

**Ontario Energy
Board**
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

April 25, 2017

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

Dear Ms. Walli:

**Re: Natural Resource Gas Limited
Application for approval to sell natural gas distribution system
OEB File Number: EB-2016-0351**

In accordance with Procedural Order No. 1, please find attached OEB Staff Interrogatories in the above proceeding. The attached document has been forwarded to the applicant and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Judith Fernandes
Project Advisor

Encl.



OEB Staff Interrogatories

Natural Resource Gas Limited

**Application for approval to sell natural gas distribution
system to EPCOR Natural Gas Limited Partnership**

EB-2016-0351

April 25, 2017

1-Staff-1

Ref: Exh 1/T1/ Sch 4, p. 1

It is stated that based on EPCOR Natural Gas Limited Partnership's (EPCOR) underlying cost structure, the costs to serve Natural Resource Gas Limited's (NRG) customers post-transaction are not expected to be higher than they otherwise would have been with NRG.

- a) Please provide a comparison of the costs to serve customers by NRG versus the anticipated costs to serve customers by EPCOR.

1-Staff-2

Ref: Exh 1/T1/ Sch 4, p.2

It is stated that 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.

- a) Please confirm whether EPCOR expects to realize cost efficiencies even if EPCOR does not expand its business in Ontario.
- b) Please provide a breakdown of the existing OM&A and capital costs in the following areas: information technology, regulatory, legal costs, consulting, procurement, employee compensation, and engineering/asset management.
- c) Please provide a detailed description of the expected changes in the OM&A and capital costs in each of the areas noted in b) post transaction and in the medium to long term.

1-Staff-3

Ref: Exh 1/T1/ Sch 1, p.2

It is stated:

If the present application is approved, EPCOR will assume responsibility for NRG's rate application (EB-2016-0236) and will file an amended application providing evidence to

support the revenue requirement reflective of EPCOR's ownership of the gas distribution system.

- a) Please describe the expected impact of changes to the revenue requirement proposed in NRG's rate application (EB-2016-0236), including reasons to support an anticipated increase or decrease in revenue requirement as a result of EPCOR's amended application.

1-Staff-4

Ref: Exh 1/T1/ Sch 4, pp. 3-4

The application states that gas production wells owned by NRG Corp. (a related company to NRG) provide enhanced supply reliability on NRG's distribution system.

NRG states that it was directed by the OEB to conduct an independent system integrity study to address certain system integrity issues within its franchise areas that required NRG to source gas from NRG Corp. wells. NRG notes that the number of variables and physical circumstances made the determination of a precise quantity of required system integrity gas impossible. NRG also notes that the Asset Purchase Agreement requires NRG Corp. to negotiate in good faith to conclude a gas purchase agreement (for supply from the wells) with EPCOR which must be executed by closing of the proposed sale transaction.

- a) Please provide reasons as to why the independent study could not determine the required quantity of system integrity gas.
- b) Why was the independent study not able to determine a range of the required quantities of natural gas to be purchased from NRG Corp.?
- c) Have the terms and conditions for a gas purchase agreement between NRG Corp. and EPCOR been negotiated? If so, please provide the terms and conditions including quantities, duration of the contract and purchase price.
- d) If NRG Corp. is not able to conclude a gas purchase agreement with EPCOR prior to the closing of the proposed sale transaction what will be the implications for: (i) reliability and quality of gas service to customers and (ii) the proposed asset sale transaction?

- e) Please confirm whether a premium is currently paid by NRG for gas purchased from NRG Corp as compared to the cost of gas purchased from Union Gas Limited. If so, please explain why EPCOR is pursuing a gas purchase agreement with NRG Corp. which entails higher costs for customers.
- f) Please comment on EPCOR's long term plan for supply from NRG Corp, including whether EPCOR intends to continue this arrangement indefinitely or make alternative arrangements to obtain system integrity gas.

1-Staff-5

Ref: Exh 1/ T1/ Sch 4, pp. 4-5

It is stated on page 5 that EPCOR Utilities Inc. (EUI) confirms it will provide all funding required to complete the purchase of all the assets being transferred from NRG.

- a) On page 4, it is indicated that EPCOR has the financial capacity to fund any capital projects in the future to ensure system reliability and service quality levels are maintained at pre-acquisition levels. Has EUI confirmed that it will provide funding for future capital projects as well?
- b) Please explain what financial capacity EPCOR has to fund the purchase transaction and any future capital projects on its own, and without EUI.
- c) Does EPCOR have separate audited financial statements from EUI? If yes, please provide the most recent audited financial statements.

1-Staff-6

Ref: Exh 1/ T1/ Sch 3, p.2

The application states that EPCOR will fund the purchase from a combination of its partner's equity and long term note payable to its parent company, EUI.

- a) Have the terms of the note payable been established? If yes, please provide the details of the terms.
- b) If not, when will EPCOR be expected to repay the note payable? Please provide a

repayment schedule and the source of funding to repay the note payable.

- c) How will EPCOR ensure that it has sufficient funds to repay the note payable at that time?

1-Staff-7

**Ref: Exh 1/ T1/ Sch 2, p.2
Attachments 3 and 5**

From Exhibit 1 and Attachment 5, except for the “NRG Assumed Liabilities” as listed in Attachment 5, it does not appear that EPCOR will be assuming NRG’s other liabilities outstanding prior to the close of the proposed sale transaction, if approved.

- a) Please confirm this. If not confirmed, please provide a listing of liabilities EPCOR will assume.
- b) If EPCOR is to assume NRG’s outstanding debt facilities:
- i. Please explain what EPCOR’s plans are with regards to NRG’s debt (i.e. maintain or pay off the debt).
 - ii. Please include a discussion on the impact of NRG’s breach of certain debt covenants as noted in Note 10 of NRG’s 2015 audited financial statements.
 - iii. Please also discuss the impact of holding this debt on EPCOR’s financial viability after the proposed sale transaction, if approved.

1- Staff-8

Ref: Attachment 3

In Note 9 of NRG’s 2015 audited financial statements, NRG agreed to provide credit facilities to a related party for up to \$2 million with interest charged at 1% per annum.

- a) Please explain whether this agreement will still be in place after the proposed sale transaction, if approved and whether the terms of the agreement will remain the same.

1-Staff-9

Ref: Attachments 3 and 4

NRG currently reports under Canadian Accounting Standards for Private Enterprises. EUI's financial statements are reported under International Financial Accounting Standards.

- a) What accounting standard does EPCOR plan to follow for regulatory accounting purposes if the proposed sale transaction is approved?
- b) If there is a change in accounting standard, please explain what areas of the financial statements and revenue requirement would be impacted and how EPCOR plans to address these impacts for rate purposes.

1-Staff-10

Ref: Exh 1/ T1/ Sch 1, p. 3 and Exh 1/ T1/ Sch 5, p. 2

It is indicated that on November 24, 2016, the OEB approved a deferral account for greenhouse gas emission requirements on an interim basis, effective January 1, 2017.

- a) For the record, please confirm that:
 - i. NRG does not have approval for such a deferral account and is currently requesting two related deferral accounts in the EB-2016-0330 proceeding.
 - ii. The approval granted by the OEB is, in fact, an interim rate order approving NRG's proposed rates to recover the cost consequences of its Cap and Trade Compliance Plan on an interim basis effective January 1, 2017.

1-Staff-11

Ref: Attachment 1

NRG has provided a Corporate Organization Chart in Attachment 1 of the application.

- a) Will any officers of the Wilshire Trust, Gibraltar Partners Trust, NRG Corp. or Ayerswood Development Corp. be officers or receive compensation from EPCOR? Please provide a detailed response, including reasons for proposed future arrangements.

- b) Will EPCOR continue to receive services from any of the NRG related entities mentioned in a) after the closing of the proposed sale transaction? If so:
- i. Please provide details as to the nature of the services that will be provided, duration and costs.
 - ii. Please provide the rationale for the continuation of these services.

1-Staff-12

**Ref: Exh 1/T1/Sch 1, p.2
Exh 1/T1/Sch5, p. 1**

In addition to the approval sought for the proposed asset sale by NRG to EPCOR, the application requests the transfer from NRG to EPCOR of all existing franchise agreements. The application states that 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 of the proposed sale transaction.

- a) Please comment in detail on the status of the franchise agreement renewal with the municipality of Oxford County, including whether an application for renewal has been made to the OEB.
- b) Please confirm whether the franchise agreement is expected to be renewed by the time the proposed sale transaction is concluded.
- c) If the Oxford County franchise is not renewed by the time the proposed sale transaction is concluded:
 - i. Please comment on EPCOR's operational plans for Oxford County.
 - ii. Please comment on how this impacts the viability of the proposed sale transaction.

1-Staff-13

Ref: Exh 1/T1/ Sch4, p. 7

The application states that EPCOR expects to focus on expanding services within NRG's existing franchise areas over the initial five-year period of operations. The application

also states that 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.

- a) Please provide the following information:
 - i. Details of the specific franchise agreements that NRG states EPCOR recently acquired in South Bruce County.
 - ii. Clarification of the status of OEB approval of these franchise agreements.
- b) Please provide details on EPCOR's current expansion/development plans.

1-Staff-14

Ref: Exh 1/T1/ Sch4, p. 7

It is stated that 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.

- a) Please confirm whether EPCOR is willing to provide written assurances to the OEB that it will not carry on any business activity other than the transmission, distribution, or storage of gas, without the prior approval of the OEB and that it will continue to retain an office in Aylmer, Ontario similar to the undertakings given by Union Gas Limited – Appendix C in the OEB's Decision and Order on EB-2008-0304.

1-Staff-15

Ref: Exh 1/T1/ Sch 2, p. 1

The application states that EUI through its wholly-owned subsidiaries, 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.

- a) Please describe EUI or EPCOR's experience in natural gas distribution.