

SCHEDULE 4.2

2016 Budget

Enbridge Gas New Brunswick
 Budget Balance Sheet for Regulatory Purposes
 For the year ended December 31, 2016

1 (in thousands of dollars)

2	Assets	<u>2016</u>
3 Regulated Assets		
4	Property, Plant and Equipment (Note 2)	
5	Gas Distributor Plant in Service - Net (includes AFUDC capitalized during 2016 of \$26.4K)	\$ 176,579
6	Construction Work In Progress - Gas Distributor Plant	<u>1,000</u>
7	Total Property, Plant & Equipment	177,579
8 Deferred Charges		
9	Deferred Development Costs - Net (Note 3)	200
10	Development O&M Capitalized Costs - Net (Note 4)	<u>88,826</u>
11	Total Deferred Charges	89,026
12	Short Term Investments	<u>2,967</u>
13	Total Regulated Rate Base Assets	269,572
14	Other Regulated Assets (Note 5)	<u>36,164</u>
15	Total Regulated Assets	<u>305,736</u>
16	Regulatory Deferral (Note 1)	<u>178,269</u>
17	Total Assets	<u>\$ 484,005</u>
18 Liabilities and Partner's Equity		
19	Partner's Equity (Ratebase) (Note 1)	\$ 146,809
20	Long-term Advances from Associates and Affiliates (Note 6)	149,500
21	Other Regulated Liabilities (Note 7)	<u>9,427</u>
22		305,736
23	Partner's Equity (Regulatory Deferral)	<u>178,269</u>
24	Total Liabilities and Equity	<u>\$ 484,005</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, 2016

1	(in thousands of dollars)	
2		2016
3	Revenue	<u> </u>
4	Operating Revenue (Note 8)	
5	Gas distribution	\$ 44,384
6	Miscellaneous	962
7	Allowance for Funds Used During Construction	<u>26</u>
		45,372
8	Service and Inspections	
9	Revenue	742
10	Cost of goods sold	<u>(561)</u>
		181
11	Total Revenue	<u>45,553</u>
12	Expenses	
13	Operating Expenses	
14	Operating and maintenance (Note 9)	12,140
15	Transportation (net)	<u>1,700</u>
16	Total Operating and maintenance expenses	13,840
17	Other Expenses	500
18	Bad debt expense	385
19	Amortization of Property, Plant and Equipment	5,709
20	Municipal and Other Taxes	1,238
21	Interest on Amounts Due to Associates & Affiliates and Other Interest (Note 10)	7,712
22	Amortization of Deferred Development Costs	<u>2,867</u>
23	Total Expenses	<u>32,251</u>
24	Income before Extraordinary Items, Regulatory Deferral and Return on Rate Base	13,302
25	Regulatory Deferral	<u>-</u>
26	Regulated Return on Equity (Note 11)	<u>\$ 13,302</u>

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

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

1 Note 1 Financial Statement Effects of Rate Regulation and Legislative Changes

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

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

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

21 As prescribed by the EUB, the Public Utility does not recognize gains and losses on the sale of Enbridge
22 Utility Gas (EUG) in the statement of income and uses a purchase gas variance account to defer the
23 gain or loss on sale. Non-regulated enterprises would normally account for the gain or loss in the
24 statement of income or comprehensive income.

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

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

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Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

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

2 In December 2011, the Province of New Brunswick introduced legislation that outlined new rate classes,
3 and a new rate setting methodology for the Public Utility. The legislation subsequently received
4 proclamation on January 18, 2012, with the supporting Rates and Tariffs Regulation being filed April 16,
5 2012.

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

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 2 Property, Plant & Equipment

			2016		
	Cost	Accumulated Amortization	Net Book Value	Rates of Amortization	
4	Property, plant & equipment				
5	General Plant				
	Computer Hardware & Software	\$ 3,467	\$ (2,783)	\$ 684	8.87%, 2.6%, 4.96%
	Tools and Work Equipment	1,686	(980)	706	14.53%
	Office Furniture and Equipment	487	(260)	227	6.41%
	Transportation Equipment	1,876	(1,227)	649	6.32%
	Incentives	336	(137)	199	20.00%
	Leasehold Improvements	794	(474)	320	1
	Subtotal	8,646	(5,861)	2,785	
13	Distribution Plant				
	Land	375	-	375	-
	Rights of way and easements	189	-	189	-
	Distribution Mains	127,356	(29,586)	97,770	1.64%
	Street Services	65,291	(17,810)	47,481	1.74%
	Meters and Regulators	23,738	(5,609)	18,129	7.63%
	Stations	16,196	(6,346)	9,850	2.82%
	Subtotal	233,145	(59,351)	173,794	
	Total plant in service	241,791	(65,212)	176,579	
	Construction work in progress	1,000	-	1,000	
	Total property, plant & equipment	\$ 242,791	\$ (65,212)	\$ 177,579	

24 1 - Amortized over the term of the related leases.

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 3 Deferred Development Costs - Net

			2016
	Cost	Accumulated Amortization	Net Book Value
1			
2			
3			
4	Franchise fee	\$ (1,300)	\$ 200
5	Total deferred development costs, net	\$ (1,300)	\$ 200

Note 4 Development O&M Capitalized Costs – Net

			2016
	Cost	Accumulated Amortization	Net Book Value
6			
7			
8			
9	Development O&M capitalized costs	\$ (26,126)	\$ 88,826
10	Total development O&M capitalized costs, net	\$ (26,126)	\$ 88,826

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 5 Other Regulated Assets

1	<u>2016</u>
2 Cash, & Short Term Investments	\$ 21,727
3 Accounts Receivable	11,217
4 Long term receivable	2,132
5 Inventory	<u>1,088</u>
6	<u>\$ 36,164</u>

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 6 Long-term Advances from Associates and Affiliates

		Issue Date	Maturity Date	Amount	2016 Cost of Debt		
					Enbridge Inc.	EGNB	Regulated
1							
2							
3							
4	Promissory Note	12-Dec-12	20-Dec-17	20,000	5.54%	5.85%	6.54%
5	Promissory Note	12-Dec-12	9-Dec-19	15,000	4.63%	5.63%	5.63%
6	Promissory Note	12-Dec-12	30-Dec-21	14,000	3.50%	4.50%	4.50%
7	Promissory Note	8-Jan-13	8-Jan-20	7,500	3.67%	4.67%	4.67%
8	Promissory Note	24-Feb-14	26-Feb-18	25,000	4.16%	5.16%	5.16%
9	Promissory Note	24-Mar-14	24-Mar-17	5,000	3.69%	4.69%	4.69%
10	Promissory Note	29-Dec-14	28-Dec-18	21,000	3.72%	4.72%	4.72%
11	Promissory Note	30-Mar-15	29-Mar-19	6,000	3.45%	4.45%	4.45%
12	Promissory Note	15-Sep-15	15-Sep-19	18,000	3.84%	4.84%	4.84%
13	Promissory Note	15-Sep-15	15-Sep-20	18,000	4.23%	5.23%	5.23%
14	Total long-term advances						
15	from associates and affiliates			\$ 149,500	4.17%	5.08%	5.17%

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

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 7 Other Regulated Liabilities

	<u>2016</u>
1	
2 Due to affiliated companies	\$ -
3 Accounts Payable	3,413
4 Long Term Payables	1,703
5 Long Term Deferred Post Employment Liabilities	<u>4,311</u>
6	<u>\$ 9,427</u>

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 8 Operating Revenue

a. Gas Distribution

1	2016		
2	Revenue	Customers	Throughput
3			TJs
4 Small General Service (SGS)	\$ 6,163	8,195	606
5 Mid-General Service (MGS)	12,319	3,213	1,091
6 Large General Service (LGS)	11,906	427	1,306
7 Contract General Service (CGS)	6,753	102	998
8 Industrial Contract General Service (ICGS)	7,062	9	1,973
9 Off-Peak Service (OPS)	181	16	28
10 Total	\$ 44,384	11,962	6,002

11 1 Terajoule (TJ) = 1,000 Gigajoules (GJ)

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Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 8 Operating Revenue (continued)

b. Miscellaneous

1		<u>2016</u>
2	Agent billing and collection	\$ 192
3	Other miscellaneous revenue	<u>770</u>
4	Total miscellaneous	<u><u>\$ 962</u></u>

5 Details of Agent Billing and Collection Revenue

6 (in dollars)

7		<u>2016</u>
8	Small General Service (SGS)	\$ 124,554
9	Mid-General Service (MGS)	50,219
10	Large General Service (LGS)	13,874
11	Contract General Service (CGS)	2,482
12	Industrial Contract General Service (ICGS)	339
13	Off-Peak Service (OPS)	<u>702</u>
14	Total agent billing and collection revenue	<u><u>\$ 192,170</u></u>

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Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 9 Operating and Maintenance Expenses

1	<u>2016</u>
2 Corporate management	\$ 1,075
3 Corporate administration	426
4 Financial reporting	1,231
5 Information technology	1,538
6 Regulatory & upstream	1,140
7 Sales & marketing	1,272
8 Distribution & maintenance	5,195
9 Customer care	1,264
10 Human resources	2,484
11 Gas transportation and related activities	<u>1,700</u>
12 Total prior to capitalization	<u>17,325</u>
13 Property, plant & equipment	<u>3,485</u>
14 Total capitalized	<u>3,485</u>
15 Total expense	<u>\$ 13,840</u>

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Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

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

1	<u>2016</u>
2 Interest on long-term debt	\$ 7,702
3 AIDC - allowance for funds used during construction (debt component)	10
4 Total interest on amounts due to associates & affiliates and other interest	<u>\$ 7,712</u>

Note 11 Regulated Return on Equity

5	<u>2016</u>
6 Regulated return on equity	\$ 13,289
7 Disallowed return as per Matter 306	(4)
8 AEDC - allowance for funds used during construction (equity component)	17
9 Total regulated return on equity	<u>\$ 13,302</u>

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 12 Rate Base for Regulatory Purposes

1		<u>2016</u>
2	Property, plant & equipment	
3	Cost	\$ 241,791
4	Accumulated amortization	<u>(65,212)</u>
5	Net	176,579
6	Deferred charges	
7	Franchise fee, at cost	1,500
8	Accumulated amortization	<u>(1,300)</u>
9	Net	200
10	Development O&M capitalized costs	114,952
11	Accumulated amortization	<u>(26,126)</u>
12	Net	88,826
13	Deferral account	<u>-</u>
14	Net	-
15	Total deferred charges	89,026
16	Term deposit	2,967
17	Working capital allowance	<u>1,146</u>
18	Total rate base	<u>\$ 269,718</u>
19	Average rate base	<u>\$ 270,912</u>

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 13 Capital Structure for Regulatory Purposes

1		<u>2016</u>
2	Capital structure	
3	Long-term debt	\$ 149,500
4	Equity	<u>146,809</u>
5	Total	<u><u>\$ 296,309</u></u>

6 Capital structure percentage

7	Long-term debt	50.45%
8	Equity	<u>49.55%</u>
9	Total	<u><u>100.00%</u></u>

10 Capital structure average percentage for regulatory purposes

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

14 Weighted cost of capital for regulatory purposes

15	Long-term debt	2.84%
16	Equity	<u>4.91%</u>
17	Total	<u><u>7.75%</u></u>

Enbridge Gas New Brunswick

Notes to 2016 Budget Regulatory Financial Results

For the year ended December 31, 2016

(in thousands of dollars)

Note 14 **Details of Affiliate Transactions**

		Enbridge Gas Distribution Inc.		Gazifère Inc.	Total Affiliate Consulting and Services	Total Consulting and Services	Affiliate Expenditure as Percent of Total Consulting and Services
1 Consulting and Services		Enbridge Inc.					
2 For the period ending December 31, 2016							
3 Corporate management	\$	-	\$ 155	\$ -	\$ 155	\$ 310	50%
4 Sales & marketing		-	-	-	-	197	0%
5 Human resources		165	102	-	267	332	81%
6 Distribution & maintenance		-	497	-	497	1,243	40%
7 Budget & regulatory		-	-	-	-	978	0%
8 Financial reporting		11	64	-	75	229	33%
9 Customer care		-	-	846	846	846	100%
10 Corporate administration		378	8	-	386	488	79%
11 Gas transportation & related		-	132	-	132	159	83%
12 Information technology		884	10	-	895	1,038	86%
13 Total	\$	1,438	\$ 968	\$ 846	\$ 3,253	\$ 5,820	56%