



Submission to the Nova Scotia Utility and Review Board

Customer Retention Program Recovery Rate

Date: September 5, 2024

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1 1.0 Introduction & Requested Approval

2 In this Application Eastward Energy Inc. (“Eastward” or the “Company”) is seeking approval from the Nova Scotia
3 Utility and Review Board (“NSUARB” or the “Board”) pursuant to Section 22 of the *Gas Distribution Act* to begin
4 early recovery of the deferrals incurred by the Customer Retention Program (“CRP”) through a CRP Recovery Rate
5 applicable to General Service Class (“GSC”) and Rate Class 3 (“RC3”) customers. The proposed CRP Recovery Rate
6 would not be applicable to residential customers and does not impact any other elements of the rates established
7 during the NSUARB’s approval of Eastward’s most recent General Rate Application (“GRA”) (NSUARB Matter No.
8 M10960).

9 Eastward requests flexibility to adjust the CRP Recovery Rate within a band from \$0.00/GJ up to \$2.00/GJ, based
10 on the current and forecasted commodity pricing during the period of January 1, 2025 to December 31, 2026.
11 Eastward also through this Application provides notification of its present intention to implement an initial CRP
12 Recovery Rate of \$2.00/GJ effective January 1, 2025. At the end of the current 2024-2026 test period, a proposal
13 for the remaining CRP deferral balance will be included in Eastward’s next GRA, anticipated to be filed with the
14 Board in 2026 for new customer rates effective January 1, 2027.

15 The current commodity prices are historically low for natural gas and have allowed for a unique opportunity for
16 Eastward to take a proactive approach in recovering the CRP deferral, while not impacting the overall competitive
17 position within the market. There are significant long-term benefits related to early recovery of the CRP deferral
18 balance; it will create bill stability for customers over the long-run and support Eastward by allowing for more
19 timely cost recovery. Eastward believes this opportunity should be exercised while it is available versus waiting
20 until 2027 to begin recovery of the CRP deferral.

21 Early recovery of the CRP deferral balance, over the proposed two years (2025-2026) at \$2.00/GJ, could lead to a
22 reduction of the existing CRP deferral balance of up to ~\$30M or 60% and a related customer savings of ~\$7.7M
23 in cost of capital, as opposed to delaying the full deferral balance recovery until 2027 and applying a standard
24 amortization period (i.e. 10 years).

25 2.0 CRP Background Information

26 On March 2, 2016, Eastward (formerly Heritage Gas Ltd) applied to the Board for approval of a CRP (NSUARB
27 Matter No. M07346) as the Company was dealing with competitive market pressures. At that time, with the
28 recently declining offshore gas supply, regional natural gas prices in the Maritimes were elevated, while the
29 regional market was experiencing a significant decrease in propane prices coupled with a world-wide collapse of
30 oil prices. During this timespan, Eastward was experiencing losses of some commercial customers and determined
31 that the ability to offer flexible pricing to commercial Rate Class 1A customers whose usage was between 500 GJs

1 – 4,999 GJs annually¹ was critical to retaining these customers against competing fuel sources. The Company also
2 wanted to retain those key customers to ensure the long-term sustainability and growth of the natural gas system
3 for all current and future customers in Nova Scotia.

4 Eastward requested the ability to reduce the Base Energy Charge (“BEC”) from the then current rate of \$8.685/GJ
5 to as low as \$3.10/GJ. Thus, the Company would have the ability to apply a variable BEC for Rate Class 1A (“RC1A”)
6 customers at any level between \$3.10/GJ to \$8.685/GJ. This program allowed Eastward to defer these costs for
7 recovery from customers in future periods to offset the corresponding loss in revenue from lower rates. A
8 Consensus Proposal with the Consumer Advocate (“CA”) also proposed a \$0.50 reduction for Rate Class 1 (“RC1”)
9 residential and small commercial customers that utilized less than 500 GJ for bills issued between November 1,
10 2016 and April 30, 2017 and from November 1, 2017 to April 30, 2018. Overall, the CRP provided relief from
11 upward pressure on customer rates that otherwise would have been realized by a smaller customer base.

12 The Board approved the proposed CRP Application on September 8, 2016 (NSUARB Decision 2016-NSUARB-161)
13 and it was in place from March 22, 2016 to December 31, 2020. Subsequently, Eastward made a request to extend
14 the CRP and that Application was approved by the Board (NSUARB Decision 2020-NSUARB-40) and the program
15 concluded on December 31, 2023 (Matter No. M09475). As part of the approval of the CRP, and its extension in
16 2020, the NSUARB approved an allowed return of 4% on the deferred balances arising from the CRP.

17 2.1 Customer Retention Deferral Balance

18 The CRP ceased on December 31, 2023, with new rates approved by the Board under the 2023 GRA (NSUARB
19 Matter No. M10960) taking effect on January 1, 2024. As noted in that Decision, Eastward was to file an application
20 for the amortization of the CRP deferral balance no later than December 31, 2026.²

21 Table 1: Current Eastward CRP Deferral Balance – Year Ending December 31, 2023

22

Deferral	Current Balance
CRP Deferral	\$49,925,720

23

24 3.0 Current Commodity Price Overview & Opportunity

25 During 2022 and 2023, Eastward’s commodity price was elevated relative to the 5-year average, due to the Russia
26 and Ukraine conflict that caused demand for LNG to spike³ which eroded some of Eastward’s price advantage in
27 the market. Warmer than average weather and increased natural gas production through 2023 and 2024

¹ Commercial customers that utilized between 500-4,999 GJs/year were referred to as RC1A customers.
² NSUARB Decision 2023 NSUARB 166 (Matter No. M10960), issued September 21, 2023.
³ US Northeast and Canadian Maritimes markets are heavily influenced by the price of LNG, particularly in the winter.

1 alleviated demand pressures leading to a rapid decrease in natural gas prices at most major market hubs across
2 North America. In February 2024, NYMEX (North American Natural Gas Benchmark) price hit the lowest level,
3 inflation adjusted, since January 1995. As seen in Exhibits 1 and 2 below, the decrease in market prices has
4 improved Eastward's competitive position in 2023 and 2024 relative to 2022 (Eastward's Gas Cost Recovery Rate
5 ("GCRR") decreased by ~18% YoY in 2023 and 39% YoY in 2024, but this was partially offset by the increase in
6 carbon cost). Current commodity rates (GCRR plus Transportation Cost Recovery Rate) are at the lowest they have
7 been since October 2013. Based on Eastward's best projections⁴ the competitive position is expected to be
8 sustained through to the end of 2025 (Exhibit 3).

9 The following charts illustrate Eastward's competitive position in 2023 (actuals), 2024 (actuals & forecast) and
10 2025 (forecast) relative to other fuel options. Alternative fuel prices are based on the following assumptions:

- 11 • Propane: Sarnia, Ontario Market⁵ + supplier premium⁶
- 12 • Heating Oil: Nova Scotia Rack⁷ + supplier premium
- 13 • Electricity: Nova Scotia Power approved rates⁸
- 14 • Heat pump efficiency: 186%⁹

⁴ Projections are based on a forward market outlook and are subject to change over time.

⁵ Historical Sarnia prices were sourced from the New Brunswick Energy & Utility Board's (NBEUB) website: <https://nbeub.ca/past-petroleum-prices>. Eastward relies on Petral Energy Consulting for Sarnia price forecasts.

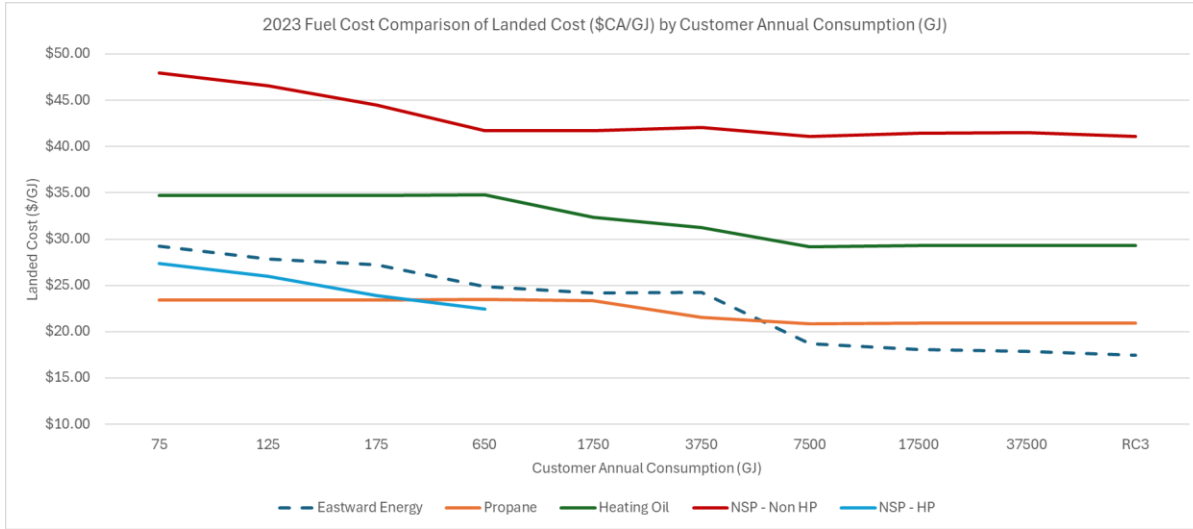
⁶ Propane and Heating Oil Supplier Premiums are based on market intelligence gathered through Eastward's sales process and informal discussions with prospective customers.

⁷ Historical Heating Oil (Rack) prices were sourced from Kalibrate (<https://charting.kalibrate.com/>). Eastward forecasts heating oil prices using Chicago Mercantile Exchange's New York Harbor Ultra Low Sulfur Diesel (NYH ULSD) forwards and applies a basis premium based on historical difference between Kalibrate's Rack price and NYH ULSD.

⁸ NSP Rates: <https://www.nspower.ca/about-us/producing/rates-tariffs>

⁹ This assumes 250% efficiency for space heating, and no heat pump for water heating

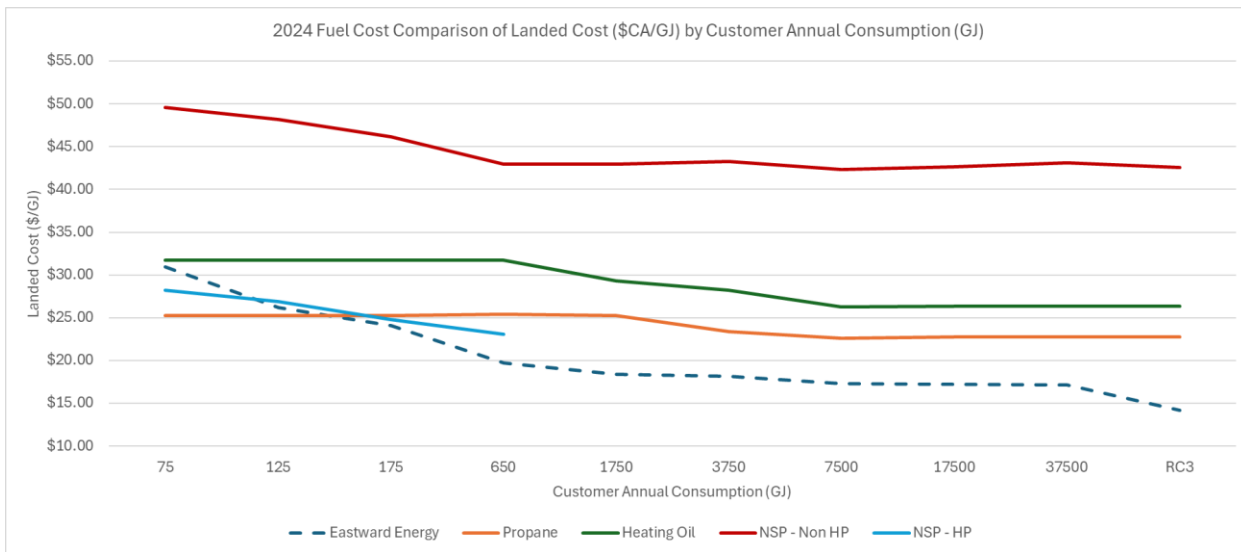
1 Exhibit 1: 2023 Historical Landed Costs



2

3 *Heat Pump (HP)

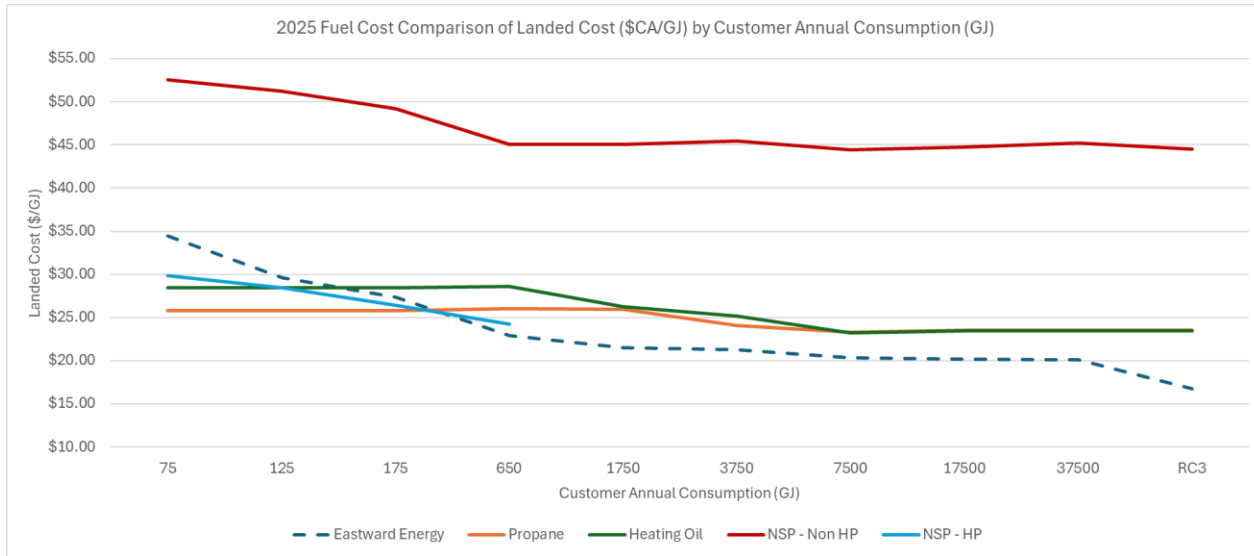
4 Exhibit 2: 2024 Current Landed Costs



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6 *Heat Pump (HP)

1 Exhibit 3: 2025 Forecasted Landed Costs



2
3
4 *Heat Pump (HP)
5 **Commodity forecasts are subject to change, forecast data displayed is as of August 2024
6
7

8 4.0 Proposal – Customer Retention Program Recovery Rate

9 Eastward proposes a CRP Recovery Rate on a per GJ basis, which would apply to the newly established GSC
10 customer class (from Eastward’s recent GRA Decision) and the RC3 customer class. These classes of customers
11 currently recover their full cost of service net of deferrals. Eastward is not proposing to apply the CRP Recovery
12 Rate to the Residential Service Class (“RSC”) customers, as they do not currently recover their cost of service.
13 Therefore, this proposal will not impact any existing rates for residential customers. Additionally, the volumes
14 associated with the RSC class account for less than 5% of Eastward’s total throughput.

15 The CRP recovery rate mechanism is proposed to be on a sliding scale from \$0.00/GJ up to \$2.00/GJ for the period
16 of January 1, 2025 – December 31, 2026 (end of the current test period). This sliding scale is within the range of
17 the prior CRP BEC, which could vary from \$3.10/GJ to \$8.685/GJ depending on the Company’s competitive
18 position. The sliding scale recognizes that individual energy prices and relative energy prices can be challenging to
19 forecast.

1 Early recovery of the CRP deferral balance, even over the initial two years at the \$2.00/GJ cap, could lead to a
 2 reduction of the CRP deferral balance of up to ~\$30M¹⁰ or 60% and a related customer savings of ~\$7.7M¹¹ in cost
 3 of capital, as opposed to delaying the full deferral balance recovery until 2027 and applying a standard
 4 amortization period (i.e. 10 years). Table 2 below displays an illustrative range of CRP Recovery Rates and the
 5 relevant estimated CRP deferral recovery opportunity.

6 Table 2: Illustrative CRP Deferral Recovery Opportunity Based on 2023 Actual Volumes (GJ)
 7

Rate Class	Annual Usage(GJ's)	CRP Recovery Rate			
		\$ 0.50	\$ 1.00	\$ 1.50	\$ 2.00
RSC	328,820	\$ -	\$ -	\$ -	\$ -
GSC	5,115,660	\$2.558M	\$5.116M	\$7.673M	\$10.231M
RC3	2,411,361	\$1.206M	\$2.411M	\$3.617M	\$4.823M
2025-2026 CRP Deferral Recovery Opportunity		\$7.527M	\$15.054M	\$22.581M	\$30.108M
CRP Deferral Balance at December 31, 2026		\$42.399M	\$34.872M	\$27.345M	\$19.818M

**Based on 2023 actual usage by customer class, not weather normalized*

***Recovery opportunity is an estimate, actual recovery will be based on throughput per customer and relevant CRP Recovery Rate set.*

****CRP Deferral Balance \$49.9M*

*****Assumes a recovery start date of Jan. 1, 2025 and end date of Dec.31,2026*

8
 9 The initial CRP program and its extension allowed Eastward to remain competitive in the energy market during a
 10 time of challenging changes in commodity pricing, which was in the long-term interest of all existing and future
 11 customers. The deferral related to the CRP was intended to be recovered in the future. The current commodity
 12 prices have created an early opportunity for Eastward to take a proactive approach and begin recovery of the CRP
 13 deferral, on the same basis as the original CRP.

14 Eastward believes the current competitive position offers a unique opportunity for early CRP deferral recovery,
 15 which will support customers and rate stability in the long-term. In addition to the positive long-term impacts for
 16 customers, this early recovery would support Eastward by allowing for more timely cost recovery. Eastward
 17 believes this opportunity should be taken, rather than waiting after December 31, 2026 to begin recovery of the
 18 CRP deferral amount.

19 While forecasts are available for multi-year commodity and energy prices, they are subject to change and based
 20 on a number of circumstances – including changing geo-political factors and shorter-term supply and demand
 21 imbalances. As was the case with the CRP, the current proposal would provide Eastward with the flexibility to

¹⁰ This figure illustrates the maximum reduction of the CRP deferral balance based on 2023 actual throughput data in the GSC and RC3 classes and a \$2.00/GJ recovery rate. The actual value recovered will be based on the relevant CRP Recovery Rate set and actual throughput for fiscal years 2025 and 2026.

¹¹ This figure is based on the CRP deferral balance earning 4% and the remaining balance on December 31, 2026 being amortized over 10 years, savings are measured versus a base case which assumes no early recovery of the CRP deferral balance and amortization of the CRP deferral balance starting in 2027 over 10 years.

1 adjust the CRP Recovery Rate within the range of \$0.00/GJ to \$2.00/GJ noted above, based on Eastward's relative
2 competitive position.

3 A proposal would be included in Eastward's next GRA, scheduled to set rates for 2027, for recovery of the
4 remaining CRP deferral balance at the conclusion of the 2024-2026 test period.

5

6 5.0 CRP Recovery Rate Adjustment Process & Notifications

7 During the proposed term from January 1, 2025 to December 31, 2026, Eastward is requesting the flexibility to
8 adjust the CRP Recovery Rate from \$0.00/GJ to \$2.00/GJ for GSC and RC3 customers, based on the relative
9 competitive position of natural gas to other energy sources. Eastward proposes to file a notification letter with
10 the Board relating to any CRP Recovery Rate adjustments and notify the GSC and RC3 customers 30 days in
11 advance of the proposed effective date. Eastward's notification filings will include similar information and follow
12 a similar process as used for the CRP notification process between 2016-2023. Appendix A attached to this
13 Application below provides an example of the form of the notification filing to the Board.

14 To enable the CRP Recovery Rate to commence at \$2.00/GJ effective January 1, 2025, Eastward is providing
15 notification of its present intention in this regard as part of this Application, with any future adjustments following
16 the notification process outlined above.

17 The CRP Recovery Rate will be a discrete line item on monthly bills for GSC and RC3 customers.

18 All amounts recovered from customers related to the CRP Recovery Rate, will be applied directly to the CRP
19 deferral balance on a monthly basis. The annual recovered amounts and the remaining CRP balance will be
20 reported to the Board through the Annual Financial Compliance Filing.

21

22 6.0 Conclusion

23 As noted above, this Application provides an opportunity for Eastward to take a proactive approach in recovering
24 the CRP deferral, while not impacting the overall competitive position within the market. Timely recovery of the
25 CRP deferral will reduce the long-term carrying cost for customers associated with the CRP deferral balance,
26 provide greater customer bill stability and support Eastward by allowing for earlier cost recovery.

APPENDIX A – CRP RECOVERY RATE
ADJUSTMENT NOTIFICATION FORM

CRP RECOVERY RATE & EFFECTIVE DATE

General Service Class (“GSC”) and Rate Class 3 (“RC3”) Customers:

- CRP Recovery Rate: \$XX.XX/GJ – effective XXXX, 20XX

RATIONALE FOR THE CRP RECOVERY RATE IMPLEMENTATION

The intention of the CRP Recovery Rate is to allow Eastward to take a proactive approach in recovering the CRP deferral balance¹² while not impacting the overall competitive position within the market. The flexibility provision allows Eastward to adjust the CRP Recovery Rate between \$0.00/GJ to \$2.00/GJ to ensure competitiveness with other energy sources. Eastward anticipates that implementing the CRP Recovery Rate at \$XX.XX/GJ will not impact Eastward’s current competitive position.

LANDED HISTORICAL PRICING DATA FOR FURNACE OIL, PROPANE, AND NATURAL GAS¹³

Table 1: General Service Rate Class

	Natural Gas General Service \$/GJ	Fuel Oil \$/litre	Propane \$/litre
Jan-24	20.60	1.290	0.609
Feb-24	18.60	1.300	0.655
Mar-24	15.60	1.274	0.605
Apr-24	15.80	1.192	0.636
May-24	16.40	1.115	0.588
Jun-24	16.80	1.107	0.590
Jul-24	16.90	1.153	0.608
Aug-24	17.20	1.085	0.597

¹² Approved as per NSUARB Matter No. M07346

¹³ Data is illustrative of the type of data to go into the actual notification filings with the Board.



Table 2: Rate Class 3

	Natural Gas Rate Class 3 \$/GJ	Fuel Oil \$/litre	Propane \$/litre
Jan-24	16.60	1.120	0.559
Feb-24	14.50	1.130	0.605
Mar-24	11.70	1.104	0.555
Apr-24	12.10	1.022	0.556
May-24	13.30	0.945	0.508
Jun-24	14.40	0.937	0.510
Jul-24	14.60	0.983	0.528
Aug-24	14.30	0.915	0.517

SOURCES & NOTES:

Natural Gas: Monthly Grand Total Variable Charges

<https://eastwardenergy.com/historic-rates/>

Fuel Oil: Monthly wholesale furnace oil pricing (Halifax, NS)

<https://charting.kalibrate.com/>

Propane: Average weekly benchmark price (Sarnia, ON)

<http://www.nbeub.ca/past-petroleum-prices>

Supplier Premium: Both Fuel Oil and Propane include a supplier premium based on market intelligence gathered through Eastward’s sales process and informal discussions with prospective customers

COMMUNICATION WITH CUSTOMERS

Eastward will communicate the CRP Recovery Rate implementation change with GSC and RC3 Customers through the “Special Messages” portion of their bills during the month of XXXX to ensure each customer has the required 30 days’ notice before the effective date of the change on XXXX, 20XX. Eastward provides the language that will appear in the “Special Messages” portion of their bills below:

- “Effective XXXX, 20XX, the CRP Recovery Rate will be implemented at \$XX.XX/GJ.”

