

## **Schedule 8**

### **2011 Budget Explanations**

## **2011 Budget**

### **Overview**

Enbridge Gas New Brunswick's ("EGNB") 2011 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 2011 Budget Assumptions can be found at Exhibit A, Schedule 9.

For comparative purposes, variance explanations compare 2009 actual results to the 2009 Budget, 2010 forecast results, based on a mid-year forecast that combined actual 2010 results to June 30, 2010, with a forecast for the remainder of the year, to the 2010 Budget and the 2011 Budget to the 2010 Budget. EGNB has only included explanations for variances greater than \$10K.

**Revenue**

For the 2011 budget year, EGNB has forecast total revenue from operations of \$55M. The table below summarizes EGNB's budgeted 2011 gas distribution revenue, miscellaneous operating revenue, income from investments, allowance for funds used during construction ("AFUDC") and installation services margin with comparisons to 2009 and 2010.

Table 1  
**Revenue**

Line No.	(1) 2009 Actual	(2) 2009 Budget	(3)=(1)-(2) 2009 Variance	(4) 2010 Forecast	(5) 2010 Budget	(6)=(4)-(5) 2010 Variance	(7) 2011 Budget	(8)=(7)-(5) Variance to 2010 Budget
1	Operating Revenue							
2	\$ 26,162	\$ 42,612	\$ (16,450)	\$ 39,982	\$ 50,299	\$ (10,317)	\$ 54,218	\$ 3,919
3	281	271	10	360	271	89	137	(134)
4	44	-	44	-	-	-	-	-
5	34	57	(23)	60	123	(63)	13	(110)
6	26,521	42,940	(16,419)	40,402	50,693	(10,291)	54,368	3,675
7	Installation Services							
8	7,664	15,358	(7,694)	6,050	11,078	(5,028)	4,478	(6,600)
9	(6,221)	(12,129)	5,908	(5,397)	(9,316)	3,919	(3,562)	5,754
10	1,443	3,229	(1,786)	653	1,762	(1,109)	916	(846)
11	27,964	46,169	(18,205)	41,055	52,455	(11,400)	55,284	2,829

### 2009 Actual vs 2009 Budget

#### Operating Revenue

- Gas Distribution Revenue: actual gas distribution revenues were \$16.5 million under budget, primarily due to lower than expected distribution rates (\$10.9 million), lower customer attachments (\$3.9 million), and a reduction in actual usage by customers as compared to the budget (\$1.9 million), offset by colder than normal weather (\$0.3 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. Actual miscellaneous revenues were \$10K over budget, primarily due to late payment charges collected from customers being greater than forecast.

Income from Investments revenue is not budgeted by EGNB. There was \$44K in actual interest collected on finance plans and bank balances.

AFUDC was \$23K 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 \$1.8 million 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.

### 2010 Forecast vs 2010 Budget

#### Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are forecast to end 2010 \$10.3 million under budget, due to lower than forecasted distribution rates (\$4.2 million), warmer than normal weather (\$2.9 million), a reduction in customer attachments (\$2.8 million) and a reduction in actual usage by customers as compared to the budget (\$0.4 million).

- Miscellaneous Operating Revenue: miscellaneous revenues are expected to end 2010 \$89K over budget, primarily due to late payment charges collected from customers being greater than anticipated.

AFUDC is expected to be \$63K under budget, primarily due to lower than budgeted monthly balances in the CWIP account, of which AFUDC is calculated on.

Installation Services Margin is expected to be \$1.1 million under budget, primarily due to a continued increase in competition in the market and below budget customer attachments.

#### 2011 Budget vs 2010 Budget

##### Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are forecast to be \$3.9 million more than the 2010 Budget, due to increased distribution rates (\$6.6 million), partially offset by reduced customer attachments (\$2.7 million).
- Miscellaneous Operating Revenue: miscellaneous revenues are forecast to be \$134K below the 2010 Budget, driven by a reduction in ABC fees (\$26K) and a reduction in interest rates on the term deposit with Maritimes & Northeast Pipeline (\$108K).

AFUDC is forecast to be \$110K below the 2010 Budget primarily due to a forecast reduction in CWIP balances resulting from reduced capital spending and a greater focus on attaching customers already on main.

Installation Services Margin is forecast to be \$846K below the 2010 Budget, primarily due to a reduction in the forecasted amount of installation work to be done by EGNB, as well as a greater focus on the Residential sector rather than the Commercial sector.

**Expenses**

For the 2011 Budget year, EGNB has forecast total expenses of \$35 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 2009 and 2010.

Table 2  
**Operating Expenses**

Line No. (in thousands of dollars)	(1) 2009 Actual	(2) 2009 Budget	(3)=(1)-(2) 2009 Variance	(4) 2010 Forecast	(5) 2010 Budget	(6)=(4)-(5) 2010 Variance	(7) 2011 Budget	(8)=(7)-(5) Variance to 2010 Budget
1 Operating Expenses								
2 Operating and Maintenance Expenses	5,054	3,893	1,161	7,536	4,478	3,058	9,897	5,419
3 Bad Debt Expense	311	296	15	259	276	(17)	265	(11)
4 Amortization of Property, Plant and Equipment	5,042	5,062	(20)	5,922	5,663	259	6,555	892
5 Municipal and Other Taxes	1,053	981	72	1,110	1,156	(46)	1,186	30
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	12,367	12,067	300	14,016	13,574	442	14,150	576
7 Amortization of Deferred Development Costs	2,904	2,770	134	2,968	2,863	105	2,917	54
<b>8 Total Expenses</b>	<b>26,731</b>	<b>25,069</b>	<b>1,662</b>	<b>31,811</b>	<b>28,010</b>	<b>3,801</b>	<b>34,970</b>	<b>6,960</b>

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 of O&M is better aligned with the NBSO Minimum Filing Requirements and EGNB may consider adjusting its future regulatory financial statements to this format if the Board believes it is a better representation of EGNB O&M expenses.

Table 3  
**Operating and Maintenance Expenses**

Line No.	(1) 2009 Actual	(2) 2009 Budget	(3)=(1)-(2) 2009 Variance	(4) 2010 Forecast	(5) 2010 Budget	(6)=(4)-(5) 2010 Variance	(7) 2011 Budget	(8)=(7)-(5) Variance to 2010 Budget	
1	Labour and Benefits	8,651	9,709	(1,058)	8,853	8,908	(55)	9,172	264
2	Admin/Office Expenses	250	333	(83)	346	345	1	400	55
3	Computer and Telecom Services	359	527	(168)	360	416	(56)	376	(40)
4	Professional Consulting	2,324	1,695	629	2,483	2,311	172	2,308	(3)
5	Travel and Training	238	344	(106)	301	306	(5)	288	(18)
6	Advertising and Promotions	927	1,251	(324)	1,131	1,063	68	1,186	123
7	Incentives	4,201	15,785	(11,584)	6,234	8,440	(2,206)	5,166	(3,274)
7	Tools and Safety	118	145	(27)	106	114	(8)	123	9
9	Fleet	616	763	(147)	641	667	(26)	643	(24)
10	Facilities	657	815	(158)	694	691	3	720	29
11	Insurance	222	166	56	325	316	9	360	44
12	NBEUB Assessments	887	400	487	900	593	307	1,100	507
13	Corporate Allocations	2,606	1,411	1,195	2,583	1,482	1,101	2,798	1,316
14	Gas Transportation and Related Activities	1,141	1,287	(146)	1,141	1,065	76	1,170	105
15	<b>Total O&amp;M Prior to Capitalization</b>	<b>23,197</b>	<b>34,631</b>	<b>(11,434)</b>	<b>26,098</b>	<b>26,717</b>	<b>(619)</b>	<b>25,810</b>	<b>(907)</b>
16	<b>Capitalized to:</b>								
17	Property, plant & equipment	6,322	6,431	(109)	5,781	6,463	(682)	4,172	(2,291)
18	Development O&M capitalized costs	11,821	24,307	(12,486)	12,781	15,776	(2,995)	11,741	(4,035)
19	<b>Total Capitalized</b>	<b>18,143</b>	<b>30,738</b>	<b>(12,595)</b>	<b>18,562</b>	<b>22,239</b>	<b>(3,677)</b>	<b>15,913</b>	<b>(6,326)</b>
20	<b>Total O&amp;M Expenses</b>	<b>\$ 5,054</b>	<b>\$ 3,893</b>	<b>\$ 1,161</b>	<b>\$ 7,536</b>	<b>\$ 4,478</b>	<b>\$ 3,058</b>	<b>\$ 9,897</b>	<b>\$ 5,419</b>

2009 Actual vs 2009 Budget

EGNB's 2009 Actual O&M expenses were \$11.4 million, or 33%, under budget, with the principal driver for this variance being lower incentive spending (\$11.6 million) due to lower than forecast sales, partially offset by above budget corporate allocations (\$1.2 million) due to the proposed change in the corporate allocation methodology. Other variances within individual O&M expense categories accounting for the remaining \$1.0 million under budget are primarily due to:

- **Labour and Benefits:** actual labour and benefit expenses were \$1.1 million under budget, primarily due to lower labour costs (\$350K) arising from staff reductions as part of cost mitigation activities, commissions due to lower than forecast sales (\$183K), benefits (\$22K) arising from lower labour costs and pension costs (\$397K) due to anticipated impacts from accounting changes for rate regulated entities not materializing, partially offset by increased recruitment (\$30K) and incentive compensation (\$55K) costs.
- **Admin/Office Expenses:** administration and office expense costs were \$83K below budget primarily due to lower postage (\$17K), corporate events (\$30K), Board meeting and external party costs (\$30K) and stationery costs (\$7K), partially offset by higher copier and other supplies (\$6K).
- **Computer and Telecom Services:** computer and telephone related ("telecom") services were \$168K below budget, primarily due to lower photocopier lease costs (\$97K), telecom costs (\$50K) and software maintenance costs (\$17K).
- **Professional Consulting:** professional consulting costs were \$629K over budget, primarily due to a forecast error that excluded call centre costs (\$490K) from the budget, higher than forecast legal costs arising from increased regulatory activity (\$80K), increased consulting support for Marketing and regulatory activities (\$70K).
- **Travel and Training:** travel and training costs were \$106K under budget, primarily due to lower airfare expenses (\$41K) related to reduced travel and conference attendance (\$10K) as part of cost mitigation activities and associated accommodation (\$40K) and meal costs (\$19K), partially offset by higher ground transportation costs (\$13K).
- **Advertising and Promotions:** advertising and promotion expenditures were \$324K under budget primarily due to reduced Marketing (\$298K) and sponsorship activity (\$20K) as part of cost mitigation.



- Tools and Safety: tools and safety expenses were \$27K under budget, primarily due to lower expenditures on safety related supplies (\$20K) and uniforms and protective clothing (\$12K) as part of cost mitigation, while ensuring safety of the public and employees was not compromised.
- Fleet: fleet costs were \$147K under budget, primarily due to lower fuel and maintenance costs (\$149K).
- Facilities: facilities expenditures were \$158K below budget primarily due to expected utility costs (\$103K) related to a project that did not occur, lower than forecast gate station utility costs (\$15K) and facilities repairs and maintenance costs (\$26K) and network analysis project (\$25K) that did not proceed primarily due to cost mitigation.
- Insurance: insurance costs were \$56K over budget, primarily due to higher than anticipated liability insurance (\$48K) and automobile insurance (\$4K) costs.
- NBEUB Assessments: NBEUB costs were \$487K above budget due to a higher than anticipated EUB assessment arising from increased hearing activity and Public Intervenor costs.
- Gas Transportation and Related Activities: gas transportation and related activities were \$146K below budget due to higher 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 are \$12.6 million below budget due to actual costs being less than budget, resulting in a lower capitalized amount when the capitalization percentages are applied.

#### 2010 Forecast vs 2010 Budget

EGNB’s 2010 Forecast O&M expenses are expected to end the year \$0.6 million, or 2.3%, under budget, with the principal driver for this variance being lower incentive spending (\$2.2 million) due to lower than forecast sales, partially offset by above budget corporate allocations (\$1.1 million) due to the proposed change in the corporate allocation methodology. Other variances within individual O&M expense categories accounting for the remaining \$0.5 million over budget are primarily due to:

- Labour and Benefits: labour and benefit expenses are forecast to end 2010 \$55K under budget, primarily due to lower labour costs (\$63K) due to staff turnover and hiring lag and lower training costs (\$20K) due to reduced training activities, partially offset by increased overtime costs (\$18K).
- Computer and Telecom Services: computer and telecom services are forecast to be \$56K under budget at the end of 2010, primarily due to lower third party software maintenance fees (\$30K) and telecom costs (\$33K) primarily due to the migration of the office phone system to voice over internet protocol (“VOIP”).
- Professional Consulting: professional consulting costs are forecast to end 2010 \$172K above budget, primarily due to higher than forecast legal costs primarily arising from increased regulatory activity (\$80K), investor relations (\$40K), installation services activities (\$17K) and customer care (\$13K).
- Advertising and Promotions: advertising and promotions expenses are forecast to be \$68K above budget at the end of 2010, primarily due to increased Marketing activity (\$67K) to address negative media activity.
- Fleet: fleet cost are forecast to end 2010 \$26K under budget, primarily due to reduced vehicle lease costs (\$40K) due to timing of vehicle replacement with purchased vehicles, partially offset by increased fuel and maintenance costs (\$13K).
- NBEUB Assessments: NBEUB costs are forecast to be \$307K over budget in 2010 due to higher than anticipated EUB assessment arising from increased hearing activity and Public Intervenor costs.
- Gas Transportation and Related Activities: gas transportation and related activities are forecast to end 2010 \$76K over budget due to lower than anticipated utilization of the M&NP FSA.

Amounts capitalized to Property, Plant and Equipment and Development O&M capitalized costs are \$3.7 million below budget due to costs being forecast to end the year below budget (\$700K), resulting in a lower capitalized amount when the capitalization percentages are applied and a reduction in the capitalization rates for amounts to be capitalized to Development O&M (\$3.0 million).

### 2011 Budget vs 2010 Budget

EGNB's 2011 Budget O&M expenses reflect a \$0.9 million decrease in comparison to its 2010 O&M Budget, with the principal driver for this variance being reduced incentive spending expectations (\$3.3 million) due to lower sales expectations, partially offset by higher corporate allocations (\$1.3 million) due to increased charges and the proposed change in the corporate allocation methodology. Other variances within individual O&M expense categories accounting for the remaining \$1.1 million increase compared to the 2010 Budget are primarily due to:

- **Labour and Benefits:** labour and benefit expenses are forecast to be \$264 more than the 2010 Budget, primarily due to increased labour costs (\$154K) due to 2011 salary increases and the full year effect of 2010 increases, the implementation of overtime compensation for supervisory on-call staff (\$35K), additional training costs (\$50K) in support of staff development, and forecast incentive compensation (\$43K), partially offset by reduced relocation costs (\$9K).
- **Admin/Office Expenses:** administration and office expenses are forecast to be \$55K greater than the 2010 Budget, primarily due to higher copier and other supplies (\$25K) due to increased printing requirements, postage (\$13K) due to increased customers and Canada Post charges, corporate events (\$10K) and stationery costs (\$8K).
- **Computer and Telecom Services:** computer and telecom costs are forecast to be \$40K less than the 2010 Budget, primarily due to reduced telecom costs (\$28K) arising from the VOIP implementation in 2010 and lower third party software maintenance fees (\$9K).
- **Travel and Training:** travel and training costs are forecast to be \$18K below the 2010 Budget, primarily due to expected reductions to ground transportation (\$5K) and meals and entertainment (\$7K) costs.
- **Advertising and Promotions:** advertising and promotion expenses are forecast to be \$123K above the 2010 Budget, primarily due to increased Marketing activity (\$122K) to strengthen brand reputation.
- **Fleet:** fleet expenses are forecast to be \$24K below the 2010 Budget, primarily due to reduced vehicle lease costs (\$84K) due to replacing leased vehicles with purchased vehicles, partially offset by increased fuel and maintenance costs (\$61K).

- Facilities: facilities costs are forecast to be \$29K more than the 2010 Budget, primarily due to increased repairs and maintenance costs (\$20K) and utility costs (\$11K).
- Insurance: insurance expenses are forecast to be \$44K more than the 2010 Budget, primarily due to increased liability insurance costs (\$49K).
- NBEUB Assessments: NBEUB costs are forecast to be \$507K higher than the 2010 Budget due to an anticipated higher EUB assessment arising from increased hearing activity and Public Intervenor costs.
- Gas Transportation and Related Activities: gas transportation and related activities are forecast to be \$105K above the 2010 Budget due to lower anticipated utilization of the M&NP FSA.

Amounts capitalized to Property, Plant and Equipment and Development O&M capitalized costs are forecast to be \$6.3 million less than the 2010 Budget due to cost decreases in some O&M categories (\$2.3 million), resulting in a lower capitalized amount when the capitalization percentages are applied, and a reduction in the capitalization rates assumed for amounts to be capitalized to Development O&M (\$4.0).

Other Operating Expenses

2009 Actual vs 2009 Budget

Bad Debt Expense was \$15K over budget primarily due to poor economic conditions.

Amortization of Property, Plant and Equipment was \$20K under budget due to the timing and nature of capital expenditures.

Municipal and Other Taxes were \$72K over 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 \$300K above budget due to higher than budgeted Long Term Debt requirements during 2009 due to lower than budgeted cash flow from operations.

Amortization of Deferred Development Costs was \$134K above budget primarily due to a reclassification of actual intangible software costs and their associated amortization from Property, Plant and Equipment in 2009 resulting from accounting changes.

2010 Forecast vs 2010 Budget

Bad Debt Expense is expected to be \$17K below budget, primarily due to lower than expected revenues and a strong focus on customer collections.

Amortization of Property, Plant and Equipment is expected to be \$259 over budget due to the timing and nature of capital expenditures.

Municipal and Other Taxes are expected to be \$46K 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 \$442K above budget due to higher than budgeted Long Term Debt requirements during 2010 as a result of relying solely on debt financing during 2010.

Amortization of Deferred Development Costs are expected to be \$105K above budget primarily due to a reclassification of actual intangible software costs and their associated amortization from Property, Plant and Equipment in 2010 resulting from accounting changes.

2011 Budget vs 2010 Budget

Bad Debt Expense is forecast to decrease by \$11K compared to the 2010 budget, primarily due to an overall decrease in combined expected gas distributions and installation services revenues year over year.

Amortization of Property, Plant and Equipment is forecast to result in a \$892K increase compared to the 2010 budget due to forecasted capital additions in 2011.

Municipal and Other Taxes are forecast to increase by \$30K compared to the 2010 budget primarily due to forecast additions to capital.

Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to increase by \$576K compared to the 2010 budget due to additional debt notes taken in the latter part of 2010 having a full year of interest associated with them in 2011.

Amortization of Deferred Development Costs is forecast to increase by \$54K compared to the 2010 budget primarily due to additions to Development O&M Capitalized costs forecasted for 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) 2009 Actual	(2) 2009 Budget	(3)=(1)-(2) 2009 Variance	(4) 2010 Forecast	(5) 2010 Budget	(6)=(4)-(5) 2010 Variance	(7) 2011 Budget	(8)=(7)-(5) Variance to 2010 Budget
1	147,751	163,844	(16,093)	157,544	161,303	(3,759)	167,267	5,964
2	88,771	102,311	(13,540)	99,130	105,784	(6,654)	108,106	2,322
3	725	725	-	650	650	-	562	(88)
4	426	734	(308)	202	579	(377)	109	(470)
5	2,955	3,188	(233)	2,955	3,128	(173)	2,955	(173)
6	1,757	642	1,115	2,286	609	1,677	1,327	718
7	155,895	133,612	22,283	171,776	155,128	16,648	179,128	24,000
8	398,280	405,056	(6,776)	434,543	427,181	7,362	459,454	32,273

2009 Actual vs 2009 Budget

Property, Plant and Equipment was \$16.1 million below budget primarily due to a cancellation of a strategic project (\$5.0 million), reduction in spending on Information Technology projects (\$1.3 million) and General Plant (\$0.3 million), reduced new main costs (\$3.8 million), as a result of fewer than expected customer attachments and a continued focus on attaching existing non-customers on main, and the impact of the reduction in actual capital costs as compared to forecast (\$5.7 million) in the last quarter of 2008.

Development O&M Capitalized Costs were \$13.5 million below budget primarily due to a reduction in additions from O&M spending (\$12.5 million), a reduction in amortization (\$.1 million) and the impact of the lower than forecast ending year balance (\$1.0 million) from 2008.

Deferred Costs were \$308K below budget due to equity call costs budgeted in 2009 for an equity call that did not take place.

Term deposit costs were \$233K below budget, primarily due to the actual rate of interest being lower than the original forecast rate of interest (\$109K) and the timing of the payment of the interest earned (\$124K).

Working Capital Allowance is \$1.1 million over budget, primarily due to higher inventory (\$731K) and prepaid expense balances (\$412K).

Regulatory Deferral is \$22.3 million over budget, primarily due to a shortfall in Gas Distribution revenue (\$16.4 million) and Installation Services Margin (\$1.8 million), an increase in O&M expenses (\$1.2 million), an increase in Other expenses (\$501K), and an increase in the opening balance (\$2.6 million) resulting from higher than forecast additions in the last quarter of 2008.

#### 2010 Forecast vs 2010 Budget

Property, Plant and Equipment is expected to be \$3.8 million under budget primarily due to a reduction in the amount of O&M expenses expected to be capitalized to Property, Plant and Equipment (\$682K) and a reduction in the opening balance of Property, Plant and Equipment (\$3.0 million) resulting from lower than forecast additions in the last quarter of 2009.

Development O&M Capitalized Costs are expected to be \$6.7 million below budget primarily due to a reduction in the rates in which O&M expenses are capitalized to Development O&M Capitalized Costs (\$3.0 million) based on a study of department activities conducted in 2010 and a reduction in the opening balance (\$4.0 million) resulting from lower than forecast additions in 2009, partially offset by a reduction in amortization (\$176K).

Deferred Costs are expected to be \$377K below budget due to equity call costs budgeted in 2010 for an equity call that did not take place.

Term deposit costs are expected to be \$173K below budget, primarily due to the expected rate of interest being lower than the original forecast rate of interest (\$105K) and the timing of the payment of the interest earned (\$68K).

Working Capital Allowance is expected to be \$1.7 million over budget in 2010, primarily due to higher inventory (\$754K) and prepaid expense balances (\$958K).



Regulatory Deferral is expected to be \$16.6 million over budget, primarily due to a shortfall in Gas Distribution revenue (\$10.3 million) and Installation Services Margin (\$1.1 million), an increase in O&M expenses (\$3.1 million), an increase in Other expenses (\$743K), and an increase in the opening balance (\$1.2 million) resulting from higher than forecast additions in the last quarter of 2009.

#### 2011 Budget vs 2010 Budget

Property, Plant and Equipment are forecast to increase by \$6.0 million as compared to the 2010 budget, primarily due to a forecasted increase to capital additions (\$8.9 million) and a planned strategic project (\$2.7 million), partially offset by a reduction in the opening balance of Property, Plant and Equipment (\$3.7 million) resulting from lower than forecast additions in the last quarter of 2010.

Development O&M Capitalized Costs are forecast to increase by \$2.3 million as compared to the 2010 budget primarily due to additional O&M expenses forecasted to be capitalized during 2011 (\$11.7 million), offset by a reduction in amortization (\$2.7 million) and a reduction in the opening balance (\$6.9 million) resulting from lower than forecast additions in 2010.

Franchise fee cost is forecast to decrease by \$88K as compared to the 2010 budget due to the recognition of an additional year of amortization.

Deferred Costs are forecast to decrease by \$470K as compared to the 2010 budget due to previously budgeted equity call costs that were not incurred being removed from the budget as well as recognition of an additional year of amortization.

Term deposit costs are forecast to decrease by \$173K as compared to the 2010 budget to reflect actual experience around the timing of the interest payments and interest rates.

Working Capital Allowance is forecast to increase by \$718K million as compared to the 2010 budget, primarily due to higher budgeted inventory (\$754K) offset by lower prepaid expenses (\$36K) balances which reflect past experience.

Regulatory Deferral is forecast to increase by \$24.0 million as compared to the 2010 budget primarily due to an increase in O&M expenses (\$5.4 million), an increase in Other expenses (\$1.6 million), and an increase in the opening balance (\$16.6 million) resulting from higher than forecast additions in 2010, and an increase in the return on rate base (\$2.2 million), partially offset by an increase in revenue (\$3.9 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) 2009 Actual	(2) 2009 Budget	(3)=(1)-(2) 2009 Variance	(4) 2010 Forecast	(5) 2010 Budget	(6)=(4)-(5) 2010 Variance	(7) 2011 Budget	(8)=(7)-(5) Variance to 2010 Budget
<b>1 Non-Ratebase Assets</b>								
2 Cash and Short Term Investments	-	-	-	-	17,376	(17,376)	-	(17,376)
3 Accounts Receivable	15,053	12,343	2,710	15,944	14,065	1,879	14,083	18
4 Inventory	1,430	757	673	4,087	740	3,347	4,087	3,347
<b>5 Total Non-Rate Base Assets</b>	<b>16,483</b>	<b>13,100</b>	<b>3,383</b>	<b>20,031</b>	<b>32,181</b>	<b>(12,150)</b>	<b>18,170</b>	<b>(14,011)</b>
<b>6 Non-Ratebase Liabilities</b>								
7 Short Term Indebtedness	1,757	72	1,685	17	-	17	1,332	1,332
8 Accounts Payable	13,325	25,875	(12,550)	15,910	15,595	315	16,099	504
9 Long Term Deferred Post Employment Liabilities	-	(121)	121	2,359	(146)	2,505	2,359	2,505
<b>10 Total Non-Rate Base Liabilities</b>	<b>15,082</b>	<b>25,826</b>	<b>(10,744)</b>	<b>18,286</b>	<b>15,449</b>	<b>2,837</b>	<b>19,790</b>	<b>4,341</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)
	2009 Actual	2009 Budget	2009 Variance	2010 Forecast	2010 Budget	2010 Variance	2011 Budget	Variance to 2010 Budget
Principal								
Debt	212,650	174,057	38,593	232,851	218,274	14,577	227,701	9,427
Equity	186,656	218,047	(31,391)	201,126	226,905	(25,779)	228,799	1,894
Return (\$)								
Debt	12,176	11,923	253	13,995	13,583	412	14,146	563
Equity	24,369	24,538	(169)	24,889	26,048	(1,159)	27,657	1,609
Approved rates								
Debt	6.47%	6.32%	0.15%	6.28%	6.38%	-0.10%	6.24%	-0.14%
Equity	13.00%	13.00%	0.00%	13.00%	13.00%	0.00%	12.75%	-0.25%

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

#### 2009 Actual vs 2009 Budget

Equity was \$31.4 million below budget due to EGNB's decision not to proceed with an equity call in 2009. As a result, EGNB's cash requirements were funded through debt financing which was \$38.6 million above budget.

Actual debt rates were 0.15% above budget rates due to higher than budgeted interest rates on the additional debt requirements.

2010 Forecast vs 2010 Budget

Equity is forecast to be \$25.8 million below budget due to EGNB's decision not to proceed with an equity call in 2010. As a result, EGNB's cash requirements were funded through debt financing which is expected to be \$14.6 million above budget.

Debt rates are forecast to be 0.10% below budget due to the cost of the incremental debt included in the forecast being below the budget interest rates.

2011 Budget vs 2010 Budget

Equity is forecast to increase by \$1.9 million and Debt is forecast to increase by \$9.4 million as compared to the 2010 budget resulting from increased capital requirements due to lower than forecast revenue from operations.

Debt rates are forecast to decrease by 0.14% as compared to the 2010 budget resulting from the expiration of debt notes with higher rates than the replacement debt. Equity rates are forecast to decrease by 0.25% as compared to the 2010 budget due to a reduction in the return on equity to 12.75% proposed in the Cost of Capital proceeding.