NEW BRUNSWICK BOARD OF COMMISSIONERS
OF PUBLIC UTILITIES

IN THE MATTER of a Board Order Resulting from a hearing to Review Enbridge Gas New Brunswick Inc.'s Financial Results as at December 31st, 2002 and December 31st, 2003

Introduction

Enbridge Gas New Brunswick Inc. (Enbridge), the General Franchisee that distributes natural gas in New Brunswick, is required to file annual regulatory financial statements for review by the Board. In its financial reporting for operation and maintenance costs, Enbridge decided that a portion of those costs were incurred as an investment in the development of the natural gas marketplace and not a current expense. The company capitalized the "investment" portion of the operation and maintenance costs, to be amortized over a period of time.

Mr. J.H.S. Easson, CA, the Board's financial consultant, assists in the yearly review of Enbridge's financial results. In his reports on the financial results as at December 31st, 2002 and December 31st, 2003, he took issue with Enbridge capitalizing a portion of its operation and maintenance costs in the "distribution mains" category of its property, plant and equipment assets. Amounts that are capitalized in that asset category are depreciated at an annual rate of 2.43 % over an amortization period in excess of 40 years.

Mr. Easson stated that given the nature of some of those costs that the amortization period was inappropriate. He argued that an amortization period should be determined based upon the nature of an expense, its purpose and benefit period to a utility.

In his report, Mr. Easson stated that he recognized that Enbridge was not a mature utility and was still in its “development period”. A development period may be defined as a time during which a utility’s revenues cannot be expected to recover its costs and allowed return on invested capital. Mr. Easson made the following recommendation.

> *That Enbridge should be directed to carry out a comprehensive analysis of its capitalized costs in order to determine those that are not directly attributable to the construction or acquisition of property, plant and equipment. Expenses that are similar in nature should be grouped and a determination made of their realistic expected benefit period to Enbridge. This would then establish a reasonable period for amortization. The costs should continue to be included in rate base.*
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> *Further, that a report on this matter and Enbridge’s recommendations should be submitted to the Board for approval as soon as possible so that the decision can be applied to Enbridge’s regulatory financial statements for 2004. Also that application of the Board’s decision should be made on a retroactive basis.*

Mr. Easson and Enbridge addressed the issue during the hearing and the Board ordered Enbridge to undertake a study of the capitalized costs. Enbridge filed its comments and a report prepared by Price Waterhouse Cooper (PWC), Enbridge’s external auditor, on March 3, 2005.

DECISION

The Board has considered the comments made by the parties during the hearing and has carefully reviewed the PWC report and written comments filed by Enbridge. The Board finds the following:

1. The operation and maintenance (O&M) cost categories identified by Enbridge are not costs directly incurred in the construction of its physical assets and do not meet the Canadian Institute of Chartered Accountant’s definition of property, plant and equipment (PP&E).

2. That the subject O&M costs that were capitalized by Enbridge are not tangible assets. They should not be included with the distribution mains category and reported under Property, Plant and Equipment (PP&E) on Enbridge’s regulatory financial statements.

3. The O&M capitalized costs may be appropriately considered as investments by the utility while it develops the gas market in New Brunswick. These costs, past and future, are to be recorded in a separate account by Enbridge and reported separately on its regulatory financial statements. The account may be described as “Development O&M Capitalized Costs” with a footnote identifying the account as an intangible asset and specifying the rate of amortization.

4. It is anticipated that future amounts of capitalized O&M costs should decrease as distribution revenue increases and the utility nears the end of its development period. The annual capitalization of a portion of O&M costs should end co-incident with the end of the development period. Justification should be provided by the utility if it proposes to capitalize any future O&M costs beyond the end of the development period.

5. To accelerate the amortization of the capitalized O&M costs at this time would only increase the amount of Enbridge's deferral account. The Board directs Enbridge to continue to depreciate the capitalized O&M account at the rate of 2.43% until the end of the development period.

6. Prior to the end of the development period, the Board will require that a review be undertaken to determine an appropriate amortization period for the capitalized O&M costs.

7. Whereas there is no change to the depreciation rate, it is not necessary for Enbridge to re-state prior years regulatory financial statements. However, an explanatory note should be included with the financial statements for 2004 to clarify the change in the financial reporting.

Dated at the City of Saint John, this 2nd day of September, 2005.

By Order of the Board

David C. Nicholson
Chairman of the Board