



Schedule 3.6 – 2022 Budget to 2023 Budget Explanations – REDACTED

March 3, 2023

2023 Budget to 2022 Budget Explanations

Overview

For comparative purposes, variance explanations compare 2023 Budget to the 2022 Budget.

Revenue

The table below summarizes Liberty's 2023 budgeted gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to the 2022 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2023 Budget	(2) 2022 Budget	(3)=(1)-(2) Variance to 2022 Budget
1	Operating Revenue			
2	Gas Distribution	\$ 47,263	\$ 47,561	\$ (298)
3	Miscellaneous	2,346	2,522	(176)
4	<u>Allowance for Funds Used During Construction</u>	<u>12</u>	<u>9</u>	<u>3</u>
5		49,621	50,092	(471)
6				
7	Services & Inspection			
8	Revenue	1,559	1,750	(191)
9	<u>Cost of Goods Sold</u>	<u>(1,404)</u>	<u>(1,471)</u>	<u>67</u>
10		155	279	(124)
11				
12	<u>Total Revenue</u>	<u>\$ 49,776</u>	<u>\$ 50,371</u>	<u>\$ (595)</u>

Operating Revenue

- Gas Distribution Revenue is \$298K under budget due to lower rates for most classes, than 2022.
- Miscellaneous Operating Revenue is [REDACTED] under budget due to lower SEUF Fees [REDACTED], lower interest income [REDACTED] and transactional service [REDACTED], offset by higher LICs revenue [REDACTED], late payment penalties [REDACTED], red lock & non-sufficient funds [REDACTED], and ABC revenue [REDACTED].



- AFUDC is \$3K over budget primarily due to higher than budgeted monthly balance of Construction Work in Progress account, which is the basis to calculate AFUDC.
- Service and Inspection margin is \$124K under budget due to reduced service and inspection calls.

Expenses

Below is a summary of Liberty's 2023 budgeted 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 2022 Budget.

Table 2
Operating Expenses

Line No.	(in thousands of dollars)	(1) 2023 Budget	(2) 2022 Budget	(3)=(1)-(2) Variance to 2022 Budget
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 12,570	\$ 11,546	\$ 1,024
3	Other Expenses	67	100	(33)
4	Bad Debt Expense	205	177	28
5	Amortization of Property, Plant and Equipment	7,418	7,348	70
6	Municipal and Other Taxes	1,268	1,314	(46)
7	Interest on Amounts Due to Associates and Affiliates and Other Interest	5,157	4,959	198
8	Amortization of Deferred Development Costs	2,793	2,792	1
9	Amortization of Intangible Software	607	145	462
10	Amortization of Regulatory Deferral Account	3,846	3,846	-
11	Amortization of Variance Accounts	1,416	378	1,038
12	Total Expenses	\$ 35,348	\$ 32,605	\$ 2,742



Operating and Maintenance ("O&M") Expenses

Liberty manages its O&M expenses at an aggregate level where Liberty will try to offset increased costs in certain areas with cost reductions or savings in other areas of the organization.

Liberty 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

		(1)	(2)	(3)=(1)-(2)
Line No.	(in thousands of dollars)	2023 Budget	2022 Budget	Variance to 2022 Budget
1	Labour and Benefits	\$ 9,101	\$ 8,661	\$ 440
2	Admin/Office Expenses	226	235	(9)
3	Computer and Telecom Services	128	200	(72)
4	Professional Consulting	2,004	1,769	235
5	Travel and Training	605	537	68
6	Advertising and Promotions	510	370	140
7	Tools and Safety	160	162	(2)
8	Fleet	501	452	49
9	Facilities	732	729	3
10	Insurance	456	401	55
11	NBEUB Assessments	500	325	175
12	Corporate Allocations	3,270	2,772	498
13	Total O&M Prior to Capitalization	18,193	16,613	1,580
14	Capitalized to:			
15	Property, plant & equipment	5,623	5,067	556
16	Total Capitalized	5,623	5,067	556
17	Total O&M Expenses	\$ 12,570	\$ 11,546	\$ 1,024

Liberty's 2023 budgeted O&M expenses are higher than the 2022 O&M budget by \$1.0M, or 8.9%, with the drivers for this variance being:

- Labour and Benefits are \$440K over the 2022 budget due to higher Salaries and Other Commissions (\$289K), higher pension costs (\$141K), and slightly higher benefit costs (\$10K).



- Admin/Office Expenses are under the 2022 budget by \$9K due to lower printing and other administrative costs (\$16K), offset by higher materials and office supplies (\$4K), and higher postage and courier costs (\$3K).
- Computer and Telecom Services are under the 2022 budget by \$72K due to decreased telecom services cost, as most now flow through Corporate allocations (\$80K), offset by increased computer equipment supplies (\$8K).
- Professional Consulting expenses are over the 2022 budget by \$235K due to higher outside services (\$214K) primarily in Engineering and Business Development, which is partially offset by recoveries for business development activities, and higher Legal fees (\$41K), offset by lower External audit fees (\$20K).
- Travel and Training are over the 2022 budget by \$68K mainly due to higher conference, training, and membership costs (\$52K), higher airfare costs (\$8K), and higher accommodation and meal costs (\$8K).
- Advertising and Promotions are over the 2022 budget by \$140K due to increased advertising and public awareness, due to the classification error in the 2022 budget where some costs that should have been advertising and promotions were classified as outside service costs.
- Tools and Safety are under the 2022 budget by \$2K due to lower budgeted tool expenses.
- Fleet is over the 2022 budget by \$49K mainly due to increased costs budgeted for fleet operation and maintenance.
- Facilities are slightly over the 2022 budget by \$3K mainly due to inflation increases to rent.
- Insurance is over the 2022 budget by \$55K due to higher premiums due to hard market conditions driven by COVID-19 and impacts on the utility sector in general.
- NBEUB Assessments are over the 2022 budget by \$175K due to increased regulatory matters.
- Corporate Allocations are over the 2022 budget by \$498K. Liberty is filing for 100% of corporate allocations in 2023. This overage takes into consideration the \$924K disallowed amount for the 2022 budget in Matter 494. Since the disallowance was provided by the Board as a lump sum amount and did not provide specific detail as to which Corporate Allocations (in Schedule 8.4) were disallowed, we are not able to provide more specific variance analysis.
- Amounts capitalized to Property, Plant and Equipment are \$556K over budget due to aggregate O&M spending in cost centers differing from budgeted spend and the associated different capitalization rates for each cost center.



Other Operating Expenses

Other Expenses is \$33K under budget due to higher bank charge (\$17K), offset by lower retention expense (\$50K).

Bad Debt Expense is \$28K over budget due to higher gas sales revenue.

Amortization of Property, Plant and Equipment is \$70K over budget due to higher opening asset balances (\$152K), offset by timing of additions (\$82K).

Interest on Amounts Due to Associates and Affiliates and Other Interest is \$198K over budget due to higher average rate base.

Amortization of Intangible Software is \$462K over budget due to higher opening asset balances (\$15K) and higher asset addition (\$447K).

Amortization of Variance Accounts is \$1,038K higher than budget due to Revenue Requirement True-up variance (\$1,719K), offset by SEUF variance (\$84K), LICs variance (\$219K) and completed amortization of COVID variance account (\$378K).

Rate Base

Information with respect to Liberty'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)	(2)	(3)=(1)-(2)
		2023 Budget	2022 Budget	Variance to 2022 Budget
1	Property, plant and equipment	\$ 199,735	\$ 196,396	\$ 3,339
2	Development O&M capitalized costs	69,278	72,073	(2,795)
3	Intangible Software	11,646	3,101	8,545
4	Term deposit	-	-	-
5	Working capital allowance	3,876	1,946	1,930
6	Rate Base	284,535	\$ 273,516	\$ 11,019



Property, Plant and Equipment is \$3.34M over budget due to higher net opening balance (\$3.10M) and higher net addition (\$0.24M).

Development O&M capitalized costs is \$2.8M under budget due to being amortized for an additional year.

Intangible Software is \$8.5M over budget primarily due to net addition of Customer First (\$8.2M) and higher opening balances (\$0.3M).

Working Capital Allowance is \$1.9M over budget due to higher inventory balances (\$0.8M) and higher prepaid expense balance (\$1.1M) due to an oversight where there was no budgeted addition to prepaid.

Other Regulated Assets & Liabilities

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) 2023 Budget	(2) 2022 Budget	(3)=(1)-(2) Variance to 2022 Budget
1	Other Regulated Assets			
2	Cash and Short Term Investments	\$ 21,616	\$ 18,779	\$ 2,837
3	Accounts Receivable	19,850	21,734	(1,884)
4	Prepaid	2,343	1,160	1,183
5	Inventory	1,510	728	782
6	Right-of-use Asset	1,469	1,063	406
7	Other Long-term Assets	129	-	129
8				
9	Total Other Regulated Assets	\$ 46,917	\$ 43,464	\$ 3,453
10				
11	Other Regulated Liabilities			
13	Accounts Payable	\$ 10,139	\$ 14,570	\$ (4,431)
14	Long Term Deferred Post Employment Liabilities	55	(89)	144
15	Lease Liability	1,469	1,063	406
16	HST Payable	940	186	754
10 17	Total Other Regulated Liabilities	\$ 12,603	\$ 15,730	\$ (3,127)

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



1 Cost of Capital Summary

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

Table 6
Cost of Capital

		(1)	(2)	(3)=(1)-(2)
Line		2023	2022	Variance
No.		Budget	Budget	to 2022 Budget
1	Principal			
2	Debt	\$ 155,000	\$ 155,000	\$ -
3	Equity	161,183	145,178	16,005
4	Return (\$)			
5	Debt	5,157	4,959	198
6	Equity	12,473	13,229	(756)
7	Approved rates			
8	Debt	3.32%	3.32%	0.00%
9	Equity	9.80%	10.81%	-1.01%

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

5 Equity is \$16.0M higher than budget primarily due to higher opening balance (\$12.9M) and lower Regulatory
6 Deferral portion of equity (\$3.8M), offset by lower net income (\$0.7M).

7 Regulated Return on Equity is \$756K lower than budget due to lower average return on equity.

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1 Capital Additions Summary

2 Information with respect to Liberty's capital additions is provided below.

Table 7
Capital Additions

	(1)	(2)	(3)=(1)-(2)
Line	2023	2022	Variance
No.	Budget	Budget	to 2022 Budget
1 General plant			
2 Computer hardware	\$ 95	\$ 28	\$ 67
3 Tools and work equipment	135	123	12
4 Office furniture and equipment	-	5	(5)
5 Transportation	462	305	157
6 Incentives	1,450	750	700
7 Leasehold improvements	348	105	243
8 Subtotal	2,490	1,316	1,174
9			
10 Distribution plant			
11 Land	-	-	-
12 Rights of way and easements	-	-	-
13 Distribution mains	1,497	3,855	(2,358)
14 Street services	2,066	3,035	(969)
15 Meters and regulators	922	782	140
16 Stations	54	75	(21)
17 Subtotal	4,539	7,747	(3,208)
18			
19 AFUDC			
20 Distribution mains	12	9	3
21			
22 Inventory			
23 Distribution mains	153	619	(466)
24			
25 Accrued uninvoiced costs			
26 Distribution mains	-	-	-
27 Street services	-	-	-
28 Meters and regulators	-	-	-
29 Subtotal	-	-	-
30			
31 Total plant in service	\$ 7,194	\$ 9,691	\$ (2,497)

3



- 1 General plant is \$1,174K over budget.
- 2 • Computer hardware is \$67K over budget due to replacement of PCs and laptops.
- 3 • Tools and work equipment is \$12K over budget due to slight price increase of ordinary equipment
- 4 replacement.
- 5 • Office furniture and equipment is \$5K under budget due to not expecting to replace furniture.
- 6 • Transportation is \$157K over budget due to two additional vehicles in fleet.
- 7 • Incentives is \$700K over budget due to request for additional incentives in 2023 Budget.
- 8 • Leasehold improvement is \$243K over budget due to upgrading security system in Fredericton,
- 9 Saint John, and Moncton offices.
- 10 Distribution plant is \$3,208K under budget
- 11 • Distribution mains is \$2,358K under budget due to fewer off-main attachments (\$1,858) and no
- 12 planned strategic projects (\$500K).
- 13 • Street service is \$969K under budget due to fewer on-main attachments.
- 14 • Meters and regulators are \$140K over budget due to higher GI meter costs (\$342K), offset by fewer
- 15 attachments (\$482K).
- 16 • Stations is \$21K under budget due to fewer attachments.
- 17 AFUDC is \$3K over budget primarily due to higher than budgeted monthly balance of Construction Work
- 18 in Progress account, which is the basis to calculate AFUDC.
- 19 Inventory capitalized to distribution mains is \$466K under budget due to lower than budget capitalization
- 20 rate of inventory.

