

EB-2006-0305
TORONTO PORTLANDS REINFORCEMENT PIPELINES
ENBRIDGE GAS DISTRIBUTION
POST-CONSTRUCTION FINANCIAL REPORT ON COSTS AND VARIANCES
January 7, 2010

Introduction

Enbridge Gas Distribution Inc. (“Enbridge”) filed an application with the Ontario Energy Board (the “Board”) on December 7, 2006, under section 90 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15, Schedule B, for an Order for Leave to Construct natural gas pipelines for the purpose of delivering gas to the Portlands Energy Centre L.P. (“PEC”) in the City of Toronto.

The Board assigned file number EB-2006-0305 to this application, and issued a decision on June 1, 2007.

This Post Construction Financial Report summarizes the actual capital costs of the project and provides an explanation of significant variances from the estimates.

Project Summary

The Toronto Portlands Project (the “Project”) was comprised of two sections: an NPS 20 south section and an NPS 36 north section. Pipeline construction activities commenced on the south section in August 2007 and were completed in January 2008. Final restoration activities were completed September 2008.

Construction activities commenced on the north section in January 2008 and were completed in October 2008. Final restoration activities were completed September 2009.

Construction was monitored by Utility Energy Services for both sections of the project to ensure appropriate measures were implemented to mitigate environmental impacts.

Cost and Variance Reporting

The actual project cost of \$61.0 million is approximately \$19.3 million more than the original estimate of \$41.7 million reported in EB-2006-0305 at Exhibit C, Tab 2, Schedule 1 in December 2006. The actual project cost is \$6.3 million below the October 2007 project cost update to PEC.

During the course of the project, PEC was kept apprised of anticipated project costs. Prior to commencement of construction PEC was informed of changes in project cost and contribution requirement. The additional contribution was received from PEC.

The project costs were audited by the Ontario Power Authority (a representative of PEC) in late summer of 2009.

In November 2009, in accordance with the Gas Delivery Agreement, PEC's Contribution in Aid of Construction was adjusted from the original \$17.7 million to \$37.3 million, based on actual project costs. All payments have been reconciled. The profitability index of the project remains at 1.0.

A summary of total project costs is presented in Table 1. For a summary of project costs breakdown for the north and south sections, please refer to Exhibit I, Table A and Table B.

Table 1 – Total Project Costs
Toronto Portlands Reinforcement Project

Item	Financial Breakdown	Actual Project Cost	Project Cost per EB-2006-0305 (December 2006)	Project Cost Updated to PEC (October 2007)	Percent Variance EB-2006-0305	Percent Variance PEC
1.0	Material Costs (Pipe, Valves, Fittings, Coatings)*	\$ 8,298,664	\$ 8,719,898	\$ 8,154,415	5%	-2%
2.0	Stations*	\$ 2,160,681	\$ 868,131	\$ 1,772,496	-149%	-22%
3.0	Labour Costs (Pipe Installation, Station Installation, Testing)	\$ 35,609,591	\$ 19,912,001	\$ 33,280,495	-79%	-7%
4.0	Land	\$ 10,392,543	\$ 3,769,000	\$ 10,266,382	-176%	-1%
5.0	External Costs (Environmental, Legal, External Engineering, Survey)	\$ 3,144,399	\$ 1,516,093	\$ 3,689,066	-107%	15%
6.0	Overheads (Enbridge Internal, Interest During Construction)	\$ 1,353,421	\$ 1,739,256	\$ 2,915,893	22%	54%
7.0	Contingency	N/A	\$ 5,217,769	\$ 7,162,223	N/A	N/A
8.0	Total Project Cost	\$ 60,959,289	\$ 41,742,148	\$ 67,240,970	-46%	9%

* Some items were transferred from Material Costs to Stations.

Table 1 shows two comparisons: actual project costs versus the costs as filed in December 2006, and actual project costs versus costs presented to PEC in October 2007.

Variance Against December 2006 EB-2006-0305 Application

In this comparison, Items 1.0 – Materials, and 2.0 – Stations, should be looked at in aggregate (\$900,000 unfavourable). Costs associated with the pig launcher and receiver and station pipe budgeted in the Materials category were reported in the Stations category. Remaining differences are associated with the pre-fabrication of tie-in assemblies, additional shipping costs, and station redesign to optimize footprint.

The unfavourable variance reported in Item 3.0 - Construction Labour, \$13.4 million, is partially the result of additional horizontal directional drilling, but primarily attributed to increased construction costs in 2007 and 2008, a period of intense activity and limited labour supply in the pipeline construction industry. The additional 800 metres of directional drilling in the south section resulted in an additional cost of approximately \$1.5M. The remaining variance is attributed to the increased cost of construction which was almost twice the budgeted amount.

Item 4.0 - Land Costs were \$6.6 million higher due to “over the fence” land evaluation from Ontario Realty Corporation. This variance was reported to the Board in April 2007. (Please refer to transcript page 41 from the April 16, 2007, EB-2006-0305, oral hearing.)

The External Costs were \$1.6 million higher than estimated. The variance is attributed to additional environmental work, inspection, survey, legal, and insurance expenses. Higher Environmental Assessment costs arise from additional open houses and soil assessment. Extra inspection services were required to cover multiple construction sites concurrently. Additional legal and insurance expenses were the result of the Expropriation Application (EB-2007-0692) to acquire easements for the project. Survey expenses were higher due to the extended construction period and additional survey requirements mandated by the Ministry of Transportation Ontario relating to the crossing of Highway 401.

Variance Against Cost Reported to PEC

The unfavourable variance reported in Item 3.0 - Construction Labour, \$2.3 million, is the result of construction challenges during pipeline installation primarily in the north section.

Item 6.0 - Overhead Costs were favourable by \$1.6 million mainly because of lower interest costs resulting from prepayment and overpayment of the Customer's Contribution In Aid of Construction.

Conclusion

Facilities were constructed to meet the gas delivery needs of PEC. Cost variances resulted from changes to land cost and construction at a time of intense activity in the pipeline industry. The project finances have been scrutinized by the PEC's representative, the Ontario Power Authority. PEC's Contribution In Aid of Construction has been finalized based on the actual project costs and the project remains feasible with a profitability index of 1.0.

Exhibit I

Table A - Project Costs
Toronto Portlands Reinforcement Pipeline (North Section)
NPS 36 XHP Pipeline

Item	Financial Breakdown	Actual Project Cost	Project Cost per EB-2006-0305 (December 2006)	Project Cost Updated to PEC (October 2007)	Percent Variance EB-2006-0305	Percent Variance PEC
1.0	Material Costs (Pipe, Valves, Fittings, Coatings)	\$ 7,253,998	\$ 6,960,619	\$ 7,173,534	-4%	-1%
2.0	Stations	N/A	N/A	N/A	N/A	N/A
3.0	Labour Costs (Pipe Installation, Testing)	\$ 26,794,034	\$ 14,338,005	\$ 24,896,704	-87%	-8%
4.0	Land	\$ 9,914,112	\$ 3,279,000	\$ 9,776,382	-202%	-1%
5.0	External Costs (Environmental, Legal, External Engineering, Survey)	\$ 1,890,700	\$ 978,000	\$ 2,382,000	-93%	21%
6.0	Overheads (Enbridge Internal, Interest During Construction)	\$ 1,109,122	\$ 1,277,781	\$ 2,242,931	13%	51%
7.0	Contingency	N/A	\$ 3,833,344	\$ 5,218,338	N/A	N/A
8.0	Total Project Cost	\$ 46,961,966	\$ 30,666,749	\$ 51,689,889	-53%	9%

Table B - Project Costs
Portlands Energy Centre Pipeline (South Section)
NPS 20 XHP Pipeline

Item	Financial Breakdown	Actual Project Cost	Project Cost per EB-2006-0305 (December 2006)	Project Cost Updated to PEC (October 2007)	Percent Variance EB-2006-0305	Percent Variance PEC
1.0	Material Costs (Pipe, Valves, Fittings, Coatings)	\$ 1,044,666	\$ 1,759,279	\$ 980,881	41%	-7%
2.0	Stations	\$ 2,160,681	\$ 868,131	\$ 1,772,496	-149%	-22%
3.0	Labour Costs (Pipe Installation, Station Installation, Testing)	\$ 8,815,557	\$ 5,573,996	\$ 8,383,791	-58%	-5%
4.0	Land	\$ 478,432	\$ 490,000	\$ 490,000	2%	2%
5.0	External Costs (Environmental, Legal, External Engineering, Survey)	\$ 1,253,699	\$ 538,093	\$ 1,307,066	-133%	4%
6.0	Overheads (Enbridge Internal, Interest During Construction)	\$ 244,298	\$ 461,475	\$ 672,962	47%	64%
7.0	Contingency	N/A	\$ 1,384,425	\$ 1,943,885	N/A	N/A
8.0	Total Project Cost	\$ 13,997,333	\$ 11,075,399	\$ 15,551,081	-26%	10%