

SCHEDULE 4.3

2014 Actuals to Budget Explanations

**2014 Actuals to Budget****Overview**

For comparative purposes, variance explanations compare 2014 Actuals to the 2014 Budget.

**Revenue**

The table below summarizes EGNB's 2014 Actual gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services inspection margin with comparisons to 2014 Budget.

Table 1  
**Revenue**

Line No. (in thousands of dollars)	(1) 2014 Actual	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1 Operating Revenue			
2 Gas Distribution	\$ 45,651	\$ 45,257	\$ 394
3 Miscellaneous	758	180	578
4 Allowance for Funds Used During Construction	7	4	3
5	46,416	45,441	975
6 Services & Inspection			
7 Revenue	757	858	(101)
8 Cost of Goods Sold	(403)	(721)	318
9	354	137	217
10 Total Revenue	\$ 46,770	\$ 45,578	\$ 1,192

**Operating Revenue**

- Gas Distribution Revenue: actual gas distribution revenues were \$394K over budget primarily due to higher than forecasted distribution rates (\$200K) and colder than normal weather (\$500K), offset by fewer attachments than forecasted (\$300K).
- Miscellaneous Operating Revenue: miscellaneous revenues ended 2014 \$578K over budget primarily due to late payment charges collected from customers (\$399K), interest income (\$137K), other customer charges and fees (\$40K), and ABC revenue (\$2K) all being greater than forecast.

1 AFUDC was \$3K over budget, with the primary driver for this variance being higher than  
 2 budgeted monthly balances in the Construction Work in Progress (“CWIP”) account, of which  
 3 AFUDC is calculated on.

4 Services & Inspection Margin was \$217K over budget, primarily due to reduced revenue and  
 5 costs as a result of lower than forecasted number of customers with protection plans and lower  
 6 amount of service work.

7 **Expenses**

8 Below is a summary of EGNB’s 2014 Actual operating and maintenance expenses, bad debt  
 9 expense, amortization of property, plant and equipment, municipal and other taxes, interest on  
 10 amounts due to associates and affiliates and other interest and amortization of deferred  
 11 development costs with comparisons to the 2014 Budget.

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

Line No.	(in thousands of dollars)	(1) 2014 Actual	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Operating Expenses			
2	Operating and Maintenance Expenses	\$ 13,116	\$ 13,818	\$ (702)
3	Bad Debt Expense	434	278	156
4	Amortization of Property, Plant and Equipment	7,753	7,659	94
5	Municipal and Other Taxes	1,178	1,250	(72)
6	Interest on Amounts Due to Associates and Affiliates and Other Interest	8,843	8,409	434
7	Other Expenses	16	-	16
8	Amortization of Deferred Development Costs	2,867	2,877	(10)
9	<b>Total Expenses</b>	<b>\$ 34,207</b>	<b>\$ 34,291</b>	<b>\$ (84)</b>

12

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.

### Operating and Maintenance Expenses

Line No.		(1) 2014 Actual	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Labour and Benefits	\$ 9,069	\$ 9,004	\$ 65
2	Admin/Office Expenses	261	428	(167)
3	Computer and Telecom Services	277	339	(62)
4	Professional Consulting	2,247	1,912	335
5	Travel and Training	132	257	(125)
6	Advertising and Promotions	557	1,083	(526)
	Incentives	-	-	-
7	Tools and Safety	91	252	(161)
8	Fleet	502	530	(28)
9	Facilities	656	706	(50)
10	Insurance	176	337	(161)
11	NBEUB Assessments	535	698	(163)
12	Corporate Allocations	1,500	1,445	55
13	Gas Transportation and Related Activities	1,670	2,134	(463)
14	<b>Total O&amp;M Prior to Capitalization</b>	<u>17,673</u>	<u>19,125</u>	<u>(1,451)</u>
15	Property, plant & equipment	<u>4,557</u>	<u>5,307</u>	<u>(750)</u>
16	<b>Total Capitalized</b>	<u>4,557</u>	<u>5,307</u>	<u>(750)</u>
17	<b>Total O&amp;M Expenses</b>	<u>\$ 13,116</u>	<u>\$ 13,818</u>	<u>\$ (701)</u>

6

7 EGNB’s 2014 Actual O&M expenses were \$1.5 million, or 7.6%, under budget. The details  
8 are as follows:

- 9 • Labour and Benefit costs were \$65K over budget primarily due to an increase in pension  
10 costs (\$838K) and relocation and recruitment costs (\$43K) partially offset by lower  
11 salaries and other compensation (\$700K) and lower employee training and development  
12 (\$116K).

- 1 • Admin/Office Expenses were \$167K under budget due to lower overhead costs, printing  
2 and stationary costs, and outside services.
- 3 • Computer and Telecom Services were \$62K under budget, primarily due to lower  
4 telecom services costs (\$50K), IT software maintenance costs (\$5K), computer  
5 equipment supplies (\$4K), and cell phone costs (\$3K).
- 6 • Professional Consulting were higher than budget primarily due to regulatory legal  
7 expenses as a result of two Board hearings in 2014.
- 8 • Travel and Training costs were \$125K under budget, mainly due to lower expenses in  
9 ground transportation costs (\$52K), airfare, accomodations and meals (\$63K) and  
10 conference and training costs (\$10K).
- 11 • Advertising and Promotions costs were \$526K under budget due to lower advertising  
12 spending, sponsonships and trade and civic memberships costs.
- 13 • Tools & Safety were \$161K under budget due to lower associated public awareness  
14 costs (\$97K), lower uniform and protective clothing costs (\$59K), tool costs (\$8K)  
15 partially offset by an increase in Right of Way fees (\$3K).
- 16 • Fleet costs were \$28K under budget due to lower fuel and maintenance costs (\$25K) and  
17 lower lease and licencing costs (\$3K).
- 18 • Facilities expenditures were \$50K under budget primarily due to lower than budgeted  
19 office rent (\$35K), utility costs (\$8K), and office repairs and maintenance costs (\$7K).
- 20 • Insurance Costs were \$161K under budget mainly due to lower premiums in liability  
21 insurance and excutive risk.
- 22 • NBEUB Assessments were \$163K under budget resulting from lower than anticipated  
23 hearing activity and Public Intervenor costs.
- 24 • Corporate Allocations were \$55K over budget due to unplanned audits.
- 25 • Gas Transportation costs were \$463K under budget due to higher than anticipated  
26 recovery of the Firm Service Agreement costs for capacity on the Maritimes and  
27 Northeast Pipeline.

1 Amounts capitalized to Property, Plant and Equipment are \$750K under budget due to realized  
2 savings within O&M departments (\$1.5 million) resulting in a lower capitalized amount when  
3 the capitalization percentages are applied.

4 Other Operating Expenses

5 Bad Debt Expense was \$156K over budget due to higher than forecasted account receivable  
6 balances considered at risk at year end 2014.

7 Amortization of Property, Plant and Equipment was \$94K under budget due to overall reduction  
8 in capital spending (\$196K), partially offset by an increase due to a category change of in-house  
9 construction depreciation (\$290K).

10 Municipal and Other Taxes were \$72K under budget primarily due to cumulative depreciable  
11 pipe amounts lower than budget (\$56K) and property tax rate variance (\$16K).

12 Interest on Amounts Due to Associates and Affiliates and Other Interest was \$434K over budget  
13 due to a higher actual (5.65%) than budgeted (5.51%) weighted average regulated cost of debt  
14 (\$400K) and interest and charges on bank balances (\$34K).

15 Other Expense was \$16K over budget due to inventory write-downs caused by damages and  
16 outdated equipment.

17 **Rate Base**

18 Information with respect to EGNB's year end Rate Base and the levels of Property, Plant and  
19 Equipment, Development O&M capitalized costs, Working Capital allowance and other  
20 elements within rate base are provided below.

Table 4  
**Rate Base**

Line No.	(in thousands of dollars)	(1) 2014 Actual	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
1	Property, plant and equipment	\$ 173,068	\$ 178,744	\$ (5,676)
2	Development O&M capitalized costs	94,409	94,396	13
3	Franchise fee	350	350	-
4	Term deposit	2,962	2,959	3
5	Working capital allowance	1,535	1,407	128
6	Regulatory Deferral	-	-	-
7	Rate Base	<u>\$ 272,324</u>	<u>\$ 277,856</u>	<u>\$ (5,532)</u>

- 1
- 2 Property, Plant and Equipment was \$5.7M under budget primarily due to reductions in capital  
3 spending (\$4.2 million), reduced retirements (\$110K), reduction in capitalized O&M (\$750K),  
4 lower than budgeted depreciation (\$94K) and timing of the opening balances from budget to  
5 actuals (\$525K).
- 6 Development O&M Capitalized Costs were \$13K over budget due to amortization higher than  
7 budgeted.
- 8 Term deposit costs were \$3K over budget, primarily due to the timing of the payment of the  
9 interest earned.
- 10 Working Capital Allowance was \$128K greater than budget, due to higher than budgeted prepaid  
11 balances (\$455K), partially offset by lower than budgeted inventory balances (\$327K).

1 **Other Regulated Assets & Liabilities**

2 Information with respect to EGNB's Other Regulated Assets &amp; Liabilities is provided below.

Table 5  
**Other Regulated Assets & Liabilities**

Line No. (in thousands of dollars)	(1) 2014 Actual	(2) 2014 Budget	(3)=(1)-(2) 2014 Variance
<b>1 Other Regulated Assets</b>			
2 Cash and Short Term Investments	\$ 8,394	\$ 11,710	\$ (3,316)
3 Accounts Receivable	22,206	12,866	9,340
4 Inventory	1,028	4,279	(3,251)
5 Long term Receivable	3,306	1,334	1,972
<b>6 Total Other Regulated Assets</b>	<b>\$ 34,934</b>	<b>\$ 30,189</b>	<b>\$ 4,745</b>
<b>7 Other Regulated Liabilities</b>			
8 Due to Affiliated Companies	\$ -	\$ 11,676	\$ (11,676)
9 Accounts Payable	8,258	9,970	(1,712)
10 Long Term Payable	1,067	3,061	(1,994)
11 Long Term Deferred Post Employment Liabilities	4,311	1,026	3,285
<b>12 Total Other Regulated Liabilities</b>	<b>\$ 13,636</b>	<b>\$ 25,733</b>	<b>\$ (12,097)</b>

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.

1 **Cost of Capital Summary**

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

	<u>Table 6</u>		
	<b>Cost of Capital</b>		
	(1)	(2)	(3)=(1)-(2)
	2014	2014	2014
	Actual	Budget	Variance
6 Principal			
7 Debt	\$ 149,500	\$ 149,500	\$ -
8 Equity	143,944	131,805	12,139
9 Return (\$)			
10 Debt	8,537	8,407	130
11 Equity	13,388	13,545	(157)
12 Approved rates			
13 Debt	5.65%	5.51%	0.14%
3 14 Equity	10.90%	10.90%	0.00%

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

5 Equity was \$12.1 million above budget as a result of the continued suspension of distributions to  
6 shareholders since 2010.

7 Actual debt rate on one promissory note renewed in February 2014 was higher than budgeted  
8 resulting in a higher than budgeted regulated cost of debt (0.14%).