

**IN THE MATTER OF** the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the "*EPCA*") and the *Public Utilities Act, RSNL 1990*, Chapter P-47 (the "*Act*"), as amended, and regulations thereunder; and

**IN THE MATTER OF** a general rate application filed by Newfoundland and Labrador Hydro on July 30, 2013; and

**IN THE MATTER OF** an amended general rate application filed by Newfoundland and Labrador Hydro on November 10, 2014.

**WHEREAS** Newfoundland and Labrador Hydro ("Hydro" or the "Applicant") has applied to the Board of Commissioners of Public Utilities (the "Board") to establish customer electricity rates for 2015 and to recover a 2014 revenue deficiency (the "Application"); and

**WHEREAS** the Consumer Advocate; Newfoundland Power Inc. ("Newfoundland Power"); Corner Brook Pulp and Paper Limited, NARL Refining Limited Partnership and Teck Resources Limited (the "Industrial Customer Group"); Vale Newfoundland and Labrador Limited ("Vale"); the Innu Nation; the Towns of Labrador City, Wabush, Happy Valley-Goose Bay, and North West River; Yvonne Jones, MP and the Nunatsiavut Government have been granted Registered Intervenor status; and

**WHEREAS** the Applicant, the Consumer Advocate, Newfoundland Power, the Industrial Customer Group and Vale (the "Parties"), with participation by Board Hearing Counsel, have engaged in negotiations regarding Island Interconnected System and other issues.

#### **Terms of Agreement**

1. The Parties jointly advise the Board that certain issues arising from the Application have been settled by negotiations 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. The Parties consent to the admission in the record of this Application of all pre-filed testimony, exhibits and responses to requests for information pertaining to the Settled Issues. 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 and provided further that the Board includes the Settled Issues in its Order.

4. This Settlement Agreement represents a reasoned consensus on the Settled Issues and the agreements on individual issues are not intended to be severable.
5. 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.
6. This Settlement 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 Settlement Agreement in any future proceeding or forum.

### **Matters Agreed Upon**

#### **Range of Return**

7. The Parties agree that the allowable range of return on rate base for Hydro will be +/- 20 basis points.

#### **Revenue Requirement**

8. The Parties agree that Hydro's proposed accounting treatment to include actuarial gains and losses in Employee Future Benefits in the 2015 Test Year should be approved.
9. The Parties agree that Hydro's proposal to include depreciation and accretion expenses associated with Asset Retirement Obligations should be approved with the amounts reduced from \$3.1 million and \$3.2 million for the 2014 and 2015 Test Years, respectively, as proposed in the Application to \$2.6 million and \$2.6 million, respectively. The reduction from the amounts proposed in the Application reflects amounts excluded for construction and selective decommissioning costs at the Holyrood generating plant as these costs will be incurred to the benefit of customers subsequent to the Labrador-Island Interconnection and Hydro may apply for recovery of such costs in future applications.
10. The Parties agree that the methodology used by Hydro to estimate its average annual hydroelectric energy productions should be approved and the 2015 hydraulic production calculation forecast of 4,604 GWh should be approved for all purposes, including the calculation of No. 6 fuel expense for the 2015 Test Year and for the Rate Stabilization Plan.
11. The Parties agree that Hydro's proposed depreciation methodology used to determine depreciation expense in the 2015 Test Year is appropriate.

### **Cost of Service**

12. The Parties agree that Hydro's cost of service study filed in this proceeding is in general compliance with Board Orders regarding the use of embedded cost of service studies as a guide in determining the revenue requirement to be applied to each customer class.
13. The Parties agree on the cost of service methodologies in Exhibit 13 (2015 Test Year Cost of Service) with respect to Functionalization, Classification and Allocation, with the exception of:
  - (a) the treatment of the curtailable load of Newfoundland Power;
  - (b) the classification of wind energy purchases as 100% energy related;
  - (c) the calculation of the capacity factor for the Holyrood Generating Plant;
  - (d) the classification of all Holyrood fuel costs to energy;
  - (e) Newfoundland Power's load factor;
  - (f) the use of the forecast 2015 load for rate-setting purposes;
  - (g) the basis on which specifically assigned charges to customers is calculated;
  - (h) the specific assignment of the frequency converter to Corner Brook Pulp and Paper Limited, the calculation of that charge and any credit in the cost of service study associated with the frequency converter; and
  - (i) the allocation methodology for the Rural Deficit.
14. The Parties agree, notwithstanding the generality of the principle agreed to in paragraph 13 of this Settlement Agreement, on the following specific elements of Hydro's 2015 Cost of Service:
  - (a) the Utility Rate shall include a generation credit for Newfoundland Power of 119,329 kW applied in the same manner as in the last approved 2007 cost of service study to reduce Newfoundland Power's peak demand for cost allocation purposes; and
  - (b) the costs associated with Hydro's capacity assistance agreements with Vale and Corner Brook Pulp and Paper Limited shall be treated as demand related.

### **Rate Design**

15. The Parties agree that the current rate design for industrial customers should continue to apply as Hydro proposed in the Application.

### **Rate Stabilization Plan**

16. The Parties agree that, if load variation is maintained as an element of the Rate Stabilization Plan, year-to-date net load variations for Newfoundland Power and industrial customers shall be allocated among the customer groups based upon energy ratios, with effect from the date to be determined by the Board.

**Regulatory Deferral and Recovery Mechanisms**

17. The Parties agree that Hydro's proposal to defer and amortize annual customer energy conservation program costs, commencing in 2015, over a discrete seven year period in a Conservation and Demand Management (CDM) Cost Deferral Account should be approved.
18. The Parties agree that the Board should approve that costs related to the Application be recovered in customer rates evenly over a three year period, commencing with the date that new rates approved in this proceeding become effective with the amount of such costs to be determined by the Board.

**Agreement with Corner Brook Pulp and Paper Limited**

19. The Parties agree that the generation credit agreement between Hydro and Corner Brook Pulp and Paper Limited which was approved on a pilot basis by the Board in Order No. P.U. 4(2012) should be continued on a pilot basis at this time and that it will be reviewed in the cost of service generic hearing referred to in paragraph 23 of this Settlement Agreement.

**Wheeling Rate**

20. The Parties agree that upon finalization of the 2015 Test Year by the Board there shall be an industrial wheeling rate with the specific rate to be calculated in accordance with the methodology proposed by Hydro in its Application as may be modified by the Board in an Order arising from the Application.

**Customer Service Strategy**

21. The Parties agree that the Customer Service Strategic Roadmap 2015-2017 filed by Hydro in this proceeding reflects appropriate customer service improvement objectives, but this does not preclude additional customer service improvements being raised during the hearing of this Application or being considered by the Board .

**Reporting on Key Performance Indicators**

22. The Parties agree that Hydro should continue to report functionally oriented key performance indicators as required by the Board in Order No. P.U. 14(2014), however, such reporting will be based on the most recent Test Year Cost of Service Study that is approved by the Board and not on a forecast basis.

**Future Reports and Applications**

23. Hydro has stated in this proceeding that in preparation for the implementation of customer rates reflecting the costs of the Labrador-Island interconnection, it will file with the Board the following:

- (a) a marginal cost study no later than December 31, 2015;
- (b) a cost of service methodology report no later than March 31, 2016;
- (c) a report on the Rate Stabilization Plan and supply cost recovery mechanisms no later than June 15, 2016; and
- (d) a General Rate Application no later than March 31, 2017 for rate changes based on a 2018 test year.

The Parties agree that the Board should in its Order direct Hydro to file these reports, studies and applications by the relevant dates set out in this paragraph. The Parties further agree that a generic cost of service hearing should be held following the filing of the reports outlined in (a) to (c) above.

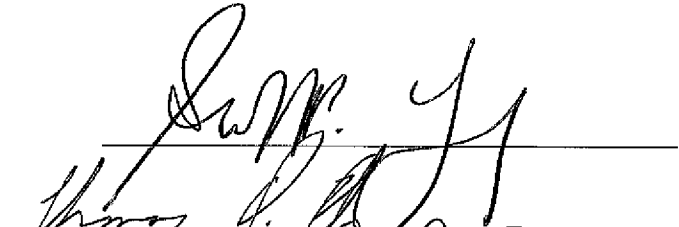
- 24. Notwithstanding the requirements of paragraph 23 of this Settlement Agreement, the Parties agree that the Board in its Order should direct Hydro to file a General Rate Application on or before March 30, 2017 proposing rates based on a 2018 test year.

**Remaining Issues**

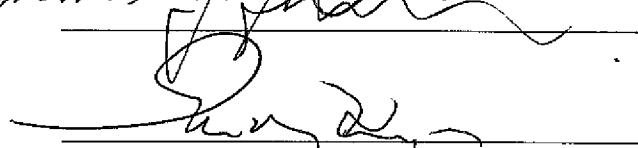
- 25. The Parties agree that issues not included in this Settlement Agreement remain unresolved and will be the subject of viva voce evidence at the hearing of the Application.

**Agreed to as of the 14<sup>th</sup> day of August, 2015.**

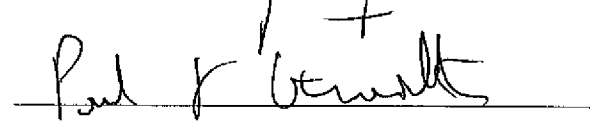
For Newfoundland and Labrador Hydro:



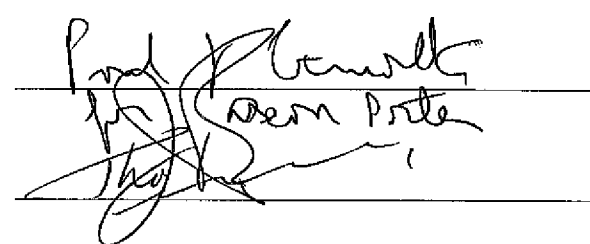
For the Consumer Advocate:



For Newfoundland Power Inc.:



For the Industrial Customer Group:



For Vale:



For Board Hearing Counsel: