

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*”);

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro (“Hydro”) for approval of revisions to its Cost of Service Methodology pursuant to Section 3 of the *EPCA* (the “Cost of Service Methodology Application”) for use in the determination of test year class revenue requirements reflecting the inclusion of the Muskrat Falls Project costs upon full Commissioning.

SETTLEMENT AGREEMENT

WHEREAS Newfoundland and Labrador Hydro (“Hydro”) has applied to the Board of Commissioners of Public Utilities (the “Board”) for approval of revisions to Hydro’s Cost of Service Methodology for use in the determination of test year class revenue requirements reflecting the inclusion of the Muskrat Falls Project costs upon full commissioning (the “Cost of Service Methodology 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 “Island Industrial Customer Group”); and the customers on the Labrador Interconnected System (“Labrador Interconnected Group”) filed expert evidence and issued and answered Requests for Information regarding the Cost of Service Methodology Application; and

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

TERMS OF AGREEMENT

1. The Parties jointly advise the Board that all issues arising from the Cost of Service Methodology 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 Cost of Service Methodology Application of all pre-filed testimony, exhibits and responses to requests for information pertaining to the Settled Issues. At the hearing of the Cost of Service Methodology 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.

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 disposes of all issues arising from the Cost of Service Methodology Application.
6. Except as provided in paragraph 7 hereof, this Settlement Agreement is without prejudice to the positions the Parties may take in proceedings other than this Cost of Service Methodology Application. It sets no precedent for any issue addressed in this Settlement Agreement in any future proceeding or forum, including, for greater certainty, in future reviews of the Cost of Service Methodology.

MATTERS AGREED UPON

7. The Parties agree that the Cost of Service Methodology approved by the Board in this Cost of Service Methodology Application shall be the accepted methodology for use in the first General Rate Application filed to address recovery of Muskrat Falls Project costs upon full commissioning, except for any particular issues identified in this Settlement Agreement for further review in the GRA, after which a Cost of Service Methodology Review may be conducted upon request of any of the Parties and approval by the Board for such review.

Systemization

8. The Parties agree that the Labrador Interconnected System and Island Interconnected System shall continue to be treated as separate systems for Cost of Service purposes.

Functionalization

9. The Parties agree that the power purchase costs resulting from the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement shall be functionalized as generation.
10. Except as provided for in paragraphs 11 and 12 hereof, the Parties agree that the functionalization of Hydro's existing generation and transmission assets shall remain the same.
11. The Parties agree that TL-234 and TL-263 shall be functionalized as transmission.
12. The Parties agree that the Holyrood Thermal Generating Station ("Holyrood TGS") Unit 3 shall be functionalized as transmission after the unit is permanently converted into the role of synchronous condenser.

13. The Parties agree that any contributions from customers as a result of new network additions be deducted from rate base consistent with the current approach.
14. The Parties agree that the transmission assets currently specifically assigned to customers continue to be specifically assigned.
15. The Parties agree that the net export revenues shall be functionalized as generation, which is the same manner as the functionalization of the Muskrat Falls Project Costs.

Classification

16. The Parties agree that the cost of service methodology shall continue to be based on embedded costs.
17. The Parties agree that system load factor shall continue to be used for the classification of Hydro's existing hydraulic based generation and other power purchases on the island (excluding wind and capacity assistance purchases).
18. The Parties agree that capacity assistance purchases shall continue to be classified as 100% Demand.
19. The Parties agree that the classification between demand and energy for the power purchases costs resulting from the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement shall be based on system load factor. For greater clarity, the Parties agree that this is inclusive of the costs related to the Muskrat Falls Generation, the Labrador Island Link and the Labrador Transmission Assets.
20. The Parties agree that the classification of Holyrood TGS generation costs, excluding fuel, be based on a test year forecast capacity factor.
21. The Parties agree that the Island Interconnected and Labrador Interconnected gas turbine and diesel assets and fuel costs shall continue to be classified as 100% Demand.
22. The Parties agree that Isolated Diesel Systems (excluding L'Anse Au Loup) Generation Assets shall continue to be classified using system load factor and associated fuel cost classified as 100% Energy.
23. The Parties agree that L'Anse Au Loup Generation Assets shall continue to be classified as 100% Demand with the associated Fuel Costs classified as 100% Energy.
24. The Parties agree that Power Purchase costs on diesel systems shall continue to be classified as 100% Energy.
25. The Parties agree that Power Purchase costs for wind on the Island Interconnected System shall be 22% demand and 78% energy.
26. The Parties agree that all functionalized transmission costs shall continue to be classified as 100% demand related.

27. The Parties agree that Conservation and Demand Management (“CDM”) costs shall continue to be classified as energy. Hydro shall identify any projects and spending in its CDM plan that are justified in whole or in part based on demand related savings, review how demand related CDM is classified in other jurisdictions, provide options regarding establishing a materiality threshold to assess if a change in approach is appropriate, and file a report with recommendations with its next General Rate Application.
28. The Parties agree that net export revenues shall be classified using system load factor, which is the same manner as the classification of the Muskrat Falls Project costs.

Allocation

29. The Parties agree that the single coincident peak (“1 CP”) approach shall continue to be used in the cost allocation of production/generation demand costs and transmission among customer classes. Hydro agrees to further review the contribution of different customer classes to the uncertainty parameters in its planning studies (e.g. P50 vs P90), to ensure the calculation of peaks used in the Cost of Service study appropriately reflect the contribution of the different customer classes to the coincident peak used for planning purposes, and file a report with the results of that review with its next General Rate Application.
30. The Parties agree that energy costs shall continue to be allocated based on annual energy use by customer class.
31. The Parties agree that the revenue requirement method shall continue to be used for allocation of the Rural Deficit between Newfoundland Power and the Hydro Rural Customers on the Labrador Interconnected System.
32. The Parties agree that the indexed cost approach shall continue to be used in allocating operating and maintenance costs in the determination of specifically assigned charges pending the development of a reasonable alternative. Hydro agrees to provide, in the next General Rate Application following this Settlement Agreement, details of the results of its cost tracking for specifically assigned assets and its assessment of the feasibility of using actual expenses in the calculation of specifically assigned charges.
33. The Parties agree that Hydro should continue to provide a generation credit for Newfoundland Power for hydraulic and thermal generation consistent with past practice. Hydro agrees to review the methodology for the calculation of the megawatt credit provided to ensure its reasonableness and to report on its review in its next General Rate Application.
34. The Parties agree that net export revenues shall be included in the cost of service to reduce the supply costs related to the Muskrat Falls Project (inclusive of Muskrat Falls generation, the Labrador Island Link and the Labrador Transmission Assets) to be recovered through the rates of customers on the Island Interconnected System.
35. The Parties agree that net export revenues shall be included in the Test Year Cost of Service Study for rate making with variations from forecast net export revenues dealt with

through a deferral account mechanism. Hydro agrees to propose the specific deferral account mechanism in its next General Rate Application.

36. The Parties agree that the existing Corner Brook Pulp and Paper pilot agreement regarding generation credits and the associated Cost of Service treatment shall continue. Any future changes will be addressed in the review of the industrial rate structure and/or the existing capacity assistance agreement between Hydro and Corner Brook Pulp and Paper.

General

37. This Settlement Agreement removes the requirement for the experts retained by the Board, Consumer Advocate, Newfoundland Power, the Island Industrial Customer Group and the Labrador Interconnected Group to appear before the Board regarding this Cost of Service Methodology Application.
38. The Parties agree that this Settlement Agreement addresses all the issues raised in the Cost of Service Methodology Application.
39. Hydro agrees that if circumstances permit an extension to the date of filing of the next General Rate Application, currently scheduled for no later than September 2020, and an extension would be legally and fiscally permissible, it shall bring a request to the Board to delay the filing of the General Rate Application.

Agreed to as of the 4th day of October, 2019.

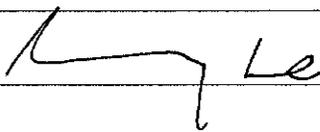
For Newfoundland and Labrador Hydro:

For Newfoundland Power:

For Consumer Advocate:

For Island Industrial Customers:

For the Labrador Interconnected Group:

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For Board Hearing Counsel:
