

SCHEDULE 3.3

2014 Forecast to Budget Explanations

2014 Forecast to Budget**Overview**

The 2014 Forecast is based on actual results as of March 31, 2014 with forecasts to the end of year. For comparative purposes, variance explanations compare 2014 Forecast results to the 2014 Budget.

Revenue

The table below summarizes EGNB's 2014 Forecast gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to the 2014 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2014 Forecast	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 44,765	\$ 45,257	\$ (492)
3	Miscellaneous	368	180	188
4	Allowance for Funds Used During Construction	19	4	15
5		45,152	45,441	(289)
6	Services & Inspection			
7	Revenue	749	858	(109)
8	Cost of Goods Sold	(601)	(721)	120
9		148	137	11
10	Total Revenue	\$ 45,300	\$ 45,578	\$ (278)

Operating Revenue

- **Gas Distribution Revenue:** gas distribution revenues are forecast to end 2014 \$492K under budget, due to usage and annual customer rate class review as compared to the budget (\$642K) and a reduction in customer attachments (\$190K), partially offset by colder than normal weather (\$340K).
- **Miscellaneous Operating Revenue:** miscellaneous revenues are expected to end 2014 \$188K over budget, primarily due to late payment charges collected from customers (\$140K), interest income (\$41K), other customer charges and fees (\$4K), and ABC revenue (\$3K) all being greater than forecast.

AFUDC is expected to be \$15K over budget, primarily due to higher than budgeted monthly balances in the CWIP account, of which AFUDC is calculated on.

Services & Inspection Margin is expected to be \$11K over budget primarily due to lower than forecasted number of customers with protection plans at end of 2013 contributing to lower forecasted revenue and costs.

Expenses

Below is a summary of EGNB's 2014 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 2014 Budget.

Table 2
Operating Expenses

Line No.	(in thousands of dollars)	(1) 2014 Forecast	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,564	\$ 13,818	\$ (254)
3	Bad Debt Expense	278	278	-
4	Amortization of Property, Plant and Equipment	7,637	7,659	(22)
5	Municipal and Other Taxes	1,200	1,250	(50)
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	8,543	8,409	134
7	Amortization of Deferred Development Costs	\$ 2,877	\$ 2,877	\$ -
8	Total Expenses	\$ 34,099	\$ 34,291	\$ (192)

Operating and Maintenance ("O&M") Expenses

EGNB manages its O&M expenses 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) 2014 Forecast	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Labour and Benefits	\$ 8,860	\$ 9,004	\$ (144)
2	Admin/Office Expenses	429	428	1
3	Computer and Telecom Services	339	339	-
4	Professional Consulting	1,920	1,912	8
5	Travel and Training	265	257	8
6	Advertising and Promotions	1,112	1,083	29
7	Incentives	-	-	-
8	Tools and Safety	252	252	-
9	Fleet	530	530	-
10	Facilities	707	706	1
11	Insurance	320	448	(128)
12	NBEUB Assessments	698	698	-
13	Corporate Allocations	1,501	1,334	167
14	Gas Transportation and Related Activities	1,908	2,134	(226)
15	Total O&M Prior to Capitalization	<u>18,841</u>	<u>19,125</u>	<u>(284)</u>
16	Property, plant & equipment	<u>5,277</u>	<u>5,307</u>	<u>(30)</u>
17	Total Capitalized	<u>5,277</u>	<u>5,307</u>	<u>(30)</u>
18	Total O&M Expenses	<u>\$ 13,564</u>	<u>\$ 13,818</u>	<u>\$ (254)</u>

EGNB's 2014 Forecast O&M expenses are expected to end the year \$284K, or 1.5%, under budget, with the principal driver for this variance being lower gas transportation and related activities (\$226K) due to higher than anticipated recovery of the Firm Service Agreement costs for capacity on the Maritimes and Northeast Pipeline. Other variances within individual O&M expense categories accounting for the remaining \$58K under budget are due to:

- **Labour and Benefits:** labour and benefit expenses are forecast to end 2014 \$144K under budget primarily due to lower salaries and other compensation.
- **Professional Consulting:** professional consulting costs are forecast to end 2014 \$8K above budget due to increases in regulatory (\$6K) and IT consulting costs (\$2K).
- **Training & Travel:** training and travel are forecast to be \$8K over budget primarily due to increase in airfare, accommodations and meals costs (\$7K), and training costs (\$1K).

- Advertising and Promotions: advertising and promotion expenditures are forecast to end 2014 \$29K over budget due to increases in customer satisfaction costs (\$15K) and sales and marketing program costs (\$14K).
- Insurance: insurance costs are forecast to end 2014 \$128K under budget due to decreases in premiums associated with liability insurance (\$163K), automobile insurance (\$3K), broker insurance (\$3K) and crime insurance (\$1K). These premium reductions are partially offset by an increase in property insurance and executive risk insurance premiums (\$42K).
- Corporate Allocations: corporate allocations are forecast to be \$167K higher than budget primarily due to increases for internal audit costs (\$84K), legal costs (\$64K) and taxation costs (\$19K).

Amounts capitalized to Property, Plant and Equipment are \$30K under budget due to costs being forecast to end the year below budget (\$284K), resulting in a lower capitalized amount when the capitalization percentages are applied.

Other Operating Expenses

Amortization of Property, Plant and Equipment is forecast to be \$22K under budget due to the timing and nature of capital expenditures and an overall reduction in capital expenditures due to a reduction in customer attachments forecasted.

Municipal and Other Taxes are forecast to be \$50K under budget due to an adjustment to the forecast to be more in line with the Provincial property tax billing cycle (\$28K) and a decrease in provincial property tax rates for 2014 (\$22K).

Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to be \$134K above budget due to the forecasted regulated cost of debt rate being higher than budget by 0.13% (\$151K), partially offset by savings in short term debt interest (\$17K).

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) 2014 Forecast	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Property, plant and equipment	\$ 175,378	\$ 178,744	\$ (3,366)
2	Development O&M capitalized costs	94,410	94,396	14
3	Franchise fee	350	350	-
4	Term deposit	2,975	2,959	16
5	Working capital allowance	2,083	1,407	676
6	Regulatory Deferral	-	-	-
7	Rate Base	<u>\$ 275,196</u>	<u>\$ 277,856</u>	<u>\$ (2,660)</u>

Property, Plant and Equipment is forecast to be \$3.4 million under budget primarily due to the overall reduction in capital expenditures planned for 2014 (\$1.9 million), timing of the opening balances from budget to forecast (\$864K) and prior years disallowances of capitalized O&M legal costs (\$719K).

Development O&M Capitalized Costs are forecast to be \$14K over budget resulting from a lower accumulated depreciation opening balance (\$6K) and lower depreciation expense than budgeted (\$8K).

Term deposit costs are forecast to be \$16K over budget, due to the timing of the payment of the interest earned.

Working Capital Allowance is forecast to be \$676K over budget in 2014, primarily due to higher than budgeted inventory balance (\$881K), partially offset by lower prepaid expense balances (\$205K).

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) 2014 Forecast	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 51	\$ 11,710	\$ (11,659)
3 Accounts Receivable	27,895	12,866	15,029
4 Inventory	1,128	1,334	(206)
5 Long term Receivable	2,213	4,279	(2,066)
6 Total Other Regulated Assets	\$ 31,287	\$ 30,189	\$ 1,098
7 Other Regulated Liabilities			
8 Due to Affiliated Companies	\$ 1,094	\$ 11,676	\$ (10,582)
9 Accounts Payable	7,945	9,970	(2,025)
10 Long Term Payable	2,118	3,061	(943)
11 Long Term Deferred Post Employment Liabilities	1,001	1,026	(25)
12 Total Other Regulated Liabilities	\$ 12,158	\$ 25,733	\$ (13,575)

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)
	2014	2014	2014
	Forecast	Budget	Variance
Principal			
Debt	\$ 161,750	\$ 149,500	\$ 12,250
Equity	131,237	131,805	(568)
Return (\$)			
Debt	8,535	8,407	128
Equity	13,521	13,545	(24)
Approved rates			
Debt	5.64%	5.51%	0.13%
Equity	10.90%	10.90%	0.00%

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

Equity is forecast to be \$568K under budget primarily driven by disallowances as a result of the Board's April 17, 2014 Decision. Debt financing is expected to be \$12.2 million over budget due to the forecasted rebalancing of equity levels in 2014 being different than budgeted.

Debt rates are forecast to be 0.13% over budget due to the interest rates of the incremental debt included in the forecast being higher than the budgeted interest rates resulting in a slightly higher weighted average cost of debt.