

**Reference:** Schedule 3, Exhibit A and related documents

**Question:**

Will EGNB commit to someone attend at the hearing of this matter, from Enbridge Inc. who is knowledgeable with respect to Enbridge Inc.'s cost allocation methodology and its costs allocated to EGNB?

**Response:**

Please see the response to AWL Interrogatory No. 8(ii).

**Reference:** Exhibit A Evidence of David B. Charleson and Lori Stickle

**Question:**

Please provide details of what, if any, savings that will be achieved in the 2011 fiscal year as a result of all of Enbridge Inc.'s costs allocated to EGNB being recoverable in rates, as proposed by EGNB?

**Response:**

EGNB will achieve savings in a number areas in 2011 as a result of the Enbridge Inc. costs allocated to EGNB. These include direct labour savings, reduction in third party services, insurance savings, procurement savings, reduced IT infrastructure and reduced financing costs, as well as other less tangible benefits.

A number of the costs allocated by Enbridge Inc. relate to specific activities, that in the absence of them, EGNB would either have to hire additional resources or use consulting services to perform similar functions. These services include audit, tax, risk management and treasury services. While it is difficult to quantify the value of these functions performed by Enbridge Inc., EGNB believes that additional senior finance staff would be required to perform some of these functions and EGNB would need to rely on external consultants for areas of specialization. EGNB would not have the scale within its own organization to attract or support these types of skillsets. EGNB believes that it would conservatively require two to three incremental resources and incur equivalent consulting costs to replace these services.

EGNB is able to benefit from Enbridge Inc.'s size and associated buying power. This is seen through the allocation of insurance costs, as described in the response to Board Interrogatory No. 6, where in the absence of Enbridge Inc., EGNB would have to acquire its own insurance, likely at a higher cost. By being part of Enbridge, EGNB is able to obtain national buying power and the types of discounts that come with that advantage. While this benefit is difficult to quantify, one of EGNB's pipe and fitting suppliers has indicated that EGNB's pricing is 10-15% below what its costs would be if it were to purchase the same supplies at the volumes EGNB requires for itself. EGNB is also able to acquire IT servers at 40 to 50% off the retail price by buying under the Enbridge umbrella and cell phone costs are dramatically lower through Enbridge's buying power. While assessing the full benefit that EGNB's customers receive related to procurement activities is difficult, these examples clearly demonstrate some of the benefits that EGNB receives as part of Enbridge. These three examples alone would equate to approximately \$200,000 a year in savings.

A number of EGNB's information systems requirements are satisfied through Enbridge Inc. These include human resources and payroll, finance and accounting, email and overall infrastructure. By being part of Enbridge, EGNB has access to information systems and services that provide a higher level of sophistication than EGNB could reasonably have in place if it had to develop and maintain similar systems on its own. If EGNB were not part of Enbridge, it would have to install, maintain and support systems to replace the systems provided by Enbridge Inc. While these systems would provide the minimum functionality to meet EGNB's needs,

EGNB would need incremental IT resources to manage these replacement systems. EGNB also expects there would be a loss of efficiency within the organization as the functionality offered by the systems that EGNB would put in place would be quite limited in comparison to the functionality offered by more sophisticated systems that are suited to large organizations. EGNB would also lose some of the governance and controls that the more sophisticated systems offer. While the benefits delivered by these systems and the associated support are difficult to quantify, there would be significant ongoing costs in replacing them.

While financial services, procurement and IT can be seen as very real operational benefits, it is important to recognize there are other less obvious benefits that also deliver tangible savings. As a requirement of the General Franchise Agreement (“GFA”), Enbridge provides a parental guarantee. If EGNB were not part of Enbridge, EGNB would still have to provide some similar form of credit to the Province, likely in the form of a cash deposit or letter of credit. EGNB assumes that such security would likely be no less than the \$10 million letter of credit that was removed as an EGNB requirement in the GFA and would like be significantly more. In June 2009, the cost of maintaining a \$10 million letter of credit by Enbridge Inc. was identified as approximately \$350 thousand a year. The cost to EGNB as a stand-alone enterprise would likely be higher. As EGNB indicated in its evidence, EGNB has seen significant savings in the cost of raising equity by Enbridge’s participation in the business; just another example of the benefits that customers receive.

These benefits do not just arise because of discrete services that are provided by Enbridge Inc., but rather because Enbridge Inc. exists as an entity. That entity requires senior leadership and presence to command a strong position in the market. That market position provides benefits to all of the entities that fall within that umbrella. By Enbridge developing and maintaining a strong brand in the marketplace, its affiliates, including EGNB are able to access benefits that similarly sized stand-alone enterprises would not have access to, include contributing to reduced marketing and communications costs and other factors identified in EGNB’s evidence.

While these are just examples of the nature of the benefits that are received by EGNB and its customers, which can only be achieved by Enbridge Inc. incurring costs that should reasonably be recovered through its operating businesses. It is on this basis that EGNB believes customers benefit from EGNB being part of Enbridge and it is therefore appropriate that the associated costs of being part of Enbridge be recoverable in rates.

**Question:**

1. For those Enbridge Inc. costs which are currently recoverable by EGNB in rates, does Enbridge Inc. allocate costs for each cost classification/type of service, regardless of whether EGNB uses such any of such services?
2. Does Enbridge Inc. charge rates based on its allocation methodology regardless of the level of use of each such service by EGNB?

**Response:**

1. The costs which are currently recoverable by EGNB in rates are allocated based on the allocation factors specified in the Cost Allocation Methodology (Exhibit A, Schedule 3). Costs allocated based on a time estimate are allocated based on the use of the services. Costs allocated on a basis other than time estimates are allocated regardless of the degree to which EGNB uses the services as EGNB benefits either directly or indirectly from Enbridge Inc. incurring these costs.
2. Please see the response to 1. above.

**Question:**

Please advise whether EGNB intends to have an equity call in 2011.

**Response:**

At this time, EGNB does not intend to have an equity call in 2011.

**Question:**

Please advise whether the cost of interest as permitted by the Energy & Utilities Board and included in the rates includes the cost of interest on funds borrowed, if necessary, in order for EGNB to pay distributions to its investors.

**Response:**

Any funds borrowed by EGNB are borrowed for the purpose of funding a shortfall in operating requirements and to fund ratebase (e.g. investments in mains, development O&M, etc.), while also maintaining the allowed debt/equity ratio.

If EGNB did not pay distributions to its investors, these amounts would remain in retained earnings and form part of the equity component of EGNB's capital structure. Once the equity component of the capital structure exceeded 50%, EGNB would need to borrow funds to purchase equity from investors and convert the equity to debt to rebalance the capital structure. As a result, funds borrowed are not driven in any way by the payment of distributions, but rather the need to have necessary investment in the business to support the operation of the business.

**Question:**

Please provide a breakdown of costs forecasted to be allocated by Enbridge Inc. to EGNB in 2011, as provided in Schedule 4 for 2009.

**Response:**

The following table provides the requested information:

<b>Name</b>	<b>2011 Budgeted Costs</b>
Audit Services (Calgary)	20,415
Audit Services (Toronto)	35,465
Business Taxes	2,851
Chief Executive Officer	26,443
Chief Financial Officer	11,766
Chief Information Officer	22,286
Compliance Systems	5,971
Corp Law General Expense	9,840
Corp Secretarial Legal Fees	18,368
Corporate Admin.	32,087
Corporate Aviation	47,823
Corporate Controller	97,820
Corporate HR	52,105
Corporate IT Operations	42,891
Corporate Law	7,563
Depreciation	171,817
Directors Fees and Expenses	66,420
EEP Charge (IT Shared Services)	21,831
Employee Benefits	159,054
Enbridge Gas Distribution	16,814
Enbridge Pipeline Inc. Direct Charge	150,591
Enterprise Architecture	61,388
Enterprise Financial Systems Support	129,724
Financial Risk Management	22,521
HR Business Solutions Services	22,358
HRIS Services	63,560
IAM Systems	18,841
Industry Association Fees	253
Insurance Premiums	268,370
Internal Controls	9,496
Investor Relations	20,186
Knowledge Management	44,975
Labour Relations	5,810
Other Employee Benefits	115,129
Planning & Development	9,218
Public Affairs & Corp. Comm.	182,601
Rent & Leases	68,853
Risk Management	1,596
Stock Based Compensation	435,116
Talent Management & Workforce Planning	33,146
Tax Services (Calgary)	19,738
Tax Services (Toronto)	12,302
Total Compensation	56,488
Treasury	21,120
Vacancy credit <sup>1</sup>	-87,123
<b>Total</b>	<b><u>2,555,885</u></b>

<sup>1</sup> - Reduction based on assumed 2011 vacant positions  
(based on the allocator Enterprise FTE%)

**Question:**

Please provide the details of all measures to be taken by EGNB in 2011 to reduce costs in order to minimize the contribution to the deferral account.

**Response:**

There are no specific measures reflected in the 2011 budget to reduce costs. EGNB believes that it operates its business in a cost effective manner. However, EGNB is always looking for opportunities to reduce costs, without compromising the safety and reliability of its system or its ability to grow its customer base in an economic manner.



**Question:**

1. Please provide all of the details available with respect to the amount of pipe (broken down by size) to be added to the system in 2011, as contemplated in your 2011 budget.
2. For all new main line forecast to be added in 2011, please advise what revenue is forecast in 2011 for service provided on such plan new main lines, broken down by different main lines expected to be installed. Also, provide the expected annualized revenue for such main lines.

**Response:**

1. Please see the response to AWL Interrogatory No. 17.
2. EGNB does not forecast revenue on a project by project basis. An aggregate forecast is completed that identifies expected revenue to be generated by new customer additions on both existing main and the installation of new mains.

**Question:**

Please provide the details of what is comprised of the 2011 Long Term Deferred Post Employment Liabilities account, including the amount forecast for each category of expense within such account.

**Response:**

The following table shows the items included in the 2011 Long Term Deferred Post Employment Liabilities account (in \$000s):

Long Term Registered Defined Benefit Plan	\$	5
Long Term Supplemental Defined Benefit Plan		20
Other Post Employment Benefits Liability		709
Pension Liability		<u>1,625</u>
		<u>\$ 2,359</u>

**Reference:** Schedule 9 to Exhibit A, Page 5

**Question:**

1. Please provide a copy of any studies, internal memos and other documents in which EGNB reviewed and/or established the percentage assumptions for capitalization of each O&M category for 2011, as set out in the above- referenced evidence.
2. If not identified in such documents, please also provide a chart which compares the percentage assumptions used for 2011 to those used in each of 2009 and 2010. Please also explain the reasons for using different percentage assumptions for 2011, where the percentage is different from those used for 2009 and 2010.

**Response:**

1. In July 2010, EGNB undertook to complete a review of its Operating & Maintenance (“O&M”) expenses to determine which O&M costs should be capitalized. The goal of the review was to identify drivers of the costs and to establish reasonable allocators for costs to be capitalized.

Costs were allocated to three categories: capital, customer/industry growth and existing customer base. They were allocated based on the 2010 Budget; however, due to the timing of the study, the new rates were reflected in the 2010 Forecast but not the 2010 Budget. As the 2011 Budget had not yet been determined, EGNB selected the 2010 Budget as the most reasonable base forecast for the capitalization study.

Based on discussions with Management, and through analysis of the drivers of the costs within a particular cost centre, it was determined that the cost centres should be broken down into four steps:

Step 1:

Managers of cost centres considered to be “front line” cost centres completed forms to allocate O&M costs into the three categories identified above. Costs that could easily be identified as belonging to one of the three categories were allocated accordingly, and other costs were allocated based on logical allocators (e.g. employee time). Copies of the completed forms are attached.

These cost centres included:

- Attachments
- Construction & Maintenance
- Customer Care
- Engineering QA
- Incentives
- Installations
- Logistics

- Planning & Technical
- Regulatory
- Service
- Upstream

### Step 2:

Cost centres whose main function is to provide support or service to other departments (IT, Financial Reporting and Corporate Administration) were addressed in the second step. These departments must allocate costs based on the results of the “front line” cost centres.

- IT was allocated to the three categories using the results from all other cost centres, which were then prorated by the number of computers per cost centre. A circular reference is created for departments addressed in steps 3 and 4, which was refined several times until all cost centres achieved a 100% total allocation.
- Financial Reporting was allocated to the three categories based solely on the weighted average of the step 1 results (weighted by 2010 Budget dollars).
- Corporate Administration was allocated among the three categories based on two methods, weighted average of step 1 cost centres by 2010 Budget dollars and weighted average of step 1 cost centres by number of employees, depending on which driver for the costs was determined to be appropriate.

### Step 3:

- Human Resources was allocated using the total salaries in the cost centres in steps 1 and 2 and applying the allocations for the respective cost centres to these salaries. An overall weighted average of the three categories was then taken, resulting in the following allocation for Human Resources:

Department Name	Cost Centre	Total Salary O&M	Capitalization %		Expense %	Total
			% Allocated to Capital	% Allocated to Customer / Industry Growth	% Allocated to Existing Customer Base	
Sales	25330	1,041,342	0.0%	92.9%	7.1%	100.0%
Marketing	25332	482,415	0.0%	77.8%	22.2%	100.0%
Installations	25333	642,711	14.4%	72.5%	13.1%	100.0%
Installations - Other	25336	0	0.0%	0.0%	0.0%	0.0%
Attachments	25338	330,147	21.3%	53.1%	25.6%	100.0%
Logistics	25350	151,704	57.5%	22.5%	20.0%	100.0%
Constr & Main	25351	898,866	44.4%	1.9%	53.8%	100.0%
Planning & Tech	25352	501,716	60.0%	0.2%	39.8%	100.0%
Service	25353	659,808	45.0%	21.2%	33.8%	100.0%
Eng QA	25354	120,462	15.0%	0.0%	85.0%	100.0%
Regulatory	25361	0	0.0%	0.0%	0.0%	0.0%
Customer Care	25362	470,778	0.0%	1.5%	98.5%	100.0%
Upstream	25363	0	0.0%	0.0%	0.0%	0.0%
Incentives	25330/25331	0	0.0%	0.0%	0.0%	0.0%
IT	25312	353,946	39.2%	7.5%	53.3%	100.0%
Fin Rpting	25311	560,416	11.4%	65.2%	23.4%	100.0%
Corp Admin	25313	0	0.0%	0.0%	0.0%	0.0%
Human Resources		6,214,311	23.6%	41.4%	35.0%	100.0%

Step 4:

- Corporate Management was allocated based on the average allocations from the first three steps. As Corporate Management is responsible for the overall organization, EGNB believed this would be the most appropriate method of allocation.

The following table summarizes the outcome of the steps in the allocation process:

Department Name	Cost Centre	Capitalization %			Expense %	
		% Allocated to Capital	% Allocated to Customer / Industry Growth	Total Capitalized	% Allocated to Existing Customer Base	Total
Sales	25330	0.0%	93.1%	93.1%	6.9%	100.0%
Marketing	25332	0.0%	76.4%	76.4%	23.6%	100.0%
Installations	25333	14.0%	72.7%	86.7%	13.3%	100.0%
Installations - Other	25336	14.0%	72.7%	86.7%	13.3%	100.0%
Attachments	25338	21.2%	53.1%	74.3%	25.7%	100.0%
Logistics	25350	58.8%	21.5%	80.3%	19.7%	100.0%
Constr & Main	25351	27.3%	1.2%	28.5%	71.5%	100.0%
Planning & Tech	25352	47.1%	0.2%	47.3%	52.7%	100.0%
Service	25353	50.1%	19.2%	69.3%	30.7%	100.0%
Eng QA	25354	15.0%	0.0%	15.0%	85.0%	100.0%
Regulatory	25361	0.0%	77.5%	77.5%	22.5%	100.0%
Customer Care	25362	0.0%	2.0%	2.0%	98.0%	100.0%
Upstream	25363	0.0%	0.0%	0.0%	100.0%	100.0%
Incentives	25330/25331	0.0%	100.0%	100.0%	0.0%	100.0%
Step 1: average		10.8%	65.2%	75.9%	24.1%	100.0%
IT	25312	25.8%	33.5%	59.3%	40.7%	100.0%
Fin Rpting	25311	11.4%	65.2%	76.6%	23.4%	100.0%
Corp Admin	25313	12.0%	63.6%	75.6%	24.4%	100.0%
Step 2: average		11.5%	63.7%	75.2%	24.8%	100.0%
Human Resources	25320	23.6%	41.4%	65.0%	35.0%	100.0%
Step 3: average		12.5%	61.9%	74.4%	25.6%	100.0%
Corp. Mgmt	25300	13.1%	62.0%	75.0%	25.0%	100.0%
<b>Totals</b>		12.5%	61.9%	74.4%	25.6%	100.0%

Capitalization in 2011 and beyond

Capitalization rates for future years were derived using the new O&M capitalization rates as a starting point, which were then forecast to decline on straight line basis as EGNB approaches cross-over (forecast to be 2016 at the time of the study). The following table provides details on the capitalization rates forecast for 2011-2017.

Department	2011	2012	2013	2014	2015	2016	2017
Attachments	65.49%	56.63%	47.78%	38.92%	30.06%	21.20%	21.20%
Constr & Main	28.26%	28.07%	27.87%	27.68%	27.48%	27.29%	27.29%
Corporate Admin	65.00%	54.40%	43.80%	33.20%	22.60%	12.00%	12.00%
Corporate Management	64.69%	54.36%	44.03%	33.71%	23.38%	13.05%	13.05%
Customer Care	1.66%	1.33%	1.00%	0.66%	0.33%	0.00%	0.00%
Eng QA	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%
Financial Reporting	65.68%	54.82%	43.95%	33.09%	22.22%	11.36%	11.36%
Human Resources	58.14%	51.24%	44.33%	37.42%	30.52%	23.61%	23.61%
Incentives	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	0.00%
Information Technology	53.75%	48.17%	42.59%	37.00%	31.42%	25.84%	25.84%
Installations	74.54%	62.43%	50.32%	38.21%	26.10%	13.98%	13.98%
Installations	74.54%	62.43%	50.32%	38.21%	26.10%	13.98%	13.98%
Logistics	76.67%	73.09%	69.51%	65.93%	62.35%	58.77%	58.77%
Marketing	69.40%	55.52%	41.64%	27.76%	13.88%	0.00%	0.00%
Planning&Tech	47.22%	47.20%	47.17%	47.14%	47.12%	47.09%	47.09%
Regulatory	64.58%	51.67%	38.75%	25.83%	12.92%	0.00%	0.00%
Sales	69.40%	55.52%	41.64%	27.76%	13.88%	0.00%	0.00%
Service & Inspections	66.08%	62.88%	59.68%	56.49%	53.29%	50.09%	50.09%
Upstream	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

EGNB believes the capitalization rates resulting from the study are a fair representation of the current business environment. EGNB expects to revisit the study on a regular basis to verify the current and projected capitalization rates are still applicable, or make changes, if necessary.

2. Please see the response to AWL Interrogatory No. 21 for the percentage assumptions in 2009 and 2010. Any changes to the capitalization rates are the result of the study described in 1. above.

**Reference:** Schedule 8 to Exhibit A, Page 3 – explanation of less operating revenue in 2009 actual compared to budget- lower customer attachments - \$3.9 million

**Question:**

- (a) Please identify (by pipe size) the amount of pipe budgeted to be laid in 2009, as well as the gas distribution revenue budgeted to be increased in 2009 from new customer attachments on such new lines (broken down by pipe size, to the extent possible).
- (b) Please prepare a chart comparing such budgeted pipe and revenue numbers in 2009 to the actual numbers for the same in 2009.
- (c) Please do the same as set out in (a) and (b) above, for budgeted 2010, and compare the same to current forecast numbers for 2010. In doing so, please also, on such same chart, set out the same detail for the amount budgeted for 2011.
- (d) Please provide the rationale as to why EGNB intends to lay the new line it has forecast to lay in 2011.
- (e) Please prepare a chart showing the number of additional customers (by class) forecast to be added in each of 2009 and 2010. Then, on that same chart, identify the actual numbers for the same in 2009 and the current forecast numbers for 2010.
- (f) Please do the same chart as in e above, but reflecting the throughput, rather than the number of customers, by class.

**Response:**

- (a) The following table provides the pipe budgeted to be laid and actually laid in 2009 by pipe size and type:

Pipe Size and Type	Pipe Length (m)		
	2009 Budget	2009 Actual	Variance
NPS 1.25 PE	-	5,118	5,118
NPS 2 PE	42,881	7,011	(35,870)
NPS 4 PE	10,139	19,713	9,574
NPS 4 ST	2,500	4,112	1,612
NPS 6 PE	4,400	266	(4,134)
NPS 6 ST	300	-	(300)
NPS 8 ST	300	-	(300)
Total	60,520	36,220	(24,300)

EGNB does not forecast revenue on a project by project basis. An aggregate forecast is completed that identifies expected revenue to be generated by new customer additions on both existing main and the installation of new mains. The following table shows the annualized 2009 budget and actual revenue from customer additions (in \$000s):

Revenue from Customer Additions		
2009 Budget	2009 Actual	Variance
\$ 5,557	\$ 3,454	\$ (2,103)

Note: For comparison purposes, actual revenues are based on average annual 2009 Budget rates

- (b) Please see the response to a. above.
- (c) The following table provides the requested information regarding pipe by size:

Pipe Size and Type	Pipe Length (m)			
	2010 Budget	2010 Forecast	Variance	2011 Budget
NPS 2 PE	17,004	22,600	5,596	18,504
NPS 4 PE	3,216	1,500	(1,716)	3,216
NPS 4 ST	-	-	-	15,000
Total	20,220	24,100	3,880	36,720

The following table shows the requested annualized revenue information (in \$000s):

Revenue from Customer Additions			
2010 Budget	2010		2011 Budget
	Forecast	Variance	
\$ 5,813	\$ 4,863	\$ (950)	\$ 3,095

- (d) EGNB intends to lay new distribution mains in 2011 to attract new customers that will have a positive benefit on the entire EGNB distribution system. The economic expansion of the distribution system helps create new demand for natural gas and increases overall throughput on the system.
- (e) The following table provides the requested information:

	2009 Budget	2009 Actual	2010 Budget	2010 Forecast
SGSRE	824	307	545	338
SGSRO	370	268	265	276
SGSC	429	132	210	94
GS	259	126	212	100
CGS	26	23	41	36
LFO	-	1	-	1
HFO	-	2	-	-
OPS	-	-	-	1
CLVOPS	-	-	-	-
Total	1,908	859	1,273	846

- (f) The following table provides the requested information, showing annualized throughput in GJs:



	2009 Budget	2009 Actual	2010 Budget	2010 Forecast
SGSRE	91,757	34,269	60,375	38,659
SGSRO	42,180	33,240	30,210	31,240
SGSC	83,655	29,335	40,950	21,745
GS	233,100	113,312	190,800	93,372
CGS	85,800	104,921	135,300	166,659
LFO	-	18,000	-	20,400
HFO	-	63,200	-	-
OPS	-	-	-	20,000
CLVOPS	-	-	-	-
Total	536,492	330,061	457,635	392,075

**Reference:** Schedule 8 of Exhibit A, Page 10

**Question:**

- (a) Please provide the details of all 2011 forecast costs for “investor relations”.
- (b) Please advise how much EGNB has budgeted in 2011 to “strengthen brand reputation”.
- (c) Please advise how much is budgeted in 2011 for:
  - i. Training costs
  - ii. Corporate events
- (d) Please provide the details of what is included in “corporate events” for 2011.

**Response:**

- (a) EGNB has no costs specifically budgeted for investor relations in 2011.
- (b) EGNB has budgeted \$122 thousand in 2011 to strengthen its brand reputation.
- (c) The 2011 budget includes \$146 thousand for training costs and \$40 thousand for corporate events.
- (d) The corporate events budget for 2011 would include amounts for a mid-year company-wide team building event, a corporate Christmas party and an allowance for any special staff events (e.g. farewell receptions).