2018 COST ALLOCATION METHODOLOGY

1. The purpose of this evidence is to present the Company's Fully Allocated Cost Study ("the Study") found at Exhibit G2, Tabs 1 to 7. The Study allocates the test year revenue requirement to the customer rate classes acting as a guide to rate design. The Company is proposing to maintain its cost allocation methodology approved by the Board in EB-2012-0459 (2014-2018 Custom IR Plan) for the 2018 Test Year.

2. The Study is organized in Exhibit G2 in the following manner:

   a) Tab 1 describes the underlying principles of the Board approved study;
   b) Tab 2 is a summary of the key results of the Study. The proposed revenues are compared to the allocated costs per rate class, generating an over or under contribution, and revenue to cost ratios for each rate class;
   c) Tab 3 shows the functionalization of rate base, net investments costs, and O&M expenses;
   d) Tab 4 shows the classification of the functionalized rate base, net investments, and O&M costs;
   e) Tab 5 shows the allocation of the classified rate base, return and taxes, and the cost to serve;
   f) Tab 6 contains the functionalization, classification and allocation factors used in the Study; and,
   g) Tab 7 exhibits provide functionalization and classification of costs for Tecumseh storage. These results are used to charge back storage service costs to the Company's in-franchise customers and to derive ex-franchise storage rates.

Witnesses: A. Kacicnik
B. So

3. Although the Study is based on Board approved principles and conventions, the Company would like to highlight three items within the study: the first is the treatment of the Customer Care / CIS revenue requirement, which follows the methodology approved by the Board in EB-2011-0354 (2013 Rate Case), and repeated in the paragraphs below for completeness; the second area is the treatment of the revenue requirement for Rate 332; the third area is the treatment of the revenue requirement for the Dawn Transportation Service ("DTS").

Customer Care and CIS

4. As shown at Exhibit F1, Tab 2, Schedule 1, page 1, the 2018 Customer Care / CIS rate base equals $7 million and the 2018 revenue requirement equals $131.1 M after a $4.9 M smoothing adjustment.

5. The derivation of this revenue requirement reflects the Customer Care / CIS Settlement Agreement (EB-2011-0226) dated September 2, 2011 and is independent from the derivation of the Company's other 2018 revenue requirement components. As such, the 2018 Customer Care / CIS revenue requirement is shown as a stand-alone item at Exhibit F1. The individual components of the Customer Care / CIS revenue requirement are reproduced in the table below:

Customer Care / CIS Item	**$ Million**	**Reference**
O&M	105.9	F1/T2/S1/P1/L5/C7
Depreciation	12.7	F1/T2/S1/P1/L6/C7
Return	0.5	F1/T2/S1/P1/L3/C7
Tax	7.1	F1/T2/S1/P1/L16/C7
Smoothing Adjustment	4.9	F1/T2/S1/P1/L21/C7
Total	131.1	F1/T2/S1/P1/L22/C7

6. The reference for the location of each component of the Customer Care / CIS revenue requirement within the Study is provided in the table below. Note that for the purpose of the cost allocation study the Company applied the smoothing adjustment to the O&M component of the revenue requirement.

Customer Care / CIS Item	**$ Million**	**Reference**
O&M (add Smoothing Adjustment)	110.8	G2/T3/S4/P3/L5.1–5.7/C1
Depreciation	12.7	G2/T3/S3/P1/L1.1/C13
Return	0.5	G2/T5/S3/P1/L6.3/C1
Tax	7.1	G2/T5/S3/P1/L6.4/C1
Total	131.1	

7. The Customer Care / CIS O&M component, plus smoothing adjustment, consists of the following functions:

Customer Care / CIS O&M	**$ Million**	**Reference**
Billing	46.6	G2/T3/S4/P3/L5.1/C1
Service & Billing Enquiry	10.7	G2/T3/S4/P3/L5.2/C1
Meter Reading	11.4	G2/T3/S4/P3/L5.3/C1
Credit & Collection	17.3	G2/T3/S4/P3/L5.4/C1
Supervision	22.2	G2/T3/S4/P3/L5.6/C1
LV Customer Care	2.6	G2/T3/S4/P3/L5.7/C1
Total O&M	110.8	

8. All components of the Customer Care / CIS revenue requirement are allocated to the customer classes based on the number of customers in each class. The only exception is the LV Customer Care function, which does not serve residential customers, and is consequently only allocated to commercial and industrial

customer classes, again based on the number of customers in each class.

Rate 332

9. According to the Board approval in EGD's EB-2012-0451 Leave to Construct ("LTC") application with respect to the Greater Toronto Area ("GTA") project, the Company applied for Rate 332: Parkway to Albion Transportation Service applicable to the proposed transportation service agreement with Rate 332 shippers. Rate 332 service is facilitated by Segment A of GTA project.

10. The Rate 332 charges are designed to recover the shippers' portion of Segment A costs within the GTA project. As per the Board's decision in EB-2012-0451, 60% of the annual revenue requirement for Segment A is to be recovered from shippers through Rate 332 Contract Demand ("CD") charges.

11. Rate 332 service on Segment A of the GTA project is available to shippers in 2018. Accordingly, Rate 332 has been allocated 60% (or approximately $17.4 M) of the Segment A revenue requirement.

Dawn Transportation Service ("DTS"):

12. As outlined in the Dawn Access Settlement Agreement (EB-2014-0323), DTS is a bundled direct purchase transportation service with a delivery point at Dawn. Development of the DTS service first began during the GTA Project Leave to Construct Proceeding (EB-2012-0451) and during the course of subsequent consultations with stakeholders throughout the Dawn Access Consultative which ultimately lead to the aforementioned settlement agreement. The forecast implementation date for DTS is November 2017. The DTS service option will be made available to customers in addition to the Sales, Western Transportation

Service ("WTS"), Ontario Transportation Service ("OTS") and unbundled service options which are currently available to Enbridge's customers.

13. DTS customers contract with Enbridge to deliver each day to the Dawn delivery point their Mean Daily Volume ("MDV") obligation. Delivery of the MDV gas to the customers' locations is then carried out by the Company using pipeline capacity upstream of the gas distribution system and its gas distribution network.

14. Enbridge also provides load balancing service (i.e., matching of supply to meet customers' demand on a daily and seasonal basis), storage, and distribution service to DTS customers, just like the company provides these services to other bundled direct purchase customers.

15. To provide transportation services to its customers Enbridge contracts for upstream capacity on pipelines such as TCPL, Vector, Niagara, Union Gas to transport gas supplies from the various market hubs to its franchise area. The cost of upstream capacity that is flowed at 100% load factor to meet annual average demand is recovered through the Company's transportation charges.

16. This approach of flowing gas on upstream pipelines at 100% load factor (i.e., the same amount of gas is delivered to the franchise area each day year round, which is a concept / approach equivalent to the MDV delivery obligation for direct purchase customers) is facilitated by the close proximity of storage to Enbridge's franchise area. Excess supplies delivered by upstream pipelines in the summer are stored for withdrawal in the winter.

17. To reflect this operating practice of meeting annual average demand, upstream

transportation costs are classified as 100% annual demand and are allocated to each rate class based on bundled transportation delivery volumes by rate class. Customers only pay for the cost of transportation service they use.

18. Accordingly, the transportation costs allocated to the DTS service reflect proportionate costs of transportation classified as annual demand between Dawn and Enbridge's franchise area, which includes a proportionate allocation of Segment A cost and fuel cost. The costs allocated to DTS, therefore include / reflect all costs associated with providing DTS service between Dawn and the Company's franchise area. The cost allocated to DTS is approximately $24.4 M.

19. The derivation of DTS unit rates (i.e., charges) is presented in rate design evidence at Exhibit H2, Tab 4, Schedule 1, page 2.