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 2022 and 2023.

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 2022 and 2023 (the "Application");

AND WHEREAS the Consumer Advocate and Newfoundland and Labrador Hydro ("Hydro") have been granted Intervenor status by the Board;

AND WHEREAS the Applicant, the Consumer Advocate and Hydro (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 issues arising out of the Application;

A. 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 Settlement 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.

B. Rates and Implementation Date

5. The proposals within the Settlement Agreement shall result in a minimum 1.1% average decrease in Newfoundland Power customer rates.

6. It is the intention of the Parties that new customer rates reflecting the terms of this Agreement should be implemented effective March 1, 2022.

C. Settled Issues

Depreciation Expense

7. The calculation of depreciation expense as proposed in the Application with effect from January 1, 2022 by use of the depreciation rates as recommended in the *2019 Depreciation Study* filed with the Application, and the recovery in depreciation expense over the remaining life of the assets of an accumulated reserve variance identified in the *2019 Depreciation Study* should be approved, with the following amendments to the calculation of depreciation expense:

   (a) To correct for the appropriate service life of the Customer Information System (18 years); and

   (b) To remove Electric Vehicle Charging Stations from plant investment.

Operating Costs

8. The 2022 and 2023 Operating Costs as proposed in the Application should be approved, with the following amendments:

   (a) Effective for the fiscal year ended December 31, 2022, only 50% of expenses associated with the cash flow component of the corporate target of Newfoundland Power's short-term incentive program be recovered in customer rates;

(b) All electrification infrastructure and program costs will be removed from the proposed revenue requirement and rate base in the Application. Electrification infrastructure costs approved by the Board will be charged to the Electrification Cost Deferral Account proposed in Exhibit 13 of the Application; and

(c) The definition of the Electrification Cost Deferral Account as proposed in Exhibit 13 of the Application shall be amended as shown in Schedule "A" to this Settlement Agreement; and

(d) A reduction of $300,000 in 2023 Operating Costs to reflect operating efficiencies.

Customer, Energy and Demand Forecast

9. The Parties acknowledge that there is considerable uncertainty in the load forecast owing to the Muskrat Falls Project, government rate mitigation plans and COVID-19, which is expected to endure into the 2023 test year. The Parties agree that the 2022 and 2023 Customer, Energy and Demand forecast ("CED Forecast") proposed in the Application should be approved for use in the Application. The Parties further agree that a different peak demand forecast for Newfoundland Power may be appropriate for use by Hydro in its next General Rate Application and the Reliability and Resource Adequacy Study Review.

10. The Parties agree that the CED Forecast proposed in the Application will not be revised for price elasticity effects following the issuance of a final order of the Board on the Application.

11. Newfoundland Power will conduct a Load Research Study and a Retail Rate Design Review (collectively, the "Studies") with a detailed framework of each Study, including a cost estimate, to be provided to the Parties in 2022 for input. A deferral account will be created to recover the costs incurred to conduct the Studies. Amortization of the deferral account balance will be determined in Newfoundland Power's next General Rate Application.

Cost of Capital

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

13. The rate of return on common equity to be used in determining a just and reasonable return on rate base for 2022 and 2023 should be 8.5%.

14. 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

15. The forecast average rate base for 2022 of $1,239,085,000 and for 2023 of $1,287,665,000 should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application. The 2022 and 2023 average rate base figures reflect the removal of electrification costs as described in paragraph 8(b).

Return on Rate Base

16. The rate of return on average rate base for 2022 of 6.61% in a range of 6.43% to 6.79% and for 2023 of 6.39% in a range of 6.21% to 6.57% should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

General Expenses Capitalized

17. The revisions to the Applicant's general expenses capitalized calculation effective January 1, 2023, as set out in the Application, should be approved, with the following amendment:

    (a) The use of a deferral account to offset the impact of the proposed change in capitalizing pension costs, with amortization of the recovery of $1,427,000 over a 5-year period commencing January 1, 2023.

Amortizations

18. For costs incurred commencing January 1, 2021, an increase in the amortization period for customer CDM program costs from 7 years to 10 years, and a corresponding amendment to Clause II.7 of the Rate Stabilization Clause should be approved.

19. For CDM program costs incurred prior to January 1, 2021, an increase in the amortization period from 7 years to 10 years should be approved.

20. Amortizations related to electrification costs as described in paragraph 8(b) will be removed from the calculation of revenue requirement.

21. Actual Board and Consumer Advocate costs related to the Application shall be recovered through the Rate Stabilization Account.

22. The amortization of a forecast 2022 revenue shortfall of approximately $930,000 over a 34-month period, commencing March 1, 2022 and ending December 31, 2024 should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

Revenue Requirement

23. The revenue requirement for 2022 of $704,843,000 and for 2023 of $699,260,000 should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application. The revenue requirement for 2022 and 2023 in this paragraph reflect the following revisions from revenue requirement as presented in the Application:

(a) The correction of the calculation of depreciation expense as described in paragraph 7(a);

(b) The recovery of expenses associated with the cash flow component of the short-term incentive program being capped at 50% as described in paragraph 8(a);

(c) The removal of $300,000 from 2023 Operating Costs as described in paragraph 8(d);

(d) The rate of return on common equity to be used in determining a return on rate base for 2022 and 2023 as described in paragraph 13;

(e) Removal of electrification infrastructure and program costs as described in paragraphs 7(b), 8(b) and 20;

(f) The use of a deferral account to offset the impact of the proposed change in capitalizing pension costs as described in paragraph 17(a);

(g) The amortization of a forecast 2022 revenue shortfall as described in paragraph 22; and

(h) The removal of the estimated Board and Consumer Advocate costs related to the Application further to paragraph 21.

[Signature page follows]

Agreed to effective the 22nd day of November, 2021.

For Newfoundland Power: Lindsay Hollett

For the Consumer Advocate: Dennis Browne

For Newfoundland and Labrador Hydro: S Walsh

For the Board's hearing counsel: Maureen Greene

Schedule "A"

Amended Electrification Cost Deferral Account Definition

Newfoundland Power Inc.

Electrification Cost Deferral Account

Proposed Definition

Electrification Cost Deferral Account 189xx

This account shall be charged with the costs incurred in implementing the Customer Electrification Program Portfolio in accordance with Board orders and approved electric vehicle charging infrastructure capital costs until otherwise ordered by the Board.

Electrification program costs include: detailed program development, promotional materials, advertising, pre and post customer installation checks, incentives, processing applications and incentives, training of employees and trade allies, program evaluation costs and the costs to operate Company-owned charging stations.

This account shall also be charged the costs of major studies such as pilot programs, comprehensive customer surveys and potential studies that cost greater than $100,000.

This account shall be credited with the receipt of government funding related to electrification programs and electric vehicle charging infrastructure as well as any revenues associated with the operation of Company-owned charging stations.

The account shall exclude electrification expenditures that are general in nature and not associated with a specific electrification program, such as costs associated with providing electrification awareness, and general planning, research and supervision costs.

The account shall be increased (reduced) by an interest charge (credit) on the balance in the account at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base. The account will not be included in the Company's calculation of rate base until otherwise ordered by the Board.

Transfers to, and from, the proposed account will be tax-effected.

This account will maintain a linkage of all costs recorded in the account to the year the cost was incurred.

Recovery of annual amortizations of costs in this account shall be through the Company's Rate Stabilization Clause or as otherwise ordered by the Board.