

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

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Sent by Electronic Transmission and Fax: (506) 458-9903

Len Hoyt
McInnes Cooper
Barker House, Suite 600
PO Box 610, Stn. A
Fredericton, NB
E3B 5A6

Dear Mr. Hoyt:

IN THE MATTER OF a written proceeding to review Enbridge Gas New Brunswick's
Financial Results for the period ending December 31, 2002 / Board Reference: 2004-022

The Board issued its decision on EGNB's financial results for the years ending December 31st, 2002 and December 31st, 2003 on March 24, 2005. A short time ago, Mr. Easson, the Board's financial advisor, reported that a number of statements in the Board's March 24 decision lacked clarity. As a result, different parties were placing different interpretations on those statements. Therefore, the Board, pursuant to subsection 75(3) of the Gas Distribution Act 1999, reviewed its decision and issues this clarification to the decision of March 24, 2005.

This clarification does not alter, in any way, the findings made by the Board in its March 24, 2005 decision. The manner in which the various aspects of AFUDC are to be shown on the income statement are described. An illustrative example is also provided. The comments will assist both Mr. Easson and EGNB in preparing their reports to the Board.

The relevant section of the decision, for the purposes of these comments, is found at pages 13-14 and states:

Consistent with this direction, EGNB's income statements filed for regulatory purposes will be expected to show:

- 1. Interest expenses in the sum of:
 - a. Interest on debt, at the deemed rate and ratio, sufficient to cover the debt associated with the rate base assets;*
 - b. Interest on debt, at the deemed rate and ratio, sufficient to cover debt associated with CWIP; and*
 - c. Any other interest paid on debt associated with operations of the rate-regulated business of the utility.**
- 2. The required return on equity for rate-base assets and CWIP.*
- 3. The full amount of the AFUDC capitalized during the fiscal year. This shall be shown as a single entry that has the effect of increasing the net income reported for the year by the full amount of the AFUDC.*
- 4. An AFUDC amount that does not exceed that which results from summing the products of EGNB's average monthly CWIP and one-twelfth of the approved weighted cost-of-capital.*

Comments

In respect of item 1, the paragraph structure had led to an interpretation that the decision required EGNB to show the various interest expenses as three separate line items on the income statement. It should be noted that, as it is written, the decision requires only that the interest shown on the income statement be ***the sum of*** the three items described; the form and format in which that sum is presented was, and is, left to the discretion of the utility.

In respect of item 2, the linkage of "CWIP" after "rate-base assets" had led to the interpretation that CWIP was to be treated as if it were a part of rate base. This was not intended. The following wording better reflects the intent and is substituted for item 2 on page 13 of the decision:

“2. The required return on equity for rate-base assets and also the required return on equity that is deemed to have funded CWIP and is included in AFUDC.”

Illustrative Example

The Board has prepared an illustrative income statement spreadsheet to help clarify these matters (Schedule B, attached). It continues the illustrative example of AFUDC calculation that was presented in Schedule A of the original decision.

The spreadsheet is provided solely to illustrate matters associated with the calculation and documentation of AFUDC on the income statement. As such, it does not represent a complete income statement in form, format, or content. The exclusion of any items that would normally appear on an actual income statement should therefore not be interpreted as either advice or consent to exclude them from EGNB's income statements filed for regulatory purposes.

The illustrative spreadsheet is organized in two pages.

Page 1

The first page summarizes the capital structure used in the example and provides the monthly values that form the basis of the income statement entries. The capital structure was contrived to produce a weighted cost of capital equal to 12%, so that the monthly rate would be 1%. It also specifies a single depreciation life (40 yrs) for all assets. The CWIP was contrived to all occur on day one of each month so that the average CWIP equals the day one balance and the addition to assets in service will equal the average CWIP.

Monthly values and annual totals for the income statement entries in question are also provided in page 1. For purposes of comparison, these are grouped into two sets: those for an unregulated entity and those for a regulated entity.

Page 2

The second page presents some of the entries that would normally appear on the income statement to account for AFUDC or interest capitalized. Three sets of figures (or cases) are

presented. The first set represents the treatment allowed under GAAP for unregulated companies. The other two cases present alternative and equivalent ways in which AFUDC can be recorded on the income statement of a regulated company.

The first case appears in column (3) and is labeled “Unregulated entity”. It summarizes the treatment accorded to an entity that is not subject to third party rate regulation. In this case only interest on CWIP is capitalized; no allowance is made for return on equity used for CWIP. Such a return may in fact be earned, but it is derived from net income as illustrated, as and when business performance allows. Absent a 3rd party rate regulator, GAAP does not permit capitalization of such speculative “assets”.

The second case or presentation is labeled “Regulated entity, Uniform system of accounts” and appears in column (4). In this case, the business is subject to 3rd party rate-regulation and can capitalize the return on equity for CWIP under GAAP. This is reflected in the income statement by adding to the credit for interest capitalized, the amount of the return on equity for CWIP (0.085 M\$). The offsetting entry for this credit would appear on the balance sheet as capitalized financing costs for CWIP. This is the presentation specified in regulation 99-62.

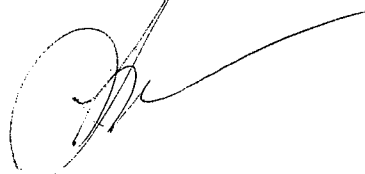
The third presentation is labeled “Regulated entity, AFUDC detailed treatment” and appears in column (5). It differs from the treatment described in the USoA in that the AFUDC entry is no longer shown as a reduction of expenses, but as the equivalent revenue increment in line 2. It also splits the return on equity into two parts: that for rate-base and that for CWIP. This presentation is the only one that meets the requirements for reporting set out in the decision, in that it shows:

“2. The required return on equity for rate-base assets and also the required return on equity that is deemed to have funded CWIP and is included in AFUDC.”

As noted above, and in column (7), row 6 and 7, the decision allows EGNB to show interest on CWIP and other interest as single entry on the income statement. No detail will be lost from such a presentation.

The Board hopes that this letter and the attached example provide sufficient clarity for EGNB to proceed with the restatement of regulatory financial reports for prior years and for the most recent year.

Sincerely

A handwritten signature in black ink, appearing to be 'L. Légère', with a long, sweeping horizontal stroke extending to the right.

Lorraine Légère
Secretary to the Board

Attachment

CC: All Parties to the Proceeding

SCHEDULE B ATTACHED – 2 pages

(1)	(2)	(3)	(4)		(5)	(7)
Item	Description	Unregulated entity	Regulated entity		AFUDC detailed treatment	Explanation
			Uniform system of accounts treatment			
	<i>Income, M\$</i>					
1	Sales	\$79,211	\$79,137		\$79,137	Sales set to break-even for regulated entity.
2	AFUDC				\$0.120	AFUDC "revenue" approach.
3	Total Revenue, M\$	\$79,211	\$79,137		\$79,257	
	<i>Expenses, M\$</i>					
4	Depreciation, based on NPV of assets at beginning of year 1	\$3,280	\$3,282		\$3,282	Dep'n larger for regulated entity since AFUDC exceeds interest on CWIP.
5	Interest on assets in service	\$4,592	\$4,595		\$4,595	Interest larger from deemed capital structure applied to larger PP&E balance.
	Other interest					
6	a. CWIP	\$0.035	\$0.035		\$0.035	These 2 interest items could be combined, but are shown separately for clarity.
7	b. other	\$0.100	\$0.100		\$0.100	
8	Interest capitalized or AFUDC	(\$0.035)	(\$0.120)			AFUDC interest credit approach.
9	O&M and other expenses	\$60,000	\$60,000		\$60,000	
10	Total Expenses, M\$	\$67,973	\$67,893		\$68,013	
11	Net Income, row 3 - row 10, M\$	\$11,239	\$11,245			
12	a. rate-base component				\$11,160	
13	b. CWIP component				\$0.085	Based on deemed capital structure and allowed return applied to CWIP
14	Total return on equity, M\$	\$11,239	\$11,245		\$11,245	