EB-2014-0053

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Sched. B);

AND IN THE MATTER OF an Application by Natural Resource Gas Limited, pursuant to section 36(1) of the *Ontario Energy Board Act*, 1998, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission, and storage of gas as of April 1, 2014; and

AND IN THE MATTER OF the Quarterly Rate Adjustment Mechanism.

Natural Resource Gas Limited Answers to Ontario Energy Board Staff Interrogatories

October 29, 2014

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Interrogatory #1:

Reference: NRG Responses to Board Staff Questions (March 19, 2014) and William Warner Letter of Comment (April 6, 2014)

Preamble:

In response to Board staff's question #2, NRG stated that it was able to purchase 90,027 GJs of natural gas on February 26 to partially fulfill its balancing requirement of 115,523 GJs. NRG stated that between February 26 and February 28 (the winter checkpoint) there were insufficient volumes available to purchase to meet the remaining shortfall related to its balancing requirement (25,496 GJs).

In his Letter of Comment, Mr. Warner stated the following:

> "[NRG] indicated in their application that there was no gas available to be purchased prior to the deadline. That is not true. I am in the business of purchasing natural gas myself. The company I work for has the exact same contractual obligations with Union as NRG. I personally purchased gas on February 28. To tell me that Shell Canada cannot come up with 25,496 GJ at the last minute assuming the credit is available is ludicrous."

(a) **For the period February 26 to February 28, please discuss all the options that NRG considered in order to purchase the natural gas required to meet the remaining checkpoint balancing shortfall.**

Answer: NRG is a natural gas utility. It is one of a few utilities in Ontario which supply natural gas, transportation and related services to consumers in the province. In order to answer this question and several other questions put by Board staff, it is necessary to understand NRG's complex and unique relationship in Ontario with natural gas vendors, TCPL transmission from the wellhead to Union's system in Ontario, Union's transportation within Ontario, the use and availability of Union's storage and the nature of NRG customers, being system supply customers and direct purchase customers.

NRG is a bundled direct purchase customer of Union Gas. Union has no other private customer in the province of Ontario which is a natural gas utility itself. NRG must annually understand and fix with Union Gas the amount of gas which is predicted to be consumed by NRG customers and then fix the amount of DCQ gas which must be delivered to Union on a monthly basis. For example, in the period November 2014 to October 2015, NRG is required to deliver to Union 2,380 GJs per day. Of this amount, it is predicted that all the direct purchasers who had contracts with NRG must supply 197 GJs. NRG then supplies the balance. It has purchased 2,055 GJs on contract, and intends to purchase 128 GJs in the spot market. This represents the baseline for natural gas purchases that must be adjusted throughout the year to accommodate variations in usage and weather affecting gas usage among all NRG customers; variations of gas volume that must be supplied by NRG direct purchase customers and variations in gas volume that must be supplied by NRG to Union for balancing.

In the purchase of natural gas, the price at the wellhead in Alberta has remained in a five-year average range of approximately $4.00 per GJ to $6.00 per GJ. In order to fix the price of natural gas for an NRG customer, the cost of transportation on TCPL system, transportation on Union system, storage and related facilities must be added to the cost of natural gas.

In the months of January and February 2014, it was not the cost of natural gas which caused the spike in prices, but the cost of transportation in getting the gas from the wellhead to Union's hub at Dawn. Cold weather was not the only factor which limited the ability to transport gas from the wellhead to Dawn and therefore increased the cost of delivered gas in February 2014 at Union's hub at Dawn. Enbridge does not have fixed balancing dates like Union. The relevant Union balancing date was February 28, 2014. Enbridge has a flexible balancing date, but this year chose it to be in February. This decision by Enbridge put pressure on the transportation system and therefore the price of gas delivered to Dawn on the spot market that had not been previously experienced. The spike in prices for spot gas and the need for the quantity of the spot gas delivered to Ontario was not foreseeable.

NRG has an Ontario Energy Board-approved gas purchasing policy that has been in place since January 31, 2011. That policy reads as follows: "In the past, NRG Ltd. gas purchases were weighted with fixed based seasonable strips – 30% to 40% allocated to spot. Going forward we will be implementing a more diverse strategy with a blend of both fixed and indexed positions in order to capitalize on the current and projected lower prices while allowing flexibility to adjust to market trends." NRG has followed that policy in the conduct of its gas purchasing relevant to this matter.

NRG's options between February 26, to February 28, 2014 must be viewed in context of the above description. NRG produces, as part of this answer, the Affidavit evidence of Brian Lippold, General Manager of NRG. This evidence was previously filed in EB-2014-0154 and is re-filed in this case.

NRG had multiple conversations with Shell via phone and email on February 26th attempting to purchase the fuel with their trader as well as working with their inside sales staff to determine what bids would be successful. However, the pricing was not remotely in the acceptable range.

On February 26, NRG had additional conversations with Shell and explored the possibility of title transfers but nothing became available.

Nearing market close on February 26, NRG called Union and arranged a conference call at 11:30 am with Patrick Boyer of Union. Natural gas price purchase markets operate in two two-hour windows daily from 8:00 a.m. to 12:00 noon. NRG asked what options may be available from Union to avoid default in the event that NRG could not provide all of the fuel in time. Union replied that it could go out to market on NRG's behalf at current market prices.

On the morning of February 27, NRG placed numerous bids and was successful with 6 separate transactions amounting to 58,375 GJs.

At 10am on February 27, NRG called Patrick Boyer asking for updated bids from Shell. It appeared that it would be impossible to secure enough gas by market close with the limited volumes offers on the board. NRG asked if Union had any other contacts whom it thought may be able to assist with the purchase. Mr. Boyer provided NRG with David Alicandri's contact details. Mr. Alicandri was the Vice-President of Blackstone. NRG spoke with Mr. Alicandri and asked for assistance. He reached out to his contacts and returned NRG's call within one hour and indicated they he would be unable to find that volume of gas for NRG.

In the afternoon of February 27 after the market had closed, Shell called NRG to offer a title transfer, roughly in the amount of 31,000 GJs.

NRG worked with Shell on the morning of February 28. Shell indicated that there were few offers on the screen and there were only very small quantities. The market closed on February 28, and NRG was unsuccessful in securing the remaining balance. NRG reached out again to Patrick Boyer of Union asking for any resources that Union may have available. At that time Mr. Boyer agreed to make contact with what he described as "a customer in their franchise area that had excess gas that may be willing to sell and they could title transfer and still deliver the gas same day." Mr. Boyer advised that he would reach out to that customer and provide NRG's contact information to negotiate a possible deal. NRG waited for the remainder of that day and evening and received no contact from that person.

The discussions with Shell are detailed in the e-mails attached to the answer at Interrogatory 1(c). It is important to note that Shell informed NRG that: "… there likely would be very little to no same day gas for the next couple of days …" (referring to an email dated February 26, 2014).

NRG therefore had options to arrange for timely delivery of gas from the spot market through its agent Shell and through Union. These options proved to be unfruitful through no fault of NRG. The problem lay in delivering gas to Union at the Dawn hub or at any other delivery point on the Union system on the final days of February 2014. The only group to make profits in those circumstances were the traders who raised their prices in reaction to market demand for natural gas delivered to the Union system. It is now known that Union had sufficient gas in storage to meet its balancing needs. In short, Union did not need any molecules on February 28, 2014 to operate its system. To the extent that Union receives more than it paid for the gas held in Union storage (approximately $7.00 per GJ), Union receives a gratuitous windfall benefit of $43.00 per GJ. Union has given testimony that the total amount of the payment penalty goes to the advantage of certain specified customers of Union. This is a complete and unearned windfall for these specified customers at the expense of NRG's customers.

NRG was able to purchase and deliver gas on March 3, 2014 and thereafter but was told that this would not satisfy Union's requirements for balancing amounts.

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B);

AND IN THE MATTER OF a hearing of the Ontario Energy Board on its own motion in order to determine the Application by Union Gas Limited for an order or orders approving a one-time exemption from Union Gas Limited's approved rate schedules to reduce certain penalty charges applied to direct purchase customers who did not meet their contractual obligations;

Evidence of the Intervenor – Natural Resource Gas Limited ("NRG")

(Prepared and Filed pursuant to Procedural Order No. 3)

AFFIDAVIT OF BRIAN LIPPOLD
(Sworn August 7, 2014)

I, Brian Lippold, of the City of London, MAKE OATH AND SAY AS FOLLOWS:

1. I am the General Manager for NRG and was involved in the issues and gas purchases of NRG to meet its Winter Checkpoint Quantity under its contract with Union Gas Limited ("Union") leading up to February 28, 2014.

2. NRG is an Ontario corporation that carries on the business of distributing and selling natural gas in the southern Ontario. NRG is regulated by the Ontario Energy Board (the "Board") under the Ontario Energy Board Act (the "Act").

3. NRG is a customer of Union. NRG receives gas from Union pursuant to a southern bundled T contract, the terms and conditions of which are attached to NRG's evidence filed with its Request to Intervene (subject to Schedule 2, which Union attached to its evidence, being Answers to Interrogatories by Union from NRG, filed as Exhibit B.NRG.15, Attachment 1.

4. NRG adopts all the evidence filed with its Request to Intervene dated May 21, 2014. The evidence filed is true.

5. Union first made this Application by letter dated April 3, 2014. In that letter, M. Richard Birmingham, CPA, CA, Vice President, Regulatory, Lands and Public Affairs, writing on behalf of Union, requested that the Board change the penalty provision in its contracts affecting NRG and other customers be reduced from \$78.73/GJ to \$50.50/GJ. Mr. Birmingham, on behalf of

Union, stated that it was prepared to make the change in the penalty charge "...in recognition of the exceptional weather conditions in 2014..."

6. On behalf of NRG, as its general manager, involved in the purchasing of gas in February 2014, I accept Union's characterization that the weather conditions for the five-month winter period of November 2013 to March 2014 was the coldest in Union's records for Union South. In Exhibit B.NRG.1, in answer to an interrogatory from NRG, Union filed a chart indicating that the 2013/2014 five-month winter period had more cold days below 18 Centigrade than any other year from 1970 forward.

7. The extreme cold weather conditions in the winter period of November 2013 to February 2014 were the subject of an article and a separate editorial written in the Financial Times on Thursday, June 26. Referring to North America as a whole, and the U.S. economy in particular, the article noted that the U.S. economy suffered serious economic damage due to, inter alia, the "country's worst winters on record". It was reported that the extreme winter conditions helped "push first-quarter domestic product figures down an annualized three percentage points more than estimated". The article quotes Paul Dales, Senior U.S. Economist at Capital Economics in London, England, saying: "...the larger contraction in GDP [USA] in the first quarter is not a sign that the U.S. is suffering from a fundamental slow-down, it is largely due to extreme weather". The article further stated as follows: "The first-quarter figures confirm the previous picture of a terrible winter, as arctic conditions closed factories, shut transportation units, kept customers away from the shops and deterred homebuyers. There was also a huge run-down in inventories which knocked 1.7 percentage points off growth." In an editorial in the same newspaper and on the same day, an editorial writer, James MacKintosh, opined that "The U.S. economy shrank far more in the first-quarter than anyone imagined, dropping 2.9% on an annualized basis according to the latest revision yesterday. As this plunge took place in a single quarter, it does not meet the standard definition of a recession, which requires two quarterly successive drops."

8. Based on my experience, Union's own statements and the article and editorial referred to above, it is my evidence that North America generally, and southern Ontario in particular, endured the coldest and most damaging extreme winter weather conditions from November 2013 to February 2014 on record.

9. I give my evidence on behalf of NRG, mindful of the universally accepted position that the extreme cold weather was not predictable and that Union on its own initiative has sought a reduction in the penalty clause amount for failure to deliver the required winter checkpoint quantity of gas for the bundled T customers and other relevant users of Union. Union proposes a reduction to $50.50/GJ. The only standard and issue in this Hearing is what is the reasonable penalty amount to be charged in the circumstances.

10. Based on the wholly unpredictable and unpredicted weather conditions extant during the November 2013 to March 2014 winter period in southern Ontario, the Board should consider the impact on consumers and customers of Union..

11. The impact on the public consumer in the Province of Ontario is paramount. NRG is a utility which supplies natural gas to 7,800 residential consumers and several industrial

consumers in a predominantly rural and small town area of the province. The reasonable penalty rate per GJ should be as small as possible, related to historic norms and/or sufficient to pay Union's cost of gas.. Based on the historical norms hereinafter set out in paragraphs 13, and 15, the penalty rate for NRG should be in the range $4.87/GJ to $7.31/GJ.

12. NRG recognizes that this is a one-time event and a one-time relief from the penalty rate presently fixed by the Board. NRG does not wish to challenge the Board's decision fixing the penalty rate, but seeks relief to fix a reasonable penalty rate in all of the circumstances. It is driven by the fact that the extreme cold weather was a wholly-unpredictable, one-time cold weather event which led to a previously unseen and unimaginable spot price for gas of $78.73/GJ.

13. This $78.73/GJ spot market gas cost contrasts with February penalty rates (based on the spot market gas cost extant in 2014) for the years 2006 to 2013 based on the greater of the daily spot cost at Dawn in the month and the Ontario Landed Reference Price ("Ref Price") for the month, penalty rates were $12.45, $9.33, $9.87, $9.32, $6.81, $5.37, $5.39, $5.57, respectively. In the same years (2006 to 2013), the total billed charges for all customers were approximately $78,000 (7 customers), $157,000 (5 customers), $513,000 (16 customers), $887,000 (25 customers), $116,000 (9 customers), $85,000 (7 customers), $58,000 (8 customers), $128,000 (8 customers), respectively. The total billed charges for 2014 $4,400,000 (11 customers).

14. From the above figures, the average amount paid per customer for penalty charges for the eight years prior to 2014 for the February checkpoint shortfall was approximately $23,800 per customer. The average penalty charge per customer in 2014 was approximately $400,000. This is a multiple of more than 21. Although this takes into account the difference in the Natural Gas market price, it still highlights the significant difference in the penalties currently being charged, compared to prior years.

15. These figures are taken from Union's Table 1 found at Exhibit B.NRG.12.

16. Union itself recognizes that $78.73 is not reasonable in these circumstances. With little explanation, Union has requested a reduction to $50.50. On the historical spot gas price evidence above, $50.50/GJ is not a reasonable penalty rate in the extreme circumstances experienced in November 2013 to March 2014. The historical norms are a market-based substitute for fixing a reasonable spot price for natural gas in the circumstances.

17. Because of the emergency conditions in Ontario, the reasonable analysis should begin with the historical norms and/or with Union's own cost of spot gas for February delivery, namely, $7.31/GJ (actual average cost of spot gas purchased by Union for February delivery). If you look at the years 2006 to 2013 the penalty rate in 7 of those years equalled the Ref price and in only 1 of those years did it exceed this price by $1.69/GJ. So based on historical data a reasonable penalty rate would be in the range from the Ref Price ($4.87/GJ) to the Ref Price plus $1.69/GJ ($6.56/GJ) and in these circumstances we would add to that the actual average cost of spot gas ($7.31/GJ) for February delivery (no storage).

18. It is on this basis that the penalty rate should be fixed for this one-time set of exceptional circumstances at a range of $4.87 to $7.31/GJ.

19. While it does not bear directly upon the penalty rate that the Board may consider appropriate for all relevant customers, the individual actions of customers may bear some analysis in order to ensure the Board and the Ontario public that the customers in question who failed to supply all of their required Winter Checkpoint Quantity (in particular NRG for my evidence) did not simply ignore their obligations and thereby stand accused of ignoring the penalty rate fixed by the Board and their bundled T service contract obligations.

20. In this regard, NRG adopts the evidence and explanation put forward in its evidence filed with its Notice of Intervention.

21. As is set out in that evidence and as is apparent from the letters exchanged between NRG and Union in February 2014, NRG recognized its difficulty in purchasing natural gas to meet its Winter Checkpoint Quantity, first for a reasonable price, and then at all. NRG sought Union's assistance. While Union was polite, it gave NRG no meaningful assistance in purchasing natural gas to meet its Winter Checkpoint Quantity and refused (at that time) to grant NRG any relief from the penalty rate. Any suggestions for gas purchases made by Union did not lead to the ability of NRG to purchase sufficient natural gas to meet its Winter Checkpoint Quantity (see Exhibit B.NRG.17, attachments 1 and 2).

22. NRG acted reasonably and in the public interest, having regard to the needs of its own customers and having regard to the emergency conditions that were extant during the winter season of November 2013 to March 2014. NRG did buy a substantial amount of gas at very high market rates and delivered that gas prior to February 28, 2014 in an attempt to meet all of its Winter Checkpoint Quantity. NRG could not purchase sufficient gas such that it could be delivered by February 28, 2014. The price for spot gas fell from as high as $78.73 on February 28, 2014 to a low of approximately $17.00/GJ on the next trading day, namely March 3, 2014. Within the first week of March, the market prices dropped considerably and began to stabilize. On March 10, 2014 the trading value for gas at Dawn ranged from approximately $7.50 to $11.50/GJ (CAD). Pricing continued to fall and further stabilize in the weeks following. NRG acted reasonably in withholding its purchases during February 2014 with the reasonable expectation that prices would return to normal values prior to February 28, 2014. The exceptional conditions conspired against that reasonable expectation. The fact that price dropped substantially on the next trading day after February 28, 2014 indicates that NRG was acting reasonably.

23. It is my evidence that NRG did everything reasonably possible to meet its contractual obligations to provide the Winter Checkpoint Quantity and did nothing unreasonable in the circumstances in failing to meet 25,000 GJ of its outstanding 115,000 GJ obligation. NRG should therefore be entitled to a reduction in the penalty rate for February 28, 2014 to a reasonable price based on the historic norms indicated above for the price of gas or, in the alternative, Union's actual out-of-pocket costs.

24. NRG should not be penalized for any breach of contract or unwillingness to meet its contractual obligations or abide by prior Board Orders. NRG and its management team were diligent and watched market conditions and pricing daily. NRG also purchased gas monthly without exception. Although NRG was fully aware of the flow through cost recovery model, it was always acting to protect its customers by choosing to look for the lowest possible price

available in February in keeping with past experience. By asking Union to grant a modest, short-term deadline extension into March, NRG was confident that even that small window of time would be enough to alleviate pricing pressures and bring the spot price down to historic levels.

25. When NRG was advised by Union that there was no assistance for NRG, they were forced to purchase gas at existing spot rates. NRG was able to purchase, in six transactions, the majority of its shortfall from Shell Energy at an average price of $26.81/GJ.

26. On the days of February 26-28, NRG Managers spent their time focussed on purchasing gas in quantities sufficient to meet its' contractual requirements. NRG contacted secondary suppliers such as GoEnergy and Blackstone in attempts to purchase the remaining gas to satisfy the requirement. In addition, NRG invited match-making assistance from Union whereby Union supplied a potential contact for an in-franchise gas purchase. In spite of pursuing all avenues, NRG was unable to purchase ample gas required to completely meet its contractual obligations. NRG was advised that any further purchases of gas could not be delivered to the Dawn Hub after February 28.

27. In all of the above circumstances, NRG acted reasonably by looking towards a market solution, asking Union for assistance and being responsible to its customers in carrying out its Natural Gas purchase and delivery obligations. NRG should therefore be charged only a reasonable penalty amount, having regard to historic norms as set out above in paragraphs 13, 14 and 15 and/or Union's actual out-of-pocket costs for gas held in storage, being $4.87/GJ to $7.31/GJ.

28. Union has a unique asset in its storage capacity. Union made a presentation to a stakeholder conference in October 2010 regarding the Dawn Hub and its storage facilities. Now produced and marked as Exhibit A to my evidence is a copy of Union's presentation of October 2010.

29. The Dawn storage facility was upgraded over the last several years. Union has stated that the Dawn storage was ample at capacity to supply gas to 1.9 million homes for the entire year. Attached as Exhibit B to my evidence is an indication of Union's storage capacity at Dawn.

30. The existence and availability of natural gas from storage should have been part of Union's answer to the emergency conditions on February 28, 2014. This fact supports the fixing of the historic norms set out above or the actual out-of-pocket costs of Union for gas held in storage as the reasonable penalty rate for February 28, 2014 payable by NRG.

SWORN BEFORE ME at the City of St. Thomas, in the Province of Ontario, this 7th day of August, 2014.	)	
John Gundry, a Commissioner for taking Affidavits.	)	Brian Lippold

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2010 Natural Gas Market Review

Stakeholder Conference

Presentation by Union Gas

October 7-8, 2010

A Spectra Energy Company

This is Exhibit "A" referred to in the Affidavit of Brian Lippold sworn before me this 7th[th] day of August, 2014.

John Gundry, a Commissioner for Taking Affidavits.

Agenda

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1. Principles for Effective Gas Markets in Ontario
2. ICF Market Report and Supporting Trends
3. Market Response to Changing Supply Dynamics
4. Looking Out – Next 5 Years

Principles for Effective Gas Markets in Ontario

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Ontario will achieve a competitively priced, reliable gas market when there is:

1. A robust market hub with growing liquidity
2. No undue influence from any basin, route or company
3. A working market

Liquidity at the Dawn Hub is essential for providing cost-effective gas supply to Ontario

How is Market Hub Liquidity Created

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- A hub is a physical location, supported by extensive infrastructure where many natural gas buyers and sellers can easily transact.
- Characteristics include:
  - i. Physical infrastructure at hub (storage and pipeline)
  - ii. Physical/financial market for natural gas
  - iii. Price transparency
  - iv. Large number of potential buyers and sellers

Strength in these characteristics = Liquidity

The Dawn Hub

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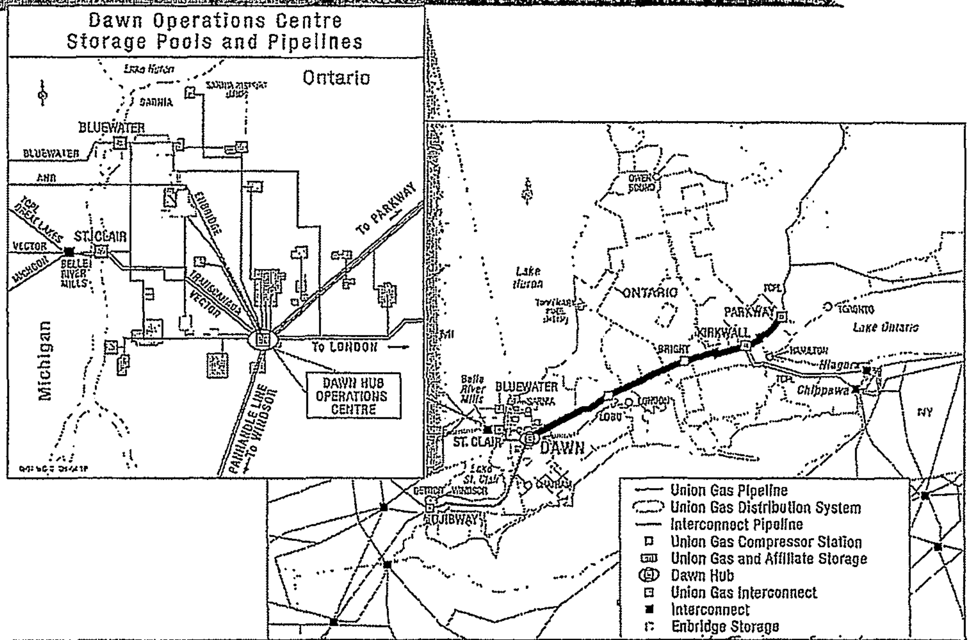

The Dawn Hub is an important interconnect between many pipelines and storage facilities

Commercial Activity at Dawn

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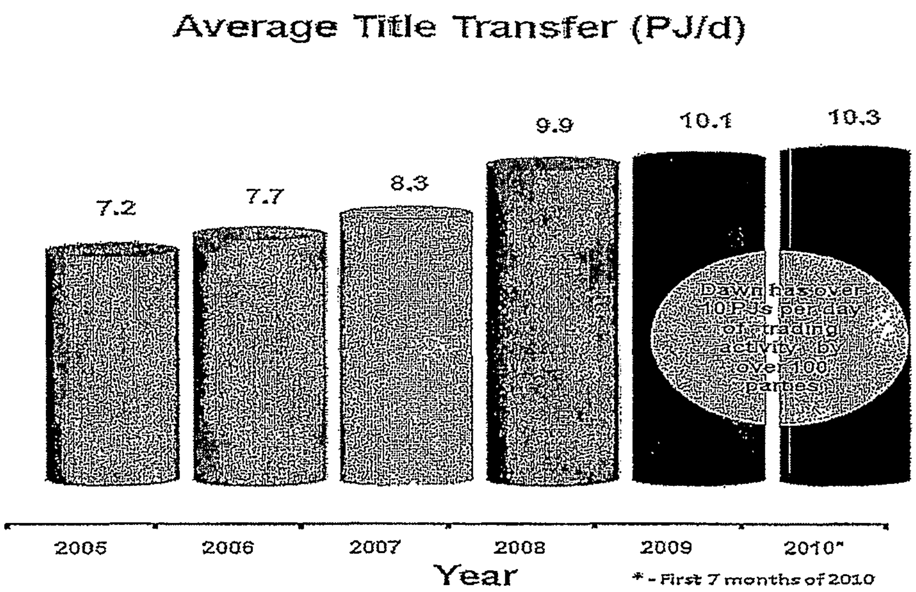

Dawn trades at over 3 times its physical capacity per day

Benefits to Ontario of Dawn Liquidity

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- The Dawn Hub provides Ontario with cost-effective supply through:
  - Price discovery
  - Accurate market signals
  - Diversity of supply options
  - Balance of supply and demand
  - Security of supply with multiple supply sources

Dawn liquidity allows for a competitive market in Ontario

The Dawn Hub

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"The Board concludes that it is in the public interest to maintain and enhance the depth and liquidity of the market at the Dawn Hub as a means of facilitating competition. One way to do this is to encourage the development of innovative services and to ensure access to those services. Choice is the bedrock of competition."

EB-2005-0551, Pg 45.

This NGEIR decision has led to a strong gas market and significant investment in Ontario

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ICF Market Report and Supporting Trends

ICF Market Report and Supporting Trends

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- Union Gas agrees with the majority of the findings in the ICF report
- Key trends in Ontario supporting ICF report:
  - Declining volumes on TCPL (Great Lakes Gas Transmission) into Dawn
  - Increasing TCPL tolls
  - Empress volumes flowing east declining; Dawn volumes flowing east increasing
  - Increasing Marcellus supply
  - Declining Kirkwall/Niagara/Chippawa exports
- Union Gas further believes that:
  - Supply options are indeed available to North customers
  - Marcellus gas will move into Ontario in greater volumes and sooner

Flow patterns are changing; Western Canada supply decline and emergence of Marcellus shale are primary drivers

Trends – Declining Supply on TCPL (Great Lakes) into Dawn

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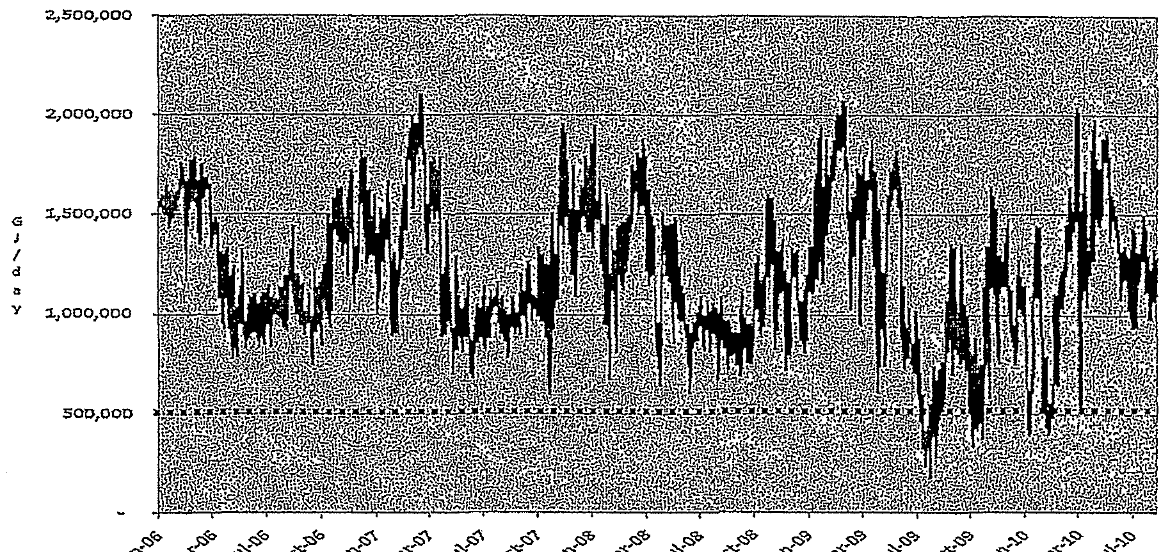

Flows into Dawn off Great Lakes have declined below 500,000 GJ/day for the first time

Trend – Increasing TCPL Tolls

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- Declining flows on TCPL have lead to increasing tolls. Over the last 24 months tolls from Empress to Parkway (Union CDA) have increased from $1.03/GJ to $1.64/GJ (59% increase)

- For 2011, continued contract reductions will result in further escalation in tolls under the current rate setting methodology.

WCSB supply shipped on TCPL to Ontario is now Union's most expensive supply option

Trend - Empress vs Dawn Flows

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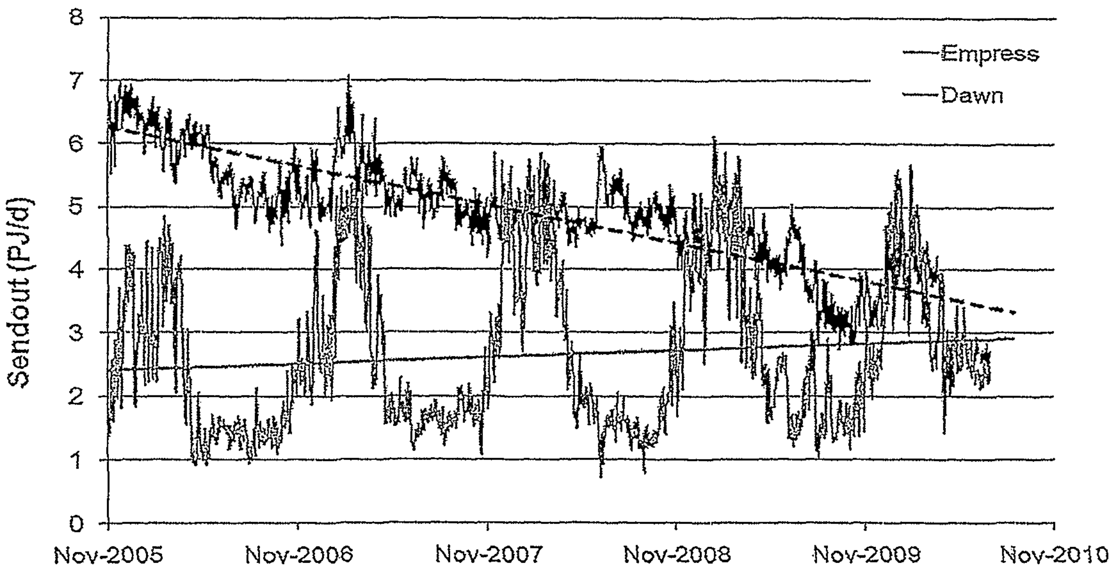

Exports have decreased from Western Canada to the East while Dawn exports have increased

Trend – Rapid Growth in Marcellus

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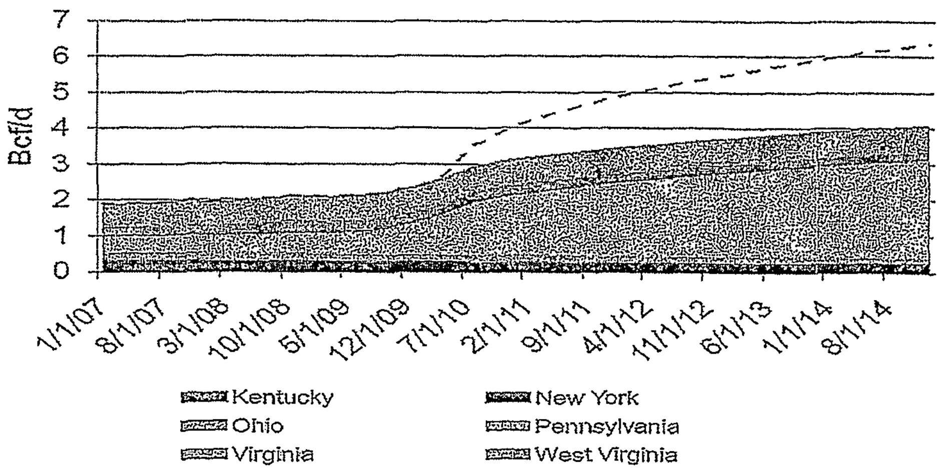
Appalachian Production Growth



Source: BENTEK

Marcellus Shale will continue to grow and will be an important source for Ontario supply going forward

Trend – Declining Flows at Kirkwall

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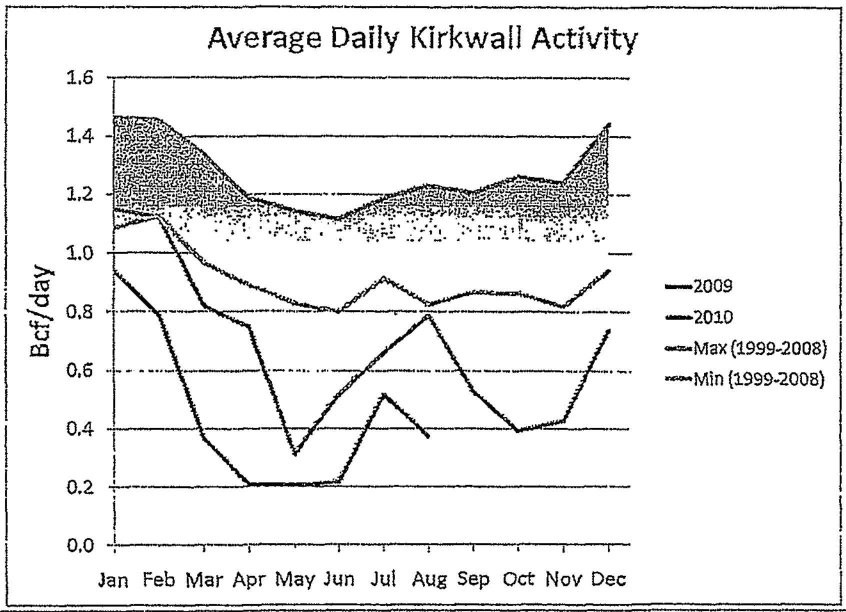

The US Northeast is relying less on easterly flows on the Dawn-Trafalgar system.

Trend - De-Contracting Risk of Dawn to Kirkwall (TCPL)

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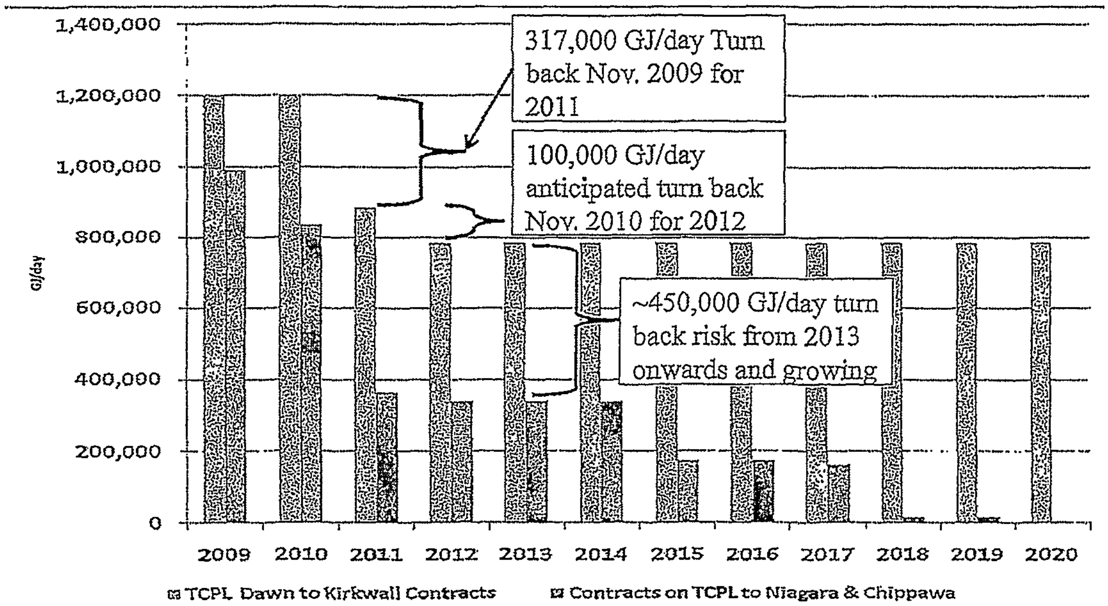

With the emergence of Marcellus supply, TCPL's need for Dawn – Kirkwall capacity for exports is diminishing. Dawn –Trafalgar asset must be re-purposed.

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Market Response

A number of projects and services have been proposed/developed to support the changing natural gas demand and supply in the Great Lakes/U.S. Northeast region.

Market Response

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1. Dawn Gateway Pipeline Project
2. Reversal of Dawn – Exports into Great Lakes Gas Transmission
3. Reversal of Kirkwall and Marcellus projects to supply Ontario
4. TCPL Mainline Competitiveness Initiative
5. System Supply – Supplying the North Differently and Sourcing Marcellus

Still required... Expansion of Parkway to Maple

The market is responding with competitive options

Dawn Gateway Pipeline Project

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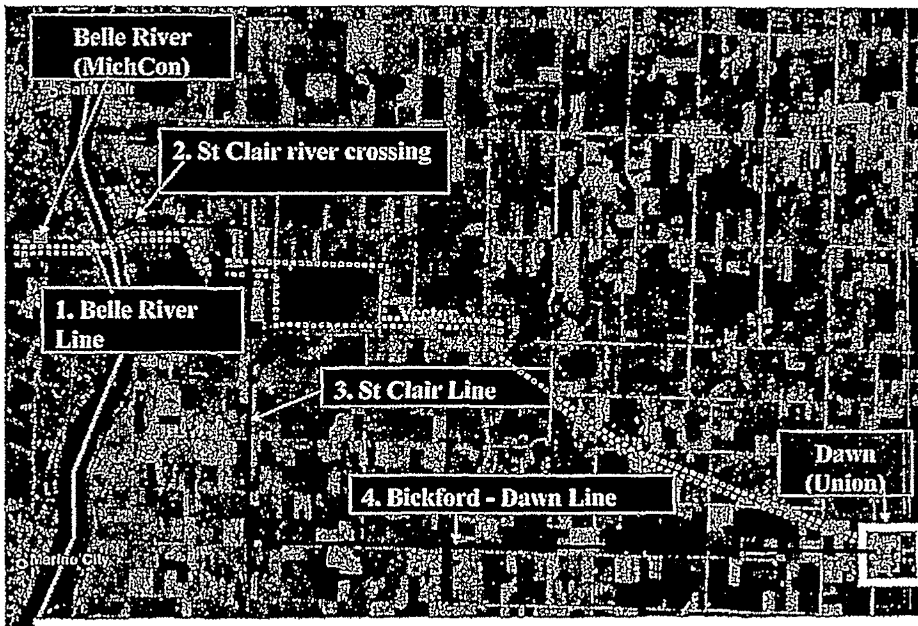

Update

- Gateway links Gulf Coast shale gas, Rockies gas and Michigan storage to Dawn (using other upstream pipelines)
- Working with market to see if interest exists for new open season
- Decision in Nov 2010 for 2011 construction

Dawn Gateway is an important link to emerging supply basins and upstream storage and will support gas moving to Ontario

Reversal of Dawn into TCPL (Great Lakes)

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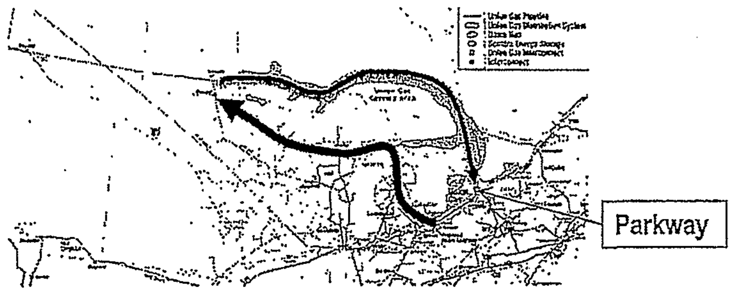
New service (Dawn-to-Dawn (TCPL)) added to allow reverse flow west out of Dawn into TCPL (Great Lakes)

- As long haul flows declined on TCPL, TCPL required this new service in order to physically move gas "around the horn" to meet its short haul obligations at Parkway and points east.
- Gas flows approximately 3800 km "around the horn" rather than 250 km Dawn to Parkway.
- Although moving gas back to Manitoba and forward again to Parkway is inefficient, it is necessary until Parkway to Maple is expanded so that gas can then simply move from Parkway to Maple directly



A "stop-gap" service has been added. A required permanent solution is a Parkway to Maple expansion

Marcellus Imports

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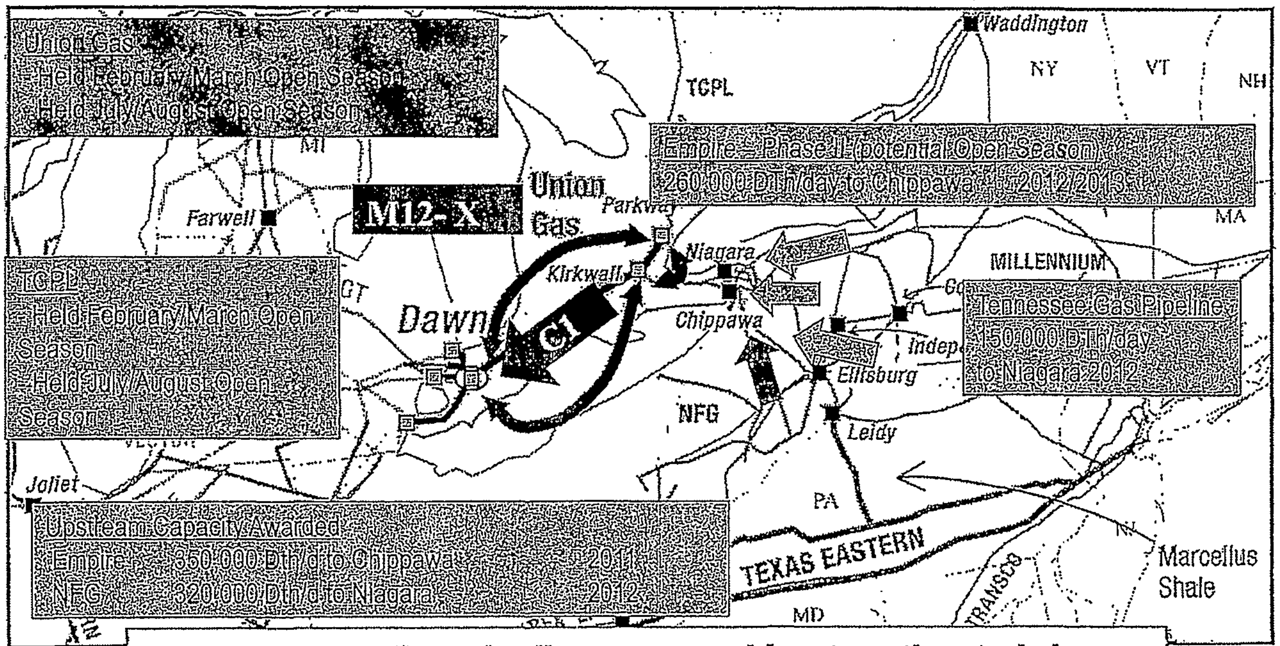


Interconnecting pipelines are working together to bring Marcellus Supply to Ontario

TCPL Mainline Competitive Initiative

uniongas

- TCPL has engaged the industry through their Tolls Task Force to evaluate changes to the TCPL framework to bring lower stabilized tolls

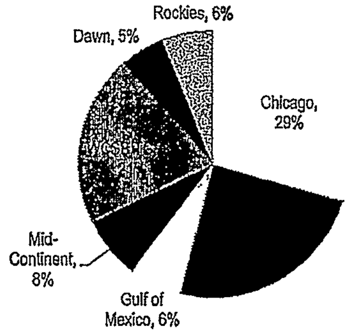
- Union supports the initiative, assuming:
  - Short haul tolls are kept as low as possible and not compromised by shifting long haul costs to short haul paths. Dawn will only stay relevant if volumes can be shipped within Ontario and to east markets competitively (otherwise other paths will emerge and bypass Ontario)
  - Expanding capacity between Parkway and Maple is a priority

Competitive short haul tolls and a Parkway to Maple expansion is essential to the Ontario market

Changes to System Supply

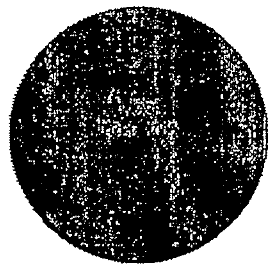
uniongas

Current South Portfolio



TCPL long haul lands 93¢/gj (20%) more expensive than Dawn supply

Current North Portfolio



Future:

1. **Union Gas is actively working to bring supply diversity to the North by 2013**
   - Requires new services to allow "backhaul" and peaking service from Parkway to the north
   - Participated in TCPL open season for service from Parkway to the EDA and the NDA
2. **Union Gas participated in TCPL open season to allow Marcellus supply (through Niagara) into the north and south supply mix for 2012**
3. **Should consider a Dawn reference price for Ontario LDCs as supplies change**

Greater supply diversity will be available for Ontario

Urgent Need to Expand Parkway to Maple

uniongas

Purpose

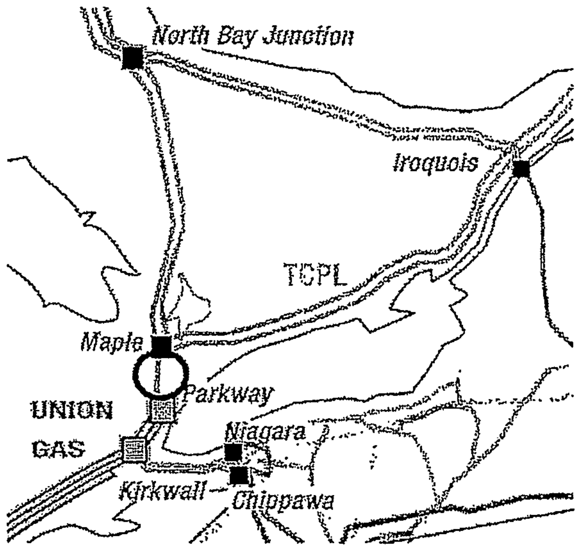
- To relieve capacity constraint between Parkway and Maple. Current pipe is a 36" single line built in 1958 that is at capacity

Project Requirements

- Expand and/or build Parkway to Maple
- Incremental volume –1,000,000 GJ/d
- In-service 2013 or sooner

Benefits

- **Supports liquidity and growth at Dawn**
- Provides increased security of supply for Ontario
- Provides greater diversity of supply for Ontario
- Allows Dawn-Trafalgar system to be re-purposed from Kirkwall exports to Parkway exports



Bottleneck from Parkway to Maple is limiting the movement of supply into and around Ontario

uniongas

Looking Out – Next 5 Years

Looking Out – Next 5 Years

uniongas

In Union's view it is essential for Ontario to preserve and grow the liquidity at Dawn in order to maintain cost effective supply for consumers

How?

- Expand capacity between Parkway and Maple to support increased supply diversity for all of Ontario, and increased security of supply for customers downstream of Parkway
- Continue to let the market work and adapt
- Continue timely regulatory approval for new services and facilities (like Dawn-to-Dawn (TCPL))
- Continue to support alternative forms of regulation (like NEB Group 2).
- Support (by the Ministry and OEB) the growth of Dawn and Dawn liquidity and the growth of incremental supply paths to Ontario

Dawn liquidity is essential in providing cost effective gas to Ontario

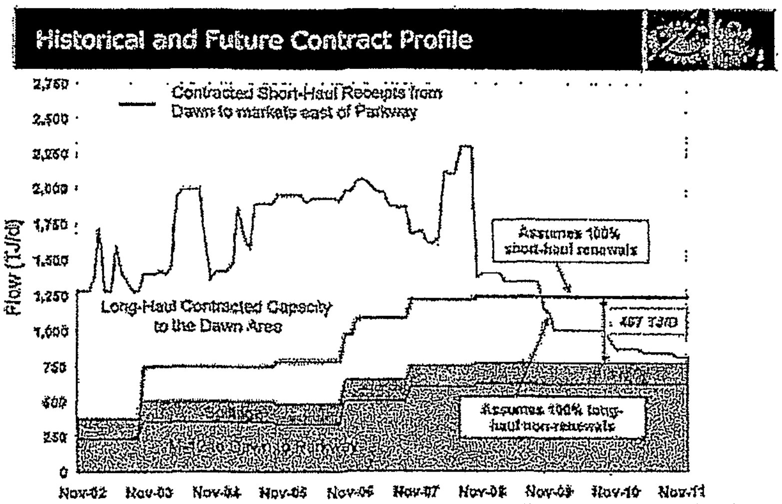
uniongas

Appendix

Need for Parkway to Maple Expansion

uniongas

TCPL Obligations vs Capacity for Dawn to Points East:



- TCPL has historically contracted with shippers to move gas from Dawn to points east
- Since 2003 these contracts have been of greater volume than TCPL's ability to serve physically through the Dawn-Parkway system (red line on graph)

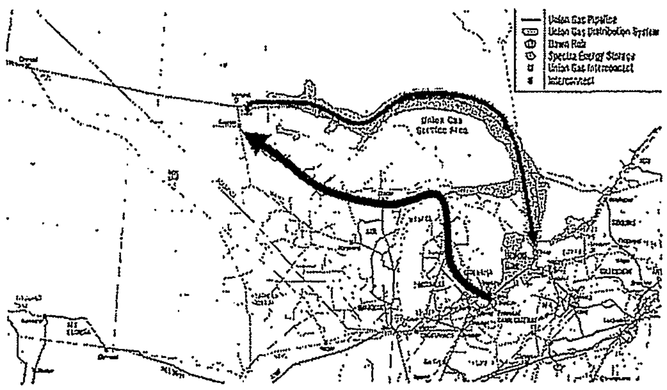
Since 2003 TCPL's Dawn to Parkway (and points east) obligations exceeded its physical contracted capacity

Need for Parkway to Maple Expansion (Cont'd)

uniongas

How does "Around the Horn" work

- Customer A - has gas at Dawn, and they nominate to TCPL to have the gas moved to Parkway tomorrow
- Customer B - has gas at Empress (Alberta) and nominates to have the gas delivered to Dawn tomorrow
- TCPL would flow gas for Customer B from Empress to Emerson and "divert" the gas to Parkway. At Parkway, TCPL will deliver Customer B's gas to Customer A, to satisfy Customer A's nomination



- At Dawn, TCPL gives Customer B, Customer A's gas to fulfil Customer B's nomination
- This works well provided Customer B's gas is equal to or larger than Customer A's gas in quantity
- If it is not, TCPL would need to physically move some or all of Customer A's gas "around the horn"

Moving gas around the horn undermines the efficient movement of gas around and through Ontario

Cheryl-Anne Robinson

From: John A. Campion
Subject: FW: More info re: Union Gas

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: March-05-14 11:43 AM
To: Hutton, Robert E.; John A. Campion; Laurie O'Meara; ahguk@aol.com
Subject: RE: More info re: Union Gas

Segment	Capacity (GJ)	Scheduled Capacity (GJ)	Available Capacity (GJ)
DAWN TO PARKWAY	4,630,000	2,979,786	1,650,214
PARKWAY TO DAWN	1,940,000	0	1,940,000
DAWN TO KIRKWALL	540,000	0	540,000
KIRKWALL TO DAWN	540,000	0	540,000
PARKWAY TO KIRKWALL	540,000	0	540,000
KIRKWALL TO PARKWAY	540,000	248,275	291,725
DAWN TO OJIBWAY	152,000	0	152,000
OJIBWAY TO DAWN	152,000	141,400	10,600
DAWN TO BLUEWATER	133,000	0	133,000
BLUEWATER TO DAWN	133,000	64,377	68,623
DAWN TO ST CLAIR	340,000	0	340,000
ST CLAIR TO DAWN	340,000	221,562	118,438
DAWN TO DAWN-VECTOR	91,000	0	91,000
DAWN TO DAWN-TCPL	500,000	0	500,000
DAWN TO AIRPORT STORAGE	109,000	0	109,000
AIRPORT STORAGE TO DAWN	109,000	0	109,000
DAWN TO TIPPERARY	51,000	0	51,000
TIPPERARY TO DAWN	51,000	2,301	48,699
DAWN TO ST CLAIR STORAGE	91,000	0	91,000
ST CLAIR STORAGE TO DAWN	91,000	0	91,000
DAWN TO CHATHAM STORAGE	27,000	11,499	15,501
			27,000

This is Exhibit "B" referred to in the Affidavit of Brian Lippold sworn before me this 7th day of August, 2014.

John Gundry, a Commissioner for Taking Affidavits.

EB-2014-0154

IN THE MATTER OF *the Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B);

AND IN THE MATTER OF a hearing of the Ontario Energy Board on its own motion in order to determine the Application by Union Gas Limited for an order or orders approving a one-time exemption from Union Gas Limited's approved rate schedules to reduce certain penalty charges applied to direct purchase customers who did not meet their contractual obligations.

ONTARIO ENERGY BOARD

AFFIDAVIT of BRIAN LIPPOLD

FASKEN MARTINEAU DuMOULIN LLP
333 Bay Street, Suite 2400
Bay Adelaide Centre, Box 20
Toronto, Ontario M5H 2T6

John A. Campion

Tel: 416.865.4357
Fax: 416 364.7813
Email: jcampion@fasken.com

Counsel to National Resource Gas Ltd.

(b) Please respond to Mr. Warner's argument that there was gas available to be purchased on February 28 (prior to the winter checkpoint).

Answer: Mr. Warner's letter commentary is not evidence. One cannot determine the circumstances in which Mr. Warner is speaking. By reasons of the answer given to Interrogatory 1(a) and Interrogatory 1(c), it is obvious that Mr. Warner is incorrect. There is no other actual evidence other than that given by NRG. Mr. Warner's commentary should therefore be rejected.

Shell's commentary given on February 26, 2014 that: "… there will most likely be very little to no same day gas for the next couple of days …" was accurate and was borne out in NRG's experience.

Additionally, NRG was told that while natural gas was traded across North America and could be theoretically purchased on February 28, the trader or agent would be required to offer the highest bid on the trading floor at a price that could only be categorized as unreasonable. Offers made by NRG were left unaccepted. In any event, the volumes offered were extremely small and could not be delivered to Union in time to meet the deadline.

(c) Please provide any documentation (i.e. emails, memos, etc.) which demonstrates that NRG attempted to purchase the remaining shortfall related to its balancing requirement (25,496 GJs) but was not successful.

Answer: Please see attached.

AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 25, 2014 8:44 AM
To: Bloedow, Sarah SENAC-STE/34
Subject:

Can you let me know what market starts at today and then give me another snapshot 30 min after.

Brian Lippold,
General Manager
Natural Resources Gas Ltd.
39 Beech St. E. | Aylmer, ON N5H 3J6
P: 519 773 5321 ext 205 | F: 519 773-5335
Mail to : brian@nrgas.on.ca

Natural Resource Gas Limited

Companies within the Shell Trading business may monitor and record communications for legal, regulatory and/or business purposes. Such communications will be controll (US) LP on behalf of all Shell Trading entities within the United States and by Shell International Trading and Shipping Company Ltd for all other Shell Trading entities. Pe accordance with applicable data protection laws and relevant Shell policies and rules. Personal data may be disclosed to other Shell companies and to third party organizatio Shell Company or as required by law.

Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-25-14 9:00 AM
To: Brian Lippold
Subject: RE:

Hi Brian,
No problem, I'll send pricing over in a bit once things get going.

Sarah

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 25, 2014 8:44 AM
To: Bloedow, Sarah SENAC-STE/34
Subject:

Can you let me know what market starts at today and then give me another snapshot 30 min after.

Brian Lippold,
General Manager
Natural Resources Gas Ltd.
39 Beech St. E. | Aylmer, ON N5H 3J6
P: 519 773 5321 ext 205 | F: 519 773-5335
Mail to : brian@nrgas.on.ca

Natural Resource Gas Limited

Brian Lippold

From:	sarah.bloedow@shell.com
Sent:	February-25-14 9:43 AM
To:	Brian Lippold
Subject:	RE:

Hi Brian,
Dawn is now at $23.45 CAD/GJ for tomorrow.

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: Bloedow, Sarah SENAC-STE/34
Sent: February 25, 2014 9:23 AM
To: 'Brian Lippold'
Subject: RE:

Hi Brian,
Dawn is currently offered at $26.50 CAD/GJ for Feb 26th.

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302

Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-26-14 9:26 AM
To: Brian Lippold
Subject: Dawn pricing

Hi Brian,
Indicative Dawn offer for tomorrow is $23.65 CAD/GJ.

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

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Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-26-14 10:01 AM
To: Brian Lippold
Subject: RE: Dawn pricing

Hi Brian,
Dawn is now offered at $30.25 CAD/GJ for tomorrow.

From: Bloedow, Sarah SENAC-STE/34
Sent: February 26, 2014 9:26 AM
To: 'Brian Lippold'
Subject: Dawn pricing

Hi Brian,
Indicative Dawn offer for tomorrow is $23.65 CAD/GJ.

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

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From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:45 PM
To: Brian Lippold
Subject: RE: Spot

Hi Brian,
The Nymex March contract expires at 2:30 PM ET today. After that, the market is no longer liquid, therefore you should get

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 1:42 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

You said that end of day was the deadline, correct?

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:05 PM
To: blippold@rogers.com; Brian Lippold
Subject: RE: Spot

Hi Brian,

The market keeps going up. Here are current offers for March:

Next month typical 4.20-4.30 (PKWY) 380+fuel (EMP.)

Parkway: $13.25 CAD/GJ
Empress: $5.93 CAD/GJ

Please confirm that you would like to go ahead with the following for March:

303 GJ/day Parkway
192 GJ/day + fuel Empress

Thanks,
Sarah

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: Brian Lippold [mailto:blippold@rogers.com]
Sent: February 26, 2014 1:00 PM
To: Bloedow, Sarah SENAC-STE/34; 'Brian Lippold'
Subject: RE: Spot

We'll have to take that at same volumes as last month. I'll resend those volumes to Patrick with March for his approval.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 11:15 AM
To: Brian Lippold
Subject: RE: Spot

Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-26-14 3:15 PM
To: Brian Lippold
Subject: RE: Spot

Hi Brian,
I just wanted to let you know that we sold all of that $24 gas.

Give me a call when you want to continue our discussion on your checkpoint gas.

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 2:00 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

I won't go anywhere.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:58 PM
To: Brian Lippold
Subject: RE: Spot

Ok great, I'll call you in a bit.

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 1:57 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

I was just on the phone when you called. I am here.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:56 PM
To: Brian Lippold
Subject: RE: Spot

Thanks Brian. Are you around this afternoon for me to call you about the Dawn checkpoint?

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 1:55 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

No issue with that. Go ahead.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:54 PM
To: Brian Lippold
Subject: RE: Spot
Importance: High

Parkway: $14.02 CAD/GJ
Empress: $6.03 CAD/GJ

I'm getting these done for you before the market goes up more. If you have any issue with that please call me asap at 416-2

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 1:48 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

If it trends to keep going up then lets action on those volumes. Go ahead. This year is nuts!

Hi Brian,
Current March offers are:

Parkway: $12.30 CAD/GJ
Empress: $5.75 CAD/GJ

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 11:10 AM
To: Bloedow, Sarah SENAC-STE/34
Subject: Spot

What's our March spot for Empress and Parkway at moment?

Brian Lippold,
General Manager
Natural Resources Gas Ltd.
39 Beech St. E. | Aylmer, ON N5H 3J6
P: 519 773 5321 ext 205 | F: 519 773-5335
Mail to : brian@nrgas.on.ca

nRG
Natural Resource Gas Limited

The market keeps going up. Here are current offers for March:

Parkway: $13.25 CAD/GJ
Empress: $5.93 CAD/GJ

Please confirm that you would like to go ahead with the following for March:

303 GJ/day Parkway
192 GJ/day + fuel Empress

Thanks,
Sarah

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: Brian Lippold [mailto:blippold@rogers.com]
Sent: February 26, 2014 1:00 PM
To: Bloedow, Sarah SENAC-STE/34; 'Brian Lippold'
Subject: RE: Spot

We'll have to take that at same volumes as last month. I'll resend those volumes to Patrick with March for his approval.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 11:15 AM
To: Brian Lippold
Subject: RE: Spot

I was just on the phone when you called. I am here.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:56 PM
To: Brian Lippold
Subject: RE: Spot

Thanks Brian. Are you around this afternoon for me to call you about the Dawn checkpoint?

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 1:55 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

No issue with that. Go ahead.

From: sarah.bloedow@shell.com [mailto:sarah.bloedow@shell.com]
Sent: February-26-14 1:54 PM
To: Brian Lippold
Subject: RE: Spot
Importance: High

Parkway: $14.02 CAD/GJ
Empress: $6.03 CAD/GJ

I'm getting these done for you before the market goes up more. If you have any issue with that please call me asap at 416-2

From: Brian Lippold [mailto:brian@nrgas.on.ca]
Sent: February 26, 2014 1:48 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: RE: Spot

If it trends to keep going up then lets action on those volumes. Go ahead. This year is nuts!

Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-26-14 5:06 PM
To: Brian Lippold; blippold@rogers.com
Subject: Dawn checkpoint

Importance: High

Hi Brian,
I understand that you're trying to get the best pricing for your checkpoint gas, but in order for me to be able to help you wit something to work with. As I mentioned to you on the phone earlier, we do sometimes have opportunities come up where gas under market prices. Unfortunately, since you've given me no direction on how you're planning on dealing with your ch on several of those opportunities.

I will be out of the office tomorrow morning, so if you are looking for any Dawn pricing, please send an email to gxtrinsidesa specify the volume you are looking to purchase. One of my co-workers will be able to price you, but please keep in mind th give the go ahead right away if you like the price. My suggestion would be to buy 30,000 GJ tomorrow morning at market p reasonable target based on that for the remaining volume, which our trader can watch and transact for you if the market ge likely be very little to no same day gas for the next couple of days, so if you are planning on balancing to your checkpoint, yc tomorrow.

We are really running out of time here, and I can give you some more details on how we see the rest of the month panning call at 416-227-7302. I'll be here until about 5:30 pm today.

Sarah

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci

Brian Lippold

From: blippold@rogers.com
Sent: February-26-14 5:58 PM
To: sarah.bloedow@shell.com; Brian Lippold
Subject: Re: Dawn checkpoint

We made the commitment to UG at 4:10pm and Patrick okayed the nom. We'll be advising you tomorrow morning opening price and then advise you to move within 90 min.

Hopefully, we'll be able to deliver by end of day 28th.

The pattern has been there to start the market high and. Then dip by 10:30 so we'll buy then but we have formally n discussions with Union.
Sent wirelessly from my BlackBerry device on the Bell network.
Envoyé sans fil par mon terminal mobile BlackBerry sur le réseau de Bell.

From: <sarah.bloedow@shell.com>
Date: Wed, 26 Feb 2014 22:06:02 +0000
To: <brian@nrgas.on.ca>; <blippold@rogers.com>
Subject: Dawn checkpoint

Hi Brian,
I understand that you're trying to get the best pricing for your checkpoint gas, but in order for me to be able to help you wit something to work with. As I mentioned to you on the phone earlier, we do sometimes have opportunities come up where gas under market prices. Unfortunately, since you've given me no direction on how you're planning on dealing with your ch on several of those opportunities.

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Brian Lippold setup - conference call

From: Brian Lippoid
Sent: October-27-14 10:22 AM
To: Brian Lippoid
Subject: FW: Discretional Gas Supply Service - Pricing

From: Boyer, Patrick [mailto:PBoyer@uniongas.com]
Sent: February-26-14 12:08 PM
To: Boyer, Patrick; Brian Lippold; blippold@rogers.com
Cc: Laforet, Jim
Subject: Discretional Gas Supply Service - Pricing

Brian,
Here is an indication of the pricing today for gas purchases at Dawn. Actual price will be dependent on when a purchase is r

C$/GJ	High	Low	Most Recent
Same day	$ 26.30	$ 22.09	$ 26.30
Next Day	$ 30.51	$ 23.14	$ 29.19
Balance of Feb	$ 24.72	$ 24.72	$ 24.72

Patrick Boyer
Manager, Greenhouse, REM and Wholesale Markets
Union Gas Limited, A Spectra Energy Company
phone: 519-436-5470
cell: 519-436-4915
email: pboyer@uniongas.com

From: Boyer, Patrick
Sent: February-26-14 11:23 AM
To: 'brian@nrgas.on.ca'; 'blippold@rogers.com'
Subject: Conference Call

Phone Number: 1-866-826-8611
Conf. Code: 5020177

Patrick Boyer
Manager, Greenhouse, REM and Wholesale Markets
Union Gas Limited, A Spectra Energy Company
phone: 519-436-5470
cell: 519-436-4915
email: pboyer@uniongas.com

Called Union to arrange a conference call to see if they could provide assistance by way of purchasing. Do they have better resources was our rationale

Brian Lippold

From: Amanda.Hardcastle@shell.com
Sent: February-27-14 11:40 AM
To: Brian Lippold
Cc: sarah.bloedow@shell.com
Subject: Transactions done as of 11:30 am

Importance: High

Here is a summary of the transactions we have completed so far today...

Delivery Date	VOLUME (GJs)	PRICE CAD
Feb 27th	5,275	$25.10
Feb 28th	20,000	$26.35
Feb 28th	10,000	$26.10
Feb 28th	10,000	$25.86
Feb 28th	5,000	$26.90
Feb 28th	8,100	$28.65
TOTAL	**58,375**	

Left to do	**57,148**

Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-27-14 12:07 PM
To: Brian Lippold; blippold@rogers.com
Subject: Dawn title transfer availability

Hi Brian,
We may have 10-20,000 GJs of title transfer gas available. The price would be $28.00/GJ. Any interest?

Sarah

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

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Brian Lippold

From: scopserv@nrgas.on.ca
Sent: February-27-14 12:09 PM
To: Brian Lippold
Subject: [VoiceMail] New Message from "Sarah Bloedow" <914162277302>
Attachments: Voicemail sound attachment.WAV

Dear Brian Lippold:

just wanted to let you know you were just left a 0:31 long message (number 1) in mailbox 205 from "Sarah Bloedow" <9141
February 2014 at 12:08:44 so you might want to check it when you get a chance. Thanks!

--ScopServ

Title transfer offered -
will write in transcript.

20,000 GJs @ 24.00 CAD.
disappeared (sold) within minutes
of receiving message.

Brian Lippold

From: sarah.bloedow@shell.com
Sent: February-27-14 1:20 PM
To: blippold@rogers.com
Subject: RE: Dawn title transfer availability

Thanks, I'll send you the confirmation once it's all done in Union's system.

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

From: blippold@rogers.com [mailto:blippold@rogers.com]
Sent: February 27, 2014 1:15 PM
To: Bloedow, Sarah SENAC-STE/34
Subject: Re: Dawn title transfer availability

Good with it
Sent wirelessly from my BlackBerry device on the Bell network.
Envoyé sans fil par mon terminal mobile BlackBerry sur le réseau de Bell.

From: <sarah.bloedow@shell.com>
Date: Thu, 27 Feb 2014 18:04:54 +0000
To: <blippold@rogers.com>
Subject: RE: Dawn title transfer availability

Hi Brian,
The volume available at $28.75/GJ is actually 30,000 mmbtu, so 31,652 GJ. I assume you're good with taking that extra volume, but just want to check to make sure. Let me know.

Thanks,
Sarah

Sarah Bloedow
Shell Energy North America (Canada) Inc.
90 Sheppard Avenue East, Suite 600, Toronto, Ontario, M2N 6Y2
Tel: 416-227-7302
AOL: sbloedowceci
Email: sarah.bloedow@shell.com

(d) Please discuss whether any financial / credit constraints were the cause of NRG's inability to purchase the remaining 25,496 GJs of natural gas.

Answer: The financial constraints on NRG's action regarding the purchase of 25,496 GJs of natural gas arose from NRG's concern about the impact on its customers. At no time was it expected that NRG would be paying any part of the gas costs. The Board in its decision EB-2014-0154 has accepted the evidence of Brian Lippold and Union Gas Ltd. and the position of all parties intervening in that case that: (1) in the period November 2013 to March 2014, there were exceptional weather conditions that affected all consumers in Ontario; (2) the winter of 2014 was extraordinary; (3) the conditions of weather and other circumstances were so extreme that the Board amended the penalty rate from $78.73 per GJ to $50.50 per GJ; (4) in fixing the penalty rate, the Board understood that NRG was a utility that had asked to have the usual order, namely that gas costs were passed through to the customers.

At no time has the Board ever refused to pass through gas costs of NRG. Financial and credit constraints could therefore not be relevant in NRG's purchasing decisions. Indeed, having regard to the findings already made by the Board in Union's application to amend the penalty amount, and the extreme weather which led to this decision, the normal regulatory considerations regarding gas purchasing had been set aside. NRG supports the Board's rationale and the natural conclusion that must be drawn from that rationale, namely that the gas costs incurred by NRG and the penalty incurred by NRG was in the best interests of the consumers and understandable in the extreme conditions now recognized by the Board.

In its Reasons for Decision in EB-2014-0154, the Board has contemplated that other Union direct purchase customers who failed to meet balancing requirements at the end of February 2014 may have paid more than $50.50 per GJ. The fact that other direct purchase customers paid more than $50.50 per GJ in February 2014, some $28.00 less than the highest price in the market in the month of February 2014 renders NRG's conduct in purchasing at approximately $26.00 per GJ and paying a penalty rate at approximately $50.50 per GJ prudent even though the latter amount is a penalty rate. NRG sought and seeks to protect its customers originally through good purchasing practices, secondly through posing the $78.73 per GJ penalty rate sought to be imposed by Union, supporting Union's application to reduce the penalty rate and seeking a "windfall-free" rate related to Union's costs (approximately $4.00 to $7.00 per GJ). NRG's actions in the February 2014 marketplace and thereafter were all taken at some cost to NRG and in support of its customers in order to minimize the cost of natural gas in the province of Ontario.

Interrogatory #2:

(a) **Please explain why NRG elected to be a direct purchase customer of Union Gas Limited ("Union"). Please provide any analysis that was undertaken at the time that NRG made the decision to become a direct purchase customer.**

Answer: NRG elected to be a direct purchaser of Union Gas Limited to obtain the least costly and most secure supply of natural gas for its own customers. Indeed, some of NRG's own direct purchase customers themselves chose to have a direct purchase arrangement with NRG.

This arrangement was and has been approved by the Ontario Energy Board since its inception. All purchases of gas under the direct purchase program have been passed on to NRG consumers after Board approvals.

There is no available written analysis made at the time that the direct purchase program was first available and undertaken.

(b) Please provide the date when NRG first elected to be a direct purchase customer.

Answer: The exact date that NRG first elected to be a direct purchaser is no longer available in the Company records. NRG was a direct purchase customer from at least 1996 forward.

(c) **Please discuss whether NRG has ever considered being a system gas customer of Union.**

Answer: Up to the commencement of the direct purchase program, NRG was a system customer of Union. Since that date, NRG has continuously been a direct purchase customer of Union. All results of these arrangements have been approved by the Board.

(d) **Please outline NRG's existing contractual commitments for gas supply. Please provide the capacity that NRG has contracted for and the dates on which these contracts end. Please file the requested information in a manner that would not raise any confidentiality concerns.**

Answer: For part of the answer, it is necessary to review the answer to Interrogatories 1(a) and (b). Below is a chart setting out DCQ purchases made for the period November 2014 to November 2015 and November 2015 to October 2016.

On Contract	Nov 14 - Oct 15**		Nov 15 - Oct 16	
Parkway	989	$4.54	1,250	$4.71
Dawn	261	$4.56		
Dawn	39	$4.43		
Dawn **(Dec 14 to Oct 15)	400	$4.32		
Empress	366	$3.65	405	$3.93
	2,055		1,655	
Direct Purchasers	197		197	
Spot	128		528	
Current DCQ	2,380		2,380	

(e) Please provide NRG's views on migrating to a system gas arrangement with Union.

Answer: This is not a request for evidence, but the request for an opinion on a prospective basis. If the Board directs that NRG consider its gas purchasing arrangements then it will do so in a meaningful and professional manner but, in the interim, NRG is not in a position to give its opinion on "migrating to a system gas arrangement with Union".

Interrogatory #3:

Reference: NRG Responses to Board Staff Questions (March 19, 2014)

Preamble: In response to Board staff's question #4(v), NRG stated that the manager arranges day-to-day unexceptional purchases of natural gas. However, in February, the President of NRG authorized the purchase volumes at the high spot prices that were present in the market.

(a) **Please discuss the experience / training of the personnel who make gas purchasing decisions for NRG.**

Answer: Enclosed is the CV of Mr. Brian Lippold, the General Manager of NRG. He works with Shell Canada's natural gas purchasing department as is indicated in the emails filed in the answer to Interrogatory 1(c). Shell is a well known international conglomerate with world level expertise in, *inter alia*, the purchase of natural gas. NRG subscribes to *Platts' Financial* which gives subscribers market data for natural gas pricing, analysis and reporting for all North American markets.

BRIAN LIPPOLD
30 ENSLEY PLACE, PT. STANLEY ON N5L 0A1
HOME PHONE: 226 658-1200 • MOBILE: 519 494-7865
blippold@rogers.com

Experience

2013-Present **Natural Resources Gas Ltd.**

General Manager

- Development and/or improvement operations and administrative policies and processes
- Ng purchasing/demand analysis; contract & volume management of Direct Purchasers
- Liaise with industry regulators and local government
- Hiring, training and development of staff
- Management P & L statements – financial analysis
- Field management of internal and contracted resources
- Business development; system growth + ancillary sales growth
- JHSC Designated Employer
- Fleet and facilities Management
- Implement digital field mapping, Mobile workforce management, CIS technology

2012- Present **Jem-Dor Woodcraft/Dynamic Kitchens/Kitchens Inc.**

Vice-President/ Owner

- Acquired a 38-year-old established cabinetry business
- To date, we have grown revenues by 25% (to 2.8 M in sales)
- Consolidated the corporations and introduced an additional brand
- Procured and launched use of manufacturing CNC technology
- Developed I.T. infrastructure, customer service metrics and accounting processes
- I direct all aspects of Marketing, Finance, Production as well as HR/H&S.

2009 – 2012 **Reliance Home Comfort**

Manager, Builder Market and Commercial Dealers

- Managed sales activities for approx. 50 commercial dealers across Ontario
- Responsible for builder relations, technical training, sales and service activities
- Budgeting/forecasting demand- based on regional construction activity and economy
- Built and maintained 80% market share
- Ensured new products aligned with needs of market
- Member of 5 Ontario Home Builders' Associations (Board member of 2)
- Marketed products to create demand and ensure multiple RMR products

2008 –2009 **Reliance Home Comfort**

Branch Manager, Tri-City

- Managed up 3 Supervisors, 54 field staff, 2 admin and >15 contractors
- Responsible for recruiting, hiring, coaching, training, Labour relations + P&L
- Accountable for fleet and maintenance programs
- Recruit, negotiate and manage contracted/partner service providers
- Liaison to TSSA, suppliers and local Utility (Union Gas)
- Joint Health and Safety "Designated Employer"
- Established metrics, steering broken branch to highest performance numbers in the company.

2007 – 2008 Reliance Home Comfort

Project Manager, Operations Support Project RISE (Service Reengineering)

- Developing business models and tactical plans for managing a mix of internal labour resources and external contracted labour resources aimed at improvement of customer service levels and weakening Union negotiating position.
- RISE (Reengineering Initiative for Service Excellence) Trainer – Development of field staff processes and training programs/ documentation in preparation for a wireless mobile workforce management system implementation.
- Launched a web portal for work order and invoice completion by contractors. i trained all provincial contractors to comply with new processes. Removed need for 16 clerk and 2 AP roles.

2005 - 2007 Reliance Home Comfort (rebranded Union Energy)

Operations Manager (Service), London & region

- Managed up to 24 direct reports (Field Service Technicians)
- Managed field Service Operations for 40,000 annual customer service episodes;
  Rental Water Heaters, HVAC COD, Commercial WH service, CPP plans and Rental HVAC service
- Responsible for recruiting, hiring, coaching, training and Union/Management relations
- Accountable for fleet and maintenance programs
- Recruit, negotiate and manage contracted/partner service providers
- Liaison to TSSA, suppliers and local Utility (Union Gas)
- improve service levels
- Joint Health and Safety Committee Chair
- London Home Builders Associate Member and Builder technical liaison
- Managed to and controlled operational budget within set parameters

2001-2003 Union Energy LP– A Division of Epcor

Residential/Commercial Sales Advisor

- Managed installation agents
- Managed projects and installations
- Lead company in rental new water heater adds
- Top 3 HVAC revenue performer - company-wide
- 2001 and 2003 Winner of Top Gun Sales award
- Managed bids for multi-unit projects (i.e. UWO Housing/London Housing)
- Trained in Airtime Million Dollar sales program/Power Performing Technician

1999-2001 Union Energy – West Coast Energy

Sales Coordinator/ Marketing Manager (Southwest District)

- Contributed to >30% growth of revenues
- Prospected, secured and managed large business development projects
- Increased yearly sales margins from 20% to 32% (product and installation margins)
- Sourced, purchased and received all finished goods for installation
- Controlled flow of sales work, compensated sales reps
- Responsible for $1.5 M marketing budget and all marketing activities
- Built/maintained relationships with key accounts, suppliers, and utility partners
- Compensated, scheduled, coached staff
- Organized trade shows

Education

1994-1998 University of Ottawa; Faculty of Administration + Arts Admin.
1992-1994 Algonquin College; Architectural Technician

Membership /Awards

2012-2013 Board Member of the Ontario Home Builders Association
2003-2011 Director of the London Home Builders Association
- Presidents' Award recipient 2010

2012-2013 President of the St. Thomas and Elgin Home Builders Association
- Presidents' Award recipient, 2010
- Director of the Year, 2011

2013-2013 Heart and Stroke Foundation Volunteer

Interrogatory #4:

Reference: Board Decision and Order (EB-2014-0154), Union Gas Application (EB-2014-0050), and Interim Decision and Order (EB-2014-0053).

Preamble:

NRG was required to purchase 115,523 GJs of gas in order to meet its contractual balancing obligation at the end of February 2014. NRG purchased 90,027 GJ of natural gas at a total cost of $2,455,576 ($27.276 / GJ) but was unable to purchase the remaining 25,496 GJs required to meet its obligation. Union applied a penalty charge of $78.73 to the 25,496 GJs of gas that NRG was short at the time of the winter checkpoint.

Union's weighted average cost of the spot purchases that it made over the 2014 winter was $7.12 / GJ. This is $20.156 / GJ lower than the price that NRG paid for the spot gas that it purchased at the end of February 2014. The highest price spot gas purchase made by Union in the 2014 winter was $12.31 / GJ. This is $14.966 / GJ lower than the price that NRG paid for the spot gas that it purchased at the end of February 2014.

In EB-2014-0154, the Board approved a reduced penalty charge that is applicable to NRG of $50.50 / GJ. Board staff calculates that the total penalty amount that NRG will need to pay Union is now $1,287,548 (25,496 GJs * $50.50).

In EB-2014-0053, the Board approved, on an interim basis, the recovery from ratepayers of $695,529 (25,496 GJs * $27.276) related to the penalty charge applied to NRG by Union.

(a) Please discuss the impact on NRG's financial viability if the Board were to disallow the recovery from ratepayers of:

Answer: This question is difficult to answer in a meaningful way without the preparation of a costly and complex opinion from a financial expert. The preparation and filing of such an opinion could have significant implications for NRG's bank covenants and borrowings.

The most that NRG can presently say is that, over the years from 2011 to 2013, NRG has been entitled to earn on its deemed equity 9.85% per year.

This has permitted NRG to earn respectively, $452,608.00, $459,718.00 and $465,146.00 for the years 2011, 2012 and 2013.

Board Staff have asked NRG to comment on certain financial scenarios which assume that certain amounts of gas purchase costs incurred by NRG are paid not by the consumers, but by NRG shareholders. The natural gas purchase costs referred to by Board Staff are $2,920,601, $1,460,300, $2,320,736, $1,160,368, $1,287,548, $592,019 and $296,200. All of these amounts would have a significant impact on NRG's profitability. This is a significant financial burden on NRG.

For example, a decision by the Board to allocate $296,200 to NRG would reduce NRG's profits per year on deemed equity by more than 50%. A decision by the Board to allocate $592,019 to NRG would eliminate NRG's annual profits and more. A decision by the Board to allocate $1,200,000 would eliminate two and one- half years of NRG profits. A decision by the Board to allocate $2.3-million to $2.9-million to NRG would eliminate six to eight years of profit.

A utility is a unique entity which conducts its business without assuming private enterprise risk and without receiving profits based on private enterprise risk. The natural gas costs spike of $26.00 per GJ, $50.50 per GJ and up to $78.73 per GJ was never part of the risk that an Ontario utility was meant to take under the *Ontario Energy Board Act* regime. An allocation of monies that go to significantly reduced profits in any one year, let alone over multiple years, is a risk not assessable to NRG under the *Ontario Energy Board Act.*

In any event, the Board has found that the high costs were a direct result of the unpredictable and extraordinary weather conditions prevailing in the winter of 2014 in EB-2014-0154. The Board has changed the penalty rate to recognize the extraordinary nature of this problem. The Board has contemplated that customers in Ontario may have paid more than $50.50 per GJ in these unique circumstances. The Board has therefore recognized the prudent actions of NRG to protect its own consumers from these unusual conditions.

Having regard to all of the above, the obvious financial hardship that might be imposed arising out of Board Staff questions is not reasonably part of the utility regime in Ontario, and the legislative and theoretical underpinnings of utility regulation in the province.

(i) **The incremental cost of the spot gas purchased by NRG when compared to Union's weighted average spot gas cost (90,027 GJ * $20.156 = $1,814,584) and the incremental cost of the penalty charges when compared to Union's weighted average spot gas cost ($1,287,548 - $181,531 = $1,106,017) for a total of $2,920,601;**

Answer: See above.

(ii) 50% of the amount calculated in part "0" above ($1,460,300);

Answer: See above.

(iii) **The incremental cost of the spot gas purchased by NRG when compared to Union's highest cost spot gas purchase (90,027 GJ * $14.966 = $1,347,344) and the incremental cost of the penalty charges when compared to Union's highest cost spot gas purchase ($1,287,548 - $313,856 = $973,392) for a total of $2,320,736**

Answer: See above.

(iv) 50% of the amount calculated in part "iii" above ($1,160,368);

Answer: See above.

(v) The total penalty amount ($1,287,548);

Answer: See above.

(vi) The total penalty amount ($1,287,548) net of the amount approved by the Board for recovery in rates ($695,529) ($1,287,548 - $695,529 = $592,019);

Answer: See above.

(vii) 50% of the amount calculated in part "vi" above ($296,000).

Answer: See above.