

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 2019 and 2020.

**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 2019 and 2020 (the “Application”);

AND WHEREAS the Consumer Advocate and the International Brotherhood of Electrical Workers, Local 1620 have been granted Intervenor status by the Board;

AND WHEREAS the Applicant, the Consumer Advocate and the International Brotherhood of Electrical Workers, Local 1620 (the “Parties”), ~~with participation by Board hearing counsel~~, have engaged in negotiations;

AND WHEREAS the Parties acknowledge that there is uncertainty with respect to electricity rates associated with supply costs once the Muskrat Falls Project is complete;

AND WHEREAS the Provincial Government has, through the Reference on Rate Mitigation Options and Impacts Relating to the Muskrat Falls Project Costs (the “Reference”) requested that the Board consider options, and provide written recommendations, for how to reduce the impacts supply costs may have on customer rates;

AND WHEREAS the Applicant and the Consumer Advocate have agreed to make joint recommendations to the Board for the resolution of the issues arising out of the Application;

AND WHEREAS the International Brotherhood of Electrical Workers, Local 1620 takes no position on the Settled Issues as outlined herein and does not request the opportunity to cross-examine witnesses of the Parties or make any submissions regarding the Application or the issues outlined therein.

Terms of Agreement

1. The Parties jointly advise the Board that the 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. This Settlement Agreement disposes of all issues arising from the Application. At the hearing of the Application, the Parties do not intend to present evidence, examine, cross-examine or present argument beyond that which is reasonably necessary to assist the Board's understanding, and to explain or clarify the Parties' agreement concerning the Settled Issues.
4. 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.

Settled Issues**Operating Costs**

5. The 2019 and 2020 Operating Costs as proposed in the Application should be approved.

Customer, Energy and Demand Forecast

6. The 2019 and 2020 Customer, Energy and Demand forecast as proposed in the Application should be approved.

Cost of Capital***Capital Structure***

7. The capital structure of Newfoundland Power as proposed in the Application should be approved for ratemaking purposes.

Rate of Return

8. The rate of return on common equity to be used in determining a just and reasonable return on rate base for 2019 and 2020 should be 8.5%.

Automatic Adjustment Formula

9. The continued suspension of the use of an automatic adjustment formula for setting the allowed rate of return for Newfoundland Power should be approved.

Rate Base

10. The forecast average rate base for 2019 of \$1,145,882,000 and for 2020 of \$1,178,756,000 should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

Return on Rate Base

11. The rate of return on average rate base for 2019 of 7.02% in a range of 6.84% to 7.20% and for 2020 of 7.05% in range of 6.87% to 7.23% should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

Revenue Requirement

12. The revenue requirement for 2019 of \$655,841,000 and for 2020 of \$657,459,000 should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

Cost of Service and Rate Design

13. The addition of a new service offering for LED street and area lighting and a corresponding amendment to Clause II.3 of the Rate Stabilization Clause should be approved.
14. The changes in the Basic Customer Charges and Minimum Monthly Charges for (i) unmetered, (ii) single phase, and (iii) three phase service in Rate #2.1 – General Service 0-100 kW (110 kVA) to more accurately reflect differences in the costs of providing such service should be approved.

Amortizations

15. The amortization of the recovery of an estimated \$1 million in Board and Consumer Advocate costs related to the Application over a 34-month period commencing March 1, 2019 and ending December 31, 2021 should be approved. Any difference between actual costs and the estimated costs shall be rebated/collected through the Rate Stabilization Account.

- 16. The amortization of a forecast revenue surplus of \$2,482,000 over a 34 month period, commencing March 1, 2019 and ending December 31, 2021 should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

Employee Future Benefit Expense


- 17. The Applicant’s calculation of 2019 and 2020 employee future benefit expenses, which include pension plans and other post-employment benefits (“OPEBs”), of \$9,080,000 for 2019 and \$7,566,000 for 2020, based on a discount rate of 3.6%, a return on pension assets of 5.25% and an expected average remaining service life of employees of 7.44 years for 2019 and 6.96 years for 2020 should be approved.

Miscellaneous

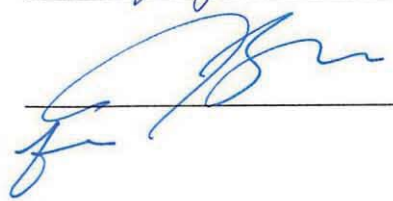
- 18. The change in accounting practices regarding capitalization of pension expenses associated with Accounting Standards Update 2017-07 issued in 2017 by the Financial Accounting Standards Board as more fully described in the evidence filed in support of the Application should be approved.
- 19. The depreciation expenses for 2019 and 2020 in accordance with the methodology and rates outlined in the *2014 Depreciation Study* approved by the Board in Order P.U. No. 18(2016) should be approved.
- 20. In its Order, the Board should direct Newfoundland Power to file its next General Rate Application no later than June 1, 2021 subject to any directions arising from the Reference.
- 21. In order to ensure that there shall be no increase in Newfoundland Power domestic customer rates on March 1, 2019, any revenue requirement surplus/shortfall for the 2019 and 2020 test years, as identified in the compliance application, shall be charged to the Rate Stabilization Account in the normal operation of the July 1 adjustment. Any such amounts shall be refunded/collected in the 12 month periods following the 2019 and 2020 Rate Stabilization Account adjustments respectively.
- 22. The proposals within the Settlement Agreement shall result in no increase in Newfoundland Power domestic customer rates as originally proposed in the Application.

Agreed to effective the 13th day of November, 2018.

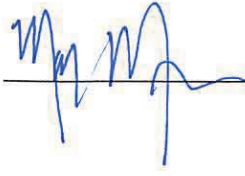
For Newfoundland Power:



For the Consumer Advocate:



For the IBEW, Local 1620:



For the Board's hearing counsel:

