 3, Schedule 3; D5, Tab 3, Schedule 1, and D6, Tab 3, Schedule 1 (Attachment 3, IGPC IR2, Round 2) that in each of the years 2007, 2008 and 2009 the actual Total Net operating and maintenance expense

incurred by NRG was less than the total net O&M expenses approved by the Board for inclusion in rates in EB-2005-0544.

RESPONSE: This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession. The suggestion seems to be that there was "room" within the budgeted/approved O&M expenses. In NRG's view, that is misleading and misses the point. What is relevant in any given year is the utility's sufficiency/deficiency which takes into account costs as a whole, together with revenue fluctuations. In the years mentioned, NRG was overall operating at a deficiency, and was not overearning.

9. Please confirm that all of NRG's O&M overhead costs were included in its filing for its 2007 rates case. If not, please advise as to what was left out, how much and why.

RESPONSE: The amount of O&M included in a utility's rate application involves a utility's best estimate of its O&M costs in a future test year, so it is unclear what this question means. Also see response to question 8 above.

10. Please identify any additional overhead costs incurred by NRG and the nature of the cost in fiscal 2007 and fiscal 2008 (broken down by year) which it did not include in its Test Year 2007 forecast which were the result of the IGPC pipeline. If not self-evident, please explain how the additional overhead cost relates to the IGPC pipeline, the amount, when the costs were incurred and produce all supporting invoices.

RESPONSE: What elements of overhead NRG forecast in a 2007 test year for rate-setting purposes is irrelevant for the purposes of determining the reasonable capital cost of the pipeline payable under contract. Also see response to question 8 above.

11. Please confirm that none of the Consulting Fees incurred by NRG in 2007 which make up the total of $129,454 reported at Exhibit D4, Tab 3, Schedule 1 (EB-2010-0018) were related to the IGPC pipeline. If any of these consulting fees were related to the IGPC pipeline, please provide details, including the name of the consultant, the hourly rate, and the nature of the work performed.

RESPONSE: It is NRG's belief that these Consulting Fees were not related to the IGPC pipeline.

12. Please confirm that none of the Consulting Fees incurred by NRG in 2008 which make up the total of $117,546 reported at Exhibit D5, Tab 3, Schedule 1 (EB-2010-0018) were related to the IGPC pipeline. If any of these consulting fees were related to the IGPC pipeline, please provide details, including the name of the consultant, the hourly rate, and the nature of the work performed.

RESPONSE: See response to question 11 above.

13. Please advise as to whether of the Management Fees (Net) reported at Exhibit D4, Tab 3, Schedule 1 (EB-2010-0018) of $89,750 in 2007 related to the IGPC pipeline. If some of the management fees did relate to the IGPC pipeline, please provide details, including the amount, the purpose of payment, and the specifics of the work performed and by whom.

RESPONSE: These Management Fees were not related to the capital cost of the IGPC pipeline.

14. Please advise whether the Management Fees (Net) reported at D5, Tab 3, Schedule 1 (EB-2010-0018) of $140,625 in 2008 related to the IGPC pipeline. If some of the management fees did relate to the IGPC pipeline, please provide details, including the amount, the purpose of payment, and the specifics of the work performed and by whom.

RESPONSE: The management fees were $457,000 in 2008 (as reflected in the audited financial statements for 2008, which were filed in NRG's rate case, with relevant pages attached hereto). These $457,000 in management fees are not related to the IGPC pipeline.

15. Attached as Table 2 below are the Capitalized Expenses identified by NRG in its prefiled evidence in EB-2010-0018, at Exhibits D4– 6, Tabs 3, Schedules 1, and from EB- 2005-0544, Exhibit D6, Tab 3, Schedule 1 Updated.

    (a) Please confirm that the figures included in Table 2 below are correct and represent IGPC's filings in EB-2005-0544 and EB-2010-0018.

    (b) Do any of the capitalized expenses for 2007, 2008 and 2009 relate to the IGPC pipeline? If so, please provide a breakdown and an explanation as to the nature of the expenses which were capitalized.

[TABLE 2 – Capitalized Expenses]

RESPONSE:

(a) This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

(b) No.

16. In respect of the salary and benefits paid to Mr. Bristoll in respect of his work related to the IGPC pipeline and overhead costs which NRG claim and have included in rate base, please identify any regulatory filing or any other public document or financial statement (and produce a copy of same) which indicates that NRG has capitalized any portion of its O&M expenses in fiscal years 2007, 2008 and 2009, due to work undertaken in respect of the IGPC pipeline.

RESPONSE:

As you will note from the audited financial statements filed in the rates case, the capitalization of these expenses was made against the 2008 Salaries and Wages, with the exception of $22,500 which was incurred in the 2009 fiscal year. There was no capitalization in the 2009 fiscal year since the capital costs were clearly in dispute and a note to that effect was included in the 2009 financial statements. Upon review, the actual 2008 rate application tables did not reflect either the actual management fees of $457,000 or the reduction to Salary and Wages, and the 2009 rate application tables did not reflect actual Management Fees of $457,000. This discrepancy in the tables in EB-2010-0018 was not detected by NRG, the Board or any of the intervenors at the time.

17. Reference: NRG response to IGPC Interrogatory No. 12 (Round 1)

In its response to the above interrogatory, NRG referenced its response to Undertaking No. J1.5 in EB-2010-0018. A copy of J1.5 is attached and marked as Attachment 4, IGPC IR2, Round 2. This Undertaking response included, in the second Table, a list of all of the invoices paid by NRG for which interest during construction is being claimed by NRG as against IGPC. The list of consultants includes "Mark Bristoll" (no invoice number, but invoice date of November 27, 2007) and, under the heading to the column "NRG Direct", a payment of $130,006.50. Please respond to the following questions:

(a) Does NRG agree that this entry for Mark Bristoll is the only entry for Mr. Bristoll in respect of the costs identified in the tables attached to Undertaking J1.5?

(b) Please produce a copy of the Mark Bristoll invoice dated November 27, 2007, and all backup and supporting materials justifying a payment of $130,006.50 to Mr. Bristoll.

(c) Please reconcile the payment to Mr. Bristoll as a consultant in the amount of $130,006.50 with NRG's response to IGPC Interrogatory No. 12 (Round 1) (a copy of which is attached as Attachment 5) which implies that in 2007 and 2008 (calendar and fiscal years) Mr. Bristoll was paid only under his employment agreement with NRG Limited. Please provide a detailed explanation.

(d) Was this payment of $130,006.50 in addition to Mr. Bristoll's salary at NRG Limited as indicated in NRG's response to IGPC Interrogatory No. 12 (Round 1)? If the payment was in addition to his salary, please advise of the total amount paid to Mr. Bristoll (as employee and consultant) in fiscal and calendar years 2007 and 2008.

(e) Please confirm that in EB-2010-0018 NRG had agreed not to charge any interest in respect of Mr. Bristoll's time.

RESPONSE

The $130,006.50 for Mr. Bristoll is an error and should be removed from the schedule. If removed, the interest expense is reduced by $7,099.

Issue 2.1.4 – Interest during construction

Preamble:

In its response to IGPC to Interrogatory No 13 (Round 1), NRG referenced its Undertaking response No. J1.5 given in the EB-2010-0018 proceeding (attached hereto as Attachment 4) which contained a response and two Tables with NRG's interest charge calculations.

In respect of "Project interest during construction" NRG, Undertaking response No. J1.5 referenced Section 3.14(d) of the PCRA, which reads:

> *"Utility costs shall include the reasonable cost of interest during construction calculated in accordance with the OEB approved methodology and Overhead related to the Pipeline Work. Internal utility costs will include reasonable administrative and supervisory costs; and technician and field personnel required for the testing and commissioning of the Utility Connection Facilities."*

In EB-2006-0117, the Board approved the methodology prescribed for use when calculating interest during construction. Attached is a copy of the most recent iteration of the Prescribed Interest Rates methodology with the rates prescribed by the Board (hereinafter referred to as the "Board-Prescribed Interest Rates".)

Questions

18. Does NRG admit that it is subject to the Board-Prescribed Interest Rates methodology approved in EB-2006-0117?

RESPONSE:

The interest rate payable is determined by the PCRA (section 3.8 sets out the applicable interest rate). The PCRA is binding on NRG and IGPC. To the extent that the PCRA differs from the Board-Prescribed Interest Rates methodology, the PCRA is binding upon both NRG and IGPC.

19. From the second Table attached to NRG's response to Undertaking No. J1.5 (which relates to "project interest during construction"), does NRG acknowledge that all of the interest claimed accrued during the four quarters of 2008? If not, please provide a breakdown of the interest charges calculated by quarter of the year in which the charges accrued.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the

Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

20. Please confirm that according to the second Table of NRG's response to Undertaking No. J1.5 that NRG has charged the following interest rates for the purposes of calculating its claim for interest during construction during the four quarters of 2008:

First Quarter	7.75%
Second Quarter	6.75 - 7.25%
Third Quarter	6.75%
Fourth Quarter	6.0 – 6.75%

If the above figures are in any way inaccurate, please identify the interest rates used and the periods when used.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

21. Please confirm that the Board-Prescribed Interest Rates for interest during construction during the four quarters in 2008 are:

First Quarter	5.18%
Second Quarter	5.18%
Third Quarter	5.43%
Fourth Quarter	5.43%

RESPONSE:

This is irrelevant. The applicable interest rate is set out in the PCRA. See response to question 18 above.

22. Please recalculate the interest during construction using the Board-Prescribed Interest Rates set out above in each of the applicable quarters of 2008, and provide a new table equivalent to the second Table of NRG's response to Undertaking No. J1.5 with the revised calculations.

RESPONSE:

See response to question 21 above.

23. Please confirm that all of the costs identified in each of the invoices referenced in the second Table to NRG's response to Undertaking No. J1.5 are costs that were included in rate base, effective August 1, 2008.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

Issue 2.1.5 – Insurance costs and other service costs (e.g. auditing)

Reference: O&M Maintenance Expense 2007 Test Year, EB-2005-0544, and Board Rate Order, dated September 28, 2006, EB-2005-0544.

24. Does NRG admit that its 2007 Test Year Operating and Maintenance Expense (EB-2005-0544, Exhibit D6, Tab 3, Schedule 1 Updated) included forecast insurance costs of $273,911? Does NRG admit that this amount was included in the Board's Rate Order without reduction in EB-2005-0544?

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession. Moreover, this proceeding is not a rate case. The capital cost of the pipeline to be included in rates was already determined in EB-2010-0018.

25. The Table below includes the actual insurance costs which IGPC has incurred in each of the years 2007, 2008 and 2009, based upon NRG's pre-filed evidence in EB-2012-0018, at Exhibits D4, Tab 3, Schedule 1; D5, Tab 3, Schedule 1; and D6, Tab 3, Schedule1.

Year	**Insurance Amount**
2007	$185,199
2008	$180,659
2009	$197,396

RESPONSE:

This is not a question.

26. Please confirm the audited financial statements for NRG do not include any note that any insurance costs were capitalized for 2006, 2007, 2008 or 2009.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

INTERROGATORY RESPONSE NO. 3

Reference:

Issue 3 - Are the capital contribution amounts and the financial assurance provided to NRG by IGPC for existing NRG facilities serving IGPC reasonable?

Preamble

NRG completed an economic analysis that was filed in EB-2006-0243 in response to the requirements of EBO 188. NRG filed an amended economic analysis in EB-2010-0018 for closing amounts to rate base. IGPC is seeking to understand the amended economic calculation completed by NRG as part of EB-2010-0018.

Question:

1. Please confirm NRG seeks to rely upon the EB-2010-0018 financial model rather than the financial model provided in EB-2006-0243 at the time NRG agreed to the Pipeline Cost Recovery Agreement.

RESPONSE:

Confirmed.

The following questions refer to the financial model provided by NRG as part of EB-2010-0018 and filed as a live version in this proceeding.

2. Please confirm the analysis is intended to be effective October 1, 2008.

RESPONSE:

It appears that this is correct.

3. Please confirm that NRG invoiced IGPC a total of $329,334 for gas deliveries from July 15, 2008 to September 30, 2008.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

4. Please confirm that NRG's analysis does not incorporate the fact that it earned distribution revenues from IGPC prior October 1, 2008.

RESPONSE:

It appears that this is correct.

5. Please confirm that the NRG analysis incorporates the July 15, 2008 to September 30, 2008 revenues as if the revenues were earned during 2015.

RESPONSE:

This question is unclear, given question 4 above.

6. Please confirm that the impact of not accounting for the distribution revenue discussed in questions 3 and 5 above is approximately $44,300, calculated on a net present value basis. If NRG calculates a different figure, please provide detailed calculations and the assumptions used and why.

RESPONSE:

This is a figure IGPC has produced based on the model and the scenario laid out in questions 3 through 6 above. NRG is not required to conduct calculations that IGPC can perform itself.

7. Please confirm that NRG escalated $8,399,880.00 (the "base amount") from July 15, 2008 to October 1, 2008 by applying an annual rate of 7.06% to arrive at $8,521,306.

RESPONSE:

It appears that this is correct.

8. Please confirm that NRG was ordered in EB-2010-0018 to include the IGPC Pipeline in rate base effective August 1, 2008.

RESPONSE:

This was answered above in Interrogatory Response No. 2, question 1.

9. Please confirm that the base amount claimed of $8,399,880 includes the following amounts:

   (a) $132,000 in contingencies;

   (b) $507,038 for costs incurred after July 15, 2008 (according to the second table to NRG response to Undertaking J1.5).

   (c) $ 72,930 for interest after July 15, 2008 (according to the second table to NRG response to Undertaking J1.5).

   (d) $59,294.50 for interest after August 1, 2008 (according to the second table to NRG response to Undertaking J1.5).

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession.

10. Please confirm that NRG continued to charge interest from August 1, 2008 to October 1, 2008 after the pipeline was ordered to be placed into rate base.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession. NRG has always said that it charged interest until it received the last invoice from the contractor.

11. Please confirm that no contingencies were actually spent in 2008 or 2009. If incorrect please provide the year, the amount and the service provider or use of funds.

RESPONSE:

This information has long been in IGPC's possession. As per the Board's determination on IGPC's previous IR request in Procedural Order No. 4 (August 29, 2013) and consistent with the Board's warning to IGPC in Procedural Order No. 5 (October 11, 2013), NRG is not required to provide or analyze information that is already in IGPC's possession. Please also see the questions under Issue 2.1.2 asked by IGPC in this round of interrogatories.

12. Please confirm that NRG's forecast net revenue over the 7-year economic analysis is $2,086,795. If incorrect, please explain and provide the correct figure.

RESPONSE:

Not confirmed. It appears that IGPC has taken this number off an incorrect line. The correct amount is $655,150 per year for the seven years. If you then go to the CF timeline worksheet, the PV of this amount is shown.

13. Please confirm that the model used for establishing rate base and rates was the version filed in EB-2010-0018.

RESPONSE:

Confirmed.

14. If any of the above figures are not correct in NRG's view, please provide the appropriate figure and a complete explanation and detailed calculation of how the figure was determined.

RESPONSE:

This question is too vague and overly broad.

NATURAL RESOURCE GAS LIMITED

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

NP&T

NEAL, PALLETT & TOWNSEND LLP

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Board of Directors
Natural Resource Gas Limited

We have audited the balance sheet of Natural Resource Gas Limited as at September 30, 2008 and the statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The company has issued and outstanding Class C shares with a redemption value of $13,461,418. Canadian generally accepted accounting principles require that the company present and classify shares that are retractable at the option of the shareholder as a liability on the balance sheet. The company has presented these shares as part of Shareholders' equity. If the shares were classified as liabilities, then the total liabilities would increase by $13,461,418 and share capital would decrease by $13,461,418.

In our opinion, except that the Class C shares of the company have been presented as part of Shareholders' equity rather than as a liability, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Neal, Pallett & Townsend LLP

London, Canada
December 12, 2008

Neal, Pallett & Townsend LLP
Chartered Accountants
Licensed Public Accountants

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NATURAL RESOURCE GAS LIMITED

Balance Sheet

As at September 30

		2008		2007
Assets				
Current assets:				
Cash	$	**-**	$	1,881,375
Accounts receivable (note 6)		**1,612,168**		1,105,820
Inventory		**89,856**		128,864
Prepaid expenses		**54,959**		64,426
Income taxes recoverable		**60,377**		-
Due from related company (note 6)		**492,505**		668,347
		2,309,865		3,848,832
Property, plant, and equipment (note 2)		**14,080,608**		9,549,902
Other assets:				
Franchises and consents (note 3)		**97,261**		64,547
Deferred finance costs (note 4)		**23,896**		33,455
Deferred charges (note 5)		**106,636**		149,277
		227,793		247,279
	$	**16,618,266**	$	13,646,013

See accompanying notes to the financial statements.

NATURAL RESOURCE GAS LIMITED

Balance Sheet

As at September 30

		2008		2007
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness	$	**217,422**	$	-
Line of credit (note 7)		**806,763**		-
Accounts payable and accrued liabilities (note 6)		**3,012,956**		1,620,836
Income taxes payable		**-**		90,712
Deferred revenue		**120,193**		217,713
Customer deposits		**757,065**		602,860
Due to related company (note 6)		**795,264**		-
Term note payable (note 8)		**6,257,192**		6,359,538
		11,966,855		8,891,659
Shareholders' equity:				
Share capital (note 11)		**13,461,439**		13,461,439
Deficit		**(8,810,028)**		(8,707,085)
		4,651,411		4,754,354
Contingent liability (note 12)				
	$	**16,618,266**	$	13,646,013

See accompanying notes to the financial statements.

NATURAL RESOURCE GAS LIMITED

Statement of Deficit

Year ended September 30

		2008		2007
Balance, beginning of year	$	**(8,707,085)**	$	(9,090,159)
Net income (loss) for the year		**(102,943)**		383,074
Balance, end of year	$	**(8,810,028)**	$	(8,707,085)

See accompanying notes to the financial statements.

NATURAL RESOURCE GAS LIMITED

Statement of Income (Loss)

Year ended September 30

		2008		2007
Gas commodity revenue	$	**6,548,084**	$	7,509,837
Gas commodity cost		**6,509,145**		7,306,666
Gross margin on commodity		**38,939**		203,171
Distribution revenue		**3,991,759**		3,751,671
Distribution costs		**446,710**		439,629
Gross margin on distribution		**3,545,049**		3,312,042
Other sales		**1,113,891**		1,057,476
Other costs		**716,277**		637,258
Gross margin on other sales		**397,614**		420,218
Other revenue		**133,415**		170,456
Total gross margin		**4,115,017**		4,105,887
Expenses		**3,790,127**		3,417,915
Income from operations		**324,890**		687,972
Decline in value of natural gas well		**(439,833)**		-
Income (loss) before provision for income taxes		**(114,943)**		687,972
Provision for (recovery of) income taxes (note 10)		**(12,000)**		304,898
Net income (loss) for the year	$	**(102,943)**	$	383,074

Included in expenses are the following:				
Amortization of deferred financing costs	$	**9,550**	$	9,558
Amortization of deferred charges	$	**42,650**	$	42,651
Amortization of franchises and consents	$	**7,259**	$	7,271
Amortization of property, plant and equipment	$	**753,187**	$	720,037
Interest on term note payable	$	**476,110**	$	483,490

See accompanying notes to the financial statements.

NATURAL RESOURCE GAS LIMITED

Statement of Cash Flows

Year ended September 30

	2008	2007
Cash flows from operating activities:		
Net income (loss) for the year	$ **(102,943)**	$ 383,074
Items not affecting working capital:		
Amortization	**812,646**	779,517
Decline in value of natural gas well	**439,833**	-
Changes in non-cash working capital:		
Accounts receivable	**(506,351)**	969,462
Inventory	**39,008**	24,646
Prepaid expenses	**9,467**	(57,505)
Income taxes recoverable (note 16)	**(60,377)**	83,647
Accounts payable and accrued liabilities	**1,392,120**	175,308
Income taxes payable (note 16)	**(90,712)**	90,712
Deferred revenue	**(97,520)**	30,462
Customer deposits	**154,205**	321,886
	1,989,376	2,801,209
Cash flows from investing activities:		
Additions to property, plant, and equipment	**(5,723,722)**	(839,661)
Additions to franchises and consents	**(39,974)**	-
Advances from (advances to) related company (net)	**971,106**	(668,347)
	(4,792,590)	(1,508,008)
Cash flows from financing activities:		
Advances from line of credit	**806,763**	-
Repayments of term note payable	**(102,346)**	(94,946)
	704,417	(94,946)
Increase (decrease) in cash and cash equivalents during the year	**(2,098,797)**	1,198,255
Cash and cash equivalents, beginning of year	**1,881,375**	683,120
Cash and cash equivalents, end of year	$ **(217,422)**	$ 1,881,375
Represented by:		
Cash	$ **-**	$ 1,881,375
Bank indebtedness	**(217,422)**	-
	$ **(217,422)**	$ 1,881,375

See accompanying notes to the financial statements.

Summary of significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, the more significant of which are summarized below.

Regulation:

The utility operations of the company is a rate regulated, natural gas distribution utility and operates within a limited area of Southwestern Ontario under franchise agreements that are approved by the Ontario Energy Board (OEB).

The utility operations are subject to regulations under The Ontario Energy Board Act and The Energy Act (Ontario). Revenue rate schedules are approved periodically by the OEB and are designed to permit a fair and reasonable return to the Company on the utility investment. Realization of the allowed rate of return is subject to actual operating conditions experienced during the year.

The Company follows Canadian generally accepted accounting principles. Such accounting principles may differ for regulated entities from those otherwise expected in non-regulated entities. These differences occur when the regulatory agencies render their decisions on the Company's rate applications and generally involve the timing of revenue and expense recognition to ensure that the Company has achieved a proper matching of revenues and expenses, and as a result the Company records assets and liabilities that would not have been recorded under GAAP for non-regulated entities.

In addition to defining certain accounting requirements, the regulatory agencies have jurisdiction over a number of other matters, which include the rates to be charged for the distribution of gas and approval and recovery of costs for major construction and operations.

Inventory:

Inventory is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Net realizable value is defined as replacement cost.

Deferred charges:

Certain costs, required or permitted by the OEB, have been deferred for recovery from future revenues. The period of recovery for these deferrals have been or will be determined by decisions of the OEB, and will determine the classification of these charges in the financial statements.

Property, plant, and equipment:

Property, plant and equipment is recorded at cost, including associated labour and overhead costs. Expenditures which substantially increase the useful life of existing pipeline installations and additions to the pipeline are capitalized. Such expenditures include material, labour and overhead. Maintenance and repairs which do not extend the useful life of pipeline installations are charged to income.

Pursuant to the regulations of the OEB on the disposal of property, plant, and equipment, excluding major disposals, the company transfers the original cost of the retired assets, plus any related removal costs and net of any proceeds on disposition, to accumulated amortization. Proceeds from disposition are credited to accumulated amortization. This effectively credits gains, or charges losses on disposition to accumulated amortization. For major disposals, gains or losses are included in current earnings.

The company has reviewed its long-lived assets and determined there exists no asset retirement obligation as of September 30, 2008.

Amortization:

Pursuant to the periodic review and approval by the OEB of amortization rates, amortization is calculated using the straight-line method on the total gross cost of each asset category at the end of the year, rather than on an asset specific basis, at the following annual rates for the property, plant and equipment categories listed below:

Automotive equipment	17 %
Buildings	2 %
Computer equipment	33 %
Computer software	20 %
Furniture and fixtures	7 %
Machinery and equipment	6 % to 9 %
Meters and regulators	3 % to 4 %
Pipeline installations	3 % to 13 %

Amortization of deferred finance costs (related to the issue of debt) is calculated at the annual rate of 20% using the straight-line method over the life of the related debt issuance. In the prior year, the company refinanced some of its existing debt. The deferred finance costs associated with the retired debt was amortized in full in the year of retirement.

Amortization of franchises and consents is calculated using the straight-line method over the term of the applicable franchise and consent.

Pursuant to the approval of the OEB, the company changes its amortization rates for the various categories of property, plant and equipment as well as for franchises and consents based upon OEB Rate Case filings. The last change was made at the start of the fiscal 2005 year and any such changes in estimate are applied on a prospective basis.

Income taxes:

The company's regulated billing rates as established by the OEB, allow for the recovery of income taxes as calculated on a basis which differs from the amount as determined under the asset and liability method, but approximates the taxes payable method. Accordingly, the company accounts for income taxes using the taxes payable method. This basis does not provide for future income taxes which may be payable in future years as a result of the difference between current financial reporting and reporting for income tax purposes. This method is followed for accounting purposes as there is a reasonable expectation that all such taxes will ultimately be recovered through rates when they become payable. Future income taxes not provided in these financial statements would amount to a recovery of $55,000 for the year ended September 30, 2008 (2007 - $41,000) and an accumulated future liability of $332,000 at September 30, 2008 (2007 - $387,000).

Revenue recognition:

The Company recognizes revenues when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the reporting period.

A significant portion of the Company's operations are subject to regulation and accordingly there are circumstances where the revenues recognized do not match the amounts billed. Revenue is recognized in a manner consistent with the underlying rate setting mechanism as mandated by the OEB. This may give rise to regulatory deferral accounts on the balance sheet pending disposition by a decision of the OEB.

Gas commodity costs:

Gas commodity costs are recorded using prices approved by the OEB in the determination of customers sales rates. Differences between the OEB approved reference prices and those costs actually incurred are deferred in accounts receivable or accounts payable for future disposition subject to the approval of the OEB, usually within a maximum timeframe of the next fiscal year. In a non-regulated environment periodic variances between gas commodity sales rates and costs would be reported through the income statement annually without the use of deferral accounts.

Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

1. **Accounting policy change:**

Effective October 1, 2007, the company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under sections 1530-Comprehensive income, 3250-Equity, 3855-Financial instruments – measurement and disclosure, 3861-Financial instruments – presentation and disclosure and 3865-Hedges. These new Handbook sections, which apply to years beginning on or after October 1, 2007 provide requirements for the recognition, measurement, presentation and disclosure of financial instruments. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but are excluded from net income calculated in accordance with generally accepted accounting principles.

The adoption of these new recommendations has no material impact on the opening retained earnings or on the company's financial statements for the year ended September 30, 2008.

The company has also adopted Section 1535 – Capital Disclosures which requires disclosure of the company's objectives, policies and processes for managing capital. Implementation of this section required further note disclosure about how the company defines capital, what externally imposed capital requirements it faces, the consequences of non-compliance with external capital requirements, if any, and how it monitors and manages capital. This section applies to fiscal year ends beginning on or after October 1, 2007.

This new standard has been adopted prospectively. Adoption of this standard did not have an impact on the October 1, 2007 opening balances.

2. Property, plant, and equipment:

		2008		2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 71,700	$ -	$ 71,700	$ 71,700
Buildings	682,331	122,137	560,194	575,342
Furniture and fixtures	55,127	35,541	19,586	23,064
Machinery and equipment	2,652,774	1,175,348	1,477,426	1,357,923
Computer equipment	196,594	157,923	38,671	38,626
Computer software	106,519	90,629	15,890	15,890
Automotive equipment	465,655	250,826	214,829	285,463
Meters and regulators	3,214,423	1,584,978	1,629,445	1,650,855
Pipeline installations	9,911,722	4,223,261	5,688,461	5,531,039
Natural gas well	439,833	439,833	-	-
Pipeline under construction	4,364,406	-	4,364,406	-
	$ 22,161,084	$ 8,080,476	$ 14,080,608	$ 9,549,902

3. Franchises and consents:

	2008	2007
Franchises and consents	$ 191,068	$ 151,094
Less: accumulated amortization	93,807	86,547
	$ 97,261	$ 64,547

NATURAL RESOURCE GAS LIMITED

Notes to the Financial Statements - continued

September 30, 2008

4. Deferred finance costs:

		2008		2007
Deferred finance costs	$	**47,793**	$	47,793
Less: accumulated amortization		**23,897**		14,338
	$	**23,896**	$	33,455

5. Deferred charges:

		2008		2007
Total deferred charges - other assets	$	**213,253**	$	213,253
Less: accumulated amortization		**106,617**		63,976
	$	**106,636**	$	149,277

The company has been given approval by the OEB to recover the above costs already incurred, from rate payers over future periods. The remaining balance will be recovered over future years as noted below:

2009	$	42,651
2010		42,651
2011		21,334
	$	106,636

6. Related party transactions:

Due from related companies consists of the following:

		2008		2007
Non interest bearing with no set repayment terms	$	-	$	203,347
Demand promissory note receivable, bearing interest at 4.59% payable monthly		**492,505**		465,000
	$	**492,505**	$	668,347

Due to related company consists of the following:

		2008		2007
Non interest bearing with no set repayment terms	$	**795,264**	$	-

Included in accounts receivable are amounts receivable from related companies of $287,594 as at September 30, 2008 (2007 - $nil).

Included in accounts payable and accrued liabilities are amounts payable to related companies of $864,725 as at September 30, 2008 (2007 - $254,575).

During the year, rent of $9,600 (2007 - $9,600) and management fees of $457,000 (2007 - $107,250) were paid to a related company.

During the year, the company purchased gas in the amount of $2,606,281 (2007 - $2,011,482) from a related company.

6. Related party transactions (continued):

During the year, the company earned interest of $27,505 (2007 - $nil) on the demand promissory note receivable to a related company.

During the year, maintenance charges of $58,200 (2007 - $58,200) were charged to a related company.

Related companies are companies controlled, directly or indirectly, by trusts, where the beneficiaries of the trusts are common to both trusts, but the trustee or group of trustees which exercise control over any of the related parties are different than the group of trustees of the trust which controls Natural Resource Gas Limited.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Operating line of credit:

The company has credit facilities in the amount of $2,000,000 which it obtained in conjunction with the term note, consisting of:

a) Operating line of credit in the amount of $1,000,000 with interest at the Bank's Prime Rate on any advances, and
b) Revolving line of credit in the amount of $1,000,000 to be used for financing capital expenditures with interest at the Bank's Prime Rate plus 0.25% on any advances.

The continuation of the above credit facilities is subject to annual review by the Bank. These credit facilities are secured by the security agreement in place as disclosed in note 8.

8. Term note payable:

		2008		2007
Bank of Nova Scotia term note payable, 7.52% interest, repayable in blended monthly installments of $48,201, due March 2011	$	**6,257,192**	$	6,359,538

Although the above loan is due on demand, the company expects to make installments as per the amortization schedule which forms part of the loan agreement. The aggregate amount of principal payments required in each of the next 3 years to meet minimum retirement provisions is as follows:

2009	$	109,661
2010		118,222
2011		6,029,309
	$	6,257,192

The company has pledged the following as security against the term note payable, the operating line of credit, and the revolving line of credit (note 7):

a) General assignment of book debts

b) General Security Agreement over all of the present and future personal property and undertaking of the company

c) Security under Section 427 of the Bank Act with appropriate insurance coverage assigned to the Bank

d) Demand Debenture for $15,000,000 secured by a first fixed and floating charge over all assets including, but not limited to, the Certificate of Public Convenience and Necessity and all Municipal Franchise Agreements, with replacement cost fire insurance coverage, loss if any, payable to the Bank as mortgagee.

9. Capital management:

The Company defines capital as debt and shareholders' equity. As at September 30, 2008, the company had debt consisting of: bank indebtedness, line of credit, due to related company, and term note payable.

The company's objectives in managing capital are to:

a) Ensure financial capacity to meet current obligations is maintained and continue as a going concern;
b) Ensure financial capacity to maintain and expand the distribution pipeline infrastructure of the utility as determined necessary by the company; and
c) Ensure financial capacity to execute strategic plan is maintained.

In order to manage capital, the company regularly identifies and assesses risks that threaten the ability to meet the company's capital management objectives, and determines the appropriate strategy to mitigate these risks.

The Company is subject to externally imposed capital requirements related to the term note payable (note 8). Specifically, the company must meet the following conditions:

a) maintain a ratio of EBITDA (Earnings before interest, taxes, depreciation and amortization) to interest expense plus current portion of long term debt of 1.25:1 or better;
b) maintain a ratio of current assets to current liabilities (excluding term note payable) of 1:1 or better; and
c) maintain a ratio of total debt to tangible net worth of less than 3:1.

At September 30, 2008 the company was not in violation of any of the above conditions.

NATURAL RESOURCE GAS LIMITED

Notes to the Financial Statements - continued

September 30, 2008

10. Income tax expense:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

		2008		2007
Income (loss) before provision for income taxes	$	**(114,943)**	$	687,972
Statutory tax rate		**34.16 %**		36.12 %
Tax on net income at statutory rates		**(39,265)**		248,495
Amortization on financial statements in excess of Capital Cost Allowance for tax purposes		**35,328**		61,035
Ontario Small Business Deduction utilized		**(2,884)**		(5,508)
Non-deductible expenses		**2,525**		876
Charitable donations carried forward for tax purposes		**33,555**		-
Charges deferred on financial statements deductible on a cash basis for tax purposes		**(41,259)**		-
Provision for income taxes	$	**(12,000)**	$	304,898

11. Share capital:

		2008		2007
Authorized:				
Unlimited Class A shares, non-voting, redeemable and retractable at the paid up amount, with non-cumulative dividends				
Unlimited Class B shares, participating, non-voting, with non-cumulative dividends ranking pari passu with common shares on dissolution				
Unlimited Class C shares non-voting, with preferential 7% non-cumulative dividends redeemable and retractable at $100 per share				
Unlimited Class Z shares voting, redeemable and retractable at $1 per share, with no dividend entitlement				
Unlimited number of common shares				
Issued and outstanding:				
Retractable shares:				
50,000 Class A shares	$	**1**	$	1
10 Class B shares		**10**		10
134,614.18 Class C shares		**13,461,418**		13,461,418
10 Class Z shares		**10**		10
	$	**13,461,439**	$	13,461,439

12. Contingent liability:

The company is aware of a potential regulatory liability in an amount of a maximum of $140,000. The matter is currently under appeal, and in the opinion of management, and its external legal counsel, the company will be successful in its appeal. The OEB and its counsel have made no attempt to defend the appeal and these proceedings, as the company's external counsel believes there to be no precedent in the OEB regulations for the regulator to levy such amounts against the company. As such, no liability has been accrued in these financial statements.

13. Gas imbalances:

The Company, in the normal course of its operations experiences imbalances in the quantity of gas purchased and the quantities of gas sold and provides the gas balancing services to customers. The company records the net liability (or net asset) associated with gas imbalance volumes.

Accounts payable and accrued liabilities include $936,466 (2007 - $723,354) related to gas imbalances. Natural gas volumes owed from the Company are valued at the natural gas reference price as approved by the OEB as of the balance sheet dates.

14. Regulatory matters:

The Company has rates that are approved by the OEB. The fiscal year 2007 was a one year Cost of Service Rate filing. The company received the OEB decision dated September 28, 2006 and the rate order was effective September 28, 2006. The company did not make a submission for the fiscal year 2008 which left rates unchanged from 2007.

Rates for the sale of gas commodity are adjusted quarterly to reflect updated commodity price forecasts. The difference between the approved and the actual cost of gas incurred in the current period is deferred for future recovery subject to approval by the OEB. These differences are directly flowed through to customers and, therefore, no rate of return is earned on the deferred balances. The OEB's approval for recovery of these gas purchase costs primarily considers the prudence of costs incurred.

15. Financial instruments and risk:

The carrying values of the company's financial current assets and liabilities, including cash, accounts receivable, bank indebtedness, line of credit, and accounts payable and accrued liabilities approximate their values due to their short-term maturity.

The fair value of the amount due to related company is less than its carrying value. As the amount is non interest bearing, and the timing of repayment is uncertain, the fair value is not readily obtainable.

The fair value of the demand promissory note receivable from related company is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar debt instruments at September 30, 2008 to expected maturity dates. Since the market interest rate at the time the demand promissory note receivable was entered into is not significantly different than the market interest rate around year end, the carrying value approximates its fair value.

The fair value of the term note payable is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar debt instruments at September 30, 2008 to expected maturity dates. Since the market interest rate at the time the term note payable was entered into is not significantly different than the market interest rate around year end, the carrying value approximates its fair value.

Natural gas prices:

The Company has entered into several material contracts for the supply of natural gas. The Company employs established policies and procedures in order to manage the risk associated with the market fluctuations of natural gas prices. The Company, through the rate regulations imposed by the OEB, is effectively allowed to fully recover its costs, reasonably incurred, and as such the ratepayers, and not the Company, are ultimately exposed to the risk of these market fluctuations.

Interest rate risk:

The term note payable bears a fixed interest rate and, as such, the company is exposed to the interest rate risk of having a fixed rate, but has the security of a fixed rate for operational management purposes.

The line of credit bears interest at a fluctuating bank prime related interest rate and, as such, the company is exposed to interest rate risk.

Credit risk:

Credit risk arises from the potential that a trade customer will fail to pay its account. The company is exposed to credit risk from its customers. However, the company has a large number of diverse customers, which minimizes concentration of credit risk.

16. Additional cash flow statement information:

		2008		2007
Interest paid	$	**476,070**	$	483,490
Income taxes paid	$	**183,050**	$	149,896

17. Future accounting changes:

The Canadian Institute of Chartered Accountants has issued a number of new accounting pronouncements that have not yet come into effect that will need to be considered for subsequent years.

(a) Inventory

Section 3031 - Inventories is effective for fiscal periods commencing after January 1, 2008 and replaces section 3030 of the same name. The impact on the financial statements is currently being assessed by management.

(b) Future Income Taxes

Section 3465 - Income Taxes has been amended to include the requirement for rate-regulated enterprises to recognize future income tax asset or liabilities in accordance with this asset and liability method, rather than the taxes payable method as the company is currently using, and is effective for year ends beginning on or after January 1, 2009. The impact on the financial statements is currently being assessed by management.

NP&T

NEAL, PALLETT & TOWNSEND LLP
CHARTERED ACCOUNTANTS

ADDITIONAL COMMENTS OF AUDITORS

The accompanying schedule of expenses is presented as supplementary information only. In this respect, it does not form part of the financial statements of Natural Resource Gas Limited for the year ended September 30, 2008 and is hence excluded from the opinion expressed in our report dated December 12, 2008 to the board of directors on such financial statements. The information in this schedule has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements of the company and, in our opinion, is fairly presented in all respects material to those financial statements.

Neal, Pallett & Townsend LLP

London, Canada
December 12, 2008

Neal, Pallett & Townsend LLP
Chartered Accountants
Licensed Public Accountants

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NATURAL RESOURCE GAS LIMITED

Unaudited Schedule of Expenses

Year ended September 30

		2008		2007
Advertising	$	**38,006**	$	13,850
Automotive and maintenance		**137,569**		114,623
Bad debts		**37,239**		-
Bank charges and other interest		**509,089**		505,517
Capital tax		**21,200**		37,900
Consulting fees		**329,025**		199,629
Donations and community sponsorships		**201,720**		-
Dues and fees		**32,498**		17,914
Employee benefits		**146,885**		113,602
Insurance		**180,659**		185,199
Legal and audit		**11,628**		67,308
Management fees - related company		**457,000**		107,250
Miscellaneous		**13,558**		52,709
Office		**110,780**		102,882
Ontario Energy Board hearings		**4,345**		48,559
Promotional rebates		**5,978**		2,652
Property taxes		**334,612**		286,180
Rent - related company		**9,600**		9,600
Salaries and wages		**485,669**		886,050
Telephone		**61,698**		54,018
Travel and promotion		**7,062**		6,972
Utilities		**13,879**		14,541
Amortization - Automotive equipment		**70,635**		77,299
Buildings		**15,148**		15,148
Computer equipment		**13,543**		14,375
Computer software		**6,867**		6,441
Deferred finance costs and charges		**52,201**		52,209
Franchises and consents		**7,259**		7,271
Furniture and Fixtures		**3,721**		3,705
Machinery and equipment		**46,113**		41,182
Meters and regulators		**116,968**		113,504
Pipeline installations		**323,166**		311,197
		3,805,320		3,469,286
Equipment expenses capitalized to pipeline installations		**(11,436)**		(15,152)
Interest expense (income)		**2,827**		(27,490)
Amortization capitalized to pipeline installations		**(6,584)**		(8,729)
	$	**3,790,127**	$	3,417,915