

ESTIMATED 2013 - 2017 ACCRUAL COSTS

GAZIFÈRE NON-PENSION POST RETIREMENT PLANS

22 AUGUST 2012

Note to reader regarding actuarial valuations and projections:

This report may not be relied upon for any purpose other than those explicitly noted in the Introduction, nor may it be relied upon by any party other than the parties noted in the Introduction. Mercer is not responsible for the consequences of any other use. A projection is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future.

If maintained indefinitely, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the amount of plan expenses, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the projection date.

To prepare the results in this report, actuarial assumptions are used to model a single scenario from a range of possibilities. The results based on that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. Different assumptions or scenarios within the range of possibilities may also be reasonable, and results based on those assumptions would be different. Furthermore, actuarial assumptions may be changed from the projection date to the valuation date, and from one valuation to the next because of changes in accounting standards and professional requirements, developments in case law, plan experience, changes in expectations about the future and other factors.

The projection results shown in this report also illustrate the sensitivity to one of the key actuarial assumptions, the discount rate. We note that the results presented herein rely on many assumptions, all of which are subject to uncertainty, with a broad range of possible outcomes and the results are sensitive to all the assumptions used in the projection.

Because actual plan experience will differ from the assumptions used in this projection, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a projection or a valuation report.

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Introduction

Purpose

At the request of Gazifère Inc. (the “Company”), we have estimated the accrual (i.e. accounting) costs over 2013 to 2017 for The Non-Pension Post Retirement Plan for Employees of Gazifère Inc. (the “OPEB Plan”) based on economic conditions at March 31, 2012. Actual accrual costs in respect of these years will differ from the amounts estimated here, and will be based on future economic and demographic experience. We understand this report will be provided to the Régie de l'énergie (the “Régie”) in conjunction with the Company’s application for recovery of OPEB costs from ratepayers.

The information presented is prepared for the internal use of the Company and for filing with the Régie. This information presented is not intended or suitable for any other purpose.

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Background Information

Determination of Accrual Costs

The OPEB Plan is a defined benefit (“DB”) plan. Accrual costs in respect of the Plan are determined annually based on actuarial valuations and extrapolations for financial reporting purposes.

The Company has indicated that only direct charges to the Statement of Profit & Loss (“P&L charges”) are applicable for determining costs on the accrual basis. Therefore, all accrual costs in the body of this report only reflect P&L charges. Charges to the Statement of Other Comprehensive Income (“OCI charges”) have been included in Appendix B, for information purposes.

Accounting Standards and Methodology

The most recent actuarial valuation of the OPEB Plan for financial reporting purposes was as at January 1, 2009. This valuation has been extrapolated forward and is the basis for the projections contained herein.

The Company’s fiscal year end date is December 31, and the measurement date for plan obligations as described in this report is December 31.

The Company is currently proposing to transition from reporting under Canadian GAAP to US GAAP. As such, results contained in this report are in accordance with US GAAP.

All results presented in this report are in Canadian dollars.

For year-end 2011 financial reporting, management of Enbridge Gas Distribution Inc. (“Management”) adopted the discount rate methodology proposed by the Canadian Institute of Actuaries (“CIA”) in September 2011. As of December 31 2011 the CIA methodology resulted in a discount rate approximately 80 basis points lower than the rate determined using Management’s previous methodology. We have based our projections on accounting rates determined using the CIA methodology going forward.

Additional details on the assumptions and methodology used in these projections are given in Appendix D.

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Financial Results

Financial Position at December 31, 2011 and Projected Future Financial Positions

We have projected the results of the January 1, 2009 actuarial valuations of the OPEB Plan for financial reporting purposes forward to each of the years ending 2012 through 2016. The purpose of these projections is to estimate the accrual costs for 2013 through 2017. **The projections are based on the economic environment as at March 31, 2012 and assumptions described in Appendix D. The actual economic environment as at each of the years ending 2012 through 2016 and actual plan experience over this period may differ significantly from these assumptions.**

Projected Accounting Balance Sheets

The table below details the actual balance sheet position of the OPEB Plan as at December 31, 2011, as well as the projected position of the plans at each of year-end 2012 – 2016, assuming plan experience unfolds according to the assumptions described in Appendix D.

Balance Sheet Position (\$Thousands)

Gazifère OPEB	
12.31.2011 (Actual)	
Assets	\$0
Benefit obligation	\$1,622
Excess (deficit)	(\$1,622)
12.31.2012 (Projected)	
Assets	\$0
Benefit obligation	\$1,729
Excess (deficit)	(\$1,729)
12.31.2013 (Projected)	
Assets	\$0
Benefit obligation	\$1,759
Excess (deficit)	(\$1,759)
12.31.2014 (Projected)	
Assets	\$0
Benefit obligation	\$1,784
Excess (deficit)	(\$1,784)
12.31.2015 (Projected)	
Assets	\$0
Benefit obligation	\$1,804
Excess (deficit)	(\$1,804)
12.31.2016 (Projected)	
Assets	\$0
Benefit obligation	\$1,819
Excess (deficit)	(\$1,819)

Summary of Accrual Costs

Based on the projected financial positions above, the resulting US GAAP P&L accrual costs for the plans over 2013 – 2017 are summarized below.

Accrual Costs – US GAAP (\$Thousands)

	Gazifère OPEB
2013 Projected P&L Charge	\$143
2014 Projected P&L Charge	\$139
2015 Projected P&L Charge	\$135
2016 Projected P&L Charge	\$131
2017 Projected P&L Charge	\$129

Important to Note

The purpose of this report is to estimate the accrual costs over 2013 through 2017. However, the actual level of costs in 2013 through 2017 is highly dependent on:

- Changes in long-term high-quality corporate bond yields after March 31, 2012;
- Any changes to Management's discount rate methodology in the future;
- Future health care claims costs and trends; and,
- Actual plan demographic experience.

These items will cause actual accrual costs over 2013 through 2017 to differ from the estimates provided in this report.

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Actuarial Opinion

The methods used in the projections of benefit obligations and determination of plan costs were selected by Management in accordance with the requirements of US accounting standards (US GAAP).

Management has selected the assumptions used in the projections of plan obligations and determination of plan costs. They are Management's best estimate assumptions, selected for accounting purposes, in accordance with US accounting standards (US GAAP). I am not expressing any opinion on these assumptions.

In my opinion, for the purposes of the projections,

- The membership data on which the projections are based are sufficient and reliable;
- The calculations have been made in accordance with the requirements of US accounting standards (US GAAP), reflecting application of the Company's accounting policies described in this report.

This report has been prepared, and my opinion given, in accordance with accepted actuarial practice in Canada.



Nicholas H. Gubbay

FCIA, FFA

22 August, 2012

Date

APPENDIX A

Sensitivity of Results

The estimated impact on accrual costs of positive and negative “shocks” to the plan’s benefit obligations are given in this appendix. These “shocks” are assumed to occur at the start of 2013 in all scenarios.

Yield curve shift of +/- 1%

This scenario assumes a parallel shift at the start of 2013 in the yield curve which benefit obligation discount rates are based on.

Table A.1: Positive Obligation Shock in 2013 (+1% shift in yield curve)

	Accrual Costs – (\$Thousands)	
	US GAAP P&L CHARGE	Δ from baseline
2013	\$127	(\$16)
2014	\$124	(\$15)
2015	\$122	(\$13)
2016	\$120	(\$11)
2017	\$118	(\$11)

Table A.2: Negative Obligation Shock in 2013 (-1% shift in yield curve)

	Accrual Costs – (\$Thousands)	
	US GAAP P&L CHARGE	Δ from baseline
2013	\$164	\$21
2014	\$157	\$18
2015	\$151	\$16
2016	\$145	\$14
2017	\$141	\$12

Health Care Cost Trends

It should be noted that future health care cost trends are especially difficult to predict and actual experience is likely to differ from expected. In addition, changes to provincial drug benefit plans have the potential to shift some or most of the cost of seniors’ drug claims to employer sponsored retiree benefit plans, thereby dramatically increasing the cost of seniors’ drugs claimed under the grandfathered portion of the OPEB Plan.

APPENDIX B

Total Accrual Costs

The accrual costs shown on page 5 and in Appendix A, are only in respect of direct charges to the P&L statement. Under US GAAP, additional charges (primarily in respect of recognizing actuarial gains and losses) are reflected in the OCI statement. This appendix includes estimates of both direct P&L charges and indirect OCI charges over 2013 to 2017.

Table B.1: Projected Financial Position

Accrual Costs – US GAAP (\$Thousands)

	P&L CHARGE	OCI CHARGE	TOTAL CHARGE
2013 Charge	\$143	(\$41)	\$102
2014 Charge	\$139	(\$37)	\$102
2015 Charge	\$135	(\$34)	\$101
2016 Charge	\$131	(\$31)	\$100
2017 Charge	\$129	(\$29)	\$100

APPENDIX C

Required Disclosures

Terms of Engagement

In accordance with our terms of engagement with the Company, our projections are based on the following material terms:

- The information presented in this report has been prepared for the internal use of the Company and for filing with the Régie. This information presented is not intended or suitable for any other purpose.
- The projections and calculations of costs have been prepared in accordance with US accounting standards (US GAAP). They are based on methods and assumptions selected by Management and accounting policies selected by the Company;
- We have projected benefit obligations forward using the expected cost of benefits accruing over 2012 through 2016, reflecting interest over each period and adjusting year-end 2012 benefit obligations to reflect the economic environment as at March 31, 2012. Benefit obligations in future periods are projected forward with these same March 31, 2012 assumptions and methodology. Projected future cash flows have also been incorporated.
- Our calculations are based on the assumptions and methodology described in Appendix D. The discount rate assumption has been updated from the rate used in the December 31, 2011 extrapolation to reflect market conditions as at March 31, 2012 and the CIA discount rate methodology proposed September 2011.
- Our calculations are based on extrapolations of a valuations performed using membership data as at January 1, 2009. The membership data used in our projections and calculations is summarized in Appendix E.
- Our calculations reflect the provisions of the Plan as at March 31, 2012. Based on the information provided by Enbridge Inc., no substantive amendments have been made to the Plan since that date. A summary of the plan provisions is provided in Appendix F.

Subsequent Events

After checking with representatives of Management, to the best of our knowledge there have been no events subsequent to March 31, 2012 which, in our opinion, would have a material impact on the results of the projection.

APPENDIX D

Accounting Methods and Assumptions

Accounting Methods

Funding Policy

The non-pension post retirement benefits are funded on a pay-as-you-go basis. The Company funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide the non-pension post retirement benefits.

Valuation of Benefit Obligations and Current Service Cost

For purposes of these estimates, we have continued to use the projected unit credit method for the valuation of benefit obligations and current service cost of the plan. The objective under this method is to expense each participant's benefits under the plan as they would accrue; taking into consideration projection of benefit costs to and during retirement. Thus, the total benefit, to which each participant is expected to become entitled at retirement, is broken down into units, each associated with a year of past or future service.

The benefit deemed to accrue for an individual during a fiscal year is the excess of the accrued benefit for valuation purposes at the end of the fiscal year over the accrued benefit for valuation purposes at the beginning of the fiscal year. Both accrued benefits are calculated from the same projections to the various anticipated separation dates. An individual's benefit obligation is the present value of the accrued benefit for valuation purposes at the beginning of the fiscal year and the service cost is the present value of the benefit deemed to accrue in the fiscal year.

The plan's service cost is the sum of the individual service costs, and the plan's benefit obligation is the sum of the individual benefit obligations for all participants under the plan.

Accounting Policies

Accounting Standards Transition

The Company currently reports in accordance with Canadian GAAP accounting standards.

The Company is proposing to adopt US GAAP accounting standards on January 1, 2013. Due to the requirement to provide comparative information in the first set of US GAAP financial statements, the Company will transition to US GAAP from Canadian GAAP on January 1, 2012. On that date, a transition adjustment will be made to retained earnings to bring the existing Canadian GAAP balances in line with the requirements of US GAAP. The Company will continue to report under Canadian GAAP for the fiscal year ending December 31, 2012. Two sets of financial results would be maintained for the fiscal year ending December 31, 2012, one for Canadian GAAP and one for US GAAP. At January 1, 2013, the Company would no longer report under current Canadian GAAP and would commence with reporting entirely under US GAAP for the fiscal year ending December 31, 2013.

Measurement Date

The Company's fiscal year end date is December 31, and the measurement date for plan obligations under US GAAP is also December 31.

Attribution

Under US GAAP, obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the date of "full eligibility", determined as the first date the member has or will have met the age and service requirements to qualify for all benefits after retirement.

Amortizations of Gains and Losses

Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation are amortized over the average remaining service period of active members expected to receive benefits under the plan (12.7 years).

Accounting Assumptions

The following assumptions, provided to us by Management, were used in valuing the benefit obligations under the plan.

<i>Measurement date</i>	31 December	
<i>Discount rate</i>	4.33% (4.50% for December 31, 2011 disclosure)	
<i>Salary increases</i>	5.00% per annum	
<i>Medical cost trend rates</i>	Hospital	4.5% per annum
	Prescription drugs	9.375% per annum in 2009 grading down to 4.50% per annum in and after 2029. The trend rates are reduced by 0.5% per year after age 65 for Ontario members to reflect the inclusion of the Ontario Drug Benefit costs
	Other medical	4.50% per annum
	Vision care	4.50% per annum, with an effective 0% per annum net trend rate due to the low fixed dollar limit that exists for the benefit
<i>Provincial health trend rate (non-grandfathered)</i>	0.00% per annum	
<i>Retiree HSA trend rate</i>	0.00% per annum	
<i>Dental cost trend rate</i>	4.50% per annum	
<i>Mortality</i>	Uninsured Pensioners' (UP) Table for 1994 with generational mortality improvements	

<i>Withdrawal</i>	Rates at sample ages are shown below:		
	Age	Male	Female
	25	5.0%	13.0%
	35	4.6%	8.5%
	45	2.5%	3.9%
	55	0.0%	0.0%
	No withdrawal assumed after attainment of eligibility for retirement.		
<i>Disability incidence</i>	No explicit allowance has been made for disability prior to retirement.		
<i>Retirement rates</i>	If 30 years of continuous service is not reached between ages 55 and 59 inclusive, then the table rates apply, otherwise 20% of the members will retire at the first age at which 30 years of continuous service and age 55 are reached. At all other ages, rates follow the table below.		
	Age	Rate	
	55 – 56	5.0%	
	57 – 58	7.5%	
	59	10.0%	
	60 – 64	20.0%	
	65	100.0%	
<i>Marital status</i>	For active members, 80% are assumed to be married at retirement with males assumed to be 2 years older than their female spouses. For current retirees, actual marital status and spousal age is assumed.		
<i>2009 Age 65 per capita claims costs excluding administration and taxes</i>	Hospital	\$71	
	Prescription drugs	\$902	
	Other medical	\$134	
	Vision care	\$15	
	Dental care	\$516	
	Total	\$1,638	
	The current per capita medical and dental costs were based on actual claims experience from 01 July 2009 to 30 June 2011 and adjusted to the midpoint of the valuation year. Drug costs are shown before the impact of any provincial drug plan.		
<i>Provincial Health Premiums</i>	The company pays 50% of the cost of provincial health premiums (shown below) for non-grandfathered retirees in British Columbia. We have incorporated the cost of these premiums in our valuation. Monthly premiums Single \$54 Family \$96. The Company cost is frozen at the above (2004) levels.		

<i>Increases in utilization by age</i>	Cost at Age					
	Attained Age	Hospital	Drug	Other Medical	Dental	Vision
	55	45%	75%	106%	106%	106%
	60	64%	88%	103%	104%	103%
	65	100%	100%	100%	100%	100%
	70	161%	109%	102%	95%	97%
	75	253%	113%	110%	90%	95%
	80	388%	114%	121%	83%	92%
<i>Prescription drug offset assumption at age 65 and after</i>	The following cost-offsets were assumed to reflect the impact of provincial drug plans:					
	Québec:		50%			
	Ontario		65%			
	Alberta:		55%			
	Prince Edward Island		35%			
	All other provinces:		0%			
<i>Administrative expenses as a percentage of paid claims</i>	Medical	5.00% plus 2.28% for stop loss charge plus applicable taxes				
	Dental	5.00% plus applicable taxes				
	Retiree HSA	5.00% plus applicable taxes				
	Life insurance	2.50% plus applicable taxes				
<i>Taxes</i>	Premium Tax					
	Quebec – 2.55%					
	Other – 2.00%					
	Retail Sales Tax					
	Quebec – 9.00%					
	Ontario – 8.00%					
<i>Participation</i>	100% of members are assumed to participate in the retiree health plan.					

Our assumptions are based on the economic environment as of March 31, 2012, the discount rate methodology proposed by the CIA in September 2011, and input provided by Management for the December 31, 2011 accounting valuation. Actual assumptions as at year-end 2012 through 2016 will reflect the economic environment and input from the Company at those times, and may differ from those used in these projections.

APPENDIX E

Membership Data

Analysis of Membership Data at January 1, 2009

For purposes of these estimates, we have based our projections on membership data as at January 1, 2009, which was provided by Management. Membership data was projected forward based on the assumptions described in Appendix D.

Membership data for the Enbridge Gas Distribution OPEB Plan, including affiliates (including Gazifère), as at January 1, 2009 are summarized below.

Active Membership Data

	01 January 2009			
	Number	Average Age	Average Service	Average Salary
Grandfathered Plan				
Non Union	389	54.5	27.6	\$83,448
Union	360	54.4	26.4	\$58,205
Part Time	4	60.3	11.3	\$30,519
Non-Grandfathered Plan	1,294	39.9	7.7	\$69,578
Total	2,047	45.3	14.8	\$70,137

Inactive Membership Data

	01 January 2009		
	Less than age 65	Greater than age 65	Total
Grandfathered Plan			
Number of Retirees	253	844	1,097
Average age of Retirees	60.8	74.3	71.2
Average Life Benefit	\$100,765	\$5,000	\$27,086
Number of Spouses of Retirees	278	577	855
Average age of Spouses	58.7	73.2	68.5
Number of Surviving Spouses	29	145	174
Average Age of Surviving Spouses	56.4	77.0	73.6
Non-Grandfathered Plan			
Number of Retirees			13
Average age of Retirees			60.2
Average Life Benefit			\$10,000
Number of Spouses of Retirees			11
Average age of Spouses			60.5

APPENDIX F

Summary of Plan Provisions

For purposes of these projections, we have reflected the provisions of the OPEB Plan in effect on March 31, 2012.

The following is a summary of the main provisions of the Plan in effect on March 31, 2012. This summary is not intended as a complete description of the OPEB Plan.

Grandfathered Plan Summary (Traditional Plan)

Eligibility

Employees who are eligible to retire under the terms of the pension plan (at age 55) are eligible for post-retirement benefits. Current retirees, surviving spouses, and employees with 60 points (age plus service totals at least 60) as of 01 January 2004 for non-union employees and 01 January 2007 for union employees will be eligible to elect the traditional plan or the Retiree Health Spending Account (RHSA).

Spouses and dependants of retirees are eligible for health and dental coverage as well. Dental coverage ceases when the retiree reaches age 65.

On the retiree's death, health and dental coverage continues for the spouse and dependents. Dental coverage ceases when the surviving spouse reaches age 65, and there is no continuation of dental coverage if the surviving spouse is over age 65 when the retiree dies.

Cost Sharing

All costs for retiree benefits are employer paid.

Life Insurance

Group	Pre Age 65 coverage	Post Age 65 coverage
Non Union	2 x annual earnings at retirement	\$5,000
Union	\$40,000	\$5,000
Part-Time	\$15,000	\$5,000

Medical and Dental Benefits

Hospital Benefits

Benefits cover 100% of semi-private room and board charges in excess of charges for ward accommodation and for ward-level user fees, where applicable. Hospital charges related to chronic case services are limited to a lifetime maximum of \$10,000 per covered person.

Major Medical Benefits

Reimbursement Percentages

- 100% for paramedical practitioners and vision care expenses.
- 90% of first \$1,000 of family's eligible expenses per calendar year and 100% of remaining eligible expenses.

Deductible

- None.

Maximum

- \$50,000 per person in any three consecutive calendar years.

Eligible Expenses

- Prescription drugs.
- Ambulance services.
- Medical supplies and services (e.g. artificial limbs, orthopaedic shoes).
- Professional services.
- Services of a registered nurse, subject to a lifetime maximum of \$5,000.
- Vision care (\$100 per person for frames/lenses, \$200 for contacts per person every 24 consecutive months).
- Hospital charges for emergency treatment outside Canada.

Provincial Benefits- Ontario Bill 26

Seniors age 65 and over in Ontario with sufficiently high income are required to pay the first \$100 of annual drug costs followed by a \$6.11 dispensing fee per prescription. The Plan reimburses retirees for these amounts.

Dental Benefits

Reimbursement Percentages

- 100% of basic expenses.
- 50% of major restorative expenses.
- 50% of orthodontic expenses.

Deductible

- None.

Fee Guide

Current Provincial Dental Association Fee Guide.

Dental Maximums

- \$2,000 per person per calendar year for basic and major restorative expenses combined.
- \$1,000 per person lifetime for orthodontic expenses.

Non-Grandfathered Plan Summary (Retiree Health Spending Account – RHSA)

Eligibility

Current retirees, surviving spouses, and employees that did not qualify by having 60 points (age plus service totals at least 60) as of 01 January 2004 for non-union employees and 01 January 2007 for union employees will be eligible for the RHSA plan if the employee has at least five years of employment when they retire.

On the retiree's death, the RHSA continues for dependants. Provincial health premiums also continue to be paid (50%).

Cost Sharing

With the exception of provincial health premiums, all costs for retiree benefits are employer paid.

Life Insurance

Life coverage will be \$10,000.

Health Spending Account

The Company will provide a \$1,500 per family health spending account allocation, from which the retiree will purchase catastrophic coverage as well as pay for out of pocket medical, dental and vision expenses. No indexation of this spending account is contemplated.

British Columbia Health Premiums

The Company will pay for British Columbia health premiums at 50% of the 2004 rates.



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