

SCHEDULE 3.5

2014 Budget

Enbridge Gas New Brunswick

Budget Balance Sheet for Regulatory Purposes

As at December 31, 2014

Notice to Reader: Subject to approval by the New Brunswick Energy and Utilities Board

(in thousands of dollars)

Assets	<u>2014</u>
Regulated Assets	
Property, Plant and Equipment (Note 2)	
Gas Distributor Plant in Service - Net (includes AFUDC capitalized during 2014 of \$3.8)	\$ 179,108
Construction Work In Progress - Gas Distributor Plant	<u>400</u>
Total Property, Plant & Equipment	179,508
Deferred Charges	
Deferred Development Costs - Net (Note 3)	350
Development O&M Capitalized Costs - Net (Note 4)	<u>94,396</u>
Total Deferred Charges	94,746
Short Term Investments	<u>2,959</u>
Total Regulated Rate Base Assets	277,213
Other Regulated Assets (Note 5)	<u>32,429</u>
Total Regulated Assets	<u>309,642</u>
Regulatory Deferral (Note 1)	<u>182,786</u>
Total Assets	<u>\$ 492,428</u>
Liabilities and Partner's Equity	
Partner's Equity (Ratebase) (Note 1)	\$ 134,233
Long-term Advances from Associates and Affiliates (Note 6)	149,500
Other Regulated Liabilities (Note 7)	<u>25,909</u>
	309,642
Partner's Equity (Regulatory Deferral)	<u>182,786</u>
Total Liabilities and Equity	<u>\$ 492,428</u>

Financial Statement Effects of Rate Regulation and Legislative Changes – Note 1
Rate Base for Regulatory Purposes – Note 12
Capital Structure for Regulatory Purposes – Note 13

Enbridge Gas New Brunswick

Statement of Budgeted Income for Regulatory Purposes

For the year ended December 31, 2014

Notice to Reader: Subject to approval by the New Brunswick Energy and Utilities Board

(in thousands of dollars)

	<u>2014</u>
Revenue	
Operating Revenue (Note 8)	
Gas distribution	\$ 48,615
Miscellaneous	180
Allowance for Funds Used During Construction	<u>4</u>
	48,799
Installation Service	
Revenue	858
Cost of goods sold	<u>(721)</u>
	137
Total Revenue	<u>48,936</u>
Expenses	
Operating Expenses	
Operating and maintenance (Note 9)	12,608
Transportation (net)	<u>2,134</u>
Total Operating and maintenance expenses	14,742
Bad debt expense	278
Amortization of Property, Plant and Equipment	7,665
Municipal and Other Taxes	1,250
Interest on Amounts Due to Associates & Affiliates and Other Interest (Note 10)	8,414
Amortization of Deferred Development Costs	<u>2,877</u>
Total Expenses	<u>35,226</u>
Income before Extraordinary Items, Regulatory Deferral and Return on Rate Base	13,710
Regulatory Deferral	<u>(167)</u>
Regulated Return on Equity (Note 11)	<u>\$ 13,543</u>

Financial Statement Effects of Rate Regulation and Legislative Changes – Note 1
Details of Affiliate Transactions – Note 14

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

Note 1 Financial Statement Effects of Rate Regulation and Legislative Changes

The Partnership's primary business activities are subject to regulation by the New Brunswick Energy and Utilities Board (EUB). The Partnership follows accounting practices prescribed by its regulator or stipulated in approved ratemaking decisions that are subject to examination and approval by the EUB and are similar to those being used by other enterprises in the gas distribution industry in Canada. Accordingly, the timing and recognition of certain revenues and expenses may differ from that otherwise expected under generally accepted accounting principles (GAAP) applicable to non-regulated operations. The ultimate recoverability of costs incurred is dependent upon the approval of the EUB.

Rate regulation creates differences between the manner in which the Partnership accounts for transactions or events and how they would be accounted for if the Partnership was not subject to rate regulation. The differences in accounting treatment include:

The EUB permits an "allowance for funds used during construction" (AFUDC) to be included in the rate base. In addition, AFUDC is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future rates. AFUDC for rate-regulated entities includes both an interest component and a cost of equity component. In the absence of rate regulation, GAAP would permit the capitalization of only the interest component. Therefore, the initial set up of the equity component as a capitalized asset and the corresponding revenue recognized during the construction phase would not be recognized nor would the subsequent depreciation of the asset.

As prescribed by the EUB, the Partnership does not recognize gains and losses on the sale of all of its natural gas in the statement of income and uses a purchase gas variance account to defer the gain or loss on sale. Non-regulated enterprises would normally account for the gain or loss in the statement of income or comprehensive income.

Enbridge Inc., on behalf of the Partnership, maintains a pension plan which provides defined benefit pension benefits to employees. As prescribed by the EUB, contributions made to the plan are expensed as paid, consistent with the recovery of such costs in rates. Under GAAP, pension costs and obligations for defined benefit pension plans are determined using the projected benefit method and are charged to income as services are rendered.

The Partnership had been subject to non-traditional regulation which recognized its immature nature. Unlike many similar utilities, the Partnership's rates were not set on a cost based methodology. Prior to October 1, 2012, the Partnership's rates were set exclusively based upon a market based methodology, and were based on a targeted savings over alternate fuel for end use customers. This rate setting methodology had been approved by the EUB for use during the development period after which rates are expected to be cost based.

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

Note 1 Financial Statement Effects of Rate Regulation and Legislative Changes (continued)

In December 2011, the Province of New Brunswick introduced legislation that outlined new rate classes, and a new rate setting methodology for the Partnership. The legislation subsequently received proclamation on January 18, 2012, with the supporting Rate and Tariffs Regulation being filed April 16, 2012.

In May 2013, in response to an appeal launched by EGNB, the New Brunswick Court of Appeal ruled that the Section 4(1) of the Regulation restricting the revenue to cost ratio to 1.2:1 was ultra vires. In response EGNB filed a rate variance application with the Board and received new rates effective August 1, 2013 which will allow EGNB to recover its full revenue requirement for the remainder of 2013.

The legislation noted above also provided direction with regards to the regulatory deferral account, which the EUB had historically approved to capture the difference between the Partnership's regulated revenues and its revenue requirement, which non-regulated enterprises would not recognize. Based on the legislative changes, the Partnership is no longer permitted to depreciate, amortize, earn a return on, or otherwise consider the regulatory deferral account when calculating its revenue requirement. In response to this legislation the Partnership has not considered the deferral account for the purpose of establishing the revenue requirement, however it will remain as an asset on Enbridge Gas New Brunswick balance sheet as it remains an asset of the Partnership for regulatory purposes. Similarly, the capital structure associated with the regulatory deferral account will also remain on the balance sheet, however, the debt and equity associated with the regulatory deferral account are not considered when calculating the allowed rate of return for the Partnership.

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Notes to 2014 Budget Regulatory Financial Results

For the year ended December 31, 2014

(in thousands of dollars)

Note 2 Property, Plant & Equipment

	Cost	Accumulated Amortization	2014 Net Book Value	Rates of Amortizatio
Property, plant & equipment				
General Plant				
Computer Hardware & Software	\$ 3,110	(2,159)	951	28.80%
Tools and Work Equipment	1,025	(379)	646	5.30%
Office Furniture and Equipment	488	(177)	311	4.40%
Transportation Equipment	1,617	(780)	837	25.00%
Incentives	91	(18)	73	20.00%
Leasehold Improvements	914	(565)	349	1
Subtotal	7,245	(4,078)	3,167	
Distribution Plant				
Land	375	-	375	-
Rights of way and easements	156	-	156	-
Distribution Mains	128,068	(24,875)	103,193	2.43%
Street Services	59,162	(14,789)	44,373	3.83%
Meters and Regulators	24,512	(6,012)	18,500	3.83%
Stations	14,171	(4,827)	9,344	4.40%
Subtotal	226,444	(50,503)	175,941	
Total plant in service	233,689	(54,581)	179,108	
Construction work in progress	400	-	400	
Total property, plant & equipment	\$ 234,089	\$ (54,581)	\$ 179,508	

1 - Amortized over the term of the related leases.

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 3 Deferred Development Costs - Net

	Cost	Accumulated Amortization	2014 Net Book Value
Franchise fee	\$ 1,500	\$ (1,150)	\$ 350
Deferred carrying costs	1,784	(1,784)	-
Total deferred development costs, net	\$ 3,284	\$ (2,934)	\$ 350

Note 4 Development O&M Capitalized Costs – Net

	Cost	Accumulated Amortization	2014 Net Book Value
Development O&M capitalized costs	\$ 114,953	\$ (20,557)	\$ 94,396
Total development O&M capitalized costs, net	\$ 114,953	\$ (20,557)	\$ 94,396

Enbridge Gas New Brunswick

Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 5 Other Regulated Assets

	<u>2014</u>
Cash, & Short Term Investments	\$ 13,950
Accounts Receivable	12,866
Long term receivable	4,279
Inventory	<u>1,334</u>
	<u>\$ 32,429</u>

Enbridge Gas New Brunswick

Notes to 2014 Budget Regulatory Financial Results

For the year ended December 31, 2014

(in thousands of dollars)

Note 6 Long-term Advances from Associates and Affiliates

	Issue Date	Maturity Date	Amount	2014 Cost of Debt		
				Enbridge Inc.	EGNB	Regulated
Promissory Note	30-Mar-05	30-Mar-15	6,000	5.04%	6.93%	6.04%
Promissory Note	28-Dec-05	28-Dec-15	14,000	4.59%	6.53%	5.59%
Promissory Note	19-Dec-06	19-Dec-16	18,000	4.82%	6.52%	5.82%
Promissory Note	20-Dec-07	20-Dec-17	20,000	5.54%	5.85%	6.54%
Promissory Note	9-Dec-09	9-Dec-19	15,000	4.63%	5.63%	5.63%
Promissory Note	22-Sep-10	22-Sep-15	4,000	3.25%	4.25%	4.25%
Promissory Note	30-Dec-11	30-Dec-21	14,000	3.50%	4.50%	4.50%
Promissory Note	8-Jan-13	8-Jan-20	7,500	3.67%	4.67%	4.67%
Promissory Note	31-Dec-13	31-Dec-23	25,000	3.40%	4.40%	4.40%
Promissory Note	30-Jun-14	29-Jun-24	5,000	3.80%	4.80%	4.80%
Promissory Note	30-Dec-14	29-Dec-24	21,000	3.80%	4.80%	4.80%
Total long term advances from associates and affiliates			\$ 149,500	4.51%	5.66%	5.51%

Enbridge Gas New Brunswick

Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 7 Other Regulated Liabilities

	<u>2014</u>
Due to affiliated companies	\$ 11,750
Accounts Payable	10,072
Long Term Payables	3,061
Long Term Deferred Post Employment Liabilities	<u>1,026</u>
	<u>\$ 25,909</u>

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 8 Operating Revenue

a. Gas Distribution

	2014		
	Revenue	Customers	Throughput TJs
Small General Service (SGS)	\$ 12,409	10,252	930
Mid-General Service (MGS)	13,426	1,534	986
Large General Service (LGS)	9,252	413	1,139
Contract General Service (CGS)	6,430	94	1,147
Industrial Contract General Service (ICGS)	6,897	10	2,128
Off-Peak Service (OPS)	201	15	73
Total	\$ 48,615	12,318	6,403

1 Terajoule (TJ) = 1,000 Gigajoules (GJ)

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 8 Operating Revenue (continued)

b. Miscellaneous

	<u>2014</u>
Agent billing and collection	\$ 174
Other miscellaneous revenue	<u>6</u>
Total miscellaneous	<u>\$ 180</u>

Details of Agent Billing and Collection Revenue

(in dollars)

	<u>2014</u>
Small General Service (SGS)	\$ 137,008
Mid-General Service (MGS)	21,023
Large General Service (LGS)	12,635
Contract General Service (CGS)	2,521
Industrial Contract General Service (ICGS)	413
Off-Peak Service (OPS)	<u>719</u>
Total agent billing and collection revenue	<u>\$ 174,319</u>

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 9 Operating and Maintenance Expenses

	<u>2014</u>
Corporate management	\$ 2,317
Corporate administration	1,147
Financial reporting	934
Information technology	1,192
Regulatory & upstream	1,057
Sales & marketing	1,860
Distribution & maintenance	5,510
Customer care	1,149
Human resources	3,120
Gas transportation and related activities	<u>2,134</u>
Total	<u>20,420</u>
Capitalized to:	
Property, plant & equipment	5,678
Development O&M capitalized costs	<u>-</u>
Total capitalized	<u>5,678</u>
Total	<u>\$ 14,742</u>

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Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 10 Interest on Amounts Due to Associates & Affiliates and Other Interest

	<u>2014</u>
Interest on long-term debt	\$ 8,412
AIDC - allowance for funds used during construction (debt component)	2
Total interest on amounts due to associates & affiliates and other interest	<u>\$ 8,414</u>

Note 11 Regulated Return on Equity

	<u>2014</u>
Regulated return on equity	\$ 13,541
AEDC - allowance for funds used during construction (equity component)	2
Total regulated return on equity	<u>\$ 13,543</u>

Enbridge Gas New Brunswick

Notes to 2014 Budget Regulatory Financial Results

For the year ended December 31, 2014

(in thousands of dollars)

Note 12 Rate Base for Regulatory Purposes

	<u>2014</u>
Property, plant & equipment	
Cost	\$ 233,689
Accumulated amortization	<u>(54,581)</u>
Net	179,108
Deferred charges	
Franchise fee, at cost	1,500
Accumulated amortization	<u>(1,150)</u>
Net	350
Development O&M capitalized costs	114,953
Accumulated amortization	<u>(20,557)</u>
Net	94,396
Deferred carrying costs, at cost	1,784
Accumulated amortization	<u>(1,784)</u>
Net	-
Deferral account	<u>-</u>
Total deferred charges	94,746
Term deposit	2,959
Working capital allowance	<u>1,407</u>
Total rate base	<u>\$ 278,220</u>
Average rate base	<u>\$ 277,450</u>

Enbridge Gas New Brunswick

Notes to 2014 Budget Regulatory Financial Results
For the year ended December 31, 2014

(in thousands of dollars)

Note 13 Capital Structure for Regulatory Purposes

	<u>2014</u>
Capital structure	
Long-term debt	\$ 149,500
Equity	<u>134,233</u>
Total	<u>\$ 283,733</u>

Capital structure percentage

Long-term debt	52.69%
Equity	<u>47.31%</u>
Total	<u>100.00%</u>

Capital structure average percentage for regulatory purposes

Long-term debt	55.00%
Equity	<u>45.00%</u>
Total	<u>100.00%</u>

Weighted cost of capital for regulatory purposes

Long-term debt	3.04%
Equity	<u>4.91%</u>
Total	<u>7.95%</u>

Enbridge Gas New Brunswick

Notes to 2014 Budget Regulatory Financial Results

For the year ended December 31, 2014

(in thousands of dollars)

Note 14 Details of Affiliate Transactions

Consulting and Services	Enbridge Inc.	Enbridge Gas Distribution Inc.	Gazifère Inc.	Total Affiliate Consulting and Services	Total Consulting and Services	Affiliate Expenditure as Percent of Total Consulting and Services
For the period ending December 31, 2014						
Corporate management	\$ 23	\$ 168	\$ -	\$ 191	\$ 1,446	13%
Sales & marketing	-	-	-	-	880	0%
Human resources	46	86	-	132	282	47%
Distribution & maintenance	-	572	-	572	1,130	51%
Budget & regulatory	-	-	-	-	948	0%
Financial reporting	35	15	-	50	204	25%
Customer care	-	-	816	816	840	97%
Corporate administration	1,012	8	-	1,020	1,020	100%
Gas transportation & related	-	104	-	104	109	95%
Information technology	233	183	-	416	535	78%
Total	\$ 1,349	\$ 1,136	\$ 816	\$ 3,301	\$ 7,393	45%