

SCHEDULE 3.6

2021 Budget to 2020 Budget Explanations

2021 Budget

Overview

A complete list of 2021 Budget Assumptions can be found at Schedule 3.4 – 2021 Budget Assumptions.

For comparative purposes, variance explanations compare the 2021 Budget to the 2020 Budget.

Revenue

The table below summarizes Liberty’s 2021 Budget 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) 2021 Budget | (2) 2020 Budget | (3)=(1)-(2) Variance to 2021 Budget |
|--|-----------------------|-----------------------|---|
| 1 Operating Revenue | | | |
| 2 Gas Distribution | \$ 45,103 | \$ 44,826 | \$ 277 |
| 3 Miscellaneous | 1,109 | 1,073 | 36 |
| 4 Allowance for Funds Used During Construction | 97 | 62 | 35 |
| 5 | 46,309 | 45,961 | 348 |
| 6 Services & Inspection | | | |
| 7 Revenue | 631 | 638 | (7) |
| 8 Cost of Goods Sold | (336) | (334) | (2) |
| 9 | 295 | 304 | (9) |
| 10 Total Revenue | \$ 46,604 | \$ 46,265 | \$ 339 |

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues are budgeted to be \$277K higher than the 2020 Budget. Revenue requirement recovered from rates is higher compared to 2020 due to lower excess earning sharing mechanism.

- 1 • Miscellaneous Operating Revenue: miscellaneous revenues are budgeted to be \$36K over
- 2 the 2020 budget due to an increase in Agent, Broker, Marketer billing as a result of larger
- 3 customer base and 2% increase to marketer billing charges.
- 4 • AFUDC is \$35K over budget, due to higher than expected monthly balances in the
- 5 Construction Work In Progress account on which AFUDC is calculated on.
- 6 • Services & Inspection Margin is expected to be \$9K under budget due to higher budgeted
- 7 costs on servicing protection plans (\$2K) while generating lower residential protection plan
- 8 revenue (\$7K).

9 **Expenses**

10 For the 2021 Budget, Liberty has budgeted total expenses of \$34.4 million. Below is a summary

11 of Liberty'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, Amortization of Deferred Development Costs and Amortization of

14 Regulatory Deferral Account with comparisons to the 2020 Budget.

Table 2
Operating Expenses

| Line No. | (in thousands of dollars) | (1) 2021 Budget | (2) 2020 Budget | (3)=(1)-(2) Variance to 2021 Budget |
|-----------|--|-----------------------|-----------------------|---|
| 1 | Operating Expenses | | | |
| 2 | Operating and Maintenance Expenses | \$ 13,735 | \$ 12,935 | \$ 800 |
| | Management fees | | | - |
| | Transportation (net) | | | - |
| 3 | Bad Debt Expense | 173 | 163 | 10 |
| 4 | Amortization of Property, Plant and Equipment | 7,236 | 6,817 | 419 |
| 5 | Municipal and Other Taxes | 1,297 | 1,275 | 22 |
| 6 | Interest on Amounts Due to Associates and Affiliates and Other Interest | 4,929 | 6,838 | (1,909) |
| 7 | Other Expenses | - | - | - |
| 8 | Amortization of Deferred Development Costs | 3,193 | 2,913 | 280 |
| 9 | Amortization of Regulatory Deferral Account | 3,846 | 3,846 | - |
| 10 | Total Expenses | \$ 34,409 | \$ 34,787 | \$ (378) |

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

Table 3
Operating and Maintenance Expenses

| Line No. | (in thousands of dollars) | (1) 2021 Budget | (2) 2020 Budget | (3)=(1)-(2) Variance to 2021 Budget |
|----------|--|-----------------------|-----------------------|---|
| 1 | Labour and Benefits | \$ 9,718 | \$ 9,177 | \$ 541 |
| 2 | Admin/Office Expenses | 252 | 288 | (36) |
| 3 | Computer and Telecom Services | 479 | 72 | 407 |
| 4 | Professional Consulting | 1,500 | 1,297 | 203 |
| 5 | Travel and Training | 281 | 224 | 57 |
| 6 | Advertising and Promotions | 354 | 323 | 31 |
| 7 | Tools and Safety | 196 | 162 | 34 |
| 8 | Fleet | 430 | 412 | 18 |
| 9 | Facilities | 692 | 660 | 32 |
| 10 | Insurance | 280 | 184 | 96 |
| 11 | NBEUB Assessments | 336 | 380 | (44) |
| 12 | Corporate Allocations | 2,081 | 998 | 1,083 |
| 13 | Service Level Agreements | 60 | 465 | (405) |
| 14 | Gas Transportation and Related Activities | 1,916 | 1,768 | 148 |
| 15 | Total O&M Prior to Capitalization | <u>18,575</u> | <u>16,410</u> | <u>2,165</u> |
| 16 | Capitalized to: | | | |
| 16 | Property, plant & equipment | <u>4,840</u> | <u>3,475</u> | <u>1,365</u> |
| 17 | Total Capitalized | <u>4,840</u> | <u>3,475</u> | <u>1,365</u> |
| 18 | Total O&M Expenses | <u>\$13,735</u> | <u>\$12,935</u> | <u>\$ 800</u> |

- 6
 7 Liberty’s 2021 Budget O&M expenses reflect a \$2,165K, or 13.2%, increase in comparison to its
 8 2020 Budget O&M expenses. The drivers for this variance are:

- 1 • Labour and Benefits are budgeted to be over the 2020 Budget by \$541K due to an increase in
2 pensions and benefits (\$262K), employee training & development (\$171K) and salaries and
3 other compensation (\$108K).
- 4 • Admin/Office Expenses are budgeted to be under the 2020 Budget by \$36K due to lower
5 postage and courier expenses (\$28K), copier expenses (\$5K) and materials and supplies (\$3K).
- 6 • Computer and Telecom Services are budgeted to be over the 2020 Budget by \$407K due to
7 increased IT software and maintenance costs (\$212K) and telecom services costs (\$195K).
- 8 • Professional Consulting is budgeted to be over the 2020 Budget by \$203K due to an increase
9 in professional consulting (\$164K), contract services (\$140K) and legal fees (\$22K), offset by
10 a decrease in audit fees (\$123K).
- 11 • Travel and Training are budgeted to be over the 2020 Budget by \$57K due to higher expected
12 accommodations and meals costs (\$44K), conference and training fees (\$18K) and airfare
13 (\$13K), offset by a decrease in ground transportation costs (\$18K).
- 14 • Advertising and Public Relations are budgeted to be over the 2020 Budget by \$31K due to
15 increased advertising and public awareness costs (\$14K), trade and civic memberships (\$13K)
16 and sponsorships (\$4K).
- 17 • Tools and Safety are budgeted to be over the 2020 Budget by \$34K due to increased tool costs
18 (\$18K), safety related campaigns (\$15K) and uniform and protective equipment costs (\$1K).
- 19 • Fleet expenses are budgeted to be over the 2020 Budget by \$18K due to increased vehicle fuel
20 and repair costs.
- 21 • Facilities expenses are budgeted to be over the 2020 Budget by \$32K due to increases in office
22 rent and utilities (\$23K) and office repairs and maintenance (\$9K).
- 23 • Insurance is budgeted to be over the 2020 Budget by (\$96K) as a result of the new Liberty
24 policy.
- 25 • NBEUB Assessments are budgeted to be under the 2020 Budget by \$44K due to lower
26 anticipated regulatory compliance services and fees.

- 1 • Corporate Allocations are budgeted to be over the 2020 Budget by \$1,083K due to increased
2 corporate shared services fees (\$864K), energy procurement costs (\$156K) and information
3 technology costs (\$89K), offset by lower corporate HR (\$26K).
- 4 • Service Level Agreements (SLA) are budgeted to be under the 2020 Budget by \$405K as there
5 are no longer SLAs with Liberty. All costs now flow through corporate allocations directly.
- 6 • Gas Transportation and Related Activities are budgeted to be higher than the 2020 Budget by
7 \$148K due to higher than budgeted tolls for capacity and recognizing abandonment surcharge
8 on the Maritimes and Northeast Pipeline.

9 Amounts capitalized to Property, Plant and Equipment are budgeted to be \$1,365K higher than the
10 2020 Budget due to aggregate O&M spending in cost centers different from budgeted spend and
11 overall higher capitalization rates across cost centres.

12 Other Operating Expenses

13 Bad Debt Expense is budgeted to increase by \$10K as compared to the 2020 Budget, due to an
14 increase in 2021 expected revenues used to calculate the expense.

15 Amortization of Property, Plant and Equipment is budgeted to be \$419K over the 2020 budget due
16 to additions to Property, Plant and Equipment.

17 Municipal and Other Taxes are budgeted to be \$22K over the 2020 Budget due to higher than
18 budgeted pipe length.

19 Interest on Amounts Due to Associates and Affiliates and Other Interest are forecast to be \$1,909K
20 under budget due to the issuance of new debt at a lower interest rate and the exclusion of the
21 previously approved 1% premium on the interest rate that existed under Enbridge ownership.

22 Amortization of Deferred Development Costs is budgeted to be \$280K higher compared to the
23 2020 Budget due to Pension Variance Account not budgeted in 2020 (\$211K) and higher budgeted
24 intangible additions (\$69K).

1 **Rate Base**

2 Information with respect to Liberty’s year-end Rate Base and the levels of Property, Plant and
 3 Equipment, Development O&M Capitalized Costs, Working Capital Allowance and other
 4 elements within rate base are provided below.

Table 4
Rate Base

| Line No. (in thousands of dollars) | (1) 2021 Budget | (2) 2020 Budget | (3)=(1)-(2) Variance to 2021 Budget |
|-------------------------------------|-----------------------|-----------------------|---|
| 1 Property, plant and equipment | \$ 187,965 | \$ 179,141 | \$ 8,824 |
| 2 Development O&M capitalized costs | 74,866 | 77,658 | (2,792) |
| 3 Franchise fee | - | - | - |
| 4 Intangible Software | 3,538 | 2,276 | 1,262 |
| 5 Term deposit | 3,007 | 2,971 | 36 |
| 6 Working capital allowance | 1,609 | 1,453 | 156 |
| 7 Regulatory Deferral | - | - | - |
| 8 Rate Base | 270,985 | \$ 263,499 | \$ 7,486 |

5
 6 Property, Plant and Equipment is budgeted to be \$8.8M over the 2020 Budget due to higher 2021
 7 net capital additions (\$7.3M) and timing of opening balances of Property, Plant and Equipment
 8 (\$1.5M).

9 Development O&M Capitalized Costs are budgeted to decrease by \$2.8M as compared to the 2020
 10 Budget due to the recognition of an additional year of amortization.

11 Intangible Software is budgeted to be \$1.3M higher than the 2020 Budget due to timing of opening
 12 balances.

13 Term deposit costs are forecast to increase by \$36K as compared to the 2020 Budget to reflect
 14 experience around the timing of the interest payments and interest rates.

15 Working Capital Allowance is budgeted to increase by \$156K as compared to the 2020 Budget,
 16 due to higher budgeted prepaid expense (\$191K), offset by lower inventory balances (\$35K).

1 **Other Regulated Assets & Liabilities**

2 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) 2021 Budget | (2) 2020 Budget | (3)=(1)-(2) Variance to 2021 Budget |
|-----------|--|-----------------------|-----------------------|---|
| 1 | Other Regulated Assets | | | |
| 2 | Cash and Short Term Investments | \$ 14,776 | \$ 14,195 | \$ 581 |
| 3 | Accounts Receivable | 19,865 | 17,253 | 2,612 |
| 4 | Long term Receivable | 312 | 320 | (8) |
| 5 | Inventory | 1,170 | 1,206 | (36) |
| 6 | Lease Asset | 1,239 | - | 1,239 |
| 7 | Total Other Regulated Assets | \$ 37,362 | \$ 32,974 | \$ 4,388 |
| 8 | Other Regulated Liabilities | | | |
| 9 | Rates Variance | \$ - | \$ - | \$ - |
| 10 | Accounts Payable | 7,067 | 4,499 | 2,568 |
| 11 | Long Term Payable | - | 133 | (133) |
| 12 | Long Term Deferred Post Employment Liabilities | 502 | 2,459 | (1,957) |
| 13 | Lease Liability | 1,239 | - | 1,239 |
| 14 | Total Other Regulated Liabilities | \$ 8,808 | \$ 7,091 | \$ 1,717 |

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

6

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) 2021 Budget | (2) 2020 Budget | (3)=(1)-(2) Variance to 2021 Budget |
|----------|----------------|-----------------------|-----------------------|---|
| 1 | Principal | | | |
| 2 | Debt | \$ 155,000 | \$ 149,500 | \$ 5,500 |
| 3 | Equity | \$ 145,201 | \$ 139,110 | \$ 6,091 |
| 4 | Return (\$) | | | |
| 5 | Debt | \$ 4,903 | \$ 6,817 | \$ (1,914) |
| 6 | Equity | \$ 13,189 | \$ 13,006 | \$ 183 |
| 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 the 2020 Budget due to new long-term debt issued by Algonquin Power
6 and Utilities Corp.

7 Equity is budgeted to increase by \$6.0M primarily driven by earnings.