

39 Canterbury Street
P.O. Box 6668
Saint John
New Brunswick
E2L 4S1

Tel (506) 636-9220
Fax (506) 634-8208
E-mail tsdsj@teedsaundersdoyle.com

**TEED
SAUNDERS
DOYLE & CO.**
Chartered Accountants

An Independent Member of
DFK Canada Inc. and DFK International

REVIEW ENGAGEMENT REPORT

To the New Brunswick Energy and Utilities Board:

We have reviewed 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 balance sheet for regulatory purposes as at December 31, 2007, and the statement of income for regulatory purposes for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and, consequently, we do not express an audit opinion on this matter.

Based on our review, nothing has come to our attention that causes us to believe that the company is not in compliance with the Gas Distributors Act 1999 and subsequent Board orders referred to above.

Teed Saunders Doyle & Co.
Chartered Accountants

Saint John, NB
June 26, 2008

Saint John Partners

John H. Teed Andrew P. Logan
Peter L. Logan



Fredericton Partners

Brian J. Saunders Ralph D. Gorman
David H. Bradley John H. Landry
T.J. Smith

39 Canterbury Street
P.O. Box 6668
Saint John
New Brunswick
E2L 4S1

Tel (506) 636-9220
Fax (506) 634-8208
E-mail tsdsj@teedsaundersdoyle.com

**TEED
SAUNDERS
DOYLE & CO.**
Chartered Accountants

An Independent Member of
DFK Canada Inc. and DFK International

June 26, 2008

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 4, 2008, Enbridge Gas New Brunswick Limited Partnership (the "Utility" or "EGNB") submitted to the New Brunswick Energy and Utilities Board (the "Board") its regulatory financial information for the fiscal year ended December 31, 2007.

In accordance with your instructions, we have reviewed EGNB's regulatory financial information, and have prepared our Review Engagement Report thereon. In addition, we are providing this letter which includes further explanatory comments and observations on the information submitted.

Our review was conducted in accordance with section 8600 of the CICA Assurance Handbook – Reviews of Compliance with Agreements and Regulations. We reviewed the underlying transactions reported in the financial information and scrutinized such supporting data as we considered necessary in the circumstances. We have obtained information and explanations directly from EGNB to ensure consistent application of board rulings and the applicable regulations. We have read the audited financial statements of EGNB for the year ended December 31, 2007. We have reviewed the files prepared by the auditors in support of their opinion on those financial statements. Our procedures do not constitute an audit and we express no audit opinion on the regulatory financial information provided.

The regulatory financial statements are attached to this report in Appendix A. All dollar amounts in the financial information schedules are expressed in thousands of Canadian dollars.

Saint John Partners

John H. Teed Andrew P. Logan
Peter L. Logan



Fredericton Partners

Brian J. Saunders Ralph D. Gorman
David H. Bradley John H. Landry
T.J. Smith

I. SUMMARY OF RESULTS

During 2007, the utility connected an additional 2,551 customers to its distribution system and at year-end, 8,188 customers were reported as attached compared with 5,637 for 2006. The distribution of customers over the various service classes can be found in Appendix A, supporting Note 5(a) on page 6 of 14.

The net income for the year, reported in the "Statement of income for regulatory purposes" on page 2 of 14, entitled "Income (Loss) before regulatory deferral" was \$1,966,000 (2006 - loss of \$4,333,000). This amount, netted against the "Regulated Return on Equity" reported as \$17,707,000 (2006 - \$14,551,000), was transferred to the deferral account. The total increase in the deferral account for the year amounted to \$15,741,000. At December 31, 2007, EGNB has reported the balance of its regulatory deferral at \$117,909,000 (2006 - \$102,168,000).

EGNB filed their financial information in the format ordered by the Board for 2007 consistent with 2006. During the course of our review, we noted the following items which we highlight for your consideration:

Rate Base income allocation

In prior years EGNB allocated regulatory income to the rate base using a monthly weighted average percentage of unregulated earnings applied to the annual regulated results. For the current year, this allocation methodology was changed. EGNB prepared quarterly regulatory financial statements as required by the NBEUB. The allocation to rate base used the quarterly regulated income statement results as opposed to the annual figure. We would assume that the most accurate method would be a monthly determination of regulated net income added to the rate base. EGNB's approach using a quarterly figure is a move in the right direction and appears to be a reasonable compromise in terms of time and effort.

Interest Expense

The total interest expense claimed by EGNB amounts to \$9,219,000 (2006 - \$7,413,000) and is detailed in Appendix A, Note 8 on page 10 of 14. There are three components including interest on long-term debt in the amount of \$8,695,000 (2006 - \$7,207,000), interest on short-term debt of \$501,000 (2006 - \$172,000) and an allowance for funds used during construction (debt component) of \$23,000 (2006 - \$34,000).

The long term debt component of total interest expense is determined by applying the regulatory approved interest rate to rate base assets. Short-term debt interest represents interest on short term borrowings from affiliated companies and operating lines from banks.

During our review, we discussed the inclusion of interest on short-term debt in total interest expense. EGNB was able to effectively demonstrate to us that total rate base assets have not been adequately financed by their capital structure with the difference being made up with

short-term borrowings. This matter had previously been dealt with during the 2002 and 2003 review by the Board's then consultant, Mr. James Easson, which concluded the appropriateness of including short term debt interest. Our recent discussions led to the conclusion that a more accurate representation of short term interest expense for regulatory purposes would be through a revised calculation for the working capital provision currently included in rate base. It was agreed that the current methodology does not give adequate consideration for short-term borrowing requirements. EGNB has indicated that they will be revising their methodology for the 2008 fiscal year with the intention of providing a more accurate interest cost to finance rate base assets. This new methodology will of course be reviewed as part of the 2008 annual process.

II. STATEMENT OF INCOME FOR REGULATORY PURPOSES

(Appendix A, page 2 of 14)

The following paragraphs provide further commentary and observations on certain information contained in the Statement of Income for Regulatory purposes.

1. Revenue

Total revenues for the year were \$22,285,000 (2006 - \$14,124,000) an increase of \$8,161,000. This result was achieved principally as a result of the additional connections in 2007.

Investment income of \$235,000 (2006 - \$120,000) is related to the short-term investment included in rate base assets and interest earned on EGNB cash balance throughout the year.

The caption "Installation services" accumulates the sales and costs related to various customer services such as sales and installation of appliances. We reviewed these accounts with management and noted no items that were unreasonable.

2. Operating and maintenance expenses

The departmental detail of operating and maintenance expenses (O&M) is included in Appendix A, Note 6 on page 8 of 14. Total O&M for the year amounted to \$30,314,000 (2006 - \$22,392,000). Certain O&M is capitalized and included in three categories:

- **Plant Development** includes costs that are primarily related to the construction of the distribution system. These costs are capitalized to Property, Plant and Equipment;
- **Industry Development** includes costs that are primarily related to the development of the industry. These costs are capitalized to Developmental O&M Capitalized Costs;
- **Administration** includes departmental costs that are in support of direct operations. These costs are allocated to either Plant or Industry Development based on the nature of

their relationship to either the distribution system or development of the industry.

Total O&M expenses capitalized in 2007 are summarized as follow:

	<u>2007</u>	<u>2006</u>
Capitalized to Development O&M	\$21,445,000	\$12,411,000
Capitalized to PPE	<u>4,602,000</u>	<u>5,549,000</u>
Total O&M Expenses Capitalized	<u>\$26,047,000</u>	<u>\$17,960,000</u>

The methodology used in 2007 for allocating these costs is consistent with prior years and the calculation of the allocated amounts were re-performed and found to be accurate.

The remaining \$4,267,000 (2006 - \$4,432,000) appears in the statement of income as "Operating and maintenance expenses". These expenses were discussed extensively with management and supporting evidence was reviewed where we considered it to be necessary. Based upon our review, no items were noted that were unusual or unreasonable from a regulatory point of view.

3. Deemed capital taxes

Deemed capital taxes represent taxes that would have been assessed had the partnership been taxed as a corporation. The amount calculated for 2007 was \$595,000 (2006 - \$384,000). The taxes are calculated on the basis of the capital for regulatory purposes using the New Brunswick large corporation tax rate of 0.20%. The Federal portion of capital taxes was eliminated in 2006.

The calculation of deemed capital taxes for 2007, detailed in Appendix A, Note 7, on page 9 of 14, is consistent with the prior year's calculation methodology, and with the general provisions of the Income Tax Act. Please note deemed capital taxes were adjusted in 2006 in the amount of \$210,000 as a result of incorrect federal tax rate used in 2004 and 2005.

4. Amortization of property, plant and equipment

We reviewed the schedules supporting the continuity of property, plant and equipment, and amortization thereof, and found them to be consistent with the accounting records of EGNB.

The utility charges a full year's amortization on property, plant and equipment in service on January 1 and a half year's amortization on additions recorded during the year. This methodology has been consistently applied and has been previously approved by the Board.

The total charge for amortization is \$3,622,000 (2006 - \$3,422,000). We reviewed the amortization calculations for the year and found them to be without error and based on rates of amortization previously approved by the Board.

5. Municipal and other taxes

The Utility is assessed taxes by the municipalities it serves based upon the dimensions and length of pipe installed. For 2007, the various assessments totaled \$816,000 (2006 - \$699,000).

We reviewed the underlying property tax bills supporting the amounts expensed and found them to be in agreement.

6. Interest expense

The total interest expense claimed by EGNB amounts to \$9,219,000 (2006 - \$7,413,000) and is detailed in Appendix A, Note 8 on page 10 of 14.

EGNB has recorded as a component of total interest expense an allowance for funds used during construction (debt component) of \$23,000 (2006 - \$34,000).

7. Amortization of deferred development costs

Amortization of deferred development costs totaled \$1,558,000 (2006 - \$1,945,000) and also includes amortization of the franchise fee, deferred carrying costs and capitalized developmental O&M costs.

The franchise fee is being amortized on a straight-line basis at \$75,000 per year over its life of twenty years as approved by the Board.

Deferred charges and related carrying costs were accumulated to March 31, 2001 and have been amortized over five years, commencing April 1, 2001 as previously directed by the board.

EGNB charges a full year's amortization on O&M Capitalized Costs in service at the beginning of the fiscal year and for current year additions consistent with other capitalized Deferred Charges. The amortization rate of 2.43% has been previously approved by the Board.

We reviewed the schedules supporting the continuity of O&M Capitalized Costs and found them to be consistent with the accounting records of EGNB.

8. Regulatory return on equity (and Capital Structure for Regulatory Purposes)

The figures presented in Appendix A, Note 11, on page 12 of 14, represent the closing balances of the two components of the capital structure as at December 31, 2007, adjusted where necessary to comply with Board directives.

The debt to equity ratio accepted by the Board, (the "regulatory percentage") limits the equity portion to a maximum of 50%. The actual capital structure of the Utility reported at December 31, 2007 is a debt to equity ratio of 49.66% to 50.34% and the average monthly debt to equity ratio for 2007 was 46.55% to 53.45%. Since the average exceeded the regulatory limit, the debt to equity ratio defaults to the 50/50 ratio as specified by the Board.

The total debt figure of \$151,650,000 is detailed in Appendix A, Note 4 on page 5 of 14. We have reviewed the calculation of the regulated cost of debt and conclude that the rate of 6.40% is reasonable and computed in accordance with the Board's directives.

The regulated return on equity is reported as \$17,707,000 (2006 - \$14,551,000) and is detailed in Appendix A, Note 9 on page 10 of 14. This represents the return on the average balance of the rate base assets computed using the equity portion of the debt to equity ratio at the Board approved rate of return on equity of 13%. It also includes the equity component for the allowance for funds used during construction (AEFC).

9. Regulatory deferral

This item represents the total increase in the deferral account for the year. It is composed of the following items, which are explained above:

	<u>2007</u>	<u>2006</u>
(Income) loss for the year	\$(1,966,000)	\$4,333,000
Equity return on rate base assets	<u>17,707,000</u>	<u>14,551,000</u>
Total increase in deferral account	<u>\$15,741,000</u>	<u>\$18,884,000</u>

III. BALANCE SHEET FOR REGULATORY PURPOSES

(Appendix A, page 2 of 14)

The following paragraphs provide further commentary and observations on certain information contained in the Balance Sheet for Regulatory purposes.

1. Property, plant and equipment and Development O&M Capitalized Costs:

Property, plant and equipment represents a significant component of rate base with a closing net book value of \$118,027,000 (2006 - \$101,460,000). The details of cost and accumulated amortization of property, plant and equipment, by asset class, is included in Appendix A, Note 1 on Page 3 of 14.

Development O&M Capitalized Costs had a closing net book value of \$59,469,000 (2006 - \$39,240,000).

We reviewed the detailed schedules supporting the continuity of property, plant and equipment, and Development O&M Capitalized Costs and amortization thereof, and found them to be consistent with the accounting records of EGNB. We relied upon the work performed by the external auditors in verifying the amounts recorded as additions to property, plant and equipment, and Development O&M Capitalized Costs including the calculations of capitalized expenses and allowance for funds used during construction (AFUDC).

2. Deferred development costs

Deferred development costs are detailed in Appendix A, Note 2 on page 4 of 14.

Deferred carrying costs of \$2,467,000 are represented by the following items:

- Costs in the amount of \$903,000 incurred prior to the commencement of operations on April 1, 2001. This balance was fully amortized in 2006.
- Offering costs of issuing limited partnership units in 2005 and 2007 in the amount of \$1,319,000 and \$245,000 respectively. These costs are being amortized over a period of five years as approved by the Board.

The remaining deferred development costs include the franchise fee of \$1,500,000 paid to the Province of New Brunswick upon the awarding of the General Franchise to Enbridge Inc. on August 31, 1999. The franchise is for a twenty-year renewable term. The Board approved of the amortization of the franchise over the initial term of the General Franchise Agreement of twenty years. The amortization recorded in the year of \$75,000 is for 12 months on a straight-line basis, consistent with the preceding year.

3. Regulatory deferral

The Board has approved the use of the deferral account to record the difference between the Utility's actual revenues and its regulated cost of service. The amounts recorded in the deferral account are to be deferred until the end of the "Development Period" at which time they will be amortized to income. The Board has not specified the recovery period other than that it will end no sooner than December 31, 2040.

The continuity of the deferral account reported for the year ended December 31, 2007, is as follows:

Balance as reported at December 31, 2006	\$102,168,000
Income for the year	(1,966,000)
Regulatory return on equity	<u>17,707,000</u>
Balance calculated at December 31, 2007	<u>\$117,909,000</u>

4. Short-term investments

A Firm Services Agreement ("FSA") was entered into with Maritimes & Northeast Pipelines (M&NP) in connection with the construction of two lateral pipelines and seven substations. A condition of the FSA is that EGNB provide a deposit of approximately \$3,000,000 which is equivalent to approximately 12 months reservation charges on the M&NP pipeline. The deposit is required to comply with the M&NP credit requirements. At December 31, 2007, the deposit amounted to \$3,088,000 (2006 - \$2,965,000).

As the deposit is required to carry out regulatory business, it represents an acceptable asset to be included in rate base. Interest earned on this deposit in the amount of \$129,000 (2006 - \$124,000) was included in regulatory income.

IV. OTHER ITEMS

1. Detail of related party transactions

A summary of affiliate transactions is provided in Appendix A, Note 12, on page 13 of 14, by departmental expense category. We have agreed this schedule with corporate records and we are satisfied that the details presented are complete and accurate. Note 12 provides a comparison of "total affiliate consulting and services" charges to "total consulting services". For 2007, EGNB utilized affiliates for 38% of these services (2006 - 46%).

Commencing in 2003, services from the parent company, Enbridge Inc. were charged on a cost

allocation method which resulted in charges being made on a cost basis rather than on a "cost-plus" basis. In addition, management of EGNB was able to choose from a range of services which it felt were specific to its needs. A related change arising from the cost allocation approach is that the management fee, formerly charged to EGNB by its parent company, was discontinued. This had no impact on the regulatory results as the fee was disallowed by Board order for regulatory purposes. The method of determining charges in 2007 is consistent with the four preceding years.

In addition to services provided by Enbridge Inc., EGNB is a party to "Services Schedules" which cover specific services to be provided to the Utility by affiliate companies. These services include legal and corporate assistance, information technology, payroll and benefit services, operations and engineering assistance, fleet and equipment services and purchasing management. Each service schedule defines the services to be provided and the related pricing and conditions.

Our review of these expenses included an examination of the service agreement and service schedules. Estimated contract billings from service agreements were compared to actual billings for the year. All expenses billed by affiliates appear reasonable and in accordance with service agreements. In addition, based on our review and discussion with management, we are satisfied that the invoices billed by affiliates are subject to the same scrutiny as invoices received from arm's length parties.

In our discussions with management, we were informed that professional services provided by affiliates are often for services that cannot be obtained in New Brunswick, particularly when considering the design, construction and operation of a Greenfield gas distribution system.

Regarding other services, such as legal matters, financial analysis or information technology support, we observed that management is empowered to use local service providers where the service is more economical and noted a number of instances where this occurred.

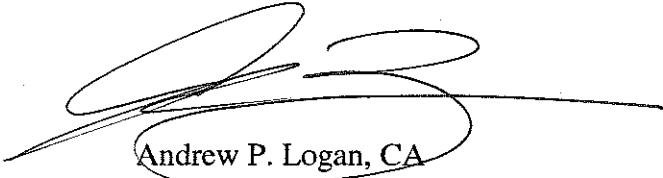
2. Firm Services Agreement

On a confidential basis, we were provided with a schedule of revenues and costs incurred in connection with the Firm Services Agreement with M&NP described in section III. 4 Short-term investments. We compared the schedule with the Utility's corporate accounting records and found it to be accurate and prepared in accordance with the Board's directions.

The net result of the transaction for 2007 is included in the regulatory statement of income for the year.

We would like to extend our thanks to Jamie LeBlanc and Lori Stickles and the accounting staff of Enbridge Gas New Brunswick for their co-operation during our review.

Respectfully submitted,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Andrew P. Logan, CA
Partner

Enbridge Gas New Brunswick
Balance Sheet for Regulatory Purposes
As at December 31, 2007

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

(in thousands of dollars)

Assets	2007	2006
Regulated Assets		
Property, Plant and Equipment (Note 1)		
Gas Distributor Plant in Service - Net (includes AFUDC capitalized during 2007 of \$70.14)	\$ 118,027	\$ 101,460
Construction Work In Progress - Gas Distributor Plant	4,326	432
Total Property, Plant & Equipment	122,353	101,892
Deferred Charges		
Deferred Development Costs - Net (Note 2)	1,763	1,873
Development O&M Capitalized Costs - Net (Note 3)	59,469	39,240
Regulatory Deferral	117,909	102,168
Total Deferred Charges	179,141	143,281
Short Term Investments	3,088	2,965
Total Regulated Assets	304,582	248,138
Non-Regulated Assets		
	24,028	16,815
Total Assets	\$ 328,610	\$ 264,953
Liabilities and Partner's Equity		
Partner's Equity	\$ 153,743	\$ 123,245
Long-term Advances from Associates and Affiliates (Note 4)	151,650	122,650
Non-Regulated Liabilities	23,217	19,058
Total Liabilities and Equity	\$ 328,610	\$ 264,953

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, 2007

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

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
Revenue		
Operating Revenue (Note 5)		
Gas distribution	\$ 18,416	\$ 12,308
Miscellaneous	278	238
Income from Investments	235	120
Allowance for Funds Used During Construction	<u>70</u>	<u>104</u>
	18,999	12,770
Installation Services		
Revenue	18,286	8,870
Cost of goods sold	<u>(15,000)</u>	<u>(7,516)</u>
	<u>3,286</u>	<u>1,354</u>
Total Revenue	<u>22,285</u>	<u>14,124</u>
Expenses		
Operating Expenses		
Operating and maintenance expenses (Note 6)	4,267	4,432
Deemed capital taxes (Note 7)	595	384
Bad debt expense	242	162
Amortization of Property, Plant and Equipment	3,622	3,422
Municipal and Other Taxes	816	699
Interest on Amounts Due to Associates & Affiliates and Other Interest (Note 8)	9,219	7,413
Amortization of Deferred Development Costs	<u>1,558</u>	<u>1,945</u>
Total Expenses	<u>20,319</u>	<u>18,457</u>
Income (Loss) before Extraordinary Items, Regulatory Deferral and Return on Rate Base	1,966	(4,333)
Regulatory Deferral	<u>15,741</u>	<u>18,884</u>
Regulated Return on Equity (Note 9)	<u>\$ 17,707</u>	<u>\$ 14,551</u>

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



(in thousands of dollars)

Note 1 **Property, Plant & Equipment**

Property, plant & equipment

	2007		2006		
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Rates of Amortization
General plant					
Computer hardware & software	\$ 2,702	\$ (1,613)	\$ 1,089	\$ 605	28.80%
Tools and work equipment	567	(119)	448	387	5.30%
Office furniture and equipment	440	(80)	360	269	4.40%
Transportation	22	(12)	10	13	11.80%
Communications	6	(6)	-	1	28.80%
Leasehold improvements	316	(42)	274	208	1
Subtotal	4,053	(1,872)	2,181	1,483	
Distribution plant					
Land	375	-	375	362	-
Rights of way and easements	121	-	121	109	-
Distribution mains	74,526	(7,392)	67,134	59,097	2.43%
Street services	31,395	(3,139)	28,256	23,214	3.83%
Meters and regulators	11,839	(1,361)	10,478	9,505	3.83%
Stations	10,452	(970)	9,482	7,689	4.40%
Subtotal	128,708	(12,862)	115,846	99,976	
Total plant in service	132,761	(14,734)	118,027	101,460	
Construction work in progress	4,326	-	4,326	432	-
Total property, plant & equipment	\$ 137,087	\$ (14,734)	\$ 122,353	\$ 101,892	

1 - Amortized over the term of the related leases.



(in thousands of dollars)

Note 2 Deferred Development Costs - Net

	Cost	2007		2006		Rates of Amortization
		Accumulated Amortization	Net Book Value	Net Book Value	Value	
Franchise fee	\$ 1,500	\$ (625)	\$ 875	\$ 950		5.00%
Deferred carrying costs	2,467	(1,579)	888	923		20.00%
Total deferred development costs, net	\$ 3,967	\$ (2,204)	\$ 1,763	\$ 1,873		

Note 3 Development O&M Capitalized Costs - Net

	Cost	2007		2006		Rates of Amortization
		Accumulated Amortization	Net Book Value	Net Book Value	Value	
Development O&M capitalized costs	\$ 62,651	\$ (3,182)	\$ 59,469	\$ 39,240		2.43%
Total development O&M capitalized costs, net	\$ 62,651	\$ (3,182)	\$ 59,469	\$ 39,240		



(in thousands of dollars)

Note 4 Long-term Advances from Associates and Affiliates

	Issue Date	Maturity Date	2007			2006					
			Amount	Cost of Debt		Amount	Cost of Debt				
				Enbridge Inc.	EGNB		Regulated	Enbridge Inc.	EGNB	Regulated	
Promissory note	6-Feb-01	7-Feb-11	6,150	6.33%	7.95%	6,150	6.33%	7.95%	6,150	6.33%	7.95%
Promissory note	28-Jun-02	30-Jun-12	6,000	6.08%	7.89%	6,000	6.08%	7.89%	6,000	6.08%	7.89%
Promissory note	23-Dec-02	24-Dec-12	7,500	6.50%	7.41%	7,500	6.50%	7.41%	7,500	6.50%	7.41%
Promissory note	26-Jun-03	27-Jun-13	13,000	5.62%	6.86%	13,000	5.62%	6.86%	13,000	5.62%	6.86%
Promissory note	30-Dec-03	30-Dec-13	14,000	5.34%	7.14%	14,000	5.34%	7.14%	14,000	5.34%	7.14%
Promissory note	1-Mar-04	24-Mar-14	14,000	5.33%	6.69%	14,000	5.33%	6.69%	14,000	5.33%	6.69%
Promissory note	1-Dec-04	28-Nov-14	21,000	5.69%	6.95%	21,000	5.69%	6.95%	21,000	5.69%	6.95%
Promissory Note	30-Mar-05	30-Mar-15	6,000	5.04%	6.93%	6,000	5.04%	6.93%	6,000	5.04%	6.93%
Promissory Note	28-Dec-05	28-Dec-15	14,000	4.59%	6.53%	14,000	4.59%	6.53%	14,000	4.59%	6.53%
Promissory Note	19-Dec-06	19-Dec-16	21,000	4.82%	6.52%	21,000	4.82%	6.52%	21,000	4.82%	6.52%
Promissory Note	20-Dec-07	20-Dec-17	29,000	5.54%	5.85%	29,000	5.54%	5.85%	29,000	5.54%	5.85%
Total long-term advances from associates and affiliates			\$ 151,650	5.40%	6.94%	\$ 122,650	5.51%	7.03%	\$ 122,650	5.51%	7.03%

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



(in thousands of dollars)

Note 5 **Operating Revenue**

a. **Gas Distribution**

	2007		2006	
	Revenue	Customers	Revenue	Customers
		Throughput		Throughput
		TJs		TJs
Small general service (SGS)	\$ 4,519	6877	\$ 2,553	4584
General service (GS)	4,986	1039	3,423	799
Contract general service (CGS)	5,572	227	3,866	207
Contract large general service (CLGS-LFO)	2,815	20	1,971	18
Contract large general service (CLGS-HFO)	401	7	344	7
Contract large volume off peak (CLVOPS)	88	1	113	1
Off peak service	35	17	38	21
Total	\$ 18,416	8,188	\$ 12,308	5,637
		4,471		3,575

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



(in thousands of dollars)

Note 5 Operating Revenue (continued)

b. Miscellaneous

	<u>2007</u>	<u>2006</u>
Agent billing and collection	\$ 84	\$ 60
Other miscellaneous revenue	194	178
Total miscellaneous	<u>\$ 278</u>	<u>\$ 238</u>

Details of Agent Billing and Collection Revenues

(in dollars)

	<u>2007</u>	<u>2006</u>
Agent billing and collection		
Small general service (SGS)	\$ 62,396	\$ 40,229
General service (GS)	12,961	9,176
Contract general service (CGS)	7,025	8,689
Agent billing		
Contract large general service (CLGS-LFO)	613	516
Contract large general service (CLGS-HFO)	292	292
Contract large volume service (CLVOPS)	60	60
Off peak service (OPS)	1,150	1,020
Total agent billing and collection revenue	<u>\$ 84,497</u>	<u>\$ 59,982</u>



(in thousands of dollars)

Note 6 **Operating and Maintenance Expenses**

	<u>2007</u>	<u>2006</u>
Corporate management	\$ 1,500	\$ 1,315
Corporate administration	794	692
Financial reporting	476	433
Information technology	1,097	905
Regulatory & upstream	608	779
Sales & marketing	15,649	9,633
Distribution & maintenance	5,597	4,008
Customer care	908	711
Human resources	1,755	1,531
Gas transportation and related activities	1,930	2,385
Total	<u>30,314</u>	<u>22,392</u>
Capitalized to:		
Property, plant & equipment	4,602	5,549
Development O&M capitalized costs	21,445	12,411
Total capitalized	<u>26,047</u>	<u>17,960</u>
Total	<u>\$ 4,267</u>	<u>\$ 4,432</u>



(in thousands of dollars)

Note 7 **Deemed Capital Taxes**

Calculation of deemed taxable capital

	2007		2006	
	Federal	Provincial	Federal	Provincial
Partnership capital for regulatory purposes	\$ 146,281	\$ 146,281	\$ 119,585	\$ 119,585
Retained earnings for regulatory purposes	7,462	7,462	3,660	3,660
Sub-total	<u>153,743</u>	<u>153,743</u>	<u>123,245</u>	<u>123,245</u>
Restricted term deposit intercompany receivable	(3,088)	(3,088)	(2,965)	(2,965)
Long-term debt	151,650	151,650	122,650	122,650
Sub-total	<u>148,562</u>	<u>148,562</u>	<u>119,685</u>	<u>119,685</u>
Capital deduction	(50,000)	(5,000)	(50,000)	(5,000)
Total taxable capital	252,305	297,305	192,930	237,930
Taxes				
Federal	-	0.000%	-	0.000%
Provincial	595	0.200%	594	0.250%
Deemed capital taxes	<u>\$ 595</u>		<u>\$ 594</u>	
Less Adjustment - 2004 Deemed capital tax			(26.0)	¹
Less Adjustment - 2005 Deemed capital tax			(184.0)	²
Total deemed capital taxes	<u>\$ 595</u>		<u>\$ 384</u>	

Notes:

¹ 2004 - Federal Capital Tax rate used in 2004 was 0.225%, actual rate should have been 0.200%, due to accelerated phase out of Federal Capital Tax

² 2005 - Federal Capital Tax rate used in 2005 was 0.225%, actual rate should have been 0.175%, due to accelerated phase out of Federal Capital Tax
Amount included in Intercompany Debt to be removed prior to calculating Deemed Capital Taxes



(in thousands of dollars)

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

	<u>2007</u>	<u>2006</u>
Interest on long-term debt	\$ 8,695	\$ 7,207
Other interest expense	501	172
AIDC - allowance for funds used during construction (debt component)	23	34
Total interest on amounts due to associates & affiliates and other interest	<u>\$ 9,219</u>	<u>\$ 7,413</u>

Note 9 **Regulated Return on Equity**

	<u>2007</u>	<u>2006</u>
Regulated return on equity	\$ 17,660	\$ 14,481
AEDC - allowance for funds used during construction (equity component)	47	70
Total regulated return on equity	<u>\$ 17,707</u>	<u>\$ 14,551</u>



(In thousands of dollars)

Note 10 **Rate Base for Regulatory Purposes**

Property, plant & equipment

Cost	\$ 132,761	\$ 112,845
Accumulated amortization	(14,734)	(11,385)
Net	<u>118,027</u>	<u>101,460</u>

Deferred charges

Franchise fee, at cost	1,500	1,500
Accumulated amortization	(625)	(550)
Net	<u>875</u>	<u>950</u>

Development O&M capitalized costs

Accumulated amortization	62,651	41,201
Net	<u>(3,182)</u>	<u>(1,961)</u>
	<u>59,469</u>	<u>39,240</u>

Deferred carrying costs, at cost

Accumulated amortization	2,467	2,222
Net	<u>(1,579)</u>	<u>(1,299)</u>
	<u>888</u>	<u>923</u>

Deferral account

	<u>117,909</u>	<u>102,168</u>
--	----------------	----------------

Total deferred charges

	179,141	143,281
--	---------	---------

Term deposit

	3,088	2,965
--	-------	-------

Working capital allowance

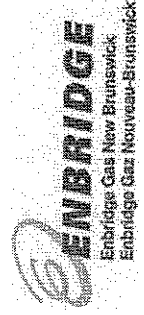
	<u>2,929</u>	<u>2,202</u>
--	--------------	--------------

Total rate base

	<u>\$ 303,185</u>	<u>\$ 249,908</u>
--	-------------------	-------------------

Average rate base

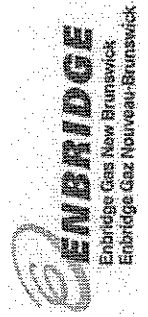
	<u>\$ 271,697</u>	<u>\$ 222,784</u>
--	-------------------	-------------------



(In thousands of dollars)

Note 11 **Capital Structure for Regulatory Purposes**

	<u>2007</u>	<u>2006</u>
Capital structure		
Long-term debt	\$ 151,650	\$ 122,650
Equity	153,743	123,245
Total	<u>\$ 305,393</u>	<u>\$ 245,895</u>
Capital structure percentage		
Long-term debt	49.66%	49.88%
Equity	50.34%	50.12%
Total	<u>100.00%</u>	<u>100.00%</u>
Capital structure average percentage for regulatory purposes		
Long-term debt	50.00%	50.00%
Equity	50.00%	50.00%
Total	<u>100.00%</u>	<u>100.00%</u>
Weighted cost of capital for regulatory purposes		
Long-term debt	3.20%	3.24%
Equity	6.50%	6.50%
Total	<u>9.70%</u>	<u>9.74%</u>



(in thousands of dollars)

Note 12 **Details of Affiliate Transactions**

	Enbridge Operational Services	Enbridge Business Services Inc.	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, 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	-	-	-	-	-	-	-	-
Information technology	-	-	63	168	223	454	518	88%
Corporate services	-	68	522	-	-	590	590	100%
Total	\$ 191	\$ 68	\$ 1,334	\$ 168	\$ 1,121	\$ 2,882	\$ 7,609	38%

2006

Corporate management	\$ -	\$ -	\$ 66	\$ -	\$ 51	\$ 117	\$ 509	23%
Sales & marketing	-	-	-	-	0	-	787	0%
Human resources	-	-	22	-	82	104	168	62%
Distribution & maintenance	-	-	-	-	652	652	1,319	49%
Budget & regulatory	300	-	-	-	37	337	989	34%
Financial reporting	-	-	90	-	25	115	184	62%
Customer care	-	-	-	-	0	-	307	0%
Corporate administration	-	-	551	-	8	559	559	100%
Gas transportation & related	-	-	-	-	-	-	125	0%
Information technology	-	-	112	95	215	422	467	90%
Corporate services	-	54	357	-	-	411	441	93%
Total	\$ 300	\$ 54	\$ 1,198	\$ 95	\$ 1,071	\$ 2,718	\$ 5,855	46%



(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 through regulation or stipulated in approved rate making 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 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 cost of service.

The EUB permits an "allowance for funds used during construction" (AFUDC) to be included in 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, generally accepted accounting principles (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 would not be 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 deferral 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.