Attachment B

Qualifying Volume

The difference between Actual Ex-Superior Throughput and Prorated Ex-Superior Throughput (as such terms are defined below) constitutes the Qualifying Volume.

For purposes of this Attachment B:

To the extent Actual Ex-Superior Throughput exceeds the Pre-Expansion Capacity of Lines 6a and 14, the Actual Ex-Superior Throughput will be prorated such that the Pre-Expansion Capacity of Lines 6a and 14 is not exceeded (resulting in "Prorated Ex-Superior Throughput").

The "Ex-Superior Lines" means the lines immediately downstream of Superior, Wisconsin, other than line 5 (*i.e.*, Lines 6a, 14 and the new Southern Access line).

The "Actual Ex-Superior Throughput" means the throughput in bpd actually transported through the Ex-Superior Lines in a given month.

The "Pre-Expansion Capacity" of Lines 6a and 14 means the capacity of those lines in a given month assuming the same crude slate as the crude slate actually transported Ex-Superior during that month (*i.e.*, all else being equal, a relatively heavier crude slate will reduce the Pre-Expansion Capacity and a relatively lighter crude slate will increase the Pre-Expansion Capacity in accordance with the hydraulic model employed by Enbridge Energy). The Pre-Expansion Capacity of Line 6a is assumed to be 100,000 m3/d with an all-heavy petroleum crude slate and using the heater at Superior. The Pre-Expansion Capacity of Line 14 can vary from 39,000 m3/d to 51,500 m3/d, depending upon the crude slate transported.

Attachment C

Parameters for Calculating Revenue Requirement

For purposes of calculating the local rate of the Southern Access Extension, the following parameters will apply: Enbridge will use the FERC's Opinion No. 154-B methodology, but employing a stipulated capital structure that will remain fixed at 55% equity, 45% debt, consistent with SEP II. The stipulated annual depreciation rate will be fixed at 3.33%. The stipulated cost of debt for each year will be the weighted average long-term cost of debt of Enbridge Energy Partners, L.P. at the end of the prior calendar year. The stipulated cost of equity will be fixed at a 9% real rate of return plus inflation. The inflation rate used will be the current year CPI-U as determined from time to time in accordance with the Opinion 154-B methodology. The tax allowance component of the cost of service will be determined each year in accordance with the FERC's tax allowance policy in effect in such year. All incremental operating costs, property or similar taxes, and fuel and power expenses associated with the Southern Access Extension will be included in the revenue requirement.

Attachment D

Illustrations of Section 3(c)

Scenario 1

Assumptions:
The Southern Access Extension is, as defined in the Southern Access Extension Tariff Agreement Definitions, in the Self Sufficiency Period
The numbers used in this calculation are for illustrative purposes only
All dollar figures are in $US

	Base Year	Year 1	Year 2	Year 3	Year 4
Revenue Requirement	85,000,000	85,000,000	107,950,000	123,825,000	
Throughput (b/d)	340,000	340,000	340,000	340,000	
Toll ($)	0.68	0.68	0.87	1.00	
Annual Toll Increase		0%	28%	15%	
Toll Increase from Base		0%	28%	47%	
Actual Throughput (b/d)	340,000	250,000	290,000	340,000	
Deficiency/Surplus ($)	0	22,950,000	15,875,000	0	

Conclusions:
The annual average throughput volumes for the Southern Access Extension are less than 340,000 b/d for two consecutive years (Year 1 and Year 2) and;
The Extension toll for the next calendar year (Year 3) of $1.00 exceeds 140% of the Base Year toll of $0.68
Therefore, in accordance with the Southern Access Extension Tariff Agreement paragraph 3.C, Enbridge would have complete flexibility and discretion to reduce the local rates for Year 4 and subsequent year(s).

Scenario 2

Assumptions:
The Southern Access Extension is, as defined in the Southern Access Extension Tariff Agreement Definitions, in the Self Sufficiency Period

	Base Year	Year 1	Year 2	Year 3	Year 4
Revenue Requirement	85,000,000	85,000,000	107,950,000	117,475,000	131,295,588
Throughput (b/d)	340,000	340,000	340,000	340,000	340,000
Toll ($)	0.68	0.68	0.87	0.95	1.06
Annual Toll Increase			28%	9%	12%
Toll Increase from Base		0%	28%	39%	56%
Actual Throughput (b/d)	340,000	250,000	310,000	300,000	340,000
Deficiency/Surplus ($)	0	22,950,000	9,525,000	13,820,588	0

Conclusions:

1 The annual average throughput volumes for the Southern Access Extension are less than 340,000 b/d for two consecutive years (Year 1 and Year 2) however; The Extension toll for the next calendar year (Year 3) of $0.95 does not exceed the Base Year toll of $0.68 by 140% Therefore, in accordance with the Southern Access Extension Tariff Agreement paragraph 3.C, Enbridge would not have complete flexibility and discretion as to the determination of the local rates for Year 3 and subsequent year(s).

2 The annual average throughput volumes for the Southern Access Extension are less than 340,000 b/d for two consecutive years (Year 2 and Year 3) and; The Extension toll for the next calendar year (Year 4) of $1.06 exceeds the Base Year toll of $0.68 by over 140% Therefore, in accordance with the Southern Access Extension Tariff Agreement paragraph 3.C, Enbridge would have complete flexibility and discretion to reduce the local rates for Year 4 and subsequent year(s).

Exhibit 2

CAPP

CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

October 15, 2007

Mr. Wilf Schrage
Enbridge Pipelines Inc.
425-1 Street S.W., 3000
Calgary, Alberta T2P 3L8

Dear Mr. Schrage:

Re: Enbridge Inc. Southern Access Extension ("Extension") Pipeline Toll Settlement

This letter confirms the support of the Canadian Association of Petroleum Producers (CAPP) and its members for the above-referenced project and the accompanying Tariff Agreement. This unique agreement, which applies only to this project, represents a reasonable balance of costs and benefits of the extension project. Over the life of the agreement, it is anticipated that the applied-for rates will recover the project's cost on a standalone basis.

CAPP represents 150 companies that explore for, develop and produce natural gas, natural gas liquids, crude oil, and oil sands throughout Canada. CAPP member companies produce more than 95 percent of Canada's natural gas and crude oil. CAPP also has 130 associate members that provide a wide range of services that support the upstream crude oil and natural gas industry. The association has been active on behalf of its membership for over fifty years, including negotiating numerous pipeline settlement agreements, both in Canada and the United States.

The Extension project is viewed by CAPP members as a critical step toward accessing significant new market areas in the U.S. mid-continent to match the rapidly growing new supplies of crude oil produced from Alberta's oil sands. The pipeline also offers up future potential connections to deliver Canadian crude oil into the U.S. Gulf Coast market area.

CAPP's member companies include virtually all of Enbridge Pipelines' shippers and account for over ninety percent of the volumes transported on the pipeline system. Given the critical nature of additional pipeline capacity, individual member involvement and participation in this Agreement has been high. Only one company opposed the Agreement – Flint Hills Resources, a wholly owned subsidiary of Koch Industries the operator of a refinery located near St. Paul, Minnesota, which is upstream of the Extension.

2100, 350 – 7th Ave. S.W.
Calgary, Alberta
Canada T2P 3N9
Tel (403) 267-1100
Fax (403) 261-4622

403, 235 Water Street
St. John's, Newfoundland
Canada A1C 1B6
Tel (709) 724-4200
Fax (709) 724-4225

Email: communication@capp.ca Website: www.capp.ca

CAPP wishes to highlight that two member companies – BP and ConocoPhillips – that opposed an earlier settlement filed by Enbridge for the Extension, have informed CAPP that it can make it known that they will not oppose the current Agreement reached between CAPP, on behalf of industry, and Enbridge.

Yours truly,

Greg L. Stringham
Vice President, Markets & Fiscal Policy

CAPP_EDMS-#126147-V1-CAPP_Support_Letter_Southern_Access_Extension.DOC

Exhibit 3

Exhibit 3

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Enbridge Energy Company, Inc.	)	
	)	**Docket No. OR08-___**
Enbridge Energy, Limited Partnership	)	

Affidavit of Wilfred R. Schrage In Support of Joint Petition for Declaratory Order

Wilfred R. Schrage, being duly sworn, states as follows:

1. I am the Director, Capacity Development for Enbridge Pipelines, Inc. ("EPI"). My business address is Suite 3000, 425 1st Street, S.W., Calgary, Alberta. I am responsible for overseeing the commercial development of the company's main pipeline system, which transports western Canadian crude oil to the upper Midwest and Ontario. The U.S. portion of that system, commonly referred to as the Lakehead System, is operated by Enbridge Energy, Limited Partnership ("EELP"). EELP is an operating subsidiary of Enbridge Energy Partners, L.P. ("EEP"), a master limited partnership traded on the New York Stock Exchange. EPI is the parent of the general partner of EEP and, through its subsidiaries, owns approximately 15 percent of EELP. The vast majority of the oil transported on Lakehead originates in western Canada and is transported to the international border by EPI. EPI and EELP (collectively "Enbridge") together operate the longest, most sophisticated crude oil pipeline system in North America, extending from Edmonton, Alberta, to Ontario and upstate New York. I am providing testimony on behalf of EELP and its affiliate, Enbridge Energy Company, Inc. ("EEC") (collectively "Petitioners") in support of their Joint Petition regarding the proposed Southern Access Extension Pipeline that is planned to extend service to Patoka, Illinois. I previously submitted an

affidavit in support of an Offer of Settlement regarding this pipeline in September 2006. *See Enbridge Energy, Limited Partnership,* 117 FERC ¶ 61,279 (2006) ("*2006 Settlement Order*").

2. Since the Commission issued its order on the 2006 settlement offer, I have been involved in negotiations with the Canadian Association of Petroleum Producers ("CAPP") to resolve the concerns raised in the order. CAPP represents 150 companies accounting for 95 percent of production from the upstream oil and natural gas industry in Canada. Approximately 97 percent of the shipments on the Lakehead System originate in Canada. CAPP, through its committees, represents its members in negotiations with Canadian and U.S. pipelines to ensure fair pipeline practices and rates. Based on extensive negotiations following the issuance of the Commission's order on the Southern Access Extension Project, Petitioners have reached an entirely new agreement with CAPP (the "Tariff Agreement") that substantially revises the rate structure for the project. The new agreement not only resolves the issues raised in the *2006 Settlement Order*, but also addresses the major concerns raised by the commenters with respect to the prior proposal. The Tariff Agreement is attached as Exhibit 1 to the Joint Petition and is the basis for the Joint Petition for Declaratory Order in this proceeding. CAPP has also provided Enbridge with a letter of support stating that all except one of its members approved of the Tariff Agreement. *See* Exhibit 2 to the Joint Petition.

Overview of Project

3. By way of background, the Southern Access Extension Project involves the construction of a new, 178-mile 36-inch pipeline from Flanagan, Illinois to Patoka, Illinois at a cost of approximately $434 million (in 2007 U.S. dollars). This Project is the second phase of the Southern Access Program that Enbridge undertook to substantially expand the Lakehead System to provide more capacity for western Canadian oil to reach U.S. markets. The first phase of the Program, which the Commission previously approved in *Enbridge Energy, Limited*

Partnership, 114 FERC ¶ 61,264 (2006), involved the construction of a pipeline (designated as "Line 61") from Superior, Wisconsin to Flanagan. EELP is currently constructing the new 42-inch Line 61, which will have an initial annual average capacity of 400,000 barrels per day ("bpd"), expandable up to 1.2 million bpd. Line 61 will interconnect with the Spearhead Pipeline, which currently transports crude from Chicago via Flanagan to Cushing, Oklahoma. Once Line 61 is completed, the segment of Spearhead between Flanagan and Griffith, Indiana (near Chicago) ("Spearhead North") will be reversed, permitting crude oil from Line 61 to flow either to Cushing or to Chicago from Flanagan. Spearhead Pipeline is owned by CCPS Transportation, LLC, another subsidiary of EPI. The relevant segments of the Lakehead System (and related pipelines) are depicted in the map attached hereto as Exhibit WRS-1.

4. The second phase of the Southern Access Program, the Southern Access Extension Pipeline, is intended to maximize the potential of Line 61 by enhancing access to the Patoka market hub. The Extension Pipeline will have an initial annual average capacity of 400,000 bpd from Flanagan to Patoka. The Extension Pipeline as planned can also be expanded up to 800,000 bpd by adding relatively low cost pumping capacity. Therefore, the Extension Pipeline creates the possibility of permitting as much as 800,000 bpd of incremental production to move through Line 61 and on to Patoka, making it possible for Line 61 to unlock its full expansion potential. The Extension Pipeline will be constructed and operated by EEC, but will be operationally integrated with the Lakehead System.

Background of the Project

5. Crude oil production from the oil sands resource in western Canada is rapidly increasing. In addition, crude oil production in the Williston Basin is also increasing. Projects totaling tens of billions of dollars are currently underway in Alberta, leading to CAPP projections that crude oil production from the Canadian oil sands will grow from approximately

1.1 million bpd in 2006 to more than 4.4 million bpd by 2020. CAPP, Crude Oil Forecast, Markets and Pipeline Expansions, at Appendix 7.1 (June 2007) (Exh. NKE-2 to the affidavit of Neil K. Earnest, Exhibit 4 to the Joint Petition).[1] Much of this increased production is expected to flow into the U.S., where a number of refineries are being reconfigured to process increasing volumes of western Canadian crude (including synthetic). Because of the large volumes involved, the traditional export markets for Canadian crude in the upper Midwest and the Rockies are becoming saturated, and the increased flows must find new markets further south.

6. In response to this predicted tide of new Canadian oil, Enbridge has undertaken a number of pipeline projects to facilitate transportation of these increased volumes to new markets. *See* map attached as Exhibit WRS-1. Among other projects, Enbridge has proposed and obtained rate approval for:

1. Line 17 from Stockbridge, Michigan to Toledo, Ohio, permitting Canadian crude to access Toledo area refineries, *Enbridge Energy, Limited Partnership*, 107 FERC ¶ 61,336 (2004);

2. Line 61 (the first component of the Southern Access Program), extending from Superior, Wisconsin to Flanagan, Illinois, and providing an initial increase of 400,000 bpd, expandable up to 1.2 million bpd, in the capacity of Lakehead's mainline system, 114 FERC ¶ 61,264;

3. the Spearhead Pipeline, which involved reversal of a crude oil pipeline to flow from Chicago to Cushing, Oklahoma (via Flanagan), providing access initially for up to 125,000 bpd of primarily Canadian crude oil to reach the market trading hub at Cushing, *Enbridge Energy Co., Inc.*, 110 FERC ¶ 61,211 (2005); and

4. Phase 5 of the North Dakota Pipeline Expansion, which is increasing the volume on the pipeline from its historical level of 80,000 bpd to approximately 110,000 bpd, transporting crude oil from the Williston Basin area of Montana and North Dakota, *Enbridge Pipelines (North Dakota) LLC*, 117 FERC ¶ 61,131 (2006).

[1] Mr. Earnest's affidavit is cited as "Earnest Aff. (Exh. 4) at ¶ _" while exhibits to his affidavit are identified as "Earnest Aff. (Exh. 4) Exhibit NKE-_." References to other affiants and exhibits are made in the same way.

Enbridge has several additional projects that are either pending before the Commission or in the planning stages:

1. a proposed expansion of the Spearhead Pipeline from 125,000 bpd to 190,000 bpd (*See* Petition filed August 13, 2007 in Docket No. OR07-17-000);

2. a proposed new pipeline (Southern Lights) to transport light hydrocarbons from Chicago to Edmonton for use as a diluent to facilitate transportation of additional bitumen from the oil sands to the U.S. and Ontario (*See* Petition filed July 20, 2007 in Docket No. OR07-15-000);

3. the Alberta Clipper project, which is a planned expansion of the Enbridge mainline system in Canada and the U.S. to provide 450,000 bpd to 800,000 bpd of incremental new capacity between Hardisty, Alberta and Superior, Wisconsin;

4. a planned joint venture between Enbridge and ExxonMobil to provide pipeline transportation between Patoka, Illinois and the Texas Gulf Coast; and

5. a planned Phase 6 expansion of the North Dakota Pipeline from approximately 110,000 bpd to approximately 155,000 bpd.

The Extension Pipeline is another key element in the development of infrastructure to bring the expanding Canadian oil production to U.S. markets. The Extension Pipeline will connect Flanagan, Illinois (which is the intersection point of Line 61 and Spearhead) with Patoka, Illinois, a major hub where a number of crude oil pipelines intersect.

7. The current capacity of Spearhead to transport oil out of Flanagan is 125,000 bpd, which is expected to grow to 190,000 bpd by the first quarter 2009, assuming that the Spearhead Petition in Docket No. OR07-17-000 is approved and construction is completed on a timely basis. In addition, when Line 61 goes into service, EELP will take over operation of the segment of the Spearhead line between Flanagan and Chicago, re-reversing that segment to permit oil transported on Line 61 to flow northeast to Chicago refineries. The capacity to flow from

Flanagan to Chicago will be approximately 131,000 bpd and from Flanagan to Cushing will be approximately 190,000 bpd. Thus, without the Extension, the take-away capacity at Flanagan will be limited to approximately 321,000 bpd, thereby restricting the volume of oil that can be transported on Line 61 to that level until another outlet, such as a looping of Spearhead North, is constructed. Enbridge is discussing possible expansions of Spearhead North with customers, so I have therefore asked Mr. Earnest to assume that there are no pipeline constraints into the Chicago market.

8. The Mustang Pipeline, which is a joint venture between Enbridge and ExxonMobil, currently operates in heavy crude service on a route roughly parallel to the Extension Pipeline between Chicago and Patoka with a capacity of 96,000 bpd. Mustang has been in apportionment since December 2005. Assuming the Extension is built, Enbridge anticipates that, beginning in 2011, Mustang will be connected to Lakehead's Line 14, which will then transport light crude to Chicago. That will enable Mustang potentially to be converted to all-light service, with a capacity of approximately 140,000 bpd.

History of the Project

9. As mentioned above, EELP filed an offer of settlement relating to the Extension Pipeline in September 2006. Under the terms of the proposed settlement presented at that time, EELP had agreed with CAPP to recover the costs of the Southern Access Extension through a joint tariff and an Extension Surcharge on the Lakehead System, which would be an additional component of Lakehead's Facilities Surcharge mechanism previously approved by the Commission.

10. The principal features of that Offer of Settlement were:

- Most of the costs of the Extension Pipeline were to be recovered through a surcharge to be added to the mainline rates of EELP's Lakehead System;

- The rates for services from the Canada-U.S. border to Patoka were to be established through a joint tariff between EELP and the Extension Pipeline;

- The through rate to Patoka under the joint tariff would have been 123% of the border-to-Chicago rate, reflecting the ratio of the distance from the border-to-Patoka to the distance from the border-to-Flanagan;

- The implicit incremental revenue from Flanagan to Patoka (*i.e.*, 23% of the border-to-Chicago rate) was to be credited to the Extension cost of service, thus leaving the Lakehead surcharge to cover the full Extension cost of service minus that implicit incremental revenue.

11. Under the terms of the 2006 offer of settlement, the surcharge would have been calculated based on the Commission's Opinion No. 154-B methodology with a stipulated capital structure of 55% equity and 45% debt; a stipulated depreciation rate of 3.33%, reflecting the projected 30-year life of the facility; a stipulated cost of debt set at EELP's weighted average long-term cost of debt from the prior year; a stipulated cost of equity of 9% real plus inflation; a tax allowance in keeping with Commission tax policy; and all incremental operating costs, property and other taxes, and fuel and power expenses. The surcharge was to remain in effect for 30 years with an annual true-up to reflect the prior year's actual costs and throughput.

12. Several shippers filed comments contesting the proposed offer of settlement. In the wake of the Commission's order rejecting the settlement, the Petitioners and CAPP renewed discussions aimed at arriving at a tariff structure that was more compatible with the interests of upstream shippers, while still permitting the Petitioners to proceed with the project. The central issue in those discussions was the desire of some upstream shippers to impose more of the costs of the Extension Pipeline on users of that pipeline, balanced against the desire of some shippers for a mechanism to stabilize the Extension Pipeline's rates (particularly in the early years).

2007 Tariff Agreement

13. The result of these intensive discussions, which occurred over a period of many months following the *2006 Settlement Order*, is the Tariff Agreement that is the subject of the Joint Petition. In contrast to the prior Offer of Settlement, the primary emphasis in the Tariff Agreement is creating a "stand alone" tariff structure for the Extension Pipeline, rather than one in which costs of the Extension are rolled into Lakehead's mainline rates. The essence of the agreement is "to have the Southern Access Extension operate as a pipeline with tariff rates set to reflect a stand-alone operation." *See* Tariff Agreement (Exh. 1) at ¶ 1. However, in the early years, when there is uncertainty as to when the Extension Pipeline will attain self-sufficiency, the Agreement provides a financial "backstop" for the recovery of costs. Over the life of the Tariff Agreement, the Lakehead System mainline shippers are not only essentially kept whole, but should actually see significant benefits as a result of the Extension Pipeline.

14. The Tariff Agreement sets the initial rates on an estimated cost of service basis using the same general parameters as the prior agreement, which are quite consistent with, if not more conservative than, existing Commission policy and which were not challenged in the prior proceeding. The Tariff Agreement determines the stand alone rates for the Extension using a 340,000 bpd throughput level (*i.e.*, approximately 85% of initial capacity). The 340,000 bpd figure results in a stand alone rate that should exactly recover the estimated cost of service for the Extension Pipeline if the pipeline is utilized at the 85 percent level. To the extent the Extension Pipeline revenue generated during the agreement's 15-year term fails to meet or surpasses the pipeline's revenue requirement, a balancing account will be created.[2] In years

[2] The balancing account tracks deficits and surpluses due to volumes above/below 340,000 bpd and due to actual costs diverging from estimated costs. Use of the deficit/surplus method to true-up actual to estimated costs removes the incentive for EEC to over-estimate costs, because the difference between estimated costs and actual costs flows through to shippers.

when there are annual deficits, EELP will fund the balancing account through a surcharge added to the Lakehead System rates. Any surpluses generated by the Extension Pipeline will first be used to repay the Lakehead System for previous deficits until the cumulative deficits, including interest, have been repaid.[3]

15. In order to move the Extension Pipeline to self-sufficiency as soon as possible, once the Extension has operated with surpluses for three consecutive years during the term of the Agreement, no further deficits will be added to the balancing account or recovered through Lakehead's rates. However, the Extension will continue to calculate its rates for the full 15-year term based on the 340,000 bpd throughput level and surcredits will continue until prior deficits in the balancing account (including interest) are repaid or the term ends. Any surpluses beyond those necessary to repay the deficit through the end of the term are to be used to reduce the Extension Pipeline rates through the year after the term ends. The balancing account ensures that there is no over-recovery by EEC relative to the agreed-upon cost of service. The Tariff Agreement does provide some flexibility for Enbridge to lower the Extension rates during the 15-year term. After the pipeline reaches self-sufficiency (*i.e.*, three consecutive years of surpluses), if its volumes fall below 340,000 bpd for two years in a row and the next year's rates would be required to go up by more than 40 percent under the Agreement, Enbridge has discretion to discount the Extension Pipeline rates below the agreed-upon level to attract more throughput. Once the 15-year term of the Agreement ends, the Extension Pipeline rates will revert to regulation under the Commission's usual standards.

[3] A minor exception occurs to the extent a deficit occurs in a year in which the Qualifying Volume on the Lakehead System, as defined in the Offer of Settlement approved by the Commission in the *2006 Settlement Order*, exceeds 400,000 bpd. In such a year, the proportionate share of the deficit above the 400,000 bpd level is not subject to repayment, in recognition of the fact that the incremental upstream benefits in those circumstances almost certainly outweigh any burden on upstream shippers in that year.

16. One way to think of the Tariff Agreement is that it is similar to mechanisms by which start-up enterprises defer a portion of their cost of service to be recovered in later periods when the enterprise has reached its full operational capability. This problem is particularly acute for pipelines, which frequently require a developmental period during which throughput "ramps up" over time to the desired level.[4] If the rates are set to recover the full cost of service over the reduced early year volumes, the result may be to drive away any volumes, thus ensuring the new pipeline will not be built, even though there is a need for new outlets for growing crude supplies. By keeping the stand alone rates lower in the early years, the pipeline is able to attract more volume and, eventually, to become self-sustaining.

17. In the case of the Extension Pipeline, the deferral comes in the form of the balancing account. In the early years, when Extension volumes are expected to be relatively low, the portion of the cost of service not recovered at the stand alone rate is covered by the Lakehead surcharge. As Extension volumes ramp up, the Extension is projected to begin generating surplus revenues (somewhere in the range of 2013 to 2014, depending upon market developments), at which point the Lakehead System shippers are repaid in the form of Lakehead surcredits. At the same time, the increasing volume moving through the Extension Pipeline generates incremental throughput on the upstream segments of the Lakehead and EPI Mainline Systems, as well as generating other benefits to upstream shippers. Therefore, the deferral is not simply neutral with respect to upstream shippers.

18. In short, the Tariff Agreement is a risk-sharing arrangement that ensures that the Lakehead shippers will not have to subsidize the Extension shippers' rates so long as adequate

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[4] Experience with Spearhead illustrates how a pipeline may begin at throughput levels below capacity. For the first seven months it was in service, it averaged 70,000 bpd, despite having a 125,000 bpd capacity. Throughput levels have risen since it was put in service, and since October 2006 Spearhead has been full and in prorationing in most months.

throughput is transported on the Extension Pipeline during the 15-year term to offset any accumulated deficits. Forecasts of throughput volumes expected to move to Patoka on the Extension Pipeline demonstrate that there is little risk of such a shortfall. Moreover, the fact that CAPP is supporting the proposal indicates that the representative of the producers of the vast majority of Lakehead's throughput believes the Extension Pipeline will be heavily used and that any deficits will be recovered during the term of the agreement.

19. By contrast, if the Extension Pipeline were required to be tariffed on a purely stand alone basis, with no support from the mainline system, EEC would be exposed to the full brunt of the throughput risk (*i.e.*, the risk that it could not achieve full utilization of the new pipeline in every year at the stand alone rate). In those circumstances, EEC would not be able to justify investing in the pipeline at a rate of return commensurate with its risk profile as a regulated pipeline company. Thus, despite its clear shipper and public interest benefits, the Extension Pipeline may well not be built (and certainly may be significantly delayed) unless it is adequately "backstopped" during its initial years of operation.

20. One of the concerns expressed by the Commission in the *2006 Settlement Order* related to the presence of an Enbridge affiliate (not EELP) as the owner of the Extension Pipeline. To be clear, Petitioners view the Extension Pipeline as operationally a pure extension of the Lakehead System to Patoka. Volumes will flow seamlessly from Lakehead's Line 61 into the Extension Pipeline. Although the Extension will be constructed and owned by EEC, the terms of the Tariff Agreement sharply constrain the revenues that EEC can recover over the term of that Agreement, effectively limiting EEC to a pre-determined return on equity of 9 percent real. Thus, there is no potential in this arrangement for a cross-subsidy from Lakehead shippers

that would enrich EEC. From the perspective of shippers, the rates on both Lakehead and the Extension will be identical to what they would be if EELP owned both pipelines.

Project Benefits

21. The Extension Pipeline will provide benefits across a range of interests. It will provide enhanced supply security for U.S. refineries that are increasingly seeking to process western Canadian crude oil. It will give the western Canadian producers, and particularly the Williston Basin producers, an additional transportation option to the marketplace and thereby increase their marketing flexibility. Thus, this new infrastructure project benefits the U.S. public interest in enhanced supplies of crude oil from a stable, reliable neighboring nation.

22. Having an additional, high-capacity pipeline route between Chicago and Patoka will have two direct impacts. This pipeline alternative will enhance the overall security of the North American crude distribution network, and there will be improved crude oil quality yielded by enhanced crude segregation for light barrels that are transported on the Lakehead and Mustang Systems.

23. Also of relevance here, the Extension Pipeline will produce incremental volumes on the Lakehead Mainline system. The affidavit of Mr. Neil Earnest, a Vice President of the downstream energy consulting firm Muse, Stancil & Co., provides a detailed and comprehensive projection of the volumes likely to develop on the Lakehead System, both with and without the Extension Pipeline. Earnest Aff. (Exh. 4) at ¶ 40. As Mr. Earnest shows, the Extension Pipeline generates incremental upstream volumes for the Lakehead System from the first year, and those volumes exceed 600,000 bpd by 2017. *Id.*; *see* Earnest Aff. (Exh. 4) Exhibit NKE-10.

24. These incremental volumes will benefit the Lakehead System shippers that are affected by the proposed surcharge in a number of respects, including: