

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 Power Inc. ("NP") 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 Customers.

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

Terms of Agreement

1. This document describes a settlement agreement for the proposed resolution of certain issues arising from the Application (the "Settlement Agreement").
2. The Parties achieved the Settlement Agreement through a negotiation process.
3. The Parties recommend that the Board make its determinations on the agreed upon issues in accordance with the Settlement Agreement. This Settlement Agreement represents a reasoned consensus on the stated issues and the individual agreements of the Parties are not intended to be severable. Save as expressly agreed, the Settlement Agreement does not preclude or prejudice the rights of the Parties to pursue any issues that are of concern to them at any future hearing.
4. Save and except for issues unresolved by this or any other agreement, it is intended by the Parties that the examination and cross-examination of any witness should be limited to questions necessary to explain or 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

5. It is the intention of the Parties that new rates should reflect the terms of this Settlement Agreement and should be implemented effective January 1, 2008.

Matters Agreed Upon

6. The Parties have agreed upon matters in relation to the following:
 - a. COS Study, Methodology and Rate Design;
 - b. Cost of Capital, including
 - i. Rate of Return on Common Equity to be used for rate making purposes, and
 - ii. Capital Structure;
 - c. Operation of the Automatic Adjustment Formula;
 - d. Asset Rate Base Matters;
 - e. Amortization of regulatory deferrals and reserves;
 - f. Accounting treatment of Other Post Employment Benefits;
 - g. Depreciation Matters, including
 - i. Rates of depreciation,
 - ii. Depreciation expense for the Test Year, and
 - iii. Depreciation variance amortization;
 - h. Replacement of the Purchased Power Unit Cost Variance Reserve;
 - i. Implementation of the Energy Supply Cost Variance Clause; and
 - j. Rule amendments.

Cost of Service, Methodology and Rate Design

7. The COS Study and Methodology as filed by NP in the Application is in keeping with previous Board Orders concerning the same and should be used to design NP's new rates.
8. Excepting the Basic Customer Charges for NP's Domestic and GS 2.1 customers, the Rate Design, including the relative rate changes by class, as filed by NP should be used by the Board to set customer rates.
9. The Basic Customer Charge for Domestic customers remains a matter in issue to be determined by the Board.
10. Instead of the rate design for GS 2.1 customers as proposed in the Application, the Basic Customer Charge for GS 2.1 customers should be maintained at current levels and the energy charge should be adjusted to recover any change in revenue allocation to this class.
11. The Parties have agreed on a process for the review of NP's Domestic and General Service Rates (the "Rate Review") as set out in Attachment A.

Cost of Capital

Rate of Return

12. The Parties agree that the risk free rate to be used for rate making purposes for NP's 2008 Test Year (ie. the 30 Year Long Canada Bond Yield) should be 4.60%. The agreement reached by the Parties on the risk free rate is a reasoned consensus having regard to all available data, including the most current information from the financial markets and Consensus Forecasts.

13. It is recognized that the Board's Decision and Order P.U. 19 (2003) established an equity risk premium for NP of 4.15% at a risk free rate of 5.60%. Consistent with the adjustment mechanism in the Automatic Adjustment Formula, the equity risk premium for NP should be 4.35% at a risk free rate of 4.60% for the 2008 Test Year.

14. The agreed upon rate of return on common equity for NP's 2008 Test Year should be calculated as follows:

Risk Free Rate	4.60%
NP Equity Risk Premium	<u>4.35%</u>
Rate of Return on Common Equity	8.95%

Capital Structure

15. The capital structure of NP as proposed in the Application should be approved.

Automatic Adjustment Formula

16. The Automatic Adjustment Formula, reflecting the adoption of the Asset Rate Base method as proposed in the Application, should operate in accordance with the existing methodology used by the Board to set rates for not more than three (3) years following the 2008 Test Year.

Asset Rate Base Matters

17. The Parties agree with NP's implementation of the Asset Rate Base method as set forth in the Application.

Regulatory Deferrals and Reserves

18. The following deferrals and reserves should be amortized over three (3) years commencing in 2008:

- i. 2005 Unbilled Revenue (Net of the 2008 one time tax offset);
- ii. Municipal Taxes;
- iii. Deferred Depreciation Costs;
- iv. Deferred Replacement Energy Costs;
- v. Balance in the Purchased Power Unit Cost Variance Reserve;
- vi. Application and Hearings costs.

19. The following deferral should be amortized over five (5) years:

- i. The balance attributable to the Degree Day component of the Weather Normalization Reserve.

Other Post Employment Benefits (OPEBs) and Pension Costs

20. It is recognized that both cash and accrual accounting treatments are in accordance with GAAP and regulatory accounting principles.

21. In applying regulatory rate making principles, the Parties agree that in considering the accounting treatment for OPEBs, it is appropriate at this time to give more weight to the rate impact on customers of increases in the cost of electricity than to the principle of intergenerational equity.

22. NP should, therefore, maintain the cash accounting treatment for OPEBs until the next GRA at which time the matter will be further considered by the Board.

23. NP should commence to tax effect with respect to pension costs commencing in 2008 as set forth in the Application.

Depreciation

24. NP's Depreciation Rates, Depreciation Expense for the Test Year and the amortization of the Depreciation Variance should be approved as filed in the Application.

Purchased Power Unit Cost Variance Reserve

25. The Purchased Power Unit Cost Variance Reserve should be replaced with the Demand Management Incentive Account as proposed in the Application.

Energy Supply Cost Variance Clause

26. Subject to paragraphs 27 and 28, the Energy Supply Cost Variance Clause (the "ESCVC") should be added to the Rate Stabilization Clause as proposed in the Application.
27. The ESCVC will apply to energy supply costs incurred through to the end of 2010.
28. The agreement with respect to the ESCVC is without prejudice to either Party's position on the issue in any future hearing. For certainty, either Party may seek its extension, modification or non-renewal at either the next GRA or on application to the Board.

Rule Amendments

29. The Rules should be amended in accordance with the proposal in the Application:
- a. To eliminate the requirement for the advance payment of fees for temporary

connections, special facilities and relocations; and

b. To increase and extend the application of the rejection payment fee.

Matters Unresolved

31. The Parties acknowledge that currently the following issues remain unresolved and will be the subject of vive voce evidence at the hearing of the Application on such date as determined by the Board:

- a) Are the interests of NP's ratepayers being adequately protected in the charge out structure adopted by NP in relation to services performed by NP on behalf of or for Fortis-related companies? Without limiting the scope of this issue, should a "stand-by" charge apply in respect of NP's executive and management which has provided and continues to provide a pool of talent for the use of Fortis Inc. and its affiliates?;
- b) What is the appropriate regulatory response to the issue of NP's executive management personnel receiving personal bonuses in respect of services rendered to Fortis Inc. or its affiliates?;
- c) Has it been adequately established that intercorporate transactions carried out since the Board's Order and Decision in P.U. 19 (2003) involving NP provided demonstrable benefit to NP and its ratepayers?;
- d) Is it appropriate for the Board to undertake a process aimed at codifying an Inter-Affiliate Code of Conduct for NP?;
- e) Should a Distribution Reliability and Service Standard be developed for NP?;
- f) Should the Basic Customer Charge for Domestic customers be reduced from the level as proposed by NP in its application?;
- g) Should NP provide a financial incentive to customers who opt to receive their bills by email?;

- h) Should the Board recognize an allowance for productivity for NP?;
- i) Given that NP does not have a tracking system for vacant positions, how should it be ensured that any savings related to vacancies which may occur are reflected in the rates of NP's customers?;
- j) Should the Board direct NP to undertake efforts to actively promote and coordinate with Newfoundland and Labrador Hydro on the development and implementation of communication programs related to utility safety issues, with such initiatives to include coordination of safety messages, sharing of media space, printing and production costs and to provide a record and report of the progress of these initiatives including the efficiencies achieved and cost savings realized, if any, at NP's next GRA?;
- k) Is NP's current practice of re-purchasing its used poles at new pole prices ensuring the provision of least cost electricity to consumers?;
- l) Should the Board direct NP to devote additional resources to develop and promote energy conservation communications for radio and television outreach to its consumers?;
- m) What are the changes to NP's Customer Energy and Demand Forecast for the Test Year since the Application?; and
- n) What are the changes to NP's Revenue Requirement for the Test Year since the Application?

Matters Not At Issue

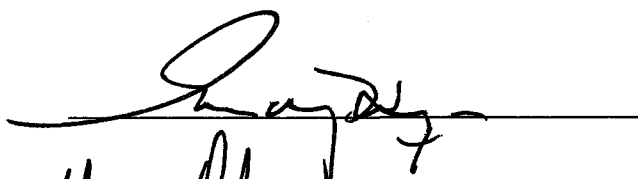
32. Certain issues arising from the Application, considered by the Parties to be non-issues and which will not be raised in the hearing (the "Non Issues") are as follows:

- a. Vehicle use and expenses;

- b. Review of NP past tax case;
- c. Vegetation Management;
- d. Forecast methodology;
- e. Capitalization of costs for NP's Rate Design Study;

Agreed to effective the 12th day of October, 2007.

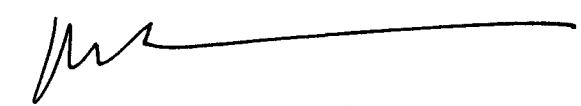
For Newfoundland Power:



For the Consumer Advocate:

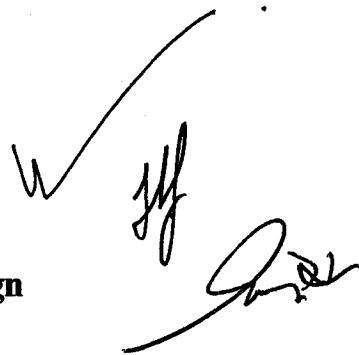


Board Appointed Mediator:



Attachment A

Framework for a Review of Newfoundland Power's Rate Design

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1.0 Introduction

Retail electricity prices in the Province of Newfoundland and Labrador have increased significantly in recent years owing in large part to the high price of fuel at Holyrood Generating Station. This has led to increased regulatory focus on rate design and, in particular, the economic efficiency of rate design.

In addition, increased focus on energy conservation, and foreseeable issues that may affect the future energy supply to the interconnected power system on the island of Newfoundland, further support the need for a review of Newfoundland Power's rate designs.

The Applicant, Newfoundland Power ("NP"), and the Intervenor, the Consumer Advocate ("CA") (collectively, "Parties") have agreed to a process for examining issues and options related to Newfoundland Power's rate design for its Domestic and General Service (the "Rate Review").

2.0 Purpose

The purpose of the Rate Review is to:

1. Review existing retail rate designs;
2. Review potential alternative rate designs;
3. Consider whether the rate designs should be mandatory or optional; and
4. Develop a detailed time-bound action plan for implementation of the rate design recommendations.

To evaluate rate designs, consideration will be given to the attributes of sound rate structures as presented in James Bonbright's *Principles of Public Utility Rates*. Also, specific consideration will be given as to how the rate designs should reflect current and future marginal costs and support the goals and recommendations of the Conservation and Demand Management Potential Study being conducted by NP and Newfoundland and Labrador Hydro ("Hydro") (the "Conservation Study") and the Provincial Energy Plan.

The Rate Review will consider the potential impacts on customers and on NP of implementing alternative or optional rate designs.

3.0 The Process

The objectives of the Rate Review process include:

1. To facilitate the exchange of information necessary to conduct a review of NP's rate designs;

2. To provide a mechanism for the participation of other interested parties in the process;
3. Where appropriate, to recommend new rate designs for implementation by NP at its next General Rate Application.

The Parties agree that the process should be as described below.

2007

1. Newfoundland Power will complete a detailed scope of work for the Rate Review. The detailed scope will be circulated to the CA and Hydro for comments.
2. The Conservation Study is expected to be concluded prior to the end of 2007.
3. NP will circulate a copy of the Conservation Study to the CA and the Board of Commissioners of Public Utilities ("Board").
4. The Parties will review the Province's new Energy Plan.

2008

5. NP will undertake a study of its rate designs and issue a Rate Design Report.
6. NP will distribute a copy of the Rate Design Report to the CA, the Board and Hydro, and any other interested third party.
7. Responding Parties, including the CA, will review the Rate Design Report.
8. Each Responding Party may provide a response to the Rate Design Report, which response may include expert reports, and any additional data and/or analysis the Responding Party considers relevant to the issues.

2009

9. The Parties, together with any interested third parties, including Hydro, should participate in a Technical Conference.
10. The Technical Conference should be hosted by the Board.
11. The Technical Conference should take place in mid 2009, or in any event at a time sufficient for the Board to issue any directive as described below.

12. The chief objective of the Technical Conference is to examine whether new rate design policies should be used in the design of NP's rate structures for its Domestic and General Service customers.
13. The Parties may ask the Board to convene a Rate Design Hearing.
14. The Board may order the adoption of new rate design policies to be used by NP when designing its rates.
15. The objective of the process as described is to resolve the issue of the appropriate rate designs for NP's Domestic and General Service customers for inclusion in NP's next GRA.

2010

16. Newfoundland Power should incorporate any new rate designs in NP's next General Rate Application.