Q. At para. 9 of the Application, NP proposes that the Board approve, with effect from January 1, 2010, the Pension Expense Variance Deferral Account.

(a) Please provide a list of regulated Canadian Utilities which have the benefit of an account or mechanism in the nature of the proposed Pension Expense Variation Deferral Account and when it was established.

(b) Does NP propose that the Pension Expense Variation Deferral Account be a permanent measure?

(c) Explain how, if at all, consumers will benefit from such a deferral account which reduces risk to NP?

(d) Explain how any benefits associated with this account's establishment are incorporated, if at all, in this filing.

A. (a) Investor-owned regulated utilities Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and FortisBC have rates adjusted each year under Performance Based Regulation to reflect the actual pension cost incurred for the year. This approach has been in place since 2004 for Terasen Gas Inc., 2003 for Terasen Gas (Vancouver Island) Inc. and 2005 for Fortis BC.

FortisAlberta has proposed the creation of a pension cost deferral account in its current general rate application.

Hydro One, a Crown corporation in Ontario, has a deferral account, approved in December 2008, to deal with variances in pension expense.

(b) The length of time for which the Pension Expense Variance Deferral Account proposed in the Application will be required will depend upon the variability and predictability of pension expense into the future.

Please refer to the responses to Requests for Information CA-NP-45 (c) below and CA-NP-44 (b).

(c) The Pension Expense Variance Deferral Account will provide an efficient means of ensuring forecast test year costs approved for establishing customer rates will reasonably reflect the actual cost of providing service.[1]

The uncertainty of pension expense forecasting in current financial market conditions presents potential risks for both the Company and its customers. On one hand, a 1% increase in the discount rate at year-end, which is used to

[1] The uncertainty in forecasting 2010 pension expense for use in establishing customer rates is described in *Volume 1, Company Evidence and Exhibits, Section 3.4.2 Pension Plans.*

calculate pension expense for the succeeding year, could result in the Company achieving earnings in excess of its allowed return in the succeeding year solely due to fluctuations in pension expense. On the other hand, a 1% decrease in the discount rate could result in the Company not having a reasonable opportunity to earn its allowed return solely due to fluctuations in pension expense.

The market volatility that has created the uncertainty in forecasting pension expense did not exist at the time of the last general rate application. The increased uncertainty in forecasting pension expense has created increased risk for both customers and the Company. This increased risk justifies the creation of the Pension Expense Variance Deferral Account.

(d) See the response to Request for Information CA-NP-45 (c) above.