

1 **Q. Reference: section 3.1 OPEBs Costs Overview**

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3 **Please confirm that under the Cash Method there is no cash or accounting “reserve”**
4 **that is available to pay the cost of future obligations. If this is not correct, please**
5 **explain.**

6
7 A. Confirmed.

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9 In Order No. P.U. 43 (2009), the Board ordered Newfoundland Power to file a
10 comprehensive proposal for the adoption of the accrual method of accounting for OPEBs
11 costs as of January 1, 2010. Each of Canadian GAAP and IFRS establish accounting
12 standards for the accrual method of accounting for OPEBs costs. Neither Canadian
13 GAAP nor IFRS refers to a cash or accounting “reserve” available to pay the cost of
14 future OPEBs obligations.

15
16 As observed by Grant Thornton, the cumulative excess of the OPEBs expensed under the
17 accrual method versus actual payments made will result in an accounting liability on the
18 Company’s balance sheet. This accounting liability will decrease Newfoundland Power’s
19 rate base.¹ Grant Thornton has confirmed that this treatment is consistent with both (i)
20 the Asset Rate Base Method and (ii) the Company’s accounting treatment of pension
21 plans.²

22
23 As indicated in the Company’s evidence at Appendix C *An Explanation of Rate Base*
24 *Effects*, under the Asset Rate Base Method, the Company’s rate base includes physical
25 assets as well as a number of additions and deductions due to regulatory accounting.
26 Deductions from rate base typically reflect cash amounts received by the Company in
27 providing a regulated service which have not yet resulted in a cash outlay. For example,
28 the municipal tax liability, which is deducted from the Company’s rate base, reflects an
29 amount received by the Company in revenue in advance of its payment to municipalities.
30 These deductions from Newfoundland Power’s rate base, in turn, reduce the Company’s
31 financing requirements. The customer benefits of the reduced financing requirements, or
32 rate base effects, related to OPEBs cost recovery are cumulative – they will increase over
33 time.³

¹ See Grant Thornton’s *Report of the Review of Newfoundland Power Inc.’s Application of a Comprehensive Proposal on Other Post Employment Benefits*, page 5, lines 21-29.

² *Ibid.*

³ See Appendix C to Newfoundland Power’s evidence for further explanation and calculation of rate base effects.