

SCHEDULE 3.3

2016 Forecast to Budget Explanations

2016 Forecast to Budget**Overview**

The 2016 Forecast is based on actual results as of May 31, 2016 with forecasts to the end of year. For comparative purposes, variance explanations compare 2016 Forecast results to the 2016 Budget.

Revenue

The table below summarizes EGNB's 2016 Forecast gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to the 2016 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2016 Forecast	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 42,638	\$ 44,384	\$ (1,746)
3	Miscellaneous	882	962	(80)
4	Allowance for Funds Used During Construction	18	26	(8)
5		43,538	45,372	(1,834)
6	Services & Inspection			
7	Revenue	651	742	(91)
8	Cost of Goods Sold	(379)	(561)	182
9		272	181	91
10	Total Revenue	\$ 43,810	\$ 45,553	\$ (1,743)

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are forecast to end 2016 \$1.75 million under budget due to lower consumption (\$1.3 million), warmer than normal weather (\$829K) and contract demand (\$218K), offset by rates not being effective until May 1 (\$588K).

- 1 • Miscellaneous Operating Revenue: miscellaneous revenues are expected to end 2016 \$80K
2 under budget primarily due to other customer charges and fees (\$64K), ABC revenue (\$16K)
3 and late payment charges collected from customers (\$14K) all being lower than forecast,
4 offset by interest income (\$14K)
- 5 • AFUDC is expected to be \$8K under budget, primarily due to lower than budgeted monthly
6 balances in the CWIP account, on which AFUDC is calculated on.
- 7 • Services & Inspection Margin is expected to be \$91K over budget primarily due to lower
8 than forecasted costs on servicing residential and commercial protection plans as well as
9 reduced residential and commercial service work (\$182K), offset by lower number of
10 customers on residential and commercial protection plans and lower service work revenue
11 (\$91K).

12 **Expenses**

13 Below is a summary of EGNB's 2016 Forecast operating and maintenance expenses, bad debt
14 expense, amortization of property, plant and equipment, municipal and other taxes, interest on
15 amounts due to associates and affiliates and other interest and amortization of deferred
16 development costs with comparisons to the 2016 Budget.

Table 2
Operating Expenses

Line No.	(in thousands of dollars)	(1) 2016 Forecast	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,446	\$ 13,840	\$ (394)
3	Bad Debt Expense	385	385	-
4	Amortization of Property, Plant and Equipment	6,580	5,709	871
5	Municipal and Other Taxes	1,241	1,238	3
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	7,515	7,712	(197)
7	Other Expenses	500	500	-
8	Amortization of Deferred Development Costs	\$ 2,995	\$ 2,867	\$ 128
9	Total Expenses	\$ 32,662	\$ 32,251	\$ 411

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1 Operating and Maintenance (“O&M”) Expenses
 2 EGNB manages its O&M expenses at an aggregate level where EGNB will try to offset
 3 increased costs in certain areas with cost reductions or savings in other areas of the organization.
 4 EGNB has grouped its O&M expenses based on major cost categories rather than departments,
 5 as seen in the regulatory financial statement format filed with the Board.

Table 3
Operating and Maintenance Expenses

Line No.	(in thousands of dollars)	(1) 2016 Forecast	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Labour and Benefits	\$ 8,028	\$ 7,682	\$ 346
2	Admin/Office Expenses	372	283	89
3	Computer and Telecom Services	323	317	6
4	Professional Consulting	1,528	1,473	55
5	Travel and Training	141	153	(12)
6	Advertising and Promotions	668	682	(14)
7	Tools and Safety	311	290	21
8	Fleet	382	422	(40)
9	Facilities	688	685	3
10	Insurance	141	163	(22)
11	NBEUB Assessments	602	698	(96)
12	Corporate Allocations	1,039	1,276	(237)
13	Service Level Agreements	1,354	1,401	(47)
14	Gas Transportation and Related Activities	1,581	1,700	(119)
15	Total O&M Prior to Capitalization	<u>17,258</u>	<u>17,325</u>	<u>(67)</u>
16	Property, plant & equipment	<u>3,812</u>	<u>3,485</u>	<u>327</u>
17	Total Capitalized	<u>3,812</u>	<u>3,485</u>	<u>327</u>
6	18 Total O&M Expenses	<u>\$ 13,446</u>	<u>\$ 13,840</u>	<u>\$ (394)</u>

7 EGNB’s 2016 Forecast O&M expenses are expected to end the year \$67K, or 0.4%, under
 8 budget, with the drivers for this variance being:

- 9 • Labour and Benefits are forecast to be \$346K higher due to higher than budgeted pension
 10 benefits (\$270K) and salaries and other compensation (\$122K), offset by reduced
 11 relocation and recruitment costs (\$46K).

- 1 • Admin/Office Expenses are forecast to be over budget by \$89K primarily due to higher
2 postage and courier costs (\$45K), materials and office supplies (\$33K), and outside
3 services (\$11K).
- 4 • Computer and Telecom Services are forecast to end 2016 over budget by \$6K due to
5 higher telecom services costs (\$17K), offset by decreased IT software maintenance costs
6 (\$6K) and reduced cell and phone costs (\$5K).
- 7 • Professional Consulting expenses are forecast to be over budget by \$55K due to other
8 contract services (\$91K) and credit and collections services (\$37K), offset by the reversal
9 of 2015 over accrual of audit expenses (\$56K) and other professional services (\$13K)
10 and legal fees (\$4K).
- 11 • Travel and Training are forecast to be under budget by \$12K mainly due to a decrease in
12 airfare, accommodations and meals costs (\$8K) and ground transportation costs (\$8K),
13 offset by conference and training costs (\$4K).
- 14 • Advertising and Promotions are forecast to end 2016 under budget by \$14K primarily
15 due to lower advertising spending costs.
- 16 • Tools and Safety are forecast to be over budget by \$21K due to an increase in tool costs
17 (\$111K) and uniform and protective clothing costs (\$4K), offset by lower public
18 awareness costs (\$94K).
- 19 • Fleet is forecast to end 2016 under budget by \$40K due to lower fuel and maintenance
20 costs.
- 21 • Facilities are forecast to be over budget by \$3K due to higher rent (\$2K) and office
22 repairs & maintenance costs (\$1K).
- 23 • Insurance is forecast to end 2016 under budget by \$22K due to lower premiums
24 associated with automobile insurance (\$12K), executive risk (\$5K), broker insurance
25 (\$4K) and liability insurance (\$1K).
- 26 • NBEUB Assessments are forecast to end the year under budget by \$96K due to lower
27 than anticipated hearing activity and Public Intervenor costs.

- 1 • Corporate Allocations are forecast lower than budget by \$237K primarily due to reduced
2 corporate information technology (\$202K), stock options (\$25K) and corporate
3 consolidation of payroll services (\$10K).
- 4 • Service Level Agreements (SLA) are forecast lower than budget by \$47K primarily due
5 to centralization of payroll services to Enbridge Inc. (\$68K) and reduced services from
6 Enbridge Gas Distribution (\$4K), offset by accounts payable services (\$25K).
- 7 • Gas Transportation and Related Activities are forecast to be lower by \$119K due to
8 higher than anticipated recovery of the Firm Service Agreement costs for capacity on the
9 Maritimes and Northeast Pipeline.

10 Amounts capitalized to Property, Plant and Equipment are \$327K over budget due to aggregate
11 O&M spending in cost centers differing from budgeted spend and the associated different
12 capitalization rates for each cost center.

13 Other Operating Expenses

14 Amortization of Property, Plant and Equipment is forecast to be \$871K over budget due to the
15 implementation of new depreciation rates as per the latest approved rates (May 1, 2016) rather
16 than budget (January 1, 2016) (\$942K), offset by the reclassification of intangible software
17 assets from this asset group (\$71K).

18 Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to be \$197K
19 under budget due to the forecasted regulated cost of debt rate being lower than budget by 0.10%
20 and a \$1.8 million reduction in total rate base which is used to calculate EGNB's interest rate.

21 Amortization of Deferred Development Costs is forecast to be \$128K over budget due to the
22 reclassification of intangible software assets to this asset group.

23 **Rate Base**

24 Information with respect to EGNB's year-end Rate Base and the levels of Property, Plant and
25 Equipment, Development O&M capitalized costs, Working Capital allowance and other
26 elements within rate base are provided below.

Table 4
Rate Base

Line No.	(in thousands of dollars)	(1) 2016 Forecast	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Property, plant and equipment	\$ 173,275	\$ 176,579	\$ (3,304)
2	Development O&M capitalized costs	88,826	88,826	-
3	Franchise fee	200	200	-
4	Intangible Software	818	-	818
5	Term deposit	2,970	2,967	3
6	Working capital allowance	2,063	1,146	917
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 268,152</u>	<u>\$ 269,718</u>	<u>\$ (1,566)</u>

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2 Property, Plant and Equipment is forecast to be \$3.3 million under budget primarily due to the
3 timing of the opening balances from budget to forecast (\$1.87 million), late implementation of
4 new depreciation rates (\$942K) and intangible assets reclassified from Property Plant & Equipment
5 (\$478K).

6 Intangible Software is forecast to be \$818K over budget primarily due to the classification
7 change from Property Plant and Equipment into Deferred Costs.

8 Working Capital Allowance is forecast to be \$917K over budget in 2016, primarily due to higher
9 than budgeted prepaid expense balance (\$957K), offset by lower than budgeted inventory
10 balances (\$40K).

11 **Other Regulated Assets & Liabilities**

12 Information with respect to EGNB's Other Regulated Assets & Liabilities is provided below.

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Table 5
Other Regulated Assets & Liabilities

Line No. (in thousands of dollars)	(1) 2016 Forecast	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 4,649	\$ 21,727	\$ (17,078)
3 Accounts Receivable	11,958	11,217	741
4 Inventory	1,047	1,088	(41)
5 Long term Receivable	373	2,132	(1,759)
6 Total Other Regulated Assets	\$ 18,027	\$ 36,164	\$ (18,137)
7 Other Regulated Liabilities			
8 Due to Affiliated Companies	\$ -	\$ -	\$ -
9 Accounts Payable	4,610	3,413	1,197
10 Long Term Payable	334	1,703	(1,369)
11 Long Term Deferred Post Employment Liabilities	1,677	4,311	(2,634)
12 Total Other Regulated Liabilities	\$ 6,621	\$ 9,427	\$ (2,806)

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3 Other Regulated Assets & Liabilities are a function of the annual operations of EGNB and
4 fluctuate with changes in operating revenues and expenses.

1 **Cost of Capital Summary**

2 Information with respect to EGNB's Cost of Capital is provided below.

Table 6
Cost of Capital

	(1)	(2)	(3)=(1)-(2)
	2016	2016	2016
	Forecast	Budget	Variance
Principal			
Debt	\$ 149,500	\$ 149,500	\$ -
Equity	129,032	146,809	(17,777)
Return (\$)			
Debt	7,507	7,702	(195)
Equity	11,138	13,289	(2,151)
Approved rates			
Debt	5.07%	5.17%	-0.10%
Equity	10.90%	10.90%	0.00%

3
4 EGNB finances its operations through a combination of equity and debt financing.5 Equity is forecast to be \$17.8 million under budget primarily driven by a forecasted distribution
6 payout. Equity Return is forecast to be \$2.2 million under budget primarily driven by lower
7 forecasted GJs than budgeted.8 Debt rates are forecast to be 0.10% under budget due to the interest rate of an incremental debt
9 note forecasted to be renewed on 31-July-2016 which is earlier than the maturity date (20-Dec-
10 2017), being lower than the budgeted interest rates resulting in a slightly lower weighted average
11 cost of debt.