

1 **Q. Please explain the variance in Employee Future Benefits Costs (Schedule 1, Exhibit**
2 **1, Line 16) between 2014 Actual and 2015 and 2016 Forecast. Does NP have a**
3 **deferral account to defer these costs variances? If yes, please explain the basis for**
4 **the cost variance.**

5
6 A. Effective January 1, 2010, the Board ordered the creation of a pension expense variance
7 deferral account (“PEVDA”) (see P.U. 43 (2009)). Effective January 1, 2011, the Board
8 ordered the creation of an OPEBs cost variance deferral account (see P.U. 31 (2010)).
9

10 The PEVDA and OPEBs cost variance deferral accounts capture the difference due to
11 variations in assumptions between the annual pension and OPEBs expense approved for
12 rate setting purposes and the actual pension and OPEBs expense. The balances in these
13 accounts are transferred to the Rate Stabilization Account on March 31 in the year in
14 which the differences arise.

15
16 **2015 Variance:**

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18 The increase in 2015 reflects the additional net benefit cost associated with Company’s
19 defined benefit pension plan, due to an increase in the Company’s projected benefit
20 pension obligation. The increase was primarily due to a lower discount rate at December
21 31, 2014 (4.0% at December 2014, compared with 5.0% at December 2013), which is
22 used to determine the pension obligation.
23

24 This increase in 2015 is offset by a decrease in OPEBs costs due to a reduction in claims
25 cost experience under the plan.
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27 **2016 Variance:**

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29 The decrease in 2016 is mainly due to reduced OPEBs costs due to a reduction in claims
30 cost experience under the plan. Net benefit costs associated with the Company’s defined
31 benefit pension plan for 2016 are forecast to be comparable with 2014 actual expense.