

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF a General Rate Application (the “Application”) by Newfoundland Power Inc. (“Newfoundland Power”) to establish customer electricity rates for 2016 and 2017.

**Settlement Agreement
for the Proposed Resolution of
Issues Arising from the Application**

Whereas Newfoundland Power (the “Applicant”) has applied to the Board of Commissioners of Public Utilities (the “Board”) to establish customer electricity rates for 2016 and 2017 (the “Application”);

And Whereas the Consumer Advocate and Newfoundland and Labrador Hydro have been granted Registered Intervenor status by the Board;

And Whereas Newfoundland and Labrador Hydro subsequently advised that it was a party for the limited purpose only of receiving information and documentation;

And Whereas the Applicant and the Consumer Advocate (the “Parties”), with participation by Board hearing counsel, have engaged in negotiations;

And Whereas the Parties have agreed to make joint recommendations to the Board for the resolution of certain issues arising out of the Application.

Terms of Agreement

1. The Parties jointly advise the Board that certain issues arising from the Application have been settled by negotiation between them in accordance with this Settlement Agreement (the “Settled Issues”).
2. The Parties recommend that the Board implement the agreement of the Parties regarding the Settled Issues in its Order.
3. At the hearing of the Application, the Parties do not intend to present evidence, examine, cross-examine or present argument in relation to the Settled Issues beyond that which is reasonably necessary to assist the Board’s understanding, and to explain or clarify the

Parties' agreement concerning the Settled Issues, except insofar as may be necessary to address issues that have not been settled by this Agreement.

4. This Settlement Agreement does not dispose of all issues arising from the Application. It does not limit the rights of the Parties to present evidence, examine, cross-examine and present argument at the hearing of the Application on issues that have not been settled by this Agreement.
5. This Agreement is without prejudice to the positions the Parties may take in proceedings other than the Application. It sets no precedent for any issue addressed in this Agreement in any future proceeding or forum.

Customer, Energy, and Demand Forecast

6. The Applicant has provided a 2016 and 2017 Customer, Energy and Demand Forecast dated February 2016 with its Application (the "Forecast").
7. The Parties agree that the Board may accept and rely upon the Forecast. Any changes to the Forecast from elasticity effects or changes in conservation programs costs resulting from the Board's final order will be reflected in the Applicant's compliance application.

Employee Future Benefits Expense

8. The Applicant's test year revenue requirements include employee future benefit costs of \$18,564,000 for 2016 and \$15,852,000 for 2017, based on a discount rate of 4.1% and an expected average remaining service life of employees of 8.04 years for 2016 and 7.73 years for 2017.
9. The Parties agree with the calculation of 2016 and 2017 employee future benefits expense proposed in the Application, subject to adjustment, if any, arising from the Board's determinations with respect to executive compensation in the hearing of the Application.

Income Tax Expense

10. The Applicant's test year revenue requirements include income taxes of \$18,719,000 for 2016 and \$19,636,000 for 2017.
11. The Parties agree with the calculation of 2016 and 2017 income taxes proposed in the Application, subject to any adjustments arising from the Board's determinations with respect to rate of return on equity or capital structure in the hearing of the Application.

Finance Charges

12. The Applicant's test year revenue requirements include finance charges of \$35,446,000 for 2016 and \$36,873,000 for 2017.
13. The Parties agree with the calculation of 2016 and 2017 finance charges proposed in the Application, subject to any adjustments arising from the Board's determinations with respect to rate of return on equity or capital structure in the hearing of the Application.

Power Supply Costs

14. The Applicant's test year revenue requirements include power supply costs of \$448,896,000 for 2016 and \$448,648,000 for 2017.
15. The Parties agree with the calculation of 2016 and 2017 power supply costs proposed in the Application, subject to any adjustment to test year costs resulting from the Board's determinations with respect to conservation and demand management in the hearing of the Application.

Depreciation Expense

16. The Parties agree that the Board should approve, with effect from January 1, 2016, the Applicant's proposal to calculate depreciation expense by use of the depreciation rates as recommended in the Depreciation Study filed with the Application, which rates include the recovery in depreciation expense over the remaining life of the assets of an accumulated reserve variance identified in the Depreciation Study.

Conservation Programs Costs

17. The Parties agree that the Applicant's proposal to discontinue use of the rate impact measure test and to evaluate customer conservation programs by the use of the total resource cost test and program administrator cost test should be approved.
18. The Consumer Advocate reserves the right to cross-examine the Applicant regarding energy conservation programs and their costs.

Hearing Costs

19. The Parties agree that the Board should approve the Applicant's proposal that the Board and Consumer Advocate hearing costs related to the Application be recovered in customer rates evenly over a 3 year period from 2016 to 2018. For rate setting purposes, the Board and Consumer Advocate hearing costs shall be estimated at \$1.0 million. Any difference between actual costs and the costs estimated for rate setting purposes shall be rebated/collected through the Rate Stabilization Account.

Uncollectible Bills

20. The Parties agree that the Applicant's forecast uncollectible bills expense of \$1,310,000 for 2016 and \$1,337,000 for 2017 are reasonable for rate setting purposes.
21. The Parties agree that changes in uncollectible bills expense in 2016 and/or 2017 as a result of the Hydro RSP Surplus refund will be addressed within the RSP Surplus refund process on the basis that the Applicant should neither benefit nor lose from the administration of the RSP Surplus refund. The Parties further agree that any recovery through the Hydro RSP Surplus refund of an amount written off as a bad debt prior to 2016 will be addressed within the RSP Surplus refund process to ensure that the benefit of the recovery of any past amount is credited to customers.

2016 Revenue Shortfall

22. Based upon a July 1, 2016 implementation, and assuming the Board's approval of all of the proposals in the Application, the Applicant's proposed customer rates, which are designed to recover the 2017 revenue requirement, would result in a \$1,410,000 shortfall in recovering the Applicant's proposed 2016 revenue requirement.
23. In the Application, the Applicant has proposed a revenue amortization to recover this shortfall through customer rates over the period July 1, 2016 to December 31, 2018.
24. Should the implementation of customer rates following the hearing of the Application be delayed beyond the proposed implementation date of July 1, 2016, the delay will affect the amount of a 2016 revenue shortfall projected on the basis of a July 1, 2016 implementation date.
25. The Parties agree that the Board should approve a revenue amortization, from the effective date of the new rates to December 31, 2018, to provide for recovery in customer rates of any 2016 revenue shortfall.

Forecast Average Rate Base

26. The Applicant's forecast 2016 average rate base and 2017 average rate base, as set out in the Application, are calculated in accordance with Board orders and regulatory practice.
27. The Parties agree that the Applicant's forecast 2016 and 2017 average rate base, as set out in the Application, should be used for rate making purposes for the Application, subject to such adjustments as may result from the Board's determinations with respect to issues in the Application that are not included in the Settled Issues.

Rate Design and Rate Structure

28. In the Application, the Applicant has proposed to vary the rate increase by customer rate class so cost recovery for each class is within the target revenue to cost ratio range of 90% to 110%.
29. In the Application, the Applicant has proposed to make certain changes to customer charges for Rate 2.1, which will also involve modification of the Contribution in Aid of Construction Policy for General Service customers. The Applicant has also proposed to make certain modifications to the Curtailable Service Option available to Rate 2.3 and 2.4 customers.
30. The Parties agree that the Board should approve the Applicant's proposed changes to rate design and rate structures as set out in the Application.

Automatic Adjustment Formula

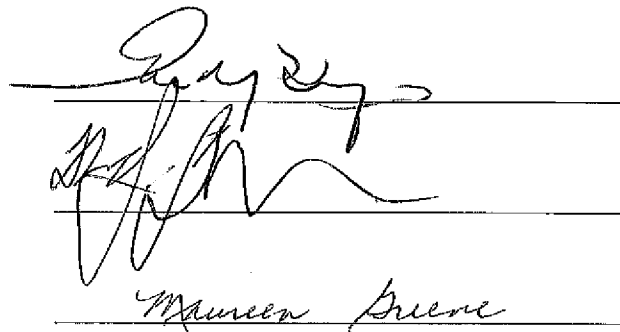
31. The Parties agree that the Board should approve the continued suspension of use of an automatic adjustment formula for setting the allowed rate of return for Newfoundland Power in years subsequent to 2017 until the Applicant's next general rate application.

Agreed to effective the ^{APR} day of March, 2016.

For Newfoundland Power:

For the Consumer Advocate:

For the Board's hearing counsel:



Maureen Greene