

IN THE MATTER OF: *The Public Utilities Act*, R.S.N.S. 1989, c.380 as amended

- and -

IN THE MATTER OF: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations

MINUTES OF SETTLEMENT

WHEREAS on May 13, 2011, the Applicant, Nova Scotia Power Inc. ("NSPI") filed a 2012 General Rate Application, and NSPI and the undersigned Intervenors have reached agreement on the matters in issue in this Application, as represented by the attached Appendix A;

AND WHEREAS this Agreement is subject to review and approval by the Nova Scotia Utility and Review Board;

THE UNDERSIGNED PARTIES ("the parties") HEREBY AGREE and respectfully request the Utility and Review Board ("UARB") to approve the Settlement Agreement attached hereto as Appendix A, and set new electricity rates effective January 1, 2012 on the basis of this Agreement.

AGREED, and signed by legal Counsel or other authorized representative, THIS 19th DAY OF SEPTEMBER, 2011,

Nova Scotia Power Inc.

Avon Valley et al

Per: J. Rene Gallant

Per: Nancy Rubin

Consumer Advocate

Small Business Advocate

Per: John Merrick, Q.C.

Per: Nelson Blackburn, Q.C.

**Municipal Electric Utilities Co-operative
Of Nova Scotia**

Per: Don Regan

APPENDIX A

2012 GRA Settlement Agreement

Load

1. The original GRA 2012 load forecast filed on May 13 will be used to calculate 2012 general rates. This is without prejudice to future determination about what timing of load forecast is the appropriate load for rate-setting purposes when the mid-year load forecast is available in a GRA year. The Parties agree that the mid-year load forecast will be used for FAM and DSM purposes as usual.
2. Due to the indefinite shut down and creditor protection of New Page Port Hawkesbury, load for this customer may not materialize in 2012 at the CBL level included in rates. The future of Bowater Mersey Paper Company is also uncertain, in light of the evidence in the Load Retention Tariff (LRT) application. Setting rates that include revenue from NPB will not provide the utility the opportunity to recover its costs and would therefore not be just and reasonable. Therefore, in order to maintain the lowest reasonable rate increase by setting rates to include NPB load, the parties agree that:
 - a. The NPB load will be based upon the levels forecast in the May 13 filing, and the forecasted non-fuel contribution from these customers will be calculated as the forecast total revenue from all load of these customers less the forecast BCF revenue for these customers.
 - b. Any amount of unrecovered NPB contribution to non-fuel costs net of non-fuel variable O&M costs, will be deferred for later recovery from all customers beginning in 2013. Non-fuel variable costs are deemed to be \$500,000 annually for the entire NPB load. The non-fuel cost amount will be determined by deducting actual 2012 NPB fixed cost recovery from the forecasted amount of 2012 NPB fixed cost recovery as forecast at the time of setting 2012 rates. The amount will incorporate a reduction for non-fuel variable O&M costs that is proportionate to the actual total load for NPB. The forecast amount of 2012 fixed cost recovery will be quantified as part of the NSPI 2012 GRA Compliance Filing, on which all parties will have the right to comment.
 - c. The parties agree that NPB should provide security for the payment of their account, and parties will support a request to the UARB by NSPI for such security.

Fuel and Purchased Power Forecast

3. The Base Cost of Fuel in general rates will be based upon the May 13 filing (amount that includes NPPH load). Due to uncertainty about 2012 load, the FAM incentive will be suspended (i.e., will not operate) in 2012.
4. NSPI will adopt the Liberty recommendations relating to the forecast cost of imports, without adopting the approach as an established new methodology. The approach will be reviewed with

the FAM SWG for potential revision of the FAM Plan of Administration. NSPI estimates this change will reduce the fuel forecast by \$1.7M + 3.1M. The increase in the fuel forecast for 2012 will therefore be \$31.3M (\$36.1M - 4.8M).

5. This agreement does not affect the 2011 FAM processes, which will operate as usual to establish recovery of the 2011 AA, and the BA (including the 2010 Fuel Deferral amount), as well as reflect the earlier stakeholder agreement to return \$14.5M to customers relating to the 2010 earnings deferral. The 2012 FAM process will recover the remaining BA portion of the 2010 Fuel Deferral amount.
6. Other issues related to fuel raised by Intervenors are open for consideration during the upcoming FAM processes.

Return on Equity/Capital Structure

7. Treatment as follows:
 - a. Capital Structure – rates will be set on 37.5% equity, NSPI may use a maximum actual equity of 40%, actual average equity will be used to calculate return on equity results
 - b. ROE – rates will be set on 9.20% ROE, with a target earnings range of 9.1 to 9.5%; a corresponding adjustment will be made to the s.21AAA mechanism.
 - c. This reduces revenue requirement from the application by \$7.5M.

OM&G

8. For the purpose of the 2012 revenue requirement and without prejudice to future positions, incentives for Executives of NSPI will be paid by shareholders and therefore removed from 2012 customer rates – reduces revenue requirement by \$250,000
9. Pension – NSPI's pension costs are accepted in rates.
10. Salary/wage increase assumption – adopt the result, but not the methodology, of Liberty's recommendation (reduction in revenue requirement of \$470K).
11. Succession planning – reduce amount by \$1M to \$4M. No further review required. This incorporates Meyer recommendation relating to FTEs not yet in workforce.
12. Capitalization rates – NSPI will update during compliance to reflect any changes that are consequential from adjustments to capital items in rate base, otherwise no change from NSPI proposal
13. Sustainability – recover costs as proposed. No further review required.
14. Vegetation Management and Storms – withdraw increases relating to Vegetation Management and Storm costs (reduction in revenue requirement of \$7.1M).
15. Insurance – reduce requested increase by \$1M
16. DSM amortization – as proposed by NSPI in filing
17. Digby Wind – reduce OM&G by \$300,000 as proposed by NSPI and Ramas
18. Total OM&G revenue requirement reduction of \$10.1M

Rate Base

19. FAM Deferral amount – no change from NSPI filing (consultant proposal would have increased revenue requirement)
20. Reductions to rate base:
 - a. Remove Co-Fired biomass and Bag House projects from capital plan (and remove off-setting AFUDC/AO/Depreciation). Reduces revenue requirement by \$1.9M.
 - b. Adopt Liberty proposed adjustment to rate base relating to pension costs (\$9.9M reduction to rate base, \$0.7M reduction in revenue requirement).
 - c. CWC – maintain as presently in rates using “black box” approach, without prejudice to parties’ right to make future arguments – no adoption of changes to methodology. Reduces rate base by \$26.9M, reduces revenue requirement by \$1.9M.
 - d. Further rate base reduction, at NSPI’s discretion, sufficient to reduce revenue requirement by \$1.0M
 - e. No other rate base adjustments from NSPI application as filed.
 - f. Total effect on revenue requirement of these changes - \$5.5M reduction

COSS and non-revenue requirement

21. Streetlights – rates will be as proposed by NSPI subject to the following adjustments:
 - a. Parties agree that LEDs will be used for all replacements effective immediately and until UARB approval of the new capital program. The cost of these interim change-outs will be capitalized and parties will support any U&U application that may be necessary to obtain UARB approval of this interim program.
 - b. Interim rate will be the rate as proposed in NSPI’s May 13 filing subject to two changes:
 - i. Fixture capital cost will be reduced by 15% from NSPI’s original proposal. This reduction in the fixture capital cost will also apply to the January 1, 2012 rates.
 - ii. No conversion fees will be charged until the 2012 LED Streetlight rates are in effect.
 - c. The proposed realignment of rates with costs of the unmetered services of electricity and fixture capital will be introduced in two phases beginning in January 2012. NSPI will submit at the time of 2012 Compliance Filing a set of streetlight rates that will be effective January 1, 2012 that incorporate 50% (in terms of cost impact) of the methodological adjustments. The complete change will be made in the next General Rate Application.
 - d. Without prejudice to a later determination of the value of stranded assets, the parties agree that for the purposes of calculating the 2012 conversion fee, the format in NSPI’s Appendix G, Schedule 10 will be used with a year-ending 2011 Net Plant Value of \$12 million for rate-making purposes to be recovered over 10 years, rather than \$23 million predicated on a 5 year recovery period as is the case under NSPI’s Application. As well, the schedule will be amended to include forecast retirements and depreciation over the 10 year period. If the program timeline remains 5 years at the time of final UARB

approval of the capital work order for LED Streetlights, parties acknowledge this value for stranded assets is not anticipated to be accurate.

- e. NSPI is entitled to full recovery of its prudently incurred non-LED street light asset costs. At future General Rate Applications, pricing of the energy and capital components of streetlight rates (LED, non-LED and conversion fees) will reflect NSPI's actual experience. NSPI will monitor the recovery of its stranded costs and is entitled to seek regulatory approval of changes to streetlight rates and conversion fees to ensure that all of its costs are recovered.

22. COSS issues:

- a. Adopt NSPI's corrections to the COSS and Mel Whalen evidence that accepts six adjustments to the COSS and proposes changing the energy classification of all projects that have an environmental component to include only investments made to meet environmental objectives which are a function of energy.
- b. All other COSS changes will be withdrawn. Certain Intervenors may take the position that Terms of Reference should be set leading to a COSS hearing in the near future.

23. Revenue to Cost ratios – may be litigated by Intervenors.

24. Large Industrial Tariff changes – NSPI grandfathering proposal to be adopted.

25. ELI 2P-RTP Tariff changes – may be litigated by Intervenors.

26. Subject to necessary adjustments to incorporate paragraph 7 above, the s.21 AAA Mechanism will continue to operate on a go forward basis until the s.21 amount is fully paid. Amounts in excess of both the range of return on equity and in excess of the room available in the s.21 AAA Mechanism will be returned to customers.

27. This settlement is for the GRA 2012 application only and is without prejudice to any of the parties freshly addressing any of the issues in a future GRA application.

Summary of Total Adjustments – 2012 Revenue Requirement

	Adjustment	Revenue Requirement	Average Rate Increase (GRA Table 10.8)
May 13 Application		\$94.4M increase	7.2%
Fuel and Purchased Power	(\$4.8M)		
ROE	(\$7.5M)		
OMG	(\$10.1M)		
Rate Base	(\$5.5M)		
Total Adjustments	(\$27.9M)	(\$27.9M)	
Total Change in Revenue Requirement		<u>\$66.5M</u>	<u>5.06%</u>
		Fuel - \$31.3M	2.38%
		Non-Fuel – \$35.2	2.68

End

2012 REVENUE INCREASE ANALYSIS									
Rate Classes	Sales (GWh's)	2012 Revenue at current rates before cost adjustment clauses	2011 FAM AA	2011 FAM BA	2011 DCRR	Revenue at current rates including 2011 AA/BA and 2011 DCRR	Proposed Revenues 2012 Before Riders (3rd Settlement Version)		
			* for illustration only				Amount	Increase	Increase (%) over Total Cost of Power
ATL									
Residential	4,372.5	\$564,213,388	\$7,070,030	\$4,788,793	\$20,004,640	\$596,076,852	\$593,276,382	\$29,062,994	4.9%
Small General	219.5	\$29,390,859	\$358,440	\$274,450	\$1,550,533	\$31,574,282	\$30,426,872	\$1,036,013	3.3%
General Demand	2,534.0	\$273,211,579	\$3,242,529	\$2,813,995	\$11,775,576	\$291,043,678	\$284,623,892	\$11,412,313	3.9%
Large General	394.4	\$35,986,765	\$374,128	\$441,352	\$2,006,137	\$38,808,382	\$37,840,467	\$1,853,701	4.8%
Total Commercial	3,147.8	\$338,589,203	\$3,975,097	\$3,529,797	\$15,332,246	\$361,426,343	\$352,891,231	\$14,302,028	4.0%
Small Industrial	261.9	\$26,281,215	\$303,562	\$283,144	\$521,795	\$27,389,715	\$27,634,977	\$1,353,762	4.9%
Medium Industrial	512.9	\$44,957,639	\$495,236	\$554,433	\$1,470,054	\$47,477,362	\$47,273,436	\$2,315,797	4.9%
Large Industrial	932.6	\$70,390,764	\$758,644	\$919,006	\$1,847,128	\$73,915,542	\$74,016,638	\$3,625,873	4.9%
ELI 2PT - RTP	1,814.3	\$113,492,502	\$1,576,748	\$2,165,643	\$1,576,239	\$118,811,132	\$127,630,937	\$14,138,435	11.9%
Total Industrial	3,521.8	\$255,122,120	\$3,134,190	\$3,922,226	\$5,415,215	\$267,593,752	\$276,555,988	\$21,433,867	8.0%
Municipal	197.4	\$17,586,797	\$223,750	\$206,396	\$870,350	\$18,887,293	\$18,492,704	\$905,907	4.8%
Unmetered	115.7	\$25,301,915	\$115,986	\$140,161	\$148,026	\$25,706,088	\$24,450,056	(\$851,859)	-3.3%
Total Other	313.1	\$42,888,712	\$339,736	\$346,557	\$1,018,376	\$44,593,381	\$42,942,760	\$54,048	0.1%
Total ATL Classes	11,355.2	\$1,200,813,424	\$14,519,053	\$12,587,373	\$41,770,478	\$1,269,690,327	\$1,265,666,360	\$64,852,937	5.1%
BTL (Electric)									
GRLF	108.4	\$6,725,686	\$0	\$0	\$5,925	\$6,731,611	\$6,725,686	\$0	0.0%
Mersey Additional Energy	179.9	\$11,177,086	\$162,370	\$143,485	\$123,597	\$11,606,538	\$11,177,086	\$0	0.0%
Bowater Mersey	189.0	\$9,279,726	\$0	\$0	\$0	\$9,279,726	\$9,279,726	\$0	0.0%
Total BTL (Electric) Classes	477.3	\$27,182,498	\$162,370	\$143,485	\$129,522	\$27,617,875	\$27,182,498	\$0	0.0%
LED SL Capital Costs			\$0	\$0	\$0	\$0	\$1,097,981		
FAM classes	11,535.2	\$1,211,990,510	\$14,681,423	\$12,730,858	\$41,894,075	\$1,281,296,865	\$1,276,843,446	\$64,852,937	5.1%
In Province Total	11,832.6	\$1,227,995,921	\$14,681,423	\$12,730,858	\$41,900,000	\$1,297,308,203	\$1,293,946,839	\$65,950,917	5.1%
Export	33.9	\$961,058	\$0	\$0	\$0	\$961,058	\$961,058	\$0	0.0%
Total Electric Sales	11,866.4	\$1,228,956,979	\$14,681,423	\$12,730,858	\$41,900,000	\$1,298,269,261	\$1,294,907,897	\$65,950,917	5.1%
Misc Revenue	815.6	\$15,521,415	\$0	\$0	\$0	\$15,521,415	\$15,792,103	\$270,688	1.7%
Grand Total	12,682.0	\$1,244,478,394	\$14,681,423	\$12,730,858	\$41,900,000	\$1,313,790,676	\$1,310,700,000	\$66,221,606	5.0%