

SCHEDULE 4.3

2016 Actual to Budget Explanations

2016 Actual to Budget**Overview**

For comparative purposes, variance explanations compare 2016 Actuals to the 2016 Budget.

Revenue

The table below summarizes EGNB's 2016 actual gas distribution revenue, miscellaneous operating revenue, allowance for funds used during construction ("AFUDC") and services and inspection margin with comparisons to the 2016 Budget.

Table 1
Revenue

Line No.	(in thousands of dollars)	(1) 2016 Actual	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Operating Revenue			
2	Gas Distribution	\$ 42,578	\$ 44,384	\$ (1,806)
3	Miscellaneous	757	962	(205)
4	Allowance for Funds Used During Construction	28	26	2
5		43,363	45,372	(2,009)
6	Services & Inspection			
7	Revenue	572	742	(170)
8	Cost of Goods Sold	(315)	(561)	246
9		257	181	76
10	Total Revenue	\$ 43,620	\$ 45,553	\$ (1,933)

Operating Revenue

- Gas Distribution Revenue: gas distribution revenues ended 2016 \$1.8 million under budget due to lower consumption (\$1.3 million), warmer than normal weather (\$1.0 million) and lower contract demand (\$252K) offset by rates not being effective until May 1 (\$755K).
- Miscellaneous Operating Revenue: miscellaneous revenues ended 2016 \$205K under budget primarily due to lower late payment charges collected from customers (\$133K), other customer charges and fees (\$106K) and ABC revenue (\$3K) offset by interest income (\$37K).

- 1 • AFUDC was \$2K over budget, primarily due to higher than budgeted monthly balances in
- 2 the CWIP account, on which AFUDC is calculated on.
- 3 • Services & Inspection Margin was \$76K over budget primarily due to lower protection plan
- 4 and other servicing costs (\$209K) offset by lower revenues from protection plans and service
- 5 work (\$94K) and an installation legal settlement loss (\$39K).

6 **Expenses**

7 Below is a summary of EGNB’s 2016 operating and maintenance expenses, bad debt expense,
 8 amortization of property, plant and equipment, municipal and other taxes, interest on amounts
 9 due to associates and affiliates and other interest and amortization of deferred development costs
 10 with comparisons to the 2016 Budget.

Table 2
Operating Expenses

Line No. (in thousands of dollars)	(1) 2016 Actual	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1 Operating Expenses			
2 Operating and Maintenance Expenses	\$ 12,267	\$ 13,840	\$ (1,573)
3 Bad Debt Expense	159	385	(226)
4 Amortization of Property, Plant and Equipment	6,590	5,709	881
5 Municipal and Other Taxes	1,241	1,238	3
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	7,508	7,712	(204)
7 Other Expenses	207	500	(293)
8 Amortization of Deferred Development Costs	3,007	2,867	140
9 Total Expenses	\$ 30,979	\$ 32,251	\$ (1,272)

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- 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.

Table 3
Operating and Maintenance Expenses

Line No.		(1) 2016 Actual	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Labour and Benefits	\$ 7,343	\$ 7,682	\$ (340)
2	Admin/Office Expenses	380	283	97
3	Computer and Telecom Services	284	317	(33)
4	Professional Consulting	1,421	1,473	(52)
5	Travel and Training	171	153	18
6	Advertising and Promotions	564	682	(118)
7	Tools and Safety	174	290	(116)
8	Fleet	376	422	(46)
9	Facilities	658	685	(27)
10	Insurance	178	166	12
11	NBEUB Assessments	518	698	(180)
12	Corporate Allocations	1,049	1,273	(224)
13	Service Level Agreements	1,195	1,401	(206)
14	Gas Transportation and Related Activities	1,577	1,700	(123)
15	Total O&M Prior to Capitalization	<u>15,888</u>	<u>17,325</u>	<u>(1,438)</u>
16	Property, plant & equipment	<u>3,621</u>	<u>3,485</u>	<u>136</u>
17	Total Capitalized	<u>3,621</u>	<u>3,485</u>	<u>136</u>
18	Total O&M Expenses	<u>\$ 12,267</u>	<u>\$ 13,840</u>	<u>\$ (1,574)</u>

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- 7 EGNB’s 2016 O&M expenses ended the year \$1.3M, or 7.8%, under budget, with the drivers for
- 8 this variance being:
 - 9 • Labour and Benefits are \$340K under budget due to decreased pension costs (\$554K) and
 - 10 relocation and recruitment costs (\$45K) offset by higher salaries and other compensation
 - 11 (\$246K) and employee training and development (\$13K).

- 1 • Admin/Office Expenses are over budget by \$97K due to higher materials and office
2 supplies (\$62K), corporate activities (\$20K) and postage and courier costs (\$15K).
- 3 • Computer and Telecom Services ended 2016 under budget by \$33K due to decreased IT
4 software maintenance costs (\$38K) and cell and phone costs (\$9K) offset by higher
5 telecom services costs (\$12K) and computer equipment supplies (\$2K).
- 6 • Professional Consulting expenses are under budget by \$52K due to lower other
7 professional services (\$106K), combination of an over accrual and lower audit expenses
8 (\$67K) and lower legal fees (\$21K) offset by higher other contract services (\$105K),
9 director fees (\$19K), business process improvement (\$13K) and credit and collection
10 services (\$5K).
- 11 • Travel and Training is over budget by \$18K mainly due to an increase in airfare,
12 accommodations and meals costs (\$23K) offset by lower ground transportation costs
13 (\$3K) and conference and training costs (\$2K).
- 14 • Advertising and Promotions ended 2016 under budget by \$118K primarily due to lower
15 advertising spending costs (\$104K) and sponsorships (\$14K).
- 16 • Tools and Safety are under budget by \$116K due to lower public awareness costs
17 (\$123K) and uniform and protective clothing costs (\$25K) offset by an increase in tool
18 costs (\$27K) and Right of Way fees (\$5K).
- 19 • Fleet ended 2016 under budget by \$46K due to lower fuel and maintenance costs.
- 20 • Facilities are under budget by \$27K due to lower office repairs and maintenance costs
21 (\$23K) and utility costs (\$5K) offset by higher rent (\$1K).
- 22 • Insurance ended 2016 over budget by \$12K due to higher premiums associated with
23 liability insurance (\$32K) offset by lower premiums for automobile insurance (\$12K),
24 executive risk insurance (\$4K) and broker insurance (\$4K).
- 25 • NBEUB Assessments ended the year under budget by \$180K due to lower than
26 anticipated hearing activity and Public Intervenor costs.

- 1 • Corporate Allocations ended the year lower than budget by \$224K primarily due to
2 reduced allocation for corporate information technology (\$203K), stock options (\$11K)
3 and corporate consolidation of payroll services (\$10K).
- 4 • Service Level Agreements (SLA) are lower than budget by \$206K due to reduced
5 services from Enbridge Gas Distribution (\$126K), centralization of payroll services to
6 Enbridge Inc. (\$89K) and shared services with St. Lawrence Gas (\$25K) offset by higher
7 accounts payable services (\$21K) and vendor support services(\$13K).
- 8 • Gas Transportation and Related Activities are lower by \$123K due to higher than
9 anticipated recovery of the Firm Service Agreement costs for capacity on the Maritimes
10 and Northeast Pipeline.

11 Amounts capitalized to Property, Plant and Equipment are \$136K over budget due to an
12 aggregate O&M spending in cost centers differing from budgeted spend and the associated
13 different capitalization rates for each cost center.

14 Other Operating Expenses

15 Bad Debt Expense is \$226K under budget due to reduced distribution revenue, service revenues
16 and gas sales on which bad debt are calculated. EGNB has also implemented tighter controls on
17 accounts receivable balances.

18 Amortization of Property, Plant and Equipment is \$881K over budget due to the implementation
19 of new depreciation rates as of May 1, 2016 rather than budget (January 1, 2016) (\$951K) offset
20 by the reclassification of intangible software assets from this asset group (\$71K).

21 Interest on Amounts Due to Associates and Affiliates and Other Interest are \$204K under budget
22 due to the regulated cost of debt rate being lower than budget by 0.10% and a \$2.3 million
23 reduction in total rate base which is used to calculate EGNB's interest rate.

24 Other Expenses is \$293K under budget due to reduced spending for the retention program
25 (\$396K) offset by receivables and inventory write downs (\$103K).

26 Amortization of Deferred Development Costs is \$140K over budget due to the reclassification of
27 intangible software assets to this asset group.

1 **Rate Base**

2 Information with respect to EGNB'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) 2016 Actual	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Property, plant and equipment	\$ 173,628	\$ 176,579	\$ (2,951)
2	Development O&M capitalized costs	88,825	88,826	(1)
3	Franchise fee	200	200	-
4	Deferred costs	746	-	746
5	Term deposit	2,972	2,967	5
6	Working capital allowance	1,510	1,146	364
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 267,881</u>	<u>\$ 269,718</u>	<u>\$ (1,837)</u>

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 6 Property, Plant and Equipment is \$3 million under budget due to the timing of the opening
 7 balances from budget to actual (\$1.8 million), late implementation of new depreciation rates
 8 (\$951K), intangible assets reclassified from Property Plant & Equipment (\$478K) offset by net
 9 2016 change in plant (\$239K).

10 Intangible Software is \$746K over budget primarily due to the classification change from
 11 Property Plant and Equipment into Deferred Costs.

12 Working Capital Allowance is \$364K over budget in 2016, due to higher than budgeted prepaid
 13 expense balance (\$308K) and higher inventory balances (\$56K) than planned.

14 **Other Regulated Assets & Liabilities**

15 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) 2016 Actual	(2) 2016 Budget	(3)=(1)-(2) 2016 Variance
1	Other Regulated Assets			
2	Cash and Short Term Investments	\$ 5,038	\$ 21,727	\$ (16,689)
3	Accounts Receivable	17,165	11,217	5,948
4	Inventory	1,166	1,088	78
5	Long term Receivable	1,339	2,132	(793)
6	Total Other Regulated Assets	\$ 24,708	\$ 36,164	\$ (11,456)
7	Other Regulated Liabilities			
8	Due to Affiliated Companies	\$ -	\$ -	\$ -
9	Accounts Payable	8,044	3,413	4,631
10	Long Term Payable	980	1,703	(723)
11	Long Term Deferred Post Employment Liabilities	2,555	4,311	(1,756)
12	Total Other Regulated Liabilities	\$ 11,579	\$ 9,427	\$ 2,152

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- 2 Other Regulated Assets & Liabilities are a function of the annual operations of EGNB and
- 3 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.

Table 6
Cost of Capital

	(1)	(2)	(3)=(1)-(2)
	2016	2016	2016
	Actual	Budget	Variance
Principal			
Debt	\$ 149,500	\$ 149,500	\$ -
Equity	131,512	146,809	(15,297)
Return (\$)			
Debt	7,479	7,702	(223)
Equity	13,113	13,289	(176)
Approved rates			
Debt	5.06%	5.17%	-0.11%
Equity	10.90%	10.90%	0.00%

3

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

5 Equity is \$15.3 million under budget primarily driven by a distribution payout.

6 Debt rates ended 2016 0.11% under budget due to the interest rate of an incremental debt note
7 renewed on 08-Aug-2016 which is earlier than the maturity date (20-Dec-2017), being lower
8 than the budgeted interest rates resulting in a slightly lower weighted average cost of debt.