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**Attention: Ms. Kirsten Walli, Board Secretary**

Dear Ms. Walli:

**Re: EB-2016-0351 – Natural Resource Gas Limited (“NRG”)  
Application for Leave to Transfer Gas Distribution System**

This letter is in response to the Ontario Energy Board (“OEB”) letter of December 22, 2016 noting “incomplete” items in NRG’s application of November 30, 2016 seeking leave to transfer its natural gas distribution system to EPCOR Natural Gas Limited Partnership (“EPCOR”). Attached is an amended Application and evidence. Also attached for convenience is a blackline to the initial filing of November 30, 2016. Please also note that the confidentiality request made in NRG’s initial filing on November 30<sup>th</sup> (related to certain information in the Asset Purchase Agreement (“APA”) between NRG and EPCOR) remains in respect of this amended filing. Reference to the cover letter accompanying the November 30<sup>th</sup> filing should be made for reasons supporting the confidentiality request.

At the outset, NRG is of the view that its initial filing was complete and should have been processed by the OEB, for two reasons: (a) there are no filing requirements for MAAD applications related to natural gas utilities, so there are no regulatory completeness requirements for such MAAD applications; and (b) some of the deficiencies identified in the OEB’s letter of December 22<sup>nd</sup> may be relevant to utility consolidation applications, but are not applicable in the circumstances of the NRG-EPCOR transaction (i.e., where there is not a combination of existing utilities via merger or a purchase by one utility of another – which would warrant an inquiry into how the two utilities’ operations and costs structures will be combined going forward). In addition, NRG believes that some of the deficiencies identified in the OEB letter of December 22<sup>nd</sup> were included in the initial filing. With respect to these, we have elaborated upon them in the amended evidence, so as to make them more explicit.

The amended evidence has been blacklined, in order to expedite the OEB's review. With respect to each of the seven bullets in the OEB letter of December 22<sup>nd</sup>, the following explanation accompanies the amended evidence:

- **Year over year comparative cost structure analysis for the proposed transaction, comparing the costs of the utilities post transaction and in the absence of the transaction to support assertions made in the application.**

MAAD applications that have provided evidence of this nature involve merger or sale transactions among two or more existing Ontario electric utilities, which can give rise to certain efficiencies through sector consolidation (and concerns about rate harmonization) – e.g., staff integration resulting in redundancies, the elimination of artificial electrical boundaries creating benefits from system contiguity, administrative efficiencies resulting from economies of scale, benefits to the regulator and sector more broadly due to reduced number of utilities, consolidation of information technology to reduce billing and customer care costs, etc.

As noted above, the NRG-EPCOR transaction is not a consolidation transaction. Post-closing, EPCOR will be the new owner of NRG's gas distribution business, and will operate it using the same equipment and same employees as NRG. EPCOR has no utility assets in Ontario at present, so the transaction will not involve staff integration or the elimination of gas distribution service boundaries. Although many of the integration issues in a consolidation transaction are not at play in the NRG-EPCOR transaction, pages 1 and 2 of the initial evidence indicates that: (a) the costs to serve NRG's customers post-transaction are not expected to be higher than they otherwise would have been with NRG; (b) EPCOR may be able to reduce certain discretionary costs (regulatory, legal, consulting and management fees) going forward by achieving synergies among the natural gas business operated by NRG today and EPCOR's parent company's, EPCOR Utilities Inc., other utility businesses outside Ontario (e.g., administration and support functions, information systems and technology, and insurance); and (c) EPCOR's cost of debt should be lower relative to NRG's cost of debt.

- **Information to demonstrate how the transaction has an impact on specific aspects of utility operations which results in sustained operational efficiencies.**

Please see our explanation in the first bullet, above. The existing utility operations of NRG will, particularly at the outset of EPCOR's ownership, be largely unchanged. NRG's current employees are being transferred to EPCOR, and will continue to operate the existing system in the same manner. EPCOR may be able to achieve certain operational synergies over time (e.g., administration and support functions, information systems and technology, and insurance), and is committed to seeking such efficiencies.

- **Confirmation that EPCOR will maintain existing reliability and service quality**

The first sentence of the evidence under “Reliability and Quality of Service” in the initial evidence indicates that “[t]he adequacy, reliability and quality of NRG’s gas distribution service will not be impacted by this transaction”. We have augmented this statement later in the evidence with a more explicit confirmation that EPCOR will maintain existing reliability and service quality.

- **Information on the volumes required from NRG Corp. to maintain system integrity and what this represents in terms of NRG’s overall supply**

We have included amending language to address this issue. The system integrity study prepared for NRG by SNC Lavalin confirmed that on peak days, NRG requires additional volumes in order to maintain system integrity. Due to the number of variables and potential physical circumstances, SNC was unable to determine a precise quantity that NRG would require from NRG Corp.’s wells.

- **A financial guarantee from EPCOR’s parent company, EPCOR Utilities Inc. demonstrating its responsibility for the financial viability of the acquired entity**

We have included amending language to address this issue. The amended language includes a statement that EPCOR Utilities Inc. confirms it will provide all the funding required to complete the purchase of all the assets being transferred from NRG. There is also amending language that provides additional detail as to EPCOR Utilities Inc.’s corporate structure.

- **A description of how valuation of the assets that are to be transferred was determined**

We have included modest amending language to address this issue. The purchase price of approximately \$21 million (subject to adjustments as outlined in the APA) was arrived at as a result of negotiations between the parties, and represents a commercial agreement between a willing seller and a willing buyer.

- **Confirmation that the purchase price is more than the book value of the assets, and provide the net book value of the assets.**

Please see our explanation in the bullet immediately above. We have included modest amending language to address this issue.



Please do not hesitate to contact the undersigned should you have any questions. In addition, given the time that has now passed since the initial filing (nearly two months), we would ask the OEB to expedite the consideration of this application.

Yours truly,



Sander Duncanson

Enclosures

cc: Laurie O'Meara, Natural Resource Gas Limited