

SCHEDULE 3.6

2014 Budget to 2013 Budget Explanations

**2014 Budget****Overview**

A complete list of 2014 Budget Assumptions can be found at Schedule 3.4 – 2014 Budget Assumptions.

For comparative purposes, variance explanations compare the 2014 Budget to the 2013 Budget.

**Revenue**

For the 2014 budget year, EGNB has forecast total revenue from operations of \$48.9 million. The table below summarizes EGNB's budgeted 2014 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) 2014 Budget	(2) 2013 Budget	(3)=(1)-(2) Variance to 2013 Budget
1	Operating Revenue			
2	Gas Distribution	\$ 48,615	\$ 41,580	\$ 7,035
3	Miscellaneous	180	175	5
4	Allowance for Funds Used During Construction	4	42	(38)
5		48,799	41,797	7,002
6	Installation Services			
7	Revenue	858	590	268
8	Cost of Goods Sold	(721)	(383)	(338)
9		137	207	(70)
10	Total Revenue	\$ 48,936	\$ 42,004	\$ 6,932

**Operating Revenue**

- Gas Distribution Revenue: gas distribution revenues are forecast to be \$7.0 million higher than the 2013 Budget. In 2012 legislative changes impeded EGNB from setting rates that allowed full recovery of its revenue requirement resulting in a \$5.8M revenue shortfall. In 2013, a court decision rendered a portion of section 4(1) of the Rates and Tariffs Regulation ultra vires resulting in EGNB's ability to set rates in 2014 that recover its full revenue requirement.

- **Miscellaneous Operating Revenue:** miscellaneous revenues are forecasted to be \$5K over the 2013 budget primarily due to increased Agent Billing & Collections revenue as a result of more customers.

AFUDC is forecast to be \$38K below the 2013 Budget primarily due to a forecast reduction in CWIP balances resulting from reduced capital spending and a greater focus on attaching customers already on main.

Installation Services Margin is forecast to be \$70K below the 2013 Budget, primarily due to a reduction in the forecasted amount of service work to be done by EGNB.

## Expenses

For the 2014 Budget year, EGNB has forecast total expenses of \$35 million. Below is a summary of EGNB's 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) 2014 Budget	(2) 2013 Budget	(3)=(1)-(2) Variance to 2013 Budget
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 14,742	\$ 13,870	\$ 872
3	Bad Debt Expense	278	226	52
4	Amortization of Property, Plant and Equipment	7,665	7,459	206
5	Municipal and Other Taxes	1,250	1,195	55
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	8,414	8,473	(59)
7	Amortization of Deferred Development Costs	2,877	2,908	(31)
8	<b>Total Expenses</b>	<b>\$35,226</b>	<b>\$34,131</b>	<b>\$ 1,095</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) 2014 Budget	(2) 2013 Budget	(3)=(1)-(2) Variance to 2013 Budget
1	Labour and Benefits	\$ 9,005	\$ 9,189	\$ (184)
2	Admin/Office Expenses	428	420	8
3	Computer and Telecom Services	339	352	(13)
4	Professional Consulting	3,012	2,051	961
5	Travel and Training	257	253	4
6	Advertising and Promotions	1,083	414	669
7	Incentives	-	225	(225)
8	Tools and Safety	252	167	85
9	Fleet	530	564	(34)
10	Facilities	706	666	40
11	Insurance	448	342	106
12	NBEUB Assessments	698	750	(52)
13	Corporate Allocations	1,528	1,613	(85)
14	Gas Transportation and Related Activities	2,134	1,901	233
15	<b>Total O&amp;M Prior to Capitalization</b>	<b>20,420</b>	<b>18,908</b>	<b>1,513</b>
16	<b>Capitalized to:</b>			
17	Property, plant & equipment	5,678	5,038	640
18	Development O&M capitalized costs	-	-	-
19	<b>Total Capitalized</b>	<b>5,678</b>	<b>5,038</b>	<b>640</b>
20	<b>Total O&amp;M Expenses</b>	<b>\$ 14,742</b>	<b>\$ 13,870</b>	<b>\$ 872</b>

EGNB’s 2014 Budget O&M expenses reflect a \$1.5 million increase in comparison to its 2013 O&M Budget. The principal drivers for this variance are higher Professional Consulting expenses (\$961K) due to increased legal fees, higher Advertising & Promotions expenses (\$669K) due to increased marketing activities focusing on commercial and residential non-

customers on main, and higher Gas Transportation and Related Activities (\$233K) due to the anticipation of lower utilization of Maritimes and Northeast Pipeline Firm Service Agreement. These are partially offset by decreases in Labour and Benefits (\$184K) as a result of wages directly allocated to construction labour costs which are capitalized to Property, Plant and Equipment and the elimination of incentives in 2014 (\$225K). Other variances within individual O&M expense categories accounting for the remaining \$46K increase compared to the 2013 Budget are primarily due to:

- **Admin/Office Expenses:** administration and office expenses are forecast to increase by \$8K as compared to the 2013 Budget, primarily due to increased employee events (\$10K), photocopiers and other office materials and supplies (\$3K), and public awareness costs (\$2K), partially offset by decreases in utility costs and other outside services (\$15K), and equipment and maintenance repairs (\$5K).
- **Computer & Telecom Services:** computer & telecom services are forecasted to be reduced by \$13K due to decreases in cell phones and pagers (\$24K), office telephones (\$14K), photocopiers (\$17K), partially offset by increases in IT telecom services (\$36K) and maintenance services (\$6K) due to necessary telecom upgrades planned for 2014.
- **Travel and Training:** travel and training costs are forecast to be \$4K more than the 2013 Budget, primarily due to an increase in technical training requirements for staff.
- **Tools and Safety:** tools and safety expenses are forecast to be \$85K more than the 2013 Budget, primarily due to increases in uniforms and protective clothing as a result of transitioning to fire retardant clothing for field staff (\$45K), Call Before You Dig campaign (\$25K), increased public awareness programs (\$9K), and annual right of way fees for Department of Transportation (\$8K) partially offset by a decrease to tools (\$2K).
- **Fleet:** fleet expenses are forecast to be \$34K less than the 2013 Budget, primarily due to lower maintenance & fuel costs (\$52K), partially offset by higher vehicle licensing costs (\$7K) and lease and fleet administration costs (\$11K).
- **Facilities:** facilities costs are forecast to be \$40K more than the 2013 Budget, primarily due to additional leased space required for pipe yards (\$32K) and repairs and maintenance (\$8K).
- **Insurance:** insurance expenses are forecast to be \$106K more than the 2013 Budget, due to increased automobile insurance costs (\$34K) and executive risk insurance costs (\$111K), partially offset by a decrease in liability insurance (\$33K), broker insurance (\$4K) and crime and property insurance (\$2K).
- **NBEUB Assessments:** NBEUB Assessments are forecast to be \$52K less than the 2013 Budget, primarily due to an anticipated reduction in regulatory matters and hearings.

- Corporate Allocations: corporate allocations are \$85K lower than the 2013 Budget due to internal clarification regarding Board approved allocation percentages.

Amounts Capitalized to Property, Plant and Equipment are forecast to be \$640K more than the 2013 Budget primarily due to an increase in O&M expenses (\$1.5 million) and changes to the overall capitalization rates.

#### Other Operating Expenses

Bad Debt Expense is forecast to increase by \$52K compared to the 2013 Budget due to an increase in expected gas distribution revenues.

Amortization of Property, Plant and Equipment is forecast to result in a \$206K increase compared to the 2013 Budget due to increased capitalization rates for Meters and Tools & Equipment.

Municipal and Other Taxes are forecast to increase by \$55K compared to the 2013 Budget primarily due to forecast additions to capital.

Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to decrease by \$59K compared to the 2013 Budget due to notes being retired and replaced with lower interest rate notes.

Amortization of Deferred Development Costs is forecast to decrease by \$31K compared to the 2013 Budget due to equity call costs being fully amortized in 2013.

**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 Budget	(2) 2013 Budget	(3)=(1)-(2) Variance to 2013 Budget
1	Property, plant and equipment	\$ 179,108	\$ 174,026	\$ 5,082
2	Development O&M capitalized costs	94,396	97,134	(2,738)
3	Franchise fee	350	425	(75)
4	Deferred costs	-	-	-
5	Term deposit	2,959	2,978	(19)
6	Working capital allowance	1,407	1,486	(79)
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 278,220</u>	<u>\$ 276,049</u>	<u>\$ 2,171</u>

Property, Plant and Equipment is forecast to increase by \$5.1 million as compared to the 2013 Budget, primarily due to an increase in the opening balance of Property, Plant and Equipment (\$3.1 million) resulting from higher than forecast additions in 2013, forecasted capital additions (\$1.4 million) and additions from capitalized O&M (\$669K).

Development O&M Capitalized Costs are forecast to decrease by \$2.7 million as compared to the 2013 Budget due to an additional year of amortization.

Franchise fee cost is forecast to decrease by \$75K as compared to the 2013 Budget due to an additional year of amortization.

Term deposit costs are forecast to decrease by \$19K as compared to the 2013 Budget to reflect actual experience around the timing of the interest payments and interest rates.

Working Capital Allowance is forecast to decrease by \$79K as compared to the 2013 Budget, primarily due to higher budgeted inventory (\$129K), partially offset by lower prepaid expenses (\$50K) balances.

**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 Budget	(2) 2013 Budget	(3)=(1)-(2) Variance to 2013 Budget
<b>1</b>	<b>Other Regulated Assets</b>			
2	Cash and Short Term Investments	\$ 13,950	\$ 10,717	\$ 3,233
3	Accounts Receivable	12,866	13,607	(740)
4	Inventory	1,334	1,463	(130)
5	Long term Receivable	4,279	2,992	1,288
<b>6</b>	<b>Total Other Regulated Assets</b>	<b>\$ 32,429</b>	<b>\$ 28,778</b>	<b>\$ 3,651</b>
<b>7</b>	<b>Other Regulated Liabilities</b>			
8	Short Term Indebtedness	\$ -	\$ -	\$ -
9	Due to Affiliated Companies	11,750	9,712	2,038
10	Accounts Payable	10,072	4,983	5,089
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>\$ 25,909</b>	<b>\$ 17,159</b>	<b>\$ 8,750</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)
	2014 Budget	2013 Budget	Variance to 2013 Budget
Principal			
Debt	\$ 149,500	\$ 160,339	\$ (10,839)
Equity	134,233	127,853	6,380
Return (\$)			
Debt	8,412	8,457	(45)
Equity	13,541	7,847	5,694
Approved rates			
Debt	5.51%	5.52%	0.00%
Equity	10.90%	10.90%	0.00%

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

Equity is forecast to increase by \$6.4 million as a result of continued suspension of distributions. Debt is forecast to decrease by \$10.8 million as compared to the 2013 Budget due to the actual rebalancing of the capital structure in 2013 being different than budgeted.

Debt rates are forecast to decrease by 0.01% as compared to the 2013 Budget resulting from the expiration of debt notes with higher rates than the remaining debt.