

NATURAL RESOURCE GAS LIMITED

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

Supplemental Interrogatory #1

Ref: Natural Resource Gas (NRG) Limited Response to OEB staff interrogatory #1, page 2 of 10

In its response, NRG has noted that the OEB has always treated NRG's M9 costs in the same way as it has NRG's commodity costs for system customers (i.e., a pure pass-through). It is not a cost that NRG should make or lose money on.

- a) If the OEB were to approve the requested correction, please confirm that NRG will not make a profit on transportation related costs for fiscal years 2011 to 2015 assuming the balances recorded in the Purchased Gas Transportation Variance Account (PGTVA) are disposed of.**
- b) Please confirm that ratepayers are only paying for actual transportation costs incurred and all excess amounts recovered are recorded in the PGTVA.**
- c) Please provide the calculation that shows that ratepayers are only paying for actual storage, transportation and load balancing costs and all excess amounts recovered are recorded in the PGTVA.**

Response

(a) Confirmed. If the requested correction is made, NRG will not make a profit or loss on transportation-related costs for fiscal years 2011 to 2015.

(b) Confirmed. Any variance between the actual transportation unit cost per cubic metre incurred, and the reference price is recorded in the PGTVA.

(c) See attached. Ratepayers are only paying for the actual storage, transportation and load balancing unit costs and all variances between the actual unit cost and the reference price unit cost is recorded in the PGTVA. As an example, the attached schedule shows the calculation of the amount recorded in the PGTVA account for 2015 and reflects the figures shown in the response to Board Staff Interrogatory #4(a).

As shown at the bottom of the attached schedule, the 2014 closing balance in the PGTVA is shown as \$(391,045.31). This figure corresponds to the same figure shown in the response to Staff #4(a) (line C, 30-Sep-14 column).

The following is an explanation of the figures and calculations used on the October line of the attached schedule. The purchased cost of the transportation paid to Union Gas under rate M9 was \$29,060 and the volume of gas delivered into the NRG system (from Union Gas and from local production) was 1,943,379 m³, resulting in an actual transportation price of \$0.014953 per m³.

1 The difference between this actual unit price and the correct reference price (\$0.018339 per m³) is
2 \$(0.003386). When this figure is multiplied by the actual volume of 1,943,379 m³, the resulting
3 figure is \$(6,579.73) for the month of October and the resulting year-to-date figure taking into
4 account the September, 2014 balance is \$(397,625.04). This illustrates that in this particular
5 month, the actual average price is less than the reference price, resulting in a credit to ratepayers
6 being recorded in the PGTVA.

7 As shown in the schedule, the ending 2015 balance in the PGTVA based on the calculations for
8 all the months in Fiscal 2015 is \$(428,722.04). This matches the figure shown in the schedule
9 attached to Staff Interrogatory #4(a) (line C, 30-Sep-25 column).

NATURAL RESOURCE GAS LIMITED

PURCHASED GAS TRANSPORTATION VARIATION ACCOUNT - FISCAL 2015USING CORRECT REFERENCE PRICE

Actual/ Forecast	Month	Purchase Cost (\$'s)	M*3	Actual Price (\$/M*3)	Reference Price (\$/M*3)	Unit Rate Difference (\$/M*3)	Monthly PGTVA (\$'s)	Y-T-D PGTVA (\$'s) (1)
Actual	October	29,060	1,943,379	0.014953	0.018339	-0.003386	-6,579.73	-397,625.04
Actual	November	35,892	4,624,858	0.007761	0.018339	-0.010578	-48,923.23	-446,548.28
Actual	December	54,745	4,008,916	0.013656	0.018339	-0.004683	-18,774.56	-465,322.84
Actual	January	124,145	4,486,465	0.027671	0.018339	0.009332	41,867.84	-423,455.00
Actual	February	38,657	4,704,284	0.008217	0.018339	-0.010122	-47,615.28	-471,070.27
Actual	March	34,727	3,420,501	0.010153	0.018339	-0.008186	-28,001.22	-499,071.49
Actual	April	30,818	1,963,504	0.015696	0.018339	-0.002643	-5,190.35	-504,261.85
Actual	May	28,447	744,598	0.038205	0.018339	0.019866	14,791.84	-489,470.01
Actual	June	27,988	501,529	0.055806	0.018339	0.037467	18,790.79	-470,679.22
Actual	July	27,930	472,151	0.059156	0.018339	0.040817	19,271.53	-451,407.69
Actual	August	28,595	792,982	0.036060	0.018339	0.017721	14,052.60	-437,355.09
Actual	September	<u>29,281</u>	<u>1,125,910</u>	<u>0.026007</u>	<u>0.018339</u>	<u>0.007668</u>	<u>8,633.05</u>	<u>-428,722.04</u>
	Total	490,286	28,789,076	0.017030	0.018339	0.001309	-37,676.73	-428,722.04

(1) Includes balance of -391,045.31 from Fiscal 2014 PGTVA.

1 Supplemental Interrogatory #2

2 Ref: NRG Response to OEB staff interrogatory #2, page 4 of 10

3 **In its response, NRG has indicated that excluding volumes purchased within NRG's**
4 **franchise area (or purchases where transportation costs are included in commodity costs)**
5 **from the calculation of the reference price would be incorrect, as well as a departure from**
6 **the OEB-approved methodology.**

7 **Please provide the reference where the OEB has approved the PGTVA calculation**
8 **methodology.**

9 **Response**

10 NRG's PGTVA methodology was first approved by the OEB in its EBRO 496 Decision with
11 Reasons, dated August 20, 1998. Please refer to the decision beginning at section 6.1.2, as well as
12 section D.6 of the settlement agreement attached to the decision (entitled "Agreement Among
13 Interested Parties" dated April 16, 1998), which was a settlement among NRG and Board Staff.

1 Supplemental Interrogatory #3

2 Ref: NRG Response to OEB staff interrogatory #4, Rate Rider and PGTVA Balance Schedule

3 **NRG has provided the balances in the PGTVA for the years 2011 to 2015 under the**
4 **existing reference prices and the corrected reference prices. The schedule also provides the**
5 **rate riders.**

6 a) **If the OEB were to approve the requested reference price change, what would be**
7 **the total amount that NRG will refund to ratepayers for fiscal years 2011 to 2015 at**
8 **the time of disposition?**

9 b) **What does the adjustment amount (\$844,099.62) represent? Is it an actual over**
10 **recovery from ratepayers or is it an adjustment as a result of an error (not an actual**
11 **over recovery)? Please provide a detailed response.**

12 c) **Has NRG actually over recovered approximately \$1.85 million representing**
13 **transportation costs for fiscal years 2011 to 2015?**

14 **Response**

15 (a) If the OEB were to approve the requested reference price change, the total amount that NRG
16 would refund ratepayers for fiscal years 2011 to 2015 would be \$1,005,528.66. The breakdown
17 (as shown in the schedule attached to the response to Board Staff Interrogatory #4) is: (i)
18 \$526,067.03 plus \$31,852.77 of interest, to IGPC; and (ii) \$428,722.04 plus \$18,886.81 of
19 interest, to all other customers. These amounts were audited and found to be correct by the
20 OEB's Audit Department.

21 (b) The \$844,099.62 represents the difference between the incorrect amount recorded in the
22 PGTVA (\$1,849,628.28) and the correct amount (\$1,005,528.66) that should be recorded in the
23 PGTVA. It is not an actual over-recovery, but is instead an adjustment as a result in an error in
24 calculating the reference price used to make entries in the PGTVA.

25 For fiscal 2011 to 2015, NRG has collected \$1,005,528.66 more from customers than the amount
26 included in distribution rates (not \$1,849,628.28). The correct amount to be returned to NRG's
27 ratepayers (in over recovered M9 costs) is \$1,005,528.66.

28 (c) No. See the response to (b) immediately above.

Supplemental Interrogatory #4

Ref: NRG Response to OEB staff interrogatory #5, page 9 of 10

In its response (lines 24-29), NRG has indicated that it has in fact over recovered its actual costs. The higher incorrect reference prices would result in NRG giving more money back to ratepayers than if the correct reference price is used. Since the reference price in no way impacts the amount collected by NRG, this would result in NRG giving back money to ratepayers that it did not collect through the distribution rates.

- a) Please fully explain the last sentence about, “Since the reference price in no way impacts the amount collected by NRG, this would result in NRG giving back money to ratepayers that it did not collect through the distribution rates”.
- b) What does NRG mean by, “Since the reference price in no way impacts the amount collected by NRG”?
- c) NRG has stated that it has in fact over recovered its actual costs? Is the current balance for fiscal years 2011 to 2015 of approximately \$1.85 million represent an over recovery from ratepayers?

Response

(a) and (b) NRG’s forecasted M9 costs from Union Gas (“A”) are incorporated into NRG’s distribution revenue requirement without use of the reference price. It is a forecasted annual amount that goes through NRG’s cost allocation model. The forecasted total throughput (“B”) is then used to determine rates based on this revenue requirement.

The PGTVA is meant to track NRG’s forecasted M9 unit costs with its actual unit costs. To do this, NRG uses a reference price vs. actual M9 unit cost comparison. The two amounts are calculated as follows:

- Reference Price = NRG forecasts its annual M9 costs from Union Gas Limited (“A”). It then forecasts its total throughput (i.e., both delivered gas from Union and locally-produced gas)(“B”). The reference price (“C”) is equal to $A \div B$. Had the reference price been calculated correctly, the “A” and “B” in this paragraph would be equal to the “A” and “B” in the first paragraph of this response. The calculation error that gave rise to this application was with respect to “B” (i.e., the “B” was calculated incorrectly).
- Actual M9 Unit Cost = NRG will take its monthly M9 invoice amount (D), and divide it by the actual total throughput on NRG’s system in that month (E). The actual M9 unit cost (F) is equal to $D \div E$.

The OEB-approved methodology to calculate the PGTVA using these two amounts is set out in our response to Board Staff Interrogatory #1, page 2, beginning at line 7 (i.e., take the difference

- 1 between the above two amounts and multiply that difference by the actual volume of gas delivered
- 2 into NRG's system by both Union and local production.

Supplemental Interrogatory #5

Ref: NRG Response to OEB staff interrogatory #6, page 10 of 10

In its response, NRG has indicated that it is seeking a change to the reference price expressed in an accounting order. It is the opinion of NRG that the requested correction will not lead to retroactive ratemaking since the balances have not been approved for disposition and no rate rider has been established.

- a) Please confirm that NRG is seeking a change to the reference price that is part of a final Rate Order issued in EB-2010-0018.
- b) Please confirm that if the OEB approves a change to the reference prices as requested by NRG, the final Rate Order in EB-2010-0018 will need to be amended and it will be an out-of-period adjustment.
- c) Please confirm that if the OEB were to approve the requested corrections, and amend the EB-2010-0018 Rate Order dated February 17, 2011, it would be a retroactive adjustment.

Response

(a), (b) and (c) As noted, this does not amount to retroactive ratemaking, since even if the reference price had been correctly calculated in 2010, the distribution rates to NRG's customers would still be the same. The reference price, as noted in the response to supplemental IR#4 above, plays no role in the calculation of distribution rates. This application is not, therefore, seeking to change distribution rates established in EB-2010-0018, but rather is a correction to a reference price in a variance account for 2011 to 2015 that has: (a) never been reviewed by the OEB; and (b) not brought to the OEB for disposal.

As mentioned in our response to Board Staff IR#6, what NRG is requesting is not unlike many corrections or adjustments made to amounts recorded in deferral and variance accounts prior to disposition. To deny the requested correction would not only be at odds with the findings of the OEB's Audit Department, but would essentially amount to an \$844,099.62 penalty levied on NRG (and NRG's ratepayers being unjustly enriched by the exact same amount), solely due to an incorrect denominator being used in a variance account calculation.

To say that the OEB cannot change a reference price in a deferral or variance account that has not been reviewed (or cleared) by the OEB on the basis that making an adjustment somehow amounts to retroactive rate-making, would mean that that the OEB has no real authority to review a deferral or variance account before clearing (i.e., it could only clear it on an all-or-nothing basis). This is clearly at odds with the OEB's practice.