

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 2013 and 2014.

**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 2013 and 2014 (the "Application");

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

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.

Matters Agreed Upon

6. The Parties have agreed upon the resolution of the following Settled Issues:
 - a. 2013 and 2014 customer, energy and demand forecast
 - b. Approval, with effect from January 1, 2013, of the calculation of defined benefit pension expense for regulatory purposes in accordance with U.S. GAAP, and the amortization over 15 years of the forecast defined benefit pension expense regulatory asset of approximately \$12.4 million
 - c. Approval, with effect from January 1, 2013, of the deferral and amortization of annual customer energy conservation program costs over a seven year period
 - d. Approval, with effect from January 1, 2013, of the annual disposition of prior year end balances in the Weather Normalization Reserve through the Rate Stabilization Account
 - e. Approval, with effect from January 1, 2013, of the recovery over a three year period of certain 2011 and 2012 cost recovery deferrals
 - f. Approval, with effect from January 1, 2013, of the recovery over a three year period of an estimated \$1.25 million in Board and Consumer Advocate costs related to the Application
 - g. Approval, with effect from January 1, 2013, of the amortization over a three year period of the outstanding year end balance for 2011 in the Weather Normalization Reserve of approximately \$5.0 million due to customers
 - h. Approval, with effect from January 1, 2013, of the recovery over a three year period of a 2013 revenue shortfall associated with the timing of the implementation in 2013 of customer rates
 - i. Approval of 2013 forecast average rate base of \$917,891,000 and 2014 forecast average rate base of \$954,123,000, 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

- j. Rate design and rate structure
- k. Amendments to the Rate Stabilization Clause

Customer, Energy, and Demand Forecast

- 7. The Applicant has provided a 2013 and 2014 Customer, Energy and Demand Forecast dated August 2012 with its Application (the "Forecast").
- 8. The Parties agree that the Board may accept and rely upon the Forecast.

Defined Benefit Pension Expense

- 9. The Parties agree that the Board should approve, with effect from January 1, 2013, the Applicant's proposal to calculate defined benefit pension expense for regulatory purposes in accordance with U.S. GAAP, and to amortize over 15 years the forecast defined benefit pension expense regulatory asset of approximately \$12.4 million.

Conservation Programs Costs

- 10. The Parties agree that the Applicant's proposal to defer and amortize annual customer energy conservation program costs, commencing in 2013, over seven years, as well as the proposed definition of the Conservation and Demand Management Cost Deferral Account, should be approved.
- 11. The Consumer Advocate reserves the right to cross-examine the Applicant regarding energy conservation program costs.

Weather Normalization Reserve

- 12. The Parties agree that the Board should approve, with effect from January 1, 2013, the Applicant's proposal that annual balances in the Weather Normalization Reserve be recovered from, or credited to, customers as part of the annual RSA adjustment to customer rates on July 1 of each year.
- 13. The Parties agree that the Board should approve, with effect from January 1, 2013, the Applicant's proposal that the outstanding year-end balance for 2011 in the Weather Normalization Reserve of approximately \$5.0 million due to customers be amortized over

three years commencing in 2013, resulting in annual amortization of \$2.3 million from 2013 through 2015.

Cost Recovery Deferrals

14. In Order Nos. P.U. 30 (2010) and P.U. 22 (2011), the Board approved the deferred recovery of \$2.4 million in 2011 and 2012 costs, respectively. In Order No. P.U. 17 (2012), the Board approved the deferred recovery of \$2.5 million in 2012 costs as part of its determination of the Applicant's 2012 cost of capital.
15. The Parties agree that the Board should approve, with effect from January 1, 2013, the Applicant's proposal that the recovery of these deferrals be amortized over a 3 year period commencing in 2013.

Hearing Costs

16. The Parties agree that the Board should approve, with effect from January 1, 2013, the Applicant's proposal that an estimated \$1.25 million in Board and Consumer Advocate hearing costs related to the Application be recovered in customer rates evenly over a 3 year period from 2013 through 2015.

2013 Revenue Shortfall

17. Based upon a March 1, 2013 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 2014 revenue requirement, would result in a \$980,000 shortfall in recovering the Applicant's proposed 2013 revenue requirement.
18. In the Application, the Applicant has proposed a revenue amortization to recover this shortfall through customer rates over the period March 1, 2013 to December 31, 2015.
19. Should the implementation of customer rates following the hearing of the Application be delayed beyond the proposed implementation date of March 1, 2013, the delay will affect the amount of a 2013 revenue shortfall projected on the basis of a March 1, 2013 implementation date.
20. The Parties agree that the Board should approve a revenue amortization, from the effective date of the new rates to December 31, 2015, to provide for recovery in customer rates of any 2013 revenue shortfall.

Forecast Average Rate Base

21. The Applicant's forecast 2013 average rate base and 2014 average rate base, as set out in the Application, are calculated in accordance with Board orders and regulatory practice.
22. The Parties agree that the Applicant's forecast 2013 and 2014 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

23. 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%, and to implement rate changes in accordance with the Retail Rate Review.
24. In the Application, the Applicant has proposed to merge existing Rates 2.1 and 2.2 into a single General Service Rate for all customers with demands of less than 100kW, to modify demand and energy charges to better reflect marginal costs, to change energy block sizes in Rates 2.3 and 2.4, and to make certain changes to basic customer charges.
25. In the Application, the Applicant has proposed to apply the average rate increase to the Maximum Monthly Charge, to maintain the Curtailable Service Option with the current credit, to modify the Early Payment Discount, to maintain the Optional Seasonal Rate Revenue and Cost Recovery Account until the next GRA, and to increase the Optional Seasonal Rate consistent with the Rate 1.1 increase and the Time of Day Rates in accordance with the increase in the applicable rate class.
26. 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.

Rate Stabilization Clause Amendments

27. In the Application, the Applicant has proposed to amend the Rate Stabilization Clause to (i) reflect annual changes in the rate stabilization adjustment factors between test years for customers that benefit from the maximum monthly charges provided for in proposed Rate 2.1 and existing Rates 2.3 and 2.4; (ii) reflect the most recent energy consumption information for street and area lighting fixtures; (iii) permit recovery through the Rate Stabilization Account of customer energy conservation program costs; and (iv) permit the ongoing disposition through the Rate Stabilization Account of annual transfers to the Weather Normalization Reserve.
28. The Parties agree that the Board should approve the Applicant's proposed amendments to the Rate Stabilization Clause.

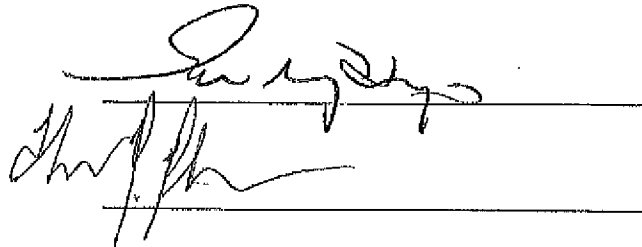
Remaining Issues

29. The Parties acknowledge that the following issues have not been resolved in this Agreement and remain outstanding:

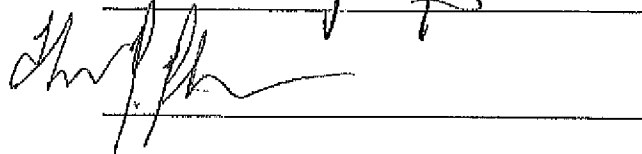
- a. 2013 Forecast Revenue Requirements from rates of \$601,551,000; 2014 Forecast Revenue Requirements from rates of \$618,846,000.
- b. 2013 and 2014 Test Year Operating Costs.
- c. Approval, with effect from January 1, 2013, of the calculation of depreciation expense by:
 - (i) use of the depreciation rates as recommended in the Depreciation Study filed with the Application; and
 - (ii) adjustment of depreciation expense to amortize over the remaining life of the assets an accumulated reserve variance of approximately \$2.6 million identified in the Depreciation Study filed with the Application.
- d. Approval of an appropriate capital structure for ratemaking purposes.
- e. Approval of a return on average rate base for 2013 of 8.64% within a range of 8.46% to 8.82% and a return on average rate base for 2014 of 8.58% in a range of 8.40% to 8.76%.
- f. Discontinuance of the use of the automatic adjustment formula to determine Newfoundland Power's allowed rate of return on rate base.

Agreed to effective the 21st day of December, 2012.

For Newfoundland Power:



For the Consumer Advocate:



For the Board's hearing counsel:

