

SCHEDULE 4.2

2013 Budget

Enbridge Gas New Brunswick
 Budget Balance Sheet for Regulatory Purposes
 As at December 31, 2013

(in thousands of dollars)

Assets	<u>2013</u>
Regulated Assets	
Property, Plant and Equipment (Note 2)	
Gas Distributor Plant in Service - Net (includes AFUDC capitalized during 2013 of \$42.0)	\$ 174,026
Construction Work In Progress - Gas Distributor Plant	<u>2,009</u>
Total Property, Plant & Equipment	176,035
Deferred Charges	
Deferred Development Costs - Net (Note 3)	425
Development O&M Capitalized Costs - Net (Note 4)	<u>97,134</u>
Total Deferred Charges	97,559
Short Term Investments	<u>2,978</u>
Total Regulated Rate Base Assets	276,572
Other Regulated Assets (Note 5)	<u>28,779</u>
Total Regulated Rate Base Assets	<u>305,351</u>
Regulatory Deferral (Note 1)	<u>178,747</u>
Total Assets	<u>\$ 484,098</u>
Liabilities and Partner's Equity	
Partner's Equity (Ratebase) (Note 1)	\$ 127,853
Long-term Advances from Associates and Affiliates (Notes 1 and 6)	160,339
Other Regulated Liabilities (Note 7)	<u>17,159</u>
	305,351
Partner's Equity (Regulatory Deferral)	<u>178,747</u>
Total Liabilities and Equity	<u>\$ 484,098</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, 2013

(in thousands of dollars)

	<u>2013</u>
Revenue	
Operating Revenue (Note 8)	
Gas distribution	\$ 41,580
Miscellaneous	175
Allowance for Funds Used During Construction	<u>42</u>
	41,797
Installation Service	
Revenue	590
Cost of goods sold	<u>(383)</u>
	207
Total Revenue	<u>42,004</u>
Expenses	
Operating Expenses	
Operating and maintenance (Note 9)	11,969
Transportation (net)	<u>1,901</u>
Total Operating and maintenance expenses	13,870
Bad debt expense	226
Amortization of Property, Plant and Equipment	7,459
Municipal and Other Taxes	1,195
Interest on Amounts Due to Associates & Affiliates and Other Interest (Note 10)	8,473
Amortization of Deferred Development Costs	<u>2,908</u>
Total Expenses	<u>34,131</u>
Income before Extraordinary Items, Regulatory Deferral and Return on Rate Base	7,873
Regulatory Deferral	<u>-</u>
Regulated Return on Equity (Note 11)	<u>\$ 7,873</u>

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

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

Note 1 Financial Statement Effects of Rate Regulation and Legislative Changes

The Public Utility's primary business activities are subject to regulation by the New Brunswick Energy and Utilities Board (EUB). The Public Utility 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 Public Utility accounts for transactions or events and how they would be accounted for if the Public Utility 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 Public Utility 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 Public Utility, 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 Public Utility had been subject to non-traditional regulation which recognized its immature nature. Unlike many similar utilities, the Public Utility's rates were not set on a cost based methodology. Prior to October 1, 2012, the Public Utility'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.

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

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 Public Utility. The legislation subsequently received proclamation on January 18, 2012, with the supporting Rates and Tariffs Regulation being filed April 16, 2012. As a result of the legislation, effective March 1, 2012, the Public Utility was directed to combine the Small General Service Residential Oil (SGSRO) and Small General Service Residential Electric (SGSRE) rate classes into a single Small General Service Residential (SGSR) class and apply the SGSRE distribution rate to all customers. In addition, effective October 1, 2012, the Public Utility was directed to establish new rate classes for all customers, with rates to be based on the lesser of the market based rate, or the cost of service rate with an allowed multiplier to allow for a level of cross-subsidization with a revenue to cost ratio not exceeding 1.2:1 for any class of customer. The regulation also stipulated the target savings level and alternative fuel sources to be used in determining the market based rates.

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 Public Utility's regulated revenues and its revenue requirement, which non-regulated enterprises would not recognize. Based on the legislative changes, the Public Utility 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 Public Utility has not recorded any adjustments to the regulatory deferral account and it will not be considered for the purpose of establishing the revenue requirement, however it will remain as an asset on Enbridge Gas New Brunswick's balance sheet as it remains an asset of the Public Utility 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 Public Utility.

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 2 Property, Plant & Equipment

			2013	
	Cost	Accumulated Amortization	Net Book Value	Rates of Amortization
Property, plant & equipment				
General plant				
Computer hardware & software	\$ 3,180	\$ (2,319)	\$ 861	28.80%
Tools and work equipment	886	(325)	561	5.30%
Office furniture and equipment	485	(157)	328	4.40%
Transportation	1,698	(619)	1,079	11.80%
Communications	81	(81)	-	28.80%
Leasehold improvements	935	(557)	378	1
Subtotal	<u>7,265</u>	<u>(4,058)</u>	<u>3,207</u>	
Distribution plant				
Land	375	-	375	-
Rights of way and easements	156	-	156	-
Distribution mains	122,490	(21,695)	100,795	2.43%
Street services	58,362	(13,163)	45,199	3.83%
Meters and regulators	22,118	(4,995)	17,123	3.83%
Stations	11,316	(4,145)	7,171	4.40%
Subtotal	<u>214,817</u>	<u>(43,998)</u>	<u>170,819</u>	
Total plant in service	222,082	(48,056)	174,026	
Construction work in progress	<u>2,009</u>	<u>-</u>	<u>2,009</u>	-
Total property, plant & equipment	<u>\$ 224,091</u>	<u>\$ (48,056)</u>	<u>\$ 176,035</u>	

1 - Amortized over the term of the related leases.

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 3 Deferred Development Costs - Net

	Cost	Accumulated Amortization	2013 Net Book Value
Franchise fee	\$ 1,500	\$ (1,075)	\$ 425
Deferred carrying costs	<u>1,784</u>	<u>(1,784)</u>	<u>-</u>
Total deferred development costs, net	<u>\$ 3,284</u>	<u>\$ (2,859)</u>	<u>\$ 425</u>

Note 4 Development O&M Capitalized Costs – Net

	Cost	Accumulated Amortization	2013 Net Book Value
Development O&M capitalized costs	\$ 114,902	\$ (17,768)	\$ 97,134
Total development O&M capitalized costs, net	<u>\$ 114,902</u>	<u>\$ (17,768)</u>	<u>\$ 97,134</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 5 Other Regulated Assets

	<u>2013</u>
Cash, & Short Term Investments	\$ 10,717
Accounts Receivable	13,607
Long term receivable	2,992
Inventory	<u>1,463</u>
	<u>\$ 28,779</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 6 Long-term Advances from Associates and Affiliates

	Issue Date	Maturity Date	Amount	2013 Cost of Debt		
				Enbridge Inc.	EGNB	Regulated
Promissory Note	30-Nov-04	28-Nov-14	\$ 5,339	5.69%	6.95%	6.69%
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	21,000	4.82%	6.52%	5.82%
Promissory Note	20-Dec-07	20-Dec-17	29,000	5.54%	5.85%	6.54%
Promissory Note	25-Jun-09	25-Jun-14	25,000	4.37%	5.37%	5.37%
Promissory Note	9-Dec-09	9-Dec-19	21,000	4.63%	5.63%	5.63%
Promissory Note	24-Aug-10	24-Aug-15	12,000	3.22%	4.22%	4.22%
Promissory Note	22-Sep-10	22-Sep-15	9,000	3.25%	4.25%	4.25%
Promissory Note	30-Dec-11	30-Dec-21	18,000	4.50%	5.50%	5.50%
Total long-term advances from associates and affiliates			<u>\$ 160,339</u>	<u>4.52%</u>	<u>5.61%</u>	<u>5.52%</u>

The cost of debt of EGNB is limited to the actual borrowing rate of Enbridge Inc. plus 1%.

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 7 **Other Regulated Liabilities**

	<u>2013</u>
Due to affiliated companies	\$ 9,712
Accounts Payable	4,983
Long Term Deferred Post Employment Liabilities	<u>2,464</u>
	<u>\$ 17,159</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 8 Operating Revenue

a. Gas Distribution

	2013		
	Revenue	Customers	Throughput TJs
Small General Service (SGS)	\$ 11,937	9,962	861
Mid-General Service (MGS)	11,156	1,623	965
Large General Service (LGS)	7,571	456	1,088
Contract General Service (CGS)	5,129	96	1,267
Industrial Contract General Service (ICGS)	5,683	10	2,102
Off-Peak Service (OPS)	104	15	29
Total	\$ 41,580	12,162	6,312

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

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 8 Operating Revenue (continued)

b. Miscellaneous

	<u>2013</u>
Agent billing and collection	\$ 169
Other miscellaneous revenue	<u>6</u>
Total miscellaneous	<u>\$ 175</u>

Details of Agent Billing and Collection Revenue

(in dollars)

	<u>2013</u>
Small general service (SGS)	\$ 140,141
Mid-General Service (MGS)	17,199
Large General Service (LGS)	9,094
Contract General Service (CGS)	764
Industrial Contract General Service (ICGS)	764
Off-Peak Service (OPS)	<u>820</u>
Total agent billing and collection revenue	<u>\$ 168,782</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 9 Operating and Maintenance Expenses

	<u>2013</u>
Corporate management	\$ 1,181
Corporate administration	1,240
Financial reporting	639
Information technology	980
Regulatory & upstream	1,114
Sales & marketing	1,998
Distribution & maintenance	5,727
Customer care	1,329
Human resources	2,799
Gas transportation and related activities	<u>1,901</u>
Total prior to capitalization	<u>18,908</u>
Property, plant & equipment	<u>5,038</u>
Total capitalized	<u>5,038</u>
Total expense	<u>\$ 13,870</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

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

	<u>2013</u>
Interest on long-term debt	\$ 8,457
AIDC - allowance for funds used during construction (debt component)	16
Total interest on amounts due to associates & affiliates and other interest	<u>\$ 8,473</u>

Note 11 Regulated Return on Equity

	<u>2013</u>
Regulated return on equity	\$ 7,847
AEDC - allowance for funds used during construction (equity component)	26
Total regulated return on equity	<u>\$ 7,873</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results

For the year ended December 31, 2013

(in thousands of dollars)

Note 12 Rate Base for Regulatory Purposes

	<u>2013</u>
Property, plant & equipment	
Cost	\$ 222,082
Accumulated amortization	<u>(48,056)</u>
Net	174,026
Deferred charges	
Franchise fee, at cost	1,500
Accumulated amortization	<u>(1,075)</u>
Net	425
Development O&M capitalized costs	114,902
Accumulated amortization	<u>(17,768)</u>
Net	97,134
Deferred carrying costs, at cost	1,784
Accumulated amortization	<u>(1,784)</u>
Net	-
Deferral account	<u>-</u>
Total deferred charges	97,559
Term deposit	2,978
Working capital allowance	<u>1,486</u>
Total rate base	<u>\$ 276,049</u>
Average rate base	<u>\$ 276,370</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(in thousands of dollars)

Note 13 Capital Structure for Regulatory Purposes

	<u>2013</u>
Capital structure	
Long-term debt	\$ 160,339
Equity ¹	<u>127,853</u>
Total	<u>\$ 288,192</u>
Capital structure percentage	
Long-term debt	55.64%
Equity	<u>44.36%</u>
Total	<u>100.00%</u>
Capital structure average percentage for regulatory purposes	
Long-term debt	55.47%
Equity	<u>44.53%</u>
Total	<u>100.00%</u>
Weighted cost of capital for regulatory purposes	
Long-term debt	3.06%
Equity	<u>4.85%</u>
Total	<u>7.91%</u>
¹ Regulated Equity	\$ 127,853
Equity to Fund Regulatory Deferral	<u>100,099</u>
Total Equity	<u>\$ 227,952</u>

Enbridge Gas New Brunswick

Notes to 2013 Budget Regulatory Financial Results
For the year ended December 31, 2013

(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, 2013						
Corporate management	\$ 18	\$ 99	\$ -	\$ 117	\$ 272	43%
Sales & marketing	-	12	-	12	400	3%
Human resources	50	86	-	136	296	46%
Distribution & maintenance	-	597	-	597	1,484	40%
Budget & regulatory	-	-	-	-	1,000	0%
Financial reporting	23	-	-	23	77	30%
Customer care	-	41	766	807	831	97%
Corporate administration	1,151	3	-	1,154	1,154	100%
Gas transportation & related	-	104	-	104	109	95%
Information technology	104	230	-	334	446	75%
Total	\$ 1,346	\$ 1,172	\$ 766	\$ 3,284	\$ 6,068	54%