SETTLEMENT PROPOSAL

PHASE I

DECEMBER 15, 2008

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PREAMBLE

This Settlement Proposal is filed with the Ontario Energy Board (the "OEB" or the "Board") in connection with the application of Enbridge Gas Distribution Inc. ("Enbridge" or the "Company"), for an order or orders approving or fixing rates for the sale, distribution, transmission, and storage of gas for 2009. The Company's application is being considered in two or more phases by the OEB. Phase I addresses the rate adjustment under Enbridge's approved incentive regulation ("IR") rate adjustment mechanism.

A Settlement Conference to consider Phase I issues was held on December 10, 2008. Ken Rosenberg acted as facilitator for the Settlement Conference. This Settlement Proposal arises from the Settlement Conference and subsequent discussions.

Enbridge and the following intervenors (collectively, the "parties"), as well as Ontario Energy Board technical staff ("Board Staff"), participated in the Settlement Conference:

ASSOCIATION OF POWER PRODUCERS OF ONTARIO (APPrO)
BUILDING OWNERS AND MANAGERS ASSOCIATION OF THE GREATER TORONTO AREA (BOMA)
CANADIAN MANUFACTURERS & EXPORTERS (CME)
CONSUMERS COUNCIL OF CANADA (CCC)
ENERGY PROBE RESEARCH FOUNDATION (Energy Probe)
INDUSTRIAL GAS USERS ASSOCIATION (IGUA)
JASON F. STACEY (Jason Stacey)
ONTARIO ASSOCIATION OF PHYSICAL PLANT ADMINISTRATORS (OAPPA)
SCHOOL ENERGY COALITION (SEC)
SITHE GLOBAL CANADIAN POWER SERVICES LTD. (SITHE)
VULNERABLE ENERGY CONSUMERS COALITION (VECC)

The Settlement Proposal deals with all of the issues listed at Appendix "A" to the Board's Procedural Order #2, dated November 24, 2008 (the "Issues List").

The description of each issue assumes that all parties participated in the negotiation of the issue, unless specifically noted otherwise. Board Staff takes no position on any issue and, as a result, is not a party to the Settlement Proposal.

Best efforts have been made to identify all of the evidence that relates to each settled issue. The supporting evidence for each settled issue is identified individually by reference to its exhibit number in an abbreviated format; for example, Exhibit B, Tab 3, Schedule 1 is referred to as B-3-1. Where appropriate, references to interrogatories include references to the pages of the transcript from the December 4, 2008 Technical Conference where interrogatories were addressed by Enbridge. The identification and listing of the evidence that relates to each settled issue is provided to assist the Board.

The Settlement Proposal describes the agreements reached on the issues. The Settlement Proposal provides a direct link between each settled issue and the supporting evidence in the record to date. In this regard, the parties are of the view that the evidence provided is sufficient to support the Settlement Proposal in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale, will allow the Board to make findings agreeing with the proposed resolution of the settled issues. In the event that the Board does not accept the proposed settlement of any issue, further evidence may be required on the issue for the Board to consider it fully.

The parties agree that all positions, information, documents, negotiations and discussion of any kind whatsoever which took place or were exchanged during the Settlement Conference are strictly confidential and without prejudice, and inadmissible.

According to the Board's *Settlement Conference Guidelines* (p. 3), the parties must consider whether a settlement proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. Enbridge and the other parties who participated in the Settlement Conference consider that no settled issue requires an adjustment mechanism other than those expressly set forth herein.

None of the parties can withdraw from the Settlement Proposal except in accordance with Rule 32 of the *Ontario Energy Board Rules of Practice and Procedure*. Finally, unless stated otherwise, a settlement of any particular issue in this proceeding is without prejudice to the positions parties might take with respect to the same issue in future proceedings during the term of Enbridge's current five year IR plan.

OVERVIEW

In the EB-2007-0615 proceeding, the Board approved a settlement agreement that prescribes the rate setting approach to be used by Enbridge over the five year IR term from 2008 to 2012.[1] This approach involves the use of a Distribution Revenue Requirement per Customer Formula (the "Adjustment Formula") to adjust the amount to be recovered in rates for each year of the IR term.

The IR Settlement Agreement requires Enbridge to file prescribed information by October 1st each year, for the purpose of setting rates for the following year. This information is used in the Adjustment Formula to determine the Distribution Revenue Requirement (the "DRR") for the following year. As part of the filing, the Company also sets out the Total Revenue Requirement to be recovered and the allocation of the DRR to its rate classes, and a rate handbook and supporting documentation detailing how rates have been adjusted.

[1] EB-2007-0615, Ex. N1-1-1.

Enbridge filed its 2009 rate adjustment application on September 26, 2008. Among other things, the application indicated that the proposed change to its distribution rates for 2009 is an increase of less than 0.5% for residential customers, and an increase of less than that proportion (in some cases a rate decrease) for other customer classes

Parties have considered the evidence filed by Enbridge, including information provided through the technical conference process, and have concluded that Enbridge has properly applied the Adjustment Formula and parties accept Enbridge's calculation of the 2009 rates that result.

THE ISSUES

1 Has Enbridge calculated its proposed Distribution Revenue Requirement and resulting rates in accordance with the IR Settlement Agreement[2] ?

All parties agree that Enbridge calculated its proposed DRR and resulting rates in accordance with the IR Settlement Agreement.

The Company has set out the revenue to cost ratios associated with the assignment of its 2009 revenue requirement to rate classes at Ex. B-3-10, p. 2. The revenue to cost ratio for Rate 1 is shown as 1.01 which is the same as for 2008 (although the ratio for 2009 is slightly higher when taken to more decimal places).[3] In the Decision with Reasons in Enbridge's 2007 rate case (EB-2006-0034), the Board noted with approval the matters and issues that Enbridge takes into account when setting revenue to cost ratios.[4] The reasons why the revenue to cost ratio for Rate 1 in 2009 is slightly higher for 2009 as compared to 2008, are the following:

- The Company has made adjustments to the recovery of the 2009 revenue requirement to balance the primary rate design objectives of rate impacts, rate stability and revenue to cost ratios.
- The Company set revenue to cost ratios at a level that is similar to 2008 levels (to two decimal places).
- If the revenue to cost ratio for Rate 1 was closer to 1.00, then costs would be shifted onto other rate classes, which, combined with the forecast volume

[2] The complete text of this issue is "Has Enbridge calculated its proposed distribution revenue requirement, including the assignment of that revenue requirement to the rate classes and the resulting rates, in accordance with the EB-2007-0615 incentive settlement agreement ?".

[3] EB-2007-0615, Draft Final Rate Order, Ex. C-6-10, p.2.

[4] EB-2006-0034, Decision with Reasons, at pp. 69-70.

reductions in contract rates for 2009, would translate into significant rate impacts for those rate classes.

Evidence: The evidence in relation to this issue includes the following:

B-1-1	Rate Adjustment Summary
B-1-2	2009 Revenue per Customer Cap Determination
B-1-3	Inflation Factor
B-1-4	Customer Additions
B-1-5	Gas Volume Budget
B-1-6	Y Factor - Capital
B-1-7	Y Factor - Other
B-1-8	Z Factors
B-1-9	Rate Schedules – exclusive of proposed rate handbook revisions
B-2-1	Budget Degree Days
B-2-2	Average Use and Economic Assumptions
B-3-1	Rate Design
B-3-2	Rate Schedules – inclusive of proposed rate handbook revisions
B-3-3	2009 Revenues by Rate Class
B-3-4	Proposed Volumes and Revenue Recovery by Rate Class
B-3-5	Proposed Billed and Unbilled Revenue
B-3-6	Summary of Proposed Rate Change by Rate Class
B-3-7	Calculation of Gas Supply Charges by Rate Class
B-3-8	Detailed Revenue Calculations
B-3-9	Annual Bill Comparison EB-2008-0219 vs EB-2008-0263
B-3-10	Assignment of Revenue Requirement
B-4-1	Rate 1 – Rate Change – Explanatory Comments
B-4-2	Rate 6 – Rate Change Explanatory Comments
B-4-3	Large Volume Rates – Rate Increase Explanatory Comments
B-5-1	Summary of Gas Costs to Operations
B-5-2	Gas Cost Schedules
I-1-1 and 2	Board Staff Interrogatories #1 and 2 (see also Transcript from December 4, 2008 Technical Conference ("TC Transcript") at p. 7-8)
I-2-1 to 3 and 5 to 7	APPrO Interrogatories #1 to 3 and 5 to 7 (see also TC Transcript 20-34)
I-3-5 and 8	BOMA Interrogatories #5 and 8 (see also TC Transcript 39-40)
I-4-8 and 9	CME Interrogatories #8 and 9 (see also TC Transcript 67-76)
I-5-1 to 5	OAPPA Interrogatories #1 to 5 (see also TC Transcript 75-76 and 91-95)
I-6-1	SEC Interrogatory #1
I-7-30 and 11	VECC Interrogatories #3, 10 and 11
I-8-7	CCC Interrogatory #7 (see also TC Transcript 103-104)
TCU-1.1, 1.2 and 1.6	Undertakings TCU-1.1, 1.2 and 1.6

2 Is the forecast of degree days appropriate ?

Except as noted, all parties agree that the forecast of degree days is appropriate. APPrO, Jason Stacey and Sithe take no position on this issue.

Evidence: The evidence in relation to this issue includes the following:

B-2-1	Budget Degree Days

3 Is the forecast of average use appropriate ?

Except as noted, all parties agree that the forecast of average use is appropriate. APPrO, Jason Stacey and Sithe take no position on this issue.

Evidence: The evidence in relation to this issue includes the following:

B-2-2	Average Use and Economic Assumptions
I-3-7 and 9	BOMA Interrogatory #7 and 9
I-4-3 and 4	CME Interrogatories #3 and 4 (see also TC Transcript 49-52)
I-6-2 to 4	SEC Interrogatories #2 to 4
I-7-6 to 9	VECC Interrogatories #6 to 9
I-8-4	CCC Interrogatory #4

4 Is the forecast of customer additions appropriate ?

All parties agree that the forecast of customer additions is appropriate.

Evidence: The evidence in relation to this issue includes the following:

B-1-4	Customer Additions
I-1-3 and 4	Board Staff Interrogatories #3 and 4 (see also TC Transcript 9-11 and 108-110)
I-3-1, 2 and 9	BOMA Interrogatories #1, 2 and 9
I-4-1	CME Interrogatory #1 (see also TC Transcript 41-44)
I-7-2 and 3	VECC Interrogatories #2 and 3 (see also TC Transcript 97-99)
I-8-1 and 2	CCC Interrogatories #1and 2

5 Is the gas volume budget appropriate ?

All parties agree that the gas volume budget is appropriate.

Evidence: The evidence in relation to this issue includes the following:

B-1-5	Gas Volume Budget
B-3-7	Calculation of Gas Supply Charges by Rate Class
B-5-1	Summary of Gas Costs to Operations
B-5-2	Gas Cost Schedules
I-1-5 to 8	Board Staff Interrogatories #5 to 8 (see also TC Transcript 11-19)
I-2-4	APPrO Interrogatory #4 (see also TC Transcript 35-39)
I-4-2, 6 and 7	CME Interrogatories #2, 6 and 7 (see also TC Transcript 44-47 and 54-67 and 77-91)
I-6-5	SEC Interrogatory #5
I-7-1	VECC Interrogatory #1 (see also TC Transcript 96-97)
I-8-3 and 5	CCC Interrogatories #3 and 5
TCU-1.3	Undertaking TCU-1.3

6 Is the amount proposed for 'Y-factor – capital' appropriate ?

All parties agree that the amount proposed for 'Y-factor – capital' is appropriate.

Evidence: The evidence in relation to this issue includes the following:

B-1-6	Y Factor - Capital
I-1-9	Board Staff Interrogatory #9
I-3-3, 4 and 6	BOMA Interrogatories #3, 4 and 6 (see also TC Transcript 40)
I-4-5	CME Interrogatory #5 (see also TC Transcript 53-54)
I-6-6	SEC Interrogatory #6 (see also TC Transcript 95)
I-7-4	VECC Interrogatory #4 (see also TC Transcript 99)
I-8-6	CCC Interrogatory #6
TCU-1.4 and 1.5	Undertakings TCU-1.4 and 1.5

7 Is the amount proposed for 'Y-factors – other' appropriate ?

All parties agree that the amount proposed for 'Y-factors – other' is appropriate.

Evidence: The evidence in relation to this issue includes the following:

B-1-7	Y Factor - Other
I-4-6 and 7	CME Interrogatories #6 and 7 (see also TC Transcript 54-62 and 77-91)
I-6-7	SEC Interrogatory #7
I-7-5	VECC Interrogatory #5 (see also TC Transcript 99-102)

8 How should the new rates be implemented ?

All parties agree that Enbridge will implement the new 2009 rates arising from Phase I of this proceeding at its earliest opportunity, at the same time as a QRAM rate adjustment is implemented. All parties agree that Enbridge is entitled to recover the full year impact of the rate changes arising from Phase I of this proceeding, regardless of the timing of the implementation of the new rates.

In accordance with the IR Settlement Agreement (Issue 11.1[5]), Enbridge will prepare an Earnings Sharing Mechanism ("ESM") calculation for 2008 after the release of its 2008 audited financial statements. Enbridge will file this calculation (and an application for disposition of the amounts recorded in the ESM Deferral Account) as soon as reasonably possible after the 2008 audited financial statements have been made public, with the intention of clearing amounts, if any, in the ESM Deferral Account as part of its July 1, 2009 QRAM application.

[5] EB-2007-0615, Ex. N1-1-1, at p. 29.

Enbridge will provide information about the balances in its 2008 Deferral and Variance Accounts at the same time as it files its application for disposition of the amounts recorded in the ESM Deferral Account. The clearance of the balances accumulated in Enbridge's 2008 Deferral and Variance Accounts at the end of December 2008, including the 2008 Average Use True-Up Variance Account, will occur in conjunction with Enbridge's July 1, 2009 QRAM application.

Evidence: The evidence in relation to this issue includes the following:

I-8-8	CCC Interrogatory #8