Q. Reference: Page 8, Lines 28-30

Under the proposed Pension Expense Variance Deferral Account ("PEVDA"), pension expense variances from the 2010 test year would be transferred to or from the RSA in 2010. If PEVDA does not become effective until 2011, as Mr. Todd suggests, explain how the PEVDA can be used to recover variances in 2010 pension costs.

A. The conclusion in Mr. Todd's evidence was misstated. It was intended to read as follows.

> *Assuming the Board reconfirms its commitment to maintaining a multi-year regulatory regime by accepting the recommendation contained in section 2 above, it would be consistent to accept NPs proposal to introduce the PEVDA. Since retroactive variances should not be included, however, the PEVDA should not come into force until 2011 at which time it would be used to recover variances in <u>future</u> pension costs.* (correction underlined)

The point being made is that implementing the PEVDA commencing in 2010 would retroactively establish the 2008 pension costs used to establish rates as the reference point for 2010 variances in pension costs. The current filing shows actual 2008 pension costs as $3,040,000 although NP's 2008 GRA showed forecast pension costs for that year as $2,220,000. It is the latter figure that would be used as the reference value based on the definition appearing at Exhibit 9. It may be noted that the 2008 figure for pension costs was more than 50% below the average for the prior three years and NP accepted the risk associated with variances in pension costs at that time.

If 2010 rates are established on the basis of NP's GRA application, then it would be appropriate to use 2010 pension costs as the basis for determining future variances from the annual pension expense included in rates (commencing in 2011). It would not be appropriate to base 2010 rates on costs that include 2010 pension costs and also establish the PEVDA in 2010 so that it reflects the amount by which 2010 pension costs exceed the 2008 forecast pension costs.