

## SCHEDULE 3.3

### 2017 Forecast to Budget Explanations

**2017 Forecast to Budget****Overview**

The 2017 Forecast is based on actual results as of April 30, 2017 with forecasts to the end of year. For comparative purposes, variance explanations compare 2017 Forecast results to the 2017 Budget.

**Revenue**

The table below summarizes EGNB's 2017 Forecast 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 Forecast	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 43,884	\$ 43,940	\$ (56)
3	Miscellaneous	\$ 839	945	(106)
4	Allowance for Funds Used During Construction	\$ 46	17	29
5		\$ 44,769	44,902	(133)
6	Services & Inspection			
7	Revenue	\$ 643	637	6
8	Cost of Goods Sold	\$ (366)	(389)	23
9		\$ 277	248	29
10	Total Revenue	\$ 45,046	\$ 45,150	\$ (104)

**Operating Revenue**

- Gas Distribution Revenue: gas distribution revenues are forecast to end 2017 \$56K under budget due to warmer than normal weather (\$1.12 million) offset by different consumption from rate class to rate class compared to Budget (\$1.06 million).

- 1 • Miscellaneous Operating Revenue: miscellaneous revenues are expected to end 2017 \$106K
- 2 under budget primarily due to other customer charges and fees (\$71K) and late payment
- 3 charges collected from customers (\$55K) being lower than forecast partially offset by higher
- 4 interest income (\$13K) and ABC revenue (\$7K).
- 5 • AFUDC is expected to be \$29K over budget, primarily due to higher than budgeted monthly
- 6 balances in the CWIP account, on which AFUDC is calculated on.
- 7 • Services & Inspection Margin is expected to be \$29K over budget primarily due to lower
- 8 than forecasted costs on servicing protection plans and other service work costs (\$23K) while
- 9 generating higher protection plan revenues slightly offset by lower commercial service work
- 10 revenue (\$6K).

11 **Expenses**

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

Table 2  
**Operating Expenses**

Line No.	(in thousands of dollars)	(1) 2017 Forecast	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,243	\$ 13,947	\$ (704)
3	Bad Debt Expense	210	278	(68)
4	Amortization of Property, Plant and Equipment	5,986	6,235	(249)
5	Municipal and Other Taxes	1,248	1,241	7
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	6,983	7,267	(284)
7	Other Expenses	100	100	-
8	Amortization of Deferred Development Costs	\$ 2,918	\$ 2,922	\$ (4)
9	<b>Total Expenses</b>	<b>\$ 30,688</b>	<b>\$ 31,990</b>	<b>\$ (1,302)</b>

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1 Operating and Maintenance (“O&M”) Expenses  
 2 EGNB manages its O&M expenses at an aggregate level where EGNB will try to offset  
 3 increased costs in certain areas with cost reductions or savings in other areas of the organization.  
 4 EGNB has grouped its O&M expenses based on major cost categories rather than departments,  
 5 as seen in the regulatory financial statement format filed with the Board.

Table 3  
**Operating and Maintenance Expenses**

Line No.	(in thousands of dollars)	(1) 2017 Forecast	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Labour and Benefits	\$ 7,837	\$ 8,187	\$ (350)
2	Admin/Office Expenses	311	297	14
3	Computer and Telecom Services	322	352	(30)
4	Professional Consulting	1,372	1,445	(73)
5	Travel and Training	165	145	20
6	Advertising and Promotions	739	688	51
7	Tools and Safety	237	210	27
8	Fleet	395	413	(18)
9	Facilities	678	683	(5)
10	Insurance	158	171	(13)
11	NBEUB Assessments	459	531	(72)
12	Corporate Allocations	1,261	1,063	198
13	Service Level Agreements	1,041	1,385	(344)
14	Gas Transportation and Related Activities	1,600	1,794	(194)
15	<b>Total O&amp;M Prior to Capitalization</b>	<u>16,675</u>	<u>17,464</u>	<u>(789)</u>
16	Property, plant & equipment	<u>3,432</u>	<u>3,517</u>	<u>(85)</u>
17	<b>Total Capitalized</b>	<u>3,432</u>	<u>3,517</u>	<u>(85)</u>
18	<b>Total O&amp;M Expenses</b>	<u>\$ 13,243</u>	<u>\$ 13,947</u>	<u>\$ (704)</u>

6  
 7 EGNB’s 2017 Forecast O&M expenses, prior to capitalization, are expected to end the year  
 8 \$789K, or 4.5%, under budget, with the drivers for this variance being:

- 9 • Labour and Benefits are forecast to be \$350K under budget due to lower than budgeted  
 10 pension benefits (\$299K), reduced salaries and other compensation (\$38K), and reduced  
 11 employee training and development (\$13K).

- 1 • Admin/Office Expenses are forecast to be over budget by \$14K primarily due to higher  
2 materials and office supplies (\$11K), and postage and courier costs (\$3K).
- 3 • Computer and Telecom Services are forecast to be under budget by \$30K due to lower IT  
4 software maintenance (\$40K) and decreased telecom services (\$7K) offset by increased  
5 cell and phone costs (\$17K).
- 6 • Professional Consulting expenses are forecast to be under budget by \$73K due to reduced  
7 audit fees (\$52K), directors' fees (\$38K), and professional consulting fees (\$35K) offset  
8 by higher contract services (\$44K) and legal fees (\$7K).
- 9 • Travel and Training are forecast to be over budget by \$20K mainly due to an increase in  
10 accommodations and meals costs (\$11K), conference and training costs (\$5K), and  
11 ground transportation costs (\$4K).
- 12 • Advertising and Promotions are forecast to be over budget by \$51K primarily due to  
13 higher sponsorship costs (\$38K), advertising costs (\$11K), and trade & civic  
14 memberships (\$2K).
- 15 • Tools and Safety are forecast to be over budget by \$27K due to an increase in tool costs  
16 (\$41K) offset by lower uniform and protective clothing costs (\$7K) and public awareness  
17 costs (\$7K).
- 18 • Fleet is forecast to be under budget by \$18K due to lower fleet administrative costs.
- 19 • Facilities are forecast to be under budget by \$5K due to lower utility costs (\$7K) offset  
20 by office rent costs (\$2K).
- 21 • Insurance is forecast to be under budget by \$13K due to lower premiums associated with  
22 automobile insurance (\$16K) and executive risk (\$2K) offset by higher liability insurance  
23 (\$5K).
- 24 • NBEUB Assessments are forecast to end the year under budget by \$72K due to lower  
25 than anticipated hearing activity and Public Intervenor costs.
- 26 • Corporate Allocations are forecast higher than budget by \$198K primarily due to  
27 increased allocations for corporate information technology (\$190K) and corporate

1 consolidation of payroll services (\$17K) offset by lower allocation for stock options  
2 (\$11K).

- 3 • Service Level Agreements (SLA) are forecast lower than budget by \$344K primarily  
4 due to higher than expected recoveries (\$316K) and reduced services from Enbridge Gas  
5 Distribution (\$30K) offset by higher affiliate call centre costs (\$2K).
- 6 • Gas Transportation and Related Activities are forecast to be lower by \$194K due to lower  
7 than anticipated tolls for capacity on the Maritimes and Northeast Pipeline in 2017.

8 Amounts capitalized to Property, Plant and Equipment are forecast to be \$85K under budget due  
9 to aggregate O&M spending in cost centers differing from budgeted spend and the associated  
10 different capitalization rates for each cost center.

#### 11 Other Operating Expenses

12 Bad Debt Expense is forecast to be \$68K under budget due to lower than budgeted Accounts  
13 Receivable balances being written off during the first four months of 2017.

14 Amortization of Property, Plant and Equipment is forecast to be \$249K under budget mainly due  
15 to asset retirement before fully depreciated.

16 Municipal and Other Taxes are forecast to be \$7K over budget due to increases in the municipal  
17 property tax rates for 2017 (\$3K) and higher than budgeted pipe length (\$4K).

18 Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to be \$284K  
19 under budget due to the forecasted regulated cost of debt rate being lower than budget by 0.19%.

20 Amortization of Deferred Development Costs is forecast to be \$4K under budget due to lower  
21 than budgeted capital spend for software.

#### 23 **Rate Base**

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

**Table 4**  
**Rate Base**

Line No.	(in thousands of dollars)	(1) 2017 Forecast	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
1	Property, plant and equipment	\$ 175,822	\$ 176,294	\$ (472)
2	Development O&M capitalized costs	86,034	86,034	-
3	Franchise fee	125	125	-
4	Intangible Software	1,196	1,314	(118)
5	Term deposit	2,956	2,969	(13)
6	Working capital allowance	1,335	1,578	(243)
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 267,468</u>	<u>\$ 268,314</u>	<u>\$ (846)</u>

1

2 Property, Plant and Equipment is forecast to be \$472K under budget primarily due to the timing

3 of the opening balances from budget to forecast (\$719K) offset by an increase in capital

4 expenditures planned for 2017 (\$247K).

5 Intangible Software is forecast to be \$118K under budget primarily due to lower than budgeted

6 capital spend for software.

7 Term deposit costs are forecast to be \$13K under budget due to the timing of the payment of the

8 interest earned.

9 Working Capital Allowance is forecast to be \$243K under budget in 2017, primarily due to

10 lower than budgeted prepaid expense balance (\$423K) offset by higher than budgeted inventory

11 balances (\$180K).

12

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 Forecast	(2) 2017 Budget	(3)=(1)-(2) 2017 Variance
<b>1 Other Regulated Assets</b>			
2 Cash and Short Term Investments	\$ 1,962	\$ 8,438	\$ (6,476)
3 Accounts Receivable	18,384	8,108	10,276
4 Inventory	1,228	1,047	181
5 Long term Receivable	359	373	(14)
<b>6 Total Other Regulated Assets</b>	<b>\$ 21,933</b>	<b>\$ 17,966</b>	<b>\$ 3,967</b>
<b>7 Other Regulated Liabilities</b>			
8 Due to Affiliated Companies	\$ -	\$ -	\$ -
9 Accounts Payable	5,628	2,542	3,086
10 Long Term Payable	142	333	(191)
11 Long Term Deferred Post Employment Liabilities	2,555	1,677	878
<b>12 Total Other Regulated Liabilities</b>	<b>\$ 8,325</b>	<b>\$ 4,552</b>	<b>\$ 3,773</b>

- 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.



1 **Cost of Capital Summary**

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

**Table 6**  
**Cost of Capital**

	(1)	(2)	(3)=(1)-(2)
	2017	2017	2017
	Forecast	Budget	Variance
Principal			
Debt	\$ 149,500	\$ 149,500	\$ -
Equity	132,135	131,688	447
Return (\$)			
Debt	6,963	7,261	(298)
Equity	13,109	13,152	(43)
Approved rates			
Debt	4.73%	4.92%	-0.19%
Equity	10.90%	10.90%	0.00%

3  
4 EGNB finances its operations through a combination of equity and debt financing.

5 Equity is forecast to be \$447K over budget primarily driven by forecasted earnings in 2017.

6 Debt rates are forecast to be 0.19% under budget due to the interest rate of 2 incremental debt  
7 notes renewed on 15-March-2017 which is earlier than the maturity dates (26-February-2018 and  
8 28-December-2018), being lower than the budgeted interest rates resulting in a lower weighted  
9 average cost of debt.