

## SECTION 3.0

### 2021 Budget

1    **3.0 2021 Budget**

2    As Liberty is seeking approval of its 2021 rates, Liberty is submitting a budget for 2021.

3    Liberty's 2021 Budget has been prepared taking into consideration historic trends, current market  
4    conditions, the current economic environment, deferral account repayments as per legislation and  
5    Liberty's current operations.

6    Details related to the assumptions made in the 2021 Budget can be found in Schedule 3.4.

7    Customer Attachments

8    The 2021 Budget is based on the attachment of 203 new customers. Liberty has estimated the loss  
9    of 70 customers (customers no longer on the distribution system as at December 31, 2021 due to  
10   permanent removal of service, red locks due to non-payment, seasonal locks or other temporary  
11   locks) in 2021 resulting in a total of 133 net new customers in 2021.

12   2019 Earnings Sharing Mechanism

13   As provided by Section 52.03(2) of the GDA, Liberty is required to calculate any over-earnings in  
14   2017, 2018 and 2019. In 2019, Liberty's earnings resulted in an actual return on equity in excess  
15   of 12.9%. Liberty is required to share half of that excess, i.e. *"the remaining amount shall be  
16   applied to reduce the revenue requirement of the general franchise holder for the following year  
17   and this reduction shall be applied to decrease rates and tariffs for one or more classes of  
18   customers other than the Small General Service class of customers for that year."* (Section  
19   52.03(2)(b)(ii)(B) of GDA). As a result, Liberty is to return \$1.065M to customers other than SGS  
20   customers.

21   Liberty filed a letter with the Board on April 30, 2020 indicating that it would share this amount  
22   with customers in determining the 2021 revenue requirement and impact 2021 rates. That is  
23   reflected in the 2021 Budget.

24   Regulatory Deferral Account

25   As provided by Section 52.04(3) of the GDA, Liberty is to recover \$100M of the RDA over 26  
26   years beginning in 2020. As a result, the 2021 revenue requirement includes a repayment of  
27   \$3.85M to the RDA.

Payment toward the remaining \$44.5M of the RDA was made for 2017 and 2018 according to the legislated excess earnings mechanism and an additional payment is also anticipated for 2019 once approved by the Board. Details can be found in Section 4.0 and related Schedules.

Liberty proposes to recover the balance of the RDA by continuing to use an earnings sharing mechanism for 2020 and beyond, and proposes the following:

- a) if the earnings above the approved ROE do not exceed 200 basis points, an amount equal to the excess earned above the approved ROE shall be credited towards the balance in the RDA;
- b) if the earnings above the approved ROE exceed 200 basis points:
  - a. with respect to the portion of the difference that does not exceed 200 basis points, the portion shall be credited towards the balance in the RDA; and
  - b. with respect to the portion of the difference that exceeds 200 basis points:
    - i. an amount equal to half of that portion shall be credited towards the balance in the RDA; and
    - ii. the remaining amount shall be applied to reduce the revenue requirement of the general franchise holder at the next general rate application and this reduction shall be applied to decrease rates and tariffs for one or more classes of customers other than the SGS class of customers for the test year(s).

#### Incentive Programs, Customer Retention Program and Propane Winback Program

As Liberty is now using the non-ratepayer funded Fuel for the Future Fund as provided by Algonquin, the 2021 Budget does not include any ratepayer funded programs. Once Liberty fully utilizes the Fuel for the Future Fund, Incentive, Retention and Winback programs may be budgeted in future revenue requirements as these programs continue to be important for growth and maintaining the customer base. Liberty anticipates that no funds will be left outstanding from past year budgets as they will have been fully utilized by the end of 2020.

For complete details for each program, please refer to Schedule 3.8 - Reports for Incentive, Retention and Winback Programs.

# Corporate Allocations

Under the new Liberty ownership structure, affiliate transactions and corporate allocations see significant changes and savings for ratepayers. Affiliate transaction amounts, corporate allocations and interest expense are all reduced as a result of the new ownership. The ownership change also resulted in operational changes, such as the call center moving from the Gazifère Service Level Agreement to an in-house model. Some other reductions such as interest expense result from improved market conditions and longer terms on Long Term Debt instruments along with the decision by Liberty's parent, Algonquin Power & Utilities Corp. ("Algonquin"), not to charge the utility and ratepayers an additional 1% on the debt as did previous ownership. All of these items are part of the value and strategic decisions made by Algonquin and Liberty affiliates provided in its Cost Allocation Manual ("CAM") and should all be considered together. Please refer to the table below providing a global perspective of the variance between the Enbridge and Liberty affiliate costs.

	Enbridge				Liberty	Variance
	2016A (\$000)	2017A (\$000)	2018A (\$000)	3 yr Average (\$000)	2021B (\$000)	(\$000)
Corporate Allocations Approved Service Level Agreement*	\$ 1,228	\$ 1,366	\$ 985	\$ 1,193	\$ 2,242	\$ (1,049)
Interest Expense (Including EI 1%)	\$ 1,564	\$ 1,005	\$ 1,127	\$ 1,232	\$ -	\$ 1,232
TOTAL	\$ 7,508	\$ 6,977	\$ 6,875	\$ 7,120	\$ 4,929	\$ 2,191
	\$ 10,300	\$ 9,348	\$ 8,987	\$ 9,545	\$ 7,171	\$ 2,374

\* For consistency, M&NP is not included in SLA figures as they were included in O&M before the purchase transaction for Spectra Energy and today under Liberty.

Details can be found in Schedule 3.7 – Corporate Allocations Report.

# Capitalization Study

Liberty capitalizes certain O&M items based on whether the expense relates to existing customers (expensed) or if the expense relates to growth and future customers (capitalized). Since 2010 and most recently in 2015, EGNB/Liberty has adjusted capitalization rates from time to time based on changes to the operations of the business and capitalization studies filed and reviewed by the Board.

In July 2020, Liberty prepared a Capitalization Study in order to review rates and practices and make adjustments for the 2021 Budget. The Capitalization Study reviews several aspects and allocators to Liberty's O&M to determine the percentage by department that should be capitalized

to property, plant, and equipment. More details and results can be found in Schedule 3.9 – 2020 Capitalization Study.

### Variance Accounts

Variance accounts are commonly used tools in regulatory rate making throughout North America. Liberty is proposing three variance accounts to assist with reducing and smoothing the impacts to revenue requirement, rates and ratepayers of some impactful items. Due to unforeseen and significant revenue requirement impacts related to income tax, pension and COVID-19, variance accounts are being proposed. Additional details can be found in Schedule 3.10 – Variance Accounts for Tax, Pension and COVID-19.

### Agent Billing and Collections (“ABC”) Revenue

Liberty continues to provide Agent Billing and Collection services to any service provider applying to use Liberty’s billing and/or collection services. Liberty is proposing to increase the current rates by a modest CPI increase of 2.0% for 2021 to recognize the increases in costs to provide these services. The table below provides details of the proposed changes.

<b>ABC Billing Rates</b>	<b>2021 Rates</b>	<b>Current rates</b>	<b>2021 Rate Increase</b>
SGS	\$ 1.50	\$ 1.47	\$ 0.03
MGS	\$ 2.59	\$ 2.54	\$ 0.05
LGS	\$ 6.04	\$ 5.92	\$ 0.12
CGS	\$ 4.95	\$ 4.85	\$ 0.10
ICGS	\$ 4.95	\$ 4.85	\$ 0.10
OPS	\$ 4.95	\$ 4.85	\$ 0.10
Additional Line item charge	\$ 0.88	\$ 0.86	\$ 0.02

The following documents have been provided in support of the 2021 Budget:

- Schedule 3.4 – 2021 Budget Assumptions
- Schedule 3.5 - 2021 Budget
- Schedule 3.6 - 2021 Budget to 2020 Budget Explanations
- Schedule 3.7 – Corporate Allocations Report
- Schedule 3.8 - Reports for Incentive, Retention and Winback Programs
- Schedule 3.9 – 2020 Capitalization Study

- Schedule 3.10 - Variance Accounts for Income Tax, Pension and COVID-19

2020 Forecast

The 2020 Forecast provides the bridge year for the development of the 2021 Budget. The following documents have been provided in support of the 2020 Forecast:

- Schedule 3.1 - 2020 Forecast
- Schedule 3.2 - 2020 Budget
- Schedule 3.3 - 2020 Forecast to Budget Explanations