PROJECT COST AND ECONOMICS

Project Cost

1. The total cost for the proposed Hidden Valley Community Expansion project is estimated to be $3.3 million (as set out in Table 1 below), of which approximately $2.0 million is attributed to the Project (pipeline facilities for which the Company is seeking leave to construct via the current Application), and approximately $1.4 million is attributed to Ancillary Facilities for which the Company is not seeking leave to construct. /U /U

Table 1: Estimated Project Costs *($CAD)* /U

Item No.	Description	Pipeline Costs	Ancillary Costs
1.0	Material	17,345	46,049
2.0	Labour and Construction	1,092,429	1,141,339
3.0	Outside Services	517,653	24,670
4.0	Land, Permits, Approvals and Consultations	8,340	0
5.0	Contingency	176,129	112,520
6.0	Sub-Total	1,811,896	1,324,578
7.0	Interest During Construction	17,374	1,881
8.0	Direct Overheads	133,318	50,341
9.0	Total Project Costs	1,962,588	1,376,800

2. The Project cost estimate set out in Table 1 above includes a 10% contingency applied to all direct capital costs commensurate with the current design stage of the Project and related risks/uncertainties. This contingency amount has been calculated based on the risk profile of the Project and is consistent with contingency amounts calculated for other Enbridge Gas Phase 2 NGEP projects.

3. The cost estimate set out above differs from the amount estimated in the Company's original project proposal to the Government of Ontario (2019/2020) for funding under

Phase 2 of the NGEP by approximately $0.5 million (EB-2019-0255). This cost variance is attributed primarily to the completion of Project design and schedule. /U

Project Economics

4. As set out in Table 1 above, the total estimated cost of the proposed Hidden Valley Community Expansion Project is $3.3 million (including both pipeline and ancillary facilities). These costs include materials, construction and labour, external costs, contingencies and interest during construction ("IDC"). /U

5. An economic analysis has been completed in accordance with the OEB's recommendations in its E.B.O 188 Report of the Board on Natural Gas System Expansion ("E.B.O. 188"). A Discounted Cash Flow ("DCF") analysis for the Project is included at Attachment 2 to this Exhibit.

6. The DCF analysis for the Project has been prepared based on the Company's latest feasibility parameters (i.e., long-term debt rates, discount rates, tax rates, etc.), and includes a SES and funding to be obtained from Phase 2 of the Ontario Government's NGEP. Attachment 1 to this Exhibit shows the key inputs, parameters and assumptions used in completing the DCF analysis.

7. The Project time horizon is 40 years in accordance with E.B.O. 188 guidelines. The term of the SES is a fixed 40-year term as approved in EB-2019-0095.

NGEP Funding

8. On July 1, 2019, section 36.2 of the Act came into effect pursuant to the *Access to Natural Gas Act, 2018*, which establishes a framework for the funding of natural gas expansion projects by natural gas ratepayers. *Ontario Regulation 24/19, Expansion of Natural Gas Distribution Systems* ("Regulation") sets out projects that are eligible for

financial support subject to receiving any necessary OEB approvals, the mechanism by which funding is collected from ratepayers and distributed to the project proponents. The Regulation also requires that rate-regulated natural gas distributors charge each of their customers $1 per month (for each account that the customer has with the natural gas distributor) to provide funding for the eligible expansion projects. Schedule 2 of the Regulation establishes the Project as one to receive funding up to $1,899,859.

9. The DCF analysis includes this $1.9 million of funding, which is treated similarly to a contribution in aid of construction ("CIAC"). The total capital cost net of funding over the 10-year attachment horizon is $1.4 million.

System Expansion Surcharge

10. To assist with the economic feasibility of the Project, Enbridge Gas intends to charge a SES of $0.23 per m^3 to customers attaching to the Project for a term of 40 years. The proposed SES is consistent with the criteria and mechanism contemplated in Enbridge Gas's EB-2020-0094 application for a harmonized SES:
    - The SES is proposed for a community expansion project with a Profitability Index ("PI") of less than 1.0; and
    - The SES is proposed for a project providing first-time natural gas access to more than 50 potential customers.

11. As described below, the Project PI prior to inclusion of the proposed SES and NGEP funding is 0.30. The Project is expected to connect approximately 130 new /U customers to Enbridge Gas's system

Rate Stability Period

12. Also consistent with the direction in the OEB's EB-2020-0094 Decision,[1] upon placing the Project into service, Enbridge Gas will apply a 10-year Rate Stability Period ("RSP") during which the Company will bear the risk of the Project customer attachment and capital expenditure forecast. In its upcoming rebasing application, Enbridge Gas will include the forecasted customer additions and capital cost of the Project as outlined in the Company's EB-2019-0255 submission for NGEP funding. At the next rebasing application after the ten-year RSP expires, Enbridge Gas will use actual revenues and actual capital costs of the Project to determine any revenue sufficiency or deficiency for rate-setting purposes. If the expiry of the ten-year RSP occurs during an incentive rate mechanism ("IRM") and not a rebasing year, any excess revenue or shortfall in rates would form part of the utility revenue that is subject to earnings sharing until the next rebasing, depending on the approved IRM framework at the time.

Economic Feasibility

13. Detailed calculations of Project feasibility including the SES and NGEP funding are included at Attachment 1 to this Exhibit. Based on the forecast of costs and revenues before SES and NGEP funding, the Project has a PI of 0.30, which improves to 0.50 with the inclusion of the SES. The Company will require the NGEP funding to support the economic feasibility of the Project. After SES and NGEP funding, the Project currently has a net present value ("NPV") of $6,000 and a PI of 1.0.

14. The estimated PI of 1.0 is based on Enbridge Gas's most recent estimate of Project capital cost and forecasted revenues. The primary factors affecting the current estimated PI calculation as compared to the estimated PI in the Company's EB-2019- /U

[1] EB-2020-0094 Decision and Order, November 5, 2020, pp. 8-9

0255 submission include an increase in the capital cost estimate offset by an increase to the customer attachment forecast. Any variances from forecasted Project capital cost or revenues, including variances in the customer attachment forecast for the Project, will be managed by Enbridge Gas during the RSP. The final actual PI will be determined using actual information and will be communicated at the next rebasing application after the expiry of the RSP. /U

15. Based on the results of the E.B.O. 188 analysis outlined above and given the NGEP funding and SES, Enbridge Gas submits that the Project is economically justified. /U