

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

October 31, 2006

In Reply Refer To:
Enbridge Pipelines (North Dakota) LLC
Docket No. OR06-9-000

Enbridge Pipelines (North Dakota) LLC
1330 Connecticut Avenue, N.W.
Washington, DC 20036-1795

Attention: Steven Reed, Esq.
Counsel for Enbridge Pipelines (North Dakota) LLC

Reference: Approval of Offer of Settlement

Ladies and Gentlemen:

1. On August 14, 2006, Enbridge Pipelines (North Dakota) LLC (Enbridge North Dakota) filed an Offer of Settlement (Settlement) to facilitate an expansion of its system. Enbridge North Dakota states that its system is currently heavily prorated to the detriment of crude oil production from the Williston Basin area of Montana and North Dakota. Enbridge further states that its shippers support the Settlement.¹

2. Enbridge North Dakota also states that the Settlement mechanism will recover the costs of the planned expansion through two components. The components of the planned expansion are (1) an expansion of the mainline between Beaver Lodge, North Dakota, and Clearbrook, Minnesota (Mainline Expansion), and (2) an expansion of a feeder line between Alexander, North Dakota, and Beaver Lodge, North Dakota (Looping Expansion). The cost recovery will occur through two cost-based surcharges over a five-year period: the Mainline Expansion Surcharge (Mainline Surcharge) and the Looping Expansion Surcharge (Looping Surcharge).

¹ Enbridge states that 11 current shippers on the Enbridge North Dakota system support the Mainline Surcharge and nine current shippers on Enbridge's affected feeder line support the Looping Surcharge.

3. Enbridge North Dakota seeks Commission action on the Settlement by October 30, 2006. No persons have filed comments or objections to the Settlement. The Commission approves the subject Settlement, as it appears to be fair and reasonable and in the public interest.

4. Enbridge North Dakota states that it is owned by Enbridge Energy Partners, LP, which also owns the Lakehead System.² Enbridge North Dakota further states that its 950-mile pipeline historically transported approximately 84,000 barrels per day (bpd) of crude oil from eastern Montana and North Dakota oil fields to refineries in North Dakota and, via the Lakehead and Minnesota Pipeline Systems, to destinations in the upper Midwest and eastern Canada. However, Enbridge North Dakota contends that recent dramatically increased production in the Williston Basin is expected to continue for the next several years, and significant infrastructure expansion will be necessary to accommodate the surge in production.

5. According to Enbridge North Dakota, it has undertaken certain smaller-scale activities in the last few years in preparation for the expansion facilities that are the subject of this Settlement. Enbridge North Dakota emphasizes that it does not propose to recover the costs for these preliminary activities via the surcharges addressed in this Settlement. However, Enbridge North Dakota maintains that no additional capacity increases are now possible without substantial new capital investment by the pipeline.

6. Enbridge North Dakota states the total capital cost of the Mainline Expansion, including Accumulated Interest During Construction (AIDC) is estimated at approximately \$26.7 million (in 2006 U.S. dollars) and the total cost of the Looping Expansion, including AIDC, is estimated at approximately \$38 million (in 2006 U.S. dollars), bringing the total expansion costs, including AIDC, to approximately \$64.7 million (in US dollars). When Enbridge North Dakota completes the Mainline Expansion portion of the project (including portions of the project Enbridge North Dakota is undertaking at its own expense), it estimates that it will be able to transport approximately an additional 30,000 bpd with a potential of about 45,000 bpd in the summer months, between Beaver Lodge and Clearbrook.

7. Enbridge North Dakota further states that the planned Loop Expansion on the feeder line will affect only volumes originating from Alexander and Trenton, North Dakota, and will increase volumes by about 25,000 bpd originating at Alexander from

² The Lakehead System is a major crude oil pipeline that provides transportation to the Midwest and points in eastern Canada and New York State.

38,000 bpd to approximately 63,000 bpd. According to Enbridge North Dakota, volumes from Trenton will increase 33,000 bpd from 60,000 bpd to approximately 93,000 bpd.

8. Enbridge North Dakota states that the Mainline Expansion will enhance service to all shippers; therefore, the costs of the expansion will be borne by shippers to all delivery points on its system. In general, continues Enbridge North Dakota, it will recover the cost of service of the Mainline Expansion through its proposed surcharge that it will add to the currently effective indexed base rates on file. Enbridge North Dakota states that it will true-up the surcharge annually. In determining the surcharge amounts, Enbridge North Dakota states it will adhere to the Commission's Opinion No. 154-B methodology, employing a capital structure that will remain fixed at 55 percent equity and 45 percent debt, with an annual depreciation rate of 20 percent. In addition, Enbridge North Dakota states that the stipulated cost of debt will be the weighted average long-term cost of debt of Enbridge Energy Partners, LP, and the stipulated cost of equity will be fixed at a 10.40 percent real rate of return plus inflation. Enbridge North Dakota also states that the inflation rate used will be the current year CPI-U,³ as determined from time to time in accordance with the Opinion No. 154-B methodology, and the tax allowance will be determined each year in accordance with the Commission's then-current tax allowance policy. Finally, Enbridge North Dakota states that the Looping Surcharge will employ essentially the same parameters, although it will assess this surcharge on only those shippers originating shipments at Trenton or Alexander, North Dakota.

9. The Commission approves the Settlement on the grounds that it appears fair, reasonable, and in the public interest. Approval of the Settlement does not constitute approval of any other project beyond the scope of this proceeding. The Commission's approval of the Settlement does not constitute acceptance of, or precedent regarding, any principle or issue in this filing.

By direction of the Commission.

Magalie R. Salas,
Secretary.

cc: All Parties

³ Consumer Price Index – All Urban Consumers.