

Q. Reference: The Settlement Agreement for the Proposed Resolution of Certain Issues Arising from the Application (Settlement Agreement) dated 23 September.

(a) Please re-produce Table 3 - 8 of the Amended Application but add a column showing the Rates of Return reflecting the effects of the establishment of The Pension Expense Variance Deferral Account as per the terms of the Settlement Agreement.

(b) Next, please re-produce Table 3 - 8 of the Amended Application but add a column showing the Rates of Return showing all effects of the Settlement Agreement as well as the effects on stated Rates of Return had NP applied for (and been granted in 2009) deferred recovery of 2010 Customer Program Portfolio costs (i.e. similar as to which was allowed in P.U. 13 (2009)).

A. (a) Table 1 reproduces Table 3-8 of the Amended Application adding a column, labeled 2010P, which shows the pro-forma rates of return reflecting the effects of the establishment of the Pension Expense Variance Deferral Account agreed in the Settlement Agreement.

Table 1
Rates of Return: 2007 to 2010P
(%)

	2007	2008	2009F	2010E	2010P
Return on Rate Base					
Midpoint (Approved)	8.47	8.37	8.37	8.12	8.12
Actual / Forecast	8.07	8.20	8.00	7.04	7.04
Return on Common Equity	8.66	9.13	8.62	6.45	6.45

The Pension Expense Variance Deferral Account agreed in the Settlement Agreement is effective January 1, 2010. Accordingly, it will operate to true up actual 2010 defined benefit pension expense (which will be known in early 2010) to account for variations from the expense included in the 2010 test year. As no such variations are foreseeable at this time, there is no change in the 2010 rates of return which results from the establishment of the Pension Expense Variance Deferral Account.

- (b) Table 2 reproduces Table 3-8 of the Amended Application adding a column, labeled 2010P, which shows the pro-forma rates of return reflecting all effects of the Settlement Agreement as well as the effects on stated rates of return had the Company deferred recovery of 2010 Customer Program Portfolio costs.

Table 2
Rates of Return: 2007 to 2010P
(%)

	2007	2008	2009F	2010E	2010P
Return on Rate Base					
Midpoint (Approved)	8.47	8.37	8.37	8.12	8.12
Actual / Forecast	8.07	8.20	8.00	7.04	7.18
Return on Common Equity	8.66	9.13	8.62	6.45	6.77

The Settlement Agreement has only one financial impact on Newfoundland Power's 2010E forecast financial results. The agreement on the four year recovery of approximately \$1.5 million in 2009 Conservation Program Portfolio costs increases 2010 revenue from rates by \$379,000. This effectively reduces Newfoundland Power's financing requirements in 2010. The reduction in finance costs reflects the fact that the Company will be receiving revenue in 2010 in respect of a non-cash 2010 cost. The 2009 Conservation Program Portfolio costs will be incurred in 2009.

Column 2010P of Table 2 also reflects the deferral of recovery of \$1,869,000 in 2010 Customer Program Portfolio costs.