

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”) and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro (“Hydro”) for the approval of modifications to Hydro’s Cost of Service Methodology.

SETTLEMENT AGREEMENT

WHEREAS Newfoundland and Labrador Hydro (“Hydro”) filed its Cost of Service Methodology Review (“2018 COS Methodology Review”) with the Board of Commissioners of Public Utilities (“Board”) on November 15, 2018; and

WHEREAS On October 4, 2019, a Settlement Agreement was filed with the Board setting out the agreement of the parties to the application on all issues arising from the application which Settlement Agreement was approved by the Board in Board Order No. P.U. 37(2019); and

WHEREAS Board Order No. P.U. 37(2019), directed Hydro to file a number of reports and proposals regarding outstanding issues related to the Cost of Service in Hydro’s next General Rate Application (“GRA”); and

WHEREAS Hydro has applied to the Board for modifications to Hydro’s Cost of Service Methodology (“Application”); and

WHEREAS the Consumer Advocate; Newfoundland Power Inc. (“Newfoundland Power”); the Island Industrial Customer Group (“IIC Group”) comprised of Corner Brook Pulp and Paper Limited, Braya Renewable Fuels (Newfoundland) LP, and Vale Newfoundland and Labrador Limited; and the customers on the Labrador Interconnected System (“Labrador Interconnected Group”) are Intervenors on the Application; and

WHEREAS Hydro, the Consumer Advocate, Newfoundland Power, the Island Industrial Customer Group and the Labrador Interconnected Group (the “Parties”), with participation by the Board’s Regulatory Consultant, have engaged in negotiations regarding the proposed modifications to Hydro’s Cost of Service Methodology.

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 agree that the Settled Issues discussed herein do not amend or replace those issues approved in Board Order No. P.U. 37(2019).
3. The Parties recommend that the Board implement the agreement of the Parties regarding the Settled Issues in its Order.
4. The Parties consent to the admission on the record of this Application of all pre-filed testimony, exhibits and responses to requests for information pertaining to the Settled Issues. At any 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.
5. This Settlement Agreement represents a reasoned consensus on the Settled Issues and the agreements on individual issues are not intended to be severable.
6. This Settlement Agreement is without prejudice to the positions the Parties may take in proceedings other than the Application or the 2026 GRA. It sets no precedent for any issue addressed in this Settlement Agreement in any other future proceeding or forum.

MATTERS AGREED UPON

7. The Parties agree that CDM program costs continue to be allocated on the Island Interconnected System using an energy allocator.
8. The Parties agree that if Conservation and Demand Management ("CDM") costs on the Island Interconnected System exceed the materiality threshold of \$1,000,000 per year Hydro will review the methodology in a future General Rate Application to determine if a change in allocation methodology is appropriate.
9. The Parties agree that CDM program costs for the Labrador Interconnected System, including re-allocated amounts, be functionalized as generation.
10. The Parties agree that the classification between demand and energy for the CDM program costs in Labrador be based on system load factor.

11. The Parties agree that cost allocation for specifically assigned assets will utilize actual operating and maintenance (“O&M”) costs, comprised of a direct O&M Charge calculated as the six-year average of actual O&M expenses recorded against each specifically assigned asset, or estimated costs where historical costs are not available, and an indirect O&M Charge calculated as the ratio of total indirect transmission O&M to total direct transmission O&M, derived from the Cost of Service Study.
12. The Parties agree that it is appropriate to use the same coincident factors when calculating P50 and P90 system peaks and that no additional coincident factors are needed for the time of peak for both the Island Interconnected System and the Labrador Interconnected System.
13. The Parties agree that the coincident peaks to be used in Hydro’s Cost of Service Study filed in Hydro’s upcoming GRA should reflect the contribution of the different customer classes to the coincident peak used for planning purposes.
14. The Parties agree that Hydro will continue its investigations on the calculation of the relative share of coincident peak costs used in cost of service study allocations to determine whether use of a test year forecast peak appropriately captures the costs for reserve capacity driven by each class’s load forecast uncertainty and weather sensitivity (particularly in light of ongoing growth in electrified space heating), or whether an adjustment to the allocation should be made to allocate added costs to classes which drive more weather-related load uncertainty and therefore more capacity investment on Hydro’s system.
15. The Parties agree that rate mitigation funding will be functionalized as generation.
16. The Parties agree that that the classification between demand and energy for rate mitigation funding shall be based on the system load factor.
17. The Parties agree transmission tariff revenue shall be functionalized as generation.
18. The Parties agree that that the classification between demand and energy for transmission tariff revenue shall be based on the system load factor.
19. The Parties agree greenhouse gas credit revenue shall be functionalized as generation.
20. The Parties agree that that the classification between demand and energy for greenhouse gas credit revenue shall be based on the system load factor.
21. This Settlement Agreement removes the requirement for the experts retained by the Consumer Advocate, Newfoundland Power, the Island Industrial Customer Group and the Labrador Interconnected Group to appear before the Board regarding the issues identified herein, unless otherwise noted.

22. The Parties agree that this Settlement Agreement addresses certain issues raised in the Application and that legal counsel for the Consumer Advocate, Newfoundland Power, the Island Industrial Customer Group and the Labrador Interconnected Group are not required to appear before the Board regarding those issues.
23. The Parties agree that the issues that are deferred to Hydro's 2026 GRA for review are those listed in Section 3.0 of Schedule 1 to the Application that are not otherwise settled in this Settlement Agreement.
24. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same agreement. Delivery of an executed counterpart by electronic transmission (including PDF or other electronic format) shall be equally effective as delivery of an originally executed counterpart.