

SECTION 3.0
2014 Budget

3.0 2014 Budget

As part of a COS model, the establishment of the revenue requirement is critical in the development of distribution rates. A utility's cost of service rates are typically established to align with the fiscal year of the utility. This allows the utility to properly prepare annual forward year projections of costs and throughput, which are the key inputs to establish cost of service rates, and thereby align such projections with the rate setting period. For the purpose of this Application, Cost of Service distribution rates have been developed based on the revenue requirement of the 2014 Budget.

EGNB's 2014 Budget has been prepared taking into consideration historic trends, current market conditions, the current economic environment and EGNB's current operations.

EGNB continues to transition its operations in response to the legislative changes implemented in 2012 and the 2014 Budget has been prepared to reflect the operational changes implemented in 2013.

Staffing

In mid-2013, EGNB implemented operational changes within its Distribution Operations Department. Prior to 2013, EGNB sole sourced its construction and maintenance activities to a single contractor. Given the significant decrease in construction activity anticipated in 2013 and beyond, EGNB discontinued its contract and hired three new field staff to perform all operational tasks specific to handling, joining and maintenance of distribution piping. EGNB will continue to retain the services of the local contractor work force for general labour and civil work.

EGNB has also incorporated three new roles in the 2014 Budget to meet an increased focus on safety, financial reporting and brand awareness programs.

Customer Attachment

The 2014 Budget is based on the attachment of 231 new customers. EGNB has estimated the loss of 73 customers in 2014 resulting in a total of 158 net new customers in 2014. EGNB has no plans to offer any incentives programs in 2014.

Capitalization of Operating and Maintenance

EGNB has included changes to the capitalization of operating and maintenance expenses for the 2014 Budget to reflect operational changes implemented in 2013. In 2012, EGNB ceased capitalizing any Operating and Maintenance (“O&M”) expenses to the Development O&M account but continued to capitalize a portion of O&M expenses to Property, Plant and Equipment (“PPE”). The Board acknowledged this change, but required EGNB to be able to defend all capitalized items in accordance with generally accepted accounting principles (“GAAP”). PricewaterhouseCoopers was contracted in 2012 by EGNB to review the O&M Expenses and cost centres to confirm that the percentage of the O&M Expenses and cost centres capitalized to PPE are in accordance with US GAAP. The study concluded that the capitalization approach and percentages capitalized to PPE are in accordance with US GAAP.

EGNB has proposed adjustments to capitalization percentages within the Construction and Maintenance, Sales and Marketing departments. In 2013, the Sales and Marketing team experienced dramatic changes to their structure and were required to adjust their strategic plan. Sales and Marketing’s primary focus is now on commercial customer growth. Existing customer issues are being transitioned to the Customer Experience Department. The minor change in the Construction and Maintenance Department capitalization percentages is a result of the new in-house construction model implemented in 2013. The methodology for allocating O&M costs remains consistent with the capitalization study prepared in 2012 and filed on May 31, 2012 in support of the 2013 Rate Application. The adjustments to capitalization percentages can be found in the table below.

Year	Department	% Allocated to Capital	% Allocated to Existing Customers
2012	Construction and Maintenance	17.97%	82.03%
2013	Construction and Maintenance	15.10%	84.90%
2012	Sales	37.46%	62.54%
2013	Sales	88.80%	11.20%
2012	Marketing	8.70%	91.30%
2013	Marketing	94.00%	6.00%

Amortization of Property, Plant and Equipment

EGNB has proposed changes to the amortization of Property, Plant and Equipment approved in the June 23, 2000 Board decision. The changes proposed reflect historic trends and current best practices. The average useful life of Fleet and Vehicles assets has been reduced from 9.1 years to 5.4 years. The amortization of Tools and Work Equipment assets has been set to match the Capital Cost Allowance (“CCA”) rate for Class 8 tools, which best reflects the majority of the tools capitalized by EGNB. The amortization of Meters has been changed to align with the estimated useful life approved by Measurements Canada. See the proposed amortization changes in the table below.

Property, Plant and Equipment	Approved Amortization %	Proposed Amortization %
Fleet and Vehicles	11%	18.45%
Tools and Work Equipment	5.3%	20%
Meters	3.86%	4.46%

Corporate Allocations

The following new corporate allocations will be allocated by Enbridge Inc. to EGNB commencing in 2014: Acquisitions, IT Security, Public Web Systems, IT Planning and Governance, Corporate General Expenses, Corporate IT Operations, Group VP Law and Compliance Group Law and thus have been included in the 2014 Budget. The amounts allocated to revenue requirement for these new corporate allocations were established using the criteria set out in support of EGNB’s 2013 Rate Application and the percentages set out below.

Cost Allocations	% Allocated to Revenue Requirement
Acquisitions	100%
Compliance Group Law	50%
Corporate IT Operations	25%
Corporate General Expenses	25%
Group VP Law	50%
IT Security	100%
IT Planning and Governance	100%
Public Web Systems	100%

Deferral Account

The deferral account will remain in the regulatory financial statements with the anticipation that it may be recovered in the future, as suggested by the *Gas Distribution Act, 1999*. However, it has not been included in the revenue requirement in any way, as there are currently no regulations in place which would allow for its recovery.

The following documents have been provided in support of the 2014 Budget:

- Schedule 3.4 - 2014 Budget Assumptions
- Schedule 3.5 - 2014 Budget
- Schedule 3.6 - 2014 Budget to 2013 Budget Explanations

2013 Forecast

The 2013 Forecast provides the bridge year for the development of the 2014 Budget. The following documents have been provided in support of the 2013 Forecast:

- Schedule 3.1 - 2013 Forecast
- Schedule 3.2 - 2013 Budget
- Schedule 3.3 - 2013 Forecast to Budget Explanations