DECISION

IN THE MATTER OF a Review of Enbridge Gas New Brunswick (EGNB) Financial Results for the period ending December 31, 2000.

December 20, 2001

NEW BRUNSWICK

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

The Board, pursuant to its decision of June 23, 2000, has conducted a review of EGNB's financial results for the period ending December 31, 2000. This review was completed with the assistance of Mr. J. H. S. Easson, CA, the Board's financial consultant. Mr. Easson conducted a thorough review of EGNB's financial information and submitted a report which addressed the reasonableness of the expenditures made by EGNB and also the compliance by EGNB with the directives made by the Board in its decisions.

This report and information provided by EGNB were both available to the public. Intervenors submitted questions in writing to both EGNB and Mr. Easson and each provided responses. An issues resolution day was held on June 22, 2001 to hear submissions regarding requests for information which EGNB did not believe it should have to provide. The Board delivered on oral decision on that matter on the same date.

Three items remain which require a decision by the Board and they are:

1. The amortization period applicable to Deferred Development (Start-up) costs
2. The weighted average cost of capital applicable to certain Deferred Development (Startup) costs
3. The treatment of Allowance for Funds Used During Construction for regulatory purposes Each of these is described below and the Board's decision is provided.

Amortization Period **Applicable** to Deferred Development (Start-up) Costs

Mr. Easson recommended that the amortization period be five years so that there would be a zero balance by the end of the development period as currently established, ie. December 31, 2005.

EGNB recommended that the amortization period be ten years. The company stated that this represents an approximation of a simple weighting of the two major components of the Start-up Costs. EGNB also stated that the use of a ten-year period would balance the requirements of quickly reducing the Start-up Costs account and of minimizing the amount of these costs carried for the full 20-year franchise period.

The Board recognizes that the development period may extend beyond 2005 and that a five year amortization period may result in the deferral account being larger than it would otherwise have been. However, the Board considers that it is important that all costs be accounted for in a similar manner. Startup Costs that cannot be recovered from operating revenues within a reasonable period of time should be transferred to the deferral account. Therefore, the Board directs EGNB to amortize the Start-up Costs over the five year period ending December 31, 2005.

Weighted Average Cost of Capital Applicable to Certain Start-up Costs

Mr. Easson, in his report, stated that some of the carrying costs on the start-up costs assumed by EGNB were calculated at an estimated weighted average cost of capital of 15.72%. This was higher than the rate of 10.4% used in other calculations because the equity component was grossed up to reflect notional corporate income taxes. Mr. Easson stated that it was his view that a rate of 10.4 % should have been used and that the carrying costs should be reduced by $263,000.

EGNB responded that only carrying costs on deferred development costs funded soley by Enbridge Inc. (i.e. as cash advances) were grossed-up for income taxes. EGNB considered this to be appropriate as the amounts were paid to Enbridge Inc. and would be treated as taxable (investment) income by that corporation.

The Board's decision dated June 23, 2000 set out the appropriate capital structure and how the weighted cost of capital is to be calculated. EGNB, for regulatory purposes, is permitted a return on equity of 13% and allowed to charge for interest on debt at the actual borrowing rate of the parent company plus I %. EGNB is also allowed to recover deemed payable income taxes on the basis that would have prevailed if the partnership had been a corporation. For the period under review, EGNB was not in a position to have to pay income taxes and therefore no adjustment is necessary. The proper weighted cost of capital of EGNB, for regulatory purposes, was 10.4%.

The Board therefore directs EGNB to reduce its carrying costs by an amount of $263,000 for the purposes of determining the amount of the deferral account as at December 31, 2000.

Treatment of Allowance for Funds Used During Construction (AFUOC) for Regulatory Purposes

The Board directed staff and Mr. Easson to discuss with EGNB staff the above-noted item to ensure that there would be proper accounting of AFUDC. Discussions were held and there was complete agreement among the parties that the objective is to prevent any double-charging to the customer of the carrying costs associated with work in progress, i.e., construction underway that is not providing used and useful service.

EGNB proposed a method whereby all carrying costs would be removed from the partnership accounts and only carrying costs on rate base assets would be included as an expense for regulatory purposes. It is the Board's understanding that this approach would not include the AFUDC as a component of revenue requirement and therefore there would be no need to include the AFUDC in regulatory income as an offsetting entry.

The Board will therefore accept EGNB's proposal as a reasonable way to recover the carrying costs for plant under construction, provided that such an approach does not result in any over-charging to customers.

DATED at the City of Saint John this 20th day of December, 2001.

BY THE BOARD

Lorraine R. Légère
Board Secretary