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BY COURIER, E-MAIL & E-FILING

Toronto, December 29,2008

Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700,2300 Yong Street
Toronto ON M4P 1E4

Dear Ms. Walli:

RE: Commodity Pricing Proceeding (EB-2008-0106)
Interrogatory Responses of Natural Resource Gas Limited **("NRG")**

In accordance with Procedural Order No. 2 issued by the Board on August 8, 2008, please find attached a copy of NRG's responses to interrogatories from Board Staff, the Canadian Manufacturers & Exporters ("CME") and the Gas Marketer Group ("GMG", comprised of Direct Energy Limited, Ontario Energy Savings L.P., Summitt Energy Management Inc., and Superior Energy Management Gas L.P.).

A copy of the attached has been filed on the Board's RESS system, and is being sent to all intervenors of record in the above-noted proceeding via email.

Yours very truly,

Richard King

RK/mnm

Encl.

cc. M. Bristoll *(NRG)*
All Intervenors of Record (EB-2008-0106)

NATURAL RESOURCE GAS LIMITED

RESPONSES TO INTERROGATORIES FROM BOARD STAFF

INTERROGATORY #1

Ref: Exhibit E3

(a) In a fashion similar to what Union filed in Appendix A to Exhibit **E2,** please complete the table below, describing **NRG's** existing methodology and changes that NRG would propose to the approach for each.

(b) For all issues identified in the table below, please provide the rationale for retaining the status quo or for the proposed change, as applicable.

RESPONSE

(a) Please see the attached table.

(b) The rationale for retaining the status quo or for the proposed changes are provided below:

Trigger Mechanism (No change) – The use of a trigger mechanism does not result in any less work or cost savings for NRG because it is still necessary to do all the calculations to determine if the trigger has been exceeded or not. Further, a trigger mechanism can result in higher variance account balances and increase the lag between when costs are incurred and when they are recovered. It can also result in customer confusion as to why there are not regular adjustments to the gas commodity charge.

Price adjustment frequency and forecast period (No change) – The 12 month price forecast reduces price volatility for customers and reflects the fact that NRG buys gas on an annual basis to balance its annual consumption with its annual supply. NRG does not buy gas on the same seasonal basis at which it supplies its system gas customers. The quarterly price adjustment provides a good balance between less frequent and more frequent adjustments for both NRG and their customers. Quarterly adjustments balance price stability with market fluctuations. More frequent adjustments could become administratively inefficient.

Calculation of reference price (No change) – The current methodology ensures that any balances that accumulate in the variance account are minimized. The methodology reflects the gas supply mix, part of which is mandated by Union Gas through NRG's direct purchase contract with Union Gas. It also reflects fixed prices where applicable for supplies. NRG uses an average calculated over a 10 day period for all volumes not contracted for at fixed prices. NRG uses a 10 day strip rather than a 21 day strip (used by Union and Enbridge) because NRG relies on this information being provided to it by the marketers from whom NRG purchases gas. NRG does not purchase gas pricing information services.

Deferral and variance accounts disposition (No change) – The disposition of projected balances in the PGCVA and GPRA accounts should continue to occur on a quarterly basis with the balances being recovered or refunded prospectively over a rolling twelve month period. NRG's customers have made it clear that retroactive adjustments are not desirable. The current approach eliminates the need for retroactive adjustments and reduces volatility.

Impact on revenue requirement (No change at this time) – Union and Enbridge both adjust delivery rates for the impacts on the revenue requirement from changes in the cost of gas. Union does this through a deferral account, while Enbridge adjusts its delivery rates as part of the QRAM process. In both cases, the adjustment is driven by the change in inventory carrying costs, compressor fuel and the costs associated with the working cash allowance for system gas purchases. NRG does not currently incur any inventory carrying costs or compressor fuel costs. The carrying costs associated with the working cash allowance for system gas is relatively small. For example, a 10% price change results in a change in the revenue requirement of approximately $1,200. As a result, NRG has not considered the impact on the revenue requirement to be of sufficient magnitude to be of concern. NRG is not proposing any change at this time, however, if at some point in time NRG does have carrying costs associated with gas in inventory that may result from changing the current direct purchase arrangements with Union Gas, NRG may propose to adjust the revenue requirement through the QRAM process to reflect the impact of the changes in gas costs on both the inventory and working cash allowance carrying costs. NRG would do so as part of a cost of service application.

Implication/costs of standardizing pricing mechanisms (No change) – With the exception of the 10 day versus 21 day strip, NRG believes that its processes are aligned with Union and Enbridge. The costs of obtaining pricing information could be substantial for NRG and would not likely provide any significant benefits to its customers.

Filing requirements (Elimination of schedules 5, 10 & 11) – NRG proposes to eliminate schedule 5 in its current QRAM filing. This schedule shows the calculation of the PGCVA balance on a projected twelve month forward basis assuming no change in the reference price. It was originally designed as a result of the trigger mechanism that NRG had in place for a number of years. This schedule was used to determine whether or not the trigger was activated. Since NRG no longer uses a trigger mechanism, this schedule is no longer of any use. Schedules 10 and 11 deal with the calculation of the PGTVA balances at the beginning and end of the projected twelve month forward basis assuming no change in the associated reference price. NRG does not clear this account on a quarterly basis. Rather, this account is cleared as part of NRG's annual filing dealing with all deferral and variance accounts. The PGTVA records the variance in costs associated with the delivery and load balancing services that it contracts for from Union Gas on behalf of all of its customers, both system gas and direct purchase. Since a significant portion of the costs paid to Union are in the form of fixed demand charges, the average per m^3 costs for this service vary significantly from month to month and season to season, reflecting the load factor of the NRG system. This account is independent of the gas commodity cost.

Load balancing obligations (Change to mirror Union Gas requirements) – NRG intends to adjust the checkpoint balancing requirements of its direct purchase customers at its next cost of

service rates application to mirror the requirements that it must meet with Union Gas. In particular, this includes the +/- 4% variance at the contract anniversary and the February 28th floor and September 30th ceiling. This is required because NRG is responsible to Union for balancing its direct purchase agreement with Union. NRG's direct purchase customers form a portion of the overall agreement between Union and NRG and therefore can affect what NRG has to do with the system gas portion of the arrangement with Union. By mirroring the Union Gas requirements, NRG can assure that there will not be any impact on its system gas customers that are caused by its direct purchase customers.

Re-establishment of MDV/DCQ (No change) – NRG adjusts the DCQ for its direct purchase customers when and if there is a significant change in the volume or customers that make up a direct purchase arrangement. NRG is not aware of any problems with the current approach.

Cost methodology for system gas fee and direct purchase management costs (Incremental costing for both system gas fee and direct purchase management) – NRG expects to move to incremental costing for system gas as part of its next cost of service application. Historically, there has been little direct purchase activity in the NRG franchise area. As a result, there was little risk of non-recovery of the difference between the incremental and fully allocated costs. However, NRG believes that if system sales activity decreases, it would be at risk for this difference. Incremental costing would more appropriately reflect the costs associated with system gas, and move NRG to the same approach used by Union and Enbridge. By moving to an incremental approach for system gas, NRG would treat the fees associated with both system gas and direct purchase in consistent manner.

Components of the Bill (No change) – NRG sees no need to change the billing terminology that its customers have been familiar with for many years. The terminology is sufficiently similar to that of Union Gas that there are no issues for customers that receive or compare bills for the two utilities.

Implementation Issues (Recovery of implementation costs) – In the event that there are implementation costs, NRG would see the establishment of a deferral account in which to record these costs. At the next cost of service rates application, NRG would propose to recover and allocate these costs to ratepayers in a manner consistent with the Board approved cost allocation method.

INTERROGATORY # 2

Ref: Exhibit E3, page 7

(a) Please provide an estimate, with supporting explanatory comment, of the regulatory, administrative, IT billing system, and communication costs that would arise as a result of introducing a monthly reference price adjustment based on a 12 month forecast period, and a 12 month deferral disposition period. (Scenario # 1).

RESPONSE

It has been assumed that the Scenario # 1 that is being referenced is that shown in Exhibit E2 at pages 13 through 21. The incremental costs associated with 12 QRAM filings rather than the current four filings are discussed below:

Regulatory – Incremental cost is $6,000. These costs are related to the preparation of the required application and evidence and the modeling updates associated with the required calculations.

Administrative – Incremental cost is $18,000. This cost is associated with the time spent obtaining and verifying the 10 day strip prices. Additional costs associated with time would be incurred if a 21 day strip was required.

IT Billing System – Incremental cost is $1,000. This cost is associated with changing the billing system to reflect the new Board approved gas commodity charge. Additional costs would be incurred if NRG changed the delivery rates to reflect changes in the revenue requirement associated with changes in gas costs.

Communication Costs – Incremental cost is $2,500. This cost is associated with the printing of the "Important Information About Your Gas Bill" insert that customers receive when their gas commodity charge is changed. It also includes costs related to responding to customer enquiries about rate changes on a monthly basis rather than only on a quarterly basis.

These cost estimates are based upon the assumption that any changes to the QRAM process would not necessitate any additional software programming nor the acquisition of a new billing system.

INTERROGATORY # 3

Ref: Exhibit E3, Issue E

(a) Were the Board to determine that NRG should adopt the proposed common elements of both Enbridge and Union in this proceeding: (i) what would be the cost implications for NRG; and (ii) what timeframe would be required for NRG to implement this approach?

RESPONSE

NRG believes that it already has many of the common elements of both Enbridge and Union in this proceeding. Based on the proposals shown in Appendix A of Exhibit E2, the major differences for NRG would be associated with the impact on the revenue requirement, load balancing and cost allocation.

NRG would propose to deal with all three of these issues at their next cost of service rates application. The cost allocation changes would need to be proposed and approved at such a proceeding. The changes to the load balancing provisions would need to be approved by the Board, as would the methodology that could impact on the revenue requirement of a change in gas commodity costs.

As for the costs associated with these potential changes, any costs associated with changes to the cost allocation would be part of the overall cost of service application costs. Any costs associated with new contracts for load balancing provisions would be recovered as part of the direct purchase administration fee, as those would be incremental costs to the utility. Costs associated with any potential impact on the revenue requirement would also be part of the cost of service application costs and would be allocated based on a proposal brought forward at that time. As to the cost implications of any proposed common elements, NRG is not in a position to provide an accurate estimate until such time as the precise changes required are known.

NATURAL RESOURCE GAS LIMITED

RESPONSES TO INTERROGATORIES FROM CME

ISSUES A – **QRAM** REVIEW

Ref: November 27,2008 Technical Conference Transcript, pages 65 to 83

Utility Policies

1. Would each utility please provide a statement of policy which summarizes the periodic rate adjustment mechanism each of them proposes to apply to reflect changes in the commodity price of "12 month" gas. Please include in these policy statements a brief description of the following items:

(a) The trading point at which changes in the commodity price of "12 month" gas will be measured.

(b) The information and methodology that will be used to measure changes in the commodity price of "12 month" gas at that point.

(c) A list of each of the components of utility rates that will be affected by a change in the commodity price of "12 month" gas at that trading point, such as, for example, the following:

- gas commodity charge
- the carrying cost of gas in inventory, including an identification of the particular component of regulated rates in which that gas-related cost is recovered, **i.e.** the regulated transportation charge, the load **balancing/storage** charge and/or commodity charge
- unaccounted for gas, including the identification of the component of rates in which that item of gas-related costs is recovered
- compressor fuel, including an identification of the component rate in which that item of gas-related cost is recovered
- any other gas-related costs and the components of the rates affected thereby

RESPONSE

NRG proposes to continue with the current methodology used to adjust the gas commodity (or gas supply) charge on a quarterly basis. NRG wants to continue to minimize the magnitude of any deferral or variance account balances that need to be recovered from or rebated to its customers. NRG does this by calculating a reference price for the 12 month future period that reflects all of the following: the forecasted composition of its gas supply portfolio; the forecasted

prices for gas at the various trading points over the 12 month forecast period; actual contracted prices for any gas that has been locked in over all or a portion of this forecast period; the current balance in the deferral and variance accounts that need to be recovered or rebated; and any suspensions or gas purchases required to remain in balance on the Union Gas system.

(a) NRG utilizes three trading points at which changes in the commodity price of ''12 month'' gas is measured. These are Parkway, Empress and Dawn. NRG is required to deliver a fixed amount of gas each day to Union Gas at Parkway and at Empress. NRG has been assigned a fixed amount of TCPL capacity to transport the gas to Union. Local production gas is usually contracted for based on the price at Dawn. The amount of gas purchased based on each of these three trading points can vary year to year, but on average, each point relates to approximately one-third of the overall system gas requirements. NRG therefore measures changes in the commodity price at all three trading points since they are all roughly equally important.

(b) NRG uses a 10 day strip to calculate the average price at each of these trading points. This 10 day strip utilizes the most recent 10 trading days that are available when it puts together its QRAM application and evidence. This is done in time such that the Board Decision can be reflected in rates as of the first of the month.

(c) The gas supply charge is the only charge that is affected by a change in the commodity price of ''12 month'' gas.

Method for Calculating the Reference Price

2. **Would each utility please describe the precise meaning it ascribes to the phrase "Reference Price".**

RESPONSE

The reference price is the price at which the projected twelve month forecast balance in the Purchased Gas Commodity Variance Account ("PGCVA") is as close to $0 as possible. This reference price reflects the estimated PGCVA balance at the beginning of the twelve month forecast period, the forecasted volume of gas to be purchased at each trading point in each of the twelve forecasted months, along with the projected price for the gas at each of the trading points in each of the months. This project price is either a fixed price that has been contracted for all or a portion of the twelve months, or the forecasted price based on the 10-day strip used. The calculation of the reference price also reflects the calculation of interest using the most recent Board approved interest rate over the twelve month forecast horizon.

Schedule 8 of NRG's QRAM for October, 2008 attached to Exhibit E3 shows the derivation of a reference price of $0.373181/m3 that results in a projected twelve month forecast balance in the PGCVA of $4.53.

Utility Products or Services Sold in Competitive Markets

3. **Would each utility please describe the regulated products or services it provides in competition with unregulated gas commodity sellers.**

RESPONSE

NRG provides regulated system gas supply to system gas customers. NRG provides regulated load balancing services and delivery to NRG's franchise area to all customers through the bundled M9 service provided by Union Gas to NRG. NRG also provides billing services to its customers.

4. **Would each utility please produce any advertising materials they have in their possession which reveal how unregulated gas sellers compete with the regulated products and/or services utilities offer in competition with unregulated gas sellers.**

RESPONSE

NRG does not keep marketer advertising materials on file.

Filing Requirements

5. Would each utility please provide, in point form, a complete step by step summary of the process each of them proposes to follow to periodically update regulated rates to reflect changes in the commodity price of "12 month" gas. Please attach to the step by step summary description of the process each utility proposes to follow a sample of the gas cost schedules and other schedules each utility proposes to file with the Board.

RESPONSE

NRG has filed all the schedules and information it currently files as part of a QRAM application (EB-2008-0284) as an attachment to its evidence in this proceeding at Exhibit E3. NRG intends to continue to file the same information, with the exception that NRG proposes to discontinue the filing of Schedules 5, 10 and 11. Schedule 5 was originally designed to determine whether or not the trigger mechanism that was in place for NRG several years ago was triggered. Since NRG no longer uses a trigger mechanism, this schedule is no longer of any use. Schedules 10 and 11 deal with the variance in the costs associated with the load balancing and delivery services contracted for by NRG with Union Gas under a bundled M9 contract. NRG does not clear these accounts on a prospective basis as part of the QRAM process. NRG will file these schedules annually when it files a separate application for the disposition of all of its non-gas commodity cost related deferral and variance accounts.

6. **Using the schedules attached to the response to the previous question, please illustrate each of the changes that will occur in the line items of each schedule with an assumed $1/GJ change in the commodity price of "12 month" gas at Empress.**

RESPONSE

Please refer to Schedules 2 through 12 in the attachment to Exhibit E3 which shows the EB-2008-0284 QRAM application. The changes based on a $1/GJ change in the commodity price of "12 month" gas are discussed below for each schedule.

Schedule 2 – No change. This schedule shows the calculation of the PGCVA balance at the end of the period immediately before the start of the 12 month forecast period. It determines the PGCVA balance that is to be carried forward and recovered on a prospective twelve month rolling basis. Since the price change occurs in the 12 month forecast period, there is no impact on this 12 month historical period.

Schedules 3 and 4 – no change. These schedules show the actual/forecasted prices, tolls, volumes, heat values and delivery obligations for the historical period immediately preceding the 12 month forecast period.

Schedules 5, 10 and 11 – NRG is proposing that these Schedules would no longer be provided.

Schedule 6 – The Western delivery price shown in the middle section of Schedule *6* under the Price heading would be changed to reflect a $1/GJ change. The change in price in $ per m^3 would be determined by the heat value forecast GJ/103 m^3) shown in Schedule 7. The Western Delivery cost shown in the bottom section of Schedule *6* under the Total Gas Cost heading would then reflect the change in the price noted above multiplied by the volume forecast to be purchased, shown by the Western Delivery line under the Volumes heading at the top of Schedule *6*. The Total line in this section would then also reflect the changes in the Western Delivery line.

Schedule 7 **–** The Western Deliveries price row in the top half of Schedule 7 would reflect the $1/GJ difference.

Schedule 8 – The Purchase Cost column of Schedule 8 would reflect the different gas costs resulting from a $1/GJ difference in the Empress cost. These costs would equal the Total Gas Costs found in Schedule 6. The Forecast Price column in Schedule 8 would also reflect a different price forecast since this column is calculated for each month by taking the purchase cost and dividing by the cubic metres forecast to be purchased. The magnitude of the change in the forecast price would be dependent upon the portion of the gas purchased each month that is forecasted at the Empress price (see the volume composition shown in Schedule *6)*. The Reference Price column would change to reflect the reference price now needed to bring the 12 month forecasted PGCVA balance as close to $0 as possible. The Unit Rate Difference column, the Monthly PGCVA column, the Y-T-D PGCVA column, the Monthly Interest Column, the Y-T-D Interest column, the Total PGCVA column and the Total Y-T-D PGCVA column would all

change, reflecting the change in the reference price and the change in the forecast price each month. The changes in these columns are all arithmetic in nature.

Schedule 9 – The Reference Price column would change to reflect the new reference price determined in Schedule 8 for the 12 month forecast period. This would result in a change in the Inventory Revaluation column for the month immediately preceding the new reference price. The Inventory Rate column would change for the 12 month forecast period. The inventory rate is determined as the rate that brings the Gas Purchase Rebalancing Account ("GPRA") as close as possible to a $0 balance on a 12 month forecast basis. The change in this inventory rate over the 12 month forecast period would result in arithmetic changes in the Inventory Recovery, Y-T-D GPRA Balance, Monthly Interest, Y-T-D Interest and Total Y-T-D GPRA columns.

Schedule 12 – The resulting changes in PGCVA reference price and in the GPRA inventory rate would result in changes in the columns labeled Quarter Starting 01-Oct-08 EB-2008-0284, $ Change and Percent Change in the following lines: Total Commodity Charges and Total Customer Charges. The lines Total Commodity Charges and Total Customer Charges under the Annual Bill Impact section would also change. The Total Commodity Charge line in the Rates Used section would change in the last column to reflect the PGCVA reference price change (from Schedule 8) and the GPRA inventory rate change (from Schedule 9). There would be no changes as a result of a QRAM application on any of the lines titled Monthly Charges or Delivery Charges.

7. Using the response to the previous question, please describe and attach schedules to show how changes in the utility cost of gas arising from an assumed **$1/GJ** change in the commodity cost of "12 month" gas at Empress are affected by the cost allocation process and, in particular, describe and attach schedules to show how the utility cost of gas is allocated between commodity costs, transportation costs, and storage **and/or** load balancing costs.

RESPONSE

As indicated above, there is no change on the distribution charges (monthly charges or delivery charges) arising from a change in the commodity cost of "12 month" gas at Empress. Only the total commodity charge is affected, as shown in Schedule 12.

Other Revenue Requirement Items

8. Would each utility please provide a step by step description of the manner in which a change in the commodity cost of "12 month" gas at the reference point affects the other gas-related revenue requirement items in rates such as the carrying cost of gas and inventory, unaccounted for gas, compressor fuel, etc. Please attach schedules to the response to illustrate how a **$1/GJ** change in the commodity cost of gas affects each of these components of rates.

RESPONSE

At the current time, there is no adjustment made by NRG in its revenue requirement to reflect changes in the commodity cost of "12 month" gas. This is because NRG does not have any compressor fuel or carrying costs associated with gas in inventory. As a direct purchase customer of Union, NRG has no gas in inventory. NRG's current Board approved UFG is 0%, so there is no impact on the revenue requirement of a change in gas costs. The only impact a change in gas costs has on NRG's revenue requirement is the carrying costs associated with the change in the working capital allowance that is associated with gas costs. As indicated in the response to Board Staff # 1, part b, the impact of a 10% change in the overall cost of gas has an impact of approximately $1,200 on the carrying costs associated with this working capital allowance. As a result NRG, has not considered the impact on the revenue requirement to be of sufficient magnitude to be of concern.

NRG may make adjustments to its revenue requirement in the future if the change in gas costs results in significant changes. Any such proposal would be brought forward by NRG as part of a cost of service rates application, and not as part of a QRAM application.

ISSUE B – LOAD BALANCING REVIEW

Ref: November 27,2008 Technical Conference Transcript, pages 123 to 138

Utility Policies

9. Would each utility please provide a statement of policy which summarizes the load balancing services they propose to provide to direct purchasers using bundled delivery services. Please include in these policy statements a concise description of the manner each utility proposes to establish and re-establish the Daily Contract Quantity ("DCQ") or the Mean Daily Volume ("MDV") of direct purchasers acquiring bundled delivery services from each utility.

RESPONSE

NRG wants to ensure that the action, or the lack of action, by a direct purchase customer on NRG's system does not have any impacts (positive or negative) on its system gas customers. NRG manages the load balancing services for its direct purchase customers as part of its contractual obligation to balance on the Union Gas system under its direct purchase contract with Union. NRG's direct purchase customers have a contractual relationship with NRG, not with Union.

NRG proposes to impose the same balancing obligations on its direct purchase customers as those imposed by Union on NRG. This will ensure that NRG's direct purchase customers have the same balancing point obligations to NRG as they would if they were on the Union Gas system. This means that if NRG has to purchase additional gas or shed excess gas to remain in balance on the Union system and within its contractual obligations to Union, these actions only need to reflect the requirements of system gas customers.

NRG will seek Board approval for any changes it requires to mirror the Union Gas balancing checkpoints.

ISSUE C – COST ALLOCATION REVIEW

Ref: November 28,2008 Technical Conference Transcript, pages 18 to 27

Methodology for **Identifying** and Allocating Costs between System Gas Customers and Direct Purchasers

10. Would each utility please provide a concise description of the cost allocation methodology it proposes to apply to determine the charges to be recovered from system gas customers as a System Gas Administration Fee and the charges to be recovered from direct purchasers as a Direct Purchase Administration Fee.

RESPONSE

NRG currently uses a fully allocated methodology. NRG is proposing to switch to an incremental costing methodology (at its next rates case) to determine the costs to be recovered from system gas customers as a system gas administration fee and the costs associated with administering direct purchase through the direct purchase administration fee.

The incremental costs associated with the system gas function would include a portion of the direct salaries and benefits of NRG employees that are engaged in the purchase and administration of system supply, the carrying cost on the working capital allowance, an allowance for bad debt, and direct regulatory and/or consulting costs related to the QRAM applications.

Any proposal would be brought forward to the Board as part of a cost of service rates application.

11. Please list each of the activities or resources that is considered when applying the cost allocation methodology described in response to the previous question and provide a step by step description of the manner in which the costs of each activity or resource attributable to system gas customers and to direct purchasers are identified and allocated.

RESPONSE

All resources, whether internal or external, are considered when determining what costs should be allocated to each of the system gas and direct purchase activities. NRG has used a time allocation process to determine the proportion of an employee's time spent on system gas activities and/or direct purchase administration activities. An employee engaged in either of these activities tracks the amount of time dedicated to those activities over a period of time, such as one month. This information is then used to allocated the appropriate proportion of their wages and benefits to the activity. Costs related to external services are tracked to provide a basis for the historical costs associated with these activities. As part of a cost of service rates application, this information would be used to forecast the type of amount of costs that should be allocated to the system gas administration and direct purchase administration activities.

NRG is a small utility with a small number of employees and external resources. As such is easy to identify the resources utilized for system gas administration and/or direct purchase administration.

12. **Would each utility please specify how frequently they propose to update their System Gas Administration and Direct Purchase Administration Fees.**

RESPONSE

NRG would only update the system gas administration and direct purchase administration fees as part of a cost of service rates application. However, this does not mean that NRG would necessarily update its time and external resource allocation at each cost of service application. NRG would only update this if there were a significant change in the underlying factors or composition of the resources used for these activities. However, even in the absence of a change in the allocation, the costs associated with each of the activities would change as the underlying costs such as wages and benefits would be expected to change on an ongoing basis.

NATURAL RESOURCE GAS LIMITED

RESPONSE TO INTERROGATORY FROM GMG

GMG/NRG # 1

Reference: page 7, Last Paragraph.

"NRG has historically used a twelve month forecast period because it has a significant number of customers and volumes that are seasonal in nature. The use of a shorter term forecast horizon can often lead to more volatility in the reference price and rates charged on a quarter to quarter basis. Volatility in the year-to-date prices can also be magnified if they are included in the recovery through future prices over a shorter period. This volatility can result in the seasonal customers paying a price that could be significantly higher or lower than the cost over a full year."

Please explain how cross-subsidization of rate classes does not occur when employing the forecasting and recovery methodology noted above.

RESPONSE

As a direct purchase customer on the Union Gas system, NRG is obligated to deliver the same amount of gas to Union each day of the year, i.e. their DCQ. This DCQ is determined by the forecasted annual deliveries of gas from Union to NRG divided by 365. As a result, NRG balances its supplies with its demands on an annual basis. As an example, consider two customers with the same annual volume. One is a winter peaking customer and the other is a summer peaking customer. NRG purchases the same amount of gas each and every day of the year for both of these customers, regardless of when they actually consume the gas. By utilizing a 12 month price forecast and a 12 month recovery period, NRG is matching the methodology with the annual purchasing and balancing that NRG follows.

GMG/NRG # 2

Reference: page 8, Lines 4-9, Price Adjustment Frequency and Forecast periods.

"There are other problems associated with using a forecast period of less than twelve months. First, use of a shorter period can transfer the cost of gas from one class of customers to another. NRG has significant volumes that are agricultural in nature. These customers consume virtually of their gas in the late summer and early fall. If the forecast period is less than twelve months, any gas cost variance in this period would be recovered or returned to a different set of consumers."

(a) Does the very nature of forecasting over a 12 month period cause gas cost variances to be recovered or returned to a different set of consumers? If not, why not?

(b) Does the very nature of a 12 month clearing mechanism cause gas cost variances to be recovered or returned to a different set of consumers? If not, why not?

(c) Does NRG agree that a monthly setting of rates along with a monthly clearing of the PGCVA would more closely match **recovery/return** of PGCVA balances with those customers that consumed gas during the period? If not, why not?

RESPONSE

(a) No. As noted in the response to GMG Interrogatory # 1 NRG is required to deliver its obligated DCQ to Union Gas every day and to balance on an annual basis (to within the +/- 4% variance). As a result NRG matches its annual supply to its annual demand. In addition, since NRG has a contract renewal date of October 1 with Union Gas, much of the gas consumed by its customers in the winter is actually purchased by NRG in the following spring and summer. Of course, some of the gas consumed in the winter is purchased in the previous fall and during the winter. This illustrates the fact that, as an example, winter peaking customers are being supplied with gas that NRG purchases for their use in all months of the year. Similarly, gas purchased by customers with a non winter peak is also purchased throughout the year.

(b) No. See the response to (a) above. If the clearing mechanism for the gas cost variances was for a period of less than 12 months then these cost variances would be recovered or returned to a different set of consumers. Consider for example the following scenario based on a quarterly recovery period. Any variance recorded for the April through June period would be recovered from volumes in the July through September period. NRG has significant volumes (seasonal agriculture based customers) in the July through September period that only consume gas in these months. The variance recorded in April through June would be recovered or rebated to customers that did not cause these costs to be incurred. Further, as noted in (a) above, NRG does not purchase the same amount of gas that is delivered to its customers each month. It purchases gas to balance its supply with demand on an annual basis, so any variance in the costs associated with these annual purchases should be recovered or returned on the same basis.

(c) No. As noted above, gas consumed in any given month or season is purchased by NRG and delivered to Union Gas on an equal basis throughout the year. Much of the gas consumed in January, for example, is purchased in the following spring and summer.

GMG/NRG # 3

Reference: Pages 8-9, Methodology for the Calculation of the Reference Price

Please provide the calculation in the form of a formula which determines the current Quarterly Rate. Please also provide the formula for each of the sub-components (e.g. Reference Price, Gas Costs, Carrying Costs, etc.).

RESPONSE

The reference price can be calculated using the following formula:

REFERENCE PRICE = $[GC - B_0 - I_0 - r * B_0 + (r / 12) * Z1] / [V + (r / 12) * Z2]$ where:

GC = cost of gas to be purchased over 12 month forecast period

$= \sum_T GC(T)$

T = 1 to 12 of the 12 month forecast period

GC(T) = Cost of gas purchased in month T, including TCPL costs

$= P(T) * V(T)$

P(T) = Average forecast cost of gas in month T

$= (\sum_N (P(T,N) * V(T,N)) + TCPL(T)) / (\sum_N V(T,N))$ where:

N = # of different gas contracts forecast to be in place in month T;

P(T,N) = forecast price in month T associated with contract N;

V(T,N) = forecast volume in month T associated with contract N;

TCPL(T) = forecast cost to transport gas on TCPL in month T.

V(T) = Forecast volume to be purchased in month T of 12 month forecast period

$= \sum_N V(T,N)$

V = Total volume forecast to be purchased over 12 month forecast period

$= \sum_T V(T)$

B_0 = Credit balance in the PGCVA, excluding interest, at beginning of 12 month forecast period

I_0 = Credit balance in the PGCVA, interest only, at beginning of 12 month forecast period

r = Interest rate used for calculating carrying costs on PGCVA balance

Z1 = 11 * GC(1) + 10 * GS(2) +9 * GC(3) + 8 * GC(4) + 7 * GC(5) + 6 * GC(6) + 5 * GC(7) + 4 * GC(8) + 3 * GC(9) + 2 * GC(10)+ 1 * GC(11)

Z2 = 11 * V(1) + 10 * V(2) +9 * V(3) + 8 * V(4) + 7 * V(5) + 6 * V(6) + 5 * V(7) + 4 * V(8) + 3 * V(9) + 2 * V(10) + 1 * V(11).

GMG/NRG # 4

Reference: Page 11, Filing Requirements

Does NRG support Enbridge's position to have the Board and Stakeholders determine which information should be presented by the Utilities in filing QRAM Applications? If not, why not?

RESPONSE

Yes, NRG support's Enbridge's position to have the Board and Stakeholders determine which information should be presented by the utilities. However, this support is based on the conditions as provided by Enbridge in Exhibit E1 at pages 28 and 29. In particular, there is no need for an identical filing requirement (i.e. with identical inputs, format, number of lines or pages, etc.) for the QRAM applications of all utilities. NRG also agrees with Enbridge's submission that any changes to the existing QRAM applications should maintain clarity and streamline and simplify the filing requirements.

GMG/NRG # 5

Reference: General – Billing Terminology

Does NRG agree that harmonized billing terminology amongst natural gas distributors would provide customers province wide with a clearer understanding of materials presented to them from the OEB, Industry, or Media, in support of customer education? If not, why not?

RESPONSE

NRG has not conducted any market research on this issue. NRG is content with the status quo.

GMG/NRG # 6

Reference: Page 18, Implementation Issues.

Please describe the "non-cost" implementation issues alluded to in this section for changes to the current methodologies.

RESPONSE

These "non-cost" issues relate to any changes in the balancing requirements for direct purchase customers that may be made by Union Gas. NRG would need to mirror these changes and pass on the changes to the direct purchase customers in NRG's franchise area. There would be no cost, or very little cost, to NRG, as the changes would need to be made by the direct purchase customers. These changes could be related to balancing points and/or the allocation of TCPL capacity to direct purchase customers.

There could also be other "non-cost" changes that NRG may have to make. For example, changes in the filing requirements may have no incremental cost associated with them.

Another example of a "non-cost' item could be changing the terminology of charge on the customer's bill. Depending on the change, NRG may be able to do such a change on its billing system with very little cost (e.g., changing "Monthly Fixed Charge" to "Monthly Charge" might require additional one-time programming costs of $1,000). While this could be a "non-cost" item, there could be a cost associated with explaining the change in terminology to customers.