

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8
416.362.2111 MAIN
416.862.6666 FACSIMILE

OSLER

Toronto

June 2, 2017

Montréal

Calgary

Ottawa

Vancouver

New York

Richard King
Direct Dial: 416.862.6626
rking@osler.com
Our Matter Number: 1175408

SENT BY EMAIL & FILED ON RESS

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

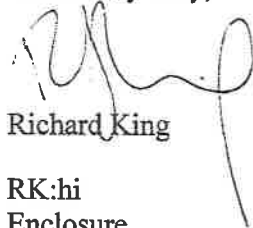
Dear Ms. Walli:

**Natural Resource Gas Limited (EB-2017-0215)
Correction to PGTVA Reference Price**

Further to our May 23, 2017 submission in the above-noted matter, we would like to request that the matter be dealt with on an expedited basis, for three reasons: (a) because the Board directed the application to first be dealt with by the Board's Audit Department, the original request by NRG is now nearly one year old; (b) the Board's Audit Department agreed with the change to the reference price; and (c) most importantly, the PGTVA will be assumed by EPCOR as part of the sale transaction between EPCOR and NRG (currently in the process of obtaining Board approval (EB-2016-0351)), so it is important the PGTVA reference price be correct prior to closing. With respect to this last item, we would note that the proceeding is fairly far along – with NRG's final reply argument due June 30, 2017, after which parties will be awaiting a decision.

Should you have any questions, please contact me directly.

Yours very truly,



Richard King

RK:hi
Enclosure

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8
416.362.2111 MAIN
416.862.6666 FACSIMILE

OSLER

Toronto

Montréal

Calgary

Ottawa

New York

May 23, 2017

Richard King
Direct Dial: 416.862.6626
rking@osler.com
Our Matter Number: 1144234

SENT BY ELECTRONIC MAIL & COURIER

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Natural Resource Gas Limited - Correction to PGTVA Reference Price (EB-2017-0215)

We are counsel to Natural Resource Gas Limited ("NRG"). On June 23, 2016, NRG filed an application with the Board, pursuant to sections 19 and 36 of the *Ontario Energy Board Act, 1998* requesting that the Board issue an order:

- approving certain corrections to reference prices used for NRG's Purchased Gas Transportation Variance Account ("PGTVAs"); and,
- amending Order EB-2010-0018 to reflect corrected reference prices for the PGTVA's.

Attached as Appendix I to this letter is a copy of that Application.

The need for the above-noted correction was identified by NRG during the course of preparing its 2017 gas distribution rate application (now in abeyance pending the outcome of a sale of NRG's business to EPCOR). The error resulted in incorrect balances being recorded in NRG's two PGTVA's. As the balances have not been brought forward to the Board for disposition, there is and will be no ratepayer impact. All of this was outlined in the Application attached at Appendix I.

Upon receipt of the Application, the Board advised NRG on July 8, 2016 that it was referring the issue to the Board's Audit and Performance Assessment Department, and that the Board would not process the Application until the audit was completed. The Board's audit is now completed, and the Audit Report is attached as Appendix II hereto.

The audit results confirm the error that NRG discovered, and the Board's audit department has instructed NRG to make correcting entries to the PGTVA balances (and the resulting impacts to the 2015 closing retained earnings and regulatory trial balance) in NRG's filings

OSLER

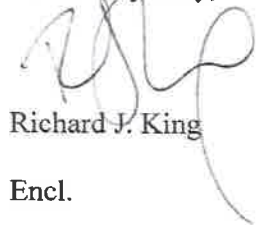
Page 2

pursuant to the Natural Gas *Reporting and Record Keeping Requirements (RRR) Rule for Gas Utilities*. NRG is in the process of making those adjusting entries.

The audit also verified the corrected reference prices being proposed by NRG (see last paragraph on page 5 of 13 of the Audit Report). Consequently, we are requesting, by way of this letter, that the Board now process the Application as filed on June 23, 2016. Given the confirming work already done by the Board's audit department, and the fact that there will be no impact to ratepayers, NRG is also requesting (as per our original June 23, 2016 Application), that the matter be disposed of without holding a hearing, pursuant to subsection 21(4) of the *Ontario Energy Board Act, 1998*.

Should you have any questions concerning this submission, please contact the undersigned.

Yours very truly,



Richard J. King

Encl.

c: Laurie O'Meara (NRG)
Kristi Sebalj (Registrar)

APPENDIX I
June 23, 2016 Application



Natural Resource Gas Limited
39 Beech St. E., PO Box 307, Aylmer ON N5H 2S1

June 23, 2016

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Natural Resource Gas Limited
Correction to PGTVA Reference Price**

Pursuant to sections 19 and 36 of the *Ontario Energy Board Act, 1998*, Natural Resource Gas Limited ("NRG") requests that the Board issue an order:

- (i) approving certain corrections to reference prices used for NRG's Purchased Gas Transportation Variance Accounts ("PGTVAs"); and,
- (ii) amending Order EB-2010-0018 to reflect corrected reference prices for the PGTVAs, as further detailed below.

We enclose a copy of a draft Order for the Board's convenience (attached to this letter as **Attachment 1**).

On February 17, 2011, the Board issued Rate Order EB-2010-0018 ("2010 Order") approving certain rates and charges for the distribution of natural gas. Appendix "B" to the 2010 Order approved two PGTVAs, one for customers in rate classes 1 through 5 (referred to as PGTVA 1-5) and another for Integrated Grain Processors Co-operative Inc. ("IGPC") exclusively (referred

to as PGTVA 6, since IGPC is the only customer in NRG's rate class 6). The relevant pages from the 2010 Order showing the PGTVA's approved are attached to this letter as **Attachment 2**.

The 2010 Order set the following reference prices for the PGTVA's, effective October 1, 2010:

- PGTVA 1-5: \$0.023909/m³
- PGTVA 6: \$0.0105000/m³

During the preparation of NRG's evidence for the EB-2010-0018 proceeding, which was relied on by the Board to set the above reference prices, NRG's consultant made a calculation error by basing the reference price on the Union Gas Limited ("UG") transportation volume as opposed to NRG's load forecast sales volume. The load forecast sales volume includes not only the UG transportation volumes but also volumes purchased by NRG from producers within NRG's franchise areas. The details of these calculations were filed in a schedule as part of NRG's application materials that were reviewed by stakeholders and the Board in the proceeding leading up to the issuance of the 2010 Order. The calculation error was only discovered recently, as NRG was preparing its next cost of service application.

The correct reference prices, based on load forecast sales volumes, are as follows:¹

- PGTVA 1-5: \$0.018339/m³
- PGTVA 6: \$0.009885/m³

The source documents for the figures used in the above reference price calculations were filed in the EB-2010-0018 proceeding, and excerpts therefrom have been provided with this application as **Attachment 3**. The first page at Attachment 3 is Exhibit D8, Tab2, Schedule 3, Page 1 from the evidence in EB-2010-0018. It shows the data that feeds into the PGTVA calculation in the 2011 Test Year. The right hand column (circled by hand) shows total annual volumes of gas transported for Rates 1 to 5 (Non-IGPC loads) and Rate 6 (IGPC) as 16,823,166 m³ and 31,459,135 m³, respectively. These were the (incorrect) numbers used to calculate the PGTVA reference price. The second page at Attachment 3 is Exhibit 3, Tab 2, Schedule 1 (Sheet 3.2 – Allocation Factors) from the evidence in EB-2010-0018. It shows the total of the transported and delivered volumes (see to amounts circled by hand) for Rates 1 to 5 (21,932,941 m³) and Rate 6

¹ Calculation details:

PGTVA 1-5: Transportation Cost, \$402,220 divided by Load Forecast Sales Volume, 21,932,940m³ (as compared to UG Volume of 16,823,166m³); and

PGTVA 6: Transportation Cost \$330,310 divided by Load Forecast Sales Volume 33,416,816m³ (as compared to UG Volume of 31,459,135m³).

(33,416,816 m³). These are the correct numbers that should have been used to calculate the PGTVVA (see footnote 1 below).

NRG requests approval from the Board for the correction to the reference prices used in the PGTVAs, effective October 1, 2010, and for the corresponding necessary accounting entries. NRG can confirm that the impact of this reference price change on fiscal years 2011 through to 2015 will be accounted for in the current fiscal year (2016), should Board approval be granted. As the PGTVAs during the fiscal years 2011-2015 have not yet been disposed of, there is no direct impact on NRG's customers as a result of this correction. The PGTVA balances will be dealt with in NRG's next rebasing application, which is to be filed shortly.

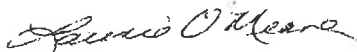
It should be noted that the adjustments to the PGTVA reference prices does not change the distribution rate that was charged to customers – it just correctly allocates how much of the distribution rate relates to transportation costs. That is because the distribution rates were established using the total load forecast and not just the UG transported volumes.

In the interim, upon discovery of the error, NRG has made the appropriate book entry to correct the impact of the error for prior years. NRG has not yet corrected the reference price for the current fiscal year. The entry for the prior years was reflected in NRG's most recent Gas Reporting and Record Keeping Requirements filings.

Given that no persons will be adversely affected in a material way by the granting of NRG's request to revise the PGTVA reference prices, NRG submits that the Board can appropriately dispose of this matter without holding a hearing pursuant to subsection 21(4) of the *Ontario Energy Board Act, 1998*.

Should you have any questions concerning this submission, please contact the undersigned.

Yours very truly,



Laurie O'Meara, CPA
V.P. Administration

Encl.

ATTACHMENT 1

Draft Board Order

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
Resources Gas Limited to approve certain adjustments to
its deferral accounts affecting gas distribution rates and
amend Appendix "B" to Rate Order EB-2010-0018;

BEFORE:

xx
Presiding Member

xx
Board Member

xx
Board Member

DRAFT DECISION AND ORDER
(for rates effective October 1, 2015)

Natural Resources Gas Limited ("NRG") filed an application dated June XX, 2016 with the Ontario Energy Board under sections 19 and 36 of the *Ontario Energy Board Act*, 1998, S.O. c.15, for an Order approving adjustments to the Purchased Gas Transportation Variance Accounts ("PGTVAs") and changes to the PGTVa reference prices for the 2016 fiscal year, commencing October 1, 2015, and amending Rate Order EB-2010-0018 accordingly. The Board assigned file number EB-2016-XXXX to the Application.

During the preparation of NRG's evidence in proceeding EB-2010-0018, which was relied on by the Board to set the current PGTVa reference prices, NRG's consultant made a calculation error by basing the reference price on the Union Gas Limited transportation volume as opposed to the load forecast sales volume. The previously approved and corrected reference prices are as follows:

Deferral Account	Approved Reference Price	Correct Reference Price
PGTVa 1-5	\$0.023909/m ³	\$0.018339/m ³
PGTVa 6	\$0.0105000/m ³	\$0.009885/m ³

NRG has requested an adjustment to the PGTVA reference prices noted above retroactively to October 1, 2010. This Order represents the approval of the requested adjustments to the PGTVA reference prices, in addition to the corresponding amendment of Order EB-2010-0018, effective October 1, 2010. The approved PGTVA reference prices are calculated based on the load forecast volume. It is understood that the impact of this reference price change on fiscal years 2011 through to 2015 will be accounted for in the current fiscal year (2016).

THE BOARD THEREFORE ORDERS THAT:

1. Effective October 1, 2010, NRG is authorized to reset the reference price for the PGTVA as follows, and to make the appropriate entries to the PGTVA as a result of this change:
 - a. A reference price of $\$0.018339/\text{m}^3$ is applicable to the PGTVA for all customers in classes 1 through 5 (PGTVA 1-5).
 - b. A reference price of $\$0.009885/\text{m}^3$ is applicable to the PGTVA for Integrated Grain Processors Co-operative Inc., the only customer in Rate 6 (PGTVA 6).
2. Effective October 1, 2010, Appendix "B" to Board Order EB-2010-0018 is amended as follows:
 - a. The reference to " $\$0.023909/\text{m}^3$ " on page 9 of 10 of Attachment E is struck and replaced with " $\$0.018339/\text{m}^3$ ".
 - b. The reference to " $\$0.0105000/\text{m}^3$ " on page 10 of 10 of Attachment E is struck and replaced with " $\$0.009885/\text{m}^3$ ".

DATED at Toronto _____, 2016.

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

ATTACHMENT 2

Appendix "B", Attachment E to Order EB-2010-0018

Accounting Order

Deferral Account to Record

Accounting Entries for the Purchased Gas Transportation Variance Account

Note: Account numbers are in accordance with the Uniform System of Accounts for Gas Utilities, Class A, prescribed under the Ontario Energy Board Act.

Accounting Entries for Purchased Gas Transportation Variance Account Rates 1 – 5 (PGTVA 1-5)

Effective October 1, 2010 NRG is authorized to reset the reference price for the PGTVA Fiscal 2011. Whereas formerly a single reference price was used effective October 1, 2010 two reference prices will be relied on:

A reference price of \$0.023909/m³ applicable to all customers in classes 1 through 5;

Debit/Credit Account No. 179-45 Purchased Gas Transportation Variance Account
Rates 1 – 5 (PGTVA 1-5)

Credit/Debit Account No. 623 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179, interest on the balance in Deferral Account

Debit/Credit Account No. 179-46 Interest on PGTVA 1-5

Credit/Debit Account No. 323 Other Interest Expense

Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

Accounting Order

Deferral Account to Record

Accounting Entries for the Purchased Gas Transportation Variance Account

Note: Account numbers are in accordance with the Uniform System of Accounts for Gas Utilities, Class A, prescribed under the Ontario Energy Board Act.

Accounting Entries for Purchased Gas Transportation Variance Account Rates 6 (PGTVA 6)

Effective October 1, 2010 NRG is authorized to reset the reference price for the PGTVA Fiscal 2011. Whereas formerly a single reference price was used effective October 1, 2010 two reference prices will be relied on:

A reference price of \$0.0105000/m³ applicable to IGPC exclusively.

Debit/Credit Account No. 179-47 Purchased Gas Transportation Variance Account
Rates 6 (PGTVA 6)

Credit/Debit Account No. 623 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179, interest on the balance in Deferral Account

Debit/Credit Account No. 179-48 Interest on PGTVA 6

Credit/Debit Account No. 323 Other Interest Expense

Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

ATTACHMENT 3

**Evidence Excerpts from Board Proceeding EB-2010-0018 regarding
PGTVA Reference Price Calculations**

NATURAL RESOURCE GAS LIMITED

Purchased Gas Transportation Variance Account Calculation
2011 Test Year

	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>TOTAL</u>
<u>Volumes Transported (M*3)</u>													
Non-IGPC loads	1,315,196	2,642,327	2,940,878	3,062,842	3,173,228	2,117,985	1,059,721	315,492	105,863	21,954	114,451	(46,769)	16,823,166
IGPC	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>2,621,595</u>	<u>31,459,135</u>
Total Transported	3,936,790	5,263,921	5,562,472	5,684,437	5,794,822	4,739,580	3,681,316	2,937,086	2,727,457	2,643,548	2,736,046	2,574,825	48,282,301
<u>Transportation Cost</u>													
Union Gas - Demand													
Non-IGPC loads	28,642	28,642	28,642	28,642	28,642	28,642	28,642	28,642	28,642	28,642	28,642	28,642	343,709
IGPC	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>18,434</u>	<u>221,209</u>
Total	47,076	47,076	47,076	47,076	47,076	47,076	47,076	47,076	47,076	47,076	47,076	47,076	564,917
Union Gas - Delivery													
Non-IGPC loads	4,568	9,177	10,214	10,637	11,021	7,356	3,680	1,096	368	76	397	(162)	58,427
IGPC	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>9,105</u>	<u>109,258</u>
Total	13,672	18,282	19,318	19,742	20,125	16,461	12,785	10,201	9,472	9,181	9,502	8,942	167,684
Union Gas - Adjustments													
Non-IGPC loads	(7)	(13)	(15)	(15)	(16)	(11)	(5)	(2)	(1)	(0)	(1)	0	(84)
IGPC	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(152)</u>
Total	(20)	(26)	(28)	(28)	(29)	(24)	(18)	(15)	(14)	(13)	(14)	(13)	(241)
Total Transportation Cost	60,729	65,332	66,367	66,790	67,173	63,513	59,843	57,262	56,535	56,244	56,565	56,006	732,360
<u>Average Cost (\$/M*3)</u>													
Currently Authorized Reference	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029	0.019029
Average Actual Price	<u>0.015426</u>	<u>0.012411</u>	<u>0.011931</u>	<u>0.011750</u>	<u>0.011592</u>	<u>0.013401</u>	<u>0.016256</u>	<u>0.019496</u>	<u>0.020728</u>	<u>0.021276</u>	<u>0.020674</u>	<u>0.021751</u>	
Rate Difference	0.003603	0.006618	0.007098	0.007279	0.007437	0.005628	0.002773	(0.000467)	(0.001699)	(0.002247)	(0.001645)	(0.002722)	
<u>PGTVA Balance (\$'s) - at Currently Authorized Reference Price</u>													
PGTVA	(14,184)	(34,837)	(39,482)	(41,377)	(43,096)	(26,674)	(10,208)	1,372	4,634	5,940	4,501	7,009	(186,404)
Year-to-Date (1)	(399,522)	(434,358)	(473,841)	(515,218)	(558,314)	(584,988)	(595,197)	(593,825)	(589,191)	(583,251)	(578,750)	(571,742)	(571,742)
Interest	(177)	(183)	(199)	(217)	(236)	(256)	(268)	(273)	(272)	(270)	(267)	(265)	(2,884)
Year-to-Date (2)	(5,443)	(5,626)	(5,825)	(6,042)	(6,278)	(6,534)	(6,802)	(7,075)	(7,347)	(7,617)	(7,884)	(8,150)	(8,150)
Total Balance	<u>(404,964)</u>	<u>(439,984)</u>	<u>(479,666)</u>	<u>(521,260)</u>	<u>(564,592)</u>	<u>(591,522)</u>	<u>(601,999)</u>	<u>(600,900)</u>	<u>(596,538)</u>	<u>(590,868)</u>	<u>(586,635)</u>	<u>(579,891)</u>	<u>(579,891)</u>
Interest Rate	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	
<u>Calculation of Revised Reference Price</u>													
Non-IGPC loads	0.023899												
IGPC	0.010500												
Average	0.015168												

1 SHEET 3.2

ALLOCATION FACTORS

FACTOR	DESCRIPTION	TOTAL	Residential	Commercial	Industrial	Seasonal	Firm	Interruptible	Int. Fall	Rate 5	Rate 6
	Sales Volumes (m ³)	20,714,535	12,996,895	3,427,899	598,011	469,168	1,927,868	0	454,263	840,443	0
E1	% OF TOTAL	100.00%	62.74%	16.55%	2.89%	2.26%	9.31%	0.00%	2.19%	4.06%	0.00%
E1:1-6		100.00%	62.74%	16.55%	2.89%	2.26%	9.31%	0.00%	2.19%	4.06%	0.00%
	Delivery/Transp Volumes (m ³)	21,932,941	13,103,581	4,131,750	598,028	502,859	2,195,299	0	454,263	947,162	33,416,816
E2	% OF TOTAL	100.00%	59.74%	18.84%	2.73%	2.29%	10.01%	0.00%	2.07%	4.32%	60.37%
E2:1-6		100.00%	23.67%	7.46%	1.08%	0.91%	3.97%	0.00%	0.82%	1.71%	60.37%
	Coincident Peak (m ³ /day)	200,570	130,816	39,154	9,529	271	20,800	0	0	0	108,118
	Peak Day Use/Cust/HDD (3 yr avg)	0.52318	2.50347	7.21926	0.13525						2702.95
	# of customers @ Peak Day	6251	391	33	50	5	0	24	5		1
D1	% OF TOTAL	100.00%	65.22%	19.52%	4.75%	0.13%	10.37%	0.00%	0.00%	0.00%	35.02%
D1:1-6		100.00%	42.38%	12.68%	3.09%	0.09%	6.74%	0.00%	0.00%	0.00%	35.02%
	Non-Coincident Peak (m ³ /day)	267,275	113,143	33,470	8,171	33,005	30,076	0	7,742	41,668	108,118
	Peak day Use/Cust (3 yr avg)	18.1	85.6	247.6	660.1	6,015.2	0.0	322.6	8,333.6	108,118.0	
	% OF TOTAL	100.00%	42.33%	12.52%	3.06%	12.35%	11.25%	0.00%	2.90%	15.59%	28.80%
		100.0%	30.14%	8.92%	2.18%	8.79%	8.01%	0.00%	2.06%	11.10%	28.80%
	Weighted CP/NCP Allocator	233,923	125,797	37,479	9,133	14,601	25,291	0	3,388	18,234	
D2	% OF TOTAL	100.00%	53.78%	16.02%	3.90%	6.24%	10.81%	0.00%	1.45%	7.79%	0.00%
D2:1-6		100.00%	53.78%	16.02%	3.90%	6.24%	10.81%	0.00%	1.45%	7.79%	0.00%
	Wtd Customers Services	8,173	6,560	414	237	644	51	0	203	64	13
	Weighting Factor	1.00	1.00	5.64	8.82	12.86	12.86	8.82	12.86	12.86	12.86
CC1	% OF TOTAL	100.00%	80.26%	5.07%	2.90%	7.88%	0.63%	0.00%	2.48%	0.79%	0.16%
CC1:1-6		100.00%	80.13%	5.06%	2.89%	7.87%	0.63%	0.00%	2.48%	0.79%	0.16%
	Wtd Customers Meters	10,737	6,560	414	620	1,883	304	0	575	381	76
	Weighting Factor	1.00	1.00	14.76	25.79	76.11	76.11	25.01	76.11	76.11	76.11
CC2	% OF TOTAL	100.00%	61.10%	3.86%	5.77%	17.53%	2.84%	0.00%	5.36%	3.54%	0.70%
CC2:1-6		100.00%	60.67%	3.83%	5.73%	17.41%	2.82%	0.00%	5.32%	3.52%	0.70%
	Wtd Customers Billing	7,202	6,560	414	42	73	40	0	23	50	10
	Weighting Factor	1	1	1	1	10	10	1	10	10	10
CC3	% OF TOTAL	100.00%	91.09%	5.75%	0.58%	1.01%	0.56%	0.00%	0.32%	0.69%	0.14%
CC3:1-6		100.00%	90.96%	5.74%	0.58%	1.01%	0.55%	0.00%	0.32%	0.69%	0.14%
	Customers (average)	7,121	6,560	414	42	73	4	0	23	5	1
CC4	% OF TOTAL	100.00%	92.12%	5.81%	0.59%	1.03%	0.06%	0.00%	0.32%	0.07%	0.01%
DD4:1-6		100.00%	92.11%	5.81%	0.59%	1.03%	0.06%	0.00%	0.32%	0.07%	0.01%
	m ³ per Customer		1,998	9,980	14,239	6,888	548,825	0	19,751	189,432	
	Rate 1 Revenues	8,670	6,805	1,610	255						
CC5	% OF TOTAL	100.00%	78.49%	18.57%	2.94%						
CC5:1-6		100.00%	78.49%	18.57%	2.94%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Security Deposit & DSM										
R1	% OF TOTAL	100.00%	93.50%	5.90%	0.60%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
R1:1-6		100.00%	93.50%	5.90%	0.60%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Hand coded in Contract

MARCH, 2010

APPENDIX II
Audit Report March 2017

**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



March 8, 2017

Mr. Brian Lippold
General Manager
Natural Resource Gas Limited
39 Beech Street East
Aylmer, ON N5H 3J6

Dear Mr. Lippold,

Re: Audit of PGTVA's and related Transportation Costs

As described in the engagement letter issued to Natural Resource Gas Limited (NRG) on September 12, 2016, the Ontario Energy Board (OEB) authorized an audit of NRG's Purchased Gas Transportation Variance Accounts (PGTVA) and its reference prices to be conducted by OEB's Audit and Performance Assessment Department (Audit).

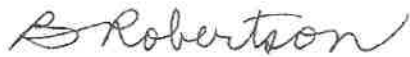
A final report (Report) has now been completed by Audit. The Report outlines findings and observation (together, Findings) arising from this audit. The Report also includes NRG's management responses and management action plans to address the Findings.

To ensure that the audit Findings as outlined in the Report are properly and consistently addressed and the required action plans are implemented by NRG, Audit may conduct a follow-up audit in 2017-2018.

The Findings in the Report represent the views of Audit and are not necessarily the views of the OEB as a whole. Audit provides no assurances that addressing the Findings requiring actions alone will resolve the issues identified in the Report. Ultimately, the Report may be used as evidence in future NRG's proceedings before the OEB.

We thank the staff of NRG for the assistance and cooperation provided to us during this audit.

Yours truly,

A handwritten signature in cursive script that reads "Barbara Robertson".

Barbara Robertson

Interim Manager, Audit & Performance Assessment

Phone: (416) 440-7718

Fax: (416) 440-7656

Email address: Barbara.Robertson@ontarioenergyboard.ca

Cc: Anthony Graat, President

Laurie O'Meara, CPA, CA, Vice President of Administration

ONTARIO ENERGY BOARD



Audit Report

Natural Resource Gas Ltd.

Audit Report on PGTVAs and related Transportation Costs

Audit and Performance Assessment

March 2017

Background

Natural Resource Gas Limited (NRG) is a privately owned utility that sells and distributes natural gas in southwestern Ontario. The company provides natural gas to over 8,000 customers within its franchise territory which stretches from south of Highway 401 to the shores of Lake Erie and from Port Bruce to Clear Creek. NRG's fiscal year end is September 30.

On June 23, 2016, NRG applied to the Ontario Energy Board (OEB) requesting an order:

- (i) approving corrections to reference prices used for NRG's Purchased Gas Transportation Variance Accounts (PGTVAs) and corresponding necessary accounting entries; and,
- (ii) amending Order EB-2010-0018 issued February 17, 2011 to reflect the corrected reference prices.

In its letter of July 8, 2016, the OEB advised that it was referring the issue to the Audit and Performance Assessment Department (Audit) and would not process the application until an audit is completed.

On September 12, 2016 Audit's engagement letter advised that it would be conducting an audit of the PGTVAs.

Audit has completed the audit and overall, except for the findings and observation noted below and set out in detail in Appendices 1 and 2, nothing has come to Audit's attention that NRG's natural gas transportation and recording processes do not appropriately capture the transportation costs of natural gas and dispose of these transportation costs in accordance with proper regulatory principles regarding the PGTVAs. The correction to the reference prices as requested in NRG's June 23, 2016 letter will result in less refund to its customers upon the disposition of the PGTVAs balances.

Audit expects NRG's management to implement detailed action plans to address the findings and observation in the report.

Audit may conduct a follow-up audit once NRG implements its required action plans to ensure that all audit findings and observation are properly and consistently addressed by NRG.

Authority

To the extent that the audit required NRG to provide documents, records or information, Audit acted under inspection powers set out in Part VII of the *Ontario Energy Board Act, 1998*.

Reason for Audit

The OEB's 2010 Decision and Order¹ approved NRG's request to clear the PGTVA as of September 30, 2009, and to replace the single reference price in the PGTVA with two different prices, one for Rate 6 (exclusively for Integrated Grain Processors Co-operative Inc.) and one for Rates 1 to 5 (all other customers).

The resultant Rate Order² approved accounting orders setting out the reference prices effective October 1, 2010.

NRG stated in its June 23, 2016 letter that it had made an error in calculating these prices by incorrectly using the Union Gas (UG) transportation volume instead of correctly using NRG's load forecast sales volume. The load forecast sales volume includes both the UG transportation volumes and volumes purchased by NRG from a local producer (i.e. NRG Corp, a related company of NRG).

The approved reference prices effective October 1, 2010 and the correct reference prices proposed by NRG are provided below in Table 1.

Table 1
PGTVA Reference Prices

PGTVA	Approved effective Oct 1, 2010	Corrected proposed by NRG
Rates 1-5	\$0.023909/m ³	\$0.018339/m ³
Rate 6	\$0.0105000/m ³	\$0.009885/m ³

Scope

The OEB's 2010 Decision and Order approved NRG's request to clear the PGTVA as of September 30, 2009. In the cost of service application EB-2016-0236³, NRG requested a disposition of the PGTVA balances as of September 30, 2015.

¹ OEB Decision and Order, EB-2010-0018 dated December 6, 2010, page 15

² OEB Rate Order EB-2010-0018 issued February 17, 2011

³ Exhibit 5, Tab1, Schedule 1 of EB-2016-0236

The scope of the audit is to verify the requested corrections to the reference prices for NRG's PGTVA's, assess the impact on the PGTVA balances and verify corresponding accounting treatment from the last disposition approved by the OEB to the proposed disposition by NRG. To do this, Audit reviewed NRG's policies, procedures and processes associated with the PGTVA's, PGTVA reference prices and related transportation costs, PGTVA balances and PGTVA dispositions for the period October 1, 2009 to September 30, 2015.

Objectives

The objectives of this audit are:

- Establish an understanding of NRG's process and procedures regarding the tracking, measuring and reporting for the PGTVA's for regulatory purpose for the periods of October 1, 2009 to September 30, 2015.
- Establish an understanding of the control environment and internal controls regarding the determination of PGTVA's and the reference prices.
- Verify the accuracy of the proposed reference prices and assess the impact between the approved and proposed reference prices to the ratepayers.
- Verify on a sampling basis the accounting entries into the PGTVA's continuity schedules such as the transportation volume, reference prices and actual transportation cost to ensure the PGTVA balances are correctly stated for regulatory purposes as of September 30, 2015.
- Assess the proper accounting for the disposition of PGTVA's in accordance with OEB Decision EB-2010-0018 and RRR information reported to the OEB.
- Assess the compliance of NRG's practices regarding PGTVA's and reference prices as approved by the OEB.

Criteria and Procedures

The audit examined policies, procedures, methodologies, and transactions associated with the transportation of natural gas from UG franchise territory to NRG's distribution system and the recording of such transactions within the PGTVA's. As gas transportation costs are usually pass through costs that are ultimately paid by NRG's customers, a primary objective of the PGTVA's is to accumulate and dispose of transportation costs to customers in a manner that is neutral to NRG (i.e., no gain or loss on the transportation of natural gas). To that effect, NRG should have appropriate policies, processes and controls to properly capture and record transactions related to the transportation of natural gas.

The audit relied on the relevant Decisions and Orders within the audit scope and the relevant clauses as set out in the Natural Gas Reporting and Record Keeping Requirements (RRR) Rule for Gas Utilities to establish criteria to perform the audit.

Audit used procedures that consisted primarily of verification, enquiry and analytical procedures. These procedures were applied to information and materials provided by NRG and documentation available through the OEB Decisions and Orders and related applications and filings made in accordance with the RRR.

Findings

1. NRG's PGTVA balances at the end of September 30, 2015 were overstated by a credit balance of \$844,100 which included a principal portion of \$742,482 and an interest portion of \$101,618 as result of the application of approved reference prices from EB-2010-0018 which, based on the audit, were calculated incorrectly by NRG. As a result, less refund will be returned to NRG customers upon the disposition of the PGTVA balances.
2. Although the impact on the account balances of PGTVA 1-5 and PGTVA 6 is immaterial, NRG did not follow the timing, prescribed accounts and accounting entries from the Rate Order of EB-2010-0018 to record the OEB approved disposition amounts as of September 30, 2009.
3. Although the impact on the account balances of PGTVA 1-5 and PGTVA 6 is immaterial, NRG did not transfer the residual balance from the collection of the PGTVA rate riders to accounts PGTVA 1-5 and PGTVA 6 at the sunset date of the rate riders for further disposition. Further, NRG did not track the collection of the PGTVA rate riders in OEB prescribed accounts. Instead, NRG tracked the application of the rate riders in a separate internal schedule and removed the approved disposition amount, instead of the actual application of the rate rider, at the completion of the rate rider on September 30, 2011 from its general ledger.

Observation

NRG inconsistently reported under RRR 2.1.2, RRR 2.1.7 and RRR 2.1.15 a different set of account numbers for principal and interest portions of PGTVA in accounts PGTVA 1-5 and PGTVA 6. The account numbers used under RRR 2.1.15 were different from the OEB prescribed account numbers from EB-2010-0018. The account numbers used under RRR 2.1.2 and RRR 2.1.7 were consistent with the OEB prescribed account numbers from EB-2010-0018.

Appendix 1 Detailed Findings

1.1.1 Finding 1

NRG's PGTVA balances at the end of September 30, 2015 were overstated by a credit balance of \$844,100 which included a principal portion of \$742,482 and an interest portion of \$101,618 as result of the application of approved reference prices from EB-2010-0018 which, based on the audit, were calculated incorrectly by NRG. As a result, less refund will be returned to NRG customers upon the disposition of the PGTVA balances.

1.1.2 Basis of Finding

In NRG's cost of service proceeding EB-2010-0018, the OEB approved accounting orders which set out reference prices for PGTVA 1-5 and PGTVA 6. However, an error was made in the determination of the reference prices caused by incorrectly using UG's transportation volume rather than correctly using NRG's load forecast sales volume. The load forecast sales volume includes both the UG transportation volumes and volumes purchased by NRG from a local producer (i.e. NRG Corp, a related company of NRG) within NRG's franchise territory. The following table sets out the differences in the inputs for the approved incorrect and proposed correct reference prices.

Table 1

	Transportation Cost \$	UG Transportation Volume(m ³)	Load Forecast (m ³)	Incorrect Reference Price/m ³	Proposed Reference Price/m ³
PGTVA 1-5	402,220	16,823,166	21,932,940	0.023909	0.018339
PGTVA 6	330,310	31,459,135	33,416,816	0.0105000	0.009885

Audit verified the proposed reference prices based on load forecast sales volumes and assessed the impact of the changes to the PGTVA balances for the period of October 1, 2010 to September 30, 2015. As a result, the PGTVA balances as of September 30, 2015 for rate 1-5 and rate 6 both changed to the following balances as illustrated in Table 2 below:

Table 2

	PGTVA 1-5	PGTVA 6
Sep 30, 2015 principal balance based on incorrect reference price	(1,146,594.28)	(624,343.58)
Sep 30, 2015 interest balance based on incorrect reference price	(43,496.26)	(35,194.15)
Total	(1,190,090.54)	(659,537.73)
Sep 30, 2015 principal balance based on proposed reference price	(428,722.04)	(526,067.03)
Sep 30, 2015 interest balance based on proposed reference price	(18,886.81)	(31,852.77)
Revised Total	(447,608.86)	(557,919.80)

As a result, the following adjustments as illustrated in Table 3 below need to be made to accounts PGTVA 1-5 and PGTVA 6 as of September 30, 2015:

Table 3

Debit Adjustment to the PGTVA balances	PGTVA 1-5	PGTVA 6
Principal	717,872.24	98,276.55
Interest	24,609.45	3,341.38
Total adjustment	742,481.69	101,617.93

1.1.3 Area of Potential Non-Compliance and Action Required

PGTVA reference prices should be based on NRG's load forecast sales volume, rather than UG's transportation volume. The load forecast sales volume includes not only UG transportation volumes but also volumes purchased by NRG from the producer within NRG's franchise territory.

In the interim, upon discovery of the error, NRG made an adjusting entry for the impact of the proposed correct reference prices in NRG's RRR

2.1.2 filing for Q2 2016. NRG is requesting a disposition of PGTVA balances as of September 30, 2015 in the cost of service proceeding EB-2016-0236 for rates effective October 1, 2016. Generally, the process would require NRG to reflect in RRR 2.1.2 the adjusting entry to the principal and interest balances of accounts PGTVA 1-5 and PGTVA 6 as of September 30, 2015, and to re-file RRR 2.1.2 for Q2, 2016 to reverse the prior adjusting entry.

As to the corresponding adjustments to transportation costs and interests, NRG should quantify and adjust the cumulative impact of the transportation costs and interests for the fiscal years of 2011 to 2014 to 2015 closing retained earnings.

NRG should also quantify and adjust the impact of the transportation costs and interests for the fiscal year of 2015 to 2015 regulatory trial balance, and re-file RRR 2.1.7 and RRR 2.1.15 for the fiscal year of 2015.

The reporting requirements under RRR 2.1.2, RRR 2.1.7 and RRR 2.1.15 are as follows:

2.1.2 A utility shall provide in the form and manner required by the Board, quarterly, on the last day of the second month following the quarter end for the first three quarters and the last day of the fourth month following the quarter end for the last quarter, quarterly information on non-gas and gas supply deferral accounts.

2.1.7 A utility shall provide in the form and manner required by the Board, annually, by the last day of the fourth month after the financial year end, a trial balance in uniform system of accounts (USoA) format supporting the audited financial statements, for the preceding financial year.

2.1.15 A utility shall provide in the form and manner required by the Board, annually, by the last day of the fourth month following the last quarter, the uniform system of account balances mapped and reconciled to the audited financial statements.

1.1.4 Management Response

NRG agrees with the findings.

1.1.5 Management Action Plans

NRG will make the appropriate changes to the RRR filings in the 2016 and 2015 years as noted above, once the OEB re-opens 2016 and 2015 to allow for such changes to be entered for RRR 2.1.2 and RRR 2.1.7. NRG will forward to the OEB a revised RRR 2.1.15 for 2015.

1.2.1 Finding 2

Although the impact on the account balances of PGTVA 1-5 and PGTVA 6 is immaterial, NRG did not follow the timing, prescribed accounts and accounting entries from the Rate Order of EB-2010-0018 to record the OEB approved disposition amounts as of September 30, 2009.

1.2.2 Basis of Finding

The OEB approved the disposition of NRG's PGTVA balances as of September 30, 2010 in EB-2010-0018 dated February 17, 2011 per Table 4 below. NRG is expected to remove the approved disposition upon the issuance of the rate order.

Table 4

	Total	Rate 1-5	Rate 6
PGTVA principal as of Sep 30, 2009	(198,811)	(31,696)	(167,115)
PGTVA carrying charges as of Sep 30, 2009	(3,390)	(3,359)	(31)
PGTVA forecast interest from Sep 30, 2009 to Sep 30, 2010	(1,092)	(176)	(920)
PGTVA principal and carrying charges	(203,294)	(35,230)	(168,065)
REDA principal and carrying charges	173,908	173,908	
Total disposition	(29,386)	138,678	(168,065)

However, it is noted that the approved disposition was removed from the PGTVA continuity schedules as of October 1, 2010, which was earlier than the issuance of the final rate order on February 17, 2011. Although the impact on the PGTVA balance as of September 30, 2011 was immaterial, NRG should ensure the timing of the disposition agrees with the timeline of the issuance of the rate order on a going forward basis.

In attachment E of the revised draft rate order, the OEB directed NRG to record the collection of the rate rider in account 179-29 PGTVA by PGTVA Rate Rider to collect the principal portion of the disposition and account 179-30 Other Interest Expense by PGTVA Rate Rider to collect the interest portion of the disposition. This essentially directed NRG to remove the disposition of the PGTVAs to these two accounts upon the issuance of the rate order and drawdown the approved disposition by the collection of the rate riders. However, NRG did not record the disposition entry to these two accounts and did not use these two accounts to track the collection of the rate riders. Instead, NRG removed the approved disposition directly from the accounts PGTVA 1-5 (179-45 for principal portion and 179-46 for interest portion) and PGTVA 6 (179-47 for principal portion and 179-48 for interest portion).

1.2.3 Area of Potential Non-Compliance

NRG was in potential non-compliance with the directions from the Rate Order EB-2010-0018 regarding the timing and the accounting entries of the disposition.

Moving forward, NRG should follow the OEB direction and use the prescribed accounts to record the approved disposition.

1.2.4 Management Response

NRG agrees with the findings.

1.2.5 Management Action Plans

NRG in future will ensure they use the prescribed accounts as proposed and as set out by the OEB and follow the prescribed methodology regarding the disposition of the PGTVA.

1.3.1 Finding 3

Although the impact on the account balances of PGTVA 1-5 and PGTVA 6 is immaterial, NRG did not transfer the residual balance from the collection of the PGTVA rate riders to accounts PGTVA 1-5 and PGTVA 6 at the sunset date of the rate riders for further disposition. Further, NRG did not track the collection of the PGTVA rate riders in OEB prescribed accounts. Instead, NRG tracked the application of the rate riders in a separate internal schedule and removed the approved disposition amount, instead of the actual application of the rate rider, at the completion of the rate rider on September 30, 2011 from its general ledger.

1.3.2 Basis of Finding

In attachment E of the revised draft rate order of EB-2010-0018, the OEB stated that:

Effective September 30, 2011 and immediately thereafter upon completion of the annual audit, the residual balances remaining in account 179-29 PGTVA by PGTVA Rate Rider to collect \$198,811 and account 179-30 Other Interest Expense by PGTVA Rate Rider to collect \$3,390 shall be transferred to PGTAV 1-5 and PGTVA 6 respectively, and accounts 179-29 and 179-30 closed.

However, NRG did not use the OEB prescribed accounts 179-29 and 179-30 to track the collection of the rate riders, instead it tracked the collection of the rate rider in a separate internal schedule for the periods of March to September 2011.

It is further noted that instead of removing the actual collection for Rate 1-5 and the actual refund of Rate 6 through the rate riders for the period of March to September 2011 from the OEB prescribed accounts, NRG removed the exact OEB approved disposition amount as lump sum amounts from accounts PGTVA 1-5 and PGTVA 6. The net impact on the account balances was immaterial.

1.3.3 Area of Potential Non-Compliance

NRG was in potential non-compliance with the directions from the Rate Order EB-2010-0018 regarding the accounting treatment of the application of the rate riders.

Moving forward, NRG should track the application of the rate riders in accounts 179-29 and 179-30 until the sunset date of the rate riders. NRG should then transfer the residual balances remaining in accounts 179-29 and 179-30 to accounts PGTVA 1-5 and PGTVA 6 respectively for further disposition and close accounts 179-29 and 179-30.

1.3.4 Management Response

NRG agrees with the findings.

1.3.5 Management Action Plans

Moving forward, NRG will not use an internal schedule but will set up a separate account to track as directed by the OEB. NRG will also remove the actual collection/refund from the rate riders from the OEB prescribed accounts with the residual balance brought forward for further disposition.

Appendix 2 Detailed Observation

1.1.1 Observation 1

NRG inconsistently reported under RRR 2.1.2, RRR 2.1.7 and RRR 2.1.15 a different set of account numbers for principal and interest portions of PGTVA in accounts PGTVA 1-5 and PGTVA 6. The account numbers used under RRR 2.1.15 were different from the OEB prescribed account numbers from EB-2010-0018. The account numbers used under RRR 2.1.2 and RRR 2.1.7 were consistent with the OEB prescribed account numbers from EB-2010-0018.

1.1.2 Basis of Observation

The OEB prescribed the account numbers illustrated in Table 5 for the recording of the principal and interest portions of PGTVA 1-5 and PGTVA 6 in EB-2010-0018. It is noted that NRG correctly used OEB prescribed accounts in reporting the quarterly PGTVA account balances under RRR 2.1.2 and RRR 2.1.7.

However, NRG used a different set of account numbers than the OEB prescribed account numbers in EB-2010-0018 in reporting the principal and interest portions of the PGTVA balances in accounts PGTVA 1-5 and PGTVA 6 under RRR 2.1.15. It is understood that those different account numbers were based on NRG's internal chart of accounts.

Table 5

Account Description	Account # prescribed in EB-2010-0018	Account # used by NRG in RRR 2.1.15 filing
Purchased Gas Transportation Variance Account Rates 1 - 5 (PGTVA 1-5)	179-45	179-810
Interest on PGTVA 1-5	179-46	179-811
Purchased Gas Transportation Variance Account Rates 6 (PGTVA 6)	179-47	179-820
Interest on PGTVA 6	179-48	179-821

1.1.3 Area of Concerns

NRG should consistently use the same account numbers in its RRR filings. As the RRR filings are regulatory filings, NRG should ensure the account numbers are in accordance with the OEB prescribed account numbers.

Moving forward, NRG should consistently use the same account numbers as prescribed by the OEB in all its relevant RRR filings.

1.1.4 Management Response

NRG agrees with the findings.

The numbers noted above for example 179-811 – the 179 relates to the OEB account number for other deferred charges and the 811 was NRG's trial balance account number.

1.1.5 Management Action Plans

NRG will adjust the RRR 2.1.15 filing and override its internal account number to the account number as prescribed by the OEB.