

SCHEDULE 4.2

2015 Budget

Enbridge Gas New Brunswick
 Budget Balance Sheet for Regulatory Purposes
 For the year ended December 31, 2015

1 (in thousands of dollars)

2	Assets	<u>2015</u>
3	Regulated Assets	
4	Property, Plant and Equipment (Note 2)	
5	Gas Distributor Plant in Service - Net (includes AFUDC capitalized during 2015 of \$15.7)	\$ 177,784
6	Construction Work In Progress - Gas Distributor Plant	<u>745</u>
7	Total Property, Plant & Equipment	178,529
8	Deferred Charges	
9	Deferred Development Costs - Net (Note 3)	275
10	Development O&M Capitalized Costs - Net (Note 4)	<u>91,618</u>
11	Total Deferred Charges	91,893
12	Short Term Investments	<u>2,975</u>
13	Total Regulated Rate Base Assets	273,397
14	Other Regulated Assets (Note 5)	<u>30,907</u>
15	Total Regulated Assets	<u>304,304</u>
16	Regulatory Deferral (Note 1)	<u>181,709</u>
17	Total Assets	<u>\$ 486,013</u>
18	Liabilities and Partner's Equity	
19	Partner's Equity (Ratebase) (Note 1)	\$ 130,299
20	Long-term Advances from Associates and Affiliates (Note 6)	161,750
21	Other Regulated Liabilities (Note 7)	<u>12,255</u>
22		304,304
23	Partner's Equity (Regulatory Deferral)	<u>181,709</u>
24	Total Liabilities and Equity	<u>\$ 486,013</u>

Financial Statement Effects of Rate Regulation and Legislative Changes – Note 1
Rate Base for Regulatory Purposes – Note 12
Capital Structure for Regulatory Purposes – Note 13

Enbridge Gas New Brunswick

Statement of Budgeted Income for Regulatory Purposes

For the year ended December 31, 2015

1 (in thousands of dollars)

	<u>2015</u>
2 Revenue	
3 Operating Revenue (Note 8)	
4 Gas distribution	\$ 47,155
5 Miscellaneous	435
6 Allowance for Funds Used During Construction	<u>16</u>
	47,606
7 Service and Inspections	
8 Revenue	792
9 Cost of goods sold	<u>(603)</u>
	189
10 Total Revenue	<u>47,795</u>
11 Expenses	
12 Operating Expenses	
13 Operating and maintenance (Note 9)	11,647
14 Transportation (net)	<u>2,065</u>
15 Total Operating and maintenance expenses	13,712
16 Bad debt expense	360
17 Amortization of Property, Plant and Equipment	8,000
18 Municipal and Other Taxes	1,198
19 Interest on Amounts Due to Associates & Affiliates and Other Interest (Note 10)	8,080
20 Amortization of Deferred Development Costs	<u>2,867</u>
21 Total Expenses	<u>34,217</u>
22 Income before Extraordinary Items, Regulatory Deferral and Return on Rate Base	13,578
23 Regulatory Deferral	<u>61</u>
24 Regulated Return on Equity (Note 11)	<u>\$ 13,639</u>

Financial Statement Effects of Rate Regulation and Legislative Changes – Note 1
 Details of Affiliate Transactions – Note 14

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

1 Note 1 **Financial Statement Effects of Rate Regulation and Legislative Changes**

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

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

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

21 As prescribed by the EUB, the Public Utility does not recognize gains and losses on the sale of Enbridge
22 Utility Gas (EUG) in the statement of income and uses a purchase gas variance account to defer the
23 gain or loss on sale. Non-regulated enterprises would normally account for the gain or loss in the
24 statement of income or comprehensive income.

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

30 The Public Utility had been subject to non-traditional regulation which recognized its immature nature.
31 Unlike many similar utilities, the Public Utility's rates were not set on a cost based methodology. Prior to
32 October 1, 2012, the Public Utility's rates were set exclusively based upon a market based methodology,
33 and were based on a targeted savings over alternate fuel for end use customers. This rate setting
34 methodology had been approved by the EUB for use during the development period after which rates
35 are expected to be cost based.

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Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

1 Note 1 **Financial Statement Effects of Rate Regulation and Legislative Changes (continued)**

2 In December 2011, the Province of New Brunswick introduced legislation that outlined new rate classes,
3 and a new rate setting methodology for the Public Utility. The legislation subsequently received
4 proclamation on January 18, 2012, with the supporting Rates and Tariffs Regulation being filed April 16,
5 2012.

6 In May 2013, in response to an appeal launched by EGNB, the New Brunswick Court of Appeal ruled
7 that Section 4(1) of the legislation restricting the revenue to cost ratio to 1.2:1 was ultra vires.

8 The legislation noted above also provided direction with regards to the regulatory deferral account, which
9 the EUB had historically approved to capture the difference between the Public Utility's regulated
10 revenues and its revenue requirement, which non-regulated enterprises would not recognize. Based on
11 the legislative changes, the Public Utility is no longer permitted to depreciate, amortize, earn a return on,
12 or otherwise consider the regulatory deferral account when calculating its revenue requirement. In
13 response to this legislation, the Public Utility has not considered the deferral account for the purpose of
14 establishing the revenue requirement. However, it will remain as an asset on Enbridge Gas New
15 Brunswick's balance sheet as it remains an asset of the Public Utility for regulatory purposes. Similarly,
16 the capital structure associated with the regulatory deferral account will also remain on the balance
17 sheet. However, the debt and equity associated with the regulatory deferral account are not considered
18 when calculating the allowed rate of return for the Public Utility.

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Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 2 Property, Plant & Equipment

			2015	
	Cost	Accumulated Amortization	Net Book Value	Rates of Amortizatio
4 Property, plant & equipment				
5 General Plant				
6 Computer Hardware & Software	\$ 3,516	(2,760)	756	28.80%
7 Tools and Work Equipment	1,601	(522)	1,079	20.00%
8 Office Furniture and Equipment	486	(230)	256	4.40%
9 Transportation Equipment	1,980	(1,091)	889	18.45%
10 Incentives	232	(48)	184	20.00%
11 Leasehold Improvements	<u>1,059</u>	<u>(742)</u>	<u>317</u>	1
12 Subtotal	8,874	(5,393)	3,481	
13 Distribution Plant				
14 Land	375	-	375	-
15 Rights of way and easements	159	-	159	-
16 Distribution Mains	125,327	(27,406)	97,921	2.43%
17 Street Services	62,698	(17,132)	45,566	3.83%
18 Meters and Regulators	22,109	(4,157)	17,952	4.46%
19 Stations	<u>18,199</u>	<u>(5,869)</u>	<u>12,330</u>	4.40%
20 Subtotal	<u>228,867</u>	<u>(54,564)</u>	<u>174,303</u>	
21 Total plant in service	237,741	(59,957)	177,784	
22 Construction work in progress	<u>745</u>	<u>-</u>	<u>745</u>	
23 Total property, plant & equipment	<u>\$ 238,486</u>	<u>\$ (59,957)</u>	<u>\$ 178,529</u>	

24 1 - Amortized over the term of the related leases.

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Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 3 Deferred Development Costs - Net

			2015
	Cost	Accumulated Amortization	Net Book Value
1			
2			
3			
4	Franchise fee	\$ 1,500	\$ (1,225)
		\$ 1,500	\$ 275
5	Total deferred development costs, net	\$ 1,500	\$ (1,225)
		\$ 1,500	\$ 275

Note 4 Development O&M Capitalized Costs – Net

			2015
	Cost	Accumulated Amortization	Net Book Value
6			
7			
8			
9	Development O&M capitalized costs	\$ 114,952	\$ (23,334)
		\$ 114,952	\$ 91,618
10	Total development O&M capitalized costs, net	\$ 114,952	\$ (23,334)
		\$ 114,952	\$ 91,618

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results
For the year ended December 31, 2015

(in thousands of dollars)

Note 5 Other Regulated Assets

		<u>2015</u>
1		
2	Cash, & Short Term Investments	\$ 251
3	Accounts Receivable	27,315
4	Long term receivable	2,213
5	Inventory	<u>1,128</u>
		<u><u>\$ 30,907</u></u>

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Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 6 Long-term Advances from Associates and Affiliates

	Issue Date	Maturity Date	Amount	2015 Cost of Debt			
				Enbridge Inc.	EGNB	Regulated	
1							
2							
3							
4	Promissory Note	30-Mar-05	30-Mar-15	6,000	5.04%	6.93%	6.04%
5	Promissory Note	30-Dec-05	30-Dec-15	14,000	4.59%	6.53%	5.59%
6	Promissory Note	19-Dec-06	19-Dec-16	18,000	4.82%	6.52%	5.82%
7	Promissory Note	12-Dec-12	20-Dec-17	20,000	5.54%	5.85%	6.54%
8	Promissory Note	12-Dec-12	9-Dec-19	15,000	4.63%	5.63%	5.63%
9	Promissory Note	22-Sep-10	22-Sep-15	4,000	3.25%	4.25%	4.25%
10	Promissory Note	12-Dec-12	30-Dec-21	14,000	3.50%	4.50%	4.50%
11	Promissory Note	8-Jan-13	8-Jan-20	7,500	3.67%	4.67%	4.67%
12	Promissory Note	24-Feb-14	28-Feb-18	25,000	4.16%	5.16%	5.16%
13	Promissory Note	24-Mar-14	24-Mar-17	5,000	3.69%	4.69%	4.69%
14	Promissory Note	24-Feb-14	26-Feb-18	33,250	4.00%	5.00%	5.00%
15	Total long-term advances						
16	from associates and affiliates		\$ 161,750	4.31%	5.37%	5.36%	

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

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results
For the year ended December 31, 2015

(in thousands of dollars)

Note 7 Other Regulated Liabilities

1	<u>2015</u>
2 Due to affiliated companies	\$ 966
3 Accounts Payable	8,170
4 Long Term Payables	2,118
5 Long Term Deferred Post Employment Liabilities	<u>1,001</u>
6	<u>\$ 12,255</u>

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 8 Operating Revenue

a. Gas Distribution

1	2015		
2	Revenue	Customers	Throughput TJs
3 Small General Service (SGS)	\$ 4,791	8,295	620
4 Mid-General Service (MGS)	16,687	3,633	1,252
5 Large General Service (LGS)	13,968	459	1,598
6 Contract General Service (CGS)	5,144	85	731
7 Industrial Contract General Service (ICGS)	6,417	9	1,616
8 Off-Peak Service (OPS)	148	14	29
9 Total	<u>\$ 47,155</u>	<u>12,495</u>	<u>5,846</u>

10 1 Terajoule (TJ) = 1,000 Gigajoules (GJ)

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 8 Operating Revenue (continued)**b. Miscellaneous**

1	<u>2015</u>
2 Agent billing and collection	\$ 184
3 Other miscellaneous revenue	<u>251</u>
4 Total miscellaneous	<u><u>\$ 435</u></u>

5 Details of Agent Billing and Collection Revenue

6 (in dollars)

7	<u>2015</u>
8 Small General Service (SGS)	\$ 114,120
9 Mid-General Service (MGS)	51,791
10 Large General Service (LGS)	14,706
11 Contract General Service (CGS)	2,406
12 Industrial Contract General Service (ICGS)	378
13 Off-Peak Service (OPS)	<u>683</u>
15 Total agent billing and collection revenue	<u><u>\$ 184,084</u></u>

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Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 9 Operating and Maintenance Expenses

1	<u>2015</u>
2 Corporate management	\$ 1,132
3 Corporate administration	545
4 Financial reporting	1,085
5 Information technology	1,493
6 Regulatory & upstream	1,072
7 Sales & marketing	1,350
8 Distribution & maintenance	5,608
9 Customer care	1,225
10 Human resources	2,576
11 Gas transportation and related activities	<u>2,065</u>
12 Total prior to capitalization	<u>18,151</u>
13 Property, plant & equipment	<u>4,439</u>
14 Total capitalized	<u>4,439</u>
15 Total expense	<u>\$ 13,712</u>

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 10 Interest on Amounts Due to Associates & Affiliates and Other Interest

1	<u>2015</u>
2 Interest on long-term debt	\$ 8,074
3 AIDC - allowance for funds used during construction (debt component)	6
4 Total interest on amounts due to associates & affiliates and other interest	<u>\$ 8,080</u>

Note 11 Regulated Return on Equity

5	<u>2015</u>
6 Regulated return on equity	\$ 13,629
7 AEDC - allowance for funds used during construction (equity component)	10
8 Total regulated return on equity	<u>\$ 13,639</u>

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 12 Rate Base for Regulatory Purposes

1		<u>2015</u>
2	Property, plant & equipment	
3	Cost	\$ 237,741
4	Accumulated amortization	<u>(59,957)</u>
5	Net	177,784
6	Deferred charges	
7	Franchise fee, at cost	1,500
8	Accumulated amortization	<u>(1,225)</u>
9	Net	275
10	Development O&M capitalized costs	114,952
11	Accumulated amortization	<u>(23,334)</u>
12	Net	91,618
13	Deferral account	<u>-</u>
14	Net	-
15	Total deferred charges	91,893
16	Term deposit	2,975
17	Working capital allowance	<u>1,188</u>
18	Total rate base	<u>\$ 273,840</u>
19	Average rate base	<u>\$ 274,013</u>

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 13 Capital Structure for Regulatory Purposes

1 2015

2 Capital structure

3 Long-term debt	\$ 161,750
4 Equity	<u>130,299</u>
5 Total	<u><u>\$ 292,049</u></u>

6 Capital structure percentage

7 Long-term debt	55.38%
8 Equity	<u>44.62%</u>
9 Total	<u><u>100.00%</u></u>

10 Capital structure average percentage for regulatory purposes

11 Long-term debt	55.00%
12 Equity	<u>45.00%</u>
13 Total	<u><u>100.00%</u></u>

14 Weighted cost of capital for regulatory purposes

15 Long-term debt	2.95%
16 Equity	<u>4.91%</u>
17 Total	<u><u>7.86%</u></u>

Enbridge Gas New Brunswick

Notes to 2015 Budget Regulatory Financial Results

For the year ended December 31, 2015

(in thousands of dollars)

Note 14 **Details of Affiliate Transactions**

	Enbridge Inc.	Enbridge Pipeline Inc.	Enbridge Gas Distribution Inc.	Gazifère Inc.	Total Affiliate Consulting and Services	Total Consulting and Services	Affiliate Expenditure as Percent of Total Consulting and Services
1 Consulting and Services							
2 For the period ending December 31, 2015							
3 Corporate management	\$ -	\$ -	\$ 99	\$ -	\$ 99	\$ 254	39%
4 Sales & marketing	-	-	-	-	-	1,093	0%
5 Human resources	140	-	137	-	277	407	68%
6 Distribution & maintenance	-	-	521	-	521	1,469	35%
7 Budget & regulatory	-	-	-	-	-	948	0%
8 Financial reporting	-	69	64	-	133	287	46%
9 Customer care	-	-	-	847	847	847	100%
10 Corporate administration	616	-	8	-	623	647	96%
11 Gas transportation & related	-	-	104	-	104	109	96%
12 Information technology	521	-	183	-	704	823	86%
13 Total	\$ 1,277	\$ 69	\$ 1,116	\$ 847	\$ 3,309	\$ 6,884	48%