

SCHEDULE 3.3

2017 Actual to Budget Explanations

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Overview

For comparative purposes, variance explanations compare 2017 Actuals to the 2017 Budget.

Revenue

The table below summarizes EGNB’s 2017 gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction (“AFUDC”) and services and inspection margin with comparisons to the 2017 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2017 Actual	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 43,760	\$ 43,941	\$ (181)
3	Miscellaneous	931	945	(14)
4	Allowance for Funds Used During Construction	19	17	2
5		44,710	44,903	(193)
6	Services & Inspection			
7	Revenue	647	637	10
8	Cost of Goods Sold	(395)	(389)	(6)
9		252	248	4
10	Total Revenue	\$ 44,962	\$ 45,151	\$ (189)

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues ended 2017 \$181K under budget due to warmer than normal weather (\$832K), partially offset by higher consumption (\$642K) and contract demand (\$9K).
- Miscellaneous Operating Revenue: miscellaneous revenues ended 2017 \$14K under budget primarily due to lower late payment charges collected from customers (\$137K) and other customer charges and fees (\$6K), partially offset by higher interest income (\$97K) and ABC income (\$31K).

- 1 • AFUDC was \$2K over budget, primarily due to higher than budgeted monthly balances in
- 2 the CWIP account, on which AFUDC is calculated on.
- 3 • Services & Inspection Margin was \$4K over budget primarily due to higher revenues from
- 4 protection plans (\$10K), partially offset by higher protection plan costs (\$6K).

5 **Expenses**

6 Below is a summary of EGNB’s 2017 operating and maintenance expenses, bad debt expense,
 7 amortization of property, plant and equipment, municipal and other taxes, interest on amounts
 8 due to associates and affiliates and other interest and amortization of deferred development costs
 9 with comparisons to the 2017 Budget.

Table 2
Operating Expenses

Line No. (in thousands of dollars)	(1) 2017 Actual	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1 Operating Expenses			
2 Operating and Maintenance Expenses	\$ 13,545	\$ 13,947	\$ (402)
3 Bad Debt Expense	108	278	(170)
4 Amortization of Property, Plant and Equipment	5,971	6,235	(264)
5 Municipal and Other Taxes	1,248	1,241	7
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	6,977	7,267	(290)
7 Other Expenses	196	100	96
8 Amortization of Deferred Development Costs	2,913	2,922	(9)
9 Total Expenses	\$ 30,958	\$ 31,990	\$ (1,032)

10

11 Operating and Maintenance (“O&M”) Expenses

12 EGNB manages its O&M expenses at an aggregate level where EGNB will try to offset

13 increased costs in certain areas with cost reductions or savings in other areas of the organization.

1 EGNB has grouped its O&M expenses based on major cost categories rather than departments,
2 as seen in the regulatory financial statement format filed with the Board.

3

Table 3
Operating and Maintenance Expenses

Line No.		(1) 2017 Actual	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Labour and Benefits	\$ 8,743	\$ 8,187	\$ 556
2	Admin/Office Expenses	328	297	31
3	Computer and Telecom Services	304	352	(48)
4	Professional Consulting	1,229	1,461	(232)
5	Travel and Training	194	145	49
6	Advertising and Promotions	725	673	52
7	Incentives	-	100	(100)
8	Tools and Safety	281	210	71
9	Fleet	367	413	(46)
10	Facilities	672	683	(11)
11	Insurance	137	171	(34)
12	NBEUB Assessments	402	531	(129)
13	Corporate Allocations	1,230	1,063	167
14	Service Level Agreements	807	1,385	(578)
15	Gas Transportation and Related Activities	1,574	1,794	(220)
16	Total O&M Prior to Capitalization	16,993	17,465	(472)
17	Property, plant & equipment	3,448	3,517	(69)
18	Total Capitalized	3,448	3,517	(69)
19	Total O&M Expenses	\$ 13,545	\$ 13,948	\$ (403)

4

5 EGNB's 2017 O&M expenses ended the year \$472K, or 0.3%, under budget, with the drivers for
6 this variance being:

- 7 • Labour and Benefits are \$556K over budget due to higher pension costs (\$314K), salaries
8 and other compensation (\$251K), and relocation and recruitment costs (\$6K), offset by
9 employee training and development (\$15K).

- 1 • Admin/Office Expenses are over budget by \$31K due to higher materials and office
2 supplies (\$62K) and corporate activities (\$7K), offset by lower postage and courier costs
3 (\$38K).
- 4 • Computer and Telecom Services ended 2017 under budget by \$48K due to decreased IT
5 software maintenance costs (\$35K) and telecom services costs (\$19K), offset by higher
6 cell phone costs (\$5K) and computer equipment supplies (\$1K).
- 7 • Professional Consulting expenses are under budget by \$232K due to lower contract
8 services (\$65K), audit expenses (\$63K), legal fees (\$56K), director fees (\$38K) and other
9 professional services (\$10K).
- 10 • Travel and Training is over budget by \$49K due to an increase in airfare,
11 accommodations and meals costs (\$34K), ground transportation costs (\$8K) and
12 conference and training costs (\$7K).
- 13 • Advertising and Promotions ended 2017 over budget by \$52K due to increased
14 sponsorships (\$127K), offset by lower advertising spending costs (\$75K).
- 15 • Tools and Safety are over budget by \$71K due to increased tool costs (\$74K), public
16 awareness costs (\$22K), and Right of Way fees (\$4K), offset by lower uniform and
17 protective clothing costs (\$29K).
- 18 • Fleet ended 2017 under budget by \$46K due to lower fuel and maintenance costs (\$44K)
19 and leasing costs (\$2K).
- 20 • Facilities are under budget by \$11K due to lower utility costs (\$9K) and rent costs (\$4K),
21 offset by increased office repairs and maintenance costs (\$2K).
- 22 • Insurance ended 2017 under budget by \$34K due to lower premiums associated with
23 automobile insurance (\$25K), liability insurance (\$9K), and executive risk insurance
24 (\$4K), offset by lower broker insurance (\$3K) and fiduciary risk (\$1K).
- 25 • NBEUB Assessments ended the year under budget by \$129K due to lower than
26 anticipated hearing activity and Public Intervenor costs.

- 1 • Corporate Allocations are over budget by \$167K primarily due to increased corporate
2 information technology (\$140K) and total compensation (\$56K), offset by lower
3 corporate shared services (\$29K).
- 4 • Service Level Agreements (SLA) are lower than budget by \$578K primarily due to
5 higher recoveries (\$392K) and reduced services from Enbridge Gas Distribution
6 (\$186K).
- 7 • Gas Transportation and Related Activities are lower by \$220K due to lower tolls for
8 capacity on the Maritimes and Northeast Pipeline (\$202K) and higher than anticipated
9 recoveries on the Firm Service Agreement (\$18K).

10 Amounts capitalized to Property, Plant and Equipment are \$69K under budget due to aggregate
11 O&M spending in cost centers differing from budgeted spend and the associated different
12 capitalization rates for each cost center.

13 Other Operating Expenses

14 Bad Debt Expense is \$170K under budget due to reduced distribution revenue and gas sales on
15 which bad debts are calculated. EGNB has also implemented tighter controls on accounts
16 receivable balances.

17 Amortization of Property, Plant and Equipment is \$264K under budget primarily due to the
18 timing and nature of capital expenditures (\$217K) and asset retirement before fully depreciated
19 (\$33K).

20 Municipal and Other Taxes is \$7K over budget due to increases in pipe length (\$4K) and an
21 increase in property tax rates (\$4K).

22 Interest on Amounts Due to Associates and Affiliates and Other Interest are \$290K under budget
23 due to the regulated cost of debt rate being lower than budget by 0.19% and a \$2.4 million
24 reduction in total rate base which includes \$1.17 million disallowed per Matter 371.

25 Other Expenses is \$96K over budget due to receivables and inventory write downs (\$140K)
26 offset by reduced spending for retention program (\$44K).

27 Amortization of Deferred Development Costs is \$9K under budget due to lower than budgeted
28 capital spend for software.

1 **Rate Base**

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

Table 4
Rate Base

Line No. (in thousands of dollars)	(1) 2017 Actual	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1 Property, plant and equipment	\$ 174,579	\$ 176,294	\$ (1,715)
2 Development O&M capitalized costs	86,034	86,034	-
3 Franchise fee	125	125	-
4 Deferred costs	1,076	1,314	(238)
5 Term deposit	2,965	2,969	(4)
6 Working capital allowance	1,377	1,578	(201)
7 Regulatory Deferral	-	-	-
8 Rate Base	<u>\$ 266,156</u>	<u>\$ 268,314</u>	<u>\$ (2,158)</u>

5
6 Property, Plant and Equipment is \$1.7 million under budget primarily due to reduction in rate
7 base as per decision in Matter 371 (\$1.17 million) and the timing of the opening balances from
8 budget to actual (\$719K), offset by net change in plant (\$179K).

9 Intangible Software is \$238K under budget primarily due to lower than budgeted capital spend
10 for software (\$175K) and the timing of the opening balances from budget to actual (\$63K).

11 Working Capital Allowance is \$201K under budget in 2017, primarily due to lower than
12 budgeted prepaid expense balance (\$175K) and inventory balances (\$26K).

13 **Other Regulated Assets & Liabilities**

14 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) 2017 Actual	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Other Regulated Assets			
2	Cash and Short Term Investments	\$ 2,788	\$ 8,438	\$ (5,650)
3	Accounts Receivable	21,619	8,108	13,511
4	Inventory	1,043	1,047	(4)
5	Long term Receivable	725	373	352
6	Total Other Regulated Assets	\$ 26,175	\$ 17,966	\$ 8,209
7	Other Regulated Liabilities			
8	Due to Affiliated Companies	\$ -	\$ -	\$ -
9	Accounts Payable	9,052	2,542	6,510
10	Long Term Payable	561	333	228
11	Long Term Deferred Post Employment Liabilities	1,967	1,677	290
12	Total Other Regulated Liabilities	\$ 11,580	\$ 4,552	\$ 7,028

1
2 Other Regulated Assets & Liabilities are a function of the annual operations of EGNB and
3 fluctuate with changes in operating revenues and expenses.

4 **Cost of Capital Summary**

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

Table 6
Cost of Capital

Line No.		(1) 2017 Actual	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Principal			
2	Debt	\$ 149,500	\$ 149,500	\$ -
3	Equity	130,913	131,688	(775)
4	Return (\$)			
5	Debt	6,950	7,261	(311)
6	Equity	13,908	13,152	756
7	Approved rates			
8	Debt	4.73%	4.92%	-0.19%
9	Equity	10.90%	10.90%	0.00%

- 1
- 2 EGNB finances its operations through a combination of equity and debt financing.
- 3 Equity is \$775K under budget primarily driven by reduced rate base as per Matter 371, offset by
- 4 net change in retained earnings.
- 5 Debt rates ended 2017 0.19% under budget due to the interest rate of two incremental debt notes
- 6 renewed on 24-Mar-2017 which is earlier than the maturity dates (26-Feb-2018 and 28-Dec-
- 7 2018), being lower than the budgeted interest rates resulting in a slightly lower weighted average
- 8 cost of debt.