Enbridge Gas New Brunswick Inc. / Enbridge Gaz Nouveau-Brunswick inc.

November 17, 2010

CONFIDENTIAL

BOARD OF DIRECTORS

Re: Proposed 2011 Annual Budget and Business Plan

		For the Year 2011		Variance		2010 Comparison	
Benchmarks (millions of dollars)	**2011 Budget**	**2010 LRP**	**2010 Budget**	**2010 LRP**	**2010 Budget**	**2010 6+6F**	**Variance to 2011 Budget**
Distribution revenues	$ 54.2	$ 60.0	$ 65.9	$ (5.7)	$ (11.7)	$ 40.0	$ 14.2
Installation Margin	0.9	1.3	2.0	(0.4)	(1.6)	1.0	(0.1)
Customers	11,803	12,195	12,871	(392)	(1,069)	11,045	758
Throughput (TJ's)	5,814	6,205	6,419	(391)	(606)	5,340	474
Operating & maintenance, gross	18.1	18.3	17.4	(0.2)	0.7	17.6	0.5
Incentives	5.2	6.2	9.3	(1.0)	(4.1)	6.2	(1.1)
Operating & maintenance, net	8.2	9.2	3.5	(0.9)	4.7	5.7	2.5
Construction estimate	10.9	8.4	8.0	2.5	2.9	7.1	3.8
Length of new Mains (km)	37	21	21	16	16	24	13
Net Earnings	$ 26.7	$ 27.9	$ 27.6	$ (1.2)	$ (0.9)	$ 25.8	$ 0.9
EI Earnings	19.5	20.6	19.4	(1.1)	0.1	18.9	0.7
Regulatory deferral	6.4	1.2	(10.9)	5.2	17.3	15.1	(8.7)
Cummulative Regulatory deferral	177.0	166.6	144.3	10.4	32.7	170.6	6.4
Rate Base	454.9	440.6	439.6	14.2	15.3	429.7	25.1
Equity Requirements	-	-	-	-	-	-	-
Debt Requirements	(5.2)	9.1	(2.8)	(14.2)	(2.3)	19.9	(25.0)
Total Capital Additions	27.2	25.5	33.1	1.7	(6.0)	28.1	(1.0)
Peak Accumulated Deferral (PAD)	181.7	172.8	157.9	8.9	23.7	177.2	4.5
Peak Year	2012	2015	2010	(3)	2	2011	1
Crossover	2018	2016	2012	2	6	2016	2

Overview

Management has developed its 2011 Budget and Business Plan taking into consideration current market, operating and regulatory conditions. Recent experience in customer capture and the impact of media activities have been factored into customer capture targets. Management has also considered the typical throughput seen from newer customer attachments in establishing throughput growth expectations. Offsetting some of these elements is commodity markets supporting significant increases in distribution rates.

In setting the 2011 budget, EGNB faces some uncertainty on the Regulatory front as a decision is pending from the New Brunswick Energy and Utilities Board ("EUB") regarding the cost of capital and there are indications from the 2010 rate increase decisions that the EUB may consider factors beyond commodity markets in approving future rate increases. The Budget has been prepared assuming that EGNB will receive favourable decisions related to its cost of capital and any rate applications that are brought forward.

Summary of Variances to LRP

Distribution Revenue

2011 Distribution revenues are $5.7 million lower than forecast in the LRP for several reasons. Forecast revenues are $2.0 million lower due to fewer customer attachments in 2010 than forecast. Management also expects a $2.2 million reduction in revenue due to lower usage by large commercial customers and $1.7 million from the use of lower throughput assumptions for new customers. The reduced usage by large customers is largely driven by the loss of confidence that the Saint John sugar refinery, formerly operated by Ener-Sweet Canada Corp, would return to operation. New customer usage profiles have been reduced by anywhere from 2 to 34% depending on the rate class and assumed former fuel as the result of a study of recent customer turn on data. Distribution revenues have also been negatively impacted by $1.6 million due to the reduction in the size of the first block of the Light Fuel Oil ("LFO") rate class.

As a result of improving commodity price forecasts, the revenue shortfalls are expected to be partially offset by $1.9 million from higher rates as compared to the LRP. This is contingent upon New Brunswick Energy and Utilities Board ("EUB") approval of rates based on the August 3, 2010 commodity forecast to be effective April 1, 2011.

Installation & Service Margin

Installation margin expectations have been downgraded based on the reduced customer attachment expectations discussed above and revised margin assumptions. Based on recent experience, the Budget assumes a partial exit of the Commercial Installation business in 2011 and a complete exit in 2012. As a result, installation margin expectations have been reduced by $0.4 million as compared to the 2010 LRP.

Operating and Maintenance ("O&M") Expense

Gross O&M spending for 2011 is forecast to be $0.2 million lower than was expected in the 2010 LRP forecast primarily due to expected reductions in installation business overheads, partially offset by increased regulatory costs.

During the summer of 2010, Management completed a capitalization study to determine the percentage of expenses incurred related to property plant and equipment, market development and supporting the existing customer base. As a result, changes to the capitalization rates assumed in the 2010 LRP were made. The most significant changes included: Incentives, Distribution Operations, and Corporate Administration. The study adjusted the 2011 overall capitalization rate from 59.9% in the LRP to 64.7% in the Budget, resulting in a $0.9 million decrease in net O&M expense from the LRP.

Incentives

Expected incentive spending has been reduced by $1.0 million driven by reduced sales and customer attachment forecasts.

Construction Estimate

The 2011 Budget forecasts construction costs of $10.9 million compared to an LRP of $8.4 million. The Budget includes an estimated $2.7 million strategic expansion project to the Village of Dorchester that was not anticipated in the LRP. This increase is being offset by a reduction in new mains due to fewer forecast customer attachments and a continued focus on attaching existing non-customers on main.

Net Earnings

Budgeted 2011 Net Earnings are forecast to be $26.7 million which is a decrease of $1.2 million as compared to the LRP. The shortfall is driven by the combined effects of being below the optimal 50% debt and 50% equity capital structure and a reduced return on equity from 13% to 12.75%. These are partially offset by increased rate base arising from the growth in the deferral.

Regulatory Deferral and Peak Accumulated Deferral ("PAD")

The 2011 budgeted addition to the Regulatory Deferral is $6.4 million compared to an addition of $1.2 million expected in the LRP. Decreased Distribution Revenue ($5.7 million) and lower installation margin ($0.4 million) are being partially offset by changes to capitalization rates ($0.4 million) and other expenses ($0.5 million).

As a result of the above, the Regulatory Deferral is now projected to end 2011 at $176.9 million and the PAD is projected to occur in the fourth quarter of 2012 at $181.7 million. Crossover is projected to occur in 2018.

Financing Plans

On October 4, 2010, the EGNB Board resolved to cease distributions to unitholders until such time as EGNB's debt to equity ratio returns to the EUB approved levels and cash from operations is sufficient to fund distributions. This change will allow EGNB to largely self fund through the retention of retained earnings for 2011, contingent on EGNB being successful in achieving forecast rate increases. EGNB is scheduled to repay a long-term note payable to Enbridge Inc. of $6.2 million in February 2011 and is forecasted to obtain new debt financing of $1.0 million later in the year.

Plan Delivery – Requirements and Risks

The successful delivery of the 2011 Budget requires the timely execution of a number of strategies by Management. It will be necessary for Management to effectively address any negative consequences that may arise to mitigate the impact on overall 2011 performance to the extent possible.

Regulatory Approvals

The 2011 Budget assumes the approval of rate increases based on the August 3, 2010 commodity forecast and to be effective April 1, 2011, with the exception of the LFO rate class, which is assumed to be effective July 1, 2011. Commodity market conditions could have a material impact on distribution revenue achieved in 2011 if a narrowing of the spread between oil and natural gas commodity prices were to occur. This could force EGNB to implement rate riders to maintain its value proposition of savings with rate payers.

A hearing to review EGNB's 2009 financial results as well as its 2011 Budget is scheduled for February 2011. Historically, the EUB has engaged a consultant to review EGNB's financial results annually after which a hearing has been held to address any issues highlighted by this review and/or Intervenors. For 2009, EGNB's regulatory financial results will be reviewed through the hearing process alone. Management does not expect there to be any material implications of this change as Management remains confident that its actions will be seen as prudent and therefore in the best interests of its rate payers.

The EUB is currently considering both EGNB's cost of capital parameters and its first cost of service study. The 2011 Budget assumes that EUB will approve the cost of capital parameters as proposed by EGNB. Any deviation from this will impact 2011 results as compared to the Budget. Management does not expect any immediate implications from the cost of service study decision.

The 2011 Budget assumes that the historic recovery of costs allocated by Enbridge Inc., which reflects approximately 50% of the costs allocated, will continue. Management has proposed to the EUB that 100% of these costs be recoverable. Amounts recorded to the Regulatory Deferral will increase if this proposal is accepted by the EUB.

Commodity Spreads

As mentioned above, EGNB continues to deliver a value proposition of savings to rate payers. If the spread between oil and natural gas pricing narrows from what has been assumed based on the August 3, 2010 commodity forecast EGNB may be forced to implement rate riders. This would impact Distribution Revenue and additions to the Regulatory Deferral account.

Sales Results

Sales signings targets set for 2011 are reflective of Management's experience in 2010, the most current view of the market, and a historical review of yearly attachments. Historically, EGNB has averaged 964 attachments per year. In 2010, EGNB expects to attach 844 new customers. Based on this history, and a detailed look at each rate class, EGNB Management has established an attachment target of 881 new customers for 2011. Sales success for 2011 will depend on the Leisure and Lifestyle Services program being delivered to the marketplace through the channel manager position, focus on equipment solutions for the customer in sales calls, engagement of third party heating, ventilation and air conditioning contractors to advance the commercial markets, implementation of a rental program and an increased focus on branding and public relations. EGNB is also currently undertaking a comprehensive restructuring of its Marketing and Sales departments to better align with an evolving market approach.

Sensitivity Scenarios

To help understand some of the risks above the following scenarios were developed

Scenario	PAD (millions)	Peak Year	Crossover Year
Base Case	$181.7	2012	2018
Upside Commodity Rate	$162.2	2010	2011
Downside Commodity Rate	$663.3	2040	NA
25% reduced attachments - next 5 years	$183.6	2012	2020
Regulatory Downside	$177.6	2011	2013
Include 100% of Corporate Allocations	$184.8	2012	2018

Upside commodity rate – Distribution Rates updated to reflect optimistic commodity pricing provided by Enbridge Inc. Risk Assessment Group based on historic volatility in the one year forward curve that provides an optimistic impact on rates.

Downside commodity rate – Distribution Rates updated to reflect commodity pricing provided by Enbridge Inc. Risk Assessment Group based on historic volatility in the one year forward curve that provides a pessimistic impact on rates.

25% reduced attachments (next 5 years) – Yearly Customer Attachments from 2011 to 2015 reduced by 25% across all rate classes

Regulatory downside – Adjust cost of capital parameters to 11.75% ROE, EI plus 1% ROD and Debt/Equity ratio of 55%/45%.

Include 100% of Corporate allocations – adjust O&M to include 100% of costs allocated from Enbridge Inc.

Conclusion

Management believes that this 2011 Budget, while not be without risk, is achievable and that it reflects a continuing evolution of its business plans in response to a changing market and business environment.