

SCHEDULE 3.6

2017 Budget to 2016 Budget Explanations

2017 Budget**Overview**

A complete list of 2017 Budget Assumptions can be found at Schedule 3.4 - 2017 Budget Assumptions.

For comparative purposes, variance explanations compare the 2017 Budget to the 2016 Budget.

Revenue

For the 2017 budget year, EGNB has forecast total revenue from operations of \$45.0 million, \$300K lower than the 2016 Budget. The table below summarizes EGNB's budgeted 2017 gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to 2016 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2017 Budget	(2) 2016 Budget	(3)=(1)-(2) Variance to 2016 Budget
1	Operating Revenue			
2	Gas Distribution	\$ 44,043	\$ 44,384	\$ (341)
3	Miscellaneous	945	962	(17)
4	Allowance for Funds Used During Construction	17	26	(9)
5		45,005	45,372	(367)
6	Services & Inspection			
7	Revenue	637	742	(105)
8	Cost of Goods Sold	(389)	(561)	172
9		248	181	67
10	Total Revenue	\$ 45,253	\$ 45,553	\$ (300)

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are budgeted to be \$341K lower than the 2016 Budget. EGNB has reduced its revenue requirement for 2017 compared to the 2016 Budget. Distribution Revenue is budgeted to recover the lowered revenue requirement.

- 1 • Miscellaneous Operating Revenue: miscellaneous revenues are budgeted to be \$17K
2 under the 2016 Budget primarily due to reduced Agent Billing & Collections revenue.
- 3 • AFUDC is budgeted to be \$9K under the 2016 Budget primarily due to lower budgeted
4 Construction Work in Progress balances in the 2017 Budget.
- 5 • Services & Inspection Margin is forecast to be \$67K over the 2016 Budget, primarily due
6 to projected lower number of protection plans and lower volume of service work at lower
7 costs based on past experience.

8 **Expenses**

9 For the 2017 Budget, EGNB has budgeted total expenses of \$32.0 million. Below is a summary
10 of EGNB's Operating and Maintenance expenses, Bad Debt expense, Amortization of Property,
11 Plant and Equipment, Municipal and Other Taxes, Interest on Amounts Due to Associates and
12 Affiliates and Other Interest and Amortization of Deferred Development Costs with comparisons
13 to the 2016 Budget.

Table 2
Operating Expenses

Line No.	(in thousands of dollars)	(1) 2017 Budget	(2) 2016 Budget	(3)=(1)-(2) Variance to 2016 Budget
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,947	\$ 13,840	\$ 107
3	Bad Debt Expense	278	385	(107)
4	Amortization of Property, Plant and Equipment	6,264	5,709	555
5	Municipal and Other Taxes	1,241	1,238	3
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	7,292	7,712	(420)
7	Other Expenses	100	500	(400)
8	Amortization of Deferred Development Costs	2,922	2,867	55
9	Total Expenses	\$ 32,044	\$ 32,251	\$ (207)

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

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Table 3
Operating and Maintenance Expenses

Line No.	(in thousands of dollars)	(1) 2017 Budget	(2) 2016 Budget	(3)=(1)-(2) Variance to 2016 Budget
1	Labour and Benefits	\$ 8,187	\$ 7,682	\$ 505
2	Admin/Office Expenses	302	283	19
3	Computer and Telecom Services	352	317	35
4	Professional Consulting	1,446	1,473	(27)
5	Travel and Training	145	153	(8)
6	Advertising and Promotions	688	682	6
7	Tools and Safety	205	290	(85)
8	Fleet	413	422	(9)
9	Facilities	683	685	(2)
10	Insurance	167	163	4
11	NBEUB Assessments	531	698	(167)
12	Corporate Allocations	1,066	1,276	(210)
13	Service Level Agreements	1,385	1,401	(16)
14	Gas Transportation and Related Activities	1,794	1,700	94
15	Total O&M Prior to Capitalization	<u>17,464</u>	<u>17,325</u>	<u>139</u>
16	Property, plant & equipment	<u>3,517</u>	<u>3,485</u>	<u>32</u>
17	Total Capitalized	<u>3,517</u>	<u>3,485</u>	<u>32</u>
18	Total O&M Expenses	<u>\$ 13,947</u>	<u>\$ 13,840</u>	<u>\$ 107</u>

2

3 EGNB's 2017 Budget O&M expenses reflect a \$139K, or 0.8%, increase in comparison to its
4 2016 Budget O&M expenses. The drivers for this variance are:

- 5 • Labour and Benefits are budgeted to be over the 2016 Budget by \$505K due to an increase in
6 pensions & benefits expense (\$348K), increase in salaries and other compensation (\$202K),
7 offset by reduced relocation & recruitment costs (\$45K).
- 8 • Admin/Office Expenses are budgeted to increase as compared to the 2016 Budget by \$19K
9 due to an increase in postage and courier costs (\$29K), offset by reductions in other outside
10 services (\$10K).

- 1 • Computer and Telecom Services are budgeted to be over the 2016 Budget by \$35K due to
2 increased IT software maintenance costs (\$27K) and telecom services costs (\$16K), offset by
3 lower cell and phone costs (\$8K).
- 4 • Professional Consulting are budgeted to be under the 2016 Budget by \$27K mainly due to a
5 decrease in legal fees (\$120K) and professional consulting (\$57K), offset by higher other
6 contract services (\$115K), director fees (\$20K) and external audit fees (\$15K).
- 7 • Travel and Training expenses are budgeted to be under the 2016 budget by \$8K primarily
8 due to lower ground transportation costs (\$7K) and airfare, accommodations and meals costs
9 (\$2K), offset by increased conference and training costs (\$1K).
- 10 • Advertising and Public Relations expenses are budgeted to be higher than the 2016 Budget
11 by \$6K due to increased advertising spending costs (\$52K), offset by decreased sponsorships
12 (\$45K) and trade and civic memberships (\$1K).
- 13 • Tools and Safety expenses are budgeted to be lower than the 2016 Budget by \$85K primarily
14 due to a decrease in public awareness costs (\$169K), offset by higher tool costs (\$83K) and
15 uniforms & protective clothing costs (\$1K).
- 16 • Fleet expenses are budgeted to be less than the 2016 Budget by \$9K due to lower fuel and
17 maintenance costs.
- 18 • Facilities expenses are budgeted to be lower compared to the 2016 Budget by \$2K mainly
19 due to decreases in office repairs and maintenance.
- 20 • Insurance is budgeted to be higher than the 2016 Budget by \$4K primarily due to an
21 estimated 2% increase in policy costs.
- 22 • NBEUB Assessments are budgeted to be less than the 2016 Budget by \$167K due to lower
23 than anticipated hearing activity and Public Intervenor costs.
- 24 • Corporate Allocations are budgeted to be lower than the 2016 Budget by \$210K primarily
25 due to reduced information technology costs (\$189K), corporate shared services fees (\$15K)
26 and consolidation of payroll services (\$6K).
- 27 • Service Level Agreements (SLA) are budgeted to be lower than the 2016 Budget by \$16K
28 primarily due to centralization of payroll services to Enbridge Inc. (\$66K) and reduced

1 services from Enbridge Gas Distribution (\$2K), offset by increased call center costs (\$31K)
2 and accounts payable services (\$21K).

- 3 • Gas Transportation and Related Activities are budgeted to be higher than the 2016 Budget by
4 \$94K mainly due to higher tolls for capacity on the Maritimes and Northeast Pipeline.

5 Amounts capitalized to Property, Plant and Equipment are forecast to be \$32K higher than the
6 2016 Budget due to aggregate O&M spending in cost centers differing from budgeted spend and
7 the associated different capitalization rates for each cost center.

8 Other Operating Expenses

9 Bad Debt Expense is forecast to decrease by \$107K as compared to the 2016 Budget, primarily
10 due to a decrease in the percentage applied to revenues to calculate the expense.

11 Amortization of Property, Plant and Equipment is forecast to result in a \$555K increase
12 compared to the 2016 Budget due to forecasted capital additions in 2017.

13 Municipal and Other Taxes are budgeted to increase by \$3K compared to the 2016 Budget
14 primarily due to an increase in Municipal tax rates (\$7K), offset by less additions to depreciable
15 pipe than planned (\$4K)

16 Interest on Amounts Due to Associates and Affiliates and Other Interest are budgeted to decrease
17 by \$420K compared to the 2016 Budget due to the 2017 regulated cost of debt rate being lower
18 than the 2016 budget by 0.25% and a \$1.8 million reduction in total rate base which is used to
19 calculate EGNB's debt ratio.

20 Other Expenses are budgeted to be \$400K lower compared to the 2016 Budget due to the
21 reduction in a customer retention program started in 2016.

22 **Rate Base**

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

Table 4
Rate Base

Line No.	(in thousands of dollars)	(1) 2017 Budget	(2) 2016 Budget	(3)=(1)-(2) Variance to 2016 Budget
1	Property, plant and equipment	\$ 177,024	\$ 176,579	\$ 445
2	Development O&M capitalized costs	86,034	88,826	(2,792)
3	Franchise fee	125	200	(75)
4	Intangible Software	1,314	-	1,314
5	Term deposit	2,969	2,967	2
6	Working capital allowance	1,578	1,146	432
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 269,044</u>	<u>\$ 269,718</u>	<u>\$ (674)</u>

- 1
- 2 Property, Plant and Equipment is budgeted to be \$445K higher than the 2016 budget primarily
- 3 due to higher 2016 capital additions (\$9.3 million) offset by 2017 depreciation (\$6.3 million) and
- 4 timing of opening balance of Property Plant and Equipment (\$2.6 million).
- 5 Development O&M Capitalized Costs are forecast to decrease by \$2.8 million as compared to
- 6 the 2016 Budget due to the recognition of an additional year of amortization.
- 7 Franchise fee cost is forecast to decrease by \$75K as compared to the 2016 Budget due to the
- 8 recognition of an additional year of amortization.
- 9 Intangible Software is forecast to be \$1.3 million higher than the 2016 budget primarily due to
- 10 the classification change from Property Plant and Equipment into Deferred Costs.
- 11 Term deposit costs are forecast to increase by \$2K as compared to the 2016 Budget to reflect
- 12 experience around the timing of the interest payments and interest rates.
- 13 Working Capital Allowance is forecast to increase by \$432K as compared to the 2016 Budget,
- 14 primarily due to higher budgeted prepaid expense (\$473K), offset by lower inventory balances
- 15 (\$41K).
- 16

1 **Other Regulated Assets & Liabilities**

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

Table 5
Other Regulated Assets & Liabilities

Line No. (in thousands of dollars)	(1) 2017 Budget	(2) 2016 Budget	(3)=(1)-(2) Variance to 2016 Budget
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 7,897	\$ 21,727	\$ (13,830)
3 Accounts Receivable	8,108	11,217	(3,109)
4 Inventory	1,047	1,088	(41)
5 Long term Receivable	373	2,132	(1,759)
6 Total Other Regulated Assets	\$ 17,425	\$ 36,164	\$ (18,739)
7 Other Regulated Liabilities			
8 Due to Affiliated Companies	\$ -	\$ -	\$ -
9 Accounts Payable	2,656	3,413	(757)
10 Long Term Payable	333	1,703	(1,370)
11 Long Term Deferred Post Employment Liabilities	1,677	4,311	(2,634)
12 Total Other Regulated Liabilities	\$ 4,666	\$ 9,427	\$ (4,761)

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

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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)
	2017	2016	Variance
	Budget	Budget	to 2016 Budget
Principal			
Debt	\$ 149,500	\$ 149,500	\$ -
Equity	131,762	146,809	(15,047)
Return (\$)			
Debt	7,286	7,702	(416)
Equity	13,198	13,289	(91)
Approved rates			
Debt	4.92%	5.17%	-0.25%
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 \$15 million under budget primarily driven by forecasted distribution
6 payout.7 Debt rates are forecast to be 0.25% under budget due to the interest rate of an incremental debt
8 note renewed on July 31, 2016 which is earlier than the maturity date (20-Dec-2017), being
9 lower than the 2016 budgeted interest rate.