DECISION **2025 NSUARB 13**
M10960

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE GAS DISTRIBUTION ACT

- and -

IN THE MATTER OF A GENERAL RATE APPLICATION by **EASTWARD ENERGY INCORPORATED (formerly Heritage Gas)** for the approval of amendments to its Schedule of Rates, Tolls and Charges

BEFORE: Stephen T. McGrath, K.C., Chair
Roland A. Deveau, K.C., Vice Chair
Steven M. Murphy, MBA, P.Eng., Member

APPLICANT: **EASTWARD ENERGY INC.**
David MacDougall, Counsel
Melanie Gillis, Counsel

INTERVENORS: **CONSUMER ADVOCATE**
David J. Roberts, Counsel
Michael Murphy, Counsel

BOARD COUNSEL: William L. Mahody, K.C.

FINAL SUBMISSIONS: October 28, 2024

DECISION DATE: **January 21, 2025**

DECISION: **The Board directs Eastward to implement changes to its Mains Feasibility Test and compliance reporting as set out in this decision.**

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1.0 SUMMARY

[1] Eastward Energy Incorporated (Eastward) justifies the expansion of its gas distribution system through certain economic feasibility tests. In its decision on Eastward's recent general rate application, the Board directed Eastward to conduct a comprehensive presentation and analysis of its Mains Feasibility Test (MFT), which is the test it uses to assess gas distribution expansion projects that are contiguous to its existing system.

[2] Eastward responded to this directive in a compliance filing on April 30, 2024. Its presentation provided an overview of the MFT, highlighting recently implemented and planned improvements. The Board retained Energy Consultants International (ECI) to review Eastward's compliance filing.

[3] ECI filed a report with the Board that reviewed Eastward's compliance filing. While ECI supported the continued appropriateness of much of the MFT, it recommended certain changes to the MFT and Eastward's annual feasibility test reporting requirements. Eastward accepts many of ECI's recommendations, but it opposes certain recommended changes.

[4] Subject to the Board's findings in this decision, the Board directs Eastward to apply the MFT with the recently implemented and pending improvements it identified in its compliance filing. The Board also directs Eastward to implement ECI's recommendations, except where otherwise noted in this decision.

2.0 BACKGROUND

[5] In a decision dated September 21, 2023, the Board approved rate increases for Eastward in 2024, 2025 and 2026 (2023 NSUARB 166). As is typical in general rate applications, many issues were raised in the proceeding and considered by the Board.

Board Counsel consultant, Quantiv Advisory LLC (Quantiv), raised an issue about the appropriateness of Eastward's feasibility tests.

[6] Eastward must apply economic feasibility tests to proposed gas distribution network expansions. Eastward uses a Community Feasibility Test (CFT) when evaluating expansion into a new geographic area. As noted, it uses the MFT for projects that are contiguous to its existing system. Additionally, a Residential Retrofit Assistance Fund (RRAF) was created to allow projects that would otherwise not pass MFT thresholds for expanding the gas distribution system to serve more residential customers throughout the service area.

[7] In its decision in an earlier general rate application (2009 NSUARB 15), the Board directed Eastward (then Heritage Gas Limited) to include information about the MFT calculation parameters in its next general rate application. In its most recent general rate application, which was the first since the Board's 2009 decision, Eastward proposed no adjustments to the MFT, CFT, or RRAF and asked that they stay in place.

[8] In its evidence in that proceeding, Quantiv said Eastward did not directly address the Board's directive from its 2009 decision but instead asked the Board to accept its 5-year true-ups for completed projects, which it files each year, as a proxy for the relevancy of the MFT. Quantiv did not agree with Eastward and recommended that Eastward review all MFT calculations. In its rebuttal evidence, Eastward stated that it had completed a detailed review of the MFT calculation parameters and process (which it included in an appendix in its rebuttal evidence) and provided findings and opportunities for improvement.

[9] In its opening statement for Eastward's recent general rate application hearing, Quantiv stated:

> Quantiv appreciates the thoughtfulness of Eastward's proposed upgrades to the MFT Test to enhance the effectiveness of the test.
>
> Given the criticality of the MFT Test to invest in new assets, Quantiv suggests that Eastward conduct a comprehensive presentation and analysis of the MFT test as proposed, including:
>
> - A narrative description of the MFT Test and financial model used.
> - Descriptions of all variables (current and proposed).
> - Justification for the incorporation of each variable (current and/or proposed) and the inputs used to set/calculate each variable (eg. project costs, inflation, discount factors, penetration rates, etc.).
> - Analysis of a sample project, showing representative effects/outputs of proposed changes to variables and inputs.
>
> [Exhibit E-35, p. 2]

[10] In its decision, the Board agreed with Quantiv and directed Eastward to file a comprehensive presentation and analysis of the MFT, including the items Quantiv suggested in its opening statement, in a compliance filing no later than April 30, 2024.

[11] Eastward submitted its compliance filing on April 30, 2024. Its presentation provided an overview of the MFT, highlighting recently implemented and planned improvements. It also showed the application of the MFT through an example project.

[12] The Board retained ECI to review the report and provide comments and recommendations on the following:

- Eastward's responses to Quantiv's recommendations;
- any other changes to the MFT that ECI would recommend;
- whether the MFT is providing the right information to assess investments in new assets;
- whether the data in Eastward's annual MFT compliance reports are representative;
- whether Eastward provides the right data in the right format;

- better ways to analyze and present the information in the annual MFT compliance reports;
- whether Eastward is not currently providing information that it should provide; and
- the MFT and its role in the energy transition, including whether it is the right test to decide if Eastward should expand its system considering decarbonization trends in the energy and utility industries.

[13] ECI submitted its report to the Board on August 26, 2024. ECI's report included recommended changes to the MFT and Eastward's annual feasibility test reporting requirements. Information Requests (IRs) were sent to both Eastward and ECI, with responses provided on October 7, 2024. The Consumer Advocate filed its final submission on October 21, 2024. Eastward filed its final reply submission on October 28, 2024. Although Eastward accepts many of ECI's recommendations, it opposes certain recommended changes.

3.0 ANALYSIS AND FINDINGS

3.1 Quantiv's Mains Feasibility Test Recommendations

[14] ECI considers Eastward satisfactorily responded to Quantiv's MFT recommendations or has plans to address them. However, there are issues the Board considers should be specifically addressed.

3.1.1 Operating Cost Per Customer

[15] Eastward includes an operating cost component in its MFT for the incremental cost of attaching a new customer. This represents the added costs for things such as equipment inspection and meter reading, and office activities like customer

service and accounting. In its report ECI notes that Eastward has used $120 per year as the incremental operating cost per customer in its MFT since at least 2009. In its compliance filing, Eastward proposes to move to an annual review and update of this figure. It estimated it would complete the update in the last quarter of 2024.

[16] ECI agrees that Eastward should develop an improved estimate of the incremental cost of adding customers. ECI does not expect that the incremental cost is the same for all rate classes and says Eastward should reflect this in the MFT calculations. ECI supports Eastward's plan to incorporate inflation into the operating cost estimates.

3.1.1.1 Findings

[17] The Board directs Eastward to file its updated incremental operating cost estimates for new customers, by rate class, within two weeks of the date of this decision or provide the Board with the reasons why completion of this update has been delayed and identify a revised date for filing its updated incremental operating cost estimates.

3.1.2 Expression of Interest Inclusion Rate

[18] In estimating revenues under the MFT, Eastward assumes that 100% of potential customers who have signed Distribution Service Agreements (DSAs) will connect to the expanded gas distribution system and 50% of potential customers who have provided an Expression of Interest (EOI) will connect. The Board has allowed Eastward to include potential customers who have expressed an interest in receiving service in the MFT since 2014. The Board commented on the definition of Expression of Interest in its decision at that time:

> [11] Heritage [now known as Eastward] requested Board approval that the definition of committed customers include 50% of forecast revenues from customers who have provided an Expression of Interest ("EOI") which is defined as:

> **Expression of Interest (EOI)**
>
> EOI is a classification that captures any potential customer wishing to receive gas that meets the following criteria:
>
> Potential customer is on an existing main with no digging restrictions (i.e. paving bans), or
>
> Potential customer is on a main that is planned for construction, or
>
> Potential customer is very close to an existing main and it is estimated that providing service would pass any required feasibility test, and
>
> Customer has expressed an interest in using natural gas and initiating the process to acquire service.
>
> Based on an EOI, Heritage Gas will start the process of determining meter location, calculating any customer contribution and establishing the Requested Target Activation date. An EOI is not required if a potential customer is willing to sign a DSA right away and make commitment to use gas, or if there is already service provided to the building.
>
> [Exhibit H-1, pp.6-7]

[2014 NSUARB 41]

[19] ECI says that recent experience with the number of customers who provided an EOI and have then actually connected to the gas distribution system has been lower than the 50% currently used in the MFT. It recommended monitoring this situation:

> At the present time, ECI recommends no change to the EOI inclusion rate in MFTs. However, ECI recommends that this be monitored more closely in the coming years. Eastward already reports on the percentage of EOIs that become activated customers in its annual FT Compliance Report. ECI recommends Eastward provide tables similar to the tables above showing the past seven years of historical EOIs progressing to activation in its annual FT compliance reports.
>
> If Eastward reports a continuing trend of less than 50% of EOIs activating after several years, then the Board should revisit this assumption and potentially direct a lower EOI inclusion rate be used in the MFT.

[Exhibit E-46, p. 15]

[20] The Consumer Advocate says he shares ECI's apparent concern about the current inclusion rate. He noted that "considering the uncertainty in the MFT regarding the incremental operating cost per customer, it seems advisable to make the MFT more

conservative, if only as an interim measure (such as by decreasing the EOI inclusion rate from 50% to 25%, for the next one or two years)”. The Consumer Advocate also says that there should be “further reporting from EEI [Eastward] in each of the next two years to determine if the EOI inclusion rate should be reduced to more accurately reflect customer uptake”.

[21] Eastward disagrees that the MFT should use a lower EOI inclusion rate. Additionally, it suggests that in looking at actual results, it would be more appropriate to also include the number of customers who expressed an interest in connecting to the system after Eastward originally conducted the MFT assessment and then later did so.

[22] Eastward submits that its method is already more conservative than what some other gas distribution utilities use and concurred with ECI that there may be factors other than customer interest that could account for any delay or deferral of customer activation. However, it says it will continue to monitor the accuracy of the 50% EOI inclusion rate in its annual MFT compliance filings.

3.1.2.1 Findings

[23] The Board is also concerned about the reliability of the current EOI inclusion rate but agrees there could be reasons, such as the availability of contractors or the delay of development projects, that may have caused potential customers to delay connecting to the system, other than changing their mind after expressing an interest in doing so. Regardless, it is a trend that must be closely watched, and if it persists, acted upon.

[24] As recommended by ECI, the Board directs Eastward to include tables in its annual MFT compliance reports like those provided in response to NSUARB IR-12 showing the past seven years of historical EOIs progressing to activation.

3.2 ECI's Recommended Changes to the Mains Feasibility Test

[25] ECI summarizes its recommended changes to Eastward's MFT as follows:

> ECI recommends the following changes be made to the MFT:
>
> 1. Institute a minimum 7-year profitability ratio and 25-year NPV ratio for a project to be included in the main extension portfolio. ECI recommends a minimum ratio of 0.7, but recognizes other minimum ratios could be used.
>
> 2. Apply the MFT for on-main residential customer attachments to determine if a contribution in aid of construction is required. If a customer is receiving incentives from Eastward, the contribution should be applied on a volumetric basis and collected over a period of years.
>
> 3. When enough of its customers are installing hybrid heating systems to have a material impact on the MFT results, Eastward should study these consumption trends and incorporate them into the MFT.
>
> 4. The Board should review the profitability of Eastward's main extension portfolios when Eastward files its five-year true-ups and consider whether to hold Eastward's shareholder accountable for uneconomic main extension portfolios by curtailing the accruals to the RDA sufficiently to make the portfolio economic.
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> [Exhibit E-46, p. 37]

[26] Aside from the third recommendation, Eastward opposes these changes.

3.2.1 Minimum Portfolio Profitability and NPV Ratios

[27] In 2014, the Board allowed Eastward (then Heritage Gas) to use a proposed portfolio approach for the MFT, which the Board described in its decision:

> [17] To provide a less restrictive approach to project economics, Heritage proposed a portfolio approach:
>
> > Heritage Gas is proposing that the average of MFT calculations for all main extension projects (in a calendar year and excludes residential retro-fit projects that are dealt with in Section 3.4 below), using a portfolio approach, should be used to determine if Heritage Gas should proceed with potential projects. In other words, individual main extensions that pass MFT requirements by a significant margin will increase the average of MFT calculations for all main extension projects included in the portfolio and provide Heritage Gas with the ability to pursue some individual, less-profitable projects that would otherwise not pass their independent MFT hurdles.
>
> [2014 NSUARB 41]

[28] After reviewing data from 2013 through 2023, ECI notes there have been some main extensions that had very low profitability ratios. Eastward's Spryfield

expansion and three other projects (Quinpool from Pepperell, London and Riverton) have not benefited ratepayers as the profitability ratios are well below the threshold of 1.0. In addition, most of these expansions have had declining profitability since Eastward made its decision to proceed with them.

[29] Based on its review, ECI observes:

> - Since 2016, there have been very few main extensions with profitability ratios below 0.7.
> - Main extensions that have very low ratios are not likely to attract sufficient customers in the near- to medium-term to become profitable.
> - Main extensions with profitability ratios below 0.7 are unlikely to positively contribute to paying down the RDA at any point in the 25-year analysis period. As explained by Eastward, mains with a 7-year profitability ratio in excess of unity result in downward pressure on the RDA over the long term. If the profitability ratio never reaches unity, the main extension will continue to negatively affect the RDA.
>
> [Exhibit E-46, p. 29]

[30] ECI recommends that the Board set minimum profitability and NPV ratio thresholds for projects in Eastward's portfolio. It noted:

> Minimum profitability and NPV ratio thresholds will reduce the amount of cross-subsidization between customers that attach within each year's portfolio. ECI recommends a minimum ratio of 0.7 for projects to be included in the portfolio, although ECI recognizes that this is an arbitrary threshold. ECI also recommends that Eastward be permitted to apply to the Board for approval to include projects in the portfolio that do not meet this threshold. This will allow Eastward to include projects if there are special merits to the project, such as allowing for additional, economic main extensions to proceed in the future.
>
> [Exhibit E-46, p. 29]

[31] The Board rejected this same recommendation from ECI in its decision in 2014, but ECI feels that it is worth revisiting as 10 years of data is now available to review.

[32] Eastward opposes this recommendation and said that it "is concerned that implementing a minimum threshold for individual MFTs would cause additional conservatism when selecting projects, which can potentially lead to rejecting projects that would have had a favourable impact on the RDA over time". Eastward states:

> Eastward disagrees with the recommendation to only allow main extensions that meet 7-year profitability ratios and 25-year NPV ratios of 0.7 or greater to be included in the annual portfolio of main extensions. Eastward believes that the Portfolio approach was implemented to assist system expansion in existing neighbourhoods regardless of individual MFT results. If individual projects had minimum requirements Eastward risks rejecting projects that could become profitable within a short horizon to the benefit of all customers. It would also hinder the flexibility to proceed with a project earlier than when all written commitments have been received when some customers have a short timeline for activation and may be forced to choose alternate energy sources and subsequently not utilize gas when the main proceeds in the future. Eastward further believes that the Portfolio MFT results continue to protect existing customers from overly aggressive expansion while providing Eastward with the necessary flexibility to construct projects ahead of achieving the customer commitment as required by current MFT rules.
>
> [Eastward Rebuttal Submission, p. 8]

3.2.1.1 Findings

[33] In its 2014 decision, the Board noted:

> [24] The Board agrees with the parties that moving to a portfolio approach is appropriate. The Board observes that the RDA is decreasing and will not be significantly impacted in the long term. It appears existing customers will not be significantly impacted and this change will allow more customers, in particular residential, to be connected to the system at a faster pace.
>
> [25] The Board is not prepared at this time to implement minimum profitability and NPV thresholds as recommended by ECI. The Board accepts Heritage's argument that its current approach is already conservative, given that it will only include committed customers for purposes of forecasting revenue. Ongoing oversight and review of portfolio projects by the Board will continue to ensure that neither the RDA nor existing customers are being negatively impacted. If, in future, the Board finds that the RDA or existing customers are significantly impacted due to the portfolio approach, it will revisit the issue.
>
> [2014 NSUARB 41]

[34] More than 10 years later, the RDA continues to exist. In paragraph 4 of the Board's 2014 decision, it noted that, "In its September 30, 2013 filing of reports/reconciliations for the six month period ending June 30, 2013, Heritage reported an RDA decrease from $44.5 million to $39 million." In its 2023 Year End Compliance Filing (M11774), Eastward reported that its RDA balance had increased approximately $3.1 million in 2023 to $27.7 million. This is consistent with the RDA forecast provided by Eastward in its general rate application, which projected continuing increases through the

test period to a forecasted balance of $33.9 million by the end of 2026 (Exhibit E-1, p. 33).

[35] If this forecast were to hold, the net reduction in the RDA since the Board's 2014 decision would be only $5.1 million from 2014 to 2026. This is not to suggest that the current balance in the RDA was significantly impacted by the portfolio approach, but rather to note that the longstanding nature of a deficiency account that was originally projected to be paid within five years when it was approved in 2004 is becoming an increasing concern, particularly in the context of the energy transition. As an aside, the Board notes that it recently provided Eastward with the flexibility to increase rates by up to $1/GJ and apply the increased recovery against the RDA balance.

[36] In its decision on Eastward's recent general rate application, the Board noted that Eastward Energy was somewhat at a crossroads due to the energy transition (2023 NSUARB 166, paras. 20-43). Government policies promote electrification and while there may be a role for Eastward to play in the achievement of decarbonization goals, much work is necessary to assess whether that theoretical role can become a reality in a way that is economically viable in Nova Scotia. Based on Eastward's evidence and submissions in this proceeding, that work is ongoing. At this point, however, there is still considerable uncertainty.

[37] ECI discusses some of this uncertainty in its evidence:

> ECI was also tasked to evaluate whether the MFT was providing appropriate information to evaluate investments in new main extensions, especially in light of the ongoing energy transition towards decarbonization and electrification of energy end uses. The MFT does not directly address the energy transition, but the MFT results will be affected by changes in consumption patterns that are anticipated from the energy transition. These consumption patterns will be especially affected by the electrification of heating and the adoption of hybrid heating systems consisting of electric heat pumps and gas furnaces or boilers. These consumption patterns will need to be studied, but in ECI's view there is not likely to

> be sufficient data at this time to inform any changes to the consumption estimating process or the MFT.
>
> [Exhibit E-46, pp.3-4]

[38] While the Board accepts that the absence of data poses considerable challenges for decision-making, uncertainty cannot justify “business as usual.” Potentially significant impacts on customer consumption and consumption patterns, and the risk of stranding assets may, in some cases, call for more conservatism.

[39] That said, the Board finds that accepting ECI’s recommendation to adopt minimum profitability and NPV ratio thresholds of 0.7 is not particularly conservative. As noted by ECI, there have been very few main extensions with profitability ratios below 0.7 since 2016 and extensions with profitability ratios below 0.7 are unlikely to positively contribute to paying down the RDA at any point in the 25-year analysis period. ECI, in its response to Eastward IR-3(b), considered that “…a more appropriate way to describe a minimum MFT threshold in the portfolio would be to limit expansions that have little to no hope of achieving profitability or ceasing to be a burden on existing ratepayers.”

[40] The Board directs Eastward to include minimum profitability and NPV ratio thresholds of 0.7 in its MFT. Eastward may apply to the Board for approval to include projects in the portfolio that do not meet this threshold if there are special merits to the project, such as allowing for other, economic, main extensions to go ahead in the future.

3.2.2 Applying the Mains Feasibility Test to On-main Residential Connections

[41] Currently Eastward does not use the MFT for residential customers that join the system on already existing mains (infill customers). Eastward states that a residential service connection would require an annual consumption of approximately 70 GJ in the Halifax Regional Municipality (HRM) and 35 GJ in other areas to meet the profitability

thresholds (using 2023 data). Customers in HRM would need to have natural gas primary space heating to consume enough to pass the MFT thresholds. Eastward collects a contribution if the customer does not install natural gas-fired primary space heating or water heating but did not explain how it calculates the contribution.

[42] ECI notes that the cost used to calculate the 70 GJ/year crossover point is $9,486 in 2023. However, that cost has increased to $12,300 in 2024. As such, the minimum annual consumption needed to satisfy profitability thresholds in 2024, by ECI's estimation, would increase to 95 GJ (as opposed to the 70 GJ in 2023). ECI says that if Eastward provides incentives, the customer would need to have an even higher level of annual consumption to meet the minimum thresholds. ECI further notes that the Board should review the issue of incentive payments soon because of their impact on the economic feasibility of residential infill customer additions.

[43] ECI states that Eastward should use the MFT to assess whether it is economic to connect residential customers who are already situated near an existing gas main. In response to NSUARB IR-4(b), Eastward states that only 22% of all new residential infill customers in the HRM consumed 95 GJs or more (ECI's estimate of the breakeven point in 2024), and that the actual breakeven point for a residential infill customer using 2024 costs (and incentives) is 116 GJs in HRM. Therefore, the Board concludes it is likely that most new infill customers in HRM in 2024 do not consume enough gas to make the service connection economically feasible, and current customers are subsidizing the addition of these customers.

[44] ECI recommends that Eastward use the MFT to decide whether it needs a contribution in aid of construction, even in the case of new infill customer additions. ECI notes that requiring a contribution to construction costs from a customer who is also

receiving a financial incentive to connect to the system is inconsistent but suggests that Eastward could still obtain contributions from such customers through volumetric charges over time instead of collecting them up front. The Consumer Advocate notes that he does not support the recommendation to apply a volumetric charge to cover a customer contribution.

[45] Eastward disagrees with the application of the MFT to infill additions. It submits that the MFT considers costs of both mains and services (all DSAs and 50% of EOIs) at the time of mains construction. The MFT does not individually analyze those services included with the main. Eastward said adding an individual test for infill customers that attach after mains construction places an uneven burden on those customers that do not sign a DSA or formally express an interest at the time of main development. Eastward also submitted that its Distribution Service Rules already provide easily and consistently applied general requirements for a contribution in aid of construction from customers. These rules require a contribution for all lengths on private property exceeding 20 metres, as well as a flat rate that Eastward applies to activations that do not include a full heating system.

3.2.2.1 Findings

[46] While the Board is concerned that the cost of connecting new residential infill customers may not be recovered from them over the period of time used in the MFT, if at all, there are practical difficulties in addressing this concern at this time, given the inconsistency with offering incentives to customers (which the Board approved up to the end of 2026 in Eastward's recent general rate application), and given the existing approved service connection rules. The Board finds it would be better to consider this concern, along with the continued justification for financial incentives and whether the

existing service connection rules require changes, in Eastward's next general rate application. The Board directs Eastward to do so. However, the Board may start a separate review if connection costs continue to escalate beyond the point of economic feasibility, or if Eastward does not file a general rate application to set new rates for 2027.

3.2.3 Shareholder Accountability

[47] ECI reviewed Eastward's portfolio results and true-up for its 2014 – 2019 projects. Except for 2014, these projects (at the portfolio level) were economic at the 5-year true-up. ECI states:

> While Eastward has maintained a good track record of delivering profitable main extension portfolios, this may not be the case in the future. For example, the 7-year profitability ratio for the 2017 construction portfolio significantly declined. Only because its initial ratio was substantially above unity at 1.75 did this ratio remain above unity five years later. The Board could consider adding a process to make Eastward's shareholder accountable for portfolio true-ups that do not meet the profitability or NPV ratio unity threshold.
>
> [Exhibit E-46, p. 35]

[48] ECI notes that the Ontario Energy Board found it could hold utility shareholders responsible (apportioned with ratepayers) for significant variations between the forecast and actual number of customer attachments, volumes and costs. ECI recommends the Board check the true-up results and consider acting when the portfolio has not met the minimum profitability thresholds.

[49] Eastward says it is not appropriate to hold Eastward's shareholders accountable for annual portfolios that fall below the minimum profitability or NPV ratio thresholds, as Eastward currently uses stringent criteria for determining which projects are included in the portfolio, using only potential revenues from committed customers (in the form of DSAs) and 50% of the expected revenues from interested customers (in the form of EOIs).

3.2.3.1 Findings

[50] The Board accepts that a reasonable application of the MFT based on the Board-approved method should not invite a presumption of shareholder responsibility if Eastward does not meet reasonable forecasts. The Board continues to have the ability to act in instances when there is a specific finding of imprudence in relation to the development of estimates or the application of the MFT.

3.3 ECI's Recommended Changes to Annual Feasibility Test Compliance Reports

[51] ECI summarizes its recommended changes to Eastward's annual feasibility test compliance reports as follows:

> ECI recommends the following changes to the annual FT compliance reports:
>
> 1. Capital cost variance explanations should only be required for variances in excess of 25% or $100,000, for both portfolio projects and RRAF projects.
>
> 2. Discontinue reporting of the average rate base per customer for RRAF projects, unless the Board attaches greater import to it, or if the Board wants to make this a third feasibility test for individual RRAF projects.
>
> 3. Eastward should provide tables similar to the tables provided in response to NSUARB Staff-IR-12 showing the past seven years of historical expressions of interest ("EOIs") progressing to activation.
>
> 4. Eastward should provide a true-up of the RRAF projects undertaken five years previously, showing the location or project name, initial numbers of customers (DSAs, EOIs, and activations), updated number of activated customers, and initial and updated: capital costs for mains, total capital costs, profitability and NPV ratios, and theoretical RRAF draw.
>
> 5. Eastward should provide a table with its annual compliance reports that shows the original forecast and actual customer numbers and volumes by rate class for each of the past five years, along with explanations of material variances.
>
> [Exhibit E-46, p. 48]

[52] Eastward agrees with the first three recommendations, but not the last two.

3.3.1 Five-year True-up of Residential Retrofit Assistance Fund Projects

[53] ECI recommends that Eastward provide a true-up of RRAF projects, like the one Eastward provided in response to NSUARB IR-24, and explained:

> Ideally, this true-up should also show that additional customers have attached to the main in the intervening years and that the profitability and NPV ratios have improved. If the true-up shows that these ratios have not increased, then this provides useful information that the RRAF is not an appropriate use of investment dollars and results in continued undue cross-subsidization of RRAF customers at the expense of Eastward's other customers. If the profitability and NPV ratios have declined, the Board may wish to inquire into the specific reasons why.
>
> ECI recommends that Eastward provide a true-up of the RRAF projects in its annual FT compliance report. The true-up should include the location or project name, initial customers (DSAs, EOIs, and activations), updated activated customers, initial and updated capital costs for mains and total, initial and updated profitability and NPV ratios, and initial and final theoretical RRAF draw.
>
> [Exhibit E-46, p. 47]

[54] Eastward disagrees with this recommendation and emphasizes that it created the RRAF to allow distribution service to more residential properties throughout the service territory. It notes that projects included in the RRAF typically will never achieve a passing standalone MFT, even if penetration achieved 100%. Eastward says an economic true-up of the RRAF is not a proper measure to assess the success of the RRAF program and is inconsistent with the intent of the Fund.

[55] Eastward submits that the RRAF has been a successful tool allowing it to expand the natural gas distribution system to residential areas that otherwise would not have been able to meet MFT requirements. Eastward submits that since it can only use the RRAF to a maximum of $500,000 per year, it poses a low economic risk.

3.3.1.1 Findings

[56] The Board understands that the RRAF supports expanding the gas distribution system to residential customers in cases where it may not be economic to do

so. But as previously noted, Eastward should not assume a “business as usual” approach in the face of the energy transition. Programs that support the uneconomic expansion of Eastward’s system compound the stranded asset risk. While the Board is not suggesting that the RRAF needs changing at this time, the enhanced reporting ECI recommends will give the Board and other interested parties more information to make better informed decisions about the RRAF in the future. The Board directs Eastward to include the information ECI recommends about the RRAF in its annual reports.

3.3.2 Customer and Volume Variance Reporting

[57] ECI notes that although Eastward plans to formalize its consumption estimation process to inform development of the MFT, Eastward should provide more information to help the Board understand how the original consumption estimates vary from actual consumption. ECI therefore recommends that Eastward provide a table in its annual compliance reports showing the original forecast and actual customer numbers and volumes by rate class for each of the prior five years. ECI said Eastward should comment on variances in customer numbers and volumes and explain whether and how it will address these variances in its consumption estimating process.

[58] Eastward believes it is already providing enough information:

> Eastward currently provides a forecast of customer counts for the most recent year in its MFT Compliance Filing in the form of DSA’s and EOIs and then updates these forecasts to actual counts in the five-year true-up. In Appendix 8A of Eastward’s Year-End Financial Compliance Filing, Eastward provides a detailed revenue analysis by customer class, which also shows the consumption by rate class in GJs. In addition, in Appendix 8B of its Year-End Financial Compliance Filing, Eastward provides a detailed activation analysis for each rate class, which also shows activations in each service territory. As per the NSUARB’s Decision in NSUARB Matter M11454 (Eastward Energy Request to Discontinue Certain Reports), Eastward’s Annual Franchise Reports from 2024 onward also include actual customer counts and GJs billed for each rate class for the previous 5 years, along with the forecasted customer accounts and GJs billed for the next 3 years. As such, Eastward believes that it is already providing information on forecasted and actual

> customer counts and consumption per rate class through its existing annual reporting requirements and proposes to continue to report in this manner.
>
> [Eastward Reply Submissions, p. 12]

3.3.2.1 Findings

[59] While the Board acknowledges that Eastward already provides information about customer counts and consumption by rate class, this information does not allow the Board to readily assess project level assumptions about customer counts and consumption or provide the variance analysis from Eastward contemplated by ECI. The Board directs Eastward to include the information ECI recommends in its annual reports.

[60] In Matter M11732, the Board directed Eastward to include a sensitivity analysis in future applications for expansions:

> The Board finds the short-term demand forecast used for this application reasonable. However, there is higher risk in the longer-term forecasts due to the energy transition. Eastward noted that its current forecasts consider improved energy efficiencies and increased electrification, resulting from climate change policies and more stringent energy performance requirements in the new National Energy Code for Buildings, and as a result, its forecasted average usage per unit declines. However, Eastward must be increasingly prepared to show and justify long-term forecasts used for growth opportunities. In future applications for expansions, the Board directs Eastward to include a sensitivity analysis assessing the merits of the proposal based on a variety of future demand scenarios, including the possibility of significantly slower growth in the demand for natural gas distribution, as well as an overall decline.
>
> [M11732 Decision Letter, August 26, 2024, p. 2]

[61] Eastward later asked the Board to clarify whether the directive applied only to the application of the CFT and not to the MFT or reinforcement projects. In a letter dated September 9, 2024, the Board confirmed that it requires a sensitivity analysis for CFT and system reinforcement projects. The Board noted it would consider the extent to which the sensitivity analysis direction should apply, if at all, to the MFT in this decision. Considering the additional information and variance assessments for customer counts and consumption the Board is directing in this decision; the Board confirms that it does not need a sensitivity analysis for MFT projects.

4.0 CONCLUSION

[62] Subject to the Board's findings in this decision, the Board directs Eastward to apply the MFT with the recently implemented improvements identified in its compliance filing. The Board notes that Eastward indicated more study was required about its existing customers' consumption patterns and potential downward trends in consumption over time and to review operating costs per customer. The Board directs Eastward to provide an update on its review of consumption patterns and trends no later than its next general rate application. Eastward's review of its operating costs per customer is addressed below.

[63] The Board also directs Eastward to implement ECI's recommendations, except where otherwise noted in this decision. In particular, the Board directs Eastward to do the following:

- File updated incremental operating costs estimates to add new customers, by rate class, within two weeks of the date of this decision or provide the Board with the reasons for the delayed completion of this update and a revised date for filing its updated operating costs estimates.
- Include a minimum 0.7 threshold for its 7-year profitability ratio and 25-year NPV ratio for a project in a main extension portfolio. Eastward may apply to the Board for approval to include projects in the portfolio that do not meet this threshold if there are special merits to the project, such as allowing for other, economic, main extensions to go ahead in the future.
- Consider the cost of connecting new residential infill customers, the cost of incentives and the level of customer cost contributions to service connections

under its Distribution Service Rules in its next general rate application (unless addressed in an earlier proceeding).

- Provide the following information in its annual feasibility test compliance filings:
  - capital cost variance explanations for variances exceeding the lesser of 25% or $100,000, for both portfolio projects and RRAF projects;
  - tables showing the past seven years of historical EOIs progressing to activation in its annual MFT compliance reports;
  - a true-up of the RRAF projects undertaken in the prior five years, showing the location or project name, initial numbers of customers (DSAs, EOIs, and activations), updated number of activated customers, and initial and updated: capital costs for mains, total capital costs, profitability and NPV ratios, and theoretical RRAF draw; and
  - a table showing the original forecast and actual customer numbers and volumes by rate class for each of the past five years, along with explanations of material variances.

[64] Eastward may stop reporting the average rate base per customer for RRAF projects in its annual feasibility test compliance filings.

[65] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 21st day of January, 2025.

Stephen T. McGrath

Roland A. Deveau

Steven M. Murphy