Q. **Reference: Grant Thornton (GT) Report, page 5, lines 15-19.**

GT comments on a change proposed in a recent IASB exposure draft.

a) If unamortized actuarial gains/losses are eliminated, as proposed in the IASB exposure draft, what further changes would NP consider appropriate to the treatment of OPEBs that is proposed in its June 30 evidence?

b) Please provide details of the impact on the forecast annual cost costs appearing in NP's evidence (Schedule A, Table 2, page 4).

c) In the absence of the adoption of this change under IFRS, would NP consider recognizing changes in the estimate of the defined benefit obligation immediately, as opposed to the corridor approach, to be (i) appropriate and/or (ii) acceptable?

A. a) The IASB exposure draft related to post employment benefits has not been finalized or approved. Further, Newfoundland Power is not in a position to assess the outcome of the exposure draft process associated with IAS 19. Only when a final standard is approved, will Newfoundland Power be in a position assess any appropriate changes in the treatment of OPEBs costs.[1]

On October 1st, 2010, the Canadian Accounting Standards Board made revisions to the CICA Handbook to provide entities with rate-regulated activities an optional one-year deferral of the January 1, 2011 adoption date of IFRS. It is Newfoundland Power's intention to defer adoption of IFRS until January 1, 2012 in accordance with these revisions.[2]

Newfoundland Power's decision to defer adoption of IFRS until January 1, 2012 will provide additional time for the Company to monitor and, where necessary, address future developments with respect to the adoption of IFRS. In addition, this will practically require any Company adoption of accrual accounting for OPEBs on January 1, 2011, to be in accordance with Canadian GAAP as opposed to IFRS.

---

1 At page 4 of the Grant Thornton Report, the current status of IASB deliberations on *Rate regulated activities* is outlined. The history of this exposure draft indicates that caution should be taken to not treat an accounting standard exposure draft as a final standard.

2 Grant Thornton's Report indicated that IFRS adoption might be delayed for rate regulated enterprises to January 1, 2013. This was accurate as of the date of Grant Thornton's Report. Subsequently, the Canadian Accounting Standards Board decided to effectively delay IFRS adoption for rate regulated enterprises to January 1, 2012.

b) The forecast annual OPEBs costs in Table 2, page 4 of Newfoundland Power's evidence are calculated in accordance with current Canadian GAAP. The impact of the exposure draft of IAS 19 will only occur as and when the Company adopts IFRS and can only be estimated by assuming the exposure draft will be adopted as a final standard in its current form. Accordingly, any forecast of impact on annual costs is necessarily an approximation at this time.

Newfoundland Power estimates that the impact of the IAS 19 exposure draft would be to increase annual OPEBs costs for financial reporting purposes by approximately $700,000. But, the impacts of adoption of IFRS would also include a decrease in the regulatory asset from what it would have otherwise been without the changes contained in the IAS 19 exposure draft.[3]

In addition, as pointed out by Grant Thornton, the adoption of the IAS 19 exposure draft would require companies to immediately recognize changes in the estimate of the defined benefit obligation arising from actuarial gains and losses.[4]

c) Current accounting standards permit either the recognition of changes in the OPEBs obligation immediately or the use of a corridor approach. Both approaches are acceptable and appropriate for financial reporting purposes, as both are permitted under current Canadian GAAP and current IFRS.

The current use of a corridor approach by Newfoundland Power allows the impact of changes in the OPEBs obligation to be smoothed over the Estimated Average Remaining Service Life ("EARSL").[5] This reduces the volatility of OPEBs costs due to changes in the discount rate or other actuarial assumptions.

3 From a regulatory perspective, differences in accounting methods for OPEBs costs do not impact the aggregate amount of OPEBs costs to be recognized or recovered by Newfoundland Power. Such differences are essentially related to timing of cost recognition. See Company evidence, Section 2.1 *General*, Page 2, and Section 6.1 *General*, Page 13.

4 See Grant Thornton's Report, Page 5, lines 15-19. The requirement to immediately recognize actuarial gains and losses does not affect forecast annual costs appearing in Newfoundland Power's evidence as no such actuarial gains and losses are forecast.

5 At December 31, 2009, EARSL was 14 years.