

COST OF CAPITAL SUMMARY

1. This evidence, in the following tables 1 through 3, shows a summary of Enbridge's cost of capital for each of the EB-2012-0459 2014 Board Approved, the EB-2012-0459 2015 placeholder, and the 2015 updated forecasts.

TABLE 1  
COST OF CAPITAL SUMMARY

Line No.	EB-2012-0459 2014 Approved (excluding CIS)				
	Principal (\$Millions)	Component %	Cost Rate %	Return %	Return (\$Millions)
1. Long-term debt	2,596.9	59.51%	5.57%	3.315%	144.6
2. Short-term debt	95.8	2.20%	1.78%	0.039%	1.7
3. Preferred shares	100.0	2.29%	2.96%	0.068%	3.0
4. Common Equity	1,570.9	36.00%	9.36%	3.370%	147.0
5. Total	4,363.6	100.00%		6.792%	296.3

TABLE 2  
COST OF CAPITAL SUMMARY

Line No.	EB-2012-0459 2015 Placeholder (excluding CIS)				
	Principal (\$Millions)	Component %	Cost Rate %	Return %	Return (\$Millions)
1. Long-term debt	2,928.7	60.99%	5.39%	3.287%	157.9
2. Short-term debt	44.5	0.93%	2.75%	0.026%	1.2
3. Preferred shares	100.0	2.08%	3.68%	0.077%	3.7
4. Common Equity	1,728.7	36.00%	9.72%	3.499%	168.0
5. Total	4,801.9	100.00%		6.889%	330.8

Witness: R. Small

TABLE 3  
COST OF CAPITAL SUMMARY

Line No.	2015 Test Year (excluding CIS)				
	Principal (\$Millions)	Component %	Cost Rate %	Return %	Return (\$Millions)
1. Long-term debt	3,272.7	66.63%	4.88%	3.252%	159.7
2. Short-term debt	(229.4)	-4.67%	1.52%	-0.071%	(3.5)
3. Preferred shares	100.0	2.04%	2.60%	0.053%	2.6
4. Common Equity	1,768.1	36.00%	9.30%	3.348%	164.4
5. Total	<u>4,911.4</u>	<u>100.00%</u>		<u>6.582%</u>	<u>323.2</u>

- As reflected in Table 3 versus Table 2 above, the 2015 forecast capital structure has been updated in accordance with the Board's EB-2012-0459 Decision and Rate Order requiring the return on equity to be re-set each year using the Board approved parameters, and that the cost of debt be updated annually using the most current information, including information on actual amounts and rates associated with debt issued in the prior year.
- Details of the updated 2015 forecast financing costs, including forecast debt issuances and cost rates are included in Exhibit E1, Tab 3, Schedule 1. Evidence with respect to the updated 2015 return on equity included within the 2015 updated allowed revenue and revenue deficiency calculation is found in evidence at Exhibit E1, Tab 2, Schedule 1.
- Further details of each of the elements of the 2015 updated forecast capital structure, and the determination of the overall cost of capital and resulting deficiency in earnings are found at Exhibits E2, Tab 1, Schedules 1 through 5.

Witness: R. Small

RETURN ON EQUITY CALCULATION FOR 2015

1. The purpose of this evidence is to provide the return on equity (“ROE”) to be used as part of the cost of capital determination for the proposed 2015 Test Year Allowed Revenue, as well as for the calculation of Earnings Sharing, if any, for 2015. The Company has calculated the ROE using the methodology provided in the Report of the Board on the Cost of Capital for Ontario’s Regulated Utilities (Cost of Capital Report) issued December 2009. The following illustrates how the ROE is calculated in accordance with the Cost of Capital Report:

$$ROE_t = 9.75\% + [0.5 \times (LCBF_t - 4.25\%)] + [0.5 \times (UBS_t - 1.415\%)]$$

Where:

- ROE is set in the month that is three months in advance of the effective date for rate implementation.
  - LCBF is the Long Canada Bond Forecast determined as the average 3-month out and 1-year out yields of the 10-year Government of Canada (GoC) Bond Yield Forecasts (as sourced from Consensus Economics) plus the actual spread of the 30-year over the 10-year GoC (as published by the Bank of Canada) in the month of analysis.
  - UBS is the A-rated Utility Bond Yield Spread between the Canada 30-year Utility bond index yield (as reported by Bloomberg L.P.) and the 30-year GoC (as published by the Bank of Canada) in the month of analysis.
  - 9.75% is the Base ROE,
  - 4.25% is the Base LCFB, and
  - 1.415% is the Base UBS.
2. In its EB-2012-0459 Decision with Reasons issued July 17, 2014, the Board determined that “the Cost of Capital will be re-set each year using the Board’s established approach” (p.10). The Board further concluded that “the allowed ROE for purposes of calculating the ESM should be the ROE used to determine the allowed revenue requirement” (p.14) and that “[T]he preferred approach is to update the return on equity each year during the annual rate adjustment proceeding using

the Board-approved parameters. The Board publishes these figures in November which should provide Enbridge with adequate time to incorporate them into the final rates” (p.55).

3. The Board issued its Cost of Capital Parameter Updates for 2015 Applications (the Update) on November 20, 2014 where the ROE effective January 1, 2015 is determined to be 9.30%.
4. The following is the derivation of the ROE of 9.30% for 2015 in accordance with the Update. The LCBF of 3.38% is derived at Step 3 of the Update and the UBS of 1.386% is determined at Step 1 so that:

$$\begin{aligned} \text{ROE}_{2015} &= 9.75\% + [0.5 \times (\text{LCBF}_{2015} - 4.25\%)] + [0.5 \times (\text{UBS}_{2015} - 1.415\%)] \\ \text{ROE}_{2015} &= 9.75\% + [0.5 \times (3.38\% - 4.25\%)] + [0.5 \times (1.386\% - 1.415\%)] \\ \text{ROE}_{2015} &= 9.30\% \end{aligned}$$

2015 COST OF DEBT

1. As set out in the EB-2012-0459 Decision and Rate Order (pages 2 and 3), Enbridge's cost of debt is to be updated each year from 2015 to 2018 using the most current information available, including information about the actual amounts and rates associated with any debt issued in the prior year.
  
2. Enbridge's cost of debt for 2015 is set out within Table 1, and explained below.

TABLE 1  
COST OF DEBT SUMMARY

Line No.	2015 Test Year (excluding CIS)				
	Principal (\$Millions)	Component %	Cost Rate %	Return %	Return (\$Millions)
1. Long-term debt	3,272.7	66.63%	4.88%	3.252%	159.7
2. Short-term debt	(229.4)	-4.67%	1.52%	-0.071%	(3.5)
3. Preferred shares	100.0	2.04%	2.60%	0.053%	2.6
4. Total	3,143.3	64.00%		3.234%	158.8

3. As required by the Board's EB-2012-0459 Decision and Rate Order, Enbridge has updated its cost of debt by taking account of its actual level and cost of debt, which has been updated to include 2014 actual debt issuances, and also including the impact of the forecast debt issuances for 2015.
  
4. Enbridge's 2014 debt issuances were somewhat different from what had been forecast within the EB-2012-0459 proceeding, largely because circumstances evolved from the time that Enbridge prepared its evidence in that proceeding for filing in July 2013. The actual debt issuances, which were higher than forecast,

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took account of the actual pattern of Enbridge's capital and cash and/or operating requirements.

5. For 2015, Enbridge plans to issue \$600 million of debt, the details of which can be found in Table 2 below. The Company does not have any debt maturities in 2015.

Table 2

Item No.	Amount (\$MM)	Issue Date	Term (Yrs)	Canada Yield	Corporate Spread	Coupon	Amortized Issue Costs	Effective Cost
1	300	15-Sep-15	10	2.91%	1.10%	4.01%	0.05%	4.06%
2	300	15-Sep-15	30	3.18%	1.40%	4.58%	0.02%	4.60%

6. Details of all elements of Enbridge's term debt during the 2015 Test Year are set out within Exhibit E2, Tab 1, Schedule 2.
7. The calculation of the average cost rate for Enbridge's term debt, which equates to 4.88%, is set out at Exhibit E2, Tab 1, Schedule 1, page 2.
8. There are no preferred share issuances planned for 2015. Enbridge continues to have \$100 million of preference shares, with a 2015 cost rate of 2.60%.
9. As explained in Exhibit B1, Tab 1, Schedule 1, Enbridge's rate base for 2015, exclusive of CIS (which has a different cost of capital, in accordance with the EB-2011-0226 Settlement Agreement) is \$4,911.4 million. Under Enbridge's capital structure, which includes a 64% weighting of debt and preferred shares, this means that Enbridge's level of debt for ratemaking purposes in 2015 is \$3,143.3 million.

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10. The total of Enbridge's term debt and preferred shares outstanding is \$3,372.7 million. This exceeds the Company's level of debt for ratemaking purposes by \$229.4 million. The adjustment to be made to bring the total debt being held for ratemaking purposes to the appropriate level has been effected by reflecting negative short term debt of that amount. This is seen in Exhibit E2, Tab 1, Schedule 1, page 1.
  
11. In total, Enbridge's cost of debt (exclusive of CIS/CC) to be included in 2015 Allowed Revenue is \$158.8 million.

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COST OF CAPITAL  
2015 UPDATED FORECAST

Line No.	Col. 1	Col. 2	Col. 3	Col. 4	
	Principal Excl. CC/CIS (\$Millions)	Component %	Cost Rate %	Return Component %	
1.	Long and Medium-Term Debt	3,272.7	66.63	4.88	3.252
2.	Short-Term Debt	<u>(229.4)</u>	<u>(4.67)</u>	1.52	<u>(0.071)</u>
3.		3,043.3	61.96		3.181
4.	Preference Shares	100.0	2.04	2.60	0.053
5.	Common Equity	<u>1,768.1</u>	<u>36.00</u>	9.30	<u>3.348</u>
6.		<u>4,911.4</u>	<u>100.00</u>		<u>6.582</u>
7.	Rate Base	(\$Millions)			4,911.4
8.	Utility Income	(\$Millions)			290.9
9.	Indicated Rate of Return				5.923
10.	Deficiency in Rate of Return				(0.659)
11.	Net Deficiency	(\$Millions)			(32.4)
12.	Gross Deficiency	(\$Millions)	(other than CC - CIS)		(44.0)
13.	Customer Care/CIS Deficiency	(\$Millions)	(\$118.0 vs \$114.1)		(3.9)
14.	Total Gross Revenue Deficiency	(\$Millions)			(47.9)
15.	Revenue at Existing Rates	(\$Millions)			2,676.0
16.	Allowed Revenue	(\$Millions)			2,723.9
17.	Gross Revenue Deficiency	(\$Millions)			(47.9)
	<u>Common Equity</u>				
18.	Allowed Rate of Return				9.300
19.	Earnings on Common Equity				7.469
20.	Deficiency in Common Equity Return				(1.831)

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CALCULATION OF COST RATES  
 FOR CAPITAL STRUCTURE COMPONENTS  
2015 UPDATED FORECAST

Line No.	Col. 1	Col. 2	Col. 3
	Average of Monthly Averages		Carrying Cost
	(\$Millions)		(\$Millions)
<u>Long and Medium-Term Debt</u>			
1.	Debt Summary	3,256.1	158.9
2.	Unamortized Finance Costs	16.6	-
3.	(Profit)/Loss on Redemption	-	-
4.		<u>3,272.7</u>	<u>158.9</u>
5.	Calculated Cost Rate	<u>4.88%</u>	
<u>Short-Term Debt</u>			
6.	Calculated Cost Rate	<u>1.52%</u>	
<u>Preference Shares</u>			
7.	Preference Share Summary	100.0	2.6
8.	Unamortized Finance Costs	-	-
9.	(Profit)/Loss on Redemption	-	-
10.		<u>100.0</u>	<u>2.6</u>
11.	Calculated Cost Rate	<u>2.60%</u>	
<u>Common Equity</u>			
12.	Board Formula ROE	<u>9.30%</u>	

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SUMMARY STATEMENT OF PRINCIPAL  
 AND CARRYING COST OF  
 TERM DEBT  
2015 UPDATED FORECAST

Line No.	Coupon Rate	Maturity Date	Col. 1	Col. 2	Col. 3
			Average of Monthly Averages Principal	Effective Cost Rate	Carrying Cost
			(\$Millions)		(\$Millions)
Medium Term Notes					
1.	8.85%	October 2, 2025	20.0	8.970%	1.8
2.	7.60%	October 29, 2026	100.0	8.086%	8.1
3.	6.65%	November 3, 2027	100.0	6.711%	6.7
4.	6.10%	May 19, 2028	100.0	6.161%	6.2
5.	6.05%	July 5, 2023	100.0	6.383%	6.4
6.	6.90%	November 15, 2032	150.0	6.950%	10.4
7.	6.16%	December 16, 2033	150.0	6.180%	9.3
8.	5.21%	February 25, 2036	300.0	5.183%	15.5
9.	4.77%	December 17, 2021	175.0	5.310%	9.3
10.	5.16%	December 4, 2017	200.0	5.220%	10.4
11.	4.04%	November 23, 2020	200.0	5.209%	10.4
12.	4.95%	November 22, 2050	200.0	4.990%	10.0
13.	4.95%	November 22, 2050	100.0	4.731%	4.7
14.	4.04%	November 23, 2020	200.0	2.801%	5.6
15.	4.50%	November 23, 2043	200.0	4.198%	8.4
16.	1.85%	April 24, 2017	300.0	1.965%	5.9
17.	3.15%	August 22, 2024	215.0	3.237%	7.0
18.	4.00%	August 22, 2044	215.0	3.887%	8.4
19.	3.50%	September 15, 2025	37.9	3.551%	1.3
20.	4.40%	September 15, 2025	49.6	4.449%	2.2
21.	3.90%	September 15, 2045	37.9	3.920%	1.5
22.	5.10%	September 15, 2045	49.6	5.120%	2.5
23.			<u>3,200.0</u>		<u>152.0</u>
Long-Term Debentures					
24.	9.85%	December 2, 2024	<u>85.0</u>	9.910%	<u>8.4</u>
25.			<u>85.0</u>		<u>8.4</u>
26.	Removal of separately treated CIS 64% assumed debt of 2015 \$45.1M rate base value		<u>(28.9)</u>	5.350%	<u>(1.5)</u>
27.	Total Term Debt		<u><u>3,256.1</u></u>		<u><u>158.9</u></u>

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UNAMORTIZED DEBT DISCOUNT AND EXPENSE  
AVERAGE OF MONTHLY AVERAGES  
2015 UPDATED FORECAST

Line No.		Col. 1 Unamortized Debt Discount and Expense
		(\$Millions)
1.	January 1	(17.3)
2.	January 31	(17.3)
3.	February	(17.4)
4.	March	(17.4)
5.	April	(17.4)
6.	May	(17.5)
7.	June	(17.5)
8.	July	(17.5)
9.	August	(17.6)
10.	September	(14.3)
11.	October	(14.4)
12.	November	(14.4)
13.	December	(14.5)
14.	Average of Monthly Averages	<u>(16.6)</u>

PREFERENCE SHARES  
 SUMMARY STATEMENT OF PRINCIPAL  
 AND CARRYING COST  
2015 UPDATED FORECAST

Line No.	Coupon Rate	Maturity Date	Col. 1	Col. 2	Col. 3
			Average of Monthly Averages Principal	Effective Cost Rate	Carrying Cost
			(\$Millions)		(\$Millions)
Fixed/Floating Cumulative Redeemable Convertible \$25 Par Value					
1.	N/A	Group 3 Series D	<u>100.0</u>	2.60%	<u>2.6</u>
2.	Total		<u><u>100.0</u></u>		<u><u>2.6</u></u>

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UNAMORTIZED PREFERENCE SHARE ISSUE EXPENSE  
 AVERAGE OF MONTHLY AVERAGES  
2015 UPDATED FORECAST

Line No.	Col. 1 Unamortized Issue Expense
	(\$Millions)
1. January 1	-
2. January 31	-
3. February	-
4. March	-
5. April	-
6. May	-
7. June	-
8. July	-
9. August	-
10. September	-
11. October	-
12. November	-
13. December	-
14. Average of Monthly Averages	-