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Q. At page 83 of the Board's Decision and Order in Order No P.U.!9 (2003) the Board stated:

"The Board will direct NP to propose a plan at its next general rate application for moving towards the accrual method of accounting for future employee benefits as recommended by CICA. The Board emphasizes such a plan should be presented to the Board as an alternative to the existing method and should address the transitional impact with a view to fulfilling NP's obligation to its employees while at the same time moderating its impact on rates. The Board will then be in a position to consider this alternative accrual method and its specific impacts at the next hearing."

NP has proposed to defer consideration of the Transitional Obligation of $34.1 million until its next GRA. In the absence of a range of options or possibilities as to how the Transitional Obligation of $34.1 million might be addressed at the next GRA, how can the Board, in NP's view, fully assess the specific impacts of moving from the current method of accounting for OPEBs expense for regulatory purposes?

A. The specific impacts of moving from the Cash Method to the Accrual Method of accounting for OPEBs have been fully set out and explained in Section 3.6.3 *OPEBs Accounting Proposal* in the Company Evidence and *A Report on Employee Future Benefits*.

The $34.1 million Transitional Obligation represents the cost of providing service related to OPEBs that have been incurred up to December 31, 2007 but which have not yet been recognized and recovered in customer rates under the Cash Method of accounting for OPEBs.

The existence of the OPEBs liabilities represented by the Transitional Obligation is not impacted by the proposed adoption of the Accrual Method. In this respect, the Transitional Obligation of $34.1 million is not conceptually dissimilar to the 2005 Unbilled Revenue which arose as a result of Newfoundland Power's transition from the Cash Method to the Accrual Method of accounting for revenue recognition commencing in 2006.

The only impact that the adoption of the Accrual Method will have on the Transitional Obligation is to prevent further growth in its amount.

The adoption of the Accrual Method in 2008 does not require that the Transitional Obligation be addressed at this time. The disposition of the Transitional Obligation can be addressed as a separate issue as part of the overall transition to the Accrual Method. A similar multi-step approach was taken to address the transition from the Cash Method to the Accrual Method of accounting for revenue recognition and, in particular, disposition of the 2005 Unbilled Revenue.

Newfoundland Power has proposed to address the Transitional Obligation in its next general rate application in order to moderate rate impacts of the transition to the Accrual Method of accounting for OPEBs. This, along with the Company's proposal to tax effect its OPEBs expense, permits the Company to move to the Accrual Method of accounting for OPEBs in 2008 while at the same time moderating the impact on rates. This is the type of approach that Newfoundland Power believes was contemplated by the Board in Order No. P.U. 19 (2003).

A range of options may exist as to how to address the Transitional Obligation at Newfoundland Power's next GRA. However, the relative magnitude of the customer impacts is currently ascertainable and set out in the Company Evidence.[1]

[1] See note 97 at page 78 of the Company Evidence.