

1 **Q. Further to the reply to CA-NP-45 (part (c)), how was Ms. McShane's conclusions as**
2 **to NP's fair return on equity influenced, if at all, by the assumed existence or**
3 **absence of the Pension Expense Deferral Account?**
4

5 A. In developing her recommendations, Ms. McShane was aware of the requested deferral
6 account, which was proposed to address what otherwise would be higher earnings
7 volatility arising solely from deviations between forecast and actual pension expense,
8 which in turn would be a reflection of increased capital market volatility over which
9 utilities have no control. In the absence of a deferral account for pension expense, NP's
10 cost of equity would be directionally higher. NP's requested deferral account for pension
11 expense is representative of the steps being taken by other utilities to address the same
12 issue.