

1 **Q. Please confirm the Board has approved the recovery of employee future benefit cost**  
2 **variances between test years through Newfoundland Power's Rate Stabilization**  
3 **Account. If confirmed, please explain why the cost recovery of variances in**  
4 **employee future benefit costs between test years is appropriate.**

5  
6 A. It is confirmed.  
7

8 ***Background***  
9

10 In Order No. P.U. 43 (2009), the Board approved the use by Newfoundland Power of a  
11 Pension Expense Variance Deferral Account ("PEVDA") to capture the difference  
12 between the annual pension expense approved for the test year revenue requirement and  
13 the actual pension expense computed in accordance with generally accepted accounting  
14 principles for any subsequent year to reflect changes in Newfoundland Power's annual  
15 pension expense due to changes in assumptions, in particular discount rates.  
16

17 In Order No. P.U. 31 (2010), the Board approved the use by Newfoundland Power of an  
18 Other Post-Employment Benefits ("OPEBs") Cost Variance Deferral Account  
19 ("OPEVDA") to capture future changes in OPEBs costs from those included in rates to  
20 reflect changes in assumptions, such as discount rates. The operation of the OPEVDA is  
21 consistent with the PEVDA. Changes in discount rates, which are the result of changes  
22 in capital market conditions, are broadly accepted to be beyond the control of utility  
23 management.  
24

25 The PEVDA and OPEVDA operate annually in a manner which is conceptually  
26 consistent with the operation of Newfoundland and Labrador Hydro's ("Hydro") rate  
27 stabilization plan (the "RSP").  
28

29 The primary difference between the PEVDA and OPEVDA versus the RSP is that the  
30 PEVDA and OPEVDA make annual adjustments for Newfoundland Power's pension and  
31 OPEBs expense, respectively, and the RSP makes annual adjustments for Hydro's cost of  
32 fuel at Holyrood. The PEVDA, OPEVDA and RSP all adjust customer rates to reflect  
33 annual changes in costs based upon the most current test year parameters approved by the  
34 Board. Such regulatory mechanisms, which provide for annual adjustments for specified  
35 utility costs, are commonplace in Canadian utility practice.  
36

37 ***Appropriateness of Board Approval***  
38

39 The Board approval of the PEVDA was appropriate for a number of reasons, including:  
40

- 41 1. evidence concerning Newfoundland Power's PEVDA, including the variability in  
42 annual pension expense due to changes in assumptions, was reviewed by the Board in  
43 the context of the Company's 2010 general rate application;

2. the Board's consultant, Grant Thornton, reviewed Newfoundland Power's PEVDA proposal and concluded in evidence that it would limit the variability of the pension expense due to changes in assumptions, in particular discount rates; and
3. the PEVDA was agreed upon in the settlement agreement between the Consumer Advocate and Newfoundland Power, which was facilitated by Board Hearing Counsel.

The Board approval of the OPEVDA was appropriate for a number of reasons, including:

1. evidence concerning Newfoundland Power's OPEBs, including the variability in OPEBs, was reviewed by the Board in the context of the Company's 2010 general rate application;
2. in Newfoundland Power's 2010 general rate application, the Board's consultant, Grant Thornton, concluded in evidence that while PEVDA addressed pension variability, the variability of OPEBs still existed;
3. in Order No. P.U. 43 (2009), the Board ordered Newfoundland Power to submit a comprehensive proposal for adoption of the accrual method of accounting for other post-employment benefits costs as of January 1<sup>st</sup>, 2011; and
4. the Board's consultant, Grant Thornton, in reviewing Newfoundland Power's application, concluded in evidence that the use of the OPEBs Cost Variance will limit the variability of the OPEBs cost due to changing assumptions, such as discount rates, as well as changes related to rate base effects.

Approval of Newfoundland Power's recovery of variances in employee future benefit costs via the rate stabilization account was only given by the Board after its review of a comprehensive evidentiary record developed in the course of a general rate application.