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 an application by Natural Resource Gas Limited for the relief necessary to transfer its natural gas distribution system to EPCOR Natural Gas Limited Partnership.

APPLICATION

1. Introduction

The Applicant is Natural Resource Gas Limited ("NRG"), an Ontario corporation with its head office in Aylmer, Ontario. NRG carries on the business of selling and distributing natural gas in southwestern Ontario.

EPCOR Natural Gas Limited Partnership ("EPCOR") is an Ontario limited partnership and is a wholly owned indirect subsidiary of EPCOR Utilities Inc. ("EUI"). The general partner of EPCOR is EPCOR Ontario Utilities Inc. and the sole limited partner is EPCOR Power Development Corporation, which are both subsidiaries of EUI. EPCOR was formed pursuant to a limited partnership agreement which provides that EPCOR Ontario Utilities Inc., as general partner, will control and have the full and exclusive power, authority and responsibility for the management and day-to-day operations of EPCOR. In accordance with the limited partnership agreement, EPCOR Power Development Corporation, as limited partner, has an economic interest in the partnership but will not control or otherwise play a role in the day-to-day operations and management of EPCOR.

On November 7, 2016, NRG and EPCOR entered into an Asset Purchase Agreement whereby NRG agreed to sell and EPCOR agreed to purchase NRG's natural gas distribution system in its entirety for $21 million, excluding taxes and subject to certain adjustments.

2. Requested Relief

To effect the Asset Purchase Agreement, NRG requests that the Board grant the following relief:

- Grant leave under section 43 of the *Ontario Energy Board Act, 1998* ("OEB Act") allowing NRG to transfer its natural gas distribution system in its entirety to EPCOR;
- Issue orders under section 18 of the OEB Act granting leave to NRG to transfer to EPCOR the relevant regulatory agreements, certificates and orders for NRG's distribution system, including all existing franchise agreements, Certificates of Public Convenience and Necessity, and rate orders/schedules (detailed in **Exhibit 1, Tab 1, Schedule 5** of this Application); and,
- Grant such further and other relief as NRG may request or the Board may consider appropriate.

In a November 16, 2016 letter to the Board, NRG requested that the Board suspend its consideration of NRG's 2017-2021 Gas Distribution Rate Application (EB-2016-0236) until the present Application has been adjudicated. In the interim, NRG proposes to continue applying its Board-approved interim rates currently in effect. If the present Application is approved, EPCOR will assume responsibility for the EB-2016-0236 application and will file an amended application within six to nine months of the closing of the Asset Purchase Agreement (the "Closing"). The amended EB-2016-0236 application will provide evidence to support the revenue requirement reflective of EPCOR's ownership of the gas distribution system. EPCOR will request that the Board maintain the existing interim rates until the amended application has been disposed of, and a new rate order issued.

The one exception to the above request regarding NRG's EB-2016-0236 application concerned NRG's request for a deferral account to record the impacts of the recently established provincial (and any subsequent federal) regulatory regime related to greenhouse gas emission requirements. NRG requested that the Board continue to consider this aspect of NRG's EB-2016-0236 application and approve NRG's requested deferral account notwithstanding that the remainder of the EB-2016-0236 application has been put in abeyance. On November 24, 2016, the Board approved this deferral account on an interim basis effective January 1, 2017.

NRG requests that the Board process this Application by way of a written hearing and further requests that it be dealt with on an expedited basis. The duration of the regulatory review process for this Application will directly impact the duration of the EB-2016-0236 proceeding, which in turn will extend the amount of time that the utility owner charges interim rates. NRG submits that it is in the interests of all parties (including NRG's customers) for these issues to be resolved expeditiously, so that Closing can be achieved and new rates established as quickly as possible.

3. Grounds for Relief

Section 2 of the OEB Act sets out the Board's objectives in relation to natural gas when carrying out its responsibilities and, among other objectives, provides that the Board must: (a) protect the interests of consumers with respect to prices and the reliability and quality of gas service; and (b) facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas.

In deciding whether or not to grant leave in relation to an application under section 43 of the OEB Act, the Board applies a "no harm" test (first established with respect to electricity distribution transactions in the Board's combined proceeding, RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257). The "no harm" test considers whether the proposed transaction will have an adverse effect on the attainment of the statutory objectives in section 2 of the OEB Act noted above.

The written pre-filed evidence demonstrates that the "no harm" test is met as NRG's customers will not be negatively affected by, and may in fact realize a modest benefit from, the proposed transaction. Based on EPCOR's underlying cost structure, the costs to serve NRG's customers post-transaction are not expected to be higher than they otherwise would have been with NRG. EUI and its subsidiaries have extensive experience as both owner and/or operator in various utility businesses in three Canadian provinces and three U.S. states that provide essential public services. EPCOR is proposing to retain NRG's general manager and all non-executive and operations personnel, which, together with EUI's experience in the utility business, will ensure that the reliability and quality of service provided to NRG's customers is maintained and may in fact be enhanced. EPCOR, as a wholly owned indirect subsidiary of EUI, has the financial capacity to fund capital projects necessary to ensure system reliability and service quality, again ensuring that NRG's customers are not adversely affected by this transaction. Finally, EUI and its subsidiaries also have extensive and successful regulatory experience, including experience operating within a performance based rates regime, having operated energy and water-utilities in Alberta, British Columbia, Arizona and New Mexico, which will likely be of benefit to the Board, as well as NRG's ratepayers and franchisors.

This Application is supported by written evidence. The written pre-filed evidence may be amended from time to time, prior to the Board's final decision on this Application.

4. Applicant's Contact Information

The Applicant requests that a copy of all documents filed with the Board in this proceeding be served on the Applicant and the Applicant's counsel, as well as EPCOR and its counsel, as follows:

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DATED at Calgary, Alberta, this ~~30~~24th day of ~~November, 2016.~~January, 2017.

NATURAL RESOURCE GAS LIMITED

By its counsel, Osler, Hoskin & Harcourt LLP
Per:	Sander M. Duncanson

Natural Resource Gas Limited

A corporation incorporated under the laws of Ontario

OFFICER'S CERTIFICATE

TO: THE ONTARIO ENERGY BOARD

The undersigned, Anthony H. Graat, being the President of Natural Resource Gas Limited, in my capacity as an officer of that corporation and without personal liability, hereby certifies that the evidence in this Application is accurate, consistent and complete to the best of my knowledge.

DATED this ~~28~~24th of ~~November, 2016.~~January, 2017.

NATURAL RESOURCE GAS LIMITED

Per: ____________________
Name: Anthony H. Graat
Title: President

EPCOR Natural Gas Limited Partnership

An Ontario limited partnership

OFFICER'S CERTIFICATE

TO: THE ONTARIO ENERGY BOARD

The undersigned, Stephen Stanley, being the Senior Vice President, Commercial Services of EPCOR Ontario Utilities Inc., the general partner of EPCOR Natural Gas Limited Partnership, in my capacity as an officer of that corporation and without personal liability, hereby certifies that the evidence in this Application is accurate, consistent and complete to the best of my knowledge.

DATED this ~~●~~24th of ~~November, 2016.~~January, 2017.

EPCOR ONTARIO UTILITIES INC.

Per: ______________________________

Name: Stephen Stanley

Title: Senior Vice President, Commercial Services

PARTIES TO THE TRANSACTION

1. NRG

NRG is an Ontario corporation with its head office in Aylmer, Ontario. All voting shares of NRG are privately held by a family trust, The Wilsher Trust. **Attachment 1** to this Application sets out NRG's corporate structure.

NRG carries on the business of selling and distributing natural gas to over 8,000 residential, commercial and industrial customers in southwestern Ontario. NRG's service territory stretches from south of Highway 401 to the shores of Lake Erie, from Port Bruce to Clear Creek. **Attachment 9** to this Application is a map of NRG's gas distribution system.

2. EPCOR

EPCOR is an Ontario limited partnership. On the successful approval of the transfer of NRG's assets to EPCOR, the assets to be purchased from NRG will be held in this entity and EPCOR will carry on and continue the business of NRG. The two corporate partners of EPCOR are EPCOR Power Development Corporation (the sole limited partner) and EPCOR Ontario Utilities Inc. (the general partner). Both of these corporate partners are subsidiaries of EUI. As discussed earlier in this application, the general partner will control and have the full and exclusive power, authority and responsibility for the management and day-to-day operations of EPCOR. **Attachment 2** to this Application sets out EPCOR's corporate structure.

EUI is a corporation incorporated under the laws of the Province of Alberta and wholly owned by the City of Edmonton, with its head office located in Edmonton, Alberta. Through wholly-owned subsidiaries, it builds, owns and operates electric transmission and distribution systems, water and wastewater treatment facilities and infrastructure, and provides related energy services in several jurisdictions in Canada and the United States. EUI operates its water services, electricity distribution and transmission, energy services (retail energy supply) and corporate business segments through sister corporate subsidiaries. This organizational structure allows EUI to separate its regulated business segments from each other as well as from its non-regulated business segments. This allows EUI to meet the differing regulatory requirements that its regulated businesses are subject to and also ensures that the liabilities and obligations of one business segment or subsidiary do not adversely affect another.

EUI's electricity distribution and transmission businesses own and operate high voltage substations and transmission lines situated within and around Edmonton, and form part of the Alberta Interconnected Electric System ("AIES") power grid. Through these facilities, EUI's businesses provide transmission services to the Alberta Electric System Operator ("AESO"), the independent not-for-profit entity that is charged with ensuring the efficient operation and expansion of the Alberta transmission grid. EUI's businesses own and operate 72 kV, 138 kV, 240 kV and 500 kV lines and cables, as well as 30 transmission substations, and operate approximately 257 circuit kilometers of aerial transmission lines and underground transmission cables. EUI's businesses also own and operate aerial and underground distribution lines and related facilities for the distribution of power to customers within the City of Edmonton, including five distribution substations, 286 distribution feeders, approximately 5,540 circuit kilometers of primary distribution lines, and advanced metering infrastructure (i.e., "Smart Meters"). In 2015, EUI's electricity business distributed approximately 13% of Alberta's provincial energy consumption to approximately 343,000 residential and 36,000 commercial and industrial customer sites in Edmonton.

EUI's water business provides water purification, water distribution, wastewater treatment and related management services within the City of Edmonton and over 80 other communities in Western Canada and the Southwestern United States (Arizona, New Mexico and Texas), and provides similar services to industrial customers in Western Canada. In conjunction with some of these services, EUI also provides water and wastewater plant financing and construction services to municipal and industrial customers in Western Canada. Within the City of Edmonton, EUI's system includes approximately 3,900 km of distribution and transmission mains, 19,800 hydrants, 62,000 valves and 12 reservoir sites. In Edmonton and surrounding areas, EUI's businesses service a population of over 800,000 and deliver bulk water to over 65 communities and counties. EUI's businesses own one and operate 33 water or wastewater treatment/distribution facilities outside Edmonton in Alberta, British Columbia and Saskatchewan. In addition, EUI's businesses provide water purification and distribution and wastewater collection and treatment services in the Southwestern United States where they have over 200,000 customer connections within 22 communities and seven counties. EUI has also recently purchased a pipeline entering into the business of transporting water to the water scarce region of the State of Texas.

EUI's energy services business procures electricity for its Regulated Rate Option and default supply customers in Alberta and provides customer care and billing services to its customers, and certain customer care and billing services to affiliates and third parties. The energy services business also sells electricity and natural gas to Alberta consumers under competitive contracts through its Encor brand. EUI provides billing and customer care services to approximately 640,000 energy and natural gas customer sites and 265,000 water customer sites in Alberta.

In its various business units (electricity distribution and transmission; water; and energy services), EUI's customers number in the hundreds of thousands and enjoy service quality and reliability well in excess of regulatory requirements and industry standards. EUI has been recognized for more than a decade as one of Alberta's and Canada's best employers and corporate citizens, and intends to bring its expertise and reputation for quality to the Ontario market. Details of EUI's corporate profile, major operations and corporate finances are provided in EUI's June 2016 Investor Presentation, a copy of which is attached as **Attachment 10**.

EUI demonstrates its commitment to providing a safe, healthy workplace through its health and safety policy and programs which focus on leading indicators such as near miss reporting, workplace inspections and audits to assist employees in identifying hazards. A number of EUI's businesses or facilities have been recognized for their safety standards. In 2015, EUI's electricity distribution and transmission businesses had a Lost Time Injury Frequency ("LTIF") of 0.13 which is well below the average of 0.24 reported by the Canadian Electricity Association for electricity businesses of a similar size. As well, in 2015 EUI overall had a LTIF of 0.12 with EUI's Canadian water business at zero Lost Time Incidents. EUI and its predecessors, through their subsidiaries, have provided reliable utility service for over 120 years, consistently meeting and exceeding service quality and safety metrics in the areas served.

EUI has extensive experience integrating utility businesses as a result of its expansion over the years. This experience will be applied to review the processes and technology of NRG in the context of EUI to efficiently and effectively integrate NRG's business into EUI and to ensure the provision of ongoing ancillary services and executive oversight.

DESCRIPTION OF THE TRANSACTION

On November 7, 2016, NRG and EPCOR entered into an Asset Purchase Agreement, a copy of which is attached as **Attachment 5** to this Application. Under the terms of the Asset Purchase Agreement, NRG has agreed to sell and EPCOR has agreed to purchase NRG's natural gas distribution system in its entirety for $21 million, exclusive of taxes, subject to the adjustments provided for in the Asset Purchase Agreement.

The Asset Purchase Agreement contemplates that the proposed transaction will close on the last day of the month following the month in which the final closing condition is satisfied or waived (which includes receipt of all approvals sought in this Application). EPCOR and NRG expect Closing will occur early in 2017, subject to Board approval.

The Asset Purchase Agreement will transfer to EPCOR (at Closing) all of the property and assets needed to operate the gas distribution system currently owned and operated by NRG. Some key provisions of the Asset Purchase Agreement include:

- EPCOR will make offers of employment to the general manager and all non-executive and operations personnel, on terms substantially similar in aggregate as their existing terms of employment;

- Upon execution of the Agreement, EPCOR and NRG agreed to jointly approach all municipalities and customers, suppliers and other persons related to NRG's distribution system for the purposes of advising such parties of the transactions contemplated by the Agreement, including without limitation, advising the municipalities of the assignment of the Franchise Agreements by NRG to EPCOR;

- NRG will use best efforts to renew its franchise agreement with the municipality of Oxford County by the time of Closing; and,

- Since Ayerswood Development Corp. (a related company to NRG) has historically provided services to NRG necessary to complete its various regulatory filings, including preparing and filing rate case applications, NRG must require Ayerswood to negotiate a regulatory transition services agreement in good faith with EPCOR which must be executed by the time of Closing. This provision ensures that EPCOR will have access to the historical information and support needed to prepare and file the amended EB-2016-0236 rate application within six to nine months of Closing.

The estimated net book value of the Purchased Assets (as defined in the Asset Purchase Agreement) are $14,579,723, consisting of $1,584,392 in non-fixed assets (accounts receivable, inventory and recoverable-through-rates assets) and $12,995,331 in fixed assets. The purchase price of approximately $21 million (subject to adjustments as outlined in the Asset Purchase Agreement) is greater than the net book value. The purchase price was arrived at as a result of negotiations between the parties and represents a commercial agreement between a willing seller and a willing buyer. As discussed in **Schedule 4**, EPCOR has the financial capacity necessary to fund the purchase price and the amount of consideration paid will not have a material impact on EUI's financial position, nor will EPCOR seek to increase its future revenue requirements recovered from customers in order to recover these transaction costs.

EPCOR will fund the purchase from a combination of its partner's equity and a long-term note payable to its parent company, EUI, at a market interest rate appropriate for EPCOR's credit worthiness. EUI will fund EPCOR's partner's equity and long-term note from any combination of cash on hand, selling a portion of its remaining interest in Capital Power Corporation, issuing long-term debt notes in the Canadian public market under its $1 billion short-form base shelf prospectus, drawing on its $350 million syndicated bank credit facility or issuing commercial paper.

POTENTIAL IMPACTS TO NRG'S CUSTOMERS

1. PRICE IMPACTS

On August 9, 2016, NRG filed is 2017-2021 Gas Distribution Rate Application (EB-2016-0236) with the Board. Given that the underlying cost structures for NRG and EPCOR may be different (including, for example, aspects of operating, maintenance and administration ~~[~~(“OM&A”~~]~~) costs, and costs of long-term debt), NRG requested on November 16, 2016 that the Board suspend its consideration of the EB-2016-0236 application (with the exception of NRG's requested deferral account to address climate change regulatory regimes, which must be in place prior to January 1, 2017) until the present Application has been adjudicated. EPCOR agrees with this request.

In the interim, NRG proposes to continue applying its interim Board-approved rates currently in effect. If this Application is approved, EPCOR will assume responsibility for the EB-2016-0236 application and will file an amended application within six to nine months of the Closing of the Asset Purchase Agreement. The amended EB-2016-0236 application will provide evidence to support the revenue requirement reflective of EPCOR's ownership of the system.

Based on EPCOR's underlying cost structure, the costs to serve NRG's customers post-transaction are not expected to be higher than they otherwise would have been with NRG. Most of the forecast test year revenue requirement in NRG's EB-2016-0236 application consists of non-discretionary costs (return on equity, salaries of transferred employees, depreciation, etc.) that will not change as a result of the proposed transaction. Just over $1 million of NRG's forecast test year revenue requirement consists of more discretionary regulatory, legal, consulting and management fees. At this time, EPCOR considers these discretionary costs to be reasonable but expects that there may be opportunities to reduce these costs in the future.

Post-transaction, EPCOR hopes to achieve synergies among the gas distribution business operated by NRG today and EUI's other utility businesses. EUI has extensive experience running utility businesses that provide essential public services. Over the medium- to long-term, with expansion of its business in Ontario, EPCOR expects to realize modest efficiencies in OM&A costs for NRG's gas distribution system, such as costs related to administration and support functions, information systems and technology, and insurance. In addition, it is expected that EPCOR's cost of debt borrowed from its parent company at market rates reflective of EPCOR's credit worthiness should be lower relative to NRG's cost of debt. These opportunities to reduce underlying cost structures would not otherwise arise but for the transaction. As a result, the transaction promotes economic efficiencies and cost effectiveness which will benefit the customers of NRG.

Further, EPCOR will not seek to increase its future revenue requirements recovered from customers in order to recover transaction costs associated with this transaction.

Based on the above, NRG's existing customers will not experience price increases as a result of the proposed transaction and may in fact enjoy modest price decreases over the long-term compared to what rates otherwise would be with NRG.

2. RELIABILITY AND QUALITY OF SERVICE

The adequacy, reliability and quality of NRG's gas distribution service will not be impacted by this transaction. EPCOR's parent company has extensive experience running utility businesses that provide essential public services, and its businesses have consistently met or exceeded service quality metrics in the areas they serve. By way of example, in 2015, the System Average Interruption Duration Index ("SAIDI") for EUI's electricity distribution and transmission businesses (EPCOR Distribution & Transmission Inc., or "EDTI") was 0.91 hours – well below the Alberta Utilities Commission's ("AUC") maximum allowed SAIDI of 1.15 hours. EDTI also had 2015 Customer Satisfaction Index ("CSI") scores of 87.5% (customer initiated contact), well above the AUC benchmark of 75.0% and an overall customer satisfaction rating of 93%. In 2015, EUI's water business repaired water main breaks within 24 hours 97.4% of the time, exceeding its target of 93.7%. Although these services do not currently include natural gas distribution, EPCOR is proposing to maintain NRG's general manager and all non-executive and operations personnel with local knowledge of NRG's operations post-transaction to ensure continuity of service for NRG's existing customers.

EUI has previously implemented demand side management programs for its water business within the City of Edmonton, and EPCOR intends to utilize this expertise and examine opportunities to bring conservation and efficiency programs to NRG's gas distribution business.

In addition, EPCOR will be bound by all current and future regulatory requirements of the Board (e.g., reporting obligations, gas distribution access, affiliate relations, etc.), the Technical Standards and Safety Authority (re: fuel safety), and Measurement Canada (re: metering) – many of which exist to ensure adequacy and reliability of gas supply, and service quality. EPCOR will operate the distribution system in accordance with such regulatory standards, and will maintain the existing reliability and service quality.

EPCOR is not purchasing the gas production wells of NRG Corp. (a related company to NRG with gas production wells in NRG's service territory). At present, these wells provide enhanced supply reliability on NRG's gas distribution system. ~~In order to ensure committed supply to the gas distribution system post-transaction~~At NRG's last re-basing proceeding (EB-2010-0018), NRG was directed to retain an independent consultant to carry out a system integrity study to, in part, determine how much natural gas NRG required from NRG Corp. to address system integrity issues. This study was completed by SNC Lavalin (with NRG and OEB staff input as to scope) and has been filed in NRG's current re-basing application (EB-2016-0236, currently in abeyance pending the closing of this transaction). The system integrity study confirmed that on peak days, NRG's distribution system requires gas from NRG Corp. wells to maintain system integrity. However, the number of variables and physical circumstances made the determination of a precise quantity of "required" system integrity gas impossible. As a result, the Asset Purchase Agreement requires NRG Corp. to negotiate in good faith with

EPCOR in order to conclude a Gas Purchase Agreement (for supply from the wells), which must be executed by Closing. This provision ensures that EPCOR will contractually secure the rights to purchase gas from NRG Corp. for the distribution system by the time that it assumes ownership of the system.

NRG is a customer of Union Gas Limited ("Union") and holds a number of contracts with Union for the transportation, delivery and sale of natural gas to NRG's system (as listed in Schedule 4.1.7 (Consents) to the Asset Purchase Agreement). Under Union's General Terms and Conditions, neither the rights nor the obligations of NRG (as customer) under these contracts are assignable without the prior written consent of Union. However, Union's consent may not be unreasonably withheld or delayed, and Union has a statutory obligation to serve its customers. NRG will be seeking consent to assign these contracts on the same contractual parameters.

3. FINANCIAL VIABILITY

EPCOR has the financial capacity necessary to fund the purchase price, as well as any capital projects in the future to ensure system reliability and service quality is maintained across the NRG system. EPCOR's parent company, EUI, is a public issuer of debt with current credit ratings of A- (S&P) and A (low) stable (DBRS). In fiscal 2015, EUI's consolidated revenue was $2.018 billion with $365 million in operating income and $435 million in funds from operations. Presently, EUI has credit facilities totalling $575 million of which $350 million is available for borrowing. EUI also has the ability to issue long-term debt in the Canadian public debt market through an existing $1 billion, short-form base shelf prospectus, of which the entire $1 billion capacity is presently available. In addition to the above financing capacity, EUI holds approximately 5.2 million shares of Capital Power Corporation (TSX: CPX) with a current market value of approximately $105 million. EUI has publicly stated its intention to sell its remaining interest in CPX over time as circumstances and needs dictate, which could include funding for capital projects to ensure system reliability and service quality for the NRG distribution system. **Attachment 4** to this Application contains EUI's most recent audited annual financial statements.

EUI confirms it will provide all the funding required to complete the purchase of all the assets being transferred from NRG. The amount of consideration paid by EPCOR will not have a material impact on EUI's financial position. The purchase price will be paid in cash, and is an amount that is less than 0.5% of EUI's total assets.

EUI's financial ratios based on its audited 2015 year end consolidated financial statements are presented in the table below compared to NRG's 2015 financial ratios as published in the 2015 Yearbook of Natural Gas Distributors.

	EUI	NRG
Liquidity Ratio Current Ratio (Current Assets/Current Liabilities)	1.12	0.31
Leverage Ratios Debt Ratio (Total Debt/Total Assets)	0.35	0.44
Debt to Equity Ratio (Total Debt/Shareholder's Equity)	0.84	1.80
Interest Coverage (EBIT/Interest Charges)	3.25	10.58
Profitability Ratios Financial Statement Return on Assets (Net Income/Total Assets)	4.27%	-0.88%
Financial Statement Return on Equity (Net Income/Total Assets)	10.32%	-3.65%

Simply put, the transaction poses no harm in respect of the financial viability of the gas distribution industry in Ontario.

In addition, the transaction will have the benefit of eliminating an issue unique to NRG – namely, the existence of NRG's retractable class of shares, which came before the Board in 2008. As noted in NRG's most recent financial statements (see **Attachment 3**, pages 4 and 15), virtually all of NRG's shareholders' equity is in the form of its Class C non-voting, redeemable and retractable shares. In 2008, Union Gas Limited brought an application before the Board (EB-2008-0273) seeking the Board's approval to discontinue service to NRG on the basis that NRG's creditworthiness was unsatisfactory because the Class C retractable shares should be considered a liability as opposed to equity (per GAAP), thereby placing NRG in a negative equity position. The Board's Decision and Order found that the Class C shares had increased the financial risk associated with NRG, and ordered NRG to, inter alia, provide Union Gas with a Postponement Agreement with respect to the redemption with the Class C shares. In NRG's 2010 rates proceeding (EB-2010-0018), the issue of NRG's retractable shares was raised again, with intervenors arguing that NRG's capital structure should be considered entirely debt due to the retractable nature of the shares. The Board commented in its Decision that the nature of the retractable shares did complicate the Board's evaluation of NRG's capital structure, although in the end the Board ascribed to NRG the deemed capital structure for the purposes of rate-setting. As the NRG-EPCOR transaction is an asset sale, upon Closing (and transfer of the assets) the voting securities in the gas distribution utility currently owned and operated by NRG will no longer be retractable. The retractable shares will remain the voting securities of NRG, which will no longer hold any gas distribution assets in Ontario. This removes any consideration of the financial viability of the gas distribution utility after Closing. Based on previous Board determinations, this should be considered a positive outcome for NRG's customers, counterparties, and the financial viability of the gas distribution sector in Ontario.

4. EMPLOYMENT IMPACTS

The proposed transaction will not have any negative impacts on local employment. EPCOR is proposing to maintain NRG's general manager and all non-executive and operations personnel post-transaction, and will retain NRG's local office in Aylmer, Ontario. These steps will ensure that the current local employee count for NRG's distribution system remains the same or similar post-transaction. Initial discussions with employees have been positive and have not indicated any risk of non-acceptance of employment offers.

5. KEY STAKEHOLDERS

EPCOR has consulted with the municipalities with which NRG has franchise agreements, and with IGPC Ethanol, NRG's largest customer (collectively, the "Stakeholders"). It is EPCOR's preliminary understanding that the Stakeholders are supportive of the acquisition.

More importantly, the Stakeholders have been assured that the staff base and service centre will remain in Aylmer within the existing premises. Given this, and that EPCOR is proposing to grow its business within the region described in Section 6 below, there is an increased likelihood that Aylmer may see a modest growth in activity and employment.

6. GROWTH CUSTOMERS

EPCOR expects to focus on expanding services within NRG's existing franchise areas over the initial five-year period of operations. EPCOR is particularly interested in expanding and developing facilities that meet the needs of the agricultural sector which EPCOR is also examining with respect to the franchise agreements it recently acquired in South Bruce County. In NRG's service territory, this expansion is likely to occur south of Aylmer within the north shore Lake Erie region and also in the southwest Oxford area. Further growth in residential customers can also be anticipated in Belmont, which serves as a bedroom community for London, Ontario. All of the above initiatives may benefit the existing rate payers through economies of scale in current operations.

7. SUMMARY

NRG submits that the proposed transaction meets the “no harm test” as the proposed transaction will not adversely impact the attainment of the Board’s statutory objectives, and is in the public interest, for the following reasons:

a) the acquisition will not adversely affect the current customers of NRG with respect to prices as the costs to serve NRG’s customers post-transaction are not expected to be higher than they otherwise would have been with NRG;

b) the adequacy, reliability and quality of NRG’s gas distribution service will not be impacted by this transaction;

c) EPCOR has the financial strength to acquire the assets of NRG;

d) EUI, together with its subsidiaries, has a proven track record as an efficient and successful utility operator;

e) EPCOR has no plans to effect any material changes in the management or personnel of NRG;

f) EPCOR intends to utilize EUI’s expertise in demand side management programs to examine opportunities to bring conservation and efficiency programs to NRG’s gas business;

g) EPCOR has been and is committed to continue having discussions with stakeholders throughout the transition process; and

h) the proposed expansion of EUI in the Ontario region may provide the opportunity to realize efficiencies in costs.

NRG'S EXISTING REGULATORY APPROVALS

1. FRANCHISE AGREEMENTS

A franchise agreement grants a natural gas utility the right to: (a) distribute, store and transmit natural gas in and through a municipality; and (b) enter upon all highways to lay, construct, maintain, replace, remove, operate and repair its gas system for the purposes of distributing, storing or transmitting natural gas. NRG is a party to the following franchise agreements:

Municipality	OEB Order	Expiry/Renewal Date
Town of Aylmer	EB-2012-0072	February 28, 2032
Municipality of Bayham	EB-2012-0447	April 17, 2034
Municipality of Central Elgin	EB-2012-0446/EB-2014-0186	August 14, 2034
Township of Malahide	EB-2015-0205	October 15, 2035
Township of South-West Oxford	EB-2012-0475	May 9, 2034
Municipality of Thames Centre	EB-2012-0444/EB-2014-0153	August 11, 2034
City of London	EB-2012-0445/EB-2014-0188	August 14, 2034
County of Norfolk	EB-2012-0476/EB-2014-0207	September 18, 2034
Elgin County	EB-2015-0307	February 1, 2036
Middlesex County	EB-2016-0145	May 19, 2036
Oxford County		Pending extension

Copies of these franchise agreements are included as **Attachment 6**. All are in the form of the Board's Model Franchise Agreement, and are for twenty year terms (see expiry/renewal period in table above). With respect to the Oxford County franchise, under the Asset Purchase Agreement, NRG must use best efforts to renew its franchise agreement with this municipality by the time of Closing. In order to properly carry on the gas distribution business of NRG, the Asset Purchase Agreement transfers (subject to Board approval) the franchise agreements to EPCOR.

2. CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

A Certificate of Public Convenience and Necessity ("CPCN") is required from the Board in order for a utility to construct any works to supply natural gas in a municipality. NRG holds the following CPCNs:

- E.B.C.111 and 119, dated May 5, 1982
- E.B.C. 239, dated October 16, 1995
- E.B.C. 212, dated February 9, 1996
- E.B.C. 242, dated September 6, 1996

Copies of these CPCN's are included as **Attachment 7**. In order to properly carry on the gas distribution business of NRG, the Asset Purchase Agreement transfers (subject to Board approval) the CPCNs to EPCOR.

3. RATE ORDERS

NRG is subject to the following rate orders from the Board:

- Decision and Order EB-2015-0115 (2016 IRM rate adjustment, which established NRG's current distribution rates, made interim via Procedural Order No. 1 in EB-2016-0236 dated September 28, 2016)
- Decision and Order EB-2016-0266 (order approving quarterly rate adjustment for the period October 1 to December 31, 2016, which reflects NRG's current commodity rates)
- Decision and Order EB-2016-0330 (interim order approving NRG's proposed rates to recover the cost consequences of its Cap and Trade Compliance Plan effective January 1, 2017).

Copies of these rate orders are included as **Attachment 8.** These orders are required by EPCOR in order to charge its customers for the distribution and sale of natural gas post-transaction.

Attachments

Attachment 1 – NRG Corporate Organization

Attachment 2 – EPCOR Corporate Organization

Attachment 3 – NRG Financial Statements

Attachment 4 – EUI Financial Statements

Attachment 5 – Asset Purchase Agreement (executed/redacted)

Attachment 6 – Existing Franchise Agreements

Attachment 7 – Existing Certificates of Public Convenience and Necessity

Attachment 8 – Existing Rate Schedules

Attachment 9 – System Map

Attachment 10 – EPCOR Investor Presentation