

SCHEDULE 3.6

2018 Budget to 2017 Budget Explanations

2018 Budget

Overview

A complete list of 2018 Budget Assumptions can be found at Schedule 3.4 – 2018 and 2019 Budget Assumptions.

For comparative purposes, variance explanations compare the 2018 Budget to the 2017 Budget.

Revenue

The table below summarizes EGNB’s 2018 Budget 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) 2018 Budget	(2) 2017 Budget	(3)=(1)-(2) Variance to 2017 Budget
1	Operating Revenue			
2	Gas Distribution	\$ 46,081	\$ 43,940	\$ 2,141
3	Miscellaneous	1,288	945	343
4	Allowance for Funds Used During Construction	42	17	25
5		47,411	44,902	2,509
6	Services & Inspection			
7	Revenue	624	637	(13)
8	Cost of Goods Sold	(377)	(389)	12
9		247	248	(1)
10	Total Revenue	\$ 47,658	\$ 45,150	\$ 2,508

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are budgeted to be \$2.14 million higher than the 2017 Budget. EGNB expects customer additions and to recover lost propane customers by the use of incentive programs which will result in a larger customer base in 2018 and higher gas distribution revenues. The 2018 distribution revenue also includes a 3% increase to the volumetric rate for SGS customers.

- 1 • Miscellaneous Operating Revenue: miscellaneous revenues are budgeted to be \$343K
- 2 over the 2017 Budget primarily due to an additional catch up SEUF payment in 2018
- 3 (\$400K) offset by lower budgeted late payment penalties (\$52K) and other revenue
- 4 (\$5K).
- 5 • AFUDC is budgeted to be \$25K over the 2017 Budget primarily due to higher budgeted
- 6 Construction Work in Progress balances in the 2018 Budget.

7 **Expenses**

8 For the 2018 Budget, EGNB has budgeted total expenses of \$31.5 million. Below is a summary

9 of EGNB’s Operating and Maintenance expenses, Bad Debt expense, Amortization of Property,

10 Plant and Equipment, Municipal and Other Taxes, Interest on Amounts Due to Associates and

11 Affiliates and Other Interest and Amortization of Deferred Development Costs with comparisons

12 to the 2017 Budget.

Table 2
Operating Expenses

Line No. (in thousands of dollars)	(1) 2018 Budget	(2) 2017 Budget	(3)=(1)-(2) Variance to 2017 Budget
1 Operating Expenses			
2 Operating and Maintenance Expenses	\$ 13,746	\$ 13,947	\$ (201)
3 Bad Debt Expense	282	278	4
4 Amortization of Property, Plant and Equipment	6,225	6,235	(10)
5 Municipal and Other Taxes	1,261	1,241	20
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	6,907	7,267	(360)
7 Other Expenses	100	100	-
8 Amortization of Deferred Development Costs	2,942	2,922	20
9 Total Expenses	\$ 31,463	\$ 31,990	\$ (527)

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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.

6

Table 3
Operating and Maintenance Expenses

Line No.	(in thousands of dollars)	(1) 2018 Budget	(2) 2017 Budget	(3)=(1)-(2) Variance to 2017 Budget
1	Labour and Benefits	\$ 8,402	\$ 8,187	\$ 215
2	Admin/Office Expenses	296	297	(1)
3	Computer and Telecom Services	303	352	(49)
4	Professional Consulting	1,475	1,445	30
5	Travel and Training	143	145	(2)
6	Advertising and Promotions	825	688	137
7	Tools and Safety	211	210	1
8	Fleet	377	413	(36)
9	Facilities	675	683	(8)
10	Insurance	142	171	(29)
11	NBEUB Assessments	530	531	(1)
12	Corporate Allocations	1,399	1,063	336
13	Service Level Agreements	942	1,385	(443)
14	Gas Transportation and Related Activities	1,587	1,794	(207)
15	Total O&M Prior to Capitalization	<u>17,307</u>	<u>17,464</u>	<u>(157)</u>
16	Property, plant & equipment	<u>3,561</u>	<u>3,517</u>	<u>44</u>
17	Total Capitalized	<u>3,561</u>	<u>3,517</u>	<u>44</u>
18	Total O&M Expenses	<u>\$ 13,746</u>	<u>\$ 13,947</u>	<u>\$ (201)</u>

7

8 EGNB’s 2018 Budget O&M expenses reflect a \$157K, or 0.9%, decrease in comparison to its
9 2017 Budget O&M expenses. The drivers for this variance are:

- 1 • Labour and Benefits are budgeted to be higher than the 2017 Budget by \$216K due to by an
2 increase in salaries and other compensation (\$276K) offset by a decrease in pensions and
3 benefits (\$57K) and employee training & development (\$3K).
- 4 • Computer and Telecom Services are budgeted to be below the 2017 Budget by \$49K due to
5 decreased IT software maintenance costs (\$55K) and telecom services costs (\$5K) offset by
6 cell and phone costs (\$11K).
- 7 • Professional Consulting is budgeted to be higher than the 2017 Budget by \$29K mainly due
8 to an increase in contract services (\$181K) and professional consulting (\$3K) offset by lower
9 external audit fees (\$69K), director fees (\$50K) and legal fees (\$36K).
- 10 • Travel and Training are budgeted to be below the 2017 Budget by \$2K primarily due to
11 lower ground transportation costs (\$3K) offset by higher airfare, accommodations and meals
12 costs (\$1K).
- 13 • Advertising and Public Relations are budgeted to be higher than the 2017 Budget by \$137K
14 due to increased sponsorships (\$90K), advertising spending costs (\$40K) and trade and civic
15 memberships (\$7K) in support of incentive programs.
- 16 • Fleet expenses are budgeted to be below the 2017 Budget by \$36K due to lower fleet
17 administrative costs (\$34K) and vehicle licensing (\$1K).
- 18 • Facilities expenses are budgeted to be lower than the 2017 Budget by \$8K mainly due to
19 decreases in utility costs (\$12K) offset by higher office rent (\$4K).
- 20 • Insurance is budgeted to be lower than the 2017 Budget by \$29K due to a decrease in
21 liability insurance (\$15K), automobile insurance (\$11K), executive risk insurance (\$2K) and
22 broker insurance (\$1K).
- 23 • Corporate Allocations are budgeted to be higher than the 2017 Budget by \$336K due to
24 increased allocations for information technology costs (\$219K), corporate shared services
25 fees (\$22K) and consolidation of payroll services (\$95K).
- 26 • Service Level Agreements (SLA) are budgeted to be below the 2017 Budget by \$443K due
27 to recoveries (\$395K) and reduced services from Enbridge Gas Distribution (\$85K) offset by
28 increased call center costs (\$37K).

1 • Gas Transportation and Related Activities are budgeted to be lower than the 2017 Budget by
2 \$207K due to lower than anticipated tolls for capacity on the Maritimes and Northeast
3 Pipeline in 2018.

4 Amounts capitalized to Property, Plant and Equipment are budgeted to be \$44K higher than the
5 2017 Budget due to aggregate O&M spending in cost centers differing from budgeted spend and
6 the associated different capitalization rates for each cost center.

7 Other Operating Expenses

8 Bad Debt Expense is forecast to increase by \$4K as compared to the 2017 Budget, due to an
9 increase in 2018 expected revenues used to calculate the expense.

10 Amortization of Property, Plant and Equipment is forecast to be \$10K lower compared to the
11 2017 Budget due to planned retirements of assets not fully depreciated at the end of 2017.

12 Municipal and Other Taxes are budgeted to increase by \$20K compared to the 2017 Budget due
13 to additions to depreciable pipe (\$16K) and an increase in Municipal tax rates (\$4K).

14 Interest on Amounts Due to Associates and Affiliates and Other Interest are budgeted to decrease
15 by \$360K compared to the 2017 Budget due the 2018 regulated cost of debt rate being lower
16 than the 2017 budget by 0.23% and a reduction in average rate base which is used to calculate
17 EGNB's debt ratio.

18 Amortization of deferred development costs is budgeted to be \$20K higher than the 2017 Budget
19 due to budgeted intangible additions in 2018.

20 **Rate Base**

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

Table 4
Rate Base

Line No.	(in thousands of dollars)	(1) 2018 Budget	(2) 2017 Budget	(3)=(1)-(2) Variance to 2017 Budget
1	Property, plant and equipment	\$ 179,075	\$ 176,294	\$ 2,781
2	Development O&M capitalized costs	83,242	86,034	(2,792)
3	Franchise fee	50	125	(75)
4	Intangible Software	1,596	1,314	282
5	Term deposit	2,956	2,969	(13)
6	Working capital allowance	1,297	1,578	(281)
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 268,216</u>	<u>\$ 268,314</u>	<u>\$ (98)</u>

- 1
2 Property, Plant and Equipment is budgeted to be \$2.8 million higher than the 2017 budget due to
3 2018 capital additions (\$9.5 million) offset by 2018 depreciation (\$6.3 million) and the timing of
4 opening balance of Property Plant and Equipment (\$449K).
- 5 Development O&M Capitalized Costs are forecast to decrease by \$2.8 million as compared to
6 the 2017 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 2017 Budget due to the
8 recognition of an additional year of amortization.
- 9 Intangible Software is budgeted to be \$282K higher than the 2017 Budget primarily due to 2018
10 capital additions (\$475K) offset by the timing of opening balance of Intangible Software
11 (\$119K) and 2018 depreciation (\$75K).
- 12 Term deposit costs are forecast to decrease by \$13K as compared to the 2017 Budget to reflect
13 experience around the timing of the interest payments and interest rates.
- 14 Working Capital Allowance is forecast to decrease by \$281K as compared to the 2017 Budget,
15 due to lower budgeted prepaid expense (\$462K) offset by higher inventory balances (\$181K).

1 **Other Regulated Assets & Liabilities**

2 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) 2018 Budget	(2) 2017 Budget	(3)=(1)-(2) Variance to 2017 Budget
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 3,567	\$ 8,438	\$ (4,871)
3 Accounts Receivable	17,762	8,108	9,654
4 Inventory	1,228	1,047	181
5 Long term Receivable	359	373	(14)
6 Total Other Regulated Assets	\$ 22,916	\$ 17,966	\$ 4,950
7 Other Regulated Liabilities			
8 Due to Affiliated Companies	\$ -	\$ -	\$ -
9 Accounts Payable	5,872	2,542	3,330
10 Long Term Payable	142	333	(191)
11 Long Term Deferred Post Employment Liabilities	2,555	1,677	878
12 Total Other Regulated Liabilities	\$ 8,569	\$ 4,552	\$ 4,017

3
4 Other Regulated Assets & Liabilities are a function of the annual operations of EGNB and
5 fluctuate with changes in operating revenues and expenses.

6

1 **Cost of Capital Summary**

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

Table 6
Cost of Capital

Line No.	(1) 2018 Budget	(2) 2017 Budget	(3)=(1)-(2) Variance to 2017 Budget
1 Principal			
2 Debt	\$ 149,500	\$ 149,500	\$ -
3 Equity	133,361	131,688	1,673
4 Return (\$)			
5 Debt	\$ 6,893	\$ 7,261	\$ (368)
6 Equity	13,112	13,152	(40)
7 Approved rates			
8 Debt	4.69%	4.92%	-0.23%
9 Equity	10.90%	10.90%	0.00%

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

5 Equity is budgeted to increase by \$1.7 million driven by retained earnings increase of \$15.7
6 million offset by a forecasted distribution payout of \$14 million.

7 Debt rates are forecast to be 0.23% lower than the 2017 budget due to incremental debt notes
8 renewed on 15-March-2017 which is earlier than the maturity dates (26-February-2018 and 28-
9 December-2018), being lower than the budgeted interest rates resulting in a lower weighted
10 average cost of debt.