OUTLINE OF CONSTANT $ NET SALVAGE / SRC PROPOSAL

At Exhibit D1, Tab 5, Schedule 1, Enbridge explains its proposal to adopt a different approach to valuing the Net Salvage Percentages or Site Restoration Costs (SRC) that are collected as part of depreciation rates as a reserve for future obligations. The proposed approach, called the Constant Dollar Net Salvage (CDNS) methodology, indicates that the reserve required by Enbridge is smaller than has currently been collected and also indicates that lower depreciation rates are required on a go-forward basis.

As part of its proposal to begin using a CDNS methodology for the treatment of SRC included within depreciation rates, Enbridge will accommodate the change by both adjusting depreciation rates going forward and through accommodating a return of a $259.8 million amount to ratepayers by way of a rate rider (Exhibit D1-5-1). The cash amount to be returned itself is not resident within the Allowed Revenues included for 2014-2018 under the Customized IR Plan. However, there are effects of the proposed cash rate rider treatment within the determination of Allowed Revenues. Under the headings below, further explanation is provided of the rate rider effect itself, and the effects of rate rider and depreciation rate changes within the determination of Allowed Revenues.

<u>Rate Rider Proposed Amounts - Not Specifically Resident in Allowed Revenue</u>

As at December 31, 2010, the accumulated depreciation relating to SRC recorded on Enbridge's financial statements was over $700 million. Gannett Fleming has recommended that Enbridge use a CDNS approach in the development of net salvage percentages going forward. Gannett Fleming has concluded that, using the CDNS approach, the appropriate accumulated depreciation amount for net salvage is $292.8 million less than the current amount.

It is proposed that depreciation rates be reduced going forward (discussed below) along with an appropriately paced cash refund being made to ratepayers over an immediate next five year period. The reduced depreciation rates for the future include $6.6 million per year of the proposed adjustment, or $33 million lower depreciation in total over the immediate next five year period. This leaves $259.8 million, which, having given consideration to bill impacts, Enbridge proposes to return by way of a rate rider, in the following manner:

2014 ($Millions)	2015 ($Millions)	2016 ($Millions)	2017 ($Millions)	2018 ($Millions)	Total ($Millions)
(68.1)	(63.1)	(58.1)	(53.1)	(17.4)	(259.8)

Allowed Revenue Effects of the Separate Rate Rider Amounts

Although the rate rider return does not specifically show up within the total amounts of Allowed Revenue, it has two effects within the calculation of Allowed Revenue. First as the amounts are actually returned to rate payers, required entries within EGD's accounting records will relieve or reduce the amount of accumulated depreciation in the accounting records which will increase the net book value of EGD's property, plant and equipment and in turn increase cost of capital carrying cost within Allowed Revenue determinations. Second, the amounts being returned are tax deductible, which serves to reduce taxes and the gross Allowed Revenue determinations.

Allowed Revenue Effects of the Proposed Changes in Future Depreciation Rates

Additionally, Enbridge's proposal affects Allowed Revenue in a third way, because, as already stated, the proposal is to adjust depreciation rates on a going forward basis.

Summary of Allowed Revenue Effects of the SRC Proposal

The three effects of the SRC proposal that are part of the Allowed Revenue calculation are summarized under the following sub-headings:

(i) Cost of Capital Effect of Return of Cash

The return of cash to ratepayers by way of a rate rider reduces accumulated depreciation relating to SRC and therefore increases net rate base. The cost of capital on this increased rate base is included in the Allowed Revenues that have been calculated for Enbridge's Customized IR Plan. The impact of these costs on Allowed Revenues is as follows:

2014 ($Millions)	2015 ($Millions)	2016 ($Millions)	2017 ($Millions)	2018 ($Millions)	Total ($Millions)
1.4	5.4	9.4	14.4	16.8	47.4

(ii) Tax Effect of Return of Cash

The return of cash to ratepayers by way of a rate rider is a tax deductible item which, similar to depreciation changes relative to existing rates, is required to be grossed up to a pre-tax basis for rate making purposes. The impact of these tax effects on Allowed Revenues is as follows:

2014 ($Millions)	2015 ($Millions)	2016 ($Millions)	2017 ($Millions)	2018 ($Millions)	Total ($Millions)
(23.7)	(21.0)	(18.6)	(16.6)	(2.8)	(82.7)

(iii) Effect of Depreciation Rates Changes

Enbridge proposes to reduce the net salvage component resident in depreciation rates for approximately nine asset categories as shown in Exhibit D1-T5-S2-p.15 as a result of the proposed use of the CDNS methodology by the depreciation study consultant Gannett Fleming. The impact of the depreciation rate changes on Allowed Revenues over the five year term of the Customized IR Plan is as follows:

2014 ($Millions)	2015 ($Millions)	2016 ($Millions)	2017 ($Millions)	2018 ($Millions)	Total ($Millions)
(39.6)	(40.3)	(43.0)	(42.0)	(41.2)	(206.1)

Overall Effects of Enbridge's SRC Proposal

The effects of Enbridge's SRC proposal, both outside and within Allowed Revenue, are presented in the table below:

		2014	2015	2016	2017	2018	Total
Outside Allowed Revenue:							
Rate Rider	($millions)	(68.1)	(63.1)	(58.1)	(53.1)	(17.4)	(259.8)
Within Allowed Revenue:							
Effect of Cash Return	($millions)	(22.3)	(15.6)	(9.2)	(2.2)	14.0	(35.3)
Effect of Depreciation Rate Changes	($millions)	(39.6)	(40.3)	(43.0)	(42.0)	(41.2)	(206.1)
Total Constant $ / SRC		(61.9)	(55.9)	(52.2)	(44.2)	(27.2)	(241.4)

The Outside Allowed Revenue amounts set out above, and the totals of the Within Allowed Revenue amounts, can be seen in Lines 4 and 5 of the table at page 2 of Exhibit TCU2.9.