Examination-in-Chief
Capital Overview Panel

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The capital budget requirements for 2014 to 2018 are projected to be significantly higher than what has been historically included in rates. There are 2 primary reasons for this. The first is a fundamental technical regulatory shift that requires the Company to assess for potential failures of **all** operating assets and to proactively mitigate before these failures occur. The second reason is the need for 3 major projects during the next Incentive Regulation term. These include the GTA Project, the Work and Asset Management Project and the Ottawa Reinforcement Project. Recognizing that this overall capital plan represents unprecedented capital spending for Enbridge, the company undertook a thorough review process with the goal of arriving at the lowest prudent capital plan for the next regulatory term. The capital plan included in this application includes significant risks for the Company and embedded productivity improvements. Completing the scope of work defined within the plan while remaining within the constraints of the capital budget will be a challenge.

The 2012 version of the Ontario pipeline regulations now require pipeline operators to introduce and maintain a pipeline integrity management program that covers 100 % of the operating assets. The last time this type of regulatory change occurred was over a decade ago. The Ontario pipeline regulations introduced at that time, required pipeline operators to proactively assess for potential failures of pipeline systems operating above 30 % of their Specified Minimum Yield Strength and to mitigate these potential failures. A new pipeline integrity management program was introduced to meet this requirement which included new and sophisticated condition monitoring programs and a new risk model. This program required significant annual capital investments and sustained resources. The 2002 regulations and the resulting integrity program covered less than 1 % of the Company's operating assets. This application includes the capital required to meet the expectations of the 2012 regulations and integrity management programs for 100 % of the Company's operating assets.

The need for an expanded integrity management program is given in the Technical Standards and Safety Authorities Oil and Gas Pipeline Systems Code Adoption Document, FS-196-12, Section 2, paragraph 15 , and reads,

> "Operating companies shall establish effective procedures for managing the integrity of pipeline systems with a MOP less than 30% of SMYS (Distribution Systems) so that they

> are suitable for continued service, in accordance with the applicable requirements of clause 3.2 of CSA Z662-11."

The Canadian Standards Association Oil and Gas Pipeline Code, CSA Z662-11, section 3.2 provides the requirements for an integrity management program. It states that managing the integrity of the pipeline system must include ***monitoring for conditions that can lead to failures, mitigating such conditions and managing the integrity related data.*** The system integrity and reliability programs and the related capital included in this application are intended to meet the above code and regulation requirements.

The extraordinary capital requirements for the GTA Project, the Ottawa Reinforcement Project and the Work and Asset Management system replacement project are key drivers to the extraordinary levels of capital spending over the regulatory term. These projects collectively represent unprecedented capital requirements of approximately $ 758 million. These projects alone are more than any one year of the core capital requirements.

In addition to the pipeline integrity and major projects capital requirements, the overall capital requested in this application must also meet the needs of the increased externally initiated relocation requirements, continued customer growth and the other base capital requirements. This includes the capital necessary to sustain the ongoing operations in the areas of facilities, fleet and information technology. When combining all of the above capital requirements it became clear, early the planning process, that the next 5 years would not be typical. A thorough review would be necessary to ensure that the Company developed an overall plan that would be at the lowest prudent capital requirement possible which included immediate and sustained productivity. The Company can assure this panel that each project was reviewed and assessed for need in the Company's efforts to arrive at the lowest cost prudent plan.

Enbridge's capital request in this proceeding represents the outcome of a rigorous examination of capital requirements over the 2014 – 2018 period. This process considered a number of factors including the starting point of the 2013 Board approved capital. These factors are provided in some detail in the Company's pre-filed evidence and include the areas already mentioned, balanced with the overall impact to rate payers.

The goal of this process was to arrive at the lowest possible capital requirement while prudently meeting the varied needs of our customers, ongoing operations and the operating system's safety and reliably requirements. Starting with a "bottom-up" capital requirement, as defined by the various capital budget owners in the Company and including input from the Asset Plan process, a first version the multi-year capital need was created. This initial iteration yielded annual capital requirements considerably greater than the 2013 Board approved capital amount. A senior management committee was established to review the capital plan and tasked with arriving at a final version that met the goal mentioned earlier. Over a period of several months the capital process completed 6 reviews to arrive at the final version included in this application.

The review process considered a number of criteria in an effort to reach a reduced but viable capital plan. These included the overall priority of the projects, the probability of the requirement, reduced pace for longer term programs, considerations for alternatives to the projects a proposed (including further study before proceeding), and finally the economic implications of the projects including the potential for enhanced productivity. Over these review cycles, approximately $180 million of capital costs were removed from the projects submitted.

The results of the review process are provided in the evidence for this application. The Board can see that the Company's core capital has been set between $447 million and $ 442 million with 2017 and 2018 now been held at $442 million. Looking back at the actual core capital spends for 2012 and 2013 we can see that these amounts are consistent with the forecasted amounts at $438 and $442 million respectively.

Enbridge will have to incorporate productivity enhancements into its operations to allow the Company to complete the identified scope and scale of capital projects within the constraints of the proposed capital plan. The Company will need to find efficiencies in addition to constantly prioritizing the overall capital spend. These productivity efforts are embedded in numerous areas of the plan:

- In the area of customer attachments, the company is forecasting to hold our capital costs per customer to pre-2012 levels throughout the forecast period, representing a significant and immediate productivity challenge for Enbridge. This represents at least $ 30 million for the 2014 to 2016 period.

- The Company has identified $164 million in uncertain or "variable" capital costs over the 2014-2016 period that we have not been included in our capital budget. This represents 12% of the Company's core capital budget that we expect to have to cover to some degree over the forecast period – and these are just the items that we know about at this time. There will be other capital challenges that arise through the normal course of business that we have not anticipated, and many of these costs will have to be managed through a combination of productivity improvements and project prioritization over the five-year IR term.

- The Company's commitment to keep its departmental labour costs relatively flat over the forecast period demonstrates a productivity commitment in the order of $16 million, relative to an inflationary expectation of 2% per year. Despite the higher overall capital demands of the business, the Company will manage departmental labour costs in order to monetize this productivity opportunity and help offset other capital pressures.

- The Company's commitment to hold its 2017 and 2018 capital spend to the 2016 level demonstrates our commitment to find productivity opportunities in those years. In the context of continued growth of customer additions of about 40,000 per year and an expected inflation rate of about 2% per year, productivity enhancements will have to absorb any shortfall of the 2016 capital budget during the latter two years of the IR term. For just this growth component, this represent at least $ 20 million.

- The productivity imperative will affect project-specific costs as well, throughout the IR term, as Company management raises the bar for EGD employees to plan and complete work in a more efficient fashion. The Company will seek efficiencies related to opportunities identified within the scopes specific project and combinations of projects. For example, in the integrity area, the insertion of excess flow valves into service lines could potentially be accomplished at the same time as meter and regulator replacements.

Finally, it is clear that the Company's capital request in this application represents a departure from past capital plans. The new and emerging demands for capital projects, the extraordinary major projects and the continued growth of the natural gas system underscore the challenge implicit in managing to this capital budget. Despite this challenge, the Company believes that the capital plan, as presented, is a prudent balance that meets the needs of customers, ongoing operations and ensure that we continue to store, transmit and distribution natural gas safely and reliably.