

NATURAL RESOURCE GAS LIMITED

**Correction to Purchased Gas Transportation Variance Account Reference Price
for Fiscal Years 2011 to 2015**

Board Staff Interrogatory #1

Reference: Natural Resource Gas Limited Evidence, Page 1

Natural Resource Gas Limited (NRG) has requested approval of certain corrections to the Purchased Gas Transportation Variance Account (PGTVA) reference prices.

- a) **Please explain the purpose of the PGTVA. What costs are recorded in the PGTVA and do the balances represent a variance between forecast and actual costs?**
- b) **Are positive balances in the PGTVA a debit or a credit to ratepayers?**
- c) **When were the PGTVA balances last disposed of by the OEB? Please provide the balances that were cleared and the charge or credit applied to the different rate classes.**

Response:

(a) Union Gas provides NRG with transportation, storage and load balancing services, pursuant to Union Gas' M9 distribution service. These services provide benefits to all NRG customers (system gas and direct purchase), and as a result, NRG's costs under its M9 contract are recovered from all ratepayers. This is done by including NRG's M9 costs in NRG's distribution revenue requirement (and thus, NRG's distribution rates). The manner in which this is done is via forecasting annual M9 costs from Union Gas. In order to forecast this cost, NRG:

- utilizes the then-existing Union Gas M9 tariff; and,
- forecasts total annual throughput (not only sales) and then backs out forecasted local production.

It is these factors that ultimately determine the amount of NRG's revenue requirement (included in distribution rates) that are associated with the M9 services provided by Union Gas.

NRG's actual M9 costs during a year (billed monthly from Union) will vary from its forecasted M9 costs included in its distribution revenue requirement (and rates) due to:

- Union Gas' M9 tariff changes which can occur as frequently as every three months, as part of the QRAM process and annually based on re-basing and/or incentive regulation rate changes;
- NRG's forecasted throughput will vary from actual throughput; and,
- NRG's forecasted local production will vary from actual local production.

1 The OEB has always treated NRG's M9 costs in the same way as it has NRG's commodity costs
2 for system customers (i.e., a pure pass-through). It is not a cost that NRG should make or lose
3 money on. For that reason, the OEB approved the PGTVA, the purpose of which is to protect
4 both ratepayers and NRG by ensuring that the actual costs incurred by NRG are recovered from
5 ratepayers (no more, no less).

6
7 The OEB-approved methodology for NRG's PGTVA is to record:

- 8 • the difference (on a monthly basis) between the actual unit cost of NRG's M9 costs and
9 the approved reference price; and,
- 10 • multiply that difference by the actual volume of gas delivered into NRG's system from
11 both Union's system and local production.

12
13 The approved reference price is based on NRG's forecasted M9 costs and its total throughput,
14 including local production.

15
16 It should be noted that the total throughput (inclusive of purchases from local production) is used
17 to calculate the reference price, and is consistent with how the distribution rate is derived.

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19
20 (b) NRG reports the balances in its RRR filing (which were also noted in the Audit Report at
21 Table 2). The brackets indicate a credit on the books which equates to a payable to the customer.

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23
24 (c) The PGTVA balances were last disposed of by the OEB in the EB-2010-0018 Decision and
25 Order dated December 6, 2010.

26
27 The approved balances included a rebate of \$35,055 from NRG to its customers in Rates 1
28 through 5, and a rebate of \$167,146 for NRG's Rate 6 customer. (These amounts can be found
29 in NRG's evidence in EB-2010-0018 at Exhibit D1, Tab 7, Schedule 2, page 1). These figures
30 are also found as the sum of the first two rows in Table 4 of the Audit Report on PGTVA's and
31 related Transportation Costs sent to NRG on March 8, 2017 from Audit and Performance
32 Assessment.

33
34 The OEB did not approve a separate rate rider for these amounts. Rather, as shown in the Rate
35 Order dated February 17, 2011, the OEB approved a PGTVA/REDA rate rider. This rate rider
36 was set as an amount per customer per month. The rates were a charge of \$2.50 for Rate 1,
37 \$14.00 for Rate 2, \$120.00 for Rate 3, \$9.51 for Rate 4 and \$94.37 for Rate 5. The rate rider was
38 a credit of \$24,009.29 per month for Rate 6.
39

Board Staff Interrogatory #2

Reference: NRG Evidence, Page 2

In its evidence NRG has indicated that its consultant made a calculation error by basing the reference price on the Union Gas Limited transportation volume as opposed to NRG's load forecast sales volume. The load forecast sales volume includes not only the Union Gas transportation volumes but also volumes purchased by NRG from producers within NRG's franchise areas.

a) Does NRG incur any transportation costs for volumes purchased from producers within NRG's franchise area? If yes, please provide a detailed explanation as well as costs incurred for fiscal years 2011 to 2015.

b) Do NRG customers pay an additional charge representing transportation costs for gas purchases from producers within NRG's franchise areas?

c) If NRG does not incur any transportation costs for volumes purchased within its own franchise area, please provide the sales volume excluding volumes purchased within NRG's franchise area. Also, please explain why the reference price calculation should not exclude volumes purchased within NRG's franchise area or purchases where transportation costs are included in the commodity costs.

Response:

Please note that the "load forecast sales volume" means the gas transported to NRG by Union Gas plus NRG's gas purchases from wells/producers within the NRG franchise area. This means that the load forecast sales volume is actually throughput volume, as it includes both system gas and direct purchase gas.

(a) No. The gas volumes from producers within NRG's franchise area are directly injected into the NRG distribution system. As a result, there are no transportation costs associated with these purchased volumes.

(b) No. NRG system gas customers do pay a higher gas commodity rate for the gas purchased from producers within NRG's franchise areas (as approved by the OEB) in order to maintain system integrity in the southern part of its distribution system. This cost, however, has been approved for recovery by the OEB through the purchased gas variance account as part of the QRAM applications. NRG customers do not pay an additional charge representing transportation costs for gas purchases from producers within NRG's franchise area. As noted above, the production is tied directly into the NRG distribution system and there are no transportation costs associated with these purchases.

1 (c) Excluding volumes purchased within NRG's franchise area (or purchases where
2 transportation costs are included in commodity costs) from the calculation of the reference price
3 would be incorrect, as well as a departure from the OEB-approved methodology.

4 The reference price represents the M9 costs that have been included in NRG's distribution rates
5 to all customers (since these costs are incurred by NRG are on behalf of all customers – i.e., both
6 system gas and direct purchase customers, in all rate classes). Distribution rates are, of course,
7 determined based on total throughput, regardless of the source of gas.

8 If the reference price excluded volumes purchased within NRG's franchise area then it would no
9 longer be consistent with how distribution rates are set. The result would be that the reference
10 price would always be much higher than it should be (because you would have the same
11 forecasted M9 costs divided by a smaller volume of gas (i.e., the denominator)). To then apply
12 distribution rates (inclusive of that reference price) to all volumes of gas delivered would result
13 in consistently over-collecting M9 costs.

14 The calculation of the reference price excluding the local production would be a change in the
15 methodology that has been approved by the OEB.

Board Staff Interrogatory #3

Reference: NRG Evidence in EB-2010-0018, Exhibit D1, Tab 2, Schedule 1, Pages 1-2

In EB-2010-0018, NRG has noted that gas transportation costs are the costs paid by NRG to Union Gas for storage, load balancing and transportation across the Union Gas system to NRG. If that is the case, why is not appropriate to base the reference price on Union Gas Limited transportation volumes?

Response:

See the response to IR#2.

In addition, a reference price that is based only on Union Gas transportation volumes will be influenced by the proportion of local production gas that is purchased in any given month, thus impacting the amount recorded in the PGTVA.

This is because there is not a linear relationship between the volumes and costs of the Union Gas transportation volumes, due to the fact that a significant portion of the M9 costs are fixed demand charges. To illustrate, consider NRG's M9 deliveries last month. Based on Union Gas' current M9 rates, and the gas volumes delivered in June 2017 (889,710.6 m³), the average unit price of Union M9 deliveries was about 5.05 cents per m³. However:

- If there had been more local production in June 2017, and M9 delivery volumes were only 75% of what they actually were, the average unit price would have been 6.65 cents per m³, an increase of nearly 32%.
- If there had been even more local production in June 2017, and M9 delivery volumes were only 50% of what they actually were, the average unit price would have been 9.83 cents per m³, an increase of about 95%.

Considering these scenarios, if the approved reference price was 6.0 cents per m³, then under the first (actual) scenario there would be a credit to ratepayers in the account (5.05 vs. 6.0 cents per m³), while in the other two scenarios, there would be a debit to be recovered from ratepayers. As noted above, this could all be the result of a change in the amount of local production. This is counter-intuitive in that more local production and less volumes being delivered would result in higher transportation costs for NRG's customers while reducing the amount actually paid to Union Gas.

Board Staff Interrogatory #4

Reference: NRG Evidence, Page 2

NRG has recalculated the reference prices based on the load forecast sales volumes. The reference prices have been calculated as:

PGTVA Rate Class 1 – 5: \$0.018339/m3

PGTVA Rate Class 6: \$0.009885/m3

a) Please provide the fiscal year ending balances in the PGTVA for each of the years from 2011 to 2015 using the recalculated reference prices and the existing¹ reference prices.

b) Assuming the balances as of fiscal year end 2015 is disposed of by the OEB, what would be the rate impact/rate rider for NRG's ratepayers using the recalculated reference prices and the existing reference prices?

c) Does the difference in the balances calculated using the correct and incorrect references prices for the fiscal years 2011 to 2015 meet the materiality threshold (OM&A Expenses) for any of the individual fiscal years as established by NRG in EB-2016-0236?

Response:

(a) Refer to schedule attached.

(b) Refer to schedule attached. It should be noted that the rate rider is based on the load forecast volume used in NRG's rate application currently in abeyance (EB-2016-0236). NRG has calculated the amount per cubic metre based on a one year period. There is no rate impact that results from a change to the reference price. The distribution rates would have been the same even if no reference price calculation error was made. Regardless of the reference price calculation, NRG's distribution revenue requirement would have included the same forecasted M9 costs, which were properly translated into distribution rates.

To use a simplified example, assume that the revenue requirement translated into a single distribution rate of \$1/m³. Incorrectly calculating the reference price might have meant that the utility would have considered that \$1 to be made of 65 cents of OM&A costs, 10 cents of M9 costs (reference price), 15 cents of taxes and depreciation, and 10 cents for cost of capital. A miscalculated reference price (e.g., 15 cents instead of 10 cents) simply means that there is a

¹ As per EB-2010-0018 Rate Order

1 different amount (reference price) to compare to the actual unit M9 costs. So if actual unit M9
2 costs were 8 cents, then instead of the correct rebate to customers of 2 cents, there would be an
3 inflated rebate of 7 cents. The distribution rate would remain the same. The subject of the
4 OEB's audit in this matter was verifying that the corrected reference price was indeed the right
5 amount to utilize. It does not affect distribution rates.

6 (c) Yes. The materiality threshold for OM&A variance purposes in EB-2016-0236 was
7 \$25,000.

YEAR END BALANCES USING CORRECT REFERENCE PRICES:

(PGTVA - IGPC) - Purchased Gas Transportation Variance Account - IGPC

	30-Sep-11	30-Sep-12	30-Sep-13	30-Sep-14	30-Sep-15
PGTVA Balance	(366,729.12)	(412,371.26)	(455,286.27)	(508,820.21)	(526,067.03) A
Interest Balance	(6,093.89)	(11,780.59)	(18,159.95)	(25,293.70)	(31,852.77) B

(PGTVA) - Purchased Gas Transportation Variance Account

PGTVA Balance	(101,159.03)	(133,163.71)	(235,234.87)	(391,045.31)	(428,722.04) C
Interest Balance	(2,203.09)	(4,517.63)	(7,894.42)	(13,225.53)	(18,886.81) D
A + B + C + D =					(1,005,528.66) (1)

YEAR END BALANCES USING EXISTING REFERENCE PRICES:

(PGTVA - IGPC) - Purchased Gas Transportation Variance Account - IGPC

PGTVA Balance	(385,846.91)	(451,043.43)	(513,309.50)	(586,236.60)	(624,343.58) A
Interest Balance	(6,391.81)	(12,327.13)	(19,406.93)	(27,451.07)	(35,194.15) B

(PGTVA) - Purchased Gas Transportation Variance Account

PGTVA Balance	(233,377.04)	(388,432.14)	(631,345.23)	(948,563.61)	(1,146,594.28) C
Interest Balance	(3,348.04)	(8,628.30)	(16,775.04)	(29,023.21)	(43,496.26) D
A + B + C + D =					(1,849,628.28) (2)

Total adjustment per audit report= **844,099.62** (1) - (2)

CALCULATION OF RATE RIDER:

Load Forecast:		PGTVA Correct Ref Price	Rate Rider per m3	PGTVA Incorrect Ref Price	Rate Rider per m3
Volumes (m3)					
R1- Residential	15,717,844				
R1-Commercial	4,343,985				
R1-Industrial	1,618,174				
R2-Seasonal	1,387,590				
Contract R3	1,691,326				
Industrial R4	853,703				
Contract R5	979,237				
	<u>26,591,858</u>	(447,608.86)	(0.016833)	(1,190,090.54)	(0.044754)
Rate 6 (IGPC)	<u>33,416,616</u>	(557,919.80)	(0.016696)	(659,537.73)	(0.019737)

Board Staff Interrogatory #5

Reference: NRG Evidence, Page 3

NRG has noted that the adjustments to the PGTVA reference prices does not change the distribution rate charged to customers – it just correctly allocates how much of the distribution rate relates to transportation costs.

a) Please provide a more detailed explanation of the above statement and explain how the transportation costs are part of distribution rates.

b) Based on the above understanding, please confirm that correction of the reference prices would not have an additional impact on ratepayers as compared to using the existing reference prices since the distribution rates have been established using the total load forecast and not just Union Gas Limited transported volumes. If it cannot be confirmed, please provide a detailed explanation.

c) Please confirm whether correction of the reference prices is a matter of reallocating costs accurately as compared to recovery of actual costs incurred that NRG has not been able to recover from ratepayers as a result of using incorrect reference prices. If the above statement is incorrect, please provide a detailed explanation including reasons.

Response:

(a) Please see response to IR#1(a) and the reference to the simplified example in the response to IR #4(b) above. The example was a distribution rate of \$1 per m³, which included a 10 cents per m³ transportation charge (reference price). If the reference price of 10 cents per m³ was wrong, and it was actually 15 cents per m³, the distribution rate of \$1 per m³ would remain the same, but the other amounts in the example (OM&A costs, taxes and depreciation and cost of capital) would in total be five cents lower (i.e., 85 cents in total instead of the 90 cents in the example).

NRG's M9 costs have always (appropriately) been included in the distribution costs of NRG, since these costs benefit all NRG customers – see attached table. NRG has only two types of costs that it recovers – gas commodity costs and distribution costs.

Clearly these costs paid to Union Gas are not gas commodity costs. All of NRG's customers use the storage, load balancing and transportation services provided by Union Gas under the M9 service. If NRG included these costs in the gas commodity charge, direct purchase customers would not be paying for their share of the services that they use.

Storage, load balance and transportation costs are clearly distribution related costs. If NRG had the assets that it required to provide these services, they would be included in the distribution costs to be recovered from customers. NRG does not have storage or load balancing capabilities, and it does not have pipeline to transport gas from Dawn or Parkway to its franchise territory.

1 Therefore, it contracts for these services from Union Gas. As a result, they are distribution
2 related costs.

3 The reference price is supposed to reflect the amount that is included in the distribution rates.
4 The PGTVA operates to ensure that the actual costs are recovered from ratepayers – nothing
5 more and nothing less. In other words, the costs paid to Union Gas by NRG are a pass through
6 to ratepayers.

7 In addition to the simple example noted in our response to IR#4(b) above, we are including a
8 schedule from EB-2010-0018 filing which shows how these are broken down.

9 (b) Confirmed. The correct unit cost of the Union Gas costs were built into rates because the
10 total cost was included in the distribution related costs and allocated to the various rate classes
11 based on the demand and volumetric components of the cost. Since total throughput volumes
12 were then used to derive the rates, the error in the reference price has no impact on the
13 distribution rates that were charged. The correction of the reference prices would have no impact
14 on ratepayers since the correct unit rates were included in the distribution rates.

15 (c) The correction of the reference price is not related to reallocation of costs between rate
16 classes or between customers and the distributor. The correction of the reference price simply
17 changes the reference price to the unit rates that they should have been, and make them equal to
18 the amounts included in the distribution rates.

19 The question presupposes that NRG has not been able to recover its actual costs from ratepayers
20 as a result of using incorrect reference prices. This is not true. The amount actually recovered
21 from ratepayers would be the same regardless of what the reference price is. This is because the
22 amount recovered from ratepayers is based on the M9 costs included in distribution rates, which
23 the evidence indicates was the proper amount.

24 NRG has, in fact, over recovered its actual costs. Both accounts are a credit balance which
25 indicates an amount owing to ratepayers. The correction of the reference prices only impacts the
26 amount of the refund to ratepayers. The use of the higher incorrect reference prices would result
27 in NRG giving more money back to ratepayers than if the correct reference price is used. Since
28 the reference price in no way impacts the amount collected by NRG, this would result in NRG
29 giving back money to ratepayers that it did not collect through the distribution rates.

1 SHEET 1.3

FUNCTIONALIZATION OF REVENUE REQUIREMENT
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		Gas Supply	Union Transportation/ Load Bal/Storage	Distribution		Customer Service		Administrative				Direct Assignment	Other/Direct	Ancillary
	Total			Measmnt	Mains	Services	Meters	Billing/Accounting	Promotion	Bad Debt/ Collection	A&G	to IGPC	Assignment	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		(12)	(13)
<u>GAS SUPPLY & TRANSPORTATION</u>														
6	Firm Transportation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Union Gas Delivery	167.7	0.0	58.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.3	0.0	0.0
8	Union Gas Demand	564.7	0.0	343.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	221.2	0.0	0.0
9	Local Production - A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Local Production - B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Unacctd For Gas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Total Gas Supply	732.4	0.0	401.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	330.5	0.0	0.0
<u>O&M EXPENSES</u>														
17	Wages and Benefits	1,260.9	0.0	0.0	0.0	170.9	184.7	39.6	303.5	85.9	32.9	206.9	0.0	236.5
18	Insurance	259.3	0.0	0.0	0.0	(2.5)	8.6	0.1	0.4	0.1	0.0	97.0	147.5	8.1
19	Utilities	18.1	0.0	0.0	0.0	2.5	2.7	0.6	4.4	1.3	0.5	3.0	0.0	3.1
20	Marketing/Promotion	56.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	48.0	0.0	0.0	0.0	8.5
21	Telephone	65.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	62.6	0.0	2.6
22	Office/Postage	127.9	0.0	0.0	0.0	0.0	0.0	0.0	116.9	0.0	0.0	0.0	0.0	11.0
23	R&M General	226.1	0.0	0.0	0.0	(18.1)	76.4	1.2	21.7	1.3	0.5	20.2	97.9	25.0
24	Automotive	71.0	0.0	0.0	0.0	(28.2)	85.0	0.0	0.0	0.0	0.0	0.0	0.0	14.2
25	Dues & Fees	41.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	39.6	0.0	2.1
26	Mapping Exps	0.9	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27	Regulatory	111.0	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.4	0.0	9.6
28	Bad Debts	60.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.8	0.0	0.0	5.2
29	Office Rent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
30	Sec Dep Interest	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.4	0.0
31	Bank Charges	17.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.2	0.0	1.5
32	Collection Exps	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.3	0.0	0.0	1.7
33	Travel & Ent.	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8	0.0	0.4
34	Legal	54.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.4	0.0	0.0
35	Audit	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.3	0.0	1.7
36	Consulting	64.6	3.0	0.0	0.0	60.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3
37	Management Fees	382.0	0.0	0.0	0.0	0.0	0.0	0.0	318.8	0.0	0.0	37.6	0.0	25.6
38	Demand Side Management		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
39	Miscellaneous	(196.8)	0.0	0.0	0.0	73.7	(221.9)	0.0	0.0	0.0	0.0	0.0	0.0	(48.6)
41	Total O&M Costs	2,671.0	15.0	0.0	0.0	258.9	135.9	41.5	765.6	136.6	107.1	649.1	245.4	309.5

MARCH, 2010

42 SHEET 1.3 continued

FUNCTIONALIZATION OF REVENUE REQUIREMENT

	Gas Supply	Union Transportation/ Load Bal/Storage	Distribution Measrmnt	Mains	Customer Service Services	Meters	Billing/Accounting	Promotion	Administrative Bad Debt/ Collection	A&G	Direct Assignment	Other/Direct Assignment	Ancillary Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
50 CAPITALIZED EXPENSES													
51													
52 Wages	(30.3)	0.0	0.0	0.0	(22.0)	(8.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
53 Equipment	(11.5)	0.0	0.0	0.0	5.7	(17.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
54													
55 Total Capitalized Expenses	(41.8)	0.0	0.0	0.0	(16.3)	(25.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
56													
57 Net O&M Costs	3,361.6	15.0	401.9	0.0	242.6	110.4	41.5	765.6	136.6	107.1	649.1	575.9	6.4
58													
59 Capital Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
60 Property Taxes	400.8	0.0	0.0	0.0	262.8	54.4	0.9	7.2	2.1	0.8	4.9	60	7.6
61 Net Depreciation Expenses	1,174.2	0.0	0.0	23.7	195.0	311.6	65.5	12.2	1.4	0.6	114.4	243.6	206.1
62													
63 Total Expenses	4,936.5	15.0	401.9	23.7	700.4	476.4	108.0	785.1	140.1	108.4	768.4	879.5	523.3
64													
65 Net Def Acct Disp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
66 Return on Rate Base	1,141.5	(7.2)	(0.2)	25.9	376.0	140.6	77.0	17.3	4.2	1.6	22.9	350.5	145.8
67 Income Taxes	253.4	(1.6)	(0.0)	5.7	83.5	31.2	17.1	3.8	0.9	0.3	5.1	77.8	32.4
68													
69 REVENUE REQUIREMENT	6,331.4	6.2	401.7	55.2	1,159.8	648.2	202.1	806.2	145.2	110.3	796.4	1,307.8	701.4
70													

MARCH, 2010

Board Staff Interrogatory #6

Reference: NRG Evidence, Page 1

On February 17, 2011, the OEB issued Rate Order EB-2010-0018 approving certain rates and charges for the distribution of natural gas. Appendix B to the Rate Order approved two PGTVA's, one for customers in rates 1 through 5 and another for Integrated Grain Processors Co-operative Inc. in rate class 6. NRG has requested the OEB to amend the EB-2010-0018 Rate Order to reflect corrected reference prices for the PGTVA's.

a) On what basis can the OEB correct the reference prices that were part of a final Rate Order?

b) In NRG's opinion, would amending the EB-2010-0018 Rate Order amount to retroactive ratemaking? Please provide reasons for the response.

Response:

(a) and (b) The OEB has broad jurisdiction when it comes to rate-making. NRG fully understands the inability to set retroactive rates (per *Northwestern Utilities Ltd. v. Edmonton*, [1979] 1 S.C.R. 684; *Bell Canada v. CRTC*, [1989] 1 S.C.R. 1722, and *ATCO Gas & Pipelines v. Alberta (Energy & Utilities Board)*, [2006] S.C.J. No. 4). The purpose of the rule against retroactive rate-making is that customers are entitled to know and rely on any rates that are determined by the regulator to be final. In other words, a regulator should not set a final customer rate of \$X and then years later be able to entertain a retroactive adjustment to make that rate \$X+1.

In this case, though, NRG is not applying to change any past rate. No change to NRG's tariff is being requested. The distribution rates set as final in EB-2010-0018 were and remain correct. NRG is not seeking a change to those rates. Rather, NRG is seeking a correction to the reference price expressed in an accounting order. The result will be a change to the amounts in the PGTVA, which have yet to be cleared. This is important, no amounts have been approved for clearance (and no rate rider (i.e., rate)) has been established. Had the calculation error been discovered after approval for clearance and a rate rider set, then it would have amounted to retroactive rate-making. NRG's PGTVA calculation error is not unlike an error being found in a calculation in a DVA brought forward for clearance at a rate case. If the error were discovered by the utility, Board Staff, or intervenors, NRG's experience is that the DVA balance would be corrected prior to clearing. Nobody would consider that retroactive rate-making.