

Q. Given the experience of the markets in 2008, would NP not be permitted to use a 10% corridor for the purpose of deriving the smoothed value of assets as at December 31, 2008?

A. Newfoundland Power was permitted to use a 10% corridor for the purpose of deriving the smoothed value of pension plan assets as at December 31, 2008.

Newfoundland Power considered three essential options in terms of valuation of pension plan assets as at December 31, 2008.¹ They were: (i) continue to value pension plan assets at market value; (ii) apply a 5% corridor to the smoothed pension plan asset values; or (iii) apply a 10% corridor to the smoothed pension plan asset values.

Table 1 shows the funding impact of each of these three valuation options:

Table 1
Pension Plan Asset Valuation Options
5-Year Funding Impacts
(\$millions)

Option	Annual Funding Requirement
Market	3.9
5% Corridor	1.5
10% Corridor	—

In considering these options, Newfoundland Power had due regard for the 2008 financial market experience.

To continue to value pension plan assets at market value, the 5-year funding impact of the 2008 market experience was the highest. However, such a course of action would fully acquit the solvency deficiency which existed in the pension plan as at December 31, 2008, assuming pension plan asset performance met plan expectations over the next 5 years.²

To apply a 10% corridor to the smoothed pension plan asset values would eliminate the requirement for funding the solvency deficiency in the near term. However, such a course of action could result in an *increase* in future funding requirements if pension plan asset performance failed to meet plan expectations in the future. This, in turn, could put

¹ The consideration of Newfoundland Power on this matter preceded the June 2009 Provincial Government announcement which effectively permitted use of a 15% corridor to smooth pension plan asset values.

² This would also be dependent upon meeting all other plan expectations, such as participant mortality, salary increases, etc.

1 the solvency condition of the plan in a relatively worse situation than existed at
2 December 31, 2008.

3
4 Newfoundland Power chose to apply a 5% corridor to the smoothed pension plan asset
5 values essentially because this option (i) reduced the relative funding impact in the near
6 term of the 2008 loss in asset values, and (ii) limited the potential hazard associated with
7 market uncertainty and the possibility that future pension plan asset performance might
8 not meet plan expectations.

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10 Use of a 5% corridor was a reasoned response to the circumstances, including the 2008
11 market experience.

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13 Please refer to the response to Request for Information CA-NP-51 for the pro forma
14 impact of the \$1.5 million in pension solvency funding on 2010 revenue requirements.