

Non-Arm's Length - Non-Basic Pipeline

Rate of Return on Capital:

$$\text{RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

Where:

RORC = Rate of Return on Capital

Deemed Debt % = 45%

Deemed Cost of Debt = (LTBR + 1%)

Deemed Equity % = 55%

Deemed Cost of Equity = NEB Return on Equity

Tax Rate = 45% [Fixed Rate for the years 1996 to 2003]

* Tax Rate = Annual Variable [Effective January 2004, the tax rate will be adjusted annually]

Long-Term Bond Rate (LTBR) = Annual Variable

NEB ROE = Annual Variable

In 1996:

LTBR = 7.75%
NEB ROE = 11.25%

$$\begin{aligned} 1996 \text{ RORC} &= (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})} \\ &= 45\% * \begin{matrix} 8.75\% \\ 3.94\% \end{matrix} + 55\% * \begin{matrix} 20.5\% \\ 11.3\% \end{matrix} \end{aligned}$$

1997 RORC = 15.19%

In 1997:

LTBR = 6.66%
NEB ROE = 10.67%

$$\begin{aligned} 1997 \text{ RORC} &= (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})} \\ &= 45\% * \begin{matrix} 7.66\% \\ 3.45\% \end{matrix} + 55\% * \begin{matrix} 19.4\% \\ 10.7\% \end{matrix} \end{aligned}$$

1997 RORC = 14.12%

In 1998:

LTBR = 5.59%
NEB ROE = 10.21%

$$\begin{aligned} 1998 \text{ RORC} &= (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})} \\ &= 45\% * \begin{matrix} 6.59\% \\ 2.97\% \end{matrix} + 55\% * \begin{matrix} 18.6\% \\ 10.2\% \end{matrix} \end{aligned}$$

1998 RORC = 13.18%

In 1999:

LTBR = 5.72%
NEB ROE = 9.58%

$$\begin{aligned} 1999 \text{ RORC} &= (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})} \\ &= 45\% * \begin{matrix} 6.72\% \\ 3.02\% \end{matrix} + 55\% * \begin{matrix} 17.4\% \\ 9.6\% \end{matrix} \end{aligned}$$

1999 RORC = 12.60%

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NEB ROE = Annual Variable

In 2000:

LTBR = 5.71%

NEB ROE = 9.90%

$$2000 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * \begin{matrix} 6.71\% \\ 3.02\% \end{matrix} + 55\% * \begin{matrix} 18.0\% \\ 9.9\% \end{matrix}$$

2000 RORC = 12.92%

In 2001:

LTBR = 5.76%

NEB ROE = 9.61%

$$2001 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * \begin{matrix} 6.76\% \\ 3.04\% \end{matrix} + 55\% * \begin{matrix} 17.5\% \\ 9.6\% \end{matrix}$$

2001 RORC = 12.65%

In 2002:

LTBR = 5.68%

NEB ROE = 9.53%

$$2002 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * \begin{matrix} 6.68\% \\ 3.01\% \end{matrix} + 55\% * \begin{matrix} 17.3\% \\ 9.5\% \end{matrix}$$

2002 RORC = 12.54%

In 2003:

LTBR = 5.34%

NEB ROE = 9.79%

$$2003 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * \begin{matrix} 6.34\% \\ 2.85\% \end{matrix} + 55\% * \begin{matrix} 17.8\% \\ 9.8\% \end{matrix}$$

2003 RORC = 12.64%

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NEB ROE = Annual Variable

In 2004:

LTBR = 5.14%

NEB ROE = 9.56%

$$2004 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 6.14\% + 55\% * 15.6\%$$

$$2.76\% + 8.6\%$$

2004 RORC = 11.36%

In 2005:

LTBR = 4.40%

NEB ROE = 9.46%

$$2005 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 5.40\% + 55\% * 15.2\%$$

$$2.43\% + 8.3\%$$

2005 RORC = 10.77%

In 2006:

LTBR = 4.28%

NEB ROE = 8.88%

$$2006 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 5.28\% + 55\% * 13.6\%$$

$$2.38\% + 7.46\%$$

2006 RORC = 9.83%

In 2007:

LTBR = 4.32%

NEB ROE = 8.46%

$$2007 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 5.32\% + 55\% * 12.5\%$$

$$2.40\% + 6.85\%$$

2007 RORC = 9.25%

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NEB ROE = Annual Variable

In 2008:

LTBR = 4.05%

NEB ROE = 8.71%

$$2008 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 5.05\% + 55\% * 12.4\%$$

$$2.27\% + 6.80\%$$

2008 RORC = 9.07%

In 2009:

LTBR = 3.90%

NEB ROE = 8.57%

$$2009 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 4.90\% + 55\% * 12.1\%$$

$$2.20\% + 6.64\%$$

2009 RORC = 8.84%

In 2010:

LTBR = 3.73%

NEB ROE = 8.52%

$$2010 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 4.73\% + 55\% * 11.8\%$$

$$2.13\% + 6.51\%$$

2010 RORC = 8.63%

In 2011:

LTBR = 3.29%

NEB ROE = 8.08%

$$2011 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 4.29\% + 55\% * 11.0\%$$

$$1.93\% + 6.05\%$$

2011 RORC = 7.98%

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NEB ROE = Annual Variable

In 2012:

LTBR = 2.43%
NEB ROE = 7.58%

$$2012 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 3.43\% + 55\% * 10.1\%$$

$$1.54\% + 5.56\%$$

2012 RORC = 7.10%

In 2013:

LTBR = 2.84%
NEB ROE = 7.23%

$$2013 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 3.84\% + 55\% * 9.6\%$$

$$1.73\% + 5.30\%$$

2013 RORC = 7.03%

In 2014:

LTBR = 2.73%
NEB ROE = 7.93%

$$2014 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 3.73\% + 55\% * 10.6\%$$

$$1.68\% + 5.82\%$$

2014 RORC = 7.49%

In 2015:

LTBR = 2.17%
ROE = 7.64%

$$2015 \text{ RORC} = (\text{Deemed Debt \%}) * (\text{Deemed Cost of Debt}) + (\text{Deemed Equity \%}) * \frac{(\text{Deemed Cost of Equity})}{(1 - \text{Tax Rate})}$$

$$45\% * 3.17\% + 55\% * 10.5\%$$

$$1.42\% + 5.76\%$$

2015 RORC = 7.18%