

SCHEDULE 9
Cost Allocation Report

Corporate Allocations

In the January 30, 2012 Board decision regarding EGNB's 2010 Financial Results, 2010 Natural Gas Sales and 2012 Proposed Budget, the Board stated on page 6:

“The Board orders EGNB to file the following:

1. A detailed description of the current methodology used for calculating those portions of the costs allocated by Enbridge Inc. which are included as expenses in the Regulatory Financial Statements.
2. A list of all the costs allocated by Enbridge Inc. together with EGNB's position as to whether each of these costs, or a portion of them, would be incurred were EGNB a stand-alone corporation.
3. EGNB's position with respect to how each costs benefits the ratepayers of EGNB.”

Purpose of the Document

This document was developed to establish the methodology used by EGNB to determine the allocation of costs from Enbridge Inc. (“Enbridge”) to EGNB recoverable in rates. The proposed methodology has been used in the development of the 2011 Actuals, the 2012 Forecast and the 2013 budget for the rate application filed on May 31, 2012 with the Board pursuant to the GDA.

Enbridge Corporate Allocation Methodology

Enbridge is a leader in energy transportation and distribution in North America and internationally. It operates the world's longest crude oil and liquids transportation pipeline and Canada's largest natural gas distribution company. It also operates natural gas transmission pipelines and midstream businesses in the United States and invests in international energy projects. Its activities are comprised of regulated and non-regulated businesses.

Enbridge believes in an “integrated” operating model which involves the corporate office effectively managing as an integral extension of the decision making and operating activities of its business units and affiliates (for the benefit of the business). The impact of this operating model results in a decrease in overall cost of each respective affiliate's operating and maintenance expenses due primarily to the potential for economies of scale. The resulting corporate cost allocations back to the affiliate are offset by a reduction in their own incurred costs. For management and regulatory purposes, these operating costs and benefits need to be tracked.

EGNB relies on the Enbridge name and reputation. The overall strength of Enbridge and how it is perceived in the market provides a foundation for the benefits that EGNB receives from being part of Enbridge, including relying on the strength of the Enbridge

name in dealings with industry stakeholders and the public and gaining access to debt and equity financing. EGNB also benefits from shared resources.

The manner in which Enbridge currently allocates costs to its operating entities such as EGNB is outlined in detail in its internal “Cost Allocation Methodology” policy document provided as a confidential document to the Board in 2010 as part of the NBEUB 2009-007 proceeding. EGNB believes that the cost allocation methodology policy applied by Enbridge to all its operating entities to allocate the corporate office costs is appropriate and fair.

EGNB methodology for recovery of Corporate Allocations

The objective of the methodology is to establish the appropriate charges to be allocated for services delivered in a given fiscal year by Enbridge to EGNB based on the criteria specified by the Board that would be recoverable in rates. The methodology proposed is simple and practical to administer, transparent and supported by data and records.

EGNB has reviewed all the corporate allocations in accordance with directives in the January 30, 2012 Board decision and as a result of the review proposed the following methodology to establish the corporate allocation costs to be recoverable in rates.

All current corporate allocation costs fall into three main groups:

- Corporate Governance;
- Information Technology (“IT”);
- Human Resources.

Corporate Governance

Corporate governance is the system by which EGNB is directed and controlled. This is accomplished with the development and consistent application of processes, policies, guidelines, laws and instructions across the organization. Corporate governance also includes the management of relationships among the many stakeholders involved and the goals for which EGNB is governed. EGNB’s main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by its activities. EGNB’s internal stakeholders are the board of directors, executives and other employees. Corporate governance works to ensure that an enterprise is directed and controlled in a responsible, professional and transparent manner with the purpose of safeguarding its long-term success and is intended to increase the confidence of shareholders and capital-market investors.

Information Technology

IT involves two functions: IT management and management of information systems. IT management is the management of all of the technology resources in accordance with EGNB requirements and priorities. These resources include tangible investments like

computer hardware, software, data storage, networks and data centre facilities, as well as the staffing needed to maintain them. EGNB relies on Enbridge to manage these responsibilities and to provide basic management functions, such as budgeting, staffing, organizing and controlling, along with other aspects that are unique to technology, like change management, software design, systems security, network planning and technical support.

A primary focus of IT management is the value creation made possible by technology and the alignment of technology and business strategies. EGNB relies on Enbridge to provide this service. Its objective is to design and implement procedures, processes and routines that provide detailed reports in an accurate, consistent and timely manner. This includes Oracle Financials for financial reporting and employee expenses, Khalix for budgeting, Peoplesoft for human resource management and other employee management systems for managing areas such as safety and training.

Enbridge has a strong base of knowledge and expertise in the areas described above. EGNB is able to tap into these resources cheaper due to economies of scale. This knowledge and strength extends from the senior leadership through to staff within Enbridge and the affiliates.

Human Resources

Human resource management is the management of an organization's workforce, or human resources. It is responsible for the attraction, selection, training, assessment and rewarding of employees, while also overseeing organizational leadership and cultures, and ensuring compliance with employment and labour laws. This function also addresses the development and execution of the total compensation strategy through managing the analysis, design, implementation, communication and automation of pay systems, perquisites, benefits and retirement programs. It also negotiates, executes and maintains all third party travel agreements as well as the development and oversight of employee expense reporting policies and existing corporate card programs.

Methodology Guiding Principles

The first step in the methodology is to demonstrate that the corporate cost allocations recoverable in rates are based on three guiding principles:

- *Cost Incurrence* - are the proposed charges prudently incurred by, or on behalf of the utility for the provision of a service required by ratepayers;
- *Cost Allocation* - if properly incurred, are the proposed charges allocated appropriately to the utility, based on the application of cost allocation factors as outlined in the Enbridge Cost Allocation Methodology policy; and
- *Cost Benefit* - do the benefits to the utility's ratepayers equal or exceed the costs.

In meeting the third principle of benefit to the utility's ratepayers, EGNB proposes that the following three categories support the basis for assessing quantifiable benefits:

- *Replacement benefits (RB)* - the services provided replace an equivalent service at equal or lower cost;
- *Synergistic or Linkage benefits (SB)* - the services allow the utility to reduce costs by means of being part of a larger organization and operating in concert for the procurement of products and services;
- *Direct benefits (DB)* - strategic actions and activities instituted by affiliates that produce direct value to the utility.

Cost Allocations

EGNB is proposing a simple methodology that would result in the approval of a percentage of the corporate costs allocated from Enbridge to EGNB which would be recoverable in EGNB's rates. The corporate allocation costs determined to have been prudently incurred and a benefit to the ratepayer would be further evaluated and the corresponding percentages would be applied for regulatory purposes:

- *Direct Costs (DC)* – reflect flow through costs incurred when EGNB would need to perform the service directly and would be allocated at 100% to regulated operations.
- *Shared Costs (SC)* – reflect costs that would be allocated at 50% to regulated operations and 50% to shareholders.
- *Administrative Costs (AC)* –incurred as a result of a direct cost or shared cost and cannot be severed will be allocated at 10% to regulated operations and 90% to shareholders
- *Non-Applicable Costs (N-AC)* – reflects costs that do not meet the three guiding principles and as a result are not allocated to the regulated operations.

The implementation of EGNB's proposed Regulatory Cost Allocation methodology to the current corporate allocations is presented below in Table 1 - Corporate Allocations.

Addition and Removal of Corporate Cost Allocations

As business requirements change so will corporate allocation costs. EGNB proposes that the addition, revision and removal of corporate cost allocations will be evaluated in the same manner as presented above and reviewed by the Board during the annual regulatory financial review process.

Table 1- Corporate Allocations

Allocation	Corporate Allocation	Cost Type	% Allocated to Regulated Activities	Stand-Alone	Definition of service	Benefit	Benefit to Ratepayer
Corporate Governance	CEO	N-AC	0%	No	The office of the CEO provides leadership and strategic counsel to the organization. Ongoing contact with large energy customers or suppliers and liaison with other major companies in the energy industry.		Although EGNB has not allocated any of these costs to the regulatory cost allocation EGNB does believe the ratepayer benefits from these costs. The government of New Brunswick has placed high importance on new development and investment in the province with initiatives such as Invest NB. The office of the CEO liaises with major energy companies and major energy customers' suppliers and would influence heavily the potential investment of companies. Also the leadership of Enbridge provides EGNB with access to lower debt financing costs than if EGNB were a stand-alone entity.
	CFO				The office of the CFO provides leadership and advice regarding the financial affairs of EGNB; investor relations, Treasury, Controllers', Audit Services, Pension Administration and supplier Management.		
	Corporate Aviation				Costs associated with operating the corporate jet.		
	Planning and Development				The department investigates and develops investment opportunities in emerging and alternative energy technologies. This group develops and coordinates corporate wide long range plans and examines existing strategies and identifies potential new strategic directions. They set corporate standards for the evaluation and review of investments that require approval from the Board of Directors or the Corporate Leadership Team.		
	Tax Services				Preparation of tax returns and GST filings for all legal entities in Canada.		
	Benefits and Pensions	AC	10%	No	Benefits and Pension costs associated with Enbridge Inc operations/employees.	SB	Without a corporate head office, EGNB would not be able to derive many of the benefits it receives from being part of Enbridge Inc. EGNB relies on the Enbridge name and reputation. The overall strength of Enbridge and how it is perceived in the market provides a foundation for the benefits that EGNB receives from being part of Enbridge, including relying on the strength of the Enbridge name in dealings with industry stakeholders and the public and gaining access to debt and equity financing. The administrative functions outlined are associated with the operation of the corporate head office. Although these specific functions/activities may not be required if EGNB was a stand-alone company they are required to support the various functions/activities at the corporate level that are currently provided and would be required if EGNB was a stand-alone company. For example, the direct costs associated with providing Administrative functions would include the support staff. The ratepayers are benefitting from economies of scale on the function/activities that would be required if EGNB was a stand-alone company. These costs cannot be severed from one another.
	Business Tax				Overall costs of operations for Calgary Office		
	Compliance Systems				Overall implementation of Compliance systems		
	Corporate Secretarial				Legal counsel and advise on Corporate Secretarial related matters		
	Directors Fees and Expenses				Enbridge Board of Directors provides strategic advice regarding the operation of EGNB.		
	EGD				EGD services reallocated based on EGD employee time spent to service EGNB		
	Employee Benefits				Benefits associated with employees at the corporate office.		
	Enbridge Pipeline Inc. Direct Charges				Related to IT services, some accounting, tax payroll, and legal services.		
	Investors Relations				Maintain the investor relations necessary to enable Enbridge to effectively access the capital markets. Organizes annual shareholder meetings, prepares annual and quarterly reports to shareholders, investment analysts and potential investors in the debt and equity of Enbridge.		
	Other Employee Benefits				Benefits associated with employees at the corporate office.		
	Rent & Lease				The rent and leases costs that are allocated to EGNB are a portion of the rental and lease costs for Enbridge Inc.'s corporate offices, which provides a location for the corporate employees.		
					Corporate Controller		
Corp Law General Expenses		Coordinates and provides corporate-wide legal counsel and consultation to business units. They maintain and update corporate wide policies relating to contract administration, business conduct statements and corporate emergency response plans.					
Group VP Corp Resources		No	Senior leadership in HR, IT Corporate Secretarial and Corporate Administration services.				

NBEUB Matter 178

	Corp Secretarial Legal Fees				This group is responsible for the efficient administration of Enbridge, particularly with regard to ensuring compliance with statutory and regulatory requirements related to filings and dealing with securities and exchange commissions and for ensuring that decisions by the Board of Directors are implemented.	SB/RB	Limits the number of external legal service providers to allow efficiency of outside legal services and volume based fee reductions.
	Internal Controls				The department is responsible for developing the financial regulatory compliance plans and strategies for the organization within specific risk parameters and manages the staff devoted to specific business unit financial statement compliance activities. Internal Controls evaluates and recommends improvements to business unit risk management, control and corporate governance. It performs financial, compliance and information technology reviews while in addition it monitors management control risk self-assessments.	SB/RB	Provides assurance to the ratepayer that the appropriate internal controls are in place for the development of regulatory financials such as any changes to general acceptable accounting principles, legislation and other practices.
	Insurance Premiums	DC	100%	Yes	Property Insurance protects against most risks to EGNB's property. Liability Insurance protects EGNB against liability claims. Automobile Insurance protects EGNB's vehicles against physical damage and liabilities resulting from traffic accidents. Executive Risk insurance mitigates the personal responsibility of EGNB's representatives. Fiduciary Risk Insurance protects EGNB against claims against pension and savings plans. Crime Insurance covers EGNB's losses due to criminal victimization. Broker Insurance covers the Broker's commission for arranging EGNB's insurance coverage.	DB/SB	These insurance policies would be negotiated on economies of scale therefore lower premiums than if negotiated individually.
	Financial Risk Management				Responsible for identifying corporate risks, supply and demand risks, operational risks, external risks and interest rate risk foreign exchange risk execution risk and provide risk management options to minimize impacts to Enbridge and EGNB.	SB/RB	Risk management is beneficial to ratepayers to ensure that EGNB does not take on an inappropriate amount of risk that may impact the short and long-term viability of EGNB. This expertise is highly specialized and EGNB would not have internal resources to fulfill this service and could pose significant risk if it was not available. External resources would cost more than current costs allocated.
	Industry Association Fees				Membership fees associated with industry associations.	SB	Allows EGNB to participate in various association activities and to obtain information on latest technologies relating to the natural gas industry.
	Public Affairs & Corp Comm.				The department provides leadership to support achievement of key corporate and business unit objectives. This encompasses the development of all materials and relationships to maintain the reputation of Enbridge among external and internal stakeholders. Public affairs and corporate communications provide EGNB with access to a broader group of professionals that can provide advice on issues facing EGNB and approaches to address them. In addition, these costs support Enbridge Inc.'s activities to develop plans, messages and relationships that maintain and strengthen the reputation of Enbridge among external stakeholders.	SB	EGNB relies on the Enbridge reputation. The overall strength of Enbridge and how it is perceived in the market provides a foundation for the benefits that EGNB receives from being part of Enbridge, including relying on the strength of the Enbridge name in dealings with industry stakeholders and the public.
	Risk Management				Responsible for identifying corporate risks relating to insurance premiums.	SB	Risk management is beneficial to ratepayers to ensure that the EGNB does not take on an inappropriate amount of risk that may impact the short and long-term viability of EGNB. This expertise is highly specialized and EGNB would not have internal resources to fulfill this service and could pose significant risk if it was not available. External resources would cost more than current costs allocated.
	Treasury				Responsible for ensuring optimal liquidity for the long-term and short term.	SB	Risk management is beneficial to ratepayers to ensure that the EGNB does not take on an inappropriate amount of risk that may impact the short and long-term viability of EGNB. This expertise is highly specialized and EGNB would not have internal resources to fulfill this service and could pose significant risk if it was not available. External resources would cost more than current costs allocated.
	Audit Services (Calgary)	N-AC	0%	Yes	Audit Services performs financial, compliance, information technology and operations audits and manages the staff devoted to specific business units.	SB/RB	Provides assurance to ratepayers that EGNB is following all the requirements of GAAP and regulatory compliance. The Toronto office provides direct services relating to regulatory financials whereas the Calgary office provides services for both regulatory and non-regulated accounting services. The ratepayers benefit from the economies of scale and pay significantly less than if these activities were outsourced to consultants.
	Audit Services (Toronto)	DC	100%	Yes			
	Stock Based Compensation (75/25)	DC	25% @ 100%	Yes	Stock based compensation refers to compensation that is made in the form of stock options. Individuals at the Director level and above within Enbridge Inc. would typically be eligible for this compensation. As stock based compensation forms part of a competitive total compensation package for Enbridge Inc. employees, it supports the overall operations of Enbridge Inc. and Enbridge Inc.'s ability to attract and retain properly skilled employees.	SB	Enbridge like many companies offers its executive stock options. These options are an important part of the compensation packages to attract high level executives with extensive experience and qualifications. If removed, the stock options would have to be replaced by more costly compensation. EGNB benefits from being part of an organization that has a highly qualified management team and this benefit is passed on to the ratepayer.
		SC	75% @ 10%	No			
Information Technology	EPI Charge (IT Shared Services)	N-AC	0%		IT shared services provided by Enbridge Pipeline Inc on behalf of Enbridge.		The initial capital investment for information technology is very high and would require additional staffing to operate and maintain the systems. Although EGNB, as a stand-alone company, could operate with less complex information technology, the costs
	Enterprise Architect	SC	50%	Yes	The enterprise architecture department develops and monitors enterprise wide strategies, policies and standards for information technology.	SB/RB	

NBEUB Matter 178

	Knowledge Management				Responsible for developing, maintaining and publishing records and information management policies and procedures.		<p>associated with initial capital investment and additional staff requirements would be equal or greater than the allocation currently paid for a high end information technology service offered by Enbridge. Ratepayers benefit from the use of best in class technology at a lower or equivalent priced technology. EGNB benefits from these services through use of Enbridge access to current information technology approaches, application suites, data storage in Toronto, software updates, training, etc. which are rolled out and governed by this corporate department.</p> <p>The cost of outsourcing technology information expertise would be significantly higher than the amount allocated to EGNB.</p> <p>The capital outlay and staffing requirements to operate and maintain systems such as Oracle and Khalix would be significantly higher than the cost allocated to EGNB.</p>
	CIO	DC	100%	Yes	Responsible for setting corporate strategy and standards with respect to the use of Information Technology. Responsible for determining what information technology tools and approaches should be used across the business units to maximize efficiency and effectiveness in that delivery function.	SB/RB	
	Corporate IT Operations/ projects				Business aligned IT solutions and ensuring similar IT requirements are coordinated across business lines, maintain and support existing services (Enbridge Pipeline Information Systems, Data Centre, Telecom and leverage the current investments in infrastructure, process and business knowledge throughout companies, fully understand the ever-changing roadmap for technology.		
	Depreciation				Depreciation on Enbridge Inc. enterprise wide systems which EGNB would gain value from relating to IT programs such as: Enterprise, Oracle, IAM, PeopleSoft.		
	Depreciation Risk Management				Responsible for identifying corporate risks relating to Information technology.		
	Enterprise Financial System (EFS) Support				Enterprise Financial System is a suite of common systems and business processes, i.e. Oracle for financials, Khalix for budgeting.		
	HR Business Solution Services				The support services for all IT programs relating to HR, i.e. PeopleSoft.		
	HRIS Services				The HRIS Program Management and Development service provides consulting services for support of the development and management of on-going HRIS and other HR technology system projects, including design, development, implementation and coordination of project teams.		
	IAM System				Program related used for on-boarding of new staff.		
Human Resources	Talent Management Employee Development				SC		50%
	Total Compensation (HR)	Development and execution of the total compensation strategy through managing the analysis, design, implementation, communication and automation of pay systems, perquisites, benefits and retirement programs.					
	Corporate Admin.	DC	100%	Yes	Negotiate, execute and maintain all 3 rd party travel agreements/contracts on behalf of all Enbridge business units. Development and oversight of employees expense reporting policies and existing corporate card programs.	SB/RB	
	Corporate HR				The group is responsible for the oversight of all human resource initiatives in all companies that form part of the Enbridge group of companies. Responsible for O&M of the enterprise wide Human Resources Information System.		
	Labour Relations Strategic Development				Lead labour relations strategy, policy and programs and ensure linked to corporate vision. This group is responsible for the strategic development of programs relating to human resources.		