

1 **Q. Further to the reply to CA-NP-337, would Newfoundland Power please quantify in**
2 **dollar terms the amount of risk Newfoundland Power Inc. was exposed to for each**
3 **of the five years prior to the PEVDA?**
4

5 A. Newfoundland Power has never performed an assessment on the basis requested.
6

7 The risk associated with the increased variability of pension expense due to increased
8 volatility in financial markets was, however, thoroughly canvassed before the Board in
9 evidence filed in Newfoundland Power's 2010 General Rate Application. The evidence
10 filed by Newfoundland Power in support of that Application was sufficient for (i) the
11 Consumer Advocate to agree the Pension Expense Variance Deferral Account was
12 appropriate and (ii) the Board to approve the account.
13

14 Newfoundland Power provided evidence describing the impacts of uncertain financial
15 market conditions on the Company's defined benefit pension plans.¹ Financial market
16 conditions affect defined benefit pension costs in two fundamental ways:
17

- 18 i. Changes in asset values resulting from market conditions impact both the funding
19 obligations and the accounting for the expense associated with defined benefit
20 pension plans; and
- 21 ii. Discount rates used to present value future plan obligations are required to reflect
22 prevailing market conditions.
23

24 Changes in the discount rate can result in large differences in pension expense from year
25 to year. The risk associated with these potential impacts was also described in detail in
26 Newfoundland Power's evidence during the 2010 General Rate Application.²
27

28 In Order No. P.U. 43 (2009), the Board accepted that financial market conditions had
29 increased the variability and unpredictability of forecasting pension expense and that the
30 impact of this uncertainty can be significant.³ The Board also noted that similar
31 mechanisms are in place in both Canada and the U.S. that allow for recovery of actual
32 pension costs.⁴
33

34 Please refer to the response to Request for Information CA-NP-336 which provides Ms.
35 McShane's assessment of the risk associated with this matter.

¹ See Volume 1, Company Evidence and Exhibits, Section 3.4.2 Pension Plans, 2010 General Rate Application.

² See Volume 1, Company Evidence and Exhibits, Section 3.4.2 Pension Plans, Tables 3-13 and 3-14, 2010 General Rate Application.

³ See Reasons for Decision: Order No. P.U. 43 (2009), page 9, lines 7 to 9.

⁴ See Reasons for Decision: Order No. P.U. 43 (2009), page 9, lines 28 to 30.