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VIA E-MAIL

December 5, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: Natural Resource Gas Limited ("NRG")
April 1, 2014 QRAM – Phase 2 Proceeding
Board File No.: EB-2014-0053

On November 21, 2014, the Ontario Energy Board (the "Board") directed NRG to file a letter within seven days of receiving the Natural Gas Market Review Reports indicating what additional regulatory process NRG wishes the Board to consider.

Since filing NRG's original letter dated November 19, 2014 requesting the two consultant reports and requesting an oral hearing to argue the issues in EB-2014-0053, NRG has attended the 2014 Natural Gas Market Review (EB-2014-0289) held on December 3 and 4, 2014 at the Board's offices in Toronto. Expert consultants and market participants gave significant testimony, opinions, market overviews and conclusions about the market conditions in January and February 2014. It is apparent that there were many unknown, unforeseen, unpredictable and unprecedented events in the market which even the most sophisticated market participant could not envision or appreciate at the time.

Navigant Consulting Limited prepared a report for the Ontario Energy Board dated November 25, 2014. That report raised a number of significant facts, issues and market dynamics which were not known to anyone in the marketplace up to that time. One of the conclusions drawn by Navigant stated as follows: "… there were many events unfolding in real time last winter as market participants made decisions on planning and acquiring supply. The most important event was the cold weather, which was widespread, persistent, and extreme. Hindsight allows all the information to be seen at once."

The Navigant Consulting Limited report listed eight main conclusions about last winter's gas prices and the various events that contributed to them:

- Extreme winter conditions elevated natural gas demand throughout US and Canada to record levels, leading to a tight gas market and setting the stage for additional factors that exacerbated the winter's price behaviour;
- Strong Midwest demand impacted gas prices at Dawn and incented increased storage withdrawals to meet Ontario demand;
- Large storage withdrawals early necessitated large spot purchases later (which happened to be at high prices) as continued cold conditions led to persistent high demand;
- "Check point" balancing by Union direct purchase customers, although an annual occurrence, coincided last winter with the on-going need to meet high demand, exacerbating prices;
- Increased interruptible transport tolls appear to have limited the competitiveness of Empress as an economic source of supply, leading incremental gas for Ontario to be drawn from the Midwest and Northeast, further exacerbated Dawn prices;
- The necessary conditions for last winter's price scenario appear to the be the coincidence in both the U.S. and Canada of early, widespread and persistent high demand (resulting from the macro weather conditions);
- It is not clear whether the same weather conditions would have led to the same price impacts had the supply requirements called for more base storage or increased firm transportation but more storage and increased firm transportation may have helped;
- Similarly, supply plan arrangements leading to a more conservative use of storage withdrawals (and thus more supply procurement early in the winter) would likely have helped.

Navigant also stated that it "… reviewed the drivers of the Quarterly Rate Adjustment Mechanism (QRAM), the province's mechanism to allow gas distributors to recover their actual gas costs. As the QRAM relates to actual gas supply costs, the drivers of the QRAM are essentially the factors that influence a gas distribution company's actual gas costs. Such factors that could potentially be impacted by operational, managerial and a regulatory policies, procedures, directives and decisions of a gas distribution company or its regulatory include the following: weather assumption designed a criteria, demand forecasts, firm transportation planning criteria, storage level planning, use of peaking supplies, and procurement mechanisms for incremental supply. Choices made with respect to these factors likely involve cost and risk trade-offs dependent on an entity's risk profile and array of potential risks."

These comments merely set the stage for the conclusion that "… extreme weather conditions associated with last winter's polar vortex events elevated natural gas demand throughout the U.S. and Ontario to record levels. As a result of dramatically elevated natural gas demand levels that occurred over an extended period of time and over a widespread geographic area, spot natural gas prices were elevated across most market points of North America for at least some period of the winter. Prices at the Dawn market hub were elevated mostly during February, with a few spikes in January and some residual price elevation in March. These market conditions also set the stage for additional factors that further exacerbated Ontario gas prices …".

The factors noted for elevated spot prices across North America and, in particular, at Dawn are affected by "… competition for Dawn gas from the Chicago market could have had a role in driving early season Ontario demand to be met in large part from storage rather than from purchases. The fact that the spikes were larger in the U.S. Midwest than at Dawn would seem to indicate that the dynamic originated in the U.S., with some attenuated affect in Ontario." Navigant further noted that "… perhaps the most interesting developments with regard to Dawn prices occurred in February which saw a relatively steady increase in price level over the course of the month from under U.S. $8.00/MMBtu to over U.S. $40.00/MMBtu on March 1, 2014. Factors that contributed to these price levels include [those set out above] and rates set by TransCanada PipeLine (TCPL) to move gas from Empress to Dawn on TCPL (the winter of 2013/2014 was the first in which TCPL had the ability to set interruptible and short-term firm transportation tolls at their discretion, pursuant to the NEB's decision in TransCanada's application to restructure its mainline ratemaking); the requirement for winter checkpoint quantity to meet shortfalls in direct purchase customers' banked gas accounts created a demand bubble that contributed to price volatility which became even more pronounced in an extremely tight market; there were many events unfolding in real time last winter.

It is apparent from the above and from the conclusions that only hindsight allows all the unfolding information to be seen at once.

Some of the factors and many of the conclusions drawn by the Board's own experts indicate that the information available to NRG during the winter of 2013/2014, and the information available to all other market participants was not sufficient to meet the unique circumstances which occurred and the high resulting prices in the marketplace.

NRG submits that this information requires an oral hearing before the Board to deal with all of the evidence, factors and conclusions just made available to NRG so that this new material can be used to justify NRG's actions and request in the NRG QRAM application. NRG therefore asks for an oral hearing at a time and place suitable to the Board to deal with NRG's QRAM application.

In addition, NRG will file before December 15, 2014 a request to re-open the Union penalty rate decision of the Board in EB-2014-0154 based on the new evidence and conclusions led by the Board's consultants and by Union, IGUA and others giving testimony at the Board's 2014 Natural Gas Market Review.

If NRG is successful in re-opening the Union penalty rate decision based on new evidence, it will seek an Order consolidating the two cases so that duplication of evidence is avoided and the Board can reach a conclusion which is within its jurisdiction and consistent with the unique conditions prevailing during the winter of 2013/2014.

Yours very truly,

Campion

John A. Campion

JAC/car

cc: Lawrie Gluck, Ontario Energy Board
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