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Sent by Electronic Mail, Regular Mail and RESS Electronic Filing

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

Dear Ms. Walli:

EB-2016-0330 – Written Argument-in-Chief - Application for Approval of the Cost Consequences of Cap and Trade Compliance Plans - Natural Resource Gas Limited

Please find enclosed the Written Argument-in-Chief of Natural Resource Gas Limited, submitted in compliance with Procedural Order No. 3 of the Ontario Energy Board issued April 28, 2017.

Yours very truly,

Patrick Welsh
Associate

PW:ls

Enclosure

EB-2016-0330

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Natural Resource Gas Limited for approval of the cost consequences of the cap and trade compliance plan.

WRITTEN ARGUMENT-IN-CHIEF OF NATURAL RESOURCE GAS LIMITED (PUBLIC)

Background

1. On November 15, 2016, Natural Resource Gas Limited ("**NRG**") filed its 2017 Cap and Trade Compliance Plan (the "**Plan**") with the Ontario Energy Board (the "**Board**") and sought approval from the Board to recover the estimated costs of complying with the Plan (the "**Application**").

2. On November 24, 2016, the Board issued a combined Notice of Hearing to review the Plan and consider NRG's Application. On November 26, 2016, the Board issued an Interim Rate Order approving interim rates to recover the cost consequences of the Plan effective January 1, 2017, with final rates to be set following the Board's full review of NRG's Application.

3. On January 27, 2017, the Board issued Procedural Order No. 1 which, among other things, established a procedure for the Board's review of the Plan and the Application, including an oral hearing set to begin on April 18, 2017.

4. On February 17, 2017, the Board issued Procedural Order No. 2 which, among other things, established further procedural elements of the Board's review. Procedural Order No. 2 also

finalized an issues list (the "**Issues List**") to be used in the Board's review of the Plan and Application.

5. Specifically, the Issues List was confirmed as follows:

1. **Cost Consequences** - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

Forecasts

1.1 Are the volume forecasts used reasonable and appropriate?

1.2 Are the GHG emissions forecasts reasonable and appropriate?

1.3 Is the carbon price forecast reasonable and appropriate?

Compliance Plan

1.4 Is the gas utility's Compliance Plan overview reasonable and appropriate?

1.5 Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?

1.6 Are the proposed performance metrics and cost information reasonable and appropriate?

1.7 Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?

1.8 Are the gas utility's proposed longer term investments reasonable and appropriate?

1.9 Are the gas utility's proposed new business activities reasonable and appropriate?

1.10 Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

2. **Monitoring and Reporting** – Are the proposed monitoring and reporting processes reasonable and appropriate?

3. **Customer Outreach** – Are the proposed customer outreach processes and methods reasonable and appropriate?

4. **Deferral and Variance Accounts** – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

5. **Cost Recovery**

5.1 Is the proposed manner to recover costs reasonable and appropriate?

5.2 Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?

6. **Implementation –** What is the implementation date of the final rates and how will the final rates be implemented?

6. On April 21, 2017, representatives of NRG appeared before the Board and provided the Board with oral evidence and exhibits. Specifically, NRG filed a public slide presentation marked as Exhibit No. K3.2, a copy of which is included for convenience as Appendix 1 of this written Argument-in-Chief.

Argument

Issue #1: Cost Consequences - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

7. NRG submits that the cost consequences of the Plan are reasonable and appropriate. The bill impact, estimated to be between 3.3 and 3.6 cents per cubic metre of natural gas, will be applied equally to all of NRG's customers, other than one LFE customer. NRG has opted to prepare annual, as opposed to multi-year, compliance plans, in part because linkage with the WCI system, anticipated for 2018, may bring different risks and potentially new opportunities, and because NRG wants to gain experience in what is a new regime for NRG, the Board, and other Ontario cap-and-trade participants (Transcript, Volume 3, April 21, 2017 (the "**Transcript**") at pp. 42-43).

8. Given NRG's small size and operational constraints, it has elected to retain Blackstone Energy Services Inc. ("**Blackstone**") to provide carbon market intelligence, compliance options analysis, assistance on CITSS account registration, and administration. Starting in 2018, Blackstone will also provide introductory brokerage services for secondary market emission

allowances and offset credits. NRG has also retained Osler, Hoskin & Harcourt LLP ("**Osler**") to provide regulatory and legal counsel, and to act as an oversight body for process validation.

9. NRG requires the assistance of Blackstone and Osler because it has only 18 staff members in total, compared to the approximately 13 staff members at Enbridge who are dedicated exclusively to the cap-and-trade program (Transcript at p. 40). Blackstone was selected via a competitive process because it demonstrated the most comprehensive services offerings available, experience in North American carbon markets, expertise in energy management, familiarity with gas delivery and gas markets, and is financially stable (Transcript at pp. 46-47). As NRG explained in its Responses to Public Interrogatories from Board Staff dated March 17, 2017 (the "**NRG IRRs**"), NRG believes that the cost of hiring an additional employee with the skills and qualifications required to effectively manage the Plan would be greater than the cost of the annual Blackstone engagement (NRG IRRs at p. 1).

10. Costs associated with Osler relate to regulatory assistance, such as NRG's participation at the Board's oral hearing on April 21, 2017, along with ongoing compliance advice (Transcript at p. 46). Finally, some of NRG's cost drivers relate to additional IT costs and additional burdens on staff associated with the Plan (Transcript at p. 46).

1.1 – Forecasts: Are the volume forecasts used reasonable and appropriate?

11. NRG's Plan generates one-year forecasts of volume because of policy and regulatory changes anticipated in 2018 for compliance offsets and linkage to the WCI market, both of which create future uncertainty such that NRG believes it is prudent to generate clean forecasts on an annual basis.

12. NRG does not operate its own natural gas storage facilities, therefore its facility-related consumption will include only natural gas losses during distribution. NRG forecasted its 2017 distribution losses using the same methodology employed by Union Gas. NRG's forecast assumed a 3.5% year-to-year increase in natural gas consumption due to strong residential sector growth. NRG estimates that 2017 temperatures will be closer to a 30-year normal when compared with the relatively warm 2016. NRG submits that its volume forecasts, as outlined further in the Plan, are reasonable and appropriate.

13. Finally, as stated in the NRG IRRs, NRG chose Option 2 of the Filing Guidelines partly because of a lack of reliable data upon which to base long-term forecasts.

1.2 – Forecasts: Are the GHG emissions forecasts reasonable and appropriate?

14. As discussed in paragraph 11, above, NRG has opted for one-year forecasts of GHG emissions due to the uncertainty around 2018 and beyond. As outlined further in the Plan, NRG followed the Ontario Ministry of the Environment and Climate Change's ("**MOECC**") *Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emission* in order to convert natural gas consumption volume into GHG emissions. NRG used the Higher Heating Value (HHV) of 0.03881 GJ/m^3 provided by Union Gas, as NRG receives its natural gas from Union Gas's distribution network. NRG provided additional information regarding its conversion factors and methodology in the NRG IRRs (at pp. 8-10). NRG submits that this approach is reasonable and appropriate.

1.3 – Forecasts: Is the carbon price forecast reasonable and appropriate?

15. As discussed in paragraph 11, above, NRG has opted for one-year forecasts of GHG emissions due to the uncertainty around 2018 and beyond. As outlined further in the Plan, NRG

used the averages of the Intercontinental Exchange (ICE) daily settlement prices of a California Carbon Allowance for each day of the carbon forecast period, which was carried through for each month of the forecast year for carbon allowances of the 2017 vintage year at each delivery month in 2017. For settlement prices, NRG referenced the 21 trading days between September 26, 2016 and October 24, 2016. For the exchange rate, NRG used the Canadian Dollar Futures Settlements data posted on the Chicago Mercantile Exchange (CME) on October 24, 2016 to convert the price of a three-month strip from U.S. dollars (USD) to Canadian dollars (CAD), approximating potential exchange rate risk over the course of 2017. NRG submits that this approach is reasonable and appropriate.

1.4 – Compliance Plan: Is the gas utility's Compliance Plan overview reasonable and appropriate?

16. In the Plan, NRG explained that it would follow the guidelines established by the Board as outlined in *Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities* (EB-2015-0363) and would adhere to the guiding principles established by Board, namely cost-effectiveness, rate predictability, cost recovery, transparency, flexibility and continuous improvement. In its Overview of the Compliance Plan, NRG explained this approach, and noted that it had retained Blackstone and Osler to provide assistance. NRG provided further overview information in redacted form.

1.5 – Compliance Plan: Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?

17. As outlined more fully in the confidential unredacted version of the Plan, NRG elected to select and develop its Plan in a manner that was as cost-effective and flexible as possible, which NRG submits was both reasonable and appropriate.

1.6 – Compliance Plan: Are the proposed performance metrics and cost information reasonable and appropriate?

18. As outlined more fully in the Plan, NRG estimated emissions allowance requirements and associated costs for 2017 using ICE average settlement prices, which NRG submits is reasonable and appropriate.

1.7 – Compliance Plan: Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?

19. NRG identified potential risks, including volume variability, emissions unit availability and allowance price variability, market risks, and risks of non-compliance, and provided its analysis of such risks in the Plan. NRG also presented an analysis of three risk scenarios (low, medium, and high) and highlighted price risk and volume variability in particular in its analysis in the Plan. NRG submits that this approach was reasonable and appropriate.

1.8 – Compliance Plan: Are the gas utility's proposed longer term investments reasonable and appropriate?

20. As stated in the Plan, NRG is not expecting to take long-term investments associated with Cap-and-Trade in 2017. NRG will be using the Board MACC to identify the financial feasibility of future investment opportunities in future compliance years.

1.9 – Compliance Plan: Are the gas utility's proposed new business activities reasonable and appropriate?

21. As stated in the Plan, NRG will not be taking on new business activities in 2017 as a result of the Cap-and-Trade program. NRG has stated its first priority is to ensure the effective delivery of its 2017 plan (Transcript, at pp. 47-48). The resources required for research and development risk effective delivery and management of the initial plans. Once delivery of the program becomes more routine and less resource intensive, NRG plans to explore new business opportunities.

1.10 – Compliance Plan: Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

22. As outlined further in the NRG IRRs (at p. 13), NRG did not include any customer or facility related abatement programs in the Plan because NRG is exempt from DSM and NRG's system is very new and has considerably low gas losses (see also Transcript at pp. 41-42).

Issue #2: Monitoring and Reporting – Are the proposed monitoring and reporting processes reasonable and appropriate?

23. As stated in the Plan, monitoring and reporting has commenced in 2017 and the appropriate information will be reported in the next compliance plan.

Issue #3: Customer Outreach – Are the proposed customer outreach processes and methods reasonable and appropriate?

24. NRG will undertake a customer outreach process involving print advertisements in local publications, bill messages and inserts, and information on its website, phone system and front desk. Further, NRG's customers are located in close proximity to Union Gas's customers such that many of Union Gas's customer outreach efforts, particularly over local radio, are likely to reach NRG's customers as well (Transcript, at p. 47). NRG will be preparing a series of scripted messages for Cap-and-Trade inquiries on its phone system, and is developing a Cap-and-Trade Bill Calculator in order to assist customers with understanding charges related to the Plan (NRG IRRs, at p. 15). The launch date of NRG's Cap-and-Trade Cost Calculator web tool is May 9, 2017. This date coincides with messages appearing on all Rate 1-5 customer bills delivered on or after May 10, 2017.

Issue #4: Deferral and Variance Accounts – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

25. As stated in the Plan, NRG requested, in its rate application filing (EB-2016-0263), to establish a deferral account for purposes of recording and tracking its Cap-and-Trade costs, and the appropriate information will be reported in the next compliance plan. Because the Board did not approve the establishment of a deferral and variance account in EB-2016-0263, NRG is seeking approval in this proceeding to establish two new deferral and variance accounts (NRG IRRs, at p. 17).

26. In the NRG IRRs, NRG stated that disposal of the balance in the deferral account would be done by one of two methods: by way of a rate rider over a period of up to 12 months or carrying forward any balance when determining the next Cap-and-Trade rate. The method of disposal would be determined by the impact of the amount.

Issue #5: Cost Recovery

5.1 – Cost Recovery: Is the proposed manner to recover costs reasonable and appropriate?

27. As outlined further in the Plan, the bill impact on all NRG ratepayers will be the same, with the exception of one LFE in NRG's distribution system. NRG submits that this approach is reasonable and appropriate.

5.2 – Cost Recovery: Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?

28. As discussed in paragraphs 7 through 10, 11 through 15, 18, and 25 through 27, NRG submits that the tariffs are just and reasonable. In the Plan, facility-related tariffs are shown separately from customer-related charges.

Issue #6: Implementation – What is the implementation date of the final rates and how will the final rates be implemented?

29. As outlined in the NRG IRRs (at p. 18), NRG received approval from the Board on November 25, 2016 to incorporate customer-related and facility-related obligation costs in rates on an interim basis effective January 1, 2017. When a final rate is approved, NRG will treat this similar to a foregone revenue calculation and charge the difference by way of a rate rider.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

May 5, 2017

Patrick G. Welsh
Osler, Hoskin & Harcourt LLP
Counsel for Natural Resource Gas Limited

APPENDIX 1:

COPY OF PUBLIC PRESENTATION OF NATURAL RESOURCE GAS LIMITED (APRIL 21, 2017) – MARKED AS EXHIBIT K3.2

EBO-2016-0330
Natural Resource Gas Ltd.
2017 Cap-and-Trade Compliance Plan

April 21, 2017

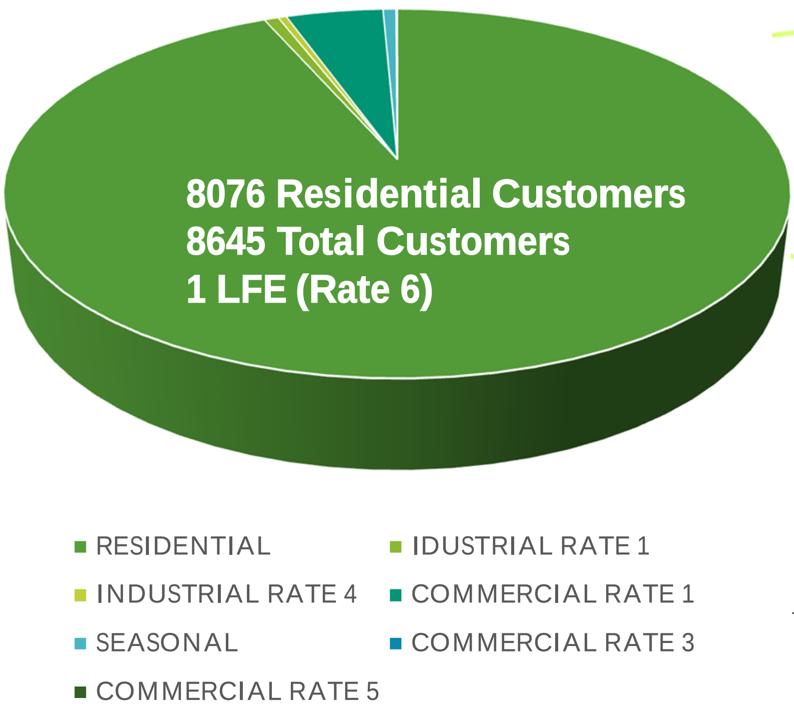
Brian Lippold, NRG Limited
Kenneth Poon, Blackstone Energy Services Limited
Patrick Welsh, Osler

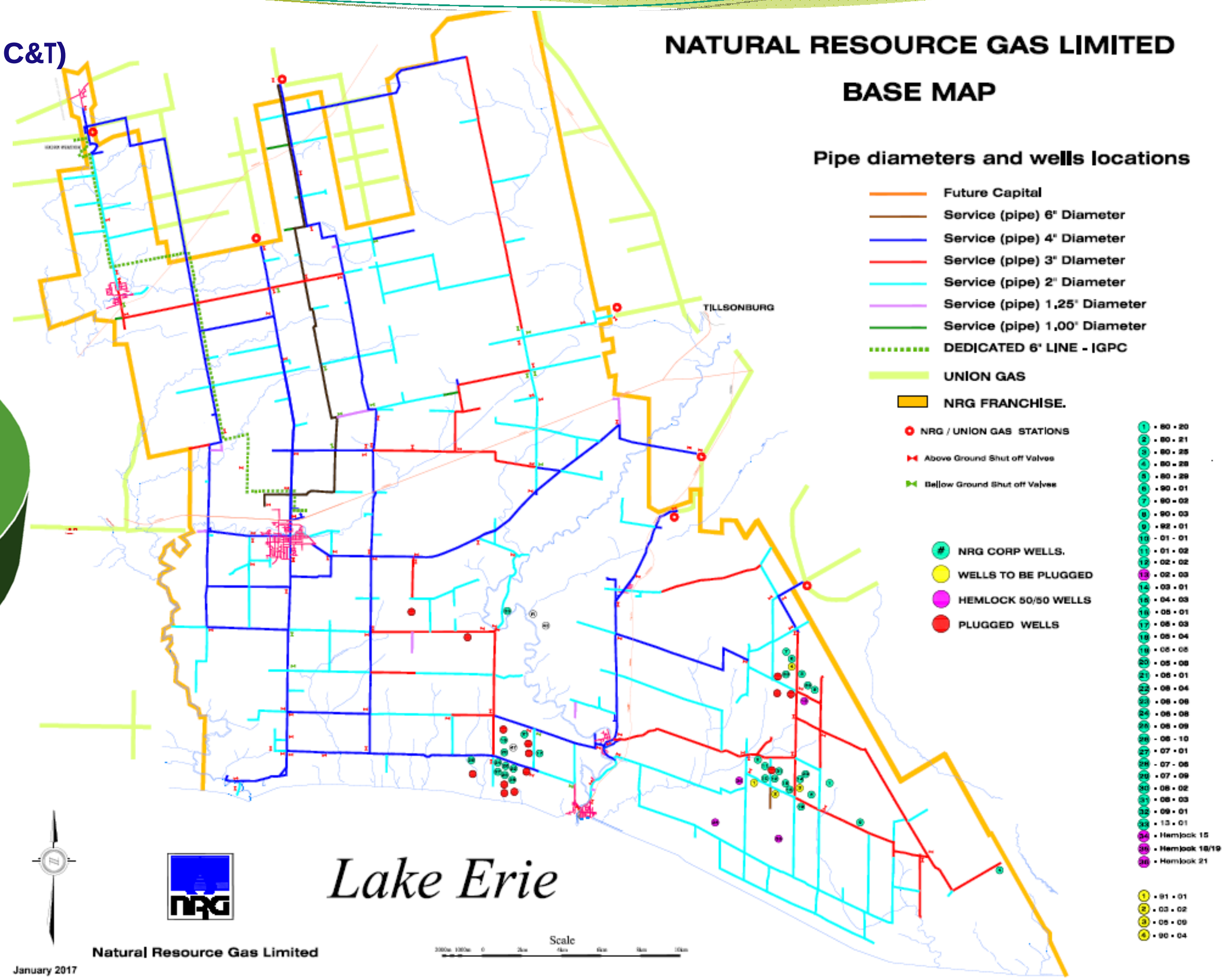
Agenda

1. Brief overview of NRG (as it relates to plan)
2. Plan highlights
3. Identified risks
4. Administrative /Communications

About NRG (as relates to C&T)

of Customers by rate class





About NRG Continued (relating to C&T)

- **Only 18 Employees**:
  - 1 Executive
  - 3 Management/ Supervisory
  - 6 Administration (CSRs, Billing, Dispatch, Collections, Sales Admin, AP)
  - 6 Field Service Technicians
  - 2 Field Construction

- **NRG limited facilities**:
  - No compressors or storage

About NRG Continued (relating to C&T)

- **Gas Loss (fugitive emissions)**
  - Limited relief
  - Low pressure system
  - Newer system = Low leak levels

- **DSM Exempt**
  - Res. abatement programs
  - Promoting Home Reno Rebate/ building envelope improvement programs

- **Largely residential and agri-business**

- **Supplied by Union** **(M9 customer backed out as LFE)**

Plan Highlights

- NRG will procure allowances to cover customer emissions with one exception (one LFE)
- NRG will procure allowances from auctions, secondary markets, and with the use of offsets, when available and appropriate.
- NRG will not implement emissions reduction strategies at this time

Plan Highlights Continued

NRG opted for Annual vs. multi-year Compliance Plans for the following reasons:

1. Linkage to WCI market, expected in 2018, will bring new procurement risks and opportunities to NRG

2. Ontario offset protocols still in development and awaiting clarity

3. Unforeseen future regulatory or market changes can have significant impact on price outlook

4. Annual plans allow flexibility to adjust to market and regulatory changes

Plan Highlights Continued

- Built-in procurement flexibility
- Continuous monitoring and identification of risks, allowance prices, exchange rate throughout period
- Continuous monitoring of emissions (actual vs forecast)
- Considers seasonality of collections vs timing of procurement, including cost of borrowing
- Procurement activities adjustments based on:
  - Allowance price forecast
  - Emission adjustments

Risks

Market Risks:

1. Price risk: Ontario Carbon Allowances (OCAs) and California Carbon Allowances (CCAs)

2. Exchange rate risks

3. Procurement risks: probability of obtaining allowances at target price

4. Policy risks: market movements due to changes in policy and regulatory environments

Risks

Non Market Risks:

1. Forecasting vs actual
2. Prudence/decision making
3. Internal Cash flow (collections and billing cycle)
4. Increased bad debt

Administration & Communications

Third Party: Blackstone Energy Services Inc.

- Selected through competitive process
- Most comprehensive services offering
- Qualified and market tested
- Contacts in secondary markets
- Expertise in energy management
- Understands abatement opportunities
- Financially stable

Administration & Communications (Continued)

- Measurement and reporting
- Significant increase in IT costs for C&T revenue reporting without separate line item
- Website calculator tool development
- Legal costs for regulatory processes
- Considerable management time
- Customer education costs

Thank You.