

O'DEA, EARLE

LAW OFFICES

323 Duckworth Street
P.O. Box 5955
St. John's, NL
Canada A1C 5X4

Telephone 709 726 3524
Facsimile 709 726 9600

odeaearle@odeaearle.nf.ca
www.odeaearle.nf.ca

September 17, 2010

Ms. G. Cheryl Blundon
Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 21040
St. John's, NL
A1A 5B2

Dear Ms. Blundon:

Re: Newfoundland Power Inc. - Other Post Employment Benefits Application

The purpose in writing is to address whether the scope of inquiry into the company's application should include an examination of the appropriateness and reasonableness of the OPEBs Plan benefits themselves.

The company's proposal recommends inter alia that it adopt, for regulatory purposes, the accrual method of accounting for OPEBs costs and income tax related to OPEBs and that it recover the transitional balance, or regulatory asset, of approximately \$68.6 million as at January 1, 2011 associated with the adoption of accrual accounting for OPEBs costs, over a 15 year period.

The company's Report on Other Post Employment Benefits of June 30, 2010 (Schedule "A" to the Application) states that effective 2011, the company is making a number of changes to its OPEBs benefits plan (Plan). At footnote 5 at page 3 it states:

"5 The most prominent changes to the Plan are the introduction of a 50% member-paid cost sharing arrangement for retirees over the age of 65, the removal of the \$5,000.00 annual benefit cap, and the introduction of drug dispensing fees. The plan changes will not impact existing retirees or employees eligible for full pension by December 31, 2012. Changes to the Plan have reduced Newfoundland Power's forecast accrued OPEBs obligation by almost 20%. The changes have reduced forecast accrual OPEBs costs by about 30%."

Table 1 at page 3 of the company's report sets out the forecast impacts of the OPEBs Plan changes. Changes to the Plan are forecast to reduce Newfoundland Power's accrued OPEBs obligation in the range of \$15 to \$17 million and reduce its annual OPEBs costs by approximately \$2.5 million per year over the period 2011 to 2013. Obviously, the Plan's benefit regime has a very direct rate impact upon customers.

In last year's GRA, the Consumer Advocate took issue with the manner in which the company had been managing its OPEBs Plan. (see Consumer Advocate, Written Submission p. 66-69) At the GRA, the company gave no details as to what it was proposing in its then upcoming review with the union representing its two bargaining units¹. All that was known at the time was that changes might be coming to the Plan.

Now the company has completed its OPEBs review, has made changes to its Plan effective January 1, 2011 and wishes to proceed with recovery of the transitional balance or regulatory asset of \$68.6 million as of January 1, 2011 over a 15 year period. The question that arises is whether this proceeding will now afford an opportunity for the Consumer Advocate to question the extent of the Plan changes the company has made before we turn to proceeding to amortize such a significant recovery balance.

Given the very significant effects that Plan changes can have upon both the accrued obligation and annual costs, is it not appropriate in this proceeding to examine the changes that the company has made to its Plan? For instance, the company proposes that none of the reforms will impact either existing retirees or employees eligible for full pension by December 31, 2012. According to the actuarial report (at Volume 2, Tab 5, p. 14-15) filed in the 2010 GRA, as of December 31, 2008 NP had 235 retirees who were less than age 65. It will be recalled that NP's present OPEBs Plan requires any retiree less than age 65 to pay 50% of the cost of the benefits. It follows that the 235 retirees who were less than age 65 as at December 31, 2008, were already paying one-half the cost of these benefits. Some of these retirees are several years away from age 65 and would have had ample notice to allow them to adjust to *continuing* to be responsible for one-half of their benefits costs upon reaching age 65². The company's revised Plan, indeed, grandfathered other certain employees who have not even yet retired. These existing employees will receive free benefits when they reach age 65, after having paid one-half of the benefits from the date of their retirement to age 65.

If amounts are to be crystalized and collected from customers over a period of years, the amount to be crystalized must be questioned for reasonableness and appropriateness. The

¹No provision exists in the NP Collective Agreements with respect to post-employment group benefits (Transcript of October 19, 2009, p. 66, lines 6-12).

²Retirees are given express notice by means of a benefit booklet that benefits terminate with the expiry or termination of the group insurance contract. There is no written document whereby a promise or contract is made to employees that free group benefits will continue to be available to them after age 65 (Transcript of October 19, p. 66 - line 23; p. 77 - line 19).

appropriateness of these costs must be tested in the context of the present Application in the Consumer Advocate's respectful submission.

We trust that the foregoing is found to be in order.

Yours very truly,

O'DEA, EARLE

A handwritten signature in cursive script, appearing to read 'Thomas Johnson', written in black ink.

THOMAS JOHNSON

TJ/cel

cc: Newfoundland Power Inc.
Attention: Mr. Gerard Hayes