

2.0 – Executive Summary



1 **2.0 SUMMARY OF THE APPLICATION**

2 This Application seeks Board approval of:

- 3 a. The Revenue Requirement of Eastward as more fully described in the Application
4 at Section 3;
- 5 b. The determination of cash working capital as more fully described in the
6 Application at Section 6;
- 7 c. The depreciation rates as more fully described in the Application at Section 8;
- 8 d. Return on equity of 10.8%, cost of debt of 7.25% and a debt/equity ratio of 55/45
9 percent as more fully described in the Application at Section 10;
- 10 e. Eastward's Capitalization Policy as more fully described in the Application at
11 Section 11;
- 12 f. An Incentive Program for new Multi-Unit Residential Buildings and single-family
13 homes as more fully described in the Application at Section 17;
- 14 g. An amendment to the Distribution Service Rules as more fully described in the
15 Application at Section 18; and
- 16 h. Eastward's new rate classes and new rates, tolls and charges as set forth in the
17 Application at Section 19 to take effect from January 1, 2024 to December 31,
18 2026.

19 As the cost of the gas commodity is not regulated by the Board, the requested rate increases
20 relate only to the distribution portion of Eastward's customers' bills.¹ The last time Eastward filed
21 an application to the Board to adjust these distribution rates was in 2011. Since that time, the
22 Company has continued to expand its network, increased its customer base, accessed cheaper
23 natural gas commodity hubs, prudently managed its capital spending and operating expenses, all
24 while providing an essential service to Nova Scotians.

25 Significantly for the Province, the Company has provided a highly reliable, resilient energy
26 alternative. Eastward's customers joining the system are typically moving from heating oil or other
27 higher carbon-intensive energy products; therefore, switching to natural gas service allows these
28 homes and businesses to lower their carbon footprint.

¹ The cost of natural gas is a pass-through to customers and Eastward does not earn a return on it. The Company provides annual reports to the Board on its natural gas commodity purchases.

1 Over the past decade, Eastward has faced intensifying competitive pressures, which led the
2 Company to file a Customer Retention Program Application with the Board in 2016, the term of
3 which was later extended to December 31, 2023. At the time of the CRP, Eastward was losing a
4 specific sub-set of commercial customers that were essential to the Company given their size and
5 revenues. The program, which was approved by the Board, offered Eastward the flexibility it
6 needed to lower rates for these customers and was approved by the Board. Eastward prudently
7 managed all costs that were within its control throughout the CRP period to ensure the natural
8 gas system continued to be a viable energy alternative for Nova Scotians.

9 The CRP concludes on December 31, 2023, and Eastward is respectfully requesting Board
10 approval of the requests within this Application for new rates over the 2024-2026 period. Eastward
11 believes the gas distribution system provides a significant benefit to Nova Scotians, and this
12 Application describes the inherent need to ensure the Company is sufficiently recovering its cost
13 of service in the future.

14 **Aligning with the Energy Transition**

15 It has been more than a decade since Eastward's most recent General Tariff Application. Since
16 that time, the energy industry in Nova Scotia has begun a significant transformation. At the federal
17 level, the Canadian government released its Emissions Reductions Plan, which details how the
18 country intends to meet its target of at least a 40% reduction in emissions from 2005 by the year
19 2030.² Developing a clean-tech industry, transitioning to lower-emitting energy sources,
20 managing carbon pricing, increasing energy efficiency, and deploying innovation are key
21 components of the Emissions Reduction Plan.

22 In addition to the Federal Government's Emissions Reduction Plan, the Province of Nova Scotia
23 has some of the strongest emission reduction commitments in Canada. The Province is
24 committed to reducing GHG emissions to 53% below 2005 levels by 2030 and achieving net-zero
25 by 2050.³ Nova Scotia will also see carbon pricing escalation from the transition of the existing
26 provincial cap-and-trade system to a Federal carbon tax. Beginning in 2023 at \$65/tonne, the
27 carbon tax will increase by \$15/tonne annually and reach a level of \$170/tonne by 2030. This
28 equates to a near doubling of Eastward's commodity price of natural gas over that timeframe.

² 2030 Emissions Reduction [Plan](#).

³ Bill No. 57 - Environmental Goals and Climate Change Reduction Act.

1 This transformational period has ushered in both challenges and opportunities. The new emission
2 reduction targets have created potential investment opportunities in low carbon energy solutions.
3 However, the pace of regulatory change and the cost implications of rapidly increasing carbon
4 taxes create cost pressures that must be considered in Eastward’s planning and long-term
5 investment strategy.

6 **A Changing Energy Market**

7 In addition to new government objectives, the energy market has undergone significant changes.
8 Since GTA-2011, Nova Scotia’s Sable and Deep Panuke offshore natural gas production fields
9 were decommissioned in 2018, with no incremental regional production in the Maritimes
10 developed to replace the loss. For context, the Maritimes gas market has shifted from a net export
11 position in 2014 of approximately 160,000 GJs/day⁴, to a net import position of approximately
12 240,000 GJs/day in 2020.⁵ Furthermore, the development of large-scale energy projects, some
13 of which would have provided a significant economic benefit to Eastward’s customers, have been
14 delayed or cancelled entirely.

15 This shift from an export to import market in the Maritimes, and the lack of progress on alternate
16 local gas supply options, compelled Eastward to change its approach to gas procurement in order
17 to ensure security of supply for its customers. As a result, since 2014, Eastward has incorporated
18 extensive market monitoring and analysis, and has diversified its supply through long-term
19 transportation contracts with counterparties in Canada and the United States. Eastward has also
20 worked with its parent company to secure investment-grade credit support to allow for
21 transactions with a diverse set of counterparties. These actions have increased security of supply
22 and reduced costs to customers. Long-term transportation contracts have saved customers
23 approximately \$5 per gigajoule (“GJ”) from what they otherwise would have been without these
24 contracts.⁶

25 In recent years, there has been an escalating global climate change movement with an increased
26 focus on how society and utilities produce, distribute, transport, and ultimately consume energy
27 resources. All levels of government and organizations are looking for ways to transition away from
28 higher-emitting energy sources. With the globalization of natural gas supply, the region is

⁴ Canadian Energy Regulator – Pipeline Profile: Maritimes and North East - [Annual Average Throughput: Baileyville, Ma. / St. Stephen N.B. \(Bcf/d\) table](#).

⁵ Canadian Energy Regulator – [Provincial and Territorial Energy Profile](#) – NB.

⁶ The estimate was determined as of January 1, 2023, for the November 1, 2022 to October 31, 2023 period.

1 increasingly exposed to geopolitical commodity price volatility. Most recently, the turmoil in the
2 European energy market due to the Russian/Ukrainian conflict and growing global dependence
3 on reliable energy production has magnified the critical and urgent need for safe and reliable
4 energy sources such as natural gas. This critical need is also amplified by the increasing
5 frequency of severe weather events. Although resistance to growth in fossil fuels has increased,
6 these recent events have underscored the need for reliable energy sources to smooth an
7 affordable transition to net-zero.

8 **Eastward’s Transition**

9 Eastward has an important role to play in the successful transition to a net-zero economy in Nova
10 Scotia. In recent years, the Company has engaged with governments, industry stakeholders, and
11 customers to better understand their perspectives on energy utilities’ role in Nova Scotia’s
12 net-zero transition. Based on changing stakeholder expectations and the Company’s commitment
13 to taking concrete actions to assist the Province in meeting its net-zero targets, Heritage Gas has
14 transitioned to Eastward Energy. Moving to Eastward Energy now aligns with our vision for the
15 future – to provide more sustainable energy solutions.

16 Recent federal government announcements such as the Hydrogen Strategy for Canada, lays out
17 an “*ambitious framework to cement hydrogen as a tool to achieve net-zero by 2050 and position*
18 *Canada as a global, industrial leader of clean renewable fuels*”.⁷ This, together with the Nova
19 Scotia legislative amendments enabling hydrogen energy production in the province, will support
20 Eastward’s plans to participate in the energy transition through the development of long-term,
21 lower-carbon energy solutions.

22 To further support the transition, Eastward became a founding member of, and an active
23 participant in, the Atlantic Hydrogen Alliance (“AHA”). The Company is currently working on the
24 development of a low-carbon hydrogen production facility in Dartmouth. This ambitious project,
25 which will require significant investment decisions in the coming years, demonstrates the
26 Company’s commitment to do its part to contribute to a cleaner future for the province, and to be
27 an architect of that future, for the benefit of all Nova Scotians.

28 The Company intends to develop sustainable, resilient, low-carbon energy solutions over time in
29 support of Nova Scotia’s transition to net-zero. Eastward’s objectives over the 2024-2026 period

⁷ [Hydrogen Strategy for Canada](#) – Seizing the Opportunities for Hydrogen – A Call to Action, December 2020.

1 include continuing to move toward full cost-of-service while maintaining the delivery of safe and
2 reliable energy to more customers and communities.

3 **Proposed Rate Adjustments**

4 Eastward has not increased its approved distribution rates since 2014. In addition, for
5 approximately 17 percent of customers, distribution rates decreased in the 2016-2023 period
6 through the implementation of the Company's Customer Retention Program.

7 Eastward has faced intensifying competitive pressures from other energy sources, beginning in
8 2015. These competitive pressures continue to evolve and Eastward needs to respond to ensure
9 retention of its current customers and the ability to grow for the benefit of all customers. As part
10 of that endeavor, Eastward is proposing changes to its rate classes and rate structure in this
11 Application.

12 The request for rate changes over the test period of 2024-2026 are driven predominantly by three
13 factors:

- 14 1. The requirement to move towards full cost of service rates, for the best long-term interests
15 of Eastward's customers and the Company;
- 16 2. The requirement to maintain a competitively priced energy alternative for Nova Scotians;
17 and
- 18 3. The growth in revenue requirement, including the onset of cash taxes, which the Company
19 expects to incur beginning in 2024.

20 The proposed rates in this Application would result in an average overall increase across all rate
21 classes of 4.3 percent in 2024, 5.9 percent in 2025 and 2.2 percent in 2026 from currently
22 approved rates.

23 The average rate increases by proposed rate class and year are included in the table below.⁸
24 Please note that "RSC" represents the Residential Service Class, "GSC" represents the General
25 Service Class and "RC3" represents the Rate Class 3 (i.e., Large Industrial and Institutional
26 Customers).

⁸ Please refer to Section 16 for further details.

1 **Table 2.0 - Impact of Distribution Rate Design on Rate Classes (Annual)**

Impact of Distribution Rate Design on Rate Classes				
<u>Year</u>	<u>RSC</u>	<u>GSC</u>	<u>RC3</u>	<u>Total</u>
2015-2023	0%	0%	0%	0%
2024	36.2%	0.5%	0.4%	4.3%
2025	15.3%	5.0%	0.0%	5.9%
2026	9.9%	0.6%	0.0%	2.2%

2 **Table 2.1 – Average Impact of Rate Increases (Monthly Average)**

Average Impact of Rate Increases – Monthly Customer Bill				
<u>Year</u>	<u>RSC</u>	<u>GSC</u>	<u>RC3</u>	
2024	\$ 25.63	\$ 3.60	\$ 127.17	
2025	\$ 14.44	\$ 37.48	\$ -	
2026	\$ 10.46	\$ 4.36	\$ -	

3

4 As shown within Table 2.0 above, the proposed residential rate increases are comparatively
 5 higher than the GSC or RC3 rates. Under the current rate structure, residential customers receive
 6 significant subsidization and Eastward is not recovering the full cost of service. Through the
 7 proposed rate structure, cross subsidization will be reduced however the residential rate class is
 8 still only expected to recover 68% of the cost to serve them by 2026. As noted below in Table 2.2,
 9 the other proposed rate classes are expected to achieve full cost of service throughout the test
 10 period.

1 **Table 2.2 – Revenue-to-Cost Ratios by Rate Class**

Revenue to Cost Ratios				
Resulting from Proposed Rates				
<u>Year</u>	<u>RSC</u>	<u>GSC</u>	<u>RC3</u>	<u>Total</u>
2024	57%	105%	124%	96%
2025	62%	104%	120%	96%
2026	68%	104%	122%	97%

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3 **Deferral Treatment and the Path to Cost Recovery**

4 Since the Company’s inception in 2003, rates have been set at levels that are less than what is
5 required to recover the full cost of service. The resultant shortfall in the recovery of the revenue
6 requirement has been deferred to a Revenue Deficiency Account (“RDA”).⁹ The Board-approved
7 RDA mechanism has allowed time for Eastward’s newly established distribution system to
8 develop while still providing the opportunity for its shareholder to earn a fair return on its
9 investment. As discussed in Section 10 of this Application, Eastward no longer considers itself a
10 “greenfield” utility. However, the Company is also not a “mature” utility, as it does not have well-
11 established customer bases throughout its service areas to generate sufficient revenues to cover
12 the full cost of service including the return on rate base. Rather, Eastward lies somewhere
13 between the two definitions, and therefore is properly classified as an “immature” utility. As the
14 Company continues to propose rates that are less than full cost recovery for the residential rate
15 class, the RDA recovery mechanism remains a strategically important tool and will continue to
16 allow the Company to have investor support as it progresses to reach a “mature” state.

17 In 2016, Eastward filed its CRP Application with the Board to allow flexibility in setting rates for
18 certain commercial customers in order to compete with what was expected to be a period of
19 anomalous propane prices. At the time, Eastward was losing a specific sub-set of commercial
20 customers that were essential to the Company given their size and revenues. The loss of these
21 customers would have resulted in the distribution of fixed costs across the remaining customer
22 base, increasing costs for all other customer classes. As part of that CRP Application, the Board
23 granted Eastward the rate flexibility requested, and allowed for the deferral of depreciation and a
24 portion of operating expenses to reduce the revenue requirement and therefore the growth of the
25 RDA, with the deferred costs recorded as CRP deferrals.

⁹ Revenue Deficiency Accounts are a common regulatory mechanism that are required to provide a means to recover costs arising from investments in infrastructure, from future periods, leading up to achieving full cost recovery.

1 The CRP was originally intended to end in 2020, however, the Company filed a CRP Extension
2 Application which extended through to the end of 2023 as competitive issues continued.
3 Throughout the CRP period, Eastward successfully managed the operating costs that were within
4 its control to ensure that there was a viable natural gas system and a resilient energy alternative
5 for the future as Nova Scotia continues its energy transition. Eastward is not seeking another
6 extension to the CRP as competitive concerns are addressed through the proposed rate re-design
7 and structure within this Application.

8 With the CRP concluding at the end of 2023, CRP deferrals will cease in 2024. This would result
9 in an increase to the revenue requirement beginning in 2024 as costs are no longer being
10 deferred. Commencement of amortization of the CRP deferral would further add to the revenue
11 requirement. In consideration of the increases being requested to move towards cost of service,
12 Eastward proposes that amortization of the CRP deferrals should begin following the 2024-2026
13 period. Specifically, Eastward is requesting the Board review the CRP deferral amortization before
14 the end of 2026 to determine its treatment, as described in detail within Section 13.

15 **Onset of Cash Taxes**

16 To date, Eastward has not incurred cash income taxes, as it has been able to use tax loss
17 carryforwards to offset taxable income due primarily to the timing of tax depreciation claims.
18 However, Eastward forecasts to begin to have cash tax obligations beginning in 2024 and become
19 fully taxable by 2026, as described in Section 9. This is forecast to be an annual expense of
20 approximately \$4 million per year that is currently not included in customer rates.

21 **Competitive Rate Structure**

22 Since 2003, Eastward has had a simple rate class structure, based largely on annual GJs
23 consumed. As the Company moves toward full cost of service and faces increasing competitive
24 challenges, changes in rate design are required to maintain its competitive position.

25 Eastward's Application includes the establishment of a residential-only rate class, as requested
26 by the Board in the GTA-2011 Decision.¹⁰ If Eastward is to continue to offer an attractive
27 alternative to residential customers, with the current customer composition and required
28 infrastructure investment, full cost recovery in the residential-only class is not achievable at this
29 time. Accordingly, Eastward is proposing rates that do not fully recover residential costs of service

¹⁰ 2010 NSUARB 241 Decision (December 16, 2010).

1 in this Application. As such, this is expected to result in modest growth in the RDA over the 2024-
2 2026 period, as described in Section 12.

3 The timeline for the migration of the residential rate class to full cost of service rates is dependent
4 on relative energy costs, the rate of residential growth and penetration levels. Eastward is
5 proposing an incentive program, designed to escalate growth for this group, which is described
6 further in Section 17.

7 The other proposed rate classes are expected to achieve full cost recovery under the proposed
8 rates throughout the test period of 2024-2026 test period. The structure by which the rates are
9 designed is proposed as a tiered system, with block rates, such that as a customer consumes
10 more, their incremental cost will decline. This will better allow Eastward to match billed revenue
11 to the cost of service while continuing to expand the gas distribution infrastructure and serve more
12 customers in its franchise area. It will also allow Eastward to compete with other energy providers,
13 and better reflect the actual costs to serve customers, given that the marginal cost to deliver
14 higher volumes is minimal once a service line has been installed.

15 The requested rate changes in this Application are intended to bridge the Company from the
16 current state of not recouping its full cost of service, towards each customer rate class paying its
17 true cost of service.

18 Table 2.3 below presents the current Board-approved rates and the proposed rates and rate
19 classes. More detail is provided in Section 16. For clarity:

- 20 • The previous Rate Class 1 residential customer are now proposed to be in their own
21 separate rate class (i.e., Residential Service Class),
- 22 • The previous Rate Class 1 commercial, Rate Class 1A commercial and Rate Class 2
23 commercial customers are in a new combined rate class (i.e., General Service Class), and
- 24 • The previous Rate Class 3 / 4 customers remain in their own separate rate classes (i.e.,
25 Rate Class 3 & Rate Class 4).

1 **Table 2.3 – Existing and Proposed Rates and Rate Structure**

Fixed monthly customer charge (\$ per month)						
Year	Rate class 1		Rate class 1	Rate class 1A	Rate class 2	Rate class 3
2023 Approved Rates	21.865		21.865	21.865	562.830	1,995.54
	Residential Service		General Service			Rate class 3
Requested 2024	35.00		65.00			1,995.54
Requested 2025	35.00		65.00			1,995.54
Requested 2026	35.00		65.00			1,995.54
Base energy charge (\$ per gigajoule)						
Year	Rate class 1		Rate class 1	Rate class 1A	Rate class 2	Rate class 3
2023 Approved Rates	8.685		8.685	8.685	2.606	0.158
	Residential Service		General Service			Rate class 3
	First 10GJ/Month	Additional	First 15 GJs/Month	Next 400 GJs/Month	Additional	All volumes
Requested 2024	11.157	9.824	8.554	5.447	5.197	0.167
Requested 2025	14.230	10.551	9.317	5.720	5.470	0.167
Requested 2026	16.399	11.637	9.525	5.760	5.510	0.167
Demand charge (\$ per gigajoule per month)						
Year	Residential Service		General Service			Rate class 3
2023 Approved Rates	Not Applicable		Not Applicable			30.850
Requested 2024	Not Applicable		Not Applicable			30.850
Requested 2025	Not Applicable		Not Applicable			30.850
Requested 2026	Not Applicable		Not Applicable			30.850

2

3 Please note that Rate Class 4 includes extra-large customers which are specific negotiated rates,
 4 due to the uniqueness of the customers qualifying and the facilities required to serve them.

5 **Business Risk & Return on Rate Base**

6 As more fully described in Section 10, Eastward is facing significantly increased business risk in
 7 comparison to its last GTA application in 2011. Eastward considers the following to be its primary
 8 business risks:

- 9
- 10
- 11
- 12
- 13
- 14
- 15
- The uncertainty associated with the energy transformation;
 - Increased carbon pricing;
 - Policy and financial support for electrification;
 - Increased competition;
 - The loss of domestic offshore gas supply and increased volatility associated with exposure to geo-political events; and
 - The maturity level of the utility.

16 In the longer term, the utility industry faces complex transformational challenges associated with
 17 climate change and decarbonization, and also with shifting consumer preferences. Although
 18 Eastward is actively pursuing alternative energy solutions that will play a significant role in
 19 assisting the Province in meeting its climate objectives, these solutions will take time to implement

1 in the market. Unlike more mature utilities, Eastward has a small customer base over which to
2 recover any future investments associated with the energy transition.

3 All the risks presented in Section 10 of the Application describe a heightened level of uncertainty
4 through the test period, which Eastward believes will have a direct impact on the Company's
5 future growth and its ability to gain and serve customers.

6 The analysis of a fair return on equity, cost of debt, and capital structure includes consideration
7 of all the business risks Eastward faces today and those expected in the future. Eastward's overall
8 allowed return must be sufficient to assure confidence in the financial integrity of the Company
9 and to attract incremental capital and investment necessary for the sustainability of safe and
10 reliable service.

11 Despite Eastward's increased risk profile from earlier years, the Company is not proposing an
12 increase to any part of its cost of capital; and the Company is proposing to lower its return on
13 equity. Eastward believes that the following cost of capital parameters provide an equitable
14 position for customers and investors. Eastward is requesting:

- 15 a. Return on equity of 10.8%, compared to the current allowed return of 11.0%;
- 16 b. Debt to equity structure to be maintained at 55/45 percent; and
- 17 c. Cost of debt maintained at 7.25%.

18 While market conditions at this time suggest that each of these factors may warrant higher rates
19 to adequately compensate investors for the risk profile, Eastward is not proposing any increases.
20 This is to ensure Eastward continues to have a competitive offering to customers and can achieve
21 full cost recovery in the future.

22 **Conclusion**

23 Nova Scotians are currently facing significant economic pressures as a result of the pandemic
24 and the highest inflationary increases in decades. Eastward understands that any rate
25 adjustments will impact its customers. Eastward also believes it has an important role to play in
26 the future of Nova Scotia for the benefit of its customers and others, and in order to do so,
27 continued support from investors will be required.

1 The Company has not brought forward an application to adjust rates since 2011, despite
2 inflationary pressures of over 20 percent during the same period.¹¹ During this time, the Company
3 has: reduced customer rates for some commercial customers, through the CRP, to secure and
4 maintain a viable system; reduced operating and capital spending to offset the resultant reduction
5 in revenue; moved to improve access to liquid basins in North America to source cost-effective
6 natural gas supply; and offered customer payment relief during the COVID-19 pandemic.

7 In this Application, Eastward has proposed a lower return on equity than the currently approved
8 rate. This adjustment will directly affect Eastward's bottom line. Eastward believes this is a fair
9 and principled approach to customers and investors to support the utility given the current
10 economic climate.

11 **Appendices & Expert Consultant Reports**

12 Eastward engaged third party experts to assist in the preparation of certain reports and studies
13 as part of this Application. The following appendices and expert reports are included in this
14 Application:

- 15 • Appendix 1: "2023 GRA Lead/Lag Study" – SME Professional Consulting Inc. – Halifax,
16 Nova Scotia.
- 17 • Appendix 2: "2021 Depreciation Study – Calculated Annual Depreciation Accrual Rates
18 Applicable to Natural Gas Distribution Plant in Service" – Concentric Advisors, ULC –
19 Washington, D.C.
- 20 • Appendix 3: Eastward Operating, Maintenance & Administration Capitalization Policy.
- 21 • Appendix 4: "Cost of Capital Report Prepared for Eastward Energy" – Direct Testimony of
22 James M. Coyne" – Concentric Energy Advisors, ULC – Boston, M.A.
- 23 • Appendix 5: Ernst & Young LLP - Eastward 2021 Audited Financial Statements, March 8,
24 2022.
- 25 • Appendix 6: "2023 Gas Utility Cost Allocation Study and Rate Design Proposal" – SME
26 Professional Consulting Inc. – Halifax, Nova Scotia
- 27 • Appendix 7: "2023 Cost Allocation and Rate Design Study Opinion – Eastward Energy" –
28 Chymko Consulting Ltd. – Calgary, Alberta.

¹¹ Statistics Canada. [Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted](https://doi.org/10.25318/1810000401-eng)
DOI: <https://doi.org/10.25318/1810000401-eng>.

1 • Appendix 8: Eastward’s proposed Distribution Service Rules (clean and red-lined
2 versions).

3 • Appendix 9: Eastward’s proposed Tariff Book.

4 Sections 3 to 19 of this Application, together with historical information and forecast information
5 for 2023, provide material in support of the determination of a revenue requirement for each of
6 the years in the three-year test period, 2024 to 2026. Included in these sections are schedules
7 concerning capital expenditures, operating, maintenance and administrative expenses,
8 amortization and depreciation, income taxes, working capital, rate base, and cost of capital.

9