

Schedule 4.3
2019 Actuals to Budget Explanations

2019 Actual to Budget Explanations**2 Overview**

3 For comparative purposes, variance explanations compare 2019 Actuals to the 2019 Budget.

4 Revenue

5 The table below summarizes Liberty's 2019 gas distribution revenue, miscellaneous operating revenue,
6 allowance for funds used during construction ("AFUDC") and services and inspection margin with
7 comparisons to the 2019 Budget.

Table 1
Revenue

Line No. (in thousands of dollars)	(1) 2019 Actual	(2) 2019 Budget	(3)=(1)-(2) 2019 Variance
1 Operating Revenue			
2 Gas Distribution	\$ 47,173	\$ 47,428	\$ (255)
3 Miscellaneous	1,781	898	883
4 Allowance for Funds Used During Construction	24	60	(36)
5	48,978	48,386	592
6 Services & Inspection			
7 Revenue	639	624	15
8 Cost of Goods Sold	(355)	(377)	22
9	284	247	37
10 Total Revenue	\$ 49,262	\$ 48,633	\$ 629

9 Operating Revenue

- 10 • Gas Distribution Revenue: gas distribution revenues ended 2019 \$255K under budget due to lower
11 customer charge (\$62K) and lower than forecasted consumption (\$1,568K) due to fewer attachments,
12 offset by colder than normal weather (\$1,272K) and higher contract demand (\$103K).
- 13 • Miscellaneous Operating Revenue: miscellaneous revenues ended 2019 \$883K over budget due to
14 higher than budget interest income (\$353K), SEUF accrual (\$437K), ABC income (\$50K), rental
15 income (\$35K), and other income (\$8K).

- 1 • AFUDC was \$36K under budget due to lower than budgeted monthly balances in the Construction
- 2 Work in Progress account on which the AFUDC calculations are based.
- 3 • Margin Services & Inspection Margin is \$37K over budget due to higher revenues from service work
- 4 (\$15K) and lower protection plan and other servicing costs (\$22K).

5 **Expenses**

6 Below is a summary of Liberty’s 2019 operating and maintenance expenses, bad debt expense,
 7 amortization of property, plant and equipment, municipal and other taxes, interest on amounts due to
 8 associates and affiliates and other interest and amortization of deferred development costs with
 9 comparisons to the 2019 Budget.

Table 2
Operating Expenses

Line No. (in thousands of dollars)	(1) 2019 Actual	(2) 2019 Budget	(3)=(1)-(2) 2019 Variance
1 Operating Expenses			
2 Operating and Maintenance Expenses	\$ 13,921	\$ 13,624	\$ 297
3 Bad Debt Expense	285	282	3
4 Amortization of Property, Plant and Equipment	6,173	6,516	(343)
5 Municipal and Other Taxes	1,265	1,274	(9)
6 Interest on Amounts Due to Associates and Affiliates and Other Interest	6,948	6,900	48
7 Other Expenses	120	50	70
8 Amortization of Deferred Development Costs	2,929	2,940	(11)
9 Total Expenses	\$ 31,641	\$ 31,586	\$ 55

10

11

1 Operating and Maintenance (“O&M”) Expenses

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

4 Liberty has grouped its O&M expenses based on major cost categories rather than departments, as seen
5 in the regulatory financial statement format filed with the Board.

Table 3
Operating and Maintenance Expenses

Line No.		(1) 2019 Actual	(2) 2019 Budget	(3)=(1)-(2) 2019 Variance
1	Labour and Benefits	\$ 9,153	\$ 8,239	\$ 914
2	Admin/Office Expenses	304	449	(145)
3	Computer and Telecom Services	264	305	(41)
4	Professional Consulting	1,476	1,405	71
5	Travel and Training	262	143	119
6	Advertising and Promotions	714	824	(110)
7	Tools and Safety	182	211	(29)
8	Fleet	361	377	(16)
9	Facilities	688	675	13
10	Insurance	170	145	25
11	NBEUB Assessments	453	530	(77)
12	Corporate Allocations	1,123	1,455	(332)
13	Service Level Agreements	758	950	(192)
14	Gas Transportation and Related Activities	2,004	1,586	418
15	Total O&M Prior to Capitalization	<u>17,912</u>	<u>17,294</u>	<u>618</u>
16	Property, plant & equipment	<u>3,991</u>	<u>3,670</u>	<u>321</u>
17	Total Capitalized	<u>3,991</u>	<u>3,670</u>	<u>321</u>
18	Total O&M Expenses	<u>\$ 13,921</u>	<u>\$ 13,624</u>	<u>\$ 297</u>

6

7 Liberty’s 2019 O&M expenses ended the year \$0.6M, or 3.6%, over budget, with the drivers for this
8 variance being:

- 1 • Labour and Benefits are \$914K over budget due to higher salaries and other compensation
2 (\$1.4K) and relocation and recruitment costs (\$84K) offset by lower pension benefit costs
3 (\$565K) and employee training and development (\$5K).
- 4 • Admin/Office Expenses are under budget by \$145K due to lower printing and other
5 administrative costs (\$143K) and postage and courier costs (\$45K) offset by higher materials and
6 office supplies (\$41K) and corporate activities (\$2K).
- 7 • Computer and Telecom Services ended 2019 under budget by \$41K due to decreased cell phone
8 costs (\$56K) and telecom services costs (\$17K) offset by higher IT software maintenance costs
9 (\$30K) and computer equipment supplies (\$2K).
- 10 • Professional Consulting expenses are over budget by \$71K due to higher professional
11 consulting fees (\$209K), legal fees (\$46K) and external audit fees (\$22K) offset by lower
12 contract services (\$206K).
- 13 • Travel and Training is over budget by \$119K due to an increase in accommodation and meal
14 costs (\$102K), ground transportation costs (\$21K) and conference and training costs (\$3K) offset
15 by lower airfare costs (\$6K).
- 16 • Advertising and Promotions ended 2019 under budget by \$110K due to lower advertising
17 spending costs (\$147K) offset by increased sponsorships (\$37K).
- 18 • Tools and Safety are under budget by \$29K due to lower uniform and protective clothing costs
19 (\$31K) and tool costs (\$17K) offset by higher public awareness costs (\$16K) and Right of Way
20 fees (\$3K).
- 21 • Fleet ended 2019 under budget by \$16K mainly due to lower fuel and maintenance costs.
- 22 • Facilities are over budget by \$13K mainly due to higher office repairs and maintenance (\$30K)
23 offset by lower rent and utility costs (\$17K).
- 24 • Insurance ended 2019 over budget by \$25K due to higher premiums associated with insurance
25 expense allocation from Enbridge.
- 26 • NBEUB Assessments ended the year under budget by \$77K due to lower than anticipated hearing
27 activity and Public Intervenor costs.

- 1 • Corporate Allocations are under budget by \$332K due to decreased corporate information
2 technology (\$374K) and corporate shared services (\$180K) offset by higher total compensation
3 (\$164K), treasury (\$40K) and audit and financial services (\$18K).
- 4 • Service Level Agreements (SLA) are lower than budget by \$192K due to reduced services from
5 Enbridge Gas Distribution (\$486K) offset by recoveries (\$294K) from shared services with
6 Gazifere and St. Lawrence Gas.
- 7 • Gas Transportation and Related Activities are higher by \$418K due to higher than anticipated
8 recoveries on the Firm Service Agreement.

9 Amounts capitalized to Property, Plant and Equipment are \$321K over budget due to aggregate O&M
10 spending in cost centers differing from budgeted spend and the associated different capitalization rates
11 for each cost center.

12 Other Operating Expenses

13 Amortization of Property, Plant and Equipment is \$343K under budget due to the timing and nature of
14 capital expenditures.

15 Interest on Amounts Due to Associates and Affiliates and Other Interest is \$48K over budget due to
16 higher than budgeted loss on retirement of assets (\$41K), interest paid on security deposit (\$7K) and
17 bank charges (\$15K), offset by lower than budgeted interest on long-term debt (\$16K) as a result of
18 lower rate base and AFUDC.

19 Other Expenses is \$70K over budget due to higher retention program expense.

20 Amortization of Deferred Development Costs is \$11K under budget due to lower than budgeted capital
21 spend for software.

22 **Rate Base**

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

Table 4
Rate Base

Line No.	(in thousands of dollars)	(1) 2019 Actual	(2) 2019 Budget	(3)=(1)-(2) 2019 Variance
1	Property, plant and equipment	\$ 178,496	\$ 182,217	\$ (3,721)
2	Development O&M capitalized costs	80,449	80,450	(1)
3	Franchise fee	-	-	-
4	Deferred costs	1,965	1,960	5
5	Term deposit	2,998	2,956	42
6	Working capital allowance	1,750	1,298	452
7	Regulatory Deferral	-	-	-
8	Rate Base	<u>\$ 265,658</u>	<u>\$ 268,881</u>	<u>\$ (3,223)</u>

1

2 Property, Plant and Equipment is \$3.7 million under budget due to lower 2019 net capital additions (\$3.6
3 million) and timing of opening balance of Property Plant and Equipment (\$110K).

4 Term Deposit is \$42K over budget due to higher than budgeted restricted cash balance.

5 Working Capital Allowance is \$452K over budget in 2019, due to higher than budgeted prepaid expense
6 balance (\$594K) offset by lower than budgeted inventory balances (\$142K).

1 **Other Regulated Assets & Liabilities**

2 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) 2019 Actual	(2) 2019 Budget	(3)=(1)-(2) 2019 Variance
1 Other Regulated Assets			
2 Cash and Short Term Investments	\$ 12,450	\$ 5,258	\$ 7,192
3 Accounts Receivable	18,854	15,739	3,115
4 Inventory	1,110	1,230	(120)
5 Long term Receivable	903	359	544
6 Total Other Regulated Assets	\$ 33,317	\$ 22,586	\$ 10,731
7 Other Regulated Liabilities			
8 Rates Variance	\$ 2,634	\$ -	\$ 2,634
9 Accounts Payable	10,775	5,671	5,104
10 Long Term Payable	2,147	143	2,004
11 Long Term Deferred Post Employment Liabilities	1,801	2,555	(754)
12 Total Other Regulated Liabilities	\$ 17,357	\$ 8,369	\$ 8,988

3
4 Other Regulated Assets & Liabilities are a function of the annual operations of Liberty and fluctuate
5 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

Line No.	(1) 2019 Actual	(2) 2019 Budget	(3)=(1)-(2) 2019 Variance
1 Principal			
2 Debt	\$ -	\$ 149,500	\$ (149,500)
3 Equity	283,528	134,014	149,514
4 Return (\$)			
5 Debt	6,875	6,879	(4)
6 Equity	13,092	17,047	(3,955)
7 Approved rates			
8 Debt	4.69%	4.71%	-0.02%
9 Equity	10.90%	10.90%	0.00%

3

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

5 Due to the acquisition of the Utility, Enbridge Inc. recalled all the long term debt on June 30, 2019. No
6 new debt has been reissued by Algonquin Power & Utilities Corp. as of the end of 2019. Return on Debt
7 is calculated based on deemed capital structure of 45% equity and 55% debt.

8 Equity was \$3,955K under budget due to higher total revenue (\$629K) offset by higher total operating
9 expenses (\$55K), Mechanism to adjust Regulatory Deferral as per legislation (\$3,464K) and Excess
10 returned to customers (\$1,065K).