Q. McShane Evidence – Please confirm that Newfoundland Power Inc. had a PEVDA (Pension Expense Variance Deferral Account) approvedeffective January 1, 2010. Please confirm that prior to January 1, 2010, Newfoundland Power Inc. was at risk for any degree of variability and/or unpredictability that was associated with forecasting pension expense and that after January 1, 2010 the company is not at risk for any degree of such variability or unpredictability by reason of the PEVDA.

A. Confirmed that Newfoundland Power had a pension expense cost variance deferral account ("PEVDA") approved effective January 1, 2010. The PEVDA was approved to address *increased* variability and unpredictability associated with forecasting pension costs due to changing assumptions, such as discount rates which was described by Newfoundland Power in its evidence in its 2010 General Rate Application.

Prior to a 2000 change in Canadian generally accepted accounting principles, there was no risk of variability in pension expense due to changing assumptions such as discount rates. From 2000 through 2008, the average year-over-year change in discount rate was ±0.32% for Newfoundland Power. From 2008 to 2009, the discount rate increased by 2%, or over six times the average year-over-year change of the previous eight years. In approving the PEVDA, the Board observed that similar mechanisms were in place in other jurisdictions in Canada and the U.S.

Based on the above, Newfoundland Power's risk associated with forecasting pension expense with the PEVDA is the same as the risk existing prior to 2000; slightly lower than the risk existing from 2000 to 2008; and consistent with other utilities in Canada and the U.S. which have similar mechanisms.