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TEED SAUNDERS DOYLE & CO.
Chartered Accountants
Member of DFK Canada and DFK International

May 1, 2009

Mr. Raymond Gorman, Q.C., Chairman
New Brunswick Energy and Utilities Board
Province of New Brunswick
15 Market Square, Suite 1400
Saint John, NB
E2L 4Y9

Dear Mr. Gorman,

Under date of March 12, 2009, Enbridge Gas New Brunswick Limited Partnership ("EGNB") submitted to the New Brunswick Energy and Utilities Board ("Board") its regulatory financial results for the fiscal year ended December 31, 2008.

In accordance with the terms and conditions outlined in your letter dated March 3, 2009 to us, we have conducted the following:

1. An examination of EGNB's compliance with the Gas Distribution Act, 1999 and with subsequent Board orders in preparation of their 2008 regulatory financial results;
2. Identification of expenses that should be further reviewed by the Board;
3. Review of affiliate transactions for reasonableness and accuracy; and
4. Review of the expense related to the Firm Services Agreement between EGNB and Maritimes and Northeast Pipeline.

Our audit opinion has been prepared and is attached to this document. In addition, we have included a report providing further details and observations made during the course of our work and specifically on the areas outlined as requested in your scope of work.

If you have any questions on this information, please feel free to contact me at your convenience.

Yours truly,

Andrew P. Logan, C.A.
Partner

Encl.

AUDITOR'S REPORT

To the New Brunswick Energy and Utilities Board

We have audited Enbridge Gas New Brunswick's compliance with the Gas Distributors Act, 1999, and with subsequent New Brunswick Energy and Utilities Board orders, for the preparation of their regulatory financial results as at December 31, 2008 submitted to the New Brunswick Energy and Utilities Board on March 12, 2009. Compliance with the criteria established by the Act and Board orders is the responsibility of the management of Enbridge Gas New Brunswick. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether Enbridge Gas New Brunswick has complied with the criteria established by the provisions of the Act and Board orders referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with these criteria, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at December 31, 2008, Enbridge Gas New Brunswick is in compliance, in all material respects, with the Gas Distributors Act, 1999 and with subsequent New Brunswick Energy and Utilities Board orders.

The 2007 regulatory financial results were subject to a review engagement.

Teed Saunders Doyle & Co.

CHARTERED ACCOUNTANTS

Saint John, NB
May 1, 2009

TEED
SAUNDERS
DOYLE & CO.
Chartered Accountants

EXAMINATION OF THE REGULATORY FINANCIAL RESULTS

of

ENBRIDGE GAS NEW BRUNSWICK

(For the year ended December 31, 2008)

Andrew P. Logan, CA
Partner

May 1, 2009

TEED
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DOYLE & CO.
Chartered Accountants

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INTRODUCTION

On February 13, 2009, the New Brunswick Energy and Utility Board ("Board") issued their decision regarding the review of the 2007 regulatory financial results and natural gas sales as submitted by Enbridge Gas New Brunswick ("EGNB"). The decision was the culmination of a lengthy process including a public hearing conducted in December 2008. Part of the deliberations centered on the availability of certain information including the financial statements of the EGNB Limited Partnership. The Public Intervener contended that the regulatory financial statements were not subject to audit, but the Limited Partnership statements were and that they should be submitted as part of the process. EGNB argued that these financial statements were confidential and were not available to the public. They contended that the review of the regulatory financial results performed by Teed Saunders Doyle & Co. provided an appropriate level of assurance that the information was correct.

Accordingly, as part of the decision (page 8), the Board ordered EGNB to:

> *"…now file annually, as part of its review, audited regulatory financial statements or, in the alternative, the audited statements of the limited partnership"*

The Board later varied the order on March 3, 2009 and replaced the original order with the following:

> *"The Board orders that EGNB now file annually, as part of its review, the audited financial statements of the limited partnership, or in the alternative that its regulatory financial results be audited. ……Should EGNB elect to have its regulatory financial results audited, the Board will direct that for the 2008 fiscal year Teed Saunders Doyle conduct this audit and that the audit comply with section 5815 of the CICA Assurance handbook."*

In late February 2009, EGNB wrote to the Board and indicated they would be using the alternative provided in the order and that they would be filing their regulatory financial results in March. On March 3, the Board issued an engagement letter requesting that we carry out the section 5815 audit along with 3 other mandates. The scope of work as requested by the Board can be found in Appendix I attached to this report.

In a letter dated March 12, 2009, EGNB filed with the Board their regulatory financial results for the year ended December 31, 2008. Our examination and additional procedures were performed on this information.

AUDIT RESULTS AND OBSERVATIONS

Overview

As ordered by the Board, our examination was conducted in accordance with Section 5815 of the CICA Assurance Handbook which provides guidance on preparing audit reports on compliance with agreements and regulations. The audit was conducted in accordance with Canadian generally accepted auditing standards. Those standards require that the audit be planned and performed to obtain reasonable assurance whether the entity complied with criteria established by provisions of an agreement, statute or regulation. Such an audit includes:

- examining, on a test basis, evidence supporting compliance;
- evaluating the overall compliance; and
- assessing, where applicable, the accounting principles used and significant estimates made by the management of the entity.

We examined the underlying transactions reported in the financial results and scrutinized such supporting data as we considered necessary in the circumstances. We obtained audit evidence, supporting information and explanations directly from EGNB to ensure consistent application of Board rulings and the applicable regulations. We obtained written confirmation from EGNB for management's representations made to us during the course of our engagement.

We have read the audited financial statements of Enbridge Gas New Brunswick Limited Partnership for the year ended December 31, 2008. We have reviewed the files prepared by the external auditors in support of their opinion on those financial statements. We note that an unqualified audit opinion was issued on these financial statements

Details of our specific audit procedures can be found in Appendix II.

Results

During the course of our examination, there were four errors identified in the information as submitted. These errors are not material, either individually, or taken as a whole, and therefore did not negatively impact our final audit conclusion. The errors identified were as follows:

1. During our verification of the opening balances for 2008 as compared to the final approved balances from 2007, we noted several discrepancies. It was explained to us that the regulatory information for 2008 was prepared from an earlier draft of the 2007 information (as opposed to the final approved information). EGNB has indicated that the figures will be corrected prior to the finalization of the 2008 results.
2. A calculation error was noted in the amortization of deferred carrying costs (Note 2 to the regulatory financial results). This error resulted in the amortization charge being understated by $15,000. EGNB has also indicated that this will be corrected prior to finalization.
3. During our review of the working capital component of the rate base, we noted that EGNB had attempted to include a working cash allowance in the calculation. This provision, however, only considered the revenue collection lag and gave no effect to the lead for accounts payable. Due to time constraints, it was impractical to complete a full lead~lag study. EGNB indicated that the working cash allowance component will be removed and the methodology used in 2007 be utilized prior to finalization of the results.
4. During our review of the affiliate transactions, we noted a large variance year over year for charges from Enbridge Gas Distribution Inc. for distribution and maintenance services (See Note 12 to the regulatory financial results). Upon review by EGNB, it was discovered that certain costs were incorrectly omitted from the 2008 summary in the amount of $411,000. This omission does not affect the balance sheet or income statement as Note 12 is provided for information

purposes only. EGNB has indicated that this information will be corrected prior to finalization.

In conclusion, based on the procedures performed and the resulting audit evidence obtained, we are able to issue a clean audit opinion. We have concluded that the 2008 regulatory financial results have been prepared, in all material respects, in accordance with the Gas Distributor's Act, 1999 and with subsequent Board orders issued on such matters.

Other Findings

During the course of our examination, several matters arose for which we provide additional commentary. These observations were made during the performance of our audit but did not negatively impact our overall audit opinion.

Working Capital Allowance included in Rate Base

Included in our 2007 report to the Board was a discussion regarding short-term interest expense and the inclusion of a working capital allowance in the rate base. We indicated that EGNB was to review the methodology for determining an appropriate amount for working capital and consequently the appropriate amount for short-term interest expense for rate regulation purposes. We noted during our testing of the 2008 rate base that EGNB attempted to update their methodology but in the end reverted to the same process used in 2007. While the process is not incorrect, it is not the most accurate or generally accepted methodology. Based on general regulatory practice, a properly calculated working capital allowance should include a lead~lag analysis which estimates the average working cash allowance required to finance working capital. Including this allowance in rate base and applying the appropriate weighted cost of capital accurately reflects the utilities cost of financing operations. **We therefore recommend that EGNB undertake**

a lead~lag study to determine the appropriate amount of average working cash allowance to include in rate base.

<u>Compliance with Regulation 99-62.2(b) and (c)</u>

Regulation 99-62 is referred to as the Gas Distribution Uniform Accounting Regulation and directs gas distributors to implement a standard uniform system of accounts ("USoA"). The USoA contained in Regulation 99-62 is an extensive chart of accounts meant to provide sufficient detail and consistent recording of transactions by gas distributors. Use of the USoA promotes comparability among similar companies and facilitates benchmarking and other financial analysis. During our review of compliance with this regulation, we noted that EGNB's current chart of accounts does not utilize the numbering scheme set out in 99-62. The regulation[1] does permit this but requires that the distributor's accounts be cross referenced with the USoA numbering scheme. We reviewed this deficiency with EGNB representatives and note that the cross-referencing mapping project is in progress with an expected completion date in 2009. We will point out, however, that the accounts used by EGNB are, in all material respects, similar in description and in the recording of transactions, as described in 99-62.

<u>Application of ½ Year Rule for Depreciation</u>

In its March 24, 2005 decision, the Board ordered that assets acquired during the year shall have one-half of the applicable depreciation rate applied[2]. During our review of accumulated amortization by asset class and the corresponding amortization expense, we noted several classes where this order was not followed. These accounts included:

- Sub-account 482405 – Leasehold Improvements
- Sub-account 488005 – Communications Equipment

[1] See Appendix to Regulation 99-62, Part I, Section 3 - Records
[2] New Brunswick Board of Commissioners of Public Utilities, March 24, 2005 Decision on EGNB's Dec 31, 2002 and 2003 Financial Results, page 15, point 1 (b)

- Sub-account 490B05 – Computer Hardware
- Sub-account 491005 – Computer Software
- Sub-account 475DOM – Distribution Mains

Sub-account 475DOM captures the capitalized overhead and maintenance (O&M) costs. Additions for 2008 totaled $22.2 million. Additions to the remaining capital asset accounts were $472,108. EGNB calculated amortization on a monthly basis as the costs were added to the asset accounts instead of applying one-half of the appropriate rates for the total annual additions as set out in the Board order. While the estimated discrepancy is immaterial, it does contravene the Board's order. We also note that the Board's original decision did not distinguish between physical assets (e.g. – computer hardware) and intangible assets (e.g. – capitalized O&M costs) in terms of applying the one-half rule. EGNB has interpreted this to only include physical assets and not O&M costs that have been capitalized. Further clarification by the Board may be warranted.

<u>ABC Fee and Bad Debt Expense</u>

EGNB provides an agent billing and collection ("ABC") service for certain gas marketers and charges what is termed an ABC fee. This arrangement was reviewed by the Board in their decision of June 23, 2000 (page 40-42). The Board noted that EGNB was charging a "risk" premium as they were assuming collection responsibility for both the delivery charge and the product charge. We note for 2008 that EGNB has recorded a bad debt expense in the amount of $679,000 (2007 - $242,000) of which 60%, or $407,400 (2007 - $145,200), is estimated for the actual supply of gas. Revenues recorded from this service were $105,200 (2007 - $84,500). We discussed these results with EGNB representatives and noted the apparent need to increase revenues. We also note that signed contracts for this service with the marketers apparently do not exist as EGNB was unable to provide us with copies. **We recommend that EGNB revise their current rate schedule for the ABC service to account for their bad debt experience. We also note that any changes to the rate schedule must be pre-approved by the Board. We further**

recommend that the arrangements with each marketer be formalized in a properly executed document.

<u>Deferral Account valuation assumptions</u>

While EGNB is still in their development period, expenditures in excess of revenues are being deferred including a calculated return on rate base. For 2008, $14.969 million was added to the deferral account bringing the balance at December 31, 2008 to $132.9 million. Per Board orders[3], EGNB is to:

> *"...establish an amortization schedule, at the end of the development period that will clear the balance in the deferral account over the remaining term of the initial General Franchise agreement."*

According to the Board, the currently approved development period end-date is December 31, 2010 and the expiration date of the franchise agreement is December 31, 2040.

The level and recoverability of the deferral account has become an issue. Based on the current balance, and assuming a 30 year amortization period and a weighted average cost of capital of 9.7%, the initial annual charge to the cost of service would be in excess of $17.0 million. We were particularly interested in reviewing the external auditors examination of this balance to verify that the carrying value is appropriate for financial statement purposes (i.e. – that it can reasonably be expected to be recovered in the future by the rates EGNB will charge). We noted that the evidence supplied by EGNB to the auditor's in support of the balance contained assumptions on cross-over date (i.e. – end of the development period) and franchise end date that were inconsistent with the dates currently approved by the Board. While these dates can be changed according to the legislation, no formal application to the Board has been made as of the date of this report.

[3] New Brunswick Board of Commissioners of Public Utilities, June 23, 2000 Decision on an Application by EGNB for Approval of its Rates and Tariffs, page 32

We therefore recommend that EGNB submit for review to the Board, its revised assumptions and calculations concerning the deferral account and its ultimate recovery through future rates.

EXPENDITURES SUBJECT TO FURTHER REVIEW

EGNB's annual operating and maintenance ("O&M") expenditures can be found in Note 6 to the regulatory financial results and totaled $32.2 million (2007 - $30.3 million) before amounts capitalized. Our audit procedures are detailed in Appendix II. Additional assurance over the recorded amounts was also taken from the external auditors work and the fact that they issued an unqualified audit opinion.

In their decision of February 13, 2009, the Board said[4]:

> *"The determination of the prudency of expenditures is the responsibility of the Board. Teed Saunders Doyle quite properly saw its role not to determine prudency, but rather to bring to the Board's attention any concerns it might have regarding EGNB's expenses"*

For this engagement, the Board requested that we "*identify any expenses that it believes should be the subject of further review by the Board*".

With this mandate in mind, our review of expenditures included certain criteria that would indicate whether a particular transaction stream might require further investigation by the Board. Those criteria included:

- Magnitude of the account;
- Variance from prior years; and
- Nature of account and transactions (i.e. - typical accounts where disallowed expenditures are often found).

Of the $32.2 million in O&M expenses, certain costs were analyzed during other parts of our review including:

[4] New Brunswick Energy and Utilities Board, February 13, 2009 Decision on the Financial Results of EGNB at December 31 ,2007, page 5

Gas transportation and related activities (FSA)	$1,288,000
Affiliate transactions[5]	2,422,000
	$3,710,000

Of the remaining expenditures of $28,496,000, we recommend the following accounts be subject to a further prudency review:

Account Description	Account Number	Balance	% of Total	Applicable Criteria
Success Sharing	60137.25320	$628,000	2.2%	Nature, Variance
Benefit Credits	60257.25320	412,600	1.4%	Nature
Awards and Allowances	60411.25300	58,700	0.2%	Nature
Incentives	61559.25330	14,545,200	51.0%	Magnitude, Variance
Advertising and promotion	61559.25332	1,085,700	3.8%	Nature
Other Outside Service	61999.25300	39,700	0.1%	Variance
Sponsorships	70807.25332	68,700	0.2%	Nature, Variance
Total		$16,838,600	59.1%	

It is important to remember that our examination was not intended to pass judgment on the prudency of expenditures but rather identify those areas where further review is warranted based on the criteria established.

[5] Based on the correct amount for affiliate transactions for 2008

AFFILIATE TRANSACTIONS

EGNB's affiliate transactions are primarily from two sources:

- Allocations from its corporate head office, Enbridge Inc. for corporate overhead; and
- Consulting and other services acquired through service level agreements with Enbridge Operational Services, Enbridge Inc., Enbridge Commercial Services Inc. and Enbridge Gas Distribution Inc.

A historical comparison of EGNB's affiliate purchases[6] for these charges can be summarized as follows:

(in thousands of dollars)	2008	2007	2006	2005
Affiliate expenditures for consulting and services	2,422	2,292	2,306	1,905
Total consulting and services expenditures	5,619	7,019	5,444	4,752
Affiliate portion	43.1%	32.7%	42.4%	40.1%

Overhead allocations from Enbridge Inc. totaled $1.024 million for 2008 (as compared to $0.881 million in 2007). Examples of these costs include allocations for such items as director's fees, insurance premiums, IT infrastructure depreciation, and software licensing fees.

EGNB also utilizes affiliated companies to provide various services on an as needed basis to avoid duplication of "centers of excellence" that may already exist in the Enbridge network. Many of these specialized services cannot be obtained locally particularly when

[6] Based on the correct amount for affiliate transactions for 2008

considering the design, construction and operation of a "Greenfield" gas distribution system. These arrangements are covered in Service Level Agreements ("SLA's"). A summary of SLA's in effect for 2008 can be found in Appendix III. It should be noted that management represents that they are not required to use an affiliate for a particular service if the service can be obtained locally and at more favourable conditions (e.g. – pricing, delivery, etc). During our engagement, we noted several instances where this occurred.

The Board requested that we "*review EGNB's affiliate transactions and comment on the accuracy and reasonableness of the expenses for affiliate transactions*".

Our testing began with the detailed components that support the information contained in Note 12 to the Regulatory Financial Results. We observed the nature and amounts of transactions for corporate overhead allocations, and for those purchased through the SLA's. We compared the various components to budget and to prior years actual and reviewed the explanations provided. It was during this analysis that the error described on page 4, point 4 was detected. All other variances were adequately explained.

We discussed in detail with EGNB representatives the nature and rationale behind each transaction stream. We reviewed a document entitled "Cost Allocation Methodology" dated March 17, 2009 prepared by Enbridge Inc. This document, originally created in 2002, describes the cost allocation methodologies used by Enbridge Inc. to allocate, and direct charge, costs between its various business units. We noted that certain of these allocations made to EGNB are excluded from the regulated business based on criteria established several years ago in conjunction with the predecessor Board's consultant. The allocations have been applied on a consistent basis with prior years and we noted no discrepancies.

For purchased services, we reviewed the SLA's. Our review included:

- Ensure agreement is for period of review (2008);

- Ensure there is adequate description of service to be provided, details of responsibilities, and performance measurements;
- Ensure agreements are signed and executed by the appropriate parties; and
- Ensure that pricing and rate information is specified and that escalation factors for future periods are included.

We noted that 3 agreements did not contain a provision for pricing beyond 2008, even though the contracts expired at the end of 2010. Additionally, the contract for Regulatory Consulting Services contained references to the Ontario Energy Board as opposed the N.B.E.U.B.

We reviewed a sample of invoices from affiliates to ensure pricing information agreed with the SLA, and that the nature of the billing was in accordance with the agreement. No errors were noted.

Overall, it appears that EGNB's affiliate transactions are reasonable and consistent with the underlying agreements and with prior allocation methodologies. Variances from budget and from prior years were adequately explained with one error detected. We did note, however, that the apportionment of corporate allocations from Enbridge Inc. between regulated and non-regulated activities has never been formally reviewed by the Board. We also note that the current allocation methods are several years old. **We would recommend that EGNB prepare new allocation rationale to determine allowable costs for regulation for corporate overhead apportionments, and that the Board reviews these new methodologies.**

FIRM SERVICES AGREEMENT

On April 3, 2000, EGNB entered into a Firm Services Agreement ("FSA") with Maritimes & Northeast Pipeline Limited Partnership ("M&NP") for transportation capacity on their pipeline of 11,785 gigajoules per day for a 20 year period. The annual cost to EGNB for this capacity was approximately $3.0 million and EGNB was permitted to market any excess capacity to third parties to reduce their overall cost. This arrangement was reviewed by the Board and in their June 23, 2000 decision[7], ordered EGNB to use the following calculation to determine the annual expense to be included in the cost of service:

> *"The Board believes that it is appropriate to establish a mechanism, which will provide a balance between the interests of EGNB's ratepayers and shareholders with respect to the risk associated with the sale of capacity. The Board will therefore allow EGNB to include in its cost of service each year 50% of the annual payment to M&NP. This amount will be adjusted each year by one-half of the amount by which the revenue from the sale of capacity differs from $1.5 million."*

The Board requested that we "*review the FSA between EGNB and M&NP and comment on the accuracy of the amount recorded by EGNB for this expense*".

We obtained the annual calculation of net expense to be charged to the cost of service and included in the regulatory results. We reviewed a sample of monthly invoices from M&NP agreeing the relevant details to the supporting contract. The monthly invoices were then totaled and agreed to the gross cost included in the calculation. Next, we reviewed the contracts EGNB has established with 3rd parties to sell the excess capacity. Invoices supporting the cost recovery charges were reviewed and agreed to the amount

[7] New Brunswick Board of Commissioners of Public Utilities, June 23, 2000 Decision on an Application by EGNB for Approval of its Rates and Tariffs, page 38

included in the annual calculation. No errors or discrepancies were noted as a result of our procedures.

With the key inputs substantiated, we applied the cost of service calculation prescribed by the Board. It was determined that EGNB has properly calculated the FSA costs for 2008.

It is worth mentioning that the result for 2008 produced a regulatory expense greater than the actual expense incurred by EGNB. This situation was contemplated by the Board in their decision and specifically mentioned in one of the examples cited (page 39, June 23, 2000 decision). The Board expressed that the risks (and rewards) associated with selling the excess capacity should be borne both by the ratepayer and the shareholders. If EGNB were to increase the cost recoveries above the $1.5 million threshold established in the decision, then the excess would benefit the shareholders for assuming the risk (and cost) in those years when the recoveries were below the threshold.

APPENDIX I

SCOPE OF WORK

A. Regulatory Financial Results

Teed Saunders Doyle (TSD) is to conduct an audit, pursuant to Section 5815 of the CICA Assurance Handbook, of EGNB's regulatory financial results for 2008. [Specifically], TSD shall determine if the regulatory financial results as presented by EGNB are in compliance with the Gas Distribution Act, 1999 and with subsequent Board orders related to the preparation of EGNB's regulatory financial results, and if they are not, TSD shall identify all items that are not in compliance and recommend what action should be taken with respect to each item.

B. Expenditures

TSD shall identify any expenses that it believes should be the subject of further review by the Board.

C. Affiliate Transactions

TSD shall review EGNB's affiliate transactions and comment on the accuracy and reasonableness of the expenses for affiliate transactions.

D. Firm Services Agreement

TSD shall review the Firm Services Agreement between EGNB and Maritimes and Northeast Pipeline and comment on the accuracy of the amount recorded by EGNB for this expense.

APPENDIX II

Summary of Audit Program

	PROCEDURE	COMPLETED
1	Obtain updates to Gas Distributors Act, 1999 and N.B.E.U.B. Board orders that would impact current fiscal year.	√
2	Obtain copy of audited financial statements for the EGNB Limited Partnership and: • Review draft financial statements and related notes; • Arrange for visit to auditor's office (currently PriceWaterhouseCoopers) and review audit working papers in support of their opinion; • If necessary, obtain final, signed version of financial statements.	√
3	Obtain copy of regulatory financial results and supporting trial balance and: • Compare financial results to prior year noting any significant changes to disclosure, new accounts, or material changes in balances; • Agree note detail to corresponding information within the financial statements; • Review note detail for any significant changes to disclosure, new accounts, or material changes in balances; • Agree beginning regulatory trial balance to audited statements; • Agree regulatory trial balance to regulatory financial results. • Review regulatory adjustments for consistency and to underlying calculations noting any changes from prior years and any new adjustments (further work on the regulatory adjustments is performed during our review of each financial statement area as described below).	√

APPENDIX II

Summary of Audit Program

	PROCEDURE	COMPLETED
4	Examine Rate Base Continuity Schedule components including: • Capital Assets ▪ Agree capital asset continuity including additions and disposals to audit working papers; ▪ Review overhead capitalization rates for reasonableness and consistency with prior years. Note any changes and assess explanations given; ▪ Review AFUDC recorded including rate used (WACC) and the basis of application; ▪ Perform test calculations for amortization. Agree calculations to audit working papers. Ensure amortization rates are in accordance with Board orders. • Deferred Charges ▪ Review components of deferred charges and ensure items excluded per Board Orders have been removed; ▪ Recalculate amortization and ensure rates are consistent with prior years and Board orders; ▪ Vouch any additions to supporting documentation • Review all other components to rate base and: ▪ Ensure consistent application with prior years and Board orders; ▪ Review any new additions to supporting documentation and assess appropriateness of inclusion; • Review rate of return on rate base to ensure it is calculated in accordance with Board orders and that the debt to equity ratio is within guidelines established • Recalculate monthly return on rate-base to ensure mechanical accuracy. Agree return to the regulatory financial results.	√

APPENDIX II

Summary of Audit Program

	PROCEDURE	COMPLETED
5	Examine Departmental Expenses: • Obtain comparative analysis of departmental cost summary by cost type prepared by EGNB (including explanatory notes); • Agree to Note 8 of the regulatory financial results; • Review against prior year and obtain supporting documentation to verify appropriateness of variances; • Review balances against materiality and perform analysis on those accounts of significance including a review of general ledger transaction and verification against supporting documentation; • Identify potential imprudent costs for further analysis; review costs set aside by EGNB as non-regulatory; • Review capitalization rates applied to each departmental total for consistency with prior year; note changes and follow up and agree to supporting documentation rationalizing change; • Agree total departmental costs deferred to asset accounts.	√
6	Examine Affiliate Transactions including: • Agree comparative summary of affiliate transactions to Note 12 of the regulatory financial results for the current year and prior; • Review comparative summary of affiliate transactions noting distribution consistency for cost type amount departments; agree allocations to departmental expense master summary; • Identify any new charges, or charges that have significant variances from the prior year; obtain explanations from EGNB and assess reasonableness; • Obtain copies of Service Level Agreements and examine; • Test a sample of transactions to supporting documentation from affiliate company;	√

APPENDIX II

Summary of Audit Program

	PROCEDURE	COMPLETED
7	Examine other items contained on regulatory income statement including: • Deemed capital taxes; • Bad debt expense; • FSA settlement amount and net expense booked for regulatory purposes; • Allowance for Funds Used During Construction; • Municipal and other taxes; • Amortization expense for property, plant and equipment; • Amortization expense for deferred development costs	√
8	Assess audit procedure results and determine whether the regulatory financial results have been prepared in accordance with the Gas Distributors Act, 1999 and with subsequent Board orders;	√
9	Prepare and issue audit opinion	√

APPENDIX III

Summary of Service Level Agreements

AREA OF SERVICE	In force for 2008	Services defined	Pricing specified (with escalation)	Signed by both parties
Audit	√	√	√	√
Business development and project consulting	√	√	√	√
Corporate security	√	√	√ (note)	√
Dispatch	√	√	√	√
Engineering and operations	√	√	√	√
Environmental, health and safety	√	√	√ (note)	√
Fleet and equipment	√	√	√	√
Governance and internal controls	√	√	√	√
HR and patrol benefits	√	√	√	√
IT Consulting and professional services	√	√	√	√
IT Infrastructure	√	√	√	√
Legal and corporate secretarial	√	√	√ (note)	√
Planning and economics	√	√	√	√
Planning and opportunity development	√	√	√	√
Purchasing Management	√	√	√	√
Regulatory consulting	√	√	√	√
Risk management	√	√	√	√
Taxation	√	√	√	√

Note: These agreements did not have any reference to inflation and price escalation for subsequent years covered by the contracts.

APPENDIX IV

2008 EGNB Regulatory Financial Results

Attached

Enbridge Gas New Brunswick
Balance Sheet for Regulatory Purposes
As at December 31, 2008

Notice to Reader: Subject to review by the New Brunswick Energy and Utilities Board

(in thousands of dollars)

Assets	2008	2007
Regulated Assets		
Property, Plant and Equipment (Note 1)		
Gas Distributor Plant in Service - Net (includes AFUDC capitalized during 2008 of $29.08)	$ 136,230	$ 118,027
Contruction Work In Progress - Gas Distributor Plant	1,613	4,326
Total Property, Plant & Equipment	137,843	122,353
Deferred Charges		
Deferred Development Costs - Net (Note 2)	1,598	1,763
Development O&M Capitalized Costs - Net (Note 3)	79,316	59,469
Regulatory Deferral	132,541	117,909
Total Deferred Charges	213,455	179,141
Short Term Investments	3,048	3,088
Total Regulated Assets	354,346	304,582
Non-Regulated Assets	20,511	24,028
Total Assets	$ 374,857	$ 328,610
Liabilities and Partner's Equity		
Partner's Equity	$ 185,045	$ 153,743
Long-term Advances from Associates and Affiliates (Note 4)	166,650	151,650
Non-Regulated Liabilities	23,162	23,217
Total Liabilities and Equity	$ 374,857	$ 328,610

Rate Base for Regulatory Purposes – Note 10
Capital Structure for Regulatory Purposes – Note 11
Financial Statement Effects of Rate Regulation - Note 13

Enbridge Gas New Brunswick
Statement of Income for Regulatory Purposes
For the year ended December 31, 2008

Notice to Reader: Subject to review by the New Brunswick Energy and Utilities Board

(in thousands of dollars)

	2008	2007
Revenue		
Operating Revenue (Note 5)		
Gas distribution	$ 27,883	$ 18,416
Miscellaneous	391	278
Income from Investments	119	235
Allowance for Funds Used During Construction	29	70
	28,422	18,999
Installation Services		
Revenue	13,117	18,286
Cost of goods sold	(11,486)	(15,000)
	1,631	3,286
Total Revenue	30,053	22,285
Expenses		
Operating Expenses		
Operating and maintenance expenses (Note 6)	4,028	4,267
Deemed capital taxes (Note 7)	344	595
Bad debt expense	679	242
Amortization of Property, Plant and Equipment	4,992	3,622
Municipal and Other Taxes	960	816
Interest on Amounts Due to Associates & Affiliates and Other Interest (Note 8)	10,675	9,219
Amortization of Deferred Development Costs	2,118	1,558
Total Expenses	23,796	20,319
Income (Loss) before Extraordinary Items, Regulatory Deferral and Return on Rate Base	6,257	1,966
Regulatory Deferral	14,938	15,741
Regulated Return on Equity (Note 9)	$ 21,195	$ 17,707

Details of Affiliate Transactions – Note 12
Financial Statement Effects of Rate Regulation - Note 13

(in thousands of dollars)

Note 1 **Property, Plant & Equipment**

			2008	2007	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Rates of Amortization
Property, plant & equipment					
General plant					
Computer hardware & software	$ 2,964	$ (2,026)	$ 938	$ 1,089	28.80%
Tools and work equipment	650	(150)	500	448	5.30%
Office furniture and equipment	458	(99)	359	360	4.40%
Transportation	291	(9)	282	10	11.80%
Communications	8	(7)	1	-	28.80%
Leasehold improvements	462	(112)	350	274	1
Subtotal	4,833	(2,403)	2,430	2,181	
Distribution plant					
Land	375	-	375	375	-
Rights of way and easements	121	-	121	121	-
Distribution mains	89,330	(9,293)	80,037	67,134	2.43%
Street services	36,846	(4,390)	32,456	28,256	3.83%
Meters and regulators	12,911	(1,825)	11,086	10,478	3.83%
Stations	11,160	(1,435)	9,725	9,482	4.40%
Subtotal	150,743	(16,943)	133,800	115,846	
Total plant in service	155,576	(19,346)	136,230	118,027	
Construction work in progress	1,613	-	1,613	4,326	-
Total property, plant & equipment	$ 157,189	$ (19,346)	$ 137,843	$ 122,353	

1 - Amortized over the term of the related leases.

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(in thousands of dollars)

Note 2 **Deferred Development Costs - Net**

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value	Rates of Amortization
Franchise fee	$ 1,500	$ (700)	$ 800	$ 875	5.00%
Deferred carrying costs	2,687	(1,889)	798	888	20.00%
Total deferred development costs, net	$ 4,187	$ (2,589)	$ 1,598	$ 1,763	

Note 3 **Development O&M Capitalized Costs - Net**

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value	Rates of Amortization
Development O&M capitalized costs	$ 84,236	$ (4,920)	$ 79,316	$ 59,469	2.43%
Total development O&M capitalized costs, net	$ 84,236	$ (4,920)	$ 79,316	$ 59,469	

(in thousands of dollars)

Note 4 Long-term Advances from Associates and Affiliates

				2008 Cost of Debt				2007 Cost of Debt		
	Issue Date	Maturity Date	Amount	Enbridge Inc.	EGNB	Regulated	Amount	Enbridge Inc.	EGNB	Regulated
Promissory Note	6-Feb-01	6-Feb-11	6,150	6.33%	7.95%	7.33%	6,150	6.33%	7.95%	7.33%
Promissory Note	28-Jun-02	29-Jun-12	6,000	6.08%	7.89%	7.08%	6,000	6.08%	7.89%	7.08%
Promissory Note	23-Dec-02	24-Dec-12	7,500	6.50%	7.41%	7.50%	7,500	6.50%	7.41%	7.50%
Promissory Note	26-Jun-03	27-Jun-13	13,000	5.62%	6.96%	6.62%	13,000	5.62%	6.96%	6.62%
Promissory Note	30-Dec-03	30-Dec-13	14,000	5.34%	7.14%	6.34%	14,000	5.34%	7.14%	6.34%
Promissory Note	23-Mar-04	24-Mar-14	14,000	5.33%	6.69%	6.33%	14,000	5.33%	6.69%	6.33%
Promissory Note	30-Nov-04	28-Nov-14	21,000	5.69%	6.95%	6.69%	21,000	5.69%	6.95%	6.69%
Promissory Note	30-Mar-05	30-Mar-15	6,000	5.04%	6.93%	6.04%	6,000	5.04%	6.93%	6.04%
Promissory Note	28-Dec-05	28-Dec-15	14,000	4.59%	6.53%	5.59%	14,000	4.59%	6.53%	5.59%
Promissory Note	19-Dec-06	19-Dec-16	21,000	4.82%	6.52%	5.82%	21,000	4.82%	6.52%	5.82%
Promissory Note	20-Dec-07	20-Dec-17	29,000	5.54%	5.85%	6.54%	29,000	5.54%	5.85%	6.54%
Promissory Note	19-Dec-08	19-Dec-13	15,000	6.85%	7.85%	7.85%	-			
Total long-term advances from associates and affiliates			$ 166,650	5.42%	6.74%	6.42%	$ 151,650	5.40%	6.94%	6.40%

The cost of debt of EGNB is limited to the actual borrowing rate of Enbridge Inc. plus 1%.

Enbridge Gas New Brunswick
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(in thousands of dollars)

Note 5 **Operating Revenue**

a. **Gas Distribution**

	2008			2007		
	Revenue	**Customers**	**Throughput TJs**	**Revenue**	**Customers**	**Throughput TJs**
Small general service (SGS)	$ 6,707	7772	719	$ 4,519	6877	587
General service (GS)	7,555	1348	866	4,986	1039	756
Contract general service (CGS)	7,698	246	976	5,572	227	934
Contract large general service (CLGS-LFO)	5,368	22	1,524	2,815	20	1,218
Contract large general service (CLGS-HFO)	399	7	924	401	7	953
Contract large volume off peak (CLVOPS)	44	1	5	88	1	17
Off peak service	112	17	28	35	17	6
Total	$ 27,883	9,413	5,042	$ 18,416	8,188	4,469

1 Terajoule (TJ) = 1,000 Gigajoules (GJ)

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(in thousands of dollars)

Note 5 **Operating Revenue (continued)**

b. Miscellaneous

	2008	2007
Agent billing and collection	$ 105	$ 84
Other miscellaneous revenue	286	194
Total miscellaneous	$ 391	$ 278

Details of Agent Billing and Collection Revenues
(in dollars)

	2008	2007
Agent billing and collection		
Small general service (SGS)	$ 81,648	$ 62,396
General service (GS)	14,497	12,961
Contract general service (CGS)	7,141	7,025
Agent billing	-	
Contract large general service (CLGS-LFO)	572	613
Contract large general service (CLGS-HFO)	277	292
Contract large volume service (CLVOPS)	45	60
Off peak service (OPS)	1,020	1,150
Total agent billing and collection revenue	$ 105,200	$ 84,497

(in thousands of dollars)

Note 6 **Operating and Maintenance Expenses**

	2008	2007
Corporate management	$ 1,177	$ 1,500
Corporate administration	876	794
Financial reporting	602	476
Information technology	886	1,097
Regulatory & upstream	852	608
Sales & marketing	17,528	15,649
Distribution & maintanance	6,201	5,597
Customer care	983	908
Human resources	1,813	1,755
Gas transportation and related activities	1,288	1,930
Total	32,206	30,314
Capitalized to:		
Property, plant & equipment	6,593	4,602
Development O&M capitalized costs	21,585	21,445
Total capitalized	28,178	26,047
Total	$ 4,028	$ 4,267

(in thousands of dollars)

Note 7 **Deemed Capital Taxes**

	2008		2007	
	Federal	**Provincial**	**Federal**	**Provincial**
Calculation of deemed taxable capital				
Partnership capital for regulatory purposes	$ 176,465	$ 176,465	$ 146,281	$ 146,281
Retained earnings for regulatory purposes	8,580	8,580	7,462	7,462
Sub-total	185,045	185,045	153,743	153,743
Restricted term deposit	(3,048)	(3,048)	(3,088)	(3,088)
Intercompany receivable				
Long-term debt	166,650	166,650	151,650	151,650
Sub-total	163,602	163,602	148,562	148,562
Capital deduction	(50,000)	(5,000)	(50,000)	(5,000)
Total taxable capital	298,647	343,647	252,305	297,305
Taxes				
Federal	-	0.000%	-	0.000%
Provincial	344	0.100%	595	0.200%
Total deemed capital taxes	$ 344		$ 595	

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(in thousands of dollars)

Note 8 **Interests on Amounts Due to Associates & Affiliates and Other Interest**

	2008	2007
Interest on long-term debt	$ 10,463	$ 8,695
Other interest expense	202	501
AIDC - allowance for funds used during construction (debt component)	10	23
Total interest on amounts due to associates & affiliates and other interest	$ 10,675	$ 9,219

Note 9 **Regulated Returns on Equity**

	2008	2007
Regulated return on equity	$ 21,176	$ 17,660
AEDC - allowance for funds used during construction (equity component)	19	47
Total regulated return on equity	$ 21,195	$ 17,707

(in thousands of dollars)

Note 10 **Rate Base for Regulatory Purposes**

	2008	2007
Property, plant & equipment		
Cost	$ 155,576	$ 132,761
Accumulated amortization	(19,346)	(14,734)
Net	136,230	118,027
Deferred charges		
Franchise fee, at cost	1,500	1,500
Accumulated amortization	(700)	(625)
Net	800	875
Development O&M capitalized costs	84,236	62,651
Accumulated amortization	(4,920)	(3,182)
Net	79,316	59,469
Deferred carrying costs, at cost	2,687	2,467
Accumulated amortization	(1,889)	(1,579)
Net	798	888
Deferral account	132,541	117,909
Total deferred charges	213,455	179,141
Term deposit	3,048	3,088
Working capital allowance	2,411	2,929
Total rate base	$ 355,144	$ 303,185
Average rate base	$ 325,775	$ 271,697

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(in thousands of dollars)

Note 11 Capital Structure for Regulatory Purposes

	2008	2007
Capital structure		
Long-term debt	$ 166,650	$ 151,650
Equity	185,045	153,743
Total	$ 351,695	$ 305,393
Capital structure percentage		
Long-term debt	47.38%	49.66%
Equity	52.62%	50.34%
Total	100.00%	100.00%
Capital structure average percentage for regulatory purposes		
Long-term debt	50.00%	50.00%
Equity	50.00%	50.00%
Total	100.00%	100.00%
Weighted cost of capital for regulatory purposes		
Long-term debt	3.20%	3.20%
Equity	6.50%	6.50%
Total	9.70%	9.70%

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(in thousands of dollars)

Note 12 **Details of Affiliate Transactions**

Consulting and Services	Enbridge Operational Services	Enbridge Inc.	Enbridge Commercial Services Inc.	Enbridge Gas Distribution Inc.	Total Affiliate Consulting and Services	Total Consulting and Services	Affiliate Expenditure as Percent of Total Consulting and Services
For the fiscal year ended December 31, 2008							
Corporate management	$ -	$ 38	$ -	$ 39	$ 77	$ 292	26%
Sales & marketing	-	-	-	-	-	1,137	0%
Human resources	-	37	-	23	60	187	32%
Distribution & maintenance	-	-	-	391	391	709	55%
Budget & regulatory	84	-	-	11	95	812	12%
Financial reporting	-	50	-	12	62	190	33%
Customer care	-	-	-	14	14	534	3%
Corporate administration	-	761	-	7	768	768	100%
Gas transportation & related	70	-	-	-	70	70	100%
Information technology	-	139	59	253	451	488	92%
Total	**$ 154**	**$ 1,024**	**$ 59**	**$ 751**	**$ 1,988**	**$ 5,186**	**38%**
2007							
Corporate management	$ -	$ 36	$ -	$ 59	$ 95	$ 504	19%
Sales & marketing	-	-	-	-	-	2,437	0%
Human resources	-	20	-	91	110	269	41%
Distribution & maintenance	-	-	-	718	718	1,310	55%
Budget & regulatory	191	-	-	3	194	703	28%
Financial reporting	-	92	-	23	115	217	53%
Customer care	-	-	-	-	-	456	0%
Corporate administration	-	601	-	5	606	606	100%
Gas transportation & related	-	-	-	-	-	-	0%
Information technology	-	63	168	223	454	518	88%
Total	**$ 191**	**$ 812**	**$ 168**	**$ 1,121**	**$ 2,292**	**$ 7,019**	**33%**

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(in thousands of dollars)

Note 13 **Financial Statement Effects of Rate Regulation**

The Partnership's primary business activities are subject to regulation by the New Brunswick Energy and Utilities Board (EUB). The Partnership follows accounting practices prescribed by its regulator or stipulated in approved ratemaking decisions that are subject to examination and approval by the EUB and are similar to those being used by other enterprises in the gas distribution industry in Canada. Accordingly, the timing and recognition of certain revenues and expenses may differ from that otherwise expected under generally acceptable accounting principles (GAAP) applicable to non-regulated operations. The ultimate recoverability of costs incurred is dependant upon the approval of the EUB.

Rate regulation creates differences between the manner in which the Partnership accounts for transactions or events and how they would be accounted for if the Partnership was not subject to rate regulation. The differences in accounting treatment include:

The type of regulation in effect for the Partnership is a modified cost of service regulation. Unlike many similar utilities, the Partnership's rates are market, not cost, based. Rates charged by the Partnership are based on a targeted savings over alternate fuel for end use customers. This rate setting methodology has been approved by the EUB for use during the development period after which rates are expected to be cost based. The EUB has approved a regulatory deferral account to capture the difference between the Partnership's regulated revenues and its regulated cost of service which non-regulated enterprises would not recognize.

The EUB permits an "allowance for funds used during construction" (AFUDC) to be included in the rate base. In addition, AFUDC is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future rates. AFUDC for rate-regulated entities includes both an interest component and a cost of equity component. In the absence of rate regulation, GAAP would permit the capitalization of only the interest component. Therefore, the initial set up of the equity component as a capitalized asset and the corresponding revenue recognized during the construction phase would not be recognized nor would the subsequent depreciation of the asset.

As prescribed by the EUB, the Partnership does not recognize gains and losses on the sale of natural gas in the statement of income and uses a purchase gas variance account to defer the gain or loss on sale. Non-regulated enterprises would normally account for the gain or loss in the statement of income or comprehensive income.

As allowed by the EUB, the Partnership capitalizes certain operating and maintenance expenses incurred during the Partnership's development period. Non-regulated enterprises may expense certain of these costs in the period incurred.

Enbridge Inc., on behalf of the Partnership, maintains a pension plan which provides defined benefit pension benefits. As prescribed by the EUB, contributions made to the plan are expensed as paid, consistent with the recovery of such costs in rates. Under GAAP, pension costs and obligations for defined benefit pension plans are determined using the projected benefit method and are charged to income as services are rendered.