BEFORE THE NOVA SCOTIA UTILITY AND REVIEW BOARD

In the Matter of an Application by Eastward Energy Incorporated for the Approval of a Schedule of a Customer Retention Program Recovery Rate

(NSUARB M11877)

Evidence of Eric Borden

On Behalf of Counsel to Nova Scotia Utility and Review Board

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I. INTRODUCTION

Q Please provide your name, title, and business address.

A My name is Eric Borden. I am a Principal Associate at Synapse Energy Economics ("Synapse"), located at 485 Massachusetts Avenue, Suite 3, Cambridge, MA 02139.

Q Please describe Synapse.

A Synapse is a research and consulting firm specializing in electricity and gas industry regulation, planning, and analysis. Our work covers a range of issues, including economic and technical assessments of demand-side and supply-side energy resources; energy efficiency policies and programs; integrated resource planning; electricity market modeling and assessment; renewable resource technologies and policies; and climate change strategies. Synapse works for a wide range of clients, including state attorneys general, offices of consumer advocates, trade associations, public utility commissions, environmental advocates, the U.S. Environmental Protection Agency, U.S. Department of Energy, U.S. Department of Justice, the Federal Trade Commission, and the National Association of Regulatory Utility Commissioners. Synapse has over 30 professional staff with extensive experience in the electricity industry.

Q Please summarize your professional and educational experience.

A I have over 10 years of experience in the energy industry and joined Synapse in 2022. Since joining Synapse, I have testified on multiple utility regulatory issues, including cost recovery, cost-benefit analysis, rate design, and cost allocation in several states, including Nova Scotia, Maine, Wisconsin, Maryland, New Hampshire, South Carolina, Illinois, and California. From 2015 to 2022, I was a Senior Energy Expert at The Utility Reform

Network ("TURN") in California, where I served as an expert witness in numerous proceedings before the California Public Utilities Commission. I have a Bachelor of Science in finance from Washington University in St. Louis and a Master of Arts in public affairs from the University of Texas at Austin. My resume is attached as Exhibit 1.

Q What is the purpose of your testimony?

A The purpose of this testimony is to review Eastward Energy's (the "Company" or "Eastward") application for a Customer Retention Program (CRP) Recovery Rate.

Q Please summarize Eastward's proposal.

A In light of current low natural gas prices, Eastward proposes the Board approve the following to achieve early collection of deferred CRP costs:

1. A rate of $2 per Gigajoule (GJ) effective January 1, 2025, applicable to the General Service Class (GSC) and Rate Class 3 (RC3) customers.
2. The flexibility to adjust the CRP Recovery Rate within a band from $0/GJ to $2/GJ. Eastward would file a notification letter to the Board 30 days in advance and notify affected customers before a rate change would be made.[1]

Q What does the Company state are the primary benefits of this proposal?

A Assuming the $2/GJ charge was in place from 2025–2026 and a 10-year amortization period, the proposal would collect around $30 million of deferred CRP costs (of a total $49.9 million balance) and reduce total carrying costs by $7.7 million from 2025–2036.[2] Since current gas prices are low and forecast to remain low, collecting costs now would

[1] Eastward Application, pp. 1, 7.
[2] Eastward Application, pp. 1-2; Synapse IR-2, Attachment 1.

come during a period of relatively low costs for customers and should not affect the utility’s competitive position relative to alternative fuels.

Q What materials did you rely on to develop your testimony?

A The sources for my testimony are the Company’s application and workpapers, public documents, responses to discovery requests, and my personal knowledge and experience.

Q Was your testimony prepared by you or under your direction?

A Yes.

II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q Please describe your findings and recommendations.

A Based on the following analysis provided below, I find the following:

- Current commodity prices provide an opportunity to begin recovery of deferred costs without materially disadvantaging Eastward’s competitiveness relative to alternative fuels.

- While a $2/GJ surcharge imposes meaningful customer bill impacts, they are expected to be moderated by low natural gas prices. Even with the $2/GJ surcharge, commercial customers are expected to pay approximately the same total rate for gas as they did in 2023.

- The program’s cost allocation is reasonable since the CRP Recovery Rate was intended, and approved by the Board, on the basis that it benefits all customers. Since direct financial benefits accrued almost exclusively to the commercial class, I agree that the residential class should be excluded from cost recovery if revenues are used to reduce deferred CRP costs.

- I agree that the Company should be allowed flexibility to change the Recovery Rate within a $0/GJ to $2/GJ band with at least a 30-day notice to the Board.

- Based on the costs and benefits of this proposal, I believe Eastward's recommendation should be approved. However, the Commission should also consider applying additional revenues to reduce the Revenue Deficiency Account (RDA) instead of the CRP. The majority of my analysis regarding Eastward's CRP proposal applies equally to the RDA, which was created for a similar purpose as CRP. There are, however, two primary differences when considering this alternative: (1) reductions in the RDA would provide significantly higher long-term savings due to the higher carrying costs approved for these deferred costs; (2) the RDA has likely benefited residential customers to a much greater extent than CRP.

    - If the Board does approve reductions in the RDA from the surcharge, it should also consider implementing a process to consider appropriate cost collection from the residential class. For example, the Board could approve the $2/GJ commercial charge starting January 2025 and order Eastward to propose an appropriate residential charge to begin collection of RDA deferred revenues within three months of the Board order in this proceeding. Once the Board approves an appropriate surcharge for residential customers, Eastward could reduce the commercial class Recovery Rate to maintain the same level of revenue collection each year.

III. ASSESSMENT OF REQUEST TO INCREASE RATES FOR THE GSC AND RC3 CLASSES BY $2/GJ FOR EARLY RECOVERY OF CUSTOMER RETENTION PROGRAM DEFERRED COSTS

Q How did Eastward choose the $2/GJ Recovery Rate to be implemented in 2025 and which also serves as the upper bound of its proposal?

A Eastward does not provide specific rationale or quantitative analysis for the $2/GJ upper bound. The Company states that the range was chosen "in order to ensure our energy service offerings remain competitive in the marketplace, while taking advantage of the current pricing forecasts to begin paydown of the CRP Deferral Balance. The Company believes that the $0-$2/GJ band is a prudent range over the 2025–2026 period, while ensuring Eastward remains competitive against other energy sources."[3]

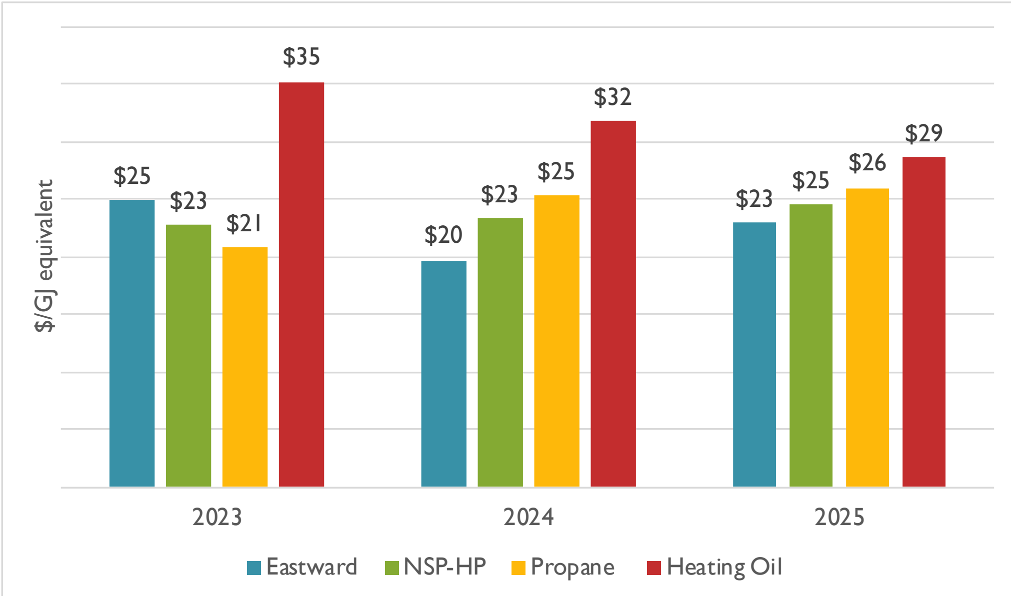
Q Do you agree that current conditions provide an opportunity to increase rates and remain competitive?

A This does appear to be the case, with the caveat that—as Eastward acknowledges—prices can change due to unforeseen external factors. Based on current prices and Eastward's forecast, customers that use around 650 GJ of gas per year[4] will pay between $2 to $5 per GJ less than customers who use propane or electric heat pumps in 2024 and 2025. This was not the case as recently as 2023. These savings also do not consider the capital costs of switching to alternative fuels.

[3] NSUARB Staff IR-12.

[4] This usage level was chosen because GSC customers have annual median usage around 400 GJ; around 60 percent of customers use up to 650 GJ. 650 GJ was the closest to median usage calculated by Eastward in its workpaper (Synapse IR-4, Attachment 1). The average GSC customer uses around 1,400 GJ; this is skewed upward by a few very large usage customers in this class. Median usage calculated from Synapse IR-08, Attachment 1; average usage calculated from Dalhousie-IR-3, Redacted Attachment 1. Higher usage customers, including RC3 customers, have greater savings relative to alternative fuels because the proposed charge is usage-based. This can be seen in Eastward Application, Exhibits 2-3, pp. 4-5.

Figure 1. Total cost of Eastward gas versus alternative fuels



Source: Synapse IR-4, Attachment 1.

Q How else did you assess Eastward's proposal to increase rates to $2/GJ starting January 1, 2025, and set this as the upper bound for the CRP Recovery Rate going forward?

A I examined the Company's rationale for its proposal and analyzed the costs and benefits of the proposal from a customer perspective. For costs, I examined bill impacts and cost allocation. For benefits, I examined the level of recovery of deferred CRP costs (which were previously planned to be collected starting in 2026) and reduced carrying costs over the long term.

1. Bill Impacts of Eastward's Proposal

Q What are the bill impacts of Eastward's $2/GJ proposal?

A Relative to no CRP Recovery Rate, the average usage customer in the GSC class (1,400 GJ per year) will experience 8.6 and 7.6 percent bill increases, in 2025 and 2026, respectively. The average usage RC3 customer (150,000 GJ per year) will experience

10.0 and 9.9 percent bill increases in 2025 and 2026, respectively.[5] Since the charge is based on usage, bill increases on a percentage basis are slightly larger for high-usage customers and slightly lower for low-usage customers, illustrated in the table below.

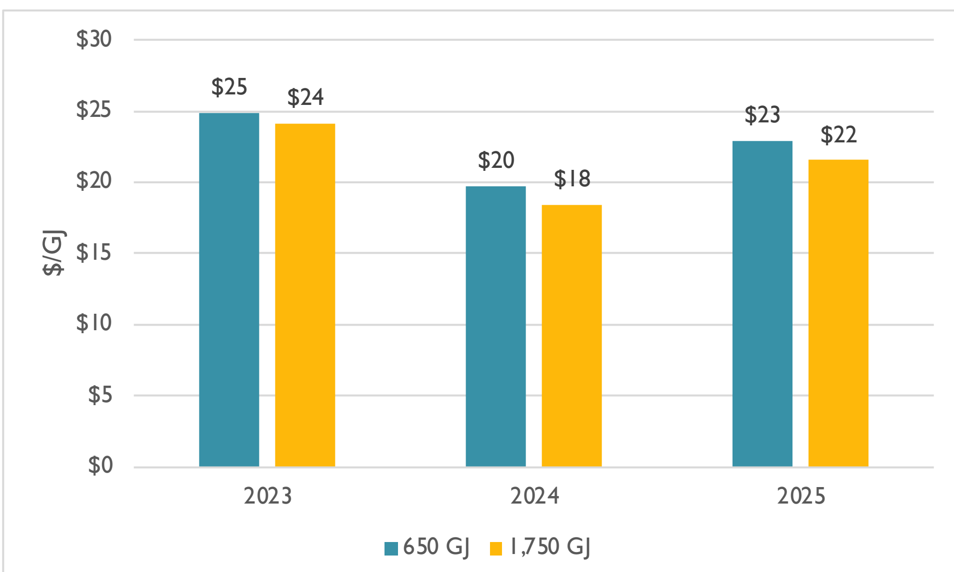
Table 1. GSC customer bill impact, relative to no CRP recovery rate

Year	75% Below Average	Average	75% Above Average
2025	8.0%	8.6%	8.7%
2026	7.1%	7.6%	7.7%

Source: Calculated from Synapse IR-10, attachment 1.

These bill increases must also be seen in light of the impetus behind Eastward's application, currently low natural gas prices. Eastward forecasts that, relative to 2023, a 650 GJ (just above median) and 1,750 GJ (just above average) customer will be paying about the same for gas as they did in 2023, even with the $2/GJ additional charge.

Figure 2. 2023–2025 total gas cost, excluding $2/GJ CRP Recovery Rate



Source: Synapse IR-4, Attachment 1.

[5] Synapse IR-10, attachment 1.

Q What is your assessment of the rate and bill impacts created by Eastward's proposed $2/GJ CRP Recovery Rate?

A While customer bill impacts are meaningful, they are moderated by low commodity gas prices. Even with the $2/GJ surcharge, commercial customers are expected to pay about the same amount as they did in 2023. While bill increases are rarely welcome, the deferred costs must be paid off at some point; so this does appear to be a good opportunity to begin this process. Based on these findings, I believe the proposed $2/GJ charge is appropriate.

2. Cost Allocation

Q How are the proposed costs of the CRP Recovery Rate allocated to customer classes?

A As described above, the CRP Recovery Rate will be applied to the GSC and RC3 classes; no costs will be incurred by the residential class. For the two implicated classes, the GSC class will bear 68 percent of costs, and the RC3 class will incur the remaining 32 percent.[6]

Q How did you assess this cost allocation?

A There are several factors that come into play when assessing cost allocation, including fairness, cross subsidization, rate impacts, and other issues. At a high level, I first consider "cost causation" —i.e. why costs were incurred. The flip side of the cost coin are the benefits achieved by a given cost. These concepts tend to go hand in hand, though

[6] Synapse IR-13, Attachment 1.

not always, as is the case here. As stated in the Regulatory Assistance Project's (RAP) cost allocation manual:

> There is general agreement that the overarching goal of cost allocation is equitable division of costs among customers. Unfortunately, that is where the agreement ends and the arguments begin. Two primary conceptual principles help guide the way to the right answers:
>
> 1. Cost causation: Why were the costs incurred?
>
> 2. Costs follow benefits: Who benefits?[7]

CRP costs were incurred specifically to subsidize commercial customers that were in the previous "RC1" class, which has since been combined with other commercial customers into the GSC.[8] However, Eastward (then Heritage) premised the CRP subsidy as benefitting all customers, and the Board agreed. When it approved the program, the Board stated that "the departure of customers from the system could potentially have serious negative rate impacts on the remaining customers of the Utility, and indeed, perhaps even on the viability of the Utility itself."[9]

Q What are your findings regarding the proposed cost allocation?

A The proposed cost allocation diverges from "cost causation" principles. Strictly speaking from a cost causation perspective, costs were incurred to subsidize RC1 commercial customers, so these are the same customers who should therefore pay for the program.

[7] Regulatory Assistance Project, *Electric Cost Allocation for a New Era: A Manual*, p. 18.
[8] 2016 NSUARB 161.
[9] 2016 NSUARB 161, Finding 30, p. 10.

However, the program was approved to benefit *all* customers by ensuring sufficient throughput on the system and the overall financial viability of the utility.[10] I therefore find it reasonable for additional commercial customers than the ones who received direct subsidies to contribute to paying back program costs. Further, GSC customers (which contain former RC1 customers) appropriately pay the majority of costs (68 percent). I note that there is also a significant benefit when including additional GSC and RC3 customers to collect more deferred costs during the 2025–2026 window.

Since this program was targeted almost exclusively to commercial customers,[11] I find it reasonable to exclude the residential class for purposes of cost collection and allocation.

Q Are there any issues that Eastward did not adequately address in its testimony?

A Eastward's testimony does not raise the prospect of reducing the balance of the RDA which, similar to CRP, is an account that tracks deferred costs used to subsidize rates in order to retain customers. Reducing RDA balances would provide even greater monetary benefits to customers over the long term. I explore this issue in Section V.

3. Benefits of Eastward's Proposal

Q What are the benefits of Eastward's CRP Recovery Rate?

A The primary benefits are (1) reduction in deferred revenues that would need to be collected at a later date; (2) reduction in carrying costs due to payment of deferred revenues on a faster timeline; (3) potentially an improvement in Eastward's financial

[10] *Id.*

[11] In previous testimony I calculated that 98.8 percent of direct CRP monetary benefits were received by commercial customers. See M10960, *Evidence of Eric Borden on Behalf of Counsel to Nova Scotia Utility and Review Board,* p. 13. Eastward's cost allocation proposal here is virtually the same as the one I recommended in that testimony.

standing which, depending on other factors, could lower debt and/or equity costs; and (4) maintaining Eastward's competitive viability relative to alternative fuels, despite the proposed increase in rates.

Q Has Eastward quantified these benefits?

A Yes, for several of them. If the $2/GJ upper limit is in place from 2025–2026, Eastward estimates the CRP would be reduced by 60 percent ($30 million of $49.9 million) and customers would save $7.7 million in carrying costs (assuming a 10-year amortization period) since the CRP deferral earns 4 percent interest per year.[12]

Q What is your assessment of these potential benefits?

A I generally agree with the Company that ratepayers will benefit from early recovery of deferred revenues in the ways described and quantified by Eastward. This appears to be an important opportunity for the Company to begin to recover its full cost of service and reduce long-term carrying costs, thereby benefitting all customers.

IV. ASSESSMENT OF REQUEST TO INCREASE AND DECREASE THE CRP RECOVERY RATE WITH A 30-DAY NOTICE

Q What flexibility does Eastward request regarding the CRP Recovery Rate and what rationale does the Company provide?

A Eastward requests the ability to adjust the CRP Recovery Rate from $0/GJ to $2/GJ during the 2025–2026 period; it would notify customers of its decision to do so 30 days beforehand. Eastward reasons that "The sliding scale recognizes that individual energy

[12] Eastward Application, pp. 1-2.

prices and relative energy prices can be challenging to forecast."[13] Eastward went on to explain in discovery:

> *Eastward's intention is to assess the relative all-in delivered cost of the comparator energy pricing to determine the appropriate CRP Recovery Rate for our customers. Despite the commodity price making up a large portion of GSC and RC3 customer's bills, Eastward would not solely consider the commodity price in determining the competitiveness and therefore the CRP Recovery Rate and would review the all-in landed costs, including delivery charges and the cost of carbon. Eastward will assess its competitive position and CRP Recovery Rate on a monthly basis, similar to how the BEC pricing was reviewed and adjusted during the CRP term (2016-2023). The following steps outline the monthly process in which Eastward will assess its CRP Recovery Rate:*
>
> *i. Eastward develops a forecast of landed natural gas costs ($/GJ) for the next few months;*
>
> *ii. Eastward internally assesses the forecasted landed natural gas costs (for GSC and RC3 customers) compared to the forecast landed cost of alternative energy sources for the next few months to assess the relative competitiveness in the marketplace;*
>
> *iii. Using the pricing information, as well as any information on potential customers fuel switching patterns, Eastward may choose to make an adjustment of the CRP Recovery Rate to reflect forecasted changes in the competitive position of natural gas. Eastward does not propose to utilize hard and fast quantitative thresholds, but rather to follow the process noted above.*

Eastward does not propose to utilize hard and fast quantitative thresholds, but rather to follow the process noted above.[14]

[13] Eastward Application, p. 5.
[14] Synapse IR-12.

Q Do you agree with the Company's rationale and proposal?

A I do. While I find Eastward's explanation vague as to its decision criteria for changing the CRP Recovery Rate, this is likely appropriate in this situation. Namely, Eastward is in a competitive environment—if the Company or Board delineates specific thresholds at which the Recovery Rate would change, this may allow propane dealers and other alternative fuels to adjust pricing strategically. Furthermore, there are multiple factors at play here in multiple markets (gas, propane, etc.) that could influence Eastward's competitive position and that are difficult to foresee. Therefore, while I believe Eastward should be transparent with the Board regarding why it has chosen to adjust pricing, it is difficult and potentially counter-productive for the Board to define the exact criteria under which Eastward may change its pricing.

Q Is this a departure from standard utility regulation?

A In some fundamental ways, yes. Generally, it is the regulator's role to closely regulate a monopoly utility's rates, ensuring any rate increase is "just and reasonable." That said, the circumstances here are much different than those encountered in a standard rate case. First, the Board has the opportunity in this application to determine the reasonableness of increasing GSC and RC3 rates to the upper bound proposed, $2/GJ. By approving the upper bound, it is fair to assume a lesser rate increase is also reasonable. Second, the costs at issue have already been approved by the Board—only *how* and *when* these costs are collected require Board approval. Third, I do not believe that the interests of ratepayers and shareholders are entirely at odds in this situation. It is in the Company's financial interest to collect its revenue requirement, including deferred revenues, and it is generally in customers' interest to pay off its "debt" somewhat sooner to reduce long-term carrying costs. Certainly the details of this proposal, including the upper bound limit and relatedly the rate at which deferred costs are collected, will engender different viewpoints. That the deferred costs must be collected from customers at some point is not in dispute.

V. ASSESSMENT OF APPLYING INCREASED REVENUE COLLECTION TO REVENUE DEFICIENCY ACCOUNT DEFERRALS RATHER THAN THE CUSTOMER RETENTION PROGRAM

Q Must the revenues collected from the $2/GJ surcharge reduce the CRP deferred balance?

A No. Revenues from the recovery rate could theoretically be applied to any deferred account or regulatory asset. The other primary account that will need to be paid off by customers in the future is the RDA.

Q Was the RDA created for a similar purpose as the CRP?

A Yes, the purposes of these accounts are very similar. Eastward requested the RDA "to arrive at rates that will be competitive with alternative fuels."[15] The Board agreed with this approach, namely to "arrive at rates that will be competitive."[16] This is essentially the same reason the CRP was instituted for commercial customers.

Q Are there any major differences between the CRP and RDA?

A The major differences of which I am aware are (1) the RDA accrues interest at the Company's weighted average cost of capital (WACC) because the deferred costs goes into rate base[17] and (2) the RDA applies to all classes, not just commercial customers,

[15] 2004 NSUARB 72, p. 5, citing Heritage (Eastward) Exhibit H-1, Section 17.
[16] 2004 NSUARB 72, Finding 27, p. 7.
[17] 2004 NSUARB 72, p. 6.

because it is calculated as "the difference between the weather normalized annual revenue and over or under recovery of the [allowed] annual revenue requirement."[18]

Q What are the benefits of early reductions to the RDA balance?

A All of the benefits stated above for CRP early recovery apply to the RDA, except long-term carrying costs would be reduced by an even greater amount. This is because the RDA accrues carrying costs at a much higher rate than the CRP (7.25 percent)[19] compared with 4 percent for the CRP.

Q Has Eastward calculated reduced carrying costs of reducing the RDA compared with CRP?

A Eastward calculates the carrying cost savings from the RDA would be $28.7 million, versus $7.7 million for CRP Recovery. Eastward states the $28.7 million figure is "illustrative," likely because it has not proposed to recover the RDA balance in this application.[20]

Q Why hasn't Eastward proposed to apply additional revenues for early recovery of the RDA?

A The Company states:

> *The original CRP deferral balance was intended to be recovered in a later period, and this Application is intended to address this recovery. The original CRP was established as a result of the natural gas market at the time, and the current CRP Recovery Rate Application is a result of the current natural gas market and the*

[18] 2004 NSUARB 72, p. 5.
[19] 2023 NSUARB 166, p. 70, citing an Eastward Exhibit. I am not aware whether the currently approved WACC, which is around 8.6 percent, is applied to CRP balances.
[20] NSUARB Staff IR-16(a).

> *opportunity to recover the CRP deferral in a similar way to how it was accumulated. The recovery mechanism is directly correlated and consistent with the original scope of the CRP. In addition, the early recovery of the CRP deferral would subsequently lead to earlier recovery of the RDA (based on current long-term outlooks for customer growth & system expansion). The RDA has a built-in recovery mechanism; at a time when revenues begin to exceed the revenue requirement, RDA recovery will occur. This has always been the intent of the application of the RDA.*[21]

Q Do you agree with this response?

A Only in part. I understand that there is a connection between early CRP recovery and the RDA balance; deferred carrying costs, which would normally become part of the annual revenue requirement, will not be collected and therefore not added to the RDA balance.

Q Are there other differences between the RDA and CRP pertinent to cost recovery?

A The RDA provides a subsidy to *all* classes rather than just the commercial class for the CRP. This affects the proposed cost allocation, discussed above. Further, unlike the CRP, there is reason to believe that the RDA primarily benefits the residential class based on current revenue-to-cost ratios for each class:

[21] NSUARB Staff IR-16(b).

Table 2. Revenue-to-cost ratios by class

Revenue to Cost Ratios Resulting from Settlement Agreement				
Year	**RSC**	**GSC**	**RC3**	**Total**
2024	49% (-8%)	107% (+2%)	126% (+2%)	96% (0%)
2025	51% (-11%)	108% (+4%)	122% (+2%)	96% (0%)
2026	56% (-12%)	108% (+4%)	124% (+2%)	97% (0%)

Note: The percentages in parentheses are not relevant to the discussion here.
Source: 2023 NSUARB 166, p. 49.

Q Do you agree that additional revenues cannot be used to reduce the RDA rather than the CRP?

No. Specifically, I do not agree that the RDA can only be recovered "when revenues begin to exceed the revenue requirement."[22] Indeed, Eastward previously proposed that CRP should not be collected until the RDA stopped increasing.[23] The purpose of this application is to deviate from this original intention due to low commodity gas prices.

Q What are your findings and recommendations related to early recovery of the RDA?

A There are significantly greater benefits to applying revenues from the Recovery Rate to RDA balances, which are forecast to increase by $1 to $2 million per year from 2024–2026, up to $32.1 million by 2025.[24] Given that the $2/GJ is expected to collect around $30 million, almost the entire balance of RDA could be eliminated with the surcharge if market conditions hold, which would provide significantly greater long-term savings to customers due to the higher carrying costs of the RDA balance compared with CRP.

[22] NSUARB Staff IR-16(b).
[23] 2023 NSUARB 166, p. 70, Finding 165. "The Board accepts Eastward's submission that the amortization of the CRP balance will begin once full recovery of annual costs of service is achieved, i.e., once the RDA has ceased to increase."
[24] 2023 NSUARB 166, p. 69.

Similar to CRP, the RDA was established to benefit all customers, and I therefore believe costs should be allocated on a fairly universal basis, based on the same reasoning provided above.

That said, while I find the proposed cost allocation for purposes of CRP cost recovery to be fair and equitable in light of the benefits and cost causation principles, this finding does not entirely apply to recovery of the RDA. Specifically, it is likely inappropriate to completely exclude the residential class from RDA cost recovery, given that this class has likely benefitted significantly from the subsidy, in contrast to CRP.

Q What are your findings and recommendations regarding use of revenues for RDA cost recovery?

A Based on the discussion above, I find and recommend the following:

- The Commission should consider applying additional revenues to reduce the RDA instead of the CRP. The majority of my analysis above regarding Eastward's CRP proposal applies equally to the RDA, which was created for a similar purpose as CRP. There are, however, two primary differences when considering this alternative: (1) reductions in the RDA would provide significantly higher long-term savings due to the higher carrying costs approved for these deferred costs; and (2) the RDA has likely benefited residential customers to a much greater extent than CRP.

- If the Board does approve reductions in the RDA from the surcharge, it should also consider implementing a future process to consider appropriate cost collection from the residential class. For example, the Board could approve the $2/GJ commercial charge starting January 2025, and order Eastward to propose an appropriate residential charge to begin collection of RDA deferred revenues within three months of the Board order in this proceeding. Once the Board approves an appropriate surcharge for residential customers, Eastward could reduce the commercial class Recovery Rate to maintain the same level of revenue collection each year.

If the Board elects to reduce RDA revenues instead of CRP, I assume CRP deferrals will be addressed in the Company's next rate case.

Q Does this conclude your direct testimony?

A Yes, it does.