

1 **Volume 2, Tab 4 – A Report on Employee Future Benefits**

2
3 **Q. What are current and future ratepayers gaining by NP’s adoption of the accrual**
4 **method of accounting for OPEBs, particularly given the current size of the**
5 **Transitional Obligation? Please demonstrate the economic benefit to consumers.**

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7 A. The adoption of the Accrual Method of accounting for OPEBs has the following impacts
8 on the rates paid by current and future customers.

9
10 1. Under the Accrual Method of accounting, OPEBs costs are expensed and included in
11 revenue requirement in the period during which the services giving rise to the costs
12 are provided. Rates in each period therefore recover the cost of providing service in
13 the period; no more and no less. Otherwise, as in the case of the Cash Method of
14 accounting for OPEBs, costs that are not recovered from current customers would be
15 recovered from future customers.

16
17 2. As set out in the Response to CA-NP-206, the Accrual Method of accounting serves
18 to reduce Newfoundland Power’s rate base and therefore its allowed return and
19 revenue requirement from what it would otherwise be. Put another way, the cash
20 received in connection with OPEBs expense that is not paid out by Newfoundland
21 Power to cover benefits premiums and retirement allowances serves to reduce, from
22 what it would otherwise be, the amount of debt and equity financing required by
23 Newfoundland Power. The cost of such financing is ultimately borne by customers.

24
25 3. As set out on page 58 of the Company Evidence, the Accrual Method of accounting
26 for OPEBs improves the Company’s credit metrics. The resultant forecast credit
27 metrics for 2008 should help maintain the Company’s current investment grade credit
28 rating, which allows the Company to have competitive access to capital markets. An
29 investment grade credit rating reduces the cost of capital, which is borne by
30 customers, from what it would otherwise be.

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32 Please refer to the Response to CA-NP-204.