

SCHEDULE 3.6

2016 Budget to 2015 Budget Explanations

2016 Budget**Overview**

A complete list of 2016 Budget Assumptions can be found at Schedule 3.4 - 2016 Budget Assumptions.

For comparative purposes, variance explanations compare the 2016 Budget to the 2015 Budget.

Revenue

For the 2016 budget year, EGNB has forecast total revenue from operations of \$45.5 million, over \$2 million lower than the 2015 Budget. The table below summarizes EGNB's budgeted 2016 gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to 2015 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2016 Budget	(2) 2015 Budget	(3)=(1)-(2) Variance to 2015 Budget
1	Operating Revenue			
2	Gas Distribution	\$ 44,384	\$ 47,155	\$ (2,771)
3	Miscellaneous	937	435	502
4	Allowance for Funds Used During Construction	26	16	10
5		45,347	47,606	(2,259)
6	Services & Inspection			
7	Revenue	742	792	(50)
8	Cost of Goods Sold	(561)	(603)	42
9		181	189	(8)
10	Total Revenue	\$ 45,528	\$ 47,795	\$ (2,267)

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are budgeted to be \$2.8 million lower than the 2015 Budget. EGNB has reduced its revenue requirement for 2016 compared to the 2015 Budget. Distribution Revenue is budgeted to recover the lowered revenue requirement.

- 1 • Miscellaneous Operating Revenue: miscellaneous revenues are budgeted to be \$502K
2 over the 2015 Budget primarily due to increased Single End User Franchisee Fees
3 (\$400K), Late Payment Penalties (\$58K), Transactional Services revenue (\$36K) and
4 Agent Billing & Collections revenue (\$8K).

5 AFUDC is budgeted to be \$10K above the 2015 Budget primarily due to budgeted higher
6 Construction Work in Progress balances in the 2016 Budget.

7 Services & Inspection Margin is forecast to be \$8K below the 2015 Budget, primarily due to
8 lower overall service work to reflect fewer customers purchasing protection plans in 2015.

9 **Expenses**

10 For the 2016 Budget, EGNB has budgeted total expenses of \$32.2 million. Below is a summary
11 of EGNB's Operating and Maintenance expenses, Bad Debt expense, Amortization of Property,
12 Plant and Equipment, Municipal and Other Taxes, Interest on Amounts Due to Associates and
13 Affiliates and Other Interest and Amortization of Deferred Development Costs with comparisons
14 to the 2015 Budget.

Table 2
Operating Expenses

Line No. (in thousands of dollars)	(1) 2016 Budget	(2) 2015 Budget	(3)=(1)-(2) Variance to 2015 Budget
1 Operating Expenses			
2 Operating and Maintenance Expenses	\$ 13,806	\$ 13,712	\$ 94
3 Bad Debt Expense	385	360	25
4 Amortization of Property, Plant and Equipment	5,710	8,000	(2,290)
5 Municipal and Other Taxes	1,238	1,198	40
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	7,713	8,080	(367)
7 Other Expenses	500	-	500
8 Amortization of Deferred Development Costs	2,867	2,867	-
9 Total Expenses	\$32,219	\$34,217	\$ (1,998)

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

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Table 3
Operating and Maintenance Expenses

Line No.		(1) 2016 Budget	(2) 2015 Budget	(3)=(1)-(2) Variance to 2015 Budget
1	Labour and Benefits	\$ 7,682	\$ 8,192	\$ (510)
2	Admin/Office Expenses	283	454	(171)
3	Computer and Telecom Services	317	339	(22)
4	Professional Consulting	2,324	2,192	132
5	Travel and Training	153	226	(73)
6	Advertising and Promotions	682	727	(45)
7	Incentives	100	-	100
8	Tools and Safety	290	261	29
9	Fleet	444	505	(61)
10	Facilities	685	691	(6)
11	Insurance	222	211	11
12	NBEUB Assessments	698	698	-
13	Corporate Allocations	1,808	1,590	218
14	Gas Transportation and Related Activities	1,700	2,065	(365)
15	Total O&M Prior to Capitalization	17,388	18,151	(763)
16	Property, plant & equipment	3,582	4,439	(857)
17	Total Capitalized	3,582	4,439	(857)
18	Total O&M Expenses	\$ 13,806	\$ 13,712	\$ 94

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3 EGNB's 2016 Budget O&M expenses reflect a \$763K, or 4.2%, decrease in comparison to its
4 2015 Budget O&M expenses. The drivers for this variance are:

5 • Labour and Benefits are budgeted to be under the 2015 Budget by \$510K due to reduction in
6 salaries and other compensation (\$283K), employee training and development (\$122K) and
7 benefits (\$105K).

8 • Admin/Office Expenses are budgeted to decrease as compared to the 2015 Budget by \$171K
9 due to a decrease in other overhead costs (\$99K), postage and courier costs (\$31K), other
10 materials and supplies (\$26K), and stationary, printing and supplies (\$15K).

- 1 • Computer and Telecom Services are budgeted to be under the 2015 budget by \$22K due to
2 lower telecom services costs (\$41K), cell and phone costs (\$3K), and computer equipment
3 supplies (\$3K), offset by increased IT software maintenance costs (\$25K).
- 4 • Professional Consulting are budgeted to be over the 2015 Budget by \$132K mainly due to
5 increases in credit and collection services (\$86K), legal fees (\$25K) and other contract
6 services (\$21K).
- 7 • Travel and Training are budgeted to be under the 2015 budget by \$73K primarily due to
8 lower airfare, accommodations and meals costs (\$43K) and lower ground transportation costs
9 (\$30K).
- 10 • Advertising and Public Relations are budgeted to be less than the 2015 Budget by \$45K due
11 to less advertising spending costs (\$21K) and trade and civic memberships (\$24K).
- 12 • Incentives are more than the 2015 Budget by \$100K due to the introduction of a
13 customer/contractor incentive program.
- 14 • Tools and Safety are budgeted to be more than the 2015 Budget by \$29K primarily due to an
15 increase in public awareness costs (\$50K) offset by lower uniforms and protective clothing
16 costs (\$21K).
- 17 • Fleet expenses are budgeted to be less than the 2015 Budget by \$61K due to lower fuel and
18 maintenance costs (\$52K) and lower lease and licensing costs (\$9K).
- 19 • Facilities expenses are budgeted to be lower compared to the 2015 Budget by \$6K mainly
20 due to decreases in office repairs and maintenance.
- 21 • Insurance is budgeted to be higher than the 2015 Budget by \$11K primarily due to an
22 increase in claimed amount of executive risk insurance (\$61K), offset by a decrease in
23 liability insurance costs (\$50K).
- 24 • Corporate Allocations are budgeted to be higher than the 2015 Budget by \$218K primarily
25 due to higher corporate shared services fees.
- 26 • Gas Transportation and Related Activities are budgeted to be lower due to higher than
27 anticipated recovery of the Firm Service Agreement costs for capacity on the Maritimes and
28 Northeast Pipeline.

1 Amounts capitalized to Property, Plant and Equipment are forecast to be \$857K less than the
2 2015 Budget primarily due to reduced capitalization rates as shown in Schedule 3.11.

3 Other Operating Expenses

4 Bad Debt Expense is forecast to increase by \$25K as compared to the 2015 Budget, primarily
5 due to an increase in the percentage applied to revenues to calculate the expense based on
6 historical actual percentage.

7 Amortization of Property, Plant and Equipment is forecast to result in a \$2.3 million decrease
8 compared to the 2015 Budget primarily due to the Depreciation Study found in Schedule 3.9.

9 Municipal and Other Taxes are budgeted to increase by \$40K compared to the 2015 Budget
10 primarily due to increases in the municipal property tax rates in 2015.

11 Interest on Amounts Due to Associates and Affiliates and Other Interest are budgeted to decrease
12 by \$367K compared to the 2015 Budget due to the forecasted regulated cost of debt rate being
13 lower than budget by 0.19%.

14 Other Expenses are budgeted to be \$500K higher compared to the 2015 Budget due to the
15 implementation of a customer retention program in 2016.

16 **Rate Base**

17 Information with respect to EGNB's year-end Rate Base and the levels of Property, Plant and
18 Equipment, Development O&M Capitalized Costs, Working Capital Allowance and other
19 elements within rate base are provided below.

Table 4
Rate Base

Line No.	(in thousands of dollars)	(1) 2016 Budget	(2) 2015 Budget	(3)=(1)-(2) Variance to 2015 Budget
1	Property, plant and equipment	\$ 176,674	\$ 177,784	\$ (1,110)
2	Development O&M capitalized costs	88,826	91,618	(2,792)
3	Franchise fee	200	275	(75)
4	Term deposit	2,967	2,975	(8)
5	Working capital allowance	1,147	1,188	(41)
6	Regulatory Deferral	-	-	-
7	Rate Base	<u>\$ 269,814</u>	<u>\$ 273,840</u>	<u>\$ (4,026)</u>

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2 Property, Plant and Equipment is budgeted to decrease by \$1.1 million as compared to the 2015
3 Budget, primarily due to 2016 depreciation (\$5.7 million), timing of opening balance of Property
4 Plant and Equipment (\$2.3 million), partially offset by 2016 capital additions (\$6.9 million).

5 Development O&M Capitalized Costs are forecast to decrease by \$2.8 million as compared to
6 the 2015 Budget due to the recognition of an additional year of amortization.

7 Franchise fee cost is forecast to decrease by \$75K as compared to the 2015 Budget due to the
8 recognition of an additional year of amortization.

9 Term deposit costs are forecast to decrease by \$8K as compared to the 2015 Budget to reflect
10 actual experience around the timing of the interest payments and interest rates.

11 Working Capital Allowance is forecast to decrease by \$41K as compared to the 2015 Budget,
12 primarily due to lower budgeted inventory (\$40K) and prepaid expenses (\$1K) balances.

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) 2016 Budget	(2) 2015 Budget	(3)=(1)-(2) Variance to 2015 Budget
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 21,620	\$ 251	\$ 21,369
3 Accounts Receivable	11,217	27,315	(16,098)
4 Inventory	1,088	1,128	(40)
5 Long term Receivable	2,132	2,213	(81)
6 Total Other Regulated Assets	\$ 36,057	\$ 30,907	\$ 5,150
7 Other Regulated Liabilities			
8 Due to Affiliated Companies	\$ -	\$ 966	\$ (966)
9 Accounts Payable	3,413	8,170	(4,757)
10 Long Term Payable	1,703	2,118	(415)
11 Long Term Deferred Post Employment Liabilities	4,311	1,001	3,310
12 Total Other Regulated Liabilities	\$ 9,427	\$ 12,255	\$ (2,828)

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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

1 **Cost of Capital Summary**

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

		<u>Table 6</u>		
		Cost of Capital		
		(1)	(2)	(3)=(1)-(2)
		2016	2015	Variance
		Budget	Budget	to 2015 Budget
6	Principal			
7	Debt	\$ 149,500	\$ 161,750	\$ (12,250)
8	Equity	146,798	130,299	16,499
9	Return (\$)			
10	Debt	7,703	8,074	(371)
11	Equity	13,292	13,629	(337)
12	Approved rates			
13	Debt	5.17%	5.36%	-0.19%
14	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 increase by \$16.5 million as no distributions to shareholders are budgeted
6 for 2016. Debt is forecast to decrease by \$12.3 million as compared to the 2015 Budget due to
7 the forecasted rebalancing of Debt/Equity structure in 2015 being different than budgeted.

8 Debt rates are forecast to decrease by 0.19% as compared to the 2015 Budget resulting from the
9 expiration of debt notes with higher rates than the remaining debt.