Q. Please show how the use of a 10% corridor for the purpose of deriving the smoothed value of assets as at December 31, 2008, impacts upon the Application.

A. Use of a 10% corridor for the purpose of deriving the smoothed value of pension plan assets as at December 31, 2008 would eliminate the annual special funding payments of approximately $1.5 million for 2009 through 2013.

This reduction in special funding payments would serve to increase pension expense and reduce rate base.

Table 1 shows the pro forma impact of reduced special funding payments on the 2010 test year revenue requirement.

Table 1
Pro forma 2010 Revenue Requirement Impact
$1.5 Million Reduction in Pension Funding
($000s)

	2010
Expense Effects	
Pension Expense[1]	180
Return Effects	
Return on Rate Base[2]	(168)
Tax Effects	24
Change in Net Income	36
Income Taxes[3]	17
Increase in Revenue Requirement	53

[1] Increase in pension expense due to reduction in pension funding by $1.5 million.
[2] Return on Rate Base is reduced due to lower deferred charges resulting from a reduction in pension funding of $1.5 million per year offset by a reduction in future income tax for 2009 and 2010.
[3] 36 times (Tax Rate / 1- Tax Rate) = 36 times (.32 / .68) =17