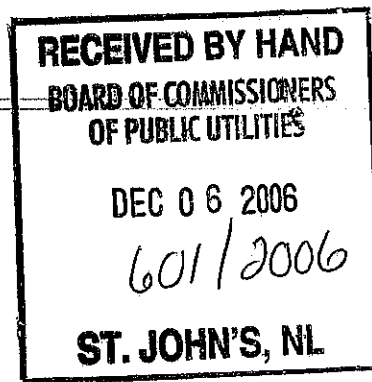


Mark Kennedy - Law



December 6, 2006

Newfoundland and Labrador Hydro
Hydro Place, Columbus Drive
P.O. Box 12400
St. John's, NL
A1B 4K7

Attention: Geoffrey Young

Consumer Advocate
c/o O'Dea Earle
P.O. Box 5955
323 Duckworth Street
St. John's, NL

Attention: Thomas Johnson

Newfoundland Power
c/o Curtis Dawe
P.O., Box 337
11th Floor, Fortis Building
St. John's, NL

Attention: Ian Kelly, Q.C.

Industrial Customers
c/o Stewart McKelvey
Suite 1100, Cabot Place
100 New Gower Street
P.O. Box 5038
St. John's, NL, Canada
A1C 5V3

Attention: Paul Coxworthy

Board of Commissioners of
Public Utilities
Prince Charles Building
120 Torbay Road
P.O. Box 21040
St. John's, Newfoundland
A1A 5B2

Attention: Dwanda Newman, Cheryl Blundon

**Re: *Hydro GRA 2006
Agreements***

Further to Hydro's confirmation of the proposed filing being acceptable, we are now forwarding an original of each of the following Agreements:

1. Revenue Requirement Agreement
2. Supplementary COS, Rate Design and Other Issues
3. Labrador Interconnected Rates Agreement

We trust this is in order.

Sincerely,



Mark Kennedy
encl.

IN THE MATTER OF the Public Utilities
Act, R.S.N., c. P-42 (the "*Act*")

AND

IN THE MATTER OF a General Rate Application (the
"Application") by Newfoundland and Labrador Hydro
("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 Inc. ("NP"),
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.

**Parties' Agreement
on
Revenue Requirement**

Terms of Agreement

1. As a result of this Agreement, reached through a negotiation process, the Parties consent to the admission in the record of this Application of all pre-filed testimony and exhibits pertaining to Hydro's revenue requirement. The Parties recommend that the Board make its determinations on the agreed upon issues in accordance with the proposed resolution of these issues as stated in this Agreement. This Agreement represents a reasoned consensus on the stated issues and the individual agreements of the Parties are not intended to be severable. Save and except for issues unresolved by this or any other Agreement, it is intended by the Parties that the cross-examination of any witness should be limited to questions necessary to clarify the provisions of this or any other Agreement. Issues not agreed upon should be determined by the Board based on the full record of the hearing.

Implementation Date

2. The Parties have reached consensus on all revenue requirement issues ("Consensus Revenue Requirement"). The Consensus Revenue Requirement will be incorporated into Hydro's revised cost of service study ("Revised COSS"). It is the intention of the Parties that rates should reflect the terms of this Agreement and the terms reached as a result of the agreements of the Parties dated October 20, 2006 (COS Agreement) and November 23, 2006 (COS, Rate Design and Other Issues Agreement and Labrador Interconnected Rates Agreement). The Parties agree that rates should be implemented effective January 1, 2007.

Matters Agreed Upon

3. With respect to issues raised in certain Requests for Information, the following issues have been agreed upon and will be included in the Revised COSS:
 - a. There will be a correction of an error in the calculation of NP's Coincident Peak (Reference IC 41 NLH).
 - b. There will be a correction of an error in the Cost of Service calculation of specifically assigned charges (Reference IC 34 NLH).
 - c. Boiler and machinery insurance expense will be reduced by \$167,000 from the GRA filing based on quotes received subsequent to filing of Hydro's Application (Reference CA 150 NLH-1st Revision – October 25, 2006).
 - d. Equipment Rental expense will be reduced by \$150,000 (Reference NP 13 NLH).

4. With respect to issues for which more recent actual or forecast data is available, the following has been agreed upon and will be included in the Revised COSS:

- a. The Holyrood No. 6 fuel expense will be updated to reflect the oil market price forecast from the PIRA Energy Group as of September 25, 2006 (including applicable exchange rates), which reflects a monthly average price for No. 6 fuel in 2007 of \$55.38 (Cdn) per barrel, and also the impact of a more recent forecast of the opening January 1, 2007 inventory price of \$50.91. The forecast average monthly price for No. 6 fuel in Hydro's original filing was \$56.59 and the opening inventory price for 2007 was projected to be \$57.20.
- b. The No. 2 fuel expense, as well as isolated power purchases linked to No. 2 fuel prices, will be updated to reflect the oil market price forecast from the PIRA Energy Group as of September 25, 2006 (including applicable exchange rates).
- c. Island interconnected purchased power costs which have fuel adjustment clauses will be updated to reflect the oil market price forecast from the PIRA Energy Group as of September 25, 2006 (including applicable exchange rates).
- d. Loss on disposal of fixed assets will be updated to reflect a 2007 forecast loss of \$1,366,000, a \$304,000 reduction from the original filing of \$1,670,000.
- e. Regulated portion of interest earned on overdue accounts will be incorporated into the weighted average cost of capital calculation for 2007.

- f. In light of the fact that discussions between Hydro and others are still ongoing, the deficit of \$380,000 related to providing service to the community of Natuashish (ref: NP 169 NLH) will be excluded from the 2007 test year. The Parties consent to Hydro deferring the recovery of any costs incurred by Hydro in providing service to the Natuashish until the matter is dealt with by the Board on a subsequent Application by Hydro.
- g. Hydro's 2007 forecast interest charges on new long term debt will be updated to reflect the actual 4.30% interest rate incurred on the \$225,000,000 bond issued by Hydro on October 13, 2006. Interest was forecast in Hydro's original filing to be 5.0%.
- h. For the purposes of determining the weighted average cost of capital for the 2007 test year, return on equity is forecast at 4.47%. Return on equity was forecast in Hydro's original filing to be 5.2%.
- i. The forecast average interest rate for promissory notes for the 2007 test year will be changed to 3.86%. The 3.86% average interest rate includes a credit spread of 20 basis points. Interest on short term debt, including a credit spread of 20 basis points, was forecast in Hydro's original filing to be 4.11%.
- j. Revenue requirement will be updated to reflect the announcement by the Government of the Province of Newfoundland and Labrador of an extension to the suspension of dividends to April 1, 2008.

- k. The rate base impacts of all of the above items will be incorporated into Hydro's rate base.

5. With respect to other issues, the following has been agreed upon:

a. For rate setting purposes:

- i. the forecast 2006 capital expenditure used in the original filing, and the 2007 capital expenditure, based on approved 2007 Capital Budget, shall be reduced by 5%, and otherwise the approved 2007 Capital Budget shall be substituted for the Capital Budget proposed by Hydro for all purposes of Hydro's GRA.
- ii. using the most recent historical 10-year average, the forecast 2007 transmission losses will be rounded down by 0.1% and the cost of No. 6 fuel for the Island interconnected system will be reduced accordingly in the Revised COSS.
- iii. the forecast 2007 capitalized salaries will be increased by \$250,000 resulting in a corresponding decrease in operating costs.
- iv. of the forecast 2007 demand side management expenditure of \$500,000, an amount of \$250,000 (representing the forecast cost of a DSM study) will be deferred and amortized over a period of 5 years, commencing January 1, 2007.

- v. an overall expense reduction of \$1,000,000 will be incorporated into Hydro's cost of service, which reduction includes an estimated savings in 2007 of \$250,000 related to amortization of the costs associated with the 2006 GRA rate hearing.

b. With regard to the RSP for Newfoundland Power:

- i. Effective December 31, 2006, Hydro will transfer Newfoundland Power's portion of the actual RSP Hydraulic Production Variation Balance as of December 31, 2006 (in total, currently forecast at \$20,700,000) to Newfoundland Power's Historic RSP Balance.
- ii. Effective January 1, 2007, Hydro will decrease the RSP rate charged to Newfoundland Power commensurate with a reduction in Newfoundland Power's Historic RSP Balance. For the purposes of setting the new RSP rate, the reduction in Newfoundland Power's Historic RSP Balance will be calculated by deducting Newfoundland Power's portion of the forecast \$20,700,000 RSP Hydraulic Production Variation Balance from Newfoundland Power's Historic RSP Balance. This will enable Hydro to amortize the collection of the reduced Historic RSP Balance over eighteen (18) months (January 1, 2007 to July 1, 2008) and recognizes that RSP rates will again be reset on July 1, 2007 in accordance with the normal operation of the RSP.
- iii. Effective January 1, 2007, Newfoundland Power will reduce the RSA adjustment it charges its customers to reflect the change in the RSP rate

charged to Newfoundland Power.

c. With regard to the RSP for Industrial Customers:

- i. the normal annual 25% allocation of the Industrial Customers' share of the actual RSP Hydraulic Balance as of December 31, 2006 (in total, currently forecast at \$20,700,000) shall be incorporated into customer rates effective January 1, 2007 in accordance with the existing RSP rules, and
- ii. the portion of the Industrial Customers' share of the actual RSP Hydraulic credit balance, net of the allocation outlined in (i) above, shall be transferred, effective December 31, 2006, to the Industrial Customers' Historic RSP and 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 RSP rules.

- d. In furtherance of the agreement reached by the Parties on the aforesaid disposition of the RSP Hydraulic Production Variation Balance, the Parties confirm that, pursuant to the COS Agreement dated October 20, 2006, Hydro will undertake a study of the RSP. The study is to be conducted prior to October 31, 2007 and will consider the appropriate design objectives of the RSP.

6. All other revenue requirement issues will be as filed in Hydro's evidence unless adjusted by the Parties' Agreements dated October 20, 2006 (COS Agreement) and November 23, 2006 (COS, Rate Design and Other Issues Agreement and Labrador Interconnected Rates Agreement).

7. For certainty, the Parties acknowledge that the following issues remain unresolved and will be the subject of vive voce evidence at the hearing of the Application on such date as to be determined by the Board to be appropriate:

- a. The Automatic Adjustment Formula;
- b. The appropriateness of an Integrated Resource Planning exercise;
- c. Reliability policy and initiatives;
- d. Peer Group Benchmarking and Tracking and Reporting of Additional Performance Indicators;
- e. Oil Purchasing/Hedging; and
- f. Conservation Initiatives.

Agreed to this 23rd day of November, 2006.

For Newfoundland Power:

Tom Hunter

For Industrial Customers:

Paul J. Leavitt

For the Consumer Advocate:

Thomas John

For Newfoundland & Labrador Hydro:

Paul R. G.

Board Appointed Facilitator:

M

IN THE MATTER OF the Public Utilities Act,
R.S.N.L., c. P-42 (the "Act")

AND

IN THE MATTER OF a General Rate Application (the
"Application") by Newfoundland and Labrador Hydro
("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 Inc. ("NP"),
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.

PARTIES' AGREEMENT
on
COS, RATE DESIGN,
and
OTHER ISSUES

Background to this Agreement

1. By Agreement dated October 20, 2006 the Parties reached a reasoned consensus on matters involving cost of service, rate design and rate stabilization plan (the "COS Agreement"). As reflected in the COS Agreement, matters not agreed upon by the Parties were as follows:
 - a. The treatment of customer-owned generation in the cost of service study;
 - b. Hydro's Rate Stabilization Plan (RSP) proposals relating to the treatment of the CFB Goose Bay credit and limitations on the effects of variations in Rural diesel fuel and power purchase costs on Hydro's net income;
 - c. The disposition of the forecast hydraulic production variation balance; and
 - d. The calculation and application of specifically assigned charges to customers.

2. The Parties have now reached a reasoned consensus on the matters above and on further matters as set out in this Agreement.

Terms of the Agreement

3. As a result of this Agreement, reached through a negotiation process, the Parties consent to the admission in the record of this Application of all pre-filed testimony and exhibits pertaining to: (a) The treatment of customer-owned generation in the cost of service study; (b) Hydro's Rate Stabilization Plan (RSP) proposals relating to the treatment of the CFB Goose Bay credit and limitations on the effects of variations in Rural diesel fuel and power purchase costs on Hydro's net income; (c) The disposition of the forecast RSP hydraulic production variation balance; (d) The calculation and application of specifically assigned charges to customers; (e) The reduction of Newfoundland Power's load forecast for the cost of service in Test Year 2007 owing to the generation outage planned for 2007 at Newfoundland Power's Rattling Brook Generating Station; and (f) Rate Adjustments for Certain Isolated Rural Customers, without the calling of witnesses for the purpose of cross-examination insofar as such testimony and exhibits relate to the issues agreed to. The Parties recommend that the Board make its determinations on the agreed upon issues in accordance with the proposed resolution of these issues as stated in this Agreement. This Agreement represents a reasoned consensus on the stated issues and the individual agreements of the Parties are not intended to be severable. Issues not agreed upon should be determined by the Board based on the full record of the hearing. The Parties further agree that this Agreement is without prejudice and sets no precedent on any particular and individual issue in any future proceeding or forum, including but not limited to any future General Rate Applications or review processes.

Treatment of Customer-Owned Generation

4. Consistent with recommendations in Exhibit RDG-2 (Review of Newfoundland and Labrador Hydro's Treatment of Newfoundland Power's Generation), NP will continue to receive a credit for its hydro and thermal generation in the cost of service study as proposed in the Application with two modifications, as follows:
 - a. The impact on system load factor of the existing thermal credit mechanism and its resulting change in cost classification will no longer form part of the compensation; and
 - b. Compensation for transmission relating to NP thermal generation will be discontinued such that NP's common transmission cost allocation is not reduced.

RSP Proposals

CFB Goose Bay

5. Hydro proposed a change in 2007 to the treatment of Newfoundland Power's allocated share of the CFB Goose Bay Revenue Credit whereby Newfoundland Power's portion of the CFB Goose Bay Revenue Credit would be removed from Newfoundland Power's base rates and instead its portion of the credit would be refunded to Newfoundland Power through its Rate Stabilization Plan based on actual secondary revenue. All Parties agree that Hydro's aforesaid proposal in this regard is withdrawn and will be discussed as part of the RSP review outlined in the COS Agreement. The current treatment of the CFB Goose Bay Revenue Credit shall continue for the purpose of this Application, except to the extent modified by the agreement on the Labrador Interconnected Rates dated November 23, 2006.

Rural Diesel Fuel and Power Purchase Costs

6. Hydro proposed introducing a new provision of the RSP which would collect additional Rural Diesel fuel and power purchase costs from Newfoundland Power or similarly refund such fuel and power purchase savings to Newfoundland Power

if actual costs are lower. All Parties agree that Hydro's aforesaid proposal in this regard is withdrawn for the purposes of this Application and will be discussed as part of the RSP review outlined in the COS Agreement.

Forecast Hydraulic Production Variation Balance

7. The suggested disposition of the forecast RSP Hydraulic Production Variation Balance is as provided in the Revenue Requirement Agreement dated November 23, 2006.

Specifically Assigned Charges to Customers

8. All Parties agree on the cost of service methodologies in Exhibit RDG-1 ("2007 Forecast Cost of Service") with respect to Functionalization, Classification and Allocation and in particular, but without limiting the generality of the foregoing, the calculation and application of specifically assigned charges to customers as proposed therein.

NP Generation Outage at Rattling Brook Generating Station

9. All Parties acknowledge that owing to a major generation outage planned for Newfoundland Power's Rattling Brook Generating station in 2007, Newfoundland Power's hydro generation for 2007 is forecast at 381.4 GWh compared to a long-term average of 419.6 GWh, a reduction of 38.2 GWh. The Parties agree that Newfoundland Power's load forecast for the cost of service in Test Year 2007 shall be reduced by 38.2 GWh compared to Hydro's filing in order to reflect long-term average hydro output.

Rate Adjustments for Certain Isolated Rural Customers

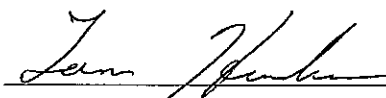
10. It is recognized that some of Hydro's Isolated Rural customers are not subject to Newfoundland Power's Rate Stabilization Account (RSA) and Municipal Tax Adjustment (MTA) adjustments between Hydro GRAs. The Parties agree that in

the future the rates for these Isolated Rural customers should be subject to periodic adjustments by Hydro to reflect Newfoundland Power's periodic RSA and MTA adjustments, including any fuel rider adjustments. A new provision reflecting this change will be included in revised Rules and Regulations to be filed with the Board. The following rate classes will be impacted:

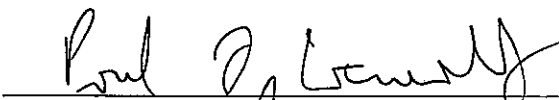
- a. Rural Isolated Domestic Customers (excluding Government Departments) for consumption greater than the lifeline block;
- b. Isolated Rural General Service Customers (excluding Government Departments).

AGREED TO this ^{23rd} day of November, 2006.

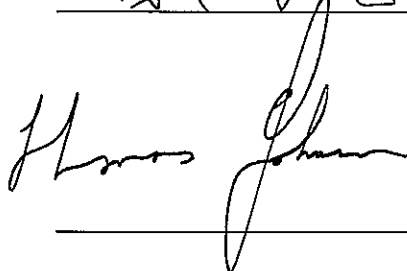
For Newfoundland Power:



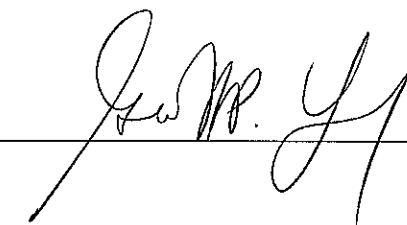
For Industrial Customers:



For the Consumer Advocate:



For Newfoundland and Labrador Hydro:



Board Appointed Facilitator:



IN THE MATTER OF the Public
Utilities Act, R.S.N., c. P-42 (the
“*Act*”)

AND

IN THE MATTER OF a General Rate
Application (the “Application”) by
Newfoundland and Labrador Hydro (“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
Inc. (“NP”), 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.

**Parties’ Agreement
on
Labrador Interconnected Rates**

Terms of Agreement

1. As a result of this Agreement, reached through a negotiation process, the Parties consent to the admission in the record of this Application of all pre-filed testimony and exhibits pertaining to Hydro’s revenue requirement, cost of service, rate design, and rate stabilization plan rules and tariff rules and regulations pertaining to Labrador Interconnected rates without the calling of witnesses for the purpose of cross-examination insofar as such testimony and exhibits relate to the issues agreed to. The Parties recommend that the Board make its determinations on the agreed upon issues in accordance with the proposed resolution of these issues as stated in this Agreement. This Agreement represents a reasoned consensus on the stated issues. Save and except for issues unresolved by this or any other agreement, it is intended by the Parties that the cross-examination of any witness should be limited to questions necessary to clarify the provisions of this or any other Agreement.

Rates Principles

2. This Agreement has been reached in recognition of the principles and practices established by the Board of Commissioners of Public Utilities (the "Board") as follows:
 - (a) The Rural customers in the communities of Labrador City, Wabush, and Happy Valley - Goose Bay and the Rural customers served from Hydro's facilities in those vicinities are served from the Labrador Interconnected system;
 - (b) Similar customers served from a single electrical system should pay the same rates ("uniform rates");
 - (c) Where changing rates to accomplish uniform rates on a single electrical system requires that large percentage rate increases occur, those rate changes should, where practicable, be phased in gradually; and
 - (d) The application of the CFB Goose Bay revenue credit for secondary energy sales will be phased in to reduce the Rural Deficit.

2007 Rates

3. For 2007 there will be no changes to rates for firm sales paid by Rural customers served from the Labrador Interconnected system.

2008-2011 Rates Phase-in

4. In years 2008 through 2011, inclusive, rate changes will be phased in so that by 2011:
 - (a) Rates will be based on the 2007 Test Year revenue requirement;
 - (b) Uniform rates will be charged to all Rural customers on the Labrador Interconnected system; and
 - (c) The CFB Goose Bay revenue credit will be fully applied to reduce the Rural Deficit.

On or before December 15, 2006, Hydro will file with the Board the rate plan for the years 2008 to 2011 for the Labrador Interconnected Rural customers to achieve the above objectives. Hydro shall apply to the Board each year for approval of the Schedule of Rates to be charged as set out in the rate plan.

Nothing in this Agreement prevents Hydro from applying to the Board for a rate adjustment resulting from changes in costs in any year subsequent to 2007, which adjustment may vary the rates established based on the 2007 Test Year revenue requirement.

CFB Goose Bay Credit

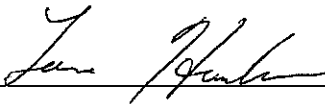
5. A sufficient portion of the CFB Goose Bay Revenue Credit will be used to maintain existing rates paid by Rural customers on the Labrador Interconnected system for 2007. The revenue shortfall to Hydro from maintaining existing rates will be recovered through the RSP. The RSP rules pertaining to the Rural Rate Alteration (Rural Labrador Interconnected Automatic Rate Adjustments) will be modified to reflect the foregoing and to facilitate the phasing in of the CFB Goose Bay revenue credit for secondary energy sales to reduce the Rural Deficit. The modified RSP rules will be submitted to the Board for approval.

Industrial Customers' Acknowledgement

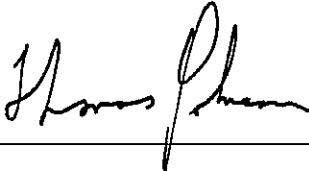
6. The Industrial Customers take no position on the issues dealt with in this Agreement.

Agreed to this 23rd day of November, 2006.

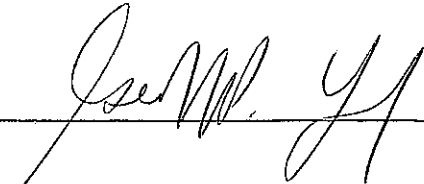
For Newfoundland Power:



For the Consumer Advocate:



For Newfoundland & Labrador Hydro:



Board Appointed Facilitator:



Acknowledged this 23rd day of November, 2006.

For the Industrial Customers:

