



General Rate Application

Results of Negotiations Among the Parties
January, 2007

Overview

- Summary of Agreements
- Rate Changes
- Canadian Rate Comparisons
- Process and Outcomes

Overview

- Following are results of negotiations among the Parties to the General Rate Application (GRA) over the period February to November 2006. The Parties include
 - ❖ Consumer Advocate Industrial Customers
 - ❖ Newfoundland Power Newfoundland and Labrador Hydro
- The Parties are pleased to put forward the agreements which result in a “win - win” for all - including rate payers in the Province who benefit from reduced costs and stable rates

Agreements Summary

Four Separate Agreements

October 20, 2006

- Cost of Service, Rate Design and Rate Stabilization Plan
- *Deals with Marginal Cost Study, sets out rate design principles and outlines 2007 rate and RSP reviews*

November 23, 2006

- Revenue Requirement
- Cost of Service, Rate Design and Other Issues
- *Outlines agreed amounts for 2007 Cost of Service study and RSP calculations*
- *Deals with report on Value of NP Generation, other RSP issues and Rural Isolated rates*
- *Outlines 2007 rate freeze and rate levelization in 2008 to 2011 period*

Agreement Summary

- Agreements represent a reasoned consensus of the Parties
- Individual agreements on various issues are not intended to be severable
- It is intended that cross-examination of witnesses on agreed-upon issues be limited to questions of clarification
- Parties recommend that the Board make its determinations regarding agreed-upon issues on the basis of the Parties' Agreement

Agreement Summary

- Parties consent to the admission to the record of all pre-filed testimony and exhibits related to issues which were agreed upon
- Issues not agreed upon should be determined by the Board based on the full record of the hearing

Agreement Summary

- Revenue requirement, RSP and other changes
 - ❖ Forecast changes, e.g. fuel and interest rates (\$9.5 m), and errors and omissions (\$0.5 m) (\$10 m)
 - ❖ Other revenue requirement changes (\$2 m)
 - ❖ RSP Hydraulic Credit (\$23 m)
- | | <u>2007</u> | <u>2008</u> |
|----|-------------|-------------|
| NP | \$13 m | \$7 m |
| IC | \$ 1 m | \$2 m |
- ❖ CFB Goose Bay Revenue Credit (\$ 3 m)
- Rate implementation date of January 1, 2007

Agreement Summary

- The filed cost of service methodology was agreed upon with respect to functionalization, classification and allocation
- Rate design principles were accepted and used by the Parties in reaching an agreement and are set out in Attachment A to the October 20th, 2006 Agreement

Agreement Summary

NP Rate

- NP rate will continue to be a two-part energy structure with the 'run out' block rate set at Holyrood fuel cost
- The demand rate will be reduced to \$4.00 per kW per month to better reflect current marginal capacity costs
- Demand rate billing will continue to apply to single winter peak
- Demand billing approach will be reviewed with a view to reflecting marginal capacity costs in all winter months
- A report on the review of demand billing is to be submitted to the Board on or before June 30, 2007

Agreement Summary

IC Rates

- While the level of 2007 rates will decrease, the existing rate structure for ICs will continue to apply
- IC rate structure will be reviewed in 2007 in accordance with a negotiated framework for the rate design review
- Hydro will host a technical conference on this issue with the Parties no later than October 31, 2007
- It is agreed that the Parties would use best efforts to achieve a January 1, 2008 rate implementation

Agreement Summary

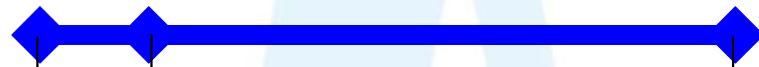
RSP Review

- RSP design objectives will be defined
- The RSP will be reviewed with the intent to better reflect design objectives
- Review will include, but not be limited to :
 - ❖ Assessing necessity of the load variation component of the Plan
 - ❖ Enhancing price signal for marginal consumption
 - ❖ Simplifying RSP by separately tracking provisions not related to hydraulic and fuel price
- Hydro will host a technical conference on this issue no later than October 31, 2007
- It is agreed that the Parties would use best efforts to achieve a January 1, 2008 rate implementation

Agreement Summary

2007 Reviews by the Parties

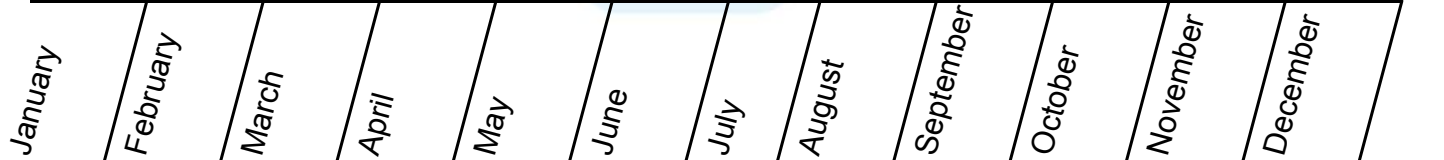
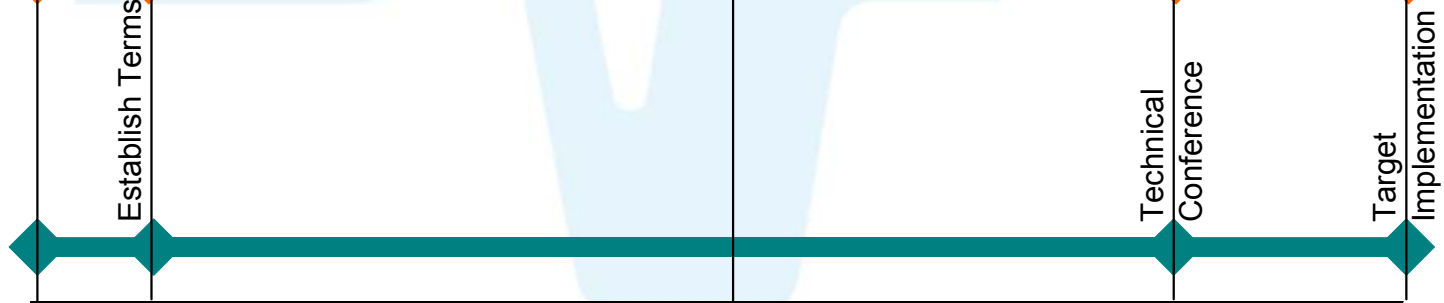
NP Rate Review



IC Rate Review



RSP Review



Agreement Summary

- Customers' specifically assigned charges will continue to be calculated as in the past
- Acceptance of the treatment of customer-owned generation in the COS in accordance with Stone and Webster recommendations
- Proposed changes by Hydro to treatment of CFB Goose Bay credit and variations in Rural diesel fuel and purchase power costs are withdrawn and to be discussed as part of the review of the RSP

Agreement Summary

- Newfoundland Power's load forecast is reduced to exclude the effect of the refurbishing of Rattling Brook generating station
- All components of Rural Isolated customers' rate will be subject to Newfoundland Power's rate adjustments between GRAs, similar to Rural Island Interconnected customers

Agreement Summary

- Parties acknowledge that the following issues are unresolved:
 - ❖ Automatic Adjustment Formula
 - ❖ Integrated Resource Planning
 - ❖ Reliability policy and initiatives
 - ❖ Benchmarking and performance indicators
 - ❖ Oil purchasing / hedging
 - ❖ Conservation initiatives



Rate Changes

Other Factors

- Contribution by the Province to Industrial RSP (\$10m)
- Contribution by Province in 2007 / 08 to Rural Isolated rates (\$0.6 m)

Revised Rate Changes (including RSP impacts)

	Original 2007 Test Year	Interim 2007 Test Year
	%	
Newfoundland Power		
Wholesale	6.6%	0.4%
Retail	4.6%	0.1% (1)
Industrial Customers	8.2%	-18.3% (2)
Labrador Interconnected	8.5%	0.0%
Rural Isolated Non-government	13.5%	0.1%

Notes:

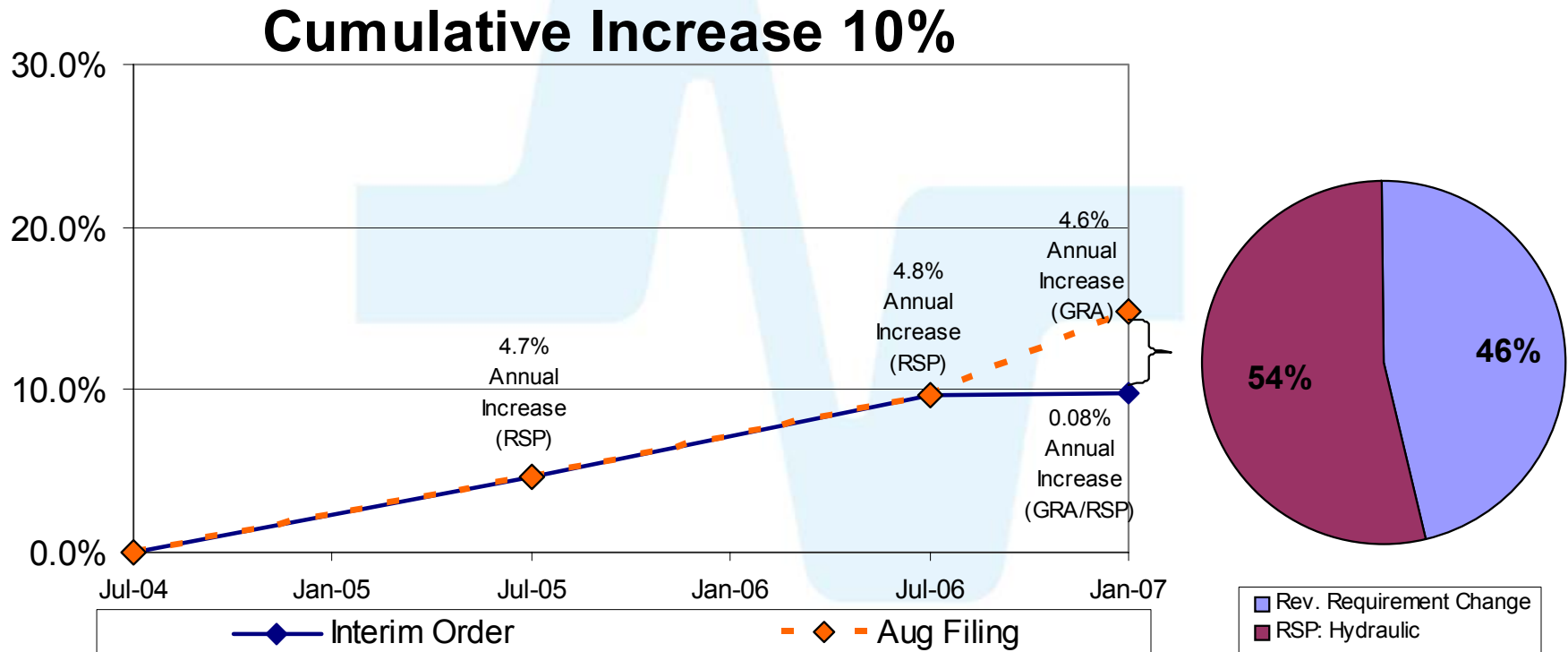
- (1) Includes decrease due to NP's 2006 application of its Automatic Adjustment Mechanism
- (2) Revised 2007 Test Year decrease in IC rates is in addition to decrease in IC rates in October as a result of RSP changes.

Future Rate Changes

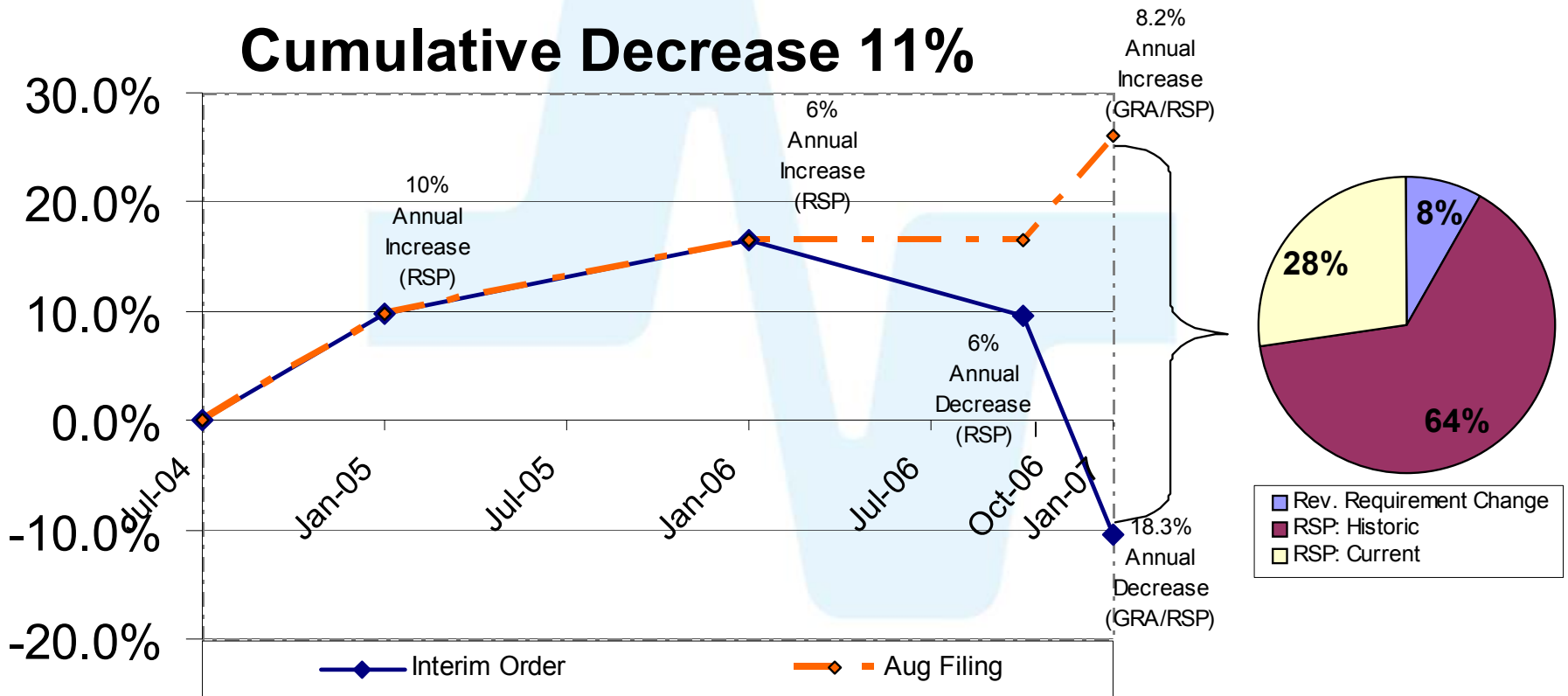
Based on the Agreements, the following future rate changes are forecast :

	<u>FILING</u>	<u>AGREEMENT</u>
Labrador West	2007 – 2008	2008 – 2011
Domestic	18% to 20% annually	9 % to 9.5% annually
Small General Service	15% to 18% annually	7.5% to 8 % annually
Street Lights	8 % to 9 % annually	3 % to 5 % annually
Happy Valley Goose Bay		
Domestic	1 % in 2008	1 % in 2011
Small General Service	7.4% in 2007	7.4% in 2011
Larger General Service	0.7% to 7.8% in 2007	0.7% to 7.8% in 2008
Street Lights	14% in 2008	3.5% in 2010 and 10% in 2011
Rural Isolated		2008 – 2009
Domestic	2.9% in 2007	1 % to 2 % annually + RSA
General Service	15.1% in 2007	7 % to 8 % annually + RSA

Residential Rate Change



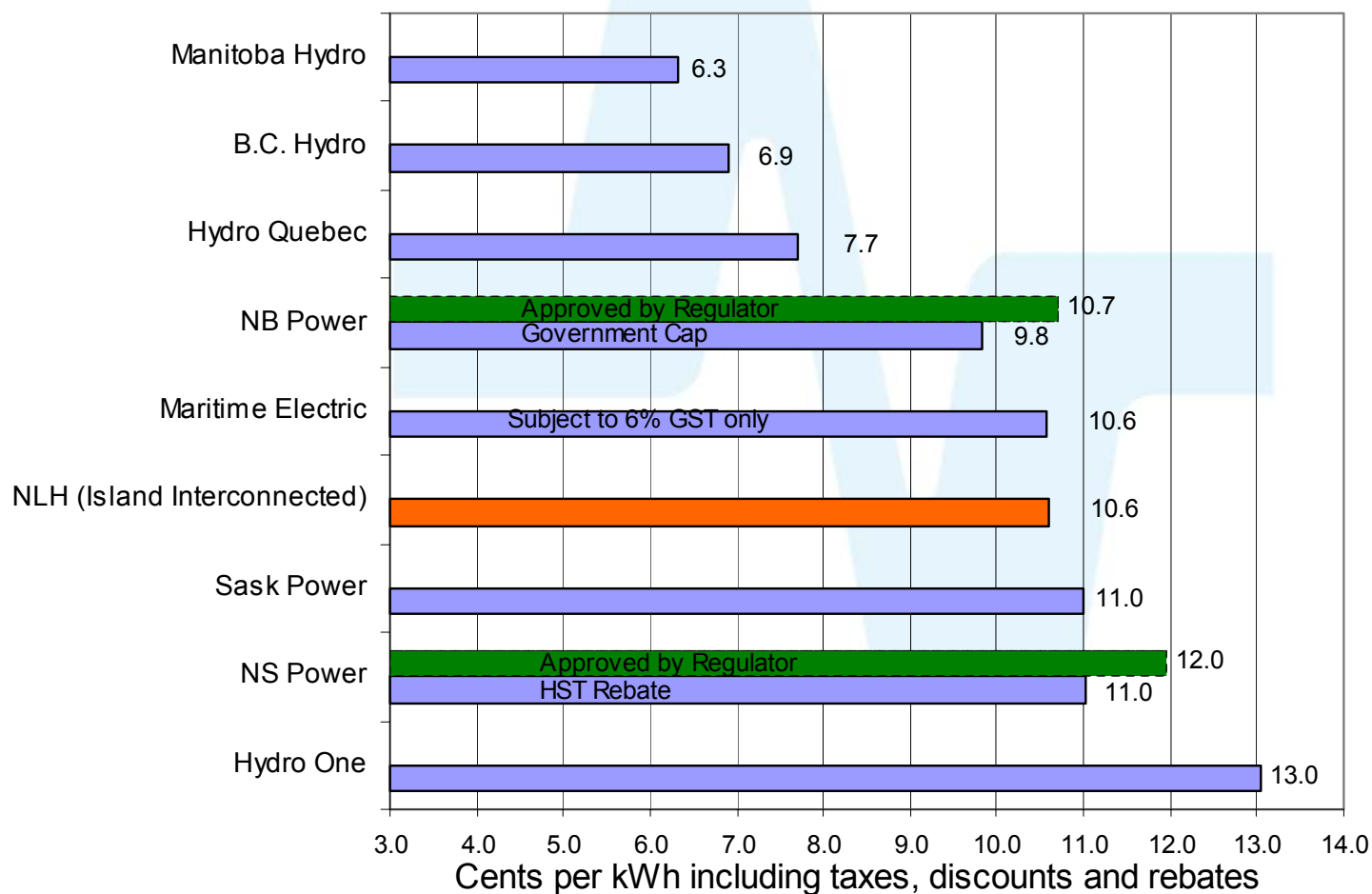
Island Industrial Rate Change



Rate Comparisons

Comparison with Other Provinces

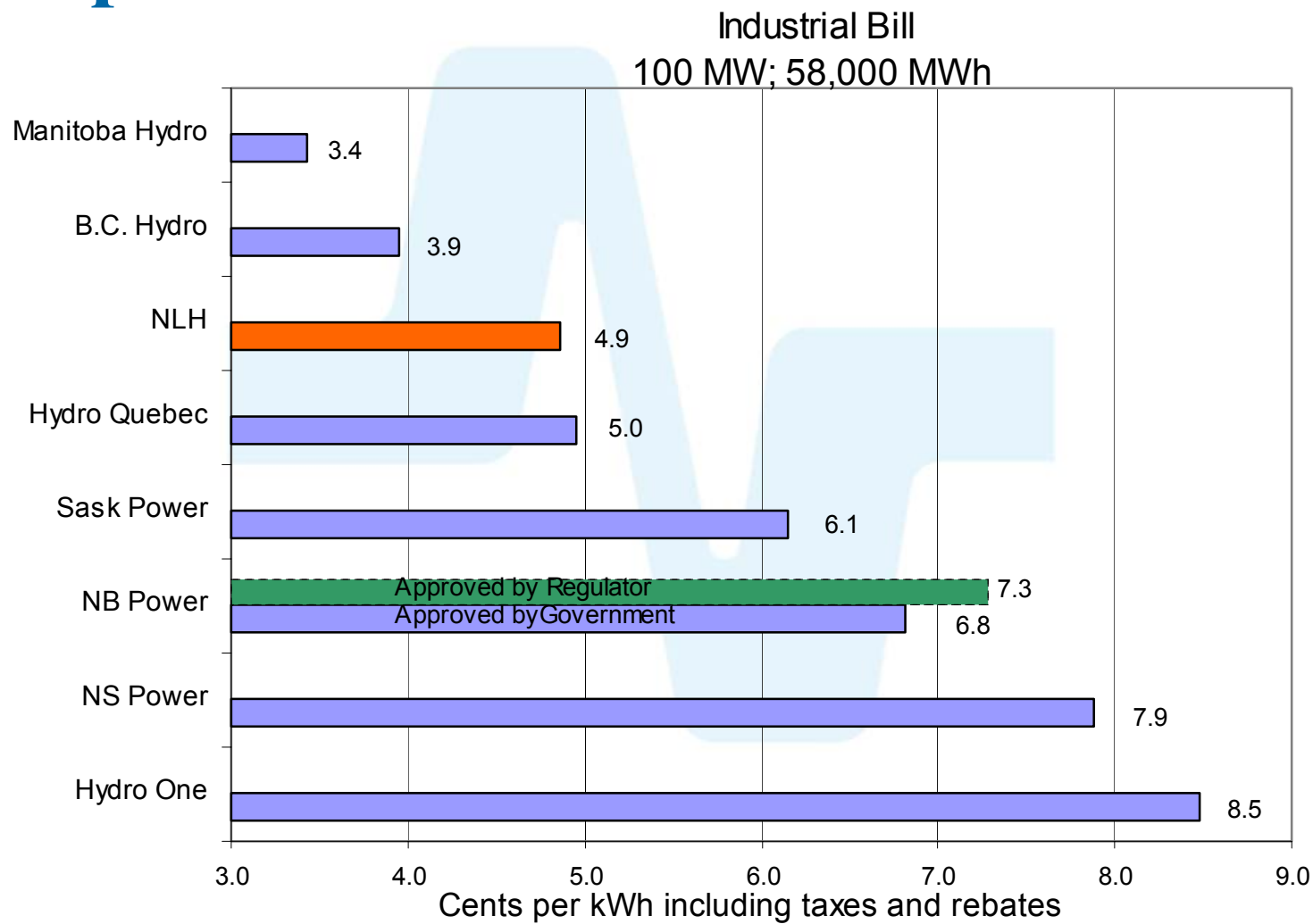
Residential Bill
3,000 kWh (typical winter month with heat and hot water)



Relevant Canadian Regulatory Activity

- Nova Scotia Power Incorporated requested a 7.5% increase effective April 1, 2007
- Hydro Quebec requested a 2.8% increase effective April 1, 2007
- SaskPower requested a 4.3% increase effective January 1, 2007. The Saskatchewan Rate Review Panel recommended on January 11 that the increase be granted effective February 1, 2007
- BC Hydro concluded a negotiated settlement effecting a reduction in the approved July 1, 2006 interim rate increase from 4.7% to 1.5%

Comparison with Other Provinces





Process and Outcomes

Background

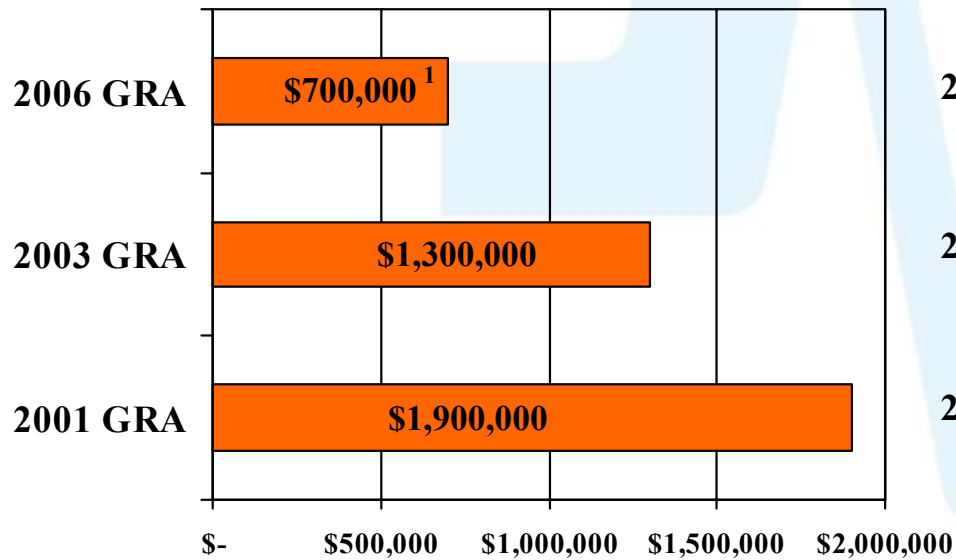
Rate Hearing costs paid by Hydro

	<u>2003</u>	<u>2001</u>
Internal Salaries	\$1,300,000	\$1,900,000
Board Hearing Costs(1)	\$1,700,000	\$1,600,000
Other Consultants/Experts	\$ 700,000	\$ 700,000
Other Costs	<u>\$ 100,000</u>	<u>\$ 100,000</u>
	<u>\$3,800,000</u>	<u>\$4,300,000</u>

(1) Includes Board and Intervener costs paid by Hydro

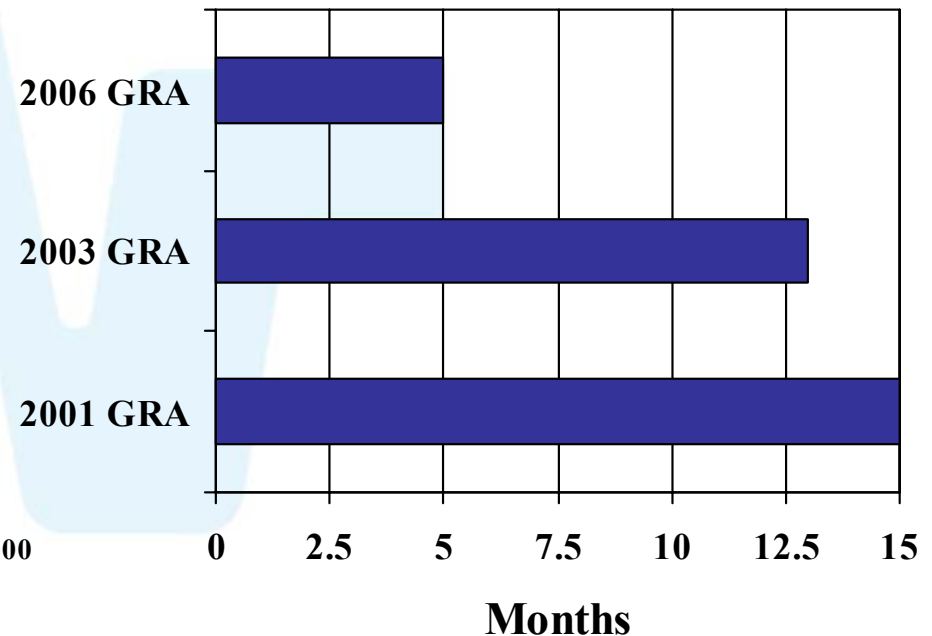
Rate Implementation

Hydro Internal Salaries



¹ Estimated

Timing of Filing to Rate Implementation



Requests for Information

	2006 GRA	2003 GRA
CA	235	244
IC	170	449
LC		58
NP	171	310
NLH	42	264
PUB	31	195
Totals	649	1,520

Drivers for Success

- Parties built on the success of previous hearing, particularly the RSP negotiations in the 2003 proceeding
- Direction of the Board :
 - ❖ Seeks cooperation of all stakeholders to permit timely conclusion of GRAs
 - ❖ Requires proactive approach from everyone to allow GRAs to move forward at unprecedented pace
 - ❖ Hydro requested to discuss with parties the intended schedule and any other steps that may be taken to facilitate planned timeline

Drivers for Success

- In US, every jurisdiction tries to settle issues and it is common to settle the entire rate case
- In Canada it is becoming more common that regulators pursue alternate dispute resolution
- The Province is relatively small and there is an onus on participants for an efficient and effective process which is less time consuming and costly
- Circumstances developed during negotiations which facilitated settlement : practically no rate increase for customers

Outcomes

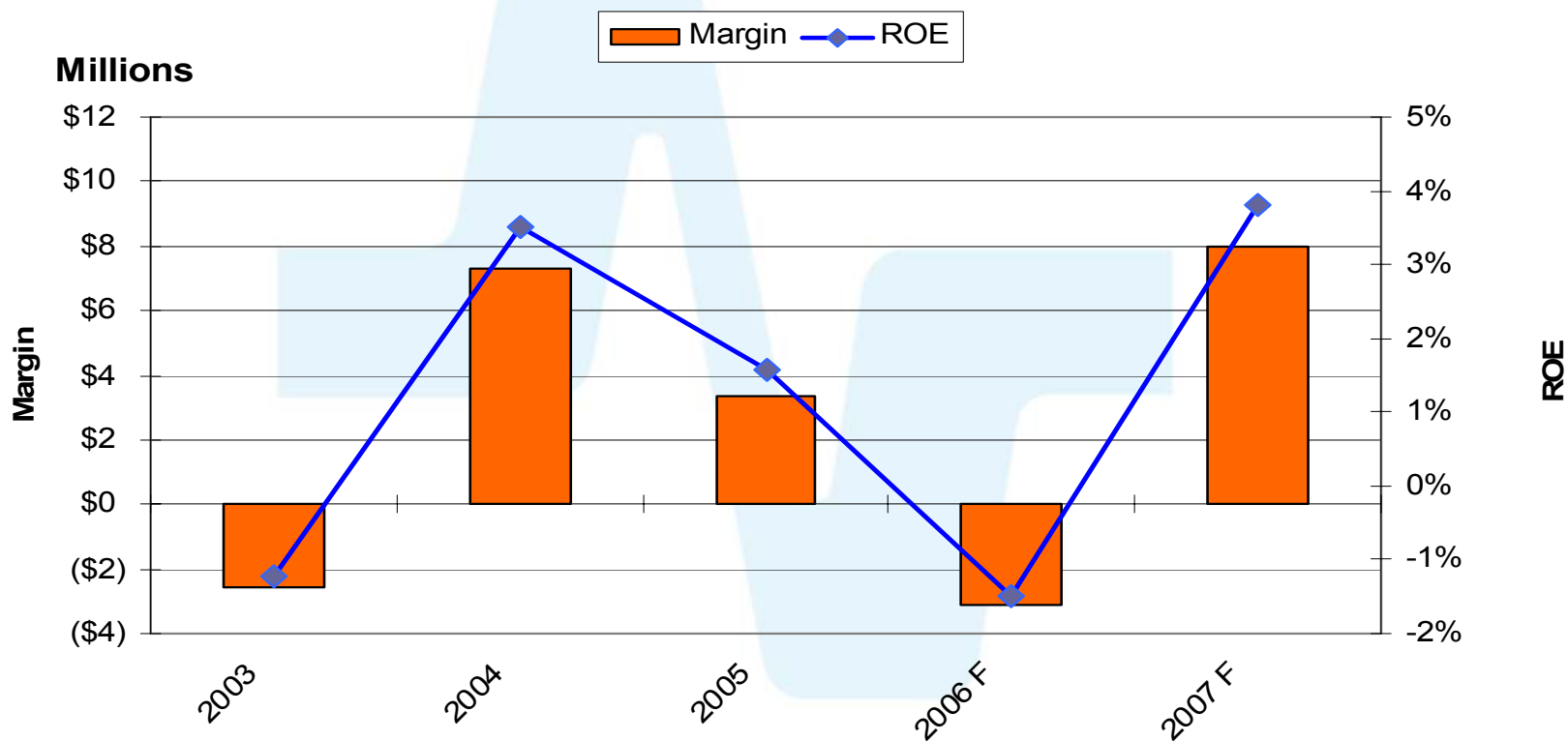
- Negotiated settlement resulted in a more efficient and effective process with costs and resource savings
- Resulting costs savings have been shared with customers in the form of lower rates
- Hydro has provided information to the Province which it required in order achieve rate solutions for Industrial customers and most Isolated Rural customers

Outcomes

- The negotiated settlement permitted a thorough and rigorous review of the application and the regulatory process has been respected
- Solutions were developed which may not be considered or achievable in a contested hearing
- Negotiated settlement has resulted in a “win – win” such that agreement resulted in a January 1 rate implementation which was requested by Hydro

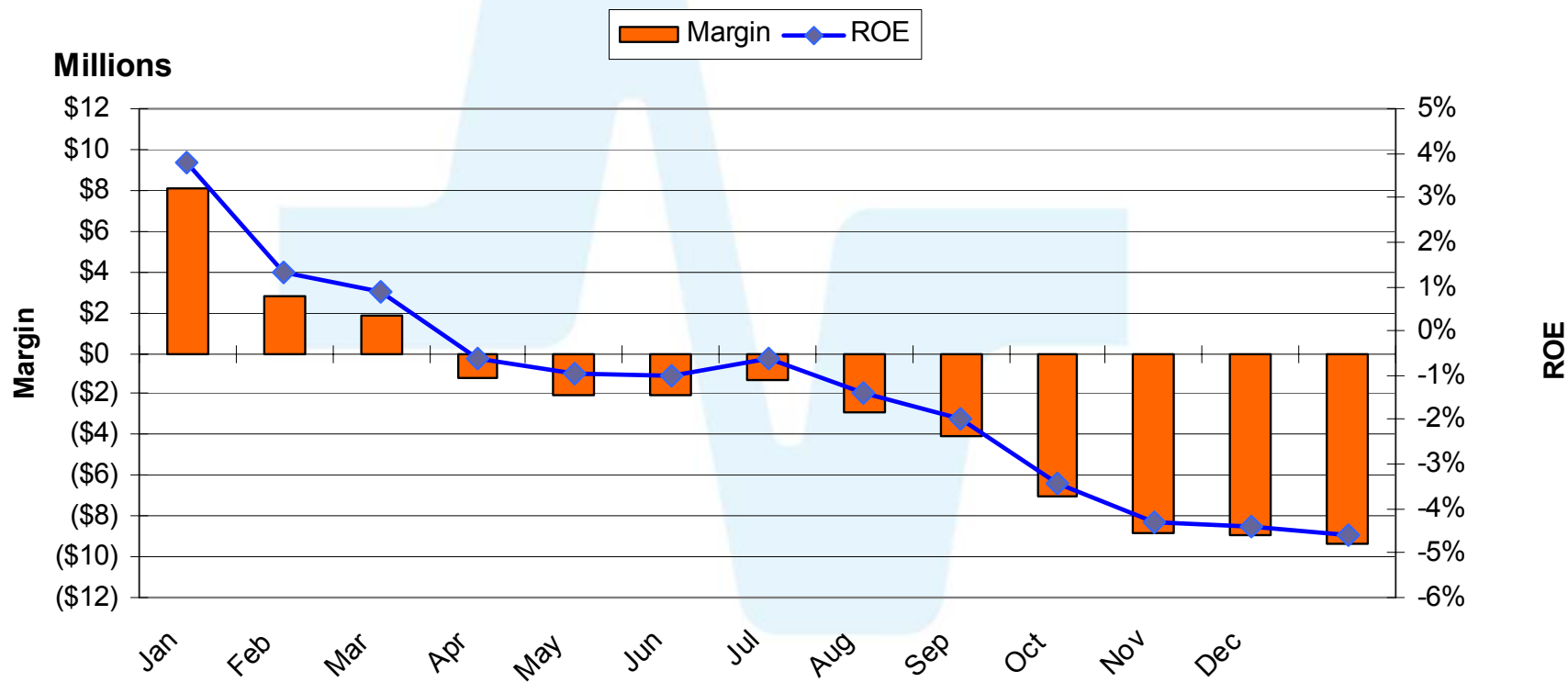
Margin and ROE

Regulated Financial Results and Forecasts



2007 Test Year ROE Forecast

Effect of Delayed Rate Implementation



Hydro's Short-term Financial Picture

- Hydro has returned to a level of profitability and thus is able to avoid a projected 2007 loss which would have a negative financial impact on the company
- This has been accomplished with virtually no rate increases and without jeopardizing employee safety, customer service or future rate stability
- An increase in the level of return without a rate increase has been achieved through cost reductions (mainly fuel and interest) and use of the RSP hydraulic surplus

Hydro's Short-term Financial Picture

- In Hydro's filed evidence it is stated that "there continues to be inherent risks of a low rate of return on Hydro's financial integrity. Hydro is working to address the Board's areas of concern related to this matter and intends to bring this issue to the Board for reconsideration in the future."

Future GRAs

- The Parties encourage future negotiation processes and recognizes the importance of the Board in pursuing and promoting this option



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