Additions pursuant to December 6, 1999 Board request have been underscored

RP-1999-0031

AGREEMENT AMONG INTERESTED PARTIES

This Alternative Dispute Resolution Agreement (the "Agreement") is for the consideration of the Board in its determination of rates for Natural Resource Gas Limited ("NRG") under Board file RP-1999-0031. This Agreement deals with all issues identified in the Board's Issues List and notes where agreement has been reached between Board staff and NRG for the purpose of establishing rates for fiscal 2000. This Agreement also identifies where agreement has been reached between NRG and HVAC Coalition ("HVAC") with respect to the issues addressed by HVAC's intervention. HVAC participated in discussion of, and took positions with respect to, only those issues on which its participation is specifically noted. HVAC takes no position on the balance of the issues covered by this Agreement. The Agreement is supported by the existing pre-filed evidence or by further evidence that will be led by the Applicant.

A. GENERAL

A.1 Budget Process

NRG agreed with Board Staff that only capital jobs with a high degree of certainty of completion during the test year should be included in the rate base. Discussions with Board Staff during the ADR process resulted in adjustments as detailed in Section B, Issue 3. It was felt that this approach would lead to a more accurate forecast of capital expenditures and therefore rate base.

A.2 Affiliate Relationships

(a) Affiliate Relationships Code For Gas Utilities Exemptions (HVAC Participation)

All parties agreed that the exemption application should be granted for NRG as it is a small utility with no affiliates providing energy services outside the corporate group.

On the condition that any exemption granted by the Board be expressly conditional on none of NRG's affiliates providing "energy services" (as contemplated in the definition of "energy services provider" in the Code) outside of the NRG corporate group, all parties:

(1) Accepted that NRG be exempt from the requirement that one-third of NRG's Board of Directors be independent from any affiliate (s. 2.1.3), as NRG is a privately-owned utility with one shareholder;

(2) Agreed that NRG will enter into a Services Agreement (as defined in the Code) with Cornerstone Properties Inc. ("Cornerstone"), which shall include all the information listed in s. 2.2.1 of the Code and will be filed with the Board no later than 30 days after the Board issues its decision for RP-1999-0031;

(3) Accepted that NRG be exempt from section 2.2.2 of the Code to the extent that utility hardware or software (i.e., technically part of utility "information services" as defined in the Code) is occasionally and in limited fashion used by a utility employee or consultant while working on matters for one or more affiliates. The parties agreed that in NRG's present circumstances, such limited and occasional use does not constitute the provision to, or sharing of, "information services" with an affiliate as contemplated by the Code;

(4) Accepted that NRG be permitted to utilize Cornerstone's Financial Manager, and to this extent be exempt from section 2.2.3 of the Code; and

(5) Accepted that NRG be exempt from section 2.5.3 of the Code with respect to its affiliate NRG Corp.

(b) Transactions

All parties accepted that only NRG's actual costs of completing a project are included in its rate base. NRG will conduct a formal tendering process for any pipeline project over $50,000, which may be sourced to an affiliate. No such projects are contemplated in the test year.

A.3 Status of Board Directives

All parties accepted that NRG has adequately addressed all Board Directives from EBRO 496 except for the Board Directive found in paragraph 2.1.9. NRG will address this Directive below in Section B of this Agreement ("Rate Base") in paragraph B.1, entitled "Fiscal 1998 Capital Budgets Compared to Board Approved".

A.4 Filing of Audited Fiscal 1998 Financial Statements

All parties accepted NRG's audited financial statements for fiscal 1998 found at A/T9/S1. <u>The statements were filed with the first update to the prefiled evidence.</u>

A.5 Actual v. Board Approved Financial Data

This issue will be dealt with below in Section B of this Agreement ("Rate Base").

A.6 DSM Status (HVAC Participation)

All parties agreed that NRG has continually subscribed to efficiency improvements in the consumption of natural gas, the product of which is demonstrated by the lower normalized average annual consumption figures for NRG's customers, as compared with those of Union Gas Limited ("Union") or Enbridge Consumers Gas Limited ("Enbridge"). NRG has agreed to conduct a follow-up to its most recent survey that can be found at A/T7/S1/p14-20, and monitor, on a regular basis, changes in its customer consumption patterns.

It should be noted that although NRG did not make a specific budget allocation, the company continues to promote energy efficiency through its programs.

A.7 PBR and Unbundling Plans

All parties accepted NRG's wait and see approach of evaluating the PBR and unbundling proposals that are forthcoming in Union's and Enbridge's current rate applications. NRG will not be in a position to evaluate unbundled services options to its customers until Union has completed the process of unbundling their services. With respect to PBR, NRG will not be in a position to evaluate such an approach until more information from the other utilities is available.

B. RATE BASE

B.1 Fiscal 1998 Capital Budgets Compared to Board Approved

NRG agreed that it under-spent by $199,501 (11%) in fiscal 1998 from the Board approved numbers from EBRO 496. Board staff accepted NRG's explanation that this was partially caused by two capital projects which came in below forecasted costs and for the reasons outlined in response to Board Staff Interrogatory 13 (EI/T1/S13).

B.2 Reconciliation of Fiscal 1998 Rate Base with Board Approved

NRG agreed that there is implied over-earnings as a result of capital expenditures being below the Board approved number (B5/T1/S3/updated and B5/T2/S3/updated). NRG has taken steps to reduce its forecasted capital expenditures as described in section B.3.

B.3 Proposed Fiscal Capital Budget

NRG acknowledged Board Staff's concern with the degree of under-spending during the past five years. As a result of Board Staff's concerns raised in this section and the Agreement as noted in Section A, Issue 1, the following items have been removed from the forecasted capital expenditures for fiscal 2000 as there exists flexibility as to when these projects could be completed. Details of the company's capital expenditures can be found on B3/T2/S1/updated and B3/T2/S4/p8/updated:

Main additions	
Red Oaks to North Hall	$28,248
Crampton Drive	4,636
Cromarty Drive	8,014
3rd Concession Malahide (portion only)	5,270
Meters associated with the above	2,188
Regulators associated with the above jobs	3,366
Service additions associated with the above jobs	4,536
Meters (electronic)	5,895
Machinery and equipment	26,000
Automotive	55,000
Building improvements	25,000
Computer software	5,000
	$173,153

B.4 Fiscal 1999 and Fiscal 2000 Rate Base

NRG agreed that there is implied over-earnings as a result of fiscal 1999 rate base being less than the Board approved number (B4/T1/S3/updated). In an effort to provide the most accurate possible forecast for fiscal 2000, a thorough review resulted in reduced forecasted capital expenditures as described in section B.3.

C. OPERATING REVENUE

C.1 Forecasting Methodology for Rate 1 Industrial Customers

Respecting paragraph 3.1.19 of the EBRO 496 Decision and A/T7/S1/p3 of RP-1999-0031, Board staff agreed that NRG has reviewed and revised its forecasting methodology; the relevant evidence is found at Exhibit C2/T1/S1 and S2. Board staff accepted that the new methodology which involves the disaggregation of Rate 1 Industrial accounts into separate groups having similar use characteristics that are then forecast separately is a significant improvement.

C.2 Customer Attachments – Forecast Fiscal 1999 and 2000

All parties accepted NRG's forecast attachments for fiscal 2000. The prefiled evidence pertaining to customer attachments in the historic and bridge years (C5/T2/S3 and C4/T2/S3/updated) indicates that over the two-year period there was no systematic bias in forecasting residential attachments. For other rate classes, parties accepted that the variances between actual and forecast were reasonable.

C.3 Volume Forecast

All parties agreed with the ~~volumes~~volume forecast made by NRG for fiscal 2000. The fiscal 2000 forecast was prepared using the same methodology as the fiscal 1999 forecast. The fiscal 1999 forecast was found to have a small variance relative the actual normalized volumes for fiscal 1999.

The actual normalized volumes for fiscal 1999 in comparison to the evidence filed at C4/T2/S1 (updated) are as follows:

		Actual 1999 (m^3)	Forecasted 1999 (m^3)
Rate 1	Residential	9,353,466	9,414,401
	Commercial	2,807,221	2,770,957
	Industrial	659,563	660,860
Rate 2	Seasonal	3,689,754	3,609,624
Rate 3	Contract	7,154,461	7,164,443
	Total:	23,664,438	23,620,285

C.4 Gas Sales Revenue

All parties agreed with the forecast of gas sales revenues for fiscal 2000. NRG confirmed that the forecast was based on existing rates applied to the volumes forecast at C3/T1/S3/updated.

C.5 Other Operating Revenue (HVAC Participation)

There was no agreement on NRG's operating revenue from its water heater rental program, contract work program, service work program, delayed payment charges, and ABC-T service.

C.6 Rate of Return on Ancillary Programs (HVAC Participation)

There was no agreement on the rate of return on Ancillary Programs.

D. COST OF SERVICE

D.1 Gas Costs – Gas Supply Portfolio

All parties accepted NRG's forecasts of gas commodity costs as reasonable for fiscal 2000. The gas costs submitted by NRG were comparable with those submitted by Union Gas for December 1st , 1999. NRG will continue to track variances between actual and forecasted cost in the variance account (PGCVA and PGTVA) as it has done in the past. The trigger will be when the accumulated variance exceeds $20 for a typical residential customer.

Gas Costs – Forecast of Unaccounted for Gas

All parties accepted using the same method as prior years for forecasting unaccounted for gas (i.e., 3-2-1 declining weighted average).

D.2 Operation and Maintenance Expense – Explanations of Significant Variances and Major Cost Drivers Including:

(A) Wages and Benefits

(i) Wages

All parties accepted the wage forecast as set out in NRG's evidence (D3/T3/S1 and S2/updated). It was agreed that wage costs were comparable to prior year and that wage adjustments were appropriate. It was confirmed that Mr. Graat's salary in fiscal 1998 and 1999 fell below the $65,000 level that the Board found acceptable in EBRO 496. For fiscal 2000, Mr. Graat's salary will be increased by a 2% cost of living adjustment. NRG will confirm in writing to the Board Secretary that there has been no material change in Mr. Graat's involvement in, and remuneration from, NRG since the last proceeding.

(ii) Benefits

All parties accepted that NRG's benefit forecast was appropriate (D3/T3/S1 and S2/updated). NRG's cost estimate took into account changes in contributions to the Canada Pension Plan, Employment Insurance, Employer Heath Tax, the Workers Safety and Insurance Board, and Group Insurance.

NRG's benefits cost has ranged between 10% and 11% of wages over the last three (3) years.

(B) Regulatory Costs – Increase in Intervenor and Legal Costs

All parties agreed that intervenor costs will be reduced by $10,000 to $15,000 (D3/T3/S3/updated). This net decrease of $10,000 in regulatory costs was a result of discussions with the intervenor.

(C) Travel and Entertainment – Justification for Forecast Increase

All parties accepted the increase in travel and entertainment expenses to $41,500 for fiscal 2000 (D3/T3/S1/updated). NRG explained that the increase in travel and entertainment was due to the general manager supplying his own vehicle. NRG confirmed that Mr. Graat's allocated travel and entertainment expenses have not been included in the total cost for fiscal 2000. NRG explained that there would be a net reduction in cost to the company for the General Manager supplying his own vehicle in place of the previous company-owned vehicle.

(D) Management Fees

All parties accepted NRG's updated evidence concerning management fees (D3/T3/S1/updated and IR I/T1/S41 and S42). Board staff accepted that there has been no significant change from the EBRO 496 approved amount and components for this item.

(E) Consulting Fees

All parties accepted NRG's updated evidence on consulting fees (D3/T3/S2/updated and IR I/T1/S43). NRG's increase in consulting fees is related to its Y2K programming changes, repairs, and ongoing maintenance to its computer system.

(F) Automotive – Variance Explanations and Costs for Mr. Graat's Vehicle

All parties accepted NRG's automotive costs for the 2000 fiscal year (D3/T3/S2/updated). The small decrease in this account was reflective of the changes in the age and use of the automobile fleet. NRG confirmed that Mr. Graat's automotive expenses for fiscal 2000 are the same as the amount approved in EBRO 496.

(G) Bank Charges

All parties agreed to NRG's bank charges for fiscal 2000 (D3/T3/S2/updated). NRG explained that its costs have increased slightly due to changes in its fee structure following the takeover of National Trust by the Bank of Nova Scotia, increased numbers of transactions due to customer growth, and increased services provided by the Bank of Nova Scotia.

(H) Repair and Maintenance

All parties agreed with NRG's Repair and Maintenance Expenses for fiscal 2000 in the amount of $120,700 (D3/T3/S2/updated) (fiscal 1999 - $120,500). The proposed increase in this expense – above the EBRO 496 Board approved amount – is mainly due to the fact that the actual expenses associated with the rental water heaters exceeded Board approved amounts in the bridge year. The proposed amount is consistent with the actual bridge year expenses. As a result of the agreement reached in B.3, an additional $2,000 was added to Repair and Maintenance in the test year for anticipated repairs as a result of not replacing certain vehicles and equipment.

(I) Insurance Coverage

All parties agreed with NRG's Insurance Coverage Expenses for fiscal 2000 in the amount of $144,000 (D3/T3/S2/updated) (fiscal 1999 - $143,000). There has been no significant change in this amount <u>or the components</u> from that approved in EBRO 496.

(J) Legal Fees – Details

All parties agreed with NRG's Legal Fees Expenses for fiscal 2000 in the amount of $25,000 (D3/T3/S2/updated) (fiscal 1999 - $25,000). This amount represents a decrease from that approved in EBRO 496. This was accepted as reasonable since actual spending on these fees had decreased.

D.3 Depreciation Expense – Increases in Depreciation

All parties agreed with NRG's Depreciation Expense for fiscal 2000 (D3/T4/S2/updated). Mr. Graat's vehicle is not included in NRG's rate base for fiscal 2000. <u>There have been no changes in depreciation rates and the increase is solely due to the increase in the cost of the capital assets</u>.

D.4 Property and Capital Tax – Increases in Property and Provincial Capital Taxes

Property Tax

All parties accepted NRG's new method of estimating its property taxes for fiscal 2000 (D3/T5/S2/updated). This method is consistent with the methodology used by municipalities in charging actual property taxes as calculated by the municipalities. All parties agreed that the relevant amount for property taxes will be adjusted based on the reduction in section B.3.

Capital Tax

All parties agreed to NRG's treatment of capital tax for the 2000 fiscal year (D3/T5/S2/updated). NRG confirmed that the capital tax figures will be calculated on a stand-alone basis and in line with the Board's EBRO 496 Decision. NRG also confirmed that, on a stand-alone basis, NRG does not pay any federal capital tax, as its taxable capital tax is less than $10 million. All parties agreed that the relevant amount for capital taxes will be adjusted based on the reductions in section B.3.

D.5 Income Taxes

All parties agreed to NRG's evidence pertaining to income tax for fiscal 2000. NRG confirmed that its income tax figures are calculated on a stand-alone basis and in accordance with the Board's Order in EBRO 496.

D.6 Deferral Accounts

PGCVA and PGTVA: All parties agreed with NRG's proposal for the balance and disposition of the PGCVA and PGTVA so long as they are disposed of in a manner consistent with prior practices and will not result in an unreasonable impact on ratepayers.

LTFS: All parties agreed with the balance and disposition of the LTFS account. The amount is only about $4,500 that was carried forward from EBRO 496 and it was felt appropriate to expense this amount in the test year to close this account.

REDA: All parties agreed with the proposed disposition of the REDA account. The amount incurred by the company was only $347 and disposition of this amount was felt to be appropriate in the test year. All parties also agreed with the proposal to record costs associated with participating in generic hearings and in Union regulatory proceedings, including a main rates case for Union. NRG is not requesting the approval of any expenditures in the test year related to a main rates case by Union.

DPADA: All parties agreed to the continuation of the DPADA for fiscal 2000. To date this account continues to have a debit balance and the company continues to monitor this activity to determine its future.

OEBDA: All parties agreed that NRG will allocate $8,000 for Ontario Energy Board expenses with any remaining costs to be placed in a variance account. All parties accepted the amount of $8,000 as a reasonable best estimate to be included in the test year.

E. COST OF CAPITAL

E.1 Capital Structure – Forecast Debt Level Increases, Ratio of Debt to Equity Financing, and Business Risk

All parties accepted NRG's proposed capital structure for fiscal 2000. The ratio of debt to equity will remain at 50:50 as found appropriate in the EBRO 496 Decision.

E.2 Cost of Debt

Cost of Short-term Debt

All parties accepted NRG's cost of short-term debt of 8.27% (E3/T1/S3/updated). NRG explained that the cost of short-term debt is 8.27% rather than 8.25% because fiscal 2000 is a leap year. Therefore, one extra day of interest must be paid.

Cost of Long-term Debt – Long-term Debt Terms and Conditions

All parties accepted NRG's evidence on the cost of long-term debt (E3/T1S3/updated). There has been no change in the source of long term debt since EBRO 496. NRG agreed to continue to file with the ERO correspondence between NRG and Imperial Life regarding loan covenants and waivers.

Junsen and Imperial Life Loans

All parties accepted the loan arrangement between Junsen and NRG. The loan arrangement was extended to September 30, 2000. NRG agreed to file with the ERO during the test year relevant correspondence between NRG and Junsen respecting any amendments to the Junsen loan. NRG also agreed to provide a copy of the loan document and any amendments with the Board if it had not already been filed.

Imperial Life Loan Covenant

All parties accepted Imperial Life's loan to NRG, as there have been no changes in the circumstances in respect of the loan since the Board's EBRO 496 Decision.

E.3 Cost of Equity – Derivation of Proposed Rate of Return on Common Equity for Fiscal 2000

All parties accepted NRG's methodology for calculating its cost of equity forecasts for fiscal 2000. The proposal to use the cost of equity approved for Enbridge along with a deemed 50:50 debt-to-equity ratio is consistent with the EBRO 496 Decision. There was no change in the business risk of NRG during the past year and no change is forecast for the test year.

F. RATE OF RETURN

All parties agreed that the overall rate of return will be calculated in accordance with the deemed 50:50 debt-to-equity ratio and the agreed upon rate of return on equity and long-term and short-term interest rates.

G. COST ALLOCATION

G.1 Proposed Changes to the Cost Allocation Including:

Functionalization of Gas Supply Costs

All parties accepted NRG's proposal for functionalizing gas supply costs, as it is consistent with its new gas supply procedures.

Calculation of Non-Coincident Peak Demand Allocator

All parties accepted NRG's calculation of its non-coincident peak demand allocator. NRG confirmed that the calculation has been calculated in a manner consistent with the calculation of the coincident peak.

Zero Intercept Study Regarding Mains Cost Allocation

All parties accepted NRG's Zero Intercept Study regarding mains cost allocation, as it resulted in a decrease in residential costs and made an allowance for the dummy variable for boring costs. The updated study incorporates one more year of actual data and uses the methodology that was previously approved by the Board.

Revenue to Cost Ratios

There was no agreement on this issue.

G.2 Fall Peaking Load Study

There was no agreement on this issue.

H. RATE DESIGN

H.1 Proposed Rate 1 Changes

There was no agreement on this issue.

H.2 Proposed Rate 2 Changes

There was no agreement on this issue.

H.3 Proposed Rate 3 Changes

There was no agreement on this issue.

H.4 Proposed New Rate 4 and 5 Fall Peaking Service

There was no agreement on this issue.

H.5 Direct Purchase Administration Fee

All parties accepted NRG's direct purchase administration fee. NRG confirmed that it will continue with its current fee for fiscal 2000 and that there is no customer impact for fiscal 2000. All parties agreed that the direct purchase administration fee will be reviewed in the future.

H.6 Long Term Proposals

There was no agreement on this issue.

H.7 Fixed Cost Recovery

There was no agreement on this issue.

H.8 Seasonal Load Study

There was no agreement on this issue.

END OF AGREEMENT

Parties to the Agreement

Natural Resource Gas Limited

Ontario Energy Board Staff

HVAC Coalition