1.0 SUMMARY OF THE APPLICATION

This Application seeks Board approval of:

a. The Revenue Requirement of Eastward Energy as set forth in Section 3;
b. The treatment of income taxes in cash working capital as proposed in Section 6;
c. The depreciation rates found at Section 8;
d. Return on equity of 10.80%, cost of debt of 6.95% for existing debt and proposed methodology for determining the cost of debt on new debt issuances / refinancing of existing debt and the cost of debt for test period forecasting and a debt/equity ratio of 55/45 percent as discussed at Section 10;
e. Continuation of the flexible Recovery Rate Rider, with adjustments, to continue recovery of Revenue Deficiency Account ("RDA") deferral and then begin recovery of the Customer Retention Plan ("CRP") deferral and a continuation of the allowed rate of return on the CRP deferral balance as outlined at Section 12;
f. A reduction in the RDA cap from $50 million to $25 million as described at Section 12;
g. Changes to the weather normalization policy, related to the use of historical averages as described at Section 13;
h. Continuation of the Incentive Program for Multi-Unit Residential Buildings and single-family homes, with adjustments, for the 2027-2029 test period as described at Section 16;
i. An amendment to the Distribution Service Rules discussed at Section 17; and
j. A Schedule of Rates, Tolls and Charges as set forth in the Application at Section 18 to take effect January 1, 2027, for a three-year test period from January 1, 2027, to December 31, 2029.

As the cost of the gas commodity is not regulated by the Board, the requested rate increases relate only to the distribution portion of Eastward's customers' bills.[7] The last time Eastward filed an Application to the Board to adjust these distribution rates was in 2023. Since that time, the Company has expanded its network, increased its customer base, and prudently managed its capital investments and operating expenses, all while providing an essential service to Nova Scotians.

[7] 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.

1.1 Background to the Application

Significantly for the Province, the Company has provided a highly reliable and resilient energy alternative that contributes to a more competitive and diverse energy market. In addition, Eastward provides a reliable energy source that is much more energy efficient than other heavy fuel options[8]. Eastward's new customers are typically moving from heating oil or other higher carbon-intensive energy products to natural gas. Offering an alternative that allows these customers to switch to natural gas service allows these homes and businesses to lower their carbon footprint[9]. On the industrial side, Eastward supports the energy needs of many large industrial and institutional customers across the province. These industries have unique operating needs that cannot be met by electricity, and the presence of natural gas allows an affordable, reliable and lower emitting alternative to light and heavy oil.

Over the past decade, Eastward has faced intensifying competitive pressures, which led the Company to file a Customer Retention Program ("CRP") Application with the Board in 2016, the term of which was later extended to December 31, 2023. At the time of the CRP, Eastward was losing a specific sub-set of commercial customers that were essential to the Company given their size and revenues. The program, which was approved by the Board, offered Eastward the flexibility it needed to defer and lower certain costs in order to reduce rates for these customers and was successful in retaining customers. Eastward prudently managed all costs that were within its control throughout the CRP period to ensure the natural gas system continued to be a viable energy alternative for Nova Scotians. The CRP concluded on December 31, 2023, and the current rates became effective January 1, 2024.

In September 2024, as commodity markets shifted and natural gas experienced favorable pricing as compared to other energy sources, Eastward applied to the Board for approval of a Recovery Rate to begin early repayment of deferrals. While Eastward originally applied to direct the funds collected toward the CRP deferrals, the Board directed the funds be applied to the Revenue Deficiency Account ("RDA") deferral. The Recovery Rate was initially set at $1.00/GJ effective March 1, 2025, and has remained set at $1.00/GJ.

The competitive position of natural gas improved further when the federal carbon tax was decreased to $0/GJ on April 1, 2025. Eastward's subsequent application to the Board to increase

[8] Environment and Climate Change Canada - National Inventory Report - 2025 Edition, Part 2, page 236, Table A4-2
[9] Environment and Climate Change Canada - National Inventory Report - 2025 Edition, Part 2, page 236, Table A4-2

the maximum amount of the sliding scale of the Recovery Rate was denied and as such the Recovery Rate has remained set at $1.00/GJ since March 1, 2025, and is approved within the flexible band of $0/GJ - $1.00/GJ until December 31, 2026.

Eastward is respectfully requesting Board approval of the requests within this Application for new rates over the 2027-2029 period. Eastward believes the gas distribution system provides a significant benefit to Nova Scotians, and this Application, if approved, will ensure the Company is able to move to full cost recovery in the future.

1.2 Aligning with the Energy Transition

The energy industry in Nova Scotia has begun a significant transformation. At the federal level, the Canadian government released its Emissions Reductions Plan, which details how the country intends to meet its target of at least a 40% reduction in emissions from 2005 by the year 2030.[10] Developing a clean-tech industry, transitioning to lower-emitting energy sources, managing carbon pricing, increasing energy efficiency, and deploying innovation are key components of the Emissions Reduction Plan.

In addition to the Federal Government's Emissions Reduction Plan, the Province of Nova Scotia has some of the strongest emission reduction commitments in Canada. The Province is committed to reducing GHG emissions to 53% below 2005 levels by 2030 and achieving net-zero by 2050.[11] The consumer carbon tax was removed as of April 1, 2025, but Nova Scotia remains committed to meeting emissions reduction targets and the Output Based Pricing System ("OBPS") remains in place for large industrial emitters.

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

1.3 A Changing Energy Market

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

[10] 2030 Emissions Reduction Plan.
[11] Bill No. 57 - Environmental Goals and Climate Change Reduction Act.

market. Unlike more mature utilities, Eastward has a small customer base to support future investments associated with the energy transition. Stable long-term contracts to liquid natural gas basins will continue to be crucial to complement new lower-carbon energy sources to aid in this energy transition.

As recently reflected in the updates to the Canadian Electricity Regulations, the role for natural gas is increasingly important for maintaining reliability and underpinning incremental renewable energy sources. Electricity Canada expressed concerns with the ability to meet rising demands on the electric grids and highlighted particular reliability concerns within Nova Scotia[12]. Peak demand requirements are causing supply challenges in electricity systems across Canada giving rise to hybrid heating systems in British Columbia[13], Quebec[14], and Manitoba[15]. Nova Scotia is well-positioned to employ a similar model. This potential has been recognized in legislation under changes to the *Gas Distribution Act* put forth as part of Bill 404 in 2024 that will "*facilitate the use of gas as a hybrid peaking resource to satisfy the integrated electricity system demand*"[16].

Eastward has engaged with the provincial government staff and Ministers several times in recent years to discuss the opportunity that integrated energy systems could provide in the form of hybrid heating. Collaborative efforts and studies are underway to investigate the residential hybrid heating opportunity for Nova Scotia. There will be more work required to understand the holistic opportunity that hybrid heating could provide to Nova Scotia.

As noted above, switching to natural gas service allows homes and businesses that were previously using heating oil or other higher carbon-intensive energy products to lower their carbon footprint.

Eastward continues to experience customer growth. As energy codes become stricter to require more efficient buildings overall energy usage per area is expected to decline. To date, these declines have been offset by increased development and higher density developments. Eastward has continued to expand the system and increase throughput, despite these changes.

[12] Electricity needs to work in the real world | Electricity Canada
[13] The British Columbia electric and natural gas utility, FortisBC, offers a hybrid heating program that provides rebates of up to $10,000 for homeowners who install a dual fuel system combining an electric heat pump with a high-efficiency gas furnace: FortisBC - Dual Fuel Heating System Rebate
[14] Hydro-Québec and Énergir offer a dual-energy program where electricity is used to meet over 70% of heating requirements and natural gas is used as an auxiliary source: Hydro-Québec - Dual Energy and Energir - Dual-energy
[15] Manitoba Hydro's 2023 IRP notes that dual-fuel space heating systems can be a cost-effective way to meet peak demand by delaying or avoiding investment in new electricity resources Manitoba Hydro - 2023 IRP, page 13 & 85
[16] Nova Scotia Legislature - Bill 404 - Energy Reform (2024) Act Section 31(d)

1.4 Eastward's Transition

Eastward has an important role to play in the successful transition to a net-zero economy in Nova Scotia. In recent years, the Company has engaged with governments, industry stakeholders, and customers to better understand their perspectives on energy utilities' role in Nova Scotia's net-zero transition.

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

To further support the transition, Eastward became a founding member of, and continues to be an active participant in, the Atlantic Hydrogen Alliance ("AHA"). Eastward partnered with Dalhousie University to launch the Hydrogen Applications Research Lab to test the impacts of hydrogen blends on customer appliances. The Company continues to explore opportunities to source renewable natural gas ("RNG") as well as exploring the development of a low-carbon hydrogen production facility on the distribution system. This work demonstrates the Company's commitment to do its part to contribute to a cleaner future for the province, and to be an architect of that future, for the benefit of all Nova Scotians.

The Company intends to develop sustainable, resilient, low-carbon energy solutions over time in support of Nova Scotia's transition to net-zero and in alignment with S. 6(2) of the *Energy and Regulatory Boards Act*, which allows the Board to give appropriate consideration to the extent to which rates, tolls, charges, tariffs, and capital applications support sustainable development and sustainable prosperity[18]. Eastward's objectives over the 2027-2029 period are to continue gradually moving toward full cost-of-service, for all rate classes, and continue deferral recovery, while maintaining the delivery of safe and reliable energy to more customers and communities.

1.5 Proposed Rate Adjustments

Prior to the last GRA, Eastward had not increased its approved distribution rates since 2014. The rates implemented in 2024 balanced increasing costs of service against competitive pressures from other energy sources. New rate classes were introduced in 2024 which improved the

[17] Hydrogen Strategy for Canada – Seizing the Opportunities for Hydrogen – A Call to Action, December 2020.
[18] *Energy and Regulatory Boards Act*

effectiveness of billing various types of customers. Eastward believes the new rate classes are effective and remain appropriate and is not proposing any changes to the rate classes in this Application.

The main drivers for the request for rate changes over the test period of 2027-2029 are as follows:

1. The requirement to move towards full cost of service rates in all rate classes, for the best long-term interests of Eastward and its customers;
2. The requirement to maintain a competitively priced energy alternative for Nova Scotians; and
3. The growth in revenue requirement.

The proposed rates in this Application would result in an average overall increase across all rate classes of 0.9% in 2027, 1.2% in 2028 and 1.4% in 2029 from currently approved rates, fully driven by increases to the Residential Service Class.

The average rate increases by proposed rate class and year are included in the tables below.[19] Note that "RSC" represents the Residential Service Class, "GSC" represents the General Service Class and "RC3" represents the Rate Class 3 (i.e., Large Industrial and Institutional Customers).

Table 1.0 – Impact of Distribution Rate Design on Rate Classes

Impact of Distribution Rate Design on Rate Classes				
Year	**RSC**	**GSC**	**RC3**	**Total**
2026	0%	0.0%	0.0%	0%
2027	7.0%	0.0%	0.0%	0.9%
2028	8.0%	0.0%	0.0%	1.2%
2029	9.0%	0.0%	0.0%	1.4%

Table 1.1 – Average Impact of Rate Increases (Monthly Average)

Average Impact of Rate Increases – Monthly Customer Bill			
Year	**RSC**	**GSC**	**RC3**
2027	$6.85	$0.00	$0.00
2028	$8.26	$0.00	$0.00
2029	$9.91	$0.00	$0.00

The residential class requires reasonable rate increases over the three-year test period to move RSC rates closer to full cost recovery and the 95-105 band for revenue to cost ratios. The average

[19] Please refer to Section 15.0 for further details.

rate increases indicated in Table 1.0 are for the regulated delivery portion of customers' bills only. For most customers, distribution rates make up less than half of the total billed costs to customers. Unregulated commodity-related costs therefore make up the majority of customer's bills. As such, commodity prices influence customer's bills to a greater extent than distribution costs. Eastward analyzed the total bill impacts to customers, including commodity costs and an increased Recovery Rate Rider of $1.50/GJ. The average annual impacts to the total delivered gas costs for an average customer in each rate class are outlined in Table 1.2.

Table 1.2 – 2027-2029 Average Bill Impacts by Rate Class[20]

Average Annual Impact to Total Bill by Rate Class			
Year	RSC	GSC	RC3
2027	5.0%	1.1%	1.7%
2028	3.0%	-3.1%	-4.6%
2029	7.0%	1.6%	2.4%

**Recovery Rate Rider of $1.50/GJ and forecasted commodity costs included*

GSC and RC3 rates more closely match cost of service but also include certain equity adjustments and intentional subsidization to aid with the gradual shift in RSC rates towards full cost recovery. For the GSC and RC3 classes, the revenue to cost ratios are shifted closer to the 95-105 band through the test period. In the GSC class, it is proposed that overall rates will not increase, but there will be a shift between the fixed and variable components of the delivery rates. Eastward is not proposing any changes to the delivery rates applicable to its RC3 customers in this Application. The impact on revenue to cost ratios is outlined in Table 1.3.

Table 1.3 – Revenue-to-Cost Ratios by Rate Class

Revenue to Cost Ratios Resulting from Proposed Rates				
Year	RSC	GSC	RC3	Total
2027	59%	114%	114%	100%
2028	63%	114%	117%	101%
2029	69%	109%	108%	100%

1.6 Deferral Treatment

Since the Company's inception in 2003, rates have often been required to be set at levels that are less than what is required to recover the full cost of service. Any shortfalls in the recovery of

[20] Average customers for each rate class assume the following average annual usage: RSC customers 65 GJ annually, GSC customers 1250 GJ annually, RC3 customers 160,000 GJ annually and demand of 950 GJ

the revenue requirement have been deferred to a Revenue Deficiency Account.[21] The Board-approved RDA mechanism has allowed time for Eastward's newly established distribution system to develop while still providing the opportunity for its shareholder to earn a fair return on its investment. As discussed in Section 10 of this Application, Eastward no longer considers itself a "greenfield" utility. However, the Company is also not a "mature" utility, as it does not have well-established customer bases throughout its service areas to generate sufficient revenues to cover the full cost of service across each of its rate classes. Rather, Eastward lies somewhere between the two categories and therefore is properly classified as an "immature" utility. Eastward is mindful of maintaining energy affordability to its customers. As a result the Company continues to propose rates that are less than full cost recovery for the residential rate class, and the RDA remains a strategically important tool and will continue to allow the Company to have investor support as it progresses to reach a "mature" state once it reaches its full cost-of-service for each of its rate classes.

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

The CRP was originally intended to end in 2020; however, the Company filed a CRP Extension Application which extended through to the end of 2023 as competitive issues continued. Throughout the CRP period, Eastward successfully managed the operating costs that were within its control to ensure that there was a viable natural gas system and a resilient energy alternative for the future as Nova Scotia continues its energy transition. Increases to CRP deferrals ceased when the program concluded December 31, 2023.

Commodity prices in 2024 presented a unique opportunity for Eastward to begin early deferral recovery by collecting additional funds from customers and remain competitive against alternative

[21] 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.

energy sources. Eastward therefore applied for a CRP Recovery Rate, with the flexibility to set this rate within an approved range based on current commodity pricing. The Board approved the mechanism but directed funds to be applied towards repayment of the RDA deferral. The Recovery Rate was initially set at $1.00/GJ effective March 1, 2025, and has remained set at $1.00/GJ as of the filing of this Application.

The competitive position of natural gas improved further when the federal carbon tax was decreased to $0/GJ on April 1, 2025. Eastward subsequently applied to the Board to increase the maximum amount of the sliding scale of the Recovery Rate; however, the Board denied the request and the Recovery Rate has remained set at $1 since March 1, 2025, and remains approved for use on a sliding scale of $0/GJ to $1/GJ until December 31, 2026.

Similar to the Recovery Rate mechanism that is in place until December 31, 2026, Eastward recommends the continuation of a flexible rider to continue paydown of the RDA and then direct the funds towards the CRP deferrals when the RDA balance reaches zero. Detailed analysis of the considerations and impacts of the Recovery Rate Rider is discussed in Section 12.

1.7 Income Taxes

In fiscal year 2025, Eastward depleted the remaining balance of its loss carry-forwards and became taxable for the first time. As a result, in Section 6 Eastward outlines the treatment of income taxes in cash working capital until there is enough historical data to formally include in a Lead Lag Study.

1.8 Competitive Rate Structure

Since 2003, Eastward has had a simple rate class structure, based largely on annual GJs consumed. In 2024 a new Residential Rate Class (“RSC”) was implemented. If Eastward is to remain an attractive energy alternative to residential customers, with the current customer composition and required infrastructure investment, full cost recovery in the residential-only class is not achievable at this time. Accordingly, Eastward is proposing rates that do not fully recover residential costs of service in this Application, but gradually move towards it. As such, the RDA remains a useful and required tool to manage customer rates. Eastward continues to utilize the RDA, but suggests approval of a lower capped amount, as described in Section 12.

The timeline for the migration of the residential rate class to full cost of service rates is dependent on relative energy costs, the rate of residential growth and penetration levels. Eastward is proposing a continuation of the incentive program, with minor adjustments, designed to escalate growth for this group, which is described further in Section 16.

The General Service Class and Rate Class 3 achieved full cost recovery under rates in the current test period and will continue to achieve cost recovery under the proposed rates in the upcoming 2027-2029 test period.

There is no change to the previously approved tiered system, with declining block rates, such that as a customer consumes more, their incremental cost will decline. This allows Eastward to match billed revenue to the cost of service while continuing to expand the gas distribution infrastructure and serve more customers in its franchise area. It also allows Eastward to compete with other energy providers, and better reflects the actual costs to serve customers, given that the marginal cost to deliver higher volumes is minimal once a service line has been installed.

The requested rate changes in this Application are intended to bridge the Company towards each customer rate class paying its true cost of service.

Table 1.4 below presents the current Board-approved rates and the proposed rates and rate classes. More detail is provided in Section 15.

Table 1.4 – Existing and Proposed Rates and Rate Structure

Fixed monthly customer charge ($ per month)			
Year	Residential Service	General Service	Rate Class 3
2026 Approved Rates	29.00	65.00	1995.54
Requested for 2027	30.00	67.50	1995.54
Requested for 2028	31.00	70.00	1995.54
Requested for 2029	32.00	72.50	1995.54

Base energy charge ($ per gigajoule)					
Year	Residential Service	General Service			Rate Class 3
	All volumes	First 15 GJs/Month	Next 400 GJs/Month	Additional	All volumes
2026 Approved Rates	12.349	9.142	5.943	5.693	0.167
Requested for 2027	13.398	8.931	5.943	5.693	0.167
Requested for 2028	14.724	8.722	5.943	5.693	0.167
Requested for 2029	16.376	8.514	5.943	5.693	0.167

Demand charge ($ per gigajoule per month)			
Year	Residential Service	General Service	Rate Class 3
2026 Approved Rates	Not Applicable	Not Applicable	30.85
Requested for 2027	Not Applicable	Not Applicable	30.85
Requested for 2028	Not Applicable	Not Applicable	30.85
Requested for 2029	Not Applicable	Not Applicable	30.85

Please note that Rate Class 4 (RC4) includes extra-large customers which are specific negotiated rates, due to the uniqueness of the customers qualifying and the facilities required to serve them. Eastward does not currently have any RC4 customers, therefore this rate class is not displayed in Table 1.4.

1.9 Business Risk & Return on Rate Base

As more fully described in Section 10, Eastward continues to face high levels of business risk in comparison to its early operations. Eastward considers the following to be its primary business risks:

- Low-Carbon Energy Transition
- Cost of Decarbonization
- Energy Efficiency & Electrification
- Competitive Landscape
- Gas Supply
- Deferral Recovery
- Maturity Level of the Utility

In the longer term, the utility industry faces complex transformational challenges associated with climate change and decarbonization, and also with shifting consumer preferences. Although Eastward is actively pursuing alternative energy solutions that will play a significant role in assisting the Province in meeting its climate objectives, these solutions will take time to implement in the market. Unlike more mature utilities, Eastward has a small customer base over which to recover any future investments associated with the energy transition.

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

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

Despite Eastward's increased risk profile from earlier years, the Company is proposing only a marginal increase to return on equity. Eastward believes that the following cost of capital parameters provide an equitable position for customers and investors. Eastward is requesting:

a. Return on equity of 10.80%, compared to the current allowed return of 10.65%;
b. Debt to equity structure to be maintained at 55/45 percent; and

c. Cost of debt maintained at 6.95% for existing debt and a proposed methodology for determining cost of debt on new debt issuances and refinancing of existing debt.

While market conditions at this time suggest that each of these factors may warrant higher rates to adequately compensate investors for the risk profile, Eastward is proposing only a marginal increase to return on equity. This is to ensure Eastward continues to have a competitive offering to customers and can achieve full cost recovery in the future.

1.10 Conclusion

Nova Scotians are currently facing significant economic pressures as a result of geopolitical instability and economic tariffs. Eastward understands that any rate adjustments impact its customers. Eastward also believes it has an important role to play in the future of Nova Scotia for the benefit of its customers and the energy system as a whole, and in order to do so, continued support from investors will be required.

In the 2024-2026 test period Eastward achieved cost of service for GSC and RC3 customers and shifted RSC customers closer to meeting their cost of service. In this Application Eastward proposes to maintain the commercial classes rates and continue to progress the residential class closer to cost of service.

During the 2027-2029 test period, Eastward expects to continue with prudent rate base growth while diligently monitoring its operating expenses to provide customers with safe, reliable and affordable utility service. Eastward is mindful of the bill impact to customers; and believes the proposed Application is a fair and principled approach to customers and investors to support the utility given the current economic climate.

1.11 Appendices & Expert Consultant Reports

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

- Appendix 1: Inter-Affiliate Study
- Appendix 2: Deprecation Report
- Appendix 3: Cost of Capital Study
- Appendix 4: RBC Memo
- Appendix 5: Capitalization Policy
- Appendix 6: Audited Financial Statements

- Appendix 7: Cost Allocation and Rate Design Study
- Appendix 8: Distribution Service Rules (Clean)
- Appendix 9: Distribution Service Rules (Redline)
- Appendix 10: Tariff Book

Sections 2 to 18 of this Application, together with historical information and forecast information for 2026, provide material in support of the determination of a revenue requirement for each of the years in the three-year test period, 2027 to 2029. Included in these sections are schedules concerning capital expenditures, operating, maintenance and administrative expenses, amortization and depreciation, income taxes, working capital, rate base, and cost of capital.