

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

IN THE MATTER OF a General Rate Application filed by Newfoundland and Labrador Hydro to establish customer electricity rates for 2018 and 2019.

SETTLEMENT AGREEMENT

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 2018 and 2019 (the "Application"); and

WHEREAS the Consumer Advocate; Newfoundland Power Inc. ("Newfoundland Power"); Corner Brook Pulp and Paper Limited, NARL Refining LP and Vale Newfoundland and Labrador Limited (the "Industrial Customer Group"); the customers on the Labrador Interconnected System ("Labrador Interconnected Group") and the Iron Ore Company of Canada ("IOC") have been granted Registered Intervenor status; and

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

WHEREAS the Applicant and the Consumer Advocate, Newfoundland Power, the Labrador Interconnected Group and IOC, with participation by Board Hearing Counsel, have engaged in negotiations regarding the Labrador Interconnected System and Rural Rates 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. Its sets no precedent for any issue addressed in this Settlement Agreement in any future proceeding or forum.

MATTERS AGREED UPON

Revenue Requirement

7. Hydro's proposed accounting treatment and methodology for calculation of Employee Future Benefits in the 2018 and 2019 Test Years ("Test Years") should be approved.
8. Hydro's proposed accounting treatment and calculation of Asset Retirement Obligations in the Test Years should be approved.
9. With respect to depreciation expense the following, which results in reductions in the 2018 and 2019 Test Years' revenue requirements of approximately \$10.1 million and \$8.9 million, respectively, is agreed:
 - a. Hydro will continue to use the Average Service Life Group methodology applied on a deemed cost basis for assets put into service in 2015 and earlier and a whole life basis for assets put in service after 2015 to calculate depreciation expense in the Test Years.
 - b. the proposed updated estimates of service lives of assets included in the Application, including the revised truncation date for the Holyrood Plant, are appropriate and should be used in the calculation of depreciation expense in the Test Years.
 - c. net salvage costs and asset removal costs for assets where assets are not replaced in the same location should be included in depreciation rates. For the calculation of the appropriate asset removal costs to be included in depreciation rates the units of property listed in Schedule A attached should not be included and the removal costs to be included in depreciation expense associated with the units of property listed in Schedule B should be at the rate of - 5%.
 - d. Gains/losses on retirements will be recovered through accumulated amortization and not recorded on the Income statement.
10. The number of vacancies in full time equivalent positions to be used in the calculation of operating labour costs in the Test Years shall be 55 and not 40 as proposed in the Application.

11. All costs and expenses related to the Business Systems Transformation Project described in the Application, which are forecast to be \$2.54 million in 2018 and \$3.04 million in 2019 shall be removed from the Revenue Requirements in the Test Years and set aside in a deferral account. The reasonableness and prudence of these costs will be reviewed with the recovery of any of these costs to be determined by an Order of the Board. Hydro shall provide a report by June 22, 2018 that (i) explains the costs with supporting detail on the reasonableness and prudence of such costs and (ii) sets out a proposal on the timing for the review of the costs and a proposed definition of the deferral account to be created.
12. (a) Hydro shall reduce the amounts included in the Test Years related to the debt guarantee fee paid to the Government of Newfoundland and Labrador to:
 - (i) adjust the fee on long-term debt issues to be consistent with the recovery of such fee approved in Hydro's 2013 Amended General Rate application proceeding which results in a reduction of \$ 567,000 in the 2018 Test Year and \$672,000 in the 2019 Test Year revenue requirements; and
 - (ii) reduce interest costs to reflect savings of \$515,000 in the 2018 Test Year and \$529,000 in the 2019 Test Year associated with Hydro borrowing from the Government and not in the capital markets as forecast in the Application.
 (b) The inclusion in the revenue requirement of a guarantee fee on debt borrowed by Hydro from the Government of Newfoundland and Labrador remains an issue and shall be addressed during the hearing of the Application.

Rate Base

13. Hydro shall continue to use the currently approved method to determine rate base, including beginning-of-year and end-of-year averaging for capital assets in service. Hydro may apply to the Board for a different treatment of significant capital additions on a case- by- case basis.
14. Hydro shall continue to use the currently approved working capital methodology with the updated net lag days proposed in the Application.

Cost of Service

15. The assignment of assets as common or specifically assigned as proposed in the Application and amended by a report from Hydro dated December 21, 2017, with the exception of the assignment of the frequency converter as specific, should be approved.
16. The revenue requirement method to allocate the rural deficit between Newfoundland Power and the Labrador Interconnected system approved by Order No.P.U.49 (2016) should continue to be applied.

Rate Design

17. The current rate design for the Labrador Industrial Transmission Rate should continue to apply and the proposed changes in the Application shall not be implemented in this proceeding.

Rate Stabilization Plan

18. The proposed change to the calculation of the Rural Rate Alteration component to use Test Year data instead of actual billing data in the monthly calculations should be approved with effect from January 1, 2018.

Rural Rates and Regulations

19. The proposed changes to sections 9(b), 9(c) and 16(a) of the Rules and Regulations for service to rural customers should be approved effective the date that new rates from the Application are implemented.
20. The consideration of whether information on the rural deficit should be included on customers' bills shall be deferred for consideration in a separate proceeding or a future Hydro general rate application.

Regulatory Deferral and Recovery Mechanisms

21. Hydro's proposal to record an inventory allowance of approximately \$ 2.1 million in each of the Test Years associated with the Holyrood Plant shall be withdrawn.
22. The Board should approve that external regulatory costs related to the Application and the Cost of Service and Rate Design Methodology Review be recovered in customer rates evenly over a three year period, commencing with the 2018 Test Year with the amount of such costs to be determined by the Board.

Excess Earnings Account

23. The definition of the Excess Earnings Account proposed in the Application should be approved.

Automatic Return on Equity (ROE) Adjustment

- 24. (i) The methodology proposed in Exhibit 12 of the Application should be accepted for determining revenue requirement adjustments to flow-through by customer class as a result of changes in the ROE between test years for Hydro that result from changes in the ROE for Newfoundland Power.
- (ii) Hydro’s excess earnings account definition will be revised to reflect the revised ROE to apply between test years.
- (iii) The revenue requirement adjustments to flow through to customers on the Labrador Interconnected system will occur through rate changes at the same time as the implementation of the Hydro rural rate change reflecting the revised ROE for Newfoundland Power.
- (iv) The revenue adjustments to flow through to customer classes on the Island Interconnected System will be held in a deferral account until disposition through customer rates at the time of rate changes that result from the operation of the Rate Stabilization Plan. Hydro will file details of this account by May 15, 2018.

Future Reports and Applications

- 25. 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 an application no later than November 15, 2018 for a Cost of Service and Rate Design Methodology Review and the Parties agree that the Board should in its Order direct Hydro to file this applications by the date set out in this paragraph.

Remaining Issues

- 26. 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 day of April, 2018.


For Newfoundland and Labrador Hydro:

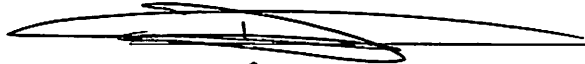
For the Consumer Advocate:

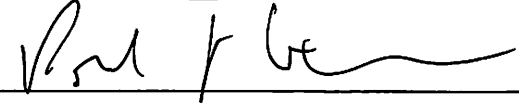
For Newfoundland Power Inc.:

The image shows three handwritten signatures, each written over a horizontal line. The top signature is in dark ink and appears to be 'S.M. J.'. The middle signature is in blue ink and appears to be 'Dun B. ...'. The bottom signature is in dark ink and appears to be 'C. ...'. The lines are horizontal and extend across the width of the signatures.

For the Industrial Customer Group:







For the Labrador Interconnected Group:


For Board Hearing Counsel:

Maurice Greene

For IOC, to the extent it has
an interest in the Settled Issues

For the Industrial Customer Group:

For the Labrador Interconnected Group:

 *[Handwritten signature]*

For Board Hearing Counsel:

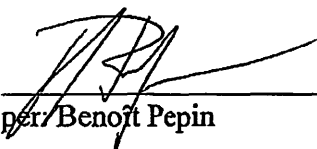
For IOC, to the extent it has
an interest in the Settled Issues

For the Industrial Customer Group:

For the Labrador Interconnected Group:

For Board Hearing Counsel:

For IOC, to the extent it has
an interest in the Settled Issues


per/ Benoit Pepin

Schedule A – Agreed List of Units of Property with Net Salvage Rate of Zero

- Removal Costs on Holyrood Assets¹
- A01 Aircraft Landing Strips
- B03 Booms - Timber
- B04 - Bridges
- C17 - Counterpoise
- D01 - Dams, Canals
- F04 - Footings and Foundations
- G02 - Gates
- I04 - Intake Structures
- P03 - Penstocks
- P10 - Powerhouse
- R13 - Roads
- S06 - Spillway structures
- T04 - Towers
- T09 - Turbines
- V02 - Valves penstock
- W01 - Water regulating structures

¹ As noted in IC-NLH-027- Revision 1.

Schedule B – Agreed List of Units of Property with Net Salvage of - 5%

- C13 Conductors
- P05 Wood Structures