

SCHEDULE 10

Capitalization of Operating and Maintenance Expenses Report

May 31, 2012



May 17, 2012

To the Directors of Enbridge Gas New Brunswick Limited Partnership (EGNB)

We have performed the procedures agreed with you and enumerated below with respect to the EGNB's Capitalization Study Update 2012 (Capitalization Study) which is to determine what Operating and Maintenance expenses (O&M) and or Cost Centres and percentages of those O&M expenses and or Cost Centres are to be capitalized to Property, Plant and equipment (PP&E) in accordance with US Generally Accepted Accounting Principles (US GAAP), set forth in the accompanying Schedule of Allocated Costs in Cost Centre for 2012. The procedures are summarized as follows:

1. Obtain EGNB's Capitalization Approach contained in the Capitalization Study and discuss the identified O&M expenses and Cost Centres with management to ensure completeness of the identified O&M expenses and Cost Centres identified on the Schedule of Allocated Costs by Cost Centre for 2012;
2. Agree the amount of each O&M and Cost Centre on the Schedule of Allocated Costs for 2012 to EGNB's Budget for 2012;
3. Check the mathematical accuracy of the amounts and percentages allocated to Capital and to Existing Customer Base on the Schedule of Allocated Costs for 2012;
4. For each amount of the 2012 budget allocated to Capital on the Schedule of Allocated Costs for 2012, through enquiry, obtain explanations from department managers by department, and verify that these activities meet the definition of direct or indirect costs that are eligible to be capitalized under US GAAP sections 970-360-25-2 and 970-360-25-3 and test the mathematical accuracy of the supporting budget to the percentages allocated on the Schedule of Allocated Costs for 2012; and
5. For each amount of the 2012 budget allocated to Capital on the Schedule of Allocated Costs for 2012, we will assess the explanations obtained through enquiry with department managers of these budget amounts by department, Cost Centre and or activity and verify that the explanations provided for the underlying budget activities plausibly support the percentages on the Schedule of Allocated Costs for 2012.

As a result of applying the procedures shown above, we report our findings below:

- a. With respect to item 1, we obtained EGNB's Capitalization Approach contained in the Capitalization Study and through discussion found the identified O&M expenses and Cost Centres identified on the Schedule of Allocated Costs by Cost Centre for 2012 to be complete.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



- b. With respect to item 2, we found the each O&M and Cost Centre on the Schedule of Allocated Costs for 2012 to be in agreement to EGNB's Budget for 2012.
- c. With respect to item 3, we found the amounts and percentages allocated to Capital and to Existing Customer Base on the Schedule of Allocated Costs for 2012 to be mathematically accurate.
- d. With respect to item 4, we found the explanations from department managers by department that the activities noted met the definition of direct or indirect costs that are eligible to be capitalized under US GAAP sections 970-360-25-2 and 970-360-25-3 and that the supporting budget to the percentages allocated on the Schedule of Allocated Costs for 2012 was mathematically accurate.
- e. With respect to item 5, we found explanations obtained through enquiry with department managers of these budget amounts by department plausibly support the percentages and amounts of the 2012 budget allocated to Capital on the Schedule of Allocated Costs for 2012.

Because the above procedures do not constitute an audit of EGNB's Capitalization Study, we express no opinion on the Capitalization Approach. Had we performed additional procedures or had we performed an audit of the Capitalization Study, and Capitalization Approach, other matters might have come to our attention that would have been reported to you.

Our report is solely for your information to be used in connection with EGNB's Capitalization Study that is to be presented to the New Brunswick Energy and Utilities Board and is not to be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. We accept no responsibility for any loss or damages suffered by any third party as a result of decisions made or actions taken based on this report.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

Enbridge Gas New Brunswick (“EGNB”) Capitalization Study Update 2012

Analysis and Methodology

In July 2010, Management undertook a study of EGNB’s Operating and Maintenance (“O&M”) expenses. The study was done to understand the drivers of O&M costs and to establish the appropriateness and rates used to capitalize portions of these costs. In cases where the costs were not easily segregated reasonable allocators were established. Costs were then allocated to three categories: “Capital”, “Customer/Industry Growth”, and “Existing Customer Base”.

In an effort to transition from the development period to a cost of service environment, EGNB ceased capitalizing its O&M to “Customer/Industry Growth” commencing January 1, 2012. In the 2012 Budget, O&M was allocated to the remaining two categories: “Capital” and “Existing Customer Base”.

In April 2012, EGNB conducted a review of the 2010 Capitalization study, and updated the study to discontinue the capitalization of O&M to “Customer/Industry Growth” to be in line with the budget, as well as adjust the capitalization percentage rates applied to cost centres where necessary.

Although the April 2012 study has resulted in adjusted capitalization percentages in some instances, the methodology for allocating O&M costs has remained consistent with the capitalization study done in 2010. Based on discussions with Management, and through analysis of the cost drivers within a particular cost centre, it was determined that the cost centres should be broken down into four steps.

**Enbridge Gas New Brunswick
Capitalization Study Update 2012
Schedule of Allocated Costs by Cost Centre**

Department Name	Cost Centre	Capitalization %	Expense %	Total
		% Allocated to Capital	% Allocated to Existing Customer Base	
Sales	25330&25329	37.5%	62.5%	100.0%
Marketing	25332	8.7%	91.3%	100.0%
Installations	25333	4.0%	96.0%	100.0%
Installations - Other	25336	93.8%	6.2%	100.0%
Attachments	25338	29.0%	71.0%	100.0%
Logistics	25350	32.0%	68.0%	100.0%
Constr & Main	25351	18.0%	82.0%	100.0%
Planning & Tech	25352	40.6%	59.4%	100.0%
Service	25353	43.0%	57.0%	100.0%
Eng QA	25354	15.3%	84.7%	100.0%
Regulatory	25361	0.0%	100.0%	100.0%
Customer Care	25362	0.8%	99.2%	100.0%
² Upstream	25363	0.0%	100.0%	100.0%
Incentives	25331	96.8%	3.2%	100.0%
Step 1: average		47.0%	53.0%	100.0%
IT	25312	27.1%	72.9%	100.0%
Fin Rpting	25311	47.0%	53.0%	100.0%
¹ Corp Admin	25313	46.6%	53.4%	100.0%
Step 2: average		46.0%	54.0%	100.0%
Human Resources	25320	32.9%	67.1%	100.0%
Step 3: average		44.8%	55.2%	100.0%
Corp. Mgmt	25300	44.8%	55.2%	100.0%
Totals		44.8%	55.2%	100.0%

Employees by Dept	
2012	2012 O&M Budget
15	1,248,534
10	2,104,457
2	92,900
5	611,408
6	389,361
4	957,099
16	2,157,157
11	874,320
16	1,090,548
2	247,399
0	1,207,950
11	1,341,560
1	108,576
0	5,897,000
99	18,328,267
7	1,028,341
12	711,364
2	1,108,812
	21,176,784
0	2,168,754
	23,345,538
8	1,241,523
128	24,587,061

SMG	% Allocated to Capital	% Allocated to Existing Customer Base	Total
Distribution Operations	23.8%	76.2%	100.0%
Installation & Service	46.7%	53.3%	100.0%
Marketing & Sales	68.8%	31.2%	100.0%
Business Development	0.0%	0.0%	0.0%
Finance & Control	26.5%	73.5%	100.0%
Human Resources	32.9%	67.1%	100.0%
Senior Mgmt Group	22.7%	77.3%	100.0%
Totals	44.8%	55.2%	100.0%

2012	
29	3,278,875
33	3,141,316
25	9,249,991
0	-
33	4,298,652
0	2,168,754
8	2,449,473
128	24,587,061

¹ Administrative Assistant and Receptionist

² Gas Supply Specialist

Step 1 Cost Centres:

Managers of cost centres included in the first level completed forms to allocate O&M costs into the two categories identified above; Costs that could be easily identified were allocated accordingly, and other costs were determined based on logical allocators (eg. employee time).

These cost centres were:

- Attachments
- Construction & Maintenance
- Customer Care
- Engineering QA
- Incentives
- Installations
- Logistics
- Marketing
- Planning & Technical
- Regulatory
- Sales
- Service
- Upstream

Step 2 Cost Centres:

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

- IT was allocated to the two 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 in Levels 3 and 4, which was refined several times until all cost centres achieved a 100% total allocation.
- Financial Reporting was allocated to the two categories based solely on the weighted average of the Level 1 results (weighted by 2012 Budget dollars).
- Corporate Administration was allocated among the two categories based on two methods; weighted average of Level 1 cost centres by 2012 Budget dollars, and weighted average of Level 1 cost centres by No. of Employees, depending on which driver for the costs was determined to be appropriate.

Step 3 Cost Centres:

- Human Resources was allocated by using the total salaries in the cost centres in Levels 1 & 2 and applying the allocations for the respective cost centres, and taking an overall weighted average of the two categories:

**Enbridge Gas New Brunswick
Capitalization Study Update 2012 - Summary**

Department Name	Cost Centre	Total Salary O&M	Capitalization %	Expense %	Total
			% Allocated to Capital	% Allocated to Existing Customer Base	
Sales	25330	1,096,814	37.5%	62.5%	100.0%
Marketing	25332	606,457	8.7%	91.3%	100.0%
Installations - Other	25336/25333	494,502	82.0%	18.0%	100.0%
Attachments	25338	354,069	29.0%	71.0%	100.0%
Logistics	25350	164,063	32.0%	68.0%	100.0%
Constr & Main	25351	974,098	18.0%	82.0%	100.0%
Planning & Tech	25352	583,064	40.6%	59.4%	100.0%
Service	25353	768,772	43.0%	57.0%	100.0%
Eng QA	25354	126,773	15.3%	84.7%	100.0%
Regulatory	25361	0	0.0%	100.0%	100.0%
Customer Care	25362	422,374	0.8%	99.2%	100.0%
Upstream	25363	0	0.0%	100.0%	100.0%
Incentives	25331	0	96.8%	3.2%	100.0%
IT	25312	411,805	27.1%	72.9%	100.0%
Fin Rpting	25311	499,779	47.0%	53.0%	100.0%
Corp Admin	25313	0	46.6%	53.4%	100.0%
Human Resources		6,502,570	32.9%	67.1%	100.0%

Step 4 Cost Centres:

- Corporate Management was allocated based on the averages of the first three levels. As Corporate Management is responsible for the overall organization it was felt that this would be the most appropriate method of allocation.

2013 +

Rates for future years are derived using the new O&M capitalization rates. Refer to the table below for details on rates forecasted for 2013-2019.

**Enbridge Gas New Brunswick
Capitalization Study 2012 Update - Summary**

Department	2013	2014	2015	2016	2017	2018	2019
Attachments	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Constr & Main	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Corporate Admin	46.6%	46.6%	46.6%	46.6%	46.6%	46.6%	46.6%
Corporate Management	44.8%	44.8%	44.8%	44.8%	44.8%	44.8%	44.8%
Customer Care	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Eng QA	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%
Financial Reporting	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%
Human Resources	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%
Incentives	96.8%	96.8%	96.8%	96.8%	96.8%	96.8%	96.8%
Information Technology	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%
Installations	82.0%	82.0%	82.0%	82.0%	82.0%	82.0%	82.0%
Logistics	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Marketing	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Planning&Tech	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%
Regulatory	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sales	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
Service & Inspections	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%
Upstream	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Conclusion

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 that the current and projected capitalization rates are still applicable, or to make changes, where necessary.