

REPORT TO

THE NEW BRUNSWICK

ENERGY AND UTILITIES BOARD

ON

THE PURCHASE AND SALE OF NATURAL GAS

BY

ENBRIDGE GAS NEW BRUNSWICK

DURING 2009

APRIL, 2010

JOHN BUTLER P. Eng.
J.C. BUTLER MANAGEMENT LTD.
OAKVILLE, ONTARIO

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INTRODUCTION

By Letter of Engagement The New Brunswick Energy and Utilities Board (the Board) retained Mr. John Butler P. Eng. of J.C. Butler Management Ltd. to review and report on the activities of Enbridge Gas New Brunswick Limited Partnership (EGNBLP or EGNB) in the purchase and sale of natural gas in New Brunswick during 2009. The Letter of Engagement is attached as Appendix "A".

EGNBLP holds the franchise for distribution of natural gas in New Brunswick and as distributor in the Province is authorized to purchase and sell gas by the Gas Distributor Marketing Regulation (GDMR). EGNBLP has elected to conduct its purchase and sales activity under the name Enbridge Utility Gas (EUG) and has established separate accounts for all costs related to these activities. As these separate accounts are embedded within the EGNBLP accounting system EUG is essentially a department of EGNBLP.

Instructions from the Board with respect to this review are included in the Letter of Engagement. The following is an outline of the work involved:

"A. Scope of Work

The consultant is only required to review such EGNB information as is necessary to determine whether or not the following occurred in 2009:

1. EGNB, in relation to its standard offer, posted the following on its Internet site:
 - (i) the price that EGNB charged customers for gas in each of the preceding twelve months;
 - (ii) the price that EGNB was charging customers for gas for the current month; and
 - (iii) the price that EGNB was forecasting to charge customers for gas for the following twelve month period:

EGNB Purchase and Sale of Gas (2009)

2. The term for EGNB standard offer was for one year with customers who join part way through the year being required to sign up for the balance of that year.
3. EGNB calculated its price of gas for the Standard Offer for the following twelve month period using:
 - a) EGNB forecast average cost of purchasing and selling gas to customers over the following twelve months, and
 - b) The difference between the actual and forecast cost of purchasing and selling gas for the most recent month in which that difference could be determined.
4. The revenues from gas sales under all alternative offers were equal to or greater than the cost to EGNB of purchasing and selling the gas acquired for such offers.
5. Any profit that resulted from the alternative offers did not flow to the Standard Offer customers.
6. EGNB did not cross-subsidize between the sale of gas and the distribution of gas.
7. EGNB purchased gas for sale to customers in accordance with the updated Gas Purchase Plan that has been filed with the Board.
8. EGNB has implemented the Firewall Policy as ordered in Board Decision dated November 13, 2009.

The Board recognized that in prior years Teed Saunders Doyle (TSD), through its financial review of EGNBLP, has been able to provide assistance with item 6 and since no financial review of EGNBLP will be required for 2009 it authorized engaging Mr. J. Aucoin of TSD for the following work:

EGNB Purchase and Sale of Gas (2009)

1. High level review/analysis of EGNBLP audited and EGNB regulatory financial statements to the extent necessary to provide comments on the allocation of gas and distribution costs.
2. Prepare summaries of expenses and charges to EUG related to any areas where cross subsidy is likely and conduct such analysis as is required to quantify the cross subsidy.”

Mr. Butler has conducted annual reviews of EGNB purchase and sale of gas activities since 2004 and, except for items A7 and A8, most of the above items were included each year. Items A7 and A8 were added for the 2008 Review and are again included to provide for follow-up on orders given by the Board in its Decision dated November 13, 2009.

All comments, opinions and recommendations in this Report are based on my review of EGNBLP purchase and sale of natural gas activities in New Brunswick and my assessment of the data and information obtained from EGNB personnel and from discussions with Mr. J. Aucoin C.A. of Teed, Saunders, Doyle & Co. Discussions with Mr. Aucoin covered those aspects of EGNB/EUG activities where the division of responsibilities and/or costs between the regulated activities of EGNB and non-regulated activities of EUG could result a cross-subsidy, or the potential for a cross-subsidy, between the purchase and sale of gas through EUG (EGNBLP non-regulated activity) and the distribution of gas (EGNBLP regulated activities).

THE REVIEW

Background

Although some preliminary work was carried out in Oakville, Ontario, the majority of the review was conducted in Fredericton from March 15th to 19th with the review process being completed and the Report prepared in Oakville.

Throughout this review the Board required that Mr. Dave Young, a member of Board staff, be allowed access to all working papers and to be present throughout the Review process.

EGNBLP forwarded the initial set of financial and operating data relating to the purchase and sale of gas on February 26th. This provided an opportunity to identify areas where clarification was required, where information was incomplete, and to develop an outline of the schedule for completing the review during the week in Fredericton.

During the visit to Fredericton EGNBLP staff was able to answer, or obtain answers, to most of the questions and concerns regarding EGNB/EUG Accounts. They also were able to provide information as to the activities of EGNB staff and how these were integrated with the activities of affiliated companies in the purchase and sale of gas on behalf of EUG. Final answers to questions and concerns were received by April 23rd 2010.

The financial information related to EGNB and EUG that was obtained from both EGNB employees and Mr. Aucoin showed that Gas Sales and Costs had decreased from \$16.036 million in 2008 to \$14.168 million in 2009. Also that the PGVA had decreased from \$1.800 million as of December 31, 2008 to \$67,000 as of December 31, 2009.

EGNB Purchase and Sale of Gas (2009)

An overview of my review and the results for each item of the Scope of Work appear below:

Item A1 – Postings on the EGNB Internet Site

The Scope of Work required a determination as to whether or not EGNB posted the following information on its internet site with respect to its standard offer:

- (i) the price that EGNB charged customers for gas in each of the preceding twelve months;
- (ii) the price that EGNB was charging customers for gas for the current month; and
- (iii) the price that EGNB was forecasting to charge customers for gas for the following twelve month period:

The EGNBLP website includes links from the home page to Commodity Charge and to Commodity Rate History which consists of a table titled “Enbridge Utility Gas: Commodity Rate History”. This table shows the rate that EGNBLP has charged its EUG customers for natural gas each month from May 2003 to the current month. EGNBLP confirmed that this table is updated at the start of each month with the new rate.

I am satisfied therefore that the information referred to in (i) and (ii) above was posted on the EGNBLP website throughout 2009.

The “Enbridge Utility Gas: Commodity Rate History” table also includes the statement that:

“The Enbridge Utility Gas rate for the current month may change monthly, however it is also the forecast for the following 12 months based on conditions at this time.”

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In addition, each rate schedule includes the Enbridge Utility Gas Current Rate and beneath that is the following;

“Note: The rate for the current month may change monthly, however it is also the forecast for the following 12 months based on conditions at this time.”

I am therefore satisfied that the information referred to in (iii) above was posted on the EGNBLP website throughout 2009.

Item A2 – Term of EGNBLP Standard Offer

This item required a determination as to whether or not the term for EGNBLP Standard Offer was for one year with customers who join part way through the year being required to sign up for the balance of that year.

The term for Standard Offer customers can be found in the Terms and Conditions that are posted on the EGNB website. The relevant portion is reproduced below.

“3. Term and Renewal

3.1 The initial term of your EUG Contract will commence on the initial date gas is provided by EGNB hereunder and terminate on the first March 31st following its commencement and any renewal term shall extend from April 1 to the following March 31st. EGNB shall advise you of all available gas supplier options no more than 90 days and no less than 60 days before the expiration of the initial term or any renewal term.

3.2 Unless you notify EGNB, in writing, at least 30 days before the initial term or any renewal term of your EUG Contract expires that you do not wish to renew, it will, at EGNB’s option, automatically renew for a further one year period on the same terms.

3.3 Your EUG Contract shall also terminate on the earliest of: (a) the date on which it is terminated in accordance with its provisions; (b) the date gas supply and/or delivery is discontinued by EGNB for any of the reasons provided for in the Handbook; and (c) the date fixed by, or determined from, any Order of the Board as the date for its termination or expiration.”

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From the above and from discussions with EGNBLP personnel it is clear that the Standard Offer is for a one-year term commencing on April 1st each year, except that customers who join part way through the year will have an initial term that ends the following March 31st.

I am satisfied therefore that the term and renewal policy for EGNBLP standard offer was for one year with customers who join part way through the year being required to sign up for the balance of that year.

Item A3 – EGNB Calculation of the Standard Offer Price

For this item my review was to determine whether or not the EGNBLP calculations of its Standard Offer prices for the following twelve months included the following:

- a) The forecast average cost of purchasing and selling gas over the following twelve months, and
- b) The most recent monthly actual difference between the incurred and forecast cost of purchasing and selling gas.

The calculation of Standard Offer prices requires that each month EGNBLP forecasts for the following 12 months the monthly demand, the cost of purchased gas to meet that demand, transportation costs, revenue from excess sales and administration costs. These forecasts are then included in the calculations of the average monthly cost of purchasing and selling gas over the following twelve months.

The methodology developed by EGNBLP to forecast the volumes and costs required in the calculation of Standard Offer prices has been in use for several years. It includes forecasting annual demand for small to mid-size customer classes based on expected numbers of active EUG customers each month and the average annual consumption per typical customer. Recent historical data on monthly demand for each class is then used to allocate the annual demand by

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month over the following year. The monthly demand for the large volume classes is forecast using historical demand and forecasts from specific customers. Allocation of the annual volumes for large volume customer classes by month is based on recent demand history and information obtained from individual customers. Excess gas revenues and transportation costs for each month are forecast using contracted supply and the demand forecast. Administration charges are essentially the salaries that EGNBLP will charge to EUG each month.

My review included discussions with EGNBLP personnel to identify any changes that may have been made to the methodology during 2009, followed by spot testing to determine if the methodology had been applied consistently during 2009.

I am satisfied that EGNB had included “the forecast average cost of purchasing and selling gas over the following twelve months” in calculating the Standard Offer prices.

The actual difference between the incurred and forecast cost of purchasing and selling gas is calculated by EGNBLP each month. However, as the data required for this calculation is not available until some time after the end of the month the difference between forecast and actual can not be determined before the calculation needs to be done for the next month’s Standard Offer prices. Therefore, when the difference is calculated it is accrued in the Price of Gas Variation Account (PGVA). It is the balance in the PGVA that is used in the calculation of the Standard Offer prices with forecasts of the PGVA being used for each of the following 11 months. The following table shows that the balance in the PGVA for November 2008 was included in the Standard Offer Price (SOP) calculation for January 2009 with the same delay of two months being repeated throughout 2009.

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| | Nov-08 | Dec-08 | Jan-09 | Feb-09 | Mar-09 | Apr-09 | May-09 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| PGVA Bal. (\$) | 1,527,612 | 1,799,644 | 1,811,266 | 1,290,856 | 1,070,960 | 692,931 | 542,127 |
| SOP Calc. (\$) | 846,706 | 1,460,600 | 1,527,612 | 1,799,644 | 1,811,266 | 1,290,856 | 1,070,960 |
| | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 |
| PGVA Bal. (\$) | 758,317 | 786,326 | 875,840 | 759,138 | 662,634 | 489,282 | 195,114 |
| SOP Calc. (\$) | 692,931 | 542,127 | 758,317 | 786,326 | 875,840 | 759,138 | 662,634 |

The above table shows that EGNBLP included the difference between the costs actually incurred and the forecast cost of purchasing and selling gas in its calculations of the Standard Offer Prices.

I am satisfied, therefore, that throughout 2009 EGNBLP included in its calculation of Standard Offer prices the difference between the actual and forecast cost of purchasing and selling gas for the most recent month in which that difference could be determined.

Item A4 – EGNB Alternative Offers

This topic requires verification that during 2009 the revenues from the sale of gas under all EUG Alternative Offers were equal to or greater than the cost to purchase and sell the gas required for such offers.

Appendix B to this Report is a one page summary of Alternative Offer activity during 2009 including throughput, revenues received and expenses or costs incurred in supplying gas and other services to Alternative Offers customers. This shows that throughput had increased by over 21% from 2008 and that the expenses for transportation; ABC billing and administration had increased accordingly. Excess revenue over expenses of \$860,000 was transferred to the PGVA for Alternative Products.

Since funds were transferred to the PGVA I am satisfied that the revenues from gas sales under all Alternative Offers were equal to or greater than the cost to EGNB of purchasing and selling the gas acquired for such offers.

Item A5 – Disposition of Profit from Alternative Offers

The Board had, in its Decision dated November 13, 2009, prohibited EGNBLP “from depositing excess revenue from the Alternative Offer gas in the PGVA after January 1, 2010.” The purpose of my review for this item was therefore to determine if any profit from the Alternative Offers had flowed to Standard Offer customers during 2009.

As noted in A4 above, EGNBLP has been transferring excess revenues from Alternative Offers to the PGVA for inclusion in the calculation of the Standard Offer price. This practice resulted from EGNBLP interpreting section 4.1 of the GDMR as requiring that the total revenue from all gas sales activities must not exceed cost.

Although the Board decision prohibits EGNBLP from depositing excess revenues in the PGVA after January 1, 2010 it is silent on the treatment in 2009. Therefore, although EGNBLP elected to continue to flow excess revenues from Alternative Offers to the Standard Offer customers throughout 2009 it was not in conflict with the Board Decision.

Item A6 – Cross Subsidy

The purpose of my review for this item was to determine whether or not during 2009 there was any cross-subsidy between the purchase and sale of gas through EUG (EGNBLP non-regulated activity) and the distribution of gas (EGNBLP regulated activities).

To identify cross-subsidy or the potential for cross subsidy required a review of all EUG accounts and also any EGNBLP accounts that might possibly relate to gas purchase and sales activities. Therefore, in addition to the review of all EUG accounts extensive discussions were held with Mr. Aucoin on the results of his

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review of EGNBLP 2009 financial information. Each account listed in the EUG General Ledger and those EGNBLP accounts identified by Mr. Aucoin as possibly being related to gas purchase and sales activities were evaluated.

A total of five accounts were selected for further evaluation. These were: the annual reviews of charges to EUG for salaries and interest on the PGVA balance, also the accounts for legal fees, Energy Operational Services (EOS) fees and Regulatory Compliance.

1. Salaries

The List of EUG Tasks and Responsibilities filed in the last Annual Review was discussed with EGNBLP personnel and it was confirmed no changes had been made to either the tasks or the personnel involved since that list had been prepared. It was also noted that the charges from EGNBLP to EUG for salaries in 2009 had been in accordance with the base salaries of the personnel directly involved in EGNBLP / EUG gas purchase and sales activities.

I am satisfied that the charges to EUG for salaries were in accordance with the agreement and that future charges from EGNBLP to EUG will be adjusted to reflect any changes in the base salaries of those involved.

2. Interest on PGVA Balance

It was confirmed that throughout 2009 EGNBLP charged EUG for interest on the balance in the PGVA.

3. Legal Fees

The review disclosed that \$10,146.60 had been charged to EUG for Legal Fees and that \$9,812.25 of Legal Fees had been booked to the "Gas Supply" account of EGNBLP. EGNBLP were asked to explain these charges.

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When preparing a response EGNBLP discovered that since all of the charges related to one EUG project the total amount should have been charged to EUG. It also noted that as EGNBLP has no requirement for any "Gas Supply" for its distribution activities this account name is no longer appropriate. A name change to "Upstream" has been requested.

EGNBLP also advised that a coding adjustment has been requested which will result in the \$9,812.25 being moved from "Gas Supply" or "Upstream" to EUG. This change will take place immediately and will be reflected in the 2010 EUG accounts.

It was recognized that since these costs were recorded to EGNBLP in February 2009 the calculation of the EUG would have been affected. However, since the amount involved is approximately 0.09% of the total annual gas costs used in the EUG price calculation the impact would be immaterial.

4. EOS Fees

A Service Level Agreement (SLA) between EGNBLP and Enbridge Operational Services (EOS), an affiliated company, provides for pipeline management services for both EGNBLP distribution and EUG. EOS manages the day-to-day operations of the distribution system and also the balancing of the gas supply and sales of all gas marketers on the Maritime and Northeast Pipeline (M&NP). EOS has been providing these services since 2004 with the latest SLA covering three years from January 1, 2008. The latest SLA shows how the annual service fees are calculated with a 3% fee escalation each year. EOS invoices the annual amount to EGNBLP in twelve equal monthly installments.

During the review it was noted that the 2009 charges to EUG were over 25% more than the charges in 2008, well above the 3% escalation provided for in the SLA. It was also noted that the 2009 charges to EUG were 62.9% of the EOS

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annual fees, a significant increase over prior years. EGNBLP explained that a periodic check is made with EOS to assess the division of time and services between distribution and EUG. Therefore, although the SLA anticipated only 25% of the annual EOS fee being charged to EUG the actual charges could vary depending on circumstances. During late 2008 and early 2009 EOS indicated that more time was being spent on EUG activities and less on distribution. This was due to implementation of an online system which automated nomination, allocation and reporting and reduced EOS time on distribution while the increased focus on EUG Alternative Products required more time managing pipeline capacity on M&NP for EUG related activities. The result was a decision to increase the charges to EUG to approximately 60% of the EOS fees with EGNBLP distribution paying the balance.

EGNBLP advised that further monitoring by EOS during 2009 disclosed a return to more normal time requirements for EUG and distribution so that 40% of the EOS fees will be charged to EUG during 2010 with the balance being paid by EGNBLP distribution.

While the above explanations seem reasonable more detailed information would be needed, possibly a report from EOS with timesheets, to permit unqualified acceptance of the changes. It is suggested that the Board might wish to consider the following options:

- 1 Accept the explanation offered by EGNBLP in which case no further action is required.
- 2 Require EGNBLP to obtain justification from EOS for such changes.
- 3 Require EGNBLP to maintain the original 75%/25% split. In which case the charge to EUG should have been \$41,983 and the cross subsidy resulting from the actual charge would be \$63,701.
- 4 Require EGNBLP to use a 60%/40% (distribution/EUG) split for the future. Had that been applied in 2009 the charge to EUG would have been \$67,712 and the cross subsidy \$38,512.

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It is recognized that as this is a cross subsidy issue the decision will probably be a matter of principle rather than materiality. Based on the above explanation, the lack of specific information on time actually spent by EOS and the question of materiality I would recommend that 1 and 2 above be adopted. However, accepting that the Board may wish to avoid any cross subsidy it is recognized that options 3 or 4 above or perhaps some other option may be adopted.

5. Regulatory Compliance

An EGNBLP Account called "Regulatory Compliance" is used to accrue all of the costs incurred in meeting regulatory obligations. In prior years it has been considered reasonable that distribution or the regulated operations bear all of these costs. However, since the Annual Report on Gas Purchase and Sale activities is now included in the public hearing process it appears that by absorbing all of these costs EGNBLP could be cross subsidizing EUG. The amount shown in the EGNBLP Regulatory Compliance Account for 2009 was \$886,700. EGNBLP was asked to explain why none of these costs had been charged to EUG.

The response was that EGNBLP considers that compliance in this situation is the responsibility of the utility and not EUG. It pointed out that if EUG were expected to bear such costs then it would be assumed that all marketers would be subjected to the same level of scrutiny which clearly they are not. If only EUG were to bear regulatory compliance costs it would be at an unfair disadvantage relative to its competitors since its competitors are not required to bear such costs.

In addition, EGNBLP pointed out that since the invoices it receives from the NBEUB do not identify costs associated with the gas purchase and sales it does not have the information required for a calculation of the amount that might be charged to EUG.

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I recommend that the Board accept that EGNBLP distribution should continue to be responsible for the costs associated with Regulatory Compliance.

Item A7 – Gas Purchasing Plan

In its November 13, 2009 Decision the Board directed EGNBLP to file an Updated Gas Purchase Plan (UGPP) prior to the next review. EGNBLP complied with this direction and filed the UGPP just as the review started. However the UGPP is a forward looking plan with no reference to 2009. Therefore, although the gas purchases in 2009 could be reviewed they could not be tested for compliance with the UGPP as filed with the Board.

Since there were no specific instructions from the Board with respect to updating the gas purchase plan EGNBLP had elected to rely on the directions in the GDMR and it had also used the format adopted for the previous Gas Purchase Plan. As a result EGNBLP had included in the UGPP; the principles to be followed by EGNBLP, a plan for procuring supply and the pricing strategies to be employed. These were all very similar to those included in the previous Gas Purchase Plan it was helpful in carrying out a review as to whether or not EGNBLP had complied with the principles, plan and pricing strategies as set out in the UGPP.

Since the GDMR requires that the UGPP is confidential and requires the Board to maintain that confidentiality no details of the UGPP can be provided in this report. However, it can be disclosed that new gas supply contracts signed by EGNBLP in 2009 and existing purchase and sales contracts were reviewed and discussed with EGNBLP personnel. As a result I am satisfied that during 2009 EGNBLP complied with the principles, the purchasing plan and the pricing strategies that are included in the UGPP.

Item A8 – The Firewall Policy

My review with respect to this item was to determine whether or not EGNBLP had implemented the Firewall Policy as ordered in the Board Decision of November 13, 2009. That Decision included the following direction to EGNBLP:

“The Board believes that the spirit and intent of the policy is critical to ensure that customer information is not used improperly. As a result the Board directs EGNBLP to ensure those employees with access to customer information are aware of the firewall policy and its purpose. The Board will no longer require the firewall policy to be posted on the website.”

The EGNBLP website was checked but no posting of the Firewall Policy could be found.

Discussions and correspondence with EGNBLP personnel produced confirmation that action had been taken to comply with the directions from the Board. The following is the exchange of relevant emails with Mr. J. Leblanc, CA, Manager of Finance and Control for EGNBLP.

From: John Butler [mailto:jcbutler01@sympatico.ca]
Sent: Thursday, March 18, 2010 3:21 PM
To: Jamie Leblanc; Paul Hamilton
Cc: 'NBEUB / Young'
Subject: Firewall Policy

Gentlemen,

Further to our discussion please provide me with a summary of the actions taken by EGNBLP to comply with the EUB Decision of November 13, 2009 with respect to the firewall policy. That decision directed EGNBLP to ensure those employees with access to customer information are aware of the firewall policy and its purpose. Please also confirm that the IT system that allows only authorized personnel to access customer information remains in place.

I have already checked the EGNB website and found no reference to the Firewall Policy.

Many thanks,

John

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From: Jamie Leblanc [mailto:Jamie.Leblanc@enbridge.com]
Sent: March 19, 2010 3:28 PM
To: John Butler; Paul Hamilton
Cc: 'NBEUB / Young'
Subject: RE: Firewall Policy

In order to ensure that all employees who have access to customer information or who interact with customers on a regular basis understand the Firewall Policy I circulated a summary of the Firewall Policy to these employees and asked that they confirm their understanding and that they intended to continue to operating with the parameters of the policy. I have received confirmation from all who were present at work this week. There were a couple of individuals who are on medical leave who I am certain will review and confirm when they return to work. We intend to reconfirm this in a similar manner on an annual basis. I have also discussed the with IT and can confirm that the segregation of data remains in place and therefore Paul does not have access to sensitive customer information from as systems point of view. The memo discussed above is contained below.

Best regards,

Jamie LeBlanc, CA

Mr. Leblanc points out in his email that not only was his memo to staff regarding the Firewall Policy sent to all employees who have access to customer information but it was also sent to others who regularly interact with customers. Since a response was or will be obtained from all who received it there can be no question that those employees were aware of the Policy. EGNBLP also confirmed that this Policy will be included in the training of new employees and that reconfirmation from all affected employees will be required on an annual basis. This should ensure that the spirit and intent of the Policy will continue to be observed. The memo to employees that summarized the Firewall Policy and requested a response appears as Appendix C to this report.

The IT department confirmed that there have been no changes to the system that was in place during 2008 and a test by Mr. Hamilton confirmed that he has no access to any customer information other than EUG customers.

Based on the above I am satisfied that EGNBLP took the necessary steps to implement the Firewall Policy as ordered in the Board Decision dated November 13, 2009.

Conclusion

The above provides an overview of the work carried out for each item in the Board's Letter of Engagement with my conclusions on each as to my satisfaction with EGNBLP actions or otherwise. I should also note that throughout the review, Paul Hamilton and all other EGNB staff were fully cooperative and made every effort to be available when required. During the visit to Fredericton all questions and concerns were generally dealt with promptly with any additional explanations, financial information or operating data being provided in a reasonable time.

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Original signed by Mr. J. Butler

Signed by J. C. Butler P. Eng.

In Oakville, Ontario on April 28, 2010

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APPENDIX A

NEW BRUNSWICK ENERGY AND UTILITIES BOARD

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Mr. John Butler

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February 12, 2010

Re: Review of EGNB's Results for 2009

The New Brunswick Energy and Utilities Board ("Board") is conducting a review of the purchase and sale of natural gas by Enbridge Gas New Brunswick ("EGNB") during 2009.

As part of this review, the Board intends to retain your services to conduct a review on the following terms and conditions:

A. Scope of Work

The consultant is only required to review such EGNB information as is necessary to determine whether or not the following occurred in 2009:

1. EGNB, in relation to its standard offer, posted the following on its Internet site:
 - (iv) the price that EGNB charged customers for gas in each of the preceding twelve months;
 - (v) the price that EGNB was charging customers for gas for the current month; and
 - (vi) the price that EGNB was forecasting to charge customers for gas for the following twelve month period:
2. The term for EGNB standard offer was for one year with customers who join part way through the year being required to sign up for the balance of that year.
3. EGNB calculated its price of gas for the Standard Offer for the following twelve month period using:
 - a) EGNB forecast average cost of purchasing and selling gas to customers over the following twelve months, and

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- b) The difference between the actual and forecast cost of purchasing and selling gas for the most recent month in which that difference could be determined.
4. The revenues from gas sales under all alternative offers were equal to or greater than the cost to EGNB of purchasing and selling the gas acquired for such offers.
5. Any profit that resulted from the alternative offers did not flow to the Standard Offer customers.
6. EGNB did not cross-subsidize between the sale of gas and the distribution of gas.
7. EGNB purchased gas for sale to customers in accordance with the updated Gas Purchase Plan that has been filed with the Board.
9. EGNB has implemented the Firewall Policy as ordered in Board Decision dated November 13, 2009.

The Board recognizes that in prior years Teed Saunders Doyle (TSD), through its financial review of EGNBPL, has been able to provide assistance with item 6. However, as a financial review of EGNBLP will not be required for 2009 this assistance will not be available. You are authorized, therefore, to engage the services of Mr. J. Aucoin of TSD for the following work:

3. High level review/analysis of EGNBLP audited and EGNB regulatory financial statements to the extent necessary to provide comments on the allocation of gas and distribution costs.
4. Prepare summaries of expenses and charges to EUG related to any areas where cross subsidy is likely and conduct such analysis as is required to quantify the cross subsidy.

B. Provision of a Report

Following completion of this review, a written report will be provided to the Board on or before April 30, 2010. This report will describe the work that has been completed and the conclusions that have been reached. Any failure by EGNB to comply with any of the above requirements, this must be clearly identified and where possible recommendations offered as to the action that should be taken.

This report will be a public document and will be available on the Board's website. No other documents or reports will be generated unless specifically requested.

C. Attendance at Hearings

You may be required to testify at a public hearing and will be expected to answer any questions related to your report and the work that was completed.

D. Point of Contact

EGNB Purchase and Sale of Gas (2009)

During the term of this retainer, you are specifically directed to deal with Board Staff who will answer any questions or inquiries that you may have. Your primary contact will be Mr. Dave Young who can be reached at (506) 658-2504. Mr. Young must be allowed access to all working papers and to accompany you while completing the above Scope of Work.

E. Working Papers

Your working papers must be retained for at least 18 months.

F. Other Engagements

It is understood that you will not take any other engagement that would give rise to a conflict of interest.

G. Costs

It is understood that this work involved with this retainer will be paid at the negotiated rate. Reasonable costs and travel disbursements will be paid by the Board.

It is understood that your arrangements with TSD will make Mr. Aucoin available to you at an hourly rate plus expenses. The estimated cost is currently \$7,800 for fees and \$1,200 for expenses and these will be passed through to the Board without markup.

Significant additional costs require prior approval of the Board.

Kindly indicate your acceptance of these terms by providing your consent below. Should you have any further questions, please do not hesitate to contact me at (506) 658-2504.

Yours Truly,

Original Signed by Mr. R Gorman

Raymond Gorman, Q.C.
Chairman

I, John Butler, understand and agree to the terms of this retainer.

Dated the __12__ day of February, 2010.

Original Signed by Mr. J Butler

John Butler P. Eng.

EGNB Purchase and Sale of Gas (2009)

APPENDIX B

| Enbridge Gas New Brunswick | | | |
|--|----------------------|----------------------------|--------------------|
| Financial Report for Regulatory Purposes | | | |
| For the year ended December 31, 2009 | | | |
| (in thousands of dollars) | EUG Alternate Offers | | |
| Revenue | | | |
| Gas Sales | Revenue YTD | Customers YTD | Throughput TJs YTD |
| Small general service (SGS) | 1,300 | 1,292 | 96.1 |
| General service (GS) | 433 | 120 | 33.8 |
| Contract general service (CGS) | 401 | 56 | 62.8 |
| Contract large GS (CLGS-LFO) | 836 | 10 | 614.9 |
| Contract large GS (CLGS-HFO) | 2,702 | 2 | 350.1 |
| Contract large vol. off peak (CLVOPS) | - | - | - |
| Off peak service | - | - | - |
| Total | 5,673 | 1,480 | 1,157.7 |
| Expenses | | | |
| Commodity | 4,261 | | |
| Transportation | 513 | | |
| ABC Billing | 15 | | |
| Administration | 24 | | |
| Total | 4,813 | | |
| Price of Gas Variance Account (PGVA) | 860 | | |
| Monthly 2009 EUG alternate offer price (\$/GJ): | Off-Peak | Commercial Variable | Fixed Price |
| January | 8.53 | 9.68 | 12.50 |
| February | 6.66 | 7.82 | 12.50 |
| March | 6.40 | 7.60 | 12.50 |
| April | 5.84 | 7.03 | 12.50 |
| May | 5.17 | 6.30 | 12.50 |
| June | 4.95 | 5.99 | 12.50 |
| July | 5.73 | 6.83 | 12.50 |
| August | 4.73 | 5.75 | 12.50 |
| September | 4.25 | 5.29 | 12.50 |
| October | 5.05 | 6.07 | 12.50 |
| November | 5.68 | 6.71 | 8.60 |
| December | 5.74 | 6.74 | 8.60 |

APPENDIX C

Date: March 15, 2010

To: Employees who regularly interact with customers and/or potential customers

From: Jamie LeBlanc

Re: **EGNB Firewall Policy – Awareness and Compliance**

As directed by the New Brunswick Energy and Utilities Board, EGNB maintains a Firewall Document which addresses the sharing of customer information within EGNB. Management wishes to continue to ensure that all employees, who interact directly with customers and/or potential customers, have a clear awareness and understanding of EGNB's Firewall Document. As part of this effort, this summary was prepared for annual review and sign-off.

Background

The Firewall Document was created in 2003 when EGNB gained approval to offer Enbridge Utility Gas ("EUG"). At that time, natural gas marketers expressed concern that EUG would have an unfair market advantage over them if given access to specific customer information by the utility. As a result, EGNB put the "firewall" in place to ensure no EUG employee had access to the following customer information:

- a) A customer's price category;
- b) The end date of a customer's contract with a gas marketer; and
- c) A customer's monthly price.

In addition, EGNB employees who interact directly with potential natural gas customers or customers who have not chosen a natural gas marketer must **not** show bias towards EUG or one particular marketer over any other. For your reference, a complete copy of the Firewall Document can be found on the company's shared drive at Q:\Regulatory Documents\EGNB Firewall Document. If, after reviewing this memo and/or the Firewall Document, you have any questions please feel free to contact me directly.

Acknowledgement

Please confirm by return email that you have understood this memo and know how to ensure you comply with EGNB's Firewall Document. As part of the body of your return message, please indicate that you have reviewed this memo and intend to comply with the requirements and spirit of EGNB's Firewall Document. **Please respond on or before March 19, 2010.**

I appreciate your assistance in this matter.

Sincerely,

Jamie LeBlanc, CA
Manager, Finance & Control