

SCHEDULE 4.3

2012 Actuals to Budget Explanations

2012 Actuals to Budget**Overview**

For comparative purposes, variance explanations compare 2012 actual results to the 2012 Budget.

Revenue

The table below summarizes EGNB's 2012 Actual gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and installation services margin with comparisons to the 2012 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2012 Actual	(2) 2012 Budget	(3)=(1)-(2) 2012 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 49,811	\$ 57,697	\$ (7,886)
3	Miscellaneous	426	144	282
4	Allowance for Funds Used During Construction	307	53	254
5		50,543	57,894	(7,351)
6	Installation Services			
7	Revenue	1,208	1,947	(739)
8	Cost of Goods Sold	(1,229)	(1,505)	276
9		(21)	442	(463)
10	Total Revenue	\$ 50,522	\$ 58,336	\$ (7,814)

Operating Revenue

- Gas Distribution Revenue: actual gas distribution revenues were \$7.9 million under budget due to lower than forecasted distribution rates (\$5.6 million), warmer than normal weather (\$2.6 million), and a decrease in customer attachments (\$1.9 million) offset by an increase in actual usage by customers as compared to the budget (\$2.2 million).
- Miscellaneous Operating Revenue: miscellaneous revenues ended 2012 \$282K over budget, primarily due to late payment charges collected from customers (\$239K) and interest income (\$43K) both being greater than forecast.

AFUDC was \$254K over budget, with the primary driver for this variance being higher than budgeted monthly balances in the Construction Work in Progress (“CWIP”) account, of which AFUDC is calculated on.

Installation Services Margin was \$463K under budget, primarily due to EGNB discontinuing its Installation Services activities.

Expenses

Below is a summary of EGNB’s 2012 Actual 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 2012 Budget.

Table 2
Operating Expenses

Line No.	(in thousands of dollars)	(1) 2012 Actual	(2) 2012 Budget	(3)=(1)-(2) 2012 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 16,754	\$ 17,241	\$ (487)
3	Bad Debt Expense	384	269	115
4	Amortization of Property, Plant and Equipment	6,715	7,486	(771)
5	Municipal and Other Taxes	1,184	1,317	(133)
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	9,249	14,943	(5,694)
7	Amortization of Deferred Development Costs	2,945	2,990	(45)
8	Total Expenses	\$ 37,231	\$ 44,246	\$ (7,015)

Operating and Maintenance (“O&M”) Expenses

EGNB manages its O&M expenses, excluding incentives, 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) 2012 Actual	(2) 2012 Budget	(3)=(1)-(2) 2012 Variance
1	Labour and Benefits	\$ 9,936	\$ 9,477	\$ 459
2	Admin/Office Expenses	276	451	(175)
3	Computer and Telecom Services	315	352	(37)
4	Professional Consulting	2,963	2,439	524
5	Travel and Training	217	297	(80)
6	Advertising and Promotions	333	1,378	(1,045)
7	Incentives	3,924	5,897	(1,973)
8	Tools and Safety	184	205	(21)
9	Fleet	574	624	(50)
10	Facilities	654	740	(86)
11	Insurance	320	324	(4)
12	NBEUB Assessments	746	900	(154)
13	Corporate Allocations	1,321	1,510	(189)
14	Gas Transportation and Related Activities	2,056	1,710	346
15	Total O&M Prior to Capitalization	23,819	26,304	(2,485)
16	Capitalized to:			
17	Property, plant & equipment	7,065	9,063	(1,998)
18	Development O&M capitalized costs	-	-	-
19	Total Capitalized	7,065	9,063	(1,998)
20	Total O&M Expenses	\$ 16,754	\$ 17,241	\$ (487)

EGNB's 2012 Actual O&M expenses were \$2.5 million, or 9.4% under budget, with the principal driver for this variance being lower incentive spending (\$2.0 million) due to the wind down of the incentive program as a result of legislative changes, lower advertising and promotion costs (\$1.0 million) due to a change in brand awareness strategy resulting in advertising and sponsorships reductions, lower Corporate Allocations (\$189K) mainly due to decreases in IT – enterprise financial systems and payroll administration counterbalanced by slight increases in management and legal allocations, and lower NBEUB assessment costs due to decreases in hearing and Public Intervenor costs (\$154K). These overall decreases were offset by increased spending in professional consulting (\$524K) due to increased legal costs, labour and benefits (\$459K) primarily as a result of restructuring in 2012 in response to legislative changes, and gas transportation and related activities (\$346K) due to lower than anticipated

utilization of the Maritimes and Northeast Pipeline Firm Service Agreement. Other variances within individual O&M expense categories are primarily due to:

- Admin/Office Expenses: administration and office expense costs were \$175K under budget primarily due to lower spending in materials and supplies (\$11K), outside services (\$38K), printing (\$25K), photocopier (\$28K), postage and courier (\$29K), and other administrative costs (\$50K).
- Computer and Telecom Services: computer and telephone related (“telecom”) services were \$37K below budget due to lower cellular costs (\$26K), software maintenance costs (\$10K), computer equipment (\$4K), photocopiers (\$1K), and other telecom services (\$1K), which were partially offset by an increase in office telephone costs (\$2K) and other IT telecom services (\$3K).
- Travel and Training: travel and training costs were \$80K under budget primarily due to lower ground transportation (\$42K), airfare (\$14K), accommodations (\$13K), meals and entertainment (\$7K) related to reduced travel and conference attendance (\$6K).
- Tools and Safety: tools and safety costs were \$21K under budget due to reduced spending in tools (\$12K), public awareness and promotional items (\$16K), uniforms (\$10K) and other tool expenses (\$8K) partially offset by higher than budgeted spending on highway usage permit fees and Right of Way fees (\$21K) and safety related supplies and programs (\$4K).
- Fleet: fleet costs were \$50K under budget primarily due to fuel and maintenance costs being lower than budget (\$70K), partially offset by higher than budgeted lease and fleet administration costs (\$20K).
- Facilities: facilities expenditures were \$86K below budget primarily due to lower than budgeted office rent (\$67K), office repairs & maintenance costs (\$13K), and utility costs (\$6K).
- Insurance: insurance costs were \$4K under budget primarily due to lower than anticipated broker insurance (\$3K) and crime insurance costs (\$1K).

Overall, amounts capitalized to Property, Plant and Equipment are \$2.0 million below budget due to a lower than budgeted amount of incentives capitalized (\$1.9 million) and reduced O&M spending overall (\$100K).

Other Operating Expenses

Bad Debt Expense was \$115K over budget primarily due to recording additional account receivable balances considered at risk at year end 2012.

Amortization of Property, Plant and Equipment was \$771K under budget due to the timing and nature of capital expenditures, and an overall reduction in capital expenditures as a result of amendments to the Gas Distribution Act, 1999.

Municipal and Other Taxes were \$133K below budget primarily due to a decrease in capital expenditures as compared to budget.

Interest on Amounts Due to Associates & Affiliates and Other Interest was \$5.7M under budget due to the retirement of long term debt (“LTD”). This LTD was retired in order to rebalance capital structure for regulatory purposes in response to legislative changes removing the regulatory deferral from ratebase.

Amortization of Deferred Development Costs was \$45K under budget due to lower than budgeted amortization on Development O&M resulting from lower than budgeted additions at 2011 year end.

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) 2012 Actual	(2) 2012 Budget	(3)=(1)-(2) 2012 Variance
1	Property, plant and equipment	\$ 173,555	\$ 186,574	\$ (13,019)
2	Development O&M capitalized costs	99,993	101,368	(1,375)
3	Franchise fee	500	475	25
4	Deferred costs	31	109	(78)
5	Term deposit	2,992	2,963	29
6	Working capital allowance	1,785	1,532	253
7	Regulatory Deferral	-	187,399	(187,399)
8	Rate Base	\$ 278,856	\$ 480,420	\$ (201,564)

Property, Plant and Equipment was \$13.0 million under budget primarily due to the cancellation of a strategic project and the delay of two strategic projects to future years (\$10.7 million), a

reduction in distribution plant spending due to a reduction in attachments (\$1.6 million), and the postponement of an IT project (\$0.7 million).

Development O&M Capitalized Costs were \$1.4 million below budget primarily due to the impact of a lower than forecast ending year balance from 2011.

Franchise Fee Costs were \$25K above budget to bring it in line with the previous year's ending balances and current year's anticipated level of amortization.

Deferred Costs were \$78K below budget due to an overstatement of equity call costs in the 2012 budget.

Term deposit costs were \$29K above budget, primarily due to the timing of the payment of the interest earned.

Working Capital Allowance is \$253K over budget, primarily due to higher prepaid balances than budgeted (\$614K), partially offset by lower than budgeted inventory balances (\$361K).

Regulatory Deferral is \$187.4 million below budget due to the removal of the regulatory deferral account from rate base for purposes of calculating return in accordance with the 2012 legislative changes.

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) 2012 Actual	(2) 2012 Budget	(3)=(1)-(2) 2012 Variance
1	Other Regulated Assets			
2	Cash and Short Term Investments	\$ -	\$ 7,201	\$ (7,201)
3	Accounts Receivable	12,644	14,806	(2,162)
4	Inventory	1,170	1,510	(340)
5	Long term Receivable	4,279	2,780	1,499
6	Total Other Regulated Assets	\$ 18,093	\$ 26,297	\$ (8,204)
7	Other Regulated Liabilities			
8	Short Term Indebtedness	\$ 413	\$ -	\$ 413
9	Due to Affiliated Companies	923	18,077	(17,154)
10	Accounts Payable	8,619	5,445	3,174
11	Long Term Payable	4,075	-	4,075
12	Long Term Deferred Post Employment Liabilities	1,026	2,328	(1,302)
13	Total Other Regulated Liabilities	\$ 15,056	\$ 25,850	\$ (10,794)

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)
	2012 Actual	2012 Budget	2012 Variance
Principal			
Debt	\$ 142,000	\$ 262,150	\$ (120,150)
Equity	138,196	218,846	(80,650)
Return (\$)			
Debt	9,230	14,922	(5,692)
Equity	11,904	22,607	(10,703)
Approved rates			
Debt	6.04%	6.04%	0.00%
Equity	10.90%	10.90%	0.00%

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

Equity was \$80.7 million below budget primarily due to the removal of equity associated with the regulatory deferral account, coupled with a rebalancing of equity levels which had exceeded the allowed 45% as a result of the suspension of distributions in 2010. This was in response to 2012 legislative changes to the Gas Distribution Act, 1999 which prohibited the regulatory deferral from being included in ratebase. The balance of the funding associated with the regulatory deferral account was removed from Debt (\$78.7 million) contributing to the debt being \$120.2 million below budget. The remainder of the debt variance (\$41.5 million) is the result of EGNB's cash requirements being below budget.