# CAPP Support Letter and Commercial Settlement between CAPP and EPI

CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

June 28, 2007

Mr. Richard Bird
President
Enbridge Pipelines Inc.
3000, 425 – 1st Street S.W.
Calgary, Alberta T2P 3L8

Dear Mr. Bird:

Re: Enbridge Pipelines' Line 4 Extension Project

This letter confirms that pursuant to Paragraph 2 of the Line 4 Extension Settlement dated June 28, 2007 between Enbridge Pipelines Inc. (EPI) and the Canadian Association of Petroleum Producers (the "Line 4 Extension Settlement"), the Canadian Association of Petroleum Producers supports the Line 4 Extension Settlement and the development of new 36" loops from Edmonton to Hardisty, with the necessary ancillary facilities, known as the Line 4 Extension Project. The Project will have a heavy capacity of 880,000 barrels per day and is targeted to be in-service by March 31, 2009. The Line 4 Extension Project will be integrated with, and form part of, the existing Enbridge Mainline system in Canada. The terms for the Line 4 Extension Project are more fully described in the Line 4 Extension Settlement.

Sincerely,

Greg Stringham
Vice President, Markets and Fiscal Policy

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Dated: June 28, 2007

# Line 4 Extension Settlement

This settlement sets forth certain terms concerning the proposed expansion of the Mainline System in Canada, which expansion is referred to as "the Line 4 Extension," which involves construction of new pipe from Edmonton, Alberta to Hardisty, Alberta.

For purposes of this settlement:

"Allowance for Funds Used During Construction" or "AFUDC" means the allowance referenced in Paragraph 4(b)(ii) hereof.

"Allowance for Working Capital" means the allowance described in Paragraph 4(b)(iii) hereof.

"Capital Costs" means all costs incurred by EPI in seeking and obtaining regulatory approval for and in the development, design, procurement, installation, construction and commissioning of the Line 4 Extension.

"CAPP" means the Canadian Association of Petroleum Producers.

"Controllable Costs" means the Capital Costs of constructing the Line 4 Extension, excluding the Non-Controllable Costs.

"Cost of Debt" means the cost of debt described in Paragraph 4(e) hereof.

"CRR" has the meaning set forth in Paragraph 3(a) hereof.

"Dollars" or "$" means Canadian dollars.

"EPI" means Enbridge Pipelines Inc.

"GAAP" means Canadian generally accepted accounting principles.

"GDPP" means the average annual Gross Domestic Product Implicit Price Index published by Statistics Canada in March (Catalogue No. 13-001-XPB "National Income and Expenditure"), including any amendments or replacements thereto.

"In-Service Date" means the date upon which the Line 4 Extension is able to accept oil.

"Initial Period" means the period commencing on the In-Service Date of the Line 4 Extension and ending on the earlier of (i) the first anniversary of the In-Service Date, or (ii) the effective date of the 2010 Incentive Tolling Settlement.

"Line 4 Extension Component" means the portion of the Mainline System costs that is attributable to the CRR for the Line 4 Extension and, if applicable, the NCRR for the Line 4 Extension, in accordance with Paragraphs 4 and 5 hereof.

"Long Lived Assets" means assets contained in the following Oil Pipeline Uniform Accounting Regulations asset categories as utilized by EPI and approved by the NEB: 152.00 - Rights of Way; 153.02 - Pipelines; 156.02 - Steel Buildings; 156.03 - Other Buildings; 159.00 - Station Oil Lines/Tank Lines/Manifolds; 161.01 Oil Tanks.

"Mainline System" means the crude oil and liquid petroleum pipeline that extends from Edmonton Alberta to the U.S. border near Gretna, Manitoba and includes Line 4 as well as all of the EPI NEB regulated pipeline operations including all facilities and operations associated with the Terrace Expansion (but not including Line 8 or Line 9), as such system may be expanded or modified from time to time.

"NEB" means the Canadian National Energy Board.

"Non-Controllable Costs" means the Capital Costs for which estimates are set forth in Part 1 of Schedule B attached to this settlement.

"NCRR" has the meaning set forth in Paragraph 3(b) hereof.

"Parties" means CAPP and EPI collectively; "Party" means either CAPP or EPI.

"ROE" has the meaning set forth in Paragraph 4(d) hereof.

"2005 Incentive Tolling Settlement" means the negotiated toll settlement dated December 19, 2005 between EPI and CAPP and approved by the NEB for the years 2005-2009.

"2010 Incentive Tolling Settlement" means a negotiated toll settlement to be negotiated after the date hereof between EPI and CAPP on the key terms of an incentive tolling settlement and that would be the successor to the 2005 Incentive Tolling Settlement.

Certain other terms are defined elsewhere in this settlement. In addition, the word "including" means "including without limitation," and the word "hereof" refers to this settlement as a whole.

**1. Project Scope**

The project scope of the Line 4 Extension is described in Schedule A attached to this settlement. The project will include all necessary infrastructure to manage the transportation of 880,000 barrels per day of heavy capacity on the Line 4 Extension under ordinary operating conditions and all terminal and related facilities (not including tankage) to facilitate such transportation. The Parties acknowledge that the Line 4 Extension will have the impacts on Line 3 described in Schedule A.

**2. Term**

(a) The term of this settlement (the "Term") will commence on the date of a duly authorized letter of support from CAPP fully endorsing this settlement and will continue until the fifteenth anniversary of the In-Service Date of the Line 4 Extension.

(b) 24 months prior to the expiration of the Term, the Parties will begin negotiating a new agreement that will become effective upon expiry of this settlement. If the Parties do not reach a new agreement at least 6 months prior to expiry of this settlement, the terms of the new agreement shall be subject to the dispute resolution provisions set forth in Paragraph 13 hereof.

**3. Revenue Requirement**

The Line 4 Extension's revenue requirement shall consist of:

(a) a capital revenue requirement ("CRR"), including a return on rate base as more particularly set out in Paragraph 4; and

(b) a non-capital revenue requirement ("NCRR") as set out in Paragraph 5 below.

**4. Capital Revenue Requirement**

The CRR will be recovered on a rolled-in basis in the Mainline System costs and will be calculated by EPI based on the principles set forth in this Paragraph 4.

(a) **Capital Structure**

The capital structure will be a deemed capital structure consisting of 55 % debt and 45 % equity.

(b) **Rate Base**

The rate base of the Line 4 Extension will (except as provided in Paragraphs 7 and 9 below) comprise all Capital Costs, the Allowance for Funds Used During Construction, and the Allowance for Working Capital, less accumulated depreciation, subject to the provisions of Paragraph 10 below.

The capital structure specified in Paragraph 4(a) will be applied to the rate base for calculation of the ROE and Cost of Debt.

(i) Capital Costs

Except as provided in Paragraph 7 below, all reasonable Capital Costs will be capitalized and included in the rate base.

(ii) Allowance for Funds Used During Construction ("AFUDC")

Subject to Paragraph 7 below, AFUDC will be calculated on a monthly basis by multiplying the cost of the construction work in progress, including any existing AFUDC balance, by a rate equal to EPI's weighted average cost of capital using the capital structure specified in Paragraph 4(a), $1/12^{th}$ of the annual ROE specified in Paragraph 4(d), and $1/12^{th}$ of EPI's annual weighted average cost of debt, including short term debt, borrowed under EPI's commercial paper program or drawn under EPI's bank credit facilities, specifically attributed to the Line 4 Extension cost of construction work in progress.

An example of the calculation of AFUDC using illustrative numbers is set forth in Schedule C attached hereto.

(iii) Allowance for Working Capital

An amount equal to one twelfth (1/12) of the sum of: (1) the annual operating, maintenance and administrative expenses described in Paragraph 5(a) hereof, plus (2) the annual power costs described in Paragraph 5(b) hereof will be included in the rate base as an allowance for working capital. This amount will be escalated annually on each anniversary of the In-Service Date by 75% of GDPP.

(c) **Depreciation**

All items included in the rate base, except for the Allowance for Working Capital, will be subject to depreciation. Depreciation for items associated with the Line 4 Extension that are not Long Lived Assets will be in accordance with NEB's approved depreciation rates. Depreciation for Long Lived Assets associated with the Line 4 Extension will be based on an initial expected economic life of 30 years (3 1/3 % per annum). In the event that, during the Term, any periodic depreciation studies of Long Lived Assets are, subject to any approval or comment rights of CAPP under the 2010 Incentive Tolling Settlement, submitted by EPI to the NEB, which (a) extend the economic planning horizon beyond 2040, and (b) are accepted by the NEB, then the depreciation of Long Lived Assets will be based on that new expected economic life. In the event that, during the Term, any periodic depreciation studies of items that are not Long Lived Assets are, subject to any approval or comment rights of CAPP under the 2010 Incentive Tolling Settlement, submitted by EPI to the NEB, which are accepted by the NEB, then the depreciation of such assets will be based on the expected economic life approved by the NEB.

(d) **Return on Equity**

The annual return on equity ("ROE") for the Line 4 Extension will be equal to the NEB multi-pipeline rate plus a 225 basis point adjustment. If the NEB ceases to publish a multi-pipeline rate during the Term, the Parties will meet to agree on a new benchmark to which will be applied the 225 basis point adjustment (or such other basis point adjustment as shall result in an ROE that is reasonably equivalent to the NEB multi-pipeline rate plus 225 basis points). If such agreement is not forthcoming within 90 days, then the amount of the ROE shall be subject to the dispute resolution provisions set forth in Paragraph 13 hereof.

(e) **Cost of Debt**

The Cost of Debt will be the weighted average cost of long-term debt incurred by EPI arising from debt securities issuances for the Line 4 Extension. EPI will, acting reasonably, seek to issue the Line 4 Extension long-term debt at points of time either shortly before or shortly after the In-Service Date of the Line 4 Extension in order to take advantage of suitable market conditions. EPI will issue debt in notional sizes and maturities that seek to minimize refinancing risks while managing total interest cost. EPI debt securities issuances will be specifically attributed to the Line 4 Extension, in whole or in part, to match the aggregate debt component of the Line 4 Extension rate base. EPI will identify such debt as attributable to the Line 4 Extension, and will notify CAPP within fifteen business days after the receipt of proceeds of such debt.

To the extent any Line 4 Extension long-term debt matures during the Term, the interest cost of the then-issued refinancing debt will be incorporated into the Cost of Debt. EPI will actively manage the issuance of the appropriate amount of debt associated with the Line 4 Extension in a commercially reasonable manner throughout the Term.

The Cost of Debt shall not be determined on a project financing basis.

(f) **Income Tax Allowance**

An income tax allowance based on the applicable earnings amount, statutory income tax rates, the flow-through methodology for accounting for income taxes and the applicable permanent and timing differences, appropriately adjusted to a before tax amount, on an actual or forecast basis, as applicable, all in a manner consistent with that previously approved by the NEB as amended from time to time.

(g) **Accounting Changes**

In the event of any change in GAAP or the application thereof to EPI that affects the accounting for the Line 4 Extension, including the accounting for income taxes on a flow-through basis, modifications to appropriately incorporate the impact, as agreed by the Parties, of any such change will be made to the determination of the CRR.

**5. Non-Capital Revenue Requirement**

The NCRR for the Line 4 Extension shall include the expenses set out in Paragraphs 5 (a) through (c) below (collectively, "<u>Operating Expenses</u>") as well as those capital costs set out in Paragraphs 5 (d) and (e). From and after the effective date of the 2010 Incentive Tolling Settlement, all of these cost components will be included in the 2010 Incentive Tolling Settlement in the manner described below. After the Initial Period and continuing until the effective date of the 2010 Tolling Settlement or if the Parties cannot otherwise agree on the amounts of any of the components to be included in the 2010 Inventive Tolling Settlement, EPI will, in good faith, estimate (or, in the case of Section 5(a), will use its existing methodology to calculate) the amount of any or all of the components of the NCRR (the "NCRR Estimate") to be rolled into the Mainline System costs. If CAPP disputes any of the components of the NCRR Estimate, such dispute shall be subject to the dispute resolution provisions set forth in Paragraph 13 hereof.

(a) **General Operating, Maintenance and Administrative Expenses**

Annual operating, maintenance and administrative expenses for the Line 4 Extension, including property taxes and pipeline integrity operating expenses.

General and administrative expenses will be included according to the methodology set forth in the 2010 Incentive Tolling Settlement or, if no 2010 Incentive Tolling Settlement is agreed, will be included according to the methodology used by EPI as of the date of this settlement, as amended from time to time by EPI.

(b) **Power Costs**

(i) Power consumed by the Line 4 Extension will be charged on a flow-through basis, and will be subject to any power sharing mechanism incorporated as part of the 2010 Incentive Tolling Settlement.

(ii) The base for any power cost sharing mechanism incorporated as part of the 2010 Incentive Tolling Settlement shall be EPI's estimate of power consumption as set forth in Schedule D attached to this settlement.

(c) **Other (Operating Expense) Recoverables**

Operating Expenses resulting from legislation, regulations, orders, directions or non-mandatory guidelines by any government authority which result in changes to health, safety, environmental, security, anti-terrorism and taxation (other than property tax and income tax) requirements, practices or procedures for EPI will be included in the

NCRR; provided that the inclusion in the NCRR of Operating Expenses resulting from compliance with non-mandatory guidelines shall be subject to agreement with CAPP.

(d) **Pipeline Integrity Capital Costs**

Pipeline integrity related capital costs for the Initial Period, will be as set forth in Schedule E attached to this settlement and rolled into the Mainline System costs. Thereafter, pipeline integrity related capital costs will be included in the 2010 Incentive Tolling Settlement; provided that if no 2010 Incentive Tolling Settlement is effective as of the first anniversary of the In-Service Date, then, EPI's estimate of pipeline integrity related capital costs will instead be rolled into the Mainline System costs in accordance with and subject to the first paragraph of this Paragraph 5 until such date as the 2010 Incentive Tolling Settlement becomes effective.

(e) **Maintenance Capital Costs**

Maintenance related capital costs for the Initial Period will be as set forth in Schedule E attached to this settlement and rolled into the Mainline System costs. Thereafter, maintenance related capital costs will be included in the 2010 Incentive Tolling Settlement; provided that if no 2010 Incentive Tolling Settlement is effective as of the first anniversary of the In-Service Date, then EPI's estimate of maintenance related capital costs will instead be rolled into the Mainline System costs in accordance with and subject to the first paragraph of this Paragraph 5 until such date as the 2010 Incentive Tolling Settlement becomes effective.

Schedule E also sets forth Operating Expenses for the Initial Period.

Schedule F sets forth illustrative, non-binding estimates of maintenance related capital costs, pipeline integrity related capital costs and scheduled pipeline integrity operating expenses, for the second through fifteenth years of service of Line 4.

**6. Revenue Requirement Adjustment**

As contemplated in Paragraph 4, the CRR will be recovered on a rolled-in basis in the Mainline System costs. As contemplated in Paragraph 5, the amount of any NCRR Estimate will be recovered on a rolled-in basis in the Mainline System costs pending resolution of any disputes related thereto. EPI will, prior to the In-Service Date, include the Line 4 Extension Component in its filings based on the first year's projected costs and Mainline System throughput volumes. Thereafter, on April 1 of each succeeding year, EPI will adjust the Line 4 Extension Component to reflect (i) any over-collections or under-collections resulting from actual Mainline System throughput volumes in the immediately preceding year being more or less than projected throughput volumes for such year, (ii) any over-collections or under-collections resulting from actual costs in the immediately preceding year being less or more than projected costs for such year, and (iii) projected costs and Mainline System throughput volumes for the then-current year. Such true-ups will reflect carrying charges at a rate equal to the average of the 12 monthly bank rates for the prior year published as Series V122530 by the Bank of Canada on its website, or any successor thereto, or any different rate agreed between CAPP and EPI in the 2010 Incentive Tolling Settlement.

EPI will perform a final true-up of actual to projected costs and throughput volumes within three months after the expiration of the Term. If the final true-up discloses a difference between the projected costs and throughput volumes and the actual data, such difference (negative or positive) shall be recovered or credited on throughput volumes over the following twelve month-period. The mechanism set forth in this Paragraph 6 for the adjustment of the Line 4 Extension Component will be included in the 2010 Incentive Tolling Settlement.

Illustrations of the annual adjustment of the Line 4 Extension Component are set forth in Schedule G attached to this settlement.

**7. Capital Cost Risk Sharing**

(a) Schedule B attached to this settlement sets forth the results of a probabilistic analysis of the Controllable Costs and Non-Controllable Costs, based on the May, 2007 estimate, to determine the P10, P55, and P90 amounts to be utilized in this Paragraph 7.

(b) The full amount of actual Non-Controllable Costs for the Line 4 Extension (including AFUDC thereon) will be included in the Line 4 Extension rate base.

The Capital Costs included in the Line 4 Extension rate base for actual Controllable Costs will be calculated as provided below.

(i) If actual Controllable Costs for the Line 4 Extension (such costs, "ACC") incurred in construction are equal to or greater than the P90 amount set forth in Part 2 of Schedule B, the amount to be included for Controllable Costs shall equal:

- P55 + (0.75 x (P90 – P55)) + (0.50 x (ACC – P90))

(ii) If ACC incurred in construction are less than the P90 amount but greater than the P55 amount set forth in Part 2 of Schedule B, the amount to be included for Controllable Costs shall equal:

- P55 + 0.75 x (ACC – P55)

(iii) If ACC incurred in construction are less than the P55 amount but greater than the P10 amount set forth in Part 2 of Schedule B, the amount to be included for Controllable Costs shall equal:

- ACC + 0.25 x (P55 – ACC)

(iv) If ACC incurred in construction are equal to or less than the P10 amount set forth in Part 2 of Schedule B, the amount to be included for Controllable Costs shall equal:

- ACC + (0.25 x (P55 – P10)) + (0.50 x (P10 – ACC))

No AFUDC will be included in the Line 4 Extension rate base on the amount of ACC that is excluded from such rate base through the application of the foregoing risk sharing mechanisms.

Illustrations of the foregoing risk sharing mechanism are set forth in Schedule H attached to this settlement.

**8. Rules and Regulations**

The Line 4 Extension will be subject to the Rules and Regulations Tariffs of EPI for the Mainline System, as amended from time to time.

**9. In-Service Date**

(a) The targeted In-Service Date of the Line 4 Extension is March 31, 2009 (the "Targeted Date"). EPI will use commercially reasonable efforts to achieve the Targeted

Date. As of the date of this settlement, subject to timely receipt of all necessary governmental authorizations, orders, certificates, licenses, permits and approvals, EPI proposes to commence construction of the Line 4 Extension in June, 2008. If commencement of construction of the Line 4 Extension is delayed beyond June, 2008 (or any replacement date selected by EPI for the commencement of construction), or if the actual In-Service Date is delayed to a date that is later than the Targeted Date set forth above, in either case, as a result of any Unavoidable Event or Regulatory Delay, then, the Targeted Date shall be deferred by one day for each day of such delay.

For the purposes of this settlement:

"Unavoidable Event" shall mean: (1) compliance with acts, orders, regulations, or requests of any governmental authority or any person purporting to act therefore; (2) insurrections, wars, rebellion, riots, strikes, or labor disruptions; (3) action of the elements not reasonably preventable or accidental disruption; (4) breakdown of production or transportation facilities that is not reasonably preventable; and (5) any other cause, whether or not of the same class or kind, reasonably beyond EPI's control.

"Regulatory Delay" shall mean any problems or delays in obtaining governmental or regulatory authorizations, orders, certificates, licenses, permits and approvals required or desirable in connection with the construction of the Line 4 Extension.

(b) For any day after the Targeted Date that the Line 4 Extension is not available to accept oil, an amount equal to (i) $ two million, multiplied by (ii) 12, divided by (iii) 365 will be deducted from the Capital Costs included in the Line 4 Extension's rate base.

## 10. Audit and Review

### (a) Audit/Review of Cost Allocation

Upon reasonable written notice to EPI by CAPP, but subject to EPI's confidentiality obligations to third parties, CAPP may elect to conduct the following review and audit, upon and subject to the terms set forth in this Paragraph 10:

(i) Prior to issuance of NEB's approval of the Line 4 Extension, a review of (y) EPI's proposed procedures to ensure that expenses of the Line 4 Extension will be appropriately coded and (z) EPI's proposed allocation of Capital Costs between Controllable Costs and Non-Controllable Costs. The review will include each segment as defined in EPI's costing documents; and

(ii) On or before the second anniversary of the In-Service Date of the Line 4 Extension, an audit of the Capital Costs of the Line 4 Extension. The range of such audit shall cover such data as shall be needed to reasonably confirm whether inclusion of Capital Costs has been appropriate and whether all Capital Costs components have been fairly allocated.

**(b) CAPP Auditors**

For purposes of performing the review and audit functions described in Paragraph 11(a) hereof, independent parties will be selected by CAPP, subject to EPI's approval, which approval shall not be unreasonably withheld (the "Auditors"). The review and audit shall each be conducted during normal business hours. EPI will provide the Auditors with reasonable access to EPI source data necessary for the conduct of the review and audit. The Auditors will maintain confidentiality and not disclose source data reasonably identified by EPI as confidential. Source data which is subject to any form of legal privilege will not be made available.

**(c) Conduct of Review/Audit**

With respect to the review and audit described in Paragraph 10(a), each of the Auditors will:

(i) execute and deliver a confidentiality agreement with EPI prior to commencing the review and another confidentiality agreement prior to commencing the audit. Each such confidentiality agreement shall be in form and substance acceptable to EPI;
(ii) subject to (iii) below, have access to historical EPI source data regarding Capital Cost expenditures; and
(iii) have access to EPI auditors' working papers, where EPI is able, through its use of reasonable commercial efforts, to cause the disclosure of such working papers to CAPP.

**(d) No Further Reviews or Audits**

Upon completion of the review described in Paragraph 10(a)(i) and audit described in Paragraph 10(a)(ii), and upon resolution of any issues arising as a result of such review and/or audit, no further review or audit shall be conducted by CAPP pursuant to this Paragraph 11.

The CAPP review will be deemed to be complete no later than one year following the execution of the confidentiality agreement required by EPI for the review unless otherwise agreed to by CAPP and EPI. The CAPP audit will be deemed to be complete no later than one year following the execution of the confidentiality agreement required by EPI for the audit unless otherwise agreed to by CAPP and EPI.

**11. Other (Capital Cost) Recoverables**

From and after the effective date of the 2010 Incentive Tolling Settlement, capital costs resulting from legislation, regulations, orders or directions or non-mandatory guidelines by any government authority which result in changes to EPI's health, safety, environmental, security, anti-terrorism and taxation (other than property tax and income tax) requirements, practices or procedures shall be recovered by EPI through a non-routine adjustment mechanism included in the 2010 Incentive Tolling Settlement. From the In-Service Date through the effective date of an 2010 Incentive Tolling Settlement including such a mechanism, such costs will instead be rolled into the Mainline System costs; provided that rolling into the Mainline System costs of any capital costs resulting from compliance with non-mandatory guidelines shall be subject to agreement with CAPP.

**12. Tankage**

Receipt tankage requirements for Line 4 will be addressed by the CAPP Tankage Committee and will be subject to subsequent agreement between CAPP and EPI.

**13. Dispute Resolution**

(a) In the event of a dispute arising out of or relating to this settlement (a "Dispute"), the Party wishing to initiate dispute resolution shall give written notice the "Dispute Notice") to the other Party of the Dispute and outline in reasonable detail the relevant information concerning the Dispute. Within 14 days following receipt of the Dispute Notice, the Parties will each appoint representatives to meet to discuss and attempt to resolve the Dispute. Such representatives shall be individuals that are technically qualified to appreciate and assess the Dispute and have authority to negotiate the Dispute. If the Dispute is not settled within 90 days of receipt of the Dispute Notice, the negotiations will be deemed to have failed.

(b) If the Dispute is not resolved pursuant to the process in (a) above, the Dispute may be referred to the NEB by either Party, for binding resolution on an expedited basis.

(c) For the avoidance of doubt, it is expressly agreed that the reference in certain paragraphs of this settlement to dispute resolution pursuant to this Paragraph 13 is included so that there is a fallback if no 2010 Incentive Tolling Settlement is agreed upon by the Parties. All provisions of this settlement are, however, subject to the dispute resolution provisions of this Paragraph 15, whether or not such provisions expressly reference these provisions.

## 14. Condition to Implementation

Implementation of this settlement will be subject to approval of the NEB.

## 15. Interpretation

The Parties have concluded the Line 4 settlement on a negotiated basis based on all of the components reflected herein. The Parties have agreed that no individual components(s) of this settlement is to be construed as representing the position of either Party. No element of this settlement is to be considered acceptable to either Party in isolation from all other aspects of this settlement. The Parties' intent is that this settlement is to be viewed as a whole and that there should be no prejudice to the positions of either Party in the future when the Term expires.

**Schedule A**

**Project Scope for the Line 4 Extension**

## Project Description

Line 4 currently initiates at Hardisty, Alberta and operates to Superior, WI. Following the completion of the Line 4 Extension, Line 4 will initiate at Edmonton, Alberta by connecting three existing, but currently deactivated, 48-inch pipeline segments with new 36-inch pipeline. Once complete, Line 4 will have an annual capacity Edmonton to Hardisty of 880,000 bpd.

## Project Scope

In addition to the reactivation of pipeline segments described above, the project will include:

- Approximately 136 kilometers of new 36-inch pipe between Edmonton and Hardisty
- 2 pump stations upgraded and transferred from Line 3 to Line 4 at:
    - Strome, Alberta
    - Kingman, Alberta
- 1 new initiating pump station at Edmonton

### Impacts of Line 4 Extension on Line 3

- Line 3 will only be available for stop/start light service between Edmonton and Hardisty following the transfer of 2 stations to Line 4
- Line 3 usable capacity will be dependent on the ability of the Hardisty connecting carriers to receive light crude
- Line 3 will be available for continued heavy service ex-Hardisty

## Schedule B

## Capital Costs For the Line 4 Extension

### Part 1

| Non Controllable Cost Estimate ($As Spent) | | |
|---|---|---|
| P10 | P55 | P90 |
| 71.94 | 91.29 | 112.54 |

### Part 2

| Controllable Cost Estimate ($As Spent) | | |
|---|---|---|
| P10 | P55 | P90 |
| 168.26 | 223.51 | 284.66 |

### Part 3

| Total Cost Estimate ($As Spent) | | |
|---|---|---|
| P10 | P55 | P90 |
| 240.2 | 314.8 | 397.2 |

**Note, the foregoing estimates are net of AFUDC.**

## Schedule C

## **Illustration of AFUDC**

See attached spreadsheet

# Line 4 Extension Allowance for Funds Used During Construction Illustrative Example Schedule C

| Assumptions | |
|---|---|
| ROE | 11.25% |
| COD | 6.50% |
| Equity Thickness | 45% |
| Debt Thickness | 55% |

| | | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Construction Work in Progress (CWIP) | | | | | | | | | | | | | |
| Opening | Line 1 = Previous Line 3 | | 1,000 | 1,900 | 3,100 | 3,900 | 7,400 | 11,900 | 16,400 | 24,600 | 29,100 | 32,300 | 33,300 |
| Additions | Line 2 = Input | 1,000 | 900 | 1,200 | 800 | 3,500 | 4,500 | 4,500 | 8,200 | 4,500 | 3,200 | 1,000 | 1,000 |
| Closing | Line 3 = Line 1 + Line 2 | 1,000 | 1,900 | 3,100 | 3,900 | 7,400 | 11,900 | 16,400 | 24,600 | 29,100 | 32,300 | 33,300 | 34,300 |
| Allowance for Equity Used During Construction (AEDC) | | | | | | | | | | | | | |
| Opening | Line 4 = Previous Line 6 | - | 2 | 8 | 19 | 34 | 58 | 99 | 159 | 247 | 362 | 494 | 636 |
| Additions | Line 5 = (Line 1+ Line 2*0.5 + Line 4 + Line 7) * ROE/12 * Equity Thickness | 2 | 6 | 11 | 15 | 24 | 41 | 60 | 88 | 115 | 132 | 142 | 147 |
| Closing | Line 6 = Line 4 + Line 5 | 2 | 8 | 19 | 34 | 58 | 99 | 159 | 247 | 362 | 494 | 636 | 783 |
| Allowance for Debt Used During Construction (AIDC) | | | | | | | | | | | | | |
| Opening | Line 7 = Previous Line 9 | - | 1 | 5 | 12 | 23 | 40 | 69 | 112 | 174 | 255 | 348 | 448 |
| Additions | Line 8 = (Line 1+ Line 2*0.5 + Line 4 + Line 7) * COD/12 * Debt Thickness | 1 | 4 | 7 | 11 | 17 | 29 | 43 | 62 | 81 | 93 | 100 | 104 |
| Closing | Line 9 = Line 7 + Line 8 | 1 | 5 | 12 | 23 | 40 | 69 | 112 | 174 | 255 | 348 | 448 | 552 |
| CumulativeAllowance for Funds Used During Construction (AFUDC) | Line 10 = Line 6 + Line 9 | 3 | 13 | 31 | 57 | 98 | 168 | 271 | 421 | 617 | 842 | 1,084 | 1,335 |

The numbers used in this calculation are for illustrative purposes only
All dollar figures are in $CDN '000's

## Schedule D

## Estimated Power Quantity For the Line 4 Extension

Line 4 operating at 880 kbpd with heavy line fill

| | |
|---|---|
| Estimated Power Consumption, GigaWatt-hrs per year: | 516.5 Gw-hr |

**Schedule E**

**First Year Expenses and Costs**

All costs are expressed in as spent, Canadian dollars
First full year of operation is 2009

| | **Year 1 ($ MM)** |
|---|---|
| **Operating Expenses**<br>**settlement reference: Paragraph 5(a)** | 3.64 |
| **Property Tax**<br>**settlement reference: Paragraph 5(a)** | 1.50 |
| **Integrity Operating Costs**<br>**settlement reference: Paragraph 5(a)** | 0.72 |
| **Integrity Capital Costs**<br>**settlement reference: Paragraph 5(d)** | 0.78 |
| **Maintenance Capital Costs**<br>**settlement reference: Paragraph 5(e)** | 0.06 |

Schedule F

## Estimates of Future Years' Maintenance Capital Costs, Pipeline Integrity Capital Costs and Scheduled Pipeline Integrity Operating Expenses

**Assumptions:**

All costs are expressed in as spent, Canadian dollars
First full year of operation is 2009
Inflation is assumed to be 2.5%

**NOTE:** All costs and expenses are for informational purposes only.

### Maintenance Capital Costs

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | | | | |
| **Base Amount ($ CDN '000)** | 60 | 60 | 60 | 60 | 60 | 70 | 70 | 70 | 70 | 70 | 75 | 77 | 80 | 80 | 80 |

### Pipeline Integrity Capital Costs

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | | | | |
| **Base Amount ($ CDN '000)** | 785 | 280 | 0 | 0 | 0 | 0 | 0 | 650 | 600 | 0 | 350 | 0 | 0 | 0 | 800 |

### Scheduled Pipeline Integrity Operating Expenses

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | | | | |
| **Base Amount ($ CDN '000)** | 725 | 275 | 530 | 290 | 315 | 300 | 325 | 320 | 900 | 1,890 | 360 | 650 | 375 | 370 | 400 |

## Schedule G

## Illustration of Line 4 Extension Component Adjustment

See attached spreadsheet

**Schedule G**

**Illustration of Line 4 Extension Component Adjustment: Over Collection**

**NOTE: Schedule F is an illustrative example of how the Line 4 Extension toll adjustment will be implemented in Year 2 of operation (2010) and as part of the Incentive Tolling Agreement. Schedule F is NOT applicable to the Line 4 Extension first year of operation (2009)**

**Assumptions:**

**The Overall Return on Rate Base changed due to the over-forecasting of Cost of Debt**
**The Income Tax Allowance changed due to the under-forecasting of the tax rate**
**All dollar figures are in $CDN '000's**
**Carrying Charge** **5%**

| | | Year 2 Over Collection | | | | |
|---|---|---|---|---|---|---|
| | | Year 2 | | | | |
| Volumes (bpd) | | 2000000 | 2500000 | | | 2500000 |
| Overall Return on Rate Base | 4(a) 4(b) 4(d) 4(e) | 26000 | 25000 | -1000 | 1 | 25000 |
| Income Tax Allowance | 4(f) | $800 | $900 | $100 | 100% | $900 |
| Operating Expenses | | | | | | |
| Operating Expenses | 5(a) | ncluded as part of the 2010 ITS | | | | |
| Property Taxes | | Will be included as part of the 2010 ITS | | | | |
| Power Costs | 5(b) | Will be included as part of the 2010 ITS | | | | |
| Integrity | 5(d) 5(e) | Will be included as part of the 2010 ITS | | | | |
| Other Recoverables | 5(c) | Will be included as part of the 2010 ITS | | | | |
| Depreciation Expense | 4(c) | $10,000 | $10,000 | $0 | 100% | $10,000 |
| Total Revenue Requirement | | $36,800 | | | | $35,900 |
| **True Up from Previous Year** | **6.000000** | **$0** | | | | **$0** |
| **Net Revenue Requirement** | | $36,800 | | | | $35,900 |
| **Actual Revenue Collected** | | | | | | $40,000 |
| **Difference** | 6 | | | | | **($4,100)** |
| **Carrying Charge** | | | | | | ($205) |
| **True Up Carried to Following Year** | | | | | | ($4,305) |

**Conclusion:**
**Actual Revenue collected in Year 2 was 40,000 while the net revenue requirement in Year 2 was 35,900**
**In Year 3, the net revenue requirement will be reduced by a total of 4,305; 4,100 in accordance with the over collection in Year 2, and 205 in accordance with the 5% carrying charge**

**Illustration of Line 4 Component Adjustment: Under Collection**

**NOTE: Schedule F is an illustrative example of how the Line 4 Extension toll adjustment will be implemented in Year 2 of operation (2010) and as part of the Incentive Tolling Agreement. Schedule F is NOT applicable to the Line 4 Extension first year of operation (2009)**

**Assumptions:**

**The Overall Return on Rate Base changed due to the under-forecasting of Cost of Debt**
**The Income Tax Allowance changed due to the over-forecasting of the tax rate**
**All dollar figures are in $CDN '000's**
**Carrying Charge** **5%**

| | | Year 2 Under Collection | | | | |
|---|---|---|---|---|---|---|
| | | Year 2 | | | | |
| | | 2000000 | 2500000 | 0 | 0 | 2500000 |
| | | Forecast RR | Actuals | Difference | Recognized in RR | Final RR |
| Volumes | | 2500000 | 2000000 | | | 2000000 |
| Overall Return on Rate Base | 4(a) 4(b) 4(d) 4(e) | $25,000 | $26,000 | $1,000 | 100% | $26,000 |
| Income Tax Allowance | 4(f) | 900 | 800 | ($100) | 100% | $800 |
| Operating Expenses | | | | | | |
| Operating Expenses | 5(a) | Will be included as part of the 2010 ITS | | | | |
| Property Taxes | | Will be included as part of the 2010 ITS | | | | |
| Power Costs | 5(b) | Will be included as part of the 2010 ITS | | | | |
| Integrity | 5(d) 5(e) | Will be included as part of the 2010 ITS | | | | |
| Other Recoverables | 5(c) | ncluded as part of the 2010 ITS | | | | |
| **Depreciation Expense** | **4(c)** | **$10,000** | **$10,000** | **$0** | **$1** | **$10,000** |
| **Total Revenue Requirement** | | $35,900 | | | | $36,800 |
| **True Up from Previous Year** | 6 | $0 | | | | $0 |
| **Net Revenue Requirement** | | **$35,900** | | | | **$36,800** |
| **Actual Revenue Collected** | | | | | | $30,000 |
| **Difference** | 6 | | | | | 6800 |
| **Carrying Charge** | | | | | | 340 |
| **True Up Carried to Following Year** | | | | | | $7,140 |

**Conclusion:**
**Actual Revenue collected in Year 2 was 30,000 while the net revenue requirement in Year 2 was 36,800**
**In Year 3, the net revenue requirement will be increased by a total of 7,140; 6,800 in accordance with the under collection in Year 2, and 340 in accordance with the 5% carrying charge**

**Schedule H**

# Line 4 Extension - Application of Capital Cost Risk Sharing

## Scenario 1 - Actual Costs 20% higher than estimate in all categories

### 1. Cost Estimate ($MM Cdn, As spent, w/o AFUDC)

| | P10 | P55 | P90 |
|---|---|---|---|
| **Controllable** | 168.26 | 223.51 | 284.66 |

### 2. Actual Costs ($MM Cdn, As spent, w/o AFUDC)

| | |
|---|---|
| **Total (w/o AFUDC)** | 377.76 |
| **Non Controllable** | 109.19 |
| **Controllable** | 268.57 |
| **AFUDC** | 23.75 |
| **Total (w  AFUDC)** | 401.51 |

### 3. Application of Risk Sharing Mechanism to Controllable Costs

Non controllable costs not subject to risk sharing ($MM w/o AFUDC) 109.19

Controllable costs subject to risk sharing ($MM w/o AFUDC) 268.57

Formula applied to controllable costs (controllable costs > P55 and < P90)

P55 + 0.75 (Actual - P55) = Controllable Costs included in rate base

223.51 + 0.75 ( 268.57 - 223.51 ) = 257.31

Percent of controllable costs included in ratebase: 95.81%

### 4. Allocation of Actual AFUDC ($MM Cdn)

| | |
|---|---|
| AFUDC allocated to Controllable costs (subject to risk sharing): | 16.89 |
| AFUDC allocated to Non controllable costs | 6.86 |
| Total Actual AFUDC | 23.75 |

Amount of AFUDC subject to risk sharing included in rate base

| | |
|---|---|
| Percent included in rate base | 95.81% |
| $ amount ($MM) included in rate base | 16.18 |

### 5. Total Capital Costs Included In Rate Base ($MM Cdn)

| | |
|---|---|
| Controllable Capital Cost | 257.31 |
| Controllable Cost AFUDC | 16.18 |
| Non Controllable Capital Cost | 109.19 |
| Non Controllable AFUDC | 6.86 |
| TOTAL | 389.54 |

## Scenario 2 - Actual Costs 20% lower than estimate in all categories

### 1. Cost Estimate ($MM Cdn, As spent, w/o AFUDC)

| | P10 | P55 | P90 |
|---|---|---|---|
| **Controllable** | 168.26 | 223.51 | 284.66 |

### 2. Actual Costs ($MM Cdn, As spent, w/o AFUDC)

| | |
|---|---|
| **Total (w/o AFUDC)** | 262.33 |
| **Non Controllable** | 76.10 |
| **Controllable** | 186.23 |
| **AFUDC** | 17.27 |
| **Total (w AFUDC)** | 279.61 |

### 3. Application of Risk Sharing Mechanism to Controllable Costs

Non controllable costs not subject to risk sharing ($MM w/o AFUDC) 76.10

Controllable costs subject to risk sharing ($MM w/o AFUDC) 186.23

Risk Sharing formula applied to controllable costs (controllable costs > P10 and < P55)

Actual + 0.25 X (P55 - Actual) = Controllable Costs included in rate base

186.23 + 0.25 ( 223.51 - 186.23 ) = 195.55

Percent of controllable costs included in ratebase: 105.00%

### 4. Allocation of Actual AFUDC ($MM Cdn)

| | |
|---|---|
| AFUDC allocated to Controllable costs (subject to risk sharing): | 12.26 |
| AFUDC allocated to Non controllable costs | 5.01 |
| Total Actual AFUDC | 17.27 |

AFUDC subject to risk sharing included in rate base

| | |
|---|---|
| Percent included in rate base | 105.00% |
| $ amount ($MM) included in rate base | 12.88 |

### 5. Total Capital Costs Included In Rate Base ($MM Cdn)

| | |
|---|---|
| Controllable Capital Cost | 195.55 |
| Controllable Cost AFUDC | 12.88 |
| Non Controllable Capital Cost | 76.10 |
| Non Controllable AFUDC | 5.01 |
| TOTAL | 289.54 |