

SCHEDULE 4.3

2013 Actuals to Budget Explanations

**2013 Actuals to Budget****Overview**

For comparative purposes, variance explanations compare 2013 actual results to the 2013 Budget.

**Revenue**

The table below summarizes EGNB's 2013 Actual gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and installation services margin with comparisons to 2013 Budget.

**Table 1**  
**Revenue**

| Line No. | (in thousands of dollars)                    | (1)<br>2013<br>Actual | (2)<br>2013<br>Budget | (3)=(1)-(2)<br>2013<br>Variance |
|----------|--|-----------------------|-----------------------|---------------------------------|
| 1        | Operating Revenue                            |                       |                       |                                 |
| 2        | Gas Distribution                             | \$ 44,208             | \$ 41,580             | \$ 2,628                        |
| 3        | Miscellaneous                                | 429                   | 175                   | 254                             |
| 4        | Allowance for Funds Used During Construction | 45                    | 42                    | 3                               |
| 5        |  | 44,682                | 41,797                | 2,885                           |
| 6        | Services & Inspection                        |                       |                       |                                 |
| 7        | Revenue                                      | 725                   | 590                   | 135                             |
| 8        | Cost of Goods Sold                           | (489)                 | (383)                 | (106)                           |
| 9        |  | 236                   | 207                   | 29                              |
| 10       | Total Revenue                                | \$ 44,918             | \$ 42,004             | \$ 2,914                        |

**Operating Revenue**

- Gas Distribution Revenue: actual gas distribution revenues were \$2.6 million over budget primarily due to higher than forecasted distribution rates (\$2.1M) and colder than normal weather (\$0.5M).
- Miscellaneous Operating Revenue: miscellaneous revenues ended 2013 \$254K over budget, primarily due to late payment charges collected from customers (\$207K), interest income (\$66K), other customer charges and fees (\$7K), and ABC revenue (\$5K) all being greater than forecast, partially offset by a loss on disposal of assets (\$31K).

AFUDC was \$3K 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.

Services & Inspection Margin was \$29K over budget, primarily due to unfinished 2012 installation jobs completed in 2013.

### Expenses

Below is a summary of EGNB’s 2013 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 2013 Budget.

**Table 2**  
**Operating Expenses**

| Line No. | (in thousands of dollars)   | (1)<br>2013<br>Actual | (2)<br>2013<br>Budget | (3)=(1)-(2)<br>2013<br>Variance |
|----------|---|-----------------------|-----------------------|---------------------------------|
| 1        | Operating Expenses  |                       |                       |                                 |
| 2        | Operating and Maintenance Expenses                                      | \$ 13,489             | \$ 13,870             | \$ (381)                        |
| 3        | Bad Debt Expense  | 327                   | 226                   | 101                             |
| 4        | Amortization of Property, Plant and Equipment                           | 7,271                 | 7,459                 | (188)                           |
| 5        | Municipal and Other Taxes   | 1,190                 | 1,195                 | (5)                             |
| 6        | Interest on Amounts Due to Associates and Affiliates and Other Interest | 9,230                 | 8,473                 | 757                             |
| 7        | Other Expenses  | 15                    | -                     | 15                              |
| 8        | Amortization of Deferred Development Costs                              | 2,898                 | 2,908                 | (10)                            |
| 9        | <b>Total Expenses</b>   | <b>\$ 34,420</b>      | <b>\$ 34,131</b>      | <b>\$ 289</b>                   |

### 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)<br>2013<br>Actual | (2)<br>2013<br>Budget | (3)=(1)-(2)<br>2013<br>Variance |
|----------|--|-----------------------|-----------------------|---------------------------------|
| 1        | Labour and Benefits                          | \$ 8,485              | \$ 9,190              | \$ (705)                        |
| 2        | Admin/Office Expenses                        | 323                   | 420                   | (97)                            |
| 3        | Computer and Telecom Services                | 286                   | 352                   | (66)                            |
| 4        | Professional Consulting                      | 4,015                 | 2,051                 | 1,964                           |
| 5        | Travel and Training                          | 242                   | 253                   | (11)                            |
| 6        | Advertising and Promotions                   | 354                   | 414                   | (60)                            |
| 7        | Incentives                                   | 24                    | 225                   | (201)                           |
| 8        | Tools and Safety                             | 112                   | 167                   | (55)                            |
| 9        | Fleet  | 489                   | 564                   | (75)                            |
| 10       | Facilities                                   | 679                   | 666                   | 13                              |
| 11       | Insurance                                    | 358                   | 342                   | 16                              |
| 12       | NBEUB Assessments                            | 328                   | 750                   | (422)                           |
| 13       | Corporate Allocations                        | 1,218                 | 1,613                 | (395)                           |
| 14       | Gas Transportation and Related Activities    | 1,719                 | 1,901                 | (182)                           |
| 15       | <b>Total O&amp;M Prior to Capitalization</b> | <u>18,632</u>         | <u>18,908</u>         | <u>(276)</u>                    |
| 16       | Property, plant & equipment                  | <u>5,143</u>          | <u>5,038</u>          | <u>105</u>                      |
| 17       | <b>Total Capitalized</b>                     | <u>5,143</u>          | <u>5,038</u>          | <u>105</u>                      |
| 18       | <b>Total O&amp;M Expenses</b>                | <u>\$ 13,489</u>      | <u>\$ 13,870</u>      | <u>\$ (381)</u>                 |

EGNB's 2013 Actual O&M expenses were \$0.28 million, or 1.5%, under budget, with the principal driver for this variance being lower than budgeted Labour and Benefits (\$705K) due to lower salaries and other compensation (\$762K) and lower employee training and development (\$68K), partially offset by an increase in benefits (\$69K) and relocation and recruitment costs (\$56K). Other drivers of this variance include lower NBEUB Assessments (\$422K) due to lower than anticipated hearing activity and Public Intervenor costs, lower Corporate Allocations (\$395K) due to lower corporate shared services fees, and gas transportation and related activities (\$182K) due to higher than anticipated recovery of the Firm Service Agreement costs for capacity on the Maritimes and Northeast Pipeline. Offsetting these variances was higher than budgeted professional consulting spending (\$1.96 million) primarily due to legal expenses in response to 2012 legislative changes (\$1.44 million), higher than budgeted construction contract service charges (\$304K) primarily due to increased costs for stand by and on call premiums during the transition period from a third party contractor to in-house construction, higher audit

fees than budget due to a full audit when budget assumed reduced audit requirements (\$113K), higher affiliate charges due to a budget omission for a portion of call center services (\$50K) and higher third party consulting charges in the marketing department than budgeted (\$79K). Other variances within individual O&M expense categories are primarily due to:

- Admin/Office Expenses: administration and office expense costs were \$97K under budget primarily due to lower overhead costs (\$62K), printing and stationary costs (\$22K), copier costs (\$15K), and equipment repair costs (\$4K), partially offset by an increase in materials and supplies costs (\$4K) and other outside services (\$2K).
- Computer and Telecom Services: computer and telephone related (“telecom”) services were \$66K under budget, primarily due to lower cell phone costs (\$27K), photocopier costs (\$16K), office telephone costs (\$16K), IT software maintenance costs (\$4K), pager costs (\$2K), other rents and leases costs (\$2K), partially offset by an increase in IT telecom services costs (\$1K).
- Travel and Training: travel and training costs were \$11K under budget, primarily due to lower ground transportation costs (\$39K), partially offset by an increase in airfare, accommodations and meals costs (\$22K) and conference and training costs (\$6K).
- Advertising and Promotions: advertising and promotion expenditures were \$60K under budget due to a reduction in advertising spending (\$22K), sponsorships (\$28K) and trade and civic membership costs (\$10K).
- Incentives: incentives expenses were \$201K under budget due to implementation of a Board decision to capitalize incentives to PPE over a 5 year period.
- Tools & Safety: tools and safety were \$55K under budget due to lower associated public awareness costs (\$32K), lower uniform and protective clothing costs (\$19K), tool costs (\$10K), and safety materials and supplies costs (\$5K), partially offset by an increase in Right of Way fees (\$11K).
- Fleet: fleet costs were \$75K under budget, primarily due to lower fuel and maintenance costs (\$90K), partially offset by an increase in lease and licensing costs (\$15K).
- Facilities: facilities expenditures were \$13K over budget primarily due to higher than budgeted lease costs (\$33K) largely driven by pipe storage costs, partially offset by lower than budgeted office repairs and maintenance costs (\$14K) and utility costs (\$6K).
- Insurance: insurance costs were \$16K over budget due to an increase in executive risk (\$129K) and automobile insurance premiums (\$34K), partially offset by decreases in liability insurance costs (\$141K), broker insurance (\$4K) and crime insurance rates (\$2K).

Amounts capitalized to Property, Plant and Equipment are \$105K over budget due to capitalized legal costs (\$628K), offset by realized savings within O&M departments (\$280K), discontinuance of capitalizing incentive costs through O&M (\$218K) and changes in capitalization rates (\$25K).

#### Other Operating Expenses

Bad Debt Expense was \$101K over budget due to higher than forecasted account receivable balances considered at risk at year end 2013.

Amortization of Property, Plant and Equipment was \$188K under budget due to the timing and nature of capital expenditures and an overall reduction in capital expenditures planned compared to budget.

Municipal and Other Taxes were \$5K under budget primarily due to a decrease in municipal property tax rates for 2013.

Interest on Amounts Due to Associates and Affiliates and Other Interest was \$757K over budget due to a higher (6.03%) than budgeted (5.52%) weighted average regulated cost of debt.

Other Expense was \$15K over budget due to inventory write-downs caused by damages and outdated equipment.

Amortization of Deferred Development Costs was \$10K under budget due to lower than budgeted amortization on Development O&M capitalized costs.

#### **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)<br>2013<br>Actual | (2)<br>2013<br>Budget | (3)=(1)-(2)<br>2013<br>Variance |
|-------------------------------------|-----------------------|-----------------------|---------------------------------|
| 1 Property, plant and equipment     | \$ 173,933            | \$ 174,026            | \$ (93)                         |
| 2 Development O&M capitalized costs | 97,201                | 97,134                | 67                              |
| 3 Franchise fee                     | 425                   | 425                   | -                               |
| 4 Term deposit                      | 2,971                 | 2,978                 | (7)                             |
| 5 Working capital allowance         | 1,621                 | 1,486                 | 135                             |
| 6 Regulatory Deferral               | -                     | -                     | -                               |
| 7 Rate Base                         | <u>\$ 276,151</u>     | <u>\$ 276,049</u>     | <u>\$ 102</u>                   |

Property, Plant and Equipment was \$93K under budget primarily due to reductions in capital spending (\$1.0 million), disallowed legal expenses (\$719K) and lower than budgeted depreciation (\$53K), partially offset by timing of the opening balances from budget to actuals (\$1.8 million).

Development O&M Capitalized Costs were \$67K over budget due to amortization lower than budgeted.

Term deposit costs were \$7K under budget, primarily due to the timing of the payment of the interest earned.

Working Capital Allowance was \$135K greater than budget, due to higher than budgeted prepaid balances (\$511K), partially offset by lower than budgeted inventory balances (\$376K).

### **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)<br>2013<br>Actual | (2)<br>2013<br>Budget | (3)=(1)-(2)<br>2013<br>Variance |
|---|-----------------------|-----------------------|---------------------------------|
| <b>1 Other Regulated Assets</b>                   |                       |                       |                                 |
| 2 Cash and Short Term Investments                 | \$ 8,697              | \$ 10,717             | \$ (2,020)                      |
| 3 Accounts Receivable                             | 19,941                | 13,607                | 6,334                           |
| 4 Inventory                                       | 1,110                 | 1,463                 | (353)                           |
| 5 Long term Receivable                            | 2,019                 | 2,992                 | (973)                           |
| <b>6 Total Other Regulated Assets</b>             | <b>\$ 31,767</b>      | <b>\$ 28,779</b>      | <b>\$ 2,988</b>                 |
| <b>7 Other Regulated Liabilities</b>              |                       |                       |                                 |
| 8 Due to Affiliated Companies                     | \$ 25,000             | \$ 9,712              | \$ 15,288                       |
| 9 Accounts Payable                                | 12,648                | 4,983                 | 7,665                           |
| 10 Long Term Payable                              | 2,115                 | -                     | 2,115                           |
| 11 Long Term Deferred Post Employment Liabilities | 1,001                 | 2,464                 | (1,463)                         |
| <b>12 Total Other Regulated Liabilities</b>       | <b>\$ 40,764</b>      | <b>\$ 17,159</b>      | <b>\$ 23,605</b>                |

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) |
|----------------|------------|----|---------|----|-------------|
|                | 2013       |    | 2013    |    | 2013        |
|                | Actual     |    | Budget  |    | Variance    |
| Principal      |            |    |         |    |             |
| Debt           | \$ 124,500 | \$ | 160,339 | \$ | (35,839)    |
| Equity         | 141,857    |    | 127,853 |    | 14,004      |
| Return (\$)    |            |    |         |    |             |
| Debt           | 9,212      |    | 8,457   |    | 755         |
| Equity         | 12,779     |    | 7,847   |    | 4,932       |
| Approved rates |            |    |         |    |             |
| Debt           | 6.03%      |    | 5.52%   |    | 0.51%       |
| Equity         | 10.90%     |    | 10.90%  |    | 0.00%       |

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

Equity was \$14.0 million above budget as a result of the continued suspension of distributions to shareholders since 2010. Debt was \$35.8 million less than budget due to EGNB not taking any incremental new long term debt and the retirement of debt notes not renewed in 2013.

Actual debt rates were higher than budgeted on debt renewed in 2013 resulting in a higher than budgeted regulated cost of debt (0.51%).