

APPENDIX B
2013 Budget

2013 Budget

As part of a COS model, the establishment of the revenue requirement is critical in the development of distribution rates. A utility's cost of service rates are typically established to align with the fiscal year of the utility. This allows the utility to properly prepare annual forward year projections of costs and throughput, which are the key inputs to establish cost of service rates, and thereby align such projections with the rate setting period. For the purpose of this Application, the regulated distribution rates have been developed based on the revenue requirement of the 2013 Budget.

EGNB's 2013 Budget has been prepared taking into consideration historic trends, current market conditions, the current economic environment and the impacts associated with the changes to the GDA, as a result of Bill 18 and the adoption of the Regulation. Bill 18 and the Regulation have resulted in significant changes to the method for establishing natural gas distribution rates in the province of New Brunswick. The legislation provides conditions requiring the transition from a market based method of approving just and reasonable rates and tariffs to a COS model which has impacted EGNB's ability to recover its full revenue requirement.

In response to the legislative changes, EGNB has proposed significant modifications to its operations in 2013 and these changes are reflected in the 2013 Budget. These changes include a reduction in staff, cancellation of capital projects, reduction in capital investment, elimination of incentives and elimination of installation services. EGNB expects that it will continue to transition its operations in response to the legislative changes.

Reduction in Staff

EGNB has incorporated a 15% reduction in staff for the development of the 2013 Budget but anticipates further cuts will be required as the impacts to the business are clearly understood and the required staff changes are fully implemented. The final transition could result in the elimination of up to 60 full time positions.

Cancellation of Capital Projects

The inability of EGNB to earn a fair return on its investment or generate sufficient cash from operations has limited any new investment in the distribution system. The 2013 Budget reflects a business model in which EGNB will significantly reduce the amount of investment in capital projects. Examples of these types of impacts include the cancellation of expansion of the system relating to the new Moncton High School Project and the St. George Expansion Project.

Elimination of Incentives

EGNB has provided incentives to residential and business owners to offset the cost of converting to natural gas and to provide a reasonable payback on their investment. These incentives have helped to advance capital spending decisions and the conversions to natural gas. The ability of EGNB to provide incentives to support conversion activities has been driven by its ability to access capital. Effective May 31, 2012, EGNB will no longer offer incentives for the conversion to natural gas, as the legislative changes will significantly impact EGNB's ability to attract the necessary capital.

Elimination of Installation Services

The primary goal of EGNB's entry into the installation services market in 2003 was to increase the utility's customer base by ensuring the availability of service, consistency of service, quality of work and safety of the industry and the public. Secondary goals of providing installation services included the development of industry experience by hiring recent graduates out of trade school and increasing the number of contractors providing service.

EGNB continually evaluated and adjusted its installation services activities in response to trends in the market. In 2011, EGNB stopped performing installation service for the commercial market and started reducing the amount of residential installation services provided.

As part of the January 30, 2012 decision regarding EGNB's Annual Financial Results for the period ending December 31, 2010 and 2012 Budget, the Board disallowed the addition of the losses on a fully allocated basis associated with installation service activities in 2010 to the

deferral account. This has resulted in it no longer being economically viable for EGNB to provide installation services. EGNB will no longer provide installation services in the residential market in 2013.

Reduction in Attachments

In the past, EGNB's marketing and sales efforts have focused on actively pursuing opportunities to increase the number of customers on its natural gas distribution system, including offering incentives programs. With the cancellation of the incentives programs, the 2013 Budget is based on the attachment of 315 customers, a reduction of 70% from the 2012 Budget.

Deferral Account

The deferral account will remain in the regulatory financial statements with the anticipation that it may be recovered in the future, as suggested by Bill 18. However, it has not been included in the revenue requirement in any way, as there are currently no regulations in place which would allow for its recovery.

2012 Forecast

The 2012 Forecast provides a bridge year for the development of the 2013 Budget. The 2012 Forecast has been updated to reflect several changes to the customer rate classes at different times throughout the year, reduction in estimated attachments and the exclusion of the regulatory Deferral Account as part of the regulated assets.

Changes to the Customer Classes During the Year

Bill 18 required the amalgamation of the Small General Service Residential Electric ("SGSRE") and the Small General Service Residential Oil ("SGSRO") classes into a single Small General Service Residential ("SGSR") rate class and the rates and tariffs approved by the Board for the SGSRE rate class were applied to the SGCR rate class effective March 1, 2012.

The legislation also requires the implementation of a new rate class system and associated distribution rates to be effective October 1, 2012. The new rate class system is based on maximum monthly consumption whereas historical customer classes are based on annual consumption creating some challenges in the 2012 Forecast. For the 2012 Forecast, EGNB has presented three different customer class systems, for January 2012 and February 2012 the historical customer rate classes were used, from March 2012 through to the end of September 2012 the customer class system includes the new SGSR class, and from October 2012 to the end of December 2012 the regulated class system and the rates presented in this Application were applied.

The following documents have been provided in support of the review and approval of the 2013 Budget:

- Schedule 1 - 2013 Budget
- Schedule 2 - 2013 Budget Explanations
- Schedule 3 - 2013 Budget Assumptions
- Schedule 4 - 2012 Forecast
- Schedule 5 - 2012 Budget