

## **Schedule 7**

### **2012 Budget Explanations**

## **2012 Budget**

### **Overview**

Enbridge Gas New Brunswick's ("EGNB") 2012 Budget was prepared relying on input from Management, taking into consideration historic trends, current market conditions, as well, as the current economic environment. A complete list of 2012 Budget Assumptions can be found at Exhibit A, Schedule 9.

For comparative purposes, variance explanations compare 2010 actual results to the 2010 Budget, 2011 forecast results, based on a mid-year forecast that combined actual 2011 results to May 31, 2011, with a forecast for the remainder of the year, to the 2011 Budget and the 2012 Budget to the 2011 Budget. EGNB has only included explanations for variances greater than \$10K.

**Revenue**

For the 2012 budget year, EGNB has forecast total revenue from operations of \$58.3 million. The table below summarizes EGNB's budgeted 2012 gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and installation services margin with comparisons to 2010 and 2011.

Table 1  
**Revenue**

Line No.	(1) 2010 Actual	(2) 2010 Budget	(3)=(1)-(2) 2010 Variance	(4) 2011 Forecast	(5) 2011 Budget	(6)=(4)-(5) 2011 Variance	(7) 2012 Budget	(8)=(7)-(5) Variance to 2011 Budget
1	Operating Revenue							
2	\$ 38,466	\$ 50,299	\$ (11,833)	\$ 50,307	\$ 54,218	\$ (3,911)	\$ 57,697	\$ 3,479
3	264	271	(7)	278	137	141	144	7
4	87	123	(36)	26	13	13	53	40
5	38,817	50,693	(11,876)	50,611	54,368	(3,757)	57,894	3,526
6	Installation Services							
7	6,787	11,078	(4,291)	2,371	4,478	(2,107)	1,947	(2,531)
8	(5,790)	(9,316)	3,526	(1,848)	(3,562)	1,714	(1,505)	2,057
9	997	1,762	(765)	523	916	(393)	442	(474)
10	39,814	52,455	(12,641)	51,134	55,284	(4,150)	58,336	3,052

### 2010 Actual vs 2010 Budget

#### Operating Revenue

- Gas Distribution Revenue: actual gas distribution revenues were \$11.8 million under budget, primarily due to lower than expected distribution rates (\$3.7 million), lower customer attachments (\$3.6 million), warmer than forecasted weather (\$3.3 million), and a reduction in actual usage by customers as compared to the budget (\$1.3 million).

AFUDC was \$36K under budget, with the primary driver for this variance being lower than budgeted monthly balances in the Construction Work in Progress (“CWIP”) account, of which AFUDC is calculated on.

Installation Services Margin was \$765K under budget, primarily due to increased competition for installation work, resulting in a reduction to the volume of work and, to a lesser extent, a decrease in the margin on a percentage basis. Installation volumes were also affected by lower than forecast customer attachments.

### 2011 Forecast vs 2011 Budget

#### Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are forecast to end 2011 \$3.9 million under budget, due to lower than forecasted distribution rates (\$2.8 million), and a reduction in customer attachments and actual usage by customers as compared to the budget (\$1.1 million).
- Miscellaneous Operating Revenue: miscellaneous operating revenue includes Agent Billing and Collection (“ABC”) and Agent Billing (“AB”) service revenue, late payment charges, transactional services, gain/loss on disposal of assets and accounts payable discounts taken. Miscellaneous revenues are expected to end 2011 \$141K over budget, primarily due to late payment charges collected from customers being greater than anticipated.

AFUDC is expected to be \$13K over budget, primarily due to higher than budgeted monthly balances in the CWIP account, of which AFUDC is calculated on.

Installation Services Margin is expected to be \$393K under budget, primarily due to a continued increase in competition in the market and below budget customer attachments.

2012 Budget vs 2011 Budget

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are forecast to be \$3.5 million more than the 2011 Budget, due to an increase in customer consumption (\$6.8 million), partially offset by decreased distribution rates (\$3.3 million).

AFUDC is forecast to be \$40K above the 2011 Budget primarily due to the forecast CWIP balances resulting from capital spending.

Installation Services Margin is forecast to be \$474K below the 2011 Budget, primarily due to a continuing reduction in the forecasted amount of installation work to be done by EGNB in both the commercial and residential sectors.

## Expenses

For the 2012 Budget year, EGNB has forecast total expenses of \$44.2 million. Below is a summary of EGNB's operating and maintenance expenses, bad debt expense, amortization of property, plant and equipment, municipal and other taxes, interest on amounts due to associates and affiliates and other interest and amortization of deferred development costs with comparisons to 2010 and 2011.

Table 2  
**Operating Expenses**

Line No.	(1) 2010 Actual	(2) 2010 Budget	(3)=(1)-(2) 2010 Variance	(4) 2011 Forecast	(5) 2011 Budget	(6)=(4)-(5) 2011 Variance	(7) 2012 Budget	(8)=(7)-(5) Variance to 2011 Budget
1	Operating Expenses							
2	7,142	4,478	2,664	11,007	9,407	1,600	17,241	7,834
3	353	276	77	191	265	(74)	269	4
4	Amortization of Property, Plant and Equipment							
5	1,088	1,156	(68)	1,129	1,186	(57)	1,317	131
6	Interest on Amounts Due to Associates and Affiliates and Other Interest							
6	14,058	13,574	484	15,465	14,137	1,328	14,943	806
7	Amortization of Deferred Development Costs							
7	2,967	2,863	104	2,879	2,911	(32)	2,990	79
8	<b>Total Expenses</b>							
8	31,245	28,010	3,235	37,138	34,439	2,699	44,246	9,807

Operating and Maintenance (“O&M”) Expenses

EGNB manages its O&M expenses, excluding incentives, at an aggregate level, where EGNB will try to offset increased costs in certain areas with cost reductions or savings in other areas of the organization.

EGNB has grouped its O&M expenses based on major cost categories rather than departments, as seen in the regulatory financial statement format filed with the Board. This presentation is consistent with EGNB’s 2011 Budget filing.

Table 3  
**Operating and Maintenance Expenses**

Line No.	(1) 2010 Actual	(2) 2010 Budget	(3)=(1)-(2) 2010 Variance	(4) 2011 Forecast	(5) 2011 Budget	(6)=(4)-(5) 2011 Variance	(7) 2012 Budget	(8)=(7)-(5) Variance to 2011 Budget	
1	Labour and Benefits	8,509	9,008	(499)	9,077	9,172	(95)	9,477	305
2	Admin/Office Expenses	313	169	144	396	420	(24)	451	31
3	Computer and Telecom Services	320	421	(101)	355	376	(21)	352	(24)
4	Professional Consulting	2,537	2,339	198	2,424	2,308	116	2,439	131
5	Travel and Training	237	309	(72)	293	288	5	297	9
6	Advertising and Promotions	1,277	1,075	202	1,187	1,186	1	1,378	192
7	Incentives	4,172	8,440	(4,268)	5,166	5,166	-	5,897	731
7	Tools and Safety	113	116	(3)	223	123	100	205	82
9	Fleet	622	669	(47)	641	640	1	624	(16)
10	Facilities	667	679	(12)	702	700	2	740	40
11	Insurance	204	319	(115)	282	282	-	324	42
12	NBEUB Assessments	1,152	600	552	1,100	1,100	-	900	(200)
13	Corporate Allocations	1,732	1,508	224	1,542	1,539	3	1,510	(29)
14	Gas Transportation and Related Activities	1,144	1,065	79	2,024	1,170	854	1,710	540
15	<b>Total O&amp;M Prior to Capitalization</b>	<b>22,999</b>	<b>26,717</b>	<b>(3,718)</b>	<b>25,412</b>	<b>24,470</b>	<b>942</b>	<b>26,304</b>	<b>1,834</b>
16	<b>Capitalized to:</b>								
17	Property, plant & equipment	5,400	6,463	(1,063)	3,907	3,895	12	9,063	5,168
18	Development O&M capitalized costs	10,457	15,776	(5,319)	10,498	11,168	(670)	-	(11,168)
19	<b>Total Capitalized</b>	<b>15,857</b>	<b>22,239</b>	<b>(6,382)</b>	<b>14,405</b>	<b>15,063</b>	<b>(658)</b>	<b>9,063</b>	<b>(6,000)</b>
20	<b>Total O&amp;M Expenses</b>	<b>\$ 7,142</b>	<b>\$ 4,478</b>	<b>\$ 2,664</b>	<b>\$ 11,007</b>	<b>\$ 9,407</b>	<b>\$ 1,600</b>	<b>\$ 17,241</b>	<b>\$ 7,834</b>

2010 Actual vs 2010 Budget

EGNB's 2010 Actual O&M expenses were \$3.7 million, or 14%, under budget, with the principal driver for this variance being lower incentive spending (\$4.3 million) due to lower than forecast sales, partially offset by above budget NBEUB Assessments (\$0.6 million) due to higher than anticipated hearing activity and Public Intervenor costs. Other variances within individual O&M expense categories are primarily due to:

- Labour and Benefits: actual labour and benefit expenses were \$0.5 million under budget, primarily due to lower labour costs (\$361K) arising from vacant positions, lower commissions due to lower than forecast sales (\$127K), lower incentive compensation costs (\$17K) and relocation cost (\$26K), partially offset by increased recruitment (\$32K)
- Admin/Office Expenses: administration and office expense costs were \$144K over budget primarily due to a general cost mitigation strategy (\$200K) in the 2010 Budget that was distributed among actual expense accounts in the forecast, partially offset by lower stationery costs (\$25K), postage (\$15K), outside services (\$9K) and utility costs (\$6K)
- Computer and Telecom Services: computer and telephone related ("telecom") services were \$101K below budget, primarily due to lower telecom costs (\$62K) due to the implementation of a voice over internet protocol (VOIP) phone system, lower software maintenance costs (\$32K) and photocopier lease costs (\$5K)
- Professional Consulting: professional consulting costs were \$198K over budget, primarily due to higher than forecast legal and professional consulting costs arising from increased regulatory activity (\$321K) partially offset by reduction in consulting fees for Construction and Maintenance due to a new contract for sewer locates (\$101K)
- Travel and Training: travel and training costs were \$72K under budget, primarily due to lower airfare expenses (\$24K) related to reduced travel and conference attendance (\$4K) and associated accommodation (\$23K), meal costs (\$18K) and ground transportation costs (\$3K)
- Advertising and Promotions: advertising and promotion expenditures were \$202K over budget primarily due to increased advertising and public relations



- Fleet: fleet costs were \$47K under budget due to lower fuel and maintenance costs
- Facilities: facilities expenditures were \$12K below budget primarily due to removal of warehouse space in the Fredericton lease (\$21K) offset by unbudgeted utility expenses (\$6K) and office repairs & maintenance (\$3K)
- Insurance: insurance costs were \$115K under budget, primarily due to lower than anticipated liability insurance (\$109K), broker insurance (\$3K) and automobile insurance costs (\$2K)
- Corporate Allocations: corporate allocations are \$224K higher than budget due to an increased cost in stock based compensation (\$106K), nomination services (\$43K), dispatch services (\$35K), management fees (\$54K), partially offset by lower president fees (\$20K)
- Gas Transportation and Related Activities: gas transportation and related activities were \$79K over budget due to lower than anticipated utilization of the Maritimes and Northeast Pipeline (“M&NP”) Firm Service Agreement (“FSA”)

Amounts capitalized to Property, Plant and Equipment and Development O&M capitalized costs were \$6.4 million below budget due to actual costs being less than budget, as well as a reduction in the O&M capitalization percentages applied, resulting in a lower capitalized amount when the capitalization percentages are applied.

#### 2011 Forecast vs 2011 Budget

EGNB’s 2011 Forecast O&M expenses are expected to end the year \$942K, or 4%, over budget, with the principal driver for this variance being higher gas transportation and related activities (\$854K) due to lower than anticipated utilization of the M&NP FSA. Other variances within individual O&M expense categories accounting for the remaining \$88K over budget are primarily due to:

- Labour and Benefits: labour and benefit expenses are forecast to end 2011 \$95K under budget, primarily due to lower labour costs (\$109K) due to staff turnover and hiring lag partially offset by increased overtime costs (\$12K)
- Admin/Office Expenses: administration and office expense are forecast to be \$24K under budget primarily due to lower copier and other supplies (\$11K) and stationery costs (\$17K), partially offset by higher postage (\$4K)

- Computer and Telecom Services: computer and telecom services are forecast to be \$21K under budget at the end of 2011, primarily due to lower cellular/pager costs
- Professional Consulting: professional consulting costs are forecast to end 2011 \$116K above budget, primarily due to increased legal and consulting costs associated with an investor liquidation (\$51K), increase in Board of Director activity (\$13K) and an increase in consulting support for Human Resources activities (\$52K)
- Tools and Safety: tools and safety expenses are forecast to be \$100K above budget, primarily due to additional costs for the Sewer Lateral Awareness Campaign and for Leak Survey work

Amounts capitalized to Property, Plant and Equipment and Development O&M capitalized costs are \$658K under budget due to a reduction in the O&M capitalization percentages in the 2011 Forecast.

#### 2012 Budget vs 2011 Budget

EGNB's 2012 Budget O&M expenses reflect a \$1.8 million increase in comparison to its 2011 O&M Budget, with the principal driver for this variance being higher incentive spending expectations (\$731K) due to higher sales expectations, an increase in gas transportation and related activities (\$540K) due to lower anticipated utilization of the M&NP FSA, partially offset by forecast lower NBEUB Assessments (\$200K) due to anticipated lower hearing activity and Public Intervenor costs. Other variances within individual O&M expense categories accounting for the remaining \$0.8 million increase compared to the 2011 Budget are primarily due to:

- Labour and Benefits: labour and benefit expenses are forecast to be \$305K more than the 2011 Budget, primarily due to increased labour costs (\$233K) due to 2012 salary increases and the full year effect of 2011 increases, the implementation of overtime compensation for supervisory on-call staff (\$21K) and forecast incentive compensation (\$50K)
- Admin/Office Expenses: administration and office expenses are forecast to be \$31K more than the 2011 Budget, primarily due to increased cost for leak survey (\$30K) and postage costs (\$12K), partially offset by an expected reduction for stationary cost (\$10K)

- Computer and Telecom Services: computer and telecom costs are forecast to be \$24K less than the 2011 Budget, primarily due to reduced software maintenance costs (\$12K), photocopier lease costs (\$7K) and cellular/pager costs (\$3K)
- Professional Consulting: professional consulting costs are forecast to be \$131K more than the 2011 Budget, primarily due to system integrity activities (\$47K), increased consulting costs for Construction and Maintenance due to a contract renewal in 2012 (\$54K), increased costs for emergency response and inspections (\$27K) and an annual increase for call center fees (\$52K), partially offset by an expected decrease in regulatory activity (\$50K)
- Advertising and Promotions: advertising and promotion expenditures were \$192K over budget primarily due to increased advertising & public relations activities (\$190K)
- Tools and Safety: tools and safety expenses are forecast to be \$82K more than the 2011 budget, primarily due to additional cost for a Sewer Lateral Awareness Campaign and for Leak Survey work (\$77K)
- Fleet: fleet expenses are forecast to be \$16K below the 2011 Budget, primarily due to lower fuel and maintenance costs
- Facilities: facilities costs are forecast to be \$40K more than the 2011 Budget, primarily due to an allowance for increased space to develop improved training facilities
- Insurance: insurance expenses are forecast to be \$42K more than the 2011 Budget, primarily due to increased liability insurance costs
- Corporate Allocations: corporate allocations are \$29K lower than the 2011 Budget due to a reduction in budgeted allocations received from Enbridge Inc.

Amounts capitalized to Property, Plant and Equipment and Development O&M capitalized costs are forecast to be \$6.0 million less than the 2011 Budget due to the elimination of O&M capitalized to Development O&M (\$11.2 million) partially offset by an increase in O&M Capitalized to PPE (\$5.2 million), primarily due to the capitalization of incentives to PPE.

Other Operating Expenses

2010 Actual vs 2010 Budget

Bad Debt Expense was \$77K over budget primarily due to poor economic conditions.

Amortization of Property, Plant and Equipment was \$26K under budget due to the timing and nature of capital expenditures.

Municipal and Other Taxes were \$68K below budget due primarily to changes in property assessment values as compared to budget.

Interest on Amounts Due to Associates and Affiliates and Other Interest was \$484K above budget due to higher than budgeted Long Term Debt requirements during 2010 due to lower than budgeted cash flow from operations and the elimination of the planned equity call in 2010.

Amortization of Deferred Development Costs was \$104K above budget primarily due to reclassification of actual intangible software costs and their associated amortization from Property, Plant and Equipment in 2010 resulting from accounting changes.

2011 Forecast vs 2011 Budget

Bad Debt Expense is expected to be \$74K below budget, due to lower than expected revenues and a continued strong focus on customer collections.

Amortization of Property, Plant and Equipment is expected to be \$66K under budget due to the timing and nature of capital expenditures.

Municipal and Other Taxes are expected to be \$57K below budget primarily due to a decrease in capital expenditures as compared to budget.

Interest on Amounts Due to Associates and Affiliates and Other Interest are expected to be \$1.3 million above budget due to higher than budgeted Long Term Debt requirements during 2011 as a result of a regulatory decision to change capital structure to 55% Debt from the previous 50% Debt.

Amortization of Deferred Development Costs are expected to be \$32K below budget primarily due to a reduction in the additions to Development O&M.

#### 2012 Budget vs 2011 Budget

Amortization of Property, Plant and Equipment is forecast to result in a \$953K increase compared to the 2011 budget due to forecasted capital additions in 2012.

Municipal and Other Taxes are forecast to increase by \$131K compared to the 2011 budget primarily due to forecast additions to capital and the expansion into Dorchester late in 2011.

Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to increase by \$806K compared to the 2011 budget due to additional debt notes taken in the latter part of 2011 having a full year of interest associated with them in 2012, as well as a new debt note in 2012.

Amortization of Deferred Development Costs is forecast to increase by \$79K compared to the 2011 Budget due to the growth in Development O&M costs in 2011.

**Rate Base**

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

Table 4  
Rate Base

Line No.	(1) 2010 Actual	(2) 2010 Budget	(3)=(1)-(2) 2010 Variance	(4) 2011 Forecast	(5) 2011 Budget	(6)=(4)-(5) 2011 Variance	(7) 2012 Budget	(8)=(7)-(5) Variance to 2011 Budget	
1	Property, plant and equipment	156,205	161,304	(5,099)	164,635	166,569	(1,934)	186,574	20,005
2	Development O&M capitalized costs	96,409	105,785	(9,376)	104,205	106,943	(2,738)	101,368	(5,575)
3	Franchise fee	650	650	-	562	562	-	475	(87)
4	Deferred costs	201	579	(378)	109	109	-	109	-
5	Term deposit	2,957	3,128	(171)	2,963	2,955	8	2,963	8
6	Working capital allowance	1,859	661	1,198	2,483	1,849	634	1,532	(317)
7	Regulatory Deferral	171,427	155,128	16,299	178,850	176,984	1,866	187,399	10,415
8	Rate Base	429,708	427,235	2,473	453,807	455,971	(2,164)	480,420	24,449

2010 Actual vs 2010 Budget

Property, Plant and Equipment was \$5.1 million below budget primarily due to the reduction in actual capital costs as compared to forecast (\$2.9 million) in the last quarter of 2009, a decrease in capital spending (\$1.5 million) as compared to budget, forecast disposals which did not materialize (\$400K) and an increase in amortization (\$216K).

Development O&M Capitalized Costs were \$9.4 million below budget primarily due to a reduction in additions from O&M spending (\$5.3 million) and the impact of the lower than forecast ending year balance (\$4.2 million) from 2009, offset by a reduction in amortization (\$150k).

Deferred Costs were \$378K below budget due to equity call costs budgeted in 2010 for an equity call that did not take place.

Term deposit costs were \$171K below budget, primarily due to the actual rate of interest being lower than the original forecast rate of interest (\$103K) and the timing of the payment of the interest earned (\$68K).

Working Capital Allowance is \$1.2 million over budget, primarily due to higher inventory (\$700K) and prepaid expense balances (\$534K).

Regulatory Deferral is \$16.3 million over budget, primarily due to a shortfall in Gas Distribution revenue (\$11.8 million) and Installation Services Margin (\$764K), an increase in O&M expenses (\$2.5 million), an increase in Other expenses (\$280K), and an increase in the opening balance (\$2.0 million) resulting from higher than forecast additions in the last quarter of 2009, partially offset by a reduction in Return on Rate Base (\$1.1 million).

#### 2011 Forecast vs 2011 Budget

Property, Plant and Equipment is expected to be \$1.9 million under budget primarily due to a reduction in the amount of capital spending (\$1.0 million) due to a reduction in customer attachments and a reduction in the opening balance of Property, Plant and Equipment (\$1.0 million) resulting from lower than forecast additions in the last quarter of 2010, partially offset by a reduction in amortization (\$66K).

Development O&M Capitalized Costs are expected to be \$2.7 million below budget primarily due to a reduction in the current year amount of O&M capitalized (\$670K) due to a reduction in the rates at which O&M expenses are capitalized to Development O&M Capitalized Costs and a reduction in the opening balance (\$2.2 million) resulting from lower than forecast additions in the last quarter of 2010, partially offset by a reduction in amortization (\$92K).

Working Capital Allowance is expected to be \$634K over budget in 2011, primarily due to higher inventory (\$196K) and prepaid expense balances (\$438K).

Regulatory Deferral is expected to be \$1.9 million over budget, primarily due to a shortfall in Gas Distribution revenue (\$3.9 million) and Installation Services Margin (\$392K), an increase in O&M expenses (\$745K), an increase in Other expenses (\$801K), and an increase in the opening balance (\$838K) resulting from higher than forecast additions in the last quarter of 2010, partially offset by a decrease in the return on rate base (\$4.7 million).

2012 Budget vs 2011 Budget

Property, Plant and Equipment are forecast to increase by \$20.0 million as compared to the 2011 Budget, primarily due to a forecast increase to capital additions (\$9.6 million) and an anticipated strategic project (\$10.7 million).

Development O&M Capitalized Costs are forecast to decrease by \$5.6 million as compared to the 2011 Budget primarily due to amortization (\$2.7 million) and a reduction in the opening balance (\$2.8 million) resulting from lower than forecast additions in 2010.

Franchise fee cost is forecast to decrease by \$87K as compared to the 2011 Budget due to the recognition of an additional year of amortization.

Working Capital Allowance is forecast to decrease by \$317K as compared to the 2011 Budget, primarily due to lower budgeted inventory balances which reflect past experience.

Regulatory Deferral is forecast to increase by \$10.4 million as compared to the 2011 Budget primarily due to an increase in O&M expenses (\$7.3 million), an increase in Other expenses (\$1.7 million), and an increase in the opening balance (\$8.3 million) resulting from higher than forecast additions in 2010, partially offset by a decrease in the return on rate base (\$3.8 million), and an increase in revenue (\$3.1 million).



**Non-Rate Base**

Information with respect to EGNB's Non-Rate Base items is provided below.

Table 5  
**Non-Rate Base**

Line No.	(1) 2010 Actual	(2) 2010 Budget	(3)=(1)-(2) 2010 Variance	(4) 2011 Forecast	(5) 2011 Budget	(6)=(4)-(5) 2011 Variance	(7) 2012 Budget	(8)=(7)-(5) Variance to 2011 Budget
<b>1 Non-Ratebase Assets</b>								
2 Cash and Short Term Investments	4,521	17,376	(12,855)	1,322	-	1,322	7,201	7,201
3 Accounts Receivable	15,257	14,065	1,192	17,772	14,083	3,689	14,807	724
4 Inventory	1,294	740	554	4,289	4,087	202	4,289	202
<b>5 Total Non-Rate Base Assets</b>	<b>21,072</b>	<b>32,181</b>	<b>(11,109)</b>	<b>23,383</b>	<b>18,170</b>	<b>5,213</b>	<b>26,297</b>	<b>8,127</b>
<b>6 Non-Ratebase Liabilities</b>								
7 Short Term Indebtedness	-	-	-	-	667	(667)	-	(667)
8 Accounts Payable	22,329	15,595	6,734	22,480	15,942	6,538	23,522	7,580
9 Long Term Deferred Post Employment Liabilities	2,449	(146)	2,595	2,328	2,359	(31)	2,328	(31)
<b>10 Total Non-Rate Base Liabilities</b>	<b>24,778</b>	<b>15,449</b>	<b>9,329</b>	<b>24,808</b>	<b>18,968</b>	<b>5,840</b>	<b>25,850</b>	<b>6,882</b>

Non-rate base items are a function of the annual operations of EGNB and fluctuate with changes in operating revenues and expenses.

## Cost of Capital Summary

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

Table 6  
**Cost of Capital**

	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)=(4)-(5)	(7)	(8)=(7)-(5)
	2010 Actual	2010 Budget	2010 Variance	2011 Forecast	2011 Budget	2011 Variance	2012 Budget	Variance to 2011 Budget
Principal								
Debt	233,650	218,274	15,376	253,650	227,701	25,949	262,150	34,449
Equity	192,143	226,905	(34,762)	197,910	227,245	(29,335)	218,846	(8,399)
Return (\$)								
Debt	13,959	13,583	376	15,454	14,146	1,308	14,922	776
Equity	24,590	26,048	(1,458)	21,453	27,657	(6,204)	22,607	(5,050)
Approved rates								
Debt	6.26%	6.38%	-0.12%	6.30%	6.24%	0.06%	6.04%	-0.20%
Equity	13.00%	13.00%	0.00%	10.90%	12.75%	-1.85%	10.90%	-1.85%

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

### 2010 Actual vs 2010 Budget

Equity was \$35 million below budget due to EGNB's decision to cancel a planned equity call in 2010, partially offset by the decision to cease the payment of distributions after the second quarter of 2010. As a result, EGNB's cash requirements were funded through debt financing which was \$15.4 million above budget.

Actual debt rates were 0.12% below budget rates due to lower than budgeted interest rates on the additional debt requirements.

2011 Forecast vs 2011 Budget

Equity is forecast to decrease by \$29.3 million and Debt is forecast to increase by \$25.9 million as compared to the 2011 budget resulting from a change in the allowed composition of the capital structure to 55% Debt and 45% Equity, as directed by the NBEUB.

Debt rates are forecast to increase by 0.06% as compared to the 2011 budget resulting from a slightly higher borrowing rate on new debt notes. Equity rates are forecast to decrease by 1.85% as compared to the 2011 budget due to an anticipated reduction in the return on equity to 12.75%, coupled with a regulatory decision to adjust the return on equity rate to 10.9%.

2012 Budget vs 2011 Budget

Equity is forecast to decrease by \$8.3 million and Debt is forecast to increase by \$34.5 million as compared to the 2011 budget resulting from a change in the allowed composition of the capital structure to 55% Debt and 45% Equity, as directed by the NBEUB.

Debt rates are forecast to decrease by 0.20% as compared to the 2011 budget resulting from a slightly lower borrowing rate on new debt notes. Equity rates are forecast to decrease by 1.85% as compared to the 2011 budget due to an anticipated reduction in the return on equity to 12.75%, coupled with a regulatory decision to adjust the return on equity rate to 10.9%.