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VIA RESS, EMAIL and COURIER

December 11, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2012-0459: Enbridge Gas Distribution ("Enbridge") Customized IR Application – Updated Evidence, December 11, 2013

Under cover of separate letters sent today, Enbridge has filed its responses to interrogatories and has provided updated evidence about its Customized IR plan.

Enbridge's updated evidence is primarily directed at updating the Customized IR plan to allow for five years of Allowed Revenue to be set within this proceeding. Under the updated Customized IR plan, there is no longer any requirement for a 2017/2018 "capital refresh" within the 2017 Rate Adjustment process. The updates to the Customized IR plan do not result in any changes to the filed budgets and other numbers. This is explained within the updated Customized IR Overview evidence, as follows:

> This Updated Customized IR plan, which no longer requires that Enbridge's 2017 and 2018 Capital Budgets be determined midway through the IR term is made possible by using the 2016 Capital Budget (except for the removal of $8.1 million in costs related to WAMS which will not be included for 2017 and 2018) as a reasonable forecast of the Company's 2017 and 2018 capital spending requirements. As this was the same approach used in the original filing to set "Preliminary" Allowed Revenue amounts for 2017 and 2018, there is no effect on the numerical evidence and forecasts of 2017 and 2018 Allowed Revenue that results from the updated Customized IR plan. Under this approach, Enbridge is at risk (except within two specified areas of spending described below) for any additional capital spending requirements in 2017 and 2018 other than those identified within the 2016 Capital Budget.

Enbridge has responded to interrogatories as if this change to its Customized IR plan had already been made.

There are quite a number of updates to the evidence related to this change to the Customized IR plan. In some cases, the changes are only to discrete passages within relatively lengthy narrative exhibits. To assist the Board and parties with reviewing this updated evidence, Enbridge is providing blacklined copies of the main pieces of updated evidence, to show the changes that have been made. The blacklined exhibits, listed below, are attached to this letter.

Exhibit A2, Tab 1, Schedule 1;
Exhibit A2, Tab 1, Schedule 2;
Exhibit A2, Tab 3, Schedule 1;
Exhibit A2, Tab 5, Schedule 1;
Exhibit B2, Tab 1, Schedule 1, and;
Exhibit D1, Tab 8, Schedule 1.

The other change within Enbridge's updated evidence is the presentation of a modified Sustainable Efficiency Incentive Mechanism ("SEIM"). This is set out in an updated Exhibit A2, Tab 11, Schedule 3. No blackline has been provided, since the prior evidence is being replaced with the updated evidence. Enbridge has not responded to interrogatories about the SEIM based on this new evidence, because the Company assumes that parties might have asked different questions had the updated evidence been available.

Enbridge recognizes that parties may wish to pursue further discovery, based on the updated evidence. While Enbridge does expect that there will be some questions about the updated SEIM, the Company does not anticipate that there will be large numbers of additional questions based on the updated Customized IR plan. That is because of the fact that there is no change to the filed budgets and forecasts arising from the updated Customized IR plan, and because of the fact that Enbridge has responded to the interrogatories as if the updates had already been made.

In these circumstances, Enbridge believes that any additional questions that may arise from its updated evidence can be accommodated within the Technical Conference process. This will allow for the current timetable for this case to be maintained. If necessary, the Company is open to extending the Technical Conference process by one day, perhaps by adding Monday January 20th to the two currently scheduled days (which are Thursday January 16th and Friday January 17th).

Should you have any questions, please let me know.

Yours truly,

[original signed]

Andrew Mandyam
Director, Regulatory Affairs
Encl.

cc: Mr. Fred Cass, Aird & Berlis LLP
All Interested Parties EB-2012-0459

CUSTOMIZED IR PLAN

Summary

1. Enbridge Gas Distribution ("Enbridge", or the Company) continues to be one of the fastest growing utilities in North America. With a strong focus on customer satisfaction and safety, the Company continues to provide exceptional value to customers, businesses and communities within its franchise area. As the result of consistent growth over many years, combined with aging infrastructure and increasing distribution safety expectations, the Company is now faced with significant challenges. Substantial investments well in excess of historic levels need to be made in the distribution system in order to maintain safety, reliability, and growth.

2. Among the key challenges to be addressed in the coming years are increased capital spending and activity requirements for System Integrity and Reliability projects and programs, to minimize the risks in the operations of an aging distribution infrastructure. These risks are real, and must be addressed. Enbridge's required increasing level of System Integrity and Reliability work arises from recognition of these risks, and from awareness and reaction to recent industry safety events, changes in regulations and Enbridge's ongoing review of processes and decision criteria to maintain a safe distribution system. While the planned activities will increase capital spending, the resulting safety enhancements will benefit ratepayers and the public through continued safe, reliable and secure service.

3. The GTA reinforcement project is critical to maintaining continued reliable service within Enbridge's main operating area. Over the past 20 years, Enbridge has added around 800,000 customers, largely in and around the GTA. The GTA reinforcement project is a direct response to the growing need for gas distribution by GTA customers, and will allow

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access to lower cost gas supplies for all Enbridge customers. The GTA project is the largest expansion project that the Company has undertaken for many years, and the associated costs further contribute to increased capital spending requirements.

4. Over the coming years, Enbridge will also continue its efforts to enhance the customer experience across all interactions – on the phone, on the web, and in the community. The Company has a strong customer focus and will provide transparent performance measurement information to the Board and stakeholders with respect to customer satisfaction, operations, safety and financial results.

5. Enbridge is firmly focused on providing affordable, safe and reliable natural gas service. This Customized IR plan allows for this to continue over the coming years. The Customized IR plan supports necessary investment in system safety and reliability, and will result in customer bill increases well below inflation.

6. Customer bills are expected to increase well below inflation from 2014 to 2016, with an annual average increase of about 0.5%. Over the full five year IR term, increases are forecast to be less than 1.5% per year on average.

7. This Application is Enbridge's proposal for a 2nd Generation Incentive Regulation ("IR") or Customized IR plan for five years from 2014 to 2018, to address and accommodate the challenges described above and throughout the evidence. In its original filing, the Company proposed a Customized IR plan with a five year term, including an update of capital spending requirements for 2017 and 2018 to address the difficulty in forecasting such costs at this time. Now, having considered concerns raised about the plan to revisit costs midway through the IR term, Enbridge has updated its Customized IR Plan to allow for all aspects of 2014 to 2018 Allowed Revenue to be set in this proceeding.

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8. Enbridge's proposed updated Customized IR plan fixes the Company's allowed distribution revenue amounts ("Allowed Revenue") for 2014 to ~~2016~~ 2018 based upon the Company's forecast costs, inclusive of productivity savings, for each of those years. ~~The Allowed Revenue amounts for 2017 and 2018 will be set on a preliminary basis in this case, to be updated in 2016 to take account of the Company's Capital Budget forecasts for 2017 and 2018, which cannot be established at this time.~~ This Updated Customized IR plan, which no longer requires that Enbridge's 2017 and 2018 Capital Budgets be determined midway through the IR term is made possible by using the 2016 Capital Budget (except for the removal of $8.1 million in costs related to WAMS which will not be included for 2017 and 2018) as a reasonable forecast of the Company's 2017 and 2018 capital spending requirements. As this was the same approach used in the original filing to set "Preliminary" Allowed Revenue amounts for 2017 and 2018, there is no effect on the numerical evidence and forecasts of 2017 and 2018 Allowed Revenue that results from the updated Customized IR plan. Under this approach, Enbridge is at risk (except within two specified areas of spending described below) for any additional capital spending requirements in 2017 and 2018 other than those identified within the 2016 Capital Budget.

~~8.~~9. This Application will set final rates for 2014, and preliminary rates for 2015 to 2018. The preliminary rates for 2015 to 2018 will be subject to annual adjustments primarily to reflect updated volume and gas cost forecasts for those years.

~~9.~~10. In creating the Customized IR plan, Enbridge evaluated its 1st Generation IR plan and took into account its current circumstances and expected business needs over the coming years. Through this process, Enbridge determined that it cannot continue with a similar I-X framework as existed for the 1st Generation IR term. As described below, a number of changed circumstances in its operating environment present Enbridge with hurdles too large for an I-X framework to accommodate. Among these are extraordinary capital spending

pressures related to safety and integrity issues, very large capital projects related to system supply and work asset management, growing depreciation costs and uncertainty about future capital spending requirements.

~~10.~~11. Enbridge's proposed Customized IR plan meets the Board's (and the Company's) objectives for an IR plan. It will benefit customers by ensuring safe and reliable service and enabling necessary safety and reliability spending. Customers and the Company will benefit from the establishment of rates for a five year period which will produce fair and predictable rates while reducing regulatory burden. The Customized IR plan embeds demonstrated productivity in both Operating and Maintenance ("O&M") and capital cost forecasts, and includes a number of incentive mechanisms that are designed to effect additional efficiencies that will be sustained beyond the end of the IR term.

~~11.~~12. The proposed Customized IR plan is also informed by the "Custom IR" option presented in the OEB's recent "Renewed Regulatory Framework" Report ("RRF Report"), and with IR plans used in other jurisdictions. In keeping with the expectations set out in the RRF Report, the proposed Customized IR plan creates "an appropriate alignment between a sustainable, financially viable [gas] sector and the expectations of customers for reliable service at a reasonable price".[1]

~~12.~~13. The key components of Enbridge's Customized IR Plan are set out in the following table:

	Components of IR Plan	**Details**
Items to be determined in the 2014 proceeding (EB-2012-0451)	Allowed Revenue amounts for 2014~~, 2015 and 2016~~ to 2018	To be determined by summing together, for each year, the appropriate forecast level of operating costs, depreciation costs, taxes and cost of capital. These annual amounts are what

[1] Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, Ontario Energy Board, October 18, 2012, p. 1.

	Components of IR Plan	Details
		Enbridge will be entitled to collect in rates each year.
	~~Preliminary Allowed Revenue amounts for 2017 and 2018~~	~~To be determined by summing together, for each year, the appropriate forecast level of operating costs, depreciation costs, taxes and cost of capital. The forecast level of operating costs, municipal taxes and other revenues for 2017 and 2018 will be set in this 2014 proceeding, based upon an adjustment of the forecast 2016 operating costs. The cost of capital parameters (ROE and debt rates and equity ratio) and income tax rates for 2017 and 2018 will be also be set in the 2014 proceeding. The forecast level of costs related to Enbridge's capital budget (depreciation, taxes and cost of capital) will be set in the 2017 Rate Adjustment proceeding. For the purpose of creating preliminary rates for 2017 and 2018, the 2016 forecast costs for these items will be used.~~
	Volumes and Gas Cost related impacts for 2014	To be determined using the proposed updated Heating Degree Day ("HDD") methodology, as well as a gas volume forecast using existing methodologies for average use and large volume forecasts. Current gas cost forecasts to be used.
	Final Rates for 2014	Designed to allow full recovery of the 2014 Allowed Revenue.
	Preliminary Rates for 2015 to 2018	Designed to allow full recovery of the 2015 to 2018 Allowed Revenue amounts, based upon current forecast of volumes and current forecast of gas costs. The preliminary rates are included to reflect current projections of the approximate impact of the IR plan in those years, but will be subject to update and approval in annual Rate Adjustment proceedings for 2015 to 2018.
Items subject to adjustment in	Average number of unlocks, volumes and gas	In advance of each year, Enbridge will provide: (i) updated forecasts of unlocks (active billed

	Components of IR Plan	Details
2015 to 2018	costs related impacts, and amounts related to Pension, DSM and Customer Care costs	customers) using the customer addition forecasts approved in the 2014 and 2016 proceedings and other updated economic inputs; (ii) forecast volumes (applying the existing methodologies for HDDs, average use and large volume forecasts); and (iii) updated gas supply plan and gas costs. The updated data will be applied to the approved Allowed Revenue for each year to derive final rates for 2015 to 2018. The approved Allowed Revenue amounts each year will be updated to include recent forecasts of amounts related to Pension/OPEB, DSM and Customer Care/CIS costs.
	Earnings Sharing Mechanism ("ESM")	To share weather normalized earnings between ratepayers and the Company on a 50/50 basis on earnings more than 100 basis points above Allowed ROE (calculated each year using the Board's ROE formula). The ESM will provide incentives for Enbridge to find further efficiencies and shares those benefits with rate-payers.
	Sustainable Efficiency Incentive Mechanism ("SEIM")	To provide incentives for Enbridge to produce sustainable efficiencies that will survive beyond the end of the IR plan term.
	Deferral and Variance Accounts	All existing deferral and variance accounts will be maintained (along with a small number of additional accounts) and a new variance account for the GTA project. There will also be a new variance account for 2017 and 2018 to capture differences in Allowed Revenue related to relocations projects and replacement mains projects resulting from pipeline inspections (including in-line inspections) and maximum operating pressure testing.
~~Items subject to adjustment in 2016~~	~~Updated Allowed Revenue amounts for 2017 and 2018~~	~~The operating costs, municipal taxes and other revenues components of the 2017 and 2018 Allowed Revenue amounts will be set in the 2014 proceeding, based upon an adjustment of the~~

	Components of IR Plan	Details
		~~forecast 2016 operating costs. The cost of capital parameters (ROE and debt rates) and income tax rates for 2017 and 2018 will be those set in the 2014 proceeding. The costs within 2017 and 2018 Allowed Revenue related to Enbridge's capital budget (depreciation, income taxes [using the pre-determined tax rates] and cost of capital [using the pre-determined ROE and cost of debt and equity ratio]) will be set in the 2017 Rate Adjustment proceeding, based on Enbridge's filed 2017-2018 Capital Budget (and related information). The updated 2017 and 2018 Allowed Revenue amounts will be used to set rates for those years in the 2017 and 2018 Rate Adjustment proceedings.~~
Items subject to extraordinary adjustment	Z-factor	Allowance for recovery of unexpected cost increases or cost decreases with a revenue requirement impact of more than $1.5 million per year that are outside of management control. Updated wording for Z-factor eligibility is proposed, clarifying what was included in Enbridge's 1st Generation IR plan.
	Off-Ramp	Enbridge shall file an Application for review of the IR plan if its normalized earnings during any of the first 4 years of the IR plan are more than 300 basis points different from the Allowed ROE (calculated using the Board's ~~most up-to-date formula~~2009 ROE Formula).
Other Components	Performance Measurement	To track the Company's productivity initiatives, and operational and financial performance and benchmark against a peer group. Operational and financial performance will be reported at the end of the IR term, addressing a variety of performance metrics including customer satisfaction and a number of safety-related indicators. Tracking of productivity initiatives will be reported annually. Regular reporting through

	Components of IR Plan	Details
		ESM proceedings and RRR filings will continue.

~~13. The required update to be made in 2016 to Allowed Revenue amounts for 2017 and 2018 arises from the difficulty that the Company faces in determining accurate and reliable Capital Budgets for those years at this time. This is discussed further below.~~

14. The table below shows the anticipated rate and bill impacts for average residential customers over the ~~first three~~five years of the Customized IR plan term. ~~Information about impacts for 2017 and 2018, based on the preliminary (proxy) 2017 and 2018 Allowed Revenue amounts will be provided shortly.~~

Estimated Rate and Bill Impacts including SRC rate rider credit

With the GTA Project	2013	2014	2015	2016	2017	2018	Variance (2013 - 2018)	Average (2014 - 2018)
Change in Rates*								
Annual % Change		-0.7%	2.1%	4.6%	2.4%	2.5%		2.2%
Total Bill for Average Residential Customer ($)**	867	837	851	879	896	926	59	
Annual % Change		-3.5%	1.7%	3.3%	1.9%	3.3%		1.4%
Without the GTA Project	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**		
Change in Rates*								
Annual % Change		-0.7%	1.7%	2.1%	2.4%	2.5%		1.6%
Total Bill for Average Residential Customer ($)**	867	837	849	862	879	909	42	
Annual % Change		-3.5%	1.4%	1.5%	2.0%	3.4%		1.0%

* Does not include SRC rider credit
** Includes SRC rider credit

15. As seen above, customer bills are expected to increase by only $12 over the ~~entire~~ first three years of the IR term, an annual average increase of about 0.5% per year. Over the

full five year term, customer bills will increase by around $59, an average increase of about 1.4% per year.

16. As can be seen in the table, rates are forecast to decline in 2014, and then to increase over the next ~~two~~ years. The average annual rate increase for residential customers from 2014 to 2016 is 2.0%. When one removes the impact of the major GTA reinforcement project that will be completed in 2015, the average annual rate increase is 1.0%. Over the full five year term, the average annual rate increase is around 2.2% (with an average annual rate increase around 1.6% without the impact of the GTA project).

17. When considering the bill impact of the rate changes summarized above, one must also take account of the bill savings that will be realized through the Customized IR term. First, Enbridge's proposal to credit customers with more than $250 million in accumulated depreciation costs related to Site Restoration costs over five years will have a significant reduction effect on customer bills. Over the 2014 to 2016 period, this is expected to reduce the average residential customer bill by about $25 per year. Second, when the GTA reinforcement project is completed, customers are expected to see substantial savings on gas costs. This is expected to reduce the average residential customer's bill by $5 and $28 in 2015 and 2016, respectively.

18. In the sections that follow, this evidence will:
    a. Set out the objectives to be met for an IR plan, as articulated by the OEB, and from the perspective of the Company;
    b. Explain why Enbridge's Customized IR plan is a multi-year incentive regulation model;
    c. Highlight the key issues and challenges that Enbridge faces in the coming years;
    d. Outline the regulatory alternatives considered in determining this Customized IR plan;
    e. Provide details about the proposed Customized IR plan;

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f. Describe how the proposed Customized IR plan meets the objectives of the OEB and the Company; and
g. Summarize the outcomes from the application of Enbridge's proposed Customized IR Plan for 2014 to 2018, including the benefits and impacts to Enbridge ratepayers.

A. Objectives of an Incentive Regulation Plan

19. Enbridge's proposed Customized IR plan will be appropriate if it meets the objectives of the OEB and also takes account of the Company's own objectives. Success in this regard will mean that the public interest is protected, and it will also allow the Company to meet its business objectives.

20. The Board's Natural Gas Forum ("NGF") laid the groundwork for the development of gas utility incentive regulation. The NGF Report (Natural Gas Regulation in Ontario: A Renewed Policy Framework, March 30, 2005) describes the plan for incentive regulation as adopting "the best aspects of both the COSR (cost of service regulation) and PBR approach." The NGF Report (at pages 2 to 3) also established criteria which the IR plans must satisfy including:
    a. establish incentives for sustainable efficiency improvements that benefit customers and shareholders;
    b. ensure appropriate quality of service for customers; and
    c. create an environment that is conducive to investment, to the benefit of customers and shareholders.

21. These objectives should be viewed alongside the Board's statutory obligations in relation to the regulation of gas distributors (set out at section 2 of the OEB Act), which include the following objectives:

a. to protect the interests of consumers with respect to prices and the reliability and quality of gas service;
b. to facilitate rational expansion of transmission and distribution systems;
c. to promote energy conservation and energy efficiency;
d. to facilitate rational development and safe operation of gas storage; and
e. to facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas.

22. Taken together, the Board's objectives make clear that a gas distributor's IR plan must:
    a. ensure appropriate reliability and quality of service (including safe operations);
    b. protect customers from unreasonable price impacts;
    c. promote energy conservation and efficiency;
    d. protect the financial viability of the distributor and allow for appropriate investments to be made; and
    e. provide a framework that incents the distributor to implement sustainable efficiency improvements.

23. Recently, the Board issued its RRF Report (Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012), setting out the Board's policies to support an electricity distribution network that is efficient, reliable, and sustainable and provides value to customers.

24. While the RRF Report is directed at electricity distributors, there are elements of the Electricity Distribution Rate-Setting policies section of the Report that are instructive to gas distributors. Of key importance is the Board's recognition of the challenges faced by some distributors because of significant capital spending requirements which may be "lumpy" in nature. To accommodate those challenges, the Board will provide options to electricity

distributors to use different rate-setting methods that are best suited to their circumstances. Two of the three methods approved for electricity distributors ("incremental capital module" within 4th Generation IR and "Custom IR") allow for recovery of capital expenses that are outside of the distributor's base revenue requirement, and would not otherwise be recoverable during an IR term. This is a clear recognition that meeting the Board's goal of ensuring reliable, sustainable distribution service may require high levels of capital spending, and this should be accommodated within an IR framework.

25. From all of the foregoing, Enbridge understands that the Board expects an IR plan for a natural gas distributor to cover several years and allow for appropriate rate adjustments, while ensuring that quality of service and necessary investment are maintained. The Board also expects an IR plan to provide a distributor with the opportunity and incentive to seek sustainable productivity gains.

26. While acknowledging the importance of the Board's objectives, the Company is also mindful of meeting the objectives that it has set for its own operations. These include the following:
    a. Continued commitment to safety – the safety of Enbridge's customers, the public and its employees is Enbridge's top priority;
    b. A focus on improving the customer experience across all interactions – on the phone, on the web, and in the community; and
    c. Improving productivity in all of the Company's operations.

27. From Enbridge's perspective, it is important that its Customized IR plan allow for the above objectives to be met. The IR plan must accommodate necessary investments in infrastructure and system integrity work to ensure continued safe, reliable and secure service. Given the significant symmetry between the OEB's and Enbridge's objectives, it appears clear that these goals also fit within the Board's expectations.

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B. Enbridge's Customized IR Plan is a Multi-year Incentive Regulation Model

28. EGD's Customized IR plan is designed as a multi-year incentive regulation model with a revenue cap that is informed by forecast cost elements that include significant expected productivity savings that will have to be achieved by the Company.

29. The introduction and demonstration of productivity into the forecast cost elements that make up the annual Allowed Revenue amounts is discussed at Exhibit A2, Tab 1, Schedule 2, and within the detailed evidence about Enbridge's forecast Capital and O&M budgets for 2014 to 2016. These budget amounts, inclusive of productivity savings, will be used to create annual Allowed Revenue amounts for 2014 to 2016. The Allowed Revenue amounts for 2017 and 2018 will be set using forecast costs that are based upon the 2014 to 2016 budgets~~through a combination of adjustment of the 2016 Allowed Revenue amount (for non-Capital related items) and through consideration of the consequences of the Company's 2017 and 2018 Capital Budgets, which will be filed in 2016~~. Once the Allowed Revenue amounts are set, there will be no annual adjustments, other than for customer unlocks, related revenue impacts, gas costs, gas in storage carrying costs, related income tax impacts, cost elements subject to previously determined variance agreements, and any eligible Z factor items.

30. The result is that the Company is "at risk" for costs over the projected Allowed Revenue amounts and is incented to manage costs within that level, as there is no sharing for cost overruns. Unlike an annual Cost of Service ("COS") approach, this will create fixed Allow Revenue amounts that are decoupled from actual costs over the IR plan term. The Company will not have recourse to request rate relief over the plan term absent a 300 basis point shortfall against allowed ROE which is unfound in COS regulation.

31. A further incentive arises from the fact that Enbridge will not be entitled to ~~include within its 2017 and 2018 Capital Budgets~~recover the cost consequences of any capital spending above the ~~2014 to 2016~~ levels approved in this proceeding. Therefore, should Enbridge spend above the approved level over the first three years of the Customized IR plan, then it will have to wait until rebasing in 2019 to recover any associated costs. ~~On the other hand, if Enbridge spends below the approved levels between 2014 and 2016, then the 2017 and 2018 cost consequences of such underspending will be reflected in the 2017 and 2018 Allowed Revenue amounts. The foregoing creates an incentive for Enbridge to ensure that its capital spending remains at the levels approved in this proceeding.~~ It should be noted that the GTA project is subject to variance account treatment, and new variance accounts will exist for 2017 and 2018 to capture differences in Allowed Revenue related to capital spending on relocations project and on mains replacement requirements identified through pipeline inspection and maximum operating pressure testing activites~~, and the actual rate base value of the GTA project (whether higher or lower than forecast) will be included within the calculation of capital-spending related items for 2017 and 2018 when Allowed Revenue amounts are set for those years~~.

32. The Earnings Sharing Mechanism ("ESM") within the Customized IR plan allows for sharing with customers of efficiency improvements that result in lower costs during the IR term. This creates a potential ratepayer benefit not available in COS. Moreover, the fact that the Company is entitled to retain a fair portion of earnings above allowed ROE acts as an incentive for Enbridge to find and implement cost saving programs and initiatives.

33. In addition, the Customized IR plan includes a new incentive feature, referred to as the Sustainable Efficiency Incentive Mechanism ("SEIM"), which is detailed at Exhibit A2, Tab 11, Schedule 3. ~~The SEIM will apply to new projects or initiatives which are forecast to create sustainable productivity gains. The SEIM is directed at incenting the Company to~~

~~find and implement programs and activities that have lasting efficiency gains beyond the next rebasing year. A financial incentive equal to 20% of the net benefit of such projects will be calculated on the basis of the projects' estimated present value benefits, after an allowance for forecast error and net of any costs.~~ The SEIM will further incent the Company to create sustainable efficiencies during the IR term by removing any disincentive to defer productivity spending in the later years of the IR plan, resulting in reduced rebasing year costs and beyond. The SEIM will reward the Company for implementing such programs, and ratepayers will benefit from increased focus by the Company on programs and activities that result in long-term sustainable cost savings.

34. There are few differences between the Customized IR plan, and Enbridge's 1st Generation IR plan. The main difference relates to how the Allowed Revenue amounts are initially set. As explained later in this document, the capital costs component of the Allowed Revenue amounts for 2014 to 2016 takes account of Enbridge's extraordinary requirements over that period. Even so, it does include productivity savings. The O&M component of Allowed Revenues within the Customized IR plan is largely consistent with Enbridge's 1st Generation IR plan. This is confirmed by Concentric Energy Advisors, Inc. ("Concentric"), who have concluded that Enbridge's O&M budgets for 2014 to 2016 are actually lower than would be expected under a conventional I-X type of IR plan. Given that the budgets will change at the same rate for 2017 and 2018, that finding holds true for the entire IR term.

35. The Company has worked with two different experts in the building and evaluation of the Customized IR plan.

36. Concentric undertook various financial analyses of Enbridge's circumstances and the Customized IR plan, and evaluated other IR plan options. Concentric's conclusion, as seen in their report (at Exhibit A2, Tab 9, Schedule 1) is that the proposed Customized IR plan

allows Enbridge's particular circumstances to be appropriately met in a way that provides Enbridge with a built-in challenge for continued productivity improvement.

37. London Economics International, LLC ("LEI") provided information in its report (at Exhibit A2, Tab 10, Schedule 1) about the "Building Blocks" IR ratemaking model used in the United Kingdom and Australia. LEI explained that the Building Blocks IR model has been found to work well in other jurisdictions, as it motivates productivity, allows for extraordinary capital requirements spending to be accommodated, and protects against sudden true-ups in rates. LEI observed that the Customized IR model uses much of the same approach as the Building Blocks model. Taking the learnings from the Building Blocks IR model into account, LEI concluded that Enbridge's Customized IR plan will serve ratepayers and the Company well.

C. Key Issues and Challenges faced by Enbridge in the Coming Years

38. Enbridge's Customized IR plan must be responsive to the operating and business challenges that the Company expects to encounter during the coming years.

39. The main challenges that Enbridge will face in the coming years include the following:
    a. Capital spending pressures to maintain a safe and reliable system;
    b. Other spending pressures; and
    c. Productivity challenges.

Each of these items is highlighted below, and addressed in more detail in the evidence.

a. Capital spending pressures to maintain a safe and reliable system

40. The most significant issue facing Enbridge through the coming years is increasing capital spending requirements. While many of these requirements are clear and can be forecast at

this time, others are more uncertain. This uncertainty increases as the forecast period gets longer.

41. In developing the Customized IR plan, Enbridge's most significant forecasting challenge has been the uncertainty of safety and integrity spending requirements. This can be seen within the Company's Asset Plan, which sets out the Company's capital plans for distribution assets over ten years and has been developed as an important internal planning tool. The 2013 to 2022 Asset Plan is filed at Exhibit B2, Tab 10, Schedule 1. In the process that underlies the Asset Plan, the Company made a concerted effort to identify, assess and prioritize risks to its distribution system. Through this approach, Enbridge will develop and implement programs to monitor, repair or replace components of the system as required. There are, however, a significant number of potential risks that have been identified, but about which Enbridge does not have sufficient information to determine the extent and timing of the required remedial action.

42. In cases where risks require further analysis before the extent of mitigation can be determined, targeted risk studies have been identified. These studies will result in additional programs or projects to address risks in future years. The costs associated with such additional programs or projects are not known and therefore cannot be included as part of Enbridge's Capital Budget presented in this Application.

43. In other cases, Enbridge has identified programs or projects to be undertaken, without full knowledge of the scope of the associated work. It will only be when the study or initial work is done that the Company will know the scope and timing and cost of further additional work. The costs associated with such additional programs or projects are similarly not part of Enbridge's Capital Budget presented in this case.

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44. The uncertainty around Enbridge's Capital Budget requirements, especially in the System Integrity and Reliability area, is detailed within Exhibit B2, Tab 1, Schedule 1.

45. ~~The~~ At the time that Enbridge filed this Application, the Company determined that the uncertainties elaborated on above make forecasting of capital costs for more than three years unacceptably unpredictable. ~~If~~ Enbridge noted that, if it were not for this high level of uncertainty associated with a forecast of Enbridge's capital spending requirements beyond three years, Enbridge's preference would be to present five year cost forecast information, to allow for Allowed Revenue amounts for each year of the IR term to be set at this time. ~~However,~~The Company concluded at the time that the Application was filed that because the level of capital spending requirements is unknown, it ~~imposes~~ would impose unfair risks on the Company and on ratepayers to set Allowed Revenue amounts based upon 2017 and 2018 capital budget requirements at this time. If the Allowed Revenue is set too high for those years, based on speculative information, that ~~is~~ would be unfair to ratepayers. Conversely, setting the Allowed Revenue too low for those years ~~will~~ would be unfair to Enbridge.

46. The uncertainty of capital spending requirements beyond 2016 led Enbridge to create three-year Capital Budgets, for 2014 to 2016~~.~~, rather than five year Capital Budgets. ~~In mid-2016, Enbridge plans to prepare and file updated Capital Budgets for 2017 and 2018, along with supporting information about related Allowed Revenue impacts. That will allow for the Allowed Revenue amounts for those years to be set using up-to-date information, based on the Company's then-current knowledge of its current capital spending requirements~~

47. While Enbridge's original plan was to file updated Capital Budgets for 2017 and 2018 midway through the Customized IR term, the Company understands that there is resistance to that approach. A concern has been raised that cost forecasts should not be revisited in

the middle of the IR term. Taking that concern into account, Enbridge has updated its Customized IR plan, so that Allowed Revenue for all five years of the IR term will be set in this proceeding. As explained within Exhibit B2, Tab 1, Schedule 1, Enbridge has decided to use the 2016 Capital Budget (except for the removal of $8.1 million in costs related to WAMS which will not be included for 2017 and 2018) as the basis for forecasts of capital spending requirements for each of 2016, 2017 and 2018. This takes into account the fact that Enbridge is not able to produce a detailed line-by-line capital budget forecast for 2017 and 2018, and instead uses 2016 Capital Budget as the best representation of the Company's capital spending needs in the following two years. The updated approach will enable Allowed Revenue amounts for all five years to be set in this proceeding. It should be noted that this updated approach does not result in any change to the numbers presented to build up Allowed Revenue amounts for 2017 and 2018, because the same approach that was proposed to set "Preliminary" Allowed Revenue amounts for those years is now used to set "Final" Allowed Revenue amounts for those years.

48. Enbridge's forecast capital spending requirements for 2014 to 2016 were determined though a rigorous process that examined all proposed areas of capital spending, and then prioritized and paced the associated spending. This has involved a careful examination and prioritization of spending requirements to ensure focus only on high priority projects. The intention of this process was to identify the level of spending necessary to maintain a safe and growing distribution system, while determining what items could be delayed, phased or dismissed. Explanation of the intense capital budgeting process that resulted in the 2014 to 2016 Capital Budget is set out at Exhibit B2, Tab 1, Schedule 1.

49. The net result of the asset planning and capital prioritization processes is the 2014 to 2016 Capital Budget that is described in the evidence and summarized in the table below. As can be seen, Enbridge will have to accomplish a much higher level of activity in the future

relative to past levels of activity. The costs associated with the required capital spending activities are what led Enbridge to its Customized IR plan. As described below (under the heading "Regulatory Alternatives Considered"), the Customized IR plan is the appropriate approach to accommodate Enbridge's capital spending requirements.

Summary of Capital Expenditures

($Millions)	Col 1 Board Approved Budget 2013	Col 2 Forecast 2014	Col 3 Forecast 2015	Col 4 Forecast 2016
Customer Related Distribution Plant	123.0	119.0	126.8	137.1
NGV Rental Equipment	0.3	3.4	3.6	3.7
System Improvements and Upgrades	192.8	243.2	247.8	242.2
General and Other Plant	47.6	56.3	52.7	48.4
Underground Storage Plant	22.4	21.9	15.7	10.5
Sub total "Core" Capital Expenditures	386.1	443.8	446.6	441.9
Work and Asset Management System (WAMS)	0.5	36.3	25.7	8.1
Leave to Construct - Major Reinforcements	63.3	202.2	359.7	-
Total Capital Expenditures	449.9	682.3	832.0	450.0

50. The increased level of Enbridge's required capital spending activity during the 2014 to 2016 period is largely driven by four factors: (i) safety and integrity spending, (ii) major projects, (iii) customer growth, and (iv) relocation requirements. Each is described briefly below, and in more detail in the B2 series of exhibits.

(i) *safety and integrity spending*

51. The first factor relates to higher levels of safety and integrity spending, which is largely driven by an ageing infrastructure.

52. Recent events in the natural gas industry, such as the San Bruno explosion in September 2010, the Philadelphia explosion in January 2011, and the Allentown explosion in February 2011, have tragically confirmed the importance of public safety in gas distribution

operations. These incidents are discussed in more detail within the System Integrity and Reliability Capital Budget evidence, at Exhibit B2, Tab 5, Schedule 1. One of the responses to these and other incidents has been the acceleration of changes and additions to codes and regulations (in addition to changes and additions that were already being seen). Another response has been an increase in activity undertaken by operating companies to reduce the probability of any reoccurrences of these tragic incidents.

53. As described in the System Integrity and Reliability Capital Budget evidence (at Exhibit B2, Tab 5, Schedule 1), Enbridge has identified a significant number of programs, studies and initiatives that must be undertaken. Some of these continue historic activities, while others are new.

54. The System Integrity and Reliability Capital requirements include: (i) replacing existing assets as they reach the end of their useful life; (ii) conducting engineering studies and analysis to improve the Company's understanding of the condition and operating limits of specific critical classes of assets and undertaking required work identified as a result; (iii) complying with all applicable rules and regulations related to system integrity and safety; (iv) improving distribution asset records to reduce operational risk; and (v) implementing enhanced monitoring and system control programs to reduce the impact of unplanned system interruptions.

(ii) major projects

55. The second main driver of increased capital spending requirements over coming years relates to major projects that must be undertaken. The key examples here are the GTA and Ottawa Reinforcement projects, and the new Work and Asset Management System ("WAMS").

56. The GTA and the Ottawa Reinforcement projects are each the subject of separate Leave to Construct Applications with the OEB (GTA EB-2012-0451 and Ottawa Reinforcement EB-2012-0099). The description of the purpose, need and timing of each project is set out in the Leave to Construct Applications. In this Application, Enbridge is seeking to include the cost consequences of each project into rates, once the projects come into service.

57. The proposed WAMS project is a requirement for the future operations of the Company servicing its customers. The WAMS project is fully described in Exhibit B2, Tab 8, Schedule 2. The need for this project stems from technology drivers and the need to maintain support of the primary work and asset management functions.

58. The primary driver for the WAMS project is the coming end of the Accenture Services Agreement which was part of the EnVision Project that the Board approved in its 2004 decision in RP-2003-0203. The Company has decided that a more cost effective solution to the services approach that currently provides Work and Asset Management services would be to implement an in-house IT system. Timing is also driven by technology obsolescence of the decade old solution.

(iii) customer growth

59. The third main driver of capital spending requirements over the coming years relates to ongoing demands arising from continued customer growth. These costs continue to increase, because the material and installation costs associated with adding new customers are going up, while the number of customer additions continues to be robust.

60. Based on the forecast numbers and location of the expected demand in new customers, the Company expects a rise in construction of new mains, as well as targeted reinforcement of existing pipeline systems to support the related growth in gas load.

(iv) *relocation requirements*

61. The final main factor contributing to increased capital spending requirements over the coming years is relocation requirements. With the Pan-Am games coming to Toronto in 2015, the City is undertaking an expansion of infrastructure improvements, which is beyond the control of management. At the same time, franchise agreements demand that the Company comply with relocation activity as directed by the municipalities. In addition to increased activity in preparation for the Pan-Am games, Ottawa, Toronto and areas around the GTA are moving forward with Light Rail Transit plans that will also have a significant impact on the level of relocation activity required in the next several years. This item is discussed at Exhibit B2, Tab 4, Schedule 1.

b. Other costs pressures

62. In addition to the significant capital spending cost pressures described above, the Company also faces operating cost pressures in the coming years.

63. The largest of Enbridge's annual costs are its O&M costs. The Company has worked with representatives of each business area to create an O&M budget for 2014 to 2016, followed by a top-down review by management to confirm the reasonableness of resulting budgets, in order to determine the necessary level of O&M spending over that period.

64. The resulting 2014 to 2016 O&M Budget restricts cost increases to less than 2% per year (on average). That is shown in the following Table, which is further explained within the O&M Budget Overview evidence (Exhibit D1, Tab 3, Schedule 1)

Enbridge Gas Distribution
Summary of Operating and Maintenance Expense by Category
From 2013 Board Approved to 2016 Budget

Line No.	Categories ($ Millions)	Col. 1 Board Approved 2013	Col. 2 Budget 2014	Col. 3 Budget 2015	Col. 4 Budget 2016	Col. 5 2014 vs. 2013	Col. 6 2015 vs. 2014	Col. 7 2016 vs 2015
1.	Customer Care/CIS Service Charges	$89.4	$92.6	$96.5	$100.4	$3.2	$3.9	$3.9
2.	Demand Side Management ("DSM") [(1)]	31.6	32.2	32.8	33.5	0.6	0.6	0.7
3.	Pension and OPEB Costs	42.8	37.2	33.8	30.9	(5.6)	(3.5)	(2.9)
4.	Regulatory Cost Allocation Methodology("RCAM")	32.1	35.3	34.0	33.8	3.2	(1.3)	(0.2)
5.	Other O&M	219.2	228.0	231.5	241.0	8.8	3.5	9.5
6.	Total Net Utility O&M Expense	$415.1	$425.3	$428.5	$439.5	$10.2	$3.2	$11.0

[(1)] 2013 DSM reflects the final Board approved amount of $31.6M

65. In fact, as explained in the O&M Budget Overview evidence and the Concentric report (Exhibit A3, Tab 9, Schedule 1), the level of increase in Enbridge's main O&M costs over the 2014 to 2016 period is less than would be the case under a traditional I-X ratemaking model. Enbridge's proposal for 2017 and 2018 is to maintain the same rate of change of the O&M expenses (except for CC/CIS, DSM and pensions/OPEBs, each of which have their own Board-approved cost setting approach) as is approved for 2014 to 2016.

66. Maintaining the O&M Budget at this level will require the Company to find significant operating efficiency savings and productivity, as underlying costs are expanding at a higher rate, and the volume of required work is increasing. Keeping the rate of growth of these costs to around 2% or less for five years will be very challenging.

67. Another cost pressure relates to the fact that the Company's depreciation expense is forecast to grow, on average, almost 6% annually over the coming years. This is a function of past capital investments and increasing capital expenditures. Depreciation represents almost a third of the estimated Allowed Revenue, but is growing about twice as fast as the

remaining cost elements. Assuming that most other cost elements are growing at close to inflation, revenue necessarily would need to grow at a rate greater than inflation for the Company to earn the Allowed Return. As explained at Exhibit A2, Tab 1, Schedule 3, the cost pressures from depreciation expense are not accommodated within a traditional I-X IR model, and are a main contributor to Enbridge's decision to proceed with this Customized IR model.

c. Productivity Challenges

68. A third significant challenge faced by Enbridge in the development of its Customized IR plan relates to productivity. This issue is discussed in detail at Exhibit A2, Tab 1, Schedule 2. Key aspects are discussed below.

69. On the one hand, the Company understands the Board's objective that utilities will achieve sustainable productivity gains within an IR term. On the other hand, though, the Company believes that it is limited in the productivity opportunities that are available, as a strong cost performer that has just completed a five year IR term with very modest rate increases.

70. Taking this into account, the Company has created a Customized IR plan that includes productivity savings that must be achieved in order to meet 2014 to 2016 forecast cost levels, as well as incentive mechanisms within the IR plan itself.

71. As seen in the O&M Budget (described in the D1 series of exhibits) and the Capital Budget (described in the B2 series of exhibits), the Company has created its cost forecasts by committing to challenging productivity goals. This represents a key and significant risk the Company is undertaking. That is, the Company recognizes that it is taking a significant risk in being able to achieve these productivity goals, let alone anything beyond.

72. As discussed in the evidence at Exhibit B2, Tab 1, Schedule 1, Enbridge completed forecasts of its capital spending requirements for each year of the three year period from 2014 to 2016. Enbridge conducted a careful review of these capital spending requirements and prioritized its projected capital spending requirements in each of the three years to ensure that its proposed capital spending is pared down to include only work that is essential and prudent.

73. In relation to the O&M budget, the Company has undertaken an appropriate process to identify a level of spending that is reasonable and required, and represents a productive and efficient level of spending. As seen at Exhibit D1, Tab 3, Schedule 1, the 2014-2016 O&M Budget is substantially lower than the grass-roots budget that was originally prepared and proposed to Enbridge's management.

74. The fact that there are limited productivity opportunities available to Enbridge beyond what is included within the filed budgets can be seen in two ways.

75. First, updated benchmarking analysis comparing Enbridge's O&M costs with industry peers shows that Enbridge continues to be a top performer. This is seen in the Concentric benchmarking analysis, within their report at Exhibit A2, Tab 9, Schedule 1.

76. Second, the Company asked Concentric to compare Enbridge's O&M budget for 2014 to 2016 against the budget level that would be expected under an I-X framework that applied only to O&M expenses. To undertake this analysis, Concentric determined and forecast the appropriate I factor (inflation) that should apply to Enbridge's O&M costs, and determined the appropriate X factor (productivity offset) to apply to Enbridge's O&M costs. Concentric's conclusion is that Enbridge's O&M Budget (for those items within the Company's control) is $12 million less than would be expected under an I-X approach. Concentric's closing

remark in this regard (at Page 49) is that "The $12 million in cumulative savings …. can be viewed as additional productivity flowing through to customers, beyond the productivity that would be built into a PFP I-X formula". This supports a conclusion that the filed 2014-2016 O&M Budget (and the rate of change within that budget) includes productivity savings beyond the expected level, and this will benefit ratepayers.

77. Taken together, the items above make clear that Enbridge has limited opportunities for incremental productivity gains in the coming years (beyond the savings already reflected in the filed O&M and Capital Budgets and the 2013 Settlement Agreement), meaning that the pending cost pressures described above will challenge the Company to produce productivity gains elsewhere.

D. Regulatory Alternatives Considered In Determining This Customized IR Plan

78. Enbridge considers that its 1st Generation IR Plan was successful. Ratepayers have enjoyed steady, predictable rates and safe, reliable distribution service. Consumers also benefited from earnings sharing through the ESM that was part of the 1st Generation IR plan. However, as explained, Enbridge faces new and different challenges in the coming years, as compared to its experience during the 1st Generation IR term.

79. Over the past year, Enbridge has evaluated how to adapt its 1st Generation IR Plan to meet the challenges that Enbridge will face during its Customized IR term. As a result of its evaluation efforts, Enbridge has concluded that a traditional I-X IR framework is not appropriate. With that determination, the Company has looked at alternative IR models, and has created this Customized IR plan.

80. In the course of these efforts, Enbridge has consulted with stakeholders individually and as a group to keep parties apprised of the issues that the Company faces in creating a 2nd

Generation IR plan and to gain stakeholders' feedback and insights. One of the issues raised through that process was that stakeholders expect a five year term for the IR plan.

81. In response, Enbridge took steps to modify its Customized IR Plan. In its original filing, the Company proposed a Customized IR plan with a five year term, including an update of capital spending requirements for 2017 and 2018 to address the difficulty in forecasting such costs at this time. Now, having considered concerns raised about the plan to revisit costs midway through the IR term, Enbridge has updated its Customized IR Plan ~~Enbridge has determined that in order to meet stakeholder expectations for a five year IR term, the Customized IR Plan will have to allow for the aspects of Allowed Revenue related to capital spending to be updated for 2017 and 2018. Details of each of these items are set out in the following subsections of this evidence.~~to allow for all aspects of 2014 to 2018 Allowed Revenue to be set in this proceeding.

a. Inappropriateness of an I-X Framework for Enbridge's Circumstances

82. In a COS framework, all else equal, rates are designed to result in neither a revenue sufficiency nor deficiency, ensuring that all the elements that contribute to the determination of revenue requirement are recovered. The utility's costs are reviewed closely before the regulator approves them for recovery through rates. This gives an opportunity for the utility to justify these costs. Under this framework, the regulatory lag is minimal and provides the utility a reasonable opportunity for timely recovery of investments and to earn its allowed rate of return.

83. With traditional I-X IR plans, the review of costs is removed from the annual regulatory process and the utility is expected to manage its business within the confines of a formula-driven adjustment mechanism over three years or more. This is problematic in an environment where capital spending pressures, the associated growth in depreciation

expense and other cost elements driven by capital investments more than outweigh the growth in revenue from an I-X formula.

84. While the escalation factor in IR plans that use an I-X mechanism do allow for a certain level of net capital additions, the revenue increase resulting from the adjustment mechanism also needs to recover growth in cost of capital, tax, depreciation and O&M expenses.

85. Designing an adjustment mechanism that provides a reasonable opportunity for a utility to recover the costs on a timely basis and earn a fair return is a challenge in an I-X regulatory plan when it is experiencing non-steady state capital requirements. The extraordinary operating cost pressures described above also pose a problem. Taken together, the magnitude of the required spending increases means that they cannot be accommodated within an I-X mechanism.

86. In order to determine whether and how the Company could continue for a 2nd Generation IR term using a plan similar to the 1st Generation IR plan, Enbridge conducted a series of financial analyses. These analyses are presented within Exhibit A2, Tab 1, Schedule 3.

87. Financial analyses were completed to assess how Enbridge would fare in coming years if the 1st Generation IR plan (which used an I-X framework in a revenue cap per customer model) was applied to several different three year scenarios (three year scenarios were chosen to align with the term of the Company's Capital Budgets). Among other things, these scenarios assumed that the GTA and Ottawa reinforcement projects would be treated as cost pass-throughs, and that the depreciation cost reduction would be effective. In each of these scenarios, Enbridge assumed that the I-X escalator would equal 2.5%. In that regard, Enbridge used the analysis undertaken by Concentric which concluded that the appropriate "I" factor to apply to Enbridge's costs would equal 2.5% and the appropriate "X"

factor would be 0%. The assumed "I" factor represents the average forecast composite inflation rate for 2014 to 2016 that applies to Enbridge's costs and that, according to Concentric, would be the appropriate "I" factor to use in an I-X mechanism (this is discussed in Concentric's report at Exhibit A2, Tab 9, Schedule 1). The assumed "X" factor is taken from Concentric's TFP analysis and recommendation contained in their report.

88. Enbridge's analyses indicated that the Company requires a different model from its 1st Generation IR plan.

89. To confirm the conclusion that Enbridge requires a different IR model for its 2nd Generation term, financial analysis was also completed to determine the level of I-X that would be required to allow Enbridge to achieve the forecast Allowed ROE in the coming years. This analysis looked at a variety of scenarios, including an approach where the revenue requirement amounts associated with the GTA and Ottawa projects were "passed through" as Y factors. Each of the scenarios assumed levels of capital and O&M spending consistent with Enbridge's cost forecasts.

90. As can be seen within Exhibit A2, Tab 1, Schedule 3, each of these scenarios requires a level of I-X of at least 3.4% to allow Enbridge to achieve the forecast Allowed ROE in the coming years. That confirms why a traditional I-X IR model will not work in Enbridge's circumstances: because a traditional I-X model would not provide an adjustment factor at or near that level. This is seen in: (i) the fact that the average adjustment factor that applied during Enbridge's 1st Generation IR plan was 0.9%; and (ii) Concentric's finding that an appropriate adjustment factor in a traditional I-X IR model for a utility in Enbridge's circumstances would be 2.5%. ROE deficiencies would be exacerbated were the Board to determine that the appropriate "I" and "X" should be less than that proposed by Concentric.

Witnesses: R. Fischer
M. Lister

b. Considerations for Enbridge's next Incentive Regulation plan

91. Having determined that a different IR model is required, Enbridge considered what options exist. A key expectation of IR is for utilities to maintain a safe and reliable distribution system and have a reasonable opportunity to earn their Allowed ROE (thus maintaining a financially viable gas distribution industry and meeting the fair return standard) while being incented to find further efficiencies through an appropriate incentive mechanism.

92. With that in mind, Enbridge considered alternative IR plans that could be used to allow the utility to recover its prudent and necessary costs and have the opportunity to earn a fair return.

93. In this regard, Enbridge considered the Board's RRF Report, and its description of a "Custom IR" plan. The RRF Report indicates that a "Custom IR" approach is most appropriate where a distributor has "significantly large multi-year or highly variable investment commitments that exceed historical levels". That is a fair description of Enbridge's situation. In evaluating the "Custom IR" approach, the Company took account of the Board's recognition that utilities facing extraordinary capital spending requirements will need a different form of IR model.

94. As seen in the various aspects of the proposed Customized IR plan, the Company has customized the rate-setting method being proposed to fit its particular circumstances. At a high level, though, Enbridge's Customized IR plan is aligned with the "Custom IR" model in that it creates a multi-year rate trend based upon Enbridge's forecasts of costs and revenues, and applies benchmarking and productivity analysis to confirm the reasonableness of the results.

Witnesses: R. Fischer
M. Lister

95. Enbridge also received assistance from LEI in reviewing and considering IR plans used in other jurisdictions that set rates by assessing forecast costs and revenues for a number of future years. As can be seen in LEI's evidence, found at Exhibit A2, Tab 10, Schedule 1, a "Building Blocks" approach, which is similar to the Customized IR plan that is being proposed by Enbridge, is used in the United Kingdom and Australia.

96. The foregoing has led Enbridge to propose a Customized IR plan that develops Allowed Revenue based on forecasts of cost of capital, depreciation, tax and operating costs. This Customized IR plan provides an opportunity for all stakeholders to review all cost elements, yet also recognizes that productivity needs to be embedded in the cost elements and that incentives must exist for the utility to find further efficiencies and share the benefits of those efficiencies with ratepayers.

E. The Customized IR Plan Proposal

97. All of the items described above have contributed to the design of Enbridge's proposed Customized IR plan. Earlier in this exhibit, Enbridge presented a table setting out the key components of its proposed Customized IR plan. Further detail for each of these items is provided below.

a. Allowed Revenue

98. Allowed Revenue to be recovered in rates in each year of the Customized IR term will be determined as the sum of the annual forecast required revenue for the cost of capital, depreciation, tax and operating expenses. These items will be pre-determined within this Application for ~~the first 3 years of the term~~each year of the IR term, and not subject to change, except as described below.

99. The Allowed Revenue build-up in this Application for 2014 to 2016 is based on the following detailed forecasts for each of 2014, 2015 and 2016:

a. An O&M Budget, inclusive of productivity savings, which has been created through the budget process described above;

b. A depreciation forecast, which is based on forecast gross plant and gross plant additions (as driven by forecast future capital expenditures in the Capital Budget), net of retirements and inclusive of the impact of the change to the CDNS approach to determine SRC funding requirements (see below for description of this item);

c. A cost of capital forecast, which is determined as: (i) the forecast rate base each year (starting with the 2014 opening rate base as determined in the 2013 Rate Case Settlement Agreement) multiplied by the equity ratio, multiplied by the forecast ROE for the subject year; plus (ii) the forecast costs of debt;

d. A tax forecast, which is based on current tax rates for income taxes and municipal taxes and fees; and

e. A forecast of Other Revenues that acts as an offset to the costs detailed above.

100. Further description of the process to set ~~final~~ Allowed Revenue amounts is set out at Exhibit A2, Tab 3, Schedule 1. The Allowed Revenue amounts for 2014, 2015 and 2016 are set out at Exhibit F1, Tab 1, Schedule 2.

101. The same approach is used to build-up Allowed Revenue for 2017 and 2018. The difference is that certain of the forecasts that build up to the Allowed Revenue amounts use the 2014 to 2016 budgets as their starting points. The Allowed Revenue amounts for 2017 and 2018 will be set based on the following:

a. O&M Budgets, inclusive of productivity savings, which are determined by applying the average rate of change in such budgets between 2013 and 2016 to the prior year's budget;

Witnesses: R. Fischer
M. Lister

b. A depreciation forecast, which is based on forecast gross plant and gross plant additions (as driven by forecast future capital expenditures in the Capital Budget), net of retirements and inclusive of the impact of the change to the CDNS approach to determine SRC funding requirements. The 2017 and 2018 Capital Budgets used in connection with this component will be set at the same level as 2016 (except for the removal of $8.1 million in costs related to WAMS which will not be included for 2017 and 2018);

c. A cost of capital forecast, which is determined as: (i) the forecast rate base each year multiplied by the equity ratio, multiplied by the forecast ROE for the subject year; plus (ii) the forecast costs of debt;

d. A tax forecast, which is based on current tax rates for income taxes and forecasts that 2017 and 2018 municipal taxes will increase at a rate that is equal to the average rate of such taxes from 2013 to 2016; and

e. A forecast of Other Revenues, fixed at the 2016 level, which acts as an offset to the costs detailed above.

~~The Allowed Revenue amounts for 2017 and 2018 will be set on a preliminary basis in this 2014 Application. Essentially, those items that are not impacted by the 2017 – 2018 Capital Budget that Enbridge will file in 2016 shall be determined in this 2014 Application. That includes operating costs, municipal taxes and other revenues. Enbridge will also fix the cost of capital parameters (ROE, debt rates and equity ratio) and income tax rates for 2017 and 2018 within this 2014 proceeding. Those items that are impacted by the 2017-2018 Capital Budget will be included within 2017 and 2018 Allowed Revenue on a preliminary (placeholder) basis in order to allow for preliminary rates to be shown that reflect the approximate impact of the Customized IR plan for those years. Further description of the process to set preliminary 2017 and 2018 Allowed Revenue amounts is set out at Exhibit A2, Tab 3, Schedule 1.~~

~~101.~~102. Further description of the process to set Allowed Revenue amounts is set out at Exhibit A2, Tab 3, Schedule 1. The Allowed Revenue amounts for 2017 and 2018 are set out at Exhibit F1, Tab 1, Schedule 2 and Exhibits F6 and F7.

~~102. Those items within Allowed Revenue which are not impacted by the Capital Budget (for example, O&M expenses and municipal taxes), will be set for 2017 and 2018 by: (i) taking the average annual rate of change in each such item between the 2013 Board-Approved ADR level and the amounts included within 2014, 2015 and 2016 Allowed Revenue; and (ii) applying that rate of change to the relevant amount (for example, O&M expenses and municipal taxes) included within 2016 Allowed Revenue to determine the amount to be included within Allowed Revenue for 2017; and (iii) applying the same approach as in step (ii) to relevant amounts in 2017 Allowed Revenue to determine the amounts to be included within 2018 Allowed Revenue. The Other Revenues amount will stay at the 2016 level for 2017 and 2018.~~

~~103. Those items within Allowed Revenue that are impacted by the Capital Budget (for example, cost of capital, depreciation, income taxes) will be included within the preliminary 2017 and 2018 Allowed Revenue amounts using the 2016 Capital Budget as a placeholder, or proxy, for the 2017 and 2018 Capital Budgets.~~

~~104. Within the first phase of the 2016 Rate Adjustment Application, Enbridge will file its Capital Budgets for 2017 and 2018, along with evidence about costs and Allowed Revenue consequences associated with those Capital Budgets. That evidence will be used to set the final 2017 and 2018 Allowed Revenue amounts, to be used for ratesetting within the 2017 and 2018 Rate Adjustment proceedings. Further description of the process to set final 2017 and 2018 Allowed Revenue amounts is set out at Exhibit A2, Tab 3, Schedule 1.~~

Witnesses: R. Fischer
M. Lister

b. Volumes and Gas Costs for 2014

~~105.~~103. Enbridge's forecast volumes for 2014 will be determined using an updated Heating Degree Day ("HDD") methodology, (as described at Exhibit C2, Tab 1, Schedule 2*)* and applying the existing methodologies for average use and large volume forecasts (as described at Exhibit C2, Tab 1, Schedule 3*)*.

~~106.~~104. The Company's evidence includes a gas cost forecast for the years from 2014 to 2016, based upon current volumetric projections for the term (see Exhibits D3/D4/D5, Tab 3, Schedule 1). Only the 2014 gas cost forecast and 2014 volume forecast are subject to approval in this proceeding. For future years, the gas cost forecasts filed in this Application include assumptions around updated opportunities arising from the completion of the GTA project.

c. Final Rates for 2014

~~107.~~105. Using the established volumes, revenues and gas costs for 2014, the Company's evidence sets out rates designed to recover the 2014 Allowed Revenue. The final 2014 rates set out in this Application (Exhibit H1, Tab 1, Schedule 1) are to be implemented as of January 1, 2014. Further details of the 2014 Rate Adjustment proposal within this Customized IR plan are set out at Exhibit A2, Tab 2, Schedule 1.

d. Preliminary Rates for 2015 to 2018

~~108.~~106. In order to provide an indication of the magnitude of changes in rates that will be effective ~~in~~ each year from 2015 ~~and 2016~~to 2018, Enbridge's evidence sets out the rates that would be required to recover the 2015 ~~and 2016~~to 2018 Allowed Revenue amounts, using forecasts of volumes and the preliminary forecast of revenues and gas costs for 2015 ~~and 2016~~to 2018.

Witnesses: R. Fischer
M. Lister

~~109.~~107. The estimated rates presented in this Application for 2015 ~~and 2016~~to 2018 (Exhibit H3, Tab 1, Schedules 1 and 2) will be subject to change for those years, to reflect updated forecasts for volumes, revenues and gas costs.

~~110.~~108. Enbridge's preliminary rates for 2017 and 2018 will be prepared by using the 2016 forecasts of volumes, revenues and gas costs, applied to the preliminary Allowed Revenue amounts for 2017 and 2018.

e. Annual Adjustments for 2015 to 2018

~~111.~~109. Enbridge believes that in order to fully incent productivity improvement and cost savings in its Customized IR plan, there should be an attempt to minimize the number and amount of elements under review for annual adjustment. On the other hand, there are certain volume, revenues and gas-cost related aspects of Enbridge's rates that are difficult to predict and largely outside of the Company's control. As was the case within its 1st Generation IR term, Enbridge proposes to update those items annually, so that the Customized IR plan does not result in either Enbridge or ratepayers gaining or losing from flawed forecasts.

~~112.~~110. Enbridge's proposal is that, in advance of each subsequent year (2015 to 2018), the Company will provide updated forecasts of volumes (using an updated unlocks forecast based on the pre-set customer additions forecast and other economic data and applying the approved methodologies and processes for HDDs, average use and large volume forecasts), revenues and gas costs. The updated data will be applied to the approved final Allowed Revenue amount for each year to derive final rates for each year from 2015 to 2018.

~~113.~~111. Additionally, there are certain items that have previously been approved by the Board which ought to be updated each year, so that rates properly recover the associated costs (and no more or less). To accomplish this outcome, the annual adjustment process will update the forecasts associated with pension/OPEB, DSM and Customer Care/CIS costs, such that the Allowed Revenue for the subject year includes the most up to date amounts.

~~114.~~112. The intention is to make the rate adjustment process as mechanical as possible, by simply applying approved and established methodologies to update forecasts related to items that are subject to uncontrollable change during the Customized IR term. Details about the mechanics of the annual Rate Adjustment process are set out at Exhibit A2, Tab 3, Schedule 1.

f. Deferral and Variance Accounts

~~115.~~113. As set out at Exhibit D1, Tab 8, Schedule 1, Enbridge proposes to carry forward all currently established deferral and variance accounts from 2013 through to the end of the Customized IR term.

114. In addition, Enbridge also proposes a new variance account associated with the GTA project to ensure that Enbridge collects no more or less than the prudent costs of that project, as discussed at Exhibit D1, Tab 8, Schedule 2.

~~116.~~115. Further, Enbridge proposes two new variance accounts, to be in place for 2017 and 2018, to track differences in Allowed Revenue associated with two areas of capital spending which are beyond Enbridge's control (relocations, and replacement mains requirements identified through pipeline inspections (including ILI) and MOP activities)). For each of these areas, Enbridge proposes variance accounts for 2017 and 2018, through which the Allowed Revenue implications of spending that is significantly higher or lower than

included within the budget would be recoverable from ratepayers. Details of the proposed variance accounts can be found at Exhibit D1, Tab 8, Schedule 6. It should be noted that the variance accounts are only operative, though, if the actual Allowed Revenue consequences of required additional spending in either area are more than $1.5 million above the forecast amount for that area (which is the same threshold as applies for Z factors).

g. Earnings Sharing Mechanism (ESM)

~~117.~~116. Enbridge believes that an ESM within the Customized IR term is appropriate to provide assurances that cost forecasts and the resulting Allowed Revenue are reasonable. That is, if Enbridge's cost forecasts are too high, then the utility would be the net beneficiary absent any ESM. The Company also recognizes that with an IR framework, there is a desire to incent a utility to find efficiencies. Therefore, Enbridge believes that an ESM that provides benefits to both the Company and ratepayers will create an incentive to push the Company's cost control efforts.

~~118.~~117. The ESM proposed for Enbridge's Customized IR term (as described at Exhibit A2, Tab 7, Schedule 1*)* will share net weather normalized earnings above the Formula ROE output that applies in that year, as follows:

a. 0 up to 100 bp to the shareholder; and
b. greater than 100 bp, 50/50 between ratepayers and shareholder.

~~119.~~118. In calculating the Formula ROE output for any given year, Enbridge will use the Board's ROE formula from the EB-2009-0084 Cost of Capital report.

h. Sustainable Efficiency Incentive Mechanism (SEIM)

~~120.~~119. The Customized IR plan includes a new incentive feature, referred to as the Sustainable Efficiency Incentive Mechanism (SEIM), which is detailed at Exhibit A2, Tab 11, Schedule 3. ~~The SEIM will apply to new projects or initiatives which are forecast to create sustainable productivity gains. The SEIM is directed at incenting the Company to find and implement programs and activities that have lasting efficiency gains beyond the next rebasing year. A financial incentive equal to 20% of the net benefit of such projects will be calculated on the basis of the projects' estimated present value benefits, after an allowance for forecast error and net of any costs.~~ The SEIM will further incent the Company to create sustainable efficiencies during the IR term by removing any disincentive to defer productivity spending in the later years of the plan, resulting in reduced costs at the rebasing year and beyond. The SEIM will reward the Company for implementing such programs, and ratepayers will benefit from increased focus by the Company on programs and activities that result in long-term sustainable cost savings.

i. Off-Ramps

~~121.~~120. Enbridge proposes to maintain the same Off-Ramps in its Customized IR plan (as described in Exhibit A2, Tab 6, Schedule 1*)* as existed in the 1st Generation IR plan. Specifically, if in any of the first four years of the IR term there is a variance greater than 300 basis points in weather normalized utility earnings, above or below the amount calculated annually by the application of the Board's ~~then-current~~2009 ROE Formula, Enbridge shall file an application with the Board, with appropriate supporting evidence, for a review of the Customized IR plan.

j. Z-Factor

~~122.~~121. Enbridge proposes that the Customized IR Plan should continue to include a Z-factor clause for unexpected cost increases or cost decreases that are outside of

management control. The threshold for Z-factor treatment (revenue requirement of $1.5M) is proposed to be the same as during the 1st Generation IR term. Enbridge is proposing some clarifying wording changes to the description of the Z-Factor clause from what was included within the 1st Generation IR plan. Enbridge's Z-factor proposal can be found at Exhibit A2, Tab 4, Schedule 1.

k. Performance Measurement

~~123.~~122. As part of this Application, Enbridge is also proposing a performance measurement framework to track and report the Company's productivity initiatives and operational performance. The results of this tracking will be reported at the end of the Customized IR term. Annual reporting of productivity initiatives during the Customized IR term will be provided through the RRR filings and the annual ESM Applications. Details of Enbridge's performance measurement proposal are set out at Exhibit A2, Tab 11, Schedule 2.

~~124.~~123. Enbridge believes that the performance measurement framework will help to align stakeholder and utility views. Reporting will promote the engagement of stakeholders in the issues that face the utility, and measure and monitor the outcomes that can be influenced by management. The proposal to create a performance management reporting framework is also in keeping with the RRF Report for electricity utilities.

F. <u>The Customized IR Plan Proposal meets the OEB's objectives</u>

~~125.~~124. The proposed Customized IR plan fits with the OEB objectives for an IR plan, and also meets the Company's own objectives.

~~126.~~125. Fundamentally, the Customized IR plan provides Enbridge with the ability to address "must-do" work to maintain the safety and reliability of its distribution system. As

explained, the magnitude of this work means that it could not otherwise be accommodated in an I-X framework. The fact that Enbridge has prioritized spending and removed costs and activities that are not immediately necessary protects customers from unreasonable price increases. Customers will also benefit from continued quality service, and performance measurement reporting.

~~127.~~126. Enbridge's proposed Customized IR plan also provides appropriate incentives for Enbridge to implement incremental sustainable efficiency improvements (to the extent that is possible). Under the proposed plan, once the forecast Allowed Revenue amounts have been approved, Enbridge takes the risk during the IR term that it will be able to operate at those levels and is thus incented to provide service at lower costs. To the extent that such efforts are successful, ratepayers will share in the savings through the ESM. There are further incentives for Enbridge to find and implement lasting productivity savings, as a result of the SEIM. In any case, ratepayers will benefit from the fact that productivity assurances are already built into the underlying cost estimates and ongoing spending will be monitored to ensure that it is being optimized.

~~128.~~127. The certainty provided through Enbridge's proposed Customized IR plan will benefit all stakeholders and will assist the Company in meeting its own objectives (commitment to safety, assisting customers to get value for energy dollars and delivering shareholder value through the opportunity to earn Allowed ROE).

G. Implementation and Impacts of the Customized IR Plan

~~129.~~128. The implementation of the Customized IR plan will benefit Enbridge and its ratepayers. The Customized IR plan will accommodate Enbridge's capital spending requirements, and this will enable necessary safety and reliability improvements to be made

to Enbridge's distribution system. All parties will benefit from sustained productivity improvements that continue after the IR term.

~~130.~~129. The forecast rate impacts resulting from the Customized IR plan over the 2014 to ~~2016~~ 2018 period, as set out at Exhibit H~~, Tab 1, Schedule 1~~, are reasonable. ~~Within the next month, Enbridge will file supplementary information about the projected rate and bill impacts of the preliminary 2017 and 2018 Allowed Revenue amounts.~~

~~131.~~130. As discussed above, customer bills are expected increase well below expected inflation from 2014 to 2016, and are forecast to be 1.4% or $12 higher by the end of 2016 than today. The rate and bill impacts for 2014 to ~~2016~~ 2018 are set out in the following table (reproduced from the Summary section above).

Estimated Rate and Bill Impacts including SRC rate rider credit

With the GTA Project	2013	2014	2015	2016	2017	2018	Variance (2013 - 2018)	Average (2014 - 2018)
Change in Rates*								
Annual % Change		-0.7%	2.1%	4.6%	2.4%	2.5%		2.2%
Total Bill for Average Residential Customer ($)**	867	837	851	879	896	926	59	
Annual % Change		-3.5%	1.7%	3.3%	1.9%	3.3%		1.4%
Without the GTA Project	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**		
Change in Rates*								
Annual % Change		-0.7%	1.7%	2.1%	2.4%	2.5%		1.6%
Total Bill for Average Residential Customer ($)**	867	837	849	862	879	909	42	
Annual % Change		-3.5%	1.4%	1.5%	2.0%	3.4%		1.0%

* Does not include SRC rider credit
** Includes SRC rider credit

Witnesses: R. Fischer
M. Lister

~~132.~~131. In total, therefore, the estimated average bill impact for a typical Enbridge residential system supply customer over the first three years of the Customized IR plan term will increase approximately $4 per year. This equates to an annual average bill increase of approximately 0.5% over the first three years. Over the full five year term, the expected annual bill increase will be less than $10 per year - approximately 1.4% per year over the five years.

Witnesses: R. Fischer
M. Lister

IR PLAN PRODUCTIVITY

1. The Customized Incentive Regulation ("IR") plan proposed by Enbridge Gas Distribution Inc. ("EGD" or the "Company") is based on a five year forecast of costs, ~~some of which will be updated for the final two years of the IR plan,~~ and includes other forecast elements such as cost of capital and tax rates. Two major differences between EGD's proposed plan and a traditional cost of service model are 1) the incorporation of incentives designed to encourage the utility to find and implement further sustainable efficiencies during the IR term; and 2) the inclusion of anticipated productivity savings in the forecast cost elements.

2. Productivity embedded in EGD's forecasts of O&M costs is demonstrated in three ways. First, the traditional budgeting process was modified to ensure that budget owners' forecasts for O&M did not exceed specified inflation targets which the Company can demonstrate include productivity. Secondly, total O&M budget costs were measured against an 'Inflation less Productivity' factor, which was recommended and forecast by Concentric Energy Advisors, Inc. ("Concentric"). Lastly, specific productivity metrics for O&M overall costs were benchmarked against an industry peer group to demonstrate that efficiency is reflected in the cost forecasts.

3. EGD's 2014 to 2016 budget forecasts for O&M and capital were determined through a comprehensive and iterative budgeting process designed to ensure that the cost forecasts incorporate productivity with a resulting Allowed Revenue envelope that will provide a significant challenge for the Company to operate within. The process, as described in detail within Exhibit B2, Tab 1, Schedule 1 and Exhibit D1, Tab 3, Schedule 1, was completed over many months and involved the application of

Witnesses: A. Mandyam
S. Kancharla
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inflation growth targets that reflect embedded productivity and a capital prioritization and scheduling process, including the application of risk tolerance criteria and probability assessment, to determine the minimum level of capital spend required in each year of the IR term.

4. Concentric was asked to develop and recommend an appropriate inflation index and Partial Factor Productivity ("PFP") X factor for O&M. The resulting I-X factor was used by Concentric to determine the amount of productivity beyond industry norms that is embedded in EGD's forecast for O&M for 2014 to 2016 as determined by the budgeting process. The results of that analysis confirmed that productivity is embedded in the forecast O&M Budget. This is set out in the Concentric Report, filed at Exhibit A2, Tab 9, Schedule 1.

5. Benchmarking analysis determined that EGD is operating as a top quartile performer for a number of productivity metrics, confirming both O&M and capital spending has been planned incorporating productivity and efficiency. This is set out in the Concentric Report, filed at Exhibit A2, Tab 9, Schedule 1.

6. The Customized IR plan proposed by EGD also includes a proposal for productivity tracking and performance measurement during the IR term, including reporting on benchmarking at the end of the IR term. Although EGD operates as a highly efficient performer compared to the North American peer group, the Company is committed to seeking out and reporting on future sustainable efficiencies. EGD will also share any benefits obtained above a certain level, through an Earnings Sharing Mechanism ("ESM"), which has been carried forward from EGD's 1st Generation IR plan. The Company is further incentivized to deliver sustainable efficiencies

through the term of the Customized IR through the Sustainable Efficiency Incentive Mechanism ("SEIM"), described in Exhibit A2, Tab 11, Schedule 3.

7. The Company's Customized IR plan was informed by the Custom IR method outlined in the Ontario Energy Board's Renewed Regulatory Framework for Electric Distributors developed in 2012 and other similar IR models, often called "Building Blocks" methods, that have been approved in Australia and the UK. In their report filed at Exhibit A2, Tab 10, Schedule 1, London Economics International LLC ("LEI"), explains how these models have been implemented in those other jurisdictions, and the similarities to EGD's Customized IR plan, including the assessment and application of productivity.

8. EGD believes the combination of embedding and demonstrating that productivity has been incorporated in its budgeted cost forecasts, and then reporting, sharing and incentivizing further cost efficiencies during the IR term, are key parameters of the Customized IR plan that clearly establish it as a robust IR model.

<u>The Budget Forecasting Process</u>

9. This evidence describes how the 2014 to 2016 O&M budget was developed, and specifically how productivity has been assessed and implemented into the O&M forecast projections. A more detailed discussion of the O&M forecasts can be found at Exhibit D1, Tab 3, Schedule 1.

10. The O&M budget was developed by first conducting a grass-roots budget. That process yielded an O&M budget with forecast increases considerably higher than inflation. A target was then set to keep the growth rate of most of its O&M costs at or near expected inflation levels. Other segments of the O&M budget that

serve to make up the total are determined in accordance with past regulatory agreements or decisions, and relate to RCAM, Customer Care / CIS, DSM, and Pension/OPEB costs.

11. In summary, as set out within the D1 series of exhibits (O&M Overview and Departmental evidence), productivity that is implicitly accounted for in the O&M Budget forecasts for 2014 to 2016 includes the following:

(i) Striving to keep controllable O&M to an escalation rate that is less than inflation;

(ii) Not accounting for known and expected higher cost areas (benefits, contractor prices, number of locates);

(iii) Holding key cost components flat (quantity of labour, or FTEs, bad debts, and number of locates);

(iv) Holding other competitively determined prices to a rate at or below inflation (salary increases); and

(v) Not increasing O&M forecasts for incremental customer additions.

12. Since the O&M Budget forecast was by and large created by reference to the expected inflation rate, the Company foresees that there will be a significant challenge to managing at this level over the forecast horizon. Setting aside the potential for uncertainty with regard to the quantity and price of work required, there are numerous known challenges that will need to be overcome.

13. For example, it is expected that higher than inflation wage and benefit increases will be required to remain competitive in the labour market. Benefits are expected to increase 6.1% annually in 2014 and onwards. Salary increases are also expected to grow faster than the rate of inflation. As well, it is anticipated

that external contractors will increase their rates by more than inflation, between 3% and 6%. The combined impact of the 2014 to 2016 O&M Budget limiting budgeted increases in wages, benefits, and contractors to around 2% exposes the Company to a substantial risk of cost overruns. Cost increases in these very significant areas will need to be accommodated by productivity savings in other areas.

14. With respect to labour, the O&M and Capital forecasts assume the addition of no new FTEs. This will require an increase in productivity, as it requires the achievement of outputs with the same inputs. New approaches and activities will have to be developed to achieve this productivity. If incremental hiring is required, any associated costs will have to be accommodated elsewhere in the O&M Budget.

15. The passage and implementation of Bill 8 (the Underground Infrastructure Notification System Act) is also expected to drive higher requests for locates, and the costs for locates escalated by inflation may not be adequate to cover the increasing demand. The Company faces the risk of greater than anticipated requirements for safety, integrity and compliance with new legislation and regulations.

16. The Company has also not reflected any increase in bad debt costs in the O&M forecast, even though there is a high probability that bad debt expenses will in fact increase with a growing customer base and rising natural gas prices.

17. The departmental O&M evidence filed within the D1 series of exhibits describes additional required or expected productivity savings over the 2014 to 2016 term.

Witnesses: A. Mandyam
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18. In summary, the Company has implicitly recognized productivity into its forecast of O&M budgets for 2014 to 2016 by not accounting for known or highly probable cost increases over the forecast horizon, and by holding several costs flat, which in reality will not be flat, and by expecting the organization to deliver more output for the same inputs. These actions necessarily mean that EGD is taking on significantly more forecast risk than would be the case in a cost of service application, and they represent hurdles to overcome simply to achieve the Allowed ROE. In other words, to make up for the differential between actual costs incurred, and those built into the forecast, the Company will have no choice but to find offsetting cost efficiencies elsewhere.

19. With regard to Capital spending requirements, it is the combination of high capital spending requirements and uncertainty in the long term that have driven Enbridge to request approval of its Customized IR plan.

20. Enbridge has been able to include anticipated productivity and efficiency savings within its 2014 to 2016 Capital Budget, including the following:
    (i) Managing direct costs of adding new customers
    (ii) Keeping FTE levels flat
    (iii) Not accounting for considerable uncertainties within projects (variable costs)

21. As described, the Company has resolved to maintain its overall FTE level flat through the 2014 to 2016 period. To the extent that additional FTEs are needed to accomplish work, Enbridge will accommodate these costs within other parts of the 2014 to 2016 Capital Budget.

Witnesses: A. Mandyam
S. Kancharla
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M. Lister

22. Exhibit B2, Tab 1, Schedule 1 also describes that many of the project forecast costs within the 2014 to 2016 Capital Budget contain significant uncertainty, and as a result, actual project costs may vary significantly. These costs are termed "variable costs". The "variable" costs are at Enbridge's risk and are not included in the 2014 to 2016 Capital Budget amounts. The significance here is that the amount of potential variable costs is greater than the actual cost forecast. While the Company does not expect all of these "variable" costs to materialize, there is a strong possibility that at least some of the costs will arise during the 2014 to 2016 term. As these costs are not included within the Capital Budget, they will have to be accommodated elsewhere. Under Enbridge's updated Customized IR plan, which will use the 2016 Capital Budget as the basis for forecast 2017 and 2018 Capital Budgets, the risks to Enbridge from not including these variable costs is increased. The result will be a requirement to find further productivity and efficiency gains, to allow for all necessary work to be completed, effectively forcing productivity to balance inflationary and growth pressures.

Tests of Reasonableness

23. Above, EGD has described how the budgeting process inputs and outputs have resulted in both implicit and explicit productivity in the establishment of the forecast Allowed Revenue amounts. In addition, EGD has looked to external and comparative views to demonstrate that productivity resides in these forecasts. Specifically, EGD engaged Concentric to prepare analyses concerning the Company's historical Total Factor Productivity ("TFP") and PFP. These analyses report on productivity trends for EGD and the industry which could be reasonably used to test whether EGD's cost projections meet industry productivity standards. Concentric's productivity studies can be found at Exhibit A2, Tab 9, Schedule 1.

Witnesses: A. Mandyam
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24. Concentric's TFP study results indicate that EGD's historical productivity performance was similar to that of the industry, as shown in the summary table:

	2000-2011	**2007-2011**
25 Company industry group	-0.32%	-1.22%
EGD	***-0.28%***	***-0.66%***
7 Company industry subgroup	-0.01%	-0.78%

25. The TFP analysis brings perspective to the fact that Enbridge's going-in rates from 2013 are efficient from an industry productivity perspective.

26. Concentric also assessed EGD's PFP performance relative to the industry, measuring O&M inputs to total outputs. Concentric finds that EGD's performance has been slightly better than the industry, and improved throughout the most recent IR period, while the rest of the industry faltered. The table below summarizes Concentric's PFP findings:

	2000-2011	**2007-2011**
25 Company industry group	-0.25%	-1.52%
EGD	***0.50%***	***0.60%***
7 Company industry subgroup	-0.02%	-1.33%

27. Overall, the analyses provided by Concentric show that EGD has maintained total productivity performance relatively equal to that of the industry over the long term, and has exceeded the industry in the recent past. O&M productivity has been even better, outpacing the industry over both the long term and the recent past by fairly significant margins.

Witnesses: A. Mandyam
S. Kancharla
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28. This demonstrates that EGD's productivity performance has been at or in excess of industry levels. To provide the Board with evidence that Enbridge's cost forecasts also contain continued productivity improvements, Concentric extended their analysis to compare the outcome that could reasonably be expected in an I-X approach.

29. Excluding the capital portion of the Allowed Revenue amounts, and focusing on O&M, an assessment can be made of the embedded productivity within Enbridge's 2014 to 2016 "Other O&M" budget (that is, all costs except Customer Care, DSM, and pension/OPEBs). Based on the PFP analysis, Concentric would recommend a PFP X-Factor of 0.0%. The relevant Inflation Factor that Concentric recommends results in a 2014 to 2016 annual estimate of 2.24%.

30. Concentric used these parameter values to test the reasonableness of the "Other O&M" component of EGD's revenue requirement forecasts. By extending the base year O&M by the I factor forecast less the X factor forecast, Concentric shows that EGD's O&M component of 2014 to 2016 Allowed Revenue contains approximately $12 Million of accumulated productivity over the course of those years which is above and beyond the industry productivity trend. That is, EGD is already considered to be a top industry performer, and the cost forecasts meet and exceed the expected industry productivity performance.

31. Concentric concludes(at page 49):

> *Concentric's analyses indicate that EGD's forecasted O&M costs are reasonable based on a comparison to the benchmark utilities, and in relation to productivity from the seven company sub-group PFP analysis. The $12 million in cumulative savings between the PFP I-X derived O&M costs and the EGD forecasted O&M cost can be viewed as additional productivity flowing through to customers, beyond the productivity that would be built into a PFP I-X formula.*

Witnesses: A. Mandyam
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Benchmarking

32. Benchmarking evidence provided by Concentric also shows the appropriateness of EGD's forecasted costs. In their report, Concentric demonstrates that EGD has historically been among the most efficient utilities, and the data further shows that EGD has maintained or improved its cost performance relative to industry peers. This is also consistent with the productivity analyses discussed above.

33. Concentric's analysis shows that EGD's 2011 O&M Expense per Customer are the fifth lowest among a 28 company peer group. They show that EGD's O&M per Customer has consistently been lower than the industry's and that the trend of increase has been considerably lower over a long time horizon.

34. The analysis also shows EGD's labour costs (excluding and including capitalized amounts) per customer are among the industry best. The benchmarking analysis shows total labour costs per employee, excluding capitalized amounts, are below the industry average with a recent trend that is noticeably lower than the industry trend. Including capitalized amounts, the total labour costs per employee for EGD are lower than, but much closer to industry norms.

35. The benchmarking analysis also considers another measure of efficiency, which is Total Customers per Employee. The data shows that EGD was in the highest quartile for this measure in 2011, and that EGD has always maintained many more customers per employee than the industry average.

36. One area where EGD's performance has been closer to the industry's performance is with respect to Net Plant per Customer. The data shows that EGD's 2011 Net

Plant per Customer is higher than the industry average, however, that the trend growth for EGD has been slower than the industry average.

37. In addition to the historical analysis, at Figure 26 of their report, Concentric also compared EGD's forecast costs to the 2011 peer group. The analyses show that EGD's forecasted O&M cost per Customer in 2014 is better than the industry average for 2011.

38. Regarding their overall benchmarking analysis, Concentric concludes (at page A-19):

> *On balance, the benchmarking analysis indicates that Enbridge is among the most efficient of its U.S. peers in most categories measured. The exceptions are net plant per customer, net plant per unit of volume, and labour costs (including capitalized labour) per employee, where the Company is closer to or above the average. Examining trends over the 2000 – 2011 period measured, Enbridge has generally sustained or improved its position in relation to its peers, including during the most recent IR plan period.*

39. Further, the data also show that on a per customer basis EGD's forecast O&M per Customer is considerably lower than an I-X derived O&M cost per Customer.

Incentives to Find Further Efficiencies during the IR Plan Term

40. As set out throughout this Application, there are various other features of EGD's proposed Customized IR plan that will serve to induce the right behaviours, and incent EGD's efforts towards even greater cost efficiencies beyond the efforts to reduce the 2014 to 2016 budget forecasts. The key features that will continue to incent efforts toward greater efficiencies during the plan include the Customized IR

plan design, the SEIM, the proposed ESM, the plan term, and the tracking and reporting of Performance Measurement metrics.

41. The Customized IR plan design necessarily creates incentives to induce cost controls and increase efficiency. That is, the Board's approval of the Allowed Revenues for each of the years of the IR plan effectively creates a revenue cap that is decoupled from actual costs over the term of the plan. EGD is taking the risk that it will be able to manage its business, including the necessary capital requirements, within the revenue cap.

42. Just as with an I-X price or revenue setting regime, EGD's model is designed such that future actual costs have no regard to the pre-determined revenue cap. Also, just as with an I-X price or revenue setting regime, there are no adjustments for cost elements throughout the plan term ~~other than the one-time update to capital cost related items in the 2017 Rate Adjustment proceeding~~. Additionally, EGD is proposing to make annual adjustments to volume forecasts to better reflect current demand projections and supply planning, and to annually update a small number of items whose costs are subject to variance account treatment. As such, the Company is at risk for most costs over the projected revenue cap, and is incentivized to manage costs within the cap. As LEI comments in their report at Exhibit A2, Tab 10, Schedule 1(at page 5):

> *… Enbridge will have an opportunity to earn a fair return on its investments and appropriately recover capex, but only if it indeed can deliver on the productivity and operating cost budgets it has forecast alongside the capital investment requirements.*

43. Another element that will ensure that EGD engages in the right behaviors to pursue cost efficiencies is in the Company's proposed SEIM. ~~The SEIM will directly incent~~

~~the Company to find further opportunities for projects that result in sustainable efficiencies by applying an incentive reward to those projects. The scope of the SEIM is intended to be limited to those projects that generate sustainable efficiencies. Ratepayers will benefit through otherwise lower rates at rebasing, while the utility will benefit through the incentive payout. On the other side, the Company will gain nothing if it cannot find projects that generate sustainable efficiencies. If the utility cannot find projects that generate sustainable efficiencies then ratepayers will be assured that the costs at rebasing represent the most efficient costs in providing safe, reliable distribution.~~ The SEIM is intended to remove any disincentive for the utility to continue to invest in productivity enhancements, by allowing the utility to generate ROE enhancements beyond the term of the IR plan. In this way, the SEIM will increase incentives for the Company to generate sustainable efficiencies, which will benefit ratepayers through lower rates beyond the term of the IR plan. Further details regarding the SEIM can be found at Exhibit A2, Schedule 11, Tab 3.

44. The design of the ESM also provides an incentive to improve cost performance. The ESM allows EGD to maintain the first 100 basis points of any potential over-earnings, and then 50% for any over-earnings beyond that, which is a powerful incentive to improve cost efficiency. The ESM will also provide a measure of protection to ratepayers that EGD has not over-forecast its costs.

45. The proposed ESM is also asymmetrical so that sharing only occurs if EGD over-earns, and not if the Company under earns. This means that the balance of risk resides with the utility, and with the increased risk, so too is there an increased incentive to efficiently manage costs. As LEI says within their report (at page 19),

> *Enbridge's proposal to continue its conservative, customer-favoring ESM is consistent with all the principles discussed above and will provide a strong*

Witnesses: A. Mandyam
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incentive to implement efficiency measures, as Enbridge will receive initial benefits, while customers will also share in the gains above the threshold. Furthermore, the ESM under a building blocks approach discourages cutbacks in investment to boost profitability as these ultimately will be returned to customers

46. A multi-year plan term provides incentives in that there is no recourse to request rate relief over the plan term absent the 300 basis point shortfall against the Allowed ROE (i.e. the Off-ramp). Essentially, to earn the Allowed ROE, EGD must manage its costs effectively. At the same time, EGD still has to serve on its commitment to the delivery of safe and reliable energy, which will require significant investment. Cutting costs by simply not undertaking projects built into the forecasts will negatively impact meeting that commitment.

47. Finally, by committing to the tracking and reporting of productivity and performance metrics the Company will make visible, and be held to account, on progress in meeting safety and integrity commitments, customer service quality, and productivity. The proposed performance measurement framework will provide the OEB and stakeholders a reporting mechanism that demonstrates the Company's activities in pursuing productivity. The objectives of the proposed Productivity Initiatives Report are as follows:
    (i) Establishment and maintenance of records of productivity and efficiency initiatives;
    (ii) Simplicity; and
    (iii) Visibility to linkages between initiatives and outcomes, i.e. the reports will focus on illustrating initiative's results[1] whether the results are successful or not.

[1] Measurable actual or avoided cost savings, i.e. savings that can be tracked quantitatively.

48. In determining the productivity and efficiency initiatives that will be pursued over the incentive regulation term, the Company has established the following guiding principles:
    (i) Efficient and effective use of resources;
    (ii) Doing things right (efficient) and doing the right things (effective);
    (iii) Sustainable savings over multiple periods; and
    (iv) Optimal balance between effort and outcomes that are valued by stakeholders, e.g. safe and reliable energy supply at a reasonable cost.

49. As well, EGD is committed to producing a Performance Metrics Benchmarking Report. The objective of this report is to compare actual results of the Performance Metrics with either the industry average or best practices from other gas utilities. The benchmarking will compare the metrics relative to comparable peer companies in terms of direction and trending. Results from the benchmarking comparison may be used as inputs to further inform improvements or adopt specific best practices from gas utilities that have similar operations to EGD's, as appropriate. The specific areas for measurement and reporting will include metrics and information regarding Customer Relationship, Operational Performance, and Financial Performance.

50. More details on the proposed Performance Measurement Framework can be found at Exhibit A2, Tab 11, Schedule 12.

Witnesses: A. Mandyam
S. Kancharla
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M. Lister

2014 TO 2018 RATE ADJUSTMENT PROCESS

1. This evidence describes Enbridge Gas Distribution's ("Enbridge" or the "Company") proposal to adjust rates for the years of the Customized IR plan term – 2014 to 2018.

2. The rate adjustment process under the Customized IR plan is very consistent with Enbridge's 1st Generation IR plan. Under the Customized IR plan, Allowed Revenue amounts will be set by the Board in this proceeding, and then subject to adjustment in annual Rate Adjustment proceedings from 2015 to 2018 to take account of updated impacts of volumes, gas costs and discrete pass-through cost items. Those same types of items were updated each year during the 1st Generation IR plan, though annual Rate Adjustment proceedings. ~~The main difference in the Customized IR plan rate adjustment process (as compared to the 1st Generation IR plan) is that the fourth year Rate Adjustment application (2017) will include presentation and review of forecast capital spending for 2017 and 2018, to set final Allowed Revenue amounts for those years. That additional step is needed because Enbridge is not able to forecast capital spending for those years at this time.~~

3. As explained in the updated Exhibit A2, Tab 1, Schedule 1, Enbridge has updated its Customized IR Plan to enable Allowed Revenue amounts to be set within this proceeding for all five years of the IR term (2014 to 2018). To accomplish this, Enbridge will set its 2017 and 2018 Capital Budgets based upon the 2016 Capital Budget. The rationale for why this is an appropriate approach is set out within the updated Exhibit B2, Tab 1, Schedule 1. This approach eliminates the requirement for Enbridge's 2017 and 2018 Capital Budgets to be

Witnesses: K. Culbert
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presented and approved in a Phase I of the 2016 Rate Adjustment proceeding. Under this approach, Enbridge is at risk (except within three specified areas of spending) for any additional capital spending requirements in 2017 and 2018 other than those identified within the 2016 Capital Budget.

4. The evidence in this case presents Enbridge's cost forecasts required to build the annual Allowed Revenue amounts for the 2014 to 2016 years within Enbridge's Customized IR plan. ~~Enbridge is seeking Board approval for each of these Allowed Revenue amounts (for 2014, 2015 and 2016) in this Application~~As explained below, these cost forecasts are also used, with appropriate adjustments, to build the Allowed Revenue amounts for 2017 and 2018..

5. Enbridge is ~~also~~ requesting Board approval of ~~preliminary~~ Allowed Revenue amounts for ~~2017 and 2018~~each year from 2014 to 2018 within this Application. ~~Those preliminary Allowed Revenue amounts will be updated as part of Enbridge's 2017 Rate Adjustment application.~~

6. As explained at Exhibit ~~A3~~A2, Tab 2, Schedule 1, for the 2014 Fiscal Year Enbridge is also requesting approval of the 2014 volume forecast that underpins the revenue at existing rates and the resulting sufficiency / deficiency. Finally, Enbridge is seeking approval of the resulting rates for 2014.

7. Enbridge is not seeking approval of rates for 2015 to 2018 at this time. Rates for those years will be set through annual Rate Adjustment proceedings which will apply updated volume forecasts to the Allowed Revenue amounts approved in this proceeding ~~(re. 2015 and 2016) and in the 2017 Rate Adjustment proceeding (re. 2017 and 2018)~~. The 2015 to 2018 volume forecasts and the resulting revenues at existing rates presented in the case are intended to be

proxies for the determination of revenues at existing rates, and the resulting revenue sufficiency/deficiency in those years.

8. In the following paragraphs, the Company sets out how:

a. Allowed Revenue amounts for 2014 to 2018 will be determined within this proceeding. ~~, including, i. The Allowed Revenue amounts for 2014 to 2016, to be set within this proceeding;~~

~~ii. The preliminary Allowed Revenue amounts for 2017 and 2018, to be set within this proceeding; and~~

~~iii. The Allowed Revenue amounts for 2017 and 2018, to be set within the 2017 Rate Adjustment proceeding.~~

b. The annual Rate Adjustment process to set rates for each year from 2014 to 2018 will work, including:
   i. The process to set final rates for 2014; and
   ii. The process to set final rates for 2015 to 2018, which will involve the updating of volumes and associated forecast revenues and gas costs, as well as updates within the final allowed Revenue Amounts for each year for customer care, DSM and pension/OPEB costs.

Process for Determining Allowed Revenue Amounts for 2014 to 2018

9. The Allowed Revenue amount for each year is determined by summing together the following elements: the cost of capital, operating costs, depreciation costs

and taxes, less an offset amount for other revenues.

10. The Company has filed detailed evidence setting out how each of these elements, and the overall Allowed Revenue, can be determined for the years from 2014 to 2016. As explained in the updated Customized IR Plan evidence (Exhibit A2, Tab 1, Schedule 1), Enbridge cannot provide a reliable line-by-line forecast of capital spending requirements for 2017 and 2018 at this time~~, and therefore proposes to establish Allowed Revenue amounts for 2017 and 2018 on a preliminary basis. While many elements of the 2017 and 2018 Allowed Revenue amounts will be determined in this 2014 proceeding, those elements that are related to Enbridge's Capital Budget will be established on a preliminary, or proxy, basis in this case and then finalized in a phase I of the 2017 Rate Adjustment proceeding.~~ However, in order to enable Allowed Revenue amounts for those years to be set in this proceeding, Enbridge's updated Customized IR Plan provides for the 2016 Capital Budget to be used to represent forecast 2017 and 2018 capital spending requirements.

~~10.~~11. As noted, Enbridge's updated Customized IR Plan provides for Allowed Revenue amounts for all five years of the IR term to be set in this proceeding. The components of Allowed Revenue are the same for all years. There are, however, differences between how these components are derived for 2014 to 2016 (based upon detailed budgets) as compared to 2017 and 2018 (where certain components are derived using adjustments to the 2014 to 2016 budgets). In the subsections below, explanation is provided about how the Allowed Revenue amounts will be set in this proceeding for 2014 to 2016, and for 2017 and 2018.

~~*(i) Determination of the final Allowed Revenue amounts for 2014 to 2016, to*~~

~~*be set within this proceeding*~~

12. The Allowed Revenue amounts for 2014 to ~~2016~~ 2018 that are being set within this proceeding are set out at the updated Exhibit F1, Tab 1, Schedule ~~2~~1. These 2014 to ~~2016~~ 2018 Allowed Revenue amounts are referred to as ”final” in this evidence, because they will not be adjusted except to take account of the items that will be updated within the annual Rate Adjustment proceedings. The final Allowed Revenue amounts for 2015 ~~and 2016~~to 2018 are to be used as the starting point within the annual Rate Adjustment proceedings to set final rates for 2015 ~~and 2016~~through 2018. Final rates for 2014 are being set within this proceeding.

(i) Determination of the final Allowed Revenue amounts for 2014 to 2016, to be set within this proceeding

~~11.~~13. The Allowed Revenue amounts for each year from 2014 to 2016 are set based on the following elements:

a. Rate Base: The 2014 value is determined beginning with the use of the 2013 Board-approved closing rate base values (from EB-2011-0354) and applying the forecast 2014 Capital Budget and working capital inputs and applying impacts of the return of site restoration cost (“SRC”) reserve amounts to determine the appropriate 2014 Rate Base level. The 2015 and 2016 Rate Base amounts are determined through the application of
2015 and 2016 Capital Budget and working capital ~~input~~ inputs and site restoration cost (“SRC”) return impacts. The relevant evidence is set out in the B series of exhibits.

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b. Rate of Return on Rate Base: The values for each year are set through the application of the forecast debt rates, and level of debt, and the forecast applicable ROE level, as set out within the E series of exhibits.

c. Gas Costs: The values for each year are determined based upon the proxy volume forecasts as applied to the proxy gas supply plans for each year. This volume information is set out in in Exhibit C1, Tab 2, Schedule 1, and the gas costs forecasts are set out in Exhibits D3/D4/D5, Tab 3, Schedule 1. The Gas Costs inputs into Allowed Revenue will be updated within each annual Rate Adjustment proceeding.

d. Operating & Maintenance Costs: The values for each year are determined based upon the O&M Budget information set out in the D1 series of exhibits. The values related to customer care/CIS, pension/OPEB and DSM costs will be updated within each annual Rate Adjustment proceeding.

e. Depreciation Costs: The values for each year are determined based upon the forecast Capital Budget impacts, using the proposed updated depreciation rates. Evidence can be found within the B series of exhibits (Capital Budget) and at Exhibit D1, Tab 1, Schedule 1 and Exhibit D1, Tab 5, Schedule 1.

f. Fixed Financing Costs: The values for each year represent a forecast of the administration, extension and standby fees associated with the Company's committed credit facility. Evidence can be found at Exhibit

E1, Tab 2, Schedule 1.

g. Municipal and Property Taxes: The values for each year are based on a forecast of taxes as applied to the Company's relevant assets. Evidence can be found within Exhibit D1, Tab 6, Schedule 1.

h. Other Operating Revenue: The values for each year are based on forecasts of revenues for items such as Transactional Services, Open Bill Access, Late Payment Penalties, Other Service Charges and DPAC. Evidence can be found within the C series of exhibits.

i. Income Taxes: The values for each year are based on a forecast of income tax rates applied to forecast utility taxable income. Evidence can be found in Exhibits D3/D4/D5, Tab 1, Schedule 1.

(ii) Determination of the ~~preliminary~~ final Allowed Revenue amounts for 2017 and 2018, to be set within this proceeding

~~12.~~14. The ~~preliminary~~ final Allowed Revenue amounts for 2017 and 2018 that are being set within this proceeding ~~will be provided within Exhibit F1, Tab 1, Schedule 3~~are provided within Exhibits F6 and F7, and are set based on the following elements:~~. That document will be filed within the next month. The final Allowed Revenue amounts for 2017 and 2018 will be determined within phase I of the 2017 Rate Adjustment proceeding.The preliminary Allowed Revenue amounts for 2017 and 2018 are set based on the following elements:~~

a. Rate Base: The 2017 ~~value~~ Rate Base amount is determined beginning with the use of the 2016 closing rate base values and applying (as a ~~proxy for~~reasonable forecast of 2017 requirements)

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the forecast 2016 Capital Budget[1] and working capital inputs and 2017 SRC return amount impacts to determine the appropriate 2017 Rate Base level. The 2018 Rate Base amount is determined through the application (as a ~~proxy for~~reasonable estimate of 2018 requirements) of 2016 Capital Budget and working capital inputs and 2018 SRC return amount impacts. ~~The Rate Base amounts will be updated within the 2017 Rate Adjustment proceeding, to take account of updated Capital Budget and working capital inputs.~~

b. Rate of Return on Rate Base: The values for each year are set through the application of the forecast debt rates, and level of debt, and the forecast applicable ROE level for 2017 and 2018, as set out within the E6 and E7 series of exhibits. ~~Updated E series exhibits, setting out forecasts for 2017 and 2018 will be filed within the next month. The forecast debt rates and ROE will not be updated within the 2017 Rate Adjustment proceeding; however, the forecast level of debt (and overall Rate of Return on Rate Base) will be updated within the 2017 Rate Adjustment proceeding, to take account of updated Capital Budget and working capital inputs.~~

c. Gas Costs: The values for each year are determined based upon the proxy 2016 volume forecasts (used as a proxy for 2017 and 2018) as applied to the proxy gas supply plan for 2016. The Gas Costs inputs into Allowed Revenue will be updated within each annual Rate Adjustment proceeding.

[1] Note, as explained within Exhibit B2, Tab 1. Schedule 1, that the 2016 Capital Budget used for 2017 and 2018 is reduced by $8.1 million to account for the fact that the WAMS project costs will not recur in those years.

d. Operating & Maintenance Costs: The values for 2017 and 2018 ~~will be~~are determined as follows: (i) "Other O&M" and RCAM ~~will be~~are combined, and the 2017 value ~~will be~~is determined by applying the average rate of change in those costs from 2013 to 2016 to the 2016 forecast amount of "Other O&M" and RCAM; (ii) the 2018 amount for "Other O&M" and RCAM ~~will be~~are determined by applying the same average rate of change to the 2017 value for those costs: (iii) the customer care/CIS costs ~~will be~~are determined by applying the current forecast of customers within Exhibit D1, Tab 10, Schedule 3, to the per-customer amount set out in the updated EB-2011-0226 Template; (iv) the DSM amounts ~~will be~~are determined by applying a 2% per year inflation amount to the 2016 forecast budget; and (v) the pension/OPEB amounts for 2017 and 2018 ~~will be~~are those that are found within the Mercer studies attached to Exhibit D1, Tab 16, Schedule 1. The ~~"Other O&M" and RCAM amounts will not be updated within the 2017 Rate Adjustment proceeding, however, the~~ forecast level of costs for customer care/CIS, DSM and pension/OPEBs will be updated within the 2017 and 2018 Rate Adjustment proceedings.

e. Depreciation Costs: The values for each year are determined based upon use of the 2016 forecast Capital Budget impacts (as a ~~proxy~~ reasonable estimate of impacts for each of 2017 and 2018), using the proposed updated depreciation rates. ~~The depreciation cost amounts will be updated within the 2017 Rate Adjustment proceeding, to take account of updated Capital Budget impacts.~~

f. Fixed Financing Costs: The forecast values for 2017 and 2018

~~represent a forecast~~ of the administration, extension and standby fees associated with the Company's committed credit facility are filed in ~~.~~ ~~U~~updated Exhibit E1, Tab 2, Schedule ~~1~~2~~, setting out forecasts for 2017 and 2018 will be filed within the next month. The forecast fixed financing cost amounts will not be updated within the 2017 Rate Adjustment proceeding~~.

g. Municipal and Property Taxes: The values for 2017 and 2018 ~~will be~~are determined by calculating the average rate of change in these costs from 2013 to 2016, and applying that rate of change to the 2016 value, and then to the resulting forecast 2017 value. ~~The Municipal and Property tax amounts will not be updated within the 2017 Rate Adjustment proceeding.~~

h. Other Operating Revenue: The values for 2017 and 2018 ~~will be~~are held flat at the 2016 level. ~~The Other Operating Revenue amounts will not be updated within the 2017 Rate Adjustment proceeding.~~

i. Income Taxes: The values for 2017 and 2018 are based on the forecast of income tax rates within Exhibits D3/D4/D5, Tab 1, Schedule 1, as applied to forecast utility taxable income, using the Allowed Revenue inputs described above. ~~The income tax rates to be used for 2017 and 2018 Allowed Revenue will not be updated within the 2017 Rate Adjustment proceeding; however, the forecast utility taxable income will be updated.~~

~~*(iii) Determination of the final Allowed Revenue amounts for 2017 and 2018, to be set within the 2017 Rate Adjustment proceeding*~~

Witnesses: K. Culbert
R. Fischer
A. Kacicknik

13. The preliminary Allowed Revenue amounts for 2017 and 2018 that are being set within this proceeding will be updated within phase I of the 2017 Rate Adjustment proceeding, to set final Allowed Revenue amounts to be used within the 2017 Rate Adjustment proceeding (phase II) and the 2018 Rate Adjustment proceeding.

14. Within the 2017 Rate Adjustment proceeding (phase I), the Company will file updated Capital Budget information for 2017 and 2018, along with evidence about the Allowed Revenue impacts of the updated Capital Budgets. Phase I of the 2017 Rate Adjustment proceeding will be filed by April 30, 2016. In that proceeding, the final Allowed Revenue amounts for 2017 and 2018 will be set based on the following elements:

    a. Rate Base: The 2017 value is determined beginning with the use of the forecast 2016 closing rate base values and applying the forecast 2017 Capital Budget and working capital inputs and 2017 SRC return amount impacts to determine the appropriate 2017 Rate Base level. If the forecast 2016 rate base value (exclusive of the impact of the GTA project) is less than the forecast amount approved within the 2014 Customized IR application, then the actual forecast 2016 rate base value will be used as an input. If the forecast 2016 rate base value (exclusive of the impact of the GTA project) is greater than the forecast amount approved within the 2014 Customized IR application, then the forecast amount approved within the 2014 Customized IR application will be used (such that Enbridge will not have the benefit of any positive variance in spending until the 2019 rebasing year). In both cases, the actual 2016 rate base value for the GTA project will be used as an input into the 2017 Rate Base. The 2018 Rate Base

~~amount is determined beginning with the use of the forecast 2017 closing rate base values and applying the forecast 2018 Capital Budget and working capital inputs and 2018 SRC return amount impacts to determine the appropriate 2018 Rate Base level.~~

~~b. Rate of Return on Rate Base: The forecast debt rates and ROE will be those determined within the preliminary 2017 and 2018 Allowed Revenue amounts. The forecast level of debt (and overall Rate of Return on Rate Base) will be updated to take account of updated 2017 and 2018 Capital Budget and working capital inputs.~~

~~c. Gas Costs: The values for each year will be updated using proxy 2017 and 2018 volume forecasts, and a proxy gas supply plan for 2017 and 2018, each of which will be filed within phase I of the 2017 Rate Adjustment proceeding. The Gas Costs inputs into 2017 and 2018 Allowed Revenue will be updated within the 2017 Rate Adjustment proceeding (phase II) and the 2018 Rate Adjustment proceeding.~~

~~d. Operating & Maintenance Costs: The "Other O&M" and RCAM amounts within the preliminary Allowed Revenue amounts for 2017 and 2018 will not be updated within the 2017 Rate Adjustment proceeding, however, the forecast level of costs for customer care/CIS, DSM and pension/OPEBs will be updated.~~

~~e. Depreciation Costs: The values for 2017 and 2018 will be determined based upon use of the 2017 and 2018 Capital Budget impacts, using the proposed updated depreciation rates.~~

f. ~~Fixed Financing Costs: The forecast Fixed Financing Cost amounts within preliminary 2017 and 2018 Allowed Revenue will not be updated within the 2017 Rate Adjustment proceeding.~~

g. ~~Municipal and Property Taxes: The Municipal and Property tax amounts within preliminary 2017 and 2018 Allowed Revenue will not be updated within the 2017 Rate Adjustment proceeding.~~

h. ~~Other Operating Revenue: The Other Operating Revenue amounts within preliminary 2017 and 2018 Allowed Revenue will not be updated within the 2017 Rate Adjustment proceeding.~~

i. ~~Income Taxes: The income tax rates to be used for 2017 and 2018 Allowed Revenue will not be updated within the 2017 Rate Adjustment proceeding; however, the forecast utility taxable income will be updated using the forecast utility taxable income that results from the updated Allowed Revenue amounts.~~

Rate Adjustment process to set rates for each year from 2014 to 2018

15. The Company's proposal to set rates for 2014, based on the Allowed Revenue amount for 2014, is set out at Exhibit A2, Tab 2, Schedule 1.

16. In order to set rates for 2015 to 2018, Enbridge proposes to follow a similar annual rate adjustment process as was used during the 1st Generation IR term. That is, Enbridge proposes to present the Board with an annual update of volumes, which when applied to existing rates, will determine the revenue forecast at existing rates. Enbridge will then compare the pre-determined

Allowed Revenue for 2015 to 2018 as approved by the Board in this case, to the revenue forecast at existing rates to determine the revenue sufficiency or deficiency to be applied as a rate adjustment for the year being reviewed.

17. Normally, total volumes are determined by multiplying the average use forecast by the number of small volume customers and adding in total forecast industrial or other volumes. Enbridge believes the process may be somewhat streamlined by approving the customer additions forecast numbers for each year of the IR term within this proceeding (for 2014 to ~~2016) and within phase I of the 2017 Rate Adjustment proceeding (for 2017 and~~ 2018). That is also consistent with the fact that the cost forecasts being presented for approval in those proceedings are premised in part on the customer additions forecasts being used. As a result, the Company proposes that there will be no updating of the customer additions forecast as part of the annual Rate Adjustment proceedings. Instead, the total volume forecast will be calculated using the approved customer additions.[2]

18. Finally, as in the 1st Generation IR term, Enbridge proposes to annually file and present an update of its gas supply plan. This Application presents estimates and assumptions regarding the supply and transportation contracting conditions that are expected to prevail ~~over the 2014 to 2016 period~~ based on current information. However, market changes over the course of the 2014 to 2018 period as a result of the completion of the GTA Reinforcement project, and uncertainties with respect to the TCPL Mainline may be material. An annual update of the gas supply plan has the advantage of capturing these market

[2] Note, however, that the Customer Care/CIS Settlement Agreement requires that EGD adjust the number of average unlocks each year for the determination of Customer Care/CIS costs that are to be adjusted each year through the Rate Adjustment proceedings.

changes as they occur during the course of the IR term and benefits consumers by ensuring that the most appropriate contracting for upstream supplies is in place for each year. Once the annual gas supply plan has been approved, any variances from the annual plan would be captured in the PGVA and cleared within the normal course of the QRAM process.

19. Under this approach, risks for ratepayers and shareholders are reduced by annually reviewing volume forecasts. Specifically, since the volume forecast depends on the forecast annual degree days, an annual review and update will ensure that rates are set using the most up to date information using the Board Approved methodology for degree days. This will minimize the probability that volumes, and therefore rates, are set on an irrelevant weather basis.

20. To effect the setting of rates for 2015 to 2018, Enbridge proposes to file annual ~~rate~~ Rate ~~adjustment~~ Adjustment applications [3] setting out:
    a. The approved final Allowed Revenue amount for the rate year;
    b. Forecast volumes for the rate year as determined by a degree day forecast, average use forecast, and other volume forecast;
    c. An updated gas supply plan;
    d. Updated Allowed Revenue amounts for Customer Care/CIS costs (calculated in accordance with the EB-2011-0226 Settlement Agreement) and pension/OPEB costs, which will replace the relevant amounts within the Allowed Revenue for that year;
    e. Any Z-Factor request, if necessary;

~~[3] Note that the 2017 Rate Adjustment application will be conducted in two phases. Phase I will set the final Allowed Revenue amounts for 2017 and 2018, and be filed by mid-year 2016. Phase II will use the final Allowed Revenue amount for 2017 and will follow the same process as Rate Adjustment proceedings for other years.~~

f. Proposed deferral and variance accounts for the rate year, including any forecast amounts for clearance, and the methodology for any proposed clearance of deferral or variance accounts;
g. A draft rate order; and
h. A rate handbook and supporting documentation explaining how rates have been adjusted.

21. As was the case for the 1st Generation IR period, the Company submits that a final rate order would need to be issued by December 15th, for any required rate adjustment to take effect by January 1st of the following year.

22. In order to accommodate a final rate order by December 15th, the Company proposes to file its rate adjustment application (without the supporting evidence) for each year by September 1st of the prior year[3], which will allow for the necessary administrative processes and notices to be produced.

23. Similar to the 1st Generation IR term, Enbridge will file the evidence in support of its rate adjustment applications by October 1st of each year. This will allow for the supporting evidence to be the most up-to-date and detailed information available in relation to rates for the following year. This timing will allow time enough for the Board and stakeholders to review the requested rate adjustment, pose interrogatories, and if necessary conduct a hearing, prior to the Board releasing a decision.

24. The Company has also proposed the inclusion of an Earnings Sharing Mechanism ("ESM") as part of this Customized IR proposal. As was the case for the 1st Generation IR proposal, Enbridge proposes to prepare and file and

ESM calculation that pertains to each year of the plan following the release of its Audited Financial Statements for the particular Fiscal Year. Enbridge will file an application containing this information with a proposal for clearance of any amount in the ESMDA and amounts in all other Board Approved deferral and variance accounts at that time.

25. For more information on the Company's proposed ESM, please refer to Exhibit A2, Tab 7, Schedule 1. For more information on other annual reporting related to performance measurement, and on the proposed Sustainable Efficiency Incentive Mechanism, ~~both of which will include annual filings in conjunction with the ESM proceeding,~~ please refer to Exhibit A2, Tab 11, Schedules 2 and 3.

Rate Design Changes during the Customized IR Term (2014 to 2018)

A) Energy Services

26. Gas utilities need rate design flexibility to respond to changing marketplace needs. The gas utilities accomplish this goal in two ways: a) by developing new rates and services, or b) by making specific changes to existing rates.

27. The unbundled rates and services that the Company has developed as part of the Natural Gas Electricity Interface Review ("NGEIR") generic proceeding (EB-2005-0551) are an example.

28. If the rate-related changes are minor in nature and customer impacts are minimal, the OEB's approval process could be included as part of the annual

rate setting filing. However, if the rate-related changes are significant and warrant a longer review period, the Company will file a separate rate change application on a sufficiently timely basis.

B) Miscellaneous and Non-Energy Services

29. Enbridge proposes that should Enbridge need to change or introduce new miscellaneous or non-energy services during the IR plan period, the Company will seek approval for the changes and provide the Board with supporting evidence.

COST OF CAPITAL TREATMENT

1. This evidence sets out Enbridge's proposal and rationale for the treatment of the Cost of Capital in this Customized IR plan.

2. Enbridge has considered each of the following areas with respect to this proposal:
    a. Capital structure through the IR term
    b. Return on Equity ("ROE") through the IR term
    c. Cost of Capital for ESM purposes

Capital Structure

3. Through this Application, Enbridge proposes to fix the capital structure ratios that will apply through the term of the Customized IR plan for ratemaking purposes.

4. As a result of the 2013 Test Year Rebasing case (EB-2011-0354), the Board determined that Enbridge's equity ratio should remain at 36%. Enbridge proposes to maintain this equity ratio for ratemaking purposes for the duration of the IR term.

5. For the 2014 to ~~2016~~2018 period, Enbridge's use of long term debt, short term debt, and preferred shares during the IR term have been developed according to the pace of required capital spending and the timing for cash flow needs. The financing plan for 2014-2018 is filed at Exhibit E1, Tab 2, ~~Schedule~~Schedules 1 and 2, and sets out the determination of the amounts, timing, and costs for each of long term debt, short term debt, and preferred share financing, and results in the following capital structure derived percentages:

Witnesses: K. Culbert
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Capital Structure Component	2014 Weight	2015 Weight	2016 Weight	2017 Weight	2018 Weight
Equity	36%	36%	36%	36%	36%
Long term debt	59.37%	61.41%	61.31%	61.49%	61.28%
Short term debt	2.34%	0.49%	0.87%	0.76%	1.02%
Preferred shares	2.29%	2.10%	1.82%	1.75%	1.70%

~~Capital Structure Component~~	~~2014 Weight~~	~~2015 Weight~~	~~2016 Weight~~
~~Equity~~	~~36%~~	~~36%~~	~~36%~~
~~Long term debt~~	~~59.37%~~	~~61.41%~~	~~61.31%~~
~~Short term debt~~	~~2.34%~~	~~0.49%~~	~~0.87%~~
~~Preferred Shares~~	~~2.29%~~	~~2.10%~~	~~1.82%~~

~~An update will be filed shortly that sets out the forecast cost rates for equity and debt for 2017 and 2018. The update will also include proxy estimates for rate base which will allow for the determination of proxy amounts for the 2017 and 2018 cost of capital amounts.~~

6. It should be noted that Enbridge's acceptance of the 36% for the equity ratio for the duration of the IR term is not an acceptance that this ratio meets the Fair Return Standard. While Enbridge is implementing this equity ratio for the duration of the Customized IR term, the Company reserves its rights to apply, at a later date, for an appropriate equity ratio that meets the Fair Return Standard in conjunction with a given ROE level and to take any position deemed appropriate if a generic Cost of Capital proceeding is convened.

7. Where the required level of capital spending is altered for purposes of determining eventual approved rates, the planned ratios of long and short term debt may be affected which could require a re-forecast of planned debt issuances.

Witnesses: K. Culbert
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ROE through the IR term

8. For ratemaking purposes, Enbridge proposes to include forecasted ROE levels for each year of the IR plan into the determination of Allowed Revenue for each fiscal year of the IR term. That is, a different ROE level will apply for each of 2014 to 2018, inclusive.

9. The forecasted ROE levels for 2014~~, 2015 and 2016~~ through 2018 can be found at Exhibit E2, Tab 1, ~~Schedule~~Schedules 1~~. An update setting out the forecasts for 2017 and 2018 will be filed shortly.~~ and 2.

10. It is appropriate and reasonable to include the ROE forecasts directly into the derivation of the Allowed Revenue, as the cost of capital is a legitimate utility cost. In a traditional 'I-X' framework, forecast cost of capital is typically not included as it is believed that the inflation factor provides, at least in part, some compensation for changes in interest rates, which otherwise affect the level of Allowed ROE. In this proposed Customized IR approach, however, there is no explicit forecast of inflation, only a forecast of the costs that contribute to the Allowed Revenue. As such, it is reasonable that the Allowed Revenue forecasts should include representation for the forecast costs of capital that the utility will bear during the IR term.

11. EGD also considered an approach that would float the ROE, so that any updated ROE value would be used each year. That ROE value would be determined annually according to the Board Approved Formula at the time that the Formula output is known (i.e., approximately November of each year).

12. This alternative has the advantage of annually representing a true reflection of the cost of capital into rates, but the disadvantage of being another item for update and

adjustment through the IR term. There is also difficulty with the timing of this approach, since a November date for ROE updates would make it a challenge to implement rates by January 1st of the following year. Given these disadvantages, Enbridge believes this alternative is not best suited to incentive regulation.

Cost of Capital for ESM purposes through the IR term

13. Discussion of the Company's ESM proposal can be found at Exhibit A2, Tab 7, Schedule 1. Enbridge proposes that if its actual ROE is more than 100 basis points above the Board's ROE Formula for that year, then it will equally share any earnings above that level with ratepayers, subject to the Off Ramp Criteria at 300Bp or greater ROE (Exhibit A2, Tab 6, Schedule 1).

14. As explained in that evidence, Enbridge proposes that the Board's ROE Formula used to calculate the annual ESM amount should be annually adjusted according to the ROE formula set out in the Board's 2009 Cost of Capital report.

15. Enbridge proposes leaving its equity ratio unchanged for the purposes of calculating the amounts for ESM. Enbridge will leave the equity ratio unchanged at 36% even if there is a change to this amount as a result of any Cost of Capital review. While it would be ideal to calculate ESM on the basis of the most up to date cost of capital parameters in order to obtain a true reflection of the Fair Return Standard, this would be very difficult to implement. Changing the equity ratio for ESM purposes relative to what is used for ratemaking purposes would require the Company to estimate what financing would otherwise have taken place had rates been set to use an equity ratio different from 36%. This would require estimates for the amounts, timing, and costs of both short-term and long-term debt, and would

therefore introduce layers of complexity, and potential controversy, into the calculation of earnings sharing.

Witnesses: K. Culbert
R. Fischer
M. Lister
M. Suarez-Sharma

2014 to ~~2016~~ 2018 CAPITAL BUDGET OVERVIEW

1. The purpose of this evidence is to provide the Ontario Energy Board (the "Board", or the "OEB") with an Overview of Enbridge Gas Distribution's ("Enbridge", "EGD" or the Company") detailed Capital Budget for the years from 2014 to 2016. As described in Exhibit A2-1-1, ~~the Company proposes to file a detailed Capital Budget for 2017 and 2018 as part of the 2016 update process~~the Company has used its 2016 Capital Budget as the basis for forecasting its spending requirements for each of 2016, 2017 and 2018. While details of the components of the Capital Budget are found in the balance of the B2 series of exhibits, this Overview sets out how and why the Company has chosen to set out details of a three year Capital Budget and explains the main components of the Capital Budget.

2. The Company's forecast capital expenditures for 2014 to 2016 have been identified as the outcome of a lengthy budgeting process that commenced with the Board approval of the 2013 rates case settlement (EB-2011-0354), followed by a lengthy Company process to identify, evaluate and determine its capital spending needs in coming years. The budgeting process has ensured that Enbridge's 2014 to 2016 Capital Budget reflects the level of spending necessary to meet the growth, safety and operational requirements of the business. The 2016 Capital Budget reflects the level of spending required in 2016, and a base level of spending in 2017 and 2018.

3. What has become clear through the budgeting process is that the Company's necessary level of capital spending is higher than in past years, and the spending requirements become unacceptably unpredictable when one looks out further than three years. As explained in Exhibit A2-1-1, it is this combination of high capital spending requirements and uncertainty in the longer term that have driven Enbridge to request approval of its Customized IR plan.

Witnesses: ~~A. Mandyam~~
J. Sanders
P. Squires

4. The Company's Capital Budget forecast for 2014 to 2016 indicates required capital expenditures of $682.3 million in 2014, $832.0 million in 2015 and $450.0 million in 2016. These budgets are substantially higher than prior year budgets. There are two main reasons for this. First, there are very high levels of spending associated with three major projects which the Company must undertake in the next three years. Second, there are substantial cost pressures associated with a higher level of required System Integrity and Reliability spending.

5. This Overview evidence sets out the main components of the 2014 to ~~2016~~ 2018 Capital Budget, including the process used to arrive at that budget, under the following topic headings:

   A. A summary of Enbridge's forecast capital expenditures over the period of 2014 to 2016,

   B. An explanation of the main drivers of the Capital Budget for 2014 to 2016,

   C. A description of the budgeting process that identified the necessary expenditures that form the Capital Budget,

   D. Explanation of the outcomes from the Capital Budget process,

   E. Explanation of how management incorporated productivity in the proposed Capital Budget for 2014 to 2016, ~~and~~

   F. Explanation of year over year variances in the 2014 to 2016 Capital Budget, and

   ~~F.~~G. Explanation of why and how the 2016 Capital Budget is used as the basis for the 2017 and 2018 Capital Budget.

Witnesses: ~~A. Mandyam~~
J. Sanders
P. Squires

A. Summary of the Capital Budget 2014 - 2016

6. Table 1 provides a summary view of the planned capital expenditures for the Company, totaling $682.3 million in 2014, $832.0 million in 2015 and $450.0 million in 2016. These amounts are categorized in a standard summary view of the Capital Budget, as provided in previous applications.

Table 1
Summary of Capital Expenditures

($Millions)	Col 1 Board Approved Budget 2013	Col 2 Forecast 2014	Col 3 Forecast 2015	Col 4 Forecast 2016
Customer Related Distribution Plant	123.0	119.0	126.8	137.1
NGV Rental Equipment	0.3	3.4	3.6	3.7
System Improvements and Upgrades	192.8	243.2	247.8	242.2
General and Other Plant	47.6	56.3	52.7	48.4
Underground Storage Plant	22.4	21.9	15.7	10.5
Sub total "Core" Capital Expenditures	386.1	443.8	446.6	441.9
Work and Asset Management System (WAMS)	0.5	36.3	25.7	8.1
Leave to Construct - Major Reinforcements	63.3	202.2	359.7	-
Total Capital Expenditures	449.9	682.3	832.0	450.0

7. The Company will use the term “Core Capital” to include all capital spending, except for three identified major projects: the GTA and Ottawa Reinforcements and the Work and Asset Management Project (WAMS). The “Core Capital” term essentially captures the spending amounts that were included within the 2013 Board Approved Capital amount (after taking into account, as seen in Table 1 above, that there was $0.5M of initial WAMS project spending included within the 2013 Board Approved Capital amount).

8. Table 2 provides a standard detailed schedule of the proposed Capital Budgets for 2014 to 2016, as compared to the 2013 Board approved Capital Budget amount of $386.6 Million.

Table 2

COMPARISON OF UTILITY CAPITAL EXPENDITURES
2013 BOARD APPROVED BUDGET AND 2014 -2016 FORECASTS
(EXPRESSED IN $MILLION)

Item No.		Col. 1 Board Approved Budget 2013	Col. 2 Forecast 2014	Col. 3 Forecast 2015	Col. 4 Forecast 2016
A.	Customer Related				
1.1.1	Sales Mains	44.6	39.6	42.1	49.1
1.1.2	Services	68.1	69.0	73.7	76.3
1.1.3	Meters and Regulation	10.3	10.4	11.0	11.7
1.1.4	Customer Related Distribution Plant	123.0	119.0	126.8	137.1
1.1.5	NGV Rental Equipment	0.3	3.4	3.6	3.7
1.1	TOTAL CUSTOMER RELATED CAPITAL	123.3	122.4	130.4	140.8
B.	System Improvements and Upgrades				
1.2.1	Mains - Relocations	27.5	28.6	24.9	26.0
1.2.2	- Replacement	71.0	105.6	94.2	82.5
1.2.3	- Reinforcement	27.0	21.3	31.6	18.1
1.2.4	Total Improvement Mains	125.5	155.5	150.7	126.6
1.2.5	Services - Relays	17.3	29.8	34.5	52.1
1.2.6	Regulators - Refits	9.7	9.8	10.0	10.1
1.2.7	Measurement and Regulation	24.3	31.5	34.1	32.6
1.2.8	Meters	16.0	16.6	18.5	20.8
1.2	TOTAL SYSTEM IMPROVEMENTS AND UPGRADES	192.8	243.2	247.8	242.2
C.	General and Other Plant				
1.3.1	Land, Structures and Improvements	7.8	12.9	11.2	6.8
1.3.2	Office Furniture and Equipment	1.6	4.6	4.7	4.4
1.3.3	Transp/Heavy Work/NGV Compressor Equipment	4.8	4.6	4.7	4.7
1.3.4	Tools and Work Equipment	1.4	1.5	1.5	1.5
1.3.5	Computers and Communication Equipment	32.0	32.7	30.6	31.0
1.3	TOTAL GENERAL AND OTHER PLANT	47.6	56.3	52.7	48.4
D.	Underground Storage Plant	22.4	21.9	15.7	10.5
E.	SUBTOTAL "CORE" CAPITAL EXPENDITURES	386.1	443.8	446.6	441.9
F.	Work and Asset Management System (WAMS)	0.5	36.3	25.7	8.1
G.	SUBTOTAL CAPITAL EXPENDITURES	386.6	480.1	472.3	450.0
H.	Leave to Construct				
1.7.1	Ottawa Reinforcement	44.0	5.1	-	-
1.7.2	GTA Reinforcement	19.3	197.1	359.7	-
1.7	TOTAL LEAVE TO CONSTRUCT	63.3	202.2	359.7	0.0
I.	TOTAL CAPITAL EXPENDITURES	449.9	682.3	832.0	450.0

Witnesses: ~~A. Mandyam~~
J. Sanders
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9. The first step in the budget process that led to the 2014 to 2016 Capital Budget was the finalizing of the 2013 capital budget to match the necessary capital needs of the business to the 2013 Board approved settlement amount of $386.6 Million (note that the Ottawa and GTA Reinforcement projects were outside of the $386.6 Million amount). In conducting the 2013 budget process, the Company determined that the necessary business expenditures and costs for 2013 were greater than the Board approved settlement amount. The Company is not seeking any recoveries in the Customized IR plan proposal for the additional capital spending in 2013 (nor the spending above forecast levels in 2012). The Company expects to bring forth in the Rebasing Rates Application any amounts of additional Capital spend for 2012 and 2013.

10. Based on the learnings from the 2013 budgeting process, including the recognition of increasing spending requirements for safety and integrity projects, the Company undertook a "Capital Budget Refresh" process to understand its capital spending needs for the period 2014 to 2018. That process, which involved several iterations of scrutinizing and prioritizing proposed capital spending, ultimately resulted in the three year detailed Capital Budget.

11. As explained within the updated evidence in the A2 series of exhibits, Enbridge has used the 2016 Capital Budget to represent its 2017 and 2018 capital spending requirements within the Allowed Revenue amounts for 2017 and 2018. ~~plans to file a detailed Capital Budget for 2017 and 2018 within the 2017 Rate Adjustment proceeding~~ Enbridge has made this change to the Customized IR plan to address the expectation that the Company will set Allowed Revenue amounts for all five years of this Customized IR term in this proceeding, and not revisit capital spending requirements midway through the term. While Enbridge is not currently able to specifically forecast all elements of its 2017 and 2018 Capital Budget, the Company

believes that the best overall forecast of its capital spending requirements during those years can be seen in the 2016 Capital Budget. Although some of the detailed spending requirements will change each year, Enbridge expects that the overall capital spending requirements for 2017 and 2018 will be in line with 2016. The one change that Enbridge has made to the 2016 Capital Budget is that, for purposes of 2017 and 2018, the $8 million forecast spending on WAMS has been removed, since that project will have been completed. Therefore, the Capital Budget used for 2017 and 2018 is the same as set out in the "Forecast 2016" column within Tables 1 and 2 above, except that the $8.1 million associated with WAMS is removed, leaving a forecast Capital Budget of $441.9 million for each of 2017 and 2018.

~~10.~~12. Further details about the application of the 2016 Capital Budget to 2017 and 2018 are set out below, in section "G" of this evidence.

~~11.~~13. The Capital Budget as proposed for 2014 to 2016 reflects the continued application of the Company's capitalization policy. In EB-2011-0354, the Board approved Enbridge's continued use of that capitalization policy notwithstanding the transition to US GAAP accounting policies.

~~12.~~14. The proposed overall capital expenditures for 2014 to 2016 represent a significant increase from the 2013 Board Approved Capital amount. The majority of the increase in expenditures can be attributed to three business needs:

- First and most significant is the need for the GTA and Ottawa Reinforcement projects,
- Second, the need for investment in WAMS, and
- Third, is the need for a variety of new and increased work to address System Integrity and Reliability requirements of the Company's distribution

system. It is this need that is primarily driving the increase in Core Capital Spending.

~~13.~~15. Details about the high-level drivers of the Capital Budget for 2014 to 2016 are set out in the next section of this Overview.

B. Main Drivers of the Capital Budget For 2014 To 2016

~~14.~~16. The Capital Budget for 2014 to 2016 is driven by new and ongoing spending requirements. The ongoing requirements include the continuation of historic activities to: (i) maintain the distribution system (including storage), (ii) add new customers, and (iii) maintain the Company's other infrastructure (such as buildings and IT systems). The new requirements relate to: (i) Major Reinforcement projects in the GTA and Ottawa, (ii) a need to implement WAMS to provide primary work and asset management functionality and support the increasing amount of asset-related work, (iii) increasing System Integrity and Reliability work to address identified risks within the Company's distribution system, and (iv) the need to act on increasing relocation work (especially in 2014) that is driven by external third-party projects.

~~15.~~17. The following sections provide information on the main drivers of Enbridge's 2014 to 2016 Capital Budget. The balance of the B2 series of exhibits contains further details about the Company's individual business area capital budgets, including descriptions of projects of $2 million or more, that cumulate to form the overall 2014 to 2016 Capital Budget.

Continuation of Historic Activities and Costs (Business as Usual)

~~16.~~18. The Capital Budget for 2014 to 2016 include a continuation of historic activities that: (i) maintain the distribution system (including storage), (ii) add new

customers, and (iii) maintain the Company's other infrastructure (such as buildings and IT systems); and historic costs such as (iv) departmental labour costs, (v) Capital Overheads (Administrative and General), and (vi) Interest During Construction.

(i) maintain the distribution system (including storage)

~~17.~~19. Within the Capital Budget, the Company will continue to undertake activities that are "keeps the lights on" type of capital work. Examples of these activities that the Company will continue to perform are the code and regulation based Meter Exchange Government Inspection program and the spending on base maintenance activities in the Reinforcements and Relocations areas.

(ii) add new customers

~~18.~~20. From 2009 and 2012, Enbridge's annual customer additions rose from approximately 32,000 to 36,000 new customers per year. Enbridge forecasts this trend to continue for the next few years with the addition of new customers being approximately 38,000 in 2013, 36,500 in 2014, 38,500 in 2015 and 39,500 in 2016. The Capital Budget includes the costs to add the annual forecasted new customers.

(iii) maintain the Company's other infrastructure (such as buildings and IT systems)

~~19.~~21. The Capital Budget includes costs to maintain facilities in a safe state and replacing out of date or end of life IT systems through the period of 2014 to 2016. In finalizing the necessary spending proposed in the Capital Budget, the Company has decided to defer some facilities-related activities, such as replacing aging building facilities.

Witnesses: ~~A. Mandyam~~
J. Sanders
P. Squires

(iv) Departmental Labour Costs

~~20.~~22. Departmental labour costs are primarily the salaries and employee expenses for the departments within Engineering and Operations. The respective functions of these departments contribute to putting Core Capital activities (Mains, Services and Stations) into service. Examples of these functions include system capacity planning, distribution plant drafting, pipeline inspection, field operations, customer attachment and records management.

~~21.~~23. The Capital Budget process reviewed each department and assessed staffing needs for the period of 2014 to 2016. Overall, the Company expects to deliver its Core Capital spending without adding additional Departmental Labour costs. The costs going down from 2013 levels and being maintained below 2013 levels for the period of 2014 to 2016 reflects that the Company expects to replace staff that have left through natural attrition with staff that have lower salaries. Through the period of 2014 to 2016 management expects turnover of employees to be as much as 100 employees annually. By not adding departmental labour costs for base programs, the Company is committing to accommodating any additional work in these programs by finding efficiencies in operations between these departments.

~~22.~~24. The following Table 3 sets out the amounts of Departmental Costs from 2014 to 2016 and are included in Tables 1 and 2.

Table 3
Departmental Labour Costs 2013 - 2016
($,000)

		2013 Budget Capitalized Departmental Labour Costs	2014 Forecast Capitalized Departmental Labour Costs	2015 Forecast Capitalized Departmental Labour Costs	2016 Forecast Capitalized Departmental Labour Costs
B1-2-1	**Total Departmental Labour Expenditures**	**76,563**	**74,843**	**73,428**	**75,551**

Witnesses: ~~A. Mandyam~~
J. Sanders
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(v) Capital Overheads (Administrative and General Costs)

~~23.~~25. Capital Overheads are recognized as Administrative and General Costs (A&G) and are a function of Operations and Maintenance expenses. The A&G costs represent the common services that support capital activities. As per Board approved methodology, specific categories of Operations and Maintenance expense are capitalizable by applying specific percentages (i.e.: Human Resources, Information Technology and Corporate Departments).

~~24.~~26. A&G is charged to Distribution plant; Storage plant and IT asset classes and allocated to each area as a percentage of that areas cost to the total Distribution Plant, Storage Plant and IT costs. Capital Overheads increase slightly over the period of 2014 to 2016 from their 2013 Budget. The increase between 2014 and 2013 is reflective of the slight increase in Corporate Department expenses and the increases in 2015 and 2016 reflect the increases in O&M salaries and expenses. Capital Overheads represent approximately 8% of the annual Core Capital Budget.

~~25.~~27. The following Table 4 sets out the amounts of A&G amounts within the Capital Budget from 2014 to 2016 and are included in Tables 1 and 2.

Table 4
Capital Overheads (A&G) Costs 2013 - 2016
($,000)

		2013 Budget Capital Overheads (A&G)	2014 Forecast Capital Overheads (A&G)	2015 Forecast Capital Overheads (A&G)	2016 Forecast Capital Overheads (A&G)
B1-2-1	**Total Capital Overheads (A&G) Expenditures**	**33,602**	**35,500**	**36,440**	**37,140**

(vi) Interest During Construction

~~26.~~28. Interest During Construction (IDC) is the recoverable amount of interest that the Company must spend in order to fund its capital initiatives. The calculation of IDC

is a function of work in progress balances. This is applicable to pipeline construction, storage plant construction and software applications that are in progress and not yet used or useful.

~~27.~~29. The following Table 5 sets out the amounts of IDC amounts within the Capital Budget from 2014 to 2016 and are included in Tables 1 and 2.

Table 5
Interest During Construction (IDC) Costs 2013 - 2016
($,000)

		2013 Budget Interest During Construction (IDC)	2014 Forecast Interest During Construction (IDC)	2015 Forecast Interest During Construction (IDC)	2016 Forecast Interest During Construction (IDC)
B1-2-1	Total Interest During Construction (IDC) Expenditur	5,356	8,400	9,251	7,399

~~28.~~30. The forecast costs of Departmental Labour, Capital Overheads (A&G) and IDC are included and allocated across the major accounts set out within Tables 1 and 2.

GTA and Ottawa Reinforcements

~~29.~~31. The proposed GTA and Ottawa Reinforcements address critical distribution infrastructure requirements in the Greater Toronto Area and Ottawa. The Company has outlined the needs and benefits of these projects in its Leave to Construct applications (EB-2012-0099 and EB-2012-0451).

~~30.~~32. The Ottawa Reinforcement project is intended to increase the capacity of the Ottawa area distribution system to meet existing and forecast loads as well as to provide additional security of supply and operational flexibility. The Ottawa Reinforcement project has been approved through the Board's Decision on the Leave To Construct application, issued on November 29, 2012.

~~31.~~33. The GTA Reinforcement project is intended to maintain system safety and reliability through enabling pressure reduction on several key pipelines in the Greater Toronto Area. The project is also intended to support diversification of supply. The GTA Reinforcement Leave To Construct application is currently being heard by the OEB.

~~32.~~34. The forecast costs of these Major Reinforcement projects are set out separately within Tables 1 and 2.

Work and Asset Management System (WAMS)

~~33.~~35. The proposed Work and Asset Management System (WAMS) is a requirement for the future operations of the Company servicing our customers. The WAMS project is fully described in Exhibit B2-6-2. The need for this project stems from technology drivers and the need to support primary work and asset management functions.

~~34.~~36. The primary driver is the coming end of the Accenture Services Agreement which was part of the EnVision Project that the Board approved in its 2004 decision of RP-2003-0203. The Company has decided that a more cost effective solution to the services approach that currently provides Work and Asset Management services would be to implement an in-house IT system. Timing is also driven by technology obsolescence of the decade old solution. It is also recognized in the industry that the area of asset management information systems has evolved substantively since 2004. WAMS will be the primary system for creating and tracking work requests and transactional asset information related to functions such as construction, maintenance, service, etc. Aligning asset related work with other work activities will provide an opportunity to package activities in an efficient

manner. An example of the packaged approach would be scheduling an AMP Fitting replacement to coincide with a leak survey or service relay.

~~35.~~37. Another driver is the need for the Company to meet more stringent safety and reliability standards, which necessitates more flexible information technology.

~~36.~~38. Finally, the WAMS project will support the proposed performance measurement tracking and reporting on productivity over the Customized IR Plan term, including productivity of outside partners.

~~37.~~39. These business drivers have established a priority for the Company to implement the WAMS Program. Over the next two years this project will source and implement technology that will enable Enbridge to continue to operate its core functions, and implement systems that complement the Company's holistic asset management approach.

~~38.~~40. The forecast costs of the WAMS project are set out separately within Tables 1 and 2.

System Integrity and Reliability Activities

~~39.~~41. The Company has identified that a continuation of increased activities and expenditures associated with System Integrity and Reliability is necessary for the period of 2014 to 2016 and beyond. The Company has also determined that the System Integrity and Reliability costs for 2017 and 2018 are uncertain, but very likely to be as much or more than the corresponding costs in 2016 ~~and forecasts vary between $50 Million and $100 Million annually~~.

~~40.~~42. From November 1, 2012 the Company is obligated to implement and operate a fulsome program as a natural gas distributor in the province of Ontario. The

increase in activity and expenditures for System Integrity and Reliability which led to an increased level of spending starting in 2011 can be attributed to the following items:

- Recent Events: safety incidents at utilities in the United States
- Changes to regulations in both the United States and Ontario
- Enbridge's ongoing review of processes and decision criteria to maintain a safe distribution system

~~41.~~43. The focus on integrity management programs has been heightened as a result of safety incidents at natural gas utilities in the United States. One such event was the September 2010 San Bruno pipeline rupture and ignition in California. The event resulted in the death of eight individuals, the destruction of 38 homes, and injury to several additional individuals and damage to several other properties in the area.

~~42.~~44. As a result of the San Bruno incident, regulation, standards and legislative obligations for natural gas utilities in the United States were amended to be more stringent with respect to integrity management of distribution systems.

~~43.~~45. The November 1, 2012, the Technical Standards and Safety Authority ("TSSA") Code Adoption Document (FS-196-12) requires companies to produce an Integrity Management Program to maintain a safe and reliable Distribution System. This regulation includes the Document Amendment clause 12.10 (of the Canadian standards Association Z662):

> 12.10.16: Operating companies shall establish effective procedures for managing the integrity of pipeline systems with an MOP less than 30% of SYMS (Distribution Systems) so that they are suitable for continued service, in accordance with the applicable requirements of clause 3.2 of CSA Z662-11.

Witnesses: ~~A. Mandyam~~
J. Sanders
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~~44.~~46. For Enbridge, this means that all of the operating distribution assets will now need to be included and managed within an effective System Integrity and Reliability set of activities. As per clause 3.2 of CSA Z662-11 Pipeline System Integrity Management Program, this program must assess potential risks, identify steps to reduce these risks and monitor the results of the risk reduction projects or program. As per clause 10.3.10 of TSSA's November 1, 2012 Oil and Gas Systems Code Adoption Document, the Integrity Management Program shall include:

- a management system;
- a working records management system;
- a condition monitoring program, and
- a mitigation program

~~45.~~47. Management has taken its responsibility under the recent TSSA code change and more stringent landscape in the United States as an important change to its legislated obligations and expectations on how it manages the distribution system. Management has interpreted the code change as a requirement to proactively assess risks, propose remediation, refurbishment and replacement of the distribution system, when and where necessary, to prevent system failures.

~~46.~~48. Within Enbridge's proposed Integrity Management program expenditures for 2014 to 2016, examples of management decisions include:

A. the expenditures for In-Line Inspections ("ILI") of pipelines above 20% of the Specified Minimum Yield Stress ("SMYS") and the Maximum Operating Pressure ("MOP") Verification Program;

Witnesses: ~~A. Mandyam~~
J. Sanders
P. Squires

B. adopting a proactive replacement strategy towards replaceable technology such as Compression Couplings or AMP Fittings rather than monitoring their operation and replacing after the failures have occurred; and

C. replacing critical operating assets such as specific ~~componets~~components of Gate and District Stations (up to and including the entire station) rather than extending the active use of these assets beyond the end of their useful life through the use of Operations and Maintenance budgeted activities.

~~47.~~49. As set out within the Asset Plan (filed at Exhibit B2, Tab 10, Schedule 1), the ~~The~~ Company expects to continue ~~this line of decision making when it finalizes the 2017 and 2018 Capital Budget~~these activities within 2017 and 2018.

Externally Initiated Capital Projects

~~48.~~50. A further driver of incremental capital spending requirements in the coming years is the expected increase in relocation requirements resulting from third-party infrastructure projects, such as transit and the Pan Am games.

~~49.~~51. The main driver for the proposed increase to these costs is projects from government organizations such as:

- the 2015 Pan American Games,
- Toronto Transit Commission ("TTC"), and
- MetroLinx

~~50.~~52. These externally driven infrastructure projects lead to requirements for pipeline replacements or relocations. While relocation activity is not new, the level of

expected activity in the coming years is a substantial increase from past experience. The forecast cost increases can be seen within the Mains-Relocations line at Table 2, above.

C. Capital Budgeting Process

~~51.~~53. To understand and evaluate the Company's ~~2014 to 2016~~ Capital Budget, it is useful and informative to look at how the budget was created. As explained below, the lengthy and rigorous process that led to this Capital Budget has ensured that the budget is set at a level that reflects the level of spending necessary to meet the growth, safety and operational requirements of the business. Savings attributable to productivity and efficiency initiatives are included within the Capital Budget amounts.

~~52.~~54. The Company commenced the capital budgeting process that led to the 2014 to 2016 Capital Budget in November of 2012. The first step in the process was to align the 2013 Board-Approved Capital Budget of $386.6 million with the Company's spending requirements for 2013. That step led to a realization that complete alignment was not possible, because spending requirements for 2013 exceed that level. However, for the purpose of this Application, Enbridge has set out its 2013 Capital Budget to align with the Board-Approved Capital Budget amount. As noted above, to the extent that Enbridge spends above that level, it will not seek recovery until its Rebasing Application.

~~53.~~55. Immediately after the 2013 Capital Budget was set, the Company proceeded with its "Budget Refresh" process to update its forecasts of capital spending for 2014 to 2018. This began with a "Bottom-Up" list of business needs, and then proceeded through several iterations where proposed projects and spending were presented to and scrutinized by management and direction was given to make changes to the

Capital Budget. Through a lengthy iterative process, Enbridge arrived at a three year Capital Budget for 2014 to 2016, having determined that capital expenditures for 2017 and 2018 were too speculative to be included.

Inputs to the Capital Budget

54.56. As noted, the capital budget process began with a "Bottom Up" list of capital spending requirements for 2014 to 2018. There were a number of inputs into the creation of this "grassroots" budget, as described below.

(i) Asset Plan

55.57. The Company's long range distribution system planning tool, the Asset Plan, provides a 10 year view into customer growth, potential reinforcements, system integrity and reliability requirements, relocation projects and major reinforcements. The Asset Plan represents an information vehicle for Enbridge management to use for future planning purposes. The 2013-2022 Asset Plan is filed at Exhibit B2, Tab 10, Schedule 1.

56.58. The Asset Plan is an ever-evolving document, to reflect the Company's most current understanding of its distribution assets. While the actual 2013-2022 Asset Plan document filed in this case was not completed at the time that the Capital Budget process began in late 2012, the updated identification of the Company's asset requirements (which forms the basis for much of the Asset Plan) had been completed by that time. That information was used as an input into the creation of the "Bottom Up" budgets used at the outset of the Capital Budget process.

(ii) GTA and Ottawa Reinforcement Projects and WAMS

57.59. The GTA and Ottawa Reinforcements and WAMS project had all been identified as necessary projects by the time that the Capital Budget process began. Each of

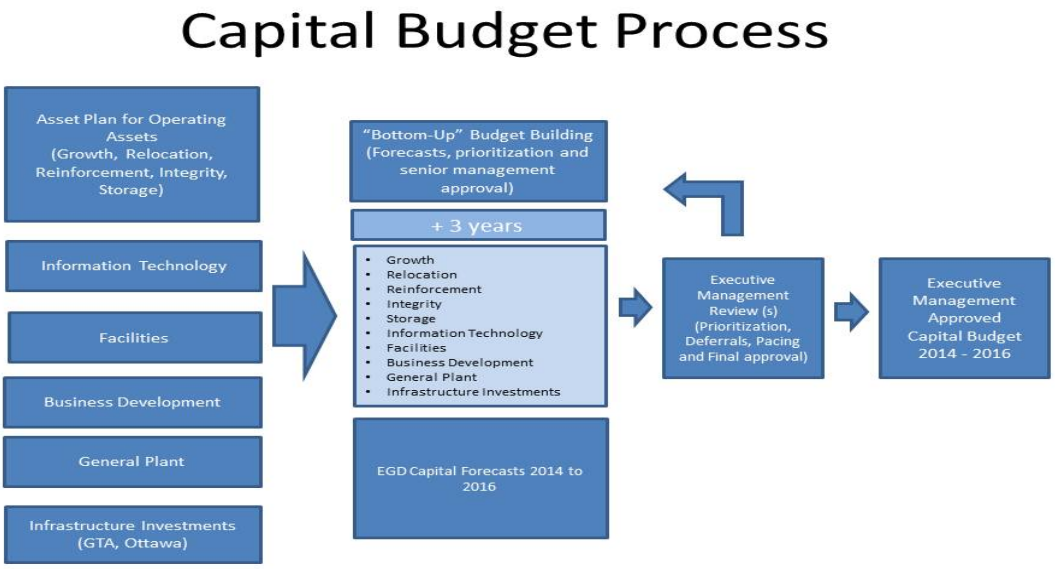
these projects has been subject to separate budgeting processes, and the outputs of those project specific reviews were used as inputs into the Capital Budget process.

(iii) All Other Inputs

~~58.~~60. The Asset Plan only addresses the Company's distribution asset requirements. Therefore, to determine the capital spending requirements for other aspects of the Company's operations, information was sought and received from additional capital business areas including Information Technology, Gas Storage, Business Development, Facilities and General Plant. That information was an input into the creation of the "Bottom Up" budgets used at the outset of the Capital Budget process.

Steps in the Capital Budget Process

~~59.~~61. Enbridge's Capital Budget for 2014 to 2016 was determined through a lengthy iterative process. Figure 1 below depicts the process flow undertaken by the Company to finalize its Capital Budgets.



~~60.~~62. The process commenced with departments such as Gas Storage, Information Technology, Facilities and Business Development providing their "Bottom-Up" capital needs. The Asset Plan was used as an input for the Operations and Planning, Integrity and Engineering departments "Bottom-Up" capital needs.

~~61.~~63. After the initial "Bottom-Up" Capital Budget was created, the Company proceeded with an intense process to scrutinize each proposed expenditure. The process was established as a Company priority and included all departments and associated capital decision makers. The objective was to define the amount of necessary capital expenditures required to ensure the utility meets its commitments to its customers and its regulators, including spending necessary to meet the growth, safety and operational requirements of the business. The ultimate goal of this exercise was to ensure that the capital expenditures within the Capital Budget were limited to the lowest prudent level.

Witnesses: ~~A. Mandyam~~
J. Sanders
P. Squires

~~62.~~64. A senior management committee ("Capital Owners Committee") made up of senior representatives of the operating groups within the Company, as well as Finance and Regulatory, conducted peer reviews and scrutinized the list of expenditures in each cycle of capital forecast. This resulted in changes to the budgets. For each cycle, the output of the Capital Owners Committee was then reviewed by Executive Management who made their own changes. The Executive Management team was made up of Enbridge's President and Vice Presidents.

~~63.~~65. The Capital Budget process went through six review cycles, culminating in Executive Management approval of the final 2014 to 2016 Capital Budget. Table 3 sets out the timing at which each review cycle was completed.

Table 6

Capital Budget Process Milestone Dates

Date	Iteration
November 1, 2012	2013 Budget Setting Start Date
January 8, 2013	2014 to 2018 Budget Setting Start Date
January 18, 2013	REVIEW 1
February 15, 2013	REVIEW 2
March 22, 2013	REVIEW 3
April 2, 2013	REVIEW 4
April 18, 2013	REVIEW 5
May 21, 2013	REVIEW 6 and Final Capital Budget 2014 – 2016

~~64.~~66. After the first review, it was recognized that many of the System Integrity and Reliability expenditures (along with some other items) had forecasts that were of a

variable or uncertain nature. Analysis of the first review showed that the proposed spending pattern was forecasting System Integrity and Reliability activity costs that may not materialize as outcomes of the activity.

~~65.~~67. Executive Management requested a further segmentation of each capital forecast to identify the magnitude of the costs that were certain to be spent and those that were outcome based and therefore difficult to forecast. Each capital expenditure from Review 2 onward was broken out into Variable and Firm costs. The Firm costs category captured costs that were certain and the Variable category represented costs that may or may not materialize, largely based on the outcomes of studies and execution of certain System Integrity and Reliability programs. The Capital Budget Process retained this additional categorization through the remainder of the review cycles.

~~66.~~68. Through the budget review process, the Capital Owners Committee applied a number of criteria to prioritize proposed spending, and determine what items should be retained within each successive version of the Capital Budget, and which items could be altered or removed. The criteria that were applied included the following:

- *Priority*: to identify the need for particular spending within a given year. An example of a change in priority was the decision to delay the Don River Replacement project that is identified in the Asset Plan. Another example is evident in the Facilities budget which had proposed a building expansion to the Company's Kennedy Road facility to accommodate staff who are currently being housed in "portables" in the parking lot.

  The final decision of the budget process was to reject building expansion and keep the additional staff in portables.

Witnesses: ~~A. Mandyam~~
J. Sanders
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- *Probability of Spend Occurring*: High, Medium, Low. High Probability ratings were given where there was an 80% to 100% probability of the spend occurring in that year. A Medium Probability rating indicated a 50% to 80% chance and a Low Probability ranking represented a 0% to 50% chance of the project put in service that year. Items of Low Probability are not included within the Capital Budget for a given year, and items of a Medium Probability may have their spending profile changed.

- *Timing of Need*: to determine whether the pacing of the spending can be changed. An example is the Load Shed Program that the Company will continue to undertake in 2014 to 2016. The program adds valves and other assets required to establish isolatable geographic zones within the distribution system. These isolatable zones when established enable the Company to preserve supply to specific customers while neighbouring customers may have their gas supply shut-off in the event of an incident or other business requirement. Through the budget process, a decision was made to slow the pace of implementing the Load Shed Program to a range of 10 to 15 years rather than one of 5 to 10 years. This decision on Timing of Need was based on information that indicated that a longer period of implementation would not adversely increase the risk to Customers being supplied with natural gas.

- *Alternative to Need*: Review of other choices including O&M maintenance. For example, under the System Integrity and Reliability activities, Gate Stations Program, the Gas Preheat System Risk Mitigation project conducted several alternatives to need analysis. The proposed program includes the removal, replacement and testing of the oldest heat exchanger

in the system. It also includes the retrofit of the next two oldest heat exchangers with actuated valves on the heat exchanger and glycol loop of the preheat system. Alternatives that were examined included doing nothing, replacing all heat exchangers, just replacing the oldest heat exchangers.

- *Financial Analysis*: Review of Capital and O&M cost interaction, historical trends where applicable, unit cost rates etc. An example was confirmation of a decision to install remote electronic pressure sensing devices to paper chart recorders and provide real-time pressure information to a central control centre. The capital costs of this initiative were confirmed to be less than the expected long-term O&M savings arising from no longer having to operate paper chart recorders and maintain and interpret the paper charts that had been produced.

- *Productivity*: Where applicable, incorporate actions to "get more work for same unit cost". An example is the proposed capital budget for Customer Related work which shows reductions in the cost to add new customers. This is a result of a determination that the Company can find ways to save money in its actual average cost to add a new customer, as compared to those costs in 2012. Further discussion of the productivity savings within the 2014 to 2016 Capital Budget is set out below.

- *Firm vs. Variable*: as described above.

~~67.~~69. These criteria allowed evaluation of each expenditure by several angles. The multiple angles of examination confirmed to management that the final proposed expenditure represented the lowest reasonable cost for the necessary activity.

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~~68.~~70. The final Capital Budget review cycles examined the proposed capital expenditures by year, applying the criteria above to evaluate each capital expenditure. Executive Management provided direction and decisions through each review cycle and continued until they were fully satisfied that the Capital Budget had reached the lowest prudent level.

D. Results of the Capital Budget Process

~~69.~~71. There were three main outputs from the Capital Budget Process.

~~70.~~72. First, the identification of capital spending requirements in excess of historical levels led Enbridge to determine that it required a different IR plan from its 1st Generation IR plan. The discussion of why an "I-X" model is not appropriate is set out in a number of places within the A2 series of exhibits.

~~71.~~73. Second, the identification of a large amount of uncertain spending, especially in the years beyond 2016, led Enbridge to determine that it could only create a three year Capital Budget at this time. This led to the Customized IR plan ~~that is set out in this Application~~as originally filed.

~~72.~~74. Third, the key output from the Capital Budget Process was the creation of a three year budget that reflects the level of spending necessary to meet the growth, safety and operational requirements of the business. Through the rigour of the Capital Budget Process, more than $180 million was removed from the originally submitted "Bottom Up" grassroots budgets.

Witnesses: ~~A. Mandyam~~
J. Sanders
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Decision to Proceed with a Three Year Capital Budget

~~73.~~75. The Company had gone through three Capital Budget Review cycles at which time a decision was made to change the budgeting time frame from a five year period ending in 2018 to a three year period of 2014 to 2016.

~~74.~~76. At a high level, the key information that drove the reduction in the term from five years to three years was the significant variability in capital forecasts after 2016. The variability was being driven by two primary issues: (i) uncertainty with System Integrity and Reliability program outcomes; and (ii) uncertainty with externally initiated projects. The amounts in the capital budget forecasts had variability in the range of $50 to $100 million per year of additional capital costs.

~~75.~~77. The decision to create a three year budget was seen to be consistent with the fact that the Company's capital spending requirements over the 2014 to 2016 period will be quite different from future years, because of the need for several major projects (GTA and Ottawa Reinforcement and WAMS) over the next three years.

~~76.~~78. Details of each of these items that contributed to the decision to proceed with a three year Capital Budget are set out below.

(i) Uncertainty with System Integrity and Reliability program outcomes

~~77.~~79. There are three main causes for the variability in the System Integrity and Reliability program cost forecasts. One is the fact that the scope and requirements of many of the System Integrity and Reliability programs will not be fully known until related studies are completed and there is some practical experience with the programs. The second is the fact that the Company anticipates more stringent Pipeline Integrity Management legislation, such as that contemplated in the United

States, but does not know when this will be implemented. The third is the continue evaluation on the Companies assessment of risk to the distribution system through the asset planning process. Future risk assessment will change the risks identified and the priorities of these risks.

~~78.~~80. Through the first two reviews of the Capital Budget, it had become clear that capital cost requirements for a five year period were hard to quantify with any specificity. Depending on the outcomes of System Integrity and Reliability studies, and the outcomes from early experience with new System Integrity and Reliability programs, the costs would vary. While there is uncertainty about the level of required costs even within a one year timeframe, the amount of the potential variance becomes unacceptably high when one forecasts five years into the future.

~~79.~~81. Examples of the variability in the System Integrity and Reliability cost forecasts are seen in the potential engineering outcomes of the MOP Verification Program, the In-Line Inspection Programs and the Process Hazard Assesment ("PHA") of the Gate and District Stations. The MOP and ILI Programs will identify segments of the distribution system that require replacing. However, the outputs of the inspection programs could identify a greater number of kilometres of pipeline or additional reinforcements than budgeted. The variability in length of pipeline replacement or predicting potential reinforcement projects has created a large swing in the Company's ability to firmly forecast capital expenditures. Similarly, the PHA's could yield a range of outcomes from minor component replacements to entire station replacements and/or relocations.

~~80.~~82. The uncertainty and variability in cost forecasts led the Company to determine that it could only create a dependable Capital Budget forecast for three future years, rather than five. At the same time, though, the Company also recognized that it may not be appropriate to include its uncertain (or potential) costs within the Capital

Budget being presented to support its Customized IR application. The solution that was reached was to identify that group of costs for each year, but not to include those costs, which are referred to as "variable costs" throughout this document, within the filed 2014 to 2016 Capital Budget. For example, Enbridge decided to implement a budget for the MOP program that would include the project costs for inspection and assessment (the "firm" costs), but not include any capital amounts for replacement of pipeline (the "variable" costs). The same approach has been taken for the ILI program.

~~81.~~83. The result is that Enbridge will be at risk for the "variable" costs associated with the System Integrity and Reliability studies and programs (as well as variable costs associated with other capital spending projects). The Company expects that at least some of the identified "variable" costs will materialize, so this is a real risk that will have to be accommodated by finding further efficiencies within the rest of the Company's operations. This was one of the items driving Enbridge to a three year Capital Budget (2014 to 2016). The Company has been very uncomfortable with shouldering ~~That being said, the Company is not prepared to continue~~ the risk associated with these "variable" costs for more than three years. ~~This further supports Enbridge's decision to include 3 year Capital Budgets within its Customized IR plan, to be updated through 2017 and 2018 Captial Budgets in 2017 Rate Adjustment proceeding~~At this time, though, as described below in section G, Enbridge has determined that it is prepared to continue to take these risks for 2017 and 2018, by using the 2016 Capital Budget as the basis for forecasts of 2017 and 2018 capital spending. However, to address two of the most real risks which are outside of Enbridge's control, there will be variance account treatment for 2017 and 2018 capital costs related to relocations and to pipeline replacements required because of issues discovered through pipeline inspections (such as, but not limited to, the ILI and MOP programs).

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~~82.~~84. Table 7, below, sets out the "firm" and "variable" budget amounts associated with System Integrity and Reliability studies and programs over the 2014 to 2016 term. The total forecast of "firm" amounts is approximately $94 million, while the total forecast of "variable" amounts is approximately $116 Million. Stated differently, for the period of 2014 to 2016 the System Integrity and Reliability studies and programs have a potential "variable" spend that is approximately 108% of the budgeted "firm" amounts that are included within the Capital Budget.

Table 7
System Integrity and Reliability List of Firm and Variable Forecasts
(Thousands)

Project Name or Blanket Program	Firm 2014	Firm 2015	Firm 2016	Variable 2014	Variable 2015	Variable 2016
AMP Fitting Replacement	8,543	13,100	30,046	-	13,814	13,694
Bare Steel Drips (study & removal program)	255	-	-		2,335	2,289
Bare Steel Service Replacement						208
Casing Study & Program	510	-	-		531	520
EFV Program	500	604	733	2,254	1,432	1,405
Failure of Bonnet Bolts on Valves Study					212	
ILI for pipelines over 20% SMYS plus HCA	4,000	4,080	4,162	6,200	6,450	6,324
Isolated Steel Mains CP Program	82	-	-		85	83
Load Shed Zone	1,145	1,171	1,194		1,194	1,170
Low Pressure Delivery Meter Set Program	1,530	2,341	2,388	1,530	2,387	2,341
Meter boxes				179	186	182
Plastic Mains (incl Services) Study					11,143	10,925
Remote Control Valve Study & Installation	565	602	680		3,979	3,901
Targeted Compression Couplings Pressure Contair	1,622	2,040	2,061		1,061	1,041
Verification of MAOP	3,296	3,397	3,195	5,304	4,881	4,786
WingLock Valve Study & Replacement	204	-	-		849	832
Totals	22,251	27,335	44,459	15,467	50,539	49,701

~~83.~~85. Beyond the System Integrity and Reliability studies and programs, there are other items within Enbridge's 2014 to 2016 Capital Budget which have associated "variable" costs. Graph 1 shows the total amounts of additional capital costs that could arise between 2014 and 2016 but which have not been included in the Capital Budget (the "variable" costs). These "variable" costs total more than $160 million over three years, and increase each year from 2014 to 2016. Enbridge is accepting the risk that some of these costs will likely arise, and will have to be accommodated.

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~~In the Capital Budget for 2017 and 2018, that will be filed within the 2017 Rate Adjustment proceeding, the Company expects to reflect more certain information about the outcomes of activities from 2014 to 2016, and about which "variable" cost will continue over the 2017 to 2018 period.~~

(ii) Externally Initiated Projects

~~84.~~86. Another source of budget uncertainty relates to capital projects required to accommodate works being undertaken by Municipal and Provincial governments and organizations. Examples are large-scale transit projects and other infrastructure projects. These projects often require Enbridge to relocate or change distribution assets to accommodate construction activities.

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~~85.~~87. Enbridge has found it challenging to forecast relocation requirements beyond the next few years, because details of transit and other infrastructure projects remain fluid. At the same time, though, the Company recognizes that the associated costs may be substantial. This has contributed to the difficulty of creating reliable five year Capital Budget forecasts.

(iii) Large Complex Projects over the Next Three Years

~~86.~~88. Enbridge determined that the use of a three year Capital Budget is consistent with the fact that the Company's capital spending requirements over the 2014 to 2016 period will be quite different from future years. The coming years are unusual because the majority of the Capital Budget increase arises from large complex capital projects that are contained within the 2014 to 2016 term (the GTA and Ottawa Reinforcements and WAMS project).

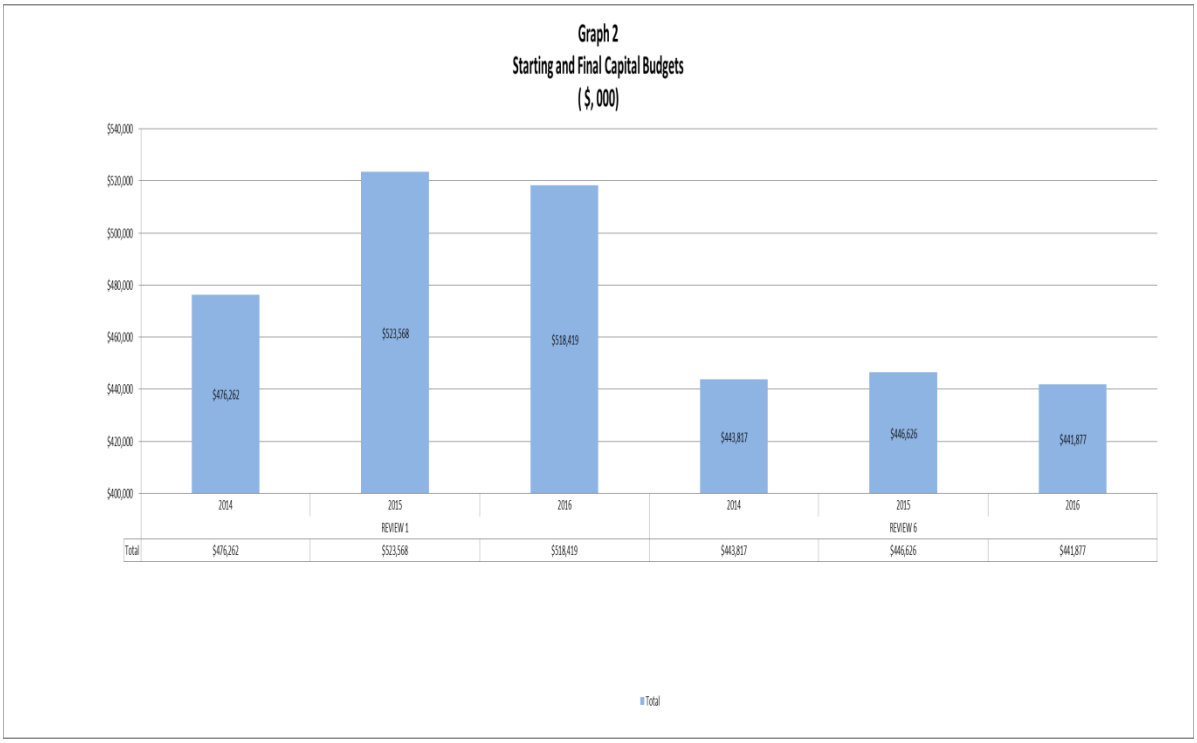
~~87.~~89. The Capital Budget process confirmed to the Company that the significant capital spending increase over the next three years is not a "business as usual" occurrence. Rather, this is an extraordinary period in Enbridge's history. Therefore, the Company concluded that a Capital Budget term of three years was the prudent approach to focus the utility on completing the large complex projects and to protect all parties from the consequences of presenting uncertain costs within the Company's filed budgets. At the same time, though, because the Company is taking the risk of uncertain "variable" capital costs ~~over the next three years~~, this approach will ensure focus on cost effectiveness.

The 2014 to 2016 Capital Budget

~~88.~~90. The 2014 to 2016 Capital Budget that resulted from the budget process is set out at Tables 1 and 2 above. From the start to end, the rigorous examination by the

Capital Owners Committee and Executive Management of proposed capital budgets resulted in total reductions of approximately $185 Million for the three years or approximately 12.25% reduction from Review 1 to final approval. The annual reductions are approximately $32 Million, $76 Million and $77 Million for each year of 2014 to 2016. These annual amounts represent reductions of 6.8% in 2014, 14.7% in 2015 and 14.8% in the 2016.

~~89.~~91. The graph below shows the change from the opening capital forecast the final capital forecast as a result of the Capital Budget Refresh Process.



~~90.~~92. Given that the budgets related to the major projects were mostly unchanged from the outset of the budget review process, the changes that were made to the 2014 to

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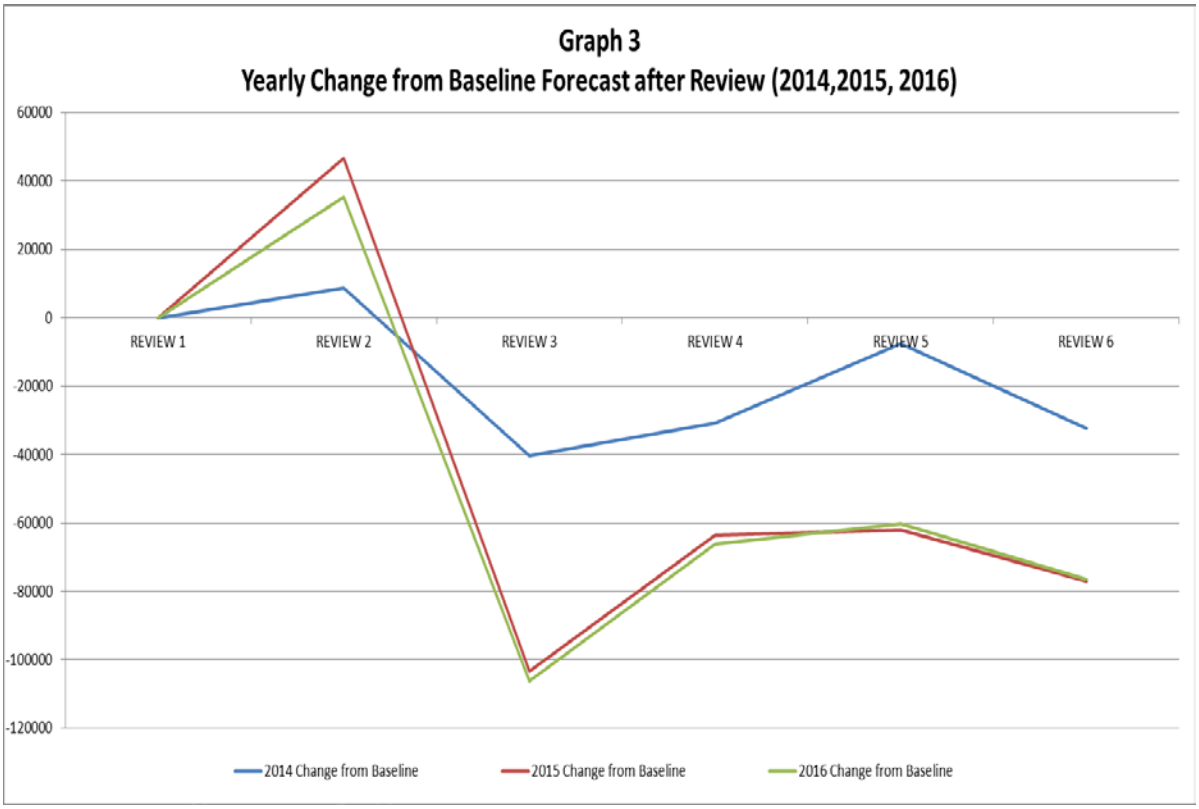
2016 Capital Budget mostly related to Core Capital amounts. The following graph sets out the Core Capital budget difference relative to the first budget after each review.



~~91.~~93. Much of the change to the Core Capital amounts arose from the re-categorization of forecast costs as "variable". As explained above, these costs are no longer included within the 2014 to 2016 Capital Budget; however, the Company expects that it will have to accommodate at least some of the costs. The following Table sets out the manner in which the Company's categorization of "fixed" and "variable" costs evolved through the budget process.

Table 8

Yearly Change From Baseline After Each Review
($ 000)

REVIEW CYCLE	Sum of Firm 2014	Sum of Variable 2014	Sum of Firm 2015	Sum of Variable 2015	Sum of Firm 2016	Sum of Variable 2016
REVIEW 1	$ 476,262		$ 523,568		$ 518,419	
REVIEW 2	$ 485,010		$ 570,313		$ 553,820	
REVIEW 3	$ 435,739	$ 120,642	$ 420,039	$ 45,996	$ 411,591	$ 108,477
REVIEW 4	$ 445,509	$ 36,476	$ 459,964	$ 80,967	$ 452,251	$ 68,317
REVIEW 5	$ 468,627	$ 25,142	$ 461,631	$ 63,031	$ 458,054	$ 75,937
REVIEW 6	$ 443,817	$ 25,142	$ 446,626	$ 63,031	$ 441,877	$ 75,937

E. Incorporation of Productivity in the Capital Budget

~~92.~~94. Throughout the Capital Budget process, the Company worked to ensure that the Capital Budget amounts included cost savings due to efficiency and productivity. The following section outlines some examples of productivity initiatives incorporated in the proposed Capital Budgets for 2014 to 2016.

Departmental Labour Costs Productivity

~~93.~~95. As explained in the O&M evidence (for example, at Exhibit D1-3-1), the Company has resolved to maintain its overall FTE level (number of employees) flat through the 2014 to 2016 period. Executive management has determined that with a focus on efficiencies, the Core Capital programs (which are increasing to accommodate customer growth and System Integrity and Reliability programs) will be delivered within the existing FTE numbers.

~~94.~~96. One way of quantifying the productivity savings is to compare the departmental labour cost amounts within the 2014 to 2016 Capital Budget to the amounts that would be included using a 2% inflation rate from the 2013 levels.

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Using that measure, there is a savings of approximately $14.98 million over the 2014 to 2016 term, as seen in the following table.

Table 9

Departmental Labour Cost Productivity
($ 000)

		2013 Budget	2014 Forecast	2015 Forecast	2016 Forecast	Total Productivity Savings
Management Approved Departmental Labour Cost Forecasts		$ 76.50	$ 74.84	$ 73.43	$ 75.55	
2013 Budgeted Departmental Labour Cost Increased by Inflation @ 2 %		$ 76.50	$ 78.03	$ 79.59	$ 81.18	
Productivity amount Forecast vs 2013 @2% Inflation		**$ -**	**$ 3.19**	**$ 6.16**	**$ 5.63**	**$ 14.98**

~~95.~~97. To the extent that additional FTEs are needed to accomplish work, (such that the assumption of no staff additions cannot be maintained), Enbridge will accommodate the associated costs within other parts of the Capital Budget. Enbridge is committed to finding efficiencies needed to make this work.

Productivity to Accommodate "Variable" Costs

~~96.~~98. As explained above, the Company has determined that there are large amounts of uncertain or "variable" costs that may arise over the 2014 to 2016 term, primarily through the delivery of the System Integrity and Reliability initiatives. Those "variable" costs, which total more than $160 million, are not included within the Capital Budget.

~~97.~~99. While the Company does not expect all of these "variable" costs to materialize, there is a strong possibility that at least some of the costs will arise during the 2014 to 2016 term. As these costs are not included within the Capital Budget, they will have to be accommodated elsewhere. The result will be a requirement to find further productivity and efficiency gains, to allow for all necessary work to be completed.

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F. Year over Year Variance Explanations

~~98.~~100. The 2014 to 2016 Capital Budget is set out at Tables 1 and 2 above. Part B of this Evidence described the main drivers of the overall budget during the 2014 to 2016 term. Set out below are high-level explanations of the year-to-year changes in the Capital Budget.

Major Changes: 2014 Capital Budget vs. 2013 Board Approved Budget

~~99.~~101. The 2014 Forecast is $682.3 million, which is $232.4 million or 51.6% over the 2013 Board Approved Budget of $449.9 million. Capital expenditure net increases in the 2014 Forecast are primarily driven by the requirements of three multi-year major initiatives; the GTA Reinforcement project, the Ottawa Reinforcement project and the Work and Asset Management System ("WAMS") project and an increase in System Improvement and Upgrades. The requirements of the three major projects contribute to $175.2 million of the variance, System Improvement and Upgrades accounts for $50.4 million of the variance and General and Other Plant needs increased by $8.2 million. The increase is partially offset by a $4.0 million decrease in the Customer Related (adding a new customer) requirements.

~~100.~~102. Table 10 below itemizes the major variances and the related evidence.

Witnesses: ~~A. Mandyam~~
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Table 10

2014 Forecast vs. 2013 Board Approved Budget Major Variance

2014 Test Year Budget vs 2013 Board Approved Budget ($Millions)	Over/(under)	Related Capital Evidence by Business Area
Customer Related Distribution Plant	(4.0)	B2-2-1 Customer Growth and B2-10-1 Asset Plan
NGV Rental Equipment	3.1	B2-7-1 Business Development
System Improvements and Upgrades	50.4	B2-3-1 Reinforcements, B2-4-1/5-1 Relocations/Integrity and B2-10-1 Asset Plan
General and Other Plant	8.7	B2-9-1 Facilities and General Plant, B2-8-1 Information Technology
Underground Storage Plant	(0.5)	B2-6-1 Underground Storage
"Core" Capital Requirements	**57.7**	
Work and Asset Management System (WAMS)	35.8	B2-8-2 Work and Asset Management
Leave to Construct Projects	138.9	B2-3-2 Major Reinforcements
Total Capital Expenditures	**232.4**	

Major Changes: 2015 Capital Budget vs. 2014 Capital Budget

~~101.~~103. The 2015 Forecast is $832.0 million, which is $149.7million or 21.9% over the 2014 Fiscal Year Budget of $682.3million. Capital expenditure net increases in the 2015 Forecast are primarily driven by the requirements of three multi-year major initiatives; the GTA Reinforcement project, the Ottawa Reinforcement project and the Work and Asset Management System (WAMS) project. The requirements of these three projects contribute to $146.9 million of the variance. The increase is partially offset by a $2.8 million decrease in the Core Capital requirements.

~~102.~~104. Table 11 below itemizes the major variances and the related evidence.

Witnesses: ~~A. Mandyam~~
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Table 11

2015 Forecast vs. 2014 Forecast Major Variance

2015 Forecast vs 2014 Test Year Budget ($Millions)	Over/(under)	Related Capital Evidence by Business Area
Customer Related Distribution Plant	7.8	B2-2-1 Customer Growth and B2-10-1 Asset Plan
NGV Rental Equipment	0.2	
System Improvements and Upgrades	4.6	B2-3-1 Reinforcements, B2-4-1/5-1 Relocations/Integrity and B2-10-1 Asset Plan
General and Other Plant	(3.6)	B2-9-1 Facilities and General Plant, B2-8-1 Information Technology
Underground Storage Plant	(6.2)	B2-6-1 Underground Storage
"Core" Capital Requirements	**2.8**	
Work and Asset Management System (WAMS)	(10.6)	B2-8-2 Work and Asset Management
Leave to Construct Projects	157.5	B2-3-2 Major Reinforcements
Total Capital Expenditures	**149.7**	

Major Changes: 2016 Capital Budget vs. 2015 Capital Budget

~~103.~~105. The 2016 Forecast is $450.0 million, which is $382.0 million or 45.9% under the 2015 Forecast of $832.0 million. Capital expenditure decreases in the 2016 Forecast are primarily driven by the completion of two multi-year major initiatives; the GTA Reinforcement project and the Work and Asset Management System (WAMS) project. The completion of these two projects contributes to $377.3 million of the variance. The remaining $4.7 million decrease reflects fluctuations in the Core Capital requirements.

~~104.~~106. Table 12 below itemizes the major variances and the related evidence.

Witnesses: ~~A. Mandyam~~
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Table 12

2016 Forecast vs. 2015 Forecast Major Variance

2016 Forecast vs 2015 Forecast ($Millions)	Over/(under)	Related Capital Evidence by Business Area
Customer Related Distribution Plant	10.3	B2-2-1 Customer Growth and B2-10-1 Asset Plan
NGV Rental Equipment	0.1	
System Improvements and Upgrades	(5.6)	B2-3-1 Reinforcements, B2-4-1/5-1 Relocations/Integrity and B2-10-1 Asset Plan
General and Other Plant	(4.3)	B2-9-1 Facilities and General Plant, B2-8-1 Information Technology
Underground Storage Plant	(5.2)	B2-6-1 Underground Storage
"Core" Capital Requirements	**(4.7)**	
Work and Asset Management System (WAMS)	(17.6)	B2-8-2 Work and Asset Management
Leave to Construct Projects	(359.7)	B2-3-2 Major Reinforcements
Total Capital Expenditures	**(382.0)**	

G. 2017 and 2018 Capital Budget

107. As explained above, Enbridge is not able to forecast its 2017 and 2018 Capital Budget requirements on a line by line basis, in the same way as has been done for 2014 to 2016. However, the Company understands that some parties do not agree with the proposal to update capital costs for 2017 and 2018 midway through the IR term.

108. In response, Enbridge has updated its Customized IR proposal to allow for Allowed Revenue amounts to be set for all five years at this time. To accomplish this, Enbridge has used the 2016 Capital Budget to represent its 2017 and 2018 capital spending requirements within the Allowed Revenue amounts for 2017 and 2018. The one change that Enbridge has made to the 2016 Capital Budget is that, for purposes of 2017 and 2018, the $8 million forecast spending on WAMS has been removed, since that project will have been completed by the end of 2016. Therefore, the Capital Budget used for 2017 and 2018 is the same as set out in the "Forecast 2016" column within Tables 1 and 2 above, except that the $8.1 million

associated with WAMS is removed, leaving a forecast Capital Budget of $441.9 million for each of 2017 and 2018.

109. The Company believes the 2016 Capital Budget sets out a reasonable forecast of its capital spending requirements for 2017 and 2018. The 2016 Capital Budget sets out Enbridge's capital spending requirements within the context of continuing customer growth, and new system reliability and integrity requirements. While some of the line item requirements within the Capital Budget will change each year, Enbridge believes that the overall capital spending requirements for 2017 and 2018 will be in line with 2016.

110. Indeed, using the 2016 Capital Budget to represent Enbridge's capital spending requirements for 2017 and 2018 likely understates the Company's actual requirements for those years.

111. One way this can be seen in within the Asset Plan. In that document, Enbridge has forecast that its distribution plant capital spending requirements for 2017 and 2018 will be $23 million and $50 million higher as compared to 2016 (see Exhibit B2, Tab 10, Schedule 1, at page 91). The Asset Plan also indicates that Enbridge expects its customer growth for 2017 and 2018 to continue at the same rate as forecast for 2016 (around 40,000 new customers per year).

112. Another way that the 2017 and 2018 Capital Budgets can be seen to be understated is from the fact that there is no allowance for cost inflation in an approach which keeps the 2016 Capital Budget flat for the following two years.

113. As explained above, there are large amounts of uncertain, or "variable", capital costs that may arise within the 2014 to 2016 period associated with the System Integrity and Reliability studies and programs (as well as variable costs associated with other capital spending projects). Exposure to these variable amounts, which

are not included within the 2014 to 2016 Capital Budgets, will continue in 2017 and 2018.

114. While Enbridge is prepared to take most of the risk associated with these "variable" capital costs for 2017 and 2018, there are two areas (relocations, and replacement mains requirements identified through pipeline inspection activities (including the ILI and MOP programs)) where a different approach is proposed. For each of these areas, Enbridge proposes variance accounts for 2017 and 2018, through which the allowed revenue implications of spending that is significantly higher or lower than included within the budget would be recoverable from ratepayers. Details of the proposed variance accounts can be found at Exhibit D1, Tab 8, Schedule 6. It should be noted that the variance accounts are only operative if the actual Allowed Revenue consequences of required additional spending in either area are more than $1.5 million above or below the forecast amount for that area (which is the same threshold as applies for Z Factors).

115. It is very difficult to forecast costs associated with relocations with any accuracy. This is described above, and within Exhibit B2, Tab 4, Schedule 1. That difficulty is exacerbated in years further into the future. Relocations requirements arise because of third party activities over which Enbridge has no control. Given the amount of development activity being undertaken within the Company's franchise areas, Enbridge observes that the amount and cost of relocation requirements is increasing even since the original filing in this proceeding. Therefore, the actual capital costs associated with relocations activity for 2017 and 2018 may be significantly higher than that forecast for 2016. It is for this reason that Enbridge proposes variance account treatment for 2017 and 2018 related to this category of activity.

116. One key "variable" cost that is not included within Enbridge's capital cost forecasts

for 2014 to 2016 is capital amounts related to pipeline replacement that is identified through the pipeline inspection programs. The Capital Budgets include the project costs for inspection and assessment of pipelines, but do not include the cost for replacements that result from the programs. The Miscellaneous Mains Replacement category of cost does not include any costs for pipeline replacement requirements identidifed through pipeline inspection programs. While Enbridge has indicated that it is prepared to take on the risk of the variable costs associated with these activities (capital amounts related to pipeline replacement) for 2014 to 2016, the Company believes that it is reasonable and appropriate to include variance account treatment for the revenue requirement implications of such costs for 2017 and 2018.

H. Conclusion

~~105.~~117. The balance of the B2 series of exhibits sets out the details of Enbridge's 2014 to 2016 Capital Budget, organized by categories of capital spending (business areas). For each of the categories, the Company will provide Overview evidence, an explanation of the category's capital budget, explanation of year-over-year budget variances, and individual project description documents for initiatives that have a capital budget over $2 Million during the three year term.

~~106.~~118. The following Table 13 sets out the direct costs for each of the major business areas detailed within the B2 series of Exhibits.

Witnesses: ~~A. Mandyam~~
J. Sanders
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Table 13
Summary of Capital Expenditures by Business Area
($Millions)

		Col 1	Col 2	Col 3	Col 4
		Board Approved Budget	Forecast	Forecast	Forecast
Exhibit Reference	Business Area	2013	2014	2015	2016
B2-2-1	Customer Growth	95.9	91.2	97.5	102.3
B2-3-1	Reinforcements	11.4	11.4	16.9	8.8
B2-3-2	Major Reinforcements	63.4	202.2	359.7	-
B2-4-1	Relocations	15.2	15.2	13.4	12.6
B2-5-1	Sytem Integrity and Reliability	84.7	132.3	135.1	141.1
B2-6-1	Storage	19.0	19.2	13.8	8.9
B2-7-1	Business Development	0.3	3.5	3.6	3.7
B2-8-1	Information Technology	28.0	29.3	27.2	27.5
B2-8-2	Work and Asset Management System (WAMS)	0.5	35.7	23.7	7.7
B2-9-1	Facilities and General Plant (includes Fleet)	15.5	23.6	22.0	17.3
	Sub total Capital by Business Area	333.9	563.6	712.9	329.9
B2-1-1	Departmental Labour Costs	76.6	74.8	73.4	75.6
B2-1-1	Capitalized Administrative and General	33.6	35.5	36.4	37.1
B2-1-1	Interest During Construction	5.4	8.4	9.3	7.4
B2-1-1	Total Capital Expenditures	449.5	682.3	832.0	450.0

~~107.~~119. This Capital Budget Overview and Budget Process exhibit has explained the Company's approach, reasoning and decisions that led to the 2014 to 2016 Capital Budget. The budgeting process has ensured that Enbridge's Capital Budget reflects the level of spending necessary to meet the growth, safety and operational requirements of the business. The inclusion of productivity savings within the Capital Budget reflects Enbridge's commitment to demonstrate cost effective operation during an extraordinary period of expenditure.

~~108.~~120. As explained at Exhibit A2, Tab 3, Schedule 1, the Capital Budgets for 2014 to 2016 are used as an input into the Allowed Revenue amounts for each year of the Customized IR term, with the adjusted 2016 Capital Budget (exclusive of WAMs spending) used as the relevant input for 2017 and 2018. This updated approach enables Allowed Revenue to be set for each of the five years of the Customized IR term.

Witnesses: ~~A. Mandyam~~
J. Sanders
P. Squires

DEFERRAL AND VARIANCE ACCOUNTS

2013 Test Year Approved Deferral and Variance Accounts

1. The following is EGD's list of 2013 Board Approved deferral and variance accounts ("DA" and "VA"). For the 2013 deferral and variance accounts approved and listed below, EGD will file a separate application requesting a process for the review and proposed clearance of the accounts as soon as feasibly possible following the public release of its fiscal 2013 year-end financial results (in March or April 2014).

2013 Purchased Gas Variance Account ("PGVA"),
2013 Design Day Criteria Transportation Deferral Account ("DDCTDA"),
2013 Transactional Services Deferral Account ("TSDA"),
2013 Unaccounted for Gas Variance Account ("UAFVA"),
2013 Storage and Transportation Deferral Account ("S&TDA")
2013 Deferred Rebate Account ("DRA"),
2013 Customer Care CIS Rate Smoothing Deferral Account ("CCCISRSDA"),
2013 Average Use True Up Variance Account ("AUTUVA"),
2013 Carbon Dioxide Offset Credits Deferral Account ("CDOCDA"),
2013 Manufactured Gas Plant Deferral Account ("MGPDA"),
2013 Gas Distribution Access Rule Costs Deferral Account ("GDARCDA"),
2013 Ontario Hearing Costs Variance Account ("OHCVA"),
2013 Electric Program Earnings Sharing Deferral Account ("EPESDA"),
2013 Open Bill Revenue Variance Account ("OBRVA"),
2013 Ex-Franchise Third Party Billing Services Deferral Account ("EFTPBSDA"),
2013 Post-Retirement True-Up Variance Account (PTUVA"),
2013 Transition Impact of Accounting Changes Deferral Account ("TIACDA"),
2013 Demand-Side Management Variance Account ("DSMVA"),

2013 Lost Revenue Adjustment Mechanism Variance Account ("LRAM"),
2013 Demand Side Management Incentive Deferral Account ("DSMIDA")

2014~~, 2015, & 2016~~ through 2018 Fiscal Year Proposed Deferral and Variance Accounts

2. The Company has reviewed the existing required and potential requirement for deferral and variance accounts during the 2014-~~2016~~ 2018 rate making period and proposes the following accounts be established for use during the period. Within the list of accounts, the following are newly proposed accounts, CCSPDA, GGEIDA, CDNSADA, UDCDA, ~~and~~ GTAPVA, RLMVA and RPMVA with separate written evidence provided within the D1 series of exhibits. The remainder of the accounts have been previously approved, though there are proposed revisions to the ongoing scope of several of these accounts: GDARIDA, OBRVA, TIACDA, TSDA and DSMVA.

2014-2018 Purchased Gas Variance Account ("PGVA"),
2014 Unabsorbed Demand Cost Deferral Account ("UDCDA")
2014 Design Day Criteria Transportation Deferral Account ("DDCTDA"),
2014-2018 Transactional Services Deferral Account ("TSDA"),
2014-2018 Unaccounted for Gas Variance Account ("UAFVA"),
2014-2018 Storage and Transportation Deferral Account ("S&TDA")
2014-2018 Deferred Rebate Account ("DRA"),
2014-2018 Customer Care Services Procurement Deferral Account ("CCSPDA"),
2014-2018 Customer Care CIS Rate Smoothing Deferral Account ("CCCISRSDA"),
2014-2018 Average Use True Up Variance Account ("AUTUVA"),
2014-2018 Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA"),
2014-2018 Earnings Sharing Mechanism Deferral Account ("ESMDA")
2014-2018 Manufactured Gas Plant Deferral Account ("MGPDA"),

2014-2018 Gas Distribution Access Rule Impact Deferral Account ("GDARIDA"),
2014-2018 Ontario Hearing Costs Variance Account ("OHCVA"),
2014-2018 Electric Program Earnings Sharing Deferral Account ("EPESDA"),
2014-2018 Open Bill Revenue Variance Account ("OBRVA"),
2014-2018 Ex-Franchise Third Party Billing Services Deferral Account ("EFTPBSDA"),
2014-2018 Post-Retirement True-Up Variance Account ("PTUVA"),
2014-2018 Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA"),
2014-2018 Transition Impact of Accounting Changes Deferral Account ("TIACDA"),
2014-2018 Demand-Side Management Variance Account ("DSMVA"),
2014-2018 Lost Revenue Adjustment Mechanism Variance Account ("LRAM"),
2014-2018 Demand Side Management Incentive Deferral Account ("DSMIDA"),
~~2014~~2015-2018 Greater Toronto Area Project Variance Account ("GTAPVA"),
2017 -2018 Relocation Mains Variance Account ("RLMVA") and
2017-2018 Replacement Mains Variance Account ("RPMVA").

Following the end of each year (2014 to 2018), EGD will file a separate application requesting a process for the review and proposed clearance of these deferral and variance accounts as soon as feasibly possible following the public release of its fiscal year-end financial results for that year (in March or April of the following fiscal year).

Descriptions of Accounts

Purchased Gas Variance Account ("2014 to 2018 PGVA")

3. The purpose of the PGVA is to record the effect of price variances between actual gas purchase prices and forecast prices which underpin the revenue rates to be charged in each fiscal year. Without this variance account, the ratepayers and the

Company are exposed to the risk of purchased gas price variances, which could unduly penalize or benefit one party at the benefit or expense of the other. Lower than forecast gas purchase prices would result in an over recovery from the customers and higher prices would result in an under recovery to the Company. This variance account ensures that such effects are eliminated.

4. The Company has outlined the following methodology and scope to be in effect for the determination of amounts to be captured and cleared with respect to the 2014 PGVA. At this time, the basic premise and methodology to be used in determining what is to be included within the 2015 through 2018 PGVA accounts will not likely be materially different than that currently approved. However, the Company is not able to fully define what scope changes will potentially be required as a result of the planned GTA project and its gas supply plan implications. The Company proposes that it will bring forward a methodology scope for each of the 2015 through 2018 PGVAs within the rate adjustment applications for each of 2015 through 2018 (as outlined in evidence at Exhibit A3, Tab 3, Schedule 1).

<u>2014 PGVA Methodology</u>

5. The actual unit cost is determined by dividing the total commodity and transportation costs (less the demand charges related to unutilized TransCanada PipeLine Limited ("TCPL") firm service transportation capacity, if any) plus any other costs associated with emerging gas pricing mechanisms incurred in the month by the actual volumes purchased in the month. The rate differential between the PGVA reference price and the actual unit cost of the purchases, multiplied by the actual volumes purchased, is recorded monthly in the PGVA.

6. The fixed cost component of the TCPL firm service transportation costs (i.e., Transportation Demand Charge) is included in the determination of the

reference price. However, any demand charges relating to unutilized long haul TCPL ("FT") transportation capacity, either forecast or actual, are excluded. This treatment of forecast and actual long haul TCPL Transportation Demand Charges for unutilized transportation capacity is consistent with the Board's concerns that these amounts be excluded from the PGVA. However, due to the uncertainty arising from the most recent TCPL decision, the Company is proposing a change for 2014. If the Company enters into alternative arrangements that allow it to satisfy its Peak Day Design Criteria Demand prior to the start of the fiscal year then the Company would propose that if these alternative arrangements impact the amount of forecasted UDC then the Company will amend its forecast and bring forward any changes as part of the January 2014 QRAM.

7. Since all transportation costs on volumes purchased by the Company related to forecast utilized capacity are included in the determination of the PGVA reference price, any changes in the TCPL tolls will be recorded in the PGVA. Any toll changes related to the cost of forecast unutilized long haul TCPL transportation capacity will also be recorded in the PGVA. The inclusion of changes in TCPL tolls in the PGVA is consistent with past practice.

8. Since the transportation tolls for the Alliance and Vector pipelines that were used in the determination of the PGVA reference price were based on an estimate, any variation between the actual transportation costs (including associated fuel costs) and the estimated transportation costs will be recorded in the PGVA.

9. Since transportation costs related to the transport of Western Canada Bundled T-service volumes are not included in the derivation of the PGVA reference price, changes in TCPL tolls will be recorded in the PGVA as a separate adjustment.

10. For the period January 1 to December 31, 2014, expenditures related to TCPL's Storage Transportation Services, including balancing fees related to TCPL's Limited Balancing Agreement, will be recorded in the 2014 PGVA. The PGVA will also record amounts related to a Limited Balancing Agreement with Union Gas.

11. The PGVA will record adjustments related to Transactional Services activities which are designed to record the impact of direct and avoided costs between the PGVA and the TSDA. These adjustments are required to ensure appropriate allocation of costs and benefits to the underlying transactions and appropriate recording of amounts in the 2014 PGVA and 2014 TSDA for purposes of deferral account dispositions.

12. In addition, the 2014 PGVA will record the amounts related to unforecast penalty revenues received from interruptible customers who do not comply with the Company's curtailment requirements, unauthorized overrun gas revenues, the use of electronic bulletin boards, and the unforecast Unabsorbed Demand Charge ("UDC") that arises as a consequence of the Company voluntarily leaving transportation capacity unutilized in order to gain a net benefit for the customer by purchasing lower priced unforecast discretionary delivered supplies.

13. The 2014 PGVA will also record an inventory valuation adjustment every time a recalculated “Utility Price” or PGVA Reference Price comes into effect at the beginning of a quarter within the fiscal year. The adjustment consists of the storage inventory valuation adjustment necessary to price actual opening inventory volumes at a rate equal to the Board approved quarterly PGVA reference price.

14. The 2014 PGVA will also record any refund/collection associated with Board approved Gas Cost Adjustment Riders.

15. The Company will record, at the time a Banked Gas Account Balance is purchased from a customer, the difference in the amount payable to the customer and the amount included in the PGVA (Transportation Service Rider A). This amount would be credited to a sub-account of the PGVA. In the event the Company incurs unforecast UDC costs as a result of having to purchase Banked Gas Account Balances then the amount in such sub-account will be used to offset corresponding UDC costs. All amounts remaining in this sub-account, after offsetting these UDC costs, will be rolled up into the PGVA.

16. The commodity sale price on the disposition of Banked Gas Account Balances, the incentive sale price, is set at 120% of an average Empress price over the 12 months of the contractual year. Any amount in excess of 100% of the gas supply charge stated in the applicable rate schedule, net of the commodity related bad debt, will be included in the PGVA for each fiscal year.

17. Simple interest is to be calculated on the opening monthly balance of the 2014 PGVA at the approved short-term debt interest rate.

<u>2014 Design Day Criteria Transportation Deferral Account ("2014 DDCTDA")</u>

18. The Company has prepared its 2014 Gas Cost budget inclusive of the impact of the increased requirements resulting from the update of the Peak Gas Design Day Criteria approved by the Board in EB-2011-0354, to be phased in equally over the 2013 and 2014 fiscal years. Consequently, the DDCTDA is not required for fiscal years beyond 2014.

Witnesses: K. Culbert
D. Small

19. The purpose of the proposed 2014 DDCTDA is to record the actual cost consequences of unutilized transportation capacity contracted by the Company to meet increased requirements resulting from the Approved changes in the Peak Gas Design Day Criteria.

20. Simple interest is to be calculated on the opening monthly balance of the 2014 DDCTDA using the Board Approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Transactional Services Deferral Account ("2014-2018 TSDA")

21. The proposal for the 2014-2018 TSDA is to record the incremental ratepayer share of net revenue from transportation and storage related Transactional Services, to be shared 90/10 between EGD's ratepayers and shareholders.

22. While the Company plans to continue to include a forecast of $12.0 million in Transactional Services revenue as an offset to rates, the Company is proposing a change to the derivation of amounts in the TSDA. Given the recent NEB changes within TCPL tolls and unknowns within the future prices and potential related impacts, EGD is proposing an updat to the TSDA methodology and scope. In the event that the ratepayer share of 2014-2018 TS net revenue exceeds $12.0 million, then such amounts over $12.0 million will be credited to the TSDA. In the event that the ratepayer share of 2014 TS net revenue is less than $12.0 million, then EGD will be credited with the difference between the actual ratepayer share of 2014-2018 TS net revenue and $12.0 million. This is a change from the 2013 TSDA. Currently the

maximum credit to Enbridge is $ 4.0 million. The Company is proposing that there be no cap on the amount being credited to Enbridge should the ratepayer share of TS net revenue be less than $12.0 million.

23. Simple interest is to be calculated on the opening monthly balance of the 2014-2018 TSDA using the Board Approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Unaccounted for Gas Variance Account ("2014-2018 UAFVA")

24. The purpose of the 2014-2018 UAFVA is to record the cost of gas that is associated with volumetric variances between the actual volume of Unaccounted for Gas ("UAF") and the Board approved UAF volumetric forecast. The Company proposes that for each of these fiscal years, the UAF volume variance calculation will measure each fiscal year's actual UAF against the UAF volume forecast.

25. The gas costs associated with the UAF variance will be calculated at the end of each calendar based on the estimated volumetric variance between the Board approved level of UAF for the subject year and the then-current estimate of the UAF for that year. This amount will be included within the UAF for the subject year. An adjustment will be made to the UAFVA in the subsequent year to record any differences between the estimated UAF used within the prior year's UAFVA and actual UAF experienced for that year.

26. The UAF annual variance would then be allocated on a monthly basis in proportion to actual sales and the related cost would be calculated using the monthly PGVA reference price.

27. Carrying costs for the UAFVA will be calculated using the Board Approved EB-2006-0117 interest rate methodology. The balance of the UAFVA, together with the carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Storage and Transportation Deferral Account ("2014-2018 S&TDA")

28. The purpose of each of the 2014-2018 S&TDA is to record the difference between the forecast of Storage and Transportation rates (both cost of service and market based pricing) included in the Company's approved rates and the final Storage and Transportation rates (both cost of service and market based pricing) incurred by the company. It will also be used to record variances between the forecast Storage and Transportation rebate programs and the final rebates received by the Company.

29. The S&TDA for each fiscal year will also record the variance between the forecast Storage and Transportation demand levels and the actual Storage and Transportation demand levels. In addition, this account will be used to record amounts related to deferral account dispositions received or invoiced from Storage and Transportation suppliers.

30. The S&TDA for each fiscal year will also record the variance between the forecasted commodity cost for fuel and the updated QRAM Reference Price.

31. Simple interest is to be calculated on the opening monthly balance of each of the 2014-2018 S&TDA using the Board Approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Deferred Rebate Account ("2014-2018 DRA")

32. The Company proposes to establish a DRA for each of 2014-2018, to record any amounts payable to, or receivable from, customers of the Company as a result of the clearing of deferral accounts authorized by the Board which remain outstanding due to the Company's inability to locate such customers. The account will also include amounts arising from differences between actual and forecast volumes used for the purpose of clearing deferral account balances.

33. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Customer Care Services Procurement Deferral Account ("2014-2018 CCSPDA")

34. The costs approved for recovery in rates by the EB-2011-0226 Decision included Enbridge's major customer care outsourcing and internal O&M costs in addition to the remaining capital and related costs associated with the Enbridge Customer Information System ("CIS")that was implemented in September 2009.

35. The two major outsourced customer care agreements addressed in the EB-2011-0226 proceeding will reach their normal expiry dates as on

December 31, 2017 subject to extension rights available to the Company. The Company is planning on conducting benchmarking and tendering processes with respect to the services conveyed via these agreements beginning in 2014. As such, the Company requests that a new deferral account be established, the Customer Care Services Procurement Deferral Account ("CCSPDA"), to be in effect for 2014, 2015 and 2016 to capture the costs associated with the benchmarking, tendering and potential transition of customer care services to new service provider(s). The Company would then bring the costs recorded in this account for recovery in rates in 2017. Further details are provided in the Customer Care Services Procurement Deferral Account evidence at Exhibit D1, Tab 8, Schedule 4.

36. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Customer Care / CIS Rate Smoothing Deferral Account ("2014-2018 CCCISRSDA")

37. The CCCISRSDA is required for each of these years to capture the difference between the forecast customer care and CIS costs versus the amount to be collected in revenues. This approach was approved by the Board in the EB-2011-0226 CIS Customer Care Settlement Agreement and proceeding. The amount to be debited or credited to the deferral account for 2014 and for each subsequent year through 2018, will be calculated by multiplying the difference in cost per customer and smoothed costs per customer, times the updated customer forecast for the year. The balances in the account will not be cleared during the 2014 through 2018 period. The balance will build up during the years 2013 to 2015

when the cost per customer exceeds the smoothed cost per customer being collected in rates, and then the balance will be drawn down during the years 2016 to 2018 when the cost per customer is lower than the smoothed cost per customer being collected in rates. After 2018, any remaining balance in the account it is to be cleared along with the clearance of other 2018 deferral and variance accounts.

38. As determined in the EB-2011-0226 Settlement Agreement, interest is to be calculated on the balance of this account at a fixed annual rate of 1.47%, and will not change during the period the deferral account is allowed to continue through 2018. The interest carrying charges will be disposed of annually at the same time of clearance of all other deferral and variance accounts.

<u>2014-2018 Average Use True Up Variance Account ("2014-2018 AUTUVA")</u>

39. The purpose of the AUTUVA for each of these fiscal years is to record ("true-up") the revenue impact, exclusive of gas costs, of the difference between the forecast of average use per customer, for general service rate classes (Rate 1 and Rate 6), embedded in the volume forecast that underpins Rates 1 and 6 and the actual weather normalized average use experienced during the year. The calculation of the volume variance between forecast average use and actual normalized average use will exclude the volumetric impact of Demand Side Management programs in that year. The revenue impact will be calculated using a unit rate determined in the same manner as for the derivation of the Lost Revenue Adjustment Mechanism ("LRAM"), extended by the average use volume variance per customer and the number of customers.

40. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of

this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Greenhouse Gas Emissions Impact Deferral Account ("2014-2018 GGEIDA")

41. The purpose of the GGEIDA for each of these years is to record amounts associated with any and all impacts of potential Provincial and or Federal regulations in relation to Greenhouse Gas Emission requirements effected onto EGD during these fiscal years along with the impacts resulting from the sale of or other dealings in earned carbon dioxide offset credits. EGD has provided the context for the potential regulation changes in relation to greenhouse gas emissions in Exhibit D1, Tab 8, Schedule 5.

42. EGD is proposing that this new account will take the place of the account which was formerly intended to deal with the potential impacts of any dealings in earned carbon dioxide offset credits which was called the Carbon Dioxide Offset Credits Deferral Account ("CDOCDA"). The CDOCDA was originally approved by the Board in its Natural Gas Generic DSM proceeding, EB-2006-0021.

43. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Earnings Sharing Mechanism Deferral Account ("ESMDA")

44. The purpose of the ESMDA is to record the ratepayer share of utility earnings that result from the application of the earnings sharing mechanism. If the actual utility

return on equity, calculated on a weather normalized basis, is more than 100 basis points over the level of ROE determined by the application of the Board's ROE Formula, the resultant earnings amount above 100 basis points will be shared equally (i.e., 50/50) between the Company's ratepayers and shareholders. The calculation of a utility return for earnings sharing determination purposes, will include all revenues that would otherwise be included in earnings and only those expenses (whether operating or capital) that would otherwise be allowable deductions from earnings as within a cost of service application. In addition, the following shareholder incentives and other amounts are outside of the ambit of the earnings sharing mechanism: amounts related to the Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM"), amounts related to Transactional Services incentives, amounts related to Open Bill program incentives, and amounts related to Electric Program Earnings Sharing incentives. The ESM is non-symmetrical, such that ratepayers will not be responsible for sharing any level of under-earnings.

45. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

<u>2014-2018 Manufactured Gas Plant Deferral Account ("2014-2018 MGPDA")</u>

46. The Company is proposing to establish a MGPDA for each fiscal year of the IR term in order to capture all costs incurred in managing and resolving issues related to the Company's Manufactured Gas Plant ("MGP") legacy operations. Amounts recorded in the 2013 MGPDA will be transferred to the 2014 MGPDA. Costs charged to the

account could include, but are not limited to:

- Responding to all enquiries, demands and court actions relating to former MGP sites;
- All oral and written communications with existing and former third party liability and property insurers of the Company;
- Conducting all necessary historical research and reviews to facilitate the Company's responses to all enquiries, demands, court actions and communications with claimants, third parties and insurers;
- Engaging appropriate experts (for example, environmental, insurance archivists, engineers, etc.) for the purposes of evaluating any alleged contamination that may have resulted from former MGP operations and providing advice regarding the appropriate steps to remediate/contain/monitor such contamination, if any;
- Engaging legal counsel to respond to all demands and court actions by claimants, and to take appropriate steps in relation to the Company's existing and former third party liability and property insurers; and
- Undertaking appropriate research into the regulatory treatment of costs resulting from former MGP operations in the United States.

47. The MGPDA would also be used to record any amounts which are payable to any claimant following settlement or trial, including any damages, interest, costs and disbursements and any recoveries from insurers or third parties.

48. Simple interest is to be calculated on the opening monthly balance of the MGPDA in each fiscal year using the Board approved EB-2006-0117 interest rate methodology. The balance of this account together with carrying charges will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Gas Distribution Access Rule Impact Deferral Account ("GDARIDA")

49. The purpose of the GDARIDA is to record all incremental unbudgeted capital and operating impacts associated with the development, implementation, and operation of the Gas Distribution Access Rule and any ongoing amendments to the rule. Such impacts would include, but not be limited to, market restructuring oriented customer education and communication programs, legal or expert advice required, operating costs or revenue changes in relation to the establishment of contractual agreements and developing revised business processes and related computer hardware and software required to meet the requirements of the GDAR.

50. The GDARIDA was formerly approved as and known as the Gas Distribution Access Rule Cost Deferral Account, ("GDARCDA"). The Company is proposing a slight alteration of the scope of the account, which is to include all impacts which could arise as a result of ongoing changes in GDAR. As an example, in 2011, the Board approved an amendment to GDAR which prospectively required a change in the manner in which late payment penalties ("LPP") and related revenue was applied (exempting the application of LPPs in certain situations where they had previously applied). This amendment meant that the manner and level of which LPP revenue was embedded as an offset to EGD's rates at the outset of its first Generation IR term was too high relative to the level of LPP revenue which would be recovered in 2012 from late paying customers. To address such situations in future years, without knowing what further amendments to GDAR might come about between 2014 and 2018, EGD is proposing that the account is more properly scoped to include all impacts of any amendments to GDAR as opposed to simply including cost related impacts.

51. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of the account along with interest charges will be disposed of after review and as designated by the Board.

2014-2018 Ontario Hearing Costs Variance Account ("2014-2018 OHCVA")

52. The purpose of the OHCVA for each of these years is to record the variance between actual rate proceeding and other proceedings, activities and related expenses and the budgeted level of $8 million for 2014, $6 million for 2015, and $6 million for 2016 contained within this 2014-2018 rate application.

53. Simple interest will be calculated on the opening monthly balance of the account using the Board approved EB-2006-0117 interest rate methodology. The balance of the account along with interest charges will be disposed of after review and as designated by the Board.

2014-2018 Electric Program Earnings Sharing Deferral Account ("2014-2018 EPESDA")

54. The Company will continue the EPESDA for 2014 to 2018 under the same parameters as established and approved within the 2013 EB-2011-0354 proceeding. The account will be used to track and account for the ratepayer's 50% share of net revenue generated by DSM services provided under contract to the OPA and electric LDCs. Net revenue is determined, using fully allocated costs, as was determined is the DSM guidelines proceeding EB-2008-0346.

55. Simple interest will be calculated on the opening monthly balance of the account using the Board approved EB-2006-0117 interest rate methodology. The balance of the account along with interest charges will be disposed of after review and as designated by the Board.

2014-2018 Open Bill Revenue Variance Account ("2014-2018 OBRVA")

56. The purpose of the OBRVA is to track and record the ratepayer share of net revenue for Open Bill Services. The account as currently approved for 2013, allows for net annual revenue amounts in excess of $5.389 million to be shared 50/50 with ratepayers, and allows for a credit to Enbridge in the event that net annual revenues are less than $4.889 million, equal to the shortfall between actual net revenues and $4.889 million. Within the Open Bill Access Services EB-2013-0099 application and proceeding EGD is proposing to update the terms of the OBRVA. The proposed updated terms are that in the event that net revenues fall below $4.889 million in any one Enbridge fiscal year, then in the remaining fiscal years up to and including the final year of Enbridge's 2nd Generation IR term (2014-2018), Enbridge will be entitled to a credit equal to the total shortfall between actual net revenues and $5.389 million. The net revenue amounts will be determined in accordance with the EB-2009-0043 Board Approved Open Bill Access Settlement Proposal dated October 15, 2009, with updated Fees and Costs as determined in the EB-2013-0099 proceeding.

57. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Ex-Franchise Third Party Billing Services DA ("2014-2018 EFTPBSDA")

58. The purpose of the EFTPBSDA is to record and track the ratepayer share of revenues generated from third party billing services provided to ex-franchise parties net of incremental costs associated with the services. The net revenue is to be shared on a 50/50 basis with ratepayers. The net revenue amounts will be determined in accordance with the EB-2009-0043 Board Approved Open Bill Access Settlement Proposal dated October 15, 2009, with updated Fees and Costs as determined in the EB-2013-0099 proceeding.

59. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

2014-2018 Constant Dollar Net Salvage Adjustment Deferral Account ("2014-2018 CDNSADA")

60. The CDNSADA is being proposed by the Company in conjunction with the Depreciation Study review and proposal being made in this case. The depreciation study filed at Exhibit D2, Tab 1, Schedule 1 proposes implementing the constant Dollar Net Salvage method to calculate site restoration cost requirements. As explained at Exhibit D1, Tab 5, Schedule1 this results in a reduction to the net salvage value or depreciation reserve liability recorded on EGD's books of $259.8 million.

61. EGD is proposing this deferral account as the means of recording and clearing annual credit amounts to ratepayers over each of fiscal years 2014 through 2018. The proposal is to clear the following annual amounts, 2014 - $68.1 million, 2015 -

$63.1 million, 2016 - $58.1 million, 2017 - $53.1 million and 2018 - $17.4 million. This proposed pattern of clearance was determined in conjunction with the Company's expert, Gannett Fleming. In addition, EGD also considered the impact of the revenue requirements, coming out of the five year 2014-2018 period, and determined that a greater portion of the balance being cleared in that time frame could help mitigate the bill impacts, to a degree, arising from capital requirements of EGD during the period.

62. Additionally, for each year, EGD will determine the annual amount actually cleared to ratepayers versus the amount the Company proposed were to be cleared. The difference between those amounts will be included within a future year CDNSADA as a debit or credit. The result will be that the projected remaining un-cleared amount would be adjusted annually to ensure that the total amount cleared through the use of this account, upon true up post 2018, would equal the proposed clearance of $259.8 million.

63. The $259.8 million is currently recorded in a liability account which for utility rate base determination purposes is accounted for as an offset against property, plant and equipment. EGD proposes to transfer the total amount to this deferral account and clear amounts on a monthly basis beginning in January of 2014 through December of 2018, through a rate rider as shown and explained in evidence at Exhibit H1, Tab 1, Schedule . EGD proposes and has calculated rate base for the 2014 through 2016, in a manner which debits the deferral account each and every month by the amount to be cleared out of the $259.8 million which results in a required and equal monthly value increase to rate base during these years. This treatment will continue for rate base determinations in 2017 and 2018.

64. Due to the nature of the proposed treatment of this deferral account, which is that the balance in the account will serve as an offset to rate base while it is being cleared through the proposed rate rider to be in effect for 2014 through 2018, EGD proposes that no interest is required to be calculated for this account.

2014-2018 Transition Impact of Accounting Changes DA ("2014-2018 TIACDA")

65. The TIACDA is required to track and record the remaining un-cleared balances associated with Other Post Employment Benefit "("OPEB") amounts in respect of which the Board approved recovery within the EB-2011-0354 proceeding. In that proceeding, the Board approved recovery of an original estimated amount of $90 million evenly at an amount of $4.5 million over 20 years commencing in 2013. The final estimate which EGD recorded in the TIACDA at the end of 2012 was $88.7 million, which EGD will clear evenly over 20 years commencing in 2013. EGD is requesting clearance of $4.4 million in 2013 within its ESM and deferral and variance account review proceeding EB-2013-0046. The same amount will be cleared in subsequent years, including 2014 to 2018.

66. Interest is not applicable to the balance of this account.

2014-2018 Post-Retirement True-Up VA ("2014-2018 PTUVA")

67. The purpose of the PTUVA is be to record the differences between the forecast pension and other post-employment benefit expenses ("OPEBs") of $37.3 million for 2014, $33.8 million for 2015, and $30.9 million for 2016 included within each of those year's forecast Allowed Revenue amount. The annual estimate details and support are found in evidence in Mercer reports filed as Appendices to Exhibit D1, Tab 16, Schedule 1.

68. EGD proposes that, as part of the annual rate adjustment proceedings for 2015 and 2016, it will provide updated forecasts of pension and OPEBs costs for the subject year, which forecast will replace the original forecast within the Allowed Revenue amount for the subject year. The Company believes that this should mitigate the amount of any annual variances.

69. EGD proposes that the 2014 to 2018 PTUVA will operate in a manner that is similar to the manner in which the 2013 PTUVA operates. That is, any variances between forecast and actual expenses will be recorded and cleared from the 2014-2018 PTUVA subject to the condition that any amount in excess of $5 million (credit or debit) will be transferred into a next year's account, so that large variances can be cleared over time. Under this approach, the maximum amount that will be cleared from each annual PTUVA would be $5 million and any remaining amount from each year's PTUVAs would be transferred to a next year PTUVA for future clearance.

70. Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

DSM Related Variance Accounts (3)

2014-2018 Demand Side Management Variance Account ("2014-2018 DSMVA"),
2014-2018 Lost Revenue Adjustment Mechanism Variance Account ("2014-2018 LRAM"),
2014-2018 Demand Side Management Incentive Deferral Account ("2014-2018 DSMIDA")

71. The Company currently has three DSM related deferral and variance accounts for 2014 as approved by the Board in EGD's 2013, EB-2011-0354 rate proceeding and as described and scoped within the Demand Side Management Guidelines for Natural Gas Utilities EB-2008-0346, EB-2011-0295 and EB-2012-0394 DSM related proceedings. The Company proposes to establish that same group of DSM related deferral and variance accounts for 2015 through 2018 but has not yet received direction from the Board in that regard. Additionally, EGD is proposing that any further variances in DSM spending and results, beyond those included within the 2014-2018 forecasts, which occur as a result of Board decisions in any other proceeding or docket be included within each of the 2014-2018 DSM variance accounts. EGD has included the approved or projected level of DSM spending in each of its 2014-2018 forecasts of costs.

72. Simple interest is to be calculated on the opening monthly balance of these accounts using the Board Approved EB-2006-0117 interest rate methodology. The balances in these accounts, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

<u>2015-2018 Greater Toronto Area Project Variance Account ("2015-2018 GTAPVA")</u>

73. The purpose of this variance account is to track and record the variance which may occur annually between the forecast GTA related Allowed Revenue embedded within EGD's overall Allowed Revenue amounts in this rate application and the eventual actual GTA related Allowed Revenue amounts which occur in each of 2015 through 2018, once the actual impacts of the project are known. Details of the planned GTA project and the proposed variance account are found in evidence at Exhibit D1, Tab 8, Schedule 2.

74. Simple interest is to be calculated on the opening monthly balance of these accounts using the Board Approved EB-2006-0117 interest rate methodology. The balances in these accounts, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

Criteria for Establishment of Deferral and Variance Accounts

75. The criteria adopted by the Company in determining when to come forward for a rate order or an accounting order request for a deferral or variance account includes the following considerations:
    - the materiality of the amount at risk (revenue or expense);
    - protection of the ratepayer or the shareholder from benefitting at the expense of the other party related to a variance in the forecast amount;
    - the level of uncertainty associated with a forecast of the amount at risk; and
    - the aspect of control - are the underlying circumstances beyond the Company's ability to control.

UPDATED DEFERRAL ACCOUNT EVIDENCE

Unabsorbed Demand Costs Deferral Account (UDCDA) and DDCTDA

76. As described in its updated gas cost evidence at Exhibit D1, Tab 2, Schedule 1, the Company intends to contract for incremental one year long haul FT capacity on TCPL to meet its Peak Day requirements in 2014. A consequence of contracting for incremental long haul capacity is the possibility of Unabsorbed Demand Charges ("UDC").

77. To the extent that the Company is unable to utilize 100% of its contracted long haul TCPL FT capacity to meet customer demand and/or fill storage then the associated UDC costs will be debited in the UDCDA deferral account (excluding the amounts that will be captured in the DDCTDA – please refer to the Updated Exhibit D1, Tab 2, Schedule 1). Enbridge's forecast of UDC costs for 2014, excluding amounts that may be recorded within the 2014 DDCTDA, is $62.8 million. That is the maximum amount that may be recorded within the 2014 UDCDA.

78. Enbridge will use its best efforts to mitigate the UDC that would otherwise be recorded in the 2014 DDCTDA and the 2014 UDCDA. For example, Enbridge will use transportation capacity to fill storage (by displacing discretionary purchases of gas at Dawn) where that is reasonably possible, to reduce the total amount of unutilized capacity. Where there is unutilized capacity, Enbridge will make best efforts to assign that capacity to third parties, to mitigate the UDC costs. The outcome of Enbridge's best efforts to mitigate UDC will be reflected in the amounts recorded in the 2014 DDCTDA and the 2014 UDCDA.

79. Simple interest is to be calculated on the opening balance of this account at the approved short-term debt interest rate.

Witnesses: K. Culbert
D. Small

80. In order to keep the Board and interested parties informed as to the total unutilized transportation costs the Company intends to provide the actual balance in the UDCDA and DDCTDA and the applicable interest through the QRAM process.

81. The Company proposes that as part of the April 2015 QRAM (or subsequent QRAM depending upon the clearance of the 2014 ESM) to clear the 2014 balance in the UDCDA and DDCTDA either through a onetime charge or over the subsequent 12 months which is consistent with the clearance of PGVA balances.

Witnesses: K. Culbert
D. Small

RELOCATION MAINS VARIANCE ACCOUNT ("RLMVA")

82. As described in its Updated Rate Adjustment Process evidence filed at Exhibit A2, Tab 3, Schedule 1, the Company is now proposing to eliminate Phase I of the 2017 Rate Adjustment Application (through which capital spending requirements for 2017 and 2018 were to be set), and instead plans to set Allowed Revenue for all years of the IR term in this proceeding.

83. As part of the updated Customized IR Plan, the Company is proposing this variance account for 2017 and 2018 to address the unpredictable capital costs in relation to relocation mains requirements beyond fiscal 2016.

84. The evidence explaining the proposed manner in which the account will operate is filed in evidence at Exhibit D1, Tab 8, Schedule 6.

Witnesses: K. Culbert
D. Small

REPLACEMENT MAINS VARIANCE ACCOUNT ("RPMVA")

85. As described in its Updated Rate Adjustment Process evidence filed at Exhibit A2, Tab 3, Schedule 1, the Company is now proposing to eliminate Phase I of the 2017 Rate Adjustment Application (through which capital spending requirements for 2017 and 2018 were to be set), and instead plans to set Allowed Revenue for all years of the IR term in this proceeding.

86. As part of the updated Customized IR Plan, the Company is proposing this variance account for 2017 and 2018 to address the unpredictable costs in relation to replacement mains requirements in fiscal 2017 and 2018 that are identified through pipeline inspection activities.

87. The evidence explaining the proposed manner in which the account would operate is filed in evidence at Exhibit D1, Tab 8, Schedule 6.

Witnesses: K. Culbert
D. Small