

1 **Q. Provide a detailed description of the derivation of the following assumptions (some**
2 **of which appear in both the OPEB valuation and the pension valuation), and**
3 **explain how historical data and future expectations influence the selection of each**
4 **assumption as well as the relationship among the various assumptions (as well as the**
5 **relationship of assumptions between the OPEB and pension valuations):**

- 6
- 7 . **Discount Rate**
- 8 . **YMPE increase rate**
- 9 . **Salary increase rate (how does this relate to the YMPE assumption**
10 **and to historical plan experience?)**
- 11 . **Is there an underlying CPI increase assumption?**
- 12 . **Health care cost trend rates by benefit type. What is the rationale for**
13 **an ultimate trend rate for prescription drugs that differs from the**
14 **assumption for health premium and other medical?**
- 15 . **Mortality (provide details of any experience studies that have been**
16 **conducted on the membership of these plans)**
- 17 . **Withdrawal (provide details of any experience studies that have been**
18 **conducted on the membership of these plans)**
- 19 . **Retirement age (provide details of any experience studies that have**
20 **been conducted on the membership of these plans)**
- 21 . **Increases in utilization by age (provide details of any experience**
22 **studies that have been conducted on the membership of these plans)**
- 23

24 **A.** With the exception of the discount rate, the derivation of the assumptions used in
25 Newfoundland Powers pension valuation for funding purposes, as found in *Volume 2:*
26 *Supporting Materials, Tab 3* of its filed evidence, is consistent with the derivation of
27 assumptions used in the OPEB and pension valuations for accounting purposes. The
28 assumptions included in the pension funding valuation are provided by the Company's
29 actuary.

30
31 A detailed description of the derivation of the requested assumptions, as included in the
32 OPEB and pension valuation for accounting purposes, follows.

33
34 *Discount Rate*

35
36 The discount rate used for both the OPEB and pension valuation is governed by
37 accounting guidelines under Section 3461 of the CICA Handbook. While the accounting
38 guidelines are the same, the discount rates used for each valuation are separate.

39
40 The discount rate is selected based on the Mercer Canada Pension Discount Yield Curve
41 (the "Yield Curve") information as at the valuation date. The Yield Curve is derived
42 using AA corporate bond yields with similar durations (sensitivity of obligations to
43 interest rate changes) as the OPEB and pension plans.

The primary difference between the OPEB discount rate and the pension discount rate is related to durations.

Yearly Maximum Pensionable Earnings ("YMPE") Increase Rate

The YMPE increase rate is applicable to the Newfoundland Power pension valuation only. The guideline for the YMPE increase rate is derived by adding 1.00% to the assumed inflation rate. The 1.00% component reflects the productivity gains expected to occur in the average industrial wage increase. Historical data is also considered.

Salary Increase Rate

The salary increase rate is applicable to both the OPEB and pension valuation. A guideline for selecting the salary increase assumption is derived by adding 1.50% to the assumed inflation rate. The 1.00% component reflects the productivity gains expected to occur in the average industrial wage increase. An additional 0.50% is added to 1.00% component to reflect expected company advancements and promotions.

Inflation Rate

The underlying inflation rate assumption is used in the derivation of the YMPE and salary increase rate assumption. The inflation rate assumption is based on historical inflation rate assumptions and historical data from internal models maintained by the Company's actuary, ensuring that it is consistent with the discount rate assumption.

Health Care Trend Rate

The health care trend rate is applicable to the OPEB valuation only. The Health care trend rate assumption considers past experience under the Newfoundland Power OPEB plan and general industry experience. The grading period of the trend rates for drugs has been extended to 15-25 years based on industry experience and practice. The trend rate for drugs after the 15-25 year period reflects an expected long-term stability in the market.

Mortality Rate

The mortality rate is applicable to both the OPEB and pension valuation and is based on the 1994 Uninsured Pension Mortality Generational Table. This mortality table reflects expected future improvements in mortality and is a commonly used table for pension funding valuation purposes.

Withdrawal/Termination

The withdrawal/termination assumption is applicable to both the OPEB and pension valuation. The termination table used is consistent with industry published tables and has been adjusted to reflect a lower turnover experience at Newfoundland Power. Actual

1 termination experience is compared with the assumptions used for each actuarial funding
2 valuation and historical results to determine if further assumption changes may be
3 warranted.
4

5 *Retirement Age*
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7 The retirement age is applicable to both the OPEB and pension valuation. The retirement
8 age assumption considers the OPEB and pension plan design as well as actual retirement
9 experience. Actual retirement experience is compared with the assumptions for each
10 actuarial funding valuation and historical results to determine if further assumption
11 changes may be warranted.
12

13 *Increases in Utilization by Age*
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15 The increase in utilization by age is applicable to the OPEB valuation only. The
16 assumption is generally based on an industry review and actual claims experience. There
17 have been no specific studies completed on Newfoundland Power claims with respect to
18 increases in utilization by age.