SECTION 8.0

Development Period

8.0 <u>Development Period</u>

In its December 23, 2014 Decision, the Board ordered that EGNB file an application to determine whether or not the development period is over.

During the 2009 Development Period hearing, a number of tests and measures were examined to assess what should determine when the Development Period concludes. Some of these included the evaluation of market share, infrastructure development, product awareness, market ability to provide services and loss of throughput.

After thorough review and evaluation, some of the key findings of the Board's December 2009 Decision included:

- The Development Period is a concept that applies to EGNBLP and not to a particular customer or customer class. Therefore the Development Period cannot end for one customer class; when it is over for EGNB it is over for all customer classes at the same time.
- The essential element that defines the Development Period is an inability to have a reasonable opportunity to recover the utility's full costs on a sustainable basis.
- The appropriate criteria to be considered in determining if EGNB's Development Period is over are:
    - Are the full costs equal to or below the currently available revenues?
    - Are such revenues sustainable?

In the May 16, 2011 Decision, the Board clarified parts of the 2009 Decision:

> *To be clear, the first test is retrospective. The test considers the year in review and determines if the revenues exceed the full costs. For the purposes of this hearing, the year to be assessed is 2009. In filing its evidence EGNB proceeded on the basis that the first test would be performed prospectively on the 2011 year's forecasted budget. This was incorrect but does not affect the Board's ability to apply the test since all the necessary information from 2009 was available.*
>
> *It is clear that for 2009 expenses exceeded revenue and therefore the first test is not met. There are however some further issues requiring clarification, particularly involving the appropriate expenses to consider in performing the test.*

Later in the 2011 decision, a clarification regarding the second test was made:

> *The second test is prospective and is to include a forecast of expenses and revenues for the next two years. The second test is to be calculated when the first test is passed. The result is that by the time the first test is passed EGNB will have had one profitable year at the time the second test is calculated.*

These clarifications clearly indicate that the first test done from a retrospective point of view, must pass prior to the second test being considered.

Since the Development Period Decision, the first test has never been passed. In each year, the full costs were higher than the available revenues.

Once again in 2014, evidenced below, EGNB did not pass the first test as approved by the Board.

1	**Development Period Test (in thousands of dollars)**	
2		**2014**
3	**Revenue Requirement**	$ 47,599
4	**Capitalized O&M Expenses**	4,557
5	**1 year amortization of Deferral Account**	
6	**Total Revenue Requirement**	$ 52,156
7	**Gas Distribution Revenues**	$ 45,651
8	**Weather Normalization of Revenues**	$ -
9	**Excess/(Shortfall)**	$ (6,505)

Even if just the Revenues and Revenue Requirement are considered, EGNB failed to pass the first test.

Despite the fact that under the Board approved tests, the second test does not have to be considered because the first one has not been passed, the feasibility question that underlines that test needs to be addressed in this proceeding.

Significant changes to the market and risks to the public utility have occurred over the last 18 months that should be considered as longer term impacts on EGNB's ability to exit the development period. The public utility's viability and sustainability have been placed at risk on a number of fronts. Challenges to the utility have increased due to legislative changes passed in 2012 along with external market forces affecting gas commodity and alternative energy sources. The legislative changes have encumbered EGNB and the regulatory process in a way that creates a set of unworkable constraints on pricing and revenue recovery. The changes to legislation have significantly limited the ability of EGNB to adapt to these external market pressures and react accordingly to protect customers and the utility. The challenges include, but are not exclusive to, the following:

- Customers are now being allowed to bypass the public utility system and obtain the delivery of natural gas by other methods of transport.
- Significant challenges to rate stability resulting from the hybrid cost of service / market based rate methodology when designing rates and setting a revenue requirement.
- Higher demand for natural gas in the Northeastern US has increased pressure on natural gas commodity prices to local markets affecting the total natural gas price in NB. Higher natural gas prices are resulting in pressures on customer savings, satisfaction, loyalty and ultimately on the sustainability of rates to recover costs based on competitive conditions.
- As a result of a propane dumping and price war in Atlantic Canada, propane is being marketed as low as $0.35 per litre including delivery over 12 to 24 months, equivalent to $14 per GJ. Along with the natural gas supply constraints mentioned above, net pricing is resulting in further concern to the MGS and LGS rate class customers as they are being targeted aggressively.
- Slow growth in demand due to reduced spending on incentives, marketing, advertising, sales and limited potential equity resources to fund customer growth to achieve economies of scale.
- No allowed utility, deferral or variance tools to help manage temporary risks, setbacks or programs over longer term.

The result of all these challenges have been significant and has had an impact on EGNB's customer counts over the last 12 months. In fact, for the first time since inception, EGNB is at risk of ending the calendar year with fewer customers than at the beginning of the year. This will place further pressure on rates as the Revenue Requirement will be recovered over a smaller customer base.

As a practical matter, a mature utility has rates for all classes that are competitive over time with the market for each class of customer and recover the authorized revenue requirement during any test period.

For all the reasons summarized above, EGNB requests an extension of the Development Period until the end of the Franchise agreement. This date will provide sufficient time to establish sufficient history to thoroughly assess sustainability of the public utility.