

COMPARISON OF UTILITY CAPITAL EXPENDITURES 2016 ACTUALS VS. 2016
BOARD APPROVED BUDGET

Table 1
Summary of Capital Expenditures 2016 Actual and 2016 Board Approved Budget
 (\$millions)

Item	Col 1	Col 2	Col 3
	<u>Actual</u>	<u>Board Approved</u>	<u>Actual</u>
	2016	<u>Budget</u> 2016	<u>Over/(Under)</u> 2016
A Customer Related Distribution Plant	153.0	140.8	12.2
B System Improvements and Upgrades	224.0	242.6	(18.6)
C General and Other Plant	45.6	48.4	(2.8)
D Underground Storage Plant	18.2	10.5	7.7
E Sub total Core Capital Expenditures	440.7	442.3	(1.6)
F Work and Asset Management Solution (WAMS)	38.3	8.1	30.2
G GTA Reinforcement	114.8	-	114.8
H Sub total Core Special Initiatives	153.1	8.1	145.0
I Total Capital Expenditures	593.8	450.4	143.4

1. The 2016 Actual expenditures for Work and Asset Management (“WAMS”) and GTA projects totaled \$153.1 million versus a 2016 Budget of \$8.1 million. Some of the variance results from carryover costs from 2015 due to delays experienced with these multi-year initiatives. Both projects were budgeted to be in-service by end of 2015.
2. The 2016 Actual core capital expenditures were \$440.7 million, which was \$1.6 million less than the 2016 Budget of \$442.3 million. Core capital amounts also include overheads (i.e., departmental labour costs, capitalized administrative and general, and interest during construction). Excluding overheads, the 2016 Actual core capital spend was \$328.5 million or \$6.3 million greater than the 2016 Budget of \$322.2 million.

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3. Table 2 below shows the major drivers of the \$143.4 million overspend vs. Board approved budget and includes high-level commentary. Further details are provided below.

Table 2
Summary of Capital Expenditures 2016 Actual and 2016 Board Approved Budget
 (\$millions)

	<u>Actual</u>		
	<u>Over/(Under)</u>	<u>% tage</u>	<u>Commentary</u>
Total 2016 Variance	143.4	31.8%	
A GTA Reinforcement	114.8	N/A	Due to permit & construction challenges
B Customer Growth	6.7	6.6%	Due to customer mix
C Storage	6.4	72.2%	Compressor Plant delay
D Facilities and Genl Plant	7.1	40.9%	Due to Building Improvements and Work Space Alterations
E Work and Asset Mgt (WAMS)	30.2	372.9%	Longer duration of solution design and increased scope to ensure quality of design
F Reinforcements	(0.9)	-10.5%	Deferral of Alliston and Harmony Colin projects
G Overheads - Departmental Labour Costs, AG and IDC	(7.9)	-6.6%	Due to an overall reduction in costs
H Relocations	1.2	9.9%	Due to large scale infrastructure work
I Information Technology	(8.9)	-32.3%	IT Infrastructure Consolidation with EI and project delay/deferral
J Business Development	2.0	52.8%	NGV program deferred from 2015
K System Integrity and Reliability	(7.3)	-5.2%	Portfolio prioritization via risk based assessments
	<u>143.44</u>	<u>31.8%</u>	

A. GTA Reinforcement – Overspent by \$114.8 Million

4. The GTA Reinforcement project is a multi-year infrastructure project with Segments A and B. Variance is due to delay of Segment A and B into 2016. The project was delayed several months due to permitting issues and construction complexities. The project total is expected to be \$870.3 Million, versus the project budget of \$686.5 million.

B. Customer Growth - Overspent by \$6.7 Million

5. The cost of adding new customers increased due to higher direct costs related to customer mix and higher unit costs. The cost pressure challenges include increased municipal fees, full year construction and managing geographic sectors. Rising municipal and permitting fees are costs that are beyond the Company's control. Geographic challenges have a direct impact

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on the unit cost of adding new customers. The mix of more expensive replacement customers vs. new construction (subdivision) customers also factor heavily into the cost equation.

C. Storage – Overspent by \$6.4 Million

6. The overage is primarily driven by maintenance relating to the degrading compressor foundations. The remaining overage is due to movement from the old building to a new facility and upgrades to Scada.

D. Facilities and General Plant – Overspent by \$7.1 Million

7. This variance is primarily due to higher spend in Facilities associated with Building Improvements and Workspace Alterations.

E. Work and Asset Management Solution (“WAMS”) – Overspent by \$30.2 Million

8. WAMS is a fundamental business tool, foundational to providing safe and reliable service to Enbridge's utility customers. This is a multi-year initiative which began with planning and design in 2014, design, build and test occurred throughout 2015, 2016 and "go live" was implemented in October 2016. Delayed spend in 2014 and 2015 was due to a delay in starting the implementation phase. The overall project spend is \$90.1 million, which exceeds the project budget of \$70.1 million.

F. Reinforcements – Underspent by \$0.9 Million

9. Reinforcements are primarily driven by customer growth and system reliability considerations to meet the anticipated peak hourly demand. The 2016 variance is due to the Alliston Reinforcement project deferral due to specific load additions not realized (\$2.1 million) and Harmony / Conlin Reinforcement deferral (\$3.7 million). The remaining variance is due to several smaller reinforcement projects.

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G. Departmental Labour Costs, A&G and IDC – Underspent by \$7.9 Million

10. From an overall perspective, these three cost categories were \$7.9 Million less than budget. The Company reduced the workforce and delayed filling vacancies as part of its productivity efforts as per its commitment under the Customized IR application. This productivity effort with Departmental Labour Costs accounts for \$8.9 million of the underage. Interest during construction (“IDC”) is a function of the timing of actual construction costs. Due to the delay of several projects and a lower interest rate, actual IDC was \$2.4 million less than the budget. The variance is partially offset by a \$3.4 million overage in capitalized administrative and general (“A&G”).

H. Relocations - Overspent by \$1.2 Million

11. Enbridge is required to relocate its infrastructure to accommodate 3rd party construction. The 2016 variance is primarily due to large scale infrastructure work such as York Region Rapid Transit and Metrolinx. The Company works closely with external agencies to establish long range timelines.

I. Information Technology – Underspent by \$8.9 Million

12. This variance is due to IT Infrastructure Consolidation with Enbridge Inc., WAMS project delay and CIS Software project deferral rescheduled to 2018/2019.

J. Business Development – Overspent by \$2.0 Million

13. The variance in the NGV rental program in 2016 is due to the undertaking of the City of Toronto garbage truck project that was originally scheduled to begin in 2015.

K. System Integrity and Reliability (SIR) – Underspent by \$7.3 Million

14. The SIR work was the result of portfolio prioritization using risk based assessments. Mains capital dollars were re-allocated across the portfolio through risk-based assessments and portfolio prioritization. Incremental capital spent on mains replacement and assessment of high risk assets led to an underspend in SIR of \$13 million. Services capital dollars were re-allocated to higher risk leaking / poorly performing assets rather than the anticipated proactive programs that were designed to stay ahead of the failure curve which led to an overspend in SIR of (\$16 million). Finally, capacity related to Stations projects have been deferred which led to an underspend in SIR of \$6.2 million.