

Schedule 3

Enbridge Cost Allocation Methodology



Cost Allocation Methodology

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Enbridge Inc.

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Calgary, Alberta
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1 Purpose

The purpose of this paper is to document the methodology that Enbridge follows for allocating and direct charging costs between its various businesses.

2 General

Enbridge is a leader in energy transportation and distribution in North America and internationally. Enbridge operates the world's longest crude oil and liquids transportation pipeline and Canada's largest gas distribution company. The Company also operates natural gas transmission pipelines and midstream businesses in the United States and invests in international energy projects. The Company's activities are comprised of regulated and non-regulated businesses. The transportation and distribution activities are regulated by the National Energy Board, the Ontario Energy Board, the Federal Energy Regulatory Commission and various provincial and state regulators. Other activities of the Company are non-regulated.

The Company is organized into five operating segments: Liquids Pipelines, Gas Pipelines, Sponsored Investments, Energy Distribution & Services and International. In addition, certain corporate activities are included in the corporate segment. Within each business segment, there are various business activities, each of which operate as a separate line of business. For example the operations of Enbridge Gas Distribution is a line of business within Energy Distribution & Services segment.

The corporate office sets strategy, policies and standards and the business units operate in accordance with those policies and standards. The corporate office is, therefore, a service provider to the business units. The Company also has centralized certain administrative services to satisfy its strategic objective of operational excellence and to ensure consistency across the enterprise. Corporate costs are segregated by functional department and an executive management individual is responsible for the costs within each functional area.

Enbridge is organized so that each business unit is self-sufficient with respect to its specific business activities. However, some operational services have been centralized for efficiency reasons and, therefore, some operational services may be provided from one business unit to another. Each business unit manages its operations by functional area, for example, engineering, human resources, and field operations. Costs by functional area within each business unit are aggregated in departments and included as part of the business unit's direct costs. Within each business unit, functional areas may provide service to more than one line of business.

It is Enbridge's policy to direct charge costs whenever possible. However, certain costs must be allocated between business units or lines of business within a business unit and between the corporate office and lines of business. This allocation is required for two reasons. The first is to enable management to properly assess the financial performance of each line of business. The second is to ensure that there is no cross-subsidization between regulated and non-regulated activities.

Certain types of operational costs are allocated between lines of business within a business unit and to lines of business outside a business unit. This is the case for the businesses located in

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eastern Canada and also applies to allocations from the Edmonton to Houston office. The majority of these costs relate to operating costs for centralized services. Corporate general and administrative costs are allocated to all business units.

3 Philosophy

The philosophy of Enbridge's cost allocation methodology is to ensure that appropriate and relevant cost information required for internal management, external stakeholders and regulators is segregated, accumulated and documented. Allocations are measured using a fully burdened cost. Each cost or group of costs is allocated using a basis that reflects the cost driver and that appropriately reflects the benefits received and the cost of the service provided.

4 Objectives Of Cost Allocation

4.1 General Objectives

Allocation is the process of assigning a single cost to more than one cost object. The objectives of cost allocation require that the allocation:

- must have a purpose and be relevant, meaning that the cost should be allocated;
- should be equitable which means that a service was performed and the other party received a benefit from it and that the cost was reasonable;
- should be identifiable or traceable; and
- should be supported by a methodology acceptable to the various regulators.

There are three types of costs that must be assigned to the lines of business in each business unit:

- Direct costs - those costs that can be specifically attributed to a cost object (e.g. salary)
- Indirect costs - those costs that are directly related or proportional to direct costs (e.g. benefits)
- General and administrative costs - those costs, that can be internal or external in nature, that support several or all business units, but do not relate to one specific business unit, and therefore must be allocated on a basis that relates the cost to the cost driver.

The objective of cost allocation is to achieve a reasonable allocation of costs between lines of business that is acceptable to all stakeholders.

4.2 Enbridge Objectives

Management's objectives with respect to cost allocation are to have a fair, consistent and simple allocation process. The allocation process must ensure the ongoing ability to manage costs, satisfy the requirements of regulators, and ensure reasonable allocation of costs between regulated and non-regulated businesses.

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It is also important to have a cost allocation methodology that is consistent across the enterprise, which allows for improved efficiency. The process must be simple and understandable and, to the extent possible, the process should be automated.

5 Allocation Framework

There is no one generally accepted method for the allocation of general and administrative costs between different business activities in a diversified entity. Accordingly, there is no "right" way to allocate these costs. Bases of allocation can vary, as do methods. However, the general objectives of cost allocation, noted above, are the same for all companies. Any methodology that satisfies these objectives is acceptable.

5.1 Allocation Considerations

Cost information should be cost-effective, timely and understandable. To be cost-effective, the cost of producing the information must not exceed the value of the information produced. Therefore, there is a trade-off between the value of increased accuracy and the cost of producing the information. To be timely, the cost information must be produced in time to support decision-making. Therefore, there is a trade-off between using completely accurate data and using data based on reasonable estimates. To be understandable, the allocation process should be simple so that it can be easily and clearly communicated and administratively simple to maintain.

5.2 Costing of Internal Services

When a company provides a service to a related company or line of business and the primary business activity of the service provider is something other than the provision of those services, general practice is to charge the service at cost. Only if the service provider is actively engaged in selling those services to outsiders would it be appropriate to price the service at market value.

One of the purposes of cost allocation is to ensure that there is no cross-subsidization between regulated and non-regulated businesses. If market price is charged, then the regulated business receives a benefit from the non-regulated business for the provision of services or vice-versa. Further, if the services are not sold to outsiders, the determination of an appropriate market price is difficult and may be arbitrary. Therefore, it is policy for Enbridge businesses to allocate at fully burdened cost.

5.3 Allocation Methods

Allocation is the process of assigning a single cost to more than one cost object. In Enbridge's case, it is the process of assigning costs incurred by one line of business to another line of business. The allocation process should be fair, identifiable, simple and consistent. To be fair, there must be a direct relationship between the cost incurred and the allocation basis, i.e. the allocation of the cost must be related to the driver of the cost. To be identifiable, the method of allocation must be documented and understood. To be simple, the method must be administratively easy. To be consistent, there must not be any large year-to-year change, unless a significant business event occurs.

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Allocation of costs can be done by expense type (i.e. salaries, training, etc.) or by grouping costs and then allocating them. Allocation of expense types is cumbersome from an administrative perspective and difficult to implement. To maintain management control, costs are aggregated in each functional department and managed by a department manager. If total department costs are allocated, then the manager will continue to focus on cost control.

An allocation process can use various methods to allocate departmental costs, depending upon the nature, and therefore the driver, of the cost. Thus, one single method may not be appropriate for all costs as each cost may have a different driver. If a financial or volumetric factor allocates a cost fairly, then it should be used, because it is simple and objective. For other costs, where a financial or volumetric factor cannot be used because the factor is not representative of what drives the cost, then time spent may be the preferred basis of allocation.

5.4 Allocations Versus Invoicing

Costs may be allocated to certain lines of business and invoiced to other lines of business. Allocations may be made purely for management reporting purposes or may be invoiced. The decision as to whether to only allocate or invoice usually will be dependent upon regulatory or taxation requirements.

6 Principles Underlying The Cost Allocation Methodology

6.1 Allocations at Line of Business Level

Allocations are made from one line of business to another line of business, either within the same business unit or to another business unit. No further allocation of the cost is made, to either functions or departments within the recipient line of business. However, in cases where an additional recovery is possible, a second allocation may be made to a more subordinate line of business, for example, from Enbridge Pipelines Inc. to Line 8 or Line 9. There will be no internal allocations within a line of business. Allocations can also be made to a project, as specified below. Cost recoveries for departmental costs will be displayed in the departmental cost statements of the service provider. Cost recoveries for overhead costs will be recorded in one expense account in the service provider's line of business. This process will significantly reduce the number of allocation entries and provide a simplified process to analyze the flow of allocations across each line of business.

6.2 Direction of Allocations

Allocations are always one-step, one way. There are generally no two-way, two-step or circular allocations. Intermediary lines of business will be bypassed in the process. That is, allocations will be made directly from the service provider to the ultimate recipient line of business, even if the service is provided directly to another line of business that would then allocate the cost to another line of business. For example, in the case where a business unit provides services such as information technology support to a corporate service function which, in turn, provides support to another line of business, then the service provider will allocate its costs directly to the service recipient line of business and not to the corporate service function. The allocation basis will be the basis on which the corporate administrative function allocates its costs.

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The only exception to a one-step allocation is that when an allocation is made to a line of business and a second step allocation is required to a minor subsidiary or line of business for regulatory reasons (i.e. determination of the appropriate cost of service).

6.3 Budget-based Allocations

A consistent and simple cost allocation process that is easily understood and accepted is based on budget. An allocation process based on actual costs is administratively burdensome and time consuming. At Enbridge, the departmental cost budget process is rigorous and the budget is the primary tool that managers use for cost control. Allocations to each line of business are agreed to during the budget cycle, before budgets are finalized.

In the normal course of business, actual costs may deviate from budgeted costs or service levels may deviate from those planned. Since allocations are based on budget, allocated costs could be greater or less than the actual costs incurred. In most cases, the difference between actual and budget costs will be insignificant. However, where there is a major deviation, caused by a significant business event, then a true-up of allocated budgeted costs to actuals will be made. This true-up would be made in the final quarter of the fiscal year and is subject to approval by the Enbridge Inc. Vice President & Controller. A major deviation or a significant event could occur in the case of an acquisition, a divestiture or a corporate reorganization.

As part of the budget process, the service provider and the service recipient must agree on the costs to be allocated before finalization of the budget. This agreement is evidenced by the signing of a Confirmation Notice, which concludes this process. This Confirmation Notice documents the services to be provided and their cost. Since allocations are based on budget, the service recipient knows what charges will be received for the coming fiscal year. The budget process is used to control costs and not the allocation process.

6.4 Departmental Costs

Each department will use only one basis of allocation. If the allocation is based on a financial or volumetric factor, the source of the financial or volumetric factor and the calculation methodology is provided. If the allocation is based on time, guidelines are provided to assist in preparing the time estimate and supplemented by periodic time studies. A time study entails reviewing the activities performed by the staff in the department over a period of time representative of the activities. The result of this analysis supports the allocation to each line of business.

6.5 General Expenses

A general expense is defined as a significant cost that benefits the business units or the enterprise widely and that requires allocation on a separate basis from the remainder of the department's costs because the driver of the costs is different or because the costs are large, third party costs. General expenses include costs such as employee benefits, outside legal services, directors' fees and expenses, industry association fees, and rent. APPENDIX B provides a complete list of all general expenses and their basis of allocation. Wherever possible, general expenses are direct charged to each line of business. To the extent that general expenses must be allocated, each type of general expense has its own cost driver and therefore its own allocation basis. General expenses are viewed as less controllable by a department manager than other departmental costs, such as salaries and reimbursable employee expenses.

6.6 Allocations at Fully-Burdened Cost

Allocations are made at cost, which is defined as fully-burdened cost. The cost includes all direct

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employee and employee-related costs. In the case of departmental expenses, which are allocated in total, this includes items such as salaries, contractors, training and travel. All general expenses, such as benefits and rent, are allocated separately. The combination of both allocations results in a fully-burdened cost. No additional markups for a profit component or a return on investment are added to the allocation.

6.7 Invoices

Allocations are recorded through general ledger intercompany entries, and in most cases, an invoice is not prepared. In those cases where an invoice is required by contract, when billing a third party, or where the allocation is to a line of business that operates in a different currency, an invoice will be provided to the service recipient. GST, PST and US sales taxes considerations must be evaluated in determining whether an invoice is required. In all such cases, the service provider retains supporting documentation for the invoice.

6.8 Currency Usage for Allocations and Direct Charges

Allocations and direct charges are made in the currency of the service provider.

6.9 Materiality

Only individual costs greater than C\$1,000 per individual transaction or cumulative costs greater than C\$1,000 on an annual basis are direct charged or allocated.

7 Bases Of Allocation

Three allocation bases are used:

- Fixed Parameter Basis: used to allocate costs based on identifiable parameters such as deemed common equity, capital employed, kilometres/miles of pipe, square footage, etc.
- Time Estimate Basis: used to allocate costs based on time spent.
- Direct Labour Basis: used to direct charge costs based on actual labour hours using time sheets and business unit charge-out rates. This basis is used only when charging to projects or third parties.

The basis of allocation for all corporate costs is determined by the Enbridge Inc. VP & Controller in consultation with the department manager and is reflective of the driver of departmental costs. The basis of allocation of costs between lines of business within a business unit is determined by the business unit Controller in consultation with the department manager and the Enbridge Inc. VP & Controller.

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7.1 Allocations based on Fixed Parameters

Capital Employed, Enterprise FTE, Corporate FTE & Calgary Office FTE are the Fixed Parameters used when allocating Enbridge Inc.'s Corporate costs. Certain departmental costs and most general expenses will have cost drivers that relate best to a fixed parameter. For example headcount is a better driver of Human Resource costs than is time.

Full-time equivalents (FTEs) are a useful fixed parameter for allocating a number of costs, particularly human resource and administration costs. Whereas Capital Employed is a better fixed parameter when allocating departments that are not necessarily driven by headcount but rather provide more overall governance type services such as setting policies and providing overall strategy. Please refer to Appendix D for detailed descriptions on the calculation of each parameter.

7.2 Time Estimates

For many departments, the majority of costs are employee-related and the allocation can be best attributed to time spent. Time sheets should be required only when direct charging a project or third party. Time estimates must be based on the actual activities carried out by the department. To improve employee productivity, time estimates based on periodic time studies should be used. This is accomplished by conducting periodic time studies. The department manager, who has the best understanding of the department's business plans and budgeted costs, has responsibility for conducting the time study. Time studies should be conducted annually in conjunction with the budget cycle.

The time study documents the nature and extent of work that is performed by each department. In defining the level of activity, the department manager must balance the need to be able to identify accurately the service performed for the respective program with the manageability or meaningfulness of the allocation. Consideration of the costs associated with a finer activity breakdown in comparison to the benefits to be gained must be considered.

The Modified Massachusetts Formula is an acceptable basis of allocation for certain regulated operations in the United States for which a two-step allocation is required.

Common costs are defined as costs related to those activities that are not separately identifiable as benefiting a single, specific business, but rather benefit the enterprise as a whole. Two examples might be preparation of the annual report to shareholders and the development of enterprise-wide human resources policies. In the event that virtually all a department's activities are common, time is not be an appropriate cost driver and a fixed parameter basis is used.

8 Allocation Of Departmental Costs

Departmental costs can be allocated either on the basis of a time estimate or a fixed parameter, such as a financial or volumetric factor. When possible, business unit departmental costs are allocated based on time estimates, because managers are usually able to identify time spent by employees on specific lines of business. Business unit general expenses and or departments where it is difficult to identify time spent by employees on specific lines of businesses are allocated using a fixed parameter, such as a financial or volumetric factor.

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For corporate departmental costs and general expenses, allocations usually are based on a fixed parameter, since many of the corporate activities directly benefit the enterprise as a whole and indirectly benefit the lines of business. In addition, certain corporate office activities are directly related to corporate governance, a required element for all corporations, and which cannot be identified with a specific line of business. Appendix C provides a description of the services provided by each department in the corporate office to the business units and the basis of allocation for each.

9 Charging To Capital Projects Or Third Parties

Timesheets are used when charging a capital project or third party. Timesheet data is input directly into the project accounting system, which calculates the project costs based on actual hours worked times the business unit labour rate. A maximum of two labour rates may be used for each business unit, one rate for the field employees and one rate for the office employees.

There is one overhead rate for each business unit. The overhead rate is expressed as a percentage of labour dollars and is added to the labour cost. The labour and overhead rates are calculated once per year at the time the budget is prepared and are in effect for the entire fiscal year. The purpose of the project overhead rate is to ensure charges to capital projects or third parties are made at fully-burdened cost.

9.1 Project Charge Process

The process of applying costs to project-related work, such as capital projects or charges to third parties, is based on direct charges. External services, such as consulting and legal services, and external costs, such as travel, are charged directly to the project. Internal labour is charged to the project via timesheets, where the budgeted hourly labour rate is multiplied against the actual hours worked, and the project overhead rate applied, to arrive at a project charge.

There is generally no timesheeting charged to operating and business development projects, that is no internal costs are charged to these types of projects. However, in certain circumstances, charges to operating and business development projects is permissible where there is the potential for recoveries. The creation of project numbers is governed by the same process as changes to the chart of accounts.

In the case where a department manager desires to track project-related costs but not charge these costs to a capital project or third party, or when the ultimate disposition of the costs or the accounting treatment is unknown, tracking projects may be used.

10 Documentation

Two of the objectives of cost allocation are that the costs must be identifiable and traceable. This is achieved through appropriate documentation of the allocation methodology and the allocation calculation. For those allocations based on a financial or volumetric factor, the documentation is relatively simple because it is derived from the annual budget. For allocations based on time estimates, the department manager's estimate and/or periodic time studies document the basis of allocation. In addition, the Confirmation Notice, signed by the service provider and service recipient, documents acceptance of the services provided and the level of cost.

11 Allocation Of Corporate Assets

Corporate assets will be maintained in the Corporate books, that is, they will not be separated and placed in the books of the individual business units. Enbridge Inc. will depreciate each asset by the rules by which it is governed and allocate the depreciation to the business units on a monthly basis.

12 Unbudgeted Amounts

12.1 Departments Created During the Year

Throughout the year, new departments may be created and the costs would not be included in the budget for that year or the resulting allocations. Usually, these new departments relate to internal reorganizations. The costs will be included in the next forecast. The Enbridge Inc. Vice President & Controller, in consultation with the department manager, will determine the basis of allocation. If the allocation is significantly different than that included in the budget, the allocation amounts will be revised.

12.2 Unbudgeted Corporate Capital Expenditures

Prior to approval by the Corporate Leadership Team and before significant work commences, the project sponsor will meet with the Enbridge Inc. Vice President & Controller to determine the most appropriate basis for cost allocation. The allocation of cost to the business units will be included as part of the CLT approval process.

13 Dispute Resolution Process

From time to time, a situation may arise wherein the service provider and the service recipient cannot agree on the amount of the cost allocation. The resolution process is to escalate the discussions upward through the organization, to Director then Vice President, for resolution. The Corporate Controller's Group facilitates the resolution, if required.

14 Service Level Agreements

This new cost allocation methodology replaces the need for most Service Level Agreements that relate to the provision of recurring services from one line of business or business unit to another or from the corporate office to a line of business. Service Level Agreements are composed of two parts: a master agreement and a services schedule agreement. These two documents describe the services provided and the cost of those services. Service Level Agreements are used for cross border and third party allocations or direct charges. As part of the budget process, each service provider and service recipient agree on the services to be provided and the costs thereof each year. At the end of the process, a Confirmation Notice is signed. This new cost allocation methodology and the Confirmation Notice together will serve as documentation of the services schedule agreement. Service Level Agreements will continue to be negotiated and documented for non-recurring services.

15 Price Adjustments

In the event that the Canadian or United States tax authorities issue a tax assessment notice that

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imposes a liability for tax of any nature or kind whatsoever on the service provider or service recipient related to the intercompany allocations or charges made, then upon receipt of such tax assessment notice, the amount allocated or charged will be adjusted accordingly, as long as it is materially significant.

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16 Appendix

16.1 Appendix A

16.1.1 Bases of Allocation for Business Unit Departmental Costs to Other LOB's

These costs are largely internal and general and administrative in nature.

Functional Area	Basis for Allocation
Accounting	Time Estimate
Taxation	Time Estimate
Public Affairs	Time Estimate
Information Technology	Direct Charge where possible Shared Resources: Business Unit FTE's Hardware, WAN, Notes (Mail) Support: Service Unit Count
Health and Safety	Business Unit FTE's
Environment	Time Estimate
Planning	Time Estimate
Records Management	Capital Employed
Office Services	Business Unit FTE's
Law and General Counsel	Time Estimate
Regulatory Affairs	Time Estimate
Human Resources	Business Unit FTE's
Office Services (except Rent)	Business Unit FTE's
Fleet Management	Number of vehicles
Corporate Security	Time Estimate
Regional Operations: Pipe Maintenance	Kilometres of Pipe
Employee Communications	Business Unit FTE's
Systems Measurement (Meters)	Number of Meters
Aviation	Capital Employed
Engineering	Time Estimate
Regional Operations Baron / Helicopter Operations Services SCADA Services Gas Pipeline Technical Services Pipeline Integrity Facilities Management Public Affairs	Time Estimate
Control Centre Operations	Console Usage / Barrel Miles
Shipper Services	Barrel Miles

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16.2 Appendix B

16.2.1 Bases of Allocation for General Expenses

General Expense Type	Basis for Allocation
Audit Fees	Direct charge based on business unit for which work was done Enbridge Inc: Capital Employed
Sox Fees	Direct charge based on business unit for which work was done Enbridge Inc: Capital Employed
Employee Benefits	Corporate FTE's
Other Employee Benefits	Corporate FTE's
Outside Legal Services (Corporate Law, Corporate Secretarial, Filing Fees)	Direct charge based on business unit for which work was done; otherwise, Capital Employed
Directors' Fees and Expenses	Capital Employed
Stock and Debt Administration	Capital Employed
Industry Association Fees	Capital Employed
Insurance Premiums	Property: Insured value of PP&E Liability: Revenue or headcount Aircraft: Business unit where located Automobile: Business unit where located D&O: Capital employed Other: Underlying risk
Rents and Leases	Calgary Office FTE's
Business Taxes	Calgary Office FTE's
Corporate Depreciation	Corporate Jet & Leaseholds: Capital Employed Enterprise IT Capital Projects: Capital Employed Risk Management System: System Usage
EPI Reallocation	Corporate FTE
EGD Reallocation	Corporate FTE
Stock Based Compensation	Number of Options Granted Enbridge Inc: Corporate FTE's

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16.3 Appendix C

16.3.1 Services Provided by the Corporate Departments and Bases of Allocation

16.3.1.1 Benefits Provided By Corporate Departments

As Enbridge Inc. has grown and evolved, certain business functions that were previously undertaken at the business unit level have been centralized in the corporate office to optimize resources, take advantage of synergies and minimize duplication of effort. In addition, where incremental resource requirements of an individual subsidiary or affiliated company may be more efficiently provided by the corporate office due to the economies of scale through the sharing of resources, Enbridge Inc. incurs the incremental cost and then recovers the cost of the service from the appropriate subsidiaries and affiliated companies through intercompany cost allocations.

Intercompany cost allocations relate to specific services required by the business unit in order to prudently manage its operations. For some services provided, there is no comparable department in the business unit, for example, Treasury and Investor Relations. For those services allocated to a line of business where that line of business does not have a similar function, the services provided by the corporate office are required as a specific service and represent a cost-effective way of delivering that specific required service to all businesses within the Enbridge group of companies.

The costs incurred by the corporate office are allocated using the most appropriate cost driver. The reduction in costs, the increase in avoided costs and the synergies obtained demonstrate that the benefits of the services provided equal or exceed the overall costs allocated.

16.3.1.2 CEO

The office of the CEO provides leadership and strategic counsel to the organization. It provides the business units with senior executive advisory services and oversight in the areas of corporate governance, ongoing contact with the major energy customers or suppliers, and liaison with other companies in the energy industry. This assists the business units in anticipating and responding to current and future needs of customers in the marketplace. The office of the CEO was also instrumental in developing and negotiating the first comprehensive incentive tolling agreement in Canada by a regulated pipeline company.

Allocation Basis: Capital employed

16.3.1.3 Pension Administration (including Recovery)

Pension Administration oversees the management and administration of all pension and savings plan assets for all Enbridge companies. It is responsible for implementing the investment policies and monitoring the performance of the investment manager and fund custodians. It coordinates the reviews of funding policies and actuarial valuations of the pension plans.

Allocation Basis: Unallocated (100% Corporate)

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16.3.1.4 *Investor Relations*

The department maintains the investor relations necessary to enable the Company and its subsidiaries to effectively access the capital markets and is responsible for organizing annual shareholder meetings and preparing annual and quarterly reports to the shareholders, investment analysts, media, and potential investors in the debt and equity of the Company and its subsidiaries.

Allocation Basis: Time estimate

16.3.1.5 *CFO*

The office of the CFO provides senior leadership and advice regarding the financial affairs of the company. This office also oversees the activities of Investor Relations, Treasury, Controller's, Audit Services, Pension Administration, Supplier Management, and the finance/accounting activities of the various businesses.

Allocation Basis: Capital employed

16.3.1.6 *Corporate Controller*

The Corporate Controller's department is responsible for setting accounting policies and practices, preparation and dissemination of consolidated financial results, managing the budgets and forecasts process, and preparing or reviewing all external financial reporting. It prepares consolidated financial reports and budgets and various shareholder communications such as quarterly and annual reports. In addition, the department is responsible for the maintenance of enterprise-wide financial accounting systems. The department also conducts research designed to improve corporate knowledge of all new financial reporting requirements and is responsible for managing the implementation of new accounting standards.

Allocation Basis: Capital employed

16.3.1.7 *Taxation*

Taxation prepares tax returns and GST filings for all of the legal entities in Canada, prepares monthly accounting income tax provisions and researches on certain tax matters. Taxation provides advice on specific transactions and makes recommendations to minimize tax. Also, tax planning initiatives are implemented to ensure that tax is minimized for each legal entity and for Enbridge as a whole. Other services include future income tax reconciliations and assistance with financial statement disclosure.

Allocation Basis: Time estimate

16.3.1.8 *Audit Services*

Audit Services develops the audit plans and strategies for the organization, within specific risk parameters, and manages the staff devoted to specific business unit audit activities. Audit Services evaluates and recommends improvements to business unit risk management, control and corporate governance. It performs financial, compliance, information technology and operational audits. In addition, it conducts control risk self-assessments and special investigations.

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Allocation Basis: Capital employed

16.3.1.9 Corporate Law

Corporate Law coordinates and provides enterprise-wide legal counsel and consultation to business units as well as to specific corporate projects on legal matters. The department implements incentive-based fee arrangements with a limited number of external legal service providers to allow efficiency in outside legal services and volume-based fee reductions. Internal legal resources are managed across the enterprise to address peak work loads and resource availability. The department also maintains and updates corporate-wide policies relating to contract administration, business conduct statements and corporate emergency response programs.

Allocation Basis: Time estimate

16.3.1.10 Corporate Secretarial

The department provides legal counsel and advice on Corporate Secretarial related matters. The department implements incentive-based fee arrangements with a limited number of external legal service providers to allow efficiency in outside legal services and volume-based fee reductions. Internal legal resources are managed across the enterprise to address peak work loads and resource availability. The department is the main point of contact with the Enbridge Board of Directors and provides them with much of their information. It also is responsible for matters related to filings and dealings with securities and exchange commissions.

Allocation Basis: Time estimate

16.3.1.11 Corporate Administration Services

Corporate Administration Services negotiates, executes and maintains all travel agreements, including airlines, hotels, car rental agencies and travel agencies on behalf of all Enbridge business units. This department is responsible for development and oversight of employee expense reporting policies and two existing corporate card programs (BMO & AMEX) that are used in all business units. It also initiates and participates in corporate-wide supply chain management initiatives. It provides all facilities-related support to the corporate office.

Allocation Basis: Calgary Office FTE's

16.3.1.12 Public Affairs & Corporate Communication

The department provides leadership to support the achievement of key corporate and business unit objectives. This involves developing and articulating plans, messages and relationships to maintain the reputation of Enbridge among external and internal stakeholders, and providing strategic counsel to senior management and other key clients and audiences. It involves proactively preparing and managing communications plans that are integrated with and support corporate and business unit strategic plans and initiatives; monitoring current and emerging issues that affect Enbridge; and maintaining communications preparedness so there are no surprises.

Allocation Basis: Capital employed

16.3.1.13 Operations Risk and Insurance

The Operations Risk and Insurance department is responsible for general administration of insurance policies of Enbridge Inc. and its affiliates. Insurance policies implemented and

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managed by this department include liability, property, political risk, automobile, directors and officers liability, fiduciary and crime insurance.

The department also provides insurance claims support to Enbridge Inc. and its affiliates by providing claims consulting to ensure that all claims are dealt with in an effective wide manner and from a corporate-wide perspective. The department acts as liaison with insurance companies and law firms to assist affiliates with claims.

The department also provides support to business development activities by providing insurance cost projections to new projects such as mergers and acquisitions, significant asset purchases, and divestitures.

Allocation basis: Time estimate

16.3.1.14 Corporate Human Resources (including HRIS)

Through leadership as well as policy and program development, implementation and maintenance, Corporate Human Resources ensures that Enbridge will have the employee and organizational capabilities required to fulfill its vision and long range business plan. This portfolio of responsibility includes the oversight of all human resources initiatives in all companies that form part of the Enbridge group of companies. The department is also responsible for the operation and maintenance of the enterprise-wide Human Resources Information System (HRIS).

Allocation basis: Enterprise FTE's

16.3.1.15 Labour Relations

Labour Relations leads and coordinates the development and implementation of labour relations strategy, policy and programs for the Enbridge Inc. group of companies. This is accomplished by facilitating the development and implementation of labour relations strategy at the business unit level and ensuring that strategic policies and plans are effectively linked to the Corporate vision, values and objectives.

Allocation basis: Enterprise FTE

16.3.1.16 Total Compensation (including Benefits & Pensions)

Total Compensation develops and executes total compensation strategy in support of the overall business direction of the Enbridge group of companies. This is accomplished through managing the analysis, design, implementation, communication and automation of pay systems, perquisites, benefits and retirement programs for all business units.

Allocation basis: Enterprise FTE's

16.3.1.17 Talent Management & Workforce Planning

Talent Management & Workforce Planning develops and provides a learning framework that supports the organization's business strategy and ensures appropriate leadership skills and succession development in Enbridge. Talent Management & Workforce Planning is responsible for optimizing the investment Enbridge makes in its intellectual capital through the establishment, implementation, monitoring and evaluation of developmental processes including succession planning, career and performance management, and leadership and knowledge requirements.

Allocation basis: Enterprise FTE's

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16.3.1.18 Corporate Resources

The office of the Group Vice-President, Corporate Resources provides senior leadership, oversight and advice to the Human Resources, Information Technology, Corporate Secretarial and Corporate Administration Services functional areas in both the corporate office and the business units.

Allocation basis: Capital employed

16.3.1.19 Corporate Security

The Corporate Security department provides advice and guidance on matters related to International travel and the associated risks. The department is also responsible for ensuring the security of senior executives when they travel outside of Canada.

Allocation basis: Time estimate

16.3.1.20 Corporate Business Development (including A Projects)

The department functions as a corporate services department to support and assist Enbridge business units in executing acquisition, investment and divestiture projects, and identify, project manage and execute acquisition, investment, and divestiture projects at the corporate level.

Allocation basis: Time estimate

16.3.1.21 Planning and Economics

The department seeks out and develops investment opportunities in emerging and alternative energy technologies. They develop and coordinate corporate-wide long-range plans and critically examine existing strategies and proactively identify potential new strategic directions. In addition, they set the corporate standards for and coordinate the evaluation and review of investment or contractual commitments requiring Corporate Leadership Team or Board of Director approval.

Allocation basis: Time estimate

16.3.1.22 Northern Pipeline Development (including G Projects)

The Northern Pipeline Development department is responsible for identification, evaluation, development and execution of pipeline investment opportunities in northern Canada and Alaska. The department establishes and strengthens relationships with all key stakeholders and identifies, evaluates and develops investment opportunities in North America consistent with corporate strategies and priorities. The department also negotiates key terms and conditions of all major agreements, including joint venture agreements. In addition, they interface with and manage relationships with senior management of joint venture partners. They ensure that any investments meet appropriate corporate standards for risk, economic returns and financial statement impacts. They coordinate personnel and support resources required for opportunity identification, evaluation, development and execution including regulatory applications, right-of-way acquisition, design and construction.

Allocation basis: Time estimate

16.3.1.23 Corporate Climate Change

The department provides liaison support to the Board of Directors and the Environment, Health

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and Safety Board. It monitors evolving issues and provides guidance and direction.

Allocation basis: Pollution emissions

16.3.1.24 *Knowledge Management*

Knowledge Management is responsible for developing, maintaining and publishing records and information management policies, practices and procedures for Enbridge company-wide. Key deliverables include corporate classification, retention schedule maintenance, and corporate governance. It also administers the Records Classification and Retention Schedule Policy. In addition, it provides ongoing guidance and support to the business units.

Allocation basis: Capital employed

16.3.1.25 *CIO*

The CIO is responsible for setting corporate strategy and standards with respect to the use of information technology. This includes reducing the cost of operations through effective, coordinated automation of routine functions, ensuring broad but secure access to data and information generated by the Company in its business activities, and enabling new opportunities for the business units through innovative use of information technology. The delivery of information technology services is the responsibility of the business unit information services groups while the CIO office is responsible for determining what information technology tools and approaches should be used across the enterprise to maximize efficiency and effectiveness in that delivery function.

Allocation basis: Enterprise FTE's

16.3.1.26 *Corporate IT Operations and Projects*

This department is responsible for the effective and efficient delivery of all IT operational services to Enbridge Inc. It guides Corporate office departments in the selection and development of business aligned solutions. This includes improving Enbridge's leverage of existing applications. It ensures that similar IT requirements are coordinated across departments and business units wherever possible.

This department is also responsible for coordinating the maintenance and support of existing corporate business applications. It manages the service delivery of services that are currently delivered by Enbridge Pipelines Information Systems, such as the Data Centre, Telecom, and Help Desk Services. This includes assigning the prioritization of customer requests, the creation and management of service level agreements and managing client issues.

The project department guides the Corporate office departments in the selection and development of business aligned solutions, including business process re-engineering, solution development and implementation. It is responsible for on time and on budget delivery of quality IT projects, which includes local projects for Enbridge Inc. and minor participation in enterprise-wide implementations. This department ensures Corporate IT leverages the current investments in infrastructure, process and business knowledge throughout the Enbridge group of companies and fully understands the ever-changing roadmap for technology and how it will potentially impact Enbridge Inc.

Allocation basis: Corporate FTE's

16.3.1.27 *Enterprise Architecture*

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This department governs the development of enterprise wide strategies, policies and standards for information technologies in addition to monitoring the compliance of such plans. It is the Enterprise Architecture's responsibility to coordinate and align the Enterprise IT strategic plan into the long-range plan considering items such as, Knowledge management, Document management, Information management, Network infrastructure, Information technology architecture and Application suite. The department is also responsible for the administration and management of all enterprise-wide IT vendor and outsourcing relationships. Ultimately communicating IT implications of company strategy to the CLT.

Allocation basis: Enterprise FTE's

16.3.1.28 *Treasury*

Treasury is a centralized enterprise-wide function responsible for ensuring optimal liquidity for short-term and long-term requirements.

The Capital Market Financing and Access function provides support to the process of raising debt and equity financing in the capital markets. The department defines long-term financing requirements, and develops and executes financing strategies in the bank and capital markets.

The Cash Management and Banking function determines the optimal short-term cash requirements, and executes the supporting daily banking transactions. This function manages cash holdings and other sources of short-term financing to ensure short-term liquidity requirements are met. This includes managing the day-to-day operations relating to banking and the commercial paper program and credit facilities, forecasting cash requirements, the co-ordination of significant accounts payable and accounts receivable transactions, the co-ordination of inter-affiliate financing transactions, managing settlement of risk-management vehicles, managing investment of surplus funds for short-term appreciation, and monitoring and reporting on compliance requirements for debt facilities, regulatory, and internal policies.

The department provides support to investor communications to advise the investment community of the company's current and anticipated financial position. This includes preparing presentations and credit analysis for credit rating agencies, investment banks, institutional investors, debt holders, and fixed income analysts. The department meets with investors and stakeholders to optimally present the financial condition for each reporting issuer and related entity within Enbridge. This function also provides support for equity and fixed income investment road shows and direct investor inquiries.

The department participates in the preparation of rate case testimony and evidence for regulatory hearings and special proceedings, including the provision of advice, research and analysis regarding all support issues relating to cash management, corporate finance, access to capital, and cost of capital.

The department provides support to strategic planning, and budget and forecast activities. This includes developing assumptions for capital structure, financing strategies, dividend policies, share/debt issuance schedules, current debt/equity schedules, and cost of capital. The department also provides support with respect to scenario analysis.

Allocation basis: Time estimate

16.3.1.29 *Financial Risk Management*

Financial Risk Management is a centralized enterprise-wide function responsible for identifying corporate risks, supply and demand risks, operational risks and external risks, quantifying and understanding the implications of risk exposure, and developing strategies to mitigate risk. This

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includes identifying and providing advice on interest rate risk, foreign exchange risk, and execution risk. The department is also responsible for the on-going maintenance and support of the risk management information technology system.

The department is responsible for identifying and executing financial contracts for hedging purposes if required, and processing the contracts and settlements of financial and physical transactions. This would include the negotiation and administration of gas contracts.

The department is responsible for monitoring, measuring, and reporting credit risk exposure, and would include such duties as researching credit rating and financial strength of customers and suppliers, and determining and assigning credit limits to customers to obtain credit enhancements.

The department reviews and monitors compliance to risk control policies and procedures, including compliance with hedge accounting guidance. The department is also responsible for calculating the mark-to-market and fair market values of financial instruments used in all financing activities, especially for hedging purposes.

The department participates in the preparation of rate case testimony and evidence for regulatory hearings and special proceedings, including the provision of advice, research and analysis regarding all risk management support issues.

The department provides support to strategic planning, and budget and forecast activities. This includes developing assumptions for interest rates, foreign exchange rates, and commodity prices.

Allocation basis: Time estimate

16.3.1.30 Enterprise Financial Systems Strategy & Services

Enterprise Financial System (EFS) is an enterprise-wide suite of common financial systems and business processes. The primary components include Oracle for financials (including employee expense reporting), and Khalix for budgeting, consolidation and long range planning. Corporate costs include support for Khalix, chart of account and vendor master maintenance and the review of strategic opportunities to further enhance the EFS suite.

Allocation basis: Enterprise FTE's

16.3.1.31 Gas Strategy & Corporate Development

This department provides Enbridge senior executive level oversight and direction to Enbridge gas distribution and services operations, including Enbridge Gas Distribution, Enbridge Gas New Brunswick, Gas Pipeline Development, Northern Pipeline Development and Gas Services. The department head is an Executive VP and part of Enbridge's Executive Leadership Team.

This department also provides corporate level strategic planning and project financial analysis to all Enbridge subsidiaries. Financial analysis assistance ensures that best practices analytical methodologies are being employed and that the analysis is rigorous and consistent throughout Enbridge. It monitors and analyzes energy industry trends and acts as a centralized intelligence and data capture group for Enbridge that ensures the most current information from external providers and internal experience is brought to bear on Enbridge situational analysis. This allows the Company and its subsidiaries to be proactive in meeting the customers needs with a focus on new business opportunities.

Allocation basis: Time estimate

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16.3.1.32 Business Development East

The department identifies, researches and analyzes potential business development opportunities that complement the existing Gas Distribution businesses. It is responsible for the successful determination and implementation of organic growth opportunities as well as acquisition of entities similar to Gas Distribution which allows the pursuit of economies of scale, more efficient and cost effective operating models and the promotion of system efficiency.

Allocation basis: Time estimate

16.3.1.33 Energy Technology & Windpower

This department serves as a single point of contact for the research and evaluation of all new or emerging technologies. Responsibilities include coordinating resources from all affiliates to examine the commercial viability of new or emerging technologies that complement Enbridge Inc.'s long-term strategic objectives, including an analysis of markets and customers. The department also acts as an internal R&D function to examine the development of new capabilities related to service delivery or operational performance (i.e., CO₂ pipelines). Ultimately, the work is developed in to presentations for CLT and Board of Directors. The department is also responsible for the management oversight of Enbridge's existing portfolio of wind related assets in addition to pursuing related growth opportunities.

Allocation basis: Time estimate

16.3.1.34 Aviation

The Aviation department provides air transportation for company personnel and aerial pipeline surveillance and passenger movement along the pipeline network. As well, it administers helicopter and aircraft contracts where required and monitors and audits aircraft charter companies utilized by Enbridge and its affiliates.

Allocation basis: Capital employed

16.4 Appendix D**16.4.1 Fixed Parameter Calculation Descriptions****16.4.1.1 Capital Employed**

Capital Employed is defined as follows:

Total Assets – Current Liabilities + Long Term Debt Due Within One Year + Short Term Notes Payable – Deferred Credits – Long Term Future Taxes Payable

The capital employed calculation for any budget year is based on a two-point average of the opening and closing balance sheets pertaining to the allocation year. For example, the most recent balance sheet information used during 2007's allocation is sourced from data contained in 2006's LRP. Capital Employed is based on management reporting Lines of Businesses (LOB's). This could mean one LOB or more than one LOBs being sourced to represent the capital employed for one Business Unit (for example EPI has more than one operating LOB).

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Only those entities that receive an Enbridge Inc. allocation are included in the Capital Employed calculation. Equity investments, financing and holding companies are excluded from the calculation. Therefore total Capital Employed as per CAM will be much less than total Capital Employed reported in the consolidated financial statements.

Once a two-point capital employed average is established for each entity receiving a corporate allocation, a percentage is calculated based on an entity's average capital employed divided by the aggregate of the capital employed pool. This percentage is then applied to the total department costs being allocated to ultimately determine the final cost of service charged to a Business Unit.

Capital Employed is used to allocate departments that benefit the organization as a whole. Departments who deliver overall governance type services such as setting policies, providing corporate strategy and whose services are indivisible between beneficiaries are allocated on a Capital Employed basis. Examples include CEO, CFO, Controllers, Audit Services, Public Affairs, etc.

Exceptions:

For those entities where Enbridge owns less than 100% yet still receive a corporate allocation (such as Gas New Brunswick), the minority interest is not backed out of capital employed. This is because regardless of ownership interest %age, EI's level of service would not be changed. Therefore in order to reflect the business's relative size on a comparable basis to all of the other businesses included in the calculation, minority interest is not deducted.

Consistent with our methodology above, Enbridge Energy Partners (EEP) is not included at its actual ownership percentage, but rather is included as if it were wholly owned by Enbridge Inc. Therefore EEP's capital employed is calculated based on its 100% statements.

All unidentified growth and significant growth projects that have not yet reached its in-service date are not included in the calculation of capital employed. A Business Unit should not be burdened with additional allocation due to a project that is not yet identifiable and/or will likely not be in service in the upcoming budgeted year, due to the fact that the BU will not be generating cash flows in order to absorb the increase in allocation.

For any Enbridge entity that generates a negative capital employed, the capital employed is assigned to be zero.

With respect to Offshore Pipelines, Enbridge doesn't necessarily operate all of the corridors it has an ownership interest in. Therefore in order to be consistent with the existing methodology where EI allocates only to those Business Units that it operates (i.e. is receiving service), Enbridge operated corridors are grossed up to 100%, while those corridors that Enbridge maintains an ownership interest but doesn't operate are simply removed from the calculation. PPD allocated to non-operated corridors is also removed.

Enbridge Gas Distribution has significant levels of Short-Term Notes Payable on hand at any given year end, which as per the Capital Employed formula is not deducted from Total Assets. However, much of EGD's Short Term Notes are simply borrowed to finance year end gas in storage (which is a short term asset), therefore an adjustment is made to the Capital Employed calculation for EGD in order to reclassify its Short Term Notes Payable as a current liability given that it is simply funding a current asset. The adjustment is made only to the extent there is gas in storage, as any excess Short Term Notes are considered financing and not deducted.

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16.4.1.2 Corporate FTE

Corporate FTE is simply an allocation of Corporate Headcount. Headcount is assigned to each allocable Business Unit based on a series of calculations. The level of headcount assigned to a particular Business Unit as a proportion of the total corporate headcount results in the Corporate FTE %age.

Corporate FTE is used primarily to allocate departments that essentially support other corporate departments. The primary beneficiaries of a Corporate FTE allocated department are mostly other corporate departments who without these services would not be able to provide service to their ultimate service recipient. The scope of these services is more internally focused and rarely extends beyond servicing other corporate departments. Examples include: Corporate IT & Employee Benefits.

The steps involved in determining how corporate headcount is allocated to each Business Unit is as follows:

Enbridge Inc.'s FTE's are firstly separated into two categories, those who work in departments that are allocated on an FTE basis and those that are not. The non-FTE headcount gets allocated amongst BU's based on the proportion of non-FTE department allocations allocated to the Business Unit.

Example:

Non-FTE allocated departments	=	60
FTE allocated departments	=	<u>40</u>
Total Corp Headcount	=	100

*Of all the departments not allocated on any FTE basis, Sample BU#1 receives 20% of these costs. Therefore it would be allocated a head count of 12 (60 * 0.2) from the Non-FTE head count pool.*

Secondly, the headcount in corporate that resides within FTE allocated departments is then allocated to Business Units based on total enterprise headcount (before corporate headcount that resides within an FTE allocated department obviously).

Example:

Sample BU#1	1,000
Sample BU#2	500
Sample BU#3	2,500
Corporate	<u>60</u> (excludes FTE allocated departments)
Total Headcount	4,060

Sample BU#1 would receive 10 of the 40 Corporate Headcount from departments not allocated on an FTE basis pool. The calculation is as follows:

SampleBU#1 Headcount	1,000 (above)
Corporate FTE's allocated to SampleBU#1	<u>12</u> (above)

SampleBU#1 Headcount	<u>1,012</u> (excl. Corp. FTE allocated headcount)
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Total Headcount 4,060 (excl. Corp. FTE allocated headcount)

Total %age 25%

Corp. headcount residing in FTE allocated depts. 40

Corporate FTE allocated 10

Corporate FTE is then the relative %age of corporate headcount allocated to each BU based on the two allocation factors noted above.

Example:

Corporate Headcount allocated to SampleBU#1 for Non-FTE allocated departments = 12
Corporate Headcount allocated to SampleBU#1 for FTE allocated departments = 10

Total Corporate Headcount Allocated 22
Total Corporate Headcount 100

SampleBU#1's Corporate FTE %age 22%

16.4.1.3 Enterprise FTE

Enterprise FTE includes all headcount within the organization, including the re-allocation of headcount from Corporate and any other entities that allocate their headcount among Business Units. The total level of headcount within a Business Unit including all allocated headcount as a proportion of the total headcount within the Enterprise as a whole results in the Enterprise FTE %age.

Enterprise FTE is used primarily to allocate departments that support other BU's where the level of Headcount drives much of the departments costs, work and growth yet where the day to day tasks are virtually impossible to segregate between the beneficiaries of such service. The scope of service more broad and external compared to a department allocated on an Corporate FTE basis. Examples include: CIO, Enterprise Architecture, HR, Labour Relations, HRIS, EFS, etc.

The steps involved in calculating an Enterprise FTE %age for a Business Unit is as follows:

Example:

Sample BU#1 1,000
Sample BU#2 500
Sample BU#3 2,500
Corporate 100

Total Headcount 4,100 (Enterprise Headcount)

Sample BU#1 Direct Headcount 1,000
Corporate allocated Headcount 22 (from Corp FTE calculation)

Total SampleBU#1 Headcount 1,022
Total Enterprise Headcount 4,100

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Enterprise FTE %age 25 %

16.4.1.4 *Calgary Office FTE*

Calgary Office FTE is simply an allocation based on the Head Count of the entire Calgary office, including both corporate and non-corporate staff. All Calgary employees are counted and grouped into the BU to which they belong (i.e. EPI, International, Gas Services and Corporate). The percentages based on the above count are then determined. The Corporate %age is then spread among Business Units based on the Corporate FTE %age calculated above.

Calgary Office FTE is used primarily to allocate departments whose costs are mostly driven by the size of the Calgary Office (not necessarily the corporate segment). The more headcount a BU has located in the Calgary office implies that they require more space which therefore strains the departments servicing those BU's and therefore will receive a higher allocation %age. Examples include: Rents and Leases, Business Taxes and Corporate Admin.

Example:

Sample BU#1	100
Sample BU#2	50
Corporate	<u>350</u>
Total Calgary Office Headcount	500

Direct Calgary Office Allocation Sample BU#1	20%	(100/500)
Corporate Redistribution of Calgary Office FTE	<u>15%</u>	(350/500)*(22%)

Calgary Office FTE %age for SampleBU#1 35%

*Note 22% equals SampleBU#1's Corporate FTE % and is used to redistribute Corporate Calgary Office FTE % among Business Units.