DISCONTINUANCE OF SITE RESTORATION COST RIDER (RIDER D) IN 2018

1. As explained below, Enbridge is proposing to discontinue Rider D (return of Site Restoration Costs ("SRC") to ratepayers) in 2018. This will ensure that there is no over-refund to ratepayers that would have to be recovered in subsequent years. At the same time, Enbridge is proposing to move the tax deductibility credit associated with the 2018 forecast return of SRC, from 2018 Allowed Revenues, to the 2018 Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA"). This treatment will effect a final true up of the CDNSADA as approved by the Board, such that the deferral account and all of the SRC completion implications are dealt with and completed by the time that Enbridge's 2017 Deferral and Variance Accounts are cleared.

Background

2. Within the 2014 to 2018 Custom Incentive Regulation Proceeding, EB-2012-0459, Enbridge requested and the Board approved of a revised methodology to determine the net salvage percentages to be used in the calculation of depreciation rates, the Constant Dollar Net Salvage ("CDNS") approach.

3. The proposed methodology, supporting evidence and study was performed by an external expert consultant, Gannett Fleming ("GF"). In the study, GF reviewed the impact of the then current use of the traditional method for determining the net salvage component to be included within depreciation rates of Enbridge's asset categories, versus the impact of utilizing alternative methods for determining the net salvage component to be included within depreciation rates.

4. The CDNS approach included a proposed change to the net salvage percentage component included in ongoing depreciation rates. The proposed change would have resulted in a $247.3 million net salvage amount recovered in rates, through depreciation expense, over the five year term. Through a review of the appropriate discount rate to be used in the determination of the net salvage component, the Board concluded that the proposed net salvage amount to be recovered in rates over the five year term should be reduced by $85 million, to a total of $162.3 million.

5. The CDNS approach also included a proposal to return to ratepayers, through a rate rider (Rider D), a level of amounts previously recovered through past depreciation rates, which utilized the traditional method for determining net salvage percentages. The amounts to be returned were included in accumulated depreciation balances, as an offset against rate base.

6. The amount identified in the study as previously recovered under the traditional method for determining net salvage percentages, and proposed to be returned to ratepayers through Rider D, was $259.8 million. Again, through a review of the appropriate discount rate to be used in the determination of any amount to be returned to ratepayers (of previously recovered net salvage amounts), the Board concluded that the amount to be returned to ratepayers over the five year period through Rider D, should be increased by $120 million to $379.8 million.

7. Along with the proposed Rider D amounts to be returned to ratepayers, the Company proposed to establish a deferral account, the CDNSADA. The deferral account would track on an annual basis, the cumulative variance between actual amounts credited to customers through Rider D, versus the cumulative amount approved to be credited, with a true up proposed to occur following the end of 2018. The true up and clearance

of the final balance in the account at the end of 2018 would ensure that the exact amount of $379.8 million would ultimately be credited to ratepayers. The Board approved that proposal, and the CDNSADA has been in place since 2014.

8. At this time, the Company has performed an analysis which shows that the actual Rider D amounts credited to ratepayers to date, plus the forecast amounts expected to be credited to ratepayers for the remainder of 2017, will result in a total of approximately $383.8 million that will have been returned to ratepayers by the end of 2017. This is around $4 million more than the total to be returned, which the Board approved in the EB-2012-0459 decision. As a result, it is expected that around $35.1 million ($383.8 million credited to ratepayers less $348.7 million approved to be credited through 2017) will be the recorded balance in the CDNSADA at the end of 2017.

9. The annual Rider D amounts approved by the Board in EB-2012-0459 to be credited to ratepayers were; 2014 - $96.8 million, 2015 - $90.4 million, 2016 - $83.9 million, 2017 - $77.5 million, and 2018 - $31.1 million. The actual amounts credited to ratepayers are: 2014 - $101.5 million, 2015 - $122.7 million, 2016 - $78.9 million, 2017 - $80.8 million (forecast). The main contributors to the anticipated debit variance balance are: the higher actual volumes in 2014 and the higher Rider D unit rates that year versus the other years partially offset by lower actual volumes in 2016 and 2017 due to warmer than normal weather.

Enbridge's Proposal

10. Resulting from this analysis, the Company is proposing to discontinue Rider D at the end of 2017, with a final true up of actual versus approved Rider D amounts occurring as of the end of 2017, rather than as planned to occur following the end of 2018.

Witnesses: A. Mandyam
R. Small

Enbridge proposes that the over-refund amount (forecast to be approximately $4 million) which will be reflected in the final 2017 CDNSADA balance be cleared in the 2017 Deferral and Variance Accounts (ESM) proceeding.

11. If Enbridge's proposal is not accepted, and if the Rider D amount of $31.1 million approved to be cleared to ratepayers in 2018 is implemented, then this will cause ratepayer confusion. Because Enbridge will have already refunded to ratepayers in excess of the full approved $379.8 million Rider D amount, before the start of 2018, there is a very high likelihood that the Company would have to seek to recover all 2018 Rider D amounts credited to ratepayers during 2018, back from ratepayers through clearance of the CDNSADA in the following year. Essentially, Enbridge would credit $31.1 million to ratepayers during 2018, and then would recover the same amount from ratepayers in mid-2019, at the time when the CDNSADA was cleared. In these circumstances, it does not seem prudent to continue with the Rider D in 2018.

12. An additional impact of the Rider D clearance was the inclusion within the determination of annual Allowed Revenue amounts, of tax deductions equivalent to the annual amounts being returned to customers through the five year period. The approved placeholder Allowed Revenue amount for 2018 included the tax deduction impact of the refund of $31.1 million during that year. As the Company is proposing to end Rider D at the end of 2017, with a true up of the actual versus forecast total amount of the rate rider to occur as of the end of 2017, the Company is also proposing to remove the tax deduction associated with the $31.1 million refund from the 2018 updated forecast Allowed Revenue amount. This results in an increase of $11.2 million in the 2018 Allowed Revenue amount. However, in order to appropriately credit ratepayers with the tax deduction impact that would have been received had Rider D continued for 2018, a corresponding gross revenue requirement

credit to ratepayers of $11.2 million will be entered into the 2018 CDNSADA as of January 1, 2018. The impact of these changes can be seen in Exhibits D1, Tab1, Schedule 1, D1, Tab 6, Schedule 1 and D2, Tab 1, Schedule 1.

13. This transfer of the tax credit that ratepayers are entitled to, from rates into the CDNSADA true up achieves the following. It will ensure that the expected over-return of Rider D amounts of around $4 million (forecast as of the end of 2017) will not have to be recovered from ratepayers in the future, as the $11.2 tax credit amount put into the CDNSADA will ensure only a credit amount will accrue to ratepayers when the account is cleared. Enbridge will propose to clear the balance in the 2018 CDNSADA (the final year for the account) within the 2017 Deferral and Variance Account ("ESM") proceeding. This treatment will effect a final true up of the CDNSADA as approved by the Board, such that the deferral account and all of the SRC completion implications are dealt with and completed by the time that Enbridge's 2017 Deferral and Variance Accounts are cleared.