

SCHEDULE 4.3

2015 Actuals to Budget Explanations

**2015 Actuals to Budget****Overview**

For comparative purposes, variance explanations compare 2015 Actuals to the 2015 Budget.

**Revenue**

The table below summarizes EGNB's 2015 Actual gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services inspection margin with comparisons to 2015 Budget.

**Table 1**  
**Revenue**

Line No.	(in thousands of dollars)	(1) 2015 Actual	(2) 2015 Budget	(3)=(1)-(2) 2015 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 46,999	\$ 47,155	\$ (156)
3	Miscellaneous	663	435	228
4	Allowance for Funds Used During Construction	5	16	(11)
5		47,667	47,606	61
6	Services & Inspection			
7	Revenue	797	792	5
8	Cost of Goods Sold	(474)	(603)	129
9		323	189	134
10	Total Revenue	\$ 47,990	\$ 47,795	\$ 195

**Operating Revenue**

- Gas Distribution Revenue: actual gas distribution revenues were \$156K under budget primarily due to lower consumption and customer rate class changes as compared to budget (\$1.1 million) as well as fewer attachments and more lost customers than forecasted (\$900K), offset by colder than normal weather (\$1.8 million).
- Miscellaneous Operating Revenue: miscellaneous revenues ended 2015 \$228K over budget primarily due to interest income (\$127K), late payment charges collected from customers

1 (\$87K), other customer charges and fees (\$9K) and ABC revenue (\$5K) all being higher than  
2 budget.

- 3 • AFUDC was \$11K under budget, with the primary driver for this variance being lower than  
4 budgeted monthly balances in the Construction Work in Progress (“CWIP”) account, of  
5 which AFUDC is calculated on.
- 6 • Services & Inspection Margin was \$134K over budget, primarily due to lower costs on  
7 residential protection plans than forecast and higher revenue on service work.

8 **Expenses**

9 Below is a summary of EGNB’s 2015 Actual operating and maintenance expenses, bad debt  
10 expense, amortization of property, plant and equipment, municipal and other taxes, interest on  
11 amounts due to associates and affiliates and other interest and amortization of deferred  
12 development costs with comparisons to the 2015 Budget.

Table 2  
**Operating Expenses**

Line No. (in thousands of dollars)	(1) 2015 Actual	(2) 2015 Budget	(3)=(1)-(2) 2015 Variance
1 Operating Expenses			
2 Operating and Maintenance Expenses	\$ 12,156	\$ 13,712	\$ (1,556)
3 Bad Debt Expense	515	360	155
4 Amortization of Property, Plant and Equipment	7,982	8,000	(18)
5 Municipal and Other Taxes	1,233	1,198	35
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	7,874	8,080	(206)
7 Other Expenses	43	-	43
8 Amortization of Deferred Development Costs	2,867	2,867	-
9 <b>Total Expenses</b>	<b>\$ 32,670</b>	<b>\$ 34,217</b>	<b>\$ (1,547)</b>

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.		(1) 2015 Actual	(2) 2015 Budget	(3)=(1)-(2) 2015 Variance
1	Labour and Benefits	\$ 7,586	\$ 8,211	\$ (625)
2	Admin/Office Expenses	368	454	(86)
3	Computer and Telecom Services	298	339	(41)
4	Professional Consulting	1,556	1,345	211
5	Travel and Training	200	226	(26)
6	Advertising and Promotions	772	727	45
7	Tools and Safety	172	261	(89)
8	Fleet	415	474	(59)
9	Facilities	649	691	(42)
10	Insurance	155	212	(57)
11	NBEUB Assessments	515	698	(183)
12	Corporate Allocations	1,289	905	384
13	Service Level Agreements	1,351	1,542	(191)
14	Gas Transportation and Related Activities	1,401	2,066	(665)
15	<b>Total O&amp;M Prior to Capitalization</b>	<u>16,727</u>	<u>18,151</u>	<u>(1,424)</u>
16	Property, plant & equipment	<u>4,571</u>	<u>4,439</u>	<u>132</u>
17	<b>Total Capitalized</b>	<u>4,571</u>	<u>4,439</u>	<u>132</u>
18	<b>Total O&amp;M Expenses</b>	<u>\$ 12,156</u>	<u>\$ 13,712</u>	<u>\$ (1,556)</u>

6  
7 EGNB’s 2015 Actual O&M expenses were \$1.4 million, or 7.8%, under budget. The details  
8 are as follows:

- 9 • Labour and Benefit costs were \$625K under budget primarily due to decreased pension  
10 costs (\$455K), lower employee training and development (\$115K), relocation and  
11 recruitment costs (\$45K), and salaries and other compensation (\$10K).

- 1 • Admin/Office Expenses were \$86K under budget primarily due to lower overhead costs,  
2 postage and courier costs, and outside services.
- 3 • Computer and Telecom Services were \$41K under budget, primarily due to lower  
4 telecom services costs (\$34K), cell and phone costs (\$11K), and computer equipment  
5 supplies (\$2K), partially offset by increased IT software maintenance costs (\$6K).
- 6 • Professional Consulting costs were \$211K over budget due to other contract services  
7 (\$119K), credit and collections services (\$92K), business process improvement (\$80K),  
8 overaccrual of audit expenses (\$52K) and increased director's fees (\$21K), partially  
9 offset by lower legal fees (\$86K) and other professional services (\$67K).
- 10 • Travel and Training costs were \$26K under budget, mainly due to lower expenses in  
11 ground transportation costs (\$27K) and conference and training costs (\$7K), partially  
12 offset by an increase in airfare, accomodation and meal costs (\$8K).
- 13 • Advertising and Promotions costs were \$45K over budget due to higher advertising  
14 spending costs (\$97K), partially offset by trade and civic memberships costs (\$27K) and  
15 sponsorships (\$25K).
- 16 • Tools and Safety were \$89K under budget due to lower public awareness costs (\$71K),  
17 and lower uniform and protective clothing costs (\$24K), partially offset by an increase  
18 in Right of Way fees (\$5K) and tool costs (\$1K).
- 19 • Fleet costs were \$59K under budget due to lower fuel and maintenance costs (\$58K) and  
20 lower lease and licencing costs (\$1K).
- 21 • Facilities expenditures were \$42K under budget primarily due to lower than budgeted  
22 office repairs and maintenance costs (\$28K), office rent (\$8K), and utility costs (\$6K).
- 23 • Insurance Costs were \$57K under budget mainly due to lower premiums in liability  
24 insurance (\$48) and executive risk (\$9).
- 25 • NBEUB Assessments were \$183K under budget resulting from lower than anticipated  
26 hearing activity and Public Intervenor costs.
- 27 • Corporate Allocations were \$384K over budget primarily due to the centralization of  
28 corporate information technology and payroll services.

- 1 • Service Level Agreements were \$191K under budget due to consolidation of IT and  
2 payroll services to Enbridge Inc. (\$235K), reduced affiliate call centre costs (\$25K),  
3 partially offset by increased oversight by the executive management team (\$69K).
- 4 • Gas Transportation costs were \$665K under budget due to higher than anticipated  
5 recovery of the Firm Service Agreement costs for capacity on the Maritimes and  
6 Northeast Pipeline (\$477K) and lower tolls (\$188K).

7 Amounts capitalized to Property, Plant and Equipment are \$132K over budget due to aggregate  
8 O&M spending in cost centers differing from budgeted spend and the associated different  
9 capitalization rates for each cost center.

#### 10 Other Operating Expenses

11 Bad Debt Expense was \$155K over budget due to the clean up of account receivable balances  
12 from 2014 considered at risk, completed in 2015.

13 Amortization of Property, Plant and Equipment was \$18K under budget due to the timing and  
14 nature of capital expenditures and an overall reduction in capital expenditures compared to  
15 budget.

16 Municipal and Other Taxes were \$35K over budget primarily due to an increase in Municipality  
17 tax rates (\$60K), partially offset by less additions to depreciable pipe than planned (\$25K).

18 Interest on Amounts Due to Associates and Affiliates and Other Interest was \$206K under  
19 budget mainly due to a lower actual (5.27%) than budgeted (5.36%) weighted average regulated  
20 cost of debt (\$219K) resulting in a lower tax base.

21 Other Expenses was \$43K over budget due to inventory write-downs caused by damages and  
22 outdated equipment.

#### 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) 2015 Actual	(2) 2015 Budget	(3)=(1)-(2) 2015 Variance
1	Property, plant and equipment	\$ 173,573	\$ 177,784	\$ (4,211)
2	Development O&M capitalized costs	91,617	91,618	(1)
3	Franchise fee	275	275	-
4	Term deposit	2,966	2,975	(9)
5	Working capital allowance	1,458	1,188	270
6	Regulatory Deferral	-	-	-
7	Rate Base	<u>\$ 269,889</u>	<u>\$ 273,840</u>	<u>\$ (3,951)</u>

- 1
- 2 Property, Plant and Equipment was \$4.2M under budget primarily due to lower opening balances
- 3 (\$1.8 million) and reductions in Construction capital (\$2.5 million), partially offset by higher
- 4 spending in General Plant accounts (\$114K).
- 5 Term deposit costs were \$9K under budget, primarily due to the timing of the payment of the
- 6 interest earned.
- 7 Working Capital Allowance was \$270K over budget, due to higher than budgeted prepaid
- 8 balances (\$312K), partially offset by lower than budgeted inventory balances (\$42K).

1 **Other Regulated Assets & Liabilities**

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

Table 5  
**Other Regulated Assets & Liabilities**

Line No. (in thousands of dollars)	(1) 2015 Actual	(2) 2015 Budget	(3)=(1)-(2) 2015 Variance
<b>1 Other Regulated Assets</b>			
2 Cash and Short Term Investments	\$ 5,386	\$ 251	\$ 5,135
3 Accounts Receivable	16,969	27,315	(10,346)
4 Inventory	1,108	1,128	(20)
5 Long term Receivable	502	2,213	(1,711)
<b>6 Total Other Regulated Assets</b>	<b>\$ 23,965</b>	<b>\$ 30,907</b>	<b>\$ (6,942)</b>
<b>7 Other Regulated Liabilities</b>			
8 Due to Affiliated Companies	\$ -	\$ 966	\$ (966)
9 Accounts Payable	7,472	8,170	(698)
10 Long Term Payable	880	2,118	(1,238)
11 Long Term Deferred Post Employment Liabilities	1,677	1,001	676
<b>12 Total Other Regulated Liabilities</b>	<b>\$ 10,029</b>	<b>\$ 12,255</b>	<b>\$ (2,226)</b>

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.



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)
	2015	2015	2015
	Actual	Budget	Variance
Principal			
Debt	\$ 149,500	\$ 161,750	\$ (12,250)
Equity	133,704	130,299	3,405
Return (\$)			
Debt	7,862	8,074	(212)
Equity	13,264	13,629	(365)
Approved rates			
Debt	5.27%	5.36%	-0.09%
Equity	10.90%	10.90%	0.00%

3

4 EGNB finances its operations through a combination of equity and debt financing.

5 Debt financing is \$12.2 million under budget due to the rebalancing of equity levels in 2015  
6 budget being different than 2015 actuals. Equity was \$3.4 million over budget primarily driven  
7 by earnings in 2015 being greater than 2015 budget resulting in a decrease to the Regulatory  
8 Deferral Account balance and an increase to Partner's Equity.

9 Debt rates are 0.09% under budget due to the interest rates of the incremental debt renewed in  
10 2015 being lower than the budgeted interest rates resulting in a slightly lower weighted average  
11 cost of debt.