J.H.S EASSON

CHARTERED ACCOUNTANT

November 23, 2006

Mr. David Nelson, Chairman
Board of Commissioners of Public Utilities
Province of New Brunswick
15 Market Square, Suite 1400
Saint John, NB
E2L 4Y9

Dear Mr. Nelson:

Under date of October 18, 2006, Enbridge Gas New Brunswick Limited Partnership (the "Utility" or "EGNB") submitted to the New Brunswick Board of Commissioners of Public Utilities (the "Board") its regulatory financial information for the fiscal year ended December 31, 2004.

In accordance with your instructions, I have reviewed this regulatory financial information, and I am providing this report to assist the Board in its regulation of the Utility under the Gas Distribution Act. The report includes explanatory comments on the information submitted and also my observations as to whether costs incurred by the Utility appear to me to be reasonable.

I have reviewed the transactions covered by this financial information and I have scrutinized such supporting data as I considered necessary in the circumstances. I have read the audited financial statements of EGNB as at and for the year ended December 31, 2004, and I have reviewed the files prepared by the auditors in support of their opinion on those financial statements. I have also obtained information and explanations from members of management of the Utility. However, these procedures do not constitute an audit and I express no audit opinion on the regulatory financial information provided.

All dollar amounts in the financial information schedules are expressed in thousands of Canadian dollars. In this report, unless indicated otherwise in tables, all amounts are expressed in dollars rounded to the nearest thousand dollars.

Summary of the year to December 31, 2004:

EGNB filed their financial information in the format ordered by the Board for 2004 but implemented by EGNB for 2002 and 2003. This information is reported on Appendix "A" on pages 1 to 14 and is consistent with the format used in those two earlier reports.

During the year under review, the utility connected additional customers to its distribution system and at year-end 3,143 customers were reported as attached compared with 2,312 for 2003. The distribution over service classes can be found in supporting note 5 on page 6 of 14.

The net loss for the year, reported in the "Statement of income for regulatory purposes" on page 2 of 14, entitled "Loss before regulatory deferral" was $12,746,000 (2003 - $10,836,000). This amount, together with the "Regulated return on equity" reported as $6,591,000 (2003 - $6,455,000), was transferred to the deferral account. The total increase in the deferral account for the year amounted to $19,337,000 (2003 - $17,291,000).

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At December 31, 2004, EGNB has reported the balance of its regulatory deferral as $61,133,000 (Appendix A, page 2 of 14).

I refer you to my comments on page 7 of this report, under the heading "Regulatory deferral", where I indicate my opinion that this amount is overstated by $486,000.

During 2004, management continued its strategy of informing the public of the advantages of natural gas to encourage additional customer connections. This again involved a program including media advertising and incentives to consumers which cost in excess of $4,000,000 (2003 - $5,000,000).

The following paragraphs summarize my observations based upon my review of the regulatory financial information prepared by management of EGNB.

Statement of Income for Regulatory Purposes:

(Appendix A, page 2 of 14)

I have the following observations on significant items included in the statement:

1 Revenues:

Total revenues for the year were $4,727,000 (2003 - $2,749,000) an increase of $1,978,000. This result was achieved principally as a result of the additional connections in 2004.

The Board will note the amount of $281,000 (2003 - $102,000) recorded as "Allowance for Funds Used During Construction" ("AFUDC").

The income from investments of $153,000 (2003 - $92,000) is related to the short-term investment included in regulatory rate base assets.

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

2 Operating and maintenance expenses:

The departmental detail of operating and maintenance expenses is included in Note 6 on page 8 of 14.

Total operating and maintenance expenses for the year amounted to $15,575,000 (2003 - $14,054,000). Of this amount, costs of $11,395,000 (2003 - $11,184,000) were capitalized as property, plant and equipment and development O&M capitalized costs.

As indicated in my report dated October 13, 2006, covering the updated financial information for the financial years 2002 and 2003, certain overhead expenses are now classified as "Development O&M capitalized costs" rather than "Property, plant and equipment". This matter is referred to under the heading "Revised financial results for 2002 and 2003" which includes a decription of the methodology used to allocate overhead costs over the two categories. This change complies with a Board order of September 2, 2005.

The methodology used in 2004 for allocating these costs is consistent with prior years and the calculation of the allocated amounts was verified and found to be reasonable.

The remaining $4,180,000 (2003 - $2,870,000) appears in the statement of income as "Operating and maintenance expenses".

Operating and maintenance expenses were discussed extensively with management and supporting evidence was reviewed where I considered it to be necessary. Based upon this review, no items were noted that were unusual or unreasonable from a regulatory point of view.

3 **Deemed capital taxes:**

Deemed capital taxes represent taxes that would have been paid had the partnership been a corporation at December 31, 2004. The deemed taxes amount to $676,000 (2003 - $588,000).

The taxes are calculated on the basis of the capital for regulatory purposes using the combined Federal and New Brunswick large corporation tax rate of 0.525%.

The calculation of deemed capital taxes for 2004, detailed in note 7, on page 9 of 14, is correct consistent with the amounts reported..

It should be noted that the accumulated deemed taxes payable at December 31, 2004 amounts to $1,965,000. This amount should be disclosed as an accrued liability for regulatory purposes on the balance sheet (page 1 of 14) at that date, as the expense recorded annually is the result of a regulatory adjustment. Since the utility is a registered limited partnership, capital taxes will never be assessed or paid.

4 **Amortization of property, plant and equipment:**

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

The utility charges a full year's amortization on assets in service on January 1 and a half year's amortization on additions recorded during the year. This methodology has been approved by the Board.

The total charge for amortization is $2,545,000 (2003 - $1,558,000. I recalculated the charge for the year and found it to be reasonable.

The utility used the rates of amortization approved by the Board.

5 **Municipal and other taxes:**

The Utility is assessed taxes by the municipalities it serves based upon the dimensions and length of pipe installed. The assessments amounted to $482,000 (2003 - $374,000).

I reviewed detailed schedules supporting the amounts expensed and found them to be accurately prepared.

6 **Interest expense:**

The total of interest expense claimed by EGNB amounts to $6,526,000 (2003 - $4,139,000) and is detailed in note 8 on page 10 of 14.

I would draw the Board's attention to the following comments:

a) As indicated in my report of October 13, 2006, during my review in Fredericton I agreed with the regulatory accounting personnel that the methodology, for calculating allowed interest on long-term debt and equity return on rate base assets, would be based upon average monthly balances. The supporting worksheets provided to me recently show that the calculations have now been changed by using annual average balances.

b) In addition, in calculating the average monthly balance of the deferral account it is necessary to allocate the operating losses on a monthly basis. The basis of this allocation is the estimated occurrence of monthly results converted into percentages, which were also agreed upon with regulatory accounting personnel.

The supporting worksheets provided to me recently show that the monthly percentages have all been changed from the agreed-upon basis. I have received no notification of these changes and have received no supporting evidence to support the changes in percentages.

I recommend to the Board that EGNB should be directed to recalculate allowable interest and return on equity on the basis of the agreed-upon methodology and percentages.

c) I would also draw the Board's attention to the comments in my report of October 13, 2006 under the heading "Additional interest and equity charges based upon CWIP". In that report, I recommended to the Board that the additional charges should be disallowed for the reasons specified.

In 2004, EGNB has used the same approach and the additional charge for interest amounts to $131,000 (see "AIDC" in note 8 on page 10 of 14).

I again recommend to the Board that the additional charge of $131,000 be disallowed and that EGNB should be ordered to remove it when re-filing its financial results for 2004.

7 Amortization of deferred development costs:

Total amortization of deferred development costs of $2,968,000 (2003 - $3,141,000) includes amortization of deferred charges and deferred carrying costs and the franchise fee, together with amortization of the O&M capitalized development costs.

Deferred charges and the related carrying costs were accumulated to March 31, 2001 and are being amortized over five years from April 1, 2001, as directed by the Board.

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

The O&M capitalized development costs are being amortized at an annual rate of 2.43% until the end of the development period, as directed by the Board.

I reviewed the detailed schedules supporting the amortization of deferred charges and found the calculations to be accurate.

8 Regulatory return on equity:

The regulated return on equity is reported as $6,591,000 (2003 - $6,455,000).

This caption represents the return on rate base assets computed using the equity portion of the debt to equity ratio at the approved rate of return on equity of 13%.

This item simply represents a regulatory accounting entry which is credited to income and debited to the deferral account.

I would refer the Board to my comments under sections 6 a) and c) above which apply equally to return on equity.

The allowable return on rate base should be recalculated using average monthly balances.

Also, an additional charge for return on equity has been made which amounts to $151,000 (see "AEDC" in note 9 on page 10 of 14). This amount should be disallowed.

9 **Regulatory deferral:**

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

	2004	2003
Loss for the year	$12,746,000	$10,836,000
Equity return on rate base assets	6,591,000	6,455,000
Total increase in deferral account	$19,337,000	$17,291,000

Balance Sheet for Regulatory Purposes:

(Appendix A, page 1 of 14)

The balance sheet is divided into "Regulated" and "Unregulated" assets and liabilities. The regulated assets should equal the total of rate base assets at the end of the financial year. However, in this presentation, the heading "Property, plant and equipment" includes construction work-in-progress amounting to $70,000 (2003 - $2,001,000). "Construction work-in-progress" or "CWIP" represents the accumulated cost of assets which are not in service and, therefore, are not considered to be rate base assets and should be removed.

10 **Property, plant and equipment:**

Property, plant and equipment represents the largest single component of rate base with a closing net book value of $74,276,000 (2003 - $56,846,000).

The detail of cost and accumulated depreciation of property, plant and equipment, by asset class, is disclosed in note 1 on page 3 of 14.

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

I relied upon the work carried out by the external auditors in verifying the amounts recorded as additions to property, plant and equipment, including the calculations of capitalized expenses and AFUDC.

As stated earlier, in 2004, capitalized expenses amount to $4,923,000 (2003 - $4,214,000), and AFUDC amounts to $281,000 (2003 - $102,000).

As discussed in my updated report for 2002 and 2003, dated October 13, 2006, operating and maintenance expenses are now segregated between those directly attributable to the construction or acquisition of property, plant and equipment, those related to development of the gas industry in New Brunswick ("Development O&M Capitalized Costs") and, finally, those which are purely overhead expenses of the business.

I refer you to that report for a detailed description of the methodology now used to allocate overhead and maintenance expenses over those three categories. This methodology was applied in 2004 in a manner consistent with the two previous years.

I reviewed departmental expenses to determine if they were reasonable in amount and nature for eventual recovery from future rates and I noted no items which should be excluded.

I examined the detailed calculations made by the Utility and found them to be accurate in accordance with the methodology employed and am satisfied that the costs capitalized as property, plant and equipment are reasonable.

11 Deferred development costs:

Deferred development costs are detailed in note 2 on page 4 of 14. The total original cost of $16,029,000 represents costs incurred prior to the commencement of operations on April 1, 2001.

They include the franchise fee of $1,500,000 paid to the Government of the Province of New Brunswick upon the awarding of the General Franchise to Enbridge Inc. on August 31, 1999. The franchise is for a twenty-year renewable term.

The Board approved of the amortization of the franchise fee over the initial term of the General Franchise Agreement of twenty years. The amortization recorded in the year of $75,000 is for twelve months on a straight-line basis, consistent with the preceding year.

The remaining deferred development costs and deferred carrying costs are being amortized over five years and will be fully amortized at March 31, 2006.

12 Regulatory deferral:

The Board has approved the use of a deferral account to record the difference between the utility's actual revenues and its regulated cost of service.

The amounts recorded in the deferral account are to be deferred until the end of the "Development Period".

The continuity of the deferral account reported for the year ended December 31, 2004, is as follows:

Balance as reported at December 31, 2003		$41,796,000
Increase during the year:		
Loss for the year	$12,746,000	
Regulatory return on equity	6,591,000	
Total increase		19,337,000
Balance as reported at December 31, 2004		$61,133,000

Under items 6 "Interest expense" and 8 "Regulatory return on equity" above I have indicated that EGNB has claimed additional charges for interest and return on equity which I recommend to the Board should be disallowed. The overstatement of these items results in an overstatement of the deferral account.

Together with the charges reported for previous years I compute the combined accumulated overstatement to be $486,000 summarized as follows:

Year	"AIDC"	"AEDC"
2002	$ 64,000	$ 38,000
2003	38,000	64,000
2004	131,000	151,000
	$233,000	$253,000

Reversal of these charges will also necessitate recalculating the monthly average balances of the deferral account, which, in turn, will further reduce the allowable interest expense and the equity return on rate base.

13 **Short-term investments:**

A Firm Services Agreement ("FSA") was entered into with M&NP in connection with the construction of two lateral pipelines and seven substations. By entering into the contract, EGNB avoided payment of a contribution in-aid to-contract of an estimated $12,000,000.

A condition of the FSA is that EGNB provide a deposit of approximately $3,000,000 equivalent to approximately 12 months reservation charges on the M&NP pipeline. The deposit is required to comply with the M&NP credit requirements. At December 31, 2004, the deposit amounted to $3,171,000 (2003 - $3,104,000).

As the deposit is required to carry out regulatory business, it represents an acceptable asset to be included in rate base.

It should be noted that for the period to December 31, 2004, interest earned on this deposit in the amount of $153,000 (2003 - $102,000) was included in regulatory income.

Capital Structure for Regulatory Purposes:

The figures presented in note 11, on page 12 of 14, represent the closing balances of the two components of capital structure as at December 31, 2004, adjusted where necessary to comply with Board directives.

The maximum debt to equity ratio accepted by the Board, (the "Regulatory Percentage") limits the equity portion to 50%.

The actual capital structure of the Utility at December 31, 2004 is a debt to equity ratio of 69.03% to 30.97%. EGNB calculated an average monthly debt to equity ratio of 64.14% debt to 35.86% of equity.

Because the equity portion was below the maximum of 50%, it is not necessary to use the "Regulatory percentage" rule but the actual average monthly ratios. However, as stated under item 6 a) above, EGNB used the annual averages rather than the monthly averages and I have recommended that the calculation of allowable interest and equity return on rate base be revised.

The total figure of debt amounting to $107,913,000 is detailed in note 4 on page 5 of 14. I have reviewed the calculation of the regulated cost of debt and conclude that the rate of 7.41% is reasonable and computed in accordance with the Board's directives.

I have verified all ratio calculations and find them reasonable.

Detail of affiliate transactions:

A summary of affiliate transactions is provided in note 12, on page 13 of 14, by departmental expense category. I have agreed this schedule with corporate records and I am satisfied that the details presented are complete and accurate. Note 12 provides a comparison of "Total affiliate consulting and services" to "Total consulting services" which indicates percentages for 2004 and 2003 of 32% and 31% respectively.

Consistent with my findings in prior years, EGNB purchases goods and services from a number of affiliated companies.

Commencing in 2003, services from the parent company, Enbridge Inc., were charged on a cost allocation method which resulted in charges being made on a cost basis rather than on a "cost-plus" basis. In addition, management of EGNB was able to choose from a range of services which it felt were specific to its needs. A related change arising from the cost allocation approach is that the management fee, formerly charged to EGNB by its parent company, was discontinued. This had no impact on the regulatory results as the fee was disallowed by Board order for regulatory purposes. The method of determining charges in 2004 is consistent with the preceding year.

In addition to services provided by Enbridge Inc., EGNB is a party to "Services Schedules" which cover specific services to be provided to the Utility by affiliated companies.

The services provided under the Services Schedules include legal and corporate assistance, information technology, payroll and benefit services, operations and engineering assistance, fleet and equipment services and purchasing management.

Each Service Schedule defines the services to be provided and the related pricing and conditions.

My review of these expenses included an examination of the Service Agreement and Services Schedules and a review of specific invoices from affiliates. The invoices were compared to the terms and conditions related to the services billed by the affiliate.

Based upon my review and discussions with management, I am satisfied that the invoices billed by affiliates are subject to the same scrutiny as invoices received from arm's length third parties.

In discussion with management, I was informed that professional services provided by affiliates are often for services that can not be obtained in New Brunswick, particularly when considering the design, construction and operation of a Greenfield gas distribution system.

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

Firm Services Agreement:

On a confidential basis, I was provided with a schedule of revenues and costs incurred in connection with the Firm Services Agreement with M&NP described in section 13 of this report.

I compared the schedule with the Utility's corporate accounting records and found it to be accurate and prepared in accordance with the Board's directions.

The net result of the transactions for 2004 is included in the regulatory statement of income for the year.

I would like to extend my thanks to both Jamie Leblanc and Lori Stickles and the accounting staff of Enbridge Gas New Brunswick for their co-operation during my review.

Respectfully submitted,

J. H. S. Easson

J. H. S. Easson, CA