

SCHEDULE 3.3

2020 Forecast to Budget Explanations

2020 Forecast to Budget**Overview**

The 2020 Forecast is based on actual results as of April 30, 2020 with forecasts to the end of year. For comparative purposes, variance explanations compare 2020 Forecast results to the 2020 Budget.

Revenue

The table below summarizes Liberty's 2020 Forecast gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to the 2020 Budget.

Table 1
Revenue

Line No. (in thousands of dollars)	(1) 2020 Forecast	(2) 2020 Budget	(3)=(1)-(2) 2020 Variance
1 Operating Revenue			
2 Gas Distribution	\$ 44,141	\$ 44,826	\$ (685)
3 Miscellaneous	\$ 1,070	1,073	(3)
4 Allowance for Funds Used During Construction	\$ 79	62	17
5	\$ 45,290	45,961	(671)
6 Services & Inspection			
7 Revenue	\$ 642	638	4
8 Cost of Goods Sold	\$ (444)	(334)	(110)
9	\$ 198	304	(106)
10 Total Revenue	\$ 45,488	\$ 46,265	\$ (777)

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are forecast to end 2020 \$685K under budget due to lower consumption compared to budget (\$1,239K) offset by colder than normal weather (\$121K), higher customer count at January 1, 2020 (\$286K) and higher contract demand and customer charges (\$147K).

- AFUDC is expected to be \$17K over budget, primarily due to higher than expected monthly balances in the CWIP account, on which AFUDC is calculated on.
- Services & Inspection Margin is expected to be \$106K under budget due to lower expenses from protection plans and other servicing costs (\$11K) and higher revenue from service work covered under warranty (\$4K), offset by (\$121K) in timing of cost recovery from non-regulatory business.

Expenses

Below is a summary of Liberty's 2020 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, amortization of deferred development costs, and amortization of Regulatory Deferral Account with comparisons to the 2020 Budget.

Table 2
Operating Expenses

Line No.	(in thousands of dollars)	(1) 2020 Forecast	(2) 2020 Budget	(3)=(1)-(2) 2020 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$16,185	\$12,935	3,250
3	Bad Debt Expense	96	163	(67)
4	Amortization of Property, Plant and Equipment	6,923	6,817	106
5	Municipal and Other Taxes	1,296	1,275	21
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	4,799	6,838	(2,039)
7	Other Expenses	-	-	-
8	Amortization of Deferred Development Costs	2,919	2,913	6
9	Amortization of Regulatory Deferral Account	3,846	3,846	-
10	Total Expenses	\$36,064	\$34,787	1,277

Operating and Maintenance (“O&M”) Expenses

Liberty manages its O&M expenses at an aggregate level where Liberty will try to offset increased costs in certain areas with cost reductions or savings in other areas of the organization.

Liberty 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) 2020 Forecast	(2) 2020 Budget	(3)=(1)-(2) 2020 Variance
(in thousands of dollars)				
1	Labour and Benefits	\$ 10,739	\$ 9,177	\$ 1,562
2	Admin/Office Expenses	323	288	35
3	Computer and Telecom Services	390	72	318
4	Professional Consulting	1,949	1,297	652
5	Travel and Training	164	224	(60)
6	Advertising and Promotions	289	323	(34)
7	Tools and Safety	196	162	34
8	Fleet	376	412	(36)
9	Facilities	711	660	51
10	Insurance	248	184	64
11	NBEUB Assessments	352	380	(28)
12	Corporate Allocations	1,619	998	621
13	Service Level Agreements	617	465	152
14	Gas Transportation and Related Activities	2,075	1,768	307
15	Total O&M Prior to Capitalization	20,048	16,410	3,638
16	Capitalized to:			
16	Property, plant & equipment	3,863	3,475	388
17	Total Capitalized	3,863	3,475	388
18	Total O&M Expenses	\$ 16,185	\$12,935	\$ 3,250

Liberty’s 2020 Forecast O&M expenses, prior to capitalization, are expected to end the year \$3,638K, or 22.2%, over budget, with the drivers for this variance being:

- 1 • Labour and Benefits are forecast to be \$1,562K over budget due to higher than budgeted
2 pension & benefits (\$1,548K), higher than budgeted relocation & recruitment expenses
3 (\$18K) and higher than budgeted employee training & development (\$8K), offset by
4 reduced salaries and other compensation (\$12K).
- 5 • Admin/Office Expenses are forecast to be over budget by \$35K due to printing and other
6 administrative costs (\$36K) and materials and office supplies (\$5K), offset by reduced
7 postage and courier costs (\$6K)
- 8 • Computer and Telecom Services are forecast to be over budget by \$318K due to higher
9 cell and telephone costs (\$175K) and increased IT software maintenance costs (\$143K).
- 10 • Professional Consulting expenses are forecast to be over budget by \$652K due to increased
11 costs related to the Transition Services Agreement with Enbridge (\$582K), professional
12 consulting fees (\$118K) and increased legal fees (\$72K), offset by reduced contract
13 services (\$115K) and audit fees (\$5K).
- 14 • Travel and Training are forecast to be under budget by \$60K due to reduced ground
15 transportation costs (\$34K) and reduced airfare (\$26K).
- 16 • Advertising and Promotions are forecast to be under budget by \$34K due to lower
17 advertising costs (\$41K), offset by increased sponsorships and public awareness (\$5K),
18 and increased trade and civic membership costs (\$2K).
- 19 • Tools and Safety is forecast to be over budget by \$34K due to increased tool costs (\$35K)
20 and public awareness (\$13K) offset by decreased uniform and protective equipment costs
21 (\$14K).
- 22 • Fleet is forecast to be under budget by \$36K due to decreased fleet fuel and maintenance
23 costs.
- 24 • Facilities is forecast to be over budget by \$51K due to increased office rent and utility costs
25 (\$60K), offset by reduced office repairs and maintenance costs (\$9K).
- 26 • Insurance is forecast to be over budget by \$64K due to higher insurance allocations
27 expected from Liberty.

- 1 • NBEUB Assessments are forecast to end the year under budget by \$28K.
- 2 • Corporate Allocations are forecast to be over budget by \$621K due to increased allocations
- 3 for corporate shared services (\$449K), corporate energy procurement (\$153K), after hours
- 4 call center costs (\$88K) and corporate information technology (\$75K), offset by reduced
- 5 corporate HR (\$144K).
- 6 • Service Level Agreements (SLA) are forecast to be over budget by \$152K due to higher
- 7 than expected call center costs under the Transition Services Agreement (which was
- 8 budgeted as an SLA) with Enbridge (\$388K), offset by reductions with other service level
- 9 agreements which were budgeted under Enbridge (\$236K) but are not considered SLAs
- 10 under Liberty.
- 11 • Gas Transportation and Related Activities are forecast to be higher by \$307K due to higher
- 12 than anticipated tolls for capacity and recognizing abandonment surcharges on the
- 13 Maritimes and Northeast Pipeline in 2020.

14 Amounts capitalized to Property, Plant and Equipment are forecast to be \$388K under budget due
 15 to aggregate O&M spending in cost centers differing from budgeted spend and the associated
 16 different capitalization rates for each cost center.

17 Other Operating Expenses

18 Bad Debt Expense is forecasted to be \$67K under budget due to lower than budgeted Accounts
 19 Receivable balances being written off during the first four months of 2020.

20 Amortization of Property, Plant and Equipment is forecasted to be \$106K over budget due to an
 21 increase in capital expenditures completed in 2019 and planned for 2020.

22 Municipal and Other Taxes are forecasted to be \$21K over budget due to increases in business
 23 taxes (\$5K) and higher than budgeted pipe length (\$16K).

24 Interest on Amounts Due to Associates and Affiliates and Other Interest are forecasted to be
 25 \$2,039K under budget due to the issuance of new debt at a lower interest rate and the exclusion of
 26 the previously approved 1% premium on the interest rate that existed under Enbridge ownership.

Amortization of Deferred Development Costs is forecasted to be \$6K over budget due to higher than planned expenditure for intangible software.

Rate Base

Information with respect to Liberty'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) 2020 Forecast	(2) 2020 Budget	(3)=(1)-(2) 2020 Variance
1	Property, plant and equipment	\$ 181,518	\$ 179,141	\$ 2,377
2	Development O&M capitalized costs	77,658	77,658	-
3	Franchise fee	-	-	-
4	Intangible Software	3,188	2,276	912
5	Term deposit	3,007	2,971	36
6	Working capital allowance	1,768	1,453	315
7	Regulatory Deferral	-	-	-
8	Rate Base	\$ 267,139	\$ 263,499	\$ 3,640

Property, Plant and Equipment is forecast to be \$2.4M over budget due to higher 2020 net capital additions (\$4.8M) offset by the timing of opening balance of Property, Plant and Equipment (\$2.4M).

Intangible Software is forecast to be \$912K over budget due to higher than budgeted capital spend for software (\$942K), offset by timing of opening balances from budget to forecast (\$34K).

Term deposit costs are forecast to be \$36K over budget due to the timing of the payment of the interest earned.

Working Capital Allowance is forecast to be \$315K over budget in 2020, due to higher than budgeted prepaid expense balance (\$329K), offset by lower than budgeted inventory balances (\$14K).

Other Regulated Assets & Liabilities

Information with respect to Liberty's Other Regulated Assets & Liabilities is provided below.

Table 5
Other Regulated Assets & Liabilities

Line No. (in thousands of dollars)	(1) 2020 Forecast	(2) 2020 Budget	(3)=(1)-(2) 2020 Variance
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 5,496	\$ 14,195	\$ (8,699)
3 Accounts Receivable	16,401	17,253	(852)
4 Long term Receivable	312	320	(8)
5 Inventory	1,189	1,206	(17)
6 Lease Asset	1,621	-	1,621
7 Total Other Regulated Assets	\$ 25,019	\$ 32,974	\$ (7,955)
8 Other Regulated Liabilities			
9 Rates Variance	\$ 1,065	\$ -	\$ 1,065
10 Accounts Payable	4,546	4,499	47
11 Long Term Payable	-	133	(133)
12 Long Term Deferred Post Employment Liabilities	502	2,459	(1,957)
13 Lease Liability	1,621	-	1,621
14 Total Other Regulated Liabilities	\$ 7,734	\$ 7,091	\$ 643

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

1 **Cost of Capital Summary**

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

Table 6
Cost of Capital

Line No.		(1) 2020 Forecast	(2) 2020 Budget	(3)=(1)-(2) 2020 Variance
1	Principal			
2	Debt	\$ 155,000	\$ 149,500	\$ 5,500
3	Equity	129,607	139,110	(9,503)
4	Return (\$)			
5	Debt	4,843	6,817	(1,974)
6	Equity	10,936	13,006	(2,070)
7	Approved rates			
8	Debt	3.32%	4.67%	-1.35%
9	Equity	10.90%	10.90%	0.00%

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

5 Debt is \$5.5M higher than budget due to new long-term debt issued by Algonquin Power &
6 Utilities Corp.

7 Equity is forecasted to be \$9.5M under budget driven by lower opening balance due to timing,
8 higher long-term debt, and lower return on equity.