HYDRO
THE POWER OF COMMITMENT

File No.

NEWFOUNDLAND AND LABRADOR HYDRO
Head Office: St. John's, Newfoundland P.O. Box 12400 A1B 4K7
Telephone (709) 737-1400 • Fax (709) 737-1231 • Website www.nlh.nf.ca

BY HAND

December 20, 2006

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road
St. John's, Newfoundland & Labrador
A1A 5B2

Attention: Ms. G. Cheryl Blundon,
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Application by Newfoundland & Labrador Hydro
for Rate Stabilization Plan Rules

Please find enclosed the original and ten copies of:

- An Application in which Hydro seeks approval of revisions to the Rate Stabilization Plan; and
- Schedule A - Rate Stabilization Plan rules.

The Application and Schedule are further to Footnote 3 of Schedule C – Dec. 2006 to Hydro's December 6th, 2006 Application wherein it was stated that the Rural Rate Alteration wording would be revised to reflect the intent of the December 6th, 2006 Government directive and filed with the Board in December 2006.

The attached Revised Rate Stabilization Plan rules contain:

- The revised Rural Rate Alteration wording to reflect the intent of the December 6th, 2006 Government directive;
- Rate Stabilization Plan amendments requested in Hydro's December 6th , 2006 Application to the Board; and

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- Rate Stabilization Plan amendments requested in Hydro's December 14th, 2006 Application to the Board.

It should be noted that the requested amendments to the Rural Rate Alteration both as they apply to the December 6th, 2006 Government directive and to the Rural Labrador Interconnected Automatic Rate Adjustments are intertwined with the continuation of Labrador Interconnected rates at current levels and the Diesel Non-Government rates proposed in Hydro's December 14th, 2006 Application. As well, the Rate Stabilization Plan adjustment rate to be charged Newfoundland Power effective January 1st, 2007, as approved by the Board in Order No. P.U. 41 (2006) requires application of Section F of the Rate Stabilization Plan rules, as outlined in Hydro's December 6th, 2006 Application. We are therefore requesting that these amendments be approved before January 1st, 2007 to assure congruence between approved rates and the Rate Stabilization Plan.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Geoffrey P. Young
Legal Counsel

Encl.

cc: Peter Alteen - Newfoundland Power Inc.
Joseph Hutchings, Q.C. - Poole Althouse
Paul Coxworthy - Stewart McKelvey Stirling Scales
Tom Johnson – O'Dea Earle Law Offices

IN THE MATTER OF the Public Utilities Act, R.S.N. 1990, Chapter P-47 (the "Act"), and

IN THE MATTER OF an Application (the "Application") by Newfoundland and Labrador Hydro for approvals of, under Section 70 of the Act, changes in the rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers and Industrial Customers; and under Section 71 of the Act, changes in the Rules and Regulations applicable to the supply of electricity to Rural Customers.

TO: The Board of Commissioners of Public Utilities (the "Board")

THE APPLICATION of Newfoundland and Labrador Hydro (the "Applicant") states that:

1. Newfoundland and Labrador Hydro ("Hydro") is a corporation continued and existing under the *Hydro Corporation Act*, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994*.

2. Since August 3, 2006 a number of issues have been resolved by the terms of four non-severable agreements between Hydro and the registered Intervenors, including the November 23, 2006 Agreement on Labrador Interconnected Rates.

   The aforesaid agreements have been filed with the Board.

3. On December 6th, 2006 Hydro filed an Application seeking approval for:

   a) Rates to be charged to Newfoundland Power effective January 1st, 2007;

b) Rates to be charged to Industrial Customers effective January 1st, 2007;

c) Rates to remain unchanged for Labrador Interconnected customers for 2007;

d) Proposed changes to the Rate Stabilization Plan, specifically:

1) that the Rate Stabilization Plan be amended to reflect the impact of changes that may arise from time to time from the operation of the proposed Automatic Adjustment Mechanism, as set out in the Rate Schedules 2007, Schedule C page 3 of 10, attached to that Application;

2) that the Rate Stabilization Plan be amended such that when new test year base rates are implemented, if the fuel rider forecast is more current than the fuel forecast used for the new test year rates, a fuel rider which is calculated using the more current fuel forecast and the new test year values will be implemented at the same time as the change in base rates;

3) that the Rate Stabilization Plan rules pertaining to the Rural Rate Alteration for Rural Labrador Interconnected Automatic Rate Adjustments be modified to accommodate the revised amount of the CFB Goose Bay Credit for 2007, with further revisions to be filed with the Board for approval at a future date.

4) that Newfoundland Power's portion of the December 31, 2006 Rate Stabilization Plan Hydraulic Production Variation Balance be transferred to Newfoundland Power's Historic Rate Stabilization Plan Balance, and that the Rate Stabilization Plan

rate charged to Newfoundland Power be reduced to reflect the credit as described in Section F of the Rate Stabilization Plan rules, such that the collection of the reduced Historic Rate Stabilization Plan Balance will be amortized over eighteen (18) months (January 1, 2007 to July 1, 2008);

5) that
   i. effective December 31, 2006, the Industrial Customers' Current Rate Stabilization plan balance include the Industrial Customers' portion of the normal annual 25% allocation of the Hydraulic Variation balance;
   ii. the portion of the Industrial Customer's share of the December 31, 2006 Rate Stabilization Plan Hydraulic Variation balance, net of the normal 25% allocation outlined in (i) above, be used to reduce any charge, or increase any credit, which would otherwise be applied effective January 1, 2008 to the rates of Industrial Customers under the current Rate Stabilization Plan rules.

6) that the Rate Stabilization Plan rules be amended to include the statement that "References to approved Test Year weighted average cost of capital mean the weighted average cost of capital in Hydro's Test Year Cost of Service study, or as adjusted by the Automatic Adjustment Mechanism".

4. On December 14th, 2006, in Order No. P.U. 41(2006) the Board approved, on an interim basis, rates for Newfoundland Power and Industrial Customers as requested in Hydro's December 6th, 2006 Application.

5. On December 14th, 2006, Hydro filed an Application for amendments to the Rate Stabilization Plan to phase-in, from 2008-2011, Labrador Interconnected Rate changes.

6. On December 14th, 2006, Hydro filed an Application for approval of changes to Rural Island Interconnected and Isolated Non-Government customers based on the rates filed by Newfoundland Power on December 8th, 2006.

7. On December 14th, 2006, in Order No. 42 (2006) the Board, approved on an interim basis, rates to be charged by Newfoundland Power to its customers, effective January 1st, 2007.

8. The Applicant makes Application that the Board approve and make a final order that the Rate Stabilization Plan rules, as set out in Schedule A attached to this Application, become effective December 31st, 2006.

DATED AT St. John's in the Province of Newfoundland and Labrador this 20th day of December 2006.

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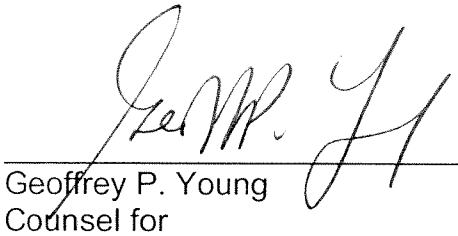

Geoffrey P. Young
Counsel for
Newfoundland and Labrador Hydro
P.O. Box 12400 Columbus Drive
St. John's, Newfoundland and Labrador
A1B 4K7
Telephone: (709) 737-1277
Facsimile: (709) 737-1782

IN THE MATTER OF the Public Utilities Act, R.S.N. 1990, Chapter P-47 (the "Act"), and

IN THE MATTER OF an Application (the "Application") by Newfoundland and Labrador Hydro for approvals of, under Section 70 of the Act, changes in the rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers and Industrial Customers; and under Section 71 of the Act, changes in the Rules and Regulations applicable to the supply of electricity to Rural Customers.

TO: The Board of Commissioners of Public Utilities

AFFIDAVIT

I, James R. Haynes, Professional Engineer, of St. John's, in the Province of Newfoundland and Labrador, make oath and swear as follows:

1. THAT I am employed by Newfoundland and Labrador Hydro, the Applicant herein, in the capacity of Vice-President, Regulated Operations, and as such I have knowledge of the matters and things to which I have herein deposed, and make this affidavit in support of the Application.

2. THAT I have read the contents of the Application and they are correct and true to the best of my knowledge, information and belief.

SWORN TO BEFORE ME in the City of St. John's, in the Province of Newfoundland and Labrador, this 20th day of December 2006.

Barrister - Newfoundland and Labrador

James R. Haynes

NEWFOUNDLAND AND LABRADOR HYDRO

RATE STABILIZATION PLAN (Continued)

The Rate Stabilization Plan of Newfoundland and Labrador Hydro (Hydro) is established for Hydro's Utility customer, Newfoundland Power, and Island Industrial customers to smooth rate impacts for variations between actual results and Test Year Cost of Service estimates for:

- hydraulic production;
- No. 6 fuel cost used at Hydro's Holyrood generating station;
- customer load (Utility and Island Industrial); and
- rural rates.

The formulae used to calculate the Plan's activity are outlined below. Positive values denote amounts owing from customers to Hydro whereas negative values denote amounts owing from Hydro to customers.

References to approved Test Year weighted average cost of capital mean the weighted average cost of capital in Hydro's Test Year Cost of Service study, or as adjusted by the Automatic Adjustment Mechanism.

Section A: Hydraulic Production Variation

1. **Activity:**
   Actual monthly production is compared with the Test Year Cost of Service Study in accordance with the following formula:

   $$\{(A - B) \div C\} \times D$$

   Where:

   A = Test Year Cost of Service Net Hydraulic Production (kWh)
   B = Actual Net Hydraulic Production (kWh)
   C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)
   D = Monthly Test Year Cost of Service No. 6 Fuel Cost ($Can /bbl.)

2. **Financing:**
   Each month, financing charges, using Hydro's approved Test Year weighted average cost of capital, will be calculated on the balance.

3. **Hydraulic Variation Customer Assignment:**[1]
   Customer assignment of hydraulic variations will be performed annually as follows:

   $$(E \times 25\%) + F$$

   Where:

   E = Hydraulic Variation Account Balance as of December 31, excluding financing charges
   F = Financing charges accumulated to December 31

[1] Subject to Section F

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RATE STABILIZATION PLAN (Continued)

The total amount of the Hydraulic Customer Assignment shall be removed from the Hydraulic Variation Account.

4. **Customer Allocation:**
The annual customer assignment will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The portion of the hydraulic customer assignment which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The Newfoundland Power and Island Industrial customer allocations shall be included with the Newfoundland Power and Island Industrial RSP balances respectively as of December 31 each year. [2] The Labrador Interconnected Hydraulic customer allocation shall be written off to Hydro's net income (loss).

Section B: Fuel Cost Variation, Load Variation and Rural Rate Alteration

1. **Activity**

1.1 Fuel Cost Variations

This is based on the consumption of No. 6 Fuel at the Holyrood Generating Station:

$$(G - D) \times H$$

Where:

D = Monthly Test Year Cost of Service No. 6 Fuel Cost ($Can /bbl.)
G = Monthly Actual Average No. 6 Fuel Cost ($Can /bbl.)
H = Monthly Actual Quantity of No. 6 Fuel consumed less No. 6 fuel consumed for non-firm sales (bbl.)

1.2 Load Variations

Firm: Firm load variation is comprised of fuel and revenue components. The load variation is determined by calculating the difference between actual monthly sales and the Test Year Cost of service Study sales, and the resulting variance in No. 6 fuel costs and sales revenues. It is calculated separately for Newfoundland Power firm sales and Industrial firm sales, in accordance with the following formula:

$$(I - J) \times \{(D \div C) - K\}$$

Where:

[2] Subject to Section F.

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RATE STABILIZATION PLAN (Continued)

C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)
D = Monthly Test Year Cost of Service No. 6 Fuel Cost ($Can /bbl.)
I = Actual Sales, by customer class (kWh)
J = Test Year Cost of Service Sales, by customer class (kWh)
K = Firm energy rate, by customer class

Secondary: Secondary load variation is based on the revenue variation for Utility Firmed-Up Secondary energy sales compared with the Test Year Cost of Service Study, in accordance with the following formula:

$$(J - I) \times L$$

Where:
I = Actual Sales (kWh)
J = Test Year Cost of Service Sales (kWh)
L = Secondary Energy Firming Up Charge

1.3 Rural Rate Alteration

(a) Newfoundland Power Rate Change Impacts:
This component is calculated for Hydro's rural customers whose rates are directly or indirectly impacted by Newfoundland Power's rate changes, with the following formula:

$$(M - N) \times O$$

Where:

M = Cost of Service rate [3]
N = Existing rate
O = Actual Units (kWh, bills, billing demand)

(b) Rural Labrador Interconnected Automatic Rate Adjustments:
This component reflects the impact of the automatic rate adjustments for Hydro's rural customers on the Labrador Interconnected system, which arise from the phase-in of the application of the credit from secondary energy sales to CFB Goose Bay to the rural deficit.

3

- Hydro's schedule of rates for its rural customers not affected by the December 6th, 2006 Government directive.
- For customers affected by the December 6th, 2006 Government directive, the Cost of Service rate equals the phased-in 2007 Forecast Cost of Service Rates for diesel rate classes 1.2D, 2.1D and 2.2D.
- No Rural Rate Alternation will arise from the phase-in of 2007 Forecast Cost of Service rates for the customers affected by the December 6th, 2006 Government directive.
- For the purpose of this section, Test Year Cost of Service Study refers to a Test Year or a Test Year adjusted by the Automatic Adjustment Mechanism.

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RATE STABILIZATION PLAN (Continued)

Monthly adjustments will be subject to revision when a new Test Year Cost of Service is approved by the Public Utilities Board for Hydro. The amount of the automatic rate adjustment is calculated as follows:

$$P = (Q - R) \div 12$$

Where:

P = the monthly amount of the automatic rate adjustment

Q = the CFB Revenue Credit applied to the rural deficit in Hydro's Final 2007 Test Year Cost of Service

R = the CFB Revenue Credit applied to the rural deficit from 2007 to 2011, included in existing rates and outlined in the table below:

	Q	R	Q – R	P
2007	$ 3,380,796	$ 2,270,081	$ 1,110,715	$ 92,560
2008	$ 3,380,796	$2,991,599	389,197	32,433
2009	$ 3,380,796	$3,449,983	(69,187)	(5,766)
2010	$ 3,380,796	$3,954,957	(574,161)	(47,847)
2011[4]	$ 3,380,796	$4,560,334	(1,179,538)	(98,295)

2. **Monthly Customer Allocation: Load and Fuel Activity**

Each month, the load variation will be assigned to the customer class for which the load variation occurred.

Each month, the year-to-date total for fuel price variation will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The year-to-date portion of the fuel price variation which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The current month's activity for Newfoundland Power, Island Industrials and regulated Labrador Interconnected customers will be calculated by subtracting year-to-date activity for the prior month from year-to-date activity for the current month. The current month's activity allocated to regulated Labrador Interconnected customers will be removed from the Plan and written off to Hydro's net income (loss).

[4] Monthly adjustments will continue after 2011 until a new Test Year Cost of Service is approved by the Public Utilities Board.

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RATE STABILIZATION PLAN (Continued)

3. **Monthly Customer Allocation: Rural Rate Alteration Activity**
Each month, the rural rate alteration will be allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study. The portion allocated to regulated Labrador Interconnected will be removed from the Plan and written off to Hydro's net income (loss).

4. **Plan Balances**
Separate plan balances for Newfoundland Power and for the Island Industrial customer class will be maintained. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year weighted average cost of capital.

Section C: Fuel Price Projection

A fuel price projection will be calculated to anticipate forecast fuel price changes and to determine fuel riders for the rate adjustments. For industrial customers, this will occur in October each year, for inclusion with the RSP adjustment effective January 1. For Newfoundland Power, this will occur in April each year, for inclusion with the RSP adjustment effective July 1.

1. **Industrial Fuel Price Projection:**
In October each year, a fuel price projection for the following January to December shall be made to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel, determined from the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate. The calculation for the projection is:

$$[\{(S - T) \times U\} - V] \times W$$

Where:

S = the September month-end PIRA Energy Group average monthly forecast for No. 6 fuel prices at New York Harbour for the following January to December

T = Hydro's average Test Year contract discount (US $/bbl)

U = the monthly average of the $Cdn / $US Bank of Canada Noon Exchange Rate for the month of September

V = average Test Year Cost of Service purchase price for No. 6 Fuel ($Can /bbl.)

W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating Station for the Test Year.

The industrial customer allocation of the forecast fuel price change will be based on 12 months-to-date kWh as of the end of September and is the ratio of Industrial Firm invoiced energy to the total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The amount of the forecast fuel price change, in Canadian dollars, and the details of an estimate of the fuel rider based on 12 months-to-date kWh sales to the end of September will be reported

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RATE STABILIZATION PLAN (Continued)

to industrial customers, Newfoundland Power, and the Public Utilities Board, by the 10th working day of October.

2. **Newfoundland Power Fuel Price Projection:**
In April each year, a fuel price projection for the following July to June shall be made to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel, determined from the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate. The calculation for the projection is:

$$[\{(X - T) \times Y\} - V] \times W$$

Where:

T = Hydro's average Test Year contract discount (US $/bbl)

V = average Test Year Cost of Service purchase price for No. 6 Fuel ($Can /bbl.)

W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating Station for the Test Year.

X = the average of the March month-end PIRA Energy Group average monthly forecast for No. 6 fuel prices at New York Harbour for the following July to December, and the most recent long-term PIRA Energy Group average annual forecast for No. 6 fuel prices at New York Harbour for the following January to June.

Y = the monthly average of the $Cdn / $US Bank of Canada Noon Exchange Rate for the month of March.

The Newfoundland Power customer allocation of the forecast fuel price change will be based on 12 months-to-date kWh as of the end of March and is the ratio of Newfoundland Power Firm and Firmed-Up Secondary invoiced energy to the total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The amount of the forecast fuel price change, in Canadian dollars, and the details of the resulting fuel rider applied to the adjustment rate will be reported to Newfoundland Power, industrial customers, and the Public Utilities Board, by the 10th working day of April.

Section D: Adjustment

1. **Newfoundland Power**
As of March 31 each year, Newfoundland Power's adjustment rate for the 12-month period commencing the following July 1 is determined as the rate per kWh which is projected to collect:

NEWFOUNDLAND AND LABRADOR HYDRO

RATE STABILIZATION PLAN (Continued)

Newfoundland Power March 31 Balance
less projected recovery / repayment of the balance for the following three months (if any), estimated using the energy sales (kWh) for April, May and June from the previous year

plus forecast financing charges to the end of the 12-month recovery period (i.e., June in the following calendar year),

divided by the 12-months-to-date firm plus firmed-up secondary kWh sales to the end of March.

A fuel rider shall be added to the above adjustment rate, based on the Newfoundland Power Fuel Price Projection amount (as per Section C.2 above) divided by 12-months-to-date kWh sales to the end of March.

When new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as the change in base rates reflecting the more current fuel forecast and the new test year values .

Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of the new Test Year Cost of Service rates, until the time for the next fuel price projection.

2. **Island Industrial Customers**
As of December 31 each year, the adjustment rate for industrial customers for the 12-month period commencing January 1 is determined as the rate per kWh which is projected to collect:

Industrial December 31 Balance

plus forecast financing charges to the end of the following calendar year,

divided by 12-months-to-date kWh sales to the end of December.

A fuel rider shall be added to the above adjustment rate, based on the Industrial Fuel Price Projection (as per Section C.1 above) amount divided by 12-months-to-date kWh sales to the end of December.

When new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as the change in base rates reflecting the more current fuel forecast and the new test year values . Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of the new Test Year Cost of Service rates, until the time for the next fuel price projection.

Section E: Historical Plan Balances:

1. **August 2002 Balance:**
Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at August 2002 will be recovered over a 5-year collection period, with adjustment rates established each December 31, commencing December 31, 2002. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year annual weighted average cost of capital.

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RATE STABILIZATION PLAN (Continued)

Newfoundland Power
The adjustment rate for each year of the five-year adjustment period will be determined as follows:

$$A = (B - C + D) \div E \div F$$

where
A = adjustment rate ($ per kWh) for the 12-month period commencing the following July 1.
B = Balance December 31
C = projected recovery to the following June 30 (if any), estimated using the most recent energy sales (kWh) for the period January to June.

D = projected financing charges to the following June 30
E = number of years remaining in the adjustment period
F = energy sales (kWh) (firm and firmed-up secondary) to Newfoundland Power for the most recent 12 months ended December 31

Recovery and financing will be applied to the balance each month. At the end of the five-year recovery period, any remaining balance will be added to the plan then in effect.

Island Industrial Customers
The adjustment rate for each year of the five-year adjustment period will be determined as follows:

$$G = H \div I \div J$$

where

G = adjustment rate ($ per kWh) for the 12-month period commencing the following January 1.
H = Balance December 31[5]
I = number of years remaining in the adjustment period
J = firm energy sales (kWh) to Industrial Customers for the most recent 12 months ended December 31

Recovery and financing will be applied to the balance each month. At the end of the five-year recovery period, any remaining balance will be added to the plan then in effect.

2. **RSP Balance, December 31, 2003:**
Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at December 31, 2003 will be consolidated with the outstanding August 2002 customer balances as of December 31, 2003, and will be included with the Newfoundland Power and Island Industrial customer balances respectively for rate-setting purposes as of December 31, 2003.

[5] Subject to Section F.

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RATE STABILIZATION PLAN (Continued)

Section F: Hydraulic Variation Special Adjustment December 31, 2006

1. Hydraulic Variation Customer Assignment

Customer assignment of the December 31, 2006 hydraulic variation account balance will be performed as follows:

E x 100%

Where:

E = Hydraulic Variation Account Balance as of December 31, 2006, including financing charges

The total amount of the Hydraulic Customer Assignment shall be removed from the Hydraulic Variation Account.

2. Customer Allocation

The December 31, 2006 customer assignment will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The portion of the hydraulic customer assignment which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The Labrador Interconnected Hydraulic customer allocation shall be written off to Hydro's net income (loss).

3. Adjustment Rates

The Newfoundland Power customer allocation shall be included with the Newfoundland Power Historic Plan RSP balance as of December 31, 2006. To implement the affect of the adjustment over the remaining recovery period in the Historic Plan, the adjustment rate is calculated as follows:

January 1, 2007 RSP Adjustment Rate

Newfoundland Power's adjustment rate for January 1, 2007 will be based on the forecast Hydraulic Variation credit balance of $20,707,844, with Newfoundland Power's share equal to $17,759,489, calculated using forecast sales to December 31, 2006.

The January 1, 2007 RSP rate Adjustment is calculated as follows:

NP December 2006 Hydraulic Variation Allocation	$(17,759,489)
Divided by:	

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RATE STABILIZATION PLAN (Continued)

Remaining Historic Plan Recovery Months	18
Equals:	
Forecast Monthly Recovery	$(986,638)
Multiplied by 12 equals	
Annual Adjustment	$(11,839,659)
Divided by	
12 months to date (Jan - Dec) forecast NP Sales (kWh)	4,680,392,181
Equals	
Reduction in Historic Plan Adjustment Rate (mills per kWh), effective January 1, 2007	(2.53)

July 1, 2007 RSP Adjustment Rate

The July 1, Historic Plan will be calculated in accordance with Section E, with the January 1, 2007 RSP adjustment rate calculated above included for the purpose of calculating the projected recovery (Component C) to June 2007 and the projected financing charges (Component D).

The Island Industrial customer allocation shall be allocated between the Industrial Customer current and Historic plans as follows:

Current Plan

The current plan assignment will be equal to the assignment calculated in accordance with Section A.3.

Historic Plan

The difference between the total amount assigned to the Industrial Customers in this section and the amount assigned to the Current Plan above will be included in the Historic Plan. The December 31, 2006 Historic Plan balance used for rate setting in Section E will be adjusted to remove the 2006 Hydraulic Variation amount, so that the impact of the Hydraulic Variation adjustment will not affect Industrial Customer rates until January 1, 2008.