

1 **Volume 3, Section 2 – Browne, Regulatory Accounting**
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3 **Q. In a report prepared by John Browne for NP's last GRA hearing (as noted by John**
4 **Browne in his report of May 4, 2007 at p.4) Mr. Browne stated about four years ago:**
5 **"From the perspective of the principle of intergenerational equity, the accrual**
6 **method for recovering OPEB costs is preferable to the pay-as-you-go method**
7 **proposed by NP. However, the NP proposal is a practical proposal that recognizes**
8 **the impact of dealing with the transition from one method to the other."**
9

10 **Please confirm that the retention of the pay-as-you-go method can still be reasonably**
11 **considered a practical approach that recognizes the impact of dealing with the**
12 **transition from one method to another?**
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14 A. As discussed in response to CA-NP 305, the principle of intergenerational equity would
15 normally support the use of the accrual method for recognizing OPEB costs in setting
16 rates – at least where there were no transitional costs. The accrual method provides a
17 better matching of costs to the periods that benefit from the incurrence of the costs.
18 However, where a utility that has been using the cash basis adopts the accrual method,
19 there are transitional costs that must be dealt with.
20

21 Dealing with the transitional costs raises issues of intergenerational equity. Ratepayers
22 must not only pay for the OPEB costs related to providing them service in accordance
23 with the accrual method, but also OPEB costs related to the period before the transition
24 that would have been expensed under the cash basis after the transition. As a result,
25 continuation of the cash basis may be a practical approach to the intergenerational equity
26 issues.
27

28 As just described, there is a conflict between the intergenerational equity problem related
29 to the use of the cash basis and the intergenerational equity problem related to the
30 transition from the cash to the accrual method. In addition, there are other factors that
31 should be considered. As a result, the decision to stay with cash basis or transition to the
32 accrual method is not "black and white". Therefore, although continuation of the cash
33 basis may be a practical approach, for the reasons set out in my report "Newfoundland
34 Power, Regulatory Accounting Issues Related to 2007 Rate Application" dated May 4,
35 2007, NP's proposal to adopt accrual accounting for its OPEB expense but defer treatment of
36 its OPEB Regulatory Asset at December 31, 2007 is consistent with established regulatory
37 principles and appropriate in the context of NP.