

SCHEDULE 3.6

2015 Budget to 2014 Budget Explanations

**2015 Budget****Overview**

A complete list of 2015 Budget Assumptions can be found at Schedule 3.4 – 2015 Budget Assumptions.

For comparative purposes, variance explanations compare the 2015 Budget to the 2014 Budget.

**Revenue**

For the 2015 budget year, EGNB has forecast total revenue from operations of \$47.8 million. The table below summarizes EGNB's budgeted 2015 gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to 2014 Budget.

Table 1  
**Revenue**

Line No. (in thousands of dollars)	(1) 2015 Budget	(2) 2014 Budget	(3)=(1)-(2) Variance to 2014 Budget
1 Operating Revenue			
2 Gas Distribution	\$ 47,370	\$ 45,257	\$ 2,113
3 Miscellaneous	190	180	10
4 Allowance for Funds Used During Construction	16	4	12
5	47,576	45,441	2,135
6 Services & Inspection			
7 Revenue	792	858	(66)
8 Cost of Goods Sold	(603)	(721)	118
9	189	137	52
10 Total Revenue	\$ 47,765	\$ 45,578	\$ 2,187

**Operating Revenue**

- **Gas Distribution Revenue:** gas distribution revenues are forecast to be \$2.1 million higher than the 2014 Budget. This revenue increase is primarily the result of the Board's April 17, 2014 decision to not allow EGNB to recover in 2014 the revenue shortfall resulting from the Board imposed SGS rate rider. EGNB has budgeted for full recovery of its revenue requirement in the 2015 Budget.

- **Miscellaneous Operating Revenue:** miscellaneous revenues are forecasted to be \$10K over the 2014 budget primarily due to increased Agent Billing & Collections revenue as a result of more customers and an inflationary increase proposed in the 2015 Budget to the Agent Billing & Collections rate class.

AFUDC is forecast to be \$12K above the 2014 Budget primarily due to a forecasted increase in Construction Work in Progress balances resulting from increased capital spending as a result of the number of forecasted attachments being greater in 2015 Budget than in 2014 Budget.

Services & Inspection Margin is forecast to be \$52K above the 2014 Budget, primarily due to a forecasted higher number of customers purchasing protection plans by the end of 2015 and an increased amount of service work to be done by EGNB.

### Expenses

For the 2015 Budget year, EGNB has forecast total expenses of \$34.2 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 2014 Budget.

**Table 2**  
**Operating Expenses**

Line No.	(in thousands of dollars)	(1) 2015 Budget	(2) 2014 Budget	(3)=(1)-(2) Variance to 2014 Budget
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,662	\$ 13,818	\$ (156)
3	Bad Debt Expense	360	278	82
4	Amortization of Property, Plant and Equipment	8,004	7,659	345
5	Municipal and Other Taxes	1,198	1,250	(52)
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	8,083	8,409	(326)
7	Amortization of Deferred Development Costs	2,867	2,877	(10)
8	<b>Total Expenses</b>	<b>\$ 34,174</b>	<b>\$ 34,291</b>	<b>\$ (117)</b>

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) 2015 Budget	(2) 2014 Budget	(3)=(1)-(2) Variance to 2014 Budget
1	Labour and Benefits	\$ 8,191	\$ 9,004	\$ (813)
2	Admin/Office Expenses	435	428	7
3	Computer and Telecom Services	339	339	-
4	Professional Consulting	2,192	1,912	280
5	Travel and Training	226	257	(31)
6	Advertising and Promotions	727	1,083	(356)
7	Tools and Safety	261	252	9
8	Fleet	505	530	(25)
9	Facilities	691	706	(15)
10	Insurance	371	448	(77)
11	NBEUB Assessments	698	698	-
12	Corporate Allocations	1,609	1,334	275
13	Gas Transportation and Related Activities	2,065	2,134	(69)
14	<b>Total O&amp;M Prior to Capitalization</b>	<u>18,310</u>	<u>19,125</u>	<u>(815)</u>
15	Property, plant & equipment	<u>4,648</u>	<u>5,307</u>	<u>(659)</u>
16	<b>Total Capitalized</b>	<u>4,648</u>	<u>5,307</u>	<u>(659)</u>
17	<b>Total O&amp;M Expenses</b>	<u>\$ 13,662</u>	<u>\$ 13,818</u>	<u>\$ (156)</u>

EGNB’s 2015 Budget O&M expenses reflect a \$815K decrease in comparison to its 2014 Budget O&M expenses. The principal drivers for this variance are lower Labour and Benefits (\$813K) due to lower salaries and other compensation (\$202K) and lower benefits (\$645K), partially offset by higher employee training and development (\$35K), and lower advertising and promotions (\$356K), primarily due to a reduction in marketing and advertising activities. Offsetting these variances are higher Professional Consulting expenses (\$280K) due to increased contract and consulting services (\$249K) and call center costs (\$31K), and higher Corporate Allocations (\$275K) due to higher corporate shared services fees. Other variances within

individual O&M expense categories, accounting for the remaining \$201K decrease as compared to the 2014 Budget, are primarily due to:

- Admin/Office Expenses: administration and office expenses are forecast to increase by \$7K as compared to the 2014 Budget due to an increase in other outside services (\$25K) primarily due to increases in postage costs and an increase in copier costs (\$6K), partially offset by decreases in printing and stationary costs (\$16K) and overhead costs (\$8K).
- Travel and Training: travel and training costs are forecast to be \$31K less than the 2014 Budget, primarily due to lower ground transportation costs (\$20K) and lower airfare, accommodations and meals costs (\$11K).
- Tools and Safety: tools and safety expenses are forecast to be \$9K more than the 2014 budget, primarily due to an increase in uniforms and protective clothing costs.
- Fleet: fleet expenses are forecast to be \$25K less than the 2014 Budget due to lower maintenance & fuel costs (\$23K) and lower lease and fleet administration costs (\$2K).
- Facilities: facilities costs are forecast to decrease by \$15K as compared to the 2014 Budget due to the elimination of additional leased space previously used as a pipe yard.
- Insurance: insurance expenses are forecast to be \$77K lower than the 2014 Budget, primarily due to a decrease in liability insurance costs (\$153K), broker insurance (\$2K), and crime insurance (\$1K), partially offset by an increase in executive risk insurance (\$78K) and automobile and property insurance (\$1K) costs.
- Gas Transportation and Related Activities are forecast be \$69K lower than the 2014 Budget due to higher than anticipated recovery of the Firm Service Agreement costs for capacity on the Maritimes and Northeast Pipeline.

Amounts capitalized to Property, Plant and Equipment are forecast to be \$659K less than the 2014 Budget due to a decrease in O&M expenses (\$815K).

#### Other Operating Expenses

Bad Debt Expense is forecast to increase by \$82K as compared to the 2014 Budget, primarily due to an increase in expected gas distribution revenues and an increase in customer bills due to higher commodity costs.

Amortization of Property, Plant and Equipment is forecast to result in a \$345K increase compared to the 2014 Budget due to forecasted capital additions in 2015.

Municipal and Other Taxes are forecast to decrease by \$52K compared to the 2014 Budget primarily due to an adjustment to the municipal tax forecast to be more in line with the Provincial property tax billing cycle.

Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to decrease by \$326K compared to the 2014 Budget due to the forecasted regulated cost of debt rate being lower than budget by 0.15%.

Amortization of Deferred Development Costs are forecast to be \$10K lower than the 2014 Budget due to lower than budgeted amortization on Development O&M capitalized costs in 2014.

### 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) 2015 Budget	(2) 2014 Budget	(3)=(1)-(2) Variance to 2014 Budget
1	Property, plant and equipment	\$ 177,989	\$ 178,744	\$ (755)
2	Development O&M capitalized costs	91,618	94,396	(2,778)
3	Franchise fee	275	350	(75)
4	Term deposit	2,975	2,959	16
5	Working capital allowance	1,188	1,407	(219)
6	Regulatory Deferral	-	-	-
7	Rate Base	<u>\$ 274,045</u>	<u>\$ 277,856</u>	<u>\$ (3,811)</u>

Property, Plant and Equipment is forecast to decrease by \$755K as compared to the 2014 Budget, primarily due to 2015 depreciation (\$8.0 million), timing of opening balance of Property, Plant and Equipment (\$3.4 million), partially offset by 2015 capital additions (\$10.6 million).

Development O&M Capitalized Costs are forecast to decrease by \$2.8 million as compared to the 2014 Budget due to the recognition of an additional year of amortization.

Franchise fee cost is forecast to decrease by \$75K as compared to the 2014 Budget due to the recognition of an additional year of amortization.

Term deposit costs are forecast to increase by \$16K as compared to the 2014 Budget to reflect actual experience around the timing of the interest payments and interest rates.

Working Capital Allowance is forecast to decrease by \$219K as compared to the 2014 Budget, primarily due to lower budgeted inventory (\$205K) and prepaid expenses (\$14K) 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) 2015 Budget	(2) 2014 Budget	(3)=(1)-(2) Variance to 2014 Budget
<b>1</b>	<b>Other Regulated Assets</b>			
2	Cash and Short Term Investments	\$ 95	\$ 11,710	\$ (11,615)
3	Accounts Receivable	27,315	12,866	14,449
4	Inventory	1,128	1,334	(206)
5	Long term Receivable	2,213	4,279	(2,066)
<b>6</b>	<b>Total Other Regulated Assets</b>	<b>\$ 30,751</b>	<b>\$ 30,189</b>	<b>\$ 562</b>
<b>7</b>	<b>Other Regulated Liabilities</b>			
8	Due to Affiliated Companies	\$ 988	\$ 11,676	\$ (10,688)
9	Accounts Payable	8,180	9,970	(1,790)
10	Long Term Payable	2,118	3,061	(943)
11	Long Term Deferred Post Employment Liabilities	1,001	1,026	(25)
<b>12</b>	<b>Total Other Regulated Liabilities</b>	<b>\$ 12,287</b>	<b>\$ 25,733</b>	<b>\$ (13,446)</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)
	2015	2014	Variance
	Budget	Budget	to 2014 Budget
Principal			
Debt	\$ 161,750	\$ 149,500	\$ 12,250
Equity	130,316	131,805	(1,489)
Return (\$)			
Debt	8,077	8,407	(330)
Equity	13,634	13,545	89
Approved rates			
Debt	5.36%	5.51%	-0.15%
Equity	10.90%	10.90%	0.00%

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

Equity is forecast to decrease by \$1.5 million as a result of a realignment of the Debt/Equity structure in order to maintain the regulated debt to equity ratio of 55%/45%. Debt is forecast to increase by \$12.3 million as compared to the 2014 Budget due to the forecasted rebalancing of Debt/Equity structure in 2014 being different than budgeted.

Debt rates are forecast to decrease by 0.15% as compared to the 2014 Budget resulting from the expiration of debt notes with higher rates than the remaining debt.