Q. Further to CA-NP-325:

(a) Is there a written contract or agreement in existence by which the company has required itself to pay 100% of premiums for retirees over the age of 65 years? If so, please provide a copy of the same.

(b) If the company has not entered into a written contract or agreement requiring itself to pay 100% of premiums for retirees over the age of 65 years, state the basis of the requirement, if any, upon the company to pay 100% of these premiums?

(c) What consideration was paid to or given to the company in return for the company's agreement to pay 100% of the premiums for those retirees over the age 65?

(d) Does NP consider itself to be under a perpetual obligation to pay 100% of the premiums for retirees over the age of 65? Please fully explain the basis for that answer, whether the answer is "yes" or "no".

(e) If NP does not consider itself to be under a perpetual obligation to pay 100% of premiums for retirees over the age of 65, what action would be necessary to cease the obligation?

A. (a) No. There is no written contract or agreement in existence by which the Company has required itself to pay 100% of premiums for retirees over the age of 65 years.

(b) All employee post retirement benefits, including medical benefits, are considered to be a part of employee compensation for services rendered to the Company prior to retirement. It is reasonable for employees that retire to rely on those benefits into the future.

(c) Please see the response to Request for Information CA-NP-345 (b) above.

(d) No. Newfoundland Power does not consider itself to be under a perpetual obligation to pay 100% of the premiums for retirees over the age of 65. However, Newfoundland Power considers itself obliged to provide *existing* retirees with *overall* benefits reasonably commensurate with those which they earned.

For existing retirees, the principal post retirement benefits include pension and medical benefits.

Table 1 shows a comparison of pension benefits which would be received by a Newfoundland Power employee and a Provincial Government employee, both retiring at age 60 with full pension benefits based on a salary of $60,000 per year.

Table 1
Annual Pension Benefit

	Newfoundland Power[1]	**Provincial Government**
Age 60-65	$43,000	$42,000
After Age 65	$26,000	$32,500

A Newfoundland Power retiree would receive an annual pension of approximately $43,000 from age 60 to 65, and $26,000 after age 65. A Provincial Government retiree would receive an annual pension of approximately $42,000 from age 60 to 65, and $32,500 after age 65. The difference in annual pension benefit for retirees after age 65 is approximately $6,500.[2]

A Newfoundland Power retiree receives coverage for medical benefits of up to $5,000 per year after age 65. Dental coverage is not offered by Newfoundland Power to retirees after age 65. By comparison, a Provincial Government retiree is entitled to coverage for medical benefits after age 65 on a 50/50 cost sharing basis without a $5,000 cap. The Provincial Government plan also provides dental coverage to retirees on a 75% employer / 25% retiree co-pay arrangement.

The principal differences in benefits for retirees after age 65 are that (i) the Provincial Government plan provides broader coverage and (ii) Provincial Government retirees contribute to the costs of that coverage.

Table 2 shows a comparison of the average annual cost per retiree of medical benefits after age 65 under Newfoundland Power's current plan and the estimated cost to Newfoundland Power for a plan similar to that provided to Provincial Government retirees (the "Alternative Plan").

[1] The actual average pension paid to Newfoundland Power retirees is $17,958 per year. For retirees over age 65, the actual average pension is $13,845. The actual average pension paid to surviving spouses, who are entitled to 50% of retiree benefits, is $6,960. These pension benefit amounts are all pre-tax.

[2] Reflects optional pension levelizing under which retirees receive higher annual pension benefits before age 65. Newfoundland Power pension benefits are based on a maximum of 35 years of service; Provincial Government pension benefits have no cap applied. Newfoundland Power employees may opt to contribute 1.5% of their salary to a supplementary group RRSP plan, which is match by the Company.

Table 2
Comparative Medical Benefit Plans
Average Annual Cost Per Retiree

	Current Plan	Alternative Plan
Medical Benefits		
Total Cost	$2,580[3]	$3,680[4]
Employer Cost	$2,580	$1,840
Dental Benefits		
Total Cost	-	$640[5]
Employer Cost	-	$480
Total Employer Cost	**$2,580**	**$2,320**

The difference in average annual premium costs to Newfoundland Power of the current plan for retirees over the age of 65 as compared to the Alternative Plan is approximately $260 per retiree.[6]

Newfoundland Power considers both the current benefits provided to retirees over the age of 65 and the cost of these benefits to be reasonable in the context of overall post retirement benefits. Newfoundland Power does not consider that a change in the current practice of funding medical benefits for *existing* retirees is warranted.

For information concerning actions necessary to modify *future* retiree benefits, please refer to the response to Request for Information CA-NP-345(e) below.

(e) Newfoundland Power does not consider it reasonable to *cease* its provision of post retirement benefits, including medical benefits, to either existing or future retirees.

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3 The $2,580 is the average cost of current Newfoundland Power retiree medical benefits for retirees over age 65.

4 The $3,680 estimate of average cost of coverage for retirees over age 65 is for current Newfoundland Power medical benefits without a $5,000 annual cap. 2009 premium estimates were provided by Aon Consulting, Newfoundland Power's benefits consultant.

5 The $640 estimate of average cost of dental coverage reflects the 2009 average cost of coverage for employees and retirees (under age 65) of Newfoundland Power. $480 reflects the employer portion of this average cost on a 75% employer / 25% employee co-pay arrangement.

6 This difference in cost *to Newfoundland Power* is the average cost of current coverage ($2,580) less Newfoundland Power's portion of the average cost of uncapped medical + dental coverage ($1,840 + $480 = $2,320). $2,580 - $2,320 = $260. The difference in cost *to a retiree over the age of 65* is approximately $2,000 which represents the co-pay of 50% of medical coverage and 25% of dental coverage ($1,840 + $160 = $2,000).

Modification of post retirement benefits for future retirees, including modification to provide for cost sharing of medical benefits, would practically require a number of considerations. One consideration is the impact of the modification on overall post retirement benefits. Another consideration is the provision of reasonable notice to employees of the modifications to enable them an opportunity to adjust their personal retirement plans. A third consideration is whether transitional arrangements are warranted in the circumstances.

In 2004, Newfoundland Power closed its defined benefit pension plan to *new entrants*. Simply closing the plan for all employees was not considered a viable option given the impacts of such a modification on existing employees. Closing the plan to new entrants provided effective notice to the new employees joining the Company. Given these aspects of the benefit modifications, no transitional arrangements were required.

In considering the modification of cost sharing arrangements associated with post retirement medical benefits for future retirees, Newfoundland Power would adopt a similar approach. It would assess the impact of the modification on overall post retirement benefits for existing employees. For example, consideration would have to be given to whether a $5,000 per year cap would be appropriate in light of the labour market. Newfoundland Power would also consider what is reasonable notice of the change to enable employees to adjust their personal retirement plans. In addition, consideration would be required of what if any transitional arrangements are necessary. For example, an employee eligible to retire within one year may not necessarily be treated the same as an employee eligible to retire in five years.

In March 2009, Newfoundland Power agreed with the IBEW Local 1620 to review the group benefit program affecting current employees of the Company. Newfoundland Power intends to review the group benefit program which currently applies to retirees of the Company in concert with this agreed review.