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October 19, 2009
(2:00 p.m.)
CHAIRMAN:
Q. Our vice-chairman has advised me, if she passes out, we are to keep going. We'll not be deterred by flu.
VICE-CHAIR WHALEN:
Q. You could check on me though.
CHAIRMAN:
Q. Check on you, yeah. Now when we broke off, where were we? You were going to continue your cross-examination, sir, were you not, I believe?
MR. JOHNSON:
Q. That's right.
CHAIRMAN:
Q. Is there anything preliminary before? Yes, sir.
KELLY, Q.C.
Q. Thank you, one small matter, Mr. Chairman. An undertaking from the last day was to provide the BMO document with the current spread and that's being circulated and can be marked.
MS. GLYNN:
Q. We'll mark that as Undertaking No. 1.

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KELLY, Q.C.
Q. No. 1, thank you.
CHAIRMAN:
Q. That's this one here, yeah, okay. All right. So you're ready, Mr. Johnson? I guess, we can--back to you, sir.
MS. JOCELYN PERRY, MR. EARL LUDLOW, RESUMES STAND, CROSS-EXAMINATION BY MR. THOMAS JOHNSON (CONT'D)
MR. JOHNSON:
Q. Thank you, Mr. Chairman, Commissioners, good afternoon. Just to start off, Ms. Perry, with just a couple of snappers, short snappers that were left over from Mr. Ludlow, and one there was an issue that he suggested I ask you about, and that was whether the charge out rate for the technologists who were seconded, whether that would be a market rate?
MS. PERRY:
A. The four seconded individuals that was noted in that RFI were actually charged at fully distributed cost.
MR. JOHNSON:
Q. Okay. So they would not have been charged at market rate?
MS. PERRY:

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A. No, it was actually a fully distributed cost for all four of those individuals.
MR. JOHNSON:
Q. Okay. So that would be, in addition to the technologists, that would be like the treasurer and those positions as well?
MS. PERRY:
A. Yes, that is correct.
MR. JOHNSON:
Q. And with respect to workers that are dispatched to the Caribbean to work on properties that Fortis owns down there, do they get anything extra for doing that, in terms of their pay or recognition?
MS. PERRY:
A. No, they do not.
CHAIRMAN:
Q. Some nice weather, I guess.
MS. PERRY:
A. Nice weather.
MR. JOHNSON:
Q. Okay, and turning to Kenmount Road, for a second, Ms. Perry, how did that sale come about?
MS. PERRY:

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A. The adjacent property owner was actually expanding its facilities, so the lands person at Newfoundland Power actually queried as to where they were actually building or expanding and it became obvious that it was an opportunity that they actually wanted additional land coming towards the Newfoundland Power Kenmount Road building and also some land going out back. So it came about as their expansion of their facility.
MR. JOHNSON:
Q. Okay, and what's the process, Ms. Perry, that's followed at Newfoundland Power for deciding whether or when or whether something, an asset should come out of rate base?
MS. PERRY:
A. If I understand the question, Mr. Johnson, how it was decided that this land could actually be sold and not included in rate base?
MR. JOHNSON:
Q. No. No, I mean how does Newfoundland Power, you know, determine or what tests or process does it apply in saying, you know, this now is a property or an asset that should no longer be in our rate base because it's not used or

useful?

MS. PERRY:

A. Well, I haven't went through a process like that. This particular piece of property was considered useful in the fact, as Mr. Ludlow explained, this piece of property was bought for the consolidation of the offices in the St. John's area and this land was not accessible through the Kenmount Road location. So it was a piece of land that was just adjoined to our head office land and when it became obvious that there was an opportunity to sell a bit of it on the side and up at the back of the adjacent property owner's facility, we determined, at that point, that yes, this is something we could dispose of to the adjacent property owner.

MR. JOHNSON:

Q. When was Newfoundland Power's control centre built, do you know?

MS. PERRY:

A. That was early 2000.

MR. LUDLOW:

A. Could I -

MR. JOHNSON:

Q. Yeah, I think it would be helpful if you would, yeah, sure.

MR. LUDLOW:

A. That would have been in 1999, just prior to Y2K, Mr. Chair.

MR. JOHNSON:

Q. And I think we're referring there, Mr. Ludlow, to the operation out on Topsail Road?

MR. LUDLOW:

A. Yes, that's correct.

MR. JOHNSON:

Q. And I think Duffy Place was built in 1990. Ms. Perry, I think that's the evidence from last day.

MS. PERRY:

A. 1990? Subject to check, yes.

MR. JOHNSON:

Q. Around there, okay, and so prior to the property being sold to the adjacent people, who you've referred to, can you recall what the property looked like, what had been done with it, Ms. Perry?

MS. PERRY:

A. The particular property just has trees on it. The piece going up between the two buildings,

I'd refer to it as a ditch. It looks no more than a property line, and up back, it's just a wooded area.

MR. JOHNSON:

Q. Okay, and as you say, or someone said, it was zoned rural. Would that be correct?

MS. PERRY:

A. There was one piece of it zoned rural, yes.

MR. JOHNSON:

Q. And I think in one of the RFI replies numbered 184 there was a reference to a previous Board order having to do with property located up at Duffy Place.

MS. PERRY:

A. Yes.

MR. JOHNSON:

Q. And my understanding is that there was a Board order that Newfoundland Power's rate base for 2000 be reduced by the $487,000 book value of that property should it not be used for regulatory--regulated purposes by 2000.

MS. PERRY:

A. Yes, that's my understanding.

MR. JOHNSON:

Q. I think you got to keep going there, Mike.

MS. PERRY:

A. That piece of property was deemed surplus property and that particular Board order basically indicated that if this piece of property wasn't sold by a specific time, it had to be removed from rate base.

MR. JOHNSON:

Q. Okay, and do you know any of the history behind that piece of property, Ms. Perry?

MS. PERRY:

A. I do know that that piece of property was sold and the gain on that sale of property was recorded the same way that the gain on the Kenmount Road land was accounted for.

MR. JOHNSON:

Q. But do you--I should have been more specific. Do you know, you know, the story of how come that property was not used and the Board had to say "look, if it's not going to be used by 2000, it's got to come out of rate base"? Do you know that story?

MS. PERRY:

A. Not in detail, Mr. Johnson. I know that they purchased this plot of land to--which subsequently the call centre was built, but there was some excess land that resulted, after they decided to put the control centre on Topsail Road and the call centre on Duffy, and it was just considered surplus land at that time.

MR. JOHNSON:

Q. Okay, and just so I can understand, is there any--is there a process internally followed at Newfoundland Power as to when an asset or assets are looked at and said "look, guys, should this be in rate base any more or not?" Is there a process like that?

MS. PERRY:

A. Not a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service.

MR. JOHNSON:

Q. And like in relation to this Kenmount Road property, would your expectation be that the Board or say the Consumer Advocate would have to be asking you guys on, say, a yearly basis, perhaps in the Capital Budget Application or some other application, "look, is this all

still being used and useful?" Would that be your expectation?

MS. PERRY:

A. I'm not sure that that is necessary. As I said, we only--these pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service.

MR. JOHNSON:

Q. I'd like to turn to another issue, and that is in relation to your next long-term debt issue, Ms. Perry.

MS. PERRY:

A. Yes.

MR. JOHNSON:

Q. It might be useful to turn to CA-NP-43, Attachment A, and in particular, page nine of nine. If you could come down a little bit further there, Michael? Yes, I'm focusing in on the long-term debt line there. Ms. Perry, the first paragraph talks about the 65 million dollar issue in May of '09 and then the next paragraph talks about a 50 million dollar long-term debt issue forecast for June 15th, 2010--2012, I'm sorry. Is that correct?

MS. PERRY:

A. Yes, that is correct.

MR. JOHNSON:

Q. Okay, and I note that there is a reference there that the forecast for 30 years at a coupon rate of 7.25 percent, and I'm just wondering how you--how is the forecast arrived at?

MS. PERRY:

A. Well, it's certainly hard to pinpoint the forecasted cost of debt because we are looking out a few years to 2012. So that's about 50 basis points above the last debt issue that we had completed. There's really no fundamental basis, other than it approximates the value that we just issued debt at.

MR. JOHNSON:

Q. Do you make any estimate--in reaching that number, do you make any forecast as to what the long Canada will look like in 2012 in June?

MS. PERRY:

A. No, this is more of an all-in rate that we're looking at here.

MR. JOHNSON:

Q. Okay. So by extension, no assumptions made with respect to a credit spread of the long Canada?

MS. PERRY:

A. That would be difficult to do at this point.

MR. JOHNSON:

Q. Okay, and I take it, do I have this right that there were long bonds issued by Newfoundland Power in 2002, 2005, 2007 and 2009 and we won't see it again until 2012? Would that be right?

MS. PERRY:

A. Based on today's assumptions, yes, that is true.

MR. JOHNSON:

Q. And if I could turn you to, again, page 312 of the Amended Application, and at the bottom, there's a footnote 40, and again, this is where you talked about the trust deed coverage being two times or higher. Do you see that, Ms. Perry?

MS. PERRY:

A. Yes, I do.

MR. JOHNSON:

Q. And I just want to focus in, because I don't

know if I got this properly the last time, focus in on the part that says that the company's 2010E trust deed interest is 2.1 times, and then it goes on to say "this is near the bottom of the range at which the company can issue additional first mortgage bonds." Can you explain exactly what's meant there?
(2:15 p.m.)
MS. PERRY:
A. The trust deed requires that Newfoundland Power meet an earnings coverage test before it can issue new bonds. So if we are going to issue and to use assumptions within this application, if we are going to issue debt in 2012, we have to take 2011's earnings before interest and taxes and we then have to divide by total interest. The total interest would also have to include the new interest on the new bond issued in 2012, and that has to be over two times.
MR. JOHNSON:
Q. And just go back for a moment. The May 25th 2009 bond issue, who were the underwriters of that bond issue, Ms. Perry?

MS. PERRY:
A. RBC. We didn't actually underwrite that particular issue, but RBC was the agent.
MR. JOHNSON:
Q. Okay. They were the sole agent on that?
MS. PERRY:
A. Yes, they were.
MR. JOHNSON:
Q. And just to clean up a little bit more, I notice on the transcript from October 15th, page 116 actually, yes, at the bottom around line 20, that's where we're having a discussion about Moody's, etcetera, and you say "so to say that they will accept lower financial metrics within our peer group, I don't believe that to be the case." Now, and just to follow up on that, what peer group are you referring to?
MS. PERRY:
A. Moody's actually indicate in our annual credit rating that they consider our credit metrics to be low compared to our peer group. So this particular peer group that I'm referring to is the peer group that Moody's has grouped us with within their assessment of regulated

utilities.
MR. JOHNSON:
Q. So has Moody's given you a list of the companies on your peer group?
MS. PERRY:
A. No. However, in the Moody's report, if we could turn to it, under Exhibit 4, and they're not numbered, but on page two of the report -
MR. JOHNSON:
Q. Is that the March 6th '09 one?
MS. PERRY:
A. Yes. If you turn to the second last paragraph on that page, they do indicate there, the second line, "however, Newfoundland Power's ratios generally continue to be somewhat weaker than those of other Baa1 rated peers predominately engaged in T and D" and they have identified Atlantic City Electric Company, Connecticut Light and Power, and Fortis Alberta.
MR. JOHNSON:
Q. Okay. Are you aware of whether or not you have more peers than just those?
MS. PERRY:
A. Moody's has not provided who the peer group is

for Newfoundland Power, no.
MR. JOHNSON:
Q. And would the peer group only consist of transmission and distribution utilities or others?
MS. PERRY:
A. I suspect so, but I'm not sure.
MR. JOHNSON:
Q. See, what gets me about that is that Moody's is saying that you appear to be somewhat weaker than those of other Baa1 rated peers, and then they say such as, which is a subset of peers, and so your evidence is that there is no other peers that Moody's have told you about?
MS. PERRY:
A. No, I've not specifically received a list from Moody's of all peers that they compare us to.
MR. JOHNSON:
Q. Would you be able to find out who they are comparing you to when they talk about peers and provide that as an undertaking?
KELLY, Q.C.
Q. I don't know if that's even possible, Mr. Chairman.

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MR. JOHNSON:
Q. Well, I guess, I think it would be possible, Mr. Chairman, I mean, on the basis that Moody's has provided a letter. They refer to peers and as an information say, "by the way, further to that letter, who is in the peer group with us?" I can't see Moody's being upset by that.
KELLY, Q.C.
Q. All we can do is inquire, Mr. Chairman. Beyond that, I can't undertake because we don't know.
CHAIRMAN:
Q. You can ask.
KELLY, Q.C.
Q. We can ask.
CHAIRMAN:
Q. Well, let's ask and see what happens.
KELLY, Q.C.
Q. Oh yes, no problem with that. I just can't undertake to do more than that.
MR. JOHNSON:
Q. Okay. Thank you very much. Just turning to another issue now for a moment. On October 16th, I provided copies of certain answers to

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RFIs from Newfoundland Power's last case. Ms. Perry, you've seen that I take it?
MS. PERRY:
A. Yes, I have.
MR. JOHNSON:
Q. Just -
MS. GLYNN:
Q. We can enter those as Information items 5, 6 and 7.
MR. JOHNSON:
Q. That's fine, thank you. Yes, Ms. Perry, the first one, I guess, I'd like to take you to is CA-NP-141 from the last hearing.
MS. PERRY:
A. Yes, I have it.
MR. JOHNSON:
Q. Yeah, and in that one, that has to do with the Weather Normalization account and basically what that question asks and you provided was a table showing adjustments to the Weather Normalization account and the Rate Stabilization account as a percentage of return on equity, and for the years 1986 to 2006, correct?
MS. PERRY:

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A. Yes, that is correct.
MR. JOHNSON:
Q. Okay, and do you agree, looking at this document, that the percentage ranged plus or minus 11 percent over that period of time on a yearly basis?
MS. PERRY:
A. Yes, it would be minus 11 percent in 1986 and it ranged to 11.6 in 2006.
MR. JOHNSON:
Q. Okay, and for instance, in 2006, there was 3.48 million as a total adjustment, but the bulk of that 2.7 million was Weather Normalization Reserve adjustment, right?
MS. PERRY:
A. Yes, that is correct.
MR. JOHNSON:
Q. Okay, and would these be considered material adjustments on your return on equity?
MS. PERRY:
A. Yes, it's certainly material, yes.
MR. JOHNSON:
Q. Yeah, and you'll recall, so you recall then when we discussed CA-189 in relation to a PEVDA transfer, if you would have had the

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PEVDA set up for 2006, I think that would have--that showed, and I think the record will bear me out, that the transfer would have been another 2.864 million dollars in 2006, just in relation to the PEVDA. Would that be correct?
MS. PERRY:
A. What RFI was that again, Mr. Johnson?
MR. JOHNSON:
Q. 189, Ms. Perry.
MS. PERRY:
A. 189. Yes, I have it now, Mr. Johnson.
MR. JOHNSON:
Q. Okay, and if you just go down a little bit, that figure I just mentioned, the 2.864 million dollar figure, that was in the 2006 column?
MS. PERRY:
A. Yes.
MR. JOHNSON:
Q. So now, like if you're--and I realize we're looking back, but had your PEVDA been an account by my looking at the math on CA-NP-141, you would have been talking about a percentage of return on equity of up around 20 odd, low 20s, say, percent if you combined the

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Weather Normalization Reserve with the nearly 2.9 million dollars from the PEVDA in 2006. Would that be accurate? Would that be more or less fair?

MS. PERRY:

A. If you assume that the PEVDA was in operation for 2006 and if you assume you benchmarked it off of 2004's test year, yes, this is the amount that would have been transferred to the PEVDA account. However, of the 2.8 variance, I spoke of the reason why pension expense was higher than the test year was because we implemented an early retirement program. So about 1.1 million of that increase actually related to that early retirement program. So I'm not so sure that the cost associated with an early retirement program would have flown through a PEVDA, if in fact it had existed at that time.

MR. JOHNSON:

Q. That's fine. I just want to get a sense of the magnitude of the number as a percentage of return on equity. The other point that I'll just raise with you, and it has to do with the letter that I sent over on Friday, which would

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be number 202.

MS. PERRY:

A. Yes.

MR. JOHNSON:

Q. And I take it that this -- the reason I ask you this, Ms. Perry, is that in CA-NP-364, I asked when these utilities had switched to the accrual method, but Newfoundland Power indicated it didn't have the requested information. So 202 from the last case, that would be accurate as of the date that was filed, right?

MS. PERRY:

A. Yes, it would.

MR. JOHNSON:

Q. And finally, and I promise this will be my last foray into OPEBs, is 213.

MS. PERRY:

A. Yes.

MR. JOHNSON:

Q. This from last case would represent Newfoundland Power's forecast of proforma OPEBs expense for the period '08 to '10, both assuming cash and accrual method of accounting, correct?

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MS. PERRY:

A. Yes, it is correct.

MR. JOHNSON:

Q. Those are my questions, Ms. Perry. Thank you.

CHAIRMAN:

Q. I guess it's Mr. Simmons now, is it?

MS. GLYNN:

Q. No, actually, I believe Mr. Earle is going to continue with some cross-examination.

EARLE, Q.C.:

Q. We're going to find out now, Mr. Chairman, if a change is as good as a rest. I have some questions for the witness in the area of OPEBs.

CHAIRMAN:

Q. You're the OPEB man, are you?

EARLE, Q.C.:

Q. I'm the OPEB man.

CHAIRMAN:

Q. We look forward to it.

MS. PERRY - CROSS-EXAMINATION BY RANDY EARLE, Q.C.:

EARLE, Q.C.

Q. Good afternoon, Ms. Perry. Would it be fair to say, Ms. Perry, that OPEBs are, with the exception of the retirement allowance,

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essentially a subset of group benefits?

MS. PERRY:

A. Yes, that would be a fair statement.

EARLE, Q.C.

Q. And would it also be fair to say that you're in a position in common with most of the Financial VPs or Chief Financial Officers of Canadian corporations providing group benefits, that the cost of group benefits is a matter very much on your agenda?

MS. PERRY:

A. It's certainly on the agenda for Newfoundland Power, yes.

EARLE, Q.C.

Q. And would it also be fair to say that of group benefits, for instance, cost of drugs over the past few years has probably been one of the most quickly escalating costs in your company, let alone just within the group benefits area?

MS. PERRY:

A. We have seen some pressures on our group benefits plan. The utilization, in particular, at Newfoundland Power, so our loss ratios inside the plan are really the key drivers to our premium renewals each year

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versus the drug cost even though that is playing into it, but we've -- you know, the costs have increased and they have certainly increased in the last couple of years, but we have controlled those costs over the last couple of years.

EARLE, Q.C.

Q. So utilization is a driver, as well as the cost of prescription drugs, in particular?

MS. PERRY:

A. Yes, it is.

EARLE, Q.C.

Q. Perhaps you can tell the Commissioners how generally your plan operates, and I'm sure, for instance, that the curiosity was probably tweaked by -- if we could look at CA-NP-356, and we see discussion of transfers from funds and things of that nature. You have an unrestricted deposit account, and that tells me a fair bit about the nature of the plan you have, but I think the Commissioners would benefit from a description of the way your plan operates?

MS. PERRY:

A. This is a very high level view of our group

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benefits plan. The key benefits that we offer are health, life, disability. That would be the three key areas. With respect to disability, it's a fully insured plan, so we pay a premium and the -- for that particular year the insurer takes the risk of the disability program. With respect to health and life plans, like many large plans, like Newfoundland Power, it's actually done on what is called a refund accounting basis. So the insurer and the company plays a part in the risk of utilization versus premiums on an annual basis. The financial arrangements are such that certain large claims will not make it into the pool of losses. The insurer will take that risk, but certainly Newfoundland Power and the insurer shares in the losses based on the utilization for each year.

EARLE, Q.C.

Q. So you pool certain large claims essentially, right?

MS. PERRY:

A. Yes, we do.

EARLE, Q.C.

Q. And you have this unrestricted deposit account

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which allows, if you will, for a smoothing of deficits or surpluses in the operation of the plan year to year?

(2:30 p.m.)

MS. PERRY:

A. The unrestricted deposit account actually came about as a result of our change from Great West Life to Blue Cross. When we went to market in 2006, the premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were paid the year prior. So instead of reducing premiums for both employees and the company, we agreed to keep the premiums at the same relative level to the previous year, and the difference went into this unrestricted deposit account. So when we renewed for January 1, 2008, which was the next subsequent renewal, we did use some of that funds, which was around $300,000.00. We did use some of those funds to offset the benefit increases, the premium increases that we were seeing.

EARLE, Q.C.

Q. And, of course, if you didn't offset the premium increases, you'd have a deficit on the

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plan?

MS. PERRY:

A. There are actually still deficits on both health and life today.

EARLE, Q.C.

Q. A larger one now?

MS. PERRY:

A. Yes, a larger deficit.

EARLE, Q.C.

Q. Now the other post-employment benefits, they would include for the post 65 retiree?

MS. PERRY:

A. Yes, it would.

EARLE, Q.C.

Q. What benefits?

MS. PERRY:

A. For retirees over 65, they get a life benefit of $10,000.00, plus health benefits which are capped at $5,000.00 per retiree and dependant.

EARLE, Q.C.

Q. And is there a travel benefit?

MS. PERRY:

A. Yes, there is, yes.

EARLE, Q.C.

Q. But they do not have dental?

MS. PERRY:
A. No, there's no dental offered post 65.
EARLE, Q.C.
Q. And when you talk health benefits, and I think this is consistent throughout, we're talking about what is generally considered extended health care, that is prescription drugs, hospitalization, allied health professionals, etc?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. And for your under 65 retirees, they receive what benefits?
MS. PERRY:
A. Retirees under 65 avail of similar benefits that they received when they were active employees. There are some modest reductions when you go into retirement, but they are very similar to the active benefits -- benefits that you would get when you're an active employee of Newfoundland Power.
EARLE, Q.C.
Q. And do they receive disability?
MS. PERRY:

A. No, we do not offer disability in retirement.
EARLE, Q.C.
Q. Now the under 65 retirees pay half of the cost, correct?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. The over 65 retirees pay nothing, is that correct?
MS. PERRY:
A. That is correct, yes.
EARLE, Q.C.
Q. And, of course, your under 65 retirees are somewhat cushioned because with the termination of the disability benefit, there is a significant cost to which employee contributions were being made that no longer applies, right?
MS. PERRY:
A. Once you go into retirement, there's no need for the employee to pay their portion of the disability premium. I believe that's your question, Mr. Earle?
EARLE, Q.C.
Q. Yes, and I believe the information you have

supplied us indicates that for your active employees the disability premium for tax reasons is being paid entirely by the employee?
MS. PERRY:
A. Yes, when you're an active employee of Newfoundland Power, we apply 50 percent of the premium that the employee pays towards disability first, such that in the event that they avail of the disability income, it'll be non-taxable.
EARLE, Q.C.
Q. So with the diversion of that money back to the extended health care and dental, one would expect that there might be some reduction in the overall premium?
MS. PERRY:
A. Once the --
EARLE, Q.C.
Q. For the pre 65 retiree?
MS. PERRY:
A. I suspect there would be some reduction in premium, yes, for the employee.
EARLE, Q.C.
Q. Now if we could go to Table 8 of the report on

OPEBs.
MS. PERRY:
A. I'm sorry, Mr. Earle, is that under an exhibit?
MR. JOHNSON:
Q. It's at Volume 2, is it?
EARLE, Q.C.
Q. Perhaps you can go to Table 8.
MR. JOHNSON:
Q. Tab 8, is it?
EARLE, Q.C.
Q. Table 8. There we go. So just to confirm, with the revisions being made, this indicates that you have after incorporating the tax effect, you have as the result of accruing OPEBs, in the 2010 test year, just that one item will require 6.8 million dollars more revenue, correct?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. And if we go to Table 8, not of the revised application, but of the original, if we could, and see that the revenue requirement there was 5.6 million?

MS. PERRY:
A. Yes.
EARLE, Q.C.
Q. So that's a change of 1.2 million over how long a period has that happened? How long is it since your original application was filed to the revision?
MS. PERRY:
A. This particular application -- the first application was filed in May, and this revised application --
EARLE, Q.C.
Q. The revision was filed late September, wasn't it?
MS. PERRY:
A. September.
EARLE, Q.C.
Q. And would it be fair to say that this change in valuation is solely a function of a change in the discount rate if there are no other variables considered?
MS. PERRY:
A. That is correct, yes.
EARLE, Q.C.
Q. Now how did you calculate the discount rate?

MS. PERRY:
A. The discount rate that is used to determine the OPEB expense is provided by our actuaries, and it is based on CICA standards for generally accepted accounting principles. Fundamentally it is matched with -- the rate that's used is matched with bonds with similar durations of payments that we expect to pay with our post-retirement benefits. So that number is provided by our actuary.
EARLE, Q.C.
Q. Would you in the normal course of business, if you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?
MS. PERRY:
A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.
EARLE, Q.C.
Q. Well, I think you're about to answer it, anyway. How often does the actuary provide you with the discount rate?
MS. PERRY:
A. At the end of every month.

EARLE, Q.C.
Q. At the end of every month. So would you recalculate your accrual expense every month?
MS. PERRY:
A. No. The discount rate tat is used to calculate the expense is the discount rate in effect on December 31st each year. So the actuaries provide the discount rate, so we can have some visibility as to where the discount rates are going, but it's certainly pegged off the December 31st actual discount rate, and that will determine the expense for the upcoming year.
EARLE, Q.C.
Q. So even though the discount rate might vary as much as 1 percent in the course of a year, you won't recalculate your expense, you'll just do it on an annual basis?
MS. PERRY:
A. If we are forecasting out and looking forward, I would use the discount rate, the most current discount rate that was provided by the actuary because that's the best information that we would have available.
EARLE, Q.C.

Q. That's when you're forecasting?
MS. PERRY:
A. Yes.
EARLE, Q.C.
Q. You're not using a forecast discount rate here now, are you? You're using a current discount rate?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. So while it's a 2010 expense that we're talking about here for test year purposes, you're actually using a September, 2009, discount rate?
MS. PERRY:
A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current rate in effect when we're doing our forecast.
EARLE, Q.C.
Q. So if things continue on as they have been in terms of change in the discount rate, by the end of the year we could theoretically be down another 1 percent, couldn't we?

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MS. PERRY:
A. Theoretically, we could be down one or up one, yes.
EARLE, Q.C.
Q. Now you indicated that your actuary supplies this to you. Is your arrangement then that you have a standing contract with your actuaries to provide you with this information for all purposes, or is this something new you put in place because of the possibility of accrual of OPEBs?
(2:45 p.m)
MS. PERRY:
A. No, I've been receiving the discount rate from Mercers for as long as I can remember.
EARLE, Q.C.
Q. Do you pay for this service?
MS. PERRY:
A. We pay for every hour worked by Mercers. They're our service provider.
EARLE, Q.C.
Q. And these actuaries aren't cheap people, are they?
MS. PERRY:
A. They're reasonable.

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EARLE, Q.C.
Q. Would you need that expense if you were dealing with OPEBs on a cash basis?
MS. PERRY:
A. Yes, we would. We record OPEBs on a cash basis for regulatory purposes, but we still recognize the total obligation on an accrual basis in your financial statements, but the difference between how we account for it from a regulatory perspective and from a pure gap financial accounting perspective is recorded as an OPEB regulatory asset. So we do have to know what the discount rate is to determine what the obligation is.
EARLE, Q.C.
Q. But not for regulatory purposes?
MS. PERRY:
A. No, not for regulatory purposes.
EARLE, Q.C.
Q. So if you could look -- if we could then turn to Tab 5 of Volume 2, page 2.
MS. PERRY:
A. I'm sorry, Mr. Earle, what page was that?
EARLE, Q.C.
Q. Tab 5, Volume 2, of your application, page 2.

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MS. PERRY:
A. Yes.
EARLE, Q.C.
Q. If you go to line 4, actuarial loss[gain], and you'll see for fiscal year ending December 31st, 2008, it's $14,885,000.00, and for fiscal year December 31st, 2007, you see that it's $3,383,000.00. Could you tell the Commissioners what this is, this actuarial loss or gain?
MS. PERRY:
A. I think the best way to explain the actuarial loss or gain, if you'll go to page 11 of that report, you'll see the breakdown of the 14.9 million there, so -- and this is prepared by the actuaries, so I can't comment on every number, but you'll see one of the biggest changes there is a change in discount rate of 20.9 million, and that was the higher discount rate that we experienced in 2008 because this was done as of December 31st, 2008. So other changes that go through there, change in demographics, they review the actual data of Newfoundland Power from the last time that they had done a valuation. They review claims

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cost compared to their actuary projected assumptions that they had previously provided. The change in medical trend there on line 4 of 18 million, this was -- this resulted from a regrading of how they trended the expected increase in health care trend costs. So there was a change -- I don't know if it was just with Mercers or with the industry in terms of how it was expected over time that health care trend costs were going to levelize in the future. So that changed a piece of their assumption. In the change in mortality assumption, and the increase in the liability, is surrounding people are generally living longer and the new mortality table indicates that. So there's a number of things that will make up the actuarial gains and losses.
EARLE, Q.C.
Q. Yes, well, I had intended to come here in my next question, so if we could just stay here, we're talking here a change year over year, right?
MS. PERRY:
A. Yes.
EARLE, Q.C.

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Q. So in one year the consequence of the change in the actuarial assumption arising from the demographics of your plan improves the picture of the plan by $4,243,000.00, right?
MS. PERRY:
A. Yes, that's correct.
EARLE, Q.C.
Q. Pardon?
MS. PERRY:
A. That is correct, yes.
EARLE, Q.C.
Q. Yes. Likewise, a change in claims costs improves the picture by $9,391,000.00, right?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. And the change in aging, it changes things by $14,000.00. I get more interested in terms like that as years go on. What's the change in aging?
MS. PERRY:
A. It's a claim pattern by age. It's just a change in the claim pattern.
EARLE, Q.C.
Q. Okay. Then we see the change in medical trend

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wipes out all of the gain that you've made above essentially, doesn't it?
MS. PERRY:
A. In this particular case, yes.
EARLE, Q.C.
Q. And the change in medical trend, that is the increased cost in drugs, the increased cost in hospitalization, increased cost of physiotherapy, occupational therapy, all those sorts of things, right?
MS. PERRY:
A. I'm probably, to quote Mr. Ludlow, over my waders with respect to all of the basis behind actuarial changes because I will never profess to be an actuary with respect to how these things move, but my understanding of the change in medical trend is that there is a specific grading off period that there is expectation that the health care trend cost will eventually levelize or come down to a certain level, and the health care costs have not come down as fast as what was expected during the last valuation that was completed. So, therefore, there was this 18 million dollar adjustment.

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EARLE, Q.C.
Q. So they've had to boost the projections up, and then the discount rate we've talked about before, and the change in mortality assumption, I don't know if that's good news of bad news. It seems to me if you're better off in terms of morality assumption, that means more of us are going to die early, is that correct?
MS. PERRY:
A. People are generally living longer with the new mortality table. So, therefore, it increases the benefit obligation that we would have under our plan.
EARLE, Q.C.
Q. So if we could just bring up CA-NP-189, and I think it's towards the bottom of this you make the statement that OPEBs are rather different than pension expenses, and would not be amenable to something like a PEVDA?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. So it's fair to say, is it not, in calculating the year over year change in the OPEB expense,

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whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of its calculation?
MS. PERRY:
A. OPEBs is an actuarially determined number, so that by its nature, I believe, is complex. When we talk about the expense risk of OPEBs compared to pensions, what I was referring to there was the amount of volatility in the expense that we would see as a result of changes and assumptions. With respect to pension expense, a 1 percent change in the discount rate changes the expense by up to 3 million, which is what we had seen from May to September. The OPEBs expense will move with changes in the discount rate, but only by one third of that of pension expense. So that's what we were referring to there.
EARLE, Q.C.
Q. And pension being quantitatively larger?
MS. PERRY:
A. Exactly.
EARLE, Q.C.
Q. So the impact of a 1 percent change being

larger, but the -- to go back to what you just said, the volatility of OPEBs is, in fact - I suppose we don't know if it's different, but we do know it's subject to an awful lot more variables, don't we?

MS. PERRY:

A. I'm not sure I understand the question. Compared to --

EARLE, Q.C.

Q. Compared to pensions?

MS. PERRY:

A. Both of them are subject to a number of assumptions. With respect to OPEBs, it's really discount rate and the health care trend costs. Those are the two moving assumptions. With respect to pension plans, defined benefit pension plans, it's the discount rate and the actual asset returns because in that particular case we have investments that the asset returns will factor into the expense going forward. So both have a number of assumptions. The magnitude of the expense movement, though, is less under OPEBs than it is under pensions.

EARLE, Q.C.

Q. Simply because it's a different total amount of money that we're dealing with in the first place?

MS. PERRY:

A. That's certainly a part of it, yes.

EARLE, Q.C.

Q. Of course, if you wanted to fund your OPEBs, then you could have the asset value variable thrown in as well, couldn't you?

MS. PERRY:

A. If it were funded, yes.

(3:00 p.m.)

EARLE, Q.C.

Q. Yes, but clearly when dealing with OPEBs, you have things like drug pricing trends, utilization trends, all going into the mix, right?

MS. PERRY:

A. That goes into the determination of the premium itself, yes.

EARLE, Q.C.

Q. Now you told us that you get the discount rate for non-regulated purposes. What about your actuarial study for OPEBs, have you established a frequency for doing this study,

are you doing that currently for non-regulated purposes?

MS. PERRY:

A. I'm not sure what the non-regulated reference is to.

EARLE, Q.C.

Q. Well, you indicated that you accounted OPEBs already for non-regulated purposes using the discount rate. Do you currently have an actuarial study done on a regular basis to come up with the actuarial gain or loss, the change in the valuation from those variables?

MS. PERRY:

A. Yes, we do. The pension, the actuarial report is done at a minimum every three years and that's required for pension funding purposes. There are no specific requirements to have an OPEBs valuation completed every -- for a specific number of years. Typically, we have been every three years.

EARLE, Q.C.

Q. Who's requiring that?

MS. PERRY:

A. Requiring?

EARLE, Q.C.

Q. That the OPEBs valued every three years?

MS. PERRY:

A. There is no specific requirement. However, for your gap financial statements, every so often to have a valuation completed such that you ensure that the assumptions you're using are still valid, that you compare your claims cost with what was actuarially assumed during the last valuation. It's certainly a way to test that what you have in your financial statements is as close to reality as possible.

EARLE, Q.C.

Q. Well, is the cost of doing that actuarial study a regulated expense for Newfoundland Power at the present time?

MS. PERRY:

A. Yes, it is.

EARLE, Q.C.

Q. So you treat that as a regulated expense?

MS. PERRY:

A. Yes.

EARLE, Q.C.

Q. I take it, though, there is no necessity for an actuarial study to pay your OPEBs on a cash basis?

MS. PERRY:
A. It certainly is very standard that if you have an OPEBs obligation for financial statement purposes, that there be a OPEB valuation completed every so often to validate the assumptions that are determining your obligation, which is ultimately in your public disclosures.
EARLE, Q.C.
Q. That's fine, but is it necessary? I mean, do you need to make a prediction as to the cost of OPEBs 17 or so years down the road, which is the sort of requirements that are built into this actuarial study to pay them on a cash basis?
MS. PERRY:
A. I believe that's two separate issues. The cash basis is just determining the cash premiums and you pay the cash premiums. With respect to financial statement purposes, that's governed by disclosure rules and certainly generally accepted accounting principles with respect to how you recognize the liability, and I'm not aware of a legal requirement to have it done, however, I can't

imagine that we would be -- it would be permissible to go beyond a few years before the auditors of the financial statements would not require that you have a valuation done to validate what it is you're including in your financial statements.
EARLE, Q.C.
Q. Well, as compared to the pension situation where pensions legislation and regulations actually require you to have an actuarial study done on a three year cycle, right?
MS. PERRY:
A. At a minimum three year cycle, yes.
EARLE, Q.C.
Q. So there's no such requirement as that, and can you tell me what is your current cycle because I think your answer was "every so often"?
MS. PERRY:
A. It has been every three years on average.
EARLE, Q.C.
Q. And if we can go to Tab 5 of Volume 2 again, and page 4. Now if we look at the -- if we could go back where we were. If we go back right down to the bottom. Thank you. The

reconciliation of funded status to accrued benefit asset liability, and fiscal year ending December 31st, 2008; fiscal year ending December 31st, 2007, and would you agree with me that there is approximately a 6.5 million dollar change year over year in those two figures?
MS. PERRY:
A. Yes.
EARLE, Q.C.
Q. And those two figures are essentially what your transitional charge would be, or cost? I shouldn't say charge.
MS. PERRY:
A. The annual cost of changing to the accrual basis is about 6.8 million, yes.
EARLE, Q.C.
Q. No, no, not -- the annual cost is 6.8, but the cost that's hanging out there, the gorilla in the closet, so to speak, has got to be arguably, anyway, to be dealt with down the road, that's that 41 million as of December 31st, 2008, but it was 34 million as of December 31st, 2007, right?
MS. PERRY:

A. Yes, that is correct.
EARLE, Q.C.
Q. And the changes in that again are a reflection of things like changes in the discount rate, medical trend, so on and so forth, all those items we looked at a few moments ago?
MS. PERRY:
A. It would certainly include more than that. Under the accrual basis, you are fundamentally present valuing your expected future payments of your post-retirement benefits. Under the cash basis, you're just recording the cash premium. So each and every year that you're under the cash versus the accrual, the transitional obligation will grow by roughly 6 million.
EARLE, Q.C.
Q. So you have a lot of factors in there?
MS. PERRY:
A. There are a lot of factors, yes.
EARLE, Q.C.
Q. And you're indicating that you would have an actuarial study done every three years?
MS. PERRY:
A. Yes, that's on average what we have been

completing the actual study.
EARLE, Q.C.
Q. But that you get the discount rate at the end of each year?
MS. PERRY:
A. We do get the discount rate at the end of each year, yes.
EARLE, Q.C.
Q. So you would be changing your OPEB accrual each year to reflect the change in the discount rate?
MS. PERRY:
A. On December 31st each year, the discount rate would then be used to value the OPEBs obligation. That would factor into next year's pension expense.
EARLE, Q.C.
Q. Pension expense?
MS. PERRY:
A. OPEB expense, OPEB expense, and -- but a change in discount rate year over year would be exactly what we reviewed earlier, which is that actuarial gain or loss based on changes in assumption. That will then --
EARLE, Q.C.

Q. Can you repeat that again?
MS. PERRY:
A. The change in the discount rate from one year to the next, so from one December to the following December, will result in a change in the OPEBs obligation. That doesn't get fully recognized in the expense in the following year. That "trues itself up" over what is referred to as the average remaining service life of the employees on the inside of this plan. So the discount rate at December 31st is used in the determination of next year's pension expense, and there is a piece of the actuarial gain or loss because chances are it will move, the discount rate will move, and then that will be factored into the expense going forward as well.
EARLE, Q.C.
Q. I'm going to have to get you to -- you keep referring to pension expense.
MS. PERRY:
A. Sorry, it's OPEBs is what I'm referring to.
EARLE, Q.C.
Q. And the end of the year is here. You get advice from your actuaries as to the discount

rate. Each year, you have an expense which is the accrual of your OPEB costs, right?
MS. PERRY:
A. Yes.
EARLE, Q.C.
Q. And that determines your revenue requirement?
MS. PERRY:
A. Yes, it does.
EARLE, Q.C.
Q. Now when you get that new discount rate, will you -- for instance, at the end of 2009, you get a discount rate. Will that determine your actual figure that you use for accrual purposes for 2010?
MS. PERRY:
A. Yes, it will.
EARLE, Q.C.
Q. Okay, and you will do that annually?
MS. PERRY:
A. Yes, we will.
EARLE, Q.C.
Q. So there will be -- for instance, if there's a 1 percent change in the discount rate, you could see year over year changes in that annual accrual expense in the range of 1.2

million dollars, as we saw earlier?
MS. PERRY:
A. Yes, if the discount rate moves by 1 percent, yes.
EARLE, Q.C.
Q. Now there's another set of changes, and those are the sets of changes which are driven by the factors that we saw a few minutes ago; change in demographics, change in medical trend, aging, so on, a total of seven in all, including the discount rate, so six other than the discount rate, is that correct?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.
Q. And they will be reflected in an actuarial study, you say, will be done on a three year cycle, correct?
MS. PERRY:
A. If I could clarify, the actuarial study is done every couple of years, three years on average, but every single year we get a cost projection from the actuary to basically advise us what our OPEBs expense is going to be for the upcoming year. So we will actually

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receive the actual cost for OPEBs for 2010. We'll get that around mid January.

EARLE, Q.C.

Q. So it's a guess, is it?

MS. PERRY:

A. It's their best estimate.

(3:15 p.m.)

EARLE, Q.C.

Q. Their best guess. So will you change your annual accrual on the basis of that guesstimate by your actuaries?

MS. PERRY:

A. We will adjust our accrued OPEB expense each year once we receive it from the actuary, yes.

EARLE, Q.C.

Q. As we've seen from the information in your actuarial report, the expense can be quite volatile irrespective of the discount rate, is that correct?

MS. PERRY:

A. I'm not sure I agree. The biggest moving factor for our OPEBs expense is the discount rate. When there's --

EARLE, Q.C.

Q. Let's go back to page 11 of the report.

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MS. PERRY:

A. This actuarial loss, or gain in this particular case, it doesn't impact the expense all in one year. It actually gets fundamentally amortized in over the average remaining service life. So these changes would be amortized, so you're not seeing big swings in the actual discounted OPEBs expense. It certainly could, but the biggest driver that we've seen in OPEBs expense is actually movements in the discount rate.

EARLE, Q.C.

Q. Well, let's just analyze that for a moment, because up until this most recent year, the discount rate has been stable within quite a narrow range, hasn't it?

MS. PERRY:

A. I would agree with that, yes.

EARLE, Q.C.

Q. Yes. I mean, 5, 5.25, year over year, not unusual, correct?

MS. PERRY:

A. It's been within that range, yes.

EARLE, Q.C.

Q. But if we look at the change in the medical

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trend of 18 million dollars, there's nothing about the discount rate that's going to affect that change in the medical trend. That happens as a result of a whole world of factors that, if you will, have a life of their own, correct?

MS. PERRY:

A. Yeah, and I guess that was my point. Inside of the changes in actuarial assumptions to reality with each valuation there's completed, there always a number of changes that seem to happen, because the valuation is obviously the best estimate at the time of the valuation. So in this particular case, yes, we did have 18 million in change in the medical trend and that was offset to some degree by change in demographics and change in claims cost. So there seems to be always a number of moving pieces each time we get a valuation done, yes.

EARLE, Q.C.

Q. That's right, but if your discount rate had held, you would have had a figure that would be a loss of about 5.5 million at the bottom of this column, right?

MS. PERRY:

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A. Yes, that is correct.

EARLE, Q.C.

Q. And the point is, of course, that that change is, as you said, amortized throughout and will affect as well your annual accrual?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.

Q. I put it to you, Ms. Perry, that this can be quite a volatile figure?

MS. PERRY:

A. We have not seen the volatility in the past with changes in our OPEBs costs as a result of these changes. It's not to say that going forward it certainly cannot impact future pension expense, and it would in this particular case. It is built into the actuarial gain or loss that gets amortized. I guess what we're talking about is the magnitude of the change that it has on annual OPEBs expense is what we are referring to.

EARLE, Q.C.

Q. Are you saying you've not seen a change in the medical trend of the magnitude of 18 million before?

MS. PERRY:
A. I would have to go back through the other valuation reports to do that comparison.
EARLE, Q.C.
Q. So you can't really say that you haven't seen changes of this magnitude before?
MS. PERRY:
A. No, what I -- what I'm saying is that we haven't seen annual changes in our OPEBs expense, the actual impact on the annual OPEBs expense to Newfoundland Power.
EARLE, Q.C.
Q. And what would you do when you get your actual actuarial study in on the three year cycle? How would -- how would you account for the accuracy or inaccuracy of the guesses that you had received from your actuaries over the previous couple of years?
MS. PERRY:
A. The purpose of a valuation is to reassess the best estimates that the actuary had made at the previous valuation, but regardless of the valuation, the calculation of the OPEBs expense is actually completed in accordance with Section 3461 of the CICA Handbook under

generally accepted accounting principles. So actual gains or losses are whatever they are determined at a valuation point in time are accounted for in accordance with accounting principles, and they are outside of the specific valuation itself.
EARLE, Q.C.
Q. That's fine. You can appreciate that I'm not an accountant; you are, but the fact of the matter is when you have your actual actuarial valuation at the point, your three year cycle, it will tell you whether your accrual, your annual accrual, and for that matter, if you have a transitional amortization in place, whether your amortization has been correct, and you'll have to make some move or other terms of your accruals for regulated purposes and your transitional amount, if that were in place for regulated purposes as a result of this new information, correct?
MS. PERRY:
A. Yes, it certainly would be "trued up" over time, yes.
EARLE, Q.C.
Q. So what happens, does the variation get added

on to the transitional amount and amortized? Is the variation dealt with in annual expenses over a shorter period of time? What happens because of the difficulty of predicting these things?
MS. PERRY:
A. Any changes in actuarial assumptions, which can happen from year to year, not just with a valuation because the actuary will extrapolate their best assumptions each year, the gains or losses that arise at any particular time is certainly -- would certainly impact the accrued benefit obligation, so the total OPEBs obligation of Newfoundland Power. That would then get recognized into the expense over a certain period of time, and for us, it's about 15 years. So it doesn't fully impact next year's pension cost, but it just -- so it continually trues itself up over time.
EARLE, Q.C.
Q. So we are talking about making an adjustment and basically adding it into -- adding it in or subtracting it from the future flow of charges?
MS. PERRY:

A. Yes, that is correct.
EARLE, Q.C.
Q. Would you agree with me then that while it is perhaps not as long a range issue, that that poses some of the same issues as inter-generational in equity, but that supposedly underlie the need to go with an accrual basis because you are moving expenses ahead or back, as the case may be?
MS. PERRY:
A. Accrual accounting is generally a better matching of current costs, but it is not perfect, and it is certainly similar to the actuarial pension expense that we receive each year as well from the actuary. There will be changes because we are estimating health care trend costs, discount rates, market movement, plan asset performance and these things will inevitably move. So there's one sure thing is that the accrual will, albeit based on the best estimate, will be different from what is projected, but it's certainly a better matching of current cost, I believe, versus the cash premiums, which just reflect exactly the cash premiums made in that year. So I

will agree that there are some expense variations that will occur over time, but they should level out over time and it's certainly a better measure of current cost.

EARLE, Q.C.:

Q. I could see that on a current year basis, Ms. Perry, but when it comes to your transitional expense, and you can appreciate while your application is not to set up an amortization of the transitional cost or expense at this point in time, there's a certain tendency on our part to see transitional costs, you know, following as night follows day when it comes to this, that the transitional expense really is just another visiting on tomorrow's users of yesterday's costs.

MS. PERRY:

A. By its nature, I would agree, and certainly the longer that we continue on a cash basis, the higher this transitional obligation is going to be and tomorrow's customers are going to have to pay for today's costs.

EARLE, Q.C.:

Q. I'd like to turn to another area and the question whether you can change your current

arrangement with respect to OPEBs and I'll give you the reference to CA-NP-363, the collective agreement, but it may not be necessary to refer to them, and we asked you for the--I think Commissioner Wells asked a question, to paraphrase on this, there is no provision in your collective agreements respecting post employment benefits of the group nature for retirees, is there?

(3:30 p.m.)

MS. PERRY:

A. That is correct.

EARLE, Q.C.:

Q. And in your answer to CA-NP-358, you confirmed that retirees over the age of 65 are told in the pension booklet that their benefit only--sorry, not the pension booklet, the group benefits booklet, that their benefits will terminate at the end of the contract, right?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

Q. And I think if you would look at CA-NP-304, page 26 of Attachment D, which is the booklet for retirees under the age of 65, that they

are similarly told that benefits terminate with the contract?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

Q. And these booklets are given to every participant in the plan, as required by law?

MS. PERRY:

A. Yes.

EARLE, Q.C.:

Q. And there is no written document out there of any nature whereby a promise or a contract is made to the employees of Newfoundland Power that free group benefits will continue after age 65?

MS. PERRY:

A. I would agree that there's no specific contract at Newfoundland Power for existing retirees over 65 today that said that we have to provide the benefits that we are providing today, including the cost mechanism that we have. I would point out that, and this is just one of the factors, that I believe that if we were to change benefits substantially from what they are today for existing

retirees, I believe we would have a challenge on our hands, a legal challenge.

EARLE, Q.C.:

Q. That is something that you can speculate on and I can speculate on, but we don't know, do we? Now, but you have made some changes to your group benefits for retirees, haven't you?

MS. PERRY:

A. Yes, we have.

EARLE, Q.C.:

Q. And most of them, I would allow, are in the nature of improved benefits, but you have reduced, for instance, the travel benefit?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

Q. Okay. Now as I understand Newfoundland Power's position put forward is "look, you've got to look at these things as a package, and you know, we provide a certain amount of pension and we provide these group benefits, and if you look at our overall pension and group insurance package, well, we're not that much more generous than Newfoundland Hydro or the Provincial Government." Am I correct in stating that to be your position?

MS. PERRY:
A. We did undertake a review, I guess, of our plan to Newfoundland and Labrador Hydro and we provided cost estimates for the two plans, and I would agree that based on the fact that our post age 65 benefits are capped at 5,000 per individual and the fact that we do not offer a dental plan, that the two programs are reasonably similar.

EARLE, Q.C.:
Q. Your claim is that the savings would be $260 per participant, I take it.

MS. PERRY:
A. Yes, based on those cost estimates we provided.

EARLE, Q.C.:
Q. Could we have look at CA-NP-345? Now if we could go a little further down and I think it's probably the second or third page of your answer. Just go back up to the second page, please. You make a comparison between pension income for a member of the public service and a Newfoundland Power retiree over the age of 65, and Mr. Ludlow made the statement that the

average pension being received by Newfoundland Power retirees over the age of 65 was in the range of $14,000. Tell me, in your figures as to the average pension being received by Newfoundland Power retirees over 65 have you included the Canada Pension benefit?

MS. PERRY:
A. The 14,000 that's referred to in this RFI is the pension that is being received out of Newfoundland Power's Defined Benefit Pension Plan, so it doesn't include any pensions from government.

EARLE, Q.C.:
Q. And isn't it true that the way you have structured the Newfoundland Power Defined Benefit plan is to essentially front-end load the benefit to take account of the fact that at age 65, most retirees will be receiving Canada Pension and Old Age Security. Is that correct?

MS. PERRY:
A. Yes, the retiree does have an option of choosing a levelizing option whereby they receive more during the first part of their retirement, up to age 65, because at age 65,

they are going to receive other pension income.

EARLE, Q.C.:
Q. Yes. So if we look at line eight, a Newfoundland Power retiree would receive an annual pension of approximately 43,000 from age 60 to 65 and 26,000 after age 65, and what you see there is that the difference between that 43,000 and the 26 is actually going to be made up by CPP and Old Age Security at age 65, right?

MS. PERRY:
A. A piece of the difference will be made up, yes.

EARLE, Q.C.:
Q. Yeah, that's the way it structured. It's intentionally done that way, isn't it?

MS. PERRY:
A. Yes, that is the purpose of levelizing.

EARLE, Q.C.:
Q. So, you know, you're not being entirely fair, are you, when you say that, you know, the poor old pensioner, who we're saying well maybe they should pay for some of their group benefits like others, only gets $14,000.

Because after all, the employer contribution to the Canada Pension Plan, three percent of YMPE, those are paid by the rate payers, aren't they?

MS. PERRY:
A. I would agree, but what I would point out on Table 1 is we are comparing like for like here. Under the Provincial Government, we have not assumed any other pension income to be received by the pensioners, and under the Provincial Government plan, between age 60 and 65, they will receive 42. There is a bridge that is offered under the Provincial Government plan that you don't have to give back. So it's not levelizing. It's actually a bridge to age 65. So when you're comparing like for like, after age 65, our pensioners will receive 26 and I agree they will receive some supplemental pension income as well, but that compares to a Provincial Government pension of 32,500. So all we were trying to do here was compare like to like. We've excluded--we have excluded the government pension.

EARLE, Q.C.:

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Q. I'm interested in your assertion that, you know, that all they receive is $14,000 and I'm using this to show, in fact, for instance, that someone who starts off of a $43,000 pension at age 60 from Newfoundland Power will yes, receive 26,000 from Newfoundland Power at age 65, but that's because you worked in--that they'll get about 800 and some odd per month CPP and an old age security benefit of 400 and some odd per month?

MS. PERRY:

A. Yes, they will receive that pension at age 65. This is just purely what they would receive from the company pension plan.

EARLE, Q.C.:

Q. Now, but there's also a supplemental RRSP contribution, right?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

Q. Right, and that's 1.5 percent matched by the employee and Newfoundland Power, correct?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

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Q. And the 1.5 percent that is matched, that's a regulated expense?

MS. PERRY:

A. Yes, it is.

EARLE, Q.C.:

Q. Now you haven't included any of the income that would be produced from that RRSP here, have you?

MS. PERRY:

A. No, this is just the defined benefit pension plan income and we made a note that there is a 1.5 supplemental available.

EARLE, Q.C.:

Q. Yes. So you haven't included a retirement benefit that has been paid for 50 percent by the rate payers?

MS. PERRY:

A. Not in Table 1, no, you are correct.

EARLE, Q.C.:

Q. That's right, and more particularly, you have compared a pension plan which costs the employee with the Government of Newfoundland and the Government of Newfoundland matching contributions in the range of 6.87 percent with a pension plan that requires five percent

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contributions, right?

MS. PERRY:

A. Yes, I would agree that the employee has to contribute more under the Provincial Government plan, as opposed to employees under the Newfoundland Power plan, but the same will hold with respect to Newfoundland Power would have to pay more as well, if in fact we were offering more benefits like bridging or indexing.

EARLE, Q.C.:

Q. Ms. Perry, I'm going to your like for like position, and I'm pointing out to you that in your like for like, you haven't compared similar pension contributions and you've left out 1.5 percent which would make it a lot closer to like for like.

(3:45 p.m.)

MS. PERRY:

A. The 1.5 percent which came in in the early '90s, on average for someone retiring today, they may have 30 to 40,000 in this pool, so I guess if you--now that depends on their investment choices. It will depend on their investment return, and it will depend on if

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they contributed right from 1990. It will--certainly could yield a couple thousand dollars over the span of their retirement. It's hard to pin down just by the very nature of RRSPs, but it could yield a couple thousand.

EARLE, Q.C.:

Q. So to summarize, the rate payers have contributed five percent to your Defined Benefit, 1.5 percent, because we know from your answers that 98 percent of employees participate in the voluntary RRSP, 1.5 percent to the voluntary RRSP and approximately three percent to Canada Pension, correct?

MS. PERRY:

A. I didn't get the last piece of what you were saying.

EARLE, Q.C.:

Q. Pardon?

MS. PERRY:

A. I didn't get the last piece of your question.

EARLE, Q.C.:

Q. Approximately three percent employer contribution to Canada Pension plan?

MS. PERRY:

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A. Yes.

EARLE, Q.C.:

Q. And we are certainly not talking about people who are going to be left with, on average, $14,000 to pay their retirement expenses?

MS. PERRY:

A. No, and certainly that's not what we were referring to. The $14,000 is for existing retirees today. Those over 65, retired from Newfoundland Power, on average the pension from Newfoundland Power is just under 14,000 per year.

EARLE, Q.C.:

Q. Now if we could look at CA-NP-337? You didn't answer the question we asked, did you?

MS. PERRY:

A. Sorry, Mr. Earle, on this particular RFI?

EARLE, Q.C.:

Q. CA-NP-337, we said "further to CA-NP-326, please provide the information requested so that the impact of all retirees paying one half of premiums on the calculations respecting OPEBs as set out in the application may be ascertained." You provided us with an answer that assumes that as of January 1st,

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2010, new retirees would pay half.

MS. PERRY:

A. Yes, that's the basis of the answer to 337.

EARLE, Q.C.:

Q. Yes, which is not our question, is it?

MS. PERRY:

A. The question referred to "all retirees," so future and existing retirees to pay half of the premiums, and we've indicated in CA-NP-345 that Newfoundland Power believes it is obliged to continue to offer the benefits and the cost sharing mechanism that we currently have to existing retirees and today, there is certainly no intention on materially changing what we offer to existing retirees.

EARLE, Q.C.:

Q. Appreciate that that's your position. However, I don't think that is particularly helpful in having us understand the financial impact, but let me ask you this. You have indicated that if this were done, if you said to every person who retires as of January 1st, 2010 that "when you reach 65, you're going to have to continue on paying for half your group insurance as you have before," that that would

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be, say, 2.5 million on your annual accrual? Is that correct?

MS. PERRY:

A. Yes, based on 337, we did ask the actuaries that if going forward if all future retirees paid one half of the premium and the benefits cap be removed in such instance, they prepared a pro forma indication, because they would have to look at it in much greater detail about what the premiums would likely be, claims costs, you know, there are a number of factors that would go in, but they did provide a pro forma indication that indicated that the expense would decrease by about 2.5 million annually.

EARLE, Q.C.:

Q. So in the same fashion that they give you the annual indication of where the OPEB expense should go without doing an actuarial study?

MS. PERRY:

A. Yes, I would agree.

EARLE, Q.C.:

Q. Now you have a substantial number of retirees under the age of 65. Indeed, you have a substantial number of retirees under age 60,

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correct?

MS. PERRY:

A. Yes, we do.

EARLE, Q.C.:

Q. Would you agree that it would save substantially more again than that 2.5 million if you were to say that retirees who reach age 65 in the next--after the expiration of five years, i.e. your retirees 60 and under, say to them "when you reach 65, you're going to have to continue doing as you are doing now," that would save more money even again, wouldn't it?

MS. PERRY:

A. I would agree in the fact that any time you reduce benefits, if that's what you deem appropriate to do, it will in fact decrease your expense going forward, yes.

EARLE, Q.C.:

Q. And suffice it to say that would, given what is generated by telling future retirees that they will have to pay when they reach age 65, that the change that would be brought by telling persons 60 or under that they will have to pay half the cost when they reach age 65, that that would produce a material change

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in your expense again, a further material change in your expense?

MS. PERRY:

A. I would have to run the numbers, but again, any time you reduce a benefit, if that's what you deem appropriate to do, it will tend to reduce the expense.

EARLE, Q.C.:

Q. Now in the example at CA-NP-345, if you go to, I think, page three at Table 2, you see the cost of dental care?

MS. PERRY:

A. Yes, I do.

EARLE, Q.C.:

Q. And according to the footnotes at the bottom, you tell us that that's calculated by taking the average dental cost for active employees and retirees under age 65, right?

MS. PERRY:

A. Yes.

EARLE, Q.C.:

Q. Would you not agree with me that for retirees over 65 a far better proxy for their costs would be retirees under the age of 65?

MS. PERRY:

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A. Currently, I believe that the dental rate for retirees under 65 and active employees are the same rate. So that's the rate that we have applied to this example.

EARLE, Q.C.:

Q. You've got a blended plan, but I'm talking about your cost, your claims cost.

MS. PERRY:

A. The actual dental claims in a particular year?

EARLE, Q.C.:

Q. Claims cost grossed up by administration, retention.

MS. PERRY:

A. We do not have a refund accounting basis dental program. It's actually a fully insured dental program, so we pay a specific dental premium each year and this is what we've included in this estimate.

EARLE, Q.C.:

Q. But you do have access to your claims cost?

MS. PERRY:

A. Yes, we do.

EARLE, Q.C.:

Q. So you could have found out that information?

MS. PERRY:

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A. When we were actually compiling this particular example, I did contact our benefits consultant, because we do not offer a dental program, so we would not have access to what it would cost to put in a comparable dental program for Newfoundland Power. So I did ask the question to ensure we're reasonable with respect to the costs that we are providing in this particular instance, and Aon indicated that certainly the $750 a year premium is a good indication of what it would cost in a total premium to offer a dental program to retirees, and we actually used 640 here.

EARLE, Q.C.:

Q. I find that surprising because I don't think there's a person in this room who has gone through that part of their life when they've had dependents, i.e. children requiring dental care and orthodontic and all those good things, who wouldn't say that their dental expenses will be substantially less as a retiree than when they were paying the shot or, thanks be to heaven, having a group plan pay the shot for a bunch of youngsters.

Now if we could return now to CA-NP-293?

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Could you tell us what the purpose of having the report, which is Attachment A, done?

MS. PERRY:

A. The report from Aon was completed during the latter part of 2005. Aon actually were not the benefits consultants for Newfoundland Power at that time. We had Morneau Sobeco. Aon was obviously trying for the business of Newfoundland Power and they, during one of their visits to Newfoundland Power, indicated that they could and would like to come in to do a full benefits review to offer a fresh perspective in respect to our complete benefits package, so we agreed in 2005 to do that and Aon did complete--without, I will say, with limited knowledge of Newfoundland Power, but certainly they came in to do a detailed review of the benefit that we offered under all of our benefit plans.

EARLE, Q.C.:

Q. From the point of view of Newfoundland Power, what was the purpose of having the study done?

MS. PERRY:

A. Certainly to identify where we are with respect to market, where exposures are with respect to the financial arrangements on the inside of our Health and Life Plans, looking at the comparativeness of the renewal rates that are being offered to Newfoundland Power.

EARLE, Q.C.:

Q. And if we could go to page 3 of the attachment, go to the recommendations, under plan design you recommend that Newfoundland Power develop a statement of plan objectives to provide a link with overall human resource and corporate strategy. Did you do that?

MS. PERRY:

A. No, we specifically decided not to develop a statement of plan objective. This was a recommendation from Aon, but subsequent discussions with them indicated that a lot of corporations choose not to do this in the fact that it sets certain expectations for the Company with respect to what has to be offered in the future. And we do have a Health and Wellness strategy in the human resources area of Newfoundland Power, but we do not have a statement of plan objective.

EARLE, Q.C.:

Q. That sounds pretty much to me like don't do

that, you might get bumped over the head with it in collective bargaining.

MS. PERRY:

A. No comment.

EARLE, Q.C.:

Q. If we could go to page 5, retiree considerations and just go over onto page 6, where we just had it with page 5 there. Has Newfoundland Power undertaken any of these recommendations with respect to retirees?

MS. PERRY:

A. So starting on page 5, Mr. Earle?

EARLE, Q.C.:

Q. Yes, starting on -

MS. PERRY:

A. Retiree considerations?

EARLE, Q.C.:

Q. Yes.

MS. PERRY:

A. With respect to retiree consideration, Aon recommended that we look at current and future retirees separate. We currently still offer the same programs that we offered back in 2005. The second point they made here with respect to that we should reserve the right of

Newfoundland Power to make plan amendments, we actually do that that, we reserve the right to make plan amendments. They made a recommendation that any changes should be made with reasonable notice, would not -

EARLE, Q.C.:

Q. You skipped over one though, you skipped over consider future hire separately.

MS. PERRY:

A. Yes, certainly. We have not made any changes to our OPEB's plan for new hires.

EARLE, Q.C.:

Q. And that would be a process analogous, for instance to Newfoundland Power switch to the D.C. Pension Plan, would it not?

MS. PERRY:

A. I'm not sure I understand the question.

EARLE, Q.C.:

Q. Considering future hires separately, that's analogous to the process you adopted by telling at a point, telling future hires that they would not be participating in the D.B. Pension Plan but would be eligible to participate in a Declined Contribution Pension Plan?

MS. PERRY:

A. Yes, I would agree it's the same similar concept.

EARLE, Q.C.:

Q. So if you could go through the rest of these and I think we need to move down the screen. Thank you.

MS. PERRY:

A. Do I need to read out the -

EARLE, Q.C.:

Q. Well I'd like to know which of these that you, you undertook, if any?

MS. PERRY:

A. When this report was provided by Aon in 2005, we certainly acknowledged the recommendations that they made with respect to retiree benefits and their views on how to potentially reduce the exposure to the post-retirement plans that were offered at Newfoundland Power. Again, this is already in the context of this is all they were reviewing and they certainly did not have A) visibility with respect to Newfoundland Power's Pension Plans or the overall benefits that we offered. We did change benefits consultants in early 2006 to

Aon and we, at that point, renegotiated new carriers for Newfoundland Power. We changed from Great West Life to Blue Cross in 2006 and as a part of, what I call the continue of benefits review for Newfoundland Power, we certainly did put, I guess, further boarders around what we offered when we did change to Blue Cross. Now that is with specific reference to active employees and the benefits that are provided to active members, but those are the benefits that move into retirement. So we did make some changes.

EARLE, Q.C.:

Q. Clearly you're essentially saying you've tightened up on active employee -

MS. PERRY:

A. Our benefits, yes.

EARLE, Q.C.:

Q. - benefits and that change flows over into retiree benefits.

MS. PERRY:

A. It certainly flows through because the benefits are offered, continue to be offered when you retire up to age 65 and then certainly after the benefits are capped. So

in 2006 we changed, in October of 2006 we changed the carriers and on going into 2007, there was initial indication that we would do a benefits review--a further, a stage 2, I guess, to this review as to it's time to look at benefits and have a review as to what is offered and what is the best way to offer reasonable benefits at reasonable costs. 2007 was, it seems like a long time ago now, but in 2007, there was certainly pressures with respect to wanting changes to Newfoundland Power's D.B Pension Plan and we were about to come out of a five-year collective agreement, and there was a pension committee struck in 2007 to actually investigate how to improve the Defined Benefit Pension Plan. So it was certainly a big topic and this was at a time when the market out west for skilled trades was certainly taking off and, so we made a decision at that particular time that this was not the time that we were going to start having a review, I guess, or we're not going to touch the other post employment benefits because pensions was a big issue at Newfoundland Power. Our Defined Benefit

Pension Plan, when you compare that to others in this market, there are deficiencies in our plan, compared to others, so it is a big issue. So we agreed that we would get through collective bargaining, which we did and we came out of collective bargaining without making any changes to our Defined Benefit Pension Plan. We managed to get through it without those changes, because they're simply too costly. Any changes at this point are too expensive. We did manage, as a part of our collective bargaining, to open up the door with respect to doing a review of our benefits plan and certainly the employees that are engaged with that because no one likes to see premium increases year over year, but certainly there is an expectation that we're going to look at the benefits that we're offering as well, because I'm sure any time you open up a benefits review, there is an expectation that certain benefits will improve. So we've agreed to do this, which we are going to include retirees as well, future retirees as well, as a part of this review by the end of 2010.

EARLE, Q.C.:

Q. Ms. Perry, if I could summarize a rather long answer, you did not undertake any of the recommended changes in CA-NP-293 for retiree benefits, correct?

MS. PERRY:

A. If I could just have one second, I'll go down through. There was a point here where they asked us to apply more stringent minimum service requirements for retirees. We did increase it to 10 years of service. You have to be 55 with 10 years of service, if in fact you were under a group RRSP plan.

EARLE, Q.C.:

Q. So you did make that change.

MS. PERRY:

A. We did make that change.

EARLE, Q.C.:

Q. Any others?

MS. PERRY:

A. No, that would be it.

EARLE, Q.C.:

Q. And you do not, in your collective agreement, have a provision with respect to retiree benefits?

MS. PERRY:
A. No, you are correct.
EARLE, Q.C.:
Q. If we could look at CA-NP-341? And go to page 43, you will notice in answer to question No. 24, "Please indicate the benefit you currently offer to retirees?" And none is 58.7 percent, correct?
MS. PERRY:
A. Yes, that is correct.
EARLE, Q.C.:
Q. So I take it that you are, in terms of your benefits to retirees, you are somewhat better than the 50th percentile that Mr. Ludlow suggested?
MS. PERRY:
A. But I think that would matter with respect to which market you are comparing yourself to. This is a national, a national survey from Aon and it gives a broad indication of what is happening nationally.
EARLE, Q.C.:
Q. This is a national survey and if you want to flip back to the identified employers, this is the same sort of people that you referred to

when you're looking for data on salaries, isn't it, for executives?
MS. PERRY:
A. For executives I would agree, yes.
EARLE, Q.C.:
Q. Now, if you go to question No. 25, you see that there are a number of options that are being considered by employers in respect to retiree benefits. And I'll just ask you to review those and tell the Board of Commissioners if you would consider those reasonable sorts of items for an employer to be looking at, in terms of reducing cost of OPEBs.
MS. PERRY:
A. With respect to the items noted in question No. 25, there's a list here of things you can look at to change your OPEB plan. Whether it is reasonable would depend on what is reasonable for individual companies, but for Newfoundland Power, one of the things that we are going to do is to take a review of our group benefits plan to see what is reasonable for us. So right now I cannot say which one of these items are actually going to, if ever,

be applied to Newfoundland Power.
(4:15 p.m.)
EARLE, Q.C.:
Q. Well let's take Health Care spending account, is that worthy of consideration by an organization such as Newfoundland Power to look into the cost of OPEBs?
MS. PERRY:
A. I think everything is worthy of consideration when we do a benefits review.
EARLE, Q.C.:
Q. Let me ask you to turn to CA-NP-362? And if we go to the letters there attached, and particularly those that are signed by yourself. These move along in time and this one is 2008, December 17th, 2008, and if you will, I notice the signatories have moved up the corporate ladder and with due respect to Mr. Frank and others, and you're higher up in the organization, what's the intent of having you sign these letters rather than someone, if you will, lower down in the corporate structure of Newfoundland Power?
MS. PERRY:
A. I'm not sure there was any purpose or intent

of me signing the letter. It certainly could be signed by a manager or a V.P.
EARLE, Q.C.:
Q. And if you could go down to the--there's a number of suggestions there. "In addition to maintaining a healthy lifestyle, you can further help by"--and see there's three suggestions and the first two are "asking your doctor for a generic brand of any drug prescribed, asking your doctor for less expensive brands of prescribed medication if generic drugs are not available." Would you agree with me that those two items are in fact cost-saving features that are often mandatorily required in group health plans?
MS. PERRY:
A. The first two bullets, Mr. Earle?
EARLE, Q.C.:
Q. Yes.
MS. PERRY:
A. Yes, I would agree and with respect to generic brands, that is a requirement under our plan, it has to be--the generic drug has to be offered first.
EARLE, Q.C.:

Q. Why are you writing asking people to do that?
MS. PERRY:
A. What we find is that if the doctor specifically prescribes a specific drug, then there is--then they can flow through the plan and not always do the general drug prevail, so we're just reminding employees or retirees that they should, should remind doctors that the generic drug is what's covered under the plan.
EARLE, Q.C.:
Q. What happens when they flow through? Do you have the claim rejected and sent back? Do you enforce it?
MS. PERRY:
A. I would say we do. I'm not sure about how many or to what degree it's enforced, but it's only supposed to be generic drugs covered.
EARLE, Q.C.:
Q. Well clearly it must be a problem if it rates a notation in a letter from the vice president of finance of the Company.
MS. PERRY:
A. I'm not sure it was deemed to be a problem to make it to this letter, it was more of a

friendly reminder that you will ask your doctor for a generic drug brand.
EARLE, Q.C.:
Q. You've indicated that a change in retirees being eligible for the free, if you will, post-retirement group held benefit as of January 1st, 2010 would be worth about 2.5 million on the annual OPEB expense, so we're talking about, because I realize you've got to integrate the tax effect. We're talking about going from 6.8 to 4. something, right?
MS. PERRY:
A. Yes, that would be correct.
EARLE, Q.C.:
Q. Would you agree with me that on an annual basis it wouldn't be significantly different if you were to do that in 2011?
MS. PERRY:
A. Sorry, to do what in 2011?
EARLE, Q.C.:
Q. To say that effective January 1st, 2011, retirees will not be receiving this benefit at age 65? The impact would still be in the range of two million plus on the annual accrual?

MS. PERRY:
A. Yes, it's based on a proforma indication, yes, a reduction of the benefit would yield around those cost reductions and that's assuming there are no other changes with respect to retiree benefits.
EARLE, Q.C.:
Q. So given that you're engaging in a review to be concluded by the end of 2010, what do you see as being the damage that would be caused by dealing with OPEBs when, at the end of the last GRA application for Newfoundland Power, it was thought that OPEBs would be dealt with, that is not on the test year 2010, but a test year 2011?
MS. PERRY:
A. With respect to the benefits review and the adoption, I guess, of accrual accounting, I do see those two particular items as separate items and I indicated that in my opening testimony. We have proposed, I guess, the adoption of accrual accounting on several occasions and to be waiting for a benefits review such that we can nail down an accrued cost, I just don't see, I don't see the

linkage there. The change that will come about as a result of this review is, it's completely unknown at this point in time. I suspect that some change will occur, that change will occur in the future and certainly when those changes are known and if they do have a cost impact, that will certainly be factored into customer rates in the future. But in terms of waiting until we can actually nail down the accrued OPEBs' cost on an annual basis, I don't think it's necessary to wait. Adoption of accrual accounting is a better estimate of what today's costs are based on the plan that we have today and certainly if we continue to wait, the transitional obligation will continue to grow and it's certainly going to be a bigger cost that we have to deal with in the future. And recognizing--is my last point with this, recognizing that we have only proposed to deal with a portion of the accrued benefit obligation, we have not proposed to deal with the transitional obligation, so the proposal that we have is balanced to begin with and certainly reasonable. So when and if changes

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should occur with respect to the benefits review, that will certainly be incorporated in customer rates going in the future.

EARLE, Q.C.:

Q. Ms. Perry, Newfoundland Power is proposing a test year 2010 for the purpose of setting rates of--with, excuse me, with a 6.8 million dollar OPEB expense, correct, 6.84 I think, actually.

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

Q. If you were to make the kind of change we're discussing, that is essentially tell anyone who retires in January 1st, 2011 that they will not be receiving free health care benefits at age 65 effective January 1st, 2011, doesn't that mean that Newfoundland Power's 2011 bottom line is more than two million dollars better off, unless we have a whole bunch of changes in your forecast is not right.

MS. PERRY:

A. If we just simply assume that we make the changes that you're referring to, Mr. Earle,

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the expense would be two million or so lower going forward, but I guess that's where I struggle with respect to making that assumption that that is going to be the change. I simply do not know the change today or the magnitude of the change and I also do expect that there will be a reasonable notice period. I don't expect to see changes January 1, 2010 and there may be some transitional arrangements that we will make to secure or to institute change in our post retirement benefits, and I'd even go as far as to say that we may actually incur some costs in the short term to achieve any long-term savings. So with respect to what the cost changes are going to be, at this particular point that 2.5 that you're referring to is a scenario that you ask for, but it's certainly not, it's not something that is on the table today with respect to what it is we're actually going to do. So the cost changes at this point are still unknown.

EARLE, Q.C.:

Q. But it is true, Ms. Perry, that you're going into a review with the objective of changing

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your cost picture, isn't it?

MS. PERRY:

A. Yes, that is correct.

EARLE, Q.C.:

Q. And just as you don't know what the outcome will be, neither does the rate payer, right?

MS. PERRY:

A. I would agree, there are many things that could change the accrued expense.

EARLE, Q.C.:

Q. But, Ms. Perry, isn't it true that your 2010 test year essentially provides a worse case scenario?

MS. PERRY:

A. I'm not sure I agree in the fact that as I said earlier, we may actually incur some costs to get this done or to make some changes, so to say that we will be actually--we will actually reduce costs in the short term, I can't say for sure.

EARLE, Q.C.:

Q. I have no further questions.

CHAIRMAN:

Q. We're going to take a little break for, say 10 minutes, is that all right?

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MR. JOHNSON:

Q. That's fine with us.

CHAIRMAN:

Q. Yes, okay.

(RECESS)

(4:42 p.m.)

CHAIRMAN:

Q. So you guys have finished, have you gentlemen with these two witnesses?

MR. JOHNSON:

Q. Subject to anything arising.

CHAIRMAN:

Q. Yes, but you're finished for now?

MR. JOHNSON:

Q. That's good, yes.

CHAIRMAN:

Q. So now, I guess, I turn it over to Mr. Simmons, is that correct?

CROSS-EXAMINATION BY MR. DAN SIMMONS

MR. SIMMONS:

Q. Thank you, Mr. Chair, yes, that's correct. Mr. Ludlow and Ms. Perry, I have a number of questions, I'm going to try and keep it as short as I can, given the hour, and I may not direct them to either of you in particular,

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but if you do, I don't mind if you have to defer one to the other for the answer or if you both want to contribute in turn, so we can address the question in one go, without having to have an examination of one of you and then the other. And I wanted to ask you first questions about the Automatic Adjustment Formula and in particular just what Newfoundland Power's position is on the future of the formula. And I'd like to start by referring you please to page 319 of the application. Yes, near the bottom of the page, please. There starting on line 318, it says that given the current financial market conditions, this amended application proposes discontinuing use of the formula for the adjustment of the Company's rate of return on rate base and customer rates in years subsequent to the 2010 test year and I'd like to refer you, please, to CA-NP-44, and in answer a) to the question posed there, the statement is made that Newfoundland Power's proposal is to discontinue use of AAF based upon fairness of cost of equity, including forecast 2010 cost of equity, which suggests

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there that the proposal is to consider discontinuing the AAF because of the result from its use in the 2010 year, and at the commencement of this hearing last week in the opening statements from your counsel, I understood him to say that Newfoundland Power proposed discontinuing the Automatic Adjustment Formula until the next GRA or until a further hearing is called by the Board. So my question to you is there are a number of alternatives available about what can happen coming out of this hearing. We could simply suspend the Automatic Adjustment Formula for the 2010 year in order to allow a new rate to be set, or we could suspend the Automatic Adjustment Formula for future years until there is another hearing of the Board, or it could be as seen to be presented in the Application originally, permanently discontinuing use of the Automatic Adjustment Formula. So maybe, Mr. Ludlow, if you could tell us just what it is that Newfoundland Power sees as being the future of the Automatic Adjustment Formula after this hearing?

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MR. LUDLOW:

A. Okay, Mr. Simmons and Mr. Chairman, I will start and then hand off to--I had better get this right this time, Ms. Perry. And as we filed, we're proposing the discontinuance of the AAF until such time, either the market settles or whatever conditions can occur as we move to the future. There may be alternatives to the design of the formula which we have not been prepared or haven't gotten ourselves ready to discuss at this time, Commissioners. So given the current volatility of the market and the decreased revenue which we're forecasting in 2010, that's the way we looked at this was to propose it that way. The fact that we're discontinuing don't mean that it cannot be restarted with some changes or with some adjustments and that was the basis upon which we had proposed, Mr. Simmons, in the actual filing. And Jocelyn, if you'd like to add?

MS. PERRY:

A. Yes, I think when we look forward at the formula when we were filing the Application, we were seeing a decrease in the cost of

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equity coming out of the formula and certainly this was at a time when our cost of debt was actually going up. So--and albeit the markets have improved somewhat since we filed, our cost of debt is certainly not going down though from previous levels, so the fact that we are experiencing historical low long-Canada bond yields and the fact that we are projecting a declining cost of equity, that relationship was flawed when we filed--and today. There are other jurisdictions that are reviewing the formula as well. I know that the BCUC and the AUB, the Alberta Utilities Board, and certainly the National Energy Board have all recently considered the formula in light of current market conditions. And so in terms of discontinuing the formula, it was certainly based on the fact that there was some apparent flaws with the formula itself. As Mr. Ludlow said, we're not against formulas, it's just this particular one wasn't yielding a fair return in today's market conditions. Our approach with this is to let markets, I guess, come to some stabilizing place and also look to see what other

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regulatory jurisdictions propose coming out of their reviews and certainly we would revisit a formula or some version of the formula at a later date and also we certainly can be called to put forward a proposal before then.

MR. SIMMONS:

Q. You've told us that you anticipate that it's also going to be necessary to come back with a General Rate Application for 2011, I believe. Can you foresee any circumstances in which you will not be here in 2011 for a General Rate Application?

MS. PERRY:

A. Well I guess a lot would have to change from what we see today. I did indicate in my opening that we do have a number of amortizations that are expiring and that's certainly contributing to almost half of the short fall that we're currently projecting, but we are still short about two million, so that certainly will be a challenge. We will have to look to see where are sales are, we got to look forward as we move out to the next couple of months. We got to take a harder look at our operating, see where short-term

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interest rates are. There are a number of factors that can impact the outlook going forward, but particularly the deferrals that we have expiring, certainly is a big piece of, I guess, a solution, for lack of a better word, with respect to potentially not having to file.

(5:00 p.m.)

MR. SIMMONS:

Q. So although, based on what you're looking ahead to 2011 for right now, you're expecting it would be necessary to come in, at the same time, there are things that you can do between now and then that may result in it not being necessary to file in 2011, is that a fair summary?

MS. PERRY:

A. That certainly could be a possibility, we're unsure about that as of yet, but certainly we are going to be looking four ways to, I guess, stay out.

MR. SIMMONS:

Q. Okay, so the request now is to, I'll say suspend the Automatic Adjustment Formula and you described it as being necessary to do that

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because of the current conditions that exist in the market and your current forecast for increasing expenses in the face of declining revenues if the Automatic Adjustment Formula is used, is that right?

MS. PERRY:

A. Yes, we're proposing to discontinue the formula out past 2010.

MR. SIMMONS:

Q. Right, but you're open to reinstatement of the formula or a modified formula when those conditions abate, for example when the markets return to a more normal state of operation?

MS. PERRY:

A. Certainly, we're not against formulas.

MR. SIMMONS:

Q. Okay. If you do come back for another GRA in 2011, is there any imperative or any particular reason why it's necessary to make any decision regarding the Automatic Adjustment Formula on this Application?

MS. PERRY:

A. Well I guess timing is of an issue, we will be making a definitive decision on whether or not we have to file for 2011 early in the new year

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and a part of that decision will include what we see going forward with respect to our cost of capital. So early in the year we will have to, if the formula were in effect, we would have to look forward and to see what the formula is yielding and that could very well be one of the reasons why we decide to come back in is because of what the formula is yielding for 2011.

MR. SIMMONS:

Q. Now if the Board were to agree and suspend the operation of the Automatic Adjustment Formula and Newfoundland Power did not come back for a General Rate Application in 2011, am I correct that the rates that are now set for 2010 would then continue to apply in 2011?

MS. PERRY:

A. Yes.

MR. SIMMONS:

Q. That would be the effect?

MS. PERRY:

A. That would be the effect.

MR. LUDLOW:

Q. Mr. Simmons, if I may, I have to say that we have absolutely no desire to be back into this

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hearing room in 2010 and it's a distraction to the Company, we started this filing in March of this year and we're not into mid to late October, so as Ms. Perry has said, whatever can be overturned or found or done, it is our objective to find that. Now the point that is being made is that by the end of the first quarter when we will start to get some visibility of the analysis and forecasting as it starts to firm up as we move into 2010.

MR. SIMMONS:

Q. I've looked back a little bit to educate myself because I'm new to this process about some of the history of the Automatic Adjustment Formula and I just wanted to run through just a brief outline of how it's been used since it was instituted in 1999. I won't go to the documents to demonstrate this because I expect you're familiar with it and that will take time, but the formula was set up in 1999. 1999 was a test year, so rates were actually set using the hearing process to set rates for 1999. The formula was then used to set rates in the three subsequent years, 2000, 2001 and 2002, there was then a General

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Rate Application brought in '03, which resulted in two test years, '03 and '04. The formula was then used to set rates for the next three years, '05, '06 and '07. There was a General Rate Application in '08 with the result that '08 was a test year and the formula was used then to set the rate in '09, so I think I got that right?

MS. PERRY:

A. I think so, yes.

MR. SIMMONS:

Q. So we do have a number of years of experience of the operation of the formula here in this jurisdiction. And in the first three-year period when it was used from 2000 and 2002, I'm interested in knowing your views on whether you regard the operation of the formula as having produced satisfactory results in that period?

MS. PERRY:

A. I think the formula in those years produced a return that allowed us to maintain our performance over those years. There has been a lot of material, I guess, with respect to declining long-Canada bond yields and its

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effect on a lower ROE over this period, so the fairness of the return, I guess, could be at question over those years, but it certainly yielded reasonable returns to allow us to certainly maintain our credit worthiness over those three years.

MR. SIMMONS:

Q. And for those three years, in each of those years I presume if the formula was returning unsatisfactory results to the point where it affected the credit rating of Newfoundland Power or your ability to proceed, Newfoundland Power had the ability to bring an application for a new GRA, just as it is being done this year?

MS. PERRY:

A. Yes, that is correct. There would be some practical limitations from a timing perspective with respect to when we could practically file a GRA, so if the formula was actually yielding an unfair return, by the time we get to that point, which is October or November, it's late in the year to be filing a General Rate Application for the upcoming year, I guess.

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MR. SIMMONS:

Q. But where it's used for three years in a row, we can safely say that at least for the first of those two years Newfoundland Power must have been satisfied with the operation of the formula?

MS. PERRY:

A. Yes, that's fair.

MR. SIMMONS:

Q. Okay, and then in the second three-year period, which was 2005 to 2007, did in your view the formula similarly produce a satisfactory result in the sense that Newfoundland Power was able to maintain its credit ratings and continue without having to bring a GRA to address any problems that were being produced by the formula in that period?

MS. PERRY:

A. Yes, I would agree that it has produced reasonable returns that allowed us to maintain our credit worthiness, again, in 2007 in particular, our cost of equity was, I believe it was 8.6, so there was a decline from the previous year. But it has allowed us, the returns have allowed us to maintain our credit worthiness, yes.

MR. SIMMONS:

Q. And the real difference now is that the market has been behaving differently over the last couple of years than it had through those earlier time periods when the formula worked satisfactorily, is that correct?

MS. PERRY:

A. Absolutely, yes.

MR. SIMMONS:

Q. Now a hypothetical question, but we've been dealing with lots of those, should the markets return to the type of stability that existed prior to the last couple years, is there any reason why you think the formula would not work as well in the future as it did in the past?

MS. PERRY:

A. It's a hard question in the fact that it is hypothetical, I guess. I think it's worthy to look across the country as to what other formulas may result as a result of this review that's taking place across the country. So there may, in fact, be a better formula.

MR. SIMMONS:

Q. Uh-hm.

MS. PERRY:

A. And I'll certainly leave that up to the experts with respect to the appropriate relationships between long term bond yields and corporation's cost of equity, but certainly there may be lessons to be learned from this market change, and what a better formula should look like going forward. So I wouldn't be surprised if there's some element that may come about as a result of the formula.

MR. SIMMONS:

Q. The Consumer Advocate has a report filed in pre-filed evidence from Mr. John Todd, and you probably had a look at that at some point in your preparation. Mr. Todd makes the case, or takes the position that an Automatic Adjustment Formula is just one element of multi-year regulation and other elements include the deferrals that allow for the smoothing of the effects of variations and expenses over years and so on, and that he makes the case that if you have a regime which includes deferrals, such as exist here for

Newfoundland Power, that an Automatic Adjustment Formula is an appropriate part of that regime because it allows rates to be set in intervening years without having to have a full hearing every year to determine the rate of return on rate base. Does Newfoundland Power have any position on whether the Automatic Adjustment Formula is an appropriate part of a multi-year regulatory regime, or any comment on that position taken by Mr. Todd?

MR. LUDLOW:

A. I'll start on that one. I mean, I think the Automatic Adjustment Formula is one mechanism, as long as it yields appropriate outputs, and what we're seeing is that that is not the case, in our opinion, at this point in time. Now there may be other alternatives to multi-year regimes that we have not studied ourselves, similar to PBR, and other types of regulatory mechanisms that do exist. It can be, Mr. Simmons, a fundamental principle, but at this point we're seeing that it is not yielding the returns that we would require.

MR. SIMMONS:

Q. So the prospect exists then that Newfoundland

Power would accept that an Automatic Adjustment Formula again becomes relevant and useful once market conditions subside, but you're suggesting that it may be necessary that there be some variation to the way the formula works, and you probably answered this question already, has there been any consideration given to what types of changes might be necessary to improve the formula?

MS. PERRY:

A. No. I would say that it's early days for a look at what the formula should look like. So we have not -- we have not taken that extra step now to engage and review the appropriate formula or what the formula should look like. I don't believe there's really a whole lot out there just yet with respect to regulatory developments across the country with respect to what a formula should look like. So I think all that will play into what the formula should look like going forward.

MR. SIMMONS:

Q. Okay. So if I could summarize what you've told me then about the automatic -- the position of the company on the Automatic

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Adjustment Formula, the problem with the formula has not so much been its use historically, but the problem is the effect that its use will have under current market conditions. That's the first point.

MS. PERRY:

A. That is correct, yeah.

MR. SIMMONS:

Q. And the second point is that the company is not philosophically imposed in any way to the use of an Automatic Adjustment Formula in the future?

MS. PERRY:

A. Absolutely.

MR. SIMMONS:

Q. And the question is, is the current formula the appropriate one, and your view is that it's too early to be able to tell what changes would have to be made to improve the formula?

MS. PERRY:

A. That's correct.

MR. LUDLOW:

A. That's correct.

MR. SIMMONS:

Q. Now unfortunately I have some questions on

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credit metrics. I'll try and summarize a little bit some of what we've heard already, so I can pose the questions that I'm interested in. There's three particular credit metrics that seem to have been discussed that have been used in the past, one less so currently, and one is pre-tax interest coverage, which is a credit metric measurement that's been discussed here at the Board before, and am I correct that in 2007 when there was a settlement agreement at the GRA, there was information presented to the Board that the effect of that settlement agreement would have achieved a pre-tax interest coverage of two and a half times?

MS. PERRY:

A. Yes, that's correct.

MR. SIMMONS:

Q. Okay, and that the other two credit metrics that have been discussed here are cash flow interest coverage and cash flow debt coverage, and that both of those are ones that are used by the credit rating agencies, in particular Moody's, in reference to the pre-tax interest coverage metric?

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MS. PERRY:

A. Yes, that is correct, yeah, DBRS does follow the pre-tax interest coverage as well.

MR. SIMMONS:

Q. Okay, and if you look back at that settlement agreement that was used and adopted in the 2007 GRA, the rates that were agreed upon and implemented then were projected to produce a cash flow interest coverage of 2.9 times? I don't know if you recognize that number as correct. You do?

MS. PERRY:

A. I do, yes.

MR. SIMMONS:

Q. You have a good head for it, and a cash flow debt coverage of 14.9 percent.

MS. PERRY:

A. That's right.

MR. SIMMONS:

Q. Now you were taken to the Moody's March, 2009, report at Exhibit 4, and we'll take you there again, and we saw in that report that Moody's said that Newfoundland Power would be at risk of a downgrade in its credit rating if several things coincided, and one of those would be

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cash flow interest coverage falling below two and a half times, right?

MS. PERRY:

A. Yes.

(5:15 p.m.)

MR. SIMMONS:

Q. So two and a half times would be a floor really of the cash flow interest coverage that the company wants to achieve, and that cash flow debt coverage should not be in the low teens. Can I see CA-NP-65, please, and the first page of Attachment "A". This was a response to a Request for Information from the Consumer Advocate, and as I understand it, it presents financial performance information, actual information for the years 2004 to 2008, and forecasts for 2009 and 2010?

MS. PERRY:

A. Yes, that's correct.

MR. SIMMONS:

Q. And the 2010 forecast, is that based on there being on the use of the Automatic Adjustment Formula and there being no changes as a result of this application?

MS. PERRY:

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A. That's correct.
MR. SIMMONS:
Q. So it's the pre-application position?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. And if you look down at the bottom there, there are credit metrics described in the last three lines, line 38 to 40. I'm just going to look first at the interest coverage, and I draw your attention to 2004, which we identified was the test year, and the interest coverage in that test year was 2.5 times, and that appears to be the same as what was approved by the Board in the 2007 GRA, correct?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. The next test year is 2008, and again the interest coverage is 2.5 times, and in the intervening years from '04 to '08, there's a gradual decline of about .1 percent per year. If you then look at the cash flow interest coverage for the 2004 test year, it's at 3,

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and for the next test year it is -- 2008, it's at 3.1, and both of those numbers are better than the ones that were approved in the 2005 GRA, correct?
MS. PERRY:
A. 2008?
MR. SIMMONS:
Q. 2008 GRA.
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. Yeah, 2.9 was what the Board accepted as being appropriate there, and the actual performance of those test years was 3 and 3.1, and the cash flow debt coverage was 16 percent in test year 2004, and 15.8 in test year 2008. Both those are better than what was used in the 2008 GRA approval, correct?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. And then if you look at what's proposed for 2010, if the Automatic Adjustment Formula were used and no changes were made, the interest coverage is projected to be only two times,

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which is a decrease and is less than the 2.5 that's regarded as the floor. The cash flow interest coverage is 2.8, which is only a slight bit below the 2.9 that was approved in the 2008 GRA, and the cash flow debt coverage is 13.1, which is a little bit below the target. So your projection then for 2010, if there was no change, would produce credit metrics that are not quite as good as the previous two test years and not as good as what was approved in 2008. Now if you go to Exhibit 11, please. This is an exhibit that demonstrates what the effect would be, I believe, of granting all the relief claimed in this application, correct?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. And if you go down to the bottom, you'll see that the effect would be that interest coverage now would become 2.7 times?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. Cash flow interest coverage becomes 3.6, and

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cash flow debt coverage becomes 19.5. Now it's taken me a long while to get there, but you will see that what is predicted for your credit metrics, if all the relief claimed in this application is granted, is an improvement of credit metrics over what was approved in 2008, and better credit metrics than were the actual results for 2004 and 2008, which were test years, and my question is, why is it necessary now to set a rate of return that improves those credit metrics compared to what they've been in the past?
MS. PERRY:
A. I'll start with the cash flow metrics first, and particularly as it relates to CA-NP-65.
MR. SIMMONS:
Q. Yes.
MS. PERRY:
A. The cash flow metrics that you see from 2004 up through 2007 were -- well, if we go to line 39, it goes from three times and it reduces down to 2.6 times.
MR. SIMMONS:
Q. Over three years, yes.
MS. PERRY:

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A. Up to 2007, yes, and then it goes from 16 percent, which is CFO to debt to 12.6. This was coming after a period of a number of cost deferrals we had proposed, but it certainly was imposing a strain on the company's cash flow from operations, which in turn reduced these particular credit metrics. Coming out of the 2008 GRA, we had a hill to climb with respect to those metrics because we were starting at relatively low levels, levels that were considered too low by credit rating agencies. So, yes, we did settle, but we did indicate in 2008 that the 2.9 times CFO interest coverage, and the CFO to debt of 14.9 percent, was at the bottom end of the range. It truly was just right at the limit of what was recommended. The proposals in this particular application is still within the range of a Baa-1 rated utility, and I think it's important to note that both DBRS and Moody's indicate that these particular coverages that we've seen in the past are low relative to our Baa 1 peers that we talked about earlier. So the proposal that we've put forward of -- if we go to CFO interest

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coverage of -- just one second, of 2.7, the range -- sorry, CFO interest coverage of 3.6, the range is 2.7 to 4.5 that's recommended by Moody's. So we're proposing 3.6, so certainly within the range. The CFO to debt coverage that's recommended by Moody's for a Baa1 rated utility is 13 to 22 percent, and we are proposing 19.5. So again we're still within the relative ranges recommended by Moody's. With respect to pre-tax interest coverage, again we have slipped based on the existing rates and our current cost projections. Interest coverage is projected to go down to two times. At 8.39, which is the projected cost of capital under the formula, if we did get recovery for other costs, we would still be down around the 2.2/2.3 range. So the proposal that we've put forward is 11 percent return on equity, and that gets us to 2.7 pre-tax interest coverage. To achieve the 2.5 that we've achieved in the last general rate proceeding, we have -- the ROE would have to be between 9.5 and 9.75, I believe, to achieve the 2.5.

MR. SIMMONS:

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Q. So you're saying now if what you want to do was achieve a credit metric of 2.5 instead of 2.7 for interest coverage, the rate of -- the return on equity would have to be between 9.5 and 9.75?

MS. PERRY:

A. Yes. If you go to Exhibit 5 --

MR. SIMMONS:

Q. Yes.

MS. PERRY:

A. If you go to Exhibit 5, on the second page of Exhibit 5, and the first quadrant here is the pre-tax interest coverage at a number of ranges with respect to return equity. So if you go to the second line there at a 45 percent common equity, which is where we are today, if you go along the top row there over to 9.50 to 9.75, you'll see a pre-tax interest cover of 2.5 to 2.54. So that's where I am referring to that particular metrics.

MR. SIMMONS:

Q. Okay. Now Exhibit 5, am I correct that these credit metrics here calculated at different allowed rates of return on equity presume that what's asked for in this application is

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approved? So it's calculated on the basis of Exhibit 11 rather than Exhibit 3, is that correct?

MS. PERRY:

A. Yes, that is right. The pre-tax interest cover would not be materially impacted --

MR. SIMMONS:

Q. Either way?

MS. PERRY:

A. Yes, by the proposal to recommend OPEBs, to adopt accrual accounting for OPEBs. That would, in fact, change the cash flow metrics. They would actually improve the cash flow metrics. If you go to the first page of Exhibit 5.

MR. SIMMONS:

Q. Yes.

MS. PERRY:

A. This assumes the metrics that OPEBs is not adopted, the accrual accounting for OPEBs is not adopted.

MR. SIMMONS:

Q. So if the only objective were to achieve the same pre-tax interest coverage credit metric coming out of this GRA as had been achieved in

2004 and 2008, that could be done with a return on equity of between 9.5 and 9. 75 percent?

MS. PERRY:

A. To achieve the interest cover metric, that was the objective, yes.

MR. SIMMONS:

Q. Now for cash flow interest coverage, if we stay on Exhibit 5, in the 2008 GRA it was 2. 9 times cash flow interest coverage that was approved, and Moody's targets above 2.5 in order to maintain your credit rating, and it is the second table there that addresses the cash flow interest coverage, I think, and would it be correct that even if you go to the lowest allowed return on equity of 8. 5 percent, you would meet at least that minimum cash flow interest coverage number?

MS. PERRY:

A. Yes, Moody's indicate that they expect us to be over three to sustain our rating. Based on their ratings action, they indicate they expect us to be over three.

MR. SIMMONS:

Q. Okay.

MS. PERRY:

A. So, yes, you are right.

MR. SIMMONS:

Q. So even at 8.5 percent, these projections would predict that you would meet that requirement?

MS. PERRY:

A. Yeah, we would meet the minimum.

MR. SIMMONS:

Q. The minimum, yes.

MS. PERRY:

A. That they've indicated.

MR. SIMMONS:

Q. And similarly with cash flow to debt coverage, Moody's had said that you should not be in the low teens, and in the 2008 GRA, the projection was to have a rate of 14.9 percent, and if you look at the bottom table there, even at 8.5 percent, you would meet those credit metric requirements as well, correct?

(5:30 p.m.)

MS. PERRY:

A. Yes, certainly we would not be in the low teens.

MR. SIMMONS:

Q. And I realize we're leaving aside the other reasons why you're looking for the increased return on equity, but would it be fair to say then that if the credit metrics were the only concern, that it would not be necessary to go to 11 percent in order to achieve satisfactory credit metrics to maintain your credit rating?

MS. PERRY:

A. I think that's a fair statement, that to sustain the credit worthiness is one thing, and credit metrics just being one element of that decision, but the fair return is a separate issue, yes.

MR. SIMMONS:

Q. Okay. I had a question of clarification for you, and we can do this by looking at Exhibit 11, please. I believe you answered this in your direct-examination, but I want to make sure that we have it right. The column there under "Existing" shows the projections for what happened if the Automatic Adjustment Formula were used and there were no changes as a result of a GRA Application, and if you could scroll back up, please, to the Revenue from Rates line. In your direct-examination,

I believe you had said that the effect of the Automatic Adjustment Formula in 2010 would be to remove 3 million dollars from the revenue from rates?

MS. PERRY:

A. Yes.

MR. SIMMONS:

Q. And that figure of $509,992.00, that is calculated after that 3 million has been deducted, correct?

MS. PERRY:

A. Yes.

MR. SIMMONS:

Q. Okay. Can I have EAL #1, please, and, Ms. Perry, this is probably a question for you as well. This first page of EAL #1 summarizes the rate impact of different components, and describes the return on equity as having an impact of increasing rates by 2.2 percent.

MS. PERRY:

A. Yes.

MR. SIMMONS:

Q. Now in -- a couple days ago you, Mr. Ludlow, were also referred to CA-NP-66. So maybe I can see that, please.

MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. And the return on rate base there, the first line, if you extend it across there's a percent rate change there showing that it contributes 2.8 percent to the rate increase. I think there might have been a little bit of confusion when those two numbers came up before, and I wonder if maybe you could explain how you reconciled the two figures, the 2.2 and the 2.8?
MS. PERRY:
A. I will try.
MR. SIMMONS:
Q. Okay. I know it's late, but --
MS. PERRY:
A. The 2.2 that's referred to in EAL #1 is the difference between what we're currently collecting from customers -- currently in rates today it's an 8.95 return on equity. That's in customer rates today. So to go from 8.95 to 11 percent, that would be the 2.2 percent that we're referring to. What CA-NP-66 is displaying, it is basically going from the

6.45 projections today which we've seen in Exhibit #3. So that's assuming all of our new costs, the end ROE for Newfoundland Power today, if we didn't file a General Rate Application, would be 6.45 percent that we would be getting as a return on equity.
MR. SIMMONS:
Q. That would be with the Automatic Adjustment Formula used?
MS. PERRY:
A. Right, with the Automatic Adjustment Formula, and with all of our new costs as well, we would be yielding an ROE of 6.45. So by default, the return on rate base going from 64 to 79 is fundamentally going from a return on equity of 645 to 11 percent. So it's just a different display of a set of numbers, but when we talk about the proposed rate request and what it entails, we base it on what end rates today, which is the 895 is what's end rates today, and we are going from 895 to 11.
MR. SIMMONS:
Q. Okay, thank you, that clarifies that. Friday afternoon I advised your counsel that I'd be asking you if you might be able to undertake

to produce some different projects for us on a different basis and Newfoundland Power has been very efficient and actually prepared them over the weekend. So I'd like to introduce two exhibits, JHP #1 and 2. There's copies for the Board?
MS. GLYNN:
A. They've already been circulated.
MR. SIMMONS:
Q. Okay. Ms. Perry, the request concerned the preparation of a projection to show what the effect would be if instead of the application being brought or granted on the terms that have been requested, instead there were a deferral of two elements of cost out of 2010, one being a deferral of the 2010 conservation costs, and the other being a deferral of what I generally call the extraordinary pension expense compared to the previous year, and I understand that there's been two different projections prepared based on a variation in the assumption of how the variance and the pension cost -- pension expense is calculated.
MS. PERRY:
A. Yes.

MR. SIMMONS:
Q. And you probably understand that now better than I do, so just take maybe a moment and just tell us what JP-1 and JP-2 show.
MS. PERRY:
A. So under JP-1, the only difference between the Exhibit 3, which is based off of existing rates and forecasted costs for Newfoundland Power, which yielded a 645 return on equity, the adjustments that have been made to that forecast were two adjustments. The first is on--they're both on line 20. They're called deferred costs. So 4,364,000 and that is made up of deferred conservation costs, deferred 2010 conservation costs of $1,869,000 and it also includes the change in pensions back to the first initial filing that we completed in May. So it removed the impact of the change in the discount rate between May and September.
MR. SIMMONS:
Q. Okay, and -
MS. PERRY:
A. And that was 2,495,000. So together, that's 4,364,000 in deferred costs.

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MR. SIMMONS:
Q. If you look at page nine of nine, there's a section in bold there under cost recovery deferral. Do those two describe those two assumptions that you've just--if I can scroll up there, okay. So you see there under "cost recovery deferral" fourth paragraph down, it refers to deferral of 2010 conservation program costs.
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. And the next one is the deferral of pension costs based on using the 7.5 percent discount rate instead of changing the 6.5, and also based on asset returns of seven percent?
MS. PERRY:
A. Yes, which were the asset returns in the May filing, yes.
MR. SIMMONS:
Q. Right, right, so if you do this pro forma on that basis, what impact does that then have on what the rate of return on rate base might be?
MS. PERRY:
A. So if you look down to line 35, so 35 through

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40, on line 35, the rate of return on rate base would be 7.37. The return on equity would be 7.19 percent. So that would--so the return on equity would have changed from 6.45 percent to 7.19 percent, and just looking at the three credit metrics that we just discussed, interest coverage, on line 38, is still 2.1 and CFO interest coverage is 2.8 and CFO to debt is 13.1 percent.
MR. SIMMONS:
Q. Okay, and then what is the difference then on JHP No. 2, different in the assumption made here?
MS. PERRY:
A. So the change in the assumption here is that we've still deferred the 2010 CDM cost, but the pension costs that we've deferred is actually the difference between the 2010 forecasted pension expense and the forecasted pension expense for 2009. So on line 19, the difference in the third and fourth column, the difference between the 2703 in 2009 and the 8196, which is 5493, is added to the 2010 CDM cost of 1869 to get total deferrals of 7. 362 million.

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MR. SIMMONS:
Q. And what effect does that have then on return on rate base?
MS. PERRY:
A. When you go down through lines 35 to 40, the rate of return on rate base is 7.59. Line 36, the regulated return on book equity goes to 7.7 and again that's up from the 645. With respect to the credit metrics, interest coverage is 2.2 times and CFO to interest and CFO to debt doesn't change. It's 2.8 and 13.1.
MR. SIMMONS:
Q. Okay, thank you, and thank you to your staff as well for turning those around for us on the weekend.
MS. PERRY:
A. No problem.
MR. SIMMONS:
Q. Just a couple more general type questions about OPEBs, nothing detailed. The statement has been made that if nothing is done to move accounting for OPEBs from a cash basis to accrual basis that the amount of the transitional obligation will continue to grow

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into the future, and is the reason that the transitional obligation is growing related to the fact that the costs of providing OPEBs to those employees who will be retired in the future is projected to be greater than the cash cost of providing benefits to employees that are retired today?
MS. PERRY:
A. That is certainly part of the answer. Accrual accounting is not just paying--it's not the premiums for people that are retired. Accrual accounting would actually accrue post retirement benefits for me today. So even though I'm not retired, so there's no premium to pay with respect to my post retirement benefits, you're actually accruing some of the cost for me. So it would conceptually be higher than the cash premium.
MR. SIMMONS:
Q. If the OPEBs continue to be accounted for on a cash basis, is it correct that the transitional obligation would continue to grow forever or would the point come where the transitional obligation would stabilize or even reduce?

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MS. PERRY:
A. There would be a point where it would cross over, yes.
MR. SIMMONS:
Q. Yes, and what -
MS. PERRY:
A. I would not project -
MR. SIMMONS:
Q. - would cause that to happen?
MS. PERRY:
A. Well, eventually--accrual accounting is simply just the present value of your expected future payments. So at some point in time, they will meet. I've not asked the actuaries to project out when that's going to be, but at some point, they would cross over, yes.
MR. SIMMONS:
Q. Okay. This application only deals with moving to accrual for the current pension expense and doesn't deal with the transitional obligation, but it is, as has been described, the gorilla that's out there to be dealt with at some point. Have you conducted any kind of study or given any consideration to what the options are for dealing with the transitional expense

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should this application be granted and the move be made to accrual?
MS. PERRY:
A. No, we have not completed a study with respect to options. I know in the past, I believe we changed the GEC policy for Newfoundland Power, we did propose, and it was granted by this Board, I believe that was over a five-year period, and most often, with the amortizations that we've put forward, we have amortized it over three to five years. What you're trying to do is you're trying to not continuously push it so far out into the future, but understanding that there are rate impacts and for something of the magnitude of 46 million, we've indicated that between five or ten years appeared reasonable. It's hard to get information with respect to what other utilities have done with their transitional obligations, but I think five to ten years is a reasonable supposition.
(5:45 p.m.)
MR. SIMMONS:
Q. Can you foresee there being any options for dealing with the transitional obligation other

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than to amortize it and recover it through rates?
MS. PERRY:
A. No, that's the only thing I see with--the only other option that could potentially be there is if we had some other offsetting regulatory liabilities to offset, and at this particular time, we do not have any. I know when we've deferred--we proposed and it was approved to defer depreciation expense in 2005 and '06, we did, at that time, have an unbilled revenue liability that we had as well. So there were some offsetting balances there that we had that we could take advantage of. But in this particular case, there's none currently on the books for Newfoundland Power. So the only option that I see with respect to the transitional obligation is to actually recover it through customer rates.
MR. SIMMONS:
Q. If the transitional obligation were frozen and put to one side, am I correct that it forms part of the rate base and--it forms part of the rate base, the transitional obligation amount, does it?

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MS. PERRY:
A. No, not today.
MR. SIMMONS:
Q. No, it doesn't.
MS. PERRY:
A. What will impact rate base is the--any money that we received in customer rates above and beyond what we pay out as cash premiums, that will serve to reduce rate base as we go forward.
MR. SIMMONS:
Q. In the future?
MS. PERRY:
A. In the future.
MR. SIMMONS:
Q. Right. How the transitional obligation is dealt with, whether it's amortized over two years, five years, ten years or whatever, would that have any impact on rate base?
MS. PERRY:
A. Yes, as we collect from customers, the difference in what we collect from what we pay out will in turn reduce rate base.
MR. SIMMONS:
Q. Okay, so deferring the amortization of the

transitional obligation will have the effect as well of deferring the reduction in the rate base and the reduction in the rate base would have a benefit for the rate payer?

MS. PERRY:

A. Yes, absolutely.

MR. SIMMONS:

Q. Okay. A question a PEVDAs, and I have only PEVDAs and one other topic. Oh, and first, just a point of clarification. Do I understand correctly that the PEVDA account will not--if the OPEBs are accrued, OPEB expenses are accrued, those will not flow through the PEVDA account? Is that correct?

MS. PERRY:

A. Yes, that is correct.

MR. SIMMONS:

Q. The proposal does not include the OPEBs, okay, and did I understand you earlier this afternoon to say that conceptually it would not work in future to flow OPEBs through the PEVDA account? Is there any particular reason why that would not be appropriate?

MS. PERRY:

A. No, the proposal that we've put forward for

the pension expense was predicated off of the volatility in the market, and the extent that that volatility could have on Newfoundland Power's pension expense.

MR. SIMMONS:

Q. Okay.

MS. PERRY:

A. So that was the basis by which we proposed the PEVDA. OPEBs is conceptually similar in that it moves with the market, but not to the same degree that we have seen pension expense move around. So we've only proposed that the pension--Defined Benefit pension expense would actually flow through the PEVDA.

MR. SIMMONS:

Q. Okay, so some people would expect that once the OPEB accrual is put in place, the next step would seem to be to then want to flow variances through an account like PEVDA, but you're telling me that the volatility of the OPEBs is not enough to cause us to suspect that that would be something that you'd want to do in the future?

MS. PERRY:

A. Based on where we are today, that is right,

yes.

MR. SIMMONS:

Q. Okay. Now the PEVDA account has been proposed and recommended to the Board for acceptance as an appropriate way to deal with the variances of pension expense that have resulted from changes in discount rate and changes in the rate of return on the asset values in the pension plans. I think that's--have I got that right?

MS. PERRY:

A. Yes, it's the volatility of the discount rate that is--so our ability to actually predict what next year's pension expense is going to look like is becoming quite problematic.

MR. SIMMONS:

Q. Now in answering some questions from Mr. Johnson about the past pension expenses, one thing that you commented on was the early retirement program that had been in effect a number of years ago.

MS. PERRY:

A. Yes.

MR. SIMMONS:

Q. Which had resulted in a fairly large variance

in that particular year, but it was due to a factor other than the unpredictability of discount rates. In effect, it was due from a factor within Newfoundland Power's control, in that it was a choice to have an early retirement plan?

MS. PERRY:

A. That's correct.

MR. SIMMONS:

Q. If Newfoundland Power was to choose to take a similar step, such as an early retirement plan or some other step in its control that would have the effect of creating a variance in pension expense, what would happen then with the PEVDA account? Would the PEVDA account, in your view, apply to that?

MS. PERRY:

A. Well, I guess the first good or bad news is that we don't foresee any early retirement programs coming our way, but in the event that there were--that we were going to offer an early retirement program, that was not the intent of the PEVDA. So certainly, I don't see cost changes as a result of an early retirement program flowing through the PEVDA.

MR. SIMMONS:
Q. Right, so if the Board were, for example, to consider requesting that Newfoundland Power notify in advance of any programs or steps it chose to take which could affect the pension expense, that that I presume would be something that would not be objectionable to Newfoundland Power?
MS. PERRY:
A. No, certainly not.
MR. SIMMONS:
Q. Okay, and the last thing that I wanted to ask you about are a couple of questions about the IFRS. Now Newfoundland Power has been reporting, I think, on a quarterly basis to the Board on the progress towards moving from Canadian GAP to the IFRS as a basis for its accounting?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. Okay. Can you give us an idea of--I'll try and cut this short now, just take a moment. If I understand correctly, 2011 is the year that Newfoundland Power is going to have--

start preparing its statements on the IFRS basis?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. Is that right?
MS. PERRY:
A. January 1, 2011 with comparative financials for 2010.
MR. SIMMONS:
Q. Okay. So you need to be in a position to know how you're going to account for this in 2010?
MS. PERRY:
A. Yes.
MR. SIMMONS:
Q. Okay. Are you anticipating that the move to IFRS is itself going to have any material impacts on the calculation of rates that would be of interest to the Board?
MS. PERRY:
A. Well, during the last proceeding, we did talk at length with respect to IFRS and the impact that it could potentially have on Newfoundland Power. The big issue with IFRS is surrounding whether or not under International Financial

Reporting Standards regulatory assets and liabilities would in fact be allowed to be recognized. So for a rate regulated utility, that's a big deal. So, because we, if we are unable to recognize the RSA or things such as the PEVDA or the DMI account, then that will obviously cause volatility in our earnings and potentially could impact how customer rates need to be adjusted. So that was a big unknown during the last rate case. Since then, there are some good developments in the fact that the International Accounting Standards Board released an exposure draft which identified under what instances it would allow the recognition and measurement of regulatory assets and liabilities. It's not a standard. It's only an exposure draft. So until it's a standard, I'm always only cautiously optimistic because it can change, because accounting standard boards have been known to do other different things. But based on the exposure draft, I would say that we definitely meet the scope criteria that we are a utility that can recognize regulatory assets and liabilities. So that would be a good

development for us. We have been through all of our regulatory assets and liabilities and today, nothing is, I guess, standing out as one that may result in not being permissible under the new standard. It may require some review and maybe even further consideration by this Board with respect to orders that have been previously written about the reserves, just for clarifications as to what they are. But certainly nothing that stands out that we believe today is--cannot be recognized under IFRS. The only one issue that stands out is the fact that it is just exposure draft, not a standard, but also the recognition criteria for these assets and liabilities. There's currently a lot of discussion going on about whether we need to be present valuing all of our regulatory assets and liability. Now, where that's going to go, I'm not sure, but one would think that if we present valued at our WACC or weighted average cost of capital, then we would have no--it would be the values that we recognize today. But until that's nailed down, I get nervous that they're asking us to recognize a different value for these particular assets. So there's a little bit of a road that we have to travel yet to get full clarification, but today, I think we're in a much better position then we were in 2007.

MR. SIMMONS:

Q. So based on what you know of what will happen if IFRS now and some things that still remain uncertain, is there any prospect that the implementation of the IFRS would, apart from any other causes, cause Newfoundland Power to have to come back in in 2011 for a GRA in order to deal with the effects of implementing IFRS? Anything that you can foresee now?

MS. PERRY:

A. There's nothing right now. I mean, as I said, I think there are still some uncertainties with respect to IFRS, but there's nothing that I can see right now.

MR. SIMMONS:

Q. Thank you very much. I don't have any other questions.

CHAIRMAN:

Q. I guess it's our turn now, is it? Is it our turn now? What's the--have you got--or do you do redirect? I forget.

MR. JOHNSON:

Q. I'll make it easy, Mr. Chairman. We don't plan to ask anything.

CHAIRMAN:

Q. Okay. Do you have any questions then?

VICE-CHAIR WHALEN:

Q. No, I have no questions, thank you.

COMMISSIONER NEWMAN:

Q. No questions. Thank you very much.

CHAIRMAN:

Q. I do. Just want to ask you a question about elasticity. You were saying because of the rate changes or proposed rate changes, there will be some loss of revenue because electricity is fairly elastic. Is that correct?

MS. PERRY:

A. Yes.

CHAIRMAN:

Q. And if it wasn't elastic, you'd have less of a revenue requirement?

MS. PERRY:

A. Yes, exactly.

CHAIRMAN:

Q. The conservation dollars that you're going to

spend, you've got about $1,800,000 in there, I think it is.

MS. PERRY:

A. For 2010, yes.

CHAIRMAN:

Q. For 2010 for conservation costs, and I think I saw in something that for every dollar spent on conservation, the return to the rate payer is 2.7. Is that correct? Is that the number that you used?

MS. PERRY:

A. There are particular tests that we do that we have filed with our conservation plan. I'd have to look up the actual test, but yes, there is a total resource test, I believe.

MR. LUDLOW:

A. There's several tests, and I do believe Lorne, Mr. Henderson, I'm sorry, can probably go to excruciating detail -

CHAIRMAN:

Q. Is he the guy to ask about all that?

MR. LUDLOW:

A. I think he can take you to excruciating detail on that one, Mr. Chair.

CHAIRMAN:

Q. Because from what I've been reading in the States, all this smart grid and stuff, it's not saving any money. I mean, it's saving money for the consumers, but to the degree which demand is reduced, utilities lose revenue and they have to come back for increases in rates. So there seems to be a paradox here with respect to conservation. I don't know. Do you have any thoughts?

MR. LUDLOW:

A. Well, I mean, one of the biggest issues we're facing is just the topic you're bringing up, CDM, conservation. We look at the customers want it, it seems to be the right thing to do. At the same time, the paradox is that we're spending operating dollars to reduce sales. So that's going to, you know, drive rates and that's the balance, I guess, Mr. Henderson will speak to. Even internal to the company, as I look at it, it's almost like a counter intuitive exercise that as we reorganize the company and structurally organize and structure the company around that whole area, trying to convince, work with managers, engineers, technologists and line personnel about the value of conservation, that's a real challenge we face, even within our own organization. So there's paradoxes on several fronts, Mr. Chairman, on that one.

CHAIRMAN:

Q. So conservation may, in fact, not save any money over the long run?

MR. LUDLOW:

A. No, I think, you know, from where we are, if we look at the island, we're a separate grid too, you know. If we look at the production system, transmission, distribution in its totality, you know, I think if every--if we look at Holyrood, if we can offset that 12-cent energy that's being produced at Holyrood, that's where we'll get the bang for the buck. It's on that whole system piece. So our sense and our assessment of it is that this is the right direction to be headed in.

CHAIRMAN:

Q. The other--just another quick question. With respect to people moving from rural to urban, are you finding or will you find over time as this trend continues, and it seems to be a long-term secular trend, that you're going to

have sort of stranded investment out there in the hinterlands that is not going to be--there's not going to be any use for?

MR. LUDLOW:

A. I'm not seeing to that end. Now maybe in 10 or 20 years, there might be. But what seems to be happening is we're seeing--I think one of the things. tale of two economies was the quote that was used here somewhere in the last few days. It seems that houses are being kept in what I will call the non-Avalon, let's go that way, and split it. So you're still keeping services on, although the amount of revenue coming off some of those services is declining because a lot of them are seasonal homes and those type. So you're getting a dynamic in use change as well. Now if it ever came to the point that communities started to close down and things such as that, which is not in the next five to six years, at least in my viewpoint, let's go 20-25 years, that could be a different challenge. The real challenge in this exercise is the provision of service and keeping the right resources, the right people and the right equipment in the

locations around this province to be able to respond in a timely manner, and that's a bigger question as we look at how we structure and build. It's a real quandary, you know, and it's one we're facing and have been facing now for several years actually.

(6:00 p.m.)

CHAIRMAN:

Q. I don't think I'm too worried about the next 25 years. The last question is just your opinions on--I mean, economists are debating whether there is any--recovery is underway or whether it's not, and you can read 50 economists and I read 50 and there's 25 are saying yes, things are starting to look up and there's another 25 saying things are not. What are you--Madame Controller, what do you think? What are your thoughts?

MS. PERRY:

A. I'm probably the same camp. You read 50 articles and they all say different things. I guess the one real reservation that I have is once the Government spending dries up. You know, what is the true economic activity that'll be left after that's over? But you

know, we've seen a lot of movement in the market and it's movement that wasn't predicted. So I think after you go through that, you lose faith as to what's coming. So I've lost faith in the predictions that are out there, and even the predictions that we're out of a recession, we're in a recession, we never were, you know, we were never in a recession. It gets confusing. So I think time will be the testament over the next year, to just see how it all unfolds, but I'm sceptical about the level of Government spending, I guess, and about what's behind that.

CHAIRMAN:

Q. Dow Jones said today "the bond market yields and US treasuries have collapsed to historic lows. A 30-year bond is yielding just 4.2 percent, well below long-term trends. This is usually a strong signal of tougher times ahead." Do you agree with that? You don't know?

MS. PERRY:

A. Never know what's--it's hard to make a prediction.

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CHAIRMAN:
Q. And I think Mr. Simmons answered the question, but on the issue of the accrual versus the expense, over time, it does not really matter? I mean, both approaches are revenue neutral, aren't they?
MS. PERRY:
A. Yes, they should equate over time, yes.
CHAIRMAN:
Q. It's just that the accrual better matches the occurrence of the expense and who should pay for it? Is that -
MS. PERRY:
A. That is exactly it, yes.
CHAIRMAN:
Q. So I guess if there's nothing further. Do you have anything?
KELLY, Q.C.
Q. No, Mr. Chair.
CHAIRMAN:
Q. I guess so we're adjourned until 9:00 tomorrow.
MS. GLYNN:
Q. Mr. Chair.
CHAIRMAN:

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Q. I'm sorry.
MS. GLYNN:
Q. Just one point.
CHAIRMAN:
Q. I can't see you. There you are.
MS. GLYNN:
Q. Just one point of housekeeping. I'd like to note for the record that Mr. Young from Newfoundland Hydro was not present today, nor was he present for Friday's proceedings. I'd just like to put that on the record, because it was noted in the transcript that he was here on Friday.
CHAIRMAN:
Q. Okay. Well, I guess, we are adjourned until 9:00 tomorrow morning.
KELLY, Q.C.
Q. Thank you, Mr. Chair.
CHAIRMAN:
Q. Thank you.
ADJOURNED AT 6:05 P.M.

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CERTIFICATE

I, Judy Moss, hereby certify that the foregoing is a true and correct transcript in the matter of Newfoundland Power's 2010 General Rate Application heard on the 19th day of October, A.D., 2009 before Commissioners of the Public Utilities Board, Prince Charles Building, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.
Dated at St. John's, Newfoundland and Labrador this 19th day of October, A.D., 2009.
Judy Moss

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