

SCHEDULE 3.3

2013 Forecast to Budget Explanations

**2013 Forecast to Budget****Overview**

The 2013 Forecast was based on actual results as of May 31, 2013 with forecasts to the end of year. For comparative purposes, variance explanations compare 2013 Forecast results to the 2013 Budget.

**Revenue**

The table below summarizes EGNB's 2013 Forecast gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and installation services margin with comparisons to the 2013 Budget.

Table 1  
**Revenue**

Line No.	(in thousands of dollars)	(1) 2013 Forecast	(2) 2013 Budget	(3)=(1)-(2) 2013 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 42,302	\$ 41,580	\$ 722
3	Miscellaneous	357	175	182
4	Allowance for Funds Used During Construction	11	42	(31)
5		42,670	41,797	873
6	Installation Services			
7	Revenue	818	590	228
8	Cost of Goods Sold	(603)	(383)	(220)
9		215	207	8
10	Total Revenue	\$ 42,885	\$ 42,004	\$ 881

**Operating Revenue**

- Gas Distribution Revenue: gas distribution revenues are forecast to end 2013 \$0.7 million over budget, due to an increase in actual usage by customers as compared to the budget (\$1.1 million) and an increase in customer attachments (\$0.4 million), offset by warmer than normal weather (\$0.8 million).

- **Miscellaneous Operating Revenue:** miscellaneous revenues are expected to be \$182K over the 2013 budget, due to late payment charges and other transaction fees collected from customers (\$154K), interest income (\$24K) and Agent Billing & Collection revenue (\$6K) being greater than budgeted, partially offset by rental revenue (\$2K) .

AFUDC is expected to be \$31K under budget, primarily due to lower than budget monthly balances in the CWIP account, of which AFUDC is calculated on.

Installation Services Margin is expected to be \$8K over budget primarily due to growth in the preventative maintenance program.

### Expenses

Below is a summary of EGNB's 2013 Forecast 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 the 2013 Budget.

**Table 2**  
**Operating Expenses**

Line No.	(in thousands of dollars)	(1) 2013 Forecast	(2) 2013 Budget	(3)=(1)-(2) 2013 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,862	\$ 13,870	\$ (8)
3	Bad Debt Expense	230	226	4
4	Amortization of Property, Plant and Equipment	7,233	7,459	(226)
5	Municipal and Other Taxes	1,194	1,195	(1)
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	9,225	8,473	752
7	Amortization of Deferred Development Costs	\$ 2,910	\$ 2,908	\$ 2
8	<b>Total Expenses</b>	<b>\$ 34,654</b>	<b>\$ 34,131</b>	<b>\$ 523</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.

Table 3  
**Operating and Maintenance Expenses**

Line No.		(1) 2013 Forecast	(2) 2013 Budget	(3)=(1)-(2) 2013 Variance
1	Labour and Benefits	\$ 8,563	\$ 9,189	\$ (626)
2	Admin/Office Expenses	348	420	(72)
3	Computer and Telecom Services	290	352	(62)
4	Professional Consulting	2,960	2,051	909
5	Travel and Training	235	253	(18)
6	Advertising and Promotions	525	414	111
7	Incentives	97	225	(128)
8	Tools and Safety	235	167	68
9	Fleet	525	564	(39)
10	Facilities	715	666	49
11	Insurance	468	342	126
12	NBEUB Assessments	697	750	(53)
13	Corporate Allocations	1,298	1,613	(315)
14	Gas Transportation and Related Activities	1,937	1,901	36
15	<b>Total O&amp;M Prior to Capitalization</b>	<b>18,893</b>	<b>18,908</b>	<b>(15)</b>
16	<b>Capitalized to:</b>			
17	Property, plant & equipment	5,031	5,038	(7)
18	Development O&M capitalized costs	-	-	-
19	<b>Total Capitalized</b>	<b>5,031</b>	<b>5,038</b>	<b>(7)</b>
20	<b>Total O&amp;M Expenses</b>	<b>\$ 13,862</b>	<b>\$ 13,870</b>	<b>\$ (8)</b>

EGNB’s 2013 Forecast O&M expenses are expected to end the year \$15K, or 0.1%, under budget, with the principal drivers for this variance being lower labour and benefit spending (\$626K) primarily due to reduced base pay, commissions, overtime and employee training, partially offset by higher success sharing and pension costs. Other under budget categories

include Corporate Allocations (\$315K) due to a reduction in the corporate office allocations received from EGNB's parent company Enbridge Inc., partially offset by an increase in professional consulting (\$909K) driven by legal fees, audit fees, professional consulting and contract services, and an increase to insurance premiums (\$126K) as a result of an increase in premiums for Executive Risk insurance. Other variances within individual O&M expense categories are primarily due to:

- Admin/Office Expenses: administration and office expense are forecast to be \$72K under budget due to lower than budgeted expenditures related to postage and courier costs (\$26K), stationery costs (\$15K), utility costs (\$14K), photocopier and other supplies (\$14K), equipment repairs and maintenance (\$5K), and other miscellaneous office admin expense (\$23K), partially offset by an increase in costs associated with outside services (\$16K), other materials and supplies (\$6K), public awareness costs (\$2K) and other office expenses (\$1K).
- Computer and Telecom Services: computer and telecom services are forecast to be \$62K under budget primarily due to lower cellular/pager costs (\$29K), photocopier and office supply costs (\$16K), office telephone expense (\$15K) and audiovisual supplies and software maintenance costs (\$2K).
- Travel and Training: travel and training costs are forecast to end \$18K under budget due to lower ground transportation costs (\$27K) and meals and entertainment (\$2K), partially offset by increased spending in other travel (\$6K), conference registrations (\$4K) and airfare (\$1K).
- Advertising and Promotions: advertising and promotion expenditures were \$111K over budget primarily due to an increase in advertising and public relations costs (\$85K) due to a refocus in programs, sponsorship activity (\$25K) and trade and civic memberships (\$2K).
- Incentives: incentives expenses are forecast to be less than budget by \$128K due to elimination of incentives programs.
- Tools and Safety: tools and safety costs are forecast to end \$68K over budget due to increased spending on tools (\$16K), public awareness and promotional items (\$21K), uniforms (\$20K), safety related programs and materials (\$3K) and highway permits and Right of Way fees (\$8K).
- Fleet: fleet costs are forecast to be \$39K under budget due to lower fuel and maintenance costs (\$52K) partially offset by increased lease and fleet administration costs (\$13K).
- Facilities: facilities expenditures were \$49K over budget due to increased office rent expenses (\$49K) and office repairs and maintenance costs (\$4K) partially offset by utilities (\$4K).

- NBEUB Assessments: NBEUB assessments are forecast to be \$53K under budget primarily due to decreased regulatory activity in 2013.
- Gas Transportation and Related Activities: Transportation charges are forecast to be over budget (\$36K) due to lower than anticipated utilization of the Maritimes and Northeast Pipeline Firm Service Agreement.

Amounts capitalized to Property, Plant and Equipment are forecast to be \$7K under budget primarily due to the removal of incentives from O&M allocations and inclusion in Property, Plant, and Equipment at a 5 year amortization rate as per NBEUB decision.

#### Other Operating Expenses

Bad Debt Expense is expected to be \$4K over budget due to higher than budgeted account receivable balances considered at risk by year end 2013.

Amortization of Property, Plant and Equipment is expected to be \$226K under budget due to the timing and nature of capital expenditures and an overall reduction in capital expenditures planned as a result of 2012 legislative amendments.

Municipal and Other Taxes were \$1K under budget due to a reduction in the non-residential provincial property tax rate from 2.1860% to 2.1035%.

Interest on Amounts Due to Associates and Affiliates and Other Interest are expected to be \$752K above budget due to the notes retired in 2012 and their associated interest rates varying from budget.

Amortization of Deferred Development Costs is expected to be \$2K over budget due to higher than budgeted amortization of equity call costs (\$6K) partially offset by lower than budgeted amortization of Development O&M (\$4K).

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.	(in thousands of dollars)	(1) 2013 Forecast	(2) 2013 Budget	(3)=(1)-(2) 2013 Variance
1	Property, plant and equipment	\$ 175,457	\$ 174,026	\$ 1,431
2	Development O&M capitalized costs	97,196	97,134	62
3	Franchise fee	425	425	-
4	Deferred costs	-	-	-
5	Term deposit	2,959	2,978	(19)
6	Working capital allowance	2,512	1,486	1,026
7	Regulatory Deferral	-	-	-
8	Rate Base	\$ 278,549	\$ 276,049	\$ 2,500

Property, Plant and Equipment is expected to be \$1.4 million over budget primarily due to the difference in opening balances from budget to forecast as a result of Construction Work In Progress closing balance being lower in 2012 Actuals than 2012 Forecast.

Development O&M Capitalized Costs are expected to be \$62K over budget resulting from a regulatory adjustment not included in the 2013 budget (\$51K), a lower accumulated depreciation opening balance (\$7K) and lower depreciation expense than budgeted (\$4K).

Term deposit costs are expected to be \$19K below budget, due to the timing of the payment of the interest earned.

Working Capital Allowance is expected to be \$1.0 million over budget in 2013, primarily due to expected higher than budgeted prepaid expense balance (\$1.2M), partially offset by lower inventory balances (\$200K).

Other Regulated Assets & Liabilities

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) 2013 Forecast	(2) 2013 Budget	(3)=(1)-(2) 2013 Variance
<b>1</b>	<b>Other Regulated Assets</b>			
2	Cash and Short Term Investments	\$ 12,508	\$ 10,717	\$ 1,791
3	Accounts Receivable	15,247	13,607	1,640
4	Inventory	1,334	1,463	(129)
5	Long term Receivable	4,279	2,992	1,287
<b>6</b>	<b>Total Other Regulated Assets</b>	<b>\$ 33,368</b>	<b>\$ 28,779</b>	<b>\$ 4,589</b>
<b>7</b>	<b>Other Regulated Liabilities</b>			
8	Short Term Indebtedness	\$ -	\$ -	\$ -
9	Due to Affiliated Companies	11,747	9,712	2,035
10	Accounts Payable	9,527	4,983	4,544
11	Long Term Payable	3,061	-	3,061
12	Long Term Deferred Post Employment Liabilities	1,026	2,464	(1,438)
<b>13</b>	<b>Total Other Regulated Liabilities</b>	<b>\$ 25,361</b>	<b>\$ 17,159</b>	<b>\$ 8,202</b>

Other Regulated Assets & Liabilities 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)
	2013 Forecast	2013 Budget	2013 Variance
Principal			
Debt	\$ 149,500	\$ 160,339	\$ (10,839)
Equity	134,559	127,853	6,706
Return (\$)			
Debt	9,220	8,457	763
Equity	13,637	7,847	5,790
Approved rates			
Debt	6.04%	5.52%	0.52%
Equity	10.90%	10.90%	0.00%

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

Equity is forecast to be \$6.7 million over budget as a result of continued suspension of distributions. Debt financing is expected to be \$10.8 million under budget due to the actual rebalancing of the capital structure in 2012 being different than budgeted.

Debt rates are forecast to be 0.52% over budget due to the interest rates of the incremental debt included in the forecast being greater than the budget interest rates.